

DCW Limited
Earnings Conference Call
May 12, 2023

Moderator: Ladies and Gentlemen, Good day and welcome to the Q4 FY2023 Earnings Conference Call of DCW Limited hosted by Valorem Advisors. 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. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Sir.

Anuj Sonpal: Thank you Mitchel. Good afternoon everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of DCW Limited.

On behalf of the company, I would like to thank you all for participating in the company’s earnings call for the fourth quarter and financial year ended 2023. Before we begin, let me mention a short cautionary statement. Some of the statements made in today’s concall call maybe forward looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management’s belief as well as assumptions made by information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today’s Earnings Call is purely to educate and bring awareness about the company’s fundamental business and financial quarter under review.

Let me now introduce you to the management participating with us in today’s earnings call and hand it over to them for opening remarks. We have with us Mr. Saatvik Jain – President of DCW Limited, Mr. Amitabh Gupta – Chief Executive Officer, Mr. Sudarshan Ganapathy – Chief Operations Officer and Mr. Pradipto Mukherjee – Chief Financial Officer.

Without any further delay, I request Mr. Saatvik Jain to start with his opening remarks. Thank you and over to you, Sir.

Saatvik Jain: Thank you Anuj. Good evening everyone and welcome to the fourth quarter and financial year ending 2023 earnings Call of DCW Limited. I am happy to announce that DCW has achieved some major milestones this financial year. Most importantly, the company has clocked its highest ever annual revenue, highest ever EBITDA and highest ever net profit. Due

to the company's integrated operations, we have a healthy balance between commodity and specialty chemicals which create a natural hedge against volatilities of the commodity cycle and safeguard the sustainability of our margins. Our absolute EBITDA grew by 32% year-on-year in FY23 with EBITDA margin improving from around 13% in the last year to North of 16% in FY23. Our net profit has also seen a significant growth by 79% year-on-year. Our consistently improved performance has resulted in three rating upgrades in the last 18 months, which now stands at an A, which is another high for the year. This financial year there has been a structural shift in our finance cost with a reduction to sub 10% from North of 17% with the refinance of our high-cost debt. The benefit of this can be seen from our Q3 and Q4 numbers.

Now coming to the segmental business performance and outlook as you may know the company has taken various strategic measures over the years to integrate its operations and also focus more towards specialty high margin products which derisks the company from volatilities in the commodity cycle. This has helped the company post a decent growth in overall revenues in FY23, but more importantly improved our margin profile and ultimately our profitability.

On the specialty chemical segment in Q4 FY23 we witnessed a sharp decline of 19% year-on-year in the net realizations of CPVC while EBITDA margins improved to 39% due to lower PVC prices. CPVC demand continues to remain strong and growing in double digits. With more and more penetration of CPVC pipes in lower tier cities and rural India we expect the demand to remain strong. For SIOP revenues and margins are consistently increasing over the quarters with Q4 FY23 capacity utilization increasing to around 80% and EBITDA margins of around 39%. We have emerged as not only the largest Indian player in SIOP, but one of Asia 's largest.

With strong growth outlook for the paint sector due to high-capacity additions we expect to grow our domestic by significantly. Our exports are also growing at a good pace. Currently we have a strong US presence catering to two of the largest consumers of SIOP. Recently, we participated in the European coating show and are hopeful of expanding our footprint in the European market as well in the near future. For the financial year ending 23 our specialty Chemical segment contributed around 27% to our overall EBITDA.

Moving on to the Commodity chemical segment. Caustic soda prices shows a sharp decline of 37% quarter-on-quarter and 14% year-on-year and synthetic rutile prices have also declined by 31% quarter-on-quarter. We believe that the prices have mostly bottomed out and going forward we may see some recovery especially as China's domestic market and domestic demand improves. The prices of the major cost driver, which is coal, have corrected by about 10% to 15% and we feel that further reduction is expected. The demand growth for caustic soda is expected to be around 5% to 5.5% CAGR in the coming years with the alumina sector being the major demand driver while the textile sector is recovering and expected to

normalize. We also expect other sectors like soaps, dyestuff, etcetera, to also normalize going forward.

In PVC now the demand has recovered fully to pre COVID levels and the lower PVC prices have resulted in a significant demand surge with the end users. As PVC is an infrastructure polymer we expect the demand to be very strong. However, import surge of substandard PVC from China continues to put pressure on PVC prices where prices declined by 24% on year-on-year basis, but now shown marginal improvement on a quarter-on-quarter basis. We expect that with China's domestic demand improving the export pressure from China should reduce going forward. We have started FY24 with both caustic soda and PVC realizations being on the lower end of the spectrum unlike FY23 where we started on a high.

