SANMAR

Chemplast Sanmar Limited

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

February 9, 2022

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

Sub: Transcripts of the Earnings Conference Call held on January 31, 2022

Please find enclosed the transcripts of the Earnings Conference Call held on January 31, 2022.

We request you to take the same on record.

Thanking You,
Yours faithfully,

For CHEMPLAST SANMAR LIMITED

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

CHEMPLAST SANMAR LIMITED CHENNAI 600 086

Responsible Care®
OUR COMMITMENT TO SUSTAINABILITY

"Chemplast Sanmar Limited
Q3 FY2022 Earnings Conference Call"

January 31, 2022

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

ANALYST: **MR. ABHIJIT AKELLA – IIFL SECURITIES LIMITED**

MANAGEMENT: **MR RAMKUMAR SHANKAR- MANAGING DIRECTOR - CHEMPLAST SANMAR LIMITED**
MR. N. MURALIDHARAN - EXECUTIVE DIRECTOR FINANCE - CHEMPLAST SANMAR LIMITED
DR. KRISHNA KUMAR RANGACHARI - EXECUTIVE DIRECTOR CUSTOM MANUFACTURED CHEMICALS DIVISION - CHEMPLAST SANMAR LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY22 Earnings Conference Call of Chemplast Sanmar Limited hosted by IIFL Securities Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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. Abhijit Akella from IIFL Securities Limited. Thank you and over to you Sir!

Abhijit Akella: Thank you, Rutuja. Ladies and gentlemen, good afternoon and thank you for joining us on the Q3 FY2022 earnings conference call of Chemplast Sanmar Limited. It is my pleasure to introduce the company senior management team who are here with us to discuss the results. We have with us Mr. Ramkumar Shankar, Managing Director, Mr. N. Muralidharan, Executive Director of Finance and Dr. Krishna Kumar Rangachari, Executive Director, Custom Manufactured Chemicals Division. We will begin the call with opening remarks by the management team and thereafter we will open up the call for a Q&A session. I would now like to hand call over to Mr. Ramkumar Shankar to take proceedings forward. Thank you and over to you, Mr. Ramkumar!

Ramkumar Shankar: Thank you very much. Good afternoon everybody and I hope that I am audible. On behalf of Chemplast Sanmar Limited and the management team, I extend a very warm welcome to everyone for joining us on a call today. I hope everyone is safe and healthy.

Let me start with a quick snapshot of our company and then we will walk you through the operational and financial performance in the quarter under review. Chemplast Sanmar is a 55 year old company tracing its heritage back to the 1960s. Our sponsors include two very well respected names, The Sanmar Group, one of the oldest and most prominent industrial groups in South India and Fairfax, a well known international investor. Over the years, Chemplast has carved out a niche in the Indian specialty chemicals sector. We are the largest manufacturer of specialty Paste PVC resin in India and through our wholly-owned subsidiary Chemplast Cuddalore Vinyls Limited; we are the second-largest manufacturer of suspension PVC in India.

The company is also a leading player in custom manufacturing of starting and intermediate chemicals catering to multinational innovator companies in agrochemical, pharmaceutical and fine chemical industries. Further, we hold a significant leadership position in the non-specialty segment like caustic soda, chloromethanes and hydrogen peroxide, which complete the integration story of the company. We have 4 manufacturing facilities in the southern region of India, mainly in Tamil Nadu and Union Territory of Puducherry. The company has a very high degree of vertical and horizontal integration with captive facilities to meet feedstock and intermediate requirements. Our integrated facilities position us very well in weathering price volatility across our portfolio of products.

Our growth has always been governed by strong environmental, health and safety standards. Over the years, we have invested significantly in that area. All our manufacturing sites have zero liquid discharge plants, which ensure that all liquid effluent is treated and reused within the process with no discharge outside. The coastal plants at Karaikal and Cuddalore on the East Coast of India also have desalination plants, which ensure that we draw water only from the sea and do not disturb the ground water table, which enables us to live in harmony with the neighboring communities. Also, we have earned the right to use the responsible care logo, which is an international chemical industry initiative granted after very stringent third-party audits. We release annual sustainability reports prepared in accordance with global GRI standards and assured by a big four audit firm. 13 such reports have been released till now.

With that brief company overview let me now move on to our performance in the quarter just ended.

Q3 has been a very strong quarter financially with revenues registering a 33% growth year-on-year and net profit growing 48% year-on-year. Our CFO, Muralidharan, will talk about this in detail a bit later.

Our specialty chemicals business continued to be strong in the quarter with paste PVC registering a higher realization resulting in higher healthy margins. We commercialized two new products on the custom manufacturing side and started dispatches for these products as well. After reaching all time highs in October, paste PVC prices corrected a bit and are now trading close to US $1700 to $1750 per tonne, and in the near to medium term horizon, we expect prices to be range-bound. With respect to non-specialty chemicals, caustic soda prices peaked during the quarter and still continue to be on the higher side, currently it is trading closer to $600 to $650 a tonne.

The Indian market for chloromethanes reached record highs duty restrictions, however, with the addition of new capacity in India, there has been some correction in prices though even after the corrections of prices are still higher than pre-pandemic levels. Once the market absorbs the incremental volume, we expect the prices to move up again.

