"SRF Limited Q2 & H1 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 & H1 FY2023 Earnings Conference Call of SRF Limited hosted by ICICI Securities. 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. I now hand the conference over to Mr. Sanjesh Jain from ICICI Securities. Thank you and over to you Sir.

Sanjesh Jain: Good afternoon everyone. Thank you for joining us on SRF Limited's Q2 & H1 FY2023 results conference call. We have with us today Mr. Rahul Jain – President and CFO at SRF Limited. 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. Over to you Nitika.

Nitika Dhawan: Good afternoon everyone and thank you for joining us on SRF Limited's Q2 & H1 FY2023 results 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 may be 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 make his opening remarks.

Rahul Jain: Good afternoon everyone and thank you for joining us today on SRF's Q2 & H1 FY2023 earnings conference call. I trust all of you had the opportunity to go through our results and the presentation shared with you earlier. I will initiate the call by briefly taking you through the key highlights for the period under review following which we will open the forum to have a Q&A session.

SRF has delivered a good performance during the period under review. The results were primarily been driven by our chemicals business. The technical textiles business and the packaging films business witnessed a challenging operating environment. During the quarter on a consolidated basis revenues grew by 31% Y-o-Y to Rs. 3728 crore. EBIT grew 21% Y-o-Y to Rs. 689 crore and profit after tax came in at Rs. 481 crore in Q2 FY2023 higher by 26% Y-o-Y.

Coming to our segmental performance. In Q2 FY2023 our chemicals business performed exceedingly well with revenues increasing by 62% Y-o-Y to Rs. 1830 crore. Within the chemical segment, our specialty chemicals business continued to register strong performance on account of the healthy demand for new and our flagship products. We also witnessed traction from global innovators to engage with our R&D team, on more complex and downstream products. This works well for the long-term prospects of the business, as it has always been our endeavor to keep enhancing the level of complexity in our product portfolio, and today we believe SRF has developed robust R&D capabilities to work on some of the most complex chemistries in the world.

Furthermore, our raw material prices are expected to trend downwards, and we are continuously working on de-risking our supply chain from any shocks or geopolitical situations. In this regard, I have communicated earlier the recently commissioned state of the art multi-purpose plant facility MPP4 at Dahej is starting to ramp up. Further, the board has approved a Capex of Rs. 604 crore for four new agrochemical plants and capacity expansion for an existing plant in Dahej. These initiatives, which are component of our broader specialty chemicals business expansion strategy are expected to come on stream within the next 10 to 12 months.

Additionally, the board has approved a project to develop a Kilo Lab at Bhiwadi to meet the needs of the Pharma market at an anticipated cost of around Rs.9.8 crore. Year-to-date we have already announced Capex of more than Rs. 1000 crore and are well on track to fulfill the stated objectives that we have spoken about earlier. So despite the subdued global macroeconomic outlook, we remain bullish on the outlook of the specialty chemicals business. The other book of the business remains strong and we are optimistic that we will achieve growth in the business more than what we had projected during the beginning of the year.

In our Fluorochemicals business, we delivered a steady performance on the back of higher realization and stable volumes despite the impact of a seasonally soft quarter. Our Dymel® HFA 134a/P (pharma grade gas) continue to expand its presence in several countries and recorded good growth. With solid demand outlook in important markets like India, the US, and the Middle East, we will continue to focus on operating facilities as efficiently as possible to maintain the business's dominant market position.

As stated earlier our R125 catalyst replacement has been completed successfully in this quarter. So we expect to accrue benefits in H2 FY2023 from the catalyst change and availability or R125. We are seeing structural demand trends emerging in the refrigerant segment and expect to deliver a much stronger performance in the second half. Q3 would remain focused on order booking for some of the likely demands of the US market in Q4 for our refrigerant gas segment.

During the quarter, our team successfully commissioned a captive power plant at Dahej to meet the growing needs of the business and the site. Furthermore, our second CMS plant in Dahej is currently in the final stages of commissioning and we hope to ramp up the capacity from this plant in the very near future. Additionally, the key focus of the team is to get the product approvals for the PTFE plant which is also likely to start commercial production very soon.

