"SRF Limited

Q1 FY25 Results Conference Call"

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MANAGEMENT: **MR. RAHUL JAIN** – PRESIDENT & CHIEF FINANCIAL OFFICER – SRF LIMITED
MS. NITIKA DHAWAN – HEAD OF CORPORATE COMMUNICATIONS – SRF LIMITED

MODERATOR: **MR. ARCHIT JOSHI** – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the SRF Limited Q1 FY25 Earnings Conference Call hosted by Batlivala & Karani Securities India Private 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. Please note that this conference is being recorded.

I now hand the conference over to Mr. Archit Joshi. Thank you, and over to you, sir.

Archit Joshi: Good afternoon everyone, and thank you for joining us today. We at B&K Securities are pleased to host SRF Limited's Q1 FY25 Results Conference Call. We have with us today, Mr. Rahul Jain, President and Chief Financial Officer of SRF Limited.

I would now like to invite Ms. Nitika Dhawan, Head of Corporate Communications at SRF Limited, to initiate the proceedings for the results con call. Over to you, ma'am. Thank you.

Nitika Dhawan: Good afternoon everyone, and thank you for joining us on SRF Limited's Q1 FY25 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.

Rahul Jain: Thank you, Nitika. Good afternoon everyone. I extend a warm welcome to you all and thank you for joining us today for SRF's Q1 FY25 Earnings Conference Call. I trust all of you have had the opportunity to go through our results and the presentation shared with you earlier. I will begin the call by briefly taking you through the key financial and operational highlights for the period under review, following which, we will open the forum for a Q&A session.

The current quarter was indeed a challenging one, primarily due to the ongoing environment in the Chemicals business. The challenges have notably impacted sales in both our Specialty and Fluorochemicals segments. Nevertheless, we remain confident of a revival in the second half of the current fiscal year.

In Q1 FY25, our gross operating revenue stood at INR 3,464 crore and EBIT was recorded at INR 484 crore, representing a 14% margin. Meanwhile, profit after tax came in at INR 252 crore. During the quarter, the Board has approved an interim dividend amounting to INR 3.60 per share, which is about 36%.

Coming to our segmental performance. The Chemicals business reported revenues of INR 1,482 crore, a decline of 11% over the corresponding period last year.

The Specialty Chemicals segment faced certain challenges during the quarter, largely owing to sluggish demand in the agrochemical sector as some customers continued the inventory rationalization measures which we have seen since Q2 FY24. While some of this is now coming to an end, a clear guidance on when will the pickup happen is still unknown. Amidst these hurdles, I am pleased to share that we made notable strides in expanding our product portfolio, including launch of a new pharmaceutical intermediate and have made substantial progress in the commercialization of some new products that have yielded positive traction in Q1 FY25. We had capitalized approximately INR 1,800 crore of projects in the Specialty Chemicals business last year and are now focusing on ramping these up in FY25. Our efforts are also directed towards cost structures, efficiency through tech interventions and process improvements, and continued discussions with customers for meeting their current and future requirements. With anticipated gradual recovery in demand from agrochemical sector, we expect a positive impact on performance in the second half of the current fiscal.

During the quarter, our Fluorochemicals division witnessed significant increase in domestic volumes of our HFCs product portfolio, driven by heat waves and prices of certain key refrigerants being firm in the domestic market. Additionally, demand for Dymel®/Pharma propellant remains strong. US market saw lower volumes for some refrigerants and pricing was also lower. On an overall basis, HFC volumes remained strong compared to corresponding period last year. However, we also witnessed certain challenges in the chloromethanes segment and pricing remained subdued for certain key products. Further, our newly established PTFE facility is gaining traction in the domestic markets, with exports sampling also underway. The progress on value-added grades is also progressing as planned.

At SRF, we take pride in our exceptional R&D capabilities within the Indian chemical industry. Our team of over 450 skilled professionals is essential to developing advanced products and processes for our Specialty Chemicals and Fluorochemicals businesses. With expertise in handling complex chemistries, SRF is at the forefront of tackling challenging projects. Our strength in R&D is highlighted by our significant patent portfolio, including 151 granted patents and 451 process patents filed. Looking ahead, R&D will continue to drive SRF's pursuit of excellence, leading innovations in process development, scale up and commercialization of new chemistries, such as advanced intermediates, active agrochemical ingredients and next-generation refrigerants.

