DCM SHRIRAM

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SCRIP CODE : 523367	**SCRIP CODE : DCMSHRIRAM**

Sub : Analyst/Investor Call Transcript

Dear Sir(s),

Pursuant to Regulation 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the call Transcript of the Investors Earning Call on Audited Financial Results (standalone and consolidated) for the quarter and year ended March 31, 2022 held on May 09, 2022.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For DCM Shriram Ltd.

SHRIRAM LIMITED NEW DELHI DCM

Sameet Gambhir
Company Secretary and Compliance Officer

Dated : 13.05.2022

DCM SHRIRAM LTD.

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DCM Shriram Limited
Q4 & FY'22 Earnings Conference Call
May 09, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q4 & FY'22 Earnings Conference Call of DCM Shriram Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to 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 Q4 & FY'22 Earnings Conference Call.

Today, we have with us Mr. Ajay Shriram -- Chairman and Senior Managing Director; Mr. Vikram Shriram -- Vice Chairman & Managing Director; Mr. Ajit Shriram -- Joint Managing Director; Mr. K.K. Kaul – Whole-time Director; and Mr. Amit Agarwal -- CFO of the company.

We will begin the call with comments from the management Mr. Ajay Shriram and Mr. Vikram Shriram. Members of the audience will get an opportunity to pose their queries to the management following these comments, during the 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 afternoon everyone and welcome to our fourth quarter and annual earnings conference call for FY'22. Trust each one of you and your families are keeping safe and are in good health. I will focus my thoughts on the strategic aspects of the business and operating environment and Vikram will share notable highlights of our performance.

We are pleased to report robust set of numbers during the quarter and for the year as a whole. The operating environment was challenging in terms of high input costs and supply chain disruptions. This was managed well by our businesses and we had steady operations supported by higher product prices and demand. Chloro-Vinyl, Fenesta and Shriram Farm solutions businesses performed better, however Sugar and Bioseed India business had lower earnings.

Our Capital expenditure plans in Chemicals and Sugar, aggregating to about 3,300 crores are progressing well and will be commissioned within next 12 months. These will drive augmentation in capacities, value-addition through forward integration, and cost optimization. There are cost increases led by increase in metals and cement prices, however, we have reconfigured the projects to ensure that expected returns remain reasonably strong. Further, our Board has approved new projects amounting to ~Rs 92 crs in Shriram Farm Solutions, Fenesta and Chemicals business in our last Board meeting. These investments will position the business favorably for long term, with enhanced scale of business, making them stronger & competitive and enabling future growth. We expect our balance sheet to remain healthy during the current capex cycle as well as going forward. I would now like to talk you through the business-wise key developments:

CHEMICALS:

Global industry has witnessed regional output imbalances over the past year resulting from factors like hurricane in US, dual control policy in China, and Covid 19. USA and China have seen healthy recoveries in the recent past however, there are some near term supply disruptions expected as a result of lower operating rates in the US and Covid-19 in China.

Geo-political factors have driven the energy prices significantly higher and are expected to remain firm in near term. Q4 FY’22 saw the average import prices of Caustic Soda again going up over USD 700/ MT, post seeing some softening in Dec’21 and Jan’22. Higher input costs were outweighed by higher product prices, and we expect similar trends going forward at least in H1 of FY 23, however, the margins have little degree of uncertainity.

Domestic demand has seen steady built up during the FY’22. Our capacity utilization levels have improved over the year from 84% in Q1 to 97% in Q4. Caustic demand is expected to remain stable, however, chlorine was oversupplied during the Q4 and continues to be impacted in the ongoing quarter. There are significant capacity additions of almost 1 mn MT in next 12-15 months, which may have an impact on capacity utilization levels as well as domestic prices.

Good thing this year has been that exports had picked up a lot and witnessed a 45% increase to 2.9 lac MT from 2.0 lac MT in FY21. We expect that exports will gain further momentum in the coming year.

As I mentioned that in our Chemical business, the value added projects and expansion projects are moving well. We have Aluminum chloride expansion project, new plant for ECH, new plant for H_2O_2, additional power plant. This additional power plant will be commissioned in second quarter this year. Caustic expansion by 850 TPD is expected to commission by Q1 FY24.

VINYL:

Momentum in demand has remained strong domestically and globally given the gains in consumption levels post easing of Covid-19, led by construction industry.

Pricing of PVC has been stable at around USD 1,550 after softness seen in the Nov'21-Jan'22. Global supplies are getting restored and demand expected to get impacted by increase in interest rates especially in US, which may impact the product prices. India PVC prices are driven by the global prices as ~ 55% of the India demand is met by imports.

Costs of key inputs is expected to remain firm in the coming months as well. The current geo-political situation has led to environment remaining volatile.

SUGAR:

Domestic sugar production estimate for Sugar season 2021-22 is 35 mn tons, after considering diversion of ~3.5 mn tons of sugar into ethanol. With exports expected at highest ever levels of about 9 mn tons and consumption of 27.2 mn tons, the closing stock of sugar by the season end is expected to come down to ~7 mn tons from ~8.3 mn tons last season. The higher sugar production is due to the higher yields and sugar recovery in states of Maharashtra and Karnataka. With the higher production in India and Thailand, global sugar is expected to remain balanced.

Our mills closed during the third week of April'22. Crushing days worked out at 163 days vs 162 days for SS 21. Total cane crushed during the SS '22 was 549 lac qtls vs 553 lac qtls during SS 21. Recoveries on final molasses came in at 11.3% vs 11.7%, driven by late rains in the region.

