"Grasim Industries Limited Business Update Call"

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Moderator: Ladies and gentlemen, good day. And welcome to Business Update Call of Grasim Industries Limited.

We have with us today on the call Mr. Dilip Gaur – Managing Director; Mr. Kalyan Ram – CEO, Global Chemicals and Group Business Head Fertilizers and Insulators; Mr. Jayant Dua – Chief Executive Officer, Grasim Industries Limited, Chemical Division; and Mr. Ashish Adukia – CFO.

As a reminder, all participant lines will be in 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. Ashish Adukia, CFO. Thank you, and over to you, sir.

Ashish Adukia: Good afternoon, everyone. At the outset, I hope every one of your family members and friends are safe at home. It's only during these times that both personal and community resilience gets tested, this is also when the resilience of a business gets tested. At Grasim, we have been running many scenarios to evaluate the strength of our businesses. Not only that we can withstand this disruption, but looking beyond, we hope to actually come out stronger than the industry. On this call we have the benefit of our business leaders to provide you with update on person and their businesses, and to answer your questions.

Before I hand over to them, we have identified key focus areas which I would like to walk you through. Number one, employee safety. We started work from home for all our employees before the lockdown was announced. It has been very efficient and has not caused any hindrance in our work, government, regulators and banks have given us necessary support to work from home. Given that employee safety and government directives, we have shut down some of our plants and some are running at low capacity utilizations. We will have more details from the business leaders. Number two is liquidity. We have treasury of around Rs. 2,000 crores in December 2019. And we have been able to maintain a similar level of Treasury by year end as well. We are not sharing any specific financials on this phone as we are yet to declare our March financials. We can, however, state that our liquidity position is very strong, both with treasury as well as credit lines available in order to meet and overcome the situation and look beyond.

Third is CAPEX as of today, we have put large CAPEX plans on hold, we are closely monitoring the situation. This is not to say that we are withdrawing all our CAPEX, but we will take decision on these CAPEX based on the lockdown situation as well as the demand outlook. Fourth and the last area of focus is cost management. We are closely monitoring costs and we are looking at different scenarios of lockdown to monitor our costs. And we will evaluate ways to optimize them if required.

I would now like to hand over the call to Dilip to provide his inputs and updates. Kalyan and Jayant will follow Dilip. I would like to highlight that we cannot disclose any large numbers or any company speci outlook or guidance. We will upload this call on our website so that it is easily available to everyone. So, over to you, Dilip.

Dilip Gaur: Thank you, Ashish. And good afternoon to everybody. I will give you a brief update on the VSF operations before passing on to Kalyan and Jayant. As you all know, the situation worldwide is highly uncertain and very unpredictable. Therefore, it is extremely hazardous to make any guesses at this stage. So what we have done is we have created multiple recovery scenarios and developed the Business Continuity Plan ('BCP') by stress testing our business against these scenarios. The key element of our BCP is sustaining healthy liquidity, which I think Ashish spoke about, extreme focus on cash and reduction in fixed cost. A fourth dimension very important for our BCP is supply chain readiness. Because we have ensured that there is adequate material available in the pipeline, so whenever our customer starts, they don't stop for the material. We also have got permission to run three out of our four factories from the government, because we are a continuous process industry and we do make priority item product. One of the factory is already running.

So, what we have planned out is the moment the end consumer starts, within three to four days, all my business will go up on stream. And therefore, we can ensure a vertical startup when the demand resumes. We have also made sure that there is adequate raw material available, there are enough stocks, enough input material. And because most of our factories have got townships where people live in the premises, it won't be very difficult for us to get the workers, which is going to big problem on the startup. So, what we have done is, we have also built up plans to run the factories with flexible team or what you call skeleton teams, because availability of workmen may have to be constrained because of the social distancing norms. What we have also done on each of our factories, we have put up very strong SOPs and controls to ensure hygiene and social distancing. Things like very strict gate controls, everybody who enters a factory, including outsiders, own employees, we monitor their temperature, their health check is done by the doctor. Even things like trucks, when they come in the drivers are not allowed to enter, we have got special drivers who ferry from the gate to the plant. The driver leaves the truck outside, we sanitize the truck, and then bring them inside. So we have built up hygiene tunnels for dedicated buses to get some of our employees who come from outside, and we have done one-third sitting, so a lot of spacing is done in the busses. And there are a lot of actions we have taken. So far, by God's blessing, we have no cases at all anywhere in our units or townships.

In terms of market, I think globally all the textile consuming and production centers are in a lockdown state. The biggest consumers are EU and U.S., you know what is happening there. The biggest production centers are Turkey, Bangladesh, Pakistan, Indonesia, again similar situation. So as we speak, there is no pull from the market right now. So, they will get revised once the lockdown get over, things have started, people have started opening their stores, etc.

So, I think as the demand picks up, as the stores open the demand will pick up, because fiber is a derived demand. Supply chain wise as I told you, we should be up and running very fast for the domestic market as well as global markets. And China supply chain also is fully ready, so I don't think supply is an issue once the demand strengthens. I think with this background, I will pass on to Kalyan to talk about chemicals.

