



DCM Shriram Ltd.

Q3 & 9M FY17 Earnings Conference Call Transcript

February 14, 2017

Moderator

Ladies and gentlemen, good day and welcome to DCM Shriram Limited Q3 and Nine Months FY 2017 Earnings 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 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 from CDR India. Thank you and over to you.

Siddharth Rangnekar Good afternoon and, thank you for joining us on DCM Shriram Limited Q3 and FY 2017 Earnings Conference Call. Today we have with us 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. Vikram Shriram and Mr. Ajit Shriram, following which we will have an interactive question-and-answer session.

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

I would now like to invite Mr. Vikram Shriram to give us an overview on the Company's operations for the quarter ended December 31st, 2016 and the opportunities going forward. Over to you, sir.

Vikram Shriram

Thank you. Good afternoon ladies and gentlemen, and a very warm welcome to DCM Shriram Ltd.'s Q3 and 9M FY 17 earnings conference call. I will take this opportunity to share with you our perspective on business developments and plans going forward, following which Ajit will take you through the financial highlights of the Company.

The Company continues to record better performance over last year. Almost all businesses of the Company have done better in FY 17 vis-à-vis last year. During Q3'17, we completed Rs.700 crs. expansion projects in

chemicals & bagasse based power. These plants have stabilized and have started contributing to the earnings of the company. Projects involving investments of Rs. 300 crs. in Chemicals business, Sugar Distillery and Fenesta are progressing well, to be commissioned in Dec 2017.

Our Balance sheet continues to be healthy with good internal accruals & moderate debt levels.

Let me now take you through the business wise developments:

Chloro-Vinyl: The selling prices for PVC and Caustic Soda continue to be firm. Chlorine prices are going down due to higher supply and subdued demand. Chlorine sales are limiting the capacity utilization of the Chlor-Alkali plants. We expect improvements in this situation over the next few months. The investments in technology upgradation of existing Chlor-Alkali plant, setting up a new latest generation plant alongwith captive power has strengthened our cost competitiveness. The coal and carbon material prices have recorded upward trend over the few months but have been stable thereafter. We continue to focus on strengthening competitiveness and record continuous growth in this business.

Sugar: After a long period of un-remunerative prices, the sugar business has, recorded reasonable sugar prices over last few quarters. The domestic sugar production in the current season is expected to be lower than demand. This would enable the industry to reduce the excess stocks it has been carrying over last few years. We expect the overall domestic supplies to be adequate to meet the demand. The cane plantings for next sugar season are expected to go up. With normal monsoon, country should record higher production in next season. We have performed satisfactory so far in the current sugar season. All 4 factories started crushing in Nov. 16. Our sugar production till Jan. 17 has been about 20% higher than last year. The commissioning of more efficient & higher capacity power plant has led to higher volume & profits of power sale. The sugar recoveries have been lower than very high recoveries achieved last year. We are focusing on further increase in cane availability & thus sugar production in our area. The increase in power revenues (with the addition of new plant in Q3'17) and distillery revenues from Dec 2017 will strengthen our sugar business. A rational cane pricing policy by central and state Govt. will contribute to consistent performance of this business.

Bioseed (India) & Farm Solutions: The agriculture sector has been under stress over last few years which has led to demand and margin pressure for both Bioseed & Farm Solutions businesses. With good output in Khariff 16, higher sowing Rabi and increase in prices of some of key produce like Cotton, the agri-stress should reduce significantly. We are, therefore, planning for a better Khariff 2017 for both these businesses with stronger product portfolio and extensive marketing efforts.

Bioseed (International): Bioseed business in Philippines, Indonesia & Vietnam continue to work to build customer acceptance and grow volumes. While Philippines & Indonesia recorded volume growth, Vietnam is taking longer time. We plan to intensify efforts in all these geographies to strengthen our product portfolios and marketing efforts.

DAP/MOP: As advised earlier, we suspended further imports of DAP/MOP from beginning of this year. This has led to sharp drop in turnover of Farm Solutions but has improved the overall profitability and has freed up significant amount of Capital Employed. We plan to keep this activity suspended.

Fertiliser: The business operations are stable. Energy efficiency is improving. The company is evaluating measures to further improve energy efficiencies while working with the Govt. for a more rational policy particularly for old plants. The Subsidy outstanding position has improved in this year versus last year, however it continues to be a matter of concern in absence of consistency of release of subsidy payments.

