Transcript

Conference Call of SRF Limited

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Presentation Session

Moderator: Ladies and gentlemen, welcome to the Q4 FY14 results 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 – Corporate Communication of SRF 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 at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing * and then 0 on your touchstone phones. Please note this conference is being recorded. I would now like to hand over the conference to Mr. Tejas Sheth, Senior Research Analyst of Emkay Global. Thank you and over to you Mr. Sheth.

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 the opportunity to host this call. I would like to hand over the call to Mr. Mukund Trivedy. Over to you sir.

Mukund Trivedy: Thanks Tejas. Good afternoon and a very warm welcome to all of you. Today we have with us our CFO, Mr. Rajendra Prasad, who will be presenting and discussing SRFs performance for the last quarter and the financial year gone by. Since this is SRFs first conference call with investors, we are trying to provide comprehensive information about our businesses. And therefore it is only proper that we share some key facets of our history and legacy which we believe are an integral part of our identity.

SRF was promoted as an offshoot of DCM, which was the largest Indian business group with diverse interests and a legacy of more than 100 years. Having started operations in 1973 as a manufacturer of nylon tyre cord fabric, SRF over the years have diversified and today it is not only a multi business organization, but also a global entity with operations in three countries. We believe in professionalism and TQM is our management way in the company. To our credit, two of our businesses namely tyre cord and chemicals are the winners of the prestigious Deming Prize. Most of our products enjoy market leadership in India and some of our products also enjoy global leadership. And finally, the group, the promoters and the company are also known for their philanthropic activities and their contributions in the field of education. As promoters of some of the reputed academic institutions such as Lady Shri Ram College in Delhi, SRF Vidhyalaya in Chennai and The Shri Ram Schools in Delhi and Gurgaon, we are legitimately considered an advocate of quality education in India.

Now, before we proceed, a word of caution that many of our statements in today's discussions will be based on our expectations and assumptions and hence these are subject to risk and uncertainties. And let me also remind you that all the proceedings of today's call are being recorded and the call transcript shall be available on our website soon. I now invite our CFO, Mr. Rajendra Prasad to present his opening remarks, which will be followed by an interactive Q&A session. Over to you RP sir.

Rajendra Prasad: Good afternoon to all those who are participating in this call, a warm welcome to this call. As you are aware this is our maiden call for the year ending 31st March 2014. I assume all of you would have seen the results approved by our Board on 9th May. Let me begin with some key developments for the organization that will provide a new perspective and a new context for our understanding and discussion of the company's overall performance.

2013-2014 was indeed a watershed year for SRF in many respects. It was the year when SRF diversified its product portfolio and further spread its geographical reach. SRF packaging film business for the first time expanded beyond national boundary to set up two Greenfield over these plants, one in Thailand for BOPET films and the second one in South Africa for BOPP films. 2014 was also the first full year when the company reaped benefits of initial investment that we had made in the plant at Dahej in 2012. The site at Dahej in Gujarat is our largest manufacturing unit now. And we have only just utilized about 34% of the site. It was also the year when bulk of the CAPEX at Dahej was capitalized in the first wave of investment. With over 600 crores capitalized at Dahej in March 2014, the total assets on the ground are about 1200 crores. With the commissioning of our overseas plant, our profit numbers also reflect higher depreciation and interest cost from these two plants on a consolidated basis.

Last but not the least and one of the most significant points that I would be making during this call is that 2013-2014 was the first year since 2006 when there were no earnings from carbon credit or CER as they are known for SRF. Hence, absence of any income from CERs would reflect in any comparison with previous year's financial numbers. However, in spite of these revenues being missing from earning line, the standalone gross sales for 2013-2014 were higher than the previous year by 3% and by 6% on a consolidated basis. With this background I will now share our key performance highlights for the year.

As Mukund mentioned that this is the first call that we are having for I think a very, very long time and maybe the first ever call that I have had the privilege of interacting with you. The financial performance section may seem a little longer than you are accustomed to. This is mainly because I may need to explain the background or explain certain situations and put a context around those circumstances. We will begin with the key performance highlights. We will take up SRF as a whole first and then discuss its various segments.

- The net sales for the quarter for SRF standalone increased by 8% from Rs. 816 crores to Rs. 884 crores in comparison to the same period last year.
- Similarly, for the fiscal 2013-2014, while the standalone net sales of SRF increased by 3% as I mentioned earlier, on a consolidated basis it increased by 6%.
- Our consolidated income from operations decreased from 665 crores to 546 crores for the quarter.

- Our revenue from overseas units increased from 569 crores to 721 crores, demonstrating 27% increase.
- The operating profits for the international units decreased from 28 crores to 22 crores, appears to be 23% decrease, which I will explain later.
- Our exports from Indian operations decreased from about 1100 crores to 990 crores and this again a result of the absence of the carbon credit income, which was earlier, treated as export income.
- Today 29% of SRF India's total income comes from exports and that is without carbon credit.
- As stated earlier, mainly due to the discontinuation of income from carbon credit, the company's standalone PAT for the last quarter of 2013-2014 reduced by 26% from Rs. 72 crores to Rs. 53 crores.
- And standalone PAT for the same fiscal fell 16% from Rs. 259 crores to Rs. 217 crores.
- SRF consolidated PAT for the year fell 36% from 253 crores to 162 crores.
- Our standalone EBITDA margins for the year was 16%. Our standalone PAT margins was a little over 6%.
- In this volatile environment, we managed to reduce our interest rate from 4.7% to 3.93% globally.
- The long term borrowings for the standalone SRF stands at 987 crores and for the group at 1855 crores, our interest payment for the group has decreased from 99 crores to 96 crores.
- Our capital employed for the group has increased from 3300 crores to about 3700 crores.
- The consolidated net worth of the company has increased from 1970 crores to about 2070 crores.
- The promoters of the company today hold about 52.4% of the total equity.

A quick look at the changing business profile for SRF and this is being done, because this is the first call and I don't think in future calls this kind of a background would be required. In the last five years our group net sales has increased almost 60%. In these five years, the revenue of technical textile business, our major business increased by 43% from 1500 crores to almost 2200 crores. The revenues from chemicals and polymer business grew by 45% from 660 crores to around 956 crores. And the income in the first five years also included income from carbon credit. The revenue from our packaging film business in these five years increased almost three times from 336 crores to 883 crores. This is in sync with our overall business strategy to gradually reduce dependence on technical textiles by growing other businesses and of earning respect for our R&D capabilities, especially for specialty chemical business. And you will see that most of the investments that we have put are away from technical textiles and even if they are in technical textiles, they are away from nylon tyre cord fabrics. So, this is to introduce new segments and new lines within technical textiles. Most importantly, going forward SRFs profit margin is also expected to improve as the revenue from higher margins, knowledge driven, specialty chemicals increases over the coming years.

