



DCM Shriram Ltd.

Q3 FY18 Earnings Conference Call Transcript

January 22, 2018

Moderator

Ladies and gentlemen, good day and welcome to the DCM Shriram Limited Q3 FY18 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

Siddharth Rangnekar

Good afternoon and thank you for joining us on DCM Shriram Ltd.'s Q3 & 9M FY18 earnings conference call. Today we have with us Mr. Ajay Shriram - Chairman and Senior Managing Director, Mr. Vikram Shriram – Vice-Chairman and Managing Director, Mr. Ajit Shriram – Joint Managing Director and Mr. J. K. Jain – CFO of the Company.

We will begin the call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram, following which we will have an interactive question-and-answer session. Before we begin please note that some of the statements made on today's call could be forward-looking in nature and a note to that effect has been 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 performance for the quarter and nine months ended December 31st, 2017 and his views going forward. Over to you, Sir.

Ajay Shriram

Thank you, Siddharth. Good Afternoon Ladies and Gentlemen and a warm welcome to you on DCM Shriram Ltd.s' Q3 & 9M FY18 earnings conference call. I will present some thoughts on the developments relating to our businesses and our plan going forward. Vikram will then take you through the financial performance of the Company in the period.

We are happy to report another quarter of satisfactory results. All our businesses delivered good performance with volume growth and better operating efficiencies. Various steps taken in the last few years towards capacity expansion, technology upgradation, enhancing capacity utilisation and market developments have helped us for achieving better results. The markets have also been supportive particularly for chemicals while sugar has started seeing some pressures.

The announced expansion initiatives in Chloro-Vinyl (including captive power plant) and Sugar businesses(including power and distillery) amounting to Rs. 1,200 crore are progressing well. We expect these to be commissioned in the next 2 fiscal years and substantially augment the growth prospects of the company.

I would now like to draw your attention to the business wise developments

Chloro-Vinyl

Chemicals – The industry has seen good demand growth for both Caustic and Chlorine. The chlorine demand growth has actually been higher than Caustic, supported by low prices of chlorine in the country. We have made determined efforts to achieve higher chlorine sales from our Bharuch plant to take care of the expanded capacity. We are happy to report that as a result of these efforts, the Bharuch plant is now operating at 100% capacity. We plan to add another 310 tonne per day capacity by September' 19 and are confident to operate the same at high levels of utilization. We plan to continuously enhance capacity in this business and will keep developing options for the same.

Globally, Caustic soda has experienced firm prices aided by good demand growth and stoppage of some capacities. The prices have seen some corrections since December 2017 onwards. The domestic prices also firmed up though not as much as the global prices. Chlorine prices which had turned negative have seen some improvements of late and we expect it to support reasonable ECU realisations going forward. The costs have started rising for both coal and salt. Our plans to increase volume and enhance operating efficiencies would mitigate part of these cost increases.

Plastics

The plant operations were stable except the disturbance caused by ban on use of Petcoke. This led to lower production as well as cost increases. We understand that based on the last order of the Hon'ble Supreme court, Carbide industry will be exempted from this ban. However the necessary government notifications are yet to be issued.

The global PVC prices have seen some improvements in January 2018 supported by increase in feed stock prices. The domestic prices which are linked with Global prices are also likely to firm up and may improve our margins.

Sugar

Our manufacturing operations in Sugar business are satisfactory. We expect an increase of 15-20% in cane crush for the season 2017-18 on top of 47% increase in cane crush last season. The sugar recoveries are also almost at last year's level. Our decision to enhance integration thru increase in power generation capacity and setting up of distillery will strengthen the earning profile of this business. The additional power capacity commissioned last year, is operating at full capacity. We expect to commission our 150 KLD distillery by end of January 2018. This will provide part insulation against the present softness in Molasses prices.

The sugar prices have seen sharp drop in the last few months. The net margins have turned from +ve Rs 495/ per qtl in last sugar season to –ve Rs 200/ presently. If continued, this may again cause cane arrears and distress to the farmers and industry. The industry is working with the Central and state Govts for appropriate policy responses. We hope the Govts will take the necessary steps in time to ensure an overall healthy situation.

Bioseed

Q3 is typically an off-season for this business both in the domestic and international geographies in which we operate. Whereas the topline trend is stable we saw appreciable reduction in losses in the period. This is being driven by the strategic initiatives taken over the last few years to strengthen these operations. The govt's policy towards GM seeds and enforcing IPRs in this industry continues to be unclear and is hindering the enhancement of agriculture yield. We hope this is addressed at the earliest.

We plan to strengthen our competitive position and introduce new upgraded products in the market. This will help us in driving growth over the medium term.

Shriram Farm Solutions

We reported healthy increment in revenues during Q3 that drove robust gains in earnings. This followed growth in sales of value added inputs ie variety seeds and growth nutrients. This is a healthy sign indicative of reduction in stress in agriculture sector. We hope this continues in Khariff 2018 which will give a push to growth of agri inputs industry.

Fertiliser

The fertilizer plant operations continue to be stable with continuous improvements in energy consumption. We are working with the government to review the energy consumption norms applicable wef April 2018 and also reimburse the fixed costs at the enhanced rates announced by the previous govt. We hope for early resolutions of these long standing issues of the industry.

The DBT system as applicable to fertilizer industry for select districts has progressed and claims processing has started. It is being stabilized at the front end. The scheme is planned to be extended to entire country after stabilisation.

Fenesta

The Fenesta business achieved high growth deliveries and revenues which led to improvement in PBDIT margins also.

The order booking, whihc has been under stress in this business since last few quarters, experienced modest growth during Q3'2018. Retail seems to be on upward trajectory, however the project segment still looks challenging.

We are planning to enhance our product portfolio, expand our geographic reach and strengthen our customer service to maintain good growth in this business.

Cement

Cement operations have been stable except the disturbance caused by ban on use of petcoke. The Hon'ble Supreme court has since exempted the cement industry from this ban. However, the necessary government notifications are still to come.

The price outlook is stable though costs have seen some increases.

Ladies and Gentlemen, overall, we continue to pursue the policy of continuous increase in volumes, improving cost structures and strengthening our earnings profile. We also remain focused on maintaining a healthy balance sheet. This would enable us to record satisfactory performance on a continuing basis.

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

Vikram Shriram

Thank you. Good afternoon, ladies and gentlemen. I will now summarize the financial performance of the company

The overall Q3'18 Net Revenues at Rs. 1784 crs, grew 31% over the same period last year. The revenues of own products at Rs. 1393 crs. were up by 36% whereas revenues of traded products at Rs. 391 crs, were up 15%. Growth in revenues of own products were mainly driven by volume growth across all our businesses. Volumes growth contributed 30% out of the total 36% growth in revenues. Chemicals, plastics, Sugar and sugar power registered significant volume growth. The PBDIT for Q3'18 at Rs.347 crs. was up by 73.5%. The PBDIT for own products was Rs. 299 crs., up 74% over last year. The margin for own products went up from 16.8%% in Q3 FY17 to 21.5%% in Q3 FY18. We saw healthy margin improvement across most of our business verticals except Sugar, during this period.

