# "GHCL Limited
# Q1 FY2022 Earnings Conference Call"

## July 29, 2021

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**Moderator**: Ladies and gentlemen, welcome to the Q1 FY2022 Results Call of GHCL Limited hosted by Emkay Global Financial Services. We have with us today, Mr. R S Jalan - Managing Director and Mr. Raman Chopra - CFO & Executive Director (Finance). As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rohit Nagraj of Emkay Global. Thank you, and over to you, Sir!

**Rohit Nagraj**: Thanks Faizan. Good evening everyone. I hope everyone is keeping safe and healthy. I would like to take this opportunity to welcome the GHCL senior management team and thank them for giving us this opportunity. I shall now hand over the call to the management for their opening remarks. Over to you, Sir! Thank you !

**R S Jalan**: Thank you Rohit. Good evening everyone and the warm welcome on today's earning call for Q1 FY2022. Raman our CFO along with Manu and Abhishek from the finance team are accompanying me for this call. The analyst presentation has been uploaded on the stock exchange and company website. I hope you had a chance to download and go through the same. I hope that you and your loved ones are safe. During the quarter ended June 2021, second wave of COVID hit the nation and spread of infection was very fast. Unlike the initial wave where a national lock down was imposed, this time the business restrictions were in place, as a result the adverse impact on the Indian economy was less severe. The ongoing vaccination drive should help contain the spread of COVID-19 infection in future.

At GHCL, safety of our employee is our key priority. More than 94% of our employees and contract laborer have been vaccinated till date. We are providing financial assistance to all our contract labors and the employees who have lost their loved ones due to COVID-19 pandemic. Let me now share the business update. Global demand for soda ash has recovered, though it was slightly impacted by the reoccurrence of COVID cases in a few regions, cost has increased due to higher energy prices and supply chain disruptions. As a result soda ash manufacturers have also increased their prices. Due to these factors, import of soda ash into India has reduced. Domestic demand for soda ash has recovered well. Despite some disruption due to COVID second wave, flat glass continues to remain strong due to demand from construction and solar glass segment, the recovery in container glass is slow due to subdued activities in the hospitality and tourism sector.

The detergent industry was impacted in April and May, but is now operating at pre-COVID level. Increase in raw material and energy prices have adversely impacted our margin, however, this was partially offset by price increase effective from June. We have undertaken another price increase in the month of July, with the good demand scenario and lack of new capacity addition in near future we expect prices to remain firm going forward. Home textile industry continue to see strong demand from various markets including US, however, we are cautiously optimistic of this increased demand scenario as it may taper down at some time in future.

Also we expect that the current margin could moderate with the arrival of fresh,Indian government has now approved the continuation of RoSCTL till March 2024 with former rates. In the spinning business, yarn demand continues to be strong. As a result higher prices are getting absorbed in the market. We are able to successfully execute our strategy and change the mix towards value added segment. The process of de-merger is on track. On 8th of July the secured creditors has approved the scheme of de-merger. De-merger is now expected to conclude by December 2021.

I am proud to share that GHCL has been certified as a great place to work for a fifth year in a row, also GHCL inorganic chemical division was recognized with a gold award for its manufacturing competitiveness by International Research Institute for Manufacturing, India. Further CARE has upgraded our long term credit rating to AA minus. At GHCL we are committed to our stakeholders and believe in long term sustainable and profitable growth. I would now request Raman to share the financial performance.

**Raman Chopra**: Good evening and a warm welcome to all of you in our quarter one earning call for FY2022. I hope all of you are well. I will share the financial highlights for the quarter ended 30th June 2021 and also discuss the segmental performance. There was some disruption in this quarter due to COVID pandemic. However, our business is operating with normalcy now. Revenue for Q1 FY2022 came in at 854 Crores as compared to 440 Crores in the corresponding quarter of last year. On a sequential basis, the revenue increased by 4% from Rs.821 Crores in Q4 FY2021. EBITDA for the quarter stood at 189 Crores, which is significant increase from Rs.84 Crores from last year and declined by around 3% from 195 Crores achieved in Q4 FY2021. This is mainly due to increase in energy cost and the raw material cost.

This represents an EBITDA margin of around 22.1% for the current quarter as compared to 19.1% from last year and 23.8% in Q4 FY2021. The profit after tax for the quarter stood at 101 Crores compared to 17 Crores last year and 104 Crores in the previous quarter. I will now share the segmental results. In the inorganic chemical segment we have reported revenue of 527 Crores during the quarter, which is substantially higher than Rs.346 Crores in the corresponding quarter of the last year. From quarter four, revenue declined by around 1% from 531 Crores due to lower sales volume, but slightly better realization. EBITDA for the quarter stood at 112 Crores as compared to 80 Crores in the same quarter of the previous year and 142 Crores of Q4 of the last year.

