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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 May 17, 2023

In continuation to our letter dated May 12, 2023 please find enclosed the transcripts of the Earnings Conference Call held on May 17, 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: 2023.05.24 17:57:47 +05'30'

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

"Chemplast Sanmar Limited
Q4 FY '23 Earnings Conference Call"
May 17, 2023

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

SGA, Investor Relations Advisor

Moderator: Ladies and gentlemen, good day, and welcome to Chemplast Sanmar Limited Q4 and FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the 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. 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; Dr. Krishna Kumar Rangachari, Deputy Managing Director, Customer 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. During the year, the demand growth for both Paste PVC and Suspension PVC has been very strong. The total demand for Paste PVC in India grew by around 17% to 163,000 metric tons, and the demand for Suspension PVC grew by over 30% to 3.7 million metric tons, exceeding the pre-pandemic levels.

However, pricing has been sluggish during FY22-23. For most part of the year, mainly due to the Zero COVID policies in China, there was excessive dumping of PVC from China into the global market, especially into India, which caused significant pricing pressures until November '22.

This corrected by end of November with the reversal of the Zero COVID policy in China and the expectation that economic activity in that country would go back to normal levels. This, however, did not happen and the trend reversed again from March onwards with price is correcting sharply due to a surge in imports from China once again.

In the January-March quarter alone, the total import of Suspension PVC from China was around 332,000 metric tons, which is more than what was imported in the whole of FY21-22. This has had a severe impact on PVC prices and margins in March, April and May. However, the pace of imports has slowed down in April and is expected to further slowdown in May.

With this backdrop, the quarter gone by has turned out to be marginally better than the previous quarter, largely driven by the Suspension PVC price improvements up to February.

However, on a year-on-year basis, this has been a subdued quarter for the reasons mentioned earlier. In Q4 FY '23, we delivered revenues of INR1,147 crores with a 9.5% EBITDA margin.

Turning to our performance and trends across product categories and segments. In this quarter, our Specialty Chemicals segment witnessed a decline of 6% in the top line, on a quarter-on-quarter basis. This is owing to a decline in volumes. However, for the whole year, the volumes were up by around 6%. In case of Suspension PVC, despite a marginal drop in volumes on a quarter-on-quarter basis, the top line increased by around 7% during the quarter, mainly due to the increase in prices until February. The volumes of Suspension PVC were up 9% in FY '23 as compared to FY '22 on a full year basis, thanks to the successful completion of the debottlenecking exercise earlier this year.

The other chemicals, caustic soda, chloromethane, hydrogen peroxide and the refrigerant gases business registered a 29% drop in revenues on a quarter-on-quarter basis, mainly due to a drop in volumes and prices of most products. This segment was largely affected due to commissioning of new capacities in India. However, this business witnessed a 16% increase in revenues during the year as compared to FY '22. We expect the business to stabilize over the next few quarters as the new capacities settle in.

Our custom manufactured business -- chemicals business has been a silver lining amidst the sluggishness witnessed by the other businesses. Growth in this business continues to be strong with a year-on-year revenue growth of 26% in FY '23.

As you may be aware, last week, we announced that we have signed an LOI for an intermediate with a global agrochemical innovator company. This LOI covers a period of 5 years, including the current year. We anticipate commercial supplies to start from the fourth quarter of FY23-24. This new product will be manufactured in the new multi-purpose production block. In November '22, we had signed another LOI for supply of an advanced intermediate for the new active ingredients.

The combined revenue potential of these 2 LOIs over the period of the contract is around INR800 crores. Based on these LOIs and the strong pipeline of products, we have a very high level of visibility with respect to steady-state capacity utilization of the first phase of expansion that is to be commissioned by the end of the first half of this current year.

Both our capex projects, the 41,000 tons per annum Paste PVC expansion at Cuddalore and the multipurpose blocks at Berigai for the custom manufactured chemicals business are on track. The first phase of the custom manufactured chemicals project is expected to be commissioned by H1 FY '24. The next phase is targeted to complete by March '24. Post the commissioning of both the phases, on a steady state, we are targeting to reach a top line of around INR1,000 crores from this business in the next 3 to 4 years.

The Paste PVC project is also on track to be commissioned in the third quarter of this year. In the short term, while Q4 has been better than Q3, we expect Q1 of FY '24 to be challenging given the drop in prices across the chlorovinyl products, especially PVC. However, this is likely to be a short-term phenomenon and we expect this to change with the expected improvement of economic conditions in China and the stemming of low-priced imports from that country.

The demand for our products is very strong, and the energy costs have started dropping. While there are immediate term challenges, we are optimistic about the business in the long term and our capital investments will boost our margins and competitive position even further.

Now I would request our CFO, Muralidharan, to share the financial highlights for the quarter and the year.

N. Muralidharan: Thank you, Ram, and a very good morning to all the participants on the call. Talking about the quarterly performance, the revenue from operations declined on a year-on-year basis and stood at INR1,147 crores. This decline was largely on account of a combination of lower realizations per ton and drop in volumes for most of our products.

The volumes in Jan-March quarter of previous year were higher, primarily because we were carrying higher inventory in December 2021. However, for the year as a whole, the volumes were higher than the previous year for almost all of our products: Suspension PVC, Paste PVC, caustic soda and hydrogen peroxide.

On the expenses side, other expenses reduced to INR263 crores as against INR300 crores in Q3. This reduction is primarily due to the lower power and fuel costs, which reduced by INR26 crores. EBITDA for the quarter stood at INR97 crores, which was 25% higher than the previous quarter. Our finance cost for the quarter stood at INR38 crores. The PAT was at INR46 crores with a margin of 4%. This was 70% higher than the previous quarter number.

