DCM Shriram Consolidated Limited

Q4 & FY12 – Earnings conference call Transcript
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Moderator: Ladies and gentlemen good day and welcome to the DCM Shriram Consolidated Earnings Conference Call. As a reminder, all participant 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 this conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ishan Selarka from CDR India. Thank you and over to you sir.

Ishan Selarka: Thank you Marina. Good afternoon and thank you for joining us on DSCL's Q4 and FY12 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. J K Jain – CFO of the Company.

Before we begin, please note that some of the statements made in this conference call maybe forward looking in nature and a note to effect was sent to you in the conference call invite earlier. We will now begin the conference call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram following which we will have an interactive question and answer session. I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's operation during the quarter and year ended March 31st, 2012 and the opportunities going forward. Over to you sir.

Ajay Shriram: Thank you and a very warm welcome to DCM Shriram Consolidated Limited Q4 and FY2012 earnings conference call. I will take this opportunity to share with you our perspectives on the Company's performance and plan following which Vikram will take you through the financial highlights of the Company for the fourth quarter and year ended 31st March, 2012.

Let me begin by stating that the Company recorded an improved performance during the quarter and the year. We have progressed in most of our businesses with a high turnover growth in some businesses and margin improvements in others. The Company made substantial cost savings in the energy intensive businesses and significant operations improvement in the Sugar business. Bioseed and Farm solution businesses recorded a high level of turnover growth and profitability. The macro environment, however, continues to be challenging. The new urea policy has not been announced even after 2 years of expiry of the earlier policy. The profitability, which was lower even earlier, is getting further affected because of the inflationary cost increases. The import and sale of bulk Fertilizers such as DAP and MOP are likely to be impacted due to the recent rise in international prices as well as the weakening of the rupee.

The developments in the Sugar policy framework are known to all of us. There has been a small forward movement in the form of permitting exports under OGL and moving to quarterly release systems. However, a lot more needs to be done so that the industry can regain some financial health and viability. The industry is engaged in a very active dialogue with the government for the same.

The other area of concern is high-energy cost both internationally and in the domestic market. The monopolistic behavior of Coal India in terms of both, prices and quantity & quality of supply is a challenge for our Chloro-Vinyl businesses. Given this not too favorable a macro environment, our efforts in DSCL is to do whatever we can do to achieve cost savings and have a higher turnover growth. Accordingly, in our Chloro-Vinyl businesses, we are working on several initiatives to optimize fuel mix to mitigate to the extent possible, the effect of coal price increase. Similar efforts are being made on carbon materials side in our Carbide and Plastics business. These efforts will help us in getting comparatively better margins.

In Sugar, we have further intensified efforts in improving quantity and quality of Cane availability. In our just concluded Sugar season i.e. 2011-12, we achieved a 30% increase in Sugar production with cane crush going up by 26% and recovery going up from 9.2% average for the four factories to 9.48%. We are taking all steps to further improve cane quality and quantity in Sugar season 2012-13. The power generation both in the season as well as in the off-season is being maximized.

In Bioseed, our research program is strong and is now continuously developing new performance products, which are gaining wider consumer acceptance across all geographies. We are taking steps to continuously strengthen our research program and form strong national and international strategic alliances. Simultaneously the market development program is also being strengthened to continue to achieve a high-level growth in this business over the medium term.

We are taking several initiatives in our Farm solutions business to strengthen its product portfolio based on feedback from the farmers to extend its geographical reach and to strengthen the supply chain. We expect both, the value added inputs business and the SSP business to register high growth in the coming years. DAP /MOP businesses, on the other hand, will remain a little uncertain.

In the Fenesta business, we are continuously enhancing our focus on the retail business. This includes launch of new products and product extensions, expansion in our distribution network and geographical reach and strengthening our customer services. Fenesta is aiming to increase rapidly the overall share of retail sales in the next 2 years.

Hariyali continues to incur financial losses. Over the last few quarters, we have taken several steps to consolidate and restructure Hariyali’s operation to achieve significant improvement in its financial performance. The results, however have been below expectations. We are evaluating and taking more steps to achieve substantial reduction in losses at the earliest.

