DCM Shriram Limited
Q3 & 9M FY 2021 Earnings Conference Call
January 22, 2021

Moderator: Ladies and gentlemen, good day, and welcome to DCM Shriram Limited Q3 & Nine Months FY 2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. 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 you, Mr. Rangnekar.

Siddharth Rangnekar: Thank you. Good afternoon and thank you for joining us on DCM Shriram Limited's Q3 & 9M FY'21 Earnings Conference Call. Today, we have with us Mr. Ajay Shriram -- Chairman and Senior Managing Director; Mr. Vikram Shriram -- Vice Chairman and Managing Director; Mr. Ajit Shriram -- Joint Managing Director, Mr. K.K. Kaul – Wholetime Director, and Mr. Amit Agarwal – CFO of the company.

We will begin the 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 on today's call could be forward-looking in nature and a note to that effect has been included in the Conference Call Invite circulated earlier.

I would now like to invite Mr. Ajay Shriram to give us a Brief Overview on the Company's Performance and his Views Going Forward. Over to you, sir.

Ajay Shriram: Thank you, Siddharth. Good afternoon and a very Happy and Healthy New Year to everybody. Welcome to our Earnings Conference Call for the Third Quarter of Financial Year 2021. I hope all of you and your families are keeping safe and healthy. I will share my thoughts on the developments in our businesses and our strategic direction. After that, Vikram will give you the financial perspective.

Our strategic business direction includes enhancing scale along with forward integration, enhancing or rationalizing product portfolio and cost competitiveness, thereby strengthening our businesses. Our strategic initiatives taken in recent years in Sugar, Chloro-Vinyl, Farm Solutions and Bioseed businesses have started showing sustained results. Taking further steps in this direction, our Board has approved following new projects in Chemicals business at Bharuch Gujrat, at an investment of ~Rs 1,000 crs to be implemented over period of next 24 months.

- First product we are getting into is Epichlorohydrin or ECH, with a capacity of 51,000 tonnes per annum, along with glycerin purification facilities.
- Second product we are getting into Hydrogen Peroxide at a capacity of 52,500 tonnes per annum.
- Third product we are expanding is Anhydrous Aluminium Chloride. We are going up by 32,850 tonnes. We are today 60 tonnes a day. We are adding 90 tonnes a day, so we will be 150 tonnes a day.
- And we are also setting up a multipurpose product Research and Development Centre in Gujarat.

These projects are expected to have a return on investment of ~ 25% at optimum capacity level. ECH and Aluminum Chloride put together will consume about 21% Chlorine currently generated at our Bharuch Chemical complex.

The objective of these projects is to enter into downstream Chemicals, linked to Chlor-alkali and forward integrate the business. The Multipurpose product research & development center will enable adding value to our existing as well as new products that is ECH and Hydrogen peroxide. It will also set up our base for other value added chemicals going forward. We believe these steps augur well for augmenting scale, product portfolio and chlorine utilization, thereby strengthening our Chemicals business.

With respect to our already announced projects, the 120 megawatt new power plant at Bharuch is progressing as per plan. It will help to optimize the cost structures at Bharuch. The decision to implement the 700 tonnes per day caustic soda plant and 500 tonnes per day flaker will be taken in due course. We are planning all the above initiatives, while ensuring financial prudence, and execution capabilities.

In terms of our current operations, the company has recorded a healthy operating performance during the quarter and nine months ending December 2020. All our businesses have shown strong resilience during the pandemic in terms of operations, costs as well as working capital efficiency.

Now, I would like to share with you the Business Wise Developments.

Sugar:

In the current sugar season, the all-India domestic production is estimated at 30.5 million tonnes and the demand is expected to be around 26 million tonnes. There was a delay of three months in announcement of export policy of 6 million tonnes for the current season, which may lead to lower exports. However, it is expected that the season ending inventory will not be higher than the last season of 10.6 million tonnes.

Government of India has increased the prices at which ethanol will be purchased by OMCs. This will help promote ethanol production and correspondingly blending. It is expected that the ethanol blending in this year will be around 6%-7% vis-à-vis 5% in the last year. We commenced crushing during the first week of November, and have crushed 275 lakh qtls till 20th January, 2021, versus 258 lakh qtls in the previous season. Sugar recovery on final molasses basis up to 20th January, 2021, for sugar year 2021 is at 10.7% vis-à-vis 11.3% last year. We have contracted exports at 12.5 lakh quintals in the new sugar season.

Chemicals:

Chlor-Alkali prices continue to be soft, with supply curve moving ahead of demand. International prices are in the range of US$250 to US$270 per metric tonne. We expect domestic demand to pick up gradually. The average utilization in the industry has picked up to approximately 80% in West zone and 70% in Northern zone. Caustic soda demand from key consuming sectors such as pulp and paper and textiles has improved up to about 75%-80% levels. Our capacity utilization for the quarter is ~70% vis-à-vis 78% in Q2 FY 2021. The investments in chemical downstream products will further strengthen the business with improved integration and multiple revenue streams.

Plastics:

The domestic PVC demand has posted further recovery during Q3 FY 2021. Sequentially, our average capacity utilization in this segment has gone up from 44% in Q1 FY 2021 to 94% in Q2, to 96% in Q3. International PVC prices continue to remain firm, increasing from an average of $925 per metric tonne during Q2 to average $1,230 per metric tonne during Q3, amid less than expected import arrivals in the country. The domestic prices are showing a similar trend.

The new 66 megawatt power plant at Kota has delivered intended cost efficiencies and is facilitating better utilization for the combined production of Chlor-Alkali and PVC.

Agri Inputs:

This segment includes Shriram Farm Solutions, Bioseed and Fertilizer business. Agri inputs demand in the third quarter remained buoyant due to good monsoons. Favorable agronomical conditions and timely harvest of kharif season crop has led to higher sowing during the current rabi season.

Shriram Farm Solutions' own research seeds, especially wheat, continued to strengthen its leadership position. The business continues to focus on new technology agri inputs with launch of new products. The focus to maximize social media for demand creation and sales promotion is very active. During Q3, all product categories, namely seeds, crop care, and specialty nutrients witnessed growth.

For Bioseed India and Philippines, it is a small season and they delivered stable performance.

Fertilizer operations are stable. Revenues were lower due to gas prices, which is a pass through. During the quarter, the gas prices declined to US$7.9 million mmbtu from US$10.4 per mmbtu in the previous period. The urea subsidy outstanding has increased from Rs. 465 crore in September 2020, to Rs. 624 crore in December 2020. In November 2020, the Government has announced additional allocation of Rs. 65,000 crore for fertilizer subsidy. If implemented timely, this will significantly ease up the working capital deployed, and hence the health of this sector.

Fenesta:

Fenesta performance has been encouraging and improving quarter-on-quarter. We expect the trend to continue. The sales have now reached near pre-COVID levels. Order booking is higher as 16% year-on-year and 6% quarter-on-quarter. The business is focusing on UPVC as well as System aluminium, and is looking forward to enhance its product portfolio. The brand has retained its premium market positioning and is using digital media to expand its reach and product awareness.

