DCM Shriram Consolidated Limited

Q1 FY14 – Earnings conference call Transcript
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Moderator: Ladies and gentlemen, good day and welcome to the DCM Shriram Consolidated Limited's earning 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, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ishan Selarka of CDR India, thank you and over to you sir.

Ishan Selarka: Good afternoon and thank you for joining us on DCM Shriram Consolidated Limited's Q2 & H1 FY14 earnings conference call. Today we have with us Mr. Ajay Shriram, Chairman & Senior Managing Director; Mr. Vikram Shriram, Vice Chairman & Managing Director; Mr. Ajit Shriram, Deputy Managing Director and Mr. J.K. Jain, CFO of the Company.

We will begin the call with the 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 maybe 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 operation for the quarter ended September 30, 2013, and the opportunities going forward. Over to you sir.

Ajay Shriram: Good afternoon and welcome to DCM Shriram Consolidated Limited's Q2 & H1 FY14 earnings conference call. I will take this opportunity to share with you my perspectives on the Company's operational performance, following which Vikram will take you through the financial highlights of the Company for Q2 & H1 FY14.

The performance for the quarter has been satisfactory except for losses in our sugar business emanating from a very challenging operating environment. However we are glad that most of our other businesses have witnessed healthy performance for the quarter and half year ended September 30, 2013.

Let me take you through the businesswise performance:

The Chloro-Vinyl business has been one of our strengths and continued to deliver encouraging performance during the quarter. The realizations have firmed up in all product categories. PVC prices have improved 12% over the preceding quarter and 11% over last year. ECU prices improved 9% over the preceding quarter, they are lower by 8% over last year. However, now there is a mild reversal in PVC realizations driven by lower international prices. The inherent margins and the competitiveness of our products continue to improve with sustained measures to reduce input costs in this business. The cost reduction measures are led by optimizing fuel and carbon material mix to achieve cost efficiency and by improving operating efficiencies of all our plants including the power plant.

The Agri-Input businesses that include Farm Solutions, Bioseeds and Fertilizers continue to perform satisfactorily; these are well-positioned to provide stability to our earnings over the medium term.

We have been growing the Shriram Farm Solutions business with focus on enhancing volumes of the value-added inputs. Growth in Q2 was primarily due to increase in bulk fertilizers besides Value-added inputs. In the first half of this year, we have contracted for 2 lakh MT of DAP and MOP and have sold 1,48,000 MT in Q2. The balance will be sold by November 2013. The business has seen delay in subsidy payment from the government, which is an area of concern. For H1, Value-added input constituted 68% of the earnings, which has grown by 14% over last year. We are carrying out extensive market development work and extending our presence in new geographies.

The focus in the Bioseeds business is on research, which will translate into a good product pipeline. Q2 was an off-season in the India business. For H1the performance of the India business has been robust with a revenue growth of 37% and PBIT growth of 45% with stable margins. Corn has witnessed an impressive revenue growth of about 51%. Our new cotton seed hybrid launched in central and south market is showing good potential. We expect to register consistent growth in these markets in the medium-term. Despite good performance in India in H1, earnings witnessed only a marginal growth due to the delay in the season in Philippines and sales returns in Vietnam in Q2 and in Philippines in Q1. The sales return was a one-time exercise undertaken by the Company to clear the inventory in the trade channel. This will also lead to the old inventory being sold at lower realizations in the coming quarter. We have also curtailed our Thailand operations.. Post this onetime exercise, operation in Vietnam and Philippines will stabilize. Going forward, we are confident of our international operation at Vietnam and Philippines and Indonesia, which is now introducing new products in the market, will give better and stable returns.

The Urea business is PBIT positive but with declining margins. During the quarter, fertilizer plant operated at lower load factor for about one half months due to maintenance in the ammonia plant leading to lower production. The plant has now stabilized and the shortfall in production is expected to be made up in the balance part of the year. The delay in finalization of the new Urea pricing policy continues to result in higher uncompensated cost increase, partially mitigated by savings on account of energy consumption. Besides, high-level of subsidy outstanding from the Government of India is impacting the business. We expect subsidies to remain at high levels in this financial year.

