

“Gujarat Fluorochemicals Limited Q2 FY19 Results Conference Call”

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MODERATOR: MR. MANIKANTHA GARRE – AXIS CAPITAL

Moderator: Ladies and Gentlemen, good day and welcome to the Gujarat Fluorochemical Limited Q2 FY19 Results Conference Call, hosted by Axis Capital Limited. As a remainder, 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 this conference, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference call is being recorded. I now hand the conference over to Mr. Manikantha Garre from Axis Capital Limited. Thank you and over to you.

Manikantha Garre: Thank you, Mohsin. Good evening, everyone. And thank you, all participants, for standing by. We have with us the management of Gujarat Fluorochemicals Limited represented by 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 a brief overview of the Company’s performance for Q2 FY19, and then we will switch over to the Q&A session. Over to you all sir.

Deepak Asher: Thank you very much. A very good afternoon and a warm welcome to all participants to this call. Happy to inform you that the Board of the company has just approved the financial results for the quarter ended September, 2018. And these results have been uploaded on the website of the company as well as the website of both the stock exchanges. Along with the results we also uploaded in order to enable you to better appreciate the numbers and the result, an earnings presentation as we normally do. And my intend right now is to take you through some of the significant elements of the earnings results.

First of all, to give you key highlights. As you know, we operate in four different businesses. So as far as Chemical business is concerned, the continued momentum in the chemicals business continued, lead by higher sales as well as price improvements. Revenues in the chemical business were up 48% and all these are Y-o-Y comparisons, Q2 of FY18 compared to Q2 of FY19. The Revenues were up 48%, EBITDA was up 28%, and PAT was up around 419%, but this was because of a one off income tax refund that we received for earlier years. But even without that, PAT was up by about 26% in the quarter.

As far as the Wind Turbine manufacturing business is concerned, the business has now started seeing a turnaround after about 1.5 years of transition pain and execution of the auction regime based order book has started. We clocked sales of 90 megawatts and commissioned about 16 megawatts from the SECI - 1 tenders. Revenue in this business was up 449%, EBITDA was up by 370% and PAT up by 103%. And we are now in advance stage of launching the next generation of a multi-megawatts wind turbine.

In the Wind Farming business we have substantially exited from this business by selling off about 246 out of the 269 megawatts of operational capacity. And we might be developing a very small capacity going forward in order to create value in that business.

As far as the Film Exhibition business is concerned, we are now present in 66 cities with 132 properties, 536 screens and 129,544 seats. In this business our revenues went up 17% Y-o-Y,

EBITDA went up 2% and PAT also went up by about 2%. We continued to improve our performance on the back of sustained focus on non-box office revenues.

That is the brief snapshot of each of our four businesses. I will take you broadly through the numbers. And again, I will focus here on the quarterly numbers, that is Q2 FY19 compared to Q2 FY18.

Total revenues increased by 69% from Rs. 875 crores to Rs. 1,480 crores. EBITDA increased by 50% from Rs. 198 crores to Rs. 297 crores. EBITDA margin was at 20.1%. PAT increased by 684% from Rs. 60 crores to Rs. 468 crores. But that, as I mentioned, was because of the income-tax refund in the chemical business. But even without this refund the PAT improved from Rs. 59.8 crores to Rs. 118.9 crores, that is a growth of 99%. PAT margin was at 8% for the quarter.

So, that is a snapshot of the financial numbers for the quarter. As you know there is a four business breakup for each of the elements that I mentioned.

The Revenues from the Chemical business increased by 48% from Rs. 459 crores to Rs. 680 crores. Revenues from Wind Turbine manufacturing business increased by 449% from Rs. 80 crores to Rs. 437 crores. The Wind Farming business, obviously, there was a fall, because as I mentioned, we have substantially exited from this business, so there Rs. 65 crores of Revenues went down to Rs. 12 crores. And the Film Exhibition business, revenues increased by 17% from Rs. 311 crores to Rs. 365 crores, as a result of which total Revenues improved by 69% from Rs. 875 crores in Q2 FY18 to Rs. 1,480 crores in Q2 FY19.

