



DCM Shriram Limited Q3 & 9M FY'23 Earnings Conference Call January 23, 2023

Siddharth Rangnekar: Thank you. Good afternoon and welcome to DCM Shriram Limited's Q3 & Nine Months FY'23 Earnings Conference Call. Today, we have with us Mr. Ajay Shriram -- Chairman and Senior Managing Director; Mr. Vikram Shriram -- Vice Chairman and Managing Director; Mr. Ajit Shriram -- Joint Managing Director; Mr. K.K. Kaul -- Whole-Time Director; and Mr. Amit Agarwal -- CFO of the company.

We shall commence with remarks from Mr. Ajay Shriram and Mr. Vikram Shriram. Members of the audience will get an opportunity to pose their queries to the management following these comments during the interactive question-and-answer session.

Before we begin, please note that some of the statements made on today's call could be forward-looking in nature and a note to that effect has been included in a conference call invite circulated earlier.

I would now like to invite Mr. Ajay Shriram to give us a Brief Overview. Over to you, sir.

Ajay Shriram: Thank you, Siddharth. Good evening, everyone. Thank you for making the time to join us for our Q3 & Nine Months Financial Year '23 Earnings Conference Call. Before I start, I would like to wish all of you a very happy and healthy 2023.

I will commence with perspectives on Industry Environment and the Strategic Imperatives for us. That will then be followed by Vikram, who will share the Operating and Financial Performance of the Group.

Calendar year 2023 has commenced on a comparatively positive note, with factors impacting global growth, which seem to be abating. China is reopening, the US is seeing milder, though persistent inflation, and the EU is experiencing warmer than normal winter, central banks of leading economies are expected to continue to take interest rates upwards at the lower pace, recession maybe around the corner, although may not be as deep. However, the geopolitical risks continue, and the era of low energy and commodity prices may not come back in the near-term. Given these factors, the operating business environment is expected to be challenging.

Our businesses have been performing consistently through our economic uncertainties despite the pandemic interrupted years. Our continuous investment in scale, integration, innovation and value creation have limited the negative impact of



such volatile operating environments. All our businesses today are self-sustainable and are in investment modes.

Our CAPEX program of about Rs.3,500 crore has now started fructifying with sugar expansion largely commissioned. The 120 MW power project is likely to be commissioned in this quarter and other projects are almost on target and shall make us more resilient to inclement events, while positioning us attractively for value creating growth. With this round of CAPEX nearing completion, we are actively looking at opportunities in related and adjacent businesses to foster future growth.

While we are actively pursuing further growth, we are taking steps to ensure that it is backed by sustainability initiatives to increase use of green energy, resource conservation, and circular economy. We already are 11 times water-positive and 36% of the total energy consumed in our operations is green.

With that, I would like to walk you through perspectives on our various businesses.

Chemicals:

Global capacity utilization in chlor-alkali is at a lower level given higher energy costs and moderation in construction activities. No major capacities are getting added globally in the near-term other than in India, which will keep the global demand/supply balance over the medium-term. In domestic market, there is surplus led by capacity additions of nearly 1 million tons during this year. Despite the challenges, our plants are operating at over 90% capacity utilization. Domestic surplus along with global demand pressure, is putting pressure on caustic soda prices. Import prices retreated to \$650 per MT towards quarter-end after crossing \$700 per MT in October 2022.

India stepped up exports; with nine months financial year '23 net exports at 2.06 lakh tons as against 0.02 lakh tons in the same period last year. As the energy prices have stayed elevated, we have moved to 40% grid power to mitigate the impact.

We are committed to bringing down the cost of power with our proposed new 120 MW power plant and 50 MW green power. Today, we are the highest hydrogen selling complex in India, with daily volumes of approximately 2 lakh cubic meters.

Overall operating margins are reasonable, although they are off from the historic peaks. Plans to leverage other value creating chemistries, including commissioning of our epichlorohydrin and hydrogen peroxide during the subsequent financial year, will catalyze the performance of the business and multiple revenue streams will make it more resilient.

Vinyl:

Recession fears and high inflation has led to negative demand sentiment in the construction and housing sectors globally, and in turn has impacted the PVC demand and the global prices. China continues to push its production into India and government's decision on anti-dumping duty and customs duty on PVC are still awaited. PVC prices appear to have bottomed out. Domestic demand is strong,



and investments being stepped up in home construction, automotive and piped water segments.

We have been able to reduce the cost of power at our Kota Complex. The significant jump in use of biomass to 20% from 11% of the fuel mix, which is also helping reduce the carbon footprint. Even though vinyl business margins are under pressure, they are expected to improve with the expected correction in prices.

