

“Gujarat Fluorochemicals Limited Q1FY18 Earnings Conference Call”

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MODERATOR: **MR. PRASHANT TARWADI - AXIS CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Gujarat Fluorochemicals Limited Q1 FY18 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. In case 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 the conference over to Mr. Prashant Tarwadi from Axis Capital. Thank you and over to you, sir.

Prashant Tarwadi: Thank you very much. On behalf of Axis Capital, I welcome all participants on the con-call of Gujarat Fluorochemicals Limited. Today we have with us, Mr. Vivek Jain – Managing Director, Mr. Deepak Asher – Director & Group Head (Corporate Finance) and Mr. V. K. Soni – Head of Projects & New Initiatives. They will start with the overview of the quarter ended Q1 FY18 and then later we can switch to question and answer session. Thanks a lot gentleman and over to you, Deepak Ji.

Deepak Asher: Thanks Prashant. Very warm welcome to all of you who are attending this call. I am happy to inform to you that the Board meeting of the company concluded this afternoon has approved the results for the Q1 of FY18, which is the period April to June 2017 and we have uploaded this results on the websites of the Company as well as the Stock Exchanges. We have also uploaded along with the results and earnings presentation which I proposed to take you through and then as Prashant mentioned we will open it up for questions and answer session.

I will start by giving you the key operational highlights as far as the performance of the Company is concerned and as I mentioned because we are looking at Q1 results we will do a Y-on-Y comparison which is will compare April to June 2017 with April to June 2016 and hence any percentage comparison that I will do will be as I mentioned between these 2 quarters. On the chemicals business, there has been a significant improvement in this segment lead essentially by higher sales in the PTFE and the value-added products segments. PTFE volumes in fact are up 31%. Chemical business revenues are up 25%, EBITDA is up 32% and PAT is up 91%. On the wind turbine manufacturing business results but impacted due to a temporary down turn in Indian wind power market as a result of the transition from the preferential tariff base market to an option base market regime.

The wind farming business, revenues were up 25%. EBITDA was down 35% but this is not strictly comparable because as you might know we have sold off the significant part of assets in Inox Renewables Limited to Leap Green and hence the comparison on YoY basis not really apple-to-apple. We have substantially as I mentioned exited the wind farming business by selling 246 megawatts out of the 269 megawatts that we had operational. And on the film exhibition business we are now present in 58 cities, 119 properties, 476 screens and 119,395 seats. In this business revenues were up 15%, EBITDA was up 22% and PAT was up 29% essentially driven by strong content and a healthy growth in advertising income.

So those are the snap shots of the operational highlights, I will take you through the financial numbers as well. First of all, comparison of the consolidated results. Consolidated revenues in Q1

FY17 were Rs 1,120.6 crores and in Q1 FY18 were Rs 1,085.2 crores that is a drop of about 3%. EBITDA from Rs 230.8 crores to Rs 204.9 crores that is a drop of 11%. EBITDA margin from 20.6% came down to 18.9% and PAT fell by 9% from Rs 64.1 crores to Rs 58.7 crores. PAT margin from 5.7% to 5.4% and this as I mentioned were the consolidated results. If you look at the breakups, the breakup primarily would comprise of 4 different segments, the chemicals business which is conducted by Gujarat Fluorochemicals Limited within the Company. The wind turbine manufacturing business which is conducted by a separate listed company Inox Wind Limited. The wind farming business which is conducted by 100% unlisted subsidiary of Gujarat Fluorochemicals Limited and the film exhibition business which is conducted by Inox Leisure Limited, again a separate listed company.

