Grasim Industries Limited

Q4 FY2020 Earnings Conference Call

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MANAGEMENT:	**MR. DILIP GAUR - MANAGING DIRECTOR – GRASIM INDUSTRIES LIMITED**
	MR. KALYAN RAM- CHIEF EXECUTIVE OFFICER GLOBAL CHEMICALS AND GROUP BUSINESS HEAD, FERTILISER AND INSULATORS
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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2020 Earnings Conference Call of Grasim Industries Limited. We have with us today from the management Mr. Dilip Gaur -- Managing Director; Mr. Kalyan Ram -- Chief Executive Officer, Global Chemicals and Group Business Head, Fertilizers and Insulators; Mr. Jayant Dua – Chief Executive Officer, Chemicals Division and Mr. Ashish Adukia -- Chief Financial Officer. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your own touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Ashish Adukia -- Chief Financial Officer. Thank you and over to you sir.

Ashish Adukia: Good afternoon, everyone and first of all I hope that you and your family members are all safe. We have uploaded the ‘Presentation’ on our website, and I think it has appeared in the BSE and NSE websites as well. So I would request you to please download the presentation as I would be referring to some of the slides from the presentation.

So let me start with the elephant in the room which is impact of COVID-19 on our performance. The announcement of shutdown on March 21st, 2020 came without any heads up. So our businesses had to forego large part of sales that is typically achieved during month ends. The initial sales made in March could only recover the costs for that month. So while January and February were normalized months for us, month of March impacted the overall quarter performance.

In Jan and Feb of 2020, VSF business achieved its highest ever production volume with a run rate of about 1,700 TPD. The prices of VSF which were on the weakening trend till Q3 had stabilized during the start of Q4 with some price improvement in the month of February and March.

On the cost front, there were significant benefit on account of softening of input prices like that of pulp, caustic and also the business had taken up certain cost focused initiatives which they called “Project Cascade.” In the presentation, we have given a number that emerged out of the Cascade benefit.

In case of Chemicals, the ECU continue to be under pressure due to muted global prices and excess supply on account of large capacity additions in India as well as rise in the imports.

Overall, we achieved an EBITDA of Rs. 467 crores in Q4 for standalone business which if we adjust for one-time expenses of about Rs. 23 crores, it would be very close to our Q3 EBITDA despite us losing a large part of March.

I would now like to walk through a few slides of the presentation to provide you with better perspective on both “COVID Situation” as well as the “Financial Performance.” On Slide #5, when the lock down was announced we had temporarily suspended operations of all our plants except for fertilizer which had continued the operations through the lockdown. Chemicals and VSF plants received permissions to start operations over April and May as we produce certain essential items. At the current juncture, VSF plants at Nagda, Kharach, Vilayat have assumed partial operations while Harihar is expected to resume operations shortly. The VSF plants are operating at 30% to 40% capacity utilization which is growing at a graded way and all our chemicals plants have resumed operations partially in May and for June the capacity utilizations stand at 60%. Overall quarter will be lower capacity utilization than the June utilization obviously.

Our business continuity plan is focused on employee safety, which includes ensuring safety as they resume work. Many of our plants have adjoining staff residential colonies which help in returning to work expeditiously.

Second is cash. We have maintained healthy liquidity and have raised some amount of debt taking advantage of very competitive rates.

Third, focus on entire value chain. We have optimal level of raw material inventory to run the operations. After some initial hiccups on supply chain and logistics, it seems that we are normalizing now. We have had a clear customer focus. We have to work closely with our customers and help them in their initial research.

So if you go to slide #10, on consolidated basis for FY2020, Grasim reported strong financial performance with revenue of Rs. 77,625 crores and EBITDA of Rs. 13,846 crores and PAT which is after extra ordinaries of about Rs. 4,425 crores. And on standalone basis, Grasim reported EBITDA of Rs. 2,836 crores and PAT of Rs. 1,270 crores.

Let us move to Slide #13: So for the entire year at the standalone level while we generated EBITDA of Rs. 2,836 crores we actually generated net cash from operations of Rs. 3,159 crores. This has helped us maintain strong net debt-to-EBITDA ratio of 1x. The standalone gross debt includes. Rs. 322 crores of interest free loan from special banking facility provided by Government of India against the fertilizer subsidy due. In fact in Q1, this loan has already been repaid with subsidy release from the government. It should ideally not be counted as debt. It was as though the subsidy had come to us through (SBF) Special Banking Facility and therefore the net debt figure should be considered lower at Rs. 2,653 crores, which brings net debt-to-EBITDA at below 1, at about 0.94x.

