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February 20, 2024

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

Dear Sir/ Madam,

Sub: Transcripts of the Earnings Conference Call held on February 13, 2024

In continuation to our letter dated February 8, 2024 please find enclosed the transcripts of the Earnings Conference Call held on February 13, 2024.

Date & Time of occurrence of the event/information: 20th Feb, 2024, 3.43 PM (IST)

We request you to take the same on record.

Thanking You,

Yours faithfully,

For CHEMPLAST SANMAR LIMITED

RAMAN MAHADEVAN
Digitally signed by RAMAN MAHADEVAN
Date: 2024.02.20 17:48:37 +05'30'

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

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"Chemplast Sanmar Limited
Q3 FY2024 Earnings Conference Call"

February 13, 2024

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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

Moderator: Ladies and gentlemen, good day and welcome to Chemplast Sanmar Limited's Q3 FY2024 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 date of this call. These statements are not 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 management of Chemplast Sanmar Limited. Thank you and over to you!

Ramkumar Shankar: Thank you very much. Good morning everybody. This is Ramkumar Shankar. On behalf of Chemplast Sanmar Limited, I extend a very warm welcome to everyone joining us on our call today. On this call, we are joined by our CFO, N Muralidharan and Dr. Krishna Kumar Rangachari, the Deputy Managing Director - Custom Manufactured Chemicals Division and SGA our investor relations advisor. I hope everyone has had an opportunity to go through the investor presentation and financial results which have been uploaded on the stock exchange website and on our company's website. In line with our earlier guidance, Q3 of FY2024 performance was adversely affected due to the continuing challenging environment. We faced further correction in PVC prices on account of dumping at lower prices from China and other countries, slow down in the other chemicals business (comprising of caustic soda, chloromethanes, hydrogen peroxide and refrigerant gases) due to the over-supply situation in India, the increase in key feedstock prices and adverse impact of the lag effect in correction of VCM prices. We recorded a top-line of Rs.888 Crores down 10% quarter-on-quarter, with an EBITDA loss of Rs.7 Crores. The silver lining, however, is that there is a strong demand growth in PVC led by an increase in activity in infrastructure and real estate. We expect this healthy demand to drive the recovery in prices and margins over the next two to three quarters, with serious efforts also being taken by the industry to address the issue of dumping.

During the quarter, prices of both suspension and paste PVC were lower by 8% and 6% respectively on a quarter-on-quarter basis. EDC prices witnessed a 12.5% increase during the third quarter compared to the second quarter, while VCM prices remained flat during the quarter. Sales volumes of suspension and paste PVC were also slightly down compared to the previous quarter. The lower volume of suspension PVC was mainly due to reduced production on account of weather-impacted delays in feedstock arrival while paste PVC volume drop was more due to inventory movement. All of these factors resulted in compression of margins during the Q3. Subsequently though both suspension and paste PVC prices have moved up in February. While the prices of caustic soda and chloromethanes were stable during the quarter, the excess supply situation continues which is sustaining the pressure on prices and margins. The other chemicals business witnessed a 14% quarter-on-quarter increase in the top-line because of steady prices and 12% volume growth.

In our Custom Manufactured Chemicals division the pipeline is healthy. We commercialized three new products this year and a number of products are under various stages of development. Despite the challenges on account of the downturn in the global agrochemicals industry and the consequent inventory rationalization internationally, we expect this business to deliver a reasonable growth during the year. While commercial production from phase one of the expansion project has commenced, phase two is expected to be completed in Q1 of FY2025. The 41,000 tonnes per annum paste PVC project is expected to start commercial production in the fourth quarter of the current year. This will further cement our position as the leading paste PVC producer in India taking up our capacity to around 110,000 tonnes per annum. Despite the recent uncertainty in the industry, we are confident of the long term potential of all our businesses and are strengthening our capabilities and relationships to grow in a sustainable manner. I now request our CFO, Muralidharan to share the financial highlights for the quarter and nine months of the year.

