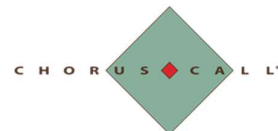




“DCW Limited

Q2 and H1 FY25 Results Conference Call”

November 14, 2024



MANAGEMENT: **MR. SAATVIK JAIN – PRESIDENT – DCW LIMITED**
MR. SUDARSHAN GANAPATHY – CHIEF OPERATING
OFFICER – DCW LIMITED
MR. PRADIPTO MUKHERJEE – CHIEF FINANCIAL
OFFICER – DCW LIMITED

MODERATOR: **MR. AMAN JAIN – ARIHANT CAPITAL**



*DCW Limited
November 14, 2024*

Moderator: Ladies and gentlemen, good day, and welcome to DCW Limited Q2 and H1 FY '25 Results Conference Call. 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 any assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference call is being recorded.

I now hand the conference over to Mr. Aman Jain from Arihant Capital. Thank you, and over to you, sir.

Aman Jain: Thank you. Good afternoon, everyone and welcome to the Q2 and H1 FY '25 Earnings Conference Call of DCW Limited. I would like to thank the DCW management for giving us the opportunity to host the call. Today, from the management, we have Mr. Saatvik Jain, President; Mr. Sudarshan Ganapathy, Chief Operating Officer; and Mr. Pradipto Mukherjee, Chief Financial Officer.

Without further ado, I will now hand over the call to the management for the opening remarks, post which we can open the floor for Q&A session.

Saatvik Jain Thank you. Good afternoon, everyone, and welcome to DCW's earnings call for the second quarter and first half of the financial year 2025. I hope you all have had a chance to go through our earnings presentation and our results, which have been uploaded to the exchanges and to our website.

During the first half of this year, the global chemical production surged due to rising Chinese chemical production, which grew by around 10% year-on-year vis-a-vis the Indian chemical production, which has grown only by around 0.5% during the same period. Despite the Chinese government's efforts, the country's consumer spending is weak and the housing market is yet to make a recovery from its 3-year slump. Naturally, China's consumption for major nation-building materials, such as PVC, has taken a nosedive.

Since major Western economies have raised trade barriers to curtail the Chinese onslaught of price undercutting in the recent times, India has ended up becoming a major dumping ground for various Chinese chemicals like PVC. The predatory prices at which China dumps PVC in the country makes it very difficult for Indian manufacturers to survive, let alone compete in this capital-intensive industry.



*DCW Limited
November 14, 2024*

For DCW, the commodity segment continues to see significant pressure on pricing across the products with net realizations correcting between 3% to 9%, except for synthetic rutile, which has corrected by 27% due to sluggish export demand. The PVC bleed continues as prices significantly corrected once again, with the container freights normalizing from quarter 2. We feel that PVC will continue to face challenges without government intervention, safeguarding the domestic industry with antidumping duties.

Despite the severe pricing pressures and challenges related to cheap imports, the first half has been positive for us. Our revenues from operations increased 18% year-on-year backed by volume growth across all our products, except for caustic soda.

Our specialty products continued to see volume growth year-on-year with C-PVC up by 98% and SIOP up by 72%. This segment saw the highest ever sales for us at the H1 level post commercialization of our recently completed capex for these 2 products.

Our investment into this space in the last couple of years has provided significant stability to our bottom line, with EBITDA clocking INR48 crores, a 50% jump year-on-year. The swing in EBITDA on a quarter-on-quarter basis was only a result of depressed commodity realization, with the specialty business remaining stable.

Going forward, we see some stability coming in our synthetic rutile exports from quarter 4. However, the pickup in demand is slower than anticipated. There has also been some improvement in pricing of caustic soda as we enter Q3 backed by improvement in alumina demand.

The PVC industry remains strong on the demand front, and we are seeing a growth in overall domestic consumption compared to the last fiscal. We are also hopeful that the government will step in and support the domestic industry from cheap imports.

Incremental volume tie-up with our export customers for SIOP is in the process, and we are expecting an improvement in sales for the second half of the year. Antidumping duty on C-PVC has been notified by the Finance Ministry in quarter 2 for a period of 5 years, and this will provide pricing stability to the domestic manufacturers. As mentioned at our last call, with some tailwinds and changes in the market conditions, we anticipate that the second half of the fiscal to be better overall.

