"SRF Limited
Q1 FY2023 Earnings Conference Call Transcript"

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Moderator: Ladies and gentlemen, good day and welcome to SRF Limited Q1 FY2023 Earnings Conference Call hosted by IIFL Securities 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. Please note that this conference is being recorded.

I would now like to hand the conference over to Ranjit Cirumalla from IIFL Securities Limited. Thank you and over to you Sir.

Ranjit Cirumalla: Thank you Faizan. Good afternoon everyone. Thank you for joining us on SRF Limited's Q1 FY23 earnings conference call. Today we have with us Mr. Rahul Jain – President and CFO of the company.

I would now like to invite Ms. Nitika Dhawan – Head of Corporate Communications at SRF to initiate the proceedings of the results concall. Thank you.

Nitika Dhawan: Good afternoon everyone and thank you for joining us on SRF Limited's Q1 FY2023 earnings conference call. We will begin this call with brief opening remarks from our President & CFO, Mr. Rahul Jain following which we will open the forum for an interactive question and answer session.

Before we begin this call, I would like to point out that some statements made in this call maybe forward looking and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Mr. Jain to initiate opening remarks.

Rahul Jain: Thank you Nitika. Good afternoon everyone. I extend a warm welcome to you all and thank you for joining us today on SRF's Q1 FY2023 earnings conference call. I trust you, your families and colleagues are doing well. I will initiate the call by briefly taking you through the key operational highlights for the period under review following which we will open the forum to have a Q&A session.

We are pleased to begin the fiscal year 2023 on a strong note despite the ongoing challenging macro environment landscape. We have delivered a healthy performance in all our segments with our core chemicals business performing exceptionally well. During the quarter, gross operating revenue increased by 44% year-on-year to Rs.3,895 crore, EBITDA grew by 52% year-on-year to Rs.1,030 crore translating to an EBITDA margin of 26%. Profit after tax came in at Rs.608 crore higher by 54% year-on-year. Overall we believe it has been a stellar quarter for the company and I am pleased to share that the Board of Directors has approved an interim dividend at 36% amounting to Rs.3.6 per share this will result in a cash outflow of Rs.107 crore.

Moving on to our segmental performance, the chemical business which comprises of specialty chemicals and fluorochemicals registered a growth of 55% year-on-year to achieve revenues of Rs.1,722 crore. Our specialty chemicals business did remarkably well, driven by robust demand for our flagship products and their derivatives. We continue to expand our product portfolio and in Q1 launched one new agro product that further augmented our operations.

On the cost front, we are focused on diversifying our raw material supplier base to reduce the risk of non-availability. This, combined with process optimization, resource utilization and other sustainability initiatives has enabled us fully emphasize on further cost reduction as well as minimize the environmental cost of production.

We are pleased to announce that we have successfully commissioned our state-of-the-art multi-purpose production facility MPP4 at Dahej. Initiatives are being undertaken to progressively ramp up production from this facility. Moreover, the Board has approved a number of projects at the Dahej facility for a projected cost of Rs.400 crore including 1) setting up of a new dedicated facility to produce 1,000 metric ton annually of an advanced agrochemical intermediate for Rs.250 crore to meet the growing demand of the product in the future. 2) To expand the capacity of an intermediate product that finds application in both agrochemical and pharma intermediates and related feedstock of Rs.72 crore and 3) in order to address the increasing demand of new and upcoming plants two technical structures will be developed for various agrochemical products for Rs.78 crore. As most of you are aware, the company is extremely bullish on the long-term prospects of the specialty chemical segment and given few global tailwinds anticipated for the segment, we believe, there would be adequate business potential to sustain the current capex run rate for the full year. The capex of Rs.250 crore approved by the Board yesterday will be completed in the next eight to ten months and showcases our capability to execute large capex in the business in a very short time phase. Capability building in terms of new announcements of the structural capex will also lead to reduce time to market and crash the time taken to market some of our new products. The second capex of Rs.72 crore approved by the Board yesterday is for a product that is a key building block that finds applications in both pharma and agro intermediates. Also the other capital expenditure announcements are a part of a medium-term strategy that involves capital expenditure in the range of Rs.1,200 to Rs.1,500 crore over the next 12 to 18 months. On the back of traction that is visible leading to conversion of some of the campaign products put to dedicated plants.