So, the revenue breakups across these 4 different segments were, in the chemical business revenues went up by 25% from Rs 400.3 crores to Rs 502.3 crores. On the wind turbine manufacturing business revenue fell from Rs 435 crores to Rs 106 crores. On the wind farming business revenue is went up by 25% from Rs 61.5 crores to Rs 76.6 crores. On the film exhibition business revenue is went up by 15% from Rs 336.9 crores to Rs 387.4 crores. As a result of its overall revenues as I mentioned earlier fell from Rs 1120.6 crores to Rs 1085.2 crores that's by 3%. The breakup of the EBITDA across this different segment has been, in the chemical business EBITDA went up by 32% from Rs 79.5 crores to Rs 104.5 crores, on the wind turbine manufacturing business EBITDA fell from Rs 45.7 crores to minus Rs 13.3 crores. On the wind farming business EBITDA fell from Rs 52.6 crores to Rs 34.4 crores but as I mentioned this is not apple-to-apple because the wind farming business was substantially exited during the year. In the cinema exhibition business EBITDA went up from Rs 62.1 crores to Rs 75.9 crores that an increase of 22%, as a result of which total EBITDA went down from Rs 230.8 crores to Rs 204.9 crores.

On the PAT side, PAT from the chemical business increased from Rs 33.2 crores to Rs 63.3 crores that is an increase of 91%. PAT from the wind turbine manufacturing business fell from Rs 11.8 crores to minus Rs 39 crores. PAT from the wind farming business fell from Rs 3.2 crores to minus Rs 1.4 crores and PAT from the cinema exhibition business increased from Rs 25 crores to Rs 32.1 crores that is an increase of 29% as a result of which overall PAT fell from Rs 64.1 crores to Rs 58.7 crores, there is a drop of about 9%. Now that was the breakup of the total revenues EBITDA and PAT. If one were to focus purely on the chemical business and so far, is the standalone results were concerned, revenues as I mentioned increased by 25% from Rs 400.3 crores to Rs 502.3 crores. EBITDA increased from Rs 79.5 crores to Rs 104.5 crores that is an increase of 32% as a result of its EBITDA margin improved in the chemical business from 19.9% to 20.8%. PAT increased by 91% from Rs 33.2 crores to Rs 63.3 crores as a result of its PAT margin improves from 8.3% to 12.6%.

Now if one were look at the breakup of the revenues in the chemical business, this comprises of essentially 5 or 6 products streams. Caustic soda revenues went up by 7% from Rs 92.5 crores to Rs 99.2 crores. Chloromethane revenues fell down from Rs 61.9 crores to Rs 57.1 crores that is a drop of 8%. Refrigerant gas revenues increased by 14% from Rs 82.3 crores to Rs 93.8 crores. PTFE revenues increased by 43% from Rs 135.1 crores to Rs 192.9 crores. Value added products increased from Rs 4 crores to Rs 29.4 crores and other products essentially byproducts increased

from Rs 24.5 crores to Rs 29.9 crores. As a result of which total revenues in the chemical segment increase from Rs 400.3 crores to Rs 502.3 crores that is an increase of about 25%. I won't take you through the details on the Wind Turbine manufacturing business because as I mentioned it is a separate listed company and those of you who would be following this company would have also follow the earnings call that we had a couple of days ago. As well as the exhibition business which again is the separate listed company and again those of who would be interested would have follow that earnings call as well a fortnight ago.

On the shareholding information, the current price of share is Rs. 755 leading to a market cap of roughly about Rs 8,300 crores based on above 11 crores share these are outstanding. Key institutional investors include Reliance Capital, UTI Mutual Fund, Fidelity Investments, Reliance Nippon Life Insurance and Birla Sun Life Mutual Fund. In terms of breakup of shareholding promoters continue to own about 68.33%, domestic institution 3.64%, foreign institution 3.78% and public and others are at about 24.1%.

So that ladies and gentlemen, is the snapshot of our operating and financial performance. I would now like to open it for any questions that you might have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin 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. The first question is from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.

Ketan Gandhi: Have we started procuring Fluorspar from our own mine?

Deepak Asher: The mine is under commissioning and I think that will probably start from the end of August.

Ketan Gandhi: Sir in financial, we have some other expenses gone up from Q4 Rs 66 crores to Rs 85 crores, around Rs 20 crores jump. Is it one-off or is it normal?

