GUJARAT FLUOROCHEMICALS
VALUE THROUGH GREEN CHEMISTRY
CIN : L24304GJ2018PLC105479

Gujarat Fluorochemicals Limited
earlier known as Inox Fluorochemicals Limited

Vadodara Office: ABS Towers, 2nd floor, Old Padra road, Vadodara-390007, Gujarat, India | Tel: +91-265-6198111/2330057 | Fax: +91-265-2310312 | www.gfl.co.in

19th August ,2020

The Secretary
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001
Scrip code: 542812

The Secretary
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E), Mumbai 400 051
Scrip Code: FLUOROCHEM

Sub: Transcript of Conference Call with Investors / Analysts held on Thursday, 30th July, 2020.

Dear Sir/Madam,

Please find enclosed herewith transcript of the Conference Call held for Gujarat Fluorochemicals Limited with Investors / Analysts of the Company on 30th July, 2020 post declaration of the Audited Annual Financial Statements and Results of the Company for the Financial Year ended on 31st March, 2020 and Unaudited Financial Results of the Company for the First quarter ended on 30th June, 2020. The same is also available on the Company's website at www.gfl.co.in.

We request you to kindly take the above information on record.

Thanking You

Yours faithfully,

For **Gujarat Fluorochemicals Limited**

Brun

Bhavin Desai
Company Secretary

GUJARAT FLUOROCHEMICALS LIMITED * VADODARA

Encl.: As above

"Gujarat Fluorochemicals Limited Earnings Conference Call

FY2019-20Q4
FY2019-20 Full Year
FY2020-21Q1"

July 30, 2020

MANAGEMENT: **MR. VIVEK JAIN -- MANAGING DIRECTOR, GUJARAT FLUOROCHEMICALS LIMITED.**
MR. DEEPAK ASHER -- DIRECTOR & GROUP HEAD (CORPORATE FINANCE), INOX GROUP OF COMPANIES.
MR. V. K. SONI -- HEAD (PROJECTS & NEW INITIATIVES), GUJARAT FLUOROCHEMICALS LIMITED

MODERATOR: **MS. MILONI BAGADIA – IDFC SECURITIES LIMITED**

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Moderator: Ladies and gentlemen, good day and welcome to the Gujarat Fluorochemicals Limited Earnings Conference Call for FY2019-20Q4, FY2019-20 Full Year, and FY2020-21Q1, hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Miloni Bagadia, from IDFC Securities Limited. Thank you and over to you ma'am.

Miloni Bagadia: Good evening everyone. And welcome to the Gujarat Fluorochemicals Limited Earnings Conference Call for FY2019-20Q4, FY2019-20 Full Year, and FY2020-21Q1. From the management we have with us Mr. Vivek Jain -- Managing Director, Gujarat Fluorochemicals Limited; Mr. Deepak Asher – Director & Group Head (Corporate Finance), Inox Group of Companies; and Mr. V. K. Soni -- Head (Projects and New Initiatives) at Gujarat Fluorochemicals Limited. I will now hand over to Mr. Deepak Asher for his initial comment and then we can open the floor for Q&A. Mr. Asher.

Deepak Asher: Thank you very much Miloni. And on behalf of Gujarat Fluorochemicals Limited, I would like to extend a very warm welcome to all of you who are participating on this call. Happy to inform you that the Board of Directors of Gujarat Fluorochemicals Limited has at its recently concluded board meeting approved both the Audited Financial Results of the Company for the quarter and the Financial Year ended March, 20 and the Unaudited Financial Results of the company for the quarter ended June 20. What I intend to do is present to you both these results together. We also, in addition to the results uploaded on the websites of BSE and NSE, as well as the website of the company, have uploaded the earnings presentation for FY2020Q4, and FY2021Q1. We have merged both into the same presentation in order to ensure brevity. So, I'll take you through this presentation as we go along. And then as Miloni said, we could open it for any questions that you might have.

This presentation comprises essentially of about five parts. The first part concerns the financial results overview, and then we'll take a deeper dive into the segmental performance. We've also added this time in the presentation our qualitative description beyond just the numbers of the segment wise outlook. We will then take you through the company overview and then the outlook for the company as a whole.

Starting with the financial performance or the financial results overview. Revenues for the quarter, Q4FY20 were Rs 633 crores which is 11% lower than the revenues for Q4FY19 which were at Rs 710 crores. For the full year FY20 revenue stood at Rs 2606 crores which were 5% lower than revenues of Rs 2729 crores in FY19. And for the recently concluded quarter unaudited revenues were at Rs 560 crores as compared to Rs 740 crores which is 24%

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lower. Now, if you compare it with the immediately preceding quarter, which is Rs 633 crores in Q4FY20, the fall is about 11%.

Looking at the EBITDA numbers, EBITDA for Q4FY20 stood at Rs 110 crores as compared to Rs 207 crores in Q4FY19. For the full year EBITDA stood at Rs 553 crores as compared to Rs 854 crores in FY19 and for the recently concluded quarter the EBITDA for Q1FY21 was Rs 144 crores as compared to Rs 190 crores in Q1 of FY20. And as I mentioned, the EBITDA for the immediately preceding quarter was Rs 110 crore. So, in relation to that quarter, EBITDA at this quarter in June 20 is actually higher by 31%, Rs 110 crore going up to Rs 144 crore.