N Muralidharan: Thank you Ramkumar and a very good morning to all the participants on the call. Talking about the quarterly performance in Q3 FY2024, the revenue from operations stood at Rs.888 Crores versus Rs.988 Crores in Q2 of FY2024. During the quarter, our gross margin dropped by 200 bps to 32% compared to the previous quarter mainly driven by contraction in spreads as highlighted earlier. Employee expenses increased marginally whereas other expenses remain flat on a sequential basis. We reported an EBITDA loss of Rs.7 Crores as against an EBITDA profit of Rs.46 Crores during Q2 FY2024. Our finance cost for the quarter stood at Rs.47 Crores as against Rs.39 Crores in Q2 mainly on account of higher interest on term loans post capitalization of phase one expansion project in the Custom Manufactured Chemicals division. The net loss for the quarter was Rs.89 Crores as against net profit of Rs.26 Crores in the previous quarter. For the nine months FY2024 we recorded revenue from operations of Rs.2,872 Crores, a decline of 24% on a year-on-year basis. Other expenses dropped by around Rs.88 Crores on year-on-year basis primarily due to the reduction in power and fuel cost. We reported an EBITDA of Rs.5 Crores and PAT loss of Rs.127 Crores for the nine months FY2024. While this year the results are subdued given the current market conditions, with the ramping up of custom manufacturing business as per plan and the incremental volumes that are expected from the paste PVC project which is getting commissioned this quarter and the margin expansion that is expected from our products on account of the various initiatives that we are working on, the outlook for the business continues to remain strong. With this, we conclude the presentation and open the floor for further discussions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We take the first question from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead.

Kirtan Mehta: Thank you Sir for this opportunity. The results show the quite significant pressure on the margins this quarter the way you elaborated is primarily from the price decreases as well as the delayed lag impact so how much of the lag impact will reverse in the next quarter while I do understand that the margins could remain muted over next two to three quarters but how much of this lag effect could at least reverse during the next quarter?

Ramkumar Shankar: Good morning Mr. Mehta. This is Ramkumar. Directionally we expect that the next quarter will be definitely better than Q3. Like I mentioned in my opening comments, we have seen an increase in PVC prices in February but in absolute terms it might not be very significant. We expect the significant recovery more from Q1 of next year which is when we will start seeing the impact of this current uptrend if it holds. The bigger question that we need to address is the question of dumping and to ensure that this dumping is arrested and this is something that as I mentioned as an industry we are working on.

Kirtan Mehta: Right Sir. so in terms of the dumping, could you indicate the level of imports that we are seeing in both suspension PVC and paste PVC? How was the trend in the last quarter in relation to the earlier trends and how are you seeing that evolving in this current quarter?

Ramkumar Shankar: So let me make one thing clear right up front that we are not against the imports coming in because India is a market where the demand is well in excess of supply. So we do need imports till such time the domestic capacity is built up. What we are objecting to really is the dumping of very, very low cost artificially priced imports and that is what as an industry we are objecting to. If you look at the imports that have come in the last nine months alone we have seen around 2 million tonnes of imports coming in into the country, a lot of it around 30% odd of that comes in from China, another 17% is from Japan and 15% is from Taiwan, Korea accounts for another 12% and the US accounts for around 8%. So to take the top five countries we are seeing around 85% of our imports accounted for by just these five countries and some of these countries like for instance China has significantly gone up in exports to India. In 2019 – 2020 they were just at 30,000 tonnes for the year as a whole, in 2020-21 that was only around 70,000 tonnes, in 2022 – 2023 they grew to around 780,000 tonnes and this year they are expected to be close to a million tones. And that is where the issue is because that is where the prices are coming in at far lower prices and which are not subscribing to any economic rationale. As far as Paste resin is concerned, the imports in 2022-2023 have been at around 86,000 tonnes and this year in the first nine months it is around 62,000 tonnes. Largely here it is a little bit more widely spread, in terms of arrivals, we see imports coming in from Taiwan, Korea, Thailand and China and to some extent Malaysia as well. And if you take Europe as a block then you have a significant import coming in from Europe.

Kirtan Mehta: Right Sir. Just one more question on the custom manufacturing side. You alluded to the fact that the global agrochemicals is seeing a downturn and in turn the inventory rationalization. So could you sort of highlight the impact of that on our revenue during the first nine months and what is the level of growth that we envisage during FY2024?

Krishnakumar Rangachari: Good morning. This is Krishna Kumar. In our last call itself we highlighted that there was an impact even on our existing business but that is largely mitigated by the growth in the pipeline products that we were working on and that we were commercializing, so we continue to see the same sort of trend. What we are noticing is that there is a deferment of volume of orders from one quarter to another. So we are not seeing a drop in the volumes itself but just a postponement in terms of moving the orders between quarters from a rationalization standpoint. Many of the products that we are working on that we commercialized they are all new molecules, new pipeline molecules so the impact has been largely muted in general.

Kirtan Mehta: Just one follow-up in terms of how far we are here from the restocking in the global chain, how many quarters of pressure that you see because of this destocking?

Krishnakumar Rangachari: So it is tough for us to answer that question because it is linked to how much of our business is existing molecules and how much is newly launched molecules. The benefit for us is majority of our growth and our sales are going to come from pipeline molecules and the new molecules which are in launch phase. The over-all impact is as much as a long term established player would face so that is all I can answer for the time being.

