DCM Shriram Limited
Q2 and H1 FY19 Earnings Conference Call
October 31, 2018

Moderator: Ladies and Gentlemen, Good day and welcome to the DCM Shriram Limited Q2 FY19 Earnings Conference Call. As a reminder, all participant' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you Sir.

Siddharth Rangnekar: Good day, Ladies and Gentlemen and welcome to the DCM Shriram Limited's Q2 & H1 FY19 Earnings Conference Call. Today, we have with us Mr. Ajay Shriram – Chairman & Senior Managing Director; Mr. Mr. Ajit Shriram – Joint Managing Director; Mr. K. K. Kaul – Wholetime Director and Mr. J.K. Jain – CFO of the company.

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

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

I would now like to invite Mr. Ajay Shriram to give us a brief overview on the company's performance during Q2 and H1 FY19 and his views going forward. Over to you, Sir.

Ajay Shriram: Thank you, Siddharth. Good afternoon, ladies and gentlemen and a very warm welcome to all of you on DCM Shriram Limited's Q2 and First Half of financial year '19 earning conference call. I will take this opportunity to share views on Business Dynamics, the Key Developments and Outlook going forward, following which Ajit will take you through the Financial Performance of the company.

Our overall revenues grew about 6% during the quarter. The revenue growth was restricted due to shut down in some of the plants leading to lower volumes and higher costs. All these plants have been commissioned now and are recording stable operations. Our expansion and modernization projects are progressing as per plan. We have commissioned additional 168 tons per day caustic soda capacity at Kota and 10 tons per day aluminum chloride plant at Bharuch. Additional aluminum chloride capacity will be commissioned continuously to reach 60 tons per day in the next few months. Next we will commission 5,000 tons per day cane crushing refined sugar plants at Hariawan and 30 MW Co-gen plant at Hariawan sugar factory. The additional 332 tons per day caustic soda, 40 tons per day PVC, 66 MW power plants and 200 KL per day distillery will be commissioned during March '19 to October '19. All these projects will substantially strengthen our businesses and earnings profile. We expect healthy cash generation which would enable us to take up more growth initiatives going forward. We have completed and closed Rs.250 crore share buyback program on 23rd October 2018. We express our sincere thanks to all the shareholders for the same.

The board has declared 200% interim dividend keeping in view the satisfactory performance and positive outlook of the company's performance.

Let me now share some Business Wise Developments:

Chloro-Vinyl:

This segment includes our Chemicals and Plastics business. In the Chemicals, the Caustic Soda and Chlorine continue to register good domestic demand growth in line with overall GDP growth resulting in high operating rates for the industry. Globally also, the industry is doing well. Global caustic prices have started rising again, after hitting a low of USD 400 per ton in July '18. Indian prices are following the global trend. Chlorine prices in the country remain positive. The ECU realizations has started moving up again from August 2018 onwards. Coal prices are stable over the last few months after rising approximately 6-7%. Salt prices unfortunately have also risen. We expect that industry will keep registering healthy margins though there may be a short-term aberration for few months when new capacity is commissioned. We will add 500 tons per day capacity in this financial year and in the financial year '19-20, taking our total capacity to 1850 tons per day by the end of that year. We intend to keep adding capacity continuously to achieve sustained growth and stronger competitiveness in this business. The Aluminum Chloride business has also been started and we plan to continuously add capacity going forward.

Plastics:

PVC and Carbide prices has been range bound in this year. The business has faced margin pressure due to rising cost and plant shutdown including shutdown on the power plant during the period. These were further compounded with the restriction on use of pet coke. This restriction has been lifted now and the operations have stabilized. The 40 tons per day capacity expansion will further strengthen the business. Commissioning of 66 MW power plant by October 2019 will reduce the power cost and thus strengthen the margins structure of plastics as well as chemical operations at Kota.

