"SRF Limited Q2 Financial Year 2015 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY 2015 Results Conference Call of SRF Limited hosted by Emkay Global Financial Services. We have with us today Mr. Rajendra Prasad, President and CFO and Mr. Mukund Trivedy, Head of Corporate Communications of SRF Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tejas Sheth, Senior Research Analyst of Emkay Global. Thank you and over to you Sir.

Tejas Sheth: Good afternoon everyone. Thank you for joining us today. We would like to welcome the management of SRF Limited and thank them for giving us this opportunity to host this call. I would like to hand over the call to Mr. Mukund now. Over to you Sir.

Mukund Trivedy: Thank you, Tejas. Good afternoon everyone. Thank you for joining us on SRF Limited Q2 & H1 FY 2015 Results Conference Call. We have with us Mr. Rajendra Prasad, President and CFO of the Company. We will begin the call with brief opening remarks from Mr. Prasad following which we will have the forum open 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 maybe forward-looking and a disclaimer to this affect has been included in the conference call invite sent out earlier. I would now like to invite Mr. Prasad to make his opening remarks. Over to you Sir.

Rajendra Prasad: Good afternoon everyone. Thank you for joining us on SRF's Q2 & H1 FY 2015 results conference call. Over the past couple of calls, I have discussed our business segments in detail. So today I will quickly take you through the key operating and financial highlights for the quarter and half year under review.

We have reported healthy results during the quarter with our net sales improving by 10% to Rs.928 crore in Q2 FY 2015 from Rs.844 crore in the Q2 FY 2014. Exports contributed 31% of revenues in the quarter under review as against 30% of the same quarter last year.

EBITDA for the quarter enhanced by 38% to Rs.191 crore from Rs.139 crore in Q2 of the previous year, leading to an EBITDA margin of 21%. PBT increased to Rs.109 crore in this quarter from Rs.62 crore in the same quarter last year, a growth of 77%. PAT for the quarter grew by 61% to Rs.77 crore as compared to Rs.48 crore in the corresponding quarter last year.

In the first six months of 2014-2015, the Company's revenue increased by 12% to Rs.1,870 crore from Rs.1,669 crore in H1 of last year. Exports contributed 31% of revenues in H1 FY 2015 as compared to 30% in H1 FY 2014.

EBITDA for the first six months was higher by 43% to Rs.393 crore from Rs.275 crore in H1 FY 2015 translating into a margin of 21%. PBT improved by 110% to Rs.238 crore from Rs.113 crore in H1 FY 2014. PAT for the first six months grew by 93%% to Rs.176 crore as compared to Rs 92 crore in the corresponding period last year.

Segment Results (Chemicals & Polymers Business)

Let me now take you through our segmental performance. In the Chemicals and Polymer business (CPB), SRF registered robust performance in the Refrigerant and Specialty Chemical segment. Revenues from this segment (CPB) were higher by 53% year-on-year at Rs. 320 crore in Q2 of 2015 from Rs.208 crore in Q2 of 2014. Contribution to overall revenues improved to 34% as compared to 25% in the corresponding quarter last year. Operating profits for the quarter increased by 147% to Rs.86 crore as compared to Rs.35 crore in the corresponding period last year.

In the Refrigerant segment, sales volumes continued to improve as we ramp up production at a new 12,500 tonnes per annum production facility at Dahej site for R134a, which is a refrigerant gas. Even though the US has already announced anti-dumping duty on imports from China which we believe will benefit us, we are still awaiting the final review of the same. The review I understand is expected around the third week of November. I think November 23 or 24. We believe SRF is a credible and quality supplier that can successfully cater to US demand at competitive prices. This product 134a used to be produced earlier by a very select club and I will give this background at this point that outside the US there are some companies in Europe, Japan, China and India who actually make this 134a. So the space which may get vacated by China because of the anti-dumping imposed on their company for imports into the US can be filled by European companies, Japanese companies or by SRF from India because in India we are the only manufacturer. So this act is still to actually play out. So we are all waiting as how it plays out in the coming months but we believe it should be beneficial for SRF.

Once there is greater clarity we anticipate strong demand from US, which should help us gain volumes as well as maintain healthy realizations. We also witnessed higher volumes of R22 during the quarter leading to improved volumes in the segments. R 22 is another refrigerant gas, which is predominantly used in developing countries. In other countries it is basically now on a phase-out kind of a situation and in many countries it cannot be used.

The Specialty Chemical segment, in line with our strategy and plans that I have discussed with all of you in the previous quarter, continues to deliver superior performance aided by commissioning of new facilities at Dahej complex. You would recall that we had commissioned new plants and large amount of capitalizations took place at the end of the March quarter. This Rs. 660 crore was at Dahej. So as we analyze the performance going forward we will realize that it is these plants which are now slowly showing in the results as they have been commissioned over the last two years as well.

Over the last five years we have delivered very strong growth in this division and we have made and continued to make adequate investments to maintain the growth momentum over the coming years. What we have also discussed with you previously is even though the first bulk infusion of investment of around Rs.1,200 crore in Dahej has already gone, we still plan to do around Rs.250 to 300 crore on an ongoing basis as investments in Dahej site because Dahej itself it is a 300 acre site. Right now we have developed close to 120 acre which has consumed around Rs.1,300 crore of investment but we will continue to infuse from Rs.250 to 300 crore on an annual basis going forward.

