"Grasim Industries Limited
Q3 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2020 Earnings Conference Call of Grasim Industries Limited. We have with us today from the management, Mr. Dilip Gaur, Managing Director, Mr. Jayant Dua, CEO of Chemical business, Mr. Ashish Adukia, CFO; and other senior management team. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Adukia. Thank you and over to you Sir!

Ashish Adukia: Thank you and good afternoon everyone. I welcome you all to the Q3 FY2020 results call. Let me start the call with a few financial highlights and then I will follow it up with select highlights from the presentation that has already been uploaded.

On consolidated basis for the quarter ended December 2019, Grasim reported revenue of Rs.19,205 Crores and EBITDA of Rs. 2,968 Crores. On standalone basis, revenue and EBITDA for the quarter stood at Rs. 4,499 Crores and Rs. 495 Crores respectively.

The business performance for both Viscose and Chemicals was impacted by weakness in realization. The global viscose industry was impacted by factors such as large capacity addition of about 1.3 million tons in Asia last year, the ongoing U.S.-China trade war and RMB depreciation, which contributed to the drop in global VSF prices.

The current prices are near the variable cost of production for a significant part of the industry possibly indicating that the prices should be bottoming out. The domestic VSF prices witnessed a continuing decline in line with the global prices. Import of cheaper yarn further impacted the viability of some homegrown spinners.

On the cost side, pulp prices fell below $650 per ton. We correspondingly gained with pulp consumption costs coming down from Rs.62,620 per ton in the September quarter to about Rs.60,524 per ton in this quarter.

For VFY, the revenue and EBITDA for the quarter stood at Rs.446 Crores and Rs.82 Crores, respectively. The decline primarily is on account of lower sales volume, which was 9% down YoY primarily due to Tyre cord slump in automotive sector.

The domestic VSF prices may witness some improvement due to improving sentiments post phase 1 deal. There may be some near-term relief due to current supply constraint from China given the ongoing issues there.

The prices of caustic soda declined significantly during the quarter to $350 in Asia on back of demand slowdown. In India, the caustic soda prices are getting impacted by new caustic capacity addition and increase in imports.

Our caustic soda sales volume of 261 KT has improved sequentially as well as YoY. We have been able to maintain our market share of 27% despite capacity additions by industry players. In India, ECU in short-term is likely to remain under pressure till new capacities are absorbed by new demand generation.

In our value-added products, performance has been reasonably okay, given the current economic conditions. The chlorine consumed in VAPs has improved to 30% in Q3 from 27% in Q3 FY2019. Value-added product sales growth in volume terms reported an improvement of 18% YoY.

The EBITDA from epoxy, which is part of Chemicals business, was marginally higher as the weakness in realization was offset by softening of input costs.

Sustainability has been the core focus area for the company. The VSF business recently released its sustainability report. We would like to just highlight a few key points covered in this report. We continue to be one of the lowest water consumers globally. Secondly, Canopy Hot Button Report has ranked us #1 VSF producer. This report ranks the world's top rayon and viscose producers on their progress in eliminating endangered forests from their supply chain. More than 200 leading global brands, retailers and designers are part of the CanopyStyle initiative.

Let me briefly cover a few targets that we have taken up in this sustainability report for the VSF business: Reduce sulfur released by 70% by 2022, and this is for all the VSF sites; reduce water intensity by 50% by 2025; and reduce the loss time injury frequency rate below 90%.

Now on the capex front, I would like to reiterate that our project team is committed for timely execution and commissioning of the project. If you notice on Slide 7, the capex earmarked to be spent for FY20 as a whole has come down by Rs.500 Crores in comparison to the estimate that we had given in Q1. We have primarily phased out certain payments and we will see some savings as well, but it is little early to state what that amount of savings would be.

Our disciplined cash flow approach has yielded result this quarter as well as if I look at the 9-month financials. For the 9 months FY2020 standalone operating cash flow, the generation before capex has been Rs.3438 Crores. A large part of the cash generation has been on account of reduction in working capital.

So that is it from my side, we are open to questions. So I will hand over to the operator. Please feel free to reach out to us on any queries that you may have during this call or if they are unresolved then post the call. Thank you.

Moderator: Thank you very much Sir. The first question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.

Amit Murarka: Just on the margins, the prices have fallen quite sharply in the past couple of months what we have been discussing on the call is that like we have reached nearly bottom, but seems like the prices have continued to slide so can we now finally say that the margins, which we have seen in this quarter, is like really the bottom now and going ahead the margins are expected to be better?

