SANMAR

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November 10, 2023

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

Dear Sir/ Madam,

Sub: Transcripts of the Earnings Conference Call held on November 3, 2023

In continuation to our letter dated October 30, 2023 please find enclosed the transcripts of the Earnings Conference Call held on November 3, 2023.

We request you to take the same on record.

Thanking You,

Yours faithfully,

For CHEMPLAST SANMAR LIMITED

RAMAN MAHADEVAN

Digitally signed by RAMAN MAHADEVAN
Date: 2023.11.10 17:39:36 +05'30'

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

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"Chemplast Sanmar Limited

Q2 FY '24 Earnings Conference Call"

November 3, 2023

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MANAGEMENT: **MR. RAMKUMAR SHANKAR – MANAGING DIRECTOR – CHEMPLAST SANMAR LIMITED**

MR. N MURALIDHARAN – CHIEF FINANCIAL OFFICER – CHEMPLAST SANMAR LIMITED

DR. KRISHNAKUMAR RANGACHARI – DEPUTY MANAGING DIRECTOR, CUSTOM MANUFACTURED CHEMICALS DIVISION – CHEMPLAST SANMAR LIMITED

MODERATOR: **STRATEGIC GROWTH ADVISORS**

Moderator: Ladies and gentlemen, good day, and welcome to Chemplast Sanmar Limited Q2 FY '24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

Ramkumar Shankar: Thank you very much. Good afternoon, everybody. On behalf of Chemplast Sanmar Limited, I extend a very warm welcome to everyone joining us on our call today. On this call, we are joined by our CFO, N. Muralidharan; Dr. Krishnakumar Rangachari, the Deputy Managing Director of the Custom Manufactured Chemicals division; and SGA, our Investor Relations Advisor.

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

In line with our earlier guidance, Q2 FY '24 was relatively better as compared to Q1. While the top line was flat, EBITDA was back in the black during the quarter. We achieved an EBITDA of Rs. 46 crores as compared to an EBITDA loss of Rs. 35 crores in Q1. This was due to the bottoming out of PVC prices towards the end of June and the increase in prices in July and August.

The domestic demand outlook for both Suspension and speciality Paste PVC resin continues to be strong with a boom in the infrastructure and real estate sectors. However, the imports of both Suspension and Paste PVC witnessed an increasing trend towards the end of Q2 with heavy arrivals from China. This trend has spilled over to Q3 as well, resulting in correction in prices in the early part of October. While PVC prices have started moving up again from end of October, the scale of drop in the early part of October will impact our margins in Q3.

Based on our assessment, the recovery in the PVC business will be gradual over the next 2 or 3 quarters. Talking about our segmental performance during the quarter. On a sequential basis, our Speciality Chemicals segment witnessed a 4% uptick in volumes. Prices of Paste PVC saw a marginal 4.5% increase in Q2 of FY '24 on a sequential basis. Despite global cues of weakness in the end markets, the inquiries from potential customers of our Custom Manufactured Chemicals Division remained robust.

To effectively address the growing demand, we continue to enhance our capabilities. Overall, this business is on track to achieve 20% to 25% growth during this year. With the recent signing of the third LOI with a global agrochemical innovator for an active ingredient, we have strong visibility with respect to steady-state capacity utilization of the new production block and are on track to achieve Rs. 1,000 crores revenues from this business in the next 3 to 4 years. Phase 1 of the new multipurpose block, which we inaugurated in Q2 of this year, has been commissioned and is being ramped up. Deliveries of the 2 molecules for which LOIs have been signed in the recent past will commence from the second half of this year.

The chemical industry is experiencing a phase of broad-based weakness globally. On a sequential basis, our Other Chemicals comprising of caustic soda, chloromethanes, hydrogen peroxide and refrigerant gases, posted a flat performance in terms of revenues despite an 8% increase in volumes. Prices of both caustic soda and chloromethanes witnessed further correction in the second quarter compared to the first quarter. There are some initial signs of recovery in prices and we expect normalcy to restore in the next 2 to 3 quarters.

On the Suspension PVC side, we observed a similar trend in terms of pricing as witnessed in Paste PVC. The overall demand, however, continues to be strong.

Coming to our expansion projects, both our projects are on track. Completion of Phase 2 of the multipurpose block is anticipated by the end of financial year '24. And the Paste PVC capacity expansion by 41,000 tons will be commissioned in Q3 of FY '24. I'm happy to report that our Karaikal plant and 2 of our plants at Mettur have received the prestigious Sword of Honour award from the British Safety Council. Another plant at Mettur and our Cuddalore plant have already received this award in earlier years.

While we continue to face headwinds in the near term, we expect a recovery over the next couple of quarters. The business prospects for our products continue to be strong in the medium to long term. With the projects on track for commissioning as per slated timelines, we are confident of delivering a healthy performance in the future.

I will now request our CFO, Muralidharan, to share the financial highlights for the quarter and the first half of the year.

