# DCM Shriram Consolidated Limited

## Q4 & FY2011 – Earnings Conference Call Transcript

## May 13, 2011 at 12:00 noon IST

**Moderator:** Ladies and gentlemen good afternoon and welcome to the DCM Shriram Consolidated Ltd. Q4 & FY11 Results 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 at the end of today's presentation. If you should need assistance during the conference call you may signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ishan Selarka of Citigate Dewe Rogerson. Thank you and over to you sir.

**Ishan Selarka:** Thank you. Good afternoon everyone. Welcome and thank you for joining us on DSCL's Q4 & FY11 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. Rajiv Sinha – Joint Managing Director, Mr. Ajit Shriram – Deputy Managing Director and Mr. JK Jain – CFO of the Company. Before we begin please note that some of the statements made in this conference call maybe forward-looking and a note to that effect was sent out to you earlier. We will now begin the conference call with opening remarks from Mr. Ajay and Mr. Vikram Shriram, following which we will have an interactive question and answer session. I would now like to invite Mr. Ajay Shriram to give us the brief overview on the Company's operations during the quarter and the year and the opportunities going forward. Over to you sir.

**Ajay Shriram:** Thank you. Good afternoon ladies and gentlemen and a very warm welcome to DCM Shriram Consolidated Limited's Q4 and FY2011 conference call. I will take this opportunity to share with you our perspectives on the Company's performance following which Vikram will take you through the financial highlights of the Company for the quarter ending 31st March 2011.

Our Sugar, Bio-seeds, Farm Solutions and Cement businesses witnessed a better performance in the current year as compared to Q3 FY11. Chloro-Vinyl has not seen any significant change in margins, with prices following cost increases.

Let me now give you a segment wise perspective.

The Company, post Q2 FY11, has focused on selling Chloro-Vinyl products due to unremunerative power prices. Hence, the Company during the quarter laid emphasis on selling the Chloro-Vinyl products that offered better economic returns on every unit of power compared to selling power on a merchant basis. However, the margins from sale of Chloro-Vinyl products have been lower than margins achieved from sale of power in the previous year. Also putting pressure on the margin was increasing cost of coal and carbon materials. The prices of finished products have shown an upward movement in last few months and have compensated for part of the cost increases. The margins, however, remain sub-optimal.

Moving to our Sugar business, the Company crushed 297 lakh quintals up 45% as compared to the previous year, which resulted in the production of 27.4 lakh quintals of sugar, higher by 46% as compared to the previous year. Despite higher international prices, the domestic prices continued to be subdued and were barely equal to the cost of production. We expect the domestic sugar availability to be sufficient to meet the demand and therefore, sugar prices going forward, will be driven by the domestic policy initiatives of the government. The business witnessed better performance this quarter as compared to the previous year. The power profits rose due to a longer season and higher cane crush and lower inventory write-off on levy sugar, as there was a reduction in levy percentage while the levy prices were revised upwards by the government. The levy prices though still continue to be less than 2/3$^{rd}$ of the cost of production. We continue to focus on extensive cane development activities to increase capacity utilization and improve the sugar recoveries.

Our Fertilizer business reported satisfactory operational performance. We produced over and above our capacity. The additional production was at very low margin as it was on high cost, spot price gas. The delay in finalization of the urea pricing policy is leading to lower margins due to uncompensated cost increases. The policy uncertainty continues to hurt this sector, though we expect the policy to be finalized soon.

In the Farm solution business, the reintroduction of DAP and MOP in our product portfolio augmented our results. In addition, aiding performance is volume growth in SSP, Pesticides and other value-added products. We continue to make efforts to strengthen our Agri-extension activities with a view to deliver better solutions to the farmers. Going forward, we believe that this business will continue to report high growth on the back of strong demand for quality Agri solutions by the farming community.

