"Grasim Industries Limited Q1 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, Good day and welcome to Q1 FY22 Earnings Conference Call of Grasim Industries Limited. We have with us today from the management Mr. Dilip Gaur – Managing Director, Mr. Jayant Dhobley – Global Chemicals and Group Business Head (Fertilizers and Insulator), Mr. Jayant Dua – Chief Executive Officer (Chemical Division) and Mr. Ashish Adukia – Chief Financial Officer.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Adukia – Chief Financial Officer. Thank you and over to you, sir.

Ashish Adukia: Good afternoon to all the participants. We are only a couple of days away from the start of the celebration of Independence Day which is going to be the 75th Independence Day. It is a proud moment for us at Grasim as the Company got incorporated 10 days after the Independence and we will actually be celebrating alongside with the country the start of the 75th Anniversary of our existence as well.

So, going back to the performance the first wave of COVID created a new learning experience for all of us, a challenge which was never faced and tested in the last 74 years. The second wave which started in April of 2021 was even more severe, but our learning from Wave-1 helped us to counter the effect of second wave. For example, in VSF business we switched our market mix in favor of export market to cushion our sales volume impact in the domestic markets. We also advanced our maintenance shutdown of one of our plants, the Harihar plant to May 2021 from September 2021.

Let me share with you some of the key highlights of the quarter:

Let me start with ESG:

As a first in India our VSF site at Vilayat become EU-BAT Complaint. As part of this compliance, we successfully commissioned carbon disulfide absorption plant which is commonly called the CAP plant and achieved the stringent level of sulfur to add emission norms stipulated by EU-BAT for the Viscose manufacturing process.

At Vilayat plant the sulfur to air emission is expected to reduce by 85% by calendar year 2022. EU-BAT is referred to as European Best Available Technology reference and is one of the most stringent and comprehensive norm for VSF production. It is globally applicable and it sets out a strict range of consumption and emission levels. We will be replicating that for other VSF facilities as well.

Another world leading initiative is in ESG is that our Nagda VSF plant will be first to achieve zero liquid discharge in viscose industry globally. The commissioning is expected to be completed by Quarter 2 FY22.

This year we have shared our integrated annual report with all our investor and in this report we have covered a lot of details on our ESG practices and initiatives and in this investor presentation we have a snapshot of sustainability indicator performance for Grasim for FY21 and also the environmental targets and performance against the targets for both the businesses. Our endeavor has been to improve the reporting standards on the ESG front.

As a Company we are evaluating climate change, risks and opportunities as per Taskforce on Climate-Related Financial Disclosers (TCFD) and their recommendation. Outcomes of this study will integrated with a long-term business strategy, risk management and business planning.

Let me cover the financial performance now. Our VSF Brownfield project at Vilayat is progressing well in a schedule to meet the commissioning timeline of Quarter 2 and Quarter 3 for the two phases that we have in this project this year itself. This project will bring down the cost of production for overall VSF business. This quarter with retail being shut during the limited lockdowns the sale of textile product suffered and led to an accumulation of inventory in the value chain.

To cushion the impact of slowdown in the domestic textile sector, the Company proactively increased the share of VSF exports to 31% in Quarter 1 FY22 from 11% in Quarter 4 FY21 and like I said we also advance the Harihar shutdown by few months to May ‘21.

The Company is committed to increase the share of value-added products in the overall sales mix. The share of VAP mix in the overall sales increased to 26% in Quarter 1 from 22% in the entire financial year ‘21.

The VSF prices in China corrected in Quarter 1 and have stabilized at the current level of about 13,000 RMB. China’s VSF inventory at plant increase to 24 days in June 21 from 13 days in March ‘21 leading to adjustment of production levels by Chinese VSF players to take care of the inventory buildup and to lent stability to the prices.

The net revenue from the VSF segment including VFY stood at Rs. 2,103 crore and EBITDA was at Rs. 488 crore. VFY volumes were also impacted due to weak demand condition. The domestic fiber demand recovered swiftly post easing of the lockdown and is now nearing the pre-COVID levels. The revenue and EBITDA for VFY were Rs. 340 crore and Rs. 43 crore respectively in Quarter 1.

