

# “Gujarat Fluorochemicals Limited Q4 FY'16 Earnings Conference Call”

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Gujarat Fluorochemicals Limited Q4 FY'16 Earnings 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 would now like to hand the conference over to Mr. Prashant Tarwadi from Axis Capital Limited. Thank you and over to you, sir.

**Prashant Tarwadi:** Hi, thanks a lot. Hi, good afternoon to all, on behalf of Axis Capital Limited I welcome all participants on the conference call of Gujarat Fluorochemicals Limited (GFL). Today, we have with us Mr. Vivek Jain -- Managing Director and Mr. Deepak Asher -- Director and Group Head (Corporate Finance) of GFL. They will start with the overview of the Company performance for the current quarter that is Q4 FY'16 and then we can later switch to question-and-answer session. Thanks a lot for your time and over to you, sir.

**Deepak Asher:** This is Deepak Asher on behalf of Gujarat Fluorochemicals Limited. I would like to extend a very warm welcome to all the investors, analysts and other participants on this call. I would like to thank you for your interest and the time you have taken to attend this call.

I am happy to inform you that the Board of Directors of GFL has approved the Audited Annual Financial Results of GFL for the Financial Year ended on 31<sup>st</sup> March 2016 and we have just uploaded this Results about a couple of hours ago on the websites of the Stock Exchanges as well as the Company's website and along with the results we have also uploaded an Investor Presentation on Earnings and I would like to take you through the key highlights of that earnings presentation, which essentially compares the financial and operating parameters for the quarter ended on 31<sup>st</sup> March 2016 and for the quarterly comparisons we are actually doing the Y-on-Y comparison in which we are comparing Q4 of FY'15 with Q4 of FY'16 and we also do an annual comparison which is the full year FY'15 compared to the full year FY'16.

Now, as far as Consolidated Results are concerned, Revenues for the quarter went up from Rs. 15.53 billion to Rs. 23.84 billion that is a growth of 54%. EBITDA went up from Rs. 2.80 billion to Rs. 4.08 billion that is a growth of 46%.. EBITDA margin was 17.1% for Q4 of FY'16 and PAT went up from Rs. 590 million to Rs. 1.47 billion that is a growth of 149%. PAT margin improved from 3.8% in Q4 FY'15 to 6.2% in Q4 FY'16. Those were the numbers for the quarter.

For the full year, Revenues went up from Rs. 53.40 billion to Rs. 71.98 billion that is a growth of 35%. EBITDA went up from Rs. 10.35 billion to Rs. 13.02 billion that is a growth of 26%. EBITDA margin for FY'16 were 18.1%. PAT went up by 24% from Rs. 3.16 billion to Rs. 3.93 billion and PAT margin for FY'16 was 5.5%.

Now, these were the number for GFL consolidated and as you might know GFL Consolidated Result comprises of essentially four different businesses. There is a Chemicals business which is housed within GFL itself. There is a Wind Turbine manufacturing business that is conducted by Inox Wind Limited and its subsidiaries. Inox Wind Limited is independently listed. There is

a Wind Farming business which is owned by Gujarat Fluorochemicals Limited through its subsidiary Inox Renewables Limited and there is a Film Exhibition business which is conducted by Inox Leisure Limited. Inox Leisure Limited again is listed independently and therefore the consolidated revenues of GFL and the consolidated profitability reflects the revenues and the profitability of all four of these businesses put together.

So to give you a break-up of the Revenues across these businesses for the quarter, Revenues for the Chemical business went up by 2% from Rs. 3.4 billion to Rs. 3.5 billion. Revenues from the Wind Turbine manufacturing business went up by 97% from Rs. 9.3 billion to Rs. 18.3 billion. Revenues from the Wind Farming business went down by 33%, Rs. 416 million going down to Rs. 277 million and revenues from the Cinema Exhibition business went up by 32% which is Rs. 2.17 billion going up to Rs. 2.86 billion. As a result of which overall Revenues went up as I mentioned earlier by 54% for the quarter from Rs. 15.53 billion to Rs. 23.84 billion.

