"Grasim Industries Limited Q3FY-22 Earnings Conference Call"

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MR. ASHISH ADUKIA – CFO, GRASIM INDUSTRIES LTD.

Moderator: Ladies and gentlemen, good day and welcome to Q3FY22 Earnings Conference Call of Grasim Industries Limited.

We have from the management Mr. H. K. Agarwal - Managing Director, Mr. Jayant Dhobley - CEO Global Chemicals and Group Business Head VFY and Insulators, Mr. Jayant Dua - Chief Executive Officer, Chemical Division and Mr. Ashish Adukia - CFO.

As a reminder all participant lines will be in listen-only mode. 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Adukia - CFO. Thank you and over to you, sir.

Ashish Adukia: Good afternoon to all the participants.

FY22 till now has been a defining year for the company, as the company accomplished 75 successful years of its incorporation. We are privileged to continue with legacy of our founding fathers of the company and thankful to our fellow colleagues, shareholders, customers and all the other stakeholders who have been part of this wonderful journey.

One of the pillars of our 75 years of existence has been resilience. And that has come about from our commitment to the growth. We have continuously invested in our capacity expansion, technology advancement and process improvement in our core businesses.

Today, when India Inc. is making new capital commitments, Grasim is well ahead of the curve as we had planned our capacity additions in core businesses ahead of time, and now nearing completions.

So, one of the important themes in this quarter is Project Commissioning.

- Starting with VSF, Vilayat plant of 600 TPD, 300 TPD was commissioned in November '21 and the balance 300 TPD has been commissioned just this week. So, the total VSF capacity has increased by 37% to 810 KTPA from 591 KTPA. With the growing domestic demand in VSF, we are confident of fast ramp up of this capacity to make additional capacity available to our customers.
- In the Chlor-alkali business as of Quarter 3 FY22, 91 KTPA, caustic soda plant at Rehla, is fully commissioned and Balabhadrapuram Phase-I plant is partially commissioned with 26 KTPA. The total capacity will get augmented to 1530 KTPA

by Quarter 1 of FY24 because there are few more commissioning that will take place, from 1147 KTPA today.

- The chlorine value-added plant, chloromethane plant of 55 KTPA at Vilayat was also commissioned in Quarter 3 of FY22.

The total CAPEX amount budgeted for the entire year was Rs. 2,604 crore, and that was excluding paints. For nine months FY22, the actual amounts spent stood at Rs. 1,476 crore we will certainly close the year well within the budgeted CAPEX amount.

For the paints business we have received two environmental clearances for two parcels of land. So, the CAPEX in those two sites will get accelerated. The CAPEX spent amount is that Rs. 505 crore till now on paints, which is mainly towards acquisition of land parcels.

We completed disinvestment of fertilizer business on 1st of Jan. At the time of announcement of the transaction, which was more than a year back the enterprise value for the disinvestment of fertilizer was at Rs. 2,649 crore, which included the outstanding subsidy amount at that time, which was part of the working capital.

The final consideration amount received by the company on 1st Jan 2022 was at Rs. 1,860 crore and this is after adjusting for subsidy already received from the government during the year. And there has been small adjustments on account of CAPEX and working capital.

With the sale, the company has turned net cash positive on standalone basis again after a gap of 12 quarters. Proforma Net Debt adjusting the December end Net Debt with the proceeds of fertilizer comes to negative Rs. 432 crores.

Sustainability has been another key area of focus for the company and we have incurred more than Rs. 500 crore in the last five years, and this is in VSF, and they have year marked a total amount of Rs. 1000 crore towards achieving global standards.

The VSF business has taken the target to achieve net-zero carbon emissions across all its operations by 2040.

Grasim participated for the first time in Carbon Disclosure Project, CDP in 2021 and has received Management Band Score (B-).

At Grasim our commitment to improve the quality of ESG data reporting is increasingly being recognized by the external world.

In another major achievement the company has received Gold Shield Award for “Integrated Reporting” and “Excellence in Financial Reporting.” So, these are two awards from the ICAI.

Another theme emerging in the quarter was unprecedented rise in prices of crude and derivatives and coal etc. which emanated from demand supply imbalances, logistical challenges created by country specific COVID restriction and these have continued unabated.

The VSF business has witnessed almost Rs. 400 crore plus of cost escalation sequentially.

Grasim's backward integrated model will provide relief at the time of such extreme volatility in the prices, as the rise in caustic prices for example aides chemicals divisions performance.