In our Chemicals business international caustic soda prices maintained an upsurge in Quarter 1 driven by certain supply outages due to maintenance shutdown and it was also backed by improving demand outlook. The rise in domestic caustic prices, however, was subdued owing to weak demand from textiles organic chemicals coupled with the excess supply situation. The caustic soda capacity utilization stood at about 85% in Quarter 1 which was higher than the industry average. During FY22 we expect significant commissioning of capacities at our Chlor-alkali business. In Quarter 2 FY22 we expect commissioning of Rehla plant with a capacity of about 91 KTPA and as our strategy of increasing VAP will be implementing the CMS plant at Vilayat with the capacity of 55 KTPA in the same timeframe.

The second half of FY22 we expect the commissioning of Phase-1 of Vilayat expansion and Balabhadrapuram facilities which has a capacity 73 KTPA each.

The advanced material business, i.e., the epoxy business reported its best ever performance in Quarter 1 this was driven by strong demand scenario and a better pricing environment both globally and in India. The demand continues to be driven by the wind and auto segment. The key input cost like ECH and BPA witnessed a significant increase during the quarter primarily due to supply constraints in those materials. The revenue and EBITDA for chemicals business was Rs. 1,436 crore and EBITDA was Rs. 275 crore.

Our Solar business – Aditya Birla Renewable Energy Limited which is a wholly owned subsidiary of the Company we plan to commission about 38 megawatt of new capacity which is group captive in the first half of this year.

Our consolidated revenue overall for Quarter 1 rose to Rs. 19,919 crore which was up 53% YoY and the consolidated EBITDA was Rs. 4,736 crore which was up 86% YoY. The PAT was up 6x on a year-on-year basis.

On standalone basis excluding the discontinued operations of fertilizer, our revenues for Quarter 1 stood at Rs. 3,763 crore. The revenue and EBITDA from the discontinued operations of fertilizers was Rs. 687 crore as revenue and Rs. 56 crore at the EBITDA. These are not included in the publish result as part of the continuing business.

The fertilizer business disinvestment process is on track and we are expecting it to complete in Quarter 2 of this year itself.

Overall, on the debt side the consolidated net debt stand reduced to Rs. 8,982 crore in Quarter 1 closer to the March '21 levels.

On a standalone basis the net debt increased from Rs. 914 crores in March to 1,817 crore as at the end of June 2021 this was primarily on account of working capital change and some CAPEX.

So, if you look at overall FY22 we are excited about the Company mainly because some of our projects will be coming on screen of course the benefits of those projects will be partly in this year and hopefully fully next year and this would help us bring bringing down the cost because these are low-cost new facilities and of course increasing the volume.

So, over to you for questions now. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Navin Sahadeo from Edelweiss. Please go ahead.

Navin Sahadeo: I have a couple of questions on the VSF front so recently VSF have been in the news my first question there is what is the current price of VSF in India and how does that like in for comparable grade how does that compared to the landed parity, what I am basically trying to refer is the removal of anti-dumping duty here and in that context just trying to understand what can be the potential impact of this duty going away that is my first question?

Ashish Adukia: I think we don't share the specific numbers, but of course I think directionally we will be able to give the idea to Navin.

Dilip Gaur: As we speak the local price right now is very competitive vis-a-vis imported price in fact it is little better and that is not the case now only because this for last few quarters they have been like this and if you may recall in these investor call I have always been maintaining that our pricing domestic pricing is linked to many factors which are local, like it depends upon the health of the local value chain., the pricing of imported yarn which has no anti-dumping duty because that governs the fiber price and the inter-fiber dynamic where the cotton price in India is different from the cotton prices elsewhere so based on these factors as we speak the current price is very competitive vis-a-vis landed price is important and that has been the case for quite some time.

Navin Sahadeo: I completely agree with you and historically also I have seen it has been mixed and you said there are various factors at play including the yarn prices and competing the margins and stuff like that, but I was also trying to just put in context here since there was heavy lobbying by various associations be it the Textile Industry Associations and Spinners Association to get this duty removed so from that context since our new capacity is coming on board while we are of course very competitive and I fully agree with you as we speak, but is there a risk to the volume ramp up because we are expanding volume at a time when these end consumer in a way were demanding this sort of an anti-dumping duty to go, so is there do you see some sort of a risk to the volume ramp up because of this?