Sugar:

Globally, sugar output and consumption have been balanced in the last couple of years with a surplus or deficit of 1 or 2 million tons. India has become an active participant in the global trade flows. Government has allocated a quota of 6 MMT for current year, which most of it has been almost tied up. With India production estimated at 36 million tons, Industry is expecting additional export quotas. International sugar prices have been firm. Domestic sugar prices have not offset the increase in SAP in the last season. The UP sugar industry needs a balanced government policy for sugar export, as well as cane juice-based ethanol to remove regional imbalances. We started crushing operations in November 2022 and the crop is looking good. Our domestic releases have been better this season and we have tied up our entire exports quota allotted to us with approximately 51% already executed. Our projects for sugar expansion at Ajbapur and conversion of Hariawan and Ajbapur plants to refined sugar and the 120 kilo liters per day distillery have been successfully commissioned. Our grain-based 120 kilo liters per day distillery will also get commissioned shortly. The K₂SO₄ project to capture value from distillery ash is another project in circular economy and is running on track.

Agri Inputs businesses:

Our Agri Inputs businesses comprise of Shriram Farm Solutions, Bioseed and Fertilizers.

Shriram Farm Solutions has continued to make inroads in the wheat seed market with its leadership position. Our focus on such research-backed offerings in seeds, as well as plant nutrition and crop care, together with stronger brand and distribution is working in our favor. Plans to produce water soluble fertilizers and biologicals are on track, and will be commissioned by Q4 financial year 24. Our manufacturing of biologicals-based agri inputs, is our conscious choice to promote sustainable and organic farming.

Bioseed has fared well during the rabi season with growth witnessed across corn, paddy and vegetables. The product pipeline is strong, and we believe that this business should turn around over a period of one or two years.

The fertilizer business has seen a strong rise in prices on the back of higher gas prices. The gas prices went up by almost 90% to \$24 per million BTU and these are a pass-through. The government has favorably revised energy norms w.e.f. October 1, 2020. Subsidy outstanding as on December 31, 2022 stood at Rs.461 crore as compared to Rs.450 crore in the same period last year. The industry is comfortably placed on this account as the government of India has doubled overall subsidy budget to Rs.2.2 lakh crore for this year.

Fenesta:



Fenesta continues to record strong growth. We have seen healthy volumes as well as margin gains. This business will grow rapidly through new products portfolios, where we are already adding facades, a wider geographical presence in domestic and international markets, a better product range and higher service quality, order booking has sustained at a healthy level.

We are making good progress across outlined initiatives on growth and sustainability. These programs will strengthen businesses in case of volatility in coming years as well as place us better on the value growth curve. Greater emphasis is being put on sustainability of businesses, driving further benefits as we will build scale in selected businesses.

With that I will now request Vikram to take forward the Discussion with the Views on the Operating and Financial Performance. Vikram, over to you.

Vikram Shriram:

Thank you. Good afternoon, everyone. We will now go through the financial highlights of the results of Q3 & Nine Months Financial year '23.

The net revenues net of excise duty in this quarter were up 19% year-on-year, at Rs.3,236 crore.

The Chlor-Alkali business revenues were up 3% year-on-year at Rs.757 crore. Capacity utilization levels were at 86%, primarily due to maintenance shutdown in the month of December at Bharuch which is now currently operating at over 90% after the shutdown.

Vinyl revenues declined by 33% year-on-year at Rs.204 crore on account of lower prices which are now recovering. PVC prices were down by 42% year-on-year and carbide prices were down 32% year-on-year. Product volumes were better.

Sugar:

Sugar business revenues net of excise duty were up 29% year-on-year at Rs.728 crore with better sales volume of sugar led by higher domestic releases and exports

Ethanol sales volumes were lower at 231 lakh litres versus 267 lakh litres. In terms of production, sugar production was lower at 16.5 lakh versus 17.4 lakh quintals, since 42 lakh quintals of sugarcane crush this year is on B-heavy instead of C-heavy molasses last year, and therefore more ethanol. Ethanol production was higher at 840 lakh litres versus 733 lakh litres for the nine months.

Agri inputs:

In the agri inputs, all businesses reported strong revenue.

SFS increased 15% year-on-year at Rs.512 crore witnessing better price realizations and product mix.

Bioseed increased 34% year-on-year at Rs.107 crore, mainly attributed to volume growth across verticals in rabi crops. Both India and international businesses reported growth of 42% and 18% year-on-year respectively.



Fertilizer saw a 78% year-on-year increase in revenues at Rs.652 crore, driven by higher gas prices, which is a pass-through and higher volume. Natural gas prices for the Q3 financial year '23 were at \$24 per million BTU, up almost 90%

Fenesta:

Fenesta delivered revenues of Rs.178 crore, an increase of 31% year-on-year, led by higher volumes both in projects and retail segments. The order book increased 11% year-on-year.

Coming to Profitability in Q3 Financial Year '23:

PBDIT stood at Rs.588 crore, down by 4%. Chemicals PBDIT at Rs.218 crore versus Rs.286 crore during Q3 financial year '22, led by higher power costs despite marginally better ECUs. Cost of production continues to remain elevated especially in Bharuch where we are dependent on imported coal.

Vinyl PBDIT was at Rs.19 crore versus Rs.125 crore during the same period last year, due to significantly lower realization.

PVC and carbide prices have recovered since November '22 and costs have taken a breather with better fuel mix wherein we have been able to utilize more of biomass as fuel for our power plants in Kota.

