DCM Shriram Consolidated Limited

Q1 FY13 – Earnings conference call Transcript
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Moderator: Ladies and gentlemen, good day and welcome to the DCM Shriram Consolidated Limited's conference call. As a reminder, for the duration of this conference, 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. At this time, I would like to hand the conference over to Mr. Ishan Selarka. Thank you and over to you sir.

Ishan Selarka: Good afternoon and thank you for joining us on DCM Shriram Consolidated Limited's Q1FY13 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 begin 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 Company's operations during the quarter-ended June 30, 2012 and the opportunities going forward. Over to you, sir.

Ajay Shriram: Good afternoon Ladies and Gentlemen and a very warm welcome to DCM Shriram Consolidated Limited Q1FY13 earnings conference call. I will take this opportunity to share with you our perspectives on the Company's operational performance and plans following which Rajiv will take you through the financial highlights of the Company for the first quarter-ended June 30, 2012.

As you are aware, the macro environment of our country has continued to be challenging. The urea pricing policy is still awaited. There is no further movement on the policy framework for the sugar industry as the Rangarajan Committee is still working on its report. The real-estate sector continues to be under stress, which has affected the billing in the institutional segment of our

Fenesta business. The outlook on manufacturing sector continues to be challenging due to adverse macro-economic condition and the policy environment.

Moving to DSCL, we are pleased to report a satisfactory performance during the quarter. This performance was driven primarily by better results in the Bioseed and the Chloro-Vinyl businesses. The performance of the Farm solutions and Bioseed businesses could have been better but for the adverse weather conditions in the major part of the country, which has affected the off-take of products in these businesses.

The Bioseed business continues to register a healthy top-line and earnings growth, as it extends its presence to different product segments and geographies. Q1, which is the main season for the Indian operations, has been satisfactory though subdued due to adverse weather conditions. We expect international operations also to register good growth with better acceptance of our newer products. We continue to focus on developing superior products for different crops and segments based on our strong research program and access to international technologies to ensure high growth in this business over the medium-term.

The performance of the Farm solutions business was driven by growth in value-added inputs, including hybrid seeds. While the performance has been healthy, it is below our expectation as the monsoon has had an adverse impact on the off-take of some products. The uncertain market conditions for DAP and MOP have also had an adverse impact. We believe this business will continue to witness healthy growth in the medium-term, as we strengthen our efforts to offer comprehensive solutions to farmers for increasing farm productivity and profitability. We are also taking steps to extend to new geographies and strengthen our supply chain to achieve high growth in this business.

The sugar business continues to earn sub-optimal margins, though we have seen some upward movement in the prices of sugar in the last one month. However, these prices continue to be below the level required for profitable operations. The Central government has approved an increase of about 17% in the F&RP for sugarcane for the next season, which we feel is a welcome step. It needs to be followed-up with measures to support increase in sugar prices so that the intended benefit reaches the farmers. The cane sowing in U.P. for the next season has been good, but the deficit in rainfall may adversely impact overall cane production. We continue to work very closely with the farmers through our intensive cane development program so as to achieve production growth in the next season.

The Chloro-Vinyl business delivered a healthy performance. The business has seen higher cost and realization in the last quarter, though the full impact of increase in cost will be felt in the coming quarters only. The Company was successful in mitigating the effect of rising cost partly with several cost improvement initiatives, which has helped us in achieving satisfactory results during the quarter.

The Fenesta business recorded almost flat billing revenue in the current quarter due to de-growth in the institutional segment as a result of the ongoing slowdown in the real-estate sector. The retail segment has seen healthy growth in order booking as well as billing revenues. We are focused on further strengthening our retail business through expansion to new cities and higher levels of promotional efforts. Our sales and service network now has 172 dealers across 72 cities. We expect retail business to grow further in the coming quarters leading to an overall growth in the Fenesta business.

Let me now move to Hariyali Kisaan Bazaar. The Company has been focused on rationalizing and restructuring its operations so as to focus only on a profitable product lines. The key objective is to expeditiously arrest financial losses from Hariyali and improve overall corporate performance. We believe these steps will result in significant reduction of operating losses by Q4 FY13. There are however, one-time costs involved in the restructuring and rationalization exercise, which have been fully provided in the current quarter based on our best estimates.