Our fluorochemical segment registered solid results on the back of better realizations and healthy volume trends witnessed across HFC. Prices during the current quarter have significantly increased amid trade measures and global and local demand for key HFCs. We anticipate demand and pricing in the segment will continue to remain strong. Structurally this business operates in a strong space and our capex investments are set to capitalize in the coming quarters. We are excited about the opportunities at this moment. Moreover, Dymel HFA 134a/P, the pharma grade, that we produce also performed notably well and we were able to increase our market share at a global space. Additionally, healthy contribution from chloromethane's aided performance. We have had a strong Q1 for the current financial year. There is certainly some seasonality in the HFC space that does play out and Q2 is generally weaker than Q1. The catalyst change for our R125 plant is also scheduled in Q2. We do remain positive on the additional volumes from our chloromethane plant that is likely to be commissioned very soon and the PTFE facility towards early Q3 which should add to overall revenue growth for the year as a whole for the fluorochemicals business. US market for HFC has remained strong and volumes of H2 are currently being contracted which may remain very positive. We have witnessed some increase in our power cost in the chemicals business largely on account of increased prices of HSD and some grid power costs. Most of our fuel costs have remained elevated given significant price inflations. We do believe that some of these per unit cost will see reduction going forward as our new thermal power plant gets commissioned and our initiatives around securing hybrid power for our Dahej and other facility comes through.

Move on to our packaging films business, the business reported an increase of 44% in its segment revenue Rs.1,496 crore when compared with corresponding period last year. The business delivered healthy performance with significant contribution from BOPP segment and increased sales of value-added products. While we continue to focus on efficiency and cost-effective procurement, the BOPET films witnessed a slight slowdown in demand due to addition of some new lines which impacted the overall margins and as I have stated in the past, we expect pressure on BOPET margins going forward with several lines being operational. BOPET films are likely to witness inventory impact due to sharp drop in raw material prices which I believe will be transitory. On the other hand, demand for BOPP films is likely to remain firm. All our plants are producing at full capacity except for our Hungary plant which is impacted by high energy cost due to the current geopolitical situation in Eastern Europe. Our BOPP line in South Africa is also performing well. Our new BOPP film line at Indore India is expected to be commissioned in Q2 FY2023 and with our already established customer relationships, we are hoping for a vertical start-up of this line as well. We remain extremely optimistic of the medium to long-term outlook of the packaging films business and across cycle averages EBITDA and ROCE profile remains very strong. PFB mantra of "Easy to do business with", which is essentially focused on building customer relationships, and our global presence in over 100 countries should enable us to better navigate sectoral headwinds. As a market leader the company is driving sustainability initiatives and is working towards innovating films that have lower environmental footprints.

Our technical textiles business reported an increase of 16% in its segment revenue to Rs.571 crore during Q1 FY2023 over corresponding period last year. The business delivered steady performance led by increased export volumes in the nylon tyre cord and belting fabric segment. However, domestic demand for some of our portfolio products was subdued. The business continues to actively focus on improving operational excellence and productivity parameters. The belting fabric market is witnessing large opportunities. In this regard I am pleased to share that the Board has approved a project for capacity expansion and modernization of belting fabric operations at our Viralimalai plant from 1100 metric ton per month to 1800 metric ton per month at a projected cost of Rs.162 crore, this will be spent over a period of next three years. The capex will further aid in enhancing our market share and provide a strong margin profile which is sustainable in the medium to long-term.

Lastly, in our others segment the coated fabric business witnessed normalized domestic demand after two years of the pandemic. With favourable monsoon and the commencement of events and outdoor activities we expect domestic demands for the segment to remain solid. In our laminated fabrics division SRF maintains its pricing and volume leadership with the plant operating at full capacity during the quarter and reaching its highest quarterly sales record. The surplus supply scenario has had a negative impact on the realizations in the sector. During the quarter we also witnessed rupee depreciation against the US dollar of around 4.5% that we witnessed during the quarter due to a volatile geopolitical situation. This led to a restatement of net US dollar denominated liabilities which created an exchange progression loss of Rs.32 crore which is likely to be one time impact of profit and loss account and the balance sheet is highly dollarized and while large depreciation of the INR versus the dollar has a negative reinstatement impact which is one time, we are probably happy at in the long run with a weaker rupee.

