DCM Shriram Ltd.

Q2 FY15 – Earnings conference call Transcript
November 14, 2014 at 12:00 noon IST

Moderator: Ladies and gentlemen, good day and welcome to the DCM Shriram Limited conference call. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ishan Selarka of CDR India. Thank you and over to you Mr. Selarka.

Ishan Selarka: Thank you Malika. Good afternoon and thank you for joining us on DCM Shriram Limited's Q2 & H1 FY15 earnings conference call. Today we have with us Mr. Ajay Shriram – Chairman & Senior Managing Director, Mr. Vikram Shriram – Vice Chairman & Managing 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 in this conference call may be forward looking in nature and a note to that effect was included in the conference call invite sent to you earlier. I would now like to invite Mr. Ajay Shriram to give us a brief overview on the Company's operations for the quarter and half year ended September 30, 2014 and the opportunities going forward. Over to you sir.

Ajay Shriram: Thank you Ishan. Good afternoon ladies and gentlemen and a very warm welcome to DCM Shriram Limited's Q2 & H1 FY15 earnings conference call. I will take this opportunity to share with you perspectives on the Company's operating performance and plans, following which Vikram will take you through the financial highlights of the Company for the quarter and half year ended September 30, 2014.

We are pleased to report a stable operating performance for Q2 FY15 and a stronger balance sheet. However, some of the businesses are facing margin pressures with rising cost and falling selling prices. Unfortunately, the decline in prices has sharpened in October-November 2014.

Let me now take you through the business-wise highlights:

The Chloro-Vinyl operations were stable during the quarter. The facilities had their maintenance shutdown for about 15 days, which is reflected in the results. Sequentially, we are seeing the margins in the business coming under pressure, slightly due to declining realizations, which had accumulated in October-November 2014 due to the downward movement in global commodity prices. The input costs such as salt, coal, lime etc. are rising, thereby, further impacting the margins. Our cost rationalization measures undertaken during the last 2 years have strengthened our competitiveness to sustain reasonable margins at such times.

The performance of the Farm Solutions business was encouraging. We were able to grow our value-added businesses by 4% despite a weak monsoon. Volumes in bulk fertilisers were restricted by us keeping in view the demand and supply situation and the uncertainty in the subsidy payment situation. We are focused on enhancing the product portfolio, market research and sales and marketing capabilities to sustain the growth momentum in the medium term.

For Bioseed business, Q2 is off-season implying substantially lower revenues and losses sequentially. For the quarter, the revenue growth was driven by stabilizing international operations after one time large sales returns last year. Indian operations had lower sales of Corn and Bajra due to delayed monsoon this year. For Kharif season, BT Cotton has recorded a 67% increase in sales supported primarily by performance of our products in Central and South India, which is the largest BT Cotton seed market. The growing acceptance of our BT Cotton seed and newly launched hybrid seeds for corn and vegetables are expected to provide sustained growth in the near future. Our strong research activities are ensuring that we have a strong product pipeline across crops, which give us a lot of confidence of sustained growth in this business in the medium term.

The fertilisers performance improved on account of increased compensation for conversion costs with effect from 1st April 2014. However, I have mentioned that the money has not yet been released by the government of India. It is still not adequate to fully compensate the cost increases since FY03. Subsidy payments till September are regular; however, payment delays have started in October and November thereby pressurizing the margins further.

For the period under review, the Sugar business has suffered on account of stipulation of high cane prices by the state government with no relationship with sugar prices. The sugar prices have been soft now for almost 2 years due to the oversupply situation. The UP government extended the tax concessions for sugar year 2014 and has further announced a tax rebate of Rs. 6 per quintal of cane, which had led to improvement in margins versus last year; but the margin still continues to be negative at the net level. The cane pricing policy announced by the state government 2 days ago is a step in the right direction; though it is quite late. The uncertainty on cane pricing has made farmers move away from cane and has also led to delay in start of factories for sugar year 2014-2015. In our view, while the basic principles underlying the new policy are good, the price announced is high and will be difficult to sustain unless sugar prices move up substantially.

