

“Gujarat Fluorochemicals Limited Q4 FY18 Results Conference Call”

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MODERATOR: MR. FARZAN MADON – AXIS CAPITAL

Moderator: Good day and welcome to the Gujarat Fluorochemicals Limited Q4 FY18 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing “*” then “0” on your touchtone telephone. I now hand the conference over to Mr. Farzan Madon from Axis Capital Limited. Thank you and over to sir.

Farzan Madon: Good evening and thank you for standing by. We have with us the management of Gujarat Fluorochemicals Limited represented by Mr. Vivek Jain – Managing Director, Mr. Deepak Asher – Director and Group Head Corporate Finance and Mr. V. K. Soni Head of Projects and New Initiatives. Over to you sir.

Deepak Asher: On behalf of the management of Gujarat Fluorochemicals Limited. I welcome all of you to this Earnings Call. The Board of Directors of GFL has just concluded its meeting about couple of hours ago and has approved the Audited Standalone and Consolidated Financial Results of GFL for the Financial Year ended March 2018. The Results have been uploaded on the websites of both GFL as well as the Stock Exchanges. Along with the Results, we have also uploaded in Earnings Presentation that captures some of the key highlights of the operational and financial data for the quarter ended March, 18 as well as the Financial Year ended March, 18 and these numbers are compared to the corresponding quarter and year of the last year which is the quarter ended March, 17 and the year ended March, 17. I intend to walk you through some of the key numbers, but before that I just like to present to you the highlights of the operations. In the Chemical Business as you can see from the numbers, there has been a significant improvement led by higher sales in all segments of the Company’s operations. In fact, Chemical Business Revenues are up 42%, EBITDA is up 134% and PAT is up 359% for Q4 FY18 as compared to Q4 FY17.

The Wind Turbine manufacturing Business as you all know for the resultant from a temporary shutdown of the Indian wind power market because of the transition from the FIT-based regime to the auction-based regime, but now that is done. We have seen a steady inflow of auction happening and we anticipate FY19 to be the beginning of a new phase of robust growth with auctions from 6 to 10 gigawatts on a sustainable basis from year-to-year.

Wind Farming Business is now loss is relevance because we have substantially exited the wind farming business by selling about 250 out of the 270 megawatts of operational capacity. And on the film exhibition business, we are now present in 61 cities with 124 properties, 496 screens and 122,000 seats. Our Revenues in this business were up 12%, EBITDA was up 75% and the PAT increased manifold in Q4 FY18 compared to Q4 FY17 and this improves performance has largely been due to good content and a sustained focus on non-box office revenues. So those are key highlights from the four key segments that we operate in.

I will now take you through the financial numbers. Firstly, I will take you through the Q4 FY18 numbers compared with Q4 FY17 and then on a consolidated basis and then full year FY18 compared to full year FY17. The Revenues were down from Rs 1890.2 crores to Rs 991.7 crores

largely because of the fact that the Wind Turbine Business is not showing virtually any Revenues during this quarter. EBITDA fell from Rs 400 crores to Rs 168.7 crores. PAT before extraordinary items fell from Rs 202.2 crores to Rs 72.1 crores and PAT after extraordinary items actually improve from minus Rs 75.1 crores to plus Rs 62.2 crores this is for the year. For the quarter for the full year Revenues fell from Rs 6393 crores to Rs 3921.3 crores. EBITDA fell from Rs 1205 crores to Rs 756.6 crores. PAT before extraordinary items fell from Rs 484.8 crores to Rs 252.4 crores and PAT after extraordinary items improved from Rs 214.5 crores to Rs 240.1 cores.

Now the breakup of the Revenues for the quarter in Chemical Business revenues improved by 42% from Rs 421.4 crores to Rs 596.5 crores. The Wind Turbine manufacturing business revenues fell from Rs 1019.2 crores to Rs 203.4 crores. The Wind Farming business revenues fell from 55.3 crores to 16.9 crores, but that is because of much lesser effective capacity and the Film Exhibition business Revenues increased from Rs 288.5 crores to Rs 323.6 crores that is a growth of 12%. Those were the figures for the quarters for the full year revenues in the chemical business improved from Rs 1532.1 crores to Rs 2084.3 crores that is a growth of 36%.