Sugar business PBDIT stood at Rs.108 crore, seeing a decline of 18% year-on-year, as sugar prices were marginally lower, and increase in SAP last year has not been fully compensated in sugar prices. Higher volumes of sugar partially mitigated this impact.

Agri Inputs business reported better numbers for the reasons stated above and better margins. Also, the government revised energy norms in fertilizer business retrospectively having a positive impact of Rs.49 crore and bioseed business which had inventory provisions last year were not there this year.

Fenesta PBDIT at Rs.40 crore, registered a growth of 87% year-on-year led by higher volumes and margins in both segments.

Nine months financial year '23 net revenues net of excise duty were up 29% year-on-year at Rs.8,827 crore and PBDIT increased by 11% year-on-year to Rs.1,354 crore. Growth was seen across most business segments other than vinyl, with some businesses like Fenesta and Farm Solutions growing more aggressively.

With healthy cash flows across our businesses, our debt levels remain at comfortable levels despite the continuing CAPEX. The surplus net of debt as on 31st December 2022 was at Rs.101 crore versus net debt of Rs.4 crore on 31st March '22. Return on capital employed for December '22 was higher at 34% versus 29% for December '21.

The Board has recommended an interim dividend of 290% amounting to Rs.90.5 crore in the recent board meeting. Total dividend including Q2 is 520% amounting to Rs.162 crore.



Despite the uncertain macro scenario, and slightly elevated costs, we have performed well. We aspire to grow aggressively, maintain a healthy balance sheet and strong cash flows. We will now take questions that you may have. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Ahmed Madha from Unifi Capital. Please go ahead.

Ahmed Madha: First question is on the Farm Solutions business. We have executed very well in the current season. So, can you throw some light on what has helped the margin expansion in this business from 21% to 28%? And, most importantly, how sustainable is that going into the next season next year?

Ajay Shriram: I think the Farm Solutions business because of the sourcing of the seeds, as well as from the point of view of having the spread of the markets, that they have been able to maintain their margins. They've also been through a little overhaul of the distribution network, which also helped in terms of streamlining that a little bit. But, a lot of this depends also on what is the competitive environment, what is the monsoon situation, what is supply and demand? So I think it's a mix of many parameters, which ultimately affect the margins which come in on any business for that matter, even in this business. But I think we have a good product, we have a good line, so I think we should be able to maintain our margins fairly okay.

Ahmed Madha: On the sugar side, what is the quota for exports this season and how much we have exported so far?

Amit Agarwal: The quota for exports what we got was 10.6 lakh quintals. We have executed 50% of that. But we have contracted the entire thing; we will export the entire thing by March.

Ahmed Madha: At what realization?

Amit Agarwal: Realization was around 3,900.

Ahmed Madha: On the ethanol side, you've written that there is some inventory of ethanol there. So, is it fair to expect that we will be able to clear the inventory in Q4?

Amit Agarwal: Yes, because these are timing differences depending on how the tender has gone and what you produced. This will get evened out in next quarter.

Ahmed Madha: What was the mix of ethanol this quarter between direct use and B heavy?

Amit Agarwal: Largely, it is through B heavy

Ahmed Madha: The third question is on the caustic side. There is some softening in the prices globally, and even if we look at from say, October to November, there is significant decline in the prices and as of today in January the prices are much lower than the realizations were in Q3. So, do you expect any decline in profitability in caustic or we'll be maintaining the margins because the coal price have also declined, so, how should we move forward in the caustic business?

Ajay Shriram: I think there are two parameters which impact this. One is what is the international price of caustic soda. That has an impact because people are open to import anything what they want, whenever they want. I think the second thing the industry



has done well is actually boosted exports of caustic soda. That has helped. As I mentioned earlier also that there is a surplus of caustic and new capacity is coming. So industry is aware of that. So industry is moving aggressively to export and that is one way to balance out the availability in the domestic market. So I think considering that, there should be a balance, but ultimately we have to realize the caustic soda is a commodity. It moves up and down. Compared to a year ago, the prices have come down, but a year ago, the prices are much higher than what they were two years ago. So I think these are commodities move up and down, but I think the industry attempt is to keep it at a balance and not let it go down too much.

Amit Agarwal: I would just like to add, the levels that we've seen both in caustic and in PVC, where for last couple of quarters we saw margins as high as 40%. Now, these are I would say abnormal margins. Normal margins are in the range of 25% to 30%. And I feel that we should be able to sustain those kind of margins. Yes, PVC today is a little lower, but on an average, we should be at around 25%.

Ahmed Madha: One more question on the number side is that the tax rate has been very high for the last few quarters. In the earlier call, you guided that from FY'24 MAT credit will be utilized, and we'll be moving to 25% tax regime. So, how should we look at the reported tax rate going forward, and How much MAT credit is still left on the books?

Amit Agarwal: The MAT credit that is left in the books currently is around Rs.53 crore, which we should exhaust in the current financial year. Next year, we will have to see whether we move to the new tax regime or not. So, we will take the call on a regular basis, we review the position, and then we decide. See. net-net, we want to see that the cash flow is low. If we see currently we are paying outflow is equivalent to MAT. We ensure that we keep it low.

