"Gujarat Fluorochemicals Limited Q2 FY 2015 Results Conference Call"

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MANAGEMENT: **MR. VIVEK JAIN – MANAGING DIRECTOR OF GUJARAT FLUOROCHEMICALS LIMITED**

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Moderator: Ladies and gentlemen, good afternoon and welcome to the Q2 FY'15 Financial Results call of Gujarat Fluorochemicals 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 any assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. I now hand the conference over to Mr. Niraj Mansingka, Associate Director, IE Research of Edelweiss Financial Services Limited. Thank you and over to you Mr. Mansingka!

Niraj Mansingka: Thank you Mallika. Good evening everybody. Thanking you for joining us today. We would like to welcome Mr. Vivek Jain – Managing Director of Gujarat Fluorochemicals Limited; Mr. Deepak Asher – Director & Group Head (Corporate Finance) and Mr. Devansh Jain – Director (Wind Business). We thank them for giving us an opportunity to host this call. They will be sharing with the updates on the Q2 FY 2015 results. Over to you, Deepak!

Deepak Asher: Thank you very much Niraj. Very good evening to all of you. This is Deepak Asher here, Director and Group Head Corporate Finance of the INOX Group of companies. On behalf of the board of directors of GFL and the management, I am pleased to extend to you a very warm welcome to all of you to this earnings call organized by Edelweiss. I am extremely grateful to all of you for the time and the interest you have shown in tracking the performance of this company.

I am joined on this call by my Managing Director, Mr. Vivek Jain, and Mr. Devansh Jain who spearheads the Wind Energy Business. I am glad to inform you that the board of directors of the company has just approved the quarterly results of the company for the period ending September 2014 and I would like to start by giving you an overview of the financial performance of the company.

The numbers for Q2 of the financial year 2014-2015 are compared firstly with the numbers of the immediate preceding quarter that is Q1 of financial year 2014-2015 for a QOQ comparison and then with the numbers of Q2 of financial year 2013-14 for a YOY comparison. To complete the picture we would also give you a comparison of the half yearly figures in relation to the corresponding half year of the last year.

First the big picture. At the consolidated level, total income from operations for Q2 of 2014-2015 stood at INR 12.76bn, this is 43% higher than the INR 8.91bn that we clocked in Q1 of 2014-15. EBITDA stood at INR 2.97bn which is 56% higher than the EBITDA of INR 1.90bn we had in Q1 of 2014-15 and PAT for Q2 2014-15 stood at INR 1.064bn which is 141% higher than the INR .441bn PAT we clocked in the first quarter of 2014-15.

If we compare this numbers with what we did in the corresponding quarter of the last financial year total income from operations as I mentioned was INR 12.76bn in this quarter; it was INR 7.05bn in

Q2 of 2013-14 and hence on this parameter we have an 81% growth. EBITDA grew by 73% from INR 1.71bn in Q2 of 2013-14 to INR 2.97bn in Q2 of 2014-15 and PAT which was INR 560mn in Q2 of 2013-14 increased to INR 1064mn in 2014-15 which was a growth of 90%.

Figures for the half year H1 of 2013-14 total income from operations was INR 13.99bn which grew to INR 21.66bn in the half year of 2014-15, which is a 55% growth. EBITDA grew by 44% from INR 3.39bn in H1 of 2013-14 to INR 4.87bn in H1 of 2014-15 and PAT grew by 35% from INR 1.11bn which was it was in H1 2013-14 to INR 1.51bn in H1 2014-15.

This of course is the overall consolidated picture of GFL's financial performance. As you are all aware GFL owns several businesses. It owns 100% of the chemical business which is directly housed in GFL itself. In addition it owns 75% of the wind turbine manufacturing business which is carried out by INOX Wind Limited. It owns 100% of the wind farming business, which is carried out by INOX Renewables Limited and it owns around 49% of the cinema exhibition business which is carried out by INOX Leisure Limited.

INOX Wind and INOX Renewables are unlisted subsidiaries whereas INOX Leisure is a listed subsidiary.

I would like to also take you through the business wise key numbers in order to enable you to appreciate how each of these businesses performed individually during the last year.

On the Chemical business total turnover grew from INR 2.84bn in Q1 of 2014-15 to INR 3.58bn in Q2 of 2014-15, which is a growth of 26%. Chemical's EBITDA grew from INR 690mn in Q1 of 2014-15 to INR 1.03bn of Q2 of 2014-15, which is a growth of 49%. Chemical's PAT grew from INR 169mn in Q1 2014-15 to INR 380mn in Q2 of 2014-15 which is a growth of 125%.

