DCW Limited
Q1 FY24 Earnings Conference Call
August 16, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2024 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, please signal an operator by pressing *, then 0 on your touchtone telephone. Please note that this conference is being recorded.

I now hand conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Thank you. 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 first quarter of the Financial Year 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call may be 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 beliefs as well as assumptions made by and 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, Mr. Amitabh Gupta – CEO, and Mr. Sudarshan Ganapathy – COO and Mr. Pradipto Mukherjee – CFO.

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

Saatvik Jain: Thanks, Anuj. Good evening, everyone and welcome to DCW's earnings call to discuss the Q1 FY24 performance. We will start today's call with a brief on the industry dynamics and then move into the company's performance through the current quarter.

As you all may be already aware, the chemical industry is going through an extremely volatile and challenging phase. With China's economy opening up, it has resulted in excessive competition, higher supplies and resultant decline in realizations. Global chemical demand has also been disrupted due to economic slowdowns in Europe and the US. While domestic demand has remained resilient, the surge in dumping by Chinese exporters has intensified competition and impacted Indian manufacturers' performance. Our Q1 FY24 financial performance has declined significantly, both on a year-on-year and quarter-on-quarter basis, primarily driven by price erosion across all commodity product segments and volumes on some of our specialty products resulting in overall margin and revenue contraction. Actually, the sales volumes witnessed a reduction on across all product segments except C-PVC. This will be detailed out by our CFO later on in the call.

I will now talk a bit on each of our products. Starting with soda ash, the production was down on account of machinery breakdown and is presently being operated at around 75% capacity with a stop-gap arrangement. The replacement of equipment parts is expected in the month of September, with full production to resume from October onwards. It is important to note that soda ash prices have further dropped by 12% from the Q1 prices due to abundant availability of imported product. The caustic soda plant is being operated at around 85% of its capacity on account of sharp fall in naturalizations. Export demand is still showing weakness and is expected to stay the same for at least another quarter or so. The sluggish export demand for Synthetic Rutile and SIOP also have resulted in lower sales. However, the production has been maintained, resulting in inventory buildup of the finished goods. The weak export demand environment for these products was due to inventory destocking by our customers and falling prices as well, though on the ground consumption of our products still remains strong and similar levels to last year.

The PVC business segment, which contributes a major share of our revenues, the prices have dropped continuously over the last seven quarters and we believe that they have bottomed out at these levels. VCM prices have also corrected, but only towards the end of the first quarter. Also on the cost front, gold prices have corrected significantly. The benefits of this should be seen from the next quarter onwards.

Now coming to an update on our growth CAPEX. The C-PVC project is mechanically complete and is expected to be commissioned by the beginning of September with the capacity ramping up slowly. The project turnaround time has been significantly better than our initial expectations and we expect this to commercialize soon enough. As far as SIOP goes, the additional production should start by October, November with commercial volumes coming up with the lag effect post the customer validations. All in all, the prices across our product range have bottomed out; however, we feel that the softness would continue into the current quarter with export demand picking up in the second half of the year. While the broader markets roller coaster up and down, we continue our efforts to bring in efficiencies and innovation by exploring new technologies in our manufacturing processes and are also looking to reduce our carbon footprint using alternate sources of energy.

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, and good evening everyone. The quarter one revenues for the company stood at 438 crores as against 588 crores in March quarter and 768 crores in quarter one of last year. Quarter-on-quarter, the revenues were down by 25%, mainly on account of price correction, 9% in PVC and 5% in caustic and soda ash. The speciality segment prices more or less held up. On the volume front, there has been a dip across the segments and products, except for C-PVC. The drop in volumes for caustic has been to the tune of 20% in the quarter, 8% in PVC and soda ash by 30%. In case of caustic, the company chose to operate at a capacity of 85% due to significant price erosion.

And so far as soda ash is concerned, for the quarter unfortunately we were stuck. We had a shutdown in the plant because of mechanical breakdown of one of our machines and the productions were shut for 16 straight days, which resulted in lower sales. Additionally, in soda ash, we also witnessed sluggishness in demand in the second half of June, resulting in some minor inventory buildup. For soda ash, the demand continues to be weak and there has been a further price correction in the ongoing quarter by 20%. The company further witnessed a demand reduction in our export products, namely SIOP and SR, wherein there has been a volume contraction of 35% quarter-on-quarter. However, the company expects the demand situation for the export products to gradually ease off and had continued production at capacity, resulting in inventory buildup in both SIOP and SR. On a year-on-year comparative, the revenues were down 43% since in addition to what factors which we earlier mentioned, there has also been a price erosion for caustic and PVC which were even more steeper to the tune of 35%.