In our Packaging films business, SRF reported an increase of 24% to Rs. 1331 crore during the quarter. As we have discussed in the past, several new BOPET lines have come on-stream both locally and globally leading to sharp contraction in industry margins. Our profitability was also impacted owing to rising power cost in Hungary and melt down in the commodity prices. However, this trend was partially offset with the sustained demand for BOPP films. I am pleased to share that we successfully commissioned our new BOPP film line in Indore during the quarter. This line will further boost company's position in the BOPP market in India and enhance volume growth from Q3 onwards. While there is strain on margins we believe that the demand is trending towards global supplier with multi-locational facilities and in this regards SRF packaging film business is well positioned.

We will also continue to focus on our operational efficiency to ensure we remain one of the lowest cost producers in the world while maintaining adequate utilization levels. We are continuously expanding value added product portfolio of the packaging films business also augurs well for the future of the business.

Moving onto our Technical Textiles business, performance was impacted owing to subdued demand for Nylon Tyre Cord Fabrics. However, Belting Fabrics and Polyester Industrial Yarn segments witnessed healthy growth during the quarter. Lastly in the other businesses SRF maintained its domestic market leadership in Coated Fabrics on the back of steady demand. In the Laminated Fabrics segment, SRF retained its pricing and volume leadership with the plant operating at full capacity and recording its highest ever sales in Q2 FY2023.

Q2 FY2023 also witnessed the impact of volatility in exchange rates where rupee depreciated against the US dollar by almost 3%. The US dollar also appreciated against major currencies and the effects of the sales is a part of the Forex loss of around Rs. 36 crore that we incurred during the quarter.

SRF overall position is of being a net exporter and therefore a weak rupee does affect with long-term margins and remains positive while impacting our Q-on-Q profitability. Additionally, we are also witnessing some impact of the hardening interest rate curves both on the rupee and the dollar which are leading to slightly higher interest cost being charged off to our P&L.

Coming to our balance sheet. Our net debt marginally increased by Rs. 300 crore to Rs. 3100 crore as of 30th September 2022. This is despite incurring Capex of around Rs. 1250 crore in H1.

In conclusion, I would like to state that despite geopolitical and operating environment challenges SRF has delivered a resilient performance with growth in our chemicals business being a strong positive. Over the years we have established a world-class infrastructure, developed superior R&D capabilities, and had adequate resources to invest in upcoming opportunities across various chemistries in both agro and pharma verticals. We believe large opportunities exist in the chemical business and we can sustain our growth going forward. Capex plans remain robust and our current announcements are a testimonial to the same. With the current headwinds being faced by the packaging films business and the technical textiles business in the medium-term, we expect recovery in these segments as well.

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: First question is on the technical textile business. So last year during Q1 you had given a perspective that the pricing as well as margins have improved structurally because some capacity closures in China however in Q2 the margins have corrected. So there is only an aberration due to the demand side issues in NTCF and we expect that margins probably will moderate from those levels which we have witnessed in the last previous four quarters. Thank you.

Rahul Jain: To be very frank I do not think there is any structural change that has come through in Q2. What is happening is that there is a lot of talk about recession, there is a lot of talk about what is happening in the markets, and what we have seen as of now is a change in terms of the buying patterns of the customers. Now what has also happened is, over a period of time there is the commodity price change or the commodity price reduction that has started to happen, which typically also leads to lower pipelines and lower inventory. So inventory cleanups is also happening, this is something that we have seen in the past. Now that is why we have also said that while there has been a slightly lower positioning in terms of the margin profile for the technical textiles business when you compare it with Q1 last year the demand off take was significant some of that has percolated downwards, let us say our overall capacity utilization has come down. We do believe that some of these demand trends that has kind of shifted, will probably start to show a positive trend going forward wherein some of the operating leverage playing out maybe there is a position of better margin going forward.

Rohit Nagraj: Second question is on the chemical business. So in the first half you mentioned we grew by almost 63% and normally second half is stronger plus we have the additional CMS capacities and your commentary also suggested that we will be growing better than in first half. So do you want to change the guidance that we had given or we had kept at 20% plus chemicals business growth for FY2023 for the entire year?

