“Grasim Industries Q3 & 9M FY-23 Earnings Conference Call”

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Moderator: Ladies and gentlemen good morning and welcome to the Q3 FY23 Earnings Conference Call Grasim Industries.

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 '*' 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 Rutuja. Good afternoon to all the participants joining Grasim Industries Q3 and nine-month FY23 Earnings Call.

First and foremost, safe harbor. This conference call may contain certain forward-looking statements about the Company which are based on the beliefs, opinions and expectations of the Company as on the date of this call. These statements are not the guarantees of future performance and related risks and uncertainties that are difficult to predict.

From the management side we will be hearing from Mr. H.K. Agarwal – Managing Director and Mr. Pavan Jain – Chief Financial Officer. Also joining the call, we have a leadership team from key businesses, Mr. Jayant Dhobley – Business Head and CEO Chemicals, Fashion Yarn and Insulators, Mr. Jayant Dua – CEO of Chlor-Alkali Business and Mr. Rakshit Hargave – CEO of Paints.

So, without taking much time I hand over the call to Mr. Pavan Jain for his Opening Remarks, overall Financial Performance and brief Overview of Business Performance, post which we will open up for the Q&A. Over to you sir.

Pavan Jain: Thank you Ankit and good afternoon, everyone. We welcome you all to our Quarter 3 Earnings Call. I hope you had the chance to go through our Investors Presentation and Press Release uploaded on stock exchanges and Company website. The Investor Presentation gives a comprehensive insight on the Company's quarterly results.

To start with I would like to state that the Financial Year '22-23 is a momentous year for us as the Company completed 75 years of its glorious existence. Despite multiple headwinds in the domestic as well as international markets and demand slowdown, this quarter would be the third consecutive quarter where our consolidated revenue on trailing 12 months is trending above milestone of Rs. 1 lakh crore which could be a prelude to where we would be ending our financial year '23. The key to this resilient performance is our well diversified business model which provides much required stability across various business cycles.

Over 75 years of its existence Grasim has been able to build global scale businesses through continuous innovation, investments in capacity building and new high growth opportunities. We have demonstrated revenue and PAT growth of 15% CAGR on consolidated level since FY20. At the standalone level the Company has achieved an even better growth rate of 18% revenue at revenue and 34% CAGR for PAT since FY20. We are very excited to start a new phase of growth journey through our investments in two new high growth businesses that is Paints and B2B e-commerce and innovation led growth in our existing core businesses. Each of these businesses are leading players in their respective segments, which aligns to our strategy to be a market leader in every business we invest or operate in. We constantly work on providing the market with new products through innovation aimed at providing better customer experience and adopting sustainable manufacturing processes. We continue to rethink, revisit and reengineer our manufacturing processes for operational excellence to remain most competitive in respective businesses.

Aligning with the industry We are now classifying our erstwhile chemical advanced material business which is epoxy polymers and curing agents' business as specialty chemicals. In the era where CFOs are rethinking on capital allocation strategies in order to remain agile as well as focus on long term value, Grasim has well defined metrics and strong internal ROI benchmarks to assess evaluate critical and non-critical investments. That our core and established businesses continue to generate free cash flow across business cycles is a testament to the sales. We have committed to creating large-scale new businesses, leveraging our financial strength and consistent cash flow generation. As you are well aware, Grasim is investing in two new high growth businesses. For that we have announced a Rs. 10,000 crore allocation to decorative pants business which would establish us as a strong #2 player in terms of capacity once all the capacities are operational by FY25 end.

Happy to share that plant's construction of paints is progressing well across our six sites which would establish our reach on pan India level. The brand identity, design advertising and launch portfolio are progressing as per schedule. The CAPEX spend is also progressing on expected lines with total investments of more than 1,800 crores till date. Commercial launch is on schedule in Q4 FY24 as per plan. For B2B e-commerce plan, we are happy to share while the full-scale rollout is expected from H1 FY24 in a phased manner across different geographies, the pilot operations have begun in the current quarter.