The Sugar business has witnessed continued decline in realizations in this financial year. Prices have dipped 9% over the last year and 3% over preceding quarter. The decline was due to higher domestic production and continuing imports. The cost of production for the season was 14% higher than the last year; this has led to negative margins of Rs. 249 per quintal vis-à-vis a positive margin of Rs. 449 per quintal last year. The sugar prices are expected to remain subdued. The Company also took inventory write-downs at current NRV. For the ensuing season, we expect a marginal decline in our cane area; however, we expect yields to be better. We have been working on increasing capacity utilization and are taking steps to ensure higher sugar cane yield and recoveries. The business is operating in a difficult environment, particularly in UP where our mills are situated. The realizations are not commensurate with the cost structure, which is the result of arbitrary fixation of the sugar cane price by the State government. The industry is making a strong representation to the government to take a balanced policy approach to improve the fundamentals of the sugar industry. Most importantly there has to be a linkage between sugar cane and sugar prices.

The rationalization plan of Hariyali Kisan Bazaar has progressed satisfactorily. We are now carrying out only fuel retail activities in 37 outlets that are profitable. However, there are costs associated with maintenance of these and other properties. Our focus is now on sale of property, which is progressing as per plan.

In Fenesta Building System, the increase in retail penetration and costs rationalization over the last few quarters is showing encouraging results. Efforts are on to achieve healthy growth rates going forward through strengthening the dealer network and improving the service quality.

Before I close, I would like to mention that our business model post Hariyali rationalization and growth of Shriram Farm Solutions and Bioseeds has become more robust. The Company would continue to focus on growth of both these businesses viz. Bioseeds and Shriram Farm Solutions. We have also undertaken marginal expansion in the Chlor-Alkali business. These would enable us to stabilize our earnings further over the medium term. Any improvement in sugar operating environment will add strength to our Company. Besides, this, our focus is on conserving internal cash generation and reducing the debt level.

I will now request Vikram to take you through the financial highlights.

Vikram Shriram: Good afternoon ladies and gentlemen. I will summarize the financial results for Q2 & H1 FY14.

Net revenues for the quarter were higher by 26% at Rs. 1,690 crore compared from Rs. 1,342 crore driven by Shriram Farm Solutions, Sugar and Chloro-Vinyl business. PBIT stood at Rs. 41 crore compared to Rs. 71 crore in Q2 FY 13. The drop in PBIT was due to losses in sugar business that had a swing of Rs. 56 crore; the impact was partly mitigated by growth in Chloro-Vinyl and Shriram Farm Solutions businesses combined with breakeven in Hariyali Kisan Bazaar. Net profit stood at Rs.1.4 crore compared to Rs. 29 crore in the corresponding quarter last year.

For the half-year, revenues were higher by 17% at Rs. 3,251 crore. PBIT before exceptional item grew by 3% to Rs. 208 crore. The interest cost was flat at Rs. 81 crore. The net profit post-exceptional items improved to Rs. 115 crore compared to Rs. 60 crore last year.

Let me now take you through the businesswise performance.

Revenue and PBIT for the Chloro-Vinyl business in Q2 were higher by 11% at Rs. 286 crore and 12% at Rs. 85 crore respectively. This business is a combination of caustic soda plus chlorine and PVC plus carbide. Growth was driven primarily by the PVC business with 18% increase in volume and 11% improvements in realization at Rs. 71,525 per MT. Variable costs were lower by 4%. The incremental PBIT of the plastics business was Rs.16 crore. On the other hand, Chlor-Alkali volumes grew by 5% and realizations dropped by 8% to Rs. 24,533 per MT. However, the cost side measures ensured the margins fell only by 1%. The PBIT was lower by Rs. 4 crore. Overall H1 revenues for Chloro-Vinyl business stood at Rs. 571 crore vis-à-vis Rs. 548 crore in the corresponding period last year. The PBIT was higher by 14% at Rs. 166 crore.

