"SRF Limited
Q3 & 9M FY24 Earnings Conference Call"

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MODERATOR: **MR. MEET VORA** – EMKAY GLOBAL FINANCIAL SERVICES

Moderator: Ladies and gentlemen, welcome to the SRF Limited Earnings Call hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Meet Vora from Emkay Global Financial Services. Thank you, and over to you, sir.

Meet Vora: Thank you. Good afternoon, everyone. Thank you for joining us on SRF Limited's Q3 and Nine Months FY24 Results Conference Call. We have with us today Mr. Rahul Jain, President and CFO of SRF Limited. While we will hear Rahul's thoughts on the results as well as outlook shortly, but before that, let me invite Ms. Nitika Dhawan, Head of Corporate Communications at SRF, to initiate proceedings for the results call.

Over to you, Nitika.

Nitika Dhawan: Good afternoon, everyone, and thank you for joining us on SRF Limited's Quarter Three and Nine Months FY24 Results Conference Call. We will begin this call with brief opening remarks from our President and CFO, Mr. Rahul Jain, following which we will open the forum for an interactive question-and-answer session.

Before we begin this call, I would like to point out that some statements made in this call may be forward-looking, and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Mr. Jain to make his opening remarks. Thank you.

Rahul Jain: Thank you, Nikita, and good afternoon, everyone, and thank you for joining us today on SRF's Q3 and Nine Months FY24 Earnings Conference Call. I trust all of you have had the opportunity to go through the results presentation shared with you earlier. I will initiate the call by briefly taking you through the key highlights for the period under review, following which, we will open the forum for a Q&A session.

We have reported lower revenues and profitability during the quarter with both our Chemicals and Packaging Films segment continuing to witness a tough environment. During the quarter, gross operating revenues declined by 12% Y-o-Y to INR3,053 crores. EBIT was lower by 37% Y-o-Y to INR457 crores. Profit after tax came in at INR253 crores in Q3 FY24, down by about 50% Y-o-Y.

Coming to our segmental performance. In Q3 FY24, our Chemicals business reported lower revenues of INR1,394 crores, down 21%. Within the Chemicals segment, our Specialty Chemicals business faced challenges attributed to ongoing inventory rationalization by certain key customers. On a positive note, we witnessed some improvement in the later part of the quarter and expect this momentum to continue in the coming months. While the external environment was difficult, we believe that fundamentally, the Specialty Chemicals business is in good shape, both in terms of new products and capability. We are consistently expanding our new product portfolio and our pipeline for complex downstream products and active intermediates remains on track.

During the quarter, we introduced three new products in the agro vertical and successfully commissioned two large dedicated agro facilities. This not only demonstrates our commitment to growth but is also a reflection of our customers' confidence in SRF's ability to consistently deliver highly complex products, even amidst short-term market fluctuations. Furthermore, in our continued efforts to enhance the supply chain resilience in the current environment, the company has further diversified its raw material supplier base.

Over the first nine months of FY24, the company has capitalized around INR1,100 crores capex in the segment and is scheduled to capitalize an additional INR700 crores in capex in Q4. Such large capex values are a testament of our confidence in this business. When these projects come on stream, our immediate focus will be on scaling up these new facilities in the subsequent quarters. We remain confident of a significant recovery in Q4 in our Specialty Chemicals business.

In the Fluorochemicals business, we navigated through a seasonally weak quarter for refrigerants, marked by lower volumes and realizations, particularly in key global markets, which exerted pressure on margins. Despite the current impact on the refrigerant gases, the underlying potential for global and domestic HFCs remains strong, with significant traction from India, the Middle East, and Southeast Asia, which should play out in the ensuing quarters. Additionally, we believe that pricing will be more rational and we should be able to accrue benefits of that in our refrigerant gas business. In the Industrial Chemicals segment, we witnessed slowdown in the agrochemicals and pharmaceutical industries, which adversely impacted the demand. Amidst these challenges, we successfully commissioned the PTFE and the R32 plants in Q3. Accordingly, our immediate focus will be on ramping up sales to optimize returns and efficiency in these newly commissioned facilities.

In our Packaging Films business, SRF reported a decrease of 9% to INR1,091 crores during the quarter. This downturn was largely due to the oversupply in both BOPET and BOPP film segments, which put considerable pressure on profitability. Despite these market challenges, we performed relatively better when compared with the broader sector. Moving forward, our focus remains on enhancing operational efficiencies, optimizing costs, and strengthening our contractual sales to navigate through these tough conditions.

We are pleased to highlight that we commenced and successfully capitalized Phase 1 of our

Aluminium Foil facility on January 1, 2024. This phase represents an investment of around INR536 crores. This cutting-edge facility has a high precision drilling mill, enabling us to produce premium products in thinner gauges and wider widths. With this project, we will be amongst very few players globally who offer a wide portfolio of packaging substrates - BOPET, BOPP and aluminium foil under one roof.