Lastly, coming to Soda ash demand supply situation was by and large balanced which led to an overall improvement of our EBITDA margins in Q4 FY23 and year-on-year basis. Going forward, the outlook continues to remain positive due to improvements in economic activity and demand increases across all its applications. As mentioned at our last interaction we continue to invest in specialty chemicals that will further strengthen our portfolio. Our two projects which had been announced the additional 10,000 tons of CPVC and line balancing CAPEX on SIOP are underway. Progress is being monitored closely and efforts are on to fast track the completion. We are hoping for completion sometime in Quarter 2 of this year with capacities ramping up from Q3 onwards. This earlier than anticipated completion will help us move on to our next phase of growth sooner than later. We shall continue our focus on enhancing operational excellence, executing expansion projects, and implementing growth initiatives focused on digitalization, sustainable transformation and value creation for our stakeholders. With that, I now request our CFO – Mr. Pradipto Mukherjee to brief you on our financial performance. Over to you, Pradipto.

Pradipto Mukherjee:

Thank you Saatvik. Good evening everyone. I just like to take you through the financial performance of the company. We start with Quarter 4 numbers. The revenue for Quarter 4 for the company stood at 588 crores more or less flat in line with Quarter 3 which clocked at 579 crores. This quarter we saw a significant price correction in caustic soda and our SR. Despite that the company was able to beat its Quarter 3 top line and that was predominantly because of higher volumes from across the segments. Caustic and SR typically was significantly high as well as our soda ash business. PVC also saw increased volume and the good part was that the prices correction which was continuing till Quarter 3 had bottomed out and we saw some elevation in the prices.

Going to the EBITDA of the company the Quarter 4 EBITDA from operations came at 104 crores which again remained flat more or less flat in line with Quarter 3 numbers. The margin was maintained at 18% while the caustic division there was a significant reduction in EBITDA because of the price corrections as earlier mentioned. However, the PVC business for the first time in this fiscal showed a profit of around 23 crores predominantly because of volume

increase and price stabilization and also the strategic procurement which was taken in quarter 3 for our VCM purchase which was earlier mentioned in the Q3 Earnings Call.

The performance of soda ash remained consistent across the quarters and more or less we could clock the same EBITDA as we had for last quarter. Now, if we do this analysis on a year-on-year basis compared to last year our revenues were down by 119 crores which is roughly a 20% down from 707 crores. While the volumes across the segments more or less remain the same this was predominantly due to the PVC prices down by 34% and caustic soda prices down by 14%. It is important to mention here that the PVC and the caustic are our major revenue drivers and a price fall in these two segments have hurt us in the top line.

In the performance so far as EBITDA is concerned we had shown an improved EBITDA of 104 crores vis-a-vis 100 crores what we did last year Quarter 4 that was predominantly because of the soda ash division for Quarter 4 this year doing much better than last year both in terms of volume and efficiency. SIOP division continuously sees growth in terms of volumes of production and sales and that were the two contributors on a year-on-year basis which drove the bottom line. However, the PVC prices has fallen from last year to this year and was a dragger on a comparative basis of the EBITDA. The margin for Quarter 4 as I told this year was at 18% and compared to last year the margin was around 14%. Interest costs, as Saatvik has already mentioned, post the refinancing done in September 22 - Quarter 3 demonstrated a sharp decrease in finance cost which got further reduced in Quarter 4.

Now briefly to touch upon the annual numbers. The annual revenues for the company stood at 2,625 crores the highest ever, which was a 7% increase over last year. The EBITDA from operations stood at 444 crores again the highest ever which was a 34% increase over the last fiscal where we clocked 331 crores. For the year as a whole caustic, soda ash and SIOP divisions were the major divisions driving EBITDA or the bottom line ,while PVC was a reverse turnaround because of the pricing pressures which we witnessed. The entity level margin got expanded from 13% to 17% for the year as a whole. The PAT had shown an increase of 79% compared to last year.

Now if I run through the balance sheet a bit ,the current ratios have significantly improved to 1.38 from 1.02 which we closed last year in March with a comfortable cash balance in the balance sheet. We have also been able to considerably deleverage our balance sheet. The debt-to-equity issue has come down below 0.5 which was around 0.7 last end of last fiscal. The net debt-to-EBITDA had reduced to 0.76 from 1.33, which was there last year. The ROC also saw an expansion and the ROC for the year FY23 stood at 22% vis-à-vis 17% last year. Additionally, as Saatvik mentioned, to reiterate the cost of borrowings has come down to sub 10% from H2 onwards from our previous cost of 17%. With this I would request the members to ask any questions or clarifications there. Thank you.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: So firstly, if you could give an update on this increase in capital work in progress, so you did mention about the increase in capacity in fact doubling of capacity for CPVC and some debottlenecking for SIOP, so how much have we spent as on 31st March and what does this 50 crores capital work in progress stand?

