DCM Shriram Limited
Q2 FY'22 Earnings Conference Call
October 22, 2021

Moderator: Ladies and gentlemen, good day and welcome to the DCM Shriram Limited Q2 FY'22 Earnings Conference Call. 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 the conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

Siddharth Rangnekar: Good evening and thank you for joining us on DCM Shriram Limited's Q2 & H1 FY'22 Earnings Conference Call. Today, we have with us, Mr. Ajay Shriram – Chairman and Senior Managing Director; Mr. Vikram Shriram – Vice Chairman and Managing Director; Mr. Ajit Shriram – Joint Managing Director; Mr. K.K. Kaul – Wholetime Director and Mr. Amit Agarwal – CFO of the company.

We will commence the opening remarks with Mr. Ajay Shriram and Mr. Vikram Shriram, following which we will have an interactive question-and-answer session.

Before we begin, please note that some of the statements made on today's call could be forward-looking in nature and a note to that effect has been included in the conference call invite that has been circulated earlier.

I would now like to invite Mr. Ajay Shriram to give us a brief overview on the company's performance and his views going forward. Thank you. Over to you, sir.

Ajay Shriram: Thank you Siddharth. Good evening ladies and gentlemen and thank you for joining us on our Q2 & H1 FY22 earnings conference call. I will take you through the Business developments. After that, Vikram will share with you the financial perspectives.

We are glad to report another quarter of robust performance. Our businesses are stable and we are investing in growing them by adding scale, integration and cost competitiveness. Owing to our strong business model developed over the period, we continue to make healthy progress despite the challenging environment.

Some of our businesses are facing challenges from a volatile global business environment in terms of increasing commodity prices as well as increasing energy prices, which are having a positive as well as negative impact on our Businesses. This is also bringing uncertainty to future economic environment and consumer behavior, given the inflationary pressures.

The capital expenditure programs announced over last 12 months are expected to be commissioned as per schedule and will further help us maintain growth momentum with stronger businesses and reduced risk on account of volatility.

With that I would like to walk you through our business-wise key developments:

Sugar:

India witnessed record exports of 7.1 mmt during SY21 and diverted 2 mmt of Sugar to Ethanol using B heavy molasses resulting in stock of 8.5 mmt at end of Sugar season 2020-21. With lower inventory levels and firm international prices, domestic prices are good and are currently trading around Rs 3,700 per qtl.

Crushing for sugar season 2022 is expected to commence from end October and early estimates suggest production of 31 mmt. With a stable demand at 26 mmt and estimated export of 6 mmt, inventory at end of SY22 is likely to further reduce to ~7.5 mmt.

The cane prices have risen for the coming season, with Government of India increasing FRP by Rs 5 per qtl & Uttar Pradesh Government increasing SAP by Rs 25 per qtl. This will put pressure on margins, if the domestic sugar prices fall below ballpark Rs. 3,550 per Qtl.

For the sugar season ended 30th September '21, the Sugar revenue was down 14% because of lower monthly quota released by the government which is a function of lower inventory levels. This season no additional export quota was declared unlike sugar season 19-20. Distillery revenue was up 38% with new distillery of 200 KLD commissioned in Dec'19 at our Ajbapur unit. EBDITA margins of the Business for the two seasons have been largely the same.

Government is committed to its 20% Ethanol blending target by 2025. Present season saw blending rate reaching to ~8%. We also expect a revision in Ethanol prices for next season in view of increase in sugarcane & sugar prices.

Work on our grain based, 120 KLD distillery at Ajbapur is progressing as per schedule.

Chemicals:

There is supply chain disruption at global level due to the impact of hurricane 'Ida' in the US, recent Chinese government's dual control policy for energy consumption and intensity, as well as closure of few capacities in the US.

Further, easing of pandemic restrictions amid declining infection rate is leading to increased demand. Both these factors are leading to higher price realization as well as higher capacity utilization.

India continues to push the export with caustic soda exports for Q2 FY22 at ~56,737MT compared to 48,600 MT in Q2 FY21, an increase of 17%.

During Q2, high input costs of Coal as well as Salt have largely offset the gains from higher volumes and realizations. However in coming months the gain from higher realizations may more than offset input cost pressures.

Our downstream projects are expected to be commissioned on schedule and will facilitate better value add and provide hedge for volatility. 120 MW Captive power plant will add to earnings driven by cost efficiencies. 700 TPD chlor-alkali expansion along with 500 TPD flaker, will further increase our scale.

Vinyl:

PVC import prices continue to remain firm, with prices reaching ~USD 1,800 per MT. Our PVC prices were over Rs. 150,000 per MT in the month of September 2021, moving in line with international trends.

Higher prices have more than offset the impact of higher input prices during the quarter. However we are seeing a continuing increase in Power cost given the steep rise in coal prices.

Agri Inputs:

The segment covers Shriram Farm Solutions, Bioseed and Fertilizer businesses.

For Bioseed and Shriram farm Solution Q2 is an off season. For H1, the disruption to the rural landscape owing to higher impact of second wave in rural areas coupled with an erratic monsoon, depressed the performance of the agri businesses. Flooding in key cropping areas in India was another factor. Consequently, revenues were impacted in Bioseed India operations in H1. 'Shriram farm solution' business was also marginally impacted, however with adequate water availability, the Rabi season is expected to be closer to normal and this bodes well for SFS for whom Rabi is the main season. Our emphasis remains on value added inputs and research based products which will bring good growth to both these businesses.

Fertilizers saw higher revenues, which was driven by higher gas prices. Subsidy outstanding for the business stood lower at Rs. 266 crs as at 30th September, 2021 vs Rs 465 crs as at 30th September, 2020 which is a paradigm shift. With significant rise in gas prices we expect the subsidy amount to increase till it gets notified.

Fenesta:

Fenesta reported a strong performance given base impact of the first wave last year and demand build-up post the second wave since Q1 FY22. Order booking is higher by 63% YoY during Q2 FY22. The business is benefiting by way of increase in reach and diversity of product range.

It is our earnest endeavor to drive continuous growth through enhanced capacity utilization while maintaining a sharp focus on delivering efficiencies. As a natural progression of our strategy, wherever prudent we are adding investments in downstream and value added product lines and capacity additions with a view to have an enhanced profitability footprint on a sustained basis.