Sugar:

The Sugar business recorded positive developments in operating environment with both the Central Government and UP Government announcing various steps to overcome the difficulties of sugar sector including the farmers and the industry. These steps and projected improved global demand/supply scenario has resulted in a more positive outlook for the sector. Government needs to ensure faster implementation of all the measures, relief plans and have a rationale policy framework going forward so that this positive momentum is strengthened. The prevailing sugar prices at about Rs.3,250 per quintal are about Rs.300-350 per quintal lower than the costs. There is a need to look at additional measures on how to achieve a sustainable sugar price which provide some profit to the sugar farmers. This is required to ensure that the farmers' interest is protected at all times. 150 KL per day distillery commissioned in January '18 is operating well and has provided good support to the sugar business in the rough times. The additional refined sugar capacity and Co-gen power capacity is planned to be commissioned by November 2018 and this will further strengthen our sugar business. The 200 KL per day distillery is scheduled by November 2019 and will help us in achieving complete forward integration on molasses. We are also planning to export sugar directly from our mills in 2018-19, which will improve the cash flow position for the business. Overall, we feel that we will have a stronger sugar, ethanol and power business going forward. If the governments follow a rationale policy and ensure faster implementation of the announced measures, the business will have satisfactory financial performance as well.

Agri Inputs business of the company comprises urea, Bioseeds and the farm solutions business. This sector continues to be under stress due to lack of positive policy initiatives.

Urea:

The industry has got adversely affected by the introduction of DBT system for subsidized payments. The subsidy outstanding remain high throughout the year under this system leading to higher working capital. The increase in fixed cost reimbursement by Rs.500 per ton announced in 2014, has still not been paid to the industry. As a result, both the profitability as well as the cash flows are adversely affected. The government has referred to NITI Aayog the matters relating to energy norms w.e.f. 1st April 2020 and the reimbursement of Rs.500 per ton towards fixed cost expenses. We expect that the same are resolved at the earliest. The plant had a stoppage for nine days in Q2 financial year '19. This has been commissioned and is operating well now.

Bioseed:

Q2 is a very small season for Indian operations. For Kharif 18, Bioseed has done well for all its focused crops except cotton. Cotton Seed business experienced margin pressure due to reduction in selling prices by the government. It also recorded lower volumes of cotton seed sales. Operations in Philippines are progressing well with products gaining wider acceptance. Indonesia and Vietnam however are still going through product development and acceptance.

Shriram Farm Solutions:

Shriram Farm Solutions division is progressing well in all its plans to reduce its bulk fertilizer business and focus on the value-added agri input. We expect these efforts to lead to a stronger business over the medium-term.

Fenesta:

Windows business is registering healthy sustained growth even though the real estate business is witnessing a continuous bleak scenario. This business is supported by growth in the retail segment. We are taking steps to further expand our products portfolio by adding adjacent categories and to expand geographically. These steps should sustain high growth in this business in the medium-term.

We are confident to complete our present capital expenditure plan by Q3 financial year '20. The plan on completion will strengthen our business earnings profile and cash generation. We expect to maintain this growth momentum in the medium-term and steps to enhance capacities, improve cost structure, and strengthen integration, and our product portfolio.

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

Ajit Shriram: Thank you. Good afternoon, ladies and gentlemen. I will now summarize the financial performance of the company. The overall net revenue for Q2 FY19 at Rs.1,700 crore grew by 6% over the same period last year. The revenues from our own products stood at Rs.1,491 crore, up 7% YoY. However, the revenues of traded products that is Shriram Farm Solutions and Hariyali stood at Rs.209 crore, down by 1% YoY. The traded product comprises value-added agri inputs, that is the business we want to focus on and the bulk fertilizers at Hariyali fuel outlets which we want to phase out over the next few years. The turnover of value-added input grew from Rs.91 crore to Rs.127 crore during Q2 FY19. The PBDIT for Q2 FY19 stood at Rs.313 crore versus Rs.306 crore in Q2 FY18. This includes a gain of Rs.48 crore on the sugar inventory revaluation on 30th September 2018.

