"DCW Limited

Q1 FY27 Earnings Conference Call"

August 14, 2026

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

MODERATOR: **MS. RASHMI GOEL – ARIHANT CAPITAL MARKETS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to DCW Q1 FY27 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Rashmi Goel. Thank you, and over to you, ma'am.

Rashmi Goel: Hello, and good afternoon to everyone. On behalf of Arihant Capital Markets Limited, I thank you all for joining the Q1 FY27 Earnings Conference Call of DCW Limited. Today from the management, we have Mr. Saatvik Jain, President; Mr. Sudarshan Ganapathy, CEO; and Mr. Pradipto Mukherjee, the CFO.

So without any further delay, I will hand over the call to the management for their opening remarks. Over to you, sir.

Saatvik Jain: Thank you, and good afternoon, everyone, and thank you for joining us for DCW's Quarter 1 FY27 Earnings Call. I will begin with the operating environment because Q1 was shaped significantly by external disruption. The global chemical industry remained challenging during this quarter. Competitive exports from China continued to pressure pricing and trade flows, particularly in commodity chemicals.

At the same time, the conflict in West Asia disrupted crude-linked feedstocks, shipping routes and supply chains. For India, this translated into availability constraints and sharp volatility in energy and petrochemical input costs. Domestic demand, however, remained reasonably resilient, supported by infrastructure, housing, water management and manufacturing activity. While near-term conditions remain volatile, we continue to believe India's long-term chemical opportunity driven by domestic consumption, import substitution and supply chain diversification. All this remains intact.

Against this backdrop, Q1 was an extremely difficult quarter for DCW, particularly for our PVC business. Revenue from operations grew 14% year-on-year, led by 38% growth in Specialty Chemicals. Sequentially, the revenue declined 11%, mainly due to higher captive consumption of PVC for our CPVC, lower production of PVC and liquidation of some inventory of Synthetic Rutile in quarter 4 last year.

Profitability was significantly affected by a combination of factors in PVC. The West Asia disruption constrained VCM availability, resulting in lower PVC production, while VCM prices were elevated. This coincided with the temporary suspension of import duties, which increased the flow of lower-priced imports into India and further pressured domestic realizations. Together, lower production, higher input costs and weaker realizations had a disproportionate impact on the quarter.

Importantly, we see these pressures as largely event-driven rather than structural. VCM availability has improved and supply chain conditions have begun to normalize. Normal import duties have also been reinstated and the government has subsequently introduced a minimum import price framework for suspension-grade PVC. From where we stand today, the operating environment for PVC is more constructive than during Q1.

On our Specialty Business, continued to demonstrate the resilience we have been building into our portfolio. CPVC production and sales ramped up strongly following the recent expansion and our Specialty Chemicals EBITDA grew approximately 20% year-on-year. Demand for Synthetic Iron Oxide Pigments remained healthy across construction, infrastructure and paints and coatings.

The increasing contribution of our value-added products, again, helped support the company through an unusually weak quarter for the Basic Chemicals segment. This reinforces why our strategic direction remains unchanged. As I mentioned last quarter, we have spent the last few years strengthening DCW's foundation, repairing the balance sheet, reducing debt, improving operations and increasing our Specialty Chemicals contribution.

FY27 marks a point where we begin moving from strengthening that foundation to building for the next phase of growth. We expect our legacy long-term debt to fully be repaid during this year. Before incremental borrowings for new growth projects, we remain on track to become effectively net debt free by the end of FY27. This gives us the capacity to invest from a position of considerably greater financial strength.

This next phase of growth is also accompanied by an important leadership transition. We are pleased to inform to have appointed Sudarshan Ganapathy as our CEO. As we embark on this next phase, his experience and execution capabilities will be important in translating our growth strategy into operating performance.

Yesterday, we announced the first step in what we envisage as DCW's next 5-year growth journey, a INR250 crores investment program over the next 2 to 3 years. The first part is the expansion of our Synthetic Iron Oxide Pigment capacity from approximately 30,000 tons to 45,000 tons per annum. Phase 1 will add 7,000 tons, which is targeted for completion by quarter 4 FY28.

With infrastructure and utilities sized for the subsequent phase of 8,000 tons. Alongside this capacity, we are broadening the pigment portfolio with newer value-added products, including micronized grades to improve our mix, margins and addressable market.

The second part is an investment in the captive power infrastructure at our Sahupuram facility, also targeted for completion in the fourth quarter of FY28, aimed at structurally lowering power costs and improving operating efficiencies across both our Specialty and Basic Chemicals businesses.