I must mention, ladies and gentlemen, that the company is focusing on sustainability, environment and governance in a very strong manner. I am happy to share that Business World did a survey of the top 100 companies of India, and our company was ranked 24th on an all-India basis on the sustainability scale. That was very encouraging for us.

With this, I would like to now request Vikram to take you through our perspectives on the financial performance.

Vikram Shriram: Thank You. Good afternoon everyone. I will now take you through the financial highlights.

Net revenues during the quarter came in at Rs. 2,159 crs vs Rs. 2,195 crs in Q3 FY20. The performance during the quarter was driven by healthy growth in, domestic sugar and distillery business, vinyl business led by PVC prices and volumes, and Shriram farm solutions led by higher volumes in value-added segments. However, chemical prices and lower sugar exports impacted the growth in revenues. Chloro-vinyl business saw improved utilization levels, sequentially. Our Fenesta business continues to witness healthy recovery post pandemic.

Overall sugar business revenues were down 14% YoY. Domestic sugar sales were at 13.4 lac qtls vs 12.6 lac qtls, however, export sales were nil vs 7.6 lac qtls in same period last year. This was owing to late announcement of export policy. Distillery volumes were higher by 148% YoY at 321 lac ltrs, adding about Rs. 100 crore to revenue out of this 79 crores was on account of second 200 KLD Distillery commissioned in Q3 FY20.

In the Chemical business, revenues declined 13% YoY due to lower ECU prices. Prices were lower by 21% YoY and 7% sequentially. Lower prices had a negative impact of approximately Rs. 50 crores YoY. Volumes for the quarter remained flat.

Plastics business recorded 41% growth in revenues on a YoY basis at Rs 207 crs driven by PVC volumes and prices. PVC prices up 49% YoY and volumes up 11% YoY. Sequentially the prices were up 32%.

SFS Value added product business revenues were up 28% YoY, driven by product categories across value added vertical, primarily Seeds. Bioseed revenues were up 10% YoY driven by higher paddy sales in domestic operations and corn in Philippines.

Fenesta business revenue growth remained flat on a YoY basis. Sequentially, however, revenue was up 17% led by volumes. The order book had a strong improvement of 16% YoY, a positive sign for this business.

Coming to PBDIT, Q3 FY21 stood at Rs 421 crs, higher by 30% YoY, supported by the Sugar, Plastics, SFS and Fertilizer segments.

Sugar PBDIT, excluding inventory valuation charge of Rs 18 crs, was up 16% YoY at Rs 135 crs driven by the distillery earnings.

PBDIT for the Chemicals segment was down by 21% YoY at Rs 98 crs due to lower ECU.

Plastics PBDIT stood at Rs 101 crs vs Rs 30 crs driven by higher PVC prices and volumes. Earnings were aided by lower power & fuel costs supplemented by savings as a result of the efficient new 66 MW power plant commissioned in Q4 FY20.

SFS PBDIT was up 24% YoY at Rs 78 crs driven by seed volumes. Enhanced focus on value added segment is yielding sustained profitability in this segment.

Fertilizer PBDIT stood at Rs 39 crs vs Rs 17 crs. Current quarter includes about Rs 20 crs on account of price notification received in Q3' FY 21 for FY 18-19.

Let me also share highlights of the performance for 9M FY21.

Revenues were up 5% YoY at Rs 6,118 crs mainly driven by sugar, SFS and PVC segments. Sugar business was driven by sugar and distillery volumes. Sugar volumes up 25% YoY at 54.5 lac qtls. Distillery volumes up 141% YoY at 940 lac ltrs. PVC performance was driven by prices and SFS performance resulted from growth across verticals.

PBDIT declined by 9% YoY to Rs 853 crs primarily as a result of lower earnings in the Chemicals business led by lower prices and volumes and in Fenesta led by volumes.

On the balance sheet side, net debt as at 31st December, 2020 stood at Rs 385 crs vs Rs 971 crs on 31st December, 2019 and Rs 242 crs on 30th September, 2020. Cash generation remained healthy with adequate liquidity. Our majority banking lines remain unutilized. ROCE came in at healthy at 17.1% from 15.1% in September 2020. ROCE improved QoQ, with better performance in Vinyl, Sugar and SFS businesses.

On the whole, we are at a heathy balance sheet position with steady liquidity position at all times. Given our operating cash generation and surplus funds, we will be able to fund the newly announced Rs. 1000 crores expansion largely from internal accruals. If required, our balance sheet strength enables us to raise adequate amount of debt.

This brings me to the end of the financial discussion and we will be happy to take questions that you may have. Thank you very much.

Ajit Shriram: Just before we go into the questions, I just want to clarify that in the Chemicals business our capacity utilization is ~80% this year versus 78% last year, by mistake it was mentioned as 70% this year. So I want to clarify it, 80% versus 78% last year. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Congrats on a good set of numbers. So, the first question is on the chlorine consumption. So we have announced the new CAPEX for downstream products and our requirements or other captive consumption of chlorine will go up. So, after the expansion what would be the captive consumption? I understood you mentioned 21%, was that for the entire unit that is existing, plus incremental? That's my first question. Thank you.

Ajay Shriram: See, today our chlorine consumption, we are supplying by pipelines to five, six direct buyers, which is connected directly to a factory on a pipeline. That is taking approximately about, how many percent?

Amit Agarwal: Around 35% to 40% is supplied by pipes.

Ajay Shriram: 35% to 40% of our production already, that's already going directly. Over and above, the products which are going to come in will take another 21% of our production. So, that will then mean about 60%, 65% of our production will be consumed directly and will not have to be sold in the market in tunners, its is going to change that way.

Rohit Nagaraj: Right, that's helpful. Sir, the second question is in terms of the new expansion plan. So, I believe that there are other players who are also trying to get into downstream products of Chlor-Alkali, Epichlorohydrin, Hydrogen Peroxide. So, what is the rationale behind this? A, I understand chlorine consumption would be one part, but beyond that, is it going to be import substitute or the domestic demand is so strong that we are entering into this business? Thank you.

Ajay Shriram: See, ECH, today there is no one in India, there is one more plant which is coming up and there will be ourselves, there will be only two. India is importing the entire requirement of ECH. So that is something which we thought makes sense, considering it adds value to our chlorine business straightaway. Hydrogen Peroxide, yes, there are five six players already, but that's a good growing market. And there are many grades of Hydrogen Peroxide also which are used by various consumers. So there is adequate market in this and we also have, again, captive hydrogen. So, that gives us the benefits of having the raw material available for both these products directly within our own complex. So we have a competitive advantage on that.

Rohit Nagaraj: Thank you. And if I can just squeeze in a little question. On caustic soda, what is our understanding, how it will fare during this year? Because I think we are at the trough of the cycle, so what is our expectation for the next year? Thank you.

Ajay Shriram: For any commodity business we have seen, a couple of years ago if you recollect, caustic soda was booming, it was exceedingly high. Now it has come down. Plastics are moving well just now. But I think seeing the economic growth expected in India also over the next year or two years, our feeling is that after another maybe two quarters we should come up to a more satisfactory pricing for our ECU caustic soda, chlorine.

