DCM Shriram Consolidated Limited

Q4 & FY13 – Earnings conference call Transcript
May 8, 2013 at 4:00 p.m. IST

Moderator: Ladies and gentlemen, good day and welcome to DCM Shriram Consolidated Limited earnings conference call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand over the conference to Mr. Ishan Selarka from CDR India. Thank you and over to you, sir.

Ishan Selarka: Good afternoon all and thank you for joining us on DSCL's Q4 & FY13 earnings conference call. Today, we have with us Mr. Ajay Shriram – Chairman & Senior Managing Director; Mr. Vikram Shriram – Vice Chairman & Managing Director; Mr. Rajiv Sinha – Joint Managing Director; Mr. Ajit Shriram – Deputy Managing Director and Mr. J. K. Jain, CFO of the Company.

Before we begin, please note that some of the statements made in this conference call may be forward-looking in nature, and a note to that effect was included in the concall invite sent to you 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 operations for the quarter and year ended March 31, 2013 and the opportunities going forward. Over to you, sir.

Ajay Shriram: A very warm welcome to DCM Shriram Consolidated Limited's earnings conference call for the quarter and year ended March 31, 2013. I will take this opportunity to share with you our perspectives on the Company's businesses, following which Vikram will take you through the financial highlights of the Company for Q4 & FY13.

The Company has witnessed a healthy performance during the year gone by. The Company achieved a net profit of over Rs. 200 crore and an EBITDA of over Rs. 570 crore. The performance was driven by better margins in the Chloro-Vinyl business along with higher earnings from the Sugar business. Also augmenting earnings are substantial reduction in losses in our Hariyali business.

Let me now take you through the business wise observations.

The Chloro-Vinyl business continues to deliver a healthy performance with high capacity utilization levels and higher margins. Higher product prices along with cost economies have enabled us to achieve better margins in this business. However, we have witnessed some softness in product prices recently. Part of this is mitigated by softness in coal prices, which will help at our Bharuch facility as it imports coal for its requirements.

The sugar business has had a satisfactory operating performance in the sugar year 12-13. The cane crush has gone up by about 10%. The sugar recoveries at 9.35% is about 0.15% lower than last year. The financial matrix of the business however is not very favorable. On one hand, the U.P. government had increased the cane price by about Rs. 40 per quintal, which has resulted in the sugar cost going up by about Rs. 450 per quintal vis-à-vis last year. The sugar price, on the other hand, has seen a reduction of about Rs. 250 per quintal since November-December 2012. The new sugar season therefore is seeing negative margins of about Rs. 200-250 per quintal.

The government has taken steps for partial decontrol of sugar whereby levy has been removed and the release mechanism has been discontinued. These are steps in the right direction. The removal of levy has resulted in elimination of significant subsidy that the industry was being made to bear for supplies to the PDS system. The government, however, needs to take further steps to improve the fundamentals of the sugar industry. In a situation where domestic production is more than demand and the global prices are soft, the industry has been exposed to global competition with only 10% duty on imports. The government needs to rationalize the import duty keeping in view its objectives of providing a remunerative price to the Indian farmer. Simultaneously, it is required to establish some rationale cane pricing system, which is linked to the sugar price. Today, the cane price outstanding to farmers in U.P. alone is approximately Rs. 6,500 crore. We, as a Company, continue to focus on improving the cane availability, the sugar recovery so that we can continue to improve the inherent strength of the business.

The Agri-input business which includes Bioseed as well as Shriram Farm Solutions businesses have started this year on a positive note with expectations of normal monsoon in the country. Both these businesses had a challenging year in ‘12-13 due to monsoon delays in Kharif 2012. The problem was further compounded as there could not be cotton-seed sale in March 2013 due to delay in issue of licenses by various State Governments.

The Shriram Farm Solutions business continues to expand its product portfolio based on market feedback. It is carrying out extensive market development work and is extending its presence in new geographies. We expect this business to continue to register good growth in the medium-term, particularly in the value added input segment. The Bulk Fertilizers, particularly, DAP and MOP are facing very uncertain market conditions and liquidity tightness due to delayed subsidy payments. We are carrying out these activities in a restricted manner.

The Bioseed business continues to focus on strengthening performance in different market segments. With the strength in research base, it is launching superior products to deliver higher value to the farmer. We are also simultaneously entering into new geographies. We remain confident that this business will continue to deliver healthy growth over the medium term.

