DCM Shriram Limited
Q3 FY 2022 Earnings Conference Call
January 21, 2022

Moderator: Ladies and gentlemen, good day and welcome to DCM Shriram Limited's Q3 FY22 Earnings 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 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 would now like to hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you sir.

Siddharth Rangnekar: Thank you. Good evening and thank you for joining us on DCM Shriram Limited's quarter 3 and 9M FY22 earnings conference call. Today, we have with us Mr. Ajay Shriram, Chairman and Senior Managing Director; Mr. Vikram Shriram, Vice Chairman and Managing Director; Mr. Ajit Shriram, Joint Managing Director; Mr. K.K. Kaul, Whole Time Director; and Mr. Amit Agarwal, CFO of the company.

We shall commence with the opening remarks from Mr. Ajay Shriram and Mr. Vikram Shriram, following which we will have an interactive question-and-answer session.

Before we commence, please note that some of the statements made on today's call could be forward-looking in nature and a note to that effect has been included in the conference call invite circulated earlier.

I would now like to invite Mr. Ajay Shriram to give us a brief overview on the company's performance and his views going forward. Over to you, sir.

Ajay Shriram: Thank you, Siddharth. Good evening ladies and gentlemen and thank you for joining us on our Q3 & 9M FY22 earnings conference call. I would like to wish you all a very happy new year. I hope all of you and your families are staying safe and keeping well. I will walk you through the business developments. Thereafter, Vikram will follow with his thoughts on the financial perspectives.

We are glad that our businesses reported an overall healthy performance despite the operating challenges during the quarter. The input and output prices in Chloro-vinyl business were at levels never seen before. The volatility was extremely high and unidirectional. Compounding this problem was the supply constraints. Late rains in the Rabi season posed challenges to the Agri input businesses. Most of our businesses managed the situation well and delivered growth, along with better margins. You are aware that we are investing in further strengthening the businesses through scale, integration and cost optimization, across our Chemicals, Sugar and Fenesta business. Other businesses like Shriram farm solutions are opex intensive and are growing in scale. In this quarter we have announced additional investments in Sugar Business. These steps will help us maintain growth momentum as well as manage volatility better.

I would now like to take you all through the business-wise key developments:

Chemicals:

The operating environment in the business is very dynamic. The prices of Caustic Soda moved to historical highs during the first two months of the quarter driven by supply constraints from US and China. The abnormally high energy prices added to the cost of production and that went up substantially. Global supplies started getting restored from November onwards post hurricane in US and end of dual control policy in China. The current international prices have come down from the peak to about USD 500 – 550 / MT. Going forward there are planned shut downs for some US manufacturers, the impact is yet to be seen. Domestically, demand from key consuming sectors remained stable. However, some pressure is witnessed in the textile and paper segment towards the end of the quarter. Domestic caustic soda prices are moving in line with international prices. Chlorine is under pressure due to increased operating rates of Chlor-alkali manufacturers and lower demand for some consuming sectors. Input costs have seen significant uptick led by Coal and Salt prices. We are procuring optimally and using all options to mitigate the impact. We are also keeping enough supplies to ensure there are no constraints on this account. The Chemicals business is implementing a 120 MW Captive power plant, expanding Caustic capacity by 850 TPD and Flaker by 600 TPD, Aluminum Chloride Capacity by 90 TPD, Setting up 51000 TPA ECH capacity and 52500 Hydrogen peroxide capacity. All these projects are underway. They are expected to get commissioned with few months of delay due to Covid-19 and erratic rains. Project costs are also expected to increase given the reconfiguration of projects based scale efficiencies, market demand and increase in commodity prices. We are trying to minimize the delays and cost increases. However, returns from the projects continue to be healthy.

Vinyl:

The global demand continues to remain strong. The prices are still at healthy levels, although the import prices have moved lower since making a peak in October 2021, pursuant to easing of supplies from China and US. Like in Caustic Soda the increase in energy prices have led to significant increase in input costs. High energy prices pose a risk, if the product prices come down given the nature of commodities and more so in the current circumstances. The operating environment is expected remain volatile.

Sugar:

The Domestic Sugar production expectation in the current season is 30.5 mmt. The sugar production till 31st December, 2021 stood 4.3% higher at about 11.5 mmt compared to same period last year. In the current season, our mills saw cane crush of 212 lacs qtls vs 203 lacs qtls last year as at 31st Dec. Recoveries on final molasses till 31st Dec for the season stood at 10.6% for SY22 vs 10.7% for SY21.