Vikram Shriram: I would just like to add to that, actually caustic and chlorine are co-products when you manufacture them. So typically in the world markets in the long run, PVC and caustic soda are counter cyclical. So when PVC is strong, caustic soda tends to be soft, and vice versa. I am making a general statement, but that is the trend. So you have to keep that in mind that the strong PVC also has an influence on soft caustic.

Moderator: Thank you. The next question is from the line of Pratiksha Daftari from Aequitas Investment Consultancy. Please go ahead.

Pratiksha Daftari: So, sir the CAPEX that we have announced, Rs. 1,000 crore, would it be possible to give bifurcation and how much of this will be allocated for ECH and how much for Hydrogen Peroxide? And what kind of revenue potential do we see for these products once we reach optimum capacity?

Amit Agarwal: So, for ECH, our expenditure will be in the range of around Rs. 400 crore to Rs. 450 crore**.** Hydrogen Peroxide also is around Rs. 400 crore. And in terms of capital output ratio, I think we are investing Rs. 1,000 crore, it should add to about Rs. 1,100 crore to Rs. 1,200 crore to our revenue.

Pratiksha Daftari: And what kind of margin profile can we expect? Like how does that compare to our existing margins in the Chemicals division?

Amit Agarwal: So, they should be in line with our existing margins in our Chemicals business. So, the EBITDA margin should be in range of around 25% to 30%. But they are all sensitive to prices, but that is what we expect in the medium term that kind of margins we should earn.

Pratiksha Daftari: Okay. And would we like know what is the quantum that is getting imported, like for ECH right now?

Amit Agarwal: Yes. So ECH is currently 100% imported.

Pratiksha Daftari: But like how many tonnes, if that data is available?

Amit Agarwal: It's about 70 KTPA, kilotons per annum is the current demand in the country, which largely gets imported.

Pratiksha Daftari: Okay. And sir, you mentioned that lower power cost has helped the margins and kind of off-setted the low prices in caustics. Would it be possible to quantify that how much power cost has come down because of our latest capacity power addition?

Amit Agarwal: See, it depends on how much we produce, because we are not operating to our optimal capacity right now, given the factors. But yes, I think it will be in the range of around Rs. 15 crore to Rs. 20 crore per quarter is the kind of saving we are having because of the new power plant vis-à-vis last year.

Pratiksha Daftari: Okay. And sir, I think this was covered a little earlier, I just want to confirm this, but we are seeing a lot of capacity addition coming up in in caustic in next like few months. So how do they see this impacting? We are already mentioning that supply curve is moving ahead of demand curve growth, so how do they expect this to pan out, say, in next 12 months?

Ajay Shriram: See, I think if you see caustic soda as a commodity, when the prices move there is always an addition which comes in as a bit of a bump. But that is why we have actually decided not to invest our Rs. 700 crore expansion right now. We will take that up after a couple of quarters, depending on how the market situation is. And we would rather prioritise our capital investments on the value added products rather than this. And the focus always is, how do we improve our efficiencies? How do we become the lowest cost producer? And how do we ensure that we are competitive on a world scale in terms of our cost of production?

Pratiksha Daftari: Okay. And my next question is with respect to Fenesta. So if you could elaborate a little bit on what kind of initiatives you are working on or growth drivers that we are working on, or we see in this business, say, in medium term?

Vikram Shriram: We are working on expanding our product range, both in PVC segment and in Aluminium segment to bring different price point products available to enlarge the market to go down the pyramid. Secondly, we are working on geographical expansion, including deeper penetration in Tier-2 cities, we are already in 200 cities and towns, we have reached Ladakh, we have reached Bhutan, we have reached Srinagar, end-to-end actually. And we are also looking at some adjacent countries for export markets.

Moderator: Thank you. The next question is from the line of Pratik Tholiya from Elara Capital. Please go ahead.

Pratik Tholiya: Congratulations on a very good set of numbers considering the current business environment. Sir, I am saying that the imported caustic soda prices and the domestic DCM Shriram prices that is shown on the slide of your presentation, so the international prices have moved up during the quarter, but our prices have actually trended downwards. Sir, is it possible to just explain the disparity in two direction of the prices?

Amit Agarwal: Pratik, see, here you need to understand that there can be a lag, right? So, if you see the chart given in our presentation, for two years we have given, so there are times when there is a lag, right? So we saw a low of around 18,500 in December, so from that levels the prices have firmed up in line with the firming of international prices. But what we are still saying is that prices still are subdued, even if we are at 19,000, 19,500, the price is still are subdued.

Pratik Tholiya: Okay. So sir, currently what will be the prices, it will be upwards of 20,000?

Amit Agarwal: So, as I said, they will be in the range, they are still range bound, they are still subdued so they will be in the range of around 19,000 to 20,000. I don't have the exact number, but that will be the range.

Pratik Tholiya: Okay. But you feel that these prices you can catch up with the international prices, right, with a lag?

Amit Agarwal: Yes.

Ajay Shriram: I think I will just add that, more important is once the consuming industries in India pick up better, like the textile industry, paper industry, etc. Once they start moving up, automatically demand will go up which will make a difference.

Pratik Tholiya: Sure, understood. And sir secondly, Amit sir, in the slides you mentioned there is the inventory revaluation in the Sugar business. Can you explain what is this inventory revaluation?

Amit Agarwal: This happens almost, I would say, every time in December, right? Where when you start your production, your recovery is low. Therefore, your cost of sugar is high, whatever you are producing, at time vis-à-vis the market price. So to that extent you have to take inventory mark-to-market. And by the time you reach March, when your recoveries are better, because recoveries keep improving so you get you get the best recoveries in these three months, that is January to March, because the cost of production balances out. And therefore, this Rs. 18 crore more or less will get reversed, hopefully, if the prices remain the way they are, the value should get reversed by Q4. So it is only a timing difference, as long as the prices remain the way they are.

Pratik Tholiya: Sure. Sir, any update on the MSP announcement of Rs. 33, any update on that?

Ajit Shriram: Not really. We are talking to the government on a continuous basis. The talk of the MSP increase has been carrying since June 2020, but it's not really taken off. We do hope that it is announced in the near future.

Pratik Tholiya: Okay. And sir, lastly just one clarification again. Sir, you said that at Bharuch your captive capacity utilization of chlorine would be around 65%, but at Kota it will be only no 20%, 25% which goes in PVC. Is that understanding correct?

Ajay Shriram: No. In Kota, the percentage of chlorine going into PVC is..

Amit Agarwal: Is around 35%.

Ajay Shriram: So about 35% in Kota, so 35% goes into PVC.

Pratik Tholiya: Okay. And the remaining 65% is sold in open market?

Ajay Shriram: And 65%, as I said is including pipelines supplies to outside parties. It's not captive per se, but it is to outside parties also who are buying it directly on pipeline. Because they are right adjacent around our factory complex. So we have five, six direct buyers through pipeline. So that's also like a fixed contract where they pick up every day their requirement, so they are working on a just-in-time philosophy are getting the raw material when they need it.