In the previous quarter, we announced an additional Rs.113 crore capex for setting up a new specialty chemical plant at the complex. This Rs.113 crore which I have mentioned here is in addition to Rs.140 crore which was also announced earlier. So this year we have already announced capital investment on that site to the tune of Rs. 253 crore.

Let me highlight here that we already have in place the entire supplementary infrastructure at Dahej so the recent and new investments should directly add to revenues and play a major role in improving profitability, because the infrastructure is by and large in place at least for the next couple of years and then when the next major phase of development happens, then maybe some parts of infrastructure need to be expanded.

At SRF, we have been able to successfully handle fluorine molecules for more than 20 years. We have a dedicated team of 200 employees covering R&D, pilot projects and engineering design, which is unparalleled domestically in the line of field that we are involved in. We also enjoy IPRs for several of our products that give us a distinct lead over low cost manufactures in China. These inherent strengths have helped us become a dominant local and a global player in this segment. There is also ample opportunity to maintain a growth momentum in this growing agro and pharma sector locally as well as internationally.

Segment Results (Technical Textiles Business)

Coming to the technical textile business in Q2 FY 2015 revenues from this business stood at Rs.435 crore from Rs.453 crore in the corresponding quarter in 2014. So there has been a marginal decline in the revenues. During the quarter, operating profits were higher by 11% having increased from Rs.47 crore in the previous year to Rs.52 crore in the quarter this year. This was on account of the fact that we were able to maintain margins owing to improved cost efficiencies while the volumes were marginally lower.

Nylon tyre cord fabric, which is the largest contributor to this segment reported subdued volumes on account of sluggish commercial vehicle sales and we believe that we are yet to witness a meaningful recovery in the economy, which will hopefully result in better demand. In addition July-September period has traditionally been a lean season as commercial vehicle operators push back tyre replacements and new purchases and what actually happens in the market place is that the truck operators change their tyres prior to monsoon. So the better period is anything between January and around March because once the monsoon arrives then truck operators do not change their tyres as they would have done it before that. We expect that the pickup in infrastructure activities and improving economy would aid the transportation sector and positively benefit this segment. We have no major investments planned for the segment. So it is free cash flow generating business for the Company with stable contribution to overall revenues and profitability. You must appreciate that this is a business which constitutes about 47% of our topline and hence provides the mass to the Company.

Belting fabrics and polyester tyre cord fabric segment registered positive performance owing to improved efficiencies. PTCF, which is polyester tyre cord fabric, recorded healthy results due to improved performance from facilities which were converted to regular yarn. So, to that extent saying that PTCF what we knew is no longer PTCF because we converted the machines to producing regular yarn and that regular yarn has yielded good performance.

The performance in coated and laminated fabrics still has much to be desired and remained subdued due to the economic slowdown. Some of the problems in this are market driven especially in laminated fabrics because of the economy. The slowdown of the economy has hit this segment more than any others because the advertising spends have gone down and this product which is used mainly in flex kind of material, the demand is really slow. In the coated fabrics, some of the issues are for us to resolve and we are looking at this segment seriously to make sure that the performance improves in the ensuing quarters. A reversal in economic activity would lead to enhanced utilization level enabling us to report better performance.

Segment Results (Packaging Films Business)

Coming to the Packaging Films business, all of you are aware that it is a highly cyclical and commodity business. So it has its ups and downs. Revenues were lower by 4% at Rs.176 crore as against Rs.184 crore in 2014. The operating profit was higher by 14% at Rs.16 crore compared to Rs.14 crore in 2014. Overall, the performance in the segment was stable with steady domestic demand. Margins remained range bound given increase in global supplies. Globally our facilities in South Africa and Thailand are reporting positive performance. We are glad to share that the South Africa facility has registered a turnaround and the unit has generated profits during this period. With huge demand supply mismatch and SRF being the only major player or manufacturer in

South Africa for the product we make there, incidentally the product we manufacture here is BOPP, we are comfortably placed to cater to the local demand and further improve our performance in this subsidiary.

Some of you who may have joined this call for the first time let me clarify that in our packaging film business the entire domestic business is in BoPET films. The Thailand plant is in BoPET film. South Africa is the first venture in BOPP films and to that extent it was a diversification in geography, diversification in customers and diversification in products, and that is why we went into South Africa.

I would like to conclude by stating that we have successfully built a strong multi-business entity with an increasing global footprint having leadership position in most of its business segment. We continue to build on our R&D strength and enhance our focus on high value specialty chemicals and adjacent and developing businesses in this particular case would primarily mean pharma. We have already invested around Rs. 1,300 crore till date at our Dahej complex, which I had mentioned this earlier is expected to significantly contribute to our performance going forward.

On that note, I conclude my remarks and would like to thank you all for joining us on today's conference call. We would now be happy to discuss any questions, comments or suggestions that you may have. Thank you very much.

Moderator: Thank you very much. The first question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Good afternoon Sir. Congratulations for very good set of numbers. Sir, can you give how much HFC volume did we produce in second quarter from the new plant?

