

## LAKSHMI ENERGY AND FOODS' INVESTOR CALL

**25 MARCH 2008 at 4:00 PM IST**

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**Moderator:** Good evening and welcome to the Lakshmi Energy and Foods Limited's conference call, hosted by Parag Parikh Financial Advisory Service Limited. We have with us, Mr. Jigar Valia from Parag Parikh and Mr. I S Gumber, Director, Lakshmi Energy and Foods Limited.

For the duration of the conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you need assistant during the conference please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Jigar Valia of Parag Parikh. Thank you and over to you Mr. Valia.

**Jigar Valia:** Thanks Marina. Good evening Ladies and gentleman, thank you very much for participating in this conference call. We have with us, Mr. I. S. Gumber of Lakshmi Energy and Foods and we also have Mr. Harwant Singh, who is an advisor to MD at Lakshmi Energy and Foods and Mr. Neeraj Rastogi, CFO, Lakshmi Energy and Foods. We are absolutely glad to host a conference call for Lakshmi Energy. I would like the management to give a brief background about the Company and its expansion plan post which we can have the question and answer session. Over to you Mr. Gumber.

**I S Gumber:** Thank you Jigar, thank you all participants. I am glad that you are hosting this conference call and giving us the opportunity to present our Company to the discernable investors. I would like to start with a brief history of the Company.

The Company has been in existence for the last 27 years. It started as a small Company with 5 tons per hour paddy processing capacity. Over the years it expanded till 1994 when it came out with an IPO the Company had 30 tons per hour paddy processing capacity which was further taken to 60 tons in the year 2000. In 2001, when we raised it further to 105 tons per hour capacity it was fairly large capacity for us to go for diversification and we went for downstream projects. We setup solvent extraction plant for making rice brand edible oil and

we also setup a cattle feed mill. And the moment we did that, we saw that it was good for the Company in terms of bottom-line growth. For the last 7 years, we have been seeing that advantage. We have been expanding further and in last 3 years we setup another capacity of 25 tons per hour. And we raised our total installed capacity for paddy processing to 130 tons per hour. With that capacity, at that time our profit was about Rs. 20 crore.

In the last 4 years we have been raising our profitability substantially. We took a decision in the year 2004 to diversify and expand. At that time Government of Punjab with support of Indian Government had released a policy that any Company which uses non-conventional sources for generating energy would be given an incentive. So, we made an application to the Government and took a mega project approval which is suppose to be implemented over a period of 5 years, spending and having a capital expenditure in access of Rs. 800 crore. That project is now underway.

In last 3 years, we have been able to make substantial progress in our CAPEX plan. We have implemented an expansion by setting up 120 tons per hour of paddy processing capacity. This capacity has come about by installing a state-of-the-art fully automated computer controlled plant which has been imported from Japan, Germany and US. This plant has already come into operation and it operates in 3 modules of 40 tons each. The main quality of this plant is that it consumes 30% less energy and requires 1/3rd of the labor forces which is only done in an Indian plant. It has a high productivity level and has already boosted our profitability. This plant was completed in 3 phases during the year 2007 - 2008. And along with this plant, we have also set up a 30 megawatt power plant which is going to come into operation very soon. This power plant will use captive husk, which will be generated and the capacity 30 megawatt has been so planned that if we produce 1 million ton of paddy we will generate 200,000 of husk. And using 200,000 tons of husk we can generate electricity from a 30 megawatt power plant so the entire thing has been very well tuned.

This plant which has been implemented has been erected by Shriram EPC Ltd. And the boilers have come from Thermax. The turbines have come from Shinipon of Japan. The power generation is going to start from April onwards and the power is likely to be sold. We have signed a power purchase agreement with the Government of Punjab and it is going to be sold to the Government. The plant will be operated by Shriram EPC Ltd on ONM contract

basis for 3 years. And the assured power units which will be generated are 220 million units.

Along with that we have also set up facilities for packaging of our products. Historically, we have always been selling our products in the wholesale market. Our major client has been Food Corporation of India because we were mainly doing FCI grade paddy processing, but we have in the recent past started procuring paddy which is premium grade and we have started processing that paddy along with some parts in Basmati space. Our packaging plant has also been started, because we took a decision last year to enter packaging products. Packaging products idea came about as in India with the rise in income levels and the growth of GDP; a lot of demand for packaging products has grown. With the mall culture the packaging products demand has grown by 20% vis-à-vis the normal food grain and food products demand growth of 5%.

We launched our food products in the month of February and we have received tremendous response across the country. We have launched only in 2 cities right now and will launch in another 16 cities next quarter. The product has been very well accepted in the market and that has given further boost to the Company.

We have also diversified into production of wheat flour along with our rice production. The wheat flour mill has started operating and we have, again, received a very good response from the market for our wheat flour. We have been producing certain by-products as I mentioned in the earlier, rice bran oil and cattle feed. The rice bran oil is being sold by us in the wholesale market as of now. After successful launch of the rice and wheat flour in packaged form, our next plan will be to launch packaged cooking oil and other kitchen products which will be followed after launch of the cooking oil. We have been doing well on these lines and financially also.

Our financial performance has also been showing up whatever we have done in the past. I will touch upon briefly on the 9 months performance of the Company for the quarter. For the period ended December 2007, you would notice that we have experienced a decent growth. We have been able to achieve a turnover of Rs. 644 crore against corresponding period turnover of Rs. 491 crore. We have achieved profit before tax of about Rs. 108 crore against Rs. 77 crore for the corresponding period. And for the year which is going to end as on 31<sup>st</sup> March, 2008, we are likely to see a handsome growth in turnover as well as in the

bottom-line. We will continue to follow the same trend in the next year because next year is going to be a year which will be the most critical year for our Company because we will be into several products we will be in packaged products for the first time. For the next year we have targeted that we would be able to achieve a growth of 35% to 40% in top-line and a growth of about 80% to 90% in the bottom-line. We are also targeting to achieve a turnover in the packaged product in excess of Rs. 250 crore. Packaged products definitely fetch better margins than the products which we were putting in the wholesale market.

I will now open the floor for questions.

**Moderator:** Thank you very much Sir. We will now begin the question and answer session. At this time if you would like to ask a question please press \* and then 1 on your touchtone phone. The first question comes from the line of Anubhav Gupta. Please go ahead Sir.

**Anubhav Gupta:** What is the total investment made for the captive power plant that you have specified?

**I S Gumber:** We have so far expended Rs. 107 crore in the captive power plant of 30 megawatts.

**Anubhav Gupta:** How much these are expected in 2009?

**I S Gumber:** Power plant is ready and it is being commissioned next month. We do plan to put up additional power plants but this power plant has been completed with the investment I mentioned.

**Anubhav Gupta:** Right, and what are the forecasted revenues for 2009 from power plant?

**I S Gumber:** Power plant revenues will be, you see, on a 12 months basis we are supposed to produce 220,000 million units. And our present selling prices is Rs. 3.59 per unit which will be revised at 3% annually for the next 4 years; by that calculation on an annual basis we will be earning revenues of Rs. 80 crore from power generation.

