"Grasim Industries Limited

Q2 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Q2 FY24 Earnings Conference Call of Grasim Industries Limited. 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 star then zero on a touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankit, Head, Investor Relations, from Grasim Industries Limited. Thank you and over to you, sir.

Ankit: Thank you. I wish everyone on the call a very happy and prosperous Samvat 2080. Thank you for joining us today to discuss Grasim Financial Results for second quarter of financial year 2024.

The financial statements and presentation are available on our website as well as on the website of stock exchanges. For safe harbor, kindly refer to the cautionary statement highlighted in the last slide of our presentation. Our leadership team is present today on this call to discuss our results.

We have with us Mr. H.K. Agarwal, Managing Director and Mr. Pavan Jain, Chief Financial Officer, Grasim Industries. Also joining the call, we have our business leadership team. We have Mr. Jayant Dhobley from Chemicals, Fashion Yarn and Insulator Business and Mr. Himanshu Kapania and Mr. Rakshit Hargave from Paints Business. I would now welcome Mr. Pavan Jain for his opening comments, post which we will open the floor for Q&A. Over to you, sir.

Pavan Jain: Good morning. Hope you all had a joyful and sparkling Diwali celebrations. We from Grasim Management wish everyone on the call a very happy and prosperous new Samvat.

It is a pleasure to be with you all for discussing our Q2 results on this call. First, I would give some highlights on macro and business environment and then would cover our financial performance for the quarter under discussion. Global economic activity and trade are witnessing slowdown, although unevenly across geographies and sectors.

While in the US, economy is showing sign of resilience with tightness in labour market, better than expected Q3 GDP and stable domestic consumption, there exists tough economic scenario in Eurozone. It appears that China is again witnessing signs of slowdown. The latest reading of GDP showed that US economic activity rose by 4.9% while it is contracted by 0.1% in Germany and Eurozone and is estimated to have contracted in Japan and UK as well.

Tightening financial conditions in response to monetary actions to address still elevated inflation, persisting geopolitical tensions and growing geoeconomic fragmentation rendered the global outlook as fragile. In October-November 23, US Fed, ECB, BOE, BOJ and Bank of Canada held the rates and they did not announce any change. Fed's policy statement remained hawkish as it reiterated that future rate hikes cannot be ruled out if inflation continues to remain elevated.

China's expected reopening boom based on export growth and consumption revival doesn't seem to have materialised on expected lines. As the macro-global environment continues to remain volatile, weakness is seen in realisations of global commodity segments in which we operate like viscose and chlor-alkali.

On the domestic front, RBI's policy kept status quo on both stance as well as on rates. Growth and inflation estimates were also retained at the same level of 6.5% and 5.4% respectively for financial year '24. India witnessed below normal rainfall in 2023 after a span of over four years of normal and above normal rains with a deficiency of 6% below LPA during this monsoon, though in the rain-fed agricultural region, also called as monsoon core zone, the rainfall received was normal at 101% of LPA. During the quarter, most economic indicators showed signs of improvement. CPI inflation inched down. IIP saw an uptick in August 23 and September 23 after falling for two consecutive months. Sector-wise, both cement production and steel consumption recorded growth, while garments and chemicals witnessed negative growth, which could be largely attributed to lower growth in exports as these sectors have significant exports-led demand.

The ongoing festival season, which also coincides with the harvest time in rural areas, will be crucial. In the larger textile value chain, the pent-up demand seen in 2022 post-lifting of the lockdowns is witnessing normalizing trends in 2023. Additionally, the inventory trends are also normalizing, though focus of the majority of the brands remains on reducing inventories and moderating buys.

Coming to our financial performance for the quarter, the consolidated revenue grew by 10% Y-o-Y to ₹30,221 crores. Consolidated EBITDA grew by 14% Y-o-Y to ₹4,509 crores. The growth was driven by cement and financial services businesses, as both UltraTech Cement and Aditya Birla Capital posted robust results.

At standalone level, revenue de-grew by 4% to ₹6,442 crores and EBITDA degrew by 21% Y-o-Y to ₹1,354 crores. The sales volumes in standalone businesses, Viscose and Caustic Soda, recorded growth of 24% and 3% respectively on Y-o-Y basis. The impact from global decline of prices, as well as the mismatch in demand supply, which resulted higher imports, had a direct impact on realizations for Viscose and Chlor-alkali businesses.

