“Chemplast Sanmar Limited Q4 FY2022 Earnings Conference Call”

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Moderator: Good morning, ladies and gentlemen. Welcome to Chemplast Sanmar Limited Q4 FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions, and expectations of the company as on the 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 the 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 – Chemplast Sanmar Limited. Thank you and over to you Sir!

Ramkumar Shankar: Thank you very much and good morning everybody. On behalf of Chemplast Sanmar Limited, I extend a very warm welcome to everyone joining us on the call today. On this call I am joined by our CFO, Mr. N. Muralidharan, Dr. Krishna Kumar Rangachari who leads our Custom Manufactured Chemicals Division and SGA our Investor Relations Advisor. As you are aware, Mr. N. Sankar, Chairman Emeritus of the Company passed away on April 17, 2022. His contribution to Chemplast with which he was associated for 55 years and indeed to Indian industry is invaluable as are his contributions to the fields of sports, music, heritage, education, and healthcare. We would like to pay our respects to him today and I speak on behalf of the management team in saying that we rededicate ourselves to the value systems that he held so dear.

I hope everyone had an opportunity to go through the financial results and investor presentation, which has been uploaded on the stock exchange and on our Company's website. The Company has reported very good results for the fiscal year 2022, a year marked by an important milestone in our history our initial public offering. Our focus on consistently delivering outstanding operational results combined with our dedication to strengthening our balance sheet has helped us advance our performance by every passing quarter in this year. For the year as a whole, we registered our highest ever revenue of Rs.5892 Crores, which was a 55% growth on a year-on-year basis with a healthy EBITDA margin of 20.3%. We also achieved the highest ever net profit of Rs.649 Crores a year-on-year increase of 109% and the record EPS of Rs.43.66 per share. The quarter gone by witnessed the third-wave of COVID with the Omicron variant. Thankfully this was much milder due to the effective vaccination program in the country and did not have much impact on either demand or on operations. The impact of the ongoing Russia-Ukraine crisis is felt more on the energy prices with rising coal and power prices rather than on demand and supply. Russia is net balanced in PVC trade with Ukraine exporting 140,000 tons per year of PVC but India does not import any significant quantity of PVC either from Russia or Ukraine, so we do not expect any significant impact from that crisis directly.

Q4 has been a good quarter financially with revenues recording a 35% growth year-on-year. Our EBITDA however registered only a marginal increase of 1% in Q4 on a year-on-year basis largely because of the very strong Q4 that we had in FY2021 especially in our PVC business as also the higher cost of PVC inventory at the end of Q3. Murali will talk about the numbers in detail a bit later.

Looking at individual business segments, our specialty chemicals business continues to be strong. With the reopening of schools, the footwear demands saw resurgence and that had a beneficial impact on paste PVC demand. This was coupled with the continuing logistics problems internationally resulting in lower imports. The stronger demand coupled with this lower import arrival enabled us to liquidate the excess inventory, which we had built up in Q3. This also led to a year-on-year increase of 28% in our sales volume in Q4 FY2022.

Also, our custom manufactured chemicals saw a significant increase in sales during the year mainly driven by strong demand and commercialization of new products. Chemplast has recently been upgraded to development supplier status by one of the customers and they now consider us to be a key supplier for their requirements. With the entry into this elite group we have already started to receive additional enquiries for new products.

The other products in our portfolio caustic soda, chloromethanes, and hydrogen peroxide complete the integration play. Caustic prices continue to be very strong - the high energy price scenario in Europe and various plant issues in the US have combined to keep caustic prices high internationally. Our caustic realizations continue to grow in Q4 as the lower price contracts ran out and newer contracts were taken at the current higher prices. The demand for chloromethanes which feed into the agrochemical and pharma sectors primarily had continued to remain strong.

Suspension PVC prices rebounded in Q4 of FY2022 with a pickup in demand and supply tightness around the world. Owing to solid demand and liquidation of the inventory built up in the last quarter our suspension PVC paste volume surged by 13% to 87,523 metric tons leading to an excellent growth of 25% in the revenues on a year-on-year basis. There are some immediate short-term challenges though arising from the COVID lockdowns in China leading to a temporary increase in export of PVC from China. This is putting some pressure on the PVC prices in the region. While this is accompanied by a similar decrease on the feedstock prices as well, the benefit of the drop in feedstock prices will be seen only after a lag of 30 to 45 days.

The medium to long-term outlook for various business segments continue to be strong. The structural imbalance building up in both suspension and paste PVC as well as in caustic soda will support the prices and demand.

Over the next five years, the operating rates of specialty paste PVC resin producers are expected to remain high on an account of healthy demand growth with capacity additions not keeping pace. Chemplast is in the process of adding 41,000 tons capacity at Cuddalore, which is expected to come on stream in the financial year 2024. Most orders have been placed and construction is expected to commence very soon. The outlook for custom manufactured chemicals continues to remain robust with sound customer enquiries. The first phase of our capex involving setting up of a new multipurpose plant is slated to be completed by the first quarter of FY2024. The Indian chloromethanes market is expected to grow in the future led by the transition to more sustainable refrigerant gases by air conditioner and refrigerator manufacturers. We have started work on restoring our caustic capacity to the full installed level of 119,000 tons per annum, which should also be completed in FY2024.

