

Operator: Ladies and gentlemen, good day and welcome to DCW Ltd. Q1 FY27 earnings conference call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. [inaudible]. Over to you, ma'am.

Operator: Hello and good afternoon to everyone. On behalf of Arihant Capital Markets Limited, I thank you all for joining the Q1 FY27 earnings conference call of DCW Ltd. Today, from the management, we have Mr. Satvik Jain, President; Mr. Sudarshan Ganpati, CEO; and Mr. Pradip Mukerjee, the CFO. Without any further delay, I will hand over the call to the management for their opening remarks. Over to you, sir.

Satvik Jain – President: Thank you, and good afternoon, everyone. Thank you for joining us for DCW Ltd.'s Q1 FY27 earnings call. I will begin with the operating environment because Q1 was shaped significantly by external disruption.

The global chemical industry remained challenging during this quarter. Competitive exports from China continued to pressure pricing and trade flows, particularly in commodity chemicals. At the same time, the conflict in West Asia disrupted crude-linked feedstocks, shipping routes, and supply chains. For India, this translated into availability constraints and sharp volatility in energy and petrochemical input costs. Domestic demand, however, remained reasonably resilient, supported by infrastructure, housing, water management, and manufacturing activity. While near-term conditions remain volatile, we continue to believe that India's long-term chemical opportunity, driven by domestic consumption, import substitution, and supply chain diversification, remains intact.

Against this backdrop, Q1 was an extremely difficult quarter for DCW Ltd., particularly for our PVC business. Revenue from operations grew 14% year-on-year, led by 38% growth in specialty chemicals. Sequentially, revenue declined 11%, mainly due to higher captive consumption of PVC for our CPVC business, lower PVC production, and the liquidation of some synthetic rutile inventory in Q4 last year. Profitability was significantly affected by a combination of factors in PVC. The West Asia disruption constrained VCM availability, resulting in lower PVC production while VCM prices were elevated. This coincided with the temporary suspension of import duties, which increased the flow of lower-priced imports into India and further pressured domestic realizations. Together, lower production, higher input costs, and weaker realizations had a disproportionate impact on the quarter.

Importantly, we see these pressures as largely event-driven rather than structural. VCM availability has improved, and supply chain conditions have begun to normalize. Normal import duties have also been reinstated, and the government has subsequently introduced a minimum import price framework for suspension-grade PVC. From where we stand today, the operating environment for PVC is more constructive than during Q1.

Our specialty business continued to demonstrate the resilience we have been building into our portfolio. CPVC production and sales ramped up strongly following the recent expansion, and our specialty chemicals EBITDA grew approximately 20% year-on-year. Demand for synthetic iron oxide pigments remains healthy across construction, infrastructure, and paints and coatings. The increasing contribution of our value-added products again helped support the company through an unusually weak quarter for the basic chemicals segment. This reinforces why our strategic direction remains unchanged.

As I mentioned last quarter, we have spent the last few years strengthening DCW Ltd.'s foundation, repairing the balance sheet, reducing debt, improving operations, and increasing our specialty chemicals contribution. FY27 marks a point where we begin moving from strengthening that foundation to building for the next phase of growth. We expect our legacy long-term debt to be fully repaid during this year. Before incremental borrowings for new growth projects, we remain on track to become effectively net debt-free by the end of FY27. This gives us the capacity to invest from a position of considerably greater financial strength.

This next phase of growth is also accompanied by an important leadership transition. We are pleased to inform you that we have appointed Sudarshan Ganpati as our CEO. As we embark on this next phase, his experience and execution capabilities will be important in translating our growth strategy into operating performance.

Yesterday, we announced the first step in what we envisage as DCW Ltd.'s next five-year growth journey. This involves a 250 crore investment program over the next 2–3 years. The first part is the expansion of our synthetic iron oxide pigment capacity from approximately 30,000 tons to 45,000 tons per annum. Phase one will add 7,000 tons, which is targeted for completion by Q4 FY28, with infrastructure and utilities sized for the subsequent phase of 8,000 tons. Alongside this capacity, we are broadening the pigment portfolio with newer value-added products, including micronized grades, to improve our mix, margins, and addressable market.

The second part is an investment in captive power infrastructure at our Sahupuram facility, also targeted for completion in Q4 FY28. This is aimed at structurally lowering power costs and improving operating efficiencies across both our specialty and basic chemicals businesses.