Looking at the business wise EBITDA breakup, the Chemical business EBITDA increased by 28% from Rs. 154 crores to Rs. 198 crores. Wind Turbine manufacturing business EBITDA improved by 370% from -20 crores to Rs. 53 crores. The Wind Farming business from Rs. 23 crores to Rs. 8 crores. And on the Film Exhibition business the EBITDA improved by 2% from Rs. 44 crores to Rs. 45 crores. As a result of which total EBITDA increased from Rs. 198 crores to Rs. 297 crores, that is a growth of 50%.

On the PAT side, the PAT from chemical business improved from Rs. 89 crores to Rs. 461 crores, that is a growth of 419%. On the Wind Turbine manufacturing business, minus Rs. 47 crores became Rs. 1.5 crores, so that is a growth of 103%. On the Wind Farming business, Rs. 11 crores of PAT last year was virtually zero this year. And the Film Exhibition business, Rs. 11.7 crores of PAT was Rs. 12 crores in this quarter, which means a growth of 2%. As a result of which the overall PAT, as I mentioned, increased from Rs. 59.8 crores to Rs. 468 crores, which is a growth of 684%.

So, that again is the blended result of all the four businesses put together. Focusing specifically on the Chemicals business, Revenues for the quarter increased by 48% from Rs. 459 crores to Rs. 680 crores. EBITDA improved by 28% from Rs. 154 crores to Rs. 198 crores. EBITDA margins stood at 29.1%. PAT increased from Rs. 89 crores to Rs. 461 crores, that is a growth of

419%, but even without the one-off adjustment, PAT increased by 26% from Rs. 89 crores to Rs. 111 crores, PAT margins stood at 16.4% in Q2 FY19.

Now, again, as you know, the Revenues from the Chemical business derived from four or five different product families, I will give you the breakup of each of this. Caustic soda revenue increased by 5% from Rs. 109 crores to Rs. 115 crores. Chloromethane revenue increased by 47% from Rs. 62.4 crores to Rs. 91.6 crores. Refrigerant gas Revenue increased by 32% from Rs. 59.6 crores to Rs. 78.5 crores. PTFE Revenue increased by 76% from Rs. 167 crores to Rs. 294 crores. Other value-added products improved by 121% from Rs. 39 crores to Rs. 86, and byproducts fell by 25% from Rs. 20 crores to Rs. 15 crores. As a result of which overall Revenues in the Chemical business increased by 48% from Rs. 459 crores to Rs. 680 crores.

Now, if you look at the volume versus price split of how the revenues stacked up, caustic soda volumes went up by 1% from 32,649 tons to 32,820 tons. Caustic soda prices improved by 4% from Rs. 33,625 per ton to Rs. 35,062 per ton. On the chloromethane side volumes went up by 12% from 15,571 tons to 17,409 tons. Chloromethane prices improved by 31% from Rs. 40,069 to Rs. 52,632 per ton. Refrigerant volumes went up by 21% from 2,977 tons to 3,609 tons. Refrigerant prices improved by 9% from Rs. 2,00,312 to Rs. 2,17,443.

PTFE volumes went up by 33%. We did 2,936 tons of PTFE in Q2FY18, this increased to 3,902 tons in Q2 of FY19. The mix remained static at 55:45 in favor of regular grade versus value-added grade. Average prices improved by 32% from Rs. 5,69,412 per ton in Q2 FY18 to Rs. 7,53,190 per ton in Q2 of FY19.

So, that is the split up between volumes and prices. On the other segments, which is the value-added product sales. As I mentioned, total value-added product sales have gone up from Rs. 38.8 crores to Rs. 85.6 crores. The split up here is, our 410 sales increased by 94% from Rs. 14.2 crores to Rs. 27.6 crores. FKM sales went up by 278% from Rs. 5.1 crores to Rs. 19.3 crores. Fluoropolymer sales went up by 596% from Rs. 2.4 crores to Rs. 16.7 crores. ACHL sales went up by 23% from Rs. 7.5 crores to Rs. 9.2 crores and others went up by 33% from Rs. 9.6 crores to Rs. 12.8 crores. As a result of which, as I mentioned, VAP sales went up, more than doubled from Rs. 38.8 crores to Rs. 85.6 crores.

I would not take you through the details of the other businesses, the Wind Turbine manufacturing business as well as the Entertain business, because both of these are separately listed. And I would assume that those of you who would be interested would have followed the earnings calls for those companies.