On the sustainability front Grasim's strategy has been appreciated by one of the globally recognized ESG expert that is MSCI with a rating upgrade by 1 notch to BBB. The Company is committed on its long-term sustainability strategy and have taken various initiatives in this regard across businesses as detailed in our presentation.

Coming to operational and financial highlights for the quarter:

The consolidated revenue for the quarter is up by 17% YOY at Rs. 28,638 crores led by robust revenue growth of both key subsidiaries UltraTech Cement and Aditya Birla capital. Consolidated EBITDA at Rs. 3,834 crores is down by 7% mainly due to inflationary cost pressures at UltraTech as well as at standalone businesses. Standalone revenues grew by 7% YOY for Q3 FY23 at Rs. 6,196 crores and EBITDA stood at Rs. 580 crores and PAT Rs. 257 crores.

This quarter witnessed ripple effects of global demand slowdown. As you all know globally, we are viewing recessionary market conditions because of the prolonged geopolitical issues, COVID induced lockdowns by China added to the challenging situation across the world. While India centric demand was stable, the overall demand was affected by decline in exports led demand across value chain partners. Putting some context to this, Indian textile exports registered its 6th consecutive de-growth over July to December 2022 timeframe. On nine months basis for FY23 the industry export in rupee terms has registered a degrowth of 10% YOY. With lifting of COVID led lockdowns in China and further improvements in the demand sentiments there are signs of recovery as we speak. However, the volatility and inflationary pressures continue to impact the margins. During the quarter China continued to operate its plants at utilization rates which were below breakeven levels impact the realization trends across geographies including India.

Viscose industry faced challenges globally and India was no exception. Our viscose business reported revenue of Rs. 3,182 crores and EBITDA at Rs. 63 crores recorded a de-growth of 84% YOY basis. The decline in EBITDA is majorly because of the lower demand due to subdued market conditions in the developed economies, inflationary pressures resulting in the cost increase of key imports such as pulp, caustic soda and energy. A further 19% decline in global cotton prices on QoQ basis impacted VSF prices adversely. Grey VSF December 22 exit prices at $1.53 per kg were down by 15% compared to September exit prices of $1.81. Average prices of fiber for the quarter stood at $1.59 per kg. However, as the current rates are unsustainable for majority of the players there are signs of bottoming out of the prices. Our VSF sales volume drop by 3% on YoY basis due to demand slowdown and low-price exports by Indonesia to India at zero import duty in India. The viscose filament yarn is sported a stable performance though volumes were lower by 11% YoY, improvement in realization more than offset the increase in the cost.

The chemical business continued its earnings momentum by reporting revenue growth of 10% YoY at Rs. 2,582 crore and EBITDA stood at Rs. 488 crore in Q3 FY23. The global supply chain disruptions are now easing up leading to decline in international caustic prices on YoY basis at $720 per MT CFR Sea in Q3 FY22 and $694 per MT in Q3 FY23.

However, caustic prices increased on QoQ basis by 5%. ECU for Q3 FY23 stood at Rs. 46,689 per MT up 10% YoY, but 6% decline on QoQ basis due to higher negative chlorine realizations. Overall, chlorine integration including pipeline sales to our ancillaries stood at 60% for the quarter compared to 56% in the corresponding quarter last year.

The textiles business which constitutes niche sustainable category products primarily in the premium segment continues to report stable performance. The business reported its highest ever 9 months revenue of Rs. 1,773 crore, textile business revenue for the current quarter was Rs. 561 crore which is higher by 19% on YoY basis and the EBITDA was stable at Rs. 49 crores for the quarter.

Coming to balance sheet:

As of 31st December 2022, net debt for the standalone balance sheet was Rs. 485 crore excluding our investments in the high growth new businesses the existing businesses continue to deliver free cash flow.

With this, I would like to now hand over the call back to the operator 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 Nuvama Institutional Equities. Please go ahead.

Navin Sahadeo: Sir my first question was regarding this VSF and in the press release as well as in the presentation you have mentioned cheap imports coming in from Indonesia, so is this a recent phenomenon I mean if you could just help us understand this because if I am not wrong the anti-dumping duty was removed way back in August 21 sometime and please help me understand if this is correct or is there any agreement or anything recent? I am just trying to understand because never in the past have you mentioned this factor to be so critical and impacting our realizations?