Our approach to growth remains disciplined. We are targeting a minimum incremental ROCE of 20% on our new investments. We are not pursuing growth for the sake of growth. We intend to deploy capital where we have an existing competitive advantage, established customer relationships, and the ability to earn attractive returns. Despite the impact of PVC in Q1, based on current visibility, we continue to expect FY27 to close at a better level than the previous fiscal year. Our priorities remain clear: maximize our existing assets, execute our growth initiatives with discipline, improve the value-added mix, and build the organization for a larger scale of operations. We believe that our diversified portfolio, integrated manufacturing platform, and strengthening balance sheet provide a strong foundation for this next phase of our company.

With that, I will hand it over to Pradip, our CFO, to take you through our financial performance. Thank you.

Pradip Mukerjee – CFO: Thank you, Satvik, and good afternoon, everyone. Welcome to our Q1 earnings call.

Revenue for the quarter stood at 542 crores, representing 14% growth on a year-on-year basis. This growth was primarily driven by the strong performance of the specialty segment, which reported revenue of 177 crores, representing 33% of our total revenue. The segment's performance was supported by a 59% increase in CPVC volumes and roughly 3% in SIOP. On a sequential basis, revenue declined 11% despite a 6% increase in the specialty segment. The decline was largely attributable to a one-time base effect in the basic chemicals segment, where revenue reduced to 361 crores, down 18%. This was mainly due to an exceptional Q4 inventory liquidation sale of synthetic rutile, which created a higher comparable base and should therefore be viewed as a non-recurring impact.

It is also important to highlight that the West Asia crisis led to the temporary non-availability of VCM. Along with the increased PVC-CPVC integration, this resulted in a 20% drop in PVC volumes during the quarter. This disruption was external and temporary in nature and had a one-time adverse effect on the quarter's operating performance.

EBITDA, including other income, stood at 41.4 crores for the quarter, lower by 28% on a year-on-year basis. This decline came despite 20% growth in EBITDA from the specialty chemicals segment. The basic chemicals segment reported negative EBITDA of 14 crores, primarily due to losses in the PVC business arising from the temporary supply chain disruption and elevated VCM prices caused by the West Asia crisis. In addition, the temporary suspension of import duties on petrochemical products adversely affected PVC realizations and margins. Both these factors were largely one-time in nature and weighed disproportionately on the quarter's reported EBITDA.

On a sequential basis, EBITDA, including other income, declined 41% even as profitability in the specialty segment improved significantly by 35%. Specialty chemicals were significantly impacted by the PVC business, while caustic soda witnessed margin expansion during the quarter. The sequential decline was therefore not reflective of the underlying business trends. This was mainly driven by the one-time impact in PVC, as explained earlier.

Finance cost stood at 14.8 crores, demonstrating a reduction of 2% on a year-on-year basis and 4% sequentially. The declining trend continued, reflecting the company's ongoing deleveraging efforts. Depreciation for the quarter remained broadly stable at 26 crores, with a marginal increase in line with project capitalization.

It is important to mention the tax impact that we have recognized. Pursuant to the amendment in corporate income tax under the Finance Bill 2026, accumulated Minimum Alternative Tax (MAT) credit can now be utilized only if domestic companies transition to the new concessional tax regime. The applicable tax rate under the new tax regime is 25.17%, including surcharge and education cess, compared to 34.9% under the old regime. Further, domestic companies are permitted to take a set-off of 25% of the regular tax liability through MAT credit utilization. Accordingly, the company has decided to migrate to the new tax regime, resulting in a reduction in net deferred tax liability by 34 crores.

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Management: This was on account of the old rate differential. Overall, the company's Q1 operating and financial performance was significantly affected by non-recurring external factors, particularly the PVC business disruption caused by the West Asia crisis, resulting in temporary supply constraints, elevated VCM prices, and the suspension of import duties on petrochemical products. These factors had a sharp one-time impact on volumes, realizations, and margins during the first quarter.

We are now witnessing normalcy being restored in VCM import prices, along with the reinstatement of import duties by the government. With these one-time headwinds largely behind us, we expect the coming quarters to reflect improved operating conditions and better financial performance. Thank you, everyone. With this, we can open the floor for the Q&A.

Operator: Thank you very much. We will now begin with the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question comes from the line of Aditya, an individual investor. Please go ahead.