With this, I would now like to call upon Vikram to take this discussion forward.

Vikram Shriram: Thank you. Good evening everyone. I will now take you through the financial highlights for the quarter.

Net Revenues grew 5% YoY to Rs.2,145 crs vs Rs. 2,047 crs in Q2 FY21. I will now apprise you on the businesses that had significant impact on revenues during the quarter:

Revenues for Chloro-vinyl segment was up 56% to Rs 814 crs. Chemical business revenues were up 37% YoY at Rs 483 crs in Q2, driven by both volumes and prices. Plastics revenues were up 94% YoY at Rs 332 crs driven primarily by higher prices of products. With the recovery in demand, post the second wave of Covid-19, our PVC sale volumes saw an increase of 60% quarter on quarter. Fenesta revenues were up 40% YoY at Rs 130 crs in the period. There is improvement in Retail as well as Projects vertical. For Chloro-Vinyl and Fenesta businesses, Q2 last year was seeing a gradual improvement in demand post the Covid-19 induced strict lockdowns in April and May 2020. Overall Sugar business revenues (net of excise duty on country liquor sales) were down 29% YoY at Rs 590 crs as a result of lower sugar volumes. Prices for Sugar and Ethanol were better. Fertilizer revenues stood higher by 34% at Rs 293 crs consequent to higher gas prices which in Q2 have gone up form USD 6.5 per mmbtu to USD 13.7 per mmbtu. Current prices are over USD 14. Higher gas prices is a pass through, but impacts the subsidy bill.

On Profitability front, in Q2 FY22, PBDIT improved by 30% YoY at Rs 311 crs. Plastics PBDIT came in at Rs 156 crs. Better prices were the key driver for the earnings. Chemicals PBDIT at Rs 108 crs was led higher by volumes and firmness in product prices. Key inputs more particularly power & fuel costs in chloro-vinyl business came in significantly higher year on year as well as quarter on quarter. Overall, Sugar Business PBDIT came in lower at 42% YoY at Rs 33 crs, mainly due to lower volumes in the business. Additionally, higher rate of purchased molasses also contributed to lower earnings. Bioseed came in at negative Rs 14 crs. Performance was impacted by earnings from India and international operations due to lower volumes. For International business it was only a timing difference.

Moving onto the H1 FY22:

Net Revenues, were higher by 4% YoY at Rs. 4,102 crs.

Chloro-vinyl revenues were up 68% at Rs. 1,413 crs driven by volumes and prices. Fenesta revenue was up 79% at Rs. 239 crs led by volumes. It is important to mention here that Chloro-Vinyl and Fenesta had a low base in H1 FY'21 given the impact of first wave of Covid-19 pandemic. Compared to H1 FY'20 Chloro-Vinyl grew 13% led by PVC and Carbide prices. Fenesta grew 5% over H1' FY'20. Sugar segment revenues, net of excise duty on country liquor sales, were lower by 32% YoY at Rs. 1,153 crs. This being the result of lower Sugar volumes both in domestic market and exports. On Sugar year basis the revenue was down by about 14%.

Revenues in the Fertilizer business were 22% higher at Rs. 513 crs on account of higher gas prices. Volumes in Q1 were lower since the Plant operated at lower capacity due to partial break down. Plant is stable now. Bioseed International revenues stood higher by 12% YoY at Rs 75 crs driven by higher corn and paddy sales. Bioseed India revenues were at Rs 191 crs down 21% YoY owing to lower volumes given the impact of the pandemic and erratic monsoons.

Coming to the PBDIT for H1, we saw the same rising 42% YoY at Rs 611 crs vs Rs 432 crs for H1 FY21. The reasons for the improvement are in line with explanation provided above. Coming to the balance sheet position, company had surplus cash of Rs 679 crs net of its debt as of 30th September 2021 vs net debt of Rs 242 crs as of 30th September 2020 and Rs 180 crs on 31st March 2021. There is seasonality in Capital employed which is generally at the lowest level at the end of Q2 and then starts building up during the Sugar season. Increase in capex as well as build up on account of fertilizer subsidy will add to the buildup.

RoCE came in at 23.3% for Q2 FY22 on trailing annualized basis vs 18.0% for FY21 and 15.5% for Q2 FY21. During the quarter, the board declared an Interim Dividend declared at 230% amounting to Rs 71.7 crs. On the whole, the Company delivered an encouraging performance during the period under review. We have a strong financial position and will maintain an adequate liquidity while continuing to implement capex and adding to growth of all our businesses.

That brings me to the end of the financial discussion and we will be happy to take questions that you may have. Thank You.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. We will take our first question from the line of Ahmed from Unifi Capital. Please go ahead.

Ahmed: Sir, if we look at our Q1 realization, it was about Rs.24,300 and Q2 realization for the caustic business is about Rs.24,900, so there is barely 2.5% improvement. While if we look at the import prices, they have moved from about $300, $350 to about $400, $450. So, can you please explain why there is this divergence between a realization and the input prices?

Amit Agarwal: If you see our results presentation, the prices have seen an uptick over the period, right. So, if you look at June, the import prices were about USD 376 and only now in September we saw the prices moving up to USD 450 and obviously after September they have gone up further. So, even we have seen an improvement in prices. So, in June, our prices were about 23,000 and in September our prices were about 26,000. So, we are seeing a gradual improvement in prices. And there is already a bit of a lag between the international prices and domestic prices.

Ahmed: My question is what will be the lag between import prices and a realization – will it be three months or two months, one month, can you please quantify?

Amit Agarwal: It is very difficult to say what can be the lag, but yes, can vary between maybe 15-days, 10-days to a month.

Ajay Shriram: I will just add, Ahmed. There will be a lag because normally when we sell products, also some of them are on contract basis for a month or two months or three months depending on the relationship with the customers and how we work with them in the past also. So, each deal has its own nuances because we work long-term with customers. So, there can be a lag.

Ahmed: If we refer to page 16 of your presentation, there is a graph you have provided. The red line and the blue line both have shown periodic convergence and divergence. Is that the pattern that we should expect in the future? And is it that the last quarter there was some compression and in time it's reasonable for us to expect some divergence again?

