DCM Shriram Limited
Q1 FY'21 Earnings Conference Call
July 28, 2020

Moderator: Ladies and gentlemen, good day and welcome to the DCM Shriram Limited Q1 FY21 Earnings Conference Call. As a reminder, all participants lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. Now I hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you. And over to you, sir.

Siddharth Rangnekar: Thank you. Good afternoon and thank you for joining us on DCM Shriram Limited's Q1 FY'20 Earnings Conference Call. Today, we have with us Mr. Ajay Shriram -- Chairman and Senior Managing Director, Mr. Vikram Shriram -- Vice Chairman and Managing Director; Mr. Ajit Shriram -- Joint Managing Director; Mr. KK Kaul -- Wholetime Director; Mr. J.K. Jain -- CFO and Mr. Amit Agarwal – CFO-Designate 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."

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' circulated earlier.

I would now like to invite "Mr. Ajay Shriram to give us a Brief Overview on the Company's Performance and his Views Going Forward." Over to you sir.

Ajay Shriram: Thank You. Good afternoon Ladies & Gentlemen and a warm welcome to the Company's earnings conference call.

Businesses today are operating in a challenging economic environment because of Covid-19, which is unprecedented. The diversified and integrated portfolio of Agri – related and Chloro-vinyl businesses and continuous focus on costs, helps us in managing our businesses better in such an environment.

Our Agri-related businesses have shown resilience to the effect of Covid-19, given lower spread in rural India, better Rabi season and normal monsoons. Additionally, the steps taken in our sugar business over the last 2-3 years towards integration as well as exports has provided stability to its performance. Agri-related businesses have witnessed good growth over same period last year.

However, our Chloro-Vinyl segment witnessed twin impact from lower capacity utilisation and lower prices. With the easing of the lockdowns by the government, these businesses resumed operations in a phased manner and are currently operating at ~70% and ~85% for chemicals and plastics respectively. Fenesta business also has started picking up and is operating at ~65% of its capacity. These businesses, recorded lower revenues and earnings during the quarter.

Now, I would like to share with you the business wise developments:

Sugar

Sugar Season 19-20 is expected to end with a total production of ~ 27 mn tonnes and domestic Sugar stocks at ~11 mn tonnes, about 5 month consumption. This season the total diversion of sugar through B heavy Molasses for ethanol was ~ 0.9 mn tonnes versus 0.6 mn tonnes in the last season and through exports is expected ~ 5.5 mn tonnes vs 3.8 mn tonnes in the last season. This has helped in managing inventory levels.

There is a requirement for continued support from government on Sugar exports as well as B heavy molasses to ethanol to manage domestic Sugar inventories.

During the Sugar season 19-20 we diverted about 5.05 lac qtls of Sugar through B heavy molasses versus nil in the last season. Export quota allocated to us is 22 lac qtls out of which we have exported 17.26 lac qtls till June'20 and balance will be exported by Sept'20. Last season we exported 9.22 lac quintals of Sugar. But for these measures our working capital would have been higher by approximately Rs. 750 crores.

During the quarter, we sold higher quantities of Sugar at 21.32 lac qtls vs 12.07 lac qtls in the same period last year, including exports of 5 lac qtls vs 0.5 lac qtls in last qtr. Sugar Inventory as on 30th June'20 stood at 34.53 lac qtls vs 41.19 lac qtls last year. Ethanol sales were up at 286 lac ltrs vs 129 lac ltrs in last qtr as a result of new 200 KLD Ajbapur Distillery.

We must complement the central and state governments for their support to keep this business running throughout the lockdown.

Chemicals

Chlor-alkali business was adversely impacted by multiple phases of lockdowns announced by the Government during the quarter. We have ramped up capacity in a phased manner since April'20. Given the demand scenario, we are operating at ~70% in our Bharuch facility and about 90% at our Kota facility.

While the stable chlorine demand led to rise in operating rates, recovery in domestic caustic demand has been slow which has caused prices to remain under pressure. The consuming industries of Pulp & paper and textiles are still operating at sub-optimal levels leading to lower demand.

On international front, the Caustic Soda exports have increased during the quarter and prices have been stable in the range of USD 250-280 (FOB)

We expect demand to build back in the user industries gradually as the economy revives. We are making efforts to penetrate newer markets as well as enlarge customer base to enhance production levels.

We are finalizing our plans on Chlorine downstream products. Impact of disruptions caused in demand-supply chain due to Covid-19 will determine the timing of these investments.

Plastics

The domestic demand declined during Q1 FY21 impacted by lockdowns in the wake of Covid-19. The production was affected largely during April and May 2020, it has improved in a phased manner thereafter and the current capacity utilization is ~ 85%.

The PVC realizations were lower during Q1 FY21 due to substantial decline in international prices. PVC prices started improving since June '20 with recovery in international prices. International prices are currently at a level of ~ $860/MT from a low of around USD 700/MT level in April-May ‘20. Given lower operating rates globally, the prices are likely to remain supported.

Commissioning of new 66 MW power plant at Kota has significantly improved power efficiencies for Chloro-vinyl at Kota. Fuel rates have also reduced over sequential quarter.

Agri – Inputs

This segment covers our Shriram Farm Solutions, Bioseed and Fertilizer business.

