"SRF Limited
Q2 & H1 FY25 Results Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to the SRF Limited Q2 & H1 FY25 Results 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. Should you need assistance during the conference call, please signal the operator by pressing star then zero on your touchtone phone. 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: Good afternoon everyone and thank you for joining us today. We, at Axis Capital Limited, are pleased to host SRF Limited's Q2 & H1 FY25 results conference call. We have with us today Mr. Rahul Jain, President and CFO of SRF Limited. I would now like to invite Ms. Nitika Dhawan, Head of Corporate Communications at SRF, to initiate the proceedings for the results con-call. Over to you, Nitika.

Nitika Dhawan: Good afternoon everyone and thank you for joining us on SRF's Limited's Q2 & H1 FY25 Results Conference Call. We will begin this call with brief opening remarks from our President and CFO, Mr. Rahul Jain, following which we will open the forum for an interactive question-and-answer session.

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

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

Rahul Jain: Thank you Nitika, and good afternoon everyone. I would like to extend a warm welcome to all of you and thank you for joining us today for SRF's Q2 & H1 FY25 earnings conference call. I trust that you have had the opportunity to go through our results and the presentation shared with you earlier. I will begin the call by briefly taking you through the key financial and operational highlights for the period under review, following which, we will open the forum for a Q&A session.

The company reported an expectedly weak quarter, primarily owing to the ongoing subdued environment in the chemicals business. The ongoing challenges have impacted our performance in Fluorochemicals and Specialty Chemicals Business during the quarter. However, we believe that the worst is now behind us, and we anticipate an improvement starting Q3 with a stronger finish expected in Q4. In Q2 FY25, our gross operating revenue stood at INR3,424 crore, up 8% on a Y-o-Y basis, while EBIT came in at INR417 crore, representing a 12% margin. Profit after tax was INR201 crore. From an H1 perspective, our gross operating revenue stood at INR6,888 crore, up by about 6% and our profit after tax was INR454 crore.

Coming to our segmental performance, our Chemicals Business reported revenues of INR1,358 crore, a decline of 5%. In our Specialty Chemicals segment, the agrochemicals market continued to face slowdown impacting the business' overall performance. High inventory levels due to subdued demand from Agro customers have led to rationalization and lower offtake. However, recent product launches have started gaining traction and growth in new products provide strength to our overall outlook for the Specialty Chemicals business going forward. Our work on agrochemical intermediates is also proceeding as per plan and the ongoing discussions with customers are positive and encouraging.

During the first half of the year, we successfully launched 3 new Agro products and 3 new pharma products. Innovators are increasingly partnering with us for more complex and downstream offerings, highlighting our R&D capabilities in delivering sophisticated solutions. Additionally, our sourcing efforts have yielded positive results with the approval of various new raw materials and suppliers further strengthening our supply chain and enhancing operational flexibility.

Last year, we invested around INR1,800 crore in commissioning several new plants. Our current focus is on ramping up production in FY25 and over FY26 as well, while also advancing environmental initiatives and automation to improve safety and efficiency of these facilities.

Additionally, we will also prioritize debottlenecking and augmentation projects for key products to enhance production capacity. With an expectation of gradual recovery in demand during Q3, going to a strong order book, we foresee a positive impact on performance in the second half of the year.

In our Fluorochemicals Business, Refrigerant Gas segment performed well in the domestic market, with an increase in overall volumes. We further increased our market share in both the Room Air Conditioner (RAC), and the Mobile Air Conditioners (MAC) markets. However, margins in Q2 were under pressure due to lower export realization. We are optimistic about the second half as we expect improving export volumes and realizations alongside the start of the domestic season. Additionally, pricing of certain key refrigerants are now witnessing stability and some uptrends, which should augur well for the future by growing domestic demand further supporting the upward trend.

Coming to the Chloromethane segment (CMS), we are focusing on expanding our export portfolio for CMS as well. Pricing pressures due to current overcapacity situation still remains. Margins were lower than expected in the first half. However, we started to witness some improvement towards the end of Q2.

Meanwhile, PTFE is witnessing healthy growth in the domestic market with ongoing trial for free flow and fine-cut grades progressing as planned. We are also preparing for commercial sales of fine-cut products targeted at high-end application processors in export markets, which should start to witness some traction in Q4.

Further, the board has approved a project to develop fourth-generation Refrigerants, which are distinguished by their significantly lower Global Warming Potential (GWP), and reduced carbon footprints. This capex with an estimated investment of around INR1,100 crore is slated for completion in around 30 months.

The project highlights SRF's leadership as one of the pioneering technology developers in global refrigerant space. As an Indian company, we take immense pride in this advanced and ecofriendly technology with a significantly lower carbon footprint and global warming potential, developed in-house. Our robust in-house R&D capabilities, which have been integral to our success for over 2 decades will enable us to leverage our proprietary processes and technologies to innovate and drive the development of these next-generation refrigerants under our own brand. The team is initially looking to target the global markets that are transitioning to these low GWP alternatives and post 2032 the Indian market as well.