Ashish Adukia: We do not give guidance as such, but I think some of the points that I mentioned about VSF, for example, the price reaching it has almost reached the variable cost of the global players. So it is highly unlikely that it will go down further. It is expected to in fact bounce back because of the whole Coronavirus issue there is no supply coming from China, so there could be some temporary release that we may see in the VSF price. Dilip would you like to add any point and then we can hand over to Jayant for Chemicals?

Dilip Gaur: Yes, I think, it is very difficult to predict which way the prices go, but as Ashish mentioned, every Chinese player is right now losing up to RMB 1,500 per ton on the production there and the sales they are making. So I think you cannot sustain this for very long and it is reflecting in the OR the operating rate of the Chinese part, which has come down to 75%, today, it has come down to 66% as we speak. So the stress is being felt by the industry and I think there has to be some bit of discipline coming in and this whole Coronavirus thing it is short term issue is there. Yes, the market will see some kind of upstream, but that long term ultimately the demand supply balance has to match then only the stability will come.

Jayant Dua: Very similar on the chlor-alkali side that currently, I think the only difference is that India has got a fair amount of capacity in the slump over the last one quarter, which is getting absorbed by the market, and we expect that absorption to get completed by another 2 or 3 quarters. The imports have gone up regularly from Northeast Asia and from the Middle East part, both sanctioned and non-sanctioned countries. We have started seeing a slight reduction in the intensity of the drop, but the drop of prices continues to be a challenge as of now.

Amit Murarka: Sure. Generally, there is a 2-month lag between the pulp prices reflecting into the P&L?

Dilip Gaur: We take the previous quarter price and then the inventory also, there is about a 3-to 6-month gap it becomes, but depending upon the pricing in last quarter, but the consumption happens in subsequent quarters, so the whole lag story at this quarter also had a huge amount of lag about

Rs.120 Crores of being a lag impact. What I think going forward now we are seeing an end of it because the prices are now flattening out of pulp, so in Q4 we should see the end of price lag.

Amit Murarka: Also just one more question on the capex, so you have a fairly large capex program and given that the industry profitability is so weak, is there any thought around delaying some of the capex and wait for a recovery in the industry?

Dilip Gaur: I do not think it makes sense to delay the capex at this point in time because I think the demand is there and by the time our first-line goes on stream by third and fourth quarter of FY21, I think by the time this plant stabilizes the market should see an uptick hopefully and even if it does not this plant we are putting up is far more efficient than the existing plant, so I had a lower cost of production advantage and more flexibility, so we can do more value-added products. So I think we do not want to delay the project right now. We should be there in time. When the market looks up we should have the capacity ready and take the advantage of the market.

Ashish Adukia: Just to add to that point, these capex are quite strategic, so if you look at VSF, for example, there is a large commitment that has already happened and we see a demand uptick growth to serve that market from our capacity as well and if you look at chlor-alkali, the major capex that has come is on account of say Balabhadrapuram, okay, which is again in the eastern region, which is a deficit market today, that market actually imports caustic. So it is a ready market for us to serve. So therefore, both these big capex are strategic in nature and then there are other capex, which are in value-added products side in chemicals, which are strategic.

Dilip Gaur: And if you go back to history when we have put up a Vilayat plant in 2014-2015, it was exactly the same time the cycle was there which last about 18 to 24 months so hopefully I think, the timing should be fine.

Amit Murarka: Understood. Thank you.

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

Prateek Kumar: Sir, my first question is on your domestic VSF segment so what would be the industry growth in this quarter because it seems that our growth is flat during this quarter in VSF segment?

Dilip Gaur: The industry growth should come back. I do not know whether you picked up the point. What happened in last quarter because of the VSF prices became very low globally and VSF because we are defending our market for the fiber, a lot of cheap yarn started coming into India. So if you see between June to August and September, the yarn import became 259 tons per day almost 20% of market was there by the yarn import and so that the demand actually here so if you ask me for VSF fabric the demand did not go down, but part of the demand was made up by the imported yarn and that is the reason why we had to drop our VSF prices to make sure that our spinners, I always have been telling in this call, it is our policy to price our product to help the value chain, to keep them healthy and because the Indian value chain came under a lot of pressure because of the cheap imports and we have dropped the VSF prices to do that and as we speak the imports have virtually stopped. So I think that the demand should come back. So there is no shrinkage of demand in Indian market, there is enough demand. I think if that yarn import had not happened we would have grown by about double digit. Am I making myself clear?