Kirtan Mehta: Thank you Sir. Thanks for this color. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Raj Mehta from Wisdom Advisors. Please go ahead.

Raj Mehta: Good morning Sir. Thanks for the opportunity. Sir I wanted to know that currently how are end-user industries like infrastructure, pipes, leather industries, etc., are doing and are they facing any challenges due to a price rise of a commodity or logistic cost?

Ramkumar Shankar: Sorry could you repeat that question. It was not very clear. End-user industry for which line of product are you talking about?

Raj Mehta: Like infrastructure, pipes, leather industries are doing?

Ramkumar Shankar: Yes they are actually doing quite well in the sense that like I mentioned there has been actually a 20% growth on suspension PVC demand within the country if you look at the apparent consumption in the nine month period. So there is a significant growth. There is a lot of latent demand both in infrastructure and in construction that we see and we believe that the end-user sectors are quite healthy and they will be growing. Of course there will be one particular government project that could be coming to an end but then further projects have been announced. The vote-on-account that was also announced recently also laid special emphasis, continuing emphasis on providing housing and all of that will need the PVC consumption. So I believe that the outlook is quite healthy and our per capita consumption as a country of PVC resin is way below even regional averages leave alone global averages. We are below three kilos per person whereas if you take China it is above 12 and even Southeast Asia and comparable countries in Latin America, etc., it will be anywhere from 6.5 to 8. So I believe that demand in India is still nascent and there is a lot of room for further growth.

Raj Mehta: Got it Sir. But are they facing any challenges due to a price rise of a commodity or logistic cost?

Ramkumar Shankar: There is not much of a challenge that I see in that sense. I think, as you can see, PVC prices have been inordinately pressured and they have come down. So our end-use industries would not have any need to complain about any high prices as such. They have been enjoying the benefit of these low prices. So I do not believe that there is any great challenge there.

Raj Mehta: Got it Sir and my last was question how has agrochemical industry put pressure on our business like do we expect similar pressure on our customs business?

Ramkumar Shankar: Krishna would you like to take that.

Krishnakumar Rangachari: Can you please repeat the question.

Raj Mehta: Yes how has agrochemical industry put pressure on our business. Do we expect similar pressure on our custom business?

Ramkumar Shankar: Krishna the impact of the agrochemical slowdown on our Custom manufactured chemical business. I think that is the question.

Ramkumar Shankar: I am sorry Dr. Krishna Kumar Rangachari is taking this call from Europe and I think he just dropped off. We will try to connect him again. My apologies for that.

Raj Mehta: Thank you Sir. That is it from my side and all the best.

Moderator: Thank you. The next question is from line of Rajiv Shah from Opal Securities. Please go ahead.

Rajiv Shah: Thanks for the opportunity. Sir I have a few questions. My first question is the impact of the Red Sea crisis, how much our exports have been impacted by that?

N Muralidharan: We have not seen any challenges on account of the Red Sea crisis in terms of our exports. As far as the imports are concerned, we do not have any immediate shipments coming through that side and to that extent we are reasonably protected.

Ramkumar Shankar: But just to give you some color on that. We do have in some of our other businesses that there are outside of the listed company there are shipments going that side and we have not seen any great impact there. The attack seems to be a bit targeted and sporadic and not really very widespread.

Rajiv Shah: Understood Sir. Thank you for the detailed answer. My next question would be what would be our revenue target in the next three years and like what kind of growth are we targeting and just a follow-up on that would be what would be our sustainable margins we are targeting for the next few years?

Ramkumar Shankar: I got the first part of your question which is about the revenue target for the next two quarters. The second part was not clear.

Rajiv Shah: Sustainable EBITDA margins.

N. Muralidharan: On the revenue growth target broadly the way we are looking at it, there are two parts to it. One is as the PVC business turns around and then we expect the prices to move up that will add to the revenues going forward. Apart from that, we are also bringing in two new projects which is the paste PVC project which is adding to the volumes and we are also adding the custom manufacturing business. The custom manufacturing business we have already guided that we expect to reach around Rs.1,000 Crores in the next two to three years. In the paste PVC we are investing around Rs.360 Crores and that will give an asset turn of roughly around 1.20 to 1.25 so that again will add to the volume. So it will be three pronged. I will refrain from commenting on the growth from prices currently. These two will certainly add around Rs.1,500 Crores of turnover in the next couple of years time. And the second question on the sustainable EBITDA margins level, again we can split that into two parts. Chemplast Sanmar, the stand-alone entity, has been historically reporting EBITDA margins of somewhere around 25% and above . The last two years have been one-off and we believe that this is temporary and it will get corrected because of the mix of products it has and the complementarity of those products, As as well as the focus on the customer manufacturing which by itself is a high margin business, we believe we will be able to sustain this 25% EBITDA margins in the coming years. It may not be in the immediate year but going forward that could be a sustainable EBITDA margin. As far as the subsidiary, suspension PVC business is concerned, somewhere around 12% to 15% would be the EBITDA margin because there we are in the last leg of conversion. It is basically an asset light model where we import VCM and convert to PVC. So the asset turn is quite high it is almost five times and even with a 15% EBITDA margin our return on capital employed will be quite high.

