"Chemplast Sanmar Limited Q3 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Chemplast Sanmar Limited Q3 FY2023 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ramkumar Shankar - Managing Director. Thank you and over to you, Sir.

Ramkumar Shankar: Thank you very much Michelle, and good morning, everybody. On behalf of Chemplast Sanmar Limited, I extend a very warm welcome to everyone joining us on our call today. On this call, I am joined by our CFO, N. Muralidharan, Dr. Krishna Kumar Rangachari, the Deputy Managing Director – In-charge of the Custom Manufactured Chemicals Division and SGA, our Investor Relations advisor. I hope everyone had an opportunity to go through the financial results and investor presentation, which have been uploaded on the stock exchange and on our company's website.

In an evolving macro-environment and as expected, the quarter gone by has turned out to be another subdued one for us as well as the industry. Our business continued to face headwinds for most parts of Q3 with a revival in PVC prices only from December onwards. For the nine months in FY2023, revenues were lower by 7% as compared to the corresponding period last year. However, sales volumes of all products were higher on a year-on-year basis.

Falling prices of finished goods coupled with increase in energy cost has resulted in a reduction of EBITDA margin which stood at around 10% for the nine month period. Taking a closer look at the performance and trends across product categories and segments, during the quarter our specialty chemical segment saw a 5% de-growth in the top-line on a year-on-year basis. This was largely due to the fall in Paste PVC prices. However, it is relevant to note that volumes grew by 38%, which partially offset the impact of the fall in prices.

The Suspension PVC segment delivered revenues of Rs.673 Crores in the third quarter witnessing a de-growth of 28% on a year-on-year basis. This was also on account of price decline and was partially offset by a 35% growth in volumes. After a continuous fall from April 2022, the prices for both Paste PVC and Suspension PVC bottomed out by end November. Multiple price increases were seen for both the products in December and January. The situation for the PVC segment is turning favorable again driven by robust domestic demand and the reopening of China. PVC prices have started moving upwards after nine months of fall. Restocking of channel inventory which had dried up during this period has recommenced and volume off take is back to normal. We expect the demand in FY2023 for Suspension PVC in India to touch the pre-pandemic levels of 3.3 million tons, which would mean a 17% growth over FY2022.

The custom manufacturing segment continued to achieve strong growth. During the previous call, we had mentioned our plans to increase the capacity in phase one and fast track the expansion by setting up the civil infrastructure for the next phase as part of phase one itself.

We recently received confirmation from one of our customers that we have been selected to supply an advanced intermediate for an already established generic AI. This was based on successful qualification of lab and pilot plant samples at the customer end.

Based on this development, along with the announcement in the previous quarter of the signing of an LOI for another intermediate, and a healthy pipeline of products, we plan to kick-start the next phase expansion of the multi-purpose facility with immediate effect.

The total Capex outlay including the next phase of expansion will be around Rs.680 Crores to be spent over the next 15 months. While phase one is expected to come on-stream by the second quarter of FY2024 as originally scheduled, we are targeting to commission the next phase by end of FY2024.

In Q3 of this year, the Other Chemicals business comprising of Caustic Soda, Chloromethanes, Refrigerant Gas and Hydrogen Peroxide, delivered revenues of Rs.232 Crores, a 4% growth on year-on-year basis. This growth was largely due to the increase in volumes of all products and strong Caustic prices during the quarter compared to Q3 last year.

The outlook for this segment remains stable over the medium-term though there are some short-term challenges. High energy costs continue to remain a concern, though there are some encouraging signs with a reduction seen in Coal prices. Overall with recovery in PVC prices and healthy demand trends, we expect our Q4 FY2023 performance to register a good improvement. We expect a better performance in FY2024 driven by a combination of a rebound in PVC demand and prices, along with new capacity in Paste PVC and custom manufacturing coming on-stream during the year.

An update on our Capex projects: Both our Capex projects, which pertain to the specialty chemicals segment, are on track and slated to meet expected timelines.

Now I would request our CFO Muralidharan to share the quarterly financial highlights.