The finance costs and depreciation charges came in higher by 7% and 19%, respectively. This was due to capitalization of Chemical expansion projects in September 2016 and Power Co-gen in Nov. 2016. Tax rate was also higher, estimated at 24.7 % for the current year vis-à-vis 13.5% last year. The Net profit stood at Rs. 213 crs. ie 56% higher than corresponding period last year.

The Gross Debt as at 31st December, 2017 stood at Rs. 631 crores vs. Rs 964 crore as on Dec 31, 2016. Cash and Cash equivalents stood at Rs. 454 crore vs Rs. 190 crore for the same period.

The financials for 9M'18 recorded similar trends as the Q3'18 financials. Overall net revenues was up 28% with revenues of own products going up by 40%. Volume growth provided 30 % out of the 40 % revenue growth in own products. Both Sugar and sugar power sale & Chemicals registered significant volume growth. The PBDIT at Rs. 996 crs. was up 71% and PAT at Rs. 619 crs. was up 57% over 9M'17.

Let me now take you through our business-wise financial details.

Chemicals:

Net revenues of the businesses for Q3'18 at Rs. 427 crs. grew 88% YoY and 26% sequentially. The overall volumes registered growth of 34% YoY and 9% sequentially. The ECU realisations grew 22% sequentially. This led to the PBIT of the business reaching Rs. 217 crs. for the quarter, up 201% YoY and 48% sequentially.

The Nine months period registered volume growth of 33 %, revenue growth of 68 % and PBIT growth of 129%.

Plastics:

The Net Revenues of the business for Q3'18 stood at Rs. 151 crs, up by 44% due to higher volumes. Volumes grew by 66% on a Y-o-Y basis due to lower sales in Q3FY17. The PVC prices were down 7% YoY and 2% sequentially. The Supreme Court's ban on the usage of petcoke, reflected in terms of higher cost. PBDIT went up to Rs. 25 crs. vis-à-vis Rs. 19 crs, last year due to higher sales volumes.

Sugar:

Q3 Net Revenues of sugar business at Rs. 432 crs. were up 21% YoY, led by higher sugar and power volumes. The Sugar sales volume were up 19%, in line with higher crushing as season commenced earlier. The power sales volume are up 50%. Lower sugar realizations, higher cane costs and decline in prices of Molasses & bagasse adversely affected the profits of the business. The PBIT of the business at Rs. 49 crs, was lower by 45% YoY. During the period, the Company also recorded inventory loss of Rs. 22 crore due to the declining sugar prices.

For Nine months ended Dec 17, the turnover at Rs 1574 crs is up 59% and PBIT at Rs 231 crs is up 27%.

Fertiliser:

Net Revenues of fertilizer business in Q3'18 were up 13% YoY. The volumes were up 4%, led by higher production. We had a one-off positive impact of freight arrears amounting to Rs. 5.5 crore that was recognized during Q3 FY18; overall recovery of arrears stood at Rs. 19.5 crores for the season. The PBDIT for the quarter came in higher at 83% to Rs. 25 cr vs. Rs. 14 crs. last year. Margins improved with better operating efficiencies

Shriram Farm Solutions:

Q3 FY18 net revenue came in higher by 27% to Rs. 316 crores, including impact of recognizing SSP subsidy arrear for Q2 FY18, subsequent to change in the system of claiming subsidy for July-Dec 2017 announced by the govt. 'Value Added' segment's revenue stood higher by 30% vis-à-vis last year. Sales of variety seeds and growth nutrients registered healthy growth whereas SSP's sales was stable. The PBIT stood at Rs. 33 crores vs Rs. 19 crs last year. Earning improved due to better PBIT margins in value added inputs.

Bioseed:

As you may be aware, Q3 is an off-season for this business in India and in the overseas markets, with very limited sales. India Revenues in Q3 FY18 were marginally down at Rs. 37 cr against Rs. 44 cr in Q3 FY17. International Business saw revenues at Rs. 19.5 cr. vs. Rs. 8.2 cr. last year. For Nine months ending Dec 2017, the International business recorded revenues of Rs 74 crs, up 56% YoY.

Fenesta:

The Q3 FY18 net revenue was up 33% YoY, as the segment recorded healthy growth in deliveries and project execution. Volumes in the 'Retail' and 'Projects' segment stood higher by 11% and 117% YoY, respectively. The contribution of the Retail segment to net sales stood stable at 62%. Business earnings improved as a result of higher revenues. The business

is making positive PBT over the last several quarters. Our overall order booking also marked a healthy improvement of 10% YoY.

Other Businesses:

Operations of the Cement business remained steady during the quarter, with revenues higher by 3%. In Hariyali, we continue to work with BPCL to reduce out fuel pump outlets and sell the properties. However, the progress is slow.

Overall, the performance in Q3'18 and 9M'18 was led by significant volume growth in our Chemicals, Plastics, and Sugar businesses and better operational performance across all other business verticals. Although, increasing raw material prices, particularly coal, salt and cane could create some pressure on margins going forward, we believe, in the long run, business performance will continue to improve for us. Moreover, our various strategic initiatives, cost rationalization measures along with improving macros would further help us deliver satisfactory growth over the medium term. That concludes my financial overview and we would be glad to take any questions that you may have.

Moderator

Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal

My question on the chemical business. If I see the slide #15, the realization up 45% on YoY basis in quarter 3, in 9 months it is up 22%. And you said that there is a favorable cycle in the caustic product segment. I mean, medium term perspective or maybe couple of quarters perspective, how do you see the demand supply scenario in this segment and secondly do you believe the prices can be firm at the current levels for two more quarters?

Ajay Shriram

See, I think the biggest issue with any commodity is that you don't know what can cause swings, going up and down. Definitely if you take on year-on-year, the jump of 45% increase is quite substantial and if I may say so also quite unprecedented. So maintaining at this level is difficult to say. But I think going forward we will have a new benchmark which will be the low level, which will be higher than what we had in the past. So it is difficult to give any prediction on the prices because commodities move up and down based on the international demand supply, geopolitics and so many other things, but we do feel that the base price has moved up from what it was in the past and should be better than what we had in the past.

Manish Ostwal

Okay sir. Secondly, you did comment about the sugar prices drop. So one is the quarter 3, what is the current realization in the sugar and secondly do you expect the prices will remain subdued for next couple of quarters?