Overall, we are confident that through several initiatives and efforts outlined above, we should be able to record satisfactory performance in the coming years. Positive movements in the prices of commodities such as Sugar, Chlor-Alkali, PVC and Carbide will continue to have significant impact on the Company.

Before I close, I am happy to announce that the board has recommended a dividend of 20% per share of a face value of Rs. 2 each. I will now request Vikram to take you through the financial numbers.

Vikram Shriram: Thank you. I will now summarize the financial results for the fourth quarter and the year ended March 31st, 2012. Total revenues for the year were higher by 21% at Rs. 5,039 crore. The growth was witnessed in all businesses especially Sugar, Bioseed, Chloro-Vinyl and Farm Solutions. PBDIT before exceptional items for the year is up by 57% at Rs. 365 crore. Chloro-Vinyl, Bioseed, Farm Solutions and Sugar businesses registered major earnings growth. The earnings for the year were impacted by accounting of Rs. 38 crore as the differential cane price for the Sugar season 2007-2008 as per the Supreme Court order. The finance cost for the year stood at Rs. 160 crore up by 54% driven mainly by higher average borrowing costs. PBT before exceptional items stood at Rs. 48 crore as against a loss of Rs. 32 crore in the previous year. Net profit for the year stood at Rs. 11.9 crore as against the net loss of 14.3 crore in the previous year.

For the quarter, net revenues were up 21% at Rs. 1,337 crore driven by the growth in most of our businesses. PBDIT grew by 36% to Rs. 137 crore primarily driven by growth in Chloro-Vinyl and Sugar businesses. Net profit after tax for the period was up by 73% at Rs. 49 crore.

Let me now take you through a business wise performance.

The revenues from the Fertilizer business for the year were higher at Rs. 504 crore. PBIT at Rs. 20 crore was lower as compared to last year due to planned maintenance shutdown in the second quarter and higher arrears received in the last financial year ending 2011.

The revenues and PBIT in the Farm Solutions business for the year were up by 18% and 33% respectively at Rs. 1,088 crore and Rs. 60 crore respectively driven by growth in value added inputs and SSP. For the quarter, revenues were higher by 99% at Rs. 310 crore driven by growth in MOP and SSP.

Bioseed witnessed revenue growth of 34% for the year at Rs. 391 crore driven by growth in India and Philippines market. BT Cotton, Rice, Corn and Vegetables were the key crops, which contributed to the growth. PBIT for the year was up 64% at Rs. 62 crore driven by 34% growth in revenues. For the quarter Bioseed revenues were up by 19% at Rs. 134 crore. However, PBIT moderated by 17% at Rs. 19 crore as the Company incurred expenses to strengthen the businesses in Thailand and Indonesia, which is currently going through a ramp-up phase. Also impacting the earnings during the quarter were margin pressures in BT cotton seeds due to increase in costs without any corresponding increase in prices due to state government's intervention.

In the Sugar business, revenues were up by 48% at Rs. 908 crore for the year driven by higher Sugar volumes. The earnings for the business improved at Rs. 31 crore as against a net loss of 7 crore, as the margins in this business turned positive at Rs. 42 per quintal compared to negative Rs. 182 per quintal last year and income from sale of export licenses. Higher loss on levy Sugar and sharp increase in cane cost, in Sugar year 2012 had adverse effects on the earnings, which resulted in overall performance being suboptimal. For the quarter, revenues were up by 17% at Rs. 279 crore driven by higher volumes. PBIT up by 11% at Rs. 37 crore.

Revenues of Hariyali Kisaan Bazaar business increased by 10% during the year to Rs. 853 crore led by high growth in the fuel segment. However, growth was moderated with our decision to limit businesses in commodity trading and seeds verticals and rationalizing non-performing outlets. PBIT losses were higher at Rs. 105 crore due to outlet shutdown expenses, Mark to market losses in the commodity and seed businesses along with slower sales growth in core retail business. For the quarter, revenues and PBIT stood at Rs. 183 crore and negative Rs. 19 crore respectively.