SPECIALTY CHEMICALS

We will now move on to the business segments performance highlights. We start with specialty chemicals, which have been growing almost 50% per annum for the last five years and holds a promise for the company. Specialty chemicals which I will call SCB, the revenue has increased 50% year on year, with 64 crores in 2010, followed by 96 crores, 138 crores, 283 crores in 2013 and this year too which has just closed, the increase is over 50%. This business is driven by R&D and essentially caters to agro and pharma sector. And our strength emanates from three or four characteristics of which are peculiar and particular to SRF specially. For more than twenty years, we have had experience of handling the fluorine molecules, which are one of the most hazardous compounds known to man and over ten years of pure R&D track record. Now, with a dedicated team of 200 employees covering research and development, pilot projects and engineering design team, in our view there is no material competition in India. China is also not considered a major threat. Hence this is a highly IPR and knowledge oriented business. And the confidence level of the buyers needs to be high in the supplier.

This business is characterized by high intellectual capital and margins based on our ability to make and quick turnaround to confirm ability to supply. Because, there could be ability to make, but one lacks the ability to convert the making ability to supplying ability, which includes running the product as a pilot, setting up the plant, engineering design etc. With increasing number of products available, cross selling among the existing and the new customers would increase the share of wallet. , it is a multi product to multi customer relationship now. R&D foundation is well recognized and our two facilities are also recognized by DSIR. Research & Development and engineering design teams comprise of over 200 employees and they are augmented by downstream engineering and product execution team. This entire chain from R&D to pilot to engineering design to setting up a flexible manufacturing plant, converting it into a main plant, all this is done internally.

Since this sector mainly contributes to the agro sector, I will highlight a few growth strengths. Pesticide market is predicted to reach 65 billion by 2015 at a CAGR of about 8% to 9%. The pharma industry is expected to grow 3% to 4% and higher in the emerging markets. There is a strong demand from customers in new products. And I must highlight also that the products we develop are actually initiated and triggered by the customers. They come to us with a specific request to make a product. We do the R&D to develop the product. The process is ours, the design is ours. And to that extent it differs a lot from CRAMS or Custom Synthesis. We believe that this business is at the cusp of growth. And we have reached the critical mass to be recognized as the world class supplier in this segment. Products are used in agrochemical product of major global chemical giants like Bayer Crop Science, BASF and Syngenta and a few pharma companies. By 2003, I have mentioned this earlier, the growth of 50% by 2013; the growth came only from a single site, which was Bhiwadi. And to achieve a growth of 50%, they were either introducing new molecules year on year or selling the same molecules in higher quantity.

In this business, the customer orders are fulfilled in batches or campaign. This is in the form of a clarification I want to highlight that because the product is made in batches or campaigns are done for customers, the performance of this business is to be viewed on an annual basis. It would be misleading to give the performance of this business in quarter, comparing one quarter with the previous quarter, because it is quite likely that the bulk of the batch was actually produced before the quarter end. But, because there were some quantities still to be produced, it actually got delivered and recorded as sale in the next quarter. So, when we are comparing results, this point needs to be kept in mind that this is not a steady and a continuous state of supply. But, I think as volumes pick up, this particular abrasion will be overcome as a larger size will enable us to kind of even out the sale. The new facility in Dahej is contributing increasingly to the growth of this segment. Bhiwadi, the other site which produces some specialty chemical, is now a site which is totally full to capacity.

Now, Dahej requires a special mention. Dahej is a place in Gujarat. It requires a special mention as, it is here where the investment is occurring and where the action is. And hence all investors should and creditors should be concerned at watching what is happening at this site. Over the past few years, company has announced investments aggregating around 1400 crores. Dahej is expected to be 291 acre chemical complex and that is the nature of the site. Total of 224 acres has been paid for and 181 acres, we have already taken procession at a total cost of 96 crores. 100 acres, out of that 181 acres, 100 acres are being presently developed for which we have committed 1400 crores. Of this 1400 crores, around 1200 crores have been capitalized by March, so that most of the capitalization took place in March 2014 itself, in the last fortnight. Balance whatever Rs. 200 crore is left is either CWIP or still awaiting to be spent. Plants at Dahej make multiple products, both in fluorochemicals and in specialty chemicals, which are niche products. One thing about this site, if you segregate the site, the expenses that have gone in till now broadly can be put into five categories. So, either they are infrastructure of a supporting nature or they are put into chemicals, fluorochemicals which are commodity in nature or they are being put into utility like power and effluent treatment plant or they have gone into R134a gas, which I will talk about in detail later. And finally they have gone into specialty chemicals as well. This was the breakup of expense or the nature of expense till now.

Going forward what is going to happen? Is the revenue mix of Dahej complex will change? Because, the future investments in Dahej will be centered around productive plants, not the supporting infrastructure, which actually doesn't lead to a turnover, a visible turnover. Then lower investments would be required in power and EPC and infrastructure of that nature and new plants will be in specialty chemicals and not in the lower yielding chlorine chemicals.

CHEMICALS TECHNOLOGY GROUP

These products can have multiple uses. They can either be sold as products or they can be sold as feed stock to other company or they could also act as feed stock to our own plant downstream. Now, this huge effort in R&D over the last ten years was actually propelled by an internal group which we now call Chemicals Technology Group, CTG. Now, CTG has been a silent performer, behind the success of specialty chemicals. And it continues to make breakthroughs and develop new technology. The journey in this CTG group, earlier it was called R&D, started around 2003 with an effort to produce a gas called R-134a. There was a time when CFCs, which was our R11 and R12, they were getting phased out and people were looking for a replacement and R-134a was a gas for which the technology was held by a few global majors. India and China started developing the manufacturing process or the technology to manufacture R134a refrigerant gas, which is HFC, on its own. We set up a group in 2003 and in 2006 we were able to produce R-134a. Once R-134a was produced, the team was redirected and grown to explore other uses of fluorine molecules. So, there is a history. We have been handling the fluorine molecules for the last twenty years making CFC gases. And then we put up a R&D team and that R&D team used its ability to manage fluorine to produce newer chemicals. This team has filed fourteen process patents for specialty chemicals during the year and the cumulative count of pending patents is 39. There are 39 pending process patents with SRF, patents.