Turning to our Packaging Films Business, we delivered a healthy revenue growth of 27% year-on-year in Q2 FY25, reaching INR1,421 crore. EBIT margins improved slightly, supported by record production levels and sales of value-added products (VAP). Despite ongoing demand-supply imbalances, BOPET Film margins in India showed slight improvement this quarter, contributing to enhanced results of Packaging Films Business. In contrast, operations in Thailand continue to face challenges due to Chinese dumping. The BOPP Film segment performed in line with our expectations.

We have made significant progress in developing BOPP and BOPET VAPs with 7 new BOPET and 8 new BOPP VAPs developed in the first half. Additionally, aluminium foil production has stabilized, supported by rising domestic volumes and sampling for exports. With expected ramp-up in H2 and the proposed imposition of antidumping duty on Chinese imports, margins are expected to further enhance going forward.

In terms of capex for this business, the Board has approved the establishment of a new manufacturing facility for the BOPP-BOPE film line in Indore, at our DTA-2 site. This project enables us to expand our existing BOPP substrate and VAP offerings and explore the innovative polyolefin BOPE substrate. Furthermore, it aligns seamlessly with our sustainability goals as polyolefin substrates like BOPP and BOPE are recognized for their eco-friendliness, attributed to their mono-family advantage and recyclability. The estimated cost of this venture is around INR445 crore with operations expected to commence in approximately 25 months.

In our Technical Textiles business, revenues continued to grow by 6% to INR536 crore in the quarter, driven by steady contributions from Nylon Tyre Cord Fabrics and Polyester Industrial Yarn segments. However, margins for Belting Fabrics were weak resulting in moderate performance despite higher volumes. We maintained our focus on boosting higher margin VAP sales by strategically expanding into new geographies and commercializing 8 new Belting Fabric VAPs during the first half.

Lastly, in our Others segment, the Coated Fabric business maintained its domestic market leadership in both volume and pricing. We achieved record domestic and VAPs sales in the first half and expect stable performance going forward. Our goal is to enhance profitability by focusing on increased domestic volumes and expanding VAP in our new product offerings.

In Laminated Fabrics, we sustained price leadership while operating at full capacity. Although the market remained oversupplied, putting pressures on margins, we successfully stabilized the new Hot Lamination machine. We expect demand pickup in Q3, especially with the festive season, which should improve margins.

Our finance cost had increased compared to previous year, leading to higher expenses in our P&L statement. However, the global interest rate cycle started to show some downward trends, we anticipate reduction in our borrowing costs in the near future.We remain committed to making strategic investments that align with our long-term growth objectives.

Furthermore, I'm glad to share that SRF has been honoured with multiple prestigious awards at the sixth India Procurement Leadership Forum and Award 2024, organized by the Institute of Supply Chain Management (ISCM). The company stood out in 3 categories: India Procurement Champion 2024, Best Approach to Managing Global Risk in Procurement and Best End-to-End Alignment of Procurement with Supply Chain, reflecting our commitment to excellence in procurement practices.

As we reflect on the second quarter and the first half of FY25, we are delighted to share with you the remarkable progress and impactful initiatives undertaken by SRF's social wing, the SRF Foundation. Our commitment to fostering sustainable development and enhancing the quality of life in the communities we serve has been unwavering. From the inauguration of the Digital Bus in Bhopal by Honourable Chief Minister of Madhya Pradesh, Dr. Mohan Yadav, to the successful completion of the Basic Electrician Training Program in Bhind, MP, our efforts continue to make a significant difference.

Our projects in Kamrup, Assam have also seen substantial progress with renovations of toilets, libraries and boundary walls in 5 project schools, ensuring a better learning environment for the students. These initiatives, along with many others, have collectively benefited thousands of individuals across various locations, reinforcing our dedication to community development and empowerment.

In conclusion, while some businesses have faced difficulties due to the global macro environment, we believe we have bottomed out, and we remain optimistic about our future performance. This optimism stems from our position as a globally recognized multi-business entity, which enables us to leverage technology and innovation across all our offerings to enhance performance. With our world-class infrastructure, qualified personnel and exceptional R&D capabilities, we are well positioned to develop a pipeline of cutting-edge products across various segments. As the market situation improves, we are confident in our ability to deliver strong performance and create lasting value for all our 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 Q&A session. Thank you very much.

Moderator: The first question is from the line of Nitesh Dhoot from Dolat Capital.

Nitesh Dhoot: So my question is on the Chemicals Business, where in some key molecules, there has been a sharp price erosion. We had earlier emphasized on improving cost structures and volume growth to aid margins. With the recovery seen in the second half, along with the new molecules gaining traction, will we be able to make up for the margin erosion? Or do you want to downward revise your EBIT margin outlook of 23%- 24%?