The revenues and PBIT for the year for Chloro-Vinyl businesses were higher by 25% and 91% respectively at Rs. 1,010 crore and Rs. 178 crore, driven by several cost initiatives, higher volumes and realizations of Chloro-Vinyl product especially Chlor-Alkali which was up by 31%. The increase in input cost of Coal, Salt etc continues to moderate the upside though our costs saving efforts are mitigating these increases partially. The revenues and PBIT for the quarter were higher by 13% and 142% respectively at Rs. 261 crore and Rs. 55 crore.

Revenues from the cement business grew by 15% to Rs. 141 crore as a result of increased sales volumes at enhanced realization. However, despite higher volumes and realizations, PBIT moderated to Rs. 15 crore due to increase in input costs i.e. coal and power costs. For the quarter, revenues and PBIT stood at Rs. 41 crore and Rs. 4 crore respectively.

Revenue under the other segment, during the year, increased by 10% to Rs. 351 crore driven by healthy performance from Fenesta Building Systems. Earnings from the other segments stood at negative Rs. 16 crore in financial year 2012.

Our finance cost for the year and quarter ended were higher by 54% and 29% respectively at Rs. 160 crore and Rs. 37 crore. The net borrowings as on 31st March, 2012, were lower at Rs. 1,521 crore as compared to Rs. 1,635 crore last year. That concludes my financial review and we would be glad to take any questions that you may have. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from Falguni Dutta from Jetage Securities. Please go ahead.

Falguni Dutta: Firstly, on this Sugar division, like if we consider season wise performance i.e. October to September, we should be incurring losses, though marginally for this season given that our costs including depreciation and excluding interest should be about, Rs. 30 per kg and realizations of about Rs. 29.80 per kg.

J K Jain: It is the other way around. Our cost is below Rs. 30 per kg and the realizations in our region are running over Rs. 30 per kg, so even on a season basis at the present price there won't be a loss on free sugar.

Falguni Dutta: So we should be making marginal profits in this.

J K Jain: On the free sale component, we did make a profit, but there is a loss on the levy component.

Falguni Dutta: What is the landed cost of cane?

J K Jain: It is about Rs. 254 per quintal.

Falguni Dutta: So if we take the landed cost of cane as Rs. 254 and a recovery of 9.5%, then our cost of Sugar comes to about Rs. 26.7 and if we add a conversion cost of Rs. 3.5 per kg then we get a figure of Rs. 30 per kg.

J K Jain: Yes, but our conversion cost like you rightly worked out is about Rs. 300 per quintal.

Falguni Dutta: In HKB, do we have a timeframe in mind to take a call on this business?

Ajay Shriram: No, as we mentioned before also that we are working on restructuring. We have actually worked a lot on how to look at the business and optimize the operations. That effort is ongoing. We are currently looking at individual business categories and overall individual outlet level performance. So, we are looking at the continuous activity of this business and seeing what is best for the business. We have not looked at a timeframe or fixed a timeframe.

Falguni Dutta: Hypothetically, if we are unable to breakeven in this business let us say for 2 years, then do we still intend to continue it?

Ajay Shriram: I think this is premature to comment on that at the moment.

Falguni Dutta: What kind of losses should we expect in FY13?

Ajay Shriram: As I said, we are evaluating performance of each outlet and are looking at the product categories and based on that we are taking management steps to trim the losses.

Falguni Dutta: Can we expect lower losses in 2013?

Ajay Shriram: Operation loss in FY 2013 should be lower than what we have experienced last year.

Moderator: Thank you. The next question is from Ihab Dalwai from ICICI Prudential Mutual Fund. Please go ahead.

Ihab Dalwai: Can we expect the increase in realization in the Chloro-Alkali business to continue for a few quarters or would it subside?