Suspension PVC prices reached a record high in the month of October largely on an account of supply-side tightness. Thereafter prices have weakened a bit, but continue to remain at healthy levels. We expect prices to continue to remain strong as no significant capacity additions are on the anvil in the near term. It is noteworthy that the feedstock VCM prices have dropped even more than PVC had, however, the benefit of the drop of the VCM prices would kick-in after a lag of 30 to 45 days while the impact of the drop in PVC prices would have an immediate impact. Therefore, we expect margins on suspension PVC to improve in a couple of months as the benefit of the VCM price drops start to register.

Sales volume of paste PVC was lower than production largely due to the restriction on operation of downstream units in the national capital region in Q3 due to the poor -air-quality. This led to some stock build-up, which is expected to be liquidated in Q4 and the months ahead. Similarly, suspension PVC volumes were also affected to some extent in November and December largely due to the extended rains. Here too, the inventory build-up is expected to be liquidated in the near term.

The one unknown in the quarter ahead is the impact of the Omicron variant on operation of end-user industries and the demand. However, given the experience so far, this variant seems to have a milder impact and thus the fall-out could be milder and more short-term.

Looking ahead, we are rigorously working on our expansion projects, which were mentioned at the time of IPO. For our proposed PVC expansion of 35,000 tonnes per annum, we have received environmental clearance. In fact, the clearance has been received for 70,000 tonnes, but as of now we are going ahead with 35,000 tonnes per annum expansion as phase 1. Once that is complete, we will review the next phase. This project is well on track and it is expected to come up by FY24 near the existing facility of our wholly-owned subsidiary, Chemplast Cuddalore Vinyls Limited, at Cuddalore. We are leveraging our subsidiary's existing infrastructure including land and import terminal, for this expansion.

We are also working on expanding our custom manufacturing business with the addition of new multipurpose facilities thereby bringing in new products which are in the pipeline. Planning detailed engineering and ordering is already in progress for the first phase of expansion.

Given the make or buy economics in ethylene dichloride we have now optimized our production of caustic soda and EDC and another aspect of growth which is very imminent is a de-bottlenecking of a suspension PVC capacity by 10%. This is expected to come fully online by the first quarter of FY23. This is a phased de-bottlenecking part of which is already completed. Now, I would request our CFO, Muralidharan to share the quarterly financial highlights.

N. Muralidharan: Thanks, Ramkumar. Good afternoon, everyone. I hope I am clearly audible. Looking at the key highlights of Chemplast's performance in Q3 and 9 months FY22, Chemplast Sanmar on a consolidated basis registered a significant increase in its revenue and operating profits for Q3 FY22 as compared to the same period of the previous financial year. Revenue from operations for Q3 stood at Rs. 1,452 Crores registering a growth of 33% on a year-on-year basis. This was on account of high realizations per tonne for most of our products - specialty paste PVC, suspension PVC, chloromethane and caustic soda. On the volume front, while the non-specialty products volume for the quarter was higher, sales volume for Paste PVC and Suspension PVC for the quarter are slightly lower on year-on-year basis, primarily due to restrictions around operations of downstream units in the NCR due to poor air quality and the extended monsoons during October to December 2021 quarter. This resulted in some build-up of paste PVC and suspension PVC inventory by end of December 2021. The demand has since picked up strongly and the inventory is expected to get diluted in the near term.

This quarter saw record prices for some of our key products during October 2021. Though the input prices also went up, the increase in the end product prices more than offset the higher input costs and the margins were quite healthy.

The end product and input prices have since eased off during November 2021 and December 2021 with the price of key input Vinyl chloride Monomer correcting higher than the correction in the end product

Suspension PVC price. Going forward, with the strong pick-up in demand and continuing supply tightness we expect the prices to be reasonably range bound.

EBITDA for the quarter was at Rs. 353 Crores registering a growth of 25% on year-on-year and the EBITDA margin for the quarter was at the healthy level of 24%.

Chemplast Sanmar prepaid its NCDs in the month of August using IPO proceeds and our subsidiary, CCVL, had renegotiated its term interest from 11.75% to 8.75% in Q2 FY22. Thus, our finance cost for the quarter came down significantly to Rs. 37 Crores from Rs. 113 Crores on year-on-year basis.

Driven by higher operating profits and lower interest and finance cost, the PAT grew by 48% to Rs. 237 Crores compared to Rs. 160 Crores during the same period in the previous year.

Looking at the year to date numbers, revenue from operations for the 9 months grew by 66% to Rs. 4,085 Crores as compared to Rs. 2,457 Crores in the corresponding period last year and EBITDA for the 9 months grew by 67% to Rs. 850 Crores compared to Rs. 511 Crores in 9 months FY2021. With the higher operating profits and the lower finance cost, net profit for 9 months FY22 grew to Rs. 417 Crores which is over 9 times the PAT of Rs. 46 Crores in the corresponding period in the previous year.