There are a business wise initiatives like improvement consumption norms, improvement in share of renewable energy, which will all benefit on long run.

I will briefly touch upon the key performance, operational and financial performance. The strong operational performance of VSF has been induced by strong demand for textile products in India during Q3FY22, despite state specific restrictions.

The domestic Textiles Value Chain has been operating close to its peak capacity which is led by demand uptick and it's evident in the share of domestic sales, which increased to 91% in quarter from 84% in the last quarter.

The share of value-added products in the overall VSF sales mix has increased to 29% on sequential basis from 27%. In terms of volume, the VAP volume has gone up from 41 KT to 46 KT, an increase of 11% QoQ and 46% YoY. And why volume becomes more important than value is mix or the percentages because the grey capacity has gone up due to Vilayat's expansion.

VFY business also reported a strong operational and financial performance on a sequential basis, driven by strong growth, in demand and improvement in realization despite the cost pressures. The viscose business reported net revenue including VFY of Rs. 3,335 crore and EBITDA of Rs. 401 crore.

The VFY business reported a revenue and EBITDA of Rs. 574 crore and Rs. 80 crore respectively.

The international caustic prices witnessed an upward trend for the fourth straight quarter. The domestic caustic soda prices went up on back of domestic demand, and higher international prices. The caustic soda capacity utilization touched multi-year high of 93% in Q3, up 7% sequentially. That equals the all time high with revenue increase more than offsetting the cost increase due to power cost.

VAP performance suffered from cost pressures and weak demand as well.

The Advanced Materials ie. Epoxy business have also witnessed a YoY improvement in operational and financial performance, driven by a better product mix on the back of strong demand from the wing segment. However Epoxy segment is witnessing some cost pressures which may impact margins going forward mainly due to timing difference.

The revenue and EBITDA for chemicals divisions stood at Rs. 2,338 crore and EBITDA of Rs. 528 crore, respectively. The standalone performance overall for Grasim for Q3, was strong with revenues up by 56% to Rs. 5,785 crore and PAT up 46% to Rs. 522 crore on a YoY basis. At the consolidated level, the same figures were that revenue was up 16% to Rs. 24,402 crore and PAT up by 26% to Rs. 1,746 crore for the quarter on YoY basis.

With this, I would like to handover the call back to the operator to take it forward.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Navin Sahadeo from Edelweiss. Please go ahead.

Navin Sahadeo: So, two questions here. One in VSF, you mentioned operating rates in China are at a decent high of 83%. But yet in December end we have seen like prices coming down. In January, I don't think there is very good recovery. So, is all this attributable only to the Chinese New Year related sluggishness or is there some more issues around it?

My second question then was about the paint business, glad to hear, we have already received environment clearance for two plants. So, would it then be appropriate to ask which locations are these? What capacities are these? And by when can the plant see the light of the day?

H.K Agarwal: On your first question about VSF operating rate in China. So, it touched a high of 85% for some weeks, and now, it has come down to 82% and even 81% after the Chinese New Year. And inventory has also started to move up. During the Chinese New Year, most of the VSF plants continued to operate, while the spinners, our customers did not operate. So, there was accumulation of inventory buildup. And this is a normal phenomenon in China because these Chinese New Year is a every year phenomena and there is a typical buying behavior. So, many spinners buy the VSF before the Chinese New Year, because they expect that after the New Year, the prices are normally higher than before the Chinese New Year. So, they try to hedge their cost before.

So, it is just one week of post Chinese New Year operators are still opening, spinners have not yet fully resumed, the downstream is still not fully open. So, we have to see. Price going down is just normal because inventory had gone up and there was dull activity. So, we have to look for the clear trend now in coming weeks.

Navin Sahadeo: I am just trying to understand that will, given that cotton has been on a rise sustainably but we haven't really seen that kind of a sustainable increase in VSF. So, I am just trying to check do we expect prices now to improve or it's still seems difficult to really take a call on that.

H.K Agarwal: See prices should increase because cotton is all time high. And Polyester Staple Fibre prices are also increasing on the back of higher crude prices. And there is a historical correlation between VSF, PSF prices and VSF cotton prices. Of course, the cotton and the VSF prices have diverged and this kind of gap is unprecedented. And that is because on cotton, there are a lot of financial players also. And there is an expectation of more shortage in cotton. Whereas in VSF, the competition among Chinese players is a little bit more intense than we would like to see. So, that is the reason. But we expect the prices to go up and to some extent cover the cost increase more than what it has been the case last quarter.