The performance of Fenesta Building Systems is stable and is breakeven at operating levels. Focus is on strengthening the retail sales through direct sales initiatives and Company managed showrooms. We are seeing improved traction in retail sales as well as some pickup in projects.

Our balance sheet has further strengthened with lower borrowings, which has also led to significant reduction in finance cost. Our cash flows continue to be healthy. We have announced capital expenditure plan of approximately Rs. ~650 crore over the next 2 years towards the expansion of power co-gen capacities in the sugar business and doubling of our Chlor-Alkali capacity at Bharuch in Gujarat along with additional captive power plant of 55 MW. These will be funded mainly through internal accruals.

On an overall basis, the next few quarters will experience margin pressure in our commodity businesses. Bioseed and Farm Solutions are expected to register good growth. The investments, when complete, will further strengthen our operations. I would now like to request Vikram to take you through the financial highlights.

Vikram Shriram: Thank you. Good afternoon, ladies and gentlemen. I will now summarize the financial results for Q2 and H1 FY15.

Total revenues for the quarter were lower by 16% at Rs. 1,428 crore compared to Rs. 1,690 crore in Q2 FY14. The reduction in sales is attributable to lower volumes of traded bulk fertilisers and lower volumes of sugar. The revenues of businesses other than bulk fertilisers and sugar went up by 11% i.e. from Rs. 757 crore to Rs. 841 crore. PBDIT for the quarter is up from Rs. 80.5 crore to Rs. 93.2 crore and cash profit is up from Rs. 35.4 crore to Rs. 57.5 crore. Net Profit stood at Rs. 46 crore compared to Rs. 1 crore in the corresponding quarter last year. Net profit includes the write-back of Rs. 15.85 crore relating to tax provision of earlier years.

For the half year, revenues stood at Rs. 3,133 crore vis-à-vis Rs. 3,251 crore in H1 FY14. PBDIT moved up from Rs. 284 crore to Rs. 363 crore and Net Profit was up 94% year-on-year to Rs. 224 crore.

Now let me take you through our business-wise performance.

Chloro-Vinyl segment revenues in Q2 stood at Rs. 282 crore vis-à-vis Rs. 286 crore last year. PBIT was Rs. 72 crore versus Rs. 85 crore last year. The business had scheduled maintenance shutdown of various plants leading to lower production and adverse impact of Rs. 21 crore to the profit. The business is also facing margin pressures due to rising cost and falling prices, which has intensified in October-November 2014. For the half year, revenues at Rs. 640 crore were up by 12% over last year and PBIT was higher by 11% at Rs. 185 crore.

Shriram Farm Solutions segment revenues during Q2 stood at Rs. 439 crore versus Rs. 660 crore last year. For the half year, revenues stood at Rs. 888 crore as compared to Rs. 1,123 crore last year. The decline in sales was primarily on account of lower sales of bulk fertilisers. The revenues of value-added inputs during the quarter and half year grew by about 4% in spite of adverse impact of weak monsoon. PBIT for the quarter was at Rs. 27.3 crore, higher by 12% aided largely by better margins in bulk fertilisers. PBIT for H1 stood at Rs. 48.1 crore.

Revenues from the Bioseed segment business during the quarter stood at Rs. 68 crore versus Rs. 31 crore in the same period last year and PBIT at Rs. (-18) crore versus Rs. (-22) crore. Growth in revenues and improvement in earnings, during the quarter, reflects stabilizing international operations after one-time major sales returns during last year. For the half year, revenues increased to Rs. 463 crore versus Rs. 320 crore last year and PBIT improved to Rs. 78 crore versus Rs. 44 crore. This was largely on account of strong performance of our BT Cotton offerings in Kharif 2014. The sales of BT Cotton moved up from 26 lakhs packets in Kharif 2013 to 44 lakhs packets in Kharif 2014.

The revenues of the Fertilisers segment were up by 21% for the quarter at Rs. 175 crore and 19% for the half year at Rs. 345 crore. The revenue increase is attributable to higher volumes, higher input costs, which are pass-through and increased compensation of conversion costs by Rs. 512 per metric tonnes with effect from April 1st 2014 by the Fertilisers Ministry under NPS-III. PBIT for the quarter stood at Rs. 6 crore versus Rs. 3 crore last year. For H1, it stood at Rs. 17 crore versus Rs. 9.8 crore last year.

