"Grasim Industries Limited Q4 FY-21 Investor Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Grasim Industries' Q4 FY21 Investor Conference Call. We have with us today from the management, Mr. Dilip Gaur – Managing Director; Mr. Kalyan Ram – CEO-Global Chemicals & Group Business Head, Fertilizers and Insulators; Mr. Jayant Dua – Chief Executive Officer, Chemical Division; 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone.

I would now like to hand the conference over to Mr. Ashish Adukia-CFO. Thank you and over to you, sir.

Ashish Adukia: Good afternoon to all the participants. I hope that you and your families are safe. The FY21 was a year of two halves. We started on a very grim note in quarter 1 with low operating rates across all our plants which were followed actually by a solid recovery from quarter 3 onwards. In this quarter presentation we would like to start the discussion with highlighting the qualities of Viscose as a green fiber.

What makes Viscose the green fiber is based on three tenets which are green product, green technology and green ecosystem. These are highlighted on in the presentation on Page 4 which has already been uploaded. We have listed down six powerful credentials of Viscose which makes it superior product on the sustainability front. Viscose is made from ethically 100% sourced wood and from sustainably managed forests.

The land for Viscose does not require added fertilizer or pesticides therefore there is no use of chemicals for growing its raw materials. Viscose needs very less amount of water as compared to other natural fibers during its lifecycle which makes it low on water consumption. Viscose is also fully biodegradable in eight weeks in comparison to that the other fibers take much longer.

Additionally, pre and post-consumer waste can be converted into fiber again resulting in circularity. Grasim is one of the companies which have all the three generations of fiber under one roof which are Viscose, Modal and Lyocell. The Lyocell technology is a close look technology with an exceptional recovery rate of key chemicals such as NMMO which is recovered by more than 99.7%. Even the recovered water from the process is reused.

We are currently implementing a close look technology in all our Viscose plants which will lead to reduction in emissions to air and water and improve the working ambience and also cut down on raw material consumptions. We also have unparallel focus on adopting global standards and systems accepted and recognized globally. We have received Higg FEM 3.0 average scores for all our sites and we are committed to achieve stringent EU Batch Norm for all our sites by December 2022.

Key to create ecological value is to use less. On Page 6 you will see how we have reduced the use of water, caustic and focused on reducing emissions.

Moving on to the third tenet which is green ecosystem, it is about making an impact that goes beyond your own operations. The three pillars of green ecosystem are responsible sourcing and the supply chain, valuable partnerships and social responsibility. We ensured that we source our wood pulp requirements for certified polyester that follows responsible practices.

We work with our partners in the entire value chain to impart the importance of sustainability. We have partnered with GreenTrack that provides end-to-end supply chain traceability for textile industry. We have also been making a positive impact to the society around us for many yeaRs.As a company we have actively engaged with more than a million people across several states. Our CSR spends are focused on education, supporting 25,000 plus students helped sustainability livelihood supporting almost 14,000 plus farmers, infrastructure development and women empowerment.

Our efforts towards sustainability has not gone unnoticed. Under responsible sourcing VSF was ranked number one in the Canopy's Hot Button Report 2020 with Dark Green Shirt rating. The VSF business received the prestigious Innovation and Sustainable Supply Chain Award from United Nations' Global Compact Network India in 2021.

The business was given the award for its pioneering innovation relating to recycled and circular fiber made with pre-consumer fabric waste based on our in-house technology. Let me now switch to the operational and financial performance of the company. The fertilizer business divestment process is expected to be completed by quarter 2 FY22 after receipt of NCLT approvals for the scheme of arrangements amongst other pending approvals.

The reported financials has already classified it as discontinued operations. Grasim Premium Fabric Limited is the erstwhile Soktas India which was a subsidiary of the company has received the approval for merger with the appointed date of 1st April 2019. We are yet to file the final order with the ROC but has substantial steps are already over, the financials of this subsidiary has been incorporated as part of textile segment of the company.

In the fourth quarter all our businesses witnessed all around improvement in operational performance on back of strong consumer sentiments due to receding Covid cases. The financial performance of VSF Epoxy Textiles was much ahead of expectation in this quarter. The global textile fiber demand witnessed a sharp recovery in second half lead by spurt in consumer demand and restocking of the dry supply pipeline.

The growing consumer preference for comfortable casual and value for money clothing has spurt demand for Cellulosic Fiber and VSF has been key beneficiary of this shift. In India VSF plants operated at full capacity for two successive quarters, the domestic demand grew by 9% YoY in Quarter 4. The share of value added products in the overall sales mix also improved to 26% in quarter 4 as against 22% in quarter 3.

The VSF prices in China traded at their multiyear high in China. The VSF prices rose from ¥12,800 in Chan to ¥15,800 in March 2021. This was driven by strong consumer demand, restocking and rise in cotton prices during the last 12 months. China's VSF inventory at plants declined significantly from 45 days in April to 13 days in March. The VSF business reported one of the highest EBITDA of Rs.548 crores during quarter 4.

As part of VSF segment, the VFY business reported revenue of Rs.465 crores and EBITDA of Rs.77 crores in the quarter. The Chlor-Alkali capacity utilization touched 94% in quarter 4 from 89% in quarter 3. The international caustic soda prices improved sequentially lead by temporary supply disruption in the later part of the quarter. In the chemical segment the advanced material business that is epoxy business witnessed sales volume growth driven by demand across segments especially wind and auto segments.