Pratik Tholiya: Sure. Understood. That's very helpful. Sir lastly, now even after this CAPEX you will still have 35% to 40% of our chlorine still left, which is export plus spot market. So any thought on further going downstream? Because you said that you will be setting up some R&D facilities, so is there any thought of going totally 100% of it will become internally consumed, maybe two, three years down the line once your R&D team sets up something new project?

Ajay Shriram: We have to take these things gradually, we have just announced the capacity additions by which we are going to take over 20% more for capita consumption. And just for your clarity, the Research and Development Centre is for value added further, from various products. So, it is not going to be a direct chlorine consumption, it is to value add down the line into epoxies and further, other products which are value added from epichlorohydrin and other products, it is not only for chlorine consumption. We are looking at a much longer chain for value addition down the line.

Vikram Shriram: Though directionally, yes, there would be additional value add chemicals in due course, of chlorine also.

Ajay Shriram: Yes. At the moment our 24 months is now planned, with these two plants coming in and expanding of aluminium chloride, is to consume chlorine for the next 24 months through these plants.

Moderator: Thank you. The next question is from the line of Tejas Sheth from Nippon India Asset Management. Please go ahead.

Tejas Sheth: Two questions, one, will the Rs. 1,000 crore of investment, the recently announced, will have any implication on the CAPEX for caustic soda? Will it be deferred because we are now investing Rs. 1,000 crore or prioritizing Rs. 1,000 crore in chemical downstream products? That first question. Second, is there any more scope of investment towards sugar segment where we can generate more return? These are two questions.

Ajay Shriram: On the caustic soda one, we have consciously taken a decision about six, seven months ago to push back the 700 tonnes per day expansion which was approved by the Board one and a half years back, because of the market and because of the Corona and the way markets are going. So we have now taken a decision, it is better to invest in value added straightaway. The 700 tonnes per day expansion is very much on our horizon. We will take that up at the appropriate time after review. We are doing it every quarter. So whenever we think it's appropriate, we will take that up. That will definitely happen.

And as on the sugar, we were saying, we actually are continuously looking to see what we can expand where, what capacity will come up. As you are aware, we are already putting up alcohol, a country liquor plant to use ethanol, to use electrified spirits for value addition down the line at our sugar factory. That's an ongoing project which should be commissioned in the next two months. So that is something which is being expanded in any case. And as you are aware, our second distillery of 200 KLD just came up about a year ago. So we are on continuous expansion mode in all our businesses and we take a decision appropriately at the right time.

Vikram Shriram: I just would like to clarify, the balance sheet is not a constraint.

Ajay Shriram: No, our expectation is that by March 2021 our debt-equity will be about 0.2 or 0.25, so we are very comfortable.

Tejas Sheth: Okay. So balance sheet will never be a constraint for you deciding to go ahead with the caustic investment even if, let's say, the segment volume improves or pricing improves in next three to four months, you will still go ahead with that project?

Ajay Shriram: Yes, correct.

Vikram Shriram: When any opportunity comes for capacity expansion or multi-feed, or anything else, balance sheet is not the constraint.

Moderator: Thank you. The next question is from the line of Karthik from Unify Capital. Please go ahead.

Kartik Sambhandham: Sir, you mentioned some inventory revaluation of Rs. 20 crore that has kicked in for the mark-to-market. Could you explain more on the front of what exactly happened there?

Amit Agarwal: So Kartik, yes, it is a result of when the season starts the recovery improves as the season progresses, the sugar recovery from the sugar cane. So, initially like we are two months into the season, the recovery is a little low than what it will be for the entire season. So, initially the cost of Sugar production is high, and if that cost is higher than your selling price, then you need to take a mark-to-market. So, we manufacture close to about 16 lakh quintals or 17 lakh quintiles, out of that for 7 lakh quintals, depending on which unit we manufacture, about 7.5 lakh quintals, the cost was higher than the market price. And therefore, we took a mark-to-market on that. Now, as the season progresses, the recovery improves and overall cost of production on the entire inventory will come down as the recovery improves. And therefore, I was mentioning in the previous question also, that if the prices remain the way they are, we should be able to get this, whatever we have provided we will be able to take the credit back.

Kartik Sambhandham: Sure, Amit. Thank you for the clarification. So you are saying the recovery rate from 10.7 is going to go up towards for this quarter and next quarter?

Amit Agarwal: Yes. So for Q4 it's going to go up. It improves, I mean, that's how the sugar works.

Kartik Sambhandham: Sure. Just one on the ethanol front. So the realizations for the SY 2021, sugar year of 2021, would it start from this quarter? The B-heavy and C-heavy increase in the procurement price?

Amit Agarwal: Yes, because the new rate which was announced by the government was applicable from 1st of December. So that's why you are seeing a lower average, 54 or something. So this quarter we should see in line with the increased prices.

Kartik Sambhandham: Sure. And our overall target for B-heavy was 60% for the crore liters of ethanol, right? But we seem like in nine months we have done only around 50%. So are we expecting a higher mix for this quarter?

Ajit Shriram: So our output of B-Heavy will be much higher than the previous year. And our target will be to divert roughly 7.6 lakh quintals of sugar equivalent to B-heavy versus 4.5 lakhs last year.

Kartik Sambhandham: Sure. Thank you. Just one on the PVC front. We have an overall capacity, what's the exact capacity right? Because we have 40 TPD that was added in Q3 FY 2020, right?

Ajay Shriram: Yes, total capacity is 220 tonnes a day.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Sir, firstly, if you could again dwell on the inverse correlation between the PVC and the caustic soda part, if you could explain something more about it?

Vikram Shriram: I will explain it to you. Basically caustic and chlorine are co-products when you electrolyze brine, both the products are produced along with hydrogen. So, when PVC is strong, the chlorine pull increases the caustic production also. So, if the caustic users are not strong at that point in time, caustic tends to soften. Because caustic product users are aluminium, paper, dyes, chemicals, etc. And the bigger 60% of the chlorine user worldwide is PVC, followed by epichlorohydrin. So basically the point I am making is, that in the long run caustic and PVC are counter cyclical. And unless both engines are firing, which does happen but happens very seldom that you have got both sides rowing and full blast, and you have PVC soft and caustic strong, and sometimes vice versa.

Saket Kapoor: And sir, the value addition venture which we are doing now, the investment in ECH, so that also finds the application mainly in the paper industry, I mean, which industry does it caters to?

Ajay Shriram: ECH actually is utilized as a raw material, a large part of it goes into epoxy resins, that's a very large consuming segment of ECH, plus there are other refined uses where ECH is further processed or chemically treated to get into different products. But epoxy is the largest use of ECH in the country today.

Saket Kapoor: And what are they used into, I mean, what are exactly epoxy resins?

Ajay Shriram: It is used into paints, it goes into varnishes, it goes into flooring, it goes into many, many different products where you want a finish of a particular type, gives it that shine, gives it the resistance, gives it the scratchproof surface. So, it's a very versatile product which is used very extensively in many industries.

