DCM Shriram Limited

Q4 & FY14 – Earnings conference call Transcript
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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 the conference, please signal an operator by pressing * then 0 on your touchtone telephone. 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 sir.

Ishan Selarka: Thank you Inba. Good afternoon and thank you for joining us on DCM Shriram Limited's Q4 & FY14 earnings conference call. Today we have with us Mr. Ajay Shriram – Chairman & Senior Managing Director, Mr. Vikram Shriram, Vice Chairman & Managing Director, Mr. Ajit Shriram – Joint Managing Director and Mr. J. K. Jain – Executive Director & 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 ended March 31st 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 Q4 & Financial Year Ending '14 Earnings Conference Call. I will take this opportunity to share with you our perspectives on various developments related to our businesses, following which Vikram will take you through the financial highlights of the Company for the quarter and year ended 31st March 2014.

We are glad to report a healthy overall performance in Q4 and financial year 14 and a healthy balance sheet. While Chloro-Vinyl businesses continue to perform well, Sugar has seen improvement in prices towards the end of Q4 and the outlook is positive. Fenesta business has recorded a sharp improvement over the last year. Cement and Bioseeds international businesses on the other hand have suffered due to various factors during the year..

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

The Chloro-Vinyl business continued to deliver sustained performance. The inherent margins and competitiveness continued to improve with sustained measures to contain rising input costs. Realizations of Chloro-Vinyl products are firm. We commissioned one more electrolyzer in December 2013 at our Bharuch facility, which has helped in improving the cost efficiencies of the complex. We continue to focus on improving operational efficiencies. The business, however, is experiencing increase in costs of coal, carbon material and salts and is also sensitive to currency appreciation.

In the Farm Solutions business, it is our enduring focus to strengthen the value-added inputs segments. During the quarter, revenues and earnings from the value-added inputs were up 38% and 46%; however, earnings from bulk fertilizer business were under pressure due to adverse demand and supply situations leading to lower margins and delay in subsidy payments leading to higher working capital. We hope the situation improves going forward given the criticality of timely availability of fertilizers. We continue to focus on expanding the product portfolio and geographical spreads which would help us in continued growth in revenues, though adverse climate could create some pressures in the business.

The Bioseed business in India is making good progress. Our cotton-seed hybrids Yuva and Bindaas launched in South and Central India had been well received and are expected to do well in the current year. Products launched in the last 2 years in corn and vegetables are entering a sustained growth phase. Our research expenses in this business will see some jump in the coming years as we will work towards taking the new technology to a commercialization stage. As mentioned in the previous con-call also, in Bioseeds international business, we had to undertake one time major overhaul of our inventory and sales policy in order to ensure that the business progresses in a healthy manner and we are able to deliver value to our customers i.e. the farmers. We had to clear the sales channel of all old inventories, upgrade our quality standards, revise our sales policies, remove all old inventories that had accumulated and write-off some of the debts from parties with whom we have stopped working. We believe these steps will lead to strengthening of our businesses in these territories going forward.

The Urea business continued to suffer due to uncompensated cost increases and high level of subsidy outstanding. The government took some steps through special loans with interest subvention for part of the subsidy outstanding and an increase in reimbursement of conversion cost by Rs. 500 per tonne with effect from 1st April 2014. While these are positive steps, it is only part mitigation of the problems being experienced by the industry.

The Sugar business ended the crushing season for the year 2013-2014. We crushed 321 lakh quintals of cane against 412 lakh quintals in the last season and achieved a recovery of 9.91% against 9.3% in the last season. The improved recovery enabled us to achieve significant reduction in cost of production. Sugar prices, which were un-remunerative throughout the year, started looking up from March 14 onwards. The prices are still below the level required to make profits, but at least now they cover the cash cost of production. The industry needs rational cane pricing system and support from the government in terms of export incentives and increase in customs duty so that the prices reach a level which is fair to all stakeholders and we do not have cane outstanding to farmers going forward.

In Fenesta Building Systems, our focus on the retail segment and reconfiguring operations has helped in achieving a PBDIT breakeven. We are taking further steps to reconfigure our sales channel, sales policy and order fulfillment capabilities to achieve substantial growth in the retail segment and also improve the margins.

The Cement business was under pressure in the second and third quarters driven by low realizations and high input costs. Realizations have firmed up in the last quarter, which has helped in better performance in the fourth quarter.

The Company's policy to conserve the healthy cash flow generation has enabled us to reduce debt and strengthen the financial position. We believe we have achieved a strong balance sheet and plan to consolidate the same at these levels.