Aditya – Individual Investor: Hi. Thank you for the opportunity. My first question is on the revenue side. Revenue grew 14% year-on-year but declined 11% quarter-on-quarter. Can you quantify how much of this sequential decline was due to higher captive PVC consumption for CPVC, lower PVC production, and synthetic rutile inventory liquidation in Q4 FY26?

Management: I think the revenue decline was primarily impacted by the one-time base effect from the Q4 inventory liquidation of synthetic rutile. In addition to that, PVC had a couple of days of plant shutdown, but we did not calculate the figure. The one-time impact of synthetic rutile would have more than accounted for the impact on the total top line.

Aditya – Individual Investor: My other question is that specialty chemicals revenue grew 38% year-on-year, but EBITDA grew only 19.2% year-on-year. The margins in this segment fell from 33.6% in Q1 FY26 to 29.1% in Q1 FY27. What is driving this margin compression despite strong volume growth, and is 29% the new normalized range for specialty chemicals margins after the CPVC capacity expansion?

Management: The margin in the specialty business consists primarily of two products, as you rightly pointed out. One is CPVC, and the other is SIOP. While we are growing CPVC as our capacity comes up, there is always a dynamic equation between the PVC and CPVC spread, similar to what we have for VCM and PVC, because PVC is used in the manufacturing of CPVC. That spread has been very volatile and dynamic, given the PVC prices, the import duty abolition by the government during the quarter, and all these factors being reflected in PVC profitability as it moves from basic chemicals to specialty chemicals.

As far as SIOP is concerned, our margin remains robust, and we finally expect this year to be able to tie up our entire capacity of 28 kt, for which we carried out capacity debottlenecking 1.5 years ago. Therefore, it will always be dynamic. The good part about DCW Ltd. is that we are a 1 lakh ton PVC

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producer and a 50,000 ton CPVC producer. Normally, when profitability in basic chemicals is driven by PVC, there will be an effect on CPVC profitability as well. Therefore, it would be difficult to state a steady-state margin for basic chemicals as well as specialty chemicals, because a part of PVC, or 50% or 40% of PVC, goes into CPVC. That is dynamic.

Aditya – Individual Investor: My other question is on the exports side. Export revenue was 18% of FY26 revenue. How did the export mix trend in Q1 FY27, and was there any impact on export realizations from global trade or tariff dynamics?

Management: Our products are not impacted by tariffs in any way. I think not even the US tariffs for SIOP, where we export. Typically, around 60% of our SIOP production is exported, predominantly to the US. We export 100% of our synthetic rutile volumes, and occasionally we have bulk export shipments for caustic soda. We really do not see any impact on the company's export capability or any trade barriers affecting exports.

The way it develops is that our SIOP business is somewhat cyclical, and our SIOP volumes have typically surged over the years in Q3 and Q4. To that extent, you will see exports doing better in terms of value on the top line.

Aditya – Individual Investor: I have one last question. The basic chemicals EBITDA margin turned negative. It was negative 5.2% in Q1 FY27 versus positive 2% in Q1 FY26. Could you break down how much of this was due to PVC and caustic soda pricing?

Management: Caustic soda, across the three segments, on both a year-on-year and sequential basis, has more or less remained the same. The biggest dent this year, or rather this quarter, has predominantly been in PVC because of the one-time effect we have been discussing. There are two things that happened in the PVC segment. The first was the duty abolition, through which net realizations and margins were impacted. The second was the availability of VCM and the price at which we procured VCM in Q1, which was related to the West Asia crisis. As of now, we see the situation returning to normalcy, and that gives us the confidence that, assuming normalcy settles down, our results in the coming quarters would be better.

The second thing that is very clearly evident, as I mentioned, is the cyclicity of exports to the US for the SIOP business, which will also provide a positive margin contribution. We are not calculating profits at a product level; we are doing so at a segment level. The numbers we are reporting, or the evidence on which we are informing you, is based on the direct cost and the revenue for the product.

Aditya – Individual Investor: Got it. Thank you.

Management: Thank you.

Operator: Thank you. The next question comes from the line of Madhur Rathi from Countercyclical Investment. Please go ahead.

Madhur Rathi – Countercyclical Investment: Thank you for the opportunity. Could you quantify the actual contribution, or the losses in the basic chemicals segment from PVC? The loss for overall basic chemicals at the EBITDA level was 18 crores, and it seems that caustic soda and soda ash

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were positive. Could you tell us what the losses related to PVC were?

