

Edited Transcript of GRASIM.NSE earnings conference call or presentation 23-May-18 9:30am GMT

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Grasim Industries Limited - Group Executive President & SBU Head, Chlor Alkali and Viscose Filament Yarn

* Rajesh V. Lachhani

Ladies and gentlemen, good afternoon, thank you for standing by and welcome to Grasim's Earnings Conference Call for Q4 FY '18. (Operator Instructions) As a reminder, this conference is being recorded on Wednesday, May 23, 2018. Hosting our call today are Mr. Dilip Gaur, Managing Director; Mr. Sushil Agarwal, Group CFO, Aditya Birla Group and Whole-Time Director of Grasim; and Mr. Raj Narayanan, Group Executive President and SBU Head-Chlor Alkali and Viscose Filament Yarn business. Following the presentation, the call will be opened to analysts and investors for questions. A replay of this call will also be available on our website.

I now hand the conference over to Mr. Sushil Agarwal. Thank you and over to you, sir.

Thanks. Thank you and good afternoon to everyone. FY '18 was an eventful year for Grasim as we accomplished notable milestone. The first and major milestone achieved was Aditya Birla Nuvo merger with Grasim, which became effective from July 1. The second milestone achieved was the listing of financial services business as Aditya Birla Capital in the Indian stock exchange as per the scheme of arrangement. Aditya Birla Capital got listed on September 1. We thank all the shareholders of Grasim for bestowing their faith on us and supporting us during the merger and listing process.

In line with our strategy of growing the viscose business, we acquired the right to operate and manage the VFY business of Century. Our chemical business recently commissioned caustic soda and VAP products facility at Vilayat. To fulfill our growth objective, we have expanded our business organically. The Vilayat expansion will strengthen our leadership positioning and improve our chlorine VAP production portfolio. Let me now focus on key milestone achieved by our cement and financial services business. UltraTech acquired 21.2 million tonne per annum cement capacity during the year and has successfully improved the capacity utilization of acquired assets. Our asset management business has improved its ranking to #3 from #4 after steadily gaining market share.

Strong operational performance reported by our business is visible in our financial performance are also milestone because some of these are historical numbers. In FY '18, at a standalone level, we surpassed INR 15,000 crore in net revenue, INR 3,500 crores in EBITDA and around INR 2,000 crores in PAT. On a like-to-like basis, after removing revenue and EBITDA contribution of ABNL business at the standalone level, the FY '18 revenue and EBITDA are higher by 30% and 14% year-on-year.

At the consolidated level for FY '18, we reported net revenue, EBITDA and PAT in excess of INR 55,000 crores, around INR 11,000 crores and around INR 3,000 crores. The revenue, EBITDA and PAT are reported for FY '18 at a standalone level; and consolidated level are highest ever in last 70 years of corporate history of the company. Strong operational performance of VSF and chemical business have led to better financial performance at a standalone level. Both these businesses reported highest ever production and sales in FY '18.

Let me take you through some of the key highlights for Q4 FY '18. Our standalone business reported yet another quarter of impressive performance. For Q4 '18 at a standalone level, Grasim reported net revenue at INR 4,600 crores; EBITDA at INR 947 crores; and PAT, excluding exceptional item of INR 219 crores, which is largely on account of stamp duty payments towards the merger of ABNL and Grasim, at INR 526 crores. On a like-to-like basis, after removing the revenue and EBITDA contribution from ABNL businesses from the standalone, the Q4 revenue and EBITDA rose by an impressive 26% and 35% Y-o-Y. We have a strong balance sheet and robust free cash flow. For FY '18, our standalone business generated FCF of INR 400 crores, post CapEx of around INR 2,000 crores.