Moving to our Technical Textiles business, we reported a healthy performance during the period under review, driven by an uptick in domestic demand for NTCF, despite our Manali operations being impacted due to the Michaung cyclone in December 2023. Having said that, we have adequate insurance cover in place on a ‘Reinstatement Value Basis’ against such occurrences. I am glad to share that all our employees are safe, and our team was able to largely restore and restart the machinery in record time. In the Belting Fabrics and Polyester Industrial Yarn segments, we witnessed a healthy performance during the quarter and expect the demand to grow in near future due to an increased focus on infrastructure spending.

Lastly, in the Other segment, our Coated Fabric division, reported all-time high domestic sales and profitability. This was primarily driven by strong demand for our products, including value-added products such as blackout fabrics, high GSM fabrics and storage liners. In laminated fabrics, SRF continues to perform well, operating the plant at full capacity.

Additionally, the Board of Directors has approved a second interim dividend at a rate of 36%, equivalent to INR3.60 per share based on the paid-up equity share capital of the company. This decision follows the earlier approval on July 24, 2023, for the first interim dividend at the same rate of INR3.60 per share.

Moving on to the broader corporate achievements, SRF has garnered several prestigious accolades and acknowledgments for its various achievements. The Company has been honoured as Dun & Bradstreet, India's Top Value Creator 2023 in the Chemicals category. Furthermore, SRF's Annual Report for 2022-23, has won the Gold Award and secured a position in the Top 100 Communications Material Worldwide at the League of American Communications Professionals (LACP's) Global Communications Competition, the 2023 Spotlight Awards. Our Dahej site received a Gold Medal in the 2023 EcoVadis Sustainability Rating, reflecting our commitment to environmental stewardship. The Company's commitment to social responsibility has also been recognized, with SRF being adjudged as the first runner-up in the ‘Education and Skill Training’ category at the CSR Journal Excellence Awards 2023. These accolades underscore the Company's dedication to excellence and sustainability across various domains.

2024 marks SRF's 50th anniversary. Thanks to all our stakeholders, we have been doing business as the Company for half a century, since our first facility in Manali commenced product operations by manufacturing tyre cord fabric in 1974. Our 50-year history is a series of transformation. As we look to the future, our position remains strong and promising for delivering sustained performance, particularly as the end market begins to rebound. Therefore, despite the recent challenges, our outlook for future remains positive. This optimism is based on our proven track record in developing high-quality complex products, all of which are supported by world-class infrastructure, skilled professionals, and exceptional R&D capabilities in driving sustainable growth of our business for people and the society at large.

On that note, I conclude my remarks on a positive note, and I'm confident of a significantly improved performance in Q4 FY24. I would be glad to discuss any questions, comments, or suggestions that you may have and would now like to ask the moderator to open the line for the Q&A session. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Sir, first question is on the agrochemical project. So you just alluded that almost INR1,800 crores of capex will be done during this year. My sense is that predominantly on the agrochemical projects. So what is the visibility that we have for the next financial year in terms of firm commitments from our clients?

Rahul Jain: So you're right, Rohit, that we have done about INR1,100 crores of capitalization during the year. Not the entire amount may have been incurred during the year because that's a cash versus capitalization issue, but yes, roughly about INR1,100 crores already capitalized and about INR700 crores to be capitalized during Q4 is the current target that we have.

I believe that when we look at it, there will be some positive in terms of the overall positions that are being created. Some of the plants that were capitalized during the period have also resulted in significant revenues this quarter as well, and hopefully, that momentum can sustain going forward. In order to be able to give you a better view of FY25, I think we will have to wait a bit in order to understand this better. Generally speaking, what we've done also in the past, Rohit, is to give you a position once our budgeting exercise and various other things that we do on an annual basis is completed. So let's say, during the May call, we should be able to give you a better color on this. But like I said, during the initial comments also, we believe that there is good traction that we are seeing in Q4, in fact, some of the positives started to begin in end of November-early December, and we believe that can continue going forward. I hope that answers it, Rohit.

Rohit Nagraj: Sure. That's helpful, sir. The second question is in terms of how the ramp-up for PTFE and aluminium foil projects is expected starting from, say, FY25? And when are they likely to reach maybe optimal utilization based on your internal assessment?

Rahul Jain: Both are different, so let me tackle them differently. PTFE was capitalized somewhere in October of 2023. We believe that it's a product that will require approvals. We are already getting into the bulk grade. The bulk grade is seemingly selling well. But the fact is that the overall operating leverage will play out in PTFE over the next 6 to 12 months, or maybe slightly more than that. As we get into fine cut, as we get into free flow and modify it at a later stage, we believe profitability should be better. However, if you look at only Q3, I don't think it is relevant because the size and scale of the project is so large that it will take time to ramp up. Our rough sense is that basic products ramp up in six months and more of value-added products in 12 to 18 months. That's how PTFE should pan now.