The domestic market for suspension PVC has been steadily growing largely led by growth in the pipes and fittings market.Indian demand for suspension PVC is expected to be strong through the next decade given the much lower level of penetration in India as compared to the rest of the world as evidenced by the very low per capita consumption. Moreover, government projects on housing, water conveyancing, infrastructure and smart cities are all expected to lead to a strong demand for suspension PVC. As we speak, we are working on debottlenecking of our suspension PVC capacity by 10% this is already partially under implementation and expected to come fully online by the end of the first quarter of this year. Now, I would request our CFO, Muralidharan to share the quarterly financial highlights. Murali.

N. Muralidharan: Thank you Ramkumar and a very good morning to everyone on the call. Looking at the results of the Company for Q4 and the financial year FY2022 there was a significant increase in our revenues during the quarter as well as for the full year FY2022 on Y-o-Y basis. Revenue from operations for Q4 FY2022 went up by 35% on year-on-year basis from 1,342 Crores to 1807 Crores due to pickup in demand coupled with better realization for most of the products. As we mentioned earlier, we ended the last quarter with higher level of inventories of both paste PVC and suspension PVC due to restrictions around operation of downstream units in the NCR region due to poor air quality and extended monsoons during October-December 2021 quarter impacting the demand. The demand picked up strongly in Q4 FY2022 and the inventory levels are now back to normal range of our inventory.

EBITDA for the quarter was at 346 Crores registering a marginal growth of 1% on year-on-year basis, volume increase was offset by slight drop in the margins on account of the cost of inventory that we carried over from the previous quarter. EBITDA margin for the quarter was at a healthy level of 19%.

On the balance sheet front, our debt reduction since the IPO continues to drive a pronounced improvement in our credit profile. The Company continues to be debt free on the stand alone basis driven by significant deleveraging that we achieved through the IPO and the strong operational performance during the year. CRISIL has upgraded the rating for the long-term debt of Chemplast Sanmar Limited and its subsidiary Chemplast Cuddalore Vinyls Limited to CRISIL AA- stable from CRISIL A+ positive while reaffirming the short-term rating at CRISIL A1+, which is the highest rate rating for short-term facilities. With the lower debt and renegotiated interest cost, our finance cost for the quarter came down to 35 Crores as against 92 Crores on a year-on-year basis.

With a combination of slightly higher operating profits and lower interest and finance cost, the PAT for the quarter was at 232 Crores, which is 29% higher a year-on-year basis. For the purpose of like-to-like comparisons we have excluded Rs.185 Crores of profit after tax from joint venture and associate from Q4 FY2021 PAT - these investments as you would know have been delinked in FY2021.

On a full year basis, the revenue from operations for FY2022 grew by 55% to Rs.5892 Crores as against Rs.3799 in the corresponding period year driven by higher realizations as well as higher volumes for most of our key products.

FY2022 EBITDA rose by 40% to 1197 Crores on year-on-year basis due to a combination of improved margins as well as higher volumes. EBITDA margin was also at a healthy level of 20%.

With the deleveraging that has been achieved during the year interest cost for the year dropped by around 25% from 433 Crores to 322 Crores. Going forward, the drop in interest cost will be even sharper driven by high EBITDA and lower interest cost. The net profit for FY2022 was at 649 Crores, which is more than double last year's PAT on a comparable basis. On overall basis, on all parameters, the Company has done extremely well compared to the last financial year. With this, I conclude the presentation and open the floor for further discussions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ahmed from Unifi Capital. Please go ahead.

Ahmed: Good morning, good afternoon. I was just wishing the management for a good year and thanking them for a good year and I am addressing myself to the management and through the management to the Board with a question not so much of an operational nature but a bit more strategic, so could you tell us how you think about capital allocation, you have a strong balance sheet now and you do not seem to have capex plan for the cashflows that you will receive and our understanding was that dividend is an important thing for you as well it certainly is for us not so much because of the absolute value of return on investment, but also as a reflection of corporate philosophy towards shareholders, capital allocations and eventually the return on equity, it is disappointing that there has been some silence and deferment of this decision it will help us if you can comment on this?

Ramkumar Shankar: Mr. Ahmed, good morning, this is Ramkumar here and thank you for the wishes at the beginning and what you have raised is definitely an important question and I will endeavour to answer to the best of my ability. We are very much seized of the importance of the capital allocation decision and we are focused on growth, we want to grow this business because there are various growth opportunities in the various product groups that we are present in given the fact that India is so significantly undersupplied in all these product areas as also the fact that structurally the world is heading towards an imbalance. We are seriously looking at a few capex opportunities, which are over and beyond what we have already announced and what we are already working on, so those are plans that we are looking at which possibly we will have more clarity over the next couple of quarters and when we get the clarity and we understand how much of capital would be required for these projects, then we would come out with the clear announcement on both the future capex plan over and above what we have already announced as also our capital allocation. We do understand the disappointment right now, but you would have to grant us that we have just been post listing it has just been two or three quarters and we are still young, we are working on this entire growth of the company and we will get back to you once we have the clarity - we do not expect that will take too long.

