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November 15, 2022

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

**Sub: Transcripts of the Earnings Conference Call held on November 7, 2022**

In continuation to our letter dated November 1, 2022, please find enclosed the transcripts of the Earnings Conference Call held on November 7, 2022.

We request you to take the same on record.

Thanking You,

Yours faithfully,

For CHEMPLAST SANMAR LIMITED

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





“Chemplast Sanmar Limited  
Q2 FY2023 Earnings Conference Call”

**November 7, 2022**

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



**Management: Mr. Ramkumar Shankar, Managing Director**

**Mr. N. Muralidharan, Chief Financial Officer**

**Dr. Krishna Kumar Rangachari, Deputy Managing  
Director - Custom Manufactured Chemicals Division**



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*November 07, 2022*

**Moderator:** Ladies and gentlemen, good day and welcome to Chemplast Sanmar Limited's Q2 FY2023 Earnings Conference Call. This conference may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ramkumar Shankar- Managing Director. Thank you and over to you Sir!

**Ramkumar Shankar:** Thank you very much. Good afternoon. On behalf of Chemplast Sanmar Limited, I extend a very warm welcome to everyone joining us on the call today. On this call we are joined by our CFO, Mr. N. Muralidharan, Dr. Krishna Kumar Rangachari, Deputy Managing Director - Custom Manufactured Chemicals Division and SGA, our Investor Relations advisor. I hope you all had an opportunity to go through the financial results and investor presentation, which have been uploaded on the stock exchange website as also on our company's website.

The unique challenges facing the PVC industry continued through this quarter. Our business continued to face headwinds in Q2 FY23 as well due to the zero-COVID policies in China, rising energy costs due to the Russia-Ukraine war and overall inflationary pressures. Slowdown in PVC consuming sectors in China, due to their zero-COVID policies, led to PVC inventory build-up in China and continuous dumping into India. However, with the commencement of proceedings on possible safeguard measures, some reduction in the quantum of imports has been witnessed in the last couple of months. While the conditions have been extremely challenging, the strength of our balance sheet and the portfolio of products that we manufacture, have helped us to fare reasonably well in this very difficult situation. We closed the first half of the fiscal with a flat top-line and a double digit EBITDA margin of 11%, at a consolidated level. While the top-line is flat, what is encouraging is that sale volumes have registered a good increase across products, showing the recovery of demand post the pandemic.

Talking further about business environment and our outlook across product categories, the first half of the fiscal witnessed a sharp drop in Paste and Suspension PVC prices. While feedstock prices, I am talking about EDC and VCM, prices also dropped, albeit with a lag, the benefit of the drop in feedstock prices will however be realized only when the stability is reached on PVC prices. This sharp and continuous fall in prices has had a significant impact on the EBITDA margins, which have dropped to around 11% in H1 FY23 compared to the 19% in the corresponding period last year. The margins are under pressure also due to increase in energy costs which continue to remain high, with coal and natural gas prices on an upward trend. We believe that both Paste PVC and Suspension PVC prices are nearing the bottom and with stability expected towards the end of Q3, we expect to see an upturn from Q4 onwards.



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As mentioned earlier, sale volume of all products witnessed an increase in H1 FY23 compared to the volumes in the corresponding period last year. Based on current trends, the custom manufacturing business is expected to grow at around 30% on the top-line in FY23. Recently, we have signed a Letter of Intent with a global innovator to supply an advanced intermediate for a recently launched active ingredient. To cater to the additional volumes of the custom manufacturing business, we plan to increase the capacity in Phase 1 itself and fast track the expansion. We expect to achieve significant growth in this segment in the coming years.

Overall in H1 FY23, our Specialty Chemicals segment revenue remained more or less at the same level on a year-on-year basis. In the first half, the Other Chemicals business comprising Caustic Soda, Chloromethanes, Hydrogen Peroxide, and Refrigerant Gas, delivered a 61% surge in the revenues led by growth in volumes of all products and a sharp increase in Caustic prices, which have more than doubled on a year-on-year basis during the first half. Demand for Chloromethanes is also steady. There have been a few capacity additions in the country recently which could have a temporary impact on prices. However, we expect the prices to recover and stabilize once the market absorbs the additional quantities. Hydrogen Peroxide demand increased on the back of improved demand from the paper industry. The outlook remains positive with rising prices due to the tightness in natural gas availability impacting supply of Hydrogen Peroxide in the region. On the Suspension PVC front, our revenues were lower by 10% during the first half, largely due to the price drops. Sales volumes were 5% higher in the half year on a year-on-year basis. What is encouraging is that the industry demand for Suspension PVC in H1 was quite strong. It was up 18% on a year-on-year basis. We expect that in 22-23, the industry demand for Suspension PVC resin in India would revert to the pre-pandemic level of 3.3 million metric tones, which would be a 16% increase over FY22.

