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August 16, 2022

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

Sub: Transcripts of the Earnings Conference Call held on August 8, 2022

In continuation to our letter dated August 8, 2022, please find enclosed the transcripts of the Earnings Conference Call held on August 8, 2022.

We request you to take the same on record.

Thanking You,
Yours faithfully,

For CHEMPLAST SANMAR LIMITED

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





“Chemplast Sanmar Limited
Q1 FY2023 Earnings Conference Call”

August 08, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 8th August 2022 will prevail



**MANAGEMENT: MR. RAMKUMAR SHANKAR- MANAGING DIRECTOR –
CHEMPLAST SANMAR LIMITED
MR. N. MURALIDHARAN- CHIEF FINANCIAL OFFICER -
CHEMPLAST SANMAR LIMITED
DR. KRISHNA KUMAR RANGACHARI - DEPUTY
MANAGING DIRECTOR - CUSTOM MANUFACTURED
CHEMICALS DIVISION - CHEMPLAST SANMAR LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to Chemplast Sanmar Limited Q1 FY2023 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. 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 for joining us on a call today. On this call, I am joined by our CFO, Mr. N. Muralidharan, Dr. Krishna Kumar Rangachari, Deputy Managing Director - Custom Manufactured Chemicals Division and SGA, our Investor Relations Advisor. I hope everybody had an opportunity to go through the financial results and the investor presentation, which has been uploaded on the stock exchange and on our company’s website.

In the quarter gone by, we finished the first of our multiple capex projects which we announced at the time of our IPO - the debottlenecking of our suspension PVC capacity at our Cuddalore plant. While this is a small project, its timely completion in spite of COVID-19 related disruptions reflects our commitment towards growth and strong project execution capabilities. With the completion of this project by the end of May, which was ahead of the time that we had announced, we now have 331,000 tons per year production capacity of suspension PVC. We have already started realizing the additional capacity from June onwards.

I would like to take a brief moment, to talk about the suspension PVC landscape in India. The demand for suspension PVC in India was around 3.3 million tons in FY20. There has been some drop over the next two years due to the pandemic, but this year has started very strongly and we believe that demand would be restored to pre-pandemic levels in the current year itself. By 2026, the suspension PVC demand in India is expected to grow to around 4.25 to 4.5 million tons and with the current capacity of only around 1.5 million tons, that would mean a significant gap of 3 million tons. As all of you would be aware there has been a new project announced for one million tons per year of suspension PVC



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capacity, which is likely to come in, in phases starting FY26. This additional capacity when it comes in will only serve to reduce the demand supply gap from the expected 3 million tons to around 2 million tons; the gap would therefore be quite substantial. Moreover, new capacities are likely to fuel further demand growth given the confidence level in downstream processes on feedstock supply. This is particularly so, since the per capita consumption of PVC in India is one third to one fourth of that in comparable countries and there is a lot of potential demand. Internationally as well, over the next five years, the estimates have been made by global analysts and industry watchers that put the demand growth at 9 million tons over this period against the supply growth of only around 4 million tons. Thus, while the last three months have thrown up some temporary challenges due to COVID lockdowns in China, the medium to long-term outlook for suspension PVC remains positive.

Coming to our performance during the quarter, despite a very challenging environment we delivered another quarter with a strong 47% growth in revenues on a year-on-year basis and 28% growth in EBITDA on a year-on-year basis. Sequentially, however, our profits are lower than Q4 of FY2022 due to the flood of PVC exports from China into India on account of the COVID-related lockdowns in that country. Energy costs have also gone up largely due to a spike in coal and natural gas prices.

I would like to highlight that currently commodity business dominates our sales by close to 65% of our sales. However, in terms of profitability our specialty business accounts for more than 50% of our EBITDA. In the long-term, once our proposed expansions of both paste PVC and the custom manufactured chemicals division come on stream the specialty vehicle would contribute a larger share of both revenues and profitability.

With respect to our performance across our key product categories, on the PVC front, prices came under pressure as the lockdowns in China had an impact on consumption centers whereas the production centers were not impacted. As a result, the excess PVC inventory that was built up in China was exported out of China and this kept the prices low across the region; however, feedstock prices have also come down quite significantly following this and indeed on a marginal basis the spreads between PVC and VCM are still healthy, currently SPVC India prices are at \$1050 a ton CFR India while VCM Asia prices are at around \$740 a ton. The benefit of this will be realized as the prices stabilize. This flood of Chinese exports, we believe, is a temporary phenomenon linked to their lockdowns and we are confident that things will normalize over the next couple of months. This temporary increase in Chinese imports has also affected paste PVC prices. On both suspension and paste PVC, we seem to see some stability having been achieved right now.



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Custom manufacturing, along with specialty paste PVC, is an important part of our specialty business. Here, as we had mentioned earlier, our existing assets are operating close to optimum levels. Enquiries for custom manufacturing business continue to remain strong. We did some debottlenecking last year and we continue to have some more debottlenecking exercises that are ongoing as we hope to sweat the assets further. As there is a limit to the extent of debottlenecking that we can do, we have already triggered the capex projects related to the next phase of investment aimed at increasing the capacity onsite. Environmental permits have been received and construction has started on the first phase. Once that comes on-stream we will be able to again ramp up our volumes. We are happy to report that during the quarter the CMC division has received the “Sustainability Award” from one of its key customers for carbon reduction. Overall, our specialty chemicals segment registered a 33% increase in revenues on a year-on-year basis primarily driven by growth in sales volume.

