"Grasim Industries Limited Q1FY'24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q1FY'24 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankit Panchmatia, Head, Investor Relations. Thank you, and over to you, sir.

Ankit Panchmatia: Thank you, Jacob. Welcome everyone for joining us today for Grasim's Q1FY'24 Earnings Call. Trust everyone got a chance to look at the financial statements and presentation uploaded on the exchanges and also available on our website. For safe harbor, kindly refer to the cautionary statement highlighted in the last slide of our presentation.

Today, we have with us Mr. Harikrishna Agarwal – Managing Director and Mr. Pavan Jain – Chief Financial Officer. Also joining the call, we have leadership team from key businesses. Mr. Himanshu Kapania – Business Head, Paints; Mr. Jayant Dhobley – Business Head, Chemicals, Fashion, Yarn & Insulators, Mr. Rakshit Hargave - CEO of Paints business and Mr. Jayant Dua - CEO of Chlor-alkali business.

I would now welcome Mr. Pavan Jain for his opening comments. Post which we will open for the Q&A. Over to you, sir.

Pavan Jain: Good afternoon everyone. It is a pleasure to share our quarter one performance with you.

First, I would like to give some highlights on the macro environment and then cover Financial Performance of our Company for the quarter under discussion.

Globally, interest rates hikes continued with U.S. fed rates rising in July '23 by 25 bps to 5.25-5.50%. Though RBI seems to have paused the rate hike for the time being. Fed had guided that the future interest rate decisions would depend on inflation data and the inflation in U.S. is steady. The economy is growing at a faster than expected pace.

Consumer sentiments are also indicating positive signs of recovery for the second half of calendar year '23. China's expected reopening led demand based on export growth and consumption revival has somewhat disappointed global expectations. The subdued domestic demand recovery has led China's focus on exports to keep the economic growing at desirable levels. As the macro global environment continues to remain volatile, the realizations are impacted across global businesses we operate in like viscose and chemicals.

On the India front, we have been on strong footing and there have been multiple upgrades to GDP estimates. According to RBI, India's Q1FY'24 GDP growth is expected to be around 7.9%. Given the current expectations around growth, multiple agencies have pegged their estimates of India reaching the position of third largest dominant GDP by 2030. This is remarkable given its position of being among top 10 economies in 2010. Given majority of our revenues are from domestic markets, we remain confident of playing an integral part in India's long-term growth story.

However, in the near-term, global slowdown has directly impacted India's exports of textiles, which degrew for the 12th consecutive month on Y-o-Y basis. During the June '23 quarter, textile exports are lower by 10% Y-o-Y and 9% Q-o-Q, which has impacted the textile value chain from mills to garment manufacturers. The domestic demand for textiles and apparels is also exhibiting some sluggishness due to delayed festive season, which is in the later part of the year. Cotton prices have also declined 41% Y-o-Y and 4% Q-o-Q which to an extent impacts the demand for viscose as well.

The Chemical industry is witnessing similar global demand slow down impact, which has resulted in higher inventories. Weak demand from end user industries globally like textiles, packaging materials, constructions etc., especially in the developed countries is indicating subdued scenario in second half of calendar '23.

Despite these headwinds, our standalone businesses' performance has improved for the second quarter consecutively. The improvement was largely driven by a strong recovery in viscose business, partially offset by subdued performance in chemical and textile businesses. Y-o-Y performance comparisons are impacted due to unfavorable base impact compared to the peak of cyclicality in Q1 last year in respect of our VSF and Chemical business. Our continued focus on costs and improving efficiencies coupled with lower input prices have resulted in improved performance on Q-o-Q basis.

As already shared earlier, we are happy to share that we will be launching our two new businesses in the current financial year. The paints business will commence its commercial offering from Q4FY'24. Of these six plants, at least two or more plants will be commissioned this year. Our long-term goal is to be second largest player in the Indian decorative paints market, which is growing at a healthy double-digit pace.

We have launched our full scale B2B e-commerce website this month under the name of “Birla PIVOT”. Birla PIVOT is unique experience for MSMEs operating in construction business giving them one-stop shop solution from generation of quote to delivery and facilitating financing solutions.

The platform is up and running in full scale across regions of Maharashtra, MP and Delhi. We have onboarded 130 plus brands and going forward, we will also explore private label products in select categories. Initial response to Birla PIVOT has been encouraging.

On the sustainability front, our efforts are well recognized in the industry and value chain. We constantly endeavor to reduce water consumption and emission and increase the share of renewable power. This would be driven by process efficiencies, new technology deployment and investment in renewable power capacities. We have improved our share of renewable power to 11% compared to 8% in last financial year. Additionally, we have been recognized as one of the most sustainable organization by two prestigious media publications, that is The Economic Times and Business World.

