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November 13, 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 November 6, 2024

In continuation to our letter dated October 30, 2024 please find enclosed the transcripts of the Earnings Conference Call held on November 6, 2024.

Date & Time of occurrence of the event/information: November 13, 2024, 5:24 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: 2024.11.13 17:38:44 +05'30'

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

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“Chemplast Sanmar Limited

Q2 FY25 Earnings Conference Call”

November 6, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 6th November 2024 will prevail.

Management: **Mr. Ramkumar Shankar, Managing Director, Chemplast Sanmar Limited**

Mr. N Muralidharan, Chief Financial Officer, Chemplast Sanmar Limited

Dr. Krishna Kumar Rangachari, Managing Director - Custom Manufactured Chemicals Division, Chemplast Sanmar Limited

SGA, Investor Relations Advisor

Moderator: Ladies and gentlemen, good day and welcome to Chemplast Sanmar Limited Q2 FY '25 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation 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.

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

Ramkumar Shankar: Thank you, 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 are joined by our CFO, N. Muralidharan; Dr. Krishna Kumar Rangachari, who heads 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.

After a healthy performance in Q1 FY '25, PVC prices resumed their volatile trajectory due to excessive dumping and witnessed a significant downturn during Q2 FY '25. Amidst this tough environment, we were able to deliver a reasonable performance during the quarter with a top line of INR 993 crores. On a half yearly basis, the company reported a top line of INR 2,138 crores for H1 FY '25, a growth of 8% on a year-on-year basis despite multiple headwinds.

On the volume front, the company has registered a 6% year-on-year growth. It is pertinent to note that if we compare H1 performance on a year-on-year basis, the company has performed much better than in the previous year. Talking about key trends in the paste PVC market, the apparent consumption of paste PVC in India during the period April to September 2024 was around 92 kilo tons showing a very good increase of 19% over the same period last year.

We expect that while this rate of growth may temper down a bit in the second half, the market will show good growth in FY '25 over FY '24. The provisional anti-dumping duty on paste PVC, which was announced in June '24 provided some initial respite and ensured zero imports from China and lower imports from Thailand and Taiwan. However, the expected impact on prices from the provisional anti-dumping duty was negated due to a surge in dumping from the European Union. The inputs from the EU had doubled during H1 FY '25 as compared to the same period last year. This is being taken up with the concerned authorities.

Moving on to Suspension PVC, in the first half of the current financial year, Suspension PVC demand in the country showed an impressive growth of around 11% over the same period last year, with apparent consumption of around 2.2 million tons. This increase in demand arises out of India's thrust on irrigation, infrastructure and drinking water supply. We believe that the demand growth will sustain in the rest of the year, and the demand for FY '25 will show a healthy increase over FY '24.

Internationally, with most economies continuing to underperform, there is a slowdown in demand elsewhere. This has resulted in large scale dumping of suspension PVC into India. Specifically, China continues to supply PVC at very low prices due to continued weakness in their property sector. While some recent stimulus measures have been announced in China to revise the demand in the property sector, these are yet to see any significant impact on the PVC demand.

In the U.S., weak domestic demand driven by high interest rates and excess capacity have created surpluses which are targeted at the Indian market, further putting pressure on PVC prices in India. After a strong Q1, prices dropped significantly in Q2 as the increase in ocean freights corrected much sooner than expected. This, coupled with renewed dumping of Suspension PVC into India, led to sustained pressure on margins.

The feedstock VCM price is tracking the downward movement of PVC and trending down. However, the lag effect as well as the inventory of both finished goods and feedstock leads to a significant impact on profitability in this current falling market price scenario. In a very positive development earlier this week, provisional anti-dumping duties have been determined on imports of Suspension PVC from China, U.S.A., Indonesia, Thailand, Taiwan, Korea and Japan. We are hopeful that this would come into effect shortly and effectively address the serious issue of dumping of Suspension PVC into India.