Rahul Jain: Let me first distinguish this what we have given as a guidance was growth of 20% plus in the specialty chemicals, which effectively you will come to know when we talk about the yearend numbers only. So that is one difference in terms of what you are saying and what I am saying. I have always said that the Fluorochemicals business will probably see a growth based on volumes and price realizations, that is even seemingly playing out now as well. From a specialty chemicals business view we believe, where our order book is, where our positioning is, the 20% growth is pretty much eminently achievable and there is a possibility of us bettering that growth going forward as well. So that is how we are looking at it. Hopefully, there will be a positive play in terms of growth, but let us just wait for another quarter before I can give you an even better color on the growth numbers from a specialty chemicals business perspective. I hope that works for you.

Rohit Nagraj: Yes, absolutely fine thanks for that answer and best of luck sir.

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

Ankur Periwal: First question on your commentary on the Fluorochemicals side on the Ref gas wherein you are saying that the outlook is pretty strong given the global dynamics. So just your thoughts in terms of pricing trend. We had seen a lot of pricing benefits earlier led by antidumping duty in the US. So what are your thoughts let us say two, three years on the demand outlook overall.

Rahul Jain: There are two things that you are asking here. One, what is the pricing trend that is going forward, and what is the demand outlook. Is that what you are asking?

Ankur Periwal: Yes, so I was checking both on the demand outlook not only in terms of volume metric, but the pricing also you believe there could be further uptick there.

Rahul Jain: So again I think prices where they are today we think prices can remain stable of all of the HFCs there maybe some volatility in some of the HFCs but I think from an overall large ticket perspective in the near to medium-term prices remain pretty stable and we have seen some of the Chinese prices come down to be very frank about it, but there are various other elements to it why some of those production are happening in China. I do not know whether you know, but the US trade TIC has also reconfirmed the duty on 134a Chinese exports into the US, which was under consideration until April 2022 so that has been reconfirmed. So again given that as a situation, given trade barrier both in India and in the US which are large markets here, I think demand outlook as well as price stability is something that can continue in the HFC space going forward.

Ankur Periwal: Sure sir that is helpful and a second question on both packaging as well as the TTB segment any inventory losses which you would like to quantify for this quarter and what could be the steady state margin one can assume here?

Rahul Jain: Very difficult question to answer, but let me try and tell you some background and some details around it. When I look at it from an overall perspective the H1 what we probably saw as an overall negative was roughly about from a packaging films perspective. Q2 was about Rs. 13-14 crore again there has been volatility in prices and when I look at it from a first half perspective the amount was roughly about Rs. 7-8 crore. So that is the position on the volatility side for the packaging films business. Technical textiles business I do not think there was a very large position in terms of the inventory numbers, but the overall number is probably in the range of about Rs.2 crore from a technical textile business perspective. When I also look at the onetime amounts, I do not think there are too many other than the ones that I just talked about. So that is how the business is, in terms of what margins can be again I still believe that there will be some positives in the packing films business that come through in Q4 again there we are all hoping that some of the challenges that are there in the eastern Europe specially in Hungary for us will get sorted out with respect to the cost of energy there and if those do happen, I think we will have a positive outlook that can flow through but again these are all geopolitical in nature, there are various things that will pan out, how does the accord go through there are various discussions that are happening today all of those are fluid in nature. So very difficult to comment, but what I can only tell you is that, as you will start to see more results of some of our peers in the industry also coming through this is a pressure that is being faced in the packaging films industry specifically on the BOPET side by everyone and given our customer relationships, given our value added product profile we are probably in slightly better shape. As things start to improve there will be some positive that will come through. I hope that answers it.

Ankur Periwal: Just one clarification. So almost Rs. 300 crore EBIT came to Rs. 100 crore. The number that you mentioned was around Rs. 130, 140 crore for the loss.

Rahul Jain: No, which loss are you talking about.

Ankur Periwal: The inventory loss of the mark-to-market there.

Rahul Jain: I said about Rs. 13 -14 crore for the quarter.

Ankur Periwal: Rs. 13 -14 crore for the quarter okay. Fair enough.

Moderator: The next question is from the line of Surya Patra from Philip Capital.

Surya Patra: Congratulations for the great set of numbers despite challenges. Sir on the derisking of supply chain for your chemical business that you mentioned.

Rahul Jain: Specialty chemicals specifically.

Surya Patra: Yes, so which are the input material that you are talking about for de-risking the supply chain?