Rajendra Prasad: From the new plant, I will give a little bit of a recap. The plant capacity is about 12,500 tonnes. For convenience sake let us consider 12,000 tonnes. That means about a 1,000 tonnes a month and you would recall that this production at the reactor level is in to two lines of production of what we call two trains. One train was commissioned in March and the other was commissioned in this financial year. Between the two trains we produced around 2,500 tonnes of HFC134a and from the old plant at Bhiwadi we produced close to 1,000 tonnes. So total HFC134a that we produced during the year is around 3,500 tonnes.

Dikshit Mittal: We did 3500 Crores?

Rajendra Prasad: We have done 3500 tonnes.

Dikshit Mittal: Sir like last concall you had given guidance that for the full year you will be doing around 10,000 tonnes in HFC134a. You said 8,000 to 10,000 tonnes?

Rajendra Prasad: It will be, I think, at the lower end of that. A lot will depend on how the US market develops. A lot will depend on that plus our other initiatives that we have taken in exports to other countries. It is still an emerging story. Having done 3,000 tonnes in the first six months when the two plants were still being stabilized and ramped up. It points to the right direction.

Dikshit Mittal: US anti-dumping duty, is it applicable or it will be applicable only after November final review?

Rajendra Prasad: Actually if you ask me whether it is applicable now or not is not that material because the season is over and most of the imports in the US, 75% of the annual imports took place before the duty came. So the people, the dealers and distributors and whole sellers who imported the gas are now in the process of liquidating that inventory. So I think everybody is waiting for that duty announcement to take place then only the thing will, in a sense, crystallize for them to make their final decision.

Dikshit Mittal: Normally what is the buying season for the US, it is December to March.

Rajendra Prasad: That is right. They want to stock up before the summer. No supplier can give them the entire thing between February and March so they start stocking up from December onwards for their summer.

Dikshit Mittal: Sir, coming to specialty chemical can you throw some light on how many molecules you have already monetized and any pipeline of molecule?

Rajendra Prasad: I think we will be doing about 20 molecules in the specialty chemicals space and like I have explained earlier it is this whole thing of how many molecules we have in the pipeline, in the funnel. Right now I would say we have over 50 molecules which are under discussion and in some form or the other being researched. There are about 10 or 11 molecules, which are at a more advanced stage which could be from customer having approved qualification batches or their testing batches and soon need to get into the pilot plant or the flexible manufacturing plant. There are molecules ranging between 50 in the funnel to about 10 or 11 which are closer to seeing the light of day. But when it happens and whether it happens in this financial year, because many of these productions that take place for these molecules are campaign based and the campaign is timed as per the schedule of the customer when he requires it. So he may approve a molecule get everything done, the customer gives us three months to put up or alter our pilot plant or a flexible manufacturing plant and then say that I want this supply of let us say 100 tonnes or 75 tonnes in the months of February and March. So the pipeline is looking pretty healthy actually.

Dikshit Mittal: Sir, the total capex in specialty chemicals, have we capitalized all of that or still something remains to be capitalized?

Rajendra Prasad: There will be because this Rs.253 crore that we have announced this year.

Dikshit Mittal: That is for this year. Last year Rs.600 crore, that is fully done?

Rajendra Prasad: Not Rs.600 crore of capitalized, that was Rs.660 crore. That was capitalized plus Rs.100 crore has got capitalized in this half year, which I used to mention that there is some overhang from the last year so that overhang has got capitalized now, that is Rs.113 odd crore and I think around Rs.27 crore of other capex have got capitalized in other business. They are not major & distributed in rest of the companies is only Rs.27 crore.

Dikshit Mittal: So, this Rs.113 crore plus Rs.250 crore you will be spending this year or that you already spent this year.

Rajendra Prasad: You are confusing between announcement, capitalization and spending. Rs.250 crore is the announcement. One of those will get capitalized by March. Second one will get capitalized in first quarter next year. So the spending pattern may be a lot different because much of expense takes place at the year end because in the beginning it is only LCs and guarantees which do the trick. So, cash flow may not be Rs.250 crore from the new capex. Cash flow of the overhang of the past may still happen. Broadly speaking I might end up spending Rs.250 crore as it is, but on two different counts.

Dikshit Mittal: Last question from my side on this South Africa you said you are already turned around, Sir but how is the performance in Thailand in second quarter?

Rajendra Prasad: Thailand is BoPET. Let me tell you, the BOPET film industry is going through one of it is worst cycles or let us put it this way it is probably at the lowest point in it's down cycle. So Thailand is producing well, selling well, margins are under pressure, that is what it is. So in our entire packaging films there are no operations related issues. India was doing near full capacity. South Africa produced around 1,800 tonnes in September and this is 85% or 90% of its capacity, doing around 2,000 tonnes and it is sold more than 2,000 tonnes. So answering your Thailand point, that margins are under pressure but this is what the cycle is all about.

Dikshit Mittal: Optimum utilization.

Rajendra Prasad: Exactly, We do not feel concerned about PFB from a margin point of view because we know it is a business and an environment issue and not an issue which has to do with us internally. In that environment what we are doing is we are doing value added products trying to change the mix. So we are doing both diversification of product and change in mix of countries. Because of that our head is still above water.

Dikshit Mittal: So Sir, full year combining South Africa and Thailand, so we will be ending the year in positive ballpark, from both these subsidiaries?