Coming to the full year numbers. Despite a challenging environment this year caused by the turnup in energy prices due to the Russia-Ukraine war, the severe impact on Chinese demand due to their Zero COVID policy for most part of the year and rising interest rates across the globe, we closed the year with a decent performance with a top line of INR4,941 crores and 9.5% EBITDA margin. The revenue from operations declined by 16% as compared to the last year. However, sales volumes of almost all the products were higher on a year-on-year basis.

On the expenses side, other expenses increased from INR860 crores in FY '22 to INR1,114 crores in FY '23. This increase is primarily due to the increase in power and fuel cost by INR193 crores. EBITDA stood at INR468 crores with a margin of 9.5%. Falling prices of finished goods coupled with increase in energy costs have resulted in reduction of EBITDA margin during the year.

Finance costs dropped from INR322 crores in FY '22 to INR154 crores, primarily due to the repayment of NCDs in Chemplast Sanmar using the IPO proceeds and the reduction in interest rate of subsidiary company post the IPO.

Net profit stood at INR152 crores with a margin of 3%. On a consolidated basis, the balance sheet continues to remain healthy, and the company continues to be net cash positive.

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

Moderator: Thank you very much sir. We have the first question from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: I've got a few. First, on this Custom Manufacturing business, we have called out that this will be an INR8 billion opportunity over the next 4 years. What is the similar number, if I can get, for the third molecule, which we have announced for the generic AI? Will it be of an equal size? That's number one.

Number two, how should we see this -- I know you have mentioned that we will reach INR1,000 crores of revenue in the next 3 to 4 years. What does that mean? How many more products do we require? And do you think this capacity will suffice? Or you think it's just a visibility based on the LOIs we have signed and there could be an upside to this number? And these are my 2 questions.

Krishnakumar Rangachari: Okay. This is Krishna. The first question, there are only 2 announcements we have made. There was 1 in November for an LOI for an advanced intermediate for a new molecule. And in February, we said that we were selected as a supplier for a second molecule, and related to that, we announced last week that we have signed an LOI. So the INR800 crores opportunity of these 2 LOIs are linked to only 2 products, not 3 products.

Sanjesh Jain: No, that's clear.

Krishnakumar Rangachari: Sorry?

Sanjesh Jain: No, I got it. I thought it's a new one. You're telling that's a follow-up to the second one, right?

Krishnakumar Rangachari: Exactly. Because last quarter, we announced that we were selected and the logical next step was to work with the customer on getting an agreement in place or a letter of intent in place.

Sanjesh Jain: Got it.

Krishnakumar Rangachari: And on the second question, so these 2 LOIs for the first phase, we have visibility for the capacity that we are putting in place in Phase 1. Steady state, maybe 3 to 4 years, that capacity will be utilized for these 2 products. And as we announced, based on -- in the last quarter, we announced that we are triggering the Phase 2 and that will be commissioned later part of this year. And the product pipeline is strong enough that down the road, we will keep you updated on how the Phase 2 capacity is getting filled up.

Sanjesh Jain: Fair enough. And just to understand this INR800 crores of projects, will it be equally spread over 4 years? Or do you think initially they will be slower and it will be more back-ended supply?

Krishnakumar Rangachari: Yes, it will be slower because I have explained the model in terms of how this works in the past. The first commercial trials would be in the new production block when we commission it towards the end of the first half of this year. And so there will be a ramp-up over the next 2 to 3 years before they get to the steady-state volumes.

Sanjesh Jain: In that sense, what should be the revenue growth expectation in the Custom Manufacturing business for FY '24?

Krishnakumar Rangachari: For FY '24, the revenue growth, majority of it will come from our existing operations. The new block is getting commissioned in the later part of the first half -- towards the end of the first half of this year. And again, these new products, the volumes in the first year will be -- there will be trial volumes and things like that. So there won't be large volumes.

So in spite of that, we anticipate maybe a 10% to 15% growth in revenue in FY '24, but that number will be a lot higher in the following years once the new production block is completely operational, and we have a ramp-up of the volume of the products that we're bringing in.

Sanjesh Jain: Got it. Second, on the stand-alone business, this quarter, the gross profit looks on the lower side considering that there was a significant improvement in the Suspension PVC. I think the Paste PVC would have followed the same. There is a INR70 crores sequential drop in the revenue of the specialty. And our gross profit declined sequentially by INR73 crores. That means that there has been sequentially no improvement in the Paste PVC. Were we sitting on a large inventory on EDC, which has sort of pushed the recovery in the Paste PVC?

Ramkumar Shankar: Not really. It's not a question of inventory, though that did play a small role, but it was more of a question of the prices started reversing like I mentioned in the opening remarks by around March.

So whatever price increases that we rolled out in January, we had to more than give it away in March as the reversal happened. So that clearly hit us badly in terms of both prices and margins towards the end of the quarter. And meanwhile, the feedstock EDC prices, which increased following the increase in January, took some time to reverse.

So normally in a falling market, there is a lag between feedstock and the finished product. In the falling market, it hurts us. In a rising market, it usually helps us. Unfortunately, in this year FY22-23, it has been more of a fall than a rise. So we've only seen the bad impact and not really the good impact.

Sanjesh Jain: Was there more impact on our Paste PVC than the Suspension PVC?

Ramkumar Shankar: The impact for the entire year on Paste PVC...

Sanjesh Jain: No, no. I'm just talking for this quarter, say, from January to March, you can still see the Suspension PVC spread from last quarter going from INR10 to INR18. While in the Paste PVC, it looks like it is more or less flattish.

Ramkumar Shankar: Yes, you're right, in the sense that Suspension PVC margins actually did improve in Q4 as compared to Q3. Paste PVC was impacted by higher EDC prices, like I mentioned.

Sanjesh Jain: Got it. Just last 2 book-keeping questions. One on the commodity volumes, it has fallen very sharply sequentially. Any unusuality there? And the number 2 is on power cost. Is it going to benefit us in the next quarter in a full quarter process because coal prices continues to fall and natural prices are also correcting?