At SRF we prioritize community engagement projects equally and work diligently to contribute to society. During the quarter, the SRF foundation received appreciation from the Honourable Chief Minister of Madhya Pradesh Shri Shivaraj Singh Chouhan for adoption of 108 Anganwadis across Bhopal, Bhind and Dhar districts. During the quarter we also distributed more than 170 tanks to the flood affected locations in Assam. I am also happy to share that during the quarter SRF was awarded the best family business in the Giga category at the first ever Moneycontrol India family business awards 2021. Our progressive HR policy and culture has led to Fortune India magazine naming us as an employer of the future. We also received the finance transformation initiative of the year award at the CTFO program.

To conclude over the years SRF has built a solid multi-business structure that enables us to withstand a dynamic and volatile environment. While few businesses may face challenge in the near term, we are confident that other businesses will exceed our expectations and enable us to guide overall growth of the company and create sustainable value for all stakeholders. On that note I conclude my remarks and would be glad to discuss any questions, comments, or suggestions that you may have. I would now like to ask the moderator to open the line for the Q&A session. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Congratulations on a stellar Q1. First question is on the fluoro specialty business. Given that there have been issues in the European continent and even apart from that the weather-related issues for the agrochemicals, are we seeing any kind of demand contraction for our business and what is our view for FY2023 in terms of if the issues persist for maybe a quarter or couple of quarters?

Rahul Jain: This is something that a lot of people have started to talk about in terms of demand slowing from Europe, even their energy prices are given where some of the positions have been created. I do not think as of now we have seen any contraction. We have not seen any of our customers looking to cancel orders or think of delaying some of those orders, which has not happened. In fact I would say that to a certain extent when we look at it given where Europe's positions are I think it also provided some opportunity for companies like SRF going forward where some of the higher end products that Europeans were still doing, we want to get contracted out to good players like SRF so I think that could turn out as a positive but I do not think we have heard from any of our customers till date that there has been negative that is prevailing or the orders are being cancelled so that is the position as of now, it is a dynamic and a developing situation we will see how it pans out and keep you updated.

Rohit Nagraj: Right, that is really encouraging. Sir, second question is on the ramped-up pricing, we have seen over the last one year the prices have been increasing. In your view the prices have still been increasing or they have stabilized at elevated levels and if they are still increasing what would be the dynamic which will play out to stabilize those pricing environment? Thank you.

Rahul Jain: Rohit, the prices for some of the gases and it is not all across I think there has been increase in prices of some of the gases most of the increase is happened over the last year or so. Previous year we had also told you that prices had come down very significantly FY2020 and 2021 is what we had seen that happening, but largely prices are stable, we do not see any large headwinds in terms of significant reduction in prices. Also typically there is seasonality that plays out in the fluorochemicals business given where heat months are February to March typically are with the highest playing out months for the HFC segment there will be some seasonality that will come in no doubt on that, you also seen our presentation where we called out that 125 catalyst change might take 15 days or so which will have some impact on the 125 production levels, but again I do not believe that is very significant and it is a normal thing for a chemical plant to change some of the catalyst. Prices we do believe remain firm, domestic prices might come down a bit given where demand positions will be, so that is how it should play out.

Moderator: The next question is from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: Few questions, first on the agrochemical, you did answer a little bit in previous Q&A but taking that forward, with ethanol being strong, crude price with their power price challenge in Europe and other places how is our demand outlook for agrochemical or how are discussions with the customer are and now that we have commenced MPP4 and we have announced a very large project of total 2 billion in the intermediate do you think that could be an upside to fluoro specialties as in FY2023 and 2024 from what we have been guiding?

Rahul Jain: Sanjesh, yes there can be an upside certainly to our guidance of 20% plus is likely to play out, but it is a volatile environment. Luckily, we have not seen any negative in terms of customer orders being cancelled or there has been dearth of demand for the products all of that is playing out well. Some of our products are selling phenomenally well, we have seen significant growth in some of our flagship products when we compare them to previous year position. There has been some increase in cost, the costs have been slightly higher when we look at it from an overall perspective from power infused or the raw material costs have been higher, there will be some contractile negotiation that will happen over a period of time which will provide a positive twist to this. Again, new products I think we clearly demonstrated it when we have increased our capex size, we have also told you that over the next 12 to 18 months the capex is in the space could be in the range of Rs.1,200 to Rs. 1,500 crore. The Rs.250 crore capex, the Rs.72 crore capex and the Rs.78 crore capex are also capacity building capexes that we are doing in the business which will crash the time to market for some of the products that we are looking to do. So significant traction developing and all seems positive as of now.

