# "Grasim Industries Limited

# Q1 FY '25 Earnings Conference Call"

# August 09, 2024

**MANAGEMENT:** **MR. HARIKRISHNA AGARWAL – MANAGING DIRECTOR**
**MR. PAVAN JAIN – CHIEF FINANCIAL OFFICER**
**MR. JAYANT DHOBLEY – BUSINESS HEAD, CHEMICALS, FASHION YARN & INSULATOR BUSINESS**
**MR. HIMANSHU KAPANIA – BUSINESS HEAD, BIRLA OPUS**
**MR. RAKSHIT HARGAVE – CEO, BIRLA OPUS**
**MR. SANDEEP KOMARAVELLY – CEO, BIRLA PIVOT**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Grasim Industries Quarter 1 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

**Ankit Panchmatia:** Thank you. Good evening, and thank you all for joining this call to discuss our first quarter of FY '25 performance. Our leadership team is present today on this call to discuss our results. The financial statements, press release and presentation are uploaded on the exchanges and are also available on our website. For safe harbor, kindly referred to cautionary statement highlighted in the last slide of our presentation.

From the management side, we have Mr. Harikrishna Agarwal, Managing Director; and Mr. Pavan Jain, Chief Financial Officer, Grasim Industries. Also joining the call, we have Mr. Jayant Dhobley, Business Head, Chemicals, Fashion Yarn & Insulator business; Mr. Himanshu Kapania, Business Head; Mr. Rakshit Hargave, CEO of Birla Opus, our Paints Division; and Mr. Sandeep Komaravelly, CEO, Birla Pivot, our B2B E-commerce business.

Let me now hand over the call to Mr. Pavan Jain for his opening remarks, post which, we will open the call for the Q&A. Over to you, sir.

**Pavan Jain:** Thank you, Ankit, and good evening, everyone. Heading into 2024, all of us talked about a lot of uncertainties and had built expectations on how new economic realities would take share. Some of these were elevated geopolitical risks, higher interest rate for longer duration, impacting growth rates and megatrends rapidly transforming industries.

As we cross the midpoint of the year, all such expectations are playing out. Conflict escalation in the Middle East and Ukraine remain major risk, inflation persistence is leading to continued high interest rates by major central banks. Secular megatrends from artificial intelligence to sustainability or reshipping economic and industries.

The recent data points from the U.S. on manufacturing PMI and unemployment rate has increased, the probability of the U.S. sale cutting rates in the coming FOMC meetings. Bank of England has already executed its first interest rate cut in more than 4 years taking the key rate to 5%. In China, despite Beijing surprise rate cut which injected 435.1 billion yuan into financial system, there our current global economic environment, coupled with heightened geopolitical risk conditions indicate that the path to normalization is likely to be a longer one.

At the same time, Indian economy has been a star performer on 21st May, India became the fifth country to join exclusive $5 trillion market cap club alongside the U.S., China, Japan and Hong Kong. Two months from there, we have hit $5.5 trillion on July 30th. With 7.8% growth in the

GDP in Q4 FY '24 and 6.8% expected in current year, India is expected to continue to its title of fastest-growing large economy as per the growth projections by IMF. Further, the Budget 2024 has laid down focus on capex spending in sectors such as road transport and highways, railways, real estate, et cetera. Secondly, supporting consumption through higher allocation for rural economy, welfare schemes and agriculture and job creation are one of key focus areas. India's long-term economic fundamentals appear robust, buyout by government commitments, fiscal prudence aiming for a reduced fiscal deficit of 4.9% in FY '25 and 4.5% in FY '26. In latest MPC making, RBI has maintained status quo on Repo rate of 6.5% and FMCG, our projections of 7.2% GDP growth and the inflation target of 4.5% for FY '25.

I now come to our company's performance for the quarter gone by. Consolidated revenues stood at ₹33,861 crores and EBITDA for the quarter was ₹4,076 crores.

Talking about segmental performance in cellulosic fibre business, consumer buying has in stuck in major textile consuming economies that is U.S. and EU due to heavy discounts offered by retailers and supported by easing inflation. This has led to some inventory corrections, increase in cotton MSP and volatility in global oil market due to geopolitical instability and entered in lower preference for cotton and polyester fibres making cellulosic fibre as preferred choice of fibre for brands globally. Moreover, better sustainability credentials would continue to drive growth of cellulosic fibre in the long-term. Globally, CSF prices have been on an upward trend since Q3FY'24. India realizations remain impacted by oversupply in Indonesia and decline in input prices that is pulp and caustic soda, benefits of which were passed on to the value chain partners. Our CSF volumes stood at highest levels of quarterly number of 200 tons and revenue stood at highest levels since past 7 quarters. The CFY business remains impacted by low consumption phase across the user value chain, though there are some signs of recovery in the current quarter.