Sugar segment business revenue in Q2 were lower by 31% at Rs. 260 crore and 25% for the half year at Rs. 541 crore due to lower sugar sales volumes, a result of lower sugar production in the last season. PBIT for Q2 stood at Rs. 48 lakhs versus a loss of Rs. 25 crore. Earnings reflect an impact of Rs. 19.2 crore on account of rebate of Rs. 6 per quintal declared by the state government for sugarcane purchase for the last season. However, earnings were moderated by approximately Rs. 8.5 crore due to increase in sales quota for molasses from 20% to 34% for country liquor. Further, in view of the sharp reduction in sugar prices in October-November 2014, the inventory as on 30th September has been revalued at Rs. 2,975 per quintal having a negative impact of Rs. 2.5 crore. PBIT for the half year stood at Rs. 9 crore compared to a loss of Rs. 26 crore last year. Business continues to be at loss at net level.

Revenues of the Cement segment in Q2 and H1 FY15 increased by approximately 20% to Rs. 35 crore and to Rs. 72 crore respectively driven by higher sales volumes and realizations. Earnings at Rs. (-2) crore for the quarter are a result of substantial increase in input costs and only a moderate increase in selling prices. The prices have declined in Q2 and continued to be soft in October-November 2014.

The composition of the other segment has undergone changes with the sale of textile unit in June 2014 and constitution of a 50-50 JV for polytech business in April 2014. Fenesta business also a part of the segment is performing as per our plan. Our focus on Retail business is leading to continuous growth in Retail revenues. The retail bookings went up by 24% during Q2 vis-à-vis last year and 29% in billing. The business is achieving operating breakeven. The Company’s finance cost for quarter at Rs. 30 crore was lower by 30% over the last year, driven by lower borrowings. Net debt stood at Rs. 496 crore as compared to Rs. 683 crore in March 2014.

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

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Chetan Thacker from Emkay Global. Please go ahead.

Chetan Thacker: What is the quantum of benefits that the UP government has announced apart from the tax extension and Rs. 8.6 per quintal in the coming season?

Ajay Shriram: Broadly, what they have said is that the farmer will still get Rs. 280, but the upfront payments to be made by the factories within 14 days were Rs. 240. Now, the balance Rs. 40 divided is into two equal parts of Rs 20. Of the first part of Rs 20 about Rs 11.4 will be provided by the UP Government in the form of tax rebates and the balance Rs. 8.6 will be linked in a way to sugar and its byproduct's prices. So that covers Rs. 260. Now for the balance Rs. 20, what they are saying is that they will see the average sugar price from 1st October till the end of May and then come up with the formula that if sugar realizations are above Rs. 3,100, then the industry will have to pay. However, if it is below Rs. 2,900, then there is a formula linked of how much will be paid by the government and how much will be paid by the industry. The upfront payment within 14 days has to be Rs. 240. If it is delayed beyond 14 days then interest will be levied.

Chetan Thacker: So in case if all the timelines are met for payment, so that would effectively mean paying a cane price of Rs. 260 and plus the additional whatever will be based on the formula for the rest Rs. 20.

Ajay Shriram: Correct.

J K Jain: The factories will have to pay 240. As Mr. Shriram said that Rs. 20 is in the form of tax concession and cash rebate of Rs. 8.6 is passed on to the farmer and the balance Rs. 20 will be decided later.

Chetan Thacker: So effectively, the Sugar business this year will break-even if we assume that realizations stay at Rs. 3,000.

Ajay Shriram: The realization is already below Rs. 3,000 and based on the estimate of 25 plus million tonnes production this year, we really do not know how the sugar prices are going to be because international prices are also falling. I think it is a little open question.

Chetan Thacker: Has the export benefit extended so far?

J K Jain: Not so far. We have not announced beyond October

Chetan Thacker: What is the co-gen capacity that is being expanded and will it be operational this season itself and how much would we export from there to the grid?

J K Jain: The 18 MW of exportable power will be commissioned before the October 15 season.

Chetan Thacker: Would the realizations would be similar for that as well?

