



“Grasim Industries Limited Q2 FY22 Earnings Conference Call”

November 12, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY22 earnings conference call of Grasim Industries Limited. We have with us today from the management Mr. Dilip Gaur – Managing Director; Mr. Jayant Dhobley – CEO, Global Chemicals and Group Business Head (Fertilizers and Insulator); Mr. Jayant Dua – Chief Executive Officer (Chemical Division); and Mr. Ashish Adukia – Chief Financial Officer.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Adukia – Chief Financial Officer. Thank you and over to you sir.

Ashish Adukia: Thank you. Good evening to all of you. I would also like to welcome Mr. H. K. Agarwal. He is our Managing Director (Designate) who is joining us, and he will be taking over from Dilip.

I would like to, first of all, thank everyone to join the call. In last one year there has been a sea change in the business scenario and with the pace of vaccination picking up in the last few months, the economic activity has resumed its momentum and so has the textiles products. The same is reflected in the sales volume of VSF, VFI, linen, as they have touched or rather surpassed the pre-pandemic level volumes. While demand increased across all sectors on back of economic recovery, the costs have also gone up. However, the cost increase has more than been offset by the realization improvement across all businesses.

I would like to share a few important highlights for Quarter 2:

The company embarked on the capacity expansion program in its key businesses, and we are delighted to share with you that we have commissioned part of our expansion plans in VSF, caustic soda and chlorine VAP in October and November of 2021. These capacities are coming on stream at the right time of the business cycle. In our VSF business we have commissioned the first line of 300 TPD in November 2021 and have achieved the benchmark quality. The second line of 300 TPD will be ready for commissioning in Quarter 3 which was the earlier plan as well. In the Chlor Alkali business 170 TPD at Rehla which is Jharkhand was commissioned in October 2021 and as part of our VAP strategy, we have also commissioned 150 TPD of chloromethane plant at Vilayat which was commissioned in November 2021. The commissioning of Chlor Alkali plant at Vilayat and Balabhadrapuram due in the second half. The total Capex that was approved by the board to be spent for FY22 stood at Rs. 2,604 crores which is excluding paints and fertilizer business. And till the first half the actual spent is about Rs. 905 crores. The balance spent for the second half there is likely to be either savings or there could be some deferment to be next year. But as of now we are standing with a guidance of what has been approved by the board.



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In paints, the company has already acquired land at five locations as part of its Pan-India footprint for paints manufacturing. These locations have been identified in the different regions of India on basis of their proximity to key consumption hubs across the country. While the process of environmental clearance is underway for various project sites, the contracts for basic engineering detail engineering has been awarded. The civil work at these sites will commence only after receipt of EC. We have highlighted these developments in our investor presentation on page seven, you can see the locations that are there on the map.

Let me now discuss the operational and financial performance of the company:

The VSF business reported a strong operational and financial performance driven by demand momentum, better product mix, so the VAP is higher, as you can see in the presentation and stable realization. The business reported highest sales volume during Quarter 2 boosted by textile demand. There was some buildup of inventory that was done which was strategic inventory in June quarter, which was utilized in September quarter, to utilize that high volume. The business has taken great strides in improving the share of value-added products in the overall sales mix which has almost doubled YoY to 27%.

In our VFY business the demand recovery was driven by liquidation of inventory in the value chain and lower imports from China as well. Viscose business reported net revenue including VFY of Rs. 3005 crores and EBITDA of Rs. 580 crores. The VFY business reported a revenue and EBITDA of Rs. 513 crores and Rs. 66 crores respectively in Quarter 2 FY22.

Now come into caustic:

The global caustic prices have been on recovery mode since the start of the year. In Quarter 2 the domestic caustic prices also started to witness a gradual recovery. This recovery from their multi quarter lows was supported by series of factors like recovery in demand, tightness and supply, led by production losses and a higher export sale which was primarily driven by better exports realization. The caustic soda capacity utilization sequentially improved to 86%. The demand for textile and pulp and paper sectors contributed towards incremental caustic soda demand. The chlorine realization which was on the positive territory turned negative during the quarter. It was led by weak end products demand. The chlorine consumption in VAP stood at 27% in Quarter 2 which is expected to increase with commissioning of CMS facility in Vilayat. The Chlor Alkali business witnessed an improvement in operational performance and increase in ECU realization which has continued subsequent to the quarter end as well. However, the rise in power cost and other input cost for VAPs impacted the EBITDA in Quarter 2. Within the chemical segments the advanced materials, i.e., the epoxy resins business continued to witness a strong demand. This was supported by pickup at the pace of construction activity, thrust for renewables and the thin inventory across the product segments that exists in the market. The revenue and EBITDA for chemicals business was Rs. 1,627 crores and EBITDA was Rs. 232 crores for the quarter.



