SANMAR

Chemplast Sanmar Limited

Regd Office:
9 Cathedral Road
Chennai 600 086 India
Tel + 91 44 2812 8500
E-mail: csl@sanmargroup.com
www.chemplastsanmar.com
CIN L24230TN1985PLC011637

August 21, 2023

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Scrip Code - 543336	National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex Mumbai – 400 050 Scrip Symbol – CHEMPLASTS

Dear Sir/ Madam,

Sub: Transcripts of the Earnings Conference Call held on August 11, 2023

In continuation to our letter dated August 4, 2023 please find enclosed the transcripts of the Earnings Conference Call held on August 11, 2023.

We request you to take the same on record.

Thanking You,

Yours faithfully,

For CHEMPLAST SANMAR LIMITED

RAMAN MAHADEVAN
Digitally signed by RAMAN MAHADEVAN
Date: 2023.08.21 16:24:53 +05'30'

M RAMAN
Company Secretary and Compliance Officer
Memb No. ACS 6248

"Chemplast Sanmar Limited

Q1 FY '24 Earnings Conference Call"

August 11, 2023

Disclaimer: This document is subject to errors and may or may not contain words which have been included / omitted due to human error while transcribing the conference call. Any and all information should be verified with the company by the reader.

Management:	**Mr. Ramkumar Shankar – Managing Director – Chemplast Sanmar Limited**
	Mr. N Muralidharan – Chief Financial Officer – Chemplast Sanmar Limited
	Dr. Krishna Kumar Rangachari – Deputy Managing Director, Custom Manufactured Chemicals Division – Chemplast Sanmar Limited
Moderator:	**Ms. Shikha Puri – SGA, Investor Relations Advisor**

Moderator: Ladies and gentlemen, good day, and welcome to Chemplast Sanmar Limited Q1 FY '24 Earnings Conference Call.

This conference call may contain forward-looking statements about the company, which are based on belief, opinion and expectation of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ramkumar Shankar, Managing Director, Chemplast Sanmar Limited. Thank you, and over to you, sir.

Ramkumar Shankar: Thank you very much. Good morning, everybody. On behalf of Chemplast Sanmar Limited, I extend a very warm welcome to everyone joining us on our call today.

On this call, we are joined by our CFO, N Muralidharan and Dr. Krishna Kumar Rangachari, Deputy Managing Director of the Custom Manufactured Chemicals division and SGA, our Investor Relations advisor.

I hope everyone has had an opportunity to go through the financial results and investor presentation, which have been uploaded on the stock exchange website and on our company's website.

Q1 FY '24 has been one of the toughest quarters in recent times for Chemplast and the PVC industry in India as a whole. The prices of both Suspension and Speciality Paste PVC were the lowest over the last 8 to 10 quarters. This stemmed mainly from the sluggishness in demand globally and the excessive dumping from China and other geographies into India.

A big positive for the industry, however, has been the strength of the domestic demand for both Suspension and Speciality Paste PVC resin during the quarter. This was evident in the volume growth, both year-on-year and sequential basis. The stock levels as of end July dropped to less than a day's production for both Suspension and Speciality Paste PVC. On the pricing front, we have started observing some positive signs from the latter part of the quarter. The PVC prices bottomed out at the end of Q1 FY '24 and have started recovering from July onwards. This is mainly due to the strong domestic demand, combined with a fall in import arrivals in the latter part of the quarter, consequent on the reduction in operating rates of PVC plants in North-East Asia.

The feedstock prices and energy costs have also corrected in the latter part of the quarter, and this benefit is likely to accrue in Q2 of this financial year.

Talking about our segmental performance: Speciality Paste PVC faced some heat due to continued pricing pressures on account of the challenges that I spoke about earlier. During the quarter, the import prices fell by around 10%, compared to Q4 of FY '23. There is, however, encouraging momentum in prices in Q2, which is expected to continue.

On the Paste PVC volume front, we observed positive trends and saw our sales volume grow by 32% on a year-on-year basis and around 10% on a sequential basis.

The Custom Manufactured Chemicals division continued to perform well and is on track to achieve over 25% revenue growth during the year as against the 10% to 15% guidance given earlier. In case of Suspension PVC, volumes saw a 15% increase on a year-on-year basis and a marginal uptick sequentially. However, the top line decreased by around 30% on a year-on-year basis and around 9% sequentially due to a sharp fall in prices. Prices of Suspension PVC have bottomed out, and we have seen an upward movement start in July and extending into August.

The other chemicals comprising of caustic soda, chloromethanes, hydrogen peroxide and refrigerant gases, registered a 45% de-growth in revenues on a year-on-year basis and sequential basis, mainly due to a drop in volumes and prices of most products in this segment. This business witnessed significant pricing pressures due to a combination of factors including weak demand, excess supply situation in India due to recent capacity additions and the global slowdown. We expect these headwinds in these products to continue for a couple of more quarters.

Against this backdrop, we registered a consolidated top line of Rs. 996 crores, a decline of 13% sequentially with an EBITDA loss of Rs. 35 crores.

