



**“Gujarat Fluorochemicals Limited Q2 FY2018  
Results Conference Call”**

**November 10, 2017**



**ANALYST: MR. FARZAN MADON - AXIS CAPITAL LIMITED**

**MANAGEMENT: MR. VIVEK JAIN – MANAGING DIRECTOR - GUJARAT  
FLUORO CHEMICALS LIMITED**

**MR. DEEPAK ASHER -DIRECTOR AND GROUP HEAD –  
(CORPORATE FINANCE) - GUJARAT FLUORO CHEMICALS  
LIMITED**

**MR. V.K. SONI – HEAD PROJECTS AND NEW INITIATIVES -  
GUJARAT FLUORO CHEMICALS LIMITED**

**Moderator:** Ladies and gentlemen good day and welcome to the Gujarat Fluorochemicals Limited Q2 FY2018 Results Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference over to Mr. Farzan Madon of Axis Capital Limited. Thank you and over to you Sir!

**Farzan Madon:** We have with us the management of Gujarat Fluorochemicals with us represented by Mr. Vivek Jain - Managing Director, Mr. Deepak Asher – Director & Group Head (Corporate Finance) and Mr. V.K. Soni – Head Projects and New Initiatives. Sir over to you!

**Deepak Asher:** Thanks very much Farzan. A very warm welcome to all participants on this call. I am glad to inform you that the Board of Directors of Gujarat Fluorochemicals Limited at its meeting, concluded a couple of hours ago, has approved the quarterly results for Q2 FY2018. We have uploaded these results on the website of the Company as well as the websites of both the Stock Exchanges and along with the results; we have uploaded an earnings update presentation. What I intend to do on this call with you is take you through this presentation.

I hope you have had the opportunity of looking through some of the key numbers. The key highlights for the performance of this quarter have been, segment wise, talking about the chemical business first; there has been a significant improvement in the chemical business numbers led essentially by higher sales in the PTFE and the value added product segments. The chemical business witnessed revenues growth of 27%, EBITDA growth of 107% and a PAT growth of 151% for Q2 FY2018 compared to Q2 FY2017. That is a YOY comparison.

In the wind turbine manufacturing business the results were impacted, as we had informed you earlier, because of a temporary downturn in the Indian wind power market, which was a result of the transition from the Feed-in tariff based market to the auction based market. However, we expect this to be normalised over Q4 FY2018 and thereafter.

In the wind farming business revenue were down 16%, EBITDA was down 67% and PAT was down by 30% in Q2 FY2018 compared to Q2 FY2017, but as you know, we have substantially exited the wind farming business by selling 246 megawatts out of the 269 megawatts of operational capacity.

Lastly, in the film exhibition business, we are now present in 58 cities with 119 properties, 476 screens and 119395 seats. In this segment, revenues were up 5%, EBITDA was up 63% and PAT was

up 631% in Q2 FY2018 compared to Q2 FY2017 and this happened despite indifferent content, largely due to a sustained focus on non -box office revenues.

So that was the snapshot of our performance in each of the four segments. I will now take you through the hard-core numbers of the Financial Results. Firstly, the Consolidated Results. Revenues in Q2 FY2018 fell from Rs 1545 Crores of Q2 FY2017 to Rs 875 Crores of Q2 FY2018. That is a drop of 43% to a large extent all these numbers were impacted by the fall in the wind turbine manufacturing business.

EBITDA fell from Rs 271 Crores to Rs197 Crores. That is a fall of 27% though there was an improvement in the EBITDA margin from 17.5% to 22.6%. PAT fell from Rs 110.9 Crores to Rs 59.8 Crores that is a fall of 46%, though our PAT margins remained virtually at the same level of 7.2% to 6.8%. Those were the quarterly numbers.

For the half-yearly numbers, revenues fell by 26% from Rs 2665 Crores to Rs 1960 Crores. EBITDA fell by 20% from Rs 501 Crores to Rs 402 Crores that is a drop of 20%. EBITDA margins improved from 18.8% to 20.5% and PAT fell from Rs 175 Crores to Rs 118.4 Crores that is a drop of 32%. PAT margin, which was 6.6% in H1 FY2017, remained at around 6% in H1 FY2018.

Now as you know these numbers are actually comprising of four key segments, the chemical business, the wind turbine manufacturing business, which is separately listed as INOX Wind Limited, the wind farming business, which is a 100% subsidiary of Gujarat Fluorochemicals Limited and the film exhibition business, which is again separated listed company as INOX Leisure Limited.

