DCM SHRIRAM

BSE Limited Phiroze JeeJeeBhoy Towers, Dalal Street, **Mumbai - 400001**	National Stock Exchange of India Ltd., "Exchange Plaza" 5th Floor, Plot No. C-1, G Block, Bandra-Kurla Complex, Bandra (E) **Mumbai – 400051**
SCRIP CODE : 523367	**SCRIP CODE : DCM SHRIRAM**

Kind Attn : Department of Corporate Communications/Head – Listing Department

Sub : Transcript of Investors' Earnings Call under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir(s)

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the Transcript of the Investors' Earning Call on Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter and nine months ended December 31, 2024, held on January 21, 2025.

Kindly take the above information on record.

The above said Transcript will also be available on the Company's website i.e. www.dcmshriram.com.

Thanking you,

Your faithfully,
For DCM Shriram Ltd.

Deepak Gupta
Digitally signed by Deepak Gupta
Date: 2025.01.27 12:59:55 +05'30'

(Deepak Gupta)
Company Secretary & Compliance Officer

Dated: January 27, 2025
Encl.: as above

DCM Shriram Limited
Q3FY'25 Earnings Conference Call
January 21, 2025

Moderator: Ladies and gentlemen, good day and welcome to DCM Shriram Limited's Q3FY'25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 Ms. Shruti Joshi from CDR India. Thank you and over to you, Ms. Joshi.

Shruti Joshi: Thank you, Neerav. Good afternoon and welcome to DCM Shriram Limited's Q3 FY25 Earnings Conference Call.

Today, we have with us Mr. Ajay Shriram – Chairman and Senior Managing Director, Mr. Ajit Shriram – Joint Managing Director, Mr. Aditya Shriram – Deputy Managing Director and Mr. Amit Agarwal – Group CFO of the Company.

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

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

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

Ajay Shriram: Thank you, Shruti. Good afternoon, ladies and gentlemen and a very warm welcome to all of you. We would like to wish all of you and your families a very Happy and Prosperous New Year.

To start with, I shall share my thoughts on the industry and business dynamics, following which Ajit will share the views on the financial performance, post that, we would like to hear your viewpoints as well.

The geopolitical environment is leading to economic uncertainties on various fronts. This is impacting international trade, investment and consumption pattern. We expect global growth to moderate and monetary policies to become more accommodative. While we expect growth trends to be led by Asia with India playing a pivotal role, there may be challenges on account of trade policies and inflation. We as an organization must navigate this challenging landscape and our endeavor is to build an agile business to handle these evolving dynamics along with seeking opportunities for growth.

Our business has seen a series of well-planned initiatives to strengthen capacities in core segments towards value creation and integration, both downstream and upstream. This remains a focal point for our growth strategy. Healthy balance sheet and cash flows continue to give us the confidence to pursue these growth initiatives.

We are focused on strengthening sustainability across the organization with continuous reduction in carbon footprint and water conservation. Over next 15 months, we shall be adding about 74 MW installed capacity of renewable energy for captive use. Our efforts have led to recognition among “Top 7%” of the 523 Global Chemical Companies for ESG performance in the S&P Global Corporate Sustainability Assessment 2024.

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

First, I will take up Chemicals:

At the beginning of the quarter, there were apprehensions of supply constraints due to a cyclone in the US and increased demand in China led by fiscal stimulus. This led to an increase in international prices. However, now the prices have started correcting, with demand-supply adequately balanced.

Caustic Soda capacities in India are currently operating at a rate of around 80% and this is resulting in oversupply of chlorine in the market, and therefore sub-optimal ECUs. However, they have improved during the quarter. India continues to be a net exporter of Caustic, which is a positive.

Our newly commissioned projects are meeting performance norms and ramping up further steadily. As on date, Hydrogen Peroxide is operating at above 80% capacity utilization and Caustic Soda post expansion is operating at above 70%. There is an oversupply of Hydrogen Peroxide in the market. However, the Caustic Soda players are at a distinct cost advantage.

ECH plant commissioning has taken more than anticipated time due to a technical issue. We are confident of starting the trial runs in Q4 financial year '25.

The project work on adding Aluminum Chloride capacity and the new Calcium Chloride plant at Bharuch that we announced in the last quarter has taken off and our team is working to commission these as per the stated timelines.

Our efforts towards cost efficiencies continue and we are working towards further optimizing our power costs. We have tied up another 6.6 MW Green Power and are expecting its inflow from the end of this financial year. We are also working towards further optimizing energy cost in our existing power plants.

Vinyl:

Global demand for PVC continues to be sluggish. US prices of PVC remained weak owing to slower demand in downstream usage, shorter working schedules in December and higher interest rates, that continue to impact construction. PVC pricing in Asia stayed soft on the back of surplus production and higher inventories during the quarter.

Domestic PVC demand has picked up on account of increase in agriculture and construction activities. This demand is estimated to have grown at approximately 10% during the 9-month period. Majority share of this demand was fulfilled by imports. China has continued dumping material into India. In this context, the notification from finance ministry on imposition of anti-dumping duties on several countries including China, Korea and US is awaited.