Ashish Adukia: Navin, to your second question the EC received basically for our North based plants, which is Panipat and Ludhiana. And we should actually receive ECs for others as well soon because South based plants were the first ones that we had signed up with the State Government.

Navin Sahadeo: And I think I am sure investors will then be very keen to also know that since North EC has received. So, definitely more color on this as to what is the CAPEX outflow that we can look at, and the timeline for the plant commissioning, what capacities, I think that color will be really helpful.

Ashish Adukia: No, point noted, I think we are again in early stages, I think land generally is a little bit always unknown how much time it will take, when will you get EC. So, now that we are also gaining more visibility on land and ECs, hopefully by next quarter, we will be able to give you more picture on the CAPEX forecast and other stuff.

Moderator: Thank you. The next question is on the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: My first question would be in terms of value-added VSF, I think we have reported best ever quarterly volumes, in terms of the value-added volumes, like it is up 56% from the start of the year. So, my question is how much further we can take this volumes based on our current value-added capacity? And if we can add further that how much more CAPEX, we need to incur in order to take our value-added volumes to 40%, which is our long-term goal.

H.K Agarwal: We are running our VAP capacity almost to the full. But we have the flexibility to convert some of our lines which produce grey to VAP, depending on the demand situation. So, like we have been waiting for schools to reopen for uniform market to pick up, so that we can make more Dope-Dyed Fibre which is one of the VAP. We are running our Excel plant which is Lyocell category of VSF to almost full, but we are also experimenting with increasing the capacity marginally. And Livaeco is one product where capacity is not a constraint, but it depends on the seasonality of buying and getting more orders from brands.

So, by end of next year, we hope that we will increase the VAP volume significantly. And along with increasing the VAP volume, percentage wise it may not increase because our grey capacity is increasing significantly, so denominator is increasing. So, that is a different thing. But we are also increasing our realization on VAP products, as much as we can. So, on both sides, we should expect better performance on VAP product category.

Nirav Jimudia: Last time on the call you explained that since we have done some sort of fungible capacity where we can improve our Livaeco production. But with this won't it shrink our premium of the margins what we get in the value-added VSF over the grey VSF, because then we are already at the optimum level of utilization for the Lyocell or the Modal probably which we mentioned in your opening remarks.

H.K Agarwal: So, we can convert one more line from grey to Modal depending on the market situation. So, in India, it will take time for market to catch up, but then for some time, we may export more Modal out of India. So, this is always a matter of time for the demand to catch up, capacity can be increased in one step wherever we can. So, is it like increase capacity then market increases and we utilize the capacity fully then we again find out ways to increase the capacity. Sometimes it can be very small increments, sometimes it has to be a little bit bigger step increments in the capacity.

Nirav Jimudia: If you can put some sort of CAPEX numbers for improving over volumes of VAP to 40% that would be helpful.

H.K Agarwal: So, not significant CAPEX except in Excel. Excel will need definitely more CAPEX, but other VAPs, we can increase the volume without much CAPEX. So, our focus will be to increase the VAPs other than Excel.

Nirav Jimudia: My second question is on the VSF again, so, in the opening remarks, you mentioned that VSF business has seen a cost increase of Rs. 400 crores sequentially. If you can attribute the increase in the power cost out of this Rs. 400 crores because even on a sequential basis, we have seen Rs. 350 crores increase in our power costs. So, some sort of understanding there in terms of the increase in the cost from the VSF business.

H.K Agarwal: Out of Rs. 400 crore, roughly Rs. 120 crore is on the energy, power, and steam together like mostly natural gas and coal, etc.

Ashish Adukia: See, I think to answer your question,you are probably talking about power as cost increase at overall Grasim levels, but that is mainly on account of caustic because that's the power intensive plant business rather. So, VSF, you have to focus on the increase in the pulp cost and the caustic cost, that's the primary reasons for the part of that Rs. 400 crore that you are seeing. And that's an absolute number that we have given Rs. 400 crores. So, of course, because of volume increase also, there may be some variable costs increase. We are just comparing quarter-on-quarter to say there is a Rs. 400 crore plus increase in the variable cost.

Nirav Jimudia: Is it possible to share like in terms of our increased capacities both for VSF as well as for the caustic division, how much currently we are based on captive requirements and probably some sort of capacities we are also adding in the renewables also. So, let’s say when we will be utilizing our, both the capacities optimally, how much would be our power integration, if you can share?

