"SRF Limited Q3 & 9M FY23 Earnings Conference Call"

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MODERATOR: **MR. ABHIJIT AKELLA** – KOTAK SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to SRF Limited's Q3 & 9M FY23 Earnings Conference Call, hosted by Kotak Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be opportunity for you to ask question after the presentation concludes. I now hand the conference over to Mr. Abhijit Akella from Kotak Securities. Thank you, and over to you, sir.

Abhijit Akella: Thank you, Tanvi. Ladies and gentlemen, good afternoon, and thank you for joining us on SRF's Q3 & 9M FY23 post-results conference call. On behalf of Kotak Securities, it's my pleasure to welcome Mr. Rahul Jain, President and CFO of SRF Limited to this call. We'll begin the call with opening remarks by management, following which we'll open up the floor for a Q&A session.

I would now like to invite Miss Nitika Dhawan, Head of Corporate Communications at SRF, to take proceedings forward. Thank you, and over to you, Nitika.

Nitika Dhawan: Good afternoon, everyone and thank you for joining us on SRF Limited's Q3 & 9M FY23 Results Conference Call. We will begin this call with brief opening remarks from our President and 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: Thank you, Nitika, and good afternoon, everyone, and thank you for joining us today on SRF's Q3 & 9M earnings conference call. I trust all of you have had the opportunity to go through our results and the presentation shared with you earlier. I will begin the call by briefly taking you through the key financial and operational highlights for the period under review, following which, we will open the forum for a Q&A session.

During the quarter, we have reported a good performance given the challenging times being faced by some of our businesses. The Technical Textiles and Packaging Films businesses continued to witness a difficult operating environment, while the Chemicals Business performed exceedingly well, both on operating and financial parameters.

On a consolidated basis, revenue grew 4% year-on-year to INR 3,470 crores in Q3 FY23. EBIT stood at INR 726 crores, down 9% on a Y-o-Y basis, which is largely attributable to the weakness in TTB and the Packaging Films business. Profit after tax stood at INR 511 crores in Q3 FY23, up 1% Y-o-Y.

During the quarter, the Board has approved a second interim dividend of INR 3.6 per share in addition to the first interim dividend of a similar amount declared earlier. This will result in a payout of INR 106.71 crores.

Coming to our segmental performance. Our Chemicals business reported robust growth. Revenue grew 23% Y-o-Y at INR 1,757 crores in Q3 FY23. Within the Chemicals segment, our Specialty Chemicals business delivered record performance with successful addition of new products that received substantial market traction.

The ramp-up of the state-of-the-art MPP 4 facility at Dahej and strong demand for key products and downstream derivatives. High level of customer engagement with global innovators continues to be our USP as complex and advanced products and AI remain in focus.

Our pharma intermediate plant (PIP) is also being commissioned and should be ramped up fairly quickly. New capex is in line with the projects that we are doing for our key customers. We have now made announcements on capital expenditure in the Specialty Chemicals business over the last two quarters that aggregate more than INR 1000 crores.

I am pleased to share that the Board has approved another project for setting up a new and dedicated facility to produce an agrochemical intermediate at a projected cost of INR 110 crores to meet the growing demand of the product in the future. In addition, a new plant building structure at Dahej was approved at a cost of INR 40 crores to meet the future requirements. All these projects are expected to be commissioned over a period of 1 year.

Our customer engagement, execution capability and operational excellence gives us confidence of the long-term success of the business. Our R&D and scale-up facilities were further augmented, developing a variety of new technologies and platforms to bolster SRF into next level technology play in the future.

Our Fluorochemicals business registered healthy performance on account of several key factors, including strong traction in the domestic market for refrigerants, continued demand for our Dymel HFC 134a/P (pharma-grade gas), healthy contributions from chloromethanes and gradual ramp-up of volumes of the recently commissioned facilities.

All of our Fluorochemical plants are running well and full benefit of the recently commercialized Chloromethanes plant should be available from next quarter onwards. The Chloromethanes plant has been successfully ramped up. Outlook for domestic demand for HFCs remains strong and we are also witnessing traction from the U.S. market. There is, however, a slight delay in commissioning of the PTFE plant due to certain logistical issues for which we have already put countermeasures in place.

I'm also pleased to announce that the Board has approved a project to establish a range of specialty fluoropolymers at Dahej, at a cost of INR 595 crores. The project seeks to enter into the lucrative PVDF, FEP and FKM space, which caters to range of industries that include battery, chemical, coating, solar, automotive and aerospace.

With a highly backward integrated value chain, we believe that we will start to cater to the needs of a growing segment. The project is expected to be commissioned in 24 months. In total, we have now announced more than INR 1,700 crores of capex over the past 9 months in our Chemicals Business, which demonstrates our commitment to invest in the business.

At our Dahej site, we have also recently commissioned a new 20-megawatt captive power plant, which should allow us to optimize our energy costs at the site.

Our Packaging Films business reported a revenue of INR 1,203 crores in Q3 FY23. The business faced headwinds with several new lines getting operationalized both in the BOPP and BOPET segments in India and overseas.