N Muralidharan: Thank you, Ramkumar, and a very good afternoon to all the participants on the call. Talking about the quarterly performance in the second quarter FY '24, the revenue from operations was flat on a Q-on-Q basis and stood at Rs. 988 crores. Our gross margins, which dropped to near historic lows of 27% in the last quarter showed a decent recovery to 34% in Q2 FY '24. This was largely due to some improvement in prices of both Suspension and Paste PVC, coupled with lower feedstock prices during the quarter.

Employee expenses during the quarter remained flat as compared to Q1. We, however, saw an 8% decline in Other Expenses sequentially, mainly due to a 10% reduction in energy costs during the quarter. Due to the above-mentioned factors, we reported an EBITDA of Rs. 46 crores, as against an EBITDA loss of Rs. 35 crores during Q1 FY '24. Our finance cost for the quarter stood at Rs. 39 crores, and PAT for the quarter was at Rs. 26 crores. While the correction in PVC prices in October '23 have reversed partially towards the end of the month, the scale of correction will impact the margins in Q3.

For H2 FY '24, we recorded revenue from operations of Rs. 1,984 crores, EBITDA of Rs. 11 crores and PAT loss of Rs. 38 crores. With the commissioning of Phase 1 of the Custom Manufacturing project in Q2, and the expected commissioning of the Paste PVC project in Q3 of this year, the volumes are expected to go up in the coming quarters. With respect to the balance sheet as on 30th September 2023, our consolidated net debt stood at Rs. 321 crores. This is mainly due to the project loans drawn during H1 of FY '24, combined with a slightly lower cash balance.

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

Moderator: Thank you. The first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Good afternoon Ram and Murali. Thanks for taking my question. I got a few of them. First, on the PVC, though India demand remains strong, I think globally, particularly China remains on the weak footing. How sure are we, of a recovery until China real estate completely recovers? And it appears that, that itself may take a few more quarters. So what gives us confidence of sustainable spreads in the PVC?

Ramkumar Shankar: Good afternoon Sanjesh, that is a very valid question. And what we really need to have is a stable margin and stable price level. Volatility is what is the problem. As we have discussed in past calls as well, so long as the prices are stable, the margins would also tend to stabilize because the feedstock VCM prices normally follow PVC pretty closely. It is only when prices keep yo-yoing that margins are affected because of the time lag between the drop or the correction in PVC prices and the correction in VCM prices. And the second action that as an industry we're looking at is to file for antidumping and to have quantitative restrictions. So there are a variety of measures that we have asked for, and we are hopeful that some of them would come through.

Sanjesh Jain: I think government has notified some quantitative measure, but it's been taking a lot more time on what we would have anticipated for that to get implemented, right?

Ramkumar Shankar: That's right. That was -- the DGTR has notified the quantitative measures, and it normally has a certain process time. And that process time will take its course, but we are confident that something will come through soon. That has to be notified finally.

Sanjesh Jain: Ram, my question on the standalone still remains. It's a fully integrated facility of Paste PVC. And we have a very good Speciality Chemicals business. EBITDA loss in that scenario?-- because I don't think people are making losses in caustic and chloromethanes. DCM Shriram is still making profit. That indicates that the profit cannot be in the red without Paste PVC not doing so well. So what is dragging the performance for us in stand-alone. And an integrated facility itself means that it cannot go into a red, right?

Ramkumar Shankar: The prices of Paste PVC are also, to some extent, being influenced by the sentiment around Suspension PVC. So while we saw the July, August upward correction in prices for both Suspension and Paste, the subsequent slide in Suspension PVC prices has impacted Paste PVC as well.

So this is something that -- in times like these, when the largest producer and consumer of PVC in the world, which is China, is going through some torment, this is having an impact on the region, if not the world as a whole. And that is really what is impacting us.

If you look at just the caustic alone, you sell the caustic and then look at the margins on just that, you may see that, that is looking very good for that company. And depending on the chlorine margins also, the chlorine price is bad there, maybe the chlorine is being sold at a negative price as well.

But if you look at, for us, even for us, on a stand-alone basis, caustic is making money. It's just a question of the rest of it coming together and the prices of Paste PVC actually settling down and once that happens, I think we will be back to the normal, business as usual.

Sanjesh Jain: No. I'm sticking to this, again. We are not making any losses in Suspension. I hope we are making profit in the speciality, you said we are making profit in caustic and chloromethane. Then what explains the loss in the stand-alone business?

Ramkumar Shankar: It's also question of timing. For us, the volumes also will need to come in. In our Custom Manufactured business, the volumes will come in towards the second half of the year. So that will also start kicking in, in the second half. So there are multiple things that are involved there. One is on the timing of sales in the Custom Manufactured Chemicals business. The second would be volatility in Paste PVC prices. So it is a mixture of all of these factors.

Sanjesh Jain: Got it, sir. Next, on the Speciality Chemicals side, we said that agrochemical inquiries remain strong. How many products are we developing today? And we also were eyeing to expand our presence in the pharma as well. Where are we in that journey?