In Chemicals, global caustic soda prices marks fourth consecutive quarter of improvement and are now at highest level since June 2023. While domestic markets have also followed some of these positive realization trend, India caustic soda market continues to remain in oversupply situation. Our caustic soda sales volumes were lower by 4% Y-o-Y partially impacted by Vilayat plant shutdown for new capacity hook up. Improved caustic reductions, coupled with uptick in demand and realization for chlorine derivatives had led to improvement in eco realizations, which stood at ₹32,529 for Q1 FY '25, highest since Q2 FY '24. The ramp-up in production post recent expansion at specialty chemicals unit, remains on track. We have clocked highest ever sales volume and revenue for the specialty chemical business, which now contributes 30% to the chemical business revenue.

Coming to Building Materials segment, UltraTech continues to grow bigger. The country saw a new capacity addition of 41 million tons during the last financial year, 32% of which has come from UltraTech. For this year, out of planned 16 million tons capacity, we have already added 8.7 million tons in Q1 FY '25, crossing milestone of 150 million tons per annum, reaching a total capacity with the domestic and overseas totaling to 155 million tons per annum. The recent acquisition deal with Kesoram and controlling stake in India Cement would strengthen our position in fragmented South India market. For India Cement, the Board of Directors of

UltraTech approved purchase of 32.72% equity stake of the promoters and their associates in India Cement limited (ICL). UltraTech had earlier made a financial investment in India Cement to acquire 22.77% equity in June 2024. Post signing of share purchase agreement and obtaining regulatory approval for the purchase of equity stake in ICL, UltraTech will pay ₹3,954 crores at ₹390 per share for by this 32.72% stake in ICL from the promoter and their associates. This has triggered a mandatory open offer at ₹390 per share, which would be done after obtaining all regulatory approvals.

Paints business under brand Birla Opus has started its commercial production at 3 plants in April 2024 and more than 80% range of 145 planned products have been placed in the distribution channels. Trial run production has also started at Chamarajanagar, and commercial products is expected to commence from Q3 FY '25. Construction at other two plants is progressing as per plans and remains and expected to be completed in budgeted sanction project cost. On branding and distribution, I am sure you would have seen our media campaign under 'Make Life Beautiful'. The ad has successfully captured the customers' imagination and it is heartening to see a good response from the entire ecosystem. The first flagship experience centre store in Mumbai, is already operational with our plans to add more such centers in FY '25.

Revenue of our B2B e-commerce business, Birla Pivot is gradually ramping up. The current quarterly run rate of revenue is over ₹550 crores with increasing trends in total number of buyers. Private labels are now available across 3 product categories, which is ply, door, and tiles. We are also working on building a retail distribution channel for these private labels along with sales support for better penetration.

In our Financial Services business under Aditya Birla Capital, remains on track of its transformational growth journey. The company has successfully built a franchisee for omnichannel architecture of distribution, delivering steady growth with prudent risk management and focus on return on capital. While the company continues to expand its physical footprint, a total of over 1,500 branches across businesses, the endeavour remains on digital first approach, under this line, Aditya Birla Capital has commercially launched its B2C platform, the Aditya Birla Capital Digital, ABCD, offering over 20 products and services catering to each facet of financing solutions such as payments, loans, insurance, and investments. Total lending portfolio and average assets under management have also surpassed milestones of ₹125,000 crores and ₹5,00,000 crores, respectively, in the current quarter.

In the other businesses, our renewable business has increased the capacity to almost 1-GW, while in the current quarter and remains on track to double the capacity to 2-GW by end of this year. The business has strong anchor clientele with Aditya Birla group companies representing 43% of its existing portfolio. During the quarter, textile business profitability was impacted by high input cost in linen business. The retail presence of our textile business is expanding under our branch Linen Club, Cavallo and Soktas.

On the capex front, we continue to focus on growth capex for FY'25 budgeted capital expenditure is over ₹4,500 crores, of which growth capex in new businesses is planned at ₹3,000 crores, which is 66% of the total capital expenditure.

Now we open the floor for Q&A.

**Moderator:** Thank you very much. The first question is from the line of Jai Doshi from Kotak. Please go ahead.

**Jai Doshi:** I've got a couple of questions on your paints business. One is how has the progress been so far versus your internal expectations? And if you could respond with a few data points or give us some more colour?

**Rakshit Hargave:** So Jai, this is Rakshit here. Let me take your question. So when we had launched paints in February '24, from Panipat, we had shared a few data points, which we would want to reach by the end of the financial year, and we are in line with all our expectations.

So firstly, from a manufacturing point of view, three plants are commercialized and running steadily. The fourth in Chamarajanagar is under trial production, which was what we had committed. We have been able to place out of the 125-odd products we talked about, more than 80% is already there in the market. We had talked about reaching 150 depots by the end of the year. We are already beyond 102. We have talked about reaching 50,000 dealers. We are in sync with the plan to hit 50,000 active dealers by the end of the year.

Qualitatively, the reception of our product for a quality has been excellent. Painters and contractors and the whole ecosystem who have used it, are coming back to use it repeatedly because they not only see a quality differential with what exists in the market. But from a usage criteria also, they find it to be very easy.

We have also been very successful in our initial brand campaign, which we launched along with the start of the Cricket World Cup. So the 'Make Life Beautiful' campaign has garnered till now close to 70 crores Indian eyeballs. And in terms of the feedback that we have from the market, both from contractor painter and consumer queries, it definitely seems to have made a big, big impact.

