

“GFL Limited Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the GFL Limited Q1FY20 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. Manikantha Garre from Axis Capital Limited. Thank you and over to you Sir!

Manikantha Garre: Thank you Stanford. Good evening to everyone. On behalf of Axis Capital I welcome all participants to the conference call. Today we have with us Mr. Vivek Jain - Managing Director - Gujarat Fluorochemicals, Mr. Deepak Asher – Director & Group Head of Corporate Finance, INOX Group and Mr. VK Soni - Head of Projects & New Initiatives - Gujarat Fluorochemicals. They will start with brief overview of GFL Limited Q1FY20 performance and then we can switch over to Q&A session. Thank you and over to you Sir!

Deepak Asher: Thanks very much and a very good evening to all participants on this call. In terms of background, I would like to start by saying that we are now talking about two different companies GFL Limited which was earlier known as Gujarat Fluorochemicals Limited, that is the call that we are doing currently from 4:30 to 5 o'clock and from 5 o'clock onwards we will move to Gujarat Fluorochemicals Limited the new entity which has been created as a result of the demerger of the chemical business from GFL to Gujarat Fluoro. That we will do from 5:00 to 5:30.

Again, just to give you a background as you probably are aware the earlier entity what was called Gujarat Fluorochemicals Limited was engaged in the business of chemicals which was caustic soda, chlorine, and chloromethane, refrigerants essentially HCFC 22, fluoropolymers essentially PTFE as well as certain other fluorospecialty chemicals. In addition to this business, GFL was also carrying on two other businesses through its listed entities, which were subsidiaries. GFL owns 51% stake in INOX Leisure Limited, which was engaged in the operation of national chain of multiplex cinema theaters and 57% stake in Inox Wind Limited, which was engaged in the business of providing end-to-end turnkey wind energy solutions to customers who are primarily IPPs. The Board of Directors had approved subject of course to shareholder approval, etc., and the approvals of all other regulatory authorities including the Stock Exchanges, SEBI and NCLT, a scheme for demerging the chemical business into another company that would eventually be a mirror image company of GFL and post demerger, the demerger scheme also envisage that the erstwhile company Gujarat Fluorochemicals, which was the holding company would be renamed GFL Limited and the new company that was created to host the chemical business would be renamed to Gujarat Fluorochemicals Limited. So currently, we are talking about the results of GFL Limited.

Now again just to give you a brief overview of the structure, GFL Limited earlier before the scheme implementation was owned 68% by the Promoters, 32% by the Public. GFL owned the chemical business that included the Ranjitnagar plant, Dahej plant, some captive wind power plants, 100% stake in GFL Singapore, 100% stake in GFL USA, 100% stake in GFL Germany and 74% GFL Morocco and all these were constituting the chemical business of GFL. In addition, it owned 51% of the cinema business, 57% of the wind energy business and certain other businesses like 100% stake in Inox Renewables which was an IPP and 100% stake in INOX Infrastructure, which again was engaged in real estate development.

The objectives of this demerger scheme as you might be aware was four or five fold. Firstly, obviously the intention was to separately and independently list the chemical business because the chemical business was not independently listed unlike the wind energy and the entertainment business and therefore, there was a difficulty in valuing the chemical business, one typically had to do some of the parts. Whereas now with a separate listing of the chemical business, it would be possible to impute a precise value to the chemical business. Secondly, of course, it would provide opportunity to investors who wish to invest only in the chemical business. Earlier because the chemical business was housed in GFL, anybody who was interested in investing in a pure chemical play had to perforce by certain implicit stakes in the wind energy business and the entertainment business for which they may not have had an appetite. Now this demerger would give such investors an opportunity to buy stakes in a chemical only business unlike earlier. Thirdly, of course, it is expected to unlock shareholder value because the chemical business was suffering what is typically known in the market as a holding company discount because it was held in a structure which was a holding company whereas now it being separately listed, would not suffer that holding company discount. This will of course also entail certain other operational advantages like segregation of business with different risks and return profiles, better growth strategy with focused capital allocation for each businesses and economy in business operations.