Moderator: The next question is on the line of Pratiksha from Aequitas Investments. Please go ahead.

Pratiksha: My question was the news about China opening up. How do we see demand/supply playing out for caustic and PVC and mainly, we've been seeing that there's an increased participation from China. So how does that impact the supply side, if you could share your opinion on that?

Ajay Shriram: I think briefly with China opening up again, what's going to happen is that the trade with China is going to go up. As I mentioned earlier that China is dumping virtually PVC into India. So that we've taken up with the government separately to impose some duties that will balance that part out. But I think as the Chinese economy pick up, then the demand overall for many products will pick up, which will actually impact and make sure that India's chance to export also goes up a little bit. So that's going to be an advantage for us.

Pratiksha: How's chlorine prices been for the whole of last quarter, and if you could highlight the prices in December and January so far?

Amit Agarwal: Chlorine prices are improving. Our Q3 was almost negative 10,000 and now they're improving. So, yes, we should see improvement in January and February.

Pratiksha: But it's still negative as of now?



- Amit Agarwal:** It is still negative.
- Pratiksha:** Thirdly, we expect that ECH plant to be commissioned in first half of next year FY'24. So, how is the pricing on that front and do we really still to be able to ramp this up as per our original plan?
- Amit Agarwal:** See, you need to look at investment from a medium-term to long-term perspective. The reason why we have put up ECH is that we see epoxy market growing and the epoxy derivative growing and ECH is the key raw material to epoxy. So yes, there is pressure on prices currently in ECH. But in the medium-term, we do see the market picking up and it is going to be an attractive play, that is point number one. In terms of ramping up, see, it takes time to ramp up in ECH plant because the product has to be qualified with the users, which takes one or two months or maybe three months domestically and internationally, it can take anywhere between nine months approximately. So, the ramp up will happen accordingly. So, it will take some time to ramp up the project. This was all factored in when we had planned this project.
- Pratiksha:** My next question is this time we have said that we have some unsold inventory on ethanol front, significantly higher as compared to last year. Any particular reason why we have such big inventory built up?
- Amit Agarwal:** These are timing differences, Pratiksha, because the way tender has been put up and way the supplies have to be made, but net-net it's all get squared off over a period of one to two quarters.
- Pratiksha:** And lastly, on Fenesta front, I think nine months, we've almost had margin improvement of 700 basis points to 800 basis points. So are these margins sustainable or what is a sustainable margin for this business?
- Amit Agarwal:** See, sustainable margins will be a function of what kind of product mix that we are having and we are going to launch. But, we are pretty confident to maintain the EBITDA margins in the range of 15% to 20%, because also as the scale going up, it has its impact on EBITDA, so, we should see those margins in that range going forward.
- Pratiksha:** Typically, with the expansion we have in mind in this division, what is the growth rate that we target in medium-term, I am just asking from a mid-term perspective, not really for a couple of quarters or something?
- Amit Agarwal:** Fenesta should grow in the range of around 25%-plus year-on-year.
- Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor:** Thank you for this opportunity, Sir. It was indeed a very elaborate presentation. Your opening commentary serves the purpose for which the call is being made. Thank you for working for us – the analysts and investors and doing a lot for us with the type of inputs we get from the size of the company DCM is. So, kudos to the team.

Sir, if we take the CAPEX part first, we are spending around Rs.2,800 crore worth of projects are on track and I think the total CAPEX is Rs.3,500 crore that we have



envisaged. So, how much have been spent for the nine months and what would be the CAPEX target for the coming year and when this entire thing will get consummated and post that CAPEX how would be the revenue profile for the various verticals?

- Amit Agarwal:** See, in chemicals we have spent close to about Rs.1,250-odd crore and in sugar as I said it's almost complete, so the sugar CAPEX was close to about Rs.550 crore, we have spent close to about Rs.500 crore already in sugar as well. So, that's the kind of a number that's already been spent, that's point #1. In terms of revenue, see, as I mentioned a while back, the ramp up will take time. Our capacity utilization in this first year in the chemicals business should be a ballpark of around 50% and then it should get ramped over year two, year three.
- Saket Kapoor:** For the chemicals, can you give a breakup, is the entire contribution of Rs.1,250 crore towards the caustic part?
- Amit Agarwal:** Can you be a bit louder with your question please?
- Saket Kapoor:** Sir, for Rs.1,250 crore on the chemicals segment, where have we spent, the breakup if you could provide?
- Amit Agarwal:** I don't have it right away, sorry. I will send it across to you.
- Saket Kapoor:** Mr. Amit, you spoke about the chlorine negative being lower than what the December averages were. So, can you give some color in the vicinity what have from 10,000 negative, whether it is 6,000 or 9,000?
- Amit Agarwal:** It's below 5,000 now.
- Saket Kapoor:** Sir, I think in the geographies also there is a variation, north does not command that much of a negative for chlorine as the west is. So, you are giving the average for both the regions, Kota and Bharuch, how to take this number?
- Amit Agarwal:** See, Kota, almost 30%, 35% gets consumed inhouse. And that's a smaller complex, the larger complex is Bharuch. So, I'm giving you Bharuch numbers.
- Saket Kapoor:** A if we take this Slide #16, sir, the ECU realization mentioned here for December is at 38,628, and our averages for the December quarter were higher of 43,000. So, there was a further correction that has happened, that is the further negative of chlorine that is factored in here for the ECU being at 38,700, 40,000 levels.
- Amit Agarwal:** So, this is primarily because of lye prices coming down.
- Saket Kapoor:** Come again, sir.
- Amit Agarwal:** This is primarily because of lye prices coming down, caustic soda prices coming down.
- Saket Kapoor:** Sir, net-off, sir the realization, if we take the ECU realization for say December onwards, they are below the 40,000 number, sir.
- Amit Agarwal:** Yes. So, they are around December levels.