Sugar and Ethanol:

Global sugar balance for Sugar Season '24-25 has shifted to a deficit of 0.7 million metric tons due to a downward revision in global production. The Indian Sugar Season '24-25 is expected to end with the stock of 7.3 million metric tons. The production estimate is 29.3 million metric tons after diversion of 4 million metric tons for ethanol production. Consumption is estimated at 29 million metric tons.

Exports of 1 million metric tons have been permitted by the government, which is a positive step for the industry. Simultaneously, industry is also pushing to increase in the MSP of sugar. The current prices are at Rs. 4,000 per quintal of refined sugar. However, this should increase by another Rs. 2-3 per Kg to enable reasonable margins in the business.

On the Ethanol front, for the current season, OMCs have floated tender for supply of 916 crore liters of ethanol targeting a blending of 18%. As of December 15, 2024, ethanol blending in petrol reached 15.4%. Margins for producers are sub-optimal given higher feedstock prices. Recently, the government has allowed the FCI for sale of rice to produce Ethanol. This is positive for this segment.

The Sugar expansion at Loni unit got operationalized in this quarter, and the Compressed Bio Gas project will be commissioned by Q4 financial year '25.

Fenesta Building Systems:

The business continues to make efforts towards increasing penetration of current range of products and enhancing the product portfolio by setting up newer revenue platforms. By strategically aligning our efforts with market demands, we aim to optimize customer experience along with business growth. In line with this thought, the board has given approval to invest up to Rs. 65 crore in the fast-growing Hardware Business which will enable backward integration, better customer experience, as well as develop into a new revenue platform.

Our project to establish a new aluminum extrusion facility is progressing as per schedule. As a result of these initiatives, the business will be better positioned towards becoming a more holistic player in building material space and drive sustained growth.

Moving on, the Agri Inputs business portfolio, comprises of Shriram Farm Solutions, Fertilizers and Bioseed Business.

Shriram Farm Solutions:

The business has once again achieved double-digit growth and continues to contribute significantly to the topline and bottom line of the company. The growth is driven by volumes across the business verticals in general and research wheat in particular, where SFS continues to consolidate its leadership position.

Looking ahead, we remain optimistic about continued growth in the coming quarters, buoyed by robust demand for Rabi crops, increasing farmer adoption of our innovative solutions and ongoing advances in our product pipeline based on the principle of 'Better Science'.

Fertilizer:

The Urea industry continues to be stable, with gas prices inching lower. By focusing on the areas of energy efficiency, maximizing production capacity and controlling fixed expenses, the company aims to enhance operational and financial performance.

Bioseed:

The business is on a promising turnaround journey bolstered by new and better hybrid seeds across product categories and a robust pipeline of products for future growth. There was increased acreage of Corn across key states due to higher crop price driven by maize ethanol push. This, along with Paddy, has driven the growth for the first nine months of this year.

I will now request, Ajit, to provide the financial perspective. Ajit, over to you.

Ajit Shriram: Thank you. Good evening, everyone and wishing you a very Happy New Year.

I will take you through the financial highlights of Q3 FY'25:

The net revenues, net of excise duty for Q3 FY'25 were at Rs. 3,367 crore versus Rs. 3,035 crore in Q3 FY'24, an increase of 11% year-on-year, driven by growth across Chloro-Vinyl, SFS and Bioseed businesses. PBDIT for Q3 FY'25 was at Rs. 537 crore versus Rs. 480 crore last year, an increase of 12% year-on-year.

Coming to the businesses:

Chemicals:

The business saw an increase in revenue of 35% year-on-year led by Caustic Soda volumes that were up 21% on account of the new 850 TPD facility and ECUs that were up by 12%. PBDIT increased by 90%, owing to lower input prices, particularly energy prices and efficiencies from the new 120 MW power plant. Despite steady growth in downstream consuming industries like alumina, textile, pulp and paper, soaps and detergent, excess capacity in India is creating a pressure on product prices, especially Chlorine. We have our plans in place to enhance the Chlorine downstream in terms of ECH, Aluminum Chloride, Calcium Chloride and a few more ideas.

Vinyl:

The Vinyl business reported a growth in revenue by 26% year-on-year on account of higher volumes of PVC as well as carbide which has, grown by 27% and 38% respectively. Last year, there was a maintenance shutdown in the same period. PBDIT for the segment improved to Rs. 29 crore as against a negative Rs. 3 crore last year, led by lower power and carbon material costs. Commissioning of the 68 MW Green Energy by the end of next year will reduce carbon footprint along with better cost structure going forward.

Sugar and Ethanol:

Sugar and Ethanol businesses revenue, net of excise duty, was flat at Rs. 889 crore and the domestic volumes were lower by 6% due to lower releases in the quarter and prices of sugar were also lower by 3%. Ethanol volumes as well as prices were higher by 6% and 12% respectively. PBDIT for the segment was lower at Rs. 113 crore as against Rs. 188 crore last year due to the higher cost of production led by a higher SAP and lower recovery.

