# "SRF Limited
# Q2 & H1 FY24 Earnings Conference Call"
# **October 30, 2023**

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**MODERATOR:** **MR. ANKUR PERIWAL** – AXIS CAPITAL LIMITED

**Moderator:** Ladies and gentlemen, good day, and welcome to SRF Limited's Q2 and H1 FY24 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankur Periwal from Axis Capital Limited. Thank you, and over to you, sir.

**Ankur Periwal:** Thank you, and good afternoon everyone. Thank you for joining us on SRF Limited's Q2 and H1 FY24 Results Conference Call. We have with us today, Mr. Rahul Jain, President, and CFO, SRF Limited. While we will hear Rahul's thoughts on the results as well as outlook shortly. But before that, let me invite Ms. Nitika Dhawan, Head of Corporate Communications at SRF, to initiate the proceedings for the results call. Over to you, Nitika.

**Nitika Dhawan:** Good afternoon, everyone, and thank you for joining us on SRF Limited's Q2 and H1 FY24 Result's 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 the 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 expectations stated earlier.

I would now like to invite Mr. Jain to make his opening remarks.

**Rahul Jain:** Thank you, Nitika. Good afternoon everyone and thank you for joining us today on SRF's Q2 and H1 FY24 Earnings Conference Call. I trust all of you have had the opportunity to go through our results 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.

We witnessed lower revenues and profitability during the quarter with both our Chemicals and Packaging Films Businesses facing headwinds. During the quarter, gross operating revenues declined 15% Y-o-Y to INR 3,177 crores. EBIT was lower by 23% Y-o-Y to INR 533 crores. Profit after tax came in at INR 301 crores in Q2 FY24, lower by 37% Y-o-Y.

Coming to our segmental performance. In Q2 FY24, our Chemicals business reported lower revenues of INR 1,426 crores, down 22% Y-o-Y. Within the Chemicals business, our Specialty Chemicals business witnessed subdued demand owing to the ongoing destocking and inventory rationalization by customers for certain key products, and we believe that we have seen a large impact of the same in Q2 FY24. While we continue to encounter rescheduling of some orders, we have not witnessed any cancellations. We remain optimistic that Q3 would be better than Q2, and Q4 will witness more reasonable levels. Therefore, we firmly believe that H2 will be better than how H1 panned out. We also believe that fundamentally, the business is in good shape, both on new products and capabilities. Cycles are a part and parcel of any business. In such a scenario, marginal growth is also a fairly good position to achieve. This is further supported by the cautiously optimistic outlook shared by major agrochemical companies for 2024.

We are consistently expanding our product portfolio, having introduced 6 new products in H1, comprising of four in agro sector and two in pharma. Our pipeline for complex products and AI, also remains on track. Over the past few quarters, we have successfully commissioned flexible and dedicated facilities and are in the process of capitalizing projects close to INR 1,100 crores in the second half of this fiscal.

Furthermore, the Board announced a capex of INR 235 crores for setting up a new and dedicated facilities at Dahej for the production of an agrochemical intermediate. These initiatives signify our strong confidence in the segment's potential to create substantial value for all stakeholders as we work towards process improvement and increasing asset utilization levels in FY25.

In our fluorochemicals business, we witnessed lower volumes and realizations in a seasonally weak quarter for the domestic market as well as Chinese dumping, leading to lower revenues and profitability in Q2. In addition, the demand environment for some industrial chemicals remains subdued due to sluggish growth witnessed in agrochemicals and pharma industries. Having said that, in Q2, we achieved highest-ever MDC domestic sales for a quarter with a significant increase in market share. Dymel also delivered steady performance and is now serving customers across 27 countries with a strong future growth potential. Q3 should witness demand uptick from domestic players as stocking for 2024 season begins and Q4 should witness volume traction from US customers.

As we transition into the second half of the year, our expectations are focused on several promising developments in the segment. We anticipate an uptick in pricing for HFC gases, especially in key markets like India, Middle East, South Asia, and United States. Industrial chemicals are also expected to perform better than H1, owing to higher demand and price expectation. Additionally, it is worth noting that our new HFC projects would go online very soon, which will add to our capacity and allow us to cater to our key local and global customers.

The company remains committed to prioritizing the commissioning and ramp-up of our ongoing projects. Here, I am pleased to share that we have now commissioned our PTFE plant. This project experienced delays due to challenges in obtaining support from our technology partner. In response to this, our internal teams proactively took the initiative and commissioned the project. This not only underscores the impressive R&D and engineering capabilities of our in-house teams, but also highlights our self-reliance and adaptability to cater to tough situations. We believe that the product has received a positive response from some of our customers, both locally and internationally. While there will be some time for the product approvals to come in, say within the next 6 to 9 months, the ramp-up will be faster than what we had envisioned earlier.

In our Packaging Films Business, SRF reported a decline of 16% in revenues to INR 1,122 crores during the quarter. Some of the decline in the business revenues can be attributed to lower price of key raw materials and some to the oversupply situation in the industry. While the ongoing challenge owing to significant demand and supply mismatch continues, the business is actively focussed on improving profitability through operational efficiency initiatives, expansion of value-added products in both BOPET and BOPP, implementation of cost-saving strategies and securing additional contractual sales.

