"SRF Limited
Q4 & FY24 Earnings Conference Call"

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MODERATOR: **MR. SANJESH JAIN** – ICICI SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to SRF Limited's Q4 and FY24 Results Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjesh Jain. Thank you, and over to you, sir.

Sanjesh Jain: Good afternoon, everyone, and thank you for joining us today. We at ICICI Securities are pleased to host SRF Limited's Q4 and FY24 Results Conference Call. We have with us today, Mr. Ashish Bharat Ram, Chairman and Managing Director; and Mr. Rahul Jain, President and Chief Financial Officer of SRF Limited. I would like to invite Ms. Nitika Dhawan, Head of Corporate Communications at SRF, to initiate the proceedings. Over to you, ma'am.

Nitika Dhawan: Good afternoon everyone and thank you for joining us on SRF Limited’s Q4 & FY24 results conference call. Today, we have with us Mr. Ashish Bharat Ram, Chairman & Managing Director and Mr. Rahul Jain, President & Chief Financial Officer of the Company. We will start today's call with CMD's remarks on the company's performance in FY24 and the overall strategic outlook and growth plan in the future, following which, Mr. Jain will take the call forward by opening the forum for a 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 invite our CMD, Mr. Ashish Bharat Ram to make his opening remarks. Thank you.

Ashish Bharat Ram: Thank you, Nitika, and good afternoon to all of you. 2024 marked SRF’s 50th anniversary, and I would like to use this opportunity to thank all our stakeholders. It is due to your unwavering support that we have been doing business as a company for half a century since our first facility in Manali commenced operations in 1974.

Our 50-year journey is a series of transformations. As we look to the future, our position remains strong and promising for delivering sustained performance, particularly as the end markets begin to rebound. Therefore, despite the recent challenges, we firmly believe that the future remains positive. This optimism is based on our proven track record in developing complex products, all of which are supported by world-class infrastructure, skilled personnel and exceptional R&D capabilities in driving sustainable growth of our business, for people and the society at large.

Let me now share with you my thoughts on the business performance in the fiscal year gone by and the growth opportunities that lie ahead.

Financial year 2024 has been a relatively difficult year for the company. Our operating revenue decreased by 12% to INR13,139 crore and EBITDA dropped by 26% to INR2,744 crore, translating to an EBITDA margin of 21%. The company's profit after tax decreased by 38% from INR2,162 crore in financial year 2023 to INR1,336 crore in financial year 2024.

While our Packaging Films and Chemical businesses witnessed tough market conditions, the Technical Textiles business saw marginal growth in financial year 2024. Moving to my viewpoint on the performance and the future outlook of each of our three market-leading businesses now, and I'll begin with the chemical business.

During fiscal year 2024, the chemical business declined 15% and registered revenue of INR6,297 crore. We underestimated the slowdown to a certain extent at the beginning of the fiscal year. This turned out to be a more protracted inventory destocking cycle from our customers' side and led to pressure on pricing for some of our products.

While we will see some short-term challenges in the Specialty Chemicals business, I'm very confident that the recovery will be strong and will give us a 20% annualized growth. On a quarter-on-quarter basis, while we have done better in the fourth quarter of financial year 2024, when compared to the third quarter, we continue to live in a VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) world. Having said that, I would add that the worst is behind us.

On the capex front, in financial year 2024, the chemicals business has spent INR1,700 crore on various expansion projects.

More specifically in the Specialty Chemicals business, financial year 2024 has been a challenging year. The business faced headwinds due to excess inventory in the market, forcing agrochemical customers to initiate inventory rationalization measures. In addition, a lot of capacity has come up in China, which makes the landscape more competitive. However, the business has taken several steps to combat this onslaught and emerge stronger.

There have been some concerns voiced about our competitiveness in one of our key products. Let me state upfront that this is nothing new in our lives. We have seen this in many other cases in the past. As far as this product is concerned, we have done some major process breakthroughs that will bring our cost structures down significantly. In addition, this will allow us to take an even higher volume share and most importantly, as the market recovers, help us grow the absolute profit pool from this product.

We actively worked on our customer's new products and the developmental projects, while ensuring the production capacities were optimally utilized for existing products. Apart from commissioning new facilities, we are working very diligently on our cost structures, ensuring we run our plants more sufficiently. In financial year 2024, both the Bhiwadi and Dahej sites, improved operational efficiency, managing an expanded portfolio of innovative products. We enhanced our capabilities and cultivated expertise in novel chemistries. Our inroads in pharma are showing positive traction, and in order to seize future market opportunities, we commissioned nine dedicated facilities at the Dahej site in financial year 2024.

In the future, our focus will be on putting up the most advanced plants, and for that, we have invested substantially in people, assets and capability building. Our funnel is very strong, all the AIs that we are working on are on stream. It is now a function of how customer registrations pan out.

Over the last year, and specifically in the last six months, a large number of plants have been capitalized to the tune of approximately INR1,800 crore. Our focus now will be to ramp them up. We believe that from the second half of financial year 2025, we will go back to the higher capex intensity in line with our aspirations for the future. Fundamentally, we're extremely positive about this business, we believe that whatever may happen in China, we will continue to take market share from there. And while we may have some short-term challenges, we are confident in the long-term prospects of the Specialty Chemicals business.

