DCM Shriram Limited
Q1 FY22 Earnings Conference Call
July 23, 2021

Moderator: Ladies and gentlemen, good day and welcome to DCM Shriram Limited's Q1 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

Siddharth Rangnekar: Good afternoon and thank you for joining us on DCM Shriram Limited's Q1 FY'22 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 – Wholetime Director and Mr. Amit Agarwal -- CFO of the company.

We will 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 begin, 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 morning, everyone, and thank you for taking the time to join us on our Earnings Call for the First Quarter of Financial Year '22.

I trust all of you have been keeping safe and healthy. Please take adequate precautions in terms of timely vaccination, masks, and social distancing.

I will share my thoughts on Operating Performance and the Strategic Direction of our Businesses. After that, Vikram will give you the Financial Perspective.

Our businesses have registered a healthy operating performance despite the challenges of the second wave of COVID-19 pandemic. This was enabled by better economic environment in Q1 financial year '22 versus the same period last year, as well as the strong business model. Each of our businesses has evolved over the period of time. I must mention that the dedication of our employees during the difficult times has been absolutely remarkable. Our focus on scale, integration and cost efficiency helps us in managing our businesses better in such an environment.

Continuing with the strategy, our Board has approved following new projects: One is an expansion of ethanol capacity with a new 120 KLPD, multi-feed, grain-based distillery at our Ajbapur factory. Second is optimizing the configuration of our under-construction 120 MW power plant at Bharuch to sell up to 90 tons per hour steam. Third is replacement of three electrolyzers at a Kota factory unit, which will be more efficient and based on the latest technology to reduce power consumption and will marginally increase capacity.

Further, we have now decided to initiate the expansion of 700 tons per day Chlor-Alkali capacity along with 500 tons per day flaker capacity at the Bharuch complex. That was put on hold because of uncertainties caused by COVID-19. All the steps will further strengthen our businesses.

With that I would like to share with you, the Business-Wise Key Developments:

Sugar:

Government policy for continued support to ethanol and export of sugar is reaping the benefits for the industry and the farmers. In sugar season 2021, sugar exports was about 7 mt and diversion of sugar to ethanol, using B-heavy molasses is about 2 mt. As a result, domestic sugar inventory is expected to come down to approximately 8 mt by September '21 versus 10.5 mt last year. We sold less sugar this quarter, since total sugar available for sale was about 36 lakh quintals versus 56 lakh quintals last year in the same period. Lower availability of sugar leads to lower allocation of monthly release quota by the government. Exports were low since we exported most of our sugar quota by Q4 financial year '21. And this year, no additional export quota was allocated. The quarter end inventory was 25 lakh quintals versus 34.5 lakh quintals in the corresponding period. Domestic sugar prices remain firm and are now Rs.3,250 to Rs.3,300 per quintal.

Our distillery volumes grew by 9% year-on-year. B-heavy mix was about 94% of sales volume versus 73% during Q1 financial year '21. Keeping in line with our focus and continued government support for ethanol, the new 120 KL per day multi-feed grain-based distillery at a capital expenditure of Rs.145 crore, has been approved by the Board. This is expected to be commissioned by Q2 financial year '23.

Chemicals:

The current quarter beginning saw demand recovering to pre-COVID levels. Our volumes on year-to-year basis was significantly higher, because in the corresponding period last year, there was lower demand and production as a result of the nationwide lockdown. Even sequentially, Q1 financial year '22 saw higher volumes by 5% despite some impact of the second wave on the demand during current quarter. Industry is operating at about 85% capacity utilization. The ECU prices continue to be at reasonable levels and international prices of caustic soda continue to remain firm.

The 120 MW power plant is expected to be commissioned by June '22 and is expected to bring further cost efficiencies in addition to asset optimization benefits by selling up to 90 tons per hour steam. This asset optimization will entail a capital expenditure of Rs.31 crore. 120 MW power plant along with the said modification will be implemented in Q1 financial year '23.

Earlier announced downstream projects are progressing as per schedule and will enable forward integration.

New investment for replacing three electrolyzers at a Kota chemical unit at a cost of approximately Rs.44 crore will reduce power consumption with marginal increase in capacity. This will be completed by Q4 financial year '22.

We will now start implementation of our 700 tons per day Chlor-Alkali expansion along with the 500 tons per day flaker, which was on hold due to uncertainties posed by the pandemic. This will further increase our scale and is expected to be completed by Q4 financial year '23.

Vinyl and Plastics:

PVC import prices has seen some correction to US$1,420 MT in May, June after reaching a high of over US$1,650 MT in April '21. Domestic prices are following international prices since more than half of the domestic demand is met by imports. Prices still remain attractive. The business manifested lower demand during the current quarter vis-à-vis Q4 financial year '21 owing to the second wave of COVID-19. However, it is likely to make up in the coming quarters.

Agri Input:

This segment covers Shriram Farm Solutions, Bioseed and Fertilizer business. During the first quarter, the rural areas were severely affected by the second wave of COVID-19. Further, delayed monsoon has caused sluggishness in sowing. Bioseed India operations saw impact of the pandemic and erratic monsoon particularly in the Institutional segment. Acreages have been lower. International operations continue to show good growth. We have taken steps to rationalize this business along with the product portfolio. Our research has a good product pipeline. This makes us believe that Bioseed India business will deliver satisfactory performance over the medium-term. All product categories of SFS had stable revenues. However, the main season for this business is the rabi season.