Ravi Shah: Understood Sir. Thank you very much and all the best Sir.

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

Rohit Nagraj: Thanks for the opportunity. Sir my first question is on custom manufacturing so in terms of composition between agro and pharma what would be the current composition in terms of numbers if you can give a general sense about the revenues from both these two?

Ramkumar Shankar: Now there is a lot of disturbance what we could gather was that you wanted to know the breakup of the contribution to custom manufacturing from Agro and Pharma right?

Rohit Nagraj: Right Sir.

N Muralidharan: It is currently significantly skewed towards the agrochemical business. Almost 80% to 85% of the volume is from the agro segment and the rest of it is spread among pharma and we also have some performance chemicals contributing to the rest of the volumes.

Rohit Nagraj: Right got that and Sir one allied question to that in terms of our incremental pipeline how is the composition spread? Are we now going more towards the smaller part of the current basket that is pharma and other performance chemicals or whether it is still skewed more towards agrochem? Thank you.

Krishnakumar Rangachari : So in the near term we will continue to be skewed towards agrochem. But we do have a number of projects in the pipeline which are other than agrochemical but those would take some time before they materialize into commercial orders. So again, in the near term we will be significantly in the agrochemical space.

Rohit Nagraj: Got that Sir. Sir second question again on the custom manufacturing front. So we had signed the LoIs for three molecules so where are we currently in terms of the progress? Thank you.

Krishnakumar Rangachari: We signed the three letter of intents, two of them were for intermediates and the most recent one was for an active ingredient. The first two are already commercialized, we are actually in the process of booking and selling commercial quantities and that is happening from our new production block. The third one, the LOI that we recently signed for an active ingredient so that will go through a development stage in terms of you will have to work on lab, and pilot, generate materials in the lab and pilot quantity and then qualify them at the customer place. So those would take a little bit more time in terms of commercialization.

Rohit Nagraj: Sure Sir. Just one last if I can squeeze in? Generally when we are signing such LoIs what is the kind of revenue potential we look is there any minimum threshold that we look at a two to three year perspective that the molecule will reach maybe Rs.50 Crores to Rs.100 Crores and based on that it is screened? Thank you.

Krishnakumar Rangachari: So we do not look at it that way. We look at these molecules much more on a strategic level. For example the third one that we just signed out it is a pipeline molecule and it is a active ingredient. So generally something like an active ingredient is something that most folks in this business they die for because a customer coming to you to make an active ingredient by itself is a big significant step in terms of the relationship and it reflects the confidence of the customer that he has in your ability to be a long-term partner. So our criteria when we work with our customers on such projects is what is the long-term potential, what is our stickiness with the respect to the molecule, whether it is a pipeline or an established and not just necessarily let us say any fixed volume or revenue targets per se.

Rohit Nagraj: Sure Sir. That is helpful and best of luck. Thank you.

Moderator: Thank you. The next question is from line of Rajesh Jain from NB Investments. Please go ahead.

Rajesh Jain: Thank you for the opportunity. I am extremely sorry the last time the line got disconnected. I have these questions for custom manufacturing business you had mentioned that we would be achieving around 25% growth in this business during the current year. So with the changed scenario are you still confident of achieving this growth?

Krishnakumar Rangachari: We believe there will be some moderation. Again it is sort of an evolving situation and the moderation will not be because the volume is going away but more, there would be movement of volume from one quarter to another or postponement of off-take from one quarter to another. We went through that depending on where our customers are, what sort of financial year they practice, there was initially some request to move from last calendar year to the next calendar year and similarly we are seeing some requests in terms of moving from this financial year into the next financial year. So we are not very clear of the net impact of that but I believe there will be some moderation when compared to our previous guidance.

Rajesh Jain: Fair enough. Sir my second question is you have mentioned that the three LOIs that we have received or signed will we able to take up the new capacity that has come up in the phase one. So my question is how much time that it would take to ramp up to full capacity under the current scenario? And if you would guide us how much revenue we can expect from this phase one capacity?

Krishnakumar Rangachari: Sir I did not understand the first half of the question.

Rajesh Jain: I will repeat it. You had mentioned in the earlier calls that the three LOIs that we have signed up would take up the new capacities that has come up in the phase one. So what I wanted to know was that in the current scenario how much time would it take to ramp up to full capacity utilization and as and when it is done, how much revenues we can expect from this phase one capacity?