H.K Agarwal: So, imports from Indonesia started picking up from Q1 of this year and they have now gone to the tune of almost 250 tons per day in Q3. So, the main reason for this pickup of imports from Indonesia is like the traditional export markets phase demand slowdown and they found India market relatively better so that was one reason and India offers them zero duty because of FTA with India. So, they become more competitive in India so it became double attractive. So, yes this is a situation it was removed in August 21 and after that they were careful not to start import immediately because then post ADD there will be reviews so they did not want to be caught on the wrong foot and at that time the sea freight situation was also working to our advantage because the freight rates were almost 20 cents per kg, but now with the normalization of international supply chain and shipping industry the freight rates have come down to 5 cents, 6 cents per kg so that is also adding the exports from anywhere to India. So, these are some of the factors, but now with the situation DGTR. Commerce Ministry has recommended ADD on Indonesian VSF imports to Finance Ministry the matter is pending with the Finance Ministry and Finance Ministry has one month to make the final decision. So, we are actively awaiting the decision from the Finance Ministry on this thing.

Navin Sahadeo: Exactly that is what my next question was going to be because I did read about like representation being made, but what are the chances here you think of this anti-dumping duty coming back?

H.K Agarwal: So, we have a strong case and that is why DGTR found it appropriate to recommend the restoration of anti-dumping on Indonesian imports. There was an ADD on imports from China also in the previous five years ADD period, but this time China has been ADD on Chinese imports have not been recommended. So, there is a merit and we believe that merit should be also considered by Finance Ministry, but then we never know how the final decision is made because there are many considerations and the value chain also makes representations to Finance Ministry so very difficult to have any 100% feeling, but we are working trying our best.

Navin Sahadeo: I am just going to ask one related question here when the imports when come from Indonesia for a base category let us say the grey standard VSF category how much is the rate difference I am just trying to understand if that becomes because of the ADD is not levied then does this become more like a train which can stick around for a while what is the difference?

H.K Agarwal: The difference is like they will always try to price imports lower than our domestic price at any time. So, they know our domestic price and accordingly they offer their prices because they have to make it attractive. So, that is a normal thinking and more or less it follows the international prices, but they have been trying to get market share in India so they are giving aggressive prices, they have been giving aggressive prices. So, we have to contain with that and adjust our pricing accordingly. We cannot also lose market share beyond a point to any imports.

Navin Sahadeo: The exporter there would be the lenzing entity because Aditya Birla group entity is also there, so just trying to understand is it the Aditya Birla group entity which is also exporting or is it largely lenzing?

Pavan Jain: No, it is neither lenzing nor Aditya Birla Group entity. In Indonesia there are four VSF players and one of them is Sateri Group which has large VSF capacity in China as well as in Indonesia. So, mostly the imports from Indonesia are coming from Asia Pacific region which is part of Sateri Group the Chinese VSF player.

Moderator: Thank you. The next question is from the line of Abhimanyu Kasliwal from Choice India Limited. Please go ahead.

Abhimanyu Kasliwal: Sir I really wanted to speak specifically which relates to the paints investments that we are in I mean less than 20% roughly 1,800 crore, 1,900 crores and they are planning to do up to 10,000 crores by the end of FY25 if I have understood things correctly. Now my point sir is that now we are hoping to be the second largest number to paint player, so what kind of revenues and margins are we looking at by 26, 27, 28 I mean I am sure internally the Company must be having some outlook plan which will help us also forecast, any rough idea, any rough numbers if you could provide that would be very helpful?

Rakshit Hargave: So, I would want to repeat the reply that I gave last time that while we have our internal plans which suggest there would be in that frame of time, but we would not want to be sharing internal numbers of forecasting, anything in advance to the market, but obviously internally we have it worked out and there are projections.

Abhimanyu Kasliwal: But since we are hoping like if you want to be number two at least you can give a rough idea. Number two player we are looking by FY28, FY29 because we know what the number one looks and we know what the number three looks, so we will be able to kind of figure out, but by what. I am hoping to and what kind of margins are we hoping to attain by that time, and they are number two?

