



DCM Shriram Ltd.

Q4 and FY18 Earnings Conference Call Transcript

May 2, 2018

Moderator

Ladies and Gentlemen, Good Day and Welcome to DCM Shriram Limited Q4 FY '18 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, Sir.

Siddharth Rangnekar

Good afternoon and thank you for joining us on DCM Shriram Ltd.'s Q4 & FY18 earnings conference call. Today, we have with us Mr. Ajay Shriram – Chairman and Senior Managing Director; Mr. Ajit Shriram – Joint Managing Director; Mr. J. K. Jain – CFO of the company.

We will begin the call with opening remarks from Mr. Ajay Shriram and Mr. Ajit Shriram following which we will have an interactive question and answer session.

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

I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's performance during Q4 & FY18 and his views going forward. Over to you, Sir.

Ajay Shriram

Thank You. Good Afternoon Ladies & Gentlemen and a very warm welcome to you on DCM Shriram Ltd.'s Q4 and FY 18 earnings conference call. I will share views on business dynamics, the key developments and the initiatives that we have taken to strengthen our businesses, following which Ajit will take you through the financial performance of the company.

The company has recorded healthy operations across all its businesses during Q4 & FY18. We registered good volume growth, strengthened our cost structure & competitiveness, implemented steps to improved our earnings profile and have further strengthened our Balance Sheet with much lower debt. All our projects are progressing as per plan. On completion, these will contribute to growth and further improvements in our earning profile.

The market dynamics continue to be good for the Chemical business, range bound for plastics and has turned very challenging for the sugar business. Fenesta continues to grow at healthy pace inspite of tough situation in real estate sector. The Agri Inputs businesses i.e. fertilizer, Bioseed and Shriram Farm Solutions have experienced mixed environment. Overall, we have had a satisfactory FY 2018 with turnover growing by 19% and profit after

tax growing by 21%. The Board has recommended a final dividend of 40%, thereby taking the total dividend for the year to 410% vis-à-vis 290% for FY 2017.

Let me now take you through the business wise developments:

Chloro-Vinyl

This covers our Chemicals & Plastics businesses.

Chemicals

Chemicals has been experiencing positive business environment over the last 7-8 months. Global prices moved up from USD 500 per tonne during April-Aug. 2017 to ~USD 650 in Feb./March 18, led by firm demand and restricted supplies. Chlorine has been soft globally and that too seems to have restricted Caustic supplies.

Indian caustic prices have followed global trend. Chlorine prices have been –ve during most part of FY 18. However, towards the year end, Chlorine prices firmed up to almost no profit no loss. India is registering good demand growth for both Caustic and Chlorine, with Chlorine growth being higher than Caustic. We expect to operate our Chlor-Alkali plant at 100% capacity throughout the year. We will also commission in FY19 part of the 500 TPD expansion under implementation. The entire capacity will be operational in Q3'FY20. This will raise our capacity by 37%. As a result, we expect reasonable volume growth in this business in FY19 & 20.

We also plan to commission our Chlorine down stream plant for Aluminium Chloride in FY19. We are studying further, other chlorine downstream businesses so as to strengthen the earnings profile of our Chemicals business. The 66 MW new power plant at Kota will get commissioned in Q3 FY20. Once commissioned, it would reduce coal consumption for power by ~20% and thereby improve cost structure of our Chemicals & Plastics business at Kota.

Plastics

This business has been stable in FY18 except Petcoke usage restrictions & consequent adverse impact during Nov. 17 to Feb./March18. The Hon'ble Supreme Court has since permitted the use of Petcoke for carbide. The Company has decided to expand PVC capacity by 40 TPD to 220 TPD. This would enable us to convert almost our entire carbide production to PVC. The enhanced capacity will be operational in Q3FY20.

Sugar

Sugar business has seen unprecedented and unexpected deterioration during last 4-5 months. The sharp increase in country's sugar production, from ~ 20 mn. tonne last year to ~ 32 mn tonne this year, has taken everyone by surprise. The demand in country remains at ~ 25 mn tonne. This has resulted in excess supply of ~ 7 mn. tonne. The problem is further compounded with forecast for similar or higher sugar production in next sugar season i.e. 2018-19. The ex-factory sugar prices have recorded sharp fall from over Rs. 36/- per kg. in Nov. 17 to about Rs. 31-32/- in Feb. 18 and ~ Rs. 27/- presently. This implies a –ve margin of over Rs. 8 per kg with costs being upward of Rs. 35/. The Global sugar prices have also recorded sharp decline from over 15 cents/Lb in Oct./Nov.' 17 to 11 cents/Lb presently. Further, the Molasses prices in U.P. have dropped from over Rs. 300/- per qtl. for SY 2016-17 to ~zero price presently. This kind of surplus and sharp fall in prices requires big support and immediate steps by Govt. to enable liquidation of

the surplus quantity and thereby restoring prices to a reasonable level. These steps will ensure that the farmers dues are paid in time and the industry does not turn sick. The industry is persuing with both the Central and State Govt and expect that there will be appropriate action by them at the earliest. We have taken steps to part mitigate this condition by enhancing the integration to both power and ethanol. We are expecting our Ethanol plant to run at full capacity in this financial year. However, none of these will be adequate to absorb the entire negative of the sugar business. We are hopeful that the Govt. will take adequate steps to protect the farmers and the industry.