Talking about the segment-wise performance in the second quarter of FY '25, volumes of the Speciality Chemicals by 13% to 20,961 metric tons on a year-on-year basis. This increase is partially due to the additional 41,000 tons per annum Paste PVC capacity that was commissioned during the fourth quarter of last year. The demand environment for custom manufactured chemicals business remains steady. We are on track to achieve a significant growth in FY '25. Overall, there was a 36% year-on-year increase in the Speciality Chemicals revenue to INR 303 crores.

Further, we have signed a new letter of intent with a global agrochemical innovator to supply an advanced intermediate for a new active ingredient. This is the sixth letter of intent that we have signed in the last 2 years and the new LOI covers a period of 5 years.

On a year-on-year basis, during Q2, the value-added chemicals division saw a 29% growth in volume terms and a 26% increase in revenue terms. Prices of Chloromethanes witnessed a good recovery, while Caustic Soda and Hydrogen Peroxide prices remained stable.

In the Suspension PVC segment, the volumes saw a decline of 15%, owing to destocking driven by price volatility for the factors that we spoke about. This, however, is a timing issue, and we are confident that the volumes will be made up in the second half of the year. The Custom Manufactured Chemicals Division expansion projects are progressing well with Phase 2 of the new multi-purpose production block expected to get commissioned by Q3 of the current year. We have initiated project activities for Phase 3 of the new multi-purpose production block and the civil and infrastructure work for the next multi-purpose production block.

As we look ahead, though Q3 has begun on a similar note as Q2, the outlook for the rest of Q3 and Q4 appears to be strong. We believe that the industry is going through a transitionary phase, and the road ahead is promising. Now I will request our CFO, Muralidharan, to share the financial highlights for the quarter and for the 6 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 Q2 FY '25, the revenue from operations increased marginally on a year-on-year basis to INR993 crores.

Coming to the segmental revenue for the quarter, Speciality Chemicals increased by 36% on a year-on-year basis to INR303 crores, driven by higher sales in Custom Manufacturing business as well as the revenues from the Cuddalore paste PVC project, which was commissioned in the Q4 of last year. Value-added chemicals revenue improved by 26% on a year-on-year basis to INR161 crores, primarily due to higher caustic soda and hydrogen peroxide volumes. Suspension PVC revenue dropped by 17% on year-on-year basis to INR529 crores due slightly lower prices and lower volumes. In the quarter, our gross margin improved by 11% on a year-on-year basis to INR369 crores. Increase in employee expenses is primarily due to the impact of new projects, which were commissioned last year, strengthening of the R&D and the project team to address the growth requirements and the regular annual increments, which came into effect last quarter.

Increase in other expenses is primarily due to higher power and fuel costs on account of increase in operations due to commissioning of the new projects. We reported an EBITDA of INR26 crores as against an EBITDA of INR46 crores in the corresponding quarter last year. Our finance cost for the quarter stood at INR57 crores. The net loss for the quarter was INR31 crores as against a net profit of INR26 crores in Q2 FY '24.

Moving on to the 6 months results. H1 FY '25 performance was significantly better compared to H1 FY '24. Revenue from operations increased by 8% on a year-on-year basis to INR2,138 crores. Coming to segment-wise revenue during the half year, Speciality Chemicals revenue grew by 49% on a year-on-year basis to INR654 crores, primarily driven by increase in revenue from Custom Manufacturing business as well as sales from the Paste PVC project in Cuddalore.

Value-added chemicals revenue again increased by 23% on a year-on-year basis to INR313 crores, while the Suspension PVC revenue dropped by 9% as compared to the same period during the previous year and stood at INR1,170 crores. We reported an EBITDA of INR150 crores, significantly higher than the INR11 crores reported during H1 of FY 23-24, primarily driven by the strong performance in Q1 of the current year.

During H1, we reported a net loss of INR57 crores as against loss of INR38 crores in H1 FY '24. And we migrated from old tax regime to new tax regime in Chemplast Sanmar Limited stand-alone entity, which resulted in reversal of deferred tax liability of INR65 crores, which is reflected in the financials for the quarter. In CCVL – we have already migrated to new regime a couple of years back.

With the commissioning of the Phase 2 of the Custom Manufacturing Project, which is expected in this quarter and the impact of the recently announced antidumping duty and Suspension PVC, the performance is expected to improve significantly in the coming quarters.