Ashish Adukia: So, we have shared our renewable capacity share, right, where we are going up to 10% with whatever group captive teams etc. that we are going to. So, that's roughly and then about 40% to 50% is our captive power from what we use.

H.K Agarwal: See on VSF we have 100% captive power because we need steam and power in a certain ratio. And in steam we cannot purchase from outside. But on Chlor-alkali side, yes, we have power from grid, and renewables.

Nirav Jimudia: On the Pulp JV, we have reported the losses. So, just a clarification that is this because we have produced some 25,000 tonnes or probably sold 25,000 tonnes of lesser volume sequentially, because of which our profits are lesser, because if I do some arithmetic calculation in terms of the realizations what we have reported. I think we would, if we adjust those less volume sold, we would have been in the profit from the Pulp JV. So, is that understanding correct?

H.K Agarwal: Yes, your understanding is correct. We had some reliability issues in our plants, in the last quarter and that resulted in lower production. And when the plant doesn't produce than there are on the contrary, more expenses on maintenance and some energy things so it become compounded, problem becomes compounded. So, your understanding is right. If we had produced fully as per the previous quarter, then we would have been in profit.

Moderator: Thank you. The next question is from the line of Chintan Chedda from Quest Investment Advisors. Please go ahead.

Chintan Chedda: My first question is related to caustic soda. So, we are in a very good cycle of caustic soda right now. But the performance of ECU division continues to get negatively impacted by chlorine. So, I just wanted to understand like what are the plans of the management to tackle this issue?

Jayant Dua: What normally happens if you look at the industry, chlorine becomes the kind of bottleneck for caustic supplies to increase, because chlorine can't be transported. I mean that's the first understanding we need to get. And when the run rate of caustic on prices is good, everybody maximizes caustic production. And typically, chlorine gets into negative, and that's been the historical record in India, because in India, the primary product is caustic and the byproduct is chlorine, which is reverse in the global scenario because of PVC.

So, what we are doing at this point of time and you would have seen and you would have heard Ashish talking about the project. So, one large chlorine derivative project, CMS got commissioned in Vilayat. And you would have also seen the press note of this time, which talks about ECH, which is now going to come up in 25. So, there is a progressive work, which is happening on chlorine integration in the business. It is going to be a couple of years before our current captive consumption which is a chlorine of around 29% to 30%, will jump to around 45% to 50%. And that journey, I think, as we keep on adding more and more products and production, and we will keep saying. But that's clearly a line of focus for us going forward. And you are seeing the initial work on it come through in the CMS part.

Chintan Chedda: So, at supposed say 40% kind of utilization of chlorine, would that impact on the spreads will not be negative, just to get a sense on the margins basically, how can this lead to our margin improvement?

Jayant Dhobley: So, I think you need to look at chlorine, when I talk about chlorine capital consumption of 40% that the chlorine's derivatives what we are talking about. Then there is HCL also, and then there is tonner sales which happens. So, overall, if you look at a 93% capacity utilization that means 93% of the chlorine produced got evacuated in the plant. But the thing is, there are three or four ways you cut chlorine and look into it. What we control in our own production facility is today 30% odd, which will go to about 45% over the next three or four years.

Ashish Akudia: And the margin impact on that, will certainly be positive. But each derivative has a very different margin because the end use is different, chemistry is different. So, it's very difficult to say what the margin improvement would be on an overall basis

Jayant Dua: Each product is different and it's not a straight line, which you can do. But clearly, if you see from a negative tonner or chlorine outside market space, the margin accretion is positive.

Chintan Chedda: And how much we sale through pipeline today?

Jayant Dua: We have approximately on an enterprise basis about 15%, which is on the pipeline. We have our own consumption, at about 30 HCL takes another about 12% to 15%. And about 35% to 40% goes through a tonner sales.

Chintan Chedda: My second question is again related to caustic soda. So, along with you there is couple of more players, who are adding capacities very soon in India. So, then how do you see this impact on the overall caustic cycle for the domestic market?

Jayant Dua: Here you will have to go a little bit into the history. And if you look at the last about a four-quarter history, India has been at a discount to CFR SCA for some time. In the month of January, which we will talk about in the next quarter is when they both have come out. And this is a step curve. Any country which will add capacity in any such product will go through a 18-24 month cycle before it normalizes and it comes back. So, as capacities will come up in India, you will see going forward logically excess capacity of production. But again, here the question comes back to your earlier chlorine consumption. It will be the chlorine capacity utilization which will drive the caustic capacity, and not the other way around.