Rajendra Prasad: At EBITDA level definitely positive. At cash level also definitely positive. So the issue will be touch and go between if you charge depreciation or not. Whether that will be positive or not this is for Thailand. For South Africa it appears there also EBITDA is positive. After charging interest also it is positive. Some of the times we get hit because Rand is also a volatile currency. So sometime we can get hit by that, but if all goes well both the units will be just touch and go PBT positive or marginally negative. It is not something to write home about and nothing like the 52 crore we showed last year as global negative. Last year if you recall there was a global debit or global losses which got accumulated in consolidated were around Rs. 52 or 53 crore so which is not what today Thailand and South Africa looking ahead.

Dikshit Mittal: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Vinit Sambre from DSP BlackRock. Please go ahead.

Vinit Sambre: Good afternoon Sir. On this packaging business you mentioned that BoPET is going through the worst cycle but during the last two quarters what you have observed is the absolute EBIT for the standalone Company has improved from Rs.10 crore to Rs.16 crore. The question is that although we may be lying quite low in terms of the cycle but is this sort of improving, is there improving trend which we are seeing here. What explains the growth in the increasing profit?

Rajendra Prasad: I will tell you. One is that like I mentioned earlier that we are choosing the right product and market mix. We have increased our sales to Europe. We have increased our exports where we know we get better realization. We are doing more of value added products and getting out of plain vanilla. I will give you an example. The entire market of BoPET film, 70% of the market is in 12 Micron which is considered the plain vanilla and common film. . In our case plain vanilla or 12 Micron is close to 30% odd and we have shifted from 12 Micron to 10 Micron and 8 Micron, which are more paying because they are more difficult to make and in 8 Micron, I think, I may be the only manufacturer in the country for 8 Micron. So, because of judicious product and market mix our realizations are better but to answer your question whether it is going to be an ongoing improving situation, today I cannot say because nothing goes on for perpetuity or for any distance of time. So it maybe that if we are able to maintain this, it is not bad. If we do better it is icing on the cake.

Vinit Sambre: Thank you very much.

Moderator: Thank you. The next question is from the line of Shaukat Ali from Quantum Securities. Please go ahead.

Shaukat Ali: Good afternoon Sir. Just wanted to know little bit about prices of caprolactam with crude prices falling very significantly over last 1.5 months so how it is going to affect our performance over the next two to three months and on a longer term perspective?

Rajendra Prasad: Good question, but I had once or twice mentioned earlier that technical textiles especially NTCF is a conversion game. So whoever converts caprolactam into final product, final fabric, whoever converts it cheaper is the last man standing. So when caprolactam prices go down what will appear is maybe your margins may improve but your quantum of topline may come down in absolute terms. That is why I do not pay too much importance to increase / decrease in turnover, in NTCF kind of products because raw material determines a lot of the selling price that you fix. If raw materials go down by 20% the selling price will almost go down by 20%. Now to answer your question on whether and how the reducing crude prices will impact us. It will impact us in two ways. One is immediate short-term and one is longer term. Longer term let me tell you they will benefit us for a variety of reasons because the tyre cost will become cheaper, the trucks will ply more, economy might boom. So, these are very remote and non-proximate causes which will be in our favor but immediately what will happen is we will end up sitting on inventory which has a crude component, bought at a higher level at a higher price. So it will affect our raw material that we have in inventory. It will affect our work-in-progress. It will affect our finished goods because till this inventory passes through most of the companies who are holding whatever inventory they are holding, then reducing crude prices will affect them.

Shaukat Ali: Are we going to see some inventory losses in the coming quarter especially in the packaging film and CPB business?

Rajendra Prasad: Not so much in packaging films. As it is we manage our inventories pretty closely except that in caprolactam different phenomena had occurred. One of the suppliers had actually told us that they would be having a scheduled shutdown and because of the scheduled shutdown we had to stock up the material till that supplier was closed. What ultimately happened is they did not shutdown at all. So we ended up holding inventory which is disproportionate or not like that we normally hold. In case of polyester chips, , we make our own polyester chips so we have to go one step back and see MEG and PTA kind of prices how they will get affected there. We do not hold too much of inventory. We do not buy too many chips. We buy MEG PTA but I think conceptually anyone who is holding crude based inventory in a reducing crude scenario could expect to see some losses.

Shaukat Ali: Thank you Sir. My question has been answered.

Moderator: Thank you. The next question is from the line of Kamal Gada from UTI Mutual Fund. Please go ahead.

Kamal Gada: On the quarterly numbers was there any one of other expense because they have increased?

Rajendra Prasad: Other expenses we have analyzed in detail. One thing I wanted to tell you, the other expenses bucket that we see in this published account is actually all other expenses other than variable and salaries and wages and power and fuel etc. So it is a huge bucket. Now when we analyze this, most of it, I think the number is around Rs.34 crore, whether you compare it with the same quarter last year, or when you compare it with the previous quarter of June the difference is about Rs.35 crore, except that the reasons are different. One of the reasons for June over this quarter is, when you value finished goods inventory there is an excise component in it. Now to offset that excise component you have to mark it as an expense also because it is actually unrealized thing lying in your finished goods. So, Rs.8 crore out of the Rs.34 crore is this excise. Then there are whole lot of other things like say freight. Freight is up by, I think Rs.8 odd crore. When we analyze this we saw that most of it has to do with upscaling of operations. So what was not there in last quarter operations, have gone up, so it is the level of business issue. In most of other expenses there is nothing one time in it. It also includes Rs.2.5 crore which we have spent this half year, in fact this quarter on CSR because we are looking to meet our expected quantum of CSR. As it is historically, the Company is quite active in CSR. So the Rs. 2.5 crore is in CSR which I will not call it one-off but it was not there in the last quarter. So that's it. Most of it has to do with business upscaling.

