"SRF Limited
Q4 & FY23 Earnings Conference Call"

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MODERATOR: **MR. RANJIT CIRUMALLA** – IIFL SECURITIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to SRF Limited's Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand over the conference to Mr. Ranjit Cirumalla from IIFL Securities Limited.

Ranjit Cirumalla: Good afternoon, everyone, and thank you for joining us today. We at IIFL Securities are pleased to host SRF Limited's Q4 and FY23 Results Conference Call. We have with us today, Mr. Ashish Bharat Ram – Chairman and Managing Director and Mr. Rahul Jain – President and CFO of SRF Limited. I would now like to invite Ms. Nitika Dhawan – Head of Corporate Communications at SRF, to initiate the proceedings for the Results Call.

Nikita Dhawan: Good afternoon, everyone, and welcome to SRF Limited's Q4 & FY23 Results Conference Call. Joining us on the call today is our Chairman and Managing Director – Mr. Ashish Bharat Ram, and our President and CFO – Mr. Rahul Jain.

We shall start today's call with our CMD's remarks on the Company's performance in FY23 and the overall strategy, business outlook, and growth plans in the future. After which, Mr. Jain will take the call forward by opening the forum for a question-and-answer session.

Please note that anything we say that refers to our outlook for the future is a forward-looking statement and the disclaimer to this effect has been included in the 'Earnings Presentation' shared with you earlier.

I would now invite our CMD – Mr. Bharat Ram to make his opening remarks.

Ashish Bharat Ram: Thank you, Nitika. Good afternoon to all of you. It is a great privilege to be able to share my thoughts on the business performance in the fiscal year gone by and the growth opportunities that lie ahead.

Financial Year 2023 has been a good year for the Company. Our operating revenue increased by 20% to Rs. 14,870 crore. EBITDA grew by 18% to Rs. 3,708 crores, translating to an EBITDA margin of 25%. The Company's profit after tax increased by 14% from Rs. 1,889 crores in Financial Year 2022, to Rs. 2,162 crores in Financial Year 2023. While our Packaging Films business and Technical Textiles businesses witnessed a drop in profits, the Chemicals business performed extremely well, which gives me notable cause for optimism.

SRF's diversified business model continues to remain one of our key strengths. The opportunity ahead is significant and our strategy along with our execution capabilities give us a clear edge in our chosen space. I think from the perspective of the capital markets, the quality of earnings is improved and our Chemicals business is now contributing even more significantly to the overall performance of the Company.

Moving to my viewpoint on the future of each of our 3 market leading businesses now. I will begin with the Chemicals business. During the fiscal year 2023, the Chemicals business grew around 41% and registered revenue of more than Rs. 7,400 crore, which is higher than our earlier guidance. Looking ahead, I'm fairly confident that we can continue to achieve a +20% growth in Financial Year 2024 as well.

The return on capital employed for FY22 and FY23 were 25% and 32% respectively, which has been extremely healthy. Going forward, we believe that to keep growing this business at 20% top line growth, the ROCE levels may moderate a little bit from this level. We are seeing strong traction from our customers and our focus will be on expanding our product portfolio with new plants being scaled up at an even faster pace than before. As we speak, we have over Rs. 2,000 crores and capital work-in-progress at this stage with 7 plants coming up in the Specialty Chemicals business and 3 plants in the Fluorochemicals' business in Financial Year 2024. We believe our capex intensity will remain strong going forward as well.

More specifically, in the Specialty Chemicals business, we will continue to capitalize on the growing demand for key products. We are expecting innovators to bring more complex and downstream products to the business and we are currently working on a significant number of projects that provide future growth visibility. To address some of the future product requirements and to keep pace with the market opportunities, we have invested substantially in people, assets and capability building and I expect approximately 7 to 8 active intermediate projects to fructify in the next couple of years.

Our focus on the pharma vertical is to ramp up sales at our new intermediate plant in the near term. Subsequently, we would like to move into a contract development and manufacturing organization role in this segment. This could be through organic or inorganic means in the future.

Coming to our Fluorochemicals business, in the Refrigerant Gas segment, our focus will be on the domestic business in the first quarter and on the US market in the next couple of quarters. Having said that, the cool summer in India has not been good for us and we expect this to be a temporary setback. We are also looking at building our exports into the Middle East from Quarter 2. As a result, we may have a weak quarter in our Ref-Gas business in Quarter 1 but are confident of making up lost ground later in the year.

On the projects front, our PTFE plant got delayed as the commissioning engineers could not travel due to COVID linked restrictions from China. With in-house talent and expertise, we are now going ahead with the commissioning ourselves and samples are being produced for the market. We see this actually as a positive step, as this will only aid in talent development and experience building for all our future expansions of fluoropolymers.

Our strategy for the next-generation HFO Gas has shaped up well and we will share more on the project as soon as the groundwork is complete. We expect to have globally competitive non-infringing processes in our portfolio by the time these plants come up. We have also started work on our next range of industrial Chemicals. This will open up a new area of growth for us beyond the chloromethane chain and could be linked to opportunities arising out of import substitution.

On the Infra side, we are in the process of signing an MoU for a parcel of land in close proximity to our existing site of Dahej, which will create huge synergies for us. Overall, I remain bullish on the Chemicals business and strongly believe that this is India 's decade. While minor blips may hit the market, the sectoral story is very strong, especially at SRF, where we have built robust capabilities. Having said that, the global economics scenario is showing recessionary trends and we need to be careful of any unexpected bumps that can cause short term demand blips.