In addition, a decline in global demand, elevated energy costs in Europe adversely impacted our Hungary operations. Surplus supply in the near term are unlikely to get corrected, but we do believe that BOPP will start to witness an improving trend going forward.

Energy costs in Europe are also witnessing some softness, and we are hopeful of a better performance in the next quarter while full benefit of the reduction in energy costs will likely reflect in the next financial year only. Our VAP story remains on track and the aluminum foil project is also expected to start during the end of Q2 FY24.

The company remains optimistic that Packaging Films business is well prepared as demand pivots towards global suppliers with multi-locational facilities. Furthermore, the business remains focused on operational efficiencies, and cost reduction initiatives to mitigate volatility in this segment.

Moving on to our Technical Textiles Business. We reported revenue of INR 426 crores in Q3 FY23 versus INR 538 crores in Q3 FY22. The segment witnessed a subdued performance during the quarter, owing to weak demand for nylon tyre cord fabric and polyester industrial yarn. The company anticipates an uptick in the medium term based on customer interaction. Belting Fabrics segment continues to do well.

Lastly, in our Other segment, revenue stood at INR 92 crores in Q3 FY23. Both the coated and laminated fabric businesses met expectations in a challenging external environment.

The weak rupee also led to a recognition of a forex loss of INR 15 crores during the quarter. We believe that some of this should unwind over the next quarter and given that SRF is a net exporter, a weaker rupee should aid to our overall profitability.

Additionally, we also witnessed increased interest outgo during the quarter from INR 29 crores corresponding period last year to INR 62 crores during Q3 FY23. This is largely due to the current interest rate scenario prevailing both globally and locally. The Fed has remained steadfast in its interest rate increase cycle and so has been the RBI. While some of the interest amount can be attributed to larger borrowing profile, majority of the same is due to the increased interest rates that we have witnessed.

You would also have noticed a recognition of MAT credit previously written off now being recognized. The company has recognized a MAT of INR 52 crores during Q3 FY23, and additionally, INR 22 crores will be recognized in Q4 FY23. This has been necessitated due to the expected shift to the new regime in FY24 from an SRF standalone perspective.

I am pleased to share that during the quarter, SRF has received multiple awards across its businesses and functions. SRF chemicals facility in Bhiwadi, Rajasthan was awarded The Bhamashah Award for contributing to education and infrastructure development of Government schools in Alwar, Rajasthan. SRFs Packaging Films business won the IAQ Quality Sustainability Award from the International Academy for Quality and our Fluorochemicals business unit in Thailand was honoured with The Best Supplier Award by Toshiba.

SRF continues to grow and evolve its businesses in a purpose driven way. I am pleased to share that our CSR wing, the SRF Foundation, launched Smart Shiksha Digital Bus in 3 locations, namely Kashipur in Uttarakhand, Bharuch in Gujarat and Mewat in Haryana during this quarter. Furthermore, in our constant endeavour to promote Indian art and culture, we organized a 2-day Indian classical music concert, namely SMARAN to honour the birth centenary of Padma Vibhushan, Ustad Ali Akbar Khan Sahab in New Delhi.

To summarize, SRF has demonstrated resilience in the face of external challenges in the Packaging and Technical Textile segments, with performance in our Chemicals business being a notable highlight. The company's ability to overcome headwinds is a testament to a strong foundation, its infrastructure, well-developed R&D capabilities and investments in opportunities across various segments. Overall, we believe our solid multi-business model will withstand external challenges and create sustainable value for all stakeholders going forward.

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.

Moderator: The first question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Congrats on strong Chemicals performance. First question is on PTFE. So, you indicated that it's been delayed. So what are the timelines that we are looking at in terms of commissioning and then probably in terms of the optimal utilization of the facility?

Rahul Jain: We believe either by the end of Q4 of this financial year or early next quarter, probably very early in April, we should be commissioning the plant. From a ramp-up perspective, I think we are in fairly good shape to be able to ramp it up, even customers that we are already starting to speak with, we believe in the next 6 months, we should be able to ramp it up very, very swiftly.

Rohit Nagraj: Second question is on the Packaging Films business. So, during the first 9 months on a year-on-year basis, have you seen a volume increase? Or is it flattish volume than the prices have been on the impact on the margins?

Rahul Jain: I would only say, Rohit that the new facilities that we have commissioned have actually led to higher volumes when we compare it to corresponding period last year, 9 months. And therefore, when you look at it, our overall sales on a 9-month basis in the Packaging Films business have been kind of higher when we compare it.

So about INR 3,300 crores to about INR 4,000 crores in the 9-month period is what we have witnessed. Largely, I think it is volume driven, let's say, when we think about it from a margin perspective that has come down. Also, when you look at it from a utilization perspective, I think we've been fairly good in terms of overall utilization. Q3 utilization would have ranged between 80%, 85%, and that's the situation. While in Hungary, there would have been a negative because of the fact that there is the higher energy cost that are prevailing there.

