DCM Shriram Limited

Q1 FY19 Earnings Conference Call Transcript
August 07, 2018

Moderator: Ladies and Gentlemen, Good Day and welcome to DCM Shriram Limited Q1 FY19 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you sir.

Siddharth Rangnekar: Good Afternoon and thank you for joining us on DCM Shriram Limited's Q1 FY19 earnings conference call. Today, we have with us Mr. Ajay Shriram – Chairman & Senior Managing Director; Mr. Vikram Shriram – Vice Chairman & Managing Director; Mr. Ajit Shriram – Joint Managing Director; Mr. J. K. Jain – CFO of the company.

We will begin the call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram following which we will have an interactive question and answer session where we will address queries from the audience.

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

I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's performance during Q1FY19 and his views going forward.

Over to you, Sir.

Ajay Shriram: Thank you Siddharth. Good afternoon ladies and gentlemen and a very warm welcome to DCM Shriram Limited's Q1 FY19 Earnings Conference Call. I will take this opportunity to share with you the developments relating to the businesses and the outlook going forward following which Vikram will take you through the financial performance of the Company.

The company recorded another quarter of satisfactory performance. All our businesses had healthy operations with over 100% capacity utilization and better operating efficiency. Various steps taken in the last few years towards capacity expansion, technology upgradation, cost reductions and enhancing capacity utilization has helped us achieve better results.

The expanded Chloro-alkali plant at Bharuch and the newly commissioned distillery and sugar operated at near full capacity. Sugarcane crushed more than doubled over the last two seasons which sustained high recovery in spite of longer crushing season. The Fenesta business continuous to record above 20% growth in turnover.

Sugar industry as you all know is experiencing very tough market situations with substantial decline in sugar and by-product prices. The recent steps by central government have led to some increase in sugar prices, but much more needs to be done to provide the much-needed relief to farmers and industry. However, ethanol and power sales for the sugar division are providing some balance to the sugar situation. All the projects involving investment of about 1300 crore are progressing well and will be commissioned in phases by Q3 2020. These investments will provide volume growth improve our cost competitiveness and the return profile through forward integration. There have been challenges in the cash flow side with higher sugar stocks and higher fertilizer subsidy outstanding a result of introduction of DBT. However, a healthy cash generation and a decision to rationalize the bulk fertilizer portfolio will enable us to maintain a strong balance sheet going forward.

The company also announced a share buyback of Rs. 250 crore involving purchase of shares through the open market at a price up to Rs. 450 per share. We expect that this will provide an exit to the shareholders who would like to sell their shares and at the same time benefit their shareholders who want to continue to hold. The buyback commenced on the 4th of July 2018.

Let me now take you through the business wise developments:

Let us look us at the **Chloro-vinyl** which includes chemicals and plastic businesses.

Chemicals, the industry is registering healthy growth in demand with chorine consumption growing faster than caustic consumption. The exports of caustic both liquid and flakes are picking up too. The industry capacity utilization is high and new capacities are getting absorbed in a shorter period of time. Chlorine prices have turned moderately positive after a couple of years of negative prices. Caustic prices are following the global trends. The CFR South East Asia prices for caustic soda had risen very sharply from about $US 400 per ton in November, December 2016 to about $US 750 in November 2017. The prices have reacted thereafter and have come back to a little over $US 400 per ton now. The chlorine prices turn from negative to almost breakeven in January, March 2018 and positive at the present time. The input costs are stable. We expect volume growth in the business as we commission new capacities in phases starting from Q3 2019. We are commissioning the aluminium chloride operations in Q3 19 and are studying further chlorine downstream products. We expect to finalize the plan for the same in the next few quarters. This will further strengthen our chemical business significantly.

Plastics:

PVC and carbide prices have risen in line with global prices and currency movement. The business saw marginally lower volumes due to a maintenance shut down. The plants are stable now. There are, however, cost pressures relating to higher carbon material, chlorine and power cost. The company is enhancing PVC capacity from 180 tons per day to 220 tons per day and this will be commissioned by Q3 2020. Besides providing volume growth this expansion will also enable higher captive use of carbide and chlorine.

