"Grasim Industries Limited Q2 FY23 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good day and welcome to the Grasim Industries Limited Q2 FY23 Earnings Conference Call. We have with us today Mr. H K Agarwal – Managing Director, Grasim Industries Limited, Mr. Pavan Jain – CFO, Grasim Industries Limited, Mr. Jayant Dua – Chief Executive Officer, Chemical Division, Grasim Industries Limited, Mr. Rakshit Hargave – CEO, Paint Business, Grasim Industries Limited.

As a reminder, all participants are 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, please press '*' and then '0' on your touchtone telephone. Please note this conference is being recorded.

It is now my pleasure to introduce your host and I would now like to hand the conference over to Mr. Pavan Jain – CFO. Thank you and over to you, Sir.

Pavan Jain: Good evening and very warm welcome to all of you to this earnings call of Grasim Industries for Q2 FY23. As you all know the global macro environment is passing through difficult times, we are witnessing inflation levels especially in the developed economies not seen in the decades, tightening of monetary policies by Central Bank across countries is leading to recessionary market conditions in many parts of the world. The ripple effects of the ongoing Ukraine-Russia war and COVID induced lockdowns by China are adding to the challenging situation across the world. On the positive side the Indian economy is showing resilience supported by the domestic consumption and expected to be the fastest growing large economy.

Coming to the company level key initiative, as said earlier Grasim is investing for building its new growth engines in the form of two new high growth businesses namely Paints and B2B ecommerce. With our grit, we are on track for commissioning our first paint plant by Q4 FY24 and remaining plants by FY25 in a phased manner. Construction is in progress at 5 of the total 6 sides for the paint business. The statutory approval is expected to be in hand soon for the remaining one plant. Other activities for the launch of the business are progressing parallely. Progress on the B2B ecommerce business is also on track for commercial launch of minimum viable product-1 that is MVP-1 by Q2 FY24. Product categories to be covered by the platform includes cement, steel, doors, windows, kitchen, electrical, paints, sanitary ware, plumbing and tiles. The leadership team hiring is ongoing and expected to be in place by Q4 this year. Simultaneously technology partners for the platform are being finalized.

In our existing businesses the board has approved an additional Capex of Rs. 565 crore out of which approx. 382 crore is expected to be spent in the current financial year and the remaining will be rolled over to the next year. The additional Capex is mainly towards land purchase for chemical business for chlorine VAPs expansion and debottlenecking in our pulp plant at Harihar that will take the capacity of the pulp to 260 TPD making the Harihar unit a fully integrated VSF plant. The debottlenecking will marginally increase the pulp integration by 2% taking it to approx. 37%.

On the ESG front in line with our commitment to cut carbon emissions the chemical business now sources about 10% of its power requirement from renewable power which will increase to 14% by Q1 FY24. Advance material business is implementing a plan for sourcing 100% of its power requirement from renewable energy by Q1 FY24. The textile business has increased the share of renewable power to 15.7% in H1 FY23 if we compare it with FY20 which are 0.8% it is a significant increase. VSF business has consecutively for three years maintained its leadership position in Canopy's Hot Button Report 2022 by securing the highest category that is dark green shirt. Grasim focused approach to our sustainability initiatives has led to a substantial improvement in Standard & Poor DJSI score at 88 percentile for FY22 compared to 76 percentile of previous year.

I will now briefly touch upon the key operational and financial highlights for the quarter. This quarter has not been good for MMCF industry globally and we have been no exception to this. VSF business reported revenue of Rs. 3,241 crore and EBITDA of Rs. 212 crore, EBITDA is declined by 59% YoY. The decline in EBITDA is majorly because of lower demand due to subdued market conditions in the developed economies on account of inflationary recession and the increase in the cost of key inputs such as pulp, caustic soda and coal. The high cost of caustic soda is reflected and offset by the higher profit of the chemical business of the company. The VSF sales volume dropped by 14% on QoQ basis due to demand slowdown and cheaper imports from Indonesia and China. Grey VSF September'22 exit prices were down by 9% compared to June exit prices.

