Company Name: DCW Ltd

Quarter under review: Q1-FY27

DCW Ltd: Q1-FY27 Concall Highlights:

DCW Ltd (Consolidated)					
INR In Mn	**Q1-FY27**	**Q1-FY26**	**Y-o-Y**	**Q4-FY26**	**Q-o-Q**
Operational Income	5,419	4,755	14.0%	6,091	-11.0%
EBITDA	358	537	-33.4%	646	-44.6%
EBITDA M (%)	6.60%	11.30%	-470 bps	10.60%	-400 bps
PAT	345	114	NA	181	91.1%
PAT M (%)	6.37%	2.40%	397 bps	2.97%	340 bps
Diluted EPS	1.17	0.39	NA	0.61	91.8%

Operational Highlights:

- Sequential revenue declined 11%, primarily due to higher captive PVC consumption for CPVC, lower PVC production and the one-time Synthetic Rutile inventory liquidation in Q4 FY26.
- Basic Chemicals reported negative EBITDA, mainly because of VCM non-availability following the West Asia crisis, lower PVC production, elevated VCM prices and the temporary suspension of PVC import duties.
- Commercial production from the recently commissioned capacity resulted in a significant increase in CPVC production and sales, with volumes continuing to ramp up.
- Specialty Chemicals revenue contributed around 33% of total revenue, supported by a 59% increase in CPVC volumes and roughly 3% growth in SIOP volumes.
- Synthetic Rutile profitability is expected to improve as customer mix shifts toward higher-priced customers and delivery schedules are back-ended toward the later quarters.
- Caustic Soda profitability improved as DCW has become effectively chlorine-neutral by consuming chlorine internally rather than selling it at negative prices.
- Net leverage continued to decline, with expectation to become net cash positive by the end of FY27, before taking on additional leverage for future growth.
- Announced a INR 250 crore investment program over the next 2–3 years, including SIOP expansion and captive power-efficiency investments.
- SIOP capacity is planned to increase from 30,000 MT to 45,000 MTPA in two phases, with Phase I adding 7,000 MT targeted for Q4 FY28. Value-added products such as micronized grades will also be introduced.
- DCW has migrated from a single-source Qatar-based VCM supplier to a global distributor sourcing from multiple producers across Asia, meaningfully reducing supply concentration risk going forward (price volatility, however, remains largely unhedged).
- Following the Finance Bill 2026 amendment, DCW migrated to the concessional corporate tax regime (25.17% effective rate vs. 34.9% under the old regime) to utilize accumulated MAT credit, resulting in a one-time reduction in net deferred tax liability of INR 34.34 crore in Q1.
- We are targeting a minimum incremental ROCE of 20% on new investments.

Key Questions & Answers discussed during the Concall:

- **What caused the 11% sequential revenue decline?** The sequential decline was primarily due to the one-time Synthetic Rutile inventory liquidation in Q4 FY26, which created a higher base. Higher captive PVC consumption for CPVC and lower PVC production also contributed.

- **Why did Specialty Chemicals margins decline despite strong volume growth?** The Specialty Chemicals margin is influenced by the dynamic relationship between PVC and CPVC spreads. Changes in PVC prices and the CPVC spread can impact Specialty margins. However, SIOP margins remained robust, and we expect to utilize its entire 28 KT SIOP capacity.

- **How much of the Basic Chemicals loss came from PVC?** The VC business was the primary loss-making business within Basic Chemicals. Caustic Soda, Soda Ash and Synthetic Rutile were profitable. The estimated sequential swing in PVC contribution/spread was approximately INR 50–55 crore.

- **Are DCW's Basic Chemical plants too small to compete on cost?** The Soda Ash and PVC capacity is around 1 lakh tonnes, while Caustic Soda capacity is around 90,000 tonnes. Rather than significantly expanding Basic Chemicals, we are focused on improving efficiency, including through solar investments and the newly announced power-plant efficiency capex, while increasing the contribution of value-added Specialty Chemicals.

- **How did Synthetic Rutile perform?** Synthetic Rutile margins improved compared with last year. Customer inventory corrections had impacted the previous year, while current pricing has improved. The customer mix is also becoming better, with higher-priced customer deliveries expected to increase over the coming quarters.

- **Can Basic Chemicals break even in Q2?** We more than expect Basic Chemicals to break even in Q2, provided the operating environment remains normal.

- **Does the INR 400 crore EBITDA target still stand for FY27?** The INR 400 crore target was based on an earlier period when CPVC margins were around 40%. Given the contraction in CPVC margins, we currently believe steady-state EBITDA could be around INR 300 crore, although the actual FY27 outcome will depend on how market conditions develop.

- **Have Caustic Soda ECU realizations improved?** Yes. Caustic Soda ECU realizations have definitely improved because DCW is no longer selling chlorine. Chlorine is now consumed internally, converting what was previously a negative-value chlorine stream into an internal cost benefit.

- **What is the expected margin and realization for the expanded SIOP business?** The SIOP margins are expected to be around 35%, with realizations around or above INR 80,000 per tonne.

- **What is the outlook for PVC prices after the MIP and reinstatement of import duties?** The MIP provides a floor, translating to roughly INR 80/kg, but current import parity and domestic prices are significantly above that level. We do not expect PVC prices to fall to the MIP level in the near term and expect prices to remain at current levels during the quarter, assuming the current environment persists.

- **How do we view the PVC-to-CPVC spread?** There is a lag between PVC price movements and CPVC pricing because customer orders are contracted at earlier prices. Therefore, higher PVC prices can initially compress CPVC margins. However, as new orders come in at higher prices, the spread should normalize. The current PVC-to-CPVC spread could be above INR 25,000/tonne.

- **How will the INR 250 crore capex be funded?** We intend to maintain treasury discipline by keeping around 5–10% of topline as cash and cash equivalents while reducing leverage. We expect some borrowing for the capex program, while keeping leverage under control. FY27 repayments are expected to be around INR 135 crore, with borrowing potentially somewhat higher depending on cash generation and the desired cash balance.

- **When will the next phase of SIOP expansion begin?** Phase I of 7,000 tonnes is targeted for commissioning in Q4 FY28. We expect commercialization to follow without a significant lag and intends to start the next phase soon after. However, Phase II could be accelerated if market demand and back orders justify it.

- **What caused the VCM shortage?** It was a physical supply shortage, not merely a logistics issue. Asian VCM producers were dependent on crude feedstocks from the Middle East, and the West Asia conflict disrupted these supplies, forcing producers to curtail operations. DCW had to source some VCM from China at significantly higher spot prices.

Key Participants:
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