Ajay Shriram: This business is been driven a lot by the chlorine consumption at the moment and also frankly with the economy going the way it is, demand has not moved up so much. But on the other side the devaluation of the rupee has had an impact on imports. So, we do feel that the next few quarters should be stable. It may move a little bit i.e. 5% up and down but otherwise should be stable.

Ihab Dalwai: Is there any difference between the landed import costs of caustic soda in the domestic prices right now?

Ajay Shriram: There is a marginal difference but that depends on freight and location of imports etc. but I think factory to factory each of us is looking at how to optimize our own realizations based to our customer. The price varies, I mean customer to customer, port to port, city to city, so that variations are there.

Ihab Dalwai: This increase in realization is mainly because of chlorine and not caustic soda?

Ajay Shriram: No, chlorine actually is a driven in terms of the consumption. In fact, about 2 or 3 months ago, we had a negative realization on chlorine where actually our net was a minus because we had to virtually pay for the freight also. However, fortunately, that position has changed now and we currently do not have a negative on Chlorine but it is not still running at optimum capacity or what we would like it to be in terms of capacity utilization of the plant.

Ihab Dalwai: Are we seeing any new capacity coming up in this Chloro-Alkali business domestically?

Ajay Shriram: They are saying in the next six months there is a plant by Grasim coming up in the west. There are a couple of more expansions in the pipeline. So I think this is something we have seen over the last 10-15 years, that every 2-3 years it is like the steps of the building. You know there is a capacity which comes up, then there is little pressure on prices and capacity coming up again. So I think that is ongoing in commodity businesses.

Ihab Dalwai: At present, the market remains over-supplied.

Ajay Shriram: Yes. All of us are not running at full capacity.

Ihab Dalwai: Can you give a breakdown of how many stores would be in profit making and how many would not be in your Hariyali Kisaan Bazaar business?

Ajay Shriram: See as we have mentioned before that, it is difficult to give a number of how many will be because of the seasonality and so many other factors of operation. So our continuous effort is to ensure that each outlet becomes profitable and our direction of evaluating the performance of each outlet; closing those which are not okay, looking at the product categories that is an ongoing activity.

Ihab Dalwai: Have we closed down any stores this quarter?

Ajay Shriram: We have. Closed down approximately about 20 outlets this quarter.

Ihab Dalwai: How many stores are operational currently?

Ajay Shriram: We are currently running about approx. 140 outlets.

Ihab Dalwai: This includes your centers as well as the stores?

Ajay Shriram: Yes.

Moderator: Thank you. The next question is from Rahul Bhangadia from Lucky Securities. Please go ahead.

Rahul Bhangadia: I understand that you may not in a position to tell us as to how the losses will pan out but what is your outlook and what is your timeframe? Are you looking at a breakeven in this business anytime soon, may be a year, 2 years down the line?

Ajay Shriram: I think this is such a dynamic situation and we are looking at rationalizing the operation of each outlet and I am sure all of you know better than I do that the retail business all over India is re-boosting the model and seeing how to optimize, what range, what to do, what not to do. So, it is difficult to give a timeframe, but we are working aggressively to see how we can stem our losses.

Rahul Bhangadia: I am sure you also realize that we have been losing out on Rs. 70- 100 crore per annum on this business for quite some time now. This not only hurts the Company but also the investors and everybody else and that is why I suppose everybody is kind of harping on that question of HKB. .

Ajay Shriram: No, I appreciate that. Frankly the board is as concerned and so are we on this matter, that is why we are taking steps to make sure that we reduce the losses in a very managed timeframe manner of taking whatever is necessary to reduce the loss. That is an activity which the management is very involved with.

Rahul Bhangadia: Could you help me with your debt as on March 31, 2012?

Vikram Shriram: Net debt is Rs. 1,521 crore.

Rahul Bhangadia: What is your take on the Sugar scenario this season?

Ajit Shriram: The Sugar production on all India basis has been at 26 million tons and our consumption is roughly 22 million tons. 2 million tons had been notified earlier for exports, out of which I think 1.6-1.8 million tons has been exported and now with sugar export being allowed under OGL, we do hope that 1.5 million tons further gets exported by September 30th. I think we will be a very good position as far as the opening stock is concerned. In the next year, also we see the production at roughly 28 million tons. So that is the rough position on an all-India basis.