Amit Agarwal: You are looking at this graph on page 16. See, the trend largely remain the same. As CMD. sir mentioned that there will be a lag depending on the kind of contracts we have because at times we have contracts which we would have made in September for supplies in October. Now, in October touching prices as we speak today they are over USD700. But we may not be able to charge the same price to that customer with whom we entered into a contract in September. And that will cause the charts not to move exactly in the same pattern, but yes, overall, medium-term trend largely the same as depicted in the chart as well.

Ahmed: That helps. The last question on this. Could you clarify the time period of contracts that you normally enter?

Amit Agarwal: Generally, would vary from customer-to-customer. Difficult to give exact number. It will all depend on the industry or the timing as to what will be the length of the contract. But generally, we would prefer a contract which is two months, three months, four months, that kind of nature.

Ahmed: A follow up question will be based on your commentary where you mentioned that the improvement in realization will flow to the bottom line and it won't be absorbed by the cost. So, can you please quantify what will be the impact of increasing the input cost, salt and coal and how will be the profitability move in caustic segment?

Ajay Shriram: Ahmed, I want to mention that what we have seen compared to the first quarter coal prices gone up by about 30%. The price of salt has gone up substantially also. Now, it was monsoon also when salt shortage takes place and then the prices tick a little more. So, it's very difficult to give any correlation between the increases in the price of these products because the price of the input depends on the availability and we have seen worldwide the price of coal for instance, has gone through the roof. It's gone up because of the price of coal as well as the issue of non-availability of ships and the freight cost which have gone up to $9, $10 to $35, $40. Finished product has had its impact due to different circumstances and reasons. I think it's very difficult to give a correlation of how they will both function one vis-à-vis the other and very often it actually happens that they move independent.

Ahmed: Currently, I think spot prices of inputs are $500 per ton for caustic. Now say in next three to six months we reach that level of $500 per ton realization, the entire improvement in realization will it be absorbed by the cost itself or some incrementally will move to bottom line?

Ajay Shriram: I will put it this way. As a company, we are always seeing how do we compete and be competitive in our cost of production. In the last three, four months, we have very aggressively moved to use a lot more biomass as our input for our power plant compared to only coal. We have also started using a lot more lignite compared to what we used earlier which is lower cost of energy. So, we are continuously moving to see how we can reduce our cost, improve efficiency on an ongoing basis. A lot of it depends. You would have read, two days ago it started coming that the coal prices in China is coming down. Now, what is the impact of that down the line? We don't know, but it's a very volatile market. At the moment, our approach is one, having adequate availability of the coal and biomass and lignite, etc., because of the shortage in India which again because of the public power plant having shortage of coal, the availability and the supply to private sector has come down dramatically from Coal India and others. So, we are ensuring having adequate availability, we can procure coal and run as efficiently as possible. So, these things are matching all the time and we are playing that game and we are coming out fairly okay.

Ahmed: Sir, can you please quantify what percentage will be biomass and the alternative fuels?

Ajay Shriram: It varies. We are already working on as to how much we can take it up and it depends. Kota is separate, Gujarat is separate, availability is separate, and each power plant has a particular capability of how much they can take. So, it varies a lot tremendously between 10% and 20%. So, it depends a lot. Similarly, lignite is different, unlike coal, the calorific value of lignite is lower. So, that has its own nuances. So, we are always playing around with what we can do to optimize the input of raw materials into each boiler so that we optimize that.

Ahmed: So, we have got Rs.450-500 crore capital employed in the Bioseed business. What is the strategic three year perspective going forward on this segment?

K.K. Kaul: We are quite hopeful. Our pipeline is strong. Yes, this year as you possibly know that because of several conditions, cotton crop didn't do well because of a percentage of illegal sale all over more than 20% and because of erratic monsoon in the kharif period, the cotton got adversely affected. There was also no government subsidy program. This year kharif was pretty bad. But yes, if the conditions are favorable, the rains are good, we have a very good pipeline.

Ahmed: Can we expect losses in H2 to scale down in say three to four years?

K.K. Kaul: Surely, we hope. Even this year in some of our new products which we have commercialized in the last one or two years has done pretty well where we have been able to scale up. So, we are quite hopeful, yes, coming year should be good because acceptance for our products is good.

Ahmed: Sir, if we see on sugar side the ethanol mix in Q1, B-heavy was about 2.9 crore liter and C-heavy was about 0.3 crore liter and in Q2 it was about 1.6 and 1.2 respectively. So, what would be the optimal ethanol mix on an annual basis?

Ajit Shriram: What we want to do actually, Ahmed, is to maximize our B-heavy molasses to manufacture ethanol. That's our endeavor except for what we need to make for country liquor. Only that part we make C-heavy, otherwise we want to divert maximum sucrose to manufacturing ethanol and maximizing quantity. Just to give you a perspective, in H1, our ethanol production was up by roughly 3% compared to the previous year and the sales volume of H1 was roughly 4%, lower than the last year, that's because of just demand and supply and the tendering. But as I mentioned earlier, our endeavor is to maximize the B-heavy molasses to manufacture ethanol and that's how we have seen the increase in the quantum by 3%, which is also aided by our new distillery in Ajbapur.

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

Rohit Nagraj: Sir, the first question is on Chlor-Alkali. So, I understand that there has been some demand/supply mismatch in the domestic market and prices have gone up and probably players have resorted to more exports because of better realization. What is your sense on this? And on the coal cost front, what are the measures that we have taken to alleviate the pain from higher coal cost or non-availability?

Ajay Shriram: It's good to see that the economy in India is picking up. Caustic soda demand is also picking up at the range of 5%, 6% a year which has been the normal sort of growth of Chlor-Alkali business in India. So, that's a positive sign. International prices going up, gives a little extra impetus of exporting. So, there is a balance in the domestic market. That is the approach of why one wants to look at the exports of caustic soda. So, there is a balance between the pricing in the Indian market vis-à-vis supply/demand and also with the international prices going up, that's an added impetus of doing exports now. The figures I gave you was for the last quarter and this coming quarter, we don't know how it's going to evolve, but I think exports should also be there in the coming quarters also. On the issue of coal, I think the challenge is many. It is also first and foremost on availability. That's the challenge. The international prices have gone up dramatically. Even the auctions which were held in India by Coal India, there the prices have gone up dramatically. So, that's why as I mentioned a little earlier we are looking at all types of fuel, to feed into our boilers, but all types of coal also which have different calorific values as well as using lignite as well as using biomass. We are trying to optimize and see what we can get. The main challenge is getting the coal and having a stock. And due to the efforts of our purchase team, we have a stock of coal available. So, we should run stable for the next some months and hopefully if the coal prices also get a little more stable, we buy some more. So, I think it's a stable situation and we don't think we will run short of coal going forward.

