DCM Shriram Consolidated Limited

Q2 & H1 FY13 – Earnings conference call Transcript
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Moderator: Ladies and gentlemen, good day and welcome to the DCM Shriram Consolidated Limited's conference call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Ishan Selarka from CDR India. Thank you and over to you sir.

Ishan Selarka: Good afternoon all and thank you for joining us on DSCL's Q2 & H1 FY13 earnings conference call. Today we have with us Mr. Ajay Shriram – Chairman and Senior Managing Director; Mr. Vikram Shriram – Vice Chairman and Managing Director; Mr. Rajiv Sinha, Joint Managing Director; Mr. Ajit Shriram – Deputy Managing Director and Mr. J.K. Jain – CFO of the Company.

Before we begin please note that some of the statements made in this conference call may be forward looking and a note to that effect was included in the concall invite sent to you earlier. We will now begin the conference call with opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram following which we will have an interactive question and answer session. I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's operations for the quarter ended 30th September 2012 and the opportunities going forward. Over to you sir.

Ajay Shriram: Good afternoon ladies and gentlemen and a very welcome to the DCM Shriram Consolidated Limited's earning conference call for the quarter and the half year ended September 30th 2012. I will take this opportunity to share with your our perspectives on the Company's operations following which Vikram will take you through the financial highlight of the Company's Q2 and H1 FY13 results.

We are glad to report a satisfactory performance for the quarter. We have progressed in most of our businesses registering a turnover growth and margin improvement. We have progressed satisfactorily in implementing the restructuring and rationalization plan for Hariyali, which has led to a sharp reduction in its losses. The financial charges have also gone down with better internal generation and our focus on conserving cash. The upward movement of free sales Sugar realizations combined with higher volumes has enabled healthy performance of our Sugar business. We believe, the present level of prices and margins are the minimum required to have a sustainable Sugar industry, which can provide a fair price to the farmer. The industry is engaged with the government for taking steps to maintain a reasonable Sugar price. The Rangarajan Committee has also submitted its report which if implemented will help in developing a healthy Sugar industry. We in DSCL are focusing on increasing capacity utilization and Sugar recovery through our cane development efforts. We expect about 15% increase in area under cane cultivation in Sugar year 12-13 which should help us in improving our cost structures and increase power revenues. While the SAP for Sugar season 12-13 is still to be announced, we hope that the government will adopt a rational approach for the same.

The Chloro-Vinyl business continues to deliver healthy growth led by high capacity utilization levels and better margins; however, this business has witnessed significant increase in input cost in the last 18-20 months. The Company has taken several steps to contain the impact of these sharp increases. The success of these efforts along with firm realization has led to an improvement in margins and earnings of this business. Going forward though we have seen some softness in the product prices recently, the performance of this business will be driven by product prices, which are currently remunerative.

Let me now move on to Hariyali Kisaan Bazaar. The performance of this business is in line with our plan. We have progressed the restructuring and rationalization plan of the business and expect to complete the same by Q3 FY13 We expect to stop losses by Q4 FY13.

The Farm Solutions business continues to record good top-line and bottom-line growth in the higher margin value added segment. The turnover of value added input for the quarter was up by 26% and PBIT was up by 44%. We have contracted about 1,06,000 MT of DAP and MOP and sold 35,200 MT during the quarter. DAP and MOP business recorded losses during the quarter due to mark-to-market losses on foreign exchange liability. Significant part of this will be recovered in the following quarters on sale of material. We continue to further expand our product portfolio based on farmer feedback and enter new geographies which will drive the growth of this business in the medium term.

Bioseed recorded losses during the quarter, partly on account of higher than anticipated sales returns due to adverse weather conditions in Northern and Central India. Also Q2, is generally an off-season for this business with very little sales., Our products continue to perform well and gain customer acceptance and market share even in this difficult environment. We are taking all steps and are confident of maintaining growth momentum in this business in the medium term.

The fertilizer business continues to face regulatory challenges as the new urea pricing policy is still awaited. The subsidy arrears have also started building up. The operating performance is satisfactory. We had taken a maintenance shutdown of the plant starting 28th October 2012 for about 21 days.

The performance of our Fenesta business was subdued due to de-growth in the institutional segment as a result of the ongoing slowdown in the real estate sector. The retail segment on the other hand has seen a healthy growth in billing revenues. Our thrust is on strengthening the retail business through process improvements, expansion of the distribution network and promotion efforts. These steps will help Fenesta business in achieving healthy growth rates going forward.

We continue to conserve our internal cash generation for further strengthenening our financial structure and reduce financial charges. With all these steps outlined above, we are confident of achieving good operating performance across all our businesses. The financial performance outlook is also satisfactory, though it will depend significantly on government actions for some of our businesses and commodity price movements in the others. I will now request Vikram to take you through the financial highlights.

Vikram Shriram: Good afternoon ladies and gentlemen. I will now summarize the financial results for Q2 and H1 FY13.

Total revenues for the quarter were higher by 25% at Rs. 1,342 crore driven by growth in the Sugar, Farm Solutions, and Chloro-Vinyl businesses. PBIT for the quarter stood at Rs. 71 crore as compared to Rs. 1 crore in the previous year driven by growth in the Sugar and Chloro-Vinyl businesses along with a sharp reduction in loses of Hariyali business. Net profit stood at Rs. 29 crore compared to a net loss of Rs. 38 crore.

For the half year, revenues were higher by 21% at Rs. 2,769 crore driven by growth in most business segments especially Sugar, Farm Solutions, Bioseeds and Chloro-Vinyl businesses. PBIT before exceptional items grew by 193% to Rs. 202 crore driven by better margins in the Chloro-Vinyl, Sugar, and Farm Solutions businesses. Net profit after exceptional items improved to Rs. 60 crore vis-à-vis a net loss of Rs. 12 crore in the corresponding period last year.