N. Muralidharan: Last quarter, we came off the monsoon season in September. So we were carrying higher stock, which got liquidated. Now at the end of the year, we carried very, very little stock of Suspension PVC. So primarily it is because of the stock movement.

Sanjesh Jain: No, no. I'm talking from the other chemicals, Caustic, chloromethanes and hydrogen peroxide, which has sharply fallen sequentially.

Ramkumar Shankar: See, that could be because of some timing issue on dispatches because we do bulk dispatches by train, especially when it comes to caustic soda. So depending upon when the rake left that could be issues on the timing. But it's not very significant, Sanjesh. It's not that volumes are too significantly impacted because of stock issues.

Sanjesh Jain: Got it. And on the power cost?

Ramkumar Shankar: Power cost has been, as you know, the whole of the year, we've had issues on the power cost.

N Muralidharan: As far as March quarter is concerned, actually, the power cost situation improved. It was, like I mentioned, in the speech as well, it was positive to the extent of INR26 crores. Overall impact of power in the last quarter was around INR26 crores positive, and the trend continues. This year as well, the prices have been softer.

Moderator: Thank you. The next question is from the line of Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: So sir, as we are planning our capex to operationalize in H2 FY '24, both the Paste PVC and second phase of Custom Manufacturing. Sir, when do we expect these capacities to ramp up? Like what would be the utilizations in FY '25 and FY '26?

Ramkumar Shankar: I'll answer for Paste PVC and then I'll request Krishna to take the question on CMC. 41,000 tons per annum capacity of Paste PVC expansion will be commissioned by around November. And we expect that the sale this year should be anywhere between 8,000 to 10,000 tons from the new capacity. And this would be in the last quarter of the year.

The full impact should be seen i.e., we should get close to the 40,000 tons in the next year because usually, these products, the market is there. We have a very well-established customer base being the leader in this market. And we don't see too much of an issue in ramp-up.

Krishnakumar Rangachari: So on the custom manufactured chemicals, so for the Phase 1 capacity, I would see a 2- to 3-year period before we completely utilize the capacity for the 2 products that we have announced. Now it's possible that during the initial years, when we have gaps, we would be filling it in with other products, but that, -- we will work through that as we get more clarity in the coming months.

Jainam Ghelani: Okay. And sir, how much time does it take to get an approval for Custom Manufacturing from a client?

Krishnakumar Rangachari: So the time line is typically anywhere between 12 to 18 months if you have a ready-made asset available to make a product. And I think we are in a position where for many of the products that is in the pipeline, the production block that we are putting in place would be able to accommodate these chemistries. So you can take 12 to 18 as a typical time line from an inquiry to commercialization.

Jainam Ghelani: Okay, sir. So as of now, you said that we've already got clients for the Phase 1, that should be like for us to fully utilize Phase 1 capacity, and we would be looking for newer clients for Phase 2?

Krishnakumar Rangachari: Absolutely, correct. And again, what I was trying to say is, we always worry about steady state capacity because the nature of this business is, there will be a ramp-up in volume on a year-on-year basis because you have initial trial campaigns and then the customer would go to a larger campaign and as they get more comfortable, then they would ramp up and keep increasing the volume up to their, let's say, maximum requirement. So that's the model in this business.

N. Muralidharan : Mr. Ghelani, just to add to what Krishna said, it's not that we'll be looking for new customers for the Phase 2. Like he was explaining earlier, we have a pipeline of products already, and they have to pass through various stages, like the initial lab stage, pilot stage, all of that. So as they pass through and then get commercialized, the Phase 2 will get filled up. So we have reasonable visibility in terms of pipeline, and they have to get actualized as and when these facilities get commissioned.

Jainam Ghelani: And sir, would it be possible to share the FY '23 Custom Manufacturing revenue by any chance?

N. Muralidharan: So we had indicated that it will grow around 30% and the growth was around the same 30% level. We ended up with around INR325 crores.

Moderator: Thank you. We have the next question from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Just continuing on the CSM side, so the new products which we have launched and which will get commercialized or probably the new capacity will get commercialized, let's say, in the coming quarters. How are the margins in these products? And from an RM inflation or a power cost inflation point of view, is there a pass-through arrangement in these as well?

Krishnakumar Rangachari: Yes. So all these products, there is a price formula and the formula links to variable costs, and any escalations in costs would be added to the formula, added to the price so that it will be on a campaign to campaign basis. Those discussions and reconciliations would be done with the customer.

Murali, you want to answer on the margin?

N. Muralidharan: Generally, the product margin in this business is roughly around 40% level. I'm not getting into the EBITDA margin. I'm saying gross margin levels. It varies. Initially, it could be slightly lower, and it could improve as we stabilize the product.

Ankur Periwal: Sure. But directionally, it will be give and take in sync with what we are making currently or it will be better?

N. Muralidharan: Initial period, it could be slightly lower. And then as we move forward, stabilize and ramp up, it will go to those levels.

Ankur Periwal: Sure. Secondly, on the current existing portfolio, my presumption is that these new LOIs that we have signed, a combined revenue of around INR800 crores, is a top-up to the existing business, not an upgrade of the existing to another, right?

Krishnakumar Rangachari: It is the top up. Yes.

Ankur Periwal: And how has been the volumetric growth, let's say, in the last year, FY '23? And what could be the incremental growth one can expect from the current business, which is FY '23?

Krishnakumar Rangachari: So I think this year, we would have ended close to around 1,000 metric tons of production and a very similar number on sales. And as the new production -- and so as I've mentioned in the past, we have sort of maxed out from a capacity standpoint with the existing assets. And as the new production block comes in, so let's say, in Phase 1, probably maybe another 1,000 to 1,400 metric tons would be the capacity from the Phase 1 based on these 2 particular products.