This decline in EBITDA compared to Q4 of the last year has largely been on account of cost increases in energy as well as salt cost increase during the quarter, which resulted in lower margin. We have taken two price increases in the month of June and July, the benefit of these hikes will be realized in the coming months. The performance of our textile division has been very robust. Revenue for the current quarter stood at 327 Crores compared to 94 Crores in the corresponding quarter of the last year. On a sequential basis, revenue increased by 13% from 290 Crores. EBITDA for Q1 came at 77 Crores, which is a substantial increase from Rs.4 Crores in the same quarter of last year, also EBITDA increased by 44% from 53 Crores achieved in Q4 of FY2021. This translates into an EBITDA margin of 23.5% for the quarter versus 18.4% achieved in Q4 of last year. This robust performance is across both home textile as well as spinning business.

Despite the disruption in quarter due to COVID related restrictions in the month of April and May, we generated a cash profit of 135 Crores. As on June 30, 2021, our net debt equity stands at around 0.3:1 and net debt EBITDA is 1:1. As mentioned by our Managing Director, long-term credit rating has been upgraded to AA minus, so we are now in a AA bracket. Previously our rating was A plus. This upgrade represents the strength of our balance sheet and will further help us to reduce our finance cost. With this I conclude my comments and now request the moderator to open the forum for question and answers. Thank you.

**Moderator**: Thank you very much. We will now begin the question and answer session. The first question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

**Riddhesh Gandhi**: Sir, congratulations on your numbers. If you could just run us through the dynamics, which we are seeing in the soda ash market in terms of demand, supply and pricing?

**R S Jalan**: Riddhesh Ji, good evening and thank you for your appreciation. My understanding about soda ash is that the cycle of soda ash is now on the upside because of a couple of reasons, one the overall demand globally has been very robust, any part of the world China, US, Europe everywhere the demands are very robust, frankly speaking in China now they have reduced their exports to great extent and now there is a possibility of the import happening to China, so overall the way I look at the scenario of demand supply whereas on the other side on the supply side, last two years there was not much new addition of the supply has come in and because of this demand supply, the scenario will be better going forward. Second the international trade also will get some restrictions because of the supply chain costs has been significantly higher and even availability of the supply chainalso somewhere got impacted so that also had benefits to the local producers in that same country, of course on the other side, the cost of all the commodities, coal prices, your coke prices if you see again energy has been significantly internationally higher and that will also have an impact on overall I would say the cost. In India probably the salt prices are also on the rise because this year because of the unseasonal rain across India, the salt production is also on the lower side so that will also push the prices of the salt in India. Overall, costs are significantly going up, but on the other side my understanding like you have seen two price increase has already been taken, I see that the trend of price going upwards will continue.

**Riddhesh Gandhi**: Got it. Net net, you are keeping into account of the price increases and RM pressure as well, do we expect to see some sort of expansion in EBITDA actually spreads?

**R S Jalan**: Honestly, the volatility in the raw material prices are so high like I can clearly visibly see the uptrend in the prices of the final product, but on the volatility of the raw material, particularly the energy prices are really making it difficult for us to get how the scenario will look like, but yes, the current scenario if I look at maybe in the Q1 or Q2 we will talk about the next quarter or quarter later probably some improvement in the margins should be seen.

**Riddhesh Gandhi**: Got it, understood and the other question was with regards to you guys have a large amount of spinning, we are also hearing from a lot of players the spinning is at record spread you know is that something which we are also experiencing and if you could explain to us whether you see this continuing actually for the next few quarters?

**R S Jalan**: No, you are right on one side that the current scenario of the spinning is very buoyant, the margins are really very good in the spinning, particularly primarily because of the very high demand of the yarn and some of the mills had got an advantage of the lower cotton prices because that has been covered during the period when the prices of the cotton were low and we were part of one of them. Overall the demand of the spinning will continue to be good my understanding, however, my understanding is spinning margins, they will not be able to achieve a similar margin what you have right now, there will be some reduction in the margin because the new crop, not Indian crop including the global crop, all the crops or all the cotton, the prices has significantly gone up so because of this two scenario, but margin will be still very healthy in the spinning going forward. I just saw a report, a Chinese report, by this report I can say that there will be a lot of buoyancy in the yarn market going forward as well.

**Riddhesh Gandhi**: Got it and just the last question is with regards to effectively is there any update on actually the growth areas that you had indicated that you guys were looking at?

**R S Jalan**: All we know that a couple of things which we are looking at, first of all sodium bicarbonate, I just want to give an update on the sodium bicarbonate, one good news is that one of the consumer of sodium bicarbonate for the flu gas treatment has started using small amount of sodium bicarbonate for the flu gas, so that will give a good opportunity for sodium bicarbonate consumption going up significantly. We have already decided and the project is already under discussion of expanding our sodium bicarbonate to double the capacity from here that is number one. Second, I want to update the investors on our Greenfield project. As I have been mentioning in the past, the land acquisition was in the process, now finally we have submitted the application to the Government of Gujarat for getting these lands to registered in our name and we have filed the application for the Greenfield environmental clearances that means in summary I can say that we have started the Greenfield activity aggressively and so that is the second thing that also will bring the growth going forward. As you all know the spinning we have already taken a project of 40000 spindles, which is approximately around 200 Crores plus the wind energy of solar power that is also on track and that will get completed by this year end, so that in next year you will see almost around 40000 means we are talking about 20% of our spinning capacity will go up next year, so overall you will see a good growth next year in the textile in terms of the volume and sodium bicarbonate of course it will take some time by July 2022 probably the sodium bicarbonate expansion will get completed and Greenfield like I said, Greenfield project is on track. Now, coming to the expansion of the market of the product we are still in the process, we have engaged a lot of experts on this area, we are really carefully analyzing various opportunities and as soon as we clear that which segment we should be going because we are looking at something for a long-term perspective, we do not want to take any decision on a hurry, so we are seeing many opportunities and based on that we will come back to you as soon as we decide which area of the product basket expansion we are going.

