



“Gujarat Fluorochemicals Limited Q2 FY 23 Earnings Conference Call”

October 19, 2022



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MR. MANOJ AGRAWAL, CHIEF FINANCIAL OFFICER
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MODERATOR: **MR. ARCHIT JOSHI –**
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Moderator: Ladies and gentlemen, good day and welcome to the Gujarat Fluorochemicals Limited Q2 FY'23 Earnings Conference Call, hosted by Batlivala & Karani Securities India Private 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 an operator by pressing "*" and then "0" on your touch-tone phone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Archit Joshi from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, sir.

Archit Joshi: Thank you. Good evening, everyone. On behalf of the B&K Securities, I welcome you all to the 2Q FY23 Earnings Conference Call of Gujarat Fluorochemicals Limited. I would like to thank the management for giving us the opportunity to host this call.

From the management, we have with us today, Mr. Vivek Jain, Managing Director; Dr. Bir Kapoor, Chief Executive Officer, Mr. V.K. Soni, Head of Projects and New Initiatives; Mr. Manoj Agrawal, Chief Financial Officer; Mr. Vibhu Agarwal, Head of Investor Relations.

Without further ado, I would now hand over the floor to the management for his opening remarks, post which, we can have the floor open for a Q&A round. Thank you, and over to you sir. Thanks.

Manoj Agrawal: Thank you very much B&K team. On behalf of Gujarat Fluorochemicals Limited, I would like to extend a very warm welcome to all of you. We are happy to inform that Board of Directors of Gujarat Fluorochemicals Limited had a board meeting, approved the financial results of the company for the quarter and a half year ended 30th September, 2022. The financial results were uploaded on the website of the stock exchanges, as well as the website of the company. We have also uploaded earnings presentation for Q2 FY23. I will take you through this presentation initially and then we can open the call for any questions that you all might have.

We are starting with the financial highlights at the consolidated level for the quarter ended 30th September 2022. The consolidated revenue for Q2 FY23 was at INR1461 crore, up by 52%. Consolidated EBITDA for Q2 FY23 was at INR536 crore, up by 81%. EBITDA margin for Q2 FY23 were at 37%, up six basis points on YoY basis. Consolidated PAT for Q2 FY23 was at INR357 crore, up by 74% on YoY basis.

If you look through a detailed overview of the financial performance during the quarter for each of the business verticals in which we operate, in Caustic soda, the Caustic soda revenue for Q2 FY23 stood at INR189 crore, as compared to INR102 crore in Q2 FY22, up 85%. Chloromethanes revenue for Q2 FY23 stood at INR80 crore, as compared to INR122 crore, in Q2 FY22, down by 34%. Refrigerants revenue of Q2 FY23 stood at INR268 crore, which was at INR92 crore in Q2 FY22, up 191%. PTFE sales for Q2 FY23 were at INR443 crore, as compared to INR360 crore in Q2 FY22, up 23%. The New Fluoropolymer sales were at INR341 crore, up 87% as compared to INR182 crore in the same quarter previous year, that is Q2 FY22. Specialty Chemical sales is up by 75% from INR65 crore to INR114 crore.

Similarly, on the RoCE and RoE front, the RoCE is improved from 24.46% to 36.88%, and RoE is improved from 20.10% to 29.05% as compared to FY22. On the debt front, company remains virtually debt free with a net debt-to-equity ratio at 0.3. The working capital cycle which got improved significantly during the last quarter, maintained in

this quarter also at the same level of 119 days, as compared to 120 days, as on 31st March 2022.

On the CapEx and expansion side, the additional capacities commissioned for FKM, PVDF and FPA during the quarter are under stabilization and sales are expected to ramp up from Q3 FY23 onwards, and similarly, on the Specialty Chemical front, commissioning of new Specialty Chemical plant, which we had actually originally planned in Q2 FY23 got spilled over to Q3 FY23. These are now commissioned and expected to regularly ramp up production in upcoming quarters. We expect with all this, company is poised to offer a sustained business growth with superior financial performance.

So that, ladies and gentlemen, is a walk through the presentation. I would like to open this up for any questions that you might have, which we'll try to answer. Thank you.

Moderator: Thank you, sir. We will now begin the question-and-answer session. We have the first question from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Good afternoon sir. Thanks for taking my question. Couple of them. First on the Refrigerant gas side. Despite Q2 being a very seasonally weak quarter, we see that the revenue growth has been quite strong. I think some of it is R125. But overall, we thought that this could be a more of a softer corner, but it looks like it has done phenomenally well. Can you help us understand what's driving the growth in the refrigerant gas, even in the very weak seasonal quarter? Is it the shortage of the product? Is it that in a seasonally weak quarter, they are getting a slightly better pricing than what it will be in the seasonally stronger quarters? So, what is driving this unusually high growth in HFC?