With respect to the balance sheet as of 30th September, 2024, our consolidated net debt stood at INR851 crores. This is mainly due to the project loans availed in Chemplast Sanmar Limited. Liquidity position continues to remain strong with cash and bank balances remaining around INR670 crores.

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

Sanjesh Jain: Good morning sir and Happy Diwali to the team. I got a few questions. First, let me start with the PVC side of the business.

Moderator: I'm sorry to interrupt. Mr. Sanjesh, your voice is coming a bit low.

Sanjesh Jain: Is it good now?

Moderator: Yes far better.

Sanjesh Jain: So I got a few questions. First on the PVC. The volumes appear to be significantly lower, while you mentioned in the opening remarks that industry volumes remained healthy with 11% growth. What is the reason for us not doing equal to industry and actually volume showing the decline?

Ramkumar Shankar: Sanjesh, Happy Diwali to you as well. See, the -- because of the extreme pressure on prices due to dumping, what happened was that the lower-priced material that was available got sold first. This is the usual case whenever we face the dumping situation. Therefore, the industry actually built up some inventory during the first half of the year. By the end of September, we did have around 15,000 tons of Suspension PVC in stock.

Our production was more or less the same in the first half as compared to last year. So there was not much of a difference. It is just the stock buildup, which led to the volumes dropping. And this is something that we will now make up in the second half of the year, especially with the post monsoon bump up in demand and impact of the anti-dumping duties that has now been announced.

Sanjesh Jain: This also means that we are holding a low-cost inventory and because of the ADD, the prices can move up, and we can make some gain out of it as well, right, in the second half? That is also a possibility, right?

Ramkumar Shankar: That's right.

Sanjesh Jain: Got it. Second question is on the ADD. On the Paste PVC side, despite such a sharp ADD implementation, we really didn't see a material gain in terms of the spreads and despite demand in India being very robust. What is the learning? Is that if it is not a pan-global ADD that really doesn't have effectiveness for the transition of ADD into a gain for us?

And a follow-up question, even in the PVC, it appears that European player don't face any antidumping. That window is kept open even in case of the Suspension PVC. So can the same situation play out in the Suspension PVC as well?

Ramkumar Shankar: Let me first explain what happened on Paste, and then I will address your question on Suspension. As far as Paste is concerned, as soon as that provisional ADD was announced on those 5 or 6 countries in the first case in June, we did see an immediate impact, and even till date the dumping from those countries have definitely come down. Unfortunately, the European Union moved into that gap, and they exported at very low prices.

As we have been repeatedly saying, as a country, we are not averse to imports coming in because a market will need the material. All we are saying is that they should come in at fair prices. Unfortunately, the prices at which European Union has been exporting the Paste PVC into India post June 2024 has been at low levels. And this is really what has kind of negated the impact of the antidumping duties that were announced on the other countries.

This is something that that we have taken up with the authorities, and we are hopeful that we would get a good hearing on that. This is not likely to repeat in Suspension PVC. While there could be an increase from the countries that are not covered, the European Union is not as significant the player in Suspension PVC as it is in Paste PVC. Their export to India over the last few years has been less than 1% so far of the total arrivals. And even if that increases to some extent, we do not believe that, that would be significant.

Sanjesh Jain: Just one follow-up there. Sorry, I'm just trying to understand it a little better. Why would the European want to dump the PVC at lower prices now that there is an ADD on all the others? Why are they not taking benefit of it? They can be at a discount for sure, but why sell at such a low price?

Ramkumar Shankar: I would not like to speculate on that. That is a question that we are also seeking an answer to, but it is what it is. And therefore, we are representing this to the authorities.

Sanjesh Jain: And in the Suspension PVC, which are the major geographies with the surplus capacity, which are kept out of the ADD preview?

Ramkumar Shankar: There aren't any. Actually, the countries on which the ADD has been recommended right now cover around 90% of the import arrivals into India.

Sanjesh Jain: That's fair enough. One on the book-keeping side, employee cost in CCVL has gone up by 59%. When I say CCVL, I'm looking at consol minus stand-alone that should be predominantly CCVL. Why there is such a sharp inflation in the employee cost for CCVL?