The Bioseeds business is witnessing a strong demand across hybrid seeds portfolio. This business registered a healthy top line growth led by good demand across geographies. We believe that our R&D and Agri-extension work with farmers are the key strengths of this operation. We are confident of accelerating the growth given our strong product pipeline and the expansions to new territories. When you look at our results, you should keep in mind that the performance of this business may have significant quarterly variations and the annual picture provides a true representation of our performance.

Regarding Hariyali Kisaan Bazaar, we shared with you in the earlier concalls that we are strengthening all aspects of Hariyali’s operations with the help of experts wherever required. We have implemented the plan, which involved enhancing Hariyali’s appeal to a wider segment of the rural population by making available relevant products at required price points simultaneously launching promotion programs aimed at larger customer acquisition. The early results of these efforts are encouraging with core retail sales registering a growth of over 40% in this quarter. We expect full benefits of the above-mentioned efforts to start reflecting in this business from H1 FY2012 onwards.

The Fenesta business continues to witness a strong order booking position across both the institutional and the retail segments. Delayed project implementation in the institutional segment due to slowdown in the real-estate sector is deferring performance in the short-term. However, extending reach to the retail segment has met with an encouraging response. While the short-term challenges remain, we are very confident that our business will create strong value in the future given the strength of our brand that has become synonymous with the product's national presence and a product offering which is consumer centric for India.

Before I close, I am happy to announce that the board has recommended a dividend of 20% on the share price of face value of ₹ 2 per share. Overall, we expect a better performance going forward on the back of positive margin in the Sugar business continuing growth trend in Bioseed and Farm solution segments, sales of Chloro-Vinyl products, which should be aided by increase in prices to compensate the cost increases and improved performance in the Hariyali and Fenesta businesses.

I will now request Vikram to take you through the financial numbers for the quarter under review.

**Vikram Shriram:** Thank you. Good afternoon ladies and gentlemen. I will now summarize the financial results for the fourth quarter ended March 31, 2011.

Total revenues for the quarter were higher by 23.2% at ₹ 1,106.9 Crore compared to ₹ 899 Crore driven by growth across most businesses. PBIT was higher by 61.3% at ₹ 51.3 Crore with better performance by Farm Solutions, Sugar and Bioseed businesses. However, lower power prices adversely affected the Chloro-Vinyl segment. The interest cost was higher by 7.7% at ₹ 19 Crore primarily due to increase in working capital requirement because of sugar inventories of last year. PAT for the quarter stood at ₹ 28.6 crore.

Let me now take you through our business wise performance for the quarter under review.

The revenues from the Fertilizer business for the quarter stood at ₹ 125.2 Crore. Earnings in this segment were subdued because of significant increase in uncompensated cost due to non-finalization of the new Urea policy and lower margins on additional production over assessed capacity. Further, the Company had received arrears in the previous year, which had led to higher profits last year.

Farm Solutions business revenues and PBIT during the quarter were higher by 145% and 426% at ₹ 155.9 Crore and ₹ 7.6 Crore respectively due to volume growth in SSP and value-added products.

Bioseed revenues and PBIT for the quarter improved by 44% and 7% at ₹ 113.2 Crore and ₹ 22.5 Crore due to growth in Indian operations driven by cotton and vegetables and in Philippines driven by growth in corn.

Revenues during the quarter from the Sugar business improved to ₹ 239 Crore up by 14.7% due to increased sales volumes which were up by 19.3% and higher sale of power. PBIT swung from a loss of ₹ 13 Crore in the previous year to positive ₹ 32.9 Crore with higher profits for power sales which was higher with longer crushing season and lower write-off on levy sugar due to reduction in levy percentage and upward revision in levy prices by the government.

Hariyali Kisaan Bazaar revenues increased by 33% to ₹ 211.3 Crore during the quarter. This growth is primary a result of to traction in core retail categories, which grew by over 40% during the quarter despite a 6% reduction in the number of outlets. Robust sales growth in the next few quarters will help in reducing the losses.