Krishnakumar Rangachari: Sanjesh, this is Krishnakumar Rangachari. So on the Custom Manufacturing, the inquiries and the pipeline is very strong. In the past, we have disclosed that we have existing 8 number of products. This quarter or since last quarter, we are in the process of commercializing 3 more products, so that will take our count of existing products to 11. And the pipeline remains very strong and healthy between agrochemicals, pharmaceutical, as well as some other fine chemical inquiries.

So we do have an active initiative underway to diversify beyond agrochemical and we will keep updating you as we make progress on those developments as they move through the pipeline.

Sanjesh Jain: And how many products are in the R&D stage?

Krishnakumar Rangachari: So that's what I meant -- in our pipeline, over 15 are under various stages of development.

Sanjesh Jain: 15 products are under various stages of development?

Krishnakumar Rangachari: Yes.

Moderator: The next question is from the line of Tarang Agrawal from Old Bridge Asset Management. Please go ahead.

Tarang Agrawal: A couple of questions from my side, all relating to Custom Chemicals. If you could give us a sense whether the molecules in question, the 11 products that you have currently, 8 plus 3, while the customer is an innovator, but are largely these molecules in the post-patent space or in the patent space?

Krishnakumar Rangachari: So it's a blend. It's a mixture of the final molecules. Of the 11, I would say it's a mix of both generic as well as pipeline. So that's about as much information I can give. But the 3 letter of intents that we announced over the past 12 months, the first 2, one of them is an intermediate that's going to a new molecule that has just recently been launched. The other intermediate is for an established generic active ingredient. And then the third LOI that we just announced earlier this week, the active ingredient itself is a new pipeline molecule.

Tarang Agrawal: Okay. Got it. And these customers of yours, are they largely of Western origin or you've got Eastern customers also?

Krishnakumar Rangachari: They're all innovators based out of Europe and North America. So we don't sell anything in India.

Tarang Agrawal: Okay. Got it. And just if I could, a couple of them. As you reach 4,500 metric tons of capacity in Berigai, what would be the total gross block for this business? And if you could give us a sense on what is the workforce currently for this business?

Krishnakumar Rangachari: So the 4,500 would depend on the blend of products we have. It's an estimate which may change depending on the complexity or the simplicity of the molecule that we commercialize. So it's just a number based on an estimate of volume mix. So that is -- and that will be available only after the commissioning of Phase 2 of the production block -- Phase 2 of the multipurpose block that is under various stages of commissioning.

N Muralidharan: The gross block of that will be Rs. 680 crores that we are investing now. And earlier, we had around Rs. 85 crores. Rs. 680 crores plus Rs. 85 crores, that is the total gross block number for that business.

Tarang Agrawal: Okay. And just wanted to understand the workforce for this business.

Krishnakumar Rangachari: Yes. So the workforce at the site, it's all pretty much chemists and engineers. Today, an approximate estimate would be close to around 400, of a combination of mostly chemical, mechanical engineers and chemists. That number will keep increasing as we bring in at that stage to get commissioned over the next 6 months.

Moderator: The next question is from the line of Jatin Damania from Svan Investment Managers.

Jatin Damania: Sir, pardon me if I'm repeating the question. Sir, I just wanted to understand the average Suspension and Paste PVC spread in the last quarter, and with the dumping that's coming from the China and the pricing pressures that we are witnessing, what are the current spreads right now?

Ramkumar Shankar: Yes. Sorry, could you repeat that, please? It wasn't very clear.

Jatin Damania: Sir, I was just asking I wanted to understand the spreads of Suspension and the Paste PVC spread in the last quarter, Q2. And with the decline in the prices in the month of October because of the high import, what are the current spreads?

N Muralidharan: Yes. In Q2, the PVC-VCM spread was around \$200 /mt. \$199/mt to be precise. And as far as the Paste PVC is concerned, it's an integrated facility. So we don't look at the spread, we look at the contributions that we make, which is after considering variable conversion costs, packing costs, all of that and that was close to \$200/mt in Q2 of FY '24. As far as the current Suspension PVC spreads are concerned, the CFR Asia price, I'm talking about pre-duty numbers, CFR Asia price is around \$770/mt. And CFR Asia VCM is around \$615/mt.

So current pre-duty spread is around \$155/mt.

Jatin Damania: Okay. So probably, we can see some pressure into Q3, but sequentially, it was higher.

Sir, 1 question on the custom manufacturing front. Now in the previous participant, you indicated there will be that 9 molecules that are already there and you will be doing 3 more during this year. So these are largely into agrochem front. So I want to understand the intention of the management that's going ahead, Are we going to diversify from the agrochem or we will be focusing on the agrochem only?

Krishnakumar Rangachari: This is Krishna here. Yes, the intent and a lot of efforts are being focused on diversifying beyond agro. We do have a significant presence in pharmaceutical right now. And if I look at what we have in the pipeline, we have a healthy mix of non-agrochemical products under various stages of development as well.

Jatin Damania: Okay, sir. So that's all from my side. And wishing the entire team, happy Diwali.

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

Ankur Periwal: First, on the PVC bit, continuing with the earlier discussion, if you can share your thoughts on the demand recovery in the global markets, especially in China, probably because of which things are getting dumped in India as well?

