

DCW Limited
Q1 FY25 Earnings Conference Call
August 14, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY25 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 Ms. Purvangi Jain from Valorem Advisors. Thank you, and over to you ma'am.

Purvangi Jain: Good afternoon, everyone and a warm welcome to you all. My name is Purvangi Jain 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 1st Quarter of FY25.

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 the 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 their “Opening Remarks:

We have with us Mr. Saatvik Jain- President, Mr. Amitabh Gupta – CEO, Mr. Sudarshan Ganapathy – COO and Mr. Pradipto Mukherjee - CFO.

Without any delay, I request Mr. Saatvik Jain to start with his “Opening Remarks”. Thank you and over to you sir.

Saatvik Jain:

Thanks Purvangi. Good afternoon and welcome to DCW's Earnings Call for the 1st Quarter of FY2025.

In the 1st Quarter, we have continued to witness ongoing dumping of commodity chemicals into India at depressed prices. This seems to be a common pain point for our industry across the board.

On the demand front, export demand remains sluggish. Due to these reasons we saw continued pricing pressure across most of our products. In Q1 our commodity segment volumes across most of our products showed marginal growth year-on-year, except in synthetic rutile. On the other hand, the specialty segment experienced a sales volume growth of 80% in both synthetic iron oxide pigment and CPVC, supported by the enhanced capacity from the recently commissioned CAPEX by our company. However, some slowness in SIOP volumes were seen in Q1 due to increased freight rates and natural seasonality.

As I mentioned earlier, net realizations across products, saw corrections with caustic, soda ash and synthetic rutile decreasing in the range of 12% to 30% and the specialty segment prices also decreased by around 5% to 10%, while PVC prices remain firm due to higher inward container freight. PVC prices, however we feel are not sustainable, and have already started showing corrections as we enter into Q2. Global volatility and demand situation in China has put significant pressure on exports of synthetic rutile in both volume and price.

However, we are seeing some green shoots from H2 of this year. However, this is later than we anticipated. Our company's strategic investments and increased capacities in specialty chemicals over the past several years have provided stability to the bottom line, even in such volatile and uncertain market environment. EBITDA contribution of our specialty chemicals to our business has increased two-fold year-on-year, despite minor corrections in realizations.

To further strengthen our position, we have made fresh investments during the last fiscal into our specialty chemicals business with double CPVC capacity and line balancing CAPEX to increase utilization of SIOP from earlier levels. The CPVC capacity was completed on time, with production ramping up from Quarter 3 of last year, we are happy to state that Q1 was the 1st Quarter with 100% production at the new capacity, which has helped in increased sales volumes.

Additionally, our SIOP CAPEX has been completed in the month of May, with capacity ramping up slowly. Production volumes in Q1 were up almost 15% compared to the average of the last fiscal. We expect gradual increase in sales and full benefits to accrue from this from H2 onwards. Our investment in the renewable energy project is also underway and is on track for expected completion in H2. With the current capacities online, we are consuming almost 70% of our chlorine internally, up from 65% as mentioned at our earlier interactions. Our aim is to

be chlorine neutral by FY26 with consumption in value added products while keeping our debt numbers in check.

In the coming months, we expect commodity chemical prices to remain subdued due to excessive dumping at low prices, while specialty chemicals are anticipated to perform with a stable pricing situation and added volumes. This FY like last year we expect that our company's performance is going to be skewed towards the second half of the year.

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

Pradipto Mukherjee:

Thank you, Saatvik. And good afternoon and welcome everyone to Q1 FY25 Earnings Call.

The revenue for the company in Quarter 1 FY25 stood at 500 crores, as against 438 crores in Quarter 1 of last fiscal. This is an increase of 14% despite an overall price impact across all our product segments, affecting the overall by 10%. Barring the PVC division, where the prices were firmed up in Quarter 1 in the current fiscal due to increase in import prices on account of container freight. All our products witness price erosion. The Y-o-Y major price erosion have been witnessed across soda ash, caustic and synthetic rutile. CPVC also have some price erosion on account of excessive dumping from Southeast Asian countries.