I am also happy to inform you that the joint venture with Axiall Corporation, USA for our polymer compounding business has successfully operationalized in April 2014 with Axiall investing Rs. 34.65 crore to acquire 50% stake in Shriram Vinyl Polytech Private Limited. This arrangement will enable the polytech business to access from Axiall the latest technology, launch latest generation polymer compounds and offer more cost effective polymer solutions for different applications to the Indian consumers.

I will now 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 Q4 and FY14.

Total revenues for the quarter were higher by 4% at Rs. 1,479 crore compared to Rs. 1,427 crore. PBIT stood at Rs. 128 crore compared to Rs. 123 crore in Q4 FY13. Finance cost at Rs. 28 crore, was 23% lower than last year. Net profit stood at Rs. 83 crore compared to Rs. 82 crore in the corresponding quarter last year. For the year, revenues were higher by 12% at Rs. 6,182 crore driven by growth in Shriram Farm Solutions and Sugar businesses. PBIT stood at Rs. 421 crore vis-à-vis Rs. 427 crore last year. Net profit post exceptional items improved by 19% to Rs. 242 crore.

Let us now take you through our business wise performance.

Chloro-Vinyl business revenues in Q4 stood at Rs. 319 crore and PBIT at Rs. 98 crore. Both the Chlor-Alkali and PVC recorded price increases of 12% and 19% respectively during the quarter. PVC, however, recorded lower volumes due to a maintenance shutdown. The Chlor-Vinyl business also faced cost pressures during the quarter. These factors restricted its profit to almost same level as Q4 last year. For the year, revenues at Rs. 1,221 crore were up 5% over last year and PBIT was higher by 9% at Rs. 374 crore.

The revenues from Fertilizer business were 15% up for the quarter at Rs. 167 crore and 19% up for the year at Rs. 625 crore. This was primarily due to higher realizations driven by higher input costs, which are pass-through. PBIT for the year stood at Rs. 23 crore vis-à-vis Rs. 11 crore last year as last year we had a scheduled maintenance shutdown of the plant for about 3 weeks. The high subsidy outstanding has led to higher capital employed and borrowing costs for this business.

Shriram Farm Solutions business revenues during Q4 were Rs. 313 crore versus Rs. 305 crore last year. However, during the year, revenues grew by 37% to Rs. 1,779 crore. The revenues of value-added inputs grew by 38% during the year and its earnings grew by 46%.

Revenues from the Bioseed business during the quarter stood at Rs. 70 crore versus Rs. 111 crore in the same period last year and PBIT at negative Rs. 29 crore versus positive Rs. 17 crore. For the year, revenues stood at Rs. 458 crore versus Rs. 441 crore last year and PBIT at Rs. 4 crore versus Rs. 52 crore. This swing in PBIT was the result of sales returns in Philippines and Vietnam in Q1 and Q2 as well as one time write-downs during Q4 in Vietnam. The Indian business registered 38% growth in turnover and 25% increase in profits for the year. We expect the Indian business to register good growth in coming years. The international business will also get back to normal levels after these one-time corrections.

Sugar business revenues in Q4 were higher by 21% at Rs. 446 crore and 12% for the year at Rs. 1,500 crore driven by higher volumes. PBIT for Q4 stood at Rs. 50 crore vis-à-vis Rs. 12 crore. Earnings from co-gen power, molasses sales, and better recovery along with firming up of Sugar prices led to improved performance in Q4 compared to Q3. Q4 FY13 had inventory losses of Rs. 63 crore due to Sugar prices being below cost. PBIT for the year stood at negative Rs. 5 crore compared to profit of Rs. 64.5 crore last year.

Revenues and PBIT in the Cement business stood at Rs. 41 crore and Rs. 3 crore respectively. For the year, revenues stood at Rs. 131 crore. The selling prices were down by 10% over last year and input costs were higher, resulting in negative earnings of Rs. 33 lakhs vis-à-vis positive of Rs. 17 crore last year.

Revenue under the ‘Others’ segment in Q4 stood at Rs. 72 crore and PBIT at negative Rs. 8 crore. For the year, revenue from ‘Others’ stood at Rs. 301 crore and loss at Rs. 9 crore versus a loss of 33 crore last year. This improvement is contributed by Fenesta Building Systems, which achieved operating breakeven during the year.

The Company’s finance cost for the quarter at Rs. 28 crore, were lower by 23% over the last year driven by lower borrowings. Net debt stood at Rs. 683 crore as compared to Rs. 1,436 crore in March 2013. With strong financials and cash flows, the Company during the year announced buyback of its equity shares for an aggregate amount not exceeding Rs. 135 crore at a price not exceeding Rs. 90 per equity share of face value of Rs. 2 per share. Till date, the Company has bought back shares equivalent to 2.1% of its paid up capital at a cost of Rs. 30 crore.

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. Our first question is from Nitin Gosar of Religare Invesco.