Now, as far as PAT is concerned. PAT for Q4FY20 was Rs 26 crores, but this was after a one off tax write off of Rs 21 crores as a result of which the operating PAT was actually about Rs 47 crores as compared to an operating PAT of Rs 113 crores in Q4FY19. PAT for the full year FY20 was Rs 189 crores but this again as I mentioned was after a one off right off of Rs 26 crores because of the demerger expenses, and hence operating PAT was actually Rs 204 crores as compared to Rs 426 crores in the full year FY19. For the quarter ended June 20, which is Q1FY21, PAT was at Rs 70 crores as compared to an operating PAT of Rs 80 crores in Q1FY20 which is 12% down, but if you compare it with the operating PAT of Rs. 47 crores in the immediately preceding quarter, PAT has actually gone up, as, I mentioned Rs 47 crores to Rs 70 crores.

So, that’s a brief financial overview of the Company as a whole. Now, if you look at the segmental performance, as you’re probably aware the Company actually now looks at six different product categories, which is Caustic Soda, Chloromethanes, Refrigerant Gases. PTFE, New Fluoropolymers and Fluoro-Specialty Chemicals. Now in almost each of these segments there have been fall in revenues.

For example in Caustic Soda for Q4FY20 revenue stood at Rs 80 crores as compared to Rs 120 crores in Q4 FY19, in Chloromethane it stood at Rs 63 crores as compared to Rs 84 crores, Refrigerant stood at Rs 100 crores as compared to Rs 133 crores, PTFE stood at Rs 221 crores as compared to Rs 274 crores, New Fluoropolymers improved from Rs 37 crores to Rs 39 crores, Fluoro Specialty Chemicals from Rs 32 crores to Rs 50 crores.

For the full year FY20 as compared to the full year FY19, Caustic Soda fell from Rs 494 crores to Rs 386 crores. Chloromethane Rs 351 crores in FY19 to Rs 305 crores in FY20, Refrigerants Rs 512 crores in FY19, Rs 469 crores in FY20, PTFE Rs 1142 crores in FY19, Rs 942 crores in FY20, New Fluoropolymers Rs 138 crores up to Rs 174 crores, Fluoro Specialty Chemicals Rs 81 crores up to Rs 177 crores.

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For the recently concluded quarter which is Q1FY21 as compared to Q1FY20, Caustic Soda down from Rs 121 crores to Rs 63 crores, Chloromethane Rs 82 crores went down to Rs 64 crores, Refrigerants Rs 144 crores in FY20Q1 to Rs 93 crores in FY21Q1, PTFE from Rs 286 crores to Rs 199 crores, New Fluoropolymers from Rs 47 crores up to Rs 64 crores, Fluoro Specialty Chemicals Rs 46 crores up to Rs 63 crores, as a result of which the total revenues for the Q1FY20, which stood at Rs 740 crores went down to Rs 560 crores in Q1FY21.

Now, this is the broad breakup. Within PTFE, we are giving you further breakups of regular grade versus value added grades.

In Q4FY19 the regular grade was Rs 135 crores, in Q4 FY20, it went down to Rs 94 crores. In Q4FY19, value added grade of PTFE was Rs 139 which went down to Rs 127 crores in Q4FY20. As a result of which, on value terms the proportion of regular grade to value added grade improved from 49:51 to 42:58. For the full year, it was Rs 598 crores of regular grade which went down to Rs 391 crores in FY20, Rs 544 crores of value added grades which increased to Rs 550 crores, as a result of which the proportion of regular grade to value added grade, FY19 compared to FY20, improved from 52:48 to 41:59. For the recently concluded quarter, which is Q1 of FY21 compared to FY20, regular grade went down from Rs 128 crores to Rs 84 crores, value added from Rs 158 crores to Rs 115 crores, there was a slight improvement in the mix from 45:55 to 42:58 in favor of the higher value added grade.

As far as the New Fluoropolymers are concerned, as I mentioned earlier, increase in Q4FY20 from Rs 37 crores to Rs 39 crores; for the full year FY20 from Rs 138 crores to Rs 174 crores and for the first quarter of this Financial Year from Rs 47 crores to Rs 64 crores. And as I mentioned in the immediately preceding quarters it was Rs 39 crores. So the growth as compared to the immediately preceding quarter is 39 to 64, which is about 64%.

As far as the Fluoro Specialty Chemicals are concerned Q4 of FY20 was Rs 50 crores as compared to Q4 of FY19 being Rs 32 crores. The full year FY20 was Rs 177 crores as compared to Rs 81 crores in the full year FY19. And the first quarter of this year Q1FY21 was Rs 63 crores as compared to Rs 46 crores of Q1FY20. So, that’s a growth of 37%.

We have also given you the broad balance sheet breakup because this time we are also approving audited balance sheet as of 31st March, 2020. The balance sheet size remains at about Rs 6500 crores, that’s about Rs 3600 crores of fixed assets, Rs 373 crores of cash/financial assets, Rs 813 crores of inventory were Rs 565 crores of receivables, a MAT credit entitlement of about 650 crores and an Income Tax refund receivable of about Rs 303 crores. On the liability side equity comprises of about Rs 3700 crores, borrowings of about Rs 1700 crores, financial liabilities and trade payables actually of about Rs 550 crores, and about Rs 413 crores worth of deferred tax liabilities. So that’s the balance sheet breakup.

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Now, as I mentioned, we've also in the presentation included, a qualitative or a descriptive, description of how each of these segments are performing. I'll very briefly take you through each of them. And of course we'll deal with this in more detail in the Q&A section.