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

Sanjesh Jain: First of all, continuing with the Packaging Films. In our presentation, we have mentioned that we are also seeing some demand tapering down. So, is it fair to assume that the spread contraction, what we are seeing in the market, is a combination of both excess supply and demand weakness? Will it be a fair assumption?

Rahul Jain: It is a fair assumption, but I think the comment in the presentation was more referring to Q3 as such, while not in terms of saying that the overall demand, when you look at it on an annualized basis, that is coming down. I think, let's say, from a pure quarter-on-quarter inventory, destocking and certain other things happening, that's the situation that we saw just pure quarter-on-quarter, Sanjesh.

Sanjesh Jain: So, it is nothing. It's just a transitory one quarter kind of an impact, right?

Rahul Jain: That's right from a demand perspective. But from a supply-demand perspective, supply still outstrips demand to a very large extent and that's the comment you would have seen in the overall Packaging Film commentary as well.

Sanjesh Jain: Second question in the fluoro specialty side of the business.

Rahul Jain: Specialty or Specialty Flouropolymers?

Sanjesh Jain: Specialty fluoropolymers.

Rahul Jain: So, you are talking about the new capex...

Sanjesh Jain: SKM and FEP, we said. Can you share further detail in terms of capacity, if you can? As well as one clarification, this entire process will be free of PFOA kind of a product? Is that the right thing to understand?

Rahul Jain: Yes I am unable to share singular capacity, but overall capacity should be in the range of 4,500 tonnes or so when you look at it in a total perspective. In terms of saying whether the process is PFOA free, I think the technology that we will be using will be PFOA free.

Sanjesh Jain: My last question, is on bookkeeping. So on the forex loss, what we have incurred INR 15 crores, it is more to do with the receivables and payables. Is that the right assumption?

Rahul Jain: So what happens, Sanjesh, is that there are certain types of liabilities that I always have on my books, which flows through the P&L and the restatement, the weaker rupee will lead to a negative in that sense, and therefore, there will be a negative in the profit and loss account because of the liability restatement that happens.

And the other pieces in it will always be the receivables that we have. Also, to a certain extent, the hedges that we have created over a long period of time, which have always been a positive for us, because of the sudden depreciation, it's a small negative that also flows through the P&L.

Sanjesh Jain: It means a lot of it is just a book entry, not a cash loss, right?

Rahul Jain: Majority of it should be, yes.

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

Vishnu Kumar So firstly, on the Chemicals business, good results. On the margin front, any thoughts as to which segment has done well for you? Is it the Ref gas or Spec Chem because we have seen a Q-o-Q increase in the margins, so some thoughts on this?

Rahul Jain: Again, I would say that the Ref gas segment has done decently well. There has been no margin erosion. It's been slightly positive, but the majority of this has flowed out in the Specialty Chemicals space. And that's something that we believe is the one that has aided our margin for the quarter.

Vishnu Kumar: Sir, in this Spec. Chem, again, is it to do with any raw material or any pricing or margin increase or new product launches that is leading to this kind of growth?

Rahul Jain: It is a combination of all of those. To a certain extent, I would say, there is a pricing benefit that has come in. If you remember, in the last calls also, I said that some of our Specialty Chemicals business is contracted in nature and some of those contracts have got renewed. There is a pricing benefit that has come in.

To a certain extent, we've seen weakness in some of the key raw material prices also. That's also created some benefit. That's how we would look at it. It's a combination of all, and yes there are a couple of new products that have been launched which have also given a positive in that sense.

Vishnu Kumar: Broadly, in the next couple of quarters, this EBIT margin level should sustain or any thoughts?

Rahul Jain: Again, I think purely just going by the number in terms of whether the overall margin should sustain, I think we have a fairly good visibility over the next 1 or 2 quarters that we should be able to sustain these.

But again, you also understand that we don't look at it from a pure quarter-on-quarter perspective, right. Again, we said that in the chemicals business, the intent is to go into more high value-added products, both in the specialty chemicals space and the Fluorochemicals space. And to a certain extent, the Fluorochemicals business has also some seasonality that plays out in it.

Now when we look at it from a 9-month perspective, again we would see that the overall margin has expanded. When you look at it Q-on-Q, be it comparative or corresponding period last year or the previous quarter, again, there has been an expansion. My sense is, we can sustain this going forward, but businesses remain dynamic, and they will keep on going through some business cycles. As of now, looks pretty much in good shape.

Vishnu Kumar: Sir, just wanted to understand what are the new plants that will come live over the next 3, 4 quarters? Broadly, if you could just give us some thoughts on it. The plants are going to come like across various segments?

Rahul Jain: Let me just talk about the Specialty Chemicals first. The ones that will come in probably are the PIP, the TOF 1. The recent announcement that we have made for 2 or 3 products that will also be there. On the Fluorochemicals side, the PX1 and PX2 which is the HFC production which will come on stream.

We have the water capex that we are doing, that will also come on stream. There is going to be the dedicated P 38 plants that will come on stream. So multiples – and again, I think we have given timelines on each of the projects from when they are coming on stream.

