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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 May 21, 2024

In continuation to our letter dated May 15, 2024 please find enclosed the transcripts of the Earnings Conference Call held on May 21, 2024.

Date & Time of occurrence of the event/information: May 28, 2024, 2.53 PM (IST)

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
Q4 FY'24 Earnings Conference Call”
May 21, 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

SGA, Investor Relations Advisor – Chemplast Sanmar Limited



Moderator:

Ladies and gentlemen, good day, and welcome to Chemplast Sanmar Limited Q4 FY'24 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 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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ramkumar Shankar, Managing Director. Thank you, and over to you, Mr. Shankar.

Ramkumar Shankar:

Thank you very much, Nirav, and good morning, everybody. On behalf of Chemplast Sanmar Limited, I extend a very warm welcome to everyone joining us on our call today. On this call, we have our Chief Financial Officer, N. Muralidharan; Dr. Krishna Kumar Rangachari, the Deputy Managing Director of our Custom Manufactured Chemicals division; and SGA, our Investor Relations Advisor. I hope everyone has had an opportunity to go through the financial results and investor presentation, which have been uploaded on the stock exchange website and on our company's website.

FY'24 has been one of the toughest years for the company in recent times with the year being marked with challenges on all fronts. The PVC industry bore the brunt of excessive dumping of low-price resin by China and other countries, resulting in pressure on domestic prices and compression of margins. Though the Paste PVC import volumes in FY'24 witnessed a marginal drop compared to FY'23, domestic prices were impacted due to low-priced imports from the European Union, China, Malaysia and Thailand.

Suspension PVC imports were up 16% during FY'24 compared to FY'23. India was China's top export destination for Suspension PVC during the year with around 860,000 tons of Suspension PVC coming into India from China. This was a third of all the Suspension PVC imports into India during the year '23-'24. Prices of both Suspension PVC and Paste PVC were lower by 19% and 12%, respectively, in FY'24 as compared to the earlier year. Some signs of revival have, however, been witnessed on a quarter-on-quarter basis with a marginal increase in prices in Q4 of FY'24.

There are, however, a number of positive factors which bode well for the future. These include the continuing strong demand for PVC resin resulting from a boom in real estate and infrastructure sectors; the issue of a quality control order on PVC resin which, when it comes into effect, would ensure that substandard quality product is not imported into India; and the significant progress in the investigation for imposition of antidumping duty on PVC imports. Collectively, these are likely to lead to a correction in PVC prices over the next two to three quarters.

We believe that the period of strife for the PVC industry is coming to an end, and we expect to turn the corner with a better performance from this year onwards. The Other Chemicals business comprising of caustic soda, chloromethanes, hydrogen peroxide and refrigerant gas continues to be adversely affected due to the oversupply situation in the country.

Chloromethanes and caustic soda prices in FY'24 have been the lowest over the last three years. These witnessed further correction on a quarter-on-quarter basis. This business is likely to stabilize over the next three to four quarters. The global agrochemicals industry faced significant challenges during the year, including slowing global demand and crop-related issues due to erratic weather conditions affecting the whole agrochemicals sector and the dumping of Chinese chemicals in the market, which led to reduced price realizations.

Our Custom Manufactured Chemicals business was adversely impacted during the year due to these factors. The impact, however, was partly offset by commencement of supplies of new products under the first two LoIs signed in the last 12 to 15 months. CMC division's revenues were, therefore, lower by around 13% compared to the last fiscal.

On a positive note, the CMC division has recently signed the fourth LoI with an agrochemical innovator for an advanced intermediate for a new active ingredient. The LoI covers a period of five years, and commercial supplies are expected to begin from calendar 2025.

This will be manufactured in Phase 2 of a new multipurpose production block, which is expected to be commissioned soon. The division is expected to see the positive impact of the new products in the upcoming quarters. Amidst all these headwinds, we closed FY'24 with the top line of INR3,923 crores and an EBITDA of INR26 crores.

During this difficult period, the company has been resilient and focused on setting up capacities and capabilities which are likely to bear fruit with the expected improvement in market conditions. We commissioned the 41,000 ton Paste PVC expansion project during Q4 of the last year. We are happy to inform you that the products from this new plant has met the quality expectations of our customers, and it is expected that we will ramp up to 100% operating rate by the end of Q1 of the current year.