As far as the Caustic Soda is concerned, the plants are currently running at about 80% capacity utilization. Caustic Soda prices continue to be adversely impacted, both because of the curtailed demand because of COVID and the surplus capacity, which has been set up off late. The future outlook is, that prices are expected to remain depressed for the next two to three quarters we believe. And our target is to reach full capacity utilization by the end of the current quarter.

As far as Chloromethanes are concerned production was impacted in April and June, due to the COVID lockdown. The plants are now running at full capacity and demand for MDC, which is mainly used in the pharma sector remains quite strong. Prices and demand are expected to remain stable because of the increased requirements in the pharma sector.

As far as our Refrigerants are concerned R22, as you probably know is used as a feedstock to make Fluoropolymers, pharma and agro products and as a Refrigerant. There was a curtailment and demand is all these three segments and Refrigerant demand therefore was impacted. Demand is expected to reach pre COVID levels during this current quarter. With the opening up of the economy, refrigerant sales are inching back to normalcy. Production will continue to increase due to the rising feedstock requirements and as far as prices are concerned, we expect prices of Refrigerants to remain stable.

On the PTFE side, PTFE sales again were adversely impacted as demand fell both in domestic and overseas markets because of COVID related lockdown. In June domestic demand came back to about 80% and overseas demand to about 75% of pre COVID levels. We have developed a wide range of PTFE grades and qualified by users across a wide range of industries. As a result by end of this quarter, it is expected that domestic demand should reach about 100% of pre COVID levels and overseas demand by around 90% of pre COVID levels. With demand growth coming back, our target is to take current levels of capacity utilization, which are at about 75%, to full capacity utilization by early next financial year. And prices also we expect will remain stable going forward.

On New Fluoropolymers, we have set up capacity of about 700 tonnes on six New Fluoropolymers which is FKM, PFA, FEP, PVDF, PPA and Micropowders. Various grades under each of these have been established and are in the process of customer qualifications and commercial ramp up. There has been a delay in getting final customer approvals for a few of the grades, as many overseas customers were grappling the startup issues and limited

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manpower because of COVID. Sales of established products were also impacted because of COVID related demand erosion. Current capacity utilization remained at about 30%. However, as most grades are now developed, our target is to reach 50% capacity utilization by end of this Financial Year and 100% by the end of next Financial Year.

On Fluoro Specialty Chemicals, several products have been fully commercialized. Current capacity utilization remains at about 35%, the last quarter saw relatively low capacity utilization due to inadequate raw materials and manpower availability because of COVID related lockdowns. Demand for all these products remains strong and we expect to achieve full capacity utilization by the end of this quarter. Additional six products are under final stages of implementation, and will be fully commissioned by the end of this Financial Year. Because of increasing demand and also strategic needs of both domestic as well as overseas customers to de-risk from China, we are witnessing an increasing demand for new molecules by the agro and pharma industry. Several new products have been developed in-house by our R&D teams based on which additional CAPEX of about Rs 300 to Rs 350 crores is planned for implementation. Besides there is a rich pipeline of additional products being developed based on chemistry which are already established.

So that's a brief qualitative outlook on each of these segments. As far as the Company is concerned, as you are all probably aware, the key strengths of this Company have always been, and continue to be, 30 years' experience in safely handling F molecule. We are one of the most cost competitive producers of Fluoropolymers, because of our full integrated manufacturing operations. The in-house availability and adequate capacity of a host of key building blocks for F molecules. R&D and product development capabilities - we have cutting edge R&D center and analytical labs for new product development. Entry barriers for new competition - due to the complexity of business, limited availability of feedstock, extremely stringent and time consuming customer qualification and approval process, continue to remain a significant entry barrier. The Company is a category leader in most of the segments that we operate in. And our focus on higher value added products in each of these segments will reduce competitive concerns from China.

On the next slide, of course, we have diagrammatically demonstrated the integrated operations and this we believe is unparalleled in the industry.

As far as shareholding structure is concerned the market cap currently is about Rs 4000 crores based on a share price of Rs.355. This is as of 30th June. Our key investors include HDFC mid cap opportunities fund, HDFC small cap fund, FIL Investments, etc. We've given you a list of all the key investors. Promoters continue to own about 68.37% of the company. Domestic institutions own 5.75%, FIIs owned 4.03% and the public/others own 21.85%. So that's the Company shareholding structure.

In terms of the outlook at the Company level, very broadly speaking. I will first take you through some significant initiatives that the company has taken. First of all, R&D capabilities have been considerably strengthened in terms of manpower and developing state of the art analytical and testing labs. Through our in-house expertise, we've been able to develop a wide range of Fluoro Specialty Chemicals for increasing agro and pharma applications. For Fluoropolymers, we have developed new grades and products for meeting requirements in both existing as well as new applications. As far as existing applications are concerned these are in the automotive, aerospace, semiconductors, electrical and electronics, pharma and chemicals and medical sectors. And as far as the new applications, high growth applications are in e-mobility, clean environment drive, high purity water, 5G data transmission, internet of things, solar PV modules, lithium batteries, high temperature auto wires and fuel cells. All these we expect should ensure a robust global growth going forward.