Ajit Shriram

There has been a drop in the sugar prices over last couple of months. Actually, there is a cash flow cycle mismatch for companies which don't have bank limits. So they come under pressure to clear the cane arrears within 14 days, that is the norm and the rule. So then the companies which don't have bank limits tend to oversell sugar and that has actually led to the sugar price decline. As mentioned earlier, I think in commodities it is difficult to predict the prices though we do hope going forward the prices do firm up a little bit so that the cane arrears don't build up.

- Manish Ostwal** And apart from the current investment, any further large investments we envisage over the medium-term, sir?
- Ajay Shriram** In the sugar or you are talking of the other?
- Manish Ostwal** Other businesses.
- Ajay Shriram** No. We in fact, as mentioned in the past, we are continuously seeing where we can have technology upgradation, where we can have debottlenecking of our capacities to get an inch up in our capacity utilization or where we can improve efficiencies. At the moment if you take our figures for the group, say the last two years and the next two years, I think you would have invested maybe about 2,200 crore, 2,300 crore in total which we are as we mentioned earlier also we want to have a healthy balance sheet. So considering that we want to keep it steady and yes, growth is part of our philosophy. We have done it over the last so many years and we will see what are the upcoming opportunities and look at it that way.
- Moderator** Thank you. We take the next question from the line of Abhijeet Dey from BNP Paribas. Please go ahead.
- Abhijeet Dey** Sir 2 or 3 questions. What is the sugar inventory sir, as of 31st December?
- J. K. Jain** As of 31st December we had 12 lakh quintals.
- Abhijeet Dey** And at what price, sir, the inventory?
- J. K. Jain** Like we indicated, we valued it at NRV which was 33.50.
- Abhijeet Dey** And sir, regarding this entire issue with pet coke, for your calcium carbide manufacturing, can you not use metallurgical coke instead of pet coke?
- Ajay Shriram** We will have to check that out with the technical people. But I think there is the issue there of cost and pet coke is like a raw material which is used in carbide like in a cement plant. So it is not to generate power. It actually consumes the entire product in the next phase of the product.
- Abhijeet Dey** No. I am aware of that. I thought met coke also can be substituted if pet coke is not available.
- Ajay Shriram** I think our people would have looked at that, I am sure. They would have gone through the technical side of that also. If it is viable, they would have done it. I think they would be on the ball on this. I am sorry. We can't comment on that. That is a technical issue.
- Abhijeet Dey** Okay. And sir lastly on your distillery operations which you said will start by the end of this month. So whatever Molasses you have produced since start of the crushing season, have you sold that or are you storing it for distillery as and when it starts?
- Ajit Shriram** We have been storing our raw material, Molasses; however, we have sold part of it.
- Abhijeet Dey** Part meaning how much sir? Any percentage you would like to put?

- Ajit Shriram** It is difficult to give a comment on that.
- Moderator** Thank you. We will take the next question from the line of Sudarshan Padmananbhan from Sundaram Mutual Fund. Please go ahead.
- Sudarshan Padmananbhan** Sir my question is largely around this chemical business, especially the caustic soda. If you can try to help me in terms of giving some color on the cost of chlorine, probably what we have, how much of inventory do we have, just to understand how do we see this caustic soda over the next two quarters and a bit of feedback on that?
- Ajay Shriram** Caustic soda as a liquid form can be stored depending on the storage capacity available with the factory. But storing chlorine is very difficult. I think most factories could maybe because they keep it in tonners or keep it in bullets which are of 10 tons or 20 tons storage capacity. So chlorine actually has to be evacuated and sold very fast. Our policy has been that for our Gujarat unit we have got 5 or 6 pipeline buyers who buy chlorine from us on a pipeline basis. So we don't require tonners, it goes directly to them. So chlorine actually can't be stored. If you have excess chlorine and it is not been sold or the offtake is low, we will have to shut the plant. So I think touchwood we have not been in that position because in the last couple of months our capacity utilization has been 100%. So that way chlorine is quite stable and we have built a good network of buyers who are consuming it on a regular basis. Caustic soda one can store a little bit and I think the good thing is as you mentioned earlier that the market for caustic soda chlorine is positive. The growth for this segment is good and we hope it continues this way.
- Sudarshan Padmananbhan** Okay sir. Anything on the price of chlorine, sir? How do we see the prices of chlorine?
- Ajay Shriram** Chlorine actually was selling at a negative price. So I think we have made an attempt to at least bring it to a breakeven if not negative. It is still negative. But I think that is an ongoing supply demand situation, we have to keep working on. And negative it was at one time, very heavily negative, almost minus Rs. 6,000 or so. But that has come down. But it is still a little negative.
- Sudarshan Padmananbhan** Sir both our sugar business, we are putting up some additional capacity, 5,000 TCD on the sugar. Sir given that the prices have fallen sharply especially in the last couple of months, it seems to be that we would end up this year with 26 million tons and probably higher in the next year. How do we see this business as a part of our piece, would we continue to go ahead with this capacity on the said schedule or would we try to pare down the investment in this phase? And how do we see this business in terms of contribution to our business overall?
- Ajit Shriram** See, we are not seeing this as a short-term issue. We are seeing this from a 2-3-4 year perspective. So what you are mentioning about 26 million tons production this year that will actually match the consumption. So we started off with a 4 million tons opening stock on 1st of October 2017, it will be at a similar level, maybe 4.5 million tons in 1st October 2018, so going forward it is difficult to predict the volume of production the following year, it is far too early for that, how the monsoon progresses and how the planting happens, etc. will bear an impact for that. We are actually investing not only in sugar, but also in Power and our distillery will be commissioned by end of January in the next 10 days or so. Actually, this will improve our overall portfolio of the sugar business and should enhance the overall strength.

- Ajay Shriram** I will just add to this that the Board has already approved an additional 100 kiloliters per day distillery expansion which is scheduled to be commissioned by October '19, so any additional molasses we have, we will have a value-added on that also, so we will by then have from 150 kiloliters per day, we will be at 250 kiloliters per day, that will consume the molasses and give a value add of the molasses also and simultaneously with power also coming in, that gives us another stream, so our advantage is we will have inflow from sugar, we will have inflow from ethanol, we will have inflow power sale, so it gives us three legs in our sugar business.
- Sudarshan Padmananbhan** Finally, from my side on the debt to equity, I think from the last year to this year there has been a substantial reduction in our debt, with this CAPEX that you are looking at, where do we see this because given this kind of trend in another year, we should be more or less quite a bit net cash positive, so I am just trying to understand what would be the net debt figure and how as a business or as a company, do we believe that there should be a certain amount of debt which would be there to fuel growth?
- J. K. Jain** That is absolutely right, we do want to keep some debt and that is why we keep looking at growth opportunities in our core businesses going forward, but as a philosophy, we do not believe in zero debt, we will have some debt definitely.
- Sudarshan Padmananbhan** Opportunities would also include inorganic, Sir?
- J. K. Jain** We are open to all those opportunities in our core and related businesses.
- Moderator** Thank you. We take the next question from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.
- Dhiresh Pathak** Sir, the ECU realization for the month of January if you can share?
- Ajay Shriram** For chemicals?
- Dhiresh Pathak** Yes.
- J. K. Jain** January is too early, and we cannot share on a month-to-month basis, but as a broad trend what CMD mentioned in his comments also that chlorine negative is reducing, and caustic globally did see some reaction, but domestically has not seen any significant reaction.
- Dhiresh Pathak** Reaction meaning, upward or downward?
- J. K. Jain** Globally, it went downward in December and January, but domestic prices have not seen any downward movement so far.
- Dhiresh Pathak** Sir, in January like what you reported for the quarter Rs. 34, you have not seen any meaningful impact in January so far on this?
- J. K. Jain** Yes.
- Dhiresh Pathak** Chlorine from negative 6, it has become what negative how much now?
- J. K. Jain** I do not know, all that we are saying is that as a trend it has reduced negative, but the number we have not firmed up as yet.