Dilip Gaur: Let us understand two things there is a price and there is a demand. The demand for Viscose is growing in fact as we have always been saying the demand growth is exceedingly good and the Indian market is one of the fastest growing markets in the world so we do not foresee any problem in terms of the demand part of it because the market last four or five years as they have been growing at 14% CAGR. The pricing let us understand anti-dumping duty becomes relevant it is not the incentive it is a penalty if somebody dumps. So, anti-dumping is levied when somebody is dumping otherwise there is a global price dynamics and I think there is a and the industry is in a pretty healthy phase. We do not see foresee any major impact as long as the dumping does not happen if dumping happens then these are remedial measures available for them.

Navin Sahadeo: And just one clarification because typically imports happen more the grey yarn fiber so when we say value-added products in our overall volume mix that value-added products is the dyed yarn which is our specialty like which does not face much risk of imports is that correct statement to make?

Dilip Gaur: Value-added products are dyed yarn, modal, lyocell so these are the value-added product and because not many guys as I told you modal only two established players in the world we and Lenzing which is a Europe based Company and you know the Europeans have a good pricing discipline. The second product is dope-dyed we are the world leader. In terms of color shades nobody makes that kind of a range so we have a distinctive positioning there. The third is lyocell again you see the lyocell market is the because the demand is outstripping the supply so also again is not a major issues. Specialties are there has been strategy we have been sharing with you in all the calls. Our idea is to move to the specialty portfolio and when we have shared with you that we want to be more than 40% to 50% of portfolio has to be specialty.

Navin Sahadeo: And just one last question if I may ask global prices for the quarter on an average basis have been I think definitely a little soft, but we managed realization increase I think largely with this huge surge in exports from 11% to 30% plus and of course I believe prices in European country and Turkey, etc., they are far higher and that is clearly benefiting?

Dilip Gaur: What has happened is if you see what has initiated the global pricing dynamics is the ocean freight so there is an issue disruption and there is no uniform case. There is a destination A to destination B there is a different rates than C to D. If you choose your markets right you can get better realizations that is why the lot of optimizations happens. So, from the same country one market may have a higher sale other market may not have. So, there is a different market lot of optimization has to be done in terms of the product and customer mix.

Navin Sahadeo: My question basically was when this exports come back because domestic demand is now reviving export comes back to its original level of normalized level of around 10%, 11% and with current prices being weak this realization jump which we saw should get reversed in the current quarter is that safe directional to make?

Jayant Dua: Export never gives you more realization than domestic because you always have the freight advantage so that is now the case. The realization jump which you are getting is because of the share of specialties has gone up then what happen you had last quarter the prices went up gradually so there was a carry forward benefit also. So, now the prices are broadly stabilizing at around 13,000 as Ashish mentioned to you so I think it is holding there.

Moderator: Thank you. The next question is from the line of Pinakin Parekh from JPMorgan. Please go ahead.

Pinakin Parekh: Sir my first question is on the outlook for the VSF business because at this point of time VSF prices have stabilized, they have fallen and this would partially be offset by higher volumes in the VSF business in the second and third quarters, so is it fair to say that the current margins that we are seeing in the VSF business should be maintained over the next two, three quarters or when the margins come off because of pricing pressure?

Dilip Gaur: Very difficult to predict on the pricing part of it so I would not like to guess on the pricing part of it, but the trend if you see the trends are showing that the demand is buoyant because the cotton price is all time high. So, if you recall in the Quarter 4 we got a very big boost in the demand and pricing because the cotton and viscose gas went beyond 4,000 RMB then viscose prices started going up the gap narrowed. Today the gap has again widened to 5,000 RMB it is higher than what was in Q4. So, we believe I mean it is early days, but these kind of gap the shift from cotton to viscose should happen and if that happen the demand should go much faster than what we are currently seeing.

Pinakin Parekh: Sir my second question is on the chemical business the ECU realizations have picked up because of improvement that we are seeing in caustic soda prices, but clearly the global caustic soda price increase has not yet been reflected in casting realization because of the COVID second wave, so is it fair to say that over the next one to two quarter the domestic demand starts picking up we should see overall the chemical business further improve from here given where global prices are?

Jayant Dua: Directionally what you are saying is absolutely right there is an oversupply situation as Ashish mentioned in the country so that will always play, but on a directional front yes you we will see it has creep up a little bit so the creeping trend will continue.