Ahmed: For now I accept your answer Sir and I will come back to you next quarter. I have a colleague who has a few operational questions for you. One question is regarding the inventory, so last quarter we closed with 6000 tons of paste PVC inventories and close to 24000 to 25000 tons of suspension PVC inventory, so can you share the number at the end of Q4?

N. Muralidharan: Yes, at the end of Q4 we had around 3500 tons of suspension PVC inventory and only around 520 tons of paste PVC. We have significantly decreased the stock and come back to our normal inventory levels.

Ahmed: Got it, one question to understand the margin of suspension PVC business, so we sold about 18000 tons this quarter and close to 20000 to 25000 tons will be from the high cost inventory, so if I want to bifurcate the spreads we earned on the old inventory and the new production we did in this quarter can you just throw some light, how the difference will be in the spread?

N. Muralidharan: The overall contribution, by contribution we mean the realization minus variable cost including not only the feedstock cost, it also includes the power utility, additives, all of that, conversion cost everything is included, the overall contribution for the quarter was around Rs.22600. Out of this like we had mentioned in the last call as well the first two months we had indicated that will be impacted by the high cost inventory we carried over from the previous quarter, so the first two months average was somewhere around Rs.18000, the last month average was around Rs.29000, this sort of averaged to 22000 for the quarter as a whole.

Ahmed: Got it, now question in the CMC business so in the commentary you mentioned that we have done high growth in this quarter and we do not disclose the bifurcation for the specialty chemicals business between paste PVC custom manufacturing and the rest of the chlorochemical business, so can you just throw some light on what percentage revenue growth we did in the CMC business this year if not the absolute amount that is first question and the second question is regarding the margin impact, so our understanding is that we will be procuring some intermediates from China for CMC business, so there will be some lag in the pass through between the increase in the cost and the pass through we do to our customers, so can you throw some light on the revenue growth and the margin for the CMC business?

N. Muralidharan: I will first address the margin part and then I would request Krishna Kumar to talk about the other question that you have. On the growth number that you talked about we had alluded to a number of 35%, we had talked about last three, four years we have been growing at 35% level and we were saying that our growth will be on similar trajectory going forward, I can only mention that we have exceeded it by a significant margin, I would try to avoid getting into the exact number, but I can only say that we have exceeded it by a significant margin. For the other question I would let Krishna to respond.

Krishna Kumar R: Related to the cost pressures here there were some significant pressures through the year, so some of our arrangements with our customers allows us to pass on a reasonable amount of those increases and so we were able to pass that through based on the formula pricing we have for these products, so that is my answer related to the cost, but we continue to see these pressures being there for the foreseeable future as well.

Moderator: Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Good morning, Sir. First on the suspension PVC we said in earlier call that we were in discussion with one of our partners to supply the VCM and possibility to expand the suspension PVC now from close to 300000 to 600000 metric tons and we also have EC clearance land and infrastructure for that, is procuring VCM becoming even more difficult in the scenario where gas prices are very high, how should we see this availability of VCM for us to expand do you think this issue of lower VCM availability is going to go away anytime soon or it is going to take more time than what we have anticipated earlier that is on the first one and the second more on the custom manufacturing now we were earlier guiding a growth, which was in a historical range now it looks like from your comment it is going to be significantly higher than that, so in a new improved scenario do you think this can go far ahead of what we have anticipated and the capex could be preponed, now that balance sheet is better and more opportunities can be taken given that these are multipurpose plant, so in a new scenario is it fair that though on a lower base we should be able to grow at say 40% to 45% for the next few years is that a real possibility and number three on the caustic soda we are talking of restoring certain capacities, so what will that mean in terms of additional capacity for us in FY2024, so what will that additional capacity be, so these are my three questions? Thank you.

Ramkumar Shankar: Good morning, Sanjesh. This is Ramkumar here and I will take questions one and three and I will then request Krishna to take your second question. In terms of VCM availability, yes, VCM is as you know a refrigerated gas and it is not that easy to transport as well and it needs to be handled with special care, the availability of VCM also it is there around the world, but you will need to have a very good supply chain to access it, this is something that we have built up very effectively and we have sources of VCM from Middle East, from Europe and from Northeast and Southeast Asia. We are quite comfortable in the supply chain that we have built up, we also partner with a leading Japanese trading company, which has the world’s largest position in VCM and therefore we are very confident about meeting the existing requirements and also for the already announced paste PVC project. As far as the significant expansion is concerned, that is where we are dotting the i’s and crossing the t’s and we will take that up when we are absolutely sure -it has always been our practice to ensure a very high level of comfort and confidence before we announce a project, but once we announce it we go ahead with it and execute it as well. , So that is what we are working on..So we believe that as far as our existing operations and the announced projects are concerned there is absolutely no problem in terms of the VCM - like I said, we have a very well established supply chain and the multiplicity of sources as well.

In terms of the caustic soda that we are talking about, we are currently at 100,000 tons, our total installed capacity is at 119,000 tons. This was always a swing plant, which depended on the make-or-buy decision on ethylene dichloride and now that the make part of the decision is what is coming out as the most beneficial, we are working on restoring that 19,000 tons to 20,000 tons, this should be online by FY2024 and that is the volume that we are looking at for caustic soda. Does that answer your questions?