Our approach to growth remains disciplined. We are targeting a minimum incremental ROCE of 20% on our new investments. We are not pursuing growth for the sake of growth. We intend to deploy capital where we have an existing competitive advantage, established customer relationships and ability to earn attractive returns.

Despite the impact of PVC in quarter 1, based on current visibility, we continue to expect FY27 to close at a better level than the previous fiscal. Our priorities remain clear: maximize our existing assets, execute our growth initiatives with discipline, improve the value-added mix and build the organization for a larger scale of operations. We believe that our diversified portfolio, integrated manufacturing platform and strengthening balance sheet provide a strong foundation for this next phase of our company.

With that, I'll hand it over to Pradipto, our CFO, to take you through our financial performance. Thank you.

Pradipto Mukherjee: Thank you, Saatvik, and good afternoon, everyone. Welcome to our Q1 earnings call. The revenue for the quarter stood at INR542 crores, reflecting a 14% growth on a Y-o-Y basis. This growth was primarily driven by strong performance of the Specialty segment, which reported a revenue of INR177 crores, representing 33% of our total revenue. The segment's performance was supported by 59% increase in CPVC volumes and roughly 3% in SIOP.

On a sequential basis, the revenue declined by 11%, despite a 6% increase in Specialty segment. The decline was largely attributable to onetime base effect in the Basic Chemicals segment, where the revenue reduced to INR361 crores, down 18%. This was mainly due to an exceptional Q4 inventory liquidation sale of Synthetic Rutile, which created a higher comparable base and should therefore be viewed as a nonrecurring impact.

It is also important to highlight that the West Asia crisis led to a temporary nonavailability of VCM. Along with the increased PVC/CPVC integration, this resulted in a 20% drop in PVC volumes during the quarter. This disruption was external, temporary in nature and onetime adverse effect on the quarter's operating performance.

The EBITDA, including other income, stood at INR41.4 crores for the quarter, lower by 28% on Y-o-Y basis. This decline came despite 20% growth in the EBITDA from the Specialty Chemicals segment. The Basic Chemicals segment reported a negative EBITDA of INR14 crores, primarily due to losses in the PVC business arising from temporary supply chain disruption, elevated VCM prices caused by the West Asia crisis.

In addition, the temporary suspension of import duties on petrochemical products adversely affected PVC realizations and margins. Both these factors were largely onetime in nature and weighed disproportionately on the quarter's reported EBITDA. On the sequential basis, EBITDA, including other income, declined 41%, even as profitability in the Specialty segment improved significantly by 35%.

The Basic Chemicals segment profit was significantly impacted due to the PVC business, while caustic soda witnessed margin expansion during the quarter. The sequential decline was therefore not reflective of the underlying business trends. This was mainly driven by onetime impact in PVC, as explained earlier.

The finance cost stood at INR14.8 crores, demonstrating a reduction of 2% Y-o-Y basis and 4% sequentially. The decline trend continued to reflect the company's ongoing deleverage efforts. Depreciation for the quarter remained broadly stable at INR26 crores with a marginal increase in line with project capitalization. It is important to mention here in the effect of the tax, which we have taken.

Pursuant to the amendment in the corporate income tax under the Finance Bill 2026, accumulated minimum alternative tax credit can now be utilized only if domestic companies transition to the new concessional tax regime. The applicable tax rates under the new tax regime is 25.17%, including surcharge and education cess compared to 34.9% under the old regime.

Further, domestic companies are permitted to take a set off of 25% of the regular tax liability to MAT Credit Utilization. Accordingly, the company had decided to migrate to the new tax regime, resulting in the reduction in net deferred tax liability by INR34 crores on account of old rate differential.

Overall, the company's Q1 operating and financial performance was significantly affected by nonrecurring external factors, particularly the PVC business disruption caused by West Asia crisis, resulting in temporary supply constraints, elevated VCM prices and suspension of import duties on petrochemical products. These factors had a sharp onetime impact on volumes, realizations and margin during the quarter.

We are now witnessing normalcy being restored in the VCM import price, along with reinstatement of import duty by the government. With these onetime headwinds largely behind us, we expect our coming quarters to reflect improved operating conditions and better financial performance.

Thank you, everyone. And with this, we can open the floor for Q&A.

Moderator: Thank you very much. We will now begin with the question-and-answer session. First question comes from the line of Aditya, an individual investor.