Agri Inputs Businesses for the Company comprises Urea, Fertiliser, Bioseed and Shriram Farm Solutions. Overall, the agri-inputs businesses recorded some revival in FY18 aided by better Monsoon and better liquidity after the effects of demonetization. With prospects of good Monsoon in Khariff 2018, the sector should register a positive momentum. However, it continues to be constrained by lower prices for agri-produce. Effective implementation of MSP system across all crops, as envisaged by the Central Govt., should provide much needed relief to this sector. I will touch upon the individual segments now.

Urea

In case of Urea, the DBT system has been extended to whole country from Feb.'18 onwards. This has streched the working capital cycle for urea manufacturers. Initial hiccups in the system is making the situation further difficult. Further, the Govt. has still not started reimbursing the increase in conversion costs by Rs. 350/- per ton (Rs. 500/- per tonne for older plants like ours) announced 4 years ago. This increase was based on costs for 2012-13 and no revision in cost has been undertaken thereafter.

The Government decided to extend the existing energy consumption norms for 2 years i.e. upto FY 2020 with some small penalty. We are persuing for more rational energy norms for plants like us while simultaneously taking steps to reduce the energy consumption.

Bioseed

In Bioseed business, the Govt steps over the last few years have discouraged introduction of new technology & better quality seeds. The recent steps to reduce prices for Cotton seed at the time of rising costs will further discourage these efforts. Given this environment, we expect moderate growth in this business in the immediate future.

Shriram Farm Solutions is planning to rationalize the remaining bulk fertilizer business. It will then focus on Value Added Inputs i.e. Crop Care Chemicals, Seed – both hybrid and research variety, Soluble fertilizers and growth nutrients. It will expand its product portfolio, geographic reach and sales & marketing efforts to record sustained growth over medium term.

Fenesta Windows business is registering good growth in a tough real estate business scenario. We are extending our geographical presence, product portfolio, customer engagement and service capabilities to further strengthen our leadership position in this business.

Overall, we remain focused to strengthen our businesses for medium to long term, improve our earnings profile and maintain sound financials.

I will now request Ajit to take you through the Financial Highlights. Thank you.

Ajit Shriram

Thank you. Good Afternoon Ladies and Gentlemen, I will now summarize the Financial Performance of the company.

The overall net Revenues for Q4'18 at Rs. 1566 crs. were marginally lower vis-à-vis Q4'17. The Revenues from own products at Rs.1358 crs. were up 5%. However, the Revenues of Traded Products i.e. SFS & Hariyali at Rs.208 crs. were lower by 35%. This reflects our plan to reduce the remaining bulk fertilizer trading and to surrender all the Hariyali Fuel Outlets over the next few years. The PBDIT for Q4'18 was at Rs. 95 crs. vs. Rs. 236 crs. in Q4'17. The reduction is attributable to one time charge of ~ Rs. 226 crs. during Q4'18. The major items of one time charge were :-

- Sugar Inventory, write down of Rs. 163 crs. during the quarter (Rs. 185 crs. during the FY 2018).
- Provision for old & slow moving inventory and old debtors in Bioseed amounting to ~ Rs. 28 crs.

PBDIT excluding one time charges at Rs. 322 crs. has gone up by 26%. The finance costs for Q4'18 at Rs.20 crs. is lower by 6% YoY. The tax charge was -ve Rs. 11.66 crs. as the effective Tax Rate for FY18 worked out at 22.3% vis-à-vis 24.7% adopted for PE Dec. 17. Also there was write back of Rs. 5.10 crs. on account of tax provisions relating to earlier years. The FY18 Net Revenues at Rs.6900 crs. were up 19% YoY. The overall volume growth for the year was 12% and the price growth 7%.

The PBDIT for FY18 at Rs. 1091 crs. was higher by 33%. Finance costs at Rs. 83 crs. was higher by 16% and Depreciation by 24% consequent to capitalisation of Chemical expansion project and Power Co-generation project in sugar business. The effective tax rate was at 22.3% for FY 18 vs. 12.9% for FY 17 consequent to expiry of tax incentives such as investment allowances. The PAT at Rs. 670 crs. was up 21% YoY.

Gross Debt as on March 31, 2018 stood at Rs. 756 crore vs. Rs 1074 crore as on March 31, 2017. Cash and Cash equivalents stood at Rs. 102 crore vs Rs. 146 crore for the same period.

Let me now take you through our business-wise financial details.

Chemicals:

Net revenues of the businesses for Q4'18 at Rs. 481 crs. grew 89% YoY and 13% sequentially. The sales volumes registered growth of 18% YoY to 110,430 MT. The net realisations grew 67% YoY & 12% QoQ. The segment PBIT for the quarter was Rs. 250 crs. vs. Rs. 83 crs. last year and Rs. 217 crs. in Q3'18.