Overall, we are confident of recording a better performance vis-à-vis last year with Bioseed & Farm solutions businesses registering high growth & satisfactory performance in other businesses and reduction in operating losses of Hariyali Kisaan Bazaar. We also continue to conserve cash, which will help us in containing the financial cost. I would now request Rajiv to take you through the financial highlights.

Rajiv Sinha: Good afternoon. I will now summarize the financial results for the first quarter ended June 30, 2012. Total revenue was higher by 16% at Rs. 1,427 crore, driven by volume growth in Bioseed and Sugar businesses. PBIT for the quarter was up by 92% at Rs. 131 crore; led by strong performance of the Bioseed and Chloro-Vinyl businesses. Financing cost was higher by 11% at Rs. 43 crore due to rise in interest cost and increased working capital borrowings necessitated by volume growth in Bioseed, Farm solutions and Sugar businesses. PBT (before exceptional items) stood at Rs. 87 crore as compared to Rs. 29 crore in the previous year. Net profit grew by 19% at Rs. 31 crore as compared to Rs. 26 crore in the previous year. Net profit is after a charge of Rs. 56 crore on account of provisions for impairment losses on assets and expenses consequent to Company's decision to restructure and rationalize Hariyali 's operation and to restrict its activities to profitable product lines only.

Let me now take you through business-wise performance.

The revenues from the Fertilizer business at Rs. 137 crore was marginally higher than last year. PBIT was however lower at Rs. 8 crore as compared to Rs. 10 crore in the previous year. The business continues to face margin erosion due to uncompensated cost increases caused by the delay in finalization of the new urea pricing policy.

The revenues and PBIT of the Farm solutions business were up by 40% and 16% at Rs. 298 crore and Rs. 15 crore respectively driven by growth in value-added inputs, which were up by 60%. These include hybrid seeds from our Bioseed segment. The DAP and MOP activities have been insignificant due to uncertain market conditions.

Bioseed witnessed a revenue growth of 45% at Rs. 252 crore, driven by growth in Indian operations. BT cotton, corn, and paddy were the key crops that contributed to the growth. PBIT was up 70% at Rs. 66 crore driven by 45% growth in revenues. The performance though healthy is lower than planned and the off-take of products such as cotton-seed etc was lower due to adverse weather conditions prevalent in the country.

In the sugar business, revenues are higher at 33% at Rs. 280 crore due to increased free sugar sales volume, which are up by 13% and higher sale of co-gen power. While sugar margins remains sub-optimal, PBIT losses were lower at Rs. 4 crore primarily due to higher volumes of power sales

Hariyali Kisaan Bazaar revenue increased by 5% to Rs. 213 crore, led by growth in the fuel segment. As mentioned earlier in the call, growth rates have moderated as the Company is implementing a restructuring and rationalization plan involving restricting Hariyali activities to profitable product lines only. This has also led to marginally higher operating losses besides one-time charge of Rs. 56 crore explained earlier.

The revenues in the Chloro-Vinyl business results were higher by 10% at Rs. 278 crore, driven by improved realizations of Chloro-Vinyl products. PBIT was up by 84% at Rs. 73 crore. The lag in the effects of rising cost on margins and satisfactory progress on our cost management initiatives helped in better performance of this business. One of our Chlor-Alkali plants had a scheduled maintenance shutdown for almost a month. The plant has been commissioned and is operating satisfactorily since the second week of July.

Revenues from Cement business grew by 7% to Rs. 38 crore as a result of increased sales volumes at marginally better realizations. However, despite higher volumes and realizations, PBIT was flat at Rs. 6 crore due to higher costs.

Revenue under other segments stood at Rs. 76 crore and PBIT stood at negative Rs. 6 crore. Fenesta revenues were lower by 2% at Rs. 39 crore primarily due to a significant slowdown in the institutional segment. The retail segment showed healthy growth in new order bookings and execution.

Overall, we have had a satisfactory performance in the first quarter with almost all businesses recording better operations. We have also achieved good progress in arresting losses from the Hariyali business. We are confident of sustaining the progress and achieve good performance and financial results for the year.

Moderator: Thank you. We will now begin the question-and-answer session. We have the first question from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah: How do you see the situation for the seeds business in the coming quarters given that there are many regions in India, which are facing deficient rainfall. Would there be an impact on sales return due to the same?

