"Chemplast Sanmar Limited
Q2 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Chemplast Sanmar Limited Q2 FY2022 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Sanjesh Jain from ICICI Securities. Thank you and over to you Sir!

Sanjesh Jain: Thanks, Mallika. Good afternoon, everyone. Thank you for joining with us on Chemplast Sanmar Limited Q2 FY2022 Results Conference Call. We have Chemplast Sanmar Mr. Ramkumar Shankar Managing Director, Mr. N Muralidharan Executive Director Finance, Dr. Krisha Kumar Rangachari Executive Director Custom Manufacturing. I would like to invite Mr. Ramkumar to initiate the proceeding with his opening remarks post which we can have Q&A session. Over to you Ram Sir.

Ramkumar Shankar: Thank you Sanjesh and good afternoon everybody. On behalf of Chemplast Sanmar Limited I extend a very warm welcome to everyone who has joined us on our call today. My name is Ramkumar Shankar and I am the managing director of the company. I am joined on this call by our CFO Mr. N Muralidharan and Dr. Krisha Kumar Rangachari Executive Director of Custom Manufactured Chemical Division and SGA our investor relations advisor. Today it is a very special day as it is our maiden call post the IPO. I would like to thank the entire investor community for showing confidence in our company and for the response to our recent IPO. Since some of you may be hearing us for the first time today, let me give you a quick snapshot of our company and then we will walk you through the operational and financial performance.

Chemplast Sanmar is a 55-year-old company tracing its heritage back to the 1960s. Our sponsors include two very well-respected names in The Sanmar Group which is a prominent industrial group with considerable history and Fairfax a well-known international investor. Over the years, Chemplast Sanmar has carved out a niche in the Indian specialty chemical sector. We are the largest manufacturer of specialty paste PVC resin in India and through our wholly owned subsidiary Chemplast Cuddalore Vinyls Limited or CCVL,we are the second largest manufacture of suspension PVC in India. The company is also a leading player in the custom manufacturing of starting and intermediate chemicals catering to multinational innovative companies in agro chemical, pharmaceutical, and fine chemical industries. Further, we hold a significant leadership position in basic chemicals like caustic soda, chloromethane, and hydrogen peroxide which completes the integration story of the company. The consolidated turnover of the company including CCVL for the fiscal year 2021 was Rs.3800 Crores while the operating EBITDA was Rs.855 Crores.

To do a bit of deep dive on each of the key products, let me start with specialty paste PVC. Our company is a pioneer in paste PVC in the country with production commencing as far back as in 1967. This is a product that largely goes into manufacture of artificial leather which in turn goes into the making of auto upholstery, furniture upholstery, footwear, leather articles, etc. We are the largest manufacture of paste PVC in India with a market share of 45% and the production share of over 80%. The market for paste PVC was at 143,000 tons in FY2020 while the domestic supply is only around 80,000 tons. This market is expected to grow to over 180,000 tons by FY2025 thereby crossing a sizeable demand supply gap of over 100,000 tons. To address this gap, the company is planing to add fresh capacity of 35,000 tons per annum at Cuddalore, which is expected to come on line in fiscal 2024. In recent years, the paste PVC market globally has witnessed various structural changes including permanent shut down of almost 10% of the capacity. The combination of supply side tightness, demand growth, and our own leadership position are all acting as very strong tailwinds for this part of our business. The customer manufacturing business is an export-oriented business and we work with global innovative companies in agro chem, fine chem, and pharmaceutical space to manufacture starting materials and intermediate. We market and sell unique chemistries to our customers. Customers approach us with products that they wish to outsource and unlike other companies in this space, we do not have a catalogue of product that we offer. We are well renowned in the industry for our ability to handle complex chemistries such as ionization, hydrogenation, and distillation. We also have the advantage of access to many basic starting materials like caustic soda, hydrogen peroxide and chloromethanes within our own eco system.

Looking at the market, custom manufacturing market in India is close to $6 billion US and as per CRISIL research it is expected to grow at a compounded annual growth rate of 9.1% per annum till FY2025. The global demand for life science product such as intermediate, pesticide and herbicide is also expected to continue to increase. Moreover, India is being looked at as a probable destination for many of these projects, while in the past China used to be a favorite and this is due to various restrictions that have come up in China in recent times. The China plus one strategy of global innovative will also provide a very strong interface to sourcing from India and opens up significant opportunities for us. We plan to spend around Rs.340 Crores in phases over the next few years to expand our custom manufacturing capacity. On the non-specialty side, the company produces basic chemicals like caustic soda, chloromethanes, and hydrogen peroxide, which completes the integration story of the company and add significant value to the various joint products and by products that we produce. In each of these products, the Indian market or our target regional market is deficit and we have a strong leadership position in our focus markets of South India. Demand for each of these products is also expected to grow at a very healthy pace as per the industry report.

Through our wholly owned subsidiary CCVL, we are the second largest manufacturer of suspension PVC in India and the largest in South India. This is a 100 old year-old product which is globally seeing a big revival due to various factors including China's dual control policy, the Minamata Convention seeking to eliminate mercury consumption in industry, the post pandemic construction and housing boom across the global and India's growing demand supply gap in PVC. In India, the demand for SPVC largely comes from plastic pipes which in terms go into irrigation, water conveyance, and construction. With a capacity of 300,000 tons per year, we are the second largest producer of suspension PVC in India as we focus on the southern market where we are the dominant player. The Indian market for this product is close to 3.4 million tons and here again our country is severely deficient by almost 2 million tons per year with a gap currently being met by imports and this market is expected to grow to 4.3 million tons at a CAGAR of 7.7% per year by FY2025 driven by the growth in irrigation and urban infrastructure.