Deepak Asher: I will just try and figure that out. Are you talking about standalone?

Ketan Gandhi: Standalone, I am just talking about standalone.

Deepak Asher: Then I think it is about Rs 13 crores worth of shutdown expenses that were in this quarter. Ideally it should have been amortized over the year but accounting principles required us to charge it in this quarter itself.

Ketan Gandhi: And sir, can you give the breakup of PTFE tonnage and price realization.

Deepak Asher: I will see if I have it handy. So in terms of volumes PTFE went up by about 31%, the volumes we did in the first quarter last year was about 2,659 tonnes, this quarter we have done 3,477 tonnes and in terms of pricing the average price was about Rs. 5,36,000 per tonne this quarter compared to about Rs. 4,92,000 last quarter, so that is an increase of about 9%.

- Ketan Gandhi:** And specialty grade , tonnage volume wise, volume and price
- Deepak Asher:** In terms of the commodity and specialty the breakup was 2,028 of regular grade and about 1,500 tonnes specialty grade.
- Ketan Gandhi:** Is it possible to share the pricing for specialty grade?
- Deepak Asher:** I do not have that handy but the prices are indicated to you was the weighted average of both.
- Ketan Gandhi** Sir, have you received the money for wind farm, which we sold off?
- Deepak Asher:** We will receive it partially because there were about 9 different projects in different states and there are milestone payments for transfer of land, transfer of PPA and transfer of permissions. So, when each of this is happening for each of these projects we will receive the money, we already begun receiving it. But we believe that over August and September we should get all our cash flow from that sale.
- Ketan Gandhi:** Sir in financial there is loan, I mean debt has increased by Rs 200 crores and simultaneously reflecting loan is given, I think it is a related party transaction?
- Deepak Asher:** Yes, that was in a sense loan given to Inox Renewables Limited to get over some of the permissions that were required for the exit. That again will be recouped as soon as its money from Leap Green is received.
- Ketan Gandhi:** Sir, as far as Inox Wind Limited is concerned we have to get down our promoter holding from presently from 85% to around 75%. What is the management thought process on that?
- Deepak Asher:** Again, we are looking at different options as you might be aware SEBI allows 6 different ways that you can increase your public holding from 15% to 25%, we have already in discussion with our investment bankers and we will pursue one of these different ways. In all probabilities might well be an offer for sale but as I said we will take that decision at an appropriate time. We are required to do that by April next year and hence we have about 7 to 8 months to do that.
- Ketan Gandhi:** And sir, my last question is, in sometime in May we have written for enhancement of our production capacity at Ranjitnagar. There was some environmental clearance that was required. Did we get that environment clearance?
- Vivek Jain:** No there is some amount of delay in that environment clearance and we hope clearance comes up in the next 2 months. It will be taken it back to the MOEF.
- Ketan Gandhi:** Does that affect our expansion plan or we have accounted?
- Vivek Jain:** No, there might be some delay, there is going to be a delay of couple of months but beyond that we do not think it should impact adversely the plan which we have.