Fertilizer plant operated at 75% capacity during the quarter due to our compressor being out of commission. Plant is operating normally now.

Subsidy outstanding remains at lower level compared to the past trends. The subsidy outstanding as on 30th June 2021 is Rs.222 crore vis-à-vis Rs.650 crore as on 30th June 2020 and Rs.153 crore as on 31st March 2021.

Fenesta recovered to pre-COVID levels during second half of financial year '21. In Q1 financial year '22, there was marginal impact on volumes. Business is back to normal operations now. Fenesta is continuously focusing on accelerating the growth trajectory by improving geographical presence and product offerings in broad new PVC and system aluminum segment and enhancing customer service. Going forward, it will be our constant objective to invest in creating meaningful value-added opportunities for volume growth across our businesses, including adjacencies. We will continue to keep our balance sheet strong along with growing our businesses.

With this I would now like to invite Vikram to Discuss the Perspectives on our Financial Performance. Vikram, over to you.

Vikram Shriram: Thank you. Good afternoon, everyone. Let me start by sharing that given our improving financial performance over the last year, and plans to further strengthen the businesses, our long-term credit rating has been upgraded to AA+ from AA by ICRA. Our short-term rating is at A1+ by ICRA and CRISIL.

I will now take you through the Financial Highlights for our Q1 FY'22 Results. Net revenue during the quarter remained at Rs.1,957 crore versus Rs.1,912 crore during Q1 financial year '21. Revenue including excise duty on country liquor which started sales in this quarter was Rs.2,008 crore.

The Key Highlights on the Revenues are as follows:

Higher volumes in Chemicals and Fenesta business were due to a lower base in Q1 financial year '21 due to lockdown during the first wave of COVID-19 last year.

Revenues for Chemicals business is up by 76% at Rs.412 crore. The improvement was led by volumes and prices. Sequentially also, the business has performed better.

Fenesta revenues are up by 168% at Rs.108 crore. Quarter-on-quarter, the business witnessed marginal decline.

Vinyl business revenues stood at Rs.186 crore versus Rs.82 crore during Q1 financial year '21 primarily driven by prices of both PVC and Carbide. Volumes were also higher year-on-year during Q1 financial year '22 on account of lower base in Q1 financial year '21 as mentioned earlier. Quarter-on-quarter, the PVC sales volumes were lower by 34% and Carbide volumes were lower by 24% because of the second wave of pandemic. However, since the production was at normal levels, we expect to cover up during the rest of the year.

Sugar business net revenue, net of excise were down 26% year-on-year at Rs.563 crore primarily impacted by lower sugar and power sales volumes. Sugar and power volumes had a negative impact of approximately Rs.361 crore in the quarter. Domestic sales volumes stood at 10.5 lakh quintals versus 16.3 lakh quintals in this corresponding period last year. Export volumes were lower at 0.2 lakh quintals versus 5 lakh quintals in Q1 financial year '21. The reasons for the lower sales volumes have already been explained. Power volumes for Q1 financial year '22 were lower at 294 lakh units versus 634 lakh units last year due to current sugar season ending early by about 23 days versus the same period last year.

Higher distillery volume by 9% and the higher prices of sugar as well as ethanol were a positive for the business.

SFS Q1 financial year '22 revenues were marginally up by 1% year-on-year at Rs.212 crore. All product categories have stable revenues.

Bioseed India revenues were down 6% year-on-year. India operations were lower by 19% year-on-year at Rs.136 crore due to lower volumes on corn and paddy. Second wave of COVID-19 and delayed monsoon has impacted the volumes.

Bioseed Philippines witnessed a 69% surge in revenues at Rs.51 crore.

Fertilizer revenues were up 8% year-on-year at Rs.220 crore. Higher prices up 15%, a reflection of higher gas prices which are pass-through. Volumes were lower; 20% year-on-year as well as quarter-on-quarter as a result of the partial breakdown mentioned earlier.

Fertilizer revenues also includes amount of Rs.33 crore received for price submissions relating to previous years.

Coming to Profitability:

In Q1 financial year '22, PBDIT stood at Rs.300 crore, higher by 56% year-on-year. The key reason for higher PBDIT was higher revenues in Chemicals, Vinyl and Fenesta businesses, which were significantly impacted by the first wave of COVID-19 last year.

Sugar and Bioseed PBDIT were impacted in current quarter due to lower revenues. Margins on sugar as well as ethanol were better. However, overall PBDIT margins were lower year-on-year since crushing was for 14-days versus 37-days in the same period last year and quarter-on-quarter also it was lower since crushing in Q4 was 90-days versus 14-days in Q1 financial year '22. This impacted the costs charge to profit and loss for the period and are loaded onto inventory during the season.

Chloro-Vinyl and Fenesta businesses faced cost pressures due to rising commodity prices. PAT for Q1 financial year '22 stood at Rs.158 crore versus Rs.69 crore during Q1 financial year '21.