Now highlighting some of the key financial parameters of Q1FY'24.

Consolidated revenue grew by 11% Y-o-Y to ₹31,065 crore this quarter. Revenue from key subsidiaries UltraTech and Aditya Birla Capital grew by 17% and 26% respectively. The performance was moderated by degrowth of 14% at standalone level. Consolidated EBITDA degrew by 5% Y-o-Y to ₹4,981 crore, largely due to softening of realizations at standalone businesses as well as at UltraTech Cement.

Standalone businesses' revenue stood at ₹6,238 crore compared to ₹7,253 crore in the same period previous year. Standalone EBITDA degrew 42% Y-o-Y to ₹789 crore compared to ₹1,364 crore. The high base impact from historically high rates of key products namely VSF and caustic soda has led to this impact on profitability on Y-o-Y basis. EBITDA for the quarter is also net of pre-operative expenses of new businesses charge to P&L.

Globally, Viscose is the fastest growing sustainable fibre compared to cotton and polyester. Viscose continues to sequentially recover since Q2FY'23 with EBITDA for the quarter at ₹390 crore. The utilization level at 90% was impacted partially by the plant shutdown of almost a month due to fire at our Harihar unit.

International caustic prices or CFR SEA are on declining trend from October '22 onwards. The rates were $735 per ton in October '22 declined to $395 per ton in June '23 which is a correction of 46%. The quarterly average rates during the same period previous year stood at historic high level of $769 per ton which makes Y-o-Y comparison unviable.

High operating rates with missing demand recovery in China led to oversupply leading to global prices erosion. India imports albeit at lower base increase further adding to the capacity additions from domestic players.

Our Chlor-Alkali business continues to maintain its market leadership posting volume growth of 5% Y-o-Y at 292,000 metric tons. However, the revenue for the quarter degrew by 21% Y-o-Y to ₹2,146 crore compared to ₹2,733 crore in Q1 last year. The resulting revenue mix from caustic declined from 61% to 55% and chlorine derivatives' revenue increased from 17% to 20% on Y-o-Y basis.

There remains a sharp focus on developing products around chlorine derivatives, partnership with Lubrizol is in the same direction, whereby the construction of Asia's largest CPVC resin plant at our Vilayat unit is expected to commence this year, and it would help to improve captive consumption of chlorine. Post completion of capacity expansion projects, the chlorine integration would be 72% compared to current 61%.

The Specialty Chemicals, which is our epoxy resins business, posted another stable quarter led by strong demand for specialized products in key user industries. The product mix improvement in favor of specialty products and correction in raw material prices resulted profitability in this segment growing nearly 2x Y-o-Y.

Delayed festive season coupled with elevated flakes prices impacted performance of our linen business in the textile segment, though wool segment performed well. Textile revenue degrew by 11% Y-o-Y to ₹549 crore. Our focus has been to grow iconic brands like Linen Club, SÖKTAŞ and Giza House. We have been ramping up our retail presence and the brands are now available at over 210 EBOs and over 8,000 MBOs offering key brands.

As we are making a large investment in new businesses for next phase of growth, the net debt as of 30th June '23 stood at ₹3,515 crore. During this quarter, we have also participated in the preferential allotment by Aditya Birla Capital wherein we have invested ₹1,000 crore. Excluding our investment in new businesses and the investment in Aditya Birla Capital, our existing businesses continue to generate free cash flows and we have generated ₹256 crore for the quarter one of FY'24.

The Board has approved CAPEX spending of ₹5,791 crore in FY'24 including ₹4,283 crore for paints business. During the first quarter, we have spent ₹1,380 crore towards CAPEX.

We now open the 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 Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: My first question is on the viscose business. So, clearly costs are dictating. So, if you can give detail which all areas we are seeing cost dictation? And also, in the coming quarters as we can see prices are a bit of under pressure. What all some outlook on the cost for the coming quarters if you could share?

Harikrishna Agarwal: So, on the first side, obviously, the main cost items where we have seen reduction are pulp prices, caustic prices and coal prices. So, all the important input prices have come down compared to last year significantly and also compared to the last quarter. So, that is a very positive trend. Looks like the input prices do not have much further room to go down, but we have to see. It all depends on the macro level situation and especially in China. So, China now is going through very difficult phase. Today newspapers everybody read that China is going through deflationary pressure. So, we have to see how the government and the Chinese economy perform in the coming months and that will determine the input prices all over the world.