Krishnakumar Rangachari: Yes got it. So no changes from what we had indicated in prior calls and I think Murali mentioned this also in today's call. The first-two LOIs that we signed, out of the three, are linked to phase one capacity and we are still confident that those two will ramp up and steady state would be reachedin the next two to three years. We will fully utilize our phase one capacity and our thinking again is that this would get us to a close to Rs.1,000 Crores turnover over the next two to three years, so that is where we are. Phase two is going to be commissioned. It is progressively being handed over, the assets are being handed over so we expect completion of phase two sometime in the Q1 and we have products in the pipeline that we are working on that would be housed in phase two capacity. So we will have more updates on that when we have clarity on when that pipeline moves towards commercialization.

Rajesh Jain: Sir a small follow-up you mentioned that Rs.1,000 Crores turnover in the next two to three years. So is it that you are saying for the entire custom manufacturing business or is it from the phase one capex capacities only?

N Muralidharan: What we are referring to as 1,000 Crores is broadly from the custom manufacturing business. In the next two to three years that we will be hitting a revenue of at least around Rs.1,000 Crores in the custom manufacturing.

Rajesh Jain: Fair enough. Sir now after completing this phase two expansion do we have any more space at the current location to expand in future?

Krishnakumar Rangachari: Yes. We have enough space available in the existing site to put up additional production blocks. No concerns about that.

Rajesh Jain: So like the one what we have done phase one and phase two to that extent we can add more capacities?

Krishnakumar Rangachari: All I can tell you is at least more than that.

Rajesh Jain: Fair enough. Sir my last question is now that you given an indication that maybe in two to three years this custom manufacturing business itself can reach Rs.1,000 Crores of turnover. Is there any thinking in the management to demerge this business and separately list it out?

Ramkumar Shankar: Those are more strategic questions we will address them. Right now there is no such plan.

Rajesh Jain: Thank you very much Sir and wish you all the best.

Moderator: Thank you. The next question is from line of Ashwini Agarwal from Demeter Advisors LLP. Please go ahead.

Ashwini Agarwal: Good morning Sir and thanks for the opportunity. Sir the question I had was on capex. Once this phase two capex gets over on the custom manufacturing and your paste PVC capex is over, how are you thinking about the next two to three years from a capex perspective and linked to that what is the debt position of the company on a gross and net basis as of December 31, 2023?

N Muralidharan: As far as the capex is concerned, these projects will get executed in the next quarter or so by Q1 of this year and as we had indicated earlier we are evaluating a number of projects. One on the PVC side as well as in the custom manufacturing growth and as we had mentioned earlier our first preference for capital allocation would be towards custom manufacturing and that is an area for growth. So once we have visibility for almost 60% of the phase two capacity we will go ahead and announce next phase of expansion. That will happen in due course. We do see continuous growth in the custom manufacturing business in the coming years. And as far as the PVC is concerned as I indicated earlier as well we are in discussions with various strategic players for tying up the required feedstock and once we have comfort around that feedstock we will look at the expansion opportunities in that business.

Ashwini Agarwal: Sir gross debt and net debt position as of December 31, 2023?

N Muralidharan: Gross debt position as of December is Rs.1,405 Crores and the net debt position is around Rs.650 Crores.

Ashwini Agarwal: One more question I had. So when you look at the custom manufacturing business I was just thinking about what is the potential EBITDA margin because some of these services especially in the early stage would be **(inaudible) 36:13** equivalent but when they go into LOI and production they are probably on a cost plus basis so how should we think about the margin on this Rs.1,000 Crores revenue which you are hoping to achieve in the next two to three years. Will it be somewhere in the ballpark of 30% which is what we have seen in several other companies is that a number that you would like us to think about?

N Muralidharan: On the custom manufacturing business normally on a contribution basis I am not getting into EBITDA margin. On the contribution basis, we generally work on a 40% contribution level. I am talking with just the variable conversion cost associated with manufacturing the product excluding the employee cost and maintenance and other expenses which are the fixed cost. If you exclude that probably on a contribution basis we look at 40%.

Ashwini Agarwal: That would be much lower than what we typically see in CSM, in the Pharma and the agrochemical space where contribution margins are somewhere in the ballpark of 50%. Would that be correct so the EBITDA margins would be somewhere in the region of 18% to 20%?

N Muralidharan: Generally, in the agrochemical space the EBITDA margins have been in the range of 23% to 25% levels and contribution margins close to 40%. I think broadly we will be there in the industry horizon.

Ashwini Agarwal: Perfect. That is all I was looking for. Thank you so much and all the best.