Kalyan Ram: Thanks, Dilip Good afternoon to you all. Keeping in context the current COVID situation and lockdown, one of the strengths of Grasim is that its product serve significantly diverse range of industries and end use segments. If you see the products that we produce of various chemicals, fertilizers and insulators, we actually supply into food industry, phosphoric acid going into edible oil, sugar refining, jiggery, cheese, we are supplying to water industry, everything around disinfection and hygiene. Essential household items we supplying to industrial continuous progress industry, be it oil and gas, etc. We supply into pharmaceuticals, for example, some of the essential ones such as ibuprofen, some of our products need to go there. We really supply in to agriculture, agri products and all, so we supply raw materials into agro chemicals. And our own fertilizer plant supplies urea. So hence, the 13 manufacturing plants that we have, are in various phases of startups. In fact, a couple of plants have not shut down at all, if you think of urea, which is an essential commodity, the urea plant as well as our supplies of agri solutions to farmers they have continued without any disturbance. We have one or two plants which have been running continuously since the lockdown. And we have several plants that have been running at a lower level and own the plants, so far have received permission. It's just a question of starting up in the next few days.

So what have we done in the last two to three weeks? Some of it will be repetition of what Ashish and Dilip talked about. It is really focused on ensuring our safety and health, profits are consistent are upgraded to the new reality. I think the new reality is without question that anyone who is entering anywhere, we had to practice a very, very different kind of approach. And we are establishing that and we have pretty close to being ready with that. Second is that people’s well-being, it's about migrant workers, it's about drivers, it's about any other sudden visitors as well as our own staff and colonies. We have also practiced running these plants at different levels, from anywhere between 15%, 20% to all the way to 100% of running of these capacities. And we have also tested, and we struggled but at the same time tested the supply chains from initial first week, having struggled later on now we have products that are moving. Of course, we have to look at our line of sight of customers and customers' customers. It's not enough if we have the product and we produce, it is about our customers and customers' customers. So we have been actively helping them on the advocacy front as well as ourselves, we being the leader, we have been going back to the government to talk about what we can offer and how we can help.

And then, of course, Ashish spoke about, a significant cost reduction focus is there. And automatically, some of them have been stopped or several others. We have been spending a lot of time on focus. So we feel we have a very strong BCP. Because of the scenario tests that we have done. And we believe, even there are some more unpredictable changes thrown at us, given we have a global understanding of how other plants across Southeast Asia, Europe and the U.S. have run. We had some best practices learning because majority of these locations have already been running manufacturing plants under a significant amount of virus spread. So we also learnt and we still believe we have prepared ourselves well for these changes. We are hoping for a lot more production to start in the coming days.

Let me pause there. I will now hand over to the Jayant.

Jayant Dua: Thanks, Kalyan. Good afternoon, everybody. I just wanted to give a little brief before we get into some detail. One is, if you look at the chlor-alkali industry, it's like a tandem industry. If you don't balance your caustic and your chlorine, it's very difficult to run the plant steadily. So, I think over the last couple of weeks, that is a job which we have done fairly well. We have got a couple of plants running already at 30%, 40% right from day one. We have got permission to run all the other plants, and as and when the demand balances, and we see the sight of chlorine and caustic moving out together to run the plant safely and successfully, that's what the plan is to start manufacturing these products. From a customer perspective, aluminium never stopped, the refineries never stopped, steel came back, local municipal corporations have been buying slowly, disinfection is doing pretty well, so there is a fairly large demand over it. And we have been able to cater to largely all demand with the plants which are closed at this point in time. Net, net, I think what we are seeing is that there is a steady improvement in supply chain. We are also now getting a lot more clear from the market as other plants are opening up in the facility. I think yesterday's note which came out today from NHA also has given a much larger direction and clarity. While coming to steady state and operations I think will take some time and get evolved as we go along. But we expect that at least all our plants would be up and running by the end of this month. So with that, I think Ashish, I would hand back to you guys.

Ashish Adukia: Sure. We can now, I guess, open up to questions. So I will hand over back to the operator to just handle the queue, etc.

Moderator: Sure. Thank you very much. Ladies and gentlemen will now begin the question and answer session. The first question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: I eventually had one question on the CAPEX front. You did mention that we are relooking at it. Can you give us some sense on what kind of CAPEX cut can come through? What is at very early stages and can be put on hold? So that we have a fair assessment of what kind of outflow we see for CAPEX in this environment. I mean, I appreciate it's very early stage, but if you can give us some sense where the deferment is possible?

Ashish Adukia: Sure. Gunjan, let me start, and I will request Dilip, Kalyan to pitch in if required. In CAPEX, if you recall, we had around Rs. 3,200 crore kind of number for full FY20. And then we had budgeted as per the last presentation for FY21, about Rs. 3,880 crore. Now right now looking at the situation, both because of lockdown, because you can't mobilize workers etc., as well as just to take care of the liquidity position in this situation, we have put all the CAPEX substantially on hold. So, the outflow that you will see during the lockout is not going to be anything meaningful. There can be some CAPEX creditors that have been pending which may need to get paid off, April, May. But other than that we will not see any meaningful number coming out of CAPEX in this during the lockdown. I can't say when we restart, because we are constantly monitoring the situation there.

Gunjan Prithyani: So, let me maybe put it in this way that if you can share what is the maintenance or essential CAPEX that needs to be done, I mean, post lockdown is lifted also? I mean, clearly demand will take time to come back, particularly the VSF side I think will take its own course. So, from that perspective, I just wanted to gauge what is the essential CAPEX, maintenance CAPEX that will need to be spent in F21.