Aditya: So, my first question is that on the revenue side, the revenue grew 14% year-over-year, but declined 11% quarter-on-quarter. So, can you quantify how much of the sequential decline was due to was due to higher captive PVC consumption for CPVC and lower PVC production and Synthetic Rutile inventory liquidation in quarter 4 FY26?

Pradipto Mukherjee: I think the value which is there for revenue decline is single handed because impacted for the onetime base effect, which we had for Q4 inventory liquidation of Synthetic Rutile. In addition to that, we obviously had a couple of days of plant shutdown for PVC. And that would we've not calculated the figure, but onetime single effect of Synthetic Rutile would have more than impacted on the total top line.

Aditya: Okay. Got it. And my another question is that the Specialty Chemicals revenue grew 38% year-over-year, EBITDA grew only 19.2% year-over-year. So the margins in the segment fell from 33.6% in quarter 1 FY26 to 29.1% in quarter 1 FY27. What is driving this margin compression despite strong volume growth? And is 29% the new normalized range for Specialty Chemicals margins post the CPVC capacity expansion?

Pradipto Mukherjee: So the margins so far as the Specialty Business is concerned constitutes of majorly 2 products, as you rightly pointed out. One is CPVC and one is SIOP. While we are growing CPVC with our capacity coming up, there is always a dynamic equation between PVC and CPVC spread like we have for VCM and PVC because PVC gets into manufacturing of CPVC.

And that has been very volatile and dynamic given the PVC prices, the import duty abolition by the government for the quarter. And all these have got baked into your PVC profitability going from Base Chemical profitability to the Specialty Chemical. So far as SIOP is concerned, our margin remains robust, and we are this year, finally, we'll be able to tie up our entire capacity of 28 kt for which we did a capacity debottlenecking 1.5 years back. So it would always be dynamic.

The good part to see about DCW is that we are a 1 lakh ton PVC producer and 50,000 tons of CPVC producer. So normally, when the base chemicals profit is driven by PVC, there will be an effect of that into the CPVC profitability. So it would be difficult to tell a steady-state margin for the base chemicals as well as the specialty chemicals because a part of PVC gets into 50% or 40% of PVC gets into CPVC. That is dynamic.

Aditya: Okay. Got it. And my other question is on the export side that the revenue was 28% of FY26 revenue. So how did the export mix trend in quarter? And are you seeing any impact on export realizations from world trade or tariff dynamics?

Pradipto Mukherjee: I mean our products are not impacted by tariffs in any way. I think not even the U.S. tariffs for SIOP where we export. So typically, we have around 60% of our produce of SIOP being exported predominantly into the U.S. We have 100% of our volumes of Synthetic Rutile exported outside.

And occasionally, we have bulk shipment of exports for caustic. We really don't see any impact on the company's export capability or any trade barriers, which are impacting the export. The way it pans up is that our SIOP business is a bit on a cyclical nature and our SIOP volumes typically over the years have surged in quarter 3 and quarter 4. So to that extent, you will see the export doing better in terms of value on the top line.

Aditya: Okay sir, and I have one last question as the Basic Chemicals EBITDA margin turned negative, like it was minus 5.2% in Q1 FY27 versus plus 2% in quarter 1 FY26. And so could you break down how much of this is PVC caustic soda pricing?

Pradipto Mukherjee: No. So caustic soda across the 3 segments, that is Y-o-Y and sequentially more or less has remained the same. So far, the biggest dent this year I mean, this quarter has predominantly been into the PVC because of the onetime effect we've been discussing now.

So there are 2 things on the PVC segment, which has happened. One is the duty abolition, wherein the net realizations and margin got impacted. And the second is that the availability of VCM and the price at which we procured VCM at quarter 1, that's related to the West Asia crisis.

As of now, we see situations have come back to normalcy, and that gives us a confidence that the coming quarters, assuming that the normalcy settles down, our coming quarter results would be better off.

The second thing very clearly is evident, as I told, is that the cyclicality of exports into the U.S. for the SIOP business, which will also give a positive margin spread. We are not calculating any profits at the product level. I mean, we are doing it at a segment level. Obviously, what numbers we are telling you or what evidence is basis, which we are letting you know is on the direct cost basis and the revenues for the product.

Moderator: The next question comes from the line of Madhur Rathi from Counter Cyclical Investment.

Madhur Rathi: Sir, could you quantify what was the like previous participant, what was the negative losses in the Basic Chemicals from PVC because INR18 crores is a loss for overall Basic Chemicals and on the EBITDA level, and it seems that caustic soda and soda ash were positive. So if you could give us what were the losses related to PVC?