Now if you look at the segmental breakup of the revenues, in the chemical business, revenues went up by 27% from Rs 360.9 Crores to Rs 458.6 Crores. In the wind turbine manufacturing business, revenues fell by 90% from Rs 800 Crores to Rs 79.5 Crores. In the wind farming business, revenues fell by 16% from Rs 78.4 Crores to Rs 65.5 Crores and in the film exhibition business, revenues went up by 5% from Rs 297.4 Crores to Rs 311.3 Crores. As a result of which the total revenues for the quarter fell by 43% from Rs 1545.1 Crores to Rs 875.4 Crores.

For the half-year, the numbers were - in the chemical business, revenues went up by 26% from Rs 761.2 Crores to Rs 961 Crores. In the wind turbine manufacturing business from Rs 1235 Crores to Rs 185 Crores, that is a drop of 85%. In the wind farming business Rs 139.9 Crores went up to Rs 142.1 Crores that is an increase of 2% and in the cinema exhibition business, the increase was 10% from Rs 634.3 Crores to Rs 698.7 Crores - as a result of which the total revenues for the half-year fell by 26% from Rs 2665 Crores to Rs 1960 Crores.

Looking at the EBITDA breakup for each of these businesses, EBITDA from the chemical business for the quarter increased from Rs 74.7 Crores to Rs 154.3 Crores that is an increase of 107%. In the wind turbine manufacturing business, the fall was from Rs 101 Crores to Rs (-) 19 Crores. In the wind farming business, Rs 69.9 Crores to Rs 22.7 Crores and in the cinema exhibition business, the increase of 63% from Rs 27.2 Crores to Rs 44.4 Crores.

As far as the PAT is concerned again in the chemical business, the PAT increased by 151% from Rs 35.3 Crores to Rs 88.7 Crores, in the turbine manufacturing business, the fall was from Rs 56.5 Crores to Rs (-) 46.8 Crores, in the wind farming business, the fall was 30% from Rs 15.9 Crores to Rs 11.1 Crores and in the cinema exhibition business, there was an increase of seven times from Rs 1.6 Crores to Rs 11.7 Crores, as a result of which overall PAT which was Rs 110.9 Crores in Q2 FY2017 stood at Rs 59.8 Crores in Q2 FY2018.

Now getting into chemical business, standalone results in a little more detail. Revenues in the chemical business for the quarter increased from Rs 360.9 Crores to Rs 458.6 Crores that is a growth of 27%. EBITDA increased from Rs 74.7 Crores to Rs 154.3 Crores that is a growth of 107%. EBITDA margin improved from 20.7% to 33.6%. PAT increased from Rs 35.3 Crores to Rs 88.7 Crores that is a growth of 151%. PAT margin improved from 9.8% to 19.3%. These were the quarterly numbers.

For the half-year revenues increased from Rs 761.2 Crores to Rs 961 Crores, that is an increase of 26%. EBITDA increased from Rs 154.2 Crores to Rs 258.9 Crores that is a growth of 68%. EBITDA margins improved from 20.3% to 26.9%. PAT increased from Rs 68.5 Crores to Rs 152 Crores that is a growth of 122%. PAT margin improved from 9% to 15.8% for the half-year.

The breakup of revenues product wise for the quarter: caustic soda increased from Rs 91 Crores to Rs 109.8 Crores that is a growth of 21%. Chloromethanes fell by 13% from Rs 71.3 Crores to Rs 62.4 Crores. Refrigerant increased by 18% from Rs 50.5 Crores to Rs 59.6 Crores. PTFE increased by 49% from Rs 115.8 Crores to Rs 172.3 Crores. Other value added products increased from Rs 7.4 Crores to Rs 21.4 Crores that is a growth of 192% as a result of which total revenues increased from Rs 360.9 Crores to Rs 458.6 Crores. Those were the quarterly numbers.

For the half-year, caustic soda increased from Rs 183.6 Crores to Rs 208.9 Crores that is an increase of 14%. Chloromethanes fell by Rs 133 Crores to Rs 119 Crores that is a fall of 10%. Refrigerants increased from Rs 132 Crores to Rs 153 Crores that is an increase of 16%. PTFE increased from Rs 250 Crores to Rs 365 Crores that is a growth of 46%. Other value added products increased from Rs 11.3 Crores to Rs 50.9 Crores that is a growth of 349% as a result of which total revenues increased from Rs 761.2 Crores to Rs 961 Crores.

