



“Gujarat Fluorochemicals Limited Q3 FY 2017 Results Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Gujarat Fluorochemicals Limited Q3 FY2017 results Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Tarwadi from Axis Capital Limited. Thank you and over to you Sir!

Prashant Tarwadi: Hi Good afternoon to all. 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 Projects and New Initiatives. We will start with overview of the Company’s performance of the current quarter and then we can switch to Q&A session. Thank you and over to you Jain Sir!

Deepak Asher: This is Deepak Asher here. Good afternoon and a very warm welcome to all participants on this call. I am pleased to inform you that the Board of Directors has approved the quarterly results for the Company for the quarter ended December 2016 about an hour ago. This results have been uploaded on the website of the Company as well as on the website of the Stock Exchanges both BSE as well as NSE and along with the results in the statutory format. We have also uploaded an earnings presentation and updates to provide you with a little bit more information than what is statutorily provided in the earnings format and I intend to walk you through some of the key highlights of the presentation and then of course as was mentioned we will open the call to any questions that you might have. So we will go top down. The consolidated results for Gujarat Fluorochemicals Limited - so here what we will do is I will take you through the Q3 FY2017 numbers and compare those with Q3 FY2016 numbers so in that sense is a Y-on-Y comparison and then we will also compare the nine months FY2017 with nine months FY2016 on the three key parameters, which are revenues, EBITDA and PAT.

So from the revenue perspective, revenues went up by 16% from Rs.1583 Crores to Rs.1837 Crores for the quarter on a consolidated basis, EBITDA went up by 2% from Rs.298 Crores to Rs.303 Crores, EBITDA margin therefore fell marginally from 18.8% to 16.5% for the quarter, PAT fell by about 8% from Rs.79.5 Crores to Rs.73.4 Crores, PAT margin therefore also fell marginally from 5% to 4%, these were the quarterly numbers. For the nine months of FY2017 compared to nine months of FY2016, revenues fell from Rs.4742 Crores to Rs.4502 Crores, EBITDA fell from Rs.913 Crores to Rs.805 Crores, EBITDA margin shrunk from 19.3% to 17.9% and PAT reduced from Rs.272 Crores to Rs.210 Crores, that is by 23%, PAT margins dropped from 5.7% to 4.7%.

So these were the consolidated numbers. Now as you are aware the consolidated numbers comprise of essentially four different businesses, the chemical business, which is housed in GFL itself, the wind turbine manufacturing business, which is housed in Inox Wind Limited, which is a separate listed entity, the wind farming business, which is 100% again a separate entity, but 100% owned by Gujarat Fluorochemicals and the film exhibition business, which is housed in a separate listed entity called INOX Leisure Limited. So if you were to look at the breakups of these four key segments within the GFL's consolidated results, the chemical business revenues went up by 6% from Rs.329 Crores to Rs.349 Crores, the wind turbine manufacturing business went up by 22% from Rs.950 Crores to Rs.1160 Crores, the wind farming business fell by about 11% Rs.32 Crores down to about Rs.29 Crores and the film exhibition business was relatively flat to Rs.298 Crores in Q3 FY2016 to Rs.298 Crores in Q2 FY2017 as well. As a result of this, the total revenues for the quarter increased by 16% from Rs.1582 Crores to Rs.1837 Crores. For the nine months the figures are chemical business up by 5% from Rs.1063 Crores to Rs.1111 Crores, wind turbine manufacturing business was down by 8% from Rs.2610 Crores to Rs.2396 Crores, the wind farming business was up by 20% from Rs.140 Crores to Rs.169 Crores and the film exhibition business was up on total revenue basis for the nine months period from Rs.908 Crores to Rs.932 Crores, which is a growth of 3%, as a result of which total revenues for the nine months fell marginally by about 5% from Rs.4741 Crores to Rs.4502 Crores.

The breakup from each of these four segments at an EBITDA level for the quarter, chemical business EBITDA went up by 5% from Rs 64 Crores to Rs 67.3 Crores, wind turbine manufacturing business EBITDA went up by 13% from Rs 163 Crores to Rs 184 Crores, wind farming business EBITDA fell down by 17% from Rs 25.1 Crores to Rs 20.8 Crores and the film exhibition business EBITDA fell from Rs 53.4 Crores to Rs 31.7 Crores, as a result of which the overall EBITDA increased by 2% from 298 Crores to 303 Crores. These were the quarterly numbers for the nine months period, EBITDA from the chemical business improved by about 2% from Rs 218 Crores to Rs 221 Crores, EBITDA from the wind turbine manufacturing business fell by 18% from 401 Crores to 330 Crores, on the wind farming business EBITDA improved by 22% from Rs 117 Crores to Rs 143 Crores, and on the film exhibition business for the nine months period the EBITDA fell by 31% from Rs 174 Crores to Rs 121 Crores, as a result of which overall EBITDA for the nine months period fell by 12% from Rs 913 Crores to Rs 805 Crores.