Sugar:

The cane crushing season 2017-2018 ended satisfactory with our total cane crush going up by 46% on top of 48% increase in the previous season. One of our factories had to crush for 232 days to absorb all the canes available. The sugar recovery was over 11% in spite of the long crushing season. The power sales have gone up by almost 33% during October 2017 to June 2018 versus the same period in the previous season. The newly commissioned 150 kiloliters per day distillery has had good operations and is operating at near full capacity.

The ethanol sales have started and are progressing satisfactorily. The distillery provided good support at a time when molasses are in excess supply. We are implementing projects to expand cane crushing capacity from 33,000 tons per day to 38,000 tons per day, power generation capacity from 111 megawatt to 141 megawatt and overall distillery capacity from 150 kiloliters per day to 350 kiloliters per day. The additional sugar capacity will be aimed at introducing refined grade sugar and will enable us to optimize the cane crushing period. The expansion in power capacity will result in power sales going up from 62 megawatts to 84 megawatts.

The distillery capacity will enable us to use the entire molasses for production of ethanol. We believe these steps will strength our sugar business and will enable us to ride through the sugar cycle in a much better way. As you all are aware, the sugar industry is going through a very tough situation. Sugar prices have dropped almost Rs. 1000 per quintal over last one year and the molasses price turned negative from about Rs. 400 per quintal last season. The sugar margins turned negative Rs. 700 from positive Rs. 400 last year. The steps by the government though inadequate have provided partial relief. The industry is pursing with the government for the steps required to protect farmer’s interest and to provide much needed relief for the industry.

Regarding the agri-input business of the company, which comprise of Urea, Bioseed and Shriram Farm Solutions, the overall agri-input business demand show signs of revival with satisfactory monsoon situation. However, the policy related adverse developments are creating stress for the industry. The introduction of new products has almost stopped, and margins are under pressure.

Bioseed business:

Cotton seed which is the biggest component of the hybrid seeds industry in India has been adversely impacted due to the virtual freeze of introduction of new products and erratic pricing and product approval policy by the Central and State governments. Growth in other crops have also slowed down with almost flat area under cultivation. The international operations have seen some positive developments with our products gaining acceptance.

Shriram Farm Solutions:

We are now focusing on growing the value added agri-inputs business following our decision to phase out the bulk fertilizer business. We expect that these efforts will lead to stronger business over the medium term though there will be some pressure in the immediate future as we transform this business.

Urea:

The business has stable operations. The cash flows however got adversely impacted with the implementation of DBT all across the country. The subsidy payments are now being made after the material gets sold from the retail point which has led to higher subsidy outstanding. The industry is pursuing the government for finalizing pricing policy that is energy norms applicable from financial year 2020 and also the mitigation of higher subsidy outstanding.

Fenesta:

We continue to have satisfactory growth in fresh order booking as well as order execution. The project segment is still experiencing slow project execution. The retail segment is doing well and supporting growth in overall business. We are exploring options for expanding our product portfolio to achieve higher growth in the business. We feel we have a strong business portfolio. The initiatives under implementation will further strengthen our businesses and will provide sustained growth to the Company over the medium term.

In the short-term, the results will get determined somewhat by the cyclical movements of our product prices. I will now request Vikram to take you through the financial highlights.

Vikram Shriram: Thank you. Good afternoon ladies and gentlemen. I will now summarize the financial performance of the company. The overall net revenues for Q1 FY19 are up 6% year-on-year at Rs. 2068 crore. The revenues from owned products grew 13% year-on-year to Rs. 1777 crore mainly due to volume increase. However, the revenues of traded products i.e. Shriram Farm Solutions (SFS) and Hariyali at Rs. 291 crore declined by 22% year-on-year. This is in line with our business strategy to phase out the bulk fertilizer trading business and the Hariyali fuel outlets.

The PBDIT for Q1 FY19 at Rs. 347 crore was up 1% year-on-year. The quarter involved a charge of Rs. 30 crore due to write down of sugar inventory, but for this charge, the PBDIT grew by 10% year-on-year.

Chemical business registered turnover and PBDIT growth, while sugar and Bioseed business had lower profits.

The finance cost for Q1 FY19 stood at Rs. 35 crore up 47% year-on-year. This is due to higher working capital on account of higher sugar inventory and higher fertilizer subsidy outstanding.

