



## SRF Limited

### Investors/Analysts Conference Call August 2, 2005

**Moderator:** Good evening Ladies and Gentlemen. I am Ganesh, the moderator for this conference. Welcome to the SRF Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Nitin Tandon of Citigate Dewe Rogerson. Thank you and over to Sir.

**Nitin Tandon:** Thank you. Good afternoon Ladies and Gentlemen. It is my pleasure to welcome you all to SRF Q1 FY2006 conference call. We have with us on this call Mr. Ashish Bharat Ram, President and Executive Director, and Mr. Anurag Mantri, Head of Treasury and Investor Relations at SRF. We have about an hour for this forum, which includes the opening remarks by the management and the Q&A session. I would now like to invite Mr. Ashish Bharat Ram to provide us with a summarized outline of the company's performance for the quarter.

**Ashish Bharat Ram:** Good afternoon everybody, and thank you for joining us on this conference call to analyze SRF's financial results for Q1 FY2006. I will be giving a brief outlook of our individual businesses following which Anurag will discuss the company's financial highlights. After the opening statement, there will be a Q&A session with all the participants.

The performance during the current quarter is positive with regards to revenue and earnings. The technical textile business covers nylon yarn, tyre cord fabric, and industrial fabric businesses. This business reported strong revenue and earnings performance during the quarter. Revenues saw a raise of 40% to Rs. 2,144 million from Rs. 1,533 million in the corresponding quarter for the previous year. PBIT saw a significant increase of 217% to Rs. 325 million. This strong performance was mainly due to the restoration of margins because of better efficiencies and a fair balance between raw material and finished goods prices.

To improve our leadership position and to sustain the encouraging demand outlook for this business, the company is implementing various capex programs. In this regard, the Manali plant has already added an additional 6,000 tonnes per annum of dipping capacity through de-bottlenecking. We are adding 13,300 tonnes of polymerization and spinning capacity at the Gwalior plant. This should commence during Q3 FY06, which will result in increased value accrual and better performance to the Company. To make the most of the long-term market



opportunities in this business segment, the company as a part of its stage-two investment program is also taking up a modernization-cum-expansion plan, which we expect to complete by end 2007.

Now moving on to the chemical business, which comprises refrigerant gases and chloromethanes and pharma chemicals, our revenues increased by 13% to Rs. 685 million, and PBIT increased by 10% to Rs. 225 million during the quarter. The business is mainly driven by strong demand for refrigerant gases, primarily from the air conditioner and refrigerator segment. The pharma chemical business also registered continued growth, although its contribution remains limited given the nascent size of this business.

We are market leaders in the refrigerant gases business in India and this business is witnessing robust demand growth. Given our expansion plans and new initiatives, we hope to be able to maintain our position going forward. At Bhiwadi, we are putting a 300,000 tonne per annum plant of HFC-134a or 130 odd HFC-32, which are new generation gases having a strong demand profile. We expect this initiative to become operational by Q1 FY2007. In addition, to strengthen our cost structure, we are establishing a co-generation power plant in the Bhiwadi plant, which is likely to become functional during Q3 FY2006.

Moving on, revenue from packaging film business was at Rs. 353 million for Q1 FY2006, whereas the PBIT was negative at Rs. 47 million. The main reasons for negative earnings was fall in the polyester film prices on the domestic market, due to the additional capacity added simultaneously by multiple players. The input cost remained high leading to sharp pressure on margins. This business is still in the establishment phase. The long-term outlook for this business looks positive and we expect the demand to grow by 15% per annum.

I would also like to take this opportunity to update you on the development on our CDM project involving carbon credits. SRF's Board of Directors had approved initiative in July 2004 for setting up facilities to reduce green house gas emissions by thermal oxidation of HFC-23 at Bhiwadi. This facility would be setup at a