Global sugar is expected to be in deficit, which may keep the international prices firm. Given that the government has not announced export subsidies, India is expected to export about 5-6 mmt of Sugar in the current season versus about 7 mmt in the last season. Currently, the net realization on exports is lower than the domestic prices.

During the quarter we produced ethanol via cane juice route as well as B Heavy molasses. Sugar diverted to Cane Juice and B-Heavy ethanol till 31st Dec, 2021 stood at 4.3 lacs qtls versus 2.1 lacs qtls in the same period last year. We will continue to strive for an optimal mix for our Distillery and Sugar operations.

At Sugar Business, we are setting up a 120 KLD multi-feed Distillery, increasing Sugar refining capacity from 5000 TCD to 26500 TCD, and expanding Sugar capacity by 3000 TCD, among others. These projects are expected to be commissioned within planned time and cost estimates.

Agri Inputs:

The segment includes Shriram Farm Solutions, Bioseed and Fertilizer businesses.

Shriram Farm Solutions showed good growth on the back of higher sales for Wheat seed and Specialty nutrients during the Rabi season. During the Rabi season, sowing got delayed due to untimely monsoons, which affected the business to some extent. The thrust on value added inputs continues together with focus on research based varieties with a view to deliver consistently good performance.

Bioseed international operations are doing well. For Bioseed India it is a short season with main season being Kharif. The business is making efforts to launch new products and scale up. We are very hopeful of a better performance over the medium term.

In Fertilizer business, the operations are stable. However, the Urea Subsidy outstanding is higher than expected levels, given the increase in gas prices. Outstanding stood at Rs. 450 crore as on December 31, 2021 versus Rs. 624 crore as on December 31, 2020 and Rs. 153 crs as on 31st March 2021.

Fenesta:

Fenesta delivered a healthy momentum on the back of enhanced sales in retail and project segments, whereas the impact of the previous waves of the pandemic has abated, there may be some minor impact from the third wave.

Order booking was up 43% YoY during Q3 FY 22, with retail segment giving 20% growth in the period and project segment giving 91%. We continue to expand capacity, reach and product range while enhancing service levels in order to maintain a healthy performance outlook.

During the quarter the Company acquired balance 50% stake from its JV partner in PVC Compounding business to make it a 100% subsidiary.

We are gearing up to deliver better scale and efficiencies through ongoing capital expenditure. With a stronger proposed footprint in value creating products, stronger integrated capabilities and enhanced capacity, we are seeking a better and stable profitability across our operations.

With that I would like to request Vikram to take you through the financial highlights. Vikram, up to you.

Vikram Shriram: Thank you. Good evening everyone. A very happy, safe and healthy new year to all of you. I will now take you through the financial highlights for the quarter.

Net revenues grew 26% YoY to Rs. 2,730 crs vs Rs. 2,159 crs in Q3 FY21 Significant impact on revenue during the quarter were:

a) Revenues for Chloro-vinyl segment was up 90% YoY to Rs 1,042 crs. Chemical business revenues were up 115% YoY at Rs 738 crs in Q3 FY22, driven by prices. ECU prices were up 126% YoY. Vinyl revenues were up 47% YoY at Rs 304 crs driven primarily by higher prices of products.

Carbide prices up 94% and PVC prices up 36%. Prices continue to be at healthy levels, however have moved in wide range.

b) Overall Sugar business revenues, net of excise duty on country liquor sales, were down 14% at Rs 565 crs as a result of lower sales volumes. Sugar volumes were down 29% as a result of lower monthly releases. Distillery volumes were down 17% due to lower availability of molasses in the month of October '21 and plant maintenance. Higher sugar and distillery prices partially mitigated the impact.

c) Fertilizer revenues stood higher by 39% at Rs 367 crs consequent to higher gas prices which were at USD 15.1 / mmbtu vs USD 8.2 / mmbtu last year, which is a pass through. Current gas prices are over USD 20. The increased gas prices for FY 22 have not been notified and is the main reason for increase in Subsidy dues from the government.

d) Fenesta revenues were up 26% YoY at Rs 137 crs during the period. We have seen an improvement in Retail as well as Projects vertical. On a sequential basis, revenues were up 5%.

e) SFS business revenues were higher by 13% YoY at Rs 446 crs led by Wheat seed up 16% and specialty nutrient products up 28%.

