DCM Shriram Consolidated Limited

Q3 & 9M FY13 – Earnings conference call Transcript
February 8, 2013 at 11:30 a.m. IST

Moderator: Ladies and gentlemen, good day and welcome to the DCM Shriram Consolidated Limited Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you 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: Thanks Myron. Good morning and thank you for joining us on DSCL's Q3 and 9M FY13 earnings conference call. Today, we have with us Mr. Ajay Shriram, Chairman & Senior Managing Director; Mr. Vikram Shriram, Vice Chairman & Managing Director; Mr. Rajiv Sinha, Joint 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 in nature and a note to that effect was included in the concall invite sent to you earlier. We will now begin the conference call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram, 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 operations for the quarter ended December 31, 2012, and the opportunities going forward. Over to you, sir.

Ajay Shriram: Thank you Ishan. Good morning, ladies and gentlemen, and a very warm welcome to DCM Shriram Consolidated Limited's earnings conference call for the quarter and nine months ended December 31, 2012. I will take this opportunity to share with you our perspectives on the Company's performance. Following which, Vikram will take you through the financial highlights of the Company.

We are glad to report a satisfactory performance for the quarter with an EBITDA growth of about 72% and a reduction of 6% in the financial charges. This performance was led by over a 100% growth in the EBITDA of the Chloro-Vinyl business. The sugar business recorded moderate profits versus almost breakeven last year and Hariyali recorded a sharp reduction in losses, consequent restructuring and rationalization of operations. The Chloro-Vinyl business continues to deliver healthy performance with high capacity utilizations and better margins. Most of the products continue to have better prices. The Company has undertaken several cost initiatives in the last eight quarters, which have helped in mitigating major parts of the cost increases during this period. We expect this business to continue to perform satisfactorily; though it may witness margin drops led by price variations particularly due to the rupee appreciation.

The new sugar season i.e. 2012-2013 has started with unfavorable developments both, on cane price and sugar price. The cost of sugar production has gone up by approximately Rs. 425 per quintal consequent to an increase in the cane SAP by Rs. 40 per quintal. The sugar prices on the other hand have dropped by about Rs. 250 to 300 per quintal. The sugar business therefore has turned into a negative margin business again. It is of utmost importance that government takes immediate steps to support domestic sugar prices by serving imports and supporting some exports and buffer stock. In the absence of these steps, the industry may again move towards lower production and high prices. We are focusing on increasing our capacity utilization and expect about 15% growth in the sugar production in the ongoing sugar season. This will also lead to better recoveries and higher power profits as the season becomes longer. The financial results in the coming quarters will however be primarily dependent on the steps taken to support the sugar prices.

In the Hariyali business, we have satisfactorily implemented the restructuring and rationalization plan. This has reflected in the sharp reduction in the losses during the quarter. Going forward, we are focused on stopping losses from this business by Q4 FY13.

The Farm Solutions business has witnessed a challenging business environment especially in bulk fertilizers like DAP and MOP. The industry started financial year 2012-2013 with a high inventory in the system both, physical and contracted purchases in anticipation of higher demand. The demand, however, went down primarily due to adverse weather conditions in the Kharif season. This led to margin pressure, continuation of higher inventory in the system and liquidity stress as even the subsidy payments have been delayed. The industry expects to end FY13 with enough inventories in the system to meet the demands for Kharif year 2013. This inventory overhang is expected to keep the margins under pressure and working capital under stress, particularly as the outlook on the subsidy payment remains tough. However, in our value added segments, the revenues increased by 19%, and PBIT was up by 36%. Going forward, we do expect the value added segment to grow at a healthy rate.

Moving to the Bioseed business – you might be aware that the revenues in the Bioseed business are skewed towards Q1 and Q4 while Q2 and Q3 have subdued earnings and hence quarterly results are not reflective of the annual performance. During the quarter under review, performance is broadly in line with expectations. However, PBIT is subdued due to low demand for vegetable seeds, adverse weather conditions and delay in season in our international operations. While weather plays a crucial part in the growth of this business, we remain confident of delivering healthy performance in the medium-to-long term, as we believe that we have created a strong business model with a healthy product pipeline, strong agricultural extension programs, which work very closely with the farmers, and a strong brand. Additionally, we believe that our research program is strong as we continue to invest approximately 10% of the revenues for developing new products, which are gaining consumer acceptance across all geographies.

As mentioned in the earlier call, the Company undertook a shutdown of its urea plant on 28th October 2012 for maintenance, for a period of 22 days, which has led to a decline in PBIT. The plant is now operating at full capacity. Going forward, we do not expect any shutdown in the FY14. On the policy front, the Company continues to incur uncompensated cost increases due to non-finalization of the new urea pricing policy and high working capital as subsidy payments have been unduly delayed.

