DCM Shriram Ltd.

Q4 & FY17 Earnings Conference Call Transcript

May 03, 2017

Moderator: Ladies and gentlemen, good day and welcome to DCM Shriram Limited Q4 FY17 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 we need assistance during the conference call, please signal an operator by pressing "*" then "0" on a touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to your, Mr. Rangnekar.

Siddharth Rangnekar: Good evening and thank you for joining us on DCM Shriram Limited's Q4 and FY17 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 – CFO of the company.

We will commence today's call with comments 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 during the call could be forward-looking in nature, and a note to that effect has been included in the conference call invite which has been circulated earlier.

I would now like to invite Mr. Ajay Shriram to share his thoughts on the Company's performance for the quarter and the year ended March 31st, 2017, and the business outlook for this coming year. Over to you, sir.

Ajay Shriram: Thank you. Good evening ladies and gentlemen, and a very warm welcome to DCM Shriram Ltd.'s Q4 and FY 17 earnings conference call. I will take this opportunity to share with you key business developments and outlook of our Businesses going forward, following which Vikram will take you through the financial highlights of the Company.

The Company has recorded a satisfactory performance in Q4 as well as FY 2017. Most of our businesses have performed better than last year. The Company completed capacity expansion projects for Chlor-Alkali (incl. captive power) at Bharuch & Power Cogeneration at Sugar business at total investments of ~Rs. 700 crores in Q3 FY 17. These plants have stabilised and have started contributing to the earnings of the Company. We will have the benefits of these projects for the full year in FY18.

Simultaneously, discontinuation of DAP/MOP trading business and better payment situation of fertilizer subsidy led to reducing our overall debt levels over last year. Our balance sheet and cash generation is very comfortable which enables us to look at further growth initiatives.

As informed earlier, we are presently implementing projects involving Chlor-Alkali capacity expansion at Kota, setting up a 150 KLD distillery at our sugar factory and expanding fabrication capacity at Fenesta. These projects involve investments of about Rs. 300 crores. and will be completed fully by the end of FY18 and will further contribute to the earnings next year.

Let me now take you through the business wise developments:

Chloro-Vinyl

Chemicals: Post completion of the expansion and technology upgradation project our total capacity now stands at 1,343 TPD, with Bharuch unit at 1,013 TPD on latest technology. The capacity utilization in Bharuch stood at ~77% in Q4 FY17 and will improve with improvement in demand of Chlorine. Selling prices of Caustic soda are firm in line with international prices however low prices of Chlorine and currency appreciation are impacting the overall price realization. We expect improvements in this situation over the next few months as the excess Chlorine gets absorbed in the market. The investments in technology and increase in scale has improved our cost competitiveness.

The expansion project at Kota unit, wherein we are expanding liquid as well as flaking capacity is progressing well, it will come online by Q4 FY18 and will further enhance our competitiveness. The coal prices have started rising over last few months which is creating – some margin pressure for this business.

Plastics: The prices of PVC as well as Carbide are stable. Currency appreciation is creating some pressure on domestic prices. The increasing coal/carbon costs and pressure on prices will be a challenge going forward. We are reviewing steps to further enhance our cost competitiveness to protect our margins.

Sugar

During the current Sugar season the business has recorded about ~47% increase in Sugar cane crush. The Sugar recovery stood at 11.1 % in line with last year. The sugar prices also recorded improvements over last year. Higher cane crush as well as increased power co-gen capacity has led to

62% higher power sales during the year. All these factors have contributed to a satisfactory performance of sugar business during the year.

The cane planting in our area has recorded almost 12-13% growth over last year. With reasonable weather conditions, it should enable us to achieve satisfactory growth in volumes next year also.

The domestic sugar production in the current season is expected to be lower than demand. This would enable the industry to reduce the excess stocks it has been carrying over last few years and stabilize prices. We also expect the central and state governments to continue a policy environment which is good for the farmer as well as the industry.

The 150 KLD Distillery project, to produce ethanol at our Hariawan sugar unit, is progressing as per plan and is expected to be completed in Q4 FY18. This will further strengthen our sugar business.

Bioseed (India) & Farm Solutions

The performance of our Agri Input businesses has been lower than our expectations, which was a result of financial stress in Agri sector, resulting from erratic, delayed and poor monsoons over last couple of years. This led to crop shifting as well as lower demand for high value inputs. However with good harvest in the last Kharif and Rabi seasons and with expectation of normal monsoons this season; we expect these businesses to improve on volumes as well as margins in Kharif'17.

Bioseed (International)

Bioseed business in Philippines, Indonesia & Vietnam continue to work closely with farmers and trade channels to build customer acceptance and grow volumes on new products launched in the last year. While Philippines & Indonesia recorded volume growth, Vietnam is taking longer time.

In view of the longer gestation period of Bioseed International business the Company has taken a write down of investments to the tune of Rs 85.12 crores, impacting the standalone results of the Company. We plan to intensify efforts in all these geographies to strengthen our product portfolios and marketing efforts, to enable volume growth over medium term.

DAP/MOP
We have discontinued imports of DAP/MOP in FY 17. This has led to sharp drop in turnover of Farm Solutions but has improved the overall profitability and has freed up significant amount of Capital Employed.

Fertiliser

The business is improving on its energy efficiency. Operations are stable. The company is evaluating measures to further improve energy efficiencies while working with the Govt. for a more rational policy particularly for fertiliser plants with coal based power. The Subsidy outstanding position has improved in this year versus last year, however it continues to be a matter of concern in absence of consistency of release of subsidy payments.

The Central Govt. is proposing to launch modified DBT schemes for urea from June'17 onwards. The industry is in discussions with Govt. for all issues involved.

Fenesta

Fenesta business is witnessing a 20% year on year revenue growth with both Retail and projects segments growing satisfactorily. We are working on product enhancement and extensions to meet diverse customer requirements. This should further help us to consolidate our position in the market. We will continue to enlarge our market, engage with customers and enhance service and experience. To meet the growing demand, we have taken up expansion of our fabrication capacity which will be completed by Q4 FY18.

