DCM SHRIRAM CONSOLIDATED LTD

DCM Shriram Consolidated Limited

Q3 & 9M FY14 – Earnings conference call Transcript
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Moderator: Ladies and gentlemen good morning and welcome to the DCM Shriram Consolidated Limited conference call. As a reminder, all participants' 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 this conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. 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 Ltd's Q3 and 9M FY14 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 – 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 may be forward-looking in nature and a note to that effect was included in 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 ended December 31, 2013 and the opportunities going forward. Over to you, sir.

Ajay Shriram: Thank you Ishan. Good morning ladies and gentlemen and welcome to DCM Shriram Consolidated Limited's Q3 & 9M FY14 earnings conference call. I will take this opportunity to share with you our perspectives on the Company's performance, following which Vikram will take you through the financial highlights of the Company for Q3 and 9M 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 nine months ended 31st December 2013. As mentioned, the performance during the quarter was adversely affected by high losses in our Sugar business. However, better performance of the Chloro-Vinyl and the Farm Solution businesses combined with reduction in financial charges enabled us to record a healthy overall performance.

Let me now take you through the businesswise highlights.

The Chloro-Vinyl business continues to deliver a healthy performance. The sustained measures to reduce input costs in these businesses have further strengthened our competitiveness and optimization of returns. Realizations for the Chlor-Alkali business have gone up by 9% over Q2 FY14. We expect the prices of Chlor-Alkali and PVC to remain stable in the immediate term. During the quarter, the Company commissioned another electrolyzer at its Shriram Alkali & Chemicals plant in Baruch at a cost of ~ Rs. 22 crore for the Chlor-Alkali business. This will help in achieving higher cost economies and improving our overall profitability from Q4 FY14 onwards.

The Farm Solution business continues to grow its value added businesses wherein earnings grew by about 35% during Q3 FY14 and 21% for the nine months period ending 31st December 2013. We are strengthening this business and expect to register high growth in the medium term. The bulk fertilizer businesses particularly, DAP and MOP imports are however facing margin pressures due to soft prices besides the impact of reimbursement of subsidy arrears. We have not carried out any further imports in Q3 FY14; however, the inventory liquidation is taking more time due to demand slackness. We intend to keep growing the value added businesses and balance the imports of bulk fertilizers.

Bioseed business is making good progress in all geographies. We cleared the old inventories with the trade in Vietnam and Philippines. Our new cotton-seed hybrids 'Yuva' and 'Bindaas' are getting good market response in south and central India which is the largest cotton seed market. We expect to register good growth in this market in the medium-term. We are also launching new products in Vietnam and Philippines, which will help us in growing volumes in these markets as well. The business in Indonesia is developing well. It is the largest market for grain seed and we are confident of getting a significant business in the next 2 to 3 years.

The Urea business continues to have satisfactory operating performance. The business is however underperforming due to uncompensated cost increases. The conversion cost allowed by the government to the manufacturers has not been revised since the financial year 2003. In addition, the large subsidy outstanding is also impacting the business. Recently, the government has taken some steps to meet all the subsidy outstanding through concessional loans which will provide some relief to the industry.

The Sugar industry particularly UP continues to face a tough of operating environment. The effective cane price for sugar season '13-14 at about Rs. 270 per quintal is very high compared to the prevailing Sugar prices. The problem is further accentuated due to continued fall in Sugar prices. The business currently has a negative margin of about Rs. 550 per quintal, which may increase if the present trends of Sugar prices continue. The industry needs a rational cane pricing policy, which links the cane price to the Sugar price. The Sugar factories started crushing for the current season in the 1st fortnight of December. The crushing is progressing well with Sugar recoveries of about 0.5% higher than the last year. The cane availability, however, is lower and cane planting for the next season is expected to be lower too. We continue to focus on cane development and operating efficiencies to achieve a higher recovery level which will improve the cost of structure for this business.

In Fenesta Building Systems, our emphasis on reconfiguring operations and supply chain towards retail combined with cost rationalization initiatives over the last few quarters is showing encouraging results. Sales from the retail segment grew by 33% in Q3 vis-à-vis corresponding period last year. It is now consistently at about 65% of the total business of this segment. We continue to strengthen our sales and service network to expand our business further in the retail segment.

In Hariyali Kisaan Bazar, we are focusing on sales of surplus properties. Till date, we have contracted for sale of 18 properties out of 98 properties. We expect the entire sales to be completed in about two years.

On an overall basis, we are confident of reporting satisfactory performance over the medium term. The Farm Solution business is registering high growth and the Chloro-Vinyl business maintaining firm prices. The improvement in operating environment in the Sugar business will further strengthen our Company profile and the balance sheet. I would now request Vikram to take you through the financial highlights.