Rohit Nagraj: Sir, the second question is on PVC front. So, we have seen price hikes in global markets as well as same is reflected in Indian market. So, have we seen any kind of impact on the demand front because of the high prices or even at these prices the demand is still sustainable?

K.K. Kaul: As far as the PVC demand is concerned, it's definitely lower than what they were in pre-COVID. Last year was COVID again. So, it's more than the last year but it's definitely lower than the pre-COVID demand. It's actually better than last year. This H1, the demand has gone up by 6%, but the supply is also constrained, supply is shorter than what we had last year.

Rohit Nagraj: Just a follow up on the supplies front. Is it constrained because of the import front or there is any other reason?

K.K. Kaul: Domestic production is maximum, I think, it's slightly more than what was last year or in a previous quarter. But the imports have dropped; from earlier we used to have almost 1.6 lakh tons of imports per month which currently is about 1 lakh tons, supply pressure.

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

Nirav Jimudia: A couple of questions. Sir, one on the caustic soda business. In last quarter you have mentioned that out of our total PBIT what we have reported, roughly around 24%, 25% was from derivatives like value added products. So, if you can explain or if you can give us the same figure for this quarter out of this Rs.86 crore how much would be the contribution from value added products?

Amit Agarwal: That will be about same number; to be precise, 30% for this quarter.

Nirav Jimudia: Sir, in our portfolio it's like aluminum chloride, hydrogen, SBP, these are the products what we manufacture. So, safe to assume that majority of this contribution would be coming from hydrogen?

Amit Agarwal: Yes.

Nirav Jimudia: For last quarter last year, out of this Rs.74 crore, what was the contribution from value added products?

Amit Agarwal: Largely ballpark it remains in the range of around 30% as of now, it will remain in the same range, last year also it was in a similar range.

Nirav Jimudia: My second question is on power plant. I think we have two plants; one at Bharuch and at Kota. How are we dependent on our captive source of power – is Bharuch plant totally captive in terms of our requirements of power or do we buy something from outside also, how is the situation placed between both the plants for cost-income?

Ajay Shriram: Just to add, in Bharuch, for instance, we are buying power from the Gujarat state electricity board because our Chlor-Alkali capacity is higher. That's why we are putting up this 120 MW power plant which should be commissioned I think in about nine months' time. We are working on that. And that will give us the advantage of having captive power available, but we have the advantage right now, we are buying over 40 MW of power from the state electricity board in Gujarat. So, that is giving us the fillip over here. Similarly in Kota also, we have a contract with Rajasthan state electricity board to buy power as and when needed. And depending on the requirements we keep buying from them also. So, we want to keep the options open to buy from the state government because our own power plants also have to take shutdown, they have to have the plant maintenance, etc., So, we buy from the state in both the places.

Nirav Jimudia: If you can give us some mix out of let's say 100%, how much is our captive and how much do we buy from the grid in terms of percentage mix?

Amit Agarwal: For Kota, 100% we are captive. So, buying from grid is only an option as sir mentioned. Bharuch, we are about 80%, 85% captive and about 15% we have to source from the grid and we go to that capacity, But generally, Bharuch, we are operating at around 90%, 95% capacity utilization. Once the 120 megawatt comes in, then we are ahead with the captive.

Nirav Jimudia: That would take care of our additional expansion of 700TPD?

Amit Agarwal: Yes.

Nirav Jimudia: What you mentioned is that it also depends upon the calorific value of the coal and the fuel mix what we use for our power plants. But a rough understanding in terms of let's say if coal cost goes up from let's say $100 to $150, how much increase in our unit cost happens on a rough understanding, if you can give, even for the imported coal, that would help or even for the domestic coal that would help?

Ajay Shriram: I don't think we have the figure, but putting it roughly direct cost goes up by about 50% straightaway because of that increase.

Nirav Jimudia: Same increase happens for our unit cost?

Ajay Shriram: Yes, on a direct cost, correct.

Moderator: The next question is from the line of Pratik Tholiya from Systematix. Please go ahead.

Pratik Tholiya: On the power front again, you said you are using other than coal a lot of other inputs such as lignite. So, we have already started or we are still exploring on that front? If we started, then want to understand how much the power cost in this H2 will come down, I mean, on a YoY basis, will it remain stable or we can expect that despite using lignite and all, power cost still will be higher versus last year?

Ajay Shriram: I think it's very difficult to give a projection of how much the price will go up and down because coal prices are moving up and down, lignite availability is tight. One has to get the clearance from the government and then get the approval from the government mine. So, we are getting some lignite, but we want to get some more. We are working on that even now for our requirements. That's already been worked on. But I think it's very difficult to give a figure or what is going to be in the next quarter because it's a very volatile situation. It's a very moving figure which keeps coming up for all the inputs required. I mean for instance because of the coal problem the biomass prices have gone up. That's having its own impact in terms of the costs. So, it's a volatile thing. I think it's very difficult to give a figure.

Amit Agarwal: I would just like to add that using biomass and lignite is not something new that we're doing. We were doing it earlier as well. It's just that we are now trying to maximize it.

Pratik Tholiya: So, just wanted to get some sense on directionally by maximizing usage of biomass and lignite, where can our power cost be versus last year for H2?

Amit Agarwal: As sir mentioned it's very dynamic. Coal prices are rising every day and as he said even Biomass and lignite prices are rising. So, everything is at historical high, so it's very difficult to give a number.

Pratik Tholiya: And on PVC last quarter we had 93% capacity utilization if you could give the number for this quarter?

Amit Agarwal : PVC even this quarter we are close to 95%-100% utilization.

Pratik Tholiya: Demand is looking good and we are still actually below pre-COVID. So, considering that things are now improving from here but we are already at peak utilization in that sense. How should we look at it from the PVC business standpoint going forward maybe in next 2 to 3 quarters?