Again, the capacity is very much linked to your product mix and the nature of the product. So the numbers I'm giving for the new production block is linked to these 2 specific molecules. So any other additional molecule or we change the product mix, the capacities could be very different.

N. Muralidharan: Just to add to what Krishna was mentioning actually, like you were saying here what matters is the total revenue that we generate from the capacity. And it could vary depending on the number of steps involved in that particular product. The actual metric ton could vary from year to year.

So what is more important is how is the asset turn, how much are we able to generate. But – just for information to your specific question on what is the metric ton output last year was around 1000 tons and this year, it is at 1,368 tons.

Ankur Periwal: Sure, Murali. So which is where I was getting to that the 10%, 15% odd revenue growth that we are guiding for FY '24 is largely coming from the new capacity, which will get commissioned. The existing one is more or less maxed out.

N. Muralidharan: Correct. Yes.

Ankur Periwal: Sure. Okay. So on the Paste PVC as well as the SPVC side, the volumes have declined on a Q-on-Q basis pretty sharply there. And if I recollect your commentary earlier, Q3, we were entering with a slightly heavy inventory. So 2 questions there. One, are we still carrying slightly elevated inventory currently? And any specific reasons for the Q-on-Q decline here? And how is the outlook there?

Ramkumar Shankar: There is actually not much of an inventory that we are carrying at the end of March. In Suspension PVC, we are carrying something like 3.5 days of production. And Paste PVC, we were carrying around 5 days of production or so. So it is not like we are carrying heavy inventory on the PVC front.

I think quarter-to-quarter is largely also a question of timing, the seasonality and, for instance, in Paste PVC, usually October, December is different, but that could be slight changes between quarters. If you look at it on an annual basis, you would see that our volumes have actually grown significantly in both the products on an annual basis.

In FY '22, Paste PVC sale was 64,838 tons. And in FY '23, it is actually 68,630 tons. And Suspension PVC from a little under 300,000 tons, we have actually sold 325,000 tons in FY '23. So there has been a significant improvement in both on a year-on-year basis.

Ankur Periwal: Sure, sure. And lastly, on book-keeping. If I look at the other overheads on a consol basis, there is a Q-on-Q decline there. Is it largely because of the lower power and fuel cost or some other element here?

N. Muralidharan: No. For the quarter, the drop in other expenses is primarily due to power and fuel cost. They dropped by INR26 crores.

Ankur Periwal: Sure. And the benefit of that should be accrued going ahead in the coming quarters in terms of margins?

N. Muralidharan: Whatever is the other expenses benefit would have flown through this quarter itself. What I also mentioned is we are seeing a further declining trend in the current quarter.

Ankur Periwal: Yes, as we are seeing the further decline only.

Ramkumar Shankar: But ultimately, the recovery is also largely dependent on prices and the recovery in prices. And there, I think China is going to play a very significant role. We did see a very large flood of imports coming in from China on both Suspension and Paste in the quarter, January to March. And that is what has really driven the drop in prices and therefore, the impact on margins.

However, we are seeing some encouraging first signs, April arrivals have been lower and, hopefully, we are expecting that May arrivals would also be low. But we need to wait for a couple of more months before we can see a trend in that.

And obviously, we are also, as an industry, looking at taking whatever -- or making whatever request that we need to do to the regulators to understand how this flood of low-quality, low-priced imports can be stemmed.

Ankur Periwal: Sure, Ram. And the divergence between EDC prices and PVC prices, the China dumping could be the only reason for that. Will that be fair?

Ramkumar Shankar: It is more temporary because this kind of a divergence will not last for too long. It's just a question of a time lag. But in all these cases, normally, when stability in prices is reached, whatever be the level, once stability is reached, margins will restore with a lag of maybe 4 to 6 weeks. I've said this before.

The problem right now in the last maybe 12 months or 14 months has been that, that has not been that stability that's been reached. There has been a constant decline largely driven by this flood of imports from China. So the minute that comes to an end, and generally, in the industry, we believe that we are at that point because it's come to a stage where even within China, it will not be economical, especially for the merchant carbide -- the producers of PVC who buy carbide and make PVC for them, it won't make sense at these levels.

So I think that we are going to see some stability coming in very fast. So we are hopeful that this should get better. But the Q1 of this year is likely to be impacted because of what has happened till about May.

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

Dhruv Muchhal: Sir, in your opening remarks, you mentioned that there were imports of about 332,000 tons. This was for SPVC from China just for the month of Jan to March, is it?

Ramkumar Shankar: That's right. So just to give you some color on that, the imports from China of Suspension PVC during that quarter, January-March quarter, was 332,000 tons. The whole year in 21-22, the import was only 250,000 tons. And before that, in 2021, it was 73,000 tons. So that is giving you some idea about the increase, the sheer impact of the volumes that are flowing in from China in 22-23, and especially towards the last quarter of the year.

But in April, the import from China has dropped from 132,000 tons in March to 63,000 tons in April. So that is what gives us the hope that, there is a reversal of the trend. But we need to wait and see for another month or so before we can establish the trend.

Dhruv Muchhal: But 63,000 is still higher than FY '21, almost similar to FY '21 levels. But yes, I get the point. Sir, the other thing is now -- I think there were earlier some talks that -- so what we understand is Chinese capacities are largely carbide-based capacities where the quality of PVC is not up to the mark. And there were some qualification or quality requirements that -- there were talks about that the government could try to impose them. So any progress on that and which can probably assess the industry?

Ramkumar Shankar: Yes. In fact, last year domestic industry had represented to the government saying that there's a flood of low-quality PVC that is coming in and, obviously, at very low prices. There could be some safeguard measures. We had requested for some safeguard measures. We are awaiting a decision on that. It's expected any time now, a decision on that. We do not know what the decision would be, but we are awaiting a decision. We believe that there has to be some action taken to put an end to low-quality material coming in from China, especially...

