DCM Shriram Ltd.

Q3 FY15 – Earnings conference call Transcript
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Moderator: Ladies and Gentlemen, Good day and welcome to DCM Shriram Limited's conference call. As a reminder, all participant' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ishan Selarka of CDR India. Thank you and over to you, sir.

Ishan Selarka: Thank you. Good morning and thank you for joining us on DCM Shriram Limited's Q3 and 9M FY15 earnings conference call. Today, we have with us. Mr. Ajay Shriram – Chairman and Senior Managing Director; Mr. Vikram Shriram – Vice Chairman and Managing Director; Mr. Ajit Shriram – Joint Managing Director; and Mr. J.K. Jain – CFO of the Company. We will begin the call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram, following which we will have an interactive question and answer session.

Before we begin, please note that some of the statements made in this conference call may be forward-looking in nature and a note to that effect was included in the conference call invite sent to you earlier.

I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's operations for the quarter and nine months ended December 31st 2014 and the opportunities going forward. Over to you, sir.

Ajay Shriram: Thank you Ishan. Good morning ladies and gentlemen and welcome to the earnings conference call for the quarter and period ended December 31st 2014. I take this opportunity to share with you our perspectives on performance of our businesses, following which Vikram will go through the financial highlights of the Company for Q3 and 9M FY15.

The Company witnessed a challenging operating environment in the Q3 FY15 after a robust first half. Chloro-Vinyl, Sugar and Cement went through a sharp price decline in line with global commodity prices. This led to sharp reduction in the margins and hence the earnings during the quarter. Prices have stabilized in January '15 though at a lower level. The cost economies and the strong balance sheet achieved over the last few years have provided us the strength to successfully tide through the downward cycle.

Let me now take you through some businesswise highlights:

The Chloro-Vinyl business witnessed sharp reduction in prices during the quarter. The prices in December ’14 were lower by 18% for Chlor-Alkali and 22% for PVC vis-à-vis Q2 FY15. January ’15 has seen marginal improvements. The outlook remains uncertain. Further movements will be linked to global price strengths. On the cost side, there has been reduction in salt price as well as imported coal, but it is not sufficient to arrest the margin fall. The cost reduction initiatives undertaken over the last couple of years have helped us to maintain reasonable margins in spite of these price drops. We continue to focus on containing costs in this business.

The performance of the Farm Solutions business was satisfactory. We were able to grow our value-added business despite adverse weather conditions in some regions. Crop Care Chemicals businesses faced volume and margin pressures; however, other verticals provided support. We reduced the volumes of Bulk Fertilizers especially, DAP and MOP to reduce our funds commitment particularly in view of delays in the subsidy payment from the government. We are focusing on carrying out extensive market development work and expect this business to achieve reasonable growth given normal monsoons.

Bioseed India is well-positioned for growth in BT Cotton seed business. We continue to be a leader in North India and our new products are performing well in Central and South India. We expect growth in our market share going forward. Corn seed business has faced challenges because of overall drop in area and lower Government business in Kharif ’14. We are launching two new Cotton Hybrids in North and two new Hybrids of Rabi Corn. Our plan to launch new products on a continuous basis should provide sustained growth in this business. Performance of the international operations reflect lower sales to farmers resulting in sales return and subsequent inventory write-offs. This is partly due to adverse weather conditions and partly lower acceptance of our products. We are planning to expand our product portfolio and intensify the marketing efforts. We expect that it may take a couple of years to achieve satisfactory performance in international operations. The overall markets are large and are expected to introduce GM in the next couple of years, except Philippines, which already has GM. We believe, international operations will be good value add in the medium-term.

The Sugar business continues to operate at negative margins due to substantial drop in Sugar prices. There is an urgent need for the government to support sugar to enable export of surplus sugar, which can provide some stability to domestic prices. There have been positive movements on the cane price regime. Implementation of the new policy in right spirit will provide some relief to the industry. The molasses reservation for country liquor has been reduced to 15% from 34% and power prices have been increased by 49 paise/KW with effect on 1st April 2014. These steps will partially improve fundamentals of the industry. The crushing at our mills is progressing satisfactorily with sugar recoveries so far being higher than last year levels.

The performance of Fertilizer business improved on account of increased compensation for conversion cost by Rs. 500/MT with effect of 1st April 2014 along with better energy efficiencies. However, this business continues to be adversely affected due to delay in subsidy payment which have not been forthcoming from

August ’14 onwards and inadequate compensation for the conversion cost increases over the last decade. A rational long-term policy is an urgent need for this sector.

