DCM Shriram Limited's
Q4 and FY19 Earnings Conference Call

May 13, 2019

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the DCM Shriram Limited's Q4 & FY'19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, Mr. Rangnekar.

Siddharth Rangnekar: Thank you. Good afternoon and thank you for joining us on DCM Shriram Limited's Q4 and FY'19 Earnings Conference Call. Today, we have with us Mr. Ajay Shriram – Chairman and Senior Managing Director; Mr. Vikram Shriram – Vice Chairman and Managing Director; Mr. Ajit Shriram – Joint Managing Director; Mr. K.K. Kaul – Wholetime Director and Mr. J.K. Jain – CFO of the Company.

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

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

I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's performance during Q4 &FY19 and his views going forward. Over to you, Sir

Ajay Shriram: Thank you, Siddharth. Good afternoon, Ladies and Gentlemen, and a very warm welcome to the company's earning conference call for financial year '19.

I am pleased to be addressing you and will be sharing perspectives on the progress achieved on our strategic initiatives and updates on individual businesses in terms of outlook and opportunities, following which Vikram will take you through the financial performance of the company.

We are happy to state that the company recorded satisfactory overall performance for the financial year '19. The overall turnover grew by 13%, EBITDA by 33% and Profit After Tax by 35%. The turnover of our own products grew by 19%. Higher volumes of Chemicals and Sugar and turnover of newly commissioned businesses that is Ethanol and Aluminum Chloride, contributed to the turnover growth.

We made good progress on all our strategic initiatives. These initiatives are aimed at building scale in key businesses, strengthening integration and cost competitiveness, developing multiple revenue streams while maintaining a healthy balance sheet.

In line with our strategy, we commissioned the following projects during the year:

- Ethanol sales from 150 KLD distillery started from April 2018.
- 5,000 TCD plant for manufacture of refined sugar along with 30 MW cogeneration power plant started in January ’19.
- Chlor-Alkali capacity went up from 1,345 TPD to 1,845 TPD with addition of 168 TPD at Kota in Q2 FY19 and 332 TPD at Bharuch in April 2019.
- 60 TPD aluminum chloride facilities started operations in Q4 2019.

These projects involving investments of Rs.900 crore have strengthened our sugar and chemicals businesses and improved our returns profile.

To further progress in our strategic direction, the company is implementing projects involving investments of approximately Rs.1,642 crore. These projects spread over the Chlor-Vinyl and Sugar segments include:

- New 200 KLD ethanol distillery to be commissioned in October ’19.
- 66 MW power plant at Kota to replace the old 50 MW power plant, will be commissioned in November ’19.
- Addition of 40 TPD PVC plant to start production in November ’19 and
- 700 TPD of Chlor-Alkali capacity expansion along with 120 MW power plant at Bharuch is to be completed by March ’21.

All the above projects are progressing as per plan and will on completion provide volume growth, enhance competitiveness and further improve our earning profile.

We are also evaluating Chlorine downstream opportunities and hope to finalize our plan in this area by end of 2019.

The company completed the share buyback program on 23rd October 2018 involving a total cost of Rs.250 crore. As part of this program, 64.74 lakh shares representing 3.99% of capital were bought and extinguished.

The Board has recommended a final dividend of 80% taking the total dividend for financial year ’19 to 490% vis-à-vis 410% for financial year ’18.

I will now take you the business wise developments:

Chloro Vinyl:

This segment includes Chemicals and Plastics businesses.

Chemicals:

Chemical sector in the country is benefiting from positive global developments over the last few years. Exports of Chlor-Alkali products from China have gone down due to reduction in effective capacity and increase in domestic demand. Europe also recorded small capacity reduction over the last few years. As per present announcements, no major capacity additions are planned globally except in India. The international caustic prices are just range bound with the US$375-450 per ton.

India recorded high growth in chlorine consumption over the last couple of years. This is a reflection of policy global development in the chemicals sector which is benefiting India. Caustic consumption growth has been slow. However, lower imports and exports push by Indian manufacturers has led to higher operating rates for the Chlor-Alkali industry. We expect domestic caustic soda consumption growth to pick up this year, led by aluminum, pulp and paper segments. We also expect chlorine consumption growth to remain high.

The domestic caustic soda prices are ruling at a premium over imports parity prices and we will see small reduction in this premium in the next few months. India is also expected to see approximately 12.5% increase in production capacity in financial year ’20. This may cause some short-term surpluses**.** However, given robust increase in chlorine demand and good export potential for caustic soda, we expect that this capacity addition will not cause any significant disturbances.

As you are aware, we commissioned 500 TPD additional Chlor-Alkali capacity between September ’18 and April ’19. This would mean approximately 27.5% additional capacity for the financial year ’20 over financial year ’19. We are operating the plants at almost full capacity and are confident of maintaining the same for the full year. However, major part of this additional capacity will operate based on purchased power in financial year ’20 and ’21 till the commissioning of the new 120 MW power plant at Bharuch and the 66 MW power plant at Kota. The commissioning of the 66 MW coal-based power plant at Kota to replace our old 50 MW power plant, will be commissioned in November ’19, will additionally help us achieving cost savings.