The effective tax rate is 20.1% vis-à-vis 22.5 % for Financial Year '18 and 18.4% for Q1 FY18. The PAT was down 6% year-on-year to Rs. 218 crore. Gross debt as on 30th June 2018 stood at Rs. 1035 crore versus Rs 817 crore as on June 30 2017. Cash and cash equivalents stood at Rs. 396 crore versus Rs 486 crore for the same period last year.

Let me take you now through the business wise performance.

Chemicals:

Net revenues for Q1 FY19 for this business was up by 59% year-on-year at Rs. 469 crore. We have sales volume growth of 13% while the ECU realization grew 39% year-on-year. The ECU prices were down 7% quarter-on-quarter. Caustic prices have been going down over the last five, six months, however chlorine prices have been recording upward movement mitigating partly the reduction in caustic prices. PBIT for the quarter was Rs. 248 crore versus Rs. 110 crore last year. Sequentially PBIT decline by 1% due to lower realization.

Plastics:

The net revenue for the business during Q1 FY19 stood at Rs. 144 crore as against Rs. 150 crore last year and Rs. 110 crore in Q4 FY 18. Sales volumes for PVC and carbide were lower by 4% and 26% year-on-year respectively. The prices for PVC and carbide were up by 7% and 17% year-on-year respectively.

PBIT for Q1 FY19 stood at Rs. 27 crore vis-à-vis Rs. 33 crore last year for decline of 19% due to lower volumes and higher power and chlorine cost.

Sugar:

Q1FY19 net revenues of sugar segment were down by 1% year-on-year at Rs. 618 crore. This is a result of 24% decline in sugar prices year-on-year. The business had satisfactorily volume growth with sugar sales volumes increasing 14% and power sales up by 103%.The sales of ethanol also started in April after the commissioning of distillery in January 18.

The segment PBIT for the quarter stood at negative Rs. 2.8 crore versus positive Rs. 108 crore with corresponding period last year. Sugar PBIT was negative Rs. 70 crore versus positive Rs. 94 crore last year, an adverse swing of 164 crore. However, increase in power PBIT by Rs. 28 crore and PBIT of Rs. 25 crore from distillery reduced the impact of sharp fall in sugar prices. Sugar realization for Q1 FY19 were Rs. 2773 per quintal down 24% year-on-year and 13% quarter-on-quarter.

Byproduct realization for current quarter at Rs. 131 per quintal of sugar was down 57% versus the same period last year. The sugar margin for the quarter was negative Rs. 701 per quintal versus positive Rs. 410 per quintal last year due to lower realization and higher cost. The sugar inventory of Rs. 30.52 lakh quintal as on 30th June 2018 has been valued at Rs. 2900 per quintal and inventory of Rs. 3.35 lakh quintal stipulated by Central government for exports has been valued at Rs. 2141 per quintal resulting in a charge of Rs. 30 crore for the quarter.

Fertilizer:

Net revenues of Q1 FY19 increased by 36% year-on-year due to higher prices, a result of higher energy costs which is a pass through. The volumes were up by 3%. The PBIT for the quarter came in at Rs. 8.7 crore against Rs. 1 crore last year. Margins improved with better operating efficiency. Subsidy outstanding as on 30th June 2018 is Rs. 453 crore versus Rs. 165 crore as on 30th June 2017. The introduction of DBT system has led to delay and subsidy payment.

Shriram Farm Solution:

Q1 FY19 net revenues came in at Rs. 211 crore as against 277 crore in Q1 FY18. Bulk segment revenues lower by 36% in line with our strategy to rationalize this activity. Value added input segment revenue was down by 18% due to lower volumes and prices of BT cotton seeds. Central government reduced the selling price of BT cotton seed by Rs. 60 per packet. PBIT for the current quarter stood at Rs. 10 crore versus Rs. 11 crore for the same period last year.

Bioseed:

Q1 FY 19 revenues were Rs. 282 crore, down 8% year-on-year. PBIT was down by 40% to Rs. 48 crore. Revenues from India business were down by 8% year-on-year. India business was adversely impacted due to lower BT cotton volume and prices which are fixed by the government. This adversely affected the margins as well. International business revenues came down by 6% impacted by lower volume in corn, primarily in Indonesia.