Chintan Chedda: So, probably in first half of FY23 when a lot of capacities come on stream, you could see a weaker second half in FY23, is that the right logical assumption?

Jayant Dua: I think we should not look that far ahead. Particularly with the volatility caustic prices have been going through within a month from a $900 to $475, so my take is yes, fundamentally every time a capacity comes it does create market pressure. But I wouldn't really look that far ahead at this point of time.

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

Prateek Kumar: My first question is on VSF pricing versus cotton. So, the way cotton has risen in terms of pricing, has there been any demand disruption for cotton customer and some of them have moved to us, I mean, maybe not to us, but to some of the other international players, because our export mix seems very less. So, has there been any migration of cotton customers to the VSF in global markets and maybe also in India?

H.K Agarwal: Yes, Prateek, it happens, because when the delta is so much it is natural for textile people to start using more of VSF and optimize or reduce cotton consumption. They can divert, they do divert some spindles from cotton spinning to VSF spinning and also at the fabric stage they can do more blending. So, all kinds of levers are there in the hands of downstream. So, we are seeing very robust use of VSF in India, and also globally. So, it's clearly happening. Now how much I will not be able to give you a precise number, but it does happen, and it is happening.

Prateek Kumar: But volume of VSF at 157,000 tons doesn't look very extraordinary high versus I mean, we are doing 141,150 tons anyway earlier in last year. And with the added capacity also, I mean, in such environment, why industry is not able to sell much more in terms of VSF?

H.K Agarwal: We were selling whatever we could produce. So, that was our constraint. And now since we have already commissioned additional capacity, so we expect to sell more. So, now we have more material to sell and we are able to sell increasingly higher volumes in India, that is our first preference, because then we don't have to incur high shipping cost.

Ashish Adukia: And capacity utilization in both businesses is 90 plus.

Prateek Kumar: So, now we are at like quarterly capacity of around 200,000 odd, so from Q4 onwards we should like model number of volumes, leaving aside some external factors like COVID impact. But number of further 180,000 or 170,000 it should be doable on a quarterly basis.

H.K Agarwal: So, our India VSF capacity has with the commissioning of new lines has reached about 8.1 lakh tonnes. So, on quarterly basis we should expect fairly equal volume, let's say Quarter 1 next year onwards, because this quarter we will be stabilizing the new lines and there will be some teething challenges, but from next quarter we should expect reasonably good increase in the volume, and both of our capacity.

Prateek Kumar: And there is one more thing, given we have capacity constraints and given our cost has increased so much from quarter to quarter, year-on-year. So, what stops us from taking more price hikes to offset our increase in costs because our profitability has halved almost, this VSF segment over two quarters, from around Rs. 40 per kg to Rs. 20 per kg. So, is it import competition because we are largely selling in domestic? So, what prevents us from taking hikes which could offset cost as anyway we are running at very high utilization?

H.K Agarwal: So, there are two factors we keep in mind. If we increase the prices, yes, we can increase to some extent, but then there we are opening the risk of imports from China or from Indonesia. Because after all, everybody can export even after paying the high shipping cost. And then we have to keep our prices in line with the possible landed cost of input. We do charge premium for the domestic supply, just-in-time supply and all those things, but there has to be a reasonable level. If the difference is too wide then we are taking a huge risk of imports.

And second is, if we increase the price then yarn cost will be high and then there is a risk of VFY yarn imports coming. So, that is another lid which restricts our ability to increase the prices beyond a point. So, we have seen that even if when yarn prices are very high, though our prices are not so high, but yarn imports come and ultimately it eats into our demand in India. So, these are the two levers we have to always keep in mind. But we try to maximize our prices as much as possible.

Prateek Kumar: And what would be our premium to import from various countries, in terms of pricing in VSF?

H.K Agarwal: So, roughly about 3% or 2% to 3%.

Ashish Adukia: I think last time, also, we had mentioned that the prices are conversed now.

H.K Agarwal: We try to charge a premium for our quality, for our services, for just-in-time paying and all those things. But we cannot be too greedy.

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

Sumangal Nevatia: First question, just continuing the previous question, on our cost VSF volumes, now this year assuming we will be doing something around 630, 640, now 200KT per quarter, we are looking at somewhere around 25% to 30% volume growth, both in VSF and caustic. Is that the right understanding as a ballpark guidance for FY23, in terms of volume growth for both these businesses?