We also plan to develop a concrete plan for chlorine-based Chemicals in the next six months which, when implemented will further strengthen our overall Chemicals business.

Plastics:

PVC experienced lower demand growth in financial year ’19 primarily due to lower growth in Pipe and Fittings segment. On a longer-term basis, PVC growth is in line with GDP growth.

India imports approximately 55-60% of the total PVC consumption. The domestic prices are fully linked with global prices. PVC prices globally have recorded downward movement over the last two, three months which has led to simultaneous decline in domestic prices. It is expected that the prices will rebound soon as no significant additional capacity are planned globally.

We are planning to enhance our PVC capacity from 180 TPD to 220 TPD and also reduced our power cost, consequent to commissioning of the new power plant at Kota in Q3FY20.

Sugar:

The sugar sector continues to face challenges of high surpluses. The production for the current season is expected to be approximately 33 million tonnes with domestic demand at ~26 million tonnes and export of ~3 million tonnes, the carry over inventory will be upwards of 14 million tonnes. This is almost seven months consumption, the highest ever for the industry. This excess supply is putting pressure on domestic prices which is almost Rs.200 per quintal below costs. The current crushing season has been satisfactory in UP and for us. The cane crush is expected to be lower but however the sugar recovery is higher for most factories. This has reduced cost of production and thereby the negative effect of lower prices.

The ethanol program at the overall country level is progressing well with overall blending touching approximately 7.5% in the current season. With addition of distillery capacity across the country, the blending is likely to go further. It is also expected that the shifting from sugar to ethanol will pick up in the next season, which will provide partial relief against excess sugar supplies. The government continues to promote and support the ethanol blending program.

We commissioned our first distillery of 150 KLD in January ’18 and ethanol sales started in April ’18. This has provided strong support to earnings of the sugar business in financial year ’19. We are planning to commission the second distillery of 200 KLD by October-November ’19 making us fully integrated on the molasses side, which will strengthen the earnings profile of our overall sugar business .

The PPA prices for supply of power to UPPCL are due for refixation from April ’19 onwards. We are in discussion with the concerned government authorities to arrive at a fair price for all parties.

Urea:

The government has extended the existing urea policy till further order. The issues of applicable energy norms and the revision in fixed costs reimbursements are still under discussions. We expect a fair and reasonable policy will be finalized after the new government takes office.

The subsidy outstanding remained high throughout the year leading to higher working capital. The plant had a shutdown in March-April 2019 which has now stabilized.

Bioseed:

The Hybrid seed sector continues to face challenges in its biggest segment that is cotton seed. The uncertainty regarding introduction of new technology, price controls by government and static crop area is leading to falling margins and no overall growth. Hybrid Paddy presents a good opportunity particularly pick up in hybridization in South India. Expectations of an erratic monsoon particularly in Central and South India is creating short-term challenges for the industry. We are developing product pipelines across our mandate crops of cotton, corn, paddy and vegetables and expect growth in the business for the medium-term.

Shriram Farm Solutions:

SFS has started growing its value-added inputs business post rationalization of bulk fertilizer trading. It is entering into alliances to introduce differentiated products, strengthening our product promotion capabilities and extending the geographic reach. We have experienced a turnover growth of 9% in this segment in financial year ’19 and expect accelerated growth over the medium-term.

Fenesta:

Fenesta windows business is registering sustained growth despite tough real estate business scenario. Retail business is progressing well and supporting growth in the overall business. We are looking at expanding our product portfolio and also move into newer geographies. The effort will be to broad base the business and generate higher growth going forward.

We strongly believe that employees are key to the sustained growth of the company. We are investing in leadership development, enhancing employee engagement and strengthening the culture of trust, innovation and customer orientation. We are also pursuing a plan to harness the benefit of new technologies such as IoT, Machine Learning and Artificial Intelligence across all our operations. We believe the new technologies will help us improving efficiencies and enhance customer engagements. As you are aware, the company has a tradition of deeper engagements with the communities across all our operating areas. Education, Water Conservation and Health and Sanitation are some of the areas where we have further enhanced our engagements.

Overallwe will focus to strengthen our businesses for medium to long-term by scaling up in all our key businesses, cost reductions, integration and establishing multiple revenue streams. We are committed to improve our earnings profile and maintain strong financials. Simultaneously, strengthening the organization, development of people and deeper engagement with society will get the highest management attention.

I will now request Vikram to take you through the financial highlights. Thank you.

Vikram Shriram: Thank you. Good afternoon, Ladies and Gentlemen. Let me now take you through the overall financial performance of the company. I will first talk about the highlights for the Q4 FY19.

The overall revenues of the company in the quarter at Rs.1,888 crore were up by 21%. Revenues from own products at Rs.1,760 crore, went up by 30% YoY. Revenue growth was led by volume growth in Sugar and Chlor-Alkali segments.

- Revenues from sugar sales were up 60% due to increased volumes.
- Revenues from new businesses of ethanol added Rs.49.6 crore.
- Volumes in Chlor-Alkali increased by 12% as a result of increased capacity at Kota.