Sanjesh Jain: Yes, Sir, just one followup on this, you also mentioned that China has a lockdown and that significantly slowed down the activities in China and hence there is a lot of supply from China to India, do you think considering the coal prices where they are and Chinese being more on a coal source they are still selling at lower prices considering that the raw material prices have significantly gone up?

Ramkumar Shankar: See, most of the carbide based PVC plants there - out of 20 million tons , 15 million to 16 million tons have their own captive carbide so they would not see that costs so much, it is only the balance 4 or 5 million tons, which will have that. The situation in China is as you know quite unique right now, they have over 375 million people under some kind of a lockdown in around 45 cities across the country. The lockdown has affected mostly the southern and eastern parts right now, which is where the demand area is, whereas the production area is all centered in the north, west and central regions and the Manchuria region. So if you take all of that you know that is why there is some excess PVC that is being built up in China, so that is being exported out of China and that is keeping the prices low across the region, but feedstock prices have also come down quite significantly following this. Except that like I mentioned in my opening remarks, that will take maybe a 30 to 45 day lag before the benefit of the feedstock price drop kicks in, so that is why I said that this first quarter could be affected by the situation in China, but the good news is that there are some reports emerging out of China which say that by end of May this would start winding down and there could be a better situation- we all hope so and if that happens then this will dial back very soon, but this is really a very short-term kind of a phenomenon.

Sanjesh Jain: On the custom manufacturing?

Krishna Kumar R: So, this is Krishna here. Related to growth for the custom manufacturing business we already indicated that our existing assets we are almost at operating capacity, we did some debottleneck last year, which has helped us with the growth that we accomplished and we will continue to have some more debottlenecking exercises that are ongoing and so we hope to sweat the assets further, so to that extent we will be limited by the capacity at the current site with respect to our projection for this year, but we have already triggered the capex project related to the next phase of investment and increasing the capacity at the site, so once that comes on-stream we would be able to again ramp up our volumes and we also have the flexibility I think you had another question on whether we have the ability to accelerate the growth so in the investments that we are looking at in this multipurpose block we are creating the flexibility to further bring in additional capacity on stream at a very short notice depending on how the projects in our pipeline move forward so to that extent there will be a lot of flexibility available to us to increase the capacities at fairly short notice.

N. Muralidharan: Even in the investment that we are doing today, while we had indicated we will do it in phases, almost two thirds of the total investment that we had discussed during the IPO, we have already committed that investment now, so that will come in the first phase itself that will come on stream by Q1 of next year, so you will see growth happening from next year, this year like Krishna explained we are doing some debottlenecking to take care of the growth, but it will be limited by the ability do debottleneck, from next year you will again see the growth bouncing back in this business.

Sanjesh Jain: Fair Sir. Thanks for all the answers and best of luck for the coming quarters.

Moderator: Thank you. We will move on to the next question that is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Good morning, Sir and congrats for a good set of numbers. Sir, in the presentation you have shared the revenue numbers across three segments, can you tell us a bit of breakup also between commodity, specialty and those three segments?

N. Muralidharan: The way that we look at is Chemplast Sanmar is an one entity and the CCVL is another entity, the non specialty products as well as a specialty chemicals come under Chemplast Sanmar, so they share a lot of common integrated facilities manpower all of that, so we track only at a contribution level for both of those product groups, so we do not track product group wise for specialty products and nonspecialty chemicals whereas for suspension PVC, of course, we do track the EBITDA at suspension PVC level, so we will be able to provide you the data for Chemplast Sanmar and for Chemplast Cuddalore Vinyls Limited. On Chemplast Cuddalore Vinyls Limited the EBITDA for the quarter was around 156 Crores, on Chemplast Sanmar the EBITDA for the quarter was 191 Crores.

Sachin Kasera: The background for my question is that what is happening is that when we are giving the segmental EBITDA of specialty and nonspecialty together the market is not able to appreciate the numbers you shared in specialty because we have the revenue number, but not the EBITDA number, hence the overall EBITDA that we are seeing as a Company is being looked up by the market as just entirely commodity and that is why our valuation of the loss is quite low, so my again request would be that we should start to see how we can give the street a better color and understanding of the specialty side of our business. Secondly, Sir on this custom manufacturing business you said the growth for the full year was around 40% to 45%?

N. Muralidharan: What I mentioned is we had indicated a growth earlier of around 35%, I said we have far exceeded that growth in the current year in fact it is slightly above 50%.

Sachin Kasera: This 50% growth if you could give us a sense is it driven primarily by volumes or it is just a function because prices went up or is it because that you also did a lot of product mix changes and it is a question of better product mix if you could give us some sense and secondly while you do not specifically share the EBITDA number, if you could tell us how has the profitability of that business done this year vis-à-vis last year?

N. Muralidharan: It is primarily due to volume, volume growth from existing products as well as we had mentioned earlier we commercialized two new products this year those also added to the volume, so primarily driven by the volume that the revenue has gone up this year and the profitability we had talked about earlier the business generally makes a contribution of somewhere between 40% and 50% I think it stays closer roughly around that range.

Sachin Kasera: I thought with 50% type of growth we should have got some benefit in terms of operating leverage and the margins this year would have been slightly better or is it that because we wanted to grow volume significantly we took some hit on the margins and focus on volumes?

