



# “Grasim Industries Limited Q4 FY-24 Earnings Conference Call”

**May 23, 2024**

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*Grasim Industries Limited*  
*May 23, 2024*

**Moderator:** Ladies and gentlemen, good day and welcome to Grasim Industries Limited 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 '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

**Ankit Panchmatia:** Thanks Michelle. Good morning and thank you all for joining this Call. The Financial Statement, Press Release and Presentation are uploaded on the exchanges and are available on our website. For Safe harbor kindly refer to the cautionary statement highlighted in the last slide of our presentation.

Our leadership team is present today on this call to discuss our Results. We have with us Mr. Harikrishna Agarwal – Managing Director, Mr. Pavan Jain – Chief Financial Officer, Grasim Industries. Also joining them, we have our business team which is Mr. Jayant Dhobley – Business Head for Chemicals, Fashion Yarn and Insulator Business, Mr. Himanshu Kapania - Business Head and Mr. Rakshith Hargave – CEO of Birla Opus, our paints division and Mr. Sandeep Komaravelly – CEO of Birla Pivot, our B2B e-commerce business. Now I hand over the call to Mr. Pavan Jain for his opening remarks, post which we will open the call for Q&A. Over to you sir.

**Pavan Jain:** Thank you Ankit and good morning, everyone. Thank you all for joining us today to discuss our fourth quarter and full year Financial Year '24 performance. To begin with I will share some "Key Updates" and then we will discuss "Macro Environment" and finally we will cover the "Business and Financial Performance".

Firstly, alignment of business segments reporting. As new businesses are on path to attain meaningful scale in due course, we believe simplified and transparent reporting of such segments should help you evaluate and analyze consolidated segmental financial performance. Also, such reporting reflects underlying strength of Grasim's conglomerate structure which commands leadership across key components of fastest growing Indian economy. The disclosure would now include five business segments at consolidated financial level:

- The first one is cellulosic fiber which will include cellulosic staple fiber and cellulosic fashion yarn. This segment was earlier referred as viscose segment.
- The second segment is chemicals comprising of our caustic soda, chlorine derivatives and specialty chemicals businesses.
- The third segment is building materials which includes cement business carried through our subsidiary UltraTech, paints business and B2B e-commerce businesses which are business divisions at standalone level.

- The fourth segment is the financial services business which is housed in our subsidiary Aditya Birla Capital.
- And the fifth segment “Others” comprises of textiles, renewables and insulators businesses.

The second update is that we have issued our first ever sustainability linked non-convertible debentures of Rs. 1,250 crores during this quarter. International Finance Corporation, a member of the World Bank Group has invested in these entities of the company. The investment by IFC is a testament to our commitment to build long term sustainable businesses creating value for our stakeholders.

The third one is a one-time charge of Rs. 716 crores at standalone level and Rs. 497 crores at consolidated level on account of impairment provision against current investment and provision against expected exposure in our JV - AV Terrace Bay. As informed earlier through our stock exchange filing, AV Terrace Bay, our joint venture with a 40% holding is operating paper grade pulp mill and has now stopped its operations due to non-viable operations and adverse market conditions. The company has recognized an impairment charge of Rs. 280 crores against carrying value of equity investment in AV Terrace Bay and additionally Rs. 436 crores have been provided towards estimated exposure in AV Terrace Bay. AV Terrace Bay as you know had acquired a paper grade pulp mill in Canada in year 2012 with a view to convert the same into DG grade pulp which could not materialize. Paper grade pulp manufacturing is not core to our business interests and its continuous losses with no visibility of turnaround has led to the decision of idling the operations and to explore the possibility of exiting this business. This is a one-time charge to P&L and has been disclosed as an exceptional item with the decision of shutting the operations at AVTB and now there will be no more losses of AVTB to be consolidated in Grasim financials.

**Coming to the macroeconomic environment:**

On the global front central banks are though discussing possible trimming of interest rates but there are no timelines being put. There is a dichotomy within central banks. On one hand cutting rates too soon could accelerate the current pace of growth with increasing inflationary pressures. On the other hand, cutting rates too late creates a risk of gradual recovery getting surrendered. China's economy grew faster than expected in the first quarter with recovery in industrial production. However, consumption indicators like property investments and retail sales indicate that domestic demand remains frail, weighing on overall momentum.

In the midst of geopolitical risks posed by elections, polarization and conflicts, Indian economy remains in a robust growth trajectory with the World Bank upgrading its economic growth forecast for fiscal '25 by 20 basis points to 6.6%, driven by upward revision to investment growth. The new fiscal has started on a strong footing with strong PMI numbers and all-time high GST collections of Rs. 2.1 trillion in April '24.

Despite volatility in recent years, Grasim's revenues have more than doubled in the EBITDA grew by 1.9 times since FY18. Leadership across diversified businesses provides underlying strength to such growth. We have ended the gone-by financial year on a high note. Some achievements of the year are as follows; we have achieved the highest ever consolidated revenue and EBITDA of Rs. 1,30,978 crores and Rs. 20,837 crores respectively. We have also achieved the highest ever sales volume of cement, cellulosic fiber and caustic soda businesses.