In Specialty Chemicals, our Epoxy business has recorded volume growth of 25% Y-o-Y and the expanded capacity of Epoxy is under commissioning and expected to be operational in Q3. We have announced our brand for paints business, which is Birla Opus as mother brand. Sub-branding and go-to-market strategy are progressing as per internal estimates. Also, as stated earlier on commercial launch, happy to share that the company has received consent to operate for three of the plants namely Panipat, Ludhiana and Cheyyar. Birla Pivot, which is B2B e-commerce business, was launched last quarter and it has crossed milestone of ₹100 crores in the quarter gone by, and now inching towards monthly revenue run rate (MRR) of ₹100 crores. As highlighted earlier on private labels, we have launched Birla Pivot tiles, ceramic tiles and also exploring other categories like doors and plywood. The company is witnessing high healthy repeat rate from the direct buyers in certain segments.

In its transformational growth journey, Grasim is implementing its highest ever capital expenditure plan. As you all would be aware, the board has approved fund-raise of ₹4,000 crores by way of rights issue in the board meeting held on 16, October 2023. Proceeds from the right issue would be used for ongoing capex and retiring debts as well as for general corporate purposes. At this point, we would not be able to share more details about right issue and request you to avoid questions specific on this. We would share additional details with all in the due course of time.

We now open floor for Q&A.

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 ICICI Securities. Please go ahead.

Navin Sahadeo: Okay. Yes. Thank you for the opportunity, sir. Good to see VSF margins recovering on a Q-o-Q basis. My first question was on VSF that despite the fall sequentially in the realizations, margins have still improved a tad on a Q-o-Q basis. Now, if my observation is correct, since August, I think there has been almost like an 8% to 10% kind of a recovery in global VSF prices, especially China, if I'm not wrong. So does it mean that we can expect further margin improvement in Q3 or costs could, like, come back with the lag and there could not be much further improvement?

And just here on this, I would also like to request your views on more steady state margins for VSF in the sense, if I look at last 20 years, FY '03 to FY '23, the EBITDA per kg is roughly ₹25, ₹26 in VSF. Can we take that as a steady state number or in the current scheme of things, like more like ₹20, ₹21 is a fairly stable kind of a margin expectation over the medium term? Thank you.

Harikrishna Agarwal: Good morning, Navin. Thank you for your detailed analysis on VSF profitability. So international prices for VSF have remained under pressure in Q2 also and currently. In China, there was some improvement in Q2 and prices have not improved that much, as you said, but they have been more steady. And of lately, as published information will show that the prices are inching down a bit.

Having said that, the margin improvement in Q2 was, though the prices came down, but volume increased significantly. So that gives operational leverage as well as input prices also came down. Caustic soda was the main item, sulphur, coal and pulp to some extent. So these commodities now are very volatile. Caustic prices have started to stabilize and inch up. Pulp prices have also started to inch up. So difficult to predict really whether margins will remain steady. We hope that margins remain stable, but then it is anybody's guess about so many volatile factors. So this is the situation.

Navin Sahadeo: Helpful. And on my second question, the view is basically about steady state margin. If I were, like I said, 20-year average, seems like ₹25 a kilo. So if I were to take a view next four years, five years, because as you rightly said, commodities can be volatile in the interim, but if I were to take a slightly longer view, four years, five years, is it fair to assume that ₹25 a kilo can be an average profitability expectation or do you think because anti-dumping duty is no longer there?

Harikrishna Agarwal: You people are more knowledgeable about how to build scenarios and how to build profitability. It will not be fair for me to say that we all know the facts that anti-dumping duty is not there and what is the current situation. So you can build different scenarios. I would rather refrain from guiding you on which numbers, what out of the two numbers you have said. Like in the long run, yes, we also hope and we aspire that the long-term average should hold, but difficult to tell you whether it will turn out to be good in the next year, three years, four years, as you said. So in the long run, yes, we all remain optimistic.

Navin Sahadeo: Sure. And just one more question before I get back in the queue. The losses from the other new businesses, let me put it, which is I think B2B business or paint business, they have been, I think, quite sticky since the past few quarters. Rightfully so, they are new businesses. So I just wanted to understand because I believe EBITDA losses are more like ₹100-odd crores in the current quarter, maybe ₹115 crores to ₹120-odd crores from these new businesses, which were around ₹80 crores, ₹90 crores in the past one quarter or two quarters. So, would require a broad breakup of this? Is it more from the paints? Is it more from B2B? And then how should one look at these losses in the coming quarters? Thank you.

Pavan Jain: So, Navin, of course, the new businesses have their initial costs which are being charged to P&L. So obviously, the higher part is from the paints business. B2B is not a significant number. So I think once we reach a level where we need to separately disclose these numbers, we will report in our results. But as of now, I mean, the numbers are not very large. And yes, the higher part is from the paints business where large teams have been already hired in all the areas of the paints business. So the cost which is not getting capitalized is being charged to P&L.

