Grasim Industries Limited

Q3FY21 Earnings Conference Call

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Moderator: Ladies and gentlemen good day and welcome to the Grasim Industries Limited Q3FY21 Earnings Conference Call. We have with us today from the management, Mr. Dilip Gaur – Managing Director, Mr. Kalyan Ram – CEO, Global Chemicals and Group Business Head Fertilizers and Insulators, Mr. Jayant Dua – Chief Executive Officer, Chemical Division and Mr. Ashish Adukia – CFO. 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, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Adukia. Thank you and over to you sir.

Ashish Adukia: Good afternoon to all the participants. Year 2020 was a dramatic year with businesses witnessing a sharp dip followed by an equally sharp recovery, which was led by monetary and fiscal stimulus, coupled with a rebound in consumer confidence. This is also reflected in our results.

Before I get into the results, I'd like to highlight certain significant developments that we have already announced. Grasim is on its path of a strategic transformation. In the last few quarters, we announced strategic decisions like sale of fertiliser business, partnership with Lubrizol and entry into the paints business. We are very excited as we potentially imbibe more growth, which makes us positive about the future direction of the company.

Like to briefly update you about the progress on these initiatives; on fertiliser we have received CCI approval and NOC from stock exchanges. We have filed our scheme with NCLT and we are well within the timeline of consummating the transaction that we indicated earlier. On paints, for the benefits of audience I'll reiterate what we said in the previous call that our foray into paints is a strategic portfolio choice. Entry into this B2C business will provide scale and growth to the existing portfolio of the company and at the same time reduce cyclicality. Within paints decorative paints will be our focus area. We've committed to an initial Capex amount of Rs. 5,000 crore over a 3 period. We are in the process seeking shareholder approval and key steps in executing our strategic plan in paints will commence thereafter. We would share updates with you periodically post completion of material milestones. As of now, I would direct you to refer to the transcript of our previous investor call for further details as there's no further update from that call.

On our Capex of current businesses, all our Capex are progressing well and we're scheduled to meet the commissioning timeline of VSF project in two phases in Quarter 2 and Quarter 3 of FY22. For Chemicals, all the three projects will commence by Quarter 1 FY22.

In terms of operational performance, Q3FY21 has been a strong quarter with all our key businesses reporting robust operational performance and financial performance and we have simultaneously deleveraged our balance sheet. At consolidated level, the company reported best ever EBITDA and PAT numbers. Likewise, our standalone financial performance demonstrated a strong rebound. Our VSF plants operated at a 100% capacity utilisation throughout Q3 and the utilisation of VFY plants touched 89% in December, 2020 and for the quarter it's stood at 77%.

The VSF demand in India recovered to pre-COVID levels with the share of domestic sales in the overall sales mix, expanding to 91% in Quarter 3 from 82% in Quarter 2. The share of value-added products in our overall sales mix improved to 22% in Quarter 3 from 15% in Quarter 2. The uptick in the VSF price has been driven by strong revival in domestic demand, primarily in the Tier-II and III towns and rural areas supported by festival and wedding seasons. The Chinese VSF realisations maintain an upward trend and averaged RMB 10,500 in Quarter 3, up 23% sequentially and in Jan, the prices have further climbed to about 13,800 level. Favorable inter fiber dynamic with widening gap between cotton and VSF led to reduction in inventory levels and higher operating rates. The VSF plant inventory in China moderated from 23 days in September to about 10 days in January. The viscose business reported best ever financial performance in the last many quarters with revenue of Rs. 2,145 crore and an EBITDA of Rs. 482 crore in Quarter 3. The viscose EBITDA witnessed a significant 89% increase YOY. For the VFY business within the viscose segment, the revenue was Rs. 436 crore and EBITDA was Rs. 97 crore in Quarter 3. The Chlor-alkali capacity utilisation touched 89% in Quarter 3, a 9% improvement in utilisation rate sequentially. Revenue and EBITDA of Chemicals business touched the pre-COVID levels with pickup in sales volume and further supported by lower input costs, especially in power. The continued weakness in ECU realisation impacted the EBITDA. The caustic soda prices in CFR terms in Asia, however recovered a tad from the lows of $239 per metric ton to about $270 per metric ton. The demand for chlorine VAP, value added products witnessed some weakness from the health and hygiene segment, along with some softness in the realisation. But at the same time in the chemical segment, the epoxy business witnessed a strong demand from auto and consumer durables.