Prateek Kumar: Yes, it is clear. So actually, I joined the call late I think it was discussed earlier in the call. So on regarding this impact of Coronavirus, In Chemicals segment, caustic or value-added specialty segment, does any of these segments get benefits from the prices; we understand that it is temporary, but like the specialty segment does it benefit significantly from the ban on, the closure of capacities in China?

Jayant Dua: Currently, no such indicator is available, which gives us any confidence to say that, that could happen, but the flip side of the situation can be, there are a lot of pigment and diester manufacturers, who are dependent on a lot of imported stuff from China. Now normally they carry an inventory of anything between 30, 45 or 60 days depending upon the lead times. If this thing does not settle down you could actually have some of the value-added products pricing going up because of shortage of raw material for their entire feedstock, but it is too early to comment on that. We need to wait and watch and see what happens. On the caustic side we do not see any impact at all.

Prateek Kumar: So caustic is not related, only the specialty segment, as you mentioned, might benefit. Regarding our net debt position in standalone business has gone up sequentially by around Rs.700 Crores, is it related to that investment we had it in like Aditya Birla Capital?

Ashish Adukia: Yes. So you have to look at it from overall company's point of view of cash inflow and outflow during the quarter. So yes, that is the investment that was made of Rs.770 Crores into Aditya Birla Capital that led to increased cash outflow and that is one of the reasons for the debt to go up. However, like I mentioned, there is a good amount of cash that has got generated as well due to release of working capital in this quarter as well as for 9 months, which was used to obviously meet the requirement of the business.

Prateek Kumar: Just one question on capex, so 9-month capex is around Rs.2000 Crore in standalone business here envisaging Rs.1,200 Crore in fourth quarter, is that the right figure I am looking at?

Ashish Adukia: Yes. So the total comes to about Rs.3200 Crores for the entire FY2020 and what we had given initially was somewhere close to Rs.3700 Crores to Rs.3800 Crores as an estimate, so it is lower by Rs.500 Crores.

Prateek Kumar: But that just spills over to, in fact, some of this RS.1200 Crores might also be splitted over to next year and total capex because total capex number remains the same?

Ashish Adukia: Yes. So like I said in the beginning of the call, as of now, we are not changing the estimate of the total capex that will be spent over the next 2 to 3 years so that estimate is not changing, but we have seen signs of some savings that can be made in some of these capex like Dilip was also mentioning. It is a little early for us to give any kind of an amount for what that saving could be, but there may be some savings that we will see in these capex.

Prateek Kumar: On ECU realizations, I understand it is under pressure. So how the chlorine realizations continue to remain negative third quarter straight?

Jayant Dua: So the chlorine realizations, the intensity of negative has gone down. So it went as high as about Rs.1500 negative in the early part of the year it is down to now just about Rs.100 negative as of now. It is also because the chlorine demands particularly in Gujarat area, which is a very large capital consumption area for chemicals, has been fairly stable. We expect chlorine to remain at typically in the last quarter in similar ranges.

Prateek Kumar: So is this something also we import chlorine, so which could also benefit?

Jayant Dua: Chlorine does not travel at all. Chlorine being hazardous the way it is, it does not travel at all. We tend to do either by pipeline or very limited movement through tunnels in small liters.

Prateek Kumar: Thanks Sir. I will get back to the queue for more questions.

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

Gunjan Prithyani: On the VSF, I just needed a clarification now. For the last many quarters, we have been able to kind of keep our realizations more steady given the various initiatives we were taking on branding side or also improving the mix, it somehow seems that in this quarter the decline that you guys have had is much steeper than what global VSF prices would have seen so what really changed in this quarter for the realization to see such an acute pressure in a quarter that the catch-up happens?

Dilip Gaur: See as I mentioned to you, this was a strategic intervention we did to make sure that our spinners continue to remain viable because their viability so they were bleeding at because they had to match the imported price of viscose yarn. Viscose yarn, which was coming at Rs.148 a kg, at that pricing the spinners were losing money. So we had to kind of support them and that is why the prices came down disproportionately, but even now also we still we are at a premium to the landed prices of viscose in India, but as we speak by the end of the quarter the global price came down to $1.20 per kg.

Gunjan Prithyani: But the premium, Sir, would have compressed, like, can you give some sense, how much was the premium, maybe, let us say, earlier into the year and what is the premium now?

Dilip Gaur: It is difficult to give a number there, but I think broadly it depends upon...

Ashish Adukia: So premium is broadly maintained. It has not come down. In fact the premium in the earlier quarter had expanded when the correction in the price was not as much as the global prices, it has actually expanded. In this quarter, it is more or less you could say that it has come down, but it is not shrunk from an average.