Our strong balance sheet and robust FCF generation at the standalone level can take care of [over a \$1 billion] capital expansion program without an impact on the financial ratios. The company has embarked on a capital expansion program for VSF and chemical business. The board has evaluated the expansion of caustic soda and new chlorine VAP and has approved in principle for investment of around INR 1,000 crores. VSF demand is on firm footing. In FY '18, the business reported record production and sales volume and has successfully overcome GST challenges and the aftermath of demonetization.

The domestic demand is on a strong growth trajectory driven by market development efforts under Liva initiative. The domestic sales volume have grown by 22% in last 2 years. The number of Liva tagged garments witnessed a phenomenal rise, up 10x in last 2 years to [30 million] in FY '18. In Q4, production and sales volume were impacted by delay in regulatory approvals for enhanced capacity, post-debottlenecking. We have now received the approval for Vilayat and Kharach leading to an increase in nameplate capacity by 44 KTPA. In FY '18, the uptick in realization and better sales volume was impacted by the rise in input cost of caustic soda and sulfur. The power of integrated business model is visible on the robust performance of VSF business against the backdrop of rise in input cost as they are captively produced by Grasim. And going forward, the global price may remain soft as new capacities are commissioning [stays] internationally.

The chemical business performance in FY '18 has been outstanding with EBITDA witnessed a multi-fold increase. The annual EBITDA reported by the business few years back is equivalent to [1 quarter] of FY '18 EBITDA. Caustic soda prices consolidated during Q4 with capacity restarts in China. The domestic demand is driven by alumina and VSF and other user industries. Chlorine realization was in negative for a considerable period of time, turned positive driven by the demand from the end-user industry. The overall business performance of chemical business for FY '18 ended on a very good note. The business reported highest ever production, sales, revenue and EBITDA. The capacity utilization of the business for FY '18 was, at [94%], higher than the industry capacity utilization of around 80%. The caustic soda business witnessed a rise in input costs led by power and salt rates in the current year.

Cement sales volume are up 29% to 19 million tonnes, revenue up by 34% on Y-o-Y basis to INR 9,421 crores and EBITDA up by 20% to INR 1,887 crores for Q4. The operational performance of Jaypee assets improved significantly led by rise in average capacity utilization to 75% in Q4, which is similar for the industry. These capacities achieved cash breakeven in the current year -- current quarter.

The revenue and EBT as per IGAAP for Q4 are at INR 4,203 crores and INR 398 crores for financial services business. The NBFC lending book grew 25% Y-o-Y to INR 43,242 crores, and housing finance book grew by 2x on Y-o-Y basis to INR 8,137 crores in Q4. The asset management business moved up to the rank in #3 position. The average assets under management are up by 27% to INR 2,67,739 crores. The domestic market share of 10.75% and equity market share of 9.2% in Q4.

I would now hand over the call to Mr. Rajeev Gopal, the Global Marketing Head of Pulp and Fiber business for sharing some of his initiative taken by the VSF business on sustainability front. Over to you, Rajeev.

Rajeev Gopal, Grasim Industries Limited - CMO of Fibre & Pulp Business [3]

Thank you, Sushil. Good afternoon. In the VSF business, we are looking at sustainability holistically, right from forest-to-fiber, fiber-to-fashion and including the recycling of the final garments and therefore looking at it in a cradle-to-cradle approach. The business considers sustainability -- the drive that we have on sustainability as a competitive weapon because we feel that this will give us a competitive advantage in the marketplace.

We are looking at sustainability of raw materials, which is wood sourcing. Here, we are partnering with a leading NGO called Canopy, which is supported by all the leading global brands of apparel in the world. They are ensuring that -- or they are auditing and we are partnering with them to ensure that all our wood is sourced from renewable forestry, sustainable forestry.

Similarly, looking at further value chain, which is our fiber manufacturing, we are ensuring that not only are we meeting the norms that are set for by the government in each of the geographies that we operate in, but we are actually now aiming for international norms, which are defined by the EU Ecolabel norms and we are working towards this and making sure that all our operating units will gradually meet these very exacting norms in the years to come.