Coming to our Packaging Films business, we delivered 22% Y-o-Y growth, reaching INR 1,336 crore in Q1 FY25. EBIT margins improved driven by record production levels and robust VAP sales. Margins for BOPP films segment improved benefiting from higher capacity utilization and stable demand, while the BOPET films also witnessed some positives towards the end of Q1. An oversupply situation and intense competition from Chinese players in Southeast Asia still persist in the BOPET segment. Despite the challenging conditions, SRF's value-added product portfolio, long-term customer contracts and an "Easy-to-do Business With" ability provided us a competitive edge, enabling us to maintain profitability and achieve industry-leading performance. In our recently established Aluminium foil facility, export sampling is underway. We are focused on reaching optimal utilization levels soon and anticipate a ramp-up in production in H2.

Moving to our Technical Textiles business segment, revenue grew by 13% to INR 525 crore during the quarter with steady contributions from the Nylon Tyre Cord Fabrics segment and Polyester Industrial Yarn segments, while demand for Belting Fabrics softened. Our focus in the segment remains on enhancing higher margin value-added sales. We have also made notable progress in clean energy usage, achieving the highest share of renewable power during the quarter. Our commitment to renewable energy has led to a substantial portion of our energy needs being met through green sources. Additionally, expansion projects of dipping and BF capacities are advancing as planned.

Lastly, in our Others segment, we reported steady growth in Coated and Laminated Fabric businesses. SRF maintained its leading position in the domestic coated fabric market by volume and price, achieving record domestic sales with strong seasonal demand anticipated. The business aims to boost profitability by increasing domestic volumes through value-added products and expanding into new segments. In Laminated Fabrics, we retained price leadership with full capacity operations, although oversupply is pressuring margins.

Coming to our philanthropic initiatives, the SRF Foundation established 9 Anganwadi centres in Netrang and Bharuch during the quarter, in close vicinity of our chemicals manufacturing facility in Dahej. In Mewat, our foundation team led the opening event of a model Anganwadi centre at Ferozepur Namak village with 140-plus community members attending.

SRF has recently been honoured with several prestigious awards. Our Chairman Emeritus, Mr. Arun Bharat Ram, received the 'Outstanding Contribution to Education and Skill Development' award from Hurun India. SRF was recognized by Frost & Sullivan Institute with the 2024 Enlightened Growth Leadership Best Practices Award. Some other notable achievements are a part of our press release shared earlier.

In conclusion, over the years, SRF has built a resilient multi-business structure that positions us well to navigate a dynamic environment. Although some sectors may encounter near-term challenges, we are confident that our business model and an ever-expanding product profile will keep us in good stead and as cycles turn, overall growth and sustainable value for all stakeholders should be created.

On that note, I conclude my remarks and would be glad to discuss any questions, comments or suggestions that you may have. I would now like to ask the moderator to open the line for the Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: First one, on the Specialty Chemicals side, are we still holding on to our guidance of 20% and are we confident that second half will make for all the shortfalls in the first half?

Rahul Jain: So Sanjesh, I have expected the question to be very frank about it. Given the fact that the overall chemicals business this quarter has been slightly lower, you also have to understand that when we were looking at it from a Q-on-Q perspective, Q1 last year was still very good. We started to witness some of the inventory rationalization probably towards Q2 of last year; Q2, Q3, Q4, we saw some negatives coming through. Given that as a situation and the high base that we are with as of now, I think a 20% number is still very achievable. But the key element here also is the market, while we are also expecting some of the market positions that have played out during the first quarter to be better going forward. With all of those factored in, I think we are still fairly confident of being able to get there.

Sanjesh Jain: Great, sir. One related question there. Are we anticipating any new AI launch in this year? Or that will be still work in progress for us and that's more like a FY26 story?

Rahul Jain: Sanjesh, new AIs that we have spoken about, we've already sent out certain representative samples to some of the customers. As the registrations do come through, I think the commercial orders of those will start to flow. Again, while I can't give you the exact date when they will start to come in, fact is, that the product approval is pretty much through. And therefore, as the registrations come in, we should see some traction on the new AIs also. At least two have gone through. And there is work going on, on others as well.

Sanjesh Jain: Great, sir. One last question on the ref gas side, specifically fluorocarbons, how do you expect the US volume for this year? Have we seen the worst, and should we expect the volumes in the US to stabilize for us moving forward?