Fenesta Building Systems:

Fenesta Building Systems revenue increased 4% year-on-year, led by an increase in volumes across segments. PBDIT for the quarter at Rs. 43 crore, was similar to last year due to higher fixed expenses. These expenses are expected to remain elevated given the need to grow the existing businesses and invest in new verticals. The order book continues to be healthy.

We are also excited to announce our foray into the Hardware business which will be through an acquisition to give us a head start into the segment.

Shriram Farm Solutions:

Shriram Farm Solutions revenues increased by 19% year-on-year, supported by volume growth across all verticals. SFS has further strengthened its leadership position in research wheat segment. PBDIT for the quarter was higher by 18% at Rs. 212 crore.

Fertilizer:

Fertilizer revenue was lower by 8% year-on-year, which is mainly attributed to the lower gas prices in the current quarter. PBDIT was at Rs. 29 crore as against Rs. 26 crore last year. Outstanding fertilizer subsidy was at Rs. 111 crore as against negative Rs. 21 crore last year.

Bioseed:

The Bioseed segment saw a revenue increase of 22% year-on-year and a PBDIT increase of 76%. The improvement is led by better volume and prices in corn, wheat, paddy and vegetable seeds. Both domestic as well as international operations contributed to the growth.

The Company's net debt stood at Rs. 867 crore as of December 31, 2024 as against Rs. 314 crore last year and Rs. 1,434 crore as of 31st March 2024. The year-on-year increase was because of capital expenditure over last one year and a higher Sugar inventory. Over March '24, the decline is primarily because of reduction in Sugar inventory.

Return on capital employed for December '24 came in slightly lower at 14% as compared to 16% for December '23, since CAPEX incurred on projects will start yielding the returns in the forthcoming quarters.

The Board has announced an interim dividend of 180% amounting to Rs. 56.14 crore. This takes the total dividend announced for the year to 280% amounting to Rs. 87.33 crore.

As this round of CAPEX is nearing completion, we are in advanced stages of finalizing our foray in advanced materials as well as in value chain around our core businesses.

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

Moderator: We will now begin with the question-and-answer session. The first question is from the line of Nirav Jimudia from Anvil Wealth Management. Please go ahead.

Nirav Jimudia: Sir, I have a few questions to ask on the chemicals side. Sir, when we analyze our ECU numbers for Q3FY'25 vis-à-vis Q2FY'25, our ECU was up by around Rs. 3.50. And if I just multiply with our volumes of 1,80,000 tons, what we have reported in Q3, it gives us a positive impact of close to Rs. 62 crore. But however, when we see our PBDIT numbers on a QoQ basis, the net impact is only Rs. 27 crore. If you can just help us explain why the difference between both the numbers is varying and is there any specific one-time loss or increase in depreciation because of which this number is not tallying?

Amit Agarwal: I think there are two reasons for difference. One, because they have earlier been capitalized and now they are being charged to P&L, and second reason is that as we move into operations the overall expenses do go up with the higher manpower cost, repayment and things like that. So, I think that also inched up. but that should even out over the period as the volume increase, then probably you will see the higher impact coming in.

Nirav Jimudia: So, if you can just share what was the impact of depreciation in Q3 FY'25 because of which numbers are lower?

Amit Agarwal: I would not have it right away. Maybe you can connect with our investor relations team after the call. We'll provide that to you.

Nirav Jimudia: So, secondly, when we interacted last time during Q2 FY'25 concall, you mentioned that chlorine was like negative Rs. 6.50 in Q2 FY'25 which in Q3 FY'25 the trend was around Rs. 9 negative. So, if you can just help us explain what was the chlorine negative in Q3 FY'25 and what's the current trend in terms of the chlorine negative in Q4 of FY'25?

Amit Agarwal: So, Q3 the trend was close to again the range around Rs. 9,000 to Rs. 10,000 and the similar trend continues as we speak.

Nirav Jimudia: Sir, you mentioned in your opening remarks that the prices have started correcting for caustic soda in January, but of late what we have seen also is that in China, the prices of caustic soda has again started trending and also when we see November and December, ECU trend for us I think it is close to around Rs. 30.50 for DCM. So, is it fair to assume that even for Q4, our ECU trend looks positive in terms of the higher numbers, or it would be on the similar lines what we have reported in Q3 of FY'25?

Aditya Shriram: So, as you know, ECU is a combination of caustic and chlorine price. We have seen that the caustic price has been stable and has gone up, but of course the pressure on chlorine continues due to the capacity and the demand/supply balance in the country. So, the current ECUs are in the range of Rs. 29,000-Rs. 30,000 per ton and we do expect it to remain at these levels or improve overtime.

Nirav Jimudia: Sir, also, if you can share the production breakup of 1,997 TPD in Q3 of FY'25 between the Kota and Bharuch plant?