It's important to note here that the volumes across all our commodity segments were maintained with a positive bias, and the specialty segment, namely CPVC and SIOP volumes, increased by 80% at the back of commissioning of the last announced CAPEX. On a quarter-on-quarter basis, the revenue dipped from 621 crores to 500 crores a dip by 20% while the prices remain fairly stable across the quarters. The major impact in revenues was on account of lower sales volume in synthetic rutile. The dip in synthetic rutile volumes were partly attributed to sluggish export demand and partly due to the fact that Q4 of last year had favorable volumes due to cut off effect of Q3 sales, where we had a flood effect in Sahapuram facility in the last week of December. SIOP volumes on a quarter-on-quarter basis was also a tag lower due to normal seasonal factor of our export sales.

Now coming to the EBITDA:

The EBITDA for the quarter stood as 51.5 crores at against 55.1 crores in Quarter 1 of last year, a drop by 6.5%. The margins of a quarter stood at 10% as against 13% year back. The EBITDA from specialty segment that is CPVC and SIOP stood at 47.8 crores as against 24 crores in Quarter 1 of last year, effectively showing a doubling of profit. The profit doubled back on increased volumes, as has been mentioned, as just now we mentioned. The EBITDA margins for the specialty segment dropped firm at 36% as against 33% in Quarter 1 of FY24. However, the commodity segment which is soda ash, PVC and caustic division, put together achieved a

3.5 crores of profit in this quarter, as against 31 crores in Quarter 1 of last fiscal. This drop in EBITDA was solely attributable to the falling prices witnessed across the comparative period.

On a quarter-on-quarter basis, the EBITDA for the company also dipped from 68.9 crores to 51.5 crores. A drop by 25% the margins were at 10% as mentioned earlier, as against 11% in Quarter 4 of last year. The specialty segment profits stood firm at 47 crores as against 46 crores in the last quarter of a stable EBITDA margin of 36% across both the quarters. The commodity segment put together with this an EBITDA drop from 22 crores in the last quarter to 3.5 crores in this quarter. This dip is predominantly due to the caustic division, where there was a briefly pricing impact on caustic as well as SR. However, as mentioned earlier, that there were some cutoff sales in Quarter 4 from Quarter 3 of last year, and which also had a base effect in the EBITDA for Quarter 4. Finance cost for the company for the quarter stood at 16.9 crores as against 17.2 crores a year back and 19.94 crores in Quarter 4 of last fiscal.

Depreciation for the quarter was recorded at 24.5 crores, as against 22.75 crores in Quarter 1 of last year and 24.4 crores in Quarter 4 of last fiscal. The company continues to remain in the old tax regime at 33% to utilize the accumulated back credit benefits in tax payments. The PAT of the company for Quarter 1 FY25 stood at 6.7 crores as against 15.5 crores in Quarter 4 of the last fiscal.

With this, we can open the floor for questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Pujan Shah from Molecule Ventures. Please go ahead.

Pujan Shah: First question would be on the caustic soda division. So just wanted to understand the caustic soda division. So if we look, there is a clear dumping going from the industry, so how we have been witnessing in coming quarters, are we feel that prices in being bottoming out or still there will be a continuous dumping pressure, keeping the price intact or there will be erosion, still erosion would be there in terms of demand or outlook on the demand, as well as the price?

Amitabh Gupta: Good afternoon. Amitabh Gupta here, well caustic it has bottomed out. Frankly, there is no scope for any further reduction in the prices of caustic soda, whether internationally or local, because chlorine itself is under tremendous pressure, which is pretty negative for all the manufacturers. So, the caustic sizes, what we are seeing today is the lowest which we can think of. There is no scope of it going any further down, but then, there is no scope of it going further up also because there is enough capacities available, there are enough unutilized capacities available worldwide, in India. So, price will be more or less at this level what they are today.

Pujan Shah: Okay. And I am just continuing with the same question. So, if we look at the chlorine, we are consuming internally in terms of chlorine so we don't have to pay for the disposing of the chlorine. So are we seeing any improvement in terms of capacity utilization in caustic soda

because now we will be internally using and eventually it would help us to increase our caustic soda capabilities?

Amitabh Gupta: Yes, positively we will be increasing, within the next one month we will be working to almost increase by about 15% increase in our production now, and in very short time we will be running to our whole capacity, which will be about 250 to 260 tonnes per day.