Gunjan Prithyani: This is basically a strategic intervention, I understand, you have made in this quarter, but is there anything, which suggests that the domestic prices could be at a disconnect with the global prices in the next couple of quarters or now from here on we continue to follow how the global price is on?

Dilip Gaur: I always told you the domestic prices will follow the trend, but the delta will depend upon what the value chain can take, so the delta depends on how healthy the value chain is, otherwise there are some inherent barriers and protection that is what we will also get in the system. So the biggest issue was the loss of demand to the cheap imported yarn and once that stops I think the whole value chain becomes more healthy and things should start looking up. That is why you see imports have come down thus far.

Gunjan Prithyani: On the specialty side, I thought this mix has come down for the last 2 quarters. I am not so sure. I think last year the levels of specialty contribution were higher, right, what has changed on that front?

Dilip Gaur: One thing is that this quarter is better than last quarter; there is slight improvement in the specialty contribution. Second is how do you define specialty. We have got four big products of specialty; modal, excel, dope dyed and non-woven. Actually, top 3 in terms of margins are dope dyed, modal and excel, which have grown significantly. The non-woven, which is a specialty, but not with a high margin so that part we have kind of defocused in India because that is not a big market in India. It was export market and there was not much value in that market so that we are not making. In India we have diverted that volume to grey market. So the grey in India is far more attractive than the non-woven in India. So that is the difference. So if you look at the real if you differentiate specialty into value-added specialty our growth will be much higher. It will be higher than last year we can share the numbers with you.

Ashish Adukia: And the 2% increase that you see is primarily in the dope dyed market.

Gunjan Prithyani: Got it and the other question I had been on the caustic side. You mentioned about the capacity could you give us some sense on where we are in as an overall industry in terms of the total capacity and the consumption, so where are we in the operating rate for the domestic industry?

Jayant Dua: So the average operating rate of the industry is somewhere between 80% and 85% across different geographies and our operating rate is also in a similar trend depending upon the geography the plant is located in. The current growth rate is muted at about 3% to 4% and we expect that maybe this is the kind of growth rate, which will be the way forward also.

Gunjan Prithyani: But what is the total installed capacity now, whose was the big commissioning that you saw in the last 6 months?

Jayant Dua: So I think the total installed capacity that we have at this point of time is approximately India is near about 4 million tons of capacity as of now. The large capacity addition, which took place, was of DCM, which was 128 KT that is about 350 tons per day. You had the GACL, which was about another 800 tons per day, which is there. Meghmani has not yet finished, a little probably before the end of this financial year will commission its capacity.

Gunjan Prithyani: How big is that Sir?

Jayant Dua: That is probably taking it up by another 350 tons per day. We will get to know real numbers once they commission it.

Gunjan Prithyani: Which is why your guidance on the pressure on the realization?

Jayant Dua: With the growth rate between 3% and 5% it will take about 12 to 18 months for this capacity to get absorbed.

Gunjan Prithyani: Got it and last question on the capital allocation besides the capex is there anything that is we should keep in mind as you are looking for the next couple of quarters because I know the Aditya Birla Capital thing has happened, but is there anything else besides the standalone capex commitment that we should keep in our mind?

Ashish Adukia: Currently, no, Gunjan.

Gunjan Prithyani: Thank you. That is it. Thank you so much.

Moderator: Thank you. The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Just continuing on the previous question on caustic and initially Sir you mentioned that the price reduction continues, only the pace has reduced, so just wanted to understand your sense of where the margins bottom and at what level do we start seeing some supply reaction similar to what we are seeing in VSF in China?

Jayant Dua: Unfortunately, we do not have any such clarity as of now in terms of guidance whether we will see it because clearly the major import area for us was not China; it is more of Japan and Middle East. So China, caustic soda imports into India are insignificant today, so we cannot comment on that, but to say that when will it bottom out I think time will tell us because it is also a function of how the demand uplift starts taking place in the country.

Sumangal Nevatia: Yes, but in terms of domestic cost curve do you have a sense where are we versus our competitors?

Jayant Dua: I think you will have to look at it in terms of our power control because power approximately is around 65% to 70% of our variable cost. We have got about 55% of our capacity where we control the power and that number will steadily going up with both renewable and other assets, which are coming up through capital deployment, so without getting into numbers I would say that we are significantly much better off as compared to practically all the competition in India.

Sumangal Nevatia: Understand and Sir next question is with respect to VSF. This 1.3 million ton capacity addition what you are seeing, how is the ramp-up there happening and how will that new capacity fit into the overall cost curve if you have any intelligence there?