During this year we have launched Birla Opus, the decorative paints business with commencement of production at three greenfield plants in April '24. Clocked highest ever turnover of Rs. 580 crores in FY24 from textiles retail business. B2B e-commerce revenues surpassed a milestone of Rs. 1,000 crores in its first year of operations.

**I now briefly touch upon each business segment:**

In our cellulose fiber business, our CSF volume stood at 208,000 tons with utilization level of over 95%. Realization in India were lower due to oversupply in Indonesia and declining input prices, basically pulp and caustic apart from other raw materials and the benefit of declining input prices has been passed on to the value chain partners.

Growth momentum could have been better if not for the new regulation around the MSME payments which has reduced the demand, especially from MSME segment to some extent. Domestic demand in China was stable which reflected in operating rates of around 85% and slight improvement in prices. However, majority of Chinese CSF players are still making losses at current levels.

In chemical business, post correction from historic high levels, global caustic soda prices appeared bottom as the rates have gradually improved for the third consecutive quarter. However, oversupply in domestic markets kept realizations under pressure. Caustic soda sales volumes continued to grow for us on YoY basis for straight 13 consecutive quarters. Our sales volume for the quarter stood highest ever at 308,000 tons. Lower caustic realizations and continued negative realizations of chlorine led to lower ECU realizations during the quarter. Chlorine derivatives performance specially was subdued due to demand weakness particularly in agrochemicals and oversupply in CMS.

Building materials, this segment growth was majorly driven by superior performance of our cement business which commands a pan India leadership position. The utilization for the year stood at 85% higher than all India level of around 71%. Our volume growth at 11% was also higher than the industry estimates of 7% to 8%. In cement we have added new capacity of 7.8 million tons in Q4 taking our domestic capacity to over 140 million tons and global capacity for the company is 146.2 million tons.

The incremental revenue in this segment is from paints and B2B e-commerce businesses. Birla Opus, our paints business has already commenced production at three plants at Cheyyar, Panipat

and Ludhiana. Dealer meets and expos are being held for pan India product launch. The Birla Opus brand and quality both are receiving positive response. The onboarding of dealers and placement of printing machines is happening as per plan. Outreach activities to influencers like painters and contractors are also going on as per schedule. Advertising and brand promotion activities are also on track and Birla Opus would be visible across the country in the current year.

The revenue generation at Birla Pivot, our B2B e-commerce business is gaining momentum in momentum having crossed Rs. 1,000 crores revenue in its first full year of operations. Currently the monthly run rate is of around Rs. 200 crores in Birla Pivot with healthy repeat orders. Birla Pivot Tiles and Plywood, which is our private label product are garnering gaining good response and we are also evaluating new product categories to increase the total addressable market. The business has aspirations to achieve \$1 billion revenue in the next 3 years.

In our financial services business, lending portfolio which includes NBFC and housing finance company has increased by 31% YoY surpassing Rs. 1,24,000 crores. Total assets under management, which includes AMC Life Insurance and Health Insurance grew by 21% YoY at Rs. 4,36,000 crores. The business has announced the amalgamation of Aditya Birla Finance with Aditya Birla Capital which is under process, and it is subject to requisite approvals. Simplification of structure, improved financial stability, increased operational efficiency and likely stakeholder value creation are some of the key benefits of the proposed amalgamation.

Other businesses segment which has textiles, renewable and insulators has also done well. The textiles business is moving from pure manufacturing to retail with the highest ever B2C business revenue of Rs. 580 crores for the year recording a CAGR of 28% over the past 3 years. Linen Club is now operating with 230 EBOs and available at 9000+ MBOs. Renewable business continues to grow, gradually ramp up its operating capacity and remains on track to achieve 2 GW level of capacity in current financial year. The insulator business remains self-sustaining closing the current year with healthy order books.

On the CAPEX front, we continue to focus on growth CAPEX with majority allocation on capacity expansion in building materials segment. The consolidated CAPEX for FY24 stood at Rs. 20,199 crores, 83% of which goes into growth CAPEX. We have invested over 38,000 crores over the past 5 years in growth CAPEX.

On the rights issue front, the board has decided to make the first call of Rs. 453 per share. That is 25% of the issue price against the shares issued on rights basis in January '24. This will enable raising Rs. 1,000 crores in Q2 FY24. The board has recommended dividend of Rs. 10 per share for Rs. 2 fully paid-up share. For the partly paid-up share dividend will be payable in proportion to the paid-up value. The company has a dividend payment record of continuously now for over 60 years.

I have covered the key Business Updates and Financial Numbers, and the details are available in the results. We can now go for Q&A.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Tejash Shah from Avendus Spark.

**Tejash Shah:** My question pertains to paint division, and I will try to keep it short. So, can you provide an update on initial feedback that we would have got on quality on our pan India launch? If you can also share feedback on the current dealer network that we have got in the first few months and what are we targeting for FY25? Also, if you can give us status and strategy update on depot network that we have today and what are we planning by the end of this year?

