

Transcript

Conference Call of GHCL Limited

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Presentation Session

Moderator: Good evening, ladies and gentlemen. Welcome to GHCL 2Q FY2022 results conference call. 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 any assistance during the conference call, please signal an operator by pressing * and then 0 on your touchstone telephones. Please note that this conference is recorded. I would now like to handover the floor to Mr. Rohit Nagraj from Emkay Global. Thank you and over to you sir.

Rohit Nagraj: Thanks Moumita. And good evening, everyone. Hope all are in good health. I would like to welcome the GHCL management team and thank them for providing us this opportunity to host the Q2 concall. We have with us today the senior management team represented by Mr. R.S. Jalan, Managing Director and Mr. Raman Chopra, CFO & Executive Director – Finance and the entire team. I shall now handover the call to the management for their opening remarks. Thank you and over to you sir.

R.S. Jalan: Thank you Rohit. Good evening everyone and welcome to GHCL quarter two earnings call. Our results and analysts' presentation have been uploaded on stock exchanges as well as the company website.

We have demonstrated a solid performance after swiftly navigating through the second wave of COVID-19 pandemic. This performance was well supported by stiff economic recovery across the country and validated by further uptick in the demand cycle and positive pricing scenario. In addition, improved vaccination coverage and a growing sense of normalcy have also led to the enhanced consumption. Global demand of soda ash has recovered and the industry has almost reached the pre-COVID level. Due to strong focus on renewable energy, solar glass is now emerging as a new segment for future.

There are a few supply side restrictions, such as lower production in China and supply chain disruption on account of availability of containers and high freight cost. This has resulted in tightness in the soda ash market. Indian market has also reflected this global demand-supply dynamics and has resulted in the lower imports. With rise in the energy and raw material prices, global soda ash prices have gone up. We have been able to pass on the impact of the increased cost to the consumers. We expect the positive trend for soda ash business to continue through 2022.

In the textiles business, our outlook is good due to strong demand and the China plus market sentiments. Arrival of fresh cotton has started in small quantity and prices are

much higher as compared to last year. We expect that going forward margin will taper down with the arrival of fresh cotton crop and industry's inability to pass the increased cost to the ultimate consumers.

The process of demerger is on track. Our second motion petition was heard on 23rd of August 2021, in which order of admission of petition has been passed by the Honorable NCLT. The next date of hearing is fixed at 23rd November 2021. We remain on track to further cement our leadership position in inorganic chemical through modular expansion and debottlenecking. That said, our focus on product basket expansion remain unabated. Going forward, we are confident of generating strong cash flow with a healthy balance sheet, while delivering sustained earning performance.

I would now request Raman to say the financial performance.

Raman Chopra: Thank you very much. Good evening everyone and a very warm welcome to all of you in GHCL's earning conference call. I will share the financial highlights for the quarter and half year ended September 30th, 2021 and also discuss the segmental performance. Revenue for Q2 FY2022 came in at Rs.987 crores, as compared to 779 crores in the corresponding period of last year. This represents year on year growth of 27%. For half one, revenue increased by 51% year on year to Rs.1842 crores versus 1222 crores last year. EBITDA for the quarter stood at 201 crores, which is an increase of 24% from Rs.162 crores during Q2 of last year. This represented an EBITDA margin of 20.4% for the current quarter as compared to 20.8% in last year. Softness in margins is due to low realization of soda ash. For the half year, EBITDA came in at 390 crores, as compared to 247 crores, thus representing a growth of 58%. Profit after tax for the quarter stood at 109 crores versus 78 crores in the last year. For half one FY2022, PAT more than doubled to 211 crores, compared to 95 crores in the corresponding half year of the last year.

I will now share the segmental results. In the inorganic chemical segment, we have reported a revenue of 572 crores for the quarter, which is 19% higher from 482 crores in corresponding quarter of last year. This increase in revenue is on account of improved demand from the end user segment, resulting in volume pick up of around 12% and also improved realization. EBITDA for the quarter stood at 106 crores as compared to 119 crores in the same quarter of previous year. As a result, the margin dropped to 19% from 25%, due to significant increase in energy cost and raw material prices. We have been able to pass the impact of these cost increases to customers through increasing prices, the impact of which will be seen in the coming quarter.