Pradipto Mukherjee: When we mentioned our CAPEX for both our CPVC and SIOP we indicated a number of 125 crores. If you see our balance sheet we would have spent around 60 crores as on 31st of March and I mean that we feel that 70% of the work is done and we anticipate there should be some savings in what we had guided at the beginning when we started the project.

Saket Kapoor: And the implementation would be in the H2 only sir?

Pradipto Mukherjee: So as per our announcement and the communication which we sent out earlier that the volumes were expected to come from H2 onwards. We have been monitoring the progress as Saatvik has also told and we anticipate the volumes for CPVC to start clocking somewhere from Quarter 2 itself which is an improved timeline to our initial assessment . So far as SIOP is concerned since it is a debottlenecking CAPEX productions we will see gradually ramping up in Quarter 1 also, but the full benefit of SIOP we anticipate to be witnessed in from Quarter 3 onwards.

Saket Kapoor: Just one more question on SIOP and. CPVC and then we will come to caustic so taking into account the improved performance what we have seen for the March quarter how should we paint the picture going ahead should these line items would be linear in terms of top line and bottom line or they are also subject to the vagaries of the market just like our commodity chemical?

Pradipto Mukherjee: If you compare ,when we got into FY23 at the early 23 the prices of commodities were typically on the rise when we are getting in this year for FY24 the prices of commodities have come down. We expect that the prices to bottom out here and the additional volumes in terms of CPVC and SIOP to come from Quarter 2 and Quarter 3 respectively.

Saket Kapoor: No, sir I was just trying to get some sense on the bottom-line impact in terms of these two segments the profits which we have posted for SIOP and CPVC for Quarter 4 what the nature of these profits are these profits one can look at on an annualized level also depending upon our order booking?

Pradipto Mukherjee: So, for SIOP and CPVC our margins has been North of 35% and we expect that the margins to be maintained at that level even on the increased volumes.

Saket Kapoor: Now coming to the caustic and the soda ash part as very rightly mentioned it was soda ash and I think so the revision in the contract prices that resulted in the second half posting very good set of numbers for the soda segment. So if you could give us some more outlook I think so the soda ash major did went for a price revision downwards in the month of April and also looking at what the fillers from the inner Mongolian capacity coming up what can you share on in terms of how the soda ash pricing going ahead?

Pradipto Mukherjee: I think on the business update I will request Mr. Amitabh Gupta our CEO to give you more detail on this, kindly hold on.

Amitabh Gupta: Good afternoon everybody. So, this is a question about soda ash you see India is a net importer of soda ash, we produce at least our production fall short by almost 1 million tons and about 7 lakh, 8 lakh tons of soda ash is imported every year in the country. Now your second question was production starting in Mongolia. Well, that product will find very difficult to get into the Indian market because of the logistics number one and the markets were a bit subdued because of the China economy being not in a good shape which has started picking up. Now, when you were talking about the price connection during the updates well basically it was the cost of soda ash our various raw materials costs have gone down and that was the reason and the international market which instrumental in bringing down these prices, but I do not think it has affected our margins at all.

Management: Just to summarize the demand is intact and it is only the impact of the lower RM especially the coal prices that is the reason for the revision.

Management: You see caustic soda again today we are going through a very funny situation where both caustic soda and chlorine are down. Now caustic soda basically what has happened I think about 5 months, 6 months back there was a huge spurt in demand from Europe and people did extra buying in Europe thinking that the energy cost will remain very, very high maybe the local production will not be there and the result is they are overstocked. So, there is no buying coming from Europe at all and I do not think it will be there for the next month or two or maybe three months. The cost of caustic soda is again coming down because the major driver is coal prices basically the energy cost. So, of course margins are absolutely [Inaudible 23:58], but the prices which we saw in the third quarter was not very realistic prices if you ask me. These were the panic buying from the European countries which created these sort of prices. So, frankly we cannot compare the prices with the prices at that time.

Moderator: Thank you. The next question is from the line of Anil Mehta from Equirus Securities. Please go ahead.

Anil Mehta: Sir, I have just two questions what was the kind of demand in the quarter for the CPVC and the post March what was the demand for the CPVC and the second question is going forward how do you see the realization trajectory for the CPVC?

