

DCM Shriram Limited

Q4 FY'24 Earnings Conference Call

May 07, 2024

Moderator:

Ladies and gentlemen, good day, and welcome to the DCM Shriram Limited Q4 FY '24 Earnings Conference Call. 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 the conference call, please signal an operator by pressing '*', then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you, and over to you, sir.

Siddharth Rangnekar:

Thank you, Rayo. Good afternoon, and welcome to DCM Shriram Limited's Q4 FY '24 Earnings Conference Call. Today, we have with us Mr. Ajay Shriram, Chairman and Senior Managing Director; Mr. Ajit Shriram, Joint Managing Director; Mr. Aditya Shriram, Deputy Managing Director; and Mr. Amit Agarwal, Group CFO of the company.

We shall commence with remarks from Mr. Ajay Shriram and Mr. Ajit Shriram. Members of the audience will get an opportunity to post their queries to the management following these comments during the interactive question-and-answer session. Before we commence, 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 the conference call invitation that has been 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 afternoon, ladies and gentlemen. Thank you for taking out time to join us for our earnings conference call for Q4 and financial year 2024.

I will commence with thoughts on business and industry dynamics, and then Ajit will share the perspective on our financial performance.

The various global events over the last couple of years have made us believe that the uncertain economic environment is here to stay in the medium term. This uncertainty will continue to emanate from geopolitics, climate change and global health hazards. Developing financial and operational resilience in business is the only way to sustain such challenges.

In response to these uncertainties, we have taken steps to make our business more resilient to industry cycles. We have taken measures towards scale, forward integration, diversification, continuous focus on cost efficiency along with a strong balance sheet, led by prudent financial principles to prepare ourselves for such eventuality.

Sustainability is a focus area for our business and we strive to act consciously to take strategic initiatives to achieve sustainability across our business operations. In addition to the work in the sphere of water conservation, energy conservation, green energy and circular economy, we are working towards newer ideas in above areas that can lead to quantum improvement in carbon footprint and water efficiency. Over the last 1 year, we have tied up to INR 300 crore towards sustainability linked loans, which demonstrates our commitment towards the environment.

Our financial performance for the quarter and year ended March 31 2024, has been in line with our expectations with Chloro-Vinyl segment under pressure due to disproportionate capacity additions compared to demand growth in the Chlor-Alkali sector and excess global supply in the Vinyl segment. Sugar and ethanol business performed better and Shriram Farm Solutions and Fenesta business systems continued the growth trajectory. With our committed Capex getting commissioned during the first half of FY '25, the quality of our performance will see improvement.

I will now turn the discussion on key industry dynamics across our various businesses.

Chlor-Alkali

First, I'll talk about the Chemical industry. Global Chlor-Alkali prices showed some improvement following short supplies owing to maintenance shutdown in U.S. logistics issues in the Red Sea and uptick in demand from consuming industries, mainly Aluminium. China continues to struggle with the slowing economy and hence, continue to export more.

Domestically, the demand has stayed healthy with pick up in the downstream activities. However, given the surplus capacities in the region, the pricing is expected to remain under pressure. There has been improvement in cost structure and is expected to improve further with the 120-megawatt power plant getting commissioned shortly. Despite this, the margins are suboptimal.

On the projects front, I am happy to share that 850 TPD caustic soda expansion has been commissioned and this will add significant economies of scale to our business in the medium term. Hydrogen Peroxide plant is also in advanced stages of commissioning and will commence operations within the next 2 months. 120-megawatt plant has been on trial runs for the last few months and reached up to 70% of its installed capacity, however, it encountered some technical issues at higher capacities, which is now being corrected and expected to recommence by end of June, early July 2024. Epichlorohydrin project commissioning activities will take a little more time and it will get commissioned in Q2 FY '25. These initiatives have been strategically planned to augment the business growth and contribute to healthy performance.

Vinyl

Second is Vinyl. Global demand for PVC has been subdued giving muted downstream demand and has led to softer prices. We expect this scenario to continue as interest rate cuts are expected to be slower than expected.

India PVC demand continues to be strong, in line with GDP growth, although the prices were lower, owing to lower cost imports especially from China. Our business team has worked to keep the input

costs under check with use of different energy mix. This has also been supported by reduction in energy prices.

Sugar

Global sugar supply and demand is expected to be marginally surplus owing to favourable weather conditions and uptick in production in Brazil. Global sugar prices continued to be strong and were trading above \$550 per ton.

Domestic sugar prices remain insulated from global prices led by trade restrictions and were traded much lower. Domestic sugar prices should improve given the increase in cost of production due to an increase in sugarcane prices, which has not yet been compensated. Central Government has further increased the FRP for the upcoming sugar season '24-'25 by INR 25 per quintal. SAP has also been increased by INR 20 per quintal in the sugar season '23-'24.