Kamal Gada: So it is meant to do with the business going ahead?

Rajendra Prasad: There is a large component of repair and maintenance. The part of that repair and maintenance is because of higher degree of operations and partly because plants got commissioned in March. These are our own technology. At times, to bring the chemical plant to an efficient and sustainable operating level you have to do a whole lot of things which you did not think of in design. Whenever you see a chemical plant commissioned you will see that it has a tail of higher maintenance so this is that part of repair and maintenance coming in, which is exceptional. So there is freight, there is repair and maintenance, there is excise and there is CSR.

Kamal Gada: In your chemical business the margins have improved by around 300 BPS on a QoQ basis. So, would you attribute this mainly to the specialty chemical business or it was more to do with...

Rajendra Prasad: Chemical business as a whole, actually let us say specialty chemicals, played a cardinal role and that also has two, three things. One is, maybe with the campaign in a product which had a higher margin in any case. The other is that the plants that we commissioned, not in March but before that, are becoming more stable, running at more volumes. In a chemical plant the moment you reach higher volumes the fixed costs get distributed. The growth, naturally, is in a sense exponential because fixed costs have already been met and then the question is how much you are passing through the same plant. So the older commissioned plant are naturally yielding better results and same way the Rs. 660 crore will, naturally, over the next few quarters again be stabilized or reaching stable operations. This is the pattern you will see as the sites develop further. Not only for immediate ones but I think going forward that is the characteristic of chemical plant.

This is on specialty chemicals. Now on chemicals which includes the refrigerant gases and chloromethane. Chloromethane have also done exceptionally and unusually well. These are totally cyclic, and chlorine prices effected totally. It is at local demand so that is not something that you can hang your coat on, but the fact is that it is something that has worked this time. R22 prices have been very stable. What also happens at times is as you enter a controlled regime, R22 now is already controlled and will become further controlled from 2015, the people who produce what they are permitted to produce, at times, benefit and as quota cuts come on consumption and production there could be further imbalances of demand and supply. So R22 did well. Chloromethane did well and specialty chemical with new campaign or campaigns which were hanging over from the last quarter got completed now had borne fruit.

Kamal Gada: Would you like to give any guidance on Dahej revenue for the next two to three years?

Rajendra Prasad: For Dahej or specialty chemical?

Kamal Gada: Specialty chemical.

Rajendra Prasad: Let me explain again for the benefit of others. Chemical business produces specialty chemicals and other chemicals both at the Dahej and Bhiwadi. So, in specialty chemicals, Kamal the thing is that we have been maintaining even in the previous calls that it has had a very good track record of growth over the last four, five years. We think we can sustain that growth in specialty chemicals for the next foreseeable future but as the denominator increases naturally keeping that percentage of growth could be difficult. So let us say last year the specialty chemical was around Rs.440 crore. Normally it has been doing 50% growth year-on-year over the last four, five years. The assumption would be that we should be doing Rs. 660 crore in FY2015. We should be in that ballpark figure but beyond that whether Rs.660 crore will become Rs.990 or 1,000 crore is difficult to say at this point.

Kamal Gada: That is fair enough and secondly this 3,500 tonnes of HFC134a whether that includes any exports I mean?

Rajendra Prasad: Yes. It includes about 10% exports and now 3500 tonnes is what we made. We sold 2,500 tonnes. Out of which about 10%, 250 tonnes was exported. This was not to the US in this quarter, it was to other markets. Let me also tell others that in October initial consignment to the US were dispatched but because of cut off dates etc., their sales are not part of the 250 tonnes of exports. They will come in the present quarter, but these are like proof of concepts kind of dispatches to get approved from some buyers who had already given us approval. One other thing you must know for 134a is that one of the Indian pharma manufacturers is the largest buyer of 134a in the country. The largest buyer of 134a in the country is not a white goods player. It is not a car manufacturer. It is a pharma company. We have got approval from that pharma company to supply propellant grade of 134a that it requires. We expect to, over a period, garner a substantial share of this that pharma manufacturer's need.

Kamal Gada: How much is that?

Rajendra Prasad: A substantial share to be 30%, 40%.

Kamal Gada: There you would be for storage purpose for what is the use for this?

Rajendra Prasad: Not for storage. These are used for asthma propellant. This is what is called MDI. The segment is called MDI, Metered Dose Inhaler. So in the cans which asthma patients use, in addition to the medicine, the propellant is 134a of pharma grade or another grade for which we have obtained approvals. So we will be supplying this. This is a new market in Indian context which has opened up.

Kamal Gada: The sales you would be doing is included in that your 8,000 tonnes?

Rajendra Prasad: That is right.