Sudarshan Ganapathy: CPVC demand is growing at over 12% to 13% on a year-on-year basis and FY23 the demand in our estimate was close to 200,000 tons and it is expected to grow to maybe 220,000 to 230,000 tons in the coming year. So, we do not any issues in placing this additional capacity coming because with the domestic production as we talk is not more than 30,000, 40,000 tons and rest are all only met by imports. So, I think that takes care of the question of the demand. Now coming on the price realization, we see the major raw material is PVC resin. So whatever correction we have seen on the CPVC is purely on account of the correction in the PVC prices and going forward even though CPVC is a specialty you cannot have a unrealistic delta between the PVC and the CPVC prices. So CPVC prices will catch up based on the PVC price, but not on a month-on-month basis. There will be some correction happening maybe on a quarterly basis. So, if you see in the FY22 when previously prices went up to \$1,500 CPVC prices did not go beyond \$2,100. So now that the prices have PVC has come to sub \$900 the CPVC prices are in the range of \$1800. So, when the PVC prices fall it helps us to improve our bottom line. So, we hope that if PVC prices are going to be at this current levels it will help us in maintaining our bottom line for CPVC.

Anil Mehta: Sir just one question I just forgot the number what will be the capacity of CPVC total in India domestic capacity?

Management: Total in India based on the announced capacity as of date we are at 10 which we will go to 20 in the short span and make money has got the announced capacity of 30,000 tons. So, totally it is 40,000 to 50,000 tons is a domestic capacity.

Moderator: Thank you. The next question is from the line of Sanjeev Kumar Damani from SKD Consulting Please go ahead.

Sanjeev Kumar Damani: Now I want to know what measures we are taking for reducing our energy consumption in all the sectors of our production facilities one and secondly how do we plan to reduce the cost of energy by setting up some solar plant or something like that. So this is the first question I want to know from you energy savings and the [Inaudible 28:27] cost of energy, what measures were taken in the last year and what more we are taking?

Management: As far as the energy consumption goes there have been certain maintenances which have been undertaken at the plants primarily in caustic soda division which has overall reduced our consumption over there and has overall reduced the cost per ton of power for caustic soda. Going forward what we are looking at in terms of overall reducing the price for energy I think we have mentioned during our last call as well we are evaluating certain options of renewable energy for our **Sahupuram** complex both from the ESG perspective as we are trying to reduce our carbon footprint and want to reduce our coal consumption and also will indirectly help for significant saving and power cost. So, that is a project which is being evaluated and hopefully soon as we concluded we will communicate the details of the same.

Sanjeev Kumar Damani: I also remember sir last time you have said that you are planning to do some solar energy utilization?

Management: It is not concluded yet.

Sanjeev Kumar Damani: My second question is regarding the net debt as on 31st March in the book including working capital if I can get one figure from you sir?

Pradipto Mukherjee: So, the gross debt of the company stands at 504 crores and we have cash balances of around 160 crores. So, it would be 340 crores of net debt net of cash. When we say 504 crores it is term lending we also have around 300 crores working capital lending in form of LC, non fund based which are off balance sheet item and which are demonstrated in our creditors balance.

Sanjeev Kumar Damani: And now the second question is that out of this 160 crores in cash how much will be spent during this year as capital expenditure and how much we intend to repay?

Pradipto Mukherjee: So, we do not intend to repay any amount. So, let me give you certain numbers. Typically our debt for the company from last year to this year has come down by 50 odd crores. So, 550 crores to 500 crores. Our natural repayment plan is 124 crores for this fiscal and our EBITDA is around 440 crores. So, if we manage to repeat our performance of this year as a bare minimum in EBITDA then ever our gross debt EBITDA goes down below one. Secondly, is that previously I understand when the questions were coming on the debts and for us as the management also we were worried because the cost of borrowing or the cost of the funds were as high as 17%, but today if you see by the end of this year the cost of debt has gone down to sub 10%. My returns on capital employed is 22%. So, basically on the 500 crores the 13% of solid spread is going through to the equity shareholders. And with the cash in the balance sheet as war chest we are trying to ensure fast tracking of our project which is undertaken now and somewhere by once we complete these two projects, the strategy team is working on the next project for the growth driver for FY25. We will take a decision as to whether we repay the date at that point in time depending upon the total CAPEX requirement or we fund the next keep CAPEX as well from our internal accruals.

Sanjeev Kumar Damani: My only last question is regarding the total CAPEX as already planned today which will be spent during this year one amount I want to know sir?