At a PAT level for the quarter, the PAT from the chemical business was Rs 26.4 Crores in Q3 FY2016 this fell by about 4% to Rs 25.4 Crores in Q3 FY2017, on the wind turbine manufacturing business the PAT improved by 2% from Rs 106 Crores to Rs 107 Crores, on the wind farming business the PAT deteriorated from Rs 15.9 Crores negative to 23 Crores negative, on the film exhibition business the PAT reduced from Rs 17 Crores to Rs 3.8 Crores, as a result of which the overall PAT after adjustment of other subsidiaries intrasegment and minority interest fell marginally

from Rs 79.5 Crores to Rs 73.4 Crores, that is a fall of about 8%. Those are the numbers for the quarter. For the nine-months period from the chemical business there was an improvement in PAT by 16% from Rs 80.9 Crores to Rs 93.9 Crores, on and the wind turbine manufacturing business the PAT fell from Rs 260 Crores to Rs 175 Crores, on the wind farming business there was improvement negative PAT of Rs 6.2 Crores went to negative PAT of Rs 4 Crores, on the film exhibition business PAT from Rs 63.6 Crores fell to Rs 30.3 Crores, as a result of which overall PAT for the nine-month period from Rs 272 Crores came down to about Rs 210 Crores.

So these are the overall figures of the consolidated results. Now focusing more on the chemical business, which is depicted in the standalone results of GFL, Revenues increased by 6% from Rs 329.9 Crores to Rs 349.5 Crores, EBITDA improved by 5% from Rs 64 Crores to Rs 67.3 Crores, EBITDA margin therefore was around 19.4%, PAT fell marginally by about 4% from Rs 26.4 Crores to Rs 25.4 Crores, PAT margin, which was 8% in Q3 FY2016 came down to about 7.3% in Q3 FY2017. For the nine-months period revenues increased by 5% from Rs 1063 Crores to Rs 1111 Crores, EBITDA increased from Rs 218 Crores to Rs 221 Crores, there is a growth of about 2% and PAT increased from Rs 80.9 Crores to Rs 93.9 Crores, which is a growth of about 16%.

Now again as you might be aware, the chemical business itself consist of about five different product lines, there is Caustic Soda, there is Chloromethane, there is Refrigerant, there is PTFE and then several other products bunched up together, so the breakup for each of these product lines is Caustic Soda sales went up by 26%, Rs 77.5 Crores in Q3 FY2016 up to Rs 97.6 Crores in Q3 FY2017, Chloromethane sales went down by 6% from Rs 71.4 Crores to Rs 67.5 Crores, Refrigerant sales went down by 32% from Rs 48.7 Crores to Rs 33.2 Crores, PTFE sales went up by 21% from Rs 101.6 Crores to Rs 123.4 Crores and the other products sales went down by about 10% from Rs 30.6 Crores to Rs 27.7 Crores, as a result of which the overall sales went up from 329.9 Crores to Rs 349.5 Crores.

The revenue breakup for the nine-month period, Caustic Soda sales up by 20% from Rs 235 Crores to Rs 281 Crores, Chloromethane sales down by 5% from Rs 211 Crores to Rs 200 Crores, Refrigerant sales down by 21% from Rs 209 Crores to Rs 166 Crores, PTFE sales up by 18% from Rs 316 Crores to Rs 374 Crores and the other products virtually flat from Rs 90.6 Crores to Rs 88.5 Crores, as a result of which overall sales went up from Rs 1062 Crores to Rs 1110 Crores.

I do not propose to take you through the details of Inox Wind Limited and Inox Leisure Limited both of which are listed entities, though information about those are also available in the presentation. In terms of shareholding structure, the price as of yesterday of the share was about Rs.467, which puts the market cap of the Company at about 5127 Crores. Shareholding distribution - Promoter and Promoter Group hold 68.33%, DII is 4.27%, FII is 3.81%, and public and others at 23.59%. The major institutional investors as of 21st December 2016 include Reliance Capital at 1.82%, Reliance

Life Insurance at 1.32%, UTI Mutual Fund at 1.19%, Fidelity Investments at about 1.13%, and Birla Sun Life Mutual Fund at about 1.12%.