Our products, we are ensuring that we are developing more products which are highly sustainable. For example, the spun-dyed fiber that we have, which use far less water, and -- there is a very less effluent discharge in the value chain, is a sustainable product. We are working very seriously on increasing our capacity on lyocell fiber, which is a very sustainable product. We have certifications like OEKO-TEX, Nordic Swan, et cetera, and USDA, which are ensuring that the products that we sell to our customers are biodegradable and more sustainable.

We are also working further down in the value chain with our partners to ensure that they also improve their sustainability credentials. We are looking at traceability very seriously, so that the end garment can actually be traced right from forests to the final garment and all this will provide a competitive advantage to the business. Thank you.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [4]

Now we can open for the Q&A please.

Questions and Answers

Operator [1]

(Operator Instructions) We have the first question from the line of Gunjan Prithyani from JPMorgan.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [2]

Just couple of questions. Firstly, on the chemical business, you mentioned that there is an in-principle approval for INR 1,000 crores, now any more clarity on this as to timelines, capacity, how much of it will be captive for VSF. Any clarity on this?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [3]

So Gunjan, actually today the board has kind of in principle approved this investment and we are supposed to kind of go back to board with little more detail on the capacity and because there is a caustic soda capacity which we are going to add, we are going to add some new chlorine VAP uses. So there is a bit of work which we need to kind of do and go back to board and then we'll come back to you with little more detail exactly what we are going to do, what the timing, where is -- we are increasing what capacity. Broadly it is -- currently we are thinking that capacity would be added at Vilayat, but we want to come back to you with more details, maybe on next --

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [4]

It would be brownfield expansion in Vilayat itself?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [5]

That's right. That's right.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [6]

Okay and if at all, let's say you get the approval and then it is kick-started, when -- how long does it take for a brownfield expansion to come on stream?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [7]

So roughly around 18 months plus/minus.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [8]

Okay, once you approve and the works kick-starts?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [9]

Yes. So what I'm saying is that we need to go back with a little more detail on the -- broadly one of the thing which we are contemplating that Vilayat is one location, maybe realize another location. So we are doing little bit of work, thinking through where is the best use of adding that capacity from the company point of view.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [10]

Okay, got it. And also in the caustic slides, you mentioned that you -- after the slight moderation in caustic prices, you expect the prices to again improve, what's the -- I mean just trying to understand -- these prices have already risen fair bit?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [11]

Maybe you know, our English -- must be a little poor in communicating, but what we said or what we were trying to make a point was that chlorine prices, which were earlier negative is kind of showing some positive improvement. And second broadly that prices -- with a good demand in user industry, should remain broadly in this range. That's the message we wanted to leave.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [12]

Okay, but given that the chlorine prices realizations have been positive, do you see any risk to incremental capacity additions in the industry?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [13]

So, see the chlorine improvement has mainly happened due to the end-use sector doing very well. So the -- right now, the capacity utilization of caustic is improving because of better utilization of chlorine, which is leading to this. So, we don't see a risk from that aspect.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [14]

Okay and just last question on the VSF, can you share what's the share of specialty in the VSF and how are the VSF prices trending post the quarter close?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [15]

The share of specialty is about 35% normally, but in case of last quarter because we had to reduce our production deliberately, so what we did was, we only focused on the high-value specialty. So that portion remained at 30% [and other thing] and I think once our production is back, we will start making the other non-wovens more. And in terms of the pricing, I think the China prices are now inching up and there is a fair bit of stability there. And the issue is it is helping us 2 ways; the Chinese currency has hardened and the Indian currency has weakened. So, same [14,000] is much, much more in terms of delivered price to us compared to what it was 1 year back.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [16]

What would be the Chinese prices right now?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [17]

[14,200 to 14,300 RMB].