**Riddhesh Gandhi**: Thank you, Sir. That is extremely helpful. I will join back in the queue. Thank you and all the best.

**R S Jalan**: Thank You.

**Moderator**: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

**Kaushal Shah**: Thank you very much, Sir and congratulations on very good numbers. Sir, if you can share the average realization that we are selling for soda ash just now because you mentioned that we taken a price increase in June and July, so, our realizations are now above 18000 or 20000 now?

**R S Jalan**: First of all, the price as compared to the last quarter, the price has gone up at approximately around 2%, but as I mentioned to you that the prince increase has been taken only in the middle of June in a way you can say. So all this impact of the first price increase and the second price increase all will be seen in this quarter of course as you know some of the contracts on an annual basis, some of the contracts are quarterly basis, the full benefit of this probably will take some time, but improvement in the realization because broadly we have taken around 12% of the price increase overall so probablly in the next one or two quarter you will see the price increase will give an advantage of around 10% to 12% of the price increase.

**Kaushal Shah**: Sure, and you mentioned about the strong demand in soda ash and you also specifically mentioned about flat glass, but if you can also throw some more light on that particular segment, also I think we had applied for ADD on Russia and Iran, so any update on that?

**R S Jalan**: Yes, first of all on the ADD on Russia and Iran is I would say under investigation of DGAT and so far as you spoke about the demand, see like everybody knows flat glass there is significant improvement overall in the demand of flat glass one of the reason is that a lot of competition which was coming from the import we got antidumping duty imposed on Malaysia, the demand of the flat glass domestic players demand has gone up significantly. Number 2, overall, the demand in the construction and automobile has also been quite good, so there the demands are much better than the pre-COVID level also if I can say so. Detergent because of some seasonal impact and the COVID impact in the first quarter and maybe some impact will be there in this quarter because generally the detergent demand is the rainy season is slightly on the lower side, but you can say the detergent demands are more or less it has come back to the pre-COVID level. I will just give you one data, we have just done a comparison of 2019-2020 first quarter which you can say normal pre-COVID level versus quarter of 2021-2022, the demand is down by only 3% and this 3% you can say because of the COVID also from May, second wave all those things so keeping that in mind I would say that more or less the pre-COVID level situation had come whereas on the other side, the imports have significantly gone down, the material coming from all across the globe has significantly come down.

**Kaushal Shah**: Sir, can you put a number to that because I think in the last call you had shared that there was I think 25% drop in the entire last year in imports, so specifically for first quarter, so would you have some number meaning what was the absolute volume tonne drop or maybe percentage drop in imports?

**R S Jalan**: Broadly if you look at the drop is around 38% as compared to the first quarter of last year, which was almost around in Q1 2020 was approximately around 113000 was import, the import has gone up from 113 to 157 in Q1 versus Q1 to 122.Sorry, I said wrongly. 113000 was the number in Q1 2021, in this quarter the import is around 157000, so the number has gone up at 38%, however, as you know in Q1 2021, there was a complete lock down therefore the comparison is not the right comparison we are not making any comparison of any of our performance with the Q1 FY2021, if you look at Q4 2021, also if I can give you a total number of FY2019, the total FY2020, the total import were 936000, in Q1 FY2021, the total import was only 710000 there is the reduction of roughly around 225000 tonnes of import in FY2020 versus FY2021, which is around 22%, however, this year this figure will be further lower, it will be in the range of around 600000 tonnes.

**Kaushal Shah**: So that means so we would have also gained market share or we are hoping to maintain a higher market share?

**R S Jalan**: Yes, obviously that benefit will go to the domestic industry.

**Kaushal Shah**: Right. Sir, some final thoughts on you mentioned about spinning, but on the textile front home textiles, how is the demand, environment we are already I think have already started shipping for the festive season so how is the demand and how do you see the outlook for the next let us say four quarters?

**R S Jalan**: See, in the home textiles, the demand is really good and let me tell you in terms of our run rate has significantly gone up, our run rate as compared to the March 2021, our export percentage terms has gone up at 30% that is number one and we see that this trend should continue, the trend of run rate should continue. Home textiles, of course there will be some pressure on the margins like I said because of the cotton prices going up and that is only purely home textile, not the spinning and the buyers the way they will be giving the increase in the pricing of course the entire industry had approached the customers for increasing the prices to what extent they get probably that will be seen, but some margin drop in the home textile business should be seen my understanding of course on the other side government had given that benefit of RoSTL to some extent that competitiveness will do, there is another view which is likely to happen, Europe is looking at the preferencial treatment to Pakistan to be removed, if that happens probably that will create another window of growth opportunity for the home textile.