N. Muralidharan: Like I mentioned, see, it's primarily due to the annual regular increments. And also we had senior level hires. Both of that contributed.

Sanjesh Jain: 59%?

N. Muralidharan: Yes, it's primarily basically the annual increments sort of accumulated and then that was reflected in the last quarter. And the second is the senior hires we have, like I said, we are also strengthening our project team. All of these, contributed to the increase.

Sanjesh Jain: So that's more a stand-alone phenomenon, right? Why in the CCVL?

N. Muralidharan: No. Actually, we had senior hire in CCVL. We also had increments, which were accumulated, and we had the impact in the last quarter. We may not see the same recurring impact in the next quarter as well. But there is an accumulation of the impact for 2 quarters in the last quarter, and we had a senior hire, and we are also strengthening the projects team. All of this contributed to the increase in CCVL.

There have been reasons for increase in Chemplast as well. Chemplast also had a similar impact of the increments. It has the impact of the strengthening of the projects team, R&D team and Chemplast CMC business team. So there the reasons are slightly more. And here, it's primarily these 3 specific reasons.

Ramkumar Shankar: See, we are also planning for growth and planning for succession as you would well imagine.

Sanjesh Jain: Okay. That's clear. One last question for Krishna. We have now 6 LOIs. Probably, we are running ahead of what we thought when we started the expansion journey in the CSM business. What are the things that we are doing right? We are winning contracts with so much regular frequency than your larger peer. In fact, what is that we are doing, right? And how big our ambition is now that we are also accelerating the Phase 3 capex.

We are yet to start the Phase 2, and we have commissioned Phase 3. That clearly gives indication that we are looking at a much larger funnel. So what are we doing right? And can there be a surprise to our number of this INR10 billion revenue in FY '27, considering that the acceleration is much better?

Krishna Rangachari: So just to clarify, we are commissioning Phase 2 this quarter. Phase 3 investment was triggered last quarter, and we have started construction. And we have also triggered the next production block’s civil construction. So just from a project standpoint - I just wanted to quickly update. And obviously, all of that is linked to the fact that our pipeline continues to be strong. The engagement continues to be strong.

As we updated last quarter, more and more customers are visiting us, auditing the facility because now we do have spare capacity to market, which we didn't have, let's say, 2 or 3 years back. And that is the reason why there is an increased traction as well as a movement in the pipeline.

And as we had indicated, we are strong and bullish about where this business can grow over the next few years, and we will continue to give you an update on how we move forward. And again, it's triggered by the fact that we are going through a continuous cycle of investment in people, investment in assets. By asset, I'm saying lab, pilot capabilities, investment in production blocks and again, continue the cycle proactively. So we are going through that circle on a constant basis.

Sanjesh Jain: That's clear, Krishna. But again, do you want to upgrade your INR10 billion target for FY '27.

N. Muralidharan: No. Sanjesh, actually, earlier, we had indicated with that first 2 phases itself, we will touch INR1,000 crores. So with the increased investment, we certainly hope that we'll do better than that.

Krishna Rangachari: The impact of the next phase that we triggered, that project is another 12 months to 18 months timeline for that to come on for the capacity to be available. So the steady state impact of that will be a little bit further out.

Sanjesh Jain: Very clear. Thanks Ram, Krishna, Murali for taking this questions so patiently and answering them well. Thank you very much and best of luck.

Moderator: Thank you. The next question is from the line of Meghna Agarwal from Mount Intra. Please go ahead.

Meghna Agarwal: Happy Diwali. Sir, I just wanted to know that in the last concall we got to know that we'll be commissioning the Phase 2 by Q2 FY '25, but now the timeline has changed to Q3 of FY '25 for the Custom Manufacturing. So any specific reason for it?

Krishna Rangachari: This is Krishna here. Actually, no material change itself. The asset is ready. We are just going through the motions of ramping up the production offer of a new product. So there is really no delay per se from a commissioning standpoint. It's just the qualification of the new product is taking its own course. So as we speak, there are trials underway and testing of the equipment and things like that. So no material changes per se.