- Dhires Pathak** For the last quarter at least, you would know right, what negative chlorine you sold at?
- J. K. Jain** Last quarter, I think CMD indicated it had moved up to 6000, average was about 4,000 per ton for the quarter.
- Ajay Shriram** We had indicated the ECU, the ECU what we said for the last quarter I think was about Rs. 34 to Rs. 35.
- Dhires Pathak** ECU I got was 34 for the quarter, how has chlorine from (-6) some quarters back, is it become (-1) now or is it zero, what is it now?
- Ajay Shriram** To be honest with you, we do not have that figure here right now because we are looking at the ECU, but the good thing is from minus 6 it has come down, it is less minus than what it was, so that is a positive sign.
- Dhires Pathak** The expansions after the expansion in Kota and Bharuch, if I have the numbers correct Kota will be around 500 TPD and Bharuch will be around 1160 after the expansion, after that is there further scope for Brownfield expansion or you would pretty much have exhausted all that infrastructure from these two sites?
- Ajay Shriram** As we mentioned earlier also that we have a philosophy of continuous growth, sustainable growth. If you see the market responding, we look at the supply demand situation being positive, we would be happy to take up an another phase of expansion, I think this is an ongoing activity we believe that in commodity businesses we have to keep growing to be able to really stay at the same place, because the fixed costs are going up by 9% to 10% every year, so we have to keep growing and improving efficiencies, changing technologies, seeing what we can do better than yesterday, so it is an ongoing policy and philosophy for us, so we will never turn down and say that we finished expansion or we are going to do more exactly how much, we are as of now about 300 odd tons of expansion online and the figures you quoted were right, so I think that will finish in the next year-and-a-half and after that we will see what next.
- Dhires Pathak** What I want to know is, you will grow that I understand, but what I want to know is the opportunity for Brownfield expansion at those sites will they be exhausted, so you will then do Greenfield CAPEX?
- Ajay Shriram** Now, we still have capacity to grow in Gujarat also and we have capacity to grow in Kota also.
- Dhires Pathak** Can you put a number to that like how much?
- Ajay Shriram** We have not yet done the calculation of what is the peak capability in both these sites, but we can do it in both.
- J. K. Jain** These are all large sites, so I do not think that is a constraint right now.
- Moderator** Thank you. We take the next question from the line of Ritika Jalan from Narnolia Securities. Please go ahead.
- Ritika Jalan** I think I have a question on the Fenesta side of business, what kind of outlook do you give for the next five years, I understand it depends on the real estate sector recovery, but from your side what is the outlook for the next five years, if you can share?

- Vikram Shriram** I think basically it is a positive outlook because there are both real estate as in the developer customer and there is a retail customer. Our business is right now much more almost as I mentioned earlier 60% plus coming from the retail side, so that is less cyclical and less affected by the problems of the overall real estate sector. We expect continuous growth, there may be slightly faster or slower depending on how the developers are doing, but they have product offerings being enhanced, geographies being enhanced, and we have got a good franchise and a good customer base with retail and a good brand in retail, so based on all this, we are expecting satisfactory and solid growth going forward.
- Ritika Jalan** For the next five years or three to four years?
- Vikram Shriram** Yes.
- Ritika Jalan** Mainly on the tax rate, we are on a tax rate on the higher side, so is this the rate going ahead?
- J. K. Jain** Yes. We expect this rate to continue going ahead.
- Vikram Shriram** Investment allowance and a lot of other benefits that were variable in the past are now no longer available, the laws have changed, so now going forward this is going to be these types of rates.
- Moderator** Thank you. We take the next question from the line of Anand Jain, an Individual Investor. Please go ahead.
- Anand Jain** My first question is on chlorine prices and you said that the chlorine prices have strengthened over like last quarter or so, is it fair to assume that chlorine as a commodity is not impacted like the global price momentum, caustic soda would be because chlorine transportation is just not possible across borders, so is it fair to assume that strengthening of chlorine prices is much more rigid improvement as compared to caustic soda?
- J. K. Jain** If we could understand that you are basically asking is chlorine driven by domestic factors, right?
- Anand Jain** Right, that is it, I mean the price movement is far more rigid as compared to caustic soda is what I wanted to know?
- J. K. Jain** You were right, I mean caustic is driven by oversupply demand factor and chlorine is driven purely by domestic demand supply.
- Vikram Shriram** But the domestic demand supply is determined also by export of downstream chlorine products, so the competitiveness of downstream chlorine products has improved with low chlorine prices or negative chlorine prices, that is how the growth of chlorine has been very good in the last year to 18 months and the dynamics of improvement in chlorine vis-a-vis China and other exporting countries for downstream chlorine demand, we hope will continue, so the chlorine demand will continue to grow at a satisfactory pace.
- Anand Jain** Just to understand it further, we have seen a lot of chemical companies closures happening in China and because chlorine is consumed by a lot of full stream specialized chemical companies, we could probably see this strengthening continue, is that fair understanding?

Ajay Shriram

In China I think two to three things have happened, one, they have taken a very aggressive stance on environment, so that has put pressure. Second is, I think they have also increased the power rates, that has also had an impact, and thirdly, in Europe also they have closed some plants, which were on the Mercury process, so that has led to some closures, because of this the buoyancy in the prices across the globe has been better, is now more buoyant than what it used to be in the past. Now, China's policy as of now is favorable for the rest of the world and our mind is and our feeling is that bringing in some rationality of the environment issues as well as the pricing of power issues etc. is the logical direction for long-term stability of any industry. Now, how it happens in next year one cannot say because being a commodity, prices can move up and down, but we do feel that the benchmark baseline would have gone up a little bit.

Anand Jain

The next question that I have is on sugar, Sir, so currently we are at (-200) per quintal in sugar that is what the presentation says, now when we say (-200) per quintal in sugar that would also mean not just from sales of sugar but also from whatever other gains that we get from sale of power or ethanol or say molasses, so everything included, there is a certain price point that we arrive at and from there we are (-200) down?

