ADITYA BIRLA
GRASIM

Ref No. GIL/CFD/SEC/23/038/SE

30th May 2022

BSE Limited
Dalal Street,
Phiroze Jeejeebhoy Towers, Fort
Mumbai - 400 001
Scrip Code: 500300

The National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1,
G Block, Bandra - Kurla Complex,
Bandra (East), Mumbai - 400 051
Symbol: GRASIM

Dear Sirs,

Sub: Transcript of Q4 FY-22 Earnings Conference Call

In terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find attached transcript of the Q4 FY-22 Earnings Conference Call held on 24th May, 2022 and is available at https://www.grasim.com/Upload/PDF/grasim-transcript-earnings-call-q4fy22.pdf

Thanking you,

Yours sincerely,
For Grasim Industries Limited

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"Grasim Industries Limited Q4 FY22 Earnings Conference Call"

May 24, 2022

MANAGEMENT: **MR. H. K. AGARWAL – MANAGING DIRECTOR, GRASIM INDUSTRIES LIMITED**
MR. HIMANSHU KAPANIA - BUSINESS HEAD (PAINTS), GRASIM INDUSTRIES LIMITED
MR. JAYANT DUA - CHIEF EXECUTIVE OFFICER, CHEMICAL DIVISION, GRASIM INDUSTRIES LIMITED
MR. RAKSHIT HARGAVE – CEO (PAINTS BUSINESS), GRASIM INDUSTRIES LIMITED
MR. ASHISH ADUKIA - CFO, GRASIM INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q4FY22 Earnings Conference Call of Grasim Industries Limited.

We have from the management, Mr. H. K. Agarwal - Managing Director; Mr. Himanshu Kapania - Business Head, Paints; Mr. Jayant Dua - Chief Executive Officer, Chemical Division; Mr. Rakshit Hargave - CEO, Paints Business and Mr. Ashish Adukia - CFO.

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 telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Adukia. Thank you and over to you, sir.

Ashish Adukia: Thank you and good evening to all the participants. I hope you have been able to download and get the presentation. As the company celebrates its 75th anniversary, this year which has gone past actually been marked for lot of growth announcements which will prepare Grasim for the next phase. The core areas where we have already expanded our capacity are VSF and Chemicals. The recently commissioned 600TPD VSF capacity operated at 83% utilization level within months from commissioning. We have also been able to find debottlenecking opportunities across three plants to increase our VSF capacity further 48TPD at a minimal capex. This increase supply was very well supported by the strong domestic demand. In Chlor-Alkali as well, we added capacity of 142KTPA across Rehla which was 91KTPA and Balabhadrapuram which was 51KTPA. In addition, we added VAPs including the chloromethane at Vilayat.

In the Paints business, we are currently focused on timely execution of our capacities. The civil construction has already commenced at two of our plant sites, Panipat and Ludhiana and is expected to start shortly at Chamarajnagar. The remaining three plants are at different stages of government approval processes. Since the announcement of our entry into the paints business, the market dynamics of the decorative paint sector has become more attractive. We have accordingly decided to accelerate our capacity commissioning and accordingly updated our plan with the project cost of ₹10,000 crores by FY25. This acceleration with revision in plants configuration, achieve economies of scale, comprehensive product offerings, improving lead time to service the market. The plant commissioning are expected to begin from Q4 of FY24 with capacity eventually reaching 1332 MLPA. The inflation pressure on account of commodity prices increase has been mitigated by change in the plant configuration. We are very well capitalized for next phase of growth given our strong financial position. As on 31st March 2022, the company at standalone basis had net cash of ₹553 crores.

I will briefly touch upon the key operational and financial highlights of the quarter. The textile value chain in India operated at optimum capacity utilization given strong domestic demand.

The VSF business reported sales volume increase of 30% Y-o-Y in FY22. Our domestic sales surpassed 0.5 million mark in FY22 and accounted for 84% of the total sales volume. The share of VAP, the value-added products increased 57% Y-o-Y and the overall share increased to 26% in FY22 from 22% in the year before that.

The demand for VSF has also been propelled by growth in Liva tagged garment. Our association with end consumer is expected to further strengthen with the launch of our saree brand, Navyasa created by Liva. Our aim is to reposition saree as a garment of choice and to offer more contemporary print designs to Indian women. The saree segment in India consumes close to 1 million ton of different fibers and the share of VSF stands at only 1%. We would like to increase our share to 7% in next 5 years. The global VSF price was weakened sequentially owing to the spread of Omicron in China, however, a consistent rise in quarter prices have led to widening the gap between VSF and cotton. The financial performance of VSF business was impacted by raising cost pressures across all raw materials right from pulp, caustic and other input costs. Separately, the VFY business reported revenue of ₹572 crores and EBITDA of ₹63 crores for Q4FY22.