Fenesta: Fenesta business continues to grow satisfactorily both in Projects and Retail segment. The business continues to contribute positively to the company's bottom-line. We expect the growth trend to continue in medium term. Accordingly, we are investing to expand our manufacturing capacity while simultaneously strengthening the marketing and service capabilities.

Cement: The cement sector has seen sluggish demand and soft prices in Q3'17, some of the cost elements have recorded increase. We hope that with enhanced investments in infrastructure and housing, the sector should see positive movements in future.

Overall, we feel that our sectors would register positive movements going forward. Completion of our investment plans will enhance our competitiveness; provide volume growth and stability to the company. Input costs have started rising; we will continue to take steps to mitigate these to the extent possible.

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

Ajit Shriram:

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

Q3 FY 17 revenue stood at Rs 1,448 crores, up 11% vs. last year led by higher revenue in Sugar and Chemicals businesses. Company's 9M FY 17 revenue stood at Rs 4,408 crores down 5% YoY. As you are aware, we suspended DAP/MOP imports from the beginning of this year. Thus,

excluding DAP/MOP, our revenue was up 9% for the nine months ended Dec. 16.

PBIT for Q3 was up 121% to Rs 169 crores vis-à-vis same period. 9M PBIT improved to Rs.500 crores, up 48% YoY. Sugar and Chloro-Vinyl businesses were the key contributors to earnings improvements.

Net profit for Q3'17 grew by 124% YoY to Rs 137 crores. Net Profit during 9M FY 17 stood at Rs 395 crores, up 60% over corresponding period last year. Company's 9M EPS improved to Rs 24.3 up from Rs 15.2 last year.

The Company's net debt as on Dec 31, 2016 stood at Rs 774 crores as compared to Rs 426 crores as on Dec 31, 2015. Increase in net debt was due to the recently concluded expansion projects in the Chemicals and Sugar businesses. The company's leverage position is comfortable with Debt-Equity ratio of 0.32 and Debt to EBIDTA below 2.

Let me now take you through our business wise financials.

Chloro-Vinyl: Chloro-Vinyl segment recorded PBIT of Rs. 91 crs. in Q3'17, up 9% vis-à-vis 1st year. Revenues were up 14% led by higher volumes consequent to capacity expansion. PVC prices which were up 16% vis-à-vis last year also contributed to higher revenues. Earnings growth was limited by lower sales volumes in PVC led by market factors although production was stable and by higher Coal and carbon material prices. These costs are witnessing a sequential upward trend. The new chemical plant has achieved capacity utilization of over 50% and is expected to achieve full capacity over next few months.

The 9M revenue was up by 8% YoY at Rs. 1129 crore while PBIT stood higher by 13% YoY at Rs.284 crores.

Business' performance is expected to strengthen with increase in capacity utilization of Chemicals over the next few quarters. Chloro-Vinyl's capital employed increased to Rs 1054 crores as on Dec 31, 2016 vs. Rs. 595 crores as on Dec 31, 2015. This increase was on account of completion of the expansion projects in the Chemicals business.

Sugar Business: The overall revenues of this segment went up by 179% to Rs. 377 crs. Higher sugar volumes and prices and higher power sales led to the increase in Revenues. Sugar realizations improved to Rs. 3,539/qtl from Rs. 2,658/qtl last year. Prices continue to be firm. The Company also accrued during the quarter Rs. 12.70 crs. on account of production subsidy by Central Govt. for sugar season 2015-16. This led to increase in PBIT to Rs. 88 crores from Rs. -1.9 crores last year. 9M revenue were higher by 64% YoY at Rs. 1049 crore, while Segment PBIT to Rs. 182 crores from Rs 31 crores last year.

The business' capital employed increased by 24% YoY to Rs 687 crores due to higher closing stock, increase in cost of production and completion of co-gen power project. Sugar closing stock is 10.1 lac qtls as on 31 Dec 2016.

Shriram Farm Solutions: Q3 is a short season for this business. Q3 FY 17 revenue excluding DAP/MOP was flat at Rs 248 crores. Value Added inputs business' revenue increased by 7% YoY due to higher volumes of seeds and crop care chemicals. Better performance of Value Added segment led to improvement in segment PBIT to Rs 19 crores from Rs 18 crores in Q3 last year.