On the Wind Turbine manufacturing business, the turnover grew from INR 3.03bn in Q1 of 2014-15 to INR 5.41bn in Q2 of 2014-15, which is a growth of 78%. Wind Manufacturing EBITDA grew from INR .486bn in Q1 of 2014-15 to INR 931mn in Q2 of 2014-15 which is a growth of 91% and Wind Manufacturing PAT grew from INR 234mn in Q1 of 2014-15 to INR 545mn in Q2 of 2014-15, which is a growth of 132%.

On the Wind Farming business wind farming turnover grew from INR 565mn in Q1 to INR 703mn in Q2 which is a growth of 24%. Wind Farming EBITDA grew from INR 542mn in Q1 to INR 683mn in Q2 a growth of 26% and wind farming PAT grew from INR 104mn in Q1 to INR 223mn in Q2 which is a growth of 114%.

On the Cinema Exhibition business multiplex turnover grew from INR 2.33bn in Q1 to INR 2.67bn in Q2 a growth of 14%. Multiplex EBITDA grew from INR 301mn in Q1 to INR 373mn in Q2, a growth of 24% and multiplex PAT grew from INR 45.8mn in Q1 to INR 52mn in Q2 a growth of 14%.

So those are the broad numbers behind each of the segments that we operate in.

Beyond the numbers I would like to share a few words on the outlook for each of these businesses. On the chemical business, we have been maintaining from the last couple of quarters that going forward we expect to see a healthy increase in topline and more than proportionate improvement in bottomline due to a combination of several factors including a) higher capacity utilization in the PTFE facility, which ran at an average of 70% in this past quarter as compared to 50% in FY 2014, (b) improved PTFE realizations from the present $9 per Kg as it churned the product mix to higher value added grades and after reaching full capacity utilization shed lower value added grades, (c) several cost reduction and revenue enhancement schemes that we are implementing during the current financial year and (d) our planned entry into the fluoro-specialties segment.

On the Wind Turbine Manufacturing business, it is an extremely favorably regulatory environment reflected by stable and attractive wind policies across the four states in which we are active in the current year, reintroduction of accelerated depreciation, continuation of 80IA benefits, SAD exemptions on components imported for the manufacturing of wind turbines, the release of the promised GBI incentives and several other such measures we expect to see a significant growth in demand in this sector, which could help boost our performance considerably.

As some of you are aware, IWL has filed a DRHP with SEBI, which has been cleared by SEBI and hence respecting regulatory guidelines our ability to share with you an information that is not already in the public domain will be restricted and we urge you to kindly to respect that limitation.

In the Wind Farming business we should see some modest capacity additions this year essentially from the equity provided by cash generated in the business. We do not expect to make any incremental cash investments in this business.

In the Multiplex business we expect to maintain the momentum of growth and profitability backed by a steady property pipeline that we are implementing, a robust flow of content and several measures we are implementing to improve our operating margins in the food, advertising and operational segments. We continue to pursue both organic and inorganic growth opportunities in this business and believe that there are several opportunities for consolidation in this space going forward.

With this backdrop I would like to hand over the proceedings back to the moderator.

Moderator: Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from the line of Mr. Sameer Raj of Reliance Mutual Fund. Please go ahead.

Sameer Raj: Good evening Sir. Thanks for giving me the opportunity. Sir, can you just please provide volumes for PTFE for FY 2014 and in the current quarter and also same for the Refrigerant Gases?

Deepak Asher: We did in terms of sales about 2500 tonnes of PTFE sales in this quarter which is Q2. This is up from about 2200 tonnes that we did in Q1. For the full year last year we did 8000 tonnes.

Sameer Raj: How are the realizations up?

Deepak Asher: Realizations over the last six months have been relatively flat. I mean they have gone up marginally by about 1% to 2% point.

Sameer Raj: This year realizations have not actually gone up?

Deepak Asher: By around 2% point.

Sameer Raj: 2% point okay. What are the volumes for Refrigerant Gas?

Deepak Asher: For the last six months Refrigerant Gases have essentially been used captively. So there is no sale volume as such.

Sameer Raj: Thanks Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Mr. Niraj Mansingka. Please go ahead Sir.

