



“Grasim Industries Limited Q4 FY’19 Earnings Conference
Call”

May 24, 2019



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Moderator:

Ladies and gentlemen, good day, and welcome to Grasim Industries Limited Q4 FY'19 Earnings Conference Call. We have with us today from the management Mr. Dilip Gaur -- Managing Director; Mr. Sushil Agarwal – Whole-time Director and CFO; Mr. E.R. Raj Narayanan -- Group Executive President & SBU Head, Chlor-Alkali and Viscose Filament Yarn. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of 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. Sushil Agarwal. Thank you and over to you, sir.

Sushil Agarwal:

Thank you. Good afternoon to all of you.. FY'19 was an exceptional year for Grasim; the company delivered stellar performance, financial and on operational side at standalone as well as consolidated level.

Our consolidated revenue was highest ever at Rs.72,971 crore, up by 31% on YoY basis. EBITDA rose 18% to Rs.12,820 crore, which again is the highest ever. PAT for the year was Rs.1,772 crores.

Let me now take you through few highlights of FY'19 at standalone level: Our Caustic Soda sales volume grew by 17% and surpassed IMTPA mark, a notable milestone and first time in the country by any company.

VSF business reported highest ever sales volume of 541 KT recording growth of 6% over last year.

We have also completed two acquisitions. Both acquisitions are strategic fit for the respective Chemicals and Textiles business.

We acquired Chlor-Alkali facility in Andhra Pradesh to strengthen our operations in East Coast of India which is a major Caustic Soda consumption hub.

The second acquisition is of Suktas India Private Limited, a premium fabric manufacturer which will complement Linen Textiles business of the company and further strengthens the company's leadership in premium fabric market.

Delivering the project on time has been our core commitment. We have successfully commissioned facility to manufacture third-generation specialty fiber with capacity of 16 KTPA at Kharach in May'19. In a record time, this specialty fiber is under the ramp up phase. The green technology for this third-generation fiber has been developed in-house by R&D team which speak of our enhanced commitment to sustainability and innovation.



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Moving on to our standalone financial performance for the year: The revenues up by 30% to Rs.20,550 crores; EBITDA was up 31% to Rs.4,639 crores; and PAT before exceptional was up again 30% to Rs.2,574 crores. Our cash profit went up by 30% YoY to Rs.3,457 crores. At standalone level, the revenue, EBITDA and PAT for FY'19 have almost doubled from FY '17 level. In two years, actually we have doubled all the key parameters. At a standalone level, we have generated free cash flows above Rs.500 crores post CAPEX and investment of Rs.2,500 crores.

In April 2019, the Vodafone-Idea successfully closed India's then largest rights issue of Rs.25,000 crores. The strong participation from public shareholders, ex-promoters resulted in 1.2x subscription. Grasim's participation was limited to its shareholding which is at 11.55% of the rights issue amount.

Let me now share the highlights of our Viscose business. The price of key fiber weakened sequentially in Q4 FY'19. The dip in global VSF prices was led by commissioning of sizeable new capacities in Asia. The recent volatility in cotton prices has been on account of trade related faceoff between US and China. The VSF business reported highest ever sales of 139 KT during the quarter. For the fifth successive quarter, the domestic sales percentage has stayed above 80% mark and showing an improving trend.

For FY'19, the Viscose business generated revenue of Rs.10,325 crores, up 23% on YoY basis and an EBITDA of Rs.2,052 crores, up 22% on YoY basis.

On the cost side, the pulp prices are up 15%. We expect the impact of softening pulp prices to start reflecting in the overall costs towards the end of next quarter.

In FY'19, the Indian demand grew over 20% compared to 2-3% globally, which reflects our intense marketing efforts and the Liva brand demand pull. We expect the global VSF demand growth in the range of 6% to 7% in next two to three years.

The Brownfield capacity expansion plan of 219 ktpa at Vilayat is progressing well. The construction work at the project site is in full swing.

I would like to highlight some key sustainability-related achievements:

Water has been a key focus area for us. In FY'19, we reduced our water consumption by 37% through various initiatives. We are in the lowest specific water consumption globally in the viscose industry. We are working with the industry peers and NGOs for setting up global norms in man-made cellulosic fiber industry with an aim to achieve better environmental performance.