**Anubhav Gupta:** Alright and if you decide to sell part of the power to private buyers then the revenue will be higher?

**I S Gumber:** Right. The power from husk is a business where top-line is this much but margins are very strong we are expecting something like 45% margins for the power generation alone.

**Anubhav Gupta:** Alright and you are talking about net margins?

**I S Gumber:** Net margins because it is waste to energy.

**Anubhav Gupta:** Right. Thanks.

**Moderator:** Thank you very much. The next question comes from the line of Punam Sharma of Standard Chartered. Please go ahead.

**Punam Sharma:** Good evening, I am confused as far as the capacity is concerned. You said 130 tons per hour that is the old capacity plus 120?

**I S Gumber:** That is correct.

**Punam Sharma:** So the total is 250.

**I S Gumber:** 250 minus 25 we have scrapped a very old plant so the net capacity today is 225 tons per hour which on an annualized basis is 1.35 million.

**Punam Sharma:** Okay and for how many days does this mill operate in a year?

**I S Gumber:** 300 days.

**Punam Sharma:** And how many hours a day?

**I S Gumber:** 20 hours.

**Punam Sharma:** And also you said that the total CAPEX you had year marked was about Rs. 800 crore of which you have spent Rs. 107 crore on the power plant and what percentage of the CAPEX is left or how much is yet to be spent?

**I S Gumber:** Last two and half years we have spent Rs. 300 crore. About say, Rs. 100 crore on power plant and Rs. 200 crore on expansion cum modernization. So total Rs. 300 crore has already been spent by the Company.

**Punam Sharma:** Okay.

**I S Gumber:** For the coming 4 years, we have CAPEX plans about Rs. 800 crore plus, upward of Rs. 800 crore, Rs. 800 crore is definitely there as in today's cost. So that will entailed to raise the installed capacity for paddy processing.

**Punam Sharma:** Okay, what kind of capacities is one looking at in the next couple of years?

**I S Gumber:** Over a period of two years from now, we will have two million tons capacity in the current location. And we would have additional 1 million tons coming up, thereafter at a different location. So we are targeting a 3 million ton capacity for paddy processing.

**Punam Sharma:** Paddy processing concern and what about wheat you were...

**I S Gumber:** Wheat we have started with 100 tons per day capacity. You know and when we say paddy processing capacity we are counting in hourly basis the rest of the capacities are on daily basis. So we have set up a small wheat mill which is having a capacity of 100 tons per day, but that is just a beginning we will take it further to 300 tons.

**Punam Sharma:** Okay and solvent extraction, what is the capacity in solvent extraction?

**I S Gumber:** Current capacity is 300 tons per day. We are planning another 300 tons in the year 2008 and 2009.

**Punam Sharma:** Okay and just to understand the entire paddy process procured from the farmers so you have tie up there and you pay them a certain price. Now that price is governed by a current market conditions.

**I S Gumber:** No, it is quite a compressing. Actually we do not have any tie up with the farmer. We would not like to reach the farmer level because it has become very complicated, because our produce comes from lakhs of farmer. So we go to the mandi level and in mandi there are commission agents. Our touch is with the commission agents. Our representatives go to many Mandis in Punjab, sometimes in Haryana also. And they contact commission agents, commission agents are in touch with the farmers. Farmers bring their produce to the mandis and commission agents show us those produce. Our representatives

select the best and do the deals. Government of India governs the prices only FCI grade paddy, rest of the paddy is market forces. So we buy both paddy, we have been actually till last year buying only a FCI grade paddy, because we were doing large volumes of non-basmati rice and we need lots of by-products for our by-products processing. So that was a reason for achieving large volumes we were doing FCI grade paddy. We were buying those MSD paddy, this year is the first year in the history of the Company when we have bought lots of FCI paddy and non-FCI paddy.

**Punam Sharma:** Okay. So then you process in your firm and you sell it in the market with your margins?

**I S Gumber:** Yes, when we buy we have to pay certain additional charges like 4% VAT, 4% market fee, 2.5% goes to the commission agents, 1% goes to the brokers our representative.

**Punam Sharma:** Okay.

**I S Gumber:** 1% is overall cost for loading, unloading, packing, cleaning, etc. And about 4% is the transportation cost to our godowns. So we incur that much cost. And we procure during the harvest season which ranges from 3 to 4 months and then we have to process for the whole year of 12 months. We store lot of paddy in our godowns. And as and when required it goes for milling, some paddy goes to milling all the time. And when rice is made that is packaged and sold. The FCI rice gets packed in 50 kg bags. And part of that rice we send in the wholesale traders. The new business which I had mentioned about the packaging, we have done that as well.

**Punam Sharma:** Okay, so that is the entire value chain.

**I S Gumber:** Exactly.

**Punam Sharma:** Okay, thank you so much.

**Moderator:** Thank you Ms. Sharma. The next question comes from Ruchit Mehta of HSBC, please go ahead.

**Ruchit Mehta:** I just want to understand in terms of the prices of the rice and paddy itself, is it possible there could be a situation, wherein the market price of paddy could be higher than the Government mandate MSP and therefore you are made to require to pay more than that?

**I S Gumber:** It is likely, I will not rule out the possibility in case of shortages and when there is more demand that can happen. But at the same time MSP paddy price cannot rise very-very sharply, that can be a differential of 0.8% to 1%, the Minimum Support Price paddy which is very nominal, which will not affect the overall economics of production size but then there is another set of paddy which is non-FCI, which can always go with the supply and demand situation.

**Ruchit Mehta:** And you know the FCI grade there is not much of variation ..

**I S Gumber:** Not much, hardly any, if FCI is buying at say Rs. 775 the best of the paddy which somebody does not want to sell to FCI they sell at Rs. 780 max.

**Ruchit Mehta:** That quality of rice of the FCI grade rice in terms of specific qualities of the whole price variation is not much.

**I S Gumber:** Yes.

**Ruchit Mehta:** And similarly on the end price also, does it tend to be possible on the historical you had it like 45% gross margin on sales considering cost of paddy but can that change considering the price of rice can actually fall below.

**I S Gumber:** Unlikely, paddy price goes up when there is inflationary trend or there is not only the general inflation, there is an increase in cost of inputs or there is a shortage in production of paddy. There are short rainfalls or things like that. If that happens then the price of rice is also shoot up.

**Ruchit Mehta:** Okay, so you tend to maintain that mark but there is a possibility that paddy price will go when rice prices will fall.

**I S Gumber:** No, it does not happen. I have 16 years of data with me to prove my point that it has never happened in the past and it is unlikely to happen in future.

**Ruchit Mehta:** Okay. On the taxation front, if I look at your 9 months reported numbers, the income tax rate that you have reported, you have provided for just about 14% to 15%. So but if we look at the annual results from last year, you have provided almost 40% tax rate included deferred tax and everything so...

**I S Gumber:** Deferred tax will be coming in Q4, post deferred tax our last year profit was Rs. 60 crore and you have to have that in mind while looking at our net profit for the current year. So, our deferred tax will be accounted for, it is being worked out, it will be accounted for in Q4 and then you will have a clear picture.