9M FY 17 revenue stood lower by 47% YoY to Rs 777 crores due to suspension of DAP / MOP trading business and lower revenue of the 'Value Added' inputs segment due to the erratic weather patterns during Kharif 2016 and weak farmer finances. Last year the company sold DAP / MOP of Rs 619 crores vs. nil in the current year. Segment PBIT stood lower at Rs. 27 crores vs. Rs 56 crores in 9M last year. Current year's results are net of a loss of Rs.11.2 crs on DAP/MOP activities carried out last year.

Subsidy outstanding in the business stood at Rs. 173 crores vs Rs. 260 crores in same period last year and Rs. 307 crore as on 31st March 2016. This includes Rs. 53.8 crore relating to DAP/MOP business.

Bioseed Business: Q3 is an off-season for this business. Q3 FY 17 revenue increased to Rs 53 crores from Rs 47 crores last year. Segment PBIT for Q3 was -ve Rs. 13 crores from -ve Rs 20 crores last year. 9M revenue stood at Rs 400 crores vs Rs 448 crores last year. Lower volumes of BT cotton seeds due to decline in cotton acreage contributed to the revenue decline during this period. 9M segment PBIT improved to Rs 39.6 crores (vs. Rs. 25.8 crs. LY), primarily due to lower losses in international business.

Capital employed stood at Rs 444 crores as compared to Rs 413 crores as on Dec 31, 2015.

Fertilizer Business: Q3 FY 17 revenue stood lower by 17% YoY to Rs 190 crores. Decline in revenue was due to lower volumes and realizations. Realizations were low due to decline in gas prices which is a pass through. Lower revenue during the quarter led to Segment PBIT declining to Rs. 14 crores from Rs. 17 crores in Q3 last year. Subsidy outstanding eased to Rs 213 crores as compared with Rs 324 crores as on Dec 31, 2015.

9M FY 17 revenue stood down by 14% on account of a 16% decline in realizations. Segment PBIT improved to Rs. 36 crores up from Rs. 25 crores last year. Increase in earnings during this period was on account of better efficiencies and receipt of Rs 9.2 crores subsidy arrears of earlier years.

Fenesta – Q3 FY 17 revenue and PBIT stood higher by 21% and 61% YoY. Better financial performance during Q3 was driven by strong growth in ‘Retail’ segment volumes and better realizations. Business’ order booking also improved by 31% YoY in Q3 driven by 28% and 39% increase in ‘Retail’ and ‘Project’ segment’s order booking.

Fenesta business’9M FY 17 revenue and Segment PBIT improved by 21% YoY and 37% YoY, respective. This improvement was on account of strong growth in volumes of both ‘Retail’ and ‘Project’ segments.

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. Ladies and Gentlemen, we will now begin with the question-and-answer session. The first question is from Sumant Kumar from Emkay Global.
- Sumant Kumar** Sir, what is the sugarcane price for the company currently?
- Ajit Shriram** The cane price for the company currently is Rs. 305 quintal for the general varieties.
- Sumant Kumar** Okay. So, would like to understand what is the per kg spread between sugarcane price and sugar price?
- J. K. Jain** See, the cost of sugar for this particular season is up by about Rs. 4 vis-à-vis last year, we are seeing overall cost of about Rs. 34 for the new sugar that we have produced, versus Rs. 30 last year. The selling prices which is prevailing today is Rs. 37 but the average for last quarter was around Rs. 35.5, so that gives you the margin.
- Sumant Kumar** The cost of production what you said?
- J. K. Jain** Rs. 34.
- Sumant Kumar** So, per kg we are making Rs. 1.5?
- J. K. Jain** At the last quarter’s average yes, but at current price it is about Rs. 3.
- Sumant Kumar** Okay. So, Rs. 3. So, just like to understand for the Rs. 34 cost of production, how much of that is raw material cost?
- J. K. Jain** Raw material cost will come to about Rs. 3,000.
- Sumant Kumar** On a per kg basis, it is coming around?
- J. K. Jain** Rs. 30.