Aditya Shriram: broadly of course the details, the investor relations team can share with you later as well, but broadly, our Kota plant runs steadily at close to 550 tons per day for caustic, and the Bharuch plant therefore is the remaining, which we are ramping up now with the new additional capacity.

Nirav Jimudia: When we see our revenue of Rs. 721 crore in Q3'25, what number I could arrive based on the ECU realization multiplied by the volumes, our contribution from the value-added products was close to 27% in Q3 of FY'25. Correct me if I'm wrong. So, if you can share what would be the contribution of the value-added product in the PBIT of Rs. 66 crore what we have reported in Q3 of FY'25?

Amit Agarwal: I would suggest this detailing and the arithmetic we can do it offline, right? I think broadly we gave you the trend. The details you can check with our investor relations team, Himanshu Bokaria and we will respond to all your queries in terms of aligning these numbers, right?

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

Riya Mehta: My first question is in regard to the caustic plant. So, the new plant, what would be the capacity utilizations like?

Ajay Shriram: As I mentioned in my opening remarks, the capacity utilization in the complex at Bharuch is in the range of about 70%.

Riya Mehta: This will be the overall, right?

Ajay Shriram: Yes.

Riya Mehta: And just particularly for the newer plant, what would be the utilizations level like?

Amit Agarwal: So, see, we don't look at it that ways because the newer plant has its own set of efficiencies. So, we might operate newer plant at 80%-90% and the older plant at lower capacity. So, I think one should look at it as overall thing.

Riya Mehta: And over the next one-year, what kind of utilization levels do we look at here given we are in an oversupply situation?

Aditya Shriram: So, we are looking to see how we can ramp up our capacity utilization and in line with that as you are aware we are close to commissioning our Epichlorohydrin plant that will help us, also, the board has approved aluminum chloride further expansion and entry into calcium chloride. So, again, both these will help us in improving our utilization. So, we do expect it to take a little time, but we expect that in the next 12 to 18 months we will reach full capacity utilization.

Riya Mehta: So, it is fair to say that maybe by FY'27, we would reach by around 80% or 90% capacity utilization, which is our peak capacity utilization?

Aditya Shriram: Right.

Riya Mehta: In terms of power, basically we have commissioned our power plant and it's been running for a while. What kind of savings and costs are we seeing in the last say this one quarter with the new power plant?

Amit Agarwal: So, I think we are getting good savings. So, we have invested close to about Rs. 500 crore in the power plant, and we are getting ballpark; we are running in terms of about 20%, 25% on the power plant.

Riya Mehta: The incremental 6 MW which we are buying that would be also yielding similar returns?

Amit Agarwal: That might be a little lower, but yes, that's more from our endeavor to reduce the carbon footprint. So, wherever we have an opportunity, we add that.

Riya Mehta: So, will that not reduce our cost in a significant way which earlier was 120 MW?

Amit Agarwal: Yes.

Riya Mehta: Where would we see cost saving coming in the chemicals division as such?

Amit Agarwal: That's what we have done. Whatever investment we have done over last three years, whether it is the capacity expansion, the 850 TPD, which has more efficient electrolyzers, second is the P120 power plant or the green energy that we took 44 MW, the first tranche we did, will definitely add to lot of savings and then we also, if you remember, I think in the last board meeting we had approved a project for another extraction turbine, that will further improve the cost structure. That's the constant endeavor to keep working on cost.

Aditya Shriram: And in addition to that, we can also add that the other major raw material for us is salt. So, we are seeing what steps can we take to further optimize our cost on that side. And also there's a huge focus on digitalization. And leveraging data and analytics to further enhance our efficiency and competitiveness. So, with this holistic focus areas, we expect to remain cost-competitive.

Riya Mehta: In terms of ECH, when do we see this commissioning because I think we have seen a lot of delays? Is this because of late approval or after you commission there will be an entire one year which will take for approvals and all?

Adtiya Shriram: So, I think as mentioned earlier in the opening remarks, we have faced a technical issue with the commissioning of the ECH plant. The teams are working very actively on it. And as we shared, we expect to start the trial runs and commission the plant towards the end of this quarter, which is Q4 FY'25.

Riya Mehta: And post that, we will see approval processes across all the clients, right?

Aditya Shriram: Yes, approval is with the customer. That's part of the process. So, we expect that to happen and then we expect to ramp up the capacity.

Riya Mehta: And aluminum chloride would come by when for us?

Aditya Shriram: I think that has been approved by the board. The timeline for commissioning for that is Q1 FY'27.

Riya Mehta: In terms of PVC, we are seeing that anti-dumping duty was recommended. So, where in this stage of regulatory approval are we there and how much time we can foresee if everything goes smoothly?

Ajay Shriram: Well, this is actually with the ministry right now, the commerce ministry is also aware of it. We made our application. There are a couple of court cases which are delaying this. Hearings are going on. The results so far in the court cases are positive. So, there is an expectation that after the budget… we hope it's not too late after that, but we expect that after the budget it should come fairly soon.

Moderator: The next question is from the line of Nisarg Vakharia from NV Alpha Fund Management LLP. Please go ahead.