So all in all, both from the supply side and both from the demand side, we see that we are on track with what we had committed in Panipat.

**Jai Doshi:** Understood. A follow-up there, if we do some back of the envelope calculation, it looks like June quarter net sales was around ₹80 crores, is that understanding right? Or am I missing something?

**Pavan Jain:** So, Jay, our actual sales will be more than that. See, large part of sales has been out of the trial run production for the three plants, which would go commercial production started in April '24. So prior to that, some trial production was achieved out of those plants, that sale has gone to CWIP.

**Jai Doshi:** Understood. Would you be able to call out that number? Or would you like to call out that number?

**Rakshit Hargave:** So, we will not call out the number, but a major part has gone to CWIP.

**Jai Doshi:** Basically, the net sales number that we are looking at after back of the calculation is not an accurate number.

**Pavan Jain:** Yes, it will not. It is just net of what has gone to CWIP.

**Jai Doshi:** I understand. Lastly, what is the pushback that you're getting, if any, from the trade? And what steps are you taking to address the gaps, whatever be on the distribution front?

**Rakshit Hargave:** So, let me first say what is the pull that we are getting from the trade. So, the pull that we are getting from the trade is that many dealers see us as a very strong viable alternative to the existing strong marketplace. They are very confident about the house of Aditya Birla. The quality of the paints has been excellent. So we see large-scale adoption across small, midsize and large deals, which is why I'm able to tell you confidently that of the target of 50,000 dealers that we have said, we are very much on the range.

Secondly, there are many dealers who are very, very interested in dealing with us. And I'm just waiting for some more time because in many markets, the full range of products that they want to commit themselves to do business with us is still a couple of months away, as you would realize. We had promised 1,250 SKUs. We are in that journey, and we have covered a major part. But as you would understand, many paint dealers want to wait for some more time because they don't want to commit to clients if they are not confident that the full range from Birla Opus will be available. But even there, we are making very rapid progress.

So I would want to put it this way. Apart from that, there is no really pushback from dealers. So there are dealers who are saying that we want to deal with you just give us some more time, and then there are many dealers who are adopting us very, very willingly.

**Jai Doshi:** Sure. Just one last bookkeeping. These 100 depots, what part of the country gets covered with these depots? Essentially, what's your reach today national coverage from a geographic standpoint? And that will be all from my side.

**Rakshit Hargave:** So in Panipat, we had promised that we will cover 6,000 towns by the end of the financial year. I think we crossed 3,800 as we have disclosed in July itself. So you could imagine that with the 102 depots, which is operational as of July end and in the last 2 weeks, we actually add another 6 depots, we basically cover literally the whole of India. We are present in all states, every state or every part of India including the North-east has some operational depots. And with more depots, we will only improve the intensity of coverage and end up covering some parts, which at the moment are not being covered. So basically, we are already a pan-India player.

**Moderator:** The next question is from Rahul Gupta from Morgan Stanley.

**Rahul Gupta:** So my first question is on B2B business. Can you just help us understand what your strategy is on B2B business in terms of P&L. I know you'll continue to add products and you want to explore or expand in the retail network as well. But last quarter, you said that the monthly run rate was around ₹2 billion revenues. This quarter, you have said that the quarterly run rate is around ₹5.5 billion.

**Moderator:** We seem to have lost the line for Rahul Gupta. The next question is from Ajit Motwani from Dymon Asia. Please go ahead.

**Ajit Motwani:** Yes. Just like the way you're saying that a large part of the revenues on the paints business has gone to CWIP, would you be able to give us some details on the capitalization of, let's say, the expenses that have, not booked into the P&L?

**Pavan Jain:** So see, as per the accounting requirements, the expenses for the plants under construction, which are directly related to the construction activities or planning activities. That goes to the capitalization, okay? So as already disclosed, three plants are already commissioned, and commercial production started. So, for those three plants, everything is going to the P&L. For rest three of the plants, the expenses relating to those three plants under constructions are getting capitalized. I don't think we are disclosing these numbers separately. But this is the I mean, the conceptual answer for this.

**Ajit Motwani:** Okay. So, if I have understood that correct, whatever the three plants have produced the revenues from there have gone to P&L, the operating expenses have gone to P&L for the three, other three who are doing trial runs, that has gone, the revenue from that has gone to CWIP and the expenses also related to them has been capitalized. Is that a fair understanding?

**Pavan Jain:** So, for other three plants, this trial run has just commenced at one plant out of the three under construction, okay. So there is hardly any production from that in Chamarajanagar plant. So basically, the three plants, which are still not I mean, commissioned all the expenses relating to those three plants are getting capitalized.

**Rakshit Hargave:** And I think from a revenue point of view, you see the first 3 plants, Panipat, Ludhiana and Cheyyar, they were capitalized only, at the end of April. So whatever was manufactured from those plants still then, and these plants were manufacturing actually a bit from trial manufacturing was happening in February, March and April. Whatever of that manufacturing has been sold in the market has not come into the net sales, has gone to CWIP.