Let me now share the highlights of Chemicals business:



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Chlor-Alkali prices in India remained firm during the quarter with a stable demand. The demand growth of chlorine also remained firm. We expect the demand growth for chlorine to exceed the Caustic Soda demand growth in India. In the near-term, the caustic imports are expected to increase which may lead to softening in the prices. For FY'19, the revenue and EBITDA of our Chemicals business are up 29% and 40% YoY to Rs.6,436 crores and Rs.1,827 crores on back of higher growth in sales volume and better realization. We have a strong focus on growing the Chlorine VAP products in overall product portfolio. The VAP revenue witnessed 34% of YoY growth in FY'19. We have commenced work on caustic Brownfield expansion which is 91 ktpa and power plant at Vilayat. The orders for long lead items have been already placed.

Let me now cover some of our sustainability initiatives:

We track the chlorine tonner movement right through the delivery from the factory to customers end with the help of mobile application, "Suraksha App" which has given the customers to give real-time feedback on safety issues and achieve immediate response from our experts.

We have introduced multiple water conservation measures which will ensure reduction, recycle and reuse of water in all our units. We are in the progress of achieve zero liquid discharge at Rehla and Ganjam plants.

In order to strengthen company's leadership in VSF and Chemicals, customer-centricity and strategic CAPEX are the key focus area for us. We have committed CAPEX of Rs.454 crores over the next couple of years. The brand Liva has achieved great success since its launch in March '15. The number of tagged garments in SS-18 and also winter '18 combined surpassed the 30 million mark. For SS-19, the number of tagged garments rose to 22 million. Liva, which has gained prominence in women's wear has now been extended to Home Textiles segment. We have tied up with some of the leading players in home Textiles segment and the product has been well received.

The launch of Livaeco as an eco-enhanced variant of Liva strengthens our sustainability credentials which is retaining the fashion quotient of the brand. Livaeco is a unique brand portrayed with sustainability that is derived from Forest Stewardship Council certified pulp which is based on wood sourced from sustainable forest, helps conserve biodiversity and protect endangered forest. Every Livaeco garment has a unique tracer which helps trace the origin and full journey of garment across the entire supply chain, the first in the country.

In Chemicals, we have launched new initiatives aimed at providing superior solution for water treatment, bio-security in aquaculture and food products. We have continuously strengthened our leadership position both in VSF and Chemicals business by expanding capacity organically and inorganically. In the last 12-months, we have expanded the VSF capacity by **68** KTPA



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through various capitalized debottlenecking and commissioning of third-generation green fiber facility. Similarly, in Chemicals, we have increased capacity by 209 ktpa in last 12-months.

In order to meet the demand growth, we have outlined our plans to further expand our capacity in both VSF and Chemicals business. In VSF, we plan to expand our capacity from 566 KTPA to 788 KTPA by FY '21. In Chemicals, we plan to expand our capacity from 1,147 KTPA to 1,457 KTPA. Additionally, investments are planned for value-added products also. We have continuously aimed at improving the percentage of value-added products in both VSF and Chemicals through development of new products. These growth initiatives are aimed at making our business model more robust and improve the quality and trajectory of earnings.

Let me briefly cover the Performance of Cement business: The Cement business reported a marked improvement in the volume growth for FY'19, up 17% on YoY basis to 76 mtpa. The consolidated revenue and EBITDA are up 21% and 7% to Rs.37,379 crores and Rs.7,226 crores, up by 7%.

Moving on to performance of our Financial Services businessL:

The Aditya Birla Capital reported revenue and net profit after minority interest for FY'19 at Rs.15,164 crores and Rs.871 crores, up by 32% and 26%. The lending book including housing grew by 23% on YoY basis to Rs.63,119 crores in FY'19. The average assets under management stood at Rs.2,65,109 crores, up by 6% on YoY basis.

To summarize:

The company has recorded stellar performance for the year FY'19. In FY'20, company's focus would be to ramp up the recently commissioned capacities in VSF and Chemicals, integrate Textiles acquisitions and work on cost control measures.

Now we can open the floor for question-and-answer. Thank you.

Moderator:

Thank you. The first question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani:

Just couple of questions: Firstly, on the VSF. Could you give us some sense on what kind of incremental pressure from China we can further see on the realization and where are we on the operating rates now? You mentioned that some capacities have come through. Are there even more big capacity expansions which are expected in the next 12-months?