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [18]

Okay, got it. Thank you so much.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [19]

And Gunjan, just to kind of for you and for others' benefit, this production which we kind of curtailed in fourth quarter for VSF, just to make sure that you all read it well. We had a rated capacity and in earlier quarters, we were actually producing at a full capacity utilization with the assumption that debottlenecking regulatory approval will come sometime in quarter 3. Actually -- and the approvals actually have come in quarter 1 of the current fiscal. So in the last quarter, we had to adjust that production. So there is no issue with the production on the operation, but it was more of a approval which got delayed. Had to kind of cut down our production and which led to some lower ring of specialty production as well.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [20]

Okay, got it. And the debottlenecking, the whole contribution is done now, right? This --

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [21]

Yes, absolutely. Now we have a approval also in place and everything has been done.

Dilip Singh Gaur, Grasim Industries Limited - MD, Business Head of Fibre & Pulp and Director [22]

So we have built-in that volumes now, 45,000 tonnes extra.

Operator [23]

(Operator Instructions). The next question is from Tarun Makhija from Bank of America.

Tarun Makhija, HSBC - Analyst [24]

Sir firstly, if I look at your VSF segment realization, that's up by more than 20% Y-o-Y in fourth quarter FY '18. On the other hand, if I look at Chinese VSF prices, they have trended down in the last 6 months. So, can you -- and also your specialty has declined. So can you explain the divergence in [realization] in VSF segment?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [25]

You are talking FY '18 or Q4? What are we talking here?

Tarun Makhija, HSBC - Analyst [26]

Q4 FY '18.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [27]

See what happens that in the dollar terms, our prices were higher by about 6% to 7%, but in the rupee terms because the currency was [INR 64 it was about 3%, 2% to 3% increase Y-o-Y].

Raj Narayanan, Grasim Industries Limited - Group Executive President & SBU Head, Chlor Alkali and Viscose Filament Yarn [28]

There is no 20%.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [29]

There is no 20%. It is [2% to 3%].

Tarun Makhija, HSBC - Analyst [30]

Sir, it's actually 16% if I look at the realization is up in fourth quarter FY '18 and if I look at the Chinese prices, they have [trended] down as per the presentation. So I just wanted to ask you --

Raj Narayanan, Grasim Industries Limited - Group Executive President & SBU Head, Chlor Alkali and Viscose Filament Yarn [31]

The China's prices are different than the Indian prices because -- that's what we have been presenting that -- the 2 do not follow.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [32]

So I think Tarun one, you have to kind of make sure and I'm sure, were you there in the Vilayat presentation when we were talking about? So what we said that international prices, particularly China and any other market prices does not really represent what the Indian prices would be, and there are couple of reasons we have articulated. And one of the reason what we also said -- in addition to the currency fluctuation, which will happen from a time to time, which is currently the situation is -- but generally the local demand has been very, very good for VSF business in the country and that is led by the Liva initiatives which we talked about. I think in that background, the domestic prices is -- definitely has some reflection of the international price, but may not necessarily actually translate in a same way as possibly we would do in our normal maths.

Raj Narayanan, Grasim Industries Limited - Group Executive President & SBU Head, Chlor Alkali and Viscose Filament Yarn [33]

Well, the delta Y-o-Y is only 2% from the Indian prices. So, it is following the same trend. So there is a base level for India different and the base level globally.

Tarun Makhija, HSBC - Analyst [34]

Okay, understood. And you mentioned that you have already debottlenecked your 44,000 tonne per annum capacity at VSF, so now that would -- if I were to assume 8% growth of the Indian sector in VSF, that would be sufficient for your next year's capacity or next year's requirement, so beyond that --

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [35]

Broadly, broadly, but you see we may still be under pressure because the Indian demand is doing very well. I told you it is [you get 12%] in last quarter. So I think we'll be little bit -- but we'll see how to optimize it. As we told you last time, you always optimize the export. So we will maximize the domestic servicing and whatever remains, we export. So that's what we will do.