Agri-inputs were classified as essential items during the Covid-19 related lockdowns. Company took proactive steps to ensure that the products reached markets well in time and there were no supply disruptions. All three categories of SFS business viz. seed, specialty nutrition and crop care chemicals witnessed growth with an overall growth of 26% YoY. With normal monsoon and focus on research, the business expects to maintain the growth momentum.

Bioseed India revenues showed good 23% increment driven by higher sales for corn and hybrid paddy. Our research activities have ensured a strong pipeline of products. Timely rainfall advanced the sowing activities and timely sowing activities will certainly have positive impact on the yield and farmer at large will get benefited. Our operations at Philippines have stood steady.

The Fertilizer segment has delivered normal volumes in Q1 FY21. As expected, the subsidy outstanding has built up to Rs 660 crore given the impact of Covid-19 on Government finances and is a matter of concern. Lower gas prices will help reduce the build up to a limited extent.

Fenesta

Fenesta has seen negative impact owing to restrictions due to Covid-19, given that we offer premium solutions that are customized as per end user requirements. The Business has started operating since May’20 and presently operating at ~65%, which is better than our expectations. We envisage a gradual turn around in this business.

Our energies are focused on driving higher efficiencies and better synergies. Covid-19 has given us an opportunity to re-imagine the way we operate and optimize our operations and costs. We are emphasizing on restoring normalcy in utilization levels across the impacted segments even as we carry forward our growth and efficiency initiatives. Through the first quarter we continued to report positive free cash flows. We are maintaining adequate liquidity and are working on further strengthening the same on a sustainable basis. Our balance sheet has strengthened further with reduced debt levels during the quarter. These steps will ensure that we sail through these tough times as well as continue our growth initiatives.

With that I would like to request Vikram to take you through the discussion on our financial performance.

Vikram Shriram: Thank you. Good afternoon everyone. I will take you through the financial highlights for our Q1 FY21 results.

1. Net Revenues during the quarter came in at Rs. 1,912 crores vs Rs 1,902 crores during Q1 FY20. The Agri related businesses ie Sugar, Urea, Bioseed and SFS recorded increase in Revenues from Rs. 1,010 crs to Rs. 1,490 crs. All these businesses recorded volume growth over last year. Chloro-Vinyl and Fenesta segments recorded drop in revenues from Rs. 846 crs to Rs 387 crs during the quarter. The volumes drop due to Covid-19 related disturbances contributed ~ Rs 350 crs to the drop in revenues of Chloro-vinyl and Fenesta.

2. Chemicals operated at a capacity utilization of 51% for Q1’21. It has reached about 70% now. Plastics recorded capacity utilisation of around 44% for the quarter and is operating at ~85 % now. Fenesta had nil sales during April 20 to early May 20 and has now reached about 65% capacity levels.

3. The prices for chemical business continue to decline. ECU realization is ~38% down YoY and 8% QoQ. The prices seem to be stable since June‘20. PVC prices had sharp drop in April and May 20 but have recovered in June and are holding at higher levels.

4. PBDIT in Q1’21 stood at Rs 192 crores as against Rs. 374 crores in Q1 FY20. The PBDIT was adversely impacted with low volumes due to Covid disturbances to the extent of approximately Rs. 110 crores and due to lower prices in Chloro-Alkali segment by Rs. 103 crs.

5. Higher Profits driven by higher revenues from Urea, SFS, Bioseed businesses and returns from projects commissioned during FY20 i.e the 200 KLD distillery and 66MW power plant, mitigated the above said adverse effects partly.

6. Planned reduction in fixed costs during the current year also provided part cushion during this quarter.

7. On the balance sheet front, net debt as on 30th June, 2020 stood at Rs 1,167 crores as against Rs 1,623 crores at 31st March 2020. The company took determined steps to export sugar, to maximise ethanol sales even to distant location, to maximize collection and rationalize capex. These steps helped in positive free cashflows during the quarter and thereby reducing net debt. We plan to keep pursuing these initiatives going forward also.

8. Realization of government dues is a matter of concern given the tight government finances. We are working through Industry Associations for recovery of these dues.

9. The execution of the expansion projects is being planned keeping in view our cash flows and the market dynamics. We are focusing on keeping our Debt at safe levels and comfortable Liquidity position at all times.

That brings me to the end of the financial discussion and will be happy to take questions that you may have. Thank You.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Sir, on the caustic chlorine front, you have mentioned that demand from paper and pulp and textiles has been relatively lower. Could you just give a sense of how has been the demand shaping up across other sectors?

Ajay Shriram: If you look at the other sectors, which are basically on the aluminum side, on the soap side, they are actually picking up a little bit, which is a good thing. That is a positive direction which is happening. In the last couple of weeks, we found that paper and pulp has also picked up a little bit, but I think textiles is a sector which is unfortunately not picking up and that is creating a problem.

Rohit Nagraj: In terms of chlorine, you mentioned that we will be probably going in for some chlorine downstream products. So, any sense on that? And how much is the current chlorine utilization captively?