Rahul Bhangadia: So what is the expected opening stock when we start the next season?

Ajit Shriram: I think it should be about 4.5-5 million tons.

Rahul Bhangadia: So is it likely that the Sugar prices will remain in this range with 4 to 5 million tons of opening stock?

Ajit Shriram: Normally the government likes to have a 3-month opening stock, so this is well under control.

Moderator: The next question is from Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Just wanted to understand, has the management been able to identify what really has being ailing the HKB business?

Ajay Shriram:. It is not just one event or one activity. It is the entire supply chain side. It is the logistics side. It is how to get footfalls, the right product mix, the right location, all this. Therefore, I think it is difficult to highlight one or two points. It is a combination of 5-6 activities which have impacted performance. We have mentioned in the past also that we have got A T Kearney involved with us to help us in this exercise of identifying as to how we can improve the business. So you know we have taken the aggressive steps to try to stem the losses.

Puneet Gulati: Has farmer's profitability or their income has been of any concern?

Ajay Shriram: Absolutely because that determines their spend capability. But what we are witnessing is that in some areas it has gone up while in others it has gone down. The input cost for the farmers have gone up because of labor cost or Fertilizer cost, etc. Their cost has gone up in certain places whereas the liquidity has come down. That has affected their surplus available for expenditure. Their priority first is on the farming, and then it comes onto other household and other food and luxury goods and things of that kind. So yes, there is an impact by the farmers' money availability.

Puneet Gulati: Would that also impact the Farm Solutions business?

Ajay Shriram: Not really, our Farm Solution business is focused on providing products for improving the farmers' productivity and profitability. There we have a very extensive range of wholesalers and retailers and a very structured way of demonstration plots etc. by which we promote agricultural technology and knowledge and know-how, what we call the last mile delivery to the farmers. So this has not affected Farm Solutions.

Puneet Gulati: Have they been able to buy whatever sell?

Ajay Shriram: We have been in this Farm Solution business now for many years and we have a good pulse and credibility in the marketplace on our products and our range of inputs, so that is moving well.

Puneet Gulati: Can you give us an update on your in town stores of HKB?

Ajay Shriram: We have received an encouraging response from in-town stores. The sales were better but we are looking at this business in totality now to see how we can rationalize and consolidate the business in total.

Puneet Gulati: Where is this in town store?

Ajay Shriram: It is in Nizamabad.

Moderator: Thank you. The next question is from Falguni Dutta from Jetage Securities. Please go ahead.

Falguni Dutta: . Can you quantify the M-to-M losses in commodity and seed in HKB for this year?

J K Jain: Loss was broadly about Rs. 10 crore or so.

Falguni Dutta: When we say commodity trading, what do we actually do in that and what was the reason for M-to-M in seeds business?

Rajiv Sinha: On the seeds business, we procure or produce variety seeds for wheat and couple of other crops, which we then sell. Because there was a big price crash in the wheat seeds during the Rabi season. Rabi was quite poor after a great Kharif season and that was so for most agri input companies because of the big slide in the wheat seed prices, which resulted in a loss.

Moderator: Thank you. The next question is from Rishi Goswami from Locus. Please go ahead.

Rishi Goswami: Would you be able to share your CAPEX guidance for next year?

Ajay Shriram: The way we work out our requirements for the year is that each plant makes out their CAPEX budget, which is really for up keep, marginal changes in equipment, cost reduction, etc. so one is that they do. The second where we are focusing which I have also mentioned in my opening remarks is that we made aggressive efforts to reduce costs. Now we are looking at projects where if we get a 60, 70, 80% ROI, those are the type of projects which should be our priority. So each of our plants has made out plans of looking at what are the sort of investment they want to make with high ROI. So I would say that approximately Rs. 50 to 55 crore would be an expenditure which is for normal plant up keep and maintenance across the board. Over and above that in case if specific projects come, we will take a view on that. So that process is under consolidation but that will not be too large. In fact, as a policy last couple of years and this coming year we are as a policy being conservative on our capital expenditure, we will look at only high return investments and marginal debottlenecking if it helps in terms of growth of our businesses in terms of production. However, cost is the major focus area and marginal de-bottlenecking for of our growth is the other area. We are working on debt reduction in any case. .