On Profitability front, during Q3 FY22, PBDIT improved by 46% YoY at Rs 614 crs on account of.

a) Chemicals PBDIT came in at Rs 286 crs, higher by 193%. Vinyl PBDIT was up 24% YoY at Rs 125 crs. The growth was led by higher product prices and volumes. For both chemical and vinyl businesses, input costs and power & fuel costs came in higher however they were more than offset by higher product prices, leading to better absolute margins. Sequentially, the PBDIT of Vinyl business was lower given the steep increase in input costs and lower volumes of PVC.

b) Overall, Sugar Business PBDIT came in higher at 13% YoY at Rs 132 crs, mainly due to higher sugar realizations and higher ethanol prices. Volumes were lower for reasons explained above.

c) SFS PBDIT was higher by 24% led by better volumes and higher provision for old inventory in earlier periods. Overall margins were stable.

d) Fenesta PBDIT up 16% led by better volumes and prices.

e) Bioseed PBDIT came in at -ve Rs 32 crs vs –ve Rs 8 crs during same period last year. Performance was impacted by lower volumes and higher write-off and provisioning of Inventory.

PAT came in at Rs 350 crs up 38% YoY.

Coming to the 9M FY22:

Net Revenues, were higher by 12% YoY at Rs. 6,832 crs. The reasons for growth are largely in line as explained above. It is pertinent to mention here that Chloro-Vinyl and Fenesta were impacted by pandemic and lockdown due to Covid-19 during Q1 FY21, resulting in loss of production leading to lower sales in last year.

Moving to the PBDIT for 9M, we saw a consolidated growth of 44% at Rs 1,225 crs, led by strong PBDIT growth in Chloro-vinyl and Fenesta segments, as a result of higher prices and volumes. PAT came in at Rs 666 crs up 51%.

Coming to the balance sheet position, company as on Dec 31, 2021 had surplus cash, net of debt, at Rs. 245 crs vs net debt of Rs 385 crs on 31st Dec, 2020 and Rs. 180 crs as on 31st March 2021. Reduction in net debt is attributed to strong operating cash-flow over last 12 months. Further, there is seasonality in Capital employed which is high during Q4, due Inventory buildup in Sugar and Urea Subsidy.

ROCE, on trailing twelve months basis, too saw an improvement and for the period came in at 27% vs 17% for Dec'20 and 23% for Sep'21.

During the quarter, the board declared a second Interim Dividend at 260% amounting to Rs 81.1 crs. Total dividend for the year at 490% amounting to Rs 152.8 crs vs 275% last year amounting to Rs 85.8 crs.

On the whole, despite macro-challenges, the Company has delivered a robust performance. The Company continues its healthy financial position with a strong balance sheet. Our growth plans continue to be on track.

That brings me to the end of the financial discussion, and we will be happy to take any questions that you may have. Thank you.

Moderator: Thank you very much. The first question is from the line of Ahmed from Unifi Capital. Please go ahead.

Ahmed: Thank you for the opportunity, sir. The first question is on tax rate. I believe we had some tax holidays in the past under section 80IA and this year so far and specifically in the Q3 the tax rate is on higher side. So, can you please explain the reason and guide on the full-year tax rate for current fiscal and the next fiscal.

Amit Agarwal: Yes. So, see Ahmed the tax rate is higher at about 32%. And I think for full-year it should be around that level. And two key reasons why it has gone up; one, the overall profitability has gone up and the tax benefits, as you rightly mentioned, on 80IA, they've come down also because the input prices have gone up. So, if the coal prices go up, the benefit on account of transfer price goes down. So, that's another reason why the 80IA benefit is lower this year. Next year, we'll have to see how the prices of coal pan out and that's how we'll decide the tax rate, but it should be still in the range of around 30% plus next year as well.

Ahmed: Okay. So, are we planning to move to 25% tax regime anytime soon?

Amit Agarwal: See, we will see basis our, cash flow, because we still have MAT credit of a higher degree of close to INR 250 crore. So that also we'll have to see. So probably not immediately -- definitely not in next year, probably the year after that, or maybe one to two years down the line.

Ahmed: Make sense. Thank you. And the second question in the Bioseed business and we had this discussion even in the last quarter call, the business has not grown in for last few years and there is hardly any profitability and even the decent chunk of our capital is stuck in the business. So, can you please explain strategically how does this business fit in the long-term plans of the company? I'm not asking from a perspective of where next rabi season or next kharif season from say three to five years perspective, that is first question on the Bioseed. And the second part is this year -- this quarter we had about INR 30 crore, 35 crore loss in this business. Historically, we had about INR 10 crore, INR 12 crore loss in Q3 so the losses were also on the higher side. So, can you please explain the same?