Let me now take you through a businesswise performance.

PBIT from the fertilizer business for the quarter was higher at Rs. 7 crore as against a PBIT loss of Rs. 10 crore in the previous period. Please note that the Company in Q2 FY12 had undertaken a planned maintenance shutdown, which resulted in loss of production and shutdown related expenses, which impacted the earnings of this business last year. The Company continues to incur uncompensated cost increases due to non-finalization of the New Urea Policy by the government.

The revenues from the Farm Solutions business for the quarter were higher by 72% at Rs. 351 crore driven by growth in both value-added segments, DAP and MOP. PBIT from this business for the quarter was lower by 45% at Rs. 10 crore primarily due to adverse Forex movements pertaining to import of DAP and MOP. However, PBIT from the high valued segments for the quarter grew by 44%.

As mentioned earlier in the call, weak monsoons in Northern and Central regions of India resulted in a higher than anticipated sales returns, which adversely impacted the Bioseed business profitability during the quarter. Revenues for the quarter stood at Rs. 32 crore and PBIT loss stood at Rs. 25 crore.

In the Sugar business, revenues were higher by 89% at Rs. 347 crore for the quarter due to increased sales volume at higher realizations. The PBIT for the quarter swung from a PBIT loss of Rs. 3 crore to a positive PBIT of Rs. 31 crore. Free Sugar margins improved from Rs. 44 per quintal in Q2 FY12 to Rs. 483 per quintal in the current quarter.

Hariyali Kisaan Bazaar revenues for the quarter declined from Rs. 195 crore to Rs. 99 crore. Similarly, PBIT loss reduced from Rs. 28 crore to Rs. 10 crore during the quarter. The performance is in line with the progress on implementation of the business restructuring and rationalization plan, which aims at restricting business activities to profitable product lines only.

The revenues from the Chloro-Vinyl business for the quarter were higher by 13% at Rs. 270 crore driven by improved realization of all products i.e. Chlor-Alkali, PVC Resin, and Calcium Carbide. PBIT from this business was higher by 100% for the quarter at Rs. 73 crore driven by better margins enabled by several cost initiatives the Company had undertaken which have helped in moderating the impact of cost increases along with higher realizations as mentioned earlier.

Revenues and PBIT from the Cement business for the quarter were higher at Rs. 32 crore and Rs. 2 crore because of higher realizations.

Revenues and PBIT under the Other segments during the quarter stood at Rs. 72 crore and negative Rs. 5 crore respectively. Within this, the Fenesta revenues were lower by 16% at Rs. 38 crore primarily due to significant slowdown in the developer and institutional segment. However, this was partly mitigated by the increase in retail segment.

That concludes my financial review and we would be very 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. Our first question is from Grishma Shah of Envision Capital. Please go ahead.

Grishma Shah What kind of rationalization has been done in HKB so far, that gives you the confidence of stopping losses by Q4 FY13?

Ajay Shriram: On Hariyali, as we mentioned in the past also that we have had a very hard business look at the entire business model and after a detailed discussion we concluded on focusing only on the profit making lines. As on today, we have 37 outlets operating and we have stopped all other activities except fuel and allied products as they are a profitable. This gives us the confidence that by Q4 FY13, we will be in the position where we would have taken care of all the residual costs of all the other lines of business, which we are no longer doing now.

Grishma Shah: So does it imply that we have closed all the small stores and are continuing only in the larger format.

Ajay Shriram: That is correct. We are now running only 37 outlets, where we are selling only fuel, for which we have a tie up with BPCL and now, we are looking to sell only fuel and allied products related to this activity

Grishma Shah: So are we targeting to open any new stores to sell fuel and other allied products that you mentioned?

Ajay Shriram: We are not looking at opening any new stores right now and I think we are just running this business because this is a profitable line of business.

Grishma Shah: Secondly, on the fertilizer segment, given that we were taking a planned shutdown in October, what kind of losses can we expect in Q3 and Q4 FY13?

Ajay Shriram: We take a shutdown every 2 years. This is an ongoing activity in every fertilizer plant where between 18 months to 24 months, we have to take a shutdown because of the change of catalyst, cleaning the systems etc. This planned shutdown was earlier planned between 2 financial years i.e. between March and April. However, due to certain issues at the plant to improve efficiency further; we took a decision of take it now.

Grishma Shah: The other question was on the inventory, you said you had imported around lakh tonnes of DAP and MOP? So, how are we seeing the inventory moving in the system?

Rajiv Sinha: It has been moving quite well. I think as on 1st November, I think it will be just about 30,000. Total quantity to be released will be 30 to 35,000 MT.

Grishma Shah: And at the industry level, what is your sense as to how will the Rabi season will pan out?

Rajiv Sinha: That is a question mark because the stocks in the system are very high on both MOP, DAP and complexes. So there is hope that Rabi would be better. But the rice and paddy harvests have been somewhat delayed. So, the window for Rabi is shorter. To that extent, there is still a question mark as to how much material will move; but industry of course has very high hope that all the backlog stocks will be cleared. Urea of course is not an issue. Urea will be under pressure in terms of supply.

Grishma Shah: What are the total urea Subsidy arrears at the end of first half and have we started seeing payments coming in from the government?

JK Jain: As of the end of first half, the total subsidy arrears were about Rs. 250 crore which includes urea, DAP, MOP and SSP. Expectation are that the payments should happen after the supplementary grants after December.

Grishma Shah: What is the break-up of long term and working capital debt? How do you plan to reduce the debt over the next 1 or 2 years?

JK Jain: Our Net outstanding debt as on September 30, 2012 stood at about Rs. 1,400 crore, which was Rs. 100 crore lower than in March 2012. Out of Rs. 1,400 crore, Rs. 800 crore is long term and balance would be working capital debt. We have repayments of about Rs. 120-130 crore every year, which is what we want to reduce through internal accruals. Working capital debt is a little variable depending upon subsidy areas and the Sugar stocks, which we carry.