Coming to the second segment which is EBITDA. The EBITDA for the company stood at 55 crores for the quarter as against 103 crores in March quarter, lower by 45% and 124 crores was the EBITDA in quarter one of last year. This number is lowered by 55%. On a quarter-on-quarter, impact in the bottomline has mainly been triggered by lower sales in our export products, namely SIOP and SR where we witnessed demand sluggishness. Additionally, the loss of production and consequent sales volumes in soda ash for the quarter also resulted in reduction in the bottomline. These three segments put together, which is SIOP, SR and soda ash, the EBITDA took a hit of around 26% on quarter-on-quarter basis. The other factors, which were prevalent in the quarter was price correction in caustic as earlier mentioned with no meaningful improvement in the cost structure. Further PVC correction of 9% resulted in continued loss in the PVC division and the inventory losses were factored in the EBITDA. The C-PVC segment had witnessed a strong volume uptick, but that did not result into incremental profits, as there were some price corrections in this segment.

On a year-on-year basis, the additional impact had come from caustic division wherein the price corrections of caustic lye and synthetic rutile was steeper, the caustic price corrections as mentioned was 35% and SR price corrections has been to the tune of 32% on a year-on-year basis. The silver lining, however, for the quarter has been that we have witnessed a lower energy cost due to coal price correction, which has started kicking in from the month of June itself. The EBITDA margin for the quarter stood at 12.5% as against 17% for the last quarter and 16% for quarter one of last year.

In the finance cost, the interest costs have moved to 17 crores, a significant reduction over quarter one of last year which was 25.5 crores, and over last quarter as well, which was 19 crores and this interest cost is going to go lower as we go on making our debt repayments. Further on the other income side which included in the above EBITDA, we have earned an interest of around 3.5 crores on the funds which are maintained with us and investing them. With this, I think we can open the house for questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Anil Shah from Aditya Birla Mutual Fund. Please go ahead.

Anil Shah: My question was what are the repayment schedule for this particular year?

Pradipto Mukherjee: Our debt repayment?

Anil Shah: Yeah.

Pradipto Mukherjee: So, the debt repayment is to the tune of 125 crores for the full year.

Anil Shah: And we plan to repay this and not refinance it, is that correct?

Pradipto Mukherjee: Yeah.

Anil Shah: And that means that by the end of the year, where do you see the debt long term and short term combined debt?

Pradipto Mukherjee: So, our total debt as on 31st of March was around 504 crores. The scheduled repayment comes to around 125 crores. So, we are looking at a number of 380 odd by the year end.

Anil Shah: And after this CAPEX which we have done for both the C-PVC and SIOP, is there anything more that we are looking to do in terms of CAPEX this year and next year? What are your CAPEX targets for this year and next year?

Pradipto Mukherjee: So, I think this year, as we announced, we are ongoing our announcement of 125 crores of CAPEX in doubling of C-PVC and debottlenecking of the SIOP, that would be done and dusted. Commissioning of both this facility would be done by September itself, as was announced. We expect the commercialization of the C-PVC plant from September itself as has been earlier mentioned. The SIOP business, however, we'll see the volumes coming in with a lag of six months that has been our expectation. So, from early FY25, we will start seeing the volumes. So, far as our investment plan for next year is concerned, we have certain investments identified, but however, we will see how quickly we can start those CAPEXES depending upon how our quarters and cash flows shape up as we go through these difficult times.

Anil Shah: And my last question, sir, is generally on the caustic side and the PVC side, do we think we hit the bottom in terms of pricing and demand and volumes and well, I understand you said the pickup in demand will happen from second half, but there is a Q2 yet to come through, so do we see things getting better on the Q2 front on….?

Pradipto Mukherjee: We have yet to discuss on this, but generally what we have seen as a history is that PVC and caustic prices are somewhere inversely correlated. Unfortunately for quarter one, we saw both the prices languishing. This situation we expect will not continue for a longer period of time; however, don't know which product will unlock and what the prices would be in a quarter from now, but our internal anticipation is that the PVC prices will firm up first before the caustic prices. With this, I'll ask our COO – Mr. Ganapathy and Mr. Amitabh – our CEO to talk on this.

Sudarshan Ganapathy: I think further to add to what Mr. Pradipto has told, PVC prices have definitely bottomed out and we are also witnessing a robust demand despite the monsoon, which is a very positive factor. And even the caustic soda prices have nearly bottomed out, and I don't foresee any further price reduction possible on caustic soda at this juncture.