Key sequence which normally is followed in this entire chain is, we get the customer query, we asses our capability to produce the product. We respond to the customer. We develop a lab scale production and get it tested. We then switch it to a pilot plant, so that we have a pilot plant at Rewari, which produces various products and can be modified in its construct. And then we put it to a flexible manufacturing plant, if the quantities required are small. Once the customer commits larger quantities over three to five years, then we construct a dedicated plant for that product. There has been a 27% increase in manpower, six technologies are ready for commercialization and fourteen pilot campaigns have been undertaken during the year. So, this is a high capability and high confidence team which has been developed.

FLUOROCHEMICALS

Now, we will come to the other part of the overall chemical business, which is the fluorochemicals. This business comprises refrigerants and chlorinated solvents. Here we produce R22, which is a HCFC gas, which is a gas in between CFC and HFC. And R134a, which is also a refrigerant. SRF has recently put, expanded its capacity in R134a at the Dahej plant. The aggregate capacity now in SRF for this gas is 17000 tons per annum. And for this new plant we have spent around 400 crores. Because we spent a lot when we created capacity which is way beyond our existing capacity, our existing capacity is about 4½ thousand tons, the new capacity is 12½ thousand tons, so it is only fair that I dwell on it a little longer.

One and why we thought of investing in R-134a. SRF is the only supplier in India. This is the key point. By setting up a plant of this size, we have actually put a stake in the ground saying that we are people who own this market. There is no viable and universally acceptable large scale substitute for R-134a. Even across the world, people are still grappling as to what gas will substitute R-134a as a refrigerant. A possible substitute which is being actively discussed is HFO, which is Hydrofluoroolefin, 1234yf. Now, this is a viable substitute as far as the properties of refrigeration are concerned. But, from a cost point of view it is not yet viable. It costs 80 dollars against 5 dollars of R-134a. I am certain that the prices will drop rapidly. But, they will still remain higher than R-134a. And then for developing countries to replace the gas that they use by a more expensive gas which may still be three-four times the existing R-134a is going to be a difficult proposition. Even though currently there is no published data, the HFO capacity today is at the pilot plant level, which is about 5000 tons commercially, 5000 tons per annum. The commercial capacity will still take time to come up. In the real sense, there is still no substitute for 134a, plus the new gas HFO-1234yf has some safety concerns about its inflammability etc., which still needs to be addressed. And it is demonstrated by the fact that even Europe which is most conscious and aware of environmental concerns has only now issued EDGAR regulation, which are becoming effective from 2015, which says that no new car will be produced with this gas. And even to this regulation, there is some kind of opposition. US has not joined in to directly mandate that 134a should be phased out and the new gas should be introduced. While it is expected US will do it, but there is no indication as yet. For, the developing countries, there is no regulation which exists. And generally the trend that has been that once the gas is phased out in the Western hemisphere, it takes about ten to fifteen years before it can be phased out in the developing countries, because there are cost issues, plus the equipment that uses the gas or the refrigerator made today using R-134a will have to be scratched. So, there is an issue from expense point of view. Plus, this R-134a is also used as propellant for asthma inhaler, the pharma thing and that too doesn't have a replacement as yet. Now, Indian demand today is around 8000 tons per annum of this R-134a, which over the last two years has seen flat or marginal growth. But, it is expected to grow 5% to 8% in the short term and maybe higher in the long term.

Now, there is an interesting development that is taking place in the global environment, which is that the US demand is approximately 100,000 tons. And China exports about 15% of that demand. About 15,000 tons is imported by US from China. There is a likelihood that US would be imposing an anti-dumping duty on 134a imports from China. The countervailing duty has already been declared. As a first step the countervailing duty has happened, the additional anti-dumping duty is likely to happen. Now, outside of China, SRF is the only credible supplier with these kind of capacities at competitive prices, who can supply to US, provided the anti-dumping duty is applied. Now, this will naturally change the market dimensions for us.

Now, to complete its range of refrigerant gases, this year SRF has introduced three new blends, which is actually a physical mixing of two-three types of gases. They are called R-410a, 407c and 404a. Suffice it to know that these are considered greener gases than the previous one. Now, one of the gases that we make is R22. Now, this is facing a gradual phasing out scenario, which is to commence from 2015. However, SRF I think would continue to produce the gas, because we can use it as feed stock for downstream products which is permitted. So, the only this gas cannot be sold as a refrigerant, but it can be used for downstream products. So, 2015 is not going to be a total ban, it is stage wise reduction, which will take five to seven years for it to get fully completed. So, we don't expect that our plant will need to be closed, because we will have enough years for, as it goes down and the quota has come in. But, at the same time we will be able to use it for the downstream products as well.

Our refrigerant share (in the domestic market) has increased from 35% to 40% in this year. And in various segments, our share ranges from 38% to 60%. And in many of the buyers, we enjoy exclusivity that we supply 100% of their needs. However, there is some kind of a cloud which is around R134a, where China is exporting at around 2.6 dollars per kg. In India, in some cases there is anti-dumping and that is one of the reasons why anti-dumping is even being imposed or likely to be imposed by the US.

ENGINEERING PLASTICS

Now, there is another business in this chemical business, which is engineering plastics. Now, in engineering plastics, while it happens to be a small business, about Rs. 150 crores to Rs. 200 crores, we are the number one or number two in the country. Now, this is a highly fragmented business where the global majors are present in India, whether it is Rhodia, DSM, DuPont, all of them in the expectations that the Indian market will grow. If the automobile market grows and the white goods market grows, in the expectation that these market will grow in this place, these global players are present in India. It is a very fragmented industry which at present is small and everybody thinks that it will become larger over a period of time.