Sanjesh Jain: Assuming we do this entire Rs.1,500 crore in 18 months from there we have a run rate of doubling the revenue, right, we were at Rs.3,000 crore in FY2022 and now we are doing a capex which can potentially help us grow by double will that be a fair assumption?

Rahul Jain: Again it is a tough one to answer, but my sense is when you are looking at this assumption you are probably being slightly conservative given the fact that not everything is fully utilized today on Rs.3,100 crore perspective.

Sanjesh Jain: Okay, meaning double the conservative, right?

Rahul Jain: Yes.

Sanjesh Jain: Got it, fair. On the Ref gas side, you did mention in your opening remark of HFC contract for the futures we have locked in can you give us some colour how long contracts these are and are these at current prices?

Rahul Jain: What I was trying to refer to Sanjesh was the fact that typically the US export contracts which is typically October to March shipments will get contracted today. So what I was trying to refer to be the fact we are contracting some of those at current prices.

Sanjesh Jain: Okay, so we are locking the prices as well as the volume?

Rahul Jain: Correct, but typically contracts are not very long-term.

Sanjesh Jain: Yes, and rupee will also come to aid us there, right so currently has also depreciated which you rightly mentioned is the long-term benefit for the company, right?

Rahul Jain: I think we are happier with the weaker rupee than a stronger rupee what I would tend to say.

Sanjesh Jain: Got it. Sir, any colour on the HFO now that we are close to patent going off and that would give us further volume, those visibility in that gas, any update to share on HFO 1234yf side?

Rahul Jain: I have only one word answer that is wait.

Sanjesh Jain: Fine Sir we will wait for the announcement but that is in a progress, right?

Rahul Jain: There is no further progress to be very frank Sanjesh, I said this in the past as well the position on that essentially is when we are looking at we are indicating that there are new developments that are happening in the space, there is new work that we are doing in terms of process optimization all of that is going on and there will be an announcement at an appropriate point in time not today at least.

Sanjesh Jain: When is this patent getting expired for the innovator?

Rahul Jain: You know it better than I do.

Moderator: The next question is from the line of Trilok Agarwal from Dymon Asia.

Trilok Agarwal: One of the questions is with regards to the end product pricing or the demand are we sort of witnessing any changes or any kind of moderation in demand particularly agrochemical perspective I am trying to understand, and second question is with regard to comment on the chemical R125 this catalyst change is it a routine affair or is it you have highlighted only this quarter will happen?

Rahul Jain: To be very frank the first question that you asked I have actually replied to it in both the earlier questions. We are not seeing a negative in terms of demand slowdown or product approvals not coming through from our customers all of that is in good shape. The second question that you had asked in terms of R125 this is a normal process typically a three-to-four-year process that happens where some of the catalyst change in most of the chemical plants will happen normally but I thought it is important to be able to tell everyone that there is something of that sort, which is large from our perspective, is happening.

Trilok Agarwal: Okay, and if you can also just comment with regard to fluoro specialty ref gas contracted volume that you were highlighting is already happening so this is a quarterly contract or is it half yearly contract?

Rahul Jain: No, the contracts are for a period, like I said in the earlier comment for October to December volumes the contracting happens really now.

Trilok Agarwal: We have not seen any lower offtake in volumes, is that correct understanding?

Rahul Jain: No, there is no lower offtakes.

Moderator: The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life Mutual Fund.

Naushad Chaudhary: Two questions Sir. Firstly if you can touch upon your expected addition chlorinating capacity and your Greenfield PTFE how do you see the capacity ramp up of these two projects which is expected in 2023 and second question is how much capital so far, we have deployed in chloro-spec chem business and of that how much is unutilized?

