



DCM Shriram Ltd.

Q2 FY17 Earnings Conference Call Transcript

November 07, 2016

Moderator

Ladies and gentlemen, good day and welcome to the Q2 and H1 FY17 Earnings Conference Call for DCM Shriram Limited. 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 for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar. Thank you and over to you, Sir.

Siddharth Rangnekar

Thank you. Good evening and thank you for joining us on DCM Shriram Limited's Q2 & H1 FY17 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 shall have an interactive question-and-answer session.

Before we begin, please note that some of the statements made in this call could be forward-looking in nature, and a note to that effect was included in the conference call invite circulated 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 year ended September 30th, 2016, and the opportunities going forward. Over to you, Sir.

Ajay Shriram:

Thank you. Good evening ladies and gentlemen, and a very warm welcome to DCM Shriram Ltd.'s Q2 and H1 FY 17 earnings conference call. I will share insights into major developments in our businesses and on plans going forward, following which Vikram will take you through the financial highlights of the Company.

The company achieved satisfactory performance during the quarter. Earnings of Sugar business improved as the margins turned positive vs. last year. Chloro-vinyl had stable earnings and Bioseed achieved sharp reduction in losses in Q2, an off season. Decline in interest costs also contributed to higher earnings during the quarter.

Let me now take you through the business wise developments:

Chloro-Vinyl - As reported, we have completed the chlor-alkali capacity expansion and technology up-gradation project at Bharuch. The overall chlor-alkali capacity of the company has gone up from 780 tonne per day to about 1350 tonne per day. Part of the capacity was commissioned in July 2016 and balance in October. The entire Bharuch Plant is now based on the latest technology which is 15-20% more energy efficient. The power plant is going through trial runs and is expected to be

commissioned soon. The commissioning of the expanded capacity helped us in mitigating the adverse effects of lower prices during the quarter. Commissioning of power plant and Chlor-alkali plant will further improve the cost competitiveness of this business.

The global product prices are stable to firm. Domestically, Q2 recorded lower prices of chlor-alkali products and slightly better prices of PVC. The chlor-alkali prices have since improved and are expected to remain stable. The inputs prices, particularly coal and carbon material are firming up.

We are focusing on improving the capacity utilization of the expanded capacity and expect to reach full utilization at the earliest.

Sugar - Sugar industry is witnessing positive returns over the last few quarters led by improvement in sugar prices to reasonable level. Positive margins are helping the Industry to recover its financial health, and also work more aggressively on cane development and cane productivity of the farmer. It is imperative for Central and State Governments to continue the rational policies, to ensure sustainability of the Industry and the farmer. The industry is continuously engaged with the govt in this regard.

We are focusing on improving capacity utilisation through extensive cane development activities. Simultaneously, we are strengthening integration of our operations. The bagasse based cogeneration power capacity will be expanded from 94MW to 108 MW by end of Nov 2016. We are also setting up a 150 KLPD distillery to be commissioned by Dec 2017. This integration will provide stability to the earnings of the Sugar business going forward.

Bioseed and Farm Solutions Businesses - Agri inputs sector has seen better volumes in the second quarter vs. same period last year, as late sowing led to higher volumes in Q2 this year, though it is an off season otherwise. The overall volumes and margins in Khariff have been impacted by erratic weather, regulatory uncertainty and weak farmer finances. There are signs and hope that the situation will be better in Rabi 2016.

The position of Subsidy payments is better, partly because of lower subsidy bill due to lower product prices. We hope it continues to be better during second half also.

The company is focused on driving growth in these businesses and is undertaking efforts to optimise the product portfolio and geographic presence. The company is leveraging its wide distribution network, strong brand equity and R&D capabilities in Bioseed business, to introduce high quality product offerings in the market.

Fertiliser- The business operations are stable. It has over the period improved its energy efficiencies and is evaluating options to further improve energy efficiency, to meet requirements under the New Urea Policy.

Fenesta- This business is recording encouraging volumes with traction being witnessed in both the 'Retail' and 'Projects' segment. The business is focused on strengthening customer engagement, execution capacity and reach. We expect this business to register healthy growth over the medium term. To enable the business meet growing demand, the board of Directors has approved expansion of fabrication capacity, at an investment of Rs 18.5 crores.

Stable cash flows and moderate debt levels have enabled the Company to undertake growth investments over the last 18 months. These investments are helping to increase scale, reduce volatility in earnings and improve cost structure.

The company will complete its investment plan of Rs. 732 Crs in Q3'17. Three more projects have been approved by our Board in Chemicals, Sugar and Fenesta business at a total investment of Rs. 301 crore. All these projects will get completed over next 18 months and will further strengthen the performance of these businesses.

The Board has declared an interim dividend of 110% vs 60% last year.

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

Vikram Shriram:

Thank you. Good evening ladies and gentlemen. I will now summarize the financial performance of the Company.

For H1 this year, the total Revenue stood at Rs 2,960 crores vs Rs. 3,338 crore last year. Last year included the revenues of trading of DAP/MOP business which we have suspended from the current year. Excluding DAP/MOP, the Revenues was up 3% vs H1 FY 16. Similarly, Q2'17 Revenues are up 16% led by higher Revenues of Sugar, Bioseed and Chemicals business.

PBDIT for H1'17 was up by 23% at Rs. 381 crores, primarily due to better performance of Sugar and Chloro-Vinyl businesses. The PBDIT for Q2 FY17 increased by 12% YoY to Rs 132 crores with higher profits of Sugar business. Bioseed had lower losses during the quarter, an otherwise off season.

For H1, Net profit was up by 39% at Rs. 258 crore. Increase in net profit was driven by higher operating profits and lower finance costs. Net profit during the quarter increased by 48% YoY to Rs 92 crores

Let me now take you through our business wise financials.

Chloro-Vinyl - H1 revenue was up by 5% YoY and PBDIT was up 13% at Rs. 213 crore led by higher volumes in Chemicals Business and better realisations in PVC business.