Vivek Jain: See, Sanjesh, the main growth is coming from R125, where we are largely exporting to the U.S. and we have had orders which were to be executed during this quarter, which is what we were able to fully execute. So that is the reason why sales are there. And I think that this is a pattern which will continue in the future quarters also. May be, there might be a dip for a month somewhere, but otherwise, by and large, quarterly performance should be fairly robust. R22, of course, again, July, August, September, sales are still not so much down from a refrigerant point of view. There is some impact in October, November, December for sure. But July, August, September is normally good sales for refrigerants.

Sanjesh Jain: No, but I think R125, now, where are we in terms of capacity utilization, in terms of production and sales? And do you think this prices in HFC, particularly, R125 and R32, are they now stabilizing, going up, or have they shown any sign of weakening anytime now?

Vivek Jain: I don't see any signs of weakening. I think they will stabilize at this level now. You know the prices should remain stable. At this point of time, that is what I can say. I don't see any substantial upside or downside on these prices.

Sanjesh Jain: And we thought that the R125 prices went up partly because of significantly higher power cost, freight costs and all those things, and some of them have already started showing some corrections. So, are we not seeing some of those benefits getting passed through or it's purely the demand-supply which is driving the prices in the R125?

Vivek Jain: See, largely demand supply, but also, the customers will also negotiate. They negotiate to try and see that you can bring down your prices, given the fact that there might be

some reduction in some costs, like logistic costs, etc. But whatever we are seeing is may be the difference, it could be plus or minus, a \$1, \$1.5, not something significantly more than that.

- Sanjesh Jain:** Great. Great. Second question on the New Fluoropolymers. Sequentially, it was flattish. While we have added capacity, two question there. Can you help us with what has been the capacity addition in the New Fluoropolymer for this quarter? And number two is, despite capacity addition, I know we said that we are stabilizing the plants. So, from Q3 onwards, should they start adding materially to the revenue growth?
- Vivek Jain:** Yes. From Q3 onwards, may be from 15th November onwards, two new additional reactors, which we are commissioning for FKM would start coming in and we should see additional sales happening in December and from January quarter onwards, I think the full benefit of that capacity expansion will be evident.
- Sanjesh Jain:** So, what is the capacity we have added in...?
- Vivek Jain:** So, in FKM, we are adding 200 tons per month additional and in PVDF, we are adding another 100 tons per month, which will come in line by may be about January next year. It will be commissioned January next year. And there is some additional capacities which we are commissioning in PFA, for which also the product out will be from January onwards.
- Sanjesh Jain:** And have you added anything in the first half? In the gone two quarters, have we added any capacity in FKM, PVDF and PFA?
- Vivek Jain:** We had added capacity of I think almost 200 tons in April also, April, May, which, where you saw the bump up in FKM sales happening in from the quarter, April to the last quarter.
- Sanjesh Jain:** We were 800 metric tons when we ended FY22.
- Vibhu Agarwal:** No, we were 700 tons, Sanjesh, when we ended that and we guided that we will be 1500 tons by the end of this year. The addition will keep coming through the year. We have added some capacity. Today we would be at around say tough, but 900 tons to 1000 tons, adding another 200 tons to 300 tons. By the end of this year we will be at 1500 tons. That is how we should look at.
- Sanjesh Jain:** Got it. So, from 700 tons, we are already at 900 tons to 1000 tons and by end of this fiscal year, we should be at 1500 tons. That is fair enough.
- Vivek Jain:** Close to 1500 tons. Well give or take one month here or there because there is sometimes always some delay or the other which takes place in commissioning. So, give or take one month, I think we should be there. That is what we are targeting. And ramp up of production and sales from there could happen over the next six months thereafter.
- Sanjesh Jain:** No, that's fair. That's fair. We understand that it takes time for stabilization, approval, audit at all.
- Moderator:** We have the next question from the line of Harsh Shah from L&T Mutual Fund. Please go ahead.