On the balance sheet front, the company continues to be debt free on a standalone basis and on a consolidated basis, the net debt is negligible. On the rating front, both Chemplast Sanmar and Chemplast Cuddalore Vinyls Limited have been rated A+ for the long-term debt and A1+ for the short-term debt by CRISIL. This is actually a two-notch increase compared to the early ratings for both the companies. That concludes our presentation on the Q3 results of Chemplast Sanmar and we would like to open the floor for further discussions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ahmed from Unifi Capital. Please go ahead.

Ahmed: Thank you for the opportunity, Sir. the first question is that there is some demand impact in Q3 because of erratic monsoon and other reasons, so can you please share the inventory pile up as of December 2021 for both suspension and paste PVC?

Ramkumar Shankar: Yes, sure. As you rightly said because of the extended rains in most parts of the country the demand was affected for pipes and therefore for resin as well, our stock as at end of December was around 24,000 tonnes for Suspension PVC and paste PVC stock was around 6,000 tonnes. The demand for this was actually impacted not because of the rains, but more because of the restrictions in the national capital region on the operations of industrial units because of the air quality and significant proportion of the leather cloth industry is situated in the National Capital Region and that affected end-use demand, so paste PVC stock moved up to 6,000 tonnes.

Ahmed: Sir, PVC end-user industries have recently filed petition regarding the reduction in the PVC import duty for the current budget and then that may impact the premium that the domestic players are able to charge related to the imported PVC, so how does that impact profitability, can you please give some light on that?

Ramkumar Shankar: This is a very hypothetical situation, I do not think we need to spend too much time on that, it is just that they had made a request, it does not mean that it is going to happen, but all that I like to say here is this, PVC duties went up from 7.5% to 10% as recently as in 2019 and this was done after a lot of deliberation and discussion and for very valid reasons, essentially PVC is a very, very strategic commodity, which goes into very important sectors like construction, like agriculture and water conveyance and therefore it is always better not to be over-dependent on imports for such a strategic commodity. Given that the government also realized the factor costs in India were much higher than in comparable countries and therefore to encourage for the manufacturer of PVC in India factor to give this increase in duty and this happened just as recently as in 2019 and equally importantly this 10% is not high, it is quite comparable with levels of tariffs that are prevailing in other countries, which are comparable to India at the stage of development that we are in, therefore we are quite confident that there is absolutely been no change since 2019 on this front and we see no reason why there would be any changes in duty.

Ahmed: Sir, it makes sense. Thanks for the detailed answer and the second question is on the PVC supply-demand also, so I think Adani is also trying to enter PVC industry they have announced expansion, etc., so how does that impact demand-supply domestically in Indian market that is first question. The second question is, how do we see expanding our suspension capacity PVC and tie-up with VCM supplier?

Ramkumar Shankar: As far as the PVC supply demand in India is concerned you know by 2026, the demand is expected to grow to around 4.5 million tonnes and with the current capacity of around 1.5 million tonnes that would mean a gap of 3 million tonnes as far as suspension PVC is concerned, so this is a huge gap, now any new capacity that comes in is actually welcome because once new capacity comes in even the downstream producers tend to increase their capacities because they have no confidence of availability of material, so even that 4.5 million tonnes would go up even more given the fact that the per capita consumption of PVC in India is far lower than the rest of the region. For instance in India it is around 2.4 to 2.5 kilos whereas in China it is in of excess of 10 kilos where the other Southeast Asian countries are anywhere between 4.5 to almost 8 kilos. So we are way behind and supply side security would also give the confidence to downstream producers to expand, so we do not see any impact as it is of any new capacity coming in other than a positive impact even the capacity that is announced can come in by only around 2025 or 2026 because it takes that kind of a time to build for a new Greenfield plant unlike Brownfield expansion like us, so that is how the market would absorb this additional capacity.

As far as our own expansions are concerned we are always focused on growth opportunities on various front, and we are always looking at that. Our current focus is on growing our specialty chemical's size and increasing the contribution of specialty chemicals to our overall portfolio. In this regard, we have already announced, as I was also mentioning in my opening remarks, we are already working on the

Specialty paste PVC expansion as also the Custom Manufactured Chemicals expansion. In the Suspension PVC, we are doing a small de-bottlenecking which will 10% and that will come in quite early within the next 3 to 4 months. Having said that, any futures expansions are things like that would be dependent on like you also said the feedstock tie-up, these are all capital intensive if we decide to integrate on the feedstock ourselves, then that would mean far more capital commitment so that is something that we will look at the right time.

Ahmed: Thank you and Sir, the second question is on cash position so how much cash we have as of December on the standalone balance sheet and on the CCVL balance sheet and have you paid any payables in this quarter?

N. Muralidharan: Our total cash position was at Rs. 856 Crores as of the end of the period and we have, considering the negative carry, consciously reduced the payables to some extent this quarter.

Ahmed: Can you please quantify?

N. Muralidharan : Actually, we paid almost Rs. 515 Crores either as the upfront payment for purchase of VCM or as pre-payment of LC.

Ahmed: Sir, the second question is on the dividend policy side, in CCVL we have a negative networth and we cannot distribute cash as a whole and for the standalone entity we have the CAPEX requirement for both Paste PVC and CMC business, so how that will work the dividend policy will work in the future and have we given any thought on the dividend policy so far?