Cement

The cement sector has seen pick-up in demand in last quarter, leading to improvement in prices. We expect that with government's focus on infrastructure including housing, this sector should see positive movements in future.

On an overall basis, we feel that our business strengths are improving with scale, cost competitiveness, technology and downstream products. These should help us register positive growth going forward. Input costs have started rising; we will continue to take steps to mitigate these to the extent possible.

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

Vikram Shriram: Thank you. Good evening ladies and gentlemen. I will now summarize the financial performance of the Company.

The FY 17 revenue stood at Rs. 6,164 crores versus Rs. 6,071 crores in last year, that is, a growth of 1.5%. The PBIT margin (excluding DAP/MOP) improved from 8.1% to 11.6%. The Finance costs for the year went down from Rs. 85 crores to Rs. 71 crores. Net profit for the year grew by 83% to Rs. 552 crores from Rs. 302 crores. Sugar and Chemicals business were key contributors to the growth.

EPS for the year improved to Rs. 34.0 per share up from Rs. 18.6 last year. The Company's net debt as on March 31, 2017 stood at Rs. 928 crores as compared to Rs. 1,057 crores last year. The net debt to equity ratio improved to 0.37 versus 0.51 last year.

For the quarter, the revenue stood at Rs. 1,723 crores versus Rs. 1,392 crores last year. The net profit during the quarter stood at Rs. 156 crores versus Rs. 55 crores last year.

Let me now take you through our business wise financials.

Chloro-Vinyl businesses:

Chemicals: Revenue for the year grew by 22% over last year at Rs. 1,012 crores and PBIT was up 18% at Rs. 289 crores. For the quarter the revenue grew by 45% to Rs. 293 crores and PBIT was up 26% at Rs. 83 crores. The improvement was a result of higher volumes post completion of expansion project along with captive power at Bharuch, in the third quarter. The reduction in selling prices in Q4 at Rs. 23,387 per MT (down 9% sequentially and 12% over same period last year), led to lower margins, however, higher volumes from new project led to higher PBIT.

Plastics: Revenue for the year was stable at Rs. 573 crores and PBIT was up marginally at Rs. 110 crores. For the quarter, the revenue was 27% up at Rs. 163 crores and PBIT was 3% up at Rs. 32 crores. The PBIT margins for the year moved up from 18.9% to 19.2% with prices going up in line with the increase in power and carbon material costs.

Chloro-vinyl businesses are energy intensive and are witnessing rising trend in energy prices. Our continuing focus on cost optimisation over the years has helped us to maintain reasonable margins.

Sugar: The financial performance of this business improved on account of higher volumes and margins. Volumes for the year were up 30% at 36.6 lac quintals and for Q4 volumes were up 49% at 11 lac quintals. Power sales were also higher by 62% post expansion and higher cane crushing in the current season. Sugar realizations improved to Rs. 3,527 per qtl from Rs. 2,638 per qtl for last year and for Q4 at Rs. 3,658 per quintal vs Rs. 3,031 per quintal in same period last year. Currently, prices are stable. The cane prices also went up by ~Rs. 30 per qtl. for the current season leading to an increase of ~Rs. 300 per qtl. in the cost of production.

The total revenues of the business for FY 17 went up to Rs. 1,601 crores versus Rs. 968 crores last year. The PBIT went up to Rs. 315 crores versus Rs. 88 crores last year. For the quarter, the revenues were at Rs. 552 crores (versus last year at Rs. 330 crores) and the PBIT was at Rs. 133 crores versus Rs. 57 crores last year.

Shriram Farm Solutions:

FY 17 revenues were at Rs. 1,016 crores versus revenues of Rs. 1,110 crores last year excluding DAP/MOP. The PBIT went down from Rs. 72.9 crores to Rs. 28.6 crores. The DAP/MOP had positive PBIT of Rs. 13 crores last year and negative PBIT of Rs. 12 crores in the current year. Excluding DAP/MOP the business had PBIT of Rs. 41 crores in the current year versus Rs. 60 crores last year. The business had got adversely impacted due to lower volumes in Kharif'16 caused by sharp drop in cotton acreages and low demand for agri-inputs due to tight cash flow position in the rural areas.

Revenues for Q4 were at Rs. 239 crores versus Rs. 253 crores (excluding DAP/MOP) last year. Results were impacted by lower volumes and margins across most product categories.

Subsidy outstanding in the business stood at Rs. 208 crores vs Rs. 307 crores in same period last year. This includes Rs. ~41 crores relating to DAP/MOP business.

Bioseed:

Bioseed (India) Business: FY'17 revenues were lower by about 6% at Rs. 408 crores due to decline in cotton acreages in key markets during Kharif'16. Cotton Seed Price Control Order that capped selling price of BT cotton seeds also impacted revenues. Other crops performed better. PBIT for the year stood at Rs. 51 crores up 12% over last year.

Q4 is an off-season for this business with sales restricted to mainly vegetable segment. Q4'17 revenues were at Rs. 56 crores versus Rs. 24 crores last year.

Bioseed (International) Business: FY 17 international business revenues increased 18% to Rs. 62 crores led by Philippines and Indonesia. Losses in Philippines and Indonesia reduced, Vietnam had higher losses. The total losses were Rs. 37 crores vs. Rs. 38 crores last year.

Keeping in view the longer gestation period and higher losses over last few years due to one time inventory write offs, the company has taken write-down of Rs. 85.12 crores in the value of investments in Bioseed International business in the Standalone accounts (no impact on Consolidated financials).