**Ajit Motwani:** Only two months of operations, the operational revenue has come from those three plants into the P&L?

**Pavan Jain:** Yes, in the P&L.

**Ajit Motwani:** Got it. And let's say, whatever are the launch expenses, let's say, the dealer meets that you would have done, the new campaign which we saw in the World Cup, that is sitting in the P&L or that is also being apportioned?

**Pavan Jain:** No. No, all that is in P&L.

**Ajit Motwani:** Okay. So the launch cost, the dealer cost and...

**Pavan Jain:** Yes, these are not construction expenses. So therefore, it is going to P&L.

**Ajit Motwani:** Got it. I know it might be a bit early, but what could be the losses that you will sort of have budgeted for fiscal '25 and that we should look forward to, because what's to be one parameter to judge?

**Pavan Jain:** See, I don't think we are giving yearly guidance of the loss, etc. But see, as the production is ramping up, our marketing and brand building activities are ramping up. We will have these losses continuing for this year.

**Rakshit Hargave:** So we are in investment mode. And like we said, we are looking at a three-year picture, where after the third year of full operation, we will be positive. So I think that's what we should continuously aim for. And as I answered in the first question, all the KPIs and checkpoints that we had looked at after four months, we are running online. I think we are an investment mode, which is obviously acknowledged at the moment.

**Moderator:** The next question is from Rahul Gupta from Morgan Stanley.

**Rahul Gupta:** I have just one question. I know you have talked about your strategy around B2B business. But can you just help us understand how should we look at this business from a revenue and profitability perspective over the next few quarters and maybe next couple of years? I mean, I remember you talked about around ₹200 crores monthly revenue run rate last quarter, which in this quarter, you have talked about around ₹550 crores per quarter. So I just want to understand how you are looking at this business. It helps us model better.

**Sandeep Komaravelly:** Rahul, this is Sandeep here. Thank you for the question. So as we mentioned during the last quarter results and even this quarter, our revenue growth continues to be in line with what we had expected. Our aspiration that we had announced in the last quarter was to reach $1 billion in three years' time span. Our internal markets are pointing towards that, and we are in the right direction in achieving that goal. And as we scale up, of course, our profitability will also be in line with that, and we will aim to achieve profitability at that scale. So far, we are focused on increasing our geographical reach and also our number of customers who are transacting on the platform across different categories. And we are well on our way to become like the one-shop stop for all categories within construction and building material. So that's the goal.

**Rahul Gupta:** That's great. Can you just help us understand what kind of losses you would be making in this business right now?

**Pavan Jain:** These are not very large numbers. You see, the gross margins, as we have earlier said, will be in the range of about 1.5% to 4% in different product categories, okay. So that is the situation as far as gross margins are concerned. But yes, since the team building, and the business investment activity is going on so initially, there are losses, not very large numbers to be I mean, discussed to you.

**Sandeep Komaravelly:** Yes. Look, and as a business, this is not a capex-heavy business. So our primary investment is predominantly in building the team, building the technology platform and increasing our reach. Those are the activities that we are currently focused on. And given that it's a thin margin business, our focus will continue to be scale above revenue. But we are also aware that it will take time for us to sort of enter profitability. But as Pavan has mentioned, these losses are not very big.

**Rahul Gupta:** Great. Great. I have just one final question. I know you are looking to scale up your renewable business. Any idea over here, whether you will call out other different business or are you looking for any additional investment? How should we look at this business from a 2, 3, 4 years perspective?

**Pavan Jain:** So, I think we have earlier also shared this that firstly, we aim to double the capacity by this financial year, okay? And the projects are already under implementation. So from 1-GW to 2-GW in this financial year, and then our aim is to add maybe 1-gigawatt every year for next 2, 3 years, depending upon the tenders or the bids, which we can successfully bid for. That is the idea. And as of now, there's no I mean, nothing on table to take this business out, etc. It is already housed in a subsidiary company of Grasim, which is a wholly owned subsidiary currently.

**Moderator:** The next question is from Nirav Jimudia from Anvil Research.

**Nirav Jimudia:** I have 2 questions on chemicals. So one on the hydrogen part of our business. So, let's say, whatever hydrogen that we produce from our caustic plant after using it captively for the flaker, or how much we are currently selling in the market? And does it form a part of our ECU calculation?

**Jayant Dhobley:** So, thanks, Nirav for the question. So of course, we have multiple uses of hydrogen, right? And as you correctly said, we use it captively, we sell it, but also a certain amount of process venting is required to maintain the stability of the plant. I think you can roughly assume that approximately 10% to a quarter of our hydrogen is towards external sales. And rest is towards either captive consumption or maintaining process stability.

**Nirav Jimudia:** Got it. And sir, once we expand our caustic capacity, you have some surplus hydrogen also available with us. So are we planning any downstream products of hydrogen, which we are not having currently. So any thoughts on that?

**Jayant Dhobley:** Yes. So in the medium term, the answer to your question is, yes, we are looking at hydrogen derivatives. But as you know, the chemical industry very well. Our priority right now is chlorine derivatives, mainly because for hydrogen, we do have opportunity to do both sales at good price as well as use it internally for our energy. So it's not off the table, between hydrogen derivatives and chlorine derivatives, our priority is chlorine derivatives.