The sector witnessed a demand outstripping the supply due to raw material constraints coupled with disruption at certain global manufacturers leading to exceptional performance. Our consolidated revenue for quarter 4 rose to Rs.24,399 crores up 26% YoY and the EBITDA and PAT was Rs.5,142 crores and Rs.1,715 crores respectively jumping 62% and 14% YoY respectively.

On the standalone basis excluding the discontinued operations of fertilizers adds revenue and EBITDA for quarter 4 stood at Rs.4,394 crores and Rs.880 crores respectively. EBITDA reported a YoY improvement of 121%. The revenue and EBITDA for the discontinued operations of fertilizer for quarter 4 stood at Rs.561 crores and Rs.33 crores and has not been included in the published financials. On CAPEX, you may please refer to Page 14 of the investor presentation.

The total CAPEX spent for FY21 stood at Rs.1,508 crores. The CAPEX plan for FY22 excluding paints and fertilizer is Rs.2,604 crores which includes the VSF expansion project at Vilayat with line 1 scheduled to be commissioned in quarter 2 of FY22 and line 2 will be commissioned in quarter 3 of FY22. The other CAPEX includes Grasim's plans to invest towards increasing its advanced material i.e. epoxy business capacity the 125 KTPA. This will be done through a brownfield expansion at the existing location at Vilayat, Gujarat.

This will include standard and specialty epoxy products along with curing agents. Being an industry leader Grasim will continue to play a proactive role in growing and supporting the demand growth of epoxy. In the Chlor-Alkali business, Grasim plans to invest in 200 TPD caustic brownfield expansion at Vilayat. This would take the total capacity to 1,400 TPD at its Vilayat site and will primarily meet the customer's requirement in the country's western region including that the requirement of VSF business which will also be commissioning its expanded capacity.

The expansion will be commissioned in 24 months post receipt of statutory clearances and approvals. The expansion of chemicals VAP which is in various different VAPs will improve the overall Chlorine integration to about 40% by FY25. This is excluding what we planned to sell to our customers through pipelines. We have successfully commissioned 182 MW of new capacity in our solar business during FY21 taking the total capacity of solar to 502 MW. I would like to remind you that the solar business is our subsidiary, it is not a division so it is not included in the CAPEX slide that you are seeing.

It is a subsidiary, so it is separately captured. In next two years we are scheduled to add another 343 MW of new capacities. Our balance sheet has stayed strong despite headwinds in H1. At the end of the year the consolidated net debt stands reduced to Rs.8,831 crores, 58% reduction from March 20 levels. At standalone level the net debt reduced from Rs.2,999 crores in March 20 which included the debt of erstwhile Soktas which has got merged now to only Rs.914 crores in March 21.

Based on a performance and comfortable liquidity position the board of directors of Grasim has recommended a dividend of Rs.5 per share for the year ended 31st March 2021 and in addition to that a special dividend of Rs.4 per share taking the total dividend to Rs.9 per share. The total outflow on account of the dividend would be Rs.592 crores.

In terms of outlook, we expect the second wave of Covid to impact the operational and financial performance during the lockdown due to the demand slowdown but we expect the recovery to happen as smart as last year after the lockdown is over. With our inherent financial strength operational excellence and diverse product portfolio of cement, financial services, Viscose and chemicals we have always demonstrated the ability to be resilient and rebound quickly.

So, now I would like to hand it back to the operator for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Prayatn Mahajan from Kotak. Please go ahead.

Sumangal Nevatia: This is Sumangal Nevatia from Kotak. First question is with respect to the VSF business, a very strong recovery but starting April we are seeing some softness in prices and also cost is expected to catch up as far as pulp is concerned. So, is it possible to share some color both on prices and cost in Q4 21 how is it moving? And also what is the recent volume trends given the recent lockdown and restrictions in the country?

Ashish Adukia: Dilip?

Dilip Gaur: I could not hear the question properly. It is about Q4?

Ashish Adukia: No, so Dilip, the question is regarding the second wave of Covid how it has impacted both price and volume?

Dilip Gaur: And something about pulp he wanted to know, right?

Ashish Adukia: And yes, the pulp price because the cost is going up.

Dilip Gaur: If you look at the quarter 4 and as we were during the quarter 4 the demand was very strong. I think India witnessed the highest ever consumption of Viscose per day in the March quarter and until the lockdown was imposed the going was pretty strong in the Indian market. The prices and also global prices have been in the peak in the quarter 4 but those prices are exceptionally high because of there was an underlying demand but there was a lot of restocking happening.

So, we expected some rebalancing of the prices to happen. So, to that extent yes, there were some moderation in the prices but still the VSF prices remain quite attractive as the quarter ended. With the lockdown because as you know a typical textile from fiber to garment at least moving across 4 to 5 states. So, whenever there is lockdown our entire value chain gets distorted. So, to that extent yes, there has been a demand bumps and I think the domestic demand has come down significantly because of lockdown.

And particularly in South in Tamil Nadu has hit very badly and the April demand loss was about 25% may be even higher. So, what we are doing but the underlying sentiment driven is very strong. So, when we talk to the value chain we believe that the day lockdown is lifted there will be an ostensive demand that will pick up very faster.

The good news is that the global market continues to remain very strong. People who have the export businesses are doing extremely well so the export businesses are going through struggle and I think the US economy is doing well. There are retail players have done very well in the sense sales are doing well. So, to my mind I think once the road bump of lockdown gets over the demand will come back to its healthy levels.