Revenues from traded products, that is SFS and Hariyali were lower by 38%. This is in line with our plan to completely phase out bulk fertilizer trading and all the Hariyali fuel outlets over the next few years.

PBDIT for the period stood at Rs.439 crore, up from Rs.95 crore last year. The growth in PBDIT was driven by:

- Profit of Rs.41 crore from distillery operations vis-à-vis Rs.2 crore last year.
- Sales from distillery has started in Q1 FY19 only.
- Higher profits from sale of power from sugar consequent to the commissioning of the 30 MW additional capacity in the quarter.
- Our earnings in Q4 last year were impacted by one-time charge of Rs.147 crore relating to inventory write-down and sugar exports.

Finance costs were at Rs.24 crore versus Rs.20 crore last year.

PAT for the quarter were at Rs.293 crore, an increase of Rs.242 crore versus last year.

I will now share with you the financial highlights for the full year '19.

The overall revenue for the year was at Rs.7,771 crore, up 13%. The revenue from own products was up 19% at Rs.6,797 crore. PBDIT stood at Rs.1,456 crore, an increase of Rs.365 crore over previous year. The PBDIT growth was driven by increase in volumes and improved margins. More specifically:

- Chemicals PBDIT at Rs.973 crore, up 24% YoY was driven by higher volumes, result of increased capacity at Kota plant and the 12% increase in ECU realizations.
- New capacities of ethanol and power in sugar segments led to increase of Rs.189 crore.
- Last year we had taken a charge of Rs.157 crore on account of inventory write-down (Rs 5 crore in financial year '19) and a charge of Rs.28 crore on export obligations(This year nil).

Depreciation stood at Rs.157 crore versus Rs.141 crore in the previous year. The finance cost was Rs.119 crore versus Rs.83 crore. The increase is primarily due to higher working capital, led by higher sugar inventory and higher fertilizer subsidy. PAT for the current year rose 35% YoY to Rs.906 crore. The effective tax rate works out to be 22.7% against 22.3% in financial year '18. Gross debt as on March 31st, 2019 stood at Rs.1,610 crore versus Rs.756 crore as on March 31st 2018. Cash and cash equivalents stood at Rs.345 crore versus Rs.102 crore. Net debt thus, works out at Rs.1,265 crore versus Rs.653 crore last year.

Let me now take you through our business wise financial performance:

Chemicals:

Net revenues of the business for the quarter at Rs.524 crore, grew by 9%YoY. The sales volume registered growth of 12% led by capacity increase at Kota. The net ECU realization were down 5%. The new value-added products line of aluminum chloride was commissioned fully in Q4 financial year '19, also added to revenues. PBIT for the quarter was Rs.244 crore, down 2% during the same period last year primarily due to lower prices. For full year 2019, net revenue of the business grew by 24%, driven by 9% increase in volume and 12% increase in ECU realization. Chlorine prices which were negative last year turned positive during the current financial year. PBIT grew by 26% YoY. Bharuch plant had a shutdown during the Q4 financial year '19. The plant is back to normal operations now.

Plastics:

The net revenues of the business for the quarter stood at Rs.152 crore as against Rs.110 crore last year. PVC sales volume were up 19% YoY and Carbide volumes were up 102%. Prices for PVC and Carbide were up 3% and 16% respectively. PBIT for the quarter improved 600% YoY at Rs.27 crore driven by higher volumes and improved margins. Pet Coke ban by Hon'ble Supreme Court had affected the earnings for the same quarter last year. Pet Coke use was then allowed in Q1 financial year '19. For the full year revenues growth was 5% versus last year. PBIT was at Rs.83 crore versus Rs.94 crore, lower mainly due to higher power cost.

Sugar:

Segment revenues for the quarter was up 68%. Sugar revenue for the quarter was up by 60% at Rs.520 crore. The volume is up by 81% YoY with domestic volumes up 19%. Sugar export contributed Rs.128 crore to the revenue which was nil in Q4 financial year '18. The domestic net realizations were lower by 2% YoY at Rs.3,120 per quintal. Cost for sugar year '19 is approximately Rs.3,300 per quintal, leading to a negative margin of approximately Rs.200 per quintal for the quarter.

Power revenues for the quarter is up by 23% at Rs.67 crore due to higher volumes consequent to the new 30 MW power plant commissioned during Q4 financial year ’19.

Distillery revenues for the quarter stood at Rs.50 crore versus nil for the same period last year.

Segment PBIT for the quarter stood at Rs.227 crore versus negative Rs.137 crore in Q4 financial year ’18. Sugar PBIT stood at Rs.138 crore versus negative Rs.180 crore during the same period last year. The growth is attributable to:

- Q4 last year had a sugar inventory write-down charge of Rs.119 crore and charge of Rs.28 crore on export obligation.
- Off season expenses were being deferred for interim results till last year. This had led to a positive impact of Rs.37.4 crore in current quarter over Q4 Financial Year ’18.

Annual overall net revenue for this segment at Rs.2,353 crore is up by 20% year-on-year. Sugar revenue up by 8%. Overall sugar sales volumes is up by 32% year-on-year including exports volumes for raw sugar of 8.7 lakh quintals in financial year ’19 v/s nil in financial year ’18.