**Nirav Jimudia:** Got it. So my second question is on the chlorine derivatives only. Sir, last quarter, you mentioned that our chlorine was revenue something close to around ₹3.5 to ₹4 negative in the overall ECU. So how has those chlorine prices moved this quarter?

**Jayant Dhobley:** Yes. So this quarter, it kind of remains at that level, but under pressure. And as you know, our competitor has recently added capacity. So that has put a lot of extra chlorine on the market. So, the ₹3,500 assumption is roughly correct, but with downward pressure.

**Nirav Jimudia:** Got it. And when we analyse our VAPs. So, if you can help us like given our VAPs portfolio in terms of the user industries between, let's say, agro PVC, water treatment and the industrial side, how are volumes of chlorine moves around this user segments?

**Jayant Dhobley:** So I'll give you a rough assumption breakout, right? So assume around 40% for water treatment. Between 30%, 35% for what we would call the industrial users. We have about a quarter in plasticizers and PVC additives. And then maybe close to 10%, 15% in really speciality things like refrigerants, pharma, agrochemicals.

**Nirav Jimudia:** Got it. Sir, last bit from my side is, so we have seen some of the downstream VAPs. The prices have been improved specifically on the CMS side of the business. So one, we have seen an improvement in our EBITDA this quarter from ₹195 to ₹310. If you can just help us breakdown between, let's say, how much we have seen improvement in our VAP side of the business sequentially? And was something being contributed also by the epoxy side where our volumes have further gone up this quarter over and above what we have clocked in last quarter?

**Jayant Dhobley:** So, both of our chlorine derivative portfolio and epoxy portfolio have grown and contributed. But as you must have noticed from our results, we had a plant turnaround in the fourth quarter. We were hooking up some new electrical items. We were doing a lot of overdue maintenance. And that turnaround basically took, let us say, about 18 days of effective capacity away and that is the part that was subtracted. So that should help you kind of figure out the main gap from what you would see, let's say, if we did not have the turnaround, this would be our eighth consecutive quarter of volume growth. You did not see it this time because of that plant turnaround and that was in Vilayat, it was about let's say, 10 days around.

**Nirav Jimudia:** Got it. Sir combining liquid and the power cost benefits what you accrued, is it safe to assume that 75% to 80% of this improved profitability that it is just because of the caustic business?

**Jayant Dhobley:** No. The improvement has been in all 3 categories, it's been in caustic, but it has also been an epoxy as well as chlorine.

**Moderator:** The next question is from Abneesh Roy from Nuvama.

**Abneesh Roy:** My first question is on your initial remarks on paints business. So this question is to the Birla Opus team, you mentioned that there is a CWIP component. So my specific question is, given you will have 3 more factories which will keep coming up, til the Q4, will the CWIP component continue to be there in Q2, Q3, Q4, that is the first clarification I wanted?

Second is your factories are world-class, extremely large, extremely modern. So when you mentioned that the full breadth for the products haven't reached some of the dealers, what do you mean by that? Because paints logistics is fairly quick, and your demand is much lower than the current capacity. So why the products have not reached fully to the dealers. Could you explain these two?

**Himanshu Kapania:** I'll just speak up. I'll just take up the CWIP and then give it back to Rakshit to talk about the range of products. I think and just for clarity, in month of February, we've announced the production -- the trial run started in 3 factories. On 30th April, we went into commercial production. The total quantity that was produced between February to 30th of April was material available for sales in the month of April, May, June. And that is the number that is happening. The same will continue to happen for whichever new factory comes up, during trial production, every trial production period is going to be 3 to 4 months. We have to make sure the, we are satisfied, when we send out in the marketplace and we have to get the whole, all the elements of the machinery and product ready, that's why they will be for every factory about 3 to 4 months of trial production. So I hope that will clarify sort of CWIP.

**Abneesh Roy:** No, it doesn't. So does it mean that Q3, Q4 and Q2 will have the impact. I understood you said 3 to 4 months before the launch, there is the testing of the products. But could you clarify that all 3 quarters will have this issue?

**Himanshu Kapania:** Step by step. Every plant, which is launched will have a 3-month period of trial production average. I'm just giving average. So that is the only number that we have to see. So the three plants, which were 30th of April that was announced, most of their production, which has happened after 30th of April are on commercial production, their sale has already started to take place in quarter 2 and quarter 3. Chamarajanagar production, which is currently in trial, their sales will continue to be part of the CWIP.

**Rakshit Hargave:** So just to add, for every factory before it is commercialized, whatever is manufactured in the factory and sold in the market, we will not be booking that revenue that will keep on going into CWIP. Henceforth, what you will see every quarter because we have Chamarajanagar, we have Mahad and we have Kharagpur, when they start manufacturing through this financial year, part of their production will keep on getting into CWIP. So effectively, you will not be seeing the full turnover, which is actually sold in the market. Am I clear on that?