Ajay Shriram: We are looking at various chlorine downstream products, as Vikram has also mentioned, I have also mentioned that considering the unfortunate situation for the last four, five months of the corona crisis, we are revisiting our investment plans because we do not want to get into a debt situation. So, we are revisiting that and we are refocusing and studying various projects right now. So, something will happen in due course of time. It is difficult to give a timeframe for that. In terms of chlorine, our captive consumption in Kota, it is fairly high because we make PVC. So that goes in over there. In Bharuch, we are using some chlorine into aluminum chloride. So that is going in there also. But the interesting part also in our Gujarat factory is approximately 36%- 37% of our chlorine production goes by direct pipeline supply to consumer industries. So, we do not have to put into tunners. It goes directly to consumers who are within our periphery, so that goes by direct pipeline. So, they are virtually like captive users and there is a direct supply to them and we are building on that further. So, we are hoping that we get some more people who will take chlorine directly. And of course, when our chlorine downstream comes in then automatically more will go into that.

Rohit Nagraj: Last question on the projects and CAPEX for this particular year. So, I think in the last concall, you had mentioned that the Rs.1,000 crore caustic soda expansion at Bharuch should be there. Apart from that, anything else? And what is the overall plan of CAPEX for FY'21?

Ajay Shriram: As we mentioned, we spend approximately Rs.110-120 crore for normal CAPEX upgradation of all our plants annually. So, that will carry on because we are not compromising on safety or health of the equipment in any manner. But the other investments which is for the power plant and the chlorine expansion, as we mentioned earlier, we are revisiting this because of the economic environment, because of the pricing, because as someone mentioned earlier also I think it came up that competition is coming in. So, we are revisiting that we will take a decision in due course of time.

Moderator: Thank you. The next question is from the line of Pratik Tholiya from Elara Capital. Please go ahead.

Pratik Tholiya: Firstly, on the chlorine front, what could be the current chlorine prices or maybe during the quarter was it in the negative territory?

J.K. Jain: The chlorine prices in Bharuch have been running positive throughout last year and they continue to be positive. Of course, not very significant, it is roughly Rs.1,000, Rs.2,000 range positive. Kota has been running negative last year also and continues to be negative by equal number.

Pratik Tholiya: The chart that you have given in the presentation on the ECU realization and the CFR prices, during the quarter the import prices were steady at around $298/MT to $295/MT. But our domestic prices have come down from Rs. 23,000/MT to Rs. 20,000/MT. So is it largely to do with the chlorine prices coming down or the overcapacity or how do you explain this decline in the domestic prices more versus the export prices?

J.K. Jain: Essentially, Pratik, is reflecting that there is domestic surplus so which is leading to the domestic prices of caustic soda being lower than the landed cost of imports It used to be at landed cost equivalent but because of some domestic surpluses right now, there is this discrepancy and industry is tackling it by making aggressive efforts to export caustic soda so that some parity is restored.

Pratik Tholiya: Do you expect the prices between import and domestic normalizing to happen in the next one or two quarters?

J.K. Jain: It will be driven by like CMD mentioned what happens in the textile sector and paper sector. So, therefore, what happens to demand will drive this. Of course, the good thing is there is no new capacity coming in between now and last quarter. So, it is largely dependent on demand only.

Moderator: Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: My question is on the ECU realization. So, just a follow up of previous question. So, you mentioned that the price has been under pressure. So, the exit realization looks even lower than the average realization for the quarter. So, the price has continued to trend down even in July after the June number of 20,800?

J.K. Jain: It has largely, Prateek, remained in the same range. There are commodities, there is movement of ~Rs.1,000 it remains in that range only, it has not broken out of range.

Prateek Kumar: You mentioned on slowing down on for CAPEX on chlorine and otherwise. So, any feedback you would have for industry like others or most of the capacities are now online for caustic in terms of domestic production?

Ajay Shriram: You will recollect some time back Grasim also made a statement that their expansion plans also, they are revisiting the timing. And I think because of this COVID crisis which is impacting India and the world, commodity prices have been impacted negatively, because of the availability of product and the consumer markets not picking up adequately. I think we will take a decision in due course, because the expansion plans are very much on the agenda. That is something we are keen to do and maintain our position as a major player in the Indian market. So, we will take a decision in due course of time.

Prateek Kumar: Pricing is more of industry phenomena, but anything on cost front, which we are doing to I think control fixed cost?

Ajay Shriram: That is something which actually I think as we mentioned earlier, that as the corona problem started, we had CFTs, cross functional team set up in all our businesses with the objective of revisiting our entire way of working, revisiting our organization, revisiting our purchasing strategies, revisiting our suppliers, and seeing how we can improve efficiencies across the board. And this has been a very interactive session with our suppliers and with our buyers, including our trade, etc., to see how we can have a sort of benefit running across the board. Fortunately, coal prices came down and energy is about 65% of the cost of production of caustic soda chlorine ECU. So, with that we have had advantage of lower costs. We are consciously always working to be world-class as far as the cost and efficiency are concerned. And we are in that state at both our operations.

J.K. Jain: Also, in Kota, we commissioned in Q4 last year, a 66 MW power plant, which replaced our older power plant, so that will bring down our power costs for this year compared to last year.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Sir, first question is on this plastics and PVC. So, we have seen that though there is a decent demand from the pipe industry, except that muted in April, we have reached to 85% utilization in PVC, that is what you mentioned, right. So, how is the demand scenario now? And do you see that there is a further possibility of any price increase? The prices have already gone up. And how do you see the utilization level going in next two to three quarters for PVC?