For full FY 2018, Net Revenues grew by 74% with volumes up 29% and ECU realization up 34%. Segment PBIT was Rs. 724 crs. vs. Rs. 289 crs. last year.

Plastics:

The Net Revenues of the business for Q4'18 stood at Rs. 110 crs as against Rs. 147 cr last year. Sales volumes were lower by 25% and prices were up by 1%. The Supreme Court's ban on the usage of petcoke (use allowed thereafter), reflected in terms of higher cost and lower volumes. PBIT for the present quarter stood at Rs. 4 crs. vis-à-vis Rs. 32 crs last year.

For FY18, revenue growth stood at 10% with volume growth of 9%. Prices were almost same. PBIT at Rs. 94 crs. was lower by 15% due to higher input costs including the effect of ban on Petcoke usage.

Sugar:

Q4'18 Net Revenues of sugar business were Rs. 380 crs as against Rs. 527 cr in Q4 FY17. Sugar sales volume declined by 14% in spite of higher production as Central Govt. stipulated sales restriction during the Q4'18. Sugar ex-factory realization for Q4'18 at Rs. 3174/- per qtl. was lower by 13% YoY. The prices in first fortnight of April'18 was Rs. 2850/- per qtl. Molasses prices for Q4'18 declined by 93%, thereby further adversely impacting the business. The PBIT for Q4'18 was -ve Rs. 137 crs. vs. +ve Rs. 133 crs. last year. This sharp swing is attributable to :

- Inventory write down by Rs.163 crs. during Q4'18 (Rs.185 crs. for FY18).
- -ve margin of ~Rs.400 per qtl. on Sugar sold during the quarter vs. +ve margin of Rs.400 per qtl.

The sugar inventory of 28.97 lac qtl. As at 31.03.2018 has been valued at Rs.2,850/- per qtl. Inventory of 3.48 lac qtl. stipulated by Central Govt for exports, has been valued at Rs. 2,050/- per qtl.

For FY'18, the Net Revenues at Rs 1954 crs is up 29% and PBIT at Rs 94 crs is lower by 70%. The Sugar Sales volume were up 32% YoY. The ex-factory sales prices were almost same.

The factory operations for SY18 have been satisfactory with sugar production upto 30th April, 2018 up by 26% over last year & Power sales up 13%. The 150 KLD Distillery, commissioned in Jan'18 is operating at over 95% capacity and Ethanol sales have started in April'18.

Fertiliser:

Revenue for Q4 FY18 increased by 5% led by improved realizations, which is reflection of higher energy costs. The volumes were up 1%. The PBIT for the quarter came in at Rs. 18.3 crore as against Rs. 18.7 cr, last year.

In FY18, revenues were higher by 8%, volumes higher by 3% and PBIT stood higher by 42% primarily on account of higher subsidy arrears recognised during the year.

Shriram Farm Solutions:

Q4 FY18 net revenue came in at Rs. 143 crores as against Rs. 239 crore in Q4 FY17. Revenues were lower due to lower volumes and prices in bulk fertilizers. This is in line with the strategy of reducing activities under Bulk fertilizers. The PBIT stood at Rs. 1.1 crore vs Rs. 1.6 crs last year.

In FY18, revenues stood at Rs. 888 crore as against Rs. 1,016 crore in FY17. PBIT came in higher by 81% due to better margin in Value Added inputs & discontinuation of DAP/ MOP activities which had caused losses in FY 17.

Bioseed:

Q4 is a very small season for Bioseed. Earnings for Q4 FY 18 impacted by write off of old & slow moving inventory and provision for doubtful debts.

For FY18, the overall Revenues were up 5%. International operations have started registering volume growth in all territories. PBIT for the segment was at Rs. 20.7 crs. vs. Rs. 14.7 crs. last year.

Fenesta:

The Q4 FY18 net revenue was up 28% YoY, as the segment recorded healthy growth in deliveries and project execution. Order booking for Q4 FY18 in the 'Retail' segment stood higher by 23% while the 'projects' segment was lower by 13% YoY.

For the full year, the Revenues at Rs. 332 crs. were up 31%. The business has been PBT+ve for last few years.

Other Businesses:

Cement business revenues were lower by 10% during the quarter led by lower volume due to decline in traded cement volumes. In Hariyali, we continue to work with BPCL to surrender the fuel pump outlets and sell the properties. However, the progress is slow.

Projects :

We are implementing expansion cum modernization projects with investment of ~ Rs. 1,125 crs. in our Chloro-Vinyl and Sugar businesses. The projects will be commissioned in phases in FY 2019 & 2020. The projects are progressing as per plan. We expect debt to remain at reasonable level after funding these projects.

That concludes my financial overview 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 the line of Aditya Wagle from Aequitas Investments. Please go ahead.
- Aditya Wagle** Just wanted to ask you what is the current level of realization for Caustic globally.
- J. K. Jain** For April Caustic realization has been about by \$550 to \$575.
- Aditya Wagle** So it's on a downward trend?
- J.K.Jain** But its stable now, I think it's a range bound between \$500-\$650 kind of thing.
- Aditya Wagle** Are we seeing any resumption in supplies, especially from Europe as far as caustic is concerned?
- J. K. Jain** As we had mentioned I think in our presentation also Europe has always been in supply. There was some reduction but the plants are starting now after the changeover but it continues to be a net importer now.
- Aditya Wagle** But you are saying plants resume supplies?