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Overall, the standalone performance for Quarter 2 FY22 was much stronger with revenue up 67% to Rs. 4,933 crores and EBITDA up 144% to Rs. 1,504 crores on YoY basis, which is an increase I am talking about. And by the way, 1,504 crores is highest ever quarter EBITDA for Grasim. Of course, that includes the high dividend that we have received from Ultratech. So, the EBITDA for Quarter 2 FY2022 includes dividend income of 641 crores, so on like-to-like basis excluding dividend the EBITDA is up 121% YoY. The revenue and EBITDA from the discontinued operations of fertilizer business for the quarter stood at Rs. 773 crores and EBITDA at Rs. 50 crores and this is not included in our published results as continuing business. We expect the disinvestment process of fertilizer to get completed by December of this year.

Our consolidated revenue for the quarter was up 26% to Rs. 22,564 crores and EBITDA was up 19% to Rs. 4,282 crores. The consolidated net debt reduced and stood at Rs. 8,780 crores and standalone debt again reduced from June stood that Rs. 1,158 crores. One of the key items that help in reduction of the debt was release of subsidy on account of urea from the government. The outstanding fertilizer subsidy has reduced to almost a level of Rs. 450 crores in Quarter 2, which used to be pre-COVID levels almost at levels of Rs.1,015 crores continuously.

Lastly, given our cost and best practices in ESG, we are pleased to announce that VFY business was ranked number one in Canopy Hot Button Report 2021 for the third consecutive year. Grasim also ranked overall seventh in India's top companies for sustainability and CSR 2021 by Economic Times Futurescape Sustainability Index Report.

That's it from my side. Over to you for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanjeev Kumar Singh from Motilal Financial Services. Please go ahead.

Sanjeev Kumar Singh: In the paints business though you have given the locations where the peak facilities will come, can you give us further timeline when do we expect this business to get commissioned? So around 2 years or 1.5 years, what is the timeline which you can give?

Ashish Adukia: Sanjeev, we are not giving any such guidance. I think you can possibly make an assessment from the fact that, in terms of sequencing of activities after we acquire the land we get the EC, EC can take up to anywhere three to six months and thereafter the commissioning of the plant will get done. Of course, while we get the EC we have already, like I said, appointed design team, engineering team, etc., so there's a lot of parallel processing also that is going on out here.

Sanjeev Kumar Singh: Secondly, in terms of VSF, definitely there have been some production cuts from China and I believe that realization has also moved up. So, how is the scenario now? When do we expect Chinese production to get normalized?



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Dilip Gaur: The China production cut was done largely because of the coal shortage. And what had happened in China, they had stopped large number of coal mines because of safety issues. There was a drought in some part of China, so the hydel power had come down. Now, China is trying to make up for the coal stock, but they are getting into winter. And the first priority will be getting power for the individual consumers. We believe, the OR will not come back in a hurry. So, the capacity cuts will still be there. Secondly, the issue of freight and container is still there. So, from China it's not easy to move things to India or rest of the part of the world. So, to that extent I think the outlook still remains healthy.

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

Navin Sahadeo: My first question was regarding this VSF outlook. All the production cuts in China per se, the way it led to other commodities per se surging, that we have not seen in case of VSF even as cotton prices continue to go up. Now, you said the outlook is still because operating rates might stay low for some more time, but from a slightly more timeframe or from a medium-term perspective, are we also suggesting that we are unlikely to see very strong margin expansions so to say in the VSF segment?

Dilip Gaur: You are talking about Indian market; we have to look into two aspects. The Indian market recovery has been very good. So, the demand is very healthy. With the festive season coming the value chain, so the pull is very strong. So, Indian demand is absolutely growing at a very fast pace, much better than what we had expected. It's better than pre-Covid levels. The second point is the China part of it the prices have already recovered. Even if you look at China itself, what were the prices in September, what were the prices today, it has gone back to the earlier level of June-July. So, there has been a recovering in VSF prices in China also. And the third is we can't predict what is going to happen, but the gap between cotton and viscose has gone to 9000 RMB, the highest ever. So, logically it should reflect in the shift from cotton to viscose but let's see how fast and when it happens. We can only go by the leading indicators. What the outcome is, I can't tell you. The leading indicators are healthy.