Aluminium foil, we are looking at getting accelerated approvals from both local and global customers. That's also a journey that is in place. Hopefully, some positive we should see by the end of Q4. But largely, I think maybe about 6 to 12 months for some of the global approvals to come through is what we would look for in aluminium foil.

Moderator: The next question is from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani: Two questions from my side. Firstly, on Specialty Chemicals, in terms of the significant improvement that you're expecting in the fourth quarter, is this a function of your new capacity ramp-up or customers making up for the orders that they had rescheduled earlier this year? Or is it a function of just an improvement in the underlying demand from where we are?

Rahul Jain: Can I answer the first one, before you ask the second one?

Vivek Rajamani: Sure, sir.

Rahul Jain: So you're right, Rohit. Like I said during the initial call also, the fact is that we've seen some significant positive of the new plants that were capitalized during the nine months coming through. So the projects have started to do really well. We are seeing significant traction in some of those molecules that have been launched, and they are really adding to revenue.

With respect to the second piece that you asked, in terms of where the significant improvement comes through, is the fact that we have always said that we have not seen any major order cancellations happen. What we've seen is delay. Also what we have seen is customers wanting the product again. So we are seeing traction around that. So I think it's a combination of both, that is panning out rather than one singular factor Vivek.

Vivek Rajamani: Sure, sir. That's really helpful. And the second question was on packaging. I understand it's a very tough environment. You've been highlighting that for a while. But we did see two quarters of sequential improvement in the first two quarters of this year. So I just wanted to understand what really changed this quarter in terms of the decline. Was there a reduction in the utilization rates of volumes? So any color around that would be very helpful.

Rahul Jain: Again, very difficult to be able to answer what changed during this quarter. To be very frank about it, what we have seen is that the pricing has been lower, the overall positions that have been created in the business from an overall environment and industry perspective seems to be continuously going on the lower side, margins are continuously under pressure. So that is what essentially we are seeing. Now to be able to say why there was a sequential decline in quarter-on-quarter, I don't think we should look at it from that perspective. When you look at it from an annualized perspective, you will find at least some lower negatives. Europe is kind of closed in Q3, even South Africa for that matter also goes through a long holiday period, BOPET also is going through a tough environment. So I think those were the kind of factors that played out in Q3. Hopefully, some of that will be better in Q4 given the fact that we've also started to see energy prices in Europe come down.

What has also started to happen from a Q4 perspective, is the supply chain challenges that are existing in the Red Sea today. Some of the local European customers are kind of gravitating towards local suppliers, so to that extent, it should also be a slight positive for Hungary, albeit in the short term.

Moderator: The next question is from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Rahulji, on the Specialty Chemicals business, last quarter, we had kind of indicated that we still expected at least a single-digit revenue growth for FY24. So just sort of wanted to get your perspective on whether that target is still achievable? And how much roughly would the growth might have been YTD in the first 3 quarters of the year?

Rahul Jain: So you are right that we had said that we are very hopeful of a growth position that is getting created. I mean, to be very frank about it, I'm still not giving up hope. However, the way things are looking, it could be a very close call-in terms of the overall operations and the overall revenues that play out, in terms of what we had guided earlier. We will have to find alternatives. We will also find our positions on some of the chemicals. I mean I'll just say this, we are still very hopeful that we should be able to get there.

Abhijit Akella: Yes. But the YTD number, sir, is it possible to share something about how much it's been?

Rahul Jain: Let's say, the overall sales is kind of negative by about 10%- 11% when we compare nine months to nine months.

Abhijit Akella: Understood. That's helpful. And just the last thing from my side was regarding the capacity utilization, actually, both in refrigerants and in packaging films. If you could just give us a flavor for how utilization is trending right now across the business?

Rahul Jain: Abhijit, you're talking about the Packaging Films business or some of the other business?

Rahul Jain: Maybe Abhijit has got disconnected. So just to answer Abhijit's question on the overall utilization in the Packaging Films business. When we look at the overall capacity availability during Q3, roughly about 90%-91% was our capacity utilization.

Moderator: The next question is from the line of Arjun Khanna from Kotak Mutual Funds.

Arjun Khanna: Just carrying forward from the earlier question. In terms of the Spec Chem. from what you have indicated, essentially in the fourth quarter, if you're seeing a close call, essentially, we are, in a sense, guiding towards maybe a growth from the previous year, and the previous year fourth quarter was exceptionally strong. Is that the right understanding of your comments, sir?

Rahul Jain: Arjun to be very frank about it, we do not have color on this, because when you look at numbers on a quarter-on-quarter basis, what you see is numbers on CB as a whole. So when I look at CB as a whole Q4 number last year, it would also have some performance of the Fluorochemicals business, which was a positive at that point in time.