Dhruv Muchhal: Got it. And sir, is there any way to understand what -- so of the total volume of imports, what would be the carbide-based products that are coming? And what are the normal EDC or other kind of products that are coming into India?

Ramkumar Shankar: So in 22-23, there were 2.2 million tons of Suspension PVC imports into India, of which 775,000 tons, roughly 1/3, came in from China. And you can take it that almost 90% of what is coming in from China is carbide PVC.

Dhruv Muchhal: Which is of relatively lower quality?

Ramkumar Shankar: Yes. So roughly around 27% of the total imports coming into India are carbide PVC from China.

Dhruv Muchhal: Okay. Perfect. Sure. So the second thing was, now probably a bit early in the cycle but we will be completing the expansion in Paste PVC probably end of the year and the SPVC expansion is almost complete. So what's the next leg of growth in the existing business?

I understand you're growing in the Custom Manufacturing, but any thoughts on the next leg of growth in this business? Probably -- currently, the cycle is not probably very favorable, but we understand these are cycles, these can change. So any thoughts there?

Ramkumar Shankar: Yes. So Suspension PVC, we completed the debottlenecking. So that we did in May last year, and that is the reason why our sales volumes have also gone up in 22-23. As far as Paste PVC is concerned, we have an environmental permit to expand up to 70,000 tons. We have, as the first phase, gone in for a 41,000 ton expansion program, which will be completed by around November this year. And we can go up by another 30,000 tons or so. This is a product where we are the leaders by far.

After the commissioning of this expansion, we would have around 110,000 tons of capacity. And the second -- there is only one other player who will be 1/5 our size in terms of capacity. But in terms of actual production, would possibly be 15% of our size. So we would be a very, very large player here. And given that the market is growing, last year, it grew by around 16% or 17%. So we definitely would be looking at actualizing that environmental permit that we already had. But maybe the decision on that would be taken maybe sometime next year.

Dhruv Muchhal: Because with this expansions, particularly just in Paste PVC, the current market is -- I think in your presentation is, I think, 163,000 tons. And we've -- after this expansion, after this incremental 30,000 tons, probably will be -- itself will be probably 140,000 tons and your other player together. So basically, you'll be controlling all of the domestic market.

So is that a fair understanding? And will it have any implication on -- in terms of the margins that you currently earn? Or -- because I think the product goes across India. Some part -- some of the imports will always remain because of the logistics issues and all those things. So I just wanted to understand it better.

Ramkumar Shankar: Slight correction. Last year's market is 163,000 tons. And this year, by the time we commission it, we expect it to be maybe closer to 180,000 tons or so. And then next year, which would be the first full year of our capacity, we should be closer to 200,000 tons. Once we commission this expansion, we would be at somewhere around 110,000 tons. So that's where we are.

And the other producer, like I said, while the capacity is around 22,000 tons, the usual production is anywhere between 10,000 to 15,000 tons. So there is still a significant gap for imports to come in. And therefore, there would still be a sizable room for our second phase of expansion when we decide on it.

Dhruv Muchhal: Sure. Sir, one quick thing on the CSM side. So I just wanted to understand what is the difference between an LOI -- so there are different terms which are used. What is the difference between LOI, a contract with a customer, an LOI with a customer or some initial interest with the customer? What's the actual difference when you say it's a contract with a customer, when you say it's an LOI with a customer?

Krishnakumar Rangachari: So the letter of intent is actually a non-binding indication from the customer on the volume and the value of the business. And that actually typically forms a basis of drafting a supply agreement. So the next step after the LOI would be a formal supply agreement, where the volumes and the price and everything and the commercial framework of the relationship gets even more structured.

Dhruv Muchhal: Okay. So we should understand most of these -- all these LOIs will eventually get converted to a contract and then you will -- under these contracts, you will start supplying them.

Krishnakumar Rangachari: Exactly, correct. Yes, that's absolutely correct. In fact, on the first LOI, we have already agreed on the commercial framework. So we are just going for the draft of the supply agreement. So that will be formalized over the next month or so.

Dhruv Muchhal: Okay. Got it. And sir, one last thing, sorry. Is -- in the CSM business, CMO business, we have seen across some of your peers the working capital is very high, either it's because of inventory or receivables. The situation on working capital is not very attractive. So what's your thing -- I mean what's your condition here? We've seen, I mean, across players, it's about 150 to 200 days, so -- which overall dilutes the return potential from some of these opportunities. So what's your situation in these contracts?

Krishnakumar Rangachari: I think, working capital, I don't know whether you're looking to a pharma or an agro sort of a business. But in the agro, I don't see that as an issue at all.

Dhruv Muchhal: Okay. So just for your CSM business, what would be the working capital overall, the inventory receivables and payables? If you're splitting it out separately?

N. Muralidharan: Actually, we don't have the specific numbers for CSM business, maybe we can share it with you off-line.

Moderator: Thank you. The next question is from the line of Pranay Gandhi from Green Portfolio. Please go ahead.

Pranay Gandhi: Sir, my question is in regards to Paste PVC, capex at CCVL. I'm under the impression that we could rely 100% on import for VCM feedstock. I just want to understand how the management plans to safeguard the business from price volatility or other issues beyond our control. And do we see any challenges in terms of importing feedstock? Probably, if you could share the countries or the companies on which we rely upon for this?

Ramkumar Shankar: Okay. This is Ramkumar here. As far as the VCM import is concerned, we have been large importers of VCM for the last almost 13 years. From whenever we started the Suspension PVC plant at Cuddalore, we have been importing VCM. We have done over 3 million tons of VCM so far. And even today, we import around 330,000 tons of VCM. So getting the additional 40,000 tons of VCM for the Paste PVC project is not really too much of a stretch for us.