Rahul Jain: Naushad, the first question is with respect to the chloromethane capacity that is coming up, I hope it get capitalizes in the next two to three weeks, so that is what we are looking at. My sense is that most of this is replacement of imports there are various other companies that are setting it up, but the amount of imports that the country does today for both MDC and CTC which are the largest products that come out of the chloromethane stable is largely import substitution, so I do not think there should be a problem selling. Obviously there will be a time to capitalize and stabilize the plant this is the largest chloromethane plant that we are now putting up typically our plants have been in the 45000-ton range, this is the largest one that we are putting up, so there maybe some time in terms of stabilizing the plant but I do not see that as a challenge as well so, all of that should be in good shape. The second question that you asked was with respect to what?

Naushad Chaudhary: The capital deployed to your fluorochemicals?

Rahul Jain: Again, I think it is scheduled somewhere in October, early Q3 is when it is scheduled. Stabilization, getting some product approvals typically the quantities that will be available for PTFE will be in Q4 and roughly about 5000 tons of annualized capacity so 1200 tons available. Hopefully, we should be able to get some volumes out of the PTFE in Q4. The third question that you had asked was with respect to the prices, right?

Naushad Chaudhary: No, followup on the first question itself. Within one, one-and-a-half year we should see chloromethane to touch optimal utilization and PTFE should take time is this the correct understanding Sir?

Rahul Jain: I think chloromethane should be faster, PTFE might take probably the amount of time that you are saying. Chloromethane should probably be three to six months.

Naushad Chaudhary: Okay and second question was how much capital so far, we have deployed in fluoro-spec chem business?

Rahul Jain: My sense is that the overall capital outlay for the specialty chemicals business is roughly about Rs.3,200 – Rs.3,300 crore and I think roughly about Rs.2,500 crore of the fluorochemicals business in Dahej.

Moderator: The next question is from the line of Jiaren Luo from BlackRock.

Jiaren Luo: My first question is on the refrigerating gas business, what is the price in United States last year and what is maybe the cut level in terms of US dollar per tonne and can you also kindly share with me the refrigerant gas sales, the breakup how much is in US and how much is so domestically in India?

Rahul Jain: It is a very, very difficult question to answer because there are multiple cuts of it that you are talking about and not all HFCs are the same, so price is between 32, 125 and 134a blends range between let us say from an export perspective about Rs.600 to Rs.1200 - Rs.1300 as well. R125 mostly sold in the US. While when we look at it from a domestic perspective Q1 would probably be higher in the domestic side so that is how it should work out.

Moderator: The next question is from the line of Chintan Modi from Haitong Securities.

Chintan Modi: Thank you for the opportunity. Sir, the capex that you have mentioned in this new investment pattern Rs.1,200 to Rs.1,500 crore this does not include the spec chem capex, which is already under progress, which is about Rs.600 to Rs.700 crore odd is that right understanding?

Rahul Jain: You are absolutely right Chintan. This is a new initiative that we have taken. We believe that in the next 12 to 18 months there will be more announcements that will come; this is just an indication to you that there is new capex in the business that will keep going on.

Chintan Modi: Okay, got it. Secondly, can you tell us like how has been the trend of EBITDA margins and specialty chemicals over last three to four years whether it has been increasing or remains stable?

Rahul Jain: The EBITDA margin as a percentage of the overall positions?

Chintan Modi: Of specialty chemicals only. I know you do not declare the numbers but just if you can highlight the trend like it has been improving or remains stable?

Rahul Jain: If you look at it from a three-year trend perspective probably FY2018-19 we saw probably flattish position. FY2020-21, 22 I think all of those would have been a growing position, I do not have the numbers in front of me so I cannot give you an exact answer, but my sense is that there is a positive trend in terms of margin percentage as well as overall number on the margin both has been a positive trend. Given the fact that last year we grew almost 30%, the year before it was about 60% and the year before that almost 70% so I think given that as a position and just basically saying that you will be utilizing better fixed cost the overall margin percentage should also have been higher.

Chintan Modi: Okay, got it and once the PTFE plant is commissioned what is the kind of margin there, we can expect I believe the last quarter the things were looking quite optimistic?

Rahul Jain: I would say from what we had budgeted it at from a normalized perspective we are probably about 40% higher in terms of EBITDA margins, gross margins should probably be in the range of 60-65% at current prices.