**Moderator**: Thank you. We will take the next question from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

**Resham Jain**: Good evening, Sir. So, I have a couple of questions, first is on the sodium bicarbonate side that we are doubling up our capacity, what is the capex which we are looking for in this year FY2022?

**R S Jalan**: It will be around 50 Crores, which is not very significant in terms of the overall production will go up by something around 60000 to 70000 tonnes and the cost will be roughly around 50 Crores.

**Resham Jain**: And you also mentioned about 200 Crores capex from the spinning side, 40000 spindles, so what will be the rough economics in terms of this projects and what kind of revenue margins are we looking for?

**R S Jalan**: As you know that overall if I look at slightly longer term because for any new project you should be looking at not the immediate margins, the immediate margins are very high, but if I look at this longer terms of around five years probably you can assume around 15% of margins because we have been consistently getting on an average of around 15% to 17% margin on our spinning business, I am assuming that 16% to 17% margins will be there.

**Resham Jain**: And the top line in the current price?

**R S Jalan**: Top line broadly it depends, I would say 1:1, we are putting 200 Crores you assume your topline will be 200 Crores broadly.

**Resham Jain**: And what kind of yarn are we going to manufacture with the incremental investment because the per spindle cost is roughly around Rs.50000, which seems to be slightly higher given that it must be in the same premises, so if you can just give some colour on what kind yarn are you going to make with this incremental addition?

**R S Jalan**: See, primarily this would be all value added yarn and that too also on the synthetic side and we are making four verticals into that so that value added yarn on a smaller lock can also be produced in that.

**Resham Jain**: So, this is all synthetic is it?

**R S Jalan**: Synthetic, cotton, synthetic mix, Milan yarn, synthetic yarn, polyester cotton yarn, all those kind of value added yarn and let me also clarify one thing in terms of the per spindle cost is entirely different from the yarn what you produce, if you are producing a fine count your preparatory requirement is very significantly lower and your per spindle cost will go down very significantly, but if you are going for a coarser count the per spindle cost will be higher that also depends on what kind of a technology we are using for producing that, for that if you are using compacts those kind of things are also important, so my understanding this 50000 per spindle cost is a very reasonable cost for the kind of a 30 to 35 average count which we are planning for this.

**Raman Chopra**: Actually, cost is 47500 and this includes GST?

**R S Jalan**: Raman has just clarified this 47500 is a precise cost per spindle and this includes the GST also, we have not taken the benefit of the GST refund.

**Resham Jain**: Because if we just do a rough calculation the working capital requirement also will be there in this project and we think 15% to 17% kind of margin the return ratios post which comes to around 10% to 12% only, so I was not able to get the economics coming out of this project because the 200 Crores capex and then there will be working capital requirements and if we take 15% to 17% margin on that the IRR comes to around 10%-11% only, as per what IRR you are looking for projects?

**R S Jalan**: Like you rightly said IRR will be definitely be lower than the 15% to 17%, but the way our company is going on a value added segment like I have given you this number of 15% to 17% on our last five to seven years of experience, so probably this 15% to 17% could also be on the higher side, the spinning industry is always just likely volatile as you all know okay, but the growth is also very important and my capital cost at this point of time if you look at a return on equity on this investment will be very, very good, so keeping that into mind and spinning the way we look at structurally there is an advantage so I think investment into the spinning and based on our experience in the past I think investment into the spinning always makes a lot of logical sense.

**Resham Jain**: Thank you. I will understand from you offline. Thank you and all the best.

**Moderator**: Thank you. The next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.

**S Ramesh**: Good evening and thank you very much. Is it possible for you to give us the percentage share of soda ash consumption from automobiles consumption and detergent consumption in the first quarter of this year?

**R S Jalan**: At this point of time, I told this no data for this quarter so probably we can share with you later on.

**S Ramesh**: So, broadly where do you see the growth coming from would it be equally linked between auto construction and detergents given that these three sectors have different dynamics both in terms of covid impact and going forward assuming the COVID goes away, construction still has some structural issues, so in the next 4 to 8 quarters where do you see that growth coming from if you were to rank the three sectors, where do you see the growth come?

**R S Jalan**: There are two to three things, one like I said flat glass we clearly see a growth, we also see a growth into the container glass because now a lot of priority has been given on the packaging side on the glass based packaging we see a lot of growth in the container glass also, we also see a growth in the detergent also because detergent as you know the hygiene has become more important, so that will also rise to the consumption of detergent so all across we see a growth in the demand, second like I said supply chain, the major advantage you will be getting is the supply chain advantage you will be getting because supply will be lower and the demand growth will be there so that will also give you an advantage of the overall your market share or overall your volume.

**S Ramesh**: Second, how do you see the floods in Europe impacting the local supply and demand for soda ash and that impacting the soda ash trade any thoughts on that?

**R S Jalan**: At this point of time, I would say that not much impact had been seen because of this, but overall because of the supply chain restrictions, the supply from the import is lower.

**S Ramesh**: And when we look at the first quarter, demand and supply, this is net of whatever is the captive production and consumption by say Rohit Surfactants is one of recent capacity addition, so that is going forwards that captive consumption of Rohit is not going to be materially impacting the domestic merchants capacities like yours and Tata Chemicals, right?