Pujan Shah: Okay, got it. And sir any comment on the CPVC, as we have been hearing of that there is a anti-dumping duty decision being made, like this is for currently it's under review. But are we looking any positive outlook due to such a dumping from East Asian countries. So are we positive on that part?

Pradipto Mukherjee: Yes, we are very much positive because already the Commerce Ministry has recommended continuation of the anti-dumping duty in a definitive, with the definitive duties on China and Korea, and we are waiting for their notification from the finance ministry, which should happen anytime, because the duties are set to expire the last week of August, so we expect before the expiry of the current duties the new notification is expected.

Pujan Shah: Okay. And in terms of prices are that prices has been inch up due to expectation of ATD or prices have been the similar range of due to the dumping issues?

Amitabh Gupta: What was happening earlier was that, that there was a misuse of the duties recommended by the government by certain importers who were over invoicing the product and having some out of the book adjustments and which I believe corrective steps has been taken. And with this duties getting converted into a definitive duties, per tonne duties we feel that the misuse of imports will stop, which will help us to maintain the price.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Sir, I wanted to understand regarding our synthetic rutile segment, because, as we understand that another player Cochin Minerals, as well as some Kerala rare earth and all so there is an issue with ilmenite. So, I wanted to understand how is our raw material sourcing for this product, and do we make the same product as these other the players?

Pradipto Mukherjee: I didn't get you.

Pradipto Mukherjee: We were not able to hear your question clearly.

Madhur Rathi: Sir, I wanted to understand regarding your synthetic rutile segment. So the main thing in this segment, as you understand is the ilmenite, which is in shortage in our country, and similar the shortage is for Cochin Mineral as well as the Kerala rare earth minerals. So, sir I wanted to understand, how is our sourcing arrangement in this segment as well as do we make the same

product as other players, or is our product different from the other players, like in the synthetic rutile segment?

Pradipto Mukherjee: First and foremost, I don't think there is any shortage of the product, because it is freely importable OGL and there are many suppliers worldwide who are supplying the raw material to India. And most of the people, like KMML and all others are also importing and even we used to import as and when we have a requirement. Apart from this, we are also getting supplies from Indian Rare Earth Limited, which is the government of India owned company. So, I don't foresee any shortage of the raw material.

Madhur Rathi: So is our synthetic rutile the similar to other players or are we into some differentiated synthetic rutile?

Amitabh Gupta: Which players you are referring to, unless you are more specific?

Madhur Rathi: Cochin Mineral and Kerala Rare Earth?

Amitabh Gupta: Okay, Cochin Mineral. No, what is other company you said Cochin Mineral and?

Madhur Rathi: Kerala.

Amitabh Gupta: I don't know you are talking about KMML, Kerala Minerals and Metal's Limited, correct?

Madhur Rathi: Exactly yes.

Amitabh Gupta: Okay. So, KMML is not in marketing or selling of this synthetic rutile, which we make, they make the final product which is the titanium dioxide pigment. So they are not in competition as a matter of fact, they are buyer of this product, on and off and on. CMRS and DCW are in the same segment, same businesses. But then CMRS also makes a inferior product which we are not, and this product goes in the manufacture of cheaper varieties of titanium dioxide pigment. So, frankly basically, we are the only two producers and they also make the high grade of about 94%, 95% they also containing synthetic rutile. And we are also doing the same, but we are not in the lower grade of synthetic rutile which is about 88% to 90%.

Madhur Rathi: Okay, sir that was very helpful. Sir, my next question would be, in the CPVC antidumping circular we have guided that we will make an additional investment of 150 crores for additional 20,000 metric tonnes of CPVC, so do we have some kind of timeline for this or?

Saatvik Jain: See, what I would mention, as I said earlier, our aim is to become chlorine neutral in the short term. And along with CPVC, there were many other ideas which are on the drawing board, which we will communicate at the opportune time, once we have decided which way we want to move ahead. And of course, our CAPEX will be dependent on the financial position of the

company at the time, the capital requirement for the project, and of course the turnaround time. So, we will get back to you once we have decided in which area our growth will be.

Madhur Rathi: Okay, sir makes sense. And with this anti-dumping duty coming in, sir can we see a CPVC margin moving from the mid 30% to higher 40, mid 40 kind of range?

Pradipto Mukherjee: Unlikely.

Madhur Rathi: Sir it will stay in the same range?