Coming to Chlor-Alkali business, it reported another quarter of stellar business despite amounting cost pressures (Power and other costs). This was driven by sequential improvement in ECU. This was highest ever EBITDA for Chlor-Alkali backed by all-time high ECU. The sales volume increased 16% Y-o-Y to more than a million ton in FY22. The raise in the global caustic soda prices was driven primarily by the supply chain disruptions. The domestic caustic soda prices also increased in line with global caustic soda prices and consequent to the increased demand in domestic market as well. In Q4FY22, the chlorine consumption in VAP was 40%. The advanced materials business also witnessed a 17% Y-o-Y sales volume improvement driven by our better product mix on the back of strong demand from the wind power segment. However, this segment is witnessing normalization of margins pulling down the EBITDA from all-time highs.

On an overall basis, we have outperformed our Pre-COVID levels of FY20. At a standalone basis, overall Grasim, our revenue for FY22 was up 14% CAGR over FY20 and EBITDA was up 24% CAGR which ended at ₹4,111 crores. This quarter on a standalone basis, we reported profit after tax of ₹1,068 crores which included certain exceptional items. These include profit from sale of fertilizer business of about ₹540 crores pre-tax. There were certain write backs of tax provisions amounting to ₹321 crores because of favorable order of sales tax subsidy being allowed as capital received. There is additional reversal of deferred tax liability amounting to ₹197 crores. As you are aware, we have been focusing on improving the quality ESG reporting standard. Grasim recently featured as number one in the Capri Global Capital Hurun list of India's most sustainable company. In the latest ESG rating released by CRISIL, Grasim was assigned a score of 63 with strong rate.

Lastly, based on our performance, the Board of Directors of Grasim has recommended a dividend of ₹5 per share for the year ended 31st March 22 and a special dividend of another ₹5 taking the total ₹10 per share. The total outflow on account of the dividend would be ₹658 crores. I would like now to hand over back to the operator for Q&A. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Navin Sahadeo from Edelweiss. Please go ahead.

Navin Sahadeo: Couple of questions, first I will take the paints, so here you have doubled the Capex like to ₹10,000 crores, so can you now give us the breakup between the debt and equity component of it and just a clarification that this 1332 MLPA capacity, is it the expanded capacity for the ₹10,000 crores Capex or it was the earlier capacity which will now be doubled?

Ashish Adukia: I will start of and then I will request Himanshu to jump in to clarify some of these points. So, first of all the earlier announcement that we had given was not linked to our capacity, we just said that the initial Capex will be that of ₹5,000 crores over next 3 years, so now we are coming with a little bit more specific guidance that we are going to have a project cost which includes Capex, non-plant CAPEX, etc., the preoperative and all those kind of elements that go into it by FY25 and the commissioning of the 1332 MLPA that we are talking about will start sometime around early Q4FY24, then it will come in a staggered way and it will complete over next few months. So, that is really what the plan is, so the two are not comparable. To answer your question, 5000 and 10,000 are not comparable.

Navin Sahadeo: But just a clarification, so this 1332 capacity is what ₹10,000 crores Capex will consume, right?

Ashish Adukia: Yes, that is right, roughly that is the right number.

Navin Sahadeo: And just a clarification regarding the same thing that how do we look at funding this, is it going to be entire equity or it is going to be a debt component as well here?

Ashish Adukia: It is funded on the balance sheet of Grasim itself. It is a division of Grasim, it is not a subsidiary, so therefore the way we will look at funding is a mix of internal accruals and debt depending on other capital needs, etc.

Navin Sahadeo: Then my second question was regarding VSF, all the best for the new brand launch in the saree segment that you have done, but a few years back if I recollect, there was also this foray into VSF Denims as such, so if you can just help us if that product or VSF is used in Denim and is that product getting acceptance or that is not really taken off just to get some sense there?

H. K. Agarwal: VSF is used in many applications including Denim, but Denim is not the most common or most popular application for VSF, so we did not launch any brand or anything like that for VSF application in Denim. So we have a new generation of manmade cellulosic fiber under our brand Excel which is produced by Lyocell process and that is preferred material for use in Denim along with cotton, so we don't have any brand for Denim for that range, but this initiative for Navyasa saree, we have started the brand for sarees by ourselves and the idea is that now VSF has used only about 1% in saree application and we want to increase it to at least 6%-7% in next 3-4 years, so that is the whole idea.

Navin Sahadeo: And just one quick question if I may slip in, please, recently Ultratech took stake in this Middle Eastern entity called RAK White Cement and they have also on the concall confirmed plans to further take full control of it if possible, my question was, if white cement is like good fit or a decent integration with the paint business, would it not be better that Grasim looked at it and get it under its fold rather than keeping it in a different entity?