Moving on to an update on our expansion projects; work is well under way for the additional 41000 tonnes per annum Paste PVC expansion project at Cuddalore. We have already received the required approvals, detailed engineering has been completed and significant progress has been made on procurement. Construction is also progressing well and we expect to commission this as per the schedule in the second half of FY24. The first phase of our multi-purpose Custom Manufacturing block is slated to be completed by Q2 of FY24. We intend to complete the civil work for the entire project in this phase. Effectively, Phase 2 would take much shorter time to commission after completion of Phase 1, as it would not require any additional civil work. With a greater visibility on new products, especially with the order win in this half year, we plan to increase the capacity in Phase 1 itself to provide for incremental volumes.

Now I would request our CFO, Muralidharan, to share the quarterly financial highlights.

**N. Muralidharan:**

Thank you Ramkumar, and a very good afternoon to all the participants on the call. Chemplast Sanmar on a consolidated basis, registered a drop in its revenue and operating profits for Q2 FY23, as compared to the same period in the previous financial year. The revenue from operations for Q2 FY23 stood at Rs. 1194 crores, registering a drop of 29% on year-on-year



basis. This was largely on account of the combination of lower realizations per tonne and drop in volumes for our PVC products.

Sequentially, we did not see any major variations in employee cost and other expenses. However, on a year-on-year basis, other expenses have gone up by almost 27%, primarily on account of higher power and fuel cost. EBITDA for the quarter stood at Rs. 98 crores compared to Rs. 346 crores in the corresponding quarter last year, on account of the reasons I just explained. EBITDA margin for the quarter as a result stood at 8.2%. Finance cost for the quarter has come down to Rs. 40 crores compared to Rs. 149 crores which was a significant change. This is primarily driven by reduction of debt using IPO proceeds and also the reduction in interest rates consequent to the upgrade in rating. Last year Q2 also had one-off impact which was not there in the current year in the interest and finance charges. The PAT for the quarter was at Rs. 39 crores as compared to the PAT of 151 crores in the corresponding quarter last fiscal.

Looking at the half year numbers, Revenue from Operations was flattish at Rs. 2,606 crores as compared to the corresponding period last year. EBITDA for the half year stood at Rs. 293 crores with EBITDA margin at 11.2%. Net profit for H1 FY23 was at Rs. 79 Crores as compared to Rs. 180 Crores in the corresponding period in the previous year.

Coming to the cash flows, the Company generated net cash from operations of around Rs. 300 crores in H1 FY23. We spent Rs. 115 crores for the purchase of property, plant and equipment during H1 FY23, with project capex accounting for significant part of it. As mentioned earlier, to cater to the additional volumes of custom manufacturing business, we plan to advance some of the capacity planned in Phase 2 in Phase 1 itself, which will lead to the project cost from Phase 1 moving up from Rs. 260 crores to Rs. 310 crores. We have tied up the loans for the Paste PVC project and have partially drawn down the loan. We have drawn Rs. 80 crores during this quarter. We are in the process of tying up the debt for the Custom Manufacturing project, which will get tied up in the ensuing quarter. With a healthy cash balance of 1400 Crores we continue to be net cash positive on a consolidated basis. With this I conclude the presentation and open the floor for further discussion.

**Moderator:** Thank you. We will now begin the question and answer session. We have the first question from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

**Sanjesh Jain:** Good afternoon. Thanks Ram and Murali for the opening remarks. I have a few questions sorry I may stretch a little bit here. First on the Custom Manufacturing, at the start of the year we gave a guidance of 15% now we have inched that up to 30% and the 15% was more on the premise that we were running short on the capacity. What is driving this incremental growth because I do not think we have added any more material capacity? So that is number one, number two this new opportunity that we have just disclosed where we have won a long-term contract for advanced intermediate. Can you help us understand, what is the total project size we are looking up for this product, how much incremental revenue will this bring and what is the investment for this particular product? Number three, in general for Custom Manufacturing, it looks like things are working quite well for us, we have increased the capex guidance in the first phase from Rs. 2.6



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bn to Rs. 3.1 bn. Do you think more upside is possible with more effort from the Company to drive that growth and what is really driving the business for us so is that my question?

**Krishna K. Rangachari:** Good afternoon this is Krishna Kumar Rangachari. With respect to the first question on capacity in the existing site, yes we are out of capacity but I have to say that with good chemical engineers in the manufacturing facility we seem to keep finding some way to debottleneck or squeeze or sweat the asset. So the top-line growth is driven by the fact that we are just figuring out to get some incremental volume on the products or the campaigns that we are running now this year so, that is what is going on. On the Letter of Intent, unfortunately we cannot give much details because of confidentiality reasons with the customer but it is a significant development and a milestone, the customer is very bullish on the AI that they have launched, they expect it to be a blockbuster and we think this will have a significant impact in terms of capacity utilization of our new production block. Anything else you want to add Murali on that.