So that was overview of businesses that we are present in. In terms of infrastructure, we have four manufacturing facilities in the southern region of Tamil Nadu and Puducherry. One of the key advantages we have is the extent of integration at our manufacturing facility. Chemplast Sanmar has a very high degree of vertical and horizontal integration with captive facility to meet feed stock and intermediate. For instance, Chemplast makes caustic soda and chlorine as joint products at two locations with the chlorine from one location being used to make intermediate for paste PVC while the chlorine from the other location is used to make chloromethanes. One of the chloromethanes products in turn is used to make refrigerant gas while the byproduct hydrogen from the caustic chorine manufacturing is used in the production of value-added hydrogen peroxide. The feedstock for making caustic soda and chlorine are salt and power and you have captive facilities for both and that is the extent of integration that we have. Our investment in marine infrastructure is also another one of key differentiators. We have two captive terminals both capable of handling refrigerated gases. Our growth has always been governed by strong environmental health and safety standards. Over the years we have invested significantly in this area and all manufacturing sites have zero liquid discharge plants which ensure that all liquid effluent is treated and reused within the process with no discharge outside. The coastal plants at Karikal and Cuddalore on the east coast of India also have desalination plants which ensures that we draw water only from the sea and do not disturb the ground water table and this also ensures that we live in harmony with the neighboring community. We have also earned the right to use Responsible Care logo which is an international chemical industry initiative granted after very stringent third-party audit. We release annual sustainability report prepared in accordance with global GRI standards and assured by big four audit firms and these reports have been released for 12 years now.

Looking ahead at the growth levers for the company, we expect future growth to come from clearly identified operational and strategic levers. We are working on expanding our paste PVC capacity by 35,000 tons per year or about 50% of our existing capacity at an investment of around Rs.256 Crores. Work is in progress on this front and as mentioned we are slated to come online by FY2024. We are also working on expanding our custom manufacturing business with the addition of new multipurpose facility there by bringing in new products which are in the pipeline. This will be done at an additional investment of Rs.340 Crores in a phased manner starting from FY2022. Both these projects would leverage upon already available land and infrastructure at our existing manufacturing site. Another aspect of growth which is very eminent is the debottlenecking of our suspension PVC capacity by 10% which is expected to come online as early as end of this financial year.

Moving to the business performance, this has been a very good half year. While Q1 of FY2022 saw the impact of the second wave of COVID, our production was not much impacted. Continuous process plants like us were allowed to function through the state lock downs. However, as the customer plants were affected, demand was subdued and stock built up. This was temporary though given that demand revived very strongly in Q2. We have been able to significantly draw down the inventory that was built up in Q1. Moreover business conditions turned very positive towards the end of Q1 and through Q2. Suspension PVC, paste PVC, and caustic soda supply continue to be tight internationally. Supply has been affected due to weather related issues, hurricane Ida in the US, floods in Europe, coal, and natural gas shortage across the world. The dual control policy in China has further impacted operations of caustic and PVC plants in China. This has resulted in prices of these products and other chlorine derivative like chloromethanes which our company produces, reaching historic peaks. As mentioned earlier, demand for the products has also revived strongly in Q2 with resumption of economic activates post the second wave of COVID. In August, the company successful completed the IPO and with the proceeds of the IPO, the term debt in Chemplast Sanmar has been fully repaid which would significantly bring down interest cost in the months ahead. The interest rate on the term loan in subsidiary CCVL has also been renegotiated down effective September. Post the IPO, Chemplast Sanmar has been rated A+ for the long term and A1+ which is the highest of short term by CRISIL and this is a significant upgrade from the earlier ratings held by the company. These very positive business trends are also reflected in the financial performance of our company which I would now request our CFO Mr. Muralidharan to present.

N Muralidharan: Thank you Ramkumar. Good afternoon everyone. This is Muralidharan and I will now quickly take you through the financial performance of Chemplast Sanmar in H1 FY2022. Chemplast Sanmar on consolidated basis registered a significant increase in its revenue and operating profits for HI FY2022 as compared to the same period in the previous year. In terms of overall volume both CSL and its own wholly owned subsidiary CCVL together saw a production increase of around 35% on year-on-year basis in H1 FY2022. Revenue from operations for H1 grew up by 92% to 2633 Crores as compared to 1368 Crores in the corresponding period last year. This was on account of higher volumes compared to previous year as well as higher realization per ton for the key products such as specialty paste PVC resin, suspension PVC and caustic soda. Prices continue to ride an upward trajectory due to supply crisis resulting from the confluence of factors such as disruption of chemicals operations in the USA on the account of hurricane Ida, logistics challenges in Asia, energy crisis in China etc. EBITDA grew by 118% to 498 Crores in H1 FY2022 as compared to 228 Crores in the corresponding period in previous year. EBITDA margin increased from 17% in H1 FY2021 to 19% in H1 FY2022. Net profit for H1 FY2022 was at 180 Crores as compared to loss of 114 Crores in the corresponding period in the previous year. The finance cost for H1 FY2022 was higher due to the impact of one of items amounting to Rs.63 Crores. As the NCD in Chemplast Sanmar were prepaid by August 31, 2021, the unamortized processing fees pertaining to the NCDs amounting to Rs.26 Crores was charged off in August 2021. Post the IPO with a strong balance sheet we have been able to renegotiate and reduce the interest rate applicable on the term loan availed from IndusInd Bank by the subsidiary company CCVL from 11.75% per annum to 8.75% per annum. As the change in terms is deemed as a substantial modification as per the relevant accounting standards under Ind-AS and therefore the unamortized processing fees pertaining to the original loan and the fee paid for modification of terms both together amounting to Rs.37 Crores was charged off in September 2021. These two items accounted for the one-off debit of 63 Crores in finance cost in H1 FY2022. Going forward these one of items will not recur. Further with the repayment of NCD, the interest on NCD of around 18 Crores per month will not continue. IndusInd loan interest will also go down due to the reduction in interest rate from 11.75% to 8.75%, thus we expect a significant reduction in interest and finance cost in the coming quarters. Moving onto the balance sheet, on the balance sheet front, we redeemed the NCDs amounting to Rs.1238.25 Crores which was part of the object of primary issue using the net proceeds of fresh issue of equity shares by the company made in August 2021. With this reduction, the company has become debt free on a standalone basis and on a consolidated basis the net debt is negative. Further utilizing the net proceeds of the offer for sale by selling shareholders, the term loan availed by Sanmar Engineering Services Limited from HDFC Limited has been fully repaid. Consequently, the security in respect of this loan including the pledge over the equity shares of CCVL the wholly owned subsidiary of CSL has been fully released by the security trustee. With this there is no pledge over the shares of CCVL held by the company and the shares of Chemplast Sanmar Limited held by promoters. Looking at the cash flow, driven by the strong performance the company generated cash from operations of 640 Crores as against 13 Crores last year. That sums up our presentation on the performance for H1 FY2022 and we now open the floor for further discussions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: Yes, Sir few questions. Sir regarding the EBITDA margin for SPVC, suspension PVC versus competition, why ours seems to be on lower side for example DCM Shriram smaller PVC division than us almost 1/4 size they had very good numbers. Is it to do that we are not integrated in SPVC, and the raw material were on the higher side squeezing the margin because in paste PVC we are having very good margin?