Rahul Jain: So, when you compare it to last year, certainly volumes will be lower from a US market perspective. But like I said during the start of this call, that the domestic market traction has really helped us. We have seen very significant volume increases in the domestic market; in some cases, if not double, 60%-70% increase in volumes. We have also mentioned in the press release as well as in the presentation, that the idea today is to continue to focus on production as much as we can. And that's the first prize here to be very frank. Overall volume, I would still say when I compare from CPLY are still a positive, although to a certain extent, pricing has been lower. The drag on the chemicals business or the Fluorochemicals business also has been, to a certain extent, the Chloromethanes. The end product demand is kind of not significantly there, which is leading to some lower positioning creating there. I think some of that recovery should also happen and some positive traits on that should also come through, but I would tend to think more towards H2.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Mutual Funds.

Vivek Ramakrishnan: My question is around the continued capex and what kind of debt-to-EBITDA guidance or levels do you see going forward? And whether, if the profitability does not come back, you can defer any of the capex plans?

Rahul Jain: Vivek, I think the overall capex number this year should be in the range of about INR 1,500 crore to INR 1,900 crores. With that, our debt-to-EBITDA should still improve from what we were at probably in FY24. I don't see an issue in terms of saying that we have to defer capex for cash flow requirements. We still have a fairly strong balance sheet. We still have fairly good numbers in terms of what we are generating. In fact, I would still tend to think that if there is a need to do a higher capex even in a slightly lower cycle, we are in fairly good shape. FY25 debt-to-EBITDA numbers, I think will certainly be lower than FY24 numbers. If there is a profitable project that we can look at, certainly happy to take that forward.

Vivek Ramakrishnan: I was just asking in the context of the very high credit rating that you had, but I hear you. All the best, sir.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: First question on the chemicals margin. We have seen a sharper decline year-on-year. Alluding to the earlier discussion during the earlier quarters, is it because of the pricing pressure in some of the product or any specific reason for the same?

Rahul Jain: So Ankur, two things I would say. If you look at our positions from FY24 till now, a very large amount of capex has been capitalized both in the Specialty Chemicals space as well as in the Fluorochemicals space; my rough sense is probably in the range of about INR 2,500 crore to INR 2,600 crore of capex has been capitalized. So I would typically tend to say that when you look at margins on a quarter-by-quarter basis, there is some depreciation drag that is coming in. As some of these ramp up, there will be a positive change that we will start to see on the margin profile. Like in a chemical business, it will always take time to ramp up the chemical plant. Therefore, there is some negativity on this side. If you look at the year as a whole, our EBIT margin for last year was probably in the range of about 25%- 26%. I can't tell you what number we will get at, but I think it should remain within this range, plus/minus 2% positive or negative, from an annualized basis. I've always said that we should not look at margins on a quarter-on-quarter perspective. To answer the second part of your question, yes, there is a pricing drag also with respect to margins. But like I said in the earlier comment, there is certain pricing positions that are starting to improve, which should bode well for the future.

Ankur Periwal: Sure, sir. Just a follow-up on that. The tech interventions or the cost-cutting measures that you were alluding to, the benefit of that has already started coming in or it will be coming, let's say, Q2 or Q3 onwards?

Rahul Jain: They're not overnight measures. There is work that is going on. Some positives have already started to come in and some we will see continued over a period of time. So it's not a one-time overnight exercise. It's a journey in that sense.

Ankur Periwal: Sure. That's helpful. And just a second bit here, on the capex plan, you did allude towards INR 18 billion to INR 19 billion for this year. If I'm not wrong, earlier, we were at INR 21 billion, INR 22 billion, of which INR 18 billion, INR 19 billion was Chemicals. So any specific project which has been deferred and how much of this will be going into Chemicals?

Rahul Jain: Ankur, there are no deferments that have happened. In fact, we have to be judicious about capex. Whenever we talk about capex, we have always taken into account certain capexes that will be announced during the financial year, and therefore, that number comes through. I don't think at any point in time, INR 100 crore plus or minus is too much of an issue, and I don't remember saying INR 21 billion, INR 22 billion as such. The way we look at it is that what are the capexes that are going on today, and what are the ones that are likely to get sanctioned. What I am saying is that we have not really deferred any capexes.

Ankur Periwal: Great. And the breakup of this among the Chemicals business here, for FY25?

Rahul Jain: We would tend to think that the majority is still on the fluoropolymers side. There is a capacitor grade film and SC35 in the Specialty Chemicals space that is going on. So those are the large ones that are going on. Majority still remains in chemicals. But like we also said in the past, the amount of capex that gets incurred in the packaging is a large capex that gets incurred over a small period of time. So there could be some flips around it as such.