Pradipto Mukherjee: So we can only give you a directional number because the fixed cost allocation for the basic chemicals are common. It gets allocated when we were reporting previously on this product as a segment, we had some allocation basis, which we stopped as of now because we are reporting segments based on Basic Chemicals and Specialty Chemicals. So what we can say is that I mean it would be anybody's number, but we have a guesstimate of maybe a swing from a sequential basis of around INR50 crores, INR55 crores on the PVC business.

Madhur Rathi: Sir, I couldn't hear properly. Sir, you mentioned INR50 crores, INR55 crores was the loss for the quarter in PVC segment?

Pradipto Mukherjee: It's a swing because quarter 4 had a profit. Quarter 4 PVC spread PVC/VCM spread was high. So from that to what impacted the variable cost or the contribution, we estimate that it would be around INR50 crores, INR55 crores.

Madhur Rathi: The quarter-on-quarter swing was INR50 crores, INR55 crores in the spread of PVC?

Pradipto Mukherjee: Yes, at a contribution level.

Madhur Rathi: Sir, so basically, is it safe to say that in our Q1 numbers, the INR28 crores loss from Basic Chemicals segment, PBIT loss, only PVC was a loss-making segment and soda ash, caustic soda and Synthetic Rutile, the other 3 were profitable?

Pradipto Mukherjee: Yes.

Madhur Rathi: Okay. Now sir, since all our divisions, especially in the Basic Chemicals segment, sir, we must be in the smallest quintile of the is that assumption correct?

Pradipto Mukherjee: Sorry, we missed your question. There was a disturbance. If you can kindly repeat.

Madhur Rathi: Sir, my question is that in our Basic Chemicals segment, caustic soda, soda ash and Synthetic Rutile and PVC, the size of our capacities in each of these must be in the smallest quintile of the industry?

Pradipto Mukherjee: Yes. I mean you're correct. I think our soda ash capacity and PVC capacity is 1 lakh tons. Caustic soda realistic capacity is basically 90,000 tons. And Synthetic Rutile is 48,000, 50,000 tons.

We obviously have comparable numbers of other producers so far as the first is concerned, we don't have a comparable Synthetic Rutile producer in the country.

Madhur Rathi: Sir, so in which case, since the cost of production is directly proportional to the size of the capacity, especially in the commodity segment, sir, so which means that by virtue of our plants being small, our breakeven price would be among the highest in the industry. Is that understanding correct?

Pradipto Mukherjee: It depends, and that's exactly where our investments in the solar a couple of years back and this time what we announced on the power plant efficiency capex is what we are continuously improvising on the cost part and investing on the efficiency of the Basic Chemical.

The ethos of the organization has been to grow on the value-added products, which we call our Specialty segment and continuously invest in keeping driving efficiency on the Basic Chemicals so that we have a competitive landscape with our producers. Obviously, we do not have the capacity to grow. We're trying to invest on efficiencies continuously so that we remain competitive with our peers.

Madhur Rathi: Sir, in the Synthetic Rutile segment, there's a listed entity, Cochin Mineral and Rutile. They came out with a very strong number in the actually, their first quarter EBITDA was equal to the EBITDA of full of last year. Sir, so did we also see similar expansion in margins in our Synthetic Rutile segment in the first quarter?

Pradipto Mukherjee: There so the Synthetic Rutile margins have looked up compared to last year because the Synthetic Rutile last year, most of the consumers were doing an inventory correction. So everybody all Synthetic Rutile producers in the country had to sell at a price which is subpar. Now the prices have corrected. And eventually, for us, we will gradually see the benefit of it with the way we have tied up with our customers.

Madhur Rathi: So sir, are as things stand in Q2, sir, you believe that we will be able to breakeven in our Basic Chemicals segment in the second quarter?

Pradipto Mukherjee: We more than believe if the situation stays as normalcy as it is today.

Madhur Rathi: And sir, the INR400 crores EBITDA target, does it still stand for FY27?

Pradipto Mukherjee: No, I think INR400 crores is an EBITDA target, which we spoke a couple of years back when the margin spread when the EBITDA margin for CPVC business was around 40%. The PVC and the CPVC contraction in the spread, which has happened, we think our steady-state profit roughly would be somewhere around INR300 crores. But given that, that's a steady state tied up for all the 4 quarters. We have to see how things shape up. Some of the things have been a permanent loss in quarter 1 capacity loss. We think that our numbers, you should assess us at a INR300 crores EBITDA and a steady state.