TECHNICAL TEXTILES

Now, I will come to technical textiles business. India is the second largest nylon tyre cord fabrics business and has a demand of over 100,000 tons per annum. Now, in nylon tyre cord fabrics, NTCF, is not a fabric of our future. It is a fabric of today. It is a fabric of medium term, ten to fifteen years. But, the fabric itself will never go away. Please, in the foreseeable future it is not going to go away. This industry is characterized by marginally negative to low growth globally. But, India still shows growth in volumes. It is in our view, a sort of dependent and it mimics in some way the GDP, because it is so closely linked to the transportation sector that the GDP influences it to a high degree. It is a commodity in nature, but still the supplier and the buyer stickiness exists. No new investments in R&D in this sector or in new manufacturing facilities are being made. There is no increased capacity. That is the positive side. There are high entry barriers due to technology and due to big economic plant size, so there are very few people who want to invest in an industry, which does not seem to be a growth industry. India fortunately has a deficit market and as per the new numbers, around 40,000 tons is imported. 30% of India's NTCF demand is met through imports, because like I mentioned, is met through imports and substantially from China. Nylon tyre cord fabrics performed well. In the past two years with moderate results but in the last year 2013-2014, it has done well, this NTCF. We closed our manufacturing plant in Dubai and are in the process of shifting the machinery to different plants for NTCF. There was a fire at NTCF rayon plant and as a result what happened is our consolidated volumes were reduced. But, in India, SRF India sold higher volumes. There is a marginal increase in demand expected, even though people talk about rate realization and that nylon will get substituted by steel and polyester, but in our view this will be replaced and compensated by increase in demand for two-wheelers and off the road vehicles, especially if infrastructure and mining industry were to take off.

Now, I will come to another part of another type of fabric, tyre cord fabric, which is polyester tyre cord fabric. There is a global surplus and this continues to depress margins. Prices in India are about the lowest in the world. Our PTCF business has not performed up to expectations, while the regular yarn which is a little different from the tyre yarn, that continues to sell. What we have done in the process is we have converted some of the tyre yarn machines into regular yarn. And which we continue to operate and sell regular yarn, which is lower margin, but it keeps the clock ticking and it keeps the plant running. In belting fabric, we are the world number two. There is a, I would say a lurking upside in this business once the mining and the infrastructure picks up in India. And even then it is not doing too badly. 2013 sales were around 252 crores and 2014 at 280 crores. Our market share has gone up; domestic market share has gone up to 70%. Our global capacity is 11500 metric tons per annum.

Now, I will come to a new segment, which has been there for a few years, but it is in the long history of SRF, it is a new segment, which is called coated fabrics. The products made in this segment are used as roofing solutions for stadiums and airports and exhibition hangers, pandals and other tensile structure, hoarding etc. Now, our products are, they come out of a plant in Gummidipoondi in Chennai which is a world class brand new plant. It produces good quality. There were issues earlier, which has now been resolved. However, the economic slowdown has not helped matter and it has had an adverse impact. The capacity here is 1.8 million square meters per month, while the utilization is low. Now, there is another product which is laminated product. Both, coated fabric and laminated fabrics are the only two products which are seen by the customers in the form in which we make them. We make them as rolled products and they see them in the same way. Most of our other products are converted into something else, before the end user, the final consumer sees them. If I make refrigerant gas, it is not visible and it is actually charged in air conditioner or a car or a refrigerator. So, consumer hardly knows. Similarly, tyre cord fabric, it goes and forms a tyre and people don't know about it. Similarly, polyester films, we produce plain films which someone else prints and makes chocolate wrappers or potato chips packet out of that.

Now, in laminated fabric, the story is similar to coated fabrics. It is below expectations and the capacity is 90 million square meters. The uses are a little different. These are used for hoardings, which you see nowadays it has, which are printed. Sometimes they are also called flex and they can be lit from the back, lit from the front. It not only makes a big difference, we produce quality products, but because it has low entry barriers, there are a whole lot of new entrants in the market who are giving us a run for the money. But nonetheless we still command a premium on price and we are the only company in the sector which actually takes 100% advance payments before supplying materials. We are holding on to the price because of our quality and I believe that as the economy turns, this particular segment should also do well.

PACKAGING FILMS

Now, we will come to packaging film. This is the last of the segments that I will cover. It is a lifestyle product. Fortunately, it is a product which has been seeing growth both globally, 4% to 6% which is saying a lot and domestically 12% to 15% per annum. Now, we believe that this industry is entering the latter half of its down cycle. So, in the next twelve to eighteen months, we believe there should be a turnaround. As an industry it is operating at 78% utilization, while it does well anything above 80%. Now, because in India the growth is higher, slowly the growing demand is eating into the surplus capacity. At this point there are no new lines which are on the horizon, because the lines take about 18 to 24 months, so there is advance information whether the lines are being planned to be set up, which is not the case. What we have been doing in this is, we have been developing value added products in India, doing the R&D and moving up the contribution chain through our value added products. The combined capacity, SRFs combined capacity in both domestic and international is about 60,000 tons each.

Now, we have set up two plants overseas which I had covered very briefly. I will take South Africa first. In South Africa for the first time we have ventured into BOPP as a product. This is a polypropylene biaxially oriented film. The machinery has been supplied at Brückner of Germany. The plant ramp up was smooth and as per Brückner, this was one of the best plants they have set up till now. There is a huge demand-supply gap in South Africa of about 30,000 tons. The demand ranges between 32,000 to 35,000 tons and the existing supplier is able to produce, he is an old supplier and he is able to produce 4000 to 5000 tons per annum. So, there is a gap and that is where SRF has stepped in. We are obtaining approvals at a fast pace. The plant became EBITDA neutral in three months. And now it is already cash neutral. One of the things that I must mention here is that this plant got commissioned I think on November 26th. South Africa has a unique situation, where second half of December to about first week of January, South Africa is generally on Christmas holidays. Soon after we commissioned the plant, the country went on vacation. We then restarted the plant around January 10th. And whatever results we see are of disrupted and part production during that period from November to March.

One other characteristic of South Africa which I must explain and the reason why we went in is that besides the gap in demand-supply, the custom duty on the raw material, which is polypropylene chips is 0% and on finished goods, which is the film is 10%. So, that as it is it gives a clearance advantage to domestic manufacturers. Then the shipment cost, wherever the import from, even India or some companies in India export to South Africa, the shipment cost is about (not clear). Then there are the ways in which South Africa operates, there are logistical challenges at the ground level and which makes the supply after ordering unreliable and uncertain even after they have landed in South Africa. What happens is that from ordering to receipt of goods is a period of five to six weeks. But, being a domestic supplier, we have actually changed that paradigm to three days. Now, changing six weeks to three days is a huge cost benefit to the buyer and there are some other characteristics. Also that because of, for the import they need to open LC and as per practice in South Africa most of the foreign currency LCs have to be cash collateral. So, there is a cost of holding inventory. There is a delay in shipment and there is a cost of totaling the LCs. So, there are all kinds of cost. We think we will be in an advantageous position, being a quality producer within South Africa.