- Sumant Kumar** So, the Rs. 4 is coming for other expense?
- J. K. Jain** Absolutely including interest and conversion cost.
- Sumant Kumar** The second question is regarding your caustic soda business. So, what is the outlook on the cost side as we know there is a margin pressure because of rising coal and coke prices but we have done capacity addition, so we can grow on top-line basis? So, what is the outlook for realization for caustic soda and margin outlook?
- Vikram Shriram** When any major expansion takes place, which includes the expansion done by us and few other players in the industry, the expansion has been almost the capacity addition has been about 10% plus to-date in this financial year when these kind of significant capacities are added in the industry, it takes some months for the prices to stabilize and that is case in any commodity. So, we expect it will take us some months but then ultimately the demand supply balance will find its own footing and stabilize over the course of the next few months. And as we had mentioned earlier that presently or last quarter we were running at about 50% capacity utilization of the expansion mainly limited by chlorine off-take. So, slowly as prices stabilize and chlorine off-take improves, the margins will also improve and the volumes will also improve. These were affected also mainly significantly by the demonetization during November, December when the chlorine consuming industries had a set-back. So, the chlorine sales had a bit of a set-back.
- Sumant Kumar** Okay. So, because of increase in capacity utilization, efficiency will improve which will lead to the margin expansion despite of higher raw material cost like coal and coke price?
- Vikram Shriram** Yes.
- Moderator** Thank you. Next question is from Tejas Sheth from Reliance Mutual Fund.
- Tejas Sheth** Just wanted to understand why the PVC volume sales were lower this quarter?
- J.K. Jain** See, as we have mentioned our production was the same as last quarter because of slackness in demand in November, December post this short-time disturbance caused by demonetization, the sales were less and the inventory has picked-up. But I think the sales have picked up thereafter and now we have virtually cleared that inventory. So, that was a short-term disturbance because of demonetization which affected the sales of that quarter.
- Tejas Sheth** Okay. So, we would be nearly now again back to 12,000 to 13,000 kind of quarterly run rate?

- Vikram Shriram** Yes.
- Tejas Sheth** Okay. And what would be the current realization in PVC?
- J. K. Jain** Roughly at the same level as Q3, there hasn't been any sharp movement either way the prices are holding.
- Tejas Sheth** Okay. So, it is not nearly Rs. 75 a kg, Rs. 76 a kg?
- J. K. Jain** See, that you must have heard is the prices which includes all excise duties and taxes. The ex-works price is about Rs. 71, Rs. 72 which continues.
- Tejas Sheth** Okay. And on the sugar side you mentioned that 20% increase in the production. So, we may end up the season at what kind of crushing?
- J. K. Jain** It will be difficult to give exact number but as we have said it seems that 15% to 20% increase in production over last season looks possible.
- Tejas Sheth** Okay. And this quarter also the sale of sugar was quite high, at 8.5 lakh quintals. So, what would be the reason for that because we were carrying inventory that is why we sold at...
- J. K. Jain** See, it is not high we have produced almost 37 - 38 lakh quintal in the year so 8.5 lakh in a quarter is pretty reasonable. It is looking high vis-à-vis last year because last year we had sold earlier during the season.
- Tejas Sheth** Okay. Even year before that also it was nearly I think 4.5 lakh quintals.
- J. K. Jain** So, that time the production itself was low. See, our production if you see last season also was up by about 5%-6% and this year we started crushing early so, the material was available earlier also, so that contributes to the quarter-to-quarter variation but I think a 7 - 8 lakhs sales in a quarter is pretty average.
- Tejas Sheth** Okay. And now we are carrying 10 lakh quintals?
- J. K. Jain** On 31st December, yes.
- Tejas Sheth** And what would be the cost of inventory?
- J. K. Jain** As I mentioned the total cost is coming Rs. 34.
- Tejas Sheth** So, this will be all fresh only, there would not be any previous inventory?
- J. K. Jain** These are all fresh. We have sold off all the old sugar.
- Moderator** Thank you. Next question is from Sumant Kumar from Emkay Global.