India's sugar production is expected to be down by 0.8 million metric tons to 32 million metric tons in sugar season '23-'24. With exports not being allowed the season-end inventory is likely to be about 8 million metric tons that is equivalent to 3 months consumption. Domestic demand is also showing good growth with consumption now at around 29 million metric tons.

Moving to ethanol, the government has targeted a blending of 15% for the current year. Government of India has limited the diversion of sugar to ethanol in the form of B heavy molasses and syrup during the season to 1.7 million metric tons which were recently revised to 2.5 million metric tons and also discontinued FCI surplus rice as feedstock for ethanol production in June last year.

Further, in Uttar Pradesh, sugar mills continue to face the burden of country liquor policy, which is detrimental to the Central Government ethanol blending policy and the state sugar industry. Due to these factors, blending targets of 15% looks challenging this year. There is a need for a consistent policy from both the center and the state governments.

Sugar season '23-'24 is nearing the end and central and western Uttar Pradesh has witnessed lower sugarcane crush led by extreme weather, higher diversion of Khandsari including Gur and red rot issues with sugarcane variety Co0238. Our units also ended the season with a lower crush of 579 lakh quintals and lower recovery at 11% on final molasses. This along with the increase in SAP has led to higher cost for the season. Our business team is working to ensure the right variety balance and agronomy practices to ensure healthy crush in the coming season. The business has started production of Sulphate of Potash using distillery ash through a wholly-owned subsidiary.

Our projects at Loni, sugar capacity expansion and at Ajbapur with respect to CBG are progressing as per schedule.

Fenesta

Fenesta continues to deliver a strong performance supported by volume and value growth in both projects and retail categories. Order booking remains firm and we closed the year with over INR1,000

crore in order booking. A combination of wider assortment of SKUs, new product lines and enhanced footprint has allowed us to sustain this growth.

Moving on, the agri business portfolio comprises our Shriram Farm Solutions, Fertilizers and the Bioseed businesses.

Shriram Farm Solutions

Firstly, on Shriram Farm Solutions. SFS continued to strengthen its leadership position in research wheat. The year saw healthy growth on the back of enhanced contribution from all the verticals – seeds, crop protection and specialty plant nutrients. Leveraging social media and digital tool enhanced our demand generation and sales promotion efforts.

Our newly operational manufacturing facility at Kota in one of our 100% subsidiary company for production of high-quality Specialty Nutrition products will enable stable supply chain operations. Our focus on new technologies and new products will help in maintaining this level of momentum. The investment being made in manufacturing setup as well as planned geographic expansion will assist in growing as we go forward.

Fertilizers

The urea business environment continues to be stable. Our business performance in the current year has been impacted for two reasons. First, the lower gas price, which is a pass through, led to lower revenues and lower earnings; and second, the Energy norms had been revised lower. We had taken a maintenance shutdown in March 2024 and have restarted in early April. We continuously focus on improving energy consumption. The government has allocated reasonable amount for urea subsidy in the budget for the current year, and we expect the subsidy outstanding to be at reasonable levels.

Bioseed

Bioseed India business performance has improved while it turned positive in FY '24. New and superior performing hybrids introduced in the previous and current financial year are being received well by farmers in key target markets of corn, cotton and paddy in India. However, there are production constraints in India, leading to delay in scale up of the business. We believe that our future pipeline across the various verticals shall help us in the business in the medium term.

I will now request Ajit to cover the financial performance of the company.

Ajit Shriram:

Thank you. Good afternoon, everyone. I will now highlight the business performance for Q4. The net revenue net of excise duty in this quarter was at INR 2,399 crore as compared to INR 2,720 crore in the previous year, a decline of 12% year-on-year. The decline in revenues is mainly driven by subdued prices and lower volumes in the Chloro-Vinyl segment. Accordingly, PBDIT stood at INR 289 crore, which is down by 22%.

Chloro-Vinyl: The revenue in the Chloro-Vinyl segment declined by 25% to INR 691 crore and PBDIT was at INR 64 crore as against INR 175 crore last year.

- Chlor-Alkali business revenue was down 28% year-on-year, and PBDIT was also down 71% due to lower ECU that declined 30%. Volumes were also slightly down by 6% in the current quarter. However, this impact was partially compensated by energy prices that have reduced due to lower coal cost and the commissioning of 43 megawatts of renewable energy.
- Vinyl business revenue declined by 8% year-on-year at INR 153 crore and PBDIT was at INR 14 crore versus INR 1 crore last year. PVC prices were down 15% year-on-year and carbide prices were down 17% year-on-year. However, input costs reduced during the quarter versus last year and sequentially.

Sugar: Sugar business revenue net of excise duty was down 6% to INR 879 crore. Sugar exports were NIL due to government policy as against 3.3 lakh quintals last year. PBDIT has increased by 11% year-on-year to INR 236 crore on account of better prices of domestic sugar and volumes in distillery. Domestic sugar prices were at INR 3,857 per quintal, an increase of 10% year-on-year. Ethanol volumes were higher by 7% at 375 lakh litres owing to the commissioning of the 120 KLD multi-feed distillery.