Rahul Jain: Nitesh, thank you for the question. To be very frank about it, to a certain extent what we have seen is some of the key products or the legacy products that we have been doing well with have had some impact of both price erosion as well as certain volume positioning. Now the volume positioning effectively stems from the inventory overhang that is continuing. Given where our order book for this is, we believe Q3 is going to be slightly better than what we have seen while Q4 should probably take up much, much better volumes going forward as well. With respect to saying in terms of what's the guidance, I think given where the environment is, it is very difficult to be able to provide a good guidance around this. We are fairly hopeful of a much better performance in Q3 and a significantly better performance in Q4 as well. So I would really leave it at that. As things change, as there are some more positives that develop, we'll come back to you. But giving some guidance today, it is a bit tricky to my mind, and therefore I would probably leave it at that. From a margin perspective, yes you are right that we have said that over a period of time, the margin should remain in the range of plus/minus 2% to 3% from our annual margins for FY24. I think we are still sticking to it, that is something that will continue to happen, and there should be some positive changes that we will start to see in more towards Q4 FY25. So that's how it should pan out, Nitesh.

Nitesh Dhoot: My next question is on the capex. So cash capex of around INR600 crore has been done in H1, while the commercialization has been around INR225 crore. We had given a capex range of INR15 billion to INR19 billion previously. And as I understand that's the cash capex amount. So 2 parts to this question here. One is, will we be within the range of the cash capex laid out? And second, how much shall we commercialize in FY25?

Rahul Jain: So majority of these projects that are today running, I think the total cash capex that we have had is about INR600 crore. I think, the overall cash capex this year will probably range between INR1,600 crore to INR1,800 crore, including various other projects that are going on. So that's something that will happen. The only point to make is that, yes, the capex is slightly lower than what we had much initially expected, but that's fine in our view. And therefore, we will continue to guide for the capex as things pan out. So the new capex is on the fourth gen gases and also the BOPP-BOPE lines, will probably be slightly more timed out. So those will probably be incurred in FY26, FY27, most of the expenses in that sense. I hope that clarifies, Nitesh.

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

Rohit Nagraj: Sir, first question is on the ref gas side. So in our PPT, we have given a comment on the developed markets, especially in U.S. we are experiencing declining HFC consumption. Will we be able to allocate those volumes to the developing markets? And if that particular market is declining, what is your perspective in terms of pricing of the HFCs?

Rahul Jain: So Rohit, to be very frank about it, this is what was expected. As the cuts come through in the U.S. market, there will be lower volumes into the U.S. market. But you would have also seen the comment where we have said that the overall volumes in the domestic market have been high. I think that's a trend that will continue. There will be HFC volumes that will probably be sold out not just into the Indian market, but also the Middle East and, let's say, the Southeast Asian markets as well. I think that will continue to happen and that's something that we've said in the past as well. From a pricing perspective, we are seeing some stability in pricing on key refrigerants. Hopefully, some of that trend can continue going forward as well and some positive traction on that side.

Rohit Nagraj: Right. Sir, second question, again, diving on the spec agrochemicals front, given that it is likely to be a gradual demand pickup in H2, when do we see the newer projects getting into optimal utilization, will it be in FY26? Or will it move to FY27 to counter impact the legacy molecules?

Rahul Jain: So when we say gradual demand pick up, I think we are fairly confident of the Q4 position given where the order books are. That is something that will pan out. We are sitting on a larger inventory position also as of now and as there are more sales that happen, some of those inventories will start to dilute in Q3 and grow out towards Q4. From a new product perspective, I think within 12 months, there should be some more traction that we should start to see. The capitalization that have been done in FY25, and that's something that will pan out probably over the next, let's say, 9 to 12 months is what we believe. I think also, to a certain extent, we are fairly happy about the fact that some of the new products that have been started are already showing some decent traction. So overall we are in good shape, I would say, Rohit.

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

Sanjesh Jain: First, on the order book side you said that Q4 order book now is showing a very healthy trend. So what kind of an order book are we looking at in terms of volume? I can understand realization being slightly tricky in this market. Purely from a volume perspective, does it show that Q4 will again claim back that 20% kind of a Y-o-Y growth in terms of volume when we compare Q4 on Q4?

Rahul Jain: Like I said, Sanjesh, it is very difficult to be able to give you a number in terms of 20% or 25%. The way we would look at it is that, what we are seeing is a large traction and much larger volumes. I would typically say you've tracked the volumes on Specialty Chemicals on a monthly basis, you know that volumes have still been decent. To a certain extent, pricing should also improve, and therefore, the margin profile overall should also be higher. In order to be able to tell you what kind of order book, very difficult. I can't tell you exact volumes of product by product because there are so many current products that we are doing today, it is a combination of about 35- 40 products. So very difficult to be able to give you color on that, Sanjesh.