Tarun Makhija, HSBC - Analyst [36]

And sir, your brownfield expansion is scheduled to come in FY '21. So could there be a case of again supply crunch -- in FY '20 as well or do you have any plans of further debottlenecking?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [37]

We are working on couple of more proposals, but I think they have still not formed up because the issue is we have to get the environmental clearances, the public hearings, so it has their own cycles. We are working on some more ideas.

Dilip Singh Gaur, Grasim Industries Limited - MD, Business Head of Fibre & Pulp and Director [38]

So Tarun, the way you should see is, clearly one, in case if the demand surpass what we can produce, then we'll play on the export front. So that's one lever which we have and we're trying to kind of make sure that domestic demand is fulfilled first. That's our priority because that's where we are sitting market and we are doing various steps.

Operator [39]

Next question is from Amit Murarka from Deutsche Bank.

Amit Murarka, Deutsche Bank AG, Research Division - Research Analyst [40]

Just a couple of questions. Firstly, what was the VFY revenue and EBITDA and volume in the quarter, fourth quarter?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [41]

INR 121 crores revenue.

Rajeev Gopal, Grasim Industries Limited - CMO of Fibre & Pulp Business [42]

And INR 29 crores EBITDA.

Amit Murarka, Deutsche Bank AG, Research Division - Research Analyst [43]

And what would be the volume?

Rajeev Gopal, Grasim Industries Limited - CMO of Fibre & Pulp Business [44]

So this is only for the Century piece.

Amit Murarka, Deutsche Bank AG, Research Division - Research Analyst [45]

Okay.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [46]

So INR 77 crores is EBITDA for VFY as a standalone line, which would include both the existing Veraval as well as Century, 2 months for the last quarter.

Amit Murarka, Deutsche Bank AG, Research Division - Research Analyst [47]

Okay and revenue -- comparable revenue number?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [48]

Revenue --.

Rajeev Gopal, Grasim Industries Limited - CMO of Fibre & Pulp Business [49]

INR 211 crores is the VFY revenue for Q4 FY '18. INR 211 crores.

Amit Murarka, Deutsche Bank AG, Research Division - Research Analyst [50]

Sorry, I couldn't get the number. What was it?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [51]

INR 211 crores.

Amit Murarka, Deutsche Bank AG, Research Division - Research Analyst [52]

INR 211 crores, okay. And just on Harihar plant, pulp plant that is, so how do you foresee the water availability going into --

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [53]

The water availability this year is good. I think we don't expect any disruption because of water.

Amit Murarka, Deutsche Bank AG, Research Division - Research Analyst [54]

Okay. So you think it'll last till the monsoon?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [55]

Yes, the reservoirs are full and I think we have water for another at least 50 days minimum, so it should not be an issue.

Amit Murarka, Deutsche Bank AG, Research Division - Research Analyst [56]

Okay, sure, I'll come back in the queue if I have more questions, thanks.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [57]

And directionally, Amit, I think as we have been saying that one of the target for us is to consume lower water and we are taking lot of initiatives to reduce the water consumption itself.

Amit Murarka, Deutsche Bank AG, Research Division - Research Analyst [58]

And by when do you think that efficiency thing will be effective?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [59]

It's already happening. So each factory has brought down the water consumption significantly. In fact, we are amongst the lowest water consumer in the world now in the viscose production. So the Grasim has the lowest water consumption per tonne of viscose in the world.

