Company Name: DCW Ltd

Management Participants :

- Mr. Sudarshan Ganapathy- Chief Operating Officer
- Mr. Pradipto Mukherjee- Chief Financial Officer

11th Annual Valorem Conference Highlights:

Key Highlights:

- The company is adopting a cautious and flexible procurement strategy, shifting from long-term contracts to short-term (15–20 day) spot purchases due to volatile market conditions.
- PVC business remains the key challenge, with margins under pressure due to rising VCM prices and uncertain PVC realizations.
- Supply chain diversification is a key focus to mitigate geopolitical risks and ensure consistent production.
- Soda ash supply dynamics are improving due to reduced imports from countries like Iran and Russia.
- This quarter reported highest CPVC sales and Soda Ash capacity utilization hitting 94% after many quarters since mechanical break-down.
- The company continues to prioritize downstream integration and specialty-driven growth to enhance value addition and strengthen its product portfolio.
- Q4 is likely to be stronger, driven by higher pigment and synthetic rutile dispatches, full contribution from the CPVC ramp-up, and improved pricing discipline following China's withdrawal of the PVC export rebate.
- The expanding SIOP portfolio with new black and orange pigment grades further supports a structural improvement in earnings quality through specialty-led growth.

Key Questions & Answers discussed during the Concall:

- **What is the current spread between VCM and PVC, and how does it impact profitability?** The spread between VCM and PVC has narrowed significantly and, in some cases, turned negative. This means the cost of raw material is nearly equal to or higher than the selling price of PVC. As a result, producing PVC can lead to losses. Profitability is therefore highly sensitive to any improvement in spreads.

- **Under what conditions would we temporarily halt PVC production?** We would consider temporarily halting PVC production if operating losses exceed the fixed costs. In such situations, continuing production would further erode profitability and cash flows. Our decision is driven by short-term economic viability rather than capacity utilization, reflecting a disciplined approach to capital preservation.

- **What is our long-term industry outlook post geopolitical disruptions?** Over the long term, we remain cautiously optimistic about the industry outlook. Supply-side constraints and demand recovery are expected to support the sector. Additionally, evolving geopolitical dynamics could create opportunities for domestic players like us. However, we expect near-term volatility to persist.

- **How do we decide between producing PVC and procuring it from the market?** We continuously evaluate our cost of production against prevailing market prices. If market procurement offers better margins or lower risk, we prefer buying over manufacturing. This flexibility allows us to optimize profitability in a volatile environment, with decisions taken dynamically based on real-time market conditions.

- **Why have we shifted to spot procurement instead of long-term contracts?** Given the high volatility in VCM prices and the uncertain geopolitical environment, long-term contracts can expose us to unfavourable pricing. Spot procurement provides the flexibility to respond quickly to price movements. While this may increase supply risk, it helps limit potential financial losses, reflecting our cautious and risk-managed approach.

- **How does inventory risk impact our earnings in a falling price environment?** In a declining price scenario, inventory procured earlier at higher costs becomes misaligned with current market realizations. This results in inventory losses when sold at lower prices, which can significantly impact quarterly profitability. Hence, tight inventory management becomes critical during such periods.

- **What is our outlook for PVC prices going forward?** We expect PVC prices to remain volatile, driven by global supply-demand dynamics and geopolitical developments. Any easing of geopolitical tensions could lead to sharp corrections, while supply disruptions may support prices in the near term. Overall, visibility remains limited.

- **How are geopolitical events affecting raw material availability and pricing?** Sanctions and disruptions from key regions such as Iran and Russia have constrained raw material availability, leading to elevated prices and increased volatility. Logistics challenges have further added to sourcing complexities, making procurement planning more dynamic and uncertain.

- **What steps are we taking to mitigate supply chain risks?** We are actively diversifying our supplier base to reduce geographic concentration risk. In parallel, we are adopting flexible procurement strategies, including spot buying. Our focus remains on ensuring supply continuity while maintaining cost efficiency.

- **Are we witnessing a structural shift from globalization to localization?** We believe there is a gradual shift towards localization, with trends such as “China+1” and increased domestic manufacturing gaining momentum. This is likely to reshape global supply chains, and companies that adapt early stand to benefit from improved resilience.

- **Why do we see SIOP as a strong growth opportunity?** SIOP is a high-entry-barrier segment, given its technical complexity and stringent customer qualification requirements. Once established, it offers strong growth visibility and superior margins. We see this as a key strategic growth driver for the company.

- **How are we scaling our specialty capacities?** We are scaling capacities in a calibrated manner, with a strong focus on utilization and efficient commercialization post-commissioning. This approach ensures better returns on capital while aligning growth with demand.

- **What is our steady-state profitability outlook?** We expect profitability to normalize once market conditions stabilize. This will be supported by contributions from both our commodity and specialty segments, with the specialty business providing relatively stable and consistent earnings. Overall profitability, however, will remain dependent on a recovery in the commodity cycle.

- **How significant is the impact of working capital cycles?** Working capital management is critical for us, particularly due to timing mismatches between raw material payments and product realizations. Extended credit cycles for inputs can create temporary cash flow pressures. As a result, efficient working capital management is essential to maintain liquidity, especially during periods of volatility.

- **Why have we paused or slowed capex plans?** Given the current macroeconomic uncertainty, we have chosen to defer large capital expenditures. This helps us preserve cash, maintain financial flexibility, and avoid the risk of over-leveraging. Our approach remains cautious and prudent in the current environment.

- **What is our strategy for future investments?** Our investment strategy is focused on selective, high-return opportunities that align with our long-term strategic priorities. We will adopt a disciplined and phased approach to capital allocation, with a clear emphasis on sustainable and profitable growth.

- **What is our approach toward risk in capital allocation?** We follow a diversified approach to capital allocation, spreading investments across multiple opportunities rather than concentrating risk in a single project. This helps mitigate downside risks while maintaining a balanced risk-return profile.

- **How do we evaluate new projects?** We evaluate projects based on financial returns, strategic relevance, and execution feasibility. Key metrics such as ROCE are central to our decision-making. In addition, we assess market demand and long-term sustainability to ensure balanced and well-informed investment decisions.