On the balance sheet front, net debt at 30th June '21 stood at Rs.122 crore versus Rs.1,167 crore as of 30th June last year and Rs.180 crore as at 31st March '21. The reduction in debt over June '20 is a result of lower sugar inventory and significantly lower urea subsidy outstanding. Government companies' prudent approach towards capital expenditure and working capital management across businesses also led to lower net debt. ROCE came in at 20.8% for first quarter '22 versus 18% for first quarter financial year '21.

Overall, we started the new fiscal year on a steady footing. Balance sheet position remains strong and will ensure healthy liquidity position, at the same time enabling us to carry out all the required capital expenditure programs and growth programs which are underway and under development.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Chirag Sureka from DSP Mutual Fund. Please go ahead.

Chirag Sureka: My question was on the debt profile over the next one, two years. You've made significant progress in reducing debt levels. But given the Capex, would you envisage a substantial increase in debt level for the next two years? The rough math that we have worked out is about Rs. 700, 800 crore. So, I just thought I will hear your comments on that.

Amit Agarwal: You're right. By this year-end we should be close to that number. But then progressively, we have to see what our Capex plans are. For this year-end ballpark this should be the number.

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

Rohit Nagraj: Sir, my question is on Chlor-Alkali. So, what has prompted us to relook at the expansion plans? And if you could just give us what has changed in terms of dynamics for the segment in the last three, four months? And in terms of domestic dynamics, are there any more players who would be putting up the capacity, so how is the competitive intensity scenario?

Ajay Shriram: The Chlor-Alkali business, you're right, we took a view about a month ago that we will go ahead with this project now. There are two, three reasons. One is link to our 120 MW power plant also, which will give us economical power price by which our cost of production will be very competitive, that is one advantage. Second advantage is now besides caustic soda chlorine, we also have hydrogen, and hydrogen is again a value-added product, which is being sold to various customers around us. So, that also contributes to the bottom line. And thirdly, we felt that really getting economies of scale. at a single location today also, with 1,350 tons a day location in Gujarat, we are the largest single location plant. This will become 2,000 tons per day plus, that will give us economies of scale, which will again give us an advantage compared to competition. So, we took a view its better to get into it, because something or the other, in commodities little up or down will always happen. But are we competitive, are we world-class, that is the criteria, and we think that putting in this investment, putting in this expansion with the power plant will give us an edge to be world-class. So, that's why we took this decision.

Rohit Nagraj: Any other capacities which are planned, and which may come up along with our capacity?

Ajay Shriram: I think there are a couple; Meghmani is coming just now. I am not aware of anyone else coming right now. I think couple of them are coming in this year. If I'm not mistaken, I think Aditya Birla Group is doing a little bit and Meghmani is doing something, but you never know, I mean, these are businesses where the growth happens. For instance, we had the advantage that NALCO and BALCO which are the two aluminum manufacturing plants in India, were importing caustic soda earlier, they are now buying from the domestic market. So, that's created its own demand. So, like this, the market keeps changing. But I think our objective of being competitive and being among the lowest cost producers, that is what we are trying to achieve continuously.

Rohit Nagraj: Second question is on the PVC front. So, we have seen the prices coming off? How are we looking at the domestic demand and the pricing scenario generally for the next foreseeable future?

K.K. Kaul: Demand has recovered a bit which had come down in June and July it has recovered and we hope in coming months it will recover further. In terms of prices, which had seen a bottom sometime in June, have also recovered, and we believe they will recover further in the coming months, and we are expecting it to go by another $40, $50 at least in the next one or two months and stay for at least two more quarters.

Moderator: The next question is from the line of Karthik from Unifi Capital. Please go ahead.

Karthik: Sir, just wanted to quickly follow up on the Chlor-Alkali expansion that you mentioned regarding the 120 MW power. So, how exactly you know is it adding to the economic power pricing like is it to do with replacement of coal and we are going with some other technology or can you elaborate on that, sir?

Ajay Shriram: Actually, if we don't put up our own power plant, we have to buy power from the grid which is from the Gujarat State Electricity Board, there the cost of power is Rs.7-plus, whereas if we put up our own power plant, cost of power is much less. And, as you are aware, the coal price in the international market also fluctuates up and down and we get only imported coal for our Gujarat factory, so, whenever it comes down a little bit, we have an added advantage over there. And the third point is that the 120 MW plant coming up, as technology is keeping on improving, each new plant we put up is more efficient than the one we put up two years ago. So, this plant is more efficient and the cost of producing power is lower than what it would be for the older plants. So, that gives us an edge again. So, it is a coal price issue, it's our rate issue vis-à-vis the state government, where we will have to buy it if we didn't generate our own power, and, of course, the efficiency of a new plant.

Karthik: With the expansion you already mentioned regarding hydrogen, it will give us more of hydrogen, which will help us in economies of scale and hydrogen peroxide expansion?

Ajay Shriram: Hydrogen peroxide plant is still under implementation. That's a new plant and the new value-added business down the line. We are going into hydrogen peroxide. We're going into ECH and glycerin purification thereon. So, we are looking at these projects for value add down the line any case, but more hydrogen is also a good thing because there's a good realization for that too.

Karthik: Have you finalized on the technology for ECH because in the last call you mentioned you are more or less there?

Ajay Shriram: Yes, we have finalized.