Sushil Agarwal:

The OR in fact as I was telling you last time, we are witnessing pressure on the prices, and as a result of that, the OR has come down substantially; the OR used to be 90% plus is now running



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at 76%. So there are a lot of unviable capacities who are either turning down or stopping, but that does not take away the pressure on the prices, the prices in China are right now pretty low, they are almost at the level of \$1.6 give and take. But what we believe is that at this price, almost entire China is bleeding. So, it is a matter of time when the more shake-outs start taking place and the capacity utilization loss further or more plants go out of the system. Difficult to predict, but in the next six-months, the pressure will continue.

Gunjan Prithyani: Are there more expansions because a big expansion came through this year, right, how much you are expecting and what came through in this year?

Dilip Gaur: About 0.9 mt capacity got added last year and another 0.6 mt will get added in FY'20 and mid of '21 overflow. But the good thing about it is because at these prices, viscose has become very attractive, so, the consumption of viscose is going to shoot up. So, to my mind, the new capacity will get absorbed much faster than people expected. If you know, the cotton crop has been one of the lowest this year in India and US also. So, cotton prices will be under pressure, there will be a higher consumption rate. 0.6 mt capacity, beyond that there are no more new announcements, about 1.5 mt capacity over two to three years is what we are talking about.

Gunjan Prithyani: On the realization, your slide mentions about 8% decline QoQ for VSF. For us, VSF prices would have come down by how much?

Dilip Gaur: Q3 to Q4 there is a 4% drop in realization for our case, but there is one positive side, there is softening in the input prices. So, pulp prices have gone down now. Issue is as we told you last year there is a lag between the pulp consumption price and the market price. But today, the consumption price is high but the market price is low. So maybe next quarter, we will start seeing the impact. So, pulp has dropped to almost \$60/ton which is almost \$0.6/Kg. Wool has softened. Caustic is kind of soft, not going up at least. So, I think what I am saying is yes, there is a little downside on the prices, but one should be able to manage if we can sustain to these prices through the softening in input prices and cost reduction.

Gunjan Prithyani: Second question on the balance sheet, the numbers that are there as of March, if you can give us the updated numbers on debt and liquidity post the Idea transaction?

Pavan Jain The exact numbers may not be readily available, but we still hold about Rs.2,600 crores of treasury and of course we have taken some debts also, post Idea transaction, our treasury size is about Rs.2,600 crores.

Gunjan Prithyani: In terms of incremental capital commitment to any of the subsidiaries, now I did see Aditya Birla Capital has taken basically capital raise recently, they are looking at it. So, is there any incremental risk that we should think? Of course, you have mentioned it past also, but if you can give us some sense incrementally what kind of capital commitment can be to the subsidiary businesses?



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Sushil Agarwal: Gunjan, I think we talked about this and Aditya Birla Capital had taken this approval in the past also. But as of now, so far Grasim is concerned, we do not have any specific plan that where we have any commitment to highlight to all of you. If we receive any specific concrete plan from ABC or any other subsidiary companies, we will certainly kind of let you know. But currently, we do not have any specific numbers to share.

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

Navin Sahadeo: Couple of questions: First on VSF. In your presentation itself, I am just referring to the chart of VSF, since the beginning of FY '19, there has been a very steady fall in the global China VSF prices, but past three quarters, we remained fairly insulated, in fact, there was an increase in realizations in India. And I think in response to previous question, you mentioned there has been sort of a 4% drop and you expect another six months at least to be under pressure for China prices. So, how should we really look at it? Because in the past 3 quarters we remained not just insulated, we actually grew even as the global prices kept falling. And the story there was that we were selling in domestic market because that is where there is absolutely no competition and hence we were insulated. So, how should we look at it at least for the next two, three quarters on this please?

Dilip Gaur: That hold. The domestic market is the key market for Grasim; 86% of my output was on domestic market, and our effort is to make it even more. And fortunately, the domestic market is growing very handsomely; like, it grew by 22% last year, we hope to grow by 15%, 16% this year. That is why I am saying we are not as worried as maybe Chinese are, but you cannot say we are totally insulated. But the issue is we should be able to hold on reasonably well if we can manage our cost side better. There could be some erosion on the revenue side, but I think we have to make that up through our cost effectiveness programs, through our input cost softening. And third big leg is the specialty. I think whether you have noticed that, we have commissioned our specialty plant in Kharach, which is a big, big thing. This is third-generation viscose which goes at a huge premium compared to normal viscose and we have developed that technology. So, I think now that we are in this business we will see the benefits from this investment also coming. It is not a doom and gloom. I think we should be able to sustain.