Madhur Rathi: And sir, lastly, sir, last time, we had discussed about a share buyback in which you mentioned that we will have to offer a 35% premium over the market price to do so, which reduces the attractiveness. Sir, now SEBI has recently, sir, come out with an open market share buyback wherein the company can directly buy shares from the market without giving any premium.

So at the current market price, the company can buy back and extinguish shares. The only thing is promoters cannot participate. So since our stock price is today at INR44 and it was, sir, INR46 in 2007, so and company is debt-free, so it really makes a compelling case for a share buyback.

Pradipto Mukherjee: So we are all the while we are mulling on this idea, we are glad that you have put this point on, and we urge all our investors to see the value in the stock. So we obviously are mulling this idea. I think we will announce it in an opportune time if we at all decide to do so.

Madhur Rathi: And sir, just one question, sir, have our caustic soda ECU realizations improved because right now, we are using entire chlorine for our CPVC versus maybe 2, 3 quarters back?

Sudarshan Ganapathy: Definitely, yes. We our ECU realizations have definitely improved because we don't sell chlorine anymore. We consume all the chlorine in-house. So that is definitely a big, big positive for us.

Madhur Rathi: Sir, can you quantify like what were the chlorine effluent treatment charges or chlorine lifting charges that we used to pay earlier? And what has that reduced on a Y-o-Y basis for FY27, what we expect versus...

Sudarshan Ganapathy: I don't think we keep any record of that, but there was no effluent charges on chlorine. Chlorine was only sold at a negative price in the past. And now because we are consuming it ourselves, that negative has become now at cost. So we are transferring the chlorine at cost. So to that extent, there is a benefit going to the caustic soda division.

Madhur Rathi: Got it. And sir, for this SIOP capex that we are doing, sir, what kind of revenue did we sir, what is the current realization per metric ton and what kind of margins are on this product right now? And how is the raw material sourcing for this with the expanded capacity?

Pradipto Mukherjee: So I think our announcement has given a top line estimate and assumption of the total capex saving, the bottom line effect. So a lion's share of that would come from SIOP business itself. Obviously, there will be some amount of savings coming in from the efficiency as well. And so I think the margins would be somewhere around 35%, 36% and has been stable ever since we have been communicating that. And that's the way to see. And the prices would be somewhere north of INR80,000 or around INR80,000 a ton.

Moderator: We have the next question from the line of Pujan Shah from Molecule Ventures.

Pujan Shah: I just want to understand first of all, on the PVC side. So we have seen quite a volatility in terms of realization for the PVC for this last quarter because of the geopolitical scenario. Now we have also seen that the government has reimposed the duty, which was being removed and government has also imposed the MIP at the current juncture. So in that case, do we see that the PVC prices have been bottomed out at a range of INR85, INR87. And how do you see the scenario because MIP is more or less for the 6 months. So can you just throw some light on that part?

Sudarshan Ganapathy: See if you compare with the MIP, the bottom could be INR80 because MIP translates into a price of INR80. But fortunately, for us, today, the offers and the import parity are at prices much higher than the MIP. Today, the prices are in the vicinity of $820 to $860 levels. And even the domestic prices also have got adjusted to that level. So as we talk now, the prices are much higher than the MIP and MIP is an instrument only to protect the bottom.

So we don't expect the prices to go to the MIP levels in the near future because the only country which can offer a lower offer is China, and China has some logistics and transportation issues. So we expect the prices to remain in these levels at least for this quarter. So at these numbers, with the VCM prices having corrected significantly, I think we should do reasonably well, if not exceptionally well.

Pujan Shah: Coming to the same point. So obviously, we suffered due to the VCM pricing inflated prices. But as it has been cooled off and now the spread seems to be a positive side. So do we see the coming next quarter will be a big positive in terms of basic chemicals as because in caustic and in SR, we have done positively well. It is just that we have been impacted due to PVC.

Sudarshan Ganapathy: It should be, but you should also take into account that July was a month where we were carrying stocks plus the duties were also not restored for a major part of the month. So as we as the month progressed from August to September, I think we are doing good. Having said that, I think Basic Chemicals should definitely do better than what we did in the quarter 1.

Pradipto Mukherjee: But at the same breath, I'd just like to also tell that if the PVC prices and the spread of VCM gives a positive delta to our Q1 result, we need to also factor that there will be some amount of lag or a spread of PVC, CPVC and there will be expected margin contraction in the specialty business. Obviously for an organization where we have capacities of PVC double that of CPVC, that's overall beneficial for the organization.