The revenues from the Chloro-Vinyl segment were higher by 19.4% at ₹ 232 Crore as the Company shifted from the sale of power in the previous year to the sale of Chloro-Vinyl products that is Chlor-Alkali, PVC Resin and Calcium Carbide. The earnings were lower by 31.5% as in the previous year the Company sold merchant Power, which had higher net back per unit of power as compared to Chloro- Vinyl products, which we sold in the current quarter. Further higher input cost that is coal and carbon materials exerted pressure on margins.

The revenues of the Cement business were higher by 12.3% at ₹ 39.2 Crore due to higher volumes up by 17.7%. However the earnings were lower by 15.2% due to dip in realizations by 3% and higher input costs.

Revenues under other segments during the quarter were up by 7.9% at ₹ 83 Crore. The earnings from this segment were negative.

We have kept our borrowings under check with tight control on capital expenditure and current assets. However, sharp increase in interest rates and seasonal increase in current assets of Sugar, Bioseed and Farm Solutions business have led to higher interest during the quarter. We continue to conserve cash and control borrowings except the rise related to sugar stocks and Fertilizer subsidy delays. That concludes my financial review and we would be glad to take any questions that you may have.

**Moderator:** Thank you very much sir. We will now begin with the question and answer session. The first question is from Falguni Dutta of Jet Age Securities, please go ahead.

**Falguni Dutta:** Can we expect the losses in HKB to come off by 10% to 15%in FY12?

**Ajay Shriram:** Based on what we are planning and as the results have also been indicative, we definitely expect an improvement in the bottom line in this coming financial year and we expect it to come off by at least 10%-15%.

**Falguni Dutta:** I was just reading in the newspaper, Mr. Ashok Gulati who is the chairman of ECCP and also as you are suggesting that there is a storage issue; so can HKBs be used for grain storage. Do you think that such a possibility could arise and could lead to incremental revenue stream and better earnings for you?

**Ajay Shriram:** As of today, we have five locations of our Hariyali centers where we already have godowns. The total space for godowns today is about 100,000 square feet and we already are operating on these warehouse receipt basis by which the farmers can store their produce and take a receipt and then encash it. But you are right, in fact there was an interview of Mr. Dinesh Rai, who is heading the National Warehousing Corporation about how they are promoting this more aggressively. We are studying this and understanding the economics of that. It is an opportunity, which we are looking at very actively.

**Falguni Dutta:** So do you take rent from the farmers for that?

**Ajay Shriram:** Yes.

**Falguni Dutta:** If cash transfer of subsidies for fertilizers were to happen would those lead to higher sales of your other products once cash comes in the hands of farmers.

**Ajay Shriram:** Since we are deeply involved in Fertilizers, the complexity of this is still quite large. One of the biggest issues of giving subsidy directly to the Farmer is that the landowner is not necessarily the person who is tilling the land. Based on our understanding and feedback from rural India, about 35% to 45% of the farming activities are not done by the land owners. It is usually done by someone who has been given the land on lease very informally and there is an agreement that 50% of the output will belong to the owner and 50% goes to the person in the effort to grow the crop. The challenge there is who to give the subsidy because very often the landowner is sitting in towns like Meerut, Bareilly or XYZ.

Secondly, we are looking at doing it through the retailer. However, there are overall 300,000 retailers in the country today who are selling Fertilizers and there are new ones coming and old ones going. Keeping a track of that is also not so easy. Therefore, this is complicated. As and when it happens, yes, the farmer will have more money in the hands and when they come to the shop, they should be able to buy this in addition to other products. However, I think it is still some time away.

**Falguni Dutta:** What is the current realization of merchant Power?

**Ajay Shriram:** We have not sold any power this quarter. There is a supplement in the Business Standard every day that gives details of the prices, ranging from ₹ 3 to ₹ 5.

**Falguni Dutta:** But is there a possibility that is coming, do you foresee with the current situation that we can get?

**Ajay Shriram:** Our feeling is that in this coming financial year, the possibility of selling power is slim. We are not seeing that and frankly, our products are giving better return per unit of power.