The other products in our portfolio, caustic soda, chloromethanes and hydrogen peroxide complete the integration play across our manufacturing facilities. Caustic soda prices continue to be strong in the quarter, chloromethanes feed into the agrochemical and Pharma sectors primarily and demand has continued to stay strong. As a whole, the non-specialty chemicals segment registered a 94% increase in the revenues on a year-on-year basis mainly led by a surge on the pricing front especially for caustic soda. Suspension PVC revenues increased by 42% on a year-on-year basis driven by a 40% increase in the sales volumes. A part of this volume increase is due to the completion of the debottlenecking by the end of May.

Going forward, we are committed to make future investments to support cash flow growth and shareholders return. As we speak, we are closely evaluating select growth opportunities over and beyond our existing announced capex plan. These opportunities encompass options like capacity expansion in the existing products, backward integration, and product portfolio expansion leveraging our current existing strengths. We will keep you posted as we firm up the plans. Now I would request our CFO, Muralidharan to share the quarterly financial highlights.

N. Muralidharan:

Thank you Ramkumar and a very good afternoon to all the participants on the call. The company reported a good performance for Q1 FY23 owing to strong volume growth across all its products. During this period, Chemplast has been able to demonstrate the strength of its business dynamics in the face of challenging circumstances. The revenue from operations for Q1 FY23 was at 1,411 Crores, higher by 47% on year-on-year basis primarily on account of higher volumes across our product portfolio. EBITDA for the quarter was at



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194 Crores, registering a growth of 28% on year-on-year basis. The zero COVID policy in China and the resultant COVID-related shutdowns there have resulted in a sharp contraction of demand for PVC resin in that country. On account of this, there is a spike in exports of PVC resin from China resulting in a steep fall in finished product prices in India as well as feedstock prices. In line with generally accepted accounting principles, we have written down the carrying value of stocks of major intermediates and finished products to levels corresponding to the net realized value of finished products leading to an exceptional charge of Rs.81 Crores in Q1 FY23. Our finance cost for the quarter has been reduced to 36 Crores, as compared to Rs.100 Crores in Q1 of FY22. This is largely driven by the reduction of debt compared to the corresponding period last year as well as reduction in the interest rates. The PAT for the quarter was at 41 Crores compared to a PAT of 29 Crores in corresponding quarter last year. The profits however were down on a sequential basis, primarily due to the temporary Chinese situation that Ramkumar spoke about earlier. With this I conclude the presentation and open the floor for further discussions.

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

Ahmed Madha: Thank you for the opportunity. Can you please share the number of what kind of inventory we have at the end of June quarter for suspension and paste PVC?

N. Muralidharan: As finished products we had 10163 tons of suspension PVC and around 4500 tons of paste PVC.

Ahmed Madha: Okay, got it. Now considering that we took the inventory write down, which clearly explains that on that inventory we would not be making a positive EBITDA, so does that continue in July and August considering that we have seen a sharp decline in PVC as well as VCM prices, so does that inventory issue continue for July and August?

Ramkumar Shankar: This is Ramkumar here, I will take that question. This drop in prices will affect really the inventory that we have as of the end of June and till it goes out., The drop in prices continue till about the third week of July, after that it has stabilized. In fact we are seeing some stability in prices for the last 10 days or so and there is a general feel in the market that the bottom has been reached. The prices of feedstock have also come down significantly like I had mentioned in my opening comments and right now the PVC prices are at \$1050 and VCM price is at around \$700, therefore it is just a question of time for the existing old



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stocks to move out of the door and then we will start seeing the benefit of this spread that is there on a marginal basis.

Ahmed Madha:

So, how much inventory we have for VCM, how many days?

N. Muralidharan:

On an overall basis taking VCM and PVC together, the inventory that we carried at June end was around 35000 tons for suspension PVC and around 22000 tons for paste PVC.

Ahmed Madha:

My point is, you are saying that the prices were falling till the third week of July, so that inventory which we have got in the third week of July will continue till August month, which effectively means that July and August will not contribute much to the profit, is the conclusion correct or no?

Ramkumar Shankar:

Part of August, I would say.

Ahmed Madha:

Okay, fine, got it. Now, on the paste PVC side - is the price decline in line with suspension, so is this because of the imports or is this market phenomena that generally paste PVC prices falls in line with suspension. How does that work?

Ramkumar Shankar:

This is largely because of imports. Like I said, this was a very unique situation that has happened over the last four months where China's capacities are largely concentrated in the north and west of the region closer to their coal reserves. They have around 20 million tons out of the 26 million tons of capacity in that region whereas 70% of the demand oss around 21 million tons ie around 14.5 million tons of demand comes from the south and east. Unfortunately the lockdowns were all in places like Shanghai, which are on the eastern side which led to the PVC demand coming down while the PVC production continued. That obviously led to inventory building up in China. China normally exports around 100000 tons of PVC a month, this went up to over 300000 tons per month in the last three months or four months and that was really the crux of the problem -that imbalance between production and consumption that happened within China. However, we are seeing like I said some stability right now - in fact the Chinese futures market, which dropped to around 6000 RMB by July 15, 2022 is currently at around 6800, so we are seeing some stability and some positive signs there.