K.K Kaul: Yep. But it's true that the performance has been under pressure for the last two years. And it's not only us most of the seed companies have suffered last two years because of several reasons. But I will not go into that. But what I can tell you that ours is a research-based seed company. We have a very comprehensive research program across many crops growing cotton, corn, paddy, mustard and vegetables also. Our product pipelines are healthy and some of our newer products which were introduced this year, their -- the performance of it far more better than and we have almost doubled the sales in those products. And we have a following pipeline also very strong. So, we also have taken several measures in terms of growing our processes in terms of adding on to the capability enhancement, churning our portfolio. We're also looking at export markets. So, we are quite hopeful and confident. In the coming years, we should see the business turn around. And as I said, with favorable regulatory policies and favorable monsoon conditions, I think we are quite confident that we will be able to turn that around in the next coming years.

Ahmed: And this quarter what was the reason for the higher losses, some provision in inventory or...?

K.K Kaul: There are several segments you would know that industry, seeds industry across has not done well this year for several reasons. If you look at the cotton their acerages have gone down and then they were larger proportion of illegal seeds which were sold in the market and then there were erratic rain fall. Similarly, the government subsidy programs because of the corona second wave, the government didn't spend on seed subsidy programs which they used to do every year. So, the government purchasing went down. And there were, for us, particularly, there were some restrictions imposed directly or indirectly on paddy growing and particularly in some southern states where we have a very strong presence. So, that has affected our performance more than the other seed company. But overall the other seed companies also haven't done well both for two successive years both FY21 and FY22. Also the COVID effect has been more on the seed industry than the previous year. And we also have rationalized and done some churning on our inventories and taken some calls on slow moving inventory in terms of making some provision. So, overall, that is the reason for the little bit poor performance that you see this year.

Ahmed: Okay, okay, makes sense. Sir, last question from my side. Sir, we are seeing that caustic and PVC prices are pulling off and it is very obvious from certain sustainable level. But how do you see -- I know it's very hard to guess for anyone how the prices will move, but how do you see the demand supply situation evolving in the next year or so? Will the prices continue to normalize or will remain at elevated levels considering that coal is also started to move up again? So, how do you see the commodity prices?

K.K Kaul: Yes. The prices have been all time high we have seen in Q3 particularly if you look at both the caustic - chlorine prices as well as the PVC prices. They have been at their highest level. PVC prices touched close to $1,900 in October, but they have already corrected to a large extent. We do expect that the prices will still continue to be healthy, but not in the range that we have seen in Q3. Maybe they'll be more like Q1 and Q2 kind of prices on average. The demand is still strong. I think we don't see any problem in the demand. The demand both for PVC and caustic soda is expected to remain strong. Did I answer your question?

Ahmed: Yes, yes, yes. Just a small thing on the sugar exports volume. Do we expect the export volume to be same last year Q4 in sugar exports this next Q4?

Ajit Shriram: See as far as sugar exports are concerned as was mentioned in the opening remarks, the exports last year was roughly 7 million tonnes and this year so far 4 million tonnes has been contracted and 2 million has already been exported. We do expect export level of roughly 5 million to 5.5 million tonnes to happen this year essentially from Karnataka and Maharashtra, because there is no government subsidy this year on the sugar exports.

Ahmed: And sir is there any huge delay in the downstream projects you mentioned in press release and presentation there is some delay because of COVID and lot of supply chain disruptions. So, the downstream projects will come in H2 FY23, right?

Amit Agarwal: As mentioned in CMD's message as well that we are expecting delays given by -- given the COVID-19 waves and erratic rains. So, yes, there will be delay, but the delay should be not more than a quarter. And we're trying to see how best we can curtail the delay.

Ahmed: Okay. That answers my questions. Thank you so much.

Ajay Shriram: Yes. Thank you.

Moderator: Thank you. The next question is from the line of Pratiksha Daftary from Aequitas Investments. Please go ahead.

Pratiksha Daftary: Good evening, sir. Thanks for the opportunity. My first question is on caustic. So, in the presentation mentioned that the exports have gone up at industry level, are we seeing similar trend for DCM Shriram? And how do we see this trajectory going ahead? Do we think that export will be a higher contributor relatively speaking?

Ajay Shriram: Yes, if we see the performance last year and for the coming year, the fortunate part as I mentioned earlier also was the international prices are fairly satisfactory. So, because of that, we do expect exports to go up. Our exports also almost doubled. We did it if I recollect 20,000 - 22,000 tonnes earlier. This time we did about 44,000 tonnes, 45,000 tonnes, so it is going up and we expect it to go up a little more in the coming year.

Pratiksha Daftary: Okay. And thus like -- do we have any -- margins are better in export or domestic or vice versa, how does it work?

Ajay Shriram: These are commodities. So, the prices of commodities vary. Also, I think it's a matter of really tying a balance between supply and demand. So, that's our objective. We undertake exports whenever we can depending on the supply and demand situation in the country also.