Niraj Mansingka: I wanted to have a more clarity on how over a period of when do you see the realization of PTFE scale up from the current levels and till where it can go and some thought process on that with the timelines would be very useful?

Deepak Asher: I will request Mr. Jain to take that question.

Vivek Jain: As Deepak just now mentioned quarter wise sales of PTFE and as we have been maintaining that by the first quarter of next financial year we should be at near about full capacity utilization. Now this full capacity utilization is going to come about by increasing sale of some of our higher priced more value added PTFE which will result into somewhat better weighted average price realization of PTFE. We expect that the price realization should go up by about 5% to 8% on a weighted average basis.

Niraj Mansingka: Sir, can you give more color on what would lead you to get the realization higher and what proportion of your total volumes can come from that higher realization?

Vivek Jain: As we have been maintaining about 40% to 45% or 40% of our sales will be higher value realizations and these are essentially the quantities, which have to come in the next few months which we are talking about, and if you look at weighted average by the time we exit, ie, when we are at 1300 tonnes, we should have a weighted average increase in realization by about 5% to 8%.

Niraj Mansingka: But any color on how it has happened and why it has not come to higher realizations in the last six months? The realization is only 1%?

Vivek Jain: Our higher grades are now stepping in. You know up till now what has been done was that grades were under development and extensive trials with the customers were on. The whole process of getting product approval is a fairly lengthy journey. It can take as much as about six months to one year for product to get approved by customers and then initial commercial quantity orders are placed and then the ramp up begins. So we expect this process to be over when we exit this financial year.

Niraj Mansingka: Is it right to say that 5% to 8% higher weighted realization would lead to how much increase flow down on the earnings side?

Vivek Jain: Sorry.

Niraj Mansingka: How much would it flow down to the earnings of the EBITDA side?

Vivek Jain: I am sorry, I am not clear.

Deepak Asher: What impact would that happen in EBITDA? I would say a 5% to 8% will be roughly about INR 500 to 800mn ?

Niraj Mansingka: INR 500 to 800mn.

Deepak Asher: Back of the envelope, I am thinking from the top of my head, but I think it will be in the order of magnitude in that range.

Niraj Mansingka: That is all. Thank you.

Moderator: Thank you. Our next question is from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.

Ketan Gandhi: Your Fluorospeciality chemical plant is up in running because it was supposed to start in September, I believe?

Vivek Jain: Yes you are right. It has been commissioned. We are having some feeding problems, which we expect to get over in the next one month. We are going to start commercial sales from December and we expect that by middle of next year we should be running it at full capacity.

Ketan Gandhi: Thank you Sir.

Moderator: Thank you. Our next question is from the line of Paras Nagda from Enam Holdings. Please go ahead.

Paras Nagda: Congratulations for good set of numbers. Sir, I wanted to ask you what is the kind of mix between the Virgin PTFE vis-à-vis value added PTFE as of the quarter?

Vivek Jain: Roughly about 25% to 30% value added, 70% regular PTFE.

Paras Nagda: Sir, in two to three quarters down the line how do you see this mix change happening? What can be the proportion that we can look at?

Vivek Jain: As I just mentioned that the proportion of value added will go up to in terms of sales it would go up to about 40% to 45%.

Paras Nagda: I will come back in queue for more.

Moderator: Thank you. The next question is from the line of Chirag Dagli of HDFC. Please go ahead.

Chirag Dagli: Sir, I had a question on the specialty chemicals piece. When I speak to every fluorine manufacturing company has started this business of course. SRF is slightly ahead. Naveen has also started and you guys are also starting. What I am trying to understand is that is there such a large opportunity that exists in this business that three players, three large players from India can actually thrive in this business?

Vivek Jain: Well globally it is a very large business and the size of the Indian players is going to be miniscule in comparison with the global market. So, I think there is opportunity to grow. But of course are some pitfalls in this business which will prevent for a very large part of the market to be taken by Indian producers, but I think having said that there is ample opportunity for growth.

Chirag Dagli: Sir who are the global competitors in this?

Deepak Asher: Some of the existing fluoro specialty players are competitors where people like DuPont are there, people like Daikin are there. They are also in fluoro specialties. There are some other niche players are also there. So but at the same time given the fact that Indian production costs are lower than the production cost in the west, I think there will always be an opportunity for growth in this business.

Chirag Dagli: Sir, is there a sense of the kind of market size that is currently there in this space?