N. Muralidharan: No, we have not consciously taken any reduction in terms of the margins when negotiating at the same time with the new products that you commercialize it takes sort of a year or so for things to stabilize and you reach the full potential of margin, so that impact will also be there.

Sachin Kasera: Sure and my last question is on capital allocations, by when can we expect more clarity on the capital allocation and without any specific projects over a two to three years perspective now that we are more or less balanced and become very, very strong, what the intent would be, would we only be looking in terms of using the intellectuals of growth or we would not shy away from having come sort of a leverage and if you could share that number like, what numbers you are comfortable in leveraging that is why debt equity or debt to EBITDA, that would be very helpful?

N. Muralidharan: Sure, on the capex I think like Ramkumar explained earlier we are actively looking at capex both in the specialty side as well as in the suspension PVC expansion and we want to come to the market when we are reasonably certain of all the aspects that we are looking at and that is why we are taking a little more time and like we mentioned earlier it is just two quarters away from the time we listed registered and deleveraged our balance sheet, so please grant us some more time for us to do our internal work and come and present to the market the growth plans. We can only assure you that we are actively looking at projects and we will come back and present that to you and as far as the use of funds whether we use only internal accruals for the expansions, we believe that debt is an integral part of capital structure so we would avail some debt for the projects and we would like to have you a right mix of debt for the project as well. As far as the debt, what level of debt we will be comfortable with, as you would know that post IPO the rating has consistently moved up and it is at AA- level, so we would like to retain AA rating for this company, AA- around this level of rating for this company, so we would sort of be comfortable taking a debt which does not impact our rating going forward that is broadly how we are seeing the projects and capital allocation.

Moderator: Sorry to interrupt Mr. Kasera. Sir, may we request that you return to the question queue, the participants are waiting for their turn.

Sachin Kasera: Sure, thank you.

Moderator: Thank you. The next question is from the line of Vandna Soni from SBI Mutual Fund. Please go ahead.

Raj Gandhi: Raj Here. Sir, I have just one or two clarification, by when does the CSM capex come on stream, you mentioned, sorry I missed the timelines, you mentioned two-third of CSM capex is already committed and it will come on stream by when?

N. Muralidharan: First quarter of FY2024, towards the first quarter June-July of FY2024 is when it will come on stream.

Raj Gandhi: You mentioned about the breakup in the margin for the first two months it was around Rs.18000 per ton you mentioned?

N. Muralidharan: That is right.

Raj Gandhi: Third month you mentioned gross margin was 29000 that was the number?

N. Muralidharan: Yes.

Raj Gandhi: So, current margin you mentioned there is some inventory loss kind of situation right now also because raw material prices and all are sliding down, so where would the current margin be, could you give any idea because it is quite desperate right first two months 18 and then 29, any ballpark number, where our current margins, spot margins at?

N. Muralidharan: I mentioned that 18 versus 29, it is primarily because the inventory that we carried over, otherwise the market events were reasonably healthy during the quarter and as foras the current margin is concerned we are more or less close to the last quarter's average, we are close to somewhere around Rs 23000 per ton.

Raj Gandhi: That is again because of some kind of inventory loss kind of situation because as you mentioned prices are sliding down so on a spot basis?

Ramkumar Shankar: Let me take that - this is Ram here. Just to give you some background about what is happening in the market, let me just take a step back. In October 2021 when the peak prices were hit, at that point in time, suspension PVC prices were ruling at $1900 (I am talking CFR India) and the VCM prices in Asia were at around $1600, so that left a delta of around $300 at the top, then by January 2022 when prices had cooled off after China dialed back on the dual controls, etc., the prices came down to $1500 on suspension PVC, but the VCM prices went down further to $1100, so that increased the delta actually to 400. Then by April 2022 the CFR India prices of suspension were at $1560 whereas the VCM prices had dropped to 1195, so theaverage delta was around $365.Right now we are looking at possibilities of PVC prices going down to maybe 1500, but the VCM prices will go down to 1100 or lower. So we believe that the margins, the deltas are quite stable - the problem, the reason why the month-on-month margins could vary a bit is largely because in the arrival of the feedstock normally there is a lag was around 30 to 45 days, therefore while the finished product price any movement affects the Indian prices immediately, so in a rising market this will tend to help us, in a falling market this will tend to impact us for that one month or 45 days. So that is really what is happening, otherwise the deltas are remaining pretty much stable at between $325 and $400.

Raj Gandhi: Sure, so this 23 will include some of inventory loss as you mentioned because of the 45 day lag maybe on the spot pricing basis maybe if prices are stable then there is no gain loss it will be somewhere between Rs.23000 to Rs.29000 gross margin is my understanding correct?

Ramkumar Shankar: You are right, your understanding is correct.

Raj Gandhi: Sure, perfect, and also you mentioned the EBITDA between Chemplast Cuddalore at 156 Crores and Chemplast Sanmar at 191, so Chemplast Sanmar has your suspension base PVC plus CSM both combined into it?

N. Muralidharan: Yes, Chemplast Sanmar has paste PVC, CSM business and it also has the nonspecialty product which is caustic soda, chloromethanes and hydrogen peroxide and ref gas.