Himanshu Kapania: Yes, you are absolutely right, white cement has multiple application and over the years white cement application has tended to be more towards the paint side, especially towards the undercoat side, but the fact remains, Birla White is a division of Ultratech and it is a very strong brand and it has independent set of shareholders. So, Grasim has chosen to launch its paint services through the Grasim vehicle. Ultratech remains focused on the cement side of the business including the white cement side of the business and both the shareholders at an appropriate point of time will work out a necessary arrangement to work on synergies so that both Ultratech and Grasim profit from the growth or entry of Grasim into the decorative paints business.

Moderator: Thank you. The next question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: Sir, I have two questions, so one on the VSF side, sir, if we see your presentation, so in between Q3 and Q4, our volumes have improved by 22,000 tons, while if we see the breakup in terms of exports, I think they have gone up by just 9,000 tons, so this gives an additional 19,000 tons of volume which I presume must have been sold in the domestic market, so if you can just help us explain that is this because we have replaced some of the imports which were coming to India and our domestic market share has gone up to that extent or is this because the market has expanded by such an extent that we have been able to garner this sort of additional volumes?

H. K. Agarwal: Actually, both things on market has expanded and as you know that cotton prices are at all time high and there is more tendency among spinners to spin VSF rather than cotton because of the severe price difference and also to some extent imports have also come down because of the coordination issues. So, yes, we have been able to place more volume in domestic market in the Q4.

Nirav Jimudia: Sir, if you can help us explain what is the normal run rate of VSF imports coming to India in a quarter or if you can guide even for FY22 that would be helpful, sir?

H. K. Agarwal: The total imports in FY22 have been around 90,000 tons, something like 7,500 tons per month and it is roughly about 10-11% of the total market.

Nirav Jimudia: And predominantly we have garnered those incremental market shares because we have replaced some of those imports coming into India in Q4?

H. K. Agarwal: Yes, but major part is because of the increase in the market because our customers have been also installing more equipment, they have been installing more MVS machines which is new technology for yarn spinning, so the demand has been good.

Nirav Jimudia: Sir, my second question is, from last almost 2-3 quarters, we have seen our specialty volumes in the range of 42,000 to 45,000 tons, so last 2 quarters they are almost same, so is it the optimum utilization at what we can operate for specialty or is there further room of increasing our volumes with the current capacity?

H. K. Agarwal: In VSF business, the specialty is I can make it two groups, there are one or two products which have to be made special purpose plant, specially our Excel Fiber Plant, but other products we can have more flexibility. So, sometime there is a seasonal element like one of our products, Livaeco, there was a seasonal issue which demand was much less in Q4, but Excel Fiber has improved, Modal was more or less same, so we have flexibility and we are also debottlenecking our Excel capacity. By next February or so, we will have debottlenecked to the extent of about 30% our existing Excel capacity, it is a very small investment.

Nirav Jimudia: But sir, apart from that are we doing some more Capex on the specialty side because eventually we want to grow up to 40% of our total volumes from specialty, so if you can share your road map for increasing those volumes to 40% and what sort of Capex would be required in order to reach those volumes?

H. K. Agarwal: We have inbuilt capacity which can take our specialty volume to almost 33-35% without much Capex, some products we have flexibility to produce even on the existing lines where we made grey fiber and dyed fiber. So we are exporting also significant dyed fiber, if the Indian demand increases, then we will serve Indian demand on priority basis. So, it is not necessarily only Capex which is required for growing the VAP volume, but yes, if beyond 30% debottlenecking if we want to do, then we will have to think and plan significant Capex because then we will like to install our sarees of large size plant which is internationally economical size.

Nirav Jimudia: And sir, just a small clarification in terms of this 33-35% is on our expanded capacity, right?

H. K. Agarwal: No, from the existing capacity, existing capacity of Lyocell.

Nirav Jimudia: No sir, you mentioned we can go up to 33-35% of?

H. K. Agarwal: Of the total volume of the total expanded.

Nirav Jimudia: And sir, last question would be in terms of, if we see the financial, so I think this quarter, VSF margins have come under pressure, so you rightly mentioned that this is because of the increasing raw material cost, so apart from the raw material costs, are there any pressures on other cost also like freight or power or any other costs related to that and adding to that are the premiums on the specialty VSF come under pressure this quarter because of which we have been some subdued margins on the VSF side?

H. K. Agarwal: Like pulp, caustic, sulphur, they are all raw materials and the coal has also increased and coal has the significant cost. Energy cost steam and power is almost 16-17% of the cost of reduction and then transport cost has also increased and there were some extra export during Q4 because of Omicron in India, we did not want to take risk of having high inventory in the last quarter, so how this things combined, but yes, once the input cost come to normal level, then we will see our profitability improve to the normal levels.