N. Muralidharan: You would appreciate that we are just a few months post listing and I think this is something that the board will consider at an appropriate time. I am sure when the annual results are published at that point in time; the board will consider and take an appropriate decision on the dividend in terms of what is the policy for dividend going forward and what would be the distribution, all of those. As far as, the project funding is concerned, I think Chemplast Sanmar has enough cash to take care of the equity portion of the project that needs to be funded. As you know the total project that is currently being committed is around Rs. 650 to 700 Crores and Chemplast will have enough cash to take care of its commitment towards the project.

Ahmed: Sure, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Akella from IIFL Securities Limited. Please go ahead.

Abhijit Akella: Good afternoon, thank you so much for taking my question. I have a couple, first one was on the PVC business, so in Q3 despite a significant decline in volumes on a quarter-on-quarter basis because of the challenges that you highlighted, the overall EBITDA is flattish sequentially or even slightly higher, which kind of implied that the margins have expanded quite significantly sequentially and in your commentary you also mentioned that the benefit of the correction in VCM prices will be visible over the next 30 to 45 days, so I just wanted to clarify should we interpret that commentary to indicate that margins can improve even further from Q3 levels or how exactly should we think about that?

Ramkumar Shankar: Abhijit that was a good question. Let me just take a step back and explain what happened in Q3. We reached record highs of suspension PVC prices in October 2021 and thereafter once this was at the peak of the dual controls and all that coal shortages that were there around the region especially in China and thereafter when the Chinese government stepped in and corrected the situation there because of the coming winter requirements for heating, the availability of PVC has improved and here again the demand in India was impacted because of the extended rains and that together led to prices falling off the high, so this drop in prices continue till about mid January after that there has been stability on the prices and in fact right now it looks like some import quotes that are coming in or actually higher than the earlier around, so it means that the prices seem to be looking up again, but the point is that we have built up stocks and those stocks will get liquidated over the next couple of months and from March onwards we would start to see the margins again being restored to the high levels that we have seen in the recent past, so this is really where we are, so in the first couple of months that could be a little muted margins as far as suspension PVC is concerned.

Abhijit Akella: Got it, understood, and the second question, I just had was on the custom manufacturing chemicals business, you talked about the commercialization of 2 new molecules, just wondering if there is any further colour that would be possible to share with us on that, thank you?

K. K. Rangachari: This is Krishna here, sure we did commercialize 2 new molecules in fact on one of them the campaign got over and we actually have a repeat order for the next campaign on hand and the second molecule we are in the process of making shipment and that campaign will get done sometime this quarter and also the pipeline is very strong I know we have a number of products that we are working on the various stages of commercialization and we are making good progress on those aspects.

Abhijit Akella: Thank you so much and wish you all the best.

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

Ankur Periwal: Congratulations for a good set of numbers. Sir, just following up with the earlier question on the PVC margins overall, while I take your point on probably moderate margins in the month of January and February may be a rebound thereafter, but do you expect March onwards the margins would be elevated going ahead as well given the benefit as you will see on the RM and the pricing side?

Ramkumar Shankar: I did not quite catch the last one, from March onwards?

Ankur Periwal: On the margins, while taking your point that the significant improvement in margins may be visible from March onwards wherein the stock liquidation will happen, but do you expect those margins to sustain at those levels or probably they will also drip down and normalize to FY2022 average number?

Ramkumar Shankar: See, margins are likely to improve from March. Okay let me give idea of the extent of price delta between PVC and VCM, in October the peak that were reached of PVC of $1,900 and VCM of around $1,600 so the delta was around $300 a tonne at that point in time, now $1,900 of PVC have come off to $1500, now all these levels of much higher than pre-pandemic levels, which as we expected because of the fact that a global tightness is very much set, suspension PVC came down to $1,500 levels, VCM is down to $1,100 level, so while the drop in PVC has been from $1,900 to 1,500, which is $400, the drop in VCM is $500, so the margin should kick in and this is where we expect that to be and obviously there will be some movement here and there so it is a question which we cannot really predict with absolute certainty where we would be. For all, I would say that it we are quite positive in the direction.

Ankur Periwal: Sure, that is helpful and second question on the CSM side, you did mention some around the new product launches in the pipeline there, if I look at quarterly run rate here on the CSM side obviously there is a Q-on-Q sharp jump there, if you can quantify maybe the opportunity size of these 2 molecules and the current capacity utilization whether we have inadequate capacity to ramp up these products further and maybe capitalize on the newer ones and a related question to that will be the CSM expansion that we are planning, the timeline if you can share on that side?

K. K. Rangachari: So, on the two new products we have commercialized with respect to capacity as we have declared earlier itself, we are fairly close to operating at full capacity, but we continue to de-bottleneck and squeeze additional capacity out of the existing asset base and so these two new products we would be able to continue manufacturing them as go along in the future campaigns, but the intent long-term is to move some as well as the other products that are in the pipeline in various stages move into the new production block or the multi-purpose blocks that we are in the process of building, with respect to that we are track. In terms of the project related to the multi-purpose block and we will have better updates as we go along in the coming months.