Shriram Farm Solutions business revenues and PBIT in Q2 grew by 88% to Rs. 659 crore and 91% to Rs.19 crore respectively. Growth was driven by DAP and MOP where in revenue were up by 222% at Rs. 388 crore and PBIT was up by 404% at Rs. 6 crore. H1 revenues stood at Rs. 1,123 cores vis-à-vis Rs. 648 crore in the same period quarter last year. The PBIT increased by 62% to Rs. 41 crore. For the half-year, the revenues and the PBIT from value-added imports verticals grew by 28% and 14% respectively and accounted for majority of the earnings.

Revenues from the Bioseeds business during the quarter stood at Rs. 31 crore against Rs. 32 crore over the same period last year. PBIT was negative Rs. 22 crore vis-à-vis a negative Rs. 24 crore, a marginal improvement of 8% over the last year. Q2 is an off-season for India with only 10% of H1 sales. For H1, revenues grew by 13% to Rs. 320 crore and PBIT grew by 4% to Rs. 44.1 crore. This growth was despite the fact that overseas operations had negative sales of Rs. 11 crore on account of sales returns of Rs. 46 crore as a trade channel cleanup exercise resulting in one-time negative PBIT of Rs. 21 crore. India operations remain strong with 37% increase in revenues at Rs. 331 crore driven by corn which was up 51% and cotton which was up 36%. India PBIT was up by 45% at Rs. 65 crore. The fertilizer business witnessed an 8% dip in the volume for the quarter due to maintenance shutdown of the ammonia facility. For half-year, volumes were lower by 2% and are expected to be made up over the balance period of the year. Q2 revenues were almost flat at Rs. 145 crore; however, PBIT was down to Rs. 3 crore from Rs. 7 crore last year. Earnings were impacted by lower production and an uncompensated cost increase, partially compensated on account of energy savings. Besides, higher subsidy outstanding is impacting the overall returns from the business. H1 revenues stood at Rs. 289 crore as compared to Rs. 279 crore last year. PBIT stood at Rs. 10 crore as against Rs. 15 crore last year.

Sugar business revenues were higher by 9% and 14% in Q2 and H1 at Rs. 378 crore and Rs. 117 crore respectively driven by increased sugar volumes. PBIT for the quarter stood at negative Rs. 25 crore against positive Rs. 31 crore; while for the half year, it stood at negative Rs. 26 crore against positive Rs. 27.3 gross. Earnings for the quarter were under tremendous pressure due to negative margins of Rs. 249 per quintal as against positive margins of Rs. 449 per quintal in the same period last year, the impact of which was Rs. 56 crore. There was also an impact of Rs. 7 crore due to write down in value of the inventory to the current NRV.

Hariyali Kisan Bazaar revenues for the quarter and half year ended declined to Rs. 94 crore and Rs. 216 crore respectively. The current revenues include fuel sales only. PBIT for Q2 and H1 stood at positive Rs.1.2 crore and Rs. 90 lakhs vis-à-vis a loss of Rs. 10 crore and Rs. 30 crore respectively.

Revenue in the cement business in Q2 and H1 were lower by 8% and 15% at Rs. 29 crore and Rs. 59 crore respectively. PBIT for Q2 was negative at Rs. 1.3 crore compared to positive Rs. 2 crore; while for H1, earnings were lower at Rs. 1 crore vis-à-vis Rs. 9 crore in the corresponding period of last year. The earning performance reflects 21% dip in realization in Q2 at Rs. 2,642 per MT combined with input cost pressures.

PBIT under the ‘others’ segment stood at negative Rs. 40 lakhs in Q2 vis-à-vis negative Rs. 4.9 crore. For H1, PBIT was negative at Rs.80 lakhs against negative Rs. 11.5 crore for the same period last year. The improvement is primarily driven by the Fenesta Building Systems where in revenues were higher by 10% at Rs. 42 crore with 35% increase in retail sales. Retail push combined with lower costs resulted in better margins.

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

Moderator: Ladies and gentlemen, we will now begin question and answer session. The first question is from Chetan Thacker from Emkay Global, please go ahead.

Chetan Thacker: What are the reasons for the sales return in Vietnam? Was it because of product performance? Secondly, could you share your thought on the situation in UP in terms of the sugar operations and do you see this situation of SAP ending?