The results for the current quarter were adversely affected consequent to shutdown of power, fertilizer and Chloro-Vinyl plant which impacted results by roughly Rs.58 crore due to loss of production and additional cost. The finance cost for Q2 FY19 stood at Rs.41 crore, up 106% YoY. This is due to higher working capital on account of higher sugar inventory and higher fertilizer subsidy which is outstanding. Net profit was down 2% YoY at Rs.169 crore for Q2 FY19. The revenues for H1 FY19 increased by 6% YoY at Rs.3,768 crore. Revenue from our own products went up by 10% led by chemicals and the sugar business from its distillery division. The PBDIT for H1 FY19 at Rs.661 crore is up 2% YoY. The PAT at Rs.387 crore is lower by 5% over last year. Gross debt as on September 30, 2018 was at Rs.915 crore versus Rs.673 crore as on 30th September 2017. Cash and cash equivalents stood at Rs.456 crore versus Rs.717 crore for the same period last year. The net debt therefore was Rs.460 crore on 30th September 2018 versus (-Rs.45) crore last year. The finance costs have gone up due to higher borrowing and hardening of the interest rate. We expect that the cash generation going forward will help us in keeping debt at prudent level always. The effective tax rate for FY19 is expected at 22.4% vis-à-vis 22.5% for FY18.

Let me now take you through our business wise performance:

Chemicals:

The net revenue for Chemicals business for Q2 FY19 stood at Rs.417 crore, up 23% YoY. Sales volume registered a growth of 5% and ECU realizations increased by 16% YoY. ECU realizations decreased 7% QoQ but has seen an upward movement since August 2018 onwards. PBIT for Q2 FY19 was at Rs.183 crore, up by 25% compared to the same period last year. H1 FY19 revenues stood at Rs.886 crore, up by 40% YoY and PBIT stood at Rs.431 crore, up by 68% YoY.

Plastics:

The net revenue for plastics business during Q2 FY19 stood at Rs.136 crore, down by 7% over last year. The sales volumes for PVC and Carbide were lower by 19% and 16% YoY respectively, this was impacted by a 10-day plant shutdown. The plant has now been restarted and has achieved stable operations. Prices for PVC and Carbide were up by 10% and 20% respectively over the same period last year. The prices have recorded upward movement versus Q1 FY19 as well. PBIT for Q2 FY19 stood at Rs.13 crore versus Rs.32 crore in the same period last year, a decline of 60% YoY, due to increasing input cost and shutdown expenses. H1 FY19 revenue stood at Rs.280 crore, down by 6% YoY and PBIT stood at Rs.40 crore down by 39% YoY due to the reasons mentioned earlier.

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Sugar:

Q2 FY19 net revenues from overall sugar segment stood at Rs.479 crore, down 7% YoY. Sugar revenue for Q2 FY19 stood at Rs.397 crore, down 23% due to lower prices of 14% and lower volumes by 9% YoY. Volumes were impacted due to sales restrictions by the central government. Molasses prices were down to almost zero and the distillery revenues for the quarter at Rs.74 crore partly mitigated lower sales revenues and lower molasses prices. Segment PBIT for Q2 FY19 stood at Rs.87 crore, up by 18% YoY. This comprises of sugar PBIT of Rs.36 crore including a gain of Rs.48 crore due to revaluation of sugar stocks as of 30th September 2018. The sugar inventory of 21.84 lakh quintal as at 30th September 2018 has been valued at an average rate of Rs.3,120 per quintal versus Rs.2,900 per quintal as on 30th June 2018. The PBIT of sugar activities without its revaluation gain is Rs. (-13) crore versus Rs.74 crore last year. The distillery PBIT was at Rs.48 crore in Q2 FY19. You are aware that the distillery operation was started in January 2018 only. The sugar realizations for Q2 FY19 were Rs.3,207 per quintal versus Rs.3,724 per quintal last year. However, it registered an increase of 15% vis-à-vis Q1 FY19. The present sugar prices are about Rs.3,250 per quintal. The company has met its export obligations for 2017-18 and has also started tying up for exports for 2018-19. H1 FY19 overall revenues stood at Rs.1,097 crore, down 4% YoY and PBIT stood at Rs.85 crore, down 54% compared to last year. Sugar prices were down by 20% YoY. You are aware that we had valued sugar inventory on 31st March 2018 at a value of Rs.2,850 per quintal and accounted for consequent losses last year. The expansion of crushing capacity by 5,000 TCD is under implementation and will be commissioned in November 2018. Upon completion it will optimize the crushing season leading to better recovery. Additional 30 MW power plant will also be commissioned in November 2018 and will provide earning support to the business.