J. K. Jain

This is from sale of sugar, not from power and ethanol. The molasses and bagasse are taken at market price for this purpose.

Anand Jain

Purely from sale of sugar, we are at (-200), so if we have like for example if I were to understand sugar, where does power figure out in this entire, power or ethanol like kind of come into this entire calculation, so if you are minus 200 in sugar then how much can be contributed by rest of these three or four other commodities that we derive?

J. K. Jain

I do not have that equivalent per quintal of sugar number.

Vikram Shriram

That is going to be over and above because we account for transfer pricing of molasses and bagasse based on market price and based on that profitability of ethanol and power has worked out as separate profit center and sugar probably is based on that as a separate profit center.

Anand Jain

My question here boils down to this, Sir, even if we are minus 200 per quintal in sugar, but overall from an investment perspective, we might still end up being positive because of the other stuff derived from here?

Ajay Shriram

Yes. The only thing I will add is that on distillery, we are just commissioning our first distillery right now and so we have not yet seen the benefit of full distillery running and ethanol sales, but yes, power is something that we are already in and we are selling power.

Anand Jain

Third question that I have is operationally, we are at 100% capacity utilization in our caustic soda plant on the Bharuch side, operationally what else can we improve from here on, what kind of further operational efficiencies can be achieved from here on?

Ajay Shriram

Frankly, there are two basic raw materials which contribute to the cost of caustic soda, chlorine. One is the power cost and second is the salt cost. Of course, it is a given that the quality of the membrane, the efficiency of the plant, the current density at which the plant is running, etc., have to be optimized to use the least electricity per ton of caustic soda produced, so our focus on because our requirement of power is very large. We have for

caustic soda about 120 MW capacity in our Gujarat plant and for our Kota plant, we use almost 35 to 40 MW at Kota, so coal for us is a major issue and ensuring we get the least priced coal is a challenge we have to work on. We had Coal India recently increase the price which had a bit of a negative impact on our operations at Kota. In Bharuch, it did not because in Bharuch we are importing 100% of our coal requirement, so that fluctuation in the last four to five months has happened, prices have gone up, so that has had a negative impact, so I think we have to focus on our power cost and we have to focus on our salt cost.

Anand Jain

Sir, next question is on Bioseed, to be in terms of planning for Bioseed, do we have a hybrid launch schedule every year or every two years, anything of that sort because I remember in the last or the con call before that, you said that some of our competitors had launched new hybrids and that is the reason we have lost our market share in the northern parts of India, so do we also have a new hybrid launch scheduled?

Vikram Shriram

Yes, we do, but it is not an annual launch because it takes a certain cycle to do the breeding and research for developing products, so typically we have a visibility over three years as to what the launch schedule is and our expectations are that we will have strong products in the market place and most of the opportunities over the next three years.

Anand Jain

Sir, the last question that I have is on PVC, so you said that our last quarter prices were around Rs. 67 I guess per KG if I remember somewhere around that, by how much has PVC firmed up?

J. K. Jain

The domestic prices have not seen any significant firming up. What we mentioned was that the global prices have seen firming up.

Anand Jain

In our case, any kind of firm up price moving up would contribute to the bottom line because we do not depend on crude for our input, is that a fair?

J. K. Jain

The carbon material cost is related to crude, so part of the cost goes up but not whole of.

Anand Jain

Sir, no dividend this time because we are generating healthy cash flows, but still no dividend in this quarter?

Ajay Shriram

We have not had a chance to look at it, we may do it. We just actually declared dividend after six monthly results, which was quite a healthy dividend.

Moderator

Thank you. We take the next question from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia

Sir, I had one question regarding sugar price, ISMA has indicated of excess production up to the tune of I think 1 million ton this season, and hopefully, in the next season much higher overproduction will be there, so what extent the ISMA and the Government is taking to correct the sugar price which are coming down?

Ajit Shriram

There are dialogues going on with the Central Government vis-a-vis the three or four options to try and increase the sugar price and stem the decline, so we do hope that in the next five to 10 days, the Government does come out with some steps to stem the decline. Simultaneously, there

are talks with the state government as well as to how to support the sugar industry, so that the cane arrears do not build up for the farmers.

Aman Sonthalia

Sir, because right now prices I think most of the companies have passed on some, five to 10 companies, all the companies are making losses, so if the price persists here, there will be huge cane arrear and since there is election in 2019-20, do you think that the government will come out with some concrete steps that in the next season also the prices should not come down?

Ajit Shriram

The sugar production this year is going to be 26 million tons and the consumption is around the same range, maybe 25 plus a little bit, so we do not have much of a stock increase on October 1, 2018, and giving any indication for next year's crop is very, very premature at this point of time. We do hope that steps are taken both by the Central and State governments to decrease the cane arrear buildup and also stop the declining of the sugar prices.

Moderator

Thank you. We take the next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari

My question is, one, on bio seed market can you give some color over next three years, what kind of pipeline we are looking for, which markets we are planning to penetrate further and in terms of the potential, how big that can be?

Vikram Shriram

I think basically the product pipeline is pretty strong in cotton, corn, Paddy, and vegetables across the main verticals that bio seed is operating in. In the case of cotton particularly, a lot depends on Government policy and the current controversy going on vis-a-vis the Pink bollworm issue in certain markets of Maharashtra and Telangana etc., but as far as product pipeline is concerned, we have a strong portfolio in the pipeline. What happens in terms of actual business opportunities, because cotton is a large percentage of the total market gets heavily impacted by the cotton business and Government policy towards the cotton business, so we are hopeful things will resolve and we are hopeful that there are good opportunities going forward.

Rajesh Kothari

What about the international markets?**VikramShriram** Again, in corn and in Paddy, the two main products applicable to the international markets, the pipeline is strong.

Rajesh Kothari

Secondly, in terms of calcium carbide, that segment what is the netback per unit of power right now compared to say last year?

J. K. Jain

Calcium carbide, Rajesh, netback is not very healthy particularly after this Pet Coke issue, it will be around Rs. 6 kind of thing, but PVC has a much higher netback and that is why we are shifting all calcium carbide to PVC now.

Rajesh Kothari

How much it will be in PVC?

J. K. Jain

PVC must be, I do not have exact numbers, but I am sure it must be plus Rs. 9 kind of thing.

Rajesh Kothari

How it would be compared to last year, Sir?

J. K. Jain PVC has not changed because the prices have been changed significantly, so PVC would have remained in Rs. 8-Rs. 9 only.

Rajesh Kothari On ECU, you mentioned something about China becoming stricter and the domestic chemical industry as the profitability in the domestic chemical industry improves, does it positively benefit in terms of the lower negative chlorine prices?