J. K. Jain: On the Bioseeds, we took returns in Philippines in the first quarter and in Vietnam in the second quarter. This essentially reflects the inventory that the trade had built up over the last two years. We are very conscious of our quality and hence decided to take it back. Once back, we would re-test it, repack it and then sell it such that when the farmer gets the product, it is fresh and quality wise perfect. I do not think it reflects in the product performance per say. Whatever products are launched are sold only after an extensive field tests.

Chetan Thacker: Is there anything to do with the acceptance level of the product in those particular markets?

J. K. Jain: As I said, the product performance is okay. The products are competitive and we are sure to sell the same hybrid in the market. We just had to clear the clogged up channel and ensure that the quality, when delivered to the farmer, is good.

Ajay Shriram: Regarding your second question, as you might be aware, the sugarcane prices over the last three years in UP have gone up by about 70%. On the other hand, sugar prices have grown only by 9%. This industry was really in a tight corner and in fact, even now, the cane outstanding is almost Rs. 2,300 crore. Entering the new season with such high outstanding was unprecedented. Hence, the industry has got together and taken it up very strongly with the State government to look at the situation of cane prices very rationally. If that is not done and with sugar prices being what it is, the cane arrears would keep building up within the one month of start of production for the new season and could be approx. Rs. 10,000 crore by the end of the season. We are putting forward all the point of views and are showing government in UP, Chief Minister, the Office of Cane Commissioner and the Chief Secretary and all the other people, facts to explain that it would be very difficult for the industry to survive in such a scenario. For the long-term stability of the industry, farmer and the UP government, the UP state needs to draw up a reasonable and rational policy. We are happy that they are hearing us and are hopeful that something balanced will evolve.

Chetan Thacker: So by when can we have something conclusive?

Ajay Shriram: It is very difficult to give a timeframe. We including the senior members of the industry have been going to Lucknow in an attempt to resolve this as soon as possible so that crushing can start. I understand that even today, the farmers are selling cane to the Gur and Khandsari millers at about Rs. 160 to Rs. 170 per quintal against Rs. 280 last year. A reasonable price somewhere in between would make a lot of sense for the farmer and the industry. One must not forget that the Rangarajan Committee, which was set up by the Prime Minister, came out with a policy direction for all states in the country to move on the sugar cane policy.

Chetan Thacker: Is there a possibility that it remains arbitrary and we go through the same ordeal?

Ajay Shriram: We hope not. However, we will have to wait and watch.

Moderator: Our next question is from Shubhankar Ojha of SKS Capitals & Research, please go ahead.

Shubhankar Ojha: A general observation that there is tremendous value in all your businesses including sugar, which is stressed at the moment; however, the Company on a consolidated basis fails to capture that and probably will remain elusive. Could you throw some color on the future roadmap for your organization? Are you happy continuing to be in the businesses that you currently have? What is your long-term vision in terms of value unlocking from some of the businesses while demerging not large enough businesses into different companies?

Ajay Shriram: Very interesting observations. When the DCM group was restructured in 1990, some of these businesses at the Kota complex business i.e. caustic soda chlorine, PVC, cement and the Farm Solution, which today is a separate SBU, was part of the fertilizer business were inherited. Besides, we had a real estate project in Delhi. Additionally, we also inherited a loss-making textile business 'Swatantra Bharat Mill', which we sold in 2007 and got some value back into the Company. Whenever we look at our

Company's growth and our future direction we try to consider two things. One, how we can make our existing capacities robust and rational and two, how we bring them to excellent standards at a reasonable costs. Here I would like to highlight that we have been able to do that in our Chloro-vinyl businesses beside other businesses like Farm Solution business. We initiated our Bioseeds business with a JV with another Company in early 90's which we took over in 2007 because it is actually a link in our agricultural input businesses.

The idea for Fenesta came up when we were seeing to add value from PVC, which is sustainable. Hence, we studied world windows manufacturers and markets and felt that this was a good business to get in, as it would make our business model different from a commodity. This is a consumer product and in a country like India where there is tremendous potential given the size of the population, the need for housing; the need for getting good quality product made sense.