Ajay Shriram: I think two, three things have happened which have been positive; one, the International prices also went up a little bit. So that has had a positive impact because you may be aware that India imports over 50% of its annual requirement of PVC. Our domestic production is less than 50% of annual requirement. So, imports are very high. Some of the larger players had committed export orders with their fulfilling. So that has led to a situation in India whereas you rightly said the pipe industry is also moving better after the lockdown has been lifted. So, it is difficult to say. I think frankly, we just want to make a policy and a practical statement commodity prices, no one can predict. It depends so much on supply/demand and the situation of the user, situation of the international market, situation of the logistics, all the things keep varying. Our attempt always is how do we maximize our realization for the benefit of the company. And rightly so, the prices have gone up a little bit over the last month or two. And we sincerely hope to sustain. Our effort is on to see how we can explore newer markets, go a little further away from our normal market so we can run at a higher capacity than 85%, so that effort is on all the time.

Rohan Gupta: And in caustic chlorine, because of chlorine, demand is under pressure right now and that is why our utilization has only ramped up to 65% or the overall lower demand of caustic soda which is impacting this business?

Ajay Shriram: It is both. In fact caustic is the one which created a lot of problem due to which caustic prices fell very dramatically. And as you are aware, ECU for caustic also dropped a lot but that is fortunately picking up a little bit right now. Caustic is also running a little plus minus, but they both got affected frankly because if you look at these five, six industries we talked about, they impact both these industries. Chlorine direct supplies and all that is something which is a positive sign, where exports at least of our chlorine buyers in value added chemicals is moving and that is picking up. So that is also a positive situation. But both of them are impacted because of the supply/demand side.

Rohan Gupta: And how do you see that this chlorine demand picking up and that can help us in ramping up the utilization further or the problem still likely to continue for some more time on the chlorine side?

Ajay Shriram: I think it depends so much on the GDP growth of the economy of India. One has to look at that in overall capacity because caustic chlorine both are used in such a wide variety of user industries. As I mentioned earlier, textiles is having a tough time, consumption there is low, paper pulp is picking up, but not to the level of what they were earlier. So that has had its impact. But we do feel over the next two to three quarters, we should be in a much better position.

J.K. Jain: Rohan, textiles actually is a big user of chlorine as well as caustic soda. So it does impact both the sectors. I think how textiles picks up for the further capacity utilization will depend on that also.

Rohan Gupta: Third question is especially slightly on a long-term strategy of the company. So, the company like us which is already sitting on a solid balance sheet and with the sufficient cash flow generation… you made a statement that you are being cautious right now on chlorine downstream expansion. Actually I was expecting and wanted to hear the other way around the statement that you are turning more bullish and want to increase the investment probably in the current scenario because the chemicals scenario in India continues to remain bullish irrespective of maybe one or two quarters impact of COVID. But a company like us, which already sitting on a strong balance sheet and can also raise debt if required, I just wanted to understand that why we are becoming a slightly more conservative in terms of putting CAPEX and why not taking this as an opportunity to go ahead and make an aggressive investment either in a chlorine downstream or even in associated chemical industry?

Ajay Shriram: As we mentioned earlier that we are aggressively looking at downstream development on the chlorine utilization front organic and inorganic, both, and our teams are working. And whenever we get a good opportunity, we will definitely look at it in a much more serious way. We have discussed this matter at our senior management level as well as the board level. Let us be honest, because the economy is under stress, so, our approach is that we want a healthy balance sheet. At the same time, if we have a good project, we will definitely invest in that. So there is activity going on.

Rohan Gupta: When you mentioned that inorganic growth opportunity and you have been talking about it from almost quite some time now. So even in the current scenario, where we have seen that many businesses probably are going through a stress time, so do you see that the valuations and expectations from the other side of the party has now reduced and the number of opportunities are much more now and we can expect something materializing in next maybe a year or something?

Ajay Shriram: Rohan, we are actually actively looking at it. We have teams working on it and they are looking at exploring many opportunities. Difficult to say each one and I think it is not fair to talk about companies that way. But in terms of overall, if it makes business sense, whatever the valuation, we will definitely look at it much more seriously.

Rohan Gupta: When you are looking inorganic, is it like you will be more comfortable in the commodity chemicals more in line of you or will be looking more in specialty chemicals where you are also seriously looking at opportunities and have also hired a person in that and to see the opportunities?

Ajay Shriram: No, it is a specialty chemicals. That is where we are wanting to focus on. In terms of this further downstream utilization would be in specialty chemicals.

Rohan Gupta: Will it be on your agrochemicals, pharma or textiles, chemicals and all?

Ajay Shriram: Yes, we are looking at. You are right, agro also utilizes and there are so many other products which also have combinations and the range is large. So we are looking at various options and alternatives.

J.K. Jain: Rohan, because the range is large, it is taking time to make up mind because it does require deeper analysis. So wait for some more time. I am sure you will hear more.

Moderator: Thank you. The next question is from the line of Jyoti Amonkar from NMV Securities Please go ahead.

Jyoti Amonkar: Actually, my question was in the sugar division. So the distillery that we have commissioned, so what are the operating days of a distillery as of now the 350 KLD?

Ajit Shriram: So basically the older distillery that we have commissioned, that has been running at roughly 330 days in the year and the newer distillery was commissioned in December, that we are yet to see but our target and aim is to fully optimize utilization and aim to run 330-days in a year.

Jyoti Amonkar: In this FY'21?