Ajay Shriram: I will just add here that because of being present in Sugar business, the working capital will increase by the end of the financial year. This is because, as we progress into the season, the sugar stock keeps building up. Besides, we expect our cane crush to increase by ~ 15% in SS 2012-13 thereby resulting in higher stocks. So, our working capital by March will increase and that is part of the business cycle.

Grishma Shah: Lastly, what is the outlook for the realizations and volumes in our Chloro-Vinyl business?

Ajay Shriram: Our estimates suggest that the volume growth will be between 4 to 6% Y-o-Y and that is the sort of rate we expect even now. Besides, all the steps undertaken by the government over the last couple of months is also helping in terms of the sentiment of the business environment. That is also going to play a positive role. Additionally, over the last 6 months because of rupee devaluation, prices of products went up because imported materials went up. Now the rupee has strengthened a little bit, but still we are driven by the Caustic Soda business and Caustic Soda demand is stable. So, we expect it to be stable over the next some quarters also.

Moderator: Thank you very much. Our next question is from Sachin Kasera of Lucky Securities. Please go ahead.

Sachin Kasera: Could you throw some more light as to exactly what has happened in the Bioseed business?

Rajiv Sinha: If we take a look at the first 6 months, the sales of all the three main crops that we deal with i.e. rice, cotton, and corn, had gone up compared to the same period last year. The main issue has been in cotton seed , wherein a lot of quantity which was placed in the trade in the first quarter came back because of delayed monsoon especially in North. Secondly, the cotton area has gone down by 10 to 15% primarily because of investment in Gaur by the farmers. Thirdly, even though we have grown the cotton business, our margins have been badly impacted because of cost push on the input side from whatever we procured last Kharif and that is probably true for everybody. Besides, there has been no price increase because the governments in different states have been adopting very tough attitude in terms of increasing the price. So, despite registering growth in volumes, the overall margins have reduced.

Sachin Kasera: Some of our competitions like Kaveri have reported almost 80-90% growth in cotton. To add to that, we have also lost some market share in cotton because there were returns; or returns were only due to poor monsoon?

Rajiv Sinha: We are selling in two major markets. One is the North India, other is the South and the Western India. In North India, we have increased our market share and we have grown. We are one of the two-three companies, which have grown our market share. Kaveri is not very much present in North. In the Southern and Western markets, two things have happened. I think Kaveri has had a very good product, as perceived by the farmers. So, that has helped them to increase the market share. Secondly, Mahyco was very much constricted because of their problems in Maharashtra, their sale was banned. So lot of that space was occupied again by Kaveri . We have not been a major player so far in Southern and Western markets. On an overall basis, we have grown the business, but the Western market and Southern market is about 4 times the Northern market. The Western and Southern markets put together will be about 2.5 crore packets compared to about 50-60 lakhs packet in North. Hence, I think Kaveri has been able to clock a very good growth in a very large market. Given the size of our market, we have also clocked good growth.

Sachin Kasera: From a strategic perspective, if the farmers perceive their product to be better and they have been able to gain market share, we have not been impacted you said too much because we are more strong?

Rajiv Sinha: As I said, last year we sold just under 13-lakh packets in the first 6 months compared to 19 lakhs packets sold in the first half of the current year. This growth is despite the fact that the overall cotton area in North has shrunk and in the West and South, it is about the same as last year.

Sachin Kasera: So what constraints them from making inroads into North India which may, for us, result in losing market share to them?

Rajiv Sinha: The same product does not work in all the agro climatic zones. We have a great product in North. This product is not suitable for Southern and Western agro climatic areas. Similarly, what Kaveri has been selling in South and West is not suitable for North. So, you have to compete in each agro climatic zone on the basis of your product strengths.

Vikram Shriram: To add, we have also introduced products that are better and possibly of a comparable nature in Southern and Western markets. We expect to see growth in the future in the Southern and Western markets also. The reports coming in from this year's crop of limited sales of some new products are very encouraging. We are hopeful of seeing growth in the Southern and Western markets going forward.

Sachin Kasera: Secondly, while our topline for the first half grew by 34%, the PBIT is flat. Is it mainly because of the sales return?

Rajiv Sinha: It is primarily because there has been a large cost-push in cotton; but we were not permitted to increase prices at all and that has resulted in decline in cotton margins. With the fertilizer price, you know the DAP prices went up to 24 and so on and so forth. So the farmer has charged us more for producing, but we were not able to, none of us, I mean no Company was able to increase the prices.

Sachin Kasera: Could throw some light on the Bioseeds business in terms of other countries that have done well and also on the product pipeline in the next 1 to 2 years?

Rajiv Sinha: Our largest operation outside India is in Philippines where we have been licensed by Monsanto to use their GM technology. Almost 90% has been switched over to genetically modified corn in Philippines. We are the only Company outside multinationals like Monsanto, Syngenta, and Pioneer to have a GM product and I think that is moving well. The challenge of course is that we have to produce this material in Philippines itself because GM products cannot be produced in India or any other country for that matter just now. Therefore, we expect good growth to take place in Philippines. Their main season is January to March and we will be able to see its performance in the fourth quarter results. The second country that we are working is in Vietnam where again I think our Corn business had not grown much in the last couple of years, but this year we expect a definite growth to take place.

Sachin Kasera: How big is the Philippines market in terms of size and what is our market share currently?

Rajiv Sinha: Total Philippines market I think is about 15,000 tonnes and we would be about under 2,000 tonnes.

Rajiv Sinha: In terms of pipeline, we believe the work that we are doing in our R&D in both, the conventional breeding program as well as the biotechnology based breeding program across all geographies has enabled a strong pipeline products for India and other geographies also.