Muralidharan: Thank you Ram and a very good morning to all the participants on the call. Chemplast Sanmar, on a consolidated basis, registered a drop in its revenues and operating profits for 3Q FY2023 as compared to the corresponding period last year. The revenue from operations for 3Q FY2023 stood at 1189 Crores registering a drop of 18% on year-on-year basis. This was largely on account of lower realizations per ton for our PVC products. However, volumes across all product segments registered a growth on year-on-year basis with an overall volume growth of 27%. On the expenses side, our employee cost during the quarter was Rs.34 Crores. This was marginally higher on year-on-year basis and lower on a sequential basis. Other expenses increased on a year-on-year basis largely due to higher energy costs. EBITDA for the quarter stood at Rs.78 Crores as compared to 353 Crores in the corresponding quarter last year. EBITDA margin for the quarter was at 7%, this is more or less in line with the EBITDA margin for the previous quarter. Our finance cost for the quarter stood at 39 Crores. This was marginally lower than the previous quarter, and our PAT for the quarter stood at 27 Crores as compared to 237 Crores in the corresponding quarter last year.

Looking at the nine month numbers, Revenue from operations of 3794 Crores was 7% lower as compared to the corresponding period last year and EBITDA for nine months FY2023 stood at 371 Crores with a margin of 10%. Finance costs dropped sharply from 287 Crores in nine months FY2022 to 116 Crores in nine month FY2023 mainly due to reduction in borrowings using the IPO proceeds and renegotiation of better terms for the existing loans in FY2022. Net profit for nine months FY2023 was at 106 Crores as compared to 417 Crores in the corresponding period in the previous year. Given the reversal in the PVC pricing trend as also the expected commissioning of the expansion projects in our specialty chemical segment, the outlook for the business looks positive and we expect a gradual uptick in operational performance in the coming quarters. With a healthy cash balance of 1167 Crores, the company continues to be net cash positive on a consolidated basis. As mentioned earlier we are kick starting the next phase of Capex of our custom manufacturing business and are actively exploring other expansion opportunities as well. This, coupled with our strong balance sheet puts us in a comfortable position with a high degree of flexibility in a dynamic macro environment.

With this I conclude the presentation, and open the floor for further discussions. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We have the first question from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Good morning, Sir. Thanks for taking my question. I have few of them. First on the specialty chemical business on the 680 Crores of Capex what we have announced which expanded from 300-odd Crores, which you were talking earlier. Can you help us understand what will be the asset turn on this entire Capex of 680 Crores, and what will be the timeframe in which we anticipate this entire capacity to run at the peak utilization, that is one. Number two, I know we do not segregate the EBITDA margin, but from the profitability or an ROIC or and IRR basis can you help us understand what does this 680 Crores means in terms of financial implication on the P&L side. So that is my first question. Thank you.

Muralidharan: The asset turn on this investment, to start with maybe it would be around one, and at a peak it will go to 1.3 - 1.4 times over a period of two to three years., It will evolve over a period of two to three years' time, and as far as the return, these are specialty chemicals - custom manufacturing projects. So the returns would be quite healthy and they will definitely be significantly accretive to the financials of the company. The returns would be way above 25% IRR return. So they will be definitely financially accretive to the financials of the company.

Sanjesh Jain: So the payback period will be less than four years at peak utilization.

Muralidharan: Yes.

Sanjesh Jain: Second on the product pipeline the specialty. We did mention in our opening remark that we have a very strong pipeline of the products in the specialty chemical. Can help us understand in terms of the areas where we are seeing traction, it is largely agrochemical or it is a mix of agro chemical, pharmaceutical, and the performance chemical, that will be useful, and number of products, those parameters as well.

Krishna K Rangachari: The pipeline is very healthy, and strong. Majority of what we have in the pipeline is agrochemical, but we do have some pharmaceutical as well as other fine chemical applications in the pipeline and it is moving quite rapidly, but by rapid I am saying that it is on track. In prior calls, I had elaborated that it takes anywhere from 12 to 18 months from an inquiry point to get to an initial validation campaign and it goes through multiple stages during that time line, and so in the products that we have in the pipeline they are all moving on track as per our expectations.

Sanjesh Jain: How many products are we working here and this particular product what we have announced and the previous one, how many years did it take from say when we started the discussion with the customer to signing of these contracts.

Krishna K Rangachari: The one that we just now announced I would say around 12 months from enquiry to get to this point, and we will wait for the commissioning of the new plant to make the validation quantity. So theoretically we could be making it now, but the customer is very clear that they would like to have the first trial from the new asset. So again 12 to 18 months is what it looks.