Rajiv Sinha: One of our major crops is cotton and whatever returns that had to be taken have already happened. Hence, we do not expect much impact on the cotton business. Paddy and corn are also okay and we don't expect any real returns. I think the place where we do expect an adverse impact is coarse grain like Bajra, but that is a very small part of our business. That is the way essentially the situation is as of now. However, it is true that the productivity of these crops particularly Cotton, etc. maybe much lower than what we may usually see in a normal year.

Grishma Shah: Apart from that, how do you read the market as, would you see some impact market-wide in terms of sales returns for the industry if not for DSCL?

Rajiv Sinha: Certainly, the cotton seed stock has gone up in the industry on an overall basis. We are still one of the few people who have increased the cotton seed business in North vis-à-vis many players who have actually shrunk the business. I think there is a lot of seed stock in the market. Same thing may happen with some of the coarse grains also. Particularly, players with large markets in Maharashtra and Karnataka are fairly impacted.

Grishma Shah: Do we just buy and sell products in the Farms Solution business or are we also doing something in terms of giving services?

Ajay Shriram: No, this business actually as the name suggests Farm solutions division actually works very closely with the farmers to try to help them to improve their profitability and productivity. We have a lot of information flow, demonstrations plots which are held by our own people as well as through our large number of trade partners. So Farm solutions business besides selling urea, which is our own product, also sources all other fertilizers, pesticides, seeds, other agri inputs from various suppliers all over the world, and we sell that through the strength of our distribution network. Hence, our interface with the trade, retailers and the farmers in terms of communication is fairly high.

Grishma Shah: Rs. 56 crore kind of one-time hit for Hariyali Kisaan Bazaar is huge; otherwise, quarterly profits would have looked much better. Why such a big hit?

J.K. Jain: This has a couple of elements, which has one, an impairment element both on fixed assets and on current assets and then secondly, there are rationalization costs in terms of settlement of the rented properties or moving of goods from one location to another location and things like that. Now, in terms of fixed assets we had the land and building where of course there is no impairment involved. Nevertheless, we had assets like signage, lease holding improvements, racks and other things. This has been charged based on our estimates and the assets have not been sold off as of now. However, our endeavor is to maximize the value of these assets. Similarly, on the inventory side, we have taken a charge on the expected loss on liquidation of inventories on a conservative basis. Besides, there are cost involved in settlements of the rent and things like those.

Grishma Shah: I just have a question pertaining to both Farm solutions and Hariyali. In your Farm solutions business, you are trying to utilize the distribution network in a much better way to try to connect to the farmers for a wider product portfolio and Hariyali somewhere tries to address the rural retail market. So why cannot these two be together?

Ajay Shriram: See when we are doing Hariyali Kisaan Bazaar for us, it is our own retail network, where we are the retailers, whereas Farm solutions business we use external wholesale trade and retail trade. We have about 700 wholesalers and maybe about over 10,000 retailers who are selling our products across various geographies. So that is the different retail network altogether. Hariyali is a retail business, which we got into to provide products and the immediate requirement for the rural community, farmers and non-farmers because besides the agri products, we also have food and grocery, household goods, FMCG products etc. So it is like a full-fledged retail business, which is much more than the agri inputs.

Grishma Shah: Would the Hariyali Kisaan Bazaar also sell your Farm solutions products?

Ajay Shriram: Yes, in their catchment areas they do. So wherever they are sold, we have agronomist hired in every outlet and they are the ones who help farmers again. We do believe that whatever rural space we are in, ultimately, the farmer does need expert advice, input and if we can add by providing products and services, on time and of good quality, it will help the farmers increase their productivity and consequently the bottom-line. So, our objective for Hariyali and Farm solutions is to improve the farmers' profits.

Grishma Shah: Are you done with the restructuring of Hariyali Kisaan Bazaar?

Ajay Shriram: This exercise of restructuring is ongoing. We are looking at various lines of business. Some work well from somewhere, some work well from somewhere else. We are in touch with vendors and we are working with suppliers and are working on different geographies. So, it is not yet complete and it is ongoing.

Grishma Shah: So there is likelihood that going ahead we might have smaller negative surprises compared to the bigger ones?

Ajay Shriram: As I mentioned in my opening remarks also, that we expect the losses by Q4 FY13 to be significantly lower.

J.K. Jain: But we do not expect any significant one-time cost of the exercise. However, small variations are possible.

Grishma Shah: So from FY14 onwards you would see this business giving the kind of results that the Company wanted.