What I'm only trying to say is that the significant positive that we are talking about or the significant recovery that we are talking about, is largely in the Spec Chem. business. And again, given where this environment is today, Arjun, we still feel very positive for Q4 for the Specialty Chemical business. I don't want to get into looking at it from a Q4 versus Q4 and what's the growth number. And what's the position on that side. I hope that answers your question.

Arjun Khanna: Fair enough. And sir, when we look at Spec Chem. nine months, we do get some flavor on the export numbers and the fact that you have mentioned maybe a low double-digit decline in Spec Chem. essentially means they are selling a lot of products on the domestic side. Would that be the correct way of understanding this?

Rahul Jain: Yes. But as when we talk about selling domestically also, I think it is also to a very large extent at the behest of our global customers only.

Arjun Khanna: Right. Because new formulation facilities are being set up in India.

Rahul Jain: Right. So to that extent, if you look at it from a pure mix perspective, let's say, three years ago or two years ago, when it was 90%-95% of exports, we are probably at about 75% of exports today, if you look at it from that perspective. But when you look at it from a domestic perspective also, that is also at the behest of global customers only. So we don't really want to differentiate in that sense. We still believe our global customers share in our business is still about 90%-95%.

Arjun Khanna: No. Fair. I'm just saying in terms of tracking only export numbers, that doesn't probably give the full picture.

Rahul Jain: Arjun, you guys track the export a lot more closely than I do. So when you look at January numbers coming in and when you look at February numbers coming in, you will probably get a better sense than I will.

Arjun Khanna: Fair enough. Sir, the second question is just if you look at capex FY23, we did roughly INR2,850 crores. And we mentioned we are capitalizing roughly INR1,800 crores in FY24. So essentially, the remaining part of the capex, what are the major projects which will probably come in FY25?

Rahul Jain: So Arjun, as of now, the projects that have been sanctioned, which are multiyear projects, are roughly about INR1,000 crores - INR1,100 crores that will be incurred in FY25 and FY26. Now given the fact that this year, the overall capex number has been slightly lower, what we do see is the fact that next year we will end up seeing probably in the range of about INR2,000 crores - INR2,200 crores as the overall capex.

Again, the mix remains, what we've talked. 80% in the Chemicals business and the balance in others. Now the way things will work out is that's a traction that will continue to go on at least for the near term and the near future as well. When we also look at, let's say, an overall guidance of INR15,000 crores that we had talked about at some point in time, maybe 1 year - 1.5 years ago, I think to a certain extent, we have achieved that for FY23 and FY24.

But when we look at it from an overall five-year - six-year perspective, if not 5 years, this will probably get done in 6 years. So that's the only change. Again, our balance sheet remains strong. Our commitment to capex remains very strong. So that is something that we believe will continue. I hope that answers your question.

Moderator: The next question is from the line of Krishan Parwani from JM Financial.

Krishan Parwani: Just one question from my side. I think you mentioned that almost INR18 billion worth of projects have been commissioned. So just wanted to understand...

Rahul Jain: So I said INR1,100 in the Spec Chem. Space. INR1,100 crores done and INR700 crores to be done in Q4 is what I said, Krishan. So just correcting you on that. Because there is a PTFE that has also been capitalized, there is R32 that has also been capitalized and various other smaller projects also. So when I refer to INR1,100 crores, that is only for the Spec Chem. business.

Krishan Parwani: Yes, I should have clarified. I was referring to more of Spec Chem. So let's say, INR1,100 crores that you have capitalized and INR700 crores you are going to capitalize in Q4, so total about INR1,800 crores. So just wanted to understand, till we achieve, let's say, 60%-70% plant utilization of these capexes, could there be near-term margin pressure?

Rahul Jain: Could that create margin pressure? I didn't get the question completely…

Krishan Parwani: I mean till you actually achieve optimum utilization or, let's say, 75% or 80% utilization, your cost could be higher and the revenue could be lower. So could that be, let's say, a case where your initial margins could be under pressure till you achieve it?

Rahul Jain: Krishan, not really. I would tend to believe that that's a journey that continues. There will be newer capexes that will get capitalized, which will take time to ramp up. Those that were capitalized last year are ramping up today, while the industry is still in a kind of negative. While what you're saying mathematically is right, that it will always have a small negative on the operating leverage, like for example, when the PTFE gets capitalized, it will take time to ramp up. So to that extent, there will be a negative operating leverage. But I don't think it should be very significant in that sense.

Krishan Parwani: Understood. And just one bit on that. Do you have any guidance for margin range, let's say, for FY25?

Rahul Jain: Krishan, we don't do that. I would tend to believe that from an overall perspective, the margin for Q4 should be better than what we have achieved in Q3. That's the only thing that I believe. I can't go into a range of the margin also.

Moderator: The next question is from the line of Surya Patra from Phillip Capital.