- J.K.Jain** Yes.
- Aditya Wagle** And chlorine is that breakeven you are saying, zero?
- J.K.Jain** For March end it was breakeven but is now turning little positive.
- Moderator** The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.
- S Padmanabhan** My question is around the sugar division, if I'm looking at the sugar division we are watered down in terms of profitability. We had taken the Rs. 165 crore kind of a write-off. If I am correct, you mentioned about 32 lakh quintals at Rs. 28.5/Kg, can you throw some light on what is the outlook, how much pain do you see in the sector and what do you think the government would actually do because eventually it will impact them in terms of farm economy if the farmer is not getting paid as well?
- Ajit Shriram** What is very disturbing is the fact that we have about Rs. 20,000 crore of cane arrears to the farmers on all India basis. Now this is extremely alarming, and this number will only go up going forward. So as per the news reports what we've heard is that the government is looking at 3 or 4 steps immediately and actually to brief you as such the industry is in dialogue both with the state government as well as the central government. And at this point of time the central government is looking at 3 or 4 different schemes to support the industry and we do hope that the state government also comes forward with schemes as they come out in the past because the level of cane arrears to the farmers is at a very-very high level.
- S Padmanabhan** At peak production and sales what would be the kind of capacity that we have and I guess you're also adding some capacities, so what would be the capacities in sugar as well as in the other divisions?
- Ajit Shriram** As far as we are concerned?
- S Padmanabhan** Yes as far as we're concerned, I mean both from the distillery and the sugar side, currently and probably in next 2 years.
- Ajit Shriram** Essentially, I think on the distillery side, we have commissioned the distillery in end of January this year and the sales to the oil marketing companies have begun from April this year. So, there is a huge tendering process and the large number of clearances, so the sales have begun, which is a good thing. As far as our cane development activities are concerned, we continue to be positive and we do see enhancement of our cane area in the coming years and this 5,000 TCD expansion will absorb that additional cane and this 5,000 TCD expansion that we are doing is not for normal plantation white sugar but for refined sugar which will go to a different market and cater to the institutional buyers.
- J. K. Jain:** The total revised capacity will then become 38,000 from 33,000 presently.
- S Padmanabhan** 38,000 TCD?
- J. K. Jain** Yes 38,000 TCD.
- S Padmanabhan** One more question I have on the chemical side, I mean if I am looking at both the chemicals, Plastics and Caustic Soda putting them together, chemicals while it has seen a pretty sharp jump, the Caustic Soda has seen a pretty sharp jump in previous quarter. Now the prices have softened up, just taking some cues from the previous participant, earlier

we had such a strong demand and supply disruption which led to very good margins and also the Chlorine supporting us. Do you think on year-on-year basis now we should be looking at more of a flattish kind of spreads as well as the prices?

Ajay Shriram

If we were to compare the last three years what has been the average ECU for Chlor alkali business, it has gone up by almost 31%-35% in the last 7-8 months compared to the previous time. That is a very substantial jump. The good thing is we are seeing these prices maintaining, maybe 5%-7% up and down it's not much of a change in the commodity business. But I think if you were to look at this business in totality we are having good prices. This is a business where the margins are very satisfactory and having increased our capacity recently at the Gujarat unit from 500 tons a day to little over 1000 tons a day and adding another 500 tons. So today we are about 1350 tons per day and another 15 months' time we will be almost 1850 tons a day, so I think that will give us a buffer against little price up and down which is part of any commodity business. But frankly we look at it this way that I think for the Chlor-Alkali industry the prices they moved in the last couple of years, its being very satisfactory.

J. K. Jain

Just to add in terms of our steps, one is both these expansions are Brownfield expansions, so they will give us the benefit of scale in our existing location. Second, we are also simultaneously taking steps to reduce our costs like CMD mentioned in his opening statement; we are modernizing the power plants so the power costs will go down. So I think both these things should help us in tackling if at all there is price reduction, much better than what we would have been otherwise.

S Padmanabhan

On the Plastic side of the business, 4Q I mean there was this issue respect to the Supreme Court ban, do you think that its behind us and the normal rate should continue probably for the forthcoming quarter and how do you see the business now with the light of pet-coke being banned and now it's more on the other side?

Ajay Shriram

Now actually pet-coke has been allowed as per the Supreme Court order and the pollution control Board and everyone has given permission to use pet-coke for calcium carbide business. So, we don't expect any disruption on this front now, I think we are back to what we were in Q4. We lost out because of the ban which suddenly came out and for almost 6 to 8 weeks we had to use other alternative material which was more expensive, as well as seeing a reduction in production. So future going down we don't see anything more negative happening on the Petcoke front. I think for us the advantage is our expansion which is taking place which will take another 12-15 months but that will again add because as you go up our per unit cost comes down so that's an advantage we are looking at.

Moderator

Thank you. The next question is from the line of Abhijeet Dey from BNP Paribas Mutual Fund. Please go ahead.