Pujan Shah: Got it sir, because why I'm referring to the same point is because if we look at the CPVC also, so if the PVC has been inch up, do we have seen similar kind of inching up in the CPVC? And do you feel that the price will remain at that point due to PVC has been bottoming out or due to inferencing of government duties, CPVC should also remain somewhat a bit higher, which helps us to gain some realization. Obviously, not because we have some inventory gains, but want to understand on a larger aspect.

Pradipto Mukherjee: See, like VCM and PVC, we have a lag. Similarly, we will have a PVC, CPVC spread, which is also with a lag, right? It would not immediately have because we run we accept orders at a particular price. We have to honor our customers' prices. So it will come with a lag. Now what we need to also understand is the standard spread, what we expect, does it settle after this disruption or not. So immediately, we would see our future orders coming in with a higher price, but the lag effect of the old orders would obviously play out in the Specialty Chemical in a negative way.

Pujan Shah: Got it, sir. Got it. And can you just tell some difference current spread between PVC to CPVC and VCM and PVC?

Sudarshan Ganapathy: It's difficult to really gauge. But having said that, the spread could be anywhere north of INR25,000 a ton.

Pujan Shah: Got it. For both or CPVC or...

Sudarshan Ganapathy: Come again

Pujan Shah: The spread which you will spell out is for PVC/CPVC and also the...

Sudarshan Ganapathy: No PVC to CPVC.

Pujan Shah: Okay. And just want to understand the current scenario. We have seen quite a significant spike in Synthetic Rutile and want to understand on your perspective as well as because we have run down our inventory and just to understand the new agreement, which is also coming up with Japanese customers, which will help much more better realization. So do we see any now significant impact on negative side for SR or we should steady state expect a good quarterly EBITDA for Synthetic Rutile?

Pradipto Mukherjee: I think going forward, Synthetic Rutile EBITDA, I think would be much better at an annual level compared to previous years as you have hinted the right thing of the development on the business side, which has happened.

Obviously, but there is a scheduling of our supplies. See, basically, what happens is it's not the cost which goes down or it goes down much relatively lower. It's about our customer mix. On an annual level, the customer mix looks much better compared to last year.

And the scheduling of our deliveries to better, higher-priced customers would is seen to be gradually going up during the quarters. It's back-ended. So eventually, you can expect a delta in the profitability in the Synthetic Rutile business also in the coming quarters.

So 2 positives for us starting from this quarter to the coming quarters is cyclicality of SIOP, where we will be generally and historically have seen that the volumes of SIOP grow by higher at quarter 3 and quarter 4, the scheduling of our supplies to high-priced Synthetic Rutile, which is also back-ended for us.

And thirdly is that we have positive VCM/PVC spread compared to the previous quarter. The negative only what we see is basically is that at what immediately in the current quarter and in the coming quarters, how the PVC/CPVC spread will play out.

Pujan Shah: Got it, sir. And coming to the upcoming capex of what we have announced. So in SIOP, just want to understand the INR250 crores we specifically have dedicated for SIOP in which for the Phase 1 and Phase 2. So how much we are planning to take from incremental borrowings because if we consider the Q1 aspect if we neglect the Q1 aspect as well in the next 3 quarters, we can easily do INR150 crores of cash flow. So do you feel that we need any type of debt, which will help for the capex or we are self-sufficient for internal accruals?

Pradipto Mukherjee: So as an organization from a couple of years back and which we were vocal as well, we are doing 2 things. We are running down the leverage. We are doing capex in bite size. And what we do also try as a treasury discipline is to maintain 5% to 10% of the cash of the top line.

Given such scenario, we think that we would be borrowing. And since our debt levels will be coming down to significant lower level, we think that a negative spread of 1%, 1.5% from cash and cash equivalent to borrowing is a welcome and a comfortable situation to maintain. So we would be going forward.

Pujan Shah: So just want to understand, first of all, how much we are planning to repay the borrowings in this year, the legacy debt and how much we are planning to raise for SIOP and that will majorly will land in FY28, right?

Pradipto Mukherjee: See, basically, starting the I mean, capex as we have announced. And what we see is that we will be borrowing a shade higher than our repayments. Our repayments roughly would be to the tune of INR135-odd crores. We'll be borrowing a shade higher. That also depends on what the cash level maintenance we want to do and the cash generation or accruals for the next 9 months.

So we'll try and do a balance and do there would be some negative carry in the balance sheet in terms of differential interest income versus interest expense, but we need to figure that out and can come back to you only after that.