Surya Patra: My first question is on the Fluro-specialty. Do you find any challenge on whatever the kind of underperformance in the Fluro-specialty currently that we have witnessed? It is obviously because of the weak demand situation that has been prevailing globally and largely in the agri but it is even pricing also is a kind of a concern, sir?

Rahul Jain: Surya, I think what our judgment typically gets clouded with is, what was the price last year and what is the price this year. If you look at FY23, the pricing was through the roof for certain products, and that is what people were talking about, that why is the pricing so high. I had said that this is a temporary phenomenon and the pricing will get normalized. I think what has also happened today is that the pricing has come down also very significantly for some of the key refrigerant gases.

Now while there is some demand issue, I don't think overall when we look at it from a worldwide perspective, HFC demand is going anywhere because, let's say, the U.S. is degrowing and Europe is degrowing. Some of the things in India, Middle East and Southeast Asia, all of those geographies will continue to grow. So to that extent, I don't see too much of a demand challenge in that sense. The other piece that I want to talk about is when you say the pricing challenge, yes, today there is a pricing challenge. There is the pricing of certain products has come down. But at the end of the day, when we look at it, the ROCE even in this business remains very comfortable and very strong. So that's how we would look at it and continue to manage it from that perspective. It is a bit of a weak environment today. But like I said, we are very confident that this environment also changes a bit.

Surya Patra: Okay. Sir, just one more extended clarification. I was believing that the Fluro-specialty, since it is a contractual supply and customized supply for innovators, so there should not be kind of any major price fluctuation for the product, irrespective of the market condition. So whether that segment also would have seen some kind of price erosion, sir?

Rahul Jain: To be very frank about it, these are discussions that will always happen with the customer. While there may be some contracted positions you have, you fill up those contracted positions, the newer contracts will always have to see what are the raw material cost positions that have got created. So I would not say that there are no discussions happening on that. There will always be discussions, customers will always want a lower price. There is some Chinese competition also that we've seen in the business, there is some dumping happening of certain products. So all of that is going on. But even then, what we are saying essentially is that we are getting into more complex products, we are getting into more advanced intermediates, we are getting into more active intermediates, and therefore, our margin profiling should remain typically better. So that's how we would look at it.

Surya Patra: Yes. Okay. And regards to our R32 plant, now after commissioning, do you have any ready contract with customers for supplying?

Rahul Jain: For ref gases, there are no contracted position that gets created, it's largely based on demand and supply.

Surya Patra: Okay. And just last one clarification from my side, sir. See, in fact, the capex momentum is continuing the way that we have been guiding. Although we have seen some marginal kind of slippage in terms of timeline, but let's say, next year, while the visibility is coming up positively for demand for execution of the projects and implementation of the projects and all that, do you think, the kind of execution or the ramp-up of the asset would be in line with what you have been initially thinking about it?

Rahul Jain: Yes, you're right that there have been some delays. Various geopolitical issues, various supply chain issues, various other things have created that kind of a situation. But when you compare our capex positioning versus some of our peers, I think we've still done a fairly good job in terms of getting us there. Ramp-up of the capex, obviously, is a slower process, but we are fairly confident that some of the capexes that we have done, some of them in the Specialty Chemical space have already started to provide some positive, and that should be a trend that can continue.

Moderator: The next question is from the line of Jason Soans from IDBI Capital.

Jason Soans: Just wanted to understand, of course you have a healthy capex momentum and a multitude of projects going upstream. Just wanted to know, with the whole environment, we know the prices for intermediates being driven down. I'm sure the IRRs for these projects must have been affected, but I just wanted to know on that perspective, how are you managing to safeguard these IRRs? So one it would be your 85% of your products on agrochemicals are patented, so you'll have a certain price protection. As you mentioned, client negotiations are there or will you probably revise downwards the capex? Just wanted to know what are the tools you have to safeguard these IRRs on multitude of projects which you are executing?

Rahul Jain: So again, Jason, when we look at it from an IRR perspective, let's say, when you conceptualize the project and then when you execute it, IRRs come through over the next 5 to 10 years. When we are looking at the project, we are also looking at various other multipurpose plants what we can do in those projects, what are the more value-added products that we can continue to produce, what are the more complex products that we can continue to do and ensure that the IRRs kind of remain in good shape.

Now when you start to start a project versus when you have gone through a 10-year phase of the project, only then will you come to know of the exact IRRs that have turned out. To be very frank about it, what we've seen over a period of time is that we typically achieve the IRRs that we've started with or in fact bettered them over a period of time. I think that as a trend can continue for us.

Jason Soans: Okay. Sure, sir. And sir, just wanted to understand, I mean, last call, you did allude to a lot of significant competition in terms of refrigerant gases, particularly from the Chinese players. Just wanted to know in that perspective only which substrates of our chemicals, we have a wide range, AIs are there, you have Fluorochemicals, refrigerants, which substrate are you seeing the maximum Chinese competition? And also...