Sanjesh Jain: No, no, that's fair. I was just looking at a broader number now that you would have planned for the production schedule on a date, does it appear that it could be the growth what we targeted earlier at least Q4 exit trend will show that number?

Rahul Jain: Sanjesh, I'm kind of escaping that question to be very frank about it. Given the fact that whatever we have talked about, the environment has been much weaker than what we had initially anticipated. So I'm unable to give you a percentage number. It could be 20%, it could be 25%, it could be 15%, I really don't know. What I can only tell you is that the traction is good, and overall, in Q4 we should be in much better shape than what we were in Q2. I think the worst from a Q2 perspective and from a Specialty Chemicals business, is probably behind us.

Sanjesh Jain: That's fair. On the AI side of it, we had a strong pipeline. Any more color you want to add, where is that pipeline? Have we started getting the approvals? Are there any more visibility on the commercialization?

Rahul Jain: There are a couple of products that have seen some traction. Again, the products are well approved, the only issue is when the customer looks to get their registration done and get their pipeline in order. Given where the macro environment is, some of the customers are kind of delaying that out. From our side, we are pretty much in readiness. So as soon as the commercial quantity starts to show up, you will probably start to see it earlier than when I do.

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

Vivek Rajamani: Sir, a couple of questions from me. In the previous call, you had mentioned that some customers are willing to lock into medium-term contracts, but you were not agreeing because the pricing was not very favourable. Just wanted to understand how things were currently if at the margin the landscape has become a bit more favourable, or do you think you're becoming more and more accommodating to the pricing requirements of the consumers?

Rahul Jain: To be very frank, Vivek, I don't think that situation has changed. It is also colloquial in the sense when we talk about the customer wanting to do certain medium term contracts, this is something that strategically we have to look at where we are positioned from a medium- to long-term perspective. And again, within a quarter, those things really don't change.

Vivek Rajamani: Sure, sir. That's clear. And just a clarification on the Q4 order book. I understand that it's obviously much better than how things are. But just in terms of the conversations that you're having with the customer, what is your sense of how de-risk this order book could be? Or do you think that in terms of the actual offtake, things could still be very dynamic depending on how things pan out, say, in Q3 and then eventually Q4?

Rahul Jain: So you are right, to a certain extent, we have a fairly strong order book. But at the end of the day, it will get decided by the customer in terms of when he is looking to do the pickup. We have quantities to a certain extent, manufactured. We have certain things that are going on the shelf. We have inventory WIPs and FG WIPs kind of catered out to. So all of that is in good shape. As the final commercial quantities or the final dispatch orders start to come in, we will start to see more traction on this. Difficult to be able to say what's the percentage. But I would say, let's say, the delta on this could probably be in the range of about 15% to 20% in terms of what we are seeing today versus what it could pan out to be. It could be both sides, it could be a positive as well as a negative. So I think that is something that will come through over a period of time, where we will come to know of this. But yes, today, it seems in pretty good shape.

Moderator: The next question is from the line of Rajat Srivastava from Tata Mutual Fund.

Rajat Srivastava: Sir, just one question. So when I go through your presentation, I see multiple places, almost in every segment, you are mentioning that you are seeing increased competition from China or Chinese are getting aggressive and in India we are seeing cheaper imports from China. So sir, given that context, what is giving you the confidence that things will improve going ahead because this to me looks more like a structural change which is happening. And this is not just specific to you, across the chemical industry, we are seeing this. So can you sort give us a color, like how do you get the confidence that this will improve going ahead?

Rahul Jain: So thank you for the question, Rajat. Again, when you look at it, the cheaper imports from China or the China competition, I think we have talked about that in 2 or 3 places. One, in the Packaging Films Business, more towards in Thailand, that's where we've talked about it. The second is on the Fluorochemicals side, where some of the ref gas imports were on the high from China, so that's something that we have talked about. We have also talked about it in the Specialty Chemicals space, more on the certain older products that we have had where we are now starting to see Chinese competition. Where our confidence comes from and that's your precise question, like I answered the last question, is the order book. Customers PO that are in hand for dispatches between Q3 and Q4 is something that has given us that confidence. And that is essentially the position that we are taking on this. There are various customers that have talked to us about it. The other element of this is that we are getting into more complex chemistries and more complex products as well. And traction on our product pipeline, not just for the current ones, the new products that have been launched and much larger future product pipeline is pretty much well in shape. And that's why we are saying that we are pretty confident that we should be able to stay through this one as well. I hope that answers it.