**Abneesh Roy:** So the only request, given we want to ensure we understand this business better. My only request is in the coming quarters, if you could clarify what is the CWIP because you would then continue to struggle what exactly is the performance? Because this quarter, Q1, it seems that they also suggested and my own math suggests, it is around ₹80 crores, ₹90 crores. But if we don't know the CWIP number, how can any sell side or buy side understand what is the total number? So it's my humble request to give that clarification in the coming quarters also, if possible.

**Abneesh Roy:** Sure. If you could address the second part.

**Rakshit Hargave:** Yes. So on the second part, let me be very clear. All the depots where we are, we are able to serve the dealer within 4 hours or the next day depending on the protocol, which the market leader and the other competitors have. What we meant that we don't have the full range is that we talked about 125 products to begin with. They come with a large number of formulations. And as you would understand that when you start manufacturing in a factory, there is a changeover, and we also want to give all SKUs to all part of India. We have already really manufactured more than 80% of those products, which are potentially capable of fulfilling more than 92%, 93% of the market's turnover. So, the products which are left are the small -- the lesser selling fringe, the C class, or the D class, if you use the Pareto classification, which are only left, which will also be covered. So, we have manufactured the bulk of the important products which make the market, which are already there in the depots, and which are effectively being ordered by dealers. Does that clear the answer?

**Abneesh Roy:** Yes. That's quite useful. My second and last question is on the mass media campaign. So, your advertisement was quite differentiated, and most people definitely like the use of the cartoon and overall, I think a very pleasant ad and very good visibility during the Cricket World Cup. My question is in terms of campaigns going ahead, if you could tell us, did you also target, say, Olympics, for example, what are the other the DCs, which you are targeting currently is the regional DCs, the Hindi DCs and what will be the plan in terms of brand ambassador. I'm not asking for specifics because a lot of these will evolve based on competition, based on your own target. But some clarity if you can give till know what has happened into the mass media and what's the plan on brand ambassador?

**Rakshit Hargave:** So let me first tell you what has already happened. So we are still on television with the brand campaign, which is Make Life Beautiful. We have done national outdoors. We are there on radio, we are there on social media. So basically, the first part of our campaign is what is Birla Opus. So, you could see that Birla Opus is in paints, and we have come with a differentiated way of communicating, our feedback is that consumers are 100% able to connect the brand Birla Opus, the fact that is in paints, because there used to be a lot of misattributions because all the other paint companies advertise in a similar manner. So, people were confused whether it is from brand A or brand B. Our current campaign has been present in all regional languages, in all the major regional languages on all regional channels. We are a pan-India player, in the future, we will continue to have campaigns, which will also be of a slightly different type, but we will keep on addressing the whole of India, which means we will always come with language translations, and we will be there on all media, including press, including print, including social media. In terms of final strategies or what am I going to communicate for that, you will have to wait and watch. But as you can see that we have a very effective way, at least in the first campaign, and we hope to continue that tradition.

**Abneesh Roy:** Sure. Nothing on brand ambassador, right?

**Rakshit Hargave:** No. Everybody asked about brand ambassador. But like I said, you have to just keep watching what happens. And I think the animation was done very well and thank you for that feedback.

**Moderator:** Next question is from Prateek Kumar from Jefferies.

**Prateek Kumar:** Yes, couple of questions, Paints segment. So is there a way to identify or do you learn like how is the retail acceptance while you are pushing volumes to dealers? How are customers, let's say, buying a product? Because you've talked about tinting machine being able to track your business, how it has been sold. So, do we learn that? Also, a question on like these ₹80 crores maybe which have been discussed. So how is the exit like, let's say, the number for June and maybe shall we look at like ₹80 crore into three, kind of number, for second quarter and just in terms of direction for the paints business?

**Rakshit Hargave:** Okay. So let me repeat on the second question. Like we said that ₹80 crores that has been booked for the quarter is only a part of the actual sale that we have done. And like Pavan said, we will consider what to disclose, say, from next quarter onwards, we'll discuss it within ourselves. But it's only a part of the sale that we have done. The obvious part is that the real retail sales is much more.

Your first question in terms of obviously, dealer acceptance is good, and people are buying in. We have also been continuously doing our retail audits and basis the information that we have from the tinting machine and what is selling off, and we are very happy that the sellout rate from the dealers is exceptional. So, our retail audit of stores where we have gone and seen stocks sold till date and taken inventory of stocks lying in the store, suggest that the inventory lying in the store is a small part of what we have sold till now, which means majority of it has been sold out.

Also, like we said, we have a unique tinting machine where online, I can see what is being tinted by the dealers. I now am getting access to a lot of insightful information about what product is being based, how much is being tinted, which is probably not there with any other player, which is giving me more idea of what is selling out, which is also going to help me in the near future in doing my demand plan, is what I would like to put. So we are very happy with the offtake of Birla Opus from the retail stores.

**Prateek Kumar:** My other question is on like your depreciation interest has hardly changed on a quarter-to-quarter basis despite capitalization of the three plants. How is this the run rate, which we should expect for, like for the next couple of quarters also? Or is it like major portion is not getting factored here?

**Pavan Jain:** So, interest depreciation is in the addition is only for three plants and only for two months, okay, to P&L. So that is the only difference. And I mean, as we capitalize more plants going forward, then this will go up.