J. K. Jain That is what CMD mentioned that we have seen reduction in the negativity of chlorine prices largely because the chlorine demand has firmed up in the country as the exports of chlorine-based chemicals probably is rising and the competitiveness is improving, so he did mention that is going down, the negative prices.

Moderator Thank you. We take the next question from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri A question on the ECU side, you mentioned that chemical negative carry which used to be there till last quarter has reduced quite significantly, now at this prices, if I look at ROCE of our chemical business would be almost like upwards of 35% to 40%, my question is that at this realization does it become viable for some of the units which were probably operating at lower utilization or were not operating at all to kick start the production and is there any defunct capacity available at the system, which can come into place now at this kind of high ROC and lower payback period?

Ajay Shriram Frankly, if one sees the way the prices of the finished products have moved over the last five to seven months, I think everyone is running their plant, so maybe running more, some maybe running less, we know of some plants which are based in Punjab where they are buying power. Now when they are buying power at Rs. 7 or around that unit, naturally the cost of production is higher, but yes, the benefit of a better realization right now, I think most plants would be running, if they have a technical issue then they will not run, but our judgment says that all plants would be running at today's price.

Kashyap Jhaveri What I am trying to understand is that is there any capacity which can still create any supply side constraint?

Ajay Shriram We do not think so is, I think the point we have to keep in mind is that there are other groups also who are expanding, like we have done. The Aditya Birla Group is putting up a plant of over 400 tons a day and they are coming in the next three months or four months, so when a new plant like this comes in, it does have a little aberration in the marketplace, but the good thing is that the chlorine market also is growing at about 6% a year, so that also gives a little positive because the demand side is also moving quite well, so people will keep expanding and growing and that is part of the business cycle.

Moderator Thank you. We take the next question from the line of Amit Sureka from Bharti AXA. Please go ahead.

Amit Sureka Sir, my question is first of all just to help me understand, what is the linkage between India caustic soda realization and Chinese caustic soda prices, does the Indian prices follow them or how it works?

- Ajay Shriram** Let me put it this way, I think caustic soda is a global price exchange. People from all over the world buy and sell, so our position also determined by the global price, China being one of the players, there are others also, America is also a large producer, Europe also is large producers, so it is linked to the international price of caustic soda, that is how the benchmarking is done in the Indian market also. It is not specifically China, but it is a whole range of countries which determine the price of caustic soda.
- Amit Sureka** When you entered into a contract, so it is a sort of a volume contract for let us say three months, four months and your caustic soda pricing will keep on changing every month with the benchmark or it is a fixed priced contract irrespective of international prices?
- Ajay Shriram** That depends on what is the terms of the contract we have, for instance with our pipeline customer, we have an agreement on a particular benchmark basis and because they are pipeline, there is an advantage in costs vis-à-vis not having to put in to tonners, not transporting tonners etc., so we share that benefit with our buyers and with the company, so it is a win-win for both. The prices vary depending on the supply demand, depending on the negotiations, and depending on what is the most optimum at any given time.
- J. K. Jain** The caustic is not sold on three to four months contract basis, caustic is sold on a spot basis kind of thing.
- Amit Sureka** Which would mean that can I say that as a thumb rule, obviously it is nothing like 100% right or wrong, but as a thumb rule Indian prices would be following international prices with a lag of may be one month or two months?
- J. K. Jain** Possible.
- Amit Sureka** My last question on this PVC side as you mentioned that the domestic realizations are not improving, and your coal and other energy cost is going up, so can I say that going forward your PVC space would be lower than what we have been earning in last few months?
- J. K. Jain** You mean PVC margin?
- Amit Sureka** Yes.
- J. K. Jain** As we mentioned that the global prices of PVC has seen positive movement given the increase in crude prices and the domestic prices do follow global prices may be with a lag, so hopefully, PVC prices should go up also to compensate for cost increase.
- Amit Sureka** Then just one follow up on this, like the oil prices up on a YOY basis, how come your PVC realization is lower on an YOY basis, is down some 7% YOY?
- J. K. Jain** Only the PVC prices have not moved up in tandem with the crude prices.
- Moderator** Thank you. We take the next question from the line of Siddharth Mohta from Principal India. Please go ahead.

- Siddharth Mohta** Sir, at current Sugar recovery rate of 11% plus. So what can be our cost of sugar production for this Sugar season including transfer prices of Molasses and Co-Gen?
- J. K. Jain** See, what we have indicated is that at the present recovery, we will have a PBT cost of about Rs. 3,500 and therefore, we have a loss of Rs. 200 at present price of Rs. 3,300.
- Siddharth Mohta** Okay. And just for my clarification, this includes transfer price of Molasses and Co-Gen?
- J. K. Jain** It takes credit of transfer price of Molasses and Bagasse.
- Siddharth Mohta** And Bagasse, correct. And sir, post this commissioning of Distillery Plant what percentage of our Molasses can be converted into Ethanol?
- Ajit Shriram** 100%.
- J. K. Jain** So we were looking at 100%. It will depend on how long the factories crush. If they crush for longer period, we may have some surplus Molasses.
- Ajit Shriram** Plus it will also depend upon the state government policy for giving country liquor Molasses which is currently 20%.
- Siddharth Mohta** Okay. But this is also applicable for those company which can convert Molasses into Ethanol or how it is?
- J. K. Jain** No, it is not applicable to those right now. But since, our Distillery is starting in between the year. There is no such clarity one has to look for that clarity.
- Siddharth Mohta** Okay, sir. And sir, again, I am repeating one question. Assuming sir, this Sugar division it stands at break-even for the current sugar season. So in that case, how much contribution at EBIT level can come from Distillery and from Co-Gen segment?
- J. K. Jain** See, Co-Gen we have said we will produce about EBITDA of say anywhere between Rs. 75 crore to Rs. 90 crore for a year. Distillery we still have to see what kind of EBITDA it will produce because we will be commissioning it in January and only then we would know. We have no experience of Distillery.
- Siddharth Mohta** Correct. Okay. So, Co-Gen is Rs. 75 crore to Rs. 90 crore and Distillery we have to see actually how the things moving around.
- J. K. Jain** Yes.
- Siddharth Mohta** And sir, have we entered into contract with oil company for this Distillery?
- J. K. Jain** No, you could not before the start. But we are eligible to bid. But I think, tenders will happen in February then we would be able to bid.
- Siddharth Mohta** Okay. So, this tender is from the oil companies.
- J. K. Jain** Yes.