Vishnu Kumar: And finally, one question on the Packaging Films business. Are we seeing some energy cost normalizing? So, should we see some reprieve on that in the next couple of quarters in your international segment?

Rahul Jain: So again, I have said that in the initial commentary also, I think we are seeing some normalization in terms of energy cost in Hungary coming in. However, these are not significant from a Q-on-Q perspective, we believe, as we go through that journey, next year is when we can see significant benefit of that coming in.

Vishnu Kumar: Any rough margin trends you think this business will settle down at least.

Rahul Jain: Really, we won't be able to give you a percentage margin trend, as a generic thing, what I can tell you is, wherever we are today from a quarter-on-quarter perspective, we should be exiting better and next year should be even better than this.

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

Surya Patra: Sir, the first question is on the Chemical business EBIT margin increase. In the current financial year, we have seen a kind of a much improved margin scenario compared to the historical period. So, whether it is due to largely because of the improved product mix to downstream and active ingredients rather than the initial compounds. If it is so, could you also say, what would be the share of this derivative or downstream products or the active ingredients in the overall chemical business?

Rahul Jain: So Surya, the answer to that question is absolutely right when we say that the product mix has been better, we are producing a larger set of derivatives. We are doing change – we are bringing in new products that have given us the benefit, like SS20. A couple of other products have also come in, that's creating the positive.

The second question was, whether you think it is sustainable or not? I think that is pretty much there in terms of sustainability. But again, you have to also understand that fact is that we are continuously investing. Like I said in the initial commentary also, more than INR 1,000 crores of capex is what we've announced over last 2 quarters.

Again, timeline of execution of these capex are probably about 10 months to 12 months. When we look at it from that perspective, I think growth positions that we are taking in the business are fairly significant. And majority of these are based on customer discussions, customer contracts that are coming. So that's how we are looking at it rather than just the mix that you're talking about.

Surya Patra: Okay. And simultaneously, if I link this same question to the Ref gas. So this quarter, generally, seasonally, it should be a much weaker quarter in the overall year. And sequentially also as we see the margin improvement considering that there is low contribution from the Ref gas, which was benefited by the price rises. So considering that the performance looks really good for the core chemical business in terms of margin performance. So next quarter, we will be going into the season of Ref gas and the continued performance in the core chemicals could offer support the margin percent going ahead? Is the understanding correct, sir?

Rahul Jain: I can only answer that in one word, Surya. Correct.

Surya Patra: My second question, sir. Ref gas, whether it's a Y-o-Y growth in terms of export for the quarter?

Rahul Jain: So Surya, we don't look at it from a Y-o-Y perspective. It is the annual number that we have to look at, and when we look at it from an annual volume perspective, I think there has been growth in the HFC space as well as in the Chloromethanes space given that we have recently commissioned the plant. The point to make also is that the Chloromethanes plant got commissioned somewhere in the middle of Q3. Full benefit of the Chloromethanes plant on the volumes will come through in Q4 as well as when you look at it from an annualized perspective, the year as a whole. So that's how we would look at it Surya.

Surya Patra: Just last one question, sir. With regards to the flouropolymer that you have announced and the earlier fluoropolymers for that we had the indicative. So now two developments, obviously. But on a futuristic basis, your thoughts about the flouropolymer? And how integrated that you want to create? And what would be the kind of thought process about customer acquisition, market average, cost efficiency. What else angle if you can share some brief view about it that would be really helpful?

Rahul Jain: Surya, two or three things to point out here. First, the PTFE, which is the earlier fluoropolymer that you have talked about is going to be commissioned very soon, and I alluded to that during the earlier part of the comment. Probably, end of Q4 or early Q1 next year, we will have PTFE up and running. We believe we are in a good situation to be able to ramp that up on a very, very fast basis. So that's the positive.

What we were looking at it strategically was the fluoropolymer space overall. And given our ability in terms of execution of the project, in terms of our technological capability going backward and integrating that to key raw materials for PVDF, VCM and subsequently, various other positions that we are taking on it, we think there is a large positive that we can create on that side. Customer acquisition, the specific question that you asked is probably still some way down the line. While we have already started work on that side, it's the first thing to be able to do is to be able to supply the product. And once you have that product in play, only then you can talk about customer acquisition. So that's how we would look at it, Surya.

Moderator: The next question is from the line of Rohan Gupta from Nuvama.

Rohan Gupta: Rohan here from Nuvama. Sir, a couple of questions. Sir, first is on your new capex on Specialty Chemical. So roughly, we have done some INR 1,700 crores total chemical capex announcement in last 9 months. Recently, when we visited our plant, I think that one thing which came very strongly that our capabilities to deliver the capex part and shortening the overall capex commissioning time frame, which earlier used to be close to 18 months plus, now we are confident in delivering in almost in a years' time. So do we expect that all this capex benefit will be visible over the next 12 months or it will be prominently benefiting in FY24?