Navin Sahadeo: But how much has been the price recovery in October if you can just mention China prices, how much have they recovered?

Dilip Gaur: China prices have gone from 1.77 to 1.95 to \$2 kind of a thing.

Navin Sahadeo: Similar to what they were in probably March-April.

Dilip Gaur: I am giving you published prices.

Navin Sahadeo: Second is about chemicals segment. I believe sequentially we have seen a margin decline as compared to the Q1 quarter. The segment, we have seen a margin decline. So, is it only mainly got largely to do with this chlorine realization turning negative or in general we have not been



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able to benefit from the high prices and got impacted by the rising costs? How should one really look at chemicals segment?

Ashish Adukia:

Let me probably start and then I will request Jayant to step in. The increase in the ECU that you have seen is month on month, so every month there has been a sequential increase. So, you have not got the benefit of the increase through and through in the quarter. And the other factor is that yes, there is a higher power cost because of coal, etc., that has led to that margin coming down. Also, if you look at the VAP, in VAP the input costs, like aluminum, etc., that goes in, is that there is a cost increase there as well. So, overall VAP has also led to reduction in the margin. Jayant, would you like to just come in and give more color out here?

Jayant Dua:

You have got three aspects running. One is the timing of the increase, which Ashish talked about, it's been sequential and cost has been growing sequentially. And also, following the global trendal though there is a lag which happened in India. Now the global prices went up very sharply because of a couple of environmental events like you had a winter freeze followed by Iwa as hurricane which led to shut down the capacities and that led to spurt in prices. Now, no such thing happened in India the capacities shut down. So, your increase is gradual and sequential on costing. While chlorine which was trending positive has turned negative, that the point you brought out. Third is the cost increase on coal particularly which went up very sharply, so it impacted our power cost and power cost is about 65%-70% above variable cost. Followed by the Tauktae and the other cyclones which near hit the Indian west coast, led to salt increase going up. The P4 demand which is the phosphorus demand in fertilizer led to rock phosphate prices going up. So, what has happened is that we had a sudden spurt of price increase all across and the increase in pricing on caustic was more sequential. But I think going forward we will start seeing the way I look at it I will put it, the lead indicators are all clearly that the pass throughs will start happening at a faster pace because these increases have now started either stabilizing or tapering down, whereas the sequential in the caustic side continue to happen.

Navin Sahadeo:

So, are we also saying basically the margins going ahead or as we speak can definitely be much better than what we saw for this quarter, because previous quarter were at 19, this quarter we are at 14 and this is despite that global price went up 20%-30%? So, are we in a way directionally confident that this quarter or going ahead we can see a much healthier margins in the chemical segment?

Jayant Dua:

So, that's exactly what I am saying. The lead indexes are all pointing out the margins will be significantly healthier than what they were in Q2.

Navin Sahadeo:

And just one last question if I may slip in. It's heartening to see the development on paints with locations identified and I guess you updated already sometime back. Just one question. Are we also opened to make any acquisition? It may have been asked in the past as well, but I am just trying to get a sense that are we open to any sort of acquisitions, big or small here, or we would largely focus on building only our own capacities?



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Ashish Adukia: We are fairly comfortable and confident of our organic plan. So, we wouldn't look at any acquisitions. And from the return perspective also, organic plan makes more sense.

Moderator: The next question is from the line of Pinakin from JP Morgan. Please go ahead.

Pinakin: Can you talk to us more about the seasonality in VSF in China? Where we are coming from is that what are hearing on the ground is that the cement, steel, aluminum demand seems to have started improving over the last week or so, inventories are falling and the expectation is that as we to get into the lunar new year, coal situation normalizes and demand for especially the heavy commodities will pick up. Is there is a similar seasonality that we can see in VSF that as the power situation eases out, we can see VSF demand in China move up very sharply in January and February which can potentially drive VSF prices higher?

Dilip Gaur: See, November, December, January is always a peak month for textiles, not only VSF. And China has what they call 11x11 and 12x12, like Amazon does here, they have got online big sales. Yesterday their 11x11 sales which has been exceedingly good. They will have 12x12, so three months are always seasonally high for textiles. Because it precedes the Chinese New Year. So, I think it's a general trend that the demand normally in this time of the year for VSF and all textiles are always very good on relative terms.

Pinakin: This year it got impacted because of what has happened, right?