There is a need for strengthening the policy support for UP sugar industry given that mills in Maharashtra and Karnataka have advantage in terms of lower Sugar cane cost and proximity to the port. These two factors make it more viable for them to produce cane juice based ethanol as well as to export.

We diverted about 33 lac qtl of sugar cane during the season to produce cane juice based ethanol, however returns were lower than Sugar. This year, availability of C heavy molasses was low, leading to higher prices, and hence lower margins on Ethanol from purchased molasses. Overall the sugar diverted through cane juice and B heavy molasses stood at 11.4 lac qtls vs 7 lac qtls last season. Prices of ethanol during the current ethanol season were higher reflecting continued government support and commitment to the blending target of 20% by 2025.

Our stated capital expenditure projects in Sugar Business are on track and are expected to be commissioned by Q3 of FY'23.

AGRI INPUTS:

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

Shriram Farm Solutions delivered strong growth for the year as a whole driven by wheat seed and specialty nutrition products, despite climatic challenges. With the country looking at a normal monsoon this year the demand for key inputs looks healthy. We are geared to optimally drive sales of value added inputs and research based varieties in order to support this performance trend.

We are now proposing to develop manufacturing capabilities in value added Agri inputs business, to enable continuous growth. To begin with, we shall start manufacturing Water Soluble fertilizer and Biologicals at Kota in Rajasthan.

Bioseed has a limited season in Q4. If we look at FY'22, Bioseed Philippines witnessed good performance with growth in paddy and corn segment. Indian Industry and our business witnessed lower volumes. This year we have worked on revitalizing our Bioseed India business by making structural changes in terms of management structure, aggressively clearing up slow moving inventory, building renewed sales and quality focus. These efforts along with expected good response on new products launched and strong product pipeline will help the business turn around over next two years.

In Fertilizer business, natural gas prices have seen unprecedented increase throughout the year and they continue to rise. The gas prices during the quarter have increased to US$ 19.3 /mmbtu from US$ 8.9 /mmbtu in the Q4 last year. Current prices are at US$ 22.60 /mmbtu. Subsidy outstanding as on 31st March, 2022 stood at Rs 435 crs vs Rs 153 crs as on 31st March, 2021.

FENESTA

The business is witnessing good growth. The market size for uPVC windows is increasing and so is the competition. We have set up additional fabrication unit in Bhubaneshwar to improve our coverage of eastern market. We are increasing our capacity as well a product portfolio to continue the growth momentum. Today Fenesta is present in 180 cities of India and all 28 states with 6 UTs. It has sales presence in 3 countries apart from India.

Ladies and Gentlemen, if I look at the business environment today, it has become quite uncertain and fast changing, especially since the onset of Covid-19 and geo-political issues. It requires us to have higher level of digitalization, efficient operations with scale and value add, along with strong balance sheet. We are investing in growth with a focus on these parameters.

With this, I would now request Vikram to take you through the financial highlights. Vikram, over to you.

Vikram Shriram: Thank you. Good afternoon, everyone. I will take you through the financial highlights for our Q4 & FY22 results.

During the quarter, net revenues came in at Rs. 2,796 crs vs Rs. 2,191 crs in Q4 FY21, up 28% YoY. The growth was driven by strong performance across Chemicals, Vinyl, Farm Solutions, Fertilizer and Fenesta businesses.

Chemical business revenues grew by 144% YoY to Rs. 865 crs led by increased realizations and higher volumes. Higher prices had a positive impact of Rs 437 crs on the revenues. Vinyl business too recorded a healthy growth of 9% YoY in revenues driven by higher prices. Fenesta business continues to record healthy numbers, with revenues up by 30% YoY driven by project volumes and better margins. The order book had a strong improvement of 36% YoY. Chloro-vinyl and Fenesta businesses have also benefited from steady built up in demand in the current year reflecting improved sentiments, post easing of Covid-19.

Sugar division revenues for Q4 FY22 were lower by 26% YoY at Rs 755 crs. This is net of excise duty of Rs 77 crs on country liquor sales. While the domestic sugar and distillery volumes were stable, overall revenue was impacted on account of lower export volumes due to removal of subsidy and non allocation of quota.

Fertilizers revenues were up 108% YoY driven by higher prices and higher volumes. Prices were up 90% YoY, due to higher energy prices, which is a pass through. Volumes were higher by 12% YoY.

Coming to profitability, in Q4 FY22, PBDIT stood at Rs 663 crs, higher by 69% YoY, supported by Chemicals, Fenesta and Fertilizer segments.

Chemicals PBDIT was up 5 times at Rs 369 crs primarily led by better margins due to higher product prices and higher volumes. Both power & salt prices continue to be high, which were more than offset by better product prices. Fertilizer PBDIT came in at Rs 20 crs vs Rs 4 crs during same period last year led by higher volumes and better energy efficiency & energy saving rate. Fenesta PBDIT up 2 times at Rs 32 crs driven by higher volumes in Project segment and better margins.

Sugar PBDIT was down 19% YoY at Rs 193 crs due to lower volumes and higher input costs. Bioseed PBDIT stood at –ve Rs 50 crs vs –ve Rs 38 crs due to India Operations getting impacted by lower volumes, higher Inventory provision and cleaning up of business balance sheet and p/l account, restructuring the business as discussed a little earlier.

Let me also share highlights of the performance for FY22.

Revenues were up 16% YoY at Rs 9,627 crs mainly driven by Chloro-vinyl, Fertlizer, Farm Solutions and Fenesta segments. Chloro-vinyl and Fenesta growth were driven by both prices and volumes. Chloro-Vinyl and Fenesta businesses in Q1 FY21 were impacted by pandemic and lockdown due to Covid-19, resulting in loss of production leading to lower sales. Fertilizer business revenues were driven by higher gas prices, a pass through. SFS revenues were driven by growth in wheat seed and specialty nutrition.