Fenesta –

FY 17 revenue and PBIT stood higher by 20% and 56% year-on-year. Better financial performance during the year was driven by strong growth in 'Retail' segment volumes as well as 'projects'. The fresh order booking also improved by 48% year-on-year driven by 22% increase in 'Retail' and 102% increase in 'Project' segment's order booking.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Sumant Kumar from Emkay Global. Please go ahead.

Sumant Kumar: Sir, my question is regarding your power sales, and EBITDA; what is thepower sales and EBIT for FY 2017;included in Sugar segment?

J.K. Jain: So, power sale was about Rs. 88 crore compared to Rs. 52 crore last year; and the profit is about Rs. 60 crore compared to Rs. 38 crore last year.

Sumant Kumar: Okay. And sir, what is the cost of production of Sugar and the Sugarcane price for this year and current quarter?

J.K. Jain: For the season which is going on and for which we are carrying the inventory, the inventory price was Rs. 3,024 on 31st March.

Sumant Kumar: Okay. So, just would like to understand what will be the cost of production of Sugar, what is the Sugarcane price and the spread of Sugarcane and Sugar price.

J.K. Jain: Sugarcane price was Rs. 300 per quintal for this season based on which the cost of sugar is coming to Rs. 3,024.

Sumant Kumar: Okay. And the realization is Rs. 3,500 against cost of Rs. 3,024?

J.K. Jain: In Q4 the realisation was Rs. 3,658 per quintal.

Sumant Kumar: So, the spread we have around Rs. 5?

J.K. Jain: About Rs. 5.5 per kg

Sumant Kumar: So, my question is regarding how the spread of the cost of production of sugar and sugar price will sustain?

J.K. Jain: See, for the season which has gone by where the cost is now final, so the margin will depend on what happens to the sugar price going forward. As of now, the outlook is that the prices should remain around this range. But any development can affect that particular outlook. For the next season where the crushing will start in October, we still do not have an idea as to how cane price will be fixed, so the margins will depend on the Cane price fixation by the government and the selling price of Sugar

Sumant Kumar: Okay. I have gone through your interview, you said that the sugarcane prices are linked to the sugar price, so how will that pan out going forward?

J.K. Jain: No, we have not said that it is linked to sugar price. We have said it should be linked to the sugar price. But right now, it is not linked to the Sugar price.

Sumant Kumar: Okay. So, what is your view going forward?

J.K. Jain: So, it is difficult to say, as I said our view is it should be linked. It depends whether the government accepts it or does not accept it.

Ajay Shriram: Basically, if you recollect that the government, about three years ago, set up committee under Mr. Rangarajan to come out with a long-term formula to balance the industry for the sugarcane farmer and for the industry. If you recollect, for the last five years the Industry has suffered heavily, because in certain years, the sugarcane price was higher than the sugar price. The realizations were very low and the outstanding cane payments went up to almost Rs. 22,000 crore at the close of the sugar season two years ago. So, the government set-up this committee; Mr. Rangarajan worked and talked to all concerned people and stakeholders and came around with the Rangarajan formula for correlation between sugar price and sugarcane price. The Indian industry wants to go by the Rangarajan Committee recommendations for a balanced approach for the future. And this has not been adopted yet, but the industry through Indian Sugar Mills Association, etc., is talking to the government to adopt this.

Sumant Kumar: Okay. Sir, my third question is regarding your external sales of Chlorine and what is the captive consumption?

Ajay Shriram: Our captive consumption of Chlorine is in Kota where we make PVC out of Chlorine. In Kota, our capacity of Caustic Soda plant is about 330 TPD which would mean (at 0.88 tonnes of Chlorine per ton of caustic soda) about 275-280 tonnes of Chlorine Out of that, we use approximately about 110 tonnes of Chlorine a day and the balance we sell in the market.

Sumant Kumar: So, out of 270 tonnes of Chlorine you are using 110 tonnes of Chlorine?

Ajay Shriram: That is right. And at our Gujarat unit we are selling it all, we are not using Chlorine in-house.

Sumant Kumar: Do we have any plan for increasing captive consumption of Chlorine?

Ajay Shriram: No, see as a company we are always seeing what more we can do and how we add value; studies are going on, but nothing is concretized as yet.

Moderator: Thank you. We take the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: I just had a couple of questions on the fertilizer business. First is, you mentioned about not doing any trading of DAP/MOP; what was the reason behind that? If you can provide some idea on the rationale behind it?

Ajay Shriram: We did the study of what has been the performance of our DAP/MOP trading business over the last –5-7 years and we found that with the fluctuation in the purchase prices, with certain fixation by government on the selling price and with the delayed subsidy coming from the government, the return on capital employed does not make business sense. So, we took a considered view evaluating our performance of the business over the last many years and then took a decision that it is better from the point of view our group's financial health to stop doing this business.

Viraj Kacharia: Okay. So, incrementally, we have any plans to set-up a facility in this business or we are just not looking at catering; it will just purely be on Urea focus?

Ajay Shriram: Yes, we are doing Urea, and we have SSP right now. So, we are only on these two.

Viraj Kacharia: Okay. And incrementally any capital allocation into DAP facility or NPK facility?

Ajay Shriram: No, we are not looking at DAP/MOP, at all.

Viraj Kacharia: Okay. And post DBT scenario does this become more attractive now, given the reduced subsidy timeline from current norm which you talked about?

Ajay Shriram: You know, I think there is a lack of clarity in the market place of what does DBT mean in fertilizers. In case of fertilizer, DBT unfortunately is not that the farmer gets the direct benefits.

Viraj Kacharia: No, I get it. What I really meant is, when I say post DBT; what earlier used to be at least 60 days to 90 days of collection cycle could be somewhere between seven days to ten days.

Ajay Shriram: That will happen, it could be seven days to ten days based on all the transactions being recorded on the POS machines in each of the 2 lakh retail outlets in the country. And you will appreciate that almost 80% of the sale takes place in only –4-5 months of the year which is during the Kharif and the Rabi season. So, at that time, if the recording is correct and the data goes back, the payment should be faster. But, then for a manufacturing unit who manufactured equal quantities over the full year over 12 months, carrying that stock is going to be very expensive because it will not get paid until the next Kharif season or the Rabi season comes. So, actually it is going to block up a lot of money also. It is not going to ease it out too much.