Raj Gandhi: So, here if I see your revenue the Chemplast Sanmar revenue than effectively, which is specialty plus nonspecialty that is at 640 Crores whereas suspension PVC is 1158 Crores, so despite being 50% of the revenue EBITDA is higher than Chemplast Cuddalore so that is the kind of profit differential you are seeing in paste PVC business?

N. Muralidharan: That is mainly because the level of integration that we have in the Chemplast business. There we are fairly integrated till the ethylene level, we import our own ethylene, make EDC and then make inhouse VCM and convert to paste PVC and also on the caustic soda side as well we have our own captive salt fields, we have significant part of our power captively, so we are fairly integrated there which translates into higher margins, in the CCVL business it is sort of a one step process where we import VCM and convert to PVC so there we actually derive the margins of that one step process that is broadly the difference.

Moderator: Sorry to interrupt; maybe request that you return to the question queue, there are participants are waiting for their turn. Thank you. The next question is from the line of Dhruv Muchhal from HDFC Asset Management. Please go ahead.

Dhruv Muchhal: Thank you so much. Sir, can you probably give us the breakup of power and fuel cost and then the quantum of power and fuel cost in Q4 and last year Q4?

Ramkumar Shankar: If you are looking at how much of the power is actually coming from which kind of source is that the question?

Dhruv Muchhal: That you had shared earlier, I just wanted the ballpark sense of what is the quantum just to understand this probably will be run rate given how the power prices are, how the global competitive prices are?

Ramkumar Shankar: For instance, in April, we consumed around 3.76 Crores units is it that is the question again I hope, so if you want to understand, our total power consumption in 2021-2022 was 43 Crore units and that went up from 33 Crore units in 2021 largely because in 2020-2021 because of the national lock down on COVID in April to June ,lot of our plants were not running at that time - so 43 Crores units was the full year consumption of power in 2021-2022 and in April if you are looking at it a little less than 4 Crore units.

Dhruv Muchhal: Sir, I believe almost 60% to 70% is captive intense either your own captive power plant or gas plant and the rest is to the grid?

Ramkumar Shankar: That is right, so in April for instance 55% comes from coal and gas, which is captive plants and the balance, is bought out.

Dhruv Muchhal: Sir, secondly just a small breakup in the finance cost I believe you have this trade financing and one is the pure loan on which you pay the interest is it possible to in some sense split the number because I believe the trade financing will not decline, but the core finance cost which is that you pay on your loans that will decline?

N. Muralidharan: Total loans that we have is 867 Crores at an average cost of around 8.25%, so that will be roughly around 70 Crores per annum, which translates to roughly around 17 Crores to 18 Crores per quarter, rest of it pertains to the trade finance, LC opening charges, all of that combined together.

Moderator: Sorry to interrupt, Mr. Muchhal, may we request that you return to the question queue.

Dhruv Muchhal: Sure, thanks.

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

Chintan Chedda: Good morning, Sir and congrats for great set of numbers for the full year. My first question is related to the custom manufacturing business, so before this phase 1 of capex in June-July comes up do we have sufficient capacity to maintain this 35% to 40% kind of growth rate?

N. Muralidharan: Like Krishna explained earlier, actually we are more or less out of capacity in the custom manufacturing business, so we are debottlenecking to some extent to address the new products this year, but that will be a limited debottlenecking that we will be able to do, we will be able to achieve a significant growth once the phase 1 of the expansion gets completed in the early part of next year, so this year it will be a bit of limited growth constrained by capacity that is available, from next year you will start seeing the strong growth.

Chintan Chedda: Also based on the orders in hand for FY2023 what is the growth that we are estimating in this business?

N. Muralidharan: Like I said I do not want to guide you exactly one number on the percentages like I said the growth will be reasonably limited, we do not expect it to cross 20% this year primarily due to the fact we are restricted by capacity.

Chintan Chedda: Secondly can you give the capacity utilization levels in your commodity business like caustic soda, hydrogen peroxide and your chloromethanes, what is the capacity utilization over there?

N. Muralidharan: If you look at the three segments, which is the suspension PVC, suspension PVC capacity utilization was at 99% this year and on the nonspecialty products, the capacity utilization was around 80% level that is primarily in the caustic soda business where like **Ramkumar was explaining earlier**, we are restoring our capacity from 100,000 to 120,000 tons, so because of that we operate the caustic capacity at 100,000 tons level otherwise all other products effectively operate to full capacity. On the specialty product as well on the paste PVC custom manufacturing our capacity utilization was at 99%.

Chintan Chedda: No, I am just asking about the capacity utilization of chloromethanes and your hydrogen peroxide, if you could share how much and at what capacity utilization they are running?

N Muralidharan: Chloromethanes operated at 99%, hydrogen peroxide operates at around close to 50% level and that is where we had mentioned earlier also the hydrogen peroxide will get ramped up to full capacity utilization next year so it will hit the full capacity utilization in FY2022-FY2023.

Moderator: Sorry to interrupt, Mr. Chedda.

Chintan Chedda: Yes, I will get back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Sir, thanks for the opportunity. First question on the working capital side there has been a sort of increase in year-on-year basis both in 2021 there was an increase and in 2022 things have increased further, so if you can just highlight is there any business specific impact here?