I am happy to share that this quarter, the Board has approved an investment of INR 275 crores at Indore for establishing a dedicated Capacitor Grade BOPP Film line aimed at expanding in business adjacencies. This is our foray into manufacturing of higher value-added products to cater to the demand emerging from manufacture of electronics and EV sector in India. A more detailed rationale for this is available in the presentation that has been uploaded to the stock exchanges. The aluminium foil facility is now in trial phase with commercial production expected soon. The project is expected to be value accretive to the business as customers remain similar and demand strong. Overall, in this segment, market trends point to the persistent imbalance in demand and supply, particularly in BOPET, which is expected to impact performance for the next few quarters. SRF will continue to focus on value-added products and ramp up the aluminium foil project at a fast pace.

Moving to our Technical Textiles business, we reported a steady performance. During Q2 FY24, SRF successfully completed the phased capacity enhancement project for its TCF value chain. Further progress in the expansion project for Belting Fabrics and Polyester Industrial Yarn remains on track. Market trends indicate a consistent growth in various vehicle segments, ensuring continued demand for Nylon Tyre Cord Fabric. Additionally, the government's emphasis on infrastructure development is expected to drive increased demand for Belting Fabrics and Polyester Industrial Yarn.

Lastly, in the other segments, Coated Fabrics, SRF attained all-time high domestic sales and EBITDA, primarily driven by strong demand for our products, including value-added products. SRF has been able to capture maximum share of the growth that has happened in the market and the outlook suggests continued healthy demand in the near term. For Laminated Fabrics, SRF achieved record sales in H1 with the plant operating at full capacity. However, an oversupply situation persists, and SRF anticipates market challenges due to new capacity additions, while expecting stable demand.

Coming to our Balance Sheet, our net debt increased from roughly about INR 3,250 crores as of March 31, 2023, to about INR 3,900 crores as on 30th September 2023. This increase is primarily owing to our capex of around INR 1,400 crores in H1. Additionally, we are also witnessing an impact of the increased interest rates, both on the rupee and the US dollar borrowing, which is leading to higher interest costs being charged off to our P&L. Global interest rate cycles are now peaking out and some positives should be witnessed on this account over the next 12 to 18 months.

In our endeavour to achieve benchmark performance across functions, we were recognized with a slew of prestigious accolades during this quarter. We received the Best Corporate - Cash Management Services and Best Corporate - Technology Adaptation awards from HDFC Bank, highlighting our excellence in financial and technological domains. Additionally, SRF Technical Textiles Business won the MATEXIL Export Award for Outstanding Export Performance for the year 2022-23.

Our social wing, SRF Foundation was honoured with the Shiksha Bhushan Award at the 27th Bhamashah Samman Program by the Government of Rajasthan. Additionally, the SRF

Foundation won CSR Times Award 2023 (Gold) for its Rural Education Program and earned a Certificate of Appreciation (under the 'Operation Kayakalp' program) by the Government of Uttar Pradesh for development of infrastructure facilities in government schools. These accolades underscore SRF's commitment to excellence across various sectors.

In conclusion, despite the challenges faced in various domestic and international markets, we maintain a positive outlook for the second half compared to our first half. While the near-term prospects for our Packaging Films Business remain weak, our overall optimism is primarily based on our core Chemicals Business and a stable Technical Textiles Business going forward. Over the years, we have developed a world-class infrastructure, nurtured exceptional R&D capabilities and secured ample resources to invest in emerging opportunities across diverse chemical sectors, particularly in Agro and Pharma. While some sectors may encounter transient challenges, we have strong confidence in our Chemicals division, driven by our R&D breakthroughs, which we believe will consistently drive substantial growth and enduring value for all stakeholders.

On that note, I conclude my remarks and would be glad to discuss any questions, comments, or suggestions that you may have. I would now like to ask the moderator to open the line for the Q&A session. Thank you very much.

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

**Rohit Nagraj:** Sir, first question is on the Specialty Chemicals business. So, you mentioned that Q3 will be better and Q4 probably would be better than that. This growth will be primarily driven from volumes and whether it will be the incumbent business or the newer projects that we have commissioned. I just like to understand a little color on that?

**Rahul Jain:** The way we look at it is Rohit, there have been some volume negative that we saw in Q2. Now when we are looking at it from that perspective, there is some pickup that is likely to happen. Some of the orders from the customers have kind of got delayed. And that is the volume pickup we are talking about in Q3 and Q4 coming through. So that is the existing products.

Also, you would remember that over the last, I think, 6 months or about 12 months, the major capital expenditures have been positioned. My sense is it would probably be (including the MPP and the PIP) about INR 800 crores – INR 900 crores. So, some of the positive on the new products that we have launched that we have talked about, also should come through in Q3. But the majority of those will probably come in FY25. So that is how we would look at it.

**Rohit Nagraj:** Sure. Sir, second question is just your view on the segment-wise capex for FY24 and FY25?

**Rahul Jain:** I do not think the position on that has changed, Rohit. I think FY24, our total capex including land, is roughly likely to be about INR 2,900 crores to INR 3,000 crores. If that land comes through, which we are estimating to be in the range of about INR 400 crores to INR 450 crores, that would be the total capex. 80%-85% of that capex would be chemicals business and the balance would be others. So that is how it is still structured. I do not think that has changed even one bit.

**Rohit Nagraj:** And FY25 also would be similar in terms of the intensity. Will be INR 2,900 crores to INR 3,000 crores and a proportion of 80% - 85% from the spec chem?

**Rahul Jain:** Absolutely, right.

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

**Sanjesh Jain:** First, on the ref gas side, it's slightly backward-looking, but just curious to understand, we were anticipating the stocking up in the US market of the HFCs ahead of the next phase down, it appears that, that really hasn't played out. Just wanted to understand, is it that Chinese are dumping more and the quota has been filled. What has caused this refilling kind of a benefit not playing out the way probably we would have anticipated?