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

Nirav Jimudia: Sir I have two questions so one is on VSF, so I was just going through your presentations from 2018 to 2021, where approximately we have incurred something around 1,000 crores for modernization maintenance CAPEX, etc., and some of the calls you mentioned that we have been successfully reducing our cost of production too, so if you can just give us some understanding of this reduction in our cost of production internally to Grasim and excluding external cost like freight or raw material cost that would be helpful?

Dilip Gaur: As you would appreciate I cannot share the specific numbers with you.

Nirav Jimudia: But sir even if on a range basis let us say if it is on a days of 100 into 2018 what is it now currently something of that understanding?

Dilip Gaur: There are two or three big things we have done if you remember we added lot of capacity through debottlenecking is more than 10% of the capacity we added through debottlenecking 12%. Now you all know when you add capacity through debottlenecking all you incur a variable cost because the fixed cost is amortized over the existing capacity. So, you get a huge amount of benefit because of the additional volume which you have generated so that brings on the overall cost of production from the same factory. The second we did is a huge reorganization of the manpower which we shared with you last time where we restructured our old factories and we saved more than 3,000-3,500 people were rationalized. The fixed cost have come down significantly in last three to four years. So, the number could be anywhere between 3 to 5 cents kind of a thing. So, these are intrinsic to the operations there is no variable cost saving in terms of this thing. Other thing we have done is we have done lot of work on the variable cost side by reducing the caustic consumption. As I mentioned to you that our caustic consumption now is one of the lowest in the world we have brought them by almost about 15% to 17% through basic research. So, our lot of R&D effort has gone into reducing the consumption various chemicals and utilities and the third thing is a new plant which we are putting right now which is coming on realized on Vilayat on expansion that plant has a cost which is significantly cheaper than my existing plants. So, overall, we believe across this plant alone bring down our cost by more than 5 cent to 6 cent across the Grasim base. So, all put together there is very ambitious cost reduction you have done I think which is going to help us going forward.

Nirav Jimudia: And this 13,000 ton increase in the VSF capacity which we have seen in the latest presentation is also an outcome of this modernization?

Dilip Gaur: That is right.

Nirav Jimudia: And sir second question like what you mentioned to the earlier participant that for lyocell we are seeing the demand outstripping the supply, but our nearest competitor is putting up some 1 lakh ton plant which will be the commissioned by end of 2021 and we are expecting fully ramp up also by H2 of CY22, so do you see this development with respect to the global pricing as well as impact to Grasim because if you can give us some understand that whether we are also expanding on the lyocell capacity that would be helpful?

Dilip Gaur: See the thing is that if you see the same companies and the sale that the world can absorb 150,000 tons every year so there is a rise in demand for lyocell and where this demand come from as I always told you that the lyocell is a great replacement of cotton and cotton cost are up and up and availability is becoming a constraint which we have always been sharing with you it is (+/- 25) million tons. Now if that is the case more and more as China particularly is very short on quarter requirement versus demand and they have to import. So, a lot of lyocell will go into substituting cotton and that can be a huge because cotton is a 25-million-ton base so even if replace 5% you are talking of 1.25 million tons every year. So, it is a market when you develop it is not a market available to you just to go and sell tomorrow, but that is not we all are working. We are working in India, we are working in China, other competitor working rest of the world, but we believe there is a huge opportunity to substitute part of the cotton, cotton will remain always, but the issue is we have to match the supply demand and lyocell so that is why there is a room for everybody, there is a room for viscose, there is a room for lyocell and there is a room for cotton.

Nirav Jimudia: So, safe to assume that we are also expanding in lyocell?

Dilip Gaur: Yes, but we are trying to focus more on the specialty end of lyocell going forward. There are two ends of lyocell like viscose one is it can go for this cotton substitution which is what we call G-100 grade and there are some special variants which can go into different application like non-woven application. So, our idea is to go to more on the specialty part of lyocell.

Nirav Jimudia: Sir a small clarification on the epoxy statement which you mentioned sir last time you told that in Q1 the profits have doubled on a quarter-on-quarter basis for epoxy, sorry in Q4 the profits have doubled from Q3 so what has been the situation in Q1?

Ashish Adukia: Epoxy story in Q1 has actually continued so it is more or less same as Quarter 4 what we achieved in epoxy because that tailwind on the realization has continued. I think on little bit outlook side you know the raw material prices have still gone up because of supply constraints there. So, now there will be more stabilization and we do not anticipate it going up further, but some pressure will come through in the raw material prices.