Chintan Modi: Sure, got it and just one last. In terms of refrigerant gas you mentioned that you have visibility today for the March quarter or the December quarter?

Rahul Jain: No, I did not say visibility for March quarter or December quarter, what I had said is to a certain extent some of the current prices that we have had we are contracting for H2 for the US supplies that is what I said.

Moderator: The next question is from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar: My question is regarding chemical margin. You were talking about export particularly US you have contracts till March and currency depreciation both and can you give margins on the positive trajectory so all these three factors can we assume the margin for the Q1 FY2023 is likely to continue for the next two to three quarters?

Rahul Jain: Sumant, again do not look at it from a quarter-on-quarter perspective I would typically tend to say that when you look at it from a year as a whole perspective for chemical business as a whole perspective I would say the last year EBIT margins are in the range of about 26% - 27% given where our current product profile is, given where our prices are, on an annualized basis we believe there could be a margin expansion that can happen.

Sumant Kumar: So, margin expansion on FY2022?

Rahul Jain: On FY2022 numbers versus FY2023 numbers.

Moderator: The next question is from the line of Amar Maurya from Alfa Accurate Advisors.

Amar Maurya: Couple of questions, number one is you indicated that R gas 15000 metric ton capacity where it is likely to commission?

Rahul Jain: End of Q1 FY2024.

Amar Maurya: Secondly what would be the current utilization of R gas?

Rahul Jain: Almost full, all of the gases are producing fully.

Amar Maurya: Given the heat waves whatever we are facing in Europe is that R gas demand in Europe also increased and is it somewhere positive for us?

Rahul Jain: To be very frank as an overall trend Amar we will see some of these heat waves standing out across the globe. The first thing that we guys will have to do is set up more of air conditioning and once that happens it should be a positive overall from R gas demand perspective.

Amar Maurya: But nothing immediately, because why I am asking is cost is higher there and production are not happening there because of whatever reasons, so I am saying in that context do we see some immediate benefit to us because we have the capacity, we have the market?

Rahul Jain: Again, we have to look at it from a more long-term and a medium-term perspective Amar, it is not that one heat wave will cause all of these changes, but as a trend it should be a much larger positive going forward.

Amar Maurya: Okay, and secondly in terms of the agrochemicals if we hear all these global agrochemical companies everybody is talking about a muted second half, so in that context the kind of capacity lineup we are building up, are we confident that we will be able to utilize all our plant, any indication from the client side?

Rahul Jain: Amar, I think I have answered it more than once; maybe you want to refer it back to the call.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: First question on the specialty chemical side, given the increase in RM prices especially the power cost as well there what are the timeframes by when we are passing through this rise in prices to the customers?

Rahul Jain: Ankur, with respect to specifically on power cost we have started some of our plants; we are in the process of implementation of new captive power plant in Dahej. My sense is that it should come up very soon; in the next two to three weeks it should be commercialized and as soon as that happens some of that power that we are doing or generating out of the DG will probably create a positive for us in terms of just the power cost around it. Obviously, coal prices roughly in the range of about Rs.13000 a ton hopefully some of that price will also come down and therefore cost of generation coming down on the captive side as well. We are also working on getting some additional hybrid power and purchasing that through in our Dahej plant which will also add to some of the cost reduction on the power side so all of those should be positive, again we too kind of take through some of those costs that are transitory in nature into our account. With respect to some of the key raw material where prices have gone up some of that will get renegotiated probably in the next three to six months as contracts come up for renewal.

Ankur Periwal: Sure, so the RM inflation will be passed through but the power cost inflation we will try to manage it at our end, is that right?

Rahul Jain: At the end of the day that is how we should look at it.

Ankur Periwal: Sure, that is helpful. Secondly on the growth outlook side you did mention capacity expansion and some bit of smaller capex there for the agro intermediates, etc., we had earlier guided very strongly on the pharma intermediate side as well, any thoughts there, any comments?

Rahul Jain: Again, to be frank Ankur there are new projects that are in the pipeline, pharma typically will take longer than in agro products. We are fairly confident that within the next six to twelve months there will be more announcements, our PIP will get capitalized probably in the next six months or so. Again we believe there are already products that we are looking to do on the pharma side in the PIP those will add traction on that side.