Pradipto Mukherjee: So, I can give you sir the number on the announced CAPEX. The announced CAPEX was around 125 crores. We anticipate there would be some savings on the capital cost but having said that we reach 125 as well, we have to do a balance CAPEX of around 60 odd crores to complete the announced CAPEXes. We normally have 30 - 40 crores of routine CAPEXes right. So, for the announced CAPEX and on the routine CAPEX roughly we should be spending around 100 crores.

Sanjeev Kumar Damani: And one fine thing sir that is it possible for you to give production and sold quantities physically every month on DSP either on by 7th or 6th?

Pradipto Mukherjee: I think that is not a mandate.

Sanjeev Kumar Damani: Give us an insight?

Pradipto Mukherjee: So, we can give such insight based on specific request from the investors.

Sanjeev Kumar Damani: I am not saying straight away do it kindly consider this because that will give lot of insight to all the investing community about the company that how the progresses are being made. Some companies are announcing if they reduce the price of certain products they give announcement also that we have reduced the prices or we have increased the prices.

Pradipto Mukherjee: So, we will find the mechanism to keep our investor informed.

Moderator: Thank you. The next question is from the line of Nimesh from Dessero. Please go ahead.

Nimesh: The first is a micro question is that what are the current PVC, VCM spreads the company is fetching at this point of time and what were the highs if you management can guide us through the two years lows and highs of VCM spread and current VCM spreads the company is fetching at this point of, second question would be on the CPVC and as we understand that our competitors has also put up the capacity, are you seeing any headwinds on that front or it puts us in a more stronger ground that our product is far more superior than our competitor and we may actually put some higher realizations than what the competitor is fetching at this point of time and the third will be a bit of a medium term question historically we have been guiding that we want to move towards 50-50 profile of specialty and commodity chemicals. We are already clocked in 440 crores of EBITDA another 10,000 tons of CPVC will add another \$20 million that is around close to say 50 odd crores of EBITDA in coming year and so that will push us to 500 crores of EBITDA, are we seeing that growth manageable or you mean any kind of number we can used for a modeling purpose wherein say FY24 kind of an EBITDA number we are working with?

Sudarshan Ganapathy: For your first question on the VCM PVC spreads I do not know whether you have covered our earlier calls. You see FY21 and FY22 predominantly the spread was historically at higher number purely based on the import parity pricing because the PVC prices international prices surge because of the multifold increase in the logistic cost, the normal freight which was at \$30, \$40 went up to \$400 which resulted in a higher landed cost of PVC and since our raw materials are all on a time charter basis on a bulk shipment basis we were less impacted on the freights. So most of the last two years before the preceding financial year the VCM, PVC spread was consistently about \$300 which is again an artificially higher spread not sustainable. So, as we move towards the last financial year the prices started correcting

because two things happened. One is the logistic the container freight rates got started getting moderated and there has been an increase in availability of PVC from China and other countries. So, this started correction in the PVC price and as a result the VCM PVC spread started coming down and as explained in our earlier calls that there was an inventory lag of M minus 1 because we usually get the VCM on a previous months price and the PVC was we were collecting the PVC prices because they were falling in accelerated mode. So, we were consistently hitting lower spread which was many times even lower than \$120, \$130 because of the one month lag then in the month of November when there was no sign of any prices getting corrected we took a strategic call to take a pause on the VCM sourcing and that helped us to some extent leverage the VCM PVC delta. As a result, in Quarter 4 we could post. 24 crores of profit in the PVC business. Having said that as we talk now the VCM PVC spread is in the range of one \$175, \$180. I think this would be the ideal spread going forward. We do not expect the spread to remain large. So, I think at \$180, \$190 spread if you add the duties at both ends we are close to \$225, \$230 as the overall gross spread between the raw material and the finished product. I think that is what we normally take in our budgeting for the PVC profitability then coming to the next point on CPVC I believe everybody has got their own pluses and minuses and we just cannot comment on the quality or other thing about our competitors. As far as we are concerned we have a first mover advantage and we have the product well established with all our anchor customers and we hope that going forward even we will not have any issues in ramping up our production from the new plant and getting the product approved by our customers. Coming to the third point I think I will ask Mr. Pradipto to give you an answer.

Pradipto Mukherjee:

Sir could you please repeat the third question for these.

Moderator:

Sir the participant has left the queue we will move on to the next question.

Pradipto Mukherjee:

I think the question was more on what could be CPVC profits added up to the next year. So first of all our CPVC profits from additional 10,000 tons would roughly give a number which correctly mentioned was around 50 crores, but for the year FY24 since we will have the benefits from three quarters. On an annualized level ,from next year onwards we obviously would see that spread. Now whatever numbers we have achieved this year are combinations of factors of average prices for the whole year across segments. So if the average price what we have achieved this year are repeated next year we would have the profits also repeated added for the additional capacities and the profits there from. Having said that we have almost max out the capacity this year for all our existing products. Our objective internally is to keep our capacities entirely sweated out and get the additional capacities on board as fast as possible, prices and profits would be the function of the markets and the demand supply.

