Gujarat Fluorochemicals Limited
Q1-FY16 Earnings Conference Call
July 30, 2015

Moderator: Good morning ladies and gentlemen, welcome to the Gujarat Fluorochemicals Limited Q1-FY16 earnings conference call.

Bhavin Vithlani: Thank you, Vikram. On behalf of Axis Capital we would like to welcome everyone for the first quarter FY-16 earnings conference call of Gujarat Fluorochemicals Limited. From the management we have with us Mr. Deepak Asher - Director and Group Head (Corporate Finance) of INOX Group of Companies; and Mr. V.K. Soni - Head of Projects and New Initiatives.

Deepak Asher: Thank you Vikram and Bhavin. On behalf of the Board of Directors and the management of Gujarat Fluorochemicals Limited we extend a very warm welcome to all of you to this conference call of Gujarat Fluorochemicals Limited to discuss the Unaudited Financial Results for the first quarter of the Financial Year 2015-2016.

Before we get on to the discussion about financial performance, let me give you quick information about ourselves. For those of you are not familiar, GFL is a part of the INOX Group which has diversified business interests and significant leadership positions across different verticals including industrial gases, engineering plastics, refrigerant, chemicals, cryogenic engineering, renewable energy and entertainment. The Company which historically has been a refrigerant producer crossed a major milestone in 2007 when we forward integrated into PTFE by commissioning one of the world's most integrated and cost competitive PTFE manufacturing facility at Dahej in Gujarat. This facility currently has a capacity of 16,200 metric tonnes, which makes it by far the largest in India and amongst the largest in the world. In addition to this forward integration we also backward integrated into Chloromethanes and Caustic Soda and Chlorine. Not only does this make us one of the most cost competitive producers of these products but we are also the country's largest chloromethane producers and the country's largest refrigerant producers today.

The key strength that we see in our chemical business are a world class integrated PTFE manufacturing facility providing cutting edge cost competitiveness to make high quality PTFE. Strong technology capabilities to produce not only a wide range of PTFE regimes that enjoy global acceptability but also provide a launching pad for entering into the fluorine and TFE based Fluorochemicals.

Our diverse customer base across various industries with the largest customer accounting for less than 5% of our total turnover, and finally high customer engagement and customer retention rates.

Going forward in terms of strategy and outlook the focus will be on improving capacity utilization and operational efficiencies with major capex already incurred for setting up the PTFE facility there will be minimal capex over the next two years to three years. Having successfully passed the stringent customer evaluation and product acceptance process of major customers over the past two year or three years we expect capacity utilization to improve from 60% to 100% over the next two years to three years. Higher capacity utilization and increased contribution from the higher value added PTFE grades will result in a positive operating leverage and improvement in our operating margins.

The Company would also be focusing on HF and TFE based fluoro specialty chemicals to cater to the pharma and the agro chemical industries. The surplus TFE capacity from the recent bottlenecking will add significant value to the fluoro specialty business in the future.

With this brief introductory remarks, I would now like to take you through some of the key financial and operational highlights regarding the performance indicators of the Company during the period under review. For the purpose of comparison I am comparing Q1 of FY-16 with Q1 of FY-15 leading to a YoY comparison. First of all, the consolidated results. Total revenues have increased by 59% from Rs. 8.9 billion to Rs. 14.12 billion YoY which is Q1 FY-16 compared to Q1 FY-15. EBITDA has increased by 56% from Rs. 1.7 billion to Rs. 2.7 billion. EBITDA margin has been almost similar to what we did in this year 19.1% versus 19.5% last year.

PAT has improved by 67% from Rs. 441 million to Rs. 738 million. PAT margin at a consolidated level has increased from 5% to 5.2%. We have been able to demonstrate strong growth driven by robust operating performance across almost all verticals.

To give the break-up of the consolidated revenues essentially comes from four different segments, the chemical business, the wind turbine manufacturing business, the wind farming business and the film exhibition business. Revenues from the chemical business have gone up 24% from Rs. 2.8 billion to Rs. 3.5 billion. Revenue from the wind turbine manufacturing business have gone up 109% from Rs. 3 billion to Rs. 6.3 billion. Revenues from the wind farming business have fallen marginally from Rs. 568 million to Rs. 458 million whereas revenues from the film exhibition business have gone up by 50% from Rs. 2.3 billion to Rs. 3.5 billion. As a result aggregate revenues have gone up by 59% from Rs. 8.9 billion to Rs. 14.1 billion.

Similar breakup for EBITDA - EBITDA from the chemical business has gone up by 60% from Rs. 490 million to Rs. 782 million. EBITDA from the wind turbine manufacturing business is up 84% from Rs. 470 million to Rs. 863 million. EBITDA from the wind farming business has fallen from Rs. 532 million to Rs. 385 million and EBITDA from the cinema exhibition business has gone up by 123% from Rs. 293 million to Rs. 655 million. Consequently, consolidated EBITDA has gone up by 56% from Rs. 1.7 billion to Rs. 2.7 billion.