**Rakshit Hargave:** Thanks, Tejash. This is Rakshit. I will answer all the three elements. The feedback on product quality that we have got across the range in India is excellent. Dealers are extremely happy. Contractors are very happy the ones who have used it and this is across all the product segments that they have launched and we can already see usage and we can see repeat usage. Like we said in Panipat, we've also done a very large sampling exercise which is making it very evident that the product quality is absolutely top notch. Secondly your question on the dealer network and dealer adoption. So, we said that our target in FY25 is to get 50,000 dealers onboarded and we are absolutely on track in the first 2 months to be able to hit that number. So, obviously we are able to onboard and build a large number of dealers every month as that will only enable us to reach that number which is quite evident. In terms of depot network also, we had declared that our ambition and plan is to set up 150 operating depots by the end of the financial year and we are very much on track. We would be very close to half that number already.

**Tejash Shah:** And just one follow up on that; between the two geographies north and south that we have kind of launched initially, where are we seeing more traction as of now?

**Rakshit Hargave:** So, you see these are only the first two months. While we said that we will start launching in north and south but we also made a commitment that by July of this year, we will be available in all towns which have a population of 1 lakh plus. So, effectively by now we have virtually entered all the states of India where we have onboarded and built at least some dealers. We see pan India traction. The product quality appreciation that we have done is independent of any region. So, whether it is north, south, east or west, I don't think that there is any differentiation in terms of a response in the first two months.

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

**Nirav Jimudia:** My question pertains to the chemical side. So, if we look at our ECU it has come down by close to Rs. 1 on a Q-on-Q basis which translates into an impact of 30 crores if you multiply by the caustic volumes which we have reported on. However, our EBITDA has fallen by close to 70 crores. So, was it because of the fall in the profits of either the specialty division or the VAP sales or some of the costs have gone up this quarter and because of which this fall has happened.

- Jayant Dhobley:** Your math is correct. It's not because of the cost. In fact, our costs are better. As was earlier mentioned by Pavan ji, the real issue really lies in profitability of chlorine derivatives which are largely used in agrochemical. As you know the agrochemical industry is not doing very well. So, a lot of the derivatives that go into Agro-chem whether that is carbon tetrachloride chloride, methylene chloride, methylene dichloride, those are under pressure. And that is why you see that disconnection. So, it is not because of the cost going up. In fact, it's also not because of the specialty volume. It's mostly related to chlorine derivative.
- Nirav Jimudia:** Because the fall in EBITDA is close to 70 crores and I guess the VAP contribution to the EBITDA is not to that extent, based on some calculations what I've done. So, possibly some one-time cost would have happened this quarter because of which this fall has happened, and this should again restore in the subsequent quarters. How do you see this?
- Jayant Dhobley:** So, Nirav two things. First of all, we maximize the contribution margin. As you know we report some of the highest operating rates in the industry for utilization. What we typically do, we look at our total contribution margin across caustic, chlorine, chlorine derivatives and maximize it. So, that is one impact. And that's why you can't get too bogged down by looking only at individual product lines. Now having said that, there are a couple of our plants where in the last quarter we have taken maintenance shutdowns for some repairs and for some upgradation. So, there is some small impact.
- Nirav Jimudia:** This won't happen next quarter, so that would get corrected?
- Jayant Dhobley:** Sometimes when you take a shutdown, your maintenance cost, etc., come in along.
- Nirav Jimudia:** We also commissioned a new epoxy plant in December. Was there a volume growth in the epoxy division sequentially and along with it if you can also share any improvement which has happened on a sequential basis on the epoxy profits which we have reported in Q4?
- Jayant Dhobley:** So, typically, we don't break down the profitability of epoxy separately.
- Nirav Jimudia:** Just a ballpark understanding in terms of any sequential improvement in percentage terms that would also help.
- Jayant Dhobley:** So, there is sequential improvement, percentage terms I will just quickly calculate. But the plant is commissioned, the volumes have started to pick up. As you know the epoxy business, you have to get qualification at customers. So, that takes a bit of time. But I would say the volume growth sequentially has been—I am just seeing that math quickly out of the back of my head—close to the volume about 14%-15%.
- Nirav Jimudia:** And this would be predominantly the LERs which we would be selling because initially that would be an easy material to sell on. So, how do we see the utilization rates picking up here because we have expanded close to 1,23,000 tons? So, how do we see the pickup in the utilization rates of LER? Secondly do we need to create the downstream value-added products for this LER

to get absorbed or we do have the sufficient capacities of the downstream products and as and when the customer requirement comes up, we can convert those LER into the value-added products and start selling those products in the market?