I will not take you through the detailed numbers on the wind turbine manufacturing business, wind farming business, and the entertainment business because they are separate listed companies as I said, at least two of them are and hence whoever were interested in that, I would assume would have followed the earnings update calls of those companies.

In terms of market data, our market capitalization now stands at Rs 9708 Crores with the share price being Rs.883. The key institutional investors remain what they were last quarter. The shareholding pattern - the promoter group holds 68.33%, DIIs own 2.95%, FIIs own 4.15%, and the public and the others 24.57%.

So that is a brief snapshot about the performance of the Company. I would now like to hand it over back to Farzan, try, and respond to any questions that you might have. Thank you.

**Moderator:** Thank you very much. We will now begin with the question and answer session. Anyone who wishes to ask question may press \* and 1 on touch phone and if wish to remove yourself from the question answer session may press \* and 2. Participants are requested to use handset for asking questions. Ladies and Gentlemen we will wait for a moment to start question. We will take that first question from the line of Hansal Thakkar from Lalkar Securities. Please go ahead.

**Hansal Thakkar:** Congratulations on a bumper set of numbers on the chemical segment. Couple of questions I had. The first question is we should have started with receiving supply of fluorspar from the mines, right, by now?

**Vivek Jain:** The mining operations are just about to be commissioned in the early part of November. There were some technical issues, which have been sorted out and I am glad to report that by and large fluorspar prices were \$250 to \$260 till much of the time prior to this. The prices have shot up to \$425 to \$450. So the commission of the project has happened in a way at an auspicious time and we are also now trying to see how we can augment capacity there with some capex.

**Hansal Thakkar:** Great. Congratulations on that too. Sir, another question I had was on the results you have indicated revenues on a like-for-like basis considering the migration from excise to GST. Can you give us the same on the breakup between the various chemicals in the chemical business?

**Deepak Asher:** We do not have this offhand right now but we will try and may be update the investor presentation and upload that.

**Hansal Thakkar:** Sir, last question just hoping to hear something from you very soon on the shareholder's unlocking of value with reference to INOX Wind Limited?

- Deepak Asher:** We have mentioned this earlier and we will take an appropriate decision soon. We have to ensure that the public holding goes up to 25% by the end of March and we will be able to take a right decision at that time certainly beforehand.
- Hansal Thakkar:** Any indication you can give as to what path you are likely to follow?
- Deepak Asher:** Not till the Board finally approves the decision that we want to take.
- Hansal Thakkar:** Great Sir. Thank you. All the best.
- Moderator:** Thank you. We have our next question from the line of Debanjana Chatterjee from HDFC Securities. Please go ahead.
- Debanjana Chatterjee:** Good evening Sir. My question was what would be the EBITDA and PAT guidance for the value added products in each segment for FY2018 and FY2019 and what would be the EBITDA per tonne in that case?
- Deepak Asher:** Typically, we do not give specific guidance in percentage terms going forward but as you would have seen as the profile of our product mix has changed more towards value added products that is why margin also has gone up significantly and broadly from around 20% range to about 33% range. So clearly, the EBITDA margin in the value added products is strong and we expect that to continue going forward.
- Debanjana Chatterjee:** My next question is like your previous concalls you were discussing about some milestone payments from nine projects that were taking in different parts of the country, so what are the developments from those projects?
- Deepak Asher:** I assume what you are referring to is the sale of the wind farming business where we have said there were nine different projects and these projects were sold to the JP Morgan backed Leap Green Energy and we were expecting payments from the sale of those assets based on the milestones to be achieved. I am happy again to inform you that around 80% of those gross payments have been received. The balance 20% again will be received between November and December.
- Debanjana Chatterjee:** Sir these numbers might be used to repay your debts?
- Deepak Asher:** That is correct. So again, I do not mind mentioning the exact debt number. The debt on these projects were about Rs 750 Crores to start with and we have already paid about Rs 625 Crores out of that which leaves about Rs 125 Crores outstanding. That again would be paid over the next two months as the rest of the milestone payments are received.