Sugar segment revenues were down primarily due to lower volumes. Sugar volumes down by 41% YoY. Exports as well as Domestic volumes were lower due to regulatory framework. Ethanol volumes lower 4% YoY due to lower availability of 'C' heavy molasses in the market and maintenance shut down in Q3 FY22. Bioseed revenues were lower impacted by lower volumes in India operations. Bioseed Philippines revenues were higher 12% YoY driven by Corn and Paddy.

PBDIT for FY22 stood at Rs 1,888 crs vs Rs 1,244 crs primarily led by strong performance in Chemicals, Vinyl, Fenesta, Farm solutions and Fertilizer businesses. Sugar business margins % were better than last year however profits reduced due to lower export volumes and lower availability of C heavy molasses in the market. Bioseed India business had losses because of lower volumes which was industry wide scenario & higher inventory provisioning and cleaning up.

Our Direct tax payout was Rs. 264 crs versus the current tax charge of Rs. 488 crs as a result of MAT credit available.

Board recommended final dividend of 245% amounting to Rs 76 crs. Total dividend for the year is 735% amounting to Rs 229 crs.

On the Balance Sheet side, Net Debt as on 31st March, 2022 was nearly zero. Capital employed net of CWIP and liquid investments came in at Rs 5,067 crs vs Rs 4,637 crs for FY21. ROCE for the period came in at 35% vs 20% for March'21.

Overall, on a full year basis, our performance, despite several macro-challenges and input cost pressures has been quite resilient. We have reported strong growth across our key segments. On the whole, we have a robust balance sheet position and strong financial profile, which will allow us to continuously invest in growth to continue to add to the shareholder value for years to come.

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

Moderator: We will now begin the question-and-answer session. First question is from the line of Pratiksha Daftari from Aequitas Investment. Please go ahead.

Pratiksha Daftari: My first question is for the chemicals division. So, just wanted to understand, are we expecting our new additional aluminum chloride capacity to come up in this quarter itself?

Ajay Shriram: No, additional capacity is about 850 tons a day and that is expected to come up in end of this financial year. Just to add to your question here is that we are putting up an additional power plant also, that power plant is expected to be commissioned in the second quarter of this financial year.

Pratiksha Daftari: What kind of cost escalations are we seeing in the total project costs for the chemical division? I think the presentation mentioned that we are seeing some costs going up there.

Ajay Shriram: That's right.

Amit Agarwal: The number that we've given, Rs.3,300 crore includes whatever escalations that we're anticipating, but if I give you a sense of cost escalations, the cost escalations on account of higher commodity prices, will be in the range of around 25%. As was mentioned by CMD in his speech, we also reconfigured the projects to ensure that the increase in project costs does not lead to significant reduction in returns. So, that would have added another 10% where we have gone ahead and done the reconfiguration, for example, if you remember the caustic project, which was 700 TPD now is about 850 TPD. And similarly, in some of the projects, we have done some changes to ensure that the returns are healthy.

Pratiksha Daftari: Also, if you could elaborate on your plans with ECH, because I understand that one of our peers would be commissioning their plant sometime soon and another peer has already announced. So, how does the India demand supply dynamics play by with so much of capacity and how do we see ensuring our returns on ECH?

Amit Agarwal: India demand is about 80 to 85 kilo tons per annum. Now, the two projects are essentially for sale externally. The other ones are more of internal consumption is what is coming with Meghmani and what we are bringing, which will add up close to about 1 lakh kilo tons per annum. However, this sector is also growing at 10%. So, my sense is that by the time the two projects come in, we should be nearing about 100 kilo tons per annum demand in the country and therefore, the imports which are happening today, which is almost 100% imported, that will reduce drastically, and probably we should be exporting a little bit as well. But largely, I think we will become self-sufficient. I don't see any significant surplus coming into the country as of now.

Pratiksha Daftari: If you could you elaborate a little bit on the outlook of our plastic division, especially with respect to realization, given that we've seen the peak prices in October, November, how do we see this going ahead?

K.K. Kaul: The price as of today is around $1,550. So, we expect this prices to remain in this kind of a range only, largely because of the production shutdowns being taken in many Asian and European plants and also, the consumption is also growing particularly in India and outside. So, we don't see any softening of prices, but we expect it to be around with a few dollars up and down around $1,550.

Pratiksha Daftari: My next question on sugar division. If you could just give us whether we contracted exports so far? I just want to understand between the three quarters in which the crushing goes on, how does the cost of production vary between the three considering that we have one quarter where full crushing is going on and the two quarters that is partially there?

Amit Agarwal: The peak crushing happens in Q3 and Q4, right, and then, in Q1 as you rightly said it's a partial crushing. So, it all depends on the way recovery moves. It's difficult to give you a number, but yes, what happens is in Q3, the cost of production will be higher, given the fact that recoveries to begin with are lower, and in Q4, and part of the Q1, which is let's say, April types, then the cost of production is lower, given that the recoveries are better. So, the way we look at it is what is the total cost of production for the season.

Pratiksha Daftari: So, the cost of production that we see now which is Rs.33, would it be representative of the cost for the whole season?

Ajay Shriram: Yes.

Pratiksha Daftari: And how much have we contracted for export so far?

Amit Agarwal: This year, if I remember correctly, will be about two lakh quintals is what we have exported or about to export. So, in that kind of a range.