Vikram Shriram: Good afternoon ladies and gentlemen. I will now summarize the financial results for Q3 and 9M FY14.

Net revenues for the quarter were higher by 8% at Rs.1,452 crore compared to Rs.1,343 crore driven by Fertilizers, Bioseeds and Chloro-Vinyl businesses. PBIT stood at Rs.78 crore compared to Rs.103 crore in Q3 FY13. PBIT reflects an adverse swing of Rs. 55 crore in the earnings of Sugar business, this was partly mitigated by improve performance of Chloro-Vinyl and Fenesta business. PAT stood at Rs. 44 crore compared to Rs. 61 crore in the corresponding period of the last year.

For nine months, net revenues were higher by 14% at Rs. 4,703 crore on account of growth witnessed across most of our business segments. PBIT stood at Rs. 293 crore vis-à-vis Rs. 304 crore last year. PAT at Rs.160 crore was 32% more than the PAT after exceptional items of last year.

Let me now take you through our business wise performance.

Revenues and PBIT from the Chloro-Vinyl business in Q3 were higher at Rs. 330 crore and Rs. 111 crore respectively. Growth was driven primarily from PVC Resin led by 15% increase in volumes and 20% improvement in realization at Rs.70,905 per metric tons. The chemicals volumes grew by 2%; however realization dropped by 1% thereby moderating overall growth.

The revenues from the Fertilizer business, for the quarter, at Rs.170 crore were 65% higher than the last year. We had lower production in Q3 last year due to a scheduled maintenance shutdown. PBIT for the quarter stood at Rs. 5 crore versus negative Rs.11.3 crore last year. Earnings for Q3 and 9M reflected uncompensated cost increases due to non-finalization of the new Urea Pricing Policy. Besides, high subsidy outstanding has also led to higher capital employed and borrowing cost of this business.

Shriram Farms Solution business revenues during Q3 stood flat at Rs.343 crore; however, in 9 months revenues grew by 47% to Rs. 1,466 crore. PBIT in Q3 was flat at Rs.18 crore. The value added inputs registered a turnover growth of 34% in Q3 and 47% for the nine-month period. The profits also grew correspondingly. Bulk fertilizers however had negative margins due to drop in the selling prices.

Overall revenue from Bioseeds is small. Q3 is an off-season in India and a very short season in the overseas operations. The turnover increased in the overseas operations with higher volumes. PBIT for Q3 stood at negative Rs.11 crore vis-à-vis negative Rs. 8 crore last year. The increase in loss was due to higher spend in research and market development with small sales in the quarter. For nine-months, revenues were higher by 18% at Rs. 388 crore after factoring in one-time sales return of Rs. 43 crore in international operations. The returns also resulted in 4% reduction in overall net earnings at Rs. 33 crore.

Sugar business revenues in Q3 and 9M stood at Rs. 338 crore and Rs. 1,055 crore respectively. Volumes were higher in Q3 and 9M by 7% and 13% respectively, reflecting our efforts to reduce inventory levels. PBIT for Q3 stored at negative Rs. 29.9 crore against a positive of Rs. 24.9 crore in the same period last year, a negative margin of Rs. 558 per quintal vis-à-vis positive Rs. 358 per quintal last year.

Haryali Kissan Bazar revenues for the quarter and 9M stood at Rs. 112 crore and Rs. 328 crore respectively. The current revenues primarily includes fuel sales only. PBIT for Q3 and 9M stood at positive Rs.1.7 crore and Rs. 2.7 crore vis-à-vis loss of Rs. 3.7 crore and Rs. 34 crore respectively.

Revenues in the Cement business in Q3 and 9M stood at Rs. 31 crore and Rs. 90 crore versus Rs. 29 crore and Rs. 99 crore last year. The selling prices were down by 20% over last year resulting in negative earnings at Rs. 5 crore versus positive of Rs. 3.6 crore last year.

Revenues and PBIT under the ‘others’ segment in Q3 stood at Rs. 77 crore and negative Rs. 57 lakhs respectively vis-à-vis Rs. 72 crore and negative Rs. 12.5 crore in the same period last year. The improvement is the result of a performance of Fenesta business where in the revenues were higher by 17% at Rs. 43 crore and overall margin improved driven by cost rationalization and focus on higher margin retail segment. The retail segment is now 65% of the total business versus 56% last year.

The net borrowings of the Company are at Rs. 474 crore versus Rs. 1,284 crore on December 12. This has helped reducing the finance cost for the quarter to Rs. 32 crore versus Rs. 36 crore last year. The cash profit for nine-months’ period is Rs. 253 crore versus Rs. 291 crore last year.

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

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from Chetan Thacker from Emkay Global. Please go ahead.

Chetan Thacker: What is the crushing target for the Sugar business this year?

Ajit Shriram: It is a bit early to comment on that because the plant cane has not begun fully. We will have to wait for about two or three weeks more to get a rough estimate.