**Ruchit Mehta:** So effectively what will be the post deferred tax? What is the effective tax rate if we included deferred tax?

**I S Gumber:** It will be inclusive of deferred tax, it will be normal tax.

**Ruchit Mehta:** 34%.

**I S Gumber:** Not exactly, maybe a few percent here and there, I do not have the number, it is being worked out, but it is normal tax.

**Ruchit Mehta:** So does it mean that Q4 you captive will not have profit itself?

**I S Gumber:** No, we will have profit, we will have plus side, but suppose we make a profit of, hypothetically say we have made Rs. 40 crore profit. And if deferred tax is Rs. 25 crore so you will see Rs. 15 crore.

**Ruchit Mehta:** So sequentially there will be a dip in profits.

**I S Gumber:** No, that is a book entry which ideally I should have put it in all 4 quarters, but next year you will see this policy getting streamlined and will be putting it in all 4 quarters. Then these discrepancies will not be visible.

**Ruchit Mehta:** Okay and effectively you will pay full tax?

**I S Gumber:** Next year we will be paying much less. This year, no, we do not pay full tax.

**Ruchit Mehta:** No, including deferred tax.

**I S Gumber:** Yes, deferred tax is not a payment.

**Ruchit Mehta:** Yes, but your accounting will happen for full year?

**I S Gumber:** Yes accounting will happen for full year. Next year, even deferred tax will be reduced, because our power generation plant will equal for 80% accelerated depreciation for the first year and there is no deferred tax on that. So we will be enjoying lot of benefit due to power plant getting operational.

**Ruchit Mehta:** And finally, any update on the guidance for what you likely to do for 2008 and 2009?

**I S Gumber:** I can say this much that 2008 and 2009 will be one of the finest year for the Company simply because our expanded capacity will be fully operational. Power plant will be working, our branded products will be in the market and we will be doing some further expansion. Our subsidiary Company will also be performing, all put together I see a very healthy growth. Much better than the current year.

**Ruchit Mehta:** Okay, thank you.

**Moderator:** Thank you Mr. Mehta. The next question comes from Rahul Bhangadia of Lucky Securities. Please go ahead.

**Rahul Bhangadia:** Yes, I wanted to know two, three things. One is, when did your 30 megawatt power plant start operations or is it still to start.

**I S Gumber:** It is still to start; it has been delayed for couple of reasons. Capital goods industry is in such an overbooked position that they are delivering the equipment late. I made it clear in my last concall also that we are facing some delay in power plant implementation.

But the painful period is over for us and next month it will start operations. What we are expecting is that 15 megawatt will get operational in next 15 days and the remaining 15 in one month thereafter. So we will be full stream by end of April or early May on the power plant.

**Rahul Bhangadia:** Okay. And the second thing was if we see the last 3 to 4 year performance of the Company, we have consistently increased our margins from about 6% to 7% in 2004 to now we are close to around 16% to 17% or 18%. Now given that all these while you have processed only FCI grade paddy, which you have procured from FCI ...

**I S Gumber:** No, we did not procure from FCI it was FCI grade.

**Rahul Bhangadia:** Okay, you did not procure from FCI.

**I S Gumber:** You know what happens, briefly I will tell you. The small mill is procured from FCI because they do conversion job. We involve our own working capital the paddy belongs to us and we sell rice to FCI. So we make the profit ourselves.

**Rahul Bhangadia:** Okay, so the majority of the rice sell happens to FCI.

**I S Gumber:** Yes, that is right. We give 75% to FCI and 25% to wholesale traders.

**Rahul Bhangadia:** Okay, could you throw light on how you could improve margins over the last 3 to 4 years or what additional things happened? Although these days a lot of backward forward integration or a total integrated plant, if you could throw some light on how things...

**I S Gumber:** Sure, I have a value chain. Through Jigar I will be able to send you a value chain which will enlighten you on whatever I am telling you. If you run an ordinary rice mill you do conversion job and you produce some by-products which you just throw away or sell at whatever price you can get. For example, one of the by-products, husk you only have to burn it away nothing can be done with it, because of the low volume. And as far as rice bran is concerned you sell elsewhere and they make soap oil and it sells very cheap. We are an integrated company there are various reasons why our profitability margins have grown, one of them is that we play in very large volumes.

We are enjoying economies of scale, our fixed cost will not go up when we improve our profitability that is one reason we improve our profitability. The second reason why we improved our profitability over the years is that we do not end at rice, we use the rice bran which is waste. If we sell rice in itself for Rs. 5 to Rs. 6 a kilo today, we make cooking oil which is worth Rs. 50 a kilo.

We also make cattle feed which sells at Rs. 6 to Rs. 7 a kilo. And then we use equipment which gives us better yield and we have maximum long bran rice. Our yield is 67% and ordinary miller's yield will be something like 64% that 3% makes a lot of difference.

We have number one scale advantage; number two efficiency advantage and number three we have down stream projects. That will easily qualify us for improving our profitability. If somebody is making whatever percentage we can easily double it, because our by-products and various other reasons. And it does not end here, now we have started our new plant you will see further improvement, because the new plant is very efficient it gives even higher yield up to 68% of longer grain with lesser broken, with lesser crushed rice and it consumes 30% less power, it requires 1/3rd of the labor force and it is automatic from beginning to end there is no human touch to the grain, you cannot even see the grain unless you open the door of the machine.

And then our pre-packaging processes, which makes the rice finer, more beautiful. So all that put together is on for the last 5 years. That is the reason that in the last 5 years we have been improving our profitability margins. Now with retail packaging starting we are hoping that that will also contribute towards it.

**Rahul Bhangadia:** So how much do we expect our rice packaging business to contribute next year?

**I S Gumber:** Our packaging vision next year is targeted to be at least Rs. 250 crore.

**Rahul Bhangadia:** And that should surely be better than selling it open?

**I S Gumber:** Oh yes, definitely.

**Rahul Bhangadia:** Okay. Last question, you process paddy as well as you take up some rice for your processing, how does that work?

**I S Gumber:** We take some brown rice, we have a large capacity. Some people who do not have all the machinery are able to only do de-husking the critical machinery like polishes and it is very expensive and very critical machines so they give others to do the rest of the job.

**Rahul Bhangadia:** So the processing paddy should logically be a better margin business than only processing brown rice right or it is not like that?

**I S Gumber:** Every process in your hand is always better, undoubtedly, but we take the opportunity of buying brown rice and do the rest, because our capacity is large so we can do that as well.

**Rahul Bhangadia:** Next year what is our target as far as paddy processing is concerned? How much paddy do we hope to process next year?

**I S Gumber:** In excess of one million ton or it maybe 10% to 20% in excess of one million tons.

**Rahul Bhangadia:** Okay, so we will be close to peak of our capacity?

**I S Gumber:** Yes, then we will start expanding.

**Rahul Bhangadia:** Then we will start expanding?

**I S Gumber:** Yes.

**Rahul Bhangadia:** Okay, thank you.

**Moderator:** Thank you Mr. Bhangadia. The next question comes from Hina Sampat of Birla Sunlife Insurance, please go ahead.