**Falguni Dutta:** But would it be possible for us to get back to ₹ 170 Crore of PBIT from Chloro-Vinyl that we did in FY10 or somewhere closer to that as against just ₹ 90 Crore odd this year?

**Ajay Shriram:** It should be better than what we had last year. However, it depends a lot because one more thing that is affecting is the input price increase. The industry is working to see how we get an increase in the prices of the finished product, though, there has been an improvement in the selling prices over the last three months and we expect this trend to continue.

**Falguni Dutta:** Do you feel you could regain some margins from the Chloro-Vinyl product sale?

**Ajay Shriram:** I think it can regain some. However, to what extent it goes, is still open-ended.

**Falguni Dutta:** On the Fertilizer's front, you mentioned that there were some un-compensated costs; so were they attributed to lesser availability of gas from Reliance?

**Ajay Shriram:** No, basically, the last revised NPS, was in 2003. Since 2003, they have neither upgraded the fixed costs nor reimbursed any urea manufacturers, nor have they reimbursed the increase in fixed cost incurred, which we expect should happen with the new policy. Therefore, the new policy that is coming is important to the entire urea industry and the good thing is that the COS has approved the policy and it is now going to the GOM after which it will go to the CCA. Once the elections in Tamil Nadu are over and our Minister Mr. Alagiri is back, then things should start moving.

**Falguni Dutta:** What is the kind of growth that you see this year for the Bioseeds and Agri-input businesses?

**Ajay Shriram:** As mentioned earlier in the call, we see good growth and are positive on these businesses.

**Falguni Dutta:** Since other lines of business are so volatile since they are commodities; so would our share from Bioseeds and Agri Inputs become a bit better in the overall scheme of things.

**Ajay Shriram:** That is right. Bioseeds is actually a product where the success of the business depends to a large extent on the research and development work done and the strength of hybrids, which are in the pipeline. Over the last 5 to 6 years, we have put in lot of time and effort and money into strengthening our research facilities, not only infrastructure but also the people. We have almost 20 PhDs working there. So all this has helped us in creating a strong pipeline of good hybrids and we are confident on that. On the Agri Inputs or Farm Solution sides, DAP & MOP has come up last year after a gap of 2 to 3 years and we are hoping that something will happen on the DAP front at least this year. MOP, one is not sure because of the government policy again. But all this is only a part of our business of farm solutions, the other side of seeds, OP variety of seeds, the value-added products, pesticides, etc that's the large part which is doing very well.

**Moderator:** Our next question is from the line of Sachin Kasera from Lucky Securities

**Sachin Kasera:** Why is there some compression on margin in the Bioseed division, as we have delivered around 44% in terms of revenue growth whereas PBIT has only grown by 33%? With such a robust revenue growth, we would expect profits to grow at a faster pace because of economies of scale.

**Rajiv Sinha:** The key reason is that there is no increase in cotton prices. As you would be aware, almost every state has imposed a ceiling on the cotton prices led by the Andhra Pradesh Government and in the meantime, all the input costs have gone up for the farmer. Therefore, our procurement prices have increased whereas the selling prices have frozen. So that lead to a decrease in the margins and since cotton is a large part of the portfolio, the profitability growth has not been as much.

**Sachin Kasera:** What is the outlook for FY12 on the margin front?

**Rajiv Sinha:** In case of cotton, there have been some developments recently from Gujarat, Punjab and Haryana. We are waiting for some development in Maharashtra and Andhra where the State government has permitted the increase in cotton prices and to that extent, they are compensating largely for the cost increases from the import side. Therefore, we expect the margins to be better and secondly our portfolio will increasingly have a larger component of vegetable seeds, where the margins are healthier.

**Sachin Kasera:** What is the current proportion for vegetable seeds?

**J.K.Jain:** Currently cotton is about 1/3rd, corn is also 1/3rd and the balance is vegetable, hybrid rice and millet.

**Sachin Kasera:** In terms of revenues, last year, we had a very healthy revenue growth of 44% on the seeds side. Is this type of number sustainable or it was like a one-off year and then we could come down to more like a double-digit growth?