Chetan Thacker: Which seeds did well in this particular quarter?

J. K. Jain: As we have conveyed, this quarter is an off-season for India and we sell only vegetable seeds during this period. Internationally, we do sell corn, but Q3 is a very short season.

Chetan Thacker: What has led to a significant reduction in net debt? Have we received subsidies, which were for repayment?

J. K. Jain: No, the subsidy through SBA is reflected as loan The primary reason for the debt reduction is that we have been using all internal generation to reduce debt. Secondly, since this was an off-season there is a sharp reduction in Sugar inventory.

Chetan Thacker: How much cash did we generate because of the reduction in the Sugar inventory?

J. K. Jain: The Sugar inventory vis-à-vis 31st of March is down by about Rs. 700 to 750 crore.

Chetan Thacker: What would be the net debt figure look like by end of FY14?

J. K. Jain: It would be closer to between Rs. 900 crore to Rs. 1,000 crore.

Moderator: The next question is from the line of Falguni Dutta of Jet Age Securities. Please go ahead.

Falguni Dutta: Could you share your view on the Sugar prices going forward. What is happening in Brazil and how should we see Sugar output both in India and internationally?

Ajay Shriram: Let me start with the India part. The Sugar industry, if you recollect, a year ago Rangarajan Committee recommended rational pricing between Sugar cane and Sugar prices. Unfortunately state of UP is yet to implement the same, although states like Karnataka and Maharashtra have moved in this direction. That said, the earlier system of releasing a fixed quantity every month has gone and many mills are going in the market all the time to sell everything, which is why, the Sugar prices have taken a hit and they are coming down. In our case also, our Sugar inventory is down by almost Rs. 700 crore, and based on the current situation, it would be very difficult to project sugar prices. I think it will not be right nor it will be out of any sense of knowledge to say what the Sugar prices are going to be.

Falguni Dutta: Directionally should one say that prices should not fall significantly from these levels because I was just wondering though the crushing started late but there has not been that kind of increase in Sugar output for the prices to come off like this?

Ajit Shriram: The ex-price is about Rs. 28 as of now but I think the Sugar industry is going through a turmoil, rather, it is going through a policy change environment which has not happened in the last 40 years.

Falguni Dutta: Is it happening because everybody is liquidating inventory to pay off cane arrears?

Ajay Shriram: Absolutely. Unfortunately, by the end of the last season, the total cane outstanding in UP was approx. Rs.7,000 crore. This year, we are expecting that by the end of this season, all India cane outstanding may be in the range of Rs.20,000 crore and UP would be in the range of Rs.12,000 crore to Rs.13,000 crore. The whole industry is getting skewed because the cane price is fixed at a higher level irrespective of the selling price. Logically one cannot have a high Sugar cane price, a low Sugar price and a viable industry. I think the industry is taking it up very actively with the government to bring about some linkage. Besides, you may have also read in the papers that the government is now encouraging exports of Sugar. There was a meeting of CCEA yesterday where they deferred the decision due to the amount not being agreed, , I think, the next couple of years for Sugar will be a little bit of rejig and a reformation of how the Sugar industry dynamics work. There is going to be a major change in the few years and then we will get a better idea as to how the Sugar industry then becomes a win-win for the farmer, for the industry as well as for the consumer. If I may add one more point, 20% of the molasses in UP is reserved for country liquor. Now where is the logic of farmers subsidizing country liquor drinkers. Ultimately, if you have a higher price for molasses, we could pay more to the farmers. So, these policies skews are so extreme that projecting on what is going to happen on the Sugar price I think it is very tough.

Falguni Dutta: What kind of sugar output can be expect for India?

Ajit Shriram: For India, in the last ISMA meeting, we had estimated roughly 25 million tons. However, we are waiting for some satellite imaging to take place and I think in about 10 days' time we should have a clearer picture.

Falguni Dutta: Some view on the Brazilian Sugar production if it all?

Ajit Shriram: In Brazil, I think the large part of the cane was diverted to ethanol. That said, in general there is a Sugar surplus due to which the international Sugar prices have come off from 22 cents a pound to as low as 14.8 cents a pound. However, they have now rebounded partially because of the delay in the Indian announcement. This, we believe, is for the short-term. What we need to see is that how much Sugar can actually be exported out of India and that will then determine the domestic Sugar prices. We are hopeful with a positive recommendation by the government, we should be able to export 1.5 million tons to 2 million tons within this Sugar year.

