# SRF Limited

## Q4 & FY2022 Earnings Conference Call Transcript

May 10, 2022

**Ankur Periwal:** Good afternoon, everyone and welcome to SRF Limited's Q4 and FY2022 earnings conference call. The call will be initiated with a brief management discussion on the earnings performance followed by an interactive Q&A session. Mr. Rahul Jain, President, and Chief Financial Officer will represent the management team, SRF Limited.

I would like to hand over to Ms. Nikita Dhawan, Head of Corporate Communications at SRF to initiate the proceedings for the conference call. Over to you Nikita.

**Nitika Dhawan:** Good afternoon, everyone and thank you for joining us on SRF Limited Q4 and FY2022 earnings 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 request Mr. Jain to make his opening remarks. Thank you.

**Rahul Jain:** Thank you Nitika. Good afternoon, everyone. I extend a warm welcome to all of you and thank you for joining us on SRF's Q4 and FY2022 earnings conference call. I trust you; your families and colleagues are doing well.

I will initiate the call by briefly taking you through the key operational highlights for the period under review following which we will open the forum for a Q&A session.

SRF delivered a robust performance during the period under review ending fiscal 2022 on a strong note. We achieved notable growth in all our segments with our chemicals business performing remarkably well. In Q4, gross operating revenue increased by 36% to Rs.3,549 Crores. EBITDA grew 46% to Rs.944 Crores translating to an EBITDA margin of 27%. The company's profit after tax increased 59% from Rs.381 Crores to Rs.606 Crores in Q4 FY2022 when compared to corresponding period last year. Even in comparison to our Q3 FY2022, our profit after tax grew by about 20% to Rs.606 Crores as compared to Rs.506 Crores last quarter. Given the persistent challenging macroeconomic environment, the company has delivered yet another solid performance during the quarter.

Moving on to our segmental performances. The chemicals business recorded a strong growth of 36% to achieve revenues of Rs.1,572 Crores. Our fluorochemicals chemical business delivered a strong performance on account of higher volumes in refrigerants, blends, and chloromethane segment in both domestic and export markets. Our continued focus on growing our export markets especially in the US has borne fruit. We are well placed to see future opportunities in the US market. During the period, SRF continued to grow its global market share of R134a pharma grade gas marketed under the Dymel brand with presence in India, Bangladesh, Argentina, and Thailand. We are further expanding to new geographies such as Greece and Taiwan and have a healthy order book in the new locations as well. The price of HFCs in both international markets and domestic markets have increased given the trade measures imposed internationally and domestically as well. We are of the view that this will continue, and firmer price action will be witnessed. Even now new capacities that can be added only up to December 2023, SRF is in a position to cater to the growing demand. In the chloromethane segment higher sales realizations and optimized product mix helped business perform well. Our capabilities on the backward integration allow us to control our costs as well and propel the business forward. Having said that, some inflationary pressures on prices of key raw materials and utilities, higher capex cost on account of commodity price inflation are certain risks that we continue to keep a close watch on. In this segment I am happy to share that all our capex plans are on track. The fluorochemicals business is in the midst of implementing large capex's and a few like PTFE and CMS are likely to be commissioned over the next two quarters. I believe that this along with other projects will augur well for the growth of the business. Additionally, the board in its meeting yesterday approved the proposal to expand the R22 capacity at a cost of approximately Rs.30 Crores.

During the quarter, our specialty chemicals business did remarkably well as well driven by a strong demand in both domestic and export markets. Our new product portfolio is being enhanced continuously which also helps strengthen our client base. In addition, our customers are demanding more and more of the complex molecules that we produce, which is being met by our robust in-house R&D team giving SRF an overall edge in the marketplace. During the year we launched six new products four in agro and two in Pharma. Furthermore, demand for existing products continues to be healthy. We are also seeing traction in the AI space and building our capabilities in this front and are excited about a couple of AI that are currently under discussion.

On the cost aspect we have indeed faced certain supply chain challenges in terms of availability and prices of key raw materials. The team has found counter measures to effectively deal with such challenges and focused on diversifying raw material supplier base to offset the risk to the supply chain. This combined with process optimization aspects, optimal utilization, and other initiatives to reduce environmental manufacturing costs has enabled us to lay emphasis on further cost reduction and focus on sustainability. We are pleased to announce that the board has approved a proposal to set up dedicated facilities to produce certain key specialty products at the Dahej at an estimated cost of Rs.115 Crores. We believe the current opportunity together with recently commissioned and forthcoming capacities will further boost our market position in both the agro and Pharma industry. As we grow our revenue, we plan to continue our investments in this segment to sustain healthy growth rates over the next few years. We believe this is commendable owing to a notably higher base which has witnessed significant growth over the past few years.