Rahul Jain: So again, Rohan, I think it is a journey. Those that were announced in Q1, right, will probably get commissioned by the end of Q1 next year or Q2 next year. So again, 8 to 10 months project. And again, I think we will continue to engage and tell you where the positive is. Some of the future year growth, which is FY24, will always be driven by the new projects that will get capitalized during the year. So I don't believe the entire INR 1750 crores will come in. But when you look at it from an overall perspective, a majority of that should be part of H1 or H2 in FY24 is what we would look at.

Again, I think the key projects that are getting commercialized or capitalized in FY24, which will even benefit, will be the pharma intermediate plant, the PTFE plant, CMS, which was commissioned only in November. There are about 2 or 3 projects that may get commercialized in FY24. So all of those will certainly hit in FY24, but I think we have to look at it from a more longer-term perspective rather than just quarter-on-quarter perspective, Rohan.

Rohan Gupta: Second is on our HFC volumes. You have mentioned that in the domestic market, you have seen a strong demand. Surprisingly, this is a weak quarter, I mean, as far as the Ref gas users are concerned. So how we are looking at this HFC volume, which has seen a good traction in domestic market, it is primarily driven by the import replacement or we are taking market share from the unorganized market in the domestic market? How this domestic demand is?

Rahul Jain: There is no unorganized market here. There is either us or imports on that side. On the domestic side, I think the goal we are looking at is that the domestic auto manufacturing segment has grown about 22% over the corresponding quarter when we look at it. So that's the market growth that is giving us that demand. And even the RAC segment has grown about 40% over the corresponding period last year. So that's where the domestic demand is coming in. We also believe that there is very strong traction in the domestic position on the refrigerant gases for Q4 and Q1 as well. So that's something that we believe is going to be a much larger positive one.

Rohan Gupta: So it is basically the entire market itself has grown significantly, that is helping us to grow in the domestic market?

Rahul Jain: When you're talking only about Q3. From an overall perspective, I think we have a very large market share in the Indian market.

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

Vivek Rajamani: Two questions from my side. Firstly, you had touched upon this before, but if you could just comment on the operating rates that you've seen across your different segments in this quarter. And maybe just for Hungary, if you can just talk about how you're running the plant since January? That would be really helpful.

Rahul Jain: Okay. So I didn't understand the first part of the question. Operating rate is what you said?

Vivek Rajamani: Operating rates for your different segments.

Rahul Jain: Operating rates. So Vivek, I think when we look at it from a Technical Textiles perspective, probably in the range of about 65%, 70% from an overall NTCF positioning, belting is pretty much full in terms of the capacity that we have. On the Packaging Films side, about 80%, 82% is the operating position on that. This is also including Hungary in that sense. But when I look at purely Hungary, Hungary is probably operating at 40%, 50% in terms of the operating rate on the Hungary side.

On the Fluorochemicals space, all the plants are running very well. While there are some things that would have been obviously inventorized for future sales, even the new CMS plant is running very well. On the Specialty Chemicals, again, I think pretty much full-on operating efficiencies in the plant. MPP by design will have some spare capacity available, but even the MPP 4, we are very happy with the way it is starting to ramp up. So that's what I would probably put through as the operating rate.

Vivek Rajamani: And just a clarification, sir. On Hungary, would it be fair to say, they're still at 40%, 45% in this current quarter?

Rahul Jain: Between 40% to 50%.

Vivek Rajamani: And sir, secondly, just on the strategic standpoint on the capex. Just if you could give some colour in terms of your new investments. Will you now be focused more on some of these new applications like flouro polymers going forward? Or will agrochemicals continue to be the bigger focus as has been the case for you?

Rahul Jain: Yes, I think that what you are looking at it, Vivek, is from a timing perspective. I think when you look at the investments that we are making in the Specialty Chemicals side, the investment typically would cost between, for a smaller plant, INR 75 crores to INR 125 crores on an aggregate, INR 300 crores to INR 350 crores MPP plant. While when we look at it from a Fluorochemicals perspective, investments are larger. Again, I am not differentiating between whether we are only doing this or that. I think given the opportunity that we are seeing both in the Fluorochemical space as well as the spec chem space, we are happy to invest if we are getting our appropriate IRRs there.

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

Madhav Marda: I just want to understand the kind of business that SRF is targeting in the global agrochemical market. Is it fair to say that we are targeting a lot of pipeline molecules of innovator customers? Is that also the kind of market that we're going after, which could kind of help drive growth over the medium term in the space?

Rahul Jain: So again, we've always said this, Madhav, that our key customer sets are global innovators, right. And when we look at it, their pipeline becomes an important element for us as also the, let's say, expansion of their existing products become an important element for us. So, when you say that we are targeting that, yes, that's probably the way to look at it as well.

Madhav Marda: And what about the pharma business? How is that scaling up in terms of sort of our pipeline getting closer to commercialization. I think you did mention one product was commercialized in the pharma space.

Rahul Jain: When we say commercialize, Madhav, what it really means is that a commercial lot has been supplied. It will ramp up over a period of time. Again, I would say, it's a journey. It's not something that happens overnight, and again, we've always said this, don't look at it on a quarter-on-quarter basis.