Q2 revenue was up by 5.1% YoY driven by higher volumes in Chemicals business, which stood up by 24% YoY, due to partial commissioning of the new capacity at the Bharuch plant. PBDIT stood marginally lower at Rs 83 crores vs. Rs 85 crores in Q2 FY 16 due to lower Chlor-Alkali prices and increase in power costs. Chemicals realizations stood lower by 8% YoY and 15% sequentially. The chemical prices have started improving now. The capacity utilization at the expanded chemical plant is improving gradually.

Segment's capital employed was up at Rs 948 crores from Rs 535 crores last year on account of the capacity expansion and technology up-gradation projects.

Sugar – H1 revenue was up by 33% YoY due increase in Sugar realizations, which were up 39% to Rs 3,436/ctl. Volumes were in line with last year at about 17 lac qtls. H1 PBDIT improved to 107 crores from Rs 51 crores last year.

Second quarter revenue was up by 112% YoY driven by higher volumes and better realizations vs. last year. Sales volumes stood at 9.8 lac qtls vs. 7.2 lac qtls in Q2 FY 16. Realizations improved to Rs 3,510/ctl vs Rs 2,352/ctl in Q2 last year. Q2 FY 17 PBDIT was up at Rs 69 crores vs. Rs 58 crores. Last year's profit included Rs 60 crores of cash cane subsidy by the UP Govt. for the Sugar Season 2014-15.

The Business' capital employed on Sep 30, 2016 increased by 46% YoY due to higher sugar inventory. Both the stock quantity and the valuation rate were higher.

Shriram Farm Solutions - H1 Revenue was lower by Rs. 568 crores mainly due to suspension of DAP/MOP trading. The sales of Value Added Inputs declined by Rs. 46 crore i.e. about 12%.

Q2 FY 17 revenue stood lower by Rs. 245 crore of which Rs 234 crores was due to DAP/MOP. Lower sales and discounts on the channel inventory of DAP/MOP sold last year, led to contraction in H1 and Q2 PBDIT compared to last year.

Capital Employed stood lower at Rs 456 crores vs. Rs 557 crores last year due to lower working capital deployed in DAP/MOP.

Bioseed – H1 revenue stood down by 12% YoY primarily due to decline in BT cotton seed volumes and capping of its selling price by the Government. BT cotton seed sales were at 32.1 lac packets vs 36.1 lac packets last year, which was due to reduction in cotton acreages in key markets this year. Despite lower revenue, H1 PBDIT for India business stood at Rs. 67.1 crore in line with last year. Losses in International business reduced driven by higher volumes and lower Inventory write-down.

For Bioseed Q2 is an off season. Q2 topline grew due to higher volumes in the India business and in Philippines. The company sold 2.2 lac packets of BT cotton in India in Q2 vs. nil last year. Higher revenue and lower inventory write-down in International business led to reduction in PBDIT loss to 7 crores from 37 crores in Q2 FY 16.

Fertilizer - H1 revenue was lower by 13% YoY on account of decline in realizations consequent to lower raw material prices, which is a pass through. Volumes in first half of the year were in line with last year. PBDIT stood higher at Rs 27 crores vs Rs 12 crores in H1 FY 16. This was on account of better efficiencies and FICC arrears of Rs. 9.2 crore received during the period.

Q2 FY 17 revenue stood lower by 27% YoY due to lower volumes and fall in realizations. PBDIT in Q2 fell to Rs 8 crores vs Rs 15 crores last year due to above factors. Subsidy outstanding eased to Rs 148 crores compared to Rs 202 crores last year and Rs. 451 crores as on 31st March 2016.

Fenesta – The Business continues to record good growth In H1, the revenue was up 21% and PBDIT was up by 21% driven by a 23% YoY increase in 'Project' segment's volumes and a 19% YoY increase in 'Retail' segment's volumes. Q2 revenue were higher by 19% YoY. 'Retail' segment forms about 65-70% of total volumes.

The Company's net debt as on Sep 30, 2016 stood at Rs 706 crores vs. RS 420 crores as on Sep 30, 2015 and Rs 1,054 crores as on March 31, 2016. Increase in net debt vs. last year was due to the expansion projects in Chemicals and Sugar businesses.

The financial charges for H1 went down from Rs. 52 crore last year to Rs. 32 crore in the current year. Suspension of DAP/MOP contributed Rs. 11 crore to this reduction.

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

Moderator

Thank you very much, Sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Aditya Wagle from Aequitas Investments. Please proceed.

- Aditya Wagle** Sir, just a few questions regarding your Chloro-Vinyl segment. Sir, sequentially I think there has been a sharp drop in EBIT whereas revenues have been flat. So, could you just comment on that? It was I think Rs. 121 crore in the last quarter, it is Rs. 72 crore right now.
- J. K. Jain** As we mentioned, the selling prices went down during this particular quarter and because of capitalization the depreciation did move up, so that is the reason why the EBIT has dropped.
- Aditya Wagle** But your revenue is flat, Sir?
- J. K. Jain** Yes, because the volumes have compensated the decrease in price, so volumes went up for chemical by 23% - 24%.
- Aditya Wagle** And Sir, what would be the expected utilization for the Bharuch facility in this financial year?
- J. K. Jain** See, as we have mentioned, the overall capacity of the business has moved up from 780 tons to 1,343 tons, so we have added about 563 tons. We had not commissioned power plant which is getting commissioned now, so in the absence of power plant we were not able to operate at full capacity. So far the higher production was about 220 tons per day or something, now that power plant will get commissioned in this particular month, then the capacity utilization will build up.
- Aditya Wagle** So, by when do you expect full ramp up of the Bharuch facility?
- Ajay Shriram** We expect that to happen by end of this month or early next month, i.e. for Bharuch to run at about 900 tons a day.
- Aditya Wagle** Sir, what would be the current trend of Chlor-Alkali prices?
- J.K. Jain** As CMD mentioned in his opening remarks, the prices have moved up in October compared to September. We expect that trend to continue and prices should remain stable now going forward.
- Aditya Wagle** And lastly regarding your subsidy position in the fertilizer segment, how much would that be at the end of H1?
- J.K. Jain** See, the total subsidy was Rs. 329 crores compared to Rs. 759 crore on 31st March. Having said that, subsidy generally builds up in the second half, so let's hope that it does not this time because the subsidy bill has been lower.
- Moderator** Thank you. Our next question is from the line of Dheeresh Pathak from Goldman Sachs. Please proceed.
- Dheeresh Pathak** Sir, what is the reason for first half volume decline of 6.5% in PVC, the industry would have grown probably in double-digits or higher, so if you can just explain the reason for volume decline for first half.
- J.K. Jain** The variation in volumes is primarily because of stock variation. The production capacity has not changed so quarter-to-quarter there is sometime higher sales from stock or sometimes you are left with stock at the quarter end. There is no change in the production volumes per se, sales volume is only a stock variation effect. So last year we were carrying stock in March end, March 2015, which was sold in the first half. This year we did not have that much stock in the beginning of the year, so that