Pratiksha Daftary: Right. And in your opening remarks you mentioned that some of the supply constraints in October are back and you expect certain plant shutdowns in USA. If you could just elaborate about how do we look at supply constraints for the next two quarters in overseas market?

Ajay Shriram: I think overseas is difficult to say because of climatic conditions, the changes happened so rapidly. But I think our expectation is that, yes, the international prices have subdued compared to the peaks they reached and the peaks they reached also were unusual. I think we have to be honest with that. That's not tenable. But it's come down to a more decent level and we expect it to stay around this level for some more time.

Pratiksha Daftary: Okay, and how about power cost, sir, do we think that that also has peaked out or we might -- we continue to keep certain input pressure ahead also?

Ajay Shriram: See, the power cost is -- the coal cost couple of months back had peaked a lot, but it's come down. But it's picked up again a little bit because Indonesia banned the export of coal two months back. So, industry has taken it up in Indonesia also, from India also. So, it's gone up a little bit. But I think the input costs will be a little challenging coming going ahead, because freight is also a serious matter. I think you all are aware that the international freight has also gone up substantially. So, all the things are impacting the input costs.

Pratiksha Daftary: So, for Indonesia coal what I understand is that probably going to, like it's going to be a continue in future for some time. So, then the prices we can expect to remain high and while the realizations are moderated the input costs will continue to remain high. Is that understanding correct?

Ajay Shriram: Well, I think the input costs because there's coal available in South Africa also and other countries also. So, it's not only Indonesia. And Australian coal is also coming in, and lot of that is going to China, which was going earlier from Indonesia also. So, coal is moving around. And our expectation is from what we discussed and understand that Indonesia might change their policy going forward because all the coal in Indonesia is not being picked up by the domestic users. So, if they change the policy, it'll definitely ease the situation. But commodity prices are so volatile, no one can make any commitments.

Pratiksha Daftary: Understandable. And sir on sugar, if you could just highlight what would be the mix of our ethanol from juice versus B-heavy versus C-heavy? And what would be our optimum target mix that we would have like?

Amit Agarwal: See in this quarter we've produced ethanol from cane juice directly of about 107-110 lakh liters, and from B-heavy we've produced in this quarter close to about 73-74 lakh liters. So, that's the broad breakup in terms of ethanol.

Pratiksha Daftary: Okay. And if you could just explain why would we like what kind of dependence we have for outside molasses? And like I would like to assume that we would be self-sufficient, so why would this such a situation be created?

Ajit Shriram: See, essentially, we are short of molasses by roughly 12 to 13 lakh quintals. And that's one of the reasons also we are putting up this multi-seed 120kl distillery. And using of cane juice also enhances the output of the ethanol. So, a combination of the multi-seed distillery, use of cane juice, the use of more B-heavy, and at the end of the day, the effort is to increase the level of crush in terms of lakh quintals. So, our cane division is actively working with the farmers to increase the level of cane that we crush so that we are able to have adequate feed for the ethanol manufacturing.

Pratiksha Daftary: Okay, all right. And last question on Fenesta front. So, we've seen some small, slight margin contraction year. So is this more of a strategic call that we would want to increase our scale and we have to be okay to compromise margins to certain extent here?

Vikram Shriram: Yes. Actually there have been severe cost pressures in Fenesta also because of PVC, steel, everything, rupee depreciation, etc. So, it's more to do with cost pressures and it's very marginal.

Pratiksha Daftary: Would we be able to pass on these input cost pressures to -- in our realization like without impacting our volumes or…

Vikram Shriram: It is -- the plan is and the working is in that direction. And so far the new bookings are at a higher price points. But between booking and delivery there's anywhere between three months to nine months time lag or one -- two months to nine months. So, one can't really forecast the long term, but yes prices are being increased every month or every two months to take care of the cost pressures.

Pratiksha Daftary: All right. And last thing, if you could elaborate a little bit about the aluminum offerings that we are working on. And like how do they compare to our existing, in terms of margins, existing products?

Vikram Shriram: System aluminum was introduced I think about a year, year and a half ago and the margins as a percentage may be lower, but the absolute amount is higher. The product is taking traction. In fact, we are expanding our manufacturing fabrication and manufacturing capacities because it has gone faster than we expected. And we have introduced a new series called professional series which is at a lower price point. So, it is taking good traction and we expect it to pick up in the time to come.

Pratiksha Daftary: All right, thank you.

Ajay Shriram: Thank you.