On the investment front, we continue to grow our footprint in the specialty chemical space and capitalize on the strong demand scenario in India. We are happy to announce a planned capital expenditure of INR140 crores to add 30,000 tons to our C-PVC capacity. We expect 20,000 tons to commence by the end of quarter 2 next year in a phased manner and another 10,000 tons by the end of FY '26.

Our renewable energy project is also on the verge of completion and is expected to be up and running by quarter 4 of this year. We will continue to invest in our value-added chemicals



*DCW Limited
November 14, 2024*

business and also invest in reducing our costs, thereby not only bringing stability to our bottom line going forward, but growth from where we stand today.

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

Pradipto Mukherjee:

Thank you, Saatvik, and good afternoon, everyone. Let me brief you on the financial performance of the company for the quarter under review.

For quarter 2 FY '25, the company's revenue from operations was INR489 crores, representing a growth of 18% year-on-year. The EBITDA for the quarter stood at INR35 crores, a decline of 15% compared to the same period last year. The margins stood at 7.2%. The company recorded a net loss of INR1.2 crores for the quarter against INR2.7 crores profit for the same period of the previous year.

On the segmental basis, the company recorded an EBITDA of INR48 crores in specialty segment for the said quarter, a surge of 50% Y-o-Y on back of commercialization of recently concluded capex. As also mentioned by Saatvik, the commodity segment remains subdued with price erosions across products and softness in export demand. As a result, the commodity segment reported an EBITDA loss of INR12 crores for the quarter.

The PVC segment was the major dragger, reporting an EBITDA loss of INR13.5 crores. Our price correction led to compression of PVC-VCM spread. The utilization levels for the quarter were as follows: 88% for soda ash, 78% for caustic soda and PVC around 100%. SIOP improved to 88% and C-PVC at 100%. This includes the new commercialized capex utilizations as well.

The production volumes for the quarter was higher across all product segments and showed a year-on-year growth in PVC by 7%, 11% in caustic soda and 23% in soda ash. While the C-PVC and SIOP volumes grew by 99% and 30%, respectively.

For the first half of FY '25, the company's revenue from operations stood at INR988 crores, representing a 16% growth year-on-year. The EBITDA stood at INR81 crores, a decline by 13% year-on-year. The margins for the half year stood at 8.2%. The company recorded a net profit of INR5.5 crores, a decline over last year by 57%.

On the balance sheet front, the leverage and the cash position remains sound. And with this, we now open the floor for Q&A. Thank you.

Moderator:

Thank you very much sir. Our first question is from the line of Deval Shah from RBSA Investment Managers.



*DCW Limited
November 14, 2024*

- Deval Shah:** Yes. Sir, just wanted to know, the caustic soda segment incurred loss, just wondering what is the energy cost for us? And what is the raw material, major raw material, that goes into the caustic soda?
- Sudarshan Ganapathy:** Raw material salt is the main raw material. Salt overall is the major raw material. 70% of the salt is grown by us in-house. And the top-up is purchased across India, wherever we get a better price. We have our own power plant to generate the power required for caustic soda. It's a coal-based plant as of now, and the power cost is in the range of INR7.5 to INR8 per unit.
- Deval Shah:** Okay. And what would be our current capacity for the C-PVC resin and its utilization trend sequentially?
- Pradipto Mukherjee:** So current capacity for C-PVC is around 20,000 tons, and after the doubling of the capacity, we are utilizing 100%.
- Deval Shah:** And what was the utilization previous quarter?
- Pradipto Mukherjee:** We've always been utilizing at 100%. See, the capacity came on quarter 4 last year. And last quarter and this quarter, more or less, we have been utilizing at 100% PV but lower in the last quarter or similar.
- Deval Shah:** Okay. And I understand we are using suspension PVC in-house -- sorry, manufactured in-house for the captive consumption of C-PVC resin. But I also observed that there is an import of the same from Thailand or Taiwan, I suppose. So can you please explain to me why we are importing when we are manufacturing and using it captively?
- Sudarshan Ganapathy:** See, basically, we can use any resin for our C-PVC. And periodically, we import the resin just to test whether there is any changes in the quality of the resin. And we have used our own resin. We have used all the available grades in the market. We have also used the resins of other domestic producers. And we could get a consistent product without any difficulties. This is only a process of having an R&D and evaluation of various products.
- There is also one more factor. As you all know, in the PVC sector, we have annual contracts with our customers. So the quantity gets locked in the beginning of the year for the full year. So the incremental quantity available for the in-house consumption is limited this year because the quantities have been tied up before the start of the financial year. So going forward, we will gradually increase our own consumption of our PVC into C-PVC by reducing our long-term contracts with our PVC customers.
- Deval Shah:** Okay. So if I correctly get it, then probably once we start using our PVC internally for C-PVC, then our margins will increase only, right, because we are consuming internally?
- Pradipto Mukherjee:** So just to clarify this, we had a capacity of 10,000 tons per annum, our existing capacity. We have expanded to 20,000 and now we have announced it expanding to 50,000. Now we have