Sanjesh Jain: We will be backward integrated fairly or we are doing only a couple of steps. How should we see this chemistry?

Krishna K Rangachari: The chemistry I do not know what you mean by backward integration, this particular product for example, part of it is based on technology package given by the customer, part of the synthesis is based on what we have developed in house, and so there is no backward integration play per se on this particular product. I think you had a question on number of products. Pipeline is healthy, I mean, we have I would say over 7 to 10 products that we are actively working on right now

Muralidharan: Apart from what we have already commercialized.

Sanjesh Jain: These will largely be again pharma or it is a decent mix of agro, pharma and performance.

Krishna K Rangachari: It is mostly agro. There are some pharma as well, but mostly agro.

Sanjesh Jain: Coming back to the PVC business. Murali can you help us what was the inventory loss in this quarter and now that the prices have gone up very sharply, do we expect any kind of inventory gain in Q4 from this phenomenon. I would not call it inventory gain some of the write-off so we have taken certain exceptional of inventory losses in the previous quarter do we expect some reversal of that in Q4.

Muralidharan: One the inventory loss, actually we did make positive contribution from Suspension PVC this quarter. So effectively there is no specific inventory loss for this quarter and as far as the possible gain going forward as you would know the write-off that we did was in the first quarter April-June quarter and the stock we had carried at the time has been entirely sold by this time and stock we are carrying by this quarter, December end was very limited actually it was only for three or four days stock. It is around 2700 tons of Suspension PVC and around 500 tons of Paste PVC. So effectively even though there is an increase in price, we may not be able to gain on the inventory, we will realize the higher margins on the future sales.

Sanjesh Jain: What is the spread right now and what is the spread expected in FY2024 to remain at, and this year has been a very strong volume growth for the industry, what is the expectation for FY2024 and what is the import situation from China and US?

Ramkumar Shankar: As far as the market is concerned we expect the market in FY2023 to be around 3.3 million tons, this is for Suspension PVC, which effectively takes us back to the pre-pandemic level of around which was 3.2 million tons. In fact, up to December itself, our total demand in India has registered a growth of around 20%. We are at 2.5 million tons as against 2.1 million tons year-on-year. So this is definitely likely to continue given that this is a strong demand quarter. Next year we expect that the traditional growth of around anywhere around 8% to 10% should be restored given that there is a lot of pent up demand that is there, and very little stocks that are there in the trade channel. So this is something that we expect as far as Suspension PVC is concerned. In terms of imports from different countries, the Chinese imports in the nine months so far were around 440000 tons as compared to a full year import of around 250000 tons in 2021-2022. So that was really the extent of the issue that we faced in these nine months. We expect this to go back to earlier levels given that China is now reopened and their zero COVID policy has been reversed.

Sanjesh Jain: On the spread?

Ramkumar Shankar: The PVC VCM spread pre-duty is anywhere around $225 and if you include that duty as well it will be anywhere around $275-$300.

Sanjesh Jain: This is expected to sustain right?

Ramkumar Shankar: This is expected to sustain.

Sanjesh Jain: Thank you, Sir. Thank you very much for all those answers, and best of luck for the coming quarter.

Moderator: Thank you very much. We have the next question from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Hi! Sir, good morning. Thanks for the opportunity. Just continuing on the PVC side, globally any comments there from a China revival perspective, is there a significant demand, which has come in or probably it is still slow and steady and maybe the dumping that we are seeing in India, we will see an immediate reversal or probably will take some time?

Ramkumar Shankar: We are seeing a revival definitely in China, domestic prices in China have gone up. There was an extended holiday in China in January, towards the end of January for their New Year. So, all activity has been pretty much muted over that period. But we are seeing that their domestic prices have been pretty much going up and we believe that given the fact that the Chinese government has also announced an incentive for their real estate sector, which is very important to their economic growth given that it accounts for I believe around a quarter of their overall GDP, we believe that the demand for PVC should be healthy in the months ahead.

Ankur Periwal: Sir on the margins front for SPVC side, we were seeing some softness there and especially if I look at the subsidiary P&L the other operating cost is significantly higher. Is this largely because of the power cost, which you highlighted earlier, and when do we see a reversal there in margins?