**Prateek Kumar:** Okay. And last question on your VSF segment. Are we looking at expansion because we are operating at, I think, very high utilization, any growth capex in that business like once now we preclude our capex in this year?

**Harikrishna Agarwal:** Yes. We are studying different options. And for the time being, we are trying to maximize production from our existing hardware. And there are some opportunities we will exploit. And definitely, we are studying the next phase of our growth.

**Moderator:** Next question is from Raashi Chopra from Citigroup.

**Raashi Chopra:** Just a couple of bookkeeping questions as well as on your outlook for both the VSF and the Chemicals business before I ask the others from you?

**Harikrishna Agarwal:** Outlook for VSF and Chemicals. So on the VSF business, is a cyclical business, textile demand, like we start with the retail. As we all know, retail sales has not been very great in India so far. We all hope that this coming festival season and wedding season will boost the retail sales. Even in the West, people are expecting interest rate cut, and that should also improve the consumer sentiment.

Having said that, there is just a rotation among the fibres. So for the time being, VSF is being preferred over cotton and polyester in the textile industry. So that is helping the VSF consumption. And we expect it to be the case for some time to come. Raw material prices are mixed, some items are increasing, some prices are stable, and some prices are decreasing. So overall, it's more or less stable with slight increase tendency. So we hope that the outlook will be stable.

**Raashi Chopra:** Okay. So you're expecting margins to remain at this level?

**Harikrishna Agarwal:** Range bound, that is what the best assessment.

**Raashi Chopra:** Okay. And your domestic prices, sorry, where global prices were up sequentially domestic prices during this quarter, were they also up?

**Harikrishna Agarwal:** Yes. In line with the international prices.

**Raashi Chopra:** Okay. Got it. And Chemicals?

**Jayant Dhobley:** Yes. Jayant here to speak about Chemicals, outlook is always a difficult one to predict, right? So anything I say, please take with a pinch of salt. But you will recall that I think in the last quarter, I had indicated that we were potentially seeing a bottoming out of caustic prices, given that some of the players globally were at marginal costing. That has played out. So caustic prices could have improved a bit. So Chinese domestic consumer demand is not getting worse. The government is trying hard to get that picked up. So I do maintain a mildly positive outlook. And the key word here is mildly positive, not a sudden change on caustic price.

Chlorine is a somewhat different story because chlorine is more domestic. As you know, one of our competitors have guided significant capacity in Gujarat, without an integration. So chlorine for sure is under downward pressure. So, ECU could be flat to slightly rise.

Then if you look at chlorine derivatives, the outlook is slightly favourable mainly because you see a pickup in the global chemical industry, whether it is agrochemical, whether it is pharma. But again, a lot of it depends on what happens in China. That's the difficult part of this puzzle.

In our specialty chemicals, epoxy business, volume growth will continue to remain strong. We see good favourable tailwinds in all sectors where epoxy is used. Of course, we battle topics like free trade agreements with other countries, inverted duty structures, etc. which puts a limit on our margins, but we do expect that there will be stronger volume growth. So, I would say that I'm cautiously optimistic on chemicals as a sector. With the disclaimer that a lot will depend upon what happens with the Chinese consumer and nothing funny should happen either in the global supply chain because of the crises in the Middle East.

**Raashi Chopra:** Okay. That's very helpful. And just one last bookkeeping question. On the paints, remaining two plants, what are the time lines?

**Pavan Jain:** Remaining, which time line, Raashi?

**Raashi Chopra:** The Mahad, on the Paints segment, Mahad and Kharagpur plants, what are the timelines for those two?

**Pavan Jain:** So Mahad and Kharagpur will be in somewhere in Q3 and Q4. So first Mahad in Q3 and then in Q4, the Kharagpur plant. Chamarajanagar has already commenced trial run production. So I think in Q3, we should be capitalizing that.

**Raashi Chopra:** Got it. And you're still maintaining the high single-digit market share exit target, right, for FY '25?

**Rakshit Hargave:** Yes.

**Moderator:** Next question is from Navin Sahadeo from ICICI Securities.

**Navin Sahadeo:** Yes. Sir, just to clarify, since you mentioned, and this is regarding paints that you said revenues are not fully representative because of the CWIP in trial run production going into CWIP. But again, the back of the envelope calculation for the EBITDA loss, and I believe, including B2B e-commerce, it comes to roughly around ₹296 crores. And as you said, B2B commerce need not be a very large portion so hence, I assume that a significant portion of this ₹296 crores is related to paints, anywhere between ₹250 crores to ₹290 crores, some number between that. So I just wanted to clarify if that is fully representative of the sales that has happened and not the revenue? Just to understand that how should one look at losses also in the same way.

**Pavan Jain:** So yes, Navin, see the expenses don't represent fully the revenue because of the large marketing-related activities going on, lots of dealer meets across country, the branding campaign, etc. So that is the kind of investment. It will not match with the revenue for the quarter. So that part is, yes, I think you are right. And roughly what numbers you are saying, possibly yes, those will be the kind of broad numbers. But yes, I mean, the Building Materials segment includes, as we have already explained, are Cement, B2B Ecommerce, and paints.