In the Urea business, the Company has been operating at full capacity post the maintenance shutdown in Q3 FY13. We are still awaiting the finalization of the new urea pricing policy, which is already delayed by over three years. This delay continues to result in higher uncompensated cost increases, which along with higher subsidy outstanding is impacting the performance of this business.

The Fenesta business continues to see good growth in the retail segments based on new products and improved customer interface. The project segment is however yet to see a turnaround, both, in fresh order bookings as well as execution of past orders.

As you would have noticed from the results, the losses in the Hariyali business have declined to almost nil consequent to implementation of restructuring and rationalization over the last one and a half years. We are now focusing on sale of surplus properties in this business and expect to make good progress over the next one year.

As you are aware, over the last three years, we have conserved all cash generations and worked on reducing the working capital to reduce our borrowing substantially. This continues to be the primary objective even in the coming year. The Company will however invest a moderate amount of money for cost control schemes and initiatives and for debottlenecking. Overall, we expect DCM Shriram to continue to report a healthy performance in the coming year, while some businesses will experience softness in prices, the adverse impact of this will be partially mitigated with softness in the input prices and improvement in the operational efficiencies. The Agri-Input businesses are expected to register a good growth.

Before I close, I am happy to announce that the Board has recommended a final dividend of 40% per share of face value of Rs. 2 each. This takes the total dividend for the year to 80% per share as compared to 20% in the previous year. I will now request Vikram to take you through the financial highlights.

Vikram Shriram: Thank you. I will now summarize the financial results for Q4 & FY13.

Total revenues for the quarter stood at Rs.1,427 crore, up by 7%. PBIT before exceptional items grew by 26% to Rs.123 crore. Net profit stood at Rs.82 crore, up by 66%.

Moving to the numbers for the year, net revenues were higher by 10% at Rs.5,539 crore. PBIT before exceptional items was up by 106% at Rs. 427 crore. Net profit stood at Rs. 203 crore as compared to Rs.12 crore in the previous year. The earnings, during the year, were driven by better margins in the Chloro-Vinyl businesses and higher earnings in the Sugar business. Also augmenting the earnings were lower losses from Hariyali business along with lower financial charges.

Let me now take you through our business wise performance.

Revenues from the Chloro-Vinyl business were higher by 15% during FY13. PBIT almost doubled during the year due to better margins in this business i.e. 30% vs. 18%, driven by higher realizations and containment of costs through implementation of several cost saving initiatives. The volumes were higher in Chloro-Alkali business by 5%.

Revenues from the sugar business were up by 48% at Rs.1,345 crore in FY13, driven by higher volume and realizations. PBIT during the year increased by 111% at Rs. 65 crore with better margin on sale of sugar stocks of previous season and removal of 10% levy obligation which had a positive impact of Rs.47 crore. The business faced pressure, during the quarter, due to negative margins on sale of sugar stocks of the new season, leading to write-down of inventories, which we held as on March 31, 2013. The profits from power generation were higher and provided some financial stability.

Hariyali Kisaan Bazaar revenues for the quarter and year declined from Rs. 183 crore and Rs. 853 crore to Rs. 93 crore and Rs. 516 crore respectively. Please note here that current revenues primarily include fuel sales only. Similarly, losses during the quarter and the year were lower from Rs.19 crore and Rs.106 crore to Rs.1 crore and Rs. 35 crore respectively. The performance is in line with plan as the Company has completed implementation of the restructuring and rationalization plan involving restricting activities to profitable product lines only.

The revenues in the Shriram Farm Solutions business grew by 20% to Rs. 1,302 crore in FY13. This was driven by growth in Value Added Inputs, up by 15%, and Bulk Fertilizers, up by 23%. The growth in Value Added Inputs were moderated to 15% due to delay in receipt of licenses from State Governments in North India to sell BT Cotton in March '13 which resulted in no sale of BT Cotton during this period. The Value Added Inputs would have grown by approximately 30% with this cotton-seeds sale in March. PBIT for FY13 was lower by 16% at Rs. 51 crore, due to lower growth in Value Added Inputs along with a dip in earnings of the Bulk Fertilizers due to challenging business environment for Complex Fertilisers.

In the Bioseed business, revenues were up by 13% driven by growth in Philippines and growth in corn and rice crops. PBIT during the year moderated in Indian operations. The Cotton Seed business had lower margins due to rising costs and cap of selling prices by State Governments. Cotton Seed revenues were also lower due to delay in receipt of licenses from the State Government to sell BT Cotton in March '13. The Company continues to strengthen its research program and enter new geographies, which will help improve profits over the medium-term though it may affect the profits in the immediate period.