The Wind Turbine manufacturing business revenues fell from Rs 3415 crores to Rs 479.8 crores. Wind farming revenues fell from Rs 223.8 crores to Rs189 crores and the film exhibition business increase from Rs1220.7 crores to Rs1348.1 crores. As a result of which the total revenues from Rs 6393 crores fell to Rs 3921.3 crores. Now because Inox Wind Limited and Inox Leisure Limited are separate listed companies, I would not take you through the details of their operating results, but I would now like to take directly to the Standalone Results which reflects the results of the Chemical Business.

For the quarter, Revenues from the Chemical Business increased from Rs 421.4 crores to Rs 596.5 crores that is a growth of 42%, EBITDA increased from Rs 78.6 crores to Rs184 crores that is a growth of 134%. As a result of which EBITDA margin improved from 18.7% to 30.8%. PAT before extraordinary items increased from Rs 52.4 crores to Rs 86.7 crores that is an increase of 65%. PAT margin improved from 12.4% to 14.5% and PAT after extraordinary items increased from Rs 52.4 crores to Rs 240.7 crores that is an increase of 359%. PAT margin improved from 12.4% to 40.3%. Those were the figures for the quarter. For the full year Revenues increased from Rs 1532.1 crores to Rs 2084.3 crores that is an increase of 36%. EBITDA improved from Rs 300 crores to Rs 595.7 crores that is an increase of 99%. EBITDA margin improved from 19.6% to 28.6%. PAT before extraordinary items increased from Rs 141 crores to Rs333.3 crores that is a growth of 136%. and PAT margin improved from 9.2% to 16%. After extraordinary items PAT increased from Rs146.3 crores to Rs 487.3 crores that is the growth of 233% and PAT margin improved from 9.5% to 23.4%.

Now, if you were to look at the breakup of the Revenues of the Chemical Business for the quarter, the product that we sell viz. Caustic Soda increased from Rs 93.1 crore to Rs132.9 crores that is a growth of 43%, Chloromethane increased from Rs 55.4 crores to Rs 75.6 crores that is a growth of 36%, Refrigerant Gases increased from Rs 70.7 crores to Rs 96.3 crores that is a growth of 36%. PTFE increased from Rs147.6 crores to Rs199.8 crores that is a growth of 35%.

Valued-added product increased from Rs12.9 crores to Rs 62.9 crores that is a growth of 388% and other products increased from Rs14.8 crores to Rs 29 crores that is a growth of 96%. This again for the quarterly numbers for the full year Revenues from Caustic Soda increased from Rs 340.6 crores to Rs 460.2 crores that is a growth of 35%. Chloromethane Revenues increased from Rs 234.7 crores to Rs 264.7 crores that is a growth of 13%. Refrigerant Gases Revenues increased from Rs 229.7 crores to Rs 313.3 crores a growth of 36%. PTFE increased from Rs 509.3 crores to Rs 749.8 crores that is a growth of 47%, Valued-added products increased from Rs 58.9crores to Rs 178.9 crores that is a growth of 204% and other products increased from Rs 54.4 crores to Rs 88.7 crores that is a growth of 63%.As a result of this total turnover increased from Rs 1532.1 crores to Rs 2084.3 crores that is a growth of 36%. So those are the key numbers for the Chemical Business.

At a Consolidated level, a total debt remains at about Rs 2000 crores, Equity is about Rs 5959 crores that gives a net debt to equity of 0.21. The ROC on a Standalone Business is 15.6% on ROC on Consolidated basis is 5.9% is that because of the down trend in the Wind Turbines manufacturing business and we expect this to improve next year onwards.

In terms of share performance data market capitalization as about yesterday stands at about Rs 9000 crores with a share price being Rs 817 and number of share outstanding of 10.99 crores and the 52 week high low has been Rs 636.55 to Rs 959. Key institutional Investors remained broadly the same as they were in the last quarter and the shareholding pattern the promoter, promoter group own 68.33% DII own about 2.78%, FII own about 4.09% both are marginally off compared to what they were in the last quarter and the Public and others owns around 24.8%. So that ladies and gentlemen is a small snapshot of our performance and I could now open this for any questions that you may have.