Navin Sahadeo: Understood, sir. Thank you. Thank you so much. I'll come back in queue for few more questions.

Moderator: Thank you. Our next question is from the line of Nilesh Saha from Julius Baer. Please go ahead.

Nilesh Saha: Yes, I think, I just want to thank the team for sharing more granular information about paints, right? Especially, in this call and the last one, right? My question is slightly more long term, right? I think, Grasim as a company serves two functions. First, that it is the holding company of various entities of the Birla Group. And second, it also has operating companies of its own, right? I'm just interested to understand how the management and the Board thinks about capital allocation in the long term because, we have paints that is going on. But in the comments, you mentioned also some other categories like tiles, plyboard, right? Does the management, over time, you have seen also debt increase and now you're doing the rights issue. I know that you would not comment on the rights issue right now. But structurally, do you have a view on what kind of, sort of debt to equity you would like this company to be? And what kind of distribution would you like your shareholders to have, right? From both the operating and the investment verticals of Grasim, the company? Thank you.

Pavan Jain: Yes. So, see, first of all, let me try to explain how the company works in the sense that we have at stand-alone level two core businesses, existing core businesses, which is our viscose and chemical businesses. And we have entered into two new businesses, which is paints, decorative paints and B2B e-commerce.

And apart from that, we have other businesses like textiles and insulators, etc. So these are the standalone businesses. Right now, the large capex plan is for the paints business. But we are continuing to invest in our core businesses as well. The capacity expansions have been recently completed in viscose business and also in the chemical business and chemical business still remaining some part of the capacity expansion capex will be completed in next financial year.

So we are continuing to invest in the core businesses. We are investing in the paints business, large capex we have announced of ₹10,000 crores, part of which will be spent during current year and balance in the next financial year. In B2B e-commerce, there is no major capex. And as regards to your comment for the plywood and doors, etc, these are private label brands we are exploring. We have launched ceramic tiles, private label, but we are not manufacturing. We are not setting up any manufacturing capacity in our B2B business. We will have our contracted manufacturing arrangements with the vendors who can meet our requirement of quality and delivery timelines, etc. These are private label brands contracted for manufacturing from outside companies. So that is the status.

Regarding debt to equity, we have very strong balance sheet against our net worth of more than ₹50,000 crores. Our debt levels are only ₹8,000 crores. And debt to EBITDA also, we have very healthy levels. We don't expect this to cross about 3.5 times, even with the full capex of the paints business in the next financial year. Hope that clarifies your point.

Nilesh Saha: Anything you want to comment on distribution? See the meta point I'm asking, right? As management, I hope you guys also realize that Grasim, the company is undervalued, right? And there are certain questions that investors have for the company to really get the valuation that I think you would also feel that it should fairly trade at. And one of those are distribution. Any thoughts on that? Right.

Pavan Jain: So valuation is how the market perceives. But yes, there are large holding company discount we can see as far as Grasim's valuation is concerned. I think the way we are operating; we are investing in our core businesses and the new businesses. As the share of the standalone numbers increase in the overall P&L of the company, the consolidated P&L of the company. We expect the valuation should be that should be reflected in the valuation.

Nilesh Saha: Okay, sir. Thank you so much. We appreciate your help here. Thanks.

Moderator: Thank you. Our next question is from the line of Sanjeev Kumar Singh from Motilal Oswal Financial Services. Please go ahead, sir.

Sanjeev Singh: Good morning, sir. I have two questions. First, on the VSF business. So there has been an improvement in utilisation rate in China. It's around 85%. Inventory levels are coming down. So which are the factors which you believe that is keeping the prices subdued in international markets? It is due to better cost. So can you comment something on the spread for Chinese manufacturers? Or is the demand in the value chain is really weak? And secondly, how do we expect the demand-supply to be between the sector?

Harikrishna Agarwal: Sanjeev, will you repeat your second comment? I could not hear it clearly.

Sanjeev Singh: Sir, how do we expect the demand supply to be in the second half?

Harikrishna Agarwal: So international demand for textiles in general has been subdued for last four quarters or six quarters. The international brands have been straddled with huge inventory for multiple reasons. And they have been trying to correct their inventories by purchasing less. So when the brands purchase less, then the entire value chain also has less activity to work on. And that has been going on for quite some time. But still the inventory levels remain elevated, mainly because the sales have not been as robust as it used to be.

So that is a fact. And we all believe that it may take some more time. It is anybody's guess. Every time people say next two quarters, next two quarters, but then next two quarters, we still have been seeing the same situation. So stay with confidence. So how new geopolitical factors keep on coming to our surprises.