Navin Sahadeo: I really appreciate the efforts the company is taking on the fact to control cost. There is also a pulp raw material cost decline and the fact we are doing premium bid. I am only trying to understand from the realization perspective, what is the threshold?

Dilip Gaur: What I told you will hold. I would not say it will increase, but I think it should stay in a band, a range bound.



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Navin Sahadeo: No, I was only trying to understand if there is any threshold in the sense an indicator that is the yarn prices are for the domestic guys are falling much more or...?

Dilip Gaur: The yarn business is doing reasonably well. But yarn import threat always remains. It is a connected world now. So, I do not know what is happening in Indonesia, what is happening in China. As of today, the yarn guys' profitability is very good; they are getting Rs.196/Kg and they are making handsome money. So, what happens tomorrow in the yarn side, we will have to face it as it comes.

Navin Sahadeo: Just on this pulp prices, you mentioned that they have come off sharply and then to that effect I think on Slide #27 of your presentation, there is also DG pulp price chart which suggest a fairly steep fall. Here also I am seeing the prices are falling off the pulp fairly steeply, but if I look at the EBITDA, there is still a growth as you are seeing there. So does it mean that the costs for this business of pulp JVs have fallen much more than the pulp prices, is that the way to look at it?

Dilip Gaur: Actually the pulp JV is the biggest value driver is the capacity utilization. These are the old plants. The predictability and reliability is the key thing. So, now our Canadian plants are performing much better than what they used to perform couple of years back. Because it is a very capital-intensive plant, so if any tonnage I get extra, I get entire margin over the variable cost. So that is what has helped us. Secondly in Canada we have our own forestry. We control our own wood. So, there is a lot of work happening on the supply chain efficiency. So, realization is not the only thing. It matters, but I think what is important is how we manage our cost and operations also.

Navin Sahadeo: Chemicals capacity you were mentioning is likely to kick start by June, but VSF, you were mentioning by and large FY'21. Can it start? Can we see volume benefits from it in Q3, Q4? Is there more precise indication on that please? Caustic capacity is you are saying they are commissioning by June '19. But for VSF, the new expansion of 219 ktpa, you are saying they will come by FY'21. So, my request was, if there is a precise timeline as to we can see production from Q3?

Dilip Gaur: September'20.

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 this domestic demand. When you say this we have been growing at like 20%, 22% and certainly because of Liva efforts and on the segment efforts. So, when you compare to global competition, I understand there is some import duties for that reason they are



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not able to send volumes into India. So, how do we compare global prices if they send it to India versus our prices and when does this anti-dumping end?

Dilip Gaur: 2021. I think they will come for a review. It does not end. It depends because you see the idea of antidumping duty is to give a level playing field. Today, the price at which China is selling, it is a price below the variable cost. So, if tomorrow people start exporting, then it is going to hurt the Indian industry and the employment. So the whole idea of antidumping duty is to avoid such situations. So, if things continue like this, the government will review it. So, it is not to help anybody, there is a logic to it because the cost of pulp is fixed, the cost of fuel is fixed. You can do a number bottoms up and I think that is how they look at it.

Prateek Kumar: The decline in prices as well as factoring the anti-dumping duties, the prices from China, whoever wants to import is still higher than what we sell in India. How much it is higher than what we see in India then?

Sushil Agarwal: It is very complex, difficult to give one reply because it depends upon the Chinese currency that will move from 6.2 to 6.9, not 7. So, I do not know which number I have to take. So, when somebody asks question about why the prices went up, if Chinese currency hardens, same RMB price converts to a higher dollar right? So, there are so many variables in this. Very difficult to predict which way will it go. But what we are trying to say, there is something beyond only the price because when I am talking of branding, when I am talking of Liva, when I am talking of customer connectivity, when I am talking of giving new solutions, there has to be value to it. A Chinese guy just cannot walk in where you have built a stickiness by giving solutions to your customers. That is where we have been different than Chinese.

Prateek Kumar: But in that case, our prices should not fall at all when we are...?

Dilip Gaur: Everybody is not so conscious. All I am saying is it will be buffered. The impact will not be as much as one is thinking. You cannot be immune. The word I use is range bound.

Prateek Kumar: This 20%, 22% is compared to 2%, 3% demand globally growth?