- Harsh Shah:** Just two questions from my side. First is on the margin side. So, our margin in this quarter also was very impressive and the prices are also holding up quite nice. Entering H2, where do you see the margins going to? Will it stabilize at 36% or you think with the ramp up of further new capacities, there is still some room before we end the year?
- Vivek Jain:** See, frankly speaking, it is difficult to say but as we have maintained earlier, we will, even with our expanded capacity, etc., which are coming up, we should be able to maintain a margin in excess of 30%. That is for sure. That is what I have stated even earlier. We were at 31%, 32%. I think our margins will remain upwards of 30%. Whether they will remain a 36%, whether it will go down to 35%, will go up to 37%, is difficult to extrapolate at this point of time.
- Harsh Shah:** Okay. Okay. Sir, second question from my side, for at least this quarter or this half of the year, can you please help me understand the breakup of our growth between how much of that was volume driven and how much of that was value driven?
- Vivek Jain:** I don't have the numbers here just now.
- Manoj Agrawal:** It is an equal mix of both. See, we have got different number of products. So, it's fair mix of both, volume as well as price growth. We have got good prices in bulk chemicals and good growth in the New Polymer and Polymer business.
- Harsh Shah:** Okay. So basically, for this first half, we have done a revenue growth of almost 60 plus percent if I'm not wrong? So you think that it is equally divided? Yes, sorry, 50% is our revenue growth for first half. So, you think that is equally divided between volume and value?
- Vivek Jain:** Yes, volume and value both.
- Vibhu Agarwal:** See, on a year-on-year basis, that would not be the right comparison, because that 700 tons had come through the year, which is like commercialized in the first quarter.
- Harsh Shah:** Correct. Exactly. Actually, that was the reason why I was asking this question to get a better understanding.
- Vivek Jain:** And it will continue to go further up.
- Moderator:** Thank you. We have the next question from the line of Rohan Gupta from Edelweiss. Please go ahead.
- Rohan Gupta:** Sir, couple of questions. First is on, this the ref gases from Q1 to Q2, we have seen a remarkable improvement in revenue from almost INR196 crore to INR268 crore. Sir, it is all in the ramp up of volume of R125 or we have also benefited in any sort of price increase? And what is the current utilization of R125 including exports?
- Vivek Jain:** So, yes, of course, there has been a ramp up of R125 and at this point of time it would probably be at about 70%, 75%, 80% of capacity utilization.
- Rohan Gupta:** So, it means that there is further room for improvement in revenues from ref gases only by reaching to 100% utilization, right?
- Vivek Jain:** Yes. Yes.

- Rohan Gupta:** And sir, is there any possibility given the solid demand environment in R125, and you have also mentioned there is solid demand from in export market in U.S.? Do we have any room for further expansion in R125 In the current situation?
- Vivek Jain:** No, we have adequate capacity in R125 to cater to the demand which we are seeing in the next year. There is a certain amount of debottlenecking also which is in progress. So, I think we should be able to meet the demand coming up in the next year.
- Rohan Gupta:** How much is the scope of increasing capacity by debottlenecking further, which we are planning?
- Vivek Jain:** See, it's difficult for me to give you a number but maybe about 10% to 15%.
- Rohan Gupta:** Okay. And sir, in the pricing scenario, you see that remain solid in R125?
- Vivek Jain:** It appears to at this point of time. I see no great reasons why the prices will change substantially.
- Rohan Gupta:** And sir, do we have also plans to expand our refrigerant gas basket to improve or to cater to some other gases also to blend?
- Vivek Jain:** So, we have taken an investment decision to put up a new facility for making of R32 and equivalent capacity for the hydrofluoric acid which is going to be required for manufacturing this. This is likely to be commissioned by end of first quarter of calendar year '24.
- Rohan Gupta:** Q1 CY'24?
- Vivek Jain:** Yes. Q4 '23-'24.
- Rohan Gupta:** Okay. And sir, any idea on the capacity which we are planning to put in R32 and the CapEx?
- Vivek Jain:** Well, currently we are looking at a capacity of 10,000 tons.
- Rohan Gupta:** With the CapEx of?
- Vivek Jain:** Maybe the CapEx is something which we are still streamlining the numbers, but it should be in the region of about INR125 crore plus.
- Rohan Gupta:** And it will be targeting, sir, the domestic or export market?
- Vivek Jain:** Both.
- Rohan Gupta:** Sir, second question is on Fluoro Specialty Chemicals where we have seen some QoQ some slight decline. So, you had a run rate of INR119 crore revenue in Q1. This quarter, it is INR114 crore. Any particular drop or any delays in some shipments and how this business vertical is progressing, sir?
- Vivek Jain:** So, I think it's generally been flat in the last few quarters because as we mentioned, the new plants which were supposed to be commissioned, there was a delay, and generally speaking, this year the monsoons in Gujarat have been very severe. A lot of the projects which were getting implemented have got delayed by one month to four or five months. So, that unfortunately has been the story across the board. And you're even till the