In our Fenesta business, the Company is investing aggressively to expand its retail segment. Towards this objective, the Company has enhanced a level of promotion activity to strengthen the supply chain and increase focus on improving the customer interface etc. The initial results of this exercise are encouraging and we are seeing an upward movement in the levels of booking. The project segment continues to see a drop in the overall business though some regions have seen moderate pickup lately.

Before I close, I am happy to announce that the Board has recommended an interim dividend of 40% per share of face value of Rs. 2 each.

To close, given reduction in losses in Hariyali, achievement of higher capacity utilizations in sugar and our successful initiatives in containing cost in Chloro-Vinyl as well as other businesses, we expect a healthy performance going forward. We are also confident of achieving good growth in Bioseed and Farm Solutions businesses. With that, I will now request Vikram to take you through the financial highlights.

Vikram Shriram: Thank you. I will now summarize the financial highlights of Q3 and 9M FY13.

First I will cover the numbers for Q3 FY13. Total revenues for the quarter were lower by 5% at Rs. 1,343 crore primarily due to lower revenues in Hariyali as a result of restructuring and rationalization of the business and fertilizer business due to 22 days maintenance shutdown. Most of the other businesses recorded satisfactory growth in turnover. PBIT before exceptional item in Q3 FY13 was higher at Rs. 103 crore compared to Rs. 41 crore driven by growth across Chloro-Vinyl and sugar businesses combined with reduction in losses of Hariyali business. Net profit stood at Rs. 61 crore compared to a net loss of Rs. 25 crore in the previous period. Now I will take you through the numbers for the nine months.

For the nine months, revenues were higher by 11% at Rs. 4,112 crore driven by sugar (up by 55%) and Farm Solutions and Bioseeds up by 28% each. PBIT before exceptional items was up by 176% at Rs. 304 crore driven by growth in sugar, Chloro-Vinyl businesses along with lower losses of Hariyali business. PBT before exceptional items was Rs. 185 crore as against negative Rs. 13 crore in the previous period. Net Profit improved to Rs. 121 crore as compared to a net loss of Rs. 38 crore in the corresponding period last year.

Let me now take you through our business-wise performance.

Fertilizer business had a PBIT loss of Rs. 11.3 crore for the quarter due to maintenance shutdown for 22 days. Further, the earnings were adversely affected by uncompensated cost increases due to non-finalization of the new urea policy. For the nine months, revenues and PBIT stood at Rs. 381 crore and Rs. 4 crore respectively.

In the Farm Solutions business, revenues during the quarter from value added inputs and SSP were up by 19% and 14% respectively. However, lower sale of DAP and MOP (lower by 21%) led to a decline in overall revenues by 3% at Rs. 349 crore. PBIT from this business during the quarter was lower by 17% at Rs. 18 crore primarily due to margin pressures in bulk fertilizers. However, PBIT from value added inputs increased by 36%.

As mentioned in earlier calls, Bioseed business is seasonal in nature with revenues skewed towards Q1 and Q4 and hence the quarterly results are not reflective of annual performance. Revenues and PBIT for the quarter stood at Rs. 45 crore and negative Rs. 8 crore respectively. While performance is broadly in line with the nature of the business, the PBIT during the quarter is subdued due to weak demand for vegetable seeds, adverse weather conditions and delayed seasons in our international operations.

Last year, positive results for the quarter included a one-time credit received due to write back of earlier provisions made. For the nine months, revenue stood at Rs. 330 crore, up 28% over last year. PBIT in nine months was Rs. 35 crore as compared to Rs. 44 crore in the previous year. PBIT in the nine months was impacted due to lower margins in the cotton business due to increased cost while selling prices were being capped by the government, adverse weather conditions in key regions of operations, and higher spend on research. We continue to invest heavily in R&D and increasing our geographical presence to more countries and are confident of achieving high growth in the business over the medium-to-long term.

In the Sugar business, revenues during the quarter were higher by 50% at Rs. 351 crore due to increased sales volume at improved realizations. PBIT for the quarter was higher at Rs. 25 crore as compared to Rs. 5 crore in the previous period due to sale of low cost sugar inventory of last year.

Hariyali Kisaan Bazaar revenues for the quarter and the nine months ended declined from Rs. 273 crore and Rs. 670 crore to Rs. 111 crore and Rs. 423 crore respectively. Please note here that the current quarter revenues primarily include fuel sales only. Similarly losses during the quarter and nine months were lower from Rs. 39 crore and Rs. 87 crore to Rs. 4 crore and Rs. 34 crore respectively. The performance is reflecting the result of implementation of the restructuring and rationalization plan involving restricting activities to profitable product lines only.