Hariyali Kisan Bazaar again was a rural touch. Our connect is tremendous with rural India through supplying inputs like fertilisers, Bioseeds, Shriram Farm Solutions and taking output like sugarcane. Hence, we initiated this business. But, rural retail was not an easy business as the logistics were much difficult to handle, the ticket size was much smaller. In addition, there were issues with regard to the catchment area and the population of potential customer was relatively smaller. To give an example, we spent about Rs. 8 to 9 crore a year to buy diesel just to make sure that all the diesel sets across our outlets were functioning because we did not get power. We never thought it would be that bad. Here I would like to mention that our board continuously monitors and looks at the performance of all the businesses. The management is very proactive and put in all efforts and resources to ensure that the business generates healthy returns for all stakeholders. However, it was not working and that led to truncating majority of the Hariyali Kisaan Bazaar operations to improve the overall corporate earnings under control and the return on capital employed. Currently, we are running only 37 outlets to sell fuel, which are profitable. In addition, we have an asset base of around 90 to 95 properties, about 270 acres of land, spread over eight states in India which we are in the process of capitalizing, but judiciously. That is how we got the portfolio businesses across the board.

We do discuss the future direction with the Board and feel that there is scope for spending on some of the businesses into separate corporate entities. The Board will take a view at an appropriate time; but as of now we structure and run the Company as a distinct SBU basis where we have an executive director, a president running each SBU. We have a strong MIS function at our corporate finance centre which monitors the performance. Besides, we have a rigid review mechanism to make sure that each business is monitored and looked at in the right light. Obviously, our focus on people development is high and we have a great team of people. Overall, I think these are the reasons why the Company is running stably well. I understand that we do have problems. To be honest, two of our businesses viz. sugar and fertilizers is where our money is caught up. Sugar is one where we are stuck with the pricing policy imbalance and Fertilizer where our money is stuck with the government is terms of subsidy outstanding. Unfortunately, both these businesses are partially linked to government; but the other businesses are more within our own control and are doing well.

Moderator: We will take our next question from Prateek Poddar of ICICI Prudential Asset Management. Please go ahead.

Prateek Poddar: What are the reasons for scaling back the seeds business in Thailand?

J. K. Jain: After studying that business over the last 3 to 4 years, we realized that the opportunity in Thailand is not commensurate the efforts that were going in. We would rather invest the same efforts in more attractive geographies like Indonesia. Hence, it was not desirable to pursue it and therefore exited.

Prateek Poddar: Any particular reason for write back for Philippines and Vietnam sales and why was it not liquidated.

J. K. Jain: We have not withdrawn the products. The products are good and we will continue to sell these. It is just that trade had accumulated stocks and given that we are quality conscious, we thought it was prudent to take back products, store it under controlled temperature, re-test it for quality and then resell the same to the farmers such that the farmer gets the right material of right quality.

Prateek Poddar: How many packets of Yuva did we sell this season vis-à-vis the last season?

J. K. Jain: Overall, we have sold about 3.5 lakh packets of Yuva this season vis-à-vis about 1 lakh packets last season. We also launched another cotton GM hybrid in Central in the current season 'Bindaas' which is also gaining popularity and acceptability. We sold about one-lakh packets of Bindaas and aiming to sell more next year.

Prateek Poddar: How many properties have we contracted so far in Hariyali Kisaan Bazaar?

J. K. Jain: Till date we have sold 4 properties and contracted to sell 10 more, which will get transferred in this financial year.

Prateek Poddar: Would it flow through the P&L or through the balance sheet depending upon whether there is a profit or a loss either of them?

J. K. Jain: In totality, these have been sold at higher than book value. So it will be at a profit.

Prateek Poddar: What is your outlook on the fertilizer inventory given that there is still a lot of inventory left is the northern region?

Ajay Shriram: The industry players imported good quantities of DAP/MOP in anticipation of satisfactory uptake of fertilisers during the Rabi season given good monsoon and hence decent moisture content in the soil. That is the reason why we are seeing inventories carried forward.