Rahul Jain: Maximum is HFC.

Jason Soans: Maximum is HFC. And sir, it's very tough to match the Chinese on cost competitiveness. So of course, you will have to move higher up the value chain, right?

Rahul Jain: I don't agree with that, Jason. I think cost competitiveness is fairly in good shape with us as well. We are not worried on the cost competitiveness side. But what the Chinese end up doing in some situations is, to be able to push the price down even below variable cost, which is the problematic thing that happened.

It's a situation that Chinese create sometimes in the market given the fact that they have large capacities and large inventories that have been built up and they just want to liquidate the inventory. So that's how it ends up happening. Sorry, you were saying something I kind of interjected.

Jason Soans: Yes, sir. Thanks for that bit as well. Just wanted to understand, you've spoken about, of course, basically venturing higher up the complexity value chain customized products for customers, which will form an effective moat for your business. Just wanted to know, if you could throw some more color on this, like how exactly are you doing it? I understand it's not very easy to encapsulate it, but just wanted to know from you some more color on this, that how you're doing it?

Rahul Jain: Yes, I think at the end of the day, our R&D, our CTG group. In terms of what is the kind of products that we are looking at, what's the complexity, what's the position that we are creating, I think at the end of the day, it starts and kind of ends also with our CTG group, to be able to do some work in terms of either the product, or complexity of the product, or environment load of the product, or manufacturing the product in a more efficient manner. I think those are the key elements that pan out. Like you said, it is very difficult to be able to give you a single pinpoint or a single position on this one. It's a combination of various factors Jason.

Moderator: The next question is from the line of Rohan Gupta from Nuvama.

Rohan Gupta: Okay. Sir, just couple of questions from my side, in agrochemicals, we have launched three new products. And I think, two more to be launched in the current quarter. I just wanted to understand that these are the products where we are still seeing some Chinese competition or low demand or inventory destocking taking place in those products as well and the pickup will be slower than what's anticipated? Or they are the new molecules and we'll see no such pressure?

Rahul Jain: So typically, I would say that these are the new ones. And therefore, as of now, not a significant position from the Chinese on those ones.

Rohan Gupta: Okay. So sir, is it so that the revenue pick up in Q4 where you seem to be very confident about growth in Spec Chem. will be mainly driven by these new launches?

Rahul Jain: No, I think I answered that question in the beginning also Rohan. I think it is a combination of various factors. We have said in the past as well, that what we've seen is deferment of orders. Some of those deferred orders are starting to play out. Some of the flagship products also we are seeing some traction coming back on them. There are certain geopolitical situations that have got created largely in the Red Sea where customers are now starting to ensure that the deliveries are faster and more quantities being ordered. So all of those factors playing out. Plus obviously, the newer products that have got capitalized are also starting to show up in the revenues.

Rohan Gupta: Sir, if I see your business in the Specialty Chemical in line with the industry, probably many of the industry players have seen a significant drop in revenues in nine months. However, though for you also it has been weak, but probably much better than the industry. Is it because mainly the products which we have are the specialty or with the innovators in nature, and that's what has protected us in terms of the revenue growth or less decline in revenues?

Rahul Jain: I didn't catch the last part. You were saying that we were better than the industry, but what's the question here?

Rohan Gupta: Yes. So we have done better than the industry. It is mainly driven by the product basket? Because you also said in one of the comments that you are also witnessing competition from China and customers also sometimes move to Chinese supplies. So what has helped us in terms of doing better than the industry in the current scenario?

Rahul Jain: It's a large product portfolio, Rohan. We are today almost at 35-40 products that we supply. Our total dedicated plants today are probably in the range of about 17-18. So to that extent, I think it's a wide product basket that we have. Compared to 2015 or 2017, the number of products is much larger. So while some of the products do get affected, I think there is a good hedge that has got created over a period of time.

Rohan Gupta: And sir, you have mentioned in your presentation that you see the demand outlook is getting better and inventory rationalization, though it's still going on, is improving. So, in last three to four months, the scenario was significantly impacted from China. And I think that most of the Indian players could not anticipate that problem coming in the month of April, May and the inventory destocking suddenly took place in June, July, August, September.

So do we see that there can be further possibility of that scenario getting repeated because the Chinese suppliers are still remaining aggressive, the capacities are still remaining there? So how confident we are that the situation has improved, and we will not witness what we have seen in the current year?

Rahul Jain: Rohan, I can only talk about SRF, than talk about other competitive positions that are being created. We are also looking at the fact that in the Specialty Chemical space, the order book is seemingly very strong. So I can only tell you that much. From a Fluorochemicals perspective and ref gases, prices seem to have started to edge up, and that's what it is Rohan. Why we're doing better than our competition, I think that could be a product profiling issue, it could be a product basket issue, it could be a complexity issue and various others. So very difficult to pinpoint it from a peer's perspective.