- Saket Kapoor:** I was just pointing out to 38,628 that if you could explain from this 38,628 number where are we, northward or southward?
- Amit Agarwal:** So, see, in our kind of business it is difficult to give you the exact number. As I said, it is range bound plus minus 1000.
- Saket Kapoor:** And again, on Slide #17, has been mentioned that oversupply due to new capacities and lower demand, lower than expected exports. Sir, as you mentioned that there has been a good kick in the amount of export that has happened when a comparative number is there, so what are you trying to explain us when he mentioned lower than expected export?
- Amit Agarwal:** So, see, we had had good exports in the first 2 quarters. However, in Q3, the exports have been less than what we expected for the growth, that we expected was much more. This is more of a market condition. And what's happening is that with China opening up, I won't say so much of opening up because China manufacturers caustic more in its northern provinces where the production did not take a hit, right? And they were actually increasing production and pushing their production in the European countries, right, and Southeast Asian countries and which led to lower-than-expected exports in Q3.
- Saket Kapoor:** Sir, I missed your last statement.
- Amit Agarwal:** I'm saying in first 2 quarters, they were good amount of exports. In Q3, the quantum of exports from the country has been lower than what was expected, what we expected we can export as an industry, it was lower than that.
- Saket Kapoor:** And what is the contracted volume, sir? Earlier, I think so you were giving us some idea of how from the best quarter, what was the contracted volume for a quarter or 2 quarters?
- Amit Agarwal:** Numbers are mentioned is Slide #17 on the industry overview section.
- Saket Kapoor:** I have to look at the same. Sir, if we take the correlation for the vinyl and the caustic part, as mentioned that as the chlorine consumption improves, it will add to the ECU realization. So, going ahead, do we see stabilization in both the caustic as well as the vinyl business and the volatility that one or the other has experienced over the last 3 to 4 quarters is now subsiding? Is this a good assumption going ahead?
- Amit Agarwal:** Saket, it's difficult given the macro environment, both the geopolitical environment, the COVID fears, there are supply chain disruptions, the climate impact, I think it's very difficult to give an estimate as to how things will pan out. Yes, there is a correlation. At times, this correlation doesn't work also if there are supply chain disruptions. I think it's an open field. But yes, we do expect as I've mentioned, we are operating at 90% capacity utilization, both in our caustic as well as in our PVC, and we expect that we should continue to operate at those levels.
- Moderator:** The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

- Rohit Nagraj:** So, the first question is on PVC, I might have missed the comment earlier during the initial remarks. So, whether the Chinese supplies have been curtailed or the dumping has stopped as per our assessment?
- Ajay Shriram:** No, that has not happened. Until about 6 months ago, there was anti-dumping duty, which is applicable on any PVC coming in from China. Unfortunately, that anti-dumping duty time period expired. So, industry has taken it up again with the ministry saying please bring anti-dumping duty against China because they are dumping at a much lower price than the international prices also and that is affecting the Indian manufacturers. So, this issue is in discussion with the government.
- Rohit Nagraj:** Sir, second question is on the epichlorohydrin. And there is another competitor who has already put up the capacity, we are also putting up the capacity. However, the domestic demand is maybe 60% of the total capacity. So, what are our plans in terms of utilizing this incremental capacity? Are we looking at exports market and have we thought about it? How are we going to utilize it? Thank you.
- Ajay Shriram:** Amit?
- Amit Agarwal:** See, once the total domestic demand is about 80 kilotons per annum and capacities you just talked about one capacity which already come in and the capacity that we are putting up will add up to close to about 100 kilotons per annum, right? But then, historically it has all been imports. So, then it takes time for imports to get substituted. And till that time, yes, there will be a mix of exports as well. And we do have a cost advantage on ECH in terms of chlorine which is either negative or negligible. So, we will also look at both options of exports and domestic.
- Rohit Nagraj:** Sir, just one last clarification again, I might have missed out in the initial comments. On the caustic front, any particular user segments which have seen demand contraction for the caustics because of which the ECU has declined apart from chlorine negative realizations?
- Ajay Shriram:** No, I don't think that's happened. There is I don't think anyone has really reduced their demand. What has happened is that new capacity has come in as was mentioned earlier also. So, that has led to excess availability. So, industry approach is how do we export more so that the surplus in the Indian market moves out of India, so it focuses on that side. But it's good to see down the line that the consumption side of caustic will also go up. There is expected to be growth in the aluminum segment and a couple of other segments by which, consumption of caustic soda will go up over the next couple of years.
- Moderator:** The next question is from the line of Rahul Veera from Abakkus. Please go ahead.
- Rahul Veera:** Sir, with 1-million-ton incremental capacity and if we are expecting 50% utilization in first year itself, and I assume most of the participants will continue to look at similar kind of utilization. So, given the domestic demand, plus China opening up and as you mentioned in Q3, they have also started exporting, right, because our exports went down. So, how will this impact domestic prices? Just trying to understand the whole dynamics over 1 year from now.
- Ajay Shriram:** This you're talking about caustic soda or PVC.