Domestic prices were lower at 15% year-on-year at Rs.3,036 per quintal. Ethanol sales from newly added distillery facility commenced in current financial year and contributed Rs.204 crore to the revenue during the year.

Cogen power revenues were up by 39% year-on-year due to the new 30 megawatt power plant commissioned during Q4 financial year ’19 and longer sugar season 18 which ended in June 2018.

PBIT for financial year ’19 is at Rs.355 crore, up 276% year-on-year attributable to:

- A charge of Rs.157 crore on account of inventory write-down in FY18 (Rs.5 crore in FY19) and charge of Rs.28 crore on export obligation in financial year ’18 versus NIL in financial year ’19.
- Profit of Rs.147 crore from distillery operations which started in Jan ’18 as compared to Rs.1 crore last year.
- Increase in power profits by Rs.33 crore (at Rs.127 crore for financial year ’19).

Domestic sugar inventory as on 31st March ’19 were 38.89 lakh quintals versus 28.97 lakh quintals previous year and is valued at average rate of Rs.3,049 per quintal. We have contracted and produced entire sugar (raw) export quantity of 9.2 lakh quintals as on date including 8.7 lakh quintals sold up to 31st March 2019.

The operations for sugar year ’19 have been satisfactory with higher sugar recoveries in the current season over the last year up to 31st March. Recovery for sugar year ’19 was at 12% versus sugar year ’18 at 11%. New refined sugar plant 5000 TCD and power plant of 30 megawatt are having stable operations. Ethanol distillery is operating at full capacity.

Other Businesses:

We had satisfactory financial results in all other businesses. Fenesta has grown revenues by 17% and PBIT by 59% in financial year ’19.

DCM SHRIRAM

Shriram Farm Solutions is focused on value-added inputs. The turnover of value-added inputs grew 9% and margins also improved to 10.3% from 8% year-on-year.

Bioseed had lower revenues primarily due to cotton seeds related challenges which also led to lower profits.

Projects:

We have added 500 TPD Chlor-Alkali capacity during September ’18 and April ’19. This implies 27.5% higher capacity available for financial year ’20 over financial year ’19. Further, we are implementing following projects at an investment of Rs.1,642 crore over the next two years.

- Distillery for ethanol of 200 KLD to be commissioned in Q3 FY20. This would raise total ethanol capacity by 133% to 350 KLD. The distillery will provide benefit for part of the year in FY20 and full year in FY21.
- 66 megawatts power plant at Kota by Q3 FY20. This would lead to cost economies by replacing 50 megawatts old inefficient plant and substituting 16 megawatts of costly grid power.
- 40 TPD PVC expansion at Kota to get commissioned by Q3 financial year ’20 raising total PVC capacity by 22%.
- 700 TPD of Chlor-Alkali expansion with 120 megawatts power plant at Bharuch to be commissioned by March ’21. This will add to the profits for the full year in financial year ’22.

I may also mention that the investments outlined above have been properly phased out so that our overall debt level remains well within 1.5x to EBITDA. This would ensure a strong balance sheet with enough margins.

That concludes my financial review and we would be glad to take any questions that you may have.

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 Ayush Mittal from Mittal Analytics Pvt. Limited.

Ayush Mittal: Good afternoon Sir, congratulations on the great performance. In reference with the caustic soda segment I have few questions: First is, is there still any anti-dumping duty currently applicable on India?

Ajay Shriram: No, there is no anti-dumping duty but there is a system that under the BIS Scheme which is Bureau of Indian Standards, suppliers have to be registered. So, some of the international suppliers were not registered. But I believe now majority of them have got registered,but there is no anti-dumping duty.

Ayush Mittal: Over last three, four or five months if we see the International prices, we see decent correction in the caustic soda prices. But in the domestic market, we see that the prices have risen despite this phenomenon. Can you share your thoughts on the same, why this is happening, why isn't there a parity maybe?

Ajay Shriram: I think it's a matter of supply and demand at a particular time. And because Indian industry is also exporting caustic soda, I think that is also having a positive impact in terms of the prices which are maintained over here. But I think basically it's a matter of supply and demand. See, in commodity the prices move both ways, up and down, both, and this is commodity. So, I think it’s a commodity pricing situation.

J.K. Jain: Also, if you see international prices which had gone down in December, January, but has moved back to above $400.

Ayush Mittal: Okay, actually my question more is from the perspective like if we see last six months, I think probably high international prices have corrected by 20% or more than that. While in India if we see last six months the prices have risen by maybe 10% or so, is that right?

J.K. Jain: See, as far as international price is concerned, if you see our presentation, it had touched about $460 in September, in April-May it is back to about $430, $440. So, if you see period-to-period there hasn't been any significant fall. But what you mentioned was right that in between the prices had gone down, our prices did not go down for the reason which CMD just explained that there was this requirement of BIS approval, which had curtailed the imports into the country. But if you see period-to-period between September and now, they are fairly aligned. There may be marginal difference which will get corrected over a period.

Ayush Mittal: Okay. And as of today, is there a parity between Indian prices and the global prices, like if you do those conversions and think, then the prices currently in India are they higher than the international prices or equivalent?