- short-term back rains were continuing, that really has disturbed the implementation schedule for many of our projects. So, the new plants for the new capacities we were coming, we're supposed to have been commissioned in Specialty Chemicals has, as we speak just now, have been commissioned, we will see the ramp up of this business from these new plants to happen in the next one to three quarters. So, business growth will start being seen from the Specialty Chemical segment from this quarter onwards.
- Rohan Gupta:** So, sir, you are saying that it is constrained by capacity not from the demand? There is nothing changed in demand?
- Vivek Jain:** No, no, not capacity. The capacity of new plants which we are putting up. The new investments which we have put up, the plants which are under implementation. Because of the monsoon there have been delays in commissioning, and so, those plants, which were supposed to have been commissioned in the last quarter, are actually getting commissioned now, in this month. And so, we will...
- Rohan Gupta:** Otherwise, our capacities, I mean old capacities are fully utilized? That's what you are saying?
- Vivek Jain:** Yes, they are by and large, fully utilized. But those are for different products, these are for different products. The new capacities we are talking about are for different products, which are going to be sort of rolled out.
- Rohan Gupta:** And sir, have you also witnessed any increased traction in your Fluoro Specialty Chemical business, given the crisis, which we're seeing in Europe related to energies?
- Vivek Jain:** Not really. We have not yet seen anything substantial for that reason in the Fluoro Specialty business.
- Rohan Gupta:** And in Fluoropolymer?
- Vivek Jain:** In Fluoropolymer also, the demand, of course, continues to be good, but that has yet not been impacted by anything which is happening in Europe. So, as I mentioned earlier, we have a diverse --- we are across diverse geographies. So, what happens is, if a particular geography is slightly down, we have seen that we have the ability to make that up in other geographies. We can push more quantities in other geographies. And this has been the case up till now. So, even if there is some weakening in demand in a particular geography, we hope that we will be able to more than overcome it by shifting products to other geographies. So, we have a very, very wide variety. The range of products, as well as the customers, we have a very, very diverse portfolio of customers. So, for us to sort of shift some quantity from one geography to the other is practically feasible.
- Moderator:** Thank you. We have the next question from the line of Aman Vij from Astute Investment Management. Please go ahead.
- Aman Vij:** My first question is on the New Age Fluoropolymers. So, if you can talk about the number of customers we are engaged currently with PVDF battery grade and PFA semiconductor grade, as well as when can we see some revenue coming from these two new products?
- Vivek Jain:** So, in all fluoropolymers we have multiple customers. So, at this point of time for me to give an off-hand reply on how many customers we have in each segment is going to be difficult, but coming to be EV grade, battery grade, but we had mentioned that the grades have been developed. The grades have been sent for qualification to several

customers in South Asia and one or two laboratories in India, as well as industries in Europe. So, the process of, it is a fairly lengthy process of evaluation and testing and evaluation which is currently ongoing. We expect that we, in the January-March quarter, we should be getting feedback from some of the customers to whom test samples have already been sent. And we can and perhaps start commercial business from the second half of 2023, after the qualifications are over.

Aman Vij: And for semiconductor grade PFA?

Vivek Jain: Semiconductor, we have grades for various applications of PFA. We are again, for the semiconductor range are, samples have been sent to customers for their approval. We have done our own internal checks and we find that the quality is meeting their requirements. Typically, in situation like this, if there is something, some quality parameter deviation which is noticed by our customers, they point it out to us, and that is something which we then work on at our plant to rectify that and send the samples back again. So, it's a bit of a back and forth that takes place, but I think PFA in the next one to two quarters, we should be able to have qualifications for applications in semiconductor also. Just now, even for other applications, the demand is very strong in PFA.

Aman Vij: Sure, sir. The next question is, if you can update us on the solar film plant, as well as LiPF₆.

Vivek Jain: So, LipF6 plant is currently under construction. As we have said, we are expecting by again, first quarter of the next financial year, which is April, May, June, the plant should be commissioned, and we'll be able to send the samples across to customers for their approval. And once that happens, then we can start commercial production. But the plant is under implementation at this point of time, and we are hoping that mechanically, the plant should be commissioned by February next year.

Aman Vij: The solar film plant also, if you can talk about that.

Vivek Jain: The solar film plant, solar film facility will be ready by June next year.

Aman Vij: Sure, sir. The final question that I have is on the realizations of FKM, PFA and PVDF, if you can talk about the same in current year?

Vivek Jain: The realizations continue at this point of time. We have to see what happens in the next few quarters. But I mean, it's difficult for me to say at this point of time, again, what we'll do scenario, but I think FKM, the demand is fairly strong for our products. As we have been mentioning that we have developed so many grades of PFA now, which have been completely qualified by diverse customers in Europe and U.S. and even in Japan, of course, also in India. So, the demand continues to be strong. We don't have too much of an issue on the pricing at this point of time. And PVDF also, the demand is strong, and we hope that by the time we commission our second reactor which will happen in January, we will have enough of qualified customers to quickly ramp up the capacity utilization of that reactor also. Prices more or less stable.