Ashish Adukia: So, tough to give volume growth. I think it's easy to calculate, when I said that, we are running historically at 90 plus capacity utilization, and we will run our new capacities at that, we should be able to. And the benefit that we have in caustic is that VSF have increased, right. So, caustic will, new capacities has the capability to feed into that as well. And then on the eastern side, there is alumina capacity that have come on back of strong aluminum prices. So, there is market out there. And VSF, I would say Mr. Agarwal has already spoken about.

Sumangal Nevatia: Basically, in terms of ramp up beyond a couple of months, we don't really require a ramp up period that’s the understanding I am getting. And also, we won't face any market constraints to place this quantity of volume in the market. Is that the right understanding of the discussion?

H.K Agarwal: You are right, and domestic market may take some time to catch up and, in the meantime, if there is any surplus we can export, but of course, the netback may be slightly less, because of high shipping costs, but we do not expect serious problem in producing and selling the entire volume.

Sumangal Nevatia: Second question is with respect to the CAPEX. Now we are very close to concluding our existing phase of expansion. Now what sort of CAPEX will be leftover in FY23? And in terms of the paint business also next year, what sort of CAPEX are we looking at?

Ashish Adukia: Yes, so Sumangal, I think right time to discuss that would be in the next quarter, mostly when we would have finished our budgeting etc. I think for FY22, like I said, out of the balanced CAPEX that is there, comfortably will be able to finish well within that approved CAPEX that we have mentioned on the Slide #7.

Moderator: Thank you. The next question is on the line of Bharat Sheth of Quest Investment Advisors. Please go ahead.

Bharat Sheth: Structurally if we have to look at, I mean in this VSF grey business. So, looking at the kind of convergence of import price and domestic price. So, VSF grey as well as VSF yarn, VFY, so how one can really understand that which will be the demand driver, and how the global capacity is, and what level is operating, and there can be say for incrementally the way cotton prices are increasing, and U.S. is putting a pressure from import from China, which is a reflection of our high cotton yarn prices also. So, how, if you can give some color that will be a great help from say two, three years perspective.

So, how much is globally VSF demand is increasing, VSF as well as VFY. Ad simultaneously how much capacity is available and operating at what level and further new capacity which is getting added?

H.K Agarwal: So, on a global basis, CY21 demand for VSF is estimated to be around 6 million tons, capacity is estimated to be around 8.5 million tonnes, so you can calculate the overhang or capacity utilization.

Now, new capacities there were some capacity addition in 2020. In '21 not much and in '22, there have been some announcements, but we have to watch, how much of that comes on the stream. And the demand is expected to grow globally around 4% and in India, the demand is expected to grow at a much higher rate, because India is still not at the high maturity levels in terms of VSF use. So, in India, we have added our capacity about 220,000 tons. So, you can now understand whatever color you want to give to the industry picture.

Bharat Sheth: And how much import is currently in India, I mean? And one is a VSF and second on VFY.

H.K Agarwal: In India, there is not much import.

Ashish Adukia: Yes, negligible.

H.K Agarwal: Yes, not much import. So, statistics are available, yarn is in the range of 80,000 tonners per year. VSF imports are much lower than that.

Ashish Adukia: You have to look at yarn and fiber together, yarn because depending on the prices, yarn is imported.

Jayant Dhobley: VFY, about over two-thirds of the Indian demand as meant to imports, one-third is met essentially by Grasim.

Bharat Sheth: And the value-added product that we are talking, so how is that really playing for the industry?

H.K Agarwal: Value-added products are good for the industry, because then Indian textile value chain becomes that much more, high value adding. And it improves the industry structure and is a reflection of higher aspiration of Indian consumers.

Bharat Sheth: Last question on this caustic soda side. Our capacity is almost increasing by 50% till year 25 from currently 10 lakh ton to 15 lakh ton, is that the correct understanding.

Ashish Adukia: Yes, that's right from 1147 KTPA to 1530 KTPA.

Bharat Sheth: And how much will that be then again now as you explained that to value-added will be 40%, by that time for Grasim. And so, tonner sales and all how much that will be met? And how much will be the way there could be a chances of a negative carried there?