is what is getting reflected in this. Other than that there is no reason for this variation.

Dheeresh Pathak But what is the industry growth rate for PVC? This is all domestic right, the sales that you do in PVC?

Ajay Shriram Yes, our sales is all domestic, we sell only in India.

Dheeresh Pathak What is the domestic growth rate in PVC?

Ajay Shriram We do not have precise number but generally in line with the GDP growth. So if GDP grows about 7% - 8% PVC we will grow 1% or 2% more than that.

Dheeresh Pathak And Sir, second question is on bulk fertilizer which you report under Shriram Farm Solutions, now that used to be about Rs. 1,000 crore of top-line on an annual basis. Now that business you have temporarily exited or permanently exited?

Ajay Shriram See, the bulk fertilizer includes two fertilizers, one is DAP/MOP and second is SSP. What we have exited is only the DAP/MOP business which contributed about Rs. 600 crore to last year's revenue.

Ajay Shriram All was SSP, correct. So SSP we are continuing, DAP/MOP is what we have exited.

Dheeresh Pathak Sir, why continuing SSP, so can you just give me the reason that why existing one and not the other?

Ajay Shriram See, ultimately there are two issues involved. One is, what is the situation vis-à-vis our trade and what is the demand from the trade which is driven by the farmers. Second, also is driven by what is the stock situation in the country, what are the prices like. So we have taken the view that DAP/MOP we are suspending operations just now, but SSP where we have one plant of our own plus we are getting it done from some other people on a contract basis from outside, there we precisely want to continue that for some time.

Dheeresh Pathak And this DAP/MOP, this was all imported and traded or just...

Ajay Shriram Correct, this was totally imported and we were only trading on this and we found margins to be very volatile, I would say they are moving from minus 5% - 6% to plus 5% - 6% ROCE. So we felt that it is better to really move out of this for the time being at least.

Dheeresh Pathak And is it because of the retail price correction which the government asked during the kharif season, which impacted the inventory in the channel. Is it because of that?

Ajay Shriram Well, in our case fortunately because we have decided to move out of it. The impact of that was there, it did hit us with I think about to the extent of Rs. 9 crore. But factually speaking, we had taken a decision to suspend this operation before the price reduction came about by the government. So ours was a policy decision taken some time back, that considering the last four, five years trading situation of DAP/MOP and the uncertainty on the policy front. What you are rightly mentioning of the price reduction that was again out of the blue for all the traders and manufacturers, and considering that the outstanding FICC on this account keeps standing by which we lose interest and our money is tied up, we took a view to suspend operations.

- Dheeresh Pathak** Sir last question if I may, anything on DBT, if you can talk about at the industry level what you are seeing and what is the scope of the current pilot that is being done by various companies or government bodies?
- Ajay Shriram** We are also involved in this pilot study, we have also got three or four districts where we are selling under this scheme. First and foremost I want to clarify, DBT is Direct Benefit Transfer to the beneficiary. Actually what is happening is that is not the scheme the government is implementing, it is really a scheme by where at the point of sale the retailer has to intimate the quantity of fertilizer sold of which manufacturer through an IT system to the government's databank. And based on that intimation to the government the fertilizer company whose material has been sold would get the reimbursement to the company from the government. That is the actual scheme. So it is a scheme going on, but as an industry we have also taken up this point that today there are almost 2.5-3 lakhs retailers, now each retailer will have to ensure 100% of sales of all fertilizers is registered in the system at the point of sale so that the company concerned who had supplied that fertilizer gets reimbursed. So, we are discussing with the government on the complications also of this system, but the government is moving for trials based on what they have looked at just now and we are also participating in that.
- Moderator** Thank you very much. Our next question is from the line of Sachin Kasera from Lucky Investment Managers. Please proceed.
- Sachin Kasera** Sir, a couple of questions on the chemical segment. You did mention that right now your captive power plant is not operational for the expansion and it should happen this quarter. So, if you could just tell us as to what is the cost differentiation between the power that we are buying from outside versus what we will be incurring if we held captive?
- J.K. Jain** No, we are not buying power from outside. We were restricting the capacity utilization to the power that we can generate, we have the coal plant and the diesel plant there for some 24 megawatt, which was on standby earlier, so we were running that also to generate additional production to the extent possible. But we were not buying power from outside.
- Sachin Kasera** So you are restricting the growth to the ramp up of the division?
- J.K. Jain** Absolutely.
- Sachin Kasera** Secondly Sir, in terms of ramp up how are we placed in terms of the chlorine tie-up because as far as costing is concerned there is a good market and can easily get absorbed. From what we understand, the key challenge for the industry is always in terms of disposing off chlorine, so are we fully tied up in terms of when we ramp up to the full capacity next few month, chlorine sales are tied up?
- Ajay Shriram** You are absolutely right, because the chlorine cannot be stored beyond a particular volume. So our marketing people have worked very hard on this and ensured that even though we may have to spread our geographical market, but we want to ensure that we can run at maximum capacity. Because on an ECU basis we still find that it is profitable and we get a contribution if we run at full capacity. So our marketing people have taken care of this, I mean, there can be blips up and down during a particular short-term period. For instance, right now because of Diwali the market around Gujarat in our area has been affected in terms of the pull for chlorine and caustic, we expect that to ease off in the next 4-5 days and we expect to ramp up production once the power plant is also fully commissioned.