**Jayant Dhobley:** Our expanded capacity actually is a mix of LER, reactive diluent, polyester and polyamide hardeners. So, this is the portfolio. So, it's not an exact copy of the first 123 KT. What you have correctly also said is typically LER sells first and we do formulate further from the LER into value added products. I think it would be fair for you to assume that it will take us about minimum 24, maximum 36 months to sell the entire product. That would of course depend a lot upon how the end markets develop. We specialize in composites, in coatings, so as qualifications increase and more of our LER tends to get consumed later.

**Nirav Jimudia:** Just two last clarifications, one based on the presentations of this year as well as last year, our total CAPEX the epoxy is close to 326 crores. So, this is the total CAPEX what we have spent or was there any earlier CAPEX is also which have happened, and the total CAPEX amount stands higher than this amount?

**Jayant Dhobley:** That's about order of magnitude. There is always some maintenance, etc., I didn't actually understand the meaning.

**Nirav Jimudia:** The total CAPEX for the expansion of the epoxy plant.

**Jayant Dhobley:** Most of the CAPEX spent has gone into expansion of the capacity.

**Nirav Jimudia:** Last bit is on the chlorine side. Last time you mentioned that Q3 we had a negative realization of Rs. 3 and the run rate was close to Rs. 4 in Q4. So, how that was on an average basis for Q4? Secondly, we have seen some strengthening of the caustic soda prices in the current month. So, is it fair to assume that Q1 would see some improvement in our ECU realizations?

**Jayant Dhobley:** So, for Quarter 4, our negative chlorine was around Rs.3.5-3.6, actually it was worse. In Q1, you are right that there is some improvement in the market. We have seen a slight improvement. Now let's see whether that improvement holds. As you know the chemical markets are quite volatile. But chlorine had become more negative in Q4 compared to Q3 by about Rs. 5. And it is getting somewhat better in the first quarter of this financial, both caustic as well . You do a very comprehensive analysis of the chemical business Nirav, as usual.

**Moderator:** The next question is from the line of Percy Panthaki from IIFL Securities.

**Percy Panthaki:** My question is on the paint segment. Can you give some idea as to how many tinting machines have you placed till date?

**Rakshit Hargave:** Like we said we will be sharing the numbers at a later stage. But what I can tell you is that we have a very aggressive plan of placing tinting machines and with a very high dealer penetration and we are on track.



- Percy Panthaki:** And to the previous question when you had mentioned that the target is 50,000 and we are on track to achieve that, is it that the progression is linear or would it be exponential? I am just trying to figure out at least at the ballpark should I be taking 50,000 divided by 12 multiplied by 2 as the rough ballpark of dealers or that would be a wrong way to look at it?
- Rakshit Hargave:** No Percy, I think that will be slightly wrong. It will be slightly overweight towards the first half.
- Percy Panthaki:** So, you're saying the recruitment would be higher in the first half of the year than the second half of the year?
- Rakshit Hargave:** Yes.
- Percy Panthaki:** Secondly, I wanted to understand that in terms of your terms of trade with your paint dealers, how does that differ versus the large incumbents in terms of margins or schemes? Is it comparable? Are the schemes more volume based or are they sort of based on some other parameter? What are the differences in terms of how you incentivize your dealers versus the other larger incumbents?
- Rakshit Hargave:** We have been meeting dealers across India. We have met the top 7000 dealers and we have shared our commercial program which is out there in the public. So, there is a certain benefit that the dealers get in terms of price. Then there is a certain benefit which the contractor community gets in terms of the rewards. And then we have this offer for the end consumer which gives them 10% free volume on emergent purchases. So, if you look at the total package at the dealer and contractor end, we would be about 7%-7.5% better than the market. And if you work out on the 10% for the volume, that's how it turns out to be. It has already been analyzed in the market before. But that's the commercial program that we have given.
- Percy Panthaki:** So, versus the large incumbents roughly how much would be the benefit that your dealers would get? Is it like a 300-400 basis points benefit, not talking about the extra volume which is a benefit to the end consumer?
- Rakshit Hargave:** That would be difficult to calculate because the large players have various programs with other dealers. But what we can say is that the adoption by larger dealers also for Birla Opus as we see is attractive which means that the proposition is working for them.
- Percy Panthaki:** And last time we spoke, you had mentioned that you would be targeting to place tinting machines in 80% to 90% of your dealer network. Would I be right in assuming that that kind of percentage is already something that you are running at currently for whatever dealers you have recruited?
- Rakshit Hargave:** So, like we said that we have an aggressive program. I don't recall whether I said 80% or 90% but it's a number which is fairly high, and we are running on track.
- Moderator:** The next question is from the line of Prateek Kumar from Jefferies.