Nitin Gosar: What is the revenue breakup for Bioseeds between domestic and international market? How is the revenue profile and what is the growth you have reported for FY14 for the same?

J. K. Jain: In a normal year, international business is about 25% of the total turnover and domestic business is 75%. Last year for the reasons that were explained earlier, the international business had lower sales. So, last year, revenue contribution from international business stood at about 10%.

Nitin Gosar: How has the domestic business grown?

J. K. Jain: Domestic grew by about 38%.

Nitin Gosar: Could you give a seed-wise break-up in terms of contribution to the domestic business?

J. K. Jain: In our domestic business, we concentrate on cotton, corn, paddy, and vegetable. Cotton constitutes about 60% of the total domestic turnover and corn will be about 20%-25%. The balance is paddy and vegetable.

Nitin Gosar: Which crop would you be focusing on when stepping up the R&D expenditure?

J. K. Jain: Essentially, it will be on paddy.

Nitin Gosar: With respect to technology, would it be built in-house or is the Company looking to outsource?

J. K. Jain: The Company is building up in-house technology. The Company also has alliances with some companies which gives it access to those technologies. But one has to keep in mind that these are more like 4-5 years projects and will not result in to benefits in a shorter term.

Nitin Gosar: In terms of cotton, how is the Company placed with paddy coming into picture, going forward? Does the Company have tie-ups or does it have a potential where it can have a proper tie-ups with the technology partner and can start marketing of the product from day one?

J. K. Jain: As far as cotton is concerned, most of the companies in India are accessing Monsanto technology including us. So whatever technology they come out with, we will have access to that. We actually have tie-up with Monsanto even for our international business for corn, and therefore whatever technology they come out for corn that also will be available to us.

Nitin Gosar: What are the margins in the domestic and international Bioseeds business?

J. K. Jain: Currently, domestic EBIDTA margin would be anywhere between 12-to 13%. As mentioned earlier, International was negative for the last year. Otherwise, International also gives a similar kind of margin.

Nitin Gosar: Is there a potential of increasing the EBIDTA level from the current level to an 18% or 20%, if there is an increase in revenue?

J. K. Jain: The Company spends about 10% of its revenue on research and believe that this spending will continue for some time. Therefore, we do not expect margins to reach about 18% or so. However, as the volumes build up, we expect margins to inch up to 14-15%

Nitin Gosar: What would be the growth in the cotton business y-o-y?

J. K. Jain: Last season, our cotton business grew strongly increasing by 65% from about Rs 19 lakh packets to 31 lakh. We expect about 25% growth in this season .

Nitin Gosar: Being predominantly a North player, is the Company moving out towards Central and Southern part of India?

J. K. Jain: Yes, the bulk of sale from the last year has come from the North. However, we are making inroads in Central and South also.

Moderator: Our next question is from Dheeresh Pathak of Goldman Sachs.

Dheeresh Pathak: What is the revenue mix between value-added products and bulk fertilizers of Farm solutions? What is their margin profile?

J. K. Jain: Value-added is about Rs. 650 crore out of the total turnover of Rs 1,780 crore or so. The margins in the value-added business is anywhere between 8 to10%. Bulk has a margin of 1-to 2%.

Dheeresh Pathak: What comprises bulk fertilisers and value-added?

J. K. Jain: DAP, MOP and SSP are part of the bulk fertilizers. Value-added includes hybrid seeds, crop care chemicals, growth nutrients, soluble fertilizers and the varietal seeds for some of the crops.

Dheeresh Pathak: Are the Hybrid seeds and varietal seeds in this segment trading related?

J. K. Jain: Yes. The varietal seed is what Farm Solutions develops through its own research and production. The hybrid seeds, it buys from Bioseed as well as from others.

Dheeresh Pathak: What would be a rough mix between varietal hybrid seeds, crop care, water soluble fertilizer out of this Rs 650 crore?

J. K. Jain: Crop care will be roughly about 25-30%, hybrid seeds should also be about 20% odd and balance includes other varietal seeds, growth nutrients and soluble fertilizer.

Dheeresh Pathak: Bulk of these hybrid seeds are in which crops?

J. K. Jain: Cotton and corn.

Dheeresh Pathak: You mentioned earlier that you have a technology tie-up with Monsanto even in the international business. Hypothetically speaking, let us say if India approves GM Corn at some point. There are multiple MNCs that can provide this technology apart from Monsanto. So would you still partner with Monsanto for corn in India because you work with them? On the other hand, are there other companies who have better technology for corn in India?

J. K. Jain: We do not have a tie-up with any of them so far for India. As far as our relationship is concerned, we are good with everybody. We would open the dialogue with a company depending on the access it has along with a good technology. That said, we believe GM Corn in India is a still a far-fetched thought and is not expected to happen in near future.