N Muralidharan: There is no business specific impact, actually it is all due to timing difference, if you look at the working capital the increase has come from inventory and debtors, which has been partly offset by increase in trade payables, so on the inventory we had, it depends on the timing of shipments of VCM, we had significant amount of VCM as goods in transit at the end of the year, we had almost 20,000 tons of VCM as goods in transits towards the end of the year, which contributed to the increase in inventory towards year end, it is only a timing difference as well as on the debtors, as you know in the suspension PVC and paste PVC which are the large volume ones where our credit period is effectively between three to seven days, so this debtors increase is primarily due to the higher sales in the custom manufacturing business in the last quarter, there generally we have a 60-day credit period, since it was more skewed towards the last quarter the debtors went up towards the end of the year other than that there is no change per se in the business part.

Moderator: Thank you. The line for the current participant has dropped off, we will move on to the next question that is from the line of Jayesh Gandhi from Baroda BNP Paribas Asset Management. Please go ahead.

Jayesh Gandhi: Thank you for the opportunity. A couple of questions, one is that on the specialty chemicals business and other businesses that you gave segment revenues, you tracked the businesses more on contribution, now if I look at the contribution this year it is closer to 30% to 35% gross contribution compared to 40% plus a year back, as you look at the next two years where what would be the range would it be closer to 30% or would you think it will be closer to 40% or some guidance or some colour here would be helpful?

N. Muralidharan: On overall basis you are talking about gross margin numbers?

Jayesh Gandhi: That is right.

N. Muralidharan: When we say contribution actually we do not look at only gross margin we look at even after considering the power, fuel, additives all of that, all of that is considered. On the gross margin numbers actually we would only guide you this way, if you look at the last year gross margin or EBITDA, whichever way we look at it, if you look at the last year we made the 344 Crores of EBITDA on a Y-o-Y basis and the gross margin of 545 Crores which translated your 26% EBITDA margin and 41% gross margin whereas even with slightly higher gross margin this year, the absolute number was at 601 Crores, the percentage looks lower that is mainly because the base has changed, so what we track more importantly is the per unit contribution that is what is more important to us because if the price of the end product goes up and price of input also goes up we still get the margins, on a per ton basis, it will flow down to the bottomline as well, but when you look at the gross margin you may assume that the gross margin level has dropped from the compared to the previous year, in reality the profitability of the business in fact would have improved because we would have got a higher per ton margin from that product, so we would only request you to look at per ton and overall EBITDA numbers rather than getting into percentage.

Jayesh Gandhi: Make sense, so would you say the 2022 overall EBITDA is more sustainable or you think you can achieve the 2021 number as the expansion gets into actual production?

Ramkumar Shankar: 2022 EBITDA number - there is no problem on the sustainability of the numbers that we have had in the last year and in fact, as we roll out these projects that we have already announced, we will start seeing the impacts flowing in largely from 2023-

2024,a little impact of that will be in 2022-2023 with that PVC suspension debottlenecking and the hydrogen peroxide ramping up that will add definitely some amount to the sales of maybe around 400 Crores to 500 Crores but from 2024 and 2025 when all the projects are coming up fully the increase in sales for the announced projects itself should be to the tune of around 1700 Crores to 1800 Crores and therefore obviously the margins would also be to that extent more, so sustainability of the current EBITDA is something that we are confident of.

Jayesh Gandhi: Wonderful, good to hear that. The second question I have would be on the revenue side, if you could break the specialty chemicals revenue into the two parts, which is that would be really helpful when we have the volume numbers my sense is the volume numbers include the volume numbers for both right it is the CRAMS business as well as the PVC numbers, so I guess if you can break it up into two it will be really helpful the specialty paste PVC and the custom manufacturing?

N. Muralidharan: We do note your point and like we had explained earlier as well we look at, internally at least we look at three specific product groups which is specialty chemicals, nonspecialty and suspension PVC and for the present we would like to present the same way to the market the way we see as management we would like to present the same way to the market, we believe both the specialty businesses as high margin businesses maybe there could be another tomorrow which is also a high margin business so we would like look at specialty one basket and drive the growth so that is the reason we are presenting them together, we do definitely take your feedback Sir, and we will also see how best we can address the requirement.

Jayesh Gandhi: All the very best, thank you.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors Private Limited. Please go ahead.

Bharat Sheth: Congratulations, Mr. Ramkumar, Murali and Krishna Kumar on wonderful result. Sir, my question is can you give some colour of insight in the space previously gross margin, which was around 65,000 to 67,000, so how it is trending up that is one, second for full year FY2023 we are already operating in large part as a full capacity except some Brownfield expansion, which is coming in suspension PVC and this hydrogen peroxide, so how do we see the growth for the FY2023 volume growth, can we expect from which business?