We've also have taken several initiatives in the cost savings area. We have actually launched a very focused and strong cost optimization drive across the company. Major cost areas and been identified and strategies have been developed to achieve sustained reduction in operational costs. Significant cost reductions have been achieved, due to tightened operational controls, waste reductions, improvement in energy efficiency and manpower productivity. We've identified the single largest cost center for the company to be energy and in pursuance of the objective of reducing our energy cost we are in the process of setting up a captive wind power capacity, which will substantially bring down our power cost across all our three manufacturing sites and results in significant cost savings. So broadly speaking, what we expect at a company level, is the Company's performance in the coming quarters is expected to be driven by improved capacity utilization in the PTFE, New Fluoropolymers and the Fluoro Specialty Chemicals segments. All growth is expected to come from products or segments that have a higher profit margin and hence the margin profile of the company also is expected to improve. Most of the CAPEX required for the capacity is already incurred and hence no significant additional CAPEX is expected for present product lines. And lastly, we expect our debt levels to come down significantly improving our leverage, essentially from three forces - operating cash flows, working capital optimization, and the income tax refund that is expected, a large part of which has already been received in this quarter.

So that, ladies and gentlemen, is a walk through the presentation. I would now like to open this up for any questions that you might have, that we will try and answer. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Rohit Sinha from Emkay Global. Please go ahead.

Rohit Sinha: Thank you for detailed presentation. So just wanted to know, which are the industry we are serving through our new Fluoropolymers and Fluoro Specialty Chemicals and how is the traction you are observing in last maybe six to eight months or the recent time?

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Vivek Jain: Well, I'll take this question. There's a diverse segment of industries in which our new Fluoropolymers are used and that have been listed down in the presentation and it has taken some time to develop the grades which are required by these various segments and get customer qualification. As we have pointed out a number of times in the past a this is a very painstaking task and the time it takes is something, sometimes quite unpredictable. Things are now getting back on track, we have been able to get, we have been able to develop most grades which are required under the different categories of Fluoropolymers. Some of them have been or , most of them have been approved. Commercial sales have also started from some of the product categories and qualifications is continuing for others. Unfortunately in the last four months because of COVID the momentum which has been built in getting customer qualification got stalled. And, this is a process which has been initiated again. But at this point of time, many of the users are finding it difficult to start new qualifications, because they have an inadequate manpower in the labs. And while they are all very very keen to start the process, continue on with their process of qualification it will take another one or two months for further qualifications to happen. At this point of time, actually, unfortunately, Europe for instance, also enters into a holiday season and despite COVID it seems that both in July and August, there are a lot of European companies who will be on vacation so we expect further improvements to start happening from September onwards.

Rohit Sinha: Okay. So, these all are largely domestic export or how we see the mix on these segments?

Vivek Jain: No most of these products will be for exports because they are used in very high end industries. The domestic market for one of the products would be almost about 33% to 40% for the other products it will probably be around 15% most of the balance quantity will be required for exports.

Rohit Sinha: Okay, so largely it's from the export side, fair enough. Sir, next question would be on the PTFE side, what is the current price and what it was a year ago and how you are seeing that maybe what are the major dynamics which will impact the prices of the PTFE?

Vivek Jain: Deepak would you have the prices now and then?

Deepak Asher: Yes, we locked in average price of about Rs. 6,71,000 per ton in Q1 of FY21 and this was about Rs 6,99,000 per ton in Q1 of FY20. So, the prices are between 670 to 700 this is weighted average for both commodity grade and value added grade.

Rohit Sinha: Okay. And what are the dynamics which will be basically impacting the pricing of these?

Vivek Jain: To some extent prices are a bit subdued just now because of the fact that there has been a slowdown in demand. And for instance, currently we are at about 70-75% capacity utilization and we still have to go to 100% we were expecting that by now, we would have been in that 100% capacity utilization. But, because of the slowdown which happened because of COVID.

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So, our current estimation is that by beginning of next Financial Year maybe of April, May we should get back to full capacity utilization and by that time demand from most sector will also go up. So, we expect that the prices will remain stable if not marginally improved.

Rohit Sinha: Okay, fair enough. So, next would be on the Chloromethane side. So as we see, what is the current demand in this segment and how this made in India or maybe Aatma Nirbhar Bharat will be impacting the demand as we recently, today only, SRF has also announced the CAPEX of Rs 315 crores in this segment. So, how would be the competition in this particular segment?

Vivek Jain: Well, it's very difficult to project the situation two years from now, because there is some more capacity which is coming up and while the demand is also growing. So, I suppose there should be some room for additional capacity to come up.

Rohit Sinha: So, largely demand is from pharma side?

Vivek Jain: Largely from the pharma side.

Rohit Sinha: Okay. And any number you can give to the kind of growth we are seeing in this provision side?

Vivek Jain: See, it's been growing by about 10% per annum.

Rohit Sinha: Okay. Last question from my side on this R Gas side. So is it any of future plans to introduce new product in R Gas or we will stick to this 102 and 125?

Vivek Jain: Sorry, I didn't get your question right?

Rohit Sinha: So, in Refrigerant Gas segment what are the future plans for adding new Refrigerant Gas product maybe?

Vivek Jain: At this point of time we do not plan to put up any new CAPEX on R Gas because we still want to watch and see how the demand for 1134YF, which is actually the future replacement, is going to build up. We have not gone in for R 32 because we think it's a commodity chemical, and there's no value which we'll be able to bring to the table. So it's largely dependent upon what China does, and if China has got huge capacities. So we are watching and seeing. For 1134YF we have an intermediate which we currently produce. And depending upon the situation if we find that the future demand permits, we may forward integrate into 1134 YF from there.