- Ketan Gandhi:** And sir, your view on the business going forward, especially PTFE and specialty grade.
- Vivek Jain:** Well, the fluoropolymer business is looking quite robust at this point of time and for instance in this quarter we are almost running at full capacity and we still have additional demand coming in from our existing customers as well as new demand coming from new customers for some of the new grades which we have been developing. So we are actively looking now at increasing our capacity both in TFE as well as PTFE to be able to meet the growing requirements of our customers in the next year. So we hope to complete expansion in phases from December to March next year.
- Ketan Gandhi:** And sir, do you see our specialty grade and commodity grade turnover getting 50-50 by end of this year
- Vivek Jain:** Yes, it will that is what we are planning for that even with the additional capacities of PTFE which we will be building the idea is that by the end of next year December 18 we will be at 50%-50% even on the expanded capacity of PTFE which we will have by then.
- Ketan Gandhi:** You mean to say next 6 months?
- Vivek Jain:** By December 18, we will end up with almost a 50%-50% ratio between granular grades and the specialty grades, even on a higher sales of PTFE by that time.
- Ketan Gandhi** **Thank you**
- Moderator:** Thank you. We have the next question from the line of Arpit Doshi from B&K Securities. Please go ahead.
- Arpit Doshi:** Just a few data points that I require, you used to give out it in the presentation earlier. Can I have the volume and the realization data points on Caustic Soda, Chloromethanes and Refrigerants like you gave out for PTFE earlier.
- Deepak Asher:** Well no, we do not have that handy, we will need to access them.
- Arpit Doshi:** Can I drop in a mail later for this?
- Deepak Asher:** Sure.
- Moderator:** Thank you. Anyone who wishes to ask question may press * and 1 on touch phone. We have the next question from the line of Viral Shah from Enam Holdings. Please go ahead.
- Viral Shah:** Sir, firstly on your financials on the consolidated financials Note #6 we have mentioned that as per the business transfer agreement some economic benefits have been transferred to Ivy Ecoenergy and accordingly for the quarter other expenses include a provision of Rs 24 crores and Rs 7 crores. Could you clarify exactly what this pertains to?

- Deepak Asher:** Sure. As you are aware we have sold our wind farming business to these companies which are SPVs of Leap Green which is a JP Morgan Invested entity. The process of transferring typically takes around 6 months, this is because there are lender consent involved, there are regulatory permissions and again there are PTA transfers and land transfers to be done and what was commercially agreed with Leap Green as a part of that transaction was that regardless of how long that process takes the economic benefits of owning the wind farms from the first of May onwards would belong to them and therefore from an accounting perspective while we still account for the revenues on the revenue side and the expenses on the expense side, the net income of these projects sold to Leap Green from the 1st of May onwards actually belongs to them and therefore we owe Rs 32 crores to them out of this and that is what has been provided for. So in the Inox Renewables Limited's profit and loss account we would still see the income for the 3 months and the expense for the 3 months but the income less expense for 2 months which is from first may onwards is expensed out because we owe it to them.
- Viral Shah:** Sir, thank you for clarification. Another question I had was in the presentation this time we have separated out other value-added products revenue as Rs 30 crores. So could you just highlight a bit on what these products are and how is the ramp up schedule there and where are we expecting to go on these products in the next couple of quarters?
- Vivek Jain:** These are all the new fluoropolymers which we have earlier spoken about and these includes products like PFA, FKM, FEP, R410, and EDFA. So these are some of the products which are featuring in there and we see expansion of all these products going forward in the next few quarters as few more in the pipeline like PVDF, FEP, micro powders for which most of the development work has been completed. Samples are now been sent across to customers across the globe and we will start seeing these products picking up as we go along in the next few quarters.
- Viral Shah:** And sir lastly my final question is on the PTFE volume side. Do you think the current quarter run rate is sustainable and how do you see that going forward in the next 6 months?
- Vivek Jain:** It is quite sustainable, in fact as I just mentioned few minutes back, we are further debottlenecking expanding our capacity both for TFE and PTFE because we anticipate the volumes going forward will be higher than what we are currently doing.
- Moderator:** Thank you. We have the next question from the line of Chetan Thakkar from ASK Investments. Please go ahead.
- Chetan Thakkar:** Good evening. I want to understand the CAPEX outlay for FY18 and 2019?
- Vivek Jain:** For 2018 and 2019, I think there is not going to be anything significant maybe about Rs 50 crores to Rs 75 crores going forwarding or may be up to Rs 100 crores going in 2018 and 2019. Most of our CAPEX for Dahej will get over with this. So, all our new plants facility is expansion of PTFE, TFE, etc., will all get completed by end of March next year.
- Chetan Thakkar:** Sir how much will be the spending in FY18 itself?