Meghna Agarwal: Okay. And just one more question that we are also having the Phase 3 projects. So any update by when can we expect the commercialization?

Krishna Rangachari: So Phase 3 was because we needed to find capacity to put in some of the projects that we are working on in the pipeline. In fact, one of them is linked to the LOI that we announced recently in yesterday's release. So the time line, we will come back to you on that. Again, it's an extension to the current production block, but we will have to put the civil structure and then put in the equipment. So it would take at least, a minimum of five to six quarters for that to be fully commissioned. So at that point, that asset will be ready for commercial product.

Meghna Agarwal: Okay. Thank you so much.

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

Archit Joshi: Season's greetings to all of you. Sir, I'm just trying to understand this entire circumvention and conduits that China has found with respect to dumping of paste PVC. We've obviously mentioned on the previous call that Europe and Japan were some of the sources from where we started seeing a very high level of imports coming in. But when the anti-dumping duty was announced, I think there was only one source from Europe, which was Norway, which was importing roughly around 2,500 tons of paste PVC in India.

And now with the Suspension PVC ADD coming in, what are the chances? I think the previous participant also was harping on the same issue, that there are no more places from where China can sort of route these material into India. Is this a phenomena that Chinese companies are finding that there is some excess capacity to bypass these antidumping duties? Newer geographies are being explored to sort of vent out all the higher output that they have into India or maybe in other countries. What measures can we take proactively on this account? It's something that I wanted to ask.

Ramkumar Shankar: First of all, in our products, we haven't seen that circumvention by routing it through other countries so far. So what has happened in Paste PVC is not because China is routing it through Europe. It's just that the European producers have increased their exports to India at these low prices, and that is a separate event that we are working to address. So this is not anything to do with the rerouting of the product from China into India.

As far as Suspension is concerned, like I said, when I responded to Sanjesh as well, 90% of the import sources of the total Suspension PVC into India have been covered under this antidumping duty notification that has just come out this week. So we are confident that this should address this very serious issue dumping in a very effective manner. Obviously, we will keep an eye out on any attempt to circumvent, and we would be alert to that. There are provisions in the regulations in terms of minimum value add, etc. So I think those are all ways in which we will have to try and see how to manage the circumvention. But we haven't seen that happen yet.

Archit Joshi: All right. Got it. Sir, second one on the Custom Manufactured business. Congratulations for the 6^{th} LOI. Here I think all of these LOIs have been signed towards Agrochem, either advanced intermediates or active ingredients. Sir, can you help us explain the kind of customers that we are dealing with? Have we diversified on the customers that there are maybe one or two innovators in this entire LOI signing that has gone through over the last maybe couple of years?

Also on the industries, I mean, I think as far as I recall, we were also keen to have some CMO-related queries and work to be done in industries other than agro. Have you made any inroads - maybe in pharma or maybe in some other industrial chemicals? So just if you can explain on the strategic front, what we are thinking to maybe cross the INR1,000 crores mark with these six LOIs and maybe a few more to come?

Krishna Rangachari: On the LOIs and the current projects that we are working on are in the agrochemical side, our goal is to definitely diversify. Also even in the LOI, we have announced, it is with multiple innovators in the Agrochem space. And similarly, what we have in the pipeline, where some of them do not result in an LOI, even there we have a diversity of customer base from an Agrochem standpoint. So that continues to be our priority and focus for us.

And as I indicated in the earlier conversation with Sanjesh, we have had customers visits over the last quarters. We call some of these are actually audits of the facility because the first qualification hurdle before anyone decides to do some serious work with you is for the site to pass a safety or SHE, a safety and environmental audit. And so we have had some success on that front as well, which is the reason we continue to make some good progress in diversifying the customer base in the Agrochem side.

And again, our intent is to also diversify beyond agrochem, but that's a little bit longer-term process. And so we are working on areas other than agrochemicals, such as what you had outlined in pharma and other fine chemicals space. We will continue to monitor these and update you as we go along as we make some good progress in the development of these pipeline molecules.

Archit Joshi: Sure. I just have one more. Given that, let's say, in this quarter, we might have already commissioned and maybe would have also started commercial sales from the Phase 2 of the expansion. How do you see FY '26 in terms of utilization? If you can just broadly outline your thoughts, maybe if you could guide something on that account.