Ajit Shriram: In FY'21, the new tender is yet to come. So depending on the new tender pricing in terms of B-heavy, cane juice or syrup to be used for making ethanol, we are yet to finalize our structure, but our aim obviously will be to ensure that we move towards 100% utilization.

Jyoti Amonkar: As of now, I think combining both the capacities utlization is somewhere near 60% capacity utilization?

JK Jain: No, we are running both distilleries at full capacity, both of them.

Jyoti Amonkar: And on the sugar, new 38,000 TCD, production is somewhere near 70 lakh quintals like the last two years from when it is commissioned, right. So what production do we expect in next one to two years in the same range or depends on the export we get and whatever production would be for the next year?

Ajit Shriram: There are two or three parameters over here once again. As I mentioned to you, depending on the B-heavy ethanol pricing, the cane juice or syrup ethanol pricing, we will want to divert more sucrose into manufacture of ethanol and make less sugar comparatively, #1. #2, depending on the government's export policy, we would like to maximize our exports. As mentioned earlier, the government wanted to export 6 mt of sugar this year and most likely they will be able to export 5.5 mt. Out of this 5.5 mt, we will be exporting 22 lakh quintals of sugar.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Sir, firstly, if you could give more clarity on the reduction in power cost with the replacement of the new power plant, that is at Kota and what is the annual reduction in the power cost?

J.K. Jain: As we reported in the past, Saket, we have invested about Rs.240 crore and we do expect about 25% return on that investment on an annualized basis, so which means on an annualized basis it should give us the benefit of roughly about Rs.60 crore or so.

Saket Kapoor: Rs.60 crore straightly going to the bottom line?

J.K. Jain: Yes.

Saket Kapoor: Just to get the sense of the global caustic soda market, as earlier producers have been looking for ADD going forward and here we are trying to export much of the quantity outside India. So how does the position shape up and what is the update on our petition for anti-dumping duty (ADD)?

Ajay Shriram: We are in fact in touch with the government very closely as well as with NITI Aayog. And the Alkali Manufacturers Association is actively talking about this with the Chemical Ministry as well as with the Commerce Ministry. So I think with government we are on this, we sincerely hope something does happen on this situation the way it's going. But for every situation, you are aware, there are two sides of a coin. So there is a discussion from the other side saying, don't do it, we are pushing and saying please look at it because of the impact on the industry which is very severe. So it's moving at the same time by the industry also. But the good thing is, the industry is also aggressively looking at exporting. And that will take care of some of the surplus in the country. So that can be a positive impact on the domestic prices, which is majority of the sale of any company. So that focus is there. The flakes prices also are better than live prices, so there is also exports of flakes which is happening, which is again a good value add, which is a future direction. So industry is looking at all alternatives and options to increase the ECU realization.

Saket Kapoor: Sir, at these prices also, do they have incentives of exporting? Just to dwell on the point.

Ajay Shriram: Yes, exports is not necessarily a financial decision only, it's also a strategic decision. So, I think each company takes their own view, but companies are exporting and so are we. So, I think that's the direction we have decided to take.

Saket Kapoor: And sir, taking into account the position which is there for the chemical sector, also you talked about an inorganic opportunity in the specialty chemical, is it related to the sugar sector itself, because there the derivatives are also being diverted to specialty like ethoxylate and the nutraceuticals, are we looking in that segment in any totality?

Ajay Shriram: In fact, from the sugar industry point of view, you get rectified spirit or ethanol, that's a different chain altogether, that's a different value downstream product group altogether. So our chlorine one is different and that is different, our today focus is on the chlorine downstream, that is where we are looking at really.

Saket Kapoor: Okay. And we did a JV also with the US partner in the PVC compounding part. Any update on that front? Because what the numbers we have reported for last year, we didn't find anything material to it, anything which you want to share going forward?

Ajay Shriram: Sure. I think that business is a comparatively smaller business and the specialized products we are getting for various market, part of it was for the auto industry and auto industry has been under stress, so that got impacted. But we have the other areas of electrical also and medical etc. So there the focus is strong. So the stable business they are working to improve further, but it's not a large part of our portfolio.

Saket Kapoor: And sir, a very small understanding on the sugar. Sir, I think that this year I think the agri portfolio is more stable in terms of giving the way forward then the chemical segment. So sir, as you have earlier mentioned about a policy change in the way incentives were calculated, we did export a large quantum. So what are the incentives which we are getting out of sugar exports? There was a policy change last year as per the sugarcane prices, the revenue one. So how have this affected and have accelerated the export of sugar?

J.K. Jain: No, the incentive policy, Saket, is very clear now, that every tonne of sugar that you export, government gives roughly about Rs. 10,800 per tonne as the incentive for taking care of various expenses. Earlier it wasn't linked to export only, it was also linked to cane crush etc., etc. So that's the major change that instead of relating it to cane crash, it is related direct to export now. And that is what has given a fillip to export, like JMD mentioned, the export this year is expected to be almost 5.5 million tonnes, which is unprecedented. So, the incentive scheme has worked in that sense.

Saket Kapoor: On the new seed policy that has come up wherein they have mentioned that the custom production can be done. Sir, there was a patent issue when we used to receive an assignment from a country which needed bulk of the seed production, they used to give us the type of seed they wanted for bulk production, and at the time of export there was some patent issues which needs to be settled. Now that has gone away, so the job can be done very easily. So, I wanted to understand, what kind of opportunity opens up in the global seed market for us?