**N. Muralidharan:** This is also adding to our thought process in terms of increasing the capacity in Phase 1 itself as this AI itself will occupy significant part of the Phase 1 capacity expansion that we are doing. So this we believe is a significant win for us. I think this will occupy significant part of Phase 1 of capacity and will add materially to the revenue of the Custom Manufacturing business in the coming years.

**Krishna K. Rangachari:** Your third question was on more upside, should we be doing anything differently. The pipeline that we have is fairly strong as well as quite broad in terms of the number of products that we are working on and as Murali and Ram indicated that is one of the reasons why we are advancing some of the capex investment and we anticipate more investments needed down the road as and when the project materializes. And what is the driving the growth, it is basically the innovator companies in this space are looking for reliable partners outside of China and outside of Europe. China was a big factor since 6-9 months back and with all the issues now going on in Europe they are also realizing that they would need stronger alternate geography to source their materials from. Hence the focus is on India and as they look for partners, there are not that many reliable partners to meet the stringent requirements of the global innovators in terms of health, safety and environment compliance, the strong ethics and value system related to maintaining their intellectual property and companies with a track record of execution and so that is what is driving the growth and pipeline for us in the space.

**N. Muralidharan:** Just to add to what Krishna said, with all these positives and with us putting steel on the ground, showing our intention to put capex, this is actually attracting significant interest from the innovators and that is resulting in a strong pipeline. And to your question whether there is upside to this, we do believe this is an area which has unlimited potential for growth so, we do believe that this is definitely an area for growth in future and we would be looking to fast track growth in this area.

**Sanjesh Jain:** Thanks for that. Krishna just a followup on that, the Letter of Intent thing, is it an innovation patent protected product because you said they expect it to be a blockbuster that I believe it should be a patent protected product right?



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**Krishna K. Rangachari:** Yes, it is a new molecule that the customer recently launched so yes it would be a patent protected product.

**Sanjesh Jain:** So it also means that have we worked on this product before this or we got an entry post commercialization of this product, at what stage we started engaging with the customer?

**Krishna K. Rangachari:** I think in prior calls I have said that the timeline on all these projects is anywhere between 18 to 24 months. This is something we actually started working almost two years back and we have been on a development mode with the customer and parallelly they were going through some registration process and which I think most of it is done from their end. Again this product has already been launched commercially by the customer, so they do have a very limited supply chain for the raw materials and now they are expanding supply chain.

**Sanjesh Jain:** Is there any update on pharma side, are we doing anything or it is actually more on the agrochemical side?

**Krishna K. Rangachari:** Currently we do have intermediates that we are supplying into the pharmaceutical end use. That is also an area of focus for us and we are working on various projects in the pipeline for that. Again as you may be aware, the pharma CDMO is slightly different when compared to agrochemical and requires longer lead times and we need to have much more broader pipeline in terms of the number of projects that we need to work on to get to a commercialization stage but we are working on the pharma side as well.

**Sanjesh Jain:** But we have few products on the CDMO and the pharma side?

**Krishna K. Rangachari:** Yes absolutely. Both now and historically we've always had capabilities, by capabilities I am saying both chemistry as well as the regulatory and the quality assurance and quality control that is required on the pharma side. We have good capabilities.

**Sanjesh Jain:** But we do not have cGMP plant so that will be required at some point of time for us to scale up the pharma?

**Krishna K. Rangachari:** cGMP is required only if you are making the actual API. Two answers to that question; one - what we have now are intermediates which do not require a cGMP type facility. Second is, at the site where we are running this business we still do actually have the capability to make API. So we are very familiar with what the requirements are in terms of cGMP, requirements to make API. It is not new for us if it comes to that but we will do it only if the customers want an API from us.

**Sanjesh Jain:** So on the cyanation side we were very strong right and I thought cyanation had a much more stronger application on the pharma side than agrochemical side. Am I missing anything here?

**Krishna K. Rangachari:** No not really, cyanation is useful in both end markets. We do cyanation for pharma as well today but I am saying we are in the intermediate space, we do not make any API for our customers in



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this space right now. That is what I am trying to say that we have the capability to make API if we need it.

**Sanjesh Jain:** Great. Thanks for all the answers. I do have a lot of question on PVC but I think the operator wants me to come on the queue. I will get back on the queue. Thank you.

**Moderator:** Thank you. We have the next question from the line of Ahmed Madha from Unifi Capital. Please go ahead.

**Ahmed Madha:** Thank you for the opportunity. I like to probe more on this topic of Custom Manufacturing as Sanjesh was discussing. So earlier I think we had Rs. 350 crores or Rs. 340 crores capex plan combined both in Phase 1 and Phase 2. Now that we are doing 300 Crores in the Phase 1, what are our thoughts on the Phase 2 of capex, how should we look at it and what are the timelines for the same?

**N. Muralidharan:** You are right. We are fast tracking the capex and incurring significant part of it in Phase 1 itself. Obviously the Phase 2 is not going to get restricted to the balance 40 Crores or 30 Crores. It will definitely be larger than that and we are evaluating the pipeline and the options and looking at fast tracking Phase 2 as well. We would sort of announce it once we firm up our view on that.