Vikram Shriram: Worldwide the single largest use for epoxy is in wind turbine blade, just for your information. So that is also a very growing strong segment for wind energy production. The blades are coated with epoxy for the unique properties of the epoxy trends and resistance to abrasion and other things.

Saket Kapoor: Right. Sir, you spoke about the country liquor segment part also, what kind of revenues are we expecting and when would that going to get into the P&L?

Amit Agarwal: See, the net revenues from that would not be very high, right, it should be in the range of around Rs. 20 crore to Rs. 25 crore. So, that's the kind of revenue. And see, essentially country liquor is a project that we are putting up essentially to use the mandatory diversion that we have to do to country liquor for that molasses that we produce. There is a statutory requirement that we have to divert 18% of the molasses to country liquor. Instead of selling it as molasses to country liquor manufacturers, we are putting up ourselves. So it is a small capacity adding about Rs. 20 crore, Rs. 25 crore.

Vikram Shriram: And we have to sell that at a loss, we have to sell it at less than half the market price. That's the mandated UP Government regulation.

Saket Kapoor: Right. Sir, I will just come to the last point for my side is, what are the other lowering of cost initiatives that we are envisaging? The reduction in the power cost has come into play now and this is going to be a permanent reduction, the savings which we have done that should refigure what the power cost used to be earlier. And other than that, what are the other initiatives that we are taking on this sustainability on this issue going forward? Where are the key changes? And sir, the margins which we have seen in the PVC segment, although you have articulated that it is the demand pull that has happened, how sustainable are these numbers, the margin numbers going forward? And how have been the scenario for this month?

Ajay Shriram: First, first in terms of what you are saying of the cost reduction, that's an ongoing exercise which comes across in our raw material cost, in our plant efficiencies, in our operations, in our logistics thereafter, after we sell the product to the customer, how do we move through dealers or directly to customers. So it's a ongoing activity on 10 different fronts. Power is a large part of it which we have already implemented, a 66 megawatt new plant commissioned just about Q4 last year at Kota. We are commissioning the new 120 megawatt plant in Gujarat, which will be commissioned by Q4 of this coming financial year. So with this we will automatically get a lot of efficiency improvements in power generation, which will help us across the board. So it's an ongoing exercise. We are making sure that our membranes are changed on time, our salt quality is improved. There are 20 things you have to do to improve efficiencies and reduce costs. So that's an ongoing exercise. What was the second question?

Saket Kapoor: My question was regarding this PVC margins factor, what is attributing to these margins?

Ajay Shriram: Well, margins as you are aware that the market pull and the international prices have gone up substantially, so that is why we are getting the benefit of a better price in India for PVC, and these are commodities. So moving up and down as part of the commodity business cycle that happens in every commodity all the time. So, we are lucky that the price is moving well right now. And let's hope it lasts for some time.

Saket Kapoor: Lastly sir, on this caustic price, Amit sir, you told the prices are in the region of 19,000, but our channel checks in the chemicals segment that, if correct me that the prices have been Rs.28, Rs.26 per kilo and the prices have risen over the month of December to Jan.

Ajay Shriram: Saket, please find out where it is and please tell us who's the customer, we also want to get in touch with that customer who's willing to buy at Rs 26 a kilo, we will be really grateful to you if you could please tell us.

Saket Kapoor: There should be a gap. Rs.19 and Rs.28 cannot. You are more closer to the ground than the report because the report is only for putting a price, you are selling and dealing in the product. So that was my point. I was just trying to understand where the gap is exactly.

Ajay Shriram: I was saying on a lighter vein, but I am just mentioning that the prices which have been indicated somewhere, we've not heard of that, nor is it available in the marketplace where we are selling our product. So the prices today are in the range of Rs.19,000 to Rs.20,000 a ton, and we are hoping in the next couple of quarters it inches up.

Vikram Shriram: I just like to clarify the interpretation of prices for us is the net realization we get at the factory gate. GST rate, the handling charges to the customer are extra, whereas what you are probably taking is the landed price as the customer 200, 300, 400 kilometers away, GST include rate, include handling charges, include dealer commissions. So, there is bound to be a gap between landed cost at a customer for any product and XWR. Whenever we report prices, we report XWR, and this is common across products, whether it's PVC, sugar, caustic or anything else.

Moderator: Thank you. The next question is from the line of (Rama Krishnan) from DSP Mutual Fund. Please go ahead.

Vivek: This is Vivek here. I am delighted to hear CAPEX and balance sheet stability in the same breath. So in line with that, let me just ask my two sets of questions; one is on the balance sheet. In terms of the Bharuch CAPEX and the 1,000 crore that you've announced and your normal CAPEX, how much is the CAPEX do you see over the next two years in total, Bharuch, something's leftover? And in relation to that is the working capital CAPEX? Is there any sign from the government that the fertilizer subsidy will come in, in the current quarter because we know that your balance sheet would have been even stronger? So that's question number one. I think question number two is related to what everybody's asked till now. Perhaps in the next presentation or if you could give us this data even now, how stable are the prices and demand for ECH aluminum chloride and hydrogen peroxide over the chlorine prices, which are very volatile, which we know, would be very useful for us to know how stable your margins will be let's say two years from now?

Amit Agarwal: So, over next two years, CAPEX of 1,000 crore and we have a CAPEX of around Rs.400, Rs.450 crore for the power plant at Bharuch. So, that adds up to around 1,450 crore which goes into the committed CAPEX that we have, right. And then our normal CAPEX will be in the range of around 100 to 150 crore per year. So, that makes up let us say Rs.250 crore. So, put together we're talking about 1,600 to 1,700 crore kind of CAPEX, including normal CAPEX for next two years.

Vivek: The second was on fertilizer subsidy. Not for that your balance sheet would look even stronger. You said that the government has announced increased subsidy. Any sign of when they will make the payment?

K.K. Kaul: We expect bulk of our payment to come in the month of January because we understand that finance ministry has allowed the ministry to spend a significant portion of allocation which they have made. And we expect further payments in the month of February and March also. So hopefully, based on the latest information that we have in terms of allocations made by the finance ministry, almost entire outstanding should get cleared at least to the extent of December bills and the January bills.

Vivek: That's great news. Sir, last one was on in terms of the stability of aluminum chloride, your downstream chemical prices vis-à-vis that of chlorine. How stable are they, and how stable is the demand?

Ajay Shriram: I think the prices of all these products, ECH, H2O2 to aluminum chloride, they also fluctuate like any other product. We've seen the prices over the last 10-years, and it does move in a range of 20%, 25% plus/minus, that's part of I think, any product. So I think again, the issue comes in is that we are in the business for the long-term and the long haul, not for the short-term. And we have the captive availability of chlorine, captive availability of hydrogen, we don't have transport, cost of freight, etc., etc., to move these products around and we are going in for the best technology. So we will be competitive down the line. It's difficult to predict how stable the selling prices of these products will be down the line. Once you come into the market, will then have a better idea how the prices move. But as a business when we evaluated these as investment opportunity, considering our strengths of existing businesses we are in, as well as of the strengths we have in our chemicals business today, we think it's worthwhile getting into these two products right now.