Operator [60]

Next question is from Prateek Kumar from Antique Stockbroking.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [61]

Sir, my first question is regarding -- I mean, just -- with regards to the previous question asked. Is this -- you said VFY revenues are INR 211 crores. Is this for ABNL, VFY or like total because this number looks very low because earlier also we were doing INR 200 crores kind of number?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [62]

No, this is for the quarter. This is for the ABNL, VFY for 3 months.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [63]

So INR 211 crores would be for ABNL, VFY and then another INR 121 crores for Century VFY?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [64]

Yes.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [65]

Okay. And accordingly, if we just back calculate EBITDA per kg for like, let's say, Grasim VSF, it has fallen to some INR 26 per kg from INR 30, INR 31 kind of range in previous 2 quarters. So this is purely due to cost or like some product mix change or some domestic -- I mean, there's some realization pressure.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [66]

Realization has been higher, but because when the production goes down, the cost -- one is the volumes have been low and second, the caustic prices have moved up by about it is 43% Y-o-Y and quarter-on-quarter 10%. So all input prices, as we mentioned earlier, is sulfur went up by 80% in FY '18, caustic went up by 43%. So the re's [INR 318 crores] impact on input cost itself and Q4 bore the brunt of it.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [67]

Correct and on a sequential basis, as I'm also calculating myself, the prices for Grasim VSF has actually risen on an average basis.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [68]

That's right.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [69]

Okay and sir, this -- any specific reason for higher other income during the quarter?

Dilip Singh Gaur, Grasim Industries Limited - MD, Business Head of Fibre & Pulp and Director [70]

It's mainly because of the treasury gains, which [have come] during the quarter.

Rajeev Gopal, Grasim Industries Limited - CMO of Fibre & Pulp Business [71]

So, the size also has gone up for us?

Raj Narayanan, Grasim Industries Limited - Group Executive President & SBU Head, Chlor Alkali and Viscose Filament Yarn [72]

Treasury size has gone up and (inaudible) [MTM gain] .

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [73]

[MPF] gain is there.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [74]

Okay. And sir, just one last question. Do we also now give chemical segment split with -- that is Grasim as well as ABNL split now going forward?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [75]

Going forward, we're not going to share that, but anything we can tackle it offline because there is anything -- any special requirement you have.

Raj Narayanan, Grasim Industries Limited - Group Executive President & SBU Head, Chlor Alkali and Viscose Filament Yarn [76]

One and the same company, so there is no reason for us to sort of share that, but in any case, if you need any specific plant level operational details, we'll be happy to share with you.

Operator [77]

Next question is from Rajesh Lachhani from HSBC.

Rajesh V. Lachhani, HSBC, Research Division - Analyst [78]

Sir, just looking at the trends for cotton, VSF and polyester, sir, there is a firmness in the polyester price and even cotton prices over the last 3, 4 months have gone up and in fact, they're now trading at much higher than VSF. So just wanted to understand what's happening on the cotton side and why is VSF prices not trading at a premium?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [79]

The issue is -- you understand the VSF is going up because the crude prices are going up. The cotton prices are going up because the Chinese stocks are depleting now. They had the strategic stuff, which they have auctioned now. And India, there was a lot of -- this [ballroom effect] happened, so a lot of crop got -- so the yield was much lower and second in the government policies of MSP, with that 50% increase in the MSP, the cotton prices are expected to go up in India.

So in general, the cotton prices are likely to remain firm. Today, Y-o-Y, we are higher than last year. The global price of cotton is higher. So inter fiber dynamics, both the fibers are going to be higher. So obviously, VSF should gain. The only derailer is because when there is excess capacity coming on stream, people try to panic. So there (inaudible) happen. So sometimes, there will be an adjustment and then they should (inaudible) but fundamentally, there should be a positive impact on the VSF prices because of the inter fiber dynamics.

Dilip Singh Gaur, Grasim Industries Limited - MD, Business Head of Fibre & Pulp and Director [80]

So, in fact, if you see, it's actually playing that way only because this whole capacity expansion, which is taking place, the prices have not come up -- came off. So that's in a way is a premium, which is being reflective in the prices.