Over the Packaging Films business now. The business continues to face strong headwinds with margins plummeting to all-time lows in the Q4 & FY23. As stated earlier, this has been on account of several new lines getting operationalized on both BOPET and BOPP film segments in India and overseas. While SRF has been able to run its plants at reasonable levels, a lot of capacities have already seen closures happening due to cash losses. As an industry leader and one of the bigger players in the packaging space, our forecast is for things to improve from here on as many players are reeling under tremendous pressure.

Our operations in Hungary suffered heavily last year due to exponential increases in energy costs. We are still seeing some moderation in the energy index and are confident of a better performance this year. We have also debottlenecked the capacity in South Africa by about 15%, which will give us some added benefits in the year ahead.

For SRF, our strong relationships with our customers, which stems from our "Easy-to-Do Business With" mantra and a focus concentration on VAP (Value-Added Products) sales has come to our rescue.

The Aluminum Foil project is likely to start towards the end of Quarter 2 in Financial Year 2024. We have increased our capabilities to manufacture Thinner Gauge Foils as well as improved quality parameters, which has led to some increase in project costs. However, the IRR of the project remains healthy. With the Aluminum Foil project coming on stream, it will make SRF one of a handful of companies globally that provides three of the major substrates – BOPET, BOPP and Aluminum Foil. We believe that the ability to cross-sell all three will be unique to SRF.

As demand pivots towards global suppliers with multi-locational facilities and with our focus on operational efficiencies, cost reduction initiatives to mitigate volatility and a strong customer relationships, we remain cautiously optimistic about the prospects of this business.

Moving to our Technical Textiles business. Trends are showing a slight improvement in demand for Nylon Tyre Cord Fabric. This is based on our interactions with our customers and we hope it is sustainable. Our focus will be on ramping up capacity utilization this year. In the future, we will build on the non-tyre market in order to de-risk the Technical Textiles from NTCF (Nylon Tyre Cord Fabric).

We expect the demand for Belting Fabrics to grow in the near future due to an increased government focus on infrastructural development. Sales of high-end VAPs (Value-Added Products) and commercializing solid woven products will be a focus in the Belting Fabrics segment. The polyester industrial yarn demand is expected to go up with key drivers being geotextile and seat belts. Overall, this business will experience moderate growth.

Core to our purpose is a need to uplift everyone and we lay equal importance in community engagement initiatives and constantly strive to give back to society. With the focus on educational transformation in rural India, the SRF Foundation is working on the physical infra growth, quality of academics, and school leadership development as focus areas. Presently, we have reached 382 government schools across 23 locations and 12 states directly and indirectly by collaborating with like-minded partners, providing quality education to over 150,000 students and training more than 2,500 teachers and headmasters.

In conclusion, I believe that our Chemicals business will continue to do well and become a bigger part of the pie. In that sense, we are becoming more of a Chemical Company. Our Packaging Films business is expected to have a tough year, but we will find countermeasures as we go along. This is part and parcel of business cycles. Depreciation and interest will both grow substantially because of the high capitalization of projects and as a result of the elevated interest cycle that exists today. This is the reality that we will have to accept. If interest rates start falling towards the end of Financial Year 2024, we can expect to see the benefits of this next year. With a strong balance sheet, we will continue to invest aggressively in our Chemicals business and work towards capitalizing the many attractive growth opportunities we see in this business. Overall, we are optimistic about the future growth opportunities and of our capabilities to deliver a solid performance and drive returns for our shareholders.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: First, on the Fluorospecialty. It has been another phenomenal year, 5 years in a row, a great show but what we are hearing in the market is slightly a mixed trend. Innovator have maintained a positive outlook, while generic has seen a sharp dip in realization over 30% to 40% in few products. We are also hearing some inventory buildup in America market as well. Can you share how is your discussion with the customers progressing particularly for 2023? I know you have given a 20% guidance that clearly says that we are looking for a very healthy rate but some more insight, like whether you are looking at a same product growth or it is more driven by the new product addition, which will be appreciated.

Rahul Jain: Thank you Sanjesh for the question. Again, we have discussed this internally. What you are saying maybe right to a certain extent in terms of generic products that are coming from China being at a price lower today, to a certain extent linked to the fact that there were COVID restrictions in China. But the majority of our business and we have discussed about this internally, is largely 80%-85% of the business is innovator driven. From a customer perspective, from a new product perspective, from the positioning with respect to a majority of our customers, we are not seeing any let us say demand reduction or demand burn that is starting to happen. In fact, as our Managing Director pointed out, we are in fact looking at a position where we are capitalizing on new opportunities on the AI side that are coming in. Like he said 7 to 8 AIs are the ones that we are looking at which should get positioned over the next 2 years. So that is how we are looking at it. Again, not seeing any negatives on that side because we are more linked to the innovators rather than being linked to let us say generics. Hope that answers it Sanjesh.

Sanjesh Jain: Fair enough. And this 20% guidance is for Specialty Chemicals, right, not for the Chemicals entirely.

Rahul Jain: So generally speaking, we give the guidance for the overall business is what MD had said. But yes, when we look at it from an overall basis, +20% is what we are expecting for Specialty as well.