Dilip Gaur: The 1.3 million has already happened that happened in last year and one plant got commissioned just end of December, early January at 250 KT. Further capacity coming this way is only 150,000 to 200,000 tons, so the capacity addition at least for the foreseeable future had stopped or tapered in this cost. So I think we can see so this year another 150,000 to 200,000 tons capacity might come up. It depends upon who is putting the capacity. So fundamentally all the latest VSF plants like the one we are putting in the lab and what people are putting on are similar cost structure there. They are more efficient than the existing plants, but the real value comes from the pulp cost. So now people are looking at the integrated value chain, which is pulp and fiber so it depends upon how well you are integrated and how much of the captive pulp comes from your own units besides your total competitiveness.

Sumangal Nevatia: Understand, but this last year's 1.3 million ton capacity addition, has that ramped up to the quarter?

Dilip Gaur: Yes, good question. 30% of that capacity is only used right now. So all the surplus if you see between last year and now the operating rate which used to be 90% last year came down to 75% before the lower prices started. Despite that we had the inventory building up. So the inventory which was 10 days went up to 21 to 22 days. Today, as we speak, it has gone to 35 days. So issue is until the operating rate comes to a stage where demand and supply match or the trade war impact starts showing up and as the China demand picks up you can see an uptick. So sustainable improvement will only happen when the demand side improves. So right now the demand side and supply side, they are still at imbalance. So to get the balance back we require about less than 65% operating rate as we speak today, which has happened today because of the Corona issue, but otherwise the normal course is 75%.

Sumangal Nevatia: Understand and with this Corona issue, is it the impact only theoretical as of now or we are seeing any tailwinds flowing in prices or any high-frequency data, which you are tracking?

Dilip Gaur: See, Corona, as we said, it is a benefit immediate term, you are seeing a positive, but ultimately what happens because we are producing and not able to dispatch, inventories are going up. So when the market normalizes, again you will have an issue of lower prices. So I think it is only a phasing issue. You may have a short-term advantage, but long term, it will even out.

Sumangal Nevatia: Understand.

Dilip Gaur: Or may get worse also.

Sumangal Nevatia: Alright. This is very helpful. Thanks and all the best Sir.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Sir, a couple of questions. Firstly, in China, we have seen some disruption in production capacity at the various end user industries of caustic soda like aluminum, has there been any adjustment of the capacity of caustic soda there or do you think there can be a situation, which can lead to surpluses from China market, which is not there as of now from India perspective?

Jayant Dua: The China threat continues to be there. I think it is a fair point you are talking about. However, in India, particularly we have the ADD on China at a fixed rate of about $40 per ton, which is there till the third quarter of this current financial year. So I do not see China impacting us as of now in the Indian context of price scenario, but to an extent that does China have spare capacity of caustic I think that is a fair point it turns out.

Gaurav Rateria: Secondly, Sir, just wanted to get a color on what the exit ECU will look like compared to the average of the last quarter?

Jayant Dua: Yes, again, you are asking us to give a guidance, which would not be possible at this point of time, but I think we made a statement earlier that we are seeing a kind of slowing down of the drop, so hopefully it should stabilize soon.

Gaurav Rateria: Sure. Two last questions. Possible to quantify the benefit of reduction in pulp cost in the financials over the coming quarter and secondly the Rs. 4,500 Crores of capex from fiscal 2021 onwards what is the timeframe for that capex one should keep in mind?

Ashish Adukia: So in terms of pulp, we try to give some indication through the gap that exists between the dollar cost, so if you see on page 11 we have given that Rs.60,500 per ton is the consumption cost and current prevailing cost is $640 per ton and given that 3-month lag that we talked about, depending on December what we purchased the inventory at, okay, that will be consumed somewhere towards the end of the March. So end of the March, you may see, say, around $650-plus, plus, plus as a landed cost and during the quarter it might be what we purchased towards September and September, October, somewhere around that time.

Gaurav Rateria: On the capex Sir?

Ashish Adukia: Yes. Sorry, can you please repeat your question on capex?

Gaurav Rateria: Sir you put Rs.4500 Crores something from fiscal 2021 onwards so is that for fiscal 2021 or how should one keep in mind any timeframe for that capex?