We are pretty much diversified in terms of supply sources. We are not dependent on any 1 geography or any 1 supplier. We have supply sources ranging from Northeast Asia, Southeast Asia, Europe and Middle East. So we do get VCM from all these sources. I would, for interest of confidentiality, not be able to share the exact company names. But I think you can figure out who these companies would be from the geographies that I just mentioned.

And we have also a very good partnership with the leading Japanese trading company, which has the largest trading position in VCM. So we work with them closely as a supply partner, and they are able to bring in their contacts and the logistics that they have built up over many years across many products. And this has worked very well for us.

Pranay Gandhi: Sir, since you also mentioned about the Suspension PVC that we consume VCM, is there any plan or probably even on a piece of paper that we are thinking of having our own captive in-house backward integration that would be planned in near future or probably even in the medium to long term?

Ramkumar Shankar: Yes. So this is a very good question because the market for Suspension PVC in India is huge and growing. It's already at 3.7 million tons. And last year, it grew by 30%. And even if we assume an 8% to 10% growth on a normalized basis going forward, we are talking about almost 1 Suspension PVC plant every year is required.

The issue has always been in India that there has not been enough ethylene available because the key feedstock for making PVC is ethylene, and there is not much merchant ethylene that is available within India. And that is something that we would need to address.

So we are looking at opportunities. We are always on the lookout for opportunities where we can either have a partnership or a virtual partnership for making VCM and thereby capitalizing on the PVC opportunity in India. But as of now, there is no concrete plan that has been finalized. So we will definitely share with our investors any plans once they firm up.

Pranay Gandhi: And sir, just 1 more question about the Custom Manufacturing side. I understand that management has previously refrained from giving any margin guidance. I understand it is due to multiple factors that are beyond our control. But I just wanted to understand, as a profit-making entity, what drives our decision between choosing to manufacture 1 set of products and saying no to others? Profit would always be the reason, but what drives our decision? Or probably, if there is any margin range that you could give that anything over that is something we would consider would be a deciding factor?

Krishnakumar Rangachari: I think the -- what guides our decision is, most of the time, it's either the chemistry or our ability to scale that technology. Typically, most of these products come in with healthy margins and the price formula, it's a very transparent exercise between the customer and suppliers. So the pricing is not the -- I mean it's not the deciding point with respect to whether we want to work with a product with a particular customer.

Pranay Gandhi: Any margin range that you could give for the segment?

Krishnakumar Rangachari: Sorry?

Pranay Gandhi: Any margin range that you could give for this segment since we would be relying on the Custom Manufacturing side to contribute heavily to our margins in the coming years?

N. Muralidharan: On a steady state, like I was mentioning earlier, also that on a steady-state basis, maybe a contribution margin somewhere around 40% is what we target. But of course, initially, as we stabilize the process and then move along the various stages, it could be lower. But on a steady state, this is what we'll sort of expect to target.

Pranay Gandhi: And we are talking about margins, right? EBIT margin?

N. Muralidharan: Yes, not EBITDA margin, we have talked about contribution margin.

Moderator: Thank you. We have the next question from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Sir, just a couple of bookkeeping questions from my side. You mentioned volumes for Paste PVC for FY '23, if you could give us the number again for FY '23 and '22? That's one. And second, what was the absolute power and fuel spend for FY '23?

Ramkumar Shankar: Paste PVC volumes in FY '23, the sales volume was 68,630 tons. And in FY '22, this was 64,838 tons.

N. Muralidharan: On the power and fuel spend for the year as a whole, it was at INR670 crores for both the companies together.

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

Rohit Nagraj: My question -- first question is on the CSM part. So are there any dependency on imported raw material for the products that we are currently manufacturing and for the couple of products for which we have got the LOIs and contract? And a light question to that, do our plants need to undergo audits from our customers if we sign those LOIs?

Krishnakumar Rangachari: Yes. So the raw material, it's both domestic as well as imports. And imports are, again, both from Europe as well as from China, I mean not as high from China, actually. Many of our key raw materials, we get it from India, we get it from Europe, and this is for the current set of products that we are manufacturing. And I see that trend continuing for the new products in the pipeline. Again, as much as possible, our customers also prefer that we source locally. So we try to figure out a way to do that as much as possible.

And the second question was on...

Rohit Nagraj: Audits.

Krishnakumar Rangachari: Yes absolutely. I mean this business, our customers come and audit us on an ongoing basis. The audits are all actually, a majority of the reason is for safety, health and environmental practices. Most of them are HSE audits, as well as for quality as well. But the primary focus of the audits is on SHE practices. So that's ongoing with every customer that we work with.

Rohit Nagraj: Second question is on the R&D. So currently, what is the size of R&D team? How many products are in the pipeline? And this is I'm talking particularly from the Custom Manufacturing perspective. And which are the specific chemistries where we are quite strong? And what are the new chemistries that we're focusing on?

Krishnakumar Rangachari: Sure. R&D is not just chemists, it's also chemical engineers, because R&D is not just about lab development. It's also pilot scale up, process technology, process safety. So our R&D capabilities between the chemists and engineers would be close to around 40, which again keeps growing, and this number would grow over the next 3 to 6 months as our pipeline keeps expanding.

I'll answer the question on chemistry. I mean we are actually agnostic to chemistry in a sense. We are well known for a few chemistries like cyanation, hydrogenation as well as our ability to purify liquid products to a high level of purity.

But that by itself, the chemistries that we are good at does not limit us from working on other chemistries because the more important aspect is the ability to take a particular chemistry and scale it up in large volumes or in commercial scale. And for that, as you're very familiar, the whole Chemplast ecosystem, we handle a wide range of chemicals and we handle a wide range of process technology.