Yes, like all commodities the pulp prices also have ran up but there is the overview because the pulp has gone up there is a lag of VSF because VSF has already if you look at the VSF prices they have gone up by 54% YoY. So, pulp is not catching up. In our case the advantage is that if you recall last two years when the pulp prices were falling because as our pricing is one quarter behind we had always losing but today we will at least for two quarters we get the benefits.

Our conventional cost of pulp is not going as far as the market price is going up. So, to that extent major advantage our business has. Does that answer your question?

Ashish Adukia: Yes. I think one more point is what has happened is that of course the spread of VSF over pulp has gone up significantly and it has gone beyond even FY19 levels which will normalize with the pulp prices also catching up.

Sumangal Nevatia: Sir, is it fair to conclude that fourth quarter we have hit the peak in terms of margins given the benefit of lead in VSF prices versus pulp, is that a fair assessment?

Dilip Gaur: I could not hear, can you repeat your question once again?

Ashish Adukia: Yes, I think Dilip, what Sumangal is asking is that is it fair to conclude that quarter 4 was the peak for viscose?

Sumangal Nevatia: Yes obviously because you see it was not only the demand growth there were restocking happening so it was a multiyear peak.

Sumangal Nevatia: Second question is with respect to the CAPEX so Ashish, last year fourth quarter the outstanding CAPEX was somewhere around Rs.5,000 crores. This year we spent Rs.1,500 crores and plan is another Rs.2,500 crores odd in FY22. So, from a design CAPEX around Rs.1,000 odd crores is still pending which would be spent in the following year. Is that a right understanding of our CAPEX plan?

Ashish Adukia: No, so Sumangal, I do not think you should read it that way. I think earlier we used to give the sanctioned amount which was more of an outstanding CAPEX and then we used to show year wise break up. I think to give better guidance to the market because it was very difficult to give outlook of two years down the line what the CAPEX would be. To give a better outlook now we are giving one year outlook of CAPEX which is other than for paints and fertilizers it is Rs.2,600 crores. So, that is how you should be reading the chart.

Do not calculate the balance amount and assume that that would be the future amount.

Sumangal Nevatia: Okay but I mean in terms of all our ongoing projects when we be completing all the expenditures towards those in this year itself or there will be leftover?

Ashish Adukia: No, so VSF 600 TPD what I talked about the two lines in Vilayat will complete in quarter 2, quarter 3. The Chlor-Alkali capacity expansion which is ongoing in Vilayat, the current ongoing in Vilayat and Rehla and Balabhadrapuram. There has been some delay in these capacities to come because of the Covid. So, the local situation in for example Balabhadrapuram is not good so therefore we are having to push out the CAPEX commissioning.

So, there is some delay out there. In terms of Vilayat, new 200 TPD we are giving a guidance of 24 months after receiving the statutory approvals. These are the broad timelines of the current plan that I talked about. Jayant, if anything that you would like to add in than please feel free?

Jayant Dua: The only thing I would add over here Sumangal is like our caustic projects. That will come up in Vilayat again early H2. So, Rehla will come in early H2, V V Puram Phase 1 will come in early H2 and as the 200 fresh expansion will take another 24 months. So, we have a fairly large set of projects which are going to be coming up in the Chlor-Alkali business in this year starting H2 early till the end of the year getting commissioned.

Sumangal Nevatia: Just one small clarification. So, the CAPEX like mentioned x of paint so does it mean that this year there will not be any start up CAPEX in the paint business or we are still very early to share details on that business?

Ashish Adukia: Yes, it is a latter so there will be CAPEX in paints business but as you know that it is only about 3, 4 months back that we discussed about entering into paints business so we are still formulating our strategy and CAPEX plan as we are going along. We are looking at land acquisition etcetera for the locations of our plant. So, right now it is too early to say what the CAPEX guidance for the year would be so therefore we are just maintaining the earlier guidance that was given right now which is Rs.5,000 crores over three years of CAPEX. And as we get more clarity we will feedback that to our investors.

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

Nirav Jimudia: Sir, I have two questions. So, one is on VSF and then on chemical. So, first on VSF. Sir, VSF prices like in the presentation you have shown that it has moved up from the grey VSF prices have moved from almost $1.2 a kilo to almost now $2 to $2.2 a kilo. So, how does the premium moves for the value added or the specialty VSF because if I recall it correctly in Q2 Conference Call you had mentioned that premium for Modal, Excel is generally $1 premium to the grey VSF prices.

So, let us say if grey VSF prices were $1.2 in Q2 and now at $2 so how does the premium moves for the specialty because what I find from the numbers is I think the value added premiums have slightly shrinked as compared to what we were earlier doing so let us say in H1 FY21? So, if you can give us some sort of explanation here? And a related question for specialty VSF is that how is the market for specialty VSF in India?

So, how it is growing over the years and if you can explain our market share in terms of the growth what we have seen in the specialty VSF market in India? So, this is about VSF.

Dilip Gaur: Good question. So, I will respond to first your premium part of it. If you recall our earlier conversations I had told you the premium always goes up when the base VSF price is less. So, if you recall our conversations on couple of occasions I have already said that the premium goes up when the base VSF price goes down because there is a band in which the premium price works. If you take a Modal price there is Rs.18,000 to Rs.20,000 is the price. So, when your base price goes down you will see the premium going very high, it went up to $1 plus last time.