Ahmed Madha:

My point was that this is mainly regarding to suspension; does the same logic apply to paste PVC as well in terms of demand supply and imports?



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- Ramkumar Shankar:** Yes, because both in suspension and paste, China's capacity is largely tilted towards the carbide route and that is all there in the north part of the country, which is where the coal reserves are and that really was the issue.
- Ahmed Madha:** Now, just one bookkeeping question, can you explain what was the power and fuel cost
- Moderator:** Sorry to interrupt, Sir. Mr. Madha, may we request that you return to the question queue there are participants waiting for their turn.
- Ahmed Madha:** Sure, thank you.
- Moderator:** Thank you. The next question is from the line of Chintan Chheda from Quest Investment Advisors Private Limited. Please go ahead.
- Chintan Chheda:** Good afternoon and thanks for the opportunity. Sir, my first question is related to some bookkeeping, so in this quarter, when I subtract Chemplast Sanmar's standalone from the consolidated revenue, we normally end up deriving the CCVL revenue, which is effectively our suspension PVC sales - so this time that number is around 841 Crores but in investor presentation the SPVC revenue is 923 Crores, so what exactly I am missing over here?
- N. Muralidharan:** There is an inter-company sales between Chemplast Sanmar and CCVL. To support CCVL import VCM, Chemplast Sanmar utilized its LC limits and imported two parcels of VCM and supplied to CCVL, so that is the intercompany sale that has been knocked off.
- Chintan Chheda:** Ok. So, this purchase of stock-in trade of 130 Crores - that pertains to this intercompany sales?
- N. Muralidharan:** Yes, you are right.
- Chintan Chheda:** Secondly, our operating expenses in CCVL look little bit higher this time compared to Q4 despite the lower volumes, so was there any one-off over there?
- N. Muralidharan::** There is no specific one-off, this is primarily due to the slightly higher freight expenses and also slightly higher repairs and maintenance expenses, packing expenses and also the cost of power and fuel per se has also gone up in the quarter.
- Chintan Chheda:** How much was the quarter-on-quarter increase in the power and fuel expenses, so in absolute numbers if you can split?



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- N. Muralidharan::** Overall basis, the increase in power and fuel costs on a year-on-year basis was almost around 71 Crores and if you look at on a consolidated basis overall other expenses has moved up by 96 Crores of which actually power and fuel constituted almost 71 Crores.
- Chintan Chheda:** No, in Q1 FY2023 what was the power and fuel cost and in Q4 FY2022 how much was that if you could provide me with that number?
- N. Muralidharan::** In Q1 FY2023 overall power and fuel cost was at 168 Crores and in Q1 FY2022 it was at 97 Crores, Q4 FY2022 it was at 127 Crores.
- Moderator:** Sorry to interrupt, Mr. Chheda, may we request you to come back in the queue.
- Chintan Chheda:** Yes, I will come back in the queue.
- Moderator:** Thank you, Sir. The next question is from the line of Raj Gandhi from SBI Mutual Fund. Please go ahead.
- Raj Gandhi:** Sir, thanks a lot for the opportunity. So, this is the follow-up on the operating expense itself, so on this question of higher opex if we see Q-on-Q your opex per ton has moved from \$308 to \$460 per ton, so what has resulted in this almost \$150 increase in opex Q-on-Q, and even if I compare your last eight quarters your average opex is about \$330 per ton whereas this quarter it is about \$460 per ton?
- N. Muralidharan:** Key reasons for the movement in other expenses is primarily power and fuel like I explained on an overall basis power and fuel contributed almost 71 Crores out of the 96 Crores increase and it is primarily due to the coal cost increase. As you know, natural gas prices have also gone up and that also added to the power and fuel cost and that is the primary reason for the increase, other than that increase is mainly driven by the volumes.
- Raj Gandhi:** I am talking per ton, Sir, so if you could just help me with let us say Q1 FY23 what was the overall power and fuel costs within that other expense?
- N. Muralidharan:** Overall power and fuel cost in Q1 FY23 is 168 Crores, previous year Q1 it was 97 Crores.
- Raj Gandhi:** What was it in Q4 of previous year Sir?
- N. Muralidharan:** 127 Crores.
- Raj Gandhi:** I will come back for further questions, thank you.



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- Moderator:** Thank you. The next question is from the line of Rajesh Kumar Ravi from HDFC Securities. Please go ahead.
- Rajesh Kumar Ravi:** Sir, I have two questions, first on this one-million-ton expansions which you are taking up - is this with VCM route only or EDC route and how is the capital employed per ton different for both the production method and related question what are the other capacities coming up in India given that there is 2-million-ton deficit?
- Ramkumar Shankar:** I think the one-million-ton project that you are talking about is the Adani project, we have yet not announced any increases, it was announced by the Adani group, so they had originally announced 2 million tons expansion, but I think in the last AGM they have brought it down to 1 million tons, which will be done in phases and that will be at a capital cost of around \$2 billion. Second question whether this will affect the balance, it will not really because by the time it comes up the gap between demand and supply for PVC in India would be around 4.25 to 4.5 million tons, so even if the one million tons were to come in, the gap would still be around 3 million tons, which is higher than the gap that is there today, so actually we will be faced with an even more tight situation.
- Rajesh Kumar Ravi:** We see that the VCM margins are much lower compared to EDC base production, so how are the raw material cost difference for both the operations in terms of for every one million ton of PVC how much EDC or how much VCM is required?
- Ramkumar Shankar:** If you are going through the VCM route, it is primarily 1:1 therefore for a one million tons of PVC you would need a one million tons of VCM and if you have a completely integrated plant, which has its own oxy-chlorination and direct chlorination, then we would require around 0.8 tons of oxy-chlorination EDC and 0.8 tons of direct chlorination EDC per ton of PVC, so basically 800000 tons of oxy-chlorination EDC and 800000 tons of direct chlorination EDC for a million-ton plant of PVC.
- Rajesh Kumar Ravi:** What is the capital employed difference for both types of capacity?
- Ramkumar Shankar:** Obviously, the capital required, investment required for a fully integrated plant would be far higher so that is why we also captured more of the value addition in that process, and if we are doing it only out of VCM, the capital investment required would be far, far lower and that would be an asset light model, but then the unit margins would also be that much lower