But obviously, we would keep our leverage in check and also keep continue to keep 5% to 10% of our top line as cash and cash equivalent in terms of FDs, mutual funds and so on and so forth.

Pujan Shah: Got it, sir. And the second thing, what we have been planning is mostly we'll start after Q4 FY28 or we'll commission we'll announce it early and then we'll commission in FY29. So what are your thoughts on that?

Pradipto Mukherjee: So quarter 4 FY28 is where we've told we will commission the plant. With our expertise in dealing with the product over the last now almost a decade, we think that the first 7,000 tons and the value-added drive, which we are taking into SIOP, we think that commissioning to the commercialization would not take too much of a lag.

We think that immediately post that, we intend to start our next phase. We obviously, if the market pushes us to a situation where we start running back orders, we may prepone also. We'll see maybe as our H1 of FY28 gets over with, and we are in the almost at the end stage of commissioning the first phase. We'll take a call that time.

Moderator: The next question comes from the line of Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: Sir, I wanted to understand, was there any inventory gains for SIOP and CPVC during this quarter? Because you mentioned that due to the lag effect, going forward, there might be some pressure. So but during this quarter, was there any inventory gain scenario for the Specialty segment?

Pradipto Mukherjee: So on the Specialty segment, our profits have been higher on a sequential basis despite a PVC, CPVC spread contraction because the while the PVC prices fell, the CPVC prices also fell. That definitely indicates that there was an inventory gain for the limited amount of PVC we were diverting for CPVC.

Madhur Rathi: And sir, for SIOP as well because ammonia is a major raw material and that spiked that pricing has spiked up during, I think, post the war regarding that product?

Sudarshan Ganapathy: SIOP, we could pass on all the increase to the customers. So whatever was the cost increase on account of higher prices of inputs, we could pass on to our customers.

Madhur Rathi: Got it. And sir, this SIOP, whatever expansion, this is all brownfield expansion, right?

Sudarshan Ganapathy: Yes.

Madhur Rathi: Sir, so can the margin profile be better than the 34%, the 35% level that you used to do earlier?

Sudarshan Ganapathy: We have really not mapped what will be the better absorption of the fixed costs. All those things will come as the project takes its shape. We are only assuming the current margins to continue in our ROCE workings and our payback.

Madhur Rathi: Got it. And sir, just one question, sir. So like going forward, we are expecting there could be some pressure on the CPVC/PVC because of the PVC price increase. But sir, if I look at our integrated margin from VCM to CPVC, can we expect to maintain these going forward?

Sudarshan Ganapathy: I think we should be able to maintain.

Pradipto Mukherjee: So that's the whole game, basically VCM to PVC and PVC to CPVC. That margin is what we need to follow. But you need to understand that our capacities for PVC is double that of CPVC. And if the PVC prices go up, the inventory gain from VCM to PVC is a bit more I mean, a bit more than the contraction in the PVC to the CPVC spread.

The fact of the matter is the growth in the CPVC business or the Specialty segment would not be robust or it will contract. But the growth in the Basic Chemicals would be almost double that of the contraction in the PVC to CPVC.

Moderator: The next question comes from the line of Khushi Solanki from Agarwal & Company.

Khushi Solanki: So I wanted to ask, can you elaborate on the West Asia crisis impact on VCM availability? Is this a logistic issue or a natural supply shortage?

Sudarshan Ganapathy: It's natural supply shortage because the VCM was usually sourced from the Asian producers who in turn used to buy their crude feedstocks from Middle East. Because of the conflict, the feedstock supply to the Asian suppliers, there was a force majeure, which forced them to curtail their operations, which in turn resulted in lower quantities available from our traditional suppliers. So whatever quantity we have purchased, we have purchased from China, which was the spot and at a much higher price.

Khushi Solanki: Okay. So can I know any strategies to derisk this VCM procurement?

Sudarshan Ganapathy: There cannot be a strategy for a war because this we hope is a onetime, and I don't think we can do any strategy based on this because the Asian producers will continue to depend only on Middle East. I don't think they have the ability to buy from Russia or other sources. So this is a thing which is a onetime is what we should consider.

Pradipto Mukherjee: So the strategy is 2 phase. One is availability of the material and other is the price, right? So as an organization, we were taking VCM from Qatar previously, and it was there as a producer and sending it to us. We, as a strategy, migrated to a global distributor who supplies VCM from different parts of Asia, which is manufactured. So the supply for us has been relatively taken care of by this migration. And the prices which have gone up is something which is difficult to strategize.