On Slide 15, VSF including VFY had sales of Rs. 2,102 crores and EBITDA of Rs. 261 crores. VSF achieved a strong performance on sequential basis due to reduction in the input prices. The Pulp prices on consumption basis reduced by 11% to Rs. 53,782/ton in Q4. The price premium of VAP over grey increased during the quarter as reflected in the strong blended realization in Q4. VFY revenue for Q4 was Rs. 415 crores with EBITDA of about Rs. 70 crores.

On Page #19, there is a consistent decline that you can see out there in ECU, which is primarily due to capacity additions by the industry of almost 610 KT during FY2020 in the domestic market. Demand for Chlorine, value added products improved with increased usage in health and hygiene products post COVID-19. The VAP sales volume growth stood at 10% YoY driven by this demand.

On Page #21, we have covered Fertilizer performance briefly. Key highlights are that we have received communication from government allowing us fixed costs reimbursement retrospectively. This improves the Q4 EBITDA by around Rs. 23 crores. This amount is for the entire year, just a clarification.

Second important growth levers in the business performance of Fertilizer that of PURAK, our Fertilizer business provides agri solutions, seeds, crop protection products, soil health products to farmers under this brand name PURAK. This is basically the non-urea business. These products are sold through our distribution channel, which sells urea as well plus there are more tie-ups. PURAK actually contributed almost 28% of the overall fertilizer EBITDA for FY2020. There was maintenance shutdown during Q3 as well as in Q4, due to which we lost some production in fertilizer during the year.

Grasim released its maiden sustainability report with ambitious targets to achieve global leadership and sustainability. The VSF, Chemicals business and other businesses as well have taken targets on safety, water, and emission front. The details are all covered on Slide #31. Overall, COVID has had a major impact in March 2020 as well as Q1 of FY2021.

Looking at the future, which we should, we are focused on our strategy to make our business even stronger and a few points how we are thinking of making it stronger is to reduce fixed costs further and look at other cost optimizing measures like we did in case of Project Cascade for VSF. There is still further scope to reduce fixed cost. Focus on value added products which give us better margins and have a calibrated approach to CAPEX which is currently being kept on hold till we have visibility on the economic outlook.

So that is it from my side. I will now hand over to the operator for Q&A.

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

Gunjan Prithyani: Two questions from my side: Firstly, on the VSF business, there is clearly when I look at the slide, I see that prices seem to be reflecting some stabilization. So could you talk about what really is happening because from a demand perspective I do not think things would have moved too much given the overall disruption worldwide, so is it that prices have fallen so low that they cannot fall any more or you are seeing some shutdown, so if you can throw some color on the

VSF industry? And secondly, I missed the comments that you made on the capacity utilization on the VSF and Chemicals. So I am just trying to assess from the supply side how normalized the things are in both these segments.

Dilip Gaur: Dilip Gaur here. See, Q4 was a little unique in a way because as you recall, China got impacted on the COVID first. Q4 was a time when Jan, Feb, China was suffering from COVID. So there were issues with the Chinese supply chain which I briefly mentioned to you earlier. So, as a result of that what happened all the budgetary pricing which China was doing in the market could not happen and that helped the prices. So the Indian prices we could hold the prices because there was a discipline in the market. Chinese could not intervene and kind of bring down the prices. So, there was a gradual improvement in price from Jan, Feb and then March. all month-on-month. I always tell Indian demand was always intact. So like in the month of Jan, Feb, we could sell almost 1,700 tons per day which is never done. Normally we do 1,500 tons per day. Pre-COVID the market was really very booming. The demand was very good. And I think as I told you earlier there is a definite shift in the favor of viscose vis-à-vis other fibers. Even if you look at FY2020 as a whole, the global fiber consumption has come down compared to previous year by about a couple of percentage points. But viscose still remained at 7% whereas others at 2%-3%. Demand side was very strong. There was a discipline in the market because the Chinese supply was restricted. So that led to a positive stabilization. Now what is happening today? Problem with the China is that all along the COVID thing, they kept running the viscose plants, because they could not afford to shut the plants because the labor was there, but they could not sell. So by the time the COVID got resolved in China, they had a huge inventory. The viscose inventory in China was almost 125-days March end. And now they are finding that there is a lot of material, but downstream has not picked up. The Chinese textiles demand has not picked up the way it was expected post-COVID. So the spinning operations were below 50% historically. Now, they are inching up beyond 50%. So what is happening is there is a lot of capacity cut and a lot of reduction in operations there. So, Chinese capacity utilization has come down to around 60%. So market is rebalancing. As we speak, there is still a surplus because demand has not picked up. We have to wait for a couple of more months. I think textiles in the next year will pick up demand. If you look at Chinese demand they have come back pretty well in terms of other areas, like the front facing areas, it has come out very well, the digital consumption has gone up very high, the consumables have moved up. If the textiles demand picks up in China and if capacity utilization stays 60% we can hope for some kind of stability. But I think that it is early days. This is not the time to make any predictions. To my mind let us wait for a couple of months more.