Moderator:

Thank you. The next question is from the line of Lalit Wadhwa from Prospering Advisors LLP. Please go ahead.

Lalit Wadhwa: So I wanted to know about this inventory turnover cycle, so inventory days have gone up from 63 days to 97 days as compared to the previous year and so is the value of the inventory I can see in the current assets from 247 crore to 345 crore. So, what is the reason of increase in this inventory value are we not able to sell?

Management: So, typically as I told we have maxed out our capacity whatever capacities are available with us more or less across segments we are utilizing the capacity. There has been certain purchases which were made in this year to normalize .When you compare our inventory numbers this year versus last year it would not be a fair comparison because historically we have been keeping inventories for salt and inventories for our lime stones and mines supplies at a higher level. Since we got into a financial crunch somewhere in FY2021 and we were gradually coming out, we were keeping inventories subpar and now we have come back to the inventory levels which we were maintaining for our commodity business somewhere three years, four years back and now that is more or less comfortable for us. It would not increase most likely from here on, but again there are seasonal factors where you see March, April, May our inventories goes up because it is followed by rainy season where the mining activities get stopped. So, we prefer to build up inventories pre monsoon.

Lalit Wadhwa: Sir, this inventory so what is the proportion of finished goods and the raw material?

Management: I think you can drop this question and we will get back to you. I think there would be a good amount of inventory also in FG, but predominantly the increase in inventory what you see is from our mined raw materials as I explained where we are comfortable maintaining a higher inventory pre monsoon.

Lalit Wadhwa: So, the major increase would have been in the raw material inventories?

Management: Yeah sir soda ash, PVC, CPVC we do not have inventories. SIOP inventories have gone up a bit because of the productions catching up and the sales of those inventories follow with a lag. So, there would be some amount of FG inventory increase in SIOP/SR and it is the raw material inventories which would have gone up.

Lalit Wadhwa: Last month sir we heard the news that Tata Chemicals said they will reduce the soda ash prices by 3.5%. So now in line with the competitive strategy you will also have to fall in line. So, do you think you will be able to maintain the similar margin?

Management: I think yes because I think as Mr Amitabh Gupta has also been mentioned there is crisis of coal which are coming down, there is prices of coke which is one of our raw material which is coming down, ammonia is coming down. So, eventually if we sell our produce and sell our produce into the market at the prices which has been indicated and followed in the market I think the margin would remain maintained on that. However, there would be some lag effect

that we have to see it may fall in a quarter, but annually I do not see that the EBITDA would go down.

Lalit Wadhwa: And how about the expansion plan, sir?

Management: I think the CPVC as I told we initially announced that the capacities will be available for sale and we will see the sales are starting H2 that gets preponed by a quarter mostly. SIOP we see the revenues from the increased volumes come up as we initially mentioned from H2 onwards.

Lalit Wadhwa: My question was that are we thinking to further increase our capacities putting up more factories?

Management: As of now we have not done with our existing factories. We have some amount of land bank available with us and we have certain related chemistries and thoughts in terms of our next growth into our existing facility. I think there would be some amount of CAPEX which would also require for making chlorine neutral in Sahapuram facility and in that line the next CAPEX mostly would in, but thereafter we need to think of some geographic de-risking.

Lalit Wadhwa: And how about the dividend payout sir we have a very small percentage which we pay as dividend?

Management: So I think last year we started paying dividend after quite a number of years at 20% and for this year we paid interim dividend of 10% and there are proposals for an additional 15%. If you calculate that percentage as a percent of our net profits last year we distributed 10% of our net profits as dividend and we would like to do so this year as well.

Management: Thank you. We have the next question from the line of Anil Shah an individual investor. Please go ahead.

Anil Shah: My only question here is sir do we expect any further reductions in doing sort of quarterly basis? It's still continuing to be closer to about 20 crores a quarter. I do understand we have a gross term loan debt of about 500 crores and working capital about 300 crores, but I am just kind of wondering part of it will get prepaid this year about 125 crores, so where do you see that basically settling down and if we calculate that is the first question on the interest cost. The second question is that if I look at PBITs we have done about 77 crores, 78 crore of the total PBIT coming in from SIOP and CPVC this year assuming the expansions for both hitting in part of this year and assuming 35% plus margins. We should be able to get about 100 crores of PBIT from these specialty chemicals this year. Please do correct me if I am wrong, but on the other hand we normally have a cycle wherein between PVC and caustic one of them kind of contribute reasonably well and soda ash luckily has been consistent for, so do you see us despite the expansion being able to meet this year's EBITDA number of about 200 crores plus.