Dilip Gaur: That is where the effort is. That is what I am saying, sometimes a lower realization you can compensate with higher volumes because the volume is a multiplier, volume into margin. What we have been able to do in India well is converting from cotton to viscose and polyester to viscose. Cotton, if you see, India had, I just now mentioned, the last 10-years, lowest stop will happen this year plus MSP of the cotton has gone up. So we believe cotton prices will remain high. If cotton prices remain high, there is opportunity for people to move from cotton to viscose and that is what we are accelerating it. Our team of experts, the technical service people, go to the spinners, teach them how to move from cotton to viscose, we get them businesses from the customer, they do not know where to sell the viscose. That is where we being a different from



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China. We hand over them not only selling products, but also selling their products and that is where stickiness comes.

Prateek Kumar: Next year's growth of 6%, 7%, generally things are moving toward slowdown. For global growth you said and you have also written in PPT..

Dilip Gaur: Global growth is improving because it was 2-3% last year, going to 7% because of price advantage. Today, viscose is so much cheaper than cotton globally that people are shifting from cotton to viscose globally also.

Prateek Kumar: So is there an increase in CAPEX versus what the guidance in Q3 because I see some change in those numbers in table.

Dilip Gaur: We can tally that offline, how we have arrived at that number, but there is no change on the CAPEX number.

Prateek Kumar: Can you give the total VFY revenue and EBITDA?

Saket Sah: VFY numbers for the quarter, revenue of Rs.487 crores and an EBITDA of Rs.98.1 crores in Q4 FY'19.

Moderator: Thank you. The next question is from the line of Rajesh Lakhani from HSBC. Please go ahead.

Rajesh Lakhani: Basically if I see there is a rise in the Caustic Soda prices in this quarter and also VSF prices have been falling. So, just wanted to understand since close to two months have gone in this quarter, average prices of VSF and caustic if you compare to Q4 FY'19, what would they be?

E.R. Raj Narayanan: The caustic prices in the first quarter has slightly softened as Mr. Sushil and Mr. Gaur said. That is not necessarily reflecting the global prices, that is more from the local supply/demand, because in demand there is a slight softening; however, there is chlorine, there is a positive impact, Chlorine prices are better than what it was before. So, it is sort of a mixed bag in first two months.

Rajesh Lakhani: Average prices would be largely flat compared to previous quarter?

E.R. Raj Narayanan: Yes.

Rajesh Lakhani: How about VSF on an average compared to previous quarters?

Dilip Gaur: Normally, Rajesh, we do not disclose the latest prices. This is kind of a trend.

Dilip Gaur: So far broadly holding, but we cannot crystal gaze.



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- Moderator:** Thank you. The next question is from the line of Tanuj Mukhija from Bank of America. Please go ahead.
- Tanuj Mukhija:** What could be the sustainable margin in FY'20 for the VSF segment?
- Dilip Gaur:** Very, very difficult to predict. Nobody can. Because I think today so many things are happening. Like currency itself can play havoc. Nothing I can say. If tomorrow China goes to 7, what do I do?
- Tanuj Mukhija:** Given the pricing power that you enjoy in the domestic market...?
- Dilip Gaur:** We do not enjoy pricing power. We have better preference, that is all. Everything beyond a point does not work.
- Tanuj Mukhija:** On the specialty fiber line, what could be your margins?
- Dilip Gaur:** Today, the margins are very good on the specialty fiber; \$0.50, \$0.60 a Kg.
- Tanuj Mukhija:** On your recent acquisition in Andhra Pradesh, what I understand is that there is a fantastic ecosystem in West India particularly in Gujarat, which helps you to discharge chlorine and sell chlorine at good prices. So is there a similar ecosystem for you to discharge and sell chlorine on the East Coast?
- E.R. Raj Narayanan:** In the East Coast acquisition, there are two primary objectives -- One is to serve the caustic in the eastern sector, and second, this particular plant also would have the chlorine derivatives there itself. But then again there is a huge demand of chlorine in both pharma and other specialty sector between Andhra Pradesh and Tamil Nadu. So that sector is also growing. So, we will be in a much better position to cater to these two segments from this new acquired unit.
- Tanuj Mukhija:** So, would it be right to say that your margins in the acquisition would be similar to your current Chemicals segment margin?
- E.R. Raj Narayanan:** Again, as Mr. Gaur said, we are talking about 12-months down the line and the markets are so volatile, so nobody can crystal gaze on the prices, we have to wait. But the whole intent is to service the market in East the metal sector profitably. So, that whole idea will continue.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** This 200 tpd what you acquired in AP, which is under construction, how much incremental you intend to spend and by what time this will be commissioned?