Dheeresh Pathak: When you were evaluating a partner for the international business, did 'Monsanto' come up as the best in terms of technology?

J. K. Jain: Yes. Currently only Philippines has 'GM' and only Monsanto technology was approved and hence we tied up with Monsanto. In addition, only Monsanto's technology is under approval for Vietnam and Indonesia.

Moderator: Our next question is from Chetan Thacker of Emkay Global..

Chetan Thacker: What was the extent of write-off that the Company took in Q4 FY14 on the international piece for seeds?

J. K. Jain: About Rs 19 crore.

Chetan Thacker: What led to losses in international business?

J. K. Jain: Lower volume as well as returns from previous year sales, which were reported in the first and second quarter.

Chetan Thacker: Is the lower revenue largely (particularly in Q4FY14) due to the rejig the Company had done in the portfolio?

J. K. Jain: We have revised our sales policy because of these one-time issues. We are now placing the material with the trades closer to the start of the season. As a result, the volumes were low in the fourth quarter.

Chetan Thacker: With respect to HKB, what is the amount monetized and profit booked from land sales?

J. K. Jain: We have realized roughly about Rs. 25 crore. In Q4 FY14, there was a profit of about Rs. 6 crore from sale of 8 properties.

Chetan Thacker: What is the year-end inventory of sugar business and at what price is it valued at?

J. K. Jain: We have an inventory of 16 lakh quintals valued at Rs. 3,118 per quintal.

Chetan Thacker: Has the Company liquidated higher inventory in Q4.

J. K. Jain: Yes. We sold more during the Q4FY14.

Chetan Thacker: How has the average coal cost moved in this year compared to last year?

J. K. Jain: The Company's coal cost went up marginally by around 5-7% this year compared to last year. While international coal prices were down, the domestic went up by about 5-6%. For one of our factories at Bharuch, we import coal and other factory at Kota buys coal from Coal India. So, the coal cost for Kota went up by about 5 to 7% and the international one came down by that much.

Chetan Thacker: What would be the mix of imported and domestic coal?

J. K. Jain: 133 MW is pure domestic coal based and 55 MW is on imported coal.

Moderator: Our next question is from Prateek Poddar of ICICI Prudential.

Prateek Poddar: Could you throw some color on the current sugar situation? Could you also touch upon the current situation of the cane arrears?

Ajit Shriram: As far as the cane acreage is concerned, it is a bit early to give a complete indication as the planting is still going on. Unlike the previous years, the onset of summer this year has been delayed. So planting has been very rigorous in the month of April as well. Even in early May, the planting is going on. We do not have the final planting figures as yet. I think we will have a better picture in the next month or month and a half with respect to acreage. Even on an all-India basis. I think we will be having a station meeting in a fortnight's time and we will be getting feedback from the other regional associations by then.

Prateek Poddar: Would an El Nino kind of situation have an impact on the area this time?

Ajit Shriram: Our understanding is that the El Nino effect would have an adverse impact probably in the western part of India and would not really affect Uttar Pradesh.

Prateek Poddar: Is there a possibility of the acreage not going down, as the reservoir water levels are very good?

Ajit Shriram: That is right.

Prateek Poddar: Are there expectations of the sugar cycle turning?

Ajit Shriram: In this sugar year, about 1.6 million tonnes of sugar has been exported so far and we hope that 0.2 million tonnes is to be further exported. We had a 9.5 million tonnes opening stock, which will come down by about 2 million tonnes. So if we have a 7-7.5 million tonnes opening stock and our production levels will be at par with consumption, it will be a good direction in terms of the stock levels coming down.

Prateek Poddar: Do you expect the yield to get impacted in the next sugarcane year because of the drought kind of situation and El Nino?

Ajit Shriram: In the previous year, the yields were impacted adversely because of prolonged monsoons and were down by as high as 20% in different regions. It is very early to say anything for the next year. However, in El Nino year, the yields do not come down normally.

Prateek Poddar: The margins at the Farm Solutions business in Q4 FY14 have increased significantly. Is the increase because the Company had taken some inventory correction in Q4 FY13?

J. K. Jain: No, we did not take any inventory correction in Farm Solutions. In Q4 13, we were not able do any cotton-seed sales because the Company did not get approval from the State Governments. In this year, we have sold about 4 lakhs packets.

Prateek Poddar: What is included in Bioseeds and Farm Solutions?

J. K. Jain: Bioseed includes all seeds based on its own research and production. Farm Solutions includes seeds, which it buys from Bioseed as well as from other players. Besides that, Farm Solutions also includes other agri inputs like crop care chemicals, growth nutrients, research tubes, etc.