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

Surya Patra: Sir, my first question is about the new project utilizations. Whether the 7-8 odd projects which we have commissioned in the Specialty Chemicals side, those started and are commercial now and have they achieved any specific kind of utilization rate?

Rahul Jain: There is a lot of traction that has come through from our new projects. At least I can tell you in the revenue position, some of the new products have done very very well. The revenues from those could be in excess of about INR 150 crore to INR 200 crore as of quarter. So therefore, the ramp-up of these is also something that will come through overall during this year. So that's a positive. Obviously, some of the older products or the legacy products that we had have seen some decline. And therefore, we are very happy to share that because some of these new projects have done very well, we are in better shape. As the cycles turn for the older products also, I think there should be some positive traction on that side.

Surya Patra: Okay. And sir, you mentioned about the new pharma intermediate. So could you say whether it is an advanced intermediate or will it require regulatory clearance of the unit, all those kind of things? Or is it just intermediates?

Rahul Jain: Pharma intermediate, these are all non-actives. So we are not getting into an active pharma ingredients. So no regulatory approval required, Surya.

Surya Patra: Okay. One last question about the pricing aspect. In your opening remarks, you indicated that agri input prices remained soft and highlighted the element of pressure from China in your presentation. Considering you expect a demand recovery in the second half, are you also hopeful about a simultaneous price recovery?

Rahul Jain: To be very frank, Surya, I think the end product demand is still very strong. The only question today is what the customer is really looking at from a medium-term perspective. There is China pressure on pricing. We are looking forward to volume pickup in some of the new products that we have. What happens on pricing is clearly out of our control. Therefore, what we are looking at is how much we can achieve in terms of pricing, volumes, and cost management or cost positions. Those are the ones that are in our control, and therefore, we look at it from that perspective. Pricing really is a function of what markets are at any point in time. I believe that our negotiations with customers and relationships with customers will enable us to drive better pricing going forward.

Surya Patra: In fact, agrochemical input manufacturing or intermediate manufacturing in China have increased by over 50% over the past two quarters. This raises concerns about whether this trend could impact pricing and recovery trend for the agrochemical sectors as a whole. That is the question at hand.

Rahul Jain: Fact of the matter is that you look at it, let's say, from a lens that typically we don't look at from. So to that extent, like I said, the answer remains the same. While our efforts will be to ensure we get better volumes and we discuss that with customers. The positions that we are taking in terms of our costing should be better. Those are the things that are in our control, which we want to look at rather than what the Chinese are doing.

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

Vivek Rajamani: On the first question, in terms of the second half pickup, would it be possible to give some sense in terms of whether it will be more driven by your expanded capacities, or it's going to be a combination of both the expanded capacities as well as the underlying improvement in the overall demand sentiment?

Rahul Jain: You're talking about the Specialty Chemicals business, I assume. I think it will be a combination of both. Like I said earlier, we've seen significant positives from new products that have come in; good revenue position. Those plants should ramp up over the next 9 to 12 months. So that's a positive that should come in. Given where the situation of some of the older products are, I think there should be a pickup on those as well. When and how, I don't know, that is something that only the markets will decide. The way we are looking at it is that pickup in the new products plus the older products should give us enough ability to grow this year overall.

Vivek Rajamani: Sure, sir. And secondly, it's a related question. You mentioned that the specific time of the recovery is clearly uncertain. Just wanted to get a sense in terms of the conversations that you're having with your customers, do you get a sense that this uncertainty is more focused on 2024, and as we look into 2025 we're actually a bit more confident? Or do you get a sense that it's still very, very dynamic even into 2025?

Rahul Jain: To be very frank, I think it is still very dynamic, given where the Chinese are and where some of the products are. In the older products, this is how it is playing out; customers are willing to look at medium-term contracts, but with the current pricing I may not be willing to look at that kind of level. So, it's a song and dance that's playing on. And we have to also be very cognizant of how we really take it forward. So as of now, the pick-up seems slow, but we are fairly hopeful given where discussions are, that we should be in good shape going forward.

Moderator: The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance.

Keyur Pandya: Sir, my first question pertains to the six AIs you talked about. Could you bifurcate them into generic and specialized or patented types? Additionally, for any of the generic AIs, have we observed or need to rework their economics? Specifically, has there been any effect on margins, or is there a potential impact? I am interested in understanding how the economics have shifted over the past 6 to 9 months compared to today, considering global pricing pressures.