Fenesta Building Systems: Fenesta Building Systems has reported a growth of 21% year-on-year in revenues to INR 209 crore and PBDIT has increased from INR 34 crore to INR 44 crore. The increase is driven both by volumes and prices. Order book was up 21% year-on-year and has crossed INR 1,000 crore mark.

Shriram Farm Solutions: This quarter is an off-season for the business and the revenues and PBDIT were in line with last year.

Fertilizers: Fertilizer revenue declined by 17% year-on-year to INR 354 crore driven by lower gas prices, which is a pass-through. Volumes were also lower by 12% year-on-year due to the maintenance shutdown taken in March 2024. Outstanding fertilizer subsidy this year was lower at INR 90 crore, however, it is expected to inch up over the period, but will remain at reasonable levels.

Bioseed: Bioseed revenue is lower by 12%, however, Q4 is an off-season. PBDIT improved from negative INR 25 crore to negative INR 8 crore during the period.

Coming to the highlights of FY '24:

FY '24 net revenue, net of excise duty was down 5% year-on-year at INR 10,922 crore and PBDIT down 37% year-on-year at INR 1,089 crore. We expect the performance to improve in the coming year.

Notable aspect of our performance during the year was the significant pressure on the profitability of the Chloro-Vinyl business, which was mitigated by the performance of the other businesses. Sugar and Ethanol business witnessed a 64% increase in PBDIT, led by higher volumes and prices. Fenesta and SFS PBDIT grew by 20% and 21%, respectively, driven by volumes. Bioseed India business turned around to become PBDIT positive during the year.

Capital employed in the Chloro-Vinyl and Sugar business has increased significantly on account of the ongoing capital expenditure and working capital requirement, respectively. Further, Fertilizer business saw considerable reduction in the capital employed, driven by lower subsidy outstanding.

With healthy cash flows across our businesses, our debt remained at comfortable levels despite the continuing capex. Our net debt as of 31st March '24 is at INR 1,434 crore versus INR 681 crore on March 31, 2023.

Return on capital employed for March '24 came in at 14% as against 27% in the last financial year mainly due to lower PBIT levels as compared to last year due to the reasons explained earlier.

The Board has recommended a final dividend of 130% amounting to INR 40.54 crore in this Board meeting. The total dividend for the year is at 330% amounting to INR 102.92 crore.

Notwithstanding the macroeconomic concerns, all our businesses, except Chloro-Vinyl and Fertilizers have grown at double digits.

That concludes my opening remarks, and I would like to request the moderator to please open the forum for the Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: Hi sir. Thank you for this opportunity. As you have mentioned in the presentation the caustic soda import prices have risen by almost 15% to 20% quarter-over-quarter, but there was no major difference in the ECU realization for us. So what was the reason for the same?

Aditya Shriram: So global prices are different in different regions of the world. One of the important factors actually for India, especially Western India where our capacity gets impacted is the import from Iran. And from Iran, the imports were coming at lower prices. That has an implication on the pricing in the Western market which has been associated with that.

Amit Agarwal: I would just like to add here that given that in domestic market there is surplus capacity. So as a result of which even if the international prices are better, there will be an impact on domestic prices. They may not follow the similar trend.

Jainam Ghelani: Okay. And so what is the peak debt that we are planning to take and what is our cost of debt?

Ajay Shriram: Pardon me, could you kindly repeat that?

Jainam Ghelani: So what is the peak debt level that we plan to take and what is the current cost of debt for us?

Amit Agarwal: So the current cost of debt blended short term, long term is around 7.5% and see debt level will be governed by the cash flows and the next year plan. So still as we mentioned that we would like to maintain our debt-to-EBITDA level that's what our financial prudence principle is, it should be in the range of around 1.5x to 2x.

Jainam Ghelani: Okay. And sir, once our additional capacity comes in for caustic how do we plan to dispose of the additional chlorine that would be coming from it?

Aditya Shriram: So for chlorine, actually we have a multipronged strategy. One is, of course, we are putting chlorine downstream capacities ourselves. So that will be captive chlorine consumption. Second is at least in our Bharuch site we have a very long-standing relationships with our customers. And so they consume pipeline chlorine from us, and that's been the backbone for us. And they are also increasing their capacity going forward. So that a large part of the chlorine will also be consumed along with our pipeline customers and over time we expect the market to grow steadily as well. So we foresee that in the coming year and beyond the chlorine consumption will increase that way.

Jainam Ghelani: So sir currently, if we consider we almost consume 40% of our chlorine captively. So post our expansion what will be the total chlorine consumption?

Amit Agarwal: So see at Bharuch which is the largest site now it's at 2,225 tons per day. See there the current is let me put this way post expansion and everything that comes up in terms of epichlorohydrin, our captive consumption will be about 15%. Further, as Aditya mentioned, if we add the pipeline supplies that's about 40%. So about 55% to 60% we have ready markets in terms of almost like virtually captive consumption and the rest will be market, but there also we are looking at certain tie-ups and multi-pronged strategy is there to see that we increase our chlorine disposal.

