

DCW Limited
Q3 and 9-Months FY 2024
February 15, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and Nine Months FY 2024 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.

I now hand the 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’d like to thank you all for participating in the company’s earnings call for the 3rd Quarter and nine months ending of 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 risk 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; Mr. Sudarshan Ganapathy, Chief Operating 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, Saatvik.

Saatvik Jain:

Thanks, Anuj. Good afternoon and thank you all for joining our Earnings Call to discuss the 3rd Quarter performance of FY 2024. Before handing it over to Pradipto Mukherjee for financial performance.

As you may already be aware, the chemical sector in India is currently going through one of its worst periods in over a decade. The pain continues into Q3 and has lasted much longer than anticipated. Though domestic demand remains resilient and underlying industries are growing, the weak global demand environment has resulted in continued excess imports across our product range that are putting significant pressure on pricing. Apart from the price erosion in the commodity products due to imports, sluggish demand for our exports also continued into Q3, resulting in further reductions in sales volumes.

To add to the pain, the Tuticorin region in Tamil Nadu, where our facility is located, witnessed unprecedented rains and floods, which completely halted our operations for 10 days, causing production disruption and delay in some of our sales spinning over into Q4. Thankfully, our impact on stock loss is minimal, as we are adequately covered with necessary insurance, and the expected impact is provided as an exceptional loss in this quarter. The price erosion coupled with lower sales volumes on our exports and impact of the floods has resulted in a 4% lower revenue and 48% lower EBITDA over the last quarter.

Moving to the market situation on our products. The domestic industry for PVC and soda ash are both severely hit due to huge quantities of imports being dumped into India from China, Russia, Iran, etc. Unfortunately, until we see the global demand-supply situation getting adjusted, this scenario will continue, especially as the domestic demand for both these products remains strong, with a strong push from the government on the user industries. As for caustic soda, the realizations also continue to be under pressure due to overall slowness in global demand and oversupply situation in India.

Coming to synthetic rutile, our sales were negligible in Q3, resulting in significant inventory build-up as we have continued our production. Weak demand in China is not only putting pressure on pricing, but also put pressure on our sales. However, the titanium metal demand remains strong and we are seeing some green shots from this quarter onwards. Our inroads into specialty chemicals is playing out and has given us a cushion to the bottom-line in tough times. C-PVC and SIOP remain strong and consistent contributors to our EBITDA and have added Rs. 32 crores to EBITDA in the last quarter. With our new volumes of C-PVC kicking in towards the end of Q3, we have declared the highest ever sales of C-PVC in a quarter in Q3.

As our production ramps up, we will see volumes improving over the coming quarters. Our SIOP de-bottlenecking project is also almost complete with production volumes ramping up towards the end of this quarter, though sales will pick up with a lag effect. This has been an extremely tough year for the industry. However, even in this situation, DCW has prepared itself well with value added products. With these capacities commercializing and with the

export of synthetic rutile improving, we are hopeful that the situation will turn for the better from Q4 onwards.

With that, I now request our CFO, Mr. Pradipto Mukherjee to brief you on our financial performance. Over to you, Pradipto. Thanks.

Pradipto Mukherjee:

Thank you, Saatvik and good afternoon, everyone. The financial highlights for quarter three of FY 2024 is as follows: The realizations across the company's commodity chemical segment continue to erode. However, with the lower fees and settled for the quarter at a stretched level across all our products. The caustic prices for the quarter stood at Rs. 30,000 per tonne, which is 10% down quarter-on-quarter. Synthetic rutile witnessed a significant reduction in export demand and the company could only achieve negligible volumes at stretched prices.

The PVC realization for the quarter was around Rs. 70,000 a tonne, showing a correction of 10% gain quarter-on-quarter. However, the company did not witness any disruption in domestic demand. The soda ash prices further soften by 7% quarter-on-quarter and stood at averaged at around Rs. 26,000 per tonne. However, the company was also operating at 85% capacity due to its gearbox failure. And as was informed to the exchanges, this situation will continue for the next couple of quarters. The company continues its journey to strengthen the specialty segment by commercializing the C-PVC expansion plan, which we initiated a year back and the effect of which has been partly witnessed in the 3rd Quarter and will gradually phase off in the coming quarters. The C-PVC sales volume for the quarter was highest for the company, resulting in a 25% increase in volumes quarter-on-quarter. The net realizations, however, corrected downwards with a decrease of 8% quarter-on-quarter.