Dilip Gaur: That was supply. But there is enough capacity in China. So, they had inventory. What got impacted because of the power cuts the downstream plant got shut. The yarns got shut. The weavers got shut. So, they could not pick up the things for a short time. That is all now recovering again. It was not a demand loss; it was a supply given constraint.

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

Prateek Kumar: My first question is on the caustic segment. You mentioned and we have seen a few times also that the caustic prices have significantly dropped past fortnight or past month or so. So, is there any demand disruption at this level in India or globally because of extraordinary high prices?

Jayant Dua: The demand at the moment is very robust globally and India as Dilip put it out, textile sector is at its all-time high and aluminum sector is also doing pretty well, so there is no constraint on demand as of now.

Prateek Kumar: So, caustic flake prices which had an earlier high of around I think Rs. 45 per kg from whatever channel that we do, and like 3-4 years back, its currently at Rs. 70-80 per kg. So, Indian demand is as good as like, let's say what it was at normalized prices that even at Rs. 70-80?



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Jayant Dua: Again, we should not look at prices from a moment or a time because the whole business works on both spot and contractual. Sometimes we get a little bit swayed with looking at what's happening on a spot basis. But to your point, have the prices significantly gone up, the answer is clearly yes, we have seen some significant price increase starting October-ish onwards. And the demand at this point of time irrespective of the prices, because it's a combination of both contracted and spot, continues to be robust.

Prateek Kumar: And particularly, we did in the past recent period upcycle of chemical prices. We used to be at 30% margin for this period. So, that is something which can be forecasted, like in at least sustain when prices are so high? I don't know where this will settle but...

Jayant Dua: See, we also have a commodity price increase which is impacting you everywhere. So, I think it's a bit too early to do these forecasting. Because at this point of time the coal prices are significantly higher. We buy a lot of aluminum and anhydrous which is high, rock is high, salt is high. So, I don't think so we can at this point of time give a guidance on what margins will be like. But from realization front clearly the situation is far better than what it was in Q2.

Prateek Kumar: And regarding the coal, you said 65% of your variable cost, power costs, have you also seen any moderation in international coal prices in the past few days?

Jayant Dua: I think last 15 days there has been a slight moderation. But you see, we don't work on day-to-day basis on coal. We always have anything between 30 to 45 days stock lined up because that's the way the business works, otherwise you can't run your thermal power plants. So, we are hoping the moderation will stay, will continue and the next purchase cycle of coal will start giving us the cost reductions. But even the moderation which has happened is at a much higher significant level compared to what it was three months ago.

Prateek Kumar: One question on VSF. So, despite the very stable realization, in fact, slightly positive on a quarter-on-quarter basis, EBITDA per kg has probably dropped from Rs. 38-39 in the past two quarters to Rs. 33, so in this segment also I think we have taken price hikes in the start of this month. So, is this something which should help us take us back to Rs. 35-40.

Dilip Gaur: The price hike always follows a lag. So, the input prices went up in September, so I think right, so the price hike has been taken. And we could make up the EBITDA because we had a huge volume growth, and that's something which we are missing out, so there is a margin improvement and volume improvement as well. It is consistently happening.

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

Nirav Jimudia: I have two questions on the VSF business. The last time in our interaction in the con call you explained about the reduction in certain consumption of raw material for the finished goods. My question is with respect to two VSF lines which are getting commissioned. So, one is



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commissioned, and one is about to get commissioned. On a fully ramped up basis, whenever it will happen, if you can share your assessment about the reduction in the operating cost? Let's say if we compare on a scale of 100 currently, when it will be fully ramped up, what can be the reduction in the operating cost possible? And if you can explain in context of three parameters, like one, probably we would require lesser employees that are planned because it is happening at a single location. Second, whenever we will import pulp, it would come probably in higher parcel so that it will help us in reduction in freight costs. And third would be, if you are setting up some additional power plants which will again help us to bring down our power cost. So, if you can explain this in context of these three parameters that would be helpful. This is my first question.

Dilip Gaur: I had told you that this this expansion is a brownfield expansion. While our capacity is going up by 40% our overheads have gone up by 10% only. So, the fixed cost is much lower. So, your employer part is responded there. So, you have a 10% growth in overheads whereas our capacity goes up 40%. So, we will have a fixed cost advantage which is significant. Second, because this is a much bigger line. These are 300 tonnes per day lines compared to the 125-130 TPD lines earlier. So, the variable cost of production also is substantially low. So, I would not guess a precise number, but it can be about 8% to 10% in terms of the variable cost reduction. And pulp and power, I think there won't be much difference because we are getting in any case, so pulp we buy on a planned business level. The ship sizes don't change because of that.