- Vivek Jain:** FY18, we will be spending something like about Rs 200 crores to Rs 250 crores.
- Chetan Thakkar:** And that will add total capacity of?
- Vivek Jain:** No, it will be an enhancement of capacity of PTFE and all these other products which we are talking about like PVDF, VDF, FKM, PFA, FEP, micro powders and another product R225 and R125, 410 so all these products will be included in this Rs 250 crores which we approximately CAPEX will be there this year, during this financial year.
- Chetan Thakkar:** And sir, the asset turn on this would be how much?
- Vivek Jain:** I do not have a number off-hand but these are fairly high value-added products and the investment which we are making is not very significant. So, I think there will be a pretty healthy asset-to-turnover ratio here, more than 2 times.
- Chetan Thakkar:** So, ROC over here should certainly be more than 25%-30% ?
- Vivek Jain:** Yes, next year going forward 2018-19.
- Moderator:** Thank you. Anyone who wishes to ask question may press * and 1 on touch phone The next question from the line of Amol Kotak from Enam Investments. Please go ahead.
- Amol Kotak:** Sir, you mentioned Rs 13 crores of some one-off expense, could you please elaborate on that?
- Vivek Jain:** Yes, those are our annual maintenance shutdown which we take in the first quarter of the financial year. Actually, that in a way is the expense which has to be amortized over the entire year. But I think as for accounting practices we have to book all of that in the month in which we actually spend it. So this has come in this quarter, so that is the reason why that has to be sort of expensed out during this quarter. Had it been amortized the profitability would have been higher.
- Amol Kotak:** And sir you mention your mines will start in end of August, so how much of your requirement will come from mines then?
- Vivek Jain:** Well, may be about half, 50% because our requirement is now going to expand because of the fact that we are now expanding our capacities for fluoropolymers business. So, our requirement will increase as a result of which this will cater to about 50% of our requirement.
- Amol Kotak:** So, what sort of saving are you looking from this mine commissioning?
- Vivek Jain:** This is more essentially for ensuring that this is strategic raw material for our business and we just had to be sure that we are secure in the availability of fluorspar going forward. So, that was the primary intent. But in terms of the IRR on the project which we are putting up will be something like about 30%-35% will turn in equity.

- Amol Kotak:** Sir, one question on the financials, your tax rates for the quarter is low at 22%. So, any particular reason behind that?
- Deepak Asher:** The part of the profits included investment gains which were not taxable and also there was a 80-IA benefit on our captive power plant which essentially reduce the effective tax rates.
- Moderator:** Thank you. We have the next question from the line of Hansal Thakkar from Lalkar Securities. Please go ahead.
- Hansal Thakkar:** Hi Sir, I have just two questions. There was some recent newspaper article with reference to certain anti-dumping duty on PTFE, can you just give a brief oversight us to what would be the impact of that for us?
- Vivek Jain:** Anti-dumping duty was always levied and had been there even in for the past 5 years. So, nothing new has changed, it is only that it has been extended for another 5 years. So, certainly it gives protection from cheap Chinese imports were they too happen. So, in a way it is not really going to have any significant impact on the business, it has always been there.
- Vivek Jain :** But to that extent it is good that for another 5 years we have protection from cheap Chinese imports.
- Hansal Thakkar:** And sir the second question was, recently one of your competitors reported numbers as well as Chemorse and it seems that they are gaining significant traction from a certain fluorochemical HFO, are we doing anything along those lines?
- Vivek Jain:** No, we are going to make a product in our specialty chemicals which is an intermediate to the HFO. But the reason why they have reported very good results is because they have the application patent rights globally for those products just like Dupont, Chemorse, and Honeywell. So, that is the reason why their reported numbers are very good. These patents continued till about 2025, so really speaking any of us gets into HFO will not be able to ultimately sell in the market till such time that the patents are there.
- Hansal Thakkar** **Thank You.**
- Moderator:** Thank you. Ladies and gentlemen, as there no further questions from the participants, I now hand the conference over to the management for their closing comments. Thank you and over to you.
- Deepak Asher:** On behalf of the Management, I would like to thank all of you for your interest and look forward to your continued support. Thank you.
- Moderator:** Thank you very much. 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.