Abhijeet Dey

This is on Bioseed business, you mentioned about two one-offs, one which you mentioned was the inventory write-off and the other was on bad debt, can you quantify both of them once again?

J. K. Jain

They are roughly half-half and they largely related to couple of years ago when the entire rural area has gone under stress because of drought, so we had some issues with recovery of old debt, so they are roughly half-half, Rs.10 crore each.

Abhijeet Dey

So Rs. 20 crore?

J. K. Jain

So total is Rs. 20 crore, Rs. 10 crore is inventory, sorry total is Rs. 28, so roughly Rs. 13-14 is inventory and Rs. 13-14 is debtors.

- Abhijeet Dey** Any more bad debts to be taken care of in this business or we are done?
- J. K. Jain** Not as of now. I think we have done our best assessment unless some other situation develops going forward but as of now that's the best assessment.
- Abhijeet Dey** Any other one-offs during the quarter in any other division apart from sugar ?
- J. K. Jain** During the last quarter?
- Abhijeet Dey** Yes.
- J. K. Jain** No I think these were the major. There were small-small things which happened, but these were the major ones. The other ones happen on a recurring basis.
- Abhijeet Dey** Coming to the distillery operations you mentioned 95% utilization currently, assuming current ethanol prices at around Rs. 40-41 and the similar kind of cane crushing in FY19 what kind of EBITDA one can look at for the distillery business in FY19?
- J. K. Jain** Generally if we look this distillery has cost us about Rs. 200 crore and we look at the return of 25% to 30% in this kind of business; year-to-year there may be marginal changes depending upon what is the molasses transfer price and what is the net realization for ethanol.
- Abhijeet Dey** Sugar inventory you said you have Rs. 2,850 per quintal, is that right?
- J. K. Jain** It is the valuation rate for domestic sugar and Rs. 2,050 per quintal on what is stipulated for export.
- Abhijeet Dey** So both put together is Rs. 163 crore of inventory write-off which you mentioned, right?
- J. K. Jain** Yes during the quarter.
- Moderator** Thank you. The next question is from the line of Ritika Jalan from Narnolia Securities Limited. Please go ahead.
- Ritka Jalan** Just a follow up on the sugar segment, the current realization in the sugar which you have told?
- J. K. Jain** Is about Rs. 27 per kg we mentioned in the statement. Presently it is Rs. 27 per kg.
- Ritka Jalan** On the prices side, will it remain subdued for the next couple of quarters?
- Ajit Shriram** As I mentioned earlier, the cane arrears are huge at this point of time and we are in dialogue with both the state government and the central government to come out with different kind of schemes to help the cash flow of the company to clear the cane arrears, so we are hopeful about some cess on sugar because at the end of the day the sugar prices have declined so sharply, they need to go up. So the efforts will be to increase the price of sugar, so that realizations go up and we are able to clear the cane arrears ASAP.
- Ritka Jalan** Government has also taken steps regarding that?
- Ajit Shriram** As per the newspaper reports there was a discussion which took place regarding putting a cess on sugar.

- Ritka Jalan** And also for the export of sugar?
- Ajit Shriram** No, for the export of sugar, for giving production subsidy to the farmers and something on GST on ethanol.
- Ritka Jalan** How do you think that the government will proceed on this like how many quarters the sugar price will remain subdued?
- Ajit Shriram** It is tough to say but I believe within this week the cabinet is going to meet and on Friday or Thursday the GST discussion should take place.
- Ritka Jalan** And on the chemical side just I want to know how do you see the overall caustic soda market in the global as well as in the domestic?
- Ajay Shriram** There should be a stable position. Good thing is that in India the demand for Chlor-Alkali is going up by about 6% a year, which is a fairly healthy growth and we have seen recently that the chlorine prices have also come from a negative to a breakeven, slightly positive now which is a positive sign again. So we expect Chlor-Alkali to move positively for the next few years, should be a good business provided our costs are competitive, ultimately today we are competing with the world so we have to compare our cost of production with that. And fortunately, because of captive power and because of our management in terms of inputs and our plant capacity running and efficiencies, we are very well positioned to be competitive on a world scale, so we expect it to be quite stable.
- Ritka Jalan** On the business of Fenesta side what kind of outlook do you give for next 3 to 5 years like I know that it depends on the real estate recovery and all?
- Ajay Shriram** The good thing is Fenesta is a differentiated product and in the last five years we have moved very aggressively to create the presence in the residential sector and the retail sector and not just on the Project sector and it is good to see that the retail sector is moving well. The demand is good, our order position is good so this growth of 25% plus minus, we expect to carry on. I don't think we should have a problem on that because we are putting in lot of efforts vis-à-vis of our marketing spread, our dealerships spread, our product development, our service capabilities, so it's a stable good business for us.
- Ritka Jalan** In terms of tax rate what will be the tax rate going forward if you can give some guidance like all the investments SEZ and all have been exhausted.
- J. K. Jain** I think we should plan around 24%-25% as the effective tax rate, of course there maybe 1% or 2% plus or minus depending upon the exact capitalization and profit.
- Ritka Jalan** And how much of the CAPEX outflow pending in terms of outgoing CAPEX?
- J. K. Jain** We just indicated that we are implementing projects worth about Rs. 1,125 crore in next two years including years 18-19 and 19-20.
- Moderator** Thank you. The next question is from the line of Aditya Deshpande from Vallum Capital. Please go ahead.
- Aditya Deshpande** I just wanted to ask a follow up on the sugar sector. You had mentioned government is looking at taking 3-4 steps in sugar sector; one of them was scrapping the 20% export duty to liquidate the excess supply. You think that has stabilized the sugar prices or will it stabilize in the long run?