In terms of share price performance, the market cap of the Company based on yesterday's price is about Rs. 10,000 crores, the price is about Rs. 916. The shareholding pattern continues to remain what it was, promoters and the promoter group hold 68.33%, DIIs own 1.75%, FIIs own 4.11% and the public and others own 25.81% of the Company.

So, that is the snap shot of the earnings. There is one other significant development that I thought I will appraise you of. Apart from approving the results, the Board in its meeting today has approved, subject of course to the approval of Shareholders and Creditors and other regulatory approvals as may be required, including those of the stock exchanges, SEBI and the NCLT, a scheme for the demerger of the Chemical business of the company into another company, a wholly owned subsidiary which we will call for the purpose of discussion the resulting company.

Now, as you know, the demerged company, i.e. the current GFL, has four diverse businesses, the Chemical business, the Wind Turbine manufacturing business, the Film Exhibition business and the Wind Farming business. Now, each of these businesses have different risk and return profiles, and also different capital and operating requirements. While the Wind Turbine manufacturing business and the Film Exhibition business are separately listed, this provides us an opportunity for investors to directly invest in any of these businesses. However, the Chemical Business is not separately listed, and hence, investors who have desire of investing in a pure chemical play did not have this opportunity. Therefore, under this scheme, with effect from the appointed date, which currently is scheduled to be on the 1st of April, 2019, the entire Chemical business undertaking, including all its assets and liabilities will stand transferred to the resulting company as a going concern.

In consideration of this transfer, each of the shareholders of the demerged company, i.e. the current GFL, shall be allotted one fully paid up equity share of Re. 1 each of the resulting company for every share of Re. 1 each held in the demerged company, i.e. GFL. Further, it is expected that once the scheme is fully implemented, this resulting company will be a mirror image of the demerged company and the shares of the demerged company will continue to be listed on the BSE as well as the NSE, but in addition, the equity shares of the resulting company also would be listed on both these stock exchanges once the scheme is fully implemented.

The Board of the demerged company, i.e. GFL, believes that this scheme will provide better flexibility to investors to select investments which best suit their investment strategies and risk profile for each of the businesses of GFL. The Scheme shall also resolve, it is expected, in economies and business operations, providing optimal utilization of resources and greater administrative efficiencies. In addition, the Scheme is expected to unlock value for the existing shareholders and allow the management of the demerged company to have a more focused growth strategy for each business which would be in the best interest of all the Stakeholders.

So, that is a brief presentation from my side. I will now like to open it for any questions that participants might have. Thank you.

Moderator:

Thank you very much, sir. We will now begin the question-and-answer session. We have the first question from the line of Reena Sridhar from Way2Wealth. Please go ahead.

Reena Sridhar:

Good evening Sir. My question is, basically, your expansion plans, since all your CAPEX in the Chemical business is complete, you said there are three revenue streams, one is in the PTFE, you have expanded the capacity by 30%, so there is about Rs. 300 crores of incremental revenue

plus Fluoropolymers you said is about Rs. 600 crores of incremental revenue, and in FluoroSpecialty it is about Rs. 300 crores to Rs. 400 crores of incremental revenue. Can you give us a timeline as to when these revenues will be realized?

Vivek Jain: See, ramping up of all these new revenue streams has already commenced. And as we mentioned in the last Investor call, by March 2020 we expect to have most of these revenue streams start kicking in. So, there will be a gradual ramp up for the next five quarters.

Reena Sridhar: So, PTFE, currently we are at about 15,000 tons for the year?

Vivek Jain: Yes.

Reena Sridhar: So, what kind of growth do we see this year in FY19 in PTFE and FY20?

Vivek Jain: See, for instance so far this year we assume that we are doing about 1,300 tons per month, in the calendar year 2019 we expect to do about 1,550 tons to 1,600 tons per month, and calendar year 2020 we would go to around 1,750 tons per month, which is our fully expanded capacity of PTFE.

Reena Sridhar: Okay and Sir and in the value-added products, does that only mean Fluoropolymer business?

Vivek Jain: Yes, this is a PTFE business we are talking about. In addition to that, as we mentioned earlier, we have several other new Fluoropolymers which we have developed and which we have invested in capacities. And these are, they were mentioned last time, they are in various stages of development and qualification with customers. Some of them are already qualified and commercial sales have already begun, others are in the process of getting qualified. So, we expect this ramp-up to continue in the next five quarters. And all this will culminate into an exit rate of what we mentioned in last line, about Rs. 100 crores a month, by March 2020.