- Prateek Kumar:** My first question is on VSF. So, in VSF we are operating already at 98% utilization, a strong volume growth current year. How are we seeing this utilization gap, how are we looking at growth in this segment over the next 2 years? Also, we have exited this year probably at strongest unit EBITDA in VSF segment, how are we looking at the unit EBITDA for the next 2 years in the segment?
- Harikrishna Agarwal:** So, we have a good volume growth in the last financial year compared to the previous one. Q4 was similar to Q3 in terms of volume and there was some hiccup because the MSME notification for payments came into the play from February onwards. So, the volume was disrupted a little bit but currently the volumes are running at similar pace, and we are trying to ramp up production as much as possible at our different lines. So, we see some opportunity there to keep pace with the demand. On the unit EBITDA, we benefited from the decline in raw material prices in the last year and those prices are hovering, some item increase, some items same, some items reduce. So, it's limping along at the similar thing with slight increase in the last one or two months but we have to see how it goes. Even prices have also softened a bit in last two months in China, so we will see how it goes.
- Prateek Kumar:** Also, just a related question. So, 824 KT which is the capacity of VSF in FY24, can it be debottlenecked to like 900 KT like eventually without doing much CAPEX or like as a result we might have just like 3% to 5% volume growth in the segment next 2 years or the capacity can be significantly debottlenecked later on?
- Harikrishna Agarwal:** We are trying our best and there are some opportunities, but I would not like to give any confirmed figure how much but yes, we have been working on that and that is very much on our mind So, about 4% or 5% growth we should have compared to last year full year not last quarter.
- Prateek Kumar:** And on the Canada business closure of pulp business, is this something which affects our raw material procurement in this business because that was captive unit and how is the captive raw material percentage now for VSF?
- Harikrishna Agarwal:** This unit which we have taken a decision to close was not producing dissolving grade pulp. It was producing paper grade pulp and that was one factor behind our decision to close the unit as the economics were not working. The wood cost has increased there too much and this was not a dissolving grade pulp mill. Our captive pulp procurement is around 35%. It has been in this range for quite some time and it remains at that level and our procurement is stable. We have long term contacts with some leading dissolving grade pulp producers, some for more than three decades, some for last 4-5 years, new players and everybody is very keen to work with us. All the new dissolving grade players are very keen to work with us as long-term suppliers. So, we are quite comfortable on that front.
- Prateek Kumar:** A question on CAPEX. We haven't given any CAPEX outlook in the presentation after FY24 1,500 crores. Any number which we should work with or a similar number for next 2 years?



- Harikrishna Agarwal:** You are talking for Gracim as a whole or you are talking of any particular business?
- Prateek Kumar:** Gracim as a whole. Maybe we can discuss it if you have granular details also. But Gracim as a whole as of now possible.
- Pavan Jain:** Yes. CAPEX spend for next year would be about I think Rs. 4,500 crores for the company as a whole which will mainly comprise the large amount going into paints business. The remaining part of the 10,000 crores CAPEX announced for the paints.
- Prateek Kumar:** This is on a standalone basis?
- Pavan Jain:** Yes, standalone.
- Moderator:** We'll take the next question from the line of Siddhesh Raje from ICICI Prudential Mutual Fund.
- Siddhesh Raje:** My question is regarding dividend policy; the understanding was that UltraTech's dividend gets passed through. So, in this financial year that has not happened, so how should we see that going ahead?
- Pavan Jain:** I think the policy was pay out to be ranging the 25% to 45%. And within that range we will try to pass on the dividend received from UltraTech and other key subsidiaries. That is the policy. But the policy also says that looking at the CAPEX plans of the company, etc., and other factors, there can be variation to this extent. So, given the large ongoing CAPEX plans of the company, especially in the paints business, we have not passed on fully the UltraTech dividend this year. But that is I think specific to this year's situation. Going forward we can't comment now but I think it will be more prerogative.
- Harikrishna Agarwal:** But still the payout ratio is still quite high, almost 40% which is much higher than the previous years when the full UltraTech dividend was passed on. So, you should appreciate that while the operating profit is affected but we are maintaining the dividend.
- Siddhesh Raje:** And secondly this CAPEX for paints which happened of 1,067 crores. So, given that commercial operations have started in April, there would be certain expenses which we would have still capitalized. So, can you just give some color as to how much capitalization of expenses happened in last quarter?
- Harikrishna Agarwal:** So, we have capitalized the three, we have put the commercial production from 29<sup>th</sup> of April. So, almost all the preoperative expenses for three plants before that day were continued to be capitalized. Now from the 29<sup>th</sup> April all three plants are fully commercial production. So, everything is going to the income statement.
- Siddhesh Raje:** Can you quantify the amount which has got capitalized?
- Pavan Jain:** You can take offline basis. We don't have that number readily available.