The performance of our textile segment has been very robust. The revenue for the quarter stood at 415 crores, which is an increase of 40% compared to 297 crores in the corresponding quarter of last year. The revenue growth is on account of strong demand and better pricing scenario. EBITDA for quarter two came in at 96 crores, which is substantial increase from 44 crores in the same quarter of previous year. This translates into EBITDA margin of 23% for the quarter, versus 15% last year. This robust performance is across entire home textile and spinning business. For the half year, we generated a cash profit of 300 crores. We have been able to manage our leverage very well and our net debt stood at 697 crores. This represents the net debt equity of 0.26.

With this I conclude my comments. Now, I request our moderator to open the forum for question and answers. Thank you very much.

Question and Answer Session

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question, may please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Mr. Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Good evening sir. I have couple of questions. First is on the soda ash prices, which has been consistently going up. And it seems that the current demand is much better than what we have seen in FY2019-2020 itself. Given this context and at the same time cost also is going up. Are you able to improve your overall EBITDA per ton, which had come down in the last two years, eighteen months? Are you able to recoup to your past levels?

R.S. Jalan: Yeah Resham-ji, the first question of yours, in terms of the overall demand, we are definitely seeing globally the demands are very robust, whereas, on the supply side, there is a restriction on the supply. So overall, there is a tightness, significant tightness, if I can say so, significant tightness at this point of a time, in the overall demand-supply situation. And because of that there is a significant price increase which has happened. Even in the month of October itself, a significant increase has been done globally and India also. In terms of the margin per ton, definitely you will see from fourth quarter onwards, because you know there are some contracts which are on annual basis. You will see the improvement on the per ton of soda ash margins significantly going up from fourth quarter onwards. And 2022 is going to be much better than what you have seen in this year.

Resham Jain: Okay. Sir, currently the price hikes whatever we are taking is just compensating for the increase in the coal prices and the salt prices. Is that a fair understanding, at least in the near term?

R.S. Jalan: No, I would say that the increase which we have taken will improve the margins going forward. Means, like I said in terms of if you look at all the price increase which we have taken, when that gets fully implemented, you will find that the margin expansion will take place. And that will happen from January onwards.

Resham Jain: Okay, understood sir. And sir, my second question is on textiles. Given that the current cotton prices are significantly high, it is around 64000-65000 levels. What is your strategy going to be this year? And are you also carrying some of the old cotton inventory in quarter three as well? So, those are the two questions on the textile side?

R.S. Jalan: Resham-ji, in terms of the textile, like I said few things, one, our strategy in terms of the cotton coverage will be not as aggressive as it has been in the past, because the cotton prices are significantly higher. And therefore, we will be slightly more conservative on our coverage, of the cotton coverage. In terms of some of the fibers which we are importing from US or from Egypt, that coverage we have been

able to do at a much cheaper cost. And that we have covered for a significant period of time. And that will definitely give some advantage in the next few quarters. Overall, like I said in my opening remarks also, yarn prices are also on the firm side. However, some margin drop in overall, on the textile business you will be able to see across the industry. Because, the gap or the advantage which the industry has got at a lower price cotton coverage, now that will not be there. And maybe third quarter and more significantly from the fourth quarter, some margin drop will happen.

Resham Jain: Okay, understood sir. Thank you.

R.S. Jalan: However, the volume, Resham-ji, volume will be very robust. So, maybe to some extent the people will be able to compensate that loss of the margin by better volume.

Resham Jain: Okay, understood sir. Thank you.

Moderator: Thank you sir. Sir, our next question comes from Mr. Ritesh Gandhi from Discovery Capital. Please go ahead sir.

Riddhesh Gandhi: Hi sir. Sir, just had a couple of questions. So, how much of a price increase have you taken in Q2 and of that effectively how much has actually reflected in Q2 and how much of that will reflect in Q3? And how much of a price hike have we taken in Q3 and how much will reflect in Q3 and how much in Q4, because in the longer term contracts and in lieu of that how much per ton has our costs also have gone up? So, we can get some sense on how margins will look going ahead.

R.S. Jalan: Ritesh-ji, if I can give you in terms of the percentage, whatever the price increase which we have taken in the month of....in the last quarter in Q2, 50% only the benefit we got in that quarter. Obviously that balance 50%, out of that balance 50%, we will be getting the advantage in this quarter. In this quarter three, which is currently running in the month of October, we have taken a price increase, out of that again approximately around 50% will get generated in this quarter and the balance 50% will get generated into the fourth quarter. So overall, I would say that at this point of time, the full benefit of the price increase which we have taken and the full benefit will be in the fourth quarter. And you will see significant improvement in the margin per ton in the fourth quarter. Maybe this will come back to the original level of 2019-2020, that kind of a level you will be able to see in the fourth quarter.