Ankur Periwal: Sure, Sir. If I got you right, the new multipurpose projects will probably be coming in FY2024, but till then, debottlenecking led expansion will help us drive growth here on the revenue side, will that be right?

K. K. Rangachari: So, the new multi-purpose block is FY23 plan, but the second part is right I mean till that comes along, grow the existing, I mean we have growth in our existing products as well as the ones that we have commercialized this year, we will be able to manage those within the existing facility.

Ankur Periwal: Sure, Sir. if let just squeeze in one follow up on this, the margin profile of these newer products that we are versus the older one, is there a significant difference or broadly we are on the similar trajectory?

K. K. Rangachari: That will be on the similar trajectory.

Ankur Periwal: Okay, great, Sir, that is helpful and all the best, thank you.

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

Dhaval Shah: Sir, I have a couple of questions, for the two questions, what sort of volume recovery will you see in the fourth quarter for CCVL?

Ramkumar Shankar: We believe that whatever inventory that we built up in Q3 will be liquidated over the next few months, so demand is already picking up as you know the rains have stopped now, and obviously with entire chain having been de-stocked there is very little inventory available in the system, so that is the pull that is started, if things go exactly as we expect it could happen over the next 3 months we could see all those inventory go off.

Dhaval Shah: So, in the third quarter, we made roughly 9300 tonnes volume, and you have an inventory of 24,000 thus the carry forward inventory, so can we go anywhere close to the third quarter volumes, sorry the second quarter volume like second quarter will be 9300 tonnes?

Ramkumar Shankar: Yes, we should be doing, we should be touching that possibly.

Dhaval Shah: Perfect and Sir, now this 24,000 tonnes firstly at a higher VCM in price and now the VCM prices have fallen so can you tell me what with the cost of this 24,000 tonnes inventory, which we are carrying?

Ramkumar Shankar: I do not have that exact number right now with me, but all I can tell you is that the cost of the inventory is around Rs.120,000/ tonne.

Dhaval Shah: Okay right and would you be able to share the VCM rate at which the production cost of this?

N. Muralidharan: VCM is being carried at roughly around $1380/ tonne level.

Dhaval Shah: Can you repeat that?

N. Muralidharan: $1380/ tonne level.

Dhaval Shah: $1380?

N. Muralidharan: Around that.

Dhaval Shah: The prices that you gave $400 spread, is the current spread, correct, $1500, $1100?

Ramkumar Shankar: That is right, that is based on current numbers.

Dhaval Shah: And this spread will be reflected in the fourth quarter or it will be reflected in the first quarter?

Ramkumar Shankar: like I have said this should start kicking in from around March and maybe the full impact will be in the first quarter.

Dhaval Shah: Yes, the 35 to 40 days gap you mentioned, okay and Sir.

Moderator: Thank you. The next question is from the line of Raj Kiran Gandhi from SBI Mutual Fund. Please go ahead.

Raj Kiran Gandhi: Thanks a lot for the opportunity. Sir, if you could just highlight on the anti-dumping duty on PVC, which is expiring mid February, so what is the status of that?

Ramkumar Shankar: The antidumping duty that we have is on two countries, which is basically US and China, this ranges from around 2% to 10% in the case of the US and 4% to 10% in the case of China, actually I have just converted this into a percentage actually denominated in specific dollars per ton and it defers given who the exporter is. This is expiring on February 13, 2022, and we do not expect any great impact because there is no impact really largely because, a) as far as the US is concerned even now the FAS Houston prices for PVC from the US is already higher than the CFR India prices and therefore given that and the time involved in shipping PVC all the way from the US to India very high logistics costs, non-availability of containers, etc., US is really not a threat in fact we do not see much material coming in from the US to India and as far as China is concerned here again we do not believe that it is going to be a threat, the way these things normally work is that whenever there is antidumping duty in-force on a specific company that company normally reduces its price to factor in the antidumping duty and the others on whom there is no antidumping duty gets the benefit as a higher price now when the antidumping duty is removed the general practice is for this company also to raise the price to the same level as the others, they do not need that money on the table, so we do not think that this will impact the market at all.

Raj Kiran Gandhi: Sure, and let me if I were to see your pricing as you mentioned typically the local prices at 10% to 15% premium to landed across all petchem products whereas currently as we see we are at 3% at 4% discount, so do you think in that sense even if globally spread come off regionally around there is a cushion in terms of local pricing premium?

Ramkumar Shankar: See if you take for instance suspension PVC the normal premium is around $30 a tonne over import priority price and if you look at paste PVC it could be anywhere from $50 to $100 a tonne in terms of import parity, but when prices by themselves are very high at that point in time the premiums are moderated, it would be a little too much to add a premium on top of what is already a very high price level and these things vary a little bit but normally their average is around these levels you would find that could be an opportunity there.

Raj Kiran Gandhi: So, the $30, premium is it fair to say today we are at a discount?

Ramkumar Shankar: Today, we are on parity, we are not a discount, we are in parity, in some markets we would already definitely be at a premium, it also depends on the geographies that we are selling into, because of their prices the equivalent would be slightly different in the north and the west and in the south.