For the full year, Revenue growth from the Chemical business was 1% which is Rs. 13.20 billion to Rs. 13.38 billion. From the Wind Turbine manufacturing business, Revenues went up by 63% which is Rs. 27.08 billion going up to Rs. 44.14 billion. From the Wind Farming business, Revenues went down by 14% from Rs. 1.95 billion to Rs. 1.67 billion. The Cinema Exhibition business, Revenues went up by 31% for the full year Rs. 10.16 billion going up to Rs. 13.32 billion. As a result of which aggregate Revenues for the full year went up by 35% from Rs. 53.40 billion to Rs. 71.98 billion.

As far as contribution of each of this business to the EBITDA is concerned, the Chemicals EBITDA for the quarter went up by 13% from Rs. 676 million to Rs. 765 million. EBITDA from the Wind Turbine manufacturing business went up by 84% from Rs. 1.7 billion to Rs. 3.1 billion. Wind Farming business EBITDA went down from Rs. 323 million to Rs. 154 million and the Cinema Exhibition business the EBITDA went up from Rs. 105 million to Rs. 150 million that is a growth of 43% as a result of which quarterly EBITDA for the GFL consolidated results went up by 46% from Rs. 2.80 billion to Rs. 4.10 billion.

For the full year EBITDA grew by 5% for the Chemicals business from Rs. 2.82 billion to Rs. 2.95 billion. EBITDA for the Wind Turbine manufacturing business went up by 52% from Rs. 4.56 billion to Rs. 6.91 billion. Wind Farming EBITDA went down by 24% from Rs. 1.75 billion to Rs. 1.34 billion. And EBITDA from the Cinema Exhibition business went up by 55% from Rs. 1.22 billion to Rs. 1.89 billion.

As far as the PAT contribution to the consolidated results are concerned. Chemicals PAT which was actually minus Rs. 25 million in Q4 of FY'15 went up to Rs. 301 million in Q4 of FY'15. For the full year Chemicals PAT went up from Rs. 796 million to Rs. 1.04 billion, that is a growth of 31%.

Wind Turbine manufacturing business PAT for the quarter was Rs. 1.17 billion which went up to Rs. 2.09 billion, a growth of 78%. For the full year the Wind Turbine manufacturing business PAT went up by 52% from Rs. 2.96 billion to Rs. 4.51 billion.

The Wind Farming business PAT was minus Rs. 219 million in the quarter FY'15 and this reduced to a Rs. 104 million negative in the Q4 of FY'16. For the full year the PAT for the Wind Farming business was Rs. 44 million which converted into a loss of Rs. 242 million for the full year FY'16.

On the Film Exhibition business, PAT which was minus Rs. 40 million in Q4 of FY'15 went up to Rs. 161 million in Q4 of FY'16 and for the full year the PAT improved from Rs. 200 million in FY'15 to Rs. 774 million in FY'16 a growth of 287%. As a result of which quarterly PAT which was Rs. 590 million in Q4 FY'15 went up to Rs. 1.47 billion in Q4 of FY'16, that is growth of 149% and the full year PAT was Rs. 3.1 billion in FY'15 went up to Rs. 3.93 billion in FY'16 that is a growth of 24%.

Now, since the Cinema Exhibition business and the Wind Turbine manufacturing business are listed on their own, we will just do a deeper dive into the Chemicals business alone.

And as I mentioned, Revenues in the Chemical business for the quarter went up from Rs. 3.4 billion to Rs. 3.5 billion that is a growth of 2%. EBITDA for the quarter from the Chemical business grew from Rs. 676 million to Rs. 765 million that is a growth of 13%. PAT improved from minus Rs. 25 million to Rs. 301 million, PAT margin is now 8.5% and EBITDA margin is about 21.6% from the Chemical business for the quarter. For the full year Revenues grew by 1% that is Rs. 13.20 billion to Rs. 13.38 billion. EBITDA grew by 5% Rs. 2.82 billion to Rs. 2.95 billion that is a growth of 5% as I mentioned EBITDA margin is improved from 21.4% to 22.1% and PAT improved from Rs. 796 million to Rs. 1.04 billion that is a growth of 31%. PAT margin from the Chemical business improved from 6% to 7.8%.