- Ajit Shriram** This was done earlier. The export duty was scrapped some time ago.
- Aditya Deshpande** So they were also looking at considering to give a production linked subsidy, so is there anything on the table right now?
- Ajit Shriram** As I mentioned the Central government is looking at 3 or 4 steps and hopefully a decision will be taken in the near future. One is a production subsidy which they want to give directly to the farmer, the second is a reduction in GST from 18% to 5% and this is on ethanol and they want to propose a cess on sugar because our sugar price needs to go up. So as of now these are the three items which we know of that the government is considering.
- Moderator** Thank you. The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.
- Falguni Dutta** I just have one question on this sugar industry which is like is it fair to assume that with this early variety cane and better yield, has it become a new norm that one is going to see a reasonable sugar production and unless there is a very bad monsoon or the farmers don't get money and then maybe not in '18-19, but in '19-20 we could see a drop. What I just want to know is has this improved yield and early variety changed the scene in such a way that one is going to see a higher sugarcane level unless these situations come through.
- Ajit Shriram** See Falguni, actually this variety which is called 238 has increased the competitiveness of UP. UP traditionally had a recovery of roughly 9.5% on an average, that increased to about 10.6% and this year it may be even higher in that maybe at 10.8% on an average for the industry. Now, this has increased the competitiveness of UP and you are right the intensity of this variety has gone up and also the yield per acre of this variety has gone up. So, the farmer's income per acre has gone up. Now, the major swing what is happened this year is from West India, in particular from Maharashtra; last year their production was 4.2 million tons and this year their production I think has already crossed 10.5 million tons.
- Falguni Dutta** There is some early variety concept even there as well, I mean even they are using such seeds and they too have better yield and better recovery?
- Ajit Shriram** I am not very clear as to what are the varieties of cane that they are using. But this increased in production from 4.2 million tons to (+10.5) million tons is completely unprecedented. This 6.5 million tons is actually what is creating the problem today. Our production estimate is roughly 32 million tons of sugar and consumption is 25 million tons. So, this has 7 million tons gap and Maharashtra swung in a huge way. There could be numerous reasons for this one of which we think is that the farmers have moved out of cotton and moved into cane in a bigger way.
- Falguni Dutta** There is no thought as such just because farmers' incomes have increased per acre, they can do away with getting lesser price per quintal so that their overall income is also okay, and the industry also does not suffer. Nothing like that can be proposed right?
- Ajit Shriram** No, I think what is being proposed and has sort of been implemented in Maharashtra, Karnataka and now in Tamil Nadu is the revenue sharing formula. Recently I think about 2 months ago there is the Tamil Nadu government where there is an SAP. They have made a provision in their budget that between the SAP of the state and price arrived by the revenue sharing formula the Government will give the difference to the farmers. This, we are proposing that in UP and the other Northern states also adopt the same formula because UP with the production of 11 million tons cannot be isolated from the rest of India as far as cane pricing is concerned. The sugar market is common for a pan India basis.

- Moderator** Thank you. The next question is from the line of Anand Jain, individual investor. Please go ahead.
- Anand Jain** My first question is on Fenesta. We have seen that the order book has come down, overall. Now, generally the sales for the next year are in some way the reflection of our order book so what is your take on this?
- J. K. Jain** See, what I think we have reported also the growth in order booking was lower in the first 2-3 quarters but the 4th Quarter has seen good growth in order booking in retail sector. Projects still continue to be under constraint but retail sector has registered good growth in 4th Quarter. We have not seen any reduction in overall order booking vis-à-vis last year, I think this year also our overall order booking has gone up, but the rate of growth is what we were mentioning has gone down which as I just mentioned has started seeing pick up in Q4. So, as of now, therefore, we feel pretty confident that 2018-2019 should also see good growth in revenue with whatever order booking we have in hand.
- Anand Jain** So, just to quote the numbers from the presentation our FY18 end of the year order book is Rs. 379.7 crore and FY17 it was Rs. 404.8 crore hence the....
- J. K. Jain** Yes, so I said that Projects is what is gone slow, but retail is doing pretty okay. And retail is 70%-75% of our business with better margin. The Project traditionally follows a little erratic pattern, they come up in bunches. So, projects that way is not a very good representative. Suddenly in one quarter you may have a pretty good booking and you may not have in next 2 quarters.
- Anand Jain** So, even with the current order book we are kind of comfortable with (+/-25%) a few percentage growth in Fenesta?
- J. K. Jain** Fenesta 20% to 30% depending upon the Project situation.
- Anand Jain** So, the second question is on sugar recovery rate, what has been the sugar recovery rate?
- J. K. Jain** This season around 11.1%. In spite of the fact that we started in October this time which is about 15-20 days earlier from what we did last year.
- Anand Jain** So and just to confirm inside UP we do not pay farmers if the recovery rates are higher which is the case in Maharashtra. So, a higher recovery rate would mean that the cost of production for sugar for us would come down without any additional payments to the farmers. Is that a correct understanding?
- Ajit Shriram** No, the difference between UP and Maharashtra is that you are right in Maharashtra they are paying on the basis of recovery of individual factories, whereas, in UP the state government fixes a state advised-price which is much higher than the fair and remunerative price fixed by the Center. So, actually with these recoveries of 11.1 or 11.2 or 11.5, the SAP is higher than what the farmers would have got even with the recoveries.
- Anand Jain** The third question is what are the current ECU realizations, since chlorine has more positive and caustic as more stabilized.
- J. K. Jain** Current realization of what?
- Anand Jain** Current ECU realization.