**Ahmed Madha:** Just to understand the Letter of Intent which we have signed. Does this product will form significant portion of the capacity which we are building? How should we look at it, what sort of diversification we will see on product portfolio, can you throw some light on that?

**Krishna K. Rangachari:** We expect in steady state, this particular molecule where we have signed a Letter of Intent, to almost occupy one third of the capacity in the new production block we are building. So, that way it is a significant opportunity and as I explained the customer is very bullish in terms of the demand both for the intermediate as well as the demand for their molecules. So hopefully that gives you a flavor for the magnitude of this.

**Ahmed Madha:** Got it. For one third of the capacity we have already made the commitment. For the balance part, does this mean that we are already in a discussion in advanced stage or it is just that we will put up capacity and then slowly we will work on the product with customers. How does the ramp up look like?

**Krishna K. Rangachari:** As I explained to the previous question, this particular molecule for which we signed the Letter of Intent we have been working for almost two years. So we have a number of such products that are in the pipeline either at similar levels or at different levels of commercialization or qualification. You would have to wait for us to come back to you in the future in terms of how those molecules are moving in the pipeline. So it is not that we will start working today to fill up the balance capacity. We have enough in the pipeline that would ensure that the capacity in the new block is occupied when it gets commissioned.





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**N. Muralidharan:** Like Krishna said there is a strong pipeline and we are parallelly working on commercializing some of them. We have not talked about the individual products and we have talked about this AI because we felt is a significant part of the capacity so we are highlighting it, it does not mean that we are leaving the other capacity unaddressed. We have sufficient pipeline to take care of the other capacity as well that is in various stages of commercialization and is progressing as per plan.

**Ahmed Madha:** Okay it makes sense. So now moving to the other part of Suspension PVC. So if we look at the EBITDA which we have earned and if we sort of adjust it for the inventory loss which we took for Q1 we have virtually earned a negligible EBITDA contribution or whatever we like to put it on the paste PVC and suspension PVC part. So now going forward, as of today, how do the spot spreads look like considering that PVC prices have corrected more than 50%, the raw materials prices also corrected but then there is competition from China and there are a lot of other factors as well? So how do the spot spreads look like and where do we end Q3, Q4 in terms of the spreads which we are talking about in terms of \$250 to \$300 a tonne? How does that look like now?

**Ramkumar Shankar:** It is a very valid question. Actually if you see the PVC prices, they had run up pretty sharply over the last couple of years till about October 2021 and thereafter they had come off a little bit, but the sharp drop in prices really happened from around March or April of this year. And if you see the number and quantum of price drops that have been, from April onwards there have been more than 12 drops in Suspension PVC prices alone and this kind of frequent price drops obviously affects the sentiment. Unfortunately for us this also coincided with the monsoon season which is typically a weak season for demand for Suspension PVC in India. So this was a combination of both that weak seasonal demand and also the fact that pricing sentiments were so negativend that kind of fed on each other. In this kind of a situation where prices keep falling, unless people are absolutely sure that the price drop has stopped, the buying sentiment is also weak and people buy only for their immediate need and not for inventory. Today, across the PVC channel, the inventories are running low and people still continue to buy only for their immediate need because the perception is that while we are close to the bottom we are still not yet completely there. To address your specific question, we believe that, given the cost price dynamics, we are close to the bottom. But it will take may be another month or so for us to see it and therefore by end of Q3, we will have that stability come back. So, Q3 will continue to be a difficult quarter as far as margins and prices are concerned on PVC. Once that stability in prices comes back, and if it comes back as we expect by around December, Q4 should see the results.

**Ahmed Madha:** Can you quantify the spread number, earlier I think you explained the contribution margin per tonne monthly wise. Can you quantify what sort of spread or contribution margin we are running now?

**N. Muralidharan:** Currently the margins are roughly around \$180/mt level. CFR India prices are somewhere around \$825/mt to \$830/mt and VCM CFR Asia is around \$640/mt to \$650/mt level. So roughly the margins are around \$180/mt to \$190/mt level.



**Moderator:** We have the next question from the line of Rajesh Kumar Ravi from HDFC Securities. Please go ahead.

**Rajesh Kumar Ravi:** Sir just follow-up with the previous participant's question. I wanted to understand what is the outlook in terms of the pricing and how is the global dynamics playing out the China factor and what we hear from other players that US prices, demand is weakened and that is having a negative impact on Indian prices in the resin prices. Could you share your thought please?