**Rahul Jain:** I agree that it is a slightly backward-looking question. But the point to make is that, yes, there was some expectations of, let us say, the US market panning out in Q1, that did not come through. But I think instead of looking at it from a backward perspective, we should look at it from a forward perspective. What I can certainly say is the order book seems to be in good shape from a Q4 perspective for all the international sales, specifically, US sales. Some of the very large customers that we have in the US, we've already kind of done ordering with them or their orders have kind of been frozen for calendar year 2024 and 2025 as well. So, I think that is in good shape. Why did that not happen in terms of what was going on? There were various dynamics with respect to Chinese that were playing out in the market besides whatever the pricing situation. So a lot of dumping happening into even the US market during that time, which created that kind of a situation, I hope it answered that.

**Sanjesh Jain:** No, it is fairly clear. Just on the 2024 and 2025, now the tie-up has happened, which gives us a much better visibility. Are the pricings are also done that or it will be more dynamic and it is more volume kind of a tie-up?

**Rahul Jain:** It is more of a volume tie-up. Pricing ranges are also tied up. But unfortunately, I cannot tell you anything beyond it.

**Sanjesh Jain:** Got it, sir. That is clear. On the R32 side, we anticipate it to come in November kind of a thing. Are we in line with that anticipation?

**Rahul Jain:** I think end of November or mid of December is when this will get done. It is now getting through to a technical completion position. And hopefully, by mid of December, we will be commissioning the R32 as well. There is some delay, I agree, but it is more technical than anything else.

**Sanjesh Jain:** Got it. And on the specialty side, again, sorry to ask the similar line of question. But I think some of the guidance is what we are seeing now incrementally coming in, the agrochemical side at least, it appears that the volume pressure can persist in the H2 as well. We are not anticipating any such risk as of now?

**Rahul Jain:** So Sanjesh to be very frank about it. On the volume side, we believe that there is some pressure, no doubt on it. But I kind of articulated it out that in Q4, we should do better. There are some positives that we are looking at. Again, like I said, we have not seen any major order cancellations coming in. So, we are fairly confident of a certain growth number even in the specialty chemical business, even during FY24 as a whole.

So, I do not think in the current market, there are many people guiding for a growth in specialty. We are probably fairly confident of a single-digit growth at least coming through in specialty chemical space.

**Sanjesh Jain:** The single-digit growth in the H2, we are talking or for the full year 2024?

**Rahul Jain:** Whole of FY24.

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

**Chintan Modi:** So, with respect to ref gases and this quota coming into place, can you tell like explain how the mix will change between R32, 125 and 134A? And what would be the total volume impact for us in US market?

**Rahul Jain:** To be very frank, Chintan it is a position that will play out over a period of time. The way we look at it is that there will always be a GWP equivalence position in the US market that will play out. Now as GWP equivalence position plays out, I think more of 134A and 32 should start to proliferate more. But again, that also depends on the local market where production is there.

So, it is a position that we will also see how it plays out. Majority of the local players will start to shut down and balance out some of their existing capacities. And based on that, they will do a quota positioning in terms of what quota they have and how much do they want to buy from outside, import either from China or from India. The way it will probably work out is R125, it will start to go away first, then it will be 134A and then 32. But I think it is a position that will probably get more visible during 2025 and 2026. 2024 is probably more understood well.

**Chintan Modi:** Okay, sure. And with respect to power and fuel cost, can you share like what was the savings on, say, on a Q-on-Q basis or a Y-o-Y basis in terms of per unit cost?

**Rahul Jain:** Sorry, Chintan, we will have to come back on that separately. I do not have the numbers right in front of me. It is a mix of various businesses that pans out. If you are looking at it only from a Dahej perspective, it could be different. If you are looking at it from a Technical Textiles Business perspective, again it could be different. We will look at the numbers and come back to you on that. While coal prices have witnessed a positive impact in CPP operations, mainly due to low demand of coal in China and Europe, I do not have the exact unit-by-unit numbers.

**Chintan Modi:** Okay. Sure. And lastly, on the capacitor grade films, is this more of an imported product currently or there are suppliers in the domestic market today? And also, along with that, if you can explain a little bit of economics like, how it would be better than our existing films business?

**Rahul Jain:** So, on the capacitor grade film, the first question that you have asked is that there are existing players or not. There are a couple of existing players that have some capacity, not doing too well as such because of their other issues that are going on. What we believe is that this is a film the requirement of which will continue to go up. India is going on and looking at electronics manufacturing in India. Therefore, the need for capacitor grade film is high. The demand is expected to grow at roughly about 10% per annum.

The current people that are there in the business are not operating it very effectively. And therefore, we believe we will have a very large play in the business. The demand stems from consumer electronics and energy storage systems with major ones and EV chargers and other applications in that space. So that is our strategic rationale around it. We want to become a global player to manufacture these in India to become a credible alternative, not just to Indian producers but international guys as well. So that is the way we are looking at it. There are a couple of Indian producers also.

**Chintan Modi:** Sir, how much is demand today? This capacitor…

**Rahul Jain:** Roughly speaking, the demand is about, let us say, 14,000 tons - 15,000 tons. Capacity at a rated is about 7,000 tons. Majority of this is still being imported.

**Moderator:** The next question is from Surya Patra from Philip Capital.

**Surya Patra:** Sir, my first question is on HFC. Now since the quotas are set and all that, but in terms of the volume, any sense that you can provide sir, because as it was earlier understood that the ban on Chinese supplies or Chinese dumping the US…

**Rahul Jain:** No. There was no ban, Surya.

**Surya Patra:** Ban in the sense, implied ban, I mean, the anti-dumping duty. So, because of that, it was expected that people would be a bit protected from Chinese dumping in the US market. But now it looks like that is no longer the case. So, if that is the case, if you can give some clarity about the volume progress that you would see in the calendar year 2024 based on the quota that has been set for our clients and all. So that would be helpful?