Nisarg Vakharia: My first question is for Fenesta. Sir, we have an order book growth of 33%, last quarter also we had order book growth, but it's not translating into revenue growth. And secondly, our capital employed is only Rs. 45 crore for about Rs. 120 crore of PBT per annum that we do. Could you just explain both these points?

Amit Agarwal: So, one on the capital employed first, that is also because we get customer advances and whether it is project customers or retail customers. So, we work largely on advances, that lead to lower capital employed. And in any case, this is a business which has the capital output ratio is high in any case. So, I think those are the reasons why the capital employed is low. Coming to the bookings, you are right. The bookings are good; however, the execution is slow in the market. We have seen that something which we are seeing across the building materials space, that the growth levels are slow, implementation is slow. And there are various reasons, I mean, liquidity issues and things like that. But yes, we are seeing execution being slow.

Nisarg Vakharia: Sir, can you explain this Rs. 65 crore that we are deciding to invest for hardware manufacturing, I think I'd also read few quarters or 1-2 quarters back where you said you want to invest Rs. 150 crore in aluminum. Both of these are separate projects if you can explain in detail on how you see this business ramping up over the next 2 to 5 years in India.

Amit Agarwal: See, the aluminum extrusion project, the purpose of that and that's where that was for about Rs. 150 crore. So, that project was to bolster our aluminum windows business. So, currently we are importing aluminum extrusions and the profiles. And then they go for coating separately. So, there is a lot of inefficiency involved in terms of transportation, logistics and delays in execution, which is not a very good consumer experience. So, our idea was that we should have our own extrusion facility where we can control the quality as well as customer service. So, that was one objective and aluminum windows are actually doing very well. They are growing faster than UPVC today as an industry, as well as for us. We see good scope there. And obviously, once we get into aluminum extrusion, it will open a door for other products within the aluminum space which we can diversify into. So, that's a little longish plan, maybe 2 years after commissioning. Coming to hardware, again here, we procure hardware. As we speak, we procure hardware of almost Rs. 90 crore in Fenesta. Almost 50-60% is imported, rest is indigenous. And the idea is once we are able to get into the hardware business, it will help us again on the logistics front because the imported suppliers are unreliable given the logistical constraints at times what we have seen, and that again delays our service to the customer. So, one, I think we can do that with our own, we can indigenize more once we have our own facility, that is one. Second, upgrading our innovative products is something what we are looking at. So, our research and development can be at a much faster pace. So, these two things are more from the customer experience perspective. The last is again, once we get more hands-on experience, we will be able to build that as a revenue platform as well.

Nisarg Vakharia: Sir, now my second question is regarding Shriram Farm Solutions. Can you tell me what sort of volumes we have done in research wheat this year? And do you think that we have captured enough market share or do we still have potential to grow these volumes for next year also?

Amit Agarwal: You see, last year we had done about 76,000 tons of research wheat seed. This season we have done close to about 96,000 tons. These are ballpark numbers. I may be off by about 1,000 tons here and there. So, about 96,000 tons of research wheat is what we have done this year. Our market share is close to about 65%-70%. But the market itself is growing by about 15%, the research wheat market, in the overall market. So, I think there is scope for growth.

Ajay Shriram: I will just add to that that ultimately in any of the research products, agricultural products or seeds, one has to have a strong research setup to come out with new products which are better than the past one and continuously going through the trials and developments etc. because everyone is in the business. So, how do we stay competitively ahead? So, we have a strong R&D setup also, so they're also coming up with new products. So, we are fairly well positioned on the research wheat front.

Nisarg Vakharia: Sir, one thing is that in India we have not seen a company get such dominant market share in research wheat. We have seen companies come and go in cotton and the market shares change every 3-4 years. Can you please explain the research wheat segment slightly better for us as to how sustainable is this and what is the reason that DCM has sort of got this dominant market share in this segment?

Amit Agarwal: So, I would say as CMD mentioned, it is primarily because of our strong research on research wheat. We have been introducing products almost every year except this year. Last year also we launched about 2 to 3 varieties and the year before that also there was one variety which was launched which ensures that we are doing the right life cycle management. It's not that other companies are not there in this segment. There are companies in this segment, but I would say because they are not able to grow the way and we also had the early mover advantage. So, one is the early mover advantage, feeding the market with newer products and there is competition as well. So, that just continues. And that's why we need to continue to feed products into the market.

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

Jainam Ghelani: My first question is that what would be our current captive chlorine consumption and post our expansion of all the derivatives, where do we see it going forward?

Amit Agarwal: You see post expansion, our overall as a chemical, both Kota and Bharuch put together, our captive chlorine consumption will be close to about 32% captive and on top of that we have pipeline supplies which again will be in the range of around 35%-40%. So, if you add these, we are almost 70% captive. So, one is what is consumed captively and that is virtually captive with what we supply to pipeline.

Jainam Ghelani: And so, since we will announce a fundraise, are there any other derivatives that we wish to expand into as of now?