Rahul Jain: I think the discussions that are going on, are largely with global majors, which are for either, branded generics or their patented products. To be able to give you color on whether I have to rework the mechanics of it, really very difficult to say, Keyur. I'll have to go back to the business and see if there is something on that side, but I don't think it is. I think the way it is structured for us today is that some of these newer products or newer AIs samples have been supplied and customers are now looking at the timing of their registration, and once they launch the final product, I think the PO should come through. I don't think there is a need to revise working of this. But again, like I said, the cost focus remains. We will continue to focus on cost as well and create, let's say, a positive margin impact going forward.

Keyur Pandya: So all of them fall in this patented category?

Rahul Jain: Again, I believe it is unfair for me to assert that all of them are patented. However, the major discussions are with global majors. This is my perspective, but I will need to follow up with a more specific answer to that question.

Keyur Pandya: Okay. My second question is, what is the potential impact of these AIs and their repricing, if any? Additionally, how might the shift in ref gas volumes from the US to other regions, such as India, Asia, or the Middle East, affect this? Specifically, are you confident in the margin range you've provided for the entire segment, including both chemicals and ref gas? In other words, are the repricing of these AIs and the shift of geography in ref gas away from the US, factored in your guidance of approximately 25% to 26%?

Rahul Jain: So when I said that, it takes all of these factors into account, Keyur. The only point to note is I think there are 2 different points that you are trying to make here. What I am saying is that when you look at it from a ref gas perspective, HFCs, the idea today is to try and do as much production as you can, given where the position on quotas are. So that is something that continues, which is for calendar year 2024, 2025, 2026. For the Specialty Chemicals, yes, as the new plants ramp up, there should be an operating leverage positive that should also play out, which would give us positive traction on the margin side.

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

Rohan Gupta: First, once again, question is on your capex plan. You mentioned roughly INR 1,500 crore to INR 1,900 crore for the current year. Sir, I think 1.5 years back almost when our Chairman gave an outlook of almost investing INR 12,000 crore to INR 15,000 crore capex overall next 4 to 5 years, just wanted to check that this kind of number because it is significantly lower than what we had invested last year. So is there any long-term changes that are happening, or is it just in the current year, we are going with the lower capex, given the weakness in the chemical industry environment and we'll pick up from the next year once again?

Rahul Jain: So I think this is a question that was typically also asked last quarter when we were kind of talking about the capex numbers going forward. Given where the environment is today, we are not significantly lowering the number, we have just said that the INR 12,000 crore to INR 15,000 crore number that we had talked about for a 5-year period, will probably get done over a 6-year period now. I think that's the position that is there today also. Like I answered to an earlier question also, Rohan, we are not looking at curtailing any capexes, but we are also wanting to be judicious about the money that we are spending. Therefore, the amount that have been spent last year, we are looking to ensure that we do a good job in terms of juicing those assets going forward. As that happens, capex is not a problem. We will keep doing more capex in the Chemicals business, because that's essentially the strategic plan going forward as well in terms of where the company will invest, which is mostly in the Chemicals business. So that's how it should work out, Rohan.

Rohan Gupta: Okay. Sir, second question is on your growth outlook. You mentioned that in Specialty Chemicals, you still see a growth opportunity of around 20%, and in terms of EBIT margins, despite the current quarter's EBIT margin being close to 20%, you are still projecting a potential margin of 2% here and there compared to last year, which is 25.5% to 26%. Given that one quarter has already passed, and the global agrochemical inventory situation appears stable, what is the basis for your optimism that the second half of the year will be strong enough to support a 20% growth in Specialty Chemicals? To achieve such growth, significant performance improvements in the second half of the year will be necessary, both in terms of revenue and margins. Could you elaborate on the factors that might drive such substantial growth in the latter half of the year?