Viraj Kacharia: So, on an overall net working capital employed under business, if we talk purely about our Urea business alone post DBT; does that lead to a net saving after adjusting for the higher inventory?

Ajay Shriram: We are not clear on that, I think the policy is also not clear. The reason being two, one is, as I said the sale happens during the Rabi and Kharif season basically. Secondly, I do not know whether you are aware, the total fertilizer subsidy every year is in the range of Rs. 100,000 crore to Rs. 110,000 crore andthe budget allocates only about Rs. 70,000 crore - 72,000 crore. So, every year for the last –4-5 years on 31st March, the carry forward of dues from the government against fertilizers to the industry is in the range of Rs. 30,000 crore to Rs. 40,000 crore. We do not know how that is going to be addressed. So, I think it is still too early to say what will happen.

Viraj Kacharia: Actually, I just had two follow-up questions on this. One is if the government pays as they say, in intended time of seven to ten days, then from overall net working capital perspective, does it become beneficial to companies like us in general, even after adjusting for the high inventories which companies may have to hold to account for the seasonality.

Ajay Shriram: I am not sure, I think we will have to work on that a little more to understand. But based on the experiments they have done on the POS machines in 22 districts in the country, I think the problems are also quite a few, so government still has to sort that out. But I do not think it is going to ease up cash flows too much.

Viraj Kacharia: Okay. But it would not be an extra burden to the level which is already employed on us?

Ajay Shriram: Well, I put it the other way that considering that the actual subsidy is Rs. 110,000 crore and the government allocates Rs. 70,000 crore. So, we have carry forward subsidy dues anyway. So, we do not know how it is going to work and if that happens ,let us say, in the Rabi season; then your carry forward is going to be from October - November until April.

Viraj Kacharia: Right, sir. And there has also been talks about government having to clear all past subsidy dues before DBT is being rolled out from 1st June, so is the understanding correct or if you can just clarify on that?

Ajay Shriram: Frankly speaking I will be honest. We are not clear of any policy of this type. The good thing is that because the new financial year has started, so the allocation of fertilizer subsidy will continue and the funds will be available for the next almost seven - eight months. But as per the policy even today, the two months outstanding is part of the policy, so that will continue in any case. It is only over and above that that we get paid. So, out of, say Rs. 100,000 crore, if we take 2 months out of 12 months which is

~20%, hence ~20% will be outstanding at any given time anyway, which is about Rs. 20,000 crore.

Viraj Kacharia: Okay. And incrementally for us, what will we be focusing on? How we look at our fertilizer business going forward since it is primarily Urea?

Ajay Shriram: We are working on our Urea manufacturing where we have a plant in Kota and we are continuously working to improve the energy efficiencies of that plant and improve the uptime of that plant. And frankly even today is running well, it is running efficiently. But any further energy saving is always a good thing for the future. So, that is going to be our focus.

Moderator: Thank you. We take the next question from the line of Prateek Diwan from Arpwood Capital. Please go ahead.

Prateek Diwan: My question was more on the PVC side, we see a very good growth rate on the volume and as well as price for this quarter specifically. So, what was the primary reason for this growth rate and at these current volumes, where are we on the utilization and are we planning to do any kind of expansion here?

Ajay Shriram: On PVC I think in terms of our capacity utilization we are already running at about 92% - 93% capacity utilization, so I do not think we are going to go more than that for the year. And regarding prices, you are aware that India imports more than 50% of its requirement of PVC and based on that we are linked to the international price. I think the international prices of this product are also fairly stable. So, that has given an advantage to all manufacturers in India on the PVC prices.

Prateek Diwan: And for the current quarter, what is the primary reason for the 18% growth that you saw on the volume?

J.K. Jain: That is only a reflection of change in stocks at the end of the quarter. If you see for the full year, the volume change is not very significant. For the quarter, sometimes you end up carrying a little higher stock in the previous quarter end and it gets cleared in the subsequent quarter. So, that is the only variation. As CMD said, the overall volumes are not changing, the capacity is not changing.

Prateek Diwan: Got it. And any plans for expansion at the Kota facility?

Ajay Shriram: We are always looking at debottlenecking things like that but we have nothing really just now to talk about.

Moderator: Thank you. We take the next question from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: Possible to detail a bit on the Kota expansion for Caustic that you mentioned?

Ajay Shriram: We are actually looking at putting up another electrolyzer at our Kota factory and also doing some changes in the technology of our existing plant. So, we have taken a Board approval for investment of Rs. 97 crore and this electrolyzer will add about 80 tonnes a day to our manufacturing capacity at Kota. This should be put into place by the end of this year hopefully because we have moved for the environmental approvals with the state government. That is taking a little time and once that happens, we will get the equipment and install that.

Raj Gandhi: So, we should build about 330 operating days here.

J.K. Jain: But from next year onwards, not for 2017 - 2018 because it will get completed by end of this year.

Raj Gandhi: Okay. So, you mentioned this addition which will lead to 80 tonnes per day in capacity and also some modernization of power reduction as you mentioned?

Ajay Shriram: Yes, that is ongoing. When we change membranes we look at new technologies, we look at things to improve our efficiencies. That we do across the board all the time in all our businesses, not only Caustic Soda. But that is an ongoing activity.

Raj Gandhi: Okay. But the zero-gap technology which you are trying to put in place and reduce power consumption, most of the benefit of it is already in now or some more benefit is to be realized?

Ajay Shriram: All our electrolyzers are zero gap currently..

Raj Gandhi: Okay. So, largely that benefit has come through?

Ajay Shriram: Yes, but then you see it depends a lot on the other issues.; like the membrane quality, the brine quality, the temperatures; all these things also are areas of concern which we keep focusing on.