Rahul Jain: No specific materials, but there are various things that we procure because again you also understand that there are a very large set of products that we do which involve multiple reactions. There could be one product that is missing which creates a problem for the entire product so it is not that I am talking about a single raw material or a single issue that we are facing. It is just for saying that we are now developing more sources of key raw material so that our production does not suffer. In case there is a need to take a call in terms of inventorying certain key raw material, certain materials which we have for our production planning purposes we are taking those calls. So that was the idea that I wanted to talk about.

Surya Patra: Second question is on the packing films. Basically two small points in that one is that have you seen any meaningful impact for Hungary operation in this quarter because of whatever situation that has been going on there, and secondly while we have witnessed challenges in the demand side for BOPET as well as price impact and all that, what is driving the demand for BOPP?

Rahul Jain: Again you are absolutely right we have seen the challenges in the cost in Hungary and therefore production capability in Hungary has come down very, very significantly it is actually only producing to the extent we can get appropriate orders at an appropriate price. Wherever we can lock the cost of energy is where we try to do the best in terms of the available spot prices that we have. So, yes there is a negative in terms of the Hungary that is rested in the number that you are seeing on the sheet. So yes there is no doubt on the fact that last year for example Hungary made an EBITDA of roughly about €8 to €9 million this year this is probably flat to negative. So that is where it is and therefore form a comparative basis it is a negative for Hungary.

Surya Patra: This €8 to €9 million what you mentioned it is a quarterly number sir last year?

Rahul Jain: No, this was the annual number for FY2022 and think about it that plant was ramping up at that point in time. There was various new things that we would have done, but given this hit that has come in it has had this impact, and the second question that you are talking about is what is sustaining BOPP demand. BOPP as such is a product that is a very large let us say 3x is the size of BOPET and therefore let us say the cycles that BOPP witnessed slightly lower than what BOPET witnesses that is one. Second BOPP also has a very large value added product portfolio when you compare it to the BOPET so that is the second piece. The third and another key and most important piece is the fact that BOPP is now becoming more sustainable and because the discussion that are happening in terms of the mono family structure is coming through in BOPP and people are kind of looking at more BOPP opportunities on that side because of the recyclability at the ESG position that everyone is starting to take. So those are the positives from a BOPP perspective and that is how it works.

Surya Patra: On the chemical business, so recently BASF has mentioned about permanently cutting down manufacturing activities in Europe and we have in the recent meetings indicated about our talks with the European chemical as well as the agro chemical players for potential supplies so any development on that side that you have seen sir.

Rahul Jain: Well I think it is more generic in nature there are discussions that are going on. There will be development, there will be new products that will come through and again I think what we are seeing here is the amount of Capex's that we are announcing is the amount of position that we are taking on Capex's newer products coming in. Some of the backward integrations happening we are starting to make some precursors as well. So I think that is the overall story that is playing out. It cannot be termed to a single quarter in terms of one single product so it is a generic story, it is a more robust trend that we are starting to see on that side and that is how it is playing out.

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

Vivek Rajamani: Sir just two clarifications over here one related to the previous question. You obviously gave some numbers on the challenges that you are seeing in Hungary would it be possible to quantify the impact of the energy cost that is driving this pain there or it is function of both energy cost as well as the lower production that you highlighted that was the first clarification. And secondly, if you could just touch upon what is the utilization rates that you have seen across your segments in this quarter and any commentary on how you see that trending in the next two quarters will be really helpful.

Rahul Jain: Let me first answer your Hungary question. The cost of power and the spot power and whatever you contracted has gone up so much, that the price that you can deliver the product to the customer has gone through the roof and again when you look at some of the commoditized numbers, the customer has choice to buy from somewhere else as well and therefore your ability to supply without the contract to the customer because your cost has gone up significantly and largely on account of power is where you are unable to operate the plant at the peak level you are kind of operating it at 45%, 30% levels based on the contracts that you can get and secure the cost of power and therefore it is kind of becoming more spot in nature so that is how Hungary is operating. The second question you have a follow up on that one maybe or shall I go on to the second one.

Vivek Rajamani: No sir that was really clear if you can just go on the other utilization rates that you have seen across the other segments.