Rahul Jain: Rohan, very long question. Let me try and answer it in one line. I think we've said this earlier also. You've seen some seasonality going on in the business. H2 for Specialty Chemicals business has always been heavier than H1. That's the procurement pattern that's globally there. That's what we have seen over time as well. You've always seen H2 being better for us when we compare to H1. To that extent, I think we are fairly confident that some of these will come through. Considering it's a dynamic environment today, the markets are a bit volatile and customers are going through an inventory challenge that's being met, given all of those that are happening, we are still launching new products on a continuous basis and new products are showing good traction going forward as well. I think all of those put together, that's where we are in terms of the overall growth versus margin position. I have always said, Rohan, that we should not look at it from a quarter-on-quarter margin. There are various things that play out during a quarter. When you look at it from an annualized perspective, I still think the positions that we've taken are still fairly achievable. Where and how that will be achieved from, I can't give you the numbers on sales and targets around it. That's pretty impossible to do.

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

Abhijit Akella: Sir, two questions from my side. First one on Packaging Films. So we've seen about INR 150-odd crore sequential increase in revenues in that segment. First, just to understand whether we should sort of assume that most of it has come from pricing on a sequential basis. And if so, the segment EBIT has gone up by only about INR 50-odd crore, even if the revenues have come largely from pricing. So sort of just trying to understand whether there is any increased expenses in any form in that segment. So that is one.

Rahul Jain: I think not really; when we look at the overall production from SRF perspective, we are still doing very well. And when we look at juicing the same assets, creating more value out of the same asset, I think the number that we are now doing are better than last year. Our packed production this quarter has been higher than sequentially, let's say, Q4 last year. So that's a positive. From a Hungary perspective, again, the utilization levels have become better, and therefore that's another positive that has got added. Yes, to a certain extent, there has been a pricing policy that has also been factored in from a sequential revenue growth number. But it is not just pricing is what I can tell you.

Abhijit Akella: Okay. So volumes have also gone up sequentially, is it?

Rahul Jain: Yes. And yes, BOPP has been a positive.

Abhijit Akella: Okay, sir. Second one was just on the HF plant capacity, which is alluded to in the investor presentation. So if you could please just share some color around that, what's the capacity there? And like how much are we buying from outside today in terms of HF? And how much will this help us increase our in-house production going forward?

Rahul Jain: I'd like to check up in terms of the overall capacity on the HF. I'll come back to you. My sense is that the way the HF is structured today, the overall HF requirement from the existing R32 or 134A or other requirements that we have in the specialty chemicals business, the new HF plant should take care of all of those. To a certain extent, the bottlenecks that we face in terms of overall production were because of the HF unavailability. As that plant comes on stream, I think there should be some positives on that side that should come up. But the exact number, I'll come back to you, Abhijit.

Moderator: The next question is from the line of Siddharth Gadekar from Equirus Securities Private Limited.

Siddharth Gadekar: Just on the R32 capacity, which we commissioned last year, can you give us some sense on the utilization levels? And how should we see through this calendar year?

Rahul Jain: I think we have to look at it from an annual perspective. The plant has been commissioned early last quarter, probably December end is when it was commissioned. So of the availability, the market demand, that has to be looked at. From an annualized perspective, I think we are targeting getting 70%-75% on the overall available capacity on the R32. I think that should be the one that you should look at rather than from a Q1 perspective, because relatively, the value that comes out of pure Q1 number is not really great. What I can tell you, and I think I alluded to it earlier, domestic volumes for HFCs have grown significantly. And I think to a certain extent, a large part of the R32 available capacity that was there is pretty much utilized. Our endeavour is to continue to enhance production from it, given various regulatory positions around it.

Siddharth Gadekar: So I wanted to get from an annualized perspective that will we be reaching the 30,000 tons so we get eligible for the entire quota beyond CY 2026? So how should we look at it from a quota perspective for the annualized number?

Rahul Jain: Again, I don't think I will be able to give that, because the endeavour is to continue to produce. Quota is not just for calendar year 2024. It is the next 3 years. So unfortunately, I can't give you that information as such.

Moderator: The next question is from the line of Vishnu Kumar from Avendus Spark.

Vishnu Kumar: Sir, in terms of our order processing, execution, and delivery, do you estimate that the lead time is likely to be between 1 to 3 months? Considering the discussions with the innovators and the dispatch schedule, what would the timeline be from receiving the order to delivery? Additionally, regarding the anticipated improvement in our order flow, is it correct to conclude that the recovery in the second half will be significantly better?

Rahul Jain: So the dispatch schedule will depend on production planning and various other things around it, Vishnu. Depending upon what we have discussed with the customer, whether you can produce it or you have an inventory of those products available to be decided, that really determines the dispatch schedule. It's not an overnight situation where we can send it. What is dispatch schedule for certain products, it is typically based on conversations with the customers. The second question was something that I missed, could you just repeat that?