*DCW Limited
November 14, 2024*

been comfortable with the 10,000 capacity being PVC purchased. But as we go into a newer capacity, we have now tested our own PVC. We have tested many multiple sorts of supplies since the stakes are higher when we are talking of from 10,000 to 50,000. So we are doing all kinds of trial, and it's been successful.

At the same time, using our own PVC will depend on, first, the contracts which we have to honor for the existing suppliers for PVC as well as to take a financial call because PVC today, we are mostly selling some parts we are using. So as and when we use our own PVCs in the process, we have to take care of our top line as well, top line growth. So that is the internal discussions what we are having, but there is no restrictions of our PVC being used. So it's a call on top line versus the margin.

Deval Shah: And your comments on the antidumping duty, which is being revised by the government, so just your high-level thought on the industry.

Sudarshan Ganapathy: Yes. The Commerce Ministry has recommended a provisional duty on import of PVC, which will take its own course to get it ratified by the Finance Ministry. So it's a normal process. We'll have to wait for it to be ratified by the Ministry of Finance.

Moderator: Our next question is from the line of Pujan Shah from Molecule Ventures.

Pujan Shah: Sir, first question would be on the C-PVC side. So if you just give a sense on the domestic total demand and the capacity because currently, we are listening to many players who have been expanding to the C-PVC capacity, even a few players are doubling their capacity. So just wanted to understand the dynamics and how you have been outlooking because due to the ADD, how the industry dynamics have been changing?

Sudarshan Ganapathy: See, the total demand according to our estimate is in the north of 3 lakh tons. And the domestic production, based on whatever is the announced capacities we have in India, is close to 100,000 tons. So as of now, there is a gap of 200,000 tons, which is predominantly met by imports. And there are also certain suppliers which are having a licensing contract. So that will continue to come until their own capacity comes into India.

Having said that, availability will definitely propel demand. So I don't think we should really worry about capacity. What will really play a role is how consistent you are able to supply the product. So once the customer has an option of multiple options of sourcing, naturally, how is the consistency of quality will play out. And we feel that being a PVC producer, we will have an advantage in terms of having a consistent C-PVC quality.

Pujan Shah: Right. But sir, after ADD also, the realization is around INR150 and INR160 per PV. So do you feel any price realization can improve from here on?

Sudarshan Ganapathy: I'm correcting you, the prices are even south of the number that you have said. And antidumping duty has not resulted in any price advantage. It has only resulted in a price



*DCW Limited
November 14, 2024*

protection. The base price has got protected. Having said that, PVC/C-PVC demand seldom go in tandem. And there has been a flatness in the PVC demand in the last few months on account of excessive rain and other things. Plus there was also a lot of uncertainty on the PVC prices, which also had an impact on C-PVC. So going forward, we expect the demand for both PVC and C-PVC will improve and usually they go in tandem.

Pujan Shah: Okay. And sir, in the caustic soda side, we have seen some dip in the margins. Is it due to the impact of negative chlorine disposal or the realization on caustic soda?