Gunjan Prithyani: But do you anticipate more pressure coming from the inventory which is build up there or to some extent demand taking longer to stabilize?

Dilip Gaur: Short-term, yes. If for China everything has picked up, why should the textiles not pick up? So to my mind, I think the European market has started opening now. So far there was no pull from the global demand. Now, I think they have started placing orders now. So the whole cycle will get back from next month. Now, for the autumn, winter launch, they will start buying fabrics now next month. And for spring summer, in July, August. We believe July is the time when we can see a bit of uptick in the whole thing. So next two months will be challenging, yes, for all of us because they have to liquidate the inventory. Whether they liquidate here, whether they liquidate wherever it is. But one good thing is they are now getting down to more reasonable OR numbers. It is no longer 75% - 80%, it is 60% - 65%, that number remains stable. And if the demand goes back to pre-COVID level, we can expect some stability.

Ashish Adukia: Dilip, would you like to cover the capacity utilization for VSF and then Jayant you could cover for Chemicals.

Dilip Gaur: As I told, the capacity utilization was more than 100% because the demand for India was very high right now.

Ashish Adukia: Gunjan, the number that I had shared for VSF plant was 30%-40% capacity utilization as we speak. So we will see how June shapes up, but that is a range at which it is currently at.

Gunjan Prithyani: VSF is 30% - 40% more because demand is yet to normalize. I am just assessing, is there any supply chain issue that we could have in the near-term given most industries are facing a supply shock also along with the demand?

Dilip Gaur: No Gunjan, VSF is a little different. When we shut our plants also we had made sure we took some time to shut them down. They are continuous process plants. So, we have built up enough inventory with us and at the customers end when they start, there will be no interruption. We had about 10-days inventory and the lead time to start the plant is 4-5-days. So that part is not there and we have enough supply of input like pulp and caustic soda. So we do not expect any supply chain issue right now. Viscose is a derived demand. First, the apparel has to start selling, then the fabric will sell and then the fiber will sell. Now what has happened is all the malls were shut. Globally, all the markets have closed down. So what happened? There were a lot of cancellations which happened from the global players. When the lockdown happened, it was spring-summer at the peak. Stuff had gone into the store but the sale did not start. So in the next two months they will liquidate the inventory which is already lying in their stores. And that is why the pull is a little less. So it will take some time. When the buying cycle restarts, the pull will come. But what is important for viscose is not the global brand and the malls. It is a local market which is in tier-2, tier-3 cities and the rural markets where there is a lot of money and is now demand. But I think when the wholesale market gets activated, the demand should pick up. So we believe in next two months' time, the wholesale market should get into the action and then demand should pick up faster.

Jayant Dua: Gunjan, Jayant this side. To your question of where our capacity utilization in the chemicals is, particularly in the month of June I think our current run rate is at about 60%. I think the only challenge that we have in this is with so many products and bi-products that we make, there is a continuous need to balance and rebalance the plant across the various geographies to make sure that you have safe operations. And I would echo Dilip's point that textiles is a large segment for us in consumption and the textiles segment is taking time for it to come back to see. And we expect that probably by the end of the coming quarter, textiles would be back to its normal production. April, we started… we got some permissions in the month of April basically using the hygiene route. And for us even if we have to produce hygiene products, by necessary, we have to produce caustic and chlorine. So, our capacity utilization ramped up slowly from mid-20s to about 50 and now we are operating at about 60% capacity utilization.

Gunjan Prithyani: When we had the call sometime back, you had mentioned that you would give us more sense on how we are reassessing the CAPEX for FY2021, is there any clarity on that front because the expansions which have been underway were fairly sizable in terms of commitment, so are we going ahead, what is the thought process around spend that we can see in FY2021?

Ashish Adukia: I think it is a little early for us to assess the CAPEX plan. Right now, we are just in the phase of increasing our production and looking at the market. I think we will have better clarity by end of the month. So next quarter we will possibly finalize our full year plan along with CAPEX, so we will be in better position to share those numbers.

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

Rajesh Lachhani: So first question is on this one-off that you said that one-time expense of Rs. 23 crores in Q4 led to some drop in EBITDA; however, if I see the presentation, that is in fact at Rs. 23 crores one-time gain in the fertilizer. So just want to understand what is this Rs. 23 crores loss or one-time expense in Q4.