**Rahul Jain:** Like I said, Surya, the position that we are taking on this is, with some of our large customers we have already tied up volumes for calendar year 2024 and to a certain extent for 2025 as well. I think that should augur well for us. We are also looking at various refillers that have the quota in the US market, to be able to supply to them in volumetric quantities.

` The way we are looking at, is that by FY25 and exiting FY25, our capacity on HFC should probably be about 80%-85% utilized in total. What mix, what time, is something that the market position will play out on, based on which we will have the ability to use our capacities appropriately. So that is how we are looking at it, Surya. To be able to give you a projected number on each of the gas separately is too detailed an exercise for me to be able to do.

**Surya Patra:** Correct. But when you were giving a view about 2025 also, you are factoring the fit in the emerging market from HCFC to HFC? So starting 2025 January, even in the emerging market, the phasedown of HCFC that is scheduled, so that should boost the demand for HFCs in the emerging market?

**Rahul Jain:** No, the way we are looking at is transition into R32, which is the R22 replacement, is already happened, mostly even in the emerging market side. So, I do not think that has too much of an impact. Yes, the growth is going to be significant, the Indian market is going to be a large one, and therefore, if you remember, I had also talked that the domestic market should become a larger market going forward. So, that is something that will play out, Surya. But whether it is because of the shift happening, I do not think so, Surya.

**Surya Patra:** Okay. Sure. So, second question is on the PTFE project sir, although, it is coming with a slight delay, but obviously, that would have positioned you better in terms of the customer acquisition, in terms of the product approval and all that. So now about the ramp-up of the project and in terms of the utilization, let us say, by next year, any sense that you are sharing, sir?

**Rahul Jain:** Again, the way we are targeting this is the fact that for FY25, (because the balance months of FY24 will probably be for the approval processes coming through), we should get to a decent capacity utilization. But I can tell you this, Surya, that from what we had envisioned when we had started this project, two years or three years to four-year ramp-up timeline of the PTFE project, I think the ramp-up is going to be significantly faster than that. So, hopefully in the next two years or so, so FY25 and FY26, it should be fully ramped-up. Hopefully, we can do this even earlier and move to speciality grades on this. So, that is the target here, Surya.

**Surya Patra:** And sir, just on the extension of this portfolio of PTFE, can you share something or you will take some time to share update about the additional products? The additional products specialty fluoropolymers?

**Rahul Jain:** No, no. So, we have already announced the project for speciality fluoropolymers, which is PVDF, FEP, and FKM. That is a two-year project that is currently on. PVDF might see some delays, given where our position on land is. But FEP and FKM are pretty much on line, Surya.

**Surya Patra:** Okay. Just one simple question, sir, about the new projects that was due to commission this year. So, whether it is whichever segment, ref gas or it is the fluoro specialty and all that. So, there is some delay compared to the kind of earlier timeline. Is it kind of planned considering the demand situation and the listing or it is...

**Rahul Jain:** You are right to a certain extent when you say that there is some delay. But on the speciality chemicals side, I would say, the delay is largely due to some supply chain issues, some procuring of certain key engineering components and those types. Not with respect to, let us say, delaying from a product or a timeline perspective or a time-to-market perspective. So, that is not the case. It is largely because of some of the supply chain issues we faced during this period, which has led to a couple of months delay in some of the projects in the speciality chemicals space.

In the fluorochemicals, be it PTFE or the R32 project, yes, there were delays. PTFE, the delay was largely due to the fact that there was difficulty in obtaining visas for our technology supplier. That did not come through, so we had to commission it online. Our engineers did it, so that took some learning exercise. On R32, I think certain government approvals that were to come through, took some more time than we expected, which has led to some delays around that. But again, we are not very significantly delayed on that side.

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

**Arjun Khanna:** The first question is on the Spec-Chem side of it. So, in discussions with our clients, I understand offtake has been slightly lower like you mentioned, given global circumstance. When we have our discussions, is there any negotiation or rethink in terms of pricing of these particular products or that is a discussion that has not come up, given that they are giving profit warnings?

**Rahul Jain:** So, Arjun, whenever you discuss something of that sort with clients, there will always be pricing discussions that come through. The endeavour at our end is always to look at what are the technological positions that we can change around them, how much can we produce from the existing facilities, how better to look at efficiency so that we can protect margins. But without a doubt, there are some pricing pressures also that are there.

The only good thing, Arjun, that I can say is that the basic theme with respect to, let us say, the customers thinking about their own supply chains and robustness of their supply chains, I think that has not shifted, that remains pretty much well in shape even today. So, while there may be some off and on discussions that will keep happening, I do not think the basic theme underlying has changed, Arjun.

**Arjun Khanna:** Sure. And in terms of the way we look at the Spec-Chem piece in terms of what growth we would like to generate for it, even post these discussions, do you think that number needs to come down? Or are we yet confident of the 20-plus percent growth that we are targeting?

**Rahul Jain:** Again, if you are looking at it from an FY24 perspective, it may not be 100%, there but I can still tell you the return on capital employed that we are generating is still beyond that number. Whenever we talk about the 20%-plus number, I think the way we look at it, in the very long term, what is the number that we are happy with? I do not think that position from our perspective has shifted any bit.