Aditya Shriram: So, we are continuously evaluating new opportunities and adjacencies for the chemicals business and all our businesses. So, at a suitable time if we do decide and the board has approved then we will announce those as well.

Moderator: Thank you. Next question is from the line of Rohit Nagraj from B&K Securities. Please go ahead.

Rohit Nagraj: First question is on ECH. We have seen that the project has got delayed. Any material challenges from the initial on the delay front? And secondly, even during operations, do we expect that there will be teething problems because the technical issue has got elongated? And another adjacent question to this, given that the domestic market is now completely supplied, what is the strategy from the management in terms of placing the product, maybe partially in the domestic market or how to tap the exports market?

Adtiya Shriram: You are right. I think this was shared partly in our opening remarks as well. There has been a technical issue in the ECH project. But as we discussed earlier, the team is working very actively and there has been a solution that has been found. So, we expect the commissioning of the plant to happen and trial runs to begin in this quarter itself, Q4 FY25. And once that is done any plant might have some small teething issues to begin with, but we don't foresee any material issues going forward after that. In terms of the market, there are some capacities which is already there in the market, but we feel that this additional capacity will be absorbed in the market. There is a growing market domestically with a number of epoxy players, expanding their capacities. So, domestically itself, there will be a significant demand. And also, we are already in touch with customers globally as well. So, we do expect that we'll be able to commission and then ramp up the capacity as planned now.

Rohit Nagraj: Second question is on the PVC front. In terms of current market trends, how are we expecting that the utilization levels will move up on the PVC front? And particularly, the margins, what are we expecting that the last couple of years, significant decline in margin because of the China overcapacity and supplies. Will that continue in the foreseeable future? And another allied question that we have carbide capacity, and we heard probably during pre-COVID that China's carbide capacities are also likely to get toned down. So, any view from that side? Is this happening in China from your connects or your contacts in China? Are we seeing any kind of such move?

Amit Agarwal: So, to answer your question on the margins, this quarter our margins were around 19%. So, I would say these are reasonable margins at a price realization for PVC at about Rs. 76,000-77,000 and carbide also was in the range of around Rs. 64,000-65,000. So, I would say prices have been suboptimal. However, on cost front there has been significant improvement, both because the raw material prices went down as well as our efficiency is improved. So, I would say that, one, I don't see prices coming below Rs. 76,000. Unless something happens on the cost front, the margin of 19% are quite reasonable. So, that was one. What was the next question you had?

Rohit Nagraj: On the carbide capacity, any cues from China that the capacities have been contained or there is a move from the government to contain those capacities. Because I think earlier, pre-COVID, there was an expectation that due to pollution issues from coal, the government was taking steps to curb those capacities which are already in place?

Amit Agarwal: I agree there was a phase of 1-2 quarters where they did curb capacities but after that all the capacities have come back and most of their capacities are carbide based and they are dumping their product globally. So, at least I am not aware of any further action they are going to take.

Moderator: Thank you. Next question is from the line of Ahmed Madha from Unifi Capital. Please go ahead.

Ahmed Madha: My question is, we have seen the profitability margins being low in the sugar business in Q3, right? So, now this weakness because of the lower sugar prices will continue for the entire season or do you have any levers which can help you offset the margin loss?

Ajit Shriram: I think essentially there are two reasons. One is there was an increase of the state advised price of sugarcane last year by the UP government, number one. Number two, there was a very good variety of sugarcane called 238, which was roughly 80% of the cane being crushed by most sugar mills. And that has got infected by a disease called red rot. And that has now decreased, and that was a very high yielding and a high recovery variety, which had come up in the last 4-5 years. And that has now decreased dramatically. And that's one of the primary reasons why our cost of manufacturing has gone up, because of lower yield, lower recovery, and also because of higher SAP.

Ahmed Madha: What is the ethanol mix between B-Heavy, C-Heavy, and grain based?

Amit Agarwal: So, we are doing primarily C-Heavy.

Ahmed Madha: And the decline in the rise cost from FCI, will that help us meaningfully?

Amit Agarwal: Probably in the next financial year, not in the current financial year.

Ajit Shriram: Yes, because we already covered as far as feedstock is concerned, besides the molasses or C-Heavy, we have already covered till mid-April, as far as other feedstocks are concerned.

Ahmed Madha: For the financial year at FY25, what will be our molasses-based ethanol and what will be grain-based ethanol? Percentage, roughly?

Amit Agarwal: Roughly, I think we will manufacture close to about 16.5 crore liters. Out of that, about 45% should be grain based.

Ahmed Madha: And last question on the hydrogen peroxide and aluminum chloride. In the presentation you have written that your utilization currently is 80%. What was the utilization for the full quarter, Q3 for these two products?

Amit Agarwal: For Hydrogen Peroxide, average for Q3 was 40%.

Ahmed Madha: Just one more thing, on the caustic side, this quarter the volumes have gone up sequentially. So, do you see the utilizations further moving up in Q4 as well for caustic soda?

Aditya Shriram: Yes, that is a continuous focus area for us, to utilize the capacity and we do see it ramping up quarter-on-quarter.