So something that we bring to the table to our customers is to integrate the chemistry capability -- the world-class chemistry development capability with the ability to scale up those chemistries to large volumes. So that's one. And then on the number of products in the pipeline, around anywhere between 10 to 14 is what we are actively working on apart from the ones that we have already commercialized.

Moderator: Thank you. The next question is from the line of Sanjeev Kumar Damani from SKD Consulting. Please go ahead.

Sanjeev Damani: I'm Sanjeev Damani from Ahmedabad. Sir, my simple questions are regarding the understanding of basic PVC. I have heard a lot of words today, basic PVC, Suspension PVC and the PVC manufactured in India by you, DCW, Reliance and some Shriram Group and others. Are they all same or they are quite different? Kindly explain.

Ramkumar Shankar: There are 2 grades of PVC that we talk about. One is Suspension PVC and the other is Paste PVC. Suspension PVC is the larger volume commodity play, which largely goes into making PVC pipes, which in turn go into making -- go into irrigation, drinking water conveyancing and so on. And then you, of course, have a small part that goes into window profiles, door profiles and various other things.

There are 5 producers in the country. Reliance is the largest. We are the second largest. And then you have some of the others you mentioned, DCW and DCM Shriram and then Finolex as well. So a lot of us have manufacturing processes which start at different stages in the value chain. So some -- Reliance, for instance, in part of their capacity is fully integrated. Three of us have lines that start from VCM and so on.

And of course, DCM Shriram based on calcium carbide. So that is our Suspension PVC. Paste PVC is a very specialty grade of PVC that goes into artificial leather, which in turn goes into upholstery, goes into footwear, automobile upholstery, furniture upholstery and the like. And here in India, we are the largest...

Sanjeev Damani: Sir, I understood. So basically, PVC which ultimately comes into the market is of 2 type, 1 is suspension and 1 is base. And all of them make both kind of PVC or you only make suspension or base PVC? All of them make equal -- all sort of varieties?

Ramkumar Shankar: No, no. Five producers for Suspension PVC, only 2 producers for Paste PVC. So we make Paste PVC and Finolex makes a small quantity. That's about it.

Sanjeev Damani: Now coming to next, what are the current trends of our -- pricing of our various products? In the sense that there is a drop in the March, so now is there any improvement right now from that lower level of March, which we have seen in case of PVC? And in other cases also, can you kindly tell us what is the current trend? Are they lower or equal or higher than what it was in March, the selling prices? And do we sell at ex-mill only every time so that a customer at a distance, we don't have to bear the freight? So kindly explain that also.

Ramkumar Shankar: So the prices in Suspension PV C started going down from like I explained in March. They have moved lower in April and then again in the first week of May. After that, in the last 10 days, there has been a little bit of quiet on that front. But it has been going down since March also.

As far as Paste PVC is concerned, after the drop in March that we saw, there has been no further drop. It has been pretty much stable around the March levels since then. There have been drops in caustic soda and chloromethanes, largely because of the additional capacities that have come into the market, like I mentioned in my opening comments. And it will maybe take some time for those additional volumes -- capacities to be sleeved into the market and then we would start seeing the recovery.

Sanjeev Damani: So March -- the today's price of caustic and chlorine is lower than that of March?

Ramkumar Shankar: Yes. Yes. That's why we keep saying that Q1 is expected to be quite challenging.

Moderator: Since the participant has left the queue, we move on to the next question, which is from the line of Nitin Tiwari from Yes Securities.

Nitin Tiwari: And I'm sorry, if you've already answered this. I'm just a little bit lost on the Custom Manufacturing side of the business in terms of the number of molecules we are already processing and the number that we have added in FY '23 and the number we are looking at in terms of addition in FY '24.

So if you could just summarize that and help me understand -- help me by putting things in perspective and what is the capacity we operated in FY '23, the number of molecules we operated upon and the ones we added in FY '23 and the ones we are looking to add in '24 and also in terms of capacity utilization and capacity addition. So that would be the first one.

Krishnakumar Rangachari: Okay. So FY '23, we had a total of 9 molecules that were commercial. This year, we will add -- including the 2 that we have announced, we will add 3 molecules to that mix, so that will take it up to 12. In addition to that, we have another 10 to 11 molecules in the pipeline that we are working on. So I hope that gives you a feel for the number of products. Murali already indicated last year, we produced around...

N. Muralidharan: 1300 metric tons.

Krishnakumar Rangachari: Sorry. 1300 metric tons. And I don't have the exact number for this year, but that would be linked to these 2 new products that we are scheduled to manufacture later this year. We will give you an update on that exact number on what the volume would be. But we anticipate a growth of around 10% -- 10% to 15% growth in turnover when compared to last year.

Nitin Tiwari: So correct me if I'm wrong, sir. In the last call, I suppose you mentioned that the 2 molecules that you are evaluating would each be about 600 tons or so. Is that the right understanding? So that would be the addition in volumes in FY '24?

Krishnakumar Rangachari: No. What I said is that the steady-state volume for the 2 letter of intents that we have signed, it would translate to around 1,000 to 1,400 tons. And so there would be a ramp-up for that volume over the terms of the 5-year period of the letter of intent. So the maximum volume those 2 products as I see now is around 1,400 tons between those 2 products.

Nitin Tiwari: So that would be the steady state per annum volume?

Krishnakumar Rangachari: Yes, that's correct. Yes.

Nitin Tiwari: And lastly, sir, the 1,300 that you mentioned for FY '23, that's part -- that forms part of the specialty chemicals number that's in the presentation in the volume terms?

Krishnakumar Rangachari : That's correct, yes.

Moderator: Thank you. The next question is from the line of Yogesh Tiwari from Arihant Capital Markets Limited. Please go ahead.

Yogesh Tiwari: Yes. So my first question is what was the average PVC price in Q4 and what is the current price for PVC?

N. Muralidharan: The average realization of PVC in Q4 FY '23, that is Suspension PVC, was close to INR85,000. And the current price of PVC is around INR76,000.