Fenesta:

The Q1 FY19 net revenue was up 20% year-on-year. Revenues from retail segment grew 28% year-on-year. Order booking for Q1 FY19 in the retail segment grew by 14% year-on-year while the project segment grew by 137% year-on-year. Overall order booking is up by 37% year-on-year. PBIT increased to Rs. 11 crore versus Rs. 6 crore in corresponding quarter last year. The business has been PBT positive for the last few years.

Other businesses:

Cement business revenues were lower by 16% during the quarter due to lower volume and lower realization. In Hariyali, we continue to work with BPCL to reduce the fuel pump outlets and sell the property. Numbers of outlets have been reduced from 34 at June 2017 to 23 presently.

Projects:

We are implementing expansion cum modernization projects with investment of approximately Rs. 1300 crore in our chloro-vinyl and sugar businesses. This includes setting up a 200 KLD distillery approved by the board on 31st July 2018. The project will be commissioned in phases in FY2019 and FY 2020. The projects are progressing as per plan. We have spent Rs. 188 crore on these projects up to 30th June 2018.

That concludes my financial review and we would be glad to take any questions that you may have.

Moderator: Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Sandip Sabharwal from Asksandipsabharwal.com. Please go ahead.

Sandip Sabharwal: Good Afternoon. My question is that many companies in the sugar sector are quite excited about the new bio fuel policy which allows production of ethanol from sugarcane juice and b-heavy molasses and many of them are thinking of setting up plants just for that to reduce sugar over supply, so are you also thinking of that line and any plans regarding that please?

Ajit Shriram: You are right the new policy does give some interest subvention for setting up distillery. Now the point is, for a new distillery to come up it will take 2 years at least because of various environmental clearances and then post that, setting up a distillery. What we are doing is we got a Board approval on 31st of July for setting up a 200 KLD distillery at a new location which we are apprising up and this distillery will be capable of using the B-heavy molasses as well as cane juice. So, depending on the economics we can use either cane juice or B-Heavy or C-molasses, so we will have complete flexibility.

Sandip Sabharwal: How much would this cost you?

Ajit Shriram: The project cost is Rs. 300 crore.

Moderator: The next question is from the line of Aditya Wagle from Aequitas Investments. Please go ahead.

Aditya Wagle: I just want to ask sir you mentioned caustic prices did I get it correctly they are little above $400 per ton.

Ajay Shriram: Correct.

Aditya Wagle: What is contributing? Are we seeing supply coming in globally?

Ajay Shriram: I think people who actually have OEM uses, some of them like aluminum manufacturers and all, they import from caustic soda, but otherwise generally the imports are not very high, traders also do it depending on the price arbitrage, but I think the capacity of caustic soda in the country is fairly stable and growing. So, unless there is a short term price advantage, people generally do not get into importing caustic soda.

Aditya Wagle: I think we did a 25-crore EBIT in distillery, you expect that number to sustain going forward until our new capacity comes on stream?

J. K. Jain: Yes absolutely the prices are stable for ethanol so that should sustain.

Moderator: The next question is from the line of Madhav Barda from Fidelity Investments. Please go ahead.

Madhav Barda: Sir good afternoon. I just wanted to understand on the sugar space very basic doubts actually. So we have five, six million tons of excess supply that came in this year which is well known and if we look at the sugarcane acreage which is sort of come in so far it is higher than the previous year marginally expecting that yield sort of stays where they are we could have another oversupply situation in the coming year as well. So is export the only channel with which the oversupply can be taken out of the market? Is that the only way or how should we think about the sector because we have just the cane arrears doubling the next year, right?

Ajit Shriram: You are right I think export is the way forward because the stock levels will go up even further on 1st October 2019. We are going to open on 1st October 2018 with roughly 10 million tons of stock and with a higher production anticipated next year the stock levels will go up. So export is the only way out and we are in conversation with the government to hence give some support to make this happen. And the issue is we need to announce this fast so that the factories are able to make raw sugar because raw sugar is essentially traded in the world market and not the plantation white sugar that we currently manufacture.

Madhav Barda: Sir in continuation to that I mean the export prices are also not looking very good right now and the primary reason for that is the oversupply in India, so if that continues how do we make the exports lucrative basically the government has to basically come on and support the sector there is no other way out because we are contributing to the fall in the global ASPs in any case?