- J. K. Jain** I will not have that figure right now because I think we are still closing April end, so we will not know that figure. But as I said largely it is remaining in the same range that we have seen in Q4. We have not seen any significant downwards or upward movement in that.
- Anand Jain** The next question is we have significant capacity is coming because of our competitor Grasim in the Gujarat itself. So, do we see chlorine prices per se weakening going ahead or how do you see that?
- J. K. Jain** Right, Grasim has commissioned about 400 tons per day new capacity in March-April. But we have not seen the significant effect on the prices as such because as CMD mentioned demand growth is also about 5% to 6% which we feel will be able to absorb this kind of capacity. There may be some effect for couple of months but not on the sustained basis.
- Anand Jain** Sir, the other question that I have is, so if I were to purely look in the Bioseed business most of our revenues are derived from the BT Cotton side. Now, BT Cotton as a market is sort of stagnant with if I were to give a ballpark somewhere around Rs. 5,000 crore and there are market leaders in each of the areas like in the Northern parts of India we are one of them in the southern parts we have Kaveri and then someone else in Maharashtra region. So, do you see any growth happening on the BT side of it and if not and how do we see the entire seed segment changing for us or evolving for us from hereon?
- J. K. Jain** So, two points see, one BT Cotton market is about Rs. 3,000 crore to Rs. 3,500 crore and I think for the entire industry structure where BT cotton is the major crop which provides industry the revenue. So, out of overall seed market BT Cotton for the industry also contributes about 50%-55%. We also have the same shares. So, there is no disproportionateness between our share and the industry share. Now the growth in hybrid seeds primarily comes with new technologies and new seeds that you introduce. And as the CMD mentioned in his opening remarks the introduction of new technology and new seed is what is got constrained because of the recent policy of the government and to that extent what you are saying is right that for couple of years we do not see any significant growth in the overall seed industry. I think we need to have a framework where by one can introduce new technologies and new research and introduce new seed to sustain the growth. Till that time, it will be a little moderate growth.
- Anand Jain** And because of the current reduction in prices for per bags from Rs. 800 to Rs. 750 the new order that has come do we also see some softening in margins going ahead?
- J. K. Jain** Yes, it will definitely obviously the industry will have to bear. How much will be manufacturers and how much will be passed on to the trade we will know as the season evolves. But there will be some impact definitely.
- Moderator** Thank you. The next question is from the line of Sushil Jagnani from SKM Capital. Please go ahead.
- Sushil Jagnani** Just a couple of question on the sugar front, what are your policies on the by-product credit? And what rate those valued at?
- J. K. Jain** So, byproducts credits are done at the market price prevailing at that point of time. There is no fixed rate that we follow. It is the market price on a month-to-month basis based on which the credit is done.
- Sushil Jagnani** Similarly you will follow the same for your transfer pricing? Be it for your distillery or the cogen going forward?

- J. K. Jain** So, we follow the same policy across the company because it is not only sugar, even in Chloro-Vinyl we have that kind of integration and others. So, that is across the company.
- Sushil Jagnani** And regarding the export front have we entered into any contract so far?
- J. K. Jain** No, not yet.
- Sushil Jagnani** And what has been your sales of sugar during the month of April?
- J. K. Jain** No, we will not know that right now. We are still in the process of closing our books and we will know it in couple of weeks.
- Moderator** Thank you. The next question is from the line of Dhruv Saraf from Kredent Capital. Please go ahead.
- Dhruv Saraf** Sir, we around 3 to 4 months back there was a notice that is central government in the UP State Government stating that it was the best time to adopt the Rangarajan pricing policy. So, sir would there be any updates on that as the state government dealing any further action on the same or are we still status quo?
- J. K. Jain** Which state are you talking about?
- Dhruv Saraf** UP, yes. So, we around July last year or around September last we had central government which had sent its notice to the UP state government regarding the implementation of Rangarajan formula. So, do we have an update on that or is it still status quo?
- Ajay Shriram** I think the industry is pushing this very hard across the board. The good thing is 3 states in south India have adopted the formula. So, in UP also the industry has been meeting from the Chief Minister downward and stressing the need to have a balance pricing formula for the farmer and the consumer so that the farmer is paid, and the industry does not have a very tough time. So, we are pushing, and we are talking to the government all the time. But there is no decision that we know of which the Government has taken on this matter.
- Dhruv Saraf** Sir, just to put in context in this regard, so if you look at the Rangarajan formula, the formula saying that the cane cost should be 75% of the sugar cost, right in terms of the standalone level, if I am not wrong?
- Ajay Shriram** Yes, whether it is including Molasses ...
- Dhruv Saraf** It is 70%, right?
- Ajay Shriram** Only sugar is 75%, correct.
- Dhruv Saraf** So, sir in this regard, so current sugar prices are we mentioned is around 27 a kg. So, we have cane cost would have to meaningfully come down which would mean a lot of adverse impact of the farmer. So, any comments on that would it make sense of the government to actually put it across right now or any comments on that?
- Ajit Shriram** See, there is FRP as far as the farmer is concerned and one cannot go below the FRP.
- Dhruv Saraf** Exactly. So, we would actually go below the FRP in this regard, right ...