**Arjun Khanna:** Sure. Perfect. Sir, my second question is just on the PTFE. While we talk of full ramp-up in FY26, just want to understand, while we know what the rated capacity is, in terms of output, just on the base of commodity grade, what would be the output that is possible to generate from our current equipment?

**Rahul Jain:** Currently, it is about 5,000 tons. If I am right, give me just one sec, I will look at it. Yes, rated capacity is 5,000, about 90% you can get to. Again, it also depends on what kind of grade you are producing. So, that is the way we look at it.

**Moderator:** The next question is from the line of Nishant Shah from Emkay Global.

**Nishant Shah:** My basic question is on the PFB segment. What would be the percentage of our sales under the contract and spot in India versus outside India? That is the first question.

**Rahul Jain:** Contracted sale from India and outside India?

**Nishant Shah:** Yes.

**Rahul Jain:** Roughly speaking, our overall contracted sales would be in the range of 60% to 70%, which covers all our contracted positions, both locally and globally. Now, what is the difference between that in South Africa, Thailand, and Hungary versus what it is in India, it is a difficult position. I will have to look at those numbers separately.

**Nishant Shah:** So basically, what will be the pricing levels in the contract versus spot when it comes to a renewal point of that?

**Rahul Jain:** It cannot be looked at from that perspective, Nishant. Contracted positions that get created are also, to a certain extent, a formula-linked pricing. It is not based on a certain fixed price position that you create. So, I do not think, if you are looking at it from that perspective, that is the right way to look at it.

**Nishant Shah:** Okay. And my third question will be, when you say the packaging business is not doing well, going ahead what would be the impact on the competitors who are only doing the packaging business? Or what will be the impact on the ongoing concern?

**Rahul Jain:** So, Nishant, to be very frank, I think when we look at Q1 numbers which are now out in the market, if you look at those, you will find that SRF performance both on EBIT percentages, EBITDA margins or return on capital employed also in the business is also probably much better than any of our international, local, or global competitors. So, I would really say that SRF performs much better than some of our peers. Some of the peers also have businesses which are kind of combined businesses, with lamination and others as well, which really does not give us the ability to analyse. But given our value-added product portfolio, we still believe that we are probably one of the best in the industry.

**Nishant Shah:** Okay. But do you see the big players will survive this down cycle and the small players are getting out of it. So basically, a consolidation in the industry?

**Rahul Jain:** To be very frank, Nishant, there are a large number of players in the industry today. There will be some, let us say, consolidation that will happen in the industry at some point in time. When, where, why, that only time will tell.

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

**Rohit Sinha:** So, on this BOPP capex side, the new capex which we have announced, so I just wanted to understand what would be the asset turn and the margin profile for this company. And then is it the same product, which Xpro India is making currently or one which they have discontinued some time back.

**Rahul Jain:** So, this is a completely new product, Rohit. It is not an existing product. It is a BOPP film, yes, but it is not let us say a BOPP 10.5-meter type of line that we have today. It is a completely different product. We believe the project's realistic IRR should be in the range of about 16% to

18%. The way we look at it is roughly a payback period of about 5 years to 5.5 years should come through and it should be value accretive going forward.

Also, it is a film that will get required in India's requirements of electronics manufacturing, which is growing, be it in the EV side or the battery side. That is something that will need some of this film and maybe certain other specialized films that go on in future. So, it is a foray into that segment where we think it will add to value from let us say, entering into those high growth segments.

**Rohit Sinha:** Okay. So just on the margin side, would it be fair enough to say that it could be slightly north side of the current BOPP and BOPET side margins.

**Rahul Jain:** From where current pricing is, certainly should be. We have seen differential pricing so on an overall basis it should be more accretive than let us say a BOPP position today. But then margin should be really better than let us say, the current BOPP sector.

**Rohit Sinha:** Okay. And just on the aluminium foil business, what is the status right now there?

**Rahul Jain:** I talked about it. It is under commercialization, it is let us say under final installations. Hopefully, by the end of November / early December, we should see capitalization of the project and commercialization as well.

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

**Keyur Pandya:** I just want to understand just a clarification. So the presentation mentions about the outlook that the current inventory rationalization may last for two more quarters, they relate to specialty chemicals. And in your comments, you mentioned that probably H2 would be better, Q4 should see better growth and overall growth for Specialty Chemical as a product segment. So just if you can just clarify better on the Specialty Chemical, that would be helpful?

**Rahul Jain:** So, Keyur, I was fairly clear in my communication. Q3 should be better than Q2, Q4 should be better than Q3. Overall, from an H2 perspective, we will do better than H1 in the Specialty Chemicals business. Also, when you look at it from an annualized perspective comparing FY23 to FY24, I said even despite whatever has happened in H1, we believe we should be able to grow the business in single-digit numbers on a revenue perspective. So that is the position that I have made. If that is unclear, please let me know.

**Keyur Pandya:** Perfect. Clear. And when you say single-digit growth, that is for specialty chemicals, right, not for the chemical segment as a whole?

**Rahul Jain:** Yes, please.

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

**Rohan Gupta:** Sir, first question is on our confidence, which we still have that in Specialty Chemicals with the year-end FY24, we still will be able to end in a positive number. This is primarily driven by the four new agrochemicals and 2 pharma intermediary, which you have launched. If we adjust for that, do you see that there could have been degrowth, or what is the growth contribution coming from these six new products launched?

**Rahul Jain:** Okay. So, the six new products are only where the, let us say, commercial quantities have been sent to the customer. These have not been factored into the numbers that I have been talking about; they are very small today. Remember I have said that we have launched six new products, four in agro, two in pharma. But I have not factored in any revenue positioning of those products in the number that I am talking on an overall perspective. Those will probably come out much later in time.