Ajit Shriram: See as far as the current exports are concerned the policy was announced at that point of time one year closing and were not able to produce raw sugar. As I mentioned earlier raw sugar is required in the world market so what we are exporting currently is plantation white sugar and we do hope that would see that does go out before the end of the season.

Moderator: The next question is from the line of Yash Agarwal from Crest Capital. Please go ahead.

Yash Agarwal: So want to know about the volumes for caustic soda, so last year we have got is I think 4.3 odd lakh tonnes, so this year what sort of volume are we looking at in caustic soda?

J. K. Jain: We should expect around 7%-8% volume improvement for the full year as we commission the new capacity, but the major increase will happen next year when all this new capacity will come into operation.

Yash Agarwal: Next year what would be a total capacity of caustic soda in annual terms?

J. K. Jain: We will be 1850 compared to 1350 right now.

Yash Agarwal: It is 1850 tons per day.

J. K. Jain: 1850 tons per day.

Yash Agarwal: So is that into 360 or something right?

J. K. Jain: Yes.

Yash Agarwal: About 6.5 lakh ton annually.

J. K. Jain: Correct.

Yash Agarwal: What is the INR realization I mean last quarter I think it was 35,743, sort of a current realization in INR terms?

J. K. Jain: No, we have given month wise realization in our presentation.

Yash Agarwal: I can see that is up to March. I am talking currently.

J. K. Jain: Not it is up to June I can read out the figures if you want and just note it down.

Yash Agarwal: What is the current realizations?

J. K. Jain: The April was 38,000, May was 36,000 and June was 33,500.

Yash Agarwal: And sir, currently in August how much was it?

J. K. Jain: Currently we will not be able to share right now. But this is what we can share as of now.

Yash Agarwal: But is it significantly below this number 33.5?

J. K. Jain: No that is what CMD just said that the global prices are about $400 per caustic, so you can work out based on that.

Yash Agarwal: So, about Rs. 27,000-Rs. 28,000 per tonne?

J. K. Jain: Yes.

Yash Agarwal: In the sugar segment sir, we saw 70 crore loss in Q1 right?

J. K. Jain: Yes.

Yash Agarwal: So, I am just trying to understand sir like 30 crore was the inventory charge, so 40 crore was actual loss right?

J. K. Jain: Right.

Yash Agarwal: So, on 1.8 crore, 18 lakh quintal we sold at 28. It does not add up, so because last we valued an inventory at 28 box, right?

J. K. Jain: So, we had valued inventory at 28.50 and the selling price average if you take was about 27.50. So, there was negative product margin and then you have the balance fixed cost and other cost which depreciation which comes into the picture.

Moderator: Thank you. We take the next question from the line of Anant Jain, individual investor. Please go ahead.

Anant Jain: My question is mainly related to sugar. So, we have the current minimum stipulated selling price of sugar at Rs. 29. Now, how do you see the inventories? Do you see our inventories bloating up for our company as well as other sugar companies going ahead? That is the first question. The second question is that when we see in Brazil where sugar and ethanol production is kind of fungible and depending on the realizations for sugar and ethanol, we keep moving between them. So, are we in a state like our current capacity which we have put up is mainly from the molasses. Can we also go from sugarcane juice to directly ethanol in the current capacity and in the new capacity as well and at what price point do you think it make sense to move from sugar to ethanol. That is my question and follow-up questions once again.

Ajit Shriram: Yes, so as far as your question on inventory is concerned as I mentioned on 1st October 2018, India-wide inventory will be roughly 10 million tonnes, which is actually amongst the highest ever. So, inventory levels in most companies will be high including ours and from the month of June the government has come out with the monthly release mechanism where they mandate how much maximum sugar you can sell in that particular month. So, we are also following that monthly release mechanism and it is because of this that the sugar prices have firmed up slightly. However, the quantity has reduced compared to what we were selling in the past. So, that as far as the inventory is concerned. As far as the option of making ethanol from either sugarcane or richer molasses in Brazil is concerned, there the cane prices are much lower than India. The average cane price in Brazil is roughly $25 a tonne, whereas in India it is $45 a tonne. So, there the swing capability of making it either from cane juice or molasses is much easier. However, the government has given a differential price for B-Heavy based ethanol in India from starting of 1st December. So, we are hopeful that some plants will do trial and as I mentioned to the question earlier on, the new sugar distillery that we are putting up, the 200 KLD distillery that is have the swing capability to make ethanol from either B-Heavy or C-Heavy and even cane juice.