Moderator: Thank you. We have the next question from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: I had a question on the SIOP division. So, I think there's been a sharp fall in revenue despite the production remaining broad, I think flat Q-o-Q. So, you know what sort of inventory buildup have we had or is this a function of decline in realization? This is the first thing I wanted to understand.

Pradipto Mukherjee: So, SIOP, typically when we started last year, we were doing around 30-35 tons per day. We ramped it up to 60 tons and now we are at around 70 tons per day. So, while the production has gone up, as the nature of the business, we are parallelly trying to tie up the volumes with our additional customers. Typically, the focus for the marketing team has been into the domestic market where we will make our new inroads. Having said that, as the productions are increasing and on our export sales, as I told has been bit lower for the quarter, there has been certain inventory built up in SIOP, but for the business as a whole, I think our CEO Mr. Amitabh Gupta put some more light.

Amitabh Gupta: Good afternoon, everybody. You see, SIOP is a little end product as compared to caustic soda, PVC, it is not a commodity per se. Practically, each and every customer has a little variation of what they are using because this is not a standard product, we call it red and yellow, but then there are about maybe some 50 or 100 shades of red, similarly of yellow. So, the process is till the time you start producing, and you cannot get your product validated by the customer. So, we have started, we have ramped up our production. We have got a very good response from our overseas buyers and they have already committed substantial volumes from October, November onwards. Like in the local market, our product has been well accepted by big consumers like Asian Paints, JSW, Indigo. So, we have embarked on the process of the samples are being submitted to other, other customers. Once we get the approval, then the sales will pick up and the response is pretty good. Already, Asian Paints has started buying, JSW has started buying from us. And we are planning to introduce a finer variety of this product, which is a micronized product, which will further increase our sales. So, I think in another 6-8 months' time, we will be more or less selling our current production and in this business, the inventory has to be built up because the customer, whenever they want the product, it has to be given then and there only. Nobody will wait. So, inventory of about 4000 to 5000 tons will always be there. And I think I'm sure in another 6 months' time, everything would have been streamlined because the product has been very well accepted by all the major customers.

Yash Agarwal: So, what sort of quarterly revenue run rate from the SIOP division you see?

Amitabh Gupta: Pradipto, can you just throw some light?

Pradipto Mukherjee: So, our SIOP business roughly has a 35% margin and our profits roughly would be around Rs. 10 crores EBITDA for a quarter. This has a 4,500 tons kind of dispatch for a quarter. We are looking at our number of 6000 for a quarter as sir told somewhere from next year onwards, January month. So, that eventually will not only increase the volumes, we are expecting the margins to go north of 37% because of economies of scale. This is a power intensive production line as well. So, we see benefits of cost over there. And obviously, as we do the micronization, which will call for some amount of investment, which is a part of the project cost, which has been announced that obviously would fetch additional margin because micronized products have 25% to 30% pricing power available with the company. So, these are the brighter sides. But to tie up, these would take 6 to 8 months' time.

Yash Agarwal: Also clarification, you mentioned 10 crore EBITDA quarterly currently and from next year when it touches 6000 tons, how much would be the quarterly number in your estimate?

Pradipto Mukherjee: Around 20 crores of EBITDA is what we are anticipating at our quarterly level or an annual level at 80 crore.

Yash Agarwal: Fair enough. That answers my first question. My second question is you mentioned that you got some benefit of energy prices cooling down in the first quarter. Now, has that the benefit completely been factored in the first quarter results or there is more to complete?

Pradipto Mukherjee: I think the last 15-20 days is where we have had the benefit of the coal prices because of the newer inventory coming in and those will have a full benefit coming in quarter 2.

Yash Agarwal: Is there any estimate you could give, absolute amount of..?

Pradipto Mukherjee: I think what we estimate, it would be around 7.5 to 10 crores of additional power cost savings over and above quarter one numbers.

Moderator: Thank you. We have the next question from the line of Nishit Deepak Jain from S&J Investments. Please go ahead.

Nishit Deepak Jain: I just want to know is it right to assume quarter two can be better than quarter one, especially on PVC and C-PVC side?