Rahul Jain: To that extent let me just take you through the utilization rates on the Chemicals front. On the MPP4 side I would say roughly about 70%, 72% is our capacity utilization on a quarter-on-quarter basis so this quarter that was what it was. Ref gas is other than from 125 where the catalyst change was happening almost pretty much whatever available was being produced, and slightly lower than that because obviously Q2 is probably a seasonally adjusted quarter so to that extent slightly lower than that. Chloromethanes again full production, packaging films probably in the range of about 80%, 85%, 90% overall is from an India perspective Thailand and South Africa. South Africa in fact is producing as much as it can, it is completely full. On the specialty chemicals again we do not talk about capacities because to some extent it is the batch process also so it depends on the demand from the customers and also the batches that you are supplying so that is the run down on the utilization rates.

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

Abhijit Akella: One on the chemical segment Capex plan that we have announced in the past.

Rahul Jain: Past or this quarter.

Abhijit Akella: No, actually the meeting in September we had, or just prior to that the Rs. 12000, 13000 crore Capex plan that you have announced for the next five years for the chemicals segment.

Rahul Jain: So, you are talking about the longer-term Capex. Please go ahead.

Abhijit Akella: Yes, so I was just hoping to understand whether all of it is revenue generating in nature or whether there are some supporting activities included within that and what kind of rough asset turns could we work with on that as per utilization?

Rahul Jain: I think we spoke about this, but let me then clarify again. See please distinguish between a vision statement and an operating statement right when I tell you what my Capex plan for FY2023-FY2024 is, I would be in a position to give you a rundown in terms of what are the Capex's that I am doing. But when I am making a statement that this is the intent I want to do Rs. 3000, 3500 crore of Capex annually I cannot give you asset turns on it, I cannot tell you which are the projects that I am doing, what I can tell you is this is the mission statement, this is the vision statement that I have. We will look to get projects, we will look to enhance our capacities, our capabilities we will do whatever is needed to ensure that, that growth engine keeps running. But I cannot give you a rundown of what projects will we doing so FY2024 to FY2028 that is pretty much impossible to do today that we will have to distinguish between what is the vision statement and what is an operative statement.

Abhijit Akella: I understand that is very clear that is fine, and the other question I just had was a clarification with regard to packaging films adjusted for the inventory impact this quarter of about Rs. 13 crore odd and the Hungary situation that is underway which is probably about €2 million a quarter kind of impact on a quarterly basis. Other than that I mean the rest of the segment performance is attributable basically to the supply demand scenario in the industry is that how we should interpret it and then we should expect some improvement heading into 4Q as hopefully Hungary improve from the energy front and yes the inventory loses fade away is that how we should think about it.

Rahul Jain: Are you asking a question or giving an answer.

Abhijit Akella: Just seeking your perspective.

Rahul Jain: You are absolutely right. See again you have answered that in fact you are absolutely right we think that some of the situations that are created out of the geopolitics are probably going to run down over a period of time and therefore energy cost after the winter let us say will go away and will be probably better off in western Europe and eastern Europe as well and therefore some of that plant will start to recommence obviously there is the new BOPP line that we have just commissioned and therefore to that extent we will see a volume benefit also coming in. BOPP like I also said has been relatively less impacted by the capacities that have come in and therefore we should see a positive trend going into Q4, but for the short-term BOPET we will still continue to see some pain.

Abhijit Akella: Got it that is really helpful. Just one last thing if I may the unallocable income within the segment reporting is a little bit low this quarter if it is possible to share what the reason for that might be?

Rahul Jain: I have not looked at it, when you are comparing it to Q-on-Q I think it is higher the unallocable expense is net of income is that what you are talking about.

Abhijit Akella: Yes, exactly it is Rs. 26 crore compared to Rs. 64 crore.

Rahul Jain: Again I do not look at it on Q-on-Q you do when I look at it, it will probably be looked at from a Y-o-Y perspective, compared to the corresponding period last year perspective and I see that to be higher. My sense is that there were certain onetime item but I can come back to you on that.

Moderator: The next question is from the line of Arjun Khanna from Kotak Mahindra Asset Management.

Arjun Khanna: My first question is just on the Capex for FY2023 you had talked about doing roughly Rs. 3000 plus crore of Capex for this fiscal year we have done roughly just Rs. 1200 odd crore in the first half. So just wanted to know are we looking at shifting our guidance or you are pretty much confident of doing that Rs. 3000 plus crore in this fiscal.

Rahul Jain: Roughly about Rs. 3000 crore was our guidance I think we will be able to achieve it for the first half we have already done Rs. 1250, 1260 crore and to that extent the Capex plans remain robust and we will be able to achieve the guidance.