The revenues from Chloro-Vinyl business for the quarter and nine months were higher at Rs. 300 crore and Rs. 849 crore respectively driven by higher realization of all products. PBIT doubled during the quarter and nine months to Rs. 98 crore and Rs. 244 crore respectively due to better margins in the business with higher product prices and containment of rising cost with several cost saving initiatives.

In the Cement business, revenues and PBIT for the quarter were lower at Rs. 29 crore and Rs. 4 crore respectively essentially due to lower volumes down by 20% due to maintenance shutdown undertaken in the current quarter. Higher realizations only partly mitigated this impact.

Revenue under others stood at Rs. 72 crore during the quarter under review compared to Rs. 83 crore in the corresponding period last year. PBIT for the quarter stood at negative Rs. 12 crore.

Within this, Fenesta Building Systems revenues were lower by 18% at Rs. 37 crore primarily due to a significant slowdown in the institutional segment, which was partly mitigated by the retail segment. Revenues slowed down along with higher expenses on expanding the retail segment has led to higher losses from the business.

The Company's interest cost for the quarter was lower by 6% at Rs. 36 crore due to lower borrowings with net debt at Rs. 1,284 crore as compared to Rs. 1,505 crore. That concludes the financial review and we would be glad to take any questions. Thank you.

Moderator: Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Sachin Kasera from Lucky Investments. Please go ahead.

Sachin Kasera: What are your expectations on crushing in the current season vis-à-vis the last season?

Ajay Shriram: This year, we expect our sugarcane crushing to be in the range of about 430 lakh quintals compared to 379 lakh quintals last year.

Sachin Kasera: Is this in line with our earlier expectations or we have scaled it down a bit?

Ajay Shriram: We expect about a 15% increase. Also, this sort of increase in crush should give us the advantage of a higher sugar production due to better recovery and believe that the season will also extend now up to end of April.

Sachin Kasera: Will this also mean better utilization of our power plants? So higher power and molasses revenues?

Ajay Shriram: Yes. It will have a positive impact; because as we are crushing longer, we will have more molasses and bagasse available, because of which our co-generation of power will continue for a longer period. Higher bagasse availability will also mean that we will be able to run these plants through part of the offseason for generating power. So, it is better all around.

Sachin Kasera: What is the type of breakeven that we are looking for the sugar division now with Rs. 280 price?

J. K. Jain: The cost that we are expecting for this season is about Rs. 3,500 to Rs. 3,600 per quintal. This is for free-sale. On this cost, we require similar levels of realization on free-sale sugar if one has to breakeven at PBT level.

Sachin Kasera: Does it mean that even with the sale from power and molasses; at the current free-sale price of Rs. 32 to 33, the overall sugar business would still be making losses?

J. K. Jain: At the PBT level, it will for the full year, but at a cash level, it should break-even.

Sachin Kasera: Is the loss of around Rs. 12 crore in the others segment primarily because of Fenesta or because of textile, any polymer compound if you propose to demerger maybe even look to exit?

J. K. Jain: It is primarily due to Fenesta. We have tried to settle all old outstanding debts with the debtors thereby we have taken a hit of about Rs. 6.5 crore.

Sachin Kasera: So should we expect Rs. 5.5 to 6 crore type of loss to continue for some more time in case of Fenesta, until we see scale up on the retail side?

Vikram Shriram: I think now the Bills receivable side is pretty current and retail side in any case is not credit oriented, it is only the project segment which is credit oriented. Now we have learnt that dealing with the builders is a different cup of tea and therefore we have to be very careful about out standing with them. Hence, we are following a very strict credit policy and often hold our supplies because people overshoot their credit limits, but that is the way the business has to be run.

Sachin Kasera: Can we at least look in terms of breakeven in Fenesta in FY14? Is that something that is possible?

Vikram Shriram: I think it depends on the level of investment we put into the retail segment. Frankly, we are investing in setting up showrooms, in advertising and in improving our delivery capabilities. We have set up something like 14 Euro Vans, which are complete vans, wherein technicians go with all tools, drills, ladders and other equipments needed for installation of windows, so that the technician can go to the site, install the window, move on go to the second site and so on. So the level of profitability is a tradeoff, either you look for short-term profitability and invest less for the long-term or you look for long-term strength and invest more in the short-term. So it is a fine balancing act. My own feeling is we are still in an investment mode because the market opportunity is very attractive. We have a strong brand presence with over 170 dealerships and close to now 80 to 90 showrooms. We are moving towards more and more high-street showrooms which means asking our dealers move away from their older showrooms and take new showrooms which are on high street and main areas. The picture has changed substantially. Two years ago, we had to convince people to become dealers of Fenesta. Now there is a queue of people wanting to become dealers of Fenesta. It is really an opportunity that we invest more; we gain more in the future.