Ramkumar Shankar: Good morning, Bharat Bhai, this is Ramkumar here, taking the second question first, the volume growth would effectively come from suspension PVC, the completion of the debottlenecking - this is a phased debottlenecking, part of which is already completed and we are seeing the benefit of that already and by the end of June we should be complete maybe another 25,000 tons would come this year and next year we get the full impact of the 30,000 tons, we will also have another 15,000 tons of hydrogen peroxide, which we will get the benefit of and the small volume increase in caustic soda as we take it up to 100,000, but the full benefit of all of this and of course the volume growth will also be there in the custom manufacture chemical business because the new product that we have commercialized in 2021-2022 and also the new products that we will be adding in 2022-2023 will add to the volumes in 2022-2023, but if you go forward, if you look ahead - once all our projects are commissioned and that will happen by around the middle of FY2024 and the end of FY2024, on a full year basis all of that would add, like I said earlier, around 1700 Crores to 1800 Crores at current prices to the topline.

Bharat Sheth: Gross margin in paste PVC?

Ramkumar Shankar: The gross margin in paste PVC - like I spoke about, while there will not be a specific number that I would like to talk about, the current situation in China obviously will impact the prices, etc., of suspension and paste PVC, so this will be impacted to some extent in Q1, but we are very confident that from Q2 onwards this will revert to the normal levels that we have been seeing in 2021-2022.

Bharat Sheth: Thank you and all the best Sir.

Moderator: Thank you. We will move on to the next question that is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Thank you for the opportunity. In terms of PVC outlook for the next two to three years considering the PVC demand supply and also on the VCM side demand supply, how do you see the spread spanning out over the next two to three years?

Ramkumar Shankar: See, as far as PVC is concerned, as I mentioned also I guess in the previous call, the medium term outlook is really very strong largely because the demand growth is expected to fast outpace the supply growth. In fact IHS Markit which is the leading industry analysts have estimated that in the next five years by 2022-2026 the demand will grow by around 9 million tons whereas the supply will grow only by around 4 million tons and operating rates of plants around the world will go up to over 93%,. This is a very high percentage and what they have not even considered is the fact of a lot of carbide PVC plants getting stressed and dropping off the grid in China largely because of the mercury issue and also because of the carbon issue because these are essentially from coal. So this is going to be a very structurally tight scenario in PVC and in India we are already deficit by almost 2 million tons and this is only going to get even more deficit, therefore once the normal laws of supply and demand will tend to operate then, which would really indicate higher prices all around - we will have to wait and see how much and how soon they play out.

Anurag Patil: In spread side do you think the current spread levels are sustainable going forward not in the near term medium term?

Ramkumar Shankar: The spreads between suspension PVC and VCM is ,like I just mentioned, whether it be at the all time high levels in October or it be at the lower levels in January or the current levels in April, the spreads are more or less stable between $325 to $400 - the individual price levels may have changed from 1900 to 1500 and so on, but the spreads remain pretty much stable and given the structural imbalance that I just spoke about , we are pretty confident that this spread would tend to continue.

Anurag Patil: Thank you very much.

Moderator: Thank you. The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Thanks for the opportunity. Sir, I have two questions, on the custom synthesis business still you are saying a lot of opportunities and we have been now one of the preferred supplier so where do we envisage this business say three to four years down the line, just a ballpark number in terms of revenue or probably percentage of our overall scheme of things and also will we plan to kind of get into long-term specific contract with the specific innovator company that we are talking about?

Krishna Kumar R: With respect to your question on long-term contracts with the specific customers, specific projects it depends on the projects itself, the fact that we just announced that one of our customers has upgraded us to a development supplier by that itself is a significant accomplishment or achievement what that is, many of the projects that they would have in their pipeline or new chemistry, new molecules that they are launching they would consider us or they would route many of those enquiries to us as the first supplier and some of those projects if it requires the long-term contract they would put that in place so it would depend on the molecules that are there in the pipeline.

N. Muralidharan: The growth that is expected in the custom manufacturing business like we mentioned we are investing around 340 Crores in this business, so considering the asset turn of around 2 that itself should give us around 700 Crores of incremental revenue from this business to the baseline that we have today, so maybe if all adds up closer to 1000 Crores levels level of revenue once we complete all these expansions and ramp it up and that is where we see it, of course there are opportunities for us to expect growth and there are opportunities for us to expand further, so if we are able to capitalize those opportunities as well there is potential for upside.

Darshit Shah: On the second question we get the absolute EBITDA margin, so in terms of absolute EBITDA number what we are kind of doing at around 340, 350 Crores quarterly, so that number what you are saying is probably sustainable in medium term?

N. Muralidharan: Like Ramkumar explained earlier the numbers that we have done in FY2022 is eminently sustainable, and it will improve by the volume increases that are happening by way of suspension PVC debottlenecking, which has happened 10% and hydrogen peroxide we are ramping up to full capacity utilization adding another 15000 tons, caustic soda as well we will add some volume this year and we are also restoring capacity 120000 tons so it will add volumes another 20000 tons volume next year and we talked about the custom manufacturing business and also the paste PVC business project completing coming on stream, so the base of the existing numbers we believe it is sustainable, and with the volumes that are expected to come up this year and if the current level prices are maintained this can only go up.

Darshit Shah: Thanks and all the best.

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

Ramkumar Shankar: Thank you everyone for joining us today on this earnings call and we appreciate your interest in Chemplast. If you have any further queries please do contact SGA, our investor relations advisor. Thank you very much for your time.

Moderator: Thank you. Ladies and gentlemen on behalf of Chemplast Sanmar Limited that concludes this conference call. We thank you for joining us. You may now disconnect your lines.