Khushi Solanki: Okay, sir. So I have one more question. What percentage of VCM requirement is currently imported versus domestic sources? Are there any plans to backward integrate further into VCM to reduce this volatility?

Sudarshan Ganapathy: You are asking for our company specific?

Khushi Solanki: Yes.

Sudarshan Ganapathy: So we there is no merchant VCM seller in India. So the entire VCM is imported, not only by us, even by other PVC producers who are following this process. And it is difficult to have a backward integration for us because our capacity doesn't justify integration at these levels unless we decide to go for a 5x expansion in our PVC capacity. And like as already we have communicated clearly, we are unlikely to expand significantly in any of our basic chemicals unless there is a need for that to augment our specialty business.

Khushi Solanki: Okay, sir. And I have one last question. How are salt, chlorine and hydrochloric acid cost trending? Given these are captively produced, is the self-sufficiency in this input providing adequate insulation from the current cost inflation?

Sudarshan Ganapathy: I didn't get your question, madam. Can you please repeat?

Khushi Solanki: I just wanted to ask like how are the salt, chlorine and hydrochloric acid cost trending given these are captively produced?

Pradipto Mukherjee: So basically, we are captively we are using predominantly our captive salt, which is both for our caustic business and soda ash business. Chlorine and HCL is a part of our product output process output. So basically, what over the years, we were under pressure was basically we had to sell the chlorine because the chlorine generated from the caustic was not being absorbed internally by our CPVC volumes.

As of now, we've become chlorine neutral to what has happened is the ECU in our caustic has improved and thereby the profitability in the caustic department or the product. So far as these other so these 3 2 are byproducts of our process and salt is something we internally we use our internal resources to get the salt. So for us, we are not using any market dynamics in terms of procuring any of them.

Moderator: The last question comes from the line of Hari Kumar, an individual investor.

Hari Kumar: Am I audible, sir?

Pradipto Mukherjee: Yes, please go ahead.

Hari Kumar: Okay. Two questions, sir, with your cash generation expected to be much higher going ahead, like why are our expansion plans very conservative? Can't we divert into other chemicals and the new chemicals?

Pradipto Mukherjee: So see we, as an organization has been working on chemistry balancing in our South facility and allied or related value-added products. So our the expansion in CPVC from the first phase was basically because of the chemistry balancing, as I told, wherein we became chlorine neutral.

As of now, we have announced an SIOP volume increase because we are very excited of this segment, and we see a long pathway of this product for us. We also have a significant moat in terms of entry barrier to the product because it is very the capital investments are very high. Since we had invested at the first 28 kt very high investments, and we have seen that behind us. Now it is only lucrative for us to grow on in this segment and retain our moat. So that has been the first level of growth which has come in or announced that any kind of growth which comes in would be into our related chemistry.

We're not as of now, we see there's a runway of growth in our related chemistry. And hence, we are not getting into unrelated chemistry at the moment because we don't think we have exhausted the opportunity in the related chemistry. Secondly, we, as an organization are both import and export driven. I mean, domestic and export driven.

With SIOP coming, we have had an experience of exporting product into U.S. market. So the opportunity size opens up for us in the related chemistry. So as of now, we're not looking into unrelated chemistry because the pie of the market for us opens up not domestically, but globally as well.

Hari Kumar: And secondly, sir, like VCM like for derisking, can't we increase the storage capacity so that to derisk the market disturbance?

Pradipto Mukherjee: See, increasing of our storage capacity is basically first of all, VCM is gaseous. Secondly, increasing of the storage capacity is basically a supply chain play. It's not a derisking play because beyond a certain level, you cannot store VCM. So it will only help us as much for 10, 15 days of inventory storage additionally, and we don't see the worth of it.

As I told that previously, when we are taking from a single source Qatar, today, we have derisked our supplies going into a global supplier of VCM. So supplies has been derisked big time. However, the prices in such cases are in such one-off situations like war is something which I don't believe any organization plans for derisking. However, as I said, we don't have a choice just other than to work for another 15 days of storage capacity increase, nothing beyond that.

Moderator: That was the last question. And I would now like to hand the conference over to the management for closing comments. Thank you, and over to you.

Saatvik Jain: Thank you, everyone, once again for joining our call, and hope we've been able to add some clarity to all your questions. If there are any further questions, I request you to forward them to our IR Advisors at Valorem. Thank you once again, and look forward to talking to you again next quarter.

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