The Chemical business again as you are probably aware comprises essentially of four products - Caustic Soda, Chloromethanes, Refrigerant Gases and PTFE and then there are some other by-products as well. So if you were to look at the break-up of Revenues from each of these four Revenue streams in the Chemicals business - caustic soda sales went up from Rs. 655 million to Rs. 921 million in the quarter that is a growth of 41%. Chloromethanes sales Y-on-Y comparison for the quarter went down from Rs. 710 million to Rs. 590 million that is a fall of 17%. Refrigerants fell by 12% from Rs. 672 million to Rs. 594 million. PTFE fell by about 3% which is Rs. 1.2 billion to about Rs. 1.16 billion and by-products went up by about 15% as a result of which overall Revenues for the quarter from the Chemical business went up by 2% from Rs. 3.4 billion to Rs. 3.5 billion.

For the full year, the components of the various Revenue streams was Caustic Soda going up by 17%, Rs. 2.56 billion going up to Rs. 3.00 billion. Chloromethanes went down by 9%, Rs. 2.74 billion, down to Rs. 2.49 billion. Refrigerants went up by 27%, Rs. 2.04 billion going up to Rs. 2.59 billion. PTFE went down by about 16% that is Rs. 5 billion going down to Rs. 4.22 billion and other products went up by 31% as a result of which overall sales from the Chemical business which were Rs. 13.20 billion in FY'16 went up marginally by 1% to Rs. 13.38 billion in FY'16.

The volumetric data which we have shown in the presentation and I will just for the sake of brevity take you through the annual numbers FY'15 numbers, volumes Caustic Soda went up from 1,05,451 tonnes to 1,14,890 tonnes that is a growth of 9%. Chloromethanes volumes went up 5% from 62,820 tonnes to 65,837 tonnes. Refrigerant Gases volumes up by 22% from 11,748 tonnes to 14,307 tonnes and PTFE sales went down by 14% which is 9,219 tonnes going down to 8,054 tonnes but actually since these are standalone results this do not reflect the sales of PTFE made from our subsidiaries which is GFL GmbH in Germany and GFL Americas LLC in USA. If you include the sales of the subsidiaries, PTFE sales were around the same last year which is 8,624 tonnes for the full year.

On the pricing side again for the full year, Caustic Soda prices have gone up by 7%, Rs. 24,350 has gone up to about Rs. 26,115. Chloromethanes prices went down by about 14%, but that is more because Chloromethanes prices for FY'15 were an aberration - Rs. 43,707 has gone down to Rs. 37,793. Refrigerant Gases prices have improved for the full year by about 4% Rs. 1,73,914 going up to about Rs. 1,81,380 and PTFE prices, on a weighted average basis, because as you know PTFE we manufacture essentially two types of grades, the regular commodity grade and speciality value added grade, so the weighted average prices of PTFE fell down marginally by about 4% from Rs. 5,45,341 to Rs. 5,24,019.

The good news of course is raw material prices fell sharper than the fall in prices of PTFE. Salt prices fell by about 20% which is Rs. 1,441 per tonne to Rs. 1,146 per tonne. Methanol prices fell by about 18% from Rs.23,672 per tonne to Rs.19,400 per tonne for the full year FY'16. Fluorspar prices fell by about 15%, Rs. 23,918 per tonne down to Rs.20,270 per tonne and Coal prices fell by 10%, gas price by 8% from Rs. 3,804 per tonne to Rs. 3,491 per tonne and gas Rs. 861 per MMBTU down to Rs. 778 per MMBTU. So that is a snapshot of our Chemical business.

All of you would have followed our Wind Turbine manufacturing business as well but just for the sake of completeness, I will share with you the numbers for the Wind Turbine manufacturing business for the full year. Revenues went up from Rs. 27 billion to Rs. 44 billion that is a growth of 63%. EBITDA improved by 52% from Rs. 4.56 billion to Rs. 6.91 billion. EBITDA margin was 15.7%. PAT improved by 52% from Rs. 2.96 billion to Rs. 4.52 billion that is a growth of 52% and the PAT margin for the Wind Turbine manufacturing business stood at FY'16 at 10.2%.

On the Wind Farming business Revenues went down from Rs. 1.95 billion to Rs. 1.67 billion that is essentially because FY'16 represented a low wind year and this we believe is cyclical in nature. EBITDA fell from Rs. 1.75 billion to Rs. 1.34 billion that is a drop of about 24% and PAT fell from Rs. 44 million to minus Rs. 242 million and that as I said is more cyclical in nature because last year we believe was typically a low wind year.