Kamal Gada: Lastly Sir how much would be the current liability component in our long-term debt in the standalone books?

Rajendra Prasad: I do not have them off hand but it is nothing to shake us at this point. The beauty of current component is all these things are known very much in advance. So our cash flows are already planned for this. They do not come out of the blue. Anything which does not come as a surprise is easy to handle and I think we will be managing this pretty well. I mentioned earlier also that there will not be an increase in net debt between March 2014 and March 2015. The increase will be anything limited to Rs.50 to 100 crore nothing more than that. So even if it is current component, I can borrow again, and it will be replacement debt without increasing the liability of the Company. The net increase in debt may happen to be only about maximum Rs.100 crore but likely in the region of 75 to 80 crore.

Kamal Gada: The higher inventories of Rs.700 odd crore?

Rajendra Prasad: Yes. That is because of caprolactam and little bit in I think polyester.

Kamal Gada: May be this consignment.

Rajendra Prasad: Yes. Again we have higher level because the Dahej site has seen different levels of activity. So naturally chemicals and what happens is because we are selling in campaigns. We will produce the whole campaign and till then you hold the rest of it in inventory. That is another reason. But nothing, again, nothing to write home about and we are again monitoring it quite closely. They will come down till

March and as caprolactam gets used up by February it will come into normal cycle.

Kamal Gada: Seeing your current investments plus cash around Rs.300 odd crore?

Rajendra Prasad: That cash is an exception. If you recall we had Rs.200 crore of NCD. We had Rs.200 crore of debt to be paid. Actually, it was not due, but we had a clause that with every interest reset rate we can repay it. So the repayment date was in October and we raised the fresh debt at a beneficial arbitrage in September. We raised Rs.200 crore in September which will get paid in October. It was just that what you see a Rs.200 crore of cash or mutual fund investment is only a temporary holding of Rs.200 crore. In this switch of loans also, we have benefited about 0.8% in interest.

Kamal Gada: What is the consolidated borrowing cost if I were to?

Rajendra Prasad: Consolidated borrowing cost domestic will be around 5.6%.

Kamal Gada: On a consolidated basis?

Rajendra Prasad: That is right and that also has gone up from 5.4% from last September 2013 quarter because whatever little borrowing that we have done we have done in rupees and the rupee borrowing is higher and if you see global borrowings it will be even lower because that is in foreign currency. In absolute terms interest rates are lower and they are to be settled overseas only. As a group we have $85 million from IFC which is at L+2.7% and balance we have from others which are equally at similar levels. So they are very, very competitive and fine prices. Let us say we are raising, even the Rs.200 crore NCD that we have raised was extremely, extremely fine and we have raised CPs recently. With the NCD which is a three year NCD was single digit rate, Indian rupees single digit rate. Our CPs are raised again at single digit rate for 90 and about 110 days.

Kamal Gada: Thanks and all the best Sir.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Can you just again tell me the total capacity for R134a?

Rajendra Prasad: The one at Bhiwadi is 5,000 tonnes. The one at Dahej is 12,500 tonnes. The total capacity is anything 17,000 odd tonnes.

Dheeresh Pathak: Last year we did only 3,200 tonnes?

Rajendra Prasad: Because Dahej capacity came on line only this year.

Dheeresh Pathak: This year out of 17,500 tonnes you are saying you will sell 8,000 tonnes?

Rajendra Prasad: That is what we are saying because the Bhiwadi capacity then may not make sense to carry on. This capacity of 12,500 tonnes is like an elephant. It is an elephant even by global scale and it has its own efficiencies not only of the technology used in it but also the volume. So what we produce in Dahej in the new plant is much cheaper than what we produce in the old Bhiwadi plant. So till we reach a demand figures close to our capacity at Dahej, which we expect to achieve by 2015-2016, I should not be running both the plants.

Dheeresh Pathak: So then it will be scrapped or it will be used for?

Rajendra Prasad: Which I have actually explained earlier; there are two, three options which are available. Either I can scrap it like you said, other is I can convert it to make another gas and there will be some capex required there, or I can shift it from here to Dahej and make 17,000 tonnes in Dahej itself, so all three options are available. A lot will depend on how the market pans out. If the US market actually pans out and there is a pressure on production we will run this plant because what I mentioned about 8,000 to 10,000 tonnes meant ramping up of 12,500 tonnes. So when you look at 12,500 tonnes you read what the book tells you and which is 12,500 tonnes, but when you ramp up a chemical plant the annual output is not even expected to be 12,500 tonnes in the first year. It is expected to be 6,000 to 7,000 tonnes in the first year. So that is the point. In the first year if that gives me may be 8,000 tonnes and I do 2,000 tonnes from Bhiwadi I would have done 10,000 tonnes. That is the mix. I do not look at 12,000 tonnes as the first year capacity. That is the point.

Dheeresh Pathak: The second is that how much can be sold in US and how much higher realization?