Vivek: Sure sir. It does make sense for us also. Is the demand more stable, in the sense that the volatility in demand, is it steady, I can imagine price fluctuation….?

Ajay Shriram: Let me put this way; for both these products, the demand is growing steadily at about 3%, 4% a year worldwide. So, that is a sort of a situation we've seen over the last many years.

Vikram Shriram: Demand is actually growing faster than chlorine or caustic for both the products worldwide and in India.

Amit Agarwal: I was just trying to add, in India, the ECH demand is growing at about 10% though globally it is at about 4%, and if we talk of H2O2 also it's about 6%, globally, probably about 3%, so I think it's pretty favorable in that context.

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

Anand Jain: My first question is on the international sugar prices. I think they're kind of at like four or five year highs now. Probably if I were to look at IC prices around Rs.30 to Rs.33 convert into INR. So do you think that exports today makes much more sense to us than the domestic sales? And what kind of government support do we get on exports?

Ajit Shriram: Currently, you are right, the international prices have firmed up. And unfortunately, the government announced the export policy for the current sugar year only in December. So, the people actually began to contract very late. Our contracts also have taken place in January. The government wants 6 mt of export to happen. And we do hope that the entire quantity will be exported. And the government is giving us support of roughly Rs.6 per kilo or Rs.6,000 rupees per ton as support for export in terms of transportation and marketing charges.

Anand Jain: So would it be fair to have understanding like that our export price would actually today fetch us far more profitability than our domestic sales, is that a fair understanding?

Ajit Shriram: It really depends as to when you've done the export. We contracted our exports at roughly 14, 14.5 cent, which translates to roughly Rs.31 per kilo ex-works, including all the subsidies.

Anand Jain: So, we have contracted all our quantity that we are supposed to export?

Ajit Shriram: Yes, we contracted all quantities, and we hope to fulfill our entire export obligation within the next three or four months.

Anand Jain: So, this Rs.31 per kilo compares to what last year?

Ajit Shriram: Roughly similar.

Anand Jain: So we are not going to have any advantage of this price firming up?

Ajit Shriram: Because last year the government support was Rs.10.40 and this year is Rs.6.

Anand Jain: The second thing is in the ECU. Can you give us a breakup of chlorine and caustic soda realization, has it been negative, positive?

Amit Agarwal: I was just trying to say that when we look at exports, we also need to take into account that even at Rs.31, this is not including the inventory holding cost. If we don't export, this inventory sits for another year. So therefore, that's a big advantage that one needs to take into account when comparing export prices. On the breakup, the chlorine is positive even now, so the prices do keep changing, but then chlorine is positive right now.

Anand Jain: So positive like we have seen variants of minus six to maybe like plus eight kind of a thing, so when you say positive it's like 1, 2, 3?

Amit Agarwal: For last nine months it has been positive. So we have not seen a negative number in chlorine this year.

Anand Jain: The next thing for me is like H2O2. You have given ECH import as 70,000 tons and we are coming up with significant quantities in the ECH, 55,000 tons. Can you give us more data on H2O2 what is the current capacity in India and does H2O2 get imported if you can give in more details around H2O2 that also would be beneficial?

Ajay Shriram: 70,000 tons mentioned was for ECH, not for H2O2.

Amit Agarwal: H2O2, the total demand in the country is about 176 kilo tons per annum and about 18%, 20% is imported right now.

Anand Jain: The current players who make H2O2 in India, are they integrated with chlorine, like chlorine complex like we have? Is Grasim doing it or any of these large guys?

Amit Agarwal: Some are there like GACL and Grasim would be but then there are others like National Peroxide which is not integrated on hydrogen. GACL, Meghmani and Sanmar, they are all integrated with chlorine and they all do H2O2.

Vikram Shriram: But significant capacity, which is not integrated also, these players who are not integrated.

K.K. Kaul: National Peroxide and Indian Peroxide is not integrated; they make hydrogen from natural gas.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus Asset Management. Please go ahead.

Rahul Veera: Just a quick question. I believe the break up that we gave for the CAPEX for hydrogen peroxide is 52,000 tons for 400 crore, is that correct?

Amit Agarwal: Yeah, approximately 400 crore, 51,000 tons per annum.

Rahul Veera: Because one of our competitors like they are doing 60,000 tons with a CAPEX of approximately Rs.150 crore, that's what they've given. So, just wondering like our cost is coming to around 3x?

Amit Agarwal: Probably I can connect with you offline to understand this.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Just wanted to check in terms of the PVC resins, what is the total imports in India and have they seen any reduction or it continues to grow, what is the underlying demand?

K.K. Kaul: Currently, domestically we produce about 1.4 lakh tons just from the domestic production, consumption is 1.4 lakh tons per month and the import is about 1.2 lakh tons per month. So, total the consumption is about 2.6 lakh tons per month. I'm talking about this last Q3, but normally if we compare it with the previous quarter it used to be about 2.8 lakh tons, so, there is a slightly drop in consumption per month from 2.8 lakh tons to 2.6 lakh tons. So, roughly you can say about half and half; half is imported, half is domestic.

Achal Lohade: And you're saying that compared to 3Q FY'20, the volume would have seen a reduction broadly?

K.K. Kaul: If we see for the nine months period, there is a reduction of almost 21% and currently even by month-on-month also there is a reduction, still not come up to the full consumption.

Achal Lohade: The reduction is even for the domestic as well as for imports or given the price increase the domestic is that 100% while the imports have reduced, is that a fair…?

K.K. Kaul: That's right, domestic producer producing at the maximum rate and the imports have reduced.

Achal Lohade: And how much of that would be going into plastic pipes according to your estimates?

K.K. Kaul: Little over 60% goes for the pipe benefits.

Achal Lohade: And that would have been steady or if not increased, while the others would have reduced, would that be right?

K.K. Kaul: Difficult to say, because prices are high, some of those which have alternative things, that consumption doesn't come up. And there was a little reduction in the pipes consumption also, because there are alternate materials from where the pipes can be made in comparison to PVC. So they would tend to go down if the prices are very high.

Achal Lohade: And in terms of the price, what has driven this global price increase, and are you looking at any correction in next month or two or it's going to be a little more longer term for prices to soften?

K.K. Kaul: Largely been because of a demand/supply mismatch. Right now, we see a little bit of softening happening. So we can't predict how it's going to go in future because the demand go down or the production goes up largely after the Chinese holidays are over. So maybe there could be some more softening, but we do see now it's softened a bit in the last few days.

Achal Lohade: 10% or 15%, 20%?

K.K. Kaul: See, for example, last month, we have seen imported offerings coming at around $1,350, last offering now has been almost at $1,320, so it's softened by already about $30.

Vikram Shriram: That in the last three, four months, the major factors that have influenced the global demand supply have been outages of plants in US Gulf because of their hurricane season and some mishaps in Taiwan, etc., Gradually those plants have come onstream. At the same time the demand has been very strong because of US and European housing demand and China's housing demand.