Ankur Periwal: Sure Sir and just last clarification here the 15000-ton plant which is going to come in Q1 FY2024 will be fair to assume that we will be contracting this volume starting maybe a quarter out?

Rahul Jain: You are talking about the HFC?

Ankur Periwal: Yes.

Rahul Jain: No, HFC is not a long-term contract business Ankur, most of it is done on spot basis. I do not think there is a need to contract that really, we are fairly confident that given where market demand is, given where our plant positions are, given where our customer future requirements are, we will be able to sell it through.

Ankur Periwal: Okay and the other that we are trying to contract renegotiating from a volumetric perspective will happen for H2 now in the coming months?

Rahul Jain: Please understand H2 volumes for specifically the US market which typically get contracted now.

Moderator: The next question is from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani: Congratulations on a very good set of numbers. Just a couple of clarifications on some of your earlier answers, if you could just give some colour on the operations like you said you are running at almost full capacity on the Ref Gas side, if you can just share some of your thoughts on the specialty and the packaging and how you are seeing this evolve over the next couple of quarters and secondly on the point on Europe you obviously touched upon the lot you mentioned that this is possibly a longer-term opportunity that is benefiting you guys and the Indian chemicals names so any kind of capex that you could be thinking on putting through to meet this opportunity or it is very early days to talk about that right now? Thank you so much.

Rahul Jain: The first question that you asked Vivek is with respect to?

Vivek Rajamani: The operation for utilization, any colour that you can give?

Rahul Jain: HFC utilizations are pretty much full. On the packaging film side we are selling everything that we can produce except for Hungary where energy costs have gone through the roof and we are only producing to the extent we have the orders available and at the right price so that is something that is happening in Hungary. Over a period of time I think that geopolitical position in Eastern Europe will normalize whether it happens in the next six months, three months, or a year we do not know. Other than that for the specialty chemical side also I think almost all the capacities are full and when I say full producing optimally the MPP4 is the new plant that has come up we are trying to see what best can be done in terms of utilizing that plant capacity at the fastest pace that is possible that is something that is going on. I would also typically say that for specialty chemicals the capacity utilization on an average let us say on an overall basis remains at 70-75% given that there are lot of campaigns that run, so that is how it works out Vivek.

Vivek Rajamani: Just on the point on Europe where you said it could be beneficial for SRF and the industry just thinking would you be considering any capex to meet that opportunity beyond that Rs.1,200 to Rs.1,500 crore that you are currently planning?

Rahul Jain: Too early to talk about it Vivek. Again I think we have given fairly good indication in terms of the Rs.1,200 to Rs.1,500 crore capex, is that something that is coming out of the Europe an opportunity we will certainly look at it, but again there is fair visibility for us to be able to commit to Rs.1,200 to Rs.1,500 crore capex and there are multiple opportunities we will look at the right one to be able to capitalize on and go through from a campaign to a dedicated one.

Moderator: The next question is from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Just two questions from my side, first one on the capex, last quarter you had guided about Rs.2,500 to Rs.2,700 crore for overall company for fiscal 2023 within which chemicals was about Rs.1,700 crore – Rs.1,800 crore so in the context of this Rs.1,200 to Rs.1,500 crore number that you announced today how should we think about those previous numbers likely to get upgraded?

Rahul Jain: Abhijit when you look at it for FY2023 the capex guidance will have to go up. My sense is that during FY2023 the total capex that we will probably end up doing will be more like Rs.3,100 – Rs.3,300 crore. I also believe that even with that number I do not see a very large deterioration in any of our financial matrices, I think all of them remain very healthy, be it debt to EBITDA, debt to net worth, free cashflow. When you are looking at the Rs.1,200 to Rs.1,500 crore number about Rs.1,000 crore to Rs.1,100 crore of that will probably start to get spent in FY2024 which therefore means that the visibility for the FY2024 number which I always talk about between Rs.2,500 to Rs.3,000 crore is developing also and that really creates that position.

Abhijit Akella: Understood Sir and also just to clarify within this Rs.3,100 to Rs.3,300 crore for this year can we assume that the chemicals segment will be about Rs.2,300 to Rs.2,500 crore?

Rahul Jain: That looks alright.