So, to that previous back in the history when the prices were again $2 the premium has gone down to $0.6. So, there is always a healthy premium in those bands, $0.6-$1 band. Now when the base price has gone up the premium has shrunk to that extent. The point is the other thing is the premium products are a mix of there is the Modal, there is dope dyed, there is Lyocell or Excel and there is Livaeco. So, different products have got different premiums. You have to look at each category. There is no flat premium across the board.

The third is one product which is the Lyocell or Excel product where there has been a bit of a structural change in the market because there are lot of Chinese capacity has started have been announced basically. They have not come on the ground but have been announced.

The Chinese have been able to make not the quality of Excel or Lyocell which perhaps we make or our European competition makes but that is good enough for certain applications to go in the blend. So, that has lowered because in anticipation of the very huge capacity announcement there was a temporary dip in the price of Lyocell in Chinese markets. Because one of the competition announced that I will sell Lyocell at just in 2000 renminbi premium to Viscose without anything on the ground. It was more sentimental response but it is now recovering back.

So, you did see a little bit of transition on the premium part of it. But the fact remains that in all these things the markets have been very strong. Because one of the big JV has even all along has been the demand for premium market. So, I think the Modal is doing extremely well so there is a huge surge in the margins across the world.

The second part of the premium market which I have spoken to you about the ecofriendly variance of Viscose. And the brand we have been very, very enthusiastic in receiving this brand. So, a lot of commodity viscose has been to the eco-viscose. They will get a 15-20 cents premium. Now that is a huge premium because there is no difference of fiber. What you do, you make it in via a process which is more energy efficient. You make it with and will give flexibility.

So, that has been a very big change. So, I think to that extent the whole textile world is shifting more and more to specialty fiber. That is a good thing for the fiber business. And if you have seen our share of specialty is one of the 400 basis points. You asked a question the Indian market for specialty is moving significantly because we have got a CAGR of more than 20%.

In fact, we had taken a very ambitious figure of growing the specialty market in India which we have fair estimate. To our mind I think specialty in India is taking off pretty well and we have got the market leadership now. We are leader in the market share. We will be about 20%, 25% earlier. So, I think is what has happened.

Nirav Jimudia: The second question is on the chemical side. So, like if I see your quarter-on-quarter EBITDA I think, it has not moved up much so one of the statement in the presentation is that caustic has been some cost pressure probably. So, the cost increase is mainly because of the power cost or any other reason? So, this is one and a related question is, if we see for the epoxy what you have rightly mentioned in your opening remarks also.

What we have seen is that the percentage increase in the prices of LER is more than probably all the raw materials put together be it bisphenol or be it epichlorohydrin. But when we see the profitability I think it has not moved from much on a quarter-on-quarter basis. So, if you can help us understand that is there any lag effect which would be visible in H1 of FY22 and if you can give some understanding about our expansion also?

Because I think we have announced an expansion by 125,000 tons for epoxy. So, are we also planning some backward integration like some of the players in India have announced standalone capacities for epichlorohydrin? So, are we also planning same sort of backward integration?

Ashish Adukia: Jayant, would you like to comment for the caustic side of chemicals?

Jayant Dua: Yes, I think the larger impact on a flattish kind of a situation on caustic is due to the international prices which really started seeing a little bit of an uptick in the later part of March of the last quarter. While on the commodity side I think each one of us knows that the prices did go up. But I think our power management we did a good job and are actually we were not impacted too much in the power cost within the coal increases which happened.

But the results are more because of the caustic price movement rather than anything else on that particular front. I hope that answers your question?

Nirav Jimudia: Yes, because I think we see our realizations were also higher on a quarter-on-quarter basis. I think what you have?

Jayant Dua: Marginally higher compared to the earlier one. Not significantly higher. So, that is what I am saying. The large part of the quarter there was an uptick basically due to the winter strong in US which led to a little bit of a demand supply situation which did help to move the prices up.

Ashish Adukia: So, in the cost side basically there were some also repairs and maintenance etcetera of the plant which increased the cost bit more than quarter 4 in comparison to quarter 3. On the epoxy front I will request Kalyan to come in. I think there are couple of questions out here on epoxy. One is on the prices increase in realization had increased quite a bit but according to Viral the margin has not reflective of that, is it because of the cost increase?

Kalyan Ram: So, I will take that, Ashish?

Ashish Adukia: Please go ahead.

Kalyan Ram: So, epoxy as a business has always been an extremely steady business for us. We are in business where we are now more or less sold out on our epoxy capacities. And what happened in the last six months has been more with bisphenol. Globally bisphenol for various reasons initially force majeure and later on a real severe shortage through supply chains has not been very easily accessible whereas the demand has been picking up for the end products whether it is just as resins or in terms of our own formulations we offer up to the formulations, the specialties as well as formulations.

So, when bisphenol became severely short majority of epoxy players have actually not run their plants 100%. They could only run at say 90%, 85%, 95%. What we have done is we look at it as product, as formulation and as a solution. Within the raw materials that we have accessed because we had one of the better supply chains so we could get majority of our raw materials which we had a plan for at least in the Vilayat plant and we have used it for gaining our key customers and their requirements mostly from both products as well as solutions.

So, in a way it is hypothetical whether bisphenol was low priced or higher priced. It was not just available after a while. So, it is about getting access whereas once you get access you would definitely be able to pitch it at a much higher price. What we expect in the next one or two months this might flip slightly. We expect at least for the next month or so up to June this quarter should still be fairly strong.