**Hina Sampat:** You said that you will need Rs. 800 crore of Capex for next four years. How will you be funding them, will there be any equity dilution?

**I S Gumber:** We are not planning any equity dilution. What we are planning is, like in the current year we have handsome cash accruals. Next year, we are expecting in excess of Rs. 200 crore cash accruals. And then we have banking support, we have borrowed just Rs. 114 crore Term Loan till now and our cash accruals are also growing year after year. So even if we maintain 1:1 that would be ratio for the future, we have to borrow Rs. 400 crore and we have to spend our own Rs. 400 crore. So it is very comfortable for us to spend Rs. 400 crore from ourselves in the next 4 years. And rest of the money, we will deploy for

working capital, we do not foresee any problem and we have no plans to dilute equity at this stage. For our stated growth we have no plans to dilute any equity.

**Hina Sampat:** Can you throw some light on your business model for Contract Farming?

**I S Gumber:** Contract Farming is an area, which we are going to undertake in our subsidiary company, not in the main company. You must be aware that Lakshmi has promoted a company known as Punjab Greenfield Resources Limited by contributing Rs. 50 crore on subsidiary. Now, one of the objectives of this Company's is contract farming. Contract farming, we don't want to do for sourcing our raw materials because raw material is very large quantity, say 1 million tons of paddy. So that much contract farming is not possible, it's just not possible. Our objective is to add value, to have farms for producing feed, for conducting and R&D to improve the farm yield. Our objective is to produce better feed through contract farming route or also to do couple of cash crops that is the objective of contract farming. Our contract farming would not be source paddy for our processing; that is not the objective.

**Hina Sampat:** Will you be making money on that, because you will be supplying the seeds and fertilizers and all that?

**I S Gumber:** We sell at a better price and if they are better yielding they will sell at a better price, but no economics have been worked out yet, because if we enter R&D in a small way we have to contribute some small sum of money out of our office. And then in the long run, the benefits arise.

**Hina Sampat:** Okay, thank you.

**Moderator:** Thank you Ms. Sampat. The next question comes of Megha Bhatt of ASK Investment Managers. Please go ahead.

**Megha Bhatt:** I wanted to understand your entire value chain. Basically, I wanted to understand when you convert the paddy to rice, what is your cost of processing per kg? And secondly, I wanted to know your procurement cost and the cost of, for example, you procure paddy at a particular cost and then sell to FCI at what cost, so what margins do you make in this?

**I S Gumber:** Okay fine, I will explain to you. Have you received my value chain?

**Megha Bhatt:** Well, I have seen the presentation.

**I S Gumber:** Okay, value chain I will be emailing you through Jigar Valia. But I will briefly explain to you. You see, MSP is revised every year by Government. Last year, it was Rs. 650, this year it was Rs. 675 and Rs. 100 bonus was announced. Then we incur certain cost, which I mentioned to you, and then we bring the paddy, our converging cost has been falling over the years. At one time, as I mentioned to you economies of scale, initially our conversion cost was something like 60 paisa a kilo, which has now come down to 35 paisa, it has come down so much. May be next year, we will have just 30 paisa per kilo cost of conversion. And then once converted, you have packaging and all; our selling price today to FCI is Rs. 1350.

**Megha Bhatt:** Okay.

**I S Gumber:** Today, if you ask today's price is Rs. 1350 and outside prices are much higher than this.

**Megha Bhatt:** One last thing. If u can you give me the broad matrix of the rice industry in India and how the demand supplies?

**I S Gumber:** Okay sure, India is the second largest producer of rice after China. India produces more than 130 million tons of paddy; I think, 135 million tons of paddy.

**Megha Bhatt:** What is China's production?

**I S Gumber:** China is, I think, 150 million or 160 million, I don't have the exact data but India is second largest. India is also a very large exporter of rice; it exports about 15% of its production. But that is unlikely to be the case in current year and in future years. The reason is food shortage.

Now, India is also second largest producer of wheat after US. India produces about 76 million tons of wheat and after processing it produces about 90-91 million tons of rice. Now, FCI is a body of government, which is responsible for public distribution system. About 30% India's produce of rice and wheat is picked up by FCI alone. The purpose of FCI is to reach

poorest of the poor and sell through ration shop at a very low price. FCI buys paddy, you see what FCI should be buying is the rice, but since they will not get rice unless they buy paddy and get it converted, they buy paddy and then they get it converted. They also buy rice from people like us. There are 120,000 millers of paddy in the country, but majority of them are small.

The organized sector exists only in Basmati space and hand count number of mills in non-basmati. In non-basmati, there are less number of players because it's a high working capital intensive industry, where the harvest is for 3 months and the mill running has to happen for 12 months, to be viable. So you will find very few people like us in the industry. Now, we operate in the state of Punjab and the Punjab produces about 16 million ton of paddy and we procure 1 million ton of wheat, with 1 million ton also we are the largest in India, possibly in the world. So, it's basically a segmented industry, very fragmented.

**Megha Bhatt:** How is the consumption and...?

**I S Gumber:** Now, last 4-5 years India is experiencing very good growth in GDP and people are rising from poor to the middle class and the first thing, which is being demanded more is food. And what has gone wrong in last 3 years, outside India is; a famine in Australia, the worst in the Australian history in 100 years. They had 1/3rd of the crops destroyed, so it created worldwide wheat shortage.

Now, rice is something, which is consumed more widely, across the world and production of rice is not growing, nearly because there is no extra water available for increasing production of rice. 1 kg of rice can be produce using 1,000 kg of water. When you sow the seed, the paddy seed, you have to flood the farms. Now, among all the countries Thailand, though it is not the largest producer, I think the 5th largest producer, but it is the largest exporter of rice. Thailand has been facing problems for rice production in last 3 years and their exports are dwindling. It has come to such a situation that today all over the world, there is no surplus food available, every country is leaving just hand to mouth.

And India is no exception. Over 3 decades India has enjoyed a situation where it never had problems of food. Even there were buffer stocks, but Government buffer stocks have been depleting for last 4 years. Last 3 years, India is importing wheat, which shows that there is impending problem, which Indian Government has also sensed. Though there was no

shortage but buffer stocks were depleting. This is the first year after 3 decades that India has banned export of rice, except basmati or except those rice, which has a value in excess of \$650 per ton that means only very costly rice can be exported; rest of the rice cannot be exported.

So, if this is a situation the Government has to look to increase production of food grains or it has to face certain uncomfortable situations. Government has realized it and in the last budget, previous budget, and the recently announced budget, a lot of allocation towards agri-sector in terms of subsidies, in terms of R&D and also in terms of irrigation have been announced. These are right steps and they might improve our agri production, which is trailing at under 2%, maybe it goes up 3% in 1 to 2 years.