Arjun Khanna: It is just a context is that the previous year the entire year will be Rs.1800 crore and now we are planning Rs. 1800 crore in the second half.

Rahul Jain: We have done Rs. 1200 crore in the first half also double it you will get Rs. 2400, 2500 crore and there are new plans that we have announced.

Arjun Khanna: The second question is you have mentioned in terms of product approvals for the upcoming PTFE plant so would we be commercializing it in this quarter as such.

Rahul Jain: The plan is to first get the right product in. My sense is that it will come in Q4 only but as soon as we can get our product approvals in place we will start getting the initial batches coming through, going through the product approval process all of that will happen my sense it will probably be Q4 only not Q3.

Arjun Khanna: So we would see revenues coming from Q4 or from first quarter FY2024.

Rahul Jain: Some revenues probably in Q4.

Arjun Khanna: Just in terms of the new BOPP line which came during the quarter are we expected to see high utilizations in third quarter itself or we are yet in the ramping up phase in probably from the fourth quarter we could see revenues on the same.

Rahul Jain: The BOPP capitalization has happened already we are already seeing good capacity utilization on that side. Obviously, there is to be able to get to a number which is better than what from a value added product perspective and therefore as much as you can start doing more value added products you will start to do better. So my sense is it is already a vertical ramp up that we have seen but as time goes by you will also get product approvals for more value added products which will add to the margin today that we have.

Arjun Khanna: On a run rate basis we have probably be where we expect to be for FY2024 from the first quarter.

Rahul Jain: For BOPP.

Arjun Khanna: For the new BOPP line in terms of the ramp up.

Rahul Jain: The movement is already there in Q3 you will see some more revenue in Q2 and Q3 and Q4 as well. So it has already started.

Arjun Khanna: This is during the second quarter so we are just wondering in terms of ramp up from margin side.

Rahul Jain: So you will increase the speed over a period of time, your products will become better, you will do more value added products, so that is what will happen. Not in Q1 FY2024 it has already started.

Moderator: The next question is from the line of Nitesh Dhoot from Prabhudas Lilladher.

Nitesh Dhoot: My question was on Capex, you mentioned Rs. 1250 crore of cash outflow on Capex in H1. My question is on the commission project, so if my understanding is correct it is around Rs. 1000 crore of commissioned Capex and something around Rs. 1100 to 1200 crore of Capex which is yet to commission in FY2023. Would that be a correct understanding or how much would the Capex be?

Rahul Jain: You have taken the numbers from the previous numbers so that is absolutely right.

Nitesh Dhoot: So that takes it up to around Rs. 2100, 2200 crore of gross block increase in FY2023 would that be right.

Rahul Jain: From a capitalization or a commercialization perspective.

Nitesh Dhoot: Capitalization perspective yes.

Rahul Jain: This year our total capitalization in India would be slightly higher than that because there are projects of the previous year that has also capitalized this year right so that is the capitalizations number. Because again you will have to see so those that we have incurred during the last year as well as we are proposing that probably will get capitalize this year itself my number is probably about Rs. 3000 crore but cash trend in some of those projects would have been done over the first two years as well.

Nitesh Dhoot: Actually what I was trying to figure out is only on the Capex, on the commissioned Capex for this year so if my understanding is correct I mean we have BOPP line at Indore and there is a multipurpose MPP4 that is commissioned and there is another agrochemical facility of about Rs. 58 odd crore.

Rahul Jain: There are a long list of projects that come back to us and we will give you a good sense of it because I cannot talk about each of the projects there is a long list.

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

Sanjesh Jain: First on this agrochemical four plants which we have announced in this results, can you give us sense how much of it is AI and out of this Rs. 600 crore what does the asset turn that we are targeting?

Rahul Jain: Out of the Rs. 600 crore there are two products that we are doing which are effectively a precursor to our existing product so they are margin expansion project that we would see to come through. So that is how it will work, the projects that we have announced are more agrochemicals and non-AI but they are also precursors to some AIs which effectively all of the AI all of those precursors we are manufacturing. The other projects are new products that we have supplied for multipurpose and are now going dedicated.

Sanjesh Jain: And in MPP how many products are we projecting and just one related question now that we have announced.

Rahul Jain: Are you talking about MPP4 or some other MPP.