Karthik: Just to touch upon the sugar inventory situation that was mentioned that led to lesser sales this time, and I see that the monthly quota allocation for DCM in July has gone up to almost 4.1 lakh quintals. So, how do we see it for Q2, I mean, given that the inventory level was even further down from March, do we expect better sales coming in for this Q2?

Ajit Shriram: See, basically, as far as the sugar inventory is concerned, as it was mentioned in the opening remarks, the total sugar available for sale was 36 lakh quintals this year versus 56 lakh quintals last year. Now, the release mechanism is such that it is proportionate to the stock level that you have. So, it's very difficult to sort of quantify what the release would be for the following year. Because this also involves how much B-heavy you divert it for manufacturing of ethanol, that gives you a little additional release. So, there're so many factors which are involved in the factory wise release. We have 4.1, 4.2 lakh quintals this month as you mentioned. It will be difficult to quantify what will happen next month or the following, but it will be in line with all the other companies as a percentage on a broad level.

Karthik: On a year basis, I get it, like it hovers around that region. But on a monthly basis, we do get allocated and by the Ministry of Food, the list is released. I'm just trying to understand what are the factors other than the inventories because if it's just the inventory, as you said, being lower, affects it a lot, because our inventory currently is even lower than Q4. So, I'm just trying to understand if that will have a greater impact in this quarter?

Amit Agarwal: You need to look at it from the perspective that having a lower inventory, even the same period last year, we had a lower inventory because we sold more. So, that function of lower inventory will continue, that delta of lower inventory is there in both the periods. But then the other factor also is what is the level of demand that the government is looking at? That is another factor which will play a role in terms of allocation.

Karthik: Incrementally, for this quarter, there's a better demand, we could see better results and it's sort of like in July, the allocation was higher, you're saying better demand environment might have….?

Amit Agarwal: That's the reason why it's difficult to really give you the numbers. But yes, what is available for sale does make an impact, but doesn't mean that it will be linear.

Ajit Shriram: As far as demand also is concerned, it depends on the festive seasons. So, I mean generally in September, October, the releases are a little higher than they are in July, August.

Karthik: In ethanol, we had a very, very good quarter with 94% conversion for B-heavy. Are we expecting this levels to go forward because generally, we are around 60 to 70. So, what's the outlook in that particular segment?

Ajit Shriram: We plan to maximize our B-Heavy to ethanol going forward. So, as was mentioned, it was about 70%, same period previous year, we've increased that to 94% in present quarter. Going forward also, we will maximize our B-heavy to ethanol.

Karthik: Because that directly does affect our inventory also going forward. And that's why I was curious if there is any management in that front, where you get into a situation where you have to probably cut down on the B-heavy?

Ajit Shriram: No, For example, in the previous sugar season, we diverted 4.5 lakh quintals of sugar equivalent to B-heavy and this year, we've diverted 7 lakh quintals of sugar to B-heavy. That's the trend going on. And we will try and maximize B-heavy to ethanol.

Karthik: In country liquor, as net revenue, we had Rs. 50 crore coming in from this quarter. Do you have any sense of the margin contribution from that side?

Amit Agarwal: The net revenue on country liquor was only about Rs.5 crore because total sales was close to Rs. 56 crs, out of that, majority of it is excise duty. So, initial stages to give you a margin, because we're just getting into the market, we're creating the market. So, very difficult to give you a margin number, too smaller revenues.

Karthik: You expect this sort of a volume to carry forward in coming quarters, right?

Amit Agarwal: Volume should improve. Given that there was COVID, the volumes were lower. But there is a seasonality factor here as well, depending on monsoons and things like that, but definitely, volumes will improve as we go forward, but it will always remain a small part of the overall business.

Karthik: Regarding this new ethanol plant that's coming up with grain-based, you mentioned it to be multi-feed, but just trying to understand what percentage of it will be from probably grains from the broken rice, do we have any sourcing proposition there and what's the margin level that we are expecting from that plant?

Ajit Shriram: As far as sourcing of grain is concerned, we are planning to use broken rice and there's adequate availability of broken rice in our region. So, we are not seeing that as an issue. And also, as mentioned, it's a multi feed distillery plant. So, we can use cane juice, we can use B-heavy, we can use broken rice, we can use wheat, or sweet sorghum and maize. So, there are many options as far as the feed is concerned.

Karthik: What's the margin level we expect from this plant – will it be very similar to the one we have already in sugar?

Amit Agarwal: The EBITDA margin should be in the range of around 25%.

Moderator: The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Sir, a couple of questions. First is on this caustic soda where you once again are making the decision to go ahead with the Capex which was put on hold because of the change in management. Is there any change in structural dynamics of the country like in most of the other countries, the Chlor-Alkali is mainly driven by the chlorine pricing while the caustic soda is driven more as a byproduct, while in India, it's opposite of that because of the less usage of the industrial chemicals and chlorine-based derivatives. Do you see that there are changes happening in the industry because the downstream chemicals are rising, many specialty chemicals are increasing their capacity, you also mentioned that you are seeing very strong demand for hydrogen peroxide and hydrogen-based derivatives,, so is there any change in this Chlor-Alkali chain in India, where going forward over the next two to three years, the pricing of Chlor-Alkali will be more dependent on chlorine and chlorine-based derivatives rather than caustic soda, that will make this Chlor-Alkali chain more a stable product line rather than a commercialized product line.