Vikram Shriram: We are not looking at custom production of seeds, our seeds business is based on in-house research. And we do basic research and our seed business is based on our own IPR for both the domestic market and now the Philippine market. The other two markets we have exited the business, Vietnam and Indonesia. We are not in the business of custom seed production.

Saket Kapoor: Okay sir. And sir, so what are the cyclicality in the business on a quarterly basis? How should we look at the numbers? And then I will come in the queue.

Vikram Shriram: It's a seasonal business. The first quarter is the main business quarter. There is some spillover to the second quarter, and then there is a smaller sale in the third quarter.

Saket Kapoor: And how is the fourth quarter?

Vikram Shriram: Fourth quarter is very marginal. If vegetable seed picks up, so yes, there is some sale in four quarter also.

Moderator: Thank you, sir. We have next question from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Sir, I mean, to understand a little better on this sugar business, one side we say that we are awaiting a new policy from the government on the ethanol, I mean, not policy but tender. But simultaneously, we are saying that we are operating at

100%. So, I mean, whatever ethanol is produced that currently we are selling it. So, this new price which we are looking is for sugar year 2021 or which year?

J.K. Jain: See, the ethanol year runs from December to November. So, we already have the tender allotted to us for the supplies up to November 2020. You are right, what we are looking at is the pattern to be followed or the product mix to be followed for the 2021 season.

Bharat Sheth: Okay. Sir, in opening remarks you said that we had almost doubled our ethanol supply in this quarter. Whereas one refinery which has started in the December, as you said, how do we see vis-à-vis this last year full 2019-2020 vis-à-vis 2020-2021 additional supply of ethanol?

J.K. Jain: See, at this capacity which is 350 KLD, we can produce 10 crore to 11 crore liter ethanol per year. And our intention is to run at full capacity, both on C and B-heavy, whatever works out. So, that's how you should look at that, we should be aiming at about 10 crore to 11 crore liter sale on an annualized basis.

Bharat Sheth: And how much was the same for a previous year FY 2019-2020?

J.K. Jain: I don't have that ready number in terms of quantity. But obviously, it was less because this distillery was commissioned only in December.

Bharat Sheth: Correct. Second thing, sir, you said that we are also looking to produce ethanol from cane juice. So this new distillery which we have started is 200 KLPD, correct? And 150 KLPD is the old one, is that fair understanding?

J.K. Jain: Yes.

Bharat Sheth: So to understand, I mean, both the refineries are capable of doing from the cane juice, or we need some modification if we have to go for cane juice?

J.K. Jain: We haven't done cane juice so far, we have only done B-heavy. Our calculation on the present price pattern shows that cane juice is not viable right now economically. So, I think it will depend on what kind of prices is fixed and when we will have to experiment that. Right now we have only done B-heavy.

Ajit Shriram: That's right. I think some minor modifications are required to be able to use cane juice. However, as Mr. Jain mentioned right now, it all depends on the pricing. If the pricing from cane juice is more attractive, then we would like to use the cane juice route so that we can divert more sucrose into making ethanol.

Bharat Sheth: Okay. Sir, and one more thing that about a couple of years back when government came out with this CNG policy, I mean, produce from the press mud and various ways. So, whereas this area where the waste availability is a difficult, whereas press mud is easily available with our sugar plant, so are we looking to use those press mud more for the generation of biogas? Not CNG, biogas.

Ajit Shriram: No, what we do is actually we give the press mud to the farmers so that the farmers can use this as an organic fertilizer in their field, and this program is working very successfully in all our four units.

Bharat Sheth: Okay. And this 200 KLPD, how is it, more better, efficiency wise than the 150 KLPD?

Ajit Shriram: See actually, Bharat, in terms of efficiencies, we have optimized the efficiencies of both the plants. I mean, in terms of vintage, both the plants are roughly one year apart. So, we have taken the learnings from the 150 KLPD and also implemented it in the 200 KLPD. At the same time, we have improved the 150 KLPD from our learnings, so both are at par.

Bharat Sheth: So sir, now coming to this agri input, if we look at our bio seed, special nutrient and fertilizer on an annual basis, so how much each contributes? And how do we see all these three business, I mean, for 2021 and going ahead?

J.K. Jain: See, you are talking about Bioseed and SFS, right?

Bharat Sheth: And as well as fertilizer also. So how much each contributes on an annualized basis? Because see, quarterly number is typically first quarter…

J.K. Jain: Yes. So, I mean, broad number, Bioseed has about Rs. 400 crore sale on an annual basis, SFS has about Rs. 800 crore, and fertilizer of course sale value varies depending upon the price, but we produce about 4 lakh tonnes of urea every year. Now, as visible in the first quarter trend, SFS and Bioseed this year are registering good growth, and the outlook is that at least they should have around 20% kind of growth for the full year, plus accordingly the profit should also go up.

Bharat Sheth: Okay. So, how much is EBITDA for each business, is it possible to get some kind of average, I mean, agri input business, I mean, some kind of ballpark range?

J.K. Jain: I mean, the profit pattern is different because SFS is more of a traded business, the PBDIT will be roughly in the range of 10% of turnover, whereas Bioseed will have a little higher, depending upon the volume. And fertilizer is not on EBITDA margin basis.