Cotton prices declined by 24% in comparison of quarter end exit prices. Considering the prevailing demand conditions in the VSF business the company has rationalized the capacity utilization at approx 70% for VSF phases. The VFY business reported a strong performance for increased sales volume recording a growth of 31% YoY, higher consumer demand in the domestic markets supported by the festivals and wedding season has augured well for the VFY business. On the positive side the chemical business reported yet another quarter of robust performance recording an EBITDA of Rs. 609 crores in Q2 FY23 on the back of higher caustic soda sales volume which increase by 17% with a stable demand environment and better ECU realizations.

International caustic prices have declined on QoQ basis due to increased availability on account of easing of supply chain disruptions. ECU for Q2 FY23 stood at 49,503 per MT which is an 89% increase on YoY basis, but an 8% decline on QoQ basis in line with the global trend. Over supply and low downstream demand impacted chlorine realizations which continues to be in the negative territory. The total chlorine integration percentage including pipeline sales to our dedicated customers now stands at 61% which was 56% in Q2 FY22. Reaping the benefits of being a conglomerate on a standalone level revenues for Q2 FY23 stood at Rs. 6,745 crores which is an increase of 37% YoY and the quarterly EBITDA of Rs. 1,712 crores and PAT before exceptional item at Rs. 1,052 crore are 14% and 11% up on YoY basis. Here I would also like to say that both EBITDA and PAT for the quarter at standalone level the highest ever quarterly number for the company.

Consolidated revenue for quarter is up by 22% YoY at Rs. 27,486 crore led by robust revenue growth of both key subsidiaries that is Aditya Birla Capital and UltraTech Cement. Consolidated EBITDA at Rs. 3,783 crore was down by 12% YoY mainly due to cost pressure at UltraTech Cement. As of 30th September 2022, the company continued to be at zero debt with a net surplus of about Rs. 230 crore with the large growth investment plans the company is well positioned to participate in the high growth trajectory of the country.

I would like now to hand over the call back to the operator for Q&A. Thanks a lot to all of you for joining this call today.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Sumangal Nevatia with Kotak Securities. Please go ahead.

Sumangal Nevatia: My first question is with respect to the increase in Capex so there is 380 odd crore increase this year both under the head of existing capacity increase, so if you can just explain what is the capacity increase and debottlenecking incrementally happening with this Capex both in VSF and chemical I mean there were some discussion in opening remarks, but if you could just elaborate on that it would be very helpful?

Pavan Jain: The new Capex proposal approved by the board are for two main projects. One is expansion of our pulp capacity which we have a pulp plant at Harihar. So, from 210 TPD current capacity it will be increased to 260 TPD with this our Harihar VSF plant will be fully integrated in the sense we will have full pulp requirement made by our own pulp plant so that is one part. The second part is we are acquiring a large land at Vilayat location to take care of our plans for the value-added product expansion in the chemical business. See currently, our Vilayat land is almost fully utilized and we will need the new land parcel for the plans under our VAPs business. So, these are the two major projects. The capacities will take time to come up the spending will start happening from this year, but like VSF the pulp plant will take about two years to this 50 TPD increase.

Sumangal Nevatia: Sir for the chemical division 250 crore, 260 crore kind of a increase in FY23 it is entirely the land acquisition which we are building?

Pavan Jain: Yes, The land is at Vilayat, currently land parcel is fully utilized and we will acquire this land for all our future expansion requirements.

Sumangal Nevatia: And for the VSF for the pulp what is the total expenditure I mean 100 odd crore I see an increase in FY23, but what would be the total expenditure towards this increase in capacity for pulp?

Pavan Jain: Out of which current year spending will be about Rs. 85 crore, Rs. 90 crore.

Sumangal Nevatia: And total you said sir?

Pavan Jain: 227 crore.