Ashish Adukia: First of all, the fertilizer number that you mentioned is not a one-time gain, it will be a recurring gain that we will have because now the fixed costs to reimbursement of an additional amount has been allowed by the government. If you recall, we were accruing some income on that account and then we created a provision last year of Rs. 135 crores which was basically 50% of all the income that we had accrued. We had made a provision because we were not sure whether the government will allow that fixed cost additional reimbursement or not. But, this year now they have allowed that reimbursement and therefore the fertilizer is actually a recurring gain that you see of Rs. 23 crores. It is just that it has accrued in this quarter, but it belongs to the entire year. On Chemicals, there is Rs. 23 crores of one-time impact. So EBITDA should have been Rs. 127 crores out there instead of Rs. 104 crores. There are three, four items in that. There is certain electricity duty exemption that we were expecting and we had booked which we had to reverse because right now the clarity is that we are not going to get that. There is also some physical mismatch in the inventory or assets which has also been provided for. So therefore it is four, five items put together which constitutes Rs. 23 crores which has been adjusted for in this quarter which is clearly one-time.

Rajesh Lachhani: But this fixed cost reimbursement of Rs. 23 crores, full year reimbursement has been booked in this quarter. So what would be the excess amount that we have booked from the previous period?

Ashish Adukia Let me put it differently for you maybe it will give a better idea. I think on our regular recurring basis, the EBITDA of fertilizer should ideally go up by about Rs. 25 to 30 crores on account of this fixed cost reimbursement. So Q1, Q2, and Q3, we had not booked any of this. Q4, we have booked for the entire year. And going forward we will get the benefit of about Rs. 25 to 30 crores annually on account of this fixed cost additional reimbursement through subsidy that government will give us.

Rajesh Lachhani: So Rs. 25 crores is the annual amount and not a quarterly amount?

Ashish Adukia: Yes, absolutely.

Rajesh Lachhani: And if I look at the trend of not only VSF but also cotton and the PSF, compare the March exit with the December exit, I can see that there is a clear continuous fall in the VSF for cotton as well as PSF prices. Also, the pulp prices have actually largely stabilized in the last two, three months if I look at the chart that you provided in the presentation. So clearly the margins could further come under pressure going forward?

Dilip Gaur: I think both of them are at the bottom right now. Viscose prices, if you do arithmetic, globally the prices are almost hovering around variable cost (not in India, Indian prices are still better). So there is not much scope to go down further. Pulp, I think it is stable, plus/minus $10 to $15. The issue is all demand-led issue. Right now because of the COVID, there is no demand for any fiber. So this whole thing is falling as a sentiment. So cotton has fallen because there is no demand. Second, on top of it, what happened because of the COVID, a lot of cotton production also reduce. Globally, cotton production is less, but the demand has fallen faster. So the production of cotton from 26 MT is down to 25 MT, but the demand has come to 23 MT. You are ending with a higher year ending stock of cotton. That will impact the cotton prices. Polyesters and crude price went down to $10. So VSF prices came down, but they started picking up again. So to my mind, making any prediction from this thing is little premature. Let us watch for a couple of months. Let the world come back to normalcy post-COVID and then see what happens. But there is not much room to go below the prices anywhere. If the price goes below this, the pulp plant will start topping. If viscose price goes below, viscose plant will start topping. I think new equilibrium should be achieved.

Rajesh Lachhani: That makes sense. But the VSF prices in China is currently hovering around RMB 9,000 per ton and at these prices close to the producers in China are making RMB 2,000 per ton losses and yet we are saying that 60% of the operations are still going on and this RMB 2,000 per ton is not a current phenomenon, they have been making losses to a lesser extent, but still we continue to see the plants running in China. So just want to understand, if you can throw some light on why Chinese plants continue to operate despite having losses, so what is the incentive for them?

Dilip Gaur: I think it is difficult to understand what is in a Chinese mind. But if you look at the Chinese, out of 24-25 players, four or five are big players. So they not only make viscose, they make other products and they are far bigger players. In that case they take a longer term view. Shutting a plant means you have to separate the labor, you have to put fixed cost, there is a huge complexity involved in that. But what is happening is the smaller players are kind of sitting out. Otherwise, this could not have come down from 75%-80% capacity to 60%. And that is what we have always been saying. The moment peripheral players shake out, the four players cannot meet the global demand. Automatically, the prices have to firm up. So the issue what one has to see is how long it takes to shake out these peripheral players. And that is what is happening right now. It has become so unviable that there are a lot of small players are just not able to manage. Bigger players, you may call them deep pockets or they have got a salary commitment to the business, they will take it at the stride. They have been losing money for the last 1.5-years. And it is not the first time they have done it. In the hope that there will be shake out, the smaller players will fall apart and the bigger players will continue. We have done arithmetic; if the demand goes back to the pre-COVID level, and the OR is in 65%, the market is balanced.