Coming to our expansion projects: I am delighted to update that construction of Phase 1 of our custom manufacturing expansion project has been completed on schedule with an investment of around Rs. 300 crores and was dedicated by the Chairman and the Board of Directors yesterday. With two LOIs in place and a strong pipeline of other products, we expect this capacity to reach peak utilization in the next two to three years. Phase 2 of the custom manufacturing expansion project is on track and expected to be commissioned by the end of the year. With these capacities in place and the good traction with our customers, we are well positioned to achieve around Rs. 1,000 crores revenues from this business in the next three to four years.

On the 41,000 tons, Speciality Paste PVC expansion project, we are on schedule to commission the same by the second half of this year. Chemplast is a market leader in this space with a very well-established customer base and this project will further cement our leadership position in this segment.

While there are immediate-term challenges, the demand for our products looks very strong, and there are positive signs emerging on the pricing front as well. These, coupled with softening energy costs augur well for us. We are very confident of all our business' prospects in the medium to long term, and our capital investments will boost our margins and competitive position even further.

With this, I now request our CFO, N Muralidharan, to share the financial highlights for the quarter and the year.

N. Muralidharan: Thank you, Ramkumar and a very good morning to all the participants on the call. Talking about the quarterly performance; given the shift that we have seen in the markets over the recent few quarters, it is more relevant to look at the numbers sequentially rather than on a year-on-year basis.

The revenue from operations declined 13% on a Q-o-Q basis and stood at Rs. 996 crores. This decline was largely on account of lower realizations per ton for all our products. The overall volumes were however stable. The pricing pressure and the lag in the correction in feedstock prices resulted in our gross margins declining from 35% in Q4 FY '23 to 27% in Q1 FY '24.

On the expenses side, both employee cost and other expenses were more or less at the same level as it was during the Q4 FY '23. We have seen a decline in coal and superior kerosene prices at the end of Q1 FY '24. This benefit will accrue to us in the coming quarters.

With a sharp decline in our gross margins, we registered an EBITDA loss of Rs. 35 crores during the quarter. Our finance cost for the quarter stood at Rs. 44 crores, and the net loss for the quarter was at Rs. 64 crores.

With the uptick in both Suspension and Paste PVC price and the softening of energy costs, the outlook for the next quarter looks better. We expect to see a gradual improvement in profitability over the next few quarters, driven both by better margin as well as the impact of the new projects that are getting commissioned.

On the balance sheet front, the company continues to remain healthy with a cash and bank balance of Rs. 1,244 crores on a consolidated basis. We drew Rs. 213 crores of project loans during the quarter for the expansion projects. The company continues to be net cash positive as of end of June '23.

With this, I conclude the presentation and open the floor for further discussion.

Moderator: Thank you very much. First question is from the line of Kruti Karani from Axis Capital. Please go ahead. Kruti, your line is unmuted, please go ahead. As there is no response from the current participant, we'll move to our next question from the line of Jatin Damania from Kotak. Please go ahead.

Jatin Damania: Sir, I just wanted to check because in the opening remarks, we've indicated that because of the imports, there was an excess supply, which led to the sharp decline in the prices. But sir, I mean just wanted to check how is the contribution of the import in months of July and August? And any difference between the imported price and the domestic manufacturing price?

Ramkumar Shankar: Yes. All right. Thank you for that question. Actually, the imports were pretty high during the months of January, February and March and continuing into April, but after that, the imports have started tapering off as cost pressures and other reasons led to plant turnarounds in different parts of the world. Suspension PVC, for instance, the total imports into India in Q4 of last year, that is January-March '23, was around 900,000 tons. That dropped to around 600,000 tons by Q1 of this year.

And this is a significant drop, and that is definitely helping the prices go up. In Paste PVC as well, we see a similar kind of a drop in imports and prices also have improved. The import prices of Suspension PVC have moved up to $900 /mt, they went down to a low of almost $700-725 /mt. They've moved up to $900 /mt and Paste PVC from a low of around $900 /mt have moved up to around $1,100 /mt. So that is a significant uptick there.

Jatin Damania: So, I mean, Mr. Murali indicated that there will be a sequential improvement in the performance coming from the next quarter. So is this just because of the lower cost because -- I mean that if you look on the year-on-year basis, the prices are still down. But sequentially, just because of a 10% increase and the decline in the fuel prices will support our performance? Or how shall we -- one look at the other chemicals and the speciality chemicals at least for FY '24?

Ramkumar Shankar: As far as PVC is concerned, if you take Suspension PVC, since your question was on that, a large part of our margins will come from the delta between PVC and VCM prices. And normally, VCM prices follow PVC prices very closely, whether up or down. It is only that there is always a lag in the impact on feedstock prices, while the finished product price change is affected immediately.

In a constantly falling price market, which was what it was over the last few quarters, this lag usually affects us because there would be an inventory loss as well. However, in a rising price situation, this lag will actually work to our benefit.

And as we go forward, since the price movement has reversed, we expect that this will work to our benefit.

Jatin Damania: And sir, last question from my side on CSM front. Now last quarter, we had given a guidance of Rs. 800 crores over the next three to four years. So are we on track on it? And in terms of the approval from the customers about the two molecules, so can you share the pipeline on the same? Thank you.

Krishna Rangachari: This is Krishna Kumar here. So we are on track with reference to the two molecules for which we have the letter of intent. Those two will, in fact, be manufactured in the new block that was dedicated yesterday. So we are on track.