K.K. Kaul: In terms of we are already at the peak of the capacity utilization. So, there's not much improvement that we can expect. But as far as the prices are concerned as we see them today Q3 looking at the conditions that led to this price increase which is a supply constraint. We expect the Q3 prices to be firm. there could be plus minus not at what level we have today but they would still be firm. Q4 is very difficult to predict. Some of the things are changing very fast. It's very difficult to say what will happen in Q3 but yes, we are capable to produce at our maximum capacities that’s there.

Pratik Tholiya: On the longer time if we could throw some light on PVC in terms of demand because considering that prices are good and the demand is also good. Are we looking at any capacity expansion in that front because we are also at 100% utilization? So, would that be a thought in the minds of the management to put up additional capacity on PVC?

K.K. Kaul: Yes. You keep on looking at these options but India still has a constraint that we don't have the feed stocks. Now feed stock required to make PVC we either have to import feed stock or you have…. It's not a really easy choice but yes you keep on reviewing your options every now and then because the demand is there as you rightly mentioned. We are still importing more than half of our consumption. There is demand but we have constraints in the supply side in terms of the appropriate feedstock availability in the country.

Pratik Tholiya: Just last question on sugar, in the presentation it is mentioned that higher rates of purchase molasses and ethanol mix hampered earnings. If you could just quantify these two things, at what price molasses were purchased during the quarter and what was the ethanol mix?

Amit Agarwal: So, in terms of higher price of purchased molasses, so just to give you an example ballpark number, in the same period last year we would have purchased the C-heavy molasses at around Rs. 350-400 a quintal. This year the prices are almost like in the range of Rs. 600 to 700 per quintal. That's the kind of change which impacted the margins. In terms of ethanol mix essentially, I don't know the exact number right now. It's about how much B-heavy and C-heavy, so that will impact.

But the major impact came from higher cost of C-heavy molasses which impacted the margins.

Moderator: Our next question is from the line of Chintan Chheda from Quest Investment.

Chintan Chheda: My question is related to the PVC business. So, currently whatever is the constraint regarding the supply. We see the factors which are leading to this particular constraint. They are more of a structural change or you can say more of a short-term phenomenon?

K.K. Kaul: This is more short term phenomenon as there were couple of hurricanes in US and then they were high energy prices in Europe which led to some capacities going out of their system and there was of course a demand and push also from downstream sector in US. But structurally I don't think there's anything that's going to be seen in a long time but this appears to be a short-term thing which should get corrected as we go ahead.

Chintan Chheda: Can you give me the breakup of your PVC and carbide contribution or EBITDA margins?

Amit Agarwal: I think we have to look at it as a whole, the reason being that it's very dynamic as to whether we sell more of carbide or more of PVC, its flexible. Both of them are produced from carbide and depends on at what price we're getting. Therefore, I think we should look at it as a whole.

Moderator: We will take the next question from the line of Falguni Dutta from JetAge Securities.

Falguni Dutta: Would be possible to share the variable cost of power for Q2 versus Q1 for our captive coal base plant?

Ajay Shriram: I'll be honest with you, in our case because we have different power plants, different boilers, different generating sets in Kota separately, in Bharuch separately, so the variability is very large. I think unlike now when the coal and other prices had gone up to these degrees, in a normal basis we are comfortably better than buying the price at the state electricity board. But at the moment it's difficult to get that because the variability is so high everywhere.

Falguni Dutta: The way the current prices or otherwise if you can just give in a number with whatever mix that you've used or purchased through the SEB, how much higher has the power cost been in Q2 for us versus Q1 on a percentage basis?

Amit Agarwal: Frankly we don't quote our costs, so as we mentioned there has been 30% to 35% increase in our power costs on YOY basis.

Falguni Dutta: One last question on sugar price. Though it’s very difficult to give an outlook but just that we are about to begin the season, so would it be fair to say that once the crushing begins, we could see a rupee per kg kind of correction in sugar prices from here on?

Ajit Shriram: It's very difficult to say and as was mentioned earlier, the cane prices both at the central FRP level and the state SAP level have been increased. And we've been following up with the central government for increasing the minimum sugar selling price, MSP. It has been happening for over a year now. Normally this MSP change takes place with the FRP change. Also, the ethanol price correction happens post the cane price correction. We are awaiting from the central government change and increase in both these prices of sugar as far as MSP is concerned and ethanol pricing from all three products which is cane juice, B-heavy molasses and C-molasses. So, we wait for the same, so it's very difficult to say about a correction at this point of time. But what you're saying, normally in the festive season one does see a firming up by about a rupee or so which is still until about Diwali.

Moderator: We will take a next question from the line of Darshit Shah from Nirvana Capital.

Darshit Shah: My question is on the PVC side, our realization for Q2 was somewhere around Rs. 1,31,000 a ton. What would be the current quarter run rate going on if you can tell us?

K.K. Kaul: Currently it's been very volatile. If you ask me, yesterday it was around 165 but it's very volatile. One just can't tell you for a quarter because the changes happening are very rapid.

Darshit Shah: If you look at our profitability in that segment Chloro-Vinyl, it's been quite good at around 50% PBIDT margins what we have done this quarter and even from Q2 levels I assume the prices are up another 20% or so. Do you see that kind of profitability being sustained in this quarter as well given the buoyance in the prices?

K.K. Kaul: As I said we expect the prices to continue to be firm as we have seen in Q2 and Q3 also. Therefore, from a price perspective, Yes, the profitability should be okay. But as we said there is a cost push also and there are also there are very violent changes in the prices. One is not sure how it's going to settle down because the price increase in coal has been very sharp and the availability constraints are also there. So, that's also putting pressure. It's very difficult but on the pricing side, regulation side I can tell you because some of the fundamental changes that have happened Q3 should be relatively firm as was Q2. But on the pricing side I would hesitate to take a call because they've been very rapid changes and some of them are very sudden.

Darshit Shah: My last question again is on this PVC changes that has happened. When we are hearing to managements of lot of pipe companies and all, so their view is basically that now the prices are probably as what you're saying going to remain firm and whatever prices we probably saw in pre-COVID era is a distant future now. We're not going to see those kinds of prices anytime soon. Would like to know your thoughts on this.