This capacity is aimed at fulfilling domestic demand through import substitution and will further strengthen our leadership position in Paste PVC in India. Further, the construction of Phase 2 of the CMC expansion project is underway, and we expect to complete this by the end of the first quarter of the current year.

Now I would request our CFO, Muralidharan, to share the financial highlights for the quarter and full year.

N. Muralidharan:

Thank you, Ramkumar, and a very good morning to all the participants on the call. Talking about quarterly performance, this quarter saw some improvement in performance on a Q-on-Q basis. While the revenue from operations declined by 8% on an Y-o-Y basis, largely on account of lower realizations per ton for all the products, on a Q-o-Q basis, the revenues increased to 18% primarily on account of better realizations for both Suspension PVC and Paste PVC.

During the quarter, our gross margin on a Q-o-Q basis remained almost flat at 31% level. On the expenses side, employee expenses increased by 22% on a sequential basis, primarily due to higher manpower in the CMC business and the new Paste PVC facility. Other expenses remained flat at around INR255 crores on a year-on-year basis as well as Q-o-Q basis.

EBITDA for the quarter stood at INR21 crores as compared to the EBITDA loss of INR7 crores in the previous quarter. Our finance costs for the quarter increased to INR51 crores compared to INR47 crores in the previous quarter, primarily due to the impact of project loans. The net loss for the quarter was INR31 crores as against net loss of INR89 crores in Q3 FY'24.

Coming to the full year numbers, as indicated earlier from a financial performance perspective, this was one of the most challenging fiscal years in the recent past. The revenue from operations declined by 21% as compared to the last fiscal, mainly due to a significant reduction in prices of all the products. While the sales volume of PVC resins were marginally higher compared to the previous year, the other chemicals sales volume witnessed a drop in the current year as compared to FY'23, mainly due to lower volumes of caustic soda and chloromethanes.

On the expenses side, Other expenses decreased from INR1,114 crores in FY'23 to INR1,019 crores in FY'24. This decrease is primarily due to the reduction in power and fuel costs by INR71 crores and freight and handling costs by around INR23 crores. EBITDA for the year stood at INR26 crores. The finance cost increased from INR154 crores to INR181 crores during the year, mainly due to the project loans availed for the Paste PVC and the CMC division expansion projects. Net loss for the year was INR158 crores. Like Ramkumar mentioned earlier, we have started seeing signs of improvement in the PVC prices now.

With the measures that Ramkumar mentioned, we expect things to turn around gradually on the PVC front. This, combined with the higher volumes from Paste PVC and CMC projects, will add to the profitability of the company in FY'24-'25.

With this, we conclude the presentation and open the floor for further discussion.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain:

First question on the standalone business. Again, if I see the gross spread for S-PVC has gone up from INR10 to INR15 in this quarter sequentially. I hope the same thing would be visible in the Paste PVC as well and custom manufactured chemicals which is generally the higher gross margin business.

Despite all this, our stand-alone gross profit margin sequentially has declined now to almost only 40%. What explains the lower gross profit margin in the stand-alone business, which is largely Paste PVC and custom manufacturing, the sequential decline of 600 basis points in the gross profit margin?

N. Muralidharan:

Sanjesh, this is Murali. While we did see improvement in the Suspension PVC margins in the last quarter on a sequential basis, Paste PVC remained more or less flat. And we did see some softening in the chloromethanes and caustic soda as well. These two resulted in the gross margins

being slightly lower. Also on the CMC front as well, these are new products that are being developed.

Like we had indicated earlier, these new products take some time to stabilize and reach the desired contribution level. So in the initial phases, the margin levels are slightly lower. So a combination of these; Paste PVC more or less remain flat, there was some softening of chloromethanes and caustic soda. And in CMC, we are in a ramp-up curve in terms of new products. All of this resulted in the gross margins falling down on a sequential basis.

Sanjesh Jain:

This also means that as the things stabilize, there will be a significant improvement in these margins, say, in FY'25? Will that be a fair assumption?

Ramkumar Shankar:

Sanjesh, this is Ramkumar here. FY'25, we do expect it to definitely be a better year than FY'24 was. Like we said, FY'24 was a difficult year with a lot of challenges that were thrown at us. But we believe that the things have stabilized, especially in the PVC business, both on Paste and Suspension.

A large part of the problems were created largely by the dumping that we faced - especially from China, and that is being arrested through a variety of measures. The first measure that has actually been announced is the quality control order, but that will take a little longer for it to actually come into effect.