Revenues and PBIT from the Cement business for the year stood at Rs.135 crore and Rs.17 crore respectively. While topline performance was impacted by lower sales volume, higher realizations along with several cost initiatives undertaken by the Company helped in improving the margins and earnings of the business.

Revenue under 'Others' stood at Rs. 291 crore in the year under review compared to Rs. 348 crore in the corresponding period last year. PBIT for the year stood at Rs. (33) crore. Within this, the Fenesta Building

Systems revenues were lower by 12% at Rs.151 crore primarily due to significant slowdown in the builder and institutional segment.

The Company's interest cost for the quarter and year were lower at Rs. 36 crore and Rs. 155 crore respectively. Net debt stood at Rs. 1,386 crore as compared to Rs.1,521 crore. The Company's subsidy outstanding from the government was higher at Rs. 462 crore as against Rs. 304 crore in the previous year. That concludes my financial review and we would be glad to take any questions that you may have.

Moderator: Thank you. Participants, we will now begin the question-and-answer session. The first question is from the line of Sachin Kasera from Lucky Investments. Please go ahead.

Sachin Kasera: What is the status on the Bioseed licenses?

Rajiv Sinha: We have all the permissions now. They had become available in the month of April.

Sachin Kasera: What would have been the approximate loss in March?.

J. K. Jain: The sale would have been almost higher by about Rs. 65-70 crore had we got the licenses and sold the material in March. The profit margins in this business are about 25-30%. So, that would have been the additional margins.

Sachin Kasera: Are you confident that the loss that we had will be made up in the subsequent quarters or is it a lost opportunity for the Company?

Rajiv Sinha: The current Kharif season is on and it is a major season for cotton in north, west and south. We expect to increase our sales in this period and if there is anything residual; that will be sold in March next year.

J. K. Jain: The delay in license was for most of the manufacturers and not only for us.

Sachin Kasera: Secondly, on your Cotton Seed Yuva. There was an article in Business Line a couple of days ago and one of your senior official mentioned that in this year we are looking to sell close to around 5 lakh packets against 1 lakh packets. What is our take on that, and are we on target to do 5 lakh this year?

Rajiv Sinha: Yuva is a product that we have been putting in the market for the last couple of years in limited quantities but with very good results. This is largely for the markets of south and west. This year, we would expect to increase the volumes significantly than what we have done in the last one or two years. It is too early to say what the numbers would be because the season in south and west is just about starting now.

Sachin Kasera: But we would have got some indication in terms of advances or something?

Rajiv Sinha: The advance situation across the industry is not what it was last year because of overall glut of cotton. However, we are getting some very positive sentiments on our products.

Sachin Kasera: Can you please quantify the impact of inventory write-down we have taken in sugar?

J. K. Jain: We have valued inventory at about Rs. 31.25 per kg which means a loss of about Rs. 67 crore and it was taken entirely in the March quarter. Besides, we also benefited from the levy inventory write-back and regarding that we had a benefit of Rs. 47 crore. So the net impact was Rs. 20 crore which was taken during the March quarter.

Sachin Kasera: If we adjust that 20 crore for the profitability that you showed in the quarter, would that be a reasonable run rate to assume going ahead or not really?

J. K. Jain: For Sugar, it cannot be projected on this basis.

Sachin Kasera: I know but assuming the present prices of raw materials and end products?

J. K. Jain: Our expectations are that the old sugar will realize only this much money and therefore that will not add anything to the margin next year. Now, the issue is what happens for the next season. Now that is dependent on too many variables, what happens to the cane price, what happens to the sugar price, so it is too early to take a call on that particular thing. But, from the old sugar we are saying we will not realize any margin in the next year.

Sachin Kasera: Just one more follow up on the seed front. There were also some media articles recently which mentioned that there has been a significant increase in cost in cotton seed whereas there is a cap on the selling price, so the margins are coming under tremendous pressure. So, is it to some specific states or it is being witnessed all across India if you could throw some light on that?

Rajiv Sinha: On Cotton, every state has a price control or a limit that they have imposed. In the last 1.5, 2 years, the input cost for cotton growing has been going up significantly, be it fertiliser, be it labor. Unfortunately, none of those costs are getting compensated by an increase in the selling price, and that is the reason why the margins in cotton have got depressed.