Sachin Kasera: Sir just one question on the R&D spends, we are not able to look at any tax benefit I believe from what I can see we are in the full tax bracket and I think we spent substantial amount on the R&D especially on seeds.

Rajiv Sinha: BRI is tax exempted at this point of time. Our R&D is housed in a separate Company called Bioseed Research India and that is fully tax exempted.

Sachin Kasera: On the Farm Solutions business, I believe there was some mention that we had certain losses due to the adverse Forex movement. Would you able to quantify, what are the type of losses we had and how will you recover that in the second half?

JK Jain: For forex, Sachin, when you place the contract, if the time period has stayed and since rupee appreciated, so inventory gets valued at lower rate and the market-to-market losses will be there and when that inventory gets sold, that is the time it gets recouped.

Sachin Kasera: So what has been the quantum of that loss that has been booked in the first half?

JK Jain: It was about Rs. 3 crore, but on similar account last year, there was a profit of Rs. 4 crore. The rupee had depreciated from an appreciating trend. The deviation is about Rs. 7-8 crore.

Sachin Kasera: On Hariyali, you mentioned that we have closed all the outlets except 37 where you are selling only fuel. So what exactly have we done with the inventory as well as the fixed assets?

Ajay Shriram: If you recollect, in the first quarter we took a write-off of Rs. 56 crore as impairment towards revaluation of all the assets and inventories. In the course of the last 8-10 months in a very structured manner, we have sold as close to our MRP as possible. We had a number of teams who were looking for bulk buyers of the all the items which were saleable. The objective has been to recover the money as soon as possible and to the maximum extent possible. Regarding our fixed assets also, we have about 100 locations where the Company owns the land totaling to 280 acres on which we have a built up area of 1.3 million square feet. Out of this, approximately 15-16 acres is where we have petrol pumps. So, that is within the purview of the petrol pump business and on an agreement with BPCL. Our objective for the balance plots and the built-up area is to maximize the returns for the Company and we are looking at how we can get the best value from the assets that are left now.

Sachin Kasera: Have we liquidated the entire inventory or is there still some inventory left to be sold?

JK Jain: Very marginal is left. However, we are not expecting any further hit; having said this, there may be small variations.

Sachin Kasera: I am looking more from cash flow perspectives as to what is the type of cash that could get released by disposing of the inventory as well as the fixed assets?

JK Jain: That is not very large. Inventory may be about Rs. 10-12 crore which will get realized from current assets. Rest of it is from fixed asset which will now take little time, may be 1-2-years' time.

Sachin Kasera: Any ballpark number range that you could share which we could use.

JK Jain: Total capital employed is about Rs. 240 crore as on 30th September after marking it to the market.

Sachin Kasera: A part of it would also be in the fuel business?

JK Jain: That is not very large, that is only the inventory. I think the total fuel inventory is about Rs. 9-10 crore.

Sachin Kasera: So which means even if you are able to realize and sell it their book value, then around Rs. 200 crore can be further released by disposing of the fixed assets in the Hariyali business over next 1-2 years?

Ajay Shriram: Correct.

Moderator: We will take our next question from Nilesh Doshi of Techno Shares. Please go ahead.

Nilesh Doshi: What was the quantity of this sales return for cotton this quarter?

JK Jain: We do not have the precise quantity number currently.

Nilesh Doshi: Have we taken this quantity into inventory and have there been any write-offs.

JK Jain: Yes, we have considered them in inventories. There have been no write-offs. It will be sold off.

Nilesh Doshi: What was the ECU we had in Q2 and what is the current rate?

JK Jain: In Q2, realizations for Chlor-Alkali was Rs. 26,000 and currently it is Rs. 1,000 lower.

Nilesh Doshi: What is your outlook for the Sugar sector especially in terms of realizations?

Ajit Shriram: As far as the Sugar sector is concerned, on a country basis, we have an opening stock of roughly 6 million tons as on first of October and early estimates for production are between 23.5 and 24 million ton. So, with the 6 million tons of opening stock and with estimated production, India is very comfortable placed as far as the Sugar position is concerned because our domestic consumption is between 23 and 24 million tons. We are hopeful that the prices remain firm and we are able to have a healthier year as compared to the previous year.

Nilesh Doshi: What are your estimates for the Maharashtra crop?

Ajit Shriram: It is very difficult to estimate the Maharashtra crop. Last year they produced about 9 million tons of sugar and this year over a period of 3 months, estimates suggest that it would be lower by about 2.5 million tons. I think the crushing has just started in Maharashtra and once the cane pricing issue is sorted out and the mills come into crushing, we will get a much clearer picture.

Nilesh Doshi: But our understanding is that they have lost this crop and it has been used as cattle feed and hence the next year crop is also going to be in the similar range in Maharashtra.

Ajit Shriram: No. Only a part of the crop has been diverted to cattle feed and the late rains have been very good in Maharashtra, Gujarat and North Karnataka, which has helped in increasing yields in these three states. We are hopeful that due to late rains the drop in crop would be made up as against what we had anticipated about two or three months ago.

Nilesh Doshi: How do you see growth pan out in the Bioseeds business next year and over the next couple of years?

Vikram Shriram: Based on the pipeline of products and the acceptance of product both, in India and in overseas locations, we feel that we can achieve a minimum growth of 25-30% over the medium term.

Moderator: Thank you very much. Our next question is from Amit Vora of PCS Securities. Please go ahead.

Amit Vora: What would be your average selling price for the cotton sheet packet of 450 gms?

Rajiv Sinha: The prices for cotton are controlled. However, it differs from market to matket. In some it is Rs. 925 whereas in others it is Rs. 975.

Amit Vora: What is our targeted packet sale for the next year?

Rajiv Sinha: We would like to believe a 25-30% growth in this year.