Coming to our Fluorochemicals business. Financial year 2024 was a tough year for the Fluorochemicals business. At the beginning of the year, we witnessed a weak season in the domestic market. There were stress on the refrigerant prices and volumes due to Chinese dumping in India and the international markets. The U.S. continued to destock HFC inventory. Prices were softer and so was the demand. Overall, the Refrigerants business remained under pressure in the domestic and international markets.

There was an inventory build-up in India when the Chinese prices were low, and we are waiting for that inventory to get liquidated, which seems to be happening quite rapidly now. And as a result, we are starting to see some signs of improved pricing now. Our primary goal for the next couple of years is to maximize our production for quota and sales volumes.

I would also like to take this opportunity to clarify an issue related to our export of gases to the U.S. While there has been a reduction in antidumping duty on one Chinese manufacturer by the U.S. authorities, this is still provisional and is expected to come up for a final review in a few months by the Department of Commerce. The more important element is that the prices for R125 were already down to USD9 or USD10 per kg for the past eight to nine months. And thus, price correction is in the range of only USD2 to USD2.5. Since R125 is used as a component of blends and SRF being an integrated player, our focus has always been to offer R410A. Our pure R125 sales have always been the smallest component of our wide portfolio of ref gases.

For SRF, the focus is to increase R410A sales, in which the price correction is less than USD1 because it is a blend of R125 and R32. R32 prices have seen a steep rise in China recently. With our enhanced R32 capacity now on stream, we will more than make up for any potential loss, with additional R410A and additional R32 volumes where we have a unique value proposition.

On Industrial Chemicals, chloromethanes is going through a weak cycle. Having said that, we are now beginning to see some signs of a pickup in the agrochemical industry, which seems to indicate that demand may improve in the months ahead. We continue to increase our market share on the Dymel and propellant vertical in both the domestic and international markets, entering new geographies and broadening our customer base.

In the Fluorochemicals business, we capitalized approximately INR1,200 crore of capex in financial year 2024, that includes the PTFE and R32 plants, along with the capacity expansion of the AHCL plant. In our Fluoropolymers journey, while we have done good work on bulk, we are now moving into the new grades, which are free flow and fine cuts, and ramping those up. This is a learning journey, and I believe that the knowledge that we have attained will help us streamline our new Fluoropolymer projects at a faster pace.

In the future, our focus will be to optimize raw material sourcing, cost-saving initiatives, strengthening capabilities in new product portfolio with sustainability as a priority. Overall, the business performance is anticipated to improve over last year with maximum utilization of capacities and the commissioning of specialty fluoropolymer plants.

Broadly, I estimate the chemicals business to grow at approximately 20% in the financial year 2025 and build a strong momentum for the years ahead.

Over to the Packaging Films business now. During fiscal year 2024, the Packaging Films business registered revenue of INR4,489 crore, declining by 14%. Financial year 2024 has been a challenging year for the Packaging Films business. Market conditions were extremely difficult, and margins continued to be under pressure for both BOPET and BOPP. Several new lines of BOPET and BOPP were commissioned in the last couple of years, driven by attractive margins during the boom period. In addition, severe competition from the Chinese players across regions, particularly in Southeast Asia, impacted order booking and margins.

The BOPET film segment remains at the bottom of the cycle, and this trend is expected to continue for another 1.5 to 2 years. The BOPP film segment is performing better than BOPET.

Overall, the business achieved its highest ever VAPs production. Intensive cost rationalization and enhancing business profitability by strengthening our VAPs portfolio, have been the major trust areas to survive the down cycle. All this has ensured that we have outperformed our competition quite convincingly. Energy prices have stabilized in Hungary, which should give us some respite and we expect the performance there to be better than last year as we continue to improve our footprint in Mainland Europe. However, until the overall BOPET cycle changes, things will remain under pressure.

On our newly commissioned aluminium foil plant, this is a new business segment for us. We had a slightly slow start, which is linked to the fact that it is a completely new product, and the learning curve has been a little longer than what we had expected. We also had some technical challenges, which have been streamlined a short while ago. In the future, we see this as a great growth opportunity and are confident of making inroads in the EV and AC films application segments. No Indian manufacturer is in this space, but we will tap into it once we get a full understanding of this product. Work on the upcoming Capacitor Grade BOPP Film Project in India, which we announced in 2023, is also progressing as per schedule.

In the future, our primary focus will be on enhancing our profitability by further strengthening our VAPs portfolio, improving capacity utilization and cost rationalization. We will commission our new in-line coating machines in Thailand and India and leverage our capabilities fully to further enhance the VAPs portfolio. Ramping up the aluminium foil business will be an important focus area for the Packaging Films business in the coming months.

Moving on to Technical Textiles. In financial year 2024, we reported a healthy performance in the Technical Textiles business, and registered a revenue of INR1,898 crore. In the Nylon Tyre Cord fabric segment, we increased our share of business with the domestic tyre companies. We enhanced our focus on the value-added yarn portfolio.

Despite our Manali operations being impacted due to the Michaung cyclone in December 2023, I'm glad to share that all our employees are safe, and our team was able to restore and restart the machinery in record time. Furthermore, we have adequate insurance cover in place on a reinstatement value basis against such occurrences.