Nirav Jimudia: But sir, have we taken some sort of price increases because in order to compensate for the cost because I think in between the quarters our margins have come down significantly, so have we taken some sort of price increases on the grey fiber in India in line with the international prices?

H. K. Agarwal: Of course, since September we have increased our grey fiber prices to the extent of 27% until March and we adjust the prices on a monthly basis and we compare the landed cost of imports and all other factors and we adjust the prices. We can't survive if we don't increase the prices in this environment.

Moderator: Thank you. We will take our next question from the line of Sanjeev Kumar Singh from Motilal Oswal Financial Services. Please go ahead.

Sanjeev Kumar Singh: Sir, I want to understand this increased Capex on the paints in a better way, so when we had given a plan of 50 billion of Capex in 3 years, then what was the target capacity in our mind and then suddenly we have increased it to around ₹10,000 crores, so what had led to this thing and what is driving this confidence, can you give some better sense on this?

Himanshu Kapania: You are absolutely right in FY21 where we last met in January, we had announced 3-year plan of ₹5,000 crores and we are revising that plan to ₹10,000 crores. Obviously, there was pressure from inflation, commodity inflation on the Capex side and we also observed that the market growth in the paint sector was far higher than what our original estimation. So, we had grown up our original business model and in the original business model, we had made an estimate of our capacity which would have taken much longer to bring in the 1332 MLPA and what we have done now is accelerated that 1332 MLPA capacity which would have taken us approximately 6 to 7 years to bring in and we are trying to bring that in 3 years because the market at this point is extremely buoyant. Also, by bringing acceleration of our investments, we were able to optimize our existing plants that we had originally planned for which resulted in that the inflationary cost was compensated significantly with economies of scale, so acceleration has helped us in bringing our economies of scale, so the cost per MLPA has remained similar levels allowing us to be able to participate in the market in a much more aggressive manner. I just want to remind you at the time of January 21, we had shared our ambition that we want to be a profitable number two player and current market share of operator is closely linked to their capacity share. With this capacity, we will be able to achieve our ambition and guidance to the market of being a profitable number two. I hope it answered your question.

Moderator: Sir, it looks like Mr. Singh's line has dropped. In the meanwhile, we will take our next question that is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: My questions are more on the balance sheet side, number one, we saw an increase in inventories as well as payables, is it because of the increased size of business and the cost of materials, is it one-off or how do you expect that to correct itself over the next quarter? The second question is on the Capex plan and related to the first question, given the fact that we are going to spend ₹10,000 crores over the next, let us say 4 years, in terms of the debt profile, how do you expect in terms of our control over debt to EBITDA or any of these ratios which is actually currently excellent, but how do you expect that move over the next 3 to 4 years?

Ashish Adukia: So, overall the increase in current assets that are taking place is on account of inventory and that is on account of the price increase, so the prices of all inventory, the rates basically while the days might not have changed, the rates have gone up and therefore the inventory levels have gone up. So, that is the factor of price since the price come off, then you will see the inventory levels also coming up. On your second question, on the debt profile, right now, as you may have noticed, in this presentation, we have not given the guidance or the Capex for this year, so it is difficult to say where we land in terms of our debt profile, of course, I can say one thing that this net debt position or net cash position is transitory and we will get into a net debt situation again given the Capex that we have over next 1-2 years. So, it is a little premature for me to comment on exact number of the debt profile. I just want to reiterate, our underlying thesis of retaining investment rate doesn't go away.

Vivek Ramakrishnan: At AAA it seems, so all the best and look forward to hearing the debt guidance in the next call.

Moderator: Thank you. The next question is from the line of Pinakin from JP Morgan. Please go ahead.

Pinakin: Sir, a few questions on the paints business, so just trying to understand at this point of time, is ₹10,000 crores Capex number more or less captures the entire investment or can this number see a very substantial revision higher like we have seen from ₹5,000 to ₹10,000 crores?

Ashish Adukia: Thank you, the need for investments both plant and non-plant for the next 3 to 5 years' time period and once our capacity utilization crosses 80% would be the next phase of investment, so for a current phase almost captures this.

Pinakin: My second question is that at this point of time, should we expect that the paints business Capex will be 100% funded out of Grasim or would the company look to derisk and bring in some kind of strategic partner into the paint business?

Ashish Adukia: No plan of getting any strategic partner, we will fund it through Grasim.

Pinakin: And lastly can you give us a sense of what are the expected IRRs that the company expects from this business and by when does the company expects to hit those IRRs?