Ajay Shriram: There is one more factor in Sugar, which is the learning curve for the industry, government and everyone. Sugar is a seasonal crop where the production happens in North India for about five months of the year, in South India it moves more at 9-10 months of the year because of the climatic situation. Now what we are working with the government is to set up a futures market which is responsive to trading in

Sugar so that one knows what to do. Else one cannot manufacture in five months, hold it for 12 months without knowing what the prices are going to be. What will happen in that case is that everyone will try to sell it quickly because of unreasonable Sugar cane price and pressure to the pay the farmers. So that is a big challenge.

Moderator: The next question is from the line of Prateek Poddar from ICICI Prudential Asset Management Company. Please go ahead.

Prateek Poddar: Could you just give me your CAPEX incurred for the first nine months and what is the target for FY14?

J. K. Jain: We incurred about Rs. 60 crore till December 2013 and expect to close the full year with a capex of Rs. 70-80 croreRs. 70 to Rs. 75 crore.

Prateek Poddar: What are the CAPEX plans for FY15?

Ajay Shriram: We have not really worked out the details of the CAPEX plan for the next year, but our budgeting plan is on. I think it will take us another month or a month and a half to get a better idea on that. But, considering the financials of the Company and our debt position and ratios, we feel that we can take up some projects which actually makes sense. As we mentioned before, our focus is in the direction of improvement in cost efficiencies, procurement and operating efficiencies, so that the costs of production are lower. We are large commodity business with operations in Chloro-Vinyl and Fertilizers and we need to keep our costs comparable with the best in the world. Besides, we are looking at a couple of more projects but it is difficult to give you a figure right now for the next year, for 14-15.

Prateek Poddar: So what would these projects be like?

Ajay Shriram: We actually have a philosophy of continuous capacity expansion and improvement in cost structure of all our businesses. As we mentioned, we put up a new electrolyzer that gives is about 70 tons a day. We had an option to use is electrolyzer to either get higher production of 70 tons a day or increase the production by 30 tons a day and use the electrolyzer to bring down the energy consumption of our entire set of electrolyzers in Baruch in Gujarat. Like this, we are looking at various phases. Ultimately we believe that companies or businesses have to grow because inflation catches up and unless and until we keep growing and getting higher margins year-on-year, we will be overtaken by the inflation and fixed costs. So focus on marginal growth is strong in every business.

Prateek Poddar: Would you be looking at entering into new business verticals?

Ajay Shriram: As of now, we are focusing on the existing businesses in terms of growing them and improving their efficiencies. That said, if any good projects do come about in related businesses, then we will look at that also.

Prateek Poddar: Would it be possible to give a ballpark CAPEX figure for FY15?

Ajay Shriram: It is very difficult to say as the budgeting is still going on.

Prateek Poddar: For the current year, you have already generated cash profit of about Rs. 290 crore and out of that only Rs. 60 or Rs. 70 crore would be your CAPEX. So do you plan to retire your loans?

Ajay Shriram: Over the last 3 to 4 years, debt was the major concern for the Company. We have focused on reducing debt. We feel that there are multiple advantages of having flexibility in our businesses, getting a better rating, reducing our costs of fund etc. At the same time, we have to balance it out with growth. We will have about Rs. 180 crore to Rs. 190 crore surplus, part of it will go to repay debt anyway because that automatically makes our balance sheet stronger and then we will look at our investment proposals.

Prateek Poddar: Any chances of increasing the dividend payout?

Ajay Shriram: This decision will be taken by the Board once the final results are out.

Prateek Poddar: What makes you confident that the Sugar acreage would go down in the next year?

Ajit Shriram: The cane arrears have been extremely high and in fact if one looks at the current scenario, there are cane arrears of 2012-13 season. Because of that and the general sentiment being low, we feel that the acreage will come down going forward.

Prateek Poddar: Would that decline be material?

Ajit Shriram: I think it is a bit early to say this right now because the planting only starts in mid-February and continue till end of April. So, the planting is just beginning and it is very difficult to say that currently. In fact, we have cleared our cane arrears for last year completely.

Prateek Poddar: Is there any intention from the government to actually implement Rangarajan Committee formula?

Ajay Shriram: In terms of linking of Sugar cane with sugar prices, Maharashtra and Karnataka have taken very positive steps. We sincerely hope that governments in North India also will move in this direction. Sugar industry is very deeply involved in communicating and keeping open channels of discussions with the UP, Haryana and Punjab State governments. The industry is trying to tell them to have rational price so that the farmer gets paid. One cannot have a situation where the farmer does not get paid for his crop. The State government should realize that for the long-term stability of the farmers, industry and the consumer, there must be a rational policy, which should be adopted.

Ajit Shriram: There has been a committee formed under the Chief Secretary and they will be looking at the Sugarcane pricing policy going forward. We are hopeful that they will look at the policy of Maharashtra and

Karnataka as well because Maharashtra and Karnataka produce 50% of India's sugar production. If these states are under linkage and UP is not, then there will be a problem going forward. Hence, we are hopeful that they will see the entire thing positively.

