DCM SHRIRAM CONSOLIDATED LTD

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Q3 & 9M FY12 – Earnings conference call Transcript
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Moderator: Ladies and gentlemen, good day and welcome to the earnings Conference Call of DCM Shriram Consolidated limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing * and 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. Ishan Selarka from CDR India. Thank you and over to you sir.

Ishan Selarka: Thank you Marina. Good afternoon all and thank you for joining us on DSCL's Q3 and 9M FY12 earnings conference call. Today we have with us Mr. Ajay Shriram – Chairman and Senior Managing Director, Mr. Rajiv Sinha – Joint Managing Director, Mr. Ajit Shriram – Deputy Managing Director and Mr. J. K. Jain – CFO of the Company.

Before we begin, please note that some of the statements made in this conference call may be forward looking and a note to that effect was sent to you in the concall invite sent to you earlier. We will now start the conference call with opening remarks from Mr. Ajay Shriram and Mr. Rajiv Sinha following which we will have an interactive question and answer session. I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's operation during the quarter and 9 months ended December 31st, 2011 and the opportunities going forward. Over to you sir.

Ajay Shriram: Thank you. Good afternoon ladies and gentleman and a very warm welcome to the DCM Shriram consolidated limited Q3 and 9M FY12 earnings conference call. I will take this opportunity to share with you our perspectives on the Company's performance and outlook following which Rajiv will take you through the financial highlights of the Company for the third quarter and the nine months ending 31st December, 2011.

Let me begin by stating that the Company witnessed a healthy revenue growth across most of our businesses. However most sectors have started experiencing slowdown in the later months along with margin pressure due to rising cost and stable or decline in prices. The agriculture sector has been under stress since Kharif 2011 due to increase in prices of all farm inputs especially DAP and MOP, labor cost and inflationary increases in other costs. The prices of some of the farm products have recorded a decline from their earlier peaks. Though this has provided relief in overall inflation, it has also led to reduction in farmers profits. However, the input prices including the DAP, MOP prices are stabilizing which along with lower inflation will help in containing cost.

In such a scenario, the requirement for good quality agri inputs becomes all the more critical. Our experience has been that farmers remain keen to adopt new products if the companies can demonstrate positive impact through its adoption and assist the farmers in actually realizing the desired benefits.

Our Agri Input businesses which include Farm Solutions, Bioseeds and Fertilizer businesses along with Sugar and Hariyali business are working on just this principle.

Our Farm Solution business witnessed good performance led by revenue growth across the entire product portfolio. In the last 3 years, this business has registered a 42% p.a. CAGR growth in revenues from products other than bulk Fertilizers and SSP. We are focused on continuing to add new products like OP seeds, specialty Fertilizers and enter new geographical markets like south and east India. We continue to make efforts to further strengthen our agri extension activities to understand farmers' requirement better. This combined with last mile delivery of latest technology and farming practices, we expect that this business will continue to register a good growth in the coming years. Bulk Fertilizers and SSP are also expected to grow.

The Bioseeds business has increased its revenues by three times over the last 3 years. Most products launched by us during this period have gained quick customer acceptance and are gaining volumes. We are confident that we will continue to witness healthy growth in the medium term from existing products as well as new products under launch. The international operations will also grow faster as new territories enter into growth phase.

In the Hariyali business, the Company has focused on improving the financial performance. We are aware and conscious of the fact that this business has been under stress and we have taken a relook at our strategy and approach of taking some aggressive steps to bring it under control for stable operations and growth. In this direction, the Company has decided to shut down approximately 100 non-performing outlets at a one-time cost of approximately Rs.16 crore. With the outlet rationalization process almost complete, our emphasis is now on achieving high growth in same store sales by focusing on non-discretionary spend like food, etc., improving our retail value proposition, rationalizing cost including overhead cost and piloting different models to achieve profitable operations. We expect all the steps, which have been taken, will lead to better financial results starting in FY13.

Our Fertilizer business reported satisfactory operational performance during the year. Production post the shutdown in Q2 FY12 is stable and the volume increase is reflected in performance. However, significant increase in uncompensated cost due to the delay in finalization of the new urea policy by the government subdued profitability. The uncertainty on new urea policy continues to hurt this sector, though we hope the policy will be finalized soon.