Pradipto Mukherjee: So, if you're talking on EBITDA number, I think there are couple of moving parts so far as the company is positioned now. So, typically what the company expects that after 7 consecutive quarters of price drop, the PVC will show price increase, which obviously we have witnessed one round or two rounds in the month of July. There are benefits of coal prices which will get baked in. The C-PVC productions, we are expecting to see some part of it in September itself. These are the upsides. On the downsides as our market for SIOP still is exports, we are not very confident about what would be the uptake of SIOP and SR in quarter 2. Similarly, if you've seen our communication, soda ash plant has started operating at a 75% capacity through a stop-gap arrangement, there would be a shutdown most likely which will be taken in quarter 2 to revamp the equipment for couple of days and also, there is a 12% price drop in quarter2. As of now, what we are aware of in soda ash with inventories across all the domestic players struggling to be sold into the market. So, given such a situation, a number to be given would be difficult, but on a longer term, what we as an organization trying to do is ensuring sustenance by way of producing and selling at our capacity and parallelly, building capacities for C-PVC and SIOP.

Nishit Deepak Jain: And follow up on this, as we assume like the VCM cost definitely will be lower for your imports of May, June, July and in return, the PVC prices as you said there has been seen some increase in July and definitely in August also, it may be. So, if that effect at least on PVC and C-PVC, the EBITDA should be better? Any guidance?

Pradipto Mukherjee: Yes, you're right. C-PVC and PVC, we are relatively confident that it would be better compared to quarter one. What we are not confident is the soda ash piece because there are our competitors into the domestic players who are struggling to find their product into the market at even current prices. And on top of it, we are operating at 75%-80% capacity. So, soda ash is something where we expect a dip. PVC and C-PVC is where we expect increase. Caustic, obviously, caustic division as a profit will predominantly be dependent on how our synthetic rutile uptake happens for the export market where we are bit sceptical. SIOP, I think would be more or less the same or a bit better than what we have done in quarter one. So, all put together, the numbers would not look very encouraging to what we have reported EBITDA this quarter. But what we are hopeful is that from H2 onwards, we see a good change because first of all we will have the additional volumes in the market so far as C-PVC is concerned, that's an additional advantage and we think that the soda ash problem for us, internal problem which is basically production. We will be able to do away with it. It will be only marketing which we need to address for soda ash. These two are positive things which we are hopeful of and based on what order insight we have from SIOP, we think that there will be some increase in volumes in SIOP, which will add to the bottom line.

Nishit Deepak Jain: And then lastly, can you give any guidance for PVC, C-PVC EBITDA, quarter 2?

Pradipto Mukherjee: So, quarter 2 guidance, specifically to put in would be difficult. We have closed this quarter; at a 6 crore EBITDA loss. It would be obviously north of 5-6 crore so far as PVC is concerned. C-PVC, we have done an EBITDA this quarter of around 15.5 crores. We think we are targeting a 20-crore kind of a number.

Moderator: Thank you. We have the next question from the line of Rohit Sinha from Sunidhi Securities. Please go ahead.

Rohit Sinha: So, in this caustic division side, just wanted to understand as the pricing difference between normal caustic soda and synthetic rutile product and the overall capacity which we report in caustic soda 196,000, how much of that is for the synthetic rutile?

Pradipto Mukherjee: So, on synthetic rutile and caustic basically are not a comparative product while caustic line is basically a commodity which is price sensitive. Synthetic rutile is typically a Speciality kind of a product for us. It's subsumed in the division itself. The prices for SR would be to the tune of Rs. 1,00,000 – Rs. 1,10,000 a ton and caustic soda as you know, it's available in the public domain. It's around 33,000. Our capacity for caustic is 1,00,000 ton. Our capacity for SR is 40,000 tons.

Rohit Sinha: So, combined capacity for caustic would be 1,40,000, right?

Amitabh Gupta: They're not combined capacity. The capacity of caustic soda remains 100,000 tons and synthetic rutile is a separate order. It is not interchangeable at all. You see one of the co-products from caustic soda that is hydrochloric acid is being used to produce synthetic rutile. So, these are two different products altogether.

Rohit Sinha: And the end use of this synthetic rutile is same or that kind of replacement?

Amitabh Gupta: Synthetic rutile is in manufacture of titanium metal and titanium dioxide pigment, which is used mostly in the paint industry.

Rohit Sinha: And secondly on the energy side, as you were saying that coal prices are reducing and most of the benefit would be reflecting on Q2. Just wanted to understand, are we looking at renewable energy also as an option apart from this coal and any thoughts on that when would be coming there?

Saatvik Jain: So, as I mentioned, we are looking at various options for alternate energy and once that is concluded, we will communicate on that.

Rohit Sinha: So, as of now, it is all coal based for us?

Saatvik Jain: Yes, as of now we are coal based.