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

Thakur Ranvir Singh: Sir, I just have few clarification here. Three quarters in a row, we have been saying that inventory accumulation has been impacting the demand. So I wanted to understand that in a better perspective. Inventory is accumulated at our clients end due to Chinese competition or because China has dumped their products in the market, and so the sales is not happening there, this is the reason? Or what we are saying is that demand itself has contracted, and so the inventory is not getting liquidity? So what is your scenario here?

Rahul Jain: The good thing here essentially, is that we don't see an overall end-product demand contraction. The end-product demand contraction has not happened. To a certain extent, it is because of the China position in terms of the raw materials. But also, to a certain extent the customer had actually got used to very low interest rates and, therefore, very large inventories. Over the last, let's say, 3 or 4 quarters or probably even earlier than that, you've seen where interest rate cycle has gone. And therefore, to that extent, some of the customers have really started to relook at their inventory position. The inventory positioning for certain products that used to be, let's say, 270 days, they've kind of cut down on those inventories very significantly. So I think it is a combination of the two. To a certain extent, China; to a certain extent, interest rates; and to a certain extent, customers relooking at their supply chain. Also, to a certain extent, COVID had impacted this very significantly, where availability was becoming a problem. As that is kind of waned out, the fact is that the customers are now having the confidence that inventory availability, let's say, in the 30 or 60-day time frame is fairly well available. And therefore, some of their existing inventories, they are looking to cut out. So I think it's a combination of all of those factors that is having the impact rather than being able to point out one single factor here.

Thakur Ranvir Singh: So when we say there will be a pickup, maybe going forward in the second half, are we assuming that demand will increase, or that we will capture more market share through factors like pricing or competing with China? Or will the pickup be driven by demand growth itself?

Rahul Jain: I would say, overall demand has not been impacted at the end product level. That has still remained pretty robust. But because there was an inventory situation at the customer's end, we've seen some orders getting delayed. I think that's the situation overall. Very difficult to be able to comment whether it's a pure demand situation or an end product situation. So that's something that we are currently getting a feel of from a market perspective. So that's happening, Ranvir.

Thakur Ranvir Singh: You mentioned that we have 3 new Agro products and 3 new pharma products launched in H1. So what is the contribution of these new products?

Rahul Jain: When we say we have launched or commercialized, these are products that have now gone to the customers and samples have been approved. They've been put out from either a multipurpose plant or a very large plant that has gone out. As those tractions come through, it will start to see more traction going forward. It doesn't mean that there is a large contribution of some of these in the current quarter.

Thakur Ranvir Singh: No. But their peak revenue may be significant going forward in H2 or next year?

Rahul Jain: Some of those, yes, but very difficult to be able to pinpoint that out.

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

Abhijit Akella: For the first half of the year, could you help us with the Specialty Chemicals revenue growth sir, if possible?

Rahul Jain: So overall Chemical Business has been down by about 5%. Specialty Chemicals would have been lower by about 4% - 4.5%. That's the only thing that I can tell you.

Abhijit Akella: And with regard to the refrigerant realizations, this pressure on international prices, is it in any particular products, R125 in particular, or is it more broad-based across the entire base?

Rahul Jain: R125 certainly, but even on R132 and R134a, we have seen lower pricing internationally. Domestically, we are still in pretty decent shape. But we have to look at it from a medium-term perspective. Calendar year 2024, 2025, 2026, is where we want to develop and produce as much as possible, because those are the observation years from an India market perspective. I've mentioned this over a call earlier as well, that the focus is to ramp up as much as we can, because that will determine our future profitability also.

Moderator: The next question is from the line of Heenal Gada from UBS Securities.

Heenal Gada: I just have 2 questions on the Chemicals business. First, I understand that our order book is strong enough for a probable recovery in the second half. In that regard, have you seen any initial uptick in volumes in the recent weeks, like if you could just give us some sense of how October has been panning out to date?

Rahul Jain: What we have said is that we will see a gradual recovery. Q3, we will see some positives coming through but Q4 is where largely the dispatches and revenue recognition will start to happen. So don't expect that immediately in the first week of October or second week of October, we will see a much larger uptick, not happening, Heenal.

Heenal Gada: Sir. I understand. And the second question, would you like to give any guidance on the Specialty Chemicals growth for FY25. I think we were earlier guiding for double digit, but would there be any change that we would be calling out now?

Rahul Jain: I think I answered that in the previous question. The macro environment has remained very volatile today. Given the fact that while we had expected some things to happen in Q1 - Q2, we kind of saw customers continued the inventory rationalization. And we've seen some deferments had happened and continued going forward. In the current macro environment, very difficult to give you a revenue guidance. What we can assure you is that the team is going all out in terms of making sure we are able to deliver the product to the customer, the customer traction is in decent shape, order book was fine. But if you would want to hear it that way, I am unable to give you a guidance from an FY25 revenue perspective. I think we will have to see how overall revenues pan out and how the order book shapes up. Like I had answered in the previous question, I think there is a certain delta in terms of where the order book is in terms of the pickup, but fairly confident that we should be able to manage it very well.