Reena Sridhar: So, what you term under value-added product sales, that segment, so does that only include the Fluoropolymers, the different Fluoropolymers that you are mentioning?

Vivek Jain: Yes, in Fluoropolymers yes, the products like FEP, PVDF, PFA, FKM, these are additional Fluoropolymers which are more specialized. So these will get added up. In addition, there is a Fluorospecialty business which in start, two to three products are already commercialized, from April next year we will have several more products commercialized, for which the process of plants getting commissioned. There had been some delay because of some environmental clearance delay, but that has now come in. And so implementation of those projects are on. And we expect by April next year we should have additional revenues start kicking in from those new speciality chemicals which we have developed for the agro and pharma industry.

Reena Sridhar: So, first year about 50% utilization we can expect?

Vivek Jain: First year, yes. I mean, I assume so. Well, I think weighted average, yes, you can say that, because some ramp-up will be faster, some will be slower. But, yes, on an average about 50%

and by the year 2020 we expect all the capacities which have been setup, both for FluoroSpecialty chemicals and specialty Fluoropolymers and the additional PTFE, will start getting fully utilized.

- Reena Sridhar:** And on the margin front what would be your sustainable rate?
- Vivek Jain:** Margins for what?
- Reena Sridhar:** The standalone margins for all your segments put together, you are at 29% now currently.
- Vivek Jain:** I think the present margins are absolutely sustainable. In fact, they might only go up because some of these products which I am talking about, contribution margins are likely to be higher.
- Moderator:** Thank you. We have the next question from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.
- Ketan Gandhi:** Two questions, sir, recently prices of fluoride and AHF has gone up by 30%, how we are hedged, or how we are making sure that it not impacts us much?
- Vivek Jain:** If Fluorspar prices go up universally, it is bound to impact us also. But what we have already done is we have already contracted for a substantial part of our requirement for the next year. And the balance requirement is something which we are keeping open, and depending upon how the prices of Fluorspar move in the market. If they go down we will contract that, otherwise we have an option of buying more under our present contracts, we can trigger off those options.
- Ketan Gandhi:** Sir, aren't we hedged for our own Fluorspar where we have 74% economic interest?
- Vivek Jain:** Of course, we have, but I am not taking that because that is something which we may even decide to sell that Fluorspar, because since the prices are better, as our production capacity ramps up there we might even decide to sell that Fluorspar in Europe where we can get a better price. And because of the freight advantage which we will have, supplying from Morocco to Europe, that is an additional contribution margin which we will have. So, we may sell that Fluorspar and buy Fluorspar from our current sources where we have been able to contract for the next year. Of course, the prices are higher than what they have been during this calendar year, but then that is true for everybody.
- Ketan Gandhi:** So, in a sense, we are hedged? Because since we buy from other source and we sell our own Fluorspar somewhere else?
- Deepak Asher:** Ketan, broadly we are hedged, but as Mr. Jain is trying to explain, I think if we can sell the Morocco Fluorspar at a price higher than what it would cost us to buy, yes, obviously we would do that and make gain there.
- Vivek Jain:** But at the same time, our requirement in Fluorspar is much higher than what we will end up producing ourselves. So, while there is a natural hedge for maybe about 40% of our requirement,

but you know our requirement is also going up, as we increase production of the fluorine containing products, our requirement for Fluorspar will also go up. So, despite our own mine, we will still have to continue to source Fluorspar from other suppliers.

Ketan Gandhi: Sure. Sir, due to rise in input price like fluoride and AHF, is there any ramp up in the price of PTFE in value-added?

Vivek Jain: Well, we have seen that the prices are remaining stable, which I think is good enough, frankly speaking, the prices are pretty stable at this point of time and our negotiations for next year are under process with lot of our customers in USA and Europe. And we find that there is a price stability which is there. See, the Fluorspar price increase marginally impacts our cost, but not very substantially.

Ketan Gandhi: Sir, what do you think about the recently announced US ITC that no anti-dumping duty will be applicable to India and China?