Nirav Jimudia: So, in percentage terms if you can mention like in this quarter how much is the percentage increase in quarter?

Ashish Adukia: In comparison to Quarter 4 it is more or less in the same line the same number.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir my three questions firstly on the fertilizer deal if you can give the fertilizer debt which is now included in the total debt number and I believe the original divestment was at EV of 2649 crores if I am right so by Quarter 2 we will be debt will be down by 2,500 odd crores?

Ashish Adukia: If you want to complete or maybe let me answer this question and then you can ask your other questions. So, on fertilizer the number that we had given up Rs. 2,649 crores that was obviously subject to the working capital adjustment and certain CAPEX adjustments so those are the couple of adjustments that needed to be made. Now what has happened since the time that we have announced the deal government has actually been releasing good amount of subsidy to the fertilizer player and likewise we have also got more than expected subsidy flow from the government. So, almost the subsidy amount that was outstanding at the time when we announced now it has come down by almost Rs. 1,000 crore or so that is subsidy receivable. So, as we have received that amount from government already so therefore the value realization from the buyer will be that much less so that itself brings down the number and these are approximate numbers just directionally I want to give your view it comes down to about Rs. 1,600 or so from Rs. 2,600 if I have realized Rs. 1,000 crore and then there will of course be tax implications, etc., because the slump sales so there will be capital gain tax. So, given all those things it will go slightly lower than that number. So, if you look at the net debt which is at 1,800 today and if you realize between Rs. 1,000 and 1,600 depending on the tax, etc., Rs. 1,200 or Rs. 1,600 or whatever so you will be very close to three-digit net debt number that is the number calculation for you.

Bhavin Chheda: Second one Quarter 1 as seen obviously the VSF inventory going up since the production volume was much more than the sales volume and as you said now the demand has picked up and the markets are opening up so, will we see this inventory getting cleared in Quarter 2?

Ashish Adukia: So, I think we can talk about Quarter 1, where there has been inventory buildup I think going forward we can only guess so Dilip you can just explain what happened in Quarter 1.

Dilip Gaur: The rationale this time there is a learning we got from the last lockdown last lockdown we had curtailed our production to match the market demand and just to inform when the pent up demand came we could not service and there was a shortage and that happened across the industry. So, this time what we did was that we believe that look there will be a pent up demand because the underlying are very strong the European markets are very strong, the retail sales in US are very strong, the orders for spring summer are going to be very good so we knew and the whole value chain that when the lockdown gets listed the demand will be all will vertically recovered. So, as a result of that yes we did produce so borrowings Harihar all the plants are running we export lot of volumes so that way our performance is much better than what happened last time and whatever has been there I think it should get worked off over the quarter or maybe at best one more month over, that is the plan, but as Ashish said we cannot predict anything.

Bhavin Chheda: We will be back to normal inventory I meant?

Dilip Gaur: That is right.

Bhavin Chheda: And the last one if you can update anything further on paint business have you spend anything or planning to spend anything in FY22 and some plans there?

Ashish Adukia: To give you an update see there are three phases to putting up a capacity in paint like it starts with based on your business plan where the locations of your plants are going to be and therefore then going ahead and identifying the land for those plant. So, we have actually identified land parcels in most of our locations where you want to set up the plants so that is already done. The acquisition of land itself after rectification takes about three, four, five months or so because you have to discuss with Government and get their consent, etc., then sign the lease deed and all those things. So, we are actually in the process of doing that process and we are doing all locations in parallel so it is not it is sequential will be achieving all those locations together. So, after that there will be EC environment clearance requirement, etc., which can take three to four months or so. So, right now what we will look in these two phases is mostly what will go towards land acquisition the CAPEX.

Bhavin Chheda: Any number there?

Ashish Adukia: No it is difficult to give any guidance on the number because in different regions the land rates and everything is very different, incentives given by government, etc., also different it is tough to give one ballpark number for land, but land is more of a timeline factor rather than the cost factor and of course we are also starting we have appointed and we are starting the details engineering part so that as soon as the approval comes through we are in the process we can start ordering equipment, etc., for the facility. So, which after that would take about to put up the facility about 18 months around. So, that is the timelines that we are looking at.

Bhavin Chheda: Originally sir we were also looking at wherever we had excess land in our factories or in the Birla group or are you looking at new land and new factory location only I thought we would utilize some of that also?