**R S Jalan**: Yes, you are right.

**S Ramesh**: Thank you very much and all the best.

**Moderator**: Thank you. The next question is from the line of Dikshit Mittal from LIC Mutual Fund. Please go ahead.

**Dikshit Mittal**: Good evening, Sir. Sir, my question is on soda ash segment because historically we have seen that the margins have been basically in a range of 28% to 32% on EBITDA level, but margins have come up quite sharply in last two quarters actually so you highlighted the impact of cyclone as well so what is the normalized margin and with this price hike will we be able to go back so that historical range in the near future?

**R S Jalan**: I think immediately in next one or two quarters I do not think so, but like in a longer term if you look at probably it should be.

**Dikshit Mittal**: ok. And Sir, because if the demand supply is getting tight so that means all the energy pressure on cost should have been passed on, right like what is stopping in terms getting normalized margins for the industry?

**R S Jalan**: Like I said, the demand supply is the major driving force because that is the only thing which probably will be in our control, energy prices we do not know how the situation will look like in the near future, but my understanding is that even energy prices also in the next one or two quarters should taper down and whereas on the other side on the soda ash side probably the demand supply situation with be slightly on a medium terms to long term so that should give an advantage of cycle going up upwards on the margin side.

**Dikshit Mittal**: Thank you.

**Moderator**: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

**Saket Kapoor**: Thank you for this opportunity. Good morning Mr. Jalan, Mr. Raman and the team and congratulations for a very neat set of numbers especially the home textile part. Sir, just a very small clarification, you said that 12% price hike we have taken over the base price from last quarter including June and July 12% is that the hike?

**R S Jalan**: Yes.

**Saket Kapoor**: And the benefit of that would definitely improve the margins of what we have posted for the first quarter, July, August, September quarters will definitely be better because of this hike, you were telling that it will take another two quarters for that to translate, so that was the understanding?

**R S Jalan**: See basically two things, one is that the raw material prices has gone up and that raw material prices impact will also be seen in the second and third quarter so that will have on the negative side. Second, like I said this 12% increase will get translated in that 12% for the two quarters because there is a lot of contract, which are annual contracts or the quarterly contracts and things like that so probably that will also gradually reach to 12%, so these two put together probably your margin for next two quarters should be in the range.

**Saket Kapoor**: Okay, but slightly higher than the first quarter, this is a bottom for us at least as of now because if there was a 4 Crores impact on the cyclone also?

**R S Jalan**: Yes, but that cyclone impact may be like I said the salt prices had significantly gone up whereas in the first quarter we did not have that impact of the salt prices so that will increase your salt prices, the 4 crore in total figure is not a big number.

**Saket Kapoor**: Right, Sir, on the home textile part RoSTL benefits have we accounted for once the government have announced anything or these are pure operational numbers, the PBT of 65 Crores?

**R S Jalan**: We have accounted for that number and are total 18.5 Crores out of that 18.5 Crores, 6.5 Crores which is relating to the March quarter, so if you remove that number for a minute then your operational or your EBITDA margins comes to around 21%.

**Saket Kapoor**: So, 65 minus 18.5?

**R S Jalan**: No, whatever the EBITDA is there out of that we will remove 6.5 Crores, the number which comes on that, that EBITDA margin will be around 21.5% against 23.5%, which has been given there so 2% reduction in the margin because that is one time benefit of March quarter.

**Saket Kapoor**: One very small understanding, soda ash as other commodity as you have very rightly explained that first is the demand and then comes the supply, as we are seeing in other commodities, is soda ash also as per your experience entering some point of a new super bull cycle or be can we term it something like that as we have seen in all commodities the way the China Plus Policy or the way the restrictions have happened every commodity from you name any one of them has entered into somewhat of a super bull cycle so depending upon the ground situation, are you seeing that sign that this is going to be a secular price increase trend going forward say for the near future because no further new capacities are coming up?

**R S Jalan**: Saket Ji, I can only say that the price history is on the positive side and you know that the world is so volatile at this point of a time because of many disturbance, but yes, on one side the demand is on the rise globally, as you know that is approximately around 2 million tonnes of soda ash growth higher consumption is required every year and the way the economy growth has been projected for across the globe which clearly indicate that the demand of the soda ash will significantly go up whereas in last two to three years no new capacity has been added globally, so probably that should give some kind of a demand supply disbalance and that should definitely give us an upside on the soda ash pricing, now all depends on how the situation for the COVID remains, how the demand remains, the positive territory is something, which I am seeing.

**Saket Kapoor**: Thank you, Sir. On backward integration part, in your presentation it was mentioned that the limestone is 25% and salt is 35%, so going forward what steps are you taking to improve this ratio and what kind of capex, what is the strategy going forward?

**R S Jalan**: See, in terms of a limestone as you know that complete mining is in the part of government, only thing what we are looking at is we are in the process of executing a long term contract with some of our strategic vendors on the limestone supply so that the price volatility is being captured into that, on the salt side our understanding is probably the way the new expansion of the salt is happening in the Gujarat, 2022 probably will be slightly tight supply of salt, but 2023 onwards the supply of salt will significantly improve and that will soften the prices for the salt. At this point of a time, earlier we were thinking about going for a long-term contracts, but based on our understanding in the last few weeks, we decided to wait for some more time when the scenario of the salt become more easier at the time we will be talking about the long term contract of the salt. We are also looking at an opportunity of some strategic investment in some of the captive salt and for that we are working on.