- Harikrishna Agarwal:** But first year of the full year of operation paint operation there will be a lot of investment in marketing and branding and advertisement. So, all those things will be the first time and they will all go through income statement. So, you should be expecting that as a part of building a new business.
- Pavan Jain:** While it will go as a P&L charge, but it is like an investment in establishing the new business.
- Moderator:** The next question is from the line of Abneesh Roy from Nuvama.
- Abneesh Roy:** I have a few questions on paints. So, this is the first quarter where the paint launch has happened. So, first question is when you see JSW Paints, they have become 2,000 crores after 5 years of launch and there is captive demand also being present there. Second is if you see the top two paint companies, they have given guidance of double-digit volume growth in FY25 and even in Q1. So, if you mix all this where does your optimism now stand given launch has finally happened but then the competitors seem to be still quite gung-ho in terms of demand even in the first year. And the other player who has entered has done only 2,000 cores in 5 years. You have a 10,000 crores target in FY28. So, if you could tell us how does this all map up?
- Rakshit Hargave:** Abneesh, see the way we look at it, JSW has done a certain turnover. The other companies have given a certain guidance where they're talking about double digit volume. If you take a look at the results which have come while the volume growth is high the value growth is very low. I think we are looking at it as a different case because we have come here to make some changes in the way we operate in the paint industry and the changes that we will bring and the disruption that we will bring that we disclosed in Panipat, and you will see that as the year goes on. As far as we are concerned, we are going to be gaining share. We can already see that we are onboarding dealers, there is offtake, contractors are liking it. We are not so bothered about if competition is saying 10%. And that should make me feel that how can they grow so much? I am competing against a number and I have a solid plan and I am moving as per my business plan. And to that effect we are very optimistic about what we have said, and we are on plan. That is how I would say.
- Prateek Kumar:** My second question will be on the disruptions which you had announced in Panipat, it was extremely detailed. Now almost every paint company in the Q4 analyst call or analyst meet said, all these disruptions have been tried earlier in terms of extra grammage, in terms of extra warranty, in terms of retinting machine. So, to that extent because now you are there in the market, what is the dealer feedback? Because this is not really disruption, this has been tried earlier and it works to an extent but is it really disruptive? Till now it hasn't been. Second is when you put the tinting machine, lot of the free tinting machines are put at the back of the dealer shop. So, '*India me jo dikhta hai vo bikta hai*'. So, if the tinting machine is at the back then what is the response?
- Rakshit Hargave:** So, as far as the disruptions are concerned I think it is very early for even competition to say that in 2 months they have not seen anything because you will see how gradually we roll out and our

success will also lie on executing those disruptions successfully. And our organization is actually designed to do that. As far as tinting machines are concerned, we are very confident that the tinting machines that are being put by Birla Opus are tinting machines which will actually get used. And we can already see usage of our tinting machines are happening, they are performing excellently. As we had announced, they are connected with our back end. We have live information of what is being tinted in terms of basis and products on a daily basis. We can actually already withdraw that. No company can do that today. So, what I would say is that, giving free tinting machine is a way of accessing the market and winning the dealer. Our tinting machine is also unique. It is about 40% smaller in terms of area. So, I think in terms of tinting machine, I would not agree to the fact at all that Birla Opus tinting machines will be put in the backyard. I think they're being already put to use. On the disruption like I said, it's very early for someone in 2 months to say that nothing and all these things have happened before, please keep watching because we are also going to execute them successfully. And our business model is designed to do that which is why we have taken 3 years to prepare it to come to the market.

**Moderator:**

The next question is from the line of Latika Chopra from JP Morgan.

**Latika Chopra:**

Two questions again on paints; the first, you said that the dealer feedback, the contractor feedback on paints, on quality is quite good. So, just wanted to check, does it imply that you're quite comfortable with your pricing strategy at this point? And you talked about 7% to 10% kind of a dealer margin or dealer benefit and at this point you do not see any reason to play around with that and or even in terms of different kind of paints that you launched premium, economy and luxury, any comments on that?

**Rakshit Hargave:**

I think the first question on product quality like we said the acceptance of product quality across all the segments that we have launched, whether it is exterior interior and within that luxury premium or economy or if you take a look at waterproofing, enamels, the feedback from contractors and dealers is extremely positive. They are actually very pleasantly surprised that in keeping with the Birla brand name, the product which has come out is exceptional, both in terms of performance and ease of usage. I would say that the acceptance of product quality is actually unanimously uniform across the whole segment. In terms of pricing what we have come out on the market, I think we are happy with what we have put, and we are steady with what we have put and we are rolling it out across the country.

**Latika Chopra:**

The second bit I wanted to check was and I think someone alluded to the fact that during the course of the year, you're going to step up advertising spends or above the line spends on the paints category. So, should we anticipate much of that is going to be seen in the second half, probably closer to the festive season and once you've kind of rolled out the portfolio to more dealer base.

**Rakshit Hargave:**

So, yes, we will indulge in above the line advertising. Probably you have not noticed but we are already on with our outdoor plan in south India, Chennai, Bangalore, Tamil Nadu, Karnataka. The outdoor plan is up in Punjab already. It is up in Delhi from today. Obviously logically it will

follow also with television and other digital media as we drive up our distribution. So, as expected we had announced that we will aggressively invest in building the brand, which is going to happen in due course.

**Moderator:** We'll take the next question from the line of Raashi Chopra from Citigroup.

**Raashi Chopra:** Just coming back to the VSF and the chemicals business, any sort of outlook on the margin's profitability from here as well as pricing for both?