The performance of Fenesta Building Systems is encouraging. We are recording good growth in Retail segment consequent to enhanced focus on this segment over last few years. The project segment is also seeing some revival with new orders. Improvement in the domestic economic scenario will give further impetus to growth going forward.

Our balance sheet continues to be strong with lower borrowings, which have also led to significant decline in finance costs. In the next quarter, we will see some increase in borrowings led by higher Sugar inventory along with increasing subsidy outstanding. Our capital expenditure plans are on track and are undergoing environment approval process.

Overall, we expect low margins in our Commodity businesses to continue in the short-term. Sugar may see some recovery with full implementation of new cane pricing policy by UP Govt. and some relief by the Central Government to enable export of surplus Sugar. We will continue to focus on cost reduction in all our businesses and growth of Farm Solutions, Bioseed, and Fenesta businesses. I would now like to request Vikram to take you through the financial highlights.

Vikram Shriram: Thank you. Good morning ladies and gentlemen. I will now summarize the Financial Results for Q3 and 9M FY15. Total revenues for the quarter were lower by 18% at Rs. 1,197 crore compared to Rs. 1,452 crore. The reduction in sales is attributable to lower volumes of Sugar and traded Bulk Fertilizers. PBDIT stood at Rs. 55 crore compared to Rs. 112 crore in Q3 FY14. PBT was Rs. 1.5 crore compared to Rs. 45.2 crore. Tax credit of Rs. 25.9 crore in the quarter, led to net profit of Rs. 27 crore versus Rs. 44 crore last year.

For the nine month period, revenues stood at Rs. 4,330 crore versus Rs. 4,703 crore last year. Revenues excluding Sugar and Bulk Fertilizers was up about 8%. PBDIT improved by 5% to Rs. 417 crore from Rs. 397 crore last year. Net profit was higher by 57% at Rs. 251 crore against Rs. 160 crore last year with lower finance cost, depreciation and tax credit of Rs. 15.8 crore relating to last year.

Let me now take you through our business-wise performance.

Chloro-Vinyl segment revenues in Q3 stood at Rs. 294 crore versus Rs. 331 crore and PBIT at Rs. 60 crore, was lower by 46% compared to Q3 FY14. The overall volumes were higher than last year. However, lower prices had adverse impact of approximately Rs. 43 crore during Q3 FY15. The prices of key raw materials have also been higher though these have softened in Q3 FY15. For the nine months, revenues at Rs. 934 crore were up by 4% over last year and PBIT was lower by 12% at Rs. 245 crore, which is the effect of lower profits in Q3 FY15.

Shriram Farm Solutions business' revenues during Q3 stood at Rs. 282 crore versus Rs. 343 crore last year. For the nine months, revenue stood at Rs. 1,169 crore as compared to Rs. 1,466 crore. The reduction in revenues was on account of lower sale of Bulk Fertilizers by about 50% for nine months which is in line with our plan to restrict volumes of Bulk Fertilizers to support value-added inputs. Revenues of value-added inputs during the quarter & nine months grew by 3% and 4% respectively. The slower growth was due to no growth in Crop Care Chemicals vertical. PBIT for the quarter was at Rs. 23 crore, higher by 25% and for nine months stood at Rs. 71 crore, higher by about 7%.

The revenues of the Fertilizer business for the quarter were up by 25% at Rs. 212 crore, a function of higher gas prices, which is a pass-through and higher volumes. PBIT for the quarter stood at Rs. 18 crore versus Rs. 5 crore last year. Higher earnings are primarily on account of increased compensation for conversion cost by about Rs. 500 per MT with effect from April 1st 2014 under NPS scheme and savings on account of energy efficiencies. For the nine months period, PBIT more than doubled toRs. 35 crore versus Rs. 15 crore last year. Company will undertake a scheduled maintenance shutdown in March-April '15.

Revenues from the Bioseed business during the quarter stood at Rs. 30 crore versus Rs. 67 crore in the same period last year and PBIT at negative Rs. 35 crore versus negative Rs. 11 crore. Q3 is an off-season for India and a small season for international businesses. The decline in earnings was in international operation by lower sales to farmers led to sales returns and inventory write-off of ~ Rs. 10 crore. For the nine months revenues stood at Rs. 493 crore versus Rs. 388 crore last year and PBIT improved to Rs. 43 crore versus Rs. 33 crore. This was largely on account of 64% growth in our BT Cotton business in India in Kharif 2014.