On the standalone basis, excluding the discontinued operations of fertiliser, as we have signed the agreement out there, our revenues and EBITDA for Quarter 3 stood at Rs. 3,672 crore and Rs. 709 crore respectively. EBITDA reported an improvement of 53% YoY. Our PAT for the quarter nearly doubled YoY basis to Rs. 359 crore in Quarter 3. The revenue and EBITDA from the discontinued operations of fertiliser for Q3 stood at Rs. 597 crore and Rs. 57 crore. So if you had theoretically added Rs. 57 crore of fertiliser EBITDA to the standalone EBITDA our EBITDA would have been at Rs. 766 crore. But the accounts is all adjusted for fertiliser being excluded line-by-line and only included before PAT as a specific item. Owing to lower Capex and better cost management we have been able to significantly delever our balance sheet during the nine month period at both consolidated and standalone level. The consolidated net debt stands reduced to Rs. 12,767 crore, a 39% reduction from March levels. At a standalone basis the net debt reduced from Rs. 2,975 crore in March to Rs. 2093 crore in December. This will get further strengthened with the proceeds coming from the fertiliser sale.

Our focus of sustainability related initiatives are getting recognized at the global level. We are committed to improve our non-financial reporting standards further going ahead. In December 2020, Grasim released its maiden integrated report. The purpose of embracing integrated reporting is to make our stakeholders aware of how all six capitals come together at Grasim to create greater value. Recently Grasim won investor relations award being organized by investor relations society in collaboration with BSE and KPMG under the category ESG disclosures. Our

VSF business won the "Golden Peacock Global Award for Sustainability" 2020. Our Dow Jones sustainability index score also witnessed a significant improvement in calendar year 2020. We moved six ranks to 11th position in our sector. In the latest WBCSD report, Grasim Industries featured at the top among the list of companies procuring renewable power through corporate renewable PPAs in India. Viscose business sustainability achievement has been showcased in a case study, "Birla Cellulose Spearheading Sustainable Fashion", which is the title published by world's renowned Ivy Publisher. It is now available on HBS website.

Finally, in terms of outlook, we expect strong tailwinds for viscose business with improved demand outlook although various input costs have also started to firm up. The demand outlook for Chlor-alkali and epoxy remains positive for the quarter. The ECU realisation continue to remain weak, driven by softness in the global caustic soda prices. Our inherent strength lies in our operational excellence, financial prowess, our resilient growth and our customer centricity. If you see the cover of our presentation for this quarter, as a conglomerate we combined the synergy of a conglomerate and energy of focused businesses. So back to you for a Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Gunjan Prithyani from JP Morgan.

Gunjan Prithyani: Gunjan from JP Morgan. I just wanted to clarify on the Capex thing. I see that there is a balance of about Rs. 1,000 crore yet to be spent. That is all for Q4 we'll be spending. Is that understanding correct?

Ashish Adukia: Yes. So, Gunjan, that's right Rs. 1,825 crore were what was approved by the Board and for nine months, first quarter, we didn't spend any, nine months we spent approximately Rs. 800 crore. The balance remaining approved is Rs. 1,025 crore. There's a high likelihood that some of this will spill over to Quarter 1 of next year. So it's quite possible that we may not be able to spend the entire Rs. 1,000 crore, but there might be some spillover to Quarter 1.

Gunjan Prithyani: Do we have an assessment of how much we are looking to spend next year? I mean, keeping the paint foray aside for the core VSF and the Caustic business.

Ashish Adukia: This time of the year, as some of you may know, we go through our Capex planning cycle. So by next quarter, we should be able to give you guidance of what will be the budget for the year that will be approved by the Board. So as of now, it's under planning and then we'll take it to the Board and get it approved and that should include all the businesses, including paints.

Gunjan Prithyani: But is it fair to assume that the magnitude of Rs. 1,800 crore, a large part of Capex on the core business has been done now incrementally, a dominant part of Capex is going to be on the newer venture. And just on that line only, if you can also tell us the consummation of this deal, fertiliser, when do we expect the money to come in?

Ashish Adukia: So on the first part, Gunjan, unfortunately, at this stage, we are in the planning stage, so for me to give any guidance on the Capex will be very difficult as we are collecting all the figures and then we will internally go through them and then take it to the Board and there may be changes there as well. So I won't be able to give you that guidance. The major Capex of Vilayat, of course, from VSF perspective will be done, so there is no major Capex in VSF after that. In Chemicals, there are multiple projects, as you know, that goes on, unlike Vilayat, which is one large project that we were putting up. So in Chemicals, it's always difficult to give such Capex guidance. On the fertiliser sale, when we announced the transaction, we gave a guidance of about nine months. So somewhere around June-July is what we expect it should get over. And we are expecting the timeline to be around that, looking at the development of what has happened with the regulatory approvals. So as of now, fingers crossed, we're hoping that June, we should be able to culminate the transaction and therefore, we will get our funds as well.

Gunjan Prithyani: The second question I had was on the VSF industry now. Clearly, a very-very sharp pricing improvement after a long time. I just wanted to understand how much of it is also the supply which had gone off the market. I mean, is there any risk that some of the capacities which were taken out of the market start to come back, given the demand environment is improving? Just general sense on how should we think about the whole demand supply over the next 12-18 months.