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Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Thanks for taking up question, In terms of margin if we were look at how the segment stack up so, we have predominantly six segments. So, which are all are they having in terms of higher margin to lower margin?

Deepak Asher: We can't hear very clearly could you please, speak a little bit louder.

Rohit Nagraj: Sir we have six segments and in terms of margins how do these segment stack up. Basically currently Caustic Soda margins will be at the bottom of each segment, but otherwise for all the other segments, which is having the highest margin and how it percolates down?

Deepak Asher: Sir first of all, ours is an integrated value chain. So, the end product of one plant becomes the raw material for the other plant and hence, we don't really measure margins for

each segment individually for the reason that these margins could be influenced by transfer pricing policies. So it depends on what price you transfer finished product of one plant as a raw material to the other plant. And secondly, because it's a common manufacturing facility, a lot of overheads are common across all the plants and hence, we don't really look at, and we never have looked at, margins on a per plant basis, but suffice to say that as of now, most of our growth going forward is going to come from the value added PTFE, from the new Fluoropolymers and from the Fluoro Specialty Chemicals and these three segments clearly have a margin profile which is better than the average margin of the company and hence, there should be an improvement in the overall margin profile of the company because of the churn in the product mix or the segment mix in favor of the higher margin products.

Rohit Nagraj: Yes, that is quite useful. So in terms of margin trajectory, what would we look at as sustainable margins when everything stabilizes maybe over a period of two to three years?

Deepak Asher: Well again, we tend not to give you quantitative kind of projections going forward. But historically, if you see a FY19 we ended it at an EBITDA margin, if I remember right of about 30%. We don't think it is inconceivable to reach those kinds of levels going forward.

Rohit Nagraj: Sure. Sir on the Fluoro Specialty side, we have mention that we have seven products. So could you just give us an understanding of which user industries are these catering to and are these going into some patented product application or non-patented product applications?

Vivek Jain: Well, currently if you look at volume mix, sales mix 60% would be pharma, 40% will be agro.

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Rohit Nagraj: Okay and in terms of whether these products are going into patented product because probably in terms of growth, the patented products may have higher growth than the generic products?

Vivek Jain: See, this is difficult for me to answer that question.

V K Soni: Basically the products are going not as API's or as the end product. So they are intermediate, so they is no patenting, since patenting normally is for the end products.

Rohit Nagraj: Right. Thank you. Sir and in terms of CAPEX plans what would be our CAPEX plans for this year and next year, maybe we don't have any specific capacity expansion plans, then what would be the maintenance CAPEX?

Vivek Jain: No, see the point is we will have some additional capacity will be coming up in the Fluoro Specialty area from now till, if you look at for quarter profile for now, we have investment plans of maybe about 300 crores plus. There are several products which have been developed and they are just now evaluating the prospect of putting up CAPEX behind those, some of them seem to be very good opportunities. So, maybe in the next one to two months, we will finalize

have finalized our plan and then will move forward with implementation. And time being, as far as Fluoropolymers, the New Fluoropolymers is concerned, we have made all the CAPEX which are required for current capacities and we don't intend to put in any further CAPEX at least for the next one and a half years in Fluoropolymers.

Rohit Nagraj: Alright, thank you sir. Sir last question on the chlorine front. So how have the prices behaved in the recent quarter and how much do we consume captively?

Vivek Jain: Which product?

Rohit Nagraj: Chlorine

Vivek Jain: We consume 100% of our Chlorine captively. The pricing of chlorine in the external market really don't concern us because we captively utilize all the Chlorine which we produce for Chloromethane.

Moderator: Thank you. The next question is from the line of Ritesh Chheda from Lucky Investment. Please go ahead.

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Ritesh Chheda: Sir, a few questions on your CAPEX side. So the Specialty Fluoropolymers, where we mentioned that it's a 30% and 35% utilization, what is the capital expenditure that we did and what is the asset turn possible there?

Vivek Jain: I don't know. I don't have those numbers readily.

Ritesh Chheda: Okay, at full utilization what will be the Revenues there?

Vivek Jain: Okay, maybe I can give you a idea about that and full capacity utilization our, about New Fluoropolymers will be about Rs 750 crore, they're about but, I could be a bit wrong. So broadly speaking it could be about Rs 700 to 750 crore. And in the Fluoro Specialty for the investment, which have been put up, uptill now it could be about Rs 600 to 700 odd crore.

Ritesh Chheda: And any educated guess on the asset turnover or the CAPEX number you would have spent there both places?

Vivek Jain: I don't have the numbers readily with me.

Ritesh Chheda: Okay. Second, but will it be more than two time asset turn?

Vivek Jain: It will probably be about two times in both these two segments. Mr Soni., I would be right in saying this?

V K Soni: Yes, roughly about 400 crore CAPEX would be in the spec Chem. So it is about two times and same is for New Fluoropolymers. The reason is that all the backend integration capacities have already been set up and we are only adding the value added the front ends. So the CAPEX is much less.

Ritesh Chheda: Okay. And second question is observation. So, when I look at your EBITDA across the three time periods which have been posted in the presentation, there's a significant drop versus the top line. So, qualitatively is this to do with the pricing of PTFE and what happened in Caustic Soda pricing, the key reason for the drop, or do you want to highlight another reason?