Vivek Jain: Well, frankly speaking, in a way it is good because we can be more competitive in the US market. And we see a lot of momentum in the US market now and we expect fairly significant increase in sales in the US. So, this of course will make us more competitive. And on the other hand there is still a 30% duty on Chinese products because of the new tariffs which have been imposed on China by the Trump administration; all Fluoropolymers are also included in that. So, the Chinese goods will suffer a duty impact of over 25% to 30%.

Moderator: Thank you. We have the next question from the line of Viral Shah from Enam Holdings. Please go ahead.

Viral Shah: Thanks for opportunity. Sir, I had a question on the standalone business other expenses. They seem to be elevated and have been rising for the last few quarters. Are there some one offs or how should we look into that?

Vivek Jain: Yes, one is a one off because of the shutdown that we took in the last quarter, so I think about Rs. 12 crores to Rs. 14 crores of expenses in the quarter was because of that. And secondly, there was an investment that we did and the mark-to-market loss on that investment has also been charged to other expenses in the standalone balance sheet. So, this we believe is a one off, in fact, a large part of that has recovered because of improvement in the market condition. It was an equity linked kind of an investment and one hopes that in the longer-term that loss could be wiped out.

Viral Shah: And sir, what would the quantum of that investment be in terms of MTM loss for the quarter?

Vivek Jain: About Rs. 24 crores.

Viral Shah: And sir, my second question is on the Moroccan mine, what is the update on that?

- Vivek Jain:** See, as I mentioned last time, we were having some hiccups there, technical hiccups, and we had to take a plant shutdown and we have made certain improvements. We are expecting that in the next one to two months the production will stabilize. The quality is coming out to be very good and we are facing some problems with the recovery, so we are making some changes in our mezzanine scheme there, and this has actually resulted because of changes in the quality of the ore as you mine from different places. So, we expect in the next four to five weeks we should have that also in control and move towards full capacity utilization.
- Moderator:** Thank you. We have the next question from the line of Manikantha Garre from Axis Capital. Please go ahead.
- Manikantha Garre:** Congrats Sir, we have seen strong growth in revenues and EBITDA on year-on-year growth. If you can please rewind us major drivers or levers leading to this growth? And specially in which chemical products do we see the pricing momentum to sustain and for how long? Your view on the chemical products in the medium-term.
- Vivek Jain:** As I just mentioned, in the next four to five quarters much of our quarter, substantial growth which is going to come in from ramping up of capacities of new Fluoropolymers products additional PTFE capacity and the Fluorospecialty business which we have invested in. So, there is going to be a significant ramp up there. Yes, at this point of time, some of the chemicals, in terms of pricing, the prices are pretty high. We do not expect those prices to remain there long-term. So, while there could be a decline there, but they will be more than made up by the additional profitability which will come from these three new revenue streams which we have already mentioned.
- Manikantha Garre:** Understood. Sir, if I can ask, how much CAPEX has been spent in H1? And if you can give us guidance for FY19 and FY20 for Chemicals business?
- Deepak Asher:** We would have spent around Rs. 150 crores in the first half.
- Manikantha Garre:** And guidance, sir?
- Vivek Jain:** The remaining CAPEX for completing all our current projects will be maybe another Rs. 50 crores to 75 crores.
- Manikantha Garre:** And for FY20?
- Vivek Jain:** See, we have got a blueprint ready for FY20, but that is something which is still yet to be finalized. I think by the next quarter we will have a more defined CAPEX plan, and that is something which we can share with you people then.
- Moderator:** Thank you. We have the next question from the line of Krunal Shah from Enam Investments. Please go ahead.