Nirav Jimudia: So, fair to assume that probably on a scale of 100, our variable cost will come down by 10%, which is like 90% and then a further reduction in the fixed cost would also be possible whenever
Dilip Gaur: No, not 10%. You are talking only for this plant or for the average business?

Nirav Jimudia: For the average business as a whole, for the company.

Dilip Gaur: It can't be 10%, this plant can be, average will be about 8% to 10% maximum.

Nirav Jimudia: But for the plant you mentioned the initial remarks stands for the Vilayat plant. That 40% increase in the capacity and 10% increase in the...

Dilip Gaur: Vilayat plant, not for the overall business.

Nirav Jimudia: My second question is with respect to our specialty volumes. I think we have clocked best ever volumes so far as the specialty is concerned this quarter as per the details what you have given in the presentation. If you can walk through what sort of capacity utilization, we are currently working for our specialty business, one. And second is out of all the varieties of specialty what we are currently producing and selling in the market, what do you feel can lead us do the 40% target which we have set for next 4 years so far as the specialty volumes is concerned? This is my second question.



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Dilip Gaur: If you look at the numbers this quarter my specialty has almost more than doubled what was YoY basis. And on a QoQ basis also it is more than 33% or 34%. So, what has happened is we have been able to make a big breakthrough in the Indian market and one of the advantages is the high cotton price is helping, because the specialty like a lyocell helps shift, it gives you the same property what cotton gives but at the end of the day you can sell more of your viscose product into that. Capacity wise, my lyocell plant is 100% utilized. So, I have no more capacity, we will have to put a new, if it continues, we will have to. So, right now what we are doing is we are creating more value. We are going for more value-added applications from the same capacity. I had told you on the Modal side, we can convert lines from grey to Modal if required. So, it depends upon how the new plant stabilizes, how the Modal demand goes up, we can always create capacity. So, right now we are using capacity 100% existing capacity there also. We have flexibility there. Third I told you was on our eco product. So, what we have done now, our new plant has got a capability to produce entire capacity can produce a LivaEcoproduct. So, it will depend how the market grows, I can supply more of it. So, I am creating a huge capacity there. And our idea will be to convert as much of the branded players from a traditional viscose to aLivaEco. We have a plan in place. You see, specialty you have to build the demand and then put capacities.

Nirav Jimudia: So, safe to assume that even LivaEco commands the same sort of premium what we currently get for Modal, or it is slightly lesser than that?

Dilip Gaur: Modal is my highest premium product right now. Modal, Lyocell and then LiveEco. But LivaEco is a much larger volume. In the fullness of time, the volume will be much larger.

Nirav Jimudia: A last clarification on the chloromethane plant of 50,000 tonnes which we have started. Predominantly, it would be for MDC, right? No other products will be produced apart from...

Jayant Dua: It will be MDC, Chloroform and as well as CPC which is the standard chloromethane products. But the largest portion will be MDC.

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

Saket Kapoor: When we look at your slide number 14 wherein, we have given the exit of ECU for the September quarter, the caustic realizations are at Rs. 27,387 and the ECU stands at Rs. 26,200. So, can you give the exit price for at least the October just to gauge what the rise has been? It is understood that contracts are not only on spot basis. So, that would give the color where are the prices trading today.

Jayant Dua: I would just leave it at that, the prices have trended upwards in excess of double-digit growth. But rather than getting into exit prices of October because it's a hybrid of a lot of factors. I would not get into a guidance of that at this point in time.