Sanjesh Jain: Second on the Refrigerant Gas, again a very strong performance. Prices continue to remain firm and strong but going into 2024 there is a 30% consumption cut notified in the US and India is adding another 30,000 metric tonne in R22 including 15,000 by us. How should we see the realization and probably geographical mix change in FY24 out of US to more Middle East and other markets which MD Sir has highlighted in his opening remark as well. So how should one see this realization on the blended basis for SRF?

Rahul Jain: So Sanjesh, you are right that the US will have a 30% cut starting January 1, 2024. Two or three things to understand here. So, first thing is it is not just the consumption cut, it is a production cut also. Based on our calculations, we believe that the US will remain a net importer of HFCs. Now it could be a change in the mix. It could be a change in the positioning of HFC that could happen, but net-net US still remains the net importer of HFCs and therefore that is a positive for us. When you look at it from an overall perspective in terms of the 15,000 tonne new plant of 32 that is coming up for SRF, the way we have ramped it up is probably over the next 12 months to get to about 70% utilization and in the second year probably get to about 100% utilization. So, we believe that there are markets for this available in the Middle East which are already home markets for us where we have a position that we can create. So that is something that we are looking to do Sanjesh. We are fairly confident of the fact that we should be able to ramp up our production of the new 32 pretty soon with let us say in 12 to 18 months' time post its initial commissioning.

Sanjesh Jain: Got it. But Rahul sir just a small clarification. I thought that we have to sell that entire capacity in CY24 to get eligible for the quota for the baseline calculation.

Rahul Jain: The baseline calculation from an India perspective are not production-based. They are total consumption-based and within those consumption what you are selling into the Indian market.

Sanjesh Jain: So that will not pressurize to sell this 100%?

Rahul Jain: But again, Sanjesh you have to understand this not just from a gas-by-gas perspective, it is a total GWP position there as well.

Sanjesh Jain: Oh Right. Last is on the Fluoropolymer. There is a slight delay in PTFE, but if we look at Europe is slightly going stringent as far as the Fluoro piece itself is concerned on the polymer side. Are we worried or do you think none of those regulations will have any negative impact on the Fluoropolymer business which we are trying to build? And how should we see this Fluoropolymer business for us from an FY24 perspective? Will it be more of a qualification and stabilization period and FY25 is the right period for us to assess the performance?

Rahul Jain: Let me answer the first question first in terms of this thing of Europe. Now Fluoropolymers for various applications be it from a solar application, battery applications or for that matter other applications which are more generic in nature or industrial applications, it is still a need. While Europe has started to talk about the regulation around it in terms of certain types of surfactant-free positioning that they have to create, it is something that is still in the pipeline. It has not come through. The need for Fluoropolymer does not go away. Our sense is that the market is large enough, the market is growing. We have a positive position in terms of the Fluoropolymers that we have. We will start PTFE soon and the three others that we have announced is a 2-year project. We are fairly confident of our technology being PFOA-free, so that is also something that is positive for us. Hopefully in the future we can ramp that up at a significant pace.

Moderator: The next question is from the line of Amar Maurya from Alpha Accurate Advisors Private Limited.

Amar Maurya: The first question is on Specialty Chemicals. You said that 20% guidance is for the whole Chemicals business as well, right that is what you are saying or 20% guidance is for Specialty Chemicals?

Rahul Jain: Don't drill into it too much Amar. 20% for Specialty as well. +20% is what he said and +20% is what we are maintaining. You also know our track record Amar, so be positive about it.

Amar Maurya: Last time you guided 20% and you delivered 29% growth. Now this time you are talking about +20%. So basically, going by the track record like it should be like more than 30% growth this this year as a whole.

Rahul Jain: Amar, the way we look at it and when we are giving you our positioning in terms of growth, what we essentially evaluate is what are the kind of positions that we are taking on certain products. What are the kind of opportunities that we are seeing. What are the market scaling that we have done, let us say to a certain extent what kind of orders do we already have on hand. Based on that, we calibrate that number and effectively give you a number. As time passes, as our quarters go by, we also get a better sense in terms of what is happening in the markets, which also then gives us the confidence to be able to tell you whether it will be higher or lower, right. So that is how we calibrate it. And my sense is again it is better to be able to give you a smaller number and then outperform rather than the other way round and I suppose you will agree with it.

Amar Maurya: And secondly sir, this new projects like these 7 pharma products and the three plants are likely to be commissioned in the second half of 2024 or in the first half of 2024?

Rahul Jain: Which ones are you talking about Amar?

Amar Maurya: These new projects in Specialty Chemicals, something around Rs. 1,000 crore capex likely to commission in Specialty Chemicals, let us say that will happen more in the second half of FY24 or in the first half of FY24?

Rahul Jain: Some products that were announced earlier will get capitalized during Q2 and to a certain extent Q1 as well some products will get capitalized. But let us say majority, let us say 60% to 70% will get capitalized in H2 only.

Amar Maurya: Lastly, overall profitability of the Chemicals business like this year the profitability was largely driven by the R-Gas. Now, we are talking about in Q1 R-Gas is going to be a little weak, but are we confident on a full year basis we will be able to maintain profitability for the overall Chemicals business relative to FY23?