Management: We can only give you a directional number because the fixed-cost allocation for basic chemicals is common. When we were reporting PVC as a separate product segment, we had an allocation basis, which we have stopped using now because we are reporting segments based on basic chemicals and specialty chemicals. What we can say is that it could be anybody's number, but we have a guesstimate of a sequential swing of around {? 50-55 crores ?} in the PVC business.

Madhur Rathi – Countercyclical Investment: I did not hear you properly. Did you mention that 50-55 crores was the loss for the quarter in the PVC segment?

Management: No, it is the swing because Q4 had a profit. Q4's PVC-VCM spread was high. From that level to what impacted the variable cost or the contribution, we estimate that it would be around {? 50-55 crores ?}.

Madhur Rathi – Countercyclical Investment: The quarter-on-quarter swing was 50-55 crores in the PVC spread?

Management: Yes, at the contribution level.

Madhur Rathi – Countercyclical Investment: Is it safe to say that in our Q1 numbers, the 28 crore loss from the basic chemicals segment, or PBIT loss, was entirely from PVC, while soda ash, caustic soda, and synthetic rutile, the other three, were profitable?

Management: Yes.

Madhur Rathi – Countercyclical Investment: Since all our divisions, especially in the basic chemicals segment, must be in the smallest quintile in terms of plant sizes, is that correct?

Management: We missed your question. There was a disturbance. Could you kindly repeat it?

Madhur Rathi – Countercyclical Investment: My question is that in our basic chemicals segment—caustic soda, soda ash, synthetic rutile, and PVC—the capacity of each of these must be in the smallest quintile of the industry?

Management: You are correct, but I think our soda ash capacity and PVC capacity are 1 lakh tons each, caustic soda capacity is basically 90,000 tons, and synthetic rutile capacity is 48,000-50,000 tons. We obviously have comparable numbers from other producers for the first three products. We do not have a comparable synthetic rutile producer in the country.

Madhur Rathi – Countercyclical Investment: In that case, since the cost of production is directly proportional to the size of the capacity, especially in the commodity segment, our break-even price would be among the highest in the industry by virtue of our plants being small. Is that assumption correct?

Management: It depends, and that is exactly where our investments in solar a couple of years ago, as well as what we announced this time regarding power plant efficiency capex, come in. We are continuously improving the cost structure and investing in the efficiency of the basic chemicals business.

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The organization's intention has been to grow in value-added products, which we call the specialty segment, and to continuously invest in and drive efficiency in basic chemicals so that we have a competitive landscape compared with other producers. Obviously, we do not have the capacity to grow significantly, so we are continuously trying to invest in efficiencies so that we remain competitive with our peers.

Madhur Rathi – Countercyclical Investment: In the synthetic rutile segment, there is a listed entity, Cochin Minerals and Rutile, which came out with very strong numbers. Its first-quarter EBITDA was equal to the EBITDA for the full previous year. Did we also see a similar expansion in margins in our synthetic rutile segment in the first quarter?

Management: The synthetic rutile margins have improved compared to last year because, last year, most of the consumers were carrying out inventory correction. Therefore, all synthetic rutile producers in the country had to sell at a price that was sub-par. Now prices have corrected, and eventually, for us, we will gradually see the benefit of this through the way we have tied up with our customers.

Madhur Rathi – Countercyclical Investment: As things stand in Q2, do you believe that we will be able to break even in our basic chemicals segment in the second quarter?

Management: It would be more than break-even in a situation as normal as it is today.

Madhur Rathi – Countercyclical Investment: Does the 400 crore EBITDA target still stand for FY27?

Management: No. I think 400 crore is an EBITDA target that we discussed a couple of years ago, when margin spreads and the EBITDA margin for the CPVC business were around 40%. The contraction in the PVC and CPVC spread that has happened...

Management: We think our steady-state EBITDA would be roughly around 300 crores. However, given that this steady state is tied up across all four quarters, we have to see how things shape up. Some of the factors have included a permanent loss in Q1 and capacity loss. We think you should assess us at a 300 crore EBITDA level on a steady-state basis.

Madhur Rathi – Countercyclical Investment: Lastly, last time we discussed a share buyback, and you mentioned that we would have to offer a 35% premium over the market price to do so, which reduced its attractiveness. SEBI has recently introduced an open-market share buyback, under which the company can directly buy shares from the market without giving any premium. At the current market price, the company can buy back and extinguish shares; the only condition is that promoters cannot participate. Since our stock price is currently 44 rupees, compared with 46 rupees in 2007, and the company is debt-free, it makes a compelling case for a share buyback.