J K Jain: Power realization is the same as existing power, but they have stopped increasing the power tariff. They have just come out with the draft policy, but the final policy is yet to be announced.

Chetan Thacker: What could be the quantum of increase?

J K Jain: I think about 60-70 paisa increase per unit.

Chetan Thacker: What is the Y-o-Y coal cost increase that has happened at the Kota facility?

J K Jain: Y-o-Y it should be about 10%.

Chetan Thacker: Is it because of freight costs going up or even the prices have gone up?

J K Jain: Coal India has not revised the prices. The freight and the quality effect of the coal is what is leading to the effective cost going up.

Ajay Shriram: The other factor that has also led to this is we have our agreements from the subsidiaries of Coal India for our various requirements at Kota. Unfortunately, we are not getting the full supply under the fuel supply agreement and hence we had to augment that with market coal and that is a more expensive proposition.

Chetan Thacker: What would be the average coal cost per tonne at the Kota facility?

J K Jain: Rs. 1.05 paisa per 1,000 KCal.

Chetan Thacker: How would the Rs. 550 crore CAPEX spent over FY15 & FY16?

J K Jain: It is not expected to be very significant in FY15 because we are still going through approval process for the Chlor-Alkali expansion. CAPEX will happen mostly happen in FY16 and FY17 because we are going to commission it by September-October 2016. So, all this expenditure should happen in that 1.5 years.

Chetan Thacker: Even Gujarat Alkalies announced CAPEX in Chlor-Alkali business. So, how would the demand supply situation match up when these capacities including ours come on stream?

Ajay Shriram: If we look at the history of Chlor-Alkali over the last 12 -15 years, the movement of capacity addition has taken stepwise. There is a jump in capacity addition and then stable for some time. Again, they jump and are stable for some time. I think that is part of the industry dynamics. The key point to consider here is how competitive a particular manufacturer and how good is the service delivery to the customers. Competition is something that we have seen for the last 20 years. So, that is a part of the game. I think we just have to be very efficient to be among the lowest cost producer. We are estimating that with this government giving direction towards the GDP growth; the time we come to 8% plus or 9% GDP growth, with

GST and others we do expect growth to happen. So while we might take a couple of years to balance out, but in the long term we feel that considering the per capita consumption of India, which is low currently as compared to other developing or developed countries, this will improve. Hence, the potential is good.

Chetan Thacker: Will the captive power plant that is expected will also operate on imported coal?

Ajay Shriram: Yes. That is like we have today at Bharuch. We today have a 55 MW plant. We are looking at another 55-60 MW plant of similar life and 450 tonnes capacity plant at Baruch.

Chetan Thacker: Will it be more energy efficient compared to the current plant that is there at Baruch or would it be similar?

Ajay Shriram: It will be marginally better, but to be honest, our approach has always been on continuously upgrading our technology. Even our distinct plants are world class. New one of course will be with the latest electrolyzers and the most efficient electrolyzers available in the industry anywhere in the world. Similarly, on our thermal power plant, we have the most efficient plant. It will be absolutely world class. There are no two ways on that.

Chetan Thacker: Would the boiler on the co-gen power plant be just pure bagasse based or is it bagasse and coal, so we can operate some part of it in the off-season?

J K Jain: No, it will be bagasse based.

Ajay Shriram: Getting coal to the inland in UP is a very expensive proposition. We are not looking at coal utilization in any of our power generation plants at all because it does not make sense to us if we have to move it by road etc., the cost will be just too high.

Chetan Thacker: What could the realizations from molasses be for us on an average for the year that we sell today because of the increase for country liquor?

J K Jain: I think the market price is about Rs. 550 or so for the molasses. Molasses to country liquor manufacturers will be about Rs. 100 per quintal.

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

Dheeresh Pathak: How many packets of Cotton seeds were sold in South out of the 44 lakhs packets?

J K Jain: About 20 lakhs packets were sold in South and 24 lakhs packets in North.

Dheeresh Pathak: South was 8 lakhs packets if I remember correctly.

J K Jain: Yes, about 8.5 lakhs packets.

Dheeresh Pathak: So which regions have caused the delta in South?