Fertilizer:

Net revenue for Q2 FY19 at Rs.247 crore, was up 26% YoY due to higher prices, result of higher energy cost which is a pass-through. Volumes were lower by 11% due to plant stoppages for 9-days, the plant has stabilized now. The PBIT for Q2 FY19 stood at Rs.18 crore, down 47% YoY due to shutdown mentioned earlier. The subsidy outstanding as on 30th September 2018 stood at Rs.360 crore versus Rs.283 crore as on 30th September 2017 leading to higher working capital employed. H1 FY19 revenue stood at Rs.475 crore, up 30% YoY and PBIT stood at Rs.26 crore, down 24% YoY.

Shriram Farm Solutions:

Q2 FY19 net revenue stood at Rs.157 crore, up by 3% YoY. The revenues of bulk fertilizer at Rs.30 crore were lower by 50% YoY in line with our strategy to rationalize this activity. The value-added inputs revenue at Rs.127 crore was up 40% YoY. Overall PBIT for the current quarter stood at Rs.1.3 crore versus Rs.6.8 crore for the same period last year. The earnings were adversely affected due to cost and write-offs resulting from rationalization of bulk fertilizer activity. H1 FY19, overall segment revenue stood at Rs.368 crore, down 14% YoY. PBIT stood at Rs.11 crore, down 36% YoY and the revenues of value-added input at Rs.283 crore are up 1% YoY.

Bioseed:

Q2 FY19 revenues were at Rs.83 crore, up 3% YoY. Q2 is a short season for this business in India and is off season in most of the international geographies. Net revenues from the Indian operations were up 19% YoY at Rs. 69 crore, led by corn and hybrid paddy; however, BT Cotton related challenges continue to adversely impact the business. The international business revenue was down at 38% year-on-year at Rs. 48 crore due to adverse impact on **corn** sales in Vietnam and Indonesia. H1 FY19 revenues stood at Rs. 365 crore down 6% YoY and PBIT stood at Rs. 44 crore down by 43% compared to the same period last year. The reduction is attributable to the lower volumes in margin from the cotton seed business in India.

Fenesta:

Q2 FY19 net revenues was up 16% year-on-year led by retail segments. Revenues from retail segment grew 32% year-on-year. Overall order booking grew by 15% year-on-year.

Order booking for the retail segment grew 30% year-on-year while the project segment was down by 12% year-on-year. PBIT increased to Rs. 13 crore versus 8 crore in the same quarter last year. H1 FY19 revenues stood at 191 crore up by 18% year-on-year and PBIT stood at 24 crore up by 78% year-on-year.

Other businesses:

The cement business revenue was lower by 10% during the quarter due to lower volumes. Earnings were impacted due to increased cost. In Hariyali we continued to work with BPCL to reduce the fuel pump outlets and sell the properties. The number of outlets has now been reduced from 32 in September 2017 to 23 presently.

Projects: In addition to the commissioned projects we are implementing expansion for modernization project with the investment of roughly Rs. 1,150 crore in our chloro-vinyl and sugar businesses. The projects will be commissioned in phases by Q3 FY20. These are progressing as per plan. We have spent Rs. 351 crore on these projects up to September 30, 2018.

That concludes my financial overview and we would be happy to take any question that you may have.

Moderator: Ladies and Gentlemen we will now begin the question and answer session. We would take the first question from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: I had few questions on sugar division. So, as on Q1 end, our inventory was valued at Rs. 29 and so basically this quarter average utilization has been Rs. 32 so would not that be a Rs. 3 gain per kg sold on sugar, but our actual performance shows a EBIT loss excluding the inventory revaluation gains, so I wanted to understand how does that work?

J.K. Jain: Because against the margin there will be the fixed cost and the maintenance cost that had to be charged up which we incur during the year and as we have explained earlier the off-season expenses we were deferring till last year, but now we are charging it off in the same period so that results into a net loss for the business even though the that margin is coming in at Rs. 2.5.

Yash Agarwal: So, what is the fixed cost that you charged in this quarter?

J.K. Jain: It is indicated 31 crore is the off season expense which we are charging it off in the same period. Last year it was deferred.

Yash Agarwal: Few questions, on the distillery division so as of now what is the mix between ENA and ethanol in distillery the volume mix?