Raj Gandhi: Okay. And just as you mentioned that ECU realization have been hit because of Chlorine realizations being low. So, just Y-o-Y what sort of decline we would have seen in Chlorine realization?

J.K. Jain: Y-o-Y probably, I think it went down from almost negative Rs. 2,000 last year to negative Rs. 6,000 - Rs. 7,000 this year.

Raj Gandhi: Negative, okay. And underlying Caustic realization?

J.K. Jain: See, the ECU is Caustic plus Chlorine, so if you remove the Chlorine the balance is Caustic realization.

Raj Gandhi: Where I am coming from is if I see Asia prices of Caustic, from what I could see quarter-on-quarter they have almost gone from about $280 - $290 to about $450, so there is an increase of almost 50%.

J.K. Jain: Not quarter-on-quarter, you must be talking about year-on-year.

Raj Gandhi: Yes, Y-o-Y. Even if I were to adjust for this negative of Rs. 4,000 coming in from Caustic, still our realization Y-o-Y per se seems a bit lower here.

J.K. Jain: We will have to just check this $280 figure, I do not think it was $280 in the fourth quarter last year.

Ajay Shriram: I appreciate, but I will put in this way. Frankly, this is the commodity and there are about 25 manufacturers all over India. Our plants is in Western India; there are seven - eight large manufacturers there. So, the market price is fairly similar for everyone.

Moderator: Thank you. We take the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: You mentioned that we are taking all the efforts in terms of improving the Chlorine sales, so that we can ramp up Caustic Soda production. Can you give us some indications of how things have progressed ever since this Bharuch expansion has been completed and can we look at a much better utilization for FY 2018 versus FY 2017 as well as Bharuch is concerned?

Ajay Shriram: As I mentioned, we were at about 77% utilization of the expanded capacity in Q4 FY 17 and this year we are gunning for over 90% capacity utilization. We have some direct pipeline customers also. So, we expect increase in our Chlorine consumption there. Plus, we are enlarging the geography of our sale of Chlorine which will also help us. So, we are gunning to get (+90%) capacity utilization for this financial year.

Sachin Kasera: And what is your outlook on Chlorine? Will it remain at around negative Rs 6000 because these are unprecedented levels or should we probably see around negative Rs. 2000 to Rs. 3000? So, do you see this sustaining over the next 12 months the way the demand supply is panning out, or do you think it should recover from this very high negative level?

Ajay Shriram: I think a little bit recovery should happen because if the country also grows at 7% GDP, then the consuming side also does have a little pull. Our users also benefit in terms of their capacity utilization, etc., so we feel in a year's time it should be better.

J.K. Jain: But on the other hand, Caustic is seeing softness because of currency appreciation. So, therefore we are not seeing any significant change in the ECU level as a whole.

Sachin Kasera: Okay. Secondly sir, in terms of the costing, have we achieved a desired level in Caustic post the expansion or the full benefits of expansion are yet to flow in and we could see some further reduction in terms of cost of production as far as the Bharuch expansion is concerned?

J.K. Jain: So, see, in terms of energy consumption, we are getting the desired level of energy consumption. The cost in terms of rupees per tonne will depend on the coal cost and as we have mentioned the coal cost is seeing a little uptrend. So, if that uptrend remains, the costs will go up a little bit. But in terms of energy efficiencies and operating cost structure we are getting the desired cost structure.

Sachin Kasera: Sure, sir. Third question was regarding sugar sir. You mentioned that your crush went up by 45%; if you could quantify that number. Also, you mentioned that the cane acreage went up by 12% - 13% in your area whereas your production went up by 45%, so is it that we got much higher cane from our areas as a percentage of the total cane produced?

J.K. Jain: See, those two figures relate to two different periods. So, we are saying in the crushing season 2016 – 2017, which is just closing, cane crush was up by 45%. Planting which has been done in this period will give us cane only in the next season. So we are saying that the planting has gone up, which will enable higher cane crush in the next season.

Sachin Kasera: Okay. But is it that because of demonetization and the non-availability of cash, the Gur and Khandsari were also having difficulties and that is why we could have got a much higher cane this year? Or is it that the increase that we are seeing is more sustainable because we are also talking further growth on the high base next year?

Ajit Shriram: No, see, our payments to the farmers have been extremely prompt, in fact the norm is to pay within 14 days and we were paying much quicker than that. So, that has helped giving quick payments to the farmers especially in the demonetization days because we pay by bank accounts to all our farmers. So, ours is completely a bank transfer and with immediate and prompt payments we had a good supply of cane.

J.K. Jain: To us it looks sustainable, the diversions were not costing a big change in volume. The levels look sustainable given that the planting has also gone up significantly.

Sachin Kasera: Okay. So, on a conservative basis, going on the visibility we have right now and as you mentioned that there is a 12% to 13% increase in Cane plantation, can you look at 10% to 12% increase in production next season, can it be a very initial estimate?

J.K. Jain: See, the only issue is the weather and the yields do depend hugely on how the monsoons will pan out. If it is on a similar pattern as last year then it should.

Sachin Kasera: Okay. Is my understanding correct that this year there has been some change in the UP sugar industry in terms of more higher recovery cane being used by the mill? Is that also a factor why our recoveries have been better and secondly, how do you see this going forward?

Ajit Shriram: See, basically in the last couple of years there are a couple of new varieties which have been brought into UP and the farmers have liked this variety and have adopted this in a very large way. So, the acreage of this variety has gone up and it has gone up in our area also. So, that is the reason the recoveries have gone up from about 10% to over 11% in our factories. And we expect this to sustain in the near future.

Sachin Kasera: Okay. But have we completely moved to this new variety for all our farmers or is it that there are a lot of farmers which are still to move this higher yielding varieties?