In China, the inventory levels have come down. I think that was because of the expectation of the demand in the holidays in China, etc. But now again, we see that the Chinese economy is showing some signs of slowdown. So we will have to wait for a clear trend to emerge, what is really happening on the ground level in China. The margins are impacted by or improved by depression in input prices in the last quarter.

And that trend is now a little bit uncertain in the same way, because some of the input prices have started to stabilize. But we have to see how the things are. There are so many pulls and counter pulls working. So difficult to predict with very confidence, much confidence.

Sanjeev Singh: Thank you, sir. Second question is on VFY. So as I believe that there has been some anti-dumping duties on VFY, which has been levied recently. And in the presentation also you have mentioned about pressure on VFY prices due to competition from China. So what were the impacts of margins, if you can comment? And has there been any improvement in the pricing scenario recently?

Jayant Dhobley: Hi, this is Jayant Dhobley. So there is only a DGTR step that has happened on VFY anti-dumping duty. It is not yet approved by subsequent ministries. So that is a work in progress. As far as Chinese imports are concerned, as you can imagine, domestic consumption in China is very low. And that is putting a lot of pressure on Chinese producers to export. And that combined with, you know, as Mr. Harikrishna Agarwal was mentioning earlier, lower textile demand in India during the festival season, at least less than what was anticipated, has caused a downward pressure on the filament yarn prices. So to summarize, there is only a DGTR recommendation..

There is not yet a final decision. China's domestic consumption is low, India's demand is low, and that is putting pressure on filament yarn prices.

Sanjeev Singh: Thanks a lot for your clarification.

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

Nirav Jimudia: Good morning, team. Sir, I have two questions. So one on the chemicals. Sir, in this quarter our ECU was ₹32 a kg and you mentioned that the chlorine demand was slightly weaker because the downstream of chlorine was not doing well. So if you can just help us walk through, how much was chlorine negative this quarter and what was peak Q1 of FY '24?

And along with it, if you can just clarify that, was there any change in the average power cost per unit this quarter for the caustic soda business? Because I could see that if you just break it down in terms of the cost of production, there was slightly increase in our cost of production for the chemical business. So was there any change in the average cost of power this quarter?

Jayant Dhobley: So actually, average cost of power has been favorable for us. So I can take that question straight away. The second is we break out ECU, but we do not break out the components of ECU in terms of what is our caustic and our chlorine price. And we, so it's unlikely that I will tell you what exactly the chlorine number is. And look, we are different from many of our local competitors. We are spread all over India, which means that we have different dynamics and different geography. And that makes our ECU picture more balanced over the Indian market than some of our competitors. So I think we are happy to give you only ECU numbers at this stage. I think it's, of course, worthwhile noting that, there are two main downstream industries of chlor-alkali. The first one is from the caustic industry is mostly at a global level textile, which you all know has been soft, not only on the viscose side, but also on the cotton side, particularly on the cotton side, which is a bigger demand driver for us. And downstream of chlorine, you mostly get into products like agrochemicals, plasticizers, pharma intermediates, etc., which are also currently, not having a strong demand. You guys are tracking the chemical industry. You know, how the agrochemical players are doing in this industry today. And we are, of course, suppliers to this industry, right? So these are the two topics which are curtailing us on the demand side.

Power, as I mentioned earlier, is actually a favorable part for us. We have had a couple of operational issues in our chlorine derivative plants, which have resulted in some higher maintenance related costs and stuff like that in this particular quarter, which may point to, why you are seeing certain cost numbers to be on the higher side.

Nirav Jimudia: Got it. Sir, is it possible to quantify that one-time maintenance cost, which could not be repeated from next quarter?

Jayant Dhobley: No, I would not get into that.

Nirav Jimudia: Got it. And, sir, you mentioned that specialty business, which is epoxy, we have seen close to 25% volume growth on a Y-o-Y basis. So has that also helped in improving the absolute EBITDA also on a Y-o-Y basis, or the spreads have come down and that has helped us to maintain the Y-o-Y EBITDA numbers for the epoxy business?

Jayant Dhobley: So our epoxy profitability growth has been in line with volume.

Nirav Jimudia: Okay, so we could see 25% increase in the profitability also there.

Jayant Dhobley: So I will not answer further than what I just said.

Nirav Jimudia: But, sir, was this driven more by the mix of specialty volumes or it was because more of the commodity volumes were placed in this 25% volume growth?

Jayant Dhobley: No, so we classify our specialty business entirely as epoxy. So this should be entire epoxy volume.