Management: We are also considering this idea. We are glad that you raised this point, and we urge all our investors to recognize the value in the stock. We are considering this idea, and we will announce it at an opportune time if we decide to proceed.

Madhur Rathi – Countercyclical Investment: Have our caustic soda ECU realizations improved, given that we are currently using all the chlorine for CPVC compared with perhaps 2-3 quarters ago?

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Management: Definitely, our ECU realizations have improved because we no longer sell chlorine; we consume all the chlorine in-house. That is definitely a significant positive for us.

Madhur Rathi – Countercyclical Investment: Can you quantify the chlorine effluent treatment charges or chlorine lifting charges that we used to pay earlier, and how much they have reduced on a year-on-year basis in FY27 compared with what we previously expected?

Management: I do not think we maintain any record of that, but there were no effluent charges on chlorine. Chlorine was only sold at a negative price in the past. Now, because we are consuming it ourselves, that negative has become a cost. We are transferring the chlorine at cost, so to that extent, the benefit goes to the caustic soda division.

Madhur Rathi – Countercyclical Investment: For the SIOP capex that we are undertaking, what kind of revenue are we expecting? What is the current realization per metric ton, what kind of margins are you expecting on this product, and how is the raw material sourcing for this product with the expanded capacity?

Management: Our announcement has provided a top-line estimate and an assumption regarding the total capex and its bottom-line effect. A large share of that would come from the SIOP business itself. Obviously, there will also be some savings from efficiency improvements. I think the margins should be somewhere around 35–36% and have remained stable ever since we have been communicating this. Prices would be somewhere above 80,000 rupees or around 80,000 rupees per ton.

Madhur Rathi – Countercyclical Investment: That is all from my end. Thank you very much, and all the best.

Management: Thank you.

Operator: Thank you. Before we take the next question, a reminder to all participants: to ask a question, please press star and one. We have the next question from the line of Pujan Shah from Molecule Ventures. Please go ahead.

Pujan Shah – Molecule Ventures: Thank you for the opportunity. I want to understand, first of all, the PVC cycle. We have seen considerable volatility in PVC realizations during the last quarter because of the geopolitical scenario. We have also seen the government reimpose the duty that had been removed, and the government has also imposed a minimum import price at the current juncture. In that case, do we see PVC prices bottoming out in the range of 85–87? How do you see the scenario, given that the MIP is in place for approximately 6 months? Could you throw some light on that?

Management: If you compare it with the MIP, the bottom could be 80 rupees because the MIP translates into a price of 80 rupees. Fortunately for us, today the offers and import parity are at a price much higher than the MIP. Today, prices are in the vicinity of 820–860 levels, and domestic prices have also adjusted to that level. As we speak, prices are much higher than the MIP, and the MIP has been put in place only to protect the bottom.

We do not expect prices to go to MIP levels in the near future because the only country that can offer a lower price is China, and China has logistics and transportation issues. Therefore, we expect prices to remain at these levels at least for this quarter. At this level, with VCM prices having corrected significantly, I think we should do reasonably well, if not exceptionally well.

Pujan Shah – Molecule Ventures: Coming to the same point, we suffered because of the inflated VCM prices, but now that they have cooled off and the spread seems to have moved to a positive level, do we expect the coming quarter to be a significant positive for basic chemicals? We performed positively in caustic soda and synthetic rutile, but we were impacted by PVC.

Management: It should be positive, but you should also take into account that July was a month in which we were carrying stocks, and duties had also not been restored for a major part of the month. As the months progress from August to September, I think we will do well. Basic chemicals should definitely do better than what we did in Q1.

At the same time, I would also like to point out that if PVC prices and the VCM spread provide a positive delta to our Q1 result, we also need to factor in that there will be some lag in the PVC-CPVC spread, and there could be an expected margin contraction in the specialty business. Overall, for an organization where PVC capacity is double CPVC capacity, this is beneficial for the organization.

Pujan Shah – Molecule Ventures: I am referring to the same point because, if we look at CPVC as well, PVC prices have moved up and we have seen a similar increase in CPVC. Do you feel that prices will remain at that level because PVC has been bottoming out, or because of the imposition of government duties? Should CPVC also remain somewhat higher, helping us achieve better realizations? Obviously, this may not be fully reflected because we have some inventory gains, but I want to understand the broader picture.