Ramkumar Shankar: The power cost largely will affect the parent company a little bit more than the subsidiary company because the parent company is where we consume most of the power given the fact that caustic soda which is the highly power intensive product is there in Chemplast. The coal prices have come down significantly, and that is what is encouraging. In the first quarter of the year coal prices were at around $160 and that kept fluctuating in the first nine months, it dropped to 125 and then was around 140. It is now back to around 115 levels and that is quite significant. We believe that this could have a good impact on our other operating costs going forward. There was also an increase in natural gas prices and as you would possibly be aware that the government had commissioned study by the Kirit Parikh Committee on natural gas prices, and they have come back with their recommendations, which suggest floor and a cap on gas prices. These recommendations have not yet been accepted, but if they are accepted that could also result in quite a substantial reduction in gas prices and the impact on customers like us.

Ankur Periwal: Just last question on the CSM side. You did mention that initially we are expecting an asset turn of one time for the 6.8 billion Capex, which will gradually increase to 1.3-1.4. Correct me if I am not wrong in the first phase of Capex we were expecting an asset turn which was slightly higher than this number maybe more like 1.5-1.7. So, if you can highlight on the chemistry bit, is it a slightly more complex project or how many steps does it have and maybe some details on that side?

Muralidharan: The asset turn sort of evolves as the business matures. So on an overall basis, between the phases, I think it is not that the chemistry is too different, but broadly as we evolve we believe that the asset turn on an incremental basis would fall somewhere between 1.3 to 1.4 instead of somewhere around 1.7 or so. That is slightly being on the conservative side as well. If you look at the asset turn of our existing business, it is way above 2. So obviously as we mature , in the coming years, maybe few years down the road, I think asset turn could even be much higher, but we wanted to sort of present a reasonably conservative picture.

Ankur Periwal: Since it is a running product and established generic AI, the ramp up should be faster here?

Krishna K Rangachari: Yes, ramp up would be faster and because there is an existing demand, it would depend on how the customer moves from their current supplier to us. But the demand is fairly established.

Ankur Periwal: Sure sir, fair enough. Thank you and all the best. Thanks.

Moderator: Thank you. We have the next question from the line of Niteen Dharmawat from Aurum Capital. Please go ahead.

Niteen Dharmawat: First question is that we are making some Capex now. So what was the Capex amount we spent last year?

Muralidharan: The projects announced post IPO are - One is the Paste PVC project, the second one we announced is the debottlenecking of Suspension PVC, third is the custom manufacturing project originally we announced a project capex of 260 Crores, and it has gone over time to 680 Crores now based on the traction that we have got on the business. So in terms of Capex spend, the 23.5 Crores we had announced on the debottlenecking of the Suspension PVC that has been fully completed and the next Capex which is on the Paste PVC, which is around 360 Crores is currently under progress, it will get commissioned in the third quarter of this year, and the other projects which is the custom manufacturing business - phase one is progressing, it will get commissioned by the second quarter of this year and the recent one that we announced it will get commissioned by the year end. As far as the actual capital outgo, if you are looking at actual cash out go, it is around 225 Crores till now.

Niteen Dharmawat: This mix round of Capex that you are announcing today. Is it through internal accruals or through debt, how much debt we are taking for this, additional debt we are taking?

Muralidharan: As we had mentioned in the earlier calls as well, we believe that the debt is an integral part of capital structure. So even for these projects we would fund it using a mix of debt and equity. Debt would range between 60% to 70%, depending on the project.

Niteen Dharmawat: My final question is since you have mentioned that you see some price improvement in the product. So what is the guidance that we have for the next year for top line as well as for EBITDA margin?

Ramkumar Shankar: We generally don't provide any specific guidance, but what we do is provide directional guidance. So as we have said both in our release as well in the opening remarks today, we believe Q4 will definitely be better than what we have registered in Q2 or Q3 and FY2024 should also register better performance. The usual caveats apply of course.

Niteen Dharmawat: Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, just two clarifications. Now the capacity, which is supposed to come up is the Paste PVC capacity of 460, what is that number?

Ramkumar Shankar: Paste PVC capacity is 41000 tons expected to be commissioned by end of September early October.

Pritesh Chheda: So then in the presentation the capacity that you are mentioning we just have to add this Paste PVC 41000, which is supposed to come up next year right?

Ramkumar Shankar: Yes, but 41000 the entire thing will not be available for the entire year obviously since we are coming up in October. So there will only be a limited quantity that will be there for the financial year FY2023-2024. The full impact would be seen from the next year.