Nirav Jimudia: Sir, on the VSF side, we could see…

Moderator: Sorry to interrupt, sir. May we request you to join the question queue for follow-up questions, please? As there are several participants waiting for their turn. Thank you. Our next question is from the line of Gaurav Nigam from Tunga Investments. Please go ahead, Sir.

Gaurav Nigam: Yes, sir, thank you for taking my question. Sir, I have one question to start with on the paint business and a conceptual question. As this business has two very important decision makers, one is the consumers and second is the influencers like dealers and contractors. When we think about Birla Opus as the new paints plant coming into market, it's a very conceptual level. What are the levels that this new brand has to influence these two important stakeholders?

Rakshit Hargave: So thank you for asking this question. And I would want to give a slightly generic answer that for influencing both the consumers and contractors, there are established practices in the market. And we will also look at to do some new things, which you will come to know when we launch. But obviously, we take both these consumers sets and these contractor influencer sets very, very seriously. And we have a very defined plan in terms of how to address that.

Gaurav Nigam: Got it. Okay. How should we think about the profit pool of the paint industry over the next two years, three years?

Rakshit Hargave: Well, if you take a look at, whatever other results are available in the public domain, but going ahead, we will not be in a position to comment because it is a factor of various things, including input prices and all, on which we don't really have a view.

Pavan Jain: It is very difficult to comment about industry numbers. I think you have all the numbers available of the listed companies. So how it will pan out for next two, three years, it is very difficult to say. I think we would refrain from making any statement there.

Gaurav Nigam: Got it. And just maybe last question on the same. When you think about this paint industry, right, sir, we have both one of the retail segment and one is the industrial segment. So when we are entering this segment, are we entering both or we are targeting only one of the two segments?

Rakshit Hargave: So, we have maintained that we are entering into the decorative segment. And that holds.

Gaurav Nigam: Okay, sir. Thank you. Thank you for answering my question, sir.

Moderator: Thank you. Our next question is from the line of Prateek Kumar from Jeffries. Please go ahead.

Prateek Kumar: Yes, good morning, sir. My first question is clarification on textile demand in India. So you had mentioned like VSF demand benefited from strong festive demand, probably in textiles. But for VFY, we are saying that the demand is slow and that has also hurt the segment profitability and prices. So are these different segments which we serve for both these products?

Jayant Dhobley: Yes. So this is Jayant Dhobley. I'll take this question. So as you know, VFY is a filament yarn. And within that, you have multiple categories, pots spun, spool spun, continuous spun. The particular market, which has not been picking up really is the embroidery market, what you would call for occasions, right, which is a very different segment than, for example, where staple fibre goes and then it subsequently spun into yarns. So the VFY demand issue is mostly related to ethnic wear, which is used in the occasions, right, engagement, marriages, etc. That is where the demand gap is. The textile industry is not one monolithic hole, right? Within the textile industry, there are many segments. There are many price points. There are different consumer buying patterns. So once specific niche, which we have usually a good exposure is affected and that is ethnic wear for occasions. I hope that answers your question.

Prateek Kumar: Right. And this 24% volume growth in the segment of VSF this quarter, is it the industry growth also likewise? Or we have gained some share from imports, which were like sort of getting dumped into Indian markets like in the past few quarters?

Harikrishna Agarwal: Yes. So there is definitely less imports on the VSF during the quarter. That is there. But the industry in India domestic textile value chain also had more activity, I think, in anticipation or in preparation for the festive season. Now how much real sales happen at the market level at consumer level, that data will come soon. But the textile value chain prepared for that expected festive sales. So, we have to see how the things continue in the current quarter. So there was more consumption in the quarter two.

Prateek Kumar: Okay. And regarding your new businesses for paints. So we are looking to start like three plants by Q4. So I mean, all these plants are expected to commission by March or is it like a staggered like commissioning? And as a result, also is the product launch, particularly also planned like by March or like slightly earlier in the paint segment.

And in the -- in your B2B e-commerce segment, you said you're reaching now quarterly -- monthly run rate of ₹100 crores in revenue. Are there any specific like target for FY'25 in terms of revenue in first year, full year of operations?

Rakshit Hargave: I would like to reiterate again what we shared in the last call, is that we will be launching our paints in Q4, so which is in the period January, February, March. And also, the three of our plants, which we have disclosed also in the report that you have in Ludhiana, Panipat and Cheyyar, they've got their CTO (consent to operate). So they are expected to become operational in Q4. And accordingly, it will happen.

Pavan Jain: Yes. So we are not saying which month, etc, we are saying in Q4, we will have all these three plants operational. And accordingly, we will also launch the product in the market. It depends. And in B2B, what we are saying is we are inching to our ₹100 crores monthly run rate, not that we have reached ₹100 crores monthly run rate.