Rajendra Prasad: Extremely good question. If we could answer that, I mean we will be making sales contract to the US now, but I will give you the thumb rule and then we will monitor it quarter-on-quarter along with you. The HFC 134a demand in the US is close to 110,000 tonnes. Just for calculation sake let us assume it is 100,000 tonnes. China used to export 15% or the US would import 15% of it is demand from China. So, 15,000 tonnes was being exported by China. There were US manufacturers also who are producing lesser than their capacity. Once China with 15,000 exports to US is no longer a player in that market maybe the US manufacturers will ramp up their own capacities. Some of them had already discarded the plants or converted them to make something else. So, some of that 15,000 will be taken by the US manufacturers because the price will be attractive as compared to earlier. If we assume we occupy 40% of that 15% I should be able to supply 6,000 tonnes. Indian demand totally is about 8,000 tonnes. I am now just sharing ballpark figures, common sense figures, that out of that 8,000 tonnes if I do 4,000 tonnes and I do 6,000 tonnes of the Chinese supply to the US. We will do 10,000 tonnes and I do other exports, even today I am doing other exports of 250 tonnes till now, and with greater emphasis on exports. I do more than 250 tonnes 500 tonnes per annum in other markets so my capacities are pretty fairly well utilized.

Dheeresh Pathak: The 6,000 tonnes will come at better realization than the current 4,000 tonnes?

Rajendra Prasad: I will again not make a comment whether in future it will be better or worse. I will tell you what exists today. China used to sell to the US at around $2.60 cents per kilo. The duty being spoken about is anything between 130% to 284%. So if you apply that on $2.60 cents you can make your own calculation.

Dheeresh Pathak: Currently your domestic realization is how much?

Rajendra Prasad: Domestic realization is in the ballpark figure of $5 plus minus little bit. Export to other market is not $5, it maybe a little lower. For us export market today to other countries other than the US is not that beneficial as the US market or the domestic market for us, but if you have to see what also happens in chemical plants I have stated this earlier, if you increase throughput efficiency improves. Just to use my 12,500 tonnes plant by making sales at lower realization my costs will come down because I will be able to make and sell more.

Dheeresh Pathak: When we are giving details in the annual report we give a breakup of fluorochemical and commodity products. Now, does it include PCE / TCE?

Rajendra Prasad: Yes. It will include PCPC. , It will include carbon tetrachloride CCL4, it will include chloroform, it will include MDC, which is methyl dichloride. So, these are the other commodity chloromethane.

Dheeresh Pathak: Earlier you said that base gets bigger and therefore it would not be fair to expect 50% compounding from that on but on a like a bigger picture if you can sort of like in FY 2015 you will be roughly $130, $140 million revenue from chemicals (CPB). Now looking at the global opportunity and the suppliers that you will gain market share from may be five or six years down the line what is the size that it can be can it be at $500, $600 million business or it can be much bigger or can it be much lower. What is your sense?

Rajendra Prasad: See again. How far in the future you can see depends on your binocular or the telescope that we use. In today's uncertain market we do not get very powerful telescopes. So at best you can see one year or two years ahead. Like I mentioned, if this year, God willing, closes at 50% and the next one closes at 50% growth, you will be at more than Rs.1,000 crore by end of 2016.

Dheeresh Pathak: I want to understand is how do you size the market for example if you are doing $133 million what is the total size, which is your market share of this kind of?

Rajendra Prasad: Again, those frontiers have not yet been explored. The way we see it if the frontier is so far one does not need to bother too much because the limiting factor is your execution capability. Right now we do not see a limit, as they say we have not plumbed the depth of the ocean yet.

Dheeresh Pathak: Recently Piramal and Navin Fluorine had a tie up for fluorine chemistry for pharma companies like what we do for pharma. So is that something that we are exploring?

Rajendra Prasad: Are you attending this call for the first time may I ask?

Dheeresh Pathak: No. I have attended it before.

Rajendra Prasad: Very good. Second time then you missed the first act. I have mentioned this that we are in this business, so as Navin Fluorine, for the last 30 years understanding the fluorine molecules. At some point the path differed a little bit where we decided to explore and make 134a on our own. No other Company went down that route and in the process of wanting to make 134a we set up a team growing from three people to 20 people and once 134a got made they wanted something else to do and they went into exploring and making newer molecules out of fluorine. So our R&D experience purely around fluorine is 14 years, which other companies do not have in that respect plus all the errors, losses and all the expenses that we have made as a learning process, others are still to go through. Those are not documented in the public space. So cost of those errors, the time taken to make those errors and learn, still people have to do that journey.

Dheeresh Pathak: But is that experience of handling R22 which everybody was doing before?

Rajendra Prasad: No. It is a different ballgame.

Dheeresh Pathak: So we are not doing anything as a Pharma Company?

Rajendra Prasad: About 10% of our output goes to Pharma Company in specialty chemicals. One of the ideas is to diversify from agro into pharma to change the mix of 90% & 10% to something like 80% & 20%, 75% & 25%, but it becomes more and more challenging as the size of pie expands. So, as the size of pie expands the size of share, the change in the size of share becomes more and more difficult. To change the mix from 90% & 10% to 80% & 20% in a stationary pie is relatively easier. The size also expanding, putting on pharma which will offset the agro growth is challenging, but that is one of our directions.

Dheeresh Pathak: Do we have the capabilities to make products, which going to anti-reflective coating?

Rajendra Prasad: I beg your pardon. I did not get your question.

Dheeresh Pathak: Do we have the capabilities to make products in fluoro-specialty chemical that have been and use that going to anti-reflective coating because you understand that is one which has very high realization?