Moderator: Thank you. Next question is from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead.

Kirtan Mehta: I'll go back to the import situation that you described that Suspension PVC dropped from 900 to 600 kt and Paste PVC has also dropped. Could you give us the import mix of this, how much is from China, how much is from US and other regions?

Ramkumar Shankar: Sure. So in Q4 of last year, the total import of Suspension PVC was almost 900,000 tons, of which 330,000 tons came from China. In Q1 of this year, the total imports were a little over

600,000 tons, of which 164,000 tons came from China. This is on Suspension PVC. And as far Paste PVC is concerned, the total imports in Q4 of last year was 35,000 tons, China was around 12,000 tons in that. In Q1 of this year, the total imports were around 13,500 tons, and China was just about 1,000 tons of that.

Kirtan Mehta: Right. You also mentioned about sort of the reduction in the operating rate of North-East Asia PVC plants. So are these more focused in China? Or are you seeing these shutdowns across different markets? And are they sort of just a maintenance shutdown? Or are there more substantial closures because of the margin dropping?

Ramkumar Shankar: When I say shutdown, it need not necessarily be a complete shutdown. It can also be a turndown of the operating rates. And that is something that is largely in China on the carbide PVC plants, because their economics are very different.

Kirtan Mehta: So with sort of the reduction in the coal prices that we are seeing, would they start becoming a bit more economical for them to restart the plant and do we see that as a risk going forward? Or do we think that the phase of the higher import has passed and now it should be sort of beneficial for us or pricing pressure would be lower for the second half?

Ramkumar Shankar: It is a good question from your side, and that is something that we are always focused on. And in fact, there have been some quantitative restrictions that have been recommended by the Director General of Trade Remedies on lower quality resin coming in from a few geographies, largely from China. But these are yet to be finally notified. And when they are notified, I'm sure that, that threat would be mitigated to a large extent.

Kirtan Mehta: Right, sir. Just 1 last question probably on the custom manufacturing side. You just mentioned that these two molecule LOIs that we are on track. Could we explain the process in which basically the pipeline would move from an LOI to a firm order? And what are the steps involved? And how long does it take basically where we start producing a material volume from the same?

Krishna Rangachari: Yes. So on one of the products, we already have a firm order in place. Obviously, the LOI moved into a commercial order stage. And on the second product, we anticipate the initial order fairly soon. But our plan is that both of them will be -- we will start manufacturing them in the new production block that's been commissioned.

Kirtan Mehta: And in terms of the quantity ramp up, how does this happen from the initial order to sort of the final quantity, how long the cycle is and what are the steps in which it goes up?

Krishna Rangachari: So there will be a ramp-up over the next two to three years before we get to peak utilization. So again, I cannot give you additional details about what the ramp-up would be, but our plan is to get to peak utilization in the next two to three years. And we are fairly confident that we will get there.

Kirtan Mehta: We have just upgraded our guidance from 10% - 15% to 25% volume growth within a quarter or so. So what has actually benefited us which is allowing this guidance to get upgraded? Any color on that front?

Krishna Rangachari: Yes. So majority of that growth or in fact, all of that growth is coming from the fact that we will be commissioning the new production blocks. So it will be new orders being made -- manufactured at the new production block. So the increase is coming from that.

Moderator: Thank you. Next question is from the line of Pranav Muchhala from Reliance General Insurance. Please go ahead.

Pranav Muchhala: Sir, I had a question that we are increasing the capacity and as the capacity is coming on stream, and we are reasonably confident of meeting a decent volume guidance. Considering the price trend that is there and the benefit of coal, which not only we will enjoy, but even China will enjoy, how confident are we that this momentum that is there, a negative momentum in terms of a top line degrowth is here to end? And you don't -- and you see that the adverse spread would not discontinue?

Ramkumar Shankar: Pranav, thanks for that question. See, one good thing is, which I highlighted in my opening comment also is that the demand for both suspension and paste PVC continue to remain very strong in India. And that is a very good sign. The disruptions in prices are largely to do with imports that are coming in mainly from China, and that has started slowing down. And like I said, there are certain measures that are being looked at to discourage that kind of dumping that is going on.

And the prices have also started reversing trend. The demand continues to be healthy, especially in suspension PVC, as we emerge out of the monsoon, there would be a very good demand for PVC going forward as well. Speciality Paste, this is where we are increasing our capacity. Even last year, the demand in India was around 163,000 tons and, the total production in India is not more than 75,000 to 80,000 tons without that new capacity that we are bringing in.

And this year, it is expected to go up by another 10%. Therefore, the demand in India should go closer to the 180,000-ton mark. So, by our coming in with the new capacity, there would really not be too much of an issue in terms of selling the product. This is a product segment, where we are the market leader by a factor of four. So, I think that means our dominance is only going to increase. So, I don't think we will face the problem. And the margins are bound to increase both from the point of view of increasing prices and from dropping energy costs.

Pranav Muchhala: Okay. Sir, one thing which I wanted to also further ask is that, your view on other chemicals, particularly we see all the segments in other chemicals globally under pressure and other competitors also on the street are resorting to price cuts because of the input commodity pressures being under pressure. So over there, what is your view, I wanted to understand what is your particular view in terms of if you could take some time and explain in terms of demand scenario for caustic soda, for refrigerant gases?