The scheme envisage as I mentioned demerging the chemical business including the investments in its overseas subsidiaries which were related to the chemical business into a separate company called, for the sake of the abbreviation, GFL2 by way of an arrangement scheme approved by the NCLT. The appointed date for this demerger was April 1, 2019, the share entitlement ratio was that every shareholder of GFL for every share of Rs.1 each fully paid up would be allotted one share of Rs.1 each fully paid in GFL2 and therefore all shareholders of GFL1 will also automatically become shareholders of GFL2 in the same proportion that they held shares in GFL1 and as a I mentioned this would ensure that GFL2 would be a mirror image company of GFL1 and then of course the scheme also provided for a change in name of GFL1 to GFL Limited and GFL2 to Gujarat Fluorochemicals Limited and all assets and liabilities were recorded in GFL2 at book values and both these companies are intended to eventually be separated and listed on both, BSE and NSE GFL

Limited of course continues to be listed, and Gujarat Fluorochemicals Limited which is GFL2 will also be listed on both the stock exchanges.

Broadly speaking in terms of bifurcation of assets and liabilities from the earlier consolidated GFL to GFL1 and GFL2, about fixed assets of 2700 Crores got split up into GFL1 about 300 Crores and GFL2 about 2400 Crores. Some strategic investments which were not related to the chemical business remain in GFL1, this was roughly about 900 Crores and strategic investments which were related to chemical business went to GFL2. Net cash of roughly about 158 Crores went to GFL2, working capital of roughly about 850 Crores also went to GFL2 because it pertains to the chemical business and as a result of which the net worth of the company which was 4700 Crores got split into GFL1 1200 Crores and GFL2 about 3500 Crores. In terms of book value of share, what was Rs.428 per share in GFL consolidated got split into Rs.109 for GFL1 and Rs.319 for GFL2.

As a result of the demerger of the chemical operations from GFL, it now does not hold any operations and therefore the only revenue it has is as a result of certain interest on the investments which are still continuing in GFL and hence there is really not anything significant to report as far as standalone financial results are concerned. Also as far as consolidated financial results are concerned, because the consolidation is happening of two listed companies Inox Wind and Inox Leisure, both of these are listed I would assume that those who are interested in this businesses would have followed the earnings calls for those companies as well.

So that ladies and gentleman is a brief overview of GFL Limited which as I mentioned does not have any operations now, but is a holding company for INOX Leisure and INOX Wind and also own some other investments of roughly about 900 Crores in related businesses. If you have any questions pertaining to GFL Limited or this holding company I would like to take them now and then once that is done, we could get into the call for Gujarat Fluorochemicals Limited, which the company that houses the chemical business.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity. Sir how is this 922 Crores investments split between INOX Wind, Leisure, and you mentioned there are two other entities also, Renewable and Infrastructure. So if you can just give us the book value of the four pieces and may be anything else?

Deepak Asher: Yeah, roughly about 250 Crores in INOX Leisure Limited, about 50 Crores in INOX Infrastructure Limited, which is actually a real estate development, about 250 Crores in

INOX Leisure, INOX Wind would be roughly about 130 Crores. INOX Wind Infrastructure about 100 Crores, and INOX Renewable would be roughly about 400 Crores.

Chirag Dagli: Okay. There is one more entity. There have been total five entities?

Deepak Asher: Yeah, that is correct.

Chirag Dagli: There was one more wind what was that actually?

Deepak Asher: INOX Wind Infrastructure which is 100% subsidiary of INOX Wind. As you know INOX Wind is engaged in turbine manufacturing and INOX Wind Infrastructure is engaged in the EPC and O&M services. It is 100% sub of INOX Wind so you might consider it could be a part of INOX Wind itself.

Chirag Dagli: So INOX Wind 130 Crores is over and above the INOX Wind Infrastructure investment, what is the value Sir of INOX Wind Infrastructure?

Deepak Asher: You mean what is invested?

Chirag Dagli: Yes.

Deepak Asher: About 150 Crores.

Chirag Dagli: 150, okay. What is the nature of fixed assets that are there Sir in this balance sheet now?

Deepak Asher: That is the capital advance given for building an IPP from a pure short-term tactical perspective. There is a wind asset that we are building currently, which may intent to flip over the next 12 to 18 months to a third party investor.

Chirag Dagli: Okay. The way we should think this capital advance will come back?

Deepak Asher: That's correct. What I mentioned which is invested also some of those are in the forms of short-term loans or ICDs which also eventually should come back.

Chirag Dagli: This is not to one of our invested companies?

Deepak Asher: No it would be to our invested company.