Moderator: Thank you. The next question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: Good afternoon, sir. My question is predominantly on the chemical side. So, if you can -- could break down the revenues as well as the PBIT between the caustic business as well as our revenue and the PBIT from the value-added products like hydrogen, aluminum, chloride.

Amit Agarwal: Yes, see, primarily the revenue will be from caustic soda itself, caustic soda and flakes. So, from other products, it ranges between 15% to 20%, in terms of the top line. Now, bottom line always will keep changing depending on how much we are making on caustic. So, for example, in the last, I mean, last couple of quarters, we've seen that the other products have contributed around 30%. This year because we've earned more on caustic, so it's about 10%, 12%, the other products contribution.

Nirav Jimudia: Okay.

Amit Agarwal: And hydrogen is a major part of that.

Nirav Jimudia: Correct. Yes, Yes. You mentioned last quarter also the same remark. And sir second question is on the input costs, like you mentioned that our power cost has gone up because of the increase in the coal cost and even salt cost has gone up. So, if you can quantify in terms of in between the quarters, how many -- how much is a quantum increase for both of these raw materials?

Amit Agarwal: See, as a practice I'm sorry we don't share our costs, right. But yes there has been a significant increase is so that that says.

Nirav Jimudia: Correct, or else if you can say in terms of, let's say, if last quarter was on a scale of 100, this quarter how much it has gone up some sort of understanding.

Amit Agarwal: Yes. So, it would have gone up ballpark. I don't have the number right away, but in excess of 50% is what would be the cost increase.

Nirav Jimudia: Okay, okay. Thank you, sir. And if I have further questions, I'll join back in the queue.

Ajay Shriram: Thank you.

Moderator: Thank you. The next question is from the line of Pratik Tholiya from Systematix Shares. Please go ahead.

Pratik Tholiya: Yes. Hi, sir. Thanks for the opportunity. Sir, just couple of questions was given on the cost front. I think in the last call, you also mentioned that you were looking at various other inputs apart from coal, I think you were looking at something called lignite and all. So, I think we were still working on those. So, sir if you can just share what is happening on that and are we started using and what percentage of our ROM till now is received from coming from non-coal?

Amit Agarwal: Yes. So, Pratik, both at Bharuch and Kota, it ranges between 10% to 15% as the total mix of -- other than coal. So, whether it's lignite or biomass depending on availability, that's the kind of mix.

Pratik Tholiya: Sure. And sir in terms of cost-wise…

Amit Agarwal: And also it gets limited, because the boiler there is a limitation of each boiler as to how much it can intake, right. So, it's both a mix of availability as well as the type of boiler.

Pratik Tholiya: And sir the cost, how much are we able to save?

Amit Agarwal: So, I don't have the number right away. But definitely both these are...

Pratik Tholiya: Yes, Yes, that's true. But then it would bring down our total cost by say a 8%, 10%.

Amit Agarwal: I don't think that kind of an impact with a 10%, because see lignite costs also had gone up significantly, because coal costs went up, so even lignite went up.

Pratik Tholiya: Sure, right, okay. And sir secondly, on the Capex front, I think in the opening remarks it was mentioned that caustic to be expanded to 750 and flaker to 600. But is that -- are those correct, because last fall we had talked 700 TPD of caustic and 500 TPD for flaker.

Amit Agarwal: Right. So, Pratik, there has been some reconfiguration, right, given the market demand and certain other economies that we thought. So, we have increased it from 700 to 850 and flaker from 500 to 600.

Pratik Tholiya: Sure. What is the increase in our investments there, because last time we have mentioned somewhere around INR 700 crore?

Amit Agarwal: Yes. So, see, it's a holistic pool that we'll have to work at because there are cost increases which are happening because of the scale element. And there are cost increases which are happening also because of the price increase, the metal price increases, especially. So, we are just working it out, how do we rebalance the whole portfolio so that the return on the project continues to be healthy. So, we just reworking that.

Pratik Tholiya: Okay. So, last time I think you had mentioned by Q4 FY23 these plants will be operational, but now with this additional Capex that we're doing so the timelines will set.

Amit Agarwal: See, additional Capex I don't think will impact the timeline. As we mentioned, it is more to do with the delays on account of COVID as well as the extensive rains that happened in that region, which have caused the delays. So, last time what we've mentioned was that despite COVID we should be able to cover up, but with the rains and the third wave also slightly impacting, we are finding it difficult to cover up the loss that was -- time loss that was there because of COVID second wave. So, Yes, that's why about a quarter delay is what we expected. But we're still working on seeing how to cover it up to maximum extent.