Ramkumar Shankar: Yes. So as far as the other chemicals, that's really where a lot of the challenge is right now. Caustic soda, for instance, the prices have been dropping. If you look at the international prices, the CFR Asia prices, they were at around \$740 /mt in June '22. They came down to around \$395 /mt by June '23. So that is the kind of drop-off that you see in caustic prices. The challenge in India is because of the overcapacity that is there, though, some of the capacity that is there is not accompanied by 100% backward integration on the chlorine side. And therefore, they will not be running at full operating rates.

However, that over capacity is still weighing down the prices. And here, while there is some very early signs of stability and slight recovery, I think caustic soda will take a little bit longer to recover. It's not going to recover at the same speed as PVC is recovering right now. The chlorinated solvents is a family of three products, methylene dichloride, chloroform and carbon tetrachloride. Each one of which goes into a different end-use and segment, and that is also challenged by overcapacity in India. And there again, the recovery is likely to happen only after another couple of quarters.

On refrigerant gas, we are a very small player, and we have a very small presence in the market.

Pranav Muchhala: Right, sir. Sir, one more update, which I wanted to understand. There is a big capacity of caustic soda, which has come up in Inner Mongolia. Has that capacity come on stream? And are we seeing more of a pressure because of that globally as well as in India in terms of prices because of that capacity?

Ramkumar Shankar: There is not much of caustic soda that is actually coming in from Inner Mongolia because caustic clearly is a product that is transported 50% is water. It's a 50% solution. So transportation costs play a large role in the overall trade flows. And Inner Mongolia is way up in the North in China, and therefore, to get to a port itself will take a lot of logistics costs and then to put it on the ship and for it to come here will take some costs. So India is actually a net exporter as far as caustic is concerned. So our situation hasn't changed a bit. But then our demand will also hopefully pick up soon, because in most products, India is still a beacon of light in terms of growing demand.

So I expect that it's a matter of a couple of quarters before we start seeing the recovery pick up in that product as well.

Moderator: Thank you. Next question is from the line of Dhruv Muchhal from HDFC Mutual Fund. Please go ahead.

Dhruv Muchhal: Sir, first question was that we are seeing some weakness in agro across, but in terms of new inquiries, new order flows, are you seeing some change, some cautiousness with your customers or that continues to remain strong, for the custom manufacturing?

Krishna Rangachari: This is Krishna here. The pipeline continues to be strong, and our expectation is once we commission this plant and have our customers start visiting us, the pipeline will get even larger as we go along. So we are excited about the opportunity to showcase our manufacturing capabilities over the next few months. And we have various discussions ongoing on this topic. So hopefully, we will have update as we go along in the coming quarters.

Dhruv Muchhal: I understand this is -- there are multiple stages in the CSM that you get R&D -- I mean pilot scale projects and then it converts and the commercializes. So the R&D scale projects that you're -- or the pilot scale projects that you are getting continues to be -- the inquiry levels still remain healthy?

Krishna Rangachari: So the R&D and pilot inquiries, I didn't understand the last part of the question.

Dhruv Muchhal: Yes, the inquiries remain healthy. That is what I'm trying to understand.

Krishna Rangachari: Yes, the enquiries remain healthy and we continue to proactively invest in those capabilities, so that we are ready to meet the increased requirements as we go along. So we look at this holistically. So it's not just about bringing production assets on stream. We are also actively looking at augmenting our capabilities both in the R&D and the scale-up our production.

N. Muralidharan: So Dhruv, compared to last year, , both on the product pipeline as well as on the customer outreach, things have only gone on the positive side.

Dhruv Muchhal: Sir, last question is on the power and fuel cost, if you can give the absolute number for this quarter.

N. Muralidharan : Rs.156 crores is the total power and fuel cost for the quarter.

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

Rohit Nagraj: First question, maybe a little naive one. What is the premium that Paste PVC generally fetches over Suspension PVC? And what has been the premium probably pre-downfall in PVC prices? And what does it stand currently? Thank you.

Ramkumar Shankar: Yes. Good question. Normally, Paste PVC is at a premium of around $200 /mt over Suspension PVC. That is the nature of the product, nature of the market itself. There are, when everything is falling, then that premium could be narrowed. When everything is really positive, like, for instance, in FY21-22, that premium could get even as high as $350 /mt, but the normal differential is between $200 to $250 /mt.

And the strength that we have in the market is what borne out in first quarter of this year when the import prices actually fell from $1,040 /mt in March '23 to around $900 /mt in June, but we kept our prices constant. And we did not follow this down because we believe that, that was not a fair indicator of where Paste prices should be. So that really was an indicator of the strength that we have as the market leader there.

Rohit Nagraj: Sure, sir. That's helpful. Second question is on custom manufacturing. So we had indicated last time that we have about nine molecules currently and additional three molecules, including the two LOIs will be added during this year. Just wanted to get a perspective on what is the mix in terms of, say, domestic and exports out of the current set of products? And in terms of innovator and generic mix, and how do we foresee it once our second phase of the custom manufacturing unit is commissioned? Thank you

Krishna Rangachari: So everything that we make would be for global innovators. So it would all be for markets outside India. So that's one. The domestic mix could be that we would still supply to an innovator to one of their toll-manufacturers in India. So that's possible. But the intent would all be for sale to innovators.