The second one is the antidumping duty on Paste PVC. The provisional findings have been announced, and it is awaiting the final gazetting. Once that happens, we believe that some kind of discipline will come back into pricing and the dumping problem will be arrested. So we do believe that the intrinsic strength of the PVC business in India still continue to be as strong as they were. The demand is still very strong. The demand growth is there.

It has always been, especially in the last 1 to 1.5 years, the problem has only been to do with the dumping, the indiscriminate dumping at very low prices. The industry is ok with the actual arrival of imports, but what it is not ok with is the discounting of the imports at such kind of unreasonable prices. And I believe that, that is getting corrected this year.

Sanjesh Jain:

Super helpful. But a follow-up there, now that we have an expanded capacity in Paste PVC, we have quality measures and probably listing of ADD on the Paste PVC. Do you expect this new capacity to consume fast and margins to also improve in an overall Paste PVC business?

Ramkumar Shankar:

We would hope so. We are ramping up a new capacity. We commissioned it towards the end of February, and we believe that by end of June, we would be at 100%. The product, we are happy to inform you that the product has been received very well by our customers, and it has met all the expectations if not surpassed the quality expectations. So this is something that, we believe, selling this product in the market would not be a challenge. The price improvement with all of these measures coming in should logically improve our margins, and we are confident of that.

Sanjesh Jain:

Just one bit on it. Now that it is a VCM to Paste PVC versus earlier EDC to Paste PVC, what will be the differential in the contribution margin for both businesses?

- Ramkumar Shankar:** The differential could possibly be around INR7,000 to INR10,000. I think it's dependent on the price of VCM, et cetera, around that time. But that's what it would be.
- Sanjesh Jain:** Got it. Sorry, I'm stretching this a little bit, the last bit one on the custom manufacturing. Now we have fourth LoI in the place. Now with all this fourth LoI, what is the capacity utilization? Are we looking up say in '25 and '26? And what is the product pipeline looking like?
- Krishnakumar Rangachari:** Sanjesh, I'm Krishna. So actually, we are reviewing the capacity utilization of the new production block in light of this new Letter of Intent. And hopefully, within the next quarter, we will have a better clarity on this, but fairly confident about the steady state capacity utilization reaching our targeted levels sooner rather than later.
- That's where we are on because of the new Letter of Intent. We have some commercial trials for that next year sometime during calendar year '25, and we are also looking at the projection the customers given and then mapping it within the asset that we have to get a better understanding of that. So that's a work in progress as we speak.
- Sanjesh Jain:** And new products pipeline, how does it look like beyond this four?
- Krishnakumar Rangachari:** Pipeline is quite strong. We are running our third campaign, third product in the new production block. The first Letter of Intent, that's an ongoing business that we continue to manufacture, continue to ramp up in the Phase 1 capacity. And in the Phase 1, the balance capacity, we've already commercialized one product.
- The customer has validated. And so we are actually going to start on a repeat campaign of the same sometime towards the end of this next quarter of this year. And we are currently making a third product in the Phase 1 asset as we speak
- Moderator:** The next question is from the line of Ankur Periwal from Axis Capital.
- Ankur Periwal:** Just continuing with the CMC part. The Phase 2, as I understand, you mentioned will be getting commissioned by the end of this quarter. And Phase 1 was around INR3 billion capex, Phase 2 was give and take around INR4 billion capex. The LoIs that we have signed till now, which is LoI 1, 2 and 3, they will be fully utilizing Phase 1? Or there will be some capacity which will be left?
- Krishnakumar Rangachari:** The LoI 1 and 2 will use majority of Phase 1. We would still be able to make other small campaigns. And I'm talking about steady state capacity, not today so let's say steady state is three years from now approximately. So the LoI 1 and 2, the plan was to make it in Phase 1. And the third LoI and the fourth one that we have, we are now mapping both of them against the Phase 2 capacity that will be available.
- And again, the Phase 2 is in the process of being handed over. Phase 2 is within the existing structure of the total capacity. And so there are reactors and vessels that are in the process of being handed over to operations as we speak. So it will be a continuous process over the next few months before it's completely finished.

Ankur Periwal: Sure. Let's say, all these 4 LoIs will utilize the full capacity for Phase 1 plus Phase 2, will that be a fair understanding?