The demand for belting fabrics was healthy during the year. However, like in our other businesses, we faced competition from China, which led to margin pressures, but it will get made up by the overall volumes. The demand for polyester industrial yarn was strong in financial year 2024. The business successfully commissioned its PIY capacity expansion towards the end of financial year 2024 and our additional belting fabric capacity will also come on stream soon. The expanded capacity is expected to be fully utilized in financial year

2025 and become a future growth driver for the business.

Overall, the business will experience moderate growth going forward.

In our other businesses, financial year 2024 has been a good year for our Coated and Laminated Fabrics business, reporting an increase of 19% and revenue of INR465 crore. In Coated Fabric segment, the demand, particularly for our VAPs, remained strong, which helped the business achieve its highest ever domestic sales. The business made its highest ever EBITDA during the year. In response to the growing demand, SRF expanded its textile capacity by adding four new looms during the year. We continue to maintain our domestic market leadership in Coated Fabrics.

The business also continued its price and volume leadership in the Laminated Fabrics business by selling at full capacity and achieving its highest ever sales during the financial year. However, margins remained under pressure in Laminated Fabrics, as cost increases could not be passed on completely to the customers due to excess supply. In the year ahead, our focus will be to enhance capacity to strengthen our VAPs portfolio. In Laminated Fabrics, we'll be commissioning a new hot lamination machine, which will help us serve our customers with superior product offering.

On ESG: corporate citizenship and sustainability are core to our business strategy. It ensures we remain focused on resource optimization and contribute meaningfully to the circular economy. At SRF, we maintain a high level of sustainability disclosure, which has helped us identify and measure ESG risks and develop a long-term plan to move up this curve.

Our chemicals business commitment to sustainability and pioneering work in the area of ESG continues to be recognized internationally, leading to our Dahej site being awarded a Gold Medal in financial year 2024 in recognition of sustainability achievement by EcoVadis, which is one of the most recognized business sustainable ratings in the world. Further information on our ESG journey will be available in our annual report.

On the SRF Foundation: Core to our purpose is a need to uplift everyone, and we lay equal importance in community engagement initiatives and constantly strive to give back to society. With a focus on empowering the society through education & employability, the SRF foundation is working on the physical infra growth, quality of academics and scaling programs as focus areas. Presently, we have reached 480 government schools across 24 locations in 12 states, providing quality education to over 165,000 students and across 314 Anganwadi centers, positively impacting the lives of close to 14,000 children.

To conclude, I believe that financial year 2025 will be better than financial year 2024 for the chemicals business and on an overall basis for the company as a whole. While the chemicals business will show a recovery, possibly more towards the second half of the fiscal year 2025, the margin pressure in the Packaging Films business will continue through the course of the year. Having said that, the team is working on various projects to reduce the impact of down cycles, which in reality, is a part and parcel of this industry.

Our balance sheet remains strong, and we are happy to invest in opportunities that will provide growth options for us in the future. We are optimistic about our bright future and our capabilities to deliver a solid performance and drive returns for all our shareholders. Thank you for your time.

Rahul Jain: Thank you. We can now open the call for Q&A.

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

Rohit Nagraj: Good to see quarterly recovery and thanks for a detailed presentation. Sir, first question is on the Specialty Chemicals business. So we have mentioned in our press release that the recovery will pick up pace in the second half of FY25. While we gave a very strong 20% kind of growth guidance, so is it that the first half will be relatively muted, and a significant portion of the growth will come only in the second half? I just wanted to understand your confidence on the same.

Rahul Jain: So Rohit, thanks for your question. To be very frank about it, when you look at the Specialty Chemicals business, H1versus H2, H2 is always stronger. We are coming out of a kind of difficult environment, the environment where the inventory destocking have started to happen.

What we have seen is that there is some positive that is already starting to build. When we say overall growth of 20%, that's something that we are looking to achieve even in the Specialty Chemicals business, given the fact that this year was a slightly lower year than what we expected at the beginning of the year. Large recovery should come towards H2, but yes, I don't think there is a negative trait here. I think we've always said that we have to look at it from a business as a whole or a year as a whole perspective, rather than looking at it from a quarter-on-quarter perspective. So I think that's the way we are looking at it rather than dividing it into Q1, Q2, Q3, Q4.

Rohit Nagraj: Sure, sure. That's helpful. Sir, second question is, again, similar on the ref gas. There also, you've been pretty confident. So given that the U.S. market also the quotas have been declined, there have been Chinese ingress of material, do we really see that there will be significant volume pickup for us from other geographies to make up for the loss in the U.S.?

And similarly, a strong traction in terms of pricing so that we will be able to achieve this 20% kind of growth?

Rahul Jain: So Rohit, again, I think the way we are looking at it is the fact that we have seen a lot of Chinese inventory in the system as of now, largely on R32. We have also said, and I think Ashish also commented on it, that the inventory that had built up over a period because of low Chinese prices, is now starting to kind of get liquidated at a very fast pace. As that is happening, we have also seen pricing improve. With respect to where the U.S. market is versus, let's say, the overall market, I think that while U.S. HFC market will see some declines, there will be some negatives around it, what we believe is that the overall increase in, let's say, India domestic, and the Middle East and Southeast Asia should more or less cover it up.