Sugar business revenues in Q3 halved to Rs. 170 crore and declined by 33% for the nine month period to Rs. 710 crore. The reduction is due to lower Sugar opening stocks for the year, a result of lower crush, and higher sale in the season 2013-14. PBIT for Q3 stood at negative Rs. 21 crore versus negative Rs. 30 crore last year. The earnings were impacted by low realizations currently at approximately Rs. 2,750 per quintal leading to a negative operating margin of about Rs. 250 per quintal and inventory write-offs of approximately Rs. 27 crore for the quarter. For the nine month period, PBIT stood at negative Rs.13 crore compared to negative Rs. 56 crore last year. We have not taken into account any benefit of cash cane subsidy announced by the state government for the current season.

Revenues in the Cement business in Q3 and nine months FY15 stood at Rs. 31 crore and Rs. 103 crore respectively driven by higher sales volumes and realizations. PBIT for the quarter at negative Rs. 7 crore was a result of higher input cost which is putting pressure on margins. For the nine months, PBIT stood at negative Rs. 4 crore.

The 'Others' segments now comprises Fenesta business and 50% of the Polymer Compounding business (based on the 50:50 JV with Axiall Corporation, USA.). Fenesta witnessed improved billing as well as order booking in Retail segment, which grew by 31% and 44% respectively in the quarter. Project segment is also witnessing a revival in terms of booking, although it will take some time to convert this to billing.

The Company's finance cost for the quarter at Rs. 26 crore was lower by 19% over the last year, driven by lower borrowings. Gross debt stood at Rs. 763 crore as compared to Rs. 1,178 crore in March 2014. Net debt stood at Rs. 491 crore versus Rs. 683 crore in March 2014.

That concludes my financial review and we will be glad to take any questions that you may have. Thank you.

Moderator: Thank you. We have first question from the line of Abhijit Dey from BNB Paribas. Please go ahead.

Abhijit Dey: How much was the inventory loss in the Bioseed business?

J.K. Jain: The inventory write-off was Rs.10 crore.

Abhijit Dey: Do you expect this to recur in Q4?

J. K. Jain: Let me just explain the nature of this business: Since we produce quite in advance of sale, there could always be mismatch between the production and sales, resulting into some write-offs. As of now, there is no old inventory or non-saleable inventory in hand which could lead to any write-off in this particular year.

Abhijit Dey: Q4 is generally lean for Bioseed's international operations, right?

J. K. Jain: Q4 is a major season in Vietnam and a little smaller season in Philippines.

Abhijit Dey: In the Chloro-Vinyl business, we have seen PVC prices remaining steady at least in the month of Jan vis-à-vis decline in Q3. Could you throw some light on the demand side for Caustic as well as PVC?

Ajay Shriram: Our feeling is that if we do come to a GDP growth in the year '15-16 of say 6.2-6.5%, I think the pickup in demand will be there a bit, and that should be better than where we are in the last financial year. But, the pricing will depend a lot on the international prices. The drop in oil price drop has been very substantial and that has affected the finished product prices of many commodities. So that is an issue which is concerning all Indian manufacturers. But, we expect demand to be better going forward in the next 2 years as our GDP grows.

Moderator: Thank you. We have next question from the line of Chetan Thacker from Emkay Global Financial Services. Please go ahead.

Chetan Thacker: What is the total loss in 9M FY15 from the International seeds business?

J. K. Jain: Rs. 21 crore.

Chetan Thacker: How much do we plan to invest in the next couple of years in the International operation to drive that business?

J. K. Jain: This business does not require any fixed capital investment. There is working capital investment, which is for a short-term period. But, other than that, there is no investment that we are seeing.

Chetan Thacker: Are we seeing lower acceptance only in Philippines or are we seeing lower acceptance even in the Vietnam and the Indonesian markets?

J. K. Jain: We have just got into Indonesia about 2 years ago. I think it is early to assess Indonesia. So, far the progress has been as per our expectation in Indonesia. We are a very small player there. But Vietnam and Philippines has had some kind of challenge in product acceptance.

Chetan Thacker: Will we be introducing new products there to address this concern?