Prateek Poddar: Is it fair to assume that the inventory will be liquidated in the Rabi season and there would be no inventory form the next year?

Ajay Shriram: Well I would not say that there would be no inventory; but it will certainly come down substantially from where it is currently to normalized levels.

Prateek Poddar: Would you go into crushing if the SAP prices are not revised?

Ajay Shriram: Currently, there is no clarity on the situation and it is very difficult to commit on crushing until we know the cost of sugarcane, especially in a scenario where sugar prices are on a declining trend. We have taken up the matter with the state government very strongly and are awaiting the final decision. It would be early for us to comment on this until we work out on a solution with the government to maintain the long-term stability of the industry.

Prateek Poddar: When do you expect this to get resolved?

Ajay Shriram: We have taken up the matter with the government and are pursuing it actively. We, along with MD's of various mills have met up with the State Chief Minister as well as various other people in the state to take a rational step towards this. They appreciate our stand and dilemma and they have also made statements in the court that there are certain issues which the industry has that needs to be addressed. We sincerely hope that the government will come out with a practical solution.

Prateek Poddar: Have we ever seen the SAP revised downwards in the last 10 years?

Ajay Shriram: No, they have never revised SAP downwards. What we are proposing is that if the government wants to give the farmers a higher price then, the government can definitely give the price directly to the cane farmers account separately by the State government and the sugar industry pays what is rational. We will have to wait and watch as to what happens.

Moderator: Next question is from Abhijit Akella of IIFL. Please go ahead.

Abhijit Akella: Would it be possible to have a breakup of the first half Bioseeds revenues seed wise?

J. K. Jain: Majority of the half-year revenues are from India i.e. Rs. 334 - 335 crore. Out of that 60 to 62% is cotton, 20% is corn, 8-9% is rice and rest is all the other products that we sell.

Abhijit Akella: How many cottonseed packets have we sold this year?

J. K. Jain: We sold about 26 to 27 lack packets in Kharif season this year. This number is similar to that of last Kharif season

Abhijit Akella: Have we witnessed any major shift from North to South?

J. K. Jain: No, it has been almost the same.

Abhijit Akella: 'Yuva' seems to have picked up very well at 3.5 lakh packets versus 1 lakh packet last year. Besides, 'Bindaas' has also done 1 lakh extra packets. So have the other brands given up some sales?

J. K. Jain: In South Central, we are reducing other hybrid and increasing 'Yuva' and 'Bindaas' as the performance of these products is much better.

Abhijit Akella: What is the breakup of Bioseeds EBIT loss between domestic and international?

J. K. Jain: About Rs. 8 to 9 crore loss is from the international division and the balance is from domestic. You might be aware that Q2 & Q3 of every financial is off-season for domestic market and hence there is no sale. Therefore, it has negative profits.

Abhijit Akella: But you mentioned that about Rs. 21 crore was from sales return, which was booked in the first quarter?

J. K. Jain: Yes and about Rs. 22 crore came in the second quarter.

Abhijit Akella: So despite the Rs. 21 crore sales return, EBIT for the half year is up by Rs. 1.5 crore.

J. K. Jain: Rs. 21 crore is the impact of sales return in profits. The topline impact was about Rs. 43 crore.

Abhijit Akella: So had that one time return not been there, our profits would have been Rs. 65 for this half year.

J. K. Jain: Absolutely.

Abhijit Akella: So if that is the case, then what has led margin expansion?

J. K. Jain: The margins in India were lower last year due to sales return of cottonseeds in the domestic market. That said, our corn and paddy have had better margin situation.

Moderator: Our next question is from Sachin Kasera of Lucky Investment Management. Please go ahead.

Sachin Kasera: Most of the seeds companies in India book returns within six months of sales; whereas we booked the sales return for our international operations after two years. Does it imply that there was some sales push to the dealers and finally we had to take it back?