Sudarshan Ganapathy: It's a combination of both. And we also had a shutdown in our plant in the quarter under purview. So there has been a lower production, which also led to a higher cost. So I would say that the realization, the ECO has remained more or less the same. The only thing, like what Saatvik has said, that we are seeing a slight uptick in the caustic soda prices going forward. So we feel that quarter 3 should be definitely better than earlier quarters.

Pujan Shah: Okay. Got it. And sir, on the PVC side, if you look, due to provision in ADD, which came on 6th or 7th of November, also the price rate has been high, there is something like INR3, INR4 price hike. So is that accountable? Is it sustainable? And how have we been looking into that PVC prices now?

Sudarshan Ganapathy: We really don't look at prices on a daily basis because definitely, there has been an uptick in the Chinese local demand post announcement of some stimulus package by the Chinese government. So there has been an increase in the export prices to India. And the demand supply also post-Diwali, we expect the demand to improve. So there has been an increase in price by INR3,000 announced by the local producers, which I think will sustain.

Moderator: Our next question is from the line of Aman Jain from Arihant Capital.

Aman Jain: Sir, just wanted to know what is the capex planned for the PVC capacity expansion?

Pradipto Mukherjee: So we have announced very lately our capex for the C-PVC expansion, and we anticipate that the capex would be to the tune of INR140-odd crores. We have obviously communicated the time line, which is September end '25 and March end '26. Those are aggressive, and we would like to meet those time lines. So the management team is working towards meeting the time line as well as the cost.

Moderator: Our next question is from the line of Giriraj Daga from Visaria Family Trust.

Giriraj Daga: So my first question is on SIOP, like the segment has done really well. I just want to understand like there's no seasonality or one-off involved there, right? There is a base number and we can gradually build on this number, right?



*DCW Limited
November 14, 2024*

- Pradipto Mukherjee:** Yes, you can. There is a bit of seasonality in terms of one-off. 60% of our market is U.S.-based, so there is a seasonality factor which plays in, but it would be favorable at H2. That's what we have observed for the last couple of years.
- Giriraj Daga:** No, like we did about INR15 crores of EBIT number. So just assuming, let's say, INR60 crores is a doable number, right, for that, this is not a quarter we should annualize...
- Pradipto Mukherjee:** We have done roughly 12,000 tons of sales for H1. Our production has been a bit higher because we've got unlocked capacity. We anticipate that we would do around 20% to 25% more volumes in H2 compared to H1. And we anticipate the margins to be stable.
- Giriraj Daga:** Okay. Nice. Second, on the C-PVC, we see some moderation in margin. So is it related to PVC price? Because I see realization on the PVC has also gone down.
- Pradipto Mukherjee:** So there has been a onetime effect of C-PVC into the financials for the said quarter. We had a flood a year back, and there are certain C-PVC materials which have been sold on salvage value. We will recognize the differential loss in the going-forward quarter. So you will see this one-off going up. So we will maintain the margins which are there in quarter 1.
- Giriraj Daga:** Okay. And just the last thing on the PVC side. So like when I calculate, obviously, we don't have a volume number, just the production number, so there will be some plus/minus here or there. For the last quarter, realization was broadly about INR70, INR71. While currently, looking at the prices in the market, it appears that it is about INR81. So there is some discount which is always there. So will we see some uptick in the prices in the quarter 3 on the PVC side?
- Sudarshan Ganapathy:** Quarter 3, like what I said, as we talk now, the prices have definitely moved up from what they were in the end of quarter 2. And the quarter you're referring to was the quarter 1 where we had made a profit in the PVC business. So like PVC for us is a value-add because we import the VCM and then convert that into PVC. So whenever there is a price correction downwards, we used to have an inventory effect on the VCM that is not yet consumed.
- So if you see the quarter under consideration, that is quarter 2, there has been a significant price correction from end of July onwards. Whereas the raw material was locked in at a higher price. So that is the reason why we had INR13 crores loss in quarter 2. Going forward, I think since the prices have corrected and inventory also has got corrected, we feel that quarter 3 should be better than quarter 2 and maybe we may be in a better state.
- Giriraj Daga:** Would you be able to call out the inventory loss number?
- Pradipto Mukherjee:** We can't give the inventory loss number because it's a transitional VCM also today, so we will be selling it in a couple of months later. So that gets baked into the VCM-PVC spread. So that gets compressed as the prices fall for PVC, and that expands as the prices go up for PVC because this is the direction the prices move.