Dilip Gaur: Gunjan, if you look at the numbers, in fact, what you are saying has already happened. The operation rate in China, which used to be, a lower 65% in Q2, we're now already at 80%. 80%-81% is a healthy utilisation rate. So even at that operation rate, the inventory is coming down consistently. So what it is telling you is the demand is far outstripping the supply. And the reason for that being twofold. One is the viscose demand per se has gone up. And second, the cotton yarn prices shot up significantly globally and everywhere else. So there is a shift from cotton to viscose and China, as you know, consumes about 8.5 million tonnes of cotton and produces 6 million tonnes of cotton. And then they import about 2-2.5 million tonnes of cotton yarn. So we are under huge pressure because of the growing size of yarn to use more and more viscose and that is what is driving the entire pricing system. So the prices are moving exponentially. Like Ashish mentioned, it was 1.8-1.85 as we speak in China in January. In December end, it was 1.45 or that kind of a number. So I think we are now coming to almost pre-COVID level of prices and the demand because inventory has come down to 10-11 days, which is a historic low and this is something we do a healthy inventory. So I think this is more demand driven than supply constraint.

Gunjan Prithyani: And there is no big capacity expected to commission?

Dilip Gaur: Yes, there's nothing coming because I think, 200,000-300,000 tonnes that we used to tin the de-bottlenecking, though the biggest one to come on stream in our capacity only, which I mentioned to you is only India for India.

Moderator: Our next question is from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: First question is on the VSF business. So one is you said $1.8 versus $1.4 price. So that is the Jan and Feb, just wanted to confirm that. And the second is you see the cost is also catching up and we benefit out of the lag. So if we factor in the spot prices and the spot pulp cost, what sort of margin change or spread change we will see at least directionally from what we have seen in 3Q of around Rs. 32 per kg? If you can give some sense on that, it would be very helpful.

Ashish Adukia: I think specific guidance on spread, we will not be able to give, but we can give you directionally the pulp price and how it has actually gone up in line with VSF price. So that, Dilip can give you some idea on.

Dilip Gaur: You have seen the Quarter 3 results, what you have seen, the pulp hasn't started running up the way, so most of the increase happened after the Quarter 3. So pulp today, as we speak, is almost at $890 per ton. Now pulp always follow the viscose, so unless viscose can pay, pulp cannot go up. So while you are right that the input prices are going up, but Quarter 4 will also see a rising price in viscose. So to my mind, delta will still remain favorable.

Sumangal Nevatia: Second, with respect to the Chemicals business, which is still struggling. So is it possible to share some more outlook as to how we see FY22 shaping up? Have we till date close to the bottom as far as cycle is concerned and either should move sideways or up north in the coming quarters, especially given there so much of capacity addition happening and the pipeline is also quite buildup?

Jayant Dua: So let me put it this way that the last couple of months, what we've been seeing is more lateral movement on the caustic prices marginally goes up, marginally coming down. So until unless there's significant demand supply scenario changes, I think we're kind of at the bottom of the cycle. Now as you put it very correctly that there is a substantial demand-supply gap at this point of time, so we really don't see and that even exists today. So I think this picture will be either it will do a lateral movement or it will do a marginal upward movement. I don't really see going down subsequently until unless the demand side significantly changes.

Moderator: We'll take our next question from the line of Gaurav Rateria from Morgan Stanley.

Gaurav Rateria: So firstly, on Chemicals, any outlook on what's happening on the duties, which got expired? Is it going to be reinstated, any color on that? And from what you talked about, that it appears that it has bottomed out on margins. What exactly one should try to understand that beyond this contribution margin, it will not make sense to increase supply automatically, the rebalancing of demand supply will happen?

Jayant Dua: So let's put it this way that we're still trying to assess that because now if we have to go back towards the Korea, China, which expired the sunset review, we have to go through the entire process of figuring out does it. So that's a long run process, which will take its own set of time. I think the industry is working towards it to see what they do next on that. To your point on the margin front. I think the picture is going to be as in more and more capacity utilisation increases and the industry open, as it is today has gone above 80% in this capacity utilisation, I think the margins are expected to only increase because there is enough demand in the market, both on the caustic side as well as the chlorine VAP side, plus chlorine consumption per se. So while it's a very delicately poised position at this point of time. Any demand decrease could have marginal deterioration of margins and any upside coming could lead to an increase in margin. So it's fairly fine tuned at this point of time. I won't get into margin guidance at this point of time because we're still in the process of ascertaining what we'll do for next year.

Kalyan Ram: Just to add, globally at Chemicals, I think there is a huge rebound. I think majority of Chemicals overall have recovered. We expect coming year to be significantly on a bullish side. And as Jayant said, the demand is looking strong, I think we will still see that we are at the bottom end of the cycle and we'll continue to have a similar level of a kind of lower-level pricing for the coming few months. But one thing you need to know is there has not been any significant capacity increase anywhere else in the world. Predominant capacity increases have been in India only. So as Jayant said, as and when the capacity starts to be utilised further, we should see both from a global perspective as well as an India perspective, we will start to see a rebound. So I think we are waiting. Just like you, we are waiting for the coming months.