J.K. Jain: We are only producing ethanol we are not producing ENA right now.

Yash Agarwal: And for the whole year what sort of volumes are you anticipating in distillery?

J.K. Jain: This distillery is capable of producing about 4.5 crore liter ethanol per year that was what we have commissioned.

Yash Agarwal: Also sir if you do an implied calculation right now the realization about Rs. 41 for the distillery division, so what I wanted to understand is with the increase in prices that the government has given and the incremental increase will it flow directly to the EBIT per liter is that the right understanding?

J.K. Jain: Yes, it should, but it also depends on the molasses prices going forward, but broadly it will go to EBIT as of the present outlook.

Yash Agarwal: And the outlook on molasses is pretty bearish

J.K. Jain: Yes.

Yash Agarwal: Final question is that what is your cost of production for sugar?

J.K. Jain: See we have indicated in our statement is about Rs 3,550 to 3,575 per Qtl.

Moderator: We would take the next question from the line of Anant Jain from Individual Investor. Please go ahead.

Anant Jain: Just a few questions, first of all on the caustic soda side, what kind of capacities are coming up in the next one year on the caustic soda side?

Ajay Shriram: I think there are couple of plants which are looking at restoring some plants, approximately 1000 tons per days capacity is being added by various plants in the next one year that is what we got to know, but that is the figures we have.

Anant Jain: So, this is excluding our capacity which will come after one year?

Ajay Shriram: This is including our capacity.

Anant Jain: So, ours would be around 500 TPD and this would be 500 outside of our capacity?

J.K. Jain: No, we have already added 170 so we will add 300 more and this other people will add about 700 to 750 more.

Anant Jain: So, dont we see an over capacity kind of scenario either in caustic soda or on the chlorine side with these kind of capacities coming in or do you think it is in line with the demand?

Ajay Shriram: I think as an industry whenever there is an over installation of new capacity there is always little dip in prices that is in any commodity not only caustic soda, but the good thing is, the chlor-alkali market is growing at about 6% compound rate, that is also healthy growth rate. So, our feeling is that there has been little dip here and there, but as a business it is a good business, good direction and we should benefit from that also going down the line without expanding capacities.

J.K. Jain: Just wanted to add that this additional capacity is just 10% of the existing capacity of the industry which will come in next 1.5 years, so at 6% demand increase it should get reasonably absorbed in 18-20 months.

Anant Jain: Second thing is on the caustic soda side one is the demand supply situation and second is rupee depreciation, so is rupee depreciation also helping us to kind of have higher realization from the caustic side sir?

J.K. Jain: The question is not clear Anant could you clarify that again.

Anant Jain: I just want to know that since the import of caustic soda becomes costlier with rupee depreciation so are we becoming more competitive or is it just the Indian demand supply scenario which is currently driving the caustic soda price?

Ajay Shriram: No, I think with devaluation, of course imports become more expensive, so there is the advantage to the Indian industry with that going forward, and I think that is an advantage the industry is also taking so it moves both ways in any commodity over a period of time, but as I said earlier I think the good thing is that the growth of this industry is stable and consistent and that is a very positive indication going forward.

Anant Jain: The second question is on the sugar and ethanol policy of the government and also at the rate at which we are carrying our inventory, so if I were to look at first of all on the ethanol policy side, the government seems to be financing a lot of CAPEX on the ethanol refinery side, so how does this impact our CAPEX plans? Are we going to receive some kind of money from the government for the refinery CAPEX which we are setting up?

Ajit Shriram: So, the government has allocated 4.500 crore for the sugar industry for setting up the ethanol capacities and I think roughly 120 applications have been received by the government including ours for setting up either new distilleries or expanding the existing capacities so we are in line with the government to receive some of the loan at subsidized rates from the government.

J.K. Jain: So, just to add the government is only providing interest subvention, it is not extending the funding, funding is still needed to be done by the banks. The government will compensate part of the interest that is all.

Anant Jain: The government will contribute on the interest side?

J.K. Jain: Absolutely, (Govt) will just provide some interest subventions.

Anant Jain: Third question is on the Bioseed side, and it has been like quite sometimes we have not seen our international sales grow, domestically also we see who have been stuck in a similar number of packets, so what are the number of packets sold this season and I do not see a growing year at all?