Prateek Poddar: What would be the growth plans for the next 3 years given that the Company has a robust balance sheet and would be generating a lot of cash flow. Will you invest the cash flows for the growth or would you continue with liberal dividend payout policy or buy-back?

Ajay Shriram: In the last few years, we had been a little conservative, which has led the Company to a healthy position. The operational focus of the Company is very strong. One area, where the Company would continue to invest is in improving the efficiencies and reducing the cost of production for the existing businesses as well as in areas where there is a need for quality improvement or market penetration. In these areas, we will be continuously looking at CAPEX. As a group, the Company is looking at certain businesses where the investment opportunities are good. However, nothing has been finalized yet. We expect to grow in some businesses like ‘Fenesta’ or ‘Bioseed’ as these are not very CAPEX intensive. There are lot of other activities which leads to the growth of that business In Farm Solutions, we are looking at growing in any case. So we have not firmed up any CAPEX plans over the next few years except the Rs. 80-Rs 100 crore CAPEX towards upgradation of technology and maintenance of our plants.

Prateek Poddar: Could you provide a number for this plan?

Ajay Shriram: It will be difficult to do that right now because we are in the process of discussing where all to look at and what to do.

Prateek Poddar: In a situation where the Company’s growth plan are deferred for a year, what would be done with the Cash? Will it be paid for clearing the Company’s debt to make it debt free?

Ajay Shriram: That is the decision we will take going forward. As I mentioned we are looking at investing our money in the most productive manner.

Prateek Poddar: Could you give some information with regards to the JV with Axiall?

Ajay Shriram: Axiall is one of the largest manufacturers of PVC compounds with a very strong base on research, applied research, production processes and technique in terms of how to provide new innovative solutions for customer needs. So with this objective, we got into this 50-50 JV with Axiall and the JV has started functioning. We are expecting technologies, know-how and market approach strategies from them. It is still new, but the dialogue of the plan is moving forward well and our people are going to go there, their people will come here. It is a regular JV where I think both the partners are looking at becoming a larger player in the Indian market space and continue to grow our businesses in this area.

Prateek Poddar: Could you talk about the size of opportunity for these PVC compounds? I am assuming these are specialized compounds and not commodity compounds.

Ajay Shriram: To be honest the potential for rigid compounds or flexible compounds or fire retardant compounds etc., is very high. I will not be able to give a figure right now, but I can definitely say that we are now hopeful that the consumption of these compounds will definitely go up with India coming back to a more stable and a growing GDP growth rate. For a country like India, our per capita PVC consumption as PVC and value-added PVC compounds is just about 1.4 kg whereas in China it is almost 9 kg and America is I think almost30 kg. The potential in India is very large and I think we are well placed to capitalize on a growing market.

Prateek Poddar: Now that you have established that the size of opportunities is large, is there a possibility of Axiall setting up their own facilities?

Ajay Shriram: We have an agreement on jointly catering the Indian market and should there be a need expand with another plant, we will jointly put that up.

Prateek Poddar: Is this JV also looking at CPVC compounds?

Ajay Shriram: CPVC Compounds is another area that we are looking at. Axiall already does it, they have the knowhow, the technology and they are players in that field.

Prateek Poddar: How many Hariyali Kisaan Bazaar properties did we sell?

J. K. Jain: Out of 98 properties, we have sold 13 properties during last year. **Prateek Poddar:** How much does the Company plan to sell?We want to sell all of them at the earliest. It will take couple of years for selling of all these properties.

Moderator: Thank you. Our next question is from Prasad Tiwari of Athena Investments. Please go ahead.

Prasad Tiwari: What is the capital employed in the Sugar Business?

J. K. Jain: The capital employed in the Sugar business would be about Rs. 550 crore as on 31st March 14 **Prasad Tiwari:** What is the co-gen power capacity? Could you share details on the number of units produced and the total export quantity?

J. K. Jain: Approximately 14 crore units was exported at an average realization of Rs. 4.2-4.3 per unit generating revenues of about Rs 65 crore.

Prasad Tiwari: Do you sell all the molasses or do you convert any of it intoto the spirit or something?

Ajit Shriram: We sell all the molasses.

Prasad Tiwari: Currently all of the other sugar companies have large inventories of sugar as they carrying this inventory from last year while some of the companies are even carrying it from 2012. Are you worried about this situation? Would this inventory come in the market and depress the sugar prices?

Ajit Shriram: I do not think anybody is carrying sugar at this point of time from the previous year.

Prasad Tiwari: Will the sugar prices that you sold mimic the NCDEX Muzaffarnagar or Delhi prices?**J. K. Jain:** I think it will be Kanpur or Lucknow.

Prasad Tiwari: Generally, is it lower or higher than those prices?