Achal Lohade: Supply is also going up, but the demand is also going up, as a result prices are pretty much firm, there is a little bit of softening. And this one more thing on the sugar sector in terms of capacity addition, do you see an opportunity to add more distillation capacity given the push by the government in terms of the incentives on the capacity, the interest subvention?

Ajit Shriram: What we looking at is a debottlenecking our distilleries and also we're exploring the option of making them multi-feed in terms of using grain as well, besides juice and different grades of molasses.

Achal Lohade: But there is no plan of adding new capacity, Greenfield or anything of that sort like one of our competitor in UP is going for a large capacity, converting the entire sugar into ethanol?

Ajit Shriram: Actually, if we see in last two years, we come actually from zero capacity to over 350 KLPD. And, as I mentioned earlier, we're looking at this multi-feed option and some debottlenecking at this point of time.

Achal Lohade: How much capacity incrementally it could add in terms of KLPD?

Ajit Shriram: Currently, we've expanded our capacity by 20 KLPD.

Achal Lohade: That's a very small one actually given your base.

Vikram Shriram: But going forward when you multi-feed it, and we're still studying it multi-feed and the debottlenecking. There will be something in the pipeline, but we can't be precise about it as yet.

Moderator: Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: I joined the call bit later. Just wanted to check what is the utilization per caustic now versus like what we had in Q3 which you have already answered this question?

Ajay Shriram: Caustic Chlorine is now running at about 80% capacity utilization at our Kota factory and Gujarat factory.

Prateek Kumar: Which is same as the Q3 number which we reported?

Ajay Shriram: Yeah.

Prateek Kumar: The chlorine realization, while we talked about it, it is positive, has it moderated QoQ and Q3?

Amit Agarwal: These are commodity, so there will be ups and downs, yes, there is some minor moderation, but they are in reasonable range.

Prateek Kumar: Just one question on the competitor capacity. While we are still looking like in a couple of quarters in terms of expansion, has any other competition like started on this expansion in your view, or they're looking at it?

Ajay Shriram: There were a couple of plants which I think we're doing an expansion of the caustic soda. But I think no one is looking at putting up new capacity right now. If there are some which are on the way, then they will get commissioned in the next couple of quarters, that's possible. But I don't think anyone is looking at any Greenfield or Brownfield right now.

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

Rohan Gupta: One question is on our CAPEX plans. So, earlier, I think that when we were looking at further CAPEX in the downstream chemical, we were looking at and contemplating multiple options to where to put money. I think at that time, we were also exploring the opportunities to invest in a specialty chemical segment along with the chemical chlorine downstream derivative. You have announced two products, which ECH and hydrogen peroxide, both still remains in a commodity side. Are you planning to look at further CAPEX in a business or in a segment in specialty chemicals, where we not just remain on mercy of price volatility or any commodity and can change our business model, so, is there any thought process because as you said that by this year end, you will already have almost debt-free balance sheet or just 0.02 debt-equity. So, you will have significant cash flow generation from next year onwards, even the caustic soda CAPEX have been pushed further. So, are there opportunities that there will be more plants in CAPEX which can be significantly in different directions from the current scenario?

Ajay Shriram: As we mentioned that one of the projects we've initiated in the 1,000 crore CAPEX is also putting up product development and research and development center. Objective of that is to get into value added products further down the line. So, we are looking at epoxy resins, we're looking at other products which will add value to ECH also. So, that is part of a work-in progress. And in due course of time we will definitely get into some value added products down the line.

Rohan Gupta: So any idea that may be next two years where our maximum cash flows will be invested? I mean, this CAPEX has already done now.

Ajay Shriram: It's too early to give any commitment right now.

Rohan Gupta: So we are still not clear that where we are going to invest the cash flows which will be generating in next year '22 and '23 probably?

Ajay Shriram: Well, as you said, 1,000 crore is going to be invested over the next two years in this project itself plus we have Rs.425 crore investment going in a power plant, which will be commissioned by the Q4 of the financial year '21-22. So, this will take up a large part of our CAPEX.

Moderator: Thank you. The next question is from the line of Anand Singh, an individual investor. Please go ahead.

Anand Singh: I have three questions. The first with regard to our CAPEX plan you mentioned Rs.425 crore is for power. Now, historically, we have seen, power has been captive, but of late, there have been instances where companies get independent power producer to build a plant in their facility and thereby their asset goes down. So, prime example of this is Tata Metallics, whereby they brought in an independent power producer to set up a power plant in their premises, and they'll buy the power captive. So, have we considered that kind of an option where we moderate our CAPEX on power, and thereby keep the balance sheet lighter?

Ajay Shriram: We evaluated our investments across the board. In a chlor-alkali plant 65% of the cost of production is power. Now, we principally would like to keep as much control over our major raw material as possible. We have the expertise, we have the quality of people, we have the wherewithal in our locations. So we've evaluated all these options, even in sugar, this thing happened about seven or eight years ago, where people would come and say, okay, we'll run your power plant, and we sell it to you at x price. But you know, what happens is in these sort of situations, the company does not get the full benefits. And why do we end up giving a return to someone else who's going to put up the power plant in our own premises which we are buying 100%? So from any principle point of view, unless you don't have the expertise, or you're running short of capital, it can be either of these two reasons. But principally, we want to have control on our raw materials as much as we can.

Vikram Shriram: The cyclicality or the improvement in margins, that the raw material costs of power also pass through to us. If we keep it down with ourselves as part of our strategy of capturing all the value.

Anand Singh: Just to understand this, with this 1,425 crore CAPEX for next two years, can we assume that this will be like the ballpark CAPEX, there won't be any incremental CAPEX, or can there be any additional CAPEX on top of this in the next two years?

Ajay Shriram: You know, my friend, we are a growing company, we are a forward-looking company, we will take decisions which are appropriate, and the board will consider all alternatives. It's very difficult today to give a comment, we're not going to spend any more CAPEX. I think that's not fair because our debt raising capability is sound. If we have a good project, we want to look at something we get a good acquisition opportunity, whatever, we are an open company looking at a forward looking way and we are in business for the next 25-years. So we are going to look at all options and the board will take a decision at the appropriate time on any CAPEX

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Relating to the sugar segment as well as the fertilizer part of the story, in the sugar segment, I think so, the WTO compliances would be applicable from 2022-23 and then the subsidy being provided for export won't be applicable. So the steps which we are taking in terms of the distillery and a country liquor will be the mitigating step and more needs to be done in order to suffice the strong vagaries of the sugar cycle?

Ajit Shriram: You are right from December '23 the WTO regulations come into force. So, our whole effort is to divert as much sucrose as possible into ethanol and balance production of sugar in India equal into consumption, because our cane prices are much higher than the major exporting countries in the world, be it Australia, Thailand, Brazil, South Africa, etc., So, the industry's direction is to increase the level of ethanol, and the government is also being very proactive on this front where earlier on their 20% blend target was in 2030, they're bringing it forward and hopefully they're under the 20%, then target will be now 2025. So, the whole effort is to increase ethanol going forward.