Ramkumar Shankar: Mr. Gautam that is a good question in which you have given the answer yourself. In suspension PVC, our route is different from the name DCM Shriram that you mentioned. They make suspension PVC through the carbide route whereas we make it through imported VCM. The level of integration that we have is not all the way down. Unlike in Chemplast Sanmar for paste PVC where we are fully integrated, in suspension PVC we have gone through the asset light route where we have much less capex in terms of investment, but at the same time therefore the value addition that you capture would be that much less.

Vivek Gautam: So, any solution for the same or this problem is going to persist because almost 75% of our product range in the commodity side except for paste PVC and CDMM.

Ramkumar Shankar: This is not a problem as we see it. What we have taken is that we have taken the approach of going through this asset light model because number one it would reduce the investment that we would make and it would also decrease the time to market for any expansions and even at original time when we brought this project on, this was the fastest project to come onto the market, so this was just an approach. Going forward so long as we have decent margins in the product, and we are confident about securing the feedstock this would be quite a good route to follow. Of course, beyond a certain level if you are going to expand then of course we could always look at integration backward as well.

Vivek Gautam: Okay Sir thank you.

Moderator: Thank you. The next question is from the line of Bharat Seth from Quest Investments. Please go ahead.

Bharat Seth: Hi good afternoon, Sir and congratulations on the good set of number. Sir coming to this suspension PVC again. See various player have been reporting that since China which is largely through carbide route has again opened up so price is softening, so how do we see the spread in the second half as in our presentation we have stated it as long term sustainable, so in H1 our EBITDA per ton is around 17,000 vis-à-vis 21,000 we reported last year so how do we see the spread.

Ramkumar Shankar: Okay that is a good question. If you look at the Chinese situation, the Chinese PVC prices and the future market were well above $2000 a ton and when the Chinese government stepped in to cool down coal prices, these future prices also reacted and therefore they have come down. Otherwise in the physical market, the availability of PVC continues to be very tight. This is one reason why there is minimal impact right now on Indian PVC prices or even regional PVC prices. For instance, even in October post Q2, suspension PVC prices in India have already gone up by around 12% to 17% and the November quotes to India for imports have also moved up and this is including quotes from China and post the retreat of the southwest monsoon in India, the demand for PVC in India will only now start increasing with more pipes being laid in the field and construction activity also resuming. Thus, the pressure on availability will get more. Having said this we cannot be looking at it on quarter-on-quarter basis in sense that it is not like our prices will keep moving only in one direction. They are at significant levels and there could be some minor corrections here and there, but what we need to keep in mind is that when the corrections happens in PVC prices, feedstock prices would also follow albeit with a lag of may be a couple of weeks or so therefore that is not so much of a concern for us, but more importantly if you look at it in the medium to long term PVC is getting structurally very tight. There was an international chloro-vinyl conference recently and presentations at this conference actually brought out the following point-between 2021 and 2026 the global demand is expected to grow in PVC by 9.2 million tons while the global capacity is expected to grow only by 4 million tons, thus 5 million tons of a gap is expected to develop over the next five years and by 2026 this will result in an operating rate of plants worldwide moving up to 93% which means extreme tightness and this does not even consider any of existing capacity in China moving off the grid because of either decarbonization or the mercury issue relating to Minamata Convention or both and the presentation in the conference mentioned that the merchant carbide PVC producers in China who account for around 5 million tons of capacity would be most at risk. The carbide prices are expected to continue to increase. Thus, given all of this, I believe that the PVC industry itself has moved to a next level and this is the reason why you would have seen in the recent past many people talking of super cycles etc., when they talk about PVC.

Bharat Seth: Sir taking this question further**.** We reported say 21,000 EBITDA per ton in FY2021, so can you give some kind of range that we are expecting over the next medium term.

Ramkumar Shankar: We would not like to give any specific numbers but what I would like to say is for all the reasons that I just spoke about we are very positive about the PVC industry. We are quite confident that margins would be there. Like I said you cannot look at it on a quarter-to-quarter basis. Some quarters would have very lumpy growth. Some quarters would have more sedate growth or may even be static, but if you look at the directional trend over the medium to long term this is an industry which seems to have moved to the next level. There is a stage shift in terms of industry dynamic.

Bharat Seth: And how do we see this paste PVC and utilization since our size is relatively low so how do we see that because say expansion is coming only in 2024 so till that this business will remain in this range only.