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Rajesh Kumar Ravi: Sir, last question on the Chinese impact, when do you see this getting reversed, you mention there is a 15% recovery in the realization in the futures market and are you also seeing any government interventions which can help reduce the influx in India?

Ramkumar Shankar: That is a good question,. As far as the recovery is concerned the first requirement really was stability and I think that seems to have been reached right now and the minute the Chinese demand recovers, we will start seeing the recovery, I am not able to give you an exact date for that, all I can point to are the signals that we are getting from the market, which shows that the stability has been reached and possibly, there are signs of reversal. For us ,just stability is good enough because we will start realizing the price spreads that we have, since the feedstock prices have also fallen. As far as the industry measures are concerned, yes, the industry is definitely worried about this kind of a flood of imports coming in from a country like China and the industry is working closely with government and has represented to government to initiate various measures and as and when those efforts are successful, we will keep you informed.

Rajesh Kumar Ravi: Sure, thanks, Sir and all the best.

Moderator: Thank you. The next question is from the line of Akul Broachwala from IIFL Securities. Please go ahead.

Akul Broachwala: Thank you so much for the opportunity. Just wanted to check can you just help us with the existing prices of suspension PVC and VCM that are prevailing right now?

Ramkumar Shankar: Suspension PVC right now - CFR India prices are at around \$1050, there are some quotes lower, some quotes higher, but if you look at the more serious quotes we are talking about \$1050 per ton and VCM prices are currently ruling at CFR Asia level (which is the indicative level) of around \$700 per ton.

Akul Broachwala: Directionally do you expect once things normalize in China, so would you expect that these prices will kind of sustain going forward at higher levels or is there still some kind of quantity just that might affect going forward at least in Q2?

Ramkumar Shankar: We think that on suspension PVC definitely, the signals that we are getting, it looks like the bottom has been reached and that is why I said even the futures seem to be going up, but of course we will have to wait and watch, but at least there is some stability and VCM is closely tracking-we are seeing this kind of impact; in the last earnings call I had mentioned that the spread is usually between \$325 to 400, there are outliers there which are far higher,



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but if you remove those it is usually around this range and we are pretty confident that at a stable level this kind of a spread should be there.

Akul Broachwala: Understood and this kind of trend is also visible for paste PVC as well or over there are we witnessing some better improvement?

Ramkumar Shankar: Paste PVC as well there is stability right now and there again there is uptick in off-take also, the one thing that is I should mention here is that both in suspension and paste, when the prices were falling regularly in the last three months there was not much of stocking happening across the trade channels, therefore there is very little inventory level spread over the trade channels, so I think it is time for people to stock up as well. For paste we are seeing good traction in terms of orders and we believe that that is a good trend; that is the first sign of hopefully a recovery.

Akul Broachwala: Understood, and is it also to do with seasonality specifically in India given right now the monsoons are there, so does it also have a seasonal impact during the first half?

Ramkumar Shankar: Seasonality in paste PVC is not so much there, but actually there is a positive seasonality impact during festive season, then school seasons we will start seeing higher demand growth because this largely goes into footwear, it goes into a lot of leather articles which are gifted and so on and especially during the winter months the leather jackets will also be produced. As far as suspension PVC is concerned, usually the southwest monsoon period is when there is a little less of a demand which is usually between June and August and we are nearing the end of that, so once that period ends, usually there is a good spike in demand. So we are looking forward to the end of the monsoon period to see that spike in suspension PVC. Paste there is not so much of a seasonal impact.

Akul Broachwala: Got it.

Moderator: Sir, may we request that you return to the question queue.

Akul Broachwala: Sure, I will come back in the queue.

Moderator: Thank you. The next question is from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead.

Kirtan Mehta: Thank you Sir for giving this opportunity. You just mentioned that the paste PVC does not have much seasonal impact, but when we look at the specialty chemicals volumes this has



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come down from 22000 tons that we have seen in Q4 to around 13600 tons in Q1, so what explains sort of the sudden decrease in sales volume?

Ramkumar Shankar: Right, actually we went into Q4 carrying stocks for paste PVC, so we liquidated a lot of that in Q4. In Q1, we are really selling what we produce and because of the falling prices scenario, people like I explained were not buying to stock, they were buying only to need and therefore there was that 4500 tons of inventory that built up by the end of June as Murali also explained. So that explains the drop between Q4 and Q1.