Rahul Jain: Amar when you look at pure numbers, again Q4 was the phenomenal quarter for the Chemicals business as a whole. As we go ahead in time, we will see to a certain extent some moderation happening, but again with the 20% growth with ROCEs at certain levels that we are seeing, minor moderation is okay, it is still at very, very healthy levels that we have got to. We are fairly confident of the new product positioning that we have created both in the Specialty Chemicals space as well as in the Fluorochemical space. So those should aid to volume growth and revenue growth, hopefully margin accretive as well.

Amar Maurya: And PTFE will come in the 3rd Quarter.

Rahul Jain: No, PTFE should commission by end of May, mid of June and subsequently there will be product that will come out. We will have to go for approval once that comes in, hopefully Q3 and Q4 will start to see some revenue positives.

Amar Maurya: So, this full year basis at least you will reach to about 30% to 40% utilization in PTFE?

Rahul Jain: If we get to 50% of available capacity in H2, we should be happy about.

Moderator: The next question is from the line of Rohit Nagaraj from Centrum Broking.

Rohit Nagraj: Congrats on again very strong set of numbers on the Chemicals business. The first question is on the PFB (Packaging Film Business) segment. So, in the earlier remarks and presentation, we mentioned that margin pressure to continue in the medium-term. So, will it be for the next couple of quarters or for FY24 and will that be also accompanied by any volume impact too?

Rahul Jain: Rohit, to be very frank about it, it is a generic statement. When we see new lines that have got added, when we have seen majority new capacities that have added, if you have seen the presentation that was uploaded, we are also seeing significant stress in the market where some of the capacities that have got added or lines are starting to get delayed there are positions that are being created, whether it will be over the next 2 quarters or 3 quarters, I really cannot tell you. But over the medium term, maybe this financial year we should see some positives coming out of a very bad Q4 and we should start to see some positive in the next financial year is what we believe will happen.

Rohit Nagraj: And will there be any volume impact?

Rahul Jain: The overall capacity utilization for SRF has been in the range of about 92% to 95%. We do not believe there will be a volume impact, but there may be some minor volume impact that can come through. In fact, I would say with Hungary starting to perform better, our volume should actually be slightly higher. Also to allude to the fact that our South Africa plant has got debottlenecked probably after with an increase of 10% to 15% in terms of the overall capacity available, we should see a volume positive in terms of those.

Rohit Nagraj: Second question is in terms of volume growth for FY23 and for Q4, can you spell out generally across the segments what has been the volume growth?

Rahul Jain: So, very difficult to do in that sense, but let me just give you an overall guidance around it. From a FluoroChemicals business perspective, certain volume growth would have happened given the fact that we have commissioned a CMS plant, higher volumes from the CMS plant. We have had higher volumes in HFCs, so that is the positive so there would certainly be volume increase that is happening. On the Specialty Chemicals business, no doubt new plants have got commissioned. New products have instituted in the market and that is why I am sure there is volume growth on that side. I cannot give you exact numbers in terms of what is the percentage volume growth. Packaging Film also there we had a line that got commissioned over I think in July or August of 2022 so there is certainly volume increase on that side, but Hungary would have been a negative volume compared to FY22 so that is the overall sense of this. Technical Textiles, again we have said that the demand has been weak and therefore we have kind of seen lower volumes for Technical Textiles, which should improve going forward.

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

Sumanth Kumar: Can we talk about the globally higher inventory of agrochemical? So, is there any impact in our business and you have assumed the +20% growth whatever the scenario is currently in the industry?

Rahul Jain: So again, I think Sanjesh had asked the asked the question with respect to the generic play and the inventory positioning. I think the answer to that is similar Sumanth. We are not seeing any negative impact in terms of our overall volumes. We believe a position with respect to AI that is being created is a positive. We believe that the capital expenditure on 7 plants that that are currently under the works will be a positive going forward. So that's how we would look at it Sumanth. Again, inventory creation is probably more generic in nature, which is not the innovator side and therefore a positive for us.

Sumanth Kumar: And for the Chemical margin, we have seen in EBIT margin in FY23 is around 31.6%. So, do you think what you are saying that the minor correction so can we assume couple of percentage decline in margin or more?

Rahul Jain: So again, Sumanth, when I am talking about some moderation happening, I am probably talking more from a Q4 perspective rather than an annualized perspective. On an overall basis, we are fairly confident that the margin profile should remain positive for us.

Sumanth Kumar: We can assume with the FY24 we will have a margin expansion YoY annually?

Rahul Jain: Sumanth I will leave that judgement best to you as what you want to consider as margins, I can only give you some guidance around it.

Sumanth Kumar: And uh, what is the capex for FY24-25?

Rahul Jain: So as of now, we have roughly about Rs. 1,200 crore to Rs. 1,300 crore of overall projects that are on the ground for cash to be spent in FY24. Our sense is that on an overall basis, we will get to about Rs. 2,500 crore in terms of cash spent on capex.

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

Vivek Ramakrishnan: My question is going to be on capex only. So let me just turn it around, given the fact that there are certain pockets where we are cautiously optimistic, would you look at pairing capex and you indeed managed the debt levels extremely well to the long, large-capex cycle. So what are the peak level of debt that you see in the Company going forward in the next one year?