And therefore, given that we will have more capacity, more volumes to play here because of the new R32 plant that commissioned probably at the end of Q3 last year, we should have a very large presence in the HFCs space, and therefore, both from a volume and pricing perspective, I think we should be in great shape.

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

Ankur Periwal: First, on the chemical side and in our release, we did mention pricing led pressure because of excess capacities at China end. So just wanted to get your thoughts in terms of growth, is it that now the overall trend in pricing has come down and we are focusing more on volume led growth, which will drive the growth across both ref gas as well as the Specialty Chemical side?

Rahul Jain: Let me distinguish this for you, Ankur. I don't think we can compare between Specialty Chemicals and Fluorochemicals. What we are saying is that prices have been softer, we are starting to see some price positives starting to come in, U.S. has continued to destock inventory, there is now some local Chinese prices that have started to go up largely on R32. That's what we are seeing. I think the focus for us from our Fluorochemicals business is to look at where quota positionings are and improve our capacity, utilize our capacity to the full and sales volumes, so as to maximize that piece. Like I think we have said in the past, when we look at HFCs, quota becomes an important element for it.

And now going back into the Specialty Chemical piece, I don't think it is a generic comment that can be made where we can say that we are now looking at more volumes than pricing. What we are saying even in the Specialty Chemicals piece, and I think the CMD's comments also reflected that, that there are certain views in the market coming around one of our key products, which is essentially saying that the Chinese have crashed prices of that product. We have made very significant technological breakthroughs in the product, our costs have come down significantly. We are continuing to work on cost of those products. While there will be some margin erosion, I think it will be much more taken up by the volumes that we will be able to achieve in that product, which I think should add significantly in terms of our overall profit from the product and Specialty Chemicals business as a whole. So that's how we would look at it. So the rebound when it comes in, it should be a positive one.

Ankur Periwal: Sure, sir. Just to follow-up. So no changes to the overall Chemicals business margin guidance, will that be a fair assumption?

Rahul Jain: Again, Ankur, I don't look at it from a quarter-on-quarter perspective. If you look at it from a year-on-year perspective, we are still at almost 26% EBIT margin. Our EBITDA margins will still be probably north of 27%- 28%. I think when we started the year, we kind of gave that as a guidance. Again, two or three key pieces that should play out is that there are new capacities that have been commissioned, roughly about INR1,200 crore for our Fluorochemicals business and roughly about INR1,800 crore for our Specialty Chemical business. When we look at all of those; because they are kind of unleveraged as of now, as they ramp up their production, overall margin positive should also come through. Yes, but even 26% EBIT margin is pretty decent.

Ankur Periwal: Sure. And just on the ref gas space, any volumetric, you did mention that can be compensated in different markets, whether Middle East or the Southeast Asia?

Rahul Jain: Yes. There will be volumetric growth in the ref gas space without a doubt, Ankur.

Ankur Periwal: Yes, sure. So what sort of magnitude of that growth is where I was coming from. Are we looking at a high double-digit sort of growth? Because the base is low, so obviously, there will be a growth.

Rahul Jain: No, I would only look at it from a volumetric perspective. I think anywhere between 10,000 to 12,000 tons of HFC volume should get added this year when we compare it to last year.

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

Surya Patra: My first question is on the Specialty Chemical business. So while on the chemical business front, we have seen for the full year, there is a sequential margin correction. Obviously, possibly because of the underperformance at the ref gas front. But sir, can you clarify that this dent in the margin is purely from the ref gas front and may not be from Specialty business?

Rahul Jain: So Surya, to be very frank about it, I don't think we have to look at it like that. But in relative terms, if I look at it, Specialty Chemicals business margin has been slightly positive from what we have seen in FY23. For Fluorochemicals business, yes, there has been a margin dent. But you've also got to understand that FY23 for Fluorochemicals business was also a very high year. Now to that extent, there was some expectation of this coming down. And I think we had precluded to that in our earlier discussions as well. So to that extent, yes, the margin is lower. And to my mind between FY23 and FY24 for Specialty, margin is flat to slight positive.

Surya Patra: Yes. Exactly, sir. That is my point. So in fact, our calculation indicates that the Specialty Chemical margin has sequentially improved only in FY24. That's why I have asked this question. But now having this clarity, sir my point is that, see, in the previous year that we have added INR1800 crore worth of assets for Specialty Chemicals. And utilization of those should not be more than 20% or so, because we have added that in the later part of the year. So given that there would be a kind of a cost pressure also of underutilization that we would be seeing in the business. And there would be possibly some impact of the prices also that we would be facing currently for our Specialty Chemical business because of the downturn. So given these two things, reversing in FY25, should not we believe kind of a meaningful recovery in the profitability of the business, which has now become more larger compared to last year?

Rahul Jain: Surya, a very long question. I will try and answer it simply. I believe that what you are saying is right to a certain extent that there is underutilization of assets in the Specialty Chemical business, given the fact that majority of those were capitalized in Q3 and Q4. Some of them were capitalized in the earlier part of the year, and therefore, some of that has been utilized well. To that extent, I would still believe that there is a possibility of a margin expansion. But we've also alluded to the fact that there is certain additional capacity that has come in. And therefore, for some of our key products, we have to fight that out in the market. Again, given where we are, my sense is that there should be some improvement in margin. But again, I go back to that same thing, is 26% margin for the overall Chemicals business on an EBIT basis not a good one. So that's how we would really look at it, Surya.