During the year, the business grew around 30% and registered sales of more than Rs.3100 Crores, which is higher than our earlier guidance. We are also fairly confident of 20% plus or minus growth that we can achieve in FY2023 as well.

Moving on to our packaging films business, it registered a solid performance during the quarter with growth in sales across domestic and intentional businesses. The performance was driven largely owing to ramp up in capacities in Hungary and Thailand, which supported volume growth. During the quarter, the demand for BOPP and BOPET films remain strong while we continue to prioritize efficiency and cost-effective measures to improve productivity. In addition, our performance was further supported by improving sales growth from value added products. SRF found it is easy to do business with BOPP guidelines and solidify its position as a global industry leader. With over 100 countries and multi country and multi sub state presence we effectively broaden our footprint. Our sustained focus on quality and delivery parameters have helped us reach a broader and deeper consumer base around the world. In the upcoming quarters, the demands of BOPP films are likely to remain healthy however we expect pressure on BOPET margins on account of several new lines that are likely to come up in the future. Here we believe that we have an edge over our competitors with multi country presence across the globe. Regarding a recent announcement of foraying into the manufacture of aluminum foil, I am happy to share that we have incorporated SRF Altech Limited as a wholly owned subsidiary of SRF Limited and the civil work for construction of this facility will begin soon.

Our technical textiles segment achieved healthy revenues on the back of highest ever sales volume, belting fabrics and polyester industrial yarn segments during the quarter. This contributed to partially upsetting the weak demand of Nylon Tyre Cord Fabrics. Despite the uncertain market environment, the business demonstrated promising results as SRF continues to improve its operating efficiencies in the segment. While demand for NTCF remains weak over the last quarter we are witnessing some revival in this space going forward.

Lastly, in our other business segments, SRF maintains its domestic market leadership position in the coated fabric business with the focus on improved sourcing initiatives and superior operating performance. Domestic demand that was initially sluggish owing to the order postponement is currently ramping up and likely to firm up significantly.

In our laminated fabric division, SRF retained its pricing and volume leadership with the facility operating at full capacity in Q4 and reaching its highest quarterly phase record.

On the balance sheet front, I am happy to share that we have been able to maintain net debt in similar levels around Rs.2,700 Crores when compared to last year. This was despite heavy capex investment of close to Rs.2,000 Crores and higher working capital on account of inventory and receivables buildup, new plant startup and increase in sales. Our capital expenditure plans for the ensuing financial year are also progressing well. We envisage an additional capital allocation in the range of Rs.2,500 Crores to Rs.2,700 Crores during FY2023. Most of these capex's will be funded through internal accrual and cash generation while there may be some additional debt that may be required it could range only between Rs.200 Crores to Rs.300 Crores over FY2023. Despite the above, our balance sheet remains strong with other opportunities that may come through, however with rising interest rate scenario and continued volatility, interest rate and liquidity management will remain a key focus area for us. The commitment to capex clearly highlights two key metrics A) our confidence in our businesses and its ongoing strategy and B) the majority of cash flows that have been generated are being reinvested in our future and growth prospects. FY2022 was a volatile year with geopolitical tensions, COVID impact, and supply chain disruptions impacting all aspects of business. Despite the challenging external environment and dynamic business strategy to counter the same, we maintain a healthy balance sheet position. The same is reflected in reaffirmation of the company ratings by the rating agencies. During the year exchange rate volatility remained a key concern especially in the emerging markets, however prudent hedging and risk management strategies have been put in place to minimize its impact on businesses.

At SRF we lay equal importance to community engagement initiatives and constantly strive to give back to society. During the quarter, SRF collaborated with the election commission and child and woman development departments to conduct voting awareness activities at Dehradun and Greater Noida encouraging citizens to cast their vote. In addition, we imparted training on digital skill to empower more than 5000 teachers at five locations. It is also heartening to see our efforts are being appreciated and SRF Foundation was recently awarded CSR Times Award 2021 in gold category for its rural education program.