Ajay Shriram: Just to add to what you're saying is that, in India frankly speaking even today caustic soda is the main product. For instance, in the last couple of months, we've seen chlorine prices have softened a little bit that has actually happened. And I think a couple of reasons for that is India is now getting more well versed in exporting caustic soda, whether in lye form or flakes form. So, that's also an advantage where we can get into the international market, for instance, there's a contract recently signed between three, four manufacturers to export 25,000 tons of caustic soda lye to the international market, that's also moving. We ourselves last year exported about 30,000 tons of lye and flakes or 35,000 tons. And this is expected to go to 60,000, 65,000 tons. So, I'm saying the international market is also picking up and we export the caustic soda lye and flakes. Both of them started moving, which is a good thing. Commodity is a commodity. There will be tugs and pulls. But in India, we are seeing caustic soda is still the main product. Chlorine consumption is going up a little bit. But it's very difficult to say like international market, you are rightly saying that chlorine becomes the main product and caustic is more like a byproduct. But India still the other way around and I think it's going to carry on for some years.

Rohan Gupta: But despite rising demand for hydrogen and hydrogen peroxide and down the line, you don't see that there will be any significant change in the Chlor-Alkali chain in India for next three to four years?

Ajay Shriram: It's very difficult to say. It depends what sort of value-added chemicals come into the country where the chlorine demand goes up a little more. Hydrogen is a separate product, which goes into hydrogen peroxide plus, it's got its own uses across the board. We have four, five customers who take pipeline hydrogen from our caustic soda factory in Gujarat and they use it for various other products. So, hydrogen has its own set of uses, that's separate. Chlorine has its own set of uses and caustic soda has its own certain uses. So, it's very difficult to give any prediction as to what would be the priority two years or four years down the line.

Rohan Gupta: Right now, I think our chlorine captive use is roughly 30% and with the plant coming in, it is likely to go up to almost 50% to 55% consumption in-house for the chlorine, right?

Ajay Shriram: Yes, it will go up because we are expanding our aluminum chloride plant also from 60 tons a day, we are going up to 150 tons a day. So, that will also increase the chlorine consumption. And Epichlorohydrin is also going to come up by Q4 FY23. That'll also start taking chlorine. So, chlorine consumption in-house will keep going up.

Rohan Gupta: It may go to 50%.

Amit Agarwal: Let me just correct you. What CMD said is right with our chlorine downstream projects coming up, our consumption will go up. So, currently, if you look at Bharuch plant, if we exclude HCL, then our captive consumption is around 4%, that will go up to around 21% once these plants come up at existing capacityand once the new capacity comes in, and assuming the aluminum chloride and ECH which will consume the chlorine, they remain at the same capacity levels, then the overall captive consumption will be around 14%. And the chlorine captive consumption in our Kota factory is in the range of 35% to 40%.

Rohan Gupta: Second question was on your grain based distillery where you have already mentioned in earlier concall that you just don't want to be based on sugar cane, but also want to go the multi grain distillery. Given that your company has a solid cash flow, and we keep on ringing cash flow going forward, do you see that the grain-based distillery of 120 KLD is just on a pilot project and if it works and dynamics work, then there is a huge opportunity for you as a company to put up the suspension and keep on adding more grain-based distilleries in future. Just wanted to know your thoughts on that?

Ajit Shriram: Government's been extremely proactive on the ethanol front. As you're aware that they have brought forward the 20% blending target for all India basis from 2030 to 2025.. Now even to achieve this target from our current 8% blend to 20% blend is a huge, huge challenge. So, yes, lot more distilleries are in the pipeline today. We are expanding our distillery and we do hope to expand further. But it will be a bit difficult to comment at this point of time, because we have to first discuss internally. Yes, there's a very good opportunity over there.

Rohan Gupta: What was the dynamics of this grain-based distillery, is it similar to what we had in a sugarcane distillery, which was I think three to four years of payback period?

Ajit Shriram: Basically, I mean, you have to have catchment, the distillery part is identical to your cane juice or the sugar distillery, there's only one catchment which you have to add in the beginning to process the grain into powder and take it forward.

Rohan Gupta: My question was straightforward that what will be the payback period for the grain-based distillery assuming that the grain is within the catchment area.

Ajit Shriram: We're looking at is 30% ROI.

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

Nirav Jimudia: So, I had two part questions. First on the chemical side. So, we have reported something around Rs.92 crore of PBIT from the chemicals division. So, this includes both your caustic as well as the value-added product contribution. So, if you can help us explain how much is the contribution from the value-added products like aluminum chloride, hydrogen and SBP, I think these are the three value-added products currently in our portfolio. So, this is one. Second is on, you mentioned prior that we rely on the imported coal for our power plants. So, if you help us understand like, because the coal cost has gone up in the international market. So, how do the dynamics works like if we consider $5 to $10 increase in the coal cost, how does it impact our generation cost in rupees per unit? So, let's say if our generation cost currently is Rs.4.50 and if coal cost goes up by $10 in the international market, how does it impact because it also depends upon the calorific value if I presume it correct?