Rishi Goswami: So Rs. 50 to 55 crore of maintenance CAPEX and then if there are some projects related CAPEX.

Ajay Shriram: We are evaluating projects but that is not much. It is difficult to give a figure because we have sanctioned may be Rs. 5 to 7 crore till now but we are looking at it in a consolidated way.

Rishi Goswami: Would you be able to share the CAPEX number for FY2012?

J K Jain: It was around Rs. 50 – 55 crore only.

Rishi Goswami: Would you be able to indicate the price at which you are procuring coal currently?

J K Jain: We import coal for our Bharuch plant. For Kota, we largely use domestic coal. The cost of power at Bharuch is about Rs. 4.20 per unit and at Kota is about Rs. 3.60 per unit.

Rishi Goswami: Have these prices gone up from 2011 to 2012?

J K Jain: Yes. The cost of power has gone up by about 50 to 60 paise per unit, vis-à-vis 2010-11.

Rishi Goswami: Do you think these prices would remain stable this year?

Ajay Shriram: Honestly, it is a million dollar question because Coal India has a monopoly. Frankly, we just got to know that they changed the royalty rates. So that has impacted our Kota facility by about Rs. 3.5 crore per year. Now because of the rupee devaluation on imported coal coming in for the Gujarat Chlor-Alkali plant will get affected to a degree but selling prices also are softening if you will see the international price has also softened a little bit. It is very difficult to give a prediction for the future.

Rishi Goswami: But would you expect some amount of price increase in power.

Ajay Shriram: Yes. I think costs are going up across the board but we are aware that what we experienced over the last 15 months of a very high increase in our coal cost, we are taking steps to ensure how to increase efficiencies.

Rishi Goswami: Do we have any target in mind for debt for end of next year?

J K Jain: As CMD mentioned, we are working in controlling the debt levels and we don't see any increase in the debt significantly.

Ajay Shriram: I think a lot of this depends on, one, what is within our control and the one is what is beyond our control. And beyond our control are things like Sugar stocks where it is government controlled or subsidy that is reimbursable from the government on Fertilizer account. Some of these are beyond our control.

Rishi Goswami: So the idea would still be to deleverage the balance sheet.

J K Jain: We want to retain the debt at present level unless there are uncontrollable factors like that

.**Moderator:** Thank you. The next question is from Rahul Bhangadia from Lucky Securities. Please go ahead.

Rahul Bhangadia: Are all Hariyali Kisaan Bazaars outlets on owned land?

Ajay Shriram: No. What we had indicated even earlier, the Company owns about 95 or 96 plots of land, out of this, we have built HKB outlets on 83 plots of land. The balance is still lying vacant with us. Out of the 140 which we talked about just now, 83, which is on our own, pieces of land which is say between 2 to 5 acres i.e. approximately 12,000 – 14,000 sq.ft on each. This is our land and the rest are on rented properties.

Rahul Bhangadia: What is the quantum of investment so far on HKB?

Ajay Shriram: I don't have the figures handy but I would put it this way, to give you an idea, the total area is about 285 acres of land and it is about 1.1 million sq. ft of built up area across the board.

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

Ajay Shriram: Thank you once again for attending DSCL'S Q4 and FY2012 results. As mentioned during our conversations, we are confident of recording satisfactory performance in the coming year with our continuing efforts on improving cost structure and turnover growth in most of our businesses. We also expect to improve Hariyali's financial performance over the next few quarters. We continue to conserve cash which will help in retaining borrowings at the present level. Any favorable movement in government policy framework will help in further improving performance of our businesses.

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

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