Now, 3% growth would be somewhat comfortable, if that doesn't happen then there will be problems. So in a nutshell, the prices are likely to be going upwards and demand remains unsatisfied. Eventually, it will affect the countries as such, but it will benefit the companies, which are in this business, that's what my assessment is about this business.

**Megha Bhatt:** And just wanted to understand, why a separate Company has been setup for contract farming or for procurement, why it shouldn't be done in the same Company?

**I S Gumber:** We were doing procurement in the same Company when we decided to enter marketing. When we decided to enter into package food; that was a time we had to take a decision whether, marketing should be undertaken in the same Company or separately. Our volume was fairly large, if we produce goods worth more than Rs. 1,000 crore and if we target in the 1st year Rs. 250 crore of package sales, which has to be properly marketed, which will rise to Rs. 500 crore in the second year and more beyond that.

It was wise on our part to set up a proper marketing division with specialist people at different levels, who have good experience, good background in marketing. We wanted to hive off that part, because we wanted manufacturing people to stay in the Company and service minded people who are good in marketing to come up in a separate environment. And when we decided to do that, we decided to open several divisions in that Company to make it more viable in the sense, one division should be marketing division, another should be procurement division, still another should be.

Contract farming is something we had been thinking off, but we will not think of contract farming with the objective of sourcing our raw material, we were thinking of certain cash crops or seed. It was the management's mind that we should work towards R&D because the yield in India is very low, average yield in India is about 2.2 tons per acre against, Punjab yield of 3.2, and US yield of 6, China yield of 5 tons, we are very, very low. So it was Company who thought of doing farm research, because if we allocate even Rs. 2-3 crore initially, it will be a good service and also benefit to the Company. So with the objective of certain new services, where we wanted to enter, we thought it is better to hive off a new Company, which will perform all these 4 to 5 functions. So that was the reason we did it and it's wholly on subsidiary, after all.

**Megha Bhatt:** Thank you Sir.

**Moderator:** The next question comes from Ms. Tanu Kejriwal of Quantum Asset Management, please go ahead.

**Tanu Kejriwal:** Hi, just one question on export. Have you all ever exported in the past?

**I S Gumber:** We have not been into exports in the past.

**Tanu Kejriwal:** And going forward because you are expanding and FCI grade expenses will automatically go down, is export an option that you are looking at?

**I S Gumber:** Yes, we already started exporting about 6 months ago. We tied up with an export house based in Delhi and we sent our consignment to the Middle East very successfully and repeat orders have started coming. In between there was a Government order banning export of rice.

**Tanu Kejriwal:** Yes, that's why I am asking.

**I S Gumber:** Yes, we stopped it. Actually, to export or not to export it doesn't matter in our industry when demand is so strong in India and price differential is not much.

**Tanu Kejriwal:** What would be the price differential?

**I S Gumber:** We get couple of export incentives, that's the only advantage, otherwise there is no price differential, because prices in India are as strong as in the world market.

**Tanu Kejriwal:** But when it comes to procuring paddy, would the farmers, be more motivated to sell paddy for export purposes rather than, have you had any procurement problems of paddy in the first stage ever?

**I S Gumber:** No, no we do not face a problem, where a problem could come, I will tell you. When there is FCI buying, we are buying and couple of more parties buying, which party will get the advantage, which is farmer friendly? Though we don't directly deal with farmers; we deal with the commission agents. The policy of Lakshmi Energy and Foods is to payout in maximum of 3 days, we have a credibility established in the market, when our checks are issued in 48 hours and they are delivered to farmers through commissioner agents in 72 hours. FCI payment terms for your information are 7 days and other private party's terms are about 21 days. It is us who are paying in 3 days, that's one reason. Second reason, why we get priority because our people are always there, we are the largest procurer after FCI. So another reason why we don't face problem, we are procuring 1 million ton out of 16 million in state and if we include Haryana also, we have 26 million ton paddy being produced around us, so which is very good quantity.

**Tanu Kejriwal:** Okay and one last question. If we have to look at the listed companies. I mean, there are lot of basmati companies who are listed, but it's just to compare you with the listed non-basmati player who would be?

**I S Gumber:** In non-basmati, there are actually no companies, which are in non-basmati and which are listed.

**Tanu Kejriwal:** There is no company at all?

**I S Gumber:** One company I can mention, which is sort of....

**Tanu Kejriwal:** Ashok Agro, I think, is a non-basmati player.

**I S Gumber:** Ashok Agro is a very small company.

**Tanu Kejriwal:** But it's a non-basmati.

**I S Gumber:** Exactly, it's non-basmati; its capacity is about 1/10th of ours.

**Tanu Kejriwal:** So, who would it be...?

**I S Gumber:** KRBL has water plant, an old plant of about I think 7 lakhs tons.

**Tanu Kejriwal:** But they are predominantly basmati rice?

**I S Gumber:** They have not yet stabilized their plant, because you wanted any other player, that being a small way.

**Tanu Kejriwal:** There is nobody else...?

**I S Gumber:** Well, if you compare apple to apple, nobody is matching us, yes.

**Tanu Kejriwal:** Okay, thanks so much.

**Moderator:** Thank you, Ms. Kejriwal. The next question comes from - Amaresh Mishra of HSBC Mutual Fund, please go ahead.

**Amaresh Mishra:** First, in terms of your volumes of rice production, this year you would do around 600,000 tons of rice?

**I S Gumber:** No, we will do more; we will do about 800,000 approximately.

**Amaresh Mishra:** And of that 80% is sold to FCI, is it right and the rest sold in the market. What would be the market price, I mean, FCI price is 13½?

**I S Gumber:** Yes 13½ is FCI price. Market price ranges if you have more of less of long grain in it then we get about 14½, 1 rupee more than FCI in the wholesale if we refine and package and we get about Rs. 18 for the rice.

**Amaresh Mishra:** Okay, and what about next year, next year you will do just like about 120,000, right?

**I S Gumber:** Up to that, yes.

**Amaresh Mishra:** About 120,000, but then the yield of rice and that would come down further? The total paddy processing capacity is about 130,000 tons, but of that your yield-?

**I S Gumber:** No, we will be doing more than 1 million, it can be 1.1 maximum can be 1.2 that's the highest possibility.

**Amaresh Mishra:** Okay, this is what, this your highest processing capacity?

**I S Gumber:** Our processing capacity is 1.35, which will go up in future. So we will be doing less than our installed capacity.

**Amaresh Mishra:** So you would be doing roughly, in terms of rice because I am not looking at paddy processing.

**I S Gumber:** Okay, rice is 67%....

**Amaresh Mishra:** Rice is 67% of that, so you would do roughly around 750,000 tons next year in terms of rice?

**I S Gumber:** Yes, you are right.

**Amaresh Mishra:** And this year you would do about 600,000...

**I S Gumber:** Yes, exactly.

**Amaresh Mishra:** And off this 600,000 tons about 80% would go again and it would go to FCI?

**I S Gumber:** No. In future, we have also added premium quality, so our percentage of total rice say will come down, but FCI grade will be maintained from 75% to 80%.