Amit Vora: And the GM Corn that you told in Philippines, What were the revenues for GM Corn in Philippines last year and what is it that we are looking at this year?

JK Jain: We do not provide a country wise break up of revenues. Having said that, I re-iterate that we are looking at a growth of 25-30% across all markets over last year.

Amit Vora: What seed are you targeting to launch?

Rajiv Sinha: In the field crops, we are targeting all the three; cotton, corn and paddy and in vegetables we are strong in okra, tomato, peppers and some of the gourds.

Amit Vora: What are the yields of our cotton seeds?

Rajiv Sinha: I think that is a very difficult question to answer because there are no standard yields. All I can say is that in North India, we have two products, 6588 and 6488 currently, and since it is almost harvesting time, the current reports on the field are that these two products have given some of the highest yields in their respective areas.

Amit Vora: You mentioned earlier that some seeds might not be well suited for Agro climatic condition in North and South. So is there a significant yield difference in terms of the final products?

Rajiv Sinha: I will clarify myself. What I said was that if a product works well in one particular agro climatic areas let us say in Punjab and Haryana, it is not likely to work in the climatic conditions in Andhra and Maharashtra. However, we can still have equally good yields but they will be different products. It is not that one region has lower yield and other region has higher yields.

Amit Vora: If a particular product is working good in Maharashtra and it is not working good in Haryana, what would be the reason, agro climatic conditions they are not able to generate that kind of yield is that what you saying?

Rajiv Sinha: It is the characteristic of the growth of the plant. It grows differently in the different climatic conditions that is why the breeding programs will yield to produce seeds specifically for a given climatic area, so that the yield potential is maximized in that climatic area. It is from latitude to latitude; though it is all tropical, but from latitude to latitude there would be variation in the way a seed would respond to the agro climatic condition.

Amit Vora: But ultimately it would be result of the yield right? So is there a significant difference that is what I am trying to understand?

Vikram Shriram: It is not a difference of yields. For each market, soil, temperature, soil conditions i.e. sandy**,** loamy**,** black, brown there has to be a specific product. The whole issue is of customized products for customized agro climatic zones. So, every Company tries to maximize or introduce the product which has the maximum yield per unit area per unit time and that is the dimension on which everyone works. Now based on maximizing yields at the same time stress tolerance, draught tolerance, insect tolerance, so there are many dimensions we have worked towards, it is not only yields.

Amit Vora: What is the major insect that it is prone to in the Northern side?

Rajiv Sinha: The BT cotton is meant to provide protection against an insect called Bollworm. Now there can be number of other insects like there is a sucking pest, which is a next big one in cotton. So, there are many of these, so the current GM technology offers protection against for example Bollworm in crops.

Amit Vora: Who would be your major competitors in the North?

Rajiv Sinha: For different crops, we have different competition. In cotton, we have Rasi, Nuziveedu, Bayer and Mahiyco to some extent. I think these are the only three to four key competitors.

Moderator: Thank you very much. Our next question is from Avinash Agarwal of Sundaram Mutual Fund. Please go ahead.

Avinash Agarwal: Sir just wanted to understand the breakup of our revenues from various countries in Bioseed?

JK Jain: We have communicated that we do not share country wise breakup of revenues. But broadly, our domestic revenue is 75% of the total revenue and internationally 25% and this ratio is likely to continue for some time.

Avinash Agarwal: The results for fourth quarter are reflective of better performance from the international operations, right?

JK Jain: There is a domestic component also; but, you are right, for international operations, fourth quarter is the main season.

Avinash Agarwal: What crop do we sell in Thailand?

Rajiv Sinha: Thailand is only corn.

Avinash Agarwal: Are there any other countries that we are targeting?

Rajiv Sinha: In the immediate radar, we are looking at Indonesia.

Avinash Agarwal: Do we use imported coal to generate power?

Ajay Shriram: In our Chlor-Alkali plant in Bharuch, Gujarat, where we generate about 55 MW of power, that is run 100% on imported coal, but for our Kota complex, where we have our capacity about 133 MWs that is basically on domestic coal and it comes from Coal India.

Avinash Agarwal: For domestic coal, is it on e-auction or linkage coal?

Ajay Shriram: While we do have linkage, we also buy from whatever sources that are available as the quantity available through linkages is not sufficient. We are continuously seeing what is the best way because we got five sets generating power at Kota and very often we actually back down one set and buy from the exchange because some time that power is cheaper. So, we try to get the best of whatever we can.

Avinash Agarwal: How much is linkage coal that we get?

Ajay Shriram: Linkage is about 65%.

Avinash Agarwal: Has the coal cost come down this quarter in line with international rates?

JK Jain: It has been the same because there are no changes in coal prices for Kota; for Bharuch it has come down marginally.

Moderator: Thank you. Our next question is from Tejas Sarvaiya of Trust Capital. Please go ahead.

Tejas Sarvaiya: What is our annual R&D expense for the seeds business.

Rajiv Sinha: It is about 8 to 9% of the revenue i.e. between Rs. 35 to 40 crore.

Tejas Sarvaiya: This number seems to be a bit high compared to few listed and non-listed seeds companies.

Rajiv Sinha: While we are not comparing ourselves with the local companies, I think any good seed Company worldwide, would have a R&D expenditure between 8 to 15% of their total sales revenue. Now since we are building up a portfolio, biotechnology related research also, hence our expenses are in this range.

JK Jain: This industry research takes almost 8-10 years before it starts giving new products. Hence, we have to keep spending for that long but revenue comes later. We are in early stages and cannot finish the R&D expense to revenue percentage.

Tejas Sarvaiya: How much tax we pay on the seed business?

JK Jain: It varies from country to country. In Philippines, it is 30%. Vietnam has 10%, in India we have two operating companies. We have our research Company, which is exempt from tax on profit and we have the operating Company, which pays normal tax. That operating business is part of the main DSCL itself.