Sachin Kasera So it is fair to assume that you have more or less tied up the full capacity of chlorine when you ramp up to full capacity as of now?

Ajay Shriram There are two things, one is, we have some pipeline supplies which happen which is more of a committed one to one supply. That is there in any case, the rest we have to sell in the market and there it is a matter of who you get in touch with at what time of the month and at the beginning of the month. So it is not really a committed tie up that way because they are the buyers and are open to buy from anyone, but we also are participating in the market for that.

Sachin Kasera Okay, but how was Sir the domestic scenario, is it that there is an oversupply so then it becomes a game of market share, so the one who offers the lower price is able to sell the entire volumes? Or is the market demand sufficient to absorb the entire supply that is coming into the market?

Ajay Shriram No, there is competition, there is no doubt. And the reality is that, good thing is that the industry is growing at 6-7%, so that is why the demand also keeps going up year-on-year. But yes, it is a competitive supply based market and you have to get the best price possible.

Sachin Kasera Secondly Sir, if I compare the second quarter number versus the first quarter, what my research says that the entire cost increase has been to the tune of around Rs. 40 crore to Rs. 50 crore. First, is that understanding correct and is that all purely because of the increase in coal cost / power cost?

JK Jain See, there are two increases Sachin, one is the coal cost in Kota and second is some duties in the sense that, I think we have mentioned also, we have provided for the RPO obligation in the Kota plant which is about Rs. 14-15 crore. So, Rs. 15 crore is on account of RPO obligation and balance will be other cost increases which had happened.

Sachin Kasera So this Kota would be mainly the domestic linkage coal?

Ajay Shriram Yes.

Sachin Kasera So that is the type of price increase you have seen Sir there?

JK Jain No, I do not think prices have gone up for coal, it is primarily the quality of it which leads to higher consumption. See, other thing which happened was, last year we were buying lot of power from the exchange because the exchange power was cheaper than our power. This year Rajasthan has introduced some additional charge which is making purchased power uneconomical, so we are now meeting the entire requirement from our own generation.

Sachin Kasera That is how the scene even in Q1, because I am comparing Q1 to Q2. So in Q1 also were buying power from outside or by Q1 we had already fully moved to...?

J.K. Jain It has been picked up gradually.

Sachin Kasera Sir my second question was regarding the Farm Solution business, despite of exiting the unprofitable segment we still have reported a Rs. 3 crore loss. So is there any one-time expense again that we incurred this quarter? Because what I understand is that the value-Added portion was also reasonably profitable. And when do we see this business, because we almost have Rs. 500 crore of capital which is deployed in this business and it is not generating any returns for us?

- JK Jain** See, we have indicated that we have provided this loss on DAP/MOP, we had to give discounts on the channel inventory which is a one-time loss only. So that is one big reason which has contributed to this negative in Farm Solution. Otherwise, I think value added part is pretty okay in Q2, there was no margin issue or the volume issue in Q2 on the value added part. But this one-time hit of Rs. 9 crore did lead to loss.
- Sachin Kasera** So, excluding that we can say that the number was around Rs. 6 crore from the value added portion?
- Ajay Shriram** Yes.
- Sachin Kasera** But Sir, it still looks low because if we see the total capital employed is around Rs. 450 crore average in this business, its overall between Rs. 400-500 crore at any point of time. And if we are able to generate only Rs. 24 crore - Rs. 25 crore that is like a 4% to 5% return on the investment which was very low for a company like us because we typically target 18% - 20% return on investment.
- JK Jain** I think there seems to be some disconnect with the number. See, let's understand two parts, one is the Rs. 500 crore capital employed is still about Rs. 100 crore relating to DAP/MOP which will get realized in due course because subsidy comes with its own time lag. So the continuing business has capital employed to this extent which is less. The second part is, do not look at only the quarter's profit, if you look at year as a whole last year the PBIT of this business was about Rs. 58 crore. So Rs. 58 crore on Rs. 300-odd crore is not all that bad.
- Sachin Kasera** And lastly Sir on this Sugar, what is the type of additional generation we can have this year because of the new power plant? And secondly, what is the amount of crushing we are looking?
- J.K. Jain** See, the additional project that we are undertaking, we are saying it will generate about 14 megawatt extra and we are investing about Rs. 125 crore in that which should yield a return on investment of about 25-30% which should start coming from this year itself, because we will be commissioning the plant in November.
- Sachin Kasera** Along with the sugar crushing season?
- J.K. Jain** Yes, the new sugar season that is getting commissioned. Now, as far as crush is concerned, I think it is a little early to comment on that. Our area available has gone up by about 4% - 5% but I think lot will depend on the yields with recovery, so it is little early, we will be starting crush in these 10 days. So I think we will take time to give you a fair idea on crush and recovery, etc.
- Sachin Kasera** And lastly Sir, this project that we are putting for the distillery, what is the type of payback we are looking at and what is the type of prices we are assuming in terms of when we are building our case for the investment?
- Ajit Shriram** So the prices are very clear, I mean, the OMCs have come out with a clear pricing policy depending on the distance of the depot from the factory and the tenders have been released. So various companies are putting the tenders up and I think the PM is extremely keen to push this green fuel and the ethanol policy is moving well.
- Sachin Kasera** So can we assume that this project like the power project will have payback of 3-4 years?