Riddhesh Gandhi: Got it. Again, just to understand broadly, because what I understand is about Rs.3000 price hike was taken in Q2. Another Rs.4000 hike has already happened in October. And obviously from what some of your competitors were speaking about on their call was that even if similarly, only 50% of the implication has been there and that RM has been up at about Rs.1800. So, actually from what we are reading is that at least, even from Q3 onwards we should see a reasonable amount of actually uptick and Q4, given it will have the implication of Rs.4000 crores and Rs.3000 crores should actually lead to north of, really like 23%-24%, maybe even higher profit margin.

R.S. Jalan: Rightly you are saying that in terms of the overall, of course the numbers, specific numbers at this point of a time will be difficult. But, I can only tell you that significant margin expansion will happen from the fourth quarter. And I have

given an indication that 2019-2020 kind of margins we will be able to achieve that. And based on that maybe 2020 fourth quarter as well as 2022, because the way we are looking at the outlook for 2022, we are seeing a very bullish outlook of soda ash in 2022 across the globe. Because, on one side, there is a lot of supply restrictions. In China there is a lot of plant, 1.3 million tons of the plant has got stopped. China will become instead of an exporter, net exporter, China will become a net importer. And that will create kind of a huge opportunity for the soda ash producers to come to a normal profitability, which has not been there for the last two years.

Riddhesh Gandhi: A quick clarification, when you say 2019-2020, you are talking about the levels of profitability in the year 2019-2020 or you are talking about 20% EBITDA, EBITDA margin?

R.S. Jalan: No, no, 20% EBITDA margin probably you are talking. I am talking about the per ton margin. Per ton margin will definitely be closer to the 2019-2020 numbers.

Riddhesh Gandhi: 30% EBITDA on soda ash, 29%-30%?

R.S. Jalan: No, no, what I am trying to tell you is the per ton margin. I am not talking about the percentage.

Riddhesh Gandhi: Per ton margin, okay.

R.S. Jalan: Yeah, one thing I just want to clarify here is, as you know that there is a lot of volatility in the overall commodity space. And therefore this, what we are talking right now is based on our current understanding of the entire commodity space volatility.

Riddhesh Gandhi: Got it. Sir, and there is tightness with soda ash, is there a linkage in your view between the price of soda ash and your commodity, which is why the price has been pushed up or you would expect high prices even if let's say, commodity prices of (not sure) coal (not sure) correct. Would soda ash prices still remain robust in your view?

R.S. Jalan: No, soda ash prices will remain robust in spite of whatever happens in the commodity space, because like I said, overall demand-supply situation itself, there is a kind of a mismatch. Demand is more than the supply and that is primarily because of China, number one. Number two, there is a new opportunity of a solar glass. There is a huge requirement of solar glass even in India, which is likely to happen, as well as in China and other parts of the world.

Riddhesh Gandhi: Okay. Alright, great. Thank you. Sir, and the last question on the textiles side. Where do we see things going forward? Do we potentially see a similar level of EBITDA or is this sort of....?

R.S. Jalan: Like I said, overall EBITDA percentage will go down, primarily because of the input-output ratio which was there in the last two quarters has had the benefit of a lower cost of cotton versus the selling price, which probably will be kind of, gap will come down. And because of that the margin definitely will be lower. But it should be, healthy margin (inaudible). Because, overall textile I see China plus overall

demand of the product remains and therefore the volume may go up, number one. As you all know that some expansion is also happening in our business. So, keeping everything into account I would say that margin percentage will go down, but overall, the profitability will be good.

Riddhesh Gandhi: Okay, great. Thank you sir and all the best.

Moderator: Thank you sir. Sir, our next question comes from Mr. Rohit Sinha from Sunidhi Securities. Please go ahead, sir.

Rohit Sinha: Hi, thank you for taking my question, sir. Some of my questions have already been asked. So, just could you give us the break up or some clarity on what was the volume mix or sales mix for the industry for soda ash in this quarter versus last year....?

R.S. Jalan: Rohit, in terms of, you are talking about the consuming industry, how the percentage has been?

Rohit Sinha: Yeah, yeah.

R.S. Jalan: As you know that soda ash, sorry, go ahead.