Moderator: Thank you. Next question is from the line of Raj Vyas from TM Investment Technologies. Please go ahead.

Raj Vyas: I just wanted to know like with a 12% Y-o-Y increase in EBIT and a 9% increase in net profit, so like any ballpark number that we are looking for, like going ahead, like what will be the run rate moving ahead?

Amit Agarwal: Given that our volumes are increasing and the capital expenditure plans are coming to an end, the first round or let's say whatever we had announced last three to four years, we do expect volumes to increase. Our cost structures are better than what they were in the past. So, we do feel our numbers should continue to get better. However, it is all a function of cost as well on the raw material cost as well as the product prices, which are not in our control. So, it's difficult to say, but we are taking steps to improve our profitability.

Raj Vyas: Any reason for the fall in ROCE? It went from 16.1% to directly 13.7%?

Amit Agarwal: That has been explained during the message by our JMD. That's because the new capital expenditure which got commissioned in this financial year in H1, that is part of capital employed with returns are yet to, because the capacity utilization is low right now. So, they will come up over next one year and that's when we will see the optimum return on capital employed.

Raj Vyas: What is the peak capacity that you are looking for?

Amit Agarwal: As it was mentioned by Mr. Aditya Shriram that we will look to ramp up over next 12 to 18 months to about 90% to 100%.

Moderator: Thank you. Next follow-up question is from the line of Nirav Jimudia from Anvil Wealth. Please go ahead.

Nirav Jimudia: Sir, you mentioned that our hydrogen peroxide plant operated around 40% in Q2. So, even at 40% utilization, did it have a positive contribution at the PBIT in Q2 or the breakeven point for hydrogen peroxide plant is slightly higher than 40% if you can just share your views here?

Amit Agarwal: It has been positive on the contribution, definitely.

Nirav Jimudia: And that should further improve in Q4 given the kind of utilization rates pick up we have seen in the current quarter, right?

Amit Agarwal: Yes.

Nirav Jimudia: Just a follow up to this is like our hydrogen production is ought to go up with the increase in the caustic production, right?

Amit Agarwal: Yes.

Nirav Jimudia: So, some of the increased caustic soda production help us for the excess hydrogen which could be utilized here. But I think we also had commissioned a flaker plant. So, there is also probably we would require some amount of hydrogen for conversion it to from lye to flakes. At any point of time, our sales of hydrogen to the outside customers won't be curtailed on, is this right assumption to make here, sir?

Aditya Shriram: So, we have actually done the mapping and the planning for our hydrogen production and demands, whether it is captive demand or it is catering to our customers' requirements. So, we very consciously evaluate where to prioritize, obviously we really value our customer relationships. So, that always gets the highest priority while we are ramping up our own capacity and internal utilization as well. So, as it is ramping up, we are continuously optimizing and at full loads we expect to have adequate hydrogen to cater to all the requirements.

Amit Agarwal: Just to add, I think the gas that we have started with natural gas as well in our Flaker plant.

Aditya Shriram: So, our Flaker plant has a dual feed fuel capability, which is one is natural gas and the other is hydrogen. So, that gives us flexibility as well to balance out the hydrogen requirement.

Nirav Jimudia: Entirely 600 TPD is now commissioned or only 300 TPD is currently running on flaker?

Aditya Shriram: So, in the flaking so far 300 TPD has been commissioned and the remaining 300 TPD also is being worked on and we expect that to be commissioned soon as well.

Nirav Jimudia: Sir, last bit from my side. In the hydrogen peroxide side, are our hydrogen peroxide catering to some specialized applications or it is safe to assume that it is similar to what it is available in the market? So, is there any differentiation factor in our hydrogen peroxide which is getting sold in the market?

Aditya Shriram: So, we are working on the special grades of hydrogen peroxide as well. We have an innovation center which is also exploring how to create differentiated hydrogen peroxide. So, over time we do expect a healthy percentage of our H_2O_2 to be specialty grade hydrogen peroxide.

Nirav Jimudia: But that would take some time before it is getting operationalized, right?

Aditya Shriram: Yes, it will take some time, but the teams are working very actively on this. So, we are very optimistic.

Moderator: Thank you. Next question is from the line of Pratik Tholiya from Systematix. Please go ahead.

Pratik Tholiya: Sir, what is the CAPEX guidance for FY26?

Amit Agarwal: CAPEX should be in the range of around, as of now, whatever has been announced, it should be in the range of around Rs. 700 crore.

Pratik Tholiya: And sir, this could be projects, this includes your aluminum chloride, aluminum extrusion, right? What else is there?

Amit Agarwal: There is aluminum chloride and calcium chloride, extrusion. And then like the Rs. 65 crore which has been announced very recently. Then we have this 74 megawatt of green energy that will also happen in FY26. And there will be some CAPEX happening on the infrastructure front at Bharuch, like water reservoir and things like that. And there is a turbine investment as well of about Rs. 50 crore-Rs. 60 crore. Which is a cost improvement which I was talking about.