J. K. Jain: Yes, it will be lower than Delhi prices.

Prasad Tiwari: What is the reason for the recovery going higher from 9.3% to 9.9%?

Ajit Shriram: Essentially, there are two or three reasons for the recovery going up. One is the plants have worked well on improving the varieties of cane that we have. So, we move towards higher sucrose varieties. Secondly, there was a delayed start in the crushing season last year and that has partially helped in improving the recoveries. Lastly, there has been good operational management inside the factories.

Prasad Tiwari: How does a delayed start lead to higher recovery?

Ajit Shriram: Because of delayed start, you generally have slightly more mature cane and you are not crushing under mature cane in the early part of the season.

Moderator: Our next question is from Amol Kotak of ASK Investment Managers

Amol Kotak: What would drive growth of 25% in cotton-seed business?

J. K. Jain: We are not expecting the total market growing by 25%. We expect our quantities to go up by 25%. The Company is relatively a smaller player currently in the cotton-seed market. While we have significant presence in North India and are the leader, we hardly have any presence in Central and South. We had launched two new products in Central and South. One product was launched 2 years ago while the other was launched only last year. However, I am pleased to say that both these products are getting good response from the farmers. This is where we look forward to building the volumes in this particular year.

Amol Kotak: Can you break-up your cotton-seed sales between Northern and Central South market?

J. K. Jain: Out of 31 lakh packets, 22 lakh were sold in North and 9 lakh were sold in Central and South.

Amol Kotak: What is your expectation on overall acreage?

J. K. Jain: Market anticipates acreage to grow by 3-5%.

Amol Kotak: What is the outlook on corn seeds business for the Company?

J. K. Jain: The Company is expecting to grow by about 15 to 20% in corn and paddy.

Moderator: Our next question is from Rajesh Kothari of AlfAccurate Advisors.

Rajesh Kothari: In Farm Solutions, what would be the growth expected in the next 2 to 3 years? Within that, how do you see the breakup between the value-added products and bulk products?

Ajay Shriram: Given our focus across products, we expect our Farm Solutions business to grow between 15-20% over the medium term. The only uncertainty I would say is in the bulk fertilizer (DAP & MOP) business because that depends a lot on the international prices, stocks in India, the timing at what we can get, monsoons etc. Because this is a trading business, we will take a call year to year how we can move on that and how does it actually make business sense, because we will continue importing something to feed our distribution channel, but if you want to do more, we have to take a decision on that. However, on the value added part, we expect good growth going forward year-on-year.

Rajesh Kothari: How do you see the international business on the Bioseed side going forward from the current base level?

J. K. Jain: As mentioned earlier, the current base is not the right number as it was significantly depressed because of these one-time write-offs. The focus is to get back to normal operation, which we expect should take about 2 years. The other change that will happen in international operation is that both, Vietnam and Indonesia should have GM corn also in 2 years. This is expected to change the market dynamics and should provide significant growth going forward. We have tie-ups with Monsanto and hence we will have access to that technology which will enable us to launch the products within a year of accrual. That should help us in growing the international operations significantly.

Rajesh Kothari: Does 'within a year of approval', mean that we would be able to launch in FY16 or in FY15 itself?

J. K. Jain: We are expecting the approval in Vietnam in FY14-15 which means we should be able to launch in Vietnam in FY'15-16. Indonesia approval is expected in FY15-16 only. So, the launch can happen in FY16-17.

Rajesh Kothari: How big is the opportunity in Vietnam and Indonesia?

J. K. Jain: The present market size of Vietnam and Philippines is roughly similar i.e. about 15,000-17,000 tonnes. In terms of million dollar, Vietnam market will be about $60 million to $70 million. Since Philippines is a GM market it is about $150 million. This means that Vietnam in due course also has a potential to reach $140-$150 million size. Indonesia is a much bigger market and has the potential to further grow because hybridization is only 55%-60% there. Currently, Indonesia is about $140-$150 million market, which is on conventional hybrid seeds. Once they introduce GM, it should double to $250-$300 million kind of market in due course.

Rajesh Kothari: Will the combined market size opportunity of Vietnam and Indonesia together be at around $400-$500 million?

J. K. Jain: Vietnam, Indonesia, and Philippines all three put together could be larger at about $600 million or so. This is assuming the entire thing converting to GM, which is expected to take time.

Rajesh Kothari: Is Philippines already a GM market?

J. K. Jain: Philippines is already a GM market and that is why it is about $140-$150 million market.

Rajesh Kothari: Are we using Monsanto technology in Philippines?

J. K. Jain: We are already selling Monsanto technology in Philippines.

Rajesh Kothari: What is the Monsanto's market share in this business in Philippines?