Moderator: We will now begin with the question and answer session. Anyone who wishes to ask a question may press “*” and then “1” on their touchtone telephone, the operator will take your name and turn in the question queue. Participants are requested to only use handset while asking a question. The first question is from the line of Anshuman Singh from Cascade Investments. Please go ahead.

Anshuman Singh: Is it possible to share the capacity utilization level for Q4 FY18?

Deepak Asher: For which product, as I mentioned about five or six different products and there would be different capacity utilization levels for each of the product categories?

Anshuman Singh: For overall and for a Company as overall if you could give me that capacity utilization level?

Deepak Asher: It is difficult to translate this into a number because for some product line like Caustic Soda, Chloromethane this is at 100%. For some other this is like 60% to 70% and for some other where we are just in nascent stage of development, it will still be lower. So, you cannot really put a finger on one capacity utilization number.

- Anshuman Singh:** Fair enough. So, is it possible for you to share that CAPEX number for Q4 and for the full year FY18?
- Deepak Asher:** You mean the overall capital employed?
- Anshuman Singh:** Yeah.
- Deepak Asher:** No, sorry can I get your question right are you talking of CAPEX total incurred till date cumulatively are you talking of the CAPEX incurred for the quarter only?
- Anshuman Singh:** CAPEX incurred for the quarter only for Q4 and CAPEX incurred during the financial year FY18.
- Deepak Asher:** I do not think I would have that handily, but I think it will be in the range of about Rs 200 to Rs 300 crores for the full year.
- Anshuman Singh:** Going forward for FY19-20, any CAPEX guidelines?
- Deepak Asher:** Well considering the fact that we have already incurred a significant part of the CAPEX as we expect. The additional outflow going forward would be less than about Rs100 crores because you notice from a balance sheet there is as significant part which is already capital work in progress and capital advances this is already been CAPEX from a cash flow prospective. So additional cash outflow would I expect less than Rs100 crores.
- Anshuman Singh:** Sir, your views in relation to the anti-dumping duty issue going in US, so will it affect your business there?
- Vivek Jain:** What we are anticipating is that there is going to be an affect it is only going to be a positive effect because the anti-dumping duty imposed on China is significantly higher. As a consequence of which Chinese imports into the US will substantially decline and we hope to be a beneficiary of that. As far as we are concerned, we have already revised our prices where we have passed on the impact of the anti-dumping duty on to the customers and then 95% of the cases the price has already been accepted.
- Anshuman Singh:** Thank you very much Sir. I will come back in the queue for follow up.
- Moderator:** Ladies and Gentleman please press "*" then "0" on your touchtone telephone to ask a question. We have the next question from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.
- Ketan Gandhi:** Sir, in Standalone Results for Q4, we have other expenses substantially higher any special reason for that?
- Deepak Asher:** Yes, there was a shutdown at Dahej facility for maintenance as well as debottlenecking some of the capacities and there is a revenue expenditure incurred because of that.

- Ketan Gandhi:** So this year, we have incurred almost a Rs100 crores compared to the last year these are all related to that shutdown and the debottlenecking?
- Deepak Asher:** It will include in normal expenses. If you are looking at just the other expenses line there will be several other expenditure not just for shutdown expenditure.
- Ketan Gandhi:** Sir, what is the capacity utilization in PTFE and specialty grade for the quarter?
- Vivek Jain:** See PTFE we are now almost running at full capacity actually in January, February, March because the fact there is a shutdown in both the TFE plants for debottlenecking capacity so that is now got over. And currently we have another TFE line which is going to come into production by August. So at the current capacity, we are running at 100% and with this additional capacity which is going to come which is going to add another 30% to TFE capacity that will start getting utilized from October onwards because we are simultaneously adding some more PTFE capacity.
- Ketan Gandhi:** Sir, what is the realization for PTFE for this quarter?
- Vivek Jain:** It is about Rs 7.1 lakhs.
- Ketan Gandhi:** Currently I mean.
- Vivek Jain:** Last year it was about Rs 4.96 lakhs.
- Ketan Gandhi:** I am asking now this for the quarter ended March. Now in the month of April and May price is steady or it is declined?
- Vivek Jain:** No they are steady.
- Moderator:** Ladies and Gentleman please press “*” then “0” on your touchtone telephone to ask a question. We have next question is from the line of Paras Nagda from Enam Holdings. Please go ahead.
- Paras Nagda:** Sir congratulations on the good set of Standalone numbers. I have two questions. My first question was in this other expenditure line of Rs111 crores, is there anything which we can relate it to a one time shut down cost?
- Deepak Asher:** As I mentioned there is a shut-down cost which would have been one-time, but that does not account for the entire Rs111 crores. These other expenses include everything like freight, administrative expenses, etc many of this would be recurring. There is only the shut-down related cost that would be one time.
- Paras Nagda:** Yes, but in the quarter conference call we said that there was Rs15 crores one-time expenditure, so I wanted to get a similar number, are we computing such kind of number like what is the shutdown cost for this quarter?