Now, I will come to Thailand. In Thailand we have set up a BOPET plant, just like we have in India. The plant ramp up was again smooth and in this case the machinery was from DORNIER. And we have had a long relationship with DORNIER. We know their people and they know our engineers. Naturally the ramp up in manufacturing was vertical. But, since BOPET itself is not going through its best phase, polyester films, getting realizations for what we produce was a challenge. But, to keep the machinery, to give them a good run, we continue to produce. And even today we are producing full capacity, about 2000 plus tons per month. Our goods have now been accepted in Japan and South Korea, which is a big break, because these are very quality conscious countries and once they are accepted there, then the demand is quite consistent and regular. The value-added products that I mentioned earlier being developed in India are also now well accepted by the market which we service out of Thailand. This plant also has become cash positive from March onwards for the month of March and March onwards. And we expect this trend to continue to improve as plant efficiencies are achieved as the plant runs.

The plants overseas in Thailand and South Africa are totally debt funded. Their total cost was about 125 million dollars. Of this 125 million dollars, 85 million dollars has been financed by International Finance Corporation, Washington, which itself is a big endorsement of SRF's capability and standing amongst creditors. Both the loans are around ten years end to end with a three year moratorium. And all the documentation, creation of security etc. has been completed. Now, all this was happening on the business front, even in the back office and housekeeping, we were not idle. We implemented the latest version of the ERP Oracle 12, R12 along with Oracle Process Manufacturing, which was not there earlier across the company. And what this does is it gives us a better handle and better visibility and greater granularity into product costing. This makes our costings accurate and provides us the agility to adjust at the right point. Besides this, we implemented a global purchase and scrap disposal platform, which led to already tangible savings of about 6 crores.

And last but not the least, we began the process of rolling out something that we value the most in our organization and that is our organizational values. These values define the way we behave and conduct our business. With this, I come to the end of what I had to say. I had taken about 49 minutes or so. I think we will have some time for questions and answers. And with this I would now like to request our moderator to open the lines for question and answer session. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Mr. Nisarg Vakharia, from Lucky Securities Private Limited. Please go ahead.

Nisarg Vakharia: Good afternoon sir. Thank you for the comprehensive background of SRF Limited. It was very helpful. My question is pertaining to the chemical business, which has been at a much lower EBITDA margin. I understand you said not to look at the business quarterly. But, over the last five years have we experienced this volatility in EBITDA margins in the chemical business on a quarterly basis?

Rajendra Prasad: Yeah. Thank you for this question. One is that, like I mentioned, the nature of chemical business itself is changing. Earlier the incomes that we saw contained a lot of carbon credit in it. Now, so to say that in the long path, have we seen this volatility? Actually yes.

Nisarg Vakharia: No sir, I am referring specifically to your specialty chemical business, excluding…

Rajendra Prasad: This was both specialty chemicals and the fluoro chemicals . The specialty chemical is a story of about four years. And in quarter on quarter it (volatility) was visible within specialty chemicals. But, the specialty chemical was so small and the rest of the income there was hiding the volatility of the chemicals, specialty chemicals business. First year it was 64 crores. If it is every quarter, it will be 16 crores. The volatility in 16 crores won't be apparent at all. Similarly, in the next year it was 96 crores. And that time we were getting CERs which were embedding all this income. So, volatility, what has come down is nothing great. What we need to see is, do I have an order? Are my plants operating? And for the quarter and the next quarter do I have visibility? What I would like to inform the people on the call is that this is nothing unusual. It is not that the plant was not working. It is not that there was no occupancy of the plant. And I will give you an example, suppose I have to supply 200 tons and I produce 3 tons per day, so it takes 60 days. I produced 180 tons up to 31st March. I can't supply those 180 tons since the customer requirement is not met. I would have to produce 20 MT more & supply the whole lot in the next year . In fact what I would go as far as to say that the last quarter (q3) was an aberration and people who spoke to me last quarter(q3), I told them that don't judge the performance based on that quarter. Don't multiply the last quarter for specialty chemicals to think about a year. But, look at it on a year to year basis. As the business is run sometimes on a campaign basis So, one swallow does not make a summer.

Nisarg Vakharia: Sir, on a steady state basis over the next two-three years, what are the margins that we typically target for this business? Forget about what happens in a quarter, I am saying on an annual basis.

Rajendra Prasad: Now, I would say that unlike mutual fund industry, in this particular case past is the good reflection of the future. I will not go beyond saying and state what are my expected margins. We resist from giving margins especially in this business and giving future looking statements and especially where they are, where the future looking statements which are so positive in nature. I don't want to venture into that area. But, I will give you an example which we gave before these results were out, if you see chemical business of up to nine months December, if you see the EBIT of nine months up to December, and don't do any complex calculations, pick up the EBIT and divide by sales, you will get something like 22% or 24% for the total chemical business now, which is a melting pot of various businesses within chemicals. If the weighted average EBIT is 22.6% or 22.4%, I will leave it to your good imagination what specialty chemicals would have been if the blended margin is 22%. I don't think anything adverse will happen. It is the ability to make and the ability to deliver on time. Let me explain the characteristics: it is a new business,we don't know how much of our final product goes into our buyer's final products. So, for him it may be a very small component. While as a percentage he may be prepared to pay me much higher, it doesn't have a huge bearing on his final product.

Nisarg Vakharia: Sir, the last question would be what would be the CAPEX, CAPEX plus maintenance CAPEX plans for FY15, FY16?

Rajendra Prasad: Yeah, for this business or every other business?

Nisarg Vakharia: No, generally for the entire.

Rajendra Prasad: Normally what we take as a ballpark figure is 2% maintenance CAPEX. Let me tell you, the CAPEX at Dahej site will continue year on year, what we expect 250 crores to 300 crores,every year, because as I mentioned we have a 281 acre site and we have developed 100; in this 100 acres till march, we still have capacity for three to four plants which can still be put. Now, once these three-four plants have been put in there and the 100 acres is exhausted, we will be looking at developing the next 100. So, to do that, one, Dahej site will remain a manufacturing and project site for some years, second we will have to be committing 250 crores to 300 crores every year on an ongoing basis. As of now, we don't see any huge CAPEX coming on in any other business. sometimes change CAPEX is definitely possible if it is a power solution CAPEX, or a power conservation CAPEX or it is a balancing equipment CAPEX (not clear). But, no major CAPEX is presently expected in any other business.

Nisarg Vakharia: Thank you for answering my question sir. Best of luck.

Rajendra Prasad: Thank you.

Moderator: Thank you sir. Sir, our next question comes from Mr. Dixit Mittal from Subhkam Ventures. Please go ahead.