**Ramkumar Shankar:** Sure. Let me address the demand part first. The demand for PVC in India is actually strong. This first half has seen a 17% year-on-year increase and like I said in the opening remarks, we expect the full-year demand to be back to the pre-pandemic level of 3.3 million tonnes, which is 15% to 17% year-on-year over FY22. Therefore the demand in India is quite strong. It is a fact that demand in, for instance, the US has come-off a bit largely due to higher mortgage rates. But there again, if you see the earnings call of some of the large PVC producers in the US, they are pretty confident that this will come back by the middle of Q1 of their calendar year which is the January-March quarter. The biggest problem has been in China. We have been highlighting this, in fact you would appreciate that, as a company we were the first to highlight this and very transparently recognized an inventory write-down as well in Q1 itself and this is largely due to the zero-COVID policies of China. Around 75% or so of their capacities are in the north-west of the country and 70% of their demand is in the south-east and while all the COVID related lockdowns have been concentrated unfortunately in the south-east of China and therefore their demand for PVC has come down, while the production continues and that is what has led to this entire sharp drop in prices starting from around March or so. We believe that it is getting close to the end in terms of the quantum of the price drops and the frequency of price drops. Largely because, costs will also kick in at this point in time and beyond a certain level prices cannot go down so the Chinese producers may also ease off a bit. So the recovery in demand in China is what will drive the prices up in the future. Now when that will happen is the question and that is dependent on the reversal of zero COVID and the opening up of the Chinese economy. But the stability is expected to come by around December this year.

**Rajesh Kumar Ravi:** Ok. So this Chinese factor, so is this still continues to be a major issue or are things stabilizing in terms of domestic consumption in China?

**Ramkumar Shankar:** The expectation largely was that post the Communist Party Congress that happened recently, zero-COVID policies would be eased off and life as normal would return; but there is still some question mark on that. So it is not very clear at the moment when that would happen. It may happen in a couple of months or it may take a quarter or so. But the economy in China is being badly hit by this and there is some discomfort, to put it mildly, in the society as well there. There is a lot of expectation generally around the world that there could be some easing off, we have to wait and see. One thing that I would like to reiterate is that the medium to long term expectations on the PVC demand supply balances, those continue. So this is something that is very peculiar, one-off kind of a situation. But once this is resolved we still are very bullish on the PVC industry and the fact that the capacities are not going to the extent to which demand is expected to go.



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- Rajesh Kumar Ravi:** Ok. Just a follow up, you mentioned that the first half we are seeing 17% growth in the PVC demand in India. So could you share what is the demand number for FY22 and what sort of number you are looking for FY23 PVC demand in India?
- Ramkumar Shankar:** FY22 was 2.83 million and we expect that this will go to 3.3 million in FY23.
- Rajesh Kumar Ravi:** Okay, in FY21 how much was this number?
- Ramkumar Shankar:** In FY21 it was 2.76 million.
- Rajesh Kumar Ravi:** Okay great Sir. Wishing you all the best. Thank you.
- Moderator:** Thank you. We have the next question from the line of Yogesh Tiwari from Arihant Capital Markets. Please go ahead.
- Yogesh Tiwari:** The first question is on the Chinese imports for PVC - if you can quantify what would be the monthly run rate for Chinese imports in Q2 versus that in October?
- Ramkumar Shankar:** Actually, October numbers have not yet been received because we depend on officially released data. But if you look at last few months of imports from China, in April we received something like 67,000 tonnes from China, in May India received 90,000 tonnes, in June it was 98,000 tonnes, in July it was 76,000 and then in August and September they have fallen-off to 32000 and 20000. This is largely to do with commencement of safeguard measures investigation by the government based on representation by the industry, that is an ongoing process. So, there is some drop off in the imports from China.
- Yogesh Tiwari:** Thank you Sir and the other question is on other chemicals. So it looks like that realization in other Chemicals has declined on a quarter-on-quarter basis. So if you can help us understand what product it is basically chloromethanes, caustic soda, which product is actually giving the difference?
- Ramkumar Shankar:** Chloromethanes, from around Rs. 60000/mt, I think it is currently around Rs. 52000/mt. None of these have really gone down significantly. Caustic soda has again hovered at around Rs 52000 to 56000 per tonne and in fact in October again it is back at Rs.56000 a tonne. The rest of it is pretty much stable may be give or take another Rs.2000/mt here or there, but they are more or less stable in the other chemicals.
- Yogesh Tiwari:** Sure Sir. Lastly, on the other chemicals, there has been an increase in volumes on a quarter-on-quarter basis about 10%. What would be the drivers for it for volume increase?
- N. Muralidharan:** Caustic volume has gone up this quarter compared to the previous quarter.