Rohit Sinha: Go ahead sir and your industry mix and how we have sold in.....in the overall sales we have seen in the end user industry?

R.S. Jalan: Rohit, in terms of the growth, I would say that the glass industry is doing very well. And there is a big improvement with the glass industry, Flat glass. Even in the bottle glass also, there is a significant improvement. However, in the detergent segment, because of the rainy season, which is the normal part of it and some part of the country has been kind of badly impacted, because of the flood and other things. The detergent industry was slightly on the lower side, but now after the (not clear), the demand will also pick up in that area. So overall, I would say that demand growth is across the segment.

Rohit Sinha: Okay. As you have ventured into the solar glass panel segment, we are seeing some growth opportunity. So, any thought on how big it could be for us and overall industry?

R.S. Jalan: I can just give you one number, which is more of a global number, because ultimately the soda ash scenario will entirely depend on the global scenario. In global scenario today, the soda ash consumption as a percentage of the solar is only one percentage. That means, 70 million is the total (inaudible). 7 lakhs tons of the soda ash is being consumed in the solar industry glass panel at this point of the time. Over the next two years that will become 3%. That means there is 1.4 million tons of the extra demand will be required only for the increment (voice break). That 1.4 million is a very significant number. Like I said, on one side China is reducing their production. China is becoming net importer of the soda ash. There is no new capacity has been coming in, in the last two years. As you know that not in one or two years. It cannot be ramped up. So therefore overall, I would say that, demand and the supply mismatch should at least continue for two years going forward. And that will create the

soda ash price firm at least for 2022 and 2023. That is what at this point of time, our judgment says.

Rohit Sinha: Okay. And lastly on, just this demerger thing, how we are placed and when we are visibly expecting anything, final outcome?

R.S. Jalan: 23rd of November 2021, the final hearing is before the Honorable NCLT. And there we should expect some order from the NCLT. And after that the process of filing of the registrar and all those things will happen.

Rohit Sinha: So, earlier we were like, March or April it would be possible. So, are we on track or maybe it can extend further also?

R.S. Jalan: We are on track. We are on track.

Rohit Sinha: Okay sir, that is all from my side. Thank you. Happy Diwali.

R.S. Jalan: Happy Diwali to you.

Moderator: Thank you sir. Sir, the next question comes from Mr. Shanti Patel from Shanti Patel Advisors. Please go ahead.

Shanti Patel: As far as soda ash division is concerned, what is the capacity utilization by our company?

R.S. Jalan: In this quarter we had 95% plus, which is the highest capacity utilization you can say. We are fully utilizing it.

Shanti Patel: Correct. And where do we stand as far as the industry is concerned, I mean, number one, number two, number three in the capacity, installed capacity is concerned?

R.S. Jalan: This quarter I don't know what is the capacity utilization of the various competition, because that data we don't have. But, overall if you look at the global basis, the capacity utilization across the globe is around 80%, 82%-83%.

Shanti Patel: Okay. What is the market share in Indian market?

R.S. Jalan: In Indian market we have approximately around 25% market share. And then our competition has the balance. And import is also around 23% to 25%. The balance 50% goes to the competition.

Shanti Patel: Thank you sir. Thank you.

Moderator: Thank you sir. Sir, the next question comes from Mr. Tejas Shah from Unique Stock Broking. Please go ahead.

Tejas Shah: The soda ash prices again has gone up from Rs.2000 to Rs.3600, that is nearly double the cost. Hello?

R.S. Jalan: Yeah, I am listening.

Tejas Shah: Yeah. So, how much we are able to increase the price and does it happen on spot basis...like you have annual contract but how much will be the ratio that you are contracted for annually or three months basis? And how much spot will you sell?

R.S. Jalan: Basically, the overall price increase which has happened in the last, I would say, four-five months is approximately, is roughly around 30% or more than 30%, roughly around 35% on one side. In terms of your specific question on the contracted volume, this contracted volume normally will be around 30% to 40% of the volume each on the contracted basis. And there are various segments, some are annual, some are six monthly, some are quarterly as well.

Tejas Shah: So, 50% would be on the spot.

R.S. Jalan: Yeah, 50% to 60% is on the spot.

Tejas Shah: Okay. And now since the international prices have gone up so much, are we still looking at the price hikes or the competition does not allow you to increase the price?