Management: Like VCM and PVC, there is a lag between PVC and CPVC, and similarly, there will be a PVC-CPVC spread with a lag. It would not immediately help because we accept orders at a particular price and have to honor the prices agreed with our customers. The benefit will come with a lag.

What we also need to understand is whether the standard spread we expect settles after this disruption. Immediately, we would see our future orders coming in at a higher price, but the lag effect of the old orders would obviously play out negatively in the specialty chemicals business.

Pujan Shah – Molecule Ventures: Can you share the current spread between PVC and CPVC and between VCM and PVC?

Management: It is difficult to gauge precisely, but having said that, the spread could be anywhere above 25,000 rupees per ton.

Pujan Shah – Molecule Ventures: Is the spread you just mentioned for PVC to CPVC?

Management: Please repeat that.

Pujan Shah – Molecule Ventures: Is the spread you just mentioned for PVC to CPVC?

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Management: No, PVC to CPVC.

Pujan Shah – Molecule Ventures: I also want to understand the current scenario for synthetic rutile. We have seen a significantly higher price for synthetic rutile, and I want to understand your perspective. We have run down our inventory, and there is also a new agreement coming up with Japanese customers that will yield a much better realization. Do we now see any significant negative impact on synthetic rutile, or should we expect a good quarterly EBITDA for synthetic rutile on a steady-state basis?

Management: Going forward, synthetic rutile EBITDA should be much better at an annual level compared with previous years, as you have rightly indicated based on the developments in the business. However, our supply scheduling also plays a role. What happens is that it is not primarily a reduction in cost; rather, it is more about our customer mix. On an annual level, the customer mix looks much better compared with last year, and the scheduling of deliveries to higher-priced customers is expected to gradually increase during the quarters. It is back-ended.

Eventually, you can expect an improvement in profitability in the synthetic rutile business in the coming quarters. There are three positives for us, starting from this quarter and continuing into the coming quarters. The first is the cyclicity of SIOP, where we have generally and historically seen SIOP volumes grow more in Q3 and Q4. The second is the scheduling of supplies to higher-priced synthetic rutile customers, which is also back-ended for us. The third is that we have a positive VCM-PVC spread compared with the previous quarter. The only negative we see is how the CPVC and PVC-CPVC spread will play out immediately in the current quarter and the coming quarters.

Pujan Shah – Molecule Ventures: Coming to the upcoming capex that we announced, I want to understand the 250 crores specifically dedicated to SIOP, including phase one and phase two. How much are we planning to fund through borrowings? If we set aside the Q1 impact, we can easily generate 150 crore cash flow over the next three quarters. Do you feel we need any debt for the capex, or are we self-sufficient through internal accruals?

Management: As an organization, for the last couple of years we have been doing two things: running down leverage and undertaking capex in bite-sized investments. As part of our treasury discipline, we also try to maintain cash equivalent to 5-10% of the top line. Given this scenario, we would be borrowing. Since our debt levels are coming down to a significantly lower level, we believe that a negative spread of 1-1.5% between cash and cash equivalents and borrowings is a welcome and comfortable situation to maintain. Therefore, we would be taking on borrowings.

Pujan Shah – Molecule Ventures: First of all, how much are we planning to repay from the legacy borrowings this year, and how much are we planning to raise for SIOP? This debt will mainly be raised in FY28, correct?

Management: We are starting the capex as announced, and we expect to borrow slightly more than our repayments. Our repayments would be roughly 135 odd crores. We will borrow slightly more. That also depends on the cash level we want to maintain and the cash generation or accruals for the next 9 months. We will try to balance these factors. There would be some negative carry on the balance sheet in terms of the differential between interest income and interest expense, but we need to determine that and come back to you after doing so.

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Obviously, we would keep our leverage in check and continue to maintain 5–10% of our top line as cash and cash equivalents in the form of fixed deposits, mutual funds, and so on.

Pujan Shah – Molecule Ventures: Got it, sir.

Pujan Shah – Molecule Ventures: Thank you for joining us. We will start after Q4 FY28, so we will commission it, announce it early, and then commission it in FY29. What are your thoughts on this?

Management: Q4 FY28 is when we have said that we will commission the plant. With our expertise in dealing with the product over the last almost decade, we think that commissioning and commercializing the first 7,000 tons and the value-added products we are introducing into SIOP would not involve too much of a lag. We intend to start the next phase immediately after that.