**Rajiv Sinha:** We have a reasonably good chance of sustaining these numbers.

**Sachin Kasera:** On the Farm Solutions Side, could you give me a break up of the key products that were responsible for the growth of around 125% last year and is that number sustainable or is it a one-time thing?

**Rajiv Sinha:** One large component of the growth came from resuming the trading in bulk Fertilizers, DAP and MOP. We hope that this sustainable depending on some of the government policy issues. For example, currently, there is the issue with MOP prices that are being fixed by the government. Therefore, this is an area where there is a bit of uncertainty. However, given a reasonable policy environment, we have very good plans for growth in this area. We have also grown in SSP, which is a third bulk Fertilizer, and we expect this trend to continue. Then there are 5-6 verticals like seeds, both hybrid and OP varieties, agri chemicals; specialty Fertilizers where we expect the growth trajectory broadly to be maintained.

**Sachin Kasera:** How much of the ₹ 900 Crore comprises of bulk Fertilizers?

**J.K.Jain:** 1/3rd of the ₹ 900 Crore came from DAP, MOP this year. So, if you remove that, effectively we registered a 40% to 50% growth in the non-DAP, MOP businesses.

**Sachin Kasera:** Which is where we can look at a more secular growth?

**J.K.Jain:** Given the agri situation, we should be able to sustain this growth for some time.

**Sachin Kasera:** In terms of the margins, would bulk Fertilizers have better margins or they would be lower; compared to the overall segment for Farm Solutions?

**Rajiv Sinha:** We normally have lower margins in the bulk Fertilizers.

**Sachin Kasera:** What is the outlook on the Sugar power side and how has that helped us in the last 6 months?

**Ajit Shriram:** Basically on the power side, we have long term PPA with the UP government, UPPCL and the power side benefits are for the longer season because you have more bagasse available to burn and create power in the season and also save bagasse which can supply power for a month to month and a half in the off-season.

**Sachin Kasera:** So in terms of number of power units exported; how did it pan out for the current season vis-à-vis last year?

**J. K. Jain:** For the year as a whole we were up by about 63% in terms of power sale which is about ₹ 12 Crore units this year vis-à-vis about ₹ 7.5 Crore unit last year.

**Sachin Kasera:** So would the realization be ₹ 4?

**J.K.Jain:** Yes.

**Sachin Kasera:** What is your expectation on cane crushing for the season that will begin in October 2011?

**J. K. Jain:** It is little early to target that. Planting is still going on, plus it will depend on the climate and hence it will be difficult to give a precise number. Nevertheless, we are definitely aiming at quantum growth because we have low capacity utilization.

**Ajay Shriram:** Also, to add, we are doing lot of work on cane development and that should help us in getting a higher cane yield in the areas closer to our factories.

**J. K. Jain:** Increasing capacity utilization and improving recovery is our focus areas in sugar.

**Sachin Kasera:** The break even in HKB has taken much longer than we had anticipated and we have spent close to around ₹ 650 Crore including CAPEX and funding the losses. From an investor's perspective, are you looking at some type of strategic timeline by which if the business would turnaround. Else, we look at other options because it continues to be the drag on the Company's performance as the breakeven has delayed by almost 2-3 years as of now.

**Ajay Shriram:** We have done intensive work on ensuring that the retail business in rural India becomes a viable entity and a value-add for the group across-the-board. Over the last couple of years, besides the work that we have done, we also have got experts on board who have helped us in providing a value proposition, acquisition of additional customers, providing a better price band and a range of products, which is wider than what we are doing. In the last couple of years, we have built up almost 2.5 million square feet of retail space and the number of customers has grown. Our footprint in rural India has also grown. I think we have about 350 acres of land which is within Hariyali where our 83 centers functioning. Additionally, we have another 20 pieces of land where we have not yet made the centers but the land is in the Company's possession and we have approximately 195 stores. Over several years, we built up this chain of network and we built up the system and processes. Down the line, compared to last year, there is 40% growth in retail. We also have verticals like trading, seeds, fuel, milk and few other activities that, we are capitalizing on. Now, when we look at the total business, we see the potential to be fairly good. As I mentioned earlier, in the second half of this year, we will get a better understanding of how the response has been and then we will take a view. However, as of now our objective is very clear that the business must grow and we must make it viable. We realize that retail takes time, but we feel we have a good asset base, a good spread, and we have a unique value proposition, which will add value to the group going forward.