Prateek Poddar: What is the status on the interest free loan that the sugar industry was to receive?

J. K. Jain: It is under disbursement right now. While loans to a couple of companies have been disbursed, hopefully the balance companies would get it in February.

Ajay Shriram: I think, we should get about Rs. 95 crore out of this policy declared by the government.

Prateek Poddar: Are banks comfortable in lending?

Ajit Shriram: This time the caveat for giving loans is different compared to what was there when the excise duty loan in '07-08. We are in touch with the government and are also talking to the government to revoke those caveats, so that the Company which are under pain are able to also get the loan more easily.

Prateek Poddar: Could you throw some color on the inventory write-off in your Bioseeds business that we could see in Q4?

J. K. Jain: We had taken returns in Philippines and Vietnam relating to earlier years to clear the trade channel, the value of which was about Rs. 43 crore or so. Currently, that inventory is going through quality check, which we will complete in Q4 and whatever is the expired inventory, will get written off.

Prateek Poddar: My understanding was that in the last two quarters only you had written off something?

J. K. Jain: No, we had taken the sales return in the last two quarters. So the revenues were down and consequently, the contribution also decreased. So that is the adjustment which has been done in the last two quarters. The write-off of the inventory will be done in Q4.

Prateek Poddar: What could be the quantum?

J. K. Jain: Our sense is that it could be anywhere between Rs. 12 to 14 crore.

Moderator: The next question is from the line of Amit Goela from Rare Enterprises. Please go ahead.

Amit Goela: Will your seeds channel be completely clean after the write-off or will there be some more issues involved in it? Secondly, now that the value-added portion in your Farm Solutions is growing so aggressively, what would be the rational of continuing bulk fertiliser business where you have been affected by the government? Anyways your Urea and Sugar business is to a certain extent dependent on the government. So why would you add DAP or MOP in your Farm Solution business which could hurt you in terms of profitability or arrears. Lastly, my appeal to you would be now with the kind of cash which you are generating with all the businesses which are settling down; a good dividend policy would be welcome because you look at your valuation and the market Cap vis-à-vis the kind of performance that you are doing, it is not getting reflected?

J. K. Jain: As far as the write-off is concerned we have communicated in our presentation also that we have cleared the paid off all old inventories in Vietnam and we do not expect any such thing recurring. At the end of every season, the trade is been cleared of whatever is the leftover inventory, that was a one-time thing we do not see it happening any time later.

Ajay Shriram: Farm Solutions business evolved as a marketing and trading business SBU because we had a strong wholesale trade for agri-inputs. So, we decided that instead of selling our own manufactured Urea, we could let them sell 25 other things too and that is how this evolved. Now working with the trade and providing a full package of inputs to the farmer that is our approach of finding total solutions for farmer. So considering that we do import DAP, MOP and for SSP we have a plant near Udaipur where we manufacture about 75,000 tons a year and we are buying additionally trading almost I think 350,000 tons to 400,000 tons additional of SSP. We think that it is important to provide the full basket of products to the farmers and more so to the trade otherwise if the trade does not get the full range, then they will start going to other people and Company will lose out because the interest in our business will come down. As a policy we are working towards keeping a balanced view of what is the need for imports of DAP and MOP and keep it into a moderated amount to actually provide the full package of inputs which farmer's requirements actually demand.

Regarding dividend policy, we appreciate your comments yes, we have also talked about this, we are seeing how optimally to utilize the cash. The Company has a surplus and we are working out on the best options. Based on this, a view will be taken.

Moderator: The next question is from the line of Falguni Dutta of Jet Age Securities. Please go ahead.

Falguni Dutta: You mentioned that we are making negative margins on bulk Fertilisers.

Ajay Shriram: Trading as it is very low margin business. The government determines the price for imports and the differentials at which they want to give it to the industry. Based on that, the margins get very fine. Secondly, what has also hit us is the subsidy outstanding from the government for DAP & MOP which further erodes the bottom line. You might be aware that Fertilizer Association of India have gone to the court to take it up with the government for payment of interest to the Fertiliser industry for delayed payments of the subsidy amount. If you recollect, after the budget of 31st March, 2013, the total outstanding to industry was almost Rs. 30,000 crore. By the end of March 2014, it could be a little higher. So, it is one of those things where government policies involve because of the issue of current account deficit. They do not show that as not an expense and just keeping in the government book so that they get a better ratio. We also want to do it in a balanced way so that we can fulfill the full basket and keep our trade, which is a very important business asset for us, keep them also within the loop and make their business profitable.

Falguni Dutta: What is the current MRP for DAP?

J. K. Jain: The total realization including the subsidy has gone down vis-a-vis last quarter by about Rs. 2,000.

Falguni Dutta: Has the MRP declined?