Prateek Kumar: But any specific targets in this segment also, we have like for FY'25 as a full year of operations?

Pavan Jain: No, I don't think we can share any numbers of the targets, etc on this call. But of course, we have the -- when depend the plan is approved, we all -- have all the data when the business decision is taken. But it will all depend upon how the overall building material category works in the overall country. And how the people move from physical to digital that will help you in understanding the numbers for the future.

Prateek Kumar: Sure. And my last question, if I may. I know this Aditya Birla Renewables is a subsidiary. So I think, I saw the capital employed has gone to ₹5,600 crores and rising rapidly quarter-after-quarter. So what exactly we are doing in this? And what is the outlook on capex and how it is funded?

Hari Agarwal: So the capital employed is increasing as we are implementing new projects. There are projects under implementation of about one gigawatt, and we expect by next year, first quarter, though all those capacities to be commissioned, okay? And that is how the capital employed is increasing in the business. The results of which will be reflected in next financial year, okay? And as far as the funding is concerned, we are having about 20% to 25% from equity and balance from debts. It depends on each project to project.

Moderator: Thank you. Our next question is from the line of Lakshminarayanan from Tunga. Please go ahead.

Lakshminarayanan: Yes. A couple of questions. One is that you have launched the paint home consumer thing in eight cities. What has been the response so far?

Rakshit Hargave: Okay. So are you referring to PaintCraft?

Lakshminarayanan: Yes. The PaintCraft.

Rakshit Hargave: Okay. So PaintCraft is a test launch. And like we said last time, it is to take the SOP and the processes. And we have put this in eight cities and the feedback is satisfactory. As you would know, we don't have our own products. So we are using products from the market, and it is of a pilot nature.

Lakshminarayanan: Got it. Got it. Sir, and if you look at the paint industry, it's -- if I just have the listed companies, it's around ₹53,000 crores is the approximate revenues and they generate close to around ₹7,000 crores profit after tax, right? Now with whether, of course, you enhance the revenues of the industry pool? and are you intend to reduce the profitability of the market, it's sides both. I just wanted to understand your view?

Rakshit Hargave: So our view is that we don't want to make any comments which are forward-looking in terms of what we are going to do. So we will come to the market with our strategy and then you will see how we perform, but no comments on this.

Harikrishna Agarwal: Why will any players like to reduce the profitability of an industry.

Moderator: So the line from Mr. Lakshminarayanan has dropped, maybe move to the next participant. Next question is from the line of Dheerish Pathak from White Oak. Please go ahead.

Dheerish Pathak: Sir, what is the dividend distribution policy?

Pavan Jain: So our dividend distribution policy is that we will have the distribution of about 25% to 45% of the net profit is dividend distribution by the company. And we have also stated that, we will see that whatever we get from our subsidiaries as dividend, we at least that much we distribute to our shareholders as a dividend.

Dheerish Pathak: Okay. So the higher of this stand-alone 25% to 45% of standalone net profits or the dividend amount received from the subsidy?

Pavan Jain: Not exactly higher of, but yes, what we are saying is the range is the 25% to 45%. Within that, we will see that at least we distribute whatever we get from our subsidiaries.

Dheerish Pathak: Understood. Sir, second question is an Aditya Birla Renewables. So what has been the thought process for like when you are investing for one gigawatt assets with this 25-75 equity debt in mind, what sort of hurdle rate payback period, whatever you thought through when you made this capital allocation decision. Can you give us explain the thought process there?

Pavan Jain: So I mean, each project will have different returns, dynamics, etcetera. But we have our internal hurdle rates, etcetera, based on which we decide about the capital allocation. And some of the projects are for the group companies also where we have different kind of risks associated than the projects for the public utilities kind of projects. So, it will vary, the returns will vary between I mean, among the different projects.

Dheerish Pathak: So that I understand. But at a portfolio level, so first of all, how much of this one gigawatt is for group companies. And at a portfolio level, what returns have you underwritten on equity IRR basis?

Pavan Jain: It will depend upon, I mean, different projects. It could be around, I think, anywhere between 13%-13.5% to 15%-15.5% kind of ranges.

Dheerish Pathak: 13% to 15% equity IRR, okay. And how much of this one gigawatt is committed to group companies?

Pavan Jain: I will not be able to give exact numbers, but roughly see about maybe 35% to 40% is for the group companies. Rest is for the public utilities. It's just an approximately that.

Dheerish Pathak: Why 13% to 15% made economic sense to you? Why was it a good hurdle rate?

Pavan Jain: Which is, I think, the weighted average cost for the business, considering the higher level of debt is -- I think we have returns on equity better than that.