Ajay Shriram: We are hoping that and that is the reason we are going through this exercise of restructuring and revisiting the entire lines of business. That is the key objective.

Grishma Shah: So what have you done exactly in terms of restructuring?

Ajay Shriram: We have revisited product lines. In some areas, we closed product lines while in other areas we closed outlets. So you can say that we have actually revisited the business in totality. Besides, we are undertaking a host of decisions to increase publicity in some places, increase offerings to the farmers and look at the services side of the business and improving that. Further, we are also taking decision to cut down on business lines where off-takes are low. We have done market surveys to see the sort of income levels at various areas and what can be done that would be optimal for the business.

Grishma Shah: What are the debt and the cash level?

J.K. Jain: The total debt as on June 30 was about Rs. 1,630 crore. We are not carrying any cash reserves.

Grishma Shah: What is the cost of debt?

J.K. Jain: Short term will be about 9.5% and long term is about 8.2-8.3%.

Moderator: The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: How many outlets do we have as end of Q1 in HKB?

Ajay Shriram: As at end of Q1, we had about 80 outlets which were running and we are looking at these revisiting the product range as I mentioned in the last question.

Falguni Dutta: Are we planning to open more outlets in some other places?

Ajay Shriram: We are not looking at that immediately. Nevertheless, what we are looking at definitely is how to rationalize these to make it a viable operation.

Falguni Dutta: Sir certainly we will not see any more additions to the outlet but restructuring exercise only going forward this year?

Ajay Shriram: Correct.

Falguni Dutta: Have you decided on closing one product line in entirety across all our outlets or not specific?

Ajay Shriram: The only thing we have stopped so far is trading of commodities

Falguni Dutta: Trading of commodities would essentially comprise of which products?

Rajiv Sinha: We were buying and selling seeds. Further, we were taking some positions in commodities like pulses etc.

Falguni Dutta: So this business has been stopped in entirety.

Rajiv Sinha: Yes.

Falguni Dutta: Of this Rs. 56 crore one-time element how much is the inventory loss?

J.K. Jain: Inventory is about Rs. 14 crore.

Falguni Dutta: The other cost that as you mentioned would include bringing down the assets to true value which you think you will realize?

Ajay Shriram: Correct.

Falguni Dutta: Should we expect these kinds of expenses in Q2-Q3?

J.K. Jain: As we mentioned earlier, the amount that is provided, is based on our best estimate as of now. We don't see any significant additions to these. However, minor variations are possible.

Falguni Dutta: What are your expectations on sugar prices sugar year '13 given that, the prices have shot up from Rs. 30 to Rs. 34-34.5 per kg in a short span?

Ajay Shriram: I think it is very difficult to give an estimate on the price side.

Falguni Dutta: Can you provide us with some guidance on the lower side.

Ajay Shriram: When you say the sugar prices have shot up from Rs. 30 per kg to Rs. 34 kg, you have to bear in mind that the cane prices U.P. mills have paid i.e. Rs. 240-250 per quintal. The present sugar price, therefore is not adequate in terms of giving us a desired bottom line. The Central Government increased the F&RP to Rs. 170 per quintal which is linked to a 9.5% recovery. It is a good direction because this ultimately will make it more viable and will actually give the farmer better returns in parts of the country other than U.P also. Once the price of Cane other parts also rises, then automatically it will benefit the sugar industry in U.P. also. We are working very actively with the government, which is part of the recommendation of Indian Sugar Mills association as well as CII that there should be link between Sugar cane price and Sugar price.

Falguni Dutta: Is it fair to assume a Rs. 33.5 per kg kind of realization for sugar year '13 because though the demand/supply situation does not warrant that, but since the cost of production has gone up so much besides issue of monsoon?

Ajay Shriram: To be honest with you, I think it is very difficult to give a judgment on what we think or anyone thinks the sugar price will be because it is based on so many parameters, national and international and if I may say political.

Falguni Dutta: So you think that the spurt in sugar price is speculative?

Ajay Shriram: No, one cannot say. It has gone up only in a month. So, we are happy it has gone up, because it makes an immense business sense and it brings a sense of rationality compared to the sugarcane price and we sincerely hope that it maintains at these levels.

J.K. Jain: This is the minimum price, which is required to breakeven.

Falguni Dutta: If we take a price of Rs. 34 per kg, then at PBIT level we should be making about Rs. 4 a kg?