On the Film Exhibition business, again for the full year, Revenues went up by 31% from Rs. 10.16 billion to Rs. 13.32 billion. EBITDA improved from Rs. 1.22 billion to Rs. 1.90 billion, that is a growth of 55%. EBITDA margin in the Cinema Exhibition business went up from 12.1% to 14.3%. PAT improved from Rs. 200 million to Rs. 774 million that is a growth of 287%. PAT margin in the Cinema Exhibition business went up from 2% to 5.8%.

On the Balance Sheet side, we remain extremely strong, the total Shareholder Funds of FY'16 were Rs. 29 billion, debt to equity is 0.2.

In terms of GFL's share price information, the 52-week high-low has been between 401 and 780, the price currently is about Rs. 523 which reflects about 14x of last year's EPS which is Rs. 35. In terms of Shareholding Pattern the Promoter and Promoter Group, holds about 68.33%, FIIs are about 4.02%, DII is about 3.88% and the balance 23.77% is held by the public at large, we have also given you the names of the key shareholders on the institutional side - both FII as well as DII.

So that ladies and gentlemen is a brief presentation by us and we would now like to open the floor for Q&A.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We take the first question from the line of Divyank Kapadia, an Individual Investor. Please go ahead.

**Divyank Kapadia:** Sir, in one of the conference call of Inox Wind, you have mentioned that the IRR on the Wind business for your customer there is anything between 15% to 20% - 24%. So what is the IRR on our own Wind business in the unlisted company which we have and why we are making losses there and when we will start getting IRR which we announced at the time of Inox Wind conference call?

**Deepak Asher:** Okay. I think you need to factor in two things; first of all when we talk about an IRR it is over the life of the project which typically is anywhere between 20 years to 25 years. Now obviously because significant part of IRR is dependant on wind which is natural phenomena and that could go up or down on a year-to-year basis by as much as 15% to 20%, it is nobody's case that you would get equity IRRs or say 20% on a year-to-year basis. So as a worst case IRRs could actually go down to zero or perhaps even slightly negative in a particular year which has lower wind but on the other hand it will go up to about 35% to 40% in the years that you have high wind. Energy estimates are based on a long-term projection and what the energy assessment studies reveal is over a long-term, and typically the wind cycle is about seven years to eight years, over the long-term the energy predicated is generated if your wind assessments are done credibly. And therefore, as I said while there could be year-to-year variations, you would see that kind of an IRR and those kinds of returns over the life of the project.

**Divyank Kapadia:** I understand the fact but the point we are in having our own captive business for may be last five - seven years in any case. So maybe you may not have exact data today, but still roughly can you indicate over these life of whatever life has gone through by now may be five years may be seven years whatever. What is the IRR we would have generated now?

**Deepak Asher:** As you rightly said, I do not have number with me right now but I can probably share that with you offline.

- Moderator:** Thank you. The next question is from the line of Sneha Talreja from Emkay Global. Please go ahead.
- Sneha Talreja:** Just wanted to know what have been the realizations for R22 gas quarter-on-quarter movement?
- Deepak Asher:** So on a quarter-to-quarter Refrigerant Gases in Q4 FY'15 compared to Q4 FY'16 fell marginally by about 8% it was Rs. 1,82,750 in Q4 of FY'15 and about Rs. 1,68,465 in Q4 of FY'16.
- Sneha Talreja:** And what was it in last quarter I mean, Q3 FY'16?
- Deepak Asher:** Q3 of FY'16 was 1,81,425 but you know frankly speaking sometimes this prices get distorted based on the mix of domestic versus export and also which export market we ship to.
- Sneha Talreja:** Okay. And sir, how much is the difference compare to export realizations, if you are importing, you are selling it in the domestic market and exporting it how much would be the difference in the realization?
- Deepak Asher:** No, I am sorry, that information is not available in the public domain, so we typically do not share that.
- Sneha Talreja:** All right. And how much is our percentage of going into exports the overall sales?
- Deepak Asher:** Around 60%.
- Sneha Talreja:** Around 60% is for exports.
- Deepak Asher:** That is right.
- Moderator:** Thank you. The next question is from the line of Paras Mehta from Enam Holdings. Please go ahead.
- Paras Mehta:** Yes, sir, this is Paras, here. Sir, I wanted to ask you on the Fluoro-Specialty business how that business is shaping up and could you give us a color on how is it looking forward?
- Deepak Asher:** Sure, I will request Mr. Jain to take that question.
- Vivek Jain:** Yes, you know our Fluoro-Specialty is business constitute of two lines – one is Fluoro-Specialty Polymers and another one is Fluoro-Specialty chemicals which goes for Agri and Pharma business. As far as the Fluoro-Specialty Polymers is concerned we have already started development. We have already developed three new products which grades are being fine-tuned and qualification process with customers also started. We see the Revenues from the Specialty Fluoro business to start flowing in from the last quarter of this Financial Year. And these are several products which products like FKM which is Fluoroelastomer PFE which is again a High Specialty Fluoropolymer, micro powers which go into different applications. So these are products which have already been developed and we are now under the qualification process