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

Arjun Khanna: Sir, the first question is on the HFO piece. So while we have announced INR1,100 crore capex, could you help us with what is the tonnage output that we would get for the same? Have all the patent-related issues been resolved in the sense we understand there were process patents? So if you could talk about that. And lastly, which HFOs are we planning on producing?

Rahul Jain: Arjun, unfortunately, all the questions that you have asked, I have no answer to. It is not that I don't know, but a fact that some of these things are best kept under wraps given where we are. What I can assure you of is that this is being done through our own technology. Second, by the time we launch it, the patent regime will be well taken care of. The third is that the quantities are of a fairly decent size. It is not something that we are disclosing as of now, we want to keep that under the wraps as of now. There are 2 products that we are looking to do, but as of now, not disclosing the names of those. So, unfortunately, we will have to live with it. Sorry.

Arjun Khanna: Sir, the next question is on the second capex we announced the BOPP-BOPE. Given the current context where we are talking of a weak environment in Packaging Films, just wanted to understand from you why undertake such a large capex given that margins are below long-term trends. Does it indicate that we expect demand to incrementally be much stronger than supply and the market being into balance over the next 18 months to 24 months?

Rahul Jain: To a certain extent, you're right, Arjun. BOPP has not done very badly, and we've been saying that for a very long time. What we've seen is the demand supply imbalance more prevail in the BOPET segment. BOPP has done pretty much all right. I think 2 or 3 things that tie into this. One is the sustainability agenda on the polyolefin side. The second being the fact that for us to be able to continue doing more work on value-added products on the BOPP side, it is very important to have capacity. BOPP overall is 3 or 4x the BOPET segment market. Given where the recyclability is, given where VAPs are, I think it makes good sense for us to look at it. In any case, when you think about it from an SRF perspective, we've actually fully utilized our BOPP capacity and even to that extent, the BOPET capacity also. And historically, whenever we've set up capacity, we've set up in a situation where the overall market is fairly balanced. So I think 2 or 3 key things: sustainability, straight getting into PE (which is polyethylene), first time putting up a line which is a hybrid line, all of those really tie up into the sustainability agenda and the VAP agenda for SRF. I think those are the key elements for announcing this capex.

Arjun Khanna: Sure. Fair enough. Sir, just to understand on the packaging bit, if you could just help me with the margins possibility on the aluminium side because we talked of the ramp-up, but we haven't quite seen margins play out for the aluminium foil. So are we yet in the ramp-up phase? And how would you look at the profitability?

Rahul Jain: From an aluminium foil perspective, what we are seeing is better domestic volumes. The sampling for the export volumes has also gone out. We are hoping that some of those will come back quickly to us, and we will start to do the export piece on the aluminium foil as well. The third element also is a domestic antidumping duty that provisionally has already been announced, and hopefully, within the next few months, it should get imposed. So I think all of that put together should make sure that Q4 should be much better from an aluminium foil perspective also.

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

Rohan Gupta: Sir, last year when the industry was witnessing a downturn in agrochemicals, our confidence was emerging in terms of maintaining the margins and growth because we were supposed to launch 6 to 7 new AIs, which was going to contribute to the revenues. However, I think that quarter-by-quarter, we have been seeing some spillover. So just wanted to check that this new AIs and the contribution to the revenues, which was supposed to come, it has been delayed from the customer side, that they have not been able to launch the final AI from there end or the industry dynamics are such that the overall inventory situation still remains and that's why our customers are not willing to put any material in the market?

Rahul Jain: So even when we were talking about the AI situation last year, we had said it will take 12 to 18 months for us to be able to start that AI journey. I think we are in fairly good shape from an AI perspective, and customer perspective as well. It is just that, to a certain extent, some of the customer registeration processes have got delayed. And to that extent, we can't control those pieces. And therefore, that has kind of caused some delay. But I don't think we are very off from the timing that we have talked about. The impact that we are starting to feel in the Specialty Chemicals Business is more because of the fact that some of our flagship products have seen certain Chinese impact. We've also said in the past that we are looking to be able to counterbalance that through our technological intervention. Some of them have already panned out, and some will pan out over the next 6 months or so. So, there is largely a counterbalance on some of the older products that will come through. AI will also add to that growth ability and growth visibility going forward. That is the way it should pan out. And again, I don't think we are very off in terms of what we had committed earlier from an AI perspective.

Rohan Gupta: Second question is on the margin front. So I mean, the current quarter margins and even last quarter also, so in Chemical business, I'm talking about from 21%, it went to 18% current quarter. So is it all because of the ref gas volatility or spec chem margins are also under pressure, which is driving this margin lower?