Ramkumar Shankar: Yes. All right. China is definitely going through a slowdown right now. Basically, China accounts for around -- it's around 40% of the world's capacity of PVC and maybe around 35%, 40% of the world's demand as well. And a lot of the PVC in China goes towards the construction sector. And as we all know, their construction sector, which accounts for around 25% of their GDP is going through some tough times. However, that said, there is definitely a concerted effort by the Chinese government to stimulate this industry because that accounts for one-fourth of their economy.

There have been, even as recently as September, a lot of stimulus measures that have been announced, which are making it easier to buy property, et cetera. But it is expected that for that to translate into actual demand on the ground for PVC will take maybe a couple of quarters. So that is the period that we are looking at for some kind of a recovery and for these measures to translate down. Now the Chinese future prices could be a good indicator / forward indicator or a lead indicator of what is happening in the industry.

They were languishing at 5,500 RMB, just about 6 to 8 months back. They did go up to around 6,500 RMB, then they slumped back down to 5,900 RMB. Right now they are at 6,200 RMB. So I think it is still better than earlier, but I believe that it will take that few months for the stimulus measures to actually translate to demand, but not just houses, but also PVC on the top.

Ankur Periwal: Sure. And would it be fair to conclude then that until the time we do not see a recovery in China as a market, these PVC spreads will remain volatile, and hence, it will have an implication on our spreads per se as well?

Ramkumar Shankar: Until that time, I believe that there will be Chinese material that is available. But what we are looking at is the reduction in volatility and the greater stability. As I keep saying, stability is all that we want. It doesn't necessarily need to be at high levels. It can be even able at lower levels of prices because since the feedstock also follows the PVC prices very closely, the margins would still be there even at the lower levels. So whether it's a 1,000 of PVC and 800 of VCM or 1,500 of PVC and 1,300 of VCM, we are really agnostic in that.

So I think what we need is only stability, and I believe that if the bottom is reached and you have, as if increasingly looks like it has, then I think we will get to that stability and that should be good enough for us.

N Muralidharan: Also, the measures that Ram mentioned earlier that the industry is looking at and in discussions with the government, those measures will also help support prices and margins as and when they are effective.

Ankur Periwal: Sure, sir. Second question on the CSM side. The LOIs that we have signed, the recent one as well as the 2 earlier ones, and the 15-odd products which are work in progress here. Would you please help in terms of how complicated these products are, maybe single chemistry, multiple chemistry, how many steps typically are required in these products?

Krishnakumar Rangachari: Yes, sure. Yes, the LOI that we just recently announced, it is an important milestone, and we are extremely pleased with the development. And it's important for many reasons: number one, it's our first active ingredient molecule that we will be commercializing. The second aspect is that it's a new pipeline molecule for the customer.

And the fact that they're getting involved in the initial stages, means that there is a long runway for us to participate. And third, as you asked, it's also a molecule with a large number of chemistry steps. And what that means for us is it's a reflection of our customers' confidence in our ability to handle such complex chemistry.

And the other aspect that we like about this is, this will involve Chemplast Sanmar and the customer extensively working over the next few months in commercializing this. And so we like such partnerships where there is a significant involvement of our chemists and engineers with their counterparts at the customer's end.

And lastly, I mean the fact that it's an active ingredient means that this is a validation of our stated intent of being only in the custom manufacturing space and not compete with our customers. And so because of this, they trust us in the manufacture of the final product itself. So we are extremely excited about this particular opportunity.

And so the other -- I mean, you're asking the complexity of chemistry. So what we have in the pipeline is a blend of more complex chemistries and a significant number of new pipeline molecules. And then so when some of them materialize, our belief is there is a long runway for us to participate.

Ankur Periwal: Sure, sir. Just 1 clarification, for LOI 1 and 2, the complexity is also similar, or they are relatively limited lower number of steps?

Krishnakumar Rangachari: So a little bit lower number of steps, but we talked about this in the past. The LOI 1 was the intermediate is for a new recently launched active ingredient by the customer. And LOI 2, the intermediate is for an established active ingredient. So what we like about that, those 2, is the fact that we have a blend of new, and then the established means that the demand or the requirement is fairly well established. So we like them for those respective reasons. But the complexity would be lower than what it is, but still fairly complex chemistries.

Moderator: The next question is from the line of Kirtan Mehta from BOB Capital Markets.

Kirtan Mehta: One question, coming back on to the Paste PVC business, you indicated that we had the contribution of around $200/mt in Q2 FY '24. Could you -- what is the level of contribution we'll need to sort of have the speciality business back in black?

N Muralidharan: Speciality business, actually, it's a combination of products, not only Paste PVC. It has Paste PVC, Custom Manufacturing, caustic soda, CMP, all of that mixed together. I think it's a unique set of circumstances that the caustic prices were also slightly soft and CMP prices were significantly soft. That is the reason you are seeing a lower profitability. But as you would see, in terms of the current year numbers, if you look at only Paste PVC increase, how much should it increase, maybe another $200/mt increase in the Paste PVC contribution would certainly help.

Kirtan Mehta: And what was the contribution for the Paste PVC in the FY '23?