Vishnu Kumar: My question was, the second half recovery in growth, is it because we are visibly seeing that the order flow in terms of volumes are likely to be higher to the customers based on the conversations that we have had and the likely dispatch schedule, or we still need to cross 1 month, 1.5 months to get to a better clarity on second half?

Rahul Jain: So, I think there is already certain discussions that are positive. There are certain orders that are to be dispatched in H2, and those orders have been confirmed. From a Specialty Chemicals business perspective, certain orders are there, which are contracted with the customers. We have to get a schedule from them for the dispatch. We will do the production planning appropriately and then do certain things. But let's say, when we look at it from an overall perspective, the visibility that is there is probably in the range of about 75% - 80% rather than being 120%. So that's how I would really look at it.

Vishnu Kumar: Understood, sir. And my next question is on the pricing. I mean last 3, 4 years, you've come full cycle in general on the agrichemical pricing 2019, 2020, 2021, I mean 2022, 2023, it was very high and now it has come back down. So structurally, even for our products, should we see that even if the recovery were to happen and the industry were to recover, would pricing not be as what it was in 2022, 2023? And hence, where would our margin in this business be even if the recovery were to come back?

Rahul Jain: Like I said to an earlier question, what we are looking to do is manage our costs well, look at populating our plants that we have in place and ensuring volumes come through. Pricing typically is something that we can't control, and therefore, what we are looking to control is what we can, so costs and various elements around it, is something that we will continue to look at. If the pricing does come out to be a positive, we will certainly see positive traction on that side. But typically, in these situations also, you can't really control the entire price. There are negotiations with customers that happen; for certain new products, pricing has not been a challenge. We have seen that as a positive coming through. Our focus on new products in the Specialty Chemicals space has been reaping good results. I think I've said all of that earlier as well. In the fluorochemicals space, currently the idea is to produce as much as we can. And obviously, given where the current markets are, pricing seems to be a positive trend. That's how we would really look at it, Vishnu.

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

Krishan Parwani: Just two clarifications from my side. So the first is, I think in your previous comments, you mentioned capex for PTFE. Can you please highlight how much additional capex that you would incur for PTFE in 2025? And what will be your asset base for PTFE?

Rahul Jain: No, I never said PTFE, maybe you got confused. It was for the new fluoropolymers, the three new fluoropolymers. I think the numbers are already out in terms of the total cost that we are incurring on that, and it's probably in the range of INR 600 crore or so. Those projects probably come online in a phased manner, probably in November 2025, December 2025. So Q3 FY 26 is when these start to come online, but probably in a phased manner.

Krishan Parwani: Noted. So it's ex of PTFE. And what's your current asset base for PTFE if you could highlight that?

Rahul Jain: Roughly speaking, PTFE project was capitalized at about roughly INR 490 crore, INR 500 crore.

Krishan Parwani: Understood. That's an asset base. Okay.

Moderator: The next question is a follow up question from the line of Surya Patra from Phillip Capital India Private Limited.

Surya Patra: Just one follow-up, sir. Could you provide an update on the current status of the aluminum foil project and the PTFE, in terms of utilization and progress?

Rahul Jain: Surya, both are new products for us. There is a longer learning curve that we had initially anticipated. Aluminium foil, what we believe will ramp-up in H2. The sample of the product for the European customers and certain export customers have already been sent. They should start to convert into orders probably towards the end of Q2. Similar, I think is with PTFE. The basic grade, which is the suspension grade, we've already kind of established and are exporting. Free flow and fine cut, to a certain extent, we are already starting to sell in the domestic market. Samples for the export market have already been sent out. Hopefully, H2 should see some traction on that.

Moderator: The next question is from the line of Nasir Hussain from Fintrek Research Advisors Private Limited.

Nasir Hussain: So my question is that in HFCs, what is the product or blend that we are pushing to our customers? And how competitive is this product or blend against Chinese manufacturers?

Rahul Jain: In HFCs, we have three basic gases – The R32, R134A and R125. Various blends of these are also produced, which are either a blend of two of the HFCs or all three of the HFCs, depending upon the refrigeration requirement. So to that extent, we are selling all of these to our local as well as global customers depending on their requirement. Your question with respect to these being competitive to China, I think we are a company that has all of the backward integration around it, and because of that, we have a fairly decent cost structure on all of these. So fairly competitive in that sense. I hope that answers, Nasir.