To conclude, we are confident about the future growth and market prospects that each of our business is present. Even in uncertain global and domestic operating situation we continue to remain cautiously optimistic. Over the years, we have invested meticulously in building world class infrastructure and unparallel R&D capabilities. Given our solid foundation and unmatched capability of resources, we are confident of achieving excellent outcomes and it is our ongoing endeavor to create sustainable value for all our stakeholders in the future. 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 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 Emkay Global.

**Rohit Nagraj:** In the packaging films business given that there is a crude related volatility, is there any demand impact and given that the post COVID demand is now normalizing are there any indications that demand is relatively stabilizing and probably may have impact because of the higher pricing environment? Thank you.

**Rahul Jain:** The point that you made in terms of volatility on crude certainly there is some volatility on crude. I think what we have been able to take strategic sourcing decisions. We have taken multiple positions in terms of where we are from our key raw material perspective PET and MEG, resin and for our BOPP films, we have taken multiple initiatives on that side. Yes, there is some volatility, but again I think the market does price the films based on the delta of the basic raw materials, so I do not think that is too much of a worry. The second question that you have raised is with respect to the pricing or the demand for PET and PP films. Luckily on that side also we have seen strong demand coming in. There is some normalization that had happened post let us say the COVID that we saw in 2020, but I think that is pretty much past. All of that is now coming in fairly on a consistent basis. We are seeing in a domestic market anywhere between 8% to 10% or slightly higher than in terms of the demand increase that is happening. Internationally also we are seeing decent increase in demand so I do not think demand is an issue but yes pricing, logistics and some of those might be a small issue but we are tackling.

**Rohit Nagraj:** Got it. This was helpful? Sir the second question is again on the technical textile business now in Q1 and Q2 we had EBIT run rate of almost Rs.130 Crores and there was some volume contraction in Q3 and in your comments you also again said that NTCF had some issues in Q4 so given the normalized volumes, quarterly run rate of Rs.130 Crores is sustainable? I understand that because of the volatility and caprolactam prices the percentage EBIT margins could vary, but the absolute run rate should it be Rs.130 Crores when the normalized volumes again come back? Thank you.

**Rahul Jain:** I do not understand the Rs.130 Crores number Rohit. My sense is you are talking about the EBITDA rather than talking about EBIT which is the one that is published.

**Rohit Nagraj:** In Q1 and Q2 I am talking about the EBIT numbers that we give segmental EBIT?

**Rahul Jain:** So, Rohit the point to make is less to a certain extent whereas been some renegotiations that have happened in terms of our customer contracting. Some of that is currently going on. Even in Q1 last year I had told you that some of those contracting has happened which is annual. We are working on some of the other contracts for the next financial year also. Rs.130 Crores purely as a number it will be difficult for me to be able to comment whether that can be a good run rate to achieve but I can certainly tell you that from an overall perspective we see demand to be higher on the NTCF side. We see certain cost measures that we are taking on the production side which will probably lead to better EBIT margins and overall better EBIT numbers going forward. Now whether that will be Rs.130 Crores or Rs.100 Crores or Rs.91 Crores which was last quarter I cannot really comment on that, but I think there is a fairly good understanding that between let us say Rs.100 Crores to Rs.120 Crores we should be able to achieve overall.

**Rohit Nagraj:** Right got it Sir. Sir just one last clarification? Last year our net debt has been constant on a year-on-year basis, but the interest cost has reduced so what is the reason for that and what will be the average cost of interest for FY2023 if you have any view on this? Thank you.

**Rahul Jain:** Rohit wherever we were in FY2022 perspective I believe with the international interest rates rising, Indian domestic interest rates also likely to rise, I think anywhere between 30 to 50 basis points there could be an overall impact on us on a year. Our endeavour will be to minimize that impact by doing appropriate interventions at the appropriate point in time, but certainly we are not out of the market. There will be some impact of the increased interest rates that we will see across domestic and international markets.

**Moderator:** The next question is from the line of Sanjesh Jain from ICICI Securities Limited.

**Sanjesh Jain:** Congratulations on an exceptional performance. A few questions and first on the specialty chem in our presentation we have said that we have lined up the new products for the upcoming MPP4 and this year we have launched six new products? How many new product launches are we anticipating in FY2023 considering that we are starting with a new MPP? Will it be a considerable jump over FY2022?