Krishnakumar Rangachari: We are reviewing that. I mean, we just announced the last one. And again, the third LoI, we are actually going through lab and pilot trials as we speak right now. It's still being worked out on when that will be brought into a commercial campaign. And similarly, we have the fourth new LoI. We have indications of what we need to make next year, but the exact timing of that is still being worked out. And so based on this, we will have much better clarity on the utilization of the Phase 2 capacity. So my hope is by next quarter, we'll have an update on this.

Ankur Periwal: Sure, sure. That's healthy. And accordingly, there will be, whatever, third phase expansion over here in the CSM business basis the new molecule and the LoIs that we signed?

Krishnakumar Rangachari: Yes. So we've indicated that that's our plan. As and when we have significant visibility of steady-state capacity of existing assets, we would start looking at the next phase of the investment.

Ankur Periwal: Sure. Sir, secondly, on the R&D side, you had highlighted earlier pretty excessive work going over there in terms of new molecule launches, etcetera. If you can you shed some light there? Any new progress or maybe expansion in terms of the core chemistry skills?

Krishnakumar Rangachari: Yes, sure. That's a good question. Last quarter, we commissioned our second phase of our R&D expansion. So we have been committing ourselves to keep expanding both our R&D and pilot assets and capabilities on an ongoing basis. So the second phase of our R&D labs and assets were commissioned last quarter. And similarly, we are actually going through an expansion in our pilot scale capabilities as well. And again, the second phase of our pilot plant expansion will be coming on stream sometime later part of next month.

And again, our intent here should be a little bit proactive rather than be reactive because the pipeline continues to be strong. And so from a number of products in the pipeline standpoint, and I mentioned that we commercialized 3 new products last year above our current ones, and the pipeline where we have on the pre-commercial and developmental stages, we have over 15 products that we are working on right now.

Ankur Periwal: Great to hear that. Shifting gears to the PVC business here. Ram sir, if you can share some highlights in terms of how you are seeing the global recovery on the pricing front as well as on the backward side? Any issue that the industry was facing on the EDC availability earlier? Is that all settled or how things are ramping up there?

Ramkumar Shankar: Ankur, this is on your first question, which was about what is playing out on the PVC. One is that demand is very strong, let me take the Suspension PVC first. Demand is very strong in India. The issue has only been the availability or the excess availability from China. In China, the property sector has been under stress. And therefore, there's been a lot of PVC that was exported out of China. In fact, in the last financial year, that is FY'24, the imports from China were around 860,000 tons of the total import into India of around 2.6 million tons. So that is a 33% share.

A few things are happening. One is that even within China, the earlier pricing that was there is proving to be unsustainable and therefore, we are seeing an increase in the price quotes emerging

from China in the last couple of weeks. The futures market in China has also shot up significantly. And there are no quotes now that are available even at the higher levels, there are not much quotes available from China.

You would have read about the Chinese government having announced something like \$135 billion stimulus package for reviving the property sector in China. And that seems to be driving a lot of the demand. The revival, so to speak, it will play out over the next few months, but already, we can see some green shoots emerging.

And ocean freights have also gone up significantly. What used to be around \$40 to \$50 from Northeast Asia to India, it's now at \$80 to \$90, and more importantly, containers are not available. So all of this is resulting in both delayed arrival of material. There's also an increase in the cost and prices that are being quoted into India. So that is on the Suspension PVC part. Paste PVC as well is having -- the demand is pretty strong as far as India is concerned.

We have, of course, commissioned our new plant, and therefore, we are well positioned. Provisional finding has been issued by the authorities on antidumping duty. We are hoping that this will get gazetted soon. And once that happens, then this irrational pricing will be stopped. So I think we are set for a decent revival in prices and margins.

Moderator: Next question is from the line of Siddhant Singh from Green Portfolio.

Siddhant Singh: Yes. Sir, firstly, as you mentioned, we are seeing price improvement for Suspension and Paste PVC in recent quarters. Sir, so how confident you are in sustaining this upward trend? And sir, also, what is the current price for Paste PVC and Suspension PVC and also for VCM right now?

Ramkumar Shankar: All right. So basically, if you look at the price that is coming in, there has been an improvement. But we do need all these measures because this dumping that we have witnessed over the last 18 months is something that needs to be addressed. And therefore, those measures are important for the industry to actually sustain and further invest because a lot of new investment is also being planned in India, and we need these measures to come in and be put in place so that these large investments can start making commercial sense. That is on one side.