- Krunal Shah:** Sir, my question is regarding Chloromethane, we have seen a sharp jump in realizations in volume there. Anything different that is happening in the market?
- Vivek Jain:** The present situation is what it is, some of these commodities, frankly speaking, there is very limited you can do in terms of controlling pricing. So, prices are determined by demand / supply situation. At this point of time the prices appear to be stable. They might decline in long-term, but at this point of time, I think, for next one or two quarters we would expect more or less similar prices, maybe slightly lower than this.
- Krunal Shah:** And in the beginning of the call I heard that you have mentioned that you are planning to add some capacity in wind farming. What would be that capacity be the quantum of CAPEX over there?
- Deepak Asher:** Again, it is still not completely decided but at the outside at the very maximum it will be probably be the range of about 40 to 50 megawatts, which should be around 250 to 300 crores but that is at the outside.
- Moderator:** We have the next question from the line of Surya P from Phillip Capital. Please go ahead.
- Surya P:** Just wanted to know, the Refrigerant and gas business volume wise growth, sir there is a price appreciation obviously there but the volume growth is really surprising. Despite being a weak quarter, lean quarter the volume growth is really surprising. What is driving this and do you really export anything out of it and if yes what is the share of that?
- Vivek Jain:** This is basically when you compare quarter-to-quarter growth last year versus this year. This year, we have as you know that we started manufacturing R125 and R125 mixed with R32 is R410. So, R410 sales had picked up, were much higher than the previous quarter last year and that is what is resulting into higher sales Refrigerant. Though of course, this quarter has been weak and which is seasonally so because the air conditioning market sort of gets weaker, but we are expecting that again from we are already seen some growth, additional growth coming up in this quarter October-November-December it will normally happens in by December customer start stocking up for the requirements which will come up during the start of the season from the first quarter of next year.
- Surya P:** And any export that is there from the Refrigerant sale, sir?
- Vivek Jain:** Yes, I mean we substantially export these Refrigerants even 410 is substantially exported. Indian market is still not so large but we just like as in R22 we export about 75%-80% of our production, we export there.
- Surya P:** And second question on the value-added product, the VAP sales the new product that you have introduced cumulatively what is the total CAPEX that we would have done in that stuff for those additional new products. And currently what is the utilization can you give some sense, sir?

Vivek Jain: Numbers are off the cuff but about 200 crores to 250 crores, 250 crores-300 crores is what we have invested and we are currently yet as I said some of these products we are yet to commercialize when commercial sales are happening but overall I would see that we are still at about 25%-30% capacity utilization. So, when I mentioned earlier that, we expect revenues and profitability to improve significantly in the next 5 quarters. It was basically these products, sales of these products ramping up and going up to full capacity. See, as fully scanned the markets and we have as I mentioning earlier also that given the fact that we have a fairly strong marketing distribution network now both in US and Europe and we have got strong business development team. So and many of the products were used by existing PTFE customers. This ramp up will take place by the next 4 to 5 quarters for sure.

Surya P: Sir, do you, I mean on any, see on what basis that you have identified the new product and are you currently working on the set of additional product in the fluoropolymer side. Anything on that future development front can you talk about?

Vivek Jain: See, these products which we have developed are products which are already in existence. So, our other competitors like DuPont, 3M, Daikin, we have manufactured those full range of products. So, what we have done is and of course, they have been around for the last 40-50 years. So, we have been working on development of these additional products for the last 2 years and we see a good position for us in the market because in, so that is how we developed those products and bring them to our product line. Our customers have also been asking us for enlarging our product line which thankfully that stage is now all over. And as far as new products are concerned there will always some new products which are in R&D which we are, yes there are 2-3-4 for more products which we are looking at but they could probably be developed over a period of 6 to 12 months.

Surya P: And just last one question on the fluoropolymer side only, sir. See, it is believe to be, it used to be believed as a kind of significantly competitive product area and significant competition that everybody used to see from the China side and the scenario is in the long term possibly will remain that way. So, what is the competitive dynamic that you are witnessing or what changes in the competitive dynamic rather that you are currently witnessing for the downstream fluoropolymer products?

Vivek Jain: See, at this point of time what we see is more or less stable prices for 2019 and consciously in the last 3 years we have tried to differentiate ourselves from the China to not be cast in the same basket as a Chinese. So, this we have done through better engagement in the customers providing far better services to customer's technical services, we have a very strong logistic support system where in US and Europe we are able to supply to customers just in time. We are constantly engaging with them, tweaking our products, customizing them to their requirements. So, we had perhaps reached the similar kind of status as three other major western suppliers in PTFE. So, we are almost close ranks with them and we are clearly being looked at differently from what the Chinese are perceived. Chinese are basically in average, they sell by container loads, on email, they are not present in the market. They are not working along with the customers. So, that has now given us a distinct advantage in the market. So, with that advantage and the fact

that the existing western suppliers are not expanding anymore and so, we are now being perceived as perhaps only reliable credible long terms supplier who is investing in this business. So, we are now seeing that existing customers are increasing the percentage of PTFE they used to buy from us. And also we are seeing new customers who are now had been more inclined to buy from the western suppliers coming to us. And trying to ensure that we become a strategic partner with them because existing suppliers are not able to meet the full requirements and they do not have any other place to go.