Moderator: Thank you. The next question is from line of Archit Joshi from B&K Securities. Please go ahead.

Archit Joshi: Good morning Sir. Thanks for the opportunity. Sir I just was seeking for some clarification especially in the CSM business you have mentioned that may be over the next two to three years we might be able to clock close to Rs.1,000 odd Crores of sales. Is it fair to assume? Sir, a clarification that the three LOIs we have signed mostly covers this Rs.1,000 Crores that we might be expecting over the next two to three years? Or that because we are planning for some few more molecules as you have mentioned in the press release that are in the pipeline, that also will eventually contribute towards the Rs.1,000 Crores or can we look at it in this way that the next few molecules that we launch might take the Rs.1,000 Crores number to a slightly higher sales potential?

Krishnakumar Rangachari: I think, as we again indicated, that the three letter of intents and what we have in pipeline we are reasonably confident of getting to that Rs.1,000 Crores. I think we would like to leave it at that point rather than break it up between the letter of intent and the pipeline. We have a healthy pipeline and we have reasonable visibility from these three letters of intents and so that is all the basis of our projection and confidence in getting to that number.

Archit Joshi: Right Sir so for now we are just **(audio cut) 39:55**?

Krishnakumar Rangachari: What we said was with the letter of intents and the status of the pipeline that we have we are reasonably confident about that Rs.1,000 Crores number.

Archit Joshi: Sure Sir understood. Sir just one more if you can explain the competitive intensity around the global PVC industry because I can see from your comments and from the press release also that the dumping from China is rather prevailing even in the current scenario and we have seen this happen over the last maybe 12 to 14 months. What is the sense that you are getting and what might be the lead indicator according to you for this level of dumping that is happening in PVC from China to alleviate a bit which also might reflect into some positive pricing scenario going ahead?

Ramkumar Shankar: So you are right in the sense that the Chinese situation has impacted this entire industry globally. In fact China accounts for around 40% of the global capacity of PVC and they also account for an equal percentage of proportion of the global demand of PVC as well. Unfortunately their property sector which accounts for around a quarter of their GDP has not been doing too well as we all know over the last one-and-a-half years and that is really what has pulled down their own domestic market for PVC. This has led to a lot of production of PVC out of China which is coming out and hitting global markets and pulling down prices significantly. Now there are two or three things that can happen. One is of course the recovery within China itself which is something that is always around the corner. The government there has been working on stimulus measures to re-incentivise the property sector which is very crucial for them. Nothing seems to have worked very well so far but there is some kind of a recent measure that has been announced. Seems to be a bit more positive than usual, so we are waiting to see the impact of that. The second of course is the fact that 80% of the Chinese PVC capacity is based on coal and it has obviously a much higher carbon footprint than the rest of the PVC industry worldwide. As also the fact that they are bound by the Minamata Convention to reduce their consumption of mercury into the industry. Now that is expected to have some kind of an impact on the capacities in China itself. The timing unfortunately is not very clear as to how soon that rationalization, the expected rationalization of capacity in China will happen, though it does seem likely that it will happen at some point in time. Now we are not able to put a date to that. The third of course is what we spoke about. We are not waiting for all of this to happen as an industry. We need to ensure that the economic interests of producers within India are protected because that is only good for further capacity addition and employment generation within the country. The industry has filed for antidumping duties to be levied on this excessive dumping into India not just by China but also by other countries and we are pretty confident that these will start bearing fruit sooner than later. And here it should happen within a quarter, at worst two .

Archit Joshi: Sure Sir. Sir another way maybe to put this entire scenario, would it be safe to assume that the concentration of Chinese capacities in PVC like you mentioned is more toward the carbide based capacities, if the cost arbitrage in terms of manufacturing PVC through carbide route is far better than the petrochemical route that Indian companies are largely a party too, it is probably one reason why the level of production in China compared to maybe the rest of the world is higher because the costs over there are lower maybe is that one reason that one can allude to?

Ramkumar Shankar: That used to be the case. You are right and when they set it up between 2005 and 2015 that used to be the case, but not any longer. Today coal prices have also gone up and environmental needs within China have also become much more stringent and therefore it is not as easy as it used to be to produce carbide based PVC without mitigating measures which cost money. Therefore I believe that the economic advantage that carbide PVC used to have over ethylene-based PVC, while at some points in time depending upon the relative prices of say crude oil and coal, while that might still be a reality but it is not a permanent reality. It keeps changing with the relative changes in prices of coal and crude. And one thing we should not lose sight of is that 25% of the carbide PVC manufacturing capacity in China is based on bought-out carbide and they are the ones who are most susceptible to movements in the prices of coal and therefore carbide. So it is not a very cast in stone kind of economic advantage that they have.