- Rahul Veera:** Caustic soda, sir.
- Ajay Shriram:** So, caustic soda actually is a tradable product which India has actually increased its exports over the last 8-10 months compared to what was there in the previous period. And the effort of the industry is to increase this further. So, I think exports will be a focus and thrust area for the entire industry to try to bring about some balance in the domestic market.
- Vikram Shriram:** So, just to add, I think we had commented earlier that on a global basis, there are no capacity additions in the rest of the world. In fact, there would be some reduction possibly in Europe, because of high energy costs, etc. All the additional that's happening is in India. So, from that perspective also, India is in a better position to export.
- Moderator:** The next question is from the line of Pratik Tholiya from Systematix. Please go ahead.
- Pratik Tholiya:** Sir, I just wanted to understand in caustic, while the realizations have also slightly dipped in December, but our EBITDA per ton has come off quite sharply. So, anything on the cost side or what has really impacted us?
- Ajay Shriram:** Amit, do you want to answer that?
- Amit Agarwal:** So, it's primarily on the energy side, the energy costs have not come off, and actually, if I compare with same period last year, energy costs were lower than what they are today. And again, it's a mix of what inventory we had at that time, we were carrying relative low-cost inventory. And now over the period, it has come up to a level of international prices, as they are right now. So, as long as international prices remain firm, the energy prices will remain firm and therefore, our costs will remain firm.
- Pratik Tholiya:** So, going forward also, you're not expecting any improvement in the cost. And there was this power plant also, which was coming up, which I think you had mentioned that there could be some reduction in the cost because of that. So, what is the update on that?
- Amit Agarwal:** You're right. So, there will be reductions coming over the period one, because of 120-megawatt power plant, which will be commissioned in this quarter and 50 megawatt of green power, which will also start coming in partially maybe in this quarter or early next quarter, but all of it will start coming in Q2 of next year. So, once these 2 things happen, costs will come down. But the large play will come only when the coal costs come down. These are all mitigating measures that we're taking, and we're also looking at increasing our biomass. So, all these efforts we're taking which will definitely help, but coal will still remain the key.
- Pratik Tholiya:** And sir, secondly, in ethanol, can you give the breakup for your volumes between, C-Heavy, B-Heavy and juice during the quarter?
- Amit Agarwal:** The B-Heavy production during the quarter has been 146 lakh litres, C was miniscule 8.4 lakh liters and cane juice was 71 lakh liters, all put together 226 lakh liters.

- Pratik Tholiya:** This is the production. Sorry, I wanted the sale volumes because it's break of the 231 that you've given in the presentation.
- Ajay Shriram:** I think sales volume cannot be given on exactly the source of production of ethanol because it's all mixed together when it's manufactured or when it's sold off. But I think Amit is just giving you the total.
- Pratik Tholiya:** I just wanted to understand what was the average realization for us in ethanol.
- Amit Agarwal:** So, Pratik, in our investor presentation, we have shared the realization.
- Pratik Tholiya:** No, what you've shared is the breakup of realization I think for different raw materials. But what is your realization considering for this 231 liters that you've sold? What was your average realization?
- Amit Agarwal:** It was in a similar proportion because largely it is B-Heavy, Pratik. Over 90% is B-Heavy.
- Pratik Tholiya:** And sir, in Farm Solutions, I think we've done phenomenal performance, especially considering that whatever commentary we have heard of couple of companies, which has come up with results last week and what we're not expecting others to also report these type of numbers. So, can you just throw some light on what's really happening in our farm solution considering our margins have touched almost 28%? Especially, we are, you know, still in the trading sort of business, we don't have too much of backward integration or anything. So, if you could just help us understand what really has clicked for us in the third quarter and how should one look at this business going forward?
- Ajay Shriram:** Farm solutions is actually under 3 verticals. One is the seeds business, the other is the crop care business, and the third is the fertilizer type businesses, which is soluble fertilizers and further value-added fertilizers. So, in the seeds business, fortunately, our research team has done a good job to get a good quality wheat seed, and a couple of other seeds, which are demanding a good pull in the marketplace. So, that helps us in terms of selling our product early and moving well. So, that has been a big thrust in terms of the benefit to the farm solutions business. Plus, besides wheat, we are into a range of other seeds also, which are doing well. That's a good advantage. In the crop care business, similarly, we are actually getting some formulations made by people, which is helping us. We are doing a little work in depth with some companies to help us make products which can add value in the marketplace and differentiate us. So, that's also moving. So, that's another focus area. As I said, when you have nutrient based fertilizers, we're getting into manufacturing now water-soluble fertilizer, biofertilizer, etc. Plus, we've got a whole range of other fertilizers, which are speciality use for particular crops which add value. So, I think it's the focus on all three of these verticals, which is helping the business across the board.
- Pratik Tholiya:** Sure. But sir, since wheat is largely a Rabi crop and Q3 will be very heavier for the wheat business, so going forward, would it be safe to assume that this was rather seasonally good for us, but going forward, these type of numbers may not be easy to replicate?
- Ajay Shriram:** I'll be honest. I mean, these sort of products, agriculture is a business where the requirements for fertilizer peaks during particular seasons, the requirement for seeds peaks during particular seasons. So, that's a given. So, I think one has to