Raj Kiran Gandhi: Sure, and one last question, any timelines since you got the EC for Paste PVC expansion, any clarity on the timeline if you can share?

Ramkumar Shankar: We have said that we would be commissioning this by around October 2023 and I think that is we are well on track for that.

Raj Kiran Gandhi: Sure, I will come in queue for further questions. Thank you.

Moderator: Thank you. The next question is from the line of Dhruv from HDFC Asset Management. Please go ahead.

Dhruv: Thank you so much. Sir, just one clarification, the speciality chem. Business that we disclose the presentation does it include just the paste PVC segment or it includes some others too, what I am trying to understand is if I do the revenue and the quantity of specialty chemical to get the realization will it just be for the paste PVC or does it include even others?

N. Muralidharan: Specialty chemicals include paste PVC and customer manufactured chemical products. These two we view as specialty chemicals and we track them together so that is how it is presented

Dhruv: Got it, custom manufacturing and these things, correct, perfect, Sir. the second question was the volume decline in the Paste PVC segment of the specialty chemical is about 37% odd Y-o-Y also on a Q-o-Q basis and I believe that is largely for the paste PVC, custom manufacturing is broadly similar, so this seems a significant decline so you mentioned about NCR region, but just to get some context here what would be NCR percentage of total India demand for paste PVC?

Ramkumar Shankar: See around 60% of the total leather cloth industry is concentrated around that region and leather cloth by itself is around 75% to 80% of the total demand for Paste PVC, so you can make out the importance of that region and during the winter it happened this year that there were restrictions on the operations of industrial units in the NCR and that obviously impacted the demand of it, the one other thing that actually impacted was Omicron resulting in schools being shut down again and that again had an impact on the footwear demand, usually the school footwear demand picks up around this time and people start preparing for the school season and again when there was a shutdown so that again had an impact, but actually now with all schools reopening around the country we had started to see that footwear demand come back, and therefore we believe that this is just a temporary build-up of inventory.

Dhruv: Because if I think of the NCR region it seems even last year and probably it seems a regular event now every time in winters they have this issue at least for a couple of weeks so it seems it is more to do with the footwear thing rather than the normal winter issue?

Ramkumar Shankar: It is a little bit of both. This time possibly it was a little more extended than last time, but I think that what we possibly need to consider that is some kind of a seasonality going forward, I guess.

Dhruv: The last question is you mentioned that the paste PVC pricing is about $1700 currently to settle at that range and you mentioned the Suspension PVC is about $1500. So is the $1500 the domestic pricing that you mentioned for SPVC and for the Paste PVC that you mentioned is the international pricing because if I look at the gap between the two it is about Rs.15 to Rs.16 per kg in kg terms and if I look at the historical trend the Paste PVC pricing had started to reflect some premium to the Suspension PVC, I mean much larger premium versus what it used to trend historically. So I am just trying to understand the gap seems to have narrowed a bit? So is there a difference between the quoted price that you mentioned?

Ramkumar Shankar: Not really. Yes, Paste PVC has come down to around $1,700 to $1,725 around that levels right now and Suspension PVC at this level. See what has happened really is that Suspension PVC has really picked up strongly because of the shortage globally, so it is not that Paste PVC has actually dropped. It is just that Suspension PVC has picked up. We are not complaining.

Dhruv: Is that right that generally the differential between the SPVC and Paste PVC was the price realization differential was more than Rs.20, Rs.25 at least in the last two-three years. Probably I am just trying to understand does it give some scope that the Paste PVC prices can be further higher than what they are currently?

Ramkumar Shankar: Like when Suspension prices came down Paste PVC also at the time when the Chinese situation eased up because of the dual controls, etc., there again it did come down, see the one thing that we will need to understand is that a lot of the capacity for both suspension and paste is concentrated in China and a lot of that, in turn is based on this archaic carbide route, which is coal chemical-based and this is really the area which is on the focus right now both from the point of view of emission control and also from the point of view of the mercury phase-out under the Minamata Convention. So the story is yet to clear out fully that what we saw in October and early part of November was I guessed just a trailer of what is likely to happen when that crackdown on emissions in China plays out and it is still work in progress.

Dhruv: Got it, so just to confirm both the pricing that you have mentioned that the dollar pricing that you mentioned is the domestic pricing they are not the international prices?

Ramkumar Shankar: CFR India prices.

N. Muralidharan: They are CFR India prices Dhruv, so after that, you add the duty and then whatever premium you get.

Dhruv: Got it, perfect, Sir. Thank you so much, Sir.

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

Bharat Sheth: Congratulations, Mr. Ramkumar and Mr. Muralidharan and team. Sir, I have just one question while on this suspension PVC we were looking for a feedstock tie-up for which we are waiting for announcing a capacity expansion now if I look at the supply side, I mean VCM area so having a shortage or EDC is having shortage can you give some color on the economics of producing from EDC to suspension PVC and VCM to Suspension and PVC?