Rahul Jain: So when we look at this, Vivek, the position is that while we do look at the overall number on the debt, we are not looking at pairing the growth opportunities that we are seeing. So, if there is a growth opportunity that is significant, we will certainly invest. Given the fact that our overall net debt-to-EBITDA on the balance sheet side is still at 0.89 or so. With the capex cycle that we are running, we will probably get to a slightly higher number but not very significantly different from where we are. In my mind, we will certainly remain in the in the range of less than 1 for sure. So, we are happy to invest. Again, it is best to invest to a certain extent when the opportunity is presenting itself. I do not see us pairing our capex growth for managing the balance sheet. I think the balance sheet is in fairly good shape.

Moderator: The next question is from the line of Abhijeet Akela from Kotak Securities.

Abhijeet Akela: Few data points I was kind of hoping to get, one is on the Fluorospecialty business, would it be possible to share the revenues for FY23 or at least the growth rate YoY?

Rahul Jain: So, on the overall basis, my overall Chemicals business turnovers was roughly about Rs. 7,400 crore, give or take Rs. 10 crore here or there. Specialty Chemicals did about Rs. 4,200 crore this year and Rs. 3,200 crore was Fluoro.

Abhijeet Akela: The CMD referred to this dip in ROCE potentially from 32% levels currently. So just sort of trying to get a sense of whether we should expect that to be driven by lower margins or is it just like increased capex, which will take its own time to sort of translate into revenues?

Rahul Jain: The fact is that these ROCEs are in fairly good shape when we look at it from an overall perspective in FY23 and as well as in FY22. The fact is that even if there is an opportunity to drive out some other new products which are, if not ROCE negative but will take more time in in adding to the ROCE positive, we are happy to do it. Again, this is like a Hindi saying "Dil Mange More" like if it is 32% then we want it to be 35% but we are happy with 28% to 29% also so that is how it is structured. So, we are happy with the ROCE if it is in excess of 25%-27% for new projects that come in. So that is how we look at it.

Abhijit Akela: Then just one last thing from me. There was also a mention of plans to foray into the contract manufacturing or CDMO space in pharma and there was a mention that it could be through organic or inorganic means as well. So, if you could just share some more detail around the thought process out there?

Rahul Jain: So the way we are thinking about it, Abhijit, is that the PIP plans are starting to expand. In fact, to a certain extent we believe if we want to populate the PIP plant completely, we can do that today itself. We are looking at more complex products, products that add more value, products that are margin accretive and over a period of time in order to be a large player in pharma, we will also have to look at a contract development manufacturing system or setup to be created. Whether it gets created organically over a period of time adding capabilities, adding assets, investing in people or through an acquisition, we are happy to look at both is what he alluded to.

Abhijit Akela: Also, just the South Africa addition, does it at 10% to 15% to overall PFB volumes or is it basically South Africa?

Rahul Jain: No, Abhijit it adds to South Africa volume.

Abhijit Akela: 10% to 15% debottlenecking into South Africa.

Rahul Jain: Capacity increase is close to 3,500 annually.

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

Rohan Gupta: Sir, on our PTFE plant which is going on stream in the second half you mentioned how soon we can expect the PTFE value chain product portfolio to improve because I understand that initially we were going to start on a commodity grade with a lower margin, so how do you see that the ramp up in the product value chain we can achieve?

Rahul Jain: So, again Rohan I think the way we look at it is to be able to ramp the plant fully initially. As the confidence with respect to the product comes through as we get more approval coming through we will move into more Specialty grades it is not an overnight position to be created. My sense is as we take the PTFE journey we will probably have to take 12 months to be able to start getting into more let us say Specialty grades.

Rohan Gupta: So, first we will ramp it up to 100% from 75% and then next year probably the focus will change?

Rahul Jain: No, do not look at it from a sequential perspective, look at it from a perspective that let us say when we are getting to 50%, 60% and if the customer demands more Specialty grades we are happy to work on it and be able to deliver that, but it has to ramp up to a certain extent existing product has to get approval before we let us say ramp up very significantly on the Specialty side.

Rohan Gupta: And sir if I just read between the lines you are saying that still in current year we will definitely strive for growth. However, the headwinds are in packaging film where the scenario is still weak over a couple of quarters and we are also guiding about pressure in the gas pricing scenario, so only growth driver will be probably for the current year Specialty Chemicals business where we are confident about +20% growth. On an absolute level the confidence which you are bringing us is still a growth momentum to be maintained. It feels that now you are able to do the math that how the profitability impact which will be there in two segments large two segments in packaging and ref. gases will be there, how we will be able to compensate from the other business mainly Specialty because we do not expect anything going to change materially in technical textile?

Rahul Jain: Rohan to be very frank I am lost with the question what is it that you are trying to ask.

Rohan Gupta: Sir I am saying that in all your conversation you are still guiding about that at a bottom line or at an EBITDA level we are still looking at growth on an absolute number compared to last year I mean FY23?

Rahul Jain: So, let me clarify when we said +20% we were talking about Chemicals business. Packaging Films will hopefully grow from this level given South Africa addition and to a certain extent

Hungary coming back in terms of overall volumes which is what I had said earlier on the call as well. Again, on the Technical Textiles I think we had eluded to it saying that we are seeing a positive trend in terms of demand from customers hopefully that should pan out as well that is how we are looking at it. But when we said 20% it was more reference to the Chemicals business rather than company as a whole. I hope that clarifies.