Ashish Adukia: Yes, there are lots of thoughts that goes into land acquisition I think more important is whether it meets business objectives or not rather than it is just if it is available with us. I think the infrastructure that is available the availability of utilities, etc., plus more importantly if we access to the market how close are you to the markets so that your logistic cost is optimized. So, we are looking at all those factors in identifying the land and I think each state is actually very receptive of us coming and setting up facilities in their state. So, as such the incentives, etc., also pretty good for us to consider new land parcels.

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

Prateek Kumar: So, in your opening remarks you said that the Chinese players have responded to the current situation the drop in the operating rates, so have they been like I mean on a quarter basis there has been a sharp drop have they been generally so accommodative in the past wherein responding to because we remember that they have been generally aggressively competing on prices, is it a normal thing which they have seen in earlier period?

Dilip Gaur: This is a change we can only conjecture, but there is a change we have been seeing consistently in last six months because what has happened the Chinese players if you recall in the earlier discussions the Chinese players have been losing money in viscose for the last 18 to 24 months as a pricing policy. So, there is a publication every month they give how much RMB per ton they have lost and if you look at 18 months publications every month after month they were losing money. I believe the China has tightened their liquidity system, the banking accountability and all kind of issues so they are under pressure to now deliver positive results and that perhaps has changed the whole approach to the pricing policy. So, I have never seen it to went down 69% OR, it was not the demand it was basically to try to control the inventory because inventory decides the pricing and so I hope this should continue because this we have been seeing for quite some time now.

Prateek Kumar: But how come the inventory only went up because we thought that…

Dilip Gaur: What happens there is always whiplash effect. If you remember Q4 when we discussed there were two factors happened – there was an underlying demand for viscose and the pipeline in stocking. So, there was a huge restocking which happened in Q4 because in a COVID time people did not replenish the pipeline. So, to service the restocking, the plant capacities had gone up and OR went up to 84%. By the time the restocking got over by the time it came back what we call the lag effect was there and inventory went up then this fellow started cutting OR. So, what you are seeing 25 days has now come down to 22 days as we speak now with a OR going up to more than 76%, 77%. So, the whole pattern has improved. So, there is always supply chain there is a bullish effect change happens now, but you can see it after sometime and lag is always there so the lag is getting corrected now.

Prateek Kumar: And this drop in tiny VSF prices has now relating the local government crackdown on commodity prices?

Dilip Gaur: Because you see the Q4 prices we have told you it was unusual $2.1, $2.2 is not a sustainable price, but today also when we are saying price is low it is $1.75 to $1.8 that has been a standard good price of viscose historically. So, that has been the historical average if you look at it. So, I think but today the only issue with them is the pulp price. Once the pulp price start moderating this should be good.

Prateek Kumar: And one question on recent price in COVID cases globally so have that has any impact on export market and if you can express like what are the global VSF capacity additions in next two years if any?

Dilip Gaur: The capacity addition I think our answer is the biggest addition the biggest will be our addition 210,000 or 220,000. Give and take because there are lot of unviable plants are closing down also. So, we believe in next 18 months not more than 400,000 tons capacity will get added so this is very minimal capacity addition it is next two years for viscose there would be more for lyocell so there is lot of announcement that happened in China on the lyocell capacity additions. So, viscose we do not foresee much capacity addition and what was the other question.

Prateek Kumar: Regarding any export market impact regarding the recent cases globally?

Dilip Gaur: Till last month everything was very hunky-dory so everything was looking very good, the retail sales were good, the order booking has been good. The COVID thing has just started happening so we may have to watch and see, but we do not believe that because now people have learn to live with it. So, I think the business may not get affected as much as it happened last time.

Prateek Kumar: Just one last question on this ECU realization which you have reported at 26,000 is the current quarter realization significantly higher from there and is there any impact of negative chlorine realization also on Q1?

Dilip Gaur: See chlorine demand has been subdued as compared to the caustic demand from alumina and as Dilip was talking about from the VSF sector has been very robust, but it has not so been in the case of textile and organic chemicals and chlorine demand the largest thing for chlorine is in India is a product what we call as (CPW) chlorinated paraffin wax that has materially got impacted across the country and in the textile demand offset is the dyes in the dye-chem industries. So, chlorine is subdued which is led to a pressure on pricing on chlorine as we speak. Caustic at the moment with a lag is keeping up.

Moderator: Thank you. The next question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.