Ramkumar Shankar: First of all good afternoon and thank you for your kind words, as far as EDC and VCM are concerned as you know EDC is one step before VCM in terms of value chain. So from EDC you make VCM and then from VCM we make the PVC and if you have to invest in the manufacture of VCM itself it is capital intensive because you will need to setup even if it is based on imported EDC or imported ethylene if we have that you will still need significant capex for investing in the VCM production facility so obviously the value addition would be more, you would be captured a bit more of the value chain, but then you would also have to invest lot more in that, whereas if you are importing VCM and making PVC it is an asset like model like mentioned in the last call as well while the margins would be lower the investment is far-far lower, so it is kind of a toss-up between the capital investment and operating margins, so we have chosen to do it through the VCM route largely to reduce the time to market and also because that would give us a better return on capital and that was how we have done it and for the last 12 years we have been successful as well in setting up a supply chain that meets our requirements, any further investment we would need to then look at how much VCM was available or whether to go through the integrated route itself and that is something that like I said we would take a decision at the appropriate time. As far as the Paste PVC is concerned incidentally we have 100% of the VCM manufactured in-house, so there we are fully integrated.

Bharat Sheth: How much is the ROC difference between, if I really look at the spread between going for EDC to Suspension PVC and VCM to PVC so what kind of ROC difference and how much additional capacity is required?

Ramkumar Shankar: Today, let me give you very, very rough rule of thumb numbers for setting up maybe 300,000 tonnes PVC plant based on imported VCM, which is more or less of Brownfield site like us, I m not talking about a completely Greenfield site which could be much higher, the Brownfield site like us, which already has a marine terminal, the pipeline, VCM storage tank and all that, that could cost may be around \$100 to \$125 million, but an equivalent 300,000 tonnes VCM plant could cost anywhere between \$250 to \$300 million so this is again these are all very rough numbers which also equally depends on the geography where you are setting it up, but that kind gives you an idea of the difference in capital investment that is required for the integration that you are seeking and today's prices EDC prices are pretty high at around \$850 a tonne whereas VCM prices are at \$1100 a tonne so that advantage is not so much seen for a new plant.

Bharat Sheth: Thank you very much and all the best, Sir.

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

Yogesh Tiwari: Thank you, Sir for taking my question. I had two questions, the first question is, if you can please share the pricing scenario for Caustic Soda currently versus Q3 quarter, what would be if they decline what would be the approximate percentage decline and what is the outlook and my last question is recently the government of India has revoked the antidumping duty on Flexi films PVC just wanted to understand if this is part of your product portfolio and what would be the contribution for sale if it is product portfolio? Thank you.

Ramkumar Shankar: PVC flex films are not something that we produce that is one of the products that uses the PVC Resin. The large part of the overall PVC industry in the sense that for us more than 78% is comprised of PVC pipes and fittings and then a large part comes to wires and cables and profiles as well so that does not directly affect us. As far as caustic soda is concerned actually caustic soda prices have only been increasing and in fact the benefit of these increased prices we will start in Q4 because the way the industry operates is that roughly around 60% of our sales is based on short-term and 3 to 6 month contracts and those are all based on the prices, a fixed price contracts so as and when those contracts that were entered into earlier are ended, we will start seeing the benefit of the current prices, so this is why you would even for other companies who are into Caustic Soda would start seeing that benefit on higher prices coming in from Q3 and then more so in Q4. So we will start seeing higher prices in Q4 and incidentally on this antidumping duty revocation on PVC Films, the Gujarat high court has actually stayed the order so it is not yet implemented. Did I answer your questions?

Yogesh Tiwari: Yes, in this if you can put an approximate number percentage what would be the increase in Caustic soda prices compared to third quarter as of now approximately in percentage?

N. Muralidharan: The third quarter prices were somewhere around average 40,000 levels now it is close to 50,000 levels.

Yogesh Tiwari: Thank you for taking the question.

Moderator: Thank you. The next question is from the line of Amanjit Singh from Oculus Capital. Please go ahead. As there is no response we will move to the next question that is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: Good afternoon, I have two questions, first on the SPVC demand in the fourth quarter; we see third quarter volume have dipped significantly. How is that being seen in the fourth quarter and second do you see any supply influx coming in from China during the current quarter, as we understand one of your competitors said that there could be increase in supply from China, which could have a downward pressure on the prices?

Ramkumar Shankar: As far as supply of suspension PVC demand in Q4 is concerned this is we are heading into peak demand season as far as suspension PVC is concerned and right now with all the de-stocking that happened in Q3 very few inventories are being carried right through the channels, so we do expect good demand pull going forward and we do not see any great material flooding in the market from China, we have not seen anything great, yes China is one of the you know they to around 20% of the total imports coming into India comes from China, but it is not as if there is a relatable flood even within China there is a significant demand growth and we believe that there is pressure on operations of the existing plants with the winter Olympics and various other factors like, decarbonization, etc., so we do not see that as a threat.

Rajesh Ravi: Great and following up, in January, so this demand traction is already visible in numbers in terms of Y-o-Y or sequentially?

Ramkumar Shankar: In the second half of January, yes, like you said the drop in prices went till the middle of January, after that it stabilized and now it is looking like some import quotes have already started coming in higher, so that itself is an evidence of the market demand getting stronger.

Rajesh Ravi: So, that you are expecting that price downward momentum which have seen in last 2 months or one and a half to two months that is really bottomed out and demand also should pick up, so that would also lead to better channel stocking?