Himanshu Kapania: We had in the last announcement when we gave our announcement of ₹5,000 crores indicated IRR for this project in the range of 20%. Even though we are expanding our investment, we have reworked our business model and reaffirmed that this project will be at around 20% IRR levels.

Pinakin: By when sir, because given that it will be commissioning in FY25, so should we expect this what number of years?

Himanshu Kapania: This is the IRR of a project; I am talking of a project IRR and typically you carry out the project IRR over 10-15 years and then as we will do a normal project financing model.

Moderator: Thank you. We will move to our next question that is from the line of Prateek Kumar from Jefferies. Please go ahead.

Prateek Kumar: So, few questions, firstly, on VSF versus cotton, so while we keep mentioning about this and we keep charting it out as well, but there seems to be no real correlation of it what we have seen and we are really struggling to even pass through basic cost and EBITDA has clashed like anything like got one fourth in past 4 quarters, so can you just explain a bit on how is this cotton versus VSF dynamics really playing out and not really helping us or anyone else in the global industry?

H. K. Agarwal: Normally, in the past, price of VSF and cotton would move more or less in tandem, but like correlation was 0.75 kind of. Of lately, cotton has been in a very tight situation and there has been I think some financial speculation also, because cotton is the oldest commodity on the exchanges and supply chain concerns also have pushed the cotton prices very fast. These are not normal price increase in the sense and VSF being the industrial commodity, there is a different supply, demand dynamics, so this time, VSF prices have not been able to keep pace with the cotton price increase and cotton have clocked, again there are different estimates and the people estimate that cotton crop will be less this year, demand will increase, so there is lot of psychological and speculative bullishness on cotton prices. So, this one is the main reason for, VSF is not that speculative and there is no forward available like what is available on cotton, so that explains the divergence for this time.

Prateek Kumar: Are these not the real prices which consumer of cotton or VSF is buying and that is why we are not able to increase our prices, is VSF really replacing cotton at such high prices?

H. K. Agarwal: To some extent, yes, we are seeing additional demand from people who use to spin cotton, now they want to stop cotton and spin more VSF because cotton is too expensive or it is not available or some similar reasons. So, it is not that these prices, the transactions are not happening. The transactions are happening, so we are selling VSF at current prices, we have been adjusting VSF prices also to the extent we can do, but there is an import possibility and we have to calculate the landed cost of imports and charge whatever price we can do, so in cotton there is no import available. Import is of very high variety and even government has reduced the abolished import duty, but it is still the price have not come down. So, there is different kind of dynamics playing out there.

Prateek Kumar: And regarding pulp pricing, which was also expected to sort of come down, how has that been in terms of the inventory position and any of the 3-4 key cost line items for VSF expected to moderate over next 6 months?

H. K. Agarwal: Like pulp prices have been going up in last 2-3 months, in Q4 pulp prices were little bit down, but off lately they have been going up, so they should stabilize now because there is a new pulp plant commissioning in Brazil, so the increase should not continue for too long. Supply chain issues are also creating shortage and the buyers have to buy in desperate, so some time that affects the price. So, assuming that global geopolitical situation doesn't escalate further forward and thinks supply chain comes back, start to improve as we have seen in some sections, so the price rate should not continue to increase like they have done in the last quarter, so that will bring more reasonable situation in the market.

Prateek Kumar: So, for FY23, modeling purpose, second half of FY22 margins in VSF segment are more reasonable and like first half and even last year fourth quarter was may be an aberration in terms of that?

H. K. Agarwal: Second half of FY22 was also kind of aberration because the input price has increase very steeply, so both were unreasonable, average of both the situations would give better workable model.

Ashish Adukia: I think you have to also appreciate that overall, we are going through certain disruptions in logistic supply chain etc., which is creating certain price mechanisms which are breaking from the trend, so that also we have to bear in mind. I think if you look at the VSF price premium over pulp that broadly we have been able to maintain, so it is also the factor of some of the other costs like caustic etc., which has led to erosion in the margin, but the fundamental VSF to pulp premium, that has continued to maintain.

H. K. Agarwal: Similarly in the case of Grasim, although the caustic high price comes as the cost in VSF, but at the Grasim level, it is inter division, so that really is not an extra cost in that sense.

Prateek Kumar: Is that the right assessment if Epoxy has certainly weakened, that has resulted into Q-on-Q drop because prices of caustic really are higher and Epoxy is also hurting VSF?

Ashish Adukia: As I said in my opening statement, Chlor-Alkali has actually delivered the highest ever quarterly EBITDA in Q4, so Chlor-Alkali EBITDA for Q4 is higher than Q3, it is because of Epoxy which has corrected significantly that your total EBITDA is looking lower for chemical segment in comparison to Q3. And to clarify which Jayant is also clarifying that Epoxy has normalized, they got a run of almost, I think 3 or 4 quarters of profit because of the high realization and low raw material.