K.K. Kaul: As I said they are better judge because they understand the market better. But yes, they possibly will never come to that pre-COVID level kind of a thing but not stay at what we are today. That's the understanding we have at this point of time

Vikram Shriram: We hope they are right.

Darshit Shah: Yes. We can bring some great profitability then.

Ajay Shriram: But from a practical point of view, we have been in commodities for a long time and we've seen commodities go up and they go down. I think we just have to be careful and focused very strongly on our own competitiveness, our own customer service and our own business model. I think that focus has to be very sharp.

Moderator: We'll take the next question from the line of Sanket Shah, an Individual Investor.

Sanket Shah: So, Mr. Shriram as we see the caustic prices are going up since last month. Can you please give us idea on what is a spot price currently and what is your view on the price dynamics going forward? I know it is very volatile and difficult to predict but I just wanted to know your sense on this.

Ajay Shriram: I think the prices today, the domestic markets are running in the range of I think 45,000 to 50,000. But you know that's the spot price. I must be honest I think from my understanding most manufacturers have some contracts going forward with people because this is a product where you tie up with someone who's a long-term user. Frankly we got some tie-up, however, it is going up in any case. But you never know what's going to happen in the next one week or 10 days or two weeks or three weeks because it depends on the international price also, how that moves and what's the situation here but this is a price indication of what it is like today.

Sanket Shah: And can I get a sense of how much of our quantity is booked if we are on a fixed contract?

Ajay Shriram: I don't have that just now because it varies a lot again, from some of them are one-week contract, some are two weeks, some are one month, some are two months. So, as I said we have a contract with Vedanta where we had a long-term contract with them linked on some parameters. So, that's like a 12-month contract. With the sort of a market situation and the business philosophy which company is evolved, there is a lot of variability in that.

Sanket Shah: My next question is on the chlor-alkali derivative product. Can you just give us the sense that how much of revenue is coming from my derivative product and how much revenue is coming from the company's main chlor-alkali product?

Ajay Shriram: Derivative product will be chlorine linked; the aluminum chloride link.

Amit Agarwal: That will be around 15% to 20% of the total revenue from these products.

Sanket Shah: In terms of profitability, how do they contribute?

Amit Agarwal: In terms of EBITDA, it will be around 25% to 30% EBITDA coming from these products.

Sanket Shah: So, when you say 25% to 30%, does it include hydrogen also in derivative or it is including in the chlor-alkali product?

Amit Agarwal: No, hydrogen is separate in our case. Most of it is contributing by hydrogen.

Sanket Shah: Do we see any challenge in terms of input price for our chlorine derivative products mainly aluminum chloride?

Ajay Shriram: I will just add that you have seen, you are aware what has happened in the price of aluminum over the last 6 months. Aluminum prices have shot through the roof. So, there is definitely an impact on the input costs.

Moderator: Our next question is from the line of Navneet Bhaiya, an Individual Investor.

Navneet Bhaiya: I just wanted a summary of the projects that we have announced and when is the expected commercialization date? And my second question is in your presentation there was a comment that given the strength of our balance sheet we may announce future growth projects. Any initial thoughts on which vertical those will be announced and when are we likely to hear on that?

Amit Agarwal: The hydrogen peroxide and epichlorohydrin, these projects should come by March '23 is what the target is. The 120 MW powerplant is expected by maybe June-July of next year. And the 700 TPD project along with 500 TPD flaker that should come by March'23

Ajay Shriram: And also, our grain-based distillery.

Amit Agarwal: Grain based distillery should be coming by September '22.

Ajay Shriram: That is what we have and as the second part of your question. As a group, we are always looking at things how we can add value, how we can take up something with this ancillary or value addition or expansion, whatever it is. We are perpetually studying what's happening. Today, we have got almost Rs. 2500 crore worth of investments in the pipeline. We are also very conscious that we don't want to stretch ourselves too much because that we have seen the debt interest, meter never stop ticking. No weekends, no holidays, no Republic Day, no Independence Day holiday, it is there 24X7. We want to be conscious of that also but depending on our business performance, we have got projects online. We are perpetually studying so difficult to give any more project commitments right now but they are always under study.

Navneet Bhaiya: Most of our interests would be in the chemical division or we would look across the various divisions?

Ajay Shriram: We are happy to and we are looking at the expansion in our Chemicals business in our Agriculture business, in our Fenesta business, in our all businesses. Whenever there's a good business opportunity, we are open for it.

Navneet Bhaiya: So, given our earnings are likely to be, given the prices currently, our earnings may continue to be good. And so, what our cash flows maybe over the next 6 to 9 months, you may look to announce further projects. Is that a fair understanding?

Ajay Shriram: I think it's too premature to give any commitment of any type because it depends how the business environment operates, how we look at it and we will have to discuss with our Board about how they also feel in terms of what we want to take forward.

Moderator: Our next question is from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: Firstly, correct me. You told the current prices for caustic soda are in the band of 45,000 to 50,000?

Ajay Shriram: It's about 45 I believe it's between 45-50.

Saket Kapoor: When we look at your presentation, there in we have shown there in the exit was 26,569 for the ECU prices and import at $450 at September. So, the rise has come post in these 40 days only? In these 20 days?

Ajay Shriram: No, you have to look at it because what we have given figures is for the entire quarter, it's not given for 1 month, it's the whole quarter average.

Amit Agarwal: In the presentation we do give month-on-month number till September.

Saket Kapoor: Page #16.

Amit Agarwal: Yes, I am aware. So, we have given one number in the graph to your right and majority of the increase you are right has come in last 20-25 days. So, the prices actually have come on up from what I have shown there as $450. We do an average for the month. So, therefore the increase started happening by end of the September and as we speak the international prices have gone up to $700-750.

Saket Kapoor: We are currently trading in the range of $700-750.

Amit Agarwal: Yes.

Saket Kapoor: How has chlorine math worked for us, is chlorine positive?

Amit Agarwal: Chlorine is more or less positive.

Saket Kapoor: Can you give me some more color about how are the hydrogen peroxide prices being for this quarter and post September how will the prices be?

Amit Agarwal: We haven't commissioned our hydrogen peroxide project as yet. That will come after only about year-15 months.

Saket Kapoor: What have been the price trend, currently? How have hydrogen peroxide prices behaved?

Amit Agarwal: What I believe they have softened a little bit, the hydrogen peroxide prices but I don't have the exact number.