J. K. Jain: I think the subsidy is constant so whatever drop has happened, has happened in MRP only.

Falguni Dutta: You are saying that it has gone down compared to Q2 as well?

J. K. Jain: Yes. It has declined compared to Q2, therefore resulting into negative margins currently. DAP is in a negative margin situation right now.

Falguni Dutta: Is there an oversupply situation and price undercutting even now?

J. K. Jain: There is an oversupply situation in case of DAP. But I do not know whether the prices have gone down further in January.

Falguni Dutta: How do you see inventory situation this year?

Ajay Shriram: Our DAP/MOP inventory is quite small.

J. K. Jain: As on December 31, 2013, we have inventories of Rs. 50 of DAP/MOP which will get liquidated by February or so.

Falguni Dutta: What is the situation in India given that there was limited import vis-à-vis last year?

Ajay Shriram: The industry is free to import whatever they want. For us we look at it as how can we provide a package of inputs to the trade and farmers. I think it will depend on what the government policy is. If the benchmark prices for imports are rational, then I think people will bring it in and there could be a lowering of prices, which, in turn, will improve demand. After the NBS scheme came in two to three years ago, the prices of DAP/MOP shot up substantially. That is why the consumption dropped by 30 to 40%. Now I think farmers are also getting used to it but at the same time, I think it depends a lot on the international prices. So, it is still difficult to say what is going to happen in the coming season.

Falguni Dutta: How does the government set benchmark price of imports? Can anybody import at whatever rate? From what I understand, MRP plus the subsidy that is fixed and now anyone importing at whatever price balance is profit or loss is that is what that is?

Ajay Shriram: Yes, you got it right. What happens is the Government, based on their calculation will assume an import price. In this case let’s take USD 350. Then there is dialogue between the government and the industry to maintain balance price to the farmer and accordingly give X amount to the industry as subsidy per ton. That amount is also determined by the government's calculation and accordingly the selling price is determined. Lot of DAP, for instance, Domestic industry which is just trading has their own policy but those manufactures in India who manufacture DAP here they have a similar policies like urea. So for us trading is what is important and the government has not yet indicated what is the price they are going to fix for imported DAP/MOP to be able to determine an MRP.

Falguni Dutta: So is the pricing and subsidy for DAP similar for those who manufacture it here as well for importers?

Ajay Shriram: No, it is not. It is fixed for those who import but those who manufacture DAP have a different formula.

Moderator: The next question is from the line of Rajesh Zawar from Anand Rathi. Please go ahead.

Rajesh Zawar: Is the inventory of DAP/MOP excluded from the Farm Solutions Business?

Ajay Shriram: No, The Farm Solutions business is the SBU within our group which does the imports of DAP/MOP. Besides, we buy SSP also from four-five manufacturers in the country. So that is a part of this Farm Solutions business and whatever imports of DAP/MOP happens, is part of their business top-line and bottom-line.

Rajesh Zawar: Is that the reason why we have seen a sharp dip in the capital employed on the Farm Solutions side?

J. K. Jain: If you compare it Q2, then, what you are saying is right. In Q3 a lot of inventory got liquidated.

Rajesh Zawar: So essentially whole of it was related to DAP/MOP?

J. K. Jain: Absolutely, inventory as well as reduction in subsidy outstanding.

Rajesh Zawar: That is the same amount as last year. So, is the subsidy amount also reflected?

J. K. Jain: Correct.

Rajesh Zawar: How do you see the capital employed across each business vertical pan out over the next two to three year?

Ajay Shriram: As mentioned earlier, we believe in investments for improving efficiencies, reducing costs and growth. We are going to balance out between these in the next two, three years. It is difficult to give a figure for each business. That said, we do feel that our Fenesta and Bioseed business are low capital intensive businesses and are expected to grow at about 30 to 35% a year. In the Chloro-Vinyl business, we will do marginal debottlenecking and improve the efficiencies to reduce cost and become more competitive.

The situation in Sugar is uncertain because of the government policy. One has to realize that the Sugar industry actually has three products i.e. Sugar, bagasse and molasses. Even today, we generate excess power out of the bagasse and during the season, we sell about 50 megawatts to the state government. That is an advantage. Distillery industry has grown and resultantly the demand for molasses has gone up. The prices even there are stable except what I mentioned little earlier that it is very unfortunate in terms of policy formulation where farmers are subsidizing country liquor manufacturers and drinkers. It is so irrational that the farmers have to pay the price for people who drink country liquor. That is a very unfair situation but that is the government view. The Sugar industry feels it is going through a turmoil and there is restructuring of the industry. The way it is going over the last two, three years, we think there would be a change in the industry mechanism of how it is functioning. In any case, the industry is taking it up very actively from the PMO downwards, to look at having a parity between Sugar cane price and Sugar price across states for the stability of the farmers. As Ajit was mentioning a little earlier that the farmers have not been paid for their cane of last year till date. That is very sad situation; but, what can the industry do. We expect to crush maybe 375 to 400 lakh quintals of cane and frankly if you are losing Rs. 500 per quintal imagine the severity of the impact Further, banks are not willing to forward money because they know it is going to be that, the more you crush the more you lose. So, it is a tough situation.