The realization also is in the decline trend, and it depends on the pace of decline. Sometimes raw material prices decline faster. Sometime final product prices decline faster depending on the inventory levels, depending on the macro global sales trend etc., etc. So, these are the scenarios currently going through.

On the Chlor-Alkali side, caustic prices have come down significantly, but helps viscose fibre price, but it again impacts us very badly on the Chlor-Alkali bottom line performance. Energy prices, particularly in terms of coal, have come down recently. That should reflect in our performance in the coming months also, but then it will again depend on how severe is the winter, coming winter, and that will determine the coal prices going forward.

Sumangal Nevatia: So, I mean, as far as the spot rates are concerned for the various cost items, it is already largely reflected in 1Q results when you say there is not much further scope of reduction or there is some further inventory gains and you will see some benefits in the coming quarter?

Harikrishna Agarwal: I think this is fairly reflected already. Yes, small things will keep moving, but that will not be very big.

Sumangal Nevatia: And so, the caustic business, sir, given the pressure on prices, coming quarter, should we expect margins also to trend in line with the price weakness or there are some offset available there?

Jayant Dua: So, this is Jayant Dua this side. So, we believe that caustic the way it is trending, you are nearly at the end phase of further reduction. There could be marginal changes which are obviously a function of local India movements and how the Indian consumption centre moves, but we believe that largely it is more or less near is bottoming out. But yes, the trend as for this particular quarter will be lower as compared to the average of last quarter because the exit of last quarter is what we are seeing today as the new stabilization. So, yes, to your question will there be further margin erosion based on the exit of last quarter, it will be relative to, it will be equivalent to that, but from the average of last quarter, it will be a dip.

Sumangal Nevatia: Sir, my second question is with respect to CAPEX, for the Paint division, should we expect a large part of our ₹10,000 crore CAPEX to be concluded by FY'25 given that FY'24 also is a very significant CAPEX for the presentation?

Pavan Jain: Yes. So, you can assume that. So, a large part of CAPEX will be done by FY'25.

Sumangal Nevatia: And sir, the B2B ecommerce, there is low CAPEX what we are spending this year, is there any other indirect way of financing in terms of working capital etc., being absorbed in that business?

Pavan Jain: No, there is no in that as of now I think and CAPEX is, see, it is not a CAPEX intensive business. We have spent on the technology side, and of course, we will have to continue to spend on technology. So, that is all for CAPEX.

Sumangal Nevatia: So, the peak of CAPEX will be this intensity only in a particular year or coming years FY'25, '26 you see further increasing CAPEX from what we are spending in FY'24?

Pavan Jain: So, for the Board approved CAPEX numbers, if you look, this is I think one of the highest spending year, current financial year. For the next financial year, we will have while the pending CAPEX of Paints business for the next financial year, we will have proposals to go to the Board and get Board approval etc. So, for next financial year, it is very difficult to say about the numbers, but as of now, yes, this year looks like CAPEX heavy year.

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

Nirav Jimudia: Sir, I have a few questions. So, one on the chemical side. Sir, if we see our ECU realizations in Q1, they have been far better than the other players' reported numbers in the caustic chlorine division. So, just wanted to have your thoughts here that was there any specific reason for our ECU realizations higher than our peers? If you can share your thoughts here?

Jayant Dua: So, I think the reason is that, I think, tactically, we played couple of moves better than some of our competitors. From a long term, if you say, was there any strategic shift? No, I think the difference was that our back, what we call our chlorine derivatives compared to Q4 of last year to Q1 of this year, our volumes have materially gone up. And other than that, it was, I guess, more day-to-day active management.

Nirav Jimudia: And sir, what proportion flakes forms in terms of our total sales volumes for caustic soda division?

Jayant Dua: So, flakes form to the tune of around 20% to 25% of our total caustic line production.

Nirav Jimudia: And has that proportion gone up this quarter?

Jayant Dua: Yes, it has gone up, not significantly. Marginally gone up.

Nirav Jimudia: Sir, a related question to this, like when we are expanding our caustic soda capacities, does this newer capacities come at a lower power consumption per ton of production? Because what we have seen for a lot of players that when we interacted, they say that it is possible to reduce the per ton consumption of power. So, that and whether it is possible to modify the equipments for the older capacities so that there also there is some scope of power reduction?

Jayant Dua: So, you see the power reduction in any caustic plant is a function of the generation of the electrolyzers you buy. So, if you go towards generation 5, 6, you will be better off with compared to your 4. So, all our new capacities which are coming are coming with the latest generation of electrolyzers. So, you will get a better power cost output compared to the older plants, but on the flip side of it, we have a very robust program of also upgrading our old membranes and electrolyzer which is the continuous process which happens.