Ajit Shriram: So, there is a one factory - Rupapur, where the percentage of this variety was lower and in the recent planting, both during August-October and February-March, this variety has increased in prominence. So, we do expect the performance of that factory also to improve.

Sachin Kasera: Okay. My last question is on Fenesta. We have seen a very good growth of almost 20% in this year despite having challenges like demonetization. And in the last quarter you have mentioned that the booking from the project has seen a very significant improvement. So, can you just comment on overall outlook for Fenesta next year and secondly, the reason for the sudden strong increase in order booking on the project side?

J.K. Jain: Booking for the project has been good throughout the year. Now, the issue is the execution, so though the orders have been booked but we still have to see progress in execution of the projects and it being converted to sales. Retail is holding well and it is registering the kind of growth that we have reported. Projects as I said, booking has been good but execution we still have to see.

Sachin Kasera: And you have mentioned in the release that it has broken even in this current financial year, so with a steady growth of 15% - 20% can we see Fenesta finally starting to contribute or still, because we are in expansion mode, the incremental profits will be invested in the business.

J.K. Jain: I do not think we have said it is broken even in this year itself. It has been PBT positive for last two years and it continues to be PBT positive even in this year.

Sachin Kasera: And sir, last question on balance sheet. The net debt is less than Rs. 1,000 crore, our EBITDA this year is above Rs.800 crore and the only CAPEX that we have is Rs. 300 crore. Can we look at increased dividend payout or is it that the board is contemplating some further CAPEX projects where these cash flows can be deployed?

J.K. Jain: See, two things I just want to mention before CMD gives you the views on dividend. There are two requirements, which will come; one is CAPEX and second is working capital. As sugar crush goes up, the sugar stocks on 31st March go up pro rata. So, we are expecting that with higher crush, sugar will require more money for working capital and the Rs. 300 crore - Rs. 400 crore capex will also use the cash generation.

Ajay Shriram: Just to add to that, down the line our Board has discussed this matter regarding dividend and our view is that if we pay around 20% -22% payout; it is fairly satisfactory. So, I think that is what we are looking at. This year our total dividend payout was 290% in terms of our share price of Rs. 2. But one has to remember that ours is also a capital-intensive set of industry. So, we do require investments which are large; for increase in capacity or technology change or expansion and things like that. So, our view is that about 20% payout is satisfactory and we want to continuously keep expanding and growing and improving technology. So, we are on top of the pyramid as far as our costs are concerned.

Sachin Kasera: Sure. So, sir that is my exact question that if we take a 20% - 22% dividend payout in the type of CAPEX right now we have, we will have reasonable cash flows. For working capital today, for a company like ours which has such high credentials, we can easily borrow at 7% – 8.5%.. So, are we looking in for good expansion projects, which can help us in terms of growing the company faster in next two – three years?

Ajay Shriram: You know the reality for a company like us which is in six - seven verticals, we are always looking at doing something. So, there are various studies going on right now, we have not concretized anything, we have not taken a discussion, there is no proposal which has gone to the board which has got approved.

Sachin Kasera: Okay. But any area that you like to mention which you are looking?

Ajay Shriram: We are looking around all our businesses like we mentioned that right now we are expanding Fenesta, we are putting up a distillery, we are expanding Chlor-Alkali, so we keep looking at all our plants and in the next three to nine months, other projects will come in which we will invest.

Moderator: Thank you. We take the next question from the line of Aveek Mitra from Aveeksat Financial Advisors. Please go ahead.

Aveek Mitra: My first question would be a small book-keeping question actually because I think your Fenesta revenue is about Rs 300 crore, but there is a subsidiary book which only shows about Rs 50 crore, so where you take the rest and how to compare that on a quarterly basis?

J.K. Jain: See, Fenesta is part of the same balance sheet except in some regions where we are selling through a subsidiary, so you may be referring to only that subsidiary's number of Rs 50 crore, but most of the business is through the same balance sheet.

Aveek Mitra: And second thing is that you are having this formidable position in the segment because you produce this Fenesta UPVC through calcium carbide route which ethylene route cannot compete with or what gives you this edge and what will this edge will be over the period?

J.K. Jain: See, PVC, whether it is produced through calcium carbide, or through ethylene, the output is same. So PVC is not different whether you produce through calcium carbide or through ethylene route. Now Fenesta's unique propositions are several - the product design, the quality, the sales and service system and the network.

Vikram Shriram: Also, I think that it is an end-to-end solution being provided by the same company and we are not relying on third party fabricators and installers. So the fact that the sale to survey to manufacture to fabrication to installation, all under the same roof ensures that the quality consistency is there. And of course, there is a constant focus on product innovation and bringing improvement and new variants as per the market requirements.

Aveek Mitra: Thank you and the second question I have is basically little broader because your total business is actually having different segments. One is depending on government, one is commodity cycle, one is customer facing. So going forward actually, how you plan to decide on your capital allocation and how do you want to really make sure that all these parts are really visible to the market?

Ajay Shriram: I will put this way. Each business is headed by a business head and Executive Director or a President. So they have to work on their plans, their future, what they want to look at as a growth direction. We have various committees in the company where all proposals are evaluated. We have an investment committee. We have a corporate management board where things are looked at first and then we have an investment committee, etc. So we look at each proposal in it's own right, in its own way, what is the logic of that proposal, how does it affect the balance sheet in totality. We have periodic reviews in all our businesses of what is their vision and thinking in our annual exercise over the next 1 to 2 years in terms of growth. So it is a comprehensive study looking at the short term, the medium term and then we take a decision on where to invest our money.

Aveek Mitra: Shall we assume that for the coming, say 2-3 years, your capital allocation decision will remain within the conglomerate and you will decide that if something is generating cash, you will put into another business which is requiring it then, so this conglomerate mode will continue for some more time?