Ashish Adukia: We will do one thing, right now we had prepared already broadly are planning and budgeting where we take both maintenance as well as the capacity enhancing CAPEX plans, etc., for FY21. Now, the plan has obviously turned upside down and we have to really look at the plan. So, I think we will be in a better position to give you the numbers and possibly if you are ready by the time we announce our marches on what the CAPEX number for the year would be, I think it will be a better conversation to have rather than having it now, where I give some guidance on maintenance CAPEX and it turns out that by the time we come out of the situation and when we give you the real numbers for FY21, that would be difficult.

Gunjan Prithyani: Okay. And this liquidity number which you pointed out, Rs. 2,000 crores, this is the cash and the liquid investments with you. But from what I recollect, there is net debt on the balance sheet, right, post the CAPEX and the Idea funding that we did?

Ashish Adukia: Yes. So the debt number that was there in December that we gave was, gross debt number, was Rs. 4,836 crores. And the net debt was Rs. 2,585 crores. What I can tell you is that, in this quarter by the end of the year, the situation is not meaningfully different than what you saw in December, both from gross debt and liquidity position.

Gunjan Prithyani: And last question on the multiple subsidiaries that we have within Grasim's fold. Every subsidiary is of course going through a pretty difficult situation at the moment. Is it fair to say that at the moment, I mean, how should I look at it as far as the capital call from the underlying subs go? I mean, I am not just talking about Idea here, I am talking about all the subsidiaries. Is there a case that we can see Grasim is being called upon to fund some of these subsidiaries? Or any assessment, any number that you have in mind?

Ashish Adukia: Yes, sure. UltraTech doesn't clearly need any funds, they are self-sufficient. Aditya Birla Capital has already raised funds so they have just received funds from advent, after the approval. There is no capital call that we expect from them. Aditya Birla Renewable, which is our solar business, the equity infusion out there is generally of small amounts because they do the typical renewable projects with high leverage, etc. Solar business may require equity fusion, but that's small number.

Gunjan Prithyani: Okay. So, NBFC also you don't anticipate at this point?

Ashish Adukia: No, we don't anticipate anything from NBFC.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holding. Please go ahead.

Bhavin Chheda: Thanks for the update on the overall operation, we appreciate that. Sir, just continuation of the earlier question but in much more detail. Just to summarize, as you said that we surely will be looking to calibrate CAPEX, because way the demand situation is, there is an opportunity to do CAPEX in a staggered manner. So, you would be saving up quite amount of liquidity. And you also mentioned that the Aditya Birla Capital doesn't require a infusion, so that looks to be a big positive. So, just on the capital allocation, because since the valuations of the company have crashed and have corrected to a big extent. And if I look at your numbers that are at historic lows, but it's quoting at historic price to book below replacement cost, 60% to 70% holding company discount to the overall investment in subsidiaries. So, as an investor we see the buyback as the best option to use your current liquidity and capital rather than any other investment, and that has been the case I think the investors have been demanding in many of the calls. So what's the view of the Board? Because obviously, this opportunity may not stay very long. So what is the view of the Board on that or the management on that?

Ashish Adukia: See, I think today it is our liquidity strength that gives the confidence to actually weather the storm. I think buyback is probably more topical at the time when there is no visible large requirements towards any outflow from the company. Right now we are in a situation that we don't know, there is a lot of uncertainty, we don't know how long the situation will continue, what will be the demand outlook. So therefore, it's probably prudent to retain liquidity for the sake of the businesses and company.

Bhavin Chheda: Yes. But the VSF has always been a cash cow business and I think from the operational business you will keep deploying capital in various businesses. And whichever businesses generate the largest ROCE, that should get the capital in. As situation stands today, the Grasim share looks to be giving the maximum ROCE for all stakeholders. So wouldn't the enabling resolution would, as the case and we are a AAA rated companies, so I don't think so liquidity can be an issue for Birla Group and Grasim. So any thought process you can throw on that?

And the other thing on the Vodafone thing, you mentioned that the Aditya Birla Capital doesn't look to be in need of funds as of now, though the situation in NBFC is very precarious. If on the Vodafone if you can give some clarity, what can be the requirement of funds or if you have calculated that for the next couple of years, their balance sheet should also be self-funding?

Ashish Adukia: Yes. See, on VIL, situation has not really changed. And my response to that is same as what I had mentioned earlier, that there is absolutely no call that has come on Grasim for any fund infusion from VIL. So it's difficult to respond to that question in absence of any proposal that side. And I didn't we are aware of the sentiments that has always been presented by you guys on VIL and the decision will be taken on the basis of those sentiments. So on VIL, there is nothing more to add and just close the loop on buyback. I think the timing according to us is not right at this moment. I think we need to make sure that the liquidity is best used and where it is required. I am sure if we come out of the situation, when we look at our CAPEX plan again, etc., if we see that, yes, we will continue to generate enough cash and we will certainly take it to the board and evaluate a buyback proposal.

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

Pratik Kumar: Sir, my first question is on your CAPEX and the net debt position you mentioned. So, basically it's been nine months, we had done around Rs. 2,000 crore of CAPEX, which was mentioned in your presentation. And for full year we had a estimate, as you said, Rs. 3,200 crores. But plant lockdown happen only like last 10 days, I mean, pro-rata bases only we could assume that you could have spent a lot of pending CAPEX in like before last 10 days. But you mentioned that net debt position has not materially changed over December. Would that mean that Rs. 1,200 crores CAPEX would not have got spent at all? I mean, because you are expected to generate around, I mean, very rough estimates, like last quarter you generated around Rs. 200 odd crores EBITDA. But you said that net debt position has not materially changed, but CAPEX requirement ask rate was much higher than quarterly EBITDA run rate.