Kirtan Mehta: Right, second question was about the competition that we are facing from China, so what is typical order cycle with the Chinese competition comes in, how much time it takes from orders to material receipt, basically I just wanted to understand how much more month of the imports we can face for the orders which has already been placed?

Ramkumar Shankar: I think the worst is behind us, I believe so. Of course time will tell us, but that is the reason for the stability that we are seeing currently and the fact that we are not seeing too much of Chinese imports coming in at this point in time.

Kirtan Mehta: There was also set of the news around that Egypt has put in antidumping duty on US and because of that the US materials would have to find out the alternate destination, so how does that impact the PVC market?

Ramkumar Shankar: Yes, US material has been coming into India, but the problem for the US coming into India is the distance and the time that it will take for the material to actually land here - the shipping time itself would be around 45 days and that would mean significant price and exchange risk, etc., so to that kind of difficulty for the US material coming all the way to India that is why they prefer selling largely into Latin America and into Europe and of course the MENA region, But that is fine because now that we are having the monsoon ending, the demand will also go up sharply and with the trade channels not having enough inventory because of what happened over the last four months, we hope to see good demand coming in.

Kirtan Mehta: Just one more question if I can just put in, in terms of the overall demand gloves related demand has also come off very significantly with the COVID is easing out, so does that also have an impact on PVC demand supply balance?



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Ramkumar Shankar: Glove demand is largely in China, it is not so much in India. In India if you see that there will be very little gloves demand, very little gloves manufacturing capacity in India, largely it is either in Southeast Asia or in China, so it has never been a factor in India.

Kirtan Mehta: That is the reason the Chinese exports is increasing because their gloves demand has reduced because of that the Chinese exports have increased, so apart from the lockdown is that the factor which is increasing the Chinese export?

Ramkumar Shankar: That was a minor factor, but the larger factor is the lockdowns because this reduction in the gloves demand happened even last year-we did not see this kind of imports coming in from China. So what has really resulted in this flood of imports from China is really the lockdowns, the skewed lockdowns- basically the lockdowns being in the demand area while the production areas continue to operate.

Kirtan Mehta: Sure Sir. I will go back in the queue. Thank you for your answers.

Moderator: Thank you. The next question is from the line of Manan Shah from Moneybee Investment Advisors. Please go ahead.

Manan Shah: Thank you for the opportunity. I have two questions, one was a little bit on the strategy side, so the volatility that we keep seeing is probably because we sell everything on spot, so as a strategy just wanted to know the thought of selling certain portions of our volume on contract basis where we can fix prices and thereby reduce the volatility that we see in our earnings?

Ramkumar Shankar: This is an interesting question. We would rather not have one side of the equation fixed and one side of the equation floating, because well in some cases if that goes against us, it could be disastrous. For instance, we cannot afford to have feedstock floating on a month-to-month basis while the finished product alone is fixed. The way we are doing it right now is that both are based on that month's pricing, so to that extent normally we will get a very good spread or margins over the years, it is only in exceptional situations like what we have seen in the last three months or four months where there has been a sudden increase in import quantities from 100000 tons to 320000 tons or so per month and that too in a time when the monsoons are here and therefore the demand is a little weaker because of the seasonal impact, and that was really the problem. So it is not really because of having the prices on a spot basis or a fixed basis.



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Manan Shah: I believe that we keep an inventory of roughly 40 to 45 days, so if we can say 30% to 40% of our finished goods may be enter into fixed price contracts for a month or so, thereby we lock in the spreads that we can make thereby reducing the volatility. Anyway, my next question was on the paste PVC is there any stickiness with the customers in terms of quality or anything on that side if you can throw some light and secondly when are we announcing our expansion for the SPVC, are we still some time away?

Ramkumar Shankar: Three things - the first thing is let me correct your impression, we do not carry 45 days of inventory at all, normally our inventory on PVC be it suspension or paste is hardly three days - that is in a normal situation. The current situation where we are carrying the inventory that Murali spoke about was only because of the fact the prices were falling and the people were ordering to need rather than to usual stock levels. That was the only reason; normally if we go back to history as well you will find that our finished product inventory is hardly three days or so.

Manan Shah: I am referring to raw material inventory.

Ramkumar Shankar: Even our raw material inventory would not be for 45 days because even if we take VCM, our storage facility itself is only for around less than 20 days of holding capacity, so we will not even be able to hold even if we want 45 days of inventory. That aside, the second question you had was on stickiness of paste customers and quality - you know we are the largest player in the paste PVC industry in India and we are four times the size of the only other player, and we have been around since 1967 in the paste PVC industry. A large number of our customers have all grown around us and therefore they have a significant stickiness as far as we are concerned. In fact, most of our relationships go to over 20 years, etc., if you look at our total number of customers we have around 350 customers in paste PVC, we have one customer who is greater than 50 years, we have at least 100 customers who have relationship with us over 20 years and so on, and most of their product processing formulae spec in our product, so that has never been an issue, I think we enjoy a good reputation and we work hard at preserving the reputation. The third question was on suspension PVC capacity. The suspension PVC capacity increase would be highly capital intensive. A one-million-ton capacity that was recently announced was \$2 billion on an integrated basis. If you were to do it on a non-integrated basis, then you would need to look at feedstock tying up, etc.- right now we are not anywhere close to final investment decision on that.

Manan Shah: Thank you.