J.K. Jain: Anant your question was not clear can you repeat.

Anant Jain: The question is on Bioseed, and we have not seen much growth on the Bioseed both internationally and in India. Now again a. what are the number of packets that we sold this season i.e BT cotton packets and how do they compare with last years and what is the strategy here in terms of growing, are we looking to grow in the BT cotton side, are we going to get into newer crops and if so what is the strategy out here because the Bioseed segment has been very capital intensive, but the returns have been subpar?

J.K. Jain: So, as we mentioned in our statement, Bioseed business first let me just mention about India did have challenges in the cotton side. Our volumes on cotton has gone down compared to last year significantly. Major reason was that because of the government's approval system we had not been able to launch new cotton seed as of now. Also the government had reduced the prices of cotton seed so that affected the margin for the period also. As far as other crops are concerned as we have been mentioning we do focus on cotton, corn, paddy and vegetable; however, cotton is a predominant segment, cotton used to contribute about 60% of the Indian turnover. So, any adverse effect on that does have a major effect on the overall business. But corn and paddy have registered decent growth in this quarter both on volumes as well on margins. We continue to develop new products and as and when the approval is processed for cotton we will launch which will have a gestation period of product acceptance, but I think cotton is dependent on the government approval and regulatory system. So, there could be periods of challenges going forward further on cotton but we are growing the other crop. Now internationally we again mentioned in the statement in Philippines we have started registering growth but in Vietnam and Indonesia we are still trying to establish products, it may take some more time to get into their place.

Moderator: The next question is from the line of Naitik Mody from OHM Group. Please go ahead.

Naitik Mody: Sir could you give us some sense on the pricing outlook for caustic soda?

Ajay Shriram: I think prices has been moving a little up and down from August this year. The prices became a little more positive. I think what the good thing is that over the last year or so, the chlorine prices have become positive which were earlier running at very high negative so I think that is a good sign that is a good direction. So, getting the ECU that way is becoming much more stable compared to the past and with a growth we still expect the prices to remain in the same range as we are, maybe marginally up, going down the line.

Naitik Mody: On your presentation on slide number 18 regarding the chemical financial and operational number see if I calculate the revenue divided by sales in tons the realization works out about Rs. 38,000 but you mentioned 33 so is there a mistake that I am making somewhere?

J.K. Jain: There is no mistake see this business apart from the ECU has other products like caustic flakes FBC, etc.

Ajay Shriram: And hydrogen is also a very large part of the business sales.

Moderator: We take the next question from the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.

Abhishek Roy: I just need to understand your cost of production for sugar, distillery and power business?

J.K. Jain: Cost of production for sugar we mentioned is about 3,550 to 3,575 and for power and distillery what I can tell you is that the EBITDA model is about 50% 55%.

Abhishek Roy: And for the power business?

J.K. Jain: This is what I said for power and distillery the EBITDA margin is about 50%, 55%.

Abhishek Roy: My next question is with your sugar production now recently I read an article where the outlook for the sugar production is kept at around 32 million tonnes. Now, what do you think like if this thing goes and the government increases the export quota for sugar, do you think the companies will go for producing more ethanol from B grade molasses or they will be keeping at C level only.

Ajit Shriram: So, I think essentially the outlook is that sugar equivalent production will be 32 million tonnes out of which roughly half a million ton will go for your B grade molasses, so the actual sugar production which is forecasted for the coming years is 31.5 million tonnes.

Abhishek Roy: Sir but if I keep that 32 million tonnes also then my closing inventory expected to be in FY19 will be around 10 million tones.

Ajit Shriram: That's correct.

Abhishek Roy: So do you think the government will put more emphasis for producing B grade because that closing inventory is huge because that was never seen before?

Ajit Shriram: Using a B- Heavy molasses and cane juice is completely new and if you see the recent tender which happened which had been submitted, out of the total bids, 1% of the bids has been on cane juice, 15% has been on B-Heavy molasses and 75% has been on C-Heavy molasses and the balance has been from damaged food grains and all. So, there is a trend moving forward going to B-Heavy molasses and once I think there is stability in the technology and the use, this will go up going forward.