**Sachin Kasera:** Do we think that we can see a reduction in terms of the losses from what we have seen for the last 2 years in Hariyali in FY12?

**Ajay Shriram:** In the financial year 2011-12, we are expecting the bottom line to be better than what it was in the last year.

**Sachin Kasera:** With the renewed focus and the new initiatives that we have undertaken, what kind of time frame are we looking at in terms of breaking even? Is it still another 4 to 5 years away or in next 2 years we should be able to see that?

**Ajay Shriram:** I think it is very difficult to give a definite period, as there are many factors that need to be taken into account. Being in rural areas, the monsoon makes a major impact and the price of produce that the farmers get, makes a major impact. The projection for monsoon this year is satisfactory. That is a very positive sign for this business. If there is a weak monsoon or our area gets affected, we will have a tougher time that will push back the whole thing. Secondly, ultimately for this sort of a business we have to keep growing off course, the sales have to keep going up combined with a strong backend where we have our system, our processes, and our distribution centers. I think that is the reason why, a year and half back we got into a five-year contract with TCS to work out the entire IT and data management for the business; right from these shelf up to the ordering position it is all done. So our knowledge of the business, our data of the business, our stock out position, our shelf space utilizations everything is improved dramatically with the new process that we put in place. By another 4 or 5 months, we are planning to open 20 more outlets that are going to be in not as rural as we have been but they are going to be in towns or maybe villages of maybe 30,000, 40,000 or 50,000 total population. I think that sort of thing will also give us a new area where we are focusing on. We do believe the growth has to happen simultaneously along with tightening the business across the board. We are not looking at making more CAPEX to a large degree. We already have the centers in place and those are functional. We also have lands. We are currently working on all rented properties and we feel that these locations should have a shorter breakeven time than the past ones. I think that will also give us a bit of a learning curve.

**Sachin Kasera:** Of the total number of outlets that we have, how many has started to breakeven at the EBITDA level on a standalone basis?

**Ajay Shriram:** Today we have approximately 15% to 20%, which are at the breakeven level and with all these initiatives we expect that percent to grow.

**Sachin Kasera:** Do we see this 20% improving to 30-35% in the current year?

**Ajay Shriram:** That depends on how it goes.

**Sachin Kasera:** What is the outlook on CAPEX and debt repayment for FY12 & FY13?

**J.K. Jain:** Debt repayment is fairly spread out. We have about ₹ 100 to ₹ 120 Crore to be repaid every year without the long-term loan. We are keeping a very tight control on CAPEX, and we plan to keep it to a minimum.

**Moderator:** The next question is from the line of Tarun Surana from Sunidhi Securities.

**Tarun Surana:** What were the disagreements on the urea policy front that DCM had with the COS or with the government and how has the final draft taken care of that?

**Ajay Shriram:** We do not know the details yet. However, one thing that came up was that we were one of the first plants to convert from naphtha to gas and secondly, we have an old plant and the total net worth of the plant is fairly low. Hence, we took it up with the government. Thirdly, despite having an old plant we continue to be efficient. However, efficiency of a new plant cannot be matched. So, this was a parameter on which we were getting hit. Hence, we took it up with the government and we rationalized with them and said that they must understand that as far as we were concerned with conversion to gas firstly we did it before anyone else and hence our total subsidy bill was down by ₹ 300 Crore. There are still a few plants that are running on naphtha. Secondly, we also mentioned that today, our cost of production after using gas at our efficiency is still lower than what is the imported price of urea or the total cost of the new plant and the capital cost for setting up one a million ton plant is almost ₹ 4,500 Crore. Considering that, we are in better position to continue and contribute to manufacturing urea within the country rather than having to either import it or wait for a new plant to compensate the capacity and they realized that. We have requested them to look at our case rationally and we are glad they had done that.