Tejas Sarvaiya: I was going through the ruling, which says that generally, seed companies in India do not pay tax.

JK Jain: I understand that, but there are certain companies, which are going through the court cases where there contention is their activity is an agricultural activity and therefore not subject to tax. But there is no unanimous opinion and final view on that and cases on this particular subject are still going at the High Court level.

Tejas Sarvaiya: What do you think would be the growth of cotton market in India in terms of volume and value for 2-3 years and how would our growth in cotton be? I have heard 25-30% overall growth, but from cotton business?

Rajiv Sinha: We do not expect too much growth from the overall cotton market. The cotton market is currently between 4-4.5 crore packages. We do not expect any significant growth now. It is almost tapering off. Therefore, we have to increase our market share by better products and better services and we have confidence that we have the pipeline of products which would help us to do that.

Tejas Sarvaiya: How much growth do we expect from cotton in domestic market?

Rajiv Sinha25-30%. Cotton is only in domestic market. It is not anywhere else.

Moderator: Our next question is from Avinash Agarwal of Sundaram Mutual Fund. Please go ahead.

Avinash Agarwal: One is in terms of our ECU realization, if you can just break it down in terms of what has been the driver whether it has been better than expected chlorine pricing for the quarter that led to strong ECU or is that caustic has been strong?

Ajay Shriram: It is a caustic driven price because chlorine was in excess and hence chlorine prices fell; caustic demand on the other hand was good.

Avinash Agarwal: And in terms of our caustic supplies, if you can just elaborate on where do we focus on our supplies. Is it within the existing territory? Do we also send across something via the Eastern coast?

Ajay Shriram: We try to keep our freight costs as low as possible to get the best realizations.

Avinash Agarwal: The PVC volumes Y-o-Y were slightly lower, but in terms of realizations, we have seen a quite a strong season. So how are the realizations behaving at this point of time and do we see this trend sustaining?

Ajay Shriram: Well in the last 2 months, realizations had come down a little bit. It came down by Rs. 3-4 because of the strengthening of the rupee. I think in the commodity business, it keeps moving up and down. We can never have a stable situation on that and in our case frankly, we optimize vis-à-vis utilizing caustic, chlorine, PVC, carbide between these four. So the swing capability, we optimize wherever possible.

Avinash Agarwal: We had a Rs. 64 per kilo realization for Q2. So going into the third quarter also, it should be quite around the same levels in terms of realizations?

Ajay Shriram: I think by about Rs. 3, prices have come down.

Avinash Agarwal: Does the R&D part of the Bioseed business come under the listed entity?

Vikram Shriram: It is 100% sub of the listed entity.

Moderator: Thank you very much. Our next question is from Kuntal Shah of Axis Holdings. Please go ahead.

Kuntal Shah: Are the corn hybrids single-cross or double-cross?

Rajiv Sinha: Both.

Kuntal Shah: Which is double cross and which is the single cross variety there?

Rajiv Sinha: We have different products across different geographies. We have Rajkumar Gold, which are double cross. We have 369, which is single cross.

JK Jain: We have a total of 15 varieties of which about 8-10 corn hybrids are within India. Couple of hybrids is single cross but most of them double cross.

Kuntal Shah: How much percentage of return can we expect on the number of seeds packets you sell on rough basis.

Rajiv Sinha: It varies dramatically from year-to-year. You place your material in the beginning of the season when the effect of the weather, monsoon and competing crops is not very visible and then as the season ends, you could have very different results. You could have very small returns, but this year for example, we had very large returns. By the middle of the quarter, we knew that there is going to be very large returns because the rains that failed completely in North in the first part.

JK Jain: However, in a normal year, you can expect 10-15% return, but it will be difficult to give a number for return.

Kuntal Shah: Since you are already heading to November and December, how much advances do you expect for the cotton seeds?

Rajiv Sinha: The process of taking advance has not yet started, it would likely start after Diwali, but we know that this year, the money availability with trade is very tight because there is a lot of inventory of fertilizer and other products in the system. I think there would be some pressure on collection of advances.

Kuntal Shah: When do you see a big commercial launch of rice hybrid in India?

Rajiv Sinha: This year we have already crossed about 2,000 tonnes rice, which is the large, sale by any large Company, would be in the range of 6000 to 7000 tonnes. We are already very much there and we have a very strong pipeline in rice; so in the next 2-3 years, we will be present very strongly in this market. Please remember that the rice hybrid market is still about 3% of the total rice market and the hybridization in rice has a long way to go. So the potential is huge provided the farmer can see real benefit in terms of using the hybrids. I think all of us, at least we have a very strong focus on rice research both, using conventional breeding platforms and molecular breeding platforms.

Kuntal Shah: Do you expect a price hike in key markets this season in cotton seeds?

Rajiv Sinha: No, as of now, the situation is very gloomy and we do not see any possibility of that happening.

Kuntal Shah: How much is the vegetable seed as a percentage of total seed sales?

J.K.Jain: About 8 to 10%.

Moderator: Thank you very much. Our next question is from Chetan Thacker of HSBC. Please go ahead.

Chetan Thacker: Is there any update on SAP in U.P.?

Ajit Shriram: There was a meeting held under the Chief Secretary on 31st of October where there were millers, farmers and other parties present. The government is yet to take a view on the SAP for the coming season.

Chetan Thacker: The farmer lobby is asking for a price of Rs. 300, if I am not wrong.

Ajit Shriram: The farmer lobby has been asking for that price.

Chetan Thacker: What would be still be a comfortable price even if they increase it from the last year's price as far as the millers are concerned?

Ajit Shriram: It is very difficult to say because this all depends on what the Sugar price is going to be and what the Central Government stance will be on import-export and we are hopeful on the recommendations made by the Rangarajan Committee. They are implementing in a phase-wise manner, which includes release of the levy Sugar from mills, which includes removal of the quarterly release mechanism of case of Sugar and linkage of cane price to the Sugar price that is going to be very key in the implementation of the committee recommendation.