J. K. Jain: There are two things that are happening: Vietnam has approved GM this year, and Monsanto will be introducing GM later in 2015. We will be launching GMs in early 2016 licensing arrangement with the Monsanto. As far as we are concerned, as I said we will launch GM and we are planning to launch new hybrids also in both these, and work on market acceptance of the product.

Chetan Thacker: What would be our market share today in Philippines?

J. K. Jain: Today, we would be about 5% or so, but as I said, we are planning to launch more products in Philippines and also work with the farmers on product acceptance to gain market share, but it may take a little longer time to gain market share.

Chetan Thacker: Is Philippines also a BT market for Corn?

J. K. Jain: This is GM market.

Chetan Thacker: On the Domestic Seed business, how many Cotton Packets have we sold, and if you give the breakup of north and west and south?

J. K. Jain: Kharif ’14, we sold total of 44 lakh packets, out of which 20 lakhs was in central, south and 24 in north.

Chetan Thacker: What is your target for the next year?

J. K. Jain: Early to say that but I think in central, south, we are expecting good growth; this could be anywhere between 25%, 30% minimum. In North, there is an issue because we already are a leader and people are expecting that the area may go down by next year if the cotton prices remains like this. So, it will depend on the overall area also in North.

Chetan Thacker: In Central, South, are we gaining market share in the states of Maharashtra, Karnataka or which are the states where we are gaining market share fast?

J. K. Jain: In Central South as a whole we have gained volumes quite a bit of about 9 lakh packets a year before last which has moved up to 20 and we are expecting further growth. In terms of states, we are strong in Andhra and Karnataka, and we are gaining volumes in Maharashtra.

Chetan Thacker: The fact that there is impact on profitability for the cotton farmer this year, do you see any shift happening in terms of acreages next year which could shrink the market, given a high density cropping that would be taken care of?

J. K. Jain: Last year Cotton market has registered a very high growth; it went up from 440 to almost 520, which was both because of area as well as high density. The issue is that, yes, Cotton prices are low but so are the prices of other competing crops. Therefore, I do not think that the Cotton area will go down significantly, though it may go down marginally which may get compensated by high density Cotton planting. Overall, we are not seeing any significant drop in the market.

Chetan Thacker: Neither are we seeing any significant improvement because of continuing high increase in high density cropping, so, the market could broadly remain at 52-53 million packets next year?

J. K. Jain: Absolutely**.**

Chetan Thacker: On the Sugar business, what is the incentive that is pending to be recorded this year that the government has announced. Is it Rs. 8.5?

J. K. Jain: Government had announced two parts of incentive -- one is Rs. 8.60, which is linked to Sugar price being below Rs. 31 per kg. The second part of incentive was Rs. 20, which they said exact component of Rs. 20 will get decided based on October to May prices. We have not accounted for any of those benefits in this regard.

Chetan Thacker: So to account it, will we wait for this season to complete or would it be in Q4?

J. K. Jain: There are two parts -- one is government had issued a press release but has not issued any notification for these incentives. It will depend on when the notification comes up. If the notification comes in Q4, we may recognize some part of it in Q4 otherwise we will wait for the final notification to come in the next year.

Chetan Thacker: Given that they have announced Rs. 4,000 subsidy for export, how much volume do you think can be shipped out of the country at the prevailing international prices?

Ajit Shriram: It has not been announced as yet. I believe the matter is under discussion in the ministries and it should come up to the cabinet probably next week. Once it comes up, we do hope that roughly 1.5 to 1.8 million tonnes will get exported, if they allow 2 million tonnes export.

Chetan Thacker: Prevailing international prices of Rs. 4,000 compensates for that?

Ajit Shriram: I think from the coastal regions of Maharashtra and Karnataka, exports should be viable.

Moderator: Thank you. We have next question from the line of Pulkit Agarwal from Karma Capital. Please go ahead.

Pulkit Agarwal: Could you please throw some light on why we are facing a low product acceptance in the international markets and how is the competitive intensity in those markets?

J. K. Jain: In both these markets, the major competitors are all the MNCs i.e. Monsanto, Pioneer, Syngenta, etc., and generally, it happens in Seed business that different people launch products at different times. Therefore, your product may face some pressure. So, the competition has launched some products while we are in the process of launching. So, during this time gap, there is issue which comes up with respect to acceptance of your products that are there in the market.

Pulkit Agarwal: In terms of products, what kind of technology are we using -- are we in-licensing some technology from other players or is it our in-house technology, how is the R&D process going on?