Ashish Adukia: So, let me kind of take a stab at your question. So, see, I think what we are talking about is increasing caustic, right, the capacity increase. On a separate front, we are working on chlorine derivatives also, in each of our location that we are present in, we are working on chlorine derivative. And what we have given as a target in 2025 of 40% to 45% roughly, whatever, is on account of this new derivatives CAPEX that we will put up, which includes CMS, ECH, etc. So, that's really what the plan is. And we are trying to put up both capacities in parallel, so that whenever there is extra chlorine that is getting created, we have some project that is ongoing to absorb that part of that chlorine that is getting generated, because the end of the day we want to avoid tonner movement.

Jayant Dua: And just to add one more reference point, and I am not getting into data with you, the chlorine demand is growing at a faster rate as compared to the caustic demand. So, clearly, you have a positive cycle there relatively.

Jayant Dhobley: One final comment from my side so there is no value-added product in caustic. Caustic is a separate product.The value-added products are only in chlorine, and this serves two purposes, they stop chlorine evacuation and second they serve addition to value as chlorine is sold negative in the market.

Bharat Sheth: And currently our captive is how much and the pipeline that we are talking. So, that will also, we do have a plan to increase those.

Jayant Dua: We are continuously in talks with potential chlorine users,put their plants adjoining to our plants orthey are getting the EC land availability. So, lots of ifs and buts in that, but that's the constant dialogue which goes on with prospective chlorine consumption players.

Moderator: Thank you. The next question is from the line of Yash Jain from Choice Institution Equity Research. Please go ahead.

Abhimanyu Kasliwal: This is Abhimanya Kasliwal from Choice Institutional Equity. Most of my questions were answered. I wanted to ask regarding the CAPEX, if I heard correctly, Rs. 2,604 crore CAPEX was budgeted for this year, and Rs. 1,476 crore was completed. So, roughly upto Rs. 1,150 crores you can say is left for this quarter. I wanted to know and this might be a very bigger question but would this Rs. 1,476 crores include the Rs. 965 crores CAPEX on cement.

Ashish Adukia: No, this is on a standalone basis. So, if I can guide you to the chart on page 7, we cover only standalone businesses of Grasim which is VSF. So, you have the breakup of the balance CAPEX of Rs. 1,128 into VSF, Chlor-alkali, and when I say other businesses, it's basically Epoxy, VFY, Textiles and Insulator which is all part of Grasim. These are smaller businesses of Grasim.

Abhimanya Kasliwal: Since we have roughly Rs. 1,100 crores that we are hoping to complete by this quarter. Are we seeing some kind of traction in that or are they going to be well below budget or what do you see?

Ashish Adukia: So, this is a reflection of our ability to complete our projects at lower costs. So, hopefully we will end the year with lesser amount than the spending that we have given.

Moderator: Thank you. The next question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: Sir, with respect to my earlier question, I had just one addition to that. So, you mentioned that we will be adding the capacities substantially on the value-added VSF side. And in your opening remarks, you also mentioned about the sustainability CAPEX what we have been doing on the VSF side. So, this would help us to bring down our cost of production. So, if you can relate this, some reduction in the cost of production with respect to the slightly lesser realizations in the value-added VAPs because that would be more towards dope-dyed and the other fibers what you mentioned. So, some understanding on this, basically, my question is to understand that let's say some premiums fall for the value-added VSF, how much we can compensate it through the reduction in the cost side?

H.K Agarwal: So, normally, these two things are not fully related. Premium on VAP is a function of market situation. And sometimes we are able to pass on the cost, but many times like recently the cost increase has been much more than we can pass on. And sometime it may be that cost reduce and we don't have to pass on that cost reduction, in the price. And increasing the production will not reduce the cost because we are anywhere operating at almost 95% of almost full capacity. So, it will be a question of which product we produce, and a little bit of debottlenecking or increase in the production, yes, there will be marginally reduction in the cost, but that will be small, not very big thing.

Ashish Adukia: And just to supplement, see, I think if I get the direction of your question, see over a longer or even medium-term horizon so the new capacities and the bottleneck capacities that are coming are our brownfield right, so Vilayat is brownfield and the debottlenecks and the same, so you are not really incurring large CAPEX to achieve those volumes. So, that's where the benefit of mitigating the cost increase or any changes in realization, that's the benefit that you get by reducing the, constantly reducing, in fact every year, we come up with projects where we focus on reduction of cost overall for Grasim including the VSF business through technology, etc.

Now, on the sustainability front that you mentioned, see two, three things, one is sustainability expenditure that you do actually doesn't necessarily lead to only cost. You are able to get premium for your products from your customers because today customers are demanding that product and because you have that background.