- Sumant Kumar** Sir, what is your expectation on increase in cost of production of sugar?
- J. K. Jain** I explained that is Rs. 4, last year vis-à-vis last year.
- Sumant Kumar** No, going forward I am talking about.
- J. K. Jain** Going forward it will depend on the cane price, now it is too early to estimate that.
- Moderator** Thank you. Next question is from the line of Deepak Kapoor, who is an Individual Investor.
- Deepak Kapoor** I have a very general question in the sugar business. Given the current sugar realizations, current cost of cane etc., does it make sense for sugar companies to do Greenfield expansions, is the return on capital remunerative enough at existing prices of ethanol, power, sugar, everything?
- Ajit Shriram** We really have not thought about this. As far as the Greenfield is concerned, we continue to focus on our instant cane area and our focus is to increase the cane acreage and improve cane varieties to increase the yields and recoveries.
- Deepak Kapoor** Okay, all right. I have a second question on the fertilizer side. We are hearing about direct benefit plans that the government is piloting with respect to fertilizer subsidy payments. Now clearly from the government perspective it is to make sure the subsidies are more targeted and more efficiently used. But from a company perspective is it going to be a net-net positive, will it reduce your working capital, will it make it more efficient; increase your return on capital?
- J. K. Jain** See, I think the contours of this particular thing are still absolutely unclear, I think there was a move that this subsidy will be given to retailers, then there was subsidy will be given to farmers. So, I think the impact on the company at profit level we do not see any impact. At working capital level, it will depend on what are the contours of this scheme when they primarily do announce, which is not clear. Also I think there are mixed reports on the experiment itself and therefore, the government's plan to extend it is also uncertain, so one does not know whether it will be extended or not extended.
- Deepak Kapoor** Okay, that is interesting. Thank you, sir. And very quickly what is your sugar plant capacity in TPDs?
- J. K. Jain** 33,000.
- Deepak Kapoor** And your cement plant?

- J. K. Jain** Cement is 400,000 tonnes per annum.
- Moderator** Thank you. Next question is from Shilpa Sharma from Cogencis.
- Shilpa Sharma** Sir, I want to ask you about, do you have any expansion plans in sugar business for this financial year or for the next financial year?
- Ajit Shriram** Our current capacity is underutilized and our focus is to grow cane further and come to a 100% capacity utilization which will take about a year, year and half. So, at this point of time there are no expansion plans. But we are putting up distillery to absorb all the molasses produced by the four plants and that will be commissioned by December 2017.
- Shilpa Sharma** How much is your current capacity utilization sir for sugar?
- Ajit Shriram** Our total capacity for producing sugar is about 450 lakh quintals of cane, so based upon that our current is about 75,000.
- Shilpa Sharma** That is the crushing capacity for cane?
- Ajit Shriram** That is right.
- Shilpa Sharma** Okay. And you are aiming to increase it to?
- Ajit Shriram** No. Our current capacity utilization is 75% and we aim to reach 100% soon.
- Shilpa Sharma** Okay. Sir, can you also give your outlook for sugar output in Uttar Pradesh and India's overall?
- Ajit Shriram** See, it is a little difficult to give that number at this point because the ratoon crop is just finishing and the plant cane has begun. So, we need to assess what is the performance of the plant cane. The production in U. P. is definitely going to be higher than last year may be between 8.2 - 8.5 million tonnes.
- Shilpa Sharma** But I think the recovery rate you mentioned is seen lower this year?
- Ajit Shriram** Marginally lower this year compared to last year. See, last year was very unusual as far as the weather patterns were concerned; one is there was drought and second there was hardly any winter. So, because there was no winter last year there were very few days of foggy conditions because of which there was good sunshine and good plants growth, a very healthy plant growth. But this year, the sugar recovery will be down by about 0.3%; 0.4% vis-à-vis last year. That is an estimate.
- Shilpa Sharma** Just one more thing, sir, what is your outlook for the Company's sugar output in this financial year?