**Moderator**: Thank you. The next question is from the line of Harsh Patel from Alpha Alternatives. Please go ahead.

**Harsh Patel**: Sir, good evening. Sir, I wanted to understand what will drive the EBITDA margins in the soda ash business back to 30%, right now you have a Rupee depreciation benefit from the import side and this energy cost has gone up so according to you what can be the better scenario for EBITDA margins to drive back to 30%, thank you?

**R S Jalan**: the first and foremost which is very important is the demand supply and that is giving to you price increase because as you have seen the price has gone down from 21000 to 18000, so broadly there is a Rs.3000 price reduction has happened in the last one-and-a-half years, so our expectation is, this price of 3000 should be recovered that is number one, and the second is like I said overall your cost, so probably the most important thing for improvement in the EBITDA margin, will be price driven and the second is the way you control your cost competitiveness.

**Harsh Patel**: But, you had just done a comparison of Q1 FY2020 numbers to Q1 FY2022 numbers and you just said that there is a 3% drop in the overall demand, so that there is no problem on the demand side I feel, so how do you see the demand supply as a problem?

**R S Jalan**: No, I have not said that demand supply is the problem, I said the demand is likely to be higher going forward and once the demand is going to be on the higher side and the supply is going to be restricted, the demand supply balance will give you an opportunity of increasing your prices and on the other side like I said, cost also has gone up so these two things will give you an opportunity of increasing the price and ultimately that will lead to you better margin.

**Harsh Patel**: Sir, what will be the spread between the domestic price and the import price, the landed price at least in the percentage basis?

**R S Jalan**: Import price, at this point of time I would say that we are in the commodity business, normally prices for the consumer is going to be similar because they cannot give your higher price barring the supply chain advantage of being delivering to them on a quicker basis, so the difference between the landed price for the consumer versus import versus the domestic it could be in the range of around 3% to 5%.

**Harsh Patel**: So, that is not a big difference for you to ask for antidumping duty on soda ash, 3% to 5%, what are your thoughts on that?

**R S Jalan**: See, antidumping duty is exercised with one of the country where the government gives you a return on capital of 21%, if your return on capital is less than 21% and if someone is dumping the material of course there will be dumping the material at the price at which you are selling, but if that does not give you the sufficient margins government protects your interest and in this whole scenario we are talking about only Russia and Iran from where the product, which is coming is much cheaper and that product is only a limited quantity, that is not out of the total import, their percentage of import is lower.

**Harsh Patel**: Thank you.

**Moderator**: Thank you. The next question is from the line of Anish Jobalia from Banyan Capital. Please go ahead.

**Anish Jobalia**: Sir, good evening and thank you for the opportunity. Sir, just one question around the 12% price increase that we have taken, so one thing that I would like to understand is how much has been also the increase in the cost per tonne, what I am trying to get to is like the price increase that we have taken is only to cover the cost increase per tonne that we have already witnessed uptil now?

**R S Jalan**: You can say that the way we are looking under the current cost, which may impact our cost in the quarter later, this 12% increase will to a great extent will offset the cost, so you are right on your assumption that the margin may not significantly improve by this price increase because of the cost pressure that is what I said one or two quarters I do not see any major expansion in the margins.

**Anish Jobalia**: Okay, but I mean earlier we were speaking about good opportunity for increase in our EBITDA per tonn, say from H2 onwards, we did Rs.5000 in the last quarter, which has further come down to say 4300-4500, I mean these are all approximate calculation, but I am just trying understand that we are looking at an upward journey but things are kind of going down so again when do you expect let's say our Rs.7000 EBITDA per tonne that which we were doing earlier given always demand supply tightness that you are expecting so I mean if you are to try to understand given your experience in the industry can we aim for say in FY2022, or you think this is like more of a three to four year journey going forward?

**R S Jalan**: No, I do not think it is going to be a three to four years journey, like I said currently the price increase which has happened is offsetting to a great extent the cost, but going forward because of the supply chain and because of the demand supply situation you will get an opportunity of further improvement in the prices and that will lead to your margin expansion, second at this point of a time the way the energy prices are our understanding is that will also have because there is a lot of South Africa some problem was there, Indonesia there is a COVID situation so this will get some realization in one or two quarters and after that industry prices would also soften, so keeping that into mind my understanding is after one or two quarter you will start seeing the margin improvement into that and next year 2022-2023 should definitely be better in terms of the margin and offcourse all these things depends on a lot of volatility is there so based on our experience I am giving you this kind of a thought.

**Moderator**: Thank you. The next question is from the line of Rajesh Agarwal from AUM Capital. Please go ahead.

**Rajesh Agarwal**: Good evening, Sir and congratulations on your numbers. Sir, presently 17% of the total revenue come from export does the company plans to maintain the same?