Ashish Adukia: Sure. Is that the only question?

Pratik Kumar: I have a couple of more questions. So the second question is on fixed cost. So when you say that you are closely monitoring your costs, so like for example, for overall standard operations of Grasim, in a normal environment what is the total fixed cost, let's say, for a month? And how much possibly there is a scope of cutting that in a distressed environment like current?

And my third question is on your subsidiary. Like sir mentioned about like 2 of the 13 plants in chemical segment are operating, one of the four plants in VSF is operating. Is it critical operating any plants during these like past 20 days?

Ashish Adukia: Okay. So, UltraTech, I would just defer that question to Atul or the management out there to answer that question. I will pass on that this was a question that came up. Because, again, the situation is evolving so there is a change every day in terms of which plant is running and what capacity transition and which one is not. On the other two questions, I am happy to respond, which is on net debt and fixed cost. So on the fixed cost front, frankly, fixed cost kind of a discussion is more relevant for companies in distress or those who don't have strong balance sheet. It's better if you look beyond this temporary disruption, the situation impact may provide an opportunity for us to come out stronger than the industry. When I said that we are closely evaluating cost management is very well running all scenarios. It gives us an opportunity to just relook at things that you don't generally look at, and fixed cost is one of them. So when we are looking at fixed cost, it is giving us an opportunity to break it down and to see that where we can make some savings, what are really fixed costs and what are actually semi fixed costs, like for example, a repair and maintenance which can be classified as fixed cost can actually be variable in nature, because if the plants are not running in this kind of situation you can't even carry out repairs and maintenance. So there will be some savings there as well.

Some of the other admin costs are also of similar nature. So therefore, my point I am trying to make is that it's less relevant than other cash flow initiatives that we are trying to make. But there is a close look at the fixed cost that we are keeping at. 12 month numbers, I think you can look at the financial, it's pretty straightforward. You will get a number. You will also notice from our corporate presentations that a substantial part of cost is actually variable which we have pointed out in our corporate presentation. I think given the sensitivity of these figures, I would not like to share very specific per month numbers.

On net debt, again, like I mentioned in the beginning of the call, it's really difficult for us to share details on the numbers given we have not declared our results yet and we have crossed the quarter. So, suffice to say that net debt has not changed meaningfully, like I said, it has gone up slightly from Rs. 2,585 crores, which was a December number. It's tough for me to give any specific guidance except to say that it has gone up, but not meaningfully, given the EBITDA generation and CAPEX. CAPEX support continued till the lockdown, so therefore I can't give guidance on whether it's proportionate on to Rs. 1,177 crores which was given as a guidance for quarter four. But more specific numbers we will be able to share with you in May when we disclose the results.

Moderator: Thank you. The next question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.

Amit Morarka: So just also wanted to understand the impact of COVID on the regional trade. So I believe the oversupply in China in VSF was one of the key worries we had. So with this, has that changed anywhere? The plants per say in China, are they up and running now? What is the situation there?

Dilip Gaur: See, the situation is very fluid right now. As you know, the Chinese VSF plants never stopped even when the COVID was at a peak in China also. The VSF is a continuous process industry, and they have been running those plants and building up inventory. Post the normalcy in China, the demand hasn't picked up the way it should have. So the yarn capacity is still running at a very low operation rate, less than 40%. So what has happened is, because until the consumer markets open, there is not going to be any demand pull. So the Chinese VSF plants are finding it very difficult to sustain the operations. So off late, a lot of stoppage has started happening. The OR research about 73%, 74% a few days back has dropped to about 63% yesterday, we have dropped below 60%. So I think it is very risky, it is just a academic activity versus running the plant. And they are realizing that they can't keep building inventory and not sell. So I think we are seeing some closures. But I think its early days and very difficult to say what will happen. So it will all depend on how fast Europe and U.S. come back to normal. The Chinese domestic demand also hasn't picked up the way they had expected.

Amit Murarka: Okay. And a follow-up to that, do you anticipate that situation to kind of cause further disturbance on VSF for them? Because if demand is not picking up and those plants, I mean, currently the operating rates are down but generally could it create further imbalances in the trade given the VSF prices have corrected a lot clearly?

Dilip Gaur: The fact that they are shutting the plant after three, four or five months of running, meaning they are feeling a financial stress, that's what all I can infer from that. If they are under financial stress then the resumption may not happen until the prices are good, that's what all I can infer from that. But it had happened after a long time that some plants are now talking of closing down fully. Otherwise, they were trying to cut 10%, 5%, 20%, barring some big players, most of them are now closing. So what I feel is there may be some rebalancing happening, but it will take time. I can't say it is happening next quarter, but I think the pressure has started creeping in.

Amit Murarka: Got it. And could you also touch upon like, how are you handling your associations and partnerships with the yarn makers who are important part of the value chain for you. They would also be having working capital stresses and all that?