Surya Patra: Just an extended question on that, sir. Since it is the full year performance that we are discussing, can you share what would be the share of active ingredient now in FY24 and the new products.

Rahul Jain: For FY24, the key active ingredient that is there is only one, which is roughly about 9% to 10% of the Specialty Chemical revenue.

Surya Patra: Okay. Yes, yes. So because now you have added also 15-odd products. So given that, what is the mix that we should think about for FY25, sir?

Rahul Jain: Surya, we believe by the end of FY25, there will be at least five, six AIs that will come through. But meaningfully, I think there will be only two or three, which will start to contribute to revenues.

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

Vivek Rajamani: Two questions. Firstly, if I could just make an extension of the earlier questions on Fluorochemicals, would it be possible to give a sense of how you see your geographic profile in Fluorochemicals settling in the next one-two years as you transition away from the U.S. and explore some of these other geographies? That was the first question.

Rahul Jain: Okay. So Vivek, as of now, what we are looking at is roughly about, let's say, from a revenue perspective in the Fluorochemical business, on an overall basis, exports of HFC is roughly about 53%- 54% of our overall revenues and the balance is domestic. Again, over the medium term, what we believe is that U.S. will come down, while Middle East and Southeast Asia will continue to expand. What we will end up seeing over probably a 3- to 5-year period is Middle East, India, Southeast Asia probably getting to 70%- 75% and U.S. coming down very significantly.

Vivek Rajamani: Sure, sir. So this was really helpful. And the second question was on packaging. I think you've been very clear about the magnitude of the pain and the efforts that you've been undertaking so far, but just from a more medium-term perspective from a strategic standpoint, just wanted to get a sense of what other levers could be available to SRF to best optimize the situation as and when this situation eventually starts to repair itself?

Rahul Jain: So Vivek, if you break it up, I think Hungary was one of the key elements that we saw kind of perform much lower than our expectation. Given where we are and given where energy prices in Hungary are, I think there will be some positions that are going to change on that side. So that's a positive that will come in. The aluminium foil business ramps up in this year and should start to contribute meaningfully in our overall Packaging Films business situation. The third, and the most key element here is that we have had some great successes in our value-added products. I think that, as a journey will continue for us, to be able to continue to deliver market benchmarking performance. So that's how we would look at it.

So position changes in Hungary for the better, aluminium foil ramping up and continue the VAP journey on a long-term basis, will help go away from the key down cycles that the business faces as a commodity player.

Vivek Rajamani: Just one clarification. When you speak about your VAP kind of products, if the benchmark margin would be ex, any sense of how much higher this VAP portfolio could be getting you?

Rahul Jain: Depends on product to product, but anywhere between INR20 to INR35 is what we've seen.

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

Rohan Gupta: Sir, first question is if you can just give us bifurcation for the current year revenue from the Specialty Chemicals business.

Rahul Jain: Last year, the total revenue for Chemical business was roughly about INR7,400 crore. This year, we are roughly at about INR6,300 crore, which is a 15% reduction. Fluorochemicals last year was INR3,200 crore, that is roughly in the range of about INR2,600 crore this year. And specialty chemicals was about INR4,200 crore, which is roughly in the range of INR3,700 crore this year.

Rohan Gupta: Okay. So the growth guidance, which you're talking about in chemicals is roughly 20%, it is still driven by both specialty as well as Fluorochemicals. And Fluorochemicals are talking about roughly 10,000 to 12,000 tons kind of additional volume growth. You didn't make any comments around that.

Rahul Jain: Pricing growth as well. Yes.

Rohan Gupta: Yes. So you didn't make any comment on pricing and margins. So at 10,000 to 12,000 tonnes additional, what can one expect in terms of margin improvement and the pricing gain in Fluorochemicals business?

Rahul Jain: Rohan, I have not broken that up in an overall situation in terms of what is the price or volume. Overall, I think it's best to give you that guidance in terms of what is the growth we are expecting. Now there could be some pricing position that play out, and I have kind of also given you the volume position on it. But saying that how much of this is from price and volume is a very difficult position to play out for the future. So I'd rather not comment on that.

Rohan Gupta: But sir, this 20% kind of revenue growth in chemicals surely should drive EBITDA growth higher than that, right? Because that's where we are assuming the price increase is happening in ref gases. I was looking more from the EBIT or contribution from the chemical business in profitability should be higher than the 20%. That's what you are indicating.

Rahul Jain: So like I said to a previous question also, Rohan, that given where the operating leverage is playing out today, we believe that should be a positive.

Rohan Gupta: Sir, second question is on this ref gas prices, I mean, in duty reduction from the U.S. on China, Sir, what is giving us the confidence that the similar things may not happen on other blends or even other gases as well. We are still saying that the R410A gas blend prices are still going to remain strong and even may go up. We do understand the Middle East and other markets may gain overall volume growth, but what is happening in the U.S. can be worrisome for us in near term for our margins, isn't it?

Rahul Jain: Rohan, I'd like to answer it in two ways. One, when we look at it, our value proposition always has been to offer blends, which is, more R410A. R125 has always been a kind of product that we've been supplying on an opportunistic basis also. When we really look at it, the component of R125 in our total sales was very small, say, between 1,800 to 2,000 tonnes. R125 is coming down in terms of the overall demand. Again, we had always said that R125 is the gas with the highest GWP, and that will be the first one to see a cut, if you remember.