R.S. Jalan: It depends on the overall market scenario. At this point of a time, we have already taken the increase what we could visualize. And of course, how does the market shape up going forward, we will evaluate, based on that and depending upon the opportunity.

Tejas Shah: Okay, thank you sir.

Moderator: Thank you sir. Sir, the next question comes from Mr. Jatin K from Alpha Capital. Please go ahead.

Jatin K: Hello sir, congrats for a good set of numbers. Sir, you are saying that, since we have some contract for long term, our price increase hasn't been that good as compared to spot. So, going forward in FY, next year, say next year 2022, if let's say soda ash prices fall, then we will get the benefit, this benefit?

R.S. Jalan: Yes. Definitely when you have a contracted price, obviously that price will remain valid till the contract period.

Jatin K: Okay sir. And sir, you are saying from Q4 we will have better margins for soda ash. Would you like to quantify what kind of margins can we get?

R.S. Jalan: No, at this point of a time it is difficult to quantify, like I said, volatility in the raw material prices and things like that. Like I said, overall, it will be much better as compared to what you are seeing right now.

Jatin K: Sure sir. And sir, on cotton side, the yarn side of the business, as in higher cotton prices, how much will that be hurting us going forward, any quantification, if that is possible please?

R.S. Jalan: Again, quantification Jatin-ji will be difficult at this point of the time, because at this point of the time very small parcel of cotton, now cotton has started coming in. Fifteen days back the prices of cotton were Rs.59000 per candy. Now, it will be Rs.65000. And how does this fare maybe in the month of December, the cotton prices can fall also. But, like I said, guidance is more on margins definitely will be lower than what we have been achieving in the last two quarters. Margin pressure will be there, but volume will be better. Overall demand will be better.

Jatin K: Sure sir. Thank you and all the best.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Sir, our next question comes from Mr. Saket Kapoor from Kapoor Company. Please go ahead, sir.

Saket Kapoor: Namaskar sir. And thank you for the opportunity. Sir, if I could just sum it up of what the conversations have been, the EBITDA margin in soda ash for this quarter has hit a bottom of 18.5%. And here onwards with the price revision, which have taken place, this inflationary impact will get mitigated and we will be returning to the higher margin bracket from the fourth quarter onwards. Is this understanding correct sir?

R.S. Jalan: Yes Saket-ji, this understanding is correct.

Saket Kapoor: Okay. And sir, in the presentation it has been mentioned that we are exploring some new product addition sir. What are we trying to express there, sir? And when can we see this new product addition happening sir? What is the work done?

R.S. Jalan: If you remember our last conversation even on the last quarter call also, I have said few things. We are evaluating various opportunities and lot of experts have been engaged, some outside experts have also been engaged. We are waiting for those reports to come in. And we want to have a detailed deliberation on that. And I have said very clearly our philosophy is, we don't want to rush any investment in any of the segment till we are fully convinced that yes, this is the journey which we want to pursue for a longer period of time. And just for the sake of entering into the new field, we don't want to go for that. We will evaluate those opportunities, where we can become a larger player. We don't want to be in a smaller bracket of that segment, where the volume growth or the built up of the revenue could be possible, where the return on capital is respectable and also that has a future of that business. So, there are lot of opportunities in the bulk chemical, lot of opportunities in the specialty chemical. We are exploring. And surely once we finalize that we will definitely be happy to share those details with all our investors.

Saket Kapoor: Right sir. Sir, in the home textile part for this quarter, are these numbers totally on the operational front, the PBT number of 83 crores or any other income component is also there?

R.S. Jalan: No, there is no additional income. This is 100% operational income.

Saket Kapoor: Okay. And as being articulated by you, these are sustainable over the next two quarters, before the higher raw material prices kicks in going forward?

R.S. Jalan: No, I have not said that Saket-ji. What I have said is, now since you know that the crop starts from October, the new stock purchase has started happening. You will see that tapering down of the margins in the textile business going forward, some impact will be there in the third quarter and some impact will be there in the fourth quarter as well.

Saket Kapoor: Because sir, you used the word some coverage from the US on this fiber, I missed that part, that is there for you for the longer term.

R.S. Jalan: No, that cotton is only certain percentage of the total product market. So, to that extent some advantage will be there. But overall, there is no large, sorry, go ahead.

Saket Kapoor: Sorry sir, but that means these are the peak margins for the home textile segment, because you have always been guiding for a sustainable margin and these margins that are on the home textile segment are not sustainable?