Anant Jain: Sir, how much time will it take us for setting up this new distillery?

Ajit Shriram: We have applied for permission, the environmental clearance process is going on and we do anticipate that the distillery should be commissioned by October 2019.

Anant Jain: Last question on this sir. So, once we have the inventory bloating up, we have seen that the government does come and support in terms of working capital requirements and are there previous incidences around that is that like a fair assumption to have? Industry itself will not be able to handle that kind of inventory?

J. K. Jain: See, right now they have only come out with an interest subvention scheme for buffer stocks of up to 3 million tonnes for this particular season. So, we will be reimbursed the interest expenditure and the holding costs for this.

Moderator: Thank you. Next question is from the line of Jagpreet S. Bhatia from VA Capital. Please go ahead.

Jagpreet S. Bhatia: In continuation with the previous question, I just wanted to ask in the current capacity which we have right now, can we produce ethanol from B-Heavy?

Ajit Shriram: In the current distillery which we have, which is 150k distillery, we do not have the provision to make ethanol from B-Heavy.

J. K. Jain: Also, we do not need it because we have a lot of C-Molasses right now. We are not able to utilize the entire C-Molasses for ethanol, right. So, with this distillery we are dedicating it to C-Molasses only.

Ajit Shriram: Just for your information the current C-Molasses is going at relatively a zero price per quintal at this point of time as Mr. Jain just mentioned there is the surplus of C-Molasses in the state of UP.

Jagpreet S. Bhatia: So, are you procuring it come outside or utilizing your own?

J. K. Jain: No, we are not able to utilize fully even our own, we have to sell.

Jagpreet S. Bhatia: So, in case you convert the plant to work on B-Molasses in that case, I think your power plant would be redundant, right?

J. K. Jain: Power plant has no relationship with that conversion. Power plant is independent on bagasse based.

Ajit Shriram: I am little unclear about your question.

Jagpreet S. Bhatia: The current capacity, would it be more remunerative if you convert into B-Molasses conversion?

Ajit Shriram: No. it will be remunerative to C-Molasses than B-Heavy molasses by the current pricing formula.

Jagpreet S. Bhatia: Do you mean to say that the current B-Molasses prices ethanol would be is not remunerative, right? Rs. 47 whatever government has come out with?

Ajit Shriram: No, here the cost of production of B-Heavy molasses is higher because it is a richer molasses. It has got more sugar in it, so because we are using a richer molasses, it has got a higher cost of production compared to normal C-Molasses. So, as this point of time, where the government has taken Rs. 43 and Rs. 47 and some paisa for C heavy and B-Heavy respectively, it is not that remunerative to make B-Heavy molasses especially when C-Molasses is in surplus.

Jagpreet S. Bhatia: At what price point B-Heavy molasses would be remunerative for the entire industry?

Ajit Shriram: The breakeven is roughly Rs. 52.

Jagpreet S. Bhatia: And I am very much perplexed because the Center is the same, the UP Government is the same and industries in major problem we understand the kind of surpluses which is there. So, which lobby apparently is stopping government to give out Rs. 52-Rs. 53 kind of remuneration for B-Molasses conversion?

Ajit Shriram: See, there is no B-Molasses today in any case in the country. So, last year we were able to fulfill about 4%-4.5% of the ethanol quantity where the government wants 10% of the ethanol quantity to be blended in petrol. So, we are hopeful this year that the quantity of blend will go up and with few more distilleries is coming up besides ours, we are hopeful that next 2-3 years this goes up even further.

Jagpreet S. Bhatia: So, the price has to go up anyways, about Rs. 52?

Ajit Shriram: That is for the B-Heavy part of it. For C, 43 is a good price.

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

Rohit Nagraj: I just wanted to ask about how the demand supply situation for caustic is in India and globally? Just a color on it.