Pratik Tholiya: Understood. And sir lastly on the sugar Capex also in the ppt you've mentioned that there are additional Capex that you are undertaking in sugar, if you could just highlight what are these and what is amount that you're spending on each of them.

Amit Agarwal: So, on to this 120 KLD multi-feed distillery where we are spending around INR 145 crore, and then there's a mix of Capex which is like expanding sugar at Ajbapur by 3000 TCD then we are converting our refinery -- converting our sugar operations to refined sugar from current -- currently we can do up to 5000 TCD we are going up to 26,500 TCD for refining operations. And what we're also doing is that for the grain attachment that we have for 120 KLD distillery, we are enhancing it to 260 KLD, though the distillery size remains at 120, but that we're increasing to 260 KLD. All that will cost us another, if I remember correctly, another INR 350-odd crore...

Pratik Tholiya: 358.

Amit Agarwal: Rs. 358 crore, Yes, that will cost us and the reason why we are doing this 120 to 260 is again what was just discussed a while back that there are shortage of C molasses or the molasses in the offseason, so we are trying to see that how do we ensure that our distilleries don't remain idle for about a month or so and we're able to source the molasses from in house feedstock.

Pratik Tholiya: So, all of this is happening only at Ajbapur, right?

Amit Agarwal: See, the most of it is in Ajbapur, you are right, but refining operations partly in Hariyawan as well. So, Hariyawan already has refinery, but that will -- that capacity also will go up.

Pratik Tholiya: Okay, understood.

Amit Agarwal: But majority of it is in Ajbapur, you are right.

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Pratik Tholiya: Sure. So, that's it from my side. Thank you and wish you all the very best.

Moderator: Thank you. The next question is from the line of Chintan Chheda from Quest Investment. Please go ahead.

Chintan Chheda: Thanks for the opportunity. Sir, my question is related to the caustic soda business. So, firstly, can you please give some insights on the current demand supply situation of the caustic soda industry in India, right? And secondly, there was one anti-dumping has been recommended in December '21 from four countries. So, what are the chances of that getting implemented and the impact of the same on the industry and our business?

Ajay Shriram: Caustic soda demand actually is moving and touchwood is growing at about 6%, 7% a year. And that's moved quite stable. We expect it to grow now also at about the same level. So, that's going to be a consistent growth which is moving well. And regarding this additional duty, anti-dumping duty, in fact, the fertilizer, the chemical ministry has recommended it to the finance ministry. So, it is in the finance ministry right now. And we are waiting for them to approve this. We sincerely hope it does happen, but no one can say. But the all India -- all the Alakali Manufacturers Association, they are working on this and in conversation with the government on this matter.

Chintan Chheda: Okay. And sir on the supply side, so how is the industry point right now? Are we seeing some imports or how is that going?

Ajay Shriram: Fortunately, I would say that a lot of aluminum people and others used to import a lot in the past. But I think the industry also felt now it is better that why don't we supply them, especially when international prices are also better. So, I think a lot of manufacturers have got in touch and have a contract going with the aluminum users directly. So, we are supplying also, they're also supplying, they going by rake. So, there's a lot of material going. So, good thing is imports have come down, but exports have also gone up, which is also a positive sign because of the pricing. So, it's moving on both ways, but imports have come down.

Chintan Chheda: There would be some supply tightness for the industry for the calendar year '22?

Ajay Shriram: I don't think so, because the capacity in the country is quite okay. And people are running at a good rate of production. And I think in next four or five months, if you're not mistaken, there's an expansion coming up by Grasim and six months later by someone else. So, I think all these commodities if you see over the last 10 years, the capacity expansion keeps happening some way or the other. So, I don't see any tightness really happening too much across the board. They could be marginal for a short period of time because of some dislocation and movement or something, but there's adequate availability in the country.

Chintan Chheda: And sir secondly, the chlorine that we generate as a byproduct in caustic soda, okay, so how much of that we use captively and how much is sold to the outside market?

Amit Agarwal: See, Yes, so at Kota plant, where we have capacity close to 500 TPD of caustic there almost 40% has a captive sink with our PVC business right and at Bharuch where we have a capacity of 1350 tonnes per day there we have an aluminum chloride plant which is being expanded so that has a chlorine sink of about 4%. We are adding to the downstream there which will further add about 15% of chlorine sink. Also we are supplying almost 30%, 35% through pipelines to the chemical companies close by. So, there is significant sink that we have.

Chintan Chheda: Okay. But then this would be not more than 50% for us right combining both capacities?

Amit Agarwal: Combining both Yes it will be around including pipeline it should be around 50%, 55%, yes. Rest is sold in the market for HCL and things like that and to other manufacturers, in tonners.