Sachin Kasera: Are the margins likely to dip further as many companies have started undercutting because of the glut in the market?

Rajiv Sinha: Certainly; this behavior would put people under pressure but we are confident of our brands. In the North, you might have also seen some articles about pull on some of our products. We hope that we would fare much better than others.

Sachin Kasera: In the balance sheet you have shown some other assets this time of about Rs. 271 crore which were about Rs. 31 crore last year. What would explain that?

J. K. Jain: This is essentially surplus Hariyali properties, which are now classified as current assets. They are held for sale, they have been shifted from fixed assets to current assets.

Sachin Kasera: So is the total quantum of Rs. 240 crore completely in that surplus land?

J. K. Jain: Rs. 220 crore is Hariyali property, rest is the miscellaneous assets.

Sachin Kasera: This would be at book value. Can we get some sense on the market value?

J. K. Jain: As of now, we expect that we would at least realize the book value.

Sachin Kasera: Do we have any timeframe for that?

Ajay Shriram: As we mentioned little earlier, we are moving on that but we are moving on it in a structured way, we do not want to rush-in in any manner. At the same time, we want to capitalize on any opportunities that come by. We have some teams who are working on this in various states and hope that we do quite a few of them in this year.

Moderator: Thank you. The next question is from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah: If you could throw some light on how the Bulk Fertilisers, especially the Complex Fertilizer situation is for the industry in terms of inventory given that now even the subsidy prices have been revised. So how is the situation panning out?

Rajiv Sinha: Firstly, in the context of our own Company, we do not have any complex fertilizer that we are selling nor do we not have any stock of any complex fertilizers. But, the industry certainly has a lot of stock of NPK. Some estimates are that between the trade and the godowns of companies just the NPKs could be as high as about 2 million tonnes. So, there is a lot of stock the industry is carrying at this point of time.

Grishma Shah: But we do sell some of the complexes through the farm solutions?

Rajiv Sinha: We basically are dealing with direct fertilizers, like DAP and MOP. We do not have too many NPK mixtures.

Grishma Shah: That situation is completely in control, we do not have too much of inventory, etc.?

Rajiv Sinha: As I said, we would have some inventory in DAP and MOP but that is with the trade, we do not have it.

Grishma Shah: Lastly, on the Cotton Seed side for the industry as a whole, would we see some growth or would it be a flattish to negative kind of growth?

Rajiv Sinha: We do not expect the total market to grow this year.

Grishma Shah: Would this be specific to certain states?

Rajiv Sinha: I would say this is an overall situation. There are a couple of states, which are very severely drought affected like Maharashtra and Saurashtra area in Gujarat. Depending on how the monsoon behaves in these areas, it will determine what happens to the cotton market.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: How many packets of BT Cotton hybrid would we have sold in this year?

Rajiv Sinha: About 19 lakhs packets.

Dheeresh Pathak: How does it compare with FY12?

Rajiv Sinha: It was flat, as said by our chairman earlier, because we did not sell anything in March. If we had sold that, we would have gone up by about 20%. Last year, most companies, particularly in north, reduced their market share and we were one of the few companies to have increased our market share.

Dheeresh Pathak: What is the geography wise mix of 19 lakhs packets in FY13?

J. K. Jain: We would not have that number readily available and can share it offline later; but we are a dominant player in north so far with about 25-30% market share and we have just launched products in south and west, so we will be building up volumes there going forward.

Rajiv Sinha: And we do expect to grow in North also

Dheeresh Pathak: For the industry as a whole, what is your estimate of the inventory that is lying in the system and how does it compare with normal levels of the inventory?

J. K. Jain: From the reports one is getting, the inventory is almost twice the requirement. Typically, it will be about 1.25 to 1.3 times the requirement but because of carryover of last year this time it is almost twice the requirement. So that is the reason why there is a pressure on margin and there is going to be price war, particularly in the low performing products.

Dheeresh Pathak: Some of the leaders in South India have a large market share. How does our product Yuva compare to the products of those market leaders?

Rajiv Sinha: As I was mentioning earlier, extensive field trials over the last couple of years show that our product is highly competitive to the best-selling varieties in these markets.

Dheeresh Pathak: So are you launching Yuva especially for the South market?

Rajiv Sinha: South and West.

Dheeresh Pathak: Is this product already launched or will it be launched from this year?

Rajiv Sinha: As I said, over the last couple of years, we have sold these product in smaller quantities and the test marketing started two years ago. In this year we are trying to increase the total spread of the product both in terms of quantity and area.