Abhishek Roy: So, sir can you just name the companies like who have submitted directly from sugar juice?

Ajit Shriram: No I do not have the list of companies as of now.

Abhishek Roy: And sir my last question as far as the distillery capacity you have mentioned for the full year you are producing 4.5 crore liters as of now, correct?

Ajit Shriram: That is correct.

Abhishek Roy: That means your distilleries are running for 300 days.

Ajit Shriram: Yes.

Abhishek Roy: So, when I studied few companies I have found that few of the companies they run for 360 days?

Ajit Shriram: Our endeavor is to increase the number of days of running. So, as our first target is to run for 330 days or 340 days and as mentioned earlier it has just been commissioned end of January 2018. So, there were some teething problems which have been addressed and going forward we will endeavor to run for higher number of days.

J.K. Jain: But do not presume it will keep running for 360 days at 150 KL, there will always be some capacity utilization.

Abhishek Roy: How many sugar mills in India have zero liquid discharge norms?

Ajit Shriram: I think the norms are been strengthened overtime and the sugar companies and individual independent distilleries where some have already met the norms and many are enhancing the capabilities to meet the norms. So, I dont have the number off-hand with me but there is a move towards meeting the more stringent norms going forward.

Abhishek Roy: And Sir in terms of sugar cane arrears what is the recent numbers?

Ajit Shriram: I think UP is about Rs. 6,000 crore and I think there is a move by the UP government to help facilitate the sugar mills to try and clear this by end of November or mid-December.

Abhishek Roy: How much you have in that Rs. 6,000 crore?

J.K. Jain: We have about Rs.250 crore, Rs.270 crore.

Moderator: The next follow up question from the line of Abhijeet Dey from BNB Paribas. Please go ahead.

Abhijeet Dey: Congratulations on a steady state of results. My question was related to the Chloro-alkali business, you said there was a shutdown in the Kota facility as well as one of the Chloro-alkali plants, so approximately what was the impact on the revenue line because of these shutdowns?

J.K. Jain: Revenue, I do not have, I think in terms of production we were down by about 9,000 to 10,000 tonnes and in terms of profits it was about Rs. 25-. 27 crore.

Abhijeet Dey: This is in terms of EBITDA you are saying or net profit?

J.K. Jain: In terms of EBITDA.

Abhijeet Dey: In terms of the additional capacity you said at Kota new capacity has been commissioned?

J.K. Jain: Yes.

Abhijeet Dey: And all the chlorine will be used where, in terms of making more PVC or how is it?

J.K. Jain: We have not increased PVC capacity right now, so this chlorine will be sold on merchant basis except that we are enhancing some bit of SBT capacity which may use 10% of the additional chlorine.

Moderator: The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Sir I wanted to ask about chlorine, so what were the average realizations last quarter and how are they spanning out right now?

J.K. Jain: I do not think we will be able to share that detail we do not have right now. We share only ECU number which we have given to you.

Rohit Nagraj: It is positive correctly right, you have been saying it from last couple of quarters that chlorine realizations has been positive because of which the rupee ECU have been better?

Ajay Shriram: Correct.

Rohit Nagraj: So, what would be your expectation in terms of steady state caustic soda prices once the European deadlines for a mercury cell technology expires by December 2018?

Ajay Shriram: I think a lot of plants are changing their plants from mercury to membrane as ongoing, but I think the capacity which is going out from mercury is fairly small compared to the overall world trade of caustic soda. So, I do not think impact is too much, I do not think in India it will have very much impact anyway.

Rohit Nagraj: In terms of caustic soda prices, we have seen there is a lot of fluctuation during the year and last year what would be the steady state prices that we are looking at given the increase in input cost?

Ajay Shriram: I do not want to mention that. Frankly, I do not think for any commodity can one give a steady state price because commodities move up and down based on supply demand, based on world supply demand, based on the value of the rupee, based on imports at a particular time. Sometimes the plants had a particular shutdown, there is a spurt in prices for a short period of time. So, I think as we said August onwards the price should have gone up, we think that is a little stable situation compared to the past. To expect the prices to be stable little up and down is a given in any commodity business so it is very difficult to give a price.

J.K. Jain: There is no steady state in commodity.