JK Jain: As per the formula given by Mr. Rangarajan, then cane price should be Rs. 250 per quintal.

Chetan Thacker: By when is the final decision likely?

Ajit Shriram: The mills will start just after Diwali. It will come within 2 weeks.

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

Rohan Gupta: The Farm Solutions business has shown a significant growth of almost 50% in first half. Can you just give us the breakup on how much revenues were from traded fertilizers and how much is from value added input?

JK Jain: See the total turnover of Farm Solutions was about Rs. 650 crore in the first half, out of which about Rs. 300 crore is from value added and the balance is from SSP and traded fertilizer, which is roughly the same margin.

Rohan Gupta: What were the sales for value added input last year?

JK Jain: Value added inputs in the first half grew by 44% compared to last year.

Rohan Gupta: Is this growth volume led or price led?

Rajiv Sinha: Essentially volumes in both hybrid seeds and crop care chemicals and some specialty fertilizers.

Rohan Gupta: If I understand rightly, in your value added inputs, the EBIT margins are close to 8-10% while in fertilizer traded margins are just 2-3%. Now considering that from Rs. 300 crore out of Rs. 650 crore, we have an EBIT margin of just only 4% in first half. Is it that Farm Solutions value added products has a lower margin that from it is not 8-9% because somehow that math does not work then.

JK Jain: No, like we explained, DAP and MOP we have a negative margin this half, because of the foreign exchange fluctuation. The forex loss in the quarter was Rs. 3 crore and for the first half, it stood at Rs. 4 crore. The EBIT margin of value added is still at 8-9% that is not changing. It is this foreign exchange related loss that is what is causing this distortion;, which we expect to make up in the subsequent quarters.

Rohan Gupta: So we expect the whole benefit to come in at second half where we will be selling it at higher prices.

JK Jain: Yes. A significant part of it.

Rohan Gupta: With my limited understanding, we have to prepare for seed business almost one year in advance; so for the sale of cotton seeds next year, we would have procured required seeds in this year only. So with the current year inventory coming back, do we have an over inventory situation for this year also?

Rajiv Sinha: Well we would have excess inventory compared to what we have planned because of the returns from the last year and the production as you are rightly saying from the fresh crop has just started coming in now. But we also have sale in March and that will partly relieve inventory pressure. In the North and marginally in Central India, it begins in March.

Rohan Gupta: As you have mentioned that you have sold almost 19 lakh packets for the first half of the year in cotton excluding sales return as against 13 lakh packets last year; so are we expecting for the next year?

Rajiv Sinha: As I said, we would expect 25-30% growth over this number and the number of 19 lakhs is not for the whole financial year. We would have sold particularly in North in the first half. However, there is sale in March also. This number would go up by the time the financial year ends.

Rohan Gupta: The inventory that is coming back now, it is a high cost inventory or the new cotton seeds that you are procuring is at a higher cost.

Rajiv Sinha: No, I think this year the cost has not gone up compared to last year, so we will be at a similar level. Of course there will be some inventory carrying cost which gets added to the last returns.

Rohan Gupta: You also mentioned during the call that it will be tough for you to take any sort of price increase in cotton seeds next year also or you remain upbeat that you can take price increase?

Rajiv Sinha: It is not for us, I think it is for the industry, because each state control prices for example, Punjab, Haryana, Andhra Maharashtra and Gujarat. What we are saying is that expectation is that the governments may not allow any price increase to take place; price hikes have to be permitted by the governments.

Rohan Gupta: So with the cotton seed price per packet remains at almost Rs. 925-975 per packet which is right now, if it remains there then definitely we are going to see lower margins next year because we will also have an inventory carrying cost right?

Rajiv Sinha: I think that effect will not be significant. The margins will be similar to what they have been in this financial year, so far. do not expect these margins to be eroded further except for some small effect of inventory carrying cost because the procurement cost has not gone up further.

Moderator: Thank you. Our next question is from Nisarg Vakharia of Lucky Securities. Please go ahead.

Nisarg Vakharia: Can I have the net realizable value per cotton seed packet that you sell? Secondly, how scalable is your cotton seeds, I just wanted to understand that Bunny and Jadoo Jackpot have all been blockbuster cotton crops. Can a Company that is planning many products in the South replace them?

Rajiv Sinha: See in North, three years back we had a 3% market share, today we have between 27-28% market share. I think it will depend on any Company's capability to bring in a product, which gives direct clear benefit to the farmer in terms of yields and ability to withstand stress. This will always be an open game for anybody who can come up with a good product. Just because we have a good product today does not mean that tomorrow somebody cannot displace us. So, the same thing would apply in South. That is where the focus, energy, resources and the quality of resources you put in your R&D will make all the difference.

Nisarg Vakharia: But is your supply chain comparable to a Nuziveedu or Kaveri?. Can you also scale it up as big as them?

Rajiv Sinha: Well all I can say is from the past when we started selling 2 lakhs or 3 lakhs packet and this year after we closed March we would be about 25 lakhs packet at least. It is a question of learning to operate at that scale. It is a challenge but as the business grows, we would build up the infrastructure and we have done in Philippines. We have started from scratch for the GM corn and this year we will touch volumes of 1,500-1,700 tonnes. While it is a challenge; but we are up to it.

Nisarg Vakharia: Could you please breakup the total debt into long term and working capital for each business?

JK Jain: We can give you working capital and long-term breakup but not business-wise because that is not managed for each business separately but managed on a consolidated basis.

Nisarg Vakharia: How much of debt reduction that we can see after we finish our rationalization process in HKB business?

JK Jain: No, as we indicated whatever capital employed we have in HKB, which is about Rs. 200 odd crore, we expect that to be realized over next 1-2 years, and to that extent we will reduce the debt.