- JK Jain** See, if the present price continues because we will be commissioning this in December 2017, so if the present price continues then we are expecting a return again of 25-30% on the investment.
- Sachin Kasera** And Sir if you could let me just one last question on Fenesta, if you could tell us what is the current EBITDA margin in this business? And secondly, current utilization and the increase in capacity because of the CAPEX that we are doing.
- J.K. Jain** See, our current capacity let me just explain that first, is about 18,000 windows per month in terms of fabrication. We are increasing it to 34,000. And we are expecting that this will sufficient to take care of the volume increase of next two years or so and then we will have to ramp it up again. Now, as far as the EBITDA margin is concerned, right now it is not very high because there is lot of investment happening to support the growth that we are planning in this business for the next two years. I think right EBITDA margin will emerge when we have gained decent size which we will expect in two years we should reach that kind of number. But at that stage we are confident that it should be 10% plus kind of thing.
- Sachin Kasera** And Sir, this 18,000 per month currently we are on an average talking about 15,000 - 16,000 per month?
- Ajay Shriram** Yes, by year end we should be touching that kind of number which you are talking about. But the other part which we have to see is that in this there is fair amount of bunching that happens, so it is not that it will keep operating continuously at 18,000, there will be months you have to provide higher volumes depending up on the project progress. So you have to build some capacity to take care of this bunching up.
- Sachin Kasera** So the better way to say is that the best case on a yearly basis we can look at 70% - 80% utilization, that is the way to look at it?
- Ajay Shriram** Absolutely, you are right.
- Moderator** Thank you very much. Our next question is from the line of Rohan Gupta from Emkay Global. Please proceed.
- Rohan Gupta** Sir, first question is, you mentioned the cost efficiency which you will be able to draw after this completion of the chemical caustic soda plant, so Sir on caustic soda generally we are making almost Rs. 240 crore EBIT on an annual basis. So would it be fair to assume that roughly Rs. 50 crore only from the cost saving which will be occurring to us from next quarter onwards apart from the capacity expansion which we have completed there?
- J.K. Jain** See, what you have to also factor in is that cost savings work is not being achieved only by us, other people are also modernizing, it is a competitive industry. The other part is which is clearly mentioned that there is cost increase, which are simultaneously happening. So for example, coal cost has gone up over last quarter itself by about 20% odd for imported coal. So you cannot just add or arrive at the margin number, but what it does it as we achieve cost efficiencies it helps us in maintaining margins keeping in view the coal cost increases which we are seeing and the other duties and levies which are being imposed by government on coal. So this kind of efficiency helps you in maintaining margins.
- Rohan Gupta** So Sir, other industry players you have mentioned are also upgrading their plant, so the benefit largely is going to pass on to the customer. But coal cost increase and all that will be applicable to everyone.

- J.K. Jain** Absolutely, so I was not saying these two as related points, these were two independent points. So when you project margins you can factor in the efficiency and the coal cost increase also.
- Rohan Gupta** But Sir, as far as the caustic soda is concerned, generally prices in India is based on import parity also. So, if industry has taken some cost efficiency projects and if they have reduced their cost structure, it is not like that the industry is going to keep large part of that in terms of EBITDA margin or you have a view that it will be passed on largely to the end customer?
- J.K. Jain** See, sometimes it will get passed on, sometimes it will be kept by manufacturer. All that I was trying to say was just do not add that to the margin and say that year end number will be this, because cost increases are also happening. And there will be sheer amount of competition, so to what extent we can retain the saving and to what extent we will have to pass on is our market competitive gain, that is all.
- Rohan Gupta** And Sir, so now your capacity expansion increase in power plant has also happened by end of this month you are saying, so from Q4 should we expect that we will be achieving 100% utilization in caustic soda or there can still be some technical or initial technical issues which can happen?
- Ajay Shriram** I think we should be able to achieve good capacity utilizations. As we mentioned earlier, might depend little bit on the market, chlorine uptake and things of that type. But our plant will be geared up and we are looking forward to achieve a 100% capacity utilization.
- Rohan Gupta** And Sir, you also mentioned about the rise in coal cost, that is definitely happening across industry almost 20%. So do we have coal cost inventory right now or covered coal cost till end of this year or we are not having any sort of inventory?
- J.K. Jain** See, we had coal inventory which was sufficient, I mean, we didn't face this particular coal increase which has happened so far because we had inventory and we had not done any purchase at new price till September, October. But we have not covered ourselves fully till March so we will have to start buying coal now at higher prices.
- Rohan Gupta** So the impact of 20% rise in coal actually has yet not been reflected in this quarter?
- J.K. Jain** It is not reflected so far but it will start coming in from Q3 onwards.
- Rohan Gupta** But then will be compensated by increased production?
- J.K. Jain** And the efficiency.
- Moderator** Thank you. Our next question is from the line of Falguni Datta from Jet Age Securities. Please proceed.
- Falguni Datta** Sir, I just missed what was the capital cost of this 150 Klpd distillery?
- Ajay Shriram** The total capital Board approved is Rs. 185 crore.
- Falguni Datta** And secondly, though it is a difficult thing, I mean, is it possible to get any sense on SAP as to what is the maximum that it can go to or any kind of range?
- Ajit Shriram** There is a meeting day after with the Chief Secretary between 11am and 1pm, so we hope for a reasonable outcome over there.