And your second question was on the Phase 2 of the project. That's on track, and so you asked me whether the mix will change for Phase 2. No, that will not change for Phase 2. Our model -- our stated model is to work with innovators as much as possible because we bring significant advantages in terms of focus on safety, health and environmental practices, focus on protecting the intellectual property. And so those are policies and attributes that are well appreciated by the innovators. So I don't see any change in terms of our product mix. All of it will continue to go to innovators.

Rohit Nagraj: Just 1 clarification. From a user segment perspective, all these molecules currently go into agri or there are any other segments? And maybe after, say, three years to five years, whether there will be other than agri opportunities that we are working on and the contribution would be probably higher or 25% maybe three years down the line or four years down the line? Any thoughts on this? Thank you.

Krishna Rangachari: That's a good question. Our intent is to diversify beyond agrochemicals. So our pipeline that we have has a mix of agro, pharma and other fine chemical applications. So as I have stated before, we are fairly agnostic to end market. The model we have is applicable irrespective of end markets. And so we will continue to focus on diversification beyond agro chemicals.

Moderator: Next question is from the line of Bharat Sheth from Quest Invest. Please go ahead.

Bharat Sheth: Can you give us what was the spread of Suspension PVC and Paste PVC in Q1, average? And now currently, with this improvement in pricing, how it is trending as well as, I mean, softening of the input price?

N. Muralidharan: Yes. This is Muralidharan. For the Suspension PVC, the actual PVC - VCM spread that we got in first quarter was around $113 /mt level. It has moved up. Currently, the international spreads themselves have gone up to close to $160 /mt. So post-duty spreads have moved up to almost $200 /mt level currently.

Bharat Sheth: So, both in Paste PVC as well as Suspension PVC, both?

Ramkumar Shankar: Suspension PVC.

N. Muralidharan: As far as the Paste PVC is concerned, we are fairly backward integrated. So we manufacture a significant part of the EDC.. Of course, the contribution levels in Paste PVC have moved up. I'm not talking about spreads here. I'm talking about the total contribution after considering all the variable costs, they themselves have moved up. They are close to around $250 level today.

Bharat Sheth: And sir, when our -- this expanded facility has come on the stream or when is expected to? That total whatever -- I mean we were expanding by -- from 67,000 to additional 33,000 or 35,000?

Ramkumar Shankar: Okay. This is on Paste PVC, so from our current around 66,000- 67,000 tons, the new facility would be another 41,000 tons. And this is expected to be commissioned by around mid-November of this year, and we are on track towards that.

Bharat Sheth: Okay. Great. Sir, now coming back to our custom manufacturing. The kind of I mean traction we are getting as well as -- so how is the current visibility, I mean, pipeline that we have? And how do we perceive in this China-Plus One kind of as well as our chemistry strength, the whole size of -- and how much capex that we can do to expand that further in, say, next 5 to 6 years' time? If you can give a little more color. And when we are saying that in 3 years, we'll peak in utilization. So at that time, what could be the approximately some ballpark revenue that we expect?

N. Muralidharan: So on the revenue part, like Ramkumar had guided earlier, we will be reaching around Rs. 1,000 crores of revenue in the next three to four years. As far as the capex deployment, like we had indicated earlier, this will be our number one area of focus, as far as the capital allocation is concerned. So you would see capital being deployed in this business in the coming years. So while I wouldn't be able to give an exact number on what we would do next, but this is our number one priority in terms of capital allocation, and you would certainly see much more capital being deployed in this business.

Bharat Sheth: One question to Mr. Krishna Kumar. What is our right to win in this business vis-a-vis there are several companies which is lining up for the CDMO business or CMO business?

Krishna Rangachari: Yes. So our right to win is the value systems that we have very clearly articulated and I'll just outline a few of them. One, is that we do not have any intent to compete with our customers. Second, which means that we are willing to make whatever they ask us to make in terms of whether it's an active ingredient. I'm sure you saw the announcement about the fact that we won an active ingredient with one of our customers. So that's an example of where we are openly committed to drawing some very clear boundaries on where we will participate.

We are renowned for our safety stewardship. Again, this is something that I've indicated in the past that is the first criteria that our customers use when they decide to work with the suppliers. Our, again, assurance that we will protect the intellectual property of our customers. An example of that is the fact that a customer is willing to let us make the final molecule itself means that they're assured that we will not do anything with their technology or the information that they share with us.

We have a proven track record of execution and a long history of partnerships with the global originator and innovator companies. And then the last point is from the Chemplast ecosystem, we have this ability to handle not just a wide range of chemistries, but take those chemistries and scale it up in a safe and sustainable manner. And that is the breadth of chemical technologies that we have access to, that we have experience in within the Chemplast ecosystem is something I believe is very unique to us.

And the last is that we also have the benefit and advantage of having facilities with land available for future expansion. And so that's another important aspect that we can put up the production blocks in multiple locations as and when the demand comes and based on our customer requirements.