Ashish Adukia: Yes, see the issue in India right now, before the lockdown happened demand was very good. It is only in the last 10, 15 days that the European retailers and brands and people started cancelling orders. And the fabric side started feeling the pressure, the yarn side didn't have as much pressure because they had still no inventory buildup is the yarn side of it. So, we will get to only after we restart. So there was a talk that all brands have kind of cancelled orders, put them on hold, but later on we had a discussion and I think a lot of brands are going to honor their commitment. Marks & Spencer, I met them, they told they would honor the commitment. So most of the big brands are now saying whatever they have ordered they will honor, in the autumn-winter there could be a reduction in orders. So I think we need to wait, very difficult to predict still what is going to happen. An in terms of liquidity, it is a big issue. But I think the RBI intervention what happened last week or 10 days back, it has helped the business and MSMEs to at least take care of the fixed costs, because they were able to get extra loans which they are using to pay off their workers. And many of them have got their workmen on the premises, so some of them are running their plant despite the lockdown, we are allowed to run the plant where we have got the workers on the premises. So that's what the reality is.

Amit Murarka: Sorry, there has been no working capital kind of an expansion or anything like that at your end because of the current situation that's…

Dilip Gaur: No, in our case if you see, we sell on LCs and cash, so we do not have an issue like that right now.

Amit Murarka: And is the situation same for other chemicals as well, on the corporate side?

Jayant Dua: Situation is very similar on the corporate side. The majority of our credit is secure, and we don't give too much stress on that, the collections are happening on a daily basis.

Moderator: Thank you. The next question is from the line of Sanjay Parikh from Nippon India Mutual Fund. Please go ahead.

Sanjay Parikh: For both VSF and chemicals, I mean, I clearly understand it's a very tough situation. But just that in both the businesses when you do an end use analysis, what part of our business would be domestic? What part would be global? I mean, I understand the direct and indirect also because your customer could be an end exporter. But broadly, I mean, if we were to say that domestic will slowly stabilize, globally may take time if that is our view, then how do we understand end use analysis in both the business? End use sector usage in both the businesses, broadly? Domestic and global is what I am trying to understand.

Ashish Adukia: Sure. Dilip, you want to go first with VSF and then we can cover chemicals, that could be to be divided into both caustic, chlorine and VAP etc. So, Dilip, why don’t you go ahead on VSF.

Dilip Gaur: I mean, let me see if I understood the question right. If you see the yarn part of it, the bulk of the Grasim sale bulk of the Grasim sale is in the domestic market, about 80% to 85% is domestic market, only 15% of the yarn gets exported. And a lot of it used to go to places like Iran etc. But as you rightly said, the yarn maybe domestic but some of the downstream fabric or garments could be exported. Now, if we see India, the export and domestic ratio again is initiated, the export is $30 - $35 million and rest all is domestic, so the domestic market is within India. So, what one has is seeing, Indian demand is the right stimulus and if the Indian supply chains start working well, the impact would be less. Because India is not as impacted by the global as for as China and Vietnam and Bangladesh are. Now, the second issue is, in the global market, as we speak, the autumn-winter sampling, etc., is happening. So, I think the move the government has done is a good move, start up from 20th, and give the time when this is to be submitted. So if that happens, I think we can work for a faster demand resurgence. So, it will depend how the units start and how the global markets open. So, I think we will be in a better position to discuss this towards any other time when we have our Q4 results.

Ashish Adukia: Chemicals you want to cover, Jayant?

Jayant Dua: Yes. So, if we look at it, we are predominately domestic, our export is just about 5%, 7% of our total, so that's not very material in terms of overall size. If you breakup chemical into multiple caustic, chlorine, and the VAP segment, there are some positive stories on the caustic side, there's particularly we have seen essential commodities like your aluminium side, your refineries, your power plants, they never stopped at all. So there is a continuous line over there. If you look at it from the chlorine side, you have seen companies which are distributed to farmers, sanitation, water, all the state bodies which are taking water sanitation, they continue to pick up chlorine. There was disruption in supply chain for the first week or so, but things are stabilizing a little bit now. When you go to value added products, where I think your question of segmentation actually becomes far more relevant, where we see things like pharma and agro segment coming back up. We see things like disinfecting segment, water treatment coming back up. So these are the positive sides. On the other side, we still look at the wires and cable segments, and the segments which are dyes and pigments, which continue at this point of time to be slow. And we are waiting maybe the current circular which has come out, will show us over the next week, 10 days what happens over there. So I think our story is mostly domestic and we are seeing some positive news on certain end products for us. And that is the reason why we are saying that at least three, four plants of ours are running. The others have got the permission, and as we see demand balancing between chlorine consumption and caustic, we will start getting those plants up.

Sanjay Parikh: Thank you very much. And just a follow-up questions. In both the businesses, I mean, there are imports, and the ideal strategy for any country, in China or any other country would be to pump the products as much as in other markets. I am sure the government, I mean, these are extraordinary situations when a domestic industry has to be protected. So do you think in such scenario, the government would be aware of the need of protection required so that the domestic industry actually gets insulated for a while? Or it's tough to take a call on this?

Dilip Gaur: I think the point you are making is a very valid point, it is not only for VSF, it is for largely all Indian industry, because China has a huge overcapacity in all industries. And secondly, the Chinese demand whatever you may say, this is going to lower than earlier years. So, we have made representation to them through various industry bodies, and they have also acknowledged it. So let's see what they come up with. But the government is very well aware of this crises, post COVID recovery will depend upon how you protect the Indian industry. So the China supply chain is up and running. India will have two pronged problem, the demand revival and at the same time getting the supply chain reenergized. So, I think Indian industry in general, need a hand holding by the government if post COVID scenario. They are aware of it, let's see what they come back with.

Sanjay Parikh: Sure. Just on the currency front, we would appreciate it, can you see in the relative context to other emerging market countries, how do you think about this currency depreciation? I mean, logically it should help us but it is a relative term. So what would be your view on that?