Sumangal Nevatia: My second question is more from a longer-term perspective on the VSF versus cotton prices and if we see last 6 months VSF prices are outperforming cotton in the downfall, but before that VSF prices under performance the cotton rally for a period of 18 months to 24 months, so going forward if you could just share some perspective as to how should we see the normalized trend between cotton and VSF and our expectation for VSF prices in the coming quarters?

H. K. Agarwal: Cotton and VSF prices are directionally correlated they generally move in the same direction, but the extent of increase in one does not necessarily reflect in the same increase in the other. So, as you said last one and half years cotton prices was rising much faster or much more compared to VSF. So, VSF has its own dynamics of capacity and demand and cotton has its own dynamic. This time cotton prices have corrected much sharply, but VSF prices have not corrected to that same extent. So, a similar situation is expected to continue. We do not expect VSF prices to correct in the same proportion or same extent as cotton prices. Cotton is more speculative, more volatile.

Sumangal Nevatia: So, can we conclude that the demand supply prospect and the market balance prospect of VSF currently which is appearing to be much stronger than the cotton market?

H. K. Agarwal: See this is not just the demand supply situation, but also a play of market expectation. So, now everybody, the brands are expecting the prices to be volatile what they are having and their inventory of garments, fso they are not releasing orders and people are expecting prices to go down more or remain soft and in this high interest regime people are very careful in building up inventories rather inventory correction is happening. So, there are many factors in saying it is not just simple demand and supply alone.

Moderator: Thank you. We have the next question from the line of Navin Sahadeo with Nuvama Institutional Equities**.** Please go ahead.

Navin Sahadeo: Just talking out the previous question about VSF while your presentation and of course even the global data suggested that VSF prices are on a decline, but is the understanding correct that for us the net realizations are actually slightly higher sequentially?

H. K. Agarwal: Sequentially the realization is mostly flat. Internationally prices have come down, but Indian rupee depreciation has also helped to nullify that, but the international prices and the general tendency of the prices is towards softening.

Navin Sahadeo: So, even then we have outperformed largely I mean the realizations for us has outperformed the global prices largely because of currency depreciation is that the correct understanding?

H. K. Agarwal: Yes.

Navin Sahadeo: And just on this I think the current spot prices are much weaker than even the exit prices which presentation phase were down by about 4 odd percent, so is it again safe to really expect that of course medium term can be good, but the immediate quarter which is let us say the December quarter can be further margin compression sequentially because the way the spot prices are?

H. K. Agarwal: This is a very reasonable expectation and interpretation of the current situation.

Navin Sahadeo: My second question was on the paint segment and this was more to get like conviction or confidence in that business since it is a new business for us, so when you say that the pilot plant has started, can you give more color as to what exactly does it mean are we doing a test marketing in certain regions or what exactly does this mean what is the capacity of this pilot project and when we say Q4 commercial production Q4 FY24 the commercial production is expected to start what would that capacity be?

Rakshit Hargave: As far as the pilot plant is considered obviously it is a small plant expected to make test quantities because launching for the first time we would want to validate all the products in the market and as far as the first factory that we are talking about going online in December'23 as we had disclosed that we are setting up 1.3 billion milli liter per annum capacity the first factory would be in the range of about 200 to 220 odd million liter per annum.

Navin Sahadeo: But are we then also saying that we will be starting appointing dealers and the brand role out also happens now to see the test success of it or how exactly do we get confidence on this?

Rakshit Hargave: Like we had said that the launch can only happen once when the actual factory is commercialized so it will follow the timelines likewise.

Navin Sahadeo: But when you say pilot project as in we are going to check the viability of the project is dropped that's what you say?

Rakshit Hargave: No, the pilot plant is for testing the product performance on validity it is for that purpose it has got nothing to do with the commercialization.

Moderator: Thank you. We have next question from the line of Pinakin Parekh with JPMorgan. Please go ahead.