Gaurav Rateria: Secondly, on VSF, given that the margins are so lucrative, prices have gone up so much. Do you think that there can be new supply which can come in? And even if it happens, how long does it take for the new supplier to really come in and get commissioned and start producing output in the market?

Dilip Gaur: If you're talking of putting up a new plant, it is anywhere between more than like 30 months to 36 months, 2.5 to 3 years.

Gaurav Rateria: And lastly, a question on capital allocation for Ashish. Bulk of the organic Capex will get funded by internal approval given the cycle has turned. Maybe we'll lever up the balance sheet to fund the investments in the paint business. From a medium-term 2 to 3 year perspective, are there any potential investments over and above the paints which one should keep in mind, either from a group company's point of view or any other organic investments?

Ashish Adukia: Yes, so what we see today, as we stand, there is capital demand from viscose continuing, there is Chemicals. And when I say Chemicals, it's Chemicals and some of the other sectors like insulator and VFY, so our stand-alone businesses. Paints will be another one. Now given all the capital demands from all these, okay, it is substantial enough for Grasim to take care from its internal accruals and we'll, of course, take debt to meet the requirement. So it's highly unlikely that there will be capital infuse or investments into any of the subsidiaries or JVs or associates or anything of that sort. Except, of course, solar, as we increase the capacity, the equity infusion is done by Grasim and equity is always a smaller portion out there. We generally fund it through out there. So that would be the broad capital allocation plan for Grasim.

Gaurav Rateria: So Ashish, does it also include the outlook for financial services? Like from no requirement from a subsidiary or joint venture that you mentioned?

Ashish Adukia: Yes. So as of now, as we stand, financial services, we've already infused to equity a year back. So we don't anticipate a requirement to come for some time. But financial services needs to be treated differently than other associate companies, etc. because it's a growing entity. It's delivering double-digit growth in its financials and we would like to maintain consolidating stake out there. So if it's a big dilution event out there and if we want to maintain the stake so that it is value-accretive for Grasim shareholders as well, we may infuse capital there. But let me put it a framework that I'm talking about, okay? There is absolutely no plan and there has been no proposal from financial services also that has come to us for any capital infusion.

Moderator: We'll take our next question from the line of Amit Murarka from Motilal Oswal.

Amit Murarka: So I just wanted to check on the expansions like the caustic 300 KTPA and given the VSF about 200-220 KTPA. When is the expected commissioning now of these expansions?

Jayant Dua: On the caustic side, like Ashish put it, we expect, by the end of Quarter 1 of next financial year, a large portion of the caustic capacity would be more or less up.

Amit Murarka: And how will be the ramp-up of the same?

Jayant Dua: So it will be a slow ramp-up, looking at any manufacturing process. I think by the time it reaches the industry level capacity utilisation; it will take the balance part of the year.

Amit Murarka: End of FY22, you're saying that it will be normal utilisation levels?

Jayant Dua: Yes.

Amit Murarka: And also, the VSF?

Dilip Gaur: VSF, the first line will come in Quarter 2 and the second will come in Quarter 3. And normally, it takes about 3 to 4 months for a full ramp-up. So the VSF, the demand is there. It's all up to us to how fast we stabilise the plant. So based on the past experience, it should be do-able in 3 to 4 months' time.

Amit Murarka: So when speaking of VSF ramp-up, will the export share go up or you think that you will be able to…

Dilip Gaur: Right now, as we speak, the domestic demand is really very high. We are not able to service all the demand. That's why we look at exports. So keeping the healthy level of exports that we have always been keeping, I think we should be able to sell quite a bit of it in the domestic market. As we speak, there's a lot of yarn still gets imported into India, which is slowly coming down. And that demand will come too with the fiber. So we expect a very healthy demand for the fiber atleast in FY22.

Amit Murarka: And just one more question on China. Like 2 years back when Sateri had done that big expansion. What I understand that there was a plan to expand that further actually later. So have you heard of any development on that second phase of expansion there?

Dilip Gaur: No, I think maybe your information, it's all hearsay, there's nothing on the piece of paper. But the announcement they have made about a lyocell. Suddenly, Sateri is saying that they will put up a 500,000 tonnes lyocell plant in China. If you look at the number, Lenzing which started lyocell 30 years back, is right now at about 250,000 tonnes per annum. So he is saying I'll become double the size of Lenzing in next 4 to 5 years. So to my mind, their focus right now is a lyocell plant in China. And they are trying to debottleneck like all of the other existing plants. So that everybody will do. When the market goes well, everyone starts to debottleneck their pipeline. So a few tonnes, you can always get from an existing production line.

Moderator: We'll take our next question from the line of Nirav Jimudia from Anvil Research.

Nirav Jimudia: I have two-part question. So one is on the chlorine VAP, which you mentioned in the presentation, that the EBITDAs have improved by almost 45% on a YoY basis. But if you can give some sense in terms of how it has performed on a QoQ basis given the weakness in the realisations that would be helpful. And if you can give some sense in terms of even the epoxy side. So how it has performed on a QoQ basis in terms of some percentages that would be helpful. So this is the first question, sir.