In the Sugar business, the Company has started crushing at all its factories between 15 November and 1st week of December. The Company has focused on increasing its capacity utilization levels through extensive cane development activities. These efforts have resulted in increase of cane crush by 19% to 203 lakh quintals and the sugar production levels have gone up by 21% at 18 lakh quintals till date which we expect to increase by about 25% for the entire season. Our cane extension activities have also helped us in achieving highest recoveries in UP. The earnings were under pressure during the quarter as the cane prices increased from Rs. 205 per quintal to Rs. 240 per quintal in the current season leading to marking down of inventory along with higher loss on levy sugar. Though the cane price has been increased by 17%, the realizations have not witnessed any upside putting pressures on earnings. We continue to pursue with the Government to take adequate steps to allow increase in sugar prices through various policy actions like permitting of exports, removal of levy quota, etc., in order for companies to recover their costs and ensure that it remains in positions to provide reasonable returns to the farmers in the country. In this direction, the government has recently appointed a committee that will recommend to the Prime Minister on decontrol of the sugar industry.

In the Chloro-Vinyl business, the Company witnessed healthy performance as the Company continues to manufacture and sell Chloro-Vinyl products as it provided higher net back for unit of power. The earnings were helped by improved margins in the Chlor-Alkali business (realizations went up by 34%). However, this was partly mitigated as the margins in the PVC and carbide business were under pressure due to cost increases in coal and other raw materials. Going forward, we expect the prices of Chlor-Alkali to be stable while we may witness some softening in the prices of PVC resins. On the cost side, we welcome the Government's move to roll back the increase in coal prices, which were to be increased effective from 1st January to 2012. Since February 2011, Coal India has significantly increased the prices. However the Company has taken several steps to mitigate the impact of the same and has witnessed good success in these efforts and plan to further enhance the efforts in this direction.

Fenesta business continues to witness healthy growth in the order booking in the retail segment. However, the growth in order booking in the institutional segment has slowed down due to a slowdown in the real-estate sector. The execution of earlier orders has resulted in healthy growth in the top line. We continue to focus our efforts on strengthening our retail segment along with expanding product range, which will help us in sustaining growth going forward.

Overall, we believe that our Bioseeds and Farm Solution businesses will continue to record good growth. The performance of the Chloro-Vinyl business will be dependent on the prices of finished products along with our continuing efforts on reducing the impact of rising input cost. We expect to have higher capacity utilization in the Sugar business, which will help us in partly mitigating the impact of the cane price increase. However, policy actions by the government will have a significant impact on the performance of this business. I will now request Rajiv to take you through the financial numbers for 9M and Q3 FY2012.

Rajiv Sinha: Thank you sir. I will now summarize the financial results for the third quarter and nine months ended December 31st 2011. The Company recorded progress in all segments in terms of revenue growth and operational improvements even with tougher business environment. Net sales at Rs. 1,400 crore higher by 44% i.e., Rs. 426 crore than last year. DAP and MOP and Sugar contributed to more than half of the increase in revenues. Net sales for the 9 months period stood at Rs. 3,675 crore, an increase of 21% i.e. Rs. 642 crore than the last year. Sugar, Chloro-Vinyl and Bioseeds contributed significantly to this growth.In the Farm Solution business, we did lower volumes of DAP and MOP but it was made up by higher growth in SSP and Value added Agri inputs.

PBIT from normal operations was Rs. 45.3 crore in Q3 FY12 as against Rs. 4 crore last year. PBT was Rs. 18.9 crore as against a loss of Rs. 10 crore last year. However, due to two additional debits amounting to Rs. 54.1 crore, the Company recorded a net loss of Rs. 25.2 crore during the quarter. One of these debits amounting to Rs. 38.1 crore relates to cane price differential to 2007-2008, consequent to the order of the honorable Supreme Court in the matter. The other one of Rs. 16 crore relates to Hariyali business where we have decided to rationalize the retail network by closing down about 100 poor performing outlets. The interest expenses went up by about 90% in the quarter and 70% for the nine-month period primarily due to higher interest rates. The borrowings were also higher.

Let me now take you through our business wise performance.

The revenue from Fertilizer business for the quarter at Rs. 144 crore was 24% higher. PBIT was higher by 49% at Rs. 12 crore. The business recorded higher volumes and higher energy savings post commencement of operations after the planned maintenance shut down in Q2 FY12.

Farm Solution business revenues doubled during the quarter to Rs. 361 crore with DAP and MOP sales of Rs. 190 crore compared to Rs. 64 crore last year. The SSP and value added inputs registered a sales growth of about 47%. This led to segment PBIT of Rs. 21.2 crore as against Rs. 6.5 crore last year. The sales for the nine months period reflects about 29% increase in sales of SSP and value added inputs and reductions in DAP and MOP sales by Rs. 123 crore at Rs. 192 crore. The segment PBIT at Rs. 52.2 crore is about 55% higher than last year.

Bioseeds inherently has low sale revenues in Q3. The revenues in Q3 at Rs. 45 crore were 32% higher than last year. The increase was attributable to higher revenues in Philippines and growth in sales of vegetable seeds in India. The revenues for 9M stood at Rs. 258 crore which were 44.5% more than last year. This growth in revenue led to nine month PBIT of Rs. 42.4 crore as against Rs. 15.3 crore last year.