Prateek Kumar: And sir, last question on paint segment, is there anything on revenue, I mean because you are looking to start from Q4FY24 in terms of plans, anything we are looking at in terms of first year of revenue in that segment?

Ashish Adukia: That's premature. I think we are focusing on commissioning the plants right now, it was difficult to say exactly when we are going to launch and start the revenue stream, one thing we have clarified earlier is that we will not follow any outsource model, we will do it through our manufacturing business.

Moderator: Thank you. Our next question is from the line of Alok Shah from Ambit Capital. Please go ahead.

Alok Shah: Sir, my first question is when you speak about the improving market scenario in the paints business, just wanted to check because this is our understanding, this optimism is also because of not only the paints, but also ancillary segments, so given the plan is also hence to cater to that part of the growing segment or the focus would largely be in the core deco segment, just wanted to hear your views on that?

Himanshu Kapania: No, our focus is only on the decorative paint segment and just for clarity, decorative paint segment includes both emulsion side of the business as well as the enamel side of the business, the water proofing side of the business as well as wood finish, so these are the broad categories which have all constituted to the decorative paint. We are not getting into any other segments than these like that.

Alok Shah: Sir, the second question is, when you talk about the Capex of ₹10,000 crores, what sort of that would be largely gross block because if I heard it correctly, you said it is a mix of CAPEX plus non-Capex items, so what part of that would be gross block, roughly?

Himanshu Kapania: To clarify, all of it is gross block, it is broken into plant and non-plant and the large portion of it is plant.

Alok Shah: So, largely ₹10,000 crores is the gross block that we are looking at, again that we will get around 1332 MLPA and while during the call, I was just confirming Asian Paints or the leader is at around 1700 odd MLPA because they denote it little differently, so just to reconcile the numbers?

Himanshu Kapania: Yes, to our mind, they would be a slightly higher number, by the time we are launching our services.

Moderator: Thank you. Our next question is from the line of Anshuman Atri from Premji Invest. Please go ahead.

Anshuman Atri: My question is on the paint business, so I have three questions, one is, you are announcing a size which has almost double of the current one of the player, so by when do you see this 1.3 getting fully commissioned and what would be the timeline in terms of the capacity utilization reaching to 80%?

Himanshu Kapania: As Ashish mentioned in his opening statement, we expect to start launching our services by the fourth quarter of FY24 which is next financial year and in a phased manner over the next 12 to 15 months, we would have the entire capacity available, but from quarter 4 of FY24, we will go for a nationwide launch, so we are hoping to be able to have our products available on a nationwide basis.

Anshuman Atri: And sir, generally we have seen whenever Grasim launches a capacity, then in 1-2 years you are almost close to full utilization, so can we expect something similar in the paint segment?

Himanshu Kapania: I think it is very premature, there are plans on a piece of paper, but I think we will wait to see our execution.

Anshuman Atri: And other question is on so if I look at your Environmental Assessment Report so you are doing lot of backward integration in terms of the emulsion and other things, what kind of cost advantage can you have versus the existing players?

Himanshu Kapania: So, different players are in different stages of their backward integration. So, as far as we are concerned there are the two key components of raw material are titanium dioxide and emulsion or resins as maybe applicable for water-based paints or solvent based paints both emulsion and resins we will manufacture in house and titanium dioxide is one which is the bought out item for us. I would not be able to give you a generic answer, different computational, different stages and a different percentage, but our entire requirement of emulsion and resins will be done from in house production.

Anshuman Atri: And one last question is on the decorative side on these putty and other ancillaries this will be done by UltraTech whereas the paint part will be done by the Grasim?

Himanshu Kapania: Let me give you a sense on the putty side of the business I do not know how much you follow on the under-coating side Birla White is the market leader and has been strengthening its position it is improved last year its market share, volume market share by 2%, but it currently commands about 10% premium over the next player and over paint measures it commands 20% premium. So, on a revenue market share it has closed to 33% to 35%. So, that is one statistics and continue to strengthen its position reason I continue to strengthen position because this quality and brand acceptance is significantly higher than what all is available why is that because it is among few companies it manufacture its product as the entire R&D and manufacturing in house rather than number of paint manufacture will do a lot of portion in outsource we will find that also in the paint side of the business where we are trying to do it all in house. So, the research and development is done in house, backward integration done in house and qualify of manufacturing is completely controlled in house. So, going forward as I mentioned to be able to get synergy and cost control both the shareholders of both the companies will enter into some sort of agreement and which will not only be able to make available the putty throughout the paint business, but also be able to have multiple other synergies at an appropriate point of time we will discuss that.