**Rohan Gupta:** Okay. So, the growth trajectory which we are still confident about in specialty, is it primarily coming from that the inventory rationalization is broadly over? However, we still see that many global companies are still giving profit warnings and for the calendar year we are still talking about de-growth scenario. So, I mean, there may be some kind of disconnect what these global companies are talking right now for Q3, and what we are looking in a Q3 growth?

**Rahul Jain:** I can talk about my position, right? This is the position that we are taking on this. We are in discussions with some of our key customers, some of the order positions that they have talked to us about in terms of just delaying the orders. They have in fact, talked about multiple new agrochemical intermediate also, which are kind of not factoring into this. You have seen us talk about a new investment of INR 235 crores in a new product, we will probably get to over 600 metric tons of that product. It is also a product that can, in the future become a new AI that we believe we can do for the customer. So, all of this is based on our customer discussions, our order book and our positions going forward. Specifically, to be able to answer what the customer is talking about in generic is very difficult. But my commentary is largely on the basis of what we are seeing and discussing with the customers.

**Rohan Gupta:** That is very good, sir. Also, the second question is on our capex. We have commissioned roughly INR 1,100 crores so far in H2. We initially guided for roughly INR 2,400 crores plus kind of capex in chemicals and overall capex guidance was some INR 3,000 crores plus. So, what is the number, what is the capex outlook right now? Have you revised that?

**Rahul Jain:** So, for FY24, I believe we will still get to that INR 3,000 crores number, subject to the land. For FY25, I think, the guidance of, let us say, INR 2,800 crores to INR 3,000 crores remain, with the new projects also in parallel starting to get established. I think we should be in fairly good shape to get to that number. Again, the basic criteria of that as 80% chemicals business still remains Rohan.

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

**Abhijit Akella:** Just a couple on the Chemical segment. First, on the segment margins, they have come down a little bit this quarter to about 24.4% at the EBIT level. I understand this is probably to do with operating leverage and maybe a little bit of pricing pressure. But how should we sort of think about these margins? Can they sort of trend back towards the older levels of last year or so in the next few quarters?

**Rahul Jain:** Again, I believe what I had said in the past also, is that in one of the quarters we had seen a EBIT margin of 35%. We have said that, that is not a sustainable position. Given our position on this, we had said that on an annualized basis, margins ranging between let us say, in the range of about 26% to 30% range, should be something that we should be able to achieve.

Again, to be very frank about it, we do not look at it on a quarter-on-quarter basis. I think it is best to look at it on an annualized basis. This quarter, what we have seen as margins are probably in the range of about 24.5%. Even when you look at it from an H1 perspective we were probably about 26%. So, we are fairly well within that range that we have spoken about.

It is business, Abhijit. And to be very frank about it, it is not linear. It will have its ups and downs. What I am kind of telling you is that there is conviction on capex, there is conviction in terms of order book that we have, and that's in fairly good shape. So that is how we look at it, Abhijit, not really a quarter-on-quarter position that we look at.

**Abhijit Akella:** Right. Sure. Understood, thank you. And the other question was just on the revenue side. Would it be possible to share the Specialty Chemicals growth for the first half? I know in 1Q, you had mentioned plus 10%?

**Rahul Jain:** Unfortunately, only on annual basis, we will be able to give you the numbers around that. But let us say, like when we were talking about it on Q1 to Q1 perspective, where we said that it has grown significantly; on an H1 perspective, the growth is probably not as much, it is probably flat to slight negative.

**Abhijit Akella:** Okay. Got it. Great, sir. And one last thing from my side. You did speak about the expectation of enhanced pricing in the fluorochemicals business next year. So again, if you could give us some sense of what sort of price increases, we could expect potentially next year?

**Rahul Jain:** Well, Abhijit we will not be able to answer that.

**Moderator:** The next question is from Archit Joshi from B&K Securities.

**Archit Joshi:** Sir, I just have one question on some global issues in your conversations, if you can help us explain the way the business has been carried out on the inventory front, what you are made to understand that the MNCs were holding, let's say, four months to six months of inventory in the last two years, three years. Looking at strong demand on the farm side, wherein our growth were also quite strong and certain macro conditions have sort of created this inventory snowball due to which our growth also has been impacted. So, I was just trying to understand, if there is any correlation with the level of inventory that our customers or MNCs were holding. And let us say that in the ensuing quarters, maybe the next year when the base is normal if they shift back to inventories, which are lower than what they were last two years, three years ago maybe when the growth was quite strong. Would that have an impact on our growth also in FY25?

**Rahul Jain:** Archit to be very frank about it, you are answering the question yourself. You are absolutely right there was a position on this that was being created because of the fact that post COVID some of the supply chain issues are eased out. And again, one of the larger issues there is also the fact that interest rate cycles globally have gone up very, very significantly over the last, let us say, a year or so. When we look at it, the cost of holding inventory has become dearer.

Because of that, some of the customers are facing working capital pressure, which is, therefore, leading to, let us say, delaying of some of the orders. Also, what has happened is, because of the fact that supply chain issues that were there in terms of delivery ability, cost of the container, shipping material out, availability of containers, that has kind of eased out very significantly. And therefore, people are saying that it is important to be able to keep it like that and keep a lower inventory because again, it boils down to the cost of carrying the inventory.

Now whether it can go to 180 days or 270 days, and it has now come to 30 days or 50 days, I really do not know, Archit. That is something that is very, very different for each customer, each position that he is taking. Very difficult to be able to comment on where the inventory levels are today. It is just a position that some of the customers are telling us about and we are seeing that kind of a delay happening when we talk to the customers.