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- Yogesh Tiwari:** Okay sure and one question if I can just come in, for specialty chemicals Q2 seems to be very strong quarter like 20000 tonnes last year also and this year also. So is there any seasonality in specialty chemicals for Q2?
- Ramkumar Shankar:** Not so much. Actually Paste PVC does not have the kind of seasonality that Suspension PVC has. This is pretty normal. We have pretty much round the clock kind of sales for Paste PVC.
- Yogesh Tiwari:** Okay because Q1 we had about 14000 tonnes in specialty.
- Ramkumar Shankar:** That was because some stock was built-up and part of it has been liquidated in Q2.
- N. Muralidharan:** So in Q1, like Ram was also explaining earlier, when the prices were falling, people were holding the purchases to some extent; which resulted in lower volumes in Q1. Otherwise generally, unlike Suspension PVC, we do not have so much of seasonality in Paste PVC.
- Yogesh Tiwari:** Thank you Sir. That is all from my side.
- Moderator:** Thank you. We have the next question from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Sir with this volatility in the PVC prices, how will this impact your decision making process for the next round of capex? Because we have been interacting since past one year now, the scenario and the commentary by the management was much different and we were expecting a global demand supply mismatch to sustain for a long time and there was lot of positivity around the PVC demand supply. And now we are at this juncture, so how will this impact the next expansion in the PVC?
- Ramkumar Shankar:** As I said just a little while back, we continue to be bullish on the medium to long term prospects of PVC. The demand-supply structure of the industry has not changed at all. What has happened over the last few months is really the one-off event revolving around COVID and if suddenly you find a country which accounts for around 40% of the global capacity, their demand drops-off suddenly and then they start exporting to the rest of the world. Obviously that will have an impact on prices around the world. It is not just in India, prices have been affected around the world. But this is not something that is expected to continue. China's demand will come back, their economy will come back once the zero-COVID measures are eased. And when that happens, we believe that the situation that we have spoken about in the past will continue to re-assert itself. So PVC demand will grow faster than PVC supply will and that will lead to a tightening of the capacity for PVC. This will play itself out, I do not think we should let the immediate short-term, change the views on the medium to long term.
- Dhaval Shah:** Ok. About the next level expansion in the Suspension PVC business, by when can we expect, is there any decision on the same?



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- Ramkumar Shankar:** I have always been saying we do not have any final decision, we have not made any decision on expansion of Suspension PVC. We have focused on expanding our specialty businesses which is why you are seeing the fast tracking of the expansions on Custom Manufacturing business as also the expansion of our Paste PVC business. We are already well into our projects on both of those and we are on track to commission those. Suspension PVC, we do not have any investment plan as of now.
- Dhaval Shah:** Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** Hi Sir thanks for the opportunity. Couple of questions. First is on PVC I presume there has been some safeguard duty which has been proposed. Can you please highlight at what stage of process the government is in and if there has been industry representation on the quantum of duties, if you could please highlight? That is the first question.
- Ramkumar Shankar:** So we are not really looking at a safeguard duty as such. As an industry, what we have asked for are safeguard measures. It could be quantitative measures or quantitative restrictions and this is largely to do with the quality of the product that is coming into India. As a country, since we need PVC to be imported, it is not that we are saying there should be no import, we are only saying that low quality product should not be imported into India. This is being taken cognizance of and the government has started its investigation and its due process. It is too early for us to talk about where it is and when it will fructify if at all and all of that.
- Ritesh Shah:** Sir this is only for PVC right and Sir when we say quality can you explain simplistically how should one look at for K63 or any other grade of resin K67?
- Ramkumar Shankar:** It is basically to do with residual VCM present in the product. So we are talking about any product in excess of 2 ppm of residual VCM, there should be quantitative restrictions. Because all of what is produced within India is well below that and that really is the entire basis of this measure.
- Ritesh Shah:** Perfect that is very helpful. Sir my second question if you could please highlight what the PVC prices are in South-east Asia or China right now and if you could provide some clarity on the duty structure. Are the current duties at around 11% if the imports are from China and there was an adhoc number of around \$147 which I think was taken off in early Feb or mid Feb. So just wanted to understand the import parity math on resin?
- Ramkumar Shankar:** Prices in China are around \$780/mt. For instance, a Taiwanese producer when he quoted \$830 per tonne to India, they had quoted \$780 per tonne to China. As far as duties are concerned, there are today no antidumping duties on PVC. The only duty is the basic customs duty of 7.5% which will effectively be 8.25%, 7.5% is the basic customs duty.