J K Jain: This time it has mainly been Andhra Pradesh and Karnataka. Maharashtra's contribution has been small because we launched it in later in Maharashtra. Going forward, Maharashtra is expected to pick up.

Dheeresh Pathak: Corn you said was down some 35-36% for you in the first half. Now, other two companies in corn have grown by some high single digit in corn, although it has been a bad year for overall corn for the industry. So, what is the reason for higher impact for us vis-à-vis some of the other players who have shared numbers in corn?

J K Jain: I think there are two-three things. One is that we have launched couple of products in the last year and they are going through acceptance. The second thing that happened is more in the government sector business. We were supplying significant quantity through government tenders and that in some of the states have been cancelled. So, that has affected the business on a short term basis.

Dheeresh Pathak: How many tonnes in corn would be through the government tender business?

J K Jain: I do not have the exact number, but it was significant last year.

Dheeresh Pathak: These are in which states?

J K Jain: MP, Gujarat, Rajasthan.

Dheeresh Pathak: What is the outlook for corn for the Rabi season?

J K Jain: We are launching two more products for Rabi season. I do not think that we will have any significant growth this year. But I think, these products, once they gain acceptance, we should start building up volumes from next year.

Dheeresh Pathak: For the industry as a whole, how does Rabi look?

J K Jain: Rabi is not expected to be down vis-à-vis last year. Whether it will increase, it is still uncertain.

Dheeresh Pathak: In terms of the new trait of RRF, which is ready, are you just waiting for government approval. Now with this new government in place, is there anything moving in that direction?

J K Jain: No, nothing is moving on GM so far.

Dheeresh Pathak: But there were articles earlier which said that trials which were on hold have now been allowed, are they going on?

J K Jain: No, they have not been allowed so far. They continued to be on hold.

Dheeresh Pathak: GAC had given some approvals.

J K Jain: That is still not cleared by the ministry.

Dheeresh Pathak: Has the government had any meetings with the industry body on this?

J K Jain: I do not know that.

Ajay Shriram: I think the government is taking it up regularly and so are the seed associations because in many countries of the world, GM Seeds have now come into various products. To give you an example, Bangladesh has approved Brinjal. Now we read in the papers, that Brinjal BT seeds are coming into West Bengal etc. We can never control that. So unfortunately, de-facto without our having taken proactive action to decide whether this is good or bad, I think in the next 2 years' time, there will be enough BT Brinjal grown all over the country. I think we have to be more realistic and practical and see what happening in the world, what is happening with our neighbors and move accordingly.

Dheeresh Pathak: But, you are a big player in Cotton now and Cotton is already approved. So it is not a new crop that needs approval and RRF as I understand from companies is ready for commercialization. So, what is holding up the introduction of RRF?

J K Jain: It is just the government approval and testing, I think it was going through final phase of testing and then the government has to approve it because each trait that you introduce requires specific approval. We are just waiting for government approvals; otherwise it is ready.

Dheeresh Pathak: Urea, now I understand it is a pass-through. So, from that point of view, the EBIT per tonne should be pretty much stable right, every quarter. Now last quarter, EBIT per tonne helped because I think you had this Rs. 500 per tonne extra conversion cost and this quarter again it has gone down. Can you explain that?

J K Jain: No, see this EBIT per tonne has been going down until the conversion cost is revised upwards every time there is an increase.

Dheeresh Pathak: So was the Rs. 500 per tonne a recurring increase or it was just a one-quarter increase?

J K Jain: Recurring increase, but your cost does not remain fixed. Cost keeps changing and increasing.

Dheeresh Pathak: But major cost is gas, which is a pass-through. So if gas is being pass-through, then EBIT per tonne should remain same.

J K Jain: It would not remain same because there are other conversion costs, which also keep going like bags, freight etc.

Dheeresh Pathak: Now we had almost like Rs. 1,100 per tonne EBIT in June quarter versus only Rs. 550 per tonne EBIT in the September quarter. What has resulted in such a big delta?