Sanjesh Jain: No, MPP4, because that is the one we have started how many new products have we planned there in MPP4 one related question to the previous question, you have announced Rs. 1000 crore of Capex in specialty chemical in 12 months right, what is the potential revenue it can add in next 12 to 14 months?

Rahul Jain: Again the fact is that from an MPP4 that we have capitalized recently we are almost doing two to three products on a continuous basis now what happens also in MPPs is that you manufactured it on a batch and then do the supplies over a period of time it is expanding the ability of this MPP is probably to do almost 7 to 8 products but those are batch products also, so that is the MPP story. The other piece in terms of overall revenue potential I think again we do not look at it from that perspective we factored that some of these are precursor feed into the existing one and therefore add to the margins of the business as such but again I think it can remain in similar nature or similar trend that we have seen in the past so between 0.9 to about 1.25 is a fair and a decent assumption.

Moderator: The next question is from the line of Vishnu Kumar from Spark Capital.

Vishnu Kumar: This is a follow up on the previous question of the agrochem Capex that we are doing, you mentioned it is mostly pre-AIs I mean are you generally getting more inquiries from the west that okay let us do one more step because of all the energy cost that is happening on the west so are we going closer to one more step do you see that possibly playing out in the next couple of years.

Rahul Jain: Certainly, the amount of work that is going on that we are doing with respect to existing projects and existing products as well as converting some of those inquiries into AIs is very, very large and I am hoping in the next few quarters you will also hear some of the announcements on AI as well.

Vishnu Kumar: So at present this Rs. 600 crore as you said is part of margin enhancement and part of it goes into fresh new products.

Rahul Jain: That is correct.

Vishnu Kumar: Sir if you could just give a list of the projects that are going to get commissioned I mean large projects over the next 18 months across the segments that will be slightly useful.

Rahul Jain: Again we cannot do it on the call but certainly happy to give you a good sense of it separately.

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

Naushad Chaudhary: Few clarifications sir firstly can you share the status of our thermal plant Capex and once it is fully operational what kind of benefit we should expect from this Capex.

Rahul Jain: Which is the thermal plant Capex?

Naushad Chaudhary: I think two years back we have announced around Rs.200 odd crore of investment in thermal power plant.

Rahul Jain: I think it has already been commissioned and is operating fully as of now.

Naushad Chaudhary: So this quarter numbers would have reflected the benefit of this plant.

Rahul Jain: In this quarter itself the overall benefit probably will come through in H2 and going forward on a continuous basis.

Naushad Chaudhary: And would you be able to quantify the expected benefit from the plant.

Rahul Jain: Reduction in the cost of power and therefore very difficult to quantify but let us say from a unit by unit perspective it is almost 40% to 50% cheaper or even more for that matter and again you have to understand we have a large requirement and therefore it also feeds them to the requirements of the future and the needs of the site for the future as well.

Naushad Chaudhary: Secondly just the clarification again on the textile and packaging films margin was it impacted purely because of inventory, trade and operating deleverage or was there something else any one off cost which may not be there in the next quarter or as it become a new normal now demand and utilization has to go up to get back with the previous margins.

Rahul Jain: It is in the previous ones, I will just give you a quick run out there and no very large one timers so that if you expect that them to go up going forward I do not think that is happening in this one but my overall sense is that for the technical textiles business that there is a positive on demand that we see coming through probably more towards the end of Q4 mid of Q4. Packaging BOPET will continue to be a bit of a negative but hopefully some of the new BOPP capacity that we have put in the value added product profile will do slightly better going forward, but BOPET certainly at least in Q3 see a lot of challenges going forward.

Naushad Chaudhary: And can you share your expected debt cost on a full year basis?

Rahul Jain: My sense is that from a debt perspective our overall cost has gone up between 2%, 2.5% which is effectively what we have seen from the Fed as well as the Reserve Bank of India. Now if these rates keeps changing Fed increase another 50 basis points or RBI again in the next meeting increase by 75 basis points where a large increase there will be an impact in the floating rate provision that we have. As of now the cost has gone up by about 2% from where we were hopefully this may not be a long term and given the growth concerns the world is facing some of the key central bank will have to start reducing interest rates may not be in six months but at least in 10 months going forward so it will probably be shorter term in nature but yes that is how it will work out.

Moderator: The next question is from the line of Archit Joshi from B&K Securities.