**Rahul Jain:** So, to answer your question MPP4 versus new products may not be the right correlation to do. MPP4 we are looking to ensure that it gets full in terms of what products we are doing. There are five or six products that we can do in the MPP4. We are looking to ensure that all of those we can do from day one or as soon as the plant gets stabilized. With respect to new products Sanjesh, the question should be different in terms of what you are looking to do from a new product perspective. This year FY2022, we had done almost six new products from a launch perspective. I think the run rate should be similar or higher in FY2023 also, but I do not think there is a need to link it to MPP4.

**Sanjesh Jain:** You are telling irrespective of MPP we will be launching the product?

**Rahul Jain:** Yes.

**Sanjesh Jain:** Now that is fair. Second on the refrigerant gas for FY2022 what was the utilization rate for us particularly in HFC and with this Rs.30 Crores of debottlenecking capex of our R22 how much more capacity we will we be able to add in this?

**Rahul Jain:** Roughly speaking across HFC 70% to 75% would have been the overall utilization given Q1 was slightly tight what we saw. There were certain technical things that we had also witnessed. All of that has now passed us so we are now running at full capacity for almost of all our HFCs. The second question that you have asked in terms of FY2022 I think the debottlenecking that we are doing with the Rs.30 Crores capex is roughly in the range of about 2500 to 3000 tonnes per annum largely captive in nature is what we are looking at.

**Sanjesh Jain:** For the non-emissive use mostly you are telling?

**Rahul Jain:** Non-emissive which could be same or also internal consumption.

**Sanjesh Jain:** Got it, so it is fair to assume that for the next year we have enough capacity in the ref gas to grow even on the HFC side because of the weaker first half in FY2022 that is the right way to think right?

**Rahul Jain:** Most certainly. We have say additional capacity available. We had also commissioned in December a new plant for our HFCs so all of that has happened and therefore there will be more capacity available to utilize in FY2023 than it was in FY2022.

**Sanjesh Jain:** Last question from my side. We have given a guidance of Rs.2500 Crores to Rs.2700 Crores for FY2023 capex can you help us with the breakup for this capex and number two why a separate company for an aluminum foil?

**Rahul Jain:** First Rs.2500 Crores to Rs.2700 Crores I think roughly in the range of about Rs.1700 Crores to Rs.1800 Crores would be the chemicals business. Roughly within that I think Rs.1100 Crores to Rs.1200 Crores is fluoro and the balance is specialty. Some of those that are running as well as some of those that are in progress. The others largely the PIY and the technical textiles debottlenecking and the value chain capex that we are doing plus some other capexes with respect to the packaging film business the BOPP line that will come up in July so that is more or less the breakup of the Rs.2500 Crores to Rs.2700 Crores. Also, I can tell you today given where we are we believe those capexes that have been sanctioned and approved and are currently running are probably in the range of Rs.2300 Crores to Rs.2400 Crores. Therefore, we are giving you a number of Rs.2500 Crores to Rs.2700 Crores because there will be new capex that will get sanctioned during this financial year so that we will have to incur money on it, so this is the tax spend about which I am talking. The second question that you have asked about Altech Sanjesh, there are certain tax position that we are also creating with Altech. The manufacturing company tax positions are in the range I think till March of 2024 if you are setting up your new manufacturing company you are allowed a certain differential tax regime so that is a positive. We are looking to expand this business to a very large extent. We believe it can become a significant substrate within our packaging films business and therefore with those two things in mind we have set it up as a new company. I hope it explains it Sanjesh.

**Moderator:** The next question is from the line of Amar Mourya from AlfAccurate Advisors Private Limited.

**Amar Mourya:** My first question is basically on the specialty chemical you indicated that this year we did Rs.3100 Crores kind of a revenue so does this include the chlorinated chemicals part, or this is only the specialty?

**Rahul Jain:** What chlorinated chemical are you talking about?

**Amar Mourya:** So basically, MEG is it included into this?

**Rahul Jain:** Amar I think there is a confusion. We do not do any MEG. It is purely specialty that I am talking about. The total turnover of the chemicals business Rs. 5200 Crores roughly for the year FY2022 out of which roughly let us say Rs.3100 Crores is specialty which effectively means that the total turnover is 60% specialty and 40% fluoro which include ref gas and industry solvents.

**Amar Mourya:** Basically, that is what I am trying to understand? Industrial solvent is not part of this? Rs.3100 Crores is a pure fluoro specialty chemical right?