Sachin Kasera: It has already been around 4 to 5 years since we started Fenesta, so over the period of next three to four years, what is the type of scale this business can generate say by FY16 or FY17 to get us a medium-to-long term view?

Vikram Shriram: It is a bit tough to answer but we are really changing the focus to retail. The turnover may go up relatively less but the margins will go up relatively higher and we are expecting 20% at least year-on-year growth, minimum.

Sachin Kasera: What is the roadmap for polymer compounding in textile? Are we looking to dispose them off and could that give some good amount to the Company to reduce that or something like that?

J. K. Jain: Right now, we have not put them into a separate subsidiary. We only took an enabling resolution from shareholders to enable board to decide at the right moment. I think we have already conveyed that as far as textile is concerned, yes we would like to exit. However, as far polymer compounding is concerned, we are wanting to strengthen the business to build technical alliances or financial alliances with global players.

Sachin Kasera: Within the textile unit, other than machinery, is the land located in some good area that could possibly get us some good value?

J. K. Jain: No, it is in in an industrially remote area in Rajasthan where we don't expect any land gain or something.

Sachin Kasera: From the current level of operations in Hariyali, are we going to see a further scale down from here or these are the levels at which the revenues and profitability should more or less stabilize?

Ajay Shriram: I think the revenues will continue around the same range. I do not think it will go down very much further, because the fuel pumps are operating very well and wherever we are running the fuel pumps in the zone and that area, our sale is very satisfactory because. We really ensure pure for sure, so I think that way it is working well.

Sachin Kasera: How much does fuel sale contribute to Hariyali revenues?

J. K. Jain: It is 100% fuel sale because all other lines have been discontinued earlier.

Sachin Kasera: So how do we then try to stop the losses? Is there some one-time element in this December quarter loss that you have reported?

Ajay Shriram: If you recollect, we had already taken a write–off and provided Rs. 56 crore earlier in the year. Over the last year, we have reduced the fixed cost of the business dramatically. The fuel business is profitable. Hence, we will be in a position to generate profits from the fuel business, which will meet the costs of the people and the fixed infrastructure and our fixed revenue costs for running the fuel business.

Sachin Kasera: So what is the current loss related to?

J. K. Jain: The cost rationalization has moved over the quarter. We are reducing the cost month after month and whatever remaining costs are there, we are saying that we will rationalize in fourth quarter to achieve net breakeven by the end of the quarter.

Vikram Shriram: Also, some of the costs, to an extent, have been carried because people are involved with disposal of miscellaneous assets, leftover working capital inventories etc. Therefore, to get everything under control and reconcile all accounts it needs people. As the business winds down, the number of people in the business will also reduce.

Moderator: The next question is from the line of Pratik Poddar from ICICI Prudential. Please go ahead.

Pratik Poddar: Could you just tell me how many outlets are we operating in Hariyali Kisaan Bazaar now?

Ajay Shriram: Currently, we have 37 outlets, which are only fuel pumps across all eight states.

Pratik Poddar: So from 165 as on 31st March, we have scaled it down to 37. Any plans of further reducing it?

Ajay Shriram: No we are running the 37 because it is a profitable business.

Pratik Poddar: Could you give a break-up of your long-term and short-term debt?

J. K. Jain: We had net debt of about Rs. 1,300 crore, out of which long-term was Rs. 850 crore and the balance was short-term.

Pratik Poddar: Could you break down the sales in Fenesta between institutional and retail?

J. K. Jain: If you look for the nine months period, the sales mix from retail and institutional was 50-50.

Pratik Poddar: What is the focus? Would it be skewed more towards institutions or retail? I just wanted to get a flavor on that.

Vikram Shriram: Plan is to focus more on retail and on institutional. Institutional in this case does not mean developers, but possibly hospitals, hotels, commercial, these types of buildings. We have found that in our dealings of mega projects with the developers where it may be 20,000 or 30,000 windows for eight to ten towers; typically these project tend to take 2, 3, 4 years, the cost structure and therefore the profitability undergoes pressure. We are now looking at projects, which will complete in one year and by definition, are smaller projects and pure retail.

Ajay Shriram: The other thing also one has to keep in mind is that unfortunately the overall economic growth in the country is also fairly subdued and that also has an impact in terms of the overall demand for a product like Fenesta.

Pratik Poddar: What would be the working capital cycle for Fenesta as of now?

J. K. Jain: We said in the beginning the retail does not involve any credit therefore the working capital cycle is very short there, but projects it can involve up to 60 to 90 days credit if it is paid on time but sometime it does get delayed.