Ashish Adukia: See, our FOREX exposure per se is that we import pulp, which is a substantial part of the cost of VSF. And in a way, it helps us in realizing better domestic realization because of the landed cost. But overall if you look at it in our currency terms, we are a net importer because we are selling in the domestic market and importing pulp and some of the other chemicals, etc., also that we use. So, keeping that in mind, depreciation is something that we have to hedge, and we have to cover. But there is some natural protection that we get due to the realization based on landed cost. Both in caustic also there is already current import happening, in VSF there is actually reference price, if there is no import.

Dilip Gaur: Directionally it helps the weakening of currency.

Sanjay Parikh: Yes. Thank You.

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

Navin Sahadeo: My first question was that, given the western world is already talking about moving away from their dependence on China, is there some sort of an opportunity that we have there? Are there any indicative inquiries or is there any effort from our side being built? First of all, if at all, this is in the correct context, if at all, there is any opportunity. And in that same light, our CAPEX, which was VSF due in the second half of next fiscal, is there a way during that it can be looked to advance or some colour around that will really help. Thanks.

Ashish Adukia: I think Dilip, I guess the question really is that if I have understood, that because the world may prefer VSF or production coming out of other countries, would that present an opportunity to us for exporting? And if that market is large enough, should we look at advancing Grasim, is rephrasing of your question, correct?

Navin Sahadeo: Yes, that's what the question is. Thanks.

Dilip Gaur: I can only give you my view on this, there is no real one answer to this. The whole world is talking about moving away from China after experiencing such a life is the moment when they see the right price, people start taking their decisions. And then people are very cost hungry, so if its already happening, then wherever China comes back, and when the prices are good people have started buying from them. But you are right, to some extent we have been able to make a dent like we do a business in non-wovens, which again goes into the hygiene and medical applications. And the Europe and U.S. are a big market for that. And here we are finding there is a preference. Not everything has been the same they would like to buy from us rather than China, that will build upon this more and more. Second, the incentive what you are talking about is like Japanese have spoken about some concrete idea, but they are talking about Japanese people moving away production from China to other countries. So it's about shifting the operation base. That's their sign, that won't happen overnight. And U.S. is talking about it, but we are yet to hear what the concrete proposals on the ground are. So my feeling is, it's a decent idea. It would take time to mature. You can't depend upon that in the short-term. But yes, we all have to build upon this sentiment.

Kalyan Ram: Thank you. And just to add to what Dilip was saying, I think there has been some trends in terms of venture, we have just entered into a venture with a German joint venture in insulators, and that was Germany making a choice between China and India, and then we were their partner and we just entered into it few months back. And of course, China themselves, we have been hearing and we have been also approached in terms of any JV for possible or partnerships are possible with them but outside China. So equally China is also looking at making sure that they are not over dependent on their own location, but outside too. So you would see both other countries trying to do it as well as China themselves trying to do it. And Ashish earlier said, it is about, if you are in a very strong balance sheet, how do we take advantage or how to be in a better position later will be an opportunity.

Navin Sahadeo: Thank you. My second question was, if you could just help us understand what is the current VSF price globally or, let's say, indicative China? And is that really relevant in the first place to look at, given that, as you said, there is a lot of inventory accumulation already and there is shutdown which is happening. So is it really a relevant price? Because once things are in that price, in a way be relevant for India, or how should we look at prices in the current scenario of what we are seeing in China as of now? Thanks.

Dilip Gaur: I would tend to agree with you, prices are not relevant right because this is a subdued price, every week there is a price being quote but in real life there is no transaction happening. So issue is, until the demand picks up, price has no meaning. Even if you offer 30% less, if I don't need I won't buy it. So I think what is happening in China is, the CCF price is a fixed numbers been given for last three or four weeks.

Navin Sahadeo: What is the reference, what is the price indicative?

Dilip Gaur: For the export they are indicating $1.25 to $1.3, for the domestic about $1.2 dollars, it is all kind of price they are talking about. I think it is, but issue is, until the demand picks up the price has no meaning, it is just a one side indication. There are no big transitions happening in China right now.

Moderator: Thank you. The next question is from the line of Kevin Kuriakose from Alphaline. Please go ahead.

Kevin Kuriakose: Sir, can you give us some idea on how much EBITDA realization we can maintain in both VSF and chemical?

Ashish Adukia: The EBITDA realization meaning? I don't know what period you are talking about.

Kevin Kuriakose: EBITDA per tonne.

Ashish Adukia: No, like I said, we won't be able to provide any guidance on that, we will have to wait for the March results and then you will have the numbers with you. And of course, March results also will be not at all indicative of June as you know, because March will be two and a half months for normal course business.

Moderator: Thank you. Next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Sir, for the month of April, our chlor-alkali plant that you suggested for a different stages of operation right from **20% to** 30%. Now, given that the entire month will be operational at a lower level, will it result into a permanent loss of production for the entire year, or it can be recouped in next months or quarters when the demand situation improves?

Jayant Dua: To your point, I think as we tried to say that the situation is so fluid at the moment that what will be the demand position going forward, none of us really have a really good handle on it. But to your point, as demand picks up do we have the capability to ramp up our production? That capability that we have. Now, it will all be a function of demand comes up in terms of what we can recover or not, but our capability to ramp up very fast to cater to the demand exists.