Nirav Jimudia: And sir, is the cost, is the power reduction could be to an extent of 15% to 20% with the installation of sixth generation membranes? Is there a…

Jayant Dua: No, it's not that material. It's not that material, because it's only about close to 40 odd units per stack which you get from one generation to another, but your real power cost reduction comes from how do you do your power buying or your power mix. It's not too material on the electrolyzer, while that's the largest consuming center, but your power cost saving comes from your power mix.

So, I think that's what it is, and I think the material difference that we have on our cost structure is that today on an expanded base, 14% of our power mix is on renewable side, which is significantly lower in cost compared to the current grid cost or the thermal power plant cost. And also, on our as Mr. Agarwal was talking, the coal prices compared, we, I think are now buying. We have done better than the index values of the coal buying. So, our power cost mix is lower than the industry average.

Nirav Jimudia: So, sir, here if you can share what was our average power cost for Q1? And how much savings we could assume from Q2 onwards? Because last quarter you mentioned that our average power cost was close to ₹7.5 a unit. So, if you can?

Jayant Dua: So, if you look at it for, I mean, we can go through the number. So, if you look at it, we are currently at approximately ₹7 odd rupees on power. So, that's the way it is we have said. It was ₹7.1. It has come down to ₹7, but in between the coal prices have actually significantly also at points of time gone up. Today, the biggest change is the way the grids are now increasing their price by levying off various assets. Coal price is lower. Power cost is flattish for us.

Nirav Jimudia: Sir, the second question is on the epoxy side. So, last time we mentioned that we are in a range of 15% to 17% EBITDA margins for the epoxy business. So, had that margins remain the same in Q1 FY’24 also? And if you can share your views in terms of the specialty volumes for our epoxy business, so how much they are out of our total sales volume, and your thoughts of venturing into the B2C business for epoxy, whenever we will be keep on ramping those LER capacities on commissioning and then later on going into the value-added products?

Jayant Dhobley: Yes, so that was a lot of questions to ask at one point of time. So, I will answer the last one first. So, as of now, there is no immediate plan to enter into the B2C market. In fact, many of the large B2C players are our customers, right? And we do big volumes with them. Now over time that could change. As and when that changes, we will of course announce it, but as of now there are no plans. We value all our B2C relationships with globally marquee customers such as Henkel, Mapei, Sika etc. Then if you look at the actual margins, so, we are confronted with the situation where we have Free Trade agreements with many countries and an inverted duty structure in some of the base epoxy resin. For example, the Korean players like Kukdo, Kumho etc., can supply duty-free into India, and at the same time Europe has removed the GSP benefit for epoxy resins.

We have managed to overcome these headwinds by actually increasing our specialty share, the one that you have mentioned, and we are particularly strong in the wind sector. So, compared to previous quarters, we have improved our specialty margin.

I don't think we would like to disclose the exact number of the margin, but what I can disclose and confirm what was said earlier by our CFO Mr. Pavan Jain is that our profitability of epoxy has significantly improved. We have doubled over quarter-on-quarter basis, but I would not like to give the exact number of specialty sales and the segment-wise data.

Nirav Jimudia: You mentioned on a quarter-on-quarter we have doubled our epoxy profit?

Jayant Dhobley: Yes.

Pavan Jain: Y-o-Y.

Jayant Dhobley: Sorry, Y-o-Y basis.

Moderator: Thank you. The next question is from the line of Navin Sahadeo from ICICI Securities. Please go ahead.

Navin Sahadeo: So, very happy to see the sequential improvement in margins despite realizations correcting the way they did. First question on VSF. So, I think this is again the second time that we are seeing that globally, the prices have gone up a little bit. That's what the presentation says, but our blended realization again has been a little soft or down rather Q-o-Q. I am assuming could be the similar regions like last time because of, let's say, the importing, import duty or anti-dumping duty being abolished or some material coming in from other countries which has led to this impact. And the cost, of course, helped us post a significant improvement quarter-on-quarter.

My question is that I believe, globally, there has been a further some drop in prices in July and August. So, to that an extent, assuming that there is a further fall or a downslide in India prices, will margins hold at these levels because your pulp prices and caustic prices is going down further or you can see some directionally, some pressure on margins in the coming quarters on VSF?

Harikrishna Agarwal: Yes, you have summed up it almost correctly. So, there will be some pressure, but it is all very marginal. There are not big movements either way. So, yes, prices, the international prices have reduced since end of June, and we also have to follow that trend in India also, and there is some reduction in the raw material prices also, but everything moves. There are so many moving parts, and we have a pipeline in the transit of raw materials and all these things. So, there will be small difference whatever way it is, yes.