with the customers. In Fluoro-Specialty Chemicals I think as we have mentioned earlier we have got a R&D team together and we have currently developed several molecules and at least two - three molecules get to the commercial production by the last quarter of this financial year.

**Paras Mehta:** Okay, got it. So for both I think last quarter of this Financial Year can provide us with some clarity in that.

**Vivek Jain:** And this business is really going to unfold during the next Financial Year both the Fluoro-Specialty Polymers and the Fluoro-Specialty Chemicals but the platform has been set now and it is just a question of sort of getting the qualification process through and the ramping up of commercial production.

**Paras Mehta:** Correct. And sir, one more question on the PTFE as a market, how is that market shaping up, what was the growth or what was the de-growth in the overall market size and when are we going to see next leg of growth from that 8,600 tonnes which we did currently. Our capacities are close to 16,000 so how is going to be capacity ramp-up in this space?

**Deepak Asher:** Well we are already witnessing growth in our PTFE sales and we did about 65% capacity utilization for last year which is FY'16 we already, based on this quarter, are looking at about 70% capacity utilization this year so, are already witnessing that growth happening and based on what we are seeing in the market and based on the feedback that we get from a marketing teams across the globe. We expect to be at about 80% capacity utilization at an exit rate in March 2017 which would mean very broadly we should for the full year be at 75% capacity utilization, 70% is what we expect for this quarter and about 80% exit rate in the last quarter for this financial year and the 75% which is the average capacity utilization for this full year. We expect if things go well that for the full year of FY'18 we should be at around 90%. So I think over the next two to three years, we should be able to reach the full optimal utilization of the PTFE capacity.

**Paras Mehta:** And how will the mix look like in 2017-2018 and 2019 between regular grades versus value-added?

**Deepak Asher:** Again, if you look at how the mix historically has been in FY'15, we did about 70-30 and this improved to roughly 57-43 precisely for FY'16. We expect for this year will be at about 55-45 for the full year which is FY'17 and this could potentially go up to around 50-50 in FY'18.

**Paras Mehta:** Okay. Sir, one question on Inox Renewables Limited, can we get the PLFs for the Inox Renewables Limited...

**Deepak Asher:** I assume you are asking for the PLF for the Wind Farms on which Inox Wind Turbines are installed as distinct from the ones in which the Suzlon and Vestas Turbine have installed?

**Paras Mehta:** Yes.



- Deepak Asher:** Yes, again I do not have that number in front of me but I could probably share that with you offline.
- Moderator:** Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.
- Ranjit Cirumalla:** A couple of questions from my side, we have seen a ramp-up happening in the PTFE sales in the fourth quarter, just wanted to get a sense how sustainable this is?
- Vivek Jain:** Well it is sustainable, you know this is the culmination of all the effort which have been put in the last one to two years in getting trials done at customer getting the product qualified and development of grades so, this is quite sustainable and this hopefully as we ramp-up our sales to customers were we already have got in. We would see the ramp-up in overall capacity utilization as just mentioned by Mr. Asher.
- Ranjit Cirumalla:** Just wanted to get more the ramp-up is on account of addition of new clients or more offtake from the existing client?
- Vivek Jain:** Both. We are adding new clients as well as increasing our percentage with existing clients.
- Ranjit Cirumalla:** And the realization is more or less steady or it has also started improving?
- Vivek Jain:** At this point of time, I would say steady, I mean we have the weighted average price is steady there would be some change as the product mix changes in the next one to two years but that is where we are at this point. I do not see a significant price improvement in the next one year.
- Ranjit Cirumalla:** On the Caustic Soda front can you just say, what is the capacity utilization and how this segment can ramp-up in the future?
- Deepak Asher:** We are at full capacity utilization on Caustic Soda.
- Ranjit Cirumalla:** Okay. So going forward then volume growth is possible in this particular segment because we are seeing a turnaround or probably the realizations are up 20% so wanted to have some sense whether these are sustainable or one-off in the realization front?
- Vivek Jain:** Caustic Soda is the commodity chemical as you know, prices keep on fluctuating but at this point of time we see a robust demand and at least for the near future we expect prices to remain stable.
- Ranjit Cirumalla:** And sir, last question on the Chloromethanes front, we were the ones to file the Anti-Dumping Duty and I think it has been notified so when it would get implemented and if it gets implemented how much benefit can be there for us?