Management:

So just to take questions you asked many questions in these two but I have to take them one by one. First of all is the interest cost as I explained interest cost has come down to 19.5 crores in quarter 3 and I think if I am not wrong in Quarter 4 it has come to 19 crores. Next year as the overall number I think the interest cost will be sub 70 crores which would be 55 to 60 crore reduction from this year's annual figures. You see that any healthy treasury management would have 4% to 5% of the top line maintain that cash and we have little above 5% and there is a project which is undergoing and we continue our endeavor of next year's growth as well to announce some CAPEX once we are done with these two. Having said that, for us it is a good place to be in carrying some amount of cash on the balance sheet. Now just to add on we get earnings of on that cash of around 7.75% to 8% and our overall interest cost at a percentage on our term loan is around 9.25% to be precise. We are having a negative carry of 1.25% for the cash we have in the balance sheet that is around the 1 crore in the annual impact to profit numbers we have and it is insignificant. We do not find any reason to repay the debt and would let it go down by its natural course with our repayment at 125 crores from this year. Now coming to your next question the profits I mean at the EBITDA level we do not check the PBIT level to be honest. So, at SIOP and CPVC put together this year will an EBITDA of 115 crores. Last year we did 80 crores and next year post capex at an annualized level we think the number should be north of 220 crores, but again this is in an annualized level. We will get the part benefit of that in this year as we commission and start selling our products.

Anil Shah:

And between the between the three commodity chemicals given the outlook that you have talked about do you see on an aggregate the three of them being able to contribute because this year PVC was pretty weak except in the last quarter where we got kind of some kind of a bit a positive, but caustic was like humongous large given where we are starting off on most of all the three commodities do you see the three of them being able to contribute closer to 250 crores odd of EBITDA?

Management:

That is the wish we have, but I will tell you. So, typically what happens is that soda ash roughly is a 20%, 22% EBITDA margin business and sales roughly around 330 crores. Thankfully, the prices have been stable. Now there is a price correction of 2% and we will have a follow up cost reduction as well and the annualized number needs to be seen because there is a lag effect of the price collections of imports of the annualized level we are pretty confident to repeat that margin of 22%-odd . And now coming to your question on PVC.- PVC and caustic historically has been a natural edge for the company that is what our experience is. Further, to that there is obviously SR which were we are relatively stable. So, if you add these two with SR being a part of caustic Division and PVC, put together we see that the price more or less has bottom down. So for caustic also prices has bottomed out and the prices may go up a little bit, but we do not see the prices going back to what we were achieving Quarter 2 or Quarter 3 .What happens is that we get a reduction in the power cost as the coal prices gradually fall and that is more or less already started and we think it will further fall.

So, more or less we expect across the segments the margins to be more or less maintained barring a quarter or two here or there depending on the way prices move.

Anil Shah: So, when you say margins to be maintained should I take the fourth quarter for PVC and caustic as the as the base margin?

Management: So, basically what I am saying is it is very difficult to give you a guidance on the margin for the commodities this year because first of all Quarter 4 has been an aberration as I told for PVC because we did a strategic move in VCM purchase in Quarter 3 which we also announced upfront that there will be some benefits coming into PVC profits next quarter which actually fructifies. Now what we see is basically PVC would give us a 5% to 7% kind of margin on a steady state, caustic should give us 3%, 4% on a steady state and SR should give good considerable amount of profit on our statement level. So, it would be very difficult for us to put a number I mean even if the Quarter 4 prices also remain the additional volumes coming from CPVC and the SIOP in the later part of the year will take care of the continued price corrections and stabilization of PVC and caustic prices at this level. Having said that when we started last year we gave our guidance that our EBITDA would be front ended and as you understand our volumes are coming up in the second part of the year and this year the profit should be more back ended naturally because of the additional volumes coming in the second half of the year. But we wish that with FY 23 EBITDA this year's number gets topped up by the additional volumes, but with the current prices we do not anticipate that to happen.

Anil Shah: As a complement to the management, I just think even if you could maintain the EBITDA at an aggregate level, but obviously the contribution from SIOP and CPVC will increase because of the volumes I think that will be a damn good job done honestly?

Management: Just a short answer to your question is if there are price corrections happening we have the advantage of the additional volumes coming in and we think at worst the price corrections will be taken care by the additional volumes.