Ajay Shriram: And there is retention in projects which takes about a year but that is 5%.

Pratik Poddar: What would be the subsidy receivables for this quarter outstanding?

J. K. Jain: The total outstanding at the end of this quarter was about Rs. 325 crore or so. This would be for Urea, DAP, MOP, all fertilizers put together.

Vikram Shriram: That means at normal levels, our debt should be more like Rs. 1,100 crore.

Ajay Shriram: In the debt situation, there are two things when you take up majority; one is this outstanding from FICC or the Government and the second issue is the Sugar stocks. A large chunk of our money is tied up at these two places.

Pratik Poddar: What kind of profitability jump can we see if the de-control on sugar happens?

Ajay Shriram: Very difficult to say, but the least I could say is in case the levy is removed from the responsibility of the manufacturers and we are allowed to sell that 10% at market price, then for our Company, we should see a benefit of Rs. 35 to 40 crore in the bottom line.

Vikram Shriram: Basically, it comes at the EBITDA level and then flows through.

Moderator: Thank you. The next question is from the line Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain: How much DAP and MOP is sold in this quarter?

J. K. Jain: During the nine months, we sold bulk fertilizers of about Rs. 600 crore. In terms of quantity, we sold DAP of about 54,000 tonnes and MOP 24,000 tonnes for the nine months period. For the quarter, we sold 37,600 tonnes of DAP and 3,000 tonnes of MOP.

Runjhun Jain: We have talked about our Hariyali Kisaan Bazaar business. Now since all the restructuring has been done, so can we expect that in Q4, there won't be any loss or restructuring cost in Q4?

J. K. Jain: Yes, there would not be.

Runjhun Jain: As you said, the current business of fuel is profitable. So can we expect some kind of breakeven or profit in FY14?

Ajay Shriram: In FY14, I think with the carrying cost of running the business and the fuel business, it will be a marginal profit if it is, but we should not make a loss. I think that is the important part.

Runjhun Jain: At least you can say safely that it will break even and there would not be any loss?

Ajay Shriram: Absolutely.

Runjhun Jain: In the Cement business, there were lower volumes due to maintenance shutdown. So for how many days was the maintenance shutdown?

J. K. Jain: It was about 15-16 days.

Runjhun Jain: Is that a compulsory annual maintenance shutdown?

Ajay Shriram: Yes, correct.

Runjhun Jain: How much is Fenesta revenues of the overall others segment revenues?

J. K. Jain: Fenesta revenue on a year-to-date basis was Rs. 116 crore and the balance is others.

Runjhun Jain: What are the reasons for reporting a loss in the Fenesta business?

Vikram Shriram: Loss is on two accounts. One is write-off of bad debt of approximately Rs. 6 crore from developers. Secondly, we are still mid-stream in ramping up the retail business, which means brand building, building showrooms, adding sales network, adding sales offices, etc. So there are additional costs, which will give us revenue in the future.

Runjhun Jain: Do you expect losses from the Fenesta business to go down substantially in FY14?

Vikram Shriram: In FY14, we should definitely be in a better position, but as I had mentioned a little earlier, it will also depend upon how much we want to grow our retail business. If you want to grow it more, then it will mean further investment in additional showrooms and moving to additional towns. We are already in 80 towns. It is a matter of tradeoff between current profit and future profit.

Runjhun Jain: What are the reasons for losses in the Fertilizer business?

J. K. Jain: In the quarter, as we had indicated, the loss is due to the maintenance shutdown that we took. However, for the period as a whole we have lower profits because government has not come out with the revised fertilizer pricing policy which is supposed to compensate for the higher cost.

Runjhun Jain: So do you think this will hurt the Company even in the future till the government does not come out with the policy?

J. K. Jain: If the prices are not revised and cost is going up, it will hurt.

Runjhun Jain: What is the cost of urea now?

Ajay Shriram: Our manufacturing cost is about Rs.13,000 with gas.

Moderator: Thank you. The next question is from the line of Vikrant Khadilkar from JP Morgan. Please go ahead.

Vikrant Khadilkar: For the last 2 to 3 years, there has not been any significant CAPEX because of various reasons. So, do you have any small or large CAPEX plan in near term? Secondly, are you targeting at any particular number on gearing levels for the year?

Ajay Shriram: In the last 2 years, while we have made capital expenditure, but it has been very focused. We are spending money towards achieving cost reduction and quality improvement. Our plan in this year also is to continue doing that. Our policy has always been that we will debottleneck at the appropriate time to take our capacities up in all our plants or wherever it is feasible. So considering that, yes we are conservative on our capital expenditure. It is a conscious plan and decision of the Board that we want to be cautious because of the economic environment all around. In addition, we want our debts to come down further. So we want to ensure that we are little more cautious, but yes we will spend money where we are sure that the returns are really well worth it.