- Deepak Asher:** Let us go down to the next question in the meantime I am asking my colleagues to see if he can pull that out?
- Paras Nagda:** And the second question which I had was you mentioned in your presentation a debt of Rs2000 crores on a consolidated basis just wanted to know if this is all gross debt or net debt?
- Deepak Asher:** No, this is gross debt of about Rs 2,300 crores. There is treasury and quasi cash of roughly about Rs 900 crores and therefore the net debt would be about Rs1400 crores at a consolidated level.
- Paras Nagda:** And can I know the net debt at a standalone level?
- Deepak Asher:** GFL?
- Paras Nagda:** Yes.
- Vivek Jain:** That is Rs23 crores you know there is a cash and treasury of Rs 727 crores and debt of Rs 750 crores, net debt is Rs 23 crores which is virtually zero.
- Moderator:** Ladies and Gentleman please press “*” then “0” on your touchtone telephone to ask a question. We have the next question from the line of Shekhar Singh from **Accentia** Capital. Please go ahead.
- Shekhar Singh:** Sir, the Chemical Business very good performance, but going forward in the coming year, what is the sort of growth trajectory can we expect in each of these segments like your Chloromethane, Refrigerant, PTFE?
- Vivek Jain:** Caustic Chlorine, Chloromethane I do not think we will have any further growth at this point of time because we are running our plant at a full capacity. In the PTFE segment, yes we will see growth by about 25%, 30% additionally as our new TFE capacity gets commissioned and additional PTFE capacity gets commissioned by September- October. In the meantime, we are also trying to see how we can debottleneck are existing PTFE assets. So we will see continuing growth during the course of next year.
- Shekhar Singh:** PTFE is the only portion or the only segment where you will be seeing growth as such?
- Vivek Jain:** No we have got our other fluoropolymers also like PFA, FEP, PVDF, FKM, Micro Powders in all these you see growth because as far as these products are concerned we have been going through a phase of product development for the last 1.5 years and typically it takes about 1 year for qualifications in the market. So 6 months of that qualification period has completed and from now till maybe end of calendar year 2019, you will see a continuous ramp up of these capacities and we are expecting by December 2019 all these will be running at full capacity.
- Shekhar Singh:** If I want to just see in a way like guess the breakup of the chemical segment of chemical business going forward the value-added product segment which was at around 10% at Q4 FY18 that portion will go up significantly.

- Vivek Jain:** It will go up significantly in the next four to five quarters.
- Shekhar Singh:** And as that value-added product segment goes up what happens to the profitability or what should we be expecting in terms of margins?
- Vivek Jain:** I suppose the profitability will improve only.
- Shekhar:** How much that anything.
- Vivek Jain:** I do not want to give a forward-looking number. All I can say I think I suppose that is something which you can yourself imagine that there will be good improvement in the overall contribution levels as all these speciality polymers kick in.
- Deepak Asher:** It is a margin profile of the speciality polymers is much better than our current margin profile and hence, as their proportion in the total sales mix goes up the overall margin profile should improve.
- Shekhar Singh:** Inox Wind Limited, there was the possibility of promoters selling some state to bring down the holding to 75% that got over in the last quarter?
- Deepak Asher:** Yeah, that has already been done in March and in fact our extraordinary item of Rs150 crores of profit is because of the sale of GFL holding in Inox Wind Limited to the extent it was but it participated in the offer for sales.
- Shekhar:** So there is no overhang on the Inox Wind Limited stake right now?
- Deepak Asher:** In fact, now we are fully compliant with the 25% public holding requirement and we do not expect there to be any further supply of stake from the promoters.
- Shekhar:** Sir, lastly like for running at close to full capacity utilization in any of the businesses why is that CAPEX for next year only 100 crores?
- Vivek Jain:** Because the new TFE and PTFE plants they are indicated as work-in-progress. So this with an additional investment of 100 crores will complete these projects fully and the revenues from those additional capacity which are being set up will start coming in from the third quarter of this year because all of these will get completed by about September end. So, September end then additional capacity comes on stream.
- Deepak Asher:** So just to add to that for clarification there is about 350 crores worth of capital work-in-progress as of 31st March. In that sense that investment has already been done from a cash flow prospective by March.
- Moderator:** Ladies and Gentleman please press "*" then "0" on your touchtone telephone to ask a question. We have the next question from the line of Tejas Seth from Reliance Mutual Fund. Please go ahead.