Jainam Ghelani: And sir, in your initial remarks you indicated about the higher import coming from the Iran in terms of caustic. So if you look in the month of April and May what was the import situation and what is the ECU as compared to the exit of the Q4 numbers?

Amit Agarwal: Can you repeat your question, please and be louder please?

Jainam Ghelani: So just wanted to understand as you indicated that there is a huge presence coming in from the import in terms of the caustic and the subdued demand. So just wanted to understand that given the exit price of the ECU in month of March what is the current situation in the month of April and May?

Amit Agarwal: Yes. So the current ECUs in the Western market is in the range of around 28,000.

Jainam Ghelani: Okay, sir. That's all from my side. If I have further questions will come back in the queue and all the best.

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

Nirav Jimudia: Thanks for the opportunity sir. So just wanted to understand your thought process on the chlorine. So if you can just walk us through in terms of what are the feedbacks you are receiving from the customers in terms of improvement in their existing capacity utilization where chlorine is used? And you mentioned about the expansions also which have been carried down by your customers there.

So how do you see the schedule of -- or some understanding about the improvement in the chlorine demand because I think our ECU portion is largely impacted by the chlorine part and hence for the

utilization on the caustic part also. So if you can just give us some sense on the customer side in terms of the feedbacks what you have been receiving, that would be very helpful?

Aditya Shriram: Sure. So actually in the last past year or so there has been some subdued demand in some verticals especially agrochemicals and other related industries, but the way we are seeing it is that a lot of our customers are also expanding their capacities anticipating the demand increase in the coming quarters.

So along with our capacity increase, a lot of our customers are also increasing their capacities which will consume our chlorine. So we expect that in the short term, yes, there's a lot of caustic capacity that has come in, but in the medium term and long term we expect a robust growth sort of aligned with the GDP growth. So we are very optimistic in the medium to long term.

Nirav Jimudia: And sir, are you seeing any pockets in terms of the consuming industries where the demand for chlorine is picking up apart from the agrochemicals?

Amit Agarwal: Aluminium will be the other segment where India is seeing capacity additions. So that's the other segment where the demand is picking up. But that's for caustic. But in chlorine, I think it will largely be as overall sector picks up in textiles we'll also see dyes and chemicals picking up. I think over the period this demand should pick up.

Nirav Jimudia: Got it. And sir is there any benchmark on which you work upon, let's say, when -- before 2 years when the textile was doing good, agrochemicals had a good pickup in terms of the demand. How much fall in the demand for chlorine possibly you would have witnessed over the last 2 years which is justifying the current suppressing capacity utilization for caustic soda too? So is there any benchmark, let's say, before 2 years we were at 100% for the chlorine consumption for these two sectors, how much they have fallen over last 2 years? Is there any benchmark which you have done sir?

Ajay Shriram: I think I'll put it this way. Compared to 2 years ago and if you are saying 100% whatever capacity industry was running at. In the last 2 years a lot of capacity addition has happened which has made the chlorine availability much larger than what it was 2 years ago. So I think the optimism of all of us on the Indian economy growing at 7%, 7.5% in the next many years, few years anyway. I think we are bullish on the Indian economy and any commodity products which compared to 2 years ago when the prices were very healthy that's the new additions have come in.

It takes a couple of years for the prices to stabilize, demand to match out and then we'll come back to a sound position once again of the chlor-alkali industry. So I think we are optimistic overall not only on chlorine consumption, but even on caustic consumption to get a reasonable satisfactory ECU in the medium term.

Nirav Jimudia: Got it, sir. Sir, second question is on the VAP side. So if I recall a few of the conference call, you have mentioned that our contribution to sales and EBITDA in the caustic soda business from VAP was close to 18% to 20%. So how has been in FY '24 in terms of the contribution both in terms of sales as well as operating profit or PBIT whatever you can give us, sir?

Aditya Shriram: Sorry, can you just repeat that? Are you talking about value-added products?

Nirav Jimudia: Yes, yes. Value-added products, including the hydrogen part if I'm not wrong, sir?

Amit Agarwal: So if I look at this year, hydrogen would have added almost 60% to 70% of the total earnings, total EBITDA.

Nirav Jimudia: Okay. And the rest could be divided between poly aluminium chloride, SBP and other value-added products which we will be manufacturing?

Amit Agarwal: Yes. I mean I would say largely caustic soda would be the largest after this. Others are more in terms of consuming chlorine so that they can help the capacity utilization of caustic. So however, SBP is picking up. In the last six months, we have seen good traction in SBP.

Nirav Jimudia: Got it. So is it safe to believe that whatever PBIT we have reported, close to 60% is contributed by hydrogen?

Amit Agarwal: Yes.