**Tarun Surana:** You will be part of the group that gets higher subsidy or is it aligned with the naphtha group.

**Rajiv Sinha:** No, naphtha plants are treated on a completely different basis. For them, it is more or less continuation of the current policy. So from what we understand is that they are not part of this 3-4 groups which have given different handicaps. Nevertheless, what we now understand is that they have separated out people like us and Phulpur and the level of handicap given over the base subsidies which was reported as ₹ 4,000 a ton would be different. Once we have the final numbers, we will have better perspective. But, as our chairman said with all our representations that we made, they have taken into fact that our case is to be treated on a different basis.

**Tarun Surana:** What is the current energy consumption norms level at the plant?

**Rajiv Sinha:** Our norm is 7.84.

**Tarun Surana:** And what is the actual?

**Rajiv Sinha:** We are somewhat lower than that.

**Tarun Surana:** You are taking all the benefits of efficiency yourself or is it shared between you and the government in a 65:35 ratio?

**Rajiv Sinha:** That is only when I produce beyond my reassessed capacity. Up to that reassessed capacity, I keep all the benefit to myself.

**Moderator:** The next question is from the line of Ajit Dange from SBI Mutual Fund.

**Ajit Dange:** My question pertains to the Hariyali Kisaan Bazaar, you said that this there is a 33% growth in retail and 40% plus growth in core retail and 6% drop in outlet this year.

**Ajay Shriram:** My indication was that the retail sales have gone up by 40% compared to corresponding period last quarter.

**Ajit Dange:** We have seen more or less 50% increase in per store sales. Now given that statistic, one would assume that more than 15% to 20% stores should have broken even or at least the losses would have reduced much more than what they have. How much more per store growth, will we need for stores to breakeven?

**Rajiv Sinha:** Firstly, this impact has come only in the final quarter and when we talk about break-even, we are breaking even for the whole year. That effect will be more visible in 2011-12 and we have two types of outlets; centers and stores. The level of sales volumes required is quite different and they vary from location to location because the product mix also changes. I am afraid we cannot give a single number by which each store varies or outlet reaches a breakeven level.

**Moderator:** The next question is from the line of Sachin Kasera from Lucky Securities.

**Sachin Kasera:** I was comparing your EBIT margins in the seed business with one of the listed competitors and they are more in the range of 19% to 20% while you are in the range of 13% to 14%. Is it mainly because of some changes in product mix or are there any other reasons as to why our EBIT margins are lower than competition?

**J.K.Jain:** I would not know whether that particular competitor have international business and is expanding geographies. Secondly, what kind of research expense has he incurred? We have mentioned earlier that we spent about 8% to 10% of our sale on research which is what we feel will give us sustained growth. That could be the other difference.

**Sachin Kasera:** I was referring to a Company called Kaveri Seeds.

**J.K.Jain:** Our sense is, Kaveri is primarily domestic and not expanding in international geographies and again our understanding is their research spent is much lower.

**Sachin Kasera:** So the margins in international markets are lower than India.

**J.K.Jain:** In the matured geographies, it is almost same but since we are simultaneously expanding, it does take time.

**Sachin Kasera:** Could you tell us what was the growth in India and international markets?

**J.K.Jain:** Growth was roughly the same. International market was about 10% higher than Indian market. However, what we are doing is that we are expanding to new geographies like Thailand and Indonesia apart from having old operations in Vietnam and Philippines. Therefore, there the sales still has to take off. We are going through testing and test marketing phase. The sale is not substantial and hence the profit margin in international business is lower.