J K Jain: Monsoon period is generally bad from energy efficiency point of view. If energy efficiency is fixed, it does not change. So, it is the energy efficiency and fixed cost. Suppose there is some maintenance expenditure, which is incurred in that particular quarter even that causes the profits to go down besides the energy efficiency. Traditionally also, if you see the second quarter has generally lower profits because of energy efficiency issues.

Moderator: The next question is from the line of Abhijeet Dey from BNP Paribas. Please go ahead.

Abhijeet Dey: You mentioned prices of Caustic Soda have come down in October and November. I guess in the last week of October and first week of November, there was a cut of Rs. 2 – Rs. 3 in caustic soda prices. What is the reason for drop in realizations especially when global caustic soda prices are stable and in fact, even import prices to India are also stable?

Ajay Shriram: There are two things. One is the capacities here also running well and the commodity prices come down across the board. We had imports coming in from Iran that has lower price and that has affected the international prices as well as the market prices over here.

J K Jain: I think there has been some capacity addition and it takes a little time to absorb the new capacities. So, there is little excess supply in the country today that has resulted in a drop in prices both, in Caustic and Chlorine in the country.

Abhijeet Dey: Gujarat Alkalies during their concall mentioned that the demand from the textile dying industry was also weak in the second quarter. Is that also true and has that resulted in prices falling?

J K Jain: Sectorally, it may be possible. But the overall demand is growing at 3-4%, which is similar to last year’s level. So, growth is driven by little excess supply and bunching up of capacity, then the demand factor.

Abhijeet Dey: Which companies would be commissioning new capacity let us say in the next 6 months to 1 year?

J K Jain: I do not think there is any capacity that has been announced for commissioning in next 6 months to one year. Significant addition should happen after about 1.5-2 years only.

Abhijeet Dey: PVC prices are also under pressure from October onwards, right?

J K Jain: Globally, PVC prices have come down. Corresponding reduction is in domestic price also.

Abhijeet Dey: Is the demand for PVC better in this quarter compared to the September quarter?

J K Jain: I do not have this quarter figure for demand.

Ajay Shriram: But if you like, you can definitely get in touch with our business head who can give you a lot more data on that.

Moderator: The next question is from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

Aman Sonthalia: What is the fall in PVC prices in the last 2 months?

J K Jain: It is about Rs. 4 – Rs. 5 per kg.

Aman Sonthalia: How much revenue improvement is expected in the Bioseeds division going forward?

J K Jain: We expect Bioseed revenue to go up by 20-25% on a Y-o-Y basis.

Aman Sonthalia: This year, the growth is around 42-45%; but going forward it will be around 20-25%.

J K Jain: This year, we had negative revenue from international operations last year because we had taken large one time sales returns. Therefore, the percentage is looking high compared to last year; but on a sustained basis, we are expecting about 25% growth.

Aman Sonthalia: Would the margin remain the same or will it be better?

J K Jain: Margin should remain stable at about 10-12%.

Aman Sonthalia: I think the plantation of sugarcane is a bit weak in Uttar Pradesh. So, how much production are you expecting in UP in the ensuing season?

J K Jain: Production in UP should be about 5-7% lower than last year. However, it was also depend on when the factories start crushing now because it has already got delayed. There may be a higher shortfall also.

Aman Sonthalia: What is the expectation for our Company?

J K Jain: We will also be lower, but I think we are completing our survey which got little delayed. Post this we will be able to get the exact number.

Moderator: The next question is from the line of Amit Goela from Rare Enterprises. Please go ahead.

Amit Goela: You have said that your outlook for the seeds business is healthy for next year; could you quantify that?

J K Jain: In an agricultural business, it is difficult to put specific numbers for year-to-year. In terms of specific segments, what we are saying is Cotton seeds should grow from here particularly in Central and South, and our international business should also grow by about 20-25%. So, I think on a sustained basis, we should be able to register a growth of about 25%.

Amit Goela: Over the last two days, there has been some write-up which has states that some subsidies which had been reversed by the Mayavati government have been upheld by Courts in Bajaj Hindustan's favour. Is this relevant for us as well as we also have invested quite heavily subsequent to 2006?