Still the raw materials are fully not available. When the raw materials are fully available by second quarter the prices might soften a bit but still we expect the market to be strong because end of the day all of the downstream coatings, electrical, auto, wind all are going strong. That is also one reason for us we have sold out and we are looking at expansion.

Nirav Jimudia: And on the integration side sir, if you can?

Kalyan Ram: Yes, so very obvious if you can think of it we are the largest Chlor-Alkali player. We are the largest epoxy player and we are highly integrated across the board and we are a chlorine derivate player. So, it is very obvious that we should be putting the largest ECH plant too. It is at an advanced consideration, it is being reviewed, and it is being finalized. May be we will have something to tell you in a short period in future.

Moderator: Thank you. The next question is from the line of Chirag Sureka from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: This is Vivek Ramakrishnan. I just wanted to know about your leverage policy because your net debt has come down significantly and the way I see it is even giving a CAPEX on some fertilizer sales and internal accruals so you will be probably net debt negative or you will be cash positive in a matter of a year or so. Could you please explain where would you like to take this?

Ashish Adukia: Yes, sure. I think see I would not like to comment on hitting net cash by end of the year because we have certain CAPEX plans. We have not yet discussed paints' CAPEX but if you include paints' CAPEX then it is possible that we will not be able to go back to the net cash position. But overall if you look at the policy that we follow, is to stay AAA for Grasim.

I think it is very important that we remain investment grade both in the international as well as domestic markets because that is the leverage that I have in terms of my cost of debt and my ability to therefore undertake projects and implement projects. Our AAA balance sheet also helps our subsidiaries like ABCL to get good cost of debt as well. So, it improves the return for the equity holders because of their margins, NIM etcetera going up.

And therefore keeping that in mind of keeping a strong investment great balance sheet. We do not like to go definitely not beyond 3 times on a net debt basis but that is really on the outer limit where I have to get worried and start doing things like selling a non-core etcetera to make sure you come back but I do not anticipate our net debt to EBITDA ratio in the next 5 years going beyond 2 times, 2.5 times even with implementation of our paints' CAPEX.

Moderator: Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: Sir, my first question is on your CAPEX. Sir, last quarter we fall like while the numbers were not given very precisely but you were sort of thinking of pending CAPEX of around Rs.2,500 crores for next two years now we are seeing at Rs.2,600 crores for FY22. So, just wanted to understand what is the new CAPEX which is around in this quarter particularly on new expansion projects on epoxy and caustic and otherwise?

Ashish Adukia: Sure so without giving the numbers like I said the new CAPEX that is there is your Vilayat 200 TPD so Viscose there is no new CAPEX. Let me first clarify that. In chemicals we have taken Vilayat 200 TPD and this is going to be an incremental CAPEX is going to be very small because this is a brownfield expansion. The infrastructure utility etcetera is all there in Vilayat so there is no question of a large CAPEX out here. Then there are couple of value-added products which is the chlorine derivatives which we have also included.

So, you talked about chloromethane so like that there are few more that we have budgeted for. We are not disclosing right now for competitive reasons of what those products are but those are some of the products that are there in chemicals. Then I have talked about Epoxy. Epoxy while it is not a very large CAPEX but amongst the CAPEX between chemicals and others than VSF which is pending.

That is probably one of the larger CAPEX that is there for epoxy. And other than that, in VSY we are considering and right now we have budgeted for a small CSY expansion.

So, you have three products out there, PSY, CSY and SSY and CSY and SSY are much better contribution products in comparison to PSY. So, over a period of time we want to make the VFY product mix more oriented to the higher margin products so that is why the whole idea is to put up some capacity in CSY. So, that is broadly what the overall plan in CAPEX is.

Prateek Kumar: The erstwhile caustic expansion we were looking to have a caustic capacity to 145 KTPA that was expected by Q1 FY 22 now when do we expect that capacity?

Ashish Adukia: Sure. So, that capacity like Jayant mentioned is likely to come in the early second half. So, there is it was supposed to have come in quarter 1, quarter 2 but it has got delayed to second half because of Covid. And what you see out there in the chart is additional 200 TPD which I was so another 73 KTPA which will take 24 months.

Prateek Kumar: On VSF profitability like the prices I mean based on our channel checks like pricing look very high strong on quarter-on-quarter. It sort of close to profit but cost also seems to have increased by 15% quarter-on-quarter. So, has there been already impact of higher pulp during the quarter or is there some other cost which has hit the quarter?

Ashish Adukia: No, so VSF there is no impact of high raw material cost in this quarter.

Prateek Kumar: Only one, sulfur price has gone up and coal price, two things?

Ashish Adukia: Okay sulfur and coal has gone up, my apologies.

Prateek Kumar: And pulp while the market has gone up by 30% our consumption cost has gone up by 7%?

Ashish Adukia: Yes, so the real impact of the raw material cost increase due to pulp will come in only in quarter 2 perhaps.

Prateek Kumar: And my last question on this SOKTAS amalgamation. Since when it has been amalgamated I mean full FY20-21?

Ashish Adukia: Yes, so what you see in the financial is the entire year's financials of SOKTAS which included in the financials of textiles. So, what you see is 100% of Soktas.

Prateek Kumar: No, I mean it is for full FY20 and FY21?

Ashish Adukia: Yes, that is right. Even the comparable figure. Absolutely right.

Moderator: Thank you. The next question is from the line of Navin Sahadeo from Edelweiss. Please go ahead.