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

Arjun Khanna: Congratulations on good set of numbers on the chemicals side. Just to understand a little bit on the tax rate. So, you did in the presentation alluded to the MAT credit and moving to the new regime. If I look at the consolidated tax rate for FY22 and FY21, I see 25.5%. So is it a correct understanding ?

Rahul Jain: Arjun, I have always said this, whenever you are looking at tax rate or when you start to look at it on a consolidated basis, it creates a very volatile picture. The best thing to do when you're looking at tax rate is to look at standalone numbers. That's how you should look at it. I would typically say that the utilization of the MAT credit, which was previously written off, some portion of that, about INR 52 crores, has been accounted for in this quarter. And INR 22 crores will get accounted for in the next quarter as well because that's how the accounting standards are structured. They don't allow you to take it immediately whenever you say that there is a possibility of recognising it and it has to flow through the effective tax rate.

So that's how it happens. But from a guidance perspective, I think the way the numbers are structured today, to do longer-term projections when we are looking at tax rate, we believe we will shift into the new regime next year, which then means that we will be probably at an ETR on a standalone perspective at about 25%. Therefore, the global rate will actually be much lower than that.

Arjun Khanna: So we definitely probably be lower than the 25% going forward...

Rahul Jain: I go back to the same point. Look at standalone, I can give you guidance on that, and that's what I've done.

Arjun Khanna: And just to refresh, in terms of Hungary and Thailand, what would our tax rate be?

Rahul Jain: Hungary is a very low tax rate. Practically, it's non existent, between 2.00-2.50% is where it is on an ETR perspective, Thailand is probably in the range of about 20% on an overall basis, but there is a very large tax holidays based on the investments that we've done. So that's how Thailand will pan out. South Africa is now in normal tax rate, which is around 27%.

But again, you would have some previous year losses that will come through. They will be allowed to be used. There would be certain position that we've taken. So that's why I don't give you a consolidated tax position. I, therefore, give you the standalone one, which is easier to understand.

Arjun Khanna: My next question is, in terms of US HFC sales. So in the last quarter call, we mentioned we'd probably do booking in the third quarter or the fourth quarter onwards, HFC sales in the US. Any update in terms of outlook?

Rahul Jain: Yes. Again, I think we've always said that the US market, a majority of the sales to the US market will pan out in Q4. We have good traction on that side, Arjun.

Arjun Khanna: So, we are undergoing a capex expansion for HFCs also, would that be in the timeline as we envisage?

Rahul Jain: Yes. As of now, we believe September is when it should come up.

Moderator: The next question is from the line of Ranvir Singh from Nuvama Wealth.

Ranvir Singh: So, I wanted to know that now spread has already come down significantly. So, wouldn't the pricing where we will be playing there by reducing the price or we can even have the same price, we can increase the volume going forward on the basis of our customer demand?

Rahul Jain: The conversion margin is a function of the price, right. Because there is excess supply available in the market today Ranvir, we are seeing a reduction in conversion margin that has happened. Again, to a certain extent, this business is commoditized. This business has a supply situation that is there in the market today, especially in BOPET. We believe that while there will be some negatives around it, we should be better off given our customer contracts, given our value-added product profile, given our R&D capability and given our position with some of our key customers.

So, while the industry will go through, let's say, to a certain extent an extended lull, BOPP should still do better than BOPET. So that is how we are looking at it. And your question with respect to, can we go with the price? It is not really relevant. There is a certain market price that you are dealing with, and therefore, if the market price has come down, our conversion margin also has come down.

Ranvir Singh: Can I look at what your spread currently is in BOPET segment?

Rahul Jain: Not really. The spreads are pretty localized. From an India perspective or a Thailand perspective or a South Africa perspective, each one will have a different kind of spread, whether it is exporting or domestic market, very, very different positions to play around from that. So even if I aggregate up the spread and give you a single BOPET spread, that would not really be the right thing to do.

Ranvir Singh: And secondly, in chemical segment, the growth we see in Q3 or even 9 months, how much of this is attributed to MPP 4 ramp-up?

Rahul Jain: Not very significant. MPP 4 is something that we commissioned only in Q1. So while there are a couple of products that we have sold, the full ramp-up of MPP 4 will come through in Q4 as well as FY24. So I would not attribute a very significant change in terms of, let's say, the revenue growth of 23% that we've seen over corresponding period last year to just MPP 4. While MPP 4 is a good positive, but not only the positive that's there.

Ranvir Singh: Okay. So, for agro chem & pharma intermediates that we currently started. Can you give us any guidance to what are the products that we have? Or have we started on any existing product already? how is the ramp up for these products?

Rahul Jain: The PIP plant has not been commissioned as of now. We have said in the commentary as well, the PIP plant is in the process of getting commissioned. What we believe is that we will ramp it up very, very fast. So that is what we've said.

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

Abhijit Akella: Just a couple of clarifications. One is about the new capex on the specialty fluoropolymers. While you have indicated the capacity roughly, is there a broad revenue and margin profile kind of outlook that you could share with us?