Krishna Rangachari: So Phase 1 continues to ramp up from a utilization standpoint. Phase 2 is getting commissioned as we speak. And there will be a ramp-up. Again, unlike a continuous process industry or catalogue business, the ramp-up will take time because these are new products you're launching in a new asset. And so there will be a learning curve both from a customer standpoint and from the supplier standpoint.

So I anticipate a good capacity utilization of the Phase 1 asset by next year. And the Phase 2 will take another 12 months to 18 months after commissioning in this quarter to get to a point of a good utilization. But all of that is factored in our projections for the next few years.

Archit Joshi: Sure sir. Thank you. Wish you all the best.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Hi sir. Good morning and thank you for the opportunity. Coming to again, the same question of this either paste PVC or Suspension PVC regarding both products. If you can give some more color on the global demand/supply situation and Suspension PVC, as you rightly said, that 90% of the country have covered, so which are the 10% is not covered. And second, some of the projects, which have been announced in the Suspension PVC. So how do we see overall scenario after a couple of years in the Suspension PVC?

Ramkumar Shankar: Okay. On Suspension PVC, the 10% that are not covered will be countries in South America, largely Colombia, you could have a little bit from Mexico as well in North America and Europe. Europe is around 1% of the total arrivals into India. So countries in Europe would also be there. There are sporadic arrivals from the Middle East and Turkey. So those are the kind of countries that are not covered. So like I said, 90% is covered. And 1 producer in Korea is not covered. So that is really where we are.

As far as the demand for suspension PVC globally is concerned, it is around 48-49 million tons. The global capacity is around 60 million tons. Actually, it's a 2-speed world. India is growing at around 8%, and that can actually grow even faster. It only depends on availability.

And the other high growth rate countries or regions are Southeast Asia and the Middle East North Africa region. They grew up around 3%, 4% or 5%. The rest of the world, that is the Western world, U.S., Europe, even Northeast Asia, they are all growing at anywhere from flat level, 0% to around 2% or at best 3%.

So this is the rate break growth as far as Suspension PVC is concerned around the world. There are two factors that could increase the demand growth in two of the main areas. One is in the United States. The falling interest rates could spur the demand growth of PVC as the homebuilding will then again start growing. And China demand could come back if the stimulus measures that I believe are more similar measures are on the cards. And if that works, then there could be a revival of their housing sector and then the demand their could grow.

There could also be a question on their carbide PVC capacity because there is Minamata Convention, which regulates the usage of mercury and the carbide PVC capacity in the China use Mercury as a catalyst. So that could be a rationalization of capacity as well in China. So all of that could bring the supply-demand situation on Suspension PVC into balance, globally. In India, there is a huge shortage. Supply is around 1.5 million tons right now, whereas the demand is around 4 million tons in FY23-24, and that is expected to grow to as much as 4.5 million tons in this year.

Bharat Sheth: I mean, India, also, there are a couple of plant project has been announced, which you are likely to come up in next 2-3 years timeframe. So how do we see the India's demand supply?

Ramkumar Shankar: Not a problem at all because the 4.5 million tons demand this year, even assuming that the expansions come in 3 years time, then we're talking about 8% to 10% growth every year in India. We are talking about another 1.25 million to 1.5 million tons of demand being added. So your demand would easily go up from 4.5 million to 6 million tons. And these new capacities, even if they come in, would still leave a gap of around 2.5 million tons. So I think India is well positioned as far as PVC is concerned.

Bharat Sheth: And coming to paste PVC, since we have one plant which is fully backward integrated. So in that scenario, how much we are competitive vis-a-vis other play, I mean, countries? And once upon a time, we were, I mean, claiming that we are the most efficient. So but still, we are, I mean, struggling on the Paste PVC side. So how do we see and which are the countries we still -- we see that there is -- could be an import threat is there?