**Jayant Dhobley:** See, look the pricing more or less is range bound. Whether you look at caustic, whether you look in chlorine or for that matter you look within epoxy. What you must have observed if you are following the chemical sector is, there is still a lot of capacity in China and their domestic consumption has not yet picked up which means there is a lot of exports of all range of chemicals which is affecting the chemical industry globally, including India and including for example exports of Agro-chem, etc., from India. So, we see at least this quarter to be range bound. There may be some ups and downs and potentially the next quarter as well. What may help us is if globally the Agro-chem industry picks up, the monsoons in India have proven to be better. Let's see what happens in South America and the US. If we start to see good news coming out of the agricultural sector or we start to see good news coming out of the Chinese consumer, then I think that will be very quickly reflected across the chemical industry and including the Chlor-Alkali portfolio.

**Pavan Jain:** So, to add to what Jayant has said about macro factors, the global business conditions still remain little bit affected by high interest rates, though inflation seems to be coming down but still interest rates are expected to remain high. That keeps on impacting the real consumer demand in West Europe especially. Of lately cotton prices have come down in anticipation of better crop in the coming crop season. Consumption remains good and raw material prices are also range bound. So, there will not be, I think too much change either way in the profitability of cellulosic fiber business at least in the near term.

**Jayant Dhobley:** Jayant here on the chemical business, maybe one more thing to add is, we do observe whether in caustic or in chlorine derivatives or for that matter even in epoxy, that the contribution margins are such that there is very limited scope or very limited possibility for prices to drop further, unless something strange happens for example with feedstock prices or energy prices that could move it. But at the current level of feedstock cost, there is actually very little playing room particularly in the Chinese industry to drop utilization rates below where they are today. So, we don't see much of a downside from there. It can't get much worse unless the crude suddenly drops or something like that. Then that changes the whole economy.

**Moderator:** The next question is from the line of Prateek Kumar from Jefferies.



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- Prateek Kumar:** My first question is on your B2B e-commerce. Are we looking to add like more private label products in the segment? Can you throw some light after a couple of products which we have talked about earlier?
- Sandeep Komaravelly:** We have launched tiles and plywood in this financial year where our focus right now is to increase the penetration for both of these products across different channels. Whether it is our channel which is developers and contractors or the retail channel. That is the focus for now. Next financial year, we are evaluating a few categories but nothing specific as of now. The focus will remain on increasing the penetration for both of these products or categories.
- Prateek Kumar:** Just one question on paints; while you have discussed enough in the call, but how has been the response from competition like in first maybe 1-1.5 months of the product launch in the market?
- Rakshit Hargave:** Well, the response from competition the way I will answer is, all dealers are saying that competition which was relatively absent in the market have become extremely active and they are visiting us more regularly and they are showing a lot more intent. So, the way I would want to read it is obviously, they are trying to defend their forts and they are doing what it takes which shows that they are alert and maybe also apprehensive. But like we said, we are moving on with what our plan is and we are executing and we are meeting our benchmarks.
- Prateek Kumar:** And related question, there is any increased discounts pricing or margins which the competition also talked about while you have talked about aggressive ROIs for the dealers?
- Rakshit Hargave:** No. I think at least what we have seen in the last 2.5-3 months is its status quo of what it was before.
- Harikrishna Agarwal:** You should go and visit a paints dealer.
- Rakshit Hargave:** Sometime next month we can arrange for visits to dealers for you to actually find out. We can work on that schedule.
- Moderator:** The next question is from the line of Aakash Goel from Tara Capital Partners.
- Aakash Goel:** I just had one small clarification—most of the other questions have been answered—is that in the standalone business when I am seeing the employee cost that has come off sharply both quarter-on-quarter as well as year-on-year. So, what exactly has happened there because we are starting off with our paint business as well, I was expecting that maybe the employee cost either hold up or see some steady increase, so what exactly has played out for this quarter?
- Pavan Jain:** So, nothing very specific any special item. But see as far as paints is concerned, the employee cost continues to be capitalized for the employees which are involved in the project's implementation. So, the charge will start from the current quarter, post capitalization at the end of April when we have commenced commercial production that will start to P&L from this quarter. Otherwise, there are I think some year end adjustments like valuation of the retirement

liabilities particularly which has gone down because of the higher discounting rates, etc., And then some of the businesses have made I think some lower provisions of variable pay because of the current year's performance, etc., So, these are like year end normal adjustments. And there have been some write backs earlier in the earlier quarters.

**Moderator:**

The next question is from the line of Praful Kumar from Dymon Asia.

**Praful Kumar:**

Couple of questions on paints business. Now the first question is that if you look at the margin for the market leader, clearly the gap that we thought in terms of launch, in terms of our pricing versus theirs seems to have reduced. That's what we are picking. So, just want to get your confidence in terms of market share gain given that the competition, especially the market leader will not make it easy for us to gain market share as we go towards expensing the project cost.

**Rakshit Hargave:**

We didn't get the question; you're talking about project cost?