Pujan Shah – Molecule Ventures: Got it, sir.

Management: We may also bring it forward if the market pushes us into a situation where we start running back orders. We will see. Perhaps as H1 FY28 comes to an end and we are almost at the final stage of commissioning the first phase, we will take a call at that time.

Pujan Shah – Molecule Ventures: Got it, sir. Thank you very much for all the answers. I am done with the questions.

Management: Thank you.

Operator: Thank you. The next question comes from the line of Madhur Rathi from Countercyclical Investment. Please go ahead.

Madhur Rathi – Countercyclical Investment: Thank you for the opportunity once again. I wanted to understand whether there was any inventory gain for SIOP and CPVC during this quarter. You mentioned that, due to the lag effect, there might be some pressure going forward. During this quarter, was there any inventory gain scenario for the specialty segment?

Management: In the specialty segment, our profits were higher on a sequential basis despite a contraction in the PVC–CPVC spread because, while PVC prices fell, CPVC prices also fell. That definitely indicates that there was an inventory gain on the limited amount of PVC that we diverted for CPVC.

Madhur Rathi – Countercyclical Investment: What about SIOP as well? Ammonia is a major raw material, and its price also increased after the war. Could you comment on that product?

Management: In SIOP, we were able to pass on all the increases to customers. Whatever the cost increase was on account of higher input prices, we were able to pass it on to our customers.

Madhur Rathi – Countercyclical Investment: Is this entire SIOP expansion a brownfield expansion?

Management: Yes.

Madhur Rathi – Countercyclical Investment: Can the margin profile be better than the 34–35% levels that you used to achieve earlier because of operating leverage coming into play?

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Management: We have not yet mapped what the {? best ?} absorption of fixed costs will be. All those factors will become clear as the project takes shape. We are only assuming that the current margins will continue in our ROCE calculations and payback assessment.

Madhur Rathi – Countercyclical Investment: Going forward, we expect there could be some pressure on CPVC and PVC because of the increase in PVC prices. However, if I look at our integrated margins from VCM to CPVC, can we expect to maintain these margins going forward?

Management: I think we should be able to maintain them. That is the whole objective. Basically, the margins from VCM to PVC and from PVC to CPVC are what we need to monitor. However, you need to understand that our PVC capacity is double our CPVC capacity. If PVC prices go up, the inventory gain from VCM to PVC is somewhat higher than the contraction in the PVC-to-CPVC spread.

The fact of the matter is that growth in the CPVC business, or the specialty segment, would not be robust, or it may contract. However, growth in basic chemicals would be almost double the contraction in the PVC-to-CPVC spread.

Madhur Rathi – Countercyclical Investment: That is all from my side. Thank you very much.

Management: Thank you.

Operator: Thank you. The next question comes from the line of Khushi Solanki from Agarwal & Company. Please go ahead.

Khushi Solanki – Agarwal & Company: Am I audible?

Management: Yes, you are. Please go ahead.

Khushi Solanki – Agarwal & Company: Thank you for the opportunity. I wanted to ask whether you could elaborate on the impact of feedstock prices on VCM availability. Is this a logistics issue or an actual supply shortage?

Management: It is a natural supply shortage because VCM was usually sourced from Asian producers, who in turn used to buy their crude feedstock from the Middle East. Because of the conflict, the feedstock supply to the Asian suppliers was subject to force majeure, which forced them to curtail their operations. This, in turn, resulted in lower quantities being available from our traditional suppliers. Therefore, whatever quantity we purchased, we purchased from China, which was on a spot basis and at a much higher price.

Khushi Solanki – Agarwal & Company: Can you provide some strategy for dealing with this VCM procurement issue?

Management: There cannot be a strategy for a war because we hope this is a one-time event, and I do not think we can devise a strategy based on it. Asian producers will continue to depend on the Middle East. I do not think they have the ability to buy from Russia or other sources. This is a one-time event, which is how we should consider it.

The strategy has two aspects. One is the availability of the material, and the other is the price. As an organization, we were previously taking VCM from a single producer, which was producing it and sending it to us. As a strategy, we migrated to a global distributor that supplies VCM manufactured in different parts of Asia. The supply situation for us has been relatively addressed through this migration, but the increase in prices is difficult to strategize around.