Ramkumar Shankar: Well, if the trade is on a fair basis, then we are still competitive. If the exports to India are not on a fair basis, where they are using either government subsidies and like, for instance, some of the countries, 1 large country in Asia, or if they are cross-subsidizing exports by having very high domestic prices and then selling their exports at very low prices, those kind of unfair practices is what makes us less competitive. But on a fair basis, we are as competitive as anybody else. In fact, compared to Europe, we would be in a far better competitive position.

Bharat Sheth: And is it fair understanding that still dumping from Europe and Japan is continuing?

Ramkumar Shankar: It is. As the domestic industry, that is exactly what we are representing.

Bharat Sheth: Is it possible to share some spread on the paste PVC -- current spread in the paste PVC and Suspension PVC?

Ramkumar Shankar: Sure. If you want to know -- you want the import numbers?

Bharat Sheth: No. Spread, in the Q2 and current spread?

N. Muralidharan: Yes. Q2, the contribution numbers were at roughly around INR 24,000 per ton.

Bharat Sheth: In the paste PVC?

N. Muralidharan: In the paste PVC. Contribution would include the input costs. It also includes all other conversion costs, power, fuel, utilities. All conversion costs included. The number was around INR 24,000 per ton.

Bharat Sheth: And Suspension PVC, sir?

N. Muralidharan: Suspension PVC was around INR 7,200 per ton.

Bharat Sheth: Okay. Thank you and all the best.

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

Ankur Periwal: Just on the anti-dumping duty and the earlier quality norms that's supposed to get imposed on the import side. What's the status on those because there was some news article suggesting that they have further deferred. What are the time lines that you are looking at for the same?

Ramkumar Shankar: Yes. So as you are aware, on multiple products, not just in the chemical industry, but the government of India has embarked on setting up mandatory quality standards for many products and many industries, be it construction, chemicals, electronics, what have you. And they come up with these mandatory quality standards, and they announced a particular date by which it becomes mandatory.

And this goes through the process of WTO compliance and so on. There was this process for PVC as well, BIS standard was made mandatory. And the original date for implementation was, if I remember right, sometime in August. It has got extended by another 4 months to the end of December. And that is where the situation is right now.

Ankur Periwal: Sure. And last part of the import that we are seeing from China in terms of dumping will be falling under these the low micron-based supplies. Will that be a fair understanding?

Ramkumar Shankar: I'm sorry, could you repeat that? Could you say that again, please?

Ankur Periwal: So because of these quality standards, the low-grade imports will get impacted, which is where large part of China's imports are there? Will that be a fair understanding?

Ramkumar Shankar: All I can say is that as long as the exporting producers, every plant needs to be visited, inspected and certified by the BIS officials. And whoever is able to demonstrate that the product made in that particular plant is meeting the quality standard, then they are certified and then they can export to India. We are not aware of how many plants have been certified and inspected in this process. So I would not be able to comment on your questions with certainty. But broadly, we do believe that certain export sources will fail to meet the standards. This is our understanding.

Ankur Periwal: Okay. Sure. Secondly, on the supply side, globally, given the carbide argument was valid probably 2 years, 3 years back as well. But have we seen any capacity shutdowns or maybe deferment in some capacity additions because as I understand, there were some capacity expansions across PVC, across the world that was being planned. So are there any couple of shutdowns either in Europe or in China or some deferment in addition?

Ramkumar Shankar: There have been a few small plants that have been shut down here and there. And at least new expansions even in China are not coming up in the carbide route. They're largely the ethylene route. So I think the carbide route in China is phasing out. The large-scale rationalization of carbide capacity in China is yet to happen. And there is some time and there is a hard stop on the mining of mercury by 2031. Somewhere before that an alternative has to be found. If an alternative is not found, then there will be some repercussions on the capacity.

Ankur Periwal: Okay. But no deferment for the earlier expansion plans, which was in U.S., in China, et cetera. So no deferment there?

Ramkumar Shankar: They are slowing down. We are seeing a slowdown in any announcements on new capacities coming up. There could be another couple of million tons of capacity coming in over the next year or 1.5 years. But nothing new is being announced.

Ankur Periwal: And lastly, your thoughts on the pricing side or even the demand supply side for Chloromethanes, Caustic, et cetera, the byproducts there.