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- Ritesh Shah:** Okay and Sir how much will be the freight from China to India if one has to assume on import parity basis. If I have to calculate for one tonne of PVC so \$780, 7.5% you indicated 8.2% and what is the freight should one assume \$100, \$150 to \$200 what should that number be?
- Ramkumar Shankar:** Today's freight, because of the very muted level at which the Chinese economy is operating and the fact that there is not much of cargo moving in or out of China, it is only around \$40 a tonne. But once that economy comes back into full operation, I presume that this could go up.
- Ritesh Shah:** Sir if I just put in the numbers what you have indicated \$780, 8.2% duty, \$40 of freight, it essentially implies on import parity basis landed price should be at Rs.70 to 73. This looks pretty far from where the current PVC resin prices are. Does it imply that there is far more downside?
- Ramkumar Shankar:** This is the point I was saying, in fact after September, in October also there have been a couple of price drops. So we were talking about the current position, the current price levels that we see in the market. Which is why I said that Q3 will be challenging again and once the price stability is reached by the end of Q3, that you will start seeing the recovery and reversal in terms of margins.
- Ritesh Shah:** Sure perfect Sir, thank you so much for the answers.
- Moderator:** Thank you. We have the next question from the line of Rohit Nagraj from Centrum Broking. Please go ahead.
- Rohit Nagraj:** Thanks for the opportunity. Sir first question is on the Custom Manufacturing - so till last quarter we had indicated that Phase 1 will be commissioned in Q1 FY24 and now we saying Q2. So this is purely because there has been a revision in terms of the capex or are there any other delays because of which it has been postponed by a quarter or so?
- N. Muralidharan:** Rohit, we had indicated it will be commissioned by H1 of FY24 and it still holds. Even with the increased volumes that we are looking at we will still commission it by H1 of FY24, there is no change in the plan.
- Rohit Nagraj:** So on the Custom Manufacturing front, in terms of product pipeline, the product commercialization scheduled over the next 2 to 3 years and generally how much time does it take from enquiry to commercialization?
- Krishna K. Rangachari:** So typically, it takes anywhere from 20-24 months from enquiry to commercialization and as we have indicated in the past, we have a number of products at various stages of commercialization. And we will keep giving you an update as and when each of these get closer to commercialization, just like we have announced on Friday regarding signing a Letter of Intent for one of the projects going on. All I can say is that, the pipeline is very healthy and moving forward at fairly quick pace with respect to qualification and commercialization.



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**N. Muralidharan:** The fact that we are advancing part of the capex from phase 2 to phase 1, obviously it is due to the fact that the pipeline is healthy and we are looking at capacity for additional volume. So that demonstrates our confidence in terms of our pipeline and the pace of commercialization.

**Rohit Nagraj:** Right got it. Sir just one last question if I may have. In terms of cash balance on our balance sheet we currently have a strong balance sheet, so are there any plans of going in for any inorganic initiatives coupled with whatever capex is that currently are ongoing on organic basis? Thank you.

**N. Muralidharan:** As far as usage of cash is concerned, broadly if you look at the cash, we are carrying around Rs. 1400 crores of cash by September end. Of that, almost Rs. 850 crores is with the subsidiary which is CCVL and 550 Crores is in the holding company. We have already committed projects for value around Rs. 750 crores which requires equity funding of around Rs. 300 crores. So there is some surplus left, we would like to keep some buffer with us but at the same time we are also looking at number of growth opportunities, specifically on the specialty side. If you ask us anything specific inorganic, we do not have anything to say today in terms of inorganic that we want to do. At the same time, we are a company we have grown over time through organic as well as inorganic means, so we can never say never. So broadly yes you are right, we are sitting on significant cash but large part of the cash is with subsidiary. Holding company is already deploying cash in specialty growth and we are more focused on growing the specialty business primarily on the Custom Manufacturing side. And as far as other opportunities, as they emerge, certainly we would like to look at capitalizing on them if we believe there is synergy and growth in those opportunities.

**Rohit Nagraj:** Got it. Thank you for answering all the questions and best of luck.

**Moderator:** Thank you. We have the next question from the line of Krishnakumar Srinivasan from Lion Hill Capital. Please go ahead.

**Krishnakumar S:** Good afternoon Ramkumar. You just mentioned few things in terms of overall long-term demand situation and also China opening-up. Considering medium to long term outlook and the cash that you have, would it be prudent to kind of stock up on the materials and probably build that stock which can be used up going forward when the demand recovers sharply in the market. What would be your policy on such thoughts?

**Ramkumar Shankar:** Thanks KK for the question. It would be difficult for us to build-up stock and it may not be so prudent to do that as well, because especially in the immediate short-term with the prices falling, any additional stock that we have will hurt us in terms of inventory losses. But even otherwise, the policy that we have built up over many years of experience is that we operate with wafer thin stocks on finished products. We normally have only around 4 or 5 days of production as inventory and in terms of feedstock as well we buy it with a very tightly controlled supply chain and the tankages determine the kind of stocks that we can have. So there is not much leeway there in terms of feedstock as well.