Rohit Nagraj: Okay. And just one question relevant to that. So as you had earlier also pointed out that chlorine demand is also a factor for alkali production. So, given the current circumstances and realization of chlorine is also pretty hazardous activity. So, is it forming a constraint in terms of going in for additional alkali production, because we are not able to react with the chlorine or the usual customers are chlorine are not able to take it?

Jayant Dua: I think let's put it this way, both these products run in tandem. And interestingly the end users are opening up at different stages. While there is a segment of the metal side of the steel and the aluminium which continues to run and the refinery site continues to run, and power site continues to run on the caustic side. Similarly, on the water side, sanitation, chlorine site it is running. So we are balancing it out. The number of days for which it seems running is not adequate enough for us to figure out at this point of time which side is leading and which side is lagging. I think as more and more industries open up, that clarity will come to us. But in that perspective are we balancing and running it? Clearly, that's the primary objective.

Rohit Nagraj: Okay. And just last small clarification, on the logic front what is the current situation as per your understanding in terms of the interstate logistics? And how is it smoothening out, because we are having a dialogue continuously with the governments across different states and regulatory authority. That's it from my side. Thank you.

Jayant Dua: So, I think on logistics front, compared to the first week to now, which is the end of the third week, there is a substantial difference. I think it's improving on a daily basis. Clearly, getting all the drivers and trucks to do long distance continues to be a challenge. But I think as industry pans out, as it starts moving out over the next couple of weeks, we will see quite a lot of substantial improvement. So it's improving on a daily basis is the direction I can give you. Not only on the domestic front, even the container export has totally started picking up and things are looking positive.

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

Saket Kapoor: Sir, could you give some indication on how the price trends have been for the caustic soda segment over these two weeks? As China market is now opening up, what have been the price trends?

Jayant Dua: That's again I will go back to Dilip's statement, we have not seen any material movement as such yet to arrive at a price. So if I were to look at the published report, the contractual price continue to run the way they are. The spot pricing actually there is no price yet, because whatever price anybody quotes, there is a counter price which is available. I think it's too early for us to really say what the pricing on a stable environment will be in this particular time. I think in another month or so we will have a much better clarity there.

Saket Kapoor: Because since we are running our plant and both the products have been produced, our realization is factored in at what prices?

Jayant Dua: In terms of, again, getting into a guidance of pricing which we will not get into. But what is our plant running at? We just said out plants are running at about 20%, 25%, 30%, and that also some of the plants are running, some of them are still not opened up. So it's not material volume yet for us to really ascertain the real price….

Ashish Adukia: And I think it will be a little bit of an irrelevant data point because we wouldn't want you to base the current situation and the quarter on the basis of some of these price points.

Saket Kapoor: Sir, since you told that aluminum industry and all didn't see any shutdown, and we were at a shutdown, so where was their demand meeting up? I mean, how are they sourcing the caustic soda?

Jayant Dua: Again, that’s what I am saying, the contractual on some of them, they are long contract prices which are continuously going up. But a large portion of our sales is also which we do on a spot basis, both solids, then we convert to flakes and also on the spot price which happens for smaller customers. Those markets have not opened up to get a complete picture to answer your question. And I think it will take some time, I think another 15, 20 days or a month you will have much better idea. Maybe when we declare our results, we will have a much better clarity on this.

Saket Kapoor: I got your point. But the volume offtake from your user industries which did not face any shutdown, how were we able to manage that? That is supplied for inventory but only, meaning, how did we manage to supply to….

Jayant Dua: Some of it yes and some of it from the limited operations we had.

Kalyan Ram: I think one point I just want to share is, we are the only one where we have units of chlor-alkali spanning across India. So we are very close to the customers. And we try and then run those plants wherever the demand is. For example, the alumina segment we have supplied to them, it's just that that particular unit run harder and then rest of them don't run because they will be running at much lower, because that is for chlorine and other disinfecting products. So, we have catered to them. It's not that we didn't, its just that we are much more spread out and that's our advantage too, and we have done that.

Saket Kapoor: Thank you.

Ashish Adukia: If there are no more questions, should we close the call? Or are there any questions that we would want to take up?

Moderator: We take the next question from the line of Sanjeev Singh from Emkay Global. Please go ahead.

Sanjeev Singh: Sir, my question is related to VSF prices. So, before the issue of COVID-19 started happening globally, I think even before that VSF prices had fallen to the range of around $1.35 per KG in China. So in CY19, there was a price correction of 30%. If in current scenario when you expect that global economy will take some time to revive, so what is the long-term outlook on VSF prices? I am not talking about this quarter. And in terms of our profitability also, if we exclude VFY, I think are EBITDA per KG was Rs. 12.5 in Q3 FY20. And in last 10 years, we have reached our bottom of around Rs. 9.5. So we are almost closer to the bottom. So if going forward, if we exclude the current quarter considering current global environment, and last quarter also we had spoken about two Chinese plants operating at 74% or 75% utilization rate, but even then they continued to operate when the COVID situation was there. So, can you give some sense on long-term outlook, maybe after this quarter, maybe after six months?

Dilip Gaur: Ashish, you want me to respond?

Ashish Adukia: Yes, Dilip. I think specific numbers we can avoid, but directionally we can give.