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- E.R. Raj Narayanan:** So, we expect the plant to be commissioned in two phases -- The first one is at 200 tpd, that will be about June '20 and the next phase of 400 tpd will come by September '20.
- Bhavin Chheda:** How much do you intend to spend?
- E.R. Raj Narayanan:** Total project cost is expected in the ballpark of about Rs.800 crores.
- Bhavin Chheda:** For 600 tpd?
- E.R. Raj Narayanan:** 400 tpd plus the VAP, chlorine derivative.
- Dilip Gaur:** Value added products too.
- Bhavin Chheda:** This Rs.800 crores including Rs.253 crores you paid or this is over and above that?
- E.R. Raj Narayanan:** Yes, it is including the Rs.253 crores we already paid.
- Bhavin Chheda:** There was some fabrics acquisition of 10 million meters. So, what is the kind of revenue EBITDA it has been doing and what are the numbers there?
- Pavan Jain:** So, revenue is about Rs.180 crores or so and EBITDA is about Rs.25-30 crores range.
- Bhavin Chheda:** And has these numbers been included in the quarter or the year or they have not been included?
- Pavan Jain:** No, for this quarter, there is no number of Textiles acquisition.
- Bhavin Chheda:** What will be your FY'20 and '21 total CAPEX at the company level on the standalone side?
- Dilip Gaur:** Yes, the slide number is 15.
- Bhavin Chheda:** On the VFY side, you shared the quarter revenue and the EBITDA. Can you share the fiscal revenue in EBITDA?
- Saket Sah:** For full year EBITDA is about Rs.435 crores. Revenue would be about Rs.1,800 crores.
- Bhavin Chheda:** On the VSF side, what kind of volume growth we are looking at in FY'21? How much is the value-added products in the VSF in FY'19 and how much this can improve in FY'20?
- Dilip Gaur:** Right now, my specialty is about 30%. The idea is I want exactly FY'21 will be the commissioning. In next two years, we should go to about 40-50% for specialty. With the commissioning of the plant we have done in Kharach, with the commissioning of the new facility, there will be flexible plant which can make textiles as well as non-worn product. So,



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there will be some specialty coming there. Our intent is to go to 40-50% specialty. That should again insulate me from lot of fluctuations in the market.

Bhavin Chheda: How much do you intend to produce next year?

Dilip Gaur: We will produce full blast... whatever we have right now, we are adding full capacity. Volume growth 8% domestic. Right now, I am debottlenecking some capacity. So, I have already come to about 1,550 tons per day capacity and another 2,030 tpd I will add through de-bottlenecking till the time when a new product comes. And how we sell in the local market is, I do that much of export.

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

Saket Kapoor: My question is pertaining to the Caustic Soda industry as a whole. How is the industry shaping up globally? With the European commission going through the cell membrane technology change over, is that over and any new capacity that is going to hit the market?

E.R. Raj Narayanan: Globally, of course, the European membrane cell technology conversion is over and that is over in 2017 December. But globally caustic if someone has to put, the chlorine derivatives also would play a major role. So, the growth is certainly limited globally. If I have to say that India is one of the fastest growing. But otherwise globally if you want to set up the large in the PVC and if you are talking right up to the tractor, you are talking about \$2.5 billion investment for chlorine using of roughly about 800-900 tpd, which is about 1,000 tpd of caustic. So, it is too expensive and that is where caustic capacity additions are rather limited globally.

Saket Kapoor: Sir, currently, domestically, I think all producers are ramping up their capacity if I am not mistaken, you, including DCM and Gujarat Alkali, all the 3 major players are adding capacity. And top of that in the last financial year how much of Caustic Soda has been imported?

E.R. Raj Narayanan: I would not have the exact number, but from November onwards, the imports have stopped because of the BIS certification issues and the imports has started slowly as the BIS certification process is going on.

Saket Kapoor: That is the reason why there is demand/supply which you were earlier speaking about?

E.R. Raj Narayanan: No. The imports traditionally happen in the eastern part of the country. But this particular quarter, the demand softening is basically on the NGO segments. Little bit of softening we have seen.