Moderator: The next question is from the line of Nitesh Dhoot from Dolat Capital.

Nitesh Dhoot: My first question is on the domestic Fluorochemicals business. So just wanted to check if there has been a growth there year-on-year? And what kind of volume growth would you have seen there? And your outlook on the domestic Fluorochemicals, the refrigerants business, if you could just give some color?

Rahul Jain: You're talking about the Fluorochemicals, ref gas business?

Nitesh Dhoot: Yes.

Rahul Jain: So again, we will have to look at it from two or three perspectives. Typically, when we see this, Q1 for each financial year from a domestic perspective is the strongest quarter, given where the positions are from a heat perspective in the local Indian market. So that's what we typically end up seeing.

But from a medium-term perspective, what we believe is that the Indian market is still a growing market, we will see more traction from domestic producers, be it RAC, be it mobile air conditioning. So that should pan out. And overall, I think as the shift happens in terms of the requirement of refrigeration in India, I think the market is set to grow only. So that's the medium-term outlook from a ref gas market perspective.

Also, when you look at it, there are no major players in the HFC space from our perspective when you compare the industry players around it.

I think we've built a significant moat in the business. We've built a significant share in the market. We will continue to expand more in the domestic market. The export market also, from a Middle East, Southeast Asia, and to a certain extent, U.S. will continue to grow for us going forward as well. It may be a situation where some of the gases maybe degrowing, there could be other gases that could end up growing. So that's how we would look at it from a medium-term perspective, Nitesh.

Nitesh Dhoot: Sure. Sir, my next question is on the effective tax rate. If we see nine-month ETR was around 27%. So what is it going to be for the full year and for FY25, if you could just give some indication?

Rahul Jain: So Nitesh, the best is when you look at standalone. When you look at standalone, we are now in the new tax regime. We will probably be in the range of 25.5% to 25.8% as an overall ETR from a standalone perspective. Each of the other entities have a different position. Thailand has certain incentives, Hungary has certain other kinds of incentives, there are certain positions in South Africa. So instead of looking at it on a consolidated basis, the best is to look at it on a standalone basis, where India, we will be at roughly 25.5% to 25.8% range of the ETR.

Nitesh Dhoot: Right, sir. Sir, just one last thing, if I may squeeze in. So on the contribution of pharma in the current Spec Chem. revenues and where do you see this moving in the next couple of years?

Rahul Jain: So as of now, it's low, to be very frank about it. There is a focus around it. We believe in Q4 also, there will be some positive around it. But in the medium term, we should get to significant numbers on Pharma. Again, agro has been a very significant positive for us. And I think that's an area we are continuing to expand. The numbers don't look very encouraging as of now on a Q-on-Q basis. But overall, I think there is positive traction on the Pharma side as well, and that should play out in the medium term, Nitesh.

Moderator: The next question is from the line of Rohit Sinha from Sunidhi Securities.

Rohit Sinha: Good to hear a positive outlook for your Specialty Chemicals. Just one question on Packaging side. First of all, on this aluminium foil business, initially, the capex size was somewhere INR450 crores which end up around INR536 crores. So initially, the asset turn was 1.7x to 2x what we have indicated. So currently also, we are maintaining that asset turn? Or is there will be some changes?

Rahul Jain: Let me first give you the reason for the increase in the capex cost. During the period of implementation, the commodity prices have gone through the roof. One of the reasons for the capex cost being higher was the higher commodity price position that was playing out, Rohit.

Second, and the more important thing is that when we were doing the project, we started getting into better specs on the aluminium foil. How much of a thinner gauge aluminium foil can we produce, will give a better value add. So we kind of reconfigured our thought process, to be able to produce maximum thinner gauge aluminium foil. So those are the two key reasons for the capex being higher.

In terms of the multiplier, I think it still remains there or thereabouts. But again, as aluminium foil ramps up, it will probably take 6 to 12 months. Hopefully, as we also continue to move into thinner gauges, the value that we will create here will be much better. So that's how we would look at it, Rohit.

Rohit Sinha: Okay, sir. And lastly, on just BOPET and BOPP side, just to hear what kind of a situation we are seeing and how this margin is going to be shaped up going forward, as we are now below 5% EBIT margin. So still the lower supply situation is there, but how we are seeing this from your side?

Rahul Jain: So on BOPET, I think it's a story which will probably take another 12 months, maybe slightly more than that, to kind of normalize. We are still seeing growth in demand from a domestic market perspective, but the oversupply situation kind of continues. You know that this is also a business that has been the most impacted and the most cyclical business in that sense. So

BOPET will continue probably like that for the period that I talked about.

BOPP is doing better. There are no new supplies that we hear around it, but the Chinese will always keep putting up new lines. There will be some pressure on that as well. But I think the bigger point here is, that when you compare this to some of our peers, I think our value-added product profile, our customer traction and our relationships have actually helped us, even with the kind of environment that we are in, so we continue to do well.