Navin Sahadeo: But largely, can we say that this is now the bottom, I mean, give or take few basis points here or there, but these margins are largely bottomed out? Is it a safe thing to say?

Harikrishna Agarwal: We would like to think so. Yes. And you never know. You know, there are always surprises from China or sometimes Europe like the things change so fast. Within one-month things can change. Global sentiments can change. Anything that happens has its effect on everything, but largely, yes, you are right.

Navin Sahadeo: So, just on this, since you mentioned China and the global factors, and recently, there were some news articles about spinning mills like seeing some shutdown or temporary closure in Tamil Nadu or the textile hubs, so does that impact our volume outlook in any way?

Harikrishna Agarwal: See, globally textile markets are not doing great including in India and not just in viscose, but across all kinds of products, all kind of things, whether it is cotton or polyester or linen or viscose. So, this is a global trend and exports from India have also declined Q-o-Q also and Y-o-Y also. So, everything is under a little bit of slow down.

Navin Sahadeo: So, there can be some hit on volumes is what you say from the current quarter like we did a pretty healthy utilization of (+90%). So, are we expecting some fall?

Harikrishna Agarwal: Yes, we are trying our best to maintain the volumes and also try to get more volume in export market. So, we try to maintain our volume as best as possible.

Navin Sahadeo: My second question was then on the chemicals business. Is there a delay in the CAPEX of Chlor-Alkali commissioning? Because I think the capacity increased from 1.3 to 1.5 MTPA, which earlier was guided as Q3 '24. I think the latest presentation says Q1 '25.

Jayant Dua: So, there is actually, I mean, there is not a significant delay. There is a lot of delay because of the monsoon and all which has been factored in there, but the CAPEX are going as per the plans. These capacities will come by Q1 '25, could be Q4 exit '24, but there has been a fair amount of monsoon delay which has got built into the system.

Navin Sahadeo: And since the specialty chemicals is just around the corner to double, I believe, capacity 123K TPA further getting added, I think, Q2 '24 again, as we speak, probably. So, what kind of delta can we expect broadly, if we can get some sense, how should we pencil in the commissioning of this specialty chemical segment?

Jayant Dhobley: When you say delta, you are asking me about the revenue ramp up curve?

Navin Sahadeo: Some guidance as to like revenue will help broadly.

Jayant Dhobley: So, look, we will be doubling our capacity, and as you can imagine, these are all batch process units, right? So, there are multiple underlying SKUs that need to be tested, qualified etc. A typical ramp up curve from start of commissioning to reaching full, let's say operational capacity after all the qualification steps is done is around 12 months, let us say. So, you can assume that we will make incremental steps of 20%, 25% per quarter over a year period. You know, worst case situation it could become five quarters. That would be a good underlying assumption.

Navin Sahadeo: And just on this margins front, similar to VSF, here also prices, correspond spot prices are lower versus the previous quarter, but I believe cost is also some probably steam left to get that. So, here also should we see margin stabilization or directionally some pressure can come?

Jayant Dua: The margin profile won't significantly change. Of course, at that point I have to say that when a new factory comes on, we are more likely to increase our share of base and as compared to specialty, so the product mix will change, but the inherent margin profile of the business will not change. We drive our business by spread over raw materials in this particular type of business and sometimes there may be a time lag because of timing of purchase versus timing of sales, but that time lag also rarely exceeds the quarter given the length of our supply chain. So, the margin profile won't change. The product mix will change because the newer capacities will probably first be consumed in base resin before we restore our base resin to specialty chemicals.

Navin Sahadeo: Just one last question. In the initial comments, Pavan sir said that the performance is net of the pre-operative expenses of these new businesses. So, just wanted to understand what kind of impact is there because of the B2B business or even the paint that we have probably started some trial runs as I know? So, what kind of impact are we seeing since the last one or two quarters to help us understand that these numbers are including the impact of these, the operative expenses?

Pavan Jain: So, not very significant number, Navin. But yes, I mean, I think we are not separately disclosing these numbers, but these numbers are not very significant considering our overall numbers.

Moderator: Thank you. The next question is from the line of Pratik Kumar from Jefferies. Please go ahead.

Prateek Kumar: My first question is on VSF business. So, from the product mix of domestic versus exports which are mentioned, it appears that domestic business was much weaker on a year-on-year basis versus international. So, is there dumping from the Southeast Asian countries increased significantly because of global environment or how should we see that?