Consolidated PAT, asbroken up into the four key segments, which include from the chemical business - this has gone up by 60% from Rs. 169 million to Rs. 270 million. PAT from the wind turbine manufacturing business has gone up from Rs. 234 million to Rs. 505 million. PAT from the wind farming business has actually fallen from Rs. 104 million to Rs. 7 million and PAT from the film exhibition business has gone up from Rs. 45 million to Rs. 252 million, a growth of 452% and as a result of this, after inter segment PAT and minority interest, aggregate consolidated PAT has gone up from Rs. 441 million to Rs. 738 million which is a 67% growth YoY.

To give you a further drill down on the chemical business standalone, revenues have gone up by 24% from Rs. 2.8 billion to Rs. 3.5 billion. EBITDA has gone up by 60% from Rs. 489 million to Rs. 782 million. EBITDA margins have improved from 17.3% to 22.2%. PAT has gone up by 60% from Rs. 169 million to Rs. 270 million. PAT margins have improved from 6% to 7.7%. We have been able to demonstrate a strong growth in revenues due to the commencement of specialty chemicals business as well as export of refrigerants and improvements in margins due to higher operating leverage as well as better operating efficiencies.

The break-up of revenues in the chemical segment comes from, as you might know - there are essentially five components in the chemical business. There is a caustic soda sale, there is chloromethane sales, refrigerant gas sales, PTFE sales and other products. Caustic Soda sales have remain virtually flat Rs. 685 million in Q1 FY-15, Rs. 667 million in Q1 FY-16, chloromethane sales have grown marginally by about 6% from Rs. 549 million to Rs. 582 million. Refrigerant sales have gone up significantly from Rs. 252 million to Rs. 976 million a growth of 287%. PTFE sales have fallen marginally from Rs. 1.1 billion to about Rs. 1 billion and other chemicals or other products have gone up by 116% from Rs. 154 million to Rs. 333 million leading to total revenues from chemicals having grown by 24% from Rs. 2.8 billion to Rs. 3.5 billion.

The other segments in GFL as you might know is the wind turbine manufacturing business of which GFL owns about 63%. Revenue there have gone up from Rs. 3 billion to Rs. 6.3 billion a growth of 109%. EBITDA has gone up from Rs. 470 million to Rs. 860 million a growth of 84% and PAT has improved from Rs. 234 million to Rs. 505 million a growth of 115%. We have been able to maintain in this business the strong growth momentum that we had exhibited in the past and the strong operational performance as well.

In the wind farming business there has been a fall in revenues and profits essentially due to seasonality of wind. However, the wind season has now picked-up and therefore, we believe the high wind season has actually been pushed back by a couple of months and therefore, we expect the overall performance over the year to be corrected. However, for this quarter revenues have gone down by 19% from Rs. 568 million to Rs. 458 million. EBITDA has gone down by 28% from Rs. 532 million to Rs. 385 million and the PAT has gone down from Rs. 104 million to about Rs. 7 million.

In the film exhibition business, essentially because of a very strong content flow we have been able to exhibit significant growth. These revenues have grown up by 50% from Rs. 2.3 billion to Rs. 3.5 billion. EBITDA has improved from Rs. 293 million to Rs. 655 million, a growth of 123%. EBITDA margins have improved from 12.6% to 18.8% and PAT has improved from Rs. 45 million to Rs. 252 million a growth of 452%. PAT margins have improved from 2% to 7.2%. In that sense in the first quarter of this year in the cinema exhibition business we have already done more than one-third last year’s full year revenues more than half of last year’s full year EBITDA and more than the full year PAT in the first quarter itself.

This is a snapshot of operating and financial parameters.

In terms of outlook what we expect is minimal capex over the next two years to three years, most of the capex for the expansion of the PTFE capacity to the current 16,200 tonnes per annum and corresponding increase in the capacities across the value chain has already been incurred. Ongoing capex going forward would be minimal to the tune of about Rs. 100 crores to Rs. 150 crores per year essentially for debottlenecking adding higher value added products, waste recovery and other cost optimization schemes.

We expect going forward with improvement in capacity utilization from the present 60% to 100% over the next two years to three years would lead to operating leverage. This will happen essentially because of the investments that we have made in our marketing efforts. The subsidiaries with dedicated marketing staff that have been operational in the key markets like Europe and U.S. and the Company has passed stringent customer evaluation and product acceptance process of major customers over the last two years to three years and this will lead to higher asset turnover with improved capacity utilization. We expect improvement in margins essentially because of the capacity utilization improvement which will result in economies of scale and operating leverage. We also expect increased contributions from PTFE, because of the churning product mix in favor of the higher value added grades of PTFE. Introduction of the new value added products in the Company’s product basket will further improve the margin profile and focus on waste recovery and other cost optimization schemes will bring down operating cost across the value chain.