J. K. Jain: There are two parts; one is the Hybrid; Hybrid is all our own, we are doing our own breeding and our own research and developing our own variety internationally. For GM, we are licensing the technology from Monsanto. So, we have a licensing arrangement for Philippines already and we are in the process of working out the licensing arrangements for Vietnam.

Pulkit Agarwal: And the low product acceptance we are seeing is in Hybrid or in both of these?

J. K. Jain: You require Hybrid on which the GM is introgressed. So, it is not that GM is different and Hybrid is different. The basic Hybrid has to be there, from which the GM is introgressed.

Pulkit Agarwal: Could you throw some light on the conversion costs in the Fertilizer industry and also mention what are the problems in this area?

J. K. Jain: Essentially, the way it works is you have raw materials, which is gas, coal and the packing material, which is a pass-through by the government. So, whatever actual cost that you incur, government reimburses that particular thing. Over and above the raw material price, there is fixed amount that they pay towards conversion cost and the capital cost which they decide at different frequencies. What we are saying is the amount that government reimburses is not adequate corresponding to our actual cost, and these are costs like overheads, like chemicals, which you incur in converting gas to urea, repair and maintenance, catalysts and items like those essentially.

Pulkit Agarwal: Are these applicable only to Urea or is it also applicable to DAP and SSP?

J. K. Jain: We do not have DAP and MOP manufacturing facility, we only trade in it. For us, it is applicable to Urea only.

Pulkit Agarwal: What is the trend on your discussions with the government -- is there a likelihood that these conversion costs might be increased?

Ajay Shriram: The Government is looking at rearticulating the Urea Policy, because the problem today is that the selling price of Urea is just Rs. 5,360 compared to DAP/MOP which are 18,000, 20,000, 22,000. So the NPK ratio application to the soil is very skewed. As an industry, we have recommended that they should increase the price of Urea in a phased manner to bring a balance. We have also suggested to make Indian industry more efficient and to please be realistic in terms of reimbursement cost, because the international price today of Urea is in the range of $300, delivered at about $340 to $350, but we cannot sell that to the farmer. So at a lower price, we are requesting the government to come out with a long-term policy which brings stability for Indian industry, which brings a balanced approach to give a satisfactory return to Indian industry, and a gradual increase of price to the farmer like it has been done for diesel or anything else. So we have to wait and watch. The new urea policy is not yet come out, the government's expenditure management commission that had been set up, they are also looking at the urea policy. So I do not know what the finance ministry is going to do.

Pulkit Agarwal: I am guessing this would be one of your expectations from the budget.

Ajay Shriram: I do not think it will come out in the budget per se, there may be a price increase, which may come out, but I think the new detail urea policy may take a little more time.

Pulkit Agarwal: Any other expectations from the upcoming budget?

Ajay Shriram: Expectations are very many to boost industry and have a larger GDP growth, provide jobs, create economic activity, domestic industry, SEZ, invite FDI. On behalf of CII, we have given a large number of suggestions.

Pulkit Agarwal: Nothing agri-focused?

Ajay Shriram: Agri itself is very important because 60% of the population in the country is banking on agriculture. So, we do want that the agri APMC Act should be removed and there should be more focus on drip irrigation, availability of products, soil-testing laboratory should be pushed etc. There are a large range of recommendations on agri too.

Moderator: The next question is from the line of Abhijit Dey from BNP Paribas, please go ahead.

Abhijit Dey: What is the breakup in production between Bharuch and Kota currently?

J. K. Jain: Bharuch is 450 tonnes per day, and Kota is 330 tonnes per day.

Abhijit Dey: What would be the utilization in both these places?

Ajay Shriram: 100%.

Abhijit Dey: You also mentioned in your presentation that you are seeing some softness in raw material prices basically, salt and coal. So what could be the impact of that in Q4?

Ajay Shriram: Salt has come down marginally in Gujarat, because the availability of salt has improved this season compared to the last season. International prices of coal have also come down. So, there has been a benefit for the Bharuch unit. But for the Kota unit, which is inland, in fact the cost has not come down because of two factors. One, the domestic prices have not come down in any form whatsoever, if anything, has gone up marginally because of different grades of coal. Secondly, the government is giving priority even under the Fuel Supply Agreement or FSAs to power plants or the power utilities, NTPC, etc., So we are not able to get our coal allocation from good quality, low distance coal mines, which is increasing our cost marginally. So in Kota we are not seeing any reduction in coal price, but Bharuch, we are linked to the international market and there has been marginal reduction over the last quarter, but our power cost frankly in Bharuch is very competitive, and similarly, Kota, is much better than buying from grid anyway.