*DCW Limited
November 14, 2024*

Secondly is that we had some inventory buildup in the quarter so far as PVC is concerned, we're a bit slow on sales. So the rate what you take as the sales divided by the production of INR71 was a bit higher. So our effective sales rate realization were more than INR71.

- Giriraj Daga:** Understood. Last thing from my side on the balance sheet capex. Out of INR140 crores capex on C-PVC, how much has been already spent till 30th September?
- Pradipto Mukherjee:** We have not spent anything on C-PVC by 30th September. Our announcement came in October. So we are about to start the project in a couple of days' time.
- Moderator:** Next is a follow-up question from the line of Pujan Shah from Molecule Ventures.
- Pujan Shah:** Sir, on synthetic rutile, we have seen a realization correction of 27%. So what's your take on that? And how have we been looking into H2 as well as FY '23 for specific this thing?
- Pradipto Mukherjee:** So I believe your question is on synthetic rutile. We see the realizations to be maintained at this level, and the margins also as well. We don't see any much deviation in synthetic rutile. It's relatively much stable a business compared to the other commodity segments.
- Pujan Shah:** Okay. Sir, a question on the C-PVC and more on a qualitative aspect that in terms of the industry structure also, there is a government support as well as there is a very low competition intensity. So while looking into it, are we seeing like envisioning to even doubling the capacity after the expansion of 50,000 tons per annum? Or like how have you been viewing C-PVC as a segment?
- Sudarshan Ganapathy:** See, as of now, we have no intention of increasing our capacity beyond what has been announced. We would like to see how the market pans out. Apart from the additional capacity announced by our competitors, we also expect more capacities to come on C-PVC by the other PVC producers also. So we would like to wait and see how that demand supply pans out. And if there's an opportunity for us, we will definitely look at adding our C-PVC capacity production.
- Pradipto Mukherjee:** And just to top up on what our COO said, see, typically, there are a couple of things. We are also very conservative and on the balance sheet side, as I told, we are very focused on deleveraging ourselves in the process of growth as well.
- And secondly, if you also see, our fixed asset turnover ratios are more than 1.5x, which is relatively very rare we observed in any chemical companies. So we are trying to be very cost effective in doing our project as well as ensuring that we don't go overboard on leveraging ourselves and also balancing the growth.
- Moderator:** Our next question is from the line of Varun from EQT Capital
- Varun:** My question is on the C-PVC. After expanding your capacity, and given that you will substitute the import capacity, how much would be the imported quantity in India?



*DCW Limited
November 14, 2024*

- Sudarshan Ganapathy:** Import quantity In India at present is, I would say, north of 2 lakh tons.
- Varun:** Currently.
- Sudarshan Ganapathy:** Yes.
- Varun:** And as the ADD on PVC comes, so how much improvement do you see in the realizations?
- Sudarshan Ganapathy:** There has been no improvement in the realization. I have already mentioned that there has been no improvement in realization post-ADD. It has only protected our bottom line.
- Varun:** Okay. But have you seen some improvement in this quarter?
- Sudarshan Ganapathy:** See, if the PVC prices go up, there is going to be a pressure on the cost. So we'll have to see how the demand pans out, but nothing can be said as of now. But we are confident that we could be able to maintain our margins to what they are now.
- Varun:** Okay. And what was the realization in C-PVC? Has that also seen a quarterly decline since Q1?
- Sudarshan Ganapathy:** Marginally, I think it has declined, but not significant. I think it is more or less flat.
- Moderator:** As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.
- Saatvik Jain** Thank you all for taking the time and participating in our earnings call today. I hope we've been able to answer all your questions and clarify your doubts. If you have anything further that you would like to know about our company, please reach out to our IR managers. Thank you.
- Moderator:** Thank you. On behalf of DCW and Arihant Capital, that concludes this conference. We thank you for joining us, and you may now disconnect your lines.