Navin Sahadeo: Just one question and I am sorry if it is a repeat it may be due to bad audio but what was the average pulp cost in Q4 and where are the prices currently?

Management: Do you want to know the market price?

Navin Sahadeo: Yes, I mean because I believe we are like largely integrated so if you could help us with our cost as in what was our cost for Q4?

Management: Even if we are integrated we have an arm's length pricing. So, we do not have, so we buy pulp from our subsidiaries on an arm's length basis. It is a market driven price.

Navin Sahadeo: So, what was the price for average Q4?

Management: Q4 average pulp price of the China CCF what we did is $918 per ton. And spot price as the quarter ended was $1,100 per ton.

Ashish Adukia: Yes, so if I give you an indication so that is the pulp spot price. In quarter 4 our consumption rate would be because we are getting an advantage of the earlier pulp prices and our contracts etcetera would be somewhere around Rs.54,000 per metric ton. The consumption price but this will as the time goes like we said it will go up.

Navin Sahadeo: Correct so both from a pricing point of view like because there is some cool off that has happened to the VSF prices also I mean though your presentation says that March exit prices are 13% higher over Q4 but thereafter clearly there is some easing off that has happened if not more at least 1,000 RMV to the China prices and cost is also going up. So, fair to assume that there can be a decent sort of a margin pressure in the coming one to two quarters right?

Management: The other way to look at is that Q4 was exceptional margin quarter. It was not a normally margin quarter. So, I will normally see a good VSF business as a VSF to pulp delta of 0.9 and that delta went up to almost 1.3, 1.4 in Q4. That was an abnormal quarter. So, I think what we will compare to the healthy margin quarter.

Navin Sahadeo: I was just looking at slightly longer term in the sense this current quarter margins were at 24% and historically like a peak have been even higher upwards of 35% and so. So, just on the longer term like perspective given let us say China is acting up towards some of the environmental concerns, so slightly broader question.

And this is more from the feedback that even in metals we are seeing a China acting towards these environmental concerns and hence shutting some factories. So, is there anything that is happening on VSF front from a broader perspective which can see that margins can or prices can see uptick or this is what the range bound to?

Management: There are two things in VSF what is happening. The biggest question not in the quarter. See China next quarter in Xinjiang region which is 85% of the China's cotton comes from there. And that cotton has been banned by the US and European brands because of the human right violations and various sanctions are there. Now if that happens and it will be happening already and that is why there could be a run up in the cotton prices.

And the moment cotton prices go up the Viscose gets the benefit. So, one of the big upside is what happens to the Indian cotton issue with the China because there is no way China can substitute the Xinjiang production if they have to win the export market. If they do not do it then this market gets vacated and people benefit because of that. So, either way it should help the business.

That is the upside. And we have to see how it will unfold. We cannot predict how it will unfold because cotton prices have gone up despite the fact that people thought it might come down because the cotton prices are going pretty high though the cotton yarn prices and also the cotton itself and the export of cotton will happen and will go in to China. So, that is the benefit.

Moderator: Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: One question on given the very strong exit of Caustic Chlor-Alkali prices for March quarter, so our margins can be like sort of quite different in Q1 let us say in for FY22 or they should be like range bound here as well because of higher cost?

Ashish Adukia: So, I think it is difficult to give guidance for quarter 1.

Prateek Kumar: I mean generally we had a very strong margins in caustic segments also in FY19 and like say in FY20 also first half then it started to fall in line with the industry. I guess but with now the improving prices I am not sure if they are sustainable but should we see margins of chemical segment improving going forward?

Management: So, I think the assumption very clearly even in terms of our aspiration for this year has been that it should be at least equal or higher than the previous year. And hence we are expecting or we are hopeful of it. Two or three things which are concerning us. Number one, for in the first quarter because of the second wave we have some difficulty in certain segments for at least six weeks.

The second concern we have is we were expecting certain projects to take off by end of first quarter or early second quarter and then that is coming towards the later part of the year, the second half as Ashish mentioned. Both will have a slight impact on the overall year ahead. What we are banking on is what was unexpected last year was the v-shaped recovery. If really the markets recover as well as last year it is not improbable to imagine that we would at least partially recover this. But it is too early as Ashish said, we cannot really say it is going to be as good or better or worse.

We are taking one quarter at a time. This quarter I think we want to just see how May goes and then June how we recovers and we will take it from there.

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

Saket Kapoor: In continuation to has been remarked, when the first wave of Covid hit, it was all of a global phenomenon but now as we see that the international markets have opened up and the utilization levels there industry wise are coming to their pre-Covid levels. So, in terms of that scenario how well is this caustic market shaping up and what kind of imports have happened for the last year and what should be the situation going forward this year?

Management: So, let me take that, Ashish. I think yes, you are right at the end of the end when you look at Q4 you had till the winter strong coming up a robust global demand on caustic including India and practically all of us grew and we did actually better than the Q4 of the preceding year on volume basis. At this point of time I think caustic demand is actually linked with Chlorine demand and chlorine demand is largely globally linked with the vinyl demand which is doing very well.

Whereas vinyl production or PVC production in India is not there and that is why the impact is significant over here plus it is a localized wave 2 that is impacting the situation currently. But even like last year it took us about if you just look at it from a removal of lockdowns to getting back to pre-critical 16 days and the entire industry is up and running in late 80s of capacity utilization and that is what I think Ashish and Kalyan have been alluding to that is if the situation changes it will change very fast because the inherent underlying demand continues to be there.