Ajay Shriram: Yes, I'll just take one and then I'll ask Amit to give the others. You're right, that one is we get coal generally of 5,000 CV. So, that is a sort of a fixed benchmark, you don't alter that too much, the particular sulfur content and with a particular NOx, SOx, etc., But that is as per the pollution control norms. The flue gas has to be of a particular quality. So, that is a benchmark which is there straightaway. You're right, in the last couple of months, the coal price from Indonesia, where we get a lot of coal, has gone up from about $70 to $90. So, that has an impact. Amit, what is profit breakup of the chemicals business.

Amit Agarwal: The contribution by the value-added products on total EBITDA, this quarter it would be around 25% coming from the other products, other than lye but this percentage will keep varying, depending on what we are realizing on the core chemicals that is caustic soda and chlorine, and driven primarily by hydrogen. On the generation cost of coal of power, we generally don't talk about what is our cost of generation, but yes, it is very competitive and that is the reason why our margins have been good. And even the times when the ECU went down to around 20,000, 21,000, still, we will be making reasonable margins, that will be driven by the fact that the power costs are reasonable which is almost 65% of the total cost of production.

Nirav Jimudia: Sir, my second question is on ECH. So, what we have seen in last couple of months, that ECH prices have been moving up continuously, probably driven by the Epoxy prices, because I think that's a main application for ECH, and I think they've gone up by 50%, 60%. So, just want to check on the raw materials like, how do the glycerin prices have moved up in last few months? And what sort of agreements do we normally enter or are we intending to enter for the glycerin, because I think we will be importing crude glycerin and we'll be refining here….

Ajay Shriram: I want to just clarify that we are in the process of putting up the plant. The plant will take another four quarters. So, we have not got into the details yet.

Moderator: The next question is from the line of Vinod Chandra Agarwal, who's an individual investor. Please go ahead.

Vinod C Agarwal: I just want to know about the detail plan on the ethanol production side or the ethanol category addition side because as you know, the government has approved a lot of applications. So, is there any timeline to complete those applications that we have made for the future expansion?

Ajit Shriram: As mentioned earlier, the current 120 KL plant which has been approved by the Board will be commissioned in Q2 of FY'23.

Vinod C Agarwal: Outside of the 120 KL, is there any plan to expand further because government has a big ambition to achieve that and we also made bigger applications right to expand there, that was only the applications what we have made to the government that we want to achieve in the future, but right now, we are only proposing whatever we have applied, because in the least what I see where we have got the approval of the interim subvention scheme, there a bigger chunk of ethanol plants is there which we have proposed, but right now, we are only proposing 120 KL and I think government also has a deadline to complete after getting the approval of that scheme, so just wanted to know that what is our plan to complete like those whatever we have proposed to the government?

Ajit Shriram: Mr. Agarwal, just to clarify, we are looking at the growth of the sugar business along with the ethanol and other chemicals on a continuous basis. Our cane development efforts are on, and we do hope to continually expand our existing factories, and along with that, we will look at a further expansion of ethanol going forward.

Vinod C Agarwal: Sir one another thought on the power plant which you are adding in that you said that the cost could come around Rs. 4 to Rs. 5 so I just had a thought, I am not sure about how the dynamics works on that, but as you know that the solar plant provider they just billed the amount around Rs. 2 to Rs. 3, so why cannot we purchase directly from those type of producer who can provide for Rs. 3 a plant. I know it will work only for a day time, but is there an issue that we cannot purchase directly from that solar plant provider and solar energy provider rather than the Gujarat Government or the Gujarat Power?

Vikram Shriram: I think at present regulations for purchase of power and the charges levied by the state electricity boards for transmission, distribution and cross subsidy are still under formulation. So, we are always actively looking at that as an opportunity but because of the heavy cross subsidy charges and transmission charges, at present it is not viable. We are watching the policy and we are watching it very closely in terms of opportunities for whether purchasing or going forward putting up our own plants in a distant location, viable location and transmitting to ourselves we are looking at all options.

Vinod C Agarwal: Just one last question about the chemical sector as you know that right now everyone is looking for ‘‘China Plus One’’ strategy, so in that sector do we have any plan to expand in those type of chemicals which will benefit that ‘China Plus One’ thought or the theme?

Vikram Shriram: I think we are looking both from the ‘China Plus One’ and we are looking at other opportunities also. So, we are looking at multiple opportunities in the chemical area and in the course of the next year or so 6 months things will start getting firmed up and taken up and approved by the Board. So, the plan is to look at further growth in chemical sector and we are looking at multiple opportunities.

Moderator: Thank you. The next question is from the line of Aasim Bharde from DAM Capital Advisors.

Aasim Bharde: Sir I had two questions both on the PVC business talking to an earlier participant you talked about PVC prices would remain firm for the next two quarters at least, but can you talk about how is the supply situation globally at the current juncture and if you could also comment on the visibility of supply for inputs that go into producing PVC?

K.K. Kaul: Yes in terms of supply side constraints which have been due to operational issues with some of the US producers and also in China the domestic producers has slowed down due to electricity usage restrictions in China and China is also coming to the global market increasingly for importing PVC so there the significant inquiry is coming from China for PVC imports. Recently also there have been some flooding issues in Europe largely in Germany and Belgium which also likely to effect the production issues in the European market. In terms of supply side, the constraints would continue. In terms of strong demand for PVC and the US markets where exports from US will also remain restricted. So, we expect that the Asian offers would largely go to China, so the global market is expected to be seeing supply side constraint and the prices are likely to remain firm as they are today. Some of the freight issues are also still high so the importing prices will continue to remain high.