Ajay Shriram: I think the demand for caustic is moving quite stable. It is at about 6%. It is growing in India, which is pretty good, internationally it lowers it always has been. Internationally, if am not mistaken is about 2.5%-3%. But I think for the Indian economy 6% is a good growth and chlorine is marginally higher that is why chlorine prices also have turned positive. So, I think the economic growth in India is pretty good.

Rohit Nagraj: And how are the capacity shaping up domestically apart from our capacities which is coming up by FY20? Are there any new capacities in the pipeline and what are the timelines that they could be coming?

Ajay Shriram: There are some capacities coming in, it is one plant if I am not mistaken of about I think about 300 tonnes per day is expected to be commissioned.

J. K. Jain: See, there is new capacity from Aditya Birla which has come into operation from April which is 400 tonnes per day. Then in the next year we are adding 500 and then Meghmani and Kutch Chemicals are also planning to add 400 tonnes each which hopefully will come next year in the second half or so.

Rohit Nagraj: And sir, just last question on the same. If there is any specific reason why the prices have come down from about $600 3-4 months back in April to about $400 per tonne? Globally, anything had changed or any other reason the user industry is facing some issues or anything of that sort?

J. K. Jain: See, that is what we explain that the prices had risen to a disproportionate level in a short period of time of $400 to $750 in a 6 months period which then was driven by short term disturbances which has got corrected. That is all.

Rohit Nagraj: So, would this be a reasonable level for the prices to be at?

J. K. Jain: I think so. It should hold now but you can never say about commodities. It can go down also in the momentum but otherwise we feel $350-$400 is a good price to sustain.

Ajay Shriram: As with the India growth, the caustic consumption growth in India is also quite stable, which is a positive sign.

Moderator: Thank you. Next question is from the line of Anant Jain, individual investor. Please go ahead.

Anant Jain: Sir, the question is on the Bioseed side. How do you see the prospects of the entire seed industry and primarily the BT Cotton ones because there have been regular regulatory interventions and now at least on the Andhra and Telangana side hear is that there is like lot of spurious seeds coming in the market? So, how do you see the prospectus of this industry as a whole going ahead?

J. K. Jain: So see, cotton seed like you rightly said is the biggest component of the hybrid seed industry. And whatever developments have happened in last 2 years on cotton seed have not been very encouraging for the industry. So, both on the regulatory side with respect to the approval for new technology as well as pricing, I think the developments have been pretty negative for the industry and that is leading to these spurious products also coming in because new technology is not getting officially approved. So, illegal routes are being adopted by people. So overall, I think cotton seed scenario is not pretty good from regulatory point of view and price. Even the area I believe this year is little lower than last year. So, the market size is also little going down vis-à-vis last year. So, you are right cotton seeds scenario is not very good but the other crops corn, paddy, etc. are doing pretty okay.

Anant Jain: Do, we have any plans? How do we mitigate such scenarios, I mean, I do see when last year we had some problems on the Bioseed side which are continuing again this year like over at a longer term how do we see this business from a DCM, from a company's perspective where we will be?

Vikram Shriram: In the press there have been a lot of articles lately saying that why are we penalizing our Indian farmers by not giving them latest technology? The fact remains that the farmer is being penalized by not having access to technology and illegal seeds he is buying for Rs. 1,400 or Rs. 1,500 a packet. Whereas, the Government controls at Rs.750 or Rs.800, whatever the case maybe. So, hopefully somewhere along the line better sense will prevail, so that newer technologies can be introduced, and the farmer can benefit.

Moderator: Thank you. Ladies and gentlemen, that seems to be the last question for today. I would now like to hand the conference over to the management for their closing comments.

Ajay Shriram: Ladies and Gentlemen, thank you very much for your participation in our Q1 FY2019 Earnings Conference Call. We remain focused on strengthening our businesses by building scale, enhancing competitiveness and achieving forward integration in the chemicals and sugar segment. In agri-inputs and rest of our businesses we are working to expand our product portfolio, strengthen the value proposition, and build stronger customer connect. We are confident on delivering sustained growth over the medium-term while maintaining a strong balance sheet. Thank you once again for joining our Earnings Conference Call. Good bye.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of DCM Shriram Limited, we conclude today's conference. Thank you all for joining us, you may disconnect your lines now.