J. K. Jain: I do not have the exact number, but it should be about 20-25% or so. Pioneer is bigger in Philippines with a market share of about 40-45%. i would like to highlight here that even Pioneer has access to Monsanto's technology.

Rajesh Kothari: Does the 20% market share include the sales by other parties?

J. K. Jain: No, this is what Monsanto is selling directly and we also get their technology and sell directly under our brand that is in addition to this 20%.

Rajesh Kothari: Putting all this together, what kind of opportunity do you see for your brand through Monsanto technology over third year? For example, once this market goes for GM in FY17 or FY18, do you expect an opportunity at a total size of $600 million? What kind of market share do we see?

J. K. Jain: Our internal initial target was to aim at anywhere between 10-15% share in next 3-4 years. It is only after achieving this target we would plan in moving forward from there.

Rajesh Kothari: Do you expect this business to give you margins similar to domestic business, which is around 12-13%?

J. K. Jain: Around 15%

Rajesh Kothari: As there are no approvals in FY15, how do see the Company at the interim period of FY15? Is the international business expected to grow as the base is already very low due to write-off?

J. K. Jain: The first objective of the Company is to get back to normal position like in FY13.

Rajesh Kothari: What was the international business revenue in FY13 & FY14?

J. K. Jain: About Rs. 140 crore in FY13 and Rs. 40 crore in FY14.

Rajesh Kothari: Do you expect the international business revenue to come to a normal level in FY15?

J. K. Jain: We expect international business to resume pre FY14 position in 2 years i.e. by FY16.

Rajesh Kothari: What are expectations of growth on the domestic business? Around 20-25%?

J. K. Jain: Correct.

Rajesh Kothari: What is the breakeven price for the Company on the Sugar side?

J. K. Jain: Breakeven price at PBT level, it should be at least Rs. 33.5- 34.

Rajesh Kothari: What is the PBIT for Q4 FY14 and FY14 for Fenesta?

J. K. Jain: For Fenesta, the Company has achieved PBDIT breakeven this year. However, the PBIT breakeven level is yet to be achieved.

Rajesh Kothari: What is your PBDIT or PBIT numbers?

J. K. Jain: Depreciation should be about Rs 5 to Rs 6 crore on an annualized basis.

Rajesh Kothari: How do you see this business going forward?

Vikram Shriram: We expect to achieve PBIT breakeven this year. There are significant investments in increasing the retail footprint and reach. We are also banking on the economy picking up, retail demand picking up and we are seeing some positive signs. The inherent strength is there. We have also increased the sales force significantly. So the expectation is the higher level of retail sales.

Rajesh Kothari: On your Chloro-Vinyl business, will there be any increase in capacity in FY15 in terms of the volume compared to FY14?

Ajay Shriram: Marginal. As I mentioned, we put one more electrolyzer. In this business, there is an option of either running the plant at a higher current density by which one gets a higher production or a lower current density by which one gets a lower cost of production. At a higher current density, the cost of production is higher. At a lower current density, the cost of production is lower. So we have taken a view that we have marginally increased our production level by about 25 tonnes a day for our Baruch facility in the new electrolyzer. That gives us the additional production of 25 tonnes a day, but it reduces our cost of production also very well. So, we are moving on the basis of reducing our costs.

Rajesh Kothari: Are there no plans to increase any significant capacity in this business in the next 1-2 years?

Ajay Shriram: As I mentioned little earlier, we are looking at expansion proposals put up by various plants across the board. I think the board will take a view of that down the line considering all the investments, the timing, the returns, the necessity, their focus and attention. Currently, it is difficult to say exactly where, what is going to happen, but as I mentioned earlier we are looking at ensuring that on the cost and quality side, of course that focus of investment goes in any case as well as on the growth side.

Moderator: Our next question is from Bharat Subramanian of Sundaram Mutual Fund.

Bharat Subramanian: In terms of the Sugar, what is the thought process in terms of putting further money behind distilleries at this point of time?

Ajit Shriram: We are focusing currently on improving our cane volumes and our cane quality. We would like the ethanol policy and the all India ethanol program to stabilize before we think of investing in setting up a distillery.

Bharat Subramanian: So even in Ethanol there has been some markup at this point of time?

Ajit Shriram: The ethanol offtake right now is about 3% as against mandated 5%. Also, I think some states have been allowed to blend up to 10%. The ethanol program has to take on fully on all India basis.

Bharat Subramanian: In terms of profitability of cotton-seeds being under pressure, which are the pressure points coming in terms of cost?

J. K. Jain: Cotton-seed prices are fixed by the government and there has been no increase in the prices in the last 2 years. The production cost is going up. The second issue is that most of the companies are sitting on high cotton-seed inventories. Therefore, there is competitive pressure to bring down prices and that is causing pressure on the overall margins of cotton-seed.