Abhijit Akella: Okay, understood and just the second question I had was on the margin front packaging we have alluded to certain head wins as well as inventory issues how should we think about the margin trajectory in coming quarter for that segment?

Rahul Jain: If you discount Q2 which is probably something that is very clear that there are some inventory negatives that will come through and also discount Hungary because that will also be a function of the geopolitical play that is going on. My sense is overall margins will come down at least in the BOPET segment; which will be aided by the BOPP positive that will come through. Our endeavor will be to sell off all the material that we can produce do not shut down the line at any point in time it will probably be coming out at slightly lower margins, but on an overall basis let us say my last year number was roughly about 19.8% and this quarter we are roughly in the range of about 19.7%. I do not see that going down to let us say a 10% number, I think we will remain fairly in the green, we will take counter measures, we will look at our value-added product portfolio, we will look at our customer relationships to ramp up, our overall numbers when we look at it from an year as a whole perspective given that new capacities are coming in should also be in good shape.

Abhijit Akella: Okay, Sir. That is really helpful actually and just on the inventory side if you could provide us regarding how much of the quantum might be for Q2?

Rahul Jain: I cannot give you the exact number Abhijit, but my sense is that at any point in time we would hold about 25000 to 27000 tons of PTA and that is the most key raw materials. So, if you look at where prices are, and you will know what is the raw materials impact could be.

Abhijit Akella: Understood, that is great. There have been some concerns about correction in refrigerant prices in China any signs that this is spreading to the rest of the globe, or you think the rest of the globe is pretty much insulated and prices remain firm across the refrigerant industry?

Rahul Jain: I would typically look at it from two perspectives, the local market, and the US market. The Indian market will probably have some impact but that is not because of the Chinese prices probably more because of the local position and the demand and supply situation in the local market given there is some seasonality around it. US prices remain firm, remain strong. Trade barriers are still in place and my sense is that between 125 and 32 which have been recently imposed duty between November and February, November 2021, and February 2022 those do not go away. 134a is under review but blends are still under the ADD. So the US prices will remain strong and to that extent our ability to supply in the US market remains pretty decent.

Moderator: The next question is from the line of Nikhil Ahuja from Xoriant Solutions.

Nikhil Ahuja: My question is due to recession in Europe and America how do you see the demand of the chemical business going forward?

Rahul Jain: Again, Nikhil we have given fair colour on this in the earlier questions. We have not seen a negative in terms of whether there is low demand from our customers for our flagship products in fact some of those demands have only gone up. We also believe that it could provide a larger outsourcing opportunity going forward as well in the medium-term that is something that we will certainly look at. From the US market perspective also largely the fluorochemicals business or the ref gases are the ones that get supplied there from a chemicals business perspective. Demand raise remains fair and strong, and prices also remain pretty significantly high and again stable to normalize prices have come through that will remain as a trend going forward.

Moderator: The next question is from the line of Madhav Marda from Fidelity International.

Madhav Marda: I think it is really positive year like more capex guidance for the chemical segment and in general SRF investing for growth I just wanted to understand that the increased capex for chemicals is it more a function of like China plus one or is it more outsourcing being done by our customers, are they just looking to outsource more of their production, what is driving up this capex for us?

Rahul Jain: Madhav again, to be very frank about it we told you multiple times that we worked on multiple products, there have been multiple products that have been commercialized. We are seeing traction on some of those products, customers are willing to enter into longer-term contracts with us and therefore given there with those positions we are fairly confident that some of these products could be large products for the future and therefore investing in them. Whether it is purely on China plus one or something else I really do not know, but the fact is that there is traction from the customer, there is developments that have happened commercialized products and some of those that are campaign products becoming more of dedicated plants is the trend that we are seeing and I can tell you the products that we are talking about, the new capex that has been announced is a fairly complex advanced agro intermediary and therefore it is a product of the future, we are very, very confident and we are hopeful that it can become a newer larger product and a flagship product of ours.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Rahul Jain for closing comments.

Rahul Jain: Thank you everyone. I hope we have been able to answer if not all some of your questions. I wish that each one of you will remain safe and healthy. If you have any further questions, we would be happy to be of assistance. We hope to have your valuable support on a continued basis as we move ahead. On behalf the management I once again thank you for taking the time to join us on this call. Thank you very much.