J. K. Jain: Unlike India, countries like Philippines have continuing seasons, so the corn gets sown almost after every two or three months, so the sakes keep happening round the year. Therefore, you have to leave some inventory with the trade channel so that the sales keep happening. However, what we noticed was that inventory level was growing beyond what is an acceptable level with us, which could result into stale material being sold to the farmers. In order to avoid that, we thought that it is better to clear it once for all and give fresh material to the trade.

Sachin Kasera: The reason for me asking this question is that seeds is one of the key drivers for growth and for the last two consecutive years we have issues in terms of returns and write-backs. This leaves some sort of confusion for us as investors as we do not have clarity as to what will happen in the next year; especially because this is something that has never come up earlier. So how do we ensure that everything now is cleaned up and next year that there is nothing that will come out which is not known to the investors as of now?

J. K. Jain: As far as the international operations are concerned, we confirm that the trade channel is clear of inventories and no such one-time sales return will be booked. As far as India is concerned, if India has clear season, there is no question of past sales coming back. Last year, all the trade had anticipated increased off take of cottonseeds which did not happen and that is why everyone had sales return for cotton in Q2. I would just highlight here that this phenomena was not limited to us, but seen across the industry as a whole. So again, these were exceptional cases, I do not think it would happen every year.

Sachin Kasera: I believe there was an indication that the board may give an interim dividend. So why hasn't it been given especially when the debt has come down substantially by almost Rs. 200 to 300 crore indicating that the cash flow has been fairly strong. Are we seeing performance under pressure in H2 because of which the interim dividend was not paid?

Ajay Shriram: All our businesses are doing well except sugar, which is under stress currently. Our other businesses are partly mitigating this impact. That said, the Board, taking into account the stressed situation of the sugar business, felt that it was more prudent not to give an interim dividend in Q2. However, the same may be considered in the next quarter.

Sachin Kasera: Is some clarity emerging on any payout policy because the investors have not got any capital appreciation and the Company has its own share of challenges. We understand that the Company was going through difficult times and hence could not pay good dividends; but now, the cash flows have improved and the debt to equity is at a very comfortable level. We also understand that capital appreciation is not in the hands of the management, but what is in your hand is the cash flow and the dividend payout. So is there a possibility of rewarding shareholders by increasing the dividend payout given that the Company is on a much better footing?

Ajay Shriram: You have made a valid observation and we will discuss this with the board. The Board is conscious of rewarding shareholders on an ongoing basis and if the performance of our businesses continues and sugar business comes under control, the Board will definitely take a call. You might be aware; the Board in FY12-13 gave a total dividend of 80% given healthy performance. Our endeavor is to deliver robust performance consistently. While businesses are doing fine, it is the government interface where our businesses are getting caught. We believe that there is uncertainty on the sugar front, but we do expect that we will have a more stable situation once the sugar issues are sorted out.

Sachin Kasera: What would be the future growth drivers in terms of CAPEX? Have you chalked out a two-year plan or it is still taken on a year-on-year basis?

Ajay Shriram: In terms of maintenance, approximately Rs. 50 to 60 crore goes into maintenance and upkeep each year to ensure that all our plants are at excellent standards. Besides, this also includes upgradation with more focus on safety, health, and environment. In the current year, we are spending around Rs. 30 crore to put up another electrolyzer in our caustic soda business. This business is capital intensive. Our other business like Bioseeds is not so capital intensive and we expect this business to continue to grow by 25 to 30% a year. We expect Fenesta business to grow at 25 to 30% a year. Similarly, we expect Shriram Farm Solutions business to continue to grow at 30 to 40%. While we consolidate all into one Company, we like to look at each business as a standalone entity within our Company and accordingly chalk out a growth plan based on what is best for that business. For instance, we are not looking at putting up another fertilizer plant. However, if the government opens up urea imports we will be happy to look at that.

Sachin Kasera: Now that the debt as mentioned in the in presentation is close to Rs. 1,000 crore; going by the current performance, we are generating healthy cash flows every year and that CAPEX that you mentioned are all less than Rs. 100 crore. This indicates that we will be debt free in a few years. Could you give us some clarity on where will the money be ploughed? Will it be for expansion or we can expect some hefty payout?