Rohan Gupta: So, I understand, but 20% also we are talking about on a revenue front, right I am looking more at the bottom line or at EBITDA level performance for the current year there seems to be two big headwinds which we are going to face in the current year which looks difficult to be get compensated from the Specialty Chemicals business improvement, so I just needed some clarity though it is good to have ambitious target, but aren't we looking a slightly moderation or at degrowth kind of scenario in FY24 with these two segments headwinds that is what I just needed some clarity on that?

Rahul Jain: Rohan again we have said that there may be some headwinds in Q1 for the Fluorochemicals business given that it is not seemingly a very hot summer that we are seeing, but it is also to be pointed out that we have also said that we believe it is temporary and in the course of let us say Q2 and Q3 we will ramp up our Middle Eastern sales, we will ramp up our US sales, so all of that is a positive. So, I do not believe that there are very very significant headwinds either in terms of price. From a full-year basis the reference which we made to Fluorochemicals price was more from the fact what we are seeing in terms of the weather panning out in Q1.

Rohan Gupta: Okay so it is more in Q1 rather than for the full year. Got it.

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

Madhav Marda: I just had one question when you said we want to enter the pharma CDMO space and could look at an M&A, just wanted to understand what kind of capabilities or what is it that you are looking at in the target when we are evaluating various opportunities, is it like we are looking for a CGMP plant or is it some certain other capabilities, just want to understand that?

Rahul Jain: So, to be very frank Madhav the way we are looking at is that we already have a CGMP plant. We already have a new PIP plant that has recently been commissioned. When we are looking at adding capabilities, obviously in due course of time if there is a specific AI which is a large requirement we will have to put up that plant and like I said we are happy to put up that investment to be able to capture that growth. Now, it could be a specific AI plant, it could also be to a certain situation where there are three products that are manufacturing which are going into a single AI, I might be just doing a forward integration of that as well. So, there are various permutations and combinations around it.

Madhav Marda: Could this M&A also be for certain like R&D capability or certain like chemistry capability of the target as we look at pharma CDMO or is it just more for the plant?

Rahul Jain: No, it could be both ways it could be capacity, it could also be to a certain extent R&D, it could also be providing a front, it could also be entry positioning into Europe, it could be multiple let us say opportunities and it will depend on the opportunity as it presents.

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

Arjun Khanna: Congratulations on a good set of numbers. Sir, just on this M&A activity if you could just specify in sense, would it be more generic are we looking at assets in India outside India, do we have a ballpark in terms of capital to be deployed for the same?

Rahul Jain: Arjun let me say it this way. We said it could be both organic and inorganic. We have not laid out any specific capital for us to be able to go out looking. We will keep our eyes and ears open if there is an opportunity that presents itself, but again like I said answering to the previous question it could be both on the capability side or the asset side, it is a bit too premature to be able to give you the details around it. I do not have details. We are saying that once let us say the pharma piece starts to ramp up, which we are already seeing we will probably have to become a larger player in the segment through a CDMO that is what we are thinking about.

Arjun Khanna: But in a sense just in following through the thought process, are we looking at facilities in India or outside India?

Rahul Jain: I am happy doing both Arjun if you give me the opportunity to buy, send me a target and I will look at it, be it in India or in Honolulu.

Arjun Khanna: Sir the second question was on the Ref-Gas piece you have been highlighting the Dymel, the pharma propellant doing well, so when we purchased it I understand capacity was maybe 1,100 tonnes, have we increased or expanded capacity there and please correct me this would not be impacted by the emissive cut that countries may have and this given it is in the pharma grade could continue as long as there is demand?

Rahul Jain: So, let me answer the second question first. You are absolutely right HFC 134a pharma does not get impacted. So that is kept separate because there is no known product that can be used in MDI. So that is the answer to the second question. In terms of the overall positioning on this, when I look at it the plant that we had set up was roughly about 2,000 to 2,200 tonnes. We can make 2,500 tonnes of Dymel. As of now our total positioning around this is probably in the range of say about 1,400 tonnes that we are doing. The plant has enough ability to do more whenever there is more demand on it we have the ability to debottleneck it to a certain extent.

Arjun Khanna: Just on a follow up in terms of pricing so we see a lot of variance. Would this pricing be at a premium to normal 134a and could you just give us a sense in how much could that premium be?

Rahul Jain: In toto I think it is at a decent premium. The pricing premium on 134a in this has ranged between $4 to $8 -$10 depending upon market size and market environment.

Arjun Khanna: So, that is the premium over the HFC of 134a?

Rahul Jain: Yes, it also depends on what pricing HFC 134a is selling at.

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

Dhruv Muchhal: Sir you mentioned about 7 to 8 molecules or AI you are looking at so if you can give some more details are these agro, are these pharma. what is probably the opportunity size, the overall opportunity size what are you trying to capture and are these contracted with your customers or I mean what kind of launches are these?

Rahul Jain: So, we are talking about Active Intermediates. So, clearly these are not pharma these are agro. I will have to come back to you in terms of what is the total market size or the market opportunity on the overall agro, overall AIs that we are talking about I will have to do a market assessment of that and speak to business heads, we will come back to you on that.

Dhruv Muchhal: And sir are these contracting your customers these are generics, these are patented molecules, what if you can get some more color then please?

Rahul Jain: So, they are largely patented products. We are talking to innovators only, but the other question was you said patented product, but contracted no these are in the process of getting contracted.

Dhruv Muchhal: And we have decent visibility that they will be commercialized over the next two years very good visibility?

Rahul Jain: Very good visibility, yes.