Dixit Mittal: Good afternoon sir.

Rajendra Prasad: Yeah, good afternoon Dixit.

Dixit Mittal: Sir, just wanted to understand, can you give the breakup of chemical business during this quarter sir, Q4, in terms of specialty and commodity?

Rajendra Prasad: In terms of specialty and commodity, yes. The specialty business has been around 440 odd crores.

Dixit Mittal: Sir, that is for the full year. For Q4 can you give the breakup sir?

Rajendra Prasad: Q4, yeah, just hold on. I will give you that. For Q4 it is, specialty is about 110.

Dixit Mittal: Okay. Sir, in terms of run rate you have been maintaining around 100 crores per quarter kind of run rate in specialty?

Rajendra Prasad: But, people are telling me that this quarter we did low, but the last quarter was higher.

Dixit Mittal: Yeah, but blended if you see like, Q3 also you would have done the same kind of revenue in specialty. But, in Q3 we witnessed around 25% kind of margin in this segment. So, is it that in commodity we have suffered any losses in this quarter?

Rajendra Prasad: No. Even in commodity we have not suffered, it could be a mix of whole lot; there could have been an R&M which has come in between. Because, these are all new plants and they are all indigenous and self designed plants. Now, just hold on and I will just give you the numbers. March quarter in specialty chemicals, yeah, there is actually no change which has happened even in the chemical business, which is worth mentioning. There won’t be anything substantial.

Dixit Mittal: Sir, because the EBIT in Q3, it was around 70 crores in this segment. In Q4 it was around 34 crores. I was trying to understand if there was any one off item in this segment, because at 110 crores of specialties, I think 30 crores-35 crores was made on the specialty only kind of, if I assume 30% margins on specialty, so it means we have around 35 crores in the specialty business only. So, commodity has not made money in Q4?

Rajendra Prasad: In commodity we have made, yeah, we have made money in commodity also. We have made about 10 crores in commodity at EBIT level.

Dixit Mittal: Okay. That means the margins in specialty should have been lower quarter on quarter?

Rajendra Prasad: They have come down. . This is all arithmetic. I am assuming you are reading the right figures.
*The following statement is being issued in form of a clarification and was not discussed during the call.
The operating profit of Rs 34 cr referred in the above discussion corresponds to a turnover of 248 cr Q4 of FCB, SCB & Polymer business. Operating profit is inclusive of profits from the above businesses after charging R&D expenses.

Dixit Mittal: Yeah sir, because in your like published results is shown 34 crores as compared to 70 crores in Q3 in this whole segment. So, that means if I take 10 crores from commodity, that means specialty you have done around 25 crores on 110 crores of revenue.

Rajendra Prasad: Correct. That is why we have that.

Dixit Mittal: So sir I think these are (audio break) months we were doing much better in specialty chemicals sir.

Rajendra Prasad: We can't compare also, because what happens is it is also a function of sales, in the sense that plant efficiency etc. start improving if you have higher sales at that point of time. Are you unhappy with 25% EBIT?

Dixit Mittal: No sir, I am not unhappy. I was just comparing quarter on quarter sir, because…

Rajendra Prasad: Told you, don't view this business quarter on quarter. It goes both for turnover and for margins. Because, this is not one product and today we are selling about ten molecules. Now, all molecules will not be reflecting the same margins. Some may have two reactions and some may have five reactions that we have to do.

Dixit Mittal: Okay, so it means to say it should have changed.

Rajendra Prasad: Yeah. And there is another thing which has just come to mind, There are also some products that are used downstream. Now, once they are used downstream, they actually increase your value chain, but they don't show as turnover. This is also which could be a factor. If we do a final study of this, maybe that will be one of the reasons where a greater part of our produce was used in-house.

Dixit Mittal: Okay sir. Sir, in your commodity is there any seasonality quarter on quarter or we should take at...

Rajendra Prasad: No, there will be seasonality, because like refrigerant gases, normally the white goods manufacturers start picking it up in January or December for making the air conditioners or the refrigerators. There is seasonality to the extent that there is seasonality in cars. So, during the marriage season more cars get purchased. You have to see what is the background linkage to these products. And this will naturally demonstrate the same seasonality. In fact one of the reasons this market for these refrigerant gases have not done too well this whole year is because there has been a decline in air conditioners and there has been an increase in imported air conditioners which come with charged gas. You can import an air conditioner with gas or without gas. If you import without gas, then in any case it makes no difference, because the gas would be ours. But, if you import them with gas, then it can impact the demand side.

Dixit Mittal: Okay sir. Sir, can you give the nine months figure sir for the specialty, revenue and EBIT?

Rajendra Prasad: Nine months revenue for specialty chemicals?

Dixit Mittal: Yes sir, revenue and EBIT.

Rajendra Prasad: Yeah, nine months. What happens is today it is quite embedded in the chemical business. We don't want to segregate chemical business in too much detail going forward. It has our business reasons and because and it is actually detrimental to company's own good. You would understand the reasons, because then there is a direct correlation between these margins and turnover. And that our buyers can view it in a different way. So, what you have now is, if you see the last figure which is, as you are saying, 25% EBIT is what you have calculated.

Dixit Mittal: Right. Sir, finally in this packaging film business sir, you said that EBITDA, you have already done the EBITDA positive. So, when will we turn PBT positive?

Rajendra Prasad: We have done the EBITDA positive. This year should be PBT positive.

Dixit Mittal: Okay. It should be PBT positive in FY15.

Rajendra Prasad: Yeah.

Dixit Mittal: Okay. Sir, finally if I take blended margins for chemicals, should I take around whatever nine months margins are there that….?

Rajendra Prasad: That is a representative rate.

Dixit Mittal: Okay, that is around 24%-25% kind of blended margins.

Rajendra Prasad: Whatever, nine months is 22.6% or whatever it is coming to. I am doing a simple arithmetic on publicly known figures.

Dixit Mittal: Right. Sir, going forward as you said this is because contribution from specialty will increase, so we should take slightly higher margin going forward for nine months?

Rajendra Prasad: It is up to you. But, you know mix will change.

Dixit Mittal: Right. Thanks a lot sir.

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Moderator: Thank you sir. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad.

Our next question is from Mr. Kamal Gada from UTI Mutual Fund. Please go ahead.

Kamal Gada: Hello sir, good afternoon sir.

Rajendra Prasad: Good afternoon Kamal.

Kamal Gada: Congratulations on a good execution of your overall Dahej project.

Rajendra Prasad: Thank you.