Pratiksha Daftari: At what price would we have valued our inventory in Q4 versus and also last quarter?

Amit Agarwal: Frankly, I don't remember the number of December but for March, we valued the inventory at Rs.33.1 per Kg.

Pratiksha Daftari: How do we go about deciding our mix between cane and B-Heavy. And I think we've taken a call that for C-Heavy, we are procuring our molasses from outside. It seems to be impacting our profitability. So, just wanted to understand thought process here.

Amit Agarwal: A couple of points that we need to understand here. One, see my distillery capacity at 350 KLD is about 15%, 20% higher than what I crush, right, or what I can manufacture on B heavy basis, lets put it this way. I'm little over optimized and the objective at that point of time when we had set-up this capacity was that during the offseason, we should be able to procure molasses from the market and optimize the profitability, which we'll be doing.

So, in terms of mix, I don't think there is any sub-optimal mix that we're doing. We optimize B-Heavy. So, we run maximum operations on B-Heavy. And then whatever is the shortfall because we have a higher capacity, the intent is to purchase molasses from the market, right, which we did not get this time because the prices were too high and the availability was low.

Now in terms of our planning, how do we hedge that going forward? One is since we are putting up a grain-based distillery and wherein the grain attachment of a higher quantity. So, we are putting up 260 KLD grain attachment wherein the distillation capacity is 120KLD. So, we should be able to manage the shortfall. That is point #1. Second, to answer your question on the mix in the cane juice part, we wanted to hedge our sugar prices, break even at around Rs. 34.50 Kg as equivalent sugar price. So, the objective of doing this was to hedge the sugar price, that is one. Secondly, what also it enables is that since I'll be manufacturing B-Heavy also around that time when I'm manufacturing cane juice with ethanol, there was this B-Heavy comes in as inventory which I can use it during the off season.. We crushed about 33 lakh quintals only for cane juice out of total 550 lakh quintals. So, that's the mix. We will keep optimizing the mix to get the best returns.

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

Ahmed Madha: My first question is regarding the CAPEX part. So, in press release we mentioned a number about Rs.3,300 crore. If I look at an old press release and the announcement the number is a little less than Rs.3,000 crore. So, is it fair to assume that the entire incremental CAPEX is because of the whatever inflation we are seeing in steel and cement?

Amit Agarwal: What you said is absolutely right that this is an increased number. So, this increase as I mentioned almost about 25% would be on account of increase in the commodity prices and around 10% would be on account of reconfiguration.

Ajay Shriram: I also mentioned, Rs.92 crore additionally which was approved by the board four days ago. That is not included in this total of Rs.3,300 crore.

Ahmed Madha: Any increase in capacity related to what we had earlier planned in any of the products?

Amit Agarwal: In case of caustic soda where we had planned 700 TPD and we had planned a 500 TPD flaker, now we are going with 600 TPD flaker and 850 TPD caustic capacity.

Ahmed Madha: All these capacities regarding caustic as well as the downstream will come by Q4 FY'23?

Amit Agarwal: Between Q4 FY'23 and Q1 FY'24 you will have all the capacities coming in.

Ahmed Madha: Second question is regarding the chlor-vinyl business profitability. So, we are talking about lot of energy inflation between Q3 and Q4, but we have increased the profitability. So, is it because of any change in fuel mix or we had lower coal cost inventory or anything, can you just give some highlight on that?

Amit Agarwal: I'll just compare quarter this year versus quarter last year. See, realizations are up by almost 118% whereas if I see my cost in chemicals, that is ballpark, my cost is up by almost 55% to 60%. So, that is what is leading to increase in margins. What I'm trying to say is Q4 last year versus Q4 current year.

Ahmed Madha: But can you explain from Q3 to Q4?

Amit Agarwal: Q3 to Q4 price increase would be more or less the same, about 4%-5% increase and if I look at my cost, actually costs have actually come down a little bit.

Ahmed Madha: So, that is what I want to understand. What has driven the lower cost?

Amit Agarwal: If you remember even the power cost, coal cost, everything had zoomed in Q3 and then there was some softening which we did see in the month of December and January where the power cost also came down. I think that led to a lower overall cost.

Ahmed Madha: So, going into Q1 FY'23, is it fair to assume there will be some increase in cost or we will retain at this level?

Amit Agarwal: I don't have the number right now, but it should not go down definitely, it should either be the same or increase a little bit.

Ahmed Madha: Just on the bioseed business, we have mentioned about the restructuring in the management team, etc., so can you just elaborate what changes we have done? And second thing regarding the profitability, do we expect to do break even in FY'23 on the bioseed business?

K.K. Kaul: In terms of restructuring, the seed business is something what you do, the results come in a couple of years to come in. When we said about restructuring was cleaning some of our old inventory, we were doing provisioning for that, and also in terms of strengthening our market reach, our market approach. And I would say largely strengthening our product pipeline and the product pipeline in the last one or two years, the new products have been good, but they also need to be taken right down to the market, to the farmers. So, that's what we are strengthening, we are strengthening our connect with the farmers and we expect that this year certainly our product acceptance has been very good, we have good products cotton and corn portfolio which is a larger than paddy portfolio. All these three, we are seeing an excellent response from the market and we hope that this year certainly we should be just about breaking even.

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

Nirav Jimudia: With reference to the earlier participant call, so I was just doing some of the math, so if we see the increased ECU realization which is like Rs.2.5 and if we multiply it by 1,55,000 tons of volume what we have reported, this translates to almost Rs.37 crore, but what we have reported sequentially in terms of improvement in PBIT is around Rs.82 crore. So, was this because of some of the profits getting added through the value-added products and if you can just explain those maths that would be helpful sir?