Moderator: Thank you. Our next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: As being clarified by you sir that if we take the segmental result and under the chemical segment caustic soda and allied chemicals the dip in the profitability QoQ is only on account of Epichlorine prices trending lower that is the only reason why this 451 crore has moved down to 390?

Ashish Adukia: At a conceptual level you have understood it right except that within chemical segment there is Chlor-Alkali and there is epoxy business and the Fe chloralhydrate what you are talking about is an input with the raw material for the epoxy business. So, one of the reasons for epoxy business not being normalizing the margin is because the ECH prices have remained high while the realization for epoxy has come down, but at a conceptual level your understanding is correct the QoQ number has come down only because of epoxy.

Saket Kapoor: The factors in your presentation you mentioned about the strong trends in the chloralkali prices is also because on account of the shutdown at China so other than that what kind of capacities globally has been mothballed any understanding on the same or are these shutdown temporary then what should we say because of this how sustainable is the trend going forward whether it is a demand led trend or is it a mainly because of the outage in the capacity?

Jayant Dua: Let me put it this way that it is not about mothballing of capacities yes I think one or two capacities in US particularly have been mothballed they were not into the membrane technology itself related to few of the technology it is comparatively not there but will the disruption in the prices is doing largely due to the supply chain disruptions which have led the current Russia-Ukraine war has led to the Black Sea movement being quite controlled so nothing happened too much. Europe has brought into a shortage because of that. US had couple of outages groups and unplanned, China due to COVID. So, I think there is a current global disruption which is now getting sorted out and I think going forward you will start seeing a more normalized caustic prices looking at the month or two month until and unless something new happens which is not known to anyone of us.

Saket Kapoor: Sir post this March quarter exit the realization the trend has remained upward or maintained or are we seeing the softening of prices as the factors you have articulated the normalization?

Jayant Dua: If you look at the global indices which get normally reported there is a marginal uptrend, but it varies week-to-week depending upon how the supply chain moves. So, it is not materially changed much.

Saket Kapoor: I think the input cost have definitely softened I think so the energy prices indices and have definitely softened or there is no relent there also?

Jayant Dua: So, their energy prices also continue to be in the same range at this point of time I said on post March you are not seeing a significant delta movement on either side on both the cost front or on the realization front.

Saket Kapoor: And on the other major raw material salt sir how much are these self-sufficient or backward integrated and by what portion are we dependent on the market and how are the price trends shaping up there?

Jayant Dua: Salt per se no we are not backward integrated or we are not self-dependent. We largely buy maybe about 90% of our salt from outside the market. So, salt market will actually get governed by how the crop comes up post this monsoon when it get affected is there is a lot of cyclones in the area than crop shortages happens, prices shoot up. So, I think it will be premature because I do not think so I can predict the weather package, but currently compared to last year the prices continue to be at the same level which are at the elevated level because of cyclones of last year.

Saket Kapoor: Sir on the value-added product part what was our target by what percentage are we going to the internal closing consumption is going to up say two, three and five years down the line?

Jayant Dua: So, currently we are at about 30% and with the current set of projects which are we are looking at which I think at an appropriate time we will talk about you will start doing about 3%, 4% increase annually which is going to go up over the next five years' time. So, between let us say three years' time you could see from 30 to 40 is where the target will be. So, it will be a gradual increase you will not see certain spikes there.

Saket Kapoor: If may squeeze just one small point for this year for this the last financial year what have been the imports of the caustic soda in the country and for this current year what are the new capacity additions that are expected here in the country?

Jayant Dua: What is interestingly happened and I think that is one change which has happened in the Indian corporate industry which is India has become a net exporter which used to be earlier a kind of a balance. I would not have the exact number, but somewhere around 2 to 2.25 lakh tons would be the import so it is 2 lakh tons which has happened in this year of import which is going to happen and I think going forward there are new capacities which have got announced I really do not know when they are going to come and stream, but India would maintain this net exporter status for the next year or two years.

Saket Kapoor: Earlier we were the net importers only when are this trend changed from net importer?

Jayant Dua: Last year.

Moderator: Thank you. The next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi: I just wanted to find out that what is the Capex over the next three years apart from paints and what is the peak turnover you expect on the Capex from paints?

Ashish Adukia: See at this stage we cannot give the guidance on both these numbers while we get the Capex approve for this year by the board at that time we will immediately announce it to the market for this year Capex which is other than paint what we are trying to plan.

Jiten Doshi: Because if one just does some simple math your next four years cash flow should be about 8,000 to 9,000 crores which includes UltraTech payout etcetera which should be nearly 6,000 crores of dividend declared by them, so what would be your dividend policy over this period of paying out to shareholders?

Ashish Adukia: So, we are following our dividend policy. We have pass through this time as well as we have pass through the UltraTech dividend to the shareholders.