Pinakin Parekh: Sir, my first question is on the Capex so the press release mentioned Capex roughly of 6,700 crores versus first half spent of 1,500 crore so that implies second half of roughly 5,200 crores. Now Grasim standalone was net cash balance sheet of just 500 crores, so in the second half of the year would it be fair to say that there could be additional borrowings to fund this CAPEX or will basically Grasim run down is the existing treasury operations to fund the second half Capex?

Pavan Jain: So, that will depend upon the speed of spending, but we will look at the opportunities if I mean, if there are good opportunities to borrow we will do borrowing and if the current volatility in the interest rates are good enough to liquidate some part of the treasury we will do that. So, net-net we do not expect to be net zero debt by year end. We will have some net debt on the balance sheet by year end.

Pinakin Parekh: So sir just trying to understand that the second half Capex implies more than a tripling of the first half Capex so in terms of the spending what are the downside risk to this actual to the budgeted program because this is a very sharp step up in spending that the company proposes?

Pavan Jain: There is a possibility of some slowdown in the spending, but there may not be any material difference see what happens now generally the approvals and ordering etcetera take place in mostly Q1 and Q2 the actual work starts now in the second half.

Pinakin Parekh: And sir just a clarification on the paint business so the pilot plant is scheduled sometime this year and the first plant gets commissioned in Q4 FY24 in terms of the launching of the brand for the paints business and the marketing and the brand building should we expect that to happen after the first plant is commissioned so that would be more like FY25 or would that start in the next two quarters before the first plant gets commissioned just trying to understanding the sequencing of that part of the launch?

Rakshit Hargave: Yes so if I might add the brand launch can only happen with the product launch which will start with the factory and we will adhere to that schedule.

Pinakin Parekh: So, it is fair to say it will happen only after the first plant get commissioned in the fourth quarter FY24?

Rakshit Hargave: Yes.

Moderator: Thank you. We have the next question from the line of Neerav Gemodia with Anvil Research. Please go ahead.

Neerav Gemodia: I have a question on the chemicals sir your presentation says that we have been able to increase our VAP production substantially because of commissioning of CMS capacity which happened in October 2021, so if you can just let us know what is the capacity utilization of the CMS plant in Q2 FY23 and along with that if you can help us explain what was the increase in the EBITDA of VAP in H1 FY23 versus H1 FY22 even if a percentage margin would help?

Jayant Dua: The CMS plant was actually a verticals start up. I think we have reached 85% capacity within the first quarter of its launch which was October. So, by December or January of the production we were able to reach about 85% mark and we have been hovering at that capacity utilizations ever since depending upon market reaction between 90% to 80% is what we want that prior to your first question. The second one in terms of the differential and your margin of VAP give me a minute and I will just put the data out. See at the end of the day we got about let us say we have got about 20% odd or 20% to 30% odd jump on our EBITDA on the VAP side because the VAP side actually runs into multiple products. It is actually by around 20% to 30% why I set it up for a simple reason that chlorine has been highly impacted in the Quarter 2 on its negative pricing.

Neerav Gemodia: But sir when we transfer the chlorine from the caustic to the VAP side that happens on a transfer pricing I believe so because in Q2 we have seen chlorine prices going as high as negative up to Rs. 9, Rs. 10 also, so would not that have been captured in the incremental VAP profits?

Jayant Dua: Your point is absolutely fair see what happens is the caustic is running on higher realization in the market. Everybody has been producing caustic at the cost of chlorine being sold at a high negatives or else you might be in a situation where you are transferring the market price the chlorine negative price to your products. So, are the others doing at the same level and there has been a lot of intensity and compensation on the chlorine derivative side with that of chlorine. So, both of them have seen a subdued margin compared to Q1.

Neerav Gemodia: So, what you mentioned is as compared to last H1 this H1 we have seen actually 20% to 30% decline in VAPs profit this is what we have been trying to say?

Jayant Dua: While our volumes have gone up, our margins have come down, but it gets more than adequately compensated with the caustic prices. Today we are going between the two, three of them.