But that is, yes, there has been a good trend, and we hope that this trend will continue. As far as the current prices of Suspension, I think the Suspension prices right now are at around \$830 to \$850. VCM is at around \$600 to \$620. Paste PVC is anywhere from \$1,050 to \$1,100. These are all very dynamic and they keep changing with newer offers coming in.

Siddhant Singh: Okay, sir. And has there been any recent progress on addressing this issue whatever China is dumping in the chemicals and all, what is the progress in the industry for this?

Ramkumar Shankar: You are talking about the antidumping?

Siddhant Singh: Yeah, yeah. Antidumping, sir.

Ramkumar Shankar: As an industry, we had filed for antidumping action on both Paste and Suspension. Paste was filed towards the end of September last year, and Suspension was filed a little later. Paste actually has

come up, but we have had the provisional findings have been announced. Antidumping duties have been announced on China, Malaysia, Taiwan, Thailand and Norway at a range of around \$115 to \$600.

This is awaiting gazetting before it comes into effect. And Finance Ministry will need to review and gazette it. And we are hopeful that, that will happen soon. As far as Suspension is concerned, the investigation has been initiated, and it is being looked at. We are hopeful that we will see some action there as well.

Siddhant Singh: Okay. Sir, and my last question is about the fourth LoI that we have signed. Sir, any rough idea how much revenue potential -- does the product possess in near future and what we can expect from it?

N Muralidharan: This LoI covers a period of around 5 years. Over a period of 5 years, it is expected to generate around INR500 crores of revenue. That's based on the initial volume commitments that we have got, that ramps up steadily over a period of time, roughly we can consider it at around INR500 crores of revenue.

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

Kirtan Mehta: In terms of you indicated the current prices for Suspension PVC as well as Paste PVC. Would you be also able to indicate the current level of the gross margin? And how does it compare with the mid-cycle level?

N. Muralidharan : Ram is talking about a price of around \$830. All of these are pre-duty prices, with \$830 for PVC, somewhere around \$830 to \$850, and VCM around \$610 which, on a pre-duty level gives us around \$220 per ton, on a reasonable margin level. Effectively, somewhere around \$240 level should be a good margin. We are not too far away from that. As long as the prices hold and they don't fall and we don't see any inventory impact, I think these margins will start giving us a reasonable contribution on the Suspension PVC side.

On the Paste PVC, we make a significant part of our EDC in-house. So there it's not so much driven by the Paste PVC EDC prices. It's more in-house margins. There, I think the prices are steadily moving up. It may take maybe, once the ADD notification comes through and we see the impact of that, we can see a significant improvement in the margins in the Paste PVC as well.

Kirtan Mehta: In terms of the ADD notifications, we had one 5-year period where this ADD was applicable. So from the WTO rules, is there any limitation in terms of the number of years the ADD can run? And are there any buffer period required before the second ADD is actually put in place?

Ramkumar Shankar: No, not really, Kirtan. So long as you're able to prove the presence of both dumping and injury, you can have continuing ADDs going through. You just need to do -- there is usually a midterm review, then there is a sunset review, and this at the time of these reviews, it is established that the injury continues to exist and the threat of dumping still continues to exist. Then there will continue to be this action. It is only 1 of the 2, either injury or dumping is absent that there will be a break in this.