Pradipto Mukherjee: Yes, it will remain in the same range. We don't foresee, you see anti-dumping duties are not for profiteering. So, let us be very clear anti-dumping duty is to only protect the domestic industry and allow more investments to come. Which we have seen because with the duty coming we have seen the domestic capacity increasing, which is also set to increase more. So dumping duties are not for profiteering it is only to allow and encourage more investments into India.

Madhur Rathi: Okay. Thank you so much, sir. Just a final question, what is the outlook if you can give me for this whole year, for revenue as well as margin terms, a general broad range would work?

Saatvik Jain: In terms of guidance what you are asking for, we generally would refrain from giving any guidance number, and don't want to mislead any investors due to immense uncertainty in the global geopolitical environment, which is keeping our industry under extremely, extremely dynamic. However, as you can see, we are doing our best in these uncertain times, keeping our cost in control, maximizing our utilization and also adding capacity and value added products. So, you can use that as a baseline to work out what it could possibly be.

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

Karan: Can you give me sales volume for the quarter across the product segments?

Pradipto Mukherjee: Excuse me, could you repeat the question, we did not follow that?

Karan: Sir, I wanted sales volume for the quarter across the product segments?

Pradipto Mukherjee: So, the investor deck would have the volumes given over there, across all the products would be difficult for us to offhand give you, but we have the investors deck updated, it would have information provided there.

Karan: Sir on the deck production numbers are given, I wanted sales numbers.

Pradipto Mukherjee: So, we are giving the revenue numbers, the sales numbers you can drop in a request we will provide the information on specific.

Karan: Okay. And secondly sir, can you update me with the current prices for PVC and CPVC?

Pradipto Mukherjee: CPVC current prices are around \$850 import parity, \$830, \$850 which is around Rs.70,000, Rs.77,000, Rs.78,000 ex-works, which is almost Rs.8000 lower than what it was in the last month. CPVC blended is around Rs.150,000, which is a blended cost, which includes the compound and the resin. We don't give the breakup separately, so it's around 145, 150.

Karan: And what was the price for SR and SIOP?

Pradipto Mukherjee: SR prices are dynamic because you don't have, it all depends on which geography you are exporting to, because the prices that we sell in the China are usually lower than the prices we sell to the Japan and other countries. So you cannot have any benchmark of the price. What we can say that the prices.

Pradipto Mukherjee: The weighted average prices as of now is prevailing from \$1,000 to \$1250 per tonne.

Karan: This is for SR?

Pradipto Mukherjee: Yes, this is for SR.

Karan: And for SIOP?

Pradipto Mukherjee: SIOP will be close to \$900 to \$1,000 approximately.

Karan: And sir, what was the reason for EBIT level loss for soda ash, sorry you have marginally made profit. So why was the profit down this quarter. Has the prices fallen much below the Quarter 4 levels?

Pradipto Mukherjee: So in the soda ash, we have been anyway operating at 75%, 80% capacity from the Quarter 2 Quarter 2 of last year, in the 1st Quarter, the current quarter we have certain multiple small, small stoppages, packages of stoppages of production. We have also had our revamping of our old kiln and put into line for a couple of days of shutdown as well. Those would have piled up and the productions were a bit lower, bit on the lower side. But things are back to normal from this quarter onwards.

Karan: So, sir what would be the total production would be?

Pradipto Mukherjee: So, we would be operating at around 80%, 85% capacity for the rest of the year.

Karan: What is your realization for soda ash?

Pradipto Mukherjee: Realization would be around Rs.25,000 per tonne.

Moderator: Thank you. The next question is from the line of Sanjeev Dabani from STD Consulting. Please go ahead.

Sanjeev Dabani: Namaskar, sir. First thing I want to know, that in current quarter also are we losing money in caustic soda like this, we incurred a loss of 20 crore in that segment. So, I am just worried, and want to understand that are we still losing money in caustic, soda, or there is somewhat improvement or we are at par now?

Pradipto Mukherjee: So for the current, the quarter which went by in that we had a couple of challenges. One was, there was price erosion so far as caustic is concerned from quarter-on-quarter by another 3%, 4% which we think more or less is a bottom. We also had our export sales for synthetic rutile, which is subsumed into the caustic division into the China predominantly, and our exports were a bit lower because of the sluggish demand in the metal business, metal as well as IO2 pigments. So we are looking into opportunities for talking with the customers, and the situation from H2 would dramatically look better.