Rakshit Hargave: Like we have said that we would want to be a profitable Company in the near term and then the margins will take their own place as per market, but really for me to comment on actual margins and projections as you would understand in terms of revenues would not be the ask for the moment.

Abhimanyu Kasliwal: One more question last question in the B2B ecommerce business regarding that if you can provide some kind of numbers again hoping to see what happens in 24, 25, 26 atmospherically I have looked up on it as this being like the IndiaMART for B2B. IndiaMART is B2B, but we will be better because we have got a very large network etcetera, so if you could give some guidance on the B2B business?

Pavan Jain: See we have given the broad estimates for the total building material market in the country which is roughly $100 billion annually. So, that is the total market size of the building materials in the country and the digital penetration is about less than 2% currently. So, with the markets opportunity is big and let us say if over the period of next two, three years the market the digital penetration grows to let us say 10% than the digital on ecommerce business will be about $10 billion. So, that is the market opportunity. Now how fast we are able to penetrate and since this is a new business for us of course we have the required ecosystem available, but then it will depend upon how it plans out. So, if you look at the three-year opportunity this is about $10 billion you can estimate what could be our share kind of thing.

Abhimanyu Kasliwal: But sir would you like to from your end would you like to tell us something to incrementally understand the outlook or the opportunities better for the paints or for the ecommerce business, anything additional if you could tell us that will be very helpful?

Rakshit Hargave: I think this is not the right time to come out with our numbers, etc., as we reach the launching time and we are actually in the market with our products and with our platform, etc., everything that will be the time possibly we can share some guidance for the numbers.

Abhimanyu Kasliwal: But sir are you getting the kind of feedback from the market in terms of what we are working towards, any kind of positive sentiments and so on and so forth?

Pavan Jain: No, of course we are in the market, we do take the feedback from the channel partners in both these kinds of businesses that the required preparatory work is being done for both of these businesses. We do take feedback from the market places as to what is required to make these businesses successful in the medium to long term.

Abhimanyu Kasliwal: We just leave it at that the outlook is positive and we are working towards it, am I correct in my reading sir?

Rakshit Hargave Yes.

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

Nirav Ginodia: I have two questions to ask so one of the fiber sir and one on the chemical, so first on the fiber like this quarter we have seen a volume of roughly around 1,53,000 tons and if we see the specialty volumes there were around 30,000, so if you can just walk us through like what could be the utilization levels going for because last quarter you have already guided that this quarter would be a subdued volumes, but when can we see again the pickup in the VSF volumes one, second sir on the specialty fiber side when can we reach those 45,000 tons of volumes which we used to do earlier and it is safe to assume that whatever the EBITDA profits we have reported this quarter is predominantly from the VFY and probably VSF would have made the losses and if that is the case probably has the premium between our specialty VSF and the grey VSF have also shrink in this quarter because of which even on the same amount of specialty volumes sequentially we would have reported the losses on the VSF side?

H.K Agarwal: So, first question is when will the capacity utilization or volumes pick up. So, as we reported the Q3 our capacity utilization was 71-72% and because the market to turn for worse in Q2 and we produce more than we could sell so there was inventory buildup in Q2, but in Q3 we had inventory reduction to some extent and now we are seeing some signs of demand revival. We do not know how sustainable it will be, but we are definitely seeing pick up in our sales volume. Two, three things have happened one DGTR has made the recommendation to Finance Ministry for ADD although it is not a final decision, but the market people apprehend that it might happen. So, they also want to avoid imports then textile ministry has come up with the Indian Standards or VSF on imports for the entire VSF in India, but quality control order will be effective from end of March. So, that has also kind of put some dampener on the imports, but then these are temporary measures, but the textile industry seems to believe that the prices have bottomed out so that is why the buying had started again. So, Q4 we believe that capacity utilization should be in the mid-80s or high 80s. Now, on specialty volume got impacted because most of the specialty goes for export finally from even Indian value chain whether it is spinners or fabrics and since the market in Europe and UK and USA was impacted badly because of brands were saddled with high inventory so that segment got impacted much severely. So, that will take some time specialty volume pick up will be little bit slower than the pickup in grey volume and on the margins during this quarter our margin on specialty volume was better than past partly because the grey prices went down too much. So, pickup in the volume the grey prices should also pick up in due course than the margins will come back to normal. Actually, this quarter the specialty margin over grey was much better than normal.