Bharat Sheth: Okay. One question in connection with that, if you can permit.

Moderator: Sir, please rejoin the queue. Next question is from the line of Tanmay from Mirae Asset. Please go ahead.

Tanmay: Just wanted to understand on the financial position. As of now, can you clarify on the net debt that we have as of June?

N. Muralidharan: Tanmay, you are a little feeble. If I understand correctly, you are asking for the net debt?

Tanmay: Yes.

N. Muralidharan: Net debt, we are slightly net cash positive. Rs. 27 crores net cash positive.

Tanmay: And sir, including the credit lines that we have with the suppliers, if you include that, what would be the position?

N. Muralidharan: Our cash that we carry is around Rs. 1,244 crores. So the term loans that we have is around Rs. 1,216 crores including the project loans that we have taken. On a net cash basis, we are around Rs. 27 crores of net-cash basis. As far as the suppliers are concerned, those are actually regular accounts payable that is ongoing.

Tanmay: Okay. No, sir, I was trying to understand the overall in terms of future capex also if you are looking, what would be the outlook for FY '24 for capex?

N. Muralidharan: FY '24, we have already indicated. For the current financial year, we have talked about the three project investments. One is the Paste PVC project, where we are investing cash. And second is the custom manufacturing Phase 1 and Phase 2, where we are investing cash. These are the 3 projects that are ongoing. And also, we talked about the caustic soda - we are restoring capacity. That will also get completed during this quarter.

In terms of actual cash spend, the cash spend for the year will be around Rs.750 crores for the capex. Part of the capex for these projects we had spent last year and around Rs. 750 crores, we will be spending this year.

Tanmay: Sure, sir. So sir, just in terms of the current situation that we are going through in terms of cash generation overall, and also in terms of the credit lines that we take, considering the higher interest rate, how do you look at the impact for this year and, let's say, the capex plans for the next year as well?

N. Muralidharan: Like Ramkumar was explaining, the Q1 is an exception. We have started seeing things moving up. And you would see positive cash generation coming up in the coming quarters. As far as the existing projects are concerned, like I said, we are already having INR1,244 crores of cash. And we have tied up the necessary financing -- the debt financing, we're broadly doing it on a basis of 60:40. So debt financing is something we have tied up. And whatever is the equity that we need to deploy, we have sufficient capital to deploy from the cash that we are already carrying.

As far as the future projects are concerned, like I said, the primary focus is on the custom manufacturing. And like we had indicated in an earlier call, once we have visibility around 60% for the new block, we'll immediately announce the next block. So the first block that we have commissioned in which we have full visibility. In the second block as well, we have reasonable visibility; once we have 60% visibility, we'll announce the next capex. And the expenditure if any of that will not happen this year. It could happen only by next year or so if we are able to announce that.

So like I said, we will have cash generation from the business, but also we have sufficient cash already in our bank to take care of further expansions.

Moderator: Thank you. Next question is from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.

Chetan Thacker: Sir, just wanted to understand what will be the trajectory for the ROCE for the custom manufacturing business? And how should we see that over the course of the next five years?

N. Muralidharan: The Return on capital employed roughly is around 40%.

Chetan Thacker: This is just purely from the CSM business that I was asking?

N. Muralidharan: I'm only talking about the CSM. I'm not talking EBITDA margin, I'm talking about the return on capital that we get.

Chetan Thacker: This is five years out or four years out, when it's fully utilized?

N. Muralidharan: When we say, the return on capital employed, we do it on a peak scale when we manufacture, what will be the return on capital.

Chetan Thacker: Sure, sure. That is the number that I was looking at.

Moderator: Thank you. Next question is from the line of Kruti Karani from Axis Capital. Please go ahead.

Ankur Periwal: This is Ankur Periwal from Axis. So sir, a couple of questions there. Now one, you mentioned the lower coal prices being there and probably some bit of benefit also in terms of spreads going ahead. Won't the spreads or the PVC prices factor in the coal prices decline?

Ramkumar Shankar: See, the point is that, like I said, the imports coming in from China have also started going down. There are two things that will drive this further. One is a recovery in China. There is some better consumption of PVC. Even the futures prices of PVC in China have moved up. They went down as low as RMB 5,500 per ton. And right now, they are at RMB 6,200 to RMB 6,300 per ton. So there is a better outlook within China on the PVC consumption.

And second, of course, there's a very good demand that is there, that is seen in India. And that is also a factor that is driving the mood up and the price is up. In the US as well, there have been factors related to some shortages in production, and that has resulted in exports out of the US having come down. So the US and China are really the two large exporting geographies. And given what has been happening in both of those places, I think it's auguring well for prices and that's what is driving the upward movement.

Ankur Periwal: Sure, sure. Fair enough. Secondly, on the EDC and VCM prices; till last quarter, we were seeing a sharp rise in them. Any specific reason what was the rise and whether things have normalized now? whether this decline is sustainable or not is where I'm coming from.

Ramkumar Shankar: VCM, it's really a one trick pony. So basically, now 99% of the VCM produced in the world is consumed in the manufacturer of PVC. And therefore, VCM will traditionally follow PVC both up and down. The problem that was there for us over the last two or three quarters really is that since there was a constant fall in prices, PVC kept falling on an immediate basis, whereas the fall in VCM prices is usually after a lag of a month or so, because it takes time for that lower cost VCM to reach us. And therefore, in constantly falling regime, that went against us.