look at the year in totality, to come to a total average figure of how things are moving. We had the same advantage with our seeds last year also. And we are planning in terms of our getting the growth of seeds, which we're going to sell next year, the planning is on so that we make sure that we have a good quantity of good quality seed available for next year too. So, it's an ongoing activity. It's not a 1-year sort of a one-shot deal. It's an ongoing activity.

Pratik Tholiya: And in fertilizer, sir, there is this Rs. 49 crore of some retrospective impact. I didn't actually understand that.

Ajay Shriram: Amit, you can just explain that here.

Amit Agarwal: Pratik, so the energy norms, they were revised in November '22, with retrospective effect of October 2020. So, we were counting on norms on a particular basis. However, the norms that were announced in November 2022, which is in this financial year, so they were higher than what we were accounting for, because we were also doing on a formula basis. So, therefore, there was this gain from October 2020 to September '22. And this again, month on month, this will continue till March because the norms are applicable or have been announced till March '23. And after that, again, we'll have to wait for the new norms to be announced.

Pratik Tholiya: So, sir, how much we can expect in the fourth quarter?

Amit Agarwal: So, quarter-on-quarter impact is anywhere between Rs. 6 crore to Rs. 7 crore, the delta impact of these norms.

Pratik Tholiya: So, roughly Rs. 7 odd crore additional we can expect due to these provision in the norms.

Amit Agarwal: So, this like fertilizer probably in Q4 should be giving me an EBITDA of around Rs. 35 crore ballpark.

Pratik Tholiya: Sir, I'm saying that Fenesta also has reported extremely strong numbers in this quarter. Even on the margin front, we are I think at the peak margin of 19 odd percent. So, if you could just guide us on in terms of margins for Fenesta going forward? This sort of run rate is possible, because I think we would have also benefited from slightly lower PVC prices. Or do you think that these margins would sustain even if PVC goes up?

Vikram Shriram: Fenesta carries a couple of months inventory of profiles. So, the PVC prices don't pass through immediately because of the huge variety involved. They have several 100 SKUs in terms of variety of profiles. So, I don't think there would be such a quick pass-through of inventory valuation. But yes, to some extent, they may have that.

Amit Agarwal: So, Pratik, the way to look at is that if you see in FY 22 also, my overall margin in the business was 15%. So, the range, one, as this gain increases, that will have an impact on the margins. So, as I mentioned earlier, for this business, depending on the product mix as well as on the scale, we should expect the margin in this range, 15% to 20% going forward.

Moderator: The next question is from the line of Bhawana Israni from Anand Rathi. Please go ahead.



- Bhawana Israni:** I wanted to check on more clarity on the coal availability in the local market and how the prices are moving and what we can expect in the coming months?
- Ajay Shriram:** K.K., please go ahead.
- K.K. Kaul:** The availability in the local market has improved over the last 2, 3 months. And so, the prices are also marginally lower, but how long it will continue is something that we'll have to see because production locally are also going up. People are also switching from imported, which at this point is relatively higher price compared to the domestic coal. But yes, we do expect that improvement to continue for at least another one quarter.
- Moderator:** Thank you. The next question is from the line of Jagpreet Singh from VA Capital. Please go ahead.
- Jagpreet Singh:** Could you, sir, please inform me about the quantum of crush which happened in this quarter versus last year and the gross recovery?
- Amit Agarwal:** I'll give a number till up to current season, 15th of January. Our total crush has been 262 lac quintals vis-à-vis 263 lac quintals in the previous season till 15th of Jan. And recovery on C molasses basis is at about 10.9% vis-à-vis 10.7% in the same period last year.
- Jagpreet Singh:** This is the gross recovery, right?
- Amit Agarwal:** See, it depends how you are making the sugar with the C-Heavy and B-Heavy. But I'm talking of C basis, it is at these levels.
- Jagpreet Singh:** So, the recovery has gone slightly up.
- Amit Agarwal:** 20 bps, yes.
- Jagpreet Singh:** And do you expect it to further go up as the season progresses?
- Amit Agarwal:** Recovery does improve. Now, whether the delta improves or not is difficult to say between the previous and the current season, but yes, the recovery does improve in Q4.
- Jagpreet Singh:** The weather had been a bit cold in the last few days last month. So, do you think it will have negative impact on the cane, which is going to be crushed going forward?
- Ajit Shriram:** I think the issue has been the late rainfall which we had in the month of September and October. That is the reason why we had to delay our crush start. And the crush levels are roughly similar to what they were last year in spite of expansion. I don't think that this cold wave is going to have much of an impact. But once the plant cane starts coming, we will get a better feel say from end January, February onwards.
- Jagpreet Singh:** Any issue of disease in the crop?
- Ajit Shriram:** See, the current variety has a very high susceptibility of red rot. So, what we are doing is consciously we are reducing our dependence on this variety and we are



increasing our bouquet of varieties in the field so that we are not dependent on only on 1 variety which is red rot susceptible.