Saket Kapoor: On which segment sir?



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- E.R. Raj Narayanan:** On the western side, we are seeing little bit of softening. That also has to do with some of the shutdowns which our downstream industries have taken. So, I think it is a very temporary phenomena only.
- Saket Kapoor:** Sir, out of our mix of Caustic Soda how much is inclined towards value-added product and how much is just Caustic Soda flakes as a percentage?
- E.R. Raj Narayanan:** Caustic Soda flakes is generally used as a swing production. So, it is on the supply/demand. So, in terms of capacity, we should be one of the largest in the world in the caustic flakes. But if you want a particular number, I would say we have a capacity up to 25% to 28% we can make caustic flakes.
- Saket Kapoor:** I was looking for the mix, sir. For this year revenue, how much is value-added product and how much is Caustic Soda?
- E.R. Raj Narayanan:** So, when you say value-added product, I presume you are talking about chlorine derivatives. So, it would be 75-25, in that range.
- Saket Kapoor:** Caustic soda is 75% and 25% is value-added? Currently, aluminum industry is our largest customer and the aluminum prices are not remunerative right now. So do you think that this will also assert more pressure on Caustic Soda prices going forward because it would not be remunerative for them to pay higher price for Caustic Soda and lower prices for aluminum as the end product?
- E.R. Raj Narayanan:** I am not an aluminum expert, but one thing I can certainly say is there are certain aluminum industries which have got closed down in China, so, there is a temporary pressure from the caustic consumption side. But if you have noticed that the Alunorte, which is in Brazil, it is going to reopen and the requirement is pretty large. So, purely from caustic consumption side, we are seeing globally demand picking up and especially the demand in the Brazil with the two events which happened would increase the volumes in this quarter itself.
- Saket Kapoor:** If you take the YoY comparison for Caustic Soda prices for FY'18 and FY'19, what were the average price trends, how have the Caustic Soda prices been for these financials?
- E.R. Raj Narayanan:** When I say last financial year, I am talking about '17 and '18, especially in third and fourth quarter the prices were ruling very high. The prices have softened compared to that in the financial year '18 and '19. So, '17 and '18 was a very unusual year which had very high caustic prices. Those kinds of levels we are no more there.
- Saket Kapoor:** But still '18, '19, we have made record profit on account of the other downstream product and chlorine advantage that we have got, it was negative I think, so for that year?



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- E.R. Raj Narayanan:** Couple of things which we did. One is obviously the cost improvement measures. Second is also effective utilization of chlorine within our own plant and also general market went up for chlorine which also helped and of course, our mix of value added products to caustic, that is a change during this financial year, all these led to higher profitability.
- Saket Kapoor:** Currently, are the downstream product prices of hydrogen peroxide and other are also on subdued note? That is also the reason why we are witnessing the softening of demand?
- E.R. Raj Narayanan:** There is no real connection between these two, hydrogen peroxide and this. But if you are wanting a larger trend, these prices have softened for a lot of commodity Chemicals based on some changes which had happened in China.
- Saket Kapoor:** In percentage terms, if you can give what kind of correction received in the basket of the downstream product?
- E.R. Raj Narayanan:** No, the basket is very, very large and frankly, I would not have the number, and again, if the comparison is based on what, that is also an important.
- Saket Kapoor:** I was only looking for how we have ended March. April and May, has there been a softening in prices as well as in demand or there is only a softening in prices and the demand have remained the same in terms of the volume growth which we are anticipating?
- E.R. Raj Narayanan:** Apart from the prices, you also have issues on water, etc., So, you know that in Gujarat and certain other places, you have water issues. We had to pass this somehow. There are some constraints which we are experiencing because of the water issue.
- Moderator:** Thank you. The next follow up question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.
- Prateek Kumar:** In this Textiles business, on the new acquisitions that you have done, for which you gave the numbers, so that will be factored in this Textiles segment, the Suktas acquisition?
- Sushil Agarwal**
- Prateek, that is the currently wholly owned subsidiary of Grasim. So, it will not be a part of Grasim standalone business until we go ahead with the merger.
- Sushil Agarwal:** I think the Board has approved a merger of that division of Textiles. So, for some period it would be reflected as 100% subsidiary number, but it would get captured in the division of Textiles going forward.