Rahul Jain: I would tend to say to a certain extent, it is a combination of both. It is not just the spec chem margins that have seen a decline. Fluorochemicals margin, have certainly seen a decline, but even in the Specialty Chemicals side, the margin has been lower by 2.5% - 3%. So it is not just the Fluorochemicals or the ref gas margins.

Rohan Gupta: And sir, while giving the earlier participant answer, you mentioned that spec chem in first half, a very broad number, though the chemical business is down by roughly 5%, you mentioned spec chem is also now down by more than 3% to 4%.

Rahul Jain: Yes, 4% to 5% is what I said. It is similar. It is not that there is a significantly larger decline in Specialty Chemicals or Flurochemicals. The decline in terms of overall revenues is kind of similar.

Rohan Gupta: Coming from both, ref gas as well as spec chem in a similar rate. Ok, thank you sir.

Moderator: The next question is from the line of Archit Joshi from Batlivala & Karani Securities.

Archit Joshi: I have a couple of questions. First on the refrigerant gases. Sir, your observations, if I can ask on the global supply-demand landscape of ref gases. Earlier, there were talks of some ref gas or exports happening from the UAE and recently have started seeing some exports from some Mexican companies into the United States of R134a. It seems that the Chinese companies have been able to find channels either through the Middle East or through a southern part of the American continent. Do you think that this is something that will continue to dampen the supply-demand equilibrium and prices will continue to be under pressure? What would be your take on the entire ref gas regime that we are seeing right now?

Rahul Jain: I think we've spoken about this in the past as well. The UAE or the Middle East capacity that we've spoken about, I have not seen very large exports coming out of that. There was some export data that showed up, but today, there is not seemingly very large exports that go out from the UAE. I have not heard about the Mexican imports into the U.S. market. I will check that out. But to be very frank, if there is certain circumvention that is happening, those things will keep playing out. What we can do to manage this is to ensure that our customers and our market share in the U.S. continues to get maintained. I think that's the only piece that we can do. If we kind of find out certain things, maybe go out and intimate this to the authority is certainly what we will do. But it's better for us to say what we can do well rather than what is the other piece that we can't control. So that's the way we look at it. I don't think there is a very large, dis-balanced situation today in HFCs, certainly not. And over a period of time, as the cuts start to happen in the developed world, we will probably be seeing better pricing on the HFCs. So that's how it should play out.

Archit Joshi: Sir, second one, if you can just help us explain the domestic salients of our Specialty Chemicals business. Has that trended upwards, are we seeing any traction compared to last year?

Rahul Jain: When we think about Specialty Chemicals business and its sales into the domestic market, largely, they will be at the behest of the global customers only. And therefore, when you think about it 3 years ago versus today, where the sales were 90% - 95% export and balance 5% in the domestic market, today the domestic sales are roughly about 25% - 30%. Because of that, there may be some domestic traction that is building up. But frankly speaking, it is at the behest of global customers only. So that's how it will continue to play out.

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

Krishan Parwani: Two questions from my side. Firstly, a clarification on ref gas. I think you previously also mentioned that you want to maximize your ref gas utilization for the given quota. So when could we expect full utilization of ref gas capacity? Will it be by FY25 or CY25?

Rahul Jain: Calendar year 2025 certainly, we should get to full capacity from an HFC perspective, no doubt on that. Capacity utilization even today is fairly in decent shape. There are no two ways about it. Let's say, it is probably in the range of 75% - 80%. Again, I think there will be more work that we need to do to be able to see what best mix we can get to.

Krishan Parwani: Noted. And secondly, on the pharma side, how is the picture? Do you see material improvement in Q4 FY25, anything to do with jump in pharmacies? Because I think in the presentation, you have also mentioned there are launch of new pharma intermediates.

Rahul Jain: We are talking about non-actives in pharma. As of now, not talking of active pharma intermediates, but more non-actives on that side is what we are speaking about. Yes, certain traction is building up. But like I said in the previous meetings and previous calls as well, it is more a story which is going to be playing out over 18 months or maybe 24 months, rather than a quarter-on-quarter story. I don't think it has changed very significantly quarter-on-quarter. Yes some traction is visible, but not something that I want to talk about.

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

Bhaskar Chakraborty: I wanted to get your thoughts on whether any of these 7 active ingredients that you are working on and 3 of them are very promising, would it contribute to revenues by end of FY25 as things stand right now?

Rahul Jain: At least 2 to 3, we will start to see some traction in FY25. But like I said in an answer to a previous question also, it really does depend on the customer registrations. As they start to take calls on their registration, we will start to see traction. Unfortunately, these things are out of my control, and therefore we have to go with what the customer needs.

Bhaskar Chakraborty: Understand. And what is the current utilization of your PTFE plants?