Aasim Bharde: But on the supply side for inputs for PVC, is there a supply constraint there as well or there not much of a problem?

K.K. Kaul: Ethylene EDC which is largely globally the material for the PVC production there do not seem to be any constraint in that. So, margins in PVC are good, it will get diverted from the other petrochemical products which have been made. So, we do not see any raw material side constraints, but in China yes because of the electricity usage restrictions, the carbide-based PVC is likely to come down because the carbide prices in China have gone very high and the China the raw material constraints particularly in the carbide-based PVC would be high.

Aasim Bharde: But still fair to assume that for a while given the PVC prices would be higher, but on the raw material side things would not be that of a problem margins will still be higher for you guys at least for this business?

K.K. Kaul: Like it was mentioned for carbide-based PVC, power is the main raw material. So, increase in coal prices is happening that affects our cost also but that is more than offset by the price that we are getting today.

Aasim Bharde: I think you just slightly touched upon expanding capacities in the Chemicals business, would you be looking to increase any capacity in PVC in particular?

K.K. Kaul: As we said it is still under evaluation, so I do not think we have firmed up anything as of now.

Aasim Bharde: And would you be aware if any competitors in the domestic market are planning to expand capacity?

K.K. Kaul: Not the current manufacturers, possibly from last projects have been announced which are very big mega projects, but in the current manufactures we are not aware about any expansion plans.

Aasim Bharde: Just for my knowledge if someone want to setup a capacity right now the lead time to set it up would still be long like a 1.5 or 2 years long?

K.K. Kaul: Yes, it would be of that order.

Moderator: Thank you. The next question is from the line of Navneet Bhaiya who is an Individual Investor. Please go ahead.

Navneet Bhaiya: My question was on the CAPEX intensity, so currently based on the projects that we have announced we are doing about a 1,100-odd crore per annum with hopefully the COVID uncertainty reducing and our cash flows are pretty strong, balance sheet is also in a strong shape, do you see any scope of this increasing being a little more aggressive in terms of CAPEX intensity?

Ajay Shriram: I will just put it this way that the total projects which were decided earlier of 120 megawatt plus the epichlorohydrin, hydrogen peroxide, expansion of aluminum chloride, etc., and the new one which is decided by the Board four days ago our total CAPEX is in the range about Rs. 2,325 crore and it is not actually an annual figure. It will peak at sometime because all these projects are moving simultaneously. So, it is something which we are keeping a track on. We are wanting to keep our balance sheet strong. Yes, we will have to borrow money we will do that, but our cash flow year-on-year will take care of the position of meeting our financial requirements.

Amit Agarwal: In terms of announced CAPEXs we are spending about Rs. 2,400 crore approximately over period of next two years. So, in terms of timing that will vary whether we spend 50-50, but then as mentioned in the beginning of the call as well assuming CAPEX goes as we have planned, this year end our debt level should be around Rs. 700 crore.

Navneet Bhaiya: Net debt?

Amit Agarwal: Yes.

Navneet Bhaiya: So, which will still be quite comfortable so my question was do you see a scope of increasing the intensity beyond 2,400 divided by 2 is 1,200 crore so do you see that increasing over time because COVID uncertainty hopefully it should also reduce, and our balance sheet is pretty strong right now?

Vikram Shriram: We are starting various growth opportunities and we are looking at various opportunities in all our businesses possibly except urea and possible except cement. So, we expect growth opportunities to start maturing and being taken to the Board as they mature. So, from next financial year onwards yes, there should be additional CAPEX.

Moderator: Thank you. The next question is from the line of Tejas Sheth from Nippon India. Please go ahead.

Tejas Sheth: On the grain-based ethanol would the realizations be similar to C-heavy or B-heavy?

Amit Agarwal: The realization for grain based is Rs, 51.55 per liter. So, depending on the feedstock the realization varies.

Tejas Sheth: On the Chlor-Alkali expansion of 700 TPD, in our earlier interaction you had stated that it will take nearly 9 months to 12 months once you people finalize, but the current timeline you have mention is Q4 FY23 so that is like more than 18 months to complete the project, why is there such extension in timeline?

Amit Agarwal: What we had mentioned Tejas was that it should take about 15 months to 18 months because that was the time we were expecting even around that time. 18 months from now is more of an upper limit because we have just decided in this month itself that we want to go forward and then finalizing the plans and all that also will take a month or so and then the ordering and all that will start that means it also needs to be covered up. I think 18 months that is a reasonable number to be very sure of that and we do not want to over pace it either Tejas. If you look at the other capacity coming in we want to ensure that when we come in we do not flood the market. The market should be able to absorb. So, we have done our calculation in that perspective also.

Tejas Sheth: On the realization of caustic soda, there is huge gap between the import prices and the domestic prices, so how do we see those prices movement over next three, four quarters? Would the import is expected to come down or you expect that the domestic prices will move up and be at import parity?