- Falguni Datta** And Sir, is it like fair to say, as we have been seeing in the past two, three years SAP has been kept, not been hiked and because of the condition the industry has been, the government has been in a way giving some benefits. So instead of that can we see an explicit linkage to be announced this time around whereby a minimum price being paid to the farmers and thereafter it depends upon the sugar price, something of that sort, can that be expected an explicit linkage to sugar realization?
- JK Jain** It is very difficult to say, Falguni, right now what government's thinking is. Because like Ajit ji said there has been exchange with government will happen on 10th only, so one would know what is their thinking. But yes, industry is pressing for linkage.
- Falguni Datta** And Sir one last question on DBT, as you mentioned that even in DBT the subsidy is actually going to the companies only, it is only when the retailer is informing the government that this company's product has been sold. So, this is different from the system wherein as soon as the product was passed on to the dealers was the company entitled to get subsidy?
- Ajay Shriram** Today, system is that on dispatches the government will give subsidy but at 95%, 5% still has to come after verification from the district authorities and the retailer. So, that 5% is still held up in many, many companies' cases, it has still not been cleared. In our case also we had this 5% which is held up and not being paid so far. But the new system where retailer has to really verify every sale, and it is coming to a stage where the entire health of the industry will depend on the retailer punching in that sale for a particular company, I mean, our worry is that in case the retailer does not punch in say 10 bags for a particular company the company will never get paid.
- Falguni Datta** And Sir the other thing is, even if the retailer were to punch in time, will that essentially lead to faster receiving of the subsidy than the present mode?
- Ajay Shriram** Well, they claim yes, what you are saying is right. They say that in the new system the payment will be made within one week. But what happens is because there are basically two seasons, Kharif and Rabi, that the majority of sales happen within say four, five months of the year. So the money will come there, the balance period cash flow will be tight, it is a little uncertain, I think there is a lot of trial and error involved, we had lot of discussions with the government going on. And by the end of the month the Fertilizer Association of India is having the annual session when you have the minister there and we have a larger communication with the minister. Let us see what evolves but the Fertilizer's Association of India is taking this up very actively with the government.
- Falguni Datta** Essentially what I understand is whether DBT will be better than the current system is not yet known.
- Ajay Shriram** True, absolutely right.
- Moderator** Thank you very much. Our next question is from the line of Saket Kapoor from Kapoor & Co. Please proceed.
- Saket Kapoor** Sir, with the expanded capacity in the Chloro-Alkali segment, what would be our market share?
- Ajay Shriram** I think we will have to just calculate, about 1300 tons per day into 335 days. And the total capacity is about 3.5 million.
- J.K. Jain** It is overall 12% - 13% of the market.

- Saket Kapoor** Sir, now coming to again that point, the first speaker spoke about, on a quarter-on-quarter the revenues were down by around Rs. 3 crore only in the Chloro-Vinyl segment whereas profits were down substantially by around Rs. 50 crore. You attributed it to the depreciation part also, but depreciation has gone up by only mere Rs. 3 crore. So how do we explain this loss of Rs. 49 crore?
- J.K. Jain** We have not attributed it to depreciation only, we have said that the chemical prices were significantly lower during this period compared to Q1. Second, we have had additional charge on account of RPO obligation for Kota which is about Rs 14 – 15 crore which included previous year's charge also. And we have had depreciation. So all these three factors have contributed to this kind of change.
- Saket Kapoor** Sir, what was the reason for the decline in prices in the Chlor-Alkali segment? Was there fall in demand or we could not match the import prices?
- Ajay Shriram** See, this is a market driven product and you are right, the international prices also have an impact on this, so the prices overall for everyone came down. And we have seen also in the past that during the monsoon months there is an impact on the overall prices in the Chlor-Alkali business on a ECU basis which is taking into account the caustic and chlorine. And that is an annual phenomenon which happens every year. So the price does go down and then normally after Diwali it picks up a little bit, so we expect that to happen now.
- Saket Kapoor** Sir, can you provide the breakup in the revenue segment between the vinyl part and the alkali part out of the Rs. 374 crore, how much will be attributed to the PVC resins part and how much would be? **J.K. Jain** We have given it in our investor presentation, chemical is separate and plastic is separate.
- Saket Kapoor** Okay, I will go through the presentation. And secondly, coming to the sugar part, how much is the co-generation and the pure sugar sale, is the breakup made available there?
- J.K. Jain** For this six months there was no power sale, so the entire profit is sugar profit only..
- Saket Kapoor** And that is going to come forward in the second half then?
- Ajay Shriram** Yes. It happens only during the season time, when you have the bagasse available and you have cogeneration of power. The last six months were off season so there was no power generation.
- Saket Kapoor** Sir then what kind of volume can we look forward for the next half in terms of co-generation?
- J.K. Jain** Our cogeneration capacity for sale is right now 50 megawatt which will go up by 14 megawatt, so we will have total 64 megawatt for export to the grid. Now how much units it will convert it, I do not have that right now, we can give it to you later.
- Saket Kapoor** No, the expanded capacity will kick in during the third quarter and fourth quarter itself?
- J.K. Jain** It will be completed in November itself along with the season.
- Saket Kapoor** And if you could explain us the seasonality factor also. In terms of how the latter half presents itself and how does the season plays for the third quarter and the fourth quarter?

- J.K. Jain** For sugar?
- Saket Kapoor** I mean how the picture paints up for the second half for our company.
- J.K. Jain** No, that I cannot give you in commodities what the year-end numbers will be, we do not have that kind of clarity.
- Saket Kapoor** No, just the seasonality factor. I can understand it for Chloro-Vinyl part , if you could just elaborate on the business segments
- J.K. Jain** See, generally fourth quarter is better for Sugar and Bioseed, third quarter is okay. And Chloro-Vinyl and Fertilizer have stable profits during the year, so it does not have too much of seasonality in that.
- Saket Kapoor** That means even if we take on a quarter-on-quarter basis, third quarter appears better than what the second half, if the prices remain same?
- Vikram Shriram** Third quarter is better than second and fourth quarter is better than third quarter.
- Moderator** Thank you. Our next question is a follow-up question from the line of Sachin Kasera from Lucky Investment Managers. Please proceed.
- Sachin Kasera** Sir, last couple of years you are having some challenges on the international operations on the Bioseed business. So if you could update us on that whether it has stabilized now? And secondly, you have been talking about research led expansion of the portfolio, so if you could also update as to what are the new products that we are working for and how could that help the business grow?
- J.K. Jain** So, on international front, as you know Sachin we are in three countries. We are in Philippines and we are in Vietnam where we have older presence. And in Indonesia we have just got in about two years ago. We did face challenge in both Vietnam and Philippines since last three years but I think we have now started coming out of that stress, so these past six months have been better in Philippines compared to last year.
- Vietnam has its major season which comes in the second half only, we are confident that we will be doing better than what we have done last year and year before last in Vietnam also.
- Now, on Indonesia we still have to, we are as we said, we have just got in two years ago so we are trying to establish the business geographically and product wise. Plus, the government's policy is also evolving there. They are implementing some kind of subsidies for farmers which are causing some kind of turmoil in the industry. So, we still need to work out what Indonesia business will be like; probably by this year end we will clear on what model, volumes and what kind of margins we will get there. But Vietnam - Philippines are recording better performance than last year so far. And the other part, is in last two years we have to take pretty significant inventory write offs, so that at least we are done with, there are no more areas of inventory write-off so, to that extent it will be better.
- Sachin Kasera** Okay. Sir, I have one broader question on agri input business, the government has talked about doubling the farm income in next five years. How are we internally preparing ourselves to capitalize on this opportunity?
- Ajay Shriram** There are three four things we are doing as a company. One is we have a fairly well established outreach program to connect with our farming customer, on how to better framing practices, how to get better productivities, the application of fertilizer,