- Tejas Seth:** Good Evening Sir, Two questions. One, what will be the revenue potential of the CWIP amount of Rs 343 crores once it is capitalized?
- Vivek Jain:** If you assume the revenue potential if it is a Rs 350 crores plus say another Rs100 crores of CAPEX total CAPEX is Rs 450 crores, but that generate an asset turnover for 2.5x so that Rs 450 crores would probably generate a top line of around Rs. 800 crores to Rs. 1000 crores.
- Tejas Seth:** This will be all towards Specialized Polymer as well as Specialized Fluorochemical right?
- Vivek Jain:** That includes Speciality Fluorochemicals, also which will actually those investments in the get commissioned by the end of this current calendar year and will start contributing to revenues from the last quarter of this financial year.
- Tejas Seth:** What I was drawing the point here is that margin profile of this CAPEX also will be quite healthy and much about current average?
- Deepak Asher:** But that exactly is the point that we were making in response to the earlier question.
- Tejas Seth:** Second question what is driving the demand for PTFE so much globally and for us?
- Vivek Jain:** There is upsurge in demand nearly just about every consuming sector for PTFE is needing more products so there is no one reason which can contribute to this increase in demand, but I think both in US and Europe the GDP is growing so that has certainly helped. In India the demand is also been very, very robust. Demand is grown by 20% - 25% this year and we expect that the growth in the Indian market will continue. Now that certain amount of momentum has been established and with the growth in the Indian economy also particularly in the infrastructure sector that will also lead to increasing demand of PTFE. Plus also PTFE is a higher performance polymer and with the increasing sophistications in the Indian manufacturing sector demand for Fluoropolymers is bound to increase.
- Tejas Seth:** So just one clarification you had mentioned that 30% of the PTFE capacity will increase by September-October this year? So your total capacity will be 30% over the 17,000 tons.
- Vivek Jain:** No, 30% above what we are currently producing is about 1400 ton to 1500 tons the capacity will go up to 1800 tons. I do not know it might take a few more months thereafter to load that additional capacity, but eventually yes, we will go up to about 1800 tons in a month.
- Moderator:** Ladies and Gentleman please press “*” then “0” on your touchtone telephone to ask a question. Next we have a follow up question from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.
- Ketan Gandhi:** Sir in Inox Wind Limited in concall management said that 40 megawatt of wind turbine has been sold to the captive use; Gujarat Fluorochemicals Limited has bought that 40 megawatt?
- Deepak Asher:** No, It was Inox Renewables Limited.

- Ketan Gandhi:** Nothing to do with this.
- Moderator:** We have the next question from the line of Parth D. from B&K Securities. Please go ahead.
- Parth D.:** Sir could you share the volume numbers for the different segments for the quarter?
- Deepak Asher:** As you might recall we have stopped doing this because of some sensitive issues.
- Parth D.:** And realization if possible.
- Deepak Asher:** That as well volume and realization from a core product basis we have stop doing this.
- Moderator:** As there are no further questions I now hand the conference over to the management for closing comments.
- Deepak Asher:** I just like to thank the investors, the analyst and all other participants on this call for your interest in this company and we will look forward to your continued support. Thank You.
- Moderator:** On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may disconnect your lines.