Surya P: So, that means it is not the direct head on the competition.

Vivek Jain: No, not any more. If you may be it was so about 3 years back but I think this situation has substantially change on the ground. We have also developed a lot more the new PTFE grades which for instance the Chinese do not make and so, these are the grades which had been sort of monopolized by the western suppliers. So, we have also now developed a strong position in those grades.

Surya P: So, the business outlook itself has improved. So, considering the western supplier is our possible comparable risk, then compared to them what advantage that we are having say whether the cost possibly the cost advantage would be there, anything else that we are having?

Vivek Jain: Still, of course the cost advantage in the fact that we are providing much better service to our customers both in US and Europe. Multiple customers tell us that our level of services far better than the service which they get from western suppliers. Maybe also because of the fact that we are pushing harder and some of the western suppliers become more complacent and frankly speaking it is not for any of them the primary focus area in business. They are larger companies and multiple products and for us this is our sort of priority area. You will see a lot of focus from across the company and so that is the reason why we have been able to actually sort of develop so far, in the short span of time what has taken these other companies 30 to 40 years. We have done it in a very short span of time because of the focus which we give to this business. And which is also not only getting reflected and the pace that which we have developed the complete range of PTFE and other Fluoropolymers but also the ramp up of business which some of these companies are now giving to us.

Surya P: And just last on the qualitative, the kind of qualitative service when you mean, is it the customization of product for the customer, sir?

Vivek Jain: That also plus also sort of being with them supporting them in case of on trial, in case of on technical information, they want technical support in the application area we do all of that. So, that actually helps and they sale to our customers where both in US and Europe. We see significant increase and volumes which are exiting customers are now giving to us.

Moderator: Thank you. We have the next question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

- Giriraj Daga:** So we have, like Rs100 crores of last year, last quarter value-added products. This quarter it is Rs 86 crores and that includes fluoropolymer also FKM R410 and others. So, when you mentioned Rs 100 crores of exit rate like what is the last one first half revenue from this fluoropolymers, which number we should take?
- Vivek Jain:** Yes, it will go significantly. I cannot often give you a number but just now as I said our capacity utilization of all these new Fluoropolymers is just started. Some of them are commercially owned, so there would be a significant ramp up of those fluoropolymers and I can give you in terms of tonnages for instance we need fluoropolymers would total up to about 800 to 900 tonnes in a month. Just now we might be doing about 100 tonnes, so this 800 to 900 tonnes is what we expect to achieve by March 2020.
- Giriraj Daga:** So, just one clarification the Rs 17 crores what you achieve in the last quarter fluoropolymer, we expect this number to be 100 crores. Maybe 6-7-8 quarters on the line, right?
- Deepak Asher:** Possibly yes.
- Giriraj Daga:** Second like what is the overall guidance we are looking on this value-added second half like we did decently well in the from Rs 85 crores to Rs 186-187 crores in the first half. Well the momentum be further improved in the second half? For overall ...
- Vivek Jain:** Yes, of course because that is one of the major value drivers for the future and that is there a new business is going to come from.
- Giriraj Daga:** My last question is on the one clarification on the restructuring our corporate action what we have taken. So, what appears is that we will list chemical separately and the existing entity will be as of now holding company for the Leisure business or Inox Leisure and Inox Wind. First of all, is that understanding right?
- Deepak Asher:** Yes, that is correct. So, as we mention the current entity Gujarat Fluorochemicals owns the chemical business directly and owns around 49% in Inox Leisure and about 57% Inox Wind. The chemical business will be demerged into a separate mirror image company which we could call say GFL 2 and therefore GFL 1 will continue to hold its equity stakes in the entertainments and the wind turbine business and to that extent will become holding company for those businesses.
- Giriraj Daga:** And what will be our further plan of action from that like, will we be looking further value unlocking at the holding company level, maybe like a distributing like the existing shareholder benefiting from the holding in these entities? So, what are the future courses of action there?
- Deepak Asher:** Frankly we had thought with the idea and there could be a possibility of the board considering demerging of those investments as well. But that might happen once this is over. frankly the reason we focused on this as a first step was because the other businesses are in any case independently listed and therefore investors had an opportunity of investing in them whereas the chemical business was not independently listed. And therefore, there was no value attribution to

the chemical business. Investors in GFL had to even though their primary focus was to invest in the chemical business had to perforce to buy stake in the other business as well. So, we thought we will provide an opportunity for investors who are chemical only profile investor to invest in that business. And of course, eventually I think the board will have the appropriate time consider demerging of the other stake holding as well.