In the Sugar business, the revenues were higher by 93% at Rs. 234 crore due to increased free sugar volumes, which were up by 84% and higher sales of co-gen power. PBIT in Q3 was lower due to accounting for loss of Rs. 11.4 crore on levy sugar compared to Rs. 7.8 crore last year as the levy prices are about 60% of the cost of production. The results also account for the debit of Rs. 15.7 crore for marking down the inventory of free sales sugar to estimated NRV.

Hariyali Kisaan Bazaar revenues, during the quarter, increased by 22%, to Rs. 273 crore. This growth is primarily attributed to traction in core retails and fuel verticals. The losses were higher due to an outlet shut down expenses of Rs. 16 crore and mark-to-market losses in agri businesses.

The Chloro-Vinyl revenues during the quarter were higher by 16% to Rs. 256 crore due to higher sales of Chloro-Vinyl products at improved realizations. PBIT more than doubled during the quarter to Rs. 47 crore due to improved margins in the Chlor-Alkali business. This segment faced margin pressures in the PVC and Carbide businesses due to increasing cost of coal and other raw materials. We continue to focus our efforts on mitigating the cost increases through various initiatives.

Revenues from the cement business grew by 38% to Rs. 36 crore due to higher sales volumes at improved realizations. PBIT for Q3 was higher by 91% at Rs. 5 crore. However higher input cost, particularly coal cost, moderated earnings performance.

Revenues under the 'Others' segments, during the quarter, increased by 9% to Rs. 83 crore driven by a healthy performance from Fenesta business. Earnings from other segments stood at negative Rs. 2 crore. Our financial charges for the quarter were higher by about 90% at Rs. 26.5 crore due to higher interest rates (which are a reflection of the high interest rate regime in the economy). The interest rate on the short-term borrowing has moved up from 7.9% to 10.8% in the current year and higher borrowings due to higher Sugar stock and Fertilizer subsidy amount outstanding from the government. That concludes my financial review and we would be glad to take any questions that you may have.

Moderator: Thank you very much. Ladies and gentleman we will now begin the question and answer session. The first question is from Sagar Khanna from Kotak, please go ahead.

Sagar Khanna: We have a presence in the rural retail through Hariyali Kisaan Bazaar, what is your outlook on rural demand?

Ajay Shriram: There has been a little slackening compared to what we saw the same time last year. I think in some segments for instance sugarcane, the payments are more prompt, so because of which the incomes are okay. So on an all India basis, it varies but we are generally seeing that input cost are having an impact on the surplus availability in rural India at the farmer level and consequently that effects the non-farming rural economy as well.

Sagar Khanna: We have restructured our operations by shutting down unviable stores. By when do you think we will turn profitable?

Ajay Shriram: By next year, our financial performance will be better than what we see in this year or last year. Retail is a long-term business and it is a game, which is difficult. At the same time, I think our focus and renewed thrust on revisiting the Hariyali model is already yielding results. We are already seeing that the focus on promotion, branding, publicity, our range availability, value proposition in the stores and centers we are operating in, is helping us to find a better response there. Therefore, I think it will take time, but next year will definitely be better than this year.

Sagar Khanna: Are we tying up some more new products or services in this year?

Ajay Shriram: That is an ongoing activity. The verticals we are present in, primarily the agri products and services, we keep looking at what more service that we can provide to farmers and for the non-farming rural customers, we are in the staple food segment, the durable segment and apparel segment. So we are trying to do more that will have a good turn around and can add value to customers.

Moderator: Thank you. The next question is from Falguni Dutta from Jetage Securities, please go ahead.

Falguni Dutta: Now that we have decided to shut about 100 stores, do we plan to open them up at some other locations. Or the decision is to shut shop and not expand further.

Ajay Shriram: There are 2 – 3 things involved. Closing these outlets is a very conscious decision to close those places/outlets where we have seen over the last couple of years that the sales and the growth are not satisfactory. So that's an independent decision. Regarding our remaining outlets, it is a focused and independent decision of optimizing those and getting more value-add from those. Regarding new outlets, we have opened an outlet in Andhra Pradesh where we have moved from being in real rural village with the population of may be 20 – 25 thousand in 5 kilometer radius to enter a village which has may be a 100,000 population density around that outlet. So far, the result of that has been encouraging. Therefore, we are looking at all these 3 in distinct compartments on how we are optimizing on each of them. We have plans to open more. We have seen what is happening in Andhra Pradesh, which is positive. Therefore, we are working on that also.

Falguni Dutta: How much roughly do we plan to spend on these new outlets as of now?

Ajay Shriram: It is difficult to give a figure but I think putting up an outlet like this. Since this is on a rented premise and the rents are, lower it being in a village. The size of the outlets is around 4,000-5,000 square feet but the population density is much higher. Therefore, we are finding a good response in that.