Archit Joshi: Sure Sir. Sir one last question the general premium that we used to enjoy of paste PVC over suspension PVC in terms of contribution margin as you used to mention on the calls previously, has that sustained in this quarter also or there is some weakness on that front also maybe the $150 to $200 premium, has that compressed or what are your thoughts Sir?

Ramkumar Shankar: Paste PVC usually is at around $200 to $250 more than suspension PVC and that differential is still there. These are different products going into different end uses. So while the base you may say is they are both polyvinyl chloride but actually their last stages of finishing are very different. They go into very different end uses as well and the pricing is different. For instance today if you are talking about suspension PVC being around $780, paste PVC is around $1,025 to $1,050 so there is a difference.

Archit Joshi: Understood Sir. Thanks a lot for answering all the questions and all the best.

Moderator: Thank you. The next question is from line of Madhav Marda from Fidelity. Please go ahead.

Madhav Marda: Good morning. My question was just on the previous one actually on the Chinese carbide based prices, could you give us some sense in terms of how these prices have moved in the last six months? If my understanding is right some of these prices have come down a little bit is that understanding right which has probably enabled little bit extra aggressive dumping by the Chinese players or have you seen these spreads for the carbide based capacities coming down a little bit? If you could give some color that will be great and my second was just on the profitability for some of the Asia-based PVC players in the Eastern hemisphere, we also seem to be struggling a little bit so some sense on when you think margins could recover for the sector?

Ramkumar Shankar: See as far as PVC prices are concerned the peak of course was reached in October 2021 when we saw PVC prices go all the way up to almost $1,900 or so. $1,700 we had that. But since then they have corrected. From January 2023 to January 2024 prices have gone down by around $100 from $895 to $790 but in between they had gone up to $970 as well and now they have come down to $790. A large part of this drop in price is being driven by China. China is leading it and then the rest of the producers in the region are following largely because China has the volumes and therefore the clout to set the prices. So this is really why we are as an industry concerned about this dumping from China and why we are working on measures. We are working on ways and means in which we can stem this. As far as margin improvement is concerned, so long as we have stable prices the margins will fall into place because VCM, as I have often said on these calls, is really a one-trick pony. It goes largely into the manufacturer of PVC and therefore it will not stay out of step with PVC for too long. It is only a lag period of maybe four to six weeks and once it stabilizes and then even if it starts going up we will start seeing the benefit. We have started to see some upturn in February but we need to really wait and watch and see if it lasts and it becomes a trend because we have in the past also seen some up trends and then very quickly that again corrects. But we do believe that some kind of a bottom has been reached in prices. I think the bottom is really set by the cost position of carbide PVC producers and I do not think that even they can go down any further. So from here on we should see stability first and then an upward movement. So I think that we are at an inflection point but it will take a quarter or two.

Madhav Marda: My questions have been answered. Thank you.

Moderator: Thank you. The next question is from line of Prolin, an Individual Investor. Please go ahead.

Prolin: Thank you for taking my question so lot of questions have been answered on the CMO part my questions are more pertaining to your core PVC business and taking the question of previous participant a little bit forward, what we have seen in other industries is that because of this fall or this Chinese dumping there are some capacities which are facing existential issue maybe on a temporary basis or on a full-time kind of basis because of their balance sheet not strong enough, their cost of production being very high. So are we seeing any instances of such kind of things happening either in terms of some of the domestic competition that we face or in terms of even the international competition that we face? And just a link to that what we are also seeing in other industries is that in China after COVID there have been lot of new capacities of chemicals which has come up. Is that the case also for PVC or it is just the incremental quantity which they have not been able to supply or the domestic market is not capable enough to take that is dumped or there is an incremental supply which has also come up because of the additional capacity so first would be these two questions?

Ramkumar Shankar: Two parts to what you have asked, one is on the operating rates of existing plants and there is a subset whether there are any closures that are there? And the second part is on capacity additions in the last two years across the industry globally. So as far as operating rates are concerned you are right, in countries like China which have excess supply as compared to their own domestic demand the operating rates have come down to some extent, not all the plants are running at 90% or 95%. This is true of not just China but also equally of countries like the United States where there is significant over capacity. By contrast, in India, plants in India are running at full tilt except where some have some technical issues but no plant has reduced operating rates because of inability to sell. All of us in fact, our inventory is less than half a day's production. Given the extreme under-supply in India selling PVC is not a problem. So we do not have any reduced operating rates in India so that is one.

Prolin: Just one more question sorry, just to add to that not just operating rates I was talking about the profitability as well do you see that because of profitability impacting some of these competitive capacity, can there be some closures going forward just to add to that question?