So that is a broad snapshot of the operations of the Company and I would now like to hand it over to Prashant to conduct the Q&A.

Moderator: Thank you very much. We will now begin with the question and answer session. We take the first question from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla: Thanks for the opportunity. Just wanted whether you are sharing the volumetric data points, which you used to share on quarterly basis, for the third quarter the volume data for the chemical segments and the price per metric tonne?

Deepak Asher: No, actually if you recall from the last quarter we had stopped sharing that because we thought that was way too much information going into the public domain, to some extent it will also have affected our competitive position in the market because it also had information on pricing, etc., so we decided to not share that.

Ranjit Cirumalla: In that case can you just guide us through qualitatively what would have been the price trend sequentially?

Deepak Asher: In which particular products?

Ranjit Cirumalla: Caustic soda and chloromethane.

Deepak Asher: Well Y-o-Y Caustic Soda prices have been up by about 17%, Chloromethane prices have been around the same levels it is - up by about 3%, Refrigerant prices again have been relatively flat in fact down by about 2% and PTFE prices have been on an average blended average down by around 5% Q3 FY2017 compared to Q3 FY2016.

Ranjit Cirumalla: Similarly, you can give on the volume front that would be helpful?

Deepak Asher: Again Caustic Soda volumes were up by 8%, Chloromethane volumes down by around 9%, Refrigerant volumes down by about 31%, and PTFE sales up by about 28% blended.

Ranjit Cirumalla: Even in this PTFE blended what would be the ratio of regular and value grade?

Deepak Asher: Well regular was up by 21% to be precise and value added was up by about 38%, so there was churn of mix, what was 58:42 is now 55:45.

- Ranjit Cirumalla:** It is moving towards more towards the value added?
- Deepak Asher:** Yes correct.
- Ranjit Cirumalla:** The value rise for the blended basis, which is down by 5%, how would it be in the regular and value grade?
- Deepak Asher:** Well the regular grade was down by about 9% and the value added was down by about 3% and that is the reason why the blended average was down by about 5%.
- Ranjit Cirumalla:** Finally on the power and fuel cost capacity there is a jump on Y-o-Y basis any particular reason even on the sequential basis there is a significant jump from Rs 77 Crores to Rs 95 Crores?
- Deepak Asher:** Well essentially two reasons, one is the generation from our captive wind power plant was lower in this quarter and as a result we had to buy power from the exchange, which cost as much more than what are captive power would have cost us and secondly there was regulatory issue in terms of the blocking of an open access sale, which would have permitted us to buy cheaper power and we couldn't do that. The overall impact of both these factors put together was about Rs 12 Crores for the quarter. We expect both this to be momentary in nature and therefore would get corrected in the coming quarters.
- Ranjit Cirumalla:** Would it be one more quarter phenomena or it would be there for a couple of more quarters?
- Deepak Asher:** Perhaps one more quarter.
- Ranjit Cirumalla:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.
- Ketan Gandhi:** What is the capacity utilization on PTFE front and the value added blended?
- Deepak Asher:** The capacity utilization just a moment, in terms of percentage that would be roughly about 60%.
- Vivek Jain:** When the capacity utilization is going up now January we did about 1050 tonnes, which would be almost about 70-75%.
- Ketan Gandhi:** In terms of guidance for 100% capacity utilization any thought process, one year, two years or three years?