Vikram Shriram: Broadly, the philosophy is that our total debt should be in the ballpark range of 2 to 2.5 times EBITDA. We would like our debt to remain within that range.

Vikrant Khadilkar: Do you have any number on the CAPEX?

Ajay Shriram: Our normal capital expenditure is about Rs. 50-60 crore a year, so that will continue.

Moderator: Thank you. The next question is from the line of Nirbhay Mahawar from Rare Enterprises. Please go ahead.

Nirbhay Mahawar: How do you see the Bioseeds business doing in coming quarter and next financial year? Secondly, can we have the break-up of regulated and non-regulated business in the overall Farm Solutions segment?

Vikram Shriram: On the Bioseeds business, this year was adversely hit because of the weather. Our strongest product is our cotton-seed for the Northern market. This year the monsoon was delayed in the Northern markets, so everyone has suffered. We are hoping that this will not repeat and things will be better next year. In any case, there is this quarterly swing including Philippines, in particular Vietnam also and India, the fourth quarter has a tendency to pick up. So there will be some recovery from the current situation. Next year, it is again dependent on the monsoon and partly dependent on government pressure on putting a lid on cotton prices. Unfortunately, for the last 3 to 4 years, the government has been interfering in the pricing of cotton-seeds. So, while the costs are going up for us to propagate the seeds, we are not able to recover the increased cost, so our margins come under pressure.

J. K. Jain: In terms of ratio of regulated to non-regulated for the Farms Solution business, 60% comes from regulated i.e. bulk fertilizers and 40% comes from the value added businesses.

Nirbhay Mahawar: In terms of quantum, what would be the size?

J. K. Jain: Bulk fertilizers last year was about Rs. 700 crore and value added was about Rs. 400 crore.

Nirbhay Mahawar: In Bioseeds, apart from cotton seeds, what is the outlook for the other seeds?

Vikram Shriram: The pickup of other seeds has been reasonably strong. We have seen 15-20% growth in corn, and paddy. So all our other products are moving well and were not affected by the delayed monsoon. Also, we have developed some new varieties. The pipeline is very strong and now we expect that we have some good products for the South and the West in cotton also. The next year will be a medium size scale, but year after there should be substantial scale like we saw in the North. We expect substantial scale in South and in West for cotton seed growth.

Moderator: Thank you. The next question is from the line of Rushabh Sheth from Karma Capital. Please go ahead.

Rushabh Sheth: How do the sales of the Bioseeds business break up between India and International markets?

J. K. Jain: The mix between India and International is 75:25. In terms of global product mix, about 40-45% comes from cotton and balance comes from non-cotton seeds.

Rushabh Sheth: Out of this non-cotton, what would be the major items?

J. K. Jain: Corn is our major product and then we have vegetables and paddy.

Rushabh Sheth: So, cotton would have de-grown for you and others would have grown, as you have said 15-20%?

Rajiv Sinha: In case of cotton, we have actually grown this year compared to last year, but the problem in cotton as just explained has been the margin pressure. There has been a huge increase in the input cost. I think if you take this year cotton volume, we would have grossed close to about Rs. 20 crore on the increased cost, which was not compensated by increase in prices. But, still we have grown our market share in North also.

Rushabh Sheth: How have the margins behaved for the other seeds this year?

Rajiv Sinha: I think in the other businesses, the margins were okay. We were able to increase the product prices based on the input cost.

Rushabh Sheth: So next year, you are saying that everything on monsoon side being normal, you should resume to whatever the cotton thing, but the pricing will still be contingent on what the government is going to tell you.

Rajiv Sinha: As explained by our Vice Chairman, we have some good products for South and Western regions also in cotton and we would grow, but there are only two points, one is we don't expect any improvement in cotton prices, but then higher input cost will continue to hurt us. Secondly, the overall sentiment in cotton going forward is not as bright as it was last year, because of alternate high income products like Guar in North particularly and overall lower prices of cotton, which the farmer is getting. Hence, there is a certain amount of excess inventory of cotton -seeds in the system, which might affect the business for everybody.

Moderator: Thank you. The next question is from the line of Ram Hegde from Primus Investment Advisors. Please go ahead.

Ram Hegde: Have you had to take back any seeds from the marketplace?

Rajiv Sinha: Look at this seed business, because the seasons are very short, so the standard practice for all the companies is to place the material at the front end and there is always some unsold quantity which goes back into the system. It is a regular practice, so nothing unusual about it.

Ram Hegde: Given the erratic monsoon this time, my question was really have you seen a larger than normal take back?