The SIOP sales volumes stood at 4,700 tonnes, showing early signs of recovery in the export demand. The prices more or less remained firm quarter-on-quarter. As Saatvik has also told, there was an unprecedented rain and water logging in the last 10 days of the quarter at the Tuticorin belt which resulted in loss of production and sales in our facility as well. The loss of stock on account for flood, however was limited since the company maintained adequate insurance coverage on its inventory as well as fixed assets. And the estimated impact of the same has been factored exceptional loss for the quarter. Further the disruption on account of the flood has resulted into spilling over of sales from quarter three to quarter four.

The operating revenue for the company at quarter three stood at Rs. 398 crores, vis-à-vis the previous quarter at Rs. 415 crores, down by 4% and Q3 of the preceding year down by 32%. As discussed, the price erosion across all our product segments to the range of 8% to 10% barring SIOP, add a pressure on the top-line, but the revenues just did by 4% since volume increased both in caustic and PVC by 8% and in C-PVC by 25%. Coming to the operating profits, the EBITDA for Q3 from specialty segment as was mentioned earlier continued to be maintained at Rs. 32 crores as against Rs. 27 crores in quarter three of FY 2023. While the

commodity segment clocked a loss of Rs. 8 crores which basically gives a swing from Rs. 18 crores of profit in the last quarter.

The nine-month number for the company is as follows, the top line is Rs. 1,250 crores for the company with an EBITDA of Rs. 125 crores. The finance cost clocked at Rs. 53 crores for the nine-months and again Rs. 107 crores a year ago. This was predominantly because of the refinancing activity which we undertook in September last year. Depreciation more or less remained flat at Rs. 69 crores and we have a profit before tax which is just Rs. 50 crores.

With this, we request the participants to question any areas they would like to seek further clarification. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Tushar Raghatate from KamayaKya Wealth Management. Please go ahead.

Tushar Raghatate: Sir, I just wanted to know, like in terms of revenue contributions, what would be your commodity chemicals and specialty chemicals, maybe in average percentage contribution. And how do you see that moving towards the specialty in the next two years to three years?

Saatvik Jain: So, I think for the quarter gone by, as we discussed, the specialty chemicals which we basically add up, the SIOP and the C-PVC that EBITDA remained at Rs. 32 crores quarter-on-quarter. I mean both the quarters are Rs. 32 crores. Last year the operating profits were around Rs. 27 crores. So, as we are adding volumes to our C-PVC segment and also SIOP going forward, I think the way we have previously guided as well, we see that the EBITDA contribution from the specialty in the outer two years would be north of 55%.

Tushar Raghatate: Sir in this PVC, caustic soda and soda ash, all the prices are corrected like heavily. Just wanted to know, do you see this as a bottom of the price cycle or just wanted to know your view, sir.

Amitabh Gupta: Good afternoon. Amitabh Gupta here. You see, on the commodity, the prices are dependent upon, very much dependent upon the import of the product in India. Today, unfortunately, international prices, international markets are very, very weak, especially China economy doing very, very bad. So, the prices of these two products are not showing any signs of recovery. But this cannot last very long. And I think in the next three months, four months, we will see some recovery in commodity prices. So, I think in the next three months, four months, we will see some recovery in the prices of both soda ash and caustic soda. May not be very great, but then certainly it will be better than what it is today.

Tushar Raghatate: Sir, just one last question. In your investor presentation, you mentioned the land bank of near to 2,500 acres. Sir, what would be the price of that?

Saatvik Jain: Land bank price?

Tushar Raghatate: The valuation might be.

Saatvik Jain: Valuation. So, the land bank pricing, so you're talking of fixed assets?

Tushar Raghatate: Yes, you mentioned it was in Rs. 500 crores of acres of land available in your investor presentation.

Saatvik Jain: Yeah. So, basically that's your land bank which we have. We are carrying those land banks as parts in our books. Obviously, the valuation would be Rs. 1,400 crores put together for both the plants. This is the banking estimates which has been done last.

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

Sanjeev Damani: Sir, regarding caustic, how much of caustic also do we consume in-house or we entirely sell it outside only?

Saatvik Jain: So, we do not consume caustic in-house, we entirely sell it out.

Sanjeev Damani: How much chlorine is used by you as on today and in next quarter what are the estimate, the consumption in-house will go up for chlorine. Thank you.

Saatvik Jain: So, basically we have been consuming around 60% - 65% of our chlorines in-house. The 30% - 35% is where we are not balanced, we are selling it. Going forward as we ramp up our C-PVC capacity, the idea is basically to become chlorine neutral. So, with this capacity we would inch up to around 80% - 85% and the balance is what we need to continue to sell it in the market.

Sanjeev Damani: Okay. Sir, do we also have to consume PVC for making C-PVC? And if yes, how much percentage of our production we consume in-house?