Amit Agarwal: If you see my revenue in chemicals which was Rs.738 crore and it went up to Rs.865 crore in Q4. You are talking of quarter-on-quarter, right. And my profit went up from Rs.286 crore to Rs.369 crore. So, one, my realization if you see what I averaged if I remember correctly is higher by about Rs.2,500. And my cost as I mentioned has come down by about another Rs.2,000. So, that's the kind of delta which is there. If you look at our volumes, we were a little higher on overall volume by about 15,000 tons more than what we did in Q3 because our utilization levels were higher; Q3 our utilization levels were 87% and in Q4, our overall utilization levels were 96%. I think that also will add to the profitability.

Nirav Jimudia: Sir, if you can just break it down our PBIT between the pure caustic business as well as the value-added business? So, what you mentioned last quarter was like 10% of the PBIT was coming through our value added product. So, what was the mix this quarter?

Amit Agarwal: Nothing much has changed. The prices have remained more or less the same.

Nirav Jimudia: My second question is on chlorine side. We are having a capacity of 1,350 TPD of caustic and now we are expanding it by almost 850. So, in combine, after the expansion, we'll be handling almost 2,000 TPD of chlorine after the caustic expansion. So, how do we use this chlorine? So, in terms of, let's say, downstream products or sale to the merchant customers outside or through the pipeline customer, so how the mix would look like from the current utilization levels?

Ajay Shriram: What we are doing here is that one is as I mentioned earlier, aluminum chloride capacity we are expanding. That will take up additional chlorine. ECH will take up additional chlorine, and we already are supplying direct pipeline chlorine to 5 or 6 customers. We are discussing with them to supply direct pipeline, increase that capacity by their expansion happening, which we are in touch with our customers. So, that will also help us in liquidating and getting the chlorine out of our factory to be able to run at optimal capacities. And of course, the market itself is something which is chlorine in tonner also is being sold plus we are looking at some new products, which we have not yet taken 100% view on. We are looking at some more products, which will also be chlorine users. So, we are looking at the chlorine utilization also very actively. And that's how these 4-5 avenues are coming in for utilizing the chlorine.

Nirav Jimudia: But how the mix would look like for our internal consumption of chlorine? So, what is it is currently and when we'll take up the additional products, how the mix would look like?

Ajay Shriram: Amit, would you know that?

Amit Agarwal: So, let's put it this way, it's Kota facility which has about 530 tons per day of caustic, that is almost 40% of consumption is captive there. Now At Bharuch site, which is currently 1,350 tons per day, there if I exclude hydrochloric acid, then my captive will be around 4% to 4.5%. And I supply 40% through pipeline. Now this 4% after the aluminum chloride coming in and ECH coming in, this should jump to around 15% of the total expanded capacity, right? And this 40% what we are supplying to the industries nearby, we expect this to increase because they are also expanding their capacity, so their volume should also increase. So, I think that's the kind of mix that we will have. And the rest will be through tonners in the market.

Moderator: The next question is from the line of Meherwan Kotwal from B&K Securities. Please go ahead.

Meherwan Kotwal: So, I have some questions on the chemicals business. So, firstly, what is our reading of the overall caustic soda market currently, because on one hand, current realization seems to be fairly firm. But on the other hand, we also have this looming threat of a lot of capacity coming in over the next 12 to 15 months, as you correctly pointed out in your initial remarks. So, are we seeing probably the recent high prices as being peak or do we see further upsides in prices also possible as we move ahead? Second question is that, how do we see this extra capacity getting absorbed? So, are we seeing much better traction in exports, especially because what's happening in Europe currently? And do we also see the industry adhering to some kind of discipline with respect to capacity utilization?

Ajay Shriram: I'll answer. The caustic soda demand as of now, it's growing at a regular what's been growing about 5% to 6% a year. So, that's moving quite stable and moving ahead. And couple of the additional plants which are coming up for Grasim etc, they have a lot of it for their captive use. So, that's some of the material is going to go in over there. So, that's not all going to come to the market.

And factually speaking, we have seen in commodity business of any type, you move in a stepladder type of a thing, when the prices are good, when the market is good, new capacity comes in, then it stabilizes over a year or 2 years. It runs that way for 2-3 years, then it moves up again. Good thing is the Indian economy is growing and I think the demand is growing at 5% to 6%.

Secondly, the international prices are quite stable. As I mentioned earlier that the exports of caustic soda had jumped up by almost 50% this year, 55% compared to last year. We expect the exports to keep going up more and more of caustic soda lye and flakes, both. That's why for instance, in our case, we are putting up 850 ton lye capacity, but we are also expanding 600 tons flakes capacity, that gives us flexibility to move ahead.

And what is also good to see is if you read that aluminum capacity is going up in the country; Vedanta is increasing the capacity. There are all these plants, which are large users of caustic soda. So, overall, we see that a product of this type, little supply-demand mismatch happens occasionally. But as a longer-term basis, it is a primary requirement for any economic growth and we are wanting to be a good player at it with a larger capacity, our cost of production is lower, our efficiencies are better. And with the new power plant coming in again, our cost of power will come down compared to our older power plants. And technology, we are getting world class. So, we will be competitive across the board. And we are quite positive on the outcome of this expansion.

Meherwan Kotwal: Just a follow up on this expansion. So, we will be coming with 850 TPD expansion in 1Q FY24. Will this entire expansion be one shot? Or will we be like commissioning the unit in phases?