Ajay Shriram: I think the prices generally are at import parity. They will move in that range and as I mentioned earlier India started exporting a lot more consisting of lye and flakes which gives the advantage of not having too much excess capacity being sold in the domestic market. Plus these aluminum manufacturers have started buying from here rather than importing caustic soda because caustic soda prices also did go up a little bit. So, I think the prices keep varying and one is international price varies the domestic price varies depending upon supply and demand and what is the export potential which happens. So, I think these are the variable parameters which determine how the pricing happens.

Tejas Sheth: But once things organize you see realizations at around Rs. 25,000, 26,000?

Ajay Shriram: Yes, I think we do feel we are in the range of Rs. 23,000 to 25,000 even today and it moves in that range. So, we are hoping that it will stabilize at this range.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: My question is on when our expansion plant materializes in totality or by step by step, what would be our return on capital and return on equity as on 31st March 2022 and as on 31st March 2023 taking into consideration the present situation?

Vikram Shriram: It is difficult to forecast an accurate number.

Shanti Patel: Not accurate approximate.

Vikram Shriram: I am not giving an approximate number I am just saying it will be well above the cost of capital and it will be a satisfactory return on ROCE.

Shanti Patel: But do you think that it will go up as compared to what is today?

Vikram Shriram: It is very difficult to forecast in commodity businesses and there are multiple newer projects being commissioned and capital intensity is going up, but you will understand that directionally we aim to maintain a higher ROCE.

Ajay Shriram: Shanti Patel ji I just mentioned who would have ever thought Corona will come and look at the impact of Corona, there is a second wave which has come, they talk about third wave. So, one has to be realistic to see what is a market also and what is a business environment.

Shanti Patel: That I agree with you that is why I told keeping into consideration the present situation.

Vikram Shriram: So, it will be a satisfactory and balanced approach so that even if they have problems we do not have severe problems and if things are satisfactory we are doing well.

Moderator: Thank you. The next question is from the line of Shrenik Bachhawat from JM Financial. Please go ahead.

Shrenik Bachhawat: So basically recently as we have seen PVC price increased by Rs. 2 from 15 July so I wanted to understand as you are seeing Rs. 19 drop in PVC in the last two months but now suddenly it has started increasing, so what has changed like what is the key reason you feel about it?

K.K. Kaul: See we have seen peak of about Rs. 130 a kg today, we are at around Rs. 118, Rs. 119 a kg even Rs. 120 also. So the drop happened because of the demand reduction in the second wave of COVID, particularly in the month of June. Now in July this demand is gradually recovering up so are the prices recovering up. We have seen as low as Rs. 110 realization, now it has gone to Rs. 120 and we expect it to go by another $30, $40 as we go along because the demand is picking up, but still much less than the pre-COVID period kind of a demand.

Shrenik Bachhawat: And sir demand is coming mainly from housing segment, or do you have any other?

K.K. Kaul: It is coming from both in the housing and the pipes. The pipes is the largest consumer as well as the cables profile, so it is coming from almost every sector, and we have seen a significant drop particularly in the month of June so it is recovering now.

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

Karthik: I just wanted to understand when you said the new ethanol plant being a multi-feed, but can you assume safely that 90% would still be from broken rice at least to have a ballpark figure?

Ajit Shriram: It is difficult to say 90% or 80% I mean our aim is to actually try and run it on as much on broken rice as possible. We are exploring options of using cane juice as well and if that is workable in terms of economics, we may use cane juice to also diverse sucrose into ethanol and reduce our sugar stocks. So, it is very difficult to give a percentage forecast Karthik.

Karthik: Sir regarding one touch point on fertilizer, it was mentioned regarding the breakdown put our capacity utilization only at 75% so do we expect this sales to come back in this quarter because generally Q2 is quite heating up is my understanding, are we seeing the volumes back?

K.K. Kaul: Yes, that equipment which had broken down that is now restored. So, we expect this quarter we should be going back to the normal full production.

Moderator: Thank you. We take the last question from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Sir just one clarification on this CAPEX of Rs. 2,100 crore including this Bharuch Chemical Complex so we have seen quite a sharp rise in commodity prices steel, aluminum and all these commodity prices have gone up almost 60% to 100%, sir just wanted to review your CAPEX plan, will this CAPEX numbers remain the same or there is any significant changes which are there in CAPEX outlook?

Amit Agarwal: See given the prices we are reviewing now because there may be some marginal impact we are reviewing the numbers so we will come back with the exact amount.

Rohan Gupta: Sir if we refresh as of now this 120-megawatt power plant I think it was earlier some Rs. 450 crore, are we reviewing those numbers right now?

Amit Agarwal: As I said we are reviewing it for this 120 megawatt there may be some increase, but those increases will not be significant, and it also does not significantly impact the return that we have targeted. So if you remember our hurdle rate generally is around 25% so we still be in that range.

Moderator: Thank you very much. That was the last question I would now like to hand the conference back to the management team for closing comments.

Ajay Shriram: Ladies and gentlemen thank you very much for your participation in our Q1 Financial year 22 Earning 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 also ensure that our balance sheet and cash flow remain strong. With key capital investments announced earlier and recently of approximately Rs. 2,350 crore, we are poised to report better outcomes in the times to come. Once again, thank you very much and we wish you safety and health during this difficult time of Corona. Thank you so much.

Moderator: Thank you very much. On behalf of DCM Shriram Limited that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.