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Prateek Kumar: This number in terms of EBITDA wise, now second quarter is above Rs.50 crores of EBITDA. We should take as a run rate for the segment and over and above whatever Suktas contribution is there should come in this segment?

Sushil Agarwal Yes.

Prateek Kumar: On VSF profitability, I just back calculated segment wise profitability. So it seems that the whole profit margin compression has happened precisely related to realizations and not related to cost at all. So, now probably it is like around Rs.22, Rs.23/Kg which was like over Rs.25, Rs.30 for 12-quarters or so. So, seeing the past trends, it has also gone to like sub Rs.10 per kg also. So, we are not in that kind of scenario in terms of our expectations. It should turn around from here.

Dilip Gaur: I do not know how you have done the numbers, but there are two things I was telling you. The pulp cost what we have put in Q3 and Q4 are the historical costs. The actual cost is lower. So whenever that pulp start coming in, you will get that benefit. Second is there is one factor in Q4 which we have not discussed. There is an environmental concern for every factory. We have got a capacity. Because we have debottlenecked our plant and we applied to the government for increasing the capacity. The increase was granted, but we never got the official permission in hand. So, we had to set the capacity at the old capacity only. So, there were about 100 tons per day capacity I had to curtail, which will come in the following quarter. So, that impact also is there.

Prateek Kumar: So, now our VSF year-ending capacity is 561,000 said earlier in the remarks. So, that goes to 788. Is there any other debottlenecking in between?

Dilip Gaur: We would like to keep on doing something about 20 to 30 tpd we will do this year also hopefully, but it is still being attempted.

Prateek Kumar: In the first year of operation, how much do you plan to utilize let us say there is 40% increase in capacity, so there is 220,000...?

Dilip Gaur: The viscose plants have a vertical ramp-up. So I think if you design them well in six months time, you can ramp up to full capacity.

Prateek Kumar: No, you can ramp-up, but when you say you have like 0.6 mt expansion coming up for global capacities, is this point to include there?

Dilip Gaur: Yes, there is enough demand in the world. right now what is happening is, because I do not have enough capacity, I am selling 86-89% in India, remaining I am exporting. When I get more capacity, I will export from India. There is enough demand.



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- Prateek Kumar:** But that 0.6 mt global capacity addition includes our capacity also which you said in...?
- Dilip Gaur:** No, because our capacity is for India.
- Moderator:** Thank you. The next question is from the line of K Radhakrishnan from IIFL. Please go ahead.
- K Radhakrishnan:** Just one tallying difficulty I am having based on the presentation EBITDA numbers. So, if I am taking the EBITDA for VSF at Rs.413 crores and Chemicals at Rs.434 crores and others at Rs.114 crores and adding the other income also, I am getting Rs.62 crores difference. So, where the Rs.62 crores difference I have to account because generally there used to be difference, but this time it looks like the difference is too large? If you are taking the VSF EBITDA comes to Rs.413 crores and the caustic EBITDA comes to Rs.434 crores, other division comes to Rs.114 crores and if I am adding other income of close to Rs.101 crores, so the total comes to somewhere around Rs.1,062 crores whereas the EBITDA based on standalone number comes to Rs.1,000 crores.
- Dilip Gaur:** Our EBITDA number, which is reported is the total EBITDA that is Rs.1,000 crores, it includes other income. This EBITDA is without other income.
- K Radhakrishnan:** That is why I am asking whether this Rs.413 crores of VSF EBITDA is including other income or excluding other income?
- Dilip Gaur:** I think we will get back to you, but I am not still very clear what exactly is the difference.
- K Radhakrishnan:** If I am taking for the March quarter, I am not getting any difference at all, so, there it is exactly tallying, whereas for this quarter, if I am taking the same way you have presented in standalone results, there is Rs.50 crores difference. So, that way in fact what I am finding is individually it is fine, but when I am totaling, there is some deviation I am getting?
- Dilip Gaur:** It includes other income.
- Management:** Rather we can check this offline.
- K Radhakrishnan:** Absolutely fine.
- Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Sushil Agarwal for closing comments. Thank you, and over to you.
- Sushil Agarwal:** Thank you so much and I just want to make one more statement. Ashish Adukia is going to be taking over as CFO for Grasim. So maybe next time, you are going to hear from Ashish. I am



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going to be in the group doing various other stuff. So, I just thought it would be appropriate for me to welcome Ashish and let you know of this development. Thank you so much.

Moderator:

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