**Rahul Jain:** Absolutely. Industrial chemicals are always a part of the fluorochemical business, which is ref gas plus industrial solvents.

**Amar Mourya:** Got that and secondly Sir in terms of the guidance we are talking about 20% growth rate so what I am trying to understand is that now given that the kind of new orders your competitors are getting so is that the intensity for you also in the specialty fluorochemical business is increasing largely from the agrochemical perspective?

**Rahul Jain:** I would end up saying Amar that there is pretty good traction for us from the AI space, agrochemical space and even the Pharma teams have seen strengthened to meet the growth requirements for the specialty chemicals business. You have seen us investing significantly almost on every quarter basis we are sanctioning new plants. There is Rs.115 Crores capex that we have recently sanctioned. The MPP4 is also something that is coming up very, very soon and we are looking to take that up. The PIP which is the Pharma intermediation plant is also something that we have recently announced, and we are working on putting that up probably in the next six to eight months so all of those are in good shape. We are facing let us say a bit of a demand positive from the agrochemical side. That is something that I believe is a positive. The other thing also is that the numbers that I have told you 20% plus, or minus is also based on my current order book and my current positioning. We are starting the year and those variables are there so when I go back last year when we were talking about a 15% to 20% growth you have seen us deliver a much better number even this year so based on our current performance and based on our current order book, we are kind of projecting this growth going forward. I am hopeful that we will be able to beat the number again.

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

**Ankur Periwal:** The first question on the specialty chemicals side and partly in a way just answered so the 20% plus growth guidance that we are giving and I am putting in context earlier we had mentioned that Pharma business should be increasing in terms of overall contribution within specialty chemicals and the six product launches that you talked about is the growth largely driven by the existing products either in Agro or Pharma or the newer ones also will be a bigger contributor here?

**Rahul Jain:** Ankur I would say this way that there are new products that we have launched over the last 12 months to 18 months. All of them are witnessing great traction, large demand. Therefore, I would call them as growth that has been driven by new products. Also, when I look at it from an overall perspective existing products and more complex products like the P32 and P34 all of that is also growing so I would typically say that it is driven by both the sides rather than just one.

**Ankur Periwal:** Sure, and Pharma will be growing faster here given the contribution of Pharma is expected to rise?

**Rahul Jain:** It should.

**Ankur Periwal:** Sure. Sir the second question on the overall chemicals business margin here and given the RM volatility that we are seeing the pass through there so any comments there?

**Rahul Jain:** So I would say that you are right Ankur that there is a small issue in terms of the fact that specialty chemicals business is a contracted business, I would say that there is a kind of pass through about 20% to 30% of some of our increased costs through to our customers over the next let us say six to 12 months, we believe this number can go to 60% to 75% in terms of the pass through of course. That will certainly come through but again I think it is the contract. It is the long-term relationship that we are more worried about or more concerned about for it to get maintained and some small adjustments that we need to make from a margin perspective we are happy to do.

**Ankur Periwal:** Sure, Sir just a clarification? If I look at our let us say H2 margin wherein the ref gas pricing and the efficiencies they have helped the chemical business margin per say so we were to give and take 20% to 22% in the first half which increased to around 30% in the second half so will it be fair to say given the gradual RM pass through and given the long term relations there broadly on a full year basis we should be sustaining these numbers?

**Rahul Jain:** It is possible Ankur Q4 margins are roughly in the range of over 32% if I look at it. Q3 was about 29% so there is a delta there. From overall chemicals business perspective, I think we can look at better margins going forward as well.

**Ankur Periwal:** Sure, that is helpful and Sir just one clarification on the ref gas side you said for the full year, we are operating at 75% odd utilization am I right?

**Rahul Jain:** 70% to 75% it depends on gas to gas.

**Ankur Periwal:** Sure, there is a volume uptake there apart from the 15% capacity which comes it?

**Rahul Jain:** Yes.

**Moderator:** The next question is from the line of Kumar Saumya from Ambit Capital.

**Kumar Saumya:** Just a couple of data points that I need, what was the contribution of refrigerant in the overall chemical segment?

**Rahul Jain:** Contribution of refrigerant in the overall chemical segment, I would have to calculate it. It is not a data point that I have readily available with me, but my sense is that it would be probably in the range of say about Rs.1400 Crores to Rs.1500 Crores in the overall so if you want to calculate it like that Rs.1500 Crores say about 30%.