Vivek Jain: Substantially that is what happened Caustic Soda pricing at that point of time, Caustic Soda was a relatively larger proportion of our sales. So, that went down quite steeply and as you mentioned, there was a decline both in PTFE prices also as mentioned almost about Rs.700 it went down to about Rs.670 so there was a margin decline in PTFE price also. And, of course in the last quarter which is January, February, March last quarter of the previous Financial Year. Almost about 15 days of sales were lost because of the lockdown in the second half of March.

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Ritesh Chheda: This price which you mentioned of 670 versus 700, that is for quarter four specifically or that also valid for the full year of FY20?

Deepak Asher: No, so the PTFE prices that I gave was for the last quarter. Q1FY21 compared to Q1FY20.

Ritesh Chheda: Q1FY21versus Q1FY20?

Deepak Asher: No, it's actually Q1 for the financial year ending 21. So, yes April to June 20.

Ritesh Chheda: Yes, it is current quarter versus last quarter?

Deepak Asher: That's correct.

Vivek Jain: I just wanted to add one more, last Financial Year. As we all know that there has been a huge erosion of demand in the automobile sector. And this was not only true for India but also, even US and Europe. There was a big slump in the automobile industry, a lot of our products were going into the automobile industry almost about 20 to 25%, if not more goes to the automobile industry. So because of the fact that sales went down because of the slack in the automobile industry, there was a pressure on prices also. So prices also went down to that extent.

Ritesh Chheda: Lastly, I want to understand what would be your debt repayment over the next two years what would be your maintenance CAPEX and growth CAPEX, if any?

Deepak Asher: So, as I mentioned we expect to pare down our debt levels considerably. This is at about Rs 1600 crores now, what we expect is a reduction because of the income tax credits that we expect in fact, we as you might have noticed, we expected about Rs 300 crores of income tax refunds to come in of which we have already received a Rs 230 crores, another Rs 70 crores is expected over the next fortnight or so. So, Rs 300 crore debt reduction will happen because of income tax refunds. We expect another about Rs 300 crores to happen out of operating cash flows for the rest of the year, financial year and maybe another about Rs 200 crores from optimization of working capital. So, in essence about Rs 800 to Rs 900 crores of debt to be reduced from the current levels of about Rs 1600 crores which will bring it down to about Rs 800 crores versus we have about Rs 370 crores, say Rs 400 crores of cash or financial assets. So, our net debt by the end of this Financial Year should be around Rs 400 crores if things go as planned and obviously by end of the Financial Year 22 we should be at net zero debt company.

Ritesh Chheda: And what will be your growth CAPEX and maintenance CAPEX over the next two years?

Deepak Asher: As it was earlier mentioned also by Mr. Jain, I believe and I also covered in my presentation we expect CAPEX of about Rs 300 to Rs 350 crores in terms of some of the Fluoro Specialty Chemical lines that we have identified. Most of the CAPEX is for the existing product lines

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have already been incurred and maybe will incur some kind of nominal maintenance CAPEX of about Rs 50 crores to Rs 100 crores going forward.

Ritesh Chheda: So, this 350 is for two years or this is a one year number?

Deepak Asher: So, over the next few quarter. I guess it will be over the next few years or so.

Ritesh Chheda: Next year, and lastly on your Rs 3600 crores block that I see in the presentation across the net block. I don't know the gross block number as of now, but what kind of peak revenues is possible on that kind of asset that you have?

Deepak Asher: So, if you assume that all the plants were to run at full capacity we could see a total top line of about Rs 4200 to Rs 4400 crores at current prices.

Ritesh Chheda: Okay. On our gross block number, what would be the gross block number there?

Deepak Asher: The gross block number would be what it is currently, which is about Rs 3600 - Rs 3700 crores. Again, just to further clarify on that you might not see a significant asset turnover, but that's because most of the plants are even integrated manufacturing chain, which go in reducing costs rather than improve in turnover. So our EBITDA margins therefore would be, again at full capacity at current prices. Assuming a 30% EBITDA margin that will be about Rs1200 crores of EBITDA on a gross block of about Rs 3500 which is almost like a 35% of gross block EBITDA.

Ritesh Chheda: Okay, at peak, so Rs1200 crore EBITDA?

Deepak Asher: That's right yes.

Ritesh Chheda: And you're net working capital target, the net working or the cash conversion cycle that one should look at would be what in days or whichever we as a percentage?

Deepak Asher: The target of course is to bring it down by 75 days, but to be conservative one could look at about 90 days of working capital.

Moderator: Thank you. The next question is from the line of Aman Morya from Alpha Accurate Advisors. Please go ahead.

Aman Morya: Thank you for opportunity. My first question is on the Specialty Chemicals side. Currently we are already having a 35% of utilization level and we are planning something around Rs 350, to 400 crores kind of a CAPEX into that. So, what is the rationale are we seeing so good traction into that and how the revenue trajectory looks into this particular vertical?

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Vivek Jain: Just now we were 35% as I have been mentioned because there was a, because of the impact of April, May, June quarter where we got actually badly hit because of both manpower availability in the particular site in which we currently make Fluoro Specialty and also some supply chain issues also. But by September, by the end of this quarter by September, October, we intend to get to almost a 90% capacity utilization of our current product, for which capacities are already setup. We are in the midst of putting up capacity to another six products which get commissioned by October end and the sales revenue from those will almost at full capacity by March of next year. So, that is the reason why this investment which is currently on, will be taken care of, what we are talking about Rs 300, 350 crore is breaking it beyond these 13 products, which have already been there, which are already work in process. So, that we will do, that investment will get fructified maybe about 12 to 15 months from now, and which will then add further to our revenues**.**

Aman Morya: Okay, sir. One clarification, last participant you had mentioned that even in the current gross block you can reach to a Rs 700 crores kind of peak revenue in Specialty Chemicals correct. And, on top of this Rs 350 crores can bring additional Rs 700 crores?