- Debanjana Chatterjee:** Okay and my last question is you were talking about some Rs 250 Crores pending on your capex part in this quarter, in this Financial Year, so do you want to take up some fresh debts in your short-term basis?
- Deepak Asher:** No, I think we are generating enough cash out of operations to be able to fund the capex plans.
- Debanjana Chatterjee:** So it would be from internal accruals, right?
- Deepak Asher:** That is correct.
- Debanjana Chatterjee:** Thank you Sir.
- Moderator:** Thank you. We have our next question from the line of Archit Joshi from B&K Securities. Please go ahead.
- Archit Joshi:** Thank you for the opportunity. Sir, just a usual data points that you used to give out in the presentation. So can I have the volume and realization details of caustic soda, CMS, Refrigerants and PTFE?
- Deepak Asher:** Again, as you might recall over the last three quarters we have stopped providing that data because we feel that it is a big too granular from a competitive perspective to share. I have to decline that.
- Archit Joshi:** No problem Sir. Can you while we are on the same question about the realizations, can you just throw some light on how the Caustic Soda prices have been shaping up, as you all know there has been a strong rally in caustic soda prices. Would you like to give some outlook on the same?
- Vivek Jain:** As you all know the caustic soda prices have increased as per international price movements and the present indications are that the caustic soda market will remain strong for the next couple of quarters.
- Archit Joshi:** Thank you. That is it from my side.
- Moderator:** Thank you Sir. We will take the next question from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.
- Ketan Gandhi:** Sir, compared to the previous quarter what is the volume growth in the PTFE and value added product or there is a de-growth?
- Deepak Asher:** There is no degrowth. In percentage wise, I can share with you PTFE has gone up by about 34% on volumetric basis.

- Ketan Gandhi:** And value added?
- Deepak Asher:** Value added in fact would be stronger because it comprises a host of several products. We do not have one number for that but I think I already shared with you that in value terms it has gone up by three times.
- Ketan Gandhi:** Because in previous presentation, I am seeing a realization of PTFE by Rs 192 Crores and this quarter it is showing Rs 172 Crores.
- Deepak Asher:** I think just because Rs 192 Crores would have been with excise duty. This is Rs 172 Crores sans indirect tax. There is no GST element here.
- Ketan Gandhi:** Because of the accounting change?
- Deepak Asher:** That is right. Earlier revenues were booked including indirect taxes and now post GST they have booked excluding indirect taxes.
- Ketan Gandhi:** Still Sir we are at near the full capacity utilization of PTFE plant?
- Vivek Jain:** We are near about the full capacity utilisation. We are further taking steps to optimise our capacity, which perhaps in the two to three months that should also happen and we should be seeing increased value realization in the PTFE business going forward.
- Ketan Gandhi:** Sir, any update on plant at Ranjitnagar where we have to get the environment clearance for agro and pharma grade intermediaries?
- Vivek Jain:** That is in the process. In the meantime, we have already started manufacturing from January onwards few products for which we already have clearances with us and we will see both revenues as well as profitability coming from those products from the beginning of the calendar year 2018.
- Ketan Gandhi:** Do you foresee any delay in that in getting the environmental clearance for the full capacity?
- Vivek Jain:** Well it could, but you know that could still take a few months, but we factor that way in our future projections. We have several more projects in the polymer speciality fluorochemicals business, which the commercial production of those will start from January 2018. So that buildup will take place during the course of the next calendar year.
- Ketan Gandhi:** Sir, according to you, I mean, which could be the best year for us going forward say in the next three years, is it 2018, 2019 or 2020?

**Vivek Jain:** Every year for the next two to three years. We see growth every year for the next two to three years.

**Ketan Gandhi:** Thank you Sir.

**Moderator:** Thank you. We will take the next question from the line of Debanjana Chatterjee from HDFC Securities. Please go ahead.

**Debanjana Chatterjee:** I had two more questions that needed to be answered. You are having some 17 subsidiaries and associates, am I right?

**Deepak Asher:** Yes.

**Debanjana Chatterjee:** So which becomes quite cumbersome during valuation, so are you thinking of liquidating some or would you like to continue with the same?

**Deepak Asher:** As you must understand one of our subsidiaries INOX Wind Limited which is engaged in the business of manufacturing wind turbines and supplying these to IPPs. The equipment supply happens from INOX Wind Limited and the services which is erection and commissioning and operations maintenance happens through a 100% subsidiary of INOX Wind Limited and therefore, that also becomes our subsidiary. Then as you might be aware if you are following the wind market there are SECI auctions, which we win by making bids and these again, in order to facilitate the marketing of these bids, are done by separate SPVs and there are, if I remember correctly, about 10 to 12 SPVs currently \ in existence for the SECI-I and SECI-II auctions. So this virtually is a business model where we create SPVs for the purpose of winning bids and thereafter these SPVs are sold to our customers who are IPPs. So frankly, I do not think we can reduce this, but at the same time, I do not think this should have any valuation implications because most of these SPVs have no investments by us and nor do the revenues belong to us - and they are eventually intended to be sold to IPPs.