Dheeresh Pathak: Is there any guidance that you have in terms of what sales you can give, because given that there is a lot of inventory in the system?

J. K. Jain: We do not give any guidance on numbers because this is a pretty sensitive industry and it depends on agriculture and so many other factors, so difficult to give guidance.

Dheeresh Pathak: But in terms of your production, you would have estimated certain things?

J. K. Jain: That is always done because you do produce based on estimates, but we cannot give kind of guidance on the financial numbers.

Dheeresh Pathak: How does the advances received during the year compare with last year?

Rajiv Sinha: They were much lower than the last year across the industry. Different companies have got different proportions, but they were certainly much lower than the last year.

J. K. Jain: Like we just mentioned, the trade is aware that the inventory carried over is twice the requirement. So obviously, trade is very hesitant to give advances; overall advances have been lower therefore.

Dheeresh Pathak: Are your inventory levels also two times the normal or you are carrying a normal inventory level?

J. K. Jain: I would not know that right now. Let us see. As we said, we are working to gain the market share. So, it depends on how much we are able to take increase in volume. That will decide the inventory volume.

Moderator: Thank you. The next question is from the line of Amol Kotak from ASK Investments. Please go ahead.

Amol Kotak: Just to carry forward the earlier participant's question on cotton, you said that inventory is two times the demand. Just wanted to understand the basics, is it a state phenomenon; for example, the seeds that work in Andhra Pradesh would not work in North India?

Rajiv Sinha: Yes. The products are pretty geography specific. But if you look at the geography of west and south it is a huge geography; that is the largest market in the country; it is almost 70% of the total market in the country and most of the products are common in these geographies. North products are different.

Amol Kotak: So how is the inventory spread out? Would you see players in North India having more inventory versus South and West?

J. K. Jain: No manufacturer shares the inventory detail to this extent. So we would not know what is the actual inventory.

Ajay Shriram: To be frank with you, I think when we are sitting here with the Chairman, Vice Chairman, and joint Managing Directors and these numbers are held by our business heads. I am sorry; we do not have these detailed figures here. If you would like to get further details, you are most welcome to get in touch with our CFO and get more data.

Amol Kotak: What I am trying to understand is that despite the inventory position given that you have a brand pull and your seeds would get a better yield. Still you will survive in a market which is expected to shrink in the current season, is that the way?

Ajay Shriram: No, as we indicated, we expect the market to be flat, not shrink, and secondly, also that our product is good. We are positive on the products and we expect our sales to be satisfactory.

Amol Kotak: So is it a very brand-specific that your product being better, you will still do well despite the inventory?

Ajay Shriram: Vis-à-vis our own projections and targets, we expect to do satisfactorily.

Amol Kotak: So what I am trying to say is that more or less this would be a low quality brand inventory in the system?

Ajay Shriram: No, I would say frankly our quality is satisfactory. There are various qualities in the marketplace and each quality and each brand has its own positioning.

Amol Kotak: Given the current cotton scenario, do you expect a shrinkage in acreage in the current season?

Ajay Shriram: No, we expect it to be flat.

Amol Kotak: Is the farmer economics favorable currently?

Ajay Shriram: The farmer economics is a quite satisfactory. Cotton prices over the last couple of months have been okay and frankly speaking, you plant it now what happens four months later in terms of the price movements one can't predict, but I think the cotton market in India and India as a cotton producer is quite large. So India has a good base for that.

Amol Kotak: Can these seeds be stored and reused for the next season?

Ajay Shriram: Yes, we can do that. They are stored under specific controlled conditions and they are definitely usable.

Amol Kotak: So it is not necessary that the player have to take an inventory write-off in the current season.

Ajay Shriram: No, not at all.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Despite all the efforts and the scale that we have achieved in the seeds business, we have a significant discount to most of the other players that are trading in the market. That goes for DSCL as a whole Company, which is obviously at a very significant conglomerate discount. After the HKB losses behind us and considering that over the last 3-4 years, all the developments that have happened in DSCL have been very positive towards the shareholder value creation. Are we looking at any more steps towards demerger of these businesses where there is more growth so that the market would be able to value them better?

Ajay Shriram: We have discussed these issues at the Board level. As we mentioned in the past concalls that this is a situation the Board is aware of. We are discussing it and at an appropriate time we are making investments for growth. We are also looking at various activities in each of our businesses. So, at an appropriate time the Board will take a decision.