- Vivek Jain:** No, it is not I think by the start of the next financial year we should be close to our capacity utilization.
- Ketan Gandhi:** We are just one quarter away?
- Deepak Asher:** No five quarters away.
- Vivek Jain:** Maybe about 4-5 quarters away to get the full capacity utilization. We have developed some additional grades of value added fine powder, which are currently going through qualification stage and that will in the line of about 6-8 months they will start picking up, commercial sales will start picking up of those grades and that will help us in going towards fuller capacity utilization and then improving the product mix in favour of value added rates so overall realization will also improve.
- Ketan Gandhi:** Sir my next question is on what is the thought process on monetizing wind farm assets?
- Deepak Asher:** Well again we are looking at possibilities, it is a bit too early to discuss what exactly we are doing, we got about 260 megawatts operational and we believe that could be a value, which is significantly more than what we have invested in that business, we have been looking in a couple of options and I think maybe after a quarter or so we might be able to share with you some more news on that.
- Ketan Gandhi:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Chetan Thakkar from ASK Investment. Please go ahead.
- Chetan Thakkar:** Good evening Sir. Just wanted to get a sense on the gross profit margin that has improved sequentially so is it a mix of improvement in mix in PTFE and Caustic Soda. Just wanted to understand the gross profit improvement that we have seen is that a function of the change in mix in PTFE and caustic soda.
- Deepak Asher:** Well the reason was I was hesitating to respond I thought the EBITDA margin was roughly the same so on a quarterly basis they are at about 19.4% Q3 FY2016 to 19.2% Q3 FY2017.
- Chetan Thakkar:** No in the gross profit level Sir?
- Deepak Asher:** You mean after the raw material cost?
- Chetan Thakkar:** Yes Sir, after the raw material.

- Deepak Asher:** Well it could be incorrect to just look at raw materials because one of the significant input in the manufacturing process is power as well so I do not know whether you looked at raw materials and power.
- Chetan Thakkar:** No Sir, I have adjusted your Rs 12 Crores, which you said was because of the issue that was there, so if I adjust that off as well then there is an improvement that is there in.
- Deepak Asher:** I am afraid, I do not have that analysis maybe we need to work on that and get back to you.
- Chetan Thakkar:** Secondly, just wanted to understand what is the difference in margins between value added and the commodity grade in PTFE?
- Vivek Jain:** It could be about 2-2.5 times.
- Chetan Thakkar:** So the commodity grade OP in PTFE would be in the mid teens. The operating profit in the commodity grade PTFE would be in the low teens or the mid teens?
- Deepak Asher:** Yes it depends on how you define operating profit?
- Chetan Thakkar:** At a gross profit level would that be a good way to look at it or no?
- Deepak Asher:** Actually no, first of all we do not look at those separately as commodity versus speciality and also we will look generally at EBITDA or PBDT levels so it has been difficult for us to relate to the question that you are asking.
- Chetan Thakkar:** Sir, assuming when you will hit 100% on PTFE, what is the kind of improvement in operating profit that we can see with value added going up?
- Deepak Asher:** Well at current EBITDA level we are at about Rs 300- Rs350 Crores, we would expect if we were at full capacity utilization and some of the other plants that we are looking at would fructify this EBITDA levels could go up by maybe 2.5-3 times.
- Vivek Jain** That is over a period of two years.
- Chetan Thakkar:** Sure and that is largely from this increase in capacity utilization of PTFE or other plans as well?
- Vivek Jain:** Two of the reasons, one is of course full capacity utilization of PTFE and moving up the value curve, the second would be the new fluoropolymers, which we are adding to our portfolio. These are currently in various stages of development and the commercialization of that will start from the

beginning of next financial year and those will pick up in the next 4-8 quarters and will add substantially to the bottom line of the Company. Most of the grade development work has been done, minor capexes, which had to be done are also over so we expect that this will start contributing from the next quarter onwards. you must understand that these speciality polymers are slow to start, the qualification process is fairly lengthy, but once the qualifications have taken place and initial commercial business starts then there is a inflexion point and we can reach full capacity utilization of those products fairly quickly so we are expecting in the next two years the new fluoropolymers also which we are adding and we will get to be near to full capacity utilization.

Chetan Thakkar: How much capex have you done on these new fluorochemicals so far?

Vivek Jain: Well I do not have numbers just now, but may be close to about Rs 100 to Rs 200 Crores that would also include some one or two other products, which we are adding, which will come in to play in 2019, in the year calendar 2019, which is essentially going to utilize or TFE monomer, so the strategy really is to build up utilization of TFE to much beyond the capacity of TFE, which we have, as a consequence of which we will be able to substitute higher per tonne TFE contributing items with products which are giving us a lower contribution, so we expect all this to happen by the calendar year 2019 and 2019 is where we see significant improvement in the bottomline.

Chetan Thakkar: Sir, the fluoro specialities are for which end-user industry?

Vivek Jain: Both pharma and agri.

Chetan Thakkar: Thank you!

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management of Gujarat Fluorochemicals Limited for closing comments.

Deepak Asher: On behalf of the management of Gujarat Fluorochemicals Limited, I would like to thank all of you investors, analysts, fund managers for your interest in the Company and we will look forward to your continued support going forward as well. Thank you very much.

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