Neerav Gemodia: The second question is on the epoxy as well as the ECH Capex, so if you can just let us know the timeline of the commissioning of both the projects. What is the total Capex for both of them and how much we have spent till date and now related question is because you have mentioned that we have seen the specialty share of epoxy share going up in the overall portfolio this quarter, so if you can just help us explain what is our current share of specialty epoxy in our overall epoxy sales and once our new capacities would be commissioned how that mix would look like?

Jayant Dua: Let me give you the commissioning time of the epoxy and ECH separately. For epoxy it will be Q1 of FY24 and for ECH it will be Q1 of FY25 that is what the timelines are see at the moment largely both the plants are just at the moment closing on their negotiations for capital equipment could not a lot of material amount of Capex has been spent and as Mr. Jain was saying largely the Capex front will come in the H2 part is when the true ordering will be happened. Here you are mostly closing the negotiation and the technology climax.

Neerav Gemodia: Sir but if you can just run up on the total Capex that needs to be spent on both the projects cumulatively that would be helpful?

Pavan Jain: So, epoxy of the total spending of the doubling of the capacity would be about Rs. 360 crore and ECH would be somewhere around 454 crores.

Neerav Gemodia: And sir my question on the specialty epoxy if you can just give some understanding on the same that would be helpful?

Jayant Dua: The specialty part of epoxy is doing very well it is in the range of 30%, 35% as October.

Neerav Gemodia: And is it safe to assume that once we double our capacity that mix would continue to remain at those levels or that mix would see an upward take once those incremental capacities would be in place?

Jayant Dua: I think it is a question a little premature to answer at this moment logically yes the pick would be on the positive side, but very difficult to put a number or a figure today on it.

Moderator: Thank you. We have next question from the line of Prateek Kumar from Jefferies. Please go ahead.

Prateek Kumar: My first question is a book keeping question data on VFY segment revenue and EBITDA for the quarter?

Pavan Jain: See we are not giving separately numbers of VFY, EBITDA and revenue, etc., but as I told you the VFY volumes are doing well, VFY volumes are up by 31% this quarter on YoY basis and the cost increase in the VFY we have been able to pass on because of the good demand condition.

Prateek Kumar: So, this quarter onwards you will not be giving VFY data because the last quarter we were giving the data?

Pavan Jain: I do not think we have separately given in VFY data.

Prateek Kumar: So, we were giving every quarter this data since ever?

Pavan Jain: We will possibly share that I think let us recheck that. So, the VFY business on the directionally let me share with you the VFY business has done well during this quarter their EBITDA is up and the volumes are up the prices they are able to pass on the cost increase in the realizations.

Prateek Kumar: My second question is on like on Capex so second half if hypothetically if we see some lower Capex versus projected Capex of over 5,000 crore could that impact the timeline for first plant of paints in 4Q FY24 or it could be related to some other projects?

Pavan Jain: No, the paints we have already told you the first plant will be commissioned in Q4 next year so that we are on track. For the existing businesses especially on the modernization and normal maintenance CAPEX there may be some slowdown or some delays and which actually rolled on to the next year, but there may not be a large difference between what we have already projected versus actual.

Prateek Kumar: And one question on VSF profitability the profitability have slipped to below Rs. 15 per kg this quarter closure to Rs. 10 per kg so this seems to be the second lowest or third lowest kind of profitability in many quarters leaving aside the COVID quarter of Q1 21, how should we like sort of look at this profitability let us say beyond Q3 which expected, we look at the profitability in the segment?

H.K. Agarwal: See VSF profitability is expected to remain under pressure for the time being because input prices remained elevated and in line with the cotton are sentiments are depressed and is also affected by continuous lockdown in China and slowdown in demand in Europe and USA which are the major textile consuming countries centers. So, for the time being VSF margins will most likely remain subdued.

Moderator: Thank you. We have the next question from the line of Vipul Shah with Sumangal Investment. Please go ahead.

Vipul Shah: So, my question is how do we calculate ECU per ton means only chlorine is included in the bio product means 1 ton of caustic soda produces how much chlorine?