Falguni Dutta: In this kind of an outlet what would be the total cost of setting an own outlet with 4,000 – 5,000 square feet.

Ajay Shriram: I think the cost would be in the range of Rs. 25 lakhs but now it is lower because we have moved a lot of racks, lot of IT equipment's, lot of table, benches, chairs, from the outlet that we have closed to the new place. Therefore, the cost of opening new ones has come down by over 50% compared to the past.

Falguni Dutta: How many outlets do we have as on date?

J.K. Jain: As on date, we have about 181 outlets and we plan to close 10-12 more outlets. So, we should remain at 165-170 stores.

Falguni Dutta: There was a mention in the presentation in the HKB business that there is a mark-to-market loss in commodity and seed business, so can you just quantify the amount of this loss?

J.K. Jain: In this quarter, we had an MTM in seed business of about Rs. 2 – 2.5 crore and no MTM in the commodity business.

Falguni Dutta: In the Farm Solution business, there is a mention of forex gain, so how much is the amount there?

J.K. Jain: It is about Rs. 5.3 crore.

Falguni Dutta: Can we expect to see the losses in HKB to come off from the levels that we saw in FY12?

Ajay Shriram: Absolutely.

Falguni Dutta: In FY12, there have been some exceptional items, due to which the losses have been higher. So when we get lesser losses would it mean lower than FY11.

Ajay Shriram: Absolutely. We will definitely have lower losses in FY13.

Falguni Dutta: In these outlets, do we on a regular basis take inventories write down especially in areas like garments?

Ajay Shriram: I think we have a very dynamic policy on this whether it is a write down, shrinkage or an expiry. We do it on an ongoing basis.

J.K. Jain: We have a perpetual inventory system, under which, we take a stock every fortnight for a group of items and the shortage, damages are accounted for immediately. So every quarter, whatever is the shortage or expiry, is getting accounted for such that we are current on these issues.

Falguni Dutta: I just wanted to know if a situation can arise that we decide to give a mass discount and sell off the things that don't see any growth like garments accounting to big losses in that quarter.

Rajiv Sinha: I do not think we will have a situation like that. The other thing that we should recall is that apparel, etc., is a very small part of Hariyali's turnover.

Moderator: Thank you. The next question is from Puneet Gulati from HSBC, please go ahead.

Puneet Gulati: What is that you are doing differently this time and what in your opinion did go wrong in your previous business model for HKB?

Rajiv Sinha: I think the first answer is that over a period, we have identified the outlets that have not been able to increase the sale and we do not see too much potential for the sales to increase. That is a bit of learning because as mentioned in earlier conferences also; it is a new kind of effort in the rural market where not much information and data is available. Therefore, there is a certain amount of experimentation involved in this. So, one of the things that we are doing, in a very short time period, is having identified about 100 outlets, which have not been doing well nor do we think will do well. Hence, in a very short period close down all 100, so that whatever losses are being incurred through these outlets, whether in terms of the running cost or the manpower cost can be stopped. That is why our chairman has mentioned that once we do that, there is going to be distinct change in the quantum of losses that we have experienced in FY12. Secondly, we have been able to successfully push more sales through the healthier outlets. In fact if you would have noticed this year, there is over 20% increase in the retail sales particularly in agri, food and grocery, household categories and lot of this revamp was done after a very detailed study by AT Kearney lasting about 8 – 10 months. So, many of those measures have been put in place. That is why we feel more confident that in the coming financial year, there would be a significant reduction in the losses compared to what we have experienced this year.

Puneet Gulati: Essentially, it is just about relocating your outlets, is my understanding correct?

Rajiv Sinha: No, I think the first part is closing down the outlets, which are not performing, and as our Chairman just said, we are experimenting with some new formats I would say more in terms of location. For example, we just opened an outlet in Karim Nagar in Andhra Pradesh, which is close to a larger agglomeration compared to what we have been doing so far, and with some changes in type of categories, we are managing there. The initial response is much more positive than we had expected. Therefore, along with closing down certain outlets, we are also experimenting with what can work better. Just to reiterate there is no past, precedent in many other businesses to go by; so really we are sort of learning as we go along.

Ajay Shriram: We have intensified the market surveys, which we are doing for rural India because frankly speaking there is very little knowledge actually available of the pulse of the rural market place. Secondly, promotion publicity has been given a major focus. We in fact have mobile vans, which are moving around and covering 8-10 villages per day. I think we have got till date about 35 mobile vans which are moving around. We started loyalty cards sometime back, that also is having a very positive response with our customers. We are putting up promotion activity again in the local village market. That happens on a weekly basis. We have actually relooked at our entire distribution center models and we trying to work for making the distance between the distribution center and the outlets less, so that they can be serviced more frequently in smaller lots so inventory levels come down. Focus on IT has gone up a lot so that we can effectively communicate with our outlets and look at the inventory levels. There is a basket of activities which are being moved on which we are confident will give us better results.