Ashish Adukia: Jayant, would you like to give some direction of VAP?

Jayant Dua: So let me put it this way. The chlorine consumption in India at the moment is fairly robust. So I think that's a big positive for us. The chlorine demand is now growing at a fairly rapid clip. It is actually growing faster than the caustic demand, which again, gives it a positive tick mark going forward. Now in the early part of the pandemic year, you had a huge surge of requirement of VAPs, particularly on the hygiene and sanitation part, which gave a very robust EBITDA growth to VAP products in that segment, of which we are the leaders. Now as the pandemic has slowly-slowly gotten to control, the demand for those VAPs have now come back to the earlier levels, which is business as usual and obviously has led to certain softening of prices, although still maintaining a positive EBITDA. So our VAPs EBITDA is very healthy. I will not get into numbers on that particular front. And we expect that they will continue to remain healthy as we go forward because there is an intrinsic behavior change of sanitation which is coming to the country and the world per se. So if I would tick mark, I would say chlorine demand is great, doing very well, growing at a good clip. VAP on hygiene, sanitation have upped their base level and are doing well. And the balance comes with seasonal VAPs, particularly as the rainfall comes, so the water sanitation demand goes up as the aquaculture comes, then those product goes up. So I think we are fairly well placed on our VAP side to continuously see a robust growth, both on the volume side and a healthy EBITDA.

Nirav Jimudia: And sir, on epoxy, like last quarter, you have given some indications in terms of our performance, some quantitative numbers also. But even if you can't discuss the quantitative number, just can you give some percentage growth in EBITDA or something like that? That would be helpful.

Ashish Adukia: So see, I think epoxy business, first of all, in the last quarter, was still on a ramp-up phase, coming out of COVID etc. But in Quarter 3, you enjoyed the benefit of volume and that came from auto sector as well as consumer sector. So there were actually three advantages really that epoxy business had. One is the volume pickup that happened in Quarter 3. Second, the realisation also went up in epoxy. And the third is that epoxy is, in a way, a pass-through business. So the raw material that they import, most of it, it's mainly a pass-through to the customer. So it has to be looked at from conversion basis. So if you make volume, you make that contribution per tonne. But there is some advantage that we got in epoxy due to the lag again of raw material prices. So we still had the inventory of some older inventory of DCS and BPA, which is at lower cost, which helped us with that small timing gap benefit that we had out there. So epoxy has actually performed much better than Q2 as well as on YoY basis and hopefully it will continue to do so in this quarter as well.

Nirav Jimudia: Second is on a slightly strategic one. So in terms of if we see our sales of VSF, it's like around 142,000 tonnes, as you have mentioned in the presentation. So if we make some breakups in terms of value-added as well as the Grey. Value-added, we have sold almost close to 31,000-32,000 tonnes. So as per what we have been trying to calculate it based on some backward numbers, it seems like out of our broad category of value-added products like Modal, Excel, flame-retardant, dope-dyed, it seems that less premium products as compared to Grey is sold more in this quarter. So if you can give some sense in terms of how this mix moves in this quarter as well as on a yearly basis, if you can give some sense on that.

Dilip Gaur: I think in a way, you are right. So there are four value-added products. We have dope-dyed. Then we had Modal. We have Excel. And we have got the recent one, Livaeco. Now, in a way, the dope-dyed, which goes in uniforms and office wear always. That you all know because of the COVID and the work from home, that segment is totally dead because the schools are closed, the children are not going to the schools. So that segment is where the consumption has come down and then that's a large consumption segment. If you look at Modal is a high delta, high value-added product, but low volume. Dope-dyed is a high-volume, but low value-added product. So you may make $0.20, $0.25, but the volume is 300 tonnes per day. So the multiplier is much bigger. That is now reviving. As we speak now, now offices are opening, people have started going out. What has been told now with the schools opening around the corner, the country will need 4 crore uniforms. There's going to be huge surge in the demand for the dope-dyed fiber for the uniform. So we believe that is coming back. Modal has done very well. Modal has done extremely well. It has grown back when we are growing. Livaeco is a great success story, I've told you again and again, because the first time we have got a premium on a commodity viscose because it is eco-friendly. So that's compensating, to a large extent, the dope-dyed loss. Otherwise, it would have had a much bigger loss. Fourth one was the lyocell, which got impacted in China because once Sateri announced this plan for 500,000 tonnes per year plan and he said I will bring down the prices, same story. The Lyocell price in demand suffered in China, it was more emotional response to Sateri's announcement. He couldn't realise that it doesn't happen like this, it takes years to build those kinds of volumes. So it is now recovering back. We are now seeing in Q4 quite a good uptick in Lyocell demand. I think the number what you have computed is an upward trend. So as Ashish said 13% went to 22%, 22 will go much further up in Q4.