- Kirtan Mehta:** Right. And in terms of Paste PVC, we had the historical precedence where ADDs were levered. Were there similar precedents also for the Suspension PVC as well?
- Ramkumar Shankar:** Yes, for both Suspension and Paste PVC, the antidumping duties have been levied a few times in the past.
- Kirtan Mehta:** Right. One last question on the customs manufacturing, you narrated about the Phase 1 and Phase 2 blocks in terms of the pipeline. What is the current utilization level at the current block? Are we still sort of witnessing a lower utilization in the old block as well because of the global agrochem slowdown?
- Krishnakumar Rangachari :** The Phase 1 got commissioned last year in August-September time period, and we have been ramping up on the 3 different products in that asset. And so we expect the steady-state capacity utilization to continue to keep increasing over the next couple of years. And in terms of the impacts of the global agrochemical demand, it's impacted more our existing products in our old blocks rather than it has not had any impact on our -- on the new production block and the new products that we have commercialized.
- Kirtan Mehta:** Right, sir. Just a follow-up, in terms of the impact on the existing products in the old blocks that we are talking, how much is the utilization, which has come down? And when do we expect that to normalize how much time would it take to normalize that part of utilization? .
- Krishnakumar Rangachari:** So again, that's up in the air. I mean it's not come down significantly. It continues to be healthy. But it has come down. So we have to wait and see because we don't have the downturn that still -- there are some impacts due to the downturn that everyone is facing even now. And we will have some better clarity as the year progresses.
- Moderator:** Next question is from the line of Madhav from Fidelity International.
- Madhav:** My question was on the CMC business. It's a very basic question. Why do we categorize these orders as letters of intent rather than like a firm contract? Like what is the difference between the 2? Just wanted to get the broad understanding on that question.
- Krishnakumar Rangachari:** Yes. So the Letter of Intent is the first step. And that sort of gives us an indication of commitment related to volume. Typically, this Letter of Intent then as we get closer to commercialization, as we get closer to the commercial campaign, translates into a supply agreement. So it's just a stage-wise process that goes from a Letter of Intent to a supplier agreement.
- Madhav:** Okay. So the first LoI which I think you signed, could you just remind us, please, that members have signed? And I'm assuming that some revenues have started for the first LoI? So is that like now a supply agreement or a firm contract? Or is it still categorized as an LoI?? Just trying to get some sense of it.
- Krishnakumar Rangachari:** Yes. So the first one was signed sometime in the November '22 time period. We started the commercial campaign, let's say, in September, and we already have a draft supply agreement for that particular product, which is just in the commercial terms and the commercial aspects of the

agreement itself has been pretty much finalized. So just to give you a background on how the first one progressed.

The second one, as I indicated, we had an initial trial campaign. We supplied quantities, and we now have confirmation that the material has met the customers' end product performance requirements. So now we are planning on the second campaign. So now at this point, now that we have qualified, we will work on a supply agreement with the customer. So that's just sort of the way how our progress is.

Madhav:

Okay. Okay. Understood. And just on the Suspension PVC business, could you give us some sense -- we understand that there was a lot of aggressive sort of dumping of sort of intensities from the Chinese players. But just -- and of course, the government ADD and the QCO should help. But what's happening in China on the PVC businesses is fundamentally? Like is there some sort of demand recovery there? Or is it still like the status quo that because of the bad real estate situation, it still remains challenged?

Ramkumar Shankar:

It is still a work in progress in China. I think the first green shoots are emerging. The government has announced some very serious intent to solve the problems that they're having in their property sector, which, as you know, accounts for almost 1/4 of the GDP. Therefore, it is very important for their own economic growth. And they have been spending a lot of time on stimulating that. And I think the most serious efforts have just recently been announced. And that has seen a recent surge in the futures prices on the Dalian Commodity Exchange for PVC. And we are also seeing the impact of that in the quotes that we are hearing in India.

We believe that a lot of the unsold inventory local authorities, I believe, have been asked to buy over some of -- most of that and convert it into affordable housing. There will be some construction happening. And then even from the point of view of the customers, they are being incentivized to -- in terms of more favorable borrowing terms to buy new houses. Now all of this obviously will take some time to play out, but we are seeing the impact of it right now in terms of prices. So that was the point that we were making.

Madhav:

And sir, just one last follow-up on the Suspension PVC business was over the next, like, let's say, 2 years or 3 years, how much of the new supply of Suspension PVC that you see which is more realistically expected to come on the ground? Some work is started by the players. So if you could give us some sense on the supply side for the next 2, 3 years, like how many million ton capacity could be added globally?

Ramkumar Shankar:

Sure. One thing that is happening here is that there are 2 big capacities have been announced. One will come up around 1.25 million tons. The other which was originally announced at 2 million, and then later, we believe toned down around a million tons, but that might come in phases if and when a final investment decision is taken. All of this capacity may be therefore we believe that maybe 1.75 million tons could come in the next -- by the end of the third year or the fourth year from now.

But if you look at that demand by that time would have grown to an extent where the gap, which is currently 2.5 million tons, would increase to maybe around 4.5 million to 5 million tons or even

more. And if that happens, then essentially, we would be running on a treadmill that's going faster than us in terms of the demand-supply gap. Demand would still be far larger than supply.

Madhav: This is global addition we're talking about, right?