J.K. Jain: It may be marginally higher, but as we just mentioned now, imports have started with BIS approval. So, they are getting aligned with the international prices.

Ayush Mittal: Okay. And sir, as you mentioned in your opening comments also, a lot of expansion is coming in this area in India itself. And you said there may be some moderation in prices. Can you share your thoughts more on it in terms of our margins which are at all-time high in this segment and what kind of margins do you see going forward or what kind of pricing do you see going forward?

Ajay Shriram: It is very difficult in the commodity business to talk about margins and prices. And we don't want to get into that segment or that sort of a dialogue. If you look at the last 20 years, when the prices are good you find more people coming into the industry, coming into the business. The good thing over here is that the demand for chlorine is moving higher, caustic demand also we expect marginal pick-up, plus there is exports happening. So, I think as an industry over a medium-term, we expect prices to be fairly okay.

Moderator: Thank you. We take the next question from the line of Anant Jain, Individual Investor.

Anant Jain: Sir, Congratulations on the great set of numbers. My first question is this bulging sugar inventories. How do we see it playing out? Because even this year we see that the sugar production is much higher and the inventory that was being carried over from last year will go up significantly. And there is no incentive for farmers to further reduce cane production in any way. So, I just want to understand maybe once the inventory goes to a much higher level than what it is today, how will it all get dumped, how will it all go away?

Ajit Shriram: See, as was mentioned in the opening remarks, the closing stock will be at a record high of roughly 14 million tonnes this year. And we are exporting 3 million tonnes of sugar this year. So, there are talks with the government on two fronts – one is to continue exports in the coming year as well. And second, which is more probable, is that more ethanol manufacturing facilities will transfer B-Heavy molasses into ethanol, thereby reducing the manufacture of sugar. There is also a possibility of shifting the cane juice to manufacture ethanol and we are in talks with the government to simplify the procedures related to the same. So, if cane juice gets transferred to making ethanol, we will see a further reduction in the sugar production next year.

Anant Jain: Okay, my next question is this year the inventories will get carried over, next year we will see some rationalization because of sugar production cuts coming in. Is that like a fair assumption?

Ajit Shriram: It is a bit early to say there will be sugar production cuts. We still have to wait for the monsoons. As far as West India is concerned, we are looking at stress kind of situation. So that may reduce the sugar production slightly in West India, which is primarily South Maharashtra and Northern Karnataka. However, as I mentioned, we do hope that B-Heavy molasses and cane juice is diverted to making more ethanol next year.

Anant Jain: Okay my second question is on Bioseed business. I have been tracking our company for last four, five years and frankly there is not much that has happened in the Bioseed purely from a capital allocation perspective, not much returns and every year the expectation is we are going to do better next year. It has not fructified at all. So, how do you think about this business and how do you think in general of a business that is not delivering longishly?

Vikram Shriram: I think the research pipeline is strong and really the strength or the outlook is based on the research pipeline. The fact remains that the last few years have been very disturbed on multiple factors – number one, competitive pressure, as you are aware Rasi has made significant inroads in the cotton business. Besides that, there has been government, demonetistion, monsoon, many other factors which have played in the agri sector. But overall, based on our research pipeline, we are confident that in the medium-term, this will start coming into its own and will be an effective business.

Anant Jain: Just to add to it, I mean, the major part of our Bioseed is cotton seed. Now, if you look at cotton, almost in every territory there are well-entrenched players. And again, if we look at some other new players coming in, Rallis recently announced that they have come up with some really good seeds, hybrid seeds, GM seeds in the cotton side. And the market size remains limited, it has always been limited in that sense. So, my question is that, what are the other varieties, what are the other areas that we are looking into? We ourselves have not been able to cross 40 lakh packets.

Vikram Shriram: Yes, but now we have got new products in the pipeline, which have been under testing for the last two years in cotton. And we expect this year to make the initial commercial sales and to increase, which are looking attractive vis-à-vis the competition. Besides that, we are working on paddy, corn and vegetables. In vegetables also we have some significant good products, particularly in Tomato and Bhindi and Brinjal, which are picking up. Tomato is doing well. So, based on all these, we expect the future medium-term to be much better than it is today. As was mentioned earlier also, we have new product in paddy in South India where with hybridization that's a very wide-open field.

Anant Jain: So, how do you see the mix going ahead, cotton versus non-cotton?

Vikram Shriram: There will be an increase of non-cotton. Cotton will make up some of the lost ground that it has lost. But at the same time, we expect the non-cotton to grow faster.

Moderator: Thank you. The next question is from the line of Rohit Sinha from Emkay Global.

Rohit Sinha: Sir, just want to check, what was the total CAPEX for FY19?

J.K. Jain: The total CAPEX was about Rs. 800 crore, including the normal CAPEX.

Rohit Sinha: Okay. That means whatever the project was commissioned, apart from that it includes around Rs. 800 crore, right?

J.K. Jain: Yes.

Rohit Sinha: And this two-year CAPEX which is Rs. 1,642 crore, apart from that the projects which are listed, is there any further CAPEX we expect?