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- Moderator:** Thank you. The next question is from the line of Anandha Padmanabhan from PGIM India AMC. Please go ahead.
- A. Padmanabhan:** Thanks for taking my question. Just wanted to understand that 80 Crores impact that you have taken that is based on the price movement till June end right and the price fall that has happened in July is yet to be accounted that is the way one should understand this?
- N. Muralidharan:** It takes into account the price fall that has happened in July.
- A. Padmanabhan:** So, even the July price fall has been taken into account in the 80 Crores of exceptional income that you have taken that one should understand it?
- N. Muralidharan:** Yes.
- A. Padmanabhan:** For practical purpose should then one assume that incrementally the closing stock that you will be selling that will be based on the spot spreads, I am particularly speaking in terms of the margin that you will be realizing in it would be based on the spot side because the margin that we will be booking in Q2 will be more based on the spot spreads is what one should understand this?
- Ramkumar Shankar:** Not on the closing stock, the closing stock will have to go out of the gate and then any newer production beyond the closing stock that we have will be on spot spreads.
- A. Padmanabhan:** But the closing stock itself we have already taken into account the price fall that has happened in July you have already taken that into the closing stock price, right and that is what I could understand from your response?
- N. Muralidharan:** Yes, we have brought it down to the level of net realisable value, but we will not get the spot spread on that. Basically we are bringing the cost down to the net realisable value, they both will match, so to that extent you cannot get the spot spread. Like Ram said as the closing stock moves out and as the newer production comes in, we will start realizing the spot spread and also as prices if they start moving that up, that will also add to the spread even on the stock that we carry.
- A. Padmanabhan:** So, any guidance in terms of how should we look at the absolute EBITDA that we would be reporting for Q2?
- Ramkumar Shankar:** We normally do not give guidance on the EBITDA for the future.



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- A. Padmanabhan:** Thank you, that is all from my end.
- Moderator:** Thank you. The next question is from the line of Sanjesh from ICICI Securities. Please go ahead.
- Sanjesh:** Good afternoon Sir. Thanks for taking the question. Few from my side, first is on the volume front on the specialty, sorry I have joined late probably you would have answered that but just for my clarification, so we have 66000 metric ton we have sold close to 14000, so the average run rate has been 17000 tons, was there an issue even on the demand side or it was just a destocking, which we have seen on client side in the anticipation of price fall, which has led to the slowdown in the volume sales for this quarter?
- Ramkumar Shankar:** Yes, it is more because of the price fall, see normally when the prices are on a falling trend customers do not want to be on the wrong side of a pricing decision. Therefore they tend to stock less and wait for and buy only for need whereas in the rising price market they tend to buy more and stock more, so it is more a question of sentiment and expectation and this is really because of that.
- Sanjesh:** So, basically client destocking is what has led to the lower volumes?
- Ramkumar Shankar:** Right.
- Sanjesh:** When the prices stabilize or move up, you would see them restocking?
- Ramkumar Shankar:** Correct, especially now that there is some stability that seems to have been reached, we are seeing that pull coming back largely because there is very thin inventory levels across the chain.
- Sanjesh:** Got it. Second on the spread, so if I look at the spreads in the Southeast Asia, your spreads are either remain stable or only hardened and in India we have other tailwinds like currency depreciation from 75 to 80 now and I know there is some headwind also in terms of lower customs duty, which will hurt our margin. Why is the difference being so drastic in terms of how the spreads are behaving today for us or the spot market is different than what the result is showing up, how to reconcile all this data point?
- Ramkumar Shankar:** When the prices keep falling, you do not get the benefit of the fall in feedstock prices because what happens is constantly there is inventory loss, which is why I said at the very beginning that it is only when the prices stabilize, that we will start getting the benefit of the lower feedstock prices as well and that stability has to come. We believe that it has come



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and if that stability persists and we get the older stock out, then for all the newer stocks like we answered in the previous question also all the newer production that we make, you will start seeing the benefit of the spot spread, but we will need to wait for the older stocks to go out of the gate.

Sanjesh: How to look at Southeast Asia spread, currency and all those things?

Ramkumar Shankar: One thing is, currency does not really impact us too much on suspension PVC prices because most of our product prices are based on import parity level therefore if the rupee depreciates wherein the rupee value of an import quote in dollars is actually higher, so to that extent we have a natural hedge, but over and above that, in all our feedstock anyway we hedge the feedstock ; we take plain vanilla forward contract, so we do not take on forex risks there, so we have no surprises down the road on foreign exchange that is on that. On Southeast Asia, the Indian prices are always very different from the Southeast Asian prices on PVC largely because of the fact that the supply demand imbalance is so huge in India that quotes that come into India are at a different level, so we do have that is showing up in the spreads that you see.

Sanjesh: Got it, just one correction for my understanding, I thought currency depreciation would have been positive for us because the spreads in dollar term would have remained constant and currency conversion in rupee would have benefited that?

Ramkumar Shankar: That is what I said. I said because we are denominated on import parity pricing, rupee depreciation does not go against us, it does work in our favor - that is why the spread is also okay, so let us say the margin of \$300 at Rs.75 and at Rs.80, we get the benefit of that extra Rs.5 on the \$300. On obviously certain things like coal imports, etc., depreciation of the rupee would add to our cost but not large and the more important thing like I said it does not affect us, it actually benefits us.