Aman Vij: If you can give any range? Any range that you can give for these three products, sir? Range of the prices over the last one quarter?

Vivek Jain: FKM would be say about \$28 to \$31, \$32. PVDF would be similar range about \$30, \$28 to \$30. PFA would be something like about \$33 to \$35.

- Moderator:** Thank you. We have the next question from the line of Garvit Goyal from Invest Research. Please go ahead.
- Garvit Goyal:** Sir, my first question is, for last five quarters, it is great to see there is a continued growth in the top line and operating profit margins are also consistent. So can you please summarize the key drivers behind the same and how are these drivers look like to continue in the medium-term, say next one to two years from now? My concern is to ask this question because I simply want to know as our bulk chemicals has been significant contributors, and in last two quarters there is a significant growth in RFG as well. So, this goes and we know that there has been a rally in Caustic soda prices as well. So, can you please explain the future viability of this growth that we saw in last five quarters?
- Vivek Jain:** Well in terms of volumes, our growth is going to come up largely from polymers, fluoropolymers which is, mainly from the new fluoropolymers and from the battery chemicals which we start commissioning from the first quarter of the next financial year, from April, May, June. So once that is there, the real growth in the future will come. The other of course is, the fluoropolymers, other fluoropolymers will continue to grow because of the utilizing, there are multi-users of different fluoropolymers in the entire EV battery ecosystem. And later on, of course in the electrolyzer, hydrogen fuel ecosystem also.
- Garvit Goyal:** Okay. Good. And sir, what is our top line and bottom-line guidance for next two, three years? And how the profit margins are going to shape up for the same period?
- Vivek Jain:** I'm sorry, we won't be able to give that. We normally don't give futuristic guidance.
- Garvit Goyal:** Okay. Understood. And sir, you are talking about some R32. Sir, what is the size of opportunities and how we are looking at this thing?
- Vivek Jain:** So, I just mentioned that we are putting up a 10,000 ton plant and we hope that after the plant is commissioned in a year or two, we should be able to get into full capacity utilization.
- Garvit Goyal:** I think you were mentioning that it will be commissioned by the end of financial year '23.
- Vivek Jain:** Yes. '23-'24, by March '24. Yes.
- Garvit Goyal:** Okay. Understood. March '24, you're saying?
- Vivek Jain:** Yes. March '24. Yes.
- Moderator:** Thank you. We have the next question from the line of Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** Thanks for taking my question. Question, on the New Fluoropolymer business, on a QoQ basis, have the volumes, is it fair to assume the volumes have been flat on a QoQ basis in terms of sales?
- Vivek Jain:** Yes, because of the fact that we were not able to commission new capacity in time to be able to build up volume in the July-September quarter.

- Nitin Agarwal:** And sir, on the capacity that we installed, that we've already installed and commissioned, are we operating closer to peak capacity and peak installed capacity, commissioned capacity with New Fluoropolymers?
- Vivek Jain:** By and large, we have about 75% to 80% capacity in the last quarter again, because since we were in the process of commissioning these new additional capacities in PVDF and FKM. There was a shutdown, which had to be taken for our backward integration plant, which is VDF plant for hooking up. So that has been done. That shutdown, which was necessary for hooking up has been done. So now, as soon as these capacities were commissioned in this quarter, as I mentioned a few minutes back, about 200 additional odd tons from November, end of November onwards this year and PVDF from January of next year, we should see these additional volumes kicking in.
- Nitin Agarwal:** Okay. And sir, secondly, does the ref gas sales contract also includes some sales of R-142b gas sales also? The ref gas, does it include R142b gas sales also? Are we doing some of that third party sales also?
- Vivek Jain:** No, that doesn't include anything on 142 basis.
- Nitin Agarwal:** And sir, is there a plan incrementally to do that, going forward?
- Vivek Jain:** See, this is something which we constantly evaluate. We look at both our own internal requirements and internal availability. Our first priority is to ensure that we have enough R142b available for our own internal capital consumption which is for FKM, as well as PVDF. In both these two areas, we are expanding capacities, as I just mentioned. So, after these capacity expansions are over, which will be during this quarter and in January next year, we will then have to see what is the quantum of R142b which will be available for our surplus for sale outside. And if the prices are good, then only we will sell, otherwise we will not sell.
- Moderator:** Thank you. We have the next question from the line of Vivek Gautam from GS Investment. Please go ahead.
- Vivek Gautam:** Yes. Congratulations on good set of numbers and consistently coming after one quarter up the other. Sir, question was, that your sister company, Inox Wind you had extended loans and other things. Some positive trigger is happening in that particular wind energy sector, so as to and the IPOs are coming out. Will it help in reducing our old loans and related party transactions will come to stop?
- Vivek Jain:** Yes, I think on this issue I've stated a number of times, by March, by the end of this financial year, most of the related party transactions will be completely dealt with. So, as you rightly mentioned, there is an IPO, which is coming up in Inox Green and the promoters have also committed to something about INR800 crore into Inox Wind, which is essentially for repaying the loan which has been taken from the GFL. So, by the end of this financial year, the intention is to completely square off all these transactions.
- Vivek Gautam:** And sir, what has been the impact of the current Ukraine war, Russia war, positive or negative for us? Exports getting impacted? Freight costs also coming down? Any impact and what is the opportunity size and growth rate in the next few three, four years?