**Moderator:** The next question is from the line of Bhaskar Chakraborty from Jefferies.

**Bhaskar Chakraborty:** One question on the specialty chemicals. The recovery in demand that you are seeing from your customers over the second half of the fiscal, is it mainly driven by two to three products, key products, or is it more broad-based?

**Rahul Jain:** To be very frank Bhaskar, I had said it in the earlier part of this conversation also that we believe that we have seen a lower demand for some of the key products that we have, and orders getting kind of shifted out to Q3 and Q4. That is where we are saying that some of these will come back. Some of the new product launches that have happened over the last year and the plants that got commercialized will also give in from a revenue perspective and volume perspective. But a majority of that is not from, let us say, the new product launches about which we have talked about. That is something that will come in over Q3 and Q4. BASF is roughly spread over Q3 and Q4 and Syngenta is probably more towards Q4. So that is how the global commentary will read out.

**Bhaskar Chakraborty:** Sure, sir. Thank you and this last question is that in some of the other players' cases, we have seen that they have indicated that customers have sometimes come back and asked for higher volumes. But then after a little while, they have again turned it down. And then again, they have changed. I mean the volatility in their assessment of their own demand has been very high. Have you also seen that or you are seeing a betterment in that predictability?

**Rahul Jain:** Depending on customer to customer, to be very frank about it I do not think it is generic in nature for me to be able to comment like that.

**Moderator:** The next question is from the line of Yash Shah from Investec.

**Yash Shah:** So, sir, we were expecting to sell somewhere around 1,000 to 1,500 tonnes of PTFE in the current financial year. Since the project has been delayed by a couple of months. So, what is the revised expectation now that we will be able to sell in the PTFE side?

**Rahul Jain:** I do not think I ever said that we will expect 1,000 to 1,500 tonnes in FY24. I never said that. Maybe that was your expectation. The way we are looking at it is that some of the sales, probably about 100-150 tonnes per month should come through in Q4 FY24 and the full ramp up probably by end of FY25 is what we would look at.

**Yash Shah:** Okay. Okay. Fair enough, sir. And sir, second question was on the Technical Textiles business. During first half, we were expecting pressure because of the lower caprolactam prices. Since the prices have started holding up, in fact, have increased starting September, can we expect a better revenue in the Technical Textile business in the second half, sir?

**Rahul Jain:** Even if the pricing go up 30%, revenue could go up 30%, it does not really matter, Yash, because at the end of the day the majority of the caprolactam, be it on a dollar margin basis or a rupee margin basis is a pass-through. It could be 40 days pass-through or it could be 45 days pass-through depending upon the pricing methodology. But how does it make a difference?

**Moderator:** The next question is from the line of Madhav Marda from FIL.

**Madhav Marda:** I just wanted to understand a bit on the pharma ramp-up. I think you have mentioned the PPT about some pickup expected. So is it more Q3, Q4 or how do we expect that to be take place?

**Rahul Jain:** We are talking about the pharma ramp-up in specialty chemical space.

**Madhav Marda:** Yes, that is right.

**Rahul Jain:** So, Madhav, to be very frank about it I think the agro traction has remained strong. Pharma PIP plant should pick up more towards Q4. There are products that have already been sent out as a qualification lot. Three or fourth products have already been produced in the PIP. And I certainly believe that the full revenue potential will get realized more in FY25.

**Madhav Marda:** Okay. Understood, understood. And what is the gross block in the pharma's PIP projects?

**Rahul Jain:** No, I have not broken it down as such.

**Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital.

**Nitin Agarwal:** On the Fluorochemicals business, do we look through the FY25, FY26 do you largely stay with the broad volume assumptions that you would have thought earlier, despite whatever happened this year?

**Rahul Jain:** See, again, I think the way our plants have come up and the 32 plants would get commercialized. I think we are in fairly good shape given where current revenue positions are, given where current margins are, even then I think the IRRs are probably better off than what were when we had initially envisaged the project. So, we are probably in better shape than worse shape.

**Nitin Agarwal:** And sir, in terms of the dynamics of the industry, has anything changed with respect to the Chinese dumping all of that, that has really happened with structurally changes maybe some of your assumptions?

**Rahul Jain:** So not really. To a certain extent the change in assumption is that let us say, another player wants to come up as capacity, some capacity has come up, there has been some rationalization that will happen on that side, the US quota positions are now frozen and will play out from January 2024 onwards. So, all of those have happened. But again, I do not think it has made us think about, let us say, shifting some of the positions that we are taking on the business. Those remain in fairly good shape and going forward also a positive.

**Nitin Agarwal:** Then lastly if you can squeeze in. So, on the fluoro-specialty part, this year, you said it is a single-digit growth business. In the past, we have grown at an extremely strong growth rate in the business?

**Rahul Jain:** I think you are misreading it, Nitin. I never said that it is a single-digit growth business. I have said that this year, even if we get to a single-digit growth position on the fluoro-specialty side, given where the market dynamics are, it is much better than, let us say, growing 40% last year. That is what I have said. So please read it properly. I am not saying that it is a single-digit growth business going forward. For FY25, FY26 and onwards, given our capex intensity around it we still believe a 20% plus growth is still possible.

**Moderator:** The next question is from Krishan Parwani from JM Financial.

**Krishan Parwani:** Just two small clarifications. So, the first clarification, I am not sure if I heard it correctly, but did you mention that your HFC volume for CY24 for U.S. market is tied up, or did I hear something wrong?