**Navin Sahadeo:** So, what I meant is if so the way to look at it is revenue is not fully represented correctly. But the expenses related to that is represented. Is that correct?

**Pavan Jain:** Yes. That is correct. So, revenue, as part of revenue has gone to the CWIP.

**Navin Sahadeo:** And the losses related to those CWIP revenues, I mean. Are they included in the ₹296 crores or not?

**Pavan Jain:** No. So, Navin, see what has got capitalized is only the plant construction related expenses. So, all other expenses are coming to P&L.

**Himanshu Kapania:** So, let me just help you. Our large expense is, as Pavan clarified to be able to do activity at the dealer level and the consumer level and contractor level. All those expenses has been part of the P&L element. As far as plants are concerned, from an operating level, their expenses are small and that small expenses have been put into CWIP, that's a very small component of the large expense of the ratio.

**Harikrishna Agarwal:** So, if there is any loss or profit that goes to CWIP.

**Himanshu Kapania:** Yes. That is CWIP.

**Harikrishna Agarwal:** Navin, is that your question?

**Navin Sahadeo:** Yes. That's helpful. Sir, my second question was around the working capital and the net debt part of it. So, for the paints business, you have already spent ₹7,800 odd crores and balance between the, difference between the ₹10,000 odd crores, which is to be spent this year. So this is entirely excluding the working capital, right? As in ₹10,000 crores is the capex that we were looking at only from a gross block and the other support system for the paint business. It does not include the working capital number. Is that right?

**Pavan Jain:** Yes. Navin. So, ₹10,139 crores, I think is the number is the capex only, which, of course, includes the IDC, the tinting machines, the IT system, everything. Working capital is not included. Okay.

**Navin Sahadeo:** Understood. So, your sequentially, the net debt has gone up by roughly ₹330 crores. So, I'm just trying to understand this because previous quarter, we were a little under ₹6,000 crores. And this in Q1, we have already spent close to ₹1,000 crores, right? And operations Q1 did not generate much cash as such. And then the working capital requirements for the businesses that we have, I mean, for the paints and all. So just wanted to understand that how should one look at because the increase quarter-on-quarter in the net debt is much lesser than what could have ideally happened. Is there anything that I'm missing, only the clarification?

**Pavan Jain:** Yes. So, working capital management of our existing business has been able to generate some cash flows. So that has, I mean, led to the lower bad debt increases, okay? So, in this quarter, Q1 specifically, our operating cash flows are much higher than the EBITDA for the quarter because of the working capital management. Of course, that is not a permanent kind of thing. It will get reversed in the Q2. But that is the, I mean, short answer for that.

**Moderator:** Next question is from Rishi Mody from Marcellus Investment Managers.

**Rishi Mody:** Yes. So sorry if I missed this, but what amount of revenue in the Paints business has gone into CWIP in this quarter?

**Rakshit Hargave:** So I think this is the third time this question is being asked. So we'll say that majority has gone into CWIP.

**Rishi Mody:** Okay. So, it would be to the tune of ₹100 crores in CWIP?

**Rakshit Hargave:** I'm just saying majority.

**Rishi Mody:** Okay. And so on the sales incentive front, right, on the incentives for the dealer, the contractor, the painter, if you could just give some qualitative comments on how we are differentiating ourselves against the market leaders, be it Asian or Berger, if you could just give us an idea there?

**Rakshit Hargave:** So we are doing many things which are similar to the market, but also different from the market. So we have a very attractive franchisee proposition for large dealers and many dealers have adopted and many of our stores are coming up.

In terms of the way we look at putting the tinting machine as you would know, we had distributed a large number of tinting machines. The dealers are very happy with that package. In terms of what we are doing with contractors, both in terms of intensive training, the kind of training which we are getting from us for the first time, the app and the commercial benefits of scanning and rewards program is very unique. I don't think any other paint company in the market has as many tokens and coupons on all sizes of packs that we have given, which is the first time in the market and the market really likes it. So there are many things which we have done, both at the dealer level and at the contractor, painter, influencer level. To give you an example, nobody is giving token for painters on solvent products like enamels. We are giving it, and painters are very happy. So as you would find from your own research in the market, there are things which we have done, which are very different, and there is good appreciation.

Also, I'm not even talking about product features, but we have product features and there are several communications developed for contractors and painters, which you might have got access to because all of them have on their phones. There are product features also which are unique. There are - whether it is coverage, whether it is hiding, whether it is scuffing and the market, including contractors and dealers have appreciated very much.

There are some features which are purely for the benefit of painters and contractors also, in terms of spatter, in terms of less dirty, which painters and contractors say actually, they are saving half an hour every day, which they have to spend on other brands by simply they don't have to clean up because Birla paint does not spatter. So I'm just giving you certain examples of how there are multiple differentiators at the contractor painter and trade level, which is actually finding a lot of resonance.

**Moderator:** Thank you very much. Due to time constraints, we'll take that as the last question. On behalf of Grasim Industries, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

**Pavan Jain:** Thank you.