And lastly, our focus on fluoro specialty chemicals, we are focusing on HF and TFE based fluoro specialty chemicals to cater to the pharma and agro chemical industries. We are forging partnerships with several MNCs in this segments, who need access to fluoro specialty expertise and capabilities. And the surplus TFE capacity, from the recent debottlenecking will add significant value to the fluoro specialty business. This we believe is the key strength that the other participants in the market do not possess.

So that ladies and gentlemen was a brief snapshot of the outlook going forward. I would now like to hand this over back to the moderators for Q&A session. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen we will now begin the question and answer session. We have our first question from the line of Ranjit Chirumalla from B&K Securities. Please go ahead.

Ranjit Chirumalla: **W**hat was the reason behind the decline in the PTFE sales and a split of the PTFE sales into commodity and specialty?

Deepak Asher: The reason for the decline in the PTFE sales essentially was because of the quantities for this quarter did not show any growth and there was a marginal reduction in prices, but it would not be appropriate to look at this on a month-to-month or a quarter-to-quarter basis. We do expect that our annual targets in terms of PTFE sales for the full year would be what we had earlier planned and hence, whatever shortfall we have seen in this first quarter would be made up in the subsequent months essentially because of some significant product acceptance that we have received over the last two to three months from some significant customers.

Ranjit Cirumalla: Can we split between commodity and specialty?

Deepak Asher: In terms of volumes?

Ranjit Cirumalla: Yes.

Deepak Asher: Q1 FY-16 the commodity grade was 998 tonnes or about 1,000 and the specialty grade was about 825 tonnes.

Ranjit Cirumalla: What are the comparable numbers for the last quarter

Deepak Asher: For the last quarter it was the commodity grade was about 1,600 tonnes .1,600 has gone down to a 1,000. The specialty grade was 525 tonnes so 525 has gone up to 825.

Ranjit Cirumalla: The last quarter you mean the 4Q or the 1Q of the last year?

Deepak Asher: Q1 of FY-15 we are doing a YoY comparison.

Ranjit Cirumalla: What was the reason behind the sharp jump in the R22 or the refrigerant gas and can we split into both volume and the value terms in the growth?

Deepak Asher: We commissioned the new HCFC22 facility for feedstock consumption in last July and therefore there has been a capacity increase, which released our existing Ranjitnagar plant capacity for exports. To that extent there is a significant volume jump.The refrigerants were at about 1,470 tonnes of sales in Q1 of FY-15 ,this has gone up to about 5,100 tonnes in Q1 of FY-16 which is a volume jump of about 240% and on the other hand as far as prices are concerned there has some firming up of prices as we indicated in the last call as well. The average price of refrigerant gas is about Rs. 1.70 lakh per tonne in Q1 of FY-15 has gone up to about Rs. 1.90 lakh rupees per tonne a growth of about 12%.

Ranjit Cirumalla: Okay. And majority of these are exports?

Deepak Asher: Yeah, most of these would be exports.

Moderator: Thank you. We have the next question from Mr. Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: On the chloromethane side, if you could just throw some light on the pricing there in terms of chloroform or something?

Deepak Asher: The pricing for chloromethanes,we are not looking chloroform prices separately ,we are doing essentially methylene dichloride pricing because that is what we sell to the market, whereas most of the Chloroform is captively consumed. The average price on a YoY comparison was higher by about 18% compare to what we did in the first quarter of FY-15. The average price realize in Q1 of FY-15 was about Rs. 35,700 and in the first quarter of FY-16 was about Rs. 42,000 so that is about 19% higher price.

Rahul Bhangadia: And any color you can give on the chloroform side?

Deepak Asher: I do not have the data in front of me because as I said we do not participate in the market as far as chloroform is concerned. Most of the chloroform that we produce is captively used.

Moderator: Thank you. We have our next question from the line of Mr. Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: **W**hat would be the annual target for R22 sales?

Deepak Asher: We do not give specific quantitative guidance for the year. But as you can see for the first quarter we saw about a 250% jump in the volumes. Now, obviously jump in volumes for the next quarter would not be that sharp, because of fact that the plant was commissioned in last July and hence, in this quarter April to June quarter we see a significant increase. But we do believe that the R22 volumes as well as pricing would be fairly robust going forward.

Tejas Sheth: Sir, last year how much volume did we do in R22?

Deepak Asher: For the full year?

Tejas Sheth: Yeah.

Deepak Asher: Or did you mean to ask for the quarter?

Tejas Sheth: No, for the full year.