Now what happened then is, because the requirement is R410A and R32 prices are up, we will end up seeing higher prices of R410A. Even despite the duty reduction on R410A on one of the suppliers, the pricing differential is not much, roughly about USD1 or so. Given that, volumes can be higher given that R410A will be a lower GWP product as compared to R125, and I think our demand traction on that also remains strong. Middle East, Southeast Asia should become our home markets, and therefore, let's say, volume play should be a positive for us.

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

Arjun Khanna: The first one is in terms of capex. Could you help us understand what is the capex we have planned for FY25? If I heard correctly, we said in the second half, capex may actually increase. So, we spent INR2,200 crore in FY24. What's our outlook for FY25?

Rahul Jain: So Arjun, as of now, the capexes that are sanctioned and running are probably in the range of INR1,000 crore, INR1,200 crore or so. Those are the ones that have been sanctioned and work is going on them. For the year as a whole, roughly about INR800 crore- INR900 crore additionally, we believe, will get spent. But that's also a function of how some of the projects are ramping up, what's the situation on the land that comes in and multiple other elements around it. But as of now, running projects are probably in the range of about INR1,200 crore or so, for chemicals business as such.

Arjun Khanna: Right. And apart from chemicals, we have the packaging for capacitors. Is there any other large project, which is for the other segments?

Rahul Jain: Not as of now on the ground, Arjun. I think from a Packaging Films perspective, there is nothing other than the capacitor grade film there that is going on.

Arjun Khanna: Right. So this year, we're looking at roughly INR2,100 crore?

Rahul Jain: Should be in that range.

Arjun Khanna: Sure. Sir, the second question is in terms of the guidance provided on the packaging side. We have mentioned probably weakness to continue for maybe 1.5 to 2 years and then move to normalcy. Just want to understand what do we assume to be normalcy? Because historically, margins have been 14% - 15% EBIT. Right now for the year, we are at closer to 5%. So how do we look at this business?

Rahul Jain: Arjun it is a curve rather than a vertical line. So when we say that we'll start to come out of it, the margin expansion will also start to happen on a slow pace. So let's say, from 5% to 8% to 10% and in that range, because no new capacities are being added. And as the market ramps up, the demand really just takes up the additional capacities that have been put in, we will end up seeing margin expansion happening, but it won't be that it goes to 15% immediately. It will be a slow and steady journey.

Arjun Khanna: And this was indicated for BOPET and BOPP. So aluminium foils, what kind of margin profile we are looking at? Because when we launched the project, we were looking at payback of 4 to 5 years, essentially, that means higher margins.

Rahul Jain: Yes, Arjun. But aluminium foil is also a learning curve for us, we are also understanding the product. We will get into higher value-added products in the aluminium foil space also, but that's also a journey. Like CMD said during his comment, we believe that there were certain technical challenges that were there in the initial part of the aluminium foil thing. All of those have now been sorted out. We are now starting to produce fully. The product has now been approved by some of our Indian customers. We are also sending samples out to our U.S. and European customers. We will start to tap into the EV and the AC films market over probably by the end of this year. So I think a lot is going on, on that side as well. Yes, margin profile should be better, given where the current margin profile is for the BOPET films. But going forward also, I think we should see probably a delta on that side. What we are essentially saying, is that as we keep going into more specialty products in the Packaging Films also, the effect of down cycles that the commoditized industry faces should be much lower.

Arjun Khanna: Fair. So just a continuation, PTFE was the other molecule, which we had mentioned we are going through a learning curve, etc. How has the progress been there given that we are seeing falling export volumes from India and prices?

Rahul Jain: So PTFE I think, it's a similar story, Arjun. The bulk has been pretty much in good shape. We are at a decent domestic market share on the bulk side. We are also looking at some of the sampling in Europe starting to go through. We are hopeful that some of those orders will come in this year. Some of the sampling for the U.S. customers have also started for PTFE.

Moderator: The next question is from the line of Tarang Agarwal from Old Bridge.

Tarang Agarwal: Couple of questions. One, what would be the maintenance capex for the business now? The second, in the spec chem business, how are we in the agro and non-agro segmentation? And if you could just give us a sense of the molecules that you plan to launch, what percentage would be in agro and non-agro? And third, you said margins have improved in the spec chem business. Have your per ton, per kg margins improved or your percentage margins improved? Just wanted your clarification on that.

Rahul Jain: Tarang, the maintenance capex for business, from a more pure academic perspective, anywhere between INR50 crore to INR100 crore, nothing more than that. Because generally speaking, majority of our capexes should have ROI or a positive play that has to come in. So that's the first answer to your question. Agro and non-agro, when we look at year as a whole, will probably be at 3.5%-4% from an agro versus pharma. If you're looking at material sciences, probably not major on that side. When we talked about margin improvement, it is percentage margins, because there is no single product here where we can compare per ton margins. It is multiple products. We do 40-45 products on an annual basis. So it won't be really right to be able to give you that positioning because then you are comparing apples and oranges.

Tarang Agarwal: You said 3.5%- 4%, sorry, I didn't catch that for your segmentation.