**Amaresh Mishra:** 75% to 80%?

**I S Gumber:** FCI grade will also be maintained at 75% to 80%. FCI grade, paddy is the paddy, which is defined as FCI grade.

**Amaresh Mishra:** Okay.

**I S Gumber:** That defined paddy, FCI grade, which is cheapest in the market where the Government of India announces Minimal Support Price.

**Amaresh Mishra:** Right.

**I S Gumber:** That category, that quality will be 75% to 80%, which will go to FCI.

**Amaresh Mishra:** So, If I understand correctly this year all the paddy that you are selling about 100% is FCI grade, next year you going to have 80% of FCI grade and 20% of non-FCI grade, which would give you higher realization?

**I S Gumber:** Yes.

**Amaresh Mishra:** This year all the paddy that you are selling is all FCI grade paddy? Right?

**I S Gumber:** Baring a small quantity.

**Amaresh Mishra:** A very small quantity.

**I S Gumber:** Because we have packaging now.

**Amaresh Mishra:** Yes. Next year you would have 20% of non-FCI grade paddy?

**I S Gumber:** Yes.

**Amaresh Mishra:** And what would be the roughly the procurement price because Pusa 1121 on variety? Right?

**I S Gumber:** That's right.

**Amaresh Mishra:** So, what would be the procurement price for that be?

**I S Gumber:** Pusa 1121 is actually known as basmati.

**Amaresh Mishra:** Okay.

**I S Gumber:** It is a lineage of basmati. And its price in the last three months, we have seen the price changing three times.

**Amaresh Mishra:** Okay.

**I S Gumber:** So, it is very difficult to predict.

**Amaresh Mishra:** But what could be a good range to look at for next year?

**I S Gumber:** The paddy price?

**Amaresh Mishra:** Yes.

**I S Gumber:** Say Rs 30-35.

**Amaresh Mishra:** Rs. 30-35. Okay. This is a rice price?

**I S Gumber:** No paddy price. I am saying.

**Amaresh Mishra:** Paddy would be higher, right? Because you are FCI grade is around Rs. 6.

**I S Gumber:** No. I mean if I say Rs. 30, it's a just rough estimate. I don't know.

**Amaresh Mishra:** Okay, okay. Just one more thing, when are the MSP for paddy and for rice fixed respectively?

**I S Gumber:** It is announced by Government of India, Agriculture Ministry in the month of September every year.

**Amaresh Mishra:** So, your weighted average price would be the average of last years?

**I S Gumber:** That's right.

**Amaresh Mishra:** Will be six months last year and six months this year.

**I S Gumber:** Exactly, exactly you're right.

**Amaresh Mishra:** So, you just mentioned about this Australian famine right now. There is this talk of FAO is talking about this UG99 virus or something will obtain Iran and African. I mean majorly all you are wheat crops and rice crops.

**I S Gumber:** Right.

**Amaresh Mishra:** Has it reached India in terms of have you heard?

**I S Gumber:** No. Not heard of it in India.

**Amaresh Mishra:** Okay. That was it.

**Moderator:** Thank you Mr. Mishra. The next question comes from Srinath M. of Motilal Oswal. Please go ahead.

**Srinath M.:** Good evening, just one question on the competitive situation. We have 12,000 millers. So, is there any entry barrier or what is the entry barrier for a new player?

**I S Gumber:** Well, there will not be entry barriers as such, but there will be consolidation. You see, if you can invest upward of 1000 Crore rupees, you can setup a one million ton plant. That is financial entry barrier. If you have Rs. 1000 crore there is no barrier, but on the grass root level if you see to procure one million ton of paddy you need experience, you need people, you need contacts, you need networking, you need logistics. It cannot be achieved in one year. It will take a decade or more. So, theoretically, there is no barrier if you have money. And even otherwise, suppose you can organize everything the space is very large. So, there is room for many big players to come up. I would put it this way.

**Srinath M.:** Okay. Because you have very large players planning there respective foray into retail and it could say a private labeled product would be one of the key profit center.

**I S Gumber:** Yes, that is right.

**Srinath M.:** If financial is the only entry barrier.

**I S Gumber:** Not at all, but another thing I would like to add here. See everybody who is having there own supply chain, they are looking for cash crops, they are not looking for this. They are not looking for setting up machines to make rice. They are looking at cash crops.

**Srinath M.:** Cash crops?

**I S Gumber:** Yes. The food and vegetable side. Large chains are doing that.

**Srinath M.:** Yes, but there are issues of credibility and all that.

**I S Gumber:** That's because they can take it through cold chains and through quick delivery.

**Srinath M.:** Absolutely. Even a cold chain setup will require lot of investment.

**I S Gumber:** Yes.

**Srinath M.:** So, are there some qualitative financial barriers as well apart from financial barrier?

**I S Gumber:** In our industry, as I mentioned to you the barriers do exist, but we would welcome more players. That will help our industry also to get better organized. The space is very large as I mentioned to you. Agriculture sector has been overlooked by industry until now.

**Srinath M.:** Okay.

**I S Gumber:** Even if we say Rs. 1 lakh crore worth of investment enters, it is not enough. It is such a big industry. For us also the field is wide open. If you want to grow very big, we have an opportunity to grow very big because it is a very large opportunity.

**Srinath M.:** So, any reasons for not exercising that up.

**I S Gumber:** We are doing that in our own way. We cannot grow big overnight, but we are growing every year at a very good pace.

**Srinath M.:** Okay. Thank you.

**Moderator:** Thank you Mr. Srinath. The next question comes from Ram Prasad of Sundaram BNP. Please go ahead.

**Ram Prasad:** Just a follow-up on this, the next year, you said you are planning to do 1,800 thousand tons in the next year FY'09 right?

**I S Gumber:** Right.

**Ram Prasad:** And say 75% to 80% goes to FCI, Rs. 13.50. What can be the average realization for the rest of it?

**I S Gumber:** Next year price I do not know whether it will be 13.50 or more. It is linked with the price of paddy procured. See the paddy procurement price rises, this price is also bound to rise. And the other rice, average this year we are selling the same quality of rice when we improve and package, it sells Rs. 18 a kilo. So, vis-à-vis Rs. 13.50, we have Rs. 18 price realization which added to it a little extra cost we still have much greater margins, so next year say Rs. 13.50 becomes Rs. 15.00 hypothetically, I am sure Rs. 18.00 will become Rs. 22. It is bound to go up.

**Ram Prasad:** One question on the power plant. Do you have any expansion plans at your end because you see a capacity expansion?

**I S Gumber:** Future CAPEX plan?

**Ram Prasad:** Future plans for your power plant expansion?

**I S Gumber:** Yes. We do have. You see our power plant is using husk, which is being generated from paddy processing itself, 20% of paddy is husk. Today, we have enough husks to fuel a 30 megawatt power plant. Against one million, we need 200 thousand tons of husks. Now, when we have more of husk available, we can have more power. We are planning another 30 megawatts, but it has to actually match with two million tons of paddy processing. So, it should take about three years time to come up.