Rahul Jain: So roughly speaking, I think we have roughly about a 25% to 28% IRR positioning on this one. Probably, about 4-year payback that we believe we can generate. To be able to give you, let's say, stable state sales or current positioning on it, is very difficult. I think it should be similar to the chemical business, say, between 0.8 to 1.2 is what we believe will pan out on this one.

But I think it is also important to understand is that this is a strategic investment that we are saying that we will do. And we believe that this will allow us to cater to the large fluoro carbon space in total rather than just being on the, let's say, Fluorochemicals space. So that's how we're looking at it, and therefore, we believe this is a strategic call that we are taking to get into fluoropolymers.

Abhijit Akella: And then just on the capex for this year and next year, we are still on track for our INR 3,000 crores plus numbers for this year, I presume. For next year as well, should we assume a similar kind of number?

Rahul Jain: Again, Abhijit, I will probably be able to give you better clarity on the number going forward in the next call because there is work going on in terms of what is going to be the capex. But given where our current capex announcements are, right, we believe anywhere between INR 2,000 crores or, let's say, about INR 2,500 crores of capex are already on the ground. Some of it will get incurred in FY24 and some will probably like the new fluoropolymer capex is a 2-year capex. Some of that will get incurred in FY25 as well. So from a visibility perspective, we believe INR

2,200 crores to INR 2,500 crores is pretty much well doable. INR 2,800 crores to INR 3,000 crores is what we should be targeting going forward as well.

Abhijit Akella: Got it. Got it. And one last quick thing. Last quarter, you had told us that for fluoro Specialty, you do expect to do better than the 20% revenue growth guidance you have provided at the beginning of the year. Any further updates you would like to meet to that guidance?

Rahul Jain: You've seen the 9-month number. You are putting me on a spot. To be very frank about it, there is significant traction that we've generated in 9 months in the Specialty Chemicals Business space. The next question I know that you are going to ask, what is your target for next year. Again, I will give you better clarity on that next quarter, but yes, that 20% number is far out of the window for FY23.

Moderator: The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance.

Keyur Pandya: Sir, the question is on the two new products that we are starting. So first, aluminum foil and second is PTFE. Since both the products are new in our portfolio, so basically just want to understand what would the peak utilization or peak revenue or asset turn? And from that peak, should we assume 30% kind of utilization in FY24 since it is new for us.

Rahul Jain: So, both are different animals. Aluminum foil is the Packaging Films, let us say, substrate within the business positioning that we have. And therefore, the kind of rates that we have seen in the Packaging Films and specifically on aluminum foil would probably be 1.75 to 2x asset terms. Also, all of that does depend on the market pricing of some of these products. PTFE should also typically be following a similar Chemicals Business positioning in terms of the overall revenue.

Given the current rates of PTFE, I think the peak revenues that it could get to is 1.25, 1.3x of the overall cost of the project. Whether everything will hit through FY24, again, both of these are kind of coming up in September. So the rated capacity availability of these is only about 4 to 5, 6 months. Aluminum foil should be faster. PTFE will come in April, and therefore, 6 months in terms of the product approval and that cycle should take, and therefore, typically be available for a 6-month period in the FY24 as well from a full utilization perspective.

Moderator: The next question is from the line of Ranjit Cirumalla from IIFL Securities.

Ranjit Cirumalla: The question is on the Chemical business. So, the 9Mperformance that we have seen. Would you like to call out some trends of historically what we have seen the export side been a bit heavy on the Fluorochemicals and the Specialty Chemicals, but of late we are also seeing some traction in the domestic market for both these segments. So just wanted to get a sense from you how these trends are shaping up? And what is the likely trend to be in the future?

Rahul Jain: So again, when you look at the Specialty Chemicals business, Ranjit, we see H2 to be always heavier than H1, right. Again, you of all people know the fact that Fluorochemicals business, especially in the Ref gas space, there is a seasonality that does play out. From a trending perspective, we believe that we have good traction on the Fluorochemicals business and the Ref gas side. Market is looking very, very positive for us. The domestic demand is very, very significantly positive. Despite seasonally weaker quarter Q3, Q4 should be performing as it has been already, I think Q4 should give us very, very large traction in FY23.

Again, from an FY24 perspective, the seasonality play in the Fluorochemicals space will remain. Q1 should do well, but again, that seasonality trend does play out. In the specialty chemicals space, as our new plants get capitalized, PIP does well, there is large traction that we are seeing from an overall sales perspective in the specialty chemical play as well. Ranjit.

Ranjit: But more on the export versus domestic, the traction is likely to be equal?

Rahul Jain: In the specialty chemicals play or the Fluorochemicals side?

Ranjit: Spec Chem.

Rahul Jain: See, again, Specialty Chemicals Business in itself is focused on export. Now largely the new projects that are being commissioned are also export focussed. So, to that extent, the focus remains on exports. The positioning that we are creating in the Specialty Chemical side is also largely exports. So that is how it should play out, Ranjit.

Ranjit: The second question, in the opening commentary, you did talk about a variety of technologies and platforms in the spec chem space. Just wanted a bit more granularity on that front. I know this might be a bit more technical, but would be helpful to us.