Deepak Asher: Okay, maybe about 11,700 tonnes.

Tejas Sheth: Okay. And sir can you just guide what is your view on the realizations going forward?

Deepak Asher: Again I said, in this quarter we have seen refrigerant prices to go up by about 12%, typically what we do find and again I will caveat this by saying that we do not give specific quantified target for the full year and we do not provide quantified guidance.

Tejas Sheth: I know the trend, do you think the price increase is sustainable?

Deepak Asher: But we do believe and this is from our experience in the CFC business as well that as the phase out schedule commences and hence, supply gets constrained the demand keeps on being as robust because of the fact it is a product that continues to be required prices actually go up and as we go deeper into the phase out schedule the price increases become sharper.

Moderator: Thank you, Mr. Sheth. We have a follow-on question from Mr. Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: How do we see the AC guys, the branded AC guys or otherwise are planning to cope up with this phase out of R22 and how this will how the substitutes are shaping up.

Deepak Asher: Okay, I will request Mr. Soni to handle that question.

V.K. Soni: R22 is a HCFC which is being phased out by Montreal Protocol by HFC-410 which is a blend of 32 and 125. Now this is also the next generation refrigerant but also there is a lot of attack on 410 because of its global warming potential though its Ozone depletion potential is okay so the even next generation refrigerant is being developed there is no commercial molecule on the horizon, but there would be HFOs which have zero ozone depletion potential as well as zero or close to zero global warming potential.

Rahul Bhangadia: So basically as we speak there is no commercially or scalable available substitute for R22 right now, is that a right way to look at it?

V.K. Soni: No, R-410 is a commercially available substitute but as I mentioned under European F-regulation even that is being attacked and already the substitutes of R-410 are being formulated, which are HFOs. But the other gasses 11 and 12 already the substitutes are there.

Rahul Bhangadia: What is the pricing difference between R22 today and these substitute ones?

V.K. Soni: See the price difference is substantial.

Rahul Bhangadia: Up to order of?

V.K. Soni: I think it is in order of multiples.

Rahul Bhangadia: So maybe twice, thrice or four times R22 that is the way to look at it?

V.K. Soni: If 22 is about $2 so this will be more than $5 or $6.

Rahul Bhangadia: Okay. So 2.5 to 3x is the pricing right now?

V.K. Soni: Right.

Rahul Bhangadia: So fair to say that R22 even with the phase out unlikely that the demand is going to go down substantially?

V.K. Soni: No, actually, it is not that simple because the hardware the equipment has also to be changed substitutes are not dropping substitutes.

Deepak Asher: In the refrigerant market as much as, 60% to 70% of the demand comes from the replacement market it is just about 30% which is the original equipment or the new equipment market. So that 60% to 70% market because of the refrigerant and air conditioner the useful life in some economies as much as 20 years will continue to exist despite the fact that the production would be required to be phased out but the demand pull will continue to exist because as Mr. Soni explained these are not drop in substitutes so you cannot start using another product instead of let's say 22.

Rahul Bhangadia: Okay. And if we understand it right the import this R22 has been banned from July 1 or June 1st, right?

Deepak Asher: Yeah, it is restricted under the Indian Ozone Rules. And one more dimension to this that you should understand that as the phase out schedule kicks in and as we go deeper into the phase out schedule as HCFC22 prices start rising in order to recognize the fact that supply is being curtail but demand still remains robust this also means that the cost of producing PTFE for a HCFC22 purchaser would go up and we would therefore also expect to see improvement or increases in PTFE prices because input cost have gone up. It will take time some for it to manifest itself into actual realizations but that is also possibly that one should not loose sight of.

Rahul Bhangadia: How this phase of R22 phase out over the next three years to four years would be in terms of the percentage cut of production that everybody will have to take?

Deepak Asher: Again I do not have the numbers in front of me but I think it will freeze for the first few years and then there is a cut back of production which first two years or three years will not be significant.

Rahul Bhangadia: Okay. So the next two years to three year is not significant after that it is like kind of slope downwards basically?

Deepak Asher: As a slope downwards the slope will culminate into 0 by 2025.

Rahul Bhangadia: 2025 or 2030?

Deepak Asher: 2025.

V.K. Soni: 25 it will be almost it will be over, yeah.

Rahul Bhangadia: R22 goes to zero by 2025?

V.K. Soni: Right.

Moderator: Thank you, sir. We have our next question from the line of Mr. Chintan Sheth from SKS Capital Investments. Please go ahead.

Chintan Sheth: What is the update on the Morocco mine? Last time you spoke about the EPC contract has been awarded and you are expecting June '16 for completion of the project. So you maintain the same timeline?

Deepak Asher: We are on track as far that implementation schedule is concerned and we continue to expect the commissioning of that by June '16.