**Ram Prasad:** Okay.

**I S Gumber:** Additional 30 megawatts.

**Moderator:** Thank you Mr. Prasad. The next question comes from Jignesh Vayda of Aster Business Research. Please go ahead.

**Jignesh Vayda:** I have a question on you are package food foray. You have targeted Rs. 250 crore in FY09. A couple of questions like from which segments are you targeting this and which geographic locations or areas are you looking at?

**I S Gumber:** Segment will be there. One is predominantly rice in four varieties followed by wheat flour, and later part of the year cooking oil. So, these three components will be in the

retail packaging, and that packing will be one, two, five and ten kilos, and twenty five kilos also.

**Jignesh Vayda:** And you are looking at any specific geographic locations?

**I S Gumber:** We are looking pan India presence. It all depends on the demand. As far as our present feedback is concerned, we are having very strong demand. We supplied to Andhra Pradesh and little bit to Maharashtra, and also in Himachal Pradesh. We have already appointed eighteen dealerships across the country and we have made supplies to three or four dealers as on today. Our 200 ton per day package food capacity is operational and 500 ton additional is getting operational by this weekend. So, from April 01, 2008, we will have 700 tons per day of package food capacity in operation.

**Jignesh Vayda:** Okay and any plans or any talks going on with any retail majors?

**I S Gumber:** We had discussion with Pantaloon. We had discussion with Subhiksha. And everybody is keen to take our products and one proposal, which came from them was to package in their bags, which we didn't agree to because we wanted to popularize our own brand. We didn't agree to that proposal. They are open to both the ideas. Our Lakshmi Food brand also is good enough because they stock all the products. Now, they have a procedure that they come down to our plant, inspect the facilities, and then take the samples and have the food values checked, then negotiate the price. That process is going to start. Why we are not running after that is because our product has started moving so well in the market that even our distributor can go to them and place in the store in respective regions. So that is not going to be a big deal for us. We can do either way.

**Jignesh Vayda:** Thank you Sir.

**Moderator:** Thank you Mr. Vayda. The next question comes from Ami Shah of Asset Alliance Securities. Please go ahead.

**Ami Shah:** I would like to know per minute realization of your package food. At what price are you planning to actually sale them?

**I S Gumber:** You see it's a question of demand. The demand is strong, the margins are improving. I will give you one example. Not that our entire production package, that would

lead you to believe that we are ending up with a fat profit, which is not the case. We still make a lot of FCI grade rice and our small portion is in the non-FCI grade package rice. Hypothetically, we are doing the entire package and we will be making huge profits because of today's situation. The situation is that rice prices are moving up everyday. So, the first consignment, which we send at Rs. 36 a kilo to our South Indian dealer, the second consignment has gone at Rs. 40, and the third consignment is going from first week of April 2008 at Rs. 44. So, in two months time, we are seeing two price divisions. I would not be able to say finally it will end up where, but we are making on that quantity good profits.

**Ami Shah:** Okay, and your wheat flour?

**I S Gumber:** Wheat flour is a very standard item and the analyzed growth for wheat flour is in excess of 20% in the package wheat flour I am talking about. And we will find a space as far as profit margin is concerned, I have done a calculation based on last year's procurement price and selling price as announced by Government. The procurement price for wheat was Rs. 850 a quintal and the selling price was Rs. 14. On that basis, we made about Rs. 1.2 per kilo profit on wheat flour.

**Ami Shah:** Sir, could you just comeback on selling prices?

**I S Gumber:** Rs. 1,400 a quintal.

**Ami Shah:** Cooking oil how much do you target?

**I S Gumber:** We will be producing 15,000 metric tons of cooking oil in the year 2008-09, and we plan to put up a refinery so that we can sell package. Right now, what we are doing with the oil is that we are selling in the wholesale market.

**Ami Shah:** Okay.

**I S Gumber:** In a wholesale market, the prices have moved up from last years Rs. 35 to the current price of Rs. 50 per kilo.

**Moderator:** Thank you Ms. Shah. The next question comes from Rahul Bhangadia of Lucky Securities. Please go ahead.

**Rahul Bhangadia:** Sir, I just wanted to confirm as you are paddy producing capacity goes up is you are capacity for the other by products in case of DOC, rice, bran oil, and Nakku also going to go up quarterly?

**I S Gumber:** Quarterly, it will go up.

**Rahul Bhangadia:** Correspondingly that is also going up.

**I S Gumber:** Yes, we are adding those capacities in the year 2008-09.

**Rahul Bhangadia:** Okay, and if you could just repeat what is the FCI gets procurement price right now and what is the sale price right now?

**I S Gumber:** It is Rs. 675 per quintal.

**Rahul Bhangadia:** Okay. The procurement price?

**I S Gumber:** And they have recently announced Rs. 100 bonus.

**Rahul Bhangadia:** Okay, so Rs. 775 and the sale price?

**I S Gumber:** That's right.

**Rahul Bhangadia:** And the sale price?

**I S Gumber:** Sale price is Rs. 13.50.

**Rahul Bhangadia:** Okay, so assuming 67% yield you get what Rs. 1.50 per kg in terms of processing?

**I S Gumber:** No, no. Processing, I have to include the by-product prices as equal.

**Rahul Bhangadia:** Okay, okay.

**I S Gumber:** Suppose, I don't process by-product. I sell it as it is, then how much profit I make?

**Rahul Bhangadia:** Right, right okay.

**I S Gumber:** That way I get to you.

**Rahul Bhangadia:** Okay, okay. Thank you Sir.

**Moderator:** Thank you Mr. Bhangadia. The next question comes from Amaresh Mishra of HSBC Mutual Fund. Please go ahead.

**Amaresh Mishra:** Just two more questions. In the last financial year, your average realization per ton was around Rs. 12 or Rs. 12.15 per ton?

**I S Gumber:** But ton is 1,000 kilos.

**Amaresh Mishra:** No, per kg. This year you are selling at Rs. 13.50.

**I S Gumber:** Average realization from FCI?

**Amaresh Mishra:** Yes.

**I S Gumber:** It was about Rs. 12.50.

**Amaresh Mishra:** Rs 12.50. And what was it in FY06 roughly?

**I S Gumber:** In FY06 I don't have a figure, but it should be little under Rs. 12 or may be around Rs. 12.

**Amaresh Mishra:** And what would have been your paddy MSP?

**I S Gumber:** Paddy MSP was Rs. 650 last year.

**Amaresh Mishra:** Last year was there any bonus, which was announced?

**I S Gumber:** No, there was no bonus last year.

**Amaresh Mishra:** Okay.

**I S Gumber:** It was Rs. 650 last year and I think Rs. 610 in FY06.

**Amaresh Mishra:** Okay. That's all. Thank you.

**Moderator:** Thank you Mr. Mishra. We have a question from Shirish Pardesi of Anand Rathi. Please go ahead.

**Shirish Pardesi:** Just one question. I have gone through the entire conversation. If one question I am not sure of. When you are competing with the establish players like ITC and the other basmati players and when you are saying we are going to sell in the package food. What would be your cost? Or what would be your ad spend or what would you estimate for the next one year for development of these brands in the retail section?