J K Jain: Bajaj Hindustan had filed a separate case for the incentive scheme and you are right, courts have decided in Bajaj Hindustan's favor. Other industries had filed the case separately which has still not been decided. But chances are that whatever principles had been established in Bajaj Hindustan's case should be upheld in the second case also; but it still needs to be decided.

Amit Goela: So in case we win the case, how much benefit will we get?

J K Jain: Two benefits will accrue. One is that we are entitled to a capital subsidy of about Rs. 55 crore, which is what we should realize and then there are recurring benefits of about Rs. 150 crore, which has accumulated over this period.

Amit Goela: So it will make a difference of almost Rs. 200 crore in terms of cash flows.

J K Jain: Yes.

Moderator: Thank you. The next question is from the line of Rajat Budhiraja from Banyan Capital. Please go ahead.

Rajat Budhiraja: Mr. Shriram, I have started covering your Company very recently. So bear with me if I am asking some obvious questions. My first question is related to Farm Solutions. So you have fertilisers, crop care, and seeds. Can you provide us with the breakup of these three and also the margin profile. It would be great if you can give us some figures on an annual basis because this is seasonal in nature?

J K Jain: The total revenue of this business is about Rs. 1,500 crore, out of which Rs. 500 odd crore is from value-added inputs and Rs. 1,000 crore is from bulk fertilisers. I do not have further break-down readily available. Though, I can send it to you. At an aggregate level, the value-added inputs as I said constitutes about Rs. 500 crore and it has margins of approx. 8-10% whereas bulk fertilisers have a margin profile of 1-2%.

Rajat Budhiraja: We have seeds in value-added as well as in Bioseeds. So, on overall basis what is the contribution of the seeds business because there are some inter segment revenues also?

J K Jain: Yes. SFS sells seeds of Bioseeds as well as seeds from other companies in North India. In addition to hybrid seeds, it also sells the conventional seeds. So, Farm Solutions Seed business is not only Bioseeds business. Now as far as total seeds business is concerned that we are accumulating only in Bioseeds which is the hybrid seed business coming out from Bioseed Research.

Rajat Budhiraja: So we should look at Bioseeds numbers as revenue from seed business, right?

J K Jain: From hybrid seed business, yes.

Rajat Budhiraja: So why do not you combine these two in one segment and give it to us that would be more drafted and then more visible?

J K Jain: No, they are two different businesses. See as we said, SFS is buying multiple of inputs from various people and it is not restricted only to hybrid seeds and marketing them; whereas, Bioseed is a research and production based hybrid seeds business. So, they are separate businesses.

Rajat Budhiraja: As an overall value-added category, what is your outlook in terms of growth and margins going forward?

Ajay Shriram: We expect the value-added business to grow in the range of 15 to 20% going forward.

Rajat Budhiraja: What about margins?

Ajay Shriram: I think it will be about the same. It just move up and down. When you get a good molecule in crop care chemical, then that might work well for a couple of years and you may get a higher margin, which will also come down in the longer term. So, an average of 8 to 12% would be a fair margin for the entire set of value-added products.

Rajat Budhiraja: Can you please just give us an overview on Fenesta in terms of the total number of showrooms you have currently and what is your expansion plan in terms of increasing the number of showrooms going forward?

Vikram Shriram: We have four showrooms commissioned and another four will be commissioned over the next couple of months. So the plan is to initially have 8 showroom in this space. Additionally, the Company has built a direct sales force team of about 140 people over the last year or 18 months. This is the major thrust for growing the retail business.

Rajat Budhiraja: Currently it is a small portion of your revenue; so how do you see the revenues growing based on your expansion plans over the next 2 to 3 years.

Vikram Shriram: Revenue growth should be anywhere between 20 to 25%. Actually, the project business has de-grown in the last year because of the problems in the real estate sector. If that picks up again, certainly it should be 20-25% kind of growth.

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

Rohan Gupta: In Cotton-seeds, we have roughly done 4.5 million packets out of which South is almost 1.5 million packets. So, what you are targeting in the South market next year?

J K Jain: As we mentioned, we are targeting about 25% growth in seeds business.

Rohan Gupta: That is the overall growth because I think that in the North market, we already have a significant market share, so incremental growth must be coming from South or maybe additional market of Maharashtra. So, do we have a growth plan as to how many seed packets we will be targeting in the next year in Southern market?