**R S Jalan**: No surely frankly speaking this would slightly go up because like I said major exports happens from the textile and that run rate has gone up as compared to the last quarter to this quarter by 30% and some improvements here should also further will be there so definitely this percentage should be maintained or slightly should go up. I just wanted to clarify one point to all my investors as you all know the soda ash has always been a margin of around 28% to 31%, I am not taking the peak margin of 35% and in last 15 years, the margin has been in the range of around 28% to 31%, so there is no reason that after few quarters the margin should not go back to those numbers, because the trend that has been seen in 15 years there is no reason for that to go to those range of course some temporary COVID and the supply chain and things like that.

**Rajesh Agarwal**: My next question is that what percentage of total revenue comes from top five customers in both in inorganic chemicals and textiles?

**R S Jalan**: Readily I do not have the number, we can give you offline.

**Rajesh Agarwal**: Thank you.

**Moderator**: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

**Sarvesh Gupta**: Good evening, Sir and thanks a lot for taking my question. So, first question is if we disregard the margin and price increases for hypothetically then in the next one year I think your SBC as well as your capex for spinning is going to come online after 12 months, so are there any volume triggers that we are seeing apart from the increase in the textile throughput and in that regard what is the capacity utilization that we are working currently?

**R S Jalan**: If I have understood your question, like I said one of the revenue growth we are looking at from the spinning which will increase by around 20% volume growth, the second we will be seeing the volume growth or the top line growth of the home textile as well next year because my run rate has improved, so that will also be seen next year in the home textiles. In soda ash, there is a 50000 tonnes of the new Brownfield expansion, which is likely to be completed this year, which is almost you can say around 5% of the total volume, all put together you will have the volume growth next year.

**Sarvesh Gupta**: How this expansion will happen next year?

**R S Jalan**: Next year 2022-2023 these kind of a growth you will be seeing in addition to that whatever the revenue growth because of the price increase and those kind of thing will be in addition to that.

**Sarvesh Gupta**: Understood, Sir. Sir, what is the capex outlay for this year and how is it getting funded between debt and equity?

**R S Jalan**: This year approximately and we are talking about 450 Crores kind of thing out of that like I said the spinning will have around 250 Crores, 200 Crores will be roughly around soda ash, soda ash is primarily for this Brownfield expansion and this will get funded based on our cash flow, I do not think there will be a very significant increase in our debt position.

**Sarvesh Gupta**: If I understood your IRR, which you were alluding to a previous question on the textile capex is it right that the project IRR might be 11% to 12%, but given the cost of debt for us maybe 6% to 7% so hence our equity IRR still would still be satisfactory at 18% to 19%?

**R S Jalan**: Yes. You are right.

**Sarvesh Gupta**: Thanks a lot and all the best for the coming quarters.

**Moderator**: Thank you. The next question is from the line of Murlidhar Reddy an Individual Investor. Please go ahead.

**Murlidhar Reddy**: Sir, I wish you all of you safety in these pandemic all of your company team members and your families. I have two questions, first question is the raw materials increasing probably you are working capital requirements will keep going up so will the debt of the company will stay at the same level or is it going to go up or is there any debt reduction plans?

**R S Jalan**: No Mr. Murlidhar, you are 100% right because even in this quarter if you look at my working capital requirement had gone up, so the moment the prices of product is going up your receivables goes up, your raw material prices goes up, your working capital requirement goes up, you are right on that basis that overall the total working capital requirement will go up and our understanding at this point of a time, we do not see too much of significant increase in the debt and we are also not seeing any reduction in the overall debt.

**Murlidhar Reddy**: Thank you, Sir. Second question is that can you give us some light on the raw material integration because we have lost some captive resources in the early part, now we really want to augment that so what are our plans to do that backward integration so that we have secured of raw material costs now the cost at the lower base?

**R S Jalan**: You are very right again Murlidhar, this is one of the biggest I would say that priority for us because for the chemical business first and foremost which is very important is the security of the raw material and the volatility of the raw material can be captured, so one of the initiative, which we have done of course it is going to take slightly time, we are significantly making investment and the process improvement in our captive salt production. Because of this cyclone which has happened, definitely has made some impact on that plan, but overall we want to increase our captive salt production by 30% that is where the plan is, that is one. Second, as I said for the security of the raw material limestone we are looking at a long term contract with some of the strategic vendors for 10 years contract that is under discussion and once that happens that the security of raw material will also be there and price will also be secured on that and that will be a very significant part of our limestone requirement. On the salt price as I said salt we have been planning to go for a long term contract to secure the supply, but since the salt prices are very high at this point of the time we got advice that we should wait for some time, but our plan is to the moment the price becomes normal to increase or to do a long term contract with some of the manufacture of the salt at a fixed price that is number one, we are also aggressively pursuing to the Government of Gujarat to allot some of the land for salt production so that will also help us to kind of our captive consumption going up, keeping all these things probably we will be better secured on our raw material.

**Moderator**: Thank you. The next question is from the line of Sai Mandava an Individual Investor. Please go ahead.

**Sai Mandava**: Sir, thanks for taking my question. I have a couple of questions, one on soda ash business you have mentioned the Greenfield capex so how long does it take for this new capex to be filled up?