Rajesh V. Lachhani, HSBC, Research Division - Analyst [81]

Sir, just to summarize, so we can see VSF prices going up in the near-term and sir, also --

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [82]

There are 2 variables I told you, for inter fiber dynamics, it will be positive, but because of the excess capacity coming on stream, there will be an issue of getting market share. So players may

tend to lower the price. So again it will (inaudible) we have to see how it shapes up. And third, as we repeated and I want to repeat it, because one is the international price and second is the domestic price. So domestic price is slightly different than the international price although they'll catch up, they'll kind of tag along, but given whatever other things which we are doing in domestic market, maybe, and currency also will play a bit of a role. So I think there are lots of open loose ends. You have to kind of -- there is no fixed answer to this so-called big question, but --

Dilip Singh Gaur, Grasim Industries Limited - MD, Business Head of Fibre & Pulp and Director [83]

And the third fact is the specialty portion, but that remains unimpacted. So we'll have to maximize the specialty, maximize the domestic sale and see how it unfolds.

Rajesh V. Lachhani, HSBC, Research Division - Analyst [84]

Okay. And sir, your views on caustic soda prices going forward?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [85]

There are some -- going forward, we think that the (inaudible) maintain at similar levels what we're seeing. There could be some imbalances on caustic prices, but I think the chlorine prices are positive. So I think the (inaudible) prices going forward would be in the similar range as what we're seeing today.

Operator [86]

Next question is from Rishabh Parekh from Sunidhi Capital.

Rishabh Parekh, Sunidhi Securities & Finance Limited - Analyst [87]

Congratulation on a solid set of numbers. Just 2 questions. One is, while I appreciate the fact that there might be a lot of loose ends regarding the VSF business, what would be a broad range of margin that we can expect over the next year -- is 18% to 20% a fair assumption at the EBITDA level?

Dilip Singh Gaur, Grasim Industries Limited - MD, Business Head of Fibre & Pulp and Director [88]

I think Rishabh, I don't want to repeat what we spoke so far, but you know our intention would be to kind of operate at the best margin level, but in all fairness, 18%, 20% is a good range to kind of expect in a stable market condition.

Rishabh Parekh, Sunidhi Securities & Finance Limited - Analyst [89]

Right and my second question is, has the impact of China little bit of excess capacity already been seen to a certain extent in Q4 or do you see it going -- coming on stream from Q1 onwards?

Dilip Singh Gaur, Grasim Industries Limited - MD, Business Head of Fibre & Pulp and Director [90]

So, the way you should see and which is the point we were making that the whole cotton and then the PSF prices if they are going up, logically, the VSF prices should remain firm. And on the second side, if there is a capacity coming up on VSF side, the prices should be at least on a temporary basis, should see some negative reaction. So in some form, it is kind of balancing it out and we are seeing some trends because last call if you recall, we did mention that we will see a slightly softening of the price during this Q4 and relatively if you see the current result, it has not seen and that's the implication of whatever is happening in the market space.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [91]

For this, I would like to add, few capacities did come on stream, but they could not stabilize well. VSF is not a simple plant to commission and stabilize. The capacity which came up on stream in November and December have still not stabilized. [That can be] even at the start of the environment compliance has become a big issue in China. So lot of new plants are not able to start because of the environment compliance issue. There is a plant came in Indonesia, they have to shut the plant for that almost unconditionally. So, it is off for almost 6 to 8 months. What we are finding is all the plants are having an issue on stabilization time, environment compliance and third is the cost of compliance has become very high. So, we believe the break even for all these people have gone up.

So (inaudible) price cuts is not as much as it was 3 or 4 years back. All the sectors will bring a new equilibrium in the market. We have to wait and watch but we believe -- I mean, you used the word [nuisance], but I don't think there is an issue like this. It's a pretty okay kind of a situation. Yes, we have to see how it unfolds, but fundamentally, the cost part is we have to make sure. We are right on the cost slide, we have added capacity that should give us some extra revenues. So, I think it should not be as bad.