Puneet Gulati: Just on your new Andhra Pradesh store, you were stronger in the northern part of India. So why enter AP in this business?

Ajay Shriram: We have been in AP for the last 3 years.

Puneet Gulati: But your traditional strength, your understanding of market would more be in northern India.

Ajay Shriram: As far as Hariyali is concerned, there is no area of traditional strength. It is in our Farm Solution business that we have been largely North Indian centric in the beginning, which in any case has expanded to other parts of the country also. So Hariyali from day one has moved into Punjab, Haryana, UP, MP, Rajasthan and Andhra. We have 20 outlets in Andhra Pradesh.

Moderator: Thank you. The next question is from Arun Malhotra from Smith Management, please go ahead.

Arun Malhotra: How much has been the total investments so far in the Hariyali Kissan Bazaar business?

J.K.Jain: Total investment in terms of assets will be about Rs. 450 cores, it does not include the loss funding of course.

Arun Malhotra: What would be the quantum of loss funding so far?

J.K.Jain: Broadly around Rs. 150-200 crore.

Arun Malhotra: Are all the remaining retail outlets now cash breakeven or making money, what is the status there?

Rajiv Sinha: I think all of them are still are not cash breakeven. However, we expect them to become cash breakeven in the coming year.

Ajay Shriram: Just to add, we have what you call centers and stores. Centers are between 2 – 5 acres of land, which is actually owned by the Company wherein we put up the infrastructure and we build the outlets on that. So today, we have got 100 pieces of land where we can make outlets and we have 83 centers running. So the center is larger, that's 10,000 – 15,000 square feet where the product range is larger. We also have petrol pumps over there and we have expanded that. It's a large asset of the Company that actually helps us in giving our expanded level of activity. The other is stores, which are rented properties.

Arun Malhotra: Does the Company consider HKB as a key strategic investment or given an option would exit this business?

Ajay Shriram: Well our thinking is very clear that we are reconfiguring the business to make it a viable activity to add value to the Company and that is the direction we are taking.

Arun Malhotra: There are discussions or rumors in the market about some regulatory changes in the sugar and urea sector. What is the Company's point of view and how would that impact the P&L and the balance sheet? Just some rough broad numbers.

Ajit Shriram: Basically, the PM has made a new committee recently, headed by Dr. Rangarajan, in which we have Mr. Kaushik Basu, Mr. Nandkumar, secretary of food and agriculture amongst others. They are to look at the entire decontrol scenario, which is essentially doing away with levy sugar, doing away with the monthly release mechanism, looking at exports more proactively, and also having a cane price linkage with sugar price. So we are hopeful that this committee will come up with recommendations in the next 4-6 months so that it's completely implementable by the next sugar year.

Arun Malhotra: On the sugar side, are there any other arrears for 2008, which are still payable to the farmers?

Ajit Shriram: No, we do not have any arrears other than the Rs. 38 crore that we took this quarter.

Rajiv Sinha: On the urea front, the policy has already been delayed by almost 2 years as we feel that the policy should have come from 1st April, 2010. There has been a lot of back and forth thinking whether they should go in for NBS in urea or retain the old NPS with the slightly different format what they call the modified NPS. I think after the experience of very sharp price increases in P&K, which are under the NBS scheme, our feeling is that the thinking has now tilted in favor of continuing this modified NPS. May be once the UP elections are over, the government will take a final view on the urea policy which is likely to be implemented from 1st April, 2012.

Arun Malhotra: What are the current long-term debt levels and what will the Company's debt level be going forward?

J.K. Jain: See our net debt as on December was about Rs. 1,575 crore which includes about Rs. 900 crore of long term loan and balance short term loan. As we are not planning to invest very heavily immediately, we are expecting it will keep going down as we repay the loan. Working capital loan will be dependent on the sugar stock and the subsidy payments, which are two significant items for our working capital. For the immediate future, we are expecting it to go up because sugar stocks generally peak sometime in March or April. Therefore, it will go up by couple of hundred crores.

Arun Malhotra: What is the average cost of the long-term debt?

J.K. Jain: Long term on a fully hedged basis is about 8%.

Arun Malhotra: When you say fully hedged, is there a dollar loan or a foreign currency loan?

J.K. Jain: We have foreign currency loan that is fully hedged.

Moderator: Thank you. The next question is from Grishma Shah from Envision capital, please go ahead.

Grishma Shah: Since you import a lot of DAP, MOP how has the season been with for you so far and what is the current inventory level?