Moderator: Thank you. We have the next question from the line of which is a follow up question this is from the line of Anil Mehta from Equirus Securities. Please go ahead.

Anil Mehta: Sir, I have just one question as of now what will be the price of CPVC?

Management: Around 150,000 per ton.

Anil Mehta: So, Rs. 145 per kg is it sir?

Management: Yeah.

Anil Mehta: And what will be the CPVC price for the import CPCV price?

Management: So, basically see we have an anti-dumping duty in place. However, there are certain duties circumventions which we feel is happening through some imports which are coming in and that is why the prices are bit lower than what the anti-dumping prices are fixed, but then the import prices would be also around the same

Moderator: We have the next follow up question from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: I just missed an interim part of the conversation so if we summarize in last three year it was the contribution from the caustic and the late contribution from soda ash that compensated for the PVC segment performance, so going ahead as we have seen that the contribution for this year would be somewhere from what caustic soda contribution is depending upon the current prices and also the scenario that is shaping up, how confident is the management that we would be able to at least match the current year performance because that looks tough task going ahead if the performance from the caustic or the PVC also flattened going ahead, so how much will we increase in the contribution from the PVC and SIOP would add to the gap that would be that might be created from the lower performance from the commodity chemical and also sir on the soda ash part also you did mention that it is about only the benefit of the lower raw material prices and the margins would be maintained this is what you eluded to?

Management: For soda ash if we take one by one. For soda ash we think that the margins would be north of 20% maintained for us, given our understanding that the prices fall will be taken care with the way the coal prices are falling and coke prices are falling and we think that we will be able to maintain the spread what we have achieved last year. Coming to CPVC and SIOP, we categorically told you that our annualized profit post our capacity is coming on board would typically be North of 200 crores. Now coming to a PVC ,we really do not have an answer for your question sir, but I can just tell you that if we do not repeat our performances then there will be many other companies who would be even further sulking. We do not expect the prices to be at this level static for the entire year and we also do not expect that even after the first reduction of the coal prices that the prices of coal, our basic raw materials will also remain at this level. So, in the commodities, we are a player into B2B segment and we also purchased from suppliers who are into the similar segment and what typically would happen is if the commodity prices continue to go on falling from now on aswell , our input costs will continue to go on falling, but unfortunately there will be a lag effect which we have to deal with.

Saket Kapoor: So, small points sir if you take only the coal price component if you take the average of the coal prices for the last financial year and the current prices, could you quantify the difference in the cost that prevailed for FY23?

Management: We have not worked that way yet since we just started this year. We are still closing out on the last year to be honest, but eventually on a hunch for the April numbers what we see, we see that the coal prices have come down and when we are contracting for coal, we are seeing the coal prices even lower. So, we think that the margins will be maintained even at these prices, but if the price goes on falling the way it happened for PVC, the same may happen for other business also, but historically we have not seen both PVC & Caustic prices falling together. Having said this in our last 10 years- 12 years we have never seen both the PVC prices and the caustic prices both falling at tandem

Saket Kapoor: That is correct, but if you have the numbers for the last year coal procurement prices the average?

Management: As of now not readily available with us. The power cost roughly would be 33% of our total I mean 33% of the total companies cost to top line. So obviously that is a big chunk of our cost. The coal prices come down, so we will have a significant benefit. Apart from that ,as we told that we are also looking at the opportunity of alternate sources of energy, though primarily not from pricing aspect it is more from an ESG aspect, but that obviously will have additional or follow on savings on the power cost.

Saket Kapoor: And only on the contingent liability front sir for many years I think so this note number 4 is being there for I think the Tamil Nadu electricity tax and also about this custom part, so anything in the resolution or there was some offer were there from the government earlier on 'Vivad se Vishwas Scheme', so we did not find these also fruitful and what is the ultimate path for these two-line items getting cleared?

Management: So, typically for the electricity it is a generic one. There are many companies who are into case that and it is in the Supreme Court. So, we did not want to find a way into paying the taxes and not falling out because we feel that it is an industry specific issue. Classification issue with the custom for coal ,we believe also that we have a strong case. So, we really are waiting out on the cases and today our scenario is such that we also have war chest of cash in case of any negative ruling. We really do not see any need to go and upfront approach the government and would prefer to wait for the law to take its own course.

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

Management: Thank you everybody for spending time with us this evening and hearing about us and have results. I hope we have been able to clarify all the questions that you had if anything further you can get in touch through our firm and hope looking forward to interacting with you again soon. Thank you.

Moderator:

Thank you sir. On behalf of Valorem Advisors that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.