Ajay Shriram: It will be actually commissioned in phases, means over a period of 2-3 months it will be commissioned. We are putting up the whole thing together.

Meherwan Kotwal: Sir, just couple of questions. What our unit cost of power will be for the current quarter?

Ajay Shriram: I think the unit cost of power is something which is flexible because of the international prices of coal. Coal prices have gone up which has created a lot of disturbance in the price of power. I don't remember the price now. But of course, the price has gone up because coal prices have gone up 2-3 times, freight has become an issue. I mentioned a little earlier what is the price of gas, gas price is going up. So, we are also optimally seeing and sourcing our coal from anywhere in the world, and we have an advantage, we have a tie up also with HECL-Coal India, we get coal from there also. So, we are optimizing our sourcing of coal across the board.

Meherwan Kotwal: And finally, what would our current realizations be as compared to the average which we achieved last quarter on an ECU basis?

Ajay Shriram: Amit, you'll have that?

Amit Agarwal: For our Bharuch plant, ECU would be in the range of around Rs. 49,000, Rs. 50,000, and for our Kota plant it will be a little lower.

Meherwan Kotwal: A little lower, but it's still better than what we did last quarter.

Amit Agarwal: Yes, Rs. 1,000, Rs. 2,000, or Rs 3,000 better.

Moderator: The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Sir, in our cotton seed business, can you share your view on the issue of illegal cotton seeds for this season?

K.K. Kaul: Sir, it's very difficult to estimate how much it is but industry reports that it's pretty high, it was pretty high last year, and it's likely to increase this year also. But the numbers I can't put, yes, it's affecting the overall cottonseed business and it's growing, it's growing year-on-year, the illegal HT cotton cultivation is growing. But the good thing is that the cotton crop itself, the acreage is growing because of the good cotton prices and good commodity prices. So, there will be some effect of this illegal cotton, but that should be more or less overcome and even bettered by the larger acreage of cotton.

Vikram Shriram: Also, I'd like to add one more point, this is Vikram Shriram here, regarding the cotton business. So, I was just saying that there was a standoff between Monsanto and the government for several years. And because of that partly the illegal cotton came in and a lot of the problems in the industry took place. What is good is that since last year, there has been some better understanding, Monsanto was bought over by Bayer, and there seems to have been some better understanding because Bayer has filed for approval of newer varieties of GM. So, hopefully looking in the future, this illegal cotton and other things, there's not going to be an immediate solution, but as there is some understanding between Bayer and the government and some newer genetics gets approved, hopefully, the future scenario of this confusion and illegal business will come down.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company. Please go head.

Saket Kapoor: As you were mentioning the ECU realizations post the March exit is up by Rs. 2,000, am I correct on that one?

Amit Agarwal: Approximately, yes.

Saket Kapoor: And it was in the vicinity of Rs. 49,000 for the month of March.

Amit Agarwal: Only for the month of March?

Saket Kapoor: If you could provide us, sir, for the month of March?

Amit Agarwal: I don't have it upfront.

Saket Kapoor: For the average price, average is up by Rs. 2,000.

Amit Agarwal: Yes.

Saket Kapoor: And there has been increase in the cost part also, cost element for this quarter?

Amit Agarwal: Yes. As I mentioned, because we are only halfway into the quarter, you'll have to see how it pans out, the situation is dynamic. I don't see costs coming down. They might remain same or increase marginally.

Saket Kapoor: And sir, how have been the chlorine spread currently, sir? And for the last quarter, how was the mix, whether it was positive or negative?

Amit Agarwal: Can you repeat the question?

Saket Kapoor: I was asking for the chlorine prices, whether the chlorine spread were positive or negative. And how are they trending currently, sir?

Amit Agarwal: So, they continue to be negative.

Saket Kapoor: Sir, as we have seen that a lot of caustic soda also gets imported in the country. So, when we are speaking about export, could you please clarify on a net basis for the last 12 months, what has been the movement of caustic soda in the country on a net basis?

Ajay Shriram: I don't think we have to figure of the imports? Do we have it, Amit?

Amit Agarwal: As mentioned by CMD, the exports were about 3 lakh metric tons, and imports were about 2 lakh metric tons. The imports have actually been coming down and exports have been going up.

Saket Kapoor: So, sir, net-net, 1 lakh additional quantity has been exported.

Amit Agarwal: Absolutely.

Saket Kapoor: And this has happened due to the capacity curtailment in China in particular, or because this scenario was very different pre COVID, a large quantity used to be imported to meet the demand of the country only.

Amit Agarwal: There have been significant supply chain disruptions. What used to come from China was largely on the East Coast, the exports are happening primarily from the West Coast, right? So, I think it's also to do with disruptions that have happened in the US and Europe, where they have not been able to supply, their gas prices have gone up, energy prices have gone up. Therefore, some of the plants have closed down capacities in Europe as well. So, multiple reasons why these exports have gone up.

Saket Kapoor: And sir, in the likelihood this scenario is not going to change in a jiffy right now, this is not that this is going to be the scenario changes in the next quarter or even 2 quarters down the line. New capacities globally are coming up, sir, in the near future in 1 year time, any new facility

Amit Agarwal: Globally, we are not seeing any new capacity coming up, but rather we are seeing capacities coming down. And therefore, as CMD mentioned that we do see exports going up further in this financial year.

Saket Kapoor: And what have been our export number for this year, sir, as a percentage of sale and volume also?

Amit Agarwal: I wouldn't have that number right away.

Ajay Shriram: If I recollect correctly, I think our company exported about 45,000 tons of caustic soda.