Rajesh Lachhani: Can you tell me for India, the exit prices of VSF for May compared to March and exit price of caustic soda or chemicals segment, ECU compared to the March?

Ashish Adukia: So the March end, we have already shared with you in the presentation, right, on slide #19 you will find the ECU which is 26,600 for the quarter. We do not give prices of the current quarter as a guidance or something. And in case of Viscose, again, we have given the exit price, and of course there is some premium that we enjoy in the domestic market over the international prices.

Rajesh Lachhani: But can you share the trend – is it upwards or still it is declining trend compared to the March exit?

Ashish Adukia: Right now the price which Dilip has already mentioned is a little bit theoretical in April because there is not proper uptick in demand. I think when there is a proper demand when everyone restarts is when you can really talk about the price which is more an equilibrium price. So it would be irrelevant to give a price of say April or May.

Dilip Gaur: April, nothing was running. May also most of the textiles production centers run low. So there is hardly a transaction. The price is absolutely a number. It does not mean anything. So let us wait for the June to happen then we will be in a better shape to answer.

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

Gaurav Rateria: Two, three questions from my side. So firstly on the margin sir, given that the expectation is that the prices may not fall further for VSF, it is already at a variable cost and there will be some more input cost benefit which could be coming on the pulp side, on caustic side. Do you think we have bottomed out on the margins for VSF as well as for chemicals given that input cost benefit will come for chemicals as well on the power side and some fixed cost reduction side?

Dilip Gaur: Let us wait for a couple of months and then take a call because right now we do not believe there is a further room. Fact of life is, yes, based on the arithmetic, both of them have bottomed out. The good thing which we have not shared in this so far is Viscose goes in two applications -- Textiles and Nonwoven. Now one positive has come out of COVID is nonwoven market has boomed. It goes into the facial wipes. It goes into the hygiene application. So there is a lot of Viscose both in China and elsewhere and India also is getting diverted to the nonwoven side of the business. And that also will bring in some balancing. And there you have got a much better premium. So today, every player who used to make say x-percentage of nonwoven is making 2x percentage. So the whole market is reequilibrating. So while the textiles may go down, the nonwoven may go up. Even in India, we have started making nonwoven again. So I think it is a bit of flux situation. Let us wait for things to clarify.

Ashish Adukia: Let me probably cover that differently, Gaurav. I think if you see pre-COVID, there we could have said that it has more or less bottomed out, right, because we got the advantage of pulp and we had the price which was not fully recovered to what we had earlier in FY2019 and Q1 of FY2020, etc., But we had a reasonable stabilization in the price. In case of chemicals also, the ECU had come down quite a bit and power cost we will keep changing the mix to improve that. But it is more of a fixed cost than a variable cost. It is not linked to the thing. So if you look at pre-COVID, let us forget about this temporary disruption that has happened because that will only impact your Q1 and maybe Q2 of FY2021. But hopefully, it will not go beyond that. So, if you talk about a normal cycle, then I would assume that it may have bottomed out in Q3 and Q4.

Gaurav Rateria: And also two more questions; one, on the ADD side, the government is probably reviewing the ADD on goods imported from China and Korea on the chemicals side. Any understanding or any feedback from what it looks like? And why are the import like really is an issue for chemicals if China is really not an active player in the market? And secondly, question specifically for Ashish. In the current environment, when we are reviewing the entire organic CAPEX, what is the headroom for investment in group companies even if on a return ratio, those investments may look nominally well?

Jayant Dua: So I think the point which Ashish was making that while China does not really import too much into India, but I think the local Indian capacity which came up by around 610 KT and if you look at from a demand perspective, demand all India at about 4 million a shade lesser, and if that kind of capacity comes on stream, it is a significant capacity increase which has actually impacted the overall prices of caustic. And also from the overall perspective, while China does not impact directly India, but it impacts Southeast Asia and other places. And a very similar story, which Dilip was talking about in VSF also is the state of the story in China. The only difference is that majority of the world barring India works on chlorine as the main product and caustic as a byproduct. So the number of dynamics by which the caustic market got impacted globally is significant. Even today, the vinyl demand has really not come back. So there is a chlorine excess available in the market and by that matter, plants are getting rerated or new balances are being found out. And I think this uncertainty globally will continue. People are carrying high stocks of caustic across the system including India. But, as and when the demand picks up, which is picking up slowly, I think the balancing will happen. It is improving with every month and I think the trend will continue there.