Nirav Jimudia: Got it. Sir, last question is on the hydrogen part. So with this expansion, the excess hydrogen will be producing out. So some would be consumed in the hydrogen peroxide, rest of the hydrogen are we planning to sell in the domestic market or we'll be using for our captive caustic flaker plant?

Aditya Shriram: Yes. So again, like for chlorine, I think we have the advantage of having strong partners and pipeline customers for hydrogen as well. So over time, we expect the demand for hydrogen through pipeline also to increase. We also sell hydrogen through banks in the markets around our units. And of course, we will be adding value our self as we mentioned also, through hydrogen peroxide. So we have multiple avenues through which we'll add value to hydrogen. And it's an important stream for us as well.

Nirav Jimudia: Got it. What will be the total flaker capacity now after this addition of 850 TPD of capacity at Bharuch?

Amit Agarwal: We are expanding by another 600 TPD for flaker.

Aditya Shriram: So total will be close to 900 TPD at Bharuch.

Nirav Jimudia: 900 TPD, right, sir?

Aditya Shriram: 900 TPD at Bharuch and 200-plus TPD at our Kota site.

Moderator: The next question is from Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Sir, my first question is on the industry front. So you mentioned that there has been a capacity addition, which has happened, so what is the current domestic chlor-alkali capacity? What are the utilization grades? And I guess that there is one more conglomerate who is going to put up chlor-alkali capacity in the near future. So how do you look at the overall demand-supply equation. And given that the capacities or supplies will be higher, will the ECUs remain benign, at least for the near to medium term? So your thought on this? Thank you.

Amit Agarwal: Yes. So one, the current capacity, the caustic soda capacity in the country is about 5.6 million tons. And the overall production is about 4.5 million tons. That comes to about 80% is the capacity utilization in the country. However, we are close to about 90%. So that is one. What was the next question?

Rohit Nagraj: Sir new capacities are also coming up, like we have recently now put up 850,000 then there is another conglomerate who is also putting up 22,000 tons of capacity?

Amit Agarwal: Yes. So the total capacity should go up to buy other 0.5 to 1 million tons. That will be added over the next one year. So it depends from one our capacity is already added, and it all depends how their plans go, but ballpark is 0.5 to 1 million ton getting added.

Rohit Nagraj: Right. So the ECU environment will remain benign in such scenario and supplies are higher and demand has growing at a reasonable pace?

Aditya Shriram: So actually, we anticipate that the demand is going to continue to grow. So caustic soda actually can be moved globally. So as the capacities increase in India, the export from India will also increase. And so it will be driven to an extent by the global market scenario as well. Of course, the chlorine that gets produced along with the caustic is more of a domestic play because transporting chlorine internationally is not easy.

So therefore, our focus also continues to remain on chlorine utilization and we are taking active steps to make that happen. So we expect that in the short term, prices do remain range-bound, and in the medium term, we are bullish on the demand situation.

Rohit Nagraj: Sure, sir. That answers the question. The second question is in terms of the future capital allocation. So whether we are looking at any other subsegments where we want to do the capex. So any adjacencies that we have found similar to what we did in, say, ECH a couple of years, a few years ago. So are there any other such areas where we are looking at given that in domestic market, chlor-alkali as you said the capacity additions have been happening even in ECH today, the capacity is more than the demand. So any other areas which we are actively looking at? Thank you.

Aditya Shriram: Yes. So we are continuously exploring new avenues for growth, not only in the chemicals business, but across all businesses in the group barring maybe one or two. So there's a lot of interesting options that are being evaluated. And as the Board approves them of course, that become public knowledge. Within chemicals itself, one of the areas in which the Board has approved an in principle go ahead is for epoxy, advanced materials in the sphere of epoxy. So that is something which we are working very actively on. And at a suitable time, we will declare that as well.

Moderator: The next question is from the line of Ahmed Madha from Unifi Capital.

Ahmed Madha: I have few questions. First on the caustic part, can you explain what is the reason for increase in cost on quarter-on-quarter basis compared to Q3?

Ajay Shriram: Could you kindly repeat that a little louder, please?

Ahmed Madha: So my question is, if I look at the numbers for caustic business compared to Q3 last quarter, why has the cost structure increased? I thought that cost was supposed to improve compared to Q3 and Q4. So is there any specific reason?

Amit Agarwal: Yes. So the cost structure has improved. But if you see in the month of January, the prices had -- in December, January, the prices have come off. So that's the reason why overall performance was a little lower than previous quarter. But overall cost structure has improved.

Ahmed Madha: And on the sugar side, I have two questions. First, on the prices, do you see the current level of INR 39, INR 40 sustaining in the next season? First question. Second question, is it fair to expect that we should do 17 to 18 crore litres of ethanol in next financial year?

Amit Agarwal: So on your first question, in terms of prices, see, the point is yes current prices are in the range of INR 3,900 to INR 4,000. Now given that FRP has increased and even SAP went up in the last season, given that the prices should increase. However, it's very difficult to say given the sensitivity of the commodity. What was the second question?