Jiten Doshi: Would that continue into the future?

Ashish Adukia: I think every year we have to look at the situation if there is huge Capex demand that comes through which is unlikely, but I am just theoretically saying then we may have to discuss at the board level, but as of now the plan is to pass through the UltraTech dividend.

Jiten Doshi: Because it is simple Math if you can sustain your current year operating profit or increase it over the next three to four years then actually you should remain that three or four years?

Ashish Adukia: It is difficult for us to comment on that.

Jiten Doshi: Actually you will be assuming in a lot of cash so will the dividend whatever you get from L&T I mean from UltraTech you will pass on the dividend to Grasim shareholders?

Ashish Adukia: Yes. We have done it for last two years and the idea is to continue doing that.

Jiten Doshi: Any idea on monetizing your renewable portfolio?

Ashish Adukia: Right now we are growing the portfolio there is no such plan to monetize it currently as we speak.

Moderator: Thank you. Our next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Just continuation of the previous question on Capex since you have not announced the broader figure I just wanted to know how much would be the pending Capex of the VSF and chemical division which were announced earlier, and which would be ongoing and pending?

Ashish Adukia: That we will announce it along with the Capex figures that we announce for this year there is not much of pending figure that is there so if you look at the slide on Capex to find that there is about 650 crores of budget, but not spent. So, it will definitely be within that and can be lower than the difference as well.

Bhavin Chheda: I think earlier some chemical division date was postponed earlier and that Capex was slightly postponed, so chemical division was there a higher number because I have earlier model higher number for 23 or you are saying just 600 crore is pending for chemical division to reach a capacity of 1.53 million?

Ashish Adukia: The Capex that we have given on that slide is Capex for last year FY22 for a project there can be additional amount in FY23 or FY24. So, do not confuse that.

Bhavin Chheda: So, for chemical division earlier plans of reaching capacity of 15,30,000 roughly 1.53 million there would be around 1,000 crores, 1,200 crores pending to reach that number?

Ashish Adukia: It would not be that much we will come back on that number, but if there will be Capex towards that see I think chemicals you have to understand slightly differently, chemicals has already got 8 sides so unlike VSF which has got 4 sides in large projects, chemicals is number of sides and number of VAPs that they keep doing. So, if number of projects are large so it comes in a staggered way in different timeline and ticket size is smaller.

Bhavin Chheda: And sir maintenance Capex is roughly 500 crores across both divisions that has been the historic run rate of VSF plus chemical that is fine that number should be ball mark plus minus that?

Ashish Adukia: Let me clarify one point without giving a number 500 used to be the case earlier. So, one number of sides has gone up and secondly there is inflation and there is also environment related Capex which is increasing across all businesses, and it is a good Capex to have because this makes your business more resilient and future ready. So, we believe that next two, three, five years as we are taking targets for sustainability those Capex should also be counted towards sustenance. So, therefore I would say there are three categories of Capex. One is just what we always traditionally called maintenance Capex. Second is the sustainability related Capex which is kind of not necessarily going to generate revenue for you, but it makes you more future ready and the third piece is your growth projects.

Bhavin Chheda: Sir second question particularly on the VSF division you have given annual number of exports there is 13% if I tried to backward calculate with the earlier quarter which means export this quarter was almost zero?

H.K Agarwal: There was some export.

Bhavin Chheda: But it was a miniscule figure because I was trying to do I have earlier three quarters and I was trying to match with the annual number so I am getting almost NIL VSF exports in Quarter 4?

H.K Agarwal: Quarter 4 also we had I think about 10% exports because in India that time we were suspecting this omicron thing to happen it was happening. So, we wanted to secure our volume, but now more and more volume is going to domestic.

Bhavin Chheda: Quarter 4 as numbers around 10% in volume term was in export in VSF?

H.K Agarwal: Yes.

Bhavin Chheda: And I missed out on the point on the VSF margin pressure you have mentioned this substantial cost increases in pulp, caustic soda, coal and others, so is anything reversed there or price increases have offset because the margins have been substantially down so what should we look at it over next two, three quarters time?

H.K Agarwal: We expect these prices will not continue to go up for all these inputs they cannot continue to go up in one direction all the time and we are also seeing that China prices have started increasing because there is a tremendous pressure on Chinese producers also. So, accordingly international prices will also increase. So, we expect that we will be able to recover more of the cost increase going forward.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference back to Mr. Ashish Adukia for closing comments. Over to you, Sir.

Ashish Adukia: Thanks to everyone for joining and patiently listening to our answers. If there are any further clarification that you may have, you may please reach out to Saket who heads IR for Grasim otherwise to me as well. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Grasim Industries that concludes this conference. Thank you for joining us and you may now disconnect your lines.