N Muralidharan: In FY '23, Paste PVC contribution was around $400/mt. At that level, definitely Chemplast will deliver.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: Sir, my first question is on the CDMO business and slightly, I want to get more texture on the client side of it or the customer side of it. So what we observe is that there is a very high dependence on the CDMO side on a client, a routine client. So as we move forward in the product pipeline, does this concentration go down or most of the product pipeline also is with the same customer?

Krishnakumar Rangachari: Yes, the concentration or the dependency on 1 or 2 customers will definitely go down as the pipeline moves, which is why the milestone regarding the commissioning of our new production block is very important. If you recall, prior to that, our existing facilities were completely occupied.

But now what we have is an opportunity to take the available capacity and go have active discussions with a number of potential customers. But obviously, it will take time for the pipeline to move and so that will -- I've discussed in the past, that's typically a 12 to 18-month time period from an inquiry and then to commercialize.

So the near-term dependency would be there, but medium term, long term, there will be a significant diversification of the customer base.

Dhwanil Desai: Okay. Okay. So even the 3 new LOIs, even with that coming into play, the customer dependency will remain, right? That's a right way to think?

Krishnakumar Rangachari: Not very clear.

N Muralidharan: Sorry, we are not able to hear you clearly.

Dhwanil Desai: So what I'm saying is that with the 3 new LOIs that we have got, will the customer dependency go down? Or that's like even far off than the 3 LOIs coming into commercial production?

Krishnakumar Rangachari: So as I said, near term, it will continue to be the way it was. But medium and long term, it will change significantly because what we have accomplished so far is based on the relationships that we already have in place, but the relationship with others will grow because now we have demonstrated the availability of new production block.

Dhwanil Desai: Okay, fine. Second question is on the Custom Manufacturing side. Whenever we reach Rs. 1,000 crores 3-4 years out, so do you think that the current 9 molecules plus the 3 LOIs will be sufficient to take us there or we need more molecules to kind of fructify? How should we look at that?

Krishnakumar Rangachari: Yes. What we have accomplished over the past 12 to 15 months, the 3 LOIs - our thinking is the steady state capacity of including the new production block would probably get fully utilized. And so we would have to start thinking about and again, in the medium and long term, what our next set of plans would be for additional new production capacity.

Dhwanil Desai: Okay. And sir, another question is at a business level, at a company level. Even if you reach Rs. 1,000 crores 3-4 years out, this still be significantly dependent on Suspension and Paste

PVC. So going forward, when things normalize, what are the typical ROCEs that you guys look out for in this business? I think you had indicated that in Custom Manufacturing, we typically aspire to do 40% ROCE. So what is that number on a normal market condition for the PVC business.

N Muralidharan: It depends on the margins on an annual basis. For us to give 1 number would be difficult-- it is a mixture of businesses -, Paste PVC, Custom Manufacturing, caustic soda, all of that combined together. So to give 1 number would be a bit of a challenge.

Dhwanil Desai: Okay. So let me put it differently. Across cycle, the PVC business, can it do 15-16% ROCE, is that a fair assumption to make?

N Muralidharan: That it should do. In fact, just to give you a perspective, the Chemplast Sanmar business, if you leave out FY22-23 and the current year, till then, at least for the past 7 years, they have been consistently doing EBITDA margin of around 25%. The return on capital employed would definitely be higher considering that these plants are built long back and with the assets depreciated over time, the capital employed is significantly low. The current situation is an unusual scenario over the last 2 quarters.

Dhwanil Desai: I'm sorry, sir, I missed you.

Ramkumar Shankar: No, no. This is an unusual scenario over the last few quarters. So if we ignore these and look at the return on capital employed, it has been doing quite well.

Moderator: The next question is from the line of Nitin Tiwari from Phillip Capital. Please go ahead.

Nitin Tiwari: I have 2 sets of questions, one for the Suspension PVC business and one for the Custom Manufactured. So taking up the Suspension PVC part first. So I suppose the demand in this quarter, at least the domestic demand was fairly strong. It was at least 30% of Y-o-Y. So why is that like our production or sales level is not like close to the peak level that it had done. So I suppose if you look at peak volumes, we are about 12% lower than that peak. And the reason I'm asking that is while prices could be lower, but certainly a higher production and sales could provide you the operating leverage. So why are we not moving in that direction? That's one.

And related to that, in the last call, there was a data given out in terms of how much Chinese imports are coming on a monthly basis. So if you can help with that data, again, at what kind of imports in volume terms have we seen from China in this quarter? So that would be the first question.

Ramkumar Shankar: Okay. In terms of the volume of imports from China on Suspension PVC, I'll give you the numbers for the last 3 quarters itself. So in the January to March quarter, we had around 333,000 tons coming in from China. Between April and June, we had this dropped down to 164,000 tons, and July to September, it has moved up to 269,000 tons.

That is the imports coming in from China. The overall imports also obviously move in that line because China is a significant part of overall imports.

You were asking about Suspension PVC production, right?

Nitin Tiwari: Right.