Harikrishna Agarwal: Well, the VSF Imports are not happening much currently, but what is happening is the lot of viscose yarn is coming from China at very low prices, and that is affecting the profitability of our customers big way, and that is creating pressure on everyone. And this is all because China, the consumption is less than the production of viscose fibre yarn and all that thing. So, China exports are also low to West U.S. and Europe. So, these are all trade flows happening, but as such, VSF Imports are not very high.

Prateek Kumar: So, because the yarn is getting still more, we are not able to push our product to, fibre product to our yarn customers, and that's why the domestic demand seems weaker now.

Harikrishna Agarwal: Domestic demand is anyway weaker even without this much import, but that import also then dampen on prices of yarn and the profitability of a spinner. And they evaluate which fibre to run, which product is profitable etc., etc.

Prateek Kumar: Other question is on new businesses. So, can you highlight how is the traction in the paint services business which you have started with your, I think, employees or friends and family in the paint segment? How is the initial traction? What exactly we are doing there?

Rakshit Hargave: So, the painting services business what we have started is a trial service where we are addressing painting services solutions within friends and families of Aditya Birla Group. So, obviously this is to develop and improve on certain standing and operating procedures that we have developed, and as we know that we don't have our products right now, we are using products from the market. So, this is to develop better SOPs and prepare service teams for the future.

Prateek Kumar: And your CAPEX this year your CAPEX spend is in the ₹4,200 crores over ₹2,600 crore which we did for last year. So, remaining is only, I guess, around ₹3,000 crores in this segment. So, all of it is expected to get incurred in FY’25 or some of it is like more like working capital related expenditure, so it can come as an operating kind of CAPEX later in the FY’26 or '27?

Rakshit Hargave: So, the overall CAPEX spent till 30th June is ₹3,638 crores. That's the right number. So, I think you are having a different number.

Pavan Jain: We are talking of cumulative. Your cumulative spend on the paint is ₹3,200 crores. ₹3,600 crores. Yes, and ₹4,283 planned for this year, balance of the ₹10,000 crore which is spent in '25. Some small amount may spill over like the performance guarantees like remains etc. That may go to FY’26, but largely, everything will be spent by FY’25.

Prateek Kumar: And on B2B e-commerce now we have started this portal this quarter, so like initial expectation, what will be your gross revenues and like the kind of take rate revenues which we are looking at in the segment? And will this segment be reported separately in our earnings or how should we look at it?

Pavan Jain: I think this segment will not require separate disclosure considering the overall number, because this year I think only two quarters we will have the full-scale businesses in the B2B segment. So, as far as separate disclosure of revenue etc., if required, we will go by the numbers for the year whether it will require separate disclosure or not, but for the current year, we will have full-scale operations only for two quarters kind of two quarters plus some one month or something like that.

Prateek Kumar: But the segment would have like gross revenue which will get reported or just our take from the gross revenue?

Pavan Jain: No, gross revenue, because the model is that…

Prateek Kumar: I was asking, so we will be reporting gross revenue in this segment and not the net revenue which we get as a take rate for the B2B e-commerce segment.

Pavan Jain: No, so we will report the gross revenue because the billing is by Grasim to the customers.

Prateek Kumar: So, you mention, in your opening remarks, we are looking at some private label products also in this segment. So, can you elaborate on this like you are looking at manufacturing contract management of tiles etc.

Pavan Jain: We are still in the, I mean, now not in the state of final disclosures in this regard. We are exploring different product categories, private label business. I think once we reach the finalities, we will come out with the disclosures. So, the idea of talking about this is that we will be looking at private label manufacturing and the idea is that that should help us in augmenting the margins.

Prateek Kumar: So, the last question on your debt. You have like ₹3500 crore debt as of 1Q '24. What is the peak debt we should look at in FY’24, '25 with the conclusion of the paint CAPEX?

Pavan Jain: FY’25 you are asking? It's about ₹10,000. FY'25? You are asking FY'24?

Prateek Kumar: Yes, during the CAPEX of paint business, so what is the peak debt we should look at versus ₹3500 crore, 1Q?

Pavan Jain: See, peak debt, it will depend upon, I mean, how the existing businesses for cash flows and see, CAPEX part is certain, of course. But the debt requirement will be dependent upon how the cash flows are coming from the existing businesses, but of course, it looks like whatever CAPEX requirement is there, at least we will have to meet that largely by borrowing only.