Ajay Shriram: That is the plan right now. We have not looked at anything else. We keep having discussions on pros and cons, conglomerate has its own advantages of having a larger cash flow and having a larger base. Individual companies have their own advantages of going to the market or growing etc. But today we are in a conglomerate mode and we have not looked at doing anything concrete right now to get away from this.

Moderator: Thank you. We take the next question from the line of Shreenath Shridhar from ICICI Securities. Please go ahead.

Shreenath Shridhar: Basically I wanted to know about the Bioseed division. What proportion of your Bioseed would be coming from cotton?

J.K. Jain: As of now, about 50%-55% for India business.

Shreenath Shridhar : And your India business would be about 80% of the revenues?

J.K. Jain: About 80%-85%.

Shreenath Shridhar: And going forward this year, do you see a good ramp up in the cotton seed business?

J.K. Jain: As of now, the sentiments are good for cotton. Largely, market should be 15%-20% higher vis-à-vis last year. So we do see a buildup of volumes for us also in cotton.

Shreenath Shridhar: So you mean to say the acreages are higher by 15%-20% or just the volume sales?

J.K. Jain: Right now, the market which I am talking about, is the number of packets of BT cotton seeds which we expect to sell. It will largely be dependent on the area, but it could also be seed rate and substitution of variety seed to BT seed. So all three factors put together will lead to market expansion.

Shreenath Shridhar: And sir what are the prices of these packets in cotton?

J.K. Jain: Cotton has fixed common prices throughout the country, which is Rs. 800 per packet (maximum). There are some discounts which different companies give which varies depending upon the product and market.

Shreenath Shridhar: And our capacities are abundant to ramp up and to make use of this higher demand?

J.K. Jain: This is not capacity per se, it is grown on the field a year in advance. So as of now, we have enough availability that is required for the next season.

Shreenath Shridhar: Because last year the production was lower, so this year the inventory might not be as much right?

J.K. Jain: It is sufficient which we feel will be required in the market.

Moderator: Thank you. We take the next question from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: Sir, just possible to highlight what is the normalized level of chlorine realization? Right now, I believe, Birla has expanded, you have expanded, so possibly chlorine prices are getting depressed; but what should be the normalized level that you have seen historically?

Ajay Shriram: I think it is very difficult to give a normalized level. You are right because the expansion today is running at ~Rs. (5000) - Rs. (6000). But we sincerely hope it comes into a plus situation, may be in the next year or two. I think our feeling is that within a year with the consumption of going up a little bit, it should definitely improve from this position.

J.K. Jain: In the last 5-7 years, we would have seen positive Rs. 8000 to negative Rs. 8000, so it is difficult to say what is normal level.

Raj Gandhi: Just averaging out, what will be the full year average in the normalized scenario?

J.K. Jain: It is difficult actually because capacities and demand and supply are never at normal level. So it will be difficult to give a number.

Raj Gandhi: And sir even if I were to adjust for the chlorine prices, so instead of, let us say, Y-o-Y dip, we would have had seen an 8% growth in realization of caustic on an underlying basis, but the spot Asian priceis at $450, $430 right now. So has the discount to landed prices has gone up in India overall because of lot of expansions which have come in recently. Is that the case?

J.K. Jain: Yes, because that also depends on the demand supply of the overall product. As capacity adds up, the discount to landed price or premium to landed price does change. And as CMD said, the price of these commodities is common for everybody and gets decided on demand and supply basis.

Raj Gandhi: And sir just one last thing. Let us say, given that the chlorine realizations are nearly very poor in India as compared to other markets where chlorine realizations are as high as $200-$250, so is there any move to add up lot of downstream chlorine chemicals like chloromethane and others? There is a significant arbitrage, given that globally people are making those products from chlorine of $250 and here you have a negative NSR on chlorine.

Ajay Shriram: This is a study we always do, in fact, we continuously look at these studies and logically what you are saying is absolutely correct. Our people are studying various projects, but we have not concretized on anything else yet.

Raj Gandhi: Sir but in general, given the ample chlorine availability in India relative to other markets and there is minimum of $200-$250 spread on chlorine prices always, why do not too many downstream chlorine units like chloromethane and other units come up in India? Just wondering, because the arbitrage is too huge in that sense.

Ajay Shriram: I agree with you, but I think the issue is that any value-added product one makes, one has to make sure that the market and that product also is stable for a longer period. So I think that is the debate manufacturers have, because we are competing with the world prices on virtually every product now. It is determined by what are the prices of these products in the world. I think each company has their own policy, how they want to look at it.

J.K. Jain: The only other clarification we can give is that globally PVC is the major user of chlorine and that is why the global prices are pretty firm because PVC uses up a significant part of chlorine. In India because of feedstock limitation, the usage of chlorine in PVC is very small, that is why we become a surplus country for chlorine. So therefore, chlorine prices remain always soft and chlorine is available in surplus.

Moderator: Thank you. We take the next question from the line of Anand Jain who is an individual investor. Please go ahead.

Anand Jain: My questions are on fertilizers. So you said, that we have suspended DAP/MOP in our farm solutions business because the return on capital was not sufficient. If I were to look at fertilizer alone, that is the urea, if I were to average out last 7-8 years, then EBIT returns that we give in our presentation has only been 8%. The capital employed has moved up significantly, but the returns have not gone up. The average EBIT returns have been 8%. So how do we see that business going ahead?

Ajay Shriram: See, in fertilizer, the government is coming out with a new policy also in terms of the energy norms for the fertilizer business and frankly, we have been in fertilizer since 1969 and I think the major difference in DAP/MOP and urea is that we have a manufacturing facility for urea. In DAP/MOP, we have no manufacturing facility, it is only trading and a part of it went from -15% to 2%. So I think that is why we stopped DAP/MOP.

Anand Jain: But at the same time, that is one part of it, that we have facilities. Other part is, of course like we also had a small textile unit in Rajasthan,we also had farm solution, we have also had Hariyali Kisaan Bazaar, but my only question is that from a capital employed perspective and from a PBIT perspective, the business is not doing great. Does it make sense to divest it off or hive it off? From capital allocation perspective, does the management think that way?