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- Saket Kapoor:** Not a guidance. I was just looking at the market prices.
- Jayant Dua:** The market prices you can say it's gone up by at least about 10%-15%, clearly have gone up.
- Ashish Adukia:** Just to clarify, that graph that you are looking at that's a quarterly average of prices, not exit of September.
- Saket Kapoor:** That was the reason why I was asking that.
- Jayant Dua:** And also, different parts of the country have different price mechanisms. At this point of time, you might have one part of the country doing much better than another part of the country, because there is still imports which come through or whatever. So, let's not try to get into exit prices at this point of time. I think next quarter we will all be there.
- Saket Kapoor:** And the contribution from epoxy, what has been the contribution for this quarter?
- Ashish Adukia:** We don't give the specific numbers, but of course, epoxy continues to contribute significantly in the chemical segment and when it comes to EBITDA more than 50% in this quarter, but it's all a matter of time because now that the pricing of caustic picks up, that proportion can significantly change. But it's sufficed to say that epoxy continues to be a strong generator of EBITDA for us since the pickup that happened in epoxy last year due to the demand, etc., that has taken place or surge that has taken place.
- Saket Kapoor:** You did speak about external factors due to which the caustic soda prices have moved up significantly. So, are those factors reversed or what has been the trend that has supported? Since you have told that the demand is good, this pricing has been absorbed, so the factors that have supported this astronomical jump in the prices, are those factors evened out or they are still having effect on the market?
- Jayant Dua:** If you look at the plants in US have started and are restarting again after Iwa. Again, when you look at it from an international market, you look at it that everybody covers themselves for the next one quarter or so, so the current quarters have been covered. I think now it will be November middle onwards when we will start getting fresh queries for the next quarter and that will be of course a lead indicator for us that how much of normality has been achieved. Clearly China has more coal mines open up, more power is available, again, it's a large production center, again caustic availability will increase. So, I think while caustic availability is increasing at this point of time, but the demand is also at the moment showing the same robustness. So overall, it seems to be a well-balanced situation as of today.
- Saket Kapoor:** A small point, globally what has been the outage in the capacity? In a percentage term if you could give an understanding.



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Jayant Dua: I don't have the exact number, but clearly in China, you could say that there was about 10% to 15% outage because of power at different points of time. And particularly the Houston side and the Texas side in US, at least three or four large plants were shut down for about 15 days to a month. But they are all back up. And even China, we have started seeing that the capacities have started coming back online. They are yet not at what the earlier run rates were, but they truly have increased their run rates.

Saket Kapoor: But still the global prices are firm, this is what you are confirming that there is not a relentless in demand.

Jayant Dua: As of now, when we last did a check in terms of global prices the firmness continues.

Saket Kapoor: Last point is that you have also mentioned that the firmness in prices are more than what the inflation due to the raw material has been. There is going to be a margin accretion on account of this if these prices sustain.

Jayant Dua: If these prices sustain, we definitely expect margins improvement.

Saket Kapoor: And on the availability of salt, also sir, if you could give us some understanding because I think because of the cyclone in the western coast, the salt prices have also moved up. What is the status on the availability and how is this salt season looking going forward, any long-term contracts?

Jayant Dua: We have long-term contracts. We actually do more or less annual contracts on salt. Salt has been tight everywhere and it has gone tighter because since the last consecutive two years, the cyclone impact has pushed one season forward. So, the current season which normally starts around 15th to end of October, we are expecting for it to start somewhere around early say 15 November to 15 December we should start producing. Once they start producing, I think then we will get a reflection of what's going to happen for the next year. For the current financial year from a Grasim perspective, we are covered.

Saket Kapoor: What have been increase sir, I've missed the point.

Jayant Dua: I said, we have annual contracts, and we are covered.

Saket Kapoor: Can you give the color of what the increase could likely be?

Jayant Dua: Again, it depends on what the next crop is like to tell us what will be the next year increase is because the crop is yet not come out. If it's a bumper crop, we don't expect an increase. If it is the short crop, then again there could get 10% jump in prices or whatever. We really don't know today.