- Vivek Jain:** So, to some extent it has helped in Caustic soda, where because of higher energy prices in Europe, there is an export demand which has come up. So, it has helped us ensuring Caustic soda prices. As far as polymers are concerned, at this point of time, it's a bit too early for us to say anything. But as I mentioned, even the U.S. market and the domestic market, of course, are doing well. And also, the Japanese market. If there is some slowdown which comes up in Europe, that slack can be picked up by the other geographies at this point of time. Unless, of course, every geography is impacted by the recession or something, then I suppose, I can't say anything. But as it looks like, if there is some impact and there has been talk about recessionary concerns in Europe, if that, hopefully that impact will be mitigated by growth in our other geographies.
- Vivek Gautam:** And the opportunity size and expected growth rate in the next few years, sir?
- Vivek Jain:** So, already we mentioned, we are expanding our capacities on New Fluoropolymers in FKM, PVDF, PFA etc. So, these will provide future growth possibilities and as the EV battery manufacturing commences in India, Europe and U.S., I think that will be a very big opportunity for us to sell our EV battery grade PVDF, as well as other fluoropolymers also which are required in the entire battery ecosystem.
- Moderator:** Thank you. We have the next question from the line of Avadhoot from Newberry Capitals. Please go ahead.
- Avadhoot Joshi:** Thanks for the opportunity. Two questions about PTFE and FKM global supply scenario. Have you seen that, I haven't come across that there is a supply shortage in these two categories. Because I've come across few documents indicating automotives are getting forced measures from the suppliers in the Europe region. So, how is the supply scenario in these two fluoropolymers?
- Vivek Jain:** Well, there had been some supply constraints in U.S. and Europe for reasons of raw material disruptions, but despite that, the fact that our sales are robust is also because of the fact that there is not too much there is, in fact there is barely any new capacity, which has come up in Europe and U.S. for PTFE and FKM. And so, the growth which is taking place is the one which is also creating some supply imbalance.
- Avadhoot Joshi:** So, we will be able to capture that supply imbalance if we have that variants at our end, right?
- Vivek Jain:** Yes, that is right. That is why we are investing in additional CapEx.
- Avadhoot Joshi:** Understood. And second question is about cash flow conversion. I understand that we are going through a CapEx and the major of the funds will be blocked into the inventories. But what's the PAT to CFO conversion that we internally track and at what level we will be able to take it further? Sir, PAT-to-CFO conversion? At what level we internally, do we track it internally and at what level we would like to have it?
- Manoj Agrawal:** See, currently we don't have any specific target on free cash flow versus PAT because normally we are in a growth phase and our working capital quantitatively will increase as soon as the growth increases on the sales front. Similarly, we have got number of CapEx targets. So, we have to see that. So, based on that, our free cash flow will be fully utilized in either feeding the own working capital or the CapEx requirement.
- Vivek Jain:** So, by and large, what we are trying to ensure is that all our future growth takes place from our internal generation and not by external debt. So, to the extent that there is

room for us to grow, put in new CapExs, we will continue to use our cash generation for that purpose.

Moderator: Thank you. We have the next question from the line of Anant Jain, an individual investor. Please go ahead.

Anant Jain: Congratulations on a great set of numbers, sir and thanks for the opportunity. My first question is around two quarters back in the call, you had indicated that we are going to make a few changes which should create, which would actually result in large power cost savings for us in FY24. You did not give more details about that, but would you be able to share some details in terms of the quantum of saving that we are looking at? What mechanisms are we going to use to do that?

Vivek Jain: See, at this point of time, again, we are freezing our alternative supply arrangements. So, I would not like to talk much about it at this point of time, till that has actually been done. But that is progressing very well. And as I mentioned after maybe about once we have completed that in 18-months' time, we will have that additional power coming in which will be at a fairly far more reduced prices than what we are paying at this point of time, either to the grid or for our own captive generation.