Kamal Gada: Sir, I had two or three questions. One was on the working capital we have seen in FY14 that has gone up compared to FY13.

Rajendra Prasad: Working capital?

Kamal Gada: So, just wanted to understand would this be a stable level of working capital or a….?

Rajendra Prasad: No, this is a total aberration, because we were commissioning the plant. So, this is actually a snapshot picture of 31st March, because of Dahej.

Kamal Gada: Probably these are not the numbers to….

Rajendra Prasad: No, all these numbers are going to be taking a reduction. But, if you see the, there is an increase from, if you see the net current asset as of 31st March, where increase from 656 SRF India to 725, which means about 70 crores, . which is about 10 to 11% of previous, which is okay. If you are going to set up a new business with 600 crores capitalization and partly what has also happened here is when the project got capitalized, the stores and spares of the project gets transferred to inventory. This is part of that. Till they get consumed, it will keep coming down as repair and maintenance. It is not a trend. It is an aberration. If it was not 31st March and it has been 30th April, probably it would have been a lower figure.

Kamal Gada: Right. That is what I wanted to get the feedback.

Rajendra Prasad: We keep a very close watch on this.

Kamal Gada: Okay. Can you give, what was the Dahej revenue for this quarter, for the year and for the quarter?

Rajendra Prasad: Dahej is a mix of both specialty chemicals and fluorochemicals. And people ask questions of how much is Dahej, how much is Bhiwadi and how much is chemicals and then they try and triangulate what the chemical, what the specialty chemicals business is. So, the Dahej sales was, suffice it say over 300 crores.

Kamal Gada: Fine, sir. Sir, coming to the subsidiary performance, I think we saw a decline in the numbers on the subsidiary front and one of the reason was we closed down the Dubai unit.

Rajendra Prasad: Okay, actually what happened is the Dubai transaction was not consummated before 31st March, okay, because there was some last minute documentation, etc. which was left, So what you see here is actually coming from a variety of sources, but the bulk source in this case is PFB Thailand. Now this got commissioned if I remember correctly, 30th June. While the plant's operations were very good, the customer approvals and price realizations were not good at all. So, this overall showed a PAT loss of 22 crores which is in Thailand and in South Africa which was commissioned in November. , And I mentioned earlier that three weeks it is closed in December 2nd fortnight to 1st week of January there was a PAT level loss of 15.7 crores. Therefore there is a depreciation component in it, there is a interest component in it for all the period that it has been capitalized plus the fixed cost in South Africa is a little high, You have to maintain the employees for three weeks, actually you maintain them for three weeks and there is no output. This is the business environment in South Africa and the unit cost of doing business and that is why on the revenue side it is a lucrative place to be, but unfortunately what happened i was commissioned, we were able to utilize only from January to March, 8 11 weeks, but bore the whole brunt of the three weeks of idle time, but South Africa and specially South Africa is in my view not a cause for worry, because the plant is doing superbly well and the customer support and approvals are actually going very well. Now, in addition to this, what I have told you about 38 crores loss at PAT level, right. Then there are others adjustmentswhich happens as because we supply goods from India to other units, to Port Elizabeth and we were supplying to Dubai as well. Based on a certain transfer pricing formula which is acceptable to Income Tax, there is a common profit element which needs to be eliminated , which gets eliminated only at the consolidation stage, you have to remove the profit from the local books That element itself is about 14 crores. If you take 38 plus 14 it is about 52 crores. Now there are some pluses from our actual businesses which were existing in Thailand which was the technical textile business and the printing fabric in Port Elizabeth Wehave a holding company, you are aware, a 100% owned holding company in Netherland. There our establishment costs, even though we have no office there, but their legal compliance cost, audit cost, various fees etc. which gets paid out of that unit, The very fact that you are a registered company and it has no income, those costs get embedded. Overall the difference which you see between 217 and 162 which is about 55 crores, most of it is coming from 37 plus 14 which is 52 plus .

Kamal Gada: Sir, I believe this will not be there next year, right, I mean, as we utilize our plant?

Rajendra Prasad: No, clearly we see it as a onetime and in a sense a startup associated cost. It is not in the regular nature of operations.

Kamal Gada: Right and finally sir, what was our gross debt both on standalone and consolidated?

Rajendra Prasad: The gross debt is on a consolidated basis is 2175 crores, if I remember correctly and 1270 crores on a standalone basis; so again if the net worth is about 2100 crores something. On a debt equity basis, we are quite comfortable.

Kamal Gada: Sir, average borrowing cost for consol and standalone would be?

Rajendra Prasad: Consol is about 3.93 as against 4 point something last year and even on a standalone basis, I will just tell you. On a standalone basis blended cost is about 8% including the ECF.

Kamal Gada: Fine, sir. Thanks for answering the questions, all the best.

Moderator: Thank you. The next question comes from Pratik Poddar from ICICI Prudential Asset Management, please go ahead.

Pratik Poddar: Yeah, hi. Sir, just one question on R134a what is the current capacity utilization?

Rajendra Prasad: Yeah, hi Pratik.

Pratik Poddar: Hi, how are you?

Rajendra Prasad: Yeah, today the Biwandi plant, the capacity is 5000 tons where we made about 3200 tons, so that is about 64%..

Pratik Poddar: And I believe you have capitalized that 12500.

Rajendra Prasad: Yeah, we have, I explained in detail during the call that we capitalized that 12,500, but there are a lot of things which are happening At the cost of repeating that US is likely to impose anti-dumping on China, likely and right now the way the price arithmetic works, China is selling globally at $2.6 a kg.

Pratik Poddar: Yeah, so out of this 12,500 are we utilizing anything or right now…

Rajendra Prasad: No, we have just started, it got commissioned in March.

Pratik Poddar: Yeah, so I was wondering if you could share, you know, there two months the forward month, like till today is May, right, so have you ramped that up, is what I am looking for?

Rajendra Prasad: No, see in chemical business because of the sensitive catalyst and all which are deployed you cannot ramp it up all of a sudden. Even temperature you cannot increase because something might get contaminated, so there is a gradual process. The way I look at it, that plant should produce about 8000 tons during the year.

Pratik Poddar: Sure and this is what I just wanted to know, thank you so much.

Rajendra Prasad: No, this is not for these two months, so these two months it may produce just, see if it is a capacity of let us say 12,000, it means 1000 tons a month, So in April it may produce 200 tons, then 300 tons and so on, finally what we see on an accumulated picture is about 8000 tons.