Rahul Jain: Yes, 3% to 4%. So when we look at specialty chemical business, we've kind of given you the breakup of the agro products and non-agro products. And when we say non-agro products, that's pharma. For the year as a whole, that's been the position.

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

Sanjesh Jain: I got two questions. One is on the refrigerant gas, when we see that our contribution of India in Middle East and Southeast Asia will go up to 75%, it is also fair to assume that the bulk sales will reduce and our direct distribution will increase. Will that be a fair assumption in the refrigerant gases? Hence, we'll have a better ROE on that business as we progress through the year?

Rahul Jain: When you look at ref gas, the packaging is either in the ISO tanks and the lowest level of packaging is cans. So, depending upon the jurisdiction; depending upon the requirement in some cases, there are only disposable cans to be used, in some cases, there are only returnable packaging to be used. But generally speaking two things will happen. More from a distributor to a direct sale is obviously the one thing that we are looking to get to, I think that will improve. And second, I think more of the overall sale will start to go towards cans in the medium term, which would, therefore, be also margin accretive.

Sanjesh Jain: Fair enough, sir. And second question on the Specialty Chemical. We have added close to INR1,800 crore of capex in FY24. What is the potential revenue for that capex when it achieves the peak utilization?

Rahul Jain: I think we've talked about this historically as well. For Specialty Chemicals, pure plant on plant revenue, what we've ended up seeing is between 0.9 to 1.1. I don't think it is going to be any different from that given the nature of the business and the nature of the products, because as we are going up the value chain, the complexity of the products are increasing. I don't think it is going to be very different from there.

Sanjesh Jain: So as we go up, this metrics is not going to materially change, that's a fair assumption, right?

Rahul Jain: Unless you get into a commoditized product.

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

Archit Joshi My first question on the remarks that we have made on new Chinese capacities. I just wanted to understand from a supply chain perspective, has there been any change from what we saw during COVID. Has the nature of the supply chain diluted in favour of Chinese companies off late in the narrative of China Plus One, which was obviously in our favour? Has it been that MNCs have started in a very sporadic manner adopting few of the Chinese products of late because you're offering a competitive price or the situation remains the same as we saw during COVID?

Rahul Jain: Very long question, Archit, but let me try and answer it. And because I think our Chairman and Managing Director also commented on it. We believe whatever may happen in China, we will continue to take market share. And while there may be certain short-term challenges, we are really confident on the long-term prospects of this business. I think technological breakthroughs, thinking about the customers' requirements, working with them on a continued basis provides a positive on that side. So, it is really not thinking about just one product or one opportunity, I think long-term relationship with customers do help.

Now at the end of the day, there are certain capacities that have been put up. And to that extent, we have also relooked at our cost structures, managed that through and we are really confident on the key products. And again, to be able to say it, I think it is P17 which is what we are talking about and also which a lot of you have talked to us about in the past as well. I hope that clarifies it, Archit.

Archit Joshi Sure, sir. Sir, one more on ref gases, I think a few months ago, in order to curtail reduction in

U.S., there was a rumour probably that the anti-dumping duties were expected to be rolled back. There was a clarification later that this is not going to play out. But with the current reduction the proposal to reduce R125 duties on these Chinese companies, do you see that playing out for other HFCs also, which is probably the reason why maybe we are expecting a higher share of volumes from non-U.S. geographies of that gases?

Rahul Jain: I don't think it is going to pan out like that, Archit. The reduction of duties that has happened is essentially for one Chinese player, and it is not for all the gases. I don't think there is a move to look at all the HFCs for reduction of duties. For the one gas, which is R125, that has been talked about, prices for the last 10 months were already down, about USD8, USD9, USD10 a kg. Even if they go down slightly further, our value proposition is to then move into the other product, which is R410A or R407C, which is a blend. Now what happens with that is because R32 prices are up, our ability to market those products is higher. From a regulatory angle, as of now, there is no move with respect to other gases. But if that comes through, you will know probably earlier than I'll do.

Moderator: The next question is from the line of Krishan Parwani from JM Financial.

Krishan Parwani: Congrats on decent recovery in 4QFY24. So two questions and one clarification. So the first is, when do you expect optimum utilization of your new R32 capacities?

Rahul Jain: I think if all goes well, by the end of this year, we'll probably be at optimal capacity utilization on that one.

Krishan Parwani: And I think I missed one part, that was a clarification. I think you mentioned HFC exports were 50% - 53% of sales. Do you mean by volume or by price – the ref gas exports of your total ref gas value?

Rahul Jain: So we were talking value not volume. We will have to do our calculations for volume. Maybe we can come back to you later.

Krishan Parwani: Okay. And the last question is, how do you think ref gas exports mix playing out in FY25, given I think you talked about Middle East. Could you give some geography-wise breakup in terms of how do you plan to do it?

Rahul Jain: I think there is significant traction from U.S. customers with respect to R32 and R410A also. So that's the positive. Again, Middle East should ramp up. R32 should ramp up in some of the other geographies. Our ability to deliver on blends will be higher. Those would pan out. In terms of breakup, I think we will probably remain in the range plus/minus 4% - 5% here or there, in terms of overall export versus domestic.

Moderator: The next question is from the line of Sumit Kumar from Kotak Securities.