Rajiv Sinha: This time the returns on cotton were larger.

Ram Hegde: Could you give some color on what are the hits that you have taken on profitability because of that?

Rajiv Sinha: Well on the returns, I do not think we can quantify that very precisely. Nevertheless, because the stocks are taken back, repacked, and sold in the next season; so at worst, there is the transportation and packing cost and the inventory carrying cost.

Ram Hegde: Next question was on the fertilizers business. The press has been carrying a lot of articles on excess inventory in the system. Could you throw some color on, I just wanted to hear your take on how you see the next season panning out for fertilizers.

Rajiv Sinha: Primarily, this is on PK and NPKs. I think urea is not an issue. Just to give you an overall sense, this year, so far, the urea consumption has been about the same as last year whereas DAP and MOP are both down by 10% to 12% respectively. As was explained in the Chairman's speech because of very heavy imports and poor Kharif season, a very large inventory has been built up in the system. So as on April 1, 2013, we would have very high inventories of both, DAP and NPKs particularly and this inventory, we expect, would see us through the kharif season even if no new imports are made, I mean there would be an indigenous production of course of DAP. So, as a result that there is a fair amount of excess stock in the system which have come in at a high price this year and those prices have now come down. Thirdly, the subsidy payments are considerably delayed and most sellers have been forced to give extended credits also in the market, so it is a very poor situation I would say.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investments. Please go ahead.

Sachin Kasera: On the Bioseeds business, the margins actually for the nine months declined from somewhere around 15% to roughly around 10-11%. The reasons for that, as you mentioned are, one, because of the cost increase that could not be compensated by price increase in case of cotton and partly because of bad weather, there were higher returns. Is it that the last part of the loss in margins was because of the higher cost because that is something where there is no clarity as to date whether we will have that even in the current year also because if the government increase the price caps?

J. K. Jain: The biggest cost due to return is the interest that you incur because of carrying inventory, which does not get reflected in the PBIT margins. So, the drop in the PBIT margin is primarily due to the cotton margins being lower.

Sachin Kasera: Secondly, you had mentioned in the last call that once you close down the Hariyali stores, there is lot of working capital in terms of inventory, which is stuck up and could get released over a period of 2 to 3 quarters. So what is the status out there? Has everything recouped there?

J. K. Jain: I think there is little correction. Last quarter, we did not mention inventory, it was fixed assets which we mentioned because we had tackled inventory by last quarter and the fixed assets are largely the properties which we are carrying which is about 101 properties, we have now taken up this disposal, but it is a little slow process. We have not disposed of any property in Q3 so far.

Sachin Kasera: Could some of that actually come in, as gains because there is lot of those prosperities would have bought at much lower prices; so once they are disposed off, will they come as exceptional profits or book value when you report them?

J. K. Jain: As of now, our view is that we would at least be able to recover the book value of the land and the building because the properties include both land and building. So the land may gain but the building may lose something. So overall, we will be able to at least recover the book value.

Sachin Kasera: What would be this amount of book value, which is stuck up there?

J. K. Jain: Rs. 240 crore.

Sachin Kasera: So does it mean that if this was to happen in FY14 with no major CAPEX, our debt levels in FY14 should come down quite a bit?

J. K. Jain: Yes. If all of it be realized in FY14, it will bring debt levels lower.

Vikram Shriram: For it to happen in one year is a little difficult, it is more likely to stretch out to two years.

Sachin Kasera: What is the inventory that we are carrying for this traded fertilizer just DAP and MOP?

Ajay Shriram: We had just about 26,000 tonnes of DAP i.e. about Rs. 100 odd crore.

Sachin Kasera: Is this normal or this is also little higher than normal than what you are usually carry?

Rajiv Sinha: Well this is reasonable. It should be slightly lower at December end.

Ajay Shriram: I think the inventory levels will depend upon how much business you do and because of the government policy being uncertain compared to previous years, our DAP, MOP imports have been much lower. We are being a little more cautious because of the system as well as the inventory overhang. Once the policy is stable, we do want to increase this as a policy. We want to take up and do more DAP, MOP down the line, so we can do larger business with our trade.

Sachin Kasera: If this pressure on DAP continues, we may have to book some losses on this Rs. 100 crore of inventory?

Rajiv Sinha: We do not expect that.

Sachin Kasera: In terms of urea, there has been some talk of new policy and we have already seen couple of big plans being announced by Chambal and AB Birla Group. Is there some credit that has emerged and that's why some of these older and larger players are going with expansion? What is exactly happening there?