Abhijit Dey: You use calcium carbide route to produce PVC. So now with international PVC price hovering around $800 odd, what is the profitability of the calcium carbide route versus the ethylene route.

Ajay Shriram: The raw material for those manufacturing on the petrochem route, the input cost also come down, which does not happen in our case. We got the benefit on the other side when we were looking at $110 or $112 of oil, then our costs were contained compared to the petrochemical route at that time. But now, our costs are only coming down in terms of efficiencies and we are working on reducing our other costs, because of the pressure of the selling price.

Abhijit Dey: Does Bharuch use 100% imported coal?

Ajay Shriram: Yes.

Moderator: Thank you. The next question is from the line of Amit Goela from Rare Enterprises, please go ahead.

Amit Goela: Your net debt is Rs. 491 crore and your fertilizer subsidy is outstanding since August 2014. So if this normalizes then can you become debt-free right now?

J. K. Jain Our total subsidy outstanding is about Rs. 450 crore, including Urea, DAP and MOP, it cannot become nil, it has a potential to come down maybe by about Rs. 100 to 150 crore.

Ajay Shriram: The policy lays down that there will be three months outstanding.

J. K. Jain: So it can come down by Rs. 100 to 150 crore, so just subsidy alone cannot make us debt-free. The second point is we do not want to be debt-free. We feel some amount of debt is good, and we would rather invest in growth than working on a debt-free Company.

Amit Goela: That is fair enough. I am just trying to get a sense of what the debt situation is, because of the working capital requirements in long-term. I am not saying that you do not invest or anything of that kind.

J. K. Jain: About Rs.150 crore one can say is because of delay in subsidy.

Amit Goela: What I am seeing over the last two to two and half years is that periodically we get hit by these losses in various businesses. So when we are investing, we will obviously have this and in the growth phase this can happen. However, is it possible to have some kind of a better investment in an intelligent system or your internal systems where you get a little bit of forewarning in terms of what is going on in this kind of stuff?

Ajay Shriram: To be honest with you, I do not think anyone could predict the oil drop.

Amit Goela: I am talking about the other businesses and all that, absolutely, oil there is no question.

Ajay Shriram: The point you are raising is linked because of the oil. Our commodity prices have fallen is because of oil. If anyone could have predicted that, he would be a billionaire.

Amit Goela: I am talking in terms of seeds, or like it happened in Hariyali, where you could have a better sense of what kind of investments are required or losses can happen in the business?

Ajay Shriram: I think businesses have their own cycle, those which are agri-related are linked to the government policy, weather patterns, and various other factors. So I think these are all linked to external factors, and of course one must have one's own internal strength. We have been in the business for many years, unless and until we found it good, we would not take a decision to continue. For instance, we were in Hariyali and we realized that for Hariyali, the rural market ticket size is small, the logistics cost is high, power available in rural India is an issue and we were spending Rs.6 to 7 crore a year on just providing diesel to run our gensets as our entire accounting and billing system was electronic. Hence, we took a decision to stop it and that was the management decision. There is a management decision consciously taken to continue the businesses we are in right now, because we feel the potential is good, and that is why we are moving on the business and we are running in.

J. K. Jain: I just wanted to assure you on the seed as we had clarified earlier that the end of each season now in each country, we are evaluating inventory and clearing it on the first opportunity. It cannot be done faster than that because the season has to end for us to assess what has been the final outcome.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Emkay Global Financial Services. Please go ahead.

Rohan Gupta: Could you provide the contribution from non-cotton crops in nine months revenue in the domestic seeds business?

J. K. Jain: Let us say overall revenue of Seed on an annualized basis in India is about Rs. 500 crore this year, out of which Rs. 300 crore comes from Cotton and balance Rs. 200 comes from other crops, which is Corn, Paddy, Bajra, and Vegetables.

Rohan Gupta: What would be the number for other seeds last year?

J. K. Jain: Corn has seen reduction, and Paddy and Vegetable seeds have seen marginal growth.

Rohan Gupta: What will be our average profit margin on these non- cotton crops?