Ashish Adukia: So yes, sure. So out of Rs.4,566 Crores and of course we will closely review this capex as we do that every year, but you can assume somewhere around Rs.500 Crores to Rs.700 Crores to be spilled over to FY2022 and the balance will be in FY2021. Because, see, if you see the big capex, your capacity-enhancing capex, which is VSF, VFY and Chemicals, Rs.2795 Crores, all those projects are actually pretty much completing in FY2021 itself. So what you need to focus on is that, that capex is going to get incurred in FY2021. The balance, which is more modernization in nature, there is some flex that exists out there so some of that will spill over to the following year.

Gaurav Rateria: Thank you.

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

Navin Sahadeo: In your slide you have mentioned the exit VSF price for the December quarter at about $1.26. Sorry if this is a repeat, but the current level is, how much for the like-to-like variety?

Dilip Gaur: In China, the market is closed now after this was the price before the Chinese New Year; it has not opened after that, so there are more and more exports happening on China right now.

Navin Sahadeo: Understood. I understand as you explained that the spreads of the spinners or the yarn manufacturers as what are more important and that is where we have to like oblige them so that they survive, but just to get a sense, those spreads because this Corona and these issues are more January and February-related issues, so any sense where are those spreads, have they worsened versus the December quarter now. How should we look at it?

Dilip Gaur: We cannot say that improved in India.

Navin Sahadeo: So that means, obviously, there is some improvement that has happened in VSF prices also, is that safe to assume?

Dilip Gaur: Yes, hopefully, let us see. If that is sustainable, we do not know, but short term, yes.

Navin Sahadeo: Okay. So I was just trying to get the sense, but any indication because there is first of all, there is more capacity?

Dilip Gaur: It depends upon when China starts. Today, February, 10, 2020 some places have started. If it starts fast things will normalize much faster. It is very difficult to predict at this point in time. We do not know what is happening there and all the offices are supposed to start today, I think they have started some skeletal staff only. They are not allowing all the industries to start, they are prioritizing it so we will have to watch and see.

Navin Sahadeo: Is there any trend at the global yarn prices I know China is probably, you said those prices you may not have those current spot prices, but is there any other indication of global yarn prices to get a sense how have they fared or China is the only thing we have to keep in mind?

Dilip Gaur: We do not monitor the global yarn prices, I cannot comment right now. It is too shorter time, but it depends upon 2 silk players, Indonesia and China. So depending on how and it is VSF price plus delta become yarn price. So I think it will all follow, difficult to give a correlation at this point.

Navin Sahadeo: Understood. Thank you.

Ashish Adukia: Just one clarification I would like to make on the previous question on capex, I just relooked at the numbers. So FY2021 onwards, so FY2022 is more like Rs. 686 Crores and FY2021 will be the balance ie. Rs. 3880 Crore.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Firstly, Sir, as discussed also, had there been any change in the pattern of consumption of caustic soda by the key aluminum player, has there been any change, which you are observing, any specification has changed?

Jayant Dua: No specification has changed, but I think there is a trend, which is there in terms of the bauxite, which comes from Guinea, where the consumption of caustic reduces marginally, but it is not yet very material in the country as of now to make any substantial impact.

Saket Kapoor: What has been the capacity addition in the 9 months of this current fiscal in the domestic industrial?

Jayant Dua: Total capacity addition, which have come up is approximately about 1,500 tons per day is what has come in the first 9 months.

Saket Kapoor: What has been the import quantity for the 9 months?

Jayant Dua: So it is about 250,000 tons, which has been the import quantity in the last 9 months.

Saket Kapoor: What was the figure for the last preceding year, Sir?

Jayant Dua: Last preceding year figure is not relevant because there was a BIS certification, which was required. So those figures are not comparable as of today.

Saket Kapoor: Now every country producing caustic soda has complied to it and the import can happen from everywhere?

Jayant Dua: Whoever takes the certification only he can import it to India.

Saket Kapoor: So what I am trying to say is that whoever is the producer can import after taking the certification, import can be received from any of the countries, there is no pending country who will go apply for BIS and then they can also start dumping, that was the reason.

Jayant Dua: BIS is never on a country, it is on producer. So all the relevant producers have taken their BIS.

Saket Kapoor: How is the case for an anti-dumping could happen going forward does it make a strong case?

Jayant Dua: I think as of now we are still reviewing it. We probably will get more clarity after another 1 or 2 quarters if there is any case at all.

Saket Kapoor: In the budget speech, the Honourable Finance Minister did mention about the safeguard duties part coming effective on a much faster way, so although safeguard is very different to the anti-dumping, so any color or any thought process you people have worked out, how can automatic application of safeguard duty can come into effect?