Rohit Nagraj: Sir on the Chloro-vinyl business you said that there have been pressure due to PVC prices which have remained stable despite increase in the input cost pressure, what would be the reason for the same I mean is there any demand which is getting affected because if the prices may increase or so?

K K Kaul: Globally, the PVC prices are relatively firm. It is generally because of the consumptions in China and consumption in other countries and there has been no new capacity which has come up in PVC so there is a growth in consumption, but there are hardly any new capacities that has been added in this period.

Rohit Nagraj: I mean has there has been pressure for our margins domestically? Is it because we are not able to pass on the increase to the customers?

K K Kaul: As we have said there have been cost push in terms of carbon concentrate because we are based on carbide route, so carbon material is a very important cost for us because of the price push on those carbon so our margins have reduced.

J.K. Jain: Also along with that the coal price increase and the chlorine price increase, chlorine helps us in caustic and the chemicals, but in PVC it does mean additional cost so it brings down the margin of that business.

Moderator: We will take the next question from the line of Yash Individual Investor. Please go ahead.

Yash Agarwal: My question to you is for overall sugar sector basically for your company basically now this year has been a landmark year where new ethanol policy has been announced which brings a lot of structural changes fundamentally to the industry,so what is your vision for sugar industry for you ,sugar sector for long-term basically?

Ajit Shriram: So, our idea is to actually have an integrated sugar complex or sugar business where we optimize on all three products which is the sugar, power and ethanol. So, in line with this we are expanding our power capacity by 30 megawatts in Hariawan and also we are commissioning or we are setting up a new 200 KLD distillery in one of our factories. So, by Q3 next year our total distillery capacity would be 350 KLD.

Yash Agarwal: If you look at this capacity this may be just sufficient for you to utilize your own molasses basically, I believe. Still you were short on ethanol capacity if I am correct?

Ajit Shriram: We will have excess ethanol capacity and we will either make it from B-Heavy and use the additional capacity which is there in the ethanol plant or we will buy the raw material from the other plants or other factories.

Yash Agarwal: So, how much would be additional capacity and now you are short in ethanol capacity as of now?

Ajit Shriram: Currently, we are short, we are selling in the open market.

Yash Agarwal: After this 200 KLD how much would be the surplus capacities?

J.K. Jain: No we will be 350 kiloliter per day. After this 350 we will need about 300 to use the captive molasses, this 50 KLD we have got from sugar or from bought out molasses.

Yash Agarwal: Considering whatever new capacities are coming in we may be just touching the targeted 10% target of ethanol mixing basically, don't you see a great opportunity here to set up a standalone ethanol capacity and see this as a new opportunity more aggressively?

Ajay Shriram: I will put it this way that is the reason why we are putting up a 200 kiloliter per day additional plant. Our new plant is going to be commissioned by November '19.

Yash Agarwal: Right sir that is having very little extra capacity for you basically. My question is to understand you are one of the oldest players in the industry and having one of the strongest balance sheets also and being from manufacturing background for ages, so do you see as a management golden opportunity for the industry to be primarily in ethanol player and have a large capacity?

Ajay Shriram: I think we are nicely balanced out between having a large capacity for ethanol and your source of molasses or B-Heavy molasses or juice. I think that has to still stabilize, how that is going to work out, but even we are in fact as a policy which we mentioned at the beginning, our philosophy is, we keep growing in every business we are in. Now we are putting up a 200 KL plant right now, that commissiones in November next year. Lets see how things stand, next year we might take a decision to go further up after that. So, we consistently as a policy keep growing in every business including ethanol.

Moderator: Thank you. Well, ladies and gentlemen, that seems to be the last question for today. I would now like to hand the conference over to the management for their closing comments.

Ajay Shriram: Ladies and gentlemen thank you very much for your participation in our Q2 and H1 FY19 Earning Conference Call. We are focused to keep strengthening our competitiveness and achieving volume growth across our businesses. Simultaneously, we are taking initiatives to improve our earning profile by developing multiple revenue stream to forward integration wherever possible. We believe these efforts will deliver sustained growth and healthy performance going forward. We are also committed to maintain a healthy balance sheet. Once again thank you very much for joining us today on this Earnings Conference Call and wish all of you a very Happy Diwali. Thank you.

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