Moderator: Thank you very much. We have the next question from Sachin Kasera of Lucky Securities. Please go ahead.

Sachin Kasera: You mentioned that paddy is one area where you can see significant potential, hybridization is only 3%, and that farmers should see some benefits. What is the type of potential you see in terms of increase in the next 3-4 years?

Rajiv Sinha: I would say that in the last 2-3 years, this growth has been slow and has not jumped dramatically. But, I think the industry has to offer products which farmers see beneficial in terms of yields, ability to stress tolerance especially water and so to that extent we know in our program we have product which would provide relief to farmers in some of these areas. Just to give you an example, the yields in China are almost 6 tonnes per hector compared to an average about 3.2 -3.3 tonnes per hector in India and they produce nearly double our paddy output from less area than India and there is almost 50% hybridization in China. I think the scope is vast in this.

Sachin Kasera: But the type of hybrids in pipeline **that** we have or some of the leading industry guys have do you see the confidence that the new varieties that they are going to be launched in the 1-2 years are going are see a significant improvement in terms of yield?

Rajiv Sinha: I think we do. We see feel reasonably confident.

Sachin Kasera: Secondly, I think you mentioned that if the price increase in cotton does not happen, the margins in the next year may be more or less similar to the margins in the current financial year and the current financial year margins I think are much lower than FY12.

Rajiv Sinha: That is right.

Sachin Kasera: You mentioned that you are looking to crush around 15% more this year. Would that also mean much higher units of power that we will be able to export because your internal consumption will not go up so much?

Ajit Shriram: As far as the daily crush rate is concerned that will be the same as last year which is at peak 33,000 TPD. The seasons net will increase, so correspondingly the power sale will increase.

Sachin Kasera: What is the type of agreement we have for the power realizations and what are the current realizations that we get on power export per unit?

Ajit Shriram: We sell completely on PPA to the state grid and realize Rs. 4.21 per unit.

Sachin Kasera: Additionally, this higher crushing of around 15% would that also mean that our cost of production should come down a bit. So is it fair to assume that profitability will improve in the next financial year given lower costs due to higher crushing and better byproduct prices.

Ajit Shriram: As you rightly said, the fixed cost will get distributed around the larger number of units or bags. Now as far as realization is concerned it is completely government controlled currently, because they release the Sugar on a quarterly basis. We are hopeful that the government sees rationality in keeping the Sugar prices reasonable to pay the field farmer. In terms of by-products it may not necessarily be true because as far as bagasse is concerned, bagasse is going to the production of power and the molasses will go into the ethanol program and the ethanol program hopefully will finalized by the Central Government in the near future. The pricing of ethanol today is very uncertain and there is a committee, which has been made under Dr. Soumitra Choudhury to come out with a proposal for ethanol pricing. So we are awaiting that.

J.K.Jain: By-product realization to total Sugar revenue will remain unchanged, as the overall volumes go up, the value will go up.

Sachin Kasera: I believe there was a mention that we had taken a certain initiative to cut cost there and some more are in the pipeline, could you delve a bit more on that?

Ajay Shriram: We have taken steps in terms of rationalizing our fuel availability as in where all we can get fuel, how can we get different grades of fuel and what all types of fuels we can use. There are a lot of efforts going on how do we reduce our inventory levels and freight levels. We are also working on reducing consumption of electricity also per unit of production by more stable operations, by looking at the membrane life, and by looking at what density we run at. So there are many steps which have been taken.

Sachin Kasera: Are these large enough to make a significant impact on the profitability of this unit?

Ajay Shriram: It depends on fuel side of it, for instance like the international price for fuel has fallen. So we got an advantage of that in our Gujarat unit and yes it can have an impact.

Moderator: Thank you very much. Our next question is from Rohan Gupta of Emkay Global. Please go ahead.

Rohan Gupta: On the fertilizer business, just us wanted to understand how the implementation of new investment policy will benefit Company's business because unless they do not allow the capital subsidy of what they were talking about Rs. 300 to 350 per tonne, we do not see any upside for our fertilizer business, am I right?

Ajay Shriram: There are two issues. One is the reimbursements for the costs, which have been incurred in the last 10 years since 2002-03. The Rs 350 price increase that we are talking about is projected or the discussions we had with the Ministry to allow this additional realization to the factories because that is the price increase, which has already happened in the past. This is something that is open ended right now. The second we were talking about investment policy, that is the new policy for the future for Greenfield or Brownfield expansions or new plants, which the government is yet to come out and the biggest handicap of that is the issue of gas availability and gas price. So that is open ended at the moment.

Rohan Gupta: So we have as of now no such plans of putting any Brownfield or Greenfield plant. So only benefit which we are expecting is an additional capital subsidy of Rs. 350 if at all it comes, then only it will be there.

Ajay Shriram: Correct.

Rohan Gupta: How many packets of seeds did you sell last year?

JK Jain: About 21.5 lakh packets and on that we expect to do 25 lakh packets this year.

Rohan Gupta: You mentioned that the capital employed in the HKB business is roughly Rs. 200 crore. Out of that, we have almost 200 acres of land. If I understand rightly, the 200 crore of investment is only in inventory. It does not include the value of those 280 acres of land or it includes that?

JK Jain: No, Rs. 200 crore is the total capital employed which includes land, building and whatever the current assets are there.

Ajay Shriram: It is about 240 crore.

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

Ajay Shriram: Thank you. Ladies and gentlemen, thank you once again for attending our Company's Q2 and H1 FY13 results and we really appreciate the interest taken by all of you in participating this call. As mentioned with all the steps outlined above, we are confident of achieving good operating performance across all our businesses. The financial performance outlook is also satisfactory, so it is dependent on government policy in some areas and commodity prices in the others.

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

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