Rajesh Zawar: By when can the decision on sugar export come up?

Ajit Shriram: We are hopeful that it happens soon. It was taken up in the meeting yesterday; but I think some clarification were required from the Commerce Ministry as the Commerce Minister was not present. I think in the next CCEA meeting, which is tomorrow evening; we are hopeful for a positive outcome.

Rajesh Zawar: Sir, the Shriram Farm Solutions as you have mentioned that you would be a sort of one stop input house for the farmers. So if I look at the strategy from majority of the players how the industry is also gearing towards that because as you said regarding the industry issues and all those things are there?

Ajay Shriram: In the Farm Solutions business, we have built a strong brand equity for our products and we are very conscious of the quality etc. Secondly, we have a very strong wholesale and retail network through which our products get sold. With Farm Solutions, we have a couple of verticals, viz. Bulk fertilizers, value-added fertilisers, crop care chemicals and OP variety seeds.

Under these four verticals, we are very actively looking at growing all given that 65% of our population is in rural India. We have 110 million farming families.. The potential is very large. We not only do inputs but also provide advisory services tohelp the farmer with solutions. We just do not want to sells 15 kg bag of DAP; we also have agronomist in the field who help farmers improve their productivity. I think these are the areas, which we are going to be continuously focusing on and we will see growth in all of them.

Rajesh Zawar: How is the availability of the skill sets or human resources?

Ajay Shriram: Well, we have fairly strong set of people. Now there are couple of universities that have courses in business management for Agriculture. For instance, IIM, Ahmedabad IIM Lucknow, and some other university in Jaipur etc. Besides, we have our own very strong training and development systems when everyone has to be at the grass roots and work in rural areas for some time to get the feel of the business. People is a challenge across the board but we are also taking steps to ensure that we do not lose out and we do not want to be in a position where we do not have the best in terms of the business proposition.

Rajesh Zawar: Sugar also being an agri output; so does it help your Farm Solutions business or would it be a very important part of your business as such when you look at for any further developing your Shriram Farm Solutions business?

Ajay Shriram: Well, Sugar is not related to our Farm Solutions business. In Sugar business we actually procure raw material from farmers. Our Sugar division itself has almost 300 cane development officers who work with the farmers to improve their productivity.

Rajesh Zawar: So does it give you leverage in the Shriram Farm Solutions business as such?

Ajay Shriram: Well, not really. The only leverage we can say is that we look at our distribution and dealer network and we ensure that there are enough dealers in the areas where our Sugar factories are. So we do not want the farmers not to be able to get the material or the advisory services. We have a strong advisory of our own. About three years ago, we joined hands with IFC Washington because they had done lot of work on improving cane yields per acre or per hectare in Mexico and Brazil. We as on today have got 12,000 farmers who are under this knowledge sharing program in our Sugar end business to improve their yields and we are seeing good results.

Moderator: Thank you very much. The next question is from the line of Samir Raj from Reliance Mutual Fund. Please go ahead.

Samir Raj: Can you just throw some light on the region wise and crop wise break up in your Seeds business?

J. K. Jain: India accounts for 75% and international accounts for 25%. Within India, cotton accounts for almost 60 to 65% corn accounts for another 20 to 25% and rest is vegetable, paddy and bajra.

Samir Raj: Which all states are you present in?

J. K. Jain: We have a pan India presence.

Samir Raj: How much money we spend on R&D annually?

J. K. Jain: In terms of percentage-to-turnover, we spent about 8 to 8.5%. Our R&D spent right now is higher than all these other listed companies are.

Samir Raj: What kind of margins can one expect from this business in the longer term?

J. K. Jain: I think sustained EBIDTA margin could be anywhere between 16 to 18%.

Samir Raj: Do you have blockbuster product currently or are there any such in the pipeline that can augur well for this business?

J. K. Jain: Yes, We have a strong research program in all our focused crop which is cotton, corn, paddy and vegetables. It is a long-gestation business so one does not know when one hit the successful products. We are the leader in North and in cotton, we already so we have almost a blockbuster product in Cotton in North, which is Bioseed 6588. We expect to repeat it in other markets also.

Samir Raj: I think you are also working on some very good product in cotton in South, which was showing good promise?

J. K. Jain: In Central and South, we have a product called 'Yuva' and 'Bindaas' which are receiving good feedback from the market.

Moderator: The next question is from the line of Sanjay Ibrahim from Equity Intelligence. Please go ahead.