Ramkumar Shankar: Paste PVC again is a very, very niche product, it is a specialty product and here we are the dominant players. There are only two producers in India and of the total production in India of 80,000 tons we produce around 66,000 tons. You are right that our current plant is completely fully running at full operating level and our new plant for which we have already started base groundwork is expected to come by mid FY2024, but here again the same factors that are at play for suspension PVC are equally at play in paste PVC as well because the significant part of the paste PVC capacity in China is based on this carbide route and there are significant challenges that the carbide PVC producers are facing I hope because of decarbonization and because of the mercury issue. So, we do believe that here again just like we have seen over the last two years we have seen significant step up in the price levels of this product, there would be revenue growth through price increases.

Bharat Seth: This question is for our CFO Murali you said that in this Q2 we took the hit of 36 Crores or 63 Crores one time hit.

N Muralidharan: 63 Crores one time hit. 37 Crores is in the subsidiary CCVL. That is on renegotiation of the interest rate and bringing it down that resulted in one of charge of 37 Crores. In Chemplast Sanmar Limited since we repaid the NCD in full using the IPO proceeds, the unamortized fees of 26 Crores had to be written off. These two account for 63 Crores.

Bharat Seth: And Murali so coming back to I mean our current interest run rate is around 800 Crores at 9% that is 7 Crores and plus on 3 to 4% that would credit facility we enjoy it.

N Muralidharan: If you are looking at what would be the interest outlook going forward. The interest cost per quarter would be in the range somewhere between 40 to 45 Crores compared to the 149 Crores you saw in Q2; It will be in the range of 40 to 45 Crores.

Bharat Seth: I mean how do we see effective tax rate for CSL as well as CCVL.

N Muralidharan: CCVL is under the lower tax regime. It uses that 25.17 rate and CSL has MAT credit, so its effective tax rate is only around 17.5%.

Bharat Seth: And it will remain in that level.

N Muralidharan: See for couple of years till we use the available MAT credit and after that we will go for the lower rate in CSL as well.

Bharat Seth: Okay. Thank you. If I have more questions, I will rejoin the queue.

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

Ankur Periwal: Yes, hi Sir. Thanks for the opportunity and congrats for the decent performance. Sir continuing with the earlier discussion now while there could be some volatility from a month-on-month basis in terms of international spread are we hearing anything from incremental ban or cut down in terms of Chinese production given the power outrage we have seen and is current sort of production cuts are more longer term in nature or probably they will come back may be a quarter or two down the line.

Ramkumar Shankar: We do see some long-term impact definitely. There are two factors at play, one is on the decarbonization and the other is on the mercury issue. The decarbonization is centered around both the total energy consumption as also the energy intensity which is the energy per unit of GDP and obviously any product that is energy intensive in its manufacturing process will be covered by both these factors and calcium carbide and indeed caustic product squarely come into this range and that is why the focus is on these two products. In fact China has rolled out something called the "1+N"philosophy of handling this decarbonization which the end part relates to the specific action planned. Just two days back they have come out with four products on which they are going to focus, one of that is ethylene and the other is calcium carbide and they have set a very stringent target of reducing the coal consumption in the production of calcium carbide by 15% over the next four years and they have also said very clearly that the NDRC, the National Development and Reform Commission of China will be focusing on cracking down on small and unremunerative or inefficient capacities in those four products. So, we believe that going forward calcium carbide and indeed the merchant carbide PVC producers that is those who depend on buying calcium carbide to make the PVC, they do not have their own calcium carbide facilities those will be severely at risk.

Ankur Periwal: Sure Sir and the new capacity expansion that we are planning here on the paste PVC side, it should see commissioning in financial year 2024.

Ramkumar Shankar: That is right.

Ankur Periwal: And this will be as backward integrated as the current operations or how will it be played.

Ramkumar Shankar: This will be based on imported VCM because we are piggybacking on the import infrastructure that we have already have at Cuddalore built by our subsidiary company CCVL and this will enable us also to bring this capacity to market much faster than it would otherwise have been.

Ankur Periwal: And just last question to Dr. Krishna Kumar. On the CSM side given the China plus one playing out we have already been seeing some set of benefit there and given the backward integration, the raw materials available at a relative better cost to us any comments in terms of incremental enquiries or interest on the global guide either from existing clients or new client additions there.

Krishna Kumar: Yes absolutely. We commercialized two new products this year and our pipeline continues to be healthy and growing. We do have lot of enquiries in the pipeline driven by what is going on in China and which again forms the basis of expansion plans we have for this business in the coming year.

Ankur Periwal: Sure Sir that is helpful. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Saravanan from Unifi Capital. Please go ahead.

Saravanan: Thanks for taking my question. You mentioned about the production increase 35% year on year as compared to FY2021. FY2021 all of us know had COVID specific issues, so in relation to FY2020 could we have the number. Would you have it.

Ramkumar Shankar: We do not have those numbers readily with us, but you are right in the sense that FY2021 was largely because of the national lockdown that was there in April, May, June of 2020 around the country most of the plants were shutdown and our plants were no exception and this year whereas in the second wave COVID our plants continue to operate, so that was not an issue. If you look at FY2020 we had very significant capacity utilization numbers in fact paste PVC operated at 100%, caustic soda was at 82%, chloromethane at 99% and so on, suspension PVC was at 91% as well.

Saravanan: So, from FY2023 perspective in terms of volume growth would it be led by the expansion in market price because the capacities in paste PVC is going to come only in FY2024 and there is a small debottlenecking in suspension PVC also, so FY2023 can you just take us through what kind of growth we would have in FY2023.