Operator [92]

(Operator Instructions) Next we have a follow-up question from Prateek Kumar from Antique Stockbroking.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [93]

Sir, my first question is regarding this Q-on-Q realization increase which we have witnessed in VSF segment. So is this because of higher domestic mix -- higher specialty fiber mix, because that's not very clear because global -- we know that domestic is independent of export realizations, but why are increases there specifically [due] to higher domestic mix?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [94]

You are right. The domestic mix was very high. We did 83% domestic, 17% export. The first quarter was 69% -- last year was 69% domestic, so we are slowly -- we have gradually taken from 69% to 83% over the 4 quarters. So I think that has been the big, big value driver. Secondly, as I mentioned to you, our specialty realization is very good. The premium we got over [Grasim's] was twice what we got last year. So these 2 factors added to the better premiums.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [95]

So quarter -- [year average was 75% for domestic, but we aggregated that 83%].

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [96]

That's right.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [97]

That should probably remain 80% plus in like '19 onwards, that should be -- that would be your target I guess?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [98]

As we speak, the domestic demand is very robust. Why it became 83% was also because of -- I had less capacity available. In this quarter, I'll have more capacity, [I'll be able to] export more. What I can assure -- say is that the domestic demand is robust and will continue. Percentage may change depending on what I produce. So because the surplus will go to export.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [99]

Okay and sir, about this negative chlorine realization trending towards positive, so is this after a very long time this has happened or I mean what is the sustainability of this positive chlorine

realization towards the end of the quarter and how is it in like current quarter?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [100]

So, it's happening after almost 6 to 7 years. We are witnessing this positive prices after a very long time. That's mainly because of the end-use sector, which uses chlorine, they have expanded. So we do feel that going forward, it's possible that the chlorine will remain in this territory.

Dilip Singh Gaur, Grasim Industries Limited - MD, Business Head of Fibre & Pulp and Director [101]

Now, I think important point which Raj earlier made was that issue realization you should actually keep in the mind, so maybe we had earlier negative realization from chlorine side, now we are seeing bit of a positive. At the same time, caustic which we had seen a good run in last year or so, maybe even if there is a bit of a drop there theoretically, yes, you should -- given on the current range, that's how you should see.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [102]

And sir, just one last follow-up on VSF capacity globally, so there was this, I understand there is [1 to 1.2 million tonne] of VSF capacity supposed to come globally and because of this stabilization and compliance cost issues which you mentioned, so what is the quantum of capacity which have come now in 1Q or a 5 months calendar '18.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [103]

If you like -- there is a capacity that have come, but they have not impacted the market so far. So they are still in the stabilization phase. We have kind of an estimate that during the full year against [1 million tonne, I think, about 0.5 million tonne] is what will hit the market, will impact. So the impact for the year is about 0.5 million tonne. Rest all will flow into next year based on the phasing.

Prateek Kumar, Antique Stockbroking Ltd., Research Division - Analyst [104]

So, this panic price reaction generally happens ahead of capacity roll-out only?

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [105]

What happens, it's a game of patience. So what happened, the spinners thought that the price will go down, so they stopped buying for some time. When they stopped buying for some time, the Chinese prices started coming down, then the VSF guys kind of told them look, below this level we cannot go because there [breakevens are changed]. When they did not react, automatically [the prices start] holding. So I think it's a -- market has to equilibrate. (inaudible) achieved in this market. Let's see how it comes.

Operator [106]

(Operator Instructions) Well, as there are no further questions, I'd like to hand the conference back to Mr. Sushil Agarwal for closing comments.

Sushil Kumar Agarwal, Grasim Industries Limited - CFO & Whole Time Director [107]

Thank you everyone for participating and our investor communication cell will be taking any specific questions if you have, you can connect with us offline with Romi Talwar at a group level, Saket Shah at a company level. Thank you so much.

Dilip Singh Gaur, Grasim Industries Limited - MD, Business Head of Fibre & Pulp and Director [108]

Thank you.

Operator [109]

Thank you very much. On behalf of Grasim Industries, that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.