But like I said earlier, when the trend reverses as it is reversing right now, this lag will work to our benefit. So there is no real disconnect between PVC and VCM price direction. EDC is more or less similar, except that EDC is affected being an N minus 2 intermediate, it is affected a little bit by caustic, a little bit by PVC. So it's not as straightforward as VCM is. But there, again, if you look at the CFR Asia prices from around $365 /mt in March, they have fallen to around $260 /mt in July. And EDC prices did fall. And today, the PVC-EDC delta is quite healthy.

Ankur Periwal: Sure, sir. And a question related to that, you did mention there is reduction in plant operations in North-East Asia and collaborating that with the reduction in imports into India from China. Just trying to understand, is it because of the lower supply in China that the imports have reduced? Or is it that the domestic consumption in China has improved and hence, lower imports outside?

Ramkumar Shankar: A combination of both, I would say. And like I just mentioned, the future prices and the spot prices in China has also gone up for PVC over the last couple of months. And that is also an indicator of slightly improving sentiment within China itself.

Moderator: Thank you. Next question is from the line of Amarnath Bhakat from Ministry of Finance of Oman. Please go ahead.

Amarnath Bhakat: I have two set of questions. First of all, as you are saying in your conference call as well as in the presentation that the PVC price trend has reversed. Now how confident you are that this reversal is going to sustain? I know there is an uncertainty, but because of your experience in the business, are you now because the low down is going on from last 8 to 10 quarters, I don't know when last time it has happened like that, are you reasonably certain that this trend is going to stay here? And is there any link with this with the crude oil prices? That's my first question.

Ramkumar Shankar : At the end of the day, there is a link with the crude oil price, a broad link because crude oil, for instance, tomorrow moves up from $80 / barrel or wherever it is today to $140 /barrel, then everything that is a derivative of crude would go up and ethylene is a derivative of crude to a large extent. So that would go up and PVC prices, all the downstream products, would also go up. Largely, there is a linkage there.

But as far as whether this reversal is sustainable, we believe so. We believe that it is also driven by the strong demand that is there and the fact that especially within India, there is not much inventory within the system. And the traditional weak season, which is the monsoon season is ending, and there would be inventory stocking activities ahead of the peak season post the monsoon.

So we believe that this is a trend that is likely to continue. Of course, there is no such thing that it is 100% certain. So we can only say that this is what we believe.

Amarnath Bhakat: That's reasonable assurance from the management side. My second question was relating to this custom manufacturing where you were saying that the addressable market size is around $2 billion. That means you're talking about this $2 billion addressable market size for you as a participant or the entire participants as a whole?

Krishnakumar Rangachari: It's for the entire participants as a whole. It's the market opportunity for India.

Amarnath Bhakat: And how many players currently do you think that are playing for that particular opportunity from India?

Krishnakumar Rangachari: Not many actually, maybe a handful. I would say, from a customer standpoint, they would look at maybe three or four maximum as reliable players.

Amarnath Bhakat: So can we assume -- just to follow-up. Can you assume, so far, I understood from your comments, that there is a reasonable moat around this business. Not everybody can come into this business so easily because of technical collaboration required, because of the relationship with the customer, because of the IP protection issues.

So can we largely assume these three, four players who are currently in the market, clearly, they can dig inside but the entry for the newcomers into this side of the business is literally quite difficult, I'm talking about from India. Now so whatever is the pie size, whether it is $2 billion or maybe China Plus One if it is more, it can go to $3 billion or $4 billion. So these existing players who are already there, they will literally get the higher pie as the size of the opportunity increase.

Ramkumar Shankar: That's a reasonable assumption here. That's correct.

Amarnath Bhakat: Okay. And you say the exit ROCE of this business is around 40%, right?

N. Muralidharan: Yes. That's primarily because the current expansion is a brownfield expansion. It sort of leverages the existing investments that have been made earlier. So that is the reason the current investment ROCE would be around that. So looking at a fresh investment on a steady-state basis what would happen, then it could vary between 30% to 40% if it's a new investment.

Moderator: Sorry to interrupt Mr. Amarnath, may we please request you to rejoin the queue if you have any further queries. Thank you, sir. Next question is from the line of Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: I just have a few questions. So as of now, are we holding any high-cost inventory?

Ramkumar Shankar: Okay. Not much, Jainam. In fact, finished stock inventory is absolutely down to less than a day's production as of end of July. And in terms of others as well, if you look at the ethylene and EDC stocks that are available, then as far as paste PVC is concerned, we would have around 17,000 tons equivalent that we would have. And that is actually a positive in a rising market.

Jainam Ghelani: Okay. And sir, how much quantity of volume will get impacted from North-East Asia due to the shutdown?

Ramkumar Shankar: Look, already, the arrivals from North-East Asia have come down. As I was mentioning, I gave you some numbers of Chinese imports. In Q4 of last year, 333,000 tons of imports came in from China. And in Q1 of this year, it dropped to 164,000 tons. So it was that arrivals that happened in Q4 of last year that impacted the prices in the first quarter of this year. And if you look at Paste PVC as well, in Q4 of last year, there were 12,000 tons that came in. And in Q1 of this year, it is less than 1,000 tons.