J. K. Jain: Before I answer your question, I would like to clarify some points. One, there is seasonality in our debt and it is amongst the lowest level in Q2. The debt goes up as the sugar inventories buildup. We generate cash flows of about Rs. 250 to Rs. 350 crore on a yearly basis. Part of it is used to finance some businesses, which are working capital intensive like Hybrid seeds. We do want to reduce the debt to a more prudent level and therefore our focus for the next one-year will be to reduce debt following which we will look at the next phase.

Ajay Shriram: I will just add to that. We feel that there are two factors which every business and Company is considering i.e. what is the international and domestic business environment and what is conducive to invest and in what area. This is something even our board looks at. Therefore, we are working towards having robust financials, good ratios such that we emerge as a solid Company. Secondly, we would like to grow when the environment is appropriate. If you see, over the last 10 to 15 years, we have grown all our businesses substantially, be it Bioseeds or Fenesta or Caustic Soda, Chorine and sugar.

Moderator: We will take our next question from Amit Goela of Rare Enterprises. Please go ahead.

Amit Goela: What is the quantum of subsidy receivables?

J. K. Jain: We have subsidy outstanding of about Rs. 421 crore as on September 30, 2013.

Amit Goela: Will most of this be above six months?

Ajay Shriram: We received the urea payments up to May. SO these are post May in case of Urea. That said, there are outstanding relating to last year for SSP and bulk.

Amit Goela: So can I assume that most of it is current?

Ajay Shriram: Yes, most of it is current.

Amit Goela: If these receivable payments get regularized and you are able to sell off your Hariyali assets, you will free up a fair amount of cash?

J. K. Jain: Yes, but the subsidy outstanding would not come down to zero at any point. In a normal course there is about Rs. 200 to Rs. 250 crore of subsidy outstanding as the government take about 2 to 3 months to pay subsidies in a normal cases.

Ajay Shriram: To add, we (CII, FICI, ASSOCHAM) had a meeting with the Finance Minister post budget and we raised the question regarding outstanding amount payable to the fertilizer industry which was close to Rs. 35,000 crore as on 31st March this year. It came out that, in this year, the total subsidy would be approximately Rs. 105,000 crore and the government's provision in the budget is only Rs. 65,000 crore. So, by the end of March 2014, there could be an outstanding between Rs. 35,000 crore to Rs. 40,000 crore again to the entire industry. This has unfortunately become a cycle, which we have not been able to get out of.

Amit Goela: As a Company, would you not like to look at it very closely like in terms of how you want to handle this part of the business?

Ajay Shriram: You see, we are in the urea business and many other Agri Inputs business from the Shriram Farm Solutions business. To maintain our entire product offerings to the farmer, we have to import some quantities of DAPs, MAPs and SSP etc. where there is government outstanding. So, we have taken a view that outstanding will be there. It is like a sovereign debt where the government will definitely pay us and it is a matter of timing. You may be aware that the industry has also gone to the court because of delay in payment. The time, if not mistaken, as per policy is about 60 days and we are now saying to the court that if there is any delay we should be paid interest. This case is in court right now. We will have to wait and watch for the course of action.

Moderator: As there are no further questions from the participants, I would now like to hand the floor back to the management for closing comments.

Ajay Shriram: Thank you very much ladies and gentlemen for joining us on this conference call on our results. We really appreciate the interest taken by all of you to be with us and to ask questions. We hope we have been able to answer most of your queries. Should you need further clarifications, please do not hesitate to write to or get in touch with Mr. JK Jain, CFO.

To close, the sugar industry is under stress and we are working actively with the State Government towards linking cane prices with sugar realizations. We sincerely hope that some viable solution evolves. Regarding Bioseeds, as a proactive and prudent management, we have taken a call on the international stocks, which we have called back because we think that is good from the Company's long-term credibility and market relationship point of view. We have taken this step judicially and we feel that this will give us stability in the future. I think all our other businesses are running stable and we are focused on cost and efficiencies. we also have a strong focus on customer relationship and we will continue to do that. Thank you once again for joining us this afternoon. Goodbye.

Moderator: Ladies and gentlemen on behalf of DCM Shriram Consolidated Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.