J.K. Jain: No, as of now those are the projects we are taking up, there is nothing further. There will be some normal CAPEX of about Rs. 100 crore which happens every year, that's all.

Rohit Sinha: Okay. And next question on this Chloro-Vinyl side, what is the capacity right now we are standing as on date?

J.K. Jain: Our capacity is 1,850 tons per day now.

Rohit Sinha: Okay. And that is full capacity utilization, right?

J.K. Jain: We are operating it at near full capacity.

Moderator: Thank you. Next question is from the line of Siddarth Mohta from Principle Mutual Fund.

Siddarth Mohta: Sir, post this Brownfield capacities coming at Kota and Bharuch, what can be reduction in fixed costs per metric tonne? And at the same time, then after a few quarters, once captive power plant comes what can be further reduction in cost per metric tonne?

J.K. Jain: Siddarth, I don't have the number of fixed costs per tonne coming down or what will be the effective fixed costs, we can share that with you later. But as we mentioned in the opening remarks, the effective capacity will be going up by 27.5%.

Siddarth Mohta: Correct. And sir on this Brownfield capacity at Kota and Bharuch, how much additional cost is being incurred in sourcing power from grid versus captive power plant which will come in the next few quarters?

J.K. Jain: It is about Rs. 2 per unit extra cost compared to own generation.

Siddarth Mohta: A couple of quarters back some of the Aluminum players were importing caustic soda. So, whether I am right on this statement? And any specific reason why they were sourcing caustic soda?

J.K. Jain: Caustic traditionally, Siddarth, is imported in the Southern and Eastern part of India, because of logistics it used to probably make more sense to import. But it has come down drastically last year compared to a year before, it has nearly halved and now most of the caustic soda is being supplied from Western India to the Eastern India. So we do expect that import to come down continuously.

Siddarth Mohta: And sir was mentioning in his initial remark that we were studying some downstream opportunity in chlorine segment. Would it be possible for you to update on that study?

Ajay Shriram: This is still very much a study in progress. So, we have not yet concretized anything. But as we have any concrete plans of any nature, we will definitely share it with you.

Siddarth Mohta: Within sugar segment what percentage of sugarcane crop is currently under early variety?

Ajit Shriram: In UP with this variety called 238, for us roughly 85%, 90% is under the early variety for our company.

Siddarth Mohta: And for UP overall?

Ajit Shriram: It will be roughly the same region at this point of time, because the yield from this particular variety is good so the farmers are loving it, and they want to in fact, plant more of this variety which we are trying to discourage, because we don't want to go into monocrop situation.

Siddarth Mohta: And currently sir, what would be the sugar pricing that we are getting?

Ajit Shriram: The current sugar prices are in the region of Rs. 3,300 to Rs. 3,350 a quintal.

Siddarth Mohta: It has increased a bit actually? Sir, you said you have mentioned Rs. 3,300?

J.K. Jain: Rs. 3,300 per quintal, yes.

Siddarth Mohta: So, off late it has increased, any specific reason in spite of the fact that demand supply equation is not that favorable?

Ajit Shriram: Essentially the government has brought in about a year ago the monthly release mechanism, so based upon that there is a certain quota beyond which you cannot sell, number one. Number two, traditionally in the summer months the sugar prices do firm up because of higher demand from cold-drink, ice-cream, etc.

Siddarth Mohta: Okay. And overall export as far as India is concerned, whether it has reached 3 million tonne?

Ajit Shriram: Yes, 3 million tonnes.

Siddarth Mohta: Okay. And power rate revision which was supposed to happen from April 2019, so whether there will be a downward increase or upward increase?

Ajit Shriram: Right now, talks are going on with the government and various authorities related to the power tariffs so it will be really premature to talk about that right now.

Moderator: Thank you. We take the next question from the line of Amit Kadam from Canara Robeco Mutual Fund.

Amit Kadam: I have one small question. Currently, our sugar crushing capacity is like a 38,000 TCD, and in the call we said that on molasses after this 200 TPD expansion we will be fully integrated on the molasses part. Is that the right thing that with this 350 total eventual capacity on ethanol on captive side will we be like, we don't have to procure molasses from outside? Our molasses will be self-sufficient?

Ajit Shriram: So over here there are two things, one is, yes, you right. With a 350 KLD, two plants of distillery we will be self-sufficient as far as molasses is concerned. However, if we use C-Grade molasses then we will need to procure from the market. However, our team is working out, in case we do a combination of B-Heavy molasses and C-Heavy then we may not need to procure from the open market.

J.K. Jain: And what we meant by fully-integrated was that we will convert our entire molasses to ethanol. Right now we are selling some, but after this we will convert entire molasses to ethanol.

Amit Kadam: Okay, but to operate entire 350 KLD with a C-grade route, we will require molasses to be procured from outside, right, else that equation won't work with the 38,000 TCD capacity?

J.K. Jain: Yes, you are right, we may have to procure some of it if we don't convert from B-Heavy to ethanol. But chances are we will convert from B-Heavy to ethanol also.

Amit Kadam: Sir, any ratio what you are trying to come out with, how much it will be from B-Heavy and how much will be from C-Heavy?