Moderator: Thank you. We have the next question from the line of Avik Mitra from Avik Sat Financial Advisory. Please go ahead.

Avik Mitra: I would like to know about one thing regarding the demerger, so presently you are having and what is the loan you have actually provided to Inox Wind and Inox Leisure if you can give separately?

Deepak Asher: Well the actual loan provided is about Rs100 crores, in the region of about Rs 85 to about Rs100 crores that is from the balance sheet of GFL.

Avik Mitra: There are Rs 230 crores of loan asset is there in your books, if you can just tell us what is it?

Deepak Asher: So, I thought your question was pertaining to the loans provided to Inox Wind?

Avik Mitra: Yes, we thought it is because consolidated book shows a loan of about 37 crores.

Deepak Asher: Yes, they are two different companies where there is a loan also to Inox Leisure is about 160 crores but that as you might have noticed we are doing a preferential issue Inox Leisure and therefore that ICD or loan will get converted into equity of Inox Leisure. And then there is also a loan to Inox renewable which we expect will get repaid over the next 6 months.

Avik Mitra: How much is that?

Deepak Asher: That amount would be about Rs 200 crores.

Avik Mitra: So, that is to be repaid in next 6 months and come back to Gujarat Fluorochem?

Deepak Asher: Yes, that is expected, yes.

Moderator: Thank you. We have the next question from the line of Nitin Soni from GC Investments. Please go ahead.

Nitin Soni: If you can tell me what is our capacity for all these value-added products R410 and the other fluoropolymers? And what could be our current utilization for them?

Vivek Jain: This is what we have been discussing for the new fluoropolymers it is about 800 to 900 tonnes in a month. We are currently making about 100 tonnes in a month. So, this is the one which is now going to be ramped up in the next 5 quarters.

- Nitin Soni:** And currently we are manufacturing about 100 tonnes per month?
- Vivek Jain:** That is right.
- Nitin Soni:** And coming to the PTFE side, sir today approximately of the total volume of about 45% is on the value-added PTFE. Once, as we ramp up and add new products and once the capacity also comes in, in the next 2 years what is the share of the value-added PTFE of the total sales to be expect?
- Vivek Jain:** So, we would expect value-added PTFE to go up to about 55% and granular PTFE to remain at 45%. But even granular PTFE, you see now that we have supplying a lot of this to US and European customers where pricing is now improved because we are now not directly competing with the Chinese. So, we achieve improvements taking place in pricing in granular products both in US and Europe.
- Nitin Soni:** Once we reach this full utilization, so what is the, is it possible to further increase our capacity if you have to like what could be our next growth area if you have to go from here on once we reach about 21,000 tonnes of capacity in the PTFE, can we further increase or that is going to be difficult over at the same complex?
- Vivek Jain:** No, we cannot do it in the same complex and we have got as maybe that something we did not but we have another plot planned near our site in Dahej about 7-8 kilometers from our site which is the site which will open up for our future expansion which as I mentioned that we have some blueprint ready but that will get more crystalize in the first quarter of next year. And once that is crystalize, we will discuss at that time. But yes, we will have possibilities of going further in the future but not at this site.
- Nitin Soni:** And one clarification we indicated that there was a Rs 24 crores of M2M on one of the investments which was made. This is over and above the Forex loss which is the part of other expense, correct?
- Deepak Asher:** There is no FOREX loss, in fact there is FOREX gain. The Rs 24 crores M2M was on the investment, treasury investment side.
- Nitin Soni:** But this is the part of the other expenses?
- Deepak Asher:** That is correct.
- Nitin Soni:** And what would be that amount of this investment?
- Deepak Asher:** Could be in the tune of about Rs 180 crores.
- Moderator:** Thank you. Ladies and gentlemen, that was our last question. I now hand the floor back to the management for closing comments.

Deepak Asher: No, I mean no specific closing comments from our side. Just like to thank all investors for your interest and we continue to look forward to your support. Thanks very much.

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