Ramkumar Shankar: In FY2023 the growth would come like you rightly said from the debottlenecking that we have in suspension PVC that should add around 10% to our existing capacity of around 31,000 tons and then we would also have an increase in hydrogen peroxide. The increase in caustic soda for the full year because now we are running that fully and restoring our existing capacity as well and the new products that we are commercializing on the custom manufacturing side, so you would have increase in volumes from these product and then in FY2024 the paste PVC volumes would start coming in as well, Obviously the market factors would also add if prices go up and that would also add to the revenues.

Saravanan: Thank you. My second question is on the payables and inventory so we have about Rs.2000 Crores payables and is it foreign currency denominated and I wanted to understand the hedging policy and part B inventory because of the feedstock prices also moving up do you see any inventory related risk that investors should be cognizant of?

N Muralidharan: I will address the payables first. Payables are primarily dollar denominated, but we are quite conservative in terms of our hedging policy. As soon as we place any purchase order for the import of feedstock, we immediately take the forex cover. We do not keep any of the exposures open. There is no forex risk that we take on the payables. As far as the inventory is concerned, the increase in inventory is primarily due to the fact like Ram was explaining while in the Q1 our continuous process plants were allowed to operate and we were producing, the end user industry i.e.,. Oour customer plants were not operating and to that extent the offtake got impacted in the Q1 and we built some amount of stock in Q1, which got significantly liquidated by September. We carry a little bit of stock, which will get liquidated in the next two to three months time and we do not see any inventory risk arising out of it.

Ramkumar Shankar: Just to say that in perspective we carry for suspension PVC less than 10 days of stock right now and paste PVC we have around again less than 2000 tonnes which is really not more than eight to nine days of stock, so it is not like we are carrying huge inventory.

Saravanan: It is mostly raw materials?

Ramkumar Shankar: Even raw material inventory it will be restricted because these are all gasses and chemical, so it is restricted by the extent of the tanks that we have so it is not like we have huge storage for all of these.

Saravanan: Thank you.

Moderator: Thank you. The next question is from the line of Dhruv from HDFC AMC. Please go ahead.

Dhruv: Thank you so much. Sir in the previous comment you mentioned that the interest cost will continue at about Rs.40 Crores to Rs.45 Crores which will be about Rs.160 Crores for the year? If I see the net debt, it has almost gone negative so I am just wondering what rise in this interest cost then?

N Muralidharan: Interest cost will be from three parts. One is the interest on the term loan that we have. We have a term loan of around Rs.830 Crores in the subsidiary company. That will carry interest roughly around 9.2% per annum that is the weighted average rate of interest for that. That interest will keep accruing and the discounting charges on our supplier's credit that will be another charge and of course the LC charges that we pay on import of our feedstock that also comes under interest and finance cost. That also adds to it. So, these three account for that Rs.40 Crores to Rs.45 Crores.

Dhruv: The term loan is about Rs.74 Crores if I do the 9% rate and the remaining is because of the discounting in the LC so this Rs.830 Crores so when you say that if I am not wrong you will be net cash on a consolidated basis right Rs.184 Crores net cash is on consolidated basis?

N Muralidharan: Yes, on a consolidated basis we are a net debt negative company

Dhruv: Net Cash positive. Sir, is there something stopping us from repaying this Rs.830 Crores because you have a debt also on cash balance also?

N Muralidharan: As you would appreciate using the IPO proceeds, we have already significantly brought down the debt. We have repaid the Rs.1238 Crores of NCDs that we had. We have brought down the debt significantly. Today if you look at our debt and even at a gross debt level, gross debt to EBITDA is at 0.8 level. We do believe that keeping some level of debt strengthens our capital structure level and that is the reason we do want to maintain some level of debt.

Dhruv: Sir the cash that you have, would you be using that to probably shift the financing and trade payables so that there can be some savings there because otherwise the cash balance is generating? I am not sure what 5% after tax or 4% after tax?

N Muralidharan: On the trade payables side actually such long credit periods, are part of the nature of this industry and as you know we have been availing this long credit period on trade payables since we commissioned our Cuddalore facility in 2009 for almost 12 years. It is a very cost-effective way of availing the facility as well. As far as using the cash we feel that the overall economic environment is still slightly fluid, and we would like to remain liquid in these circumstances. We will certainly evaluate the cash position as we move forward and take an appropriate decision and of course part of the cash will also get used for the equity portion of their capex that we plan to do and we believe being liquid in our industry, because as you would appreciate in all of our products more or less India is deficit and we have a lot of opportunities to grow and being liquid will sort of enable us to capitalize on any new opportunity that may come up. At this point in time, we would rather remain liquid given the overall economic environment and also the positive benefits that it will give us. That is our thought process. Obviously, we will evaluate as we move forward and take an appropriate action.

Dhruv: Sure Sir because if I look at current run rate the amount of FCF that you will be generating pre the capex it is significant so probably that we can take later? Sir the second question was on the demand? We have seen that the pricing for some of your products have increased quite decently versus say for example last year and also the average of many years. So are you seeing any influence on demand of these prices? Any early indicators that the demand is getting somewhat impacted and that can be your concern?

Ramkumar Shankar: What happens actually is that because these are products that have been around for a long time. It is not that easy to substitute that and for instance if you take PVC pipes there are certain advantages that just go beyond the pricing. It is also to do with the ease and convenience of the joining of the pipelines with just solvent cement rather than hot welding as it is required in certain other types of pipes so there are advantages that PVC comes with and it is not easy to display this. In the short term if there is question on affordability one thing that could happen is that some of the customers of pipe producers could shift marginally to lower quality pipes so that could possibly be the immediate short-term impact but those are all very short term and we do not think that there is a very long-term implication.

Dhruv: As such the demand should not be a worry and Sir lastly if I look at the expansion plan that we have for the SPVC and PPVC now SPVC both started probably in early FY2021 and

SPVC is getting completed in almost a year and a half and the paste PVC is taking almost a year extra for that so it is because of the nature of the equipments that the paste PVC is taking longer time for commissioning?