Amit Murarka: So, just one VSF I just wanted to understand what would be the difference in realization and margins of domestic and export?

Ashish Adukia: I think Dilip his question is domestic versus exports realization in margins.

Dilip Gaur: See in last quarter and this quarter they are very close like Turkey as a market just to give you example the freight from other producing countries for Turkey is much higher than the sales from India whether the pricing is always done the landed price from the competition. So, we find that servicing Turkey market today from India is far more attractive than any other thing you do.

Amit Murarka: So, like in this quarter obviously the next was in favor of exports because of the domestic inflation, so what do you think could be the sustainable level of domestic sales in the next traditionally post expansion after capacity?

Ashish Adukia: I think his question is what would be the share of domestic after expansion of capacity?

Dilip Gaur: Our projects are still we believe the market grows at the current projection rate about 85% to 90% will be domestic and 10% to 15% will be export, but there is enough room to play around.

Amit Murarka: Sir but the 85% to 90% targets for domestic sales that would be like three, four years down the line or if the capacity expansion is happening?

Dilip Gaur: There is a lot of expansion happening in spinning capacity also. So, there are lot of spinners who are investing as we speak those expansion have got slightly delayed because of COVID otherwise there is a substantial increase in the spinning capacity as well happening in the country. So, they will require extra fiber then the specialty consumption going up very high. Our specialty sales growth has become quite good and third is this is the ESG emphasis the eco fiber consumption is also shooting up in India. So, wherever we have Livaeco it is going to grow well. So, all put together I think the domestic market also is going to grow faster than we expect in past.

Amit Murarka: So, why I asked is because your capacity is expanding almost 40% and that will happen just around 12 months to 15 months?

Dilip Gaur: Coming in phase manner you see I will commission the plant end of this month. So, it will take about month or so to stabilize so we will get 6 months for the line 1 and even 3 months for the line 2. So, we have based on this projections what I am sharing with you the internal projections that is a kind of our estimates based on the current market demand if it changes the ratio can change, but as I always tell you in this business volume is not a problem because I think there is enough global market where you can sell.

Amit Murarka: So, is it fair to say that maybe initially the share of exports will be higher and then later on maybe stabilized to that 85% to 90% target then?

Dilip Gaur: As per the current projection we still believe we should be able to maintain the share I am telling you, but it is only prediction I cannot guarantee that.

Amit Murarka: Also when we talk about more spinning capacity coming on stream we also keep reading that actually the imports of yarn have been rising consistently, so how do you think the spinners are positioned to kind of compete with those yarn and imports?

Dilip Gaur: The way it is happening right now there seems to be a sweet spots the current pricing is where the imported yarn is not viable. One advantage has been the high freight rates from China and other places. So, today at this price our spinners are viable and the fiber prices also are okay so there is a good balance right now and I think the state market is going to be like this in foreseeable future.

Moderator: Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: I just want to know what will be the share of specialty when entire expansion at Vilayat is completed in terms of volume percentage?

Dilip Gaur: As I mentioned to you that our expansion has a flexibility to make commodity and some specialties. So, we can always play around with a product mix so our target as I told you irrespective of the expansion we will try to target 40% specialty in next two to three years.

Vipul Shah: What type of value addition we are getting in specialty as compared to commodity sir?

Dilip Gaur: It depends on different products like modal is a highest value addition then comes lyocell then comes Livaeco then comes dope-dyed and then comes non-woven so we got these packing order there. I cannot share the delta exact number, but that is how it is but it varies from 20 cents to $1.

Ashish Adukia: It is basically there is more stability at the value-added products pricing and grey is where it is not a fixed delta also.

Vipul Shah: And lastly we will be self-sufficient in pulp even after entire expansion program is completed that we realized?

Dilip Gaur: If you remember see our policy has been about half we do captively and half we source from our strategic partner. So, for the expansion we already have lined up additional volume with a strategic partner they are already expanding in South Africa. So, we have lined up the extra volume of pulp from our strategic partner at one of those favorable terms which we normally follow.

Vipul Shah: On a long-term contract sir?

Dilip Gaur: Yes, long-term contract volume led contract.

Moderator: Thank you. The next question is from the line of Muralidhara Reddy from Reddy and family. Please go ahead.