**Kumar Saumya:** Sir what will be the India's contribution from in the package segment? How much India's capacity contributed to the packaging revenue?

**Rahul Jain:** You have the standalone numbers look at them.

**Moderator:** The next question is from the line of Madhav Marda from Fidelity International.

**Madhav Marda:** I just wanted to understand that the capex number I think last year we were doing about Rs.1500 Crores to Rs.2000 Crores? It has been up this year how much of that is an impact just of higher steel and cement prices, etc., which is impacting our capex investments?

**Rahul Jain:** A very, very difficult question to answer but I can tell you that steel prices have risen very, very significantly, stainless steel, PVDF and cement or to an extremely low extent that more from when I look at it the chemicals or exotic materials those prices have gone up very, very significantly. I would tend to say that it depends on project to project, but commodity price inflation is probably having an impact of anywhere between 8% to 15% on our projects on an overall basis and when I am talking about it, the point Madhav is that those capex that you have had sanctioned one year ago to one and a half year ago have had that kind of an impact. Though that we are sanctioning now are effectively considering all those price inflations that have come in, so it is a very difficult question to answer but my sense is anywhere between 8% to 15%.

**Madhav Marda:** Got it understood and secondly on the chemical margins I think you indicated that if I understood right, we could maintain these margins for FY2023 the 2H margins we can sort of continue?

**Rahul Jain:** I would have been predicting then I would have given the exact numbers but yes in that range we could.

**Madhav Marda:** And this refrigerant gas demand supply environment continues to remain healthy I am assuming currently?

**Rahul Jain:** Absolutely both domestically as well as internationally. We have little refrigerant to sell.

**Moderator:** The next question is from the line of Surya Patra from PhillipCapital (India) Private Limited.

**Surya Patra:** Congrats for the great set of numbers. Just one question on the refrigerant gas side recently the government has announced polices about restricting the imports as well as restricting the exports of HFC so how should one think whether it is beneficial aspect for us because while exports were considered to be a faster growing vertical for us while in the domestic side the pricing market share and the import substitution was an opportunity so both put together how should one really look at and what is the implication on that?

**Rahul Jain:** To be very frank I think Surya it says that as you move into a more regulated regime these are the first and initial steps the government takes because from an international perspective, they have to report in terms of what are the consumption that you are having. What is the import that you do? What is the consumption from a refrigeration invasive perspective and a noninvasive perspective? This is something that happened through CFC cycle, the HCF cycle and now HFC cycle. Standard move but from our perceptive I think it is beneficial because export we are the only ones in the country that manufacture HFC, so we have the ability to get the appropriate licenses and do the export that is not a problem. Import I think restricting that also effectively puts a lid on which classified imports that come in and therefore that is also positive. Nothing of our doing but overall basis I believe it is positive.

**Surya Patra:** Last year FY2022 financial performance was supported by two things, one the expansion obviously across segments as well as the strong pricing situation. Going ahead generally I am asking for all the businesses because similar price trend that we have been witnessing so going ahead if the prices are likely to remain flattish or to some extent subsiding then along with that whatever capex expansion plans that is going on so considering those what is the likely growth indication that one should have and what implication on the overall margin scenario that SRF will be looking at?

**Rahul Jain:** It is a complicated question to answer Surya because we cannot answer it from a company as a whole perspective. Each segment is viewed separately depending upon some of the let us say the margins coming or let us say the prices coming down or commodity price inflation that we have talked about coming down, there will be some impact in terms of our sales prices which will also lead to some of the impact in terms of our costs coming down, logistics, power, raw materials so my sense is we can still sustain margins. We can still do a good job in terms of the overall position of the company unless there may be some better positions to be able to take from a capex perspective and some of those capex costs that have kind of gone out are a bit coming down. We may be in a position to announce more capex as some of these high elements start to percolate or come down so hopefully that should be the way to look at it but complex to answer from a company wise perspective each business is viewed separately or differently because given the nature. I hope it explains.

**Surya Patra:** Yes, Sir certainly complex situation so on the specialty chemical side Sir if I just can have a sense last year's performance of 30% growth? I think that was an excellent performance and it is has been back so whether the price lead growth is also kind of an important factor here?

**Rahul Jain:** What lead growth.

**Surya Patra:** Price lead growth?

**Rahul Jain:** The specialty chemical business has had some price benefit but I think the margins would have been better had commodity prices or raw material prices remained lower than what we had assumed so yes to a certain extent I would say we passed on some of the commodity price increase but probably less of it and over FY2023 some of that will also happen. It is price related, but more of volume.