Saket Kapoor: And taking into account the current scenario, sir, we have any plan or it depends on the market dynamics, when to get the better price?

Ajay Shriram: It's a dynamic situation, but we are very aware and open to exports and we expect too that exports this year will be more than last year.

Saket Kapoor: Coming to the Seeds business part, as being articulated by the Management that steps are in the anvil and we have projected a roadmap for 2 years down the line wherein things would look very different. So, just to have an understanding on the thought process, what kind of working capital requirement is required to run the business on an annual basis and when we are going to grow this business going forward? What would be the future requirements?

Amit Agarwal: The total capital employed in the business is close to about Rs. 400 crore in the Bioseed business. In terms of growth, we will have to keep a very close watch. Generally, the ballpark, in terms of if I took at my capital employed to revenue, it will be around 1 to 1.2x. And essentially because when we look at capital employed, we look at the year end, and on year end, you have to actually stop for the entire next year's sales on season sales, as essentially bioseed has season for kharif. Therefore, capital employed is higher at the year end, although average would be lower, and I don't see it significantly rising at least in the near term.

Saket Kapoor: Last point is on the investment in mutual funds, the treasury book. What is the size of the book, I missed that number, as on 31st March?

Amit Agarwal: As on 31st March, our total investment, not necessarily mutual funds, it is a mix of mutual funds and fixed deposits, it will be close to about Rs. 1,500 crore.

Saket Kapoor: And for this year, what would be the CAPEX, the amount to be spent for FY23?

Amit Agarwal: This year, ballpark would be close to about Rs. 2,500 crore.

Saket Kapoor: And that will be totally from the internal accruals and the treasury book only or are we expecting any borrowing to take place?

Amit Agarwal: We will make some borrowings.

Saket Kapoor: Currently what is the cost of funds we are anticipating or do we have any arrangement for the long-term borrowing, which is undrawn?

Amit Agarwal: No, we don't have any undrawn facility right now, but out of our total gross debt of about Rs. 1,500 crore, almost about Rs. 1,000 crore is long term.

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

Pratiksha Daftari: Just wanted to confirm one thing that you mentioned that for breakeven between sugar and ethanol based out of the juice, the number is Rs. 34.50? So, at current realization for sugar for Rs. 34.90, so we basically lost out on certain opportunity, right?

Amit Agarwal: Which is true, which is the call that one takes. It's a call that one has to take at the beginning of the season that if you would like to hedge sugar at a particular price expecting whether it will go up or go down. So, we did hedge it at Rs. 34.50.

Pratiksha Daftari: Okay. Going ahead, the mix B-Heavy would be higher considering crushing has ended right now?

Amit Agarwal: Yes, the majority of ethanol would be B-Heavy based.

Pratiksha Daftari: Just one question on Fenesta, do we have any margin differential for project segment versus retail segment?

Amit Agarwal: Yes, retail segment will have higher margins vis-à-vis the project segment.

Pratiksha Daftari: Are we facing any input cost pressures this segment as well? What would be stable margins going ahead in Fenesta business?

Amit Agarwal: Yes, we do see stable margins in this business going forward and largely we have been able to pass on the cost to the consumer. They can be lag effects because you take the orders, you review it over a period of time and then cost increase will happen, but then largely we have been able to maintain the margins.

Pratiksha Daftari: So, FY22 is sustainable?

Amit Agarwal: Yes.

Moderator: The next question is from the line of Aasim Bharde from DAM Capital Advisors. Please go ahead.

Aasim Bharde: Just had a couple of questions on the PVC supply situation. So, firstly, if you could just comment on global PVC capacity addition. What can be expected in the next 2 to 3 years and if you could give a similar outlook for the domestic side?

K.K. Kaul: As far as global capacities are concerned, I don't have the numbers as of now, but we don't see any significant capacity coming at least in the next year, but in terms of domestic capacities, some capacities have been announced, and when they are likely to come up, at least in next one year I don't see them coming up, maybe later.

Aasim Bharde: So, on the domestic front, basically it is status quo. So, I think even in the last quarter, most industry players have said that there have been announcements, but no work has happened. So, is that the same case right now?

K.K. Kaul: That's right. There have been announcements, but no work has happened.

Aasim Bharde: And on the recent PVC price weakness, could industry lockdowns in Shanghai and the other industrial zones there, could those have played a part?

K.K. Kaul: To an extent, yes, because the industry lockdown in China, there have been some pressures coming from the Chinese material coming in to India, but we are also seeing that it is not very significant. The domestic consumption is also going up, and the imports from other Asian premium sources, like Formosa and all that are also coming down because of some planned shutdowns that they are likely to take in this quarter. And material from US is also not coming. There still are bottlenecks in terms of the freight and container issues. So, there is some temporary impact being made by the Chinese material, but it's not very significant.

Aasim Bharde: So, assuming that these lockdowns go away over there that should ideally drive consumption and hence higher PVC prices maybe in the next 6 months.

K.K. Kaul: That's right. So, their own consumption should go up and we should see them also not offering prices, which are lower than the current market price.

Aasim Bharde: One of the large pipe manufacturers have mentioned that they expect PVC prices to fall from now to July given the PVC import bookings that they have seen so far, but as per you, I think, you would expect this to be very near-term thing, and as you have commented earlier, max a few dollars up and down, but prices should hold, if not rise?

K.K. Kaul: As I said Chinese quantity, which had offered lower prices to as low as $1,370 to $1,400, it's not a very significant quantity which can impact overall, and the consumption as mentioned, in the next quarter or so, the consumption in India should also grow, which has been less than the pre-COVID times. So, this is also likely to go up and its growing up now.