Bharat Subramanian: Typically, as the brand gets accepted towards the third or fourth year, can we assume that your selling cost or promo cost would go down? Secondly, when would the Company start scaling up in Central and South?

J. K. Jain: In terms of percentage to sales, you are right. However, I think we still at the stage of building up volumes. Currently we have very small volumes in Central and South. We expect to have heavy promotion expenses for next couple of years..

Bharat Subramanian: How has the distribution expanded, given that the Company is scaling up over the last 2 years?

J. K. Jain: It has increased in line with the business requirements. We were already selling corn seeds in those markets. Therefore, there was a distribution channel available, which was selling corn, but we have expanded that tremendously and continue to expand that in line with the demand for our cotton-seeds.

Moderator: Our next question is from Baidik Sarkar of Unifi Capital.

Baidik Sarkar: Is there a case building up for the Company to demerge its agri segment into a separate listed entity? Is the board considering any such line of thought?

Ajay Shriram: No, I think we keep looking at what the synergies are and which businesses and how do we get the maximum return for the buck in terms of management of our group activities. So we have not yet looked at demerging the agri businessor anything like that.

Abhijith Vara: Could you just give us an outlook on Chloro-Vinyl business?

Ajay Shriram: Frankly the Chloro-Vinyl business being a commodity, it is important to ensure that our cost of production is among the lowest across all manufacturers. Secondly, import duties are very low. So, if there is a strengthening of the rupee that will immediately bring the imported product prices down which will affect our realizations. Therefore, if the rupee stays around Rs. 60 like it is now, then we do expect that the realization should be stable and not go down. Hence, from that point of view we should see a stable position unless of course the rupee strengthens substantially which will have an impact.

In terms of Volume growth, we have increased our Baruch facility by about 25 tonnes a day. We rather work on reducing the cost of the total production of 445 tonnes a day rather than just having additional production of another 30-40 tonnes. However, here I would like to mention that the cost of production of the total 450-460 tonnes would go up. We are not looking at increasing production levels too much and are focusing on cost.

Moderator: Our next question is from Rohan Gupta of Emkay Global.

Rohan Gupta: With respect to capital allocation, you mentioned earlier that the Company is still looking for some opportunities in expanding in different areas. Which areas in terms of capital allocation and CAPEX terms would attract the maximum focus of the management?

Ajay Shriram: We have asked each of ours SBUs, heads, the Executive Directors or the Presidents of each of our business to look at the business and put up proposals of what they think is more feasible for that business from the three-four areas we have shared. We want to look at and are happy to look at every business because the need of each business is different. Our positioning on each business in the market place is different. For example, a consumer product like Fenesta has a different requirement whereas the commodity like caustic soda, PVC has a different requirement. Agriculture requirements, the input side is different. So we have not looked at saying we will do it only one, two, three. We keep looking at all our businesses to see how to continuously optimize each of our businesses to ensure we are competitive across the board.

Rohan Gupta: What kind of bulk fertiliser inventories do we hold and did we incur any losses in this segment in FY14?

J. K. Jain: We do not have any DAP, MOP inventory as on 31st March. In terms of losses, we did not have losses at PBDIT level, but there were subsidy arrears, which led to high interest cost.

Ajay Shriram: To give you a view, the outstanding dues to the industry because of subsidized pricing of fertilizers to the farmer, was almost Rs 35,000 crore. That is the major impact across the board and we are also hit by that.

Rohan Gupta: The Company has done close to 2% buyback after two months of its announcement. The current ruling stock price is still higher than the buyback amount prices. Is there any thought process for revising the buyback prices?

Ajay Shriram: As per the SEBI laws, we cannot revise it. There is a 6-month fixed period. The Company has so far has bought back 2.2% i.e approximately Rs 34 lakhs shares have been purchased back by the Company so far.. Currently, the share price is ranging beyond that the maximum price of Rs. 90. Therefore, we are waiting as we are not in a position to buy . However, if the price comes down, we will get into the market again.

Moderator: Ladies and gentlemen due to time constraints that was our last question. I now hand the floor back to the management for closing comments.

Ajay Shriram: Ladies and gentlemen thank you very much for attending our Q4 & FY14 earnings conference call. As mentioned during the call, we expect the Company to deliver healthy performance going forward driven by improvement in our Bioseed and Sugar businesses. Our manufacturing businesses will continue to strive for improving their cost efficiencies and use innovative methods to contain the impact of rising input costs. The Farm Solutions business will build on its product portfolio and its sales network to grow further. Fenesta business is taking additional measures to enlarge its retail footprint and we expect it to grow well. Thank you once again for participating in DCM Shriram's results discussion. Thank you.

Moderator: Thank you 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.