Rahul Jain: Ranjit, if you want to get into the technology piece of it, I will have to get an expert to talk to you about it. I am not the expert here. So maybe we can come back to you in terms of what we are talking about on that.

Moderator: The next question is from the line of Shaleen Kumar from UBS.

Shaleen Kumar: More of a hypothetical question, if you can answer. So, is our Specialty Chemical getting benefited with the cost of production going up in Europe, giving us a chance to move up the value chain. Is this right way to think?

Rahul Jain: To a very large extent, the way we should look at it, Shaleen, is that while cost of production purely that piece is transitory, it could come down in the future, given where energy prices are now coming down in Europe. I think the thought process of the customers and the innovator is more important here, in terms of saying that we want to outsource more. And I think that as a trend is playing out where we are getting the benefit of that. Cost of production going up today is probably more transitory, Shaleen.

Shaleen Kumar: I agree with you. That could be a triggering point and I agree with you that it is maybe delineate giving us an opportunity to move up the value chain and hence, a reaction in our margin.

Rahul Jain: Without a doubt

Shaleen Kumar: Yes. So sir, one more thing. I don't know if you have already answered this question because I was dropped off in between. On the pricing of ref gas. So, like any colour that how is it shaping up for you? Because we are entering into a strong season or we are already in a strong season?

Rahul Jain: Yes. Again, unfortunately, I can't talk about just the pricing of Ref gas for the future. There are contracts that we are doing. There are positions that we are creating on that side. It only happens that when there is excess demand and lower supply, prices do go up. But very difficult to be able to comment whether generically the prices will keep going up in Q4 or Q1 FY24. So that's very difficult to be able to comment on it, but yes, I think the way we look at it, I think the pricing should remain strong, both from a domestic and an export market.

Shaleen Kumar: As we stand today, pricing is quite strong.

Rahul Jain: Forward looking too much Shaleen.

Moderator: The next question is from the line of Resham Jain from DSP Investment Managers.

Resham Jain: So my question is on the agrochemical, the end market for us. Maybe global companies have mentioned about slightly high level of inventory. Are you seeing any inventory kind of situation for your products, like in the near term or no such issues for us?

Rahul Jain: Not really, Resham. I think what we have seen is good traction from customers. We have not had a position where some of the customers have ended up either deferring or changing their contracts or orders. So that's remained for us. So I've not seen a position there, let's say, where some of the orders that got deferred or delayed because of the customer having large inventories, not as of now, Resham.

Resham Jain: So our overall inventory days remain in Specialty Chemicals specifically similar to normalized level?

Rahul Jain: That's a different question. With the first question that you have asked was whether we are seeing, let us say, higher inventory levels at customers end, and therefore, a position where it is getting deferred. That is not happening. The second question that you are asking is my inventory level. Now again, some of the products that we do are also in batch. And therefore, to a certain extent, we have to kind of inventorize it when the next sales process comes in. So there could be some changes, but overall, we believe that when we look at it from a year as a whole year-ending perspective, I think we should be in fairly good shape in terms of our working capital management even in the Specialty Chemicals Business.

Moderator: The next question is from the line of Nitin Tiwari from Yes Securities.

Nitin Tiwari: So, my question is related to the Chemicals business. Is it possible to give us a bifurcation of Chemicals revenue in terms of Fluorochemicals and Specialty Chemicals? That is one. And secondly, a bifurcation of growth in terms of growth from pricing and volume?

Rahul Jain: Nitin, unfortunately, we do that only from an annualized basis. So on a quarter-on-quarter or a 9-month to 9-month period, we don't differentiate and we don't give the numbers out for Spec Chem versus Fluorochemicals. So that we do not do. I will give you the number for the year as a whole post March end.

Nitin Tiwari: So any broad indication, is possible, if not exact numbers?

Rahul Jain: No, we don't do that, Nitin. Sorry.

Nitin Tiwari: All right, sir. And secondly, on the contract terms and duration, do you see changes in terms of contract terms and duration post the real change in the cost of production and the volatility of raw material prices that you've been simply observed in the past few quarters. So, your plans, are you observing any change in the duration of contracts that you are entering into?

Rahul Jain: Are you talking about the Specialty Chemicals Business, Nitin?

Nitin Tiwari: Yes, yes.

Rahul Jain: Again, contract positions are typically 1 to 3 years, depending on the product that you are making. If it is a CDMO kind of a position or a CMO kind of a position, you would typically get a 2- to 3-year contract. As you go out and ensure that the product is a more longer-term commitment that the customer has made, you will then kind of get into annual contracts. So that is how it works, Nitin.

Nitin Tiwari: So that remains the same. There is no change as such in terms of these terms.

Rahul Jain: Not really. The positioning of that remains similar.

Moderator: Due to time constraint, that was the last question for today. I now hand the conference over to management for closing remarks.

Rahul Jain: Thank you so much everyone, for getting on the call. I hope we have been able to answer some of your questions. I wish that each one of you continue to 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 of the management, I once again thank you for taking the time to join us on this call.

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

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