Ramkumar Shankar: The SPVC is just a debottlenecking that we are doing at our existing facility, so it is more by adding some balancing equipment and by making some process improvements that we are getting this extra 10%. Essentially, we are sweating the existing assets better whereas paste PVC is actually a Brownfield project where we need to build it ground up so that is the reason why that takes two years. In fact because we have taken the asset light model and we are piggybacking on the facilities existing land and infrastructure that is already there at Cuddalore this will take us far less time than possibly it will take anybody who wants to set it up new in a new location.

Dhruv: Got it Sir. Thank you so much. That is helpful.

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

Sanjesh Jain: Thank you and thanks for giving this opportunity. A couple of questions from my side. First on the EBITDA run rate itself considering that this was an unusual quarter where we entered with a very low spreads and we exited at a high rate, I think the average does not give the right picture so can you just explain us what was the exit EBITDA for us on a consolidated basis and what was the exit finance cost which we said Rs.40 Crores to Rs.50 Crores on an annualized basis? Have we achieved that in the month of September? This is my first question?

N Muralidharan: Sanjesh on the exit finance cost, I did highlight to you that it will be in the range of between Rs.40 Crores to Rs.45 Crores going forward given the changes that have happened. As far as exit EBITDA number is concerned, actually we would not like to guide one particular month number as a basis for you to look at going forward. To look at the quarter we have made that Rs.347 Crores of EBITDA. In that quarter, we do agree that the EBITDA has grown over the quarter, that we do recognize and agree, and outlook, like Ram explained earlier, the outlook for the next quarter looks quite strong. That we can comment, but we do not want to give a particular month number and that becomes the benchmark based on which the outlook is sort of calculated. That would be our guidance.

Sanjesh Jain: Got it fine. The second question on the expansion, Murali you explained that you need to keep the liquidity for the opportunity, I think PVC cannot had seen a better opportunity than what we are seeing today so are we planning for a further expansion in the suspension PVC beyond the debottlenecking which we are doing today because India is severely deficit and I think we have the liquidity, we have the land, we have the infrastructure and the knowhow on the PVC so should we see the suspension PVC expansion from here? Can we add another 3 lakh metric tonnes of capacity on the existing 3 lakh metric tonnes? Does that kind of a scenario really stick to look at?

Ramkumar Shankar: Sanjesh you are right in the sense that selling any additional quantity into the Indian market is really a no brainer because there is a deficit of 2 million tonnes. In five years, time, this will go up to 3.5 million tonnes and therefore new capacities are the urgent need of the hour as far as India is concerned, but the very fact that it is not as if there has been a rush of new people coming in with capacities because it is not that easy. As far as we are concerned, we have focused initially we prioritize expanding in the specialty side of our business which is why we have started work on both the custom manufactured chemicals and also the specialty paste PVC business for expansion. That is not to say we are looking at it sequentially. We are open to opportunities that will come up even in suspension PVC. In fact, we have at our existing site at Cuddalore the ability to triple our capacity. That is the kind of land that we already have, the terminal that we have for import of feedstock can accommodate at least three times the current quantities because we are operating at only for seven to eight days in a month right now. It is a question of time. We are working on certain other matters on suspension PVC. It would need the tying up of feedstock, the sourcing and so many other things but when the opportunity presents itself you can be sure that we will definitely take it up because like I said we are one of the pioneers in suspension PVC production in India. We go all the way back to 1967 and our product is very well recognized and accepted in the market and to top it all we also already have an environmental permit to go up from 300,000 to 600,000 tonnes, so we can come to market quite fast once the opportunity is tied up.

Sanjesh Jain: Got it. That is fair. Just one related question to here assuming that we need to again put up another 300,000 metric tonnes of capacity in the suspension PVC what kind of a capex requirement will it need to add that now that we are following this asset light model? Will it be very, very small compared to the capacity addition we are planning to do?

Ramkumar Shankar: If you are going to do it in the same way in which we are currently operating which is based on imported VCM then the capex could be anywhere between Rs.750 Crores to Rs.800 Crores. Of course, it all depends on the price of steel and other things at that point in time, but if an opportunity presents itself to do it on an integrated basis then the capex could be that much more. It all depends on what is visible and what we can work on at that point in time, so it is really dependent on the source and the extent of integration that we go for.

Sanjesh Jain: That looks as a very, very attractive opportunity considering that this quarter we did what Rs.200 Crores of EBITDA in the CCVL on a quarterly basis what we are telling is that we can double the capacity and the payback period even if it is kind of a spread sustained it is probably less than a year we are talking at and even if it halves what we are telling is that the payback period is what two years?

Ramkumar Shankar: That is right. That is exactly right because the suspension PVC business that is why I have been saying that it has moved up a couple of notches and it is now in a different zone. Having said that before we put money into the project and steel on the ground obviously, we would like to tie up all factors including feedstock, etc., and have that comfort level for a long period of time so all of that will happen. It is a question of time. When the time is right, I am sure we will make that announcement. I just wanted to say that right now we are focusing on the specialty chemicals business and may be the time will come for suspension as well.

Sanjesh Jain: Fine thanks. I have more questions, but I will come in the queue. We have a few more questions in line.

Moderator: Thank you. We have the next question from the line of Janakiraman from Franklin Templeton. Please go ahead.

Janakiraman: Thank you. Good evening Mr. Ramkumar. Does Chemplast think beyond PVC in terms of growth opportunities?