Sumit Kumar: My question was on aluminium foil business, if you could share revenues from the business in 4Q and did the business make any EBIT loss? And if so, could you please share the quantum? And how much revenue can you expect from this business in FY25?

Rahul Jain: Sumit, unfortunately, I don't give revenues or breakup of revenues for product by product. So that's how it has been, it will remain like that. I won't be able to give you specific revenues from aluminium foil. The only thing that I can tell you is that we've seen some issues in the aluminium foil. There is a learning curve that we have on it. We had a slightly slow start. Some of the machines that the OEM had supplied did not work well for us. All of those issues are now past us. In April 2024, some of those repairs have already got done. And hopefully, it should add positively to our overall Packaging Film business' EBIT and margins. So that's how you will have to look at it. I don't give break ups Q-on-Q. As a times of revenue, between 1.2 to 1.5 at the peak utilization we should get to.

Sumit Kumar: Sure. And just one more clarification I wanted. So the revenue growth guidance for chemicals business of 20% plus. For spec chem also, we stick by the same growth rate of 20% plus in FY25?

Rahul Jain: What we have said in the initial commentary by the CMD is 20% plus is for the overall chemicals business. Now there may be some pluses or minuses, we will hope to deliver better than this.

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

Keyur Pandya: Just one question is on the ref gas utilization. So if you can just tell me, FY23 utilization and FY24 utilization, ex of this new capacity addition which was just added in the last few months?

Rahul Jain: Keyur, I think you'll have to come back to me separately on this. Because FY23 utilization, again, my sense is, of the available capacity, we will probably be in the range of 80%. Of the available capacity in FY24, we would probably be north of 85%- 90%. But I'll have to come back to you, and I'm not including the new 15,000 tonnes capacity here.

Keyur Pandya: Sure. Noted. And just last question on the overall profitability of the chemicals segment, you highlighted about some operating leverage benefits and some reduction because of the product price cuts. But in the context of the change in geography in the ref gases from U.S. to non-U.S. or more of Indian subcontinent, net-net of all this effect, where do you see directionally margins going? If you can just help on that part.

Rahul Jain: You are talking about the margin profile of the Specialty Chemicals business going forward?

Keyur Pandya: For the full segment for which you have reported around 26% margin. There are multiple factors, positive and negative factors. One more factor I'm just adding that ref gas is moving from U.S. to Middle East and Southeast Asia and India, will that negatively impact the margin of ref gas and eventually the chemical segment?

Rahul Jain: See again, when we look at both the business put together, roughly about INR3,000 crore of capitalizations have happened. Now in the medium term, between, 12 to 18 months, we should see some or largely all of those capacities being utilized pretty much fully. And as that happens, there should be a margin profile improvement from purely an operating leverage perspective. But when we look at it from a market mix perspective, yes, to a certain extent, U.S. will come away, but there will be growth in Middle East and India. Given where pricing positions are today, I still believe there is a pricing positive that will come in, and therefore, some margin accretion. But I always go back, that is 26% or 27% as an overall margin from a business, not a good margin? FY23 was a super cycle that had come in. And therefore, we are getting probably 32% margin levels, right? Despite a huge down cycle this year, huge down cycle; we've talked about the down cycle in the Specialty Chemicals business, we've talked about the down cycle in the Fluorochemicals pricing, Chinese dumping happening, multiple other things happening; we are still at 26%. I still believe that at 26% here, we are in better shape than at 32% in the year before.

Keyur Pandya: Absolutely. I definitely agree with that point and point noted.

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

Ranjit Cirumalla: So you have highlighted 1 product where we have probably relatively higher concentration that is where we are seeing a bit of a Chinese pressure, but we remain confident on protecting the margins on that front.

Rahul Jain: No, one minute Ranjit, what I said is that's a product that people have been talking to us about in terms of Chinese competition. Whether I have a huge dependence on it, probably not. I'm still at probably about 20%- 21% of the overall specialty chemicals. I'm not saying that I have a large dependence. It's a decent dependence but not a large one. And what we had also clarified is that there will be larger volumes that will come in, and we have done a lot of technological work to be able to cut costs on it.

Ranjit Cirumalla: Thanks for that clarification. My question was that are there any such more products, probably one or two, that you are seeing an incremental competition probably not now, maybe six months or one year down the line?

Rahul Jain: I think, Ranjit, to a certain extent, CMD also clarified this in his comment. It's nothing new, this will keep happening, competitive positions will get built. As products go from niche into more larger products, we will have competition that will come in. But this is part of our life. It happened in the past, and will happen in the future as well. Whether there is some singular product today that is happening, probably not, but that's how the cycle is, and we will play that out. I think the advantage or the USP that SRF has built over a period of time is to be able to say that we will crack the technology even further, we will do a better job in terms of our costs and therefore, margin should remain good. And as volumes improve, we should be in good shape.

Ranjit Cirumalla: And second, as we move towards more AI, so that should also be margin accretive in nature?

Rahul Jain: Hopefully, Ranjit, yes.

Moderator: That was the last question for today's call. I would now like to hand the conference over to Mr. Rahul Jain from SRF Limited for his closing comments.

Rahul Jain: Thank you, everyone. I hope we have been able to answer some, if not all, of your questions. 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. Thank you.