And globally we also expect that the demand will be robust. As regarding imports I think the entire supply chain globally was disrupted so we did see a marginally about 10%, 15% less import compared to last year. But that is also because the Q1 literally was a washout for the whole industry as large capacities were not up and running. We expect the imports to continue at the same pace as they were last year in the current scenario and largely to the eastern and the western part of the country which is coming from your Japan side or Northeast Asia.

So, not too much expected on the imports side. It will continue to be at the same pace as about 3 lakhs tons, 3.5 lakhs tons annually which came in earlier will come in now.

Saket Kapoor: And sir, on the anti-dumping part front something was initiated earlier few months ego. So, what is the update on that?

Management: So, the update is I think with the entire Covid situation the investigation pace has slowed down. We have had a couple of meetings with the body but I think till the time investigation is not over we will not be able to comment.

Saket Kapoor: Sir, taking these practices into account the price trends in the caustic market are likely to be subdued only because if the recovery in other chemical segment or other market have not led to recovery in caustic soda realization what factors would lead to recovery? I think so it is still hovering around that $300 band something in that vicinity?

Management: You are right yes, it is hovering in India at about $300 say less than $300 band as we speak.

Saket Kapoor: What would be the factors that will revert this down trend in the ECU realization that is there for I think around last two years if I am not wrong?

Management: See the point is I think caustic is the basic chemicals so it goes into all the commodity applications and at this point of time any capacity which comes in it is like a step when the prices were very high a lot of capacity additions took place. We expect that lately the capacity utilization for the industry has gone up and also the recent trends in the last quarter Q4 we did say that the price of caustic have moved up slowly.

We expect that trend to continue but it is again a function of larger clarity coming on this Covid wave 2 settles down and we start seeing the industries and the lockdowns opening up. So, it is very difficult at this point of time to say anything on that front. More so the current capacity in India is about 20% higher than the current demand 20%, 25% of the current demand.

So, it is a combination of the lockdowns and the capacity which is keeping the caustic price. I would not call it is subdued it is basically being at this point of time it is not been able to keep pace like it used to keep pace in the past.

Saket Kapoor: Sir, very small point. We are also coming up with new capacity not only Grasim other players also, someone has commissioned also and people have lined up fresh capacity 6 months, 1 year, 2 years down the line including you. So, in that case there has to be a demand push to keep up for these extended capacities going forward and plants running at higher 90s otherwise the fixed cost and the variable cost metrics will also dampen down the margins level. Is that assessment is correct?

Management: No, I will not be able to comment upon what the others are doing. I think everybody understands and looks at the market situation, look at their own customer base and capabilities and then arrives at and it is not that you can set up a caustic plant very easily. It takes you about 24 to 36 months to put up a Greenfield and about 24 months for a Brownfield. So, all in all we all believe that caustic has a great future being a mixing chemical and that is what is moving this industry forward.

If you look at from our consumption scenario or our demand supply we are just about not even yet at a 5 million ton capacity but the good part what is happening here is the chlorine story which is improving quarter-on-quarter and that is what is also now balancing the eco which was earlier mostly skewed towards caustic and fluorine as of now. So, I think there is potential in this business to grow further and that is what have been read by the entire industry including us.

Saket Kapoor: And for the chlorine derivative part, my concluding remark is about the chlorine derivative part sir, what percentage of our chlorine goes to the downstream and how much is the market share?

Management: As Ashish put it I think he gave a figure. There are two parts we look at chlorine. One is the entire VAP story which by 2025 we will be at 40% and then there is a pipeline by which goes through the industries along with us for our ancillaries is what we may call it. If I would take it by 2025 we will be somewhere around 60% to 65% which will be consumed by this particular mode and the balance will go the market.

Ashish Adukia: Just to repeat 40% VAP, another 25% would be pipeline and the balance would be much of the same.

Saket Kapoor: That is for 2025, I am asking for currently?

Ashish Adukia: Yes, so currently about 27% is VAP. Plus pipeline takes it to about 40% and the balance 50%, 55% goes to the market.

Saket Kapoor: And sir, one of your competitors are developing a product Hydrogen Hydrate. They are coming up with a capacity and as per their presentation and all they will be the only player in the country. So, have we looked into this product and also the demand scenario means what are the metrics in this?

Management: Like we have been saying quite earlier because of competitive reasons we do not want to get into a discussion what we are analyzing and study but let me assure you there are multiple products that we are analyzing, studying and looking at and in an appropriate time when we reach the comfort level then we will get in to announcements.

Ashish Adukia: I can add one last point. I think first of all globally there are no new Chlor-Alkali investments. They are just getting relocated. You might have heard there has been closures in US and elsewhere. Each of the players in different countries are making choices. So, there is a huge amount of relocation going on from West to East so globally as the demand is going up globally the new investments are not actually coming globally. They are only getting relocated. India is actually seeing a growth.

Second, I think we do not invest on a next two year basis. We invest it based on next 30 years basis. And we see as Jayant said very well strong growth option there and we will continue with that. And last one is we will fundamentally see unlike in the last 10 years we will fundamentally see chlorine making a lot more leading products compared to caustic in future just like what happens globally we will see more of that and more of chlorine derivatives and chlorine pricing which is going to determine the equal levels in future than before.

So, we have seen all types of products. Again when we look at derivatives we look at derivatives where how much of chlorine intensity is going into these products. As Jayant said I think we are doing a lot of calculations but our scale is very large unlike other competition. So, when we look at it we will have much more focus conversations on selective chlorine derivatives than all of this.