Dilip Gaur: Yes, see the issue is, you must understand, the pricing is a function of supply demand. Now, while we spoke about pre-COVID and post-COVID, when the China COVID was at a peak the prices went up because supply got disrupted. So there was a period when VSF prices started significant increase in Q4 as well. So I think we all have to see how this whole war thing in China shapes up. You can't make a call, because if it remains at less than 60%, you will have a different presence scenario, that's the ideal scenario. At less than 60% OR, I think the demand supply will balance in the normal situation. But if the 60% goes to 70% the prices will change. So I think the dynamics are different, and where the bottom comes is where the worst case a player can go down is variable cost. So what happened in FY19 and there was a huge surplus capacity, the player started selling at near variable cost plus. So that you can know the bottom, below that nobody can work. So then you start moving up depending upon who falls out first. And I had told you last time, there is not one China, there are 23 players in China. And the cost from each player varies, the lower to higher is 25% range. So what happens, high cost players start falling apart, and therefore the price will go up. So, it's a really complex dynamic, very difficult to give you a number. But issue is, over the full year you will see different ranges of prices. One is supply demand, and demand is seasonal again. So there are times like when the spring-summer is there, and autumn-winter is there, demand is more, prices will go up again. So, you have to understand the cycle. When we meet later on, we will have some little more clarity.

Ashish Adukia: And there are so many factors out here, and in addition to what Dilip said, I think just coming out of the situation, if there is a government stimulus that is provided, plus there is government protection that is given on imports side etc., that we are actively talking to them about, then possibly you will have a divergence in domestic prices and you will probably realize better premiums. So, we have to yet see how it all pans out.

Moderator: Thank you. The next question is from Dhruv Sanghvi from Sanghvi Investments. Please go ahead.

Dhruv Sanghvi: Sir, my question is very normal. If the UltraTech market cap is Rs. 1 lakh crores, and Grasim is holding 57%, it's close to Rs. 57,000, but in Grasim is available Rs. 36,000 crores. If I give 75%

it comes with Rs. 15,000 to 18,000 crores of valuation. If Grasim is available for Rs. 20,000 crores, because the market is buying at 10% stake so what is the shareholders' value. Rather than asking the VIL and China and COVID which is not in your hand, not in our hand, if you want to restore the values of the shareholder, 3000 crores into the equity directly to buy 10% stake rather than putting money in Idea, which is deteriorating every time, you are asking for VIL….

Ashish Adukia: I have understood the question. I can answer this question in pretty much one line. I think it's an opportunity for shareholders to look at the company. And the math that you did provides an opportunity to all the shareholders.

Dhruv Sanghvi: No, sir. My question is very much candid and very much clear. You are putting money into Idea and it's deteriorating, shareholder money is deteriorating. Rather than putting the money in to Idea, rather than going to buy 10% stake which will cost Rs. 3,000 crores, Rs. 3,500 crores, 10% stake would restore value of the shareholders, the stock price is almost 30% from the peak. So why don’t you come in the market to buy 10% stake straight, rather than asking anything. Please reply, I am very humble to listen to you, sir.

Ashish Adukia: Again, the voice was not very clear, but I think on I heard bits and pieces. So the math as you did, I just mentioned that, it provides an opportunity for shareholders to buy. Second bit on VIL you mentioned, I don't know why that question is coming up because in the past we have put money, and we know that history, it is last year. And there is no current proposal, so there is no question of us evaluating a proposal to put money in VIL when there is none. And the third thing what you are saying about 10%, I didn't really get what you are saying about buying 10% in what?

Dhruv Sanghvi: No, I will tell you. If Grasim's valuation is Rs. 35,000 crores, wherein Rs. 17,000 crores from UltraTech, the company has available Rs. 20,000 crores as per my understanding. So rather than putting the money into any of things, go and 10% stake straight away from the market when at this point of time, it would be beneficial for shareholders value. Because what happens, all the questions which are there from various people or various region people, I am asking straight away, the P&L side right. So rather than talking about balance sheet, I am coming to P&L side. So why don’t you go and buy 10%, straight away for Rs. 3,000 crores, put in equity market and buy the shares. Eventually the stock prices will sustain, it will go up to restore the gain thinking about the shareholders, rather than asking some other things. Please throw some light on that thing, it would be appreciated.

Ashish Adukia: Sure. I think this is a similar question to what I think Bhavin had asked earlier on buy back on just buying Grasim's share itself. And I responded to that question saying that, in this time when there is no visibility of when you will be able to run as you were running earlier and generate cash to meet the requirements of the business, cost and CAPEX, etc. I think we would like to take a little bit more prudent view and look at buyback or any of those steps when we know that there is large requirement of cash that is there in the anvil. Some of the companies who are doing that, they may be doing that because they have enough cash on they don't possibly see any deployment avenues good forward.

Dhruv Sanghvi: Last questions from my side. I am a too small investor from Gujarat. My always thinking is that if you put your money into such a company, if the price has gone down from 100% to 30%, why the management will not come to restore the gain of the shareholdersI am requiring some concrete from your side rather than some statement which I heard from the various people in the political side also, please do something concrete on the shareholder side rather than making statements. Please.

Ashish Adukia: Sure. We note your comment. Thank you.

Moderator: Thank you. Ladies and gentlemen, that would be the last question for today.

Ashish Adukia: I just wanted to thank everyone for joining the call. I hope that we come out of this temporary disruption soon enough and we come out safe. We as a group are actively contributing to PM Care and donating PPE masks, ventilators to fight this battle. So please stay safe. And we look forward to speaking to you again in May after we announce our March results. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Grasim Industries Limited, that concludes today's call. Thank you all for joining us. And you may now disconnect your lines.