J.K. Jain: No, I don't think, because we have not provided the loss on levy sugar. Over Re. 1 kg is just the loss on levy sugar. So, at PBT level, will require a price of Rs. 33-34 at today's cost structure.

Falguni Dutta: At what rate have you procured the linkage coal in Q1 compared to last year and what is the grade?

Ajay Shriram: I do not have the actual number but definitely, the coal price in the last year and a half has gone up quite a bit.

See there were two increases taken; one was if I am not mistaken it was in February 2010 we have increased the price parity of 80-100% on various grades of coal. Then last year, they change the grading system and that based on the grading system again the impact was between 50-60%.

Falguni Dutta: What I understood from speaking to various companies is that the impact is closer to 6-7% because of this grade change, hence is it is possible to get a precise number?

Ajay Shriram: I am sorry, we do not have the number here, but then they brought this grading change and then reduced the price of this and they were looking at this new grade in pricing of coal. So, then the impact will come down definitely. However, if you saw the paper this morning, I think Coal India is going to now average out the price of imported coal and domestic coal and sell it on that basis. This would mean that the prices are likely to go up again.

Moderator: The next question is from the line of Rahul Bhangadia from Lucky Securities. Please go ahead.

Rahul Bhangadia: How many Hariyali Kisaan Bazaar stores have we shut down this quarter?

Ajay Shriram: I am not sure of the exact number for the current quarter, but I think we have shut maybe about 10-12 outlets. Here I would like to mention that we are looking at rationalizing the product range in each of these stores and ensuring that whatever we are providing is of the correct quality and range such that the off-take and turnaround is faster than what it was in the past.

Rahul Bhangadia: We have cut down on a number of stores dramatically over the last one-and-a-half years. The quarterly loss run-rate is still roughly around Rs. 20-25 crore. So, by Q4 where do you expect it to be as per your internal estimates?

Ajay Shriram: It is difficult, to be honest, to give a figure of what the losses would be. Nevertheless, we definitely feel with this very intensive exercise that the Company has undertaken on Hariyali right from the logistics, the range, the promotion, the selling, etc. that the losses in Q4 FY13 should be substantially lower than what we had in the last quarter.

Rahul Bhangadia: So will the quarterly run-rate at least be in single digit?

Ajay Shriram: We definitely would like that and that is the effort, because we also realize that ultimately continuing on this basis, we are draining the activities of other businesses also. Therefore, we want to be focused and see how we can reduce the losses substantially.

Rahul Bhangadia: How much of sugar sales would you do in FY13?

J.K. Jain: See we have an inventory of about 18-19 lakhs quintal as on 30th June of free sale , so depending upon the price one can work out.

Rahul Bhangadia: What kind of growth rate do you hope to sustain in the Bioseed business?

Ajay Shriram: In Bioseed, like we said in the past, we expect a 30% growth. However, monsoon in fact is something which is a little worrying over the next couple of quarters.

Rahul Bhangadia: Can we achieve a similar same growth rate for the Farm Solution business also?

Ajay Shriram: Farm solutions should be in the range of 20-30% I think. There are two types of products in this business. One is the value-added product as we call them, which is let us say, seed, pesticides, crop-led chemicals and inputs, specialty fertilizers, etc and the second is bulk fertilizers like DAP/MOP. Now, DAP/MOP position is a little uncertain because of the carry-over stocks from last year and the pricing, the international price of this product and the devaluation of the rupee. All of that has impacted the imported price of these products. However, on a value-added side, yes, we do hope to have between 20-30% growth, but on the bulk side, it is a little open-ended right now.

Rahul Bhangadia: Could you give us a sense of how sustainable the Chloro-Vinyl numbers seem to be and is there a kind of one-offish performance orientation also, or are these numbers sustainable?

Ajay Shriram: Well, I think there may be a plus/minus some percentage up and down because it is a commodity business. I think the devaluation has to a degree helped in the finished products pricing because the imports have become a little more expensive. But at the same time, I think our own effort to reduce our cost of production by actively working at the factory level have also given us benefits and that is the permanent saving which we are having. Hence, we do expect that it should be sustainable, it may be a little up and down, but it should not go down too much.

Rahul Bhangadia: So, can we take the current EBIT as an average for the year?you have reported an EBIT of 55-60 a good number to go by an average?