Bharat Sheth: It is per tonne.

J.K. Jain: Yes, fertilizer is per tonne kind of thing.

Bharat Sheth: And Bioseed, you said we have corn and hybrid rice, so are we looking to expand the portfolio?

J.K. Jain: No, we have cotton, we have corn, we have paddy and we have vegetables, we have Bajra also, but that is small. So, right now, the objective is to increase the product offerings within each of these.

Bharat Sheth: So you said corn, hybrid rice and…?

J.K. Jain: Corn, hybrid rice, cotton, bajra and vegetables.

Bharat Sheth: And sir, I mean, this vegetable is contributing around what levels?

J.K. Jain: I think total will be about 12% kind of turnover, so roughly Rs. 40 crore to Rs. 50 crore will come from vegetable on an annualized basis.

Bharat Sheth: So this business is seasonal, so a lot of OpEx cost is the effected in Q2 as well as Q3. So what exactly is our long-term strategy to make this whole business, I mean, evenly spread during the year?

Vikram Shriram: Cannot be evenly spread, it's linked to the two cycles of kharif and rabi. Whereas the nature of cost because of heavy research cost, we are a very research intensive business in Bioseed, they are spread evenly. That is the nature of the business. But the value of the business comes from maximizing sales, which comes from a high quality research. So we are working in that direction and we are hoping to see further growth in the coming years.

Bharat Sheth: Is it correct to understand that vegetable is more evenly spread?

J.K. Jain: No, vegetables also has seasonality. But see, I mean, just to add to what VCMD has said, even at a country level, cotton is a big crop for seed industry. And cotton takes place only in kharif, so therefore, you will always have seasonality in this particular industry, you can't have even sale.

Moderator: Thank you very much. We have next question from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Thanks for the follow up. Sir, since we will not be having any serious expansion plan, so what is the kind of debt reduction that we see for FY '21 and the consequent cost of debt?

J.K. Jain: I don't think we are saying we will not have CAPEX. I think all that we have said is that we are right now reworking the timings of the announced CAPEX, which is the Bharuch CAPEX of Rs. 1,070 crore. And we are also looking at the downstream chemical, so it maybe the timings could be a little flexible, but I think we will invest and we will invest in growth, I don't think we are changing that plan. So, therefore, I mean what we have said as a guideline going forward that we would like to keep our debt-to-EBITDA between 1.5x to 2x kind of thing. So, we will remain within that range is what we can say, other things will depend on the timing and how economy takes off. As far as cost is concerned, of course, the cost has gone down compared to last year. As you know, the CP rates are now between 4%, 4.5%, so we do borrow working capital through CP market. The long-term loan rates are at about 7% kind of thing.

Rohit Nagaraj: Okay, thank you. Sir, any sense on the subsidy front in terms of the DBT on fertilizer, it's been in the works for last couple of years. How is it shaping up or any idea about what's going to happen?

Ajay Shriram: Well, I think as we mentioned earlier, the government's finances are under a lot of stress, in fact their tax revenues have come down and they have spent a lot of money and have to spend a lot of money to tackle the Corona problem also. So, our apprehension is that the outstandings will go up. It's already gone up compared to the previous years, as I mentioned earlier, it's already about Rs. 660 crore. You don't know, the industry is working very actively with the government and the Financial Ministry, the Department of Fertilizers, saying please release more funds, please arrange for some funds, please arrange your credit for gas which we buy from GAIL, and the interest costs on that government should pay. So, there are various avenues of dialogues going on, and we hope something happens. But the reality is, the government is stretched for funds. So, that is likely to impact the fertilizer industry.

Rohit Nagaraj: Okay, thanks for the entire explanation. Sir, on the cost optimization front, we have taken certain measures. So, what is the benefit that we are expecting on a yearly basis, any number to that?

J.K. Jain: See, numbers is difficult to predict right now. I think what we are trying to say is that at least cost does not go up vis-à-vis last year is the first objective. I think depending upon how economy takes off, we will see whether we need any other measure of cost reduction.

Rohit Nagaraj: Okay. And sir, one last question on the sugar. So, sugar revenues have been up by 18%, but EBIT has been lowered. And we have mentioned that there is one-time impact, because last year there was an income. Is there any other factor to it or just because of the higher depreciation and interest?

J.K. Jain: No, two, three things. See, one is, of course, like we have mentioned in our release, the sugar realization were about Rs. 50 a quintal lower than same period last year. Also, the recovery was little lower than last year, last year we were about 12.1, this thing for the season recovery has been 11.92. So, that has meant higher costs. But besides these two factors, there is no other factor for the profit situation.

Moderator: Thank you. We have the last question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Sir, we did move into the portable alcohol segment, what is the update on the same?

Ajit Shriram: Saket, basically there is an obligation by the UP Government where we have to reserve a certain level of molasses. In this in the current scenario it is 18% of the total molasses produced has to be sold for manufacturing of country liquor. So, essentially we are value adding on this quantum of molasses to do the portable country liquor ourselves, instead of selling it at a subsidized price to other companies. That's the only rationale.

Saket Kapoor: I got the rationale, but what is the update, this season are we doing anything on this front?

Ajit Shriram: We should be commissioning it in Q4 of this year.