Ramkumar Shankar: Actually, if you look at the half year, the Suspension PVC production has actually gone up, 165,000 tons in the first half of this year as compared to 159,000 tons in the first half of last year.

Nitin Tiwari: Sir, I was referring to the production that we've seen in the second quarter of '22, it was about 93,000 tons. Right now, we are doing about 82,000 tons. So why are we not hitting that peak production levels right now. Of course, I mean, if we can hit 93,000 ton, then why not?

Ramkumar Shankar: We wouldn't have done 93,000 tons of Suspension because that's not our capacity. We did 77,600 tons in the second quarter of last year. The second quarter of this year, we've done 81,800 tons.

Nitin Tiwari: All right. I'll take it offline. Maybe like that's an -- then secondly, on the Custom Manufacturing side. So you mentioned about the capacity of 4,500 tons and also like the revenue target of Rs. 1,000 crores. So where are we in terms of achievement of those milestones? If you can just give us some indicative number? I understand that won't give out Custom Manufacturing revenue on a quarterly basis. But I just wanted to understand that in percentage terms, where are we versus those milestones? And after the Phase 2 of Custom Manufacturing is commissioned, what will be our capacity and the revenue?

N Muralidharan: We talked about it in earlier calls -- like I mentioned then, we don't want to give out the quarterly numbers. We will certainly give the annual numbers for the Custom Manufacturing business. As far as the traction, like we had indicated earlier, we are on track to sort of achieve 20-25% growth this year compared to the last year. We are well on track for that. Last year, we indicated that our turnover was somewhere around Rs. 325 crores. That gives an indication of where we'll end up this year broadly. So that's how we can guide you today. And at the end of the year, obviously, we'll report the actuals.

Nitin Tiwari: Understood, sir. And in terms of capacity?

Krishnakumar Rangachari: So the capacity is going to be linked to the capacity after we commission the Phase 2 of the new production block. We have indicated a total capacity for the entire site at around 4,500. But that number is a notional number depending on some assumptions related to the product mix, right. So that would change -- the actual would be depending on which product we slot from a campaign standpoint. But that will give you a reasonable indication of what the volume.

Nitin Tiwari: Right, right. So while on the Suspension PVC, the number still being on that number. So in the third quarter of '23, again, we had done about 88,000 tons of sales. So we are still not there. That's what I was trying to get -- that if we are capable of that kind of sale, we are still lower than that, right? Even though the demand in domestic market is certainly higher.

Ramkumar Shankar: Yes, now I understood -- because you were talking about production, so I gave you the production number. Sales depends on how much of stock is built up in the previous quarters and therefore, how much stock is available for sale. So if you loom at that, sale is dependent on that. We will only have to look at the production and then have we sold all that we have produced, and are we producing to capacity.

So right now, in Suspension business, we are operating at less than a day's inventory level. So whatever we are producing up to the last day of the quarter, we are selling. So the sales difference between a particular quarter in the past and the current quarter would largely be because of stock differences. In that quarter, we would have drawn down some stock.

Nitin Tiwari: Right. Understood. So right now you're holding just 1 day of inventory is what you're saying?

Ramkumar Shankar: Less than 1 day of inventory. In fact, our 1-day production is around a little close to 1,000 tons, and our inventory is much less than that.

Moderator: The next question is from the line of Archit Joshi from B&K Securities.

Archit Joshi: Sir, just 1 question on the CSM business, out of curiosity in the recent light of events with respect to the number of LOIs we have been able to garner, just wanted to understand the process in the entire business development cycle. Has this been due to our existing forte in chemistries like cyanation, hydrogenation or these contracts that we have won are on the basis of our long-standing relationship with the customer? And if suppose you are to take it to in terms of our growth trajectory, which suppose to take it to some new innovators or new customers, how would that fructify into? So just wanted to kind of understand your thought process and the process in this entire business cycle.

Krishnakumar Rangachari: Yes. So the way this works, as I've indicated in the past, to get a relationship going with one of the innovators or with any innovator, you have to establish your ability to deliver what they want. So the sequence of this is typically, let's say, they give 1 inquiry. They see how we deliver on that inquiry, and that may be, let's say, a 12- to 18-month process depending on the complexity of the inquiry. If you execute, then the 1 becomes 2, the next set of inquiries will flow in. And so it just cascades in that manner

And so the fact that we secured 3 new molecules over the past 12 months is linked to the fact that -- if you have noticed our communications in the past, we commercialized, let's say, 2 products the previous year or the previous 24 months. And so that's the way this builds one after another. So that's pretty much the model. You have to establish the trust, the belief from the customer part on your ability to deliver what they want and one thing leads to another and it just keeps cascading.

Archit Joshi: Sure, sir. Sir, just a supplementary one to this. Is it more inquiry led? Or we are able to also find out certain gaps, let's say, certain molecules going off-patent and we could have the ability to manufacture a few of them, and then we take it to the customers, or it's the other way around?

Krishnakumar Rangachari: It's the other way around. Because the second option is more like a needle in a haystack or whatever, you have to keep searching for an opportunity to participate. It could be based on the chemistry capability you have, but invariably, the customer may not be interested in switching to a new supplier. So a lot of what we get is inquiry is based on the customers' understanding of your chemistry capabilities and your scale-up capabilities.