Rohit Sinha: On this CAPEX side as I think you have indicated about 125 crore kind of CAPEX is there for FY24, I guess, right and FY25 is yet to be decided or would be looking at the opportunity based on the market condition?

Pradipto Mukherjee: The project identification more or less has been done by the strategy team. It is about balancing our funds versus when to start. So, the question is not whether we will do CAPEX or not, obviously we will do CAPEX; however, the question is that from what time we started, so that we don't bloat our debt.

Rohit Sinha: And one last question on this margin side. As I mean, if we look at our margin last 2-3 years, it has never gone below I think 10% and in this current scenario when most of the companies are reporting much lower margins, still I think we have maintained a decent sort of margin. So, going forward when we are talking about this bottoming out kind of situation maybe from Q3 onwards, what kind of margin improvement we should be looking at and with this SIOP contribution increasing going forward, what best level kind of margin we should be expecting for 24 or maybe 25 going forward?

Pradipto Mukherjee: See typically our margins, we are typically a 5-product kind of a company put together, we cannot be singled out and compared with any single company. So, what happens is our margin would be a function of the mix. So, what we have announced, our CAPEX is predominantly into the specialty segment, which is C-PVC and SIOP. What we see is that we are maintaining a margin of 35% for SIOP even at this level and C-PVC margin, we are expected to have at around 30%-35%. As and when we see the full production and the sale of this product into the market, we think that this investment, which is almost behind us at a full steady state would give us a margin somewhere at around 20% to 22% given that all other business holds out at the present level.

Moderator: Thank you. We have the next question from the line of Nikunj Raj, an investor. Please go ahead.

Nikunj Raj: I would like to know in terms of the C-PVC sales, how much would be the compound and how much would be the resin?

Sudarshan Ganapathy: It's a dynamic mix because based on the order books, it has been as high as 60% resin and 40% compound to as low as 20%-25% compound and 75% resin. So, there is no benchmark. But our endeavour is to sell more of the compound where we have a better value add.

Nikunj Raj: So, this proportion would be in the same range even after the expansion, right?

Sudarshan Ganapathy: Most probably, yes.

Nikunj Raj: And in terms of the technology that we have selected for the expansion thing, is it the same that we had the previous one or it's a new technology?

Sudarshan Ganapathy: It is not the same technology. It's a modified technology. So, we have taken an external help for some phase to set up a pilot plant and post that, it is our own improvements that we have made.

Nikunj Raj: So, then will we take time to stabilize the plant because again, it will be a new thing for us compared to what we had already?

Sudarshan Ganapathy: Don't foresee a big challenge because we had a certain round of validation of the product which we got from our pilot plant. So, we don't anticipate big challenge in getting the product validated, but we have to cross the bridge. So, we have to wait and see how is the response, but we don't foresee any big challenge.

Nikunj Raj: And in terms of the PVC that we manufacture, so do we consume the captive PVC for the C-PVC or do we get it from the market?

Sudarshan Ganapathy: Partly depending on the economics again, so we will have this advantage of either using our own PVC or we buy the bought out PVC based on the economics.

Nikunj Raj: So, it's not about the quality, it's more about the how it makes sense in terms of the financials, right?

Sudarshan Ganapathy: As you know, PVC is a product which is in short supply because India is 55% import dependent. So, barring this last couple of years where we have had a sudden dip in the PVC fortunes, this is predominantly linked to the Chinese oversupply and lack of domestic demand. Personally, as a company, we feel that PVC will remain a product which will be a higher revenue and reasonably good profit margin for us. So, as far as possible, our aim is to maintain our market share by producing the PVC for sales and try to use bought out PVC for our C-PVC plant. But having said that, it is not a hard and fast rule. Depending on the dynamics and the situation, we can always interchange.

Nikunj Raj: Right. And in terms of the C-PVC, again, as you said that your endeavors to sell the compound more than the resin, so that will be, I mean in the future when we expand, I guess that can be the criteria in terms of expansion because I guess for compounding, is it done from the same capacity or we need some extra kind of a plant?

Sudarshan Ganapathy: As of now, we have idle capacity available. So, our first aim is to see that our compounding capacity is run to full capacity. I think at least for the near future, we will have capacity available. Going forward, if we are getting a reasonably good response, then maybe we will, we can add up the compounding facility. It's not a big challenge.

Nikunj Raj: Just one last question. In terms of the chlorine consumption, I mean, how much would be the captive and how much you would be selling in the market?

Sudarshan Ganapathy: As of now, we will be consuming almost 65% to 70% and based on what future CAPEX that we have proposed, maybe in about a year or year and half time, we will be 100% consuming entire chlorine captive.