Nirav Ginodia: But this is safe to assume that then the VSF business would have reported losses this quarter?

H.K Agarwal: Yes, we have made it in our communication also that VSF business reported negative EBITDA and mostly this profit is because of VFY business. VFY business was much more stable because there was no such aggressive exports from any country, mostly VFY comes from China and it is much stable and prices are maintained. So, yes your assessment is right, but Q4 hopefully should be better than Q3 of VSF also.

Nirav Ginodia: Sir just wanted to understand on the caustic soda business so what was the mix of power in Q3 like how much we got through our captive generation how much was through grid and what was the renewable share in Q3 FY23 out of your total power?

Jayant Dua: So, let us say out of our total power if you look at it and if you look at the guidance which has been given in the press note also. By the end of FY26 we will be at 27% of our total mix, what was the requirement and I am not talking about the quarter because you should look at the holistic picture rather than just looking at a quarter number. If you look at it from if you go back a year we were hardly 1% to 2% mix on a lower base which will go to 27% by FY25 and a much larger base of 1.5-million-ton caustic. So, what we are doing is that carbon footprint rather than going up with our capacities actually coming down. At this point of time, I think we have already commissioned our Karnataka unit which is running at about 75% to 80% on green power, our Gujarat units will go up to about 30% on green energy followed by a couple of projects which are already being done. So, overall taking us to I do not recall the exact number of units which will be, but it will be close to 100 megawatts of renewable power by FY25 we will be actually being using over there. Total requirement will be about 400 little plus so 100 odd megawatt will be of renewable.

Nirav Ginodia: Sir and a related question on the chlorine derivative side I think we have mentioned some of the capacities also over there, so like out of current capacity of 8,91,000 tons what were the utilization levels in FY22 and in 9 months of FY23 if you can share?

Jayant Dua: The capacity utilization actually varies and when you talk about chlorine derivatives and I think it is a good idea that you ask this question. You see cut across multiple segment so there is an industrial segment, there is a water segment, there is a disinfection segment, there is a pharma segment, there is an agro segment. Now each of these segments have a different growth rate particularly with respect to their market. Now with the China COVID situation and the slowdown in Europe couple of segments has actually taken a larger hit as compared to the other. So, if I talk of a broad number as per overall capacity utilization will be approximately 75%, 76% on all the total put together, but when you look at some of the different segmental related like if you look at the pharma segment the products which cater to the capacity utilization will be well into 85. We look out for dyestuff segment will be much lower. So, overall, about 74%, 75%. It is kind of flattish that we have not lost anything compared to last year, but yes I think the old textile chain segment which is gone down in a negative growth rate has not let us grow beyond a point of time. We kind of capital employed.

Nirav Ginodia: And sir this 2,73,000 tons of incremental capacities we are putting up that predominantly includes ECH, MCA and CTC so rest of the products does not qualify under this 2,73,000 tons of volumes?

Jayant Dua: The products which have come under 2,71,000 are the ECH, you are also correct at MCAA, you are also talking about CTC which is at Gujarat and you are also talking about the new facility of Chloromethane and CTC at one of our units in South India.

Nirav Ginodia: So, this MCA would be predominantly that food grade MCA we will be produced?

Jayant Dua: It is largely pharma grade.

Nirav Ginodia: And all those technology tie-ups and everything is done?

Jayant Dua: See a large part of pharma base is already a customer with multiple product, but we have to go through a product qualification route every time because they have their own regulations and once the plant starts producing we will start going there, but we do not see any challenge either in terms of a quality or in the process of getting the approval, necessary timeline will obviously take this because that is the process which you have to go through.

Nirav Ginodia: So, epichlorohydrin when it would be commissioned because you have mentioned the timeline of Q4 FY26 so for all of this three products if you can share just the timeline in terms of the capacities coming up that would be helpful?