Chintan Sheth: Okay. And what kind of CAPEX fund we have to deploy towards that?

Deepak Asher: The total cost of that project is roughly about $10 million, this is funded essentially by debt equity of 65-35. So 6.5 million is the debt, 3.5 million will be equity and our ownership in that as you know it is a 75-25 JV investing about between 2 million to 2.5 million in terms of equity.

Chintan Sheth: We have already invested or we are going to invest it this year?

Deepak Asher: We have already invested our part.

Chintan Sheth: Come again sir, sorry.

Deepak Asher: We have already invested our part.

Chintan Sheth: Okay. So no further outflow from GFL to Morocco?

Deepak Asher: Yeah, that is correct. But if you notice the numbers in any case is not that significant.

Chintan Sheth: Yeah, that I understood. Any update on your rationalization of listed subsidiaries how any management thinking going on?

Deepak Asher: Sorry, can you repeat that question please.

Chintan Sheth: What is your thought on the process of rationalizing stake in the listed subsidiaries that in terms of improving the shareholders, improving the growth structure basically?

Deepak Asher: **W**hat you mean by rationalization is unlocking shareholder value by eliminating the holding Company discount?

Chintan Sheth: Right, sir, yeah.

Deepak Asher: We do not have a decision yet. We are looking at evaluating various possibilities and will do whatever is in the best interest of shareholder's wealth. I would like to remind you that the promoters own 70% of GFL and whatever they can do in order to enhance wealth at GFL level would be in the interest of not just the minority shareholders but even the promoters so in that sense there is no conflict of interest and we would do whatever is in the best interest of all the stakeholders of GFL. We have been in discussion with several Investment Bankers, we are looking at different possibilities. We are trying to grapple the structuring issues, the tax issues, the wealth creation issues, the dilution issues around those and hopefully over the next one or two quarters we should be able to announce a formal decision but as of now this is all I can share with you.

Moderator: Thank you, Mr. Sheth. We have our next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: With R22 prices going up, would eventually lead to higher realizations or higher cost structure for PTFE. Is there any alternative to R22 as a feedstock, any other blend of refrigerant?

V.K Soni: No, not all. In fact TEAP is the technical division of UNEP and they had evaluated it in detail and they concluded that there is no viable alternative for R22.

Tejas Sheth: Vis-à-vis of your Q2 of last year when the new plant of R22 was commissioned to this year, our reach of R22 towards exports would have improved?

Deepak Asher: Sorry, again I do not think I understand that question. What do you mean by reach of export towards R22?

Tejas Sheth: As in R22 we started exporting from last year itself. So our distribution reach of exporting R22 would have improved YoY?

Deepak Asher: if you look at a broader timeline horizon, we made about 25,000 tonnes of 22 way back in 2011 and 2012 of which more than 85% was being exported. So we have an export reach distribution network to cater to more than 20,000 tonnes of 22 per annum.

Tejas Sheth: So you would be much more capable to cater to this?

Deepak Asher: Frankly once PTFE capacity utilizations started improving, we had to withdraw from the export markets because we needed most of the 22 that we were producing for PTFE and that is why we set up the new HCFC-22 plant last year. So by doing this we will only be reactivating our existing distribution network. You do not need to create a marketing reach. We already had that earlier.

Tejas Sheth: So this year the exports to Europe summers would be much better than last year.

Deepak Asher: Well the exports would be certainly higher than what we saw last year whether they would be to Europe or other countries is a different question but surely we expect a growth in 22 exports.

Tejas Sheth: Would you be your biggest market right now in exports?

Deepak Asher: Most of that would be in the Middle East.

Tejas Sheth: Fine and that is not into US and Europe?

Deepak Asher: No.

Tejas Sheth: Fine, thanks a lot.

Moderator: Thank you sir. We have a follow on question from the line of Mr. Rahul Bhangadia from Lucky Investment Managers. Please go ahead sir.

Rahul Bhangadia: On R-22 phase out, is it like that you cannot use R-22 by itself and is R-22 production allowed if you are using it forward into a PTFE or some other molecule not using R-22 per se, how does this work?

Deepak Asher: The Montreal Protocol regulates the production and consumption of HCFC-22 to the extent that it is an ozone depleting substance and this means that the restrictions are for refrigerant or what is called **emissive use.** To the extent that it goes into manufacturing PTFE then which is a feedstock use because of a chemical reaction it ceases to be an ozone depleting substance. It has no ozone depleting potential when it is present in the feedstock in PTFE and therefore it is not regulated at all under the Montreal Protocol. So to answer that question in short HCFC-22 for PTFE is exempt from any control of Montreal Protocol. It is only HCFC-22 as a refrigerant which is subject to the phase out restrictions.

Moderator: Thank you sir. We have a next question from the line of Mr. Ketan Gandhi from Gandhi Securities. Please go ahead.