R.S. Jalan: I have always said that, in the past also last seven years I am maintaining on that that margin side business have to be a respectable number. Peaks and valleys will be coming in. And therefore, longer term margin which we have already guided many times in the last seven years, we should expect those kinds of a margin, yes. What we should be looking at is, what is the growth which is happening? That is number one. Second, we are focusing on high value-added product in our business. We are focusing on high value-added segment. We are looking at how can we increase our gap or input-output as I call it per (not sure) or per dollar which we sell. Those are the areas. And to a great extent we have been successful in that also. Those kinds of a margin expansion will continue and will sustain. So, that journey will continue. Volume growth journey will continue. However, margin will definitely be, percentage margin will definitely be more sustainable on a longer term basis, on a reasonable basis.

Saket Kapoor: Sir, in the presentation I just concluded two points. In the presentation it is also mentioned that we are augmenting backward integration of raw material for cost control activities. I think the last quarter you spoke about the salt contract also being delayed as we were expressing lower prices going forward. So, what is our current salt, total percentage, how much percentage is captive and how have salt prices behaved sir?

R.S. Jalan: At this point of time when we say that augmentation of the resources, we are talking about more on a long-term investment into these areas, so that for the longer period of time, we have a control on the raw material. Because, as you know in the soda ash business, the control on the raw material is very, very important. So, that is one. Of course, at this point of a time, few discussions are happening, where we are looking at an opportunity. Same thing applies for the limestone. So, both these opportunities are being pursued from our side. Now, when it comes to the salt prices, at this point of the time it is too early to say that, because the new crop had not yet started up till now. But, by the end of November, we will get a clear picture of how the salt

season is going to be. And based on that the pricing for the next year will get determined.

Saket Kapoor: Right sir. And sir, lastly sir, we have seen this talk about M&A activity globally, whether it is from Turkish firm or even the Tata US capacity coming or being on block. So sir, what is your understanding of the M&A activity and anything that is going up and anything that may conclude going forward that would lead to some rerating or some revaluation of the existing listed players, going forward, any benchmarking sir that we can expect or it is different altogether?

R.S. Jalan: At this point of the time, we are not pursuing any activity on the chemical side to pursue, which is outside India, because that we don't see at this point of the time is our focus area. Definitely we are looking at it, because the demand growth is primarily in India. So, our focus as you know that the supply chain cost is a very, very significant portion of the total cost of chemical, soda ash. Keeping that in mind, our focus is entirely on building the infrastructure or building the capacity within India itself, so that we have a longer term advantage in terms of supplying to the growth market, which is India.

Saket Kapoor: Correct sir.

Moderator: Mr. Kapoor?

Saket Kapoor: Yes ma'am, I will come in the queue. I have taken for myself sufficient time. Thank you.

Moderator: Thank you sir. Sir, our next question comes from Mr. Resham Jain from DSP Investment Managers. Please go ahead, sir.

Resham Jain: Hi. Sir, just one more question on our new soda ash plant. Any updates in terms of the progress on the land part and the project, when are we going to start that?

R.S. Jalan: Yes Resham-ji, there is some improvement or some progress has happened in the last quarter, where what we have done is, now we have applied to the Government and we got some approval on the land which we have identified, we have got the NOC from the Government. And now, those the lands are in the process of getting registered in our name, so that is one exercise. We have applied to the Government for the land, which is Government land, we have applied for acquiring that land also, that process is also on. On the other side, we have applied and we have got the TOR from the Minister of Environment, we got an approval on the TOR. We have also applied to the various approving authorities on the various licenses, like we have to apply to the Forest Department, we have to apply to the GMDC, all those things. So, lot of application has been made. And good progress is happening on the approval side. And I can say that, yes, progress has happened. And hopefully things will come under control. And one more thing, I just want to add here is, I have been telling always, we are looking at how to go with the modular form, so that large capital is not committed in the initial years and we gradually make an investment. So, that is also at the side is also happening. And also, the technological partner selection, that process is also very seriously being done. So, good progress is there on that side.

Resham Jain: So sir, FY2023, our original plan was actually to start somewhere in FY2022, in terms of actually spending on that project. So, that is starting in FY2023 now?