Yogesh Tiwari: Okay. And sir, in terms of the custom manufacturing, we have about 11 molecules as you told. So any quantification what would be like the revenue potential in pipeline for the customer -- custom business?

N. Muralidharan: Yes. What we had indicated earlier is that -- if you had seen Ramkumar's speech as well that we have indicated that we will sort of reach around INR1,000 crores of turnover in 3 to 4 years' time. So it will be through a combination of our existing products, the products for which we have signed LOIs as well as the products that are in the pipeline.

Yogesh Tiwari: But sir, any revenue like potential what would come from this in the pipeline? What would be the like addressable revenue potential we can have in the pipeline?

N. Muralidharan: Yes, actually, the pipeline, it will be much higher. We exactly don't want to get into the exact details of what the revenue potential of the pipeline. The pipeline revenue potential will be much higher, obviously. And based on the various stages that they go through in terms of development, we have sort of conservatively estimated at least INR1,000 crores of turnover in the next 3 to 4 years' time.

Yogesh Tiwari: If we're expecting like INR800 crores in the next 4 years, 'much higher' will be more than INR800 crores? That would be like...

N. Muralidharan: As you would appreciate, we have not been giving guidance on numbers. That's exactly why I don't want to get into the exact specifics of what is the potential of the molecules that we have. Hope you would appreciate, please.

Yogesh Tiwari: Sure, sir. Sure. And sir, just to look at the Suspension PVC segment, if I just try to estimate like even FY '24, there might be 1% to 2% volume growth given our capacity we have in Suspension. And if prices remain at current levels, it might decline like 3% to 5% in FY '24. So do you see our Suspension PVC growing as a segment in FY '24?

Ramkumar Shankar: See, the market in India is growing significantly. The demand is growing very fast. Last year, as I mentioned, it grew by around 32%, and we are already at 3.7 million tons. On a per capita basis, the Suspension PVC consumption in India is far lower than even the rest of Asia, leave alone the world. So there is a lot of potential for it to grow.

It's only a question of that the immediate short-term impact of the flood of imports that is coming in that is affecting prices and margins. We believe that this might take another quarter. There will be some pain in Q1, and there will hopefully be some recovery that we will see from maybe around the mid of Q2 onwards.

So I believe that this is a short-term phenomenon, the entire impact of large imports coming in from China. It is not likely to continue over the medium term. The demand continues to be very strong. There is no call to have any doubts about the potential of the Suspension PVC sector in India.

Moderator: Ladies and gentlemen, this would be the last question for today, which is from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead.

Kirtan Mehta: One question in regard to the chlorine and caustic soda plant. I remember at the time of the IPO, we have refurbished the capacities. So what has been the utilization over FY '22 and '23? And what were the production levels?

Ramkumar Shankar: See, the caustic soda plant, just to give you some context, for us is a feeder plant. So what we are more interested in is the chlorine that goes to make EDC, which is an input into Paste PVC. And there is always a constant make or buy decision that we have on EDC, based on the imported EDC cost and actual production of EDC, what will it cost us. And for that, the factors are the cost of power, the realization of caustic soda, the cost of ethylene, the exchange rate and so on.

Based on that, we all the time take this decision whether to buy more EDC or make more EDC. And if we decide to buy more EDC, then to that extent, we will cut back on EDC production and therefore, consequently cut back on caustic production as well. Therefore, that is the context behind our operating rates of the caustic plant. We cannot feed in isolation.

In fact, even internally, we see the caustic plant as a feeder plant either into Paste PVC or into chloromethanes. We have 2 caustic soda plants. One is seen as a satellite of the Paste PVC plant and the other is seen as the satellite of the chloromethanes plant.

Kirtan Mehta: Understood. One more question was about the flood of the PVC inputs that we are seeing in China. I just wanted to understand the drivers that you are assuming for the -- sort of this Paste PVC inflow coming to an end within a quarter. Is it primarily driven by the domestic recovery in China? Or is it more to do with the safeguard duties that will get implemented in India?

Ramkumar Shankar: Right now, the safeguard duties are not implemented. So it is not a question of that impacting the reduction so far. Obviously, when -- if and when that is announced, that would definitely play a major role in stemming the flow of this kind of imports. But right now, the reduction that we've seen in April in Suspension.

And in fact, Paste PVC imports from China fell down in March itself, and it's gone down further in April. That is largely driven more by a slight recovery within China and also some operating rate reductions in the carbide PVC plants, especially those who buy carbide and make PVC on economic grounds. So I think it is a mix of those two. The safeguard duty, etcetera, will come into play only when it is announced.

Kirtan Mehta: Just 1 follow-up. With the coal price sort of coming off after the winter, theoretically, the carbide-based plants' economics should improve. So what is actually sort of driving this? Do you see the economic viability at the carbide plant in your view?

Ramkumar Shankar: The coal prices, actually, if you remember, were not more than $50-60 just about 1 year back. After that, it shot up to $148 and it is now settled at around $110. So while it has come down relative to the peak that is reached, it is still significantly above where it was just about a year back. So I think the economics of carbide PVC are also quite iffy at these level of prices, especially considering freight also has to be added and then there are duties that need to be faced and so on.

So I believe that the purely export-oriented model on carbide PVC at a time when prices are at this level is not really workable. So something has to give. And what usually gives first is the operating rates of these carbide PVC plants.

Moderator: Ladies and gentlemen, as that was the last question for today, I would now like to hand the conference over to Mr. Ramkumar Shankar, Managing Director, for closing comments. Over to you, sir.

Ramkumar Shankar: Thank you, everyone, for joining us today on this earnings call. We appreciate your interest in our company. And if you have any further queries, please do not hesitate to contact SGA, our Investor Relations Advisor. Thank you again and have a good day.

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