Ramkumar Shankar: Exactly, that is our expectation

Rajesh Ravi: Great, Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj: Thanks for the opportunity. Sir, just one question, in Q3 for Suspension PVC what are the operating gains and because of the increased inventory levels in Q4 will the operating rate remain at same levels or are we planning to curb the operating rate, thank you?

Ramkumar Shankar: So we never curb operating rates for demand purposes because we know that this whatever inventory build-up is happening or the weakness in demand that we see is very temporary, so the curbing of operating rate would mean a permanent loss of volume which is something that we never do, so we do not see that happening, we will be producing and we are quite confident that this is just a temporary inventory build-up and even now if you look at it - inventory buildup is still a one month’s inventory build-up, a little less than one month, because we are used to having inventory of only around 4 days, 5 days or 6 days, we see, less than one month as something big, but in many industries one month working capital inventory is possibly the norm, but we do not believe that we are not under any pressure to cut back on operations.

Rohit Nagraj: Sir got it. Thanks a lot and best of luck, Sir.

Ramkumar Shankar: In early February there is a shutdown that we are anyway taking which is an annual shutdown that we take during which we will also be lining up some of the de-bottlenecking equipment whatever is being put in so that will anyway be there.

Rohit Nagraj: So, how many days will this shut down last for?

Ramkumar Shankar: That will be around 12 days that is a normal annual phenomenon.

Rohit Nagraj: Got it, thank you so much.

Moderator: Thank you. The next question is from the line of Darshik Shah from Nirvana Capital. Please go ahead.

Darshik Shah: Congratulations for the great numbers. It was just one question. Given what we are saying is the pricing trend for almost all the product categories, which we are into going to stay firm. What kind of EBITDA margins should we kind of run with in short to medium term for our company?

N. Muralidharan: We have achieved an EBITDA margin of 24% for the quarter and year as a whole it is around 21%, I think last year also was close to that. We would refrain from giving any specific guidance going forward, I think somewhere between these two levels would be a reasonable level going forwards, but we would like to refrain giving any specific number.

Darshik Shah: Sure, no issues. Thank you, Sir and all the best.

Moderator: Thank you. The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: My first question is, you know I would like to learn about the current size of the custom manufacturing, gross block or if you could just tell us a little bit more about what is that specific asset block on the asset block?

N Muralidharan: On the asset block, current gross block is around Rs. 80 Crores.

Aejas Lakhani: Rs. 80 Crores, okay and how will it progress does that increase the debottlenecking?

N. Muralidharan: Yes, debottlenecking is marginal capex that we will incur, but the large CAPEX is in terms of the projects that we are incurring like we have committed in the IPO. We have already started progressing on that, looking at an investment of around Rs. 340 Crores to 350 Crores over the next three years period.

Aejas Lakhani: I just wanted to understand also that in terms of total number of products commercialized till date could you give us some more color on that and are we tied up with the innovators or are we still in the pilot stage there?

N. Muralidharan: we have been working with innovators for a long time and we continue to enlarge the customer base and of course in terms of number of products and the details we would like to refrain from giving the details for competitive reasons, hope you would appreciate.

Aejas Lakhani: Yes, I understand that. Got it and Sir, the power and fuel cost, are we looking for any alternatives other than coal today?

Ramkumar Shankar: Today coal accounts for around 40% of our total power mix and we also have some portion coming in through gas and some portion is through the grid so we buy the grid power. In our subsidiary company, Chemplast Cuddalore Vinyls Limited, we are working with somebody on group captive power project on the solar front which could account for 25% of the CCVL requirement so we are constantly looking at it. We also have some windmills of our own but those are not too significant, but yet we are looking at means where we can reduce the proportion of coal in the overall mix.

Aejas Lakhani: As we mentioned of solar, do you factor that in your CAPEX guidance when you have given then out, or this is the incremental CAPEX that you are looking at and by when do you think it will get commercialized if at all you pursue the solar project?

Ramkumar Shankar: This is a group captive power project so it is not like we are setting it up, it is being setup by somebody else and we would only be subscribing to it in that sense, so we are working with them on and hopefully before the end of the next financial year we should have some news to share on that.

Aejas Lakhani: Okay, got it. Thank you so much.

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.

Ramkumar Shankar: Thank you very much. In closing, I would like to mention that the demand outlook for both Paste PVC and Suspension PVC continues to be strong due to the significant deficit worldwide and especially in the region and the high import dependence in the domestic market and global tightness auger well for the domestic manufacturers like us. With our dominant position in the Indian market and the expansion plans to cater to the growing demand, we believe that we are well placed to benefit from the uptick in chloro-vinyl sectors including PVC both Suspension and Specialty Paste and Caustic Soda. The custom manufacture chemicals pipeline is also strong and the prospects are encouraging and the strength of the balance sheet especially post the IPO puts us in a strong position to take advantage of the various growth opportunities. With this, I conclude the call and if you have any further queries, please do contact SGA, our Investor Relations Advisor. Thank you once again for joining us today on this earnings call and please do stay safe. Thank you very much.

Moderator: Thank you. On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.