Nasir Hussain: Yes. I had just another question. Because of the US quota, we were expanding into the Middle East and Southeast Asia geographies as of last quarter, right? So what is the status of these geographical expansion? And have we recognized any revenue in Middle East or Southeast Asia markets?

Rahul Jain: To be very frank, Middle East has always been a big market for us. We have been selling to that market. On an overall basis, our Q-on-Q corresponding period last year, volumes of HFCs has seen significant growth to a certain extent because we had the product R32, but also because we've been able to proliferate it in both the local markets and our key export markets as well. When I look at it from a percentage perspective, even the export market volume expanded by about 9% to 10%.

Nasir Hussain: So how much revenue are we generating now from our exports on HFCs?

Rahul Jain: We don't give the revenue breakup from a domestic or export perspective.

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

Dhruv Muchhal: Sir, the question is that we are seeing sea freight rates have increased significantly. So this time, aren't you seeing the prebuying, like last time the same thing happened is happening this time around?

Rahul Jain: You are talking about sea freights?

Dhruv Muchhal: Yes, sea freights, container freight rates have increased significantly. So last time we saw that there was a lot of prebuying. But this time, it seems that's not happening. So just wanted to understand how do you read this? And why I'm asking this is because at least in US and Europe, market reports say that most of the inventory destocking is largely done and inventories are thin, it is only about demand growth now. So given that situation, why is that prebuying not happening this time around?

Rahul Jain: You are talking about HFCs that means?

Dhruv Muchhal: No, sir, for Specialty Chemicals, for general Agro Chemicals products.

Rahul Jain: So then to be very frank, two things. Freight rate had gone up. What we had seen as challenges, essentially around freight rates were more from a packaging films business perspective, and to a certain extent, our export volumes were slightly lower because freight rates went through the roof. Some of those freight rates have started to come down also, and therefore, we should be able to do more exports going forward on the packaging film side. I don't think we saw very large challenges because of freight rate in the chemicals business overall. Some of our contracts with customers are also ex factory, so some of those don't matter to us. The point to make, Dhruv, is that while there is some elasticity on that, it is not perfectly elastic with freight rates in terms of prebuying that happens. I don't have a data point in terms of whether it was happening last time and why it is not happening this time. So I'm not really able to comment on that.

Dhruv Muchhal: I'm asking because when the freight rates are higher, that means availability is a concern and people are uncertain about the availability in the future and so they start prebuying.

Rahul Jain: Freight rates are also higher because of certain disruptions in supply chain, in shipping routes, the Red Sea issue, the Middle East issue. So there could be various reasons for freight rate hike, it is not necessarily just because of demand and supply.

Dhruv Muchhal: Got it. And sir, secondly, you don't give this generally, but in your chemical business, this time, as you said, the margin impact is also because of the unabsorbed depreciation. If possible, if you can give the EBITDA number for Q4 and Q1?

Rahul Jain: Again, we only share the numbers that are required regulatorily. We don't go out and do the EBITDA number. On a company as a whole basis, you can still calculate the number.

Dhruv Muchhal: Yes. But for the quarter, it becomes a bit difficult given the capitalization that would have happened. So it would make it more readable, otherwise the impact seems accentuated. So that's the reason. But whatever is comfortable.

Rahul Jain: The drag on this is roughly about 1.7% to 1.8% on the chemicals business side, in terms of what margin we have posted versus what we should have, if that higher depreciation would not have been there.

Dhruv Muchhal: So Q-o-Q decline would have only been about 2-odd percent, 1.5% to 2%.

Rahul Jain: Yes, quarter versus annual.

Moderator: The next question is a follow up question from the line of Rohan Gupta from Nuvama Institutional Equities.

Rohan Gupta: Sir, on this pharma intermediates, we mentioned last year that over next 2 to 3 years, we are expecting the pharma business contribution to go up to maybe 20% plus kind of number. We were expecting a significant pickup, and a lot of work has already been done in pharma. Just wanted to get some update on that, how that part of the business is picking up?

Rahul Jain: A couple of products have shown decent traction, Rohan. Even in the Q1 number, our pharma overall number is higher, but these are also to a certain extent batched out. So as we see more regular orders on some of these, we will probably see some positive traction. But yes, two products have seen very good traction in Q1.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing remarks.

Rahul Jain: Thank you, everyone. I hope that we have been able to answer some of your questions. I wish that each one of you remains 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 time to join us on this call.