Jayant Dua: Epichlorohydrin is a 50 KT plant which will come up by the end of FY24 or FY25. Again, why I am giving a band because there is a China and European factor which gets dependent on it because the supply chain while they have improved significantly. The factory working particularly in Europe and China is still not back to 100% in some of the engineering course. So, that is what is going to happen on the epichlorohydrin. We expect that by the end of middle of the next financial year MCAA will be fully operation and we are looking at CTC coming up in FY25 because we have to take the regulatory approvals before we are going to start the construction practice.

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

Prateek: So, you mentioned about this increase in imports from Indonesia so what would be the total import mix in VSF now in overall market?

H.K Agarwal: So, import mix in the overall market is about 15%.

Prateek: So, that has remained largely similar numbers because we are not like letting go our volumes by reducing prices, the market seems to have largely remain….

H.K Agarwal: So, if we allow the imports to come restricted then there are lot of other complications from the business point of view. So, we have to take a calibrated decision on pricing, on how much to do and how many customers we can sacrifice for the time being.

Prateek: And on products this quarter their production seems lower while the sales is higher like on absolute basis, so next quarter as we say that utilization will increase by around 10%, 15%, but sales can be lower as the inventory gets managed and still be like 10% down year-on-year.

H.K Agarwal: So, we will increase production only if we are able to sell we are not going to produce just for building up the inventory.

Prateek: So, a material increase over quarter-on-quarter in terms of volume so that also implies that we are looking off like taken a maybe a Rs. 15 cut in pricing last quarter. We could be like reintroducing better prices in like this quarter.

H.K Agarwal: Pricing is a dynamic thing we normally follow monthly pricing, but it is in line with the international price and the various sectors like what is the landed cost, what is the offer for imports etcetera, exchange rate also plays a factor and there are some other business factor like what is the yarn price internationally yarn price in India etcetera. So, pricing is dynamic thing, but normally international price has been stable lately. So, we believe that prices should remain stable for the remaining part of the quarter.

Prateek: And what would be the VSF segment revenue and EBITDA for the quarter?

H.K Agarwal: So, I cannot give you specific numbers for this thing, but I believe that it will be better than Q3 because the volume will be better even if at the same price the revenue will be better and EBITDA should be better because there will be some operational leverage and then some raw material cost also however trending downward inventory pipeline, but there will be some positive effect on the cost side also.

Prateek: I meant VFY segment revenue and EBITDA for third quarter VFY revenue and EBITDA for third quarter?

Pavan Jain: See I think we do not have VFY separately numbers you can connect with Ankit, but as we have said in the press release if you go through the VSF EBITDA for the quarter was negative and overall, for the segment we have positive EBITDA. So, VFY has given the good numbers off-setting the loss of VSF also.

Prateek: And sir on CAPEX we were like sort of targeting including CAPEX we are targeting I think around 5,000, 6,000 crore kind of CAPEX for this year and we have in presentation we have mentioned around only 1,400 or so which have incurred now for X of paint, so what is the target for this year FY23 including paints?

Pavan Jain: So, other than paint sales we have given the numbers for 9 months which are about Rs. 1,400. We expect maybe around 1,000 in Q4 which includes some large lined up CAPEX outflows, for example, land at Vilayat, etc., other than paints I mean the expectation is that some part of the CAPEX outflow budgeted for the current year may spill over to the next year.

Rakshit Hargave: So, for paints our executions are as per plan. It is just that we realize that some of the materials that we had probably budgeted were coming in the bit too soon. So, we have just time the order accordingly so that we get them at the right time otherwise there is no change.

Prateek: So, what is the CAPEX number for FY23 for paints?

Rakshit Hargave: So, it is very difficult to give exact, but we can estimate maybe about Rs. 500 crore in Q4 for paints.

Prateek: So, total cumulative CAPEX for the Company in standalone business is 2,500 plus 1,500 or so, 2,000 crores that is the number?

Pavan Jain: So, the total should be about 2,500 crore, paint 2,000 crore and maybe 2,200 crore so in the other businesses.