Saatvik Jain: As of now we are in the process of testing our PVC because you need a special quality of PVC for using the C-PVC. So, R&D worked on to improve our product to fall in the quality requirements for C-PVC. So, if that happens, maybe in the next year we will consume close to 10,000 tonnes of our PVC in-house.

Sanjeev Damani: Okay. So, this thought has just now, I mean these days only this thought has come or it has been long that you are already working it on?

Saatvik Jain: So, typically our first 10,000 tonnes of C-PVC what we are producing and selling historically was through a process which does not allow us to use our own PVC. Now, we have got into this expansion doubling of capacity where first of all our endeavor was to get the capacity and commercialize the product. Now we are doing R&D of using our own PVC in the new wet

process and sell it. So, that's the R&D which will take a quarter or six months for us to get comfortable with.

Sanjeev Damani: Sir, in the last concall you had mentioned that you have some more ideas, you are doing a lot of R&D for producing certain more chemicals in the same complex. So, I mean, can you throw some light, is there any development?

Saatvik Jain: I think we have always been maintaining a chance that first of all we have obviously certain projects or CAPEX's in the pipeline. First of all, we have completed commercialized the C-PVC within a year's as we have communicated to the market. SIOP, we will do the capitalization of 18,000 tonnes to 28,000 tonnes by 31st of March. The benefits of which you will see in partly in this year and full-fledged for next year. Apart from that, whatever projects we have are more into the value-added segment and also keeping in mind that we have to become chlorine neutral. And as of now, it will be premature to mention what we are thinking. In next quarter, I think you can expect the communication from our side on the future readings.

Sanjeev Damani: Thank you very much. And I think you have concluded, but currently, sir, I mean, caustic soda capacity utilization will increase in the next quarter or will it remain stagnant?

Saatvik Jain: It should remain stagnant because we don't see any immediate recovery in the caustic soda. Maybe from quarter one of next financial year, maybe we can see some improvements. For the benefit of the viewer as well, we just wanted to say that we have also invested in solar renewable energy to take care of 25% of our power requirement. That would have some significant benefits coming into our power cost, but that would only happen from quarter two of next year. That only will give us a leverage to go full capacity utilization per caustic, because as of now, we're trying to balance the extra cloning utilization plus the C-PVC coming in, and this power cost reduction and we'll see how well we can enhance the production.

Sanjeev Damani: Sir, last time I had mentioned about roof top solar also within the factory premises. Is there anything being done for that?

Saatvik Jain: Roof top solar doesn't produce enough for our requirement. Plus, whatever is generated within the complex, you cannot bank. Because solar, the entire business model works on you're having an ability to bank the additional generation for that which you can use when the solar is not getting generated. So, for that, essentially, there has to be an export of the surplus power, which is not allowed as per the current rules in the Tamil Nadu government. So far necessarily have to put a project outside your complex. By which you can draw the power through the grid and whatever is the surplus, you can bank and which you can utilize in the PM hours when there is no solar grid.

Sanjeev Damani: This will be a set off from our consumption. And in Gujarat also, this is not suitable, sir, at our Dhrangadhra plant?

Saatvik Jain: Gujarat, we don't consume so much of power because Gujarat, our soda ash is more steam dependent. So, it makes no commercial sense for us to go for any solar, because our power requirement is not significant. In any case, we need to generate power for the sake of generating steam.

Sanjeev Damani: For generating steam, these days, many people are shifting to LNG. I mean, if at all this is a feasible idea for us to save energy.

Saatvik Jain: Firstly, it is appearing to be expensive. We are also evaluating, but it looks to be an expensive proposal as on date because the generation of power and steam is more cheaper in terms of generating only steam using LNG.

Sanjeev Damani: Largely, we use coal everywhere for our power requirement and steam requirement. Is that correct, sir?

Saatvik Jain: Yes. Coal in Dhrangadhra, we use a combination of lignite and coal. Okay. In our Sahupuram complex, we use coal.

Sanjeev Damani: That also fully imported, I think, we use fully imported only.

Saatvik Jain: Yes.

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

Sahil Jain: So, a couple of questions from my side. So, the first one is when do you anticipate a recovery or improvement in the pricing dynamics for the chemical products?

Saatvik Jain: See, we are seeing some early signs of some recovery, but like told by our CEO, I think we expect the price recovery to gradually happen somewhere from quarter one of next year. The demand remains strong, it is only the price what is really pulling us down. Because for all our products, we are seeing significant continuity of domestic demand. The only thing is because of dumping from most of China and other countries, we are seeing a pressure on our realization.

Sahil Jain: Okay. And the other question is, do we anticipate further correction in the prices of chemicals in the coming quarters?