Pritesh Chheda: Another question, if you could give us the usual Capex cost that is incurred or replacement cost if any for a specialty Paste PVC and the Suspension PVC capacity. So either express it as per ton or your complex.

Muralidharan: I think you are referring to the regular normal Capex that we incur year-on-year basis.

Pritesh Chheda: No, I am referring to, had you put up a Greenfield like this someone puts up so what is the per ton Capex cost for specialty Paste PVC and what is the per ton Capex for suspension PVC?

Ramkumar Shankar: I would not say per ton capital costs but if you look at for instance if you do a 300000 ton Suspension PVC or 350000 tons Suspension PVC project. It depends on whether you have already it is a Brownfield, it is a Greenfield, all of that comes in to the picture and where you do it, but for instance if you were to do it in India for PVC plant of that size, that maybe would cost you around just the PVC polymerization alone would be around $125 to $150 million. If we do it in the Middle East it will be maybe $200-$225 million. If you do it in the West it would be far more.

Pritesh Chheda: In India if you want to put up a Greenfield project like you just take that example and give me the numbers. So it will be $150 million for a 3 lakh ton.

Ramkumar Shankar: Yes, it would be around 125 to 150. Again it would depend on whether you need your own captive terminal whether you invest in that or you have an existing capital terminal or a public terminal close by for the import of VCM, etc. So there are a lot of configurations that it is very difficult to just give you a number without knowing what configuration you have in mind.

Pritesh Chheda: That is why I must assume your capacity if someone has to replicate how much input.

Ramkumar Shankar: Our capacity with the captive terminal somebody has to replicate it would possibly be closer to $175 million.

Pritesh Chheda: Okay, that is a very simple way to answer and the specialty Paste PVC capacity what will be the replacement cost?

Ramkumar Shankar: Specialty paste PVC now we are at the end of our expansion we will be at 100000 tonnes and there is a little bit more complex because they are also integrated on 60% of our capacity all the way down to EDC and 40% is based on imported VCM. So that would be a bit more evolved, I do not think I can tell you off hand, maybe I can take a call from you later and we can go over this.

Pritesh Chheda: So this 41000 ton capacity that you are putting incremental is at 680 Crores?

Ramkumar Shankar: No. It is 360 Crores for 41000 ton capacity Paste PVC project. The 680 Crores is for our custom manufactured chemicals business.

Pritesh Chheda: So this is 380 Crores for 41000 ton for a Brownfield.

Ramkumar Shankar: 360 Crores for 41000 tons.

Pritesh Chheda: Okay, 360 Crores for 41000 tons it is a Brownfield and it has its own VCM or it will be imported?

Ramkumar Shankar: Imported VCM.

Pritesh Chheda: Okay. Thank you very much.

Ramkumar Shankar: And here we share the VCM import infrastructure. So, we do not need to invest really in a terminal and stuff. Whereas if somebody were to set this up by themselves greenfield then the cost goes up significantly.

Moderator: Thank you, sir. The next question is from the line of Nitin Tiwari from Yes Securities. Please go ahead.

Nitin Tiwari: Good morning, Sir. Thank you for the opportunity. I hope I am audible. Sir my question is related to the CSM business. So how many products are actually contributing to the revenue as of now and what is the revenue contribution? If you can help me with that and a broader margin

Muralidharan: Currently, like I had mentioned earlier, we have nine commercialized products which are contributing to the revenue this year and as far as the revenue numbers, we have indicated to you that we are looking at a 30% growth this year and we still maintain that. We will definitely achieve that 30% growth this year. And as far as the margins, for confidentiality reasons, we would like to refrain from giving out the exact margin levels, but as you know this is a specialty business and we do make the margins in line with what the industry makes.

Nitin Tiwari: Actually I wanted to understand the revenue contribution. I mean, what is the revenue contribution in the nine month period that we are getting from the CSM business either in percentage terms or absolute number if you can provide. And a broader understanding of the margin, I am just fine with that. you do not have to give the specific number.

Muralidharan: If you look at the overall consolidated revenue of Chemplast Sanmar it will be slightly lower than 10% currently, it will be around 8% to 9% levels as of now, and on a standalone basis it will be close to 15%-16% levels.

Nitin Tiwari: On the margin side sir, a broader understanding.