Anant Jain: Okay. So, the question is more like, is it like internal heat recovery? Or is it going to be like...?

Vivek Jain: No, it is not going to be. We are tying up for additional power through a different source, which will significantly reduce our power costs.

Anant Jain: The second question is, in terms of Fluoropolymer capacity, you said that by FY23 end, you would have 1500 tons of Specialty Fluoropolymer capacity. How do you think this quantity, this will ramp up by FY24?

Vivek Jain: I think it will take about 12 months for all this capacity to be completely utilized.

Anant Jain: No, in the sense that new capacity addition by FY24?

Vivek Jain: Yes. I am talking about new capacity addition. Up to 12 months. It will be a ramp up process, and maybe for us, and by the end of the financial year, we hope that the entire incremental capacity will be converted into sales.

Anant Jain: No, I mean, creating new capacity in FY24, not the ramping up. Ramping up is very clear, that FY23 capacities will ramp up in FY24. Creating new capacities in FY24 for Specialty Fluoropolymer.

Vivek Jain: So, we will, most of this new capacity increase is likely to be coming in from two quarters. One is the de-bottling of the PTFE capacity which is currently on cards. And secondly is, additional capacity, which we'll be putting up for PVDF, for use by EV battery manufacturers. So, the that real demand is going to start coming from beginning of 2025, from January 2025, by which time we will put up additional capacities during the calendar year '24 to cope with that additional demand which will come in from 2025. So, that will be additional increase in capacities. There will be a debottlenecking which is going to take place in PTFE plants, that will increase for the capacities and we will be putting up some additional capacities in PFA. We are wanting to put two more reactors in PFA maybe by March '24.

- Anant Jain:** So, can you just repeat that capacity? Additional capacity in PFA and PVDF that we are looking to put up?
- Vivek Jain:** So, March '24, we will put up additional capacity of PFA. We will put up additional capacity of PVDF.
- Anant Jain:** The quantum in terms of tonnage? We'll end up '23 with 1500 tons. In '24, what will we end up with?
- Vivek Jain:** So, by end of March '24, we expect to double the capacity of PFA.
- Anant Jain:** So, like this 1500 tons will go to 3000 tons? If I get it right?
- Vivek Jain:** Yes.
- Anant Jain:** Okay. So, 3000 tons per annum or per month?
- Vivek Jain:** No, no. It is not 3000 tons. It will be about 2400 tons.
- Anant Jain:** No, that is only for PFA. I'm asking overall, for all the fluoropolymers.
- Vivek Jain:** PVDF will be much larger. Actually, PVDF we have to watch and see how the progress by commissioning of new battery capacity is there. Whether we put up, how much reactors we put up in '24 will be dependent upon that. But that is a continuous process. We will keep on putting up additional capacities of PVDF. The more as we see demand coming up, we'll keep on putting more reactors because in any case, the backward integration piece is all done and putting up PVDF capacity is modular. In six-months' time we can put up reactor. So, depending upon how the battery manufacturers commission their capacity, we will keep on adding more capacity for PVDF.
- Anant Jain:** Great, sir. One last question, if I may squeeze in, which is like, sir, looking at all this, we are currently doing this everything in our integrated complex. So, do you think that you know, we are looking to have plans for a much larger CapEx and in a new complex altogether? Do we have any plans for this?
- Vivek Jain:** We are trying to do this. The future expansion which will take place will have to be done in a new complex because, we have run out, we will soon be running out of land in our currently new complex. So, we are already in the process of selecting and finalizing additional land where we will house our CapExs coming up in the future years.
- Moderator:** Thank you. We have the next question from the line of Rohit Nagraj from Centrum Broking. Please go ahead.
- Rohit Nagraj:** Sir, first question is in terms of Q3. So, is there any seasonality factor due to holidays in Europe and U.S. and that might impact some demand for some of the products which are going to that geography? Thank you.
- Vivek Jain:** Yes, it's could. I mean, because, the December month, typically, in Europe and U.S. is muted. So, we could be, traditionally there, the October, November, December quarter is a bit slower than other quarters. But the pace of business starts picking up, again, typically, from January quarter onwards.