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- Saket Kapoor:** Out of the total requirement, how much is captive for us?
- Jayant Dua:** We hardly have very little captive, it's hardly about 5- 6% captive for our, rest is all outsourced salt.
- Saket Kapoor:** What is the annual requirement in tonnage terms, if we take the pricing also sir, out of the total raw material cost, how much is the salt, 2% ?
- Jayant Dua:** No, salt is approximately about 12% to 14% of our cost.
- Moderator:** The next question is from the line of Sagar Parekh from the Deep Financial Consultant. Please go ahead.
- Sagar Parekh:** My question was actually on the caustic side; the entire world right now is talking about hydrogen, and I believe that hydrogen is one of our key byproduct manufacturing caustic soda. So, what is the current use of hydrogen, and do we plan to significantly scale this hydrogen business, just if you can throw some color on that?
- Jayant Dua:** Hydrogen is a different chemistry and it's not that we will produce large significant amount of hydrogen in a caustic product. It's one of the least amounts which is produced which is actually as low as 0.03% of the total mix. But currently hydrogen for us is used internally, particularly for creating one of the largest uses is the virgin HCL which only a caustic plant can produce. We also use it as fuel at some of our places which is giving us a green fuel for running couple of our boilers. We also do sell hydrogen in banks to people in the organic and in the inorganic sector. These are the three ways and going forward, yes, there that's one area, we are also very clearly exploring in terms of what more we can do with hydrogen and as more and more technologies firm up, more hydrogen VAPs we will study. Let's see what happens in times to come. But clearly hydrogen, yes, you are right, I think it's the energy flavor going forward at this point of time.
- Sagar Parekh:** Ashish one question to you, just wanted some clarity on this tax litigation that has come up. So, if you can just give some clarity on what the next course of action for us is.
- Ashish Adukia:** Sure, happy to give that clarification. This is in corollary to the earlier tax demand itself. So, earlier demand was in the nature of dividend distribution tax. On account of tax authorities saying that this was not a qualifying demerger. The demerger that happened of Aditya Birla Capital from Grasim it was not a qualifying demerger under the Income Tax Act. Therefore, there is an implication of DDT. And now what they have done is that they've completed the assessment. So, sorry, by the way, let me just complete that part so DDT matter is still at the tribunal level. They've heard the matter; they have to come out with their order, so we will see what order they come out with. Very difficult for us to make any judgment or statement out there. What they have now done, income tax authorities has now completed the assessment of



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FY17 and based on that assessment, now they've come back and said that because it's not a qualifying demerger, there is a capital gains tax because you've transferred indirectly the Aditya Birla capital shares that was held by Grasim to the shareholders of Grasim. So therefore, there's a capital gains tax of another Rs.8,000 odd crores. So now what has come right now is a draft order of this demand. We have gone to DRP which Dispute Resolution Panel, they will understand, read the order and we are awaiting the decision. We have made all our submission. We are waiting for a decision from them. Only after they give their decision, if it is in our favor, great, the order will be quashed, it will never be issued. If it is against us, then we have an option to go to tribunal. This is where we are in the whole DDT and capital gains matter.

- Sagar Parekh:** Worst case then we would be liable to pay both the taxes, worst case I'm saying.
- Ashish Adukia:** See, I think the key point is that if it is a qualifying demerger then there is no question of either of the demands standing on its leg and we have opportunity to go to tribunal and after that High Court, Supreme Court, etc. So, it's sub-judice matter right now.
- Moderator:** The next question is from Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** The first one is on recent VSF price hikes, do they cover the cost escalation which has happened till date because this quarter we saw a drop in margin so the recent hikes will cover that cost?
- Dilip Gaur:** Broadly yes.
- Bhavin Chheda:** Second one was, if you can give us the pulp landed cost accounted in the quarter and current pulp prices?
- Ashish Adukia:** We don't give the pulp cost specifically. Directionally the pulp cost has remained at the levels that it has been, which just (+) \$ 1000 plus and we are consuming right now the inventory that we have which continues to be at the high cost. The impact of the cost of the high pulp prices we have witnessed in this quarter which is much higher than the previous quarters.
- Dilip Gaur:** Just to add the spot prices are softening. Maybe 3 or 6 months later, you will get the benefit.
- Bhavin Chheda:** So, we will start seeing the benefits from say Quarter 4 onwards regarding the declining pulp prices.
- Ashish Adukia:** Yes, kind of. Quarter 4, Quarter 1
- Bhavin Chheda:** On the fertilizer divestment which would happen by December, since the subsidy number has already come down so what's the final number which we are expecting in December from fertilizer divestment?



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Ashish Adukia: Again, I can give you a directional answer, so say from Rs. 1400-1500 crores of subsidy that used to be outstanding around the time when we announced the transaction, now that is down to Rs. 450 crores. So, you have recovered almost Rs. 1000 crores. Basically, that much less working capital is there in the business. So that Rs. 2,600 crores odd number that we had announced as an enterprise value, the working capital is less so that it will be lower by Rs. 1000 crores then because we've already got that money from the Government.

Bhavin Chheda: Last one, has the chlorine realization turned positive or still it's negative?

Jayant Dua: It continues to be negative as of now.

Moderator: The next question is from the line of Abhimanyu Kasliwal from Choice International. Please go ahead.

Abhimanyu Kasliwal: Most of my questions have been answered. I was hoping specifically regarding caustic soda, if you could give some kind of outlook on the next 4 to 6, that is a long period but a 4-quarter kind of guidance, not a guidance but rough estimate about what's happening in the market. If we can expect the current realizations to be maintained or they might drop significantly because of the China capacity increasing because we understand the China capacity is increasing but so is demand but net-net what would you expect if you could give some kind of idea, I would be very grateful.