Prateek Kumar: That is fair to assume it should be somewhere in the range of ₹8-10,000 crores on the…

Pavan Jain: Yes, the peak of the debt it could, gross debt could be that kind of level. But again, as I told you, the numbers will depend on how the cash flows are generated by the existing businesses and net debt, of course, will be lower. Net debt will be, we continue to hold about ₹3,000 crore plus is cash surplus. So, net debt, of course, will be lower.

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

Vipulkumar Shah: So, what will be our paint capacity at the end of this year when first phase of that business gets built?

Rakshit Hargave: So, we have announced the total capacity of 1.3 billion litres. By the end of this financial year, we will have a target of three units operational. So, the total capacity of those three units put together would be approximately 630 million litres. That is the full-scale capacity.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from Franklin Templeton. Please go ahead.

Shyam Sundar Sriram: The first question is on this Lubrizol CPVC plant per se. You did mention about it in your opening remarks. We assigned about 1 lakh metric ton of CPVC capacities that should begin by in this 2023. So, this ₹708 crore of chemicals CAPEX, does that include the CAPEX for Lubrizol or that would come later? If so, how much one should expect per se there? And any sense if you can provide there?

Jayant Dua: So, if you look at when we made the Lubrizol announcement, first, two corrections. One is that the plant startup will happen in this financial year. The construction will start up. It's not planned startup. Construction will start up. So, which means construction will come to an end by FY'25 middle to end.

The second part was, if you looked at the announcement when we did with Lubrizol, this is a zero CAPEX investment for Grasim, and the entire 100% investment is being done by Lubrizol. So, there is no CAPEX impact on Grasim's balance sheet due to this particular plant coming up at the live site.

Shyam Sundar Sriram: So, this is essentially an operational which Grasim will lend their operational capabilities and provide the products.

Pavan Jain: Yes, we will supply the chlorine to them by pipeline, and we will do the operations part.

Jayant Dua: Operation management for them as well as the entire CAPEX sales is their responsibility. It does not impact us. So, we are actually protected from the vagaries of the market in this operation.

Shyam Sundar Sriram: So, therefore, you will be compensated for the Opex cost essentially.

Jayant Dua: We will be compensated for, we will not get into the disclosures of that cost, but will be compensated to the Opex cost plus our management fees, operation management fee.

Shyam Sundar Sriram: That's helpful. Sir, are there any more such products in the pipeline? How do we see the evolution here per se?

Jayant Dua: So, this is the first one which is being attempted, and I think as we proceed ahead, it will evolve as we go along. Today very difficult to say anything beyond this.

Shyam Sundar Sriram: Sir, the other point is on capital allocation. We had invested in Aditya Birla Capital sometime back in June. Now just wanted to know are there any such investments planned in our holdings per se over the next two years? Any perspective that you can share on capital allocation?

Pavan Jain: So, as you know, the only financial services sector is doing very well currently. So, the capital requirement was higher at Aditya Birla Capital also. That is how we have done this ₹3,000 crore equity raising in Aditya Birla Capital. We are of the view that for the time being at least for next two, three years, that should meet the requirement. But I mean, as of now, there is no other plan other than whatever we have already invested ₹1,000 crore.

Shyam Sundar Sriram: So, no other plan as in no other outside of the whatever CAPEX that we have outlined, nothing else outside that from our visibility perspective.

Pavan Jain: Yes.

Moderator: Thank you. The next question is from the line of Mudit Agarwal from Motilal Oswal Financial Services. Please go ahead.

Mudit Agarwal: Sir, my first question is that brands in retail preferences are changing towards more on the sustainable product side. So, how they are collaborating with us on product development and innovation?

Harikrishna Agarwal: So, I assume you are referring to the viscose fibre.

Mudit Agarwal: Yes, sir.

Harikrishna Agarwal: Yes. So, there are a lot of work is happening on the sustainability, especially circularity where the used garments or pre-consumer waste are converted back into textile, usable textile. So, we have developed our capabilities for both mechanical recycling as well as chemical recycling of used textiles or industrial textile waste.

We are also working very closely with some international brands where we use such raw material along with our virgin raw material and supply the final fibre, which has almost 30% recycled content. And these are the initial stages for this trend, and we are well equipped to participate in this one as the things will develop. And India is going to play important role in the entire international global textile value chain. So, this is, I think, very encouraging for Indian textile value chain also.

Mudit Agarwal: And sir, one bookkeeping question on that tax side. This quarter the tax rate comes at around 11.3%. So, is there any adjustment? Or what was the effective tax rate for the quarter?

Pavan Jain: So, the effective tax rate is 12% considering our existence whatever we have. So, we have already shifted to the new tax regime, and this is the, I think, tax rate will have considering the 80M deduction for the dividend income etc., so that is the expected tax rate for the current year.