Ashish Adukia: On the headroom, Gaurav, if you see that we have spent this year Rs. 2,828 crores towards CAPEX and the remaining from the sanction is about Rs. 4,900 crores which will be spent over a period of time. We have to sit down and recalibrate on how and when we spend the amount and also how much to spend -- is it likely to be Rs. 4,900 crores or is it likely to be lower? Given current scenario, we may draw out a scenario where we have a lower CAPEX as well. So it is difficult to say what is the headroom for investments otherwise, but if you theoretically calculate, suppose same EBITDA is this year of Rs. 3,000 crores and you use Rs. 3,000 crores towards the CAPEX, so you would not need to probably raise debt, but over a period of time maybe if there is some deficit and you have to raise debt, then also there is enough headroom. For AAA rating, as said in past calls that we are comfortable to go up to 2.5x (net debt-to-EBITDA ration) or so on a standalone basis. The rating would not get impacted, but I think we would not like the ratios of net debt-to-EBITDA to worsen beyond that level. That also according to me, is a little bit theoretical. So I think we are comfortable at these levels and there is no proposal at all of any investments in group companies other than we have seen the ABFL rights announcement, our share in that is somewhere around 10%,-11% and we will have an option to decide on participating in that right when the time comes.

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

Navin Sahadeo: A couple of questions. So first question is related to VSF. Just wanted to understand how should we look at the exports part of the business? You said China capacity utilization is down to 60%, but they still have huge inventory to be liquidated which could keep margins under pressure. Now, our exports are about 14%-odd. Given that they have a pressure to liquidate that inventory, is there a possibility that our share of export as a percentage or in general those volumes can take a hit or is there a way that our share of exports can actually go up because globally people may be a little averse of buying products from China, any thoughts there please?

Dilip Gaur: I think that is a good question. In fact, the simple answer is our exports is likely to go up. I will tell you why. See, because as we all know, post-COVID, it will take time for Indian demand to come back, it would not happen overnight. One of the ways what we already started doing is, we want to have full capacity utilization in Grasim plant. We have got about 1,600 tons per day of capacity with us. And India is very advantageously placed in some markets. The freight from India is much lower than freight from other countries to those markets. If you remember, earlier, my demand was so much in India, I could not service it so I have decreased the export; used to be at one-time 30% export, 70% domestic. The last number we spoke to was 12% export, 88% domestic. I think this quarter, you will see we are exporting more and more. In Feb, I did only 34 tons per day of export. Today, I am doing much more. So I think what we are doing is whatever the demand gap between the capacity and the local demand, we are trying to maximize export from India. As far as freight, it might not have the same margins as what will happen in domestic market, but we do make more money than other exporters from Southeast Asia.

Navin Sahadeo: So the 30% to 40% of the current capacity utilization that we are running in the viscose, that is including the export benefit?

Dilip Gaur: No, this was domestic. What happened is April was full lockdown, then it got extended to May, while some opening happened on 18th of May, but all the textile centers, you take Ahmedabad, you take Surat, you take Jaipur, you take Erode, you take Bhiwandi, they all remain in red zone. So textiles market did not open for entire month of May. It is only after 2nd June or 3rd June is that things have started opening up. So like Jayant was saying, we are seeing every week increase in demand. It is more sentiment than the demand, but the sentiments are really positive. So, as we speak, 30% to 40% is a captive demand and the balance is I am not saying entirely will go to export, but we are trying to top it up with export. We expect about 80%,-85% demand in domestic market only by Q3. Till that time, we will try to maximize exports and again exports will come down and domestic will take over.

Navin Sahadeo: So if India can come back only in Q3 to about 80%-85%, does export really have that much potential to take it up say 60%-70% of overall utilization, can exports be that big an opportunity in the interim?

Dilip Gaur: But it depends on what price you get. We do not export like Chinese. So, there is a cut off price. If it is a viable price, we will do it. Look, the global market is about 6.5 MT market. I am talking about 0.5-0.6 MT capacity. So we do not have a huge volume to sell. The issue is at what price we get in terms of the margins.

Navin Sahadeo: Second question was just about CAPEX and I know Ashish sir did say that clarity will come only post-Q2, how do you look at CAPEX, but is it fair to assume that the planned CAPEX of 235 KT in VSF, that is certainly delayed and will not come then in let us say at least till first half of FY'22, is that a fair thing as in because if let us say things were to normalize, I am only trying to understand if Q3 you are expecting India to come back at 80%-85% and keeping fingers crossed there in FY'22 then turns out to be a much normal year globally, when should we start looking at then the volume benefits from the new plant?

Ashish Adukia: These are the questions we are asking ourselves as well when we are sitting down on CAPEX and having a discussion. I think if you were to come back with a scenario, let us kick start the VSF capacity, increase immediately, then we probably lose a quarter which means that

September, December what we were talking about can spill over to Q1 of following year. But, again, we have to sit down and discuss these timelines and then come back to you.