Saket Kapoor: So, sir, we can conclude that the sugar segment, the fertilizer segment, both will be totally dependent on the government policy and won't be exactly the market driven segments, for sugar as well as fertilizer, these are the segments that will last in continuous support of the government policies and will depend on the vagaries also of the incumbent government that would be there at that time, these sectors will be subject to it?

Ajit Shriram: Saket, the issue is as long as the sugarcane price is determined by the government, there has to be some kind of support so that the cane price is paid. As I mentioned to you earlier, that the cane price in India is much higher than the cane prices of the major exporting countries. So the cane price is artificially high today. And in spite of there being cane arrears, the cane farmers are planting more cane because cane is giving much better returns to the farmers compared to any other crop cycle in India, particularly in UP, Karnataka, Maharashtra, etc., So in order to pay the cane price, there has to be some kind of a support.

Saket Kapoor: For the fertilizer segment, how do we justify our capital allocation policy there as the returns doesn't match the profile of the company in the chemicals segment, so what is our strategy for going forward for the fertilizer segment and the seed part also?

Ajay Shriram: I'll tell you on the fertilizers. We set up the fertilizer plant in 1969. So now it's over 50 years old, and we have moved on a particular policy government brought in 1972. And that's how the subsidy to the farmer is given through the fertilizer industry. Our philosophy has been that we are not expanding the plant, we are making sure it runs efficiently, runs well and is safe. Government now has allocated 65,000 crore in the last month or two as additional outflow to fertilizer companies whose outstanding's as it is are very high. So, considering this position, yes, we are banking on the government because it is subsidized to the farmer, there is no alternative. But that's why urea manufacturing is the only thing we do. As you are aware we used to do trading in DAP. We used to do trading in SSP and MOP. We have stopped all that trading because we are banking on the government and the government subsidies, so our returns were very low, our capital was tied up. So, we stopped all that and we are now running only the urea plant. And if this money flows through and this comes in, then the returns are quite satisfactory.

Saket Kapoor: And what are the receivables on the urea front as of now? You told sufficient fund has been released.

Ajay Shriram: The release of funds have been announced by the government of Rs. 65,000 crore for payment to fertilizer companies. I think our outstanding from the government in terms of our fertilizer industry, coordination committee FICC outstandings is Rs.624 crore.

Saket Kapoor: And this entire amount we will be receiving, any ballpark period by which the same will be reduced and this is also on a cycle basis I think so, the more we will produce going forward, the receivables will go up accordingly?

K.K. Kaul: So this outstanding of Rs.624 crore is what we have sold. So this we hope that will get liquidated in the next two months. And then probably we should be on a regular bill. As you sell, you submit your bill. What's being said is that we should be almost on a monthly basis because the next provision in the budget, we will know it in February, likely to get the full allocation for the next year also, and the outstandings would have been cleared.

Saket Kapoor: Lastly on the Hariyali Kisaan Bazaar part, we were about to restructure the entire thing and this petrol pump and all which were there getting sold off, the league has been cleared, what is the status on the same sir?

Amit Agarwal: We are continuously selling down the properties, right. So though it is a little slow process, but now, we have less than 30 properties left with us, I think about 15, 16 petrol pumps are left, so we should liquidate them over a period of next one to two years.

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

Rohit Nagraj: Thanks for the follow up. Just a strategy related question. The earlier participant also cited about the same. So we have restructured a few of our businesses, which were probably not relevant or not making money for us. And now that we have announced a sizable CAPEX for chemicals business after a couple of years. After a couple of years the chemical segment itself will account for more than 50% of our top line with better margins and relatively better visibility in terms of earnings. So, is there any thought of separating the chemicals business from the agri-related business and if not, whether we will be thinking of the same in future once this CAPEX is being done or in process?

Ajay Shriram: This is a strategic direction we keep debating pros and cons. But we have not taken any view on this of separating the company or separating the businesses or splitting up the company. We feel that as of now we want to continue the way we are.

Moderator: Thank you. Next question is from the line of Karthik from Unifi Capital. Please go ahead.

Karthik: Just wanted to understand, you mentioned the sugar export volume that will flow into the subsequent quarters. So given the run rate of six lakh quintal as we usually observe as for each quarter, can we expect at least 50% of last quarter to flow into this quarter?

Ajit Shriram: As I mentioned earlier, the export policy was announced in December 2020 and these on a contract till January. So we will be exporting our entire quantity in the next three, four months, whatever we have contracted.

Karthik: Okay, so roughly, we have contracted of around 12 lakh quintals?

Ajit Shriram: 12.5.

Karthik: If we see Q4 for agri as such for Farm Solutions and Bioseed is a weak quarter we see from the revenues. But urea has been able to sustain across the last two, three years in Q4. So what's the business model there? How come urea as a segment been able to survive the revenue?

K.K. Kaul: It comes in to the place in the beginning of the quarter. So that's when you do the sowing. So thereafter, the fertilizers come in, they're able to apply fertilizers right through the quarter. So that's how it gets sustained through the entire Q3 and Q4. Bioseed, we have products, which are largely in the kharif season and we don't have significant products for the rabi season.

Karthik: And regarding Farm Solutions, is it the same logic as bioseed?

K.K. Kaul: Should be largely, yes.

Vikram Shriram: They are all applied at different point in time in the farming cycle.

Karthik: Just a quick question on the CAPEX. So you mentioned the ECH plant would be of high technology. So is it going to be biotechnology because we know one of our competitors recently went for a renewable ECH plant, so could you maybe mention more on the technology going to be used?

Ajay Shriram: I think that is still something which we are debating. We're talking to technology suppliers across the world. And we will take a call. We've not taken a decision yet on which technology we are going to be using.

K.K. Kaul: If your question is based on Glycerin which is unlike earlier plants, which used to be based on hydrogen peroxide or polypropylene oxidation processes, this is a glycerin technology which is a relatively new technology. And you can call it green because glycerin comes out of the bio products.

Karthik: And the hydrogen peroxide what concentration are we going because I believe the 50% and 100% concentration?

K.K. Kaul: Largely the 50%, but some portion of it, because that's a very small consumption, largely the lower concentration ones, two, three grades together.

Karthik: So what are the timelines exactly are we looking into? I mean, you mentioned it's around 24 months. But is there a different timeline to the commissioning of these plants or will it all be simultaneous?

Ajay Shriram: The plan is to get into implementation as the board has approved. And the estimate now it will be between 20 to 24 months between that. So as each one comes up, it will be commissioned as soon as possible.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Ajay Shriram: Ladies and gentlemen, we thank you for your participation in our Q3 and Nine Months Financial Year ‘21 Earnings Conference Call. We have outlined a strategic direction and the steps being pursued for the same. As we achieve our milestones through these initiatives, we are confident of sustained overall growth in operating and financial performance underlined by strong businesses, enhanced cost competitiveness, multiple earning streams, and stronger balance sheet. Our strong balance sheet along with the strong organization allows us to keep investing in growth. We are confident of delivering sustained top line and bottom-line growth over the medium term across our businesses. Thank you once again. Stay safe and stay healthy. Goodbye.

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