J.K. Jain: That's a very dynamic issue, it will depend on sugar price and ethanol prices. It will be decided on the year-to-year how it pans out. It is just that we have flexibility now.

Amit Kadam: Are the CAPEX different, like if you want to just be flexible from a future point of view to toggle between sugar and ethanol?

J.K. Jain: No, the plant is same, you don't require a different plant for it.

Moderator: Thank you. Our next question is from the line of Pratik Tholiya from Elara Capital.

Pratik Tholiya: Sir, this other income in this quarter is slightly on the higher side, around Rs. 40-odd crore, so any one-off in that or this will be the sustainable rate?

J.K. Jain: There is no one-off, Pratik, it is largely the interest income. And interest income has a component of the reimbursements from the government for buffer stocks and other subventions that they have extended to sugar business. So, there is nothing abnormal in this.

Pratik Tholiya: Right. And for this power Co-gen that we have started, the 30 megawatts, what was the CAPEX for that?

,J.K. Jain: See, this was combined along with the 5,000 TCD sugar expansion. So the combined CAPEX was roughly Rs. 300 crore.

Pratik Tholiya: Sir, you can give a separate number for the power plant?

J.K. Jain: It will be difficult because you require the additional boiler for sugar as well. So it is almost integrated. It wasn't separate for power or for sugar.

Pratik Tholiya: Okay. And out of 30 megawatts how much will be used captively and what will be exported?

J.K. Jain: We are exporting 22.5 out of that.

Pratik Tholiya: And lastly, we have seen in the past, India basically is a caustic driven market and chlorine is considered a secondary product. And every time there has been a chlorine supply glut, firstly, the prices drop drastically and even in the negative territory, and also the utilization therefore has to be curtailed so it hits on the operating leverage front also. So, now how do you see the dynamics with so many capacities coming up and therefore the chlorine production will also go up drastically. So, how do you see this dynamics changing in the industry going forward?

J.K. Jain: Pratik, as per our estimates or as per our knowledge, whatever plants have been declared, capacity addition in three years is about 30% of existing capacity. And it is fairly spread out over three years. Now, chlorine, we are seeing growing at about 7% or so per year. And as CMD has indicated in his opening remarks, chemical is getting a lot of traction because of various global developments and therefore, India is seeing good production growth. So, we may have short-term imbalances between demand and supply, but if you see this three year or a four-year period, we are not in overall that kind of a situation as probably had happened a couple of years ago. But short-term we could have those kinds of situation.

Pratik Tholiya: So you mean to say we can operate at around 90% utilization over the next three to four years?

J.K. Jain: As a country we are seeing 85% to 90% operating rate because of good growth in chlorine consumption.

Pratik Tholiya: Okay. And just one request, our results are on the 1st and we are hosting the call on 13th, I think there is a big delay between the results and the call. While I understand the presentation is very informative and gives a lot of information, but just a request to the senior management if you can host the call immediately after the results, maybe in the next day, it really helps the investors a lot. So that's just a small, humble suggestion from my side.

J.K. Jain: Okay. We will look into it. But next day we were told by investors we shouldn't, we should give a couple of days gap. But we'll try and expedite it.

Moderator: Thank you. Next question is from the line of Rohan Gupta from Edelweiss.

Rohan Gupta: Going ahead we are seeing that we are clearly emerging as just a chemical and sugar player, with all the investment also going in these two verticals only. So just wanted to check that now in the agri portfolio do you think that there is any possibility over the next three to four years either we completely exit from that business, because that will probably not remain a meaningful portion of our overall revenues as well as in profit? Is the company looking in those directions?

Ajay Shriram: Frankly, firstly I will say sugar is part of the agri division and part of the agri activities, and we will be in that. And secondly, we look at each business, I think it's important to look at each business with a little longer-term perspective and not just a very short-term perspective. In that point of view, we have no decisions or no thinking at all right now. Environment changes time-to-time, that is a separate matter, no one can comment on that. But our objective is how do we make each of our businesses stronger, how do we make it competitive in the market, how do we provide customers with a better product, better services so that each business can grow at its own appropriate pace. Secondly, some businesses are more capital intensive some are less. For instance, Fenesta or farm solutions, the Bioseed, don't require too much capital. And the capital going in there is required at their own pace what they need. So, we are not looking at exiting any business, nor are we consulting or thinking about that. We want to grow every business to its own potential and be a good player in that business in the marketplace.

Rohan Gupta: Second is on this caustic soda plus chlorine. So, how much of our total chlorine output right now we are captively consuming and how much is going for outside sales?

J.K. Jain: Captive will be, roughly if you take total Kota and Bharuch, we will not be very large now, about 10% to 15%. But we supply 40% through pipeline to the customer which are around our factories, which are as good as captive because they are dedicated customers.

Rohan Gupta: But through pipeline is only at Bharuch?

J.K. Jain: Yes.

Rohan Gupta: Okay. With the incremental capacities largely coming in Kota, as far as this chlorine consumption is concerned, do you see that there is any possibility when we run our plant at full utilization because of ex-surplus, chlorine production and we may not be able to consume it all, so we may not be able to run our plan completely on a full utilization?