Muralidhara Reddy: Actually, I have two questions first one regarding operating profit margin and profitability for a standalone basis not the consolidated basis we used to be in the range of between 16 around 20% I think now it has been declined for last two years or so something like about 12%, 13% kind of stuff, what are the initiatives that we are doing at a standalone basis to get back something like about 16%, 17% kind of we are hoping?

Ashish Adukia: I think I can give you an overall perspective I think the way to first of all the prices have the realizations corrections at some places has led to the margin coming down. So, therefore, to take care of that the two things that we do is that one is you bring down cost overall both the fixed cost as well as your variable cost. Variable cost you bring it down by having better consumption norms like Dilip give example of caustic consumption to produce VSF and then in case of chemicals business where power is the cost that forms 50% or so of the total cost so there you look at ways and means to bring down the power cost which can be by adding captive capacity or by increasing the share of renewable capacity which is actually today much cheaper than the conventional power. So, that is on the cost side the other thing that we are trying to do is that to increase the VAP portfolio across both the businesses. So, in both the businesses we want to target 40% share of VAP by 2025 so that will give more stability and higher margin to the entire business. We are also looking at many different ways to reduce the call it leakages or whatever for example we want to increase beyond 40% of VAP in chemical we want to increase the way we move chlorine so rather than moving it by road we want to move it by pipeline that reduces the cost and it has many different advantages, it has positive contribution there, your customer is close by you straightaway supply to the customer as it is produced. So, there are many advantages that you have when you have pipeline movement of chlorine. So, these are the measures that we are constantly it is journey over period of time and will continue to improve margins.

Muralidhara Reddy: Sir my second question this is little bit of we are entering into the renewable space and it has been pretty new one for us, is there any kind of revenues and EBITDA that we are looking not just for the next year maybe for a five-year kind of stuff and just kind of a plan I know it is a forward-looking, but Company had a strategic plan?

Ashish Adukia: Yes, I think it is not that it is new business for us I think we have been very calibrated in growing that business because there is lot of competition in that business and constantly the tariffs are going down and there is now you can see the module prices are going up. So, the players who have recently bid and won can face that issue of module prices going up and thereby the impacting the returns plus I think the counterparty risk that exist out here who you deal with your state discoms which state are you dealing with all those things become extremely important. So, therefore we are quite careful on how we grow this business so we have gone slow rather than in comparison to some of the other players who have gone pretty grown pretty aggressively. So, we are right now about 500 megawatt we also have group captive business where the counterparty is Aditya Birla Group companies it is like Hindalco and UltraTech and Grasim businesses itself that is about 160 megawatt right now so that is also constantly growing. So, we plan to reach 845 megawatt like I had mentioned by FY23 and this business it is easy to calculate the revenues, EBITDA and cash flow depending on what you have bid at. So, you will get an idea of this business financials you just back calculate the numbers, but that is really what our plan currently is. We may look at some of the SECI projects, etc., as well which are more secure projects, but of course more aggressively bid projects.

Moderator: Thank you. The next question is from the line of Santhosh from Treasure Hunt. Please go ahead.

Santhosh: I would like to know what is the CAPEX so far done on paint business because I could read from some of the newspapers that Gujarat Chief Minister announced 10,000 crores has been invested, so I would like to know on that line?

Ashish Adukia: So, the CAPEX as of now has not been meaningful in paints because we have said we have put a team in place, we have put a business plan, we are identifying land. Now is when we will start paying for land, etc., and that is when the CAPEX will be slightly more visible you know on the clarification in UP we are indeed that region I would say not necessarily that region is one of the identified location where we could have a plant and cater to that region market demand. So, that is why we are looking at land and identify the land in that region. It is not that we have spent the amount that is being publicly stated its intention if you put up a plant out there then close to that numbers what we may end up spending, but it is not that we have spent that money or have entirely tied up the plants.

Santhosh: Sir when do you fortunately expect to extend the production if everything goes well as per your plan?

Ashish Adukia: We have not given that guidance I think like I said if you look at land acquisition approval and then 18 months paid after so could be about 24 months or so you may look at production starting, but it is tough to say because we are still in the first stage of identifying line.

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

Ashish Adukia: Thanks for all the questions that I think we covered pretty much all the details that we wanted to cover on the call, look forward to your participation in the next quarter. In the meantime if you have any questions, clarifications please feel free to reach out to us you can reach out to Saket or to me no problem at all.

Moderator: Thank you. On behalf of Grasim Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.