Jagpreet Singh: Is the crush going to be the same this year or do you expect it to increase for the entire sugar season?

Ajit Shriram: I think it is early to say right now, but we do we do expect increase.

Jagpreet Singh: And any comment on the closure of factories in Maharashtra. It's coming in the news that it will get started in middle of Feb.

Ajit Shriram: We have Indian Sugar Mills Association meeting at the end of the month. So, one will get a better feel for Maharashtra then I think it'll be a little immature or improper for us to comment on that right now.

Jagpreet Singh: And there was a charge on usage of molasses internally. Is it something new or was it happening ever since?

Amit Agarwal: So, this was new which was the charge on captive transfer of molasses. It had come in the previous season as well, a little late in the previous season in January what they had announced. So, that was contested. But this year again, it has been announced.

Moderator: Thank you. The next question is from the line of Parth Vasani, an individual investor. Please go ahead.

Parth Vasani: Thank you for the opportunity. My question was that we are coming up with the hydrogen peroxide plant of around 1 lakh tons per annum. So, where do you see the application of this other than the traditional use of it?

Amit Agarwal: The capacity of the plant is about 52,000 tons per annum, and the usage of hydrogen peroxide has largely similar usage as for caustic soda. But the largest is paper, will go to paper, textiles and some other HPP or in some other uses, but paper is the largest user of hydrogen peroxide.

Parth Vasani: But how we see the market of hydrogen peroxide to increase, I mean any estimation at what level, what percentage it will grow in next 5 years maybe?

Amit Agarwal: See, the current market is about 180 kilo tons per annum and expected to increase, as these core sector industries will grow like paper, they will also grow, let's say in line with the GDP, about 5% to 6%, that's the kind of growth one can estimate for this business.

Parth Vasani: And in terms of the hydrogen peroxide, I mean definitely we have a hydrogen that would be coming from the Chlor-alkali. So, I mean, is it feasible to sell hydrogen makes more sense or to enter into hydrogen peroxide makes more sense because hydrogen is a major raw material for hydrogen peroxide. So, if you can just throw some light on that.

Ajay Shriram: Amit?

Amit Agarwal: So, see, currently I'm selling hydrogen close to about 2 lakh nm³ is what I can sell currently. Now, going forward, I will be doing about 3 lakh nm³ post expansion,



right? And there is enough market also for hydrogen, but one needs to build flexibilities in its business where it can use the captive use of hydrogen and H₂O₂ will add more value definitely than selling hydrogen itself. So, it's a right product mix is what we're looking at.

Parth Vasani: So, basically, hydrogen peroxide is a kind of a step further to consume the hydrogen to sell in the market, right?

Amit Agarwal: Yes.

Parth Vasani: So, my third question and the last question would be in terms of like the Adani's and the Reliance are coming up with the 3,500 metric tons of caustic soda and 2,200 tons caustic soda and also in the PVC, which puts us around 1.6 million tons. So, I mean, we are into both the products. So, how do you see the market? Will there be a pressure as we are coming with almost 850 tons per day of capacity of caustic soda.

Ajay Shriram: I'll just add that their plants and production is going to come in, I think, 2 years, 3 years, 4 years, 5 years later. It's not coming in tomorrow. So, the market is growing. So, 1 is caustic. And as you rightly said about PVC. Today, India is importing over 50% of its PVC requirements. So, coming in with local manufacturing of PVC will just make sure that the imports come down. So, the demand in India is growing well and our economy if it grows at 7% plus as we are estimating over the next 8, 10 years, the demand will keep going up. And commodities, we've seen from history in the last 25 years, 30 years, whenever there's a jump in major installed or manufacturing capacity in any country, there is a pressure on prices for some time, but then it equals out. It balances out over a period of time with the growth in demand and the production coming in. So, I think the commodity businesses see a little, if I may put it a growth in a step way, not a smooth curve going up, but a step system because new capacity comes in. So, there's a little stability in prices. Period of time it goes up again when the demand becomes a little more. So, we are not worried with new capacities coming in because India is a very large market.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Ajay Shriram: Ladies and gentlemen, thank you very much for your participation in our Q3 Financial Year '23 Earnings Conference Call. We are committed to expanding our operations through growing our economies of scale, increasing efficiency, fostering innovation and promoting a circular economy and with a strong focus on sustainability. We also prioritized maintaining a strong financial position and continuing to look for new avenues for growth. Thank you once again.

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