Nisarg Vakharia: Where are these additional cash flows going to be allocated? Is there a minimum IRR or ROCE requirement before we deploy these cash flows?

Ajay Shriram: As a Company philosophy, we look at investing money where, we either have a benefit in reducing our cost of production or there is an advantage in quality or customer satisfaction or there is an issue of safety or environment and health, etc. So it is not a hard-core figure, which will determine the investment decision, it is taken on the basis of what the need of each business is. Every year we spend Rs. 50-60 crore just on maintenance and upkeep each of our plants to ensure they are healthy, safe and are running at the required efficiency level. We have spent money in the last year in research facilities in

Bioseed. This year, we are putting up one more electrolyser in our Gujarat unit, which the Board has just approved that 7 days back. So continuous debottlenecking is part of our Company strategy.

Nisarg Vakharia: In the history of the Indian seed industry, there have been a very few companies which have been able to scale up a product by selling 1 lakh to let us say 40 lakh packets. Does the management believe that we have that potential with the products that we have lined up for the southern markets because obviously, south is the biggest cotton market as compared to north where we are leaders?

Ajay Shriram: I think this is very early. We have our experience of north where we were able to scale up from a couple of lakh packets to going to about 12, 13 lakhs last year and we hope to increase that number.

Nisarg Vakharia: That happened in one year, is it?

J.K. Jain: I think there is some mistake, we have not talked 1 lakh to 40 lakh packets.

Nisarg Vakharia: No, I am not saying 1 lakh to 40 lakh packets, what I am saying is that very few players like Nuziveedu and Kaveri have taken very large market shares, is my understanding correct?

Rajiv Sinha: As we said, we are moving on the strength of our products. In north, we have been able to significantly scale up our sales and acquired about 30% market share. We realize that the situation in south and west is difficult because of very good brands, which are already there. Nonetheless. we have confidence in our products. So, while we will continue to grow in north at a slower pace, we are putting in a lot of effort in terms of both the product and the work on the ground to increase our market share.

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

Rohan Gupta: You mentioned in your presentation that you will be focusing on debt reduction. Similarly, focus will also be on CAPEX where you want to enhance your efficiencies. So can you just give us some guidance in terms of what are the CAPEX plans for next 2 years?

Ajay Shriram: It is difficult to give a plan for 2 years because what we plan this year as I mentioned was Rs. 50, 60 crore which is there in any case on our regular maintenance and upkeep of all our operations. We are spending the money on a research in Bioseed. We are doing some work as I mentioned one more electrolyser in our Chloro-Alkali business and plans keep coming. I think the other plans also looking at what more is to be done. As you rightly put it, our objective is cash conservation also. So we want to keep that in mind and then decide what to do.

Rohan Gupta: We understand that you cannot give the exact number of CAPEX, but which part of the business or which segment will attract a maximum CAPEX for next couple of years, if that thought process can be communicated?

Ajay Shriram: For instance, we expect our Fenesta business, our Shriram Farm Solutions business and our Seeds business we expect it to grow well. These do not really rely on CAPEX. They bank more on management and the sourcing and things of that kind. So, the linkage of the growth is not really CAPEX-led, except in manufacturing of commodities, but it is more on the market side and the sourcing side and our own operations and organization issue side. As of now. in terms of CAPEX, we are not looking at spending any major money in either Fertilizer business or PVC business.

Rohan Gupta: On your point on improving efficiencies, I think Chemicals is a one segment where probably we can improve our efficiency by investing something. So is Chloro-Vinyl or Chemicals business a segment where we can expect some more investment going for either forward or backward integration?

Ajay Shriram: As I mentioned the Board has approved an investment of Rs. 28 crore for another electrolyser. Besides this, there are a little bit expenses here and there. It is always ongoing. I do not have the figures with me of what the other investments are like.

Rohan Gupta: There has been a significant increase in receivables i.e. by almost Rs.300 crore. Which segment has contributed to the maximum increase in receivables?

J. K. Jain: It is primarily the subsidy receivables from government on account of fertilizer which has gone up by almost about Rs. 200 crore.

Rohan Gupta: How much is the subsidy pending from the government.

J. K. Jain: As on 31st March, it was Rs. 460 crore.

Rohan Gupta: And this would have come down? Probably, we would have received some payment in April and May?

J. K. Jain: Then it accrues also. So there has not been very significant reduction so far in this.

Rohan Gupta: Can you give us the breakup of revenues in traded fertilizers and other business in Farm Solutions in FY13?