**R S Jalan**: It is a very interesting question, you see basically that is where the opportunity also come with the soda ash business, any projects when you conceive, it takes around five to seven years to get implemented. In our case, we have already spent around more than two to three years time on this project in acquiring the land and getting lot of studies of the environment completed, now from here onwards probably it will take another three years time to finally come with the production on the Greenfield project and that will also give an advantage in terms of our capex requirement will be to a great extent will get funded because of our cash generations in the next three to four years and you know that the overall capex requirements will be rear ended, so in first one or two years there will be no major capex requirement and in the later part it will be there and by the time our cash flow will justify that kind of investments.

**Sai Mandava**: Got it, thank you. The second question is about the debt, so how is the debt split between chemicals and textiles, I am asking more from the de-merger point of view just to understand how is that being decided?

**R S Jalan**: At this point of a time our total debt is around 787 Crores out of that soda ash is roughly around 468 Crores and the textile is around 319 Crores.

**Sai Mandava**: This includes working capital?

**R S Jalan**: Everything, this debt means everything.

**Sai Mandava**: Thank you. That is all from my side.

**R S Jalan**: I just wanted to clarify one point, which has been asked for IRR on our spinning project, IRR is around 14%, we have just opened our working the way we have planned for this investment and the way that we are looking at a profitability the IRR will be around 14%.

**Moderator**: Thank you. The next question is from the line of Varun Bajla an Individual Investor. Please go ahead.

**Varun Bajla**: Good evening everyone and congratulations on a wonderful set of numbers. My question was with regards to the de-merger scheme that is currently planned and for which we have already received approval from the secured creditors, are there any other challenges that we look at in terms of procedural or permission from authorities as far as the de-merger is concerned?

**R S Jalan**: I do not think so.

**Varun Bajla**: So, by when do we see this entire de-merger getting completed and do we have ay any record date in mind for this particular de-merger?

**R S Jalan**: See, all depends on when the NCLT gives an approval and probably our internal target is around December, in December it should happen.

**Varun Bajla**: Alright and post the de-merger, do we see any re-rating of the debt because currently I believe the debt would be rated based on the cash flow of both the businesses, after the de-merger and the debt is also split between both the companies do we expect a down grade or upgrade in the debt base on the cash flow of individual companies?

**R S Jalan**: Surely we will be looking at an upgrade.

**Varun Bajla**: Alright, thank you, Sir.

**Moderator**: Thank you. The next question is from the line of Abhimanyu Olla an Individual Investor. Please go ahead.

**Abhimanyu Olla**: Thank you so much for taking my question and congratulations for such a great set of numbers. My question is regarding the soda ash segment and I was just seeing how the soda ash production is done, so I believe that we are using carbon dioxide as one of the raw material?

**R S Jalan**: We are using not carbon dioxide, we are using the limestone and we are using the salt, of course from the limestone you get the CO2.

**Abhimanyu Olla**: So, because of this using the boiler we end up emitting a lot of carbon dioxide into the atmosphere, so my concern is our company doing any carbon capturing right now?

**R S Jalan**: Yes, we are already working on carbon neutral and if you look at our balance sheet, you will see that we have taken targets on our carbon emissions and we are also in the process of putting a lot of our green energy investments into the business and that will reduce our carbon footprint so the management is very, very conscious about the carbon footprints into the business, but of course being a chemical industry we definitely have a carbon emissions into the system, but lot of focus is being given on reducing the carbon footprint into the business.

**Moderator**: Thank you. The next question is from the line of A Anandha from PGIM India. Please go ahead.

**A Anandha**: Thanks for taking my question, Sir, this a question related to the textile business, in the textile business could you give a break up between yarn versus home textile either in terms of revenue or in terms of volume and give a broad idea how the margins between the two varies for this quarter?

**R S Jalan**: We take both these business together and we always have that joint number because a lot of yarns are getting sold and in inter unit transfer and therefore the number are broadly consolidated number will only be the meaningful, however, just to give you a perspective the margins in both the businesses are reasonably good, both in the home textile as well as into the spinning.

**A Anandha**: And large part of your home textile would be exported?

**R S Jalan**: Sorry, can you repeat your question, please?

**A Anandha**: Would large part of your export revenues be constituted from home textiles?

**R S Jalan**: Yes.

**A Anandha**: In that we can be taken as a proxy of contribution of home textiles to the overall textile revenue?

**R S Jalan**: I do not know, Honestly, I have not understood your question.

**A Anandha**: I was just speaking that the entire part of your home textile would be exported that would be the broad understanding or there will be domestic sales in home textiles as well?

**R S Jalan**: No, you are right, in terms of the home textiles large portion is on the export front okay, in the spinning also the exports are happening in the spinning also, we export to many part of the country Bangladesh, Europe and places like that, even in soda ash also some portion of export is happening.

**A Anandha**: Thank you, Sir.

**Moderator**: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

**R S Jalan**: Thank you very much. As I have always been repeating our commitments to the investors that we as a management we always do our best in the current context of making sure that we give a right return on our capital by keeping all the compliances, all the sustainability goal into our domain, we always say we want to grow responsibly and growth is going to be our driving force going forward and surely we will be able to deliver on that expectation also going forward. Thank you very much to all of you for participation and take care of yourself and your family in this pandemic situation. Thank you.

**Moderator**: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.