- Siddharth Mohta** Sir, what are the factors which are responsible for strong performance in Urea division? I do understand that we have got some prior period freight subsidy. So what are the factors which is responsible for Urea performance at EBIT level?
- J. K. Jain** So I think, apart from the freight subsidy all others are normal operations, so plant has performed well operationally in terms of production as well as energy efficiency that has led to good margin.
- Siddharth Mohta** Okay. So apart from this Rs. 19 crore that we have received Y-T-D so that is more of a normal performance and one can assume same to get repeated in coming year also.
- J. K. Jain** Except that this plant has shut down every two years and this year is not a shut down. So, you have to assume that next year will be a shutdown year also.
- Siddharth Mohta** Next year you mean to say FY 2019 actually?
- J. K. Jain** Yes.
- Siddharth Mohta** And sir, similarly for Shriram Farm division the performance it has been quite good. We do understand that company is focusing more on the value addition and they are doing less of DAP and MOP. So again, can you just explain, what are the reasons apart from this value addition?
- J. K. Jain** See, we are not doing any DAP, MOP. We had stopped doing DAP, MOP from last April, that is April 2016. So, what we do is SSP and value-added inputs which is Seed, Crop Care Chemical, and Growth Nutrient. We have had good sales in Kharif of variety Seeds for Wheat's and some Growth Nutrient. Also, you have to see that last year same quarter had seen stress in Agriculture because of the demonetization. So the figures may not be comparable in that sense.
- Moderator** Thank you. We take the next question from the line of Abhishek Shah from Valcour Capital. Please go ahead.
- Abhishek Shah** This question is just a follow-up of the questions asked earlier. This is relevant to the Sugar sector. You mentioned due to the miss match in cash flows a few players have been selling or say dumping Sugar and that has led to certain crash in prices. Sir, how long do you expect this to go until? Would it be February end or is there a specific time line for this that we are expecting?
- Ajit Shriram** What we understand, Abhishek is that some of the factories in West India particularly Gujarat, Maharashtra, will start shutting down by the middle of February onwards. So, we do hope that the pressure will then start coming down.
- Abhishek Shah** Okay. Sir, and second is again your view on the implementation of Rangarajan Committee, do you see any visibility from the government side recently? It could be repetitive in the question that have been asked before. But, just wanted some more clarity, if you could spend some time since it is very critical for our industry as such.
- Ajit Shriram** No, I think, your point is extremely valid. I mean we all want the Rangarajan Committee formula to be implemented. We are in constant

dialog with the government to do the same, to implement Rangarajan Committee formula. And also create a price stabilization fund in some manner. So that when the prices come down below a certain threshold there is a fund, which is available to fund the gap and pay the farmers. So that cane arrears once again do not build up and pressure on sugar prices reduce. So, we would also like the revenue sharing formula to be implemented soon.

Abhishek Shah

Sir, but no visibility as such because we have been in talks for a while now, it has been.

Ajit Shriram

The dialog is continuing. But it is difficult to give a timeframe for this.

Abhishek Shah

Fair enough. Sir, and I think in the news articles earlier we were reading something which said, Tamil Nadu has started looking towards sort of having Linking Policy done. So, is that a positive signal or am I wrong in the whole understanding?

Ajit Shriram

Tamil Nadu has not done this yet. However, Karnataka has implemented the revenue sharing formula and we are yet to see the outcome of that as to how they will implement this fully especially when the Sugar prices have come down. That is going to be a huge challenge. And we do hope that there is some way by which they are able to take this forward.

Moderator

Thank you. We take the next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj

Sir, my question pertains to Caustic Soda; (a) in terms of the recent correction in the Caustic Soda prices globally, is it because of Chinese New Year and no capacity de-stocking or rather inventory de-stocking or is it structural phenomena where the prices will probably be in the correction mode for some more time?

Ajay Shriram

I do not think, the Chinese New Year will have an impact of this type. I think, it is just market dynamics on a worldwide stage and the way the industry has moved in the last six months - eight months. As we mentioned earlier that due to China also, Europe also, demand also I think all that it has a positive impact.

Rohit Nagraj

Okay. On the same topic, the question is how much of capacity probably is shut down in China and Europe. Any understanding on that side?

J. K. Jain

Europe has 1.2 million which has been phased out from mercury to membrane. China of course, is difficult to give numbers because they keep changing every now and then.

Rohit Nagraj

Okay. So this 1.2 million is a conversion capacity, it is not exactly shut down?

J. K. Jain

It has been shut down they will convert when it comes on stream obviously, it will happen over phases. Some part of it may actually shutdown. Some will come back actually.

Vikram Shriram

There is an expectation that 15% - 20% may not come back.

Rohit Nagraj

All right. Fair enough, sir. Sir, in terms of prices you said that the prices probably will go in a new normal based on the recent phenomena where

capacity shutdowns are happening. So as I understand and correct me, if I am wrong, till last year, till 2016, the average prices of Caustic Soda were may be about Rs. 35 per kg. So is it safe to assume that the new normal could be somewhere near Rs. 45 a kg to Rs. 50 a kg?

- J. K. Jain** I do not think where you are getting your numbers from and what price you are referring to. We have not seen Rs. 35 ex works realization at least last year. You may be talking about some retail prices or something that is possible.
- Vikram Shriram** Yes, you must be talking of landed prices so there is a difference in understanding of the prices.
- Rohit Nagraj** Okay. Sir, and in terms of Bharuch, I just want to ask one question. Now we are at 100% utilization, is there any scope of further going up on utilization level may be 110% - 115% depending on the demand?
- Ajay Shriram** We in fact, as we have announced we have got some expansions planned over there which are underway and that will be commissioned in the next may be 12 months to 15 months that will give us additionally about 150 tons per day.
- Rohit Nagraj** Right. But on the existing capacity by some de-bottlenecking or so, is there any possibility of increasing?
- Ajay Shriram** No, not just now. I mean, frankly we are running at 100% which is really good going.
- Moderator** Thank you. We take the next question from the line of Aditya Wagle from Aquitas. Please go ahead.
- Aditya Wagle** My question was regarding the Sugar segment. So we had an inventory loss of Rs. 22 crore I think this quarter. So what are your expectations for Q4, similarly?
- J. K. Jain** No, it will depend on the sugar prices. If it remains Rs. (+33) then there will be no loss, if it goes down further then of course we will have to take loss.
- Aditya Wagle** Okay. How are the prices keeping in January?
- J. K. Jain** So far it is hovering around Rs. 32.5.
- Moderator** Thank you. We take the next question from the line of Rupesh Tatiya, Individual Investor. Please go ahead.
- Rupesh Tatiya** My question is can you give us update on Anhydrous Aluminum Chloride plant and then also along with that can you give us some potential more downstream products that you are looking at? And what are the plans about the plans about those?
- J. K. Jain** Aluminum Chloride?
- Rupesh Tatiya** Correct.
- J. K. Jain** We have said, we will start in Q2 FY 2019 and it is on schedule for that.