Jayant Dua: No, I think at an industry level, we have not yet discussed it at that length, but you have to look at for any of the duty structures to come in, we tend to look at today's results whereas the decision happens based on past results, so you have to always have a look at that view. What is happening today you need sufficient evidence for any of them to work for it to go forward, so it takes time for any of these to actually materialize.

Saket Kapoor: Lastly, are the prices in the band of $320 for January?

Jayant Dua: No. What prices are we talking about?

Saket Kapoor: I am talking about the caustic soda.

Jayant Dua: In the customer side you will have to be a little bit more specific there.

Saket Kapoor: You were talking about $350, in that specification if you could give what is the price?

Jayant Dua: Prices, at the moment, let me give you a band because it is very difficult to give you the exact prices. If you look at Northeast Asia export, the band is about from $250 to $280, add the freight plus the local and then it delivers, so its somewhere around $350 by where it will reach. If you look at Southeast Asia, the band is about $290 to $320, add the duty, and add the freight and then the local freight to take it up over there. If you look at Mediterranean or let us call it as Middle East or it is about $260, $270. Europe and U.S. do not send anything to the India, so their prices are not relevant for us to monitor.

Saket Kapoor: Lastly, Sir, you said that it will take 18 to 24 months for this additional capacity that is in commercial production today to get absorbed.

Jayant Dua: I am just doing a simple math of around 3% to 5% growth rate on these new capacities. What I also mentioned is the current industry is, as it is running at about 80% plus capacity utilization and I think that is a fairly significant number, which we do not see dipping going down.

Saket Kapoor: Right Sir and in the value-added segment Sir what has been the percentage for this for the 9 months and what are we envisaging for the next year?

Jayant Dua: If you look at, our value-added products are growing at double-digit for these 9 months. The last quarter, it has been an 18% growth for us. We expect to end the year with a double-digit growth in the value-added products.

Saket Kapoor: We will be recovering almost all the products that our competitors are selling or we are also going for some import substitute, which your competitors are also not present?

Jayant Dua: We are looking at products, which will have an import substitution. Currently we are also looking at in terms of filling up the gap so there are some assessments that are going on and some projects, which are going on.

Saket Kapoor: In turnover, Sir, can you give that last point in turnover can you give how much has been evaluated for that contribution for the 9 months and for this quarter?

Jayant Dua: I would not have that number readily available with me and then it is a basket. For Chemical we look at it more like a basket rather than getting into individual product categories.

Saket Kapoor: Right Sir and for the raw material part Sir can you give the color how well are we going to control our cost if the prices remain in this band I am talking about the caustic soda segment?

Jayant Dua: I just mentioned that earlier that 65% to 70% of our cost is power.

Saket Kapoor: Correct.

Jayant Dua: In power we all know how the government duty structure works. So how much we can control and not control is public knowledge at this point of time, but 55% of our cost is actually controllable, both as a combination of our own thermal power plant, group captive and renewable, which we are planning and have plan to inch it up to maybe 60% next year.

Saket Kapoor: For the salt part?

Jayant Dua: Salt part we have got about 20% coverage, we are looking at various business models to see how we can take it up to around 35%.

Saket Kapoor: What the salt contributes, towards the raw material basket?

Jayant Dua: Salt at the moment would be about 10% to 12%.

Ashish Adukia: Yes under 10% and the price has come down on salt, but because it constitutes only about 8%, so it does not really make much of a difference. I think what makes the difference is like Jayant has been repeating is power cost.

Saket Kapoor: Right and the point under this Sabka Vikas, this legacy scheme, Sir, it is mentioned here that UltraTech has provided a onetime expense of Rs.133 Crores, what was the exact dispute amount, what is the benefit we have derived, onetime expense we have booked for Rs.133 Crores, what was the absolute amount involved, so just wanted to gauge how much haircut, if I can use the language, with all due respect, the government has allowed?

Ashish Adukia: Can I suggest that if you go through the details of UltraTech call as well as their presentation, I think they have given the amount of litigation that they have resolved. In Grasim's case, it was we did not have many cases, but we did make use of the scheme. We had a cost of only about Rs.1 Crores that we had to give to the government to solve almost about 60 cases constituting about Rs.11 Crores to Rs.12 Crores so we did not have many cases in our contingent liability any which ways in case of indirect taxes.

Saket Kapoor: Any idea about how are we viewing our investment or further investment in our Idea, the associate company, taking into account?

Ashish Adukia: So we think the case is still subjudice we have to wait for the final Supreme Court judgment on this and on the basis of that what VIL decides as the next course of action, when we come to know that, then only we will be able to take any decision on this.