Chirag Dagli: In some sense over the next 12 months this entity we have about 271 may be 300 Crores of cash on books?

Deepak Asher: But I would expect it be more because I mentioned even out of 922 part of that is ICDs, which should come back.

Chirag Dagli: Oh, okay. Perfect. There was a proposal to sort of collapse from four companies on to three because the operating businesses are three so what happens from here on as far as that plan is concerned?

Deepak Asher: So we are just waiting for this get to over and in terms of timeline, as you know we have got the NCLT approval, we have filed the approval with the MCA, the Ministry of Corporate Affairs so the scheme became effective, the scheme of demerger of the chemical business they just held the record date, so we have issued the shares of GFL2 to all the shareholders of GFL1. We are applying to the stock exchanges for listing those shares may be in a day or two and we were just waiting for today's board meeting to get over and once that happens, the stock exchanges typically take about 3 to 4 weeks for the shares to get listed. So this entire scheme would be fully operational including the listing of the shares of GFL2 by middle of September, the worse case of third week of September. Once that is done then I will need to go back to my Board for presenting different option in terms of how we could structure the potential demerger of the other two businesses from GFL and once the board approves a certain decision in term of what structure to adopt depending on the pros and cons of each of structure, we will be in a position to announce any decision which is taken then.

Chirag Dagli: Perfect. Okay Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Ashok Mehti from AKM Financial. Please go ahead.

Ashok Mehti: The question is after the demerger GFL Company is having cinema business or wind energy business?

Deepak Asher: Well not in GFL itself but a whole stake in those businesses the whole 57% stake in the wind energy business and 51% stake in the entertainment business.

Ashok Mehti: My question is will these companies be demerging in near future?

Deepak Asher: As I just mentioned to Chirag in response to the earlier question once this current demerger of the chemical business is complete, we will evaluate the options that we have for demerging the other businesses as well. We will present it to the board and then the board will decide as to what to do forward in terms of what structure to adopt what not to and once that decision is taken we will be able to give you a more concrete announcement of what the plan is for that.

Ashok Mehti: Okay Sir.

- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** Thank you for the followup. There is no net debt in GFL now because I understand in the past we were running some debt in the INOX Renewable entity right?
- Deepak Asher:** That is correct. This place that I mentioned was split of GFL on a standalone basis not on a consol basis. So on a standalone basis I can confirm that there is no debt in GFL1 which is the holding company and there is also no debt in GFL2 of course we will deal with that in the second call, but there is a net cash in GFL2. So we are talking of these two companies on a standalone basis.
- Chirag Dagli:** Okay, but this INOX Renewable is a 100% subsidiary of GFL1.
- Deepak Asher:** Yeah, that is correct, but again just to clarify when we split the balance sheet for the demerger perspective; it was a standalone balance sheet that we split not the consol balance sheet. The split that I mentioned to you was on the standalone balance sheet, but what I would also like to add again purely from a valuation perspective if that is where you are getting, we own 51% of INOX Leisure. The INOX Leisure market cap is currently about 3000 Crores so in a sense the market value of that investment in GFL1 is about 1500 Crores. We own about 57% of INOX Wind, the market cap of that is roughly about 1100 Crores and therefore this investment is worth about 600 Crores, and there is about as I mentioned 900 Crores worth of other assets, which hopefully, over the few quarters or may be even a couple of years would come back as cash. So if you just add up this values of 1500 plus 600 plus 900 and that is up to about 3000 Crores and on a capital of about 11 Crores translates to roughly about Rs.275 per share. Now obviously I understand that there would be a holding company discount, but just wanted to mention from a split of the balance sheet perspective that is the market value of the shares that continue to reside in GFL1.
- Chirag Dagli:** I understand Sir. So how different would the consolidated balance sheet look versus the standalone?
- Deepak Asher:** Unfortunately, I do not have those numbers in front of me, but I will need to pull them. Again as you know in June results we do not really prepare balance sheet.
- Chirag Dagli:** I understand Sir. Is there a significant amount of debt on the renewable balance sheet?
- Deepak Asher:** No the only debt on the renewable balance sheet would be inter-corporate deposit granted by GFL1 so in that sense in consolation that will cancel out each other.
- Chirag Dagli:** Okay Sir. Thank you.

Moderator:

Thank you very much. Ladies and gentlemen on behalf of Axis Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.