Muralidharan: Margin obviously, this is a specialty business, obviously this will contribute more to the margin than the Suspension PVC business. So obviously the revenue percentage, if it is 8% the margin contribution will be even higher. I would like to refrain from going into the exact details of the margins if it is fine.

Nitin Tiwari: Understood Sir. Moving on, once our CSM expansion comes into picture over FY2024, so what is the sort of revenue growth you are looking at in FY2024 and 2025 from this business?

Muralidharan: Like we had said we are investing close to 700 Crores now, almost 680 Crores. And we are looking at an asset turn of 1 to start with and gradually increase to 1.3-1.4. So, that will give you an indication. So we are definitely looking at, on a steady state, well above 1000 Crores in terms of revenue and that is broadly the outlook based on the current investment.

Nitin Tiwari: That part I understood that asset turn is about 1.3-1.4.

Muralidharan: On the relevant years revenue, actually we refrain from giving guidance for the relevant years like Ram also mentioned earlier. So I would like to refrain from giving any specific number guidance for FY2024, FY2025.

Nitin Tiwari: So in that case what is the time frame in which we are looking to achieve the asset turn of 1.4 times.

Muralidharan: The 680 Crores is that we are investing now, on an asset turn of 1.3-1.4 that itself will give you 950 Crores on a steady state basis. Like I had indicated this will happen over a period of two to three years. To start with, it will be roughly around one turn. So that will be the starting point; we are commissioning the project this year in 2023-2024. So obviously we will start seeing the results from 2024-2025; we will gradually ramp it up to 1.4 times over a period of time and we also have the current turnover, which we have discussed earlier as well above 300-odd Crores. So that will give you a feel of the overall turnover that we will be able to achieve.

Nitin Tiwari: And my second question is with respect to the SPVC expansion that you earlier indicated that with the plans are right now on the drawing board. So, any updates on that?

Ramkumar Shankar: Could you repeat that please, we lost you a bit there.

Nitin Tiwari: So, I was asking about the SPVC expansion which goes on the drawing board which you were considering. So, any updates on that front where you were looking to double the capacity of the business?

Ramkumar Shankar: We had mentioned that we did have the environmental clearance to go up to 600000 tonnes from the current 300000 tonnes, but we have not announced any plans to actualize that. In the interim, there is a debottlenecking at very minimal Capex at around 23 Crores and taken up our capacity to around 330000 tons which would have a payback of around six months and that has already been actualized. Any further expansion is dependent on feedstock tie-up, which is a little bit more involved and unless we do that we will not be able to announce further expansion.

Nitin Tiwari: Understood. Thank you so much. Those were all my questions.

Moderator: Thank you. The next question is from the line of Chintan Chheda from Quest Investment Advisors. Please go ahead.

Chintan Chheda: Good morning and thanks for taking my question. My first question is on the Paste PVC business. So this 41000 ton additional capacity that we are bringing in FY2024, so where do we see full utilization of this plant going?

Ramkumar Shankar: We would be at maybe around the 25% of that coming in this year - FY2024 and then the very next year onwards we will be at 100%.

Chintan Chheda: What is the demand supply currently in the Paste PVC industry right now in India? And we were facing some headwinds from dumping from China so has that eased out specifically in the Paste PVC segment?

Ramkumar Shankar: The total demand for the Paste PVC in India is expected to be around 150000 tonnes in FY2023. This is actually more than the pre-pandemic levels. Paste PVC recovered a little faster than suspension PVC as far as the recovery during the pandemic itself. And here if you look at the total imports, China doesn't play that big a role as far as the Paste PVC import is concerned. This is a little bit more spread out over Europe, Thailand, Korea, Malaysia, Taiwan and China. Roughly the domestic production is around 65000 from us and maybe another 13000-14000 from the other player, so around 80000 tons and the balance 60000-70000 tons is being imported and this is spread over these six countries.

Chintan Chheda: So how do we see the margin getting recovered in this segment because we always felt that this is basically a specialty product for us? But over the last couple of quarters the hit over here in the margin was much more severe. So now where do we see the spreads or you can say per ton kind of EBITDA over here moving?

Ramkumar Shankar: Directionally it is moving up. You are right, in the last three quarters we did have a hit here. In fact the previous two years we had the excellent performance in this segment and in this last three quarters the hit has been largely because of the zero COVID policy in China to some extent, but also equally because of the increase in energy costs. Like I mentioned, this is a segment where you have significant energy because we are backward integrated all the way to caustic soda and therefore the energy cost increase affects the cost of production in this product. And that is what has really affected, but we are seeing, with the recovery in Paste PVC prices, we are seeing the margins going up as we speak.