Sanjesh: So, just to understand I do not know if you would have that number, if you were to sell on the spot or if you want to benchmark on the spot today what will be the suspension PVC spread we would be making today?

Ramkumar Shankar: Today, the import parity price is around \$1050 and today's VCM price CFR Asia is around \$700.

Sanjesh: So we are still making that \$300 odd, which we were making earlier right?



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- Ramkumar Shankar:** Give or take, yes. On the spot basis we would, but that is what I keep saying - the older stock goes out and then we will start seeing the benefit of this.
- Sanjesh:** Just to understand Q3 when all the things the oldest stocks were out and we are normalized we should hit that \$300 kind of a spread. Will that be a fair assumption?
- Ramkumar Shankar:** Yes. If everything else remains the same, yes.
- Sanjesh:** Thank you very much for answering all the questions and best of luck.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors Private Limited. Please go ahead.
- Bharat Sheth:** Good afternoon Sir and thanks for the opportunity. Take it forward from previous participant question, so I believe the kind of run rate that we have I hope suspension PVC stocks must be out of in Q2 correct?
- Ramkumar Shankar:** For suspension PVC the older stocks would be out by possibly the third week of August or so.
- Bharat Sheth:** In August, is still demand low? does it reflect that way because we do have around volume of 25000 per ton per month, so even say suspension PVC. We have 10000 kind of June stock still it is not out. Am I correct?
- Ramkumar Shankar:** The demand will be fully back like I said once the monsoon is over. Once the monsoon starts weakening and that is normally by around September, so we will start seeing that happen and that should be a good increase in demand.
- N. Muralidharan:** Also what Ram mentioned is that by second or third week of August the total stock for which we have provided for would have moved out. 10163 tons. obviously it would have moved out in the last month itself because we sell much more than that, in one month like you rightly pointed out, but along with that we are also provided for intermediates, which are equivalent of PVC end product stock, so what Ram was referring to when he said it will move out by second or third week of August is including the total one which is around 35000 tons of stock that we have provided.
- Bharat Sheth:** How Sir we are seeing on the opex side particularly on coal prices also I understand is softening, so how do we really see this moving ahead in Q2 and Q3?



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- Ramkumar Shankar:** Coal prices definitely are softening, we are seeing that as well. Coal prices in fact shot up - in fact, somewhere around February of last year it started moving up. So we had an average \$115 of coal price per ton for the GCV that we buy that shot up in Q1 of this year to around \$160 - we are already seeing that it has come down to \$130. This is largely because the Chinese coal buyers are now preferring Russian coal since that is now available and the Indonesian coal is available at a much cheaper price. So we are seeing coal being that much weaker.
- Bharat Sheth:** The paste PVC stock is still lying with us because the run rate is around 4000 to 6000 per month, so whether paste PVC old stock finished stock is out?
- N. Muralidharan:** We were carrying around 4500 tons of stock more or less that would have moved out. Obviously to the extent compared to the inventory write down that we have made that stock still continues. It is only the intermediate equivalent stock that we will continue to have.
- Moderator:** Sorry to interrupt, Sir, there are participants waiting for their turn.
- Bharat Sheth:** Okay.
- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.
- Rohit Nagraj:** Thanks for the opportunity. Sir, one question on the exceptional charge, so I think in terms of inventory gains or losses, this is a normal phenomena in our business, so why have we separately accounted for it this time and historically we have not provided any inventory gains or losses? Thank you.
- N. Muralidharan:** Primarily the test of exceptional items is basically based on materiality and whether it is one-off, in this particular case it is of course significantly material one and it is also exceptional because we have not provided like this many times. In the last 13 years we have done it maybe two to three times that is why it is not routine, we do not provide for NRV on a regular basis because normally the prices will take care of the cost, of course the margins could marginally vary here and there, but we do not write down the inventory materially we have done it only three times or so in the last 13 years so in line with accounting standards it has been considered as exceptional item based on materiality as well as being one-off in nature.



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Ramkumar Shankar: Just to supplement, normal price drops or price increases happens 5% or at best 10%. , In the last three, four months, this Chinese situation has led to prices correcting by around 45% and that was significant enough for us to be transparent. We just wanted to be transparent and quantify the inventory loss, otherwise usually in these calls we would get a question on how much was the inventory loss because of the price correction. So, because it was significantly large, we thought we will be transparent and we will also quantify it.

Rohit Nagraj: Second question is on Custom manufacturing facility, so when do we expect the first phase to get commissioned and given that it is being operating at almost 100% utilization why there has been a delay in terms of working on this particular project? Thank you.

Krishna Kumar Rangachari: The CMC project is actually on track. We were waiting for approval related to the project to initiate construction activities. It is on track I do not see any delays at all, we had indicated that we would commission this sometime in June, July 2023 time period and we are on track right now.

N. Muralidharan: We are on track and on course for the project completion, we had indicated even during IPO as well of a growth in CMC in phases and the first phase was supposed to come in H1 of next year and we are on course for that, there is no delay in that project.

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

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

Yogesh Tiwari: Sir, if you can just share the prices at least the average prices for Q1 FY2023 and the current prices for caustic soda, chloromethane, hydrogen peroxide and suspension PVC?

N. Muralidharan: The Q1 prices we would talk about, Q1 prices for suspension PVC average was around Rs, 123500 and caustic soda that was around Rs. 56000 and chloromethane that was around Rs.60000.