Moderator: The next question is from the line of Meet Vora from Emkay Global.

Meet Vora: I had just 1 question regarding the quantitative restrictions in form of antidumping duty that had been levied in May 2023. So why is that it is not playing out? Or is it playing out slow, because we are still seeing large imports, say, 270,000 tons in Q2. Now is it that a lot of Chinese capacities have already been converted to less than 2 ppm of VCM content? Because today, as we speak, the restriction is on more than 2 ppm of VCM content because quarterly restriction on imports is around 20,000 tons for China, Taiwan, U.S. and Russia. So how do we look at it?

Ramkumar Shankar: The quantitative restrictions have not been brought into the effect yet. The final findings were notified by the DGTR, but they need to be gazetted and that is the final step. That is what we are waiting for.

Meet Vora: But still, your thoughts on -- of the total imports -- do we see a large part of the Chinese capacities which are getting imported in India less than 2 ppm or these quantitative restrictions will put a lot of restriction on overall imports because they are more than 2 ppm of VCM content?

Ramkumar Shankar: The quantitative restrictions, as you rightly said, is on all imports from anybody, which is above 2 ppm, there are some 4 countries mentioned. If it goes above residual VCM content of 2 ppm, then the restrictions will come into effect. But largely, you are right, it would possibly be applicable to a lot of the carbide PVC imports.

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

Rohit Nagraj: So my first question is on the Custom molecules. Now we have seen in the recent past that there has been an inventory destocking situation at the customers' end. However, we have a very strong revenue guidance for this year from the agro CMC molecules. So is it because of the newer kind of molecules that we are -- I mean, rather the early-stage molecules where we are supplying these intermediates. And this is backed by some firm POs from the customer? Just your thoughts on this.

Krishnakumar Rangachari: That's a good question. It is indeed tough times on the agro chem side. There is destocking going on. Last quarter, we also indicated that we were also impacted by that. But our impact has been sort of compensated by the fact that we have additional molecules that we are commercializing this quarter and selling; both this quarter as well as next quarter. So we have been impacted and what we hear is that this particular issue is probably going to be resolved or in the process of being resolved. Demand on the agrochem side seems to be reversing, but we'll have to wait and see.

Rohit Nagraj: Sure. Got that. Sir, second question is on the LOI. So typically, what would be the contract period for these LOIs, maybe 3 to 5 years? And secondly, again, in terms of commitment, is there volume commitment here on a yearly basis? And generally, where are we in the cycle? Are we the first or second, third supplier for these LOI molecules?

Krishnakumar Rangachari: Yes. So the LOI, the letter of intent, precedes a formal supply agreement. So we are in the process of working on or finalizing a supply agreement for each of the LOIs that we had announced. And typically, both the LOI and supply agreement would be for a 3- to 5-year period with some commitments on volume and a price formula as well. And so that is on the nature of the agreement that would come in place.

Now with respect to, are we the first or second supplier? Again, in this business, typically, the customers would have just 2 or 3 suppliers, not multiple suppliers. And what I can state is in each of these molecules that we have announced; we would be the major supplier.

Moderator: The next question is from the line of Rohan Gupta from Nuvama.

Rohan Gupta: And taking forward the previous question and a little bit more clarification on this -- in our CMC division, we have received the order and this LOI. Sir, what I understand that this new AI is basically -- is still under the development from the customer? And over the next 5 years, we have to -- we will be participating in the growth of this product along with the customer, or we have taken this order from some of the existing manufacturer which are already manufacturing for this company or the customers?

Krishnakumar Rangachari: This is a new active ingredient that the customer is in the process of launching. And so our understanding is that we would be the first one to manufacture or the first supplier to manufacture. It's possible that the customers themselves may be making some quantities of this right now, but we would be the first supplier to manufacture. So they're not switching from another supplier to us.

And the second is, yes, this is a new molecule and so there is a long runway, which may go well beyond 5 years. As you may be aware, some of these molecules last much longer time because they are patented and they're not generic. So we would anticipate that we will participate in this well beyond 5 years.

Rohan Gupta: And sir, the 9 products which we are already doing, I think that all of them are for now intermediate. And this is the first in active ingredient?

Krishnakumar Rangachari: You're absolutely right. This is the first active ingredient.

Rohan Gupta: Okay. And the 3 to 4 more in pipeline, any of them are in AI?

Krishnakumar Rangachari: Just wait until next quarter, I may be able to answer that better. But right now, no.

Rohan Gupta: Okay. And sir, the 9 products which we are doing right now, in terms of the customer profile, so this AI, which we are doing with new set of customers, or from those our earlier existing set of customer only? That is one. And second, what kind of value addition which we could do bring for this product?

I mean because this product is a new product, the development. So the technology or the product process is shared by the customer, and we are just going to be a contract manufacturer or we have been involved in journey of this product development for the customer, and we have evolved the product either in terms of process or whatever the contribution? These are my 2 questions.