**Surya Patra:** Yes, Sir so just one clarification on the specialty chemical business side whether on the gross profit side it is a kind of around 80% margin scenario?

**Rahul Jain:** Cannot comment Surya. Business to business sorry and I do not go into contribution position because of that.

**Moderator:** The next question is from the line of Atul Tiwari from Citigroup.

**Atul Tiwari:** Just one question on the capacities of the two key businesses so could you just update us on the total ref gas capacity and total packaging film capacity as of now and how these are broadly increasing over the next two years?

**Rahul Jain:** Atul, I have told you so many times. You want it again.

**Atul Tiwari:** Sir change expanding capacity all the time, so it is difficult to keep a track with your kind of growth?

**Rahul Jain:** Roughly speaking the capacity for packaging films is roughly about 310,000 tonnes per year and 60,000 tonnes of BOPP also coming in. The total capacity that we will have will probably by the end of this year become 3,70,000 tonnes. That is packaging.

**Atul Tiwari:** On the ref gas side same numbers?

**Rahul Jain:** The ref gas 32 we have a total of about 13,000 tonnes to 14,000 tonnes. R134A is roughly about 20,000 tonnes. There is the swing plant also that is there so it can be plus or minus 4000 tonnes. R125 is about 7000 tonnes. R22 saleable level with both Dahej and Biwadi is roughly in the range of 25,000 tonnes. Probably also another 75,00 tonnes for R22 will be added later so that is how the capacity is there.

**Moderator:** The next question is from the line of Sumant Kumar from Motilal Oswal.

**Sumant Kumar:** So, you said the H2 margin is going to sustain for the specialty, chemical and polymer segment so going by the overall FY2022 margin for chemical and polymer is coming around 26.7 so kindly talk about the next couple of years margin sustainability of the chemical and polymer business rough idea?

**Rahul Jain:** Sumant can I interrupt you. Polymer segment is over. There is no polymer left.

**Sumant Kumar:** My question is overall chemical business we have a 26.7% EBIT margin, and you are saying the H2 margin of 30.8% is going to sustain in FY2023 so my question is for the next two years what is the range of margin for chemical business?

**Rahul Jain:** I believe we can sustain these margins but if want to ask about FY2023 I will probably be able to give you a better picture than FY2024, FY2025 and FY2026 because our business is dynamic. We are coming with new products on a continuous basis. There is a large set of capitalization that will be done. All of that is going to happen. My sense is we can sustain these margins on existing products but those that come through will probably start at lower base and take it up going forward so that is how it will pan out but given what we are seeing today in terms of the traction we certainly believe margins are sustainable.

**Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital.

**Nitin Agarwal:** Congratulations on the fantastic set of numbers. On the refrigerant gas business you mentioned that we are running right now at peak capacity so Sir if you look through the next few quarters, is there any volume growth possibility or it is going to be largely pricing growth from here on from the base affect?

**Rahul Jain:** We are currently at peak capacity. I was talking more like April and May rather than the available capacities from an FY2023 perspective. When you compare FY2023 to FY2022 we will certainly have additional capacity that will come through because as I said during the call as well the total efficiency in terms of capacity available versus utilization would have been in the range of 70% to 75% so yes there is additional capacity available. We also have the 15,000 tonne HFC plant that is coming in but probably towards the end of this fiscal. That will also add to additional capacity.

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

**Abhijit Akella:** Congrats on the great set of numbers. Just two from my side, the first one was on the raw material cost pressure in the fluoro specialty business so if it is possible to share any sense of roughly how much that might have impacted margin in Q4 and as you mentioned you expect to see at least 60% to 70% recovery of that in the next couple of quarters so can we expect that to improve the margins further?

**Rahul Jain:** Over the year Abhijit my sense is roughly about Rs.30 Crores to Rs.35 Crores could have been the number in terms of had we been able to pass on all the costs in terms of EBITDA from the specialty chemical business perspective. Hopefully, that is one of the reasons we are saying that we could be better off in terms of when we negotiate new contracts with the customers, which is also giving us that positive.

**Abhijit Akella:** That is very helpful Sir thank you and the second question I had was with regard to the refrigerant market scenario? You spoke a little bit about the factors that have led to this sharp increase in prices over the course of the last year or few quarters if you could just help us understand your perspective on how all these drivers are shaping up at this point in time? If everything still remains the way, it was so what changes are you seeing if any at the margin? Thank you so much.