Nikunj Raj: Does this include the pipeline customers or it's fully in-house?

Sudarshan Ganapathy: **F**ully in-house.

Moderator: Thank you. We have the next question from the line of Guneet Singh from CCIPL. Please go ahead.

Guneet Singh: So, I just want to understand the margins. You mentioned that prices across all the products have gone down, but our margins are still maintained at 16% level annually and these are historically amongst the highest margins that we have achieved. So, I just wanted to understand now that all the prices have bottomed out, what kind of margins can we expect going forward? And I mean is there a pass through? So, if the prices are falling, our margins are same. I just want to understand like what's the reason behind that?

Pradipto Mukherjee: So, on the margin front, we had done quarter one of last year or the entire last year on March of around 16.5% to 17%. Last quarter, we had 17%, last quarter of last year. This year first quarter basis the prices, the margin has come down to 13%. As we are discussing the capacities and onboarding of the volume so far as C-PVC and SIOP is concerned, these two are at a margin level of of 30% to 35%. Now when these margins comes into play and with some amount of reversal on the current prices, with the coal prices being stagnated as of based on the current coal price index, we think that our margin steady state would be on north of 20%. We cannot say which quarter or which year this will, the endeavour is that we see a margin of around 20% in FY25.

Guneet Singh: Alright, that is very encouraging. But for FY24, do we expect to at least maintain last year's margins, how is our cost structure?

Pradipto Mukherjee: Our two businesses are low margin business; one is caustic and the other is PVC. These are topline driver businesses which does not fetch us margin. SIOP and C-PVC are businesses which are the bottomline driver and soda ash fall somewhere in between which is decent topline with a decent margin. SR, synthetic rutile obviously is lower in the bracket in terms of total value of sales and also the margins have been good over there because as I told, it's kind of a specialty. Having said all of this and the various moving parts in terms of export demand, our margins will be derived. We have to focus on all the businesses to drive both our topline as well as our bottomline. Margin will be a derivation which will come out. And obviously there are our interest of pushing PVC and caustic since they are basically cash cows which gives us cash much earlier. So, having said this, we will obviously try to focus on all the business with the given prices and margin would be a derived number at the end of the quarter. We are not driven by margin. We are driven by absolute EBITDA and the cash flow being driven by the commodities, specifically PVC and caustic.

Guneet Singh: So, for FY24, are we expecting the revenues of FY23 to hold up as per current scenario?

Pradipto Mukherjee: No, I don't think. So, this year obviously would be very bad because the average price of caustic last year was to the tune of Rs. 50,000. We are selling caustic today at 33,000 with a negative bias on the pricing as we are talking in this quarter, that's the 1,00,000-ton capacity where the prices almost on an average basis would be 40%-45% down. PVC, obviously we were selling last year an average at around Rs. 95,000. Now, quarter one, we are selling at Rs. 75,000 and that's also 1,00,000-ton capacity. These are the two volume drivers. So, in no case, we would be able to meet the numbers of topline as we achieved last year. The top line is not what we are focusing on, we are focusing on the absolute EBITDA. We recorded 430 crores of EBITDA last year. That's where the deliberation is, as how best we can drive and increase the absolute EBITDA for the company so far as FY24 results are.

Guneet Singh: Are we expecting to hold up that EBITDA level or what are your thoughts?

Pradipto Mukherjee: What was last year’s EBITDA looks practically impossible with the prices we have today and with the first quarter permanent loss in terms of capacity underutilization of soda ash and continued to quarter two. So, number what we will look for the year would be around 300 crores, that's where internally we are targeting.

Guneet Singh: Alright. So, you're confident of 300 crores this year, FY24?

Pradipto Mukherjee: So, 55 crores is quarter one, we are targeting internally in the boardroom, of a number of 300 crores, given these prices being there. We are committed to produce and sell more volumes. If the prices go up, it will obviously show up in the financials.

Moderator: Thank you. We have the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: You spoke about personally the soda ash market that currently the large players are facing difficulty in selling. So, if you could just give an outline of what has led to this glut in soda ash market and what's the way forward going ahead?