Moderator: Thank you, Mr. Pathak. May we request you to rejoin the question queue? Thank you. Our next question is from the line of Sanjay Kumar Elangovan from ithought PMS. Please go ahead.

Sanjay Elangovan: Most questions answered, just one on chemicals. I wanted to understand our capital allocation plan going forward, given the volatility in the chemicals business, is the base product, chlor-alkali, which is still a focus segment. And how is the market expected to grow in the next five to seven years?

Jayant Dhobley: You've asked a somewhat broad-ranging question. So look, the chlor-alkali market more or less grows in line with GDP because it's such a basic material that is used across all industrial segments. You can always go back testing to see, you will see usually depending on which particular year will be GDP plus or minus some range, but that's the order of magnitude.

If you look at our capital allocation policy, what we have declared so far is we are continuing to invest in chlorine derivatives. We are running epichlorohydrin project, which will be completed in calendar year '25. We are continuing to focus also on smaller chlorine integration projects. Beyond that, I think it would be very difficult for me to make a broader statement on where we will allocate the capital needs in the chlor-alkali value chain.

Now having said that, I think we have declared before and I can reemphasize right now is we are also in the process of commissioning our epoxy capacity in, which will actually double our current capacity from 123 KTPA to twice that size. So that's about as directional as I can be.

Harikrishna Agarwal: And that capital is already invested.

Jayant Dhobley: Yes. And that capital is already invested.

Sanjay Elangovan: Okay. And the plant that's coming online in FY '25, what is the capex amount?

Jayant Dhobley: The ECH we have declared about ₹425 crores.

Pavan Jain: So the ECH has been bigger capex compared to the other chlorine derivatives which is, I think, somewhere around ₹400 crores...₹425 crores of ECH plant, 50,000 tons per annum, which will get commissioned in FY '26.

Jayant Dhobley: Calendar year '25, FY '26.

Sanjay Elangovan: Okay. So outside of this ₹400 crore, so we don't have any visibility for further capex in this segment?

Jayant Dhobley: Normal ongoing project for maintenance and derivatives that we do compare to it.

Sanjay Elangovan: And any -- at least in the planning stage, are we looking at more specialty chemicals is what kind of products are we looking at -- as a country, we still import a lot of PVC resins?

Jayant Dhobley: Yes. So that's the question. I can only partly answered and that is, yes, we are looking at further expansion, including Specialty Chemicals. I will avoid to answer the very specific question that cost on PVC that would be beyond the scope of a results call for this quarter.

Pavan Jain: PVC, we are not entering into PVC.

Jayant Dhobley: Yes. So we are not entering into PVC. If that was the question. We have no line to enter PVC.

Pavan Jain: I think we -- what we can say is that we have entered into an agreement with Lubrizol and Lubrizol is setting up a CPVC plant and our Vilayat chemical plant, which we already announced that it is a 50,000 ton first phase, and the total capacity will be 1 lakh ton CPVC plant.

Harikrishna Agarwal: But this is different from the normal PVC resin as generally understood. Yes, if your question was, are there any plans of Grasim to get into polyvinyl chlorine production, the answer is no.

Sanjay Elangovan: Okay. And from the CPVC resin power integration into pipes, is that a possibility we will explore?

Jayant Dhobley: So forward integration of CPVC, as you know, this is a project that we are doing together with Lubrizol. Lubrizol is doing the capital investment. I will refer you to their press announcement which indicates what money they are putting in and forward integration of CPVC essentially an extrusion. They're very clear in their press release you can refer to that.

Moderator: So may we request you to return to the question queue follow-up questions as there are several participants waiting for their turn. Our next question is from the line of Nirav Jimudia from Anvil Research.

Nirav Jimudia: I had a question on the VSF business. So this quarter, we have seen our speciality VSF volumes going up. So that was one. And secondly, if we see our results bucket, there are two cost line items. So 1 is power. So if we see on a Y-o-Y basis from ₹1,202 crores, it has come down to ₹1,018 crores, and other expenditure, which was like ₹963 crores, has come down to ₹900 crores. So this increase in the VSF profitability when you mentioned that there was a benefit of the input cost. But was it also because that our specialty volumes were better and there was the decrease in the other expenditure and the power cost that has also helped us in improving the EBITDA this quarter?

Pavan Jain: This number you're referring to, can you repeat those numbers?

Nirav Jimudia: Yes. So if we see a stand-alone results for this quarter, there is there's a power cost, power and fuel cost, which was ₹1,203 crores in September quarter last year. And this September quarter, it is ₹1,018 crores. And other expenditure, which was ₹963 crores last quarter last year, this quarter, it is ₹900 crores.