Rajiv Sinha: We did some limited business of both DAP and MOP i.e. about 1 shipload of DAP and 2 shiploads of MOP. The first ship of DAP and MOP, both are finished and we have some quantity left from the second shipment of MOP. So our position is reasonably okay but as an industry the supplies are very much delayed particularly of DAP and especially MOP due to the price standoff between the suppliers and buyers in India in the first 6 months. So there is a lot of stock of both DAP and MOP and NPKs in the system today; which means that when we open the Kharif, there would be enough stock available and of course the season is practically over now. No further sale now that is expected.

Grishma Shah: But how you would account for the stock because FY13 onwards you will have a different rate, subsidy would be fixed by the government, etc., Can you give us some color or some directional view?

Rajiv Sinha: It will actually depend on individual companies. In our case, we expect more or less very little stock left. So we don't see a major situation in terms of lower subsidy rates. If companies have large stock, that could lead to problem because the retail prices will come down. Nevertheless, it is a combination of 2 things. Firstly, the government has already indicated that they will reduce subsidy which will reduce the retail DAP price by about Rs. 5,000 and which is what the reduction in the international pricing is. So effectively if we are going to sell DAP at 15,000 because of the lower subsidy, and lower purchase rates, effectively for the Company the position will remain the same; but people who are holding stocks at a higher price could have problems.

Grishma Shah: How is the Bioseeds business shaping up? If you could tell us your new product initiatives, etc.

Rajiv Sinha: The Bioseeds business, as our chairman remarked initially, has grown satisfactorily. We expect 30% plus growth this year also. The bulk of the growth this year has come from Indian operations where we had made good progress in our cotton seeds, some institutional sales of corn, and vegetable seeds. We are optimistic going forward and we expect this trend to continue. In the meantime, business is also picking up in our offshore territories. For instance, in Philippines, we have become the first Company to sell GM corn other than the licensers themselves, which is Monsanto, and Syngenta and we became the first Company to get the license from Monsanto to produce and sell GM corn in Philippines. This was the very first year and we are undertaking very large-scale production now. We expect that in the coming year, that would have a good impact on the business in Philippines. In addition, we have just started work in Vietnam, Indonesia and Thailand and the business picking up there. These are early days yet. Overall, both, field crops and vegetables seeds, we expect a healthy growth in the coming year also.

Grishma Shah: Could you give us some sense may be on the 9 month basis, what is the contribution from domestic and international as a percentage of total sales for Bioseeds.

Rajiv Sinha: India contributes to about 65 – 70% of the total business while the balance comes from international.

Grishma Shah: Are you hearing on the regulatory front for the Bioseeds business particularly in India, any new norm or any changed regulations?

Rajiv Sinha: I think there are 2 things, one is the seed bill which has been kept pending for quite some time and there is still very little visibility of when it will actually be implemented. Secondly, this entire issue of transgenic crops, there is some sort of slow down because the government is generally taking much more caution and weary approach in terms of even sanctioning trials for new transgenic varieties. For example, no decisions have been taken for the BT brinjal yet. , Monsanto has applied for but the only area where it is moving in terms of transgenic crops is the Bollgard variety in cotton and the second generation Bollgard that should be there in a next couple of years. However, on the other transgenic crops, companies are doing their own ground work, but the regulatory system is still very slow in moving forward.

Grishma Shah: How do we plan to grow by 30% given that approvals will take their own sweet time to come by, etc. Do we have these approvals in place?

Rajiv Sinha: For the non-transgenic crops, there is no issue of approvals and right now in India, other than cotton, we have no transgenic crop and for cotton, there is no problem of regulatory approvals. The transgenic crop, which is in Philippines, the government environment is extremely positive and cooperative and we expect it to grow. In fact, we do expect that countries like Vietnam and Indonesia might approve transgenic crops very soon, whereas India may take longer. Though some people feel it is inevitable that given the food production gaps that India will also move but in India, we have a research program that is very strong and in breeding for by the conventional methods though, we are using certain biotechnology methods to speed up such a program in the conventional areas.

Moderator: Thank you. The next question is from Chetan Thacker from HSBC Invest Direct. Please go ahead.

Chetan Thacker: On the Bioseeds business, are there any new products launches for the upcoming Kharif season?

Rajiv Sinha: In our field crop, there are always a couple of new varieties of seeds that we will be adding in different territories. So that will happen in case of corn and cotton and there will be some new products in the vegetables also.

Chetan Thacker: What has been the ECU for the Chloro-Vinyl business in the current quarter?

J.K. Jain: For the current quarter, we have advised about Rs. 24,000 compared to Rs. 23,000 last quarter.

Moderator: Thank you. The next question is from Siddarth Mokkapati from Crisil Research. Please go ahead.