Krishnakumar Rangachari: To answer the first part of the question, it's an existing customer -- so we have been working on this for almost 2 to 3 years from the inquiry standpoint. So it is from our existing basket of customers. And -- so in this particular case, the customer actually has a technology package that they have developed, and that they have shared with us -- so we will obviously spend some time in optimizing that further. But -- so the chemistry and the package was given to us by the customer.

Rohan Gupta: If I can build on a little bit deeper. So I believe they must have been working with many other suppliers for giving or sharing this technology. Any particular reason for we have been chosen, either we bring any cost advantage or we have -- or the product is related to the existing chemistries which we are doing, or we have done some remarkable work earlier for the customer that has given us some advantage?

Krishnakumar Rangachari: It's a good question. I mean, it could be multiple reasons, which I outlined earlier in the call. So again, the customer, we know for sure that they work with a few suppliers, by few, I mean, maybe 2 or 3, before they selected us. They obviously don't tell us exactly why they selected us, but our thinking on this, as I outlined before, is, number one, it's an active ingredient. So before they give an active ingredient to a supplier, they need to be extremely comfortable with the supplier on many aspects: one, the supplier’s ability to protect the intellectual property.

The second is they don't want a supplier who may end up competing with them. So our stated intent is to not compete with our customers could have played a role. This is a fairly complex chemistry. So this also means that they selected us because they were confident in the ability of our chemists and engineers to both develop this and scale this up.

So all of these could very well have been thefactors that played an important role in their decision to work with us. And the fact that this is going to be a long-term relationship partnership, so I'm sure the customer is confident that our intent to be in this business is for the long term.

Moderator: The next question is from the line of Rishabh Shah from Dalal & Broacha. Please go ahead.

Rishabh Shah: Most of my questions have been answered. I just want to know your thoughts on the Other Chemicals segment, which is caustic soda, chloromethanes and hydrogen peroxide and refrigerant gases. As it has been mentioned that right now we are witnessing a pricing pressure in this segment. And I would like to know that are we doing capacity additions for these chemicals...

Ramkumar Shankar: Okay. See, as far as hydrogen peroxide is concerned, prices are pretty much stable. There is not so much of pressure there. If you look at chloromethanes, it’s a family of 3 products, and those are the ones -- or 2 of those 3 are really facing the pressure, that is chloroform and carbon tetrachloride. And the last one, carbon tetrachloride is largely related to certain pressure on agrochemicals in Latin America and therefore, impacting the demand for our customers' products. But this is again expected to get better in the next quarter or 2.

Methylene dichloride is still strong, and there is no pressure in methylene dichloride. But if you look at it as a basket of products, because these are all joint products, there is pressure because of chloroform and carbon tetrachloride. Again, it is a question of a couple of quarters before we see the recovery.

Caustic soda, actually, there was a bit of a recovery in September, but then it again corrected a little bit in October. In India, again, there is overcapacity on caustic soda, though the operating rates are not so high. There is a little bit of balancing that's happening because of exports that are happening off the Western coast of India by the producers on the Western part of the country. When that balance is there, then the prices do correct.

But if you look at the medium to long term, there is a significant increase in demand expected from caustic soda because of the demand increase from the EV side, because nickel mining or even various additives during the EV battery manufacturing process, do need a lot of caustic soda. And that is expected to drive demand going forward apart from the usual demand drivers like alumina, paper and textiles.

So we believe that the caustic story is quite intact. It is only a question of a few quarters. As far as our own expansion you were asking about, we are not expanding on hydrogen peroxide or on chloromethanes. We are restoring some old capacity that we had temporarily mothballed in caustic soda. That will come up from January onwards.

Rishabh Shah: Okay. And for the estimated project, capex mentioned in the investor presentation of about Rs. 744 crores, what is the asset turn and what will be the capex breakup? Can we please have your view on this?

N Muralidharan: There are 2 parts to the capex: one is the Customer Manufacturing business capex, where we have sort of indicated to an asset turn of roughly around 1.3 turns. And as far as the asset turn on the other capex, this is the Paste PVC business that is coming up. That's around Rs. 360 crores of capex. There, the asset turn is expected to be roughly around 1.2 times or so. It also depends on the prices. But roughly around 1.2 to 1.3 times. At current price levels, it's around 1.2 times or so. But as prices improve, obviously that will get better.

Rishabh Shah: Okay. Okay. And sorry to ask this question that -- I just want to know what is your variable cost in the operating expenses. Can you tell me what is the variable cost? How much percent it is?

N Muralidharan: Yes. We can -- actually variable cost consists of feedstock as well as other conversion costs. So it will keep varying with the change in feedstock cost. But it's a bit of a detail. Would it be okay to take this offline? We can always connect with you offline and discuss the details.

Rishabh Shah: Okay.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for the closing comments.

Ramkumar Shankar: Thank you everyone, for joining us today on this earnings call. As always, we appreciate your interest in Chemplast. And if you have any further queries, do contact SGA, our Investor Relations Advisor. I take this opportunity to wish everyone a very happy Diwali. Thank you very much.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Chemplast Sanmar Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.