Sanjeev Dabani: Okay. So July has gone by, and we are now passing almost 15 days of August. So, here onwards are we at par or, if you can give some idea, so that we can make our estimates?

Pradipto Mukherjee: This quarter, that is Quarter 2 we don't see any major shift of profitability or profitability for the company as a whole. In fact, we see more pressure in the profitability for Quarter 2, because we had a upside of PVC profits in this quarter, after many quarters. With the price corrections would come down rest all businesses while our specialty which is in SIOP and CPVC will further, we expect to make a bit more of a profit. But rest all businesses more or less look same with soda ash obviously improving as we just discussed.

Sanjeev Dabani: Okay. So, we are expecting some improvement in soda ash as noted, because that was also I wanted to know. So, sir now I am coming to SIOP, synthetic iron oxide pigment and synthetic rutile are they same or they are different products?

Amitabh Gupta: No, they are absolutely different products. Synthetic rutile is titanium dioxide, which contains 95% titanium dioxide, and SIOP is iron oxide. So synthetic rutile is used to produce titanium dioxide pigment, for titanium metal, whereas iron oxide is used it's like a coloring agent in the construction industry. It is mixed to the cement and used for casting outside work, and also in the paint industry as a coloring agent. So they are absolutely two different things altogether.

Sanjeev Dabani: Okay. So we sell synthetic rutile also to outsider and from this synthetic rutile we will make SIOP and also sell it. Am I right?

Amitabh Gupta: No, we don't make iron oxide from synthetic rutile.

Sanjeev Dabani: Okay.

Amitabh Gupta: Because synthetic rutile is used to make titanium dioxide pigment and titanium metal. And iron oxide is absolutely different thing altogether. For that we use iron scrap, acid.

Sanjeev Dabani: Okay. So, sir this synthetic rutile figures are not given in our presentation. So any reason for it?

Amitabh Gupta: Synthetic rutile is a product which is subsumed as a part of caustic division. Sir, to answer your question, we have not made a segment product wise, we have only evolved as a part of our journey wherein we have created two new segments which are into the specialty individually, rest all segments were predominantly caustic PVC and soda ash, which we continue that way. And synthetic rutile has always been a product which is subsumed in the caustic division.

Sanjeev Dabani: Okay. So the revenue and profitability of synthetic rutile is included in the caustic soda division. Thank you very much for clarification and all the best, sir, and I hope that our synthetic iron oxide sales will increase in the next quarter, because from 67 crore in last Quarter 4, we have come to 48 crore. So, are we likely to come back to 60, 70 crores in this quarter, in synthetic iron oxide?

Pradipto Mukherjee: So just to answer, when we made our presentation, we said that see, synthetic iron oxide, is likely what we have witnessed a seasonal product where in Quarter 3 and Quarter 4, if you see historically our sales, revenue and profitability whatever little history you have was higher compared to Quarter 1 and Quarter 2. And this is a natural phenomenon. So on a year-on-year basis, if you see from last year to this year, Quarter 1 to Quarter 1 of this year, we have gained around 80% and on a year basis, when you see Quarter 4, it will naturally go up quarter-by-quarter. But obviously it has not come to that 8000 which you see because as I told you, we had three, four days, 10 days of flood activities in Sahupuram facility from 20th of December to 30th of December. We obviously quantify one shipment which was spilled over, but across all segments, some of the things was spilled over to Quarter 4, which either otherwise should have been in Quarter 3. So Quarter 4 for sales was a bit of an aberration.

Sanjeev Dabani: Got it, sir. Thank you very much and I congratulate for improvement in the margins in SIOP division. I really want to appreciate; you have much improve the margin here. Thank you very much, sir, more than satisfied sir. Thank you

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

Saatvik Jain : Thank you everyone for your time today and for joining our call. I hope we have been able to answer the questions to your satisfaction. If you have any further questions, please reach out to our investment relations advisor, Valorem and thank you very much.

Moderator: Thank you members of the management team and over to you sir.

Saatvik Jain : Thank you.

Moderator: Ladies and gentlemen, with that we conclude today's conference. We thank you for joining us and you may now disconnect your lines. Thank you.