Siddarth Mokkapati: Regarding the export quota that the government announced in late November early December, what are the export realizations that you are seeing?

Ajit Shriram: It is very difficult to comment on that because firstly, the exports licenses are being sold to various traders and they are purchasing from the coastal factories and selling the sugar number. Secondly, some factories in Maharashtra and South India are selling directly.

J.K. Jain: We have not sold anything directly in the export market.

Siddarth Mokkapati: Don't have a quota as such?

Ajit Shriram: Of course, we have a quota and we sold our quota to the traders.

Siddarth Mokkapati: What is the current cost of cane price that you are paying?

Ajit Shriram: The current cost of cane price that we are paying is as per the SAP, which is Rs. 240 for the general variety per quintal.

Siddarth Mokkapati: What is your co-gen based power realization?

Rajiv Sinha: Co-gen based power realization are different for different factories, they are in the range of Rs. 4.10 paisa.

Siddarth Mokkapati: What is the price realization for molasses that you sell outside on that?

Ajit Shriram: Around Rs. 250.

Siddarth Mokkapati: What is your estimate of UP production for the current season?

Ajit Shriram: It is little difficult to estimate right now. It is little early but one can assume it will be about 6.5 million tonnes.

Moderator: The next question is from Kalden Ongmu: from NewsWire 18. Please go ahead.

Kalden Ongmu: What is your estimate for the whole year for the Company's sugar output?

Ajay Shriram: We expect about a 30% increase from last year i.e. about 375-380 lakh quintal this year.

Kalden Ongmu: What is your sugar output estimated for the whole year as a country?

Ajit Shriram: Country sugar estimate is roughly 26 million tonnes.

Kalden Ongmu: So you are sticking to 26 million tonnes.

Ajay Shriram: We are not sticking to it, we are actually quoting this figure because we have genuinely calculated that number. A meeting of the ISMA committee took place a few days back and they went through state-by-state run where they estimated from all the manufacturing areas of the country. So the industry genuinely feels that it will be in this range because this time the Gur and Khandsari crushing and all is much lower, so there is more cane available.

Kalden Ongmu: Have you sold sugar exports directly or have you sold your licenses?

Ajit Shriram: We sold our licenses. Our recent sale was roughly for Rs. 2.1 or Rs. 2.2 crore.

Moderator: Thank you. The next question is from Chetan Thakkar from HSBC Invest Direct. Please go ahead.

Chetan Thacker: What is the arrear situation in UP currently and how are the mills placed when it comes to arrears because the price is at Rs. 240 that would probably take the sheen of at least from the smaller manufacturer?

Ajit Shriram: See the arrears are going to build up and, there is no doubt about that because smaller manufacturers are finding it difficult and the quota for the month of February also is same as the last month. So I think the arrears at this point of time are roughly 15 days.

Chetan Thacker: What is your expectation of this impacting productivity for the next sugar season?

Ajit Shriram: I think the productivity for the next sugar season should be reasonably good. With this kind of cane prices, we have very clearly seen a field the famer is putting in a lot of effort for managing a plant cane as well as ratoon crop.

Chetan Thacker: No, but that would hold true even if arrears keep building towards March, would the acreage still continue to be high or is it likely to come down?

Ajit Shriram: Most of the planting will be over by the end of March. It is only in Western UP where the planting continues after wheat harvesting. So essentially, in East, the planting would be over.

Chetan Thacker: So probably if the arrears build up in the month of February significantly, then is there a possibility of acreage coming down or you see the next season still the cane availability would be equivalent to this year?

Ajit Shriram: Difficult to speak, it may come down marginally but like our Chairman has said that there is no diversion of cane this year. So, the farmers have got a good price and the farmers know that this money will come to them sooner or later, but it's not a write-off.

Chetan Thacker: How is the situation turning out in Maharashtra per se, would you be able to give me any view on that?

Ajit Shriram: Recovery from Maharashtra is doing much better than last year, in fact 0.5% to 1% higher than last year. So they are talking about reduction in the cane crop, however, the recoveries are more than making up for it.

Moderator: Thank you. The next question is from Joseph Jeevan from Entropy Capiutal Advisers. Please go ahead.

Joseph Jeevan: There has been a sharp increase in loan and advances from Rs. 243 crore in the previous quarter to Rs. 416 crore.

J.K. Jain: We will have to get back to you on loans and advances.

Joseph Jeevan: Also, there has been a sharp increase in the current liabilities compared to September 2011?

J.K. Jain: Current liabilities increase is essentially on two accounts, one is the coal that we import is on a 6 months credit and the cane payments essentially to the farmers because the season has just started.

Joseph Jeevan: What should be the cane amount, which is pending?

J.K. Jain: We make a payment of almost about Rs. 65-70 crore every fortnight, so it is reflecting almost 2 fortnight's payments.