Saatvik Jain: I don't think so, there could be some marginal correction, but I think prices have more or less bottomed out. I think from henceforth, we will see some period of prices getting stable and then we can see, if the international demand improves, we can see some signs of a price recovery. First they need to get the prices stabilized, which we think that will happen in the next quarter.

Sahil Jain: And also in the light of prevailing conditions in the chemical industry, could you provide insights into the company's revenue guidance for FY 2025?

Saatvik Jain: So, we would like to refrain from giving any guidance on the top-line or the bottom-line for the next year. All what we can say is that the C-PVC CAPEX what has been computed, in current year, you will get the benefits of a couple of months of revenue and bottom line. Next year, you have an annualization benefit of that. That means we would be having the benefits of C-PVC top-line and bottom-line going up. It's a 35% margin business for us, even at current prices and we think that will boost significantly our bottom-line. Secondly, we have the SIOP capacity built up for 28,000 tonnes from 18,000 tonnes. And that's also a 35% to 40% business for our into specialty segment. So, there is a runway of 7,000 tonnes and 8,000 tonnes of additional production to be sold. So, I think the numbers would look significantly better even if the prices continue to be maintained at this level.

We will also have the advantage of the power cost reduction by way of investment into the renewable. So, all put together, I think the numbers would look pretty much better than what we see today for our financials. The important thing is that we have got the work done this year, amidst all these problems, we have almost concluded all our projects and invested in the renewable. The benefits of this will get reaped in the next year financials.

Moderator: Thank you very much. The next question is from the line of Parth Vasani, an individual investor. Please go ahead.

Parth Vasani: I just wanted to understand in terms of like, I was just trying to understand the realization for the caustic soda. So, the revenue that we made for Q3 is around Rs. 75 crores and the quantity is around 17,280 that I can see from the presentation. So, if I divide that then the realization generally comes around Rs. 43,500 crores. So, is it the right way of looking at it?

Saatvik Jain: No. Caustic division comprises of revenue from all other projects as well. So, it is not let's say only the caustic soda price. We also have synthetic rutile, chlorine, trichloroethylene, utox. There are many products which form part of the caustic division. So, it will not be prudent to divide the revenue by quantity.

Parth Vasani: So, what would be the realization for Q3, if we can give?

Saatvik Jain: Of what, come again?

Parth Vasani: For caustic soda, what would be the realization in FY24?

Saatvik Jain: It was around Rs. 30,000.

Parth Vasani: Rs. 30,000. Okay, so that is the ECU after considering the ECU portion, right?

Saatvik Jain: No, the ECU will be lower because this is accounting realization what we are talking because the chlorine will also have a separate realization. The loss of sell of chlorine has to be deducted from Rs. 30,000.

Parth Vasani: And chlorine would be generally somewhere around Rs. 3,000 or Rs. 4,000 kind of a negative, right?

Saatvik Jain: Yeah.

Parth Vasani: And the second question, similar lines as I saw from the presentation, the C-PVC, the top line is around Rs. 51 crore in Q3 and the production quantity is around Rs. 4,000. So, the realization is that I derived so that comes to around Rs. 1,27,000 kind of a thing. So, is that the right way of looking it?

Saatvik Jain: No, that may not be the right way because not all it produced would have got sold. So, I think that is not the right way. I think that the realization it will be, I would say, north of Rs. 130,000 – Rs. 135,000.

Parth Vasani: So, how much percentage it would have come compared to the last quarter?

Saatvik Jain: It has come down by 8% quarter-on-quarter.

Parth Vasani: 8%?

Saatvik Jain: Yes.

Parth Vasani: Okay. And I mean, I can see the new plant that we have commissioned, that we have started getting the production from that as well, if I am not wrong, right?

Saatvik Jain: Yes.

Pradipto Mukherjee: Yes.

Parth Vasani: Okay. And by what time do you expect that also to ramp up similar to what we need?

Saatvik Jain: We have commissioned the plant on 31st October to be precise. And then I think we had only 30 -35 clear working days because we were lost 10-12 days for plant and all those and there will be a gradual ramping up. What we expect is that quarter four we would see around for the new facility around 50%, 60% phased up. And maybe from quarter one of next year you see the full capacity sold out in the market.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to management for closing comments. Thank you and over to you, sir.

Saatvik Jain: We hope, that we have answered all your questions. And if you have any further questions or would like to know or ask about the company, please reach out to our IR manager's Valorem Advisors. Thank you.

Pradipto Mukherjee: Thank you.

Saatvik Jain: Thank you.

Moderator: On behalf of DCW Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.