Amitabh Gupta: Well, there are two things. During the monsoon, there is always a little slowdown in the consumption of soda ash because the detergent industry is not running to its full capacity because there is water everywhere, people are not washing the clothes. So, that is one of the reason. Secondly, the Chinese economy has resulted in excess imports in India, rather exports in India at very depressed prices and that is the reason the soda ash has seen this glut in the country. According to me, the Russia had built up some stocks of soda ash, which unfortunately they could not export to any part of the world because there is an embargo from Europe, from US everywhere. So, whatever was their surplus has already come to India and I think all their stocks are exhausted. So, one was dumping by Russia, which was a one-time scenario. The economy conditions being very poor, the consumption of various commodities being very poor in China resulted in drop in the prices and excess exports from China. These are the main two reasons that we saw the slowdown in the soda ash in India.

Saket Kapoor: Sir, do you have the import numbers for the current?

Amitabh Gupta: India used to import about 45,000 to 50,000 tons of soda ash. And in the month of June, the imports were in the vicinity of almost 90,000 tons. And in the month of July, it was around 75,000 or 77,000 tons.

Saket Kapoor: So, on a monthly basis, it was 40,000 and it has now moved up.

Amitabh Gupta: It used to be around 45,000 to 47,000 tons. And June saw a big jump in this import because of the imports of Russia and to some extent from China. Now Russia stock levels are normal. So, we are seeing a little slowdown means there are not much of imports coming from Russia. But then China continues to export in India.

Saket Kapoor: And how is August looking sir and also how is the realization spending sir currently?

Amitabh Gupta: Realization because these prices are very low, so the local industry had to **50:23**____ its prices and since the prices have already been in line with the international prices, the imports are not much now anymore. So, things should start looking up in very near future.

Saket Kapoor: So, we are expecting a normal month of August in in the vicinity of 50,000 per ton?

Amitabh Gupta: I am talking about imports.

Saket Kapoor: Yes, only the imports.

Amitabh Gupta: But then what has happened because of such big imports, the traders have built us some good inventory with them. So, since such time these inventories are cleared up, the markets will remain a little subdued, but then things should become normal in any month or by October, I think things should be more or less normal.

Saket Kapoor: Because this is I think the reason that even for in your case, it is a planned shutdown. Even other major player has also planned shutdown in the month of September.

Amitabh Gupta: You are absolutely right.

Saket Kapoor: So, in this case the inventory part which will be choked up**?**

Amitabh Gupta: You are right.

Saket Kapoor: When we look at now the caustic soda story sir, Amitabh sir, you were very correct last year when prices were at higher prices and you cautioned us that these are not normal prices and you would be expecting average prices to trend lower. So, how is the caustic market you are seeing now I think now the prices are below.

Amitabh Gupta: Market continues to be very subdued. Again, the imports as I told you, the China economy is not in a very good shape. The consumption of the various products which they manufacture, it is not being consumed. In any case, they have been a big exporter, but now the surpluses are huge in China. So, they are exporting, what has happened the caustic soda prices in Europe, which has seen a high of $1000 plus, now they themselves are exporting around $300 odd, so international prices are caustic soda is pretty low and I think maybe I wish I could predict, but I think in the next 2-3 months, I don't see much of changes in the caustic soda prices. They will continue to remain subdued.

Saket Kapoor: Sir, how are the chlorine prices trending especially in the Western market?

Amitabh Gupta: Now, since what has happened since the chlorine was negative, caustic was subdued, so I think the production has been adjusted by some of the manufacturers **53:07**___ because they were not able to sell caustic soda, they were not able to sell chlorine. So, chlorine has improved. When I say improved means it is not much of negative anymore on the chlorine front.

Saket Kapoor: And last point, sir, if I could add, in China natural capacity that was expected, so have they ramp up the capacity some production?

Amitabh Gupta: Offlate, they have not ramped up anything, it is only the previous capacities which are playing havoc in the market.

Saket Kapoor: And what have been the capacity, 5 million? 5 million is what they have commissioned sir, your natural capacity?

Amitabh Gupta: No, you are talking whose capacity?

Saket Kapoor: The China capacity, the new capacity, I am forgetting the region. They have one of their new capacity was expected in month of July.

Amitabh Gupta: I will tell you, unfortunately we don't get any news from China. So, it is very difficult for me to comment on that.

Saket Kapoor: Correct, Sir. It's a black box type story. Thank you, Amitabhji for guiding us and we hope for better times.

Pradipto Mukherjee: Just to add to what sir has told, I think whatever news we have from China today is that China is in a deflationary scenario, volumes of the products are going down. The government now, only yesterday, second time reduced the interest rate to boost demand. Given such a scenario to continue, there will be no taker for the products produced in China and there would be a continued pressure on export out of China, which means the imports in India would stay elevated. That's the worry and this is where the price movement and functions will play around.