- Vivek Jain:** As you know the implementation takes some time you know it happens over phases but we are already seeing improvement in the overall pricing of Methylene Dichloride and I think it will take another two - three months for the full price realization to unfold.
- Ranjit Cirumalla:** Two months to three months is what you are telling?
- Vivek Jain:** Yes, I would expect that.
- Ranjit Cirumalla:** Probably then 2Q onwards we should start seeing some revival.
- Deepak Asher:** We hope so, yes.
- Ranjit Cirumalla:** Okay. And my final question on the Refrigerant front sir, would it fair enough that the decline in realization on a weighted average which we have seen is more on account of exports then the domestic realization?
- Deepak Asher:** Sir, I think it is more to do with the mix but if you look at the price realization on Refrigerants for the full year it has actually gone up marginally not significantly but it has not gone down, it has gone up by about 4% which is 1,73,000 going up to about 1,82,000.
- Ranjit Cirumalla:** On annual basis, it is more to do with the domestic or just wanted some color on that particular, I am not looking for any exact numbers.
- Deepak Asher:** There is a slight improvement in export prices.
- Ranjit Cirumalla:** In the Q 4?
- Deepak Asher:** Yes.
- Moderator:** Thank you. The next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.
- Tejas Sheth:** I just wanted to understand how we see the growth in our Refrigerant Gases going ahead on the volume side considering that we still have a large capacity which is unutilized.
- Vivek Jain:** Yes, well, as far as HCFC22 is concerned there will be some improvement in the domestic market and I think for the next one or two years we will see some improvements in the overall export quantities also, but after that they will move down in line with the phase out which is going to happen in HCFC22 worldwide.
- Tejas Sheth:** So this year we saw volume growth of 22% I mean can we expect a double-digit volume growth in coming years?
- Vivek Jain:** Difficult to say but you know I am sure that we will be able to maintain it for the next one to two years.

- Tejas Sheth:** Okay. Secondly, how we see the CAPEX in coming years?
- Vivek Jain:** See CAPEX will only take place now for Fluoro-Specialty Polymers which is only a limited amount and after that all our CAPEXs in the Fluoropolymer business will be over and this would be to the tune of may be about Rs. 75 crores to Rs. 80 crores.
- Tejas Sheth:** Rs. 75 crores for this year and next year any?
- Vivek Jain:** I think the last of the investment we are making Fluoropolymers and this is essentially to make further specialty Fluoro Polymers which we are getting into. Why there is a limited investment because we will also be utilizing some of the CAPEXs which have already been made in the past.
- Tejas Sheth:** Okay. So over how much sir, we have invested in Fluoro-Specialty segment?
- Vivek Jain:** Fluoro-Specialty Polymers after this Rs. 75 crores may be we would have invested close to about Rs. 100 crores.
- Tejas Sheth:** And on the Specialty Chemicals which goes into Agri and Pharma what traction we have seen there?
- Vivek Jain:** Well as I said, we have already got our R&D teams together we are already in the process of developing molecules for several companies worldwide. We have already developed and commercialized two - three processes and we expect commercial production of these two - three chemicals to start from the last quarter of this financial year.
- Tejas Sheth:** Okay. And there how much investments we have done?
- Vivek Jain:** We have done a total of about including all our labs, etc., it would be about close to about Rs. 60 crores - Rs. 70 crores.
- Tejas Sheth:** Okay. Sir, and lastly on Inox Renewables what is the outstanding debt?
- Deepak Asher:** I think it should be in the tune of about Rs. 1,100 crores.
- Tejas Sheth:** Okay. And the performance was very weak in this quarter on Y-o-Y basis, the reason being?
- Deepak Asher:** That is correct, as I said this was an exceptionally bad year as far as wind is concerned, we expect that to be that an aberration rather than a long-term trend.
- Tejas Sheth:** Okay. And we are not making more investments in this segment, are we going to be in FY'17?
- Deepak Asher:** We have about 253 megawatts operational. We do not intent to invest any more money from GFL. Just to share with you we have mandated investment banks to see if there is a possibility of raising private equity for that business. As you know we own 100% of that business, if that