Chintan Chheda: Okay, okay. And post this entire the Capex projects that we have undertaken, this will remain in a similar range or this will go up?

Amit Agarwal: Yes. It should remain in a similar range. And see our Capex is still about a little over a year away. And we are seeing a lot of growth happening in the chemical industry. So, we do expect this to catch up.

Chintan Chheda: And how's the market for chlorine recently? So, if there's been any change or it's still the same like it's difficult to sell or dispose of chlorine?

Amit Agarwal: See chlorine market for most part of the year has been good. Off late, yes, we've seen some softening in demand for various factors, because some of the consumer industries, their output levels have come down. So, chlorine see always has been a bit of a challenge, but it has been, as I said, good for last one, one and a half years. Of late, yes, there is some reduction in demand because of some consuming sectors. But that should come back is what we expect. But then we, as we said, we ourselves will are working on downstream utilization of chlorine, so that should help.

Chintan Chheda: And sir lastly, in your opening remarks, you mentioned that in our PVC business, there's been some supply which is started coming up from China and U.S. So, how has been that impacting our business?

K.K. Kaul: Yes, Yes. There's very little which is coming from China at this point of time, not more than 6,000 to 8,000 tonnes, practically nothing from U.S at this point of time. But in future, yes, it comes. It can have an impact. But China prices also continue to be high. So, today, globally, the prices are similar. They might be different between different regions, but all are -- everywhere the prices are quite high. So, we don't see that making any impact.

Chintan Chheda: Okay. So, you don't foresee major risk from imports into India, right?

K.K. Kaul: The imports are -- we still are largely -- our entire consumption almost 40% is met by the domestic producers, 60% still comes from imports. And that sets the price for the domestic producers also. It's always the domestic production which gets sold first. So, the imports, obviously, there is a delay in the time between their book and when it comes. So, we don't see that as a threat.

Chintan Chheda: That was really helpful sir. Thank you.

Ajay Shriram: Thank you.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj: Yes. Thanks for the opportunity, and congrats on a good set of numbers. Sir, the first question is on caustic front. So, in your opening remarks, you indicated that the demand has been impacted from paper and textiles in the month of December. How are we currently looking at after say three weeks of January in terms of overall demand, particularly from these two sectors, and generally, across the board, given that the pricing environment is still at an elevated level? Thank you.

Ajay Shriram: As I mentioned earlier that the growth in India is moving at 6%, 7% a year. And we expect that to carry on. Little ups and downs happen due to aberrations in each industry. Frankly saying I don't know exactly what is the figure of reduction in paper and all, but 6%, 7% growth is likely to happen in the coming year also which is going to keep the industry at a fairly even keel.

Rohit Nagraj: Alright, fair enough, fair enough. And sir similar question I think earlier was also asked in terms of the input cost and particularly coal power cost. So, we have seen again a similar situation as it was in Q2 -- in Q3. So, in current quarter has the power cost as well as the logistic cost alleviated to some extent or is it going into similar direction as it was in Q3? Thank you.

Amit Agarwal: Yes. So, see, as I mentioned in the previous question, that if I see YoY, the costs have gone up in excess of 50% on the overall variable costs front largely led by energy prices. Sequentially, they would have gone up in the range of 15% to 20%, 20% ballpark.

Rohit Nagraj: Yes. Sorry, I was asking from Q3 to Q4 that is current three weeks of January, are we seeing a similar trend what it was in Q3 or there has been some softening which is has been there?

Amit Agarwal: There has been -- so there has been a marginal softening. But you've seen again coal price is going up, but they are at least not as high as what we saw in November. So, it's difficult to say we are still in January. So, how would you pan out during the quarter, it will be difficult to say.

Rohit Nagraj: Sure, sure. That's really helpful. Fair enough, fair enough. That's very helpful. Thank you and best of luck, sir.

Ajay Shriram: Thank you.

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

Ajay Shriram: Thank you. Ladies and gentlemen, thank you for your participation in our Q3 and nine-month financial year ending '22 earnings conference call. We will continue to work on our strategic direction of growing our businesses using scale, multiple revenue streams, enhancing efficiencies and achieving higher integration. We will continue to make more strategic investments that augur well for the medium to long term growth of the company, while maintaining a healthy balance sheet. Once again, I'd like to thank you for taking time out and joining us today. Please take care of yourself and your family and follow all the precautionary advisory of the government, including proper vaccination. Once again wish you and your family good health and be safe and well. Thank you very much.

Moderator: Thank you very much. On behalf of DCM Shriram Limited we conclude today's conference. Thank you all for joining. You may now disconnect your lines.