Ahmed Madha: On the ethanol side, we did, I think, around 16 crore litres this year. Next year, we should be doing 18 crore litres?

Amit Agarwal: So our capacity is about 18 crore litres. But it depends on the feedstock, depending we're using maize, we're using surplus rice, C-Heavy, B-Heavy, all that impacts. But on B-Heavy, let's say, it's about 18 crore litres.

Ahmed Madha: Okay. And as of now, how much we are doing ethanol from sugar and how much from non-sugar feedstock?

Amit Agarwal: So see, our capacity on non-sugar is about 250 KLD out of total about 550, 570 KLD capacity that we have per day.

Ahmed Madha: But can you tell me, individually production number? Is it possible?

Amit Agarwal: I can. So in the total what we produced in the last financial year, total we produced from grain was about 6.6 crore litres.

Ahmed Madha: Okay. And this will remain the same in the next year as well based on whatever current scenario is?

Amit Agarwal: See again, it will depend how much from maize and how much from surplus rice, but it should be in this range. As I said, the capacity is 250 KLD, and we operate our distilleries to almost 330 days, 330 to 340 days what we try. On that basis, about 8.2 crore litres is what we can do maximum.

Ahmed Madha: Okay. And on the fertilizer part, the sales volume is still like near 1 lakh ton. So I don't see issue under the volumes part. So how much shutdown expenses we have taken on P&L?

Amit Agarwal: Because of fertilizer?

Ahmed Madha: Yes, because of fertilizer.

Amit Agarwal: I don't have that number right away, Ahmed. I can probably provide it to you separately. I don't have the number right away.

Moderator: The next question is from the line of Riya Mehta from Aequitas Investment. Please go ahead.

Riya Mehta: My first question is in terms of cost of sugar.

Ajay Shriram: A little louder please. Can I request you to please speak a little louder?

Riya Mehta: Congratulations on good set of numbers. My first question is in regards to the cost of production for sugar for the season.

Amit Agarwal: Yes. So for the season, the cost of production is INR 3,590 per quintal.

Riya Mehta: Okay. And what was it last year for FY'23?

Amit Agarwal: It was about INR 3,200 approximately.

Riya Mehta: INR 3,200, got it. Also, what is the current chlorine cost, prices?

Aditya Shriram: In the range of minus INR 2,000 to minus INR 2,500.

Riya Mehta: Okay. And when we are seeing the increased incremental capacity addition in caustic, how are we looking for incremental sales of chlorine, like apart from the capacity addition of already existing pipeline customers, what other avenues are we looking for?

Aditya Shriram: So as we said earlier as well, it's a multi-pronged strategy that we are offering. One is captive consumption. So we already have captive consumption of chlorine and we are going to look at newer avenues for consumer chlorine in-house as well. The second very important for us is our pipeline customers, especially in Bharuch. And they are also growing continuously. So we have long-standing partnerships with them, and that will continue as well. And fundamentally, we expect the market to grow as well, steadily. So that will also help in increase of chlorine consumption.

Riya Mehta: Got it. Also, you mentioned about exports of caustic soda as a further opportunity for us. So what's the current export level? I guess last year, we had good export number, but it had declined. So what is the current scenario? And where would we export if we are exporting?

Amit Agarwal: See, the export numbers have not declined. For the full year, if you look at it last year, we were about 4.25 lakh metric tons. This year, also, it's around the same level, a little higher 4.39. What has happened is imports have gone up from about 1.4 last year to 2.4 lakh metric tons.

Riya Mehta: Got it. And where do we export primarily?

Aditya Shriram: It's fairly global depending on the market situation, and exports are in the form of caustic soda lye and caustic soda flakes.

Riya Mehta: Got it. And you just said that we are increasing our flaker capacity. So where are we seeing the demand for flaker? Is it entirely for exports?

Aditya Shriram: Not entirely, it will be both for domestic market as well as for exports, and we continuously evaluate where it is that we are getting the best value and then take decisions accordingly.

Riya Mehta: Got it. And overall, globally, you said there's a lot of import happening. So is there demand slowdown globally also? And what would be the cause for that?

Amit Agarwal: Globally, Riya, now the demand is improving. We're not seeing demand, as Chairman had mentioned in his opening remarks as well, that globally, demand is improving.

Riya Mehta: Right. But for us, I think you mentioned that in our region specific, we are seeing a lot of imports happening, from Iran?

Amit Agarwal: Yes.

Riya Mehta: So what's led to that? Like is there a surplus capacity addition there? Or the lack of demand or other places are more self-sufficient? What has led to this incremental change?

Aditya Shriram: So it is a dynamic situation based on the regional demand-supply balance or imbalance, also based on trade rates, based on disruptions like we had in the Red Sea disruption, etc. So it's a dynamic situation. There are times when we see imports and sometimes from Iran, they tend to come at a lower price, and that impacts the domestic market disproportionately. But again, with a close to 100 million metric ton global size and growth of 1.5% to 2% at a global GDP level, so we expect the demand for caustic also to grow. So therefore, the domestic prices and demand will be balanced by the global growth in demand as well.