Saket Kapoor: Can you attribute the factors which have really led to this from $450 to $750 or $700 increase? What factors have supported and how strong is this rally in terms of the factors getting reversed in near future or in the medium-term future?

Ajay Shriram: I will just add that there has been some plant shut downs in the US. Then they had these, cyclones and all that which led to closure of plants, that made an impact. Some of the old technology plants, diaphragm-based plants in Europe also have closed down over the last 5-6 months. All that has led to a little reduction and pursuant to the reduction in demand during the COVID time demand is picking up a little bit now. That led to a little pull side again for these products. That is given that little advantage of a pull, which has led to a price increase just now. But what we mentioned earlier simultaneously there's been an input cost increase also. We don't have the benefit of only a better realization. As we have talked earlier in the course of our conversation, the last half an hour, 45 minutes that the input costs have also gone up. The way coal price has gone up or lignite or salt or all these things. So, that has the impact also. It's not only a one-way benefit.

Amit Agarwal: Just to add one significant factor which has led to this surge in last 20-25 days also is the Chinese government Dual Control Policy which CMD had mentioned in his opening remarks, that also has led to spike in, with which essentially meant lower availability of the product and therefore spike in prices.

Saket Kapoor: What is our current power mix? Out of the total Power & Fuel, what is the mix? It is totally coal-based or a co-generation mix? If you could give the split up in percentage terms?

Amit Agarwal: We are fully coal based.

Saket Kapoor: If you could give some color what have been our average cost, quarter-on-quarter since that has seen a huge escalation and what are the current prices? If we could get some sense of how the coal is going to impact us going forward also? If you could give me the quarter-on-quarter coal prices difference between the June quarter and the September quarter and how are we stacked up in terms of the Power & Fuel cost shaping up for the remaining next half?

Ajay Shriram: Now, let me put it this way. If you look at the price 6 months ago of coal it was $60-70 a ton, it went up to $200 a ton. Freight has also gone up. The price increase has been quite substantial. That has impacted the cost of power generation across the Board. In the meantime, we have also worked aggressively on lignite and biomass and all these sorts of things, to offset some of the higher price increases. We are also looking at sourcing coal from different sources compared to what we did in the past and going to the future, I must be honest with you, Saket no one can come around and say what is the price from the week. It's very difficult to say. So, the price definitely of power has gone up. We talked about that earlier also. So, it is a challenge. Our job is to make sure how we can ensure good efficiency of our power generation, have adequate raw material, which we do have and continuously work on getting a lower price input energy. We are working on biomass and lignite more aggressively also.

Saket Kapoor: What has been the import of caustic soda, if you could give for this quarter and also, that would give some more color since we are still, this is still an import product for the country. The demand is higher.

Ajay Shriram: Caustic soda import?

Saket Kapoor: Yes.

Ajay Shriram: I am not aware. Does anyone know what is the caustic soda import?

Amit Agarwal: During the quarter, the caustic soda imports were about 40,000 metric tonnes and the exports were about 60,000 metric tonnes during Q2.

Saket Kapoor: For this first half? I just want a comparative understanding of how the dynamics for the import and export part has played in terms of this prices being supportive?

Amit Agarwal: I don't have the H1 number right away but the trend as we see is that exports are rising vis-à-vis same period last year. The trend of exports is rising.

Saket Kapoor: What is the expected capacity additions domestically, that we are expecting in caustic soda getting on stream say two quarters down the line for the industry? For the industry what could be the capacity addition going forward?

Amit Agarwal: Over the next 15 months, the capacity addition in the domestic market will be close to about 900,000 metric tonnes.

Saket Kapoor: Will that be compensating with the demand or with that create a surplus or a glut in the market? I am just trying to make that sense.

Amit Agarwal: It always happens in business that there will be a gap in either demand being more than supply and then it catches up or the other way round. So, it’s difficult to say whether it will, if there is a, whenever the capacity addition happen, it so happens that they will come up together and then it takes time to absorb. But overall, the business has been growing, industry has been growing at about 5%-6% year- on-year. So, with the period it catches up.

Ajay Shriram: I'll just add that it depends a lot on what is the international price of caustic soda. If the international price is still high then exports will happen. That will be an advantage for India.

Saket Kapoor: Lastly, two points on the cash flow part. Firstly, in cash flow, it is seen that we have booked a loss of Rs. 13 crore on net financial loss and financial asset and liquid investment. If you could clarify on that?

Amit Agarwal: That is a gain that we have booked because of the investments that we have. We haven't booked any loss.

Moderator: Thank you. The next question is from the line of Sanket Shah an Individual Investor. Please go ahead.

Sanket Shah: I just wanted to know about our chlorine sales, so how much of our chlorine we are able to captively use in producing the chlorine derivatives and how much we are selling it to market?

Amit Agarwal: Currently our captive chlorine consumption excluding hydrochloric acid is about 4% to 5% at Bharuch and there our capacity is close to 1,350 tons per day and at Kota where our capacity is close to about 500 tons per day there almost 40% is utilized captively rest is sold in the market. That is where we are.

Sanket Shah: And about hydrogen, how much is going into hydrogen peroxide and how we are selling into open market?

Amit Agarwal: Just to add on chlorine I think from Bharuch almost 40% goes through pipeline so that also has more dedicated consumption.

Sanket Shah: And from Kota?

Amit Agarwal: Kota pipeline is very limited. 40% is captive and rest goes to the market.

Sanket Shah: On the follow up on the answer which Mr. Shriram has said that current spot prices is around Rs. 45,000 to 50,000 so if I do rough calculation our production and sale for the quarter is 1,50,000 so Rs. 1,000 increase which translates into Rs. 15 crore EBITDA increase in our bottom line I mean plus or minus the coal cost increase, so if I see 45,000 if I take the base if I assume that price remains same so can we see that will be almost Rs. 200 crore plus for the next quarter?

Ajay Shriram: I do not think it is right to take it that way because as we mentioned we also have contracts what we talked about is spot price and we are in the business in the long-term so we have relationships with the customers. So, we have long term relationship with them so we have contract with them also.

Moderator: Thank you. The next question is from Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir as you told that there is a part of the sale is through two-week contract something one month and so on, so there are then the cost escalation factor also built into the same?