**Praful Kumar:**

The question is the difference at the time of launch when the product was launched, your paint business was 5% plus dealer margin of 10%-15%. So, we were 15% odd cheaper than the market leader today which after we saw the market leader results seem to have been narrowed. The pricing gap between you and the number one player today and that's what we are picking that the market share gains that is envisaged might be tough to come by given that the incumbent will not let the market share go very easily. So, your thoughts on that?

**Rakshit Hargave:**

So, all incumbents will try and defend their market share which is very obvious. If I was there in their place, I would do the same. But our market share hypothesis is built not only on pricing which is just one of the factors. Our market share hypothesis is firstly based on excellent product quality, excellent market working with influencers which is contractors which is a very attractive program for them, excellent distribution buildup, being able to supply and we are building up our range. I have not thought about it today, but we are building up our range very successfully because what the dealers are looking at is assurance of supply. As we build up our range and as we open up depots, we are observing that the confidence in the last 2 months of the dealers to accept that when they place our order with Birla Opus, they should by and large get the products within two weeks. It does take time to build up a range but the way we have progressed we are very happy. And obviously the data that we are getting from the systems, the track and trace that we implemented last mile which is also going to come into play we are doing several things. So, our market share hypothesis while obviously what the dealer makes in terms of an ROI is important and I think we will also deliver on that. Our market share hypothesis is based on several factors and I think we are very confident that in terms of executing it we are as per our plan.

**Praful Kumar:**

Second question is in terms of market share, over next 3 years, generally given the fact that it was a great launch, you're hiring so many people. The trajectory of market share gains has to be significant in year one and then slowly getting adding more every year or it should be slowly in year one and gradually picking up in year two and three?



**Rakshit Hargave:** I think the question itself has many different trajectories. But what I can again reemphasize that what we told in Panipat was that our ambition is to exit this financial year in high single digits. I think we are working towards that either to meet or better it. We feel that we are on track in terms of indicators. So, I would actually suggest answering it this way.

**Moderator:** The next question is from the line of Amit Sachdeva from HSBC.

**Amit Sachdeva:** Just again a small detail on I wanted that, in that assumption of 3-year target and also given the pricing that you have sort of disclosed and the responses you got and it seems like you're pretty comfortable with how things are shaping up. My question is on in terms of capacity utilization assumptions that you sort of make in this hypothesis of high single digit share by year end and perhaps teams kind of share in 3 years' time, what sort of in your thinking and modeling, what capacity utilization will get you there and is there any risk to that you see?

**Rakshit Hargave:** So, our installed capacity is 1,332 million liters per annum. Three of our factories are already operating and obviously they are operating at a certain capacity. Now what we have declared is that in first 3 years of full operations we will hit 10,000 crores. Obviously, the capacity which will be delivered by the three factories is more than that. But the factories also take time to scale up and scaling up of the first three factories is already up. We have also declared that number four, five and six will also get operational later this financial year. So, the capacity utilization of the factories will keep on growing gradually as we keep on driving our sales and we will be able to monitor the balance between what we are manufacturing and what we are selling. Obviously, we want to utilize our factories better. We are also working in terms of how to make the factories work more efficiently and how to make sure that the right KPI's are driven. But I don't see, I think what we have done is set up enough capacity to be able to take advantages of swings and opportunities which might come, so that we don't have to wait and be out of the market. So, I think that's the step that was the building strategy that we should first develop enough capacity for us to go national in the first slot and not try regional strategy. So, that's how I would want to base this answer.

**Amit Sachdeva:** So, my question is that can I just hazard a guess then? My sense is 10,000 crores kind of revenue target, is it sort of safer to assume given the installed capacity would be 1.33 million KL and things would be like 50% utilization is like your base number to get there you need about 50% utilization? Because the reason I am asking this is that it also has some pricing discipline in built into it as an assumption. So, my view is that how desperate are you to fill the capacity or are you okay to have 50% capacity utilization in 3 years? That sort of intent of how you want to develop this market. So, what I want is your first priority to get the utilization to that certain number or you gradually build the capacity utilization, you don't care really about that? You want to build it organically in a disciplined manner, how the business is progressing given the pricing you put in place and you're okay with that and you don't see any substantial response from competition as well. So, it seems like a good foot in the door, so the reason I am asking is that how desperate you would be to fill that capacity at certain level?



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**Rakshit Hargave:**

So, you see we also declared that when we do the third-year business of 10,000 crores, we will also be looking at turning profitable. And as you have done the math and the realization per million liter or per kilo liter from competition, most of the companies are in the same ballpark range. So, you would know that if 1,332 million liter is sold what turnover will be generated? Obviously, it is more than 10,000. So, the way I would put it is that we would be aggressive in terms of driving our distribution, in building our brand, in acquiring dealers. With that there is a certain volume share gain that we will keep on getting quarter-on-quarter and we will keep taking that. I would not want to use the word desperation because when we shared this number and the capacity that we have worked, we have already factored those maths in our business plan.

**Moderator:**

Thank you. Ladies and gentlemen, due to time constraint, that was the last question for today. Thank you, members of the management. On behalf of Grasim Industries, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.