Vivek Jain: I don't have the numbers offline but yes, they would probably be about in the region of between Rs 400 to 500 crores. I don't have the numbers but those, because we are still in the process in the midst of finalizing the exact plan for the Rs 350 crores CAPEX. Some of that will actually also get utilized as the intermediate in the products which we make. So, it will be difficult for me to give you an exact number on the turnover it will generate.

Aman Morya: Okay, so 500 plus, to 700 is the fair number, right. I'm saying, I'm not considering two times kind of a asset ratio but current capex**?**

Vivek Jain: Off the cuff once the Rs 350 CAPEX is also implemented, I would say it would result into a turnover about Rs1200 crore.

Aman Morya: Sorry, how much?

Vivek Jain: Rs1200 crores, Rs 700 plus 500 crore this could result into a 1200 crores.

Aman Morya: And this piece of your business would be sir like your average margin, how much higher than your average company level margin?

Deepak Asher: Again, we may not want to get into specific margins for each of the segments going forward but it would as I mentioned be materially higher than our current average margin.

Aman Morya: Okay, so like 300 basis points, 400 basis points, 500, because this is the key segment which will drive your margin going forward. That is the reason I'm asking?

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Deepak Asher: No, I understand but as I say, we hesitate to make futuristic quantitative predictions, except just say that it should be fairly strong, fairly healthy as compared to what our current profile is.

Aman Morya: Okay. And sir second question is on the Fluoropolymer, Fluoropolymer is also having 30% utilization currently. So, first thing is this, is the Fluoropolymer revenue drivers are same or they are different?

Vivek Jain: Sorry which?

Aman Morya: Fluoropolymer currently we are having 30% utilization for Fluoropolymer and we expect that even in that particular segment we can reach to 700 kind of a peak revenue and I am just trying to understand in that particular business, the revenue dynamics or the competitive dynamics are similar of the PTFE or it is different?

Vivek Jain: No, it could be different, different in different segments. It is because that end use applications could be different for these products, then what we do**.**

Aman Morya: Okay, so you are not saying like, so in this particular segment you're not competing with China or you're not competing with other Asian players?

Vivek Jain: There are other Asian players, there are competing, but they are at the lower end of those particular products. So, when we are exporting it out to US and Europe we are not really competing with China.

Aman Morya: Okay. And sir then in your PTFE. How the traction looks because one that we are already having an anti-dumping duty in India, for the China made PTFE followed by that, US have anti-dumping duty on China, which is pretty much heavy. So in that current dynamics, are we not benefiting from the China plus one strategy both in Europe and US?

Vivek Jain: Yes, we are to a certain extent, but as I mentioned our exports to the US are not the grades where the Chinese are predominantly present in. So, maybe about 10-15% of our exports to the US actually directly competes with the Chinese. So, in the US the imposition of duty on China helps us in certain segment, but the larger segment is more in the value added product for the Chinese present in any case.

Moderator: Thank you. The next question is from the line of Paras Nagda from Enam Holdings. Please go ahead.

Paras Nagda: So sir, my question was on the energy cost, we are putting up captive wind power asset, Sir I wanted to understand how much megawatt are we planning to install and what is the timeframe that it will be installed by and is it going to be a 2 megawatt machine or a 3.3 megawatt machine, the new 3.3?

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Deepak Asher: So the total capacity is about 125 megawatts. 3.3 megawatt turbine, the timeframe would be they'll commence installation by next January and hopefully complete the project by next June or so. In terms of economics, we look at our current cost of outside power, bought out power, it is about Rs.8 per unit. Even if you remove the standing charges out of it it's about Rs.7.5 per unit of variable cost and our internal cost of generation along with depreciation would be less than Rs.2 per unit. As a result of which there will be a significant cost savings in absolute terms, anywhere between Rs 200 to 230 crores per annum.

Paras Nagda: Okay. And sir how much are we paying for this 125 megawatts ?

Deepak Asher: Should be roughly about Rs 800 to 850 crores. We don't have a figure off hand but around that.

Paras Nagda: Okay. And sir what is the kind of payback you are expecting if it is a Rs.6 tariff differential that we are talking about?

Deepak Asher: So, as I said it could be a payback of about four years.

Paras Nagda: Four years payback, okay.

Deepak Asher: Apart from the fact of course that is also gives you insulation against future cost escalations in power, all this is computed at our current power tariffs, and as you know power tariffs could possibly go up in the future. So, it also gives you insulation against cost increases. Power as you know comprises of about 20% of our costs, 20% of sales is power cost so, it's a significant cost reduction for us.

Moderator: Thank you. The next question is from the line of Dhruv from HDFC AMC. Please go ahead.

Dhruv: Sir just a clarification to some of your previous points, sir the New Polymer revenue potential we mention was about 700 to 750 and if I am correct, current revenue is about Rs170 odd crore in FY20. So, that could go to about Rs 700 odd crores right?