**Sachin Kasera:** What is the mix between domestic and international in terms of the overall seed sales currently?

**J.K.Jain:** About $3/4^{th}$ is currently coming from India and 25% from international.

.**Moderator:** The next question is from the line of Siddharth from CRISIL.

**Siddharth:** Given that the UP sugar production right now has been estimated to be around 5.9 million tonnes which is quite lower compared to the initial estimates, why has the domestic sugar prices been largely subdued?

**Ajit Shriram:** If you see the UP Sugar production, the initial forecast was about 6.5 million tonnes. We had very late rains last year, which had led to a very peculiar pattern in the cane farming fields. So that impact led to lower yield by about 15% to 20%, which in turn affected the overall sugar production in UP. However, the sugar recoveries have been marginally better. On an all India basis, the sugar production is in the range of 24.5 million tonnes and sugar consumption domestically will be in the range of about 23 million tonnes. So with the export of 0.5 million tonnes taking place under OLA, we are only adding million tonnes to the stock level which was in any case very low in the opening of the previous sugar year. So currently, we expect to have only 3 months or slightly lower sugar stocks as on 1st October, 2011.

**Siddharth:** The cane farmer should be reasonably happy with the cane prices paid during the current season.

**Ajit Shriram:** I think so. If you see the intercrop price parity vis-à-vis wheat, paddy and other crops, the cane price in UP and other parts of India are satisfactory.

**Siddharth:** So do you expect planting to increase for the next year? What do you see on the ground right now?

**Ajit Shriram:** On the ground, we are seeing a slight increase in planting and what we are also seeing is that the farmer is working extremely hard on the field for his Ratoon crop. Therefore, we also expect higher yields in the Ratoon crop. In Maharashtra also, the planting has been reasonably good.

**Siddharth:** I know it's too early to predict a sugar production for next year given the monsoons are yet to come but assuming a normal monsoon scenario would it be fair to assume that UP sugar production reach around 7 million tonnes next year?

**Ajit Shriram:** It will be far too early to say now because the cane planting is still going on. In fact, in western UP, bulk of the cane planting takes place after wheat. Therefore, without those figures in place while also considering the vagaries of climate and monsoon, it will be very difficult to give an estimate for next year's production right now.

**Siddharth:** Any indications on the SAP for the next year?

**Ajit Shriram:** The current price parity is good as far as the farmer is concerned. We do hope that the SAP is even.

**Ajay Shriram:** As you are aware that there is a committee that is formed under Mr. Rangarajan with Mr. Nand Kumar and Mr. Kaushik Basu who look at the policies towards having a parity between sugar cane price and sugar price. That study is also on. The industry and the committee are taking it up with the government to expedite the reports and start moving on that because all countries of the world have a progressive sugar cane and sugar policy on bonds rationality or a reasonable ratio between these two. Ultimately one does not want the repeat of what happened two years ago where the farmers in India were not paid for over two years. So, unless there is adequate liquidity and there is a margin available to the sugar industry, the industry and the farmers, both suffer. In addition, once the farmer suffers and cane availability goes down then one year later consumer suffers. Therefore, the whole chain comes in. We hope that the government also moves on some positive steps now that elections are over and we expect something positive to come out.

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

**Ajay Shriram:** Thank you. Thank you ladies and gentlemen. We really appreciate for the interest and the time spent with us. I would like to thank you again for participating in the conference call. As mentioned earlier in the call, we expect a better performance during the forthcoming quarters as we are focusing on selling our Chloro-Vinyl products and we expect sugar to deliver better margins. The strong growth in Agri input verticals i.e. our Farm Solutions business and Bioseeds along with growth in Fenesta is expected to continue. In Hariyali, we expect the benefits on the plan implemented involving a focus price value proposition and improved product offerings in the rural parts of India to add to the bottom-line and give us a better performance. Thank you very much once again for participating in the conference call.

**Moderator:** Thank you. On behalf of DCM Shriram Consolidated Ltd. that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.

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