- Ajit Shriram** There is a floor and as the scenario is panning out in the current sugar sector, I think there will be some help required from the central and state governments to help clear the cane arrears and this is simply not sustainable in the long run. The profits which the farmers are getting from sugar cane today is much more than any other crop combination and that is the reason why in spite the cane arrears there is more planting going on not only in UP but also in the rest of the country. So, this is actually disturbing factor that why is the cane so profitable to the farmers vis-à-vis any other crop or crop combination.
- J. K. Jain** And just to add the Rangarajan committee besides revenue sharing also talked about price stabilization fund just to take care of these anomalies that you mentioned if the revenue share goes below the FRP the money has to come from price stabilization fund to take care of farmers interest.
- Dhruv Saraf** Sir, that was with the Tamil Nadu government is doing, like they are paying the difference between the revenue sharing and the SAP right.
- J. K. Jain** Yes, this is what Tamil Nadu is proposing.
- Moderator** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Capital. Please go ahead.
- Rohit Nagraj** Sir, can you just tell me what has changed in terms of chlorine demand on a quarter-to-quarter basis because of which the realizations have almost broken even when in last quarter I think they were negative Rs. 4 or so?
- J. K. Jain** See, we won't have quarter-to-quarter but for the year as a whole what we mentioned was that Chlorine is growing faster than Caustic in the country which we believe is aided because of the negative chlorine price that was prevailing. It has given push to chlorine consuming sectors and exports of chlorine-based product has picked up. So, that has given rise to higher chlorine consumption and thereby more chlorine supplies and higher price.
- Rohit Nagraj** And in terms of PVC realizations those have also improved on a quarter-to-quarter basis, am I right on this particular front?
- J. K. Jain** Vis-à-vis same period last year it has not improved. I do not have quarter-to-quarter numbers here. But some of these do vary seasonally also like second quarter is generally soft on PVC. So, there is some amount of seasonality in these prices. We will appreciate to look at quarter-on-quarter.
- Moderator** Thank you. The next question is from the line of Jigar Shah, Individual Investor. Please go ahead.
- Jigar Shah** Just wanted to ask you the earnings from your chemical business, is this sustainable going forward?
- Ajay Shriram** We think, we think it is. In fact, we anticipate that with our expansions happening and our chemical business going up from 1315 tons a day capacity to about 1,850 tons a day capacity in the next 12-15 months. I think we should improve.
- Jigar Shah** So, basically your run rate can increase on EBIT level above a Rs. 1,000 crore a year going forward in chemical business?
- Ajay Shriram** We do not want to give a figure because we do not know, it is the commodity at the end of the day. But I think the advantage of volumes, the advantage of being efficient.

- Jigar Shah** Supposing the chemical business run rate continues at around these levels, your entire market cap is Rs 5,000 crore, while chemical business alone is giving approx Rs 1000 crore why don't we split the business and unlock a lot of value doing this. I am saying even the not so great businesses in India they created a much higher valuation because market loves focused companies which are lean in structure. So, why do we look at something like this? I think there will be significant value creation if we just split our businesses.
- Ajay Shriram** So, we appreciate your sentiment we appreciate your views. The Board keeps discussing these issues time-to-time. I think it is a strategic direction we have to take up with the board level, but we appreciate your sentiments. Thank you.
- Moderator:** Thank you. That was the last question in queue. I now hand the conference over to the management for their closing comments.
- Ajay Shriram** Ladies and gentlemen, we thank you for your continuous support and confidence. As you are aware commodities are a major part of our business. We continue to focus on building scale and strengthening competitiveness in these businesses. Simultaneously, we are developing multiple revenue streams through forward integration which would provide us partial hedge against commodity movement. We are also growing the Bioseed, Shriram Farm Solutions and Fenesta businesses steadily. We are confident on delivering sustain topline and bottom line growth with a strong balance sheet going forward. Thank you very much once again.
- Moderator** Thank you. Ladies and gentlemen, on behalf of DCM Shriram Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

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