- Rupesh Tatiya** Okay. And some more downstream products that we can do, you are looking at?
- J. K. Jain** See, as we said, we are continuously looking at Chlorine consuming products, but nothing has been firming up as yet.
- Rupesh Tatiya** Okay. Second question is on Fenesta. For PVC Doors and Windows there are like so many players in the market like it almost feels to me like that it is a commodity space so it looks like brand building is the right way to go about it. So can you give us your plans about brand building for let us say 2 years, 5 years and 10 years?
- Vikram Shriram** It is already the #1 brand in the country and I think the premium, the reputation and the repeat orders that we get and the reputation that the Fenesta business has earned vis-à-vis developers vis-à-vis architects and vis-à-vis actual users is based on having a superior product, a superior service, and a superior brand. So efforts are continuously on to keep strengthening that adding products and strengthening the brand. Now, I cannot give you a real clarity where we will be in 5 years and 10 years.
- Ajay Shriram** No, but I think for a product like this where a large part of our market now has come into the retail segment brand building is a continuous exercise. I mean we have to keep doing. We have to provide better customer service and we will continue doing that. So we have done a lot of it over the last five years and we will continue doing it for the next 25 years. So it is an ongoing business for us.
- Rupesh Tatiya** So I mean my question was marketing budgets will go up, would we see ads on TV?
- Ajay Shriram** It is too early to say. We have not taken a decision yet.
- Vikram Shriram** We allocate a certain percentage of our revenue to marketing and that continues. There is no cut back on that revenue being spent on marketing.
- Moderator** Thank you. We take the next question from the line of Dhires Pathak from Goldman Sachs. Please go ahead.
- Dhires Pathak** Sir, Shriram Farm Solution, you had exited the complex business as you mentioned and April 2016. So given the spreads, current understanding is that spreads are holding up in that business. Is there plans to re-enter it?
- Ajay Shriram** This is on DAP and MOP, is it?
- Dhires Pathak** Yes.
- Ajay Shriram** No. We actually took a policy decision that in the trading business we were seeing our margins was from (-10%) to plus 2%-3%. So we have taken a decision not to be in this business of trading of DAP and MOP.
- Dhires Pathak** Okay. So even now with the softness in prices you do not see margins above 2% - 3% in that?
- Ajay Shriram** Well, we do not know now because we have stopped tracking it but we have taken a decision not to be in the business.

- Dhires Pathak** Okay. And in Urea in your slide, the capital employed has gone up by about some Rs. 100 crore. So that is mainly because of subsidy?
- J. K. Jain** Yes, subsidy.
- Dhires Pathak** So you were saying all this DBT thing, should not have resulted because volumes have not gone up, so why, is the government not paying on time?
- J. K. Jain** See, the DBT is being implemented in selected states and the claim processing for DBT have just started. So we still have arrears relating to that. Second, the DBT does not mean here the benefit to the farmer. The subsidy still has to be claimed by the manufacturer. In fact, it elongates the cycle for claiming the subsidy.
- Dhires Pathak** No, sir, the expectation was in order to roll out DBT they will clear out all the prior subsidy this thing, which are there on the company side. But we have not seen volume increase for us, we have seen subsidy increase. So what is it that is causing that is what I want to know?
- J. K. Jain** No, I do not know from where did you get that expectation that they will clear all the subsidy bills for rolling out DBT that is not the case. There is no such announcement by the government.
- Vikram Shriram** In fact, the subsidy cycle may only increase. It will not go down.
- Dhires Pathak** Okay. But even let's say we leave that argument which I may have had a wrong expectation, but in this nine months our volumes are up 3% but our subsidy receivable seems to have gone up by almost Rs. 100 crore. Our capital employed has gone up by about Rs. 100 crore. So is that mainly delayed payments from the government or is there something to do...
- J. K. Jain** There is only subsidy payments which has caused this particular thing and we have indicated that one, government has announced its cost increases is still not paying the subsidy corresponding to that and there are pluses and minuses with respect to regular payments also. Sometimes one-month arrears builds up sometimes it reduces. So this kind of variation is normal in this business.
- Dhires Pathak** Okay, so what is our energy efficiency norm for our Urea plant?
- J. K. Jain** 7.585 Gcal per ton.
- Dhires Pathak** So as per the policy there were three buckets, right? And the third one being 6.5 or something from April 2018. So we have to do CAPEX to bring it down?
- J. K. Jain** No. So we are taking up with the government to review those particular norms, I mean we are pursuing with the government for that.
- Dhires Pathak** Okay. But we are being reimbursed as per what?
- J. K. Jain** 7.585 so far up to 31st March that is the announced norm.
- Dhires Pathak** And last question, sir. On the CAPEX that you had mentioned on the Caustic this capacity expansion both at Kota and Bharuch, total CAPEX spend on this would be how much?

- J. K. Jain** I do not have project wise numbers right now. But my sense is both of them put together will be about Rs. 200 crore. We can get back to you with the exact numbers.
- Dhires Pathak** This 164 tonne per day at Kota and 146 tonne per day at Bharuch, right?
- J. K. Jain** Yes.
- Moderator** Thank you. We take the next question from the line of Anand Jain, Individual Investor. Please go ahead.
- Anand Jain** Sir, two questions. One more of a bookkeeping. So we have seen that some kind of tax action here on competitors like Kaveri and Nuziveedu where the tax payments on seeds was not being made on the profits, so we do not have. We pay taxes on these, right.
- Vikram Shriram** Yes. We have not followed that tax policy that those companies have followed.
- Anand Jain** The second question, I have is on the Farm Solution business. So we have Pesticides, Micro-Nutrients, Seeds, Urea, tons of these things. We have our own seeds player, you are in the Farm Solution and we also buy seeds from other companies and kind of distribute it.
- Ajay Shriram** Yes, that is right.
- Anand Jain** And even in case of Pesticide and Micro-Nutrients, we are more of a marketing company and not a manufacturing, right?
- Ajay Shriram** Right.
- Anand Jain** So, are we looking for more tie-ups or anything from companies which are into technicals and which are not really into marketing?
- Ajay Shriram** Yes, I mean this is the business which we want to grow, and we think the potential for these agri inputs to the farmer and when we can also provide know-how in technology is a positive direction in the long run. We are exploring all opportunities of how we can get a larger range of products for different crops at different geographies. It is an ongoing exercise to grow the business.
- Anand Jain** Just a question here, who owns the registration for the Pesticides and the Micro-Nutrients that we supply because we probably have to register these products before they can be used, right? So who owns the registrations for these products?
- J. K. Jain** We own them for most of them except Crop Care Chemicals where it has to be taken in the name of formulators.
- Moderator:** Thank you very much. Well, that seems to be the last question for today. I now hand the floor back to the management for their closing comments.
- Ajay Shriram** Thank you. Ladies and Gentlemen, we thank you once again for your continued support. We are focused to keep strengthening our competitiveness and achieving volume growth across our businesses. Simultaneously, we are taking initiatives to improve our earnings profiles by

developing multiple revenue streams. We believe these efforts will deliver sustained growth and healthy performance going forward. We are also committed to maintain a healthy balance sheet. Thank you very much, once again.

Moderator

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