Nirav Jimudia: Absolutely. A related question to this, it is safe to assume that we sell more of Modal, Excel in the domestic market more than in the export market?

Dilip Gaur: Because Modal and Excel is largely export market. We have grown very well in the last three to four months. I had to shift a lot of domestic use we were importing to our product and shifting from cotton to Lyocell, because price today is very favorable, we have done that role. Dope Dye, it is a largely India driven that we are the biggest in the world. That's how it is.

Nirav Jimudia: In terms of our competition also if we see like our biggest competitors is having some 2,80,000 tonnes of Modal capacity and 2,60,000 tonnes of Lyocell capacity.

Dilip Gaur: Not so much, they can't make more Modal. We have added our Modal capacity overseas, not here, but I think we can make good amount of Modal now.

Nirav Jimudia: So, when they try to penetrate in Indian market and when we try to fight against them, what all parameters force, one is like, if we try to rate them in terms of let's say, first is the distribution network, one is the post-sale services which we provide to the customers. Third is the quality and fourth is the price. So which all parameters we would like or we actually compete with them in the domestic market when they come and sell their products into India?

Dilip Gaur: The specialty is very different ball game. Only three parameters there. The foremost is a qualifying parameter, which is nomination because most of the specialty goes into brands. So brand nominate that I want of this, they certify a fabric. Because they do trials, they make garments, because they don't want the customer to have a different experience. Every time you make us, it's not like commodity viscose, you can buy from XYZ, but a specialty Modal even if my quality maybe as good as my competition, but that customer has to first use my Modal, make the product, try with the customer, get the feedback and then nominate me. So the whole effort why it takes time is a nomination cycle, which can be anywhere from six months to two years. So that is where the biggest differentiator, because Lenzing the competition had head start, where they had more nominations because they are European customer, we are getting those nominations and as we get the nominations our volume keeps growing, that's the biggest change. Once the nomination is there quality is a qualifying condition, it is all same quality. So price becomes number two. Even if I offer a lower price, if there is no formulation how nobody would like, so these are the parameters.

Nirav Jimudia: And post sales services also is a parameter because probably you would have more distribution network in India than the competitor and that also helps?

Dilip Gaur: This is by nature niche products, they are less or low volumes, high price. Service is more important for a product like viscose. I mean, you can default on the customer orders, you have to supply in time, but it's not the key element. This is very important element for the mass that's why we score over and you have a local producer and you are supplying local customer, you give just in time, you give technical service, you help them troubleshoot their plants. You help them do their productivity. It's a big differentiator for the mass, of course.

Moderator: Next question is from the line of Sanjeev Kumar Singh from Systematix Shares.

Sanjeev Kumar Singh: My question is related to the previous question. What I feel is that in VSF our license growth is only 9% QoQ, when in international market the prices are up by 20%. So is it because of higher pair of sales in the domestic market or can we expect higher prices increases going forward?

Ashish Adukia: No, actually, this is little bit competitive, sensitive information to talk about how much increase is expected in the domestic prices from now. I think it's suffice to say that there has been increase in the global prices and in line with that India prices have also gone up. It may not have gone up as much as the international prices. We have to take care. One of our ingredients and inherent strength that I talked about earlier is our customer centricity which we have to discuss and make sure that we react to price increases is in a calibrated way for the customer. Dilip, if you want to add anything to that.

Dilip Gaur: I think you have rightly said. Because we have been saying this on the time and again on the call, we do not blindly follow the global prices. We believe that the health of the value chain is very important, domestic value chain. You can take a price increase as long as the domestic value chain, the weaver in the system, the spinner in the system can withstand that. So global prices are a base, but what you actually do is also to make sure that there is a health of the value chain is maintained. What was happening, a lot of yarn imports happening into the country in quarter 3 and quarter 2. So to make sure that the import doesn't happen and our spinners get the opportunity to service that market, we decided on a price increase and in sync with that principle. So it will follow, but follows in a calibrated manner. Because you have two, the price and volume, you can get one and you destroy other doesn't make sense. So you must have both the multipliers with you.

Moderator: The next question is from the line of Prateek Kumar from Antique Stock Broking.

Prateek Kumar: My first question is on Capex, couple of years back, we announced this Capex plan of Rs. 7500 crore odd or Rs. 7800 crore which you mentioned in your presentation? How much of that, like in FY20 and FY21, I believe around Rs. 4,700 Capex would have been to, another 3000 left, are there any significant savings which they have done on that number which you gave like couple of years back?

Ashish Adukia: See, I think, when we gave a number of 7,500, it was multiple projects and since then the estimates have undergone change, broadly it remains the same, but the estimates can be few dollars here and there. But broadly, my guidance to you on Capex would be to actually focus on what we give in the next quarter rather than trying to figure out through the balance figure that is left. Though my guess is that the number that may come out will be around the balance figure over next two years. So that's what it should come out, that's been the history if you see of Grasim where the numbers of Capex tend to be around 2000-2500 somewhere around that range. But, very-very like I told I think in the earlier question as well, it's best to wait until the plan is approved by the Board.