Ramkumar Shankar: Sorry?

Madhav: This is the global capacity additions, right, for Suspension PVC?

Ramkumar Shankar: I'm talking only about the Indian capacity additions, the Indian situation.

Madhav: And on the global side, if you could help?

Ramkumar Shankar: All right. Go ahead.

Ramkumar Shankar: Okay. If you are interested in knowing the global additions that are likely to come, there is a little bit of capacity that's coming up in the U.S., which is roughly around 400,000 tons or so, which will come up at the end of the year. Maybe another 1 million tons or 1.5 million tons coming up over the next 1.5 years or 2 in China. There is no capacity coming up in Europe. No further capacity will come up in the U.S. because they have certain regulatory challenges.

There could be some capacity coming up in the Middle East, which would possibly be around 700,000 tons or so, 750,000 tons. Southeast Asia, maybe a little bit nothing, maybe another 200,000 or 300,000 tons coming up. Northeast Asia, other than China, nothing really is planned. So you would actually see a pretty tight situation because as demand keeps growing, not much of capacity addition is happening around the world.

Moderator: Next question is from the line of Rohit Nagraj from Centrum Broking Limited.

Rohit Nagraj: My questions are on CMC. So first, given that last year, the business was impacted because of the lower demand from the agro side, given that a new calendar year has started, so how are we looking in terms of volumes which are committed by clients for the calendar year '24? And even on the pricing front, has there been any changes from what they were last year and how these have changed during the course of 2024?

Krishnakumar Rangachari: So I'll answer the pricing part first. Pricing doesn't get impacted by these downturns. Many of these are formula-based prices and don't really change year-on-year due to any fluctuations in terms of supply and demand. Of course, pricing will be impacted linked to raw material costs. And if there are movements in those, there will be a pass-through or either a recovery or a reduction linked to changes in raw material prices. So pricing doesn't get impacted.

On the volumes, again, the impact of the demand issues there on our existing products which are, let's say, let's call it, established products, which went through an inventory correction, the products that we are making in the new multipurpose block, one of them, for example, is a new molecule that the customer has launched. So it did not see any impact due to this inventory correction.

The other molecule is a fairly established molecule. We won't see any impact of that because we are starting at a much lower level than the overall demand. So we didn't get impacted due to the ag-chem demand. So in terms of the products that we're making in the new production block, we don't anticipate or we have not seen any impact due to the slowdown for the reasons I've outlined.

Rohit Nagraj: Sure. Sir, second question is, you also mentioned that currently there are 15 number of products which are in pipeline. So all these products are agro-based? Or are there any other end applications that we are looking at? And how do we generally look at the commercialization schedule of these products? I mean every single year, we'll have how many products which could be commercialized?

Krishnakumar Rangachari: So some of them are agro. A few are pharmaceutical and some are non-pharma, other fine chemicals. So that's the mix we have in terms of the over 15 molecules that are in the pipeline. And your second question was on -- I'm trying to recall.

Rohit Nagraj: Yes. How many would be commercialized generally in a year? .

Krishnakumar Rangachari: Okay. So yes, I remember that. So last year, we commercialized 3 of them, And this year, I think we anticipate another 2 to 3, if not more, to be -- we have some initial trial campaigns for 3 to 4 more this year. So that's for the ones that are in the pipeline. So over the 15, I anticipate another 3 to 4 being commercialized. Or atleast it make some small campaigns this year, and then they will ramp up over the next few years.

Rohit Nagraj: Sir, last question, 2 parts. One is in terms of the LoIs and the new facility, how much of revenues have we booked in FY'24? And another question, it might be naive or maybe I don't have much information about the thing. So you mentioned the fourth LoI will have INR500 crores of peak revenue potential. If you could just give us some understanding of the first 3 LoIs in terms of what could be the peak revenue potential for each of that?

N Muralidharan: Rohit, just on the second point, it's actually not peak revenue potential. It's the relative 4 years, what is the revenue generation that is expected from that product, that's what we have indicated, and that will gradually grow. The peak revenue potential for that in the last LoI will be around INR200 to INR225 crores. That's the number. As far as the other the LoIs that we have signed, the peak revenue potential will be somewhere around on an annual basis, I'm not talking about the total revenue, on an annual basis, peak revenue potential will be around INR550 crores.