Saket Kapoor: That means we can put further clarity if and when needed, if the deal is materialized we can go for our share after paying it or what is the thought process behind it?

Ashish Adukia: It is early to have any thought process on this. I think in the previous calls I have repeatedly mentioned the philosophy that we are following on VIL investment. So since then, nothing has changed and there is no further development.

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

Prateek Kumar: Sir, can you give the VFY segment revenue and EBITDA for the quarter?

Ashish Adukia: Yes. So the revenue was Rs.446 Crores and EBITDA was Rs.82 Crores that is including both our facility of Veraval as well as Century.

Prateek Kumar: How much Rs.82 Crores?

Ashish Adukia: Rs.446 Crores revenue, Rs.82 Crores EBITDA.

Prateek Kumar: I think this was discussed in the previous question. So we have mentioned on page 15 of your presentation, these ECU prices of Rs.27800 for Q3 what were the exit prices for ECU for Q3?

Jayant Dua: Exit prices of ECU for Q3!

Ashish Adukia: Q3 ECU, like we have mentioned, it was Rs.27,805 that was for the quarter.

Prateek Kumar: Right. The exit prices, I am asking.

Ashish Adukia: The exit price in December itself for the month.

Dilip Gaur: The exit price for December is somewhere in the range of around Rs.27,500 odd is approximately the December price.

Ashish Adukia: So it was Rs.28,500 roughly, it had improved a little bit.

Prateek Kumar: Regarding the slide on pulp. So we have seen this slide #11, the orange line represent what is the consumption factor prices what we have for our operations so that price has what we are consuming has already slid from Rs.67,000 to Rs.60,000 this quarter on an average so the impact of savings related to pulp are already there in our numbers is that correct?

Dilip Gaur: The market price is much lower right now the spot prices, pulp has been steadily declining price over the quarter, but we have been having a lag because of, I have explained to you the inventory and the previous quarter pricing, but today as we speak the price in the global market is $640 per ton. You have to add our import duty on that and add some local freight on that. So I think there is still room for prices to go down.

Prateek Kumar: What this orange line suggests is our purchase price or consumption price?

Dilip Gaur: Ultimately they should match. Right now your market price is lower than the consumption price, and orange line is the consumption price.

Prateek Kumar: Consumption price, which we would have purchased at some price and falling further?

Dilip Gaur: Go along somewhere these two have to merge when inventory get normalized and the prices become flat.

Prateek Kumar: You mentioned about 1.3 million ton capacity. So this includes the capacity, which got commissioned in December as 0.2 million ton as you said?

Dilip Gaur: No. This 1.3 million Indonesia plus China last year. Another 250 KT got commissioned this year.

Prateek Kumar: So it is fall in January?

Dilip Gaur: Yes.

Prateek Kumar: Regarding your large capex, the number which you said Rs.1750 Crores will spill over to FY 2022, which means Rs.2700 Crores will be spent in FY2021, so which quarter we should expect the new VSF capacities to hit markets?

Dilip Gaur: We are seeing that first line will come in Q3, second will come in Q4.

Prateek Kumar: Regarding this closure of capacities in China. So there was this yesterday or over the weekend there was this news flow that the ban has been extended to March 1, 2020 is that correct or as you said they have started opening capacities?

Dilip Gaur: This is their finding, which has a vulnerable area, so depending upon there are like some areas opened today, but for namesake only so they are saying that, okay, people can come to the office, pick up their laptop, etc., and go back and work from home. Some factories they are allowing only the local people to come in to work. The upcountry guys cannot come. People who had gone on holiday cannot come in to work, they will be quarantined. So there are a lot of things happening. So I think it is they want to tell the world that we are starting, that is all. Now how much time will that take is all to be found out.

Prateek Kumar: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Sir, a little bit of a hypothetical question. Given next year is a peak capex year for us, at the current profitability do we hit the threshold mark of leverage ratios, which are required to maintain credit rating profile of the company or become closer to that mark?

Ashish Adukia: We will be within the mark. I do not think we will have any issue in terms of credit rating because of the leverage that will go up due to the capex.

Gaurav Rateria: Sir, can I ask a little differently. In other words, does it mean that room for making investment in group or associate companies will be limited given our priority will be to maintain the credit rating profile and at the current profitability that room automatically becomes very less because our debt ratios will increase further.

Ashish Adukia: Yes. I think you are right that our room does reduce because we want to maintain the rating there will be limited appetite to put money.

Gaurav Rateria: Understood. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question. On behalf of Grasim Industries Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.