Pratik Tholiya: And sir, what is your guidance on this epoxy resins? Where are we on that? Because we had announced this quite some time back, this Rs. 1,000 crore project, but any further development over there?

Aditya Shriram: Yes, so that is something which is very much on the agenda for us as a group. You rightly said, we have taken a board approval and the board has approved a Rs. 1000 crore investment in advanced materials, largely epoxy space. And so there are active discussions going on internally. And as we get final approval to go ahead from the board, we will announce.

Amit Agarwal: And just to add here, we have already acquired land for that and we are in discussions with technical suppliers and all that. So, the movement is happening. Hopefully we should close things soon and start implementing.

Pratik Tholiya: And sir, ballpark, what sort of capacity are we looking at?

Amit Agarwal: It will depend on the technical discussions. But overall, for Rs. 1000 crore, that we were talking about, we were looking at about 80,000 tons per annum.

Pratik Tholiya: So, how much of our ECH will be absorbed captively for epoxy?

Aditya Shriram: So, it will actually depend as we ramp up the capacities. But as Amit has said, at 80,000 tons per annum, that would translate to roughly 50,000 tons per annum of ECH consumption. But over time, we will look to ramp up this entire vertical. So, therefore there will be continuous capacity additions in this space.

Pratik Tholiya: And lastly, on Fenesta, because we have seen margins coming off from 18% odd to 15% odd. Of course, you did mention that there are additional fixed costs due to marketing activities and growing the business. So, when can we then expect the margins to crawl back to 18% or do you think that a couple of years, since you are in the expansion phase, it will remain in this 15%-16% range?

Amit Agarwal: See, last year same period and I'm looking at the EBITDA margin, right? Now EBITDA margin was about 19% and the same period last year were about 21% so there is a 2% dip and I've always said that this is a business which is a 16%-17% EBITDA margin business, right? Given that as we increase the portfolio of products each product will have a different set of margin. Currently the major reason why it's down is fixed cost and as was mentioned in the opening remarks that fixed costs are expected to be elevated because we will have to invest more on marketing, brand building and things like that, as well as more on people as we are growing platforms and even otherwise on existing people. My competition also adds to the cost pressure.

Moderator: Thank you. Next follow-up question is from the line of Rohit Nagraj from B&K Securities. Please go ahead.

Rohit Nagraj: Just a couple of questions. One is on the ECU, given that the market is well supplied from the domestic point of view, do you see that the ECU should be in the similar range for the time being till again the demand supply mismatch comes in or probably on the demand side there is a new uptick from the domestic side?

Aditya Shriram: As you know, caustic ECU is made up of caustic and of chlorine. Caustic of course is highly dependent on the global demand supply situation and chlorine is more dependent on the local demand supply situation. So, the ECU is currently in the range of about Rs. 30,000 per ton and we do expect it to remain balanced in the times to come. And hopefully over time it will inch up further as well.

Rohit Nagraj: Second question, on the CBG project front, given that it will be commissioned sometimes during this quarter, what is the arrangement in terms of off take in terms of supplies to customers pricing for the same? And pardon me if I have not done my homework earlier, just to get more clarity on the same. Thank you.

Amit Agarwal: So, this will be to OMCs, the oil marketing companies, we will be supplying to them.

Rohit Nagraj: And in terms of infrastructure network to transport the gas as well as from the pricing perspective, how will it be priced?

Amit Agarwal: So, you see, there is a pricing formula which is based on the natural gas prices, and that makes it pretty viable as a business. Transportation infrastructure is there, further pipeline is being looked at. And also, to add that, we will definitely look at doing maybe some bit of supply to retail as well as we grow the business.

Rohit Nagraj: And just last bit on this, when we have worked out the project, what is the threshold IRR or ROCE that we had looked, I mean, is it in line with other businesses or probably slightly higher for this business?

Amit Agarwal: If I remember correctly, this was about 18% return on capital employed business.

Moderator: Thank you very much. Ladies and gentlemen, that will be the last question. And now I will hand the conference over to the management for closing comments.

Ajay Shriram: Ladies and gentlemen, thank you very much for your participation in our earning conference call.

We are dedicated to achieving long-term success by implementing strategic initiatives aimed at investing in scale, value creation, and boosting operational efficiencies. We ensure that our values of integrity, agility, customer centricity, teamwork, openness, and newness are reflected in our ways of working. Our priorities are of creating a more engaged workforce that is equipped to thrive in an ever-evolving business landscape. To this effect, we ensured effective team building and collaboration by encouraging open communication. Investing in people development through conducting skill-gap analysis, upgrading skills, and encouraging continuous learning is another focus area that is vital for organizational growth and employee satisfaction.

The integration of digital technology into management practices is transforming how organizations operate. Embracing digital transformation and addressing cybersecurity concerns has become imperative to improve customer experiences and maintain competitiveness. Central to our strategy is a focus on sustainability which underpins our unwavering commitment to environmental stewardship and social impact. Thank you very much once again, goodbye.

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

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