J.K. Jain: See, I think there is some communication gap, Rohan. We are saying in terms of capacity which has just been started, 168 tonne has come at Kota and 332 tonne at Bharuch. So major expansion happened at Bharuch. Even this 700 tons per day expansion which will commission in April 2021 will happen at Bharuch. Now, most of these are aligned with the customers also increasing their capacity. So, we do expect the ratio of pipeline supplies will remain from Bharuch as it is right now. Also, we have got into some captive consumption at Bharuch with aluminum chloride coming up, and in due course of time as soon as we finalize our plans some more captive consumption will come up.

Rohan Gupta: Okay. So, when you are doing this expansion you don't see that there will be any scenario or any quarters where because of surplus supply of chlorine you may not be able to operate your plant?

Ajay Shriram: I will just add, the reality is that in any situation, and we have seen it again in the last 25 years that when an additional capacity comes in by a couple of years there is pressure in the marketplace because chlorine is something you can't really store too much, it has to be consumed, one can't have large like more than 10 tonnes, 15 tonnes bullets to store them at the complex. So, in case required, yes, production has to be moderated. I think it is part of any expansion it is part of the business strategy.

J.K. Jain: But as I also mentioned, the overall operating rates in the country are expected to remain high in spite of these capacities, so even if there is production cut it will be small.

Rohan Gupta: But you also mentioned that over next three years roughly 30% of additional capacity will come in caustic soda, while chlorine consumption is likely to grow only 7% to 8%. It means that supplies definitely will remain higher over the next two to three years versus demand. As we understand in commodity that even a small 1-tonne incremental production always have an impact on entire prices of the industry. So, that was the worrying point.

J.K. Jain: Rohan, 7% per year CAGR will mean 25% chlorine demand increase, and capacity is 30% increase. So, 30% is not happening in one year, it is happening over three years.

Moderator: Thank you. Next question is from the line of Yashpal Madan from Mainstream Consulting.

Yashpal Madan: What is the current situation of crushing, is it still continuing and till when it is expected to continue?

Ajit Shriram: So, from our four factories three have now closed down as far as crushing is concerned, and one is continuing. And one which is continuing will carry on to about 25^{th} to 30^{th} of this month.

Yashpal Madan: Okay. Thank you. And do you have any plans to further expand ethanol capacity beyond 350 KLD?

Ajit Shriram: As we mentioned earlier, at 350 KLD we will use our entire captive molasses. And in fact, if we use the route of C-Heavy we will be slightly short. So, we don't have any plans to expand ethanol any further at this point of time.

Yashpal Madan: Seeing, always there will be some surplus molasses available in the industry. So, even to buy from the market and convert it into an ethanol will not be a profitable business?

Ajit Shriram: So, we will prefer to go by the B-Heavy route, to reduce the sugar inventory in the country and convert more sucrose to ethanol.

Yashpal Madan: And what have been average molasses realization, as you have sold in this season some amount, so how is the molasses prices moving?

Ajit Shriram: We have not really sold much in the open market yet, however, the open market prices are between Rs. 250 to Rs. 300 a quintal and the country liquor is at Rs. 20 a quintal.

Yashpal Madan: So, it's almost at the lower end only?

J.K. Jain: No, it had become zero also, it remained zero in the beginning of the season. But now of course it has moved up.

Yashpal Madan: Okay. And what has been your average sugar realization in last quarter?

J.K. Jain: It is there in our presentation; it is about 3,100.

Yashpal Madan: And you are completely done with your export obligation in last quarter for the sugar season?

J.K. Jain: Yes, in terms of production, yes; in terms of sales, we have made a small sale in April, but production was all done last quarter.

Yashpal Madan: So some losses on this front will be coming in this quarter also basically?

J.K. Jain: No, the inventory was valued at realizable value only, so there will be no losses.

Yashpal Madan: Everything is booked in last quarter, basically?

J.K. Jain: Yes.

Moderator: Thank you. We take the follow up from the line of Ayush Mittal from Mittal Analytics.

Ayush Mittal: Sir, in reference to the earlier question around the caustic soda in which we have a captive customer with whom we have a pipeline, are these kinds of contracts more long-term in nature?

J.K. Jain: For quantity, yes, but for pricing it gets decided on a month-to-month basis.

Moderator: Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand the floor back to the management for their closing comments.

Ajay Shriram: Thank you, Ladies and Gentlemen, once again for your continued support and confidence. We are focused on strengthening our competitiveness and achieving volume growth across our businesses. We continue to take initiatives to improve our earnings profile by achieving higher integration and development of multiple revenue streams. We believe these efforts will deliver sustained growth and shall strengthen our competitiveness going forward. Simultaneously, we are focusing on employee development across all levels, and use of modern technologies to improve efficiency and enhance customer engagement. The community engagement initiatives are being scaled up, particularly in the areas of education, water conservation, and health and sanitation. We are confident of delivering sustained top-line and bottom-line growth with a strong balance sheet along with a strong organization. Thank you very much, once again. Goodbye.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of DCM Shriram Limited, we conclude today’s conference. Thank you all for joining. You may disconnect your lines now. Thank you.