Pratik Poddar: Okay, 8000 from this 12500 and already 3,000…

Rajendra Prasad: We will review the Bhiwadi one, because we had to see whether we want to put 17,000 into the market or not, there are various options that we have for the Bhiwadi plant, there are three options, either I can shut it down or I can convert it to another gas or another chemical or I can shift it to Dahej and produce 134A If we don't want to have a capacity of 600 MT can do two things with the plant, I can convert it or I can shut it down. So, that decision we will take over the year.

Pratik Poddar: And sir, I am not aware of the cost dynamics, but is there an element of operating leverage in the R134A, I mean, is there an element of fixed cost, very high fixed cost, is that understanding correct?

Rajendra Prasad: Yeah, see one is I would say the operating leverage will be greater in; the fixed cost will be lower in Dahej because of the size of the site, a larger plant also. So, if you were to take fixed cost per ton, it will be much lower plus it is not the same process as we use in Bhiwadi , because of our experience we use our own process, but a more efficient one. There is an economy of scale plus the inherent advantages that Dahej is a cheaper site than Bhiwadi. So, it is economical or more efficient for us to make, if we are to make 134a, it is better for us to make in Dahej.

Pratik Poddar: Okay, thank you so much, sir and all the best.

Rajendra Prasad: Thank you.

Moderator: Thank you. Sir, our next question is from Avinash Agarwal from Sundaram Mutual Fund, please go ahead.

Avinash Agarwal: Sir, in spite of our capitalization…

Rajendra Prasad: Good afternoon, Avinash.

Avinash Agarwal: Yeah, good afternoon, sir. Sir, in spite of our capitalization through the year, our depreciation has remained more or less flat…

Rajendra Prasad: Through the year? We didn't do through the year; the 600 crores got capitalized in March.

Avinash Agarwal: Yes sir, but I believe you have added a couple of smaller plants in the first or second quarter as well, right?

Rajendra Prasad: Definitely it would have gone up by 15 crores.

Avinash Agarwal: Sir, last quarter Q3 it was 48 crores and this quarter it is 46 crores, so and if you see year on year also it is 48 crores last quarter, …

Rajendra Prasad: Yeah, there was some adjustment done to depreciation, some re-classed and there were certain assets which had been depreciated far beyond , what they should have been depreciated over their useful life, there was a correction which was done which was about 7 8 crores.

Avinash Agarwal: Okay, so sir, what should we take as the normal run rate, sir then, I mean, if this 46 had some element of one off, like you mentioned?

Rajendra Prasad: Yeah, see the total 46. Actually there will not be any run rate for the simple reason we are adding plants and certain assets are going off depreciation in technical textiles. So, you are never seeing a stationary picture, because what is happening is our many plants are old and some part, some reorganization took place, there will be a whole chunk of 30 - 40 crores worth of gross assets which will go off the block and this will happen every year on the one side and there will be an addition of chemical assets I will give you a third reason. If now the Companies Act allows us to define useful life and we want to take a serious look to calculate depreciation based on actual useful life rather than fictitious useful life as mandated by existing old Company's Act, , what that act said useful life is just 20 years or 10 years, you cannot increase the life and reduce depreciation while we know that our plants had been operating for 20-25 years. If you do good maintenance then your plants actually continue. So we are thinking of conducting an exercise, I mean, properly with good credentials of the valueraccepting the useful life of our entire fixtures and then matching it with their actual life and then seeing what impact it makes on the depreciation. Now, depreciation for the past doesn't hit us in the P&L in any case, it goes into past income/ reserves , but it will have an impact going forward. For some time I don't think you will see a run rate, but at the same time you should not see wide ranging disturbances.

Avinash Agarwal: Okay and sir, on the interest cost as well, it has fallen and then in Q2 it was more than….

Rajendra Prasad: Yeah, I tell you what has happened in interest cost is a large part of it has got capitalized, okay, that is why and secondly we have said that we have reduced interest cost of 4 point something to 3.93 interest rate.

Avinash Agarwal: Sir, that reduction has come more in the overseas debt or in Indian debt, sir?

Rajendra Prasad: No, it is the weighted blended rate, but I think there would be a higher proportion of overseas debt too.

Avinash Agarwal: No, because I am talking from the standalone point of view where, you know…

Rajendra Prasad: Even standalone there would be a little higher percentage of overseas Fx debts, because our exports component is going up through specialty chemicals.

Avinash Agarwal: Okay, fair enough and sir, in terms of the customer approvals for the Thailand plant, how is it coming through, sir, any …?

Rajendra Prasad: Very good, like I mentioned we made an entry, first foray into Japan and Korea. Now, Japanese industry favors products coming out of Thailand than, you know other countries in this region, So because our plants in Thailand is manufacturing to that quality, we have got approvals for certain products from our Thailand plant for Japan and South Korea. Now, if this thing continues and the plant continues to manufacture the same quality, this will be a good source, consistent source of demand. The quality is not again a problem because in fact in March we produced 110% of capacity, we produced I think 2200 tons odd. The plant has been already run at 100% capacity. We don't always run it at 100%, but it has been tested up to beyond 100% and it has done consistently….

Avinash Agarwal: Okay and sir, going forward what is the tax rate we should assume in FY15 and 16?

Rajendra Prasad: Very difficult to say, It is a difficult question, but what I can tell you is that investment allowance is still available for one more year, which we will naturally avail to the extent that we by and established CAPEX. It should be above 100 crores in any case on that investment allowance. We have already, if you have seen, approved CAPEX of 140 crores. Now, if that CAPEX gets bought and installed in this year, this 140 is in any case available plus there is some work in progress of the past for the balance of which we have not incurred. When we incur that expense, and that is also capitalized, there will be some more. This tax rate is a very nebulous figure which is difficult for us to comment on more because the whole company is not in a business as usual mode at this point. It is in a growth and a evolving mode.

Avinash Agarwal: Okay. Sure sir, thanks a lot and all the best.

Rajendra Prasad: Thank you.

Moderator: Thank you, sir. Now I hand over the floor to Mr. Tejas Seth of Emkay Global for closing comments, please go ahead.

Tejas Seth: On behalf of Emkay, I would once again like to thank the management for the call. Have a great day. Thank you all.

Rajendra Prasad: Thank you.

Moderator: Thank you, sir. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us and for using Door Sabha's conference call service. You may disconnect your lines now, thank you and have a great day.

Note: 1.This document has been edited to improve readability and ensure accuracy of facts.
2. Blanks in this transcript represent inaudible or incomprehensible words.