Saket Kapoor: Sir, in the opening you gave that the utilization levels are currently 70% for caustic soda and 80% to 85% for the PVC segment. And this is in comparison to what was the average utilization for the June quarter, for both the segment?

J.K. Jain: June quarter, if you say quarter as a whole, chemical was utilized to the extent of 51%. But June month it was about 72%, PVC actually started in mid-May only, so

April and first fortnight of May we had no production, it has only picked up in the second fortnight of May and June.

Saket Kapoor: Sir, 40% volume growth we should expect Q-o-Q, just on the basis of the higher utilization levels that we have undergone?

J.K. Jain: Yes. If you are taking Q-o-Q, yes, then it should improve.

Saket Kapoor: It should improve, 40% volume growth should be there. Sir, if we go to your subsidy part, we find that we exited the Shri Ganpati Fertilizers, and that subsidiary was profit making, and even last year also we did post profit. And another subsidiary which is showing losses is the infrastructure part, what is our strategy going forward?

J.K. Jain: No, I don't think you are right in saying that SGFL was making profit. SGFL actually was just breaking even at PBDIT level, was not able to even recover interest for working capital. So it wasn't making profit, it wasn't growing. And as we decided to exit bulk fertilizer, it made sense to exit that also. As far as infra is concerned, I think it is not making losses, it had one project which was allotted, which has been cancelled. So, the loss this year is only representing the write-off of CWIP that we had incurred on that. That project was not viable, therefore, there was no point in starting that project.

Saket Kapoor: So going forward, what will we be contribution, what is the next year going to be for the infrastructure company?

J.K. Jain: No, we are not investing in the power projects. As I said, that has already been surrendered.

Saket Kapoor: So, no impact good forward?

J.K. Jain: Yes.

Saket Kapoor: Last point, sir, on the fertilizer business, urea part. Sir, is it a strategic investment? We are a very old player in the urea segment, and a big one also. So, looking at what the capital employed looks, wherein year-on-year there has been a growth, and this being a subsidized product government finances are at strain, it will be elongated for the release of subsidy. So, what are the reasons that we want to continue in this segment of the urea part? If we take the capital employed, it was Rs. 600 crore, this time it is Rs. 768 crore. But what is the thought process for the urea?

Ajay Shriram: See, urea actually has been a traditional and it was one of the first factories setup at Kota. And Shriram Urea brand is very well known in the marketplace also. Along with that, we have added many other products with our dealership network and to the farmers. So that sells and urea business still carries on. And it's a traditional business, we have added value through various other products, which are riding on the back of urea fertilizer, which was started over 50 years ago, a plant was set up in 1969. So it's an established business and that's how we are in it.

Saket Kapoor: But do you look at the capital employed in this segment, is it remunerative, sir? In that sense, if the same is being deployed to the different vertical of yours, does it make more sense or to remove the vagaries of securities and other business, this is a solid platform which you want to continue?

Ajay Shriram: This is a challenge. I think with the government it is a challenge, industry is also saying please revisit the way you are looking at giving the subsidies. The government is talking about giving direct subsidies to farmers so you get a price straight from the farmers rather than going through the subsidy to the farmers from the government through the industry. So, we are talking to government of various avenues to try to smoothen this out, let's see what happens. We are not sure what will happen.

Saket Kapoor: Sorry to interrupt, but foreign players have invested earlier, when Tata Chemical exited the segment. So, have you people anytime looked for completely making an exit from the sector and deploying the money to better ROC segments? Just a thought process.

Ajay Shriram: No, we have not talked to any partners outside, nor have we looked at this.

Saket Kapoor: And lastly sir, earlier also when we had asked about the demerger part or creating value for the shareholder, you told that time and the same has been considered at the board level, so just as investors and analysts we wanted to know what is the critical mass at which where this is not culminating into, I mean, what should be investors look at like this scale, this size or this profitability of this segment will reach, then we can look forward for it? So is there a need for thought process behind it or are we scratching the surface right now?

Ajay Shriram: I think this is an issue which is under discussion. As we have rightly said in the past also that we have debated this point, discussed this point, estimated what is the value-add, there are pros to a joint and pros to a separate setup and companies. So, this is under discussion all the time. I think at the moment, due to

Corona, the whole focus and attention is different. And we are looking at a different way. But this is not something which is on the front agenda.

Saket Kapoor: Right. And the transcript is available to us after the con-call?

J.K. Jain: Yes, it will be in a day or so.

Saket Kapoor: Right. Sir, thank you for the time and the effort. We hope for good and well-being of all the people and hope this pandemic ends and we could live our normal life again. Thank you for the good work that you are doing for us and the continuity of the same. All the best to the team.

Ajay Shriram: Thank you so much. Thank you very much.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Over to you, sir.

Ajay Shriram: Ladies and gentlemen, we thank you for your participation in our Q1 FY21 Earnings Conference Call.

We will continue to work on our strategic direction as discussed above. Our balance sheet allows us to keep investing in growth even during these tough times.

We expect that over next few quarters as the economic activity improves, the volumes and prices will improve. We simultaneously strive to adopt contemporary technologies and upgrading our processes and practices to strengthen our value proposition to the customers and deepened the employee engagement within the company.

Once again thank you. We wish you and your family good health and safety. Goodbye.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of DCM Shriram Limited, that concludes this conference call. Thank you for joining with us. And you may now disconnect your lines.