Dhruv Muchhal: Sir the second question is we have seen a good improvement in the Chemicals segment margins on a QoQ basis which are already at a very healthy level, so if you can give some more color what is driving this, what is aiding to this and probably you also mentioned the reasonable part is sustainable so some color please?

Rahul Jain: So, again I think to a certain extent Specialty Chemicals has added a positive. Everyone has been saying that there has been a positive that has been added by the Fluorochemicals HFC sales that is another positive. So, those are the two key elements of the business and that is where the positive is coming through. Those margins during the financial year for both Specialty Chemicals and Fluorochemicals have expanded.

Dhruv Muchhal: And particularly in Q4 it has been both the segments both Ref-Gas and the Specialty.

Rahul Jain: QoQ margins have probably expanded but I will have just to look at my numbers and come back to you.

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

Vivek Rajamani: You had mentioned earlier that your utilization rate was roughly in the range of 90% to 95% if I am not mistaken, could I just trouble you to give a sense of?

Rahul Jain: Packaging Films segment is what I was talking about Vivek.

Vivek Rajamani: Could I just trouble you for the utilization rates in the other segments as well?

Rahul Jain: Very difficult to be able to do that Vivek, given Specialty Chemicals that it is practically impossible to give you utilization rate given the fact that we operate out of four multipurpose plants, about 12, 13 dedicated plants, but let me also say it like this. Dedicated plants are almost pretty much full, MPPs will always have spare capacity availability. There are certain new products that we have commissioned over the last 12 months or so. So, those will be in a ramp up phase. From a Fluorochemicals perspective again I think let us say the HFCs have ranged between 75% to 85%, 95% at overall capacity utilization. For chloromethane again we had set up the plant probably in October of last year that is also to a certain extent in the phase of ramp up. Other continued plants or the older plants are practically full in terms of utilization. On Technical Textiles utilizations have been low say about 75%, 76% overall.

Vivek Rajamani: Just one clarification could I just check what is the utilization rate at Hungary right now because you said it is going to improve in FY24?

Rahul Jain: Hungary exit was about 65%. For the whole year it was roughly about 69%, 70% as such.

Vivek Rajamani: And just a last question from my end on the packaging side just wanted to check if there was any one-off items in this quarter?

Rahul Jain: No, there were no one off, this has just been the way the business is.

Vivek Rajamani: So, even no inventory impact or stuff like that.

Rahul Jain: Nothing big one to report separately Vivek.

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

Surya Narayan Patra: Sir the first question is on the Specialty Chemicals business, so we have launched 6 new products this year and against that we are talking about 7 to 8 product or new launches over next two years, so how should we see this because we have already done that 6 or this 6 of the current year is not the AI?

Rahul Jain: So, the way we are looking at it is these are 6 or 7 or 8 additional AIs about which we are talking. Our normal agro product launches, the pipeline is still pretty robust and those launches will happen. So, we are kind of saying that there is a graduation positioning that is happening for us to start getting into AIs.

Surya Narayan Patra: Sir, is it possible to get a sense what could be the share of AI in the overall Specialty Chemicals revenue wise?

Rahul Jain: In today's position the only large AI that we do is 32. I will come back to you in terms of the overall say about 12% to 15% as the overall contribution within the Specialty chemical space.

Surya Narayan Patra: Sir one interesting trend, that in terms of margins. So for the Chemicals business as a whole if I see in last three years the margin has trended quite significantly upward. So let us say in FY21 the average EBIT margin was kind of 19% to 20% which has moved to 25% in FY22 and in FY23 it is 31%. It is almost like a clear 5%, 6% kind of jump that we have witnessed. Now with the kind of improving product mix in the Specialty and the qualitative volume as well as the price approved that in both the Ref-Gas as well as the Specialty and the improving product mix within Specialty, considering this what is the kind of sustainable margin trend that once you are trying to think about?

Rahul Jain: It would have been just a mathematical excel sheet we would all have been able to create it. Business is dynamic. It will always have some volatility around. There are recessionary trends that are playing out. Again, I would say we are fairly confident of the margins that we have been able to deliver. There may be some let us say tempering of the margins when you look at purely at the Q4 margin of the business to come through, but overall, again like I said if we are happy to grow the business at +20%, margins even if they temper a bit, it is okay.

Surya Narayan Patra: And just an extension to the Chemicals business see here when you said that you are looking at the CDMO opportunity, so what is the thought process here, are we restricting ourselves to the agri intermediate so that there is no regulatory asset that would be required or even we are thinking about regulatory asset addition also?

Rahul Jain: No, you are confused, CDMO is more on the pharma side.

Surya Narayan Patra: So, are we moving up to the API level so that the regulator consent would be required?

Rahul Jain: So, again if there is a need to get regulatory approval for any of the products which we start to manufacture, we will get that ability as well Surya, why not.

Surya Narayan Patra: Sir, just two simple clarifications one is what is the average finance cost for the current year, one, and secondly you have talked about the HFO gas opportunity after a long gap. So, how quickly that we can see that as a real revenue opportunity for us?