Jayant Duas: So, ECU is calculated as a function of the caustic both liquid and solid also chlorine and then hydrochloric acid and the formula for chlorine production is 1 ton of cost is between 0.8-0.9 tonne of chlorine.

Vipul Shah: So, there we are carrying negative carry as on today?

Jayant Dua: Calculate it on your own if one ton produces close to 0.9 and that is running in positive and one is running at Rs. 9 to Rs. 10 negative as stated in our page that you can figure out.

Vipul Shah: My second question is we are totally self-sufficient as far as pulp is concerned for our VSF business or we have to purchase any pulp from the market?

H.K. Agarwal: So, we do have to purchase pulp from the market. Our integration is in the range of about 35% and we have long term arrangement with our JVs demand supplier and we have formula based pricing so we do have to purchase pulp from outside to that extent about to that.

Vipul Shah: So, only 35% we are integrated?

H.K. Agarwal: Yes.

Pavan Jain: I would like to add see we have our pulp JV one of the JV plant is paper grade pulp they manufacture paper grade pulp. So, we also sell that paper grade pulp in the market and at the same time we buy the DG grade our VSF grade pulp. So, if we add that then our integration goes to about 45%. So, we have a kind of hedging when we have the paper grade pulp which goes to the market and we buy the VSF grade pulp.

Vipul Shah: Any plan to increase our pulp integration our medium term?

H.K. Agarwal: We are doing a small debottlenecking at Harihar, but of course it is a small thing and then we are working on plans for circularity where we will have plans to use cotton garments, but it is still sometime away, but that is the way to increase or reduce the need for virgin pulps.

Moderator: Thank you. We have the next question from the line of Aasim Bharde with Dam Capital Advisors. Please go ahead.

Aasim Bharde: Just one question wanted an update on your tie up with Lubrizol to manufacture CPVC resin, the tie up was announced in late 2020 and the first phase was supposed to start by end 2022, so what is the status on this one?

Jayant Dua: So, there was a change at management at Lubrizol that has led to a delay so there was about 12 months to 18 months where the new management settled down and now things are back on track and we expect that about 24 months the execution will be kind of over at their end that is the communication we have received from that.

Aasim Bharde: 24 months from today right?

Jayant Dua: Yes.

Aasim Bharde: And that would be for the first phase or the entire plant?

Jayant Dua: The first phase we are only talking first phase.

Aasim Bharde: And just lastly we are not spending anything over here this entirely their capital?

Jayant Dua: There is no capital burden on Grasim at all for this particular project.

Moderator: Thank you. We have a next question from the line of Jiten Doshi with Enam Asset Management. Please go ahead.

Jiten Doshi: I would like to ask you about your paint business what is the capitalized loss that you are projecting just before commencement what sort of interest losses would you capitalize prior to commencement?

Pavan Jain: The interest till the plant commissioning will be capitalized I do not have readily numbers at the moment. Rakshit do you have that interest stabilize number readily with you.

Rakshit Hargave: No, I do not have it readily available.

Pavan Jain: We can share with you separately.

Jiten Doshi: And sir I wanted to ask you that at full capacity what do you really estimate the paint business turnover because we are putting this Capex with some calculation, so roughly going by whatever Capex that you are putting in what should be your output in terms of top line at full capacity?

Rakshit Hargave: The way I would want to answer this question is that we have declared that we are setting up 1.3 billion liters capacity and you would know what is the percentage utilization capacity utilization in major paint company and then it becomes a function of pricing. So, I do not think that I want to disclose anything on how would pricing in the market develop once we come in and after a few years, but I think the answer lies in putting those docs together. So, we would not want to share in terms of what has been our assumptions on our business plan at the moment, but these are how the building blocks will look like.

Jiten Doshi: So, I assume that there will be some sort of a calculation which will be a return on capital employed number that I am looking for not really your strategy in terms of how you are going to price etcetera I am just saying what sort of return on capital employed can we expect let us say in year 3 not in year 1?