Ajay Shriram: No most of these contracts are on a fixed price basis. There could be one or two maybe we will have a cost escalation, but it would not be two weeks, four-week contracts which has a cost escalation if it is 6 months contract there may be some parameters of that nature, but it is not in the short-term commitment. These commitment are four weeks, six weeks, eight weeks where we do not have any input cost variability.

Saket Kapoor: Sir with type of price hike in coal your input the salt prices, is it also feasible that there will be dent on margins because of their fixed price contracts and the raw material prices moving up hereby?

Ajay Shriram: Frankly the way things are there unlikely because we do have contracts we are entering into now which is going to go into the future. Plus, we have some spot sale so it should be offset.

Amit Agarwal: Just to add we also maintain inventory of coal. So, it is not that we are buying them on spot.

Saket Kapoor: The only reason you said the dent which we have seen on our margins if I may use the term in our P&L because of the power and fuel this should get mitigated with the increase in the caustic soda prices going forward that means at that time the average prices were lower than what the cost inflation was and now the prices have moved up substantially so whatever dent in margins we have seen because of this power and fuel cost going up that would get reverse in the next quarter if the prices sustained here?

Amit Agarwal: Firstly, there are two parts to it. One what CMD mentioned in his opening remarks that is something we would definitely expect that the increase in prices should more than offset increase in the input cost that is one. However, we also mentioned that there is a significant volatility there is one part of the expectation the other part is volatility that is where we are.

Saket Kapoor: And about the salt prices sir what have been the trend and I think the salt prices are product for this are dependent on the domestic environment only so there also we are seeing the prices moving up or how much is captive for us in terms of salt?

Ajay Shriram: Salt prices had gone up substantially over the last 6 months because there is a lot of export of salt which is also happening and during monsoon the rains also sometimes were very severe which upsets the availability of salt, but now across the board the salt prices are if we are not mistaken I think it is almost 60%, 70%. Amit do you have the figure how much salt prices have gone up by?

Amit Agarwal: Quarter-on-quarter salt prices have gone up by about 25% also they may impacted because there was significant rains on the western side and some hurricanes which led to salt being washed away and thereby the prices went up significantly, but otherwise because of exports and other reasons the prices have been firming up of the salt.

Saket Kapoor: That has been factored in our number for this quarter or we have that inventory advantage here also I want to understand whether increase in salt prices have been factored in for this quarter numbers or how should we take it?

Amit Agarwal: So, Saket as I mentioned that quarter-on-quarter means Q1 and Q2 there has been a 25% increase so you are right that has already been factored and that is reflected in the results.

Saket Kapoor: I want some understanding on the fertilizer segment sir. We are only into this urea part of the story so currently sir how is this segment looking like with the government policy and with now other urea plants also getting on stream, what kind of capacity addition in this segment is coming up in the next half sir if you could give some more color on the availability of urea domestically going forward and how are we positioned in this segment?

K.K. Kaul: You still are importing urea so the country is still not self-sufficient in production of urea. So, you mean next year also even when all the plants which are under construction or which are likely to be commissioned in next two, three years there will still be imports and today there are constraints on imports also because the import prices of urea has also gone up substantially. So, therefore as far as our production is concerned we are not expanding anything, but our current capacities are operating at full and we do not see any consumption issue or any demand issues regarding that.

Saket Kapoor: Sir where the major import is gases as the raw material?

K.K. Kaul: The gas prices have also gone up, but it is a pass through.

Saket Kapoor: You said there could be a cause of subsidy building up going forward for this segment?

K.K. Kaul: Yes it can build up, but you would have seen that government is quite proactive in this. Phosphatic prices went up through the roof they have increased the subsidy allocation you would have heard it about a week, two weeks back. So, we expect government would be supportive to this, any increase if the current provisions and subsidy budgets are not sufficient we hope government will definitely proactively act and make sure that the provisions are there, but yes some increase in subsidy would happen because of the gas price.

Saket Kapoor: And sir there was also some energy norms part of the story also wherein we were required to make some changes to get the benefit, are they in line?

K.K. Kaul: They have been implemented so those norms have been implemented and currently we are working in those new norms.

Saket Kapoor: When we look at Farm Solutions and the Bioseed part what kind of holistic understanding should we take on for the year as a whole because these are very erratic and they are non-comparables on quarter-on-quarter basis. So, overall, how are these two segments going to perform for the year as a whole if you could give us some understanding there they have been flattish if we take the first half. So, both on the Farm Solution and Bioseed point?

K.K. Kaul: I think we expect H2 should be a better season because the rainfall has been adequate in fact little more than normal so that should definitely help unless there are more unseasonal rain it is very difficult we have seen some unseasonal things happening on the climate side, but otherwise the rabi period H2 should be definitely better than H1. We should be able to make up something that we lost in H1.

Saket Kapoor: And sir in Bioseed any new seed development or any new agriculture product where we would be launching or is it the same?

K.K. Kaul: We are launching on a very regular basis so scaling them up takes time it takes 2 to 3 years to scale them up if we have products in the pipeline. Some of them as I mentioned earlier also have done well and we are able to increase their sales and some are in the process. So, we are quite hopeful about our products to be able to kind of give expectations that we have.

Ajit Shriram: I also want to just clarify regarding seasonal business as a sugar we have on a Q2 basis we have shown much lower volume, etc., but on a sugar year basis the revenue compared to last year was down 14% and the profits were down roughly 10% that too just talk about seasonal business for the full year which was not clarified earlier.

Saket Kapoor: And more will depend upon how the sugar prices and the government increasing them going forward that would be much more determined about as you have told that ethanol prices are also to be revised going forward if the FRP has to be factored in?

Ajit Shriram: That is right.

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

Ajay Shriram: Thank you. Ladies and gentlemen we thank you for your participation in our Q2 and H1 Financial Year 22 Earning Conference Call. We are investing close to about Rs. 2,500 crores in various projects that span from new value-added products to capacity enhancement to cost efficiency and latest manufacturing technologies. We will continue to make such investments that auger well for medium-to long-term growth of the company. Once again I would like to thank you for taking time out and joining us today and we wish you all good health and safety to you and your family and my warmest wishes to all of you for Diwali and the New Year. Thank you very much.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of DCM Shriram Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