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- Krishnakumar S:** Thank you and all the best for the future.
- Moderator:** Thank you. We have the next question from the line of Nitin Tiwari from YES Securities. Please go ahead.
- Nitin Tiwari:** Hi Sir thanks for the opportunity. Most of my questions are answered, you mentioned during your presentation and afterwards that in the longer run still see that fundamentals for PVC market are intact in terms of demand and supply. So how do you see this evolving in terms of the capacity expansion that have been announced by your competitors and some of them are pretty large ones. So correct me if I am wrong we have currently 1.5 million tonne of production capacity in India whereas the announced production capacity over next 2 years is almost 3 million tonnes. So we would practically be reaching about 4 to 4.5 by the end of 2 or 3 years, then how do you see the pricing and the demand supply dynamics shaping up once this pans out?
- Ramkumar Shankar:** The current demand for Suspension PVC in India is around 3.3 million tonnes, that is what we expect it to be by the end of this financial year and the current capacity is around 1.5 million tonnes. In 4 years' time, this demand is expected to go to anywhere between 4.5 to 5 million tonnes. And the expansions that have been announced, they will come in phases, they will not all come together, and they may take 3 to 4 years. We need to see how many of these projects - which one will come when. So even assuming that all of them come together by say 2026 or 2027 is when all the capacities, all the phases in full will come in, we will still be short in the country by a million tonnes or so. So I do not believe that there is anything to worry about in terms of demand-supply within the country because PVC is really growing well. In fact it is very underserved within India, our per capita consumption is hardly 2.5 kilos, as compared to may be South-East Asia is 4.5 to 6 kg, China is well about 12 and the rest of the developed world will may be around 16 to 20. So there is a lot of scope for demand for PVC in India to grow. Today it is constrained by lack of availability. When more capacity comes, we believe that the demand will go even faster. So we do not foresee any threat because of this new capacity. We in fact welcome this.
- Nitin Tiwari:** Thanks for that explanation. The reason I asked again correct me if I am wrong we are oversupplied as far as PVC capacity is concerned so far the dynamics within India was such that there was under capacity. Do you believe that there could be any pricing pressure going ahead given that now India would also be reaching almost at our capacity as far as making at least near term demand is concerned with these capacities coming in. So of course I understand that they will be come up in phases but as these capacities keep coming they will be like closing the demand supply gap that exist so do you think that it has the potential to put pressure on pricing in anyway?
- Ramkumar Shankar:** So that is what I was trying to explain. Basically as these capacities come on in phases, you would on the other side see the demand also going up every year. So by the time these capacities are finally in, you would have the demand having gone up to may be 4.5 or 5 million tonnes and that could result in the gap between the demand and supply still at a very healthy million tonnes that is, demand will be in excess of supply. So we do not believe that the situation in India is





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going to get tight in terms of availability so long as the normal demand pattern continues. We are confident that it will continue for all the reasons that I said - one is the per capita consumption being low and the fact that there is still so much space for PVC consumption to grow in India, the fact that in irrigation less than 50% of the net crop sown area in India still are non-irrigated, less than 50% is irrigated more than 50% is still non-irrigated and dependent on the vagaries of the monsoon and that is something that gives a huge opportunity for PVC pipes. And then in the non-agri sector as well, with so many new houses, the government driven housing programme, the smart city programme and all of that, you would find a lot of PVC consumption being required. And of course for drinking water, the Nal Se Jal programme even for that there is a lot of pipes that would be needed. So all of these programmes from the micro level and from the macro level we are talking about the per capita consumption, there is enough confidence being generated that the PVC demand would continue to out-strip PVC supply within the country even with all these new capacities.

**Nitin Tiwari:** Thanks for that clarification.

**Moderator:** Thank you. We have the next question from the line of Ranjit from IIFL Securities. Please go ahead.

**Ranjit:** Hi Sir, thanks for this opportunity. Sir I have two questions - firstly from the balance sheet front so we have net cash at the same time we also have a sizeable debt on the balance sheet and I believe that the cash and the large portion of the debt is sitting in the CCVL. So just wanted to understand the thoughts behind carrying these debt on the balance sheet. Do we intend to pay this off, what is the thought process? And also about the cash that is lying what is the policy of deployment - we do it in the debt or the mutual funds? That is the first part. Thank you.

**N Muralidharan:** As far as the debt that we carry in the balance sheet, we do believe that debt is an integral part of capital structure. So, we would like to retain the debt and pay it over a period of time as it matures. As far as the cash in the balance sheet is concerned, like I explained earlier as well, we have Rs. 1400 crores of cash out of which Rs. 550 crores is in the holding company and Rs. 850 crores is in the subsidiary and we do not deploy in mutual funds; we will deploy only in bank deposits.

**Ranjit:** What is the repayment schedule of that particular debt on the balance sheet?

**N Muralidharan:** It has three components; the significant part of the debt runs till 2030, there is one small Rs. 150 crores which get repaid in another 4 years' time.

**Ranjit:** Thank you and the second on the CSM front so all the capital that is we are deploying is going to generate revenue there is also an element of backward integration into that?

**N Muralidharan:** This is basically Custom Manufacturing business. It is primarily revenue generating capex. We are adding capacity mainly to take care of the pipeline of products that we have and the incremental volume of orders that we have.



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**Ranjit:** Thank you Sir.

**Moderator:** Thank you. Due to time constraint that was the last question. I would now like to hand over to the management for closing comments.

**Ramkumar Shankar:** Thank you everyone for joining us today on this earnings call. We appreciate your interest in our company and if you have any further queries, please do not hesitate to contact SGA, our Investor Relations advisor. Thank you very much and have a pleasant evening.

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