Ketan Gandhi: When we have to get our stake down to 75% in INOX Wind, by which date?

Deepak Asher: Under the SEBI Regulations, we are allowed to have a minimum of 10% public holding on the date of listing subject to the condition that within 3 years of listing and I recall that we have got listed around the 12th of April this year. So by the 12th of April 2018, we will have to bring the promoter stake down to 75% from the current 86%, three years from the date of listing.

Ketan Gandhi: How many total molecules we are working on as far as Pharma and Agrochemical grades are concerned?

V.K. Soni: As we mentioned, we have started it recently after having established our PTFE business and doing all the CAPEXs there. So at the moment we have about 30 molecules in different phases. As you know that we have a concept phase, then the laboratory phase, the pilot phase, and the multi plant or dedicated plant phase. So we have about 6-7 in the laboratory phase, 4-5 in the pilot phase and 3-4 on the MPP phase, and about 13-14 in the conceptual phase. So our canvas is rich with about 30 molecules.

Ketan Gandhi: We have done any sales in this quarter for any of these grades?

V.K.Soni: Yes.

Ketan Gandhi: Can you quantify the number approximately?

Deepak Asher: **T**he other product which includes the fluoro specialty sales have got up from Rs. 154 million to about Rs.333 million which is a growth of about 116%. Some of these are waste products and waste recovery products and byproducts but a part of that also is the fluoro specialty product grade.

Ketan Gandhi: Sir I got that but a number of molecule, I mean some 1, 2, or 3 or I mean in the period?

V.K.Soni: This year we did only 2 molecules because as I mentioned that we started recently only.

Ketan Gandhi: In next 3 years or next 2 years, can you quantify how much we can do?

V.K.Soni: As per our current status at the different stages next year we would be adding another 3-4 molecules but in year 2017, this would grow substantially because the real benefit of the work we have done will accrue in 2017-2018 ,so which would be about 11-12 molecules which would substantially add value.

Ketan Gandhi: **I**s there any competition in India from SRF or Navin Fluorine as far as what we are doing?

V.K.Soni: GFL has many special advantages. Firstly, it has got a TFE molecule, TFE is the tetrafluoroethylene which is made from R-22. We have got about 16,000 tonnes capacity for not one plant but 2 plants which is running whereas our competitor's only one has TFE which also couple of 1,000 tonnes only which is one. Secondly, we possess apart from TFE, many other key building blocks like HFP etc. which are essential for Pharma and Agro Intermediates, and thirdly, we have about 25-years rich experience in handling fluorine in different, in refrigerant gases, in fluoropolymers, in fluoroelastomers, and in specialty fluorochemicals, and we also have the most integrated fluorine chain in the world and I repeat that is the most integrated right from mother earth we derive fluorspar mining and we only have to import coal as the main material. Rest all is made indigenously because from fluorspar we make AHF, hydrofluoric acid, then we convert it to R-22. R-22 is made from chloroform which is also made by us and chloroform is made from chlorine which is also made by us in our Caustic Soda Plant and PTFE is further integrated into sophisticated PTFE compounding and PTFE micro powders or PTFE milling and sintering, etc.

Ketan Gandhi: What could be the size of the market of the 30 molecules the Company is working on in next couple of years, I am not asking about the total market, the product which we are working.

V.K.Soni: The product like I will say product A which we are working, we are working on capturing the total market may be 5,000-6,000 tonnes whereas we are working on 500-600 tonnes. So about 9%-10% but incidentally here it is not to be marketed as such, it is a contractual manufacturing. So we enter into contracts with the leading multinationals in the Agro and Pharma space and based on their requirement, with dedicated contracts we build the multipurpose plants.

Ketan Gandhi: Regulation point of view, do we require US FDA approval for any pharma grade?

V.K.Soni: Yes, we require on case-to-case basis, FD approval or CGMP approval. At the moment, we are not working on any product which requires this.

Ketan Gandhi: My question remains unanswered, I asked about the size. You gave in tonnes, in terms of value can you quantify if possible?

Deepak Asher: Ketan, it would be difficult to quantify in terms of value because as Mr. Soni explained that several molecules and each of this have different applications and different market sizes and to be honest with you, it won't to be possible to get into further details without divulging information that currently is not in the public domain.

Moderator: Thank you Mr. Gandhi. We have the next question from the line of Kamal Gada from UTI Mutual Fund. Please go ahead.

Kamal Gada: If you can share what kind of utilization we are looking at for PTFE this year and what kind of margins are we looking at this year as compared to last year?