Sanjay Ibrahim: We are long-term investors and invested in DCM Shriram Consolidated as a part of value investing. However, for almost a decade, the value has never come up. I really appreciate the management to manage different business segments in the Company the best way possible perhaps in the given economic environment. I know it is very easy to criticize somebody for some losses but I am looking at the Company beyond that. Before that, I want to just to bring your attention to a Company called Kaveri Seeds; Kaveri Seeds today has market capitalization of Rs. 3,500 crore whereas our Company's market capitalization is at Rs. 920 crore. Now I know management is comfortable and are doing excellent in terms of managing the business, but we feel that the focus of creating wealth for shareholders is lacking. I feel it is fabulous Company and still it is a great value at the current price but that value unlocking has to happen. Hypothetically, if we donate our Sugar, Cement and fertilizer business to some charitable trust, our market cap will go to Rs. 3,000 crore. We often talk about helping farmers which is appreciated, but being a publicly listed Company I think we should change the tone of doing business. This Company can do wonders and can be a Rs. 5,000 crore market cap Company, but, I think the management is focusing on the business development in areas which might be lesser important. I understand that Chloro-Vinyl and Bioseed business has a huge potential and can get higher valuations. Therefore, I think there should be some kind of restructuring that needs to take place with a focus on creating wealth for shareholders.

Ajay Shriram: I really appreciate your thoughts and I think all of us sitting here feel good that you have looked at it in a very holistic and a futuristic way. We must be honest; we have debated and discussed these points at the Board level of either hiving off some businesses or keep it together etc. We want to ensure we get the synergies of the group. You are right, ultimately at end of the day, we do want to work towards improving shareholder value and if you were to look at each business today setting it up each business today will take up hundreds of crore. Your points are very valid and it is on our mind. We really appreciate your thoughts in this direction. Thanks.

Moderator: The next question is from the line of Amit Goela from Rare Enterprises. Please go ahead.

Amit Goela: What is your view; when will the State Government understand that what they are doing is actually harming them and it not actually benefitting? Do you think it will ever happen or they are still not trying to understand?

Ajay Shriram: Over the last 3 years, especially in the state of UP, sugarcane price went up by about 70%. Now the industry on a pan India basis has taken a stand and put it up strongly to the government that if the past practice of increasing cane prices every year continues then ultimately the farmers are going to suffer more and more. Even this time the industry took a stand and said that it was not viable to run the mills at Rs. 280; leave alone an increase, it might come down to Rs. 225 I think was the figure which came out at that time. For the first time, the UP government has not increased the Sugarcane price and kept it at the same price. Besides, they have provided incentives through purchase tax, etc., I think approximately Rs. 9 or Rs. 10, which can be reimbursed to the industry. So at least this is the first step of some unified approach of the Sugar industry to find a long-term solution. We do feel that u we need to take it up very actively with the government, with the bureaucracy, with the thinkers of the country; with other players in the state and the country, I think the realization of the criticality of the Sugar industry is not sinking in. Another thing that we have started in our group and others also followed suit was working towards communicating more with farmers and making the farmers understand what is the need of the hour for their prosperity two, three, five years from now. In other countries like Thailand or Brazil, if the government wants to give a higher price, which is not linked to the Sugar price, they then give it directly to the farmers. We have said the same thing this year because now as per law, our cane payments have to be a 100% through banks. So we have full details of the farmers of what they have supplied. We told the state government to pay whatever rise in cane to the full list of farmers directly. We will give you the amounts the quantities they supply based on that you pay them. I think it is a transition time and feel it is a good thing that this has come to a stage of a precipitation of the industry situation because it is only at rock bottom and when you achieve that, then you are hopefully keep going up only you cannot go down further. The approach of the industry is much more unified and much more professional in terms of seeing how to bring a rational thinking for the long-term survival of all stakeholders of the Sugar industry. So I think that direction is very much on card and that is why the Indian Sugar mills association; the UP Sugar mill association; the South Indian Sugar mill association, everyone is now very actively involved in this.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to the management for their closing comments.

Ajay Shriram: Ladies and gentlemen, thank you once again from for attending our Q3 & 9M FY14 earnings conference call. As mentioned during the call, we expect the Company to record a satisfactory performance for the year except the uncertainty in the Sugar business. Improvement in the overall operating efficiencies and cost rationalization are going on as key drivers in our manufacturing businesses. In Farm Solutions, growth will come by expanding our products portfolio and geographical reach and in our Bioseed business, it is driven by research, market development and new geographies. The improvement in Sugar industry's operating environment will really give a boost to our Company and improve the bottom-line and performance substantially. A reduction in debt and financial charges will further help us in improving the performance and strengthen our financial position as a group. Thank you once again for participating in our concall.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of DCM Shriram that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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