Rahul Jain: So again, when CMD talked about it he was more referring to the fact that the opportunity that is presenting itself is something that we are working on. We will look to enhance that opportunity; we are working in our overall let us say positioning from a companywide perspective looking at non infringing processes that will come in. So that is what we are looking at. We are fairly confident that we will be able to ramp that up. Groundwork is already being done around it. So, that is how we are looking at it. In terms of overall average cost again I think the way we need to look at it is that we have seen effective let us say benchmark rates both globally and locally move up more in H2 rather than in H1. So on a closing rate basis March 2023 annually was probably about 4.5% as the average cost for India given various mix of products that we have. When we look at it from a futuristic perspective we also see that there is now starting to talk about let us say revision in interest rates, the FED cuts starting to think about, cutting of interest rate. So, those stories will play out probably more during FY24. So that is how it should work out.

Moderator: The next question is from the line of Dharmil Shah from Marcellus Investment Managers.

Dharmil Shah: So, the 7 to 8 AI project that we are working on right now with the innovators. Firstly are these fluorine based active ingredients or non-fluorine based?

Rahul Jain: See again I think what we have said Dharmil in the past also is that our intent is to move up the value chain. Our intent is to move into complex products. Some of these products are actually products that integrate into some of the products that we are already doing. So, that is how we are looking at moving up the value chain. Whether it is fluorine, non-fluorine I do not think it matters as of now.

Dharmil Shah: And these are the projects from our existing customers or these are new inquiries that company has gotten?

Rahul Jain: Both in nature.

Dharmil Shah: And just lastly on the similar lines. Are these products 7 to 8 AI molecules these are new for the innovators as well or these are already developed products, but they are looking out for a manufacturing partner?

Rahul Jain: I will have to check and come back to you.

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

Vishnu Kumar: On the US restriction that starts next year with a similar event happened in EU, we saw there was a really good spike in Europe imports the one year before the restriction started, so what should we anticipate from our exports should we expect a spike in exports from the Ref-Gas side?

Rahul Jain: Again, Vishnu you will have to look at it from a perspective, what happens to the overall market. Not just in FY24, but FY25-26-27 and onwards. So, the 30% cut that comes in from January of 2024 will be a GWP equivalent cut that comes in for the next five years that happens. Now like I said earlier also based on our calculations we believe that it is not just a consumption cut that is happening it is also a production cut that is happening. The US is likely to remain a net importer only and given that as a situation, while the production is cut the demand cannot cut rate immediately like that. So, the secondary market demand will remain which will then lead to probably some price positive that should also come in. Also what had happened during some of these, is that there was all the Chinese that were manufacturing significant amounts and therefore setting that kind of dumping even at a very low price. Now given that their quota regime requirement is completed by FY23 I think some of that sanity should also return to the market.

Vishnu Kumar: Sir, when you mean GWP this 134a and 410 these are the higher GWP and 32 is probably something that at least today from an export market?

Rahul Jain: Yes, 32 is the lowest.

Vishnu Kumar: 134a it cannot take 32 for replacement?

Rahul Jain: 134a is mobile application. So 134a is used in some blends which are used for RAC applications.

Vishnu Kumar: Now sir pricing sustainably in the last couple of years that Ref-Gas pricing has been quite high, how long do you think this is going to sustain and do you expect this once this post this cut next year also we believe that?

Rahul Jain: I cannot comment on the price Vishnu. What I am only saying is generically right demand is still rising, regulatory environment is restricting the product. That is how the story plays out in all of these gases. So, that is how it should play out. I cannot tell you how long the price will sustain market can be volatile, there could be certain market elements that play out. So, all of that can happen Vishnu.

Vishnu Kumar: And finally on packaging film business at some point the demand should catch up on the excess supply I mean in any internal assessment by next year mid or any expectation there?

Rahul Jain: I am not putting a date or a number to it Vishnu. Again, there are new lines that have been ordered, some of them will get delayed that is what we have also mentioned over a period of time. We are probably at the worst of the cycle, how long does it continue is very difficult to be able to say, but we are fairly confident and cautiously optimistic about it.

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

Krishan Parwani: Congrats on the good set of numbers. Two questions from my side, so when do you see this R32 coming from a new plant, would it be beginning of July 2023 or are you expecting any delays?

Rahul Jain: So, let us say the plant capitalization currently we believe should be June / July. Product and availability should be starting August / September.

Krishan Parwani: I understand that you do not give the profitability breakup of the Chemicals segments however kind of would it be possible to share the direction of the Fluorospecialty Chemicals profitability over let us say year-on-year and over last two, three years?

Rahul Jain: So again, I cannot give you percentages, what I can only tell you is that during FY23 what we have seen is margin expansion happen both on Specialty and Fluoro.

Krishan Parwani: And over the last two, three years I mean direction?

Rahul Jain: Directionally also it is on an uptrend.

Krishan Parwani: And how do you see it going forward. The reason I am asking going forward because you are commercializing let us say many projects on the Specialty side, so would it be kind of lower yields could result in lower margin for Fluoro Specialty or not really?

Rahul Jain: So, Krishan like I said earlier the way we are looking at it is that the +20% growth is probably what we are targeting, if to a certain extent there is some tapering on the margin front that happens that is fine, given where let us say the Q4 exit margins were. Unfortunately, I cannot give you any better color on this.

Moderator: Thank you. Due to time constraint that was the last question of our question-and-answer session for today. I now hand the conference over to the management for closing comments.

Rahul Jain: Thank you everyone for being on SRF Q4 and FY23 Call. I hope we have been able to answer all your questions. 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 this call. Thank you.

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

SRF Limited
May 10,2023

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