Chintan Chheda: So, they are higher than suspension PVC or still lower than that?

Ramkumar Shankar: Suspension PVC was lower than that but suspension PVC again picked up very smartly in December and even more in January.

Chintan Chheda: My question is, the spreads in Paste PVC are they higher than the levels we are seeing in suspension PVC or still below that?

Ramkumar Shankar: It will be higher because one is of course the fact that this as a product itself commands a premium over the price of suspension. Secondly we also have a greater level of integration on Paste PVC as compared to suspension. Suspension we just import the VCM and polymerize and make Suspension PVC whereas in paste PVC, for our existing capacity we are fully integrated on VCM and we have a significant integration back into EDC as well.

Chintan Chheda: The last question is what is the current cash and bank balance on books as of December 2022?

Muralidharan: We have 1167 Crores on a consolidated basis.

Chintan Chheda: We are still going for say earlier you highlighted that 60% to 70% of debt component in this custom manufacturing expansion. So, what is the rationale behind that?

Muralidharan: If you look at the cash of 1167 crores, roughly around 500 Crores is at the holding company and the rest is at the subsidiary level. In the holding company, as you would see, we have announced Capex to the extent of almost 1000-odd Crores primarily on the specialty side. And that would need some investment from internal accruals. Out of 500 Crores we would always like to maintain some liquidity with us to take care of any volatility. So that leaves some amount of cash to be used for equity purposes of the projects, the rest being managed through debt. So obviously we believe that debt is an important part of the capital structure to fund these 1000 Crores of cost projects.

Chintan Chheda: Ok. Thanks a lot.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Centrum Broking Limited. Please go ahead.

Rohit Nagraj: Thanks for the opportunity. Sir, my question is on CSM part. So currently what would be the domestic and exports mix? And once we are through with this 680 Crores Capex and achieve a peak turnover of 950-1000 Crores what is the mix that we are looking at?

Muralidharan: It is 100% exports.

Rohit Nagraj: So all the time, I mean, incrementally also it will be 100% exports?

Krishna K Rangachari: Yes, it will be for exports, I mean, some of the sales could be made domestically, but the intent of all of this would be for the export market.

Rohit Nagraj: Last quarter, we had mentioned that phase two will start sometime later and this quarter we have received this customer approval. So is it that a significant part of our 680 Crores Capex capacity will be occupied by the two products where we have received the LOIs? And would it be a dedicated facility for any of these products?

Krishna K Rangachari: So it would not be a dedicated facility, it will still be a multipurpose facility where we can make different products. These two products, the LOI that we signed last quarter and then this new development, between both of them, at steady state, we believe majority of the Phase 1 capacity would be occupied. And our approach is that to trigger additional capacity as and when we have clear visibility on such a high level of occupancy. That is the reason we are triggering the phase two as well and we have a high level of visibility of some of the other products moving through the pipeline, which would require additional capacity. And so that is the rationale for moving forward in triggering the phase two.

Rohit Nagraj: Just one clarification, so at peak utilization level what is the kind of product roll out that we are targeting from this multipurpose facility?

Krishna K Rangachari: I am not clear.

Rohit Nagraj: So currently we are having 9 products from our existing facility and this new facility 680 Crores so do we expect a similar set of products or there will be limited products, but with better revenues or higher revenues.

Krishna K Rangachari: I think the way I would look at is that, once the investment is complete in both these phases, probably I would expect maybe five to six products occupying the new capacity coming on-stream.

Rohit Nagraj: That is helpful sir, thank you and best of luck, Sir.

Moderator: Thank you. The next question is from the line of Raj from Arjav Partners. Please go ahead.

Raaj: I want to ask, since the expansions are done, how do you see the Q4 going?

Ramkumar Shankar: The expansions are going to come up only in the next year by September of 2023. So essentially in 2023-2024 is when the expansions will have their impact. But Q4 is like we had mentioned in the opening remarks as also in the earnings release, it is definitely looking better than either Q2 or Q3.

Raaj: All right. Thank you, Sir. Have a good day. Bye.