- J. K. Jain** See, as we mentioned we are about 20% higher till January and as JMD just mentioned that it is too early to give the entire season's outlook because the plant cane has just started. But I think at a very broad level, we are saying it should remain 15% to 20% higher than last year.
- Shilpa Sharma** Okay. Can you just quantify how much was the output last year?
- J. K. Jain** Last year was about 31 lakh quintal.
- Shilpa Sharma** 31 lakh quintal, is sugar output?
- J. K. Jain** Sugar output, yes.
- Shilpa Sharma** And you are talking of this financial year not the October, September the sugar season.
- J. K. Jain** I am talking about the sugar season output of 31 lakh quintal last season which we are expecting 15% to 20% higher for this season.
- Moderator** Thank you. Next question is from Amarnath R. from Gomukhi Capital.
- Amarnath R.** My question pertains to the Chloro-Vinyl division. I would like to understand, two things, one is what is the capacity utilization at Bharuch, and what is the outlook we are having for this year and next year on an overall basis? And second is to understand the EBIT margin drop in 3Q despite the sequential price hike which we have mentioned in the presentation that we were able to achieve?
- J. K. Jain** See, capacity utilization for the expanded plant as the CMD mentioned in his remarks, we have achieved 50% so far and we are continuously building it up as chlorine sales are picking up. Now as far as margins at a Chloro-Vinyl level are concerned, we explained in our release also is down primarily in PVC because of lower sales though the production same as last year but sales was lower. So, that has caused small drop in margins. It has got very significant drop but yes, there has been a small drop in margin.
- Amarnath R.** With the cost push also which you have mentioned in the presentation...
- J. K. Jain** Yes, there is cost push but we also mentioned that is partly getting mitigated by cost efficiency that we are achieving in our newer plant as well as in the older plant where we have done a technology upgradation. So, at an overall level, we have not seen significant cost push in terms of cost of production per tonne. But yes, coal prices have started moving up.
- Amarnath R.** Okay. And by when would we expect to reach utilization of the new Bharuch capacity to 70%-75%?

- J. K. Jain** It will take few months as the CMD mentioned it will depend primarily on how chlorine demand picks up and that will determine the capacity utilization. But it can take anywhere between couple of quarters to may be a little longer.
- Vikram Shriram** But it has picked-up compared to the last quarter. In the last couple of months, it is inching up every month. So, we expect it will carry on inching up.
- Moderator** Thank you. Next question is from Pratik Tholiya from Emkay Global.
- Pratik Tholiya** Sir, I just missed the CAPEX amount which you mentioned for ongoing CAPEX.
- J. K. Jain** Rs. 300 crore.
- Pratik Tholiya** And sir, if you could just divide this between the three projects that you have announced distillery and expansion...
- J. K. Jain** It is Rs. 185 crore for the distillery. Rs. 97 crore for the chemicals and about Rs. 18 crore, Rs. 19 crore for Fenesta business.
- Moderator** Thank you. Next question is from Deepak Kapoor, who is an Individual Investor.
- Deepak Kapoor** A question on your Fenesta building systems, I could not see it on the presentation but could you get a rough estimate of your EBITDA or EBIT margins there?
- J. K. Jain** The EBITDA margin?
- Deepak Kapoor** Yes.
- J. K. Jain** It is about 7% right now.
- Deepak Kapoor** 7%. You see this margin expanding and increasing over the years ahead?
- J. K. Jain** See, this is a business where we expect to remain in growth mode at least in medium-term and in this business growth means you need to invest through P&L much in advance in building up the infrastructure and service capability. So, since we are confident of sustaining growth of 20%- 25% we do not see margins significantly expanding in this period. But once it achieves significant scale, then yes, it will build up because growth investments relatively will come down.
- Deepak Kapoor** So, almost all these growth investments are getting expensed in P&L right now?

- J. K. Jain** Yes. Because it is primary sales force and marketing efforts.
- Vikram Shriram** Brand building, sales force service, dealer network augmentation, everything goes through the P&L account.
- Deepak Kapoor** Fantastic, so three years or five years down the line the margins will look much better then.
- J. K. Jain** Absolutely.
- Deepak Kapoor** And is there any significant competitor to this?
- Vikram Shriram** Yes, it is a competitive market place. Significant I am not sure, how you would define.
- Deepak Kapoor** I mean more significant I would say, somebody who is also focusing a lot on brand building.
- J. K. Jain** See, this has competition of two nature, one is competition from UPVC windows manufacturer itself, second is competition vis-à-vis other materials, the wood, the aluminium, and those kinds of things. There are people who are making efforts but as far as UPVC is concerned we remain the brand leader and we are the largest player. We do not know anybody who is making these kind efforts in educating customer and building awareness.
- Moderator** Thank you. Next question is from Rohan Gupta from Edelweiss.
- Rohan Gupta** Sir, just taking from the previous participant only a little bit more on Fenesta. Sir, you have roughly 7% sort of EBIT margins in that business. What will be gross margin right now?
- J. K. Jain** See, in this business gross margin is a very subjective thing because I mean what has to be netted off, what is not be netted off is a debatable issue. So, we do not track gross margin, etc., the EBITDA margin is what I just gave about 7%, 8%.
- Rohan Gupta** So, are we spending right now may be 20% to 30% in distribution, marketing in this business including brand expense also?
- J. K. Jain** It will come to that kind of thing yes.
- Vikram Shriram** There will be significant investment in marketing, sales, distribution, brand building, service capability, etc., but that is again you see in this business there is a time lag. We are seeing 30%- 35% increase in our order books but that converts to billing 6 months or 12 later. So, because of that time lag also while the order book has gone up significantly the billing has gone up

by 20%- 23% or something like that. But the order book has gone up by well over 30%.