the application of crop care, chemicals, etc. I think that is a strong IT base platform which we have, where we connect with our farmers through our chain and also directly with farmers. We have call centers where they can call in. We are on that very aggressively.

Secondly, you may be aware and we have talked about it in the past also that we have worked in a very structured manner in the last three to four years with IFC Washington and one more company, to have a connect with our cane suppliers, cane farmers to improve their productivity. Objective being again that if we can take the areas which are closer to our factory and we can increase the productivity per hectare of the farmer, it is a win-win for both. The farmer gets high income due to higher yield and the factory gets more sugarcane because it is closer to the factory so, we are working very aggressively on that also.

Thirdly, as an ongoing activity which we talked about that we are working actively on the research side for Bioseed business to provide better quality seeds, so that the farmer productivity goes up. Similarly, in our Farm Solutions business we are working actively to provide better crop care chemicals, better Bio Fertilizers, growth promoters, etc, etc, to help the farmer actually improve their productivity and yield. We have found the biggest challenge for companies is last mile delivery of technology and know-how to the farmer. Because that is the only way they can actually work to improve their productivity, and consequently profitability. If we see on an all India basis and this is a point which someone asked a little earlier which is the fact, for the last four years the U. P. government has not increased the sugarcane price and kept it stable. Yet year-on-year the quantity of cane sown and produced is about the same or going up in certain regions because it pays well. There are no middlemen involved in supply of sugarcane. 99% of the payment made by a factory go straight to the farmer. Some of it goes to a society which manages the cane farmers and coordinate but otherwise there are no middlemen. I think this is the major factor by which the farmers are losing because there is range of middlemen and it is estimated that in the fruits and vegetable sector the farmer gets between 15% and 20% of the retail price which is very low. We have taken up through CII and our own discussions with various government bodies that if we can in some way promote a food processing in a more active way and reduce the number of middlemen then the farmers' income will go up and that is the need of hour. So, that is one thing. Ultimately, the sugar industry is a food processing industry. We are paying direct to the farmer and the farmer gets a much better price than if he got it through four- five - six middlemen. So, I think there are four - five areas, that we are working on very actively and we are facing challenges on last mile delivery for that we have demonstration plots, we have vans going around talking about how cane productivity and other crop productivity can go up. We have farmer meetings at various scales. We are doing a lot of work on the farming front.

Sachin Kasera

So, is it fair to assume that some or most of these initiatives will be fructified then in the next three years to five years we could see substantial improvement in the performance our agri input business, sir?

Ajay Shriram

I think, we will continuously keep improving, I have no doubt on that. How much it will improve, depends on the farmers and a number of factors. You may be aware that there are 140 million farming families in the country, out of which 82% hold less than 2 hectares of land. So, it is a challenge getting this know-how and the technology across to farmers because that is an ongoing activity that companies have to do and we are doing that very actively.

Sachin Kasera

Okay. Sir, my last question is on the balance sheet, now much is the CAPEX outflow pending as far the ongoing CAPEX is concerned?

- J.K. Jain** No, I think by November or so we would have paid off everything. As on September, broadly I think about Rs. 200 crore in terms of cash outflow was pending and by November we would have finished off that also.
- Sachin Kasera** So, the way to look at is as of November Rs. 200 of the existing projects plus whatever is the new projects that is the CAPEX plus the maintenance for the next 18 months?
- J.K. Jain** See, new projects as we mentioned, the CAPEX outflow will happen till December 2017 it would not happen in this financial year.
- Moderator:** Thank you. Our next question is a follow-up question from the line of Saket Kapoor from Kapoor and Company. Please proceed.
- Saket Kapoor** Coming to the PVC upgradation part at Kota where we are making an investment of Rs. 97 crore so, what would be the value addition and how much would be the.....
- Ajay Shriram** Let me just me correct you this is in the caustic soda chlorine business, not PVC.
- Saket Kapoor** Okay, sir. And are we doing anything for the CVC segment also, sir?
- Ajay Shriram** No.
- Saket Kapoor** And in the PVC segments sir, we are only in the resins part, not upward the chain?
- Ajay Shriram** We make various grades of PVC resin but we have a PVC compounding business which is again located at Kota where we have a joint venture with an American company which was called Axiall based out of Atlanta. This company, Axiall, in the last four months has been bought over by another company in the U.S. called Westlake which is based out of Houston. So now it is our joint venture of 50-50 between Westlake-Axiall and ourselves is very much functioning, it has been there for the last two years and they are doing a lot of value added products in the PVC compounding business.
- Saket Kapoor** Sir, now CPVC has also gained traction in the segment with the hot and cold water plumbing part, are we looking for further diversification in that segment?
- Ajay Shriram** No, we have looked at this, we are buying CPVC resins and other resins for our compounding business and our plan is just now to continue buying the product and using it in our PVC compounding business.
- Saket Kapoor** Okay. And that is now made by manufacturer locally also by Lubrizol and all in that region? Because one more domestic player is coming up with capacity I think so DCW in the southern part.
- J.K. Jain** We are importing right now. Lubrizol does not sell in domestic market right now.
- Saket Kapoor** Okay. And we are importing, so we may look at the options new capacities comes up domestically also, sir.
- J.K. Jain** For domestic purchase if is economical, yes we will consider.
- Saket Kapoor** Sir, for the Fenesta part sir, is it a forward integration for the resins part only that goes into the fabrication?