R.S. Jalan: Yes, expenditure will definitely start after a year, but a significant portion of that investment will happen only after, because the project completion is approximately around 2½ years roughly, 2 to 2½ years. So, the moment we get all these controls on the land and the approval and everything and by the time we will do the preparatory work of the technological partner selections and detailed engineering and all those things will get completed, after that it will take two years. Initially some advances and other things will be required and later part, more CAPEX will be required. Like I have always been giving the guidance, we will never cross our risk appetite from 1:1 debt-equity ratio. And within that or maybe lower than that we will try to manage our debt equity ratio.

Resham Jain: Okay. So, now that major capacity is coming in for the next two years now, that 50000 tons debottlenecking capacity which is going on, you may get that capacity by the end of this year. So, we will be constrained in terms of volume maybe in 2023 and 2024, the new will be available to us in 2025 only?

R.S. Jalan: First and foremost, Resham-ji, we are expanding our sodium bicarbonate production. And that will get completed next year and that will have an advantage. We are going for around more than 100,000 tons of extra production of the sodium bicarbonate, that will increase our revenue, number one. Second as you rightly said, some volume growth will be there because of the debottlenecking. And overall, yes, top line will increase, but that top line will not increase, because of the quantity, that will increase beyond these two points, it will increase because of the overall per ton realization will improve. So, overall significant improvement will happen in the top line, but driven by more on the pricing side.

Resham Jain: Okay, got it sir. Thank you.

Moderator: Thank you sir. Sir, our next question comes from Mr. Rishit Shah from Dhanki Securities. Please go ahead, sir.

Rishit Shah: Hello sir, good evening. So, the question is actually regarding sodium bicarbonate. So, we have been kind of reading about the application of DSI system in the FGD. So, which is kind of more so already applied in few of the plants of NTPC, actually in one of the locations. So, can you just explain the opportunity there or the kind of plants that are currently using this technology, if you can just elaborate the same?

R.S. Jalan: No, this is, I have been mentioning this point that there is a new opportunity, which will be coming of uses of the sodium bicarbonate in the flue gas treatment. Globally, it is being used. However, in India it has not yet started. And the NTPC was planning to start, but because of the COVID, there were some delays in that. Now, they are in the process of finalizing their plans. And once that happens, and we have got some market research done sometime back, three or four years back, and we found that there is a huge opportunity of the sodium bicarbonate, because of this usage. The way the environment priority globally is happening and across India is also

happening, this can create kind of a good opportunity for the sodium bicarbonate to be used for the flue gas.

Rishit Shah: Okay, got it sir. That was the only question. Thank you so much.

Moderator: Thank you sir. Sir, our next question comes from Mr. Hiten Boricha from Joindre Capital. Please go ahead, sir.

Hiten Boricha: Hi, good evening, sir. Thanks for the opportunity. Sir, most of my questions have been answered. I have only one question left, that is on the textile segment. So, you mentioned that cotton prices are going up in the last fifteen days and in parallel the demand is also going up. But, as you mentioned if margins will go down in Q3 and Q4, in this segment, so as prices as well as demand is going up, are we not going to be able to pass the prices to the end customer? Why will the margins go down, if prices and demand, both are going up?

R.S. Jalan: That is very valid question, very valid question Hiten-ji. Basically, what has happened is that the cotton prices have been going up in the last, I would say, six to eight months. But, some of the mills, we had old inventory and we have been able to get that benefit of that pricing already in our selling price. Now, the cotton prices are going up. That inventory for us is to a great extent has been consumed. So, now our raw material prices will go, whereas the (not clear) benefit of or the price increase has already been factored into this quarter realization. Second overall, there is a going to be definitely for the home textile or particularly for the garment sector also, buyers will not be able to take the load of the entire increase and therefore some, like I said this kind of a margin is not sustainable margin for the textile business in any case for a longer period of time. So, I am always saying that the margin will be good, but margin will not be at the same level what we have achieved in the second quarter. That is the only thing I am saying. But, margin will be healthy.

Hiten Boricha: Right sir. So, you mean if the cotton prices go further up in Q3 or Q4, is it possible we can further pass this price to the end customer, or do we have any cap there, sir?

R.S. Jalan: No, there is no cap. But, ultimately it is a commodity market. And in that commodity market, how much the customer will absorb, so that the demand will remain, that has to be seen. And based on the competition, how the competition is doing and how the price is getting absorbed by the customer, this price mechanism will happen. Maybe, you may be right that the prices of the yarn can further go up from here, we don't know. I am just telling you based on my experience, some margin pressure or some margin drop should happen. But, I don't know how the scenario will pan out. \\

Hiten Boricha: Okay sir, that was helpful sir. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Sir, the next question comes from Mr. Saket Kapoor from Kapoor Company. Please go ahead, sir.