J. K. Jain: It varies from product-to-product, but at an average, non-cotton has about 40% to 45% gross margin.

Rohan Gupta: These are higher than cotton, right?

J. K. Jain: Cotton has about 30 to 35% gross margin, and this has 40 to 45%.

Rohan Gupta: Cotton is definitely one area where you are working hard. On non-cotton crops what are our growth estimates? As you mentioned that in Cotton probably you are looking at 25% to 30% growth in central and south.

J. K. Jain: Just to clarify, we are working hard on all the crops; it is not only Cotton. We are launching new products in all the crops, though it takes time for the products to catch up and gain advantage over the competitors. So the working and research program is equally strong in all the crops essentially. Second issue is the market size; Cotton in India is the biggest market, so therefore the volumes are more in Cotton, whereas Corn and Paddy are relatively smaller markets. As far as we are concerned, we are working on 25% growth across the products and we are expecting that we should be able to achieve that in a normal market situation.

Rohan Gupta: With incremental growth which will come in top line, what sort of margin expansion we are expecting in our overall Seed business excluding international?

J. K. Jain: Margin expansion will still take a couple of years, because we will be investing more in market developments and research.

Rohan Gupta: So will we continue with the similar margins that we are making?

J. K. Jain: Absolutely.

Rohan Gupta: The size of the International business has reduced further this year, so I believe that you will be going roughly Rs. 60 to 70 crore for this year end. So, what are the expectations on international business for next two years, because if we understand that in the last concall, you had mentioned that we have cleaned up all the inventory related issues of previous year. So will you go gung-ho next year in International Seed business or we are still going to take a very protective approach and will not try to push our product in the next two years in those markets.

J. K. Jain: We cannot and have never tried to push the products in this market because ultimately farmer decides what he buys, we cannot push it. If the seed is not performing, there is no way we can sell to the farmers. As far as our approach is concerned, I think it has been always very cautious and we will continue on that pattern, and like we assured the investor, whatever is the surplus inventory, whatever is non-saleable, we will keep clearing that from the trade channel as well as our stock. We will continue to be cautious and conservative in our approach.

Rohan Gupta: On our Farm Solutions business, can you give us what was the Bulk Traded Fertilizer revenue contribution for 9 months?

J. K. Jain: Overall Bulk was Rs. 600 crore vis-à-vis Rs. 1,000 crore last year.

Rohan Gupta: This year in nine months we have done roughly Rs. 1,170 crore from Farm Solutions, so that means that roughly Rs. 570 crore we have done non-bulk?

J. K. Jain: Absolutely.

Rohan Gupta: We understand that we make better margins in our non-bulk, but the similar number is not getting reflected on margin side, because you have mentioned in your press release that a lot of money has come from the trading of Bulk Fertilizers in terms of profit?

J. K. Jain: What we are saying is that in this year, MOP has had better margins than last year. Both DAP and MOP had negative margins last year. This year they have not had negative margins, MOP has actually seen positive margins, so in that sense the delta has been higher because of Bulk.

Rohan Gupta: To make it simple for understanding, like this year Rs. 70 crore is EBIT in nine months from Farm Solutions, what is the contribution from Bulk and Non-Bulk?

J. K. Jain: I do not have that breakup here, but as far as value added is concerned, it keeps giving us 8% to 9% margin. The Crop Care Chemical has seen marginal drop and it has come down by about 1% or so, Bulk margins have been positive vis-à-vis negative last year.

Rohan Gupta: On financial side, you have net debt of Rs. 491 crore ending December 31, 2014. What is the gross debt number in cash?

J. K. Jain: It is about Rs. 763 crore.

Rohan Gupta: You also mentioned that it will go up by the year end. So what will be the peak debt by the year end?

J. K. Jain: It is a little difficult, but it will be below Rs.1,000 crore.

Rohan Gupta: Now we have reached a similar kind of balance sheet what it was last year because definitely some amount of debt is required on the balance sheet as well as your CAPEX plans, which is spread over the next two years. So, last year same time, you announced a buyback for significant amount, but that could not go through. So, in the current scenario, we almost have a similar balance sheet. Can we expect something of that happening going forward, you going for another buyback?

Ajay Shriram: We have not thought about it.

Rohan Gupta: But with cash flow generation is that in thought process?

J. K. Jain: For one year after closure of the buyback legally, you cannot even consider a buyback. Therefore, it is probably too premature to talk about any buyback.