Ramkumar Shankar: Mr. Janakiraman that is a good question. Actually, we were one of the pioneers in the Chlor-Vinyl space, so it is not just PVC. We were into caustic soda and chlorine derivatives and we have been expanding along that so if you look at it, we started off with PVC and then we took over a company which was making caustic soda and chlorine from which we were buying the chlorine and then we got into chlorinated solvents and then we use the hydrogen to make hydrogen peroxide and we use the chlorinated solvents to make refrigerant gas and then we used our expertise in chemistry to get into custom manufactured chemicals so we are not constrained by anything, but at the same time we do not wish to lose too much of a focus as well. We believe that there are significant opportunities even within our existing product groups. For instance like we just said suspension PVC itself has huge opportunity. Paste PVC has huge opportunity. The custom manufacturing business that we are in again presents a lot of opportunity for us, so we believe that there are enough and more opportunities in our existing lines of business.

Janakiraman: When I compare your current EBITDA run rate and even if one assumes that it normalizes a bit, in relation to that your capex requirements are not exactly significant and so when you have a opportunity like say strike the iron when it is hot so you have an opportunity I sense that you are a bit circumspect in committing more capital so where does that circumspection come from?

Ramkumar Shankar: It is not a question of being circumspect in committing capital… not at all. In fact, we would like to commit capital and grow in areas where we are already strong so that is the reason why we are expanding our paste PVC. In paste PVC the environmental permits that we have sought for is not for 35,000 tonnes. It is for 70,000 tonnes so this 35,000 tons expansion is phase one and likewise we have enough and more opportunities on custom manufactured chemicals as well and we have already when we came up with the IPO and while in the run up to the IPO we presented a capex investment program of around Rs.600 Crores and I am sure that we will come up with other plans in due course. It is after all just a couple of months since we listed and completed our IPO. There are enough and more opportunity and please be assured we are not circumspect on capital. We have grown over the last 50 years and grown to the size that we are. In fact, we were the last company to put up a significant PVC capacity in India in 2009. Nobody else has come in with that kind of a capacity.

Janakiraman: If one looks let us say slightly longer term five years or even longer is it possible to visualize a scenario where we are able to take up the specialty paste PVC to something like 200,000 tonnes?

Ramkumar Shankar: Our immediate idea actually from 66 we are taking it up to 100 and like I said we already have the environmental clearance for another 35 so that will go to 135 and definitely yes. We are the, if I may say in this space, we are the market leaders lead by far and obviously that leadership position is something that we would guard very closely and whenever those extra capacity is required, we would definitely be the first to put money into that.

Janakiraman: For this product, we will be having an in-house developed technology?

Ramkumar Shankar: We actually had technology in 1967 from BF Goodrich one of the oldest and one of the pioneers in PVC and since then every expansion that we have done. BF Goodrich moved out of the PVC business long back. Since then, every expansion that we have done has all been through our own in-house developments.

Janakiraman: Thank you. All the best.

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

Ashish Shah: Sir thank you for taking the question. Sir I had a few questions. The first one was Sir how are the suspension PVC and imported VCM spread? Are that also as volatile as the PVC prices or the spreads are largely stable?

Ramkumar Shankar: The spreads would be far more stable largely because of the fact VCM is really a one-trick pony. It can be used only to make suspension PVC so it cannot remain out of sync for too long and apart from certain other demand supply dynamics on PVC itself as we can see right now has taken up PVC prices, VCM prices would remain largely in sync at least directionally.

Ashish Shah: Sir it is fair to assume that may be 70% to 80% of our profitability or EBITDA is largely stable and it does not fluctuate as frequently as the PVC price irrespective of the cycle?

Ramkumar Shankar: Like I said sometime back also this is not a business that we should track quarter to quarter. There would be quarters where you would have very good growth and there would be quarters where you would have sedate growth so that should always be kept in mind, but directionally if you look at it on a year on year basis you would find especially now given the PVC has moved on to a different zone and it has moved into, I do not like using this word but what people are calling the super cycle mode I believe that you would see a lot more predictability.

Ashish Shah: Got it. Sir any update on our custom synthesis if you have had any plant or anything over there or any new plans?

Krishna Kumar: We qualified commercial two new products this year and we have a healthy pipeline of products and working with a number of innovative companies and so this process is ongoing and again as I indicated earlier these forms the basis of the growth plans and expansion plans we have factored for this business in the coming months and years.

Ashish Shah: Got it. Sir last question. How is the realization in the past PVC say in October and November versus an average of Q2? I am just asking the realization on the paste PVC or the specialty PVC versus the Q2 average?

Ramkumar Shankar: While you would appreciate that we would prefer not to give specific numbers all I can say is that October did see an increase in the realizations and the prices are doing well. Q2 prices definitely did go up.

N Muralidharan: The Q2 average was around Rs.150,000. It was around that and like Ram mentioned the prices have since moved up in October.

Ashish Shah: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Akella from IIFL Securities. Please go ahead.

Abhijit Akella: Thank you and good evening. Just a couple of data points I was hoping for if possible? One is could we have the custom manufacturing revenues for 1H and 2Q as well as the comparison versus the corresponding periods of last year?

N Muralidharan: Abhijit what I can confirm is that the custom manufacturing revenues in H1 has gone up compared to the last year, but we look at custom manufacturing and specialty paste PVC together under specialty chemicals and that is how we track the numbers and that is how in fact if you look at the investor presentation that we have posted we have posted the specialty as a separate vertical and shown it and as you see the specialty vertical has grown by 81% in revenue compared to last year. I would not like to get into the specific numbers of custom manufacturing in the interest of confidentiality and competitive interest.

Abhijit Akella: Within the segment wise volumes and revenues slide that you have in the presentation is it possible to number one, get a breakdown of the non-specialty chemicals, revenues, and volumes? I know you have combined caustic soda and everything else all together, is it possible to share that separately and also separately just wanted to check if is possible to break down the specialty EBIT between paste PVC and the other products?