Ajay Shriram: It is very difficult to give a figure like that. For instance, this quarter we had a one-month shutdown at our Bharuch, Gujarat plant. So that automatically will have an impact in terms of product availability. But at the same time, for the first time ever, we actually bought power from the grid and ran at about 40% capacity. So, at least we have some contribution unlike in the past where it was zero contribution. So we are trying to see all the time what more can we do to improve efficiencies, add more of that, but that is part of an ongoing process.

Moderator: The next question is from the line of Tarun Surana from Sunidhi Securities. Please go ahead.

Tarun Surana: Due to challenges in fertilizer business due to affordability as well as deficiency of monsoon, do you think there will be an impact in agro chemical sales. Also, are you seeing some down trading among the farmers from DAP to SSP, from micronutrients or water soluble and back to bulk fertilizers?

Rajiv Sinha: As far as agro chemicals is concerned, roughly there would be an impact on the business. If you see the Northwest region viz. Punjab, Haryana, West Rajasthan, etc. there is a lack of rainfall and it will impact the agrochemical sale for sure. As far as bulk fertilizers are concerned, we have already seen that the total sales have been lower almost all across the country for all the nutrients including urea. So this trend is there and with the kind of shortfall we have seen in Karnataka, Andhra, Maharashtra even in parts of Rajasthan, etc. But in terms of conversion from say DAP to SSP, etc. no, we have not seen such thing. Similarly on the soluble side, soluble fertilizers sales will be impacted and this Q2 is what will give us a maximum visibility of what really happens at the ground level. There are still some rains taking place, so it is very difficult to say exactly what will happen, but there is negative impact for sure.

Ajay Shriram: To add here, as of the price of urea is being fixed by the government, the demand for urea has gone up. Hence, the farmers use more of urea, which does not provide the desired output. Balanced fertilization is necessary to achieve desired output and that is possible only by applying other nutrients.

Tarun Surana: Even urea sales are falling at least during the past quarter?

Ajay Shriram: That is because of the monsoon.

Rajiv Sinha: It is very unusual, it probably never happens, as our Chairman is saying urea normally picks up much more than anything else, the price difference is huge.

Shyam Bhat: Given that the cane arrears are huge, what is your view on the acreage going forward?

Ajit Shriram: I think the acreage in U.P. has gone up by about 7-8% and in fact in our catchment the farmer is actually working extremely hard in spite of the prolonged summer months, before the monsoon arrived to have a healthy crop. So we see our crop being extremely healthy for the coming crushing season.

Shyam Bhat: Any news on the levy quota?

Ajit Shriram: No, we do sincerely hope that the levy of 10% is removed, and we hope that the committee which is made under Mr. Rangarajan also propose the same.

Shyam Bhat: Do you expect the levy of 10% to be completely done away with or it would be reduced to 5%?

Ajit Shriram: We actually are hoping that the entire thing is removed because logically speaking, like other products sold under the PDS system, they are all procured directly by the government. This is the only product where the sugar industry is actually subsidizing the government by selling it at Rs. 19, which is significantly lower than the cost of production.

Moderator: The next question is from the line of Rishindra Goswami from Locus Investments. Please go ahead.

Rishindra Goswami: What is your CAPEX estimate for the year?

Ajay Shriram: We have been very tight on CAPEX and we are focusing on what is actually required as maintenance CAPEX for marginal debottlenecking. So our CAPEX for this year will range about Rs. 50-60 crore unless some project comes up. This is normal CAPEX just for ensuring that the health of our plant is maintained, quality of the product is maintained, and wherever we get any benefit coming out of cost reduction in cost that will be a priority too.

Rishindra Goswami: Would you expect a similar number next year also?

Ajay Shriram: Well it depends on how the business environment moves and what the plans are, because as a philosophy, we will definitely like to see expanding our businesses marginally atleast and doing something more than we did. So, depending on the business environment, we would like to continuously like to upgrade capacities in some of our plants.

Rishindra Goswami: What is the break-even price of power if you were to sell it in Rajasthan?

Ajay Shriram: We generate about 130 MW of power in our Kota complex in Rajasthan which is for captive consumption.

Rishindra Goswami: So what would be the cost of production at which you know it is a breakeven let say if you have to sell that outside?

J.K. Jain: We do not sell based on cost. We can sell only where we it is more profitable than selling Chloro-Vinyl products.