can happen at a valuation that makes sense then there might be a feasibility of expanding that business based on external capital.

**Moderator:** Thank you. The next question is from the line of Divyank Kapadia an Individual Investor. Please go ahead.

**Divyank Kapadia:** Sir, I have been listening your conference call for last two to three years and generally my impression was that our Specialty business TFE and all that would really be highly profitable business then we will really be jumping on that but if you look at this year performance basically it is a commodity caustic which has given the profit while other business virtually nowhere to talk about. So could you just broadly give an idea where do we see our profitability of the real investment which we have made coming up in Chemical. If you allow me one or two more questions on wind. Do we have a plan to export our Wind Turbines? And do we also work on Wind Turbines which are being put in the sea.

**Deepak Asher:** So let me deal with Inox Wind Limited related questions, first. Your question was do you plan to export the Wind Turbines? Frankly speaking, the market in India is very-very robust as you might know last year which is FY'16, we had a 50% growth over FY'15 at a national market level. So in terms of total installation we had about 3,400 megawatts being installed which is a highest ever installation seen at any time earlier. In fact, India is amongst the top three wind countries in the world. This year also based on third-party estimates like CRISIL we expect anywhere between 20% to 25% growth for FY'17 the market is expected to be anywhere between 4,000 megawatts to 4,500 megawatts. Not only the total market growing but our share of the market is also growing significantly in fact our market share now stands at about 23% and the top three suppliers control about 80% of the market so there is apart from the growth in the market consolidation happening and hence at this stage there is really no pressing need to look at the export markets which is not to say that we never would but there is so much opportunity in India at this stage that necessity does not arise.

**Divyank Kapadia:** No, the reason I am asking sir, is in the Wind Conference Call you mentioned that this year you are expecting a turbine business of around 1,100 megawatts while your installed capacity now is 1,600 megawatts. I understand you may not be able to operate at the full capacity but still I think that has some surplus capacity available and I am sure, if you want you can always expand your capacity further at an incremental investment which could be obviously much more productive.

**Deepak Asher:** We take the suggestion but at the same time, I think it is not just the manufacturing business or a supply business you also need to do project development, you need to do project execution, you need to do operation and maintenance, you got to handle all those aspects of the business and at this stage we feel comfortable doing about a 1,000 megawatts to 1,100 megawatts and obviously we will look at the export market as and when the opportunity arises or as and when we feel it is appropriate to look at it. But right now the Indian market is strong and robust enough for us to focus all our energies and attention on that. The second question you have asked again in relation to the Wind business whether you are looking at offshore installations? Actually no,

not at this stage for sure, for essentially two reasons – offshore Wind Energy is much-much more expensive and again based on that estimation, looks at least 3x to 4x more expensive than onshore Wind resources and hence, it will be commercially unviable to look at those kinds of investments. Typically, you do offshore only when you have run out of land resources. So if all your viable land sites have been taken up then you may want to look at offshore. Now we are far away from there. The most conservative estimates of land available for Wind Farm development is C-WET which is a wing of MNRE estimate which puts the land available at about 3,00,000 megawatts. More aggressive estimates put the land bank available at about 9,00,000 megawatts and considering the fact that we are only at about 25,000 megawatts to 30,000 megawatts right now that means we have enough land at least for the next 100 years possibly for the next 30 year to 40 years so there is no real reason to look at offshore, which, as I mentioned, is much more expensive.