Ajay Shriram: No, frankly speaking this is an integral part of our Kota complex and we have not looked at that.

J.K. Jain: And the only other clarification is when you see only year-end capital employed, as CMD had explained, that in the year end, the subsidy outstanding builds up. So it does not represent the capital employed which remained throughout the year. It peaks towards the end of the year actually. It is not that much money is deployed throughout the year. Major part of the capital employed is subsidy. So it is not throughout the year capital employed, it is only for last 2-3 months that it builds up significantly.

Anand Jain: Sir the second question is how is our partnership with Axiall/Westlake coming along because I have just seen that in the last 2 years we had sales of around Rs. 70 crore, this year I do not see a mention of that in our presentation. So how is that coming along, where we were looking for specialized PVC compounds?

J.K. Jain: We are still working on product developments with Axiall Technology and would be launching new products going forward and then we will know how it is building up.

Anand Jain: So this is also a part of “other businesses” right?

J.K. Jain: Yes, it is part of “other businesses” and from this year, it does not get added to the turnover, etc., only the profit gets added now as per IND AS. So it is a little early, it will still take time to develop new products and launch new products in the market.

Anand Jain: The amount of CAPEX that we are deciding on Kota has nothing to do with this business because I think this would be a forward integration of PVC in summary.

J.K. Jain: We talked about Kota Chemicals, not Kota polymer compounding business.

Anand Jain: Sir, the next question is on Bioseed. The question is that we are present in India and in India, the government regulation prevents Monsanto in distributing BT cotton hybrids, but what kind of advantage do we have in South East Asia where Monsanto is also present and it is also selling seeds? Monsanto, Bayer, Syngenta, all of them are present there in the hybrid portion. . So I just wanted to understand from a differentiation perspective and from a market positioning perspective, why are we there in South East Asia?

Vikram Shriram: Basically the technology we are buying from Monsanto is the BT technology.

Anand Jain: The GM technology for corn in South East Asia.

Vikram Shriram: GM technology for corn in South East Asia and for cotton in India. The underlying hybrids in all the geographies are our own germplasm. So we feel we have a capability in the underlying hybrids also and they all fall in the same latitude. Frankly all our geographies do, and the way the seed industry works is that the research is common across the latitudes. So that is the basis of building this business of common research platform feeding onto all these markets for spreading out and growing the business over the period of time of course.

Anand Jain: So it has been quite long, but as of now, purely from a returns perspective, we do not see those kinds of realizations, do you think that gestation is still longer?

Vikram Shriram: Seed businesses are long gestation.

Anand Jain: The next question again I have is on Bioseed. So at one point of time, which is like around 2 years back, we used to have advances from farmers. So is that situation coming around in this year as well?

J.K. Jain: Not advances from farmers, it used to be advances from wholesalers and retailers, which always happen when we launch advance booking schemes. It happened this year also. The amount varies of course from year to year.

Anand Jain: But that would be a part of our current liability?

J.K. Jain: Current liabilities, right.

Anand Jain: And also sir, the next question is on Fenesta. I visited a Fenesta showroom here in Hyderabad and there is a component of advance when you book. Is that right sir?

J.K. Jain: Yes.

Anand Jain: And so basically what I wanted to understand is, the working capital cycle of Fenesta. if you can throw some light there?

J.K. Jain: Working capital cycle - I could not understand. But in our terms of sales, we do expect advance before we deliver the window.

Vikram Shriram: Basically, it is a customized product made to order for every window, every opening in a customer's house. Now before we manufacture the product especially in retail, we expect to be paid for the product so that there is no chance of having made something and then the product being left unsold and then having to take a write-off of inventory. So the terms of sale in Fenesta are based on advances and definitely prepayment before delivery.

Anand Jain: And that applies to both retail and the project side?

J.K. Jain: So in retail, it is 100%. In projects, it is not 100%, it is pro-rata and then it measured on a continuous basis.

Anand Jain: Because we had a write-off in the project segment in somewhere around FY13 and that is the reason I have asked.

J.K. Jain: So we had built up and that is the learning essentially where we came from. We used to do without advance, but as VCMD said that this is the customized product, and we had to write it off if it is not picked up. So that is the learning which came from all those write-offs essentially.

Anand Jain: And the next question is, if I remember last year, there was a court case, which the seed companies had filed against Monsanto on royalty and in a con-call we had mentioned that we continue to pay Monsanto as per the current agreement. So did we get back the extra royalty that we had paid or how did it settle?

J.K. Jain: This government order had come for the season ‘15-16, which fixed the royalty at Rs. 49. So for ’15-16, we have also paid at Rs. 49. For the earlier period, it had to be paid as per agreement and we have paid as per the agreement.

Anand Jain: For ‘15-16, we had paid at 49 only.

J.K. Jain: Correct.

Moderator: Thank you. That was the last question. I now hand the floor over to the management for their closing comments.

Ajay Shriram: Ladies and gentlemen, we thank you for your participation in our Q4 & FY17 earnings conference call. As mentioned, we have been focusing on increasing scale and competitiveness in our commodity businesses. Simultaneously, in our Bioseed & Fenesta businesses, we are focusing on offering better products and services to our customers and thereby grow our volumes. These efforts are leading to satisfactory growth and financial performance in all our businesses. The Chlor-Alkali expansion and Power Cogeneration projects commissioned in FY 17 will contribute to growth in volumes and profits in FY 18. Our projects in Sugar distillery, Kota Chemicals and Fenesta will further strengthen our businesses by end of this year. Our strong Balance Sheet and robust internal generations enable us to explore growth opportunities going forward.

Moderator: Thank you. Ladies and gentlemen, on behalf of DCM Shriram Limited that concludes this conference. Thank you for joining. You may now disconnect your lines.