Now Livaeco is actually an example where you work on your process, your value chain, your product to create a sustainable, fully sustainable product. And there you clearly get premium over the grey. And the way the premium has to be looked at is not necessarily percentage margin over premium. Generally, the prices of the specialty and VAP products is quite stable and the grey is what moves up and down. So, you have to look at the premiumization of VAP from that perspective.

Nirav Jimudia: But like, since we have been demonstrating a lot of examples in terms of the process intensification by almost like we have debottleneck our capacities by 10% over last six, seven years. So, is it fair to assume that once we utilize these capacities fully, VSF probably FY23 or FY24 that is a different topic. But let's say whenever we will exhaust those capacity, there is a further scope of some debottlenecking, which would probably come at a very lesser CAPEX cost.

Ashish Adukia: We have done that in the past and we will continue to find ways and means to debottleneck and increase the capacities.

Nirav Jimudia: Second question is a bookkeeping question. So, like you mentioned that the performance for the Epoxy this quarter has improved on a YoY basis. So, if you can quantify some percentages, like how much it is improved on a YoY basis that would be helpful.

Ashish Adukia: So, we don't isolate Epoxy and give that figure, so at the end of the day, if you look at Epoxy also it's in a way, a derivative of chlorine right you make ECH and then goes into Epoxy in that way. What has really happened in Epoxy is that the raw material prices of ECH and BPH etc. has been going up. And some of it is getting consumed out of the inventory of the prices that we bought in the past. So, therefore, the cost pressure is coming through because of timing differences, what I had mentioned in my opening remarks. Yes, and the inability to pass on that price at this stage.

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

Prateek Kumar: I have a couple of follow-up questions on caustic segments. So, this coal prices have started to rise again or have risen again after getting some softness which we saw in November, December. So, are there pressure on caustic segment margins again expected to come back or like industry is again say thinking of taking price hike or the price will support the margins in that segment.

Jayant Dua: See, normally there is always a lag between the prices of coal to our consumption, because there is a certain amount of inventory all of us do keep. You are right, the prices did come down, the prices have gone up again. But I think at this point of time, we believe that the caustic prices have reached a point where they are kind of stable. The volatility in Indian market is coming down, and so also in the global market. So, my belief is, it's better to have a more stable pricing than a volatile pricing that we have seen over the last three or four months.

Prateek Kumar: But, I mean, being a very basic commodity what has like particularly has been stabilizing the price as you suggest?

Jayant Dua: Again, it's the demand supply, you see, you have got a very good demand coming from the textile sector. And you got a very good demand coming from the aluminum sector, plus along with your soaps and detergents sector, all these sectors have been doing very high on their own demand cycle, which has led to the stability of demand. And that's where you are seeing the run rate from 85% to 95% across multiple players.

Prateek Kumar: And one last question on the VSF inflation. So, what I mean, is this pulp inflation expected to peak or is it already peak in the third quarter? Or is it more inflation is remaining at Q4?

H.K Agarwal: So, pulp prices off lately have been more stable than other inputs like caustic or coal or sulphur, or zinc. So, coal prices are not going to show much higher volatility in the coming quarter. That is our expectation.

Prateek Kumar: No, I meant what we booked pulp prices have been softening as we have discussed from earlier time, but what we have booked in terms of numbers. So, should we start seeing some softening?

Ashish Adukia: That's the lag effect that we always talked about. So, we get the benefit, or the other way around, the impact of the price is almost four to six months down the line.

H.K Agarwal: This happens mainly because of two factors. One, we follow the index of previous quarter for this quarter supplies from our suppliers. And then there is a long supply chain, it takes almost one and a half months for the pulp to arrive from the origin to destination. And then there is always some inventory. So, there is a gap of almost four, five months from the time of index to our consumption.

Prateek Kumar: So, that's what I was asking. So, as the lower cost inventory started to show up in our numbers, or is it still six months away? Because the price of pulp have been falling for some time?

H.K Agarwal: Yes. So, we are already passed the peak for the time being. If you want a precise answer to your question.

Ashish Adukia: Yes, so peak is behind us.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I will now like to hand the conference over to the management for their closing comments.

Ashish Adukia: Okay, thanks for everyone's participation on the call. We look forward to seeing you again in the next quarter. Please reach out to Saket for any clarifications, queries that you may have on the numbers. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of Grasim Industries. That concludes this conference call. Thank you for joining us and you may now disconnect your lines.