Vivek Jain: It is difficult to say there is no authentic research, report, market report which is there, but I think it is several billion dollars. So the market is large in from whatever enquiries which we are receiving for the development of molecules suggest that there is ample opportunity for growth.

Chirag Dagli: Sir there several billion markets which are currently being addressed by only say DuPont and Daikin?

Deepak Asher: There are several other players. I cannot off the cuff name those suppliers, Daikin is there, there is Asahi, there is Honeywell. So there are several players, but I will not be able to and some of them will be fragmented suppliers also. So it is difficult for me to tell you how many players are there in this segment.

Chirag Dagli: But the Chinese are not?

Deepak Asher: Chinese are also there, but you know again because there is certain amount of R&D involved and there is a certain amount of specialization in the product development so it is not always the Chinese will be able to compete. It is not mass production. You see their forte is mass production. These are smaller niche chemicals.

Chirag Dagli: I hear you. So the way in your opinion the way the Indian will grow is not necessarily by taking market share because we are just too small, because we are just starting, but participate in the growth of the industry. Is that a fair understanding?

Vivek Jain: No, they will take part of the market share also. Because there is an existing market and some of these buyers are constantly looking at reducing cost as they go along so, if our costs, we can offer a similar product at a lower cost, we certainly get that opportunity.

Chirag Dagli: Fair enough. Thank you so much.

Moderator: Thank you. Our next is from Rahul Agarwal from VEC Investments. Please go ahead.

Rahul Agarwal: Good evening. I just had one question on the chemical business. Owing to what kind of volume growth and realization growth we are seeing in this business and expected for the second half, which will be quite stronger versus the first half, can you give me an idea in terms of working capital of this business? Will that entail incremental investment from your side in working capital for chemical business, mainly debtors and creditors and inventory?

Deepak Asher: Well not significant. If you have to look at the working capital cycle in the chemical business it is between two and three months depending on what time of the year we are in and the incremental volumes of sales that we will be handling may not require significant incremental working capital. Whatever would be required can be met from the cash generated from the business.

Rahul Agarwal: Sure, I understand that the internal accrual would be more than enough, but can you give me like a ballpark number. Let us say YOY fiscal 2015 over fiscal 2014 how much incremental investment will go into chemical into working capital?

Deepak Asher: Well again very broadly speaking from a three month working capital cycle based on the turnover on the chemical business of INR 12bn which is what we had in March 2014, you would have expected a INR 3bn kind of deployment in working capital. If this goes up to one would expect say roughly about INR 18bn. It would be about INR 4.50 to 5.00bn in terms of working capital, which could be very easily financed from cash accruals.

Rahul Agarwal: Got it. That is all. Thank you so much.

Moderator: Thank you. We have a followup question from Paras Nagda of Enam Holdings. Please go ahead.

Paras Nagda: Sir, could you give me the detailed breakup of your net debt company wise?

Deepak Asher: Yes. Net debt in the chemical business is around zero. Now in terms of clarification when we talk of net debt we are talking of the gross debt less the cash or quasi-cash on the balance sheet. That, in the chemical business is around zero. In the wind farming business which is IRL is roughly about INR 8.00bn. In the wind generation business which is IWL it is zero. In the multiplex business it is roughly around INR 1.00bn. Now this again I have used the current value of the outstanding treasury stock to nullify the existing debt. So net of that is about INR 1.00bn.

Moderator: The next question is from Niraj Mansingka, please go ahead Sir.

Niraj Mansingka: Sir wanted to know on the scale up of fluoro speciality can you elaborate on that, what can be the risk to the slowdown in the growth in the fluoro speciality or the margins, what are the risks that you are running on the fluoro speciality?