Coming back to your question on the Chemicals assistance – frankly speaking, we believe that the investment that we have made should generate good returns over the next two years to three years' time for a variety of reasons. First of all, as I mentioned, we were at roughly about 60% capacity utilization last year and we expect that to improve to around 75% for this year on an average. 70% is what we have already witnessed this year and we expect this to go up to about 80% exit rate by the end of this Financial Year and then on average of about 90% capacity utilization in next year. So on the core business which is PTFE, because of higher productivity not only there will be higher contributions but also because fixed overheads will get shared by larger volumes operating leverage will kick-in which should also improve our margin profile on the Chemical business. We also expect some improvement because of the churning of the product mix in favor of the higher value-added grades and as I mentioned, we expect the mix to improve in favor of the Specialty PTFE grades going forward which would help in improving realizations as well as adding to bottom-line. And thirdly, our effort and our investments in the Fluoro-Specialty Chemicals business as well as the Specialty Fluoropolymer business should also kick in over the next two to three years' time and hence, we are looking at a significant improvement in profitability going forward.

**Divyank Kapadia:**

No, sir, I appreciate that, the future looks promising the only reason why I asked this question was if you knock-off the super profit we made on caustic this year which as you rightly said it is commodity and you never can rely on that profit, then basically, our basic business on Chemicals has gone down this year.

**Deepak Asher:**

Well it is not correct to say that all the profits come only from Caustic Soda actually it is one integrated value chain as you might know Caustic Soda makes as a core product Chlorine which goes into our Chloromethanes facility. In the Chloromethanes facility we make Chloroform which goes into the HCFC22 facility and HCFC22 used as feed stock in the production of PTFE. So you need to look at the profitability of the entire value chain rather than bits and pieces.

**Divyank Kapadia:**

No, that I agree sir, what I am trying to understand is that if you look at Caustic Chlorine then Caustic Chlorine had basically profit have come from Caustic and then onwards if you remove that Caustic profit then the entire value chain this year may be there is some problem I am not

trying to blame anybody for that but maybe there is some market problem or something whereby the profitability on the other part of the chain Chlorine onwards has not been up to the mark that is what I am trying to say.

**Deepak Asher:** That is not correct, unfortunately, I do not think you have numbers to justify or to arrive at that kind of conclusion because you know we have not shared profitability of each of this products separately so I am really not sure as to what basis you are concluding that. All I can say is that, based on the data that we have, that is not a conclusion that is warranted. The profitability has also been contributed by for example Methylene Dichloride, by HCFC22 as well as PTFE.

**Moderator:** Thank you. The next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.

**Chetan Thakkar:** Just wanted to understand what is the difference in gross margin between your commodity grade PTFE and the value added PTFE?

**Deepak Asher:** Around 30%.

**Chetan Thakkar:** Around 30%?

**Deepak Asher:** Right.

**Chetan Thakkar:** So if your commodity grade PTFE would be ten in terms of contribution to the gross margin the specialized grade is 40% is that correct or is it 30% higher than the 10%?

**Deepak Asher:** Yes, you are right more or less around that. Again you know frankly, you cannot put a definite number to this because there are various sub-grades in the commodity grades as well as there are various sub-grades into specialty grade so we are just kind of doing a very broad of...

**Chetan Thakkar:** Sure, I am looking for the broad number itself.

**Deepak Asher:** That is right, so your number would be broadly correct.

**Chetan Thakkar:** And on the PTFE overall what is the capital employed so far?

**Deepak Asher:** See again if you look at the total capital employed across the Chemical business because many of these Refrigerant plants and the Chloromethane plants were set-up essentially to provide feedstock to PTFE. So the overall capital employed on the entire Chemical business is about Rs. 2,500 crores which comprises of about Rs. 2,200 crores of CAPEX and about Rs. 300 crores of working capital.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments.

**Deepak Asher:** Well once again on behalf of the Board of Directors and the Management of Gujarat Fluorochemicals Limited we would like to thank all participants, investors and analysts who have taken your time attend this call and to follow and track the Company. We would look forward to your continued support going forward as well. And as we mentioned, we expect over the next couple of years an improvement in both top-line as well as bottom-line as we ramp-up capacity utilization on the PTFE side and we also see our Fluoro-Specialty Chemicals business and the Fluoro-Specialty Polymers business adding to our Revenues as well as Profitability. Thank you very much.

**Moderator:** Thank you members of the management team. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.