Navin Sahadeo: Dilip ji, has exports from China come down as a percentage, any color that you have there that will be helpful?

Dilip Gaur: See, Jan, Feb, March, it did come down because they could not supply. But now they are back in the export market because they also have same issue; the domestic demand has not picked up the way they had thought. So they are back in the export market. Otherwise, China was only exporting 10% of their production. They were all locally focused. Despite all the capacity, the Chinese market could absorb most of the viscose production. So I think, as we speak, they are in the export market, but I think it depends upon how well their domestic demand picks up.

Navin Sahadeo: In a normal scenario, China's exports are just 10% of their total volume, correct?

Dilip Gaur: Not even that also.

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

Prateek Kumar: Sir, can you give us the split which you give for VFY and VSF segment revenue and EBITDA?

Ashish Adukia: VFY, I had given for Q4 Rs. 415 crores of revenue and EBITDA of Rs. 70 crores.

Prateek Kumar: While your presentation says that there was a 7% decline in Q4 in terms of realization in one of the slides you have mentioned, but our realization has dropped only by 2% in this quarter on a QoQ basis? In the presentation, on Slide #16, you mentioned that grey VSF realization is down 7%. I think this is industry you are talking about or this is for the company?

Dilip Gaur: That is an industry.

Prateek Kumar: So our decline is only 2%, right?

Dilip Gaur: Yes, company is less.

Prateek Kumar: This is due to higher share of value added or we have yielded less imports in this quarter because last quarter it was worse versus like I think industry.

Dilip Gaur: Our VAP also has gone up this quarter.

Ashish Adukia: So there are two reasons basically. This is stabilization of domestic price. It is not worse from what was there in Q3. In fact, it had improved towards Feb and March pre-COVID and plus in terms of product mix share of VAP which there was in fact an expansion of premium of VAP over the grey.

Prateek Kumar: When we say that we have not commissioned our Harihar plant while we have commissioned other three, so this is because of some red zone issue or because demand is not there, so we have not started the plant?

Dilip Gaur: This is demand-led. There is no point opening more plants and running them at less capacity. We are maximizing the capacity utilization in the same plant like Kharach is now running 100%, then now Vilayat we are starting, so we will fill up Vilayat and then slowly we are going ahead. So in tandem with the demand, we are ramping up the plant capacity and number of plants. So Harihar will come the last, it is a small plant.

Prateek Kumar: And there was like some global capacity addition of 300,000 to 500,000 which was also expected this year in 2020, is that also delayed?

Dilip Gaur: As I told you last time between last CY'19 and CY '20 there will be 250,000 addition which has already happened in Jan and March. I think thereafter not much. It was only our capacity if at all it comes up.

Prateek Kumar: When we say that in caustic segment, the 610 KT capacity has come, so is this all which is supposed to come for domestic players or more capacity was expected or some other players were expecting, so all of that have come now onboard?

Jayant Dua: It is a graded way you look at it because all the capacities which were supposed to come in the last financial year have come in. And it is the same situation for us now that the current year which we are going through, our capacities which were supposed to come up and that we will take in a graded manner as we go forward. And then there are capacity inclusions next year which are already work-in progress particularly on GSCI. So, for the last year, all the capacities which were supposed to come in, have come in.

Prateek Kumar: So now then Gujarat alkaline capacities are pending, and everyone else has come onboard?

Jayant Dua: As of today's plan and there are plans which have been announced by others, but looking at, I think everybody is reviewing the situation of demand and what we have been talking about I think in the next couple of quarters, clarity will emerge.

Prateek Kumar: Just one question on caustic prices. From basic calculation, it seems like ECU realization has fallen by 4% for yourself in this quarter. So is the decline worse than industry because competition seem to have like lower decline on a quarter-on-quarter basis and that is why our EBITDA drop is also steeper.

Jayant Dua: No, I do not think so that is the fact. As a matter of fact, if we compare our ECU with a couple of our competitors, our gap between their ECU and our ECU is actually maintained or has even gone better. So, I think the EBITDA drop could be a function more of the one-time rather than from an ECU perspective.

Prateek Kumar: On Slide #9, you have given some cost focus numbers on Viscose and Chemicals. So these are for FY2021 which we expect like this kind of savings?