Rohan Gupta Okay. And in terms of reach that distribution and dealer reach, you think that how many dealers we have right now and how you want to see this dealers growing over next two years in this business?

Vikram Shriram We have got our presence now in about 125 cities and towns all over India and I think about similar number of dealerships.

Rohan Gupta So, every city you have exclusive distributor or dealer model?

Vikram Shriram No, in larger cities they are bigger, in smaller cities they are smaller but some cities or some smaller towns are covered by dealer who is in bigger town and he covers two or three towns smaller towns around him.

Rohan Gupta So, this from 125 cities how many more cities you are planning to go to in next three years?

J. K. Jain I do not think we will have that detail right now but as I said, we are planning at about 25% growth every year and that will happen through extending the geography as well as extending the product. But we do not have that precise number how many cities we will get into in which year?

Rohan Gupta Okay. And sir, right now the whole UPVC market size as per you what will be the industry size as of now?

J. K. Jain See, a lot of this industry in unorganized sector therefore, there is no authentic estimate of this, it could vary anywhere between Rs. 1,500 crore to Rs. 2,000 crore but it cannot be verified, it cannot be given with any confidence.

Vikram Shriram Because the large part of the sector is unorganized sector where they are not paying taxes and duties.

J. K. Jain After GST comes in one will be able to get more authentic data on this.

Rohan Gupta Right. And sir, we could clearly see that despite November month facing an issue of demonetization you could still grow by almost 21% Y-o-Y in this segment. So, was there impact of demonetization or otherwise your growth would have been even higher in that segment or because of you are having some capacity related challenge so as you keep on maintaining 20% to 25% growth rate so, you would not be growing at any given point of time beyond that.

Vikram Shriram No, the capacity-related issues are being sorted out by the investments. So, that is not a challenge at present and we do not foresee that will be a

challenge in the future. There was or may have been a slight tightness in the market due to cash flows. We are very particular about managing our debt level, so as far as giving credit to builders, etc., concerned we are very particular about that. Based on that there may have been some slight negative set back but hopefully in the next few months it is gradually ease out.

Rohan Gupta Right. And as of now, sir, what percentage will be coming from builder and retail? I mean how much is from retail and how much is from dealer?

J. K. Jain Retail is about 70% and project is 30%. So, we track it between real estate projects and retail that ratio is 70%: 30%. 70% retail, 30% project.

Rohan Gupta Okay. And sir, when we say retail these are the one-off customers who directly goes to the dealer and who want to get Fenesta system installed in their home, right?

J. K. Jain It includes that also, it includes the smaller establishment like small hotel or small clinics and Household.

Rohan Gupta Right. And these are individuals, right? So, they must be hearing about your company and brand from the marketing, TV marketing or dealer, or generally how that dealer is able to convert or get that kind of customer, any thought process on that?

Vikram Shriram I think there are extensive marketing efforts which includes above the line, below the line, internet based. So, actually it is a multi-pronged marketing effort and that has its own impact and benefit for growing the brands and growing the awareness and word of mouth is vital in this whole business.

Rohan Gupta Got it. Sir, at the end of the question, can you just share the marketing and advertisement spent for this year in FY 2017 on Fenesta?

J. K. Jain We do not have that here Rohan.

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.

Vikram Shriram Ladies and gentlemen thank you for your participation in our Q3 & 9M FY17 earnings conference call. Completion of expansion / up-gradation projects in Chemicals and Sugar businesses improves competitive position of these businesses and given strength to our business model. The company is also undertaking further expansion in Chemicals business at the Kota plant, is setting up a distillery under its Sugar business and expanding fabrication facility at Fenesta. These will further give impetus to growth. The company's Agri-inputs businesses also are expected to witness growth

linked to overall agriculture growth in India geographies outside India that we operate in. Our strong Balance Sheet and internal generations enable us to explore growth opportunities going forward.

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.