Ramkumar Shankar: So here Chloromethanes and Caustic, again, we do have a situation where the domestic capacity in India is more than the demand. In Chloromethanes, this is still manageable, and we believe that in a year or so, this will get balanced out. This is largely because of some new capacities that came up. We would have these new capacities being sleeved into the market and the demand will rise to meet that, maybe in a year, it will catch up. So in the meantime, there could be some exports happening out of India.

The caustic situation will be a little more in terms of the size of the problem because already the capacity on caustic is over 6 million tons, whereas the demand is only around 4.5 million tons. But not all caustic plants run at 100% capacity because around 70% or more of the caustic plants in India are not integrated into chlorine. We are 100% integrated, but others are not. And those plants can only operate to the extent that they can evacuate or sell the chlorine.

So while the nameplate capacity is 6.3 million tons, that's really not -- I think production is closer to around 5 million tons, and India is exporting around 500,000 tons. So from a net importer, India has become a net exporter of caustic in the last couple of years.

Ankur Periwal: So pricing wise impact over there also is slightly different [inaudible 48:06] global markets.

Ramkumar Shankar: I'm sorry, you're not very clear. Could you say that again, please?

Ankur Periwal: Sorry, I was saying -- the pricing lead impact, the positive pricing or the pricing uptick in caustic, it doesn't look likely in the near term, let's say over the 1-1.5 years?

Ramkumar Shankar: All right. So on pricing, actually, caustic internationally has gone up because internationally, there has seen a little bit of a revival from the demand side, be it on paper, be it on alumina. And also caustic is a major component of a lot of the EV battery elements, the mining and the refining of nickel and so on. So in all of that, caustic is used. So there is a reasonable demand growth in caustic, and prices internationally have been moving up. India also has seen a little bit of an improvement in prices in the second half of this year from October. So prices are pretty stable to a little strong.

Ankur Periwal: Okay great. That's it from my side. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Chintan Shah from JM Financial. Please go ahead.

Chintan Shah: Thank you so much for the opportunity. So I just had one question. So on Suspension PVC basically. So when FY '19 to FY '22, when we were making healthy margins, what were the spreads around Suspension PVC? And you mentioned that in Q2, the spreads were somewhere around INR 7,200 per ton. Now assuming that the ADD that has been talked about, that's implemented, then what should the spread look like?

Ramkumar Shankar: All right. Okay. So between FY '19 to FY '22, I think, we should exclude the 2 COVID years because in the 2 COVID years, our spreads were really very high. That was the time when PVC prices were moved up to above USD 1,500 per ton and we had spreads of around USD 400 – 450 per ton between PVC and VCM. So we should exclude that. But the entire purpose of antidumping is to correct the wrong that has been done and to address the unfair impact on price.

So definitely, the implementation of anti-dumping will result in an increase in price and therefore, on margins. How much it will go up by - only time will tell. But all I can say is that if you look at the weighted average of the anti-dumping duties that has been announced, that weighted by the volumes of imports that have come in from the respective country, it would amount to around USD100 to USD110 per ton. So that is just an indicative number. The actual impact on prices, we can only wait and watch.

Chintan Shah: Okay. But can you just highlight the spread that we used to make then? I mean excluding the COVID 2 years, what was the average spread that we used to make on a normalized basis?

N Muralidharan: **I**f you're looking at a 10-year average, we would be making -- we will have made somewhere between USD 240-250 per ton PVC-VCM. That is the industry spread I'm talking about.

Chintan Shah: Okay. Got it. So is it fair to say that even if this gets implemented, let's say, previously what you mentioned, USD100-110 per ton, so we would be very close to the historical average that we use to make?

Ramkumar Shankar: We are hopeful. Let us wait and watch. I wouldn't like to be presumptuous in this and try to go ahead of what is going to happen ahead of reality. I think the market will settle at some level. It could be higher than that, let's wait and see.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference call. I would like to hand the conference over to the management for their closing comments.

Ramkumar Shankar: Thank you, Steve and thank you everyone for joining us today on this earnings call. We appreciate your interest in Chemplast Sanmar Limited. And if you have any further queries, please do contact SGA, our Investor Relations Advisor. Have a good day.

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