Rohit Nagraj: Right. And sorry, my apologies for misunderstanding the earlier statement. So in terms of the first 3 LoIs, what is the total size of the LoIs that we are looking at similar to what you said about INR500 crores for the fourth one?

N Muralidharan: Cumulative will be somewhere around INR1,200 crores.

Rohit Nagraj: Sure. And just one clarification. During FY'24, what was the revenue which you have booked?

N Muralidharan: I would ideally not like to get in to the individual products and the LoIs.

Moderator: Next question is from the line of Ranjit from IIFL Securities.

- Ranjit:** Just touching on the custom manufacturing business. Earlier, we had an aspiration to reach INR1,000-odd crores of revenues in 2 to 3 years' time. With the situation in the global ag-chem, how does that change?
- N. Muralidharan:** We still hold that number, Ranjit. Like Krishna was saying that the impact that we have seen is primarily on some of our existing products where we have seen the impact. The new products are ramping up well. And significant part of the revenue was expected only from the new products. So we still hold that number. We don't sort of see any change in our view on that.
- Ranjit:** And before you realized that you have just said it would be collected revenues of INR1,200 crores, that itself should take care of our aspirations?
- N. Muralidharan:** That's a cumulative. On an annual basis, these 4 LoIs will have roughly around INR700 crores of revenue on an annual basis. And these are only the 4 LoIs, and we do have other products also already commercialized as well as on the pipeline. All of this will certainly contribute towards INR1,000 crores that we are talking about.
- Moderator:** Next question is from the line of S. Ramesh from Nirmal Bang.
- S. Ramesh:** So just a question on the custom manufactured business. So in terms of your aspiration, if you look at the percentage of revenue coming from that, what is your target, say, over the next 2 to 3 years? And how much incremental investments you have to make? And how does it change your overall blended ROCE profile?
- N. Muralidharan:** Like I mentioned for the earlier question, our target in terms of revenue is roughly around INR1,000 crores. That's what we are looking at. As far as the investments are concerned, like Krishna mentioned earlier, we will evaluate that in the coming quarter. And then depending on the capacity utilization, based on the LoIs that we have signed and some of the potentials that we do have, we will evaluate in the quarter, and then we will come back to our thoughts on where the capacity utilization is and how do we see the future investment plans.
- S. Ramesh:** So right now, if you look at FY'24 revenue ballpark, you're talking about 20to 25% of the revenue coming from CSM. Is that a correct assessment?
- N. Muralidharan:** We have sort of indicated a revenue of INR284 crores for the CSM business, roughly around INR300 crores is the CSM business. So if you look at Chemplast stand-alone business, yes, maybe slightly below 25%. But on a combined basis, it will form less than 10% of the overall revenue pool of the consolidated entity.
- S. Ramesh:** Sir, just a follow-up, though, in terms of your margins from the CSM business and your working capital requirement, can you share some thoughts on that? How would the EBITDA margin be in the CSM business? And what would be the working capital requirement? Would it be the 90, 100 days of working capital? Or would it be higher?
- N. Muralidharan:** On the CSM business side, generally, the industry agrochemicals side reports EBITDA margin somewhere between 23% and 25%. And on a steady-state basis, I think we should also report the same. Of course, during the ramp-up phase, there will be sort of learnings. And of course, during

that period, it could be slightly soft. But on steady-state basis, as we sort of ramp up both these bases, we should reach that level of EBITDA margins.

And as far as the working capital requirement is concerned, I think it varies from product to product and customer to customer. So it will be difficult for me to categorize and say it is 90 days, it is 60 days. So it depends on the product, it depends on the material required. So it would keep varying.

S. Ramesh: No, as an outer limit, can you give us some indication what is the kind of thought process on working capital, but that's a bit of variable in the CSM business?

N. Muralidharan: We understand. But like I said, these are new products and they are evolving. So it will be difficult for me to sort of give one number because there are a number of portfolio of products that we are working on. I think it will need for us some time to reach a reasonable steady state for us to talk about working capital on a steady-state basis. I hope you would appreciate.

Moderator: As there are no further questions, I will now hand the conference over to the management for closing comments.

Ramkumar Shankar: Thank you, Nirav, and thank you, everyone, for joining us today on this earnings call. As always, we appreciate your interest in Chemplast Sanmar. And if you have any further queries, please do not hesitate to contact SGA, our Investor Relations Advisor. Thank you, and good day.

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