Moderator: Thank you. The next question is from the line of Manish Mahawar from Edelweiss. Please go ahead.

Manish Mahawar: What I want to understand is exactly how government is serious about NBS in Urea primarily? If yes, mainly based on your assessment, how feasible it is to implement NBS in Urea?

Ajay Shriram: I will put it this way. I think it is very possible to do as it has been done for P&K. I think it is a matter of taking a policy decision of how to rationalize subsidies, how to create a more balanced system so that the soil health is not ruined, because today against 4:2:1 NPK ratio, it is running at almost 8.5:3.5:1, so that is ruining the soil health quite substantially. It is possible, I think it is a matter of government deciding how to do it.

Manish Mahawar: Do you think the government can introduce NBS or they will basically just increase the prices of Urea ad hoc, which is more simpler?

Ajay Shriram: We do not know, in fact on behalf of the industry when we have had discussions, we have actually suggested please bring in NBS because that is something, which then can be for N, P&K, but I think we will have to just wait and watch.

Manish Mahawar: What is happening on the policy for production above cut-off quantity?

Ajay Shriram: On excess production they do reimburse a certain amount. I think we will have to wait till the new policy comes which we hope will come in the next couple of months to give a clearer picture of what they will do going forward. I think it is a little uncertain currently, and we are just moving on the old policy. But generally, the government does encourage excess production because it is cheaper than imported urea.

Manish Mahawar: Do you think government can increase the subsidy in Non-Urea Fertilizers to balance uses of NPK. Is there any possibility?

Ajay Shriram: I do not think they will go back on NBS on P&K. They have already done it for P&K, and there is now a price established in the market. It is unlikely they will take the subsidy higher over there. We also have to realize that the amount of Fertilizer subsidy is over Rs. 100,000 crore a year whereas in the budget they provide Rs. 65,000 to 70,000 crore. So they carry forward for the previous year in the range of Rs. 30,000 to 40,000 crore. That is a very major financial commitment of the government, where they are also seeing how to rationalize in some form, because the Fertilizer subsidy is very large.

Manish Mahawar: Yes, that I know, but why I am saying is basically if we look at, suppose Urea prices three years down the line, maybe right now it is Rs. 5,500 a ton, which can be maybe Rs. 9,000 to Rs. 10,000 a ton I suppose, and government can basically increase the subsidy, maybe MRP of your non-urea fertilizer can come down, so maybe gapping versus non-Urea and Urea can be significantly lower, which maybe the right balance?

Ajay Shriram: Personally speaking, we have not taken that issue up, nor have we heard any dialogue in this direction.

Moderator: Thank you. We have the next question from the line of Falguni Dutta from Jet Age Securities, please go ahead.

Falguni Dutta: This year that the government had decided to reimburse the additional cost to people which for your case works out to Rs. 500 per ton in Urea. Has that been notified? Secondly, have we received money on that account?

Ajay Shriram: No, it has not yet been notified. But since the policy is clear we have accounted for it, but we have not yet been notified on that.

Falguni Dutta: Obviously, since it has not been notified, we would not have received any money in lieu of this?

Ajay Shriram: No, we have not received.

Falguni Dutta: Any clue when would this notification happen?

Ajay Shriram: I think it is in the process right now, Fertilizer Association of India is meeting the Department of Fertilizers regularly and pushing them to come up with the notification such that we can get our monies. But the issue comes in is, even if it is done, frankly with outstanding today of almost Rs. 30,000 crore to the industry; it will only come from 1st April. So nothing is going to come in the next two months in terms of cash flow anyway.

Falguni Dutta: And obviously there is no question of regressing in this, the government has decided once they will be giving, maybe the notification is taking time?

Ajay Shriram: Absolutely, you are aware it is 350 plus 150, so we have got the additional 150 being an old plant, so that they have committed.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to the management for their closing remarks. Over to you Sir.

Ajay Shriram: Thank you ladies and gentlemen. I think on an overall basis our cash generation is expected to remain comfortable. Businesses like Chloro-Vinyl will see margin pressures for a few quarters, which will be partially offset by efforts on input cost savings. Farm Solutions and Bioseed will provide stability to cash flows. Our capital expenditure programs will deliver better value to the Company going forward. We remain focused on ensuring that our efforts are towards further improving our operational efficiency along with a healthy balance sheet. Thank you very much once again for coming to our Investor concall. Good bye.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of DCM Shriram Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