Rakshit Hargave: So, the way we are looking at is I would put is we are looking towards keeping the EBITDA losses to a reasonable amount and to become a profitable business as soon as possible.

Jiten Doshi: Just to get it would that full capacity would you be doing a 3x of gross block or what number can we factor in from the gross asset base?

Rakshit Hargave: I think Pavan maybe we could engage separately in terms of clearing these queries with whatever number we can share with them.

Pavan Jain: So, as of now it is very uncertain to give any kind of numbers of year 3 or year 4 or year 5. So, I mean we are still aware from the actual the product coming to the market and how for example input prices will behave and all that. So, it is note that year 1, year 2, year 3 kind of story we are in paints for the long haul. So, I think let us come to a stage where we can give you some kind of numbers on the paints business.

Moderator: Thank you. We have the next question from the line of Shalini Vasant from DSP Mutual Fund**.** Please go ahead.

Vivek: My question if we do a rough-cut mathematics the net debt goes up to about 2,000 crores as at March 23. I just want to know whether that number is correct or is there a debt EBITDA guidance that you have for longer period of time as you undertake this last Capex that is question number one and question number two is whether there is any working capital release that you anticipate in the second half given that fact that prices have come down and supply chain constraints have become less?

Pavan Jain: So, on the net debt-to-EBITDA see at the peak of the Capex once we are done with the paints Capex everything then we may have 2.7- 3 kind of net debt to EBITDA that is our current estimate, but it will all depend upon how I mean the profitability plans out over the years that is one part and the second question was about.

Vivek: On the working capital release whether there is supply chain constraints have come down any working capital lease we have spent?

Pavan Jain: We do not want any large amount we are already working in VSF business for example on negative working capital basis and some kind of inventory built up is possible because of the demand slowdown in VSF business for example. So, not any large working capital release is expected in the current year. We are actually already doing a negative working capital level in our two businesses one in textile and VSF.

Moderator: Thank you. We have next question from the line of Neerav Gemodia with Anvil Research. Please go ahead.

Neerav Gemodia: Sir, my question is on the chemical side so I have two questions on the same sir you mentioned that we have been increasing our Capex and chemical size for increasing the capacities of the

VAPs, so once this land is purchased and we keep on adding those products on that infrastructure how much our chlorine integration would go up on the increased capacity of caustic soda?

Jayant Dua: I think we announced earlier last year in one of our calls that we are expanding our capacity from 1,000 tons to 1,400 tons at Vilayat. This purchase will only come used for the chlorine consumption of Vilayat plant. So, Vilayat plant at full capacity utilization let us say at a 90% capacity utilization of 1,400 and with this new land we will be able to reach I cannot give an exact number because to meet your time between 70%, 75%, 77% of total chlorine consumption.

Neerav Gemodia: And this includes our pipeline sales also?

Jayant Dua: Yes this includes the pipeline sales also this is the way our chlorine integration definition.

Neerav Gemodia: When we see our VAP sales I think from 2016 to 2023 if we see the chlorine integration I think it has almost double. So, from 1,62,000 a run rate of almost 3,30,000 tons, so once we come up with a new products at land what you mentioned is it fair to assume that the margins on a per kg basis would be higher for the new products vis-a-vis the existing basket of products we manufacture?

Jayant Dua: We still not go into any guidance of that at this point of time I think as and when we formulate our plans and put it up to the board the approvals will come through I think this will be a more pertinent question at that point of time because otherwise what we will be sharing would be our own internal discussion rather than approved discussion plan. We come to that question when we come to those approval stages.

Neerav Gemodia: And sir one more question if you allow and if you can share with you, so what was the average coal cost for us in Q2 FY23 vis-a-vis Q4 of FY22 so if we take Q4 of FY22 as a base what was the call cost for us in Q2 of FY23 for the chemical business even a percentage increase or a decrease would help us sir?