We are going into more value-added products. You've heard the announcement on the capacitor grade film that came in. So I think we are in fairly good shape on that one as well. It is the market cycle that is playing out today and we are still doing pretty much all right. So that's how we would look at it, Rohit.

Rohit Sinha: Okay. And what kind of utilization level we are operating at in this?

Rahul Jain: Roughly speaking about 90%-91% overall.

Moderator: The next question is from the line of Tarang Agrawal from Old Bridge Asset Management.

Tarang Agrawal: Sir, typically for your Spec Chem. business specifically, what is your working capital days between debtors and finished good stock?

Rahul Jain: So give me just a minute, I don't have that number readily available. But generally speaking, Tarang, what we look at is that typically, we want to manage our working capital in a good shape. Roughly speaking, net working capital basis will be at about 20%-25%.

Tarang Agrawal: Okay. And, have you seen an expansion here versus, say, two years back?

Rahul Jain: I think we've actually been able to manage it lower.

Tarang Agrawal: So it's come off, is it?

Rahul Jain: We've been able to manage it lower is what I said.

Tarang Agrawal: Okay. That's helpful. So no changes in terms of your working capital, right? It remains at 20%-25%?

Rahul Jain: Just give me one second. I just may have spoken off my head. So the NCA to net sales as of now are roughly in the range of about 30%. But we typically try and manage it at Specialty Chemicals business, and last year, we were somewhere in the range of about 20% to 25%. But again, it's a business that is a batch-based business. So to that extent, I do believe we will come back to more normalized levels by the end of Q4.

Tarang Agrawal: And all the expansion that you're seeing from, say, 25% to 30%, because of it being a batch-based business, it's all the raw material or WIP-led?

Rahul Jain: Largely inventory – raw material and FG-led.

Moderator: The next question is from the line of Dhruv Muchhal from HDFC AMC.

Dhruv Muchhal: So probably a bit early, but for us, the US ref gas market, the 2024 cuts are coming I think. So how do you see the market for us, positive or negative in terms of volumes and probably pricing? And also related to this, I think there was some capacity which had come up in Middle East, big capacity, but was probably not playing as per the rules. So any development in terms of events there, if you can share?

Rahul Jain: So from a US market perspective, it is not cuts that have come in for us, it is the overall production that has to get cut from a US market perspective. Again, because production will get cut, we believe there may be some negative around it in terms of the overall sales that we can make around in the US market.

But I think it's a mix that will pan out, because of the fact that the cuts are not based on a gas-by-gas basis, they are largely based on a GWP equivalence basis. What we will end up seeing on that side is that some of the gases in the US might expand, while some may kind of frizzle out. So that's how the medium term will play out, Dhruv. What was your second question? I kind of missed it.

Dhruv Muchhal: The capacity in Middle East probably not playing as per the rules, and there could be some implications in that capacity. So any development such as...

Rahul Jain: There is a lot of chat about the Middle East capacity of about 30,000, 40,000 tons that is coming through. But what we are also kind of figuring out as of now is, what's the basis of where they are getting the fluorspar from, if they are getting an HF, where are they getting that HF from... It's a bit of a quandary as of now. Nobody really knows about that capacity or whether it is producing. And you also may be aware that there are certain circumvention positions that the US market is talking about, for some of the imports that are happening from these jurisdictions in the US.

Moderator: The next question is from the line of Dhavan Shah from Alfaccurate Advisors.

Dhavan Shah: Sir, my question is on the Spec Chem. side. So you mentioned that for the first nine months, there is a degrowth of roughly 10%-11% in terms of the revenue. And you are hopeful that this fiscal will end up with maybe stable or largely lower negative side of the growth and there is some deferment of the revenues also. So what is the quantum of the deferment of the revenue? And what is the key reason for that? That is my first question.

Rahul Jain: It is impossible to be able to give you details in that granularity. That's the base trend that we are talking about, we will continue with the trend only, rather than giving you numbers around what's the deferment, what's the position that is playing out. Impossible to do that.

Dhavan Shah: Okay. And how is the overall demand do you see in terms of Spec Chem.; how is the overall sign in terms of the demand environment? Can you share some thoughts on that?

Rahul Jain: Dhavan, I think it was well answered during the call. We are very positive in terms of what we are seeing for Q4. And when we look at it from an overall FY25 perspective, I think we will probably be able to provide some guidance around it, probably in May or when we do our May call. So that's how it is, Dhavan.

Moderator: I now hand the conference over to management team for closing comments.

Rahul Jain: Thank you, everyone. I hope we've been able to answer some of your questions. I hope that each one of you continues to remain safe and healthy. If you have any further questions, we would be happy to be of assistance. We hope to have your valuable support on a continued basis as we move ahead. On behalf of the management, I once again thank you for taking the time to join us on the call. Thank you. Bye-bye.

Moderator: On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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