Prateek Kumar: And secondly on fixed cost we had like several cost savings of 6% in Q2, some of those which are not sustainable, have they all come back or some of them can still come back like you told?

Ashish Adukia: I think our approach to fixed cost was different. We attacked fixed costs to actually have sustainable savings in the fixed cost rather than just because of COVID everyone fixed cost we also did so. Fixed cost saving is continued in Q3 as well. And if YoY basis there is a double digit reduction in the fixed cost savings as well. So there are conscious programs that we have planned to reduce the fixed cost.

Prateek Kumar: Just one last question on the VSF spread. So a spread like where we have exit this quarter. So can it likely cross our previous highs in Q4 which we had in Q1FY19, given the sharp increase in domestic price?

Dilip Gaur: But all one can say the demand is healthy and trends are good, that’s all.

Moderator: The next question is from the line of Bhavin Chheda from Enam Holdings.

Bhavin Chheda: Just on the Capex, since there is bit confusion. So VSF, we are largely completing 0.8 million by first half and Chemicals also, we are largely completing by quarter one, except for that 73,000 Phase 2, which will take time. And your slide says your pending Capex is Rs. 1000 crore. So over and above this for completing this VSF and Chemical announced expansion there would be some number in FY22. That's the number only left, right? And is this a substantial number or it is less than in Rs. 2,000 crore?

Ashish Adukia: So again, I said that it's difficult to give that guidance. What see, in terms of expansions in VSF, it will be over. So unlikely that the number will be large Capex coming out of VSF. In Chemicals, there are multiple projects, that are VAP projects, that there are power saving projects, which they may want to take and it's a multi locational business. So it's always difficult to say what the Capex there would be. So I would still encourage that and then we have to also look at paints.

Bhavin Chheda: No, I am saying it's a non-paint business. Only the current business, VSF and Chemical which is getting largely completed in first half. Paints, we understand there was a separate call and it would be.

Ashish Adukia: My point is different. My point is that now we have commitment towards paints as well, so we have to look at the overall picture and overall number as well. So we can't keep looking at things individually because then we have to see how much the balance sheet of Grasim can support without us breaching the certain levels of net debt to EBITDA etc. So therefore, I'm suggesting that let's look at the number in the next quarter for the Capex.

Bhavin Chheda: And earlier you said that this VSF incremental capacity, which is coming in just takes 3 to 4 months to overall stabilize. So this incremental over 2,19,000 should have a full blow in second half of FY22? Because based the demand situation is the market is already there, it's how much you churn out from your production line. So if all goes well, that incremental 2,19,000 can be available at optimum in second half. Is that assumption correct?

Ashish Adukia: It comes in phases, the first line is coming in Quarter 2. So that can possibly be available if all goes well for two quarters. But the second is come in Quarter 3. If all goes well it will get 1 quarter full blast. This all will be partial.

Moderator: The next question is from the line of Madhav Marda from Fidelity Investments.

Madhav Marda: I just wanted a quick update from you on the CPVC project that we had announced. Any update on the time line there? And I understand that the Capex there will be quite limited to negligible from Grasim side. But in terms of the management fees or however the contract would be, how much of an EBITDA contribution can one expect from that project?

Ashish Adukia: So, on the Capex front, Kalyan would you like to give that update? I think on EBITDA front we have said last time also, that will be part of the VAP EBITDA. We're not giving out a specific number out there like we don't give for each component in Chemicals what number is. So but I had also said and I'll repeat that the, what we get as EBITDA per tonne of chlorine, if you look at that measure out there, then it is likely to be better than the blended EBITDA per tonne of chlorine that we get today from our VAP that we produce. So that may give you that idea that it is better and it's high in terms of profitability. Kalyan, would you like to give that update?

Kalyan Ram: Yes. So when we established this alliance partnership, I think we had three things in mind. One was full-fledged chlorine integration with the player, of world-class player. We wanted to bring world-class technology and we would then automatically have a certain fixed margin to ourselves. And three, we will be indirectly linked to a segment which is growing fastest and environmentally friendlier. I think those are the three criteria. So as Ashish already said, the chlorine integration and then related other utilities, affluence and related byproducts have come in, there is a value to it. We can't share in that sense because each product is quite different and we don't go into that kind that level of detail. We also have within the partnership and alliance, certain fixed margins and that is another one which we get value from. As of now, the project discussions have started. I think the teams are working on layout and designing. I think we are on track with what we said we would do in terms of the time line. Anything else, Jayant, you want to add?

Jayant Dua: No, I think you're right, summed it up, Kalyan. But in terms of the project timelines, there is a lot of back and forth which is happening in terms of how to expedite and the detail engineering that will be happening in the back end and discussions are happening, like on the layout, to see how soon can we get the plants running up and running. But yes, if you ask me it will take another about 24 to 30 odd months before we will see physical production to start commencing.