Rahul Jain: As of now, probably slightly low. But in the presentation also we have talked about the fact that the free flow and fine cut in the domestic market are kind of doing all right. We have already sent out samples for the export. That's something which should start to see traction around Q4. HF, which was kind of a constraint in this, will probably come through very soon and we should start to get full quantity on HF. That will also add to value here. So all of those will probably see more visibility towards the end of Q3 and early Q4.

Bhaskar Chakraborty: So is it fair to say that we are likely to see a 2 to 3x kind of jump from PTFE revenues over the next 6 months?

Rahul Jain: I think it's a journey, rather than just a jump. 3 key things have to turn out; one, customer approvals have to come through; second, our production has to get in line with our capacity; and third is the domestic plus exports market taking shape and certain volume and pricing changes that we are expecting in the market to happen. I don't think there will be a 3x growth in PTFE revenues in 6 months' time. That's not going to happen.

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

Vishnu Kumar: On the HFO new plant, when do we expect the first commercial sales by which year if that is something that you can help with?

Rahul Jain: Vishnu we have said clearly that it is about 30 months from now. So probably September 2027 or August 2027. So FY28 is when commercial production probably starts.

Vishnu Kumar: On the margins in the Chemical Business, like how much of it would be negatively impacted because of our start-up operations on PTFE? So 18% would look like slightly better I'm guessing if we eliminate the PTFE start-up and low utilization there. How much would that be?

Rahul Jain: Certain leverage has played out negatively. The operating leverage probably is playing out negatively anywhere between 2% - 2.5%, because plants have been capitalized, depreciation is there and the depreciation is not fully used. So there is a 2% negativity in terms of what margins you are seeing on paper. As those ramp-up, some of that operating leverage will play out positively.

Vishnu Kumar: And the journey from here, if I remove this PTFE for now, 20% to 23% - 24% are our medium-term guidance of Chemical Business. What has to change here? And in which segment you are a little bit more confident that over the next 12 - 18 months, in the Chemical Business, 20% going to 24%, which segment will probably drive you back there?

Rahul Jain: I an unable to figure out this 20, 24. What are you talking about?

Vishnu Kumar: I'm saying today we have about 18% in the Chemical Business. Since there is negative operating leverage, so if I remove this 2%, then theoretically, the business is giving you 20% EBIT margin. So the 20% EBIT margins, which you are currently doing, if it has to go to 23% - 24% of our medium-term guidance, then which segment will drive this? And how confident are we of going back to the 24% - 25% margin in that range?

Rahul Jain: It is a combination of both. Both the Specialty Chemicals and the Fluorochemicals. The confidence is not specifically on just Specialty or Fluorochemicals. There are pricing improvements in Fluoro that we are seeing; there are product prospects that we are seeing; this is a seasonally weak quarter for the business and therefore, the seasonal adjustment that will start to happen will create the positive on the Fluorochemicals Chemicals side; we should start to see better traction on PTFE towards Q4. So as a combination, all of those should pan out in Fluorochemicals. In the Specialty Chemicals Business, order book; new products ramping up; and some of the old legacy products also starting to come back; it is a combination of all of those, rather than just either of the two.

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

Ranjit Cirumalla: In the presentation, we have mentioned that we are also debottlenecking the AHF capacity. So it is to support our new HFO or within the existing scheme of things we are also planning some expansion?

Rahul Jain: We had always said that AHF is the new plant that is coming up. That was a part of the R32 capex. R32 already has come up, the AHF will also come up. It got a bit delayed, which has also impacted our margins and our overall ability to produce. But what I can tell you is that AHF is now getting there, we are doing some trial runs on it and getting some very encouraging results out of it. And therefore, hopefully very soon the AHF bottleneck will probably get pretty much sorted.

Ranjit Cirumalla: Sure, sir. And finally, you also mentioned cost savings as some of the key molecules are seeing the realization pressure. If you can also elaborate upon how big that would be, whether it will be able to compensate for realization pressure, even say 30% - 50% of that?

Rahul Jain: I don't know what has changed. The molecule that we are talking about, we've seen some of the measures that we have taken up, start to yield results. There are various other projects going on, on that side and probably over the next 6 months, some of those will also play out, and the cost to produce will probably be lower on the product that you're talking about. But it's a journey, rather than just a switch on, switch off. It is not a switch on, switch off in any case.

Ranjit Cirumalla: Right, sir. But you will be able to at least have that vision from the realization pressure that we have seen.

Rahul Jain: It's not an Excel sheet where we can plot a linear line, Ranjit. I think business will continue to have some volatility, but what you can be rest assured of, is that we will do all that is required from a tech perspective; from an intervention perspective; from seeing where we can sell, get to new customers, new geographies; all of that we will continue to do.

Moderator: That was the last question. I would now like to hand the conference over to the management for closing comments.

Rahul Jain: Thank you very much, everyone. I hope I've been able to answer 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.

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