Riya Mehta: Got it. And even in a domestic scene, there's a lot of capacity additions. We would see some time till we see further hike in ECUs, right?

Aditya Shriram: Yes. So it's, of course, hard to predict the price going forward because there are many factors that get involved. And yes, you're right that the domestic capacity has increased significantly more than the domestic demand. And so in the short term, we do see some of those challenges, which is why we tend to focus back also in caustic to move outside the country.

Riya Mehta: Right. And in terms of ECH, I was just asking that since our competitor is currently at around 50%, 60% capacity utilization, how much time will we take to ramp it up? And are we planning to export ECH as well?

Aditya Shriram: Yes. So it will take some time to ramp up like it does for any new capacity, and it's a new product for us as well. But we have strong teams in place, and we expect both domestic consumption and exports. There is an approval process for ECH with the customers, largely ECH goes into the manufacturing of epoxy and we have good relationships with a lot of the epoxy customers as well. So we expect a positive movement over the coming quarters.

Riya Mehta: Got it. And when do we see entire ramping up of the capacity?

Amit Agarwal: See, it will take about 2 to 3 years to achieve about 90% to 100% capacity utilization.

Riya Mehta: Okay. And post our ECH capacities around for the next 2 years, our chlorine consumption or captive would increase, right?

Amit Agarwal: That's right.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Thank you to the team for a very detailed investor presentation, and we hope for the continuity of the format. Sir, I missed the point on the ECH part and epichlorohydrin part of the story, if you could just explain once again my line got disconnected. The last few statements that you made.

Aditya Shriram: So what is the question specifically?

Saket Kapoor: Regarding the ECH contribution going ahead and the epoxy chloride, which you mentioned that they will start contributing in a meaningful way. So when can we expect that to happen?

Amit Agarwal: See, in the initial period, let's say, in the first year of operation for ECH and H₂O₂, the ramping up will take time. I think the meaningful contribution can happen only, let's say, in Q4 of this year and then full year impact will come in FY'26.

Saket Kapoor: Okay. And we will be commissioning it in the first half itself, the H₂O₂ and the ECH facility?

Amit Agarwal: As mentioned by Chairman in his opening remarks, the hydrogen peroxide should get commissioned in next 1 to 2 months. And ECH will get commissioned in Q2.

Saket Kapoor: Q2. And the total capex -- yes, sir?

Amit Agarwal: Pardon me?

Saket Kapoor: Okay. And the total capex we have spent on these two products, sir?

Amit Agarwal: That will be close to about -- these 2 products put together will be in the range of INR 1,100 crore plus/minus INR 100 crore.

Saket Kapoor: Okay. So out of the INR 1,700 work in progress, INR 1,100 will get capitalized by Q2 of this financial year?

Amit Agarwal: Yes.

Saket Kapoor: And the balance amount of the odd INR 600 crore?

Amit Agarwal: See, there are projects in other businesses as well. Like in sugar, we mentioned there are CBG and there is a capacity expansion also happening in sugar. And there will be some other projects in other

businesses as well. So they all -- and there will be some normal capital expenditure as well. So it's summation of all that.

Saket Kapoor: Okay. Sir, when we look at chlorine as the byproduct and the evacuation and the utilization of chlorine being the key figure determining the utilization levels for the caustic players, I think the investment in the PVC segment has been due for over ages, if I may use it, and also a lot of big corporates have lined up projects for setting up big PVC projects going ahead in 2, 3 years down the line. So what is the update that we are getting on the PVC? I think the PVC is still imported in the country. There is inherent demand. So what is the thought process and what are the feelers on the front of setting a big PVC complex and then this chlorine dynamics changing completely?

Ajay Shriram: Well, I'll put it this way that, yes, India imports today almost 60% of the PVC requirements. And based on our cost structure, we actually took a view that we are not looking at investing in PVC expansion right now. As you are aware, there are 2 of the large groups, which are looking at setting up large capacities in PVC. So that's moving in its own direction. We are looking at the more value-add segment now in a more aggressive manner. And we are seeing what more we can do in the value-add front.

Saket Kapoor: Right, sir. So when we look at the country as a whole, what is the annual chlorine demand and the availability of chlorine with the expanded capacity at 5.6 million tons from the existing -- all the existing caustic soda players?

Ajay Shriram: Well, chlorine is actually about 0.88% of caustic production.

Aditya Shriram: That's right. So the production, that is the linkage. What we see is that over the past many years, the capacity utilization at an industry level has been a fairly healthy 85% plus/minus kind of range. There was a sudden increase in capacity. In the short term, this will reduce capacity utilization will reduce driven to a large extent by chlorine. But again, as we are saying that in the medium term, we expect the demand is going to be robust. And so we expect that it should come back, the utilization should come back to its levels which have been there historically.