J K Jain: In different segments of the businesses, we work on 25% growth only because more than that it becomes quite risky. So we are targeting 25% growth at an overall level. But, you are right; most of the growth will come from Central and South because we already a big player in North and the growth may not be that much in North.

Rohan Gupta: Are we also going to target Maharashtra in a big way from next year onwards?

J K Jain: Absolutely. As I mentioned earlier, Andhra and Karnataka have done well last season. Maharashtra, we just launched last season, so it should contribute majorly in the next year or so.

Rohan Gupta: We have seen a significant drop in Cotton prices this year. Do you think there is a possibility of lower acreages next year and secondly, are we also going to benefit from the lower procurement costs in Cotton-seeds?

J K Jain: The seed procurement cost has not gone down vis-à-vis last year. Actually, it remained constant. As far as your first question is concerned, as Cotton prices are going down, so is corn and soya and therefore relative equation is not changing. Secondly, in Maharashtra, I understand that people are facing issues with respect to yield in soya particularly in the drought condition. So, the alternate crops are not very attractive either. Therefore, we are not expecting Cotton to go down. Cotton remained more profitable product for the farmer.

Rohan Gupta: My other question was on the complex fertilisers trading. We have seen many industry players resuming to DAP trading during the quarter and even making decent margins. While you, as a cautious strategy, have not done that. So, is the Company completely skipping that bulk fertilisers trading business, even when it is opportunistic?

Ajay Shriram: No, I do not think. We are not looking at exiting it at all. That is part of our strategy, but we are looking at it and doing it whenever we think it is appropriate. Frankly, bulk fertilisers along with other products are sort of a basket that we offer to our wholesalers and retailers. So based on our strategy, we will continue doing bulk fertilisers.

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

Dheeresh Pathak: Could you share some thoughts in terms of this GM crop approval from the government. What I understand is that Supreme Court had a committee and even that committee had recommended moratorium on field trials and there was a Parliamentary Standing Committee as well which had given some recommendations against field trials. Now technically, from a government point of view, is government okay to approve or this is subject to a litigation outcome from Supreme Court that unless Supreme Court decides one way or the other, government cannot approve either field trails or RRF?

Ajay Shriram: I think there are two things, but I would like to suggest because this is a very focused strategy of the industry to get approvals on their GM products, we will be very happy to put you in touch with the Business Head of our Seeds business who can explain this in much more detail. At a macro level, over the last 4-5 years, as you might be aware that the earlier government and ministers did not even approve any GM trials. This government seems open to that and this issue has been taken up. I think within the government there are maybe two views, which are being expressed, as we understand. In our dialogue with the government, there is a feeling that down the line there is a need to look at these. Industry view is not to just put a blanket ban; but to look at it from the point of view of what are the right and wrong of this, set up whatever committee, set up whatever trial procedure, set up whatever evaluation system you like. Though, it will take 3, 5 or 7 years; but please look at it like a pharmaceutical product or like anything else where there is a trial period for an approval or disapproval, either way. So do not do it just on emotion and sentiment and some NGOs raising a noise. Today for instance, if you see in America and other countries, there are 15 to 17 different edible products, which are all GM products. India is getting it. As it is, we import oil, we are getting GM seeds oil, so many other things we are getting. Therefore, we are taking it up, but we will be very happy to put you in touch with the Head of our Seeds business to explain this in detail.

Dheeresh Pathak: Definitely, I will reach out to you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Ajay Shriram: Thank you ladies and gentlemen for joining on this conference call. Overall, our performance had been stable barring the sugar segment. Going forward, we will see margin pressures in Chloro-Vinyl businesses owing to decline in commodity prices globally as well as cost-push. Our cost rationalization measures in the last two years will help us sustain reasonable margins. We will continue to put our efforts on cost optimization across all our businesses. Bioseeds and Farm Solutions will deliver growth on a sustained basis. Our recently announced capital expenditure programs will also deliver better returns for the

Company over the medium term. We remained focused on ensuring a healthy operating performance and a healthy balance sheet. Thank you once again.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of DCM Shriram Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