Vivek Jain: First of all let me tell you about what we have done. What we have invested is in the fluoro polymer business, most of our investment has gone in to the fluoro polymer business which is a very major leg of the entire fluorine business. Fluoropolymer business is a stable business going forward. The ask here is to develop the grades and get customer approvals which is a fairly long cycle, takes as I mentioned after the development of the grades the approval process could take as much as six months to one year before we start getting our first initial order with the customers. But having done that this is a sticky business because there are just maybe two or three competitors in the high value PTFE products, so once you get in, that business becomes a very sticky business and it is not very easy for anybody to replace you. So PTFE, the fluoropolymer business, technology is all developed, grades are all developed, it is a question of ramping up now which is we are already seeing that happening and as I mentioned in the next one, two, three quarters we should be able to ramp up capacity, so our basic emphasis at this point of time has been fluoropolymer. Now as far as speciality is concerned that is another vertical of the fluorine business that is something which we are getting in to now and we have just made a small investment and we are as I mentioned that by middle of next calendar year we expect that plant to be running at full capacity. Now the challenges in the fluorospeciality business and the fluoropolymer are totally different. The markets are different the customers are different the applications are different. The fluoropolymer business is a much larger business in terms of one single product, fluoro speciality would be several, several molecules and those molecules first of all have to be developed and then you sort of start commercial production to ensure that you get the yields which will ensure that you will be able to get a reasonable cost of production. So the challenge is there and also that the life of some of these molecules is short lived, it could be maybe three to five years and then you have to reinvent the wheel all the time, so these are some of the pitfalls in the speciality business whereas in the fluoropolymer business once you get to the full capacity utilization that business stays, it is a stable business going forward.

Niraj Mansingka: Any comment more on the risk side?

Vivek Jain: The risks are two, three. One is that your inability to develop the molecules and take it to commercial stage what you might develop in the lab. We may do a pilot but when you actually commercialize it you might find that you are not getting the yields which will allow you to make it competitively, you know the route which we choose to make. Second is that to some extent the life of some of these molecules are short lived and so you have to keep on developing new products, you must constantly keep on developing new products in order to occupy your plants, if a particular product goes off. And then the third is that for some of these products there are not multiple customers, there could be handful customers one two, three customers, so that is also a risk. If one of the customers goes off then you could see a substantial percentage of your business going out.

Moderator: Our next question is from Ranjit Cirumalla of B&K Securities, please go ahead.

Ranjit Cirumalla: Hi Sir, thanks for giving me the opportunity. Raw material costs, are there anything which are linked to the crude oil and do we tend to benefit from that, I know that fluspar is an inorganic thing, apart from that are there any crude link?

Vivek Jain: Not to my mind. The only thing which could go down is methanol. We consume to make chloromethane and our logistics costs could go down plus if gas prices go down that could also impact part of our power generation costs.

Ranjit Cirumalla: What is your view on the choromethane prices, they have been significantly up on a year-on-year basis?

Vivek Jain: They have been and we expect some optimization, some correction to take place in the next quarter but I don't think there is going to be a substantial reduction because prices overseas are also fairly robust.

Ranjit Cirumalla: So we will not be affected by these prices since we have the captive manufacturing thing?

Vivek Jain: Methylene dichloride we sell and chloroform we consume internally.

Ranjit Cirumalla: Sir you said that fluoro speciality would be up and running mid of next year and what we understand is that it takes a lot of time in developing molecules and working with the customers, which are these customers you have already tied up, are they agro or pharma?

Vivek Jain: For commercial reasons I cannot name the customers but I can say that we have already got some commercial orders for two, three molecules which we have already developed.

Ranjit Cirumalla: You were in these particular process means from the last year?

Vivek Jain: The development has taken about a year, doing the R&D, scale up and building the plant it has taken us about almost about a year to do this.

Ranjit Cirumalla: Can you at least whether it is agro or pharma?

Vivek Jain: Agro.

Moderator: Our next question is from Sagar Parekh of Deep Finance, please go ahead.

Sagar Parekh: What is your current order book on your wind farm business?

Deepak Asher: That is something that we will not be able to share with you because, as I said, of the restrictions in view of the state that we are in, we will be able to upgrade the DRHP as we go along, that is the only time we will be able to kind of share that with you.

Sagar Parekh: Can you just tell us the number in terms of megawatt how much did you sell in Q1 and Q2?

Deepak Asher: We should be able to share. We did 90 turbines in the first half year as compared to 65 that we did in the first half of last year, so that is a 38% volumetric growth. It is a 2 megawatt turbine, so all we need to do is multiply that by 2, but I am saying 65 in the first half of last year, 90 in the first half of this year.

Moderator: Thank you. I would now like to hand the floor back to Mr. Niraj Mansingka for closing comments. Over to you Sir.

Niraj Mansingka: Thank you very much everybody, participants and management of Gujarat Flurochemicals and we had a very good session and hope to continue to have the conference call for investors on a regular basis. Have a nice day.

Deepak Asher: On behalf of GFL I would also like to thank you once again and wish you all a very happy Diwali and a prosperous New Year.

Moderator: Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.