Khushi Solanki – Agarwal & Company: What percentage of our VCM requirement is currently imported versus sourced domestically? Are there any plans to backward-integrate further into VCM to reduce this volatility?

Management: Are you asking specifically about our company?

Khushi Solanki – Agarwal & Company: Yes.

Management: There is no major VCM seller in India. Therefore, all VCM is imported, not only by us but also by other PVC producers that follow this process. It would be difficult for us to undertake backward integration because our capacity does not justify integration at this level, unless we decide to expand our CPVC capacity fivefold. As we have already communicated clearly, we are unlikely to expand significantly in any of our basic chemicals unless there is a need to augment our specialty business.

Khushi Solanki – Agarwal & Company: How are the salt, chlorine, and hydrochloric acid costs trending, given that these are captively produced? Is this self-sufficiency in these inputs providing adequate insulation from the current cost inflation?

Management: I did not understand your question. Could you please repeat it?

Khushi Solanki – Agarwal & Company: I wanted to ask how the salt, chlorine, and hydrochloric acid costs are trending, given that these are captively produced.

Management: We predominantly use our captive salt, which is used for both our caustic soda and soda ash businesses. Chlorine and HCL are by-products of our process output. Over the years, we were under pressure because we had to sell the chlorine generated from caustic soda, as it was not being absorbed internally by our CPVC volumes.

We have now become chlorine-neutral. As a result, the ECU in our caustic soda business has improved, thereby improving profitability in the caustic soda department or product. These other two inputs are by-products of our process, while salt is something for which we use our internal resources. Therefore, we are not exposed to market dynamics in procuring any of them.

Khushi Solanki – Agarwal & Company: That is all from my side. Thank you very much.

Management: Thank you.

Operator: Thank you. The last question comes from the line of Hari Kumar, an individual investor. Please go ahead.

Hari Kumar: Am I audible, sir?

Management: Yes, please go ahead.

Hari Kumar: I have two questions. Regarding the cash generation expected to be much higher going forward, why are our expansion plans so conservative? Could we diversify into other chemicals or develop something new?

Management: As an organization, we have been working on balancing chemistry at our top facility and on allied or related value-added products. The expansion in CPVC during the first phase was primarily due to chemistry balancing, as I mentioned, through which we became chlorine-neutral. We have now announced an increase in SIOP volumes because we are very excited about this segment and see a long runway for this product.

We also have a significant moat in terms of the entry barrier to the product because the capital investments are very high. We had made a very large investment in the first 28 kt, and we have seen the results of that investment. Therefore, it is attractive for us to grow in this segment and retain our moat.

That has been the first level of growth that has been undertaken or announced. Any growth that comes in will only be in related chemistry. We currently see a runway for growth in related chemistry, and therefore we are not entering unrelated chemistry at the moment because we do not believe that we have exhausted our opportunity in related chemistry.

Secondly, as an organization, we are driven by both domestic and export markets. With SIOP, we have gained experience in exporting products to the US market. Therefore, the opportunity size opens up for us in related chemistry. As of now, we are not looking at unrelated chemistry because the market opportunity for us opens up not only domestically but globally as well.

Hari Kumar: Secondly, for de-risking VCM, could we increase the storage capacity to reduce the risk from market disturbances?

Management: Increasing storage capacity is, first of all, difficult because VCM is a gas. Secondly, increasing storage capacity is primarily a supply-chain decision; it is not a de-risking decision because VCM cannot be stored beyond a certain level. It would only help us with an additional 10–15 days of inventory storage, and we do not see sufficient value in that.

As I mentioned, previously we were taking VCM from a single source in Qatar. Today, we have de-risked our supplies by moving to a global VCM supplier. Therefore, our supplies have been significantly de-risked. However, in one-off situations such as war, the prices are something that I do not believe any organization can plan to de-risk.

As I said, we have no choice other than to work toward increasing storage capacity by another 15 days, and nothing beyond that.

Hari Kumar: Thank you, sir. That is all from my side. Thank you very much.

Management: Thank you.

Operator: Thank you. That was the last question, and I would now like to hand the conference over to the management for closing comments. Thank you, and over to you.

Management: Thank you, everyone, once again, for joining our call. I hope we have been able to provide clarity on all your questions. If there are any further questions, I request you to forward them to our IR advisors at Valorem. Thank you once again, and we look forward to speaking with you again next quarter.

Operator: Thank you. On behalf of Aryan Capital Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.