**Rahul Jain:** Three things Abhijit. I think these factors that I have spoken about are not one time factor that we are looking at. We are more in the nature of sustained positions where the regulators have created. I do not see some of these going away and the bigger part here Abhijit also is that there are no new capacities that are getting added. India is probably the only one who can add capacities till December 2023. Other than that China, there are no new capacities that can be added so to my mind prices will remain clear or get foamed up only. That is how we are looking at it. Obviously, there can be again the world is today very hot with inflation right. As this inflation comes down there may be some demand negatives that can come through. If that happens there will be a negative but I do not see that happening in current scenario.

**Moderator:** The next question is from the line of Arjun Khanna from Kotak Mahindra Asset Management Company.

**Arjun Khanna:** Congratulations on great set of numbers. Since it is just one question, I will ask on the fluoro polymer side so essentially on the PTFE plant are we on schedule? We had earlier talked of may be getting the plant on stream by September, October, and November of this calendar year? The second part to this question is Sir the R22 expansion of Rs.30 Crores? I assume that it will be for the TFE which are using in HFC so if you could just talk about it what are our capacities and potentially how do you see the fluoro polymer shape up? Thank you.

**Rahul Jain:** Arjun long question. I understand that the question is regarding when the PTFE startup, I think it is October 2022 when we are looking to get the PTFE startup done. With respect to R22 when we do our overall balance in terms of scalable material, the market demand for nonemission users also from our capital consumption not just for PTFE or TFA perspective but also from the specialty chemical business we found that there was a small gap. The Rs.30 Crores capex is largely a reactor where the downstream is available for us to be able to increase the R22 capacity. I am not sure if I am able to answer the full question that you had hopefully.

**Moderator:** The next question is from the line of Ranjit Cirumalla from IIFL.

**Ranjit Cirumalla:** Congratulations on a good set of numbers. The question is on the spectrum side so in the past we have been a bit conservative and have been eluding that the base is increasing and so the growth has to be kind of tapering off but despite on a 30% growth we are still confident enough to give a 20% growth guidance so just wanted to understand where are you getting this confidence from and second bit of question would be on it is already at Rs.3100 odd Crores of spectrum revenues and as the base kind of gets increasing how do we see diversification into this particular segment and I understand that we are getting a bit more into Pharma and becoming a bit aggressive but agri and Pharma are we looking at any new edge segments to diversify this particular segment? Thank you.

**Rahul Jain:** Ranjit I am a bit confused as to how to answer your question. When I tell you 15% to 20% you are disappointed? When today I am telling you 30%, I am very confident, you are saying where the confidence is coming from. I am a bit disappointed with the question Ranjit but let me try and answer it. The fact is that what we have looked at in terms of being able to answer your question is what our current order book is, what are the new products that we have launched over the last 12 to 18 months in terms of the traction that we are building and how are we looking at existing product and expansions. The MPP4 which is scheduled to get commissioned very, very soon we are fairly confident of building up that up and getting it to peak capacity very, very soon so all those things are a positive from our side which is giving us the confidence. Hopefully given where the business is, we should be able to do a better job even than I have talked about so that is where the confidence is coming from. You are absolutely right when you say that there is good traction in Pharma that we are witnessing yes that is true. We are also looking at and are extremely excited about a couple of AI that we are working on. Hopefully, that should also come on stream, and we should be able to bring that up as some of our key products for the future as well. That is how the confidence is coming in Ranjit but may we should speak separately about the confidence issue that you are facing.

**Ranjit Cirumalla:** Sure, Sir but my question was more on like the comment was largely that one should also see this 20% growth on a more conservative side?

**Rahul Jain:** I hope I have answered it appropriately Ranjit.

**Ranjit Cirumalla:** Sure, Sir and the second one was more on the diversification front in addition to Pharma and agri are you also looking at a new avenue?

**Rahul Jain:** I have said this multiple times Ranjit. Yes, there are a couple of projects that are going on, but their current position is such in an initial stage that I do want to talk about and let us say get your hopes up high.

**Moderator:** Thank you. Over to you Sir for closing comments.

**Rahul Jain:** I hope we have been able to answer all your questions. I wish that each one of you remain safe and healthy. If you have any further question, we will 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 this call.

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