Moderator: Thank you. We have the next question from the line of Rohit Sinha from Sunidhi Securities. Please go ahead.

Rohit Sinha: Thank you for the follow up, sir. One is on the soda ash side; will it be possible to just give a brief break up of what industry we are contributing and what percentage?

Amitabh Gupta: You see, we introduce only light soda ash. We are not in heavy and then soda ash. So, our basic consumers are the detergent industry and the chemical industry because we are not a seller to the glass industry or very big way silicate industry which patronizes only the heavy soda ash and we are only in the detergent segment and the chemical segment.

Rohit Sinha: And secondly, since we are already almost 45 days in this quarter, so could you just help us with the prices of different segments as on June and as of now after this 45 days?

Amitabh Gupta: Prices have already been corrected of soda ash in end of July. And I think that is all.

Rohit Sinha: No, in other segments, caustic, SIOP, C-PVC prices as in June and now with this 16th August?

Pradipto Mukherjee: The prices are a bit dynamic, but just to give you a flair as far as told, soda ash prices, what we got on average realization of Rs. 33,000 a ton has come down to sub 30,000. Still, we are finding it difficult to place the volumes into the market because of abundance of supply and inventory holding by our competitors. Caustic soda prices have anyway come down in the range of Rs. 30,000. Obviously, the respite has been the chlorine negative has gone out and the expected power prices reduction to bake in. PVC prices, we have seen certain firming up, on an average prices certain firming up in the last two cycles of increase, very small ones though. C-PVC prices, we don't see it getting changed much; however, it depends on the mix of compounding and resin. SIOP prices remains firm at the range of around 80,000 to 83,000.

SR prices, we've seen correction from our quarter one prices. However, the prices what we can get could only be from as and when we see the demand uptake from the SR happening. As of now, we are dealing with the sluggishness of the demand so far as our export of our products are concerned.

Moderator: Thank you. We have the next question from the line of Nikunj Raj, an investor. Please go ahead.

Nikunj Raj: In our energy requirement, what would be the capacity of the captive power plant?

Sudarshan Ganapathy: 56 megawatts.

Nikunj Raj: So, that is good enough for the capacity, I mean the internal energy requirement or is it something that we get from the grid also?

Sudarshan Ganapathy: Take care of the future expansion. So, at present, our net consumption is not more than 43 MW – 44 MW. We also have a demand for another 12 MW, so reasonably we have available power even to take care of our future power.

Nikunj Raj: And in terms of the power cost per unit, how much it would be for Q1 FY24?

Sudarshan Ganapathy: It would be maybe south of Rs. 10.

Nikunj Raj: So, what do you think, in Q2 it will be considering the coal prices cooling off?

Sudarshan Ganapathy: Cooling off is the thing is what you buy today, you're not going to consume tomorrow. That's always going to be a lag effect. So, we feel that Q2, the power price reduction may not be more than a rupee and Q3 onwards, we will see power cost coming to maybe sub Rs. 8, maybe Rs. 7.50?

Nikunj Raj: And the total capacity of the C-PVC will be around 20,800, right, after the expansion?

Sudarshan Ganapathy: Yes. 22,000 tons, you can take. This capacity is on the rise, but 22,000 would be combination of product mix. The more we value added product, we will be in a position to add more capacity.

Nikunj Raj: Earlier, mentioned was that the C-PVC capacity is 10,800.

Sudarshan Ganapathy: 10,800 plus 10,000. It's 20,800. We believe we convert 25% to 30% of the resin into compound which is expected to grow. If that happens, for every ton of compound, we will need only 0.85 tons of resin.

Pradipto Mukherjee: So, the volume will go up, the capacity is in resin terms. If we do more of compounding, the absolute volume adding up compound and resin in tonnage would be more than 20,800.

Nikunj Raj: So, basically the current capacity utilization as you have specified is around 108%...

Pradipto Mukherjee: That is because of the resin capacity versus the compound and resin added up or when we define 10,800, we take a standard compounding. If you do actual compounding more than the standard compounding, your volume goes up and the capacity utilization shows up above 100% and vice versa.

Moderator: Thank you. Ladies and gentlemen, that was the last question and I would like to hand the conference back to the management for closing comments. Please go ahead.

Saatvik Jain: Thank you everyone for participating in our earnings call. I hope we were able to answer the questions to your satisfaction. If you have any further questions, I would like to know more about our company. Please reach out to our Investment Relations Managers, that's Valorem Advisors. Thank you everyone and stay safe.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of DCW Limited and Valorem Advisors, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.