Kalyan Ram: I think one thing which I want to leave with is these are the types of alliances and partnerships you would see more of from Grasim, where world-class technologies come in, we will leverage on the capabilities of manufacturing in India and Atmanirbhar Bharat. And we also want to invest in capacities, which is not for India alone for but for globally and hence even these capacities that we are investing is globally the largest in 2 phases. So that intent will continue more of and this is I believe and hopefully if all goes well, then there is a starting point of many.

Moderator: The next question is from the line of Sanjay Parekh from Nippon India Asset Management.

Sanjay Parekh: So one of the question just Kalyan answered, which I had of, can there be more of such alliances like the one that with Lubrizol? So that is answered but in case you want to expand on that of what potential there it's a win-win wherein the chlorine can be used for value-added products, we get a fixed type of revenues and it reduces the cyclicality of the business. So that piece, if we can get more elaboration, it will help. If not, it's okay. The second is for Ashish. We're supposed to get money for the fertiliser plant and 1000 crore plus for the to be spent in fourth quarter. If I take the next 3 years broadly cash profit that we make and this is assuming that we make steady sales like what we will have in Q3, Q4, then even if we invest into the paints the entire Rs. 5000 crore, we would actually and we spend 2000 crore Capex, let's say for FY22 and FY23, in the next 3-year time frame our debt would actually not go beyond 1000-1500 crore. That's the calculation I'm coming to. Am I right? I mean, it does have one assumption that the EBITDA that we see would be steady, which is a big assumption. But if that is the case, then the debt actually doesn't go up. It will remain in the range of 1000-1500 crore for the next, in the interim they would go up. But by and large, it remains in that band in the next 3 years. Am I right in this or I am going wrong somewhere?

Kalyan Ram: Yes. So just let me add one last bit regarding the overall capabilities. I think we have two large businesses in Chemicals, one is much more linked to petro-chemicals, like epoxy resins, we now call it advanced materials. And the other is Chlor-alkali which is the foundation and a core raw material inorganic segment. But overseas, these petrochemical inorganic and organic complexes are integrated. We haven't yet leveraged, so we are thinking how the next stage of things, how these things become more of integrated complexes. So in that area, we see a lot of potential for partnership and alliances. We also not only think of alliances and partnerships on that end, but also integrating Chlor-alkali and advanced materials and then downstream. So we see a lot of opportunities. So hopefully, some things will materialise in the future. Over to you Ashish.

Ashish Adukia: Yes. So I think the calculation seems, it again difficult to say what the debt level 3 years down line will be because it has basically you can say three components to it, right? One is EBITDA, for the next 3 years. So I can give you a directional view of how you can calculate. So EBITDA, you have to make an assumption that Grasim EBITDA this year is not so relevant because you lost two quarters, right? But Quarter 3, Quarter 4 would be more representative of EBITDA out here. And then there's an expansion that will finish next year for both. So you can take second half for both expansions to come through. So the expanded EBITDA of Grasim that should be taken. Then there is Grasim's own Capex, right, which you can take maintenance plus the projects that we will tell you about, but you can take a broad number out there, okay, for that's your own assumption because we are not giving any guidance there. When it comes to the paints EBITDA, which can be negative for a few initial years, okay and this paints Capex, right, that we have given as of now. So these are the 3, 4 components you have to put together. Now after EBITDA also, there are tax outflows, there are dividend outflows; there are other things also that go out, in which interest etc. which probably you've not taken into your account. So if you do this broad calculation, you should be able to get some idea of your own estimate of what the debt level would be.

Sanjay Parekh: Sure, I did look at cash profit and of course the dividends. But what I'll do is I'll call you off-line and may be understand.

Dilip Gaur: But Ashish, your biggest guidance is that the debt EBITDA you will control, so you will never let the debt go beyond the limit.

Ashish Adukia: Yes. You're absolutely right and we gave that guidance last time also, that we maintain a threshold that we focus on, which should be three to maybe three and a quarter or something of that sort and we wouldn’t like to breach that.

Dilip Gaur: And one more thing which we did, it can’t be quantified, but we have been saving a lot of cash on the working capital side. It is an ongoing exercise. It keeps on happening year-on-year. Lot of cash business source through working capital control also.

Moderator: The next question is from the line of Keyur Shah from PNB MetLife.

Keyur Shah: I think most of my questions have been answered. Just if you could offer any comment on any potential investment that could be required on the telecom side of the business?

Ashish Adukia: No, nothing at all. We have got our priorities that the stand-alone business for which funds are required.

Keyur Shah: So we don't envisage any near-term investment on that side?

Ashish Adukia: No.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to Mr. Ashish Adukia for closing comments.

Ashish Adukia: Yes, thanks a lot. Great questions on back of an excellent performance in Q3. We hope that this continues. So we will connect with you guys with more clarity on Capex and paints etc. perhaps in the next quarter. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Grasim Industries Limited that concludes this conference. Thank you for joining us.