Vivek Jain: Yes.

Dhruv: And similarly for the Spec Chem it is currently it is about 180 odd crore which should go to about 600 odd crore in the current capacity.

Deepak Asher: Broadly yes.

Dhruv: Sir and what time frame do you think that this could play out two years, three years just to reach the full potential?

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Deepak Asher: Possibly in the next two years.

Dhruv: Two years at least. And sir second question was on the polymer side, earlier you mentioned that a new polymer and also your PTFE basic value add grade also requires approval from clients. So, I was just wondering how does this chain work, the customer approves you and then is it that you are the only supplier to the customer or probably you are of the one or two supplier and it gives you volumes or then an open market and you are among say 5, 10 suppliers to them and they choose based on pricing. So how does the chain work?

Deepak Asher: Maybe you can move on to the next question and then we'll come back to this once Mr Jain joins in?

Dhruv: Yes, sir. I had another question on the Spec Chem side, looking at your revenue growth over the last two, this comparing versus FY19 to FY20 despite being a difficulty year, you have a decent growth in Spec Chem although of a lower rates and you expect in next two years to reach a decent level - at least Rs 600 odd crore. I also see some of your competitors are also quite excited about these Spec Chem business particularly from agro and pharma. So anything you can highlight what is happening there. What kind of growth that we are seeing what is driving it, any sense from that, just to understand this will give more confidence on the growth cycle that we are in?

Vivek Jain: Yes. So, Deepak shall I answer?

Vivek Jain: Okay, let me do that. One thing for sure is happening is that, there is a move, of course in India, as well as globally also, people are looking at de-risking from China. So, that itself is throwing some new opportunities for companies like us and we are at this point of time only concentrating on the Fluorine chemistry point of view. Later on there could be opportunities for us to go to other chemistry which are not fluorine based because, frankly speaking the building blocks are the same, and as we move forward we will be looking at other chemicals which are beyond the fluorine chemistry. So that's one which is happening which is throwing up opportunities. Secondly, even big overseas company also specially the agro chemical field they are also looking at de-risking from China. So you see some opportunities coming up from there also. And of course in the pharma field the presence of fluorine increases the efficacy of medication so you are seeing increasingly number of pharma products which were containing containing Fluorine. So, for all these three reasons you are seeing growth in demand and elsewhere in the developing world. You don't see capabilities so wide capability in the specialty chemical field as exists in India. So, it's only natural much of the demand will start coming into India and so that's one of the primary reasons why this sector will perhaps continue.

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Dhruv: Got it sir. This de-risking from China. So, that respectively means that they continue to get it from China the molecules and also are looking at buying from India that is the, so they have two suppliers now, that is the strategy?

Vivek Jain: They are de-risking so, I would say that will be true for everybody unless and until for instance in India there is a government restriction to import from China and of course, they will have to look at sourcing with developing the sources within India itself. But, even if that is not so, given the fact that there has been a lot of disruption which has been caused by China, people would look at de-risking and having at least one leg in the Indian camp.

Dhruv: Sure. Sir just one thing on this, just to getting your thoughts on this. So, for example current Chinese capacities which was producing this will be will be suffering and at some point in time if they start selling under pressure and have a significant price correction, versus that we are producing or some of our other pre player also producing, cannot be a big risk to the growth trajectory that we have?

Vivek Jain: Sorry, I didn’t get your question right, I was not able to get it right.

Dhruv: Sir, I was wondering that if say for example, the Chinese are also supplying and you are supplying and Chinese capacities will be underutilized because they are, the buyers have shifted some of their consumption to say India or some other country. Now, Chinese will also be under pressure because the capacity is underutilized and probably will start cutting on pricing. So, can that be a big risk to the whole thing that we are looking for the particularly for our task in terms of Specialty Chem? Price competition could be a risk?

Vivek Jain: It could happen I mean Chinese, if they want to sort of create a problem in any sector, they always can do it. So, but at the same time, as we just mentioned that a lot of the companies would like to de-risk. So even if the Chinese try to actually lower, there would be a certain proportion of the demand which will come to Indian producers because it’s not only about price differential, it is also about the security of supply.

Dhruv: Got it. And sir just one last clarification is, you mentioned the debt number that the debt should decline significantly, but on a later comment you mentioned that you’re investing about Rs800 crores for the wind project. So that could come in the Rs800 crores CAPEX will come in the next year right in FY 21. So that will be an offset to the debt decline that we are looking at?

Vivek Jain: Deepak are you there?

Deepak Asher: Yes, I am there. But sorry I couldn’t hear what was said.

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Dhruv: Sir, I was mentioning that you mentioned that debt reduction should happen in this year and next year too. But later in the comment you mentioned that there would be a wind CAPEX of about Rs 800 odd crores to reduce your cost.

Deepak Asher: It's already paid out. So there's no additional outflow because of that.

Dhruv: Okay, great so Rs 800 crores is already the CAPEX is already done, just the cost gain that will come now?

Deepak Asher: That's already contributed there is no cash outflow because of that.

Moderator: Thank you. Ladies and gentlemen, due to time constraint will take that as a last question. I would now like to hand the conference over to the management for closing comments.

Deepak Asher: Well as always, I'd like to thank you for your interest in the company and I look forward to your continued participation on these earnings update calls. And I look forward to your support as well. Thank you.

Vivek Jain: Thank you all, thank you very much.

Moderator: Thank you. On behalf of IDFC Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.