Deepak Asher: We expect capacity utilization to improve from about 60% to around 75% by the end of this year and potentially going up to around 90% by next year and then we had full capacity utilization by the year after then. In terms of margins, we had started I believe last year the

EBITDA margins were about 20% and we had said that because of the kicking in of operating leverage, the improvement in realizations because of the churning of product mix in favor of higher value added grades as well as the cost optimization schemes that we were implementing, we were expecting the EBITDA margins for this year to be in the vicinity of about 30%.

Kamal Gada: So that 30% would be once we reach 90% plus utilization, right?

Deepak Asher: No, for this year.

Kamal Gada: For this year?

Deepak Asher: Yes. We are, as you might have noticed already at about 23% for the first quarter.

Kamal Gada: When you say 75% that is the average utilization or would that be exit utilization?

Deepak Asher: That well, it would probably be in the range of 70%-75% average and surely upward of 75% at exit rate.

Kamal Gada: Sir if you can give again the R-22 realizations?

Deepak Asher: The first quarter was about Rs. 1,90,000 for the weighted average realization.

Kamal Gada: Versus what was the last year?

Deepak Asher: Rs 1,71,000.

Kamal Gada: Lastly, when you would have received the money of this INOX Wind Limited into the Company?

Deepak Asher: As of 31st March, 2015.

Kamal Gada: The other income or the finance cost, have not seen much of change. So if you can help us how and when can we see either increase in other income of the reduction in the finance cost?

Deepak Asher: No, the cash which was accounted in the P&L as of 31st March,2015 because the allotment happened on that date. The cash was received some time in April. I think the 3rd or 4th week of April after all the stock exchange formalities were done and these money were invested partly in fixed maturity plans and partly in reducing working capital. You would probably see more significant impact of that in the next quarter.

Kamal Gada: Finally what is our R-22 capacity right now?

Deepak Asher: Sorry, the capacity of?

Kamal Gada: R-22.

Deepak Asher: That should be about 60,000-65,000 tonnes per annum.

Kamal Gada: How much we would require for a PTFE?

Deepak Asher: On full capacity between 35,000-40,000 tonnes.

Kamal Gada: Balance we can target to sell or export right?

Deepak Asher: We target to sell about 18,000-20,000 tonnes.

Moderator: Thank you Mr. Gada. We have a next question from the line of Mr. Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: Currently this specialty products business which is part of the other product revenues which is Rs 33 crores for the quarter?

Deepak Asher: Yes Hiren.

Hiren Dasani: Yes, so assuming that and this business was not there at all completely in the last year first quarter which was Rs 15 crores other products?

Deepak Asher: The other products was about 50% but it was not specialty chemical, it was more like byproducts and some other waste recovery product sales.

Hiren Dasani: So is it fair to assume that whatever delta has happened of about Rs 15 odd crores is largely due to this specialty chemical?

Deepak Asher: Largely yes.

Hiren Dasani: So for the full year if I were to just annualize this numbers also, you do probably about Rs 60-70 crores of specialty chemicals this year?

Deepak Asher: But our target would be to do better than that.

Hiren Dasani: Can it grow like it is very significant phase next year as well based on the new approvals and all or?

Deepak Asher: Yes, in fact we would expect a significant growth in this segment. In a sense the first significant sales in this segment happened only in this quarter and this is just in a sense the tip of the ice berg. We expect significant value in this over the next 2-3 years.

Hiren Dasani: Just to put things in perspective there is another large company which is probably today doing Rs 300-400 odd crores if I am not wrong in business in this segment. So can we reach that kind of size in the next couple of years?

Deepak Asher: It is surely possible, yes as Mr. Soni explained, we have certain competitive strengths that we believe nobody else in the business possesses. So if at all that could only kind of hold us in good stead.

Hiren Dasani: What is the margin profile of this business sir?

Deepak Asher: Again depending on which molecule you look at, pretty strong margins upwards of about 50-60%.

Hiren Dasani: At EBITDA level or gross level.

V.K.Soni: No, actually I would also explain it depends on what stage the molecule are we. If it is a matured stage, then the margins are relatively lower but if it is a new molecule and we happened to be the first one to come out, then it can be more than 100% also. So it is a mix and match of the different stages of the molecule we are.

Hiren Dasani: **And** these margins you are talking about as the gross margins right or is at the EBITDA levels?

Deepak Asher: EBITDA level.

Hiren Dasani: On the margin side, what kind of focus you have, more of matured products, more of new products, or some of the new products which are there for others you may just make it a mature product for you?

V.K.Soni: No, it is a mix and match actually. Some are matured also because they provide the base, some are new where the risk is more, and some are 1 or 2 years old. So it is a mixture of the three.

Moderator: Thank you Mr. Dasani. We have a next question from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: In the specialty chemicals division, what are these intermediates that we make that are directly sold to the agro chemical or pharma molecule innovators, just the nature of the products if possible?