Ramkumar Shankar: As far as like Murali just explained we follow three segments the specialty, non specialty and suspension PVC and since suspension is in a separate company, we look at it as a segment by itself and it is also significant. We would not like to get into the individual factors in each of these again largely for competitive reasons but for each segment we can give you the details that you want but of course you do know the capacities that we have for each of these products. That is already there in the investor presentation so that should give you a fair idea of the size of each of these.

Abhijit Akella: Right got it. Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj: Thanks for the opportunity, Sir. Sir the first question is in terms of capital allocation, so we have given the capex plan for the next three years. In terms of overall capex how do we look at it from a split of basis between the commodity and the specialty from a longer-term perspective? Thank you.

Ramkumar Shankar: Right now, the capex that we have outlined is heavily skewed towards the specialty. Out of the Rs.620 Crores, Rs.600 Crores is for specialty paste PVC and the custom manufactured chemicals because that was the priority. It is only a question of the priority queue but I am sure that if the opportunity like we have discussed at great lengths there is a huge suspension opportunity that is out there and going forward that could also be an interesting opportunity that we could take up, but right now it is more specialty that is the focus of what we have already outlined.

Rohit Nagraj: Right got it. Sir second question in terms of going in for a modular development you indicated that the environmental clearances for double the capacity what we are trying to put up currently so any specific reason for going for half of the capacity now and half of the capacity at a later date and second concurrent question on the suspension PVC if you were to go for a Brownfield expansion to double the capacity how much time will it take to commercialize that project? Thank you.

Ramkumar Shankar: As far as paste PVC is concerned first of all this is the environmental clearance that we have applied for. We have not received it yet, but the reason we are going modularly is basically largely to ensure that there is no disruption to the overall market because we would be displacing imports and we do not want to have too much of price disruption at that point in time so this is more to actually run the quantities in a very smooth manner so that was clearly the entire intention and as far as the capacity expansion if you were to expand the suspension PVC at the existing site it will not take us more than two years from zero date and when I say zero date that is the date from which I already have the environmental clearance so it is only a question of taking the final investment decision. From then it will take us may be two years.

Rohit Nagraj: Right and just a small follow-up on the capex which are currently going on. In terms of lead time for all the items we are safely placed, and the project is as per schedule?

Ramkumar Shankar: Yes, the project is as per schedule. We already have completed the basic engineering. We have completed most of the detailed engineering. A lot of the negotiations with vendors are already in place and the minute we get the environmental clearance, obviously we will do it only after we get the clearance, we will start the ordering itself, so we are well in control, and we are confident that we are on schedule.

Rohit Nagraj: Thank you so much and best of luck Sir.

Moderator: Thank you. Ladies and gentlemen due to time constraint we will be taking the last question from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: Good evening. Sir coming to your suspension PVC as you mentioned this has a very strong payback period just wanted to understand that even the working capital seems to be negative in the last payables which is there so effectively there is less amount of capital employed and 4 or 5x is my understanding right?

N Muralidharan: You are right. The capital employed in the business is very limited. Even if you look at it on fixed asset basis and calculate the asset turn, the asset turn will be easily more than 5x.

Rajesh Ravi: Given that this has been the case even for the last two years and demand outlook in India is obviously firming up what is holding on too many for you and Reliance and some of the other big producers in terms of going for new capex?

Ramkumar Shankar: For a long time, it has been a question of the availability of ethylene. PVC is you need two molecules. One is chlorine and the other is ethylene. Chlorine is available in plenty in India but all the ethylene that is there is India is already spoken for off by the polyethylene manufacturers. They use it for themselves, so you do not have ethylene all these years that is why ours was PVC plant that came up in India and we also went through this. We were checking out the problem by importing ethylene in the form of VCM so that is exactly what has held up new capacity coming up but now there are some opportunities opening up and hopefully you will see some new capacities coming up in India.

Rajesh Ravi: So you are saying that even other players should chip in, and the domestic supply should go up in next few years?

Ramkumar Shankar: Domestic supply is not going up at least until 2025 because even if somebody tried today, they will take at least for getting the approvals and then starting the build, it will take at least four years. So everything that happens will happen post 2025. But even if new capacities come and it is actually a positive because given the fact that the gap is already 2 million tonnes going to 3.5 million tonnes whenever new capacity comes in, it will actually motivate the downstream customers of PVC resin to further plan their own expansions because India has got a huge potential to grow in PVC end products as well and when they see that new resin capacities are on the horizon they will also feel confident enough to plan their expansions.

N Muralidharan: As Ram mentioned while the 2025 would apply for others, for us the time to market will be much faster because we already have the environmental approvals. so once we take the investment decision we can move quickly. The implementation period of two years only will matter.

Rajesh Ravi: Given that this scenario is going to be favorable at least till 2025 would it be fair that you would be exploiting on this project?

Ramkumar Shankar: We will make that announcement as soon as we get to that stage. Right now, we are not in the position where we are making that announcement, but we are on the lookout for growth opportunity.

Rajesh Ravi: Great Sir. That is all from my end. Thank you and all the best Sir.

Moderator: Thank you. I would now like to hand the conference over to Mr. Ramkumar for his closing comments.

Ramkumar Shankar: Thank you ladies and gentlemen. This has been a very interesting one hour or so and in addition to the structural changes that we have seen in both paste PVC and suspension PVC there are also a few short-term temporary factors that as you know have been driving the market imbalance including the impact of hurricanes, rising gas prices, coal energy prices and the environmental policies in China. The company is very well positioned to ride on the industry growth on the back of our proven capabilities and with our growth plans we will also be able to unlock multiple growth levers for the future. We are very confident about that. With this I conclude the call. If you have any future queries, please contact SGA our investor relation advisor. Thank you all for joining us today on this earnings call and we wish you all a very Happy Diwali. Thank you very much.

Moderator: Thank you Sir. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.