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

Mudit Agarwal: I just want to know the effective tax rate for this quarter because we have opted for the new tax regime in the current quarter, so what was the effective tax rate for the Q3 quarter?

Pavan Jain: See the tax rate is to be calculated not for the quarter, but for the full year. So, the provision has been made based on the effective tax rate likely for the full year. So, for this quarter if you look at the numbers in the results we have in fact reversed provisions made in the previous quarter and there is a reversal of tax provision in this quarter.

Mudit Agarwal: So, can you quantify how much is the reversal because of in the new regime?

Pavan Jain: See the new regime tax rate is 25.17%. So, broadly the effective tax rate for the full year is likely to be around that level.

Mudit Agarwal: Sir second question can you throw some light on the key input cost in VFY business mainly pulp how it is trending now and if any correction we have seen by when the same will be reflected in our cost, I want to understand the time lag of these benefits?

H.K Agarwal: The pulp is a long delivery item because we have to import pulp from South Africa, Canada and Sweden. So, takes about 60 days shipment and then we have continuous shipment. Now because of this capacity utilization was lower we had pulp already in the pipeline which we could not stop. So, there is some inventory buildup and of lately since October the pulp prices have shown some decline in trend. So, we have for the time being a situation of pulp inventory with relatively higher cost, but this will get processed by end of this quarterly hopefully and prices have shown some decline, but of last two, three weeks they have been stable around $900 per ton and our purchasing long term formula also used to be price based on previous quarter. So, when the pulp prices were rising we would have an advantage because that rise will take effect up to 3 months, but in the declining trend it works against us. So, we have change this formula from the previous quarter to the previous month. So, from January our price is what based on invoicing, is based on what was the price in the previous month that is December for example. So, now the new supplies are coming at previous month so that will be more current. So, I hope this answers your question.

Moderator: Thank you. The next question is from the line of Ajit Motwani from PinPoint Asset Management. Please go ahead.

Ajit Motwani: Just wanted to know in terms of operating rates for Chinese players have they not started improving in the sense that we just had end of Chinese New Year and the markets have opened up there, so have you seen this cost operating rates for China improving of late?

H.K Agarwal: So, Chinese industry operating rate had gone down as low as 56%, 57%. Now they are operating at about 65%. So, yes there is an improvement partly after Chinese New Year and after the COVID restrictions have been removed. So, there seems to be better off take in China for VSF and that is supported by this increase in the operating rate.

Ajit Motwani: Have the prices started moving up?

H.K Agarwal: They are marginally moved up, but now they are just stable not moving very rapidly or not moving very substantially, very-very marginal. So, they are stable around 13,000 RMB.

Ajit Motwani: So, if I look at the way you are saying the prices are stable like in your presentation highlight that our or let us say the rates are still 4% lower than the quarterly average and the benefit of RM is yet to come in, so the benefit that we are seeing in margins will largely be driven by higher volumes which is operating revenue mix for the next couple of quarters?

H.K Agarwal: Yes, but our margins will mostly be driven by the selling price and the input cost not so much by the volume.

Ajit Motwani: Secondly and I was looking at our CAPEX numbers X paints about 1,800 odd crores yet to be spent say about 2,000 crore there in and on the paints business you mentioned about 1,800 crores from the 10,000 crore number so that is also like 8,200 so total the two businesses put together is about 10,000 crores, so for FY24 is it fair to assume that given the fact that we are looking at starting our plants by FY25 on the paint side half of this 10,000 crore will be the targeted CAPEX number for FY24?

Rakshit Hargave: So, yes for FY24 the CAPEX spent would be more substantial inching towards the total of 10,000, but not towards that, but you could expect the number in the range of 4,000 to 4,500.

Ajit Motwani: Our standalone EBITDA is subdued today at 500 crores we were lot better couple of quarters ahead, so given the kind of trajectory you are looking at of cash flows from the standalone business, what sort of peak debt we should look at for the standalone business, the slides mentions today is about 500 net debt is what we have we are at in December, so how should the debt move over next say 6 to 8 quarters?