Ajay Shriram: Well urea policy is still very uncertain and there is nothing new, which has come out of it. In fact, the issue with the association is being taken up strongly. It's the matter that's from 2002 to 2003, the costs have not been updated and that is impacting everyone very heavily, but they have come out with a new policy which is a separate situation in the urea business. But I think unless and until, these proposed plants get commitment on gas that's also little open and once they get that then finance will close and then putting up the plant, it takes between 4 to 5 years for these plants to come up.

Sachin Kasera: But any sense that you would have as to why some of these large and very established players would go ahead with such large CAPEX in urea suddenly?

Ajay Shriram: India is importing about 8 million tonnes of urea, so in case one can get it here at the correct price, it is well worth it.

Sachin Kasera: As of now, we do not have any clarity in terms of going ahead with any CAPEX on urea front?

Ajay Shriram: No, we are not looking at putting up a new urea plant.

Sachin Kasera: But just for academic purpose, can we do Brownfield at Kota if tomorrow the policy were conducive or we will have to look into putting up a new plant altogether?

Ajay Shriram: I think for the Brownfield, we will have to study to see the economics of how we would work and I think we can only make an observation after we get some details from the equipment manufacturers' of how the whole system can balance out correctly.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment. Please go ahead.

Nisarg Vakharia: I heard the Chairman saying that we have a slightly stronger visibility on the cotton-seed pipeline after two years. Just to understand, does it work in the cotton-seed market where a new player always gains market share and the market share changes every three to four years?

Vikram Shriram: No, that is not the case. There may be a product, which lasts for 4 to 5 years. For example, our product in the North market is now 3 to 4 years old and it is still gaining market share. It depends on the competing product. Frankly, what we have sold in test quantities, which means in maybe a couple of lakh of packets, in the last Kharif season in the South and West markets have shown very promising results and are over the best comparable competition. Therefore, our assumption is that considering the fact that their yields and their quality are over the current best, we expect them to have a substantial growth over the next two years.

Nisarg Vakharia: So you are referring to products essentially by leading players like Nuziveedu & Kaveri?

Vikram Shriram: That is right.

Nisarg Vakharia: Secondly, where these companies also gain is that other than having a great penetration, they also have some amazing supply chain. Are we all locked in for that and we can retain the margins like the leading players if we scale up in our cotton-seed business in the South?

Rajiv Sinha: I think over the last three years, we have dramatically scaled up our supply chain and I would say we see we are reasonably comfortable in being able to manage the backend of production of cotton-seed and cotton-seed removal. I think at the front end, we already have India wide marketing set up etc. so I think we are positioned as well as any other good Company would be and are fairly confident of the production side supply chain.

Vikram Shriram: I would like to add that probably amongst all Indian companies, we probably have the highest R&D budget.

Nisarg Vakharia: What is the yield that our crop fetches right now which you are saying is very high as compared to the competitors.

Vikram Shriram: That is very geography specific; one district of Andhra will be different from another district.

Ajay Shriram: Can I recommend, if you are interested, we will be happy to arrange a visit for you to some of these places.

Nisarg Vakharia: That would help us a lot actually.

Ajay Shriram: You can then come around and have a look at the operations. That will give you a better idea of what the business is all about because one can see your interest level is very high at the grass root level. You could get in touch with our CFO and he will arrange a visit for you.

Moderator: Thank you. We have a follow-up question from the line of Amit Goela from Rare Enterprises. Please go ahead.

Amit Goela: Could give us some outlook on your Chlor-Alkali business because that is an extraordinarily profitable business. So how do you see it over the next two years? Do you think that same kind of profitability can be maintained or will it get better and what are your plans?

Ajay Shriram: As we said that the last six months have seen good margins, but these margins were not something which are regular sort of margins one sees in the business. I think, down the line there will be some moderation of margins compared to what we had average for this year. But, as a business, if one is efficient and you have the power cost under control, this is a stable business because you have four products i.e. caustic soda and chlorine, HCL and hydrogen and then we have the value add of PVC after that in our Chloro-Vinyl business. To answer your question, I do not think margins in any commodity business can stay very high for too long.

Amit Goela: Your offer us to go and visit the facility will be great, so it will be nice if you could organize that?

J. K. Jain: You can get in touch either with me or with CDR whichever one is convenient and we will organize that.

Moderator: Thank you. Due to time constraints, that would be the last question. I will now hand the conference over to the management for closing comments.

Ajay Shriram: We would like to once again thank you all for attending our Q3 and 9M FY13 earnings conference call. As mentioned during the call, we are confident of achieving good operating performance across all our businesses. The financial performance outlook is also satisfactory, though, it will depend significantly on Government sanctions on some of our businesses and of course in commodity price movements in others. We will continue to focus to conserve cash; that is the policy. Thank you very much.

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

This is a transcription and may contain transcription errors. The Company or the sender takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.