**I S Gumber:** We have allocated funds towards advertising publicity, so that our Lakshmi Foods becomes popular in the region wherever we send our products. We send our, initial consignments to Hyderabad and before we started advertising we got a feedback that they need more supplies than we have been able to supply. They said the quality has been well accepted, packaging has been liked, and the stockiest told us that the shopkeepers are very happy because of feedbacks from the consumer is good, which made us very happy. But we still have allocations of about Rs. 12 crore for 2008-09 towards this, but we haven't spend any money so far. The product is moving on its own. We do have this plan to advertise. Part of the reason is because the demand is strong not that extraordinary things have happen. Maybe if demand was not very strong and supplier was comfortable, then we would have to push it through advertising.

**Shirish Pardesi:** Just one clarification, you are selling this package food as basmati rice or you selling as long-grain rice?

**I S Gumber:** Both. Both varieties have already been launched.

**Shirish Pardesi:** And how would you price? You just mentioned that you have taken two price hikes from Rs. 40 to Rs. 44.

**I S Gumber:** Yes. It has happened in the last month.

**Shirish Pardesi:** What could be the basis of deciding this price rise?

**I S Gumber:** You see we are surveying the market. If you go to Food Bazaar and you see the retail price you have to backward calculate? What is our dealer margin and what is our margin?

**Shirish Pardesi:** So, you mean to say that your cost of operation is going up, so that's why you need to fit more dealer margin and push the product?

**I S Gumber:** No our cost of production is not going up. What goes up is the paddy price.

**Shirish Pardesi:** Okay.

**I S Gumber:** Cost of production is normal growth.

**Shirish Pardesi:** I mean to say, that you are producing in north and selling in south.

**I S Gumber:** No. We are going to sell all over India.

**Shirish Pardesi:** What could be the reason for taking the price from Rs. 36 to Rs. 40 and Rs. 40 to Rs. 44. Is that you have in mind to make more profit?

**I S Gumber:** No, we didn't raise the price. It's the market forces, which raises the price. We would have been happy selling at Rs. 36. I will tell you the reason for price rise. We bought a paddy at X price and we sold at Rs. 36. We still are using the same paddy for the next consignment, but the current paddy prices rose that means if we have not bought the paddy three months ago, if we had bought it today we would have paid higher price. So, paddy price rose, the rice price also rose.

**Shirish Pardesi:** You mean to say that non-FCI grade paddy prices are so volatile that you will change the price every month.

**I S Gumber:** They are market forces driven.

**Shirish Pardesi:** So, where do you think in the next three months to six months you will settle for the price?

**I S Gumber:** We are seeing an upward movement. It is bound to stop somewhere not that it will go on and on. It is bound to stop somewhere. In retail level, the same basmati paddy, which I mentioned to you on 1121 variety is selling at Rs. 65 to 70 a kilo. I feel it will settle between Rs. 75 and Rs. 80. It will settle at that price in may be three months down the line, and then it will stay there.

**Shirish Pardesi:** So, you are contributing to India's inflation?

**I S Gumber:** I would not wish to. If I buy paddy costly, I will sell rice costly. Of course, my profit margin will expand.

**Shirish Pardesi:** Just one more question. Where do you intend to see over a period of time this rice? You will be predominately looking at large inter south market.

**I S Gumber:** Pan India. We have appointed 18 distributors. Our objective is to reach everywhere. Again, it depends on supply. Some regions might demand more than other regions. For example Andhra Pradesh will generate higher demand than Tamil Naidu. I will tell you the reason. In Hyderabad basmati, long-grain, and white rice these varieties are in huge demand. They will not be equal demand in Chennai.

**Shirish Pardesi:** Yes, that is because of Biryani.

**I S Gumber:** Biryani, yes. So, it depends where the demand is strong we will sell accordingly, but we will have dealership everywhere. I have Maharashtra, for example, we have dealership in Pune. Now, the Pune gentleman will receive from us then he will spread in Bombay also, in Pune, in Nashik, and elsewhere also.

**Shirish Pardesi:** What could be the assumption for pricing for wheat flour and are you going to compete with the multinationals?

**I S Gumber:** Wheat flour is going to go the same dealers, and they will push in the markets...

**Shirish Pardesi:** Okay. Thanks.

**Moderator:** Thank you Mr. Pardesi. Our next question comes from Apoorva Doshi of Kotak Securities. Please go ahead.

**Apoorva Doshi:** I wanted to know the debt on the books as on today and the cash balance?

**I S Gumber:** If you want to know exact numbers, our CFO, Mr. Rastogi is the best man to give you the figures. Mr. Rastogi, do you have the exact numbers with you right now?

**Apoorva Doshi:** Or you can give me an approximate number.

**Neeraj Rastogi:** Term loan for the project is Rs. 110 crore as on 31, December 2007, and the working capital is Rs. 386 crore.

**Apoorva Doshi:** And cash?

**Neeraj Rastogi:** Cash and bank balance we have Rs. 28 crore.

**Apoorva Doshi:** Do you think the working capital going up significantly because we will be expanding our capacities now say from 130 ton per hour to 228 per hour. It will go up?

**Neeraj Rastogi:** It will definitely go up.

**Apoorva Doshi:** As a ratio it would still remain the same or do you see addition because you always take cash upfront for your paddy purchases?

**I S Gumber:** As a ratio, it will remain the same, but in absolute terms we will have enhancement from bank, we will have our own additional margin also coming up towards working capital.

**Apoorva Doshi:** Okay.

**I S Gumber:** We have a sanction limit of Rs. 500 core fund based from PNB and Syndicate Bank, which is rising by Rs. 100 core next year.

**Apoorva Doshi:** Okay. So, you are comfortable up to Rs. 600 crore.

**I S Gumber:** Yes. We are also eligible for ad hoc in the case of need in the month of December and January when we purchase paddy.

**Apoorva Doshi:** Okay. That's it.

**Moderator:** Thank you Mr. Doshi. There are no further questions at this time Mr. Valia. Would you like to add a few closing comments?

**Jigar Valia:** I would like to thank all the participants for your time, interest, and contribution. Thank you very much. I would like to thank everybody from Lakshmi Energy

and Foods, Mr. Gumber, Mr. Rastogi and Mr. Singh. Thank you so much. Thanks a lot Marina and I would like the final remarks to be made by Mr. Gumber if he has to say anything. Thank you so much.

***I S Gumber:*** Thank you Jigar. Thank you Marina. Thank you everybody who participated in this and contributed their valuable time. I have faith in our Company and would like to assure you that we will bring out even better performances next year. We have good expansion plans and I am sure that will bear fruits in the coming years. I am sure our Company will do well and I have best wishes for all of you. Thank you very much.

***Moderator:*** Thank you very much Sir. On behalf of Parag Parikh Financial Advisory Services Limited that concludes this evening's conference. Thank you for joining us and you may now disconnect your lines. Thank you.

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Note: This document has been edited to improve readability.