Pavan Jain: See it will all depend upon our existing businesses performance over the next 6 to 8 quarters, but the large CAPEX plans we would do the borrowing for especially for the paint business. So, as we have shared earlier also our target is to keep net debt to EBITDA level below 3.5 kind of numbers, but we have committed the CAPEX and how the existing businesses perform over next 6 to 8 quarters that will be resulting the actual net debt to EBITDA.

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

Ronald Siyoni: I had just one question with respect to quarter and VSF prices like since I think from Quarter 4 of FY21 we had seen run up in cotton prices which eventually after more than year it came down, but during the same time we had also seen flattish VSF prices, but now cotton prices reacted negatively there was a direct correlation with respect to falling of VSF prices, so if you can explain the reasons behind the same there were different reasons with respect to cotton moving up and also now different reasons for VSF prices to come down rather than cotton prices getting corrected, so just wanted to know more about this correlation for the past two years?

H.K Agarwal: So, the cotton and VSF prices are not correlated with a very high coefficient. So, when the cotton prices went to say $3.5, VSF price did not go in that direction so much. So, it was kind of flattish or it went up, but very marginally and even when the cotton prices crashed 40% since its peak VSF prices have not crashed to that extent. So, yes the direction most of the time is similar, but the extent of movement are much different.

Ronald Siyoni: So, we can safely assume that there is not much correlation to be seen in the future also we should expect from both these prices?

H.K Agarwal: I am saying this thing based on say 10 years data analysis. So, the correlation is not very high. There is correlation, but it is not very high.

Moderator: Thank you. The next question is from the line of Navin Sahadeo from Nuvama Institutional Equities. Please go ahead.

Navin Sahadeo: Sir my question in VSF of course globally there is always been a cycle. I am sure they have seen it all, but in the Indian context we have always had this monopoly advantage we could still like price it better or bargain better with all this thing, but with this Indonesian imports now coming in I think the monopoly situation has got challenge, so then is it fair to say that until unless the government acts in terms of some sort of an anti-dumping duty which is what the presentation already is until that happens is it fair to say that now like the margins may not be as superior as in the past, but more like range bound and lot dependent on the global demand-supply, will that be a fair assessment of this historically monopoly business?

H.K. Agarwal: I want to challenge your some statement that we have been monopoly. See what is the meaning of monopoly we have to understand it better. So, just being one producer does not mean that it is monopoly because imports were always open even when there is an ADD, it does not mean that people cannot import. So, people can always import and especially for export thing the ADD or even basic custom duty is not applicable and there is so much overcapacity in countries like Indonesia or China. China is sitting on 35% capacity overhang; Indonesia is sitting on almost 100% overhang over their respective domestic demand and domestic capacity and they were always free to export and Indians spinners were free to import and they were importing also and even when ADD was there, our prices were never unfair because then there is always a thing that the full value chain has to survive and prosper. So, in the last 10 years from say 2012 to 2021 when this 10 years there was ADD in India VSF imports the domestic value chain spinners, the weavers they grew almost 3x. So, if the prices were monopoly stake are unreasonable the value chain would not have grown. We rather invested in the development of value chain and grew the pie. So, I would you to correct your understanding about the VSF and Grasim being only producer in India, we have more responsibility because we are the only producer in India for this important raw material. So, please calibrate your understanding about our thing and if you need some more information please let us connect one on one we will share with you and this is what we have shared with the Commerce Ministry, with the Textile Ministry because even for this application of ADD there was so much hue and cry from some vested interest importers or the Grasim is monopolistic and we prove to the satisfaction of Commerce Ministry, Textile Ministry in front of the textile value chain or those people who were talking like this and they agreed and admitted that yes Grasim has been most responsible player in textile industry in India.

Navin Sahadeo: Just two small question other income sequentially or compared to like past quarters slightly on the higher side at 103 crore despite like decrease in the treasury per se, so is there any one-off in the other income per se or that also is probably the wrong way to look at it?

Pavan Jain: No there is not any one-off kind of thing it is largely because of the higher yields on the treasury income and of course the treasury size is also little higher compared to Q3 last year. There is no one off item any special one-off item.

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