Jayant Dua: So, I would not know the coal cost because at the end of the day we look at this from a gross calorific value and its consumption, but from a Q4 of last year to Q2 of this year my estimate would be that would have the coal cost have kind of jumped by a year-on-year basis about 130% to 142% depending upon the country and if look at from a quarter-to-quarter it is between 6% to 10%. It is a fairly high volatile scenario on the coal front as of now.

Neerav Gemodia: And sir small clarification on the VSF sales and the EBITDA what you mentioned in your opening remarks so what you mentioned is Rs. 3,241 crores of sales and an operating profit of Rs. 210 crores this is what you mentioned in your opening remarks right?

Pavan Jain: Yes.

Moderator: Thank you. We have the next question from the line of Sean Ungerer with Chronux Research. Please go ahead.

Sean Ungerer: Just some questions focused around the VSF business in terms of the comments you made earlier about the VSF capacity having to be rationalized I think you said around 73% I am just confirming that number and secondly I guess you already sort of answered this, but more confirmation that its going to be lackluster for couple of quarters given your comments around margins being subdued that is my first question?

Pavan Jain: The current capacity utilizations are rationalized at about 70% and we expect the demands to be back sometimes maybe in next couple of quarters till then we will continue to monitor the situation and we will align the production levels accordingly.

Sean Ungerer: And just looking to current full year capacity that is coming around 824,000 tons with some planned Capex in general modernizations and anything else that capacity is going to increase further and its about when and how much?

H.K. Agarwal: There are small increases in the specialty products which is about 13,000 tons, but these are like third generation of VSF fibre and that is all about the capacity increase. There is not much capacity increase in the normal VSF. It is already debottlenecking.

Sean Ungerer: And then your comments around DP or dissolving with top integration into the VSF business earlier I think you said it is around 35%, is that pre or post the current debottlenecking that you got planned?

H.K. Agarwal: It is at full capacity.

Sean Ungerer: So, once the debottlenecking is done you get 35% integration is that you are saying?

Pavan Jain: Yes at the current capacity level it is about 35% integration and we are increasing the capacity as we shared at one of our Indian plant that will take the integration to about 37% of the capacity.

Moderator: Thank you. We have the next question from the line of Abhimanyu Kasliwal with Choice India Limited. Please go ahead.

Abhimanyu Kasliwal: Most of my questions have been answered so I just had two specific queries number one what is regarding your platform business the B2B business, what can you expect how do we forecast this business, will this be a game change in terms of revenues in terms of margins what is the company's expectation and my second question sir is the other income I have notice that the pattern that is at September quarter there is a substantial jump up, is this the case or is it that the past three September for some reason it has just jumped up, how do we forecast the other income, what is the reason so these are my two questions?

Pavan Jain: First one is about the B2B platform. So, the B2B ecommerce platform is expected to be high growth business in terms of revenue and since it is a ecommerce business the margins are not going to be very large margins, but the top line could be very significant and our aim is to be one of the largest ecom players in B2B segments especially in the building material segment. So, that is the B2B ecommerce segment.

Abhimanyu Kasliwal: So, to interrupt would it be like an India Mart for building material is it a correct way to look at it?

Pavan Jain: Yes India Mart does I think industrial products we are on building material segment and we have the ecosystem for the building material business in the group. So, we have large kind of customers who are buying cement from us or now they will be buying paint from us. So, the same ecosystem will be available for the B2B platform business.

Abhimanyu Kasliwal: So, we are expecting easy runs on the board from this one hopefully?

Pavan Jain: My next question is about your other income; see other income is Q2 will be significantly higher every quarter because we get the dividend from our subsidiaries and other investments. So, the large dividend income comes from UltraTech. So, for example, in this quarter about Rs. 628 crore has come from dividend or from UltraTech.

Moderator: Thank you. Ladies and gentlemen we have reached the end of the question-and-answer session and I would like to turn the conference back over to Mr. Pavan Jain for closing remarks. Over to you, Sir.

Pavan Jain: Thank you all for joining us for this call today and we will meet next quarter again.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Grasim Industries Limited concludes this conference. Thank you for joining us and you may now disconnect your lines.