Saket Kapoor: No. Suppose we are factoring in an increase in caustic prices also globally. So in that case, we would be able to increase the utilization level only to the extent chlorine gets consumed. So I was just alluding to that fact to reach from average 80% to another 90%, 94% as have been the averages earlier also. What kind of chlorine consumption capacity should be in the anvil so that evacuation happens? Or how will the metrics work?

Amit Agarwal: So Saket, as we've mentioned, I think there have been multiple questions on this call with respect to chlorine utilization, right? So we have mentioned that we're looking at there is a multi-pronged strategy that we have as the board approves, we will take that up. Our utilization is around 55%, post all expansions coming in. We will be having 55%, including the pipeline. And we are in advanced talks for further adding up to just captive consumption. So we'll come back to the shareholders once those plans get firmed up.

Saket Kapoor: Sir, on the debt level numbers, I think the INR 1,400 crore is the net debt as on 31st March. So this is the peak amount or what should be the debt number say for H2? And for H1 closing for FY 24-25?

Amit Agarwal: For our kind of a company, the kind of businesses we are in, the March debt is always the peak debt.

Saket Kapoor: Correct.

Amit Agarwal: Right. So H1, it will -- by end of H1, it will be lower. And then it again goes up by end of H2.

Saket Kapoor: But factoring into the current -- yes, yes. I join the queue. I want to just understanding currently, the current -- what are the current maturities lined up and just joined the queue.

Amit Agarwal: We keep our repayment at least for the next 1 to 2 years, if I remember correctly, the repayment in the range of around INR 100 crore, INR 150 crore.

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

Rohit Nagraj: Just 1 question. In our presentation, you have mentioned that we have sanctioned a power cost optimization project with capex of INR 120 crore. What is it exactly? And how will it help? Is it pertaining to the chlor-alkali project? So if you can give a little more details on this one. Thank you.

Amit Agarwal: So we are looking at doing certain modifications in our turbines, especially the older turbines. Now that will improve the efficiency of the power generation, thereby reducing the cost. So that is something we keep looking at innovative ways to reduce our costs because that's something which is in our control. And with that objective, the board has sanctioned this project.

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

Parth Vasani: Yes. Thank you for the opportunity. I just wanted to know about the epoxy plant. So what is the capacity of it and by when you're expecting to commission the same?

Aditya Shriram: So that, as we've mentioned in the past, we have an in-principal approval from the Board. We are doing a lot of the technology evaluation, detailing out capacities, et cetera. And once it is approved by the board, we'll be able to share all those details.

Parth Vasani: Okay. Any date as such by when you're expecting or that is still yet to be finalized?

Aditya Shriram: So we expect that in the next couple of quarters, we'll be able to go ahead with moving forward with the project after approval internally.

Moderator: Thank you. The next question is from Shantanu Naik, who is an individual investor. Please go ahead.

Shantanu Naik: My question is...

Moderator: Shantanu, I'm sorry to interrupt, but we can barely hear you if you could please speak a little louder.

Shantanu Naik: So my question is regarding Fenesta. So what kind of total revenues from Fenesta. What would be the percentage...

Ajay Shriram: Can you kindly repeat yourself?

Shantanu Naik: Okay. So my question is regarding Fenesta. So of total revenues from Fenesta, what would be the percent share of projects, retail and commercial?

Amit Agarwal: So out of the total revenue, about 35% is projects. The rest is retail.

Shantanu Naik: Okay. And in -- and with respect to growth, what kind of growth do we expect in UPVC compared to aluminium? Considering aluminium right now is doing almost 20% of total revenues from Fenesta, so.

Amit Agarwal: So if I got your question right, you're saying the growth of aluminium versus UPVC, have I understood it right?

Shantanu Naik: Yes.

Amit Agarwal: Yes. Aluminium actually is growing faster, but we had a much lower base. So its definitely growing faster. Put together, we have seen at least our business growing at almost around 20% year-on-year.

Shantanu Naik: Okay. And do you see that in medium term, aluminium and UPVC sharing equal in percentage of total revenues for Fenesta?

Ajay Shriram: Frankly, for Fenesta business, it's now been expanded to UPVC windows, aluminium windows. We are into doors, we've started façades. So we've got a range of product and down the line more things will get added. So we are hoping that the aluminium window as well as the UPVC windows both grow rapidly, and they both have a separate market segment. So we are focusing on both very aggressively.

Moderator: Thank you very much. We'd like to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Ajay Shriram: Well, ladies and gentlemen, thank you very much for your participation in our earnings conference call. We are committed to deliver better earnings and growth. Initiatives taken by us to enhance capacities, raise efficiencies and promote sustainability will begin delivering intended outcomes in the coming years. The commissioning of our new projects in the Chemical business will usher in a new area of growth. Further, we continue to evaluate adjacencies to enhance our portfolio in the core area. Thank you once again and wish you all, all the very best always. Thank you.

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

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