Archit Joshi: Just one question on technical textiles. We have seen a healthy margin for about seven, eight quarters are ranging 20% and as I hear you the capacity utilization this quarter was in the range of 70% odd so the margins that has dropped is it essentially because of negative operating leverage and as you know capacity utilization ramps up going ahead we can see a similar level of margin in the interim so that is just one clarification I have.

Rahul Jain: We will not go back to number but yet it will play out better because at the end of the day what you also need to do is in fact if you want to supply at a differential you will have to ensure that your plant is running so to that extent if you are even lowering your margin to a certain extent you are good to go because the operating leverage plays out but it may not go back with that 19%, 20% number.

Moderator: The next question is from the line of Rohit Sinha from Sunidhi Securities.

Rohit Sinha: First question is if you can just give an update on the aluminum foil business and secondly on the packing films side just wanted to know the overall market perspective as people are talking about the sustainable products and thankfully we are not into the single use plastic side but what is the acceptance market is having towards the value added products and how we are looking at this overall going forward and how the value added product mix would be shaping in terms of domestic as well as the export market?

Rahul Jain: Very long question let me try and address some of it. The aluminum foil project is on track again in September'23 is when we expect it to get commissioned hopefully some of the equipment is already coming on-stream they are looking to install it so that is what is happening on the aluminum foil side. With respect to sustainability angle that you have talked about I think some of the chat around sustainability will also kind of died down a bit given there the geopolitical situations are but again we are very, very cognizant of the sustainability initiatives that we are taking. BOPP today is being considered as a better product from a sustainability perspective hopefully over a period of time as new products develop they will also become structured because it is kind of adding a property into the film which can be used for various purposes going forward so that is how it will work out but I did not catch your full question so maybe we can take it offline.

Moderator: The next question is from the line of Bobby Jay from Falcon.

Bobby Jay: For the BOPET do you make the PET resins?

Rahul Jain: Yes for the BOPET since we use PET and MEG to make the resin as well we have one facility in our SEZ in India we also have one in Thailand.

Bobby Jay: What is left with the low margins is that because the PTA prices has come down what is the driver for the low price?

Rahul Jain: The margin is effectively when we talk about the conversion margin so the price of the final product on the film side has come down significantly given your capacity is high and therefore people willing to supply at lower price which therefore being that the conversion margin so conversion margin is the net price of the product minus the big raw material in our case PET and MEG in some cases pet resin so effectively what has happened is that because people are willing to drop prices on a continuous basis the price come down and therefore the overall margins have come down.

Bobby Jay: So this is a complete commodity in that sense there is no special BOPET you are making you make the thin BOPET, right?

Rahul Jain: Again this is what I have talked about in generic nature for full which is commodity in nature there will always be specialty films some of which we do which is the value added product which will always have a delta over the base film and therefore when you look at our numbers they improve those projects as well.

Bobby Jay: And how long do you think this that the over capacity will last?

Rahul Jain: So there is a large amount of capacity four or five lines that have been added in India some large lines have been added in China as well. I am not really in a position to be able to give you a sense of when this will completely be taken up by the increase in demand but yes I do believe the next two quarters are a bit tight.

Moderator: The next question is from the line of Ishmohit Arora from Arora Family Office.

Ishmohit Arora: Congratulations for a hearty set of numbers. My question was linked to the Fluoropolymers value chain do we plan to go into PVDF and the other types of Fluoropolymers that exist?

Rahul Jain: Unfortunately, I am unable to comment on it as of now because there are thought processes around it we are talking about it, no specific projects on the ground as of now. You will know in due course.

Ishmohit Arora: Sir second question is looking at the Chinese refrigerant gas players because we have seen the antidumping duty coming up are we seeing them shifting their capacity still or some of the Chinese players also selling up the capacity to UAE to basically bypass the antidumping duties in US?

Rahul Jain: Could you repeat your question I am a bit confused.

Ishmohit Arora: Basically are we seeing any Chinese players setting up capacity such as capacities of refrigerant gases in UAE to basically bypass the antidumping duty in US?

Rahul Jain: Those are exclusively set up by them.

Moderator: Thank you. Ladies and gentlemen, due to time constraint we take that as the last question. On behalf of ICICI Securities Limited that concludes today's conference we thank you all for joining us and you may now disconnect your lines.

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