Moderator: Thank you. The next question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.

Amit Murarka: Most of the questions have been answered. Just had a one quick question on the timeline of the fertilizer business realization. So, I believe you have guided for one year completion so that comes to around September or December. So, are you still confident of being able to receive the funds by then? And the second question to that is, is it fair to say that the CAPEX for the paints will only start after the realization of the funds from the fertilizer sale?

Ashish Adukia: So, the first question you got it absolutely right. So, I think by September we will be able to complete the process and receive the funds. On the second bit paints is irrespective of fertilizer.

So, it is not that we will start. So we will right now the first dollars of paints will go into acquiring land.

So, which is already we are actively looking at and we have started deploying that. And of course I am not talking about employee expenses and other that are already started. From the CAPEX point of view land will be the first one which we have already started doing.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir, what was the VFY top line and the EBITDA if I missed out from your presentation?

Ashish Adukia: I had mentioned it in my speech it is Rs.465 crores of revenue and Rs.77 crores of EBITDA.

Bhavin Chheda: And the other thing I think the voice was not clear I missed out because of the quarter 1 lockdown how are your factories operating currently both chemical and VSF and what would be the utilization level at both in the quarter 1 or current month?

Dilip Gaur: So, I think VSF all our factories are right now running full capacity except Harihar because normally every year we take an annual shutdown for the pulp plant which was supposed to be taken in the first week of June. So, that we have advanced to this month of May. So, I think this is a good time to finish off all the shutdown so that when the demand comes back we have full capacity available to us.

That is the only thing we have done so far. Let us see how the lockdown continues and then we will review it in June once again. One more thing we have done is like last year we did as the lockdown happens we focus on export. So, there is a lot of exports we are doing from the Indian market right now so that our plants are even fully utilized.

So, export of fiber as well as we have converted one line to non-woven in Kharaj and may be one more line we will convert. So, we have started making again non-woven in Kharaj we will be exporting to Europe and US markets till the time the India normalizes. That is how we are making sure that the plants are utilized fully.

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

Nirav Jimudia: Sir, continuing with the earlier question so like you mentioned that we are going for more of the exports of the specialty VSF what you mentioned about non-woven. So, sir, is it safe to assume that we are selling more of Modal and Excel in the domestic market and dope dyed and other value-added products are exported so the mix looks like more of Modal and Excel is sold here domestically so the realizations are higher in the domestic market as compared to that of the export market for the specialty VSF?

Management: You are right, So Modal is sold in domestic market and exported both. About 30% to 40% is sold in local market and balance are export. Lyocell again is sold in domestic market and export but 30% domestic, 70% export. And the domestic is slightly better priced because of the freight advantage what you have. The good thing what will happen in the non-woven is, non-woven will get into quarterly contracts.

We have been able to sign very high priced contracts because we have negotiated them in the last quarter. So, that is a good advantage. So, I think the non-woven and woven exports are going to be much better value than one would normally expect.

And one more point I would like inform we used to make our Livaeco where they have told you the eco variant of our viscose fiber we have now started manufacturing it in Vilayat, the new project. So, that has just got commissioned. And we did export from Grasim going forward because Livaeco there is a huge demand by the global brands which we started product about 1.5 years back and we have almost grown manifold. It is a high growth area. So, that will start from now.

Nirav Jimudia: And sir, in the presentation you have given the exit prices for China VSF as well as the starting prices also but if you can tell us about our realizations for the Grey VSF some sense, some idea about how we have been so our realization?

Management: For Q4?

Nirav Jimudia: Yes sir, for Q4 for grey.

Management: Yes, so you see the problem our realization has been broadly in line with China slightly plus, minus. The issue is you see as I told you China is an indicative price. Our Indian market is governed by the local conditions because what happens how the value chain is doing. Now because the buildup in the Indian market was slow but when it is start opening in January-Feb-March it went up full capacity. So, our prices also went up gradually. In March my price was about almost like international prices.

Nirav Jimudia: Okay so the full catch up happened in the month of March, correct?

Management: That is right. We do not price the product just because the China is selling at some price because my value chain has to be able to afford it.

Nirav Jimudia: And sir, the last and final question is on the Epoxy. So, sir, if you can give some sense of the percentage growth in our absolute EBITDA on a year-on-year basis so let us say as compared to last year, last Q4 of FY20 and this Q4 of FY21 how and what percentage terms of our EBITDA has grown for the Epoxy?

Ashish Adukia: So, Epoxy would be almost a big growth actually. If you look at quarter-on-quarter for example. Quarter-on-quarter would be almost close to twice.

Nirav Jimudia: Okay it is almost double?

Ashish Adukia: Yes, so and Q4 of last year was quite depressed because that was the quarter when you lost one whole week of this one. So, you could assume that 1.5 times compared to quarter 3; 1.5 times to 2 times roughly but much more than in comparison to Q4 of last year.

Moderator: Thank you. That was the last question for today. I would now like to hand the conference over to Mr. Ashish Adukia – Chief Financial Officer for closing comments. Over to you, sir.

Ashish Adukia: I think we are all going through difficult times personally so I hope everything is safe at your end and please take care of yourselves, stay safe and of course we will connect again in the next quarter. Thank you.

Moderator: Thank you. On behalf of Grasim Industries, that concludes this conference. Thank you all for joining. You may now disconnect your lines.