Saket Kapoor: Thank you sir. Sir, we have also spoken about the NCD issuance of 150 crores. So, if you could delve more into it sir, what is the end use of the same sir and what kind of interest, percentage are we expecting, coupon rate for the same?

R.S. Jalan: We have taken an enabling provision from the Board. And what we are looking at is that an opportunity, because you know that our rating has been improved. Now, we are entitled for, we have a rating now, AA minus. So, now we are entitled for the (audio break). Now, keeping this as an opportunity, because you know the interest rates are also on the rising side. So, we are evaluating this, at the right time we will be placing that. And this will be used for the funding of the CAPEX mainly.

Saket Kapoor: Raman sir, what is currently our cost of funds, both at the long term and the short term and what have been the reduction? And then I have a question about the cash flow part on direct tax space?

Raman Chopra: Our long-term cost of borrowing is approximately around 8%-8½% but, the new loans which we are getting are in the vicinity of around 6½%, but those are MCLR there is an increase by the RBI, then they will also get increased. But, we are getting current loans at 6½%. And our short term, approximately might cost, all told will be around 5½% as of now, currently.

Saket Kapoor: Okay sir. We have also seen one investment in the inventory part in the current asset of 42 crores.

Raman Chopra: On the 30th of September, there was some money which was there. We had to make some loan repayment in the subsequent week. So, we have parked that money on a short-term basis in the fund, in the mutual fund.

Saket Kapoor: Okay sir. There will be a reduction in the overall debt, in the third quarter, is it?

Raman Chopra: Yeah, yeah.

Moderator: Mr. Kapoor?

Saket Kapoor: Ma'am, yes I will conclude ma'am, please give me this, I will conclude ma'am. Sir, on the direct tax paid, we have made a payment of Rs. 50 crores in the cash flow. So, as per our advance tax understanding, this is 45% of the total tax that is to be paid annually. In that case, are we looking for the next two quarters being lower than what the first half is, because if I do the back calculation, this is what the 18% we have paid on a profit of say, around 550 crores for the full year? I was just trying to work out of the ratial of Rs.50 crores as direct tax being paid. This is 45% of the total tax to be paid sir.

Raman Chopra: This was paid based on the projection which we had made at the beginning of the year, which was revised after the first quarter. Now, as we said

there has been changes. And this is such a volatile market and there have been changes both in soda ash pricing as well as in the textile. So, balance figure, based on that the revision, we will make the payment on 15th of December. So, this is, you are right, this is the number will be much higher than what have been projected here.

Moderator: Thank you sir. Sir, the next question comes from Mr. Rohit Sinha from Sunidhi Securities. Please go ahead, sir.

Rohit Sinha: Thank you. Sir, could you just give us the number for CAPEX for our FY2022 and FY2023 and same for the, what debt level we could expect for FY2022 also?

Raman Chopra: So far as 2021-2022 is concerned, our capital outlay will be something around Rs. 200 Cr next year 2022-2023. As of now, whatever CAPEX we have considered as of now will be in the vicinity of around Rs.200 crores, which has been frozen. So, this does not take into account the allocation on account of greenfield or any product basket expansion or backward integration project, which numbers will come once we close those opportunities. Because, based on the confirmed projects, whatever we have undertaken, the number will be in the vicinity of around Rs.200 crores.

Rohit Sinha: 200 crores for FY2022?

Raman Chopra: FY2022-2023. FY2022 will be approximately 400 crores to 425 crores.

Rohit Sinha: Okay. And what sort of debt level we should be expecting?

Raman Chopra: At the beginning of the year, we had a debt of around, closer to around Rs.775 crores. So, we will be more or less in the same range. So, whatever CAPEX we are doing, we should be able to finance through the internal accruals. So, that is where we are as of now.

Rohit Sinha: Okay. So, no major debt reduction you are expecting?

Raman Chopra: Yes.

Rohit Sinha: Okay, that is it from my side. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, that was the last question. Now, I hand over the floor to the management for closing comments.

R.S. Jalan: Thank you. Thank you everyone for participating in our call. And as we have been saying always, we are doing our best to make sure that we create value for all our stakeholders and our endeavor towards that will continue. Thank you for participating.

Moderator: Thank you sir. Ladies and gentlemen, with this we conclude our conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good evening everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.