V.K.Soni: No, actually we have several models. In one model, for example a technology is given by the innovator and who has the technology and the licenses are to make the product and supply it to them. The second model is where we are asked to develop the technology. So we have a R&D center where we develop the technology, give samples, and once approved, we set up the plant and supply to them. So it is both types and we also have another model where we supply to an intermediate company who adds some more value to that because we are fluorine experts and so normally we do fluorination which is a larger part of the value chain but the innovator sometime want some more steps which are less value added. So in that case, we supply the fluorine to another intermediate companies.

Abhijit Akella: Understood and all our contracts, it is purely a contract manufacturing arrangement or is there some element of like non-contractual sales as well like we produce on our own account and sell to whoever is interested in buying.

V.K.Soni: Like where I said matured molecules where the market is abundant and many customers are there. There we do on our own. Otherwise new molecules are mostly on contract because the risk is more. So therefore those are on contract basis so that our market risk is nullified.

Abhijit Akella: How do you see the outlook for this business in terms of demand from global innovators in terms of looking at India as a sourcing destination? Are you seeing a lot of increase in demand given that there were some companies also looking to do this, is it because share is shifting away from China or what are the drivers underlying this increased interest?

V.K.Soni: No, actually there are two factors. One factor is that fluorine molecule is becoming more and more a constituent of pharma for pharmaceutical products and crop protection chemicals because of its efficacy, the dosage is very small compared to chlorine or hydroxide or other alternatives and it is environmentally also safe and hence also very effective. So as a result like for example in crop protection chemicals, the share of fluorine molecules is 20% which is expected to go up to 45% or so in the next 3-4 years. Similarly in pharmaceuticals, this fluorine molecule is highly effective and here also share of 20% now is going to almost double in next 3-4 years. Therefore, the first factor is that overall market demand is going to grow up for fluorine-based crop protection chemicals and of pharmaceuticals. Then the second point is that increasingly China is becoming less competitive as we all know and more importantly the raw material is HF or tetrafluoroethylene and tetrafluoroethylene capacity is mostly linked to PTFE but GFL has an advantage that it has got out about 4,000-5,000 tonnes tetrafluoroethylene available with us which we intend to use to satisfy the increasing demand for these two segments and incidentally in Western World, there is no new capacity of tetrafluoroethylene possible because R-22 cannot be produced. Even in China R-22 even for feedstock use is banned. So therefore we have a very special advantage here.

Abhijit Akella: Very interesting. So Indian companies are very well placed and you yourself in particular to exploit the emerging opportunities.

V.K.Soni: Of course we have very large capacity of tetrafluoroethylene.

Abhijit Akella: Got it, great, thank you so much for the clarification.

Moderator: Thank you sir. We have a follow on question from the line of Mr. Ketan Gandhi from Gandhi Securities. Please go ahead.

Ketan Gandhi: China cannot use R-22 for feedstock. It is a local, if they are governed by the local law or international law?

V.K.Soni: No, actually it is China existing capacity of course what is for feedstock will continue to be used as Mr. Asher also explained but no new capacity for even feedstock use is allowed as per the Chinese Government whereas worldwide anybody even in India can set up a new capacity for R-22 for refrigerant use but in China even for feedstock use, it is banned.

Ketan Gandhi: In that light, when do we see the firming up of PTFE price? If that is the case then I think game is well set for firming up the price in next.

Deepak Asher: I did mention that. I think if you look at the overall market and demand–supply situation that is inevitably going to happen. It is difficult for me to put a finger on when it will happen.

Ketan Gandhi: No, I am asking about general, 2 years, 3 years, or something?

Deepak Asher: I know but I think it could happen in the next 2 or 3 years. As I said I cannot be more specific than that because there are several other factors that play here but I think it will be reasonable to expect it to happen in the next 2-3 years' time.

Moderator: Thank you. We have a follow on question from the line of Mr. Ranjit Cirumala from BNK Securities. Please go ahead.

Ranjit Tirumala: Last time in the call we were expecting the chloromethane prices to remain subdued probably at around 35,000 level but again we have seen some spike, any reason beyond that?

Deepak Asher: But I do not think it is a spike, it is just that we had expect the prices to go down to around 36,000-38,000 levels which has not happened. So they remained in robust for which we aren't complaining about.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand over the floor back to Mr. Bhavin Vithlani. Over to you sir.

Bhavin Vithlani: We would like to thank all the participants and especially the management for giving us the opportunity to host the call and I would like to hand the call to Mr. Asher for the closing remarks. Over to you Sir.

Deepak Asher: Once again I would like to thank both Vikram and Bhavin for hosting this earnings call and I would like to thank all of your investors and analysts for taking keen interest in the performance of the Company and we look forward to our continued interest in our operations. Thank you very much.

Moderator: Thank you sir. Ladies and gentleman, on behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.