- Ajay Shriram** No, in Fenesta the Board has approved an investment proposal of Rs. 18.5 crore. It is basically for putting up enough fabrication shops, upgrading technology, upgrading the equipment, getting more modern world class equipment for manufacturing of the windows. It is not for the resins nor is it for the profile manufacture which happens at Kota. We are also buying a machine which will enable us to put this wood finish veneer on the profile, we are spending money on getting another additional machine for that also. So, this is only for the fabrication shop. It is not for either the resins or for the extrusion plant.
- Saket Kapoor** But sir, the raw material for the fabrication is the PVC resins only....
- Ajay Shriram** Which we have at Kota already and we work on a SBU basis as an independent profit center. So, the Fenesta team is at liberty to buy their resin either from their division at Kota itself which is sister SBU or from the market, whatever they want.
- Saket Kapoor** Okay. And sir, this usually goes in the housing part only or who are the main customers for this segment and how we made our mark in this field?
- J.K. Jain** This is purchased by everyone who has a building, whether it is house, or office, or hospital, or hotels. Everyone buys it.
- Saket Kapoor** And what sort of market share sir, are we commanding in this segment, who are the nearest competitors?
- J.K. Jain** The overall market share will be about 20%-25%, we are the largest in that and the second big will be less than half of ours. Plus there are very few integrated players like us. We do extrusion, fabrication, installations, whereas a lot of the players just do fabrication and install the window.
- Saket Kapoor** Sir, what was our annual turnover for last FY 2016 on Fenesta part only, just wanted to understand what is the total market size?
- J.K. Jain** About Rs. 250 crore.
- Saket Kapoor** So, the market is all about Rs. 1,000 crore market?
- J.K. Jain** It is above Rs. 1,200 crore to Rs. 1,300 crore was last year, this year we are expecting about Rs. 1,500 crore.
- Saket Kapoor** And it is a pan India presence or combining only in the western region?
- J.K. Jain** No, we have pan India presence.
- Vikram Shriram** We are present in 100 cities.
- Moderator** Thank you. The next question is a follow-up question from the Sachin Kasera from Lucky Investment Managers. Please proceed.
- Sachin Kasera** Yes, sir, just one last question, regarding the Chlor-Alkali business, there has been some reports that there is a lot of capacity in Europe which is based on mercury cell and some of that could eventually get shut down and this could lead to firming of prices, if could just give us some update on that, your understanding of the scenario?
- Ajay Shriram** We have heard there are plants which are looking at after the COP21 and this new COP going to happen in Marrakesh, next week. They are looking at this from the

point of view of the entire environmental issue and mercury use, etc. We have got no concrete knowledge, if they are actually going to close down the plant because if they actually move they can improve their efficiencies and run at low capacities by which the efficiencies go up. But yes, I mean if we see down the line with the changeover happening because the biggest issue with the mercury based plant is the power consumption is higher than what is with the membrane based plant. So, I think down the line the change will happen; but at the moment, frankly, I will be honest, I do not have any figures to give you of how much will close down or what will happen.

- J.K. Jain** Sachin, there was time limit which was given earlier which was I think March 2018 or so which got extended by a year. So there is the industry which is simultaneously working with the government to get more time for conversion or closure. So, there is no definite thing which can be said when will it happen but yes, you are right about 2 to 2.5 mn ton is a mercury capacity which at some time has to phase out. The timing has not been clear on that.
- Sachin Kasera** Sure. And sir, just one question on the RPO obligations Rs. 15 crore is the cost you have incurred this quarter in the....
- J.K. Jain** Rs. 15 crore is the provision we have made which includes arrears also starting from 2014-2015 because there was some circular by the regulatory authority that this would become applicable. The position was not clear earlier, it became clear in this quarter so, we have made provision starting from 2014-2015.
- Sachin Kasera** So how much of that would be relating to the quarter specifically and so...
- J.K. Jain** On quarter basis the amount will be roughly about Rs. 40 lakh a month, so about Rs. 5 crore - Rs. 5.5 crore a year.
- Sachin Kasera** Okay. So, going forward in the next quarter the charge should come down to Rs. 1.0 crore to Rs. 1.2 crore from Rs. 15 crore?
- J.K. Jain** Yes.
- Sachin Kasera** And secondly, sir, are we not in that case looking at investing in wind power or in solar so that we do not have to incur this cost?
- J.K. Jain** Not immediately but I think we are continuously analyzing whether it makes sense or not but right now, we are not.
- Sachin Kasera** So, currently you are basically buying the certificates for the market to...
- J.K. Jain** Absolutely.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Over to you.
- Ajay Shriram:** Thank you. Thank you, ladies and gentlemen, thank you for attending this earnings conference call. We really appreciate your deep interest in our company. The investment projects announced in FY 15 and FY 16 in Chemicals and Sugar Business are nearing completion and would lead to higher revenue and earnings from Q3 FY 17 onwards. The recent investments announced in FY 17 would start contributing from Q4 FY18 onwards. For the Agri-Input businesses, the company is undertaking efforts to augment product portfolio and geographic presence to drive growth in these businesses. Going forward, the company remains focused on improving cost structures of its various businesses and driving growth through

investments in high potential projects while maintaining the strength of its balance sheet. Thank you very much once again. Good bye.

Moderator:

Thank you very much members of the management. Ladies and gentlemen, on behalf of DCM Shriram Limited that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.