J .K. Jain: In terms of turnover, Value Added Inputs is about 35%.

Rohan Gupta: 65% in Fertiliser trading?

J.K.Jain: Correct.

Rohan Gupta: Is it only DAP?

J.K.Jain: DAP, MOP and SSP.

Rajiv Sinha: SSP is a big chunk.

Rohan Gupta: So how do you see trading opportunities for this year? Will the Company continue in trading or you see that trading is likely to come down significantly in this year due to industry environment?

Ajay Shriram: As of now, there is enough stock of DAP, MOP in the country for the Kharif season. Now depending on the monsoon, we will take a view for the Rabi season.

Rohan Gupta: What kind of margins do we enjoy on the non-fertiliser trading?

J.K.Jain: About 10%.

Rohan Gupta: So for roughly Rs. 450 crore turnover, so would have made about Rs. 45-50 crore in that business only. So does that mean that we have not made anything in Fertilizer in FY13?

J. K. Jain: Yes, Bulk Fertilizer is not a very significant profit margin activity.

Moderator: Thank you. The next follow-up question is from the line of Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: There has been some correction in the Chemicals prices. Can you throw some light on that?

Ajay Shriram: In the last month and a half, the prices on ECU basis have fallen by about Rs. 2,500.

Sachin Kasera: But will part of this correction get benefited in terms of lower chlorine input for the PVC; because there you must be transferring on the market prices, so that will get the benefit of lower input cost, so overall the Chlor-Alkali may not get that much impact, is that a fair assumption?

Ajay Shriram: I would say frankly, our total capacity of Chlor-Alkali business is about 750 tonnes a day and I think the quantity goes into making PVC is approximately 70-80 tonnes a day of chlorine. So, the quantity is quite small.

J. K. Jain: But there is some softness in coal prices, which will help to partly mitigate this plus whatever cost control efforts we are doing that will also help in partly decreasing costs.

Sachin Kasera: Any upside that you look in terms of being able to sell higher volumes both in PVC as well as on the Caustic Chlorine in FY14?

Ajay Shriram: Caustic Chlorine, frankly as of now, our capacity utilization last year has been very satisfactory. As we said, we are putting up one more electrolyser. That will give us additional production, but, the benefit of that will come in the FY14-15. On the PVC side, we are running at full capacity. There is not really much margin there.

Sachin Kasera: How much will the capacity go up by with this electrolyser?

J. K. Jain: Not very significant, I think 3-4%.

Sachin Kasera: In the 'others' segment, you mentioned that this current year there is a PBIT loss of around Rs. 50 crore plus. Can it be mainly attributed to Fenesta or the other two divisions; polymer compounding**,** the textiles are also contributing a part of this?

J. K. Jain: Significant chunk is Fenesta. There are one-time losses also which we have taken during this particular year that were largely on account of builders debt, made adequate provision of that which would not happen next year. So, it is largely on account of Fenesta, partly one-time, partly normal activity.

Sachin Kasera: How much correction we have taken?

J. K. Jain: About Rs. 15 crore or so.

Sachin Kasera: So that would mean that we can probably look at this division coming to breakeven in next one or two years or that is still far away because we need to continue to make investments in Fenesta?

J. K. Jain: In a couple of years, yes, we are aiming at that situation.

Sachin Kasera: The Rs. 15 crore that you just mentioned, was that declared in the results as a part of some exceptional item or was that included in the segmental results?

J. K. Jain: No, it is in the segmental results. The exceptional items relates to Hariyali rationalization.

Sachin Kasera: In the coming season, what is the type of crushing are we looking at?

Ajit Shriram: This largely depends on the monsoon Sachin. We are looking at the areas increasing very marginally. In the last year, we had extreme climatic situations of a late monsoon and an extremely harsh winter. We do hope with better climatic conditions our yields to improve compared to last year. We do look at a higher crush compared to what we did in the season ending '13.

Sachin Kasera: Would 10% be a good indicator right now to begin with?

J. K. Jain: Very early to take a call on that, I do not think we would like to give any indicative number on that right now.

Sachin Kasera: On the Power front, you mentioned that, this year, the power production was much higher. Can you give us some indication what was the power total production, how much was increase in the outside sale of the power units in the current financial year?

J. K. Jain: Actually, since crush went up by 10%, for the full season, the power production also goes up little more than proportionate.