Moderator: Thank you. The next question is from the line of S Ramesh from Nirmal Bang Equities. Please go ahead.

S Ramesh: Good morning and thank you very much. On the CSM business, obviously it is taking the chunk of your capital allocation. So if you look at the company over the next five years, would this be the order of magnitude in terms of capital allocation for CSM in terms of expanding this business further and in terms of your tonnage. From the tonnage you have disclosed the presentation, what will be the additional tonnage you will add in the CSM business in the MPB based on the 680 Crores Capex.

Muralidharan: As far as the capital allocation is concerned, yes CSM business will be our number one priority in terms of capital allocation. And we will keep investing in this business once we have clarity, like we had indicated that once we have clarity on filling up phase one, we will immediately kick start the next space, which we have announced now. And similarly once we have reasonable visibility on the next phase in terms of occupancy we will definitely kick start the next phase of expansion. So this is going to be a number one focus area for growth and as far as the tonnage I would request Krishna to address it.

Krishna K Rangachari: Tonnage would depend on the product, but just to give you an order of magnitude, the two products that we are commercializing and that we have talked about over last quarter and this quarter. Each one of them, the order of magnitude at steady state would be 600, 700 tons. So that is the kind of volume that we are talking about.

S Ramesh: In terms of synthesis, can you share whether there is any additional synthesis capabilities you are adding in this Capex or is it in the existing domain?

Krishna K Rangachari: That is a good question. So this business is all about the chemists and chemical engineers. It is about leveraging the chemistry and the process scale up capabilities. So some of the investments that we are doing is also in augmenting our R&D lab, our pilot facility and other infrastructure related to enhancing the breadth of capabilities we have. And the inquiries that we are working on more and more are also larger molecules or number of steps are more complex chemistries and so we are sort of resourcing both on the people side as well as on the asset side.

S Ramesh: Thank you very much, that was very useful. Wish you all the best. I will come back in the queue.

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

Saket Kapoor: Thank you for this opportunity. Sir, firstly when we look at our standalone numbers that mainly represent our caustic soda revenue or what constitutes the revenue from operations?

Ramkumar Shankar: If you look at Chemplast standalone numbers, largely you would have Paste PVC and Caustic Soda and custom manufactured chemicals being the bulk of the numbers.

Saket Kapoor: In the mix, can you provide the split up of much is Caustic Soda contribution out of this 638 Crores revenue?

Ramkumar Shankar: Caustic Soda would be around 25%.

Saket Kapoor: You did spoke about the fact that there is some near-term pressures. So if you could elaborate more on the same. I think so more than 1 million ton capacity has been added domestically and also as you mentioned about coal prices and then gas prices globally softening and coming to levels I think your gas prices in Europe has come to levels even pre-COVID levels. So how do you see the Caustic market particularly shaping up globally and some more color on the same and how the ECU behaved currently?

Ramkumar Shankar: Caustic really has softened a bit as far as the prices are concerned. Caustic prices in fact had been moving in a contra-direction to PVC which is pretty much normal. So when PVC was down, caustic was up and this was further accentuated by the situation in Europe because of the Russia and Ukraine war and the run up in energy costs in Europe. Therefore the caustic prices in Europe went up as high as - especially in the Mediterranean region, to around $1200-$1300 a DMT and that presented a very good arbitrage window for Asian sellers of Caustic Soda. That window is now closed because the energy cost in Europe has come down so Caustic prices have fallen off. And in Asia the prices are right now around $550 or so. And India itself is around 5 million tons of capacity with 4 million tons of demand, but most of the capacity is largely concentrated in the western part of the country, and Caustic being a very regional product given the fact that it is transported 50% as water. It is a problem that is very regional in part. As far as the southern part is concerned it is not reflected so much, and for us we are not really a caustic company, we are more a PVC company where we consume 100% of the chlorine that we produce and caustic is for us treated like a by-product.

Moderator: Thank you, sir. Ladies and gentlemen, due to time constraint that was the last question for today. I would now like to hand the conference over to Mr. Ramkumar Shankar, Managing Director for closing comments. Over to you, Sir.

Ramkumar Shankar: Thank you very much and thank you everyone for joining us today on this earnings call. We appreciate your interest in our company, and if you have any further queries, please contact SGA, our Investor Relations Advisor. Thank you and have a good day.

Moderator: Thank you, sir. On behalf of Chemplast Sanmar Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.