Ramkumar Shankar: Going forward I do not think there will be closures in India because India like I said has only 1.5 million tonnes of capacity against a demand of 4 million tones. So I do not see any closure in India. What is going on is really temporary, we believe that it will recover and hopefully if the dumping is arrested then we will start seeing a very different story in India itself. Obviously if you have this much of excess demand that should augur well for the domestic industry. It is only a question of this dumping that is holding us back. As far as permanent closures are concerned, we have not seen any major permanent closures anywhere. One or two are being spoken of but not in India, outside of India. We need to wait and see whether they actually pan out that way. As far as new capacity in China is concerned there is no new carbide based capacity that is coming up. There has been in the last couple of years some new ethylene PVC capacity that had been put up but even that building what was announced four years back or five years back, we believe that, that current cycle of building is coming to an end by the current FY2025 and after that there is nothing really new that has been announced yet, the only new capacities that have been announced are within India.

Prolin: Great Sir. Thank you for that clarity. Sir the second question would be again how you define your specialty chemical and there are two segments there one is the paste PVC and the second is the CMO part and as you have answered adequately on the CMO part. My question to you would be on the paste PVC and our definition of that as a specialty chemical. So is it only realization due to which or margins due to which we call it specialty chemical? So what I want to understand was that how difficult is it for our customer to switch from we being a supplier to a competitor who is offering at a lower price?

Ramkumar Shankar: It is quite difficult. I would not say anything is impossible but it is quite difficult. In fact these are all products that are spec'd into the formulae of the customers' product and having dominated this industry in India for the last 55 years we are part of that product spec sheet for most of our customers and that is one reason why even today we command a premium over import parity with every customer that we have. And that is something that is the quality of the product, the proven quality as well as the fact that this fits their requirement that well. It is not that easy to change.

Prolin: Sure and this would be for just paste PVC or also for suspension PVC?

Ramkumar Shankar: This is only for paste. Suspension is a commodity. Suspension is a commodity polymer and in there is no such specking in, etc.

Prolin: Understood and you mentioned that in suspension you have an asset light model margins are low but asset turns are high right and that is why you make ROCE which are decent. So does that mean that we do not take any commodity risks there or that is not how it works? What I was trying to understand is that even in an environment where there is dumping happening in overall PVC industry, because of our being an asset light model do we still make decent ROCEs in our suspension PVC business?

Ramkumar Shankar: See we will make decent ROCEs there once price has settled down. The volatility is really what is hurting us. If there is increase in one month and then a decrease in the next two months, every time it decreases then whatever we have in stock of the feedstock as also what is on ships coming in here to India, we tend to lose out on those. So that is really what has been hurting us a lot over the last 18 months or so. The minute we have stability and even a minor uptick, I think we will start to see our returns come back. But yes the asset turn because it is an asset light model, the margins per se would be lower but the return on investment would be higher.

Prolin: Understood so just to conclude what I understand is that for suspension PVC to be profitable, we need a stability of prices even if they are stable for next one year at the current level we would be making profits there and for our paste PVC it is the upside or some upward movement in prices that we are expecting for us to improve the profitability. Is that a fair summary of your answer?

Ramkumar Shankar: That is the fair summary and of course the arresting of dumping would help us in terms of the overall margins

Prolin: Fair point. That is it from my side. Thanks a lot and all the best team.

Moderator: Thank you. The next question is from line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: Good afternoon. Just one question, so out of these two major investments one is specialty paste PVC and one is custom manufacturing so the investment outlet which you have given, Now out of that you have explained on custom manufacturing and how you have an estimate that you will reach Rs.1,000 Crores in two to three years. So similarly, what kind of an asset turn you are expecting from the specialty paste PVC investment? Let us say in similarly two to three years down the line how will be the growth trajectory over there?

Ramkumar Shankar: So we would normally have like Murali said around 1.2 here as far as an asset turn on this is concerned and our timing in a sense we are coming in at an inflection point. Hopefully in the near future we would start to see the entire mood changing once the dumping again is addressed and we would have the additional volumes coming in at exactly that right moment in time. So we should see a decent increase here. At these prices we are talking about a 1.2, if prices correct to the normal levels where we have seen it in the past that could be even more.

Rahil Shah: When do you expect to reach like the peak utilization then so that gives revenue potential at the highest?

Ramkumar Shankar: By the second half of FY2025 we expect to be at 100% utilization in new capacity.

Rahil Shah: Alright, thank you and all the best.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to management for closing comments.

Ramkumar Shankar: Thank you everyone for joining us today on this earnings call. We really appreciate your interest in Chemplast and if you have any further queries please do contact SGA, our Investor Relations Advisor. Thank you once again and have a pleasant day. Thank you.

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