Sachin Kasera: The third-party sale would have gone up much more because with a 10% increase in crushing, the power consumption would not have obviously gone up by 10%.

J. K. Jain: With every cane crush, power consumption will go up proportionately.

Ajit Shriram: On a per tonne basis, the power consumption as far as sugar is concerned will remain constant. It may improve marginally depending on the efficiency improvement. However, on an overall basis, depending on the amount of sugar produced or the volume of cane crushed, the power consumption will be proportionate to the cane crush going up.

Sachin Kasera: What has been the trend in the current financial year from sale of bagasse and molasses; has it been better than FY12?

Ajit Shriram: It has been roughly the same. There have been some eases as far as the restriction of sale of molasses is concerned. However, we have been selling on a continuous basis.

Sachin Kasera: A broad based question for the Chlor-Alkali and PVC business. What kind of competition do we face from imports from China? Secondly, is the intensity going up/down or what has happened over the last 2, 3 years?

Ajay Shriram: imports are actually coming in from many countries, including the US. Depending those who are port players, those who import on actual license, some of them do that. So, some imports keep coming in but capacity additions are happening in India also. I think in terms of availability, it is quite satisfactory.

Sachin Kasera: The capacities in India are as of now sufficient for India's consumption?

Ajay Shriram: I am talking about caustic soda chlorine.

Sachin Kasera: Yes, for that side only.

Ajay Shriram: On PVC, India is importing almost 50% of its requirement.

Sachin Kasera: So the competitive intensity have increased over the last 2-3 years or gone down because we have seen the profitability of the segment improve dramatically over the last 1.5 years?

Ajay Shriram: These commodities are determined by the international prices. If the international prices run well, then we also get the benefit of that because import duty is very low as it is. So, I think, the international price situation has helped us in terms of getting a better price. That is why in the last one month, realizations have gone marginally because international prices have also corrected which has had an impact in the last month in terms of marginal drop in our realizations on Caustic Chlorine ECU's as well as on PVC.

J. K. Jain: Last year the currency movement also helped in.

Sachin Kasera: So would it be fair to then kind of break it up into what has been the dollar price movement in these commodities over the last 2, 3 years and I would assume that a rupee would have helped you by about 15, 20% in terms of realizations?

Ajay Shriram: We will have to calculate that. I think we do not have the figures now.

Sachin Kasera: On the Seed business, you mentioned that Cotton Seed was almost flat. Now that we have seen some growth in the full year; which are the crops which have done well for us and if you could give some indication of that? Secondly, on the international side of the business, what is the type of revenue and the profit that we have done on the seed business for the full year?

Rajiv Sinha: I think as far as India is concerned, we have grown in corn, paddy and marginally in vegetables. As far as international scene is concerned, it is basically corn-led in the two main countries viz. Philippines and Vietnam that we are operating in today.

Sachin Kasera: Can you give us some color on the numbers for the international, how was it for FY13 Vs FY12 and the profits also?

J. K. Jain: We have earlier said that the turnover ratio is 75:25. That still holds and margin are also roughly the same.

Sachin Kasera: The other crop that you mentioned in India, can you give some idea of what was the type of growth have we seen in some of these crops this year?

Ajay Shriram: We do not have the figures right now product wise.

Sachin Kasera: Now since the focus is more in terms of conserving cash and trying to reduce debt, do we have any debt-equity ratio that we could look from a 2-3 years perspective.

Ajay Shriram: As we mentioned, we are going to use the accruals to incure some capital expenditure and reduce debt. I think it is a judgment call which the Board will take on what should be really the balance between these two and then we will come to a figure.

Sachin Kasera: But can we look at improving the dividend payout ratio going forward, now that the balance sheet is much better, the cash flows are also much stronger?

Ajay Shriram: Again, an issue that the Board will take a view on.

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

Ajay Shriram: Thank you ladies and gentlemen. We would like to thank you once again for attending DCM Shriram Consolidated Limited's Q4 & FY13 earnings call. As mentioned during the call, we expect the Company to continue to report satisfactory performance in the coming year. While some businesses may experience softness in prices, improvement in operating efficiencies and cost realization and rationalization will be the positive factors. We also expect the Agri-Input business i.e. Bioseed and Shriram Farm Solutions businesses to register a good growth. The financial charges should also come down helping and improving the overall financial performance of the Company. Thank you.

Moderator: Thank you sir. Ladies and gentlemen on behalf of DCM Shriram Consolidated Limited that concludes this conference call.