Yogesh Tiwari: Any indication currently how has this trended in the price of these products?

N. Muralidharan: The suspension has corrected now somewhere around Rs.92000 level that is the one Ram is also talking about the significant drop, which normally does not happen and caustic still holds good, it is somewhere around that range only and CMC also it is more or less in the same range around Rs. 55000 level.



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- Yogesh Tiwari:** Lastly on the specialty chemicals, so if I look at realization that is if I divide your revenue by volume for specialty chemicals it has declined on both Q-on-Q and Y-o-Y basis, so on year-on-year basis the decline is more and the realization was quite strong in the same quarter last year, so what would be the reason for it in product mix?
- N. Muralidharan:** That is primarily due to the fact that the paste PVC prices during the last year was quite high in Q1, in the current quarter actually they normalized and came down that accounted for this.
- Yogesh Tiwari:** Thank you Sir. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Akshita Rein from Green Portfolio. Please go ahead.
- Akshita Rein:** Thank you for the opportunity. My first question is related to refrigerants like what is the sales percentage of total revenue from refrigerant gases on Y-o-Y basis and are there any future expansion plans for the same?
- Ramkumar Shankar:** Refrigerants currently forms a very negligible part of our overall portfolio - in terms of percentage, it is around 1% of our total sales. It is not very significant. Definitely we are looking at this as well as one of the areas where we could grow because there are adjacencies here which we could look at and we have a long history in making both, we started off with the chlorofluorocarbons and then also we are now in hydrochlorofluorocarbons, so we have a long history here, a lot of experience, so this is one of the areas that we are looking at.
- Akshita Rein:** My second question is related to PVC paste resin; can you share the percentage sales of PVC resin that is generated from auto sector again on Y-o-Y basis?
- Ramkumar Shankar:** I wouldn't have that information with me readily right now, I can request my team to reach out to you after the call and give this to you.
- Akshita Rein:** Sure, thank you.
- Moderator:** Thank you. The next question is from the line of Nitin Tiwari from Yes Securities. Please go ahead.
- Nitin Tiwari:** Good evening, Sir. Thanks for the opportunity and hardly this will be the repetition, I just wanted to confirm that the reason for basically lower sales in this quarter vis-à-vis the



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previous quarter is that the demand has been on the softer side and secondly the inventory numbers that you gave out and also the position in terms of liquidation can you please reconfirm that that what kind of inventory we were holding as of June in terms of finished and raw material, how much is still high cost inventory and still left with us?

N. Muralidharan: We talked about the inventory equivalent of around 35000 tons of suspension PVC in the form of finished product as well as the intermediates and significant part of it will get liquidated by the second week of August and on the paste PVC side we had an inventory equivalent of somewhere close to 22000 tons and that may also get liquidated during this quarter.

Nitin Tiwari: Right, this is finished and intermediate inventory anything on the raw material side as well that we were holding?

N. Muralidharan: We have provided right from feedstock to finished product we have covered in that item.

Nitin Tiwari: Understood, so this will be liquidated in this quarter are you saying and secondly on the demand side that I asked that the sales drop that we saw in this quarter vis-à-vis previous quarter that is mostly because of the softer demand you mentioned right on both Paste and SPVC?

Ramkumar Shankar: Yes, demand really impact us largely because like I said people were buying for need rather than for the usual stocking level, they were destocking. In a falling price market, that is usually what happens and once prices stabilize, then the stocking starts all over again and that is what we will see.

Nitin Tiwari: Can you give us some colour on what kind of demand did we actually see in India on an overall basis in this quarter and the first quarter if we have to look at it from a Y-o-Y perspective or on a sequential perspective and overall demand for the PVC in the quarter any sense you can give us in that direction?

Ramkumar Shankar: Yes, sure, suspension PVC market in Q1 was around 850000 tons, which was a 27% growth over Q1 of last year and around 13% growth sequentially. I think we should only look at it on a year-on-year basis. Paste PVC has grown year-on-year at around 60% in this quarter, but that is a little higher because in the first quarter of last year you also had the impact of the delta wave so to that extent the numbers were a little subdued in the first quarter of last year. That is why we believe that the post-pandemic de-growth is now being made up - we are starting to see demand come back strongly.



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Nitin Tiwari: Thank you Sir. Suspension PVC you mentioned that the demand has grown by about 27% Y-o-Y and 13% Q-o-Q, so that is pretty strong growth, so please correct me if I am wrong over this why is that our production didn't keep up with the demand, which was there in the market?

Ramkumar Shankar: We did not lose any production; it is only our sales.

Nitin Tiwari: I meant sales, Sir.

Ramkumar Shankar: Obviously, when there was that flood of Chinese imports that are coming in at those kind of prices, so obviously that was there, so we also held on to some prices, we don't want to follow the Chinese prices all the way down - we hope the demand will come back and prices will stabilize and that was the reason. We did not want to panic and push the market further down.

Nitin Tiwari: Understood, thank you for taking my question. I will get back in the queue.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to the management for their closing comments.

Ramkumar Shankar: Thank you very much for taking the time to join us on this call this afternoon. We tried to answer all your questions. If there are any questions that we have left unanswered, please do reach out to our investor relations advisors and I am sure that we will be able to address your questions. We appreciate your interest in our company. Thank you very much for the time.

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