Rajendra Prasad: Yes. We have the capability. What is happening over a period that fluorine based chemicals are finding more and more uses and highly diversified use. So we have now become a multi-customer, multi-product, multi-application fluorine chemical's manufacturer. More importantly whether I make a particular chemical is less important but what is more important is whether I have the ability to make that chemical in-house, which is what our bench of 200 people signify, the ability to make and ability to make at short notice and deliver as per customer requirement. One of the reasons I might share that freight, someone asked on other expenses, freight is up is because of our customer focus. We air freighted certain tonnes of goods because the customer target date was sacrosanct. We have the ability to make anti-reflective or the chemicals that go into coating, cell phone screens and computer screens. I think you mean that.

Dheeresh Pathak: Yes because they have like multi time much more realization then currently we do like $40 per kg?

Rajendra Prasad: Exactly. We do have and it is only a question of priority. The story does not end at can you make it. Issue is do you have the plant, then do you make it in your flexible manufacturing plant, how much quantities are required. So there are whole lot of issues and opportunity cost attached to it.

Dheeresh Pathak: Lastly Sir. Thailand plant would be running at what utilization did you say?

Rajendra Prasad: I think Thailand plant would be running over 90% and South Africa like 2,000 tonnes constitutes I think 90% or 92%, so both are the same. The plant capacities are similar and both are producing around 2,000 tonnes each. Thailand produces a little bit more and South Africa produced 1,800 tonnes in September.

Dheeresh Pathak: Both were put up with the capex of $125 million cumulatively.

Rajendra Prasad: That is right; around $130 million.

Dheeresh Pathak: Thank you Sir.

Moderator: Thank you. We will take a last question which is from the line of Paresh Jain from Max Life Insurance. Please go ahead.

Paresh Jain: Good afternoon Sir. Congratulations on phenomenal set of numbers. Just a couple of questions, number one in packaging in India we are operating at full capacity; are you thinking of putting up new line?

Rajendra Prasad: Let us say, no. I am just thinking how to answer your question. If I put new lines, I put up more capacity in the market, which may not be the best thing to do at this point of time, like I said there is excessive oversupply.

Paresh Jain: In Indian how is the demand supply situation like?

Rajendra Prasad: See in this product the growth is there, but if the capacities far outstrip the consumption it will take a lot of time for demand to catch up with the supply and then if people come and put up new plants, we are adding to the capacities and again creating a situation of excess supply. So, the other alternative possible is where you can increase your own capacities of production without adding directly. So we will have to see this is something. This is a question which is still in the air but I do not think it is likely to happen in the immediate future.

Paresh Jain: Because if my understanding is correct then any new capacities that you put would take at least two years to come on stream?

Rajendra Prasad: May be for us a little less, but yes the ballpark it will 18 to 24 months.

Paresh Jain: Ballpark so even if the industry is operating at 75% so in the next two years assuming everything goes well we would be closer towards 85, 90 % capacity utilization at industry odd level?

Rajendra Prasad: But what is to be seen is that this is a global commodity. Here, we should see global supplies and global demand, regional supplies, regional demand and then domestic supplies and domestic demand. So, the moment the prices go too high everybody and their brother will step in exporting into India.

Paresh Jain: On Dahej capex of Rs.1,200, 1,300 crore that you have spent Rs.660 crore what we capitalized last year right and out of the balance remaining Rs.130 crore have been capitalized till date?

Rajendra Prasad: Yes. Rs.103 crore. Rs.113crore is the planned capex which we announced.

Paresh Jain: So roughly another Rs.450, 500 crore is yet to be capitalized?

Rajendra Prasad: How do you come to that conclusion?

Paresh Jain: Sir because you said Rs.660 crore last year and Rs.103 crore in this quarter?

Rajendra Prasad: I have already capitalized Rs.1,200. You are doing Rs.1,200 minus Rs.660 crore or whatever. Rs.1,200 crore I have already capitalized. It includes Rs.660 crore. Rs.103 crore we have done in this half year and Rs.113 crore and Rs.140 crore of new capex's which have been announced.

Paresh Jain: In 1H how much has the specialty chemical business grown by, has it grown by 50% odd?

Rajendra Prasad: Yes.

Paresh Jain: In terms of molecules you said that you are doing 20 molecules?

Rajendra Prasad: No. I said 10 or 11.

Paresh Jain: 10, 11 is what your selling out of it.

Rajendra Prasad: No. We are selling 20. 10, 11 are in the pipeline at lab or pilot that kind of scale.

Paresh Jain: But you are selling externally 20 odd molecules.

Rajendra Prasad: People on the call must note that all 20 molecules are not sold at the same time. They are sold campaign wise and at times there may be only 3 molecules or 4 molecules which are active.

Paresh Jain: Thank you and all the best.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I would now like to hand the floor over to Mr. Tejas Sheth for closing comments.

Tejas Sheth: On behalf of Emkay, I would like to once again thank SRF management for joining me this opportunity.

Mukund Trivedy: I would like to thank everyone. Hope we were able to answer your questions satisfactorily. If you have any questions you can write to us or to Tejas. We will try to be to respond later. I think we will also be sharing the PPT with you and it will be uploaded on website. Thank you once again for taking time to join us.