So if you can just help us explain that was this decrease in the power and fuel cost and the other expenditure predominantly for the VSF business, and that's why we have seen the improvement in the profitability, coupled with the fact that our specialty volumes have also gone up this quarter?

Pavan Jain: So these numbers now, which you are referring to in the results, these are combined numbers of all the businesses.

Nirav Jimudia: Correct, correct.

Pavan Jain: And these two large businesses are, of course, the VSF and Chemicals business. The power cost is the key cost in chemicals business, not as much as in VSF business. So the power cost benefit is, I can say, largely in the chemical business. Of course, the coal prices have come down, that has helped in the reduction in the power cost, power and fuel cost. And also, we are having the larger part as a renewable energy business that is also helping in reducing.

But the main component of this is in the chemicals business and not in the VSF business. And the other cost is, of course, again, all the businesses I will not be able to give the exact the business wise breakup. But I think...

Harikrishna Agarwal: There are many factors like sometimes special repair, timing issues, or some adjustments or something. But it is not something that will be meaningful or material to help you in your analysis.

Nirav Jimudia: Got it, sir. And sir, on the second point of the premium for the specialty VSF as well as the volumes for the specialty VSF. So was the premiums maintained this quarter on a sequential basis? And with this increase in the volume that has helped somewhat in improving the profitability.

Harikrishna Agarwal: I don't know from where have you picked up this volume information...

Nirav Jimudia: No, no, sir. We gave in the quarterly presentation. The breakup in terms of the gray VSF volumes and this aspect VSF volumes. So this quarter, our overall volumes have gone up. So if we just do that in terms of...

Harikrishna Agarwal: But specialty volume have not gone significantly different from the previous quarter.

Nirav Jimudia: I think it has gone up by 6,000 tons, if I'm not wrong.

Pavan Jain: Yes, we have the specialty percentage. So it was 18%....

Harikrishna Agarwal: 18% of the total sales. It is not increase in the volume. Volume increased just 1%. So profitability on the specialty VSF is better, the realization is almost 20% higher than the normal VSF realization. And the profitability is somewhat better. So we always work to develop and grow the specialty part for multiple reasons, including better profitability, better product, etc. So it is not that significant change as what you have understood.

Pavan Jain: You can connect separately for this…

Nirav Jimudia: Yes, I'll come back separately on that. Just the last bit of clarification, have we taken any sort of price hike for VSF this quarter?

Harikrishna Agarwal: Last quarter, no.

Nirav Jimudia: Okay. So it was same as of Q1, right?

Harikrishna Agarwal: No. Q2, prices came down.

Nirav Jimudia: Okay. It actually came down for the grey side.

Pavan Jain: Yes, yes.

Moderator: Our next question is from the line of Navin Sahadeo from ICICI Securities.

Navin Sahadeo: Sir, two questions. One, I would just want to inquire about the working capital requirement for the B2B e-commerce. So then initially, the announcement of Grasim flooring into B2B commerce was made, the capex allocation given was about ₹2,000 crores. And I understand that a large part of it will be for working capital and also heartening to know you're crossing the ₹100 crores per month kind of a revenue run rate. So, at the current run rate, and of course, it's growing, but I wanted to understand how much can we pencil in or estimate a broad net working capital requirement of current run rate of ₹1,200 crores annualized revenue?

Pavan Jain: So I don't think we can give you the exact number of working capital of the B2B as a business separately. But let me again repeat that we have not crossed ₹100 crores monthly revenue rate. We are inching towards that. What we are saying is that ₹100 crores for the quarter we have crossed Q2 and as we are moving from month-on-month, we are inching towards ₹100 crores of monthly revenue rate.

And for the working capital number, I think the number is not readily available right now. We can give you separately, Ankit can share if required.

Navin Sahadeo: Sure. And sir, just one last question on VSF, current utilization, I mean, for the segment, it's fairly high, rather near optimal full utilization. So wanted to understand if there is any capex plan that we can expect in terms of expansion for domestic VSF capacity? Or there is a slightly different plans of maybe utilizing or leveraging on the group's global capacities and using those volumes into India.

Harikrishna Agarwal: So we have scope to increase our production from our existing plants in India. We are working on various operational plans, how we can leverage maximum our plant capacities. So that is first. And immediately, there is no significant investment plan for big investment with increasing the capacity, but small debottlenecking, a small continuous process in Grasim, as you know.

Moderator: Thank you. So that was the last question of our question-and-answer session. Due to time constraint, that was the last question. We thank Grasim management for the conference. On behalf of Grasim Industries Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.