Ashish Adukia: No, let me just clarify out there. Those are what has been achieved. Now this is combination of the pulp price… for example, the pulp prices have come down, caustic prices have come down, so therefore, there is overall saving of Rs. 460 crores for the year for us. Plus there is also conscious cost cutting measures like I said through Project Cascade that we had done. So in Project Cascade, for example, the savings that has been achieved is Rs. 250 crores. Some bit of that Rs. 250 crores could be sitting in the reduction in the pulp, caustic sulphur price also, the cost that is mentioned as Rs. 460 crores. The reason is, for example, one of the measures that we have done in Cascade is the consumption norm. So pulp going into Viscose would be a certain number, right, 1.01 per ton of Viscose. So there we have made some reduction so that the pulp quantity comes down. So Cascade has many such items. It has items like fixed cost reduction, trying to make common procurement, it has quality measures, it has consumption, some technical initiatives, and some market initiatives where we have gone ahead and renegotiated certain contracts. So, it has many items like these totaling up to Rs. 251 crores. And then on Chemicals side, power mix change as well as raw material contract which has cost like salt, etc., which has led to overall Rs. 100 crores of saving. So again, I will repeat for sake of clarification that there could be some overlap between Rs. 251 crores and Rs. 460 crores that you see on that slide.

Prateek Kumar: But this is on which historical period -- FY‘20 only or a period of two, three years?

Dilip Gaur: FY20 over FY19.

Ashish Adukia: So one more important point is of course Project Cascade is a fundamental improvement in the business. So, that benefit in whichever areas we have received, will continue going forward.

Dilip Gaur: Yes, that is right. Cascade is recurring, it will happen year-after-year whereas the input price may happen or may not happen depending upon how the market moves.

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

Sumangal Nevatia: Just a couple of clarifications. Sir, in between you made an interesting comment on the nonwoven market doing very well versus the textiles. So just wanted to understand what is the size of the nonwoven market relative in terms of volume mix?

Dilip Gaur: See globally, it is 30% nonwoven, 70% textiles and nonwoven are a global business. India is not a big market. So while we will make it in Grasim but we will export it to most of the places. And post-COVID it has become a huge marketing channel because the nonwoven is driven by two things -- One is demand by the end industry. Second is fiber is only an input into an intermediary state where they may cut them into the flat rolls. So the converters are key thing. So there is no conversion capacity in Europe. Whatever was there, they have already extended to 20% more. In China, rest of the capacities are available. So, China has become a big nonwoven market now. So the export market will be China, Europe and USA, three markets.

Sumangal Nevatia: And when you say Chinese inventory is currently at around 125-days, what is the normal inventory level they used to keep?

Dilip Gaur: Ten days for VSF, 20-days for yarn… about 40 to 50-days maximum. I am taking whole. I am taking from viscose to the yarn level.

Sumangal Nevatia: How many quarters are we looking for this to normalize?

Dilip Gaur: Look, the whole issue here is… I think you all are reading in the newspapers also, that COVID has destroyed the demand. So it all depend upon the demand revival. If the demand comes back to pre-COVID level, I think this will stabilize very fast. So all one is saying is it is V-shape recovery, U-shape recovery, L-shape recovery. The current predictions look like U-shape recovery. So, it should happen by Q3, Q4 normalcy. So two quarters will be challenging. Third quarter hopefully things should improve, but we will have to keep watching it. Now if there is a recurrence of COVID, then again, the whole thing goes back to square one. So, in normal course if one is able to control it, I think by Diwali, the textiles industry should have its normalcy because the festival season will be big. All the marriages have been curtailed. No festivals have happened so far. So I think there is a big pent-up demand which should happen hopefully.

Sumangal Nevatia: One small clarification on the CAPEX. Ashish, if we look at the outstanding CAPEX of around Rs. 4,800 - Rs. 4,900 crores, Rs. 3,000 crores is towards the expansion and the remaining Rs. 1,500 crores towards the modernization and maintenance. So, I think expansion is something which we might just look for one or two quarters delayed depending on our outlook on the demand recovery. What sort of flexibility we have in the modernization bucket of the CAPEX to reconsider whether we want to go ahead or not, are we just looking at about a delay of whether it is one or two quarters or more than that?

Ashish Adukia: See, I think modernization and maintenance CAPEX are also as important because a lot of it is environmental and sustainability related other than your modernization related CAPEX. More and more, we are noticing that in VSF as well as in Chemicals, sustainability is becoming important and in fact you get premium for your products if you are a sustainable company. So, it actually gives us an edge over the Chinese in many aspects. So, therefore, we will do a little bit of a zero-based approach as well where we will look at the CAPEX which one is necessary, which one is not and what is the time line and then only we will be able to come back to you on this.

Moderator: Thank you very much, sir. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Ashish Adukia -- CFO, for closing comments. Sir, over to you.

Ashish Adukia: Thanks a lot for joining the call, and I really sincerely hope that all of you are safe and all the best as we all resume work.

Dilip Gaur: Thank you.

Jayant Dua: Thanks a lot.

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