- Rohit Nagraj:** Right. Sir, the second question is in terms of the CapEx. So, as I understand, earlier, we guided for LiPF₆ by Q4, an end of 2022. But now, it's got delayed by a few months. So, across the board, the delay is primarily because of the heavy rains in Gujarat. And that's why some of the CapEx, which was there, earlier planned for this year, has got shifted to next year?
- Vivek Jain:** Yes. That's right.
- Rohit Nagraj:** Right. And sir, just one last clarification on the wind power project. I understand last quarter, we had indicated that 20 megawatts will be commissioned in Q2. So, any progress on that?
- Manoj Agrawal:** Yes. It is already, we have sought certain permissions which is underway. So, we expect in this quarter, we'll have those permissions.
- Vivek Jain:** So, we are trying to put, sort of there's been a change in plan. We are putting up this addition, this capacity, we are talking about in EOU because putting it up in an EOU gives us certain advantages, both in flexibility of using the power as well as some indirect costs benefits. So, that process of getting it getting the EOU clearance is on. Then again, you know, as it so happens in delays in getting a governmental approval. But, we hope that shortly we should be able to get that and before the end of the year in any case, all that will be commissioned.
- Moderator:** Thank you. We have the next question on the line of Marcel, an investor. Please go ahead. We have the next question from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Hello. Congratulations, sir, great numbers and great visibility of growth going forward. Sir, just one question, a couple of quarters back, one of the conference call, you mentioned about R32 being the moderating kind of products and, you know, as a company, we were not planning to get into it, the manufacturing side. Why now, we have announce this 10,000 tons capacity? Sir, what has changed our thought process towards this product?
- Vivek Jain:** See, one, we have done more extensive study in R32, because it has a very, very low GWP. The longevity of this, and the growth in demand in across geographies again, especially India, of course, India, this is going to be the prime at this point of time, the main substitution of R-22. So, that's one. And there seems to be a lot of demand in the Middle East, which will be for R410 which requires both, R32 and R125. And, other than that, some of the other geographies also, like the U.S., etc., they will also continue to use R32 for a longer period of time, simply for this reason that it is a very low GWP. If they have to keep to the GWP targets, it's easier for them to use more of R32 and curb the use of some other refrigerants, whether GWP is higher. So, for all these reasons, we see that there is a growth potential there. And that is the reason why we have, that it will also help us in supporting R125 business.
- Dhaval Shah:** Understood. Great. And sir, second question is, you mentioned about EBITDA margin visibility to some participant, you said 30% plus. So, is my understanding correct? So over a medium to long-term, you feel our company will maintain its margins at like 30% EBITDA minimum? Is my understanding correct?
- Vivek Jain:** Yes. That is what we expect. Who can predict the future? One, two, three years down the line, what happens, is something which is not predictable, but we reasonably expect

that we should be able to maintain. Given the portfolio of our products, we reasonably expect that we should be able to maintain this level of margins.

Dhaval Shah: Okay. Because what has happened is that one, two other, especially the chemical company like ours, pre-pandemic and post-pandemic, the margin trajectory has completely changed. And as investors, it always keeps us guessing, where could be the peak margins. So, I think, this sort of visibility from your side, about 30% of a base, will really help us.

Vivek Jain: So, the point is, as I mentioned, we think that with our portfolio of products and our product range, we will expect and the margins which are there in our business, we will expect that we shouldn't be able to keep to a 30% EBITDA margin. It's also not very easy, because there are barriers to entry into our business and it takes a long time to build this business, this customer base, get this qualification. So, we have a reasonable hope that we will be able to maintain this margin and some of our, the new expansions are taking place, again, are in areas where we expect the margins to be better and those are more sort of New Age kind of industries. So, we are hopeful that we will be able to maintain this level of margins.

Dhaval Shah: Okay. And sir, in terms of our, we have a great integration across different chemicals. Now, which would be those key raw material which would, might worry you in terms of its availability, in terms of for you to give a final product price to your consumer? That raw material can act a large change variable?

Vivek Jain: So, as you know, with our integration, that is one of the primary reasons why we are so integrated and why we keep on even with new products if you come up, we look at it integration is to ensure that we are in control of our raw materials, critical raw materials. And going forward also that will remain. So, there might be periods of time where we are dependent upon outside purchase. But, once we are able to sort of build the capacities for those critical raw materials, our dependence on outside supplies keeps on reducing. So, this is what we are doing. Even at this point of time, for instance, we are putting up a VDC plant, basically, as a backward integration for our entire R142b business. So, once that is commissioned, our dependences upon external supplies reduces. We are 100% on our own or maybe significant part is captively produced, so that we are only marginally dependent upon buying from third parties.

Dhaval Shah: Okay. And we also were in discussion with parties for long-term arrangement of lithium carbonate. So, are we already into it or?

Vivek Jain: Yes. Yes. So, that process is on. This takes time. So, the process of tying up is on. There is a very, very strong focus on that and I think in the next few quarters, we should be able to tie up some long-term supply sources for lithium. Before our big demand starts coming up, we would have tied up.

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

Manoj Agrawal: Thank you. We would like to thank you, all the participants for their interest in the company and we look forward for their continued participation. Thank you very much all the participants.

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