**Debanjana Chatterjee:** My last question would be your refrigerant segment is 14% of your net sales, right Sir?

**Deepak Asher:** Okay.

**Debanjana Chatterjee:** So there has been a fall, considerable fall in your realization volume numbers.

**Deepak Asher:** Compared to?

**Debanjana Chatterjee:** Compared to last year that is FY2016, in FY2017 there has been a fall in percentage numbers in realization and volume and if I am not wrong this refrigerant particular thing is the raw material for PTFE business, is it right Sir? It is used for production of PTFE?

- Deepak Asher:** That is correct, but I do not know where you get your numbers of fall from because the refrigerant sales have actually gone up from Rs 50.5 Crores to Rs 59.6 Crores, so they are 18% up compared to Q2 FY2017 to Q2 FY2018, if you are comparing with Q1 FY2018 that is because of the seasonality.
- Debanjana Chatterjee:** Because of the seasonality.
- Deepak Asher:** That is why I asked you what you are comparing with, if you are comparing with Q2 of FY2017 it has actually increased by 18%.
- Debanjana Chatterjee:** No, I am comparing YOY basis.
- Deepak Asher:** YOY Q2 FY2017 with Q2 FY2018, right?
- Debanjana Chatterjee:** FY2016 and FY2017.
- Deepak Asher:** Sorry Madam. We are in Q2 FY2018 and if you are comparing with Q2 FY2017, the increase is 18% from Rs 50.5 Crores to Rs 59.6 Crores.
- Debanjana Chatterjee:** Okay and can you give a guidance for the next two years for 2018 and 2019?
- Deepak Asher:** As I said we do not give specific guidance in numeric terms.
- Debanjana Chatterjee:** Thank you so much.
- Moderator:** Thank you Madam. We have our next question from the line of Viral Shah from Enam Holdings. Please go ahead.
- Viral Shah:** Thank you for the opportunity. Sir, one question on your segmental accounting wherein you have shown Rs 63 Crores is netted of as for intersegmental sales so just wanted to understand here the sales would be to INOX Renewables Limited, am I right in presuming this?
- Deepak Asher:** That is correct. That is about 10 megawatts of turbines were sold from INOX Wind Limited to INOX Renewables Limited in the quarter.
- Viral Shah:** Okay and this would be sold in turn back-to-back to Leap Infra or this would remain with us?
- Deepak Asher:** No, as of now this will remain with us. Eventually this will be sold to somebody.
- Viral Shah:** Perfect. My second question was Sir, if you could share the entity wise debt breakup it would be really helpful?

- Deepak Asher:** Let me see if I have that. The net debt in GFL books is actually Rs (-) 40 Crores. So we have net cash of Rs 40 Crores. In INOX Wind Limited, it is Rs 1260 Crores. In INOX Renewables Limited and these are September 30, 2017 is about Rs 406 Crores, but as I said after that we have reduced it further to Rs 125 Crores and in INOX Leisure Limited it is about Rs 116 Crores.
- Viral Shah:** Just my last question on if you could share your thoughts on the ramp up in the value added fluoropolymer business that would be helpful.
- Vivek Jain:** Let me share that most of the capexes have already been done and the product development is now almost complete. We have already started some commercial sales of these specialty polymers, which we have developed and you will see this ramp up happening over the next four to six quarters because these typically take time for customer qualifications but once your customer start qualifying the product then the volume ramp up also happens. So we are expecting by March 31, 2019 most of our new fluoro specialty polymers their capacities will also get completely utilised.
- Viral Shah:** Perfect. Just if I missed out the number, have you shared your capacity utilisation for the PTFE business?
- Deepak Asher:** No, we have not put that in the presentation, but as Mr. Jain said, it is close to full capacity.
- Viral Shah:** Thank you so much.
- Moderator:** Thank you Sir. Ladies and gentlemen as there are no further questions, I now hand the conference over to the management for closing comments. Over to you Sir!
- Deepak Asher:** Once again, on behalf of the Board, we thank you very much for your interest and we look forward to your continued support to the Company. Thank you.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.