Aasim Bharde: When is the next quarter, are you talking about this quarter, Q1?

K.K. Kaul: At least this quarter and next quarter I hope it would be on the similar lines, but I can't be exactly sure about commenting on Q2.

Aasim Bharde: Sure, but still you have seen at least some demand improvement on PVC consumption in India at least for the month of April and I am assuming you have some clarity on the month of May as well?

K.K. Kaul: Generally, these are the seasonal months for the PVC consumption to grow before the monsoons, it does grow till the pipe manufacturers pick up large quantities.

Moderator: Thank you. The next question is from line of Vighnesh Iyer, an individual investor. Please go ahead.

Vighnesh Iyer: Sir, you told one of the investors that the total CAPEX would be around Rs. 2,500 crore for FY23. So, can you just give me a division of how this Rs. 2,500 crore would be spent because the investor presentation only broadly gives about the projects that are approved.

Amit Agarwal: In Chemicals, out of this Rs. 2,500 crore, close to about Rs. 2,100 to Rs. 2,200 crore will go into chemicals and rest will go into sugar.

Vighnesh Iyer: So, about Rs. 2,100 to Rs. 2,200 crore for 850 TPD, right?

Amit Agarwal: No, in chemicals we have 4 projects going on. We have ECH, we have H_2O_2, and we have caustic soda. So, these 3 projects will take up maximum amount and as far as power project is concerned, which is getting commissioned in Q2, our large part of the CAPEX is already done. So, about Rs. 100 to Rs. 150 crore is pending there, but large part of it in terms of expenditure will go into these 3 projects. I missed another project, which is ammonium chloride, although that is a small project about Rs. 100 crore, there also we have incurred close to about Rs. 25 crore to Rs. 26 crore. So, that also will get spent.

Vighnesh Iyer: So, except chemicals, the rest is the Rs. 300 crore to Rs. 400 crore, right?

Amit Agarwal: Which is sugar, yes.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Just a request that in your slide, going forward if you could mention for the caustic and PVC the global capacities also and what kind of utilization levels the global players are running, so we would have a better further understanding of how the global markets for both the commodities have shaped up for the quarter.

Ajay Shriram: If you want, you can get in touch with our CFO and he can give you the data.

Saket Kapoor: Currently, what is the installed capacity in our country for caustic soda and the addition for this year and how have the average utilization levels been for the last year?

Amit Agarwal: The current capacity that we have in the country for chemicals is about 4.8 million metric tons, that is for the caustic soda capacity in the country and average utilization levels for the current financial year FY22 have been around 80% wherein the West has been around 90%.

Saket Kapoor: And the additions, which are going to happen for this year is around?

Amit Agarwal: That is close to about 900,000 metric tons. If you talk about this year, it should be around 800,000 to 900,000 metric tons.

Ajay Shriram: 1 million ton is expected to come up in the next about 14 to 15 months.

Saket Kapoor: And these capacities are also coming in the western coast only or other part of the geographies also?

Amit Agarwal: It will be distributed. Yes, a large part will come in the West, but there are capacities coming in the East and some capacities are coming in the North as well.

Saket Kapoor: As you have told that there has been some capacity curtailment in US and also the higher freight price charges have also resulted in imports being a non-viable option. So, if you could give some more color when these things get normalized, is this capacity curtailment a permanent part that has played out globally or these can come up once the freight normalizes?

Amit Agarwal: These are very dynamic. How the things pan out going forward, how energy prices will move, how the freight will move, what will happen. So, it is very difficult in commodities to comment on how it will pan out, but yes, one thing is sure that there is no capacity addition happening globally. In India, the capacity additions are happening and globally caustic soda market is growing, the chlorine market is growing and therefore there will be more exports happening from India.

Saket Kapoor: The capacities, which have been shut down globally, have they been moth-balled or are they shut down because of the higher energy and the higher logistic prices, what are the reasons?

Amit Agarwal: I think the shut down in US has happened because of they were on diaphragm based or mercury based, so they won't come back, but in Europe I am not too sure whether they will come back because some capacities have shut down because of higher energy costs.

Saket Kapoor: And can you specify the capacity by million tons, what has been the curtailment for Europe?

Amit Agarwal: Europe, I don't have the exact number.

Saket Kapoor: Investors have always requested for housing all the business under one roof and if you see it is the PVC part and the caustic soda as of now contributing to the highest of the revenue as well as the profit. So, going forward taking into account the re-structuring, which we are looking into the Seed business and also the Fertilizer business having its own nuances whether with respect to subsidies or the higher energy, can things now be contemplated with the increase in size from the contribution is going to improve or increase only from the chemical segment. So, can we look forward for separate divisions going forward? Do you think that things are there that it could be looked into?

Ajay Shriram: We keep debating. The board keeps considering various issues, but we have not taken any view of this as of now.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the Management for closing comments.

Ajay Shriram: Ladies and gentlemen, thank you very much for supporting us and your continued presence on our Q4 and Financial Year 2022 Earnings Conference Call. We believe DCM Shriram will be poised towards realizing sustainable gains through well-executed CAPEX, improved efficiencies, and better integration. The endeavor will be to drive our growth with a strong balance sheet and robust cash flow generation. I would also like to take this opportunity to thank you for joining us again and also I would suggest please take care of yourselves and your family and follow all the precautionary advisory by the Government, including proper vaccination. We wish you all good health and safety always. Thank you very much, once again, for joining us. Goodbye.

Moderator: Thank you. On behalf of DCM Shriram Ltd. that include this conference. Thank you for joining us and you may now disconnect your lines.

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