**Rahul Jain:** I said CY24 for some of our key customers, not full on.

**Krishan Parwani:** Okay. Some of your key customers the volume is tied up, yes. So, okay.

**Rahul Jain:** It is very encouraging, Krishan.

**Krishan Parwani:** Yes, yes. I mean, yes, that is why I needed the clarification. Yes, that is pretty good. And the second clarification or rather a question rather, so you highlighted single digit revenue growth for specialty business in FY24. Just wanted to check whether you have any kind of guidance on the fluorochemical side for FY24?

**Rahul Jain:** Again, I think the way we've always looked at it is volumetric position. Given where the 32 will come up, given where the U.S. demand provisions are, given where, let's say, PTFE should kick in to a certain extent, given where the pricing expectations are, even if we could get to a flat number as to last year, we should, I think, be in very, very good shape. But I think as of now it looks a bit difficult.

**Krishan Parwani:** Okay. No problem.

**Rahul Jain:** It is down to be really frank.

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

**Vishnu Kumar:** For the volumes contracted or rather, your expectation for 2024, the volume that you might export to U.S. that number would be that?

**Rahul Jain:** calendar year 2024.

**Vishnu Kumar:** Yes, sir, correct.

**Rahul Jain:** So, when you look at calendar year 2024 versus calendar year 2023 it would then be a good comparison to it. Our endeavour is to sell higher in the U.S. market. While some of that has got tied up, it will take a lot of effort to be able to do that. I think we should be able to achieve it.

**Vishnu Kumar:** But this will be more towards 32 than 34?

**Rahul Jain:** Yes, again, then I will also have to tell you what volumes are, of 125, what is the position that I am taking for each of the customer, that I do not want to do.

**Vishnu Kumar:** Yes. So when you say that the EBIT margin range that you would want to keep in between 26% to 30%, in terms of pecking order which segment will be higher or lower, the ref gas or specialty business, and if there is a volatility or a higher risk, which one of these businesses would do that?

**Rahul Jain:** Let us say, on an EBIT margin basis, it really depends on how each of the business segments is playing out. It is not always true to say that Specialty Chemicals business will always be at 5% points higher than the Fluorochemicals business. On a generic basis, we believe Specialty chemicals on a long-term basis should give us higher ROCE compared to Fluorochemicals business.

But when you look at it on a positional basis for one quarter, one year, depending upon where markets are, the positions could be different. FCB could be going through a boom while Specialty could be doing a stable position. So, it really does depend on what is the position on that side. If you take five-year average, I think Specialty should be higher.

**Moderator:** The next question is from Mr. Jason Soans from IDBI Capital.

**Jason Soans:** So just a simple question I had in terms of our intermediates which go into agrochem and pharma. Just wanted to know from a ballpark perspective, what percentage of that goes into patented molecules and what percentage of that into generic?

**Rahul Jain:** Unfortunately, that is something that we cannot track. There are products that go into both. Because these are not AIs in nature, it is impossible to be able to say.

**Jason Soans:** Okay. Sure, sir. And sir, my next question is, what percentage of the Specialty chemical business is contracted?

**Rahul Jain:** Almost 90% of the business to 95% of the business is contracted. Some are two -year contracts, some are three-year contracts, some would be one-year contracts also, some in six-month order-based contracts also. But majority of it is contracted.

**Jason Soans:** 90% is contracted? Sure. So, sir, just a follow-up to that I just wanted to ask, just last six months this Chinese dumping has started and this intensity has come through in a large way. So, in terms of these already established contracts, already made contracts, do you see any structural changes to the contracts? Of course, there will be some de-escalation, raw material prices coming down, do you see any structural changes to this contract?

**Rahul Jain:** At the time of renewal there may be some other positions that the customer would like to create. But I think again, you have to understand that the global theme that is playing out is de-risking. So while there may be some positional play that will play out, globally the de-risking theme continues, which is what we said in the earlier commentary also. Which therefore means that while there may be a contract-to-contract position that plays out or if you are setting a facility for a customer, we will want to see, let's say, more longer-term contracts coming through.

Again, we have been very flexible with the customers in terms of getting better positions with them, getting newer products, more complex products, which has helped us in time for us being able to get better shares from customers.

**Jason Soans:** Sure, sir. But herein again, what happens the de-risking is vis-a-vis against cost competitiveness. So that was the only sense of asking that.

**Rahul Jain:** To be very frank about it, the customer would want to buy from me at the Chinese price if that is possible, right?

**Jason Soans:** Right, sir.

**Rahul Jain:** But the Chinese price is the debate that will always be happening.

**Jason Soans:** Yes, and we will have to match that.

**Rahul Jain:** I have never said that you have to match that. Again, we will always have to look at the economics of the position that works out, in a manner that can be profitable growth for us.

**Jason Soans:** Right, sir. And sir, just one final question from my side in terms of HFCs. If you could give us the revenue contribution from major geographies you mentioned, key markets such as U.S., Middle East, India, if we could get?

**Rahul Jain:** So, I do not want to give from a geography to these geography perspective, but let us say, export is about 60%-65% of HFCs and the balance will be domestic.

**Moderator:** Thank you very much. We will have to take that as the last question. I would now like to hand the conference back to Mr. Rahul Jain for closing comments.

**Rahul Jain:** Thanks, everyone. I hope we have been able to answer, if not all, some of your questions. I hope 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. Bye-bye.

**Moderator:** Thank you very much. On behalf of Axis Capital Limited, that concludes the conference. Thank you for joining us, ladies, and gentlemen. You may now disconnect your lines.

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