Joseph Jeevan: But the amount has gone up by close to Rs. 400 crore.

J.K. Jain: That is what I am saying; one is coal and the other one is sugar, thirdly, we receive advance against BT cotton, so that is also getting reflected in the liabilities, and then there is normal business increase which we get.

Joseph Jeevan: How would see staff cost trending going forward, it was around Rs. 97 crore in this quarter and how would you see it going in to FY13?

Ajay Shriram: The staff cost actually is an issue with each business looks at in terms of what is their requirements and I think that to be honest, I can't make any comments on the face of it and what will it be next year. All I can say is that it will be something what we think is required to run each business, so I think we are going to manage it that way.

Joseph Jeevan: If I you could tell me what is the fixed cost as on date, for the Company as a whole and how would you see that moving, because, I think your aim would be to essentially control that.

J.K. Jain: Fixed cost would primarily comprise of employees cost and other expenditure.

Joseph Jeevan: So, the other expenditure entire amount is fixed cost according to you.

J.K. Jain: Yes. 90% is fixed cost; balance is some freight and selling expenses.

Joseph Jeevan: You have said that your long term debt cost is ~ 8% and that's Rs. 900 crore, so what would be your average cost of your short term debt be,?

J.K. Jain: Short term is also about the same number, because we have foreign currency loan also, so short term is also of the same magnitude. So the blended rate for the Company for both short term and long-term debt is around 8%.

Joseph Jeevan: You also said that your debt figure is likely to go up by another Rs. 200 crore or Rs. 300 crore?

J.K. Jain: Yes. Rs. 200 to 300 crore but it would be dependent on urea subsidy and sugar inventories.

Joseph Jeevan: Where do you see peak interest cost for the coming quarters?

J.K. Jain: I would say marginally higher, say 10% higher than what it was for the third quarter.

Moderator: Thank you. The next question is from Sandeep Pandhare from Kotak Portfolio Advisers. Please go ahead.

Sandeep Pandhare: Any update on lignite mining project.

Ajay Shriram: We were on a standstill because of the land acquisition issue of the pending bill in parliament, etc. We have actually purchased approximately 60% of our land requirement. In the last couple of months and we have reactivated the excise, because one is finding that it's better to try to come to a negotiated settlement rather than wait for the bill which may or may not come and when it comes it's open-ended. So we actually have put this on a faster track compared to what it was, and it's moving again.

Sandeep Pandhare: What are your target timelines to start this?

Ajay Shriram: Our planning for this was by end of 2013.

Sandeep Pandhare: What is the outlook on Fenesta, how do you expect to scale up going forward?

Rajiv Sinha: What we have seen so far is that our thrust on expanding the retail sales is moving well. This year, of course, we have seen a downturn in the builder and institutional sector; and hence there is sort of lower numbers on that account. That is why our energies are focused on strengthening the way we do retail business both, in terms of the market side as well as the costumers' service side. We have just added a couple of very good new products which are again very retail centric as they are not so much for institutional builders and that's where we are rapidly expanding our dealers network across the country and we are very active on internet based marketing promotion activities. Therefore, a combination of new product, expanded dealer network, improving the costumer delivery, we see in the coming couple of years, it's the retail which will really take the biggest step forward and this retail business is not so much cyclical like institutional business and the price realizations are much better.

Sandeep Pandhare: What would be the revenue mix in terms of retail institutional?

Rajiv Sinha: I think this financial year, in terms of value 35% would be retail and 65% will be institutional. We still have a strong order book in institutional sale coming from the earlier bookings and typically, the gestation period for the institutional sale is much longer, retail is very short.

Ajay Shriram: I will just add that in the last 13-14 months, the RBI has increased the interest rates 12 or 13 times and that has led to a major problem in the real estate market. Now fortunately inflation has come down and last time they eased the CRR. Therefore, down the line we do expect since the inflation is under control, interest rate is hopefully going to come down. It should give a flip to this industry.

Moderator: Thank you. Ladies and gentlemen that was a last question. I would now like to hand over the conference back to the management for closing comments.

Ajay Shriram: Thank you. We would once again appreciate you attending DSCL's Q3 & 9M FY12 earnings conference call. As mentioned during the call, we expect our Bioseeds and Farm Solution businesses to continue to record a good growth. The performance of the Chloro-Vinyl business would be dependent on the prices of the finished products along with efforts on reducing the impact of rising input costs. We expect to have higher capacity utilization in the Sugar business to help us partly mitigate the impact of the cane price increase. However, policy action by the government will have a significant bearing on the performance of this business. Our renewed focus on Hariyali will definitely yield better results in FY13. Thank you very much.

Moderator: Thank you. On behalf of DCM Shriram Consolidated Limited, that concludes this conference call.

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