Moderator: Thank you. Next question is from the line of Nitin Tiwari from Phillip Capital. Please go ahead.

Nitin Tiwari: Just wanted to have the contribution from CSM business in this quarter's revenue?

N. Muralidharan: Actually, this is a campaign-based business. So the numbers could vary from quarter-to-quarter. We had indicated earlier about a 10% to 15% growth this year. But currently, based on the pipeline that we have, we expect it to be over 25%. As far as the actual numbers are concerned, we would like to discuss it on an annual basis.

Nitin Tiwari: That's fine, sir. I just wanted to have a broad percentage as a percentage of consolidated revenues can indicate because in the previous quarters, you had given a sense that it's around 11% or so, right? So what was the same in this quarter? I just wanted to have the continuation of that.

N. Muralidharan: Like I had indicated, the last quarter was the annual number. So we had talked about the custom manufacturing business. On a quarter-on-quarter basis, because it is campaign based, it will not make sense if we really start giving the numbers on a quarter-on-quarter basis. So we prefer to defer it to the annual numbers when we discuss that. However, we have given the speciality chemicals numbers and custom manufacturing chemicals is part of that, and that's provided in our investor presentation. I would request if you can get guided by that.

Nitin Tiwari: Fair enough. I hope I am still audible. So my second question is around Suspension PVC. So as you indicated that there is a drop in imports, but the domestic demand has been great in the quarter. So if you can just give us a perspective for both India and China market in terms of overall demand, production and with respect to India -- Indian market like how is the market basically bifurcated in terms of domestic production and imported volumes?

Ramkumar Shankar: Suspension PVC, in fact, FY '23, that is 22-23, the market was around 3.7 million tons, and it grew by around 32% over FY '22, which was around 2.8 million tons. There was a lot of pent-up demand after the COVID, two years. And against this, the domestic production is only around 1.5 million tons. So there was an import of around 2.2 million tons last year itself.

Nitin Tiwari: Sorry for the interruption. I was asking more from the perspective of first quarter. What's the demand environment in India and production against getting that demand?

Ramkumar Shankar: I'll come to that. So the first quarter demand in Suspension PVC is around 930,000 tons. And the first quarter domestic production would be around 375,000 tons.

Nitin Tiwari: Right. So rest was imported.

Ramkumar Shankar: Yes, the imports were around 600,000 tons.

Nitin Tiwari: Right. But you also mentioned that the import in the first quarter actually dropped and it was close to, I think, the number you mentioned was -- China was 164,000 tons sorry. Yes, 600,000 total. And sir, can you give a similar number for China as well? What was their total production and their demand, is that possible?

Ramkumar Shankar: I do not have their quarter-to-quarter production and sales numbers. But generally, if you look at the size of their market, they have a total production capacity of around 26 to 27 million tons. And their total market demand is around 21 million tons in a normal year, and that normally grows at around 4% or so. We need to see how the current year pans out.

Moderator: Thank you. Next question is from the line of Aditya Chheda from InCred Asset Management. Please go ahead.

Aditya Chheda: Can you help me with the breakdown of the current gross block and CWIP, which is INR3,700 crores across your businesses? How much of the gross block would be in Paste PVC, Suspension PVC and custom manufacturing?

N. Muralidharan: Aditya this is Muralidharan. I think this is quite detailed. We would be happy to take this offline.

Aditya Chheda: Sure. And if you can help me understand how differently the working capital is for these segments in short, if you can just allow us to understand how the working capital works in these businesses?

N. Muralidharan: Sure. Like I said, Mr. Aditya, these, look like detailed modeling questions, we would be happy to take it offline if it is fine.

Moderator: Thank you. Next question is from the line of Ranjit from IIFL Securities. Please go ahead.

Ranjit: Most of the questions have been answered. Just one update. There was a proposal from the DGTR to have quantitative restrictions on the imports front into India. Is there any update on that front?

Ramkumar Shankar: Yes. This was actually notified by the DGTR on 15th of May 2023. This needs to be finally notified by the Commerce Ministry, and we are awaiting that final notification.

Ranjit: Any indication on the time line?

Ramkumar Shankar: Unfortunately, we don't have an indication on the time line, but I think it is due any time. So it should happen any time.

Ranjit: And how do you view that? Would that put a bit of pressure on the imports into India or if that has already happened?

Ramkumar Shankar: Yes, it would at least bring in a little bit more discipline. That's what we believe. Rampant dumping will not happen. Let me put it that way.

Ranjit: Yes, but that were two classification between the cheap grade and then the higher content of VCM.

Ramkumar Shankar: That's right. The entire purpose is to ensure that the same quality standards that domestic industry are being held to, is applied to imports as well. And I think that is clearly the purpose of this entire exercise.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we will take this as the last question for the day. I would now like to hand the conference over to management for the closing comments.

Ramkumar Shankar: Thank you, ladies and gentlemen, for the interest that you've shown in our company and for your participation in today's call. If you have any further queries, please do contact SGA, our Investor Relations advisor. Good day to everyone.

Moderator: Thank you. On behalf of Chemplast Sanmar Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.