Ajay Shriram: We work out the net back per unit of power for each of our products, whether it is in cement or caustic soda, PVC, carbides, fertilizers or whatever. And we did, if you recollect about year and a half back or two years ago, we found that the net back by selling power when we were getting a net realization of between Rs. 6 and Rs. 7 and our products were not giving the same. So we did a pullback on production of our own products and we were selling power. However, as of now, we are finding that net back per unit of power of our own products is better than if we were to sell it in the market or on the exchange.

Rishindra Goswami: What is your actual cost of production of power at that plant?

J.K. Jain: Cost is about Rs. 4 per unit.

Rishindra Goswami Are you expecting some further coal price increase this year?

Ajay Shriram: Well, unfortunately yes, that is what we read in the paper this morning.

Rishindra Goswami: Any expectations on the cost of production if coal prices hikes were to go through.

Ajay Shriram: We don't know that because we do not know what the price will be nor do we know how it is going to work out, but it is leading to a situation where ultimately your input cost will be going up. Unless the final product prices also go up correspondingly, there will be pressure.

Rishindra Goswami: One more question on the Bioseed business. What was your mix of revenues between India and overseas this quarter?

Rajiv Sinha: I would say almost 90% in India in Q1.

J.K. Jain: For India, the first quarter is the main season. Hence its mix is tilted towards India. However, for the year as a whole, we had a mix of about 70-75% Indian and balance international.

Rishindra Goswami: How large was cotton in the overall seed revenues this quarter?

J.K. Jain: About 55-60% is cotton.

Rishindra Goswami: How much was paddy?

J.K. Jain: Paddy is small, our main crop is cotton and corn .

Moderator: The next question is from the line of Mr. Nisarg Vakharia from Lucky Securities. Please go ahead.

Nisarg Vakharia: When we say that we are doing better in our Bioseeds business in the North Indian markets, so are we eating into the market share of the other players?

Rajiv Sinha: I think if you take BT cotton in the markets of Punjab, Haryana and Rajasthan, three years back we had a market share of maybe less than 5% and today, we command a share of just under 30%.

Nisarg Vakharia: Is the market very fragmented, which is increasingly shifting towards larger players like yours?

Rajiv Sinha: No, that is hard to say, because almost all the players are there and there is still lot of spurious cotton seeds which also gets sold in these markets. I will not say there is any particular trend of shifting towards larger players.

Nisarg Vakharia: From what I understand, the farmer also takes some time to understand the yield of your seed. So, is it a better yield that your farmers are seeing or is this a greater marketing push that the Company has?

Rajiv Sinha: No, greater marketing push will only get you to a point. This is not sustainable unless your product performs. So, clearly, the market share is based on superior performance, both, in terms of yield and the ability to stand up to very varying weather conditions.

Nisarg Vakharia: Is it safe to assume that you would not require too much CAPEX to sustain the growth rate of 30%?

Rajiv Sinha: I think our Chairman mentioned in the beginning that we have a very strong focus on our research program and we are spending a considerable amount of money in continuously researching, and this is an area where people will keep coming up with better products. Hence, you have to continuously invest both, in terms of money and good managerial resources aligned with to make sure that we remain in the front. So this is a constant growth, we have to constantly evolve better products. Whatever worked last year or this year may not work after one year or two years.

Nisarg Vakharia: So what essentially is your focus on, any new other products in the pipeline that should be exciting?

Rajiv Sinha: Our focus is on the seed crops i.e., cotton, paddy, corn, and to some extent products like Bajra. We also have a research program on vegetable seed.

Nisarg Vakharia: Because paddy is still very low in terms of hybrid usage.

Rajiv Sinha: Extremely low.

Nisarg Vakharia: So any developments that we can expect from a Company like you in that regard.

Rajiv Sinha: Paddy is also a very important part of research program and we are spending considerable resources and time on developing better hybrid products for paddy.

Moderator: As there are no further questions, I would now like to hand the floor over to the management for closing comments.

Ajay Shriram: Ladies and gentlemen, thank you once again for attending our Q1 FY13 earnings conference call. As mentioned during the call we have made satisfactory progress in improving operations across all our businesses. We will continue with these efforts in the coming quarters and we do expect improvements in operations to continue. The progress on arresting losses in our Hariyali business is also satisfactory, and we expect substantial reduction in losses in Q4 FY13. Given these efforts, we expect satisfactory financial results in the coming quarters.

Moderator: Thank you. On behalf of DCM Shriram Consolidated Ltd that concludes this conference.