Ashish Adukia: I think that Jayant you have covered little bit of that. If there's any incremental view that you would like to give directionally that can answer the question.

Jayant Dua: No, I think what you are saying is we believe that this quarter the demand is robust. The price increases particularly have been robust. For the next quarter, I think it will be too early looking at how this commodity operates in a short span of time, to give any guidance for the next quarter before. What I'm saying demand wise the indicators are all positive towards that even the current quarter and the next quarter demand will be positive.

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

Prateek Kumar: I wanted to ask regarding the Capex for paints business. We are now almost 4 months remaining for the fiscal year. Why are we not willing to give the Capex number even for FY22, leave aside FY23?

Ashish Adukia: We've given the actual number already up to Rs. 267 crores that we've spent which has mainly gone on land. I think it really depends on the activities that we undertake. If EC, for example goes beyond March then the Capex will be limited because we can't do anything on the sites till ECs are obtained. It depends on activity. It will not be right for me to give that next quarter what



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I'll be spending because it's difficult to assess that. I think there'll better visibility once you have the EC and when things are under your control of how you incur your Capex, that's why we gave a block number of Rs. 5,000 crores also initially. We always said that it can be within that 3-year period rather than saying that'll be for those 3-year periods. As and when we will give better and more guidance, but we don't want to at the same time misguide you.

Prateek Kumar: And VSF segment, can you highlight on if there's any more industry capacities globally have been talked about or what are we looking at in terms of global new capacity addition?

Dilip Gaur: What you want immediate timeframe?

Prateek Kumar: Global new capacity additions.

Dilip Gaur: As I spoke to you last time there is no major capacity addition coming. There is a small addition that has happened in Indonesia about 50 KT. Next year we are expecting another 140 KT there coming in Indonesia and China maybe 100 or 200 KT. So, there is not a major expansion but there are few projects being planned so we do not know what shape they are going to take. It is too early to talk about them.

Prateek Kumar: So, these are lyocell?

Dilip Gaur: When I told you it was about viscose but lyocell there is quite a bit of capacity coming in. For 220,000 tons is coming in China. So lyocell capacity there is lot of announcements that happened in China. Then the Lenzing plant is coming in Thailand. That will come by the year end and early next year. But viscose there is no major announcement, but some planning is happening, so we don't know how it will shape up.

Prateek Kumar: Last question we used to earlier talk about LIVA tags, and we used to give some data around it. I guess that stopped during COVID because maybe we are not able to tag garments with LIVA tag.

Dilip Gaur: That's going on and we are doing almost 4.5 crores tags. So, I think now it has become the routine. As I always tell you that if LIVA was a brand, it will be the biggest apparel brand in the country, nobody sells 4.5 crores garment. So LIVA tag is there in 4.5 crores garment, and that is going on very well. And now because of COVID, you did not see much of the branding effort in the media which I think they are reviving now. If you would've seen the LIVA, Miss DIVA Universe contest was sponsored by LIVA this time. And whoever is the shortlisted girl will go in Miss Universe contest. So, we are now kind of escalating our media plans on LIVA.

Ashish Adukia: And then thanks for the feedback. We'll be happy to incorporate some such details in presentation.



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- Prateek Kumar:** There's a lot of buzz around this direct-to-consumer brands across the board across the segments. Is there something which we also cater to like via LIVA?
- Dilip Gaur:** We don't do direct to consumers, we do on the e-commerce, we have a big presence in e-commerce. We have a shopping shop on Myntra, and we are now dealing with all the 4 or 5 e-commerce companies because we are not an end garment. We are fiber suppliers. So, it is our customers who have to do the B2C. What we have done is we have got all our vendors onto the e-commerce through a LIVA site.
- Moderator:** Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.
- Ashok Shah:** My question is, does caustic soda still have an anti-dumping duty and what's the percentage?
- Jayant Dua:** There is no anti-dumping duty on caustic soda as if today from anywhere.
- Ashok Shah:** Any format, so there is no duty.
- Jayant Dua:** No.
- Moderator:** Thank you. I now hand over the conference to Mr. Ashish Adukia for closing comments. Over to you, sir.
- Ashish Adukia:** Thanks a lot for very good quality questions. Some of those feedback I will take for our next quarter presentation as well. Thanks a lot, and enjoy the coming holiday season and see in the next quarter.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Grasim Industries Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.