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

Nirav Jimudia: So, one question on the pulp prices. So, last quarter our average pulp prices were close to $900 a ton. So, if you can share it for this quarter? And what are the current rates for the pulp coming to us in Q2 and…?

Harikrishna Agarwal: So, pulp prices are generally dissolving grade pulp prices are normally expressed in terms of CCF report. CCF reports pulp prices every week. So, currently, the hard wood dissolving grade pulp prices are at $840. Soft wood dissolving grade pulp is $850. So, there has been some reduction compared to previous months, and this is the current price.

Nirav Jimudia: And what was the average for Q1 FY'24, sir?

Harikrishna Agarwal: See, I do not, no, see we have our formula for procurement of pulse where we use the previous month's pulp price for shipments, and this thing, and there is a long shipment time. So, it's a continuous thing. So, I will not be able to give you the average figure for the quarter for purchasing. It will be very similar to the moving trend of average of the previous month.

Nirav Jimudia: Sir, one question on the chemical side. So, if you can share like out of our total caustic sales, is there any proportion of contractual sales into there also? Like out of, let's say, whatever we sell in the domestic market, what is the mix in terms of our contractual and the spot sales?

Jayant Dua: So, if you look at it, our entire flake sale is spot sales. So, that's straight away about 20%, 22% to 25%, which is totally spot flakes is entirely there. On the caustic side, if you look at it, approximately, I will say our contractual sales would be a larger proportion to the amount of around 60%. On the liquid side, the balance 40% would be a combination of monthly contracts and spot contracts. So, if I were to look at the entire business level, you would say our contract to contractual will be a ratio of 60:40.

Nirav Jimudia: So, some proportion of higher issue could be because of this contractual arrangements also which…

Jayant Dua: So, clearly the flakes and the contactors, some of the long-term contracts are six months. So, they are factored in for the various whatever the market allows you to do that.

Nirav Jimudia: And sir, last question from my side is on the amount of power what we purchase from the grid because you mentioned that the grid power has become costlier for most of the players in the industry. So, if you can share how much is the power that we purchase from the grid for our total Chemicals division?

Jayant Dua: I think you got it. I think you didn't read it right. I said green power is cheaper than the grid power today. It's not more expensive, and actually green power also comes through the grid, but they are back-to-back contractor which we work. So, our today green power is 14%. Overall, our own thermal power plants which run give us approximately 40 odd percent and the balance is what we are buying from grid.

Nirav Jimudia: And sir, last question, if you allow. So, what is our capacity utilization for the VAPs division because I think we have some close to 891,000 tons of capacity there?

Jayant Dua: The capacity utilization hovers between depending upon seasonality because VAPs sometimes actually have a large seasonality factor. For example, in the monsoon season, the polyaluminum chloride liquid sells much more, whereas CPW chlorinated paraffin wax which goes largely into construction comes down. So, if I were to look at a weighted average annually, we are somewhere we operate between 73% to 75%. That's where we are.

Moderator: Thank you. The next question is from the line of Ronald Siyoni from Sherekhan Limited. Please go ahead.

Ronald Siyoni: Sir, I wanted to just ask about your market share in the wake of if there is no anti-dumping duty, then if the competitors are increasing the capacities, how do we remain confident of maintaining our market share?

Pavan Jain: Which business you are talking about, Ronald?

Ronald Siyoni: About viscose business.

Harikrishna Agarwal: So, currently, we have a market share of close to 95% because the imports are not taking place so because BIS has introduced quality control order. So, the major sources of imports like Indonesia and China are not able to export, but we do plan to, we do expect to maintain our market share at high level even when this phase is gone. So, this will again depend on competitiveness and the relationship with the prices and services and all of that.

Ronald Siyoni: And in terms of your lyocell investments if you can elaborate on what kind of CAPEX would you incur on the capacities and per ton basis or what kind of returns you are expecting at the current rate of realizations in lyocell?

Harikrishna Agarwal: Which investment you are talking?

Ronald Siyoni: In lyocell capacities.

Harikrishna Agarwal: So, we are not making any new, big new investment in lyocell capacities immediately. So, we have existing lyocell capacities where we have done debottlenecking of existing lines with a very minimal CAPEX. So, those lines are working well, and the prices are quite stable and in line with the general market trend for all the fibres, and they are working well. So, we will inform the market when we have plans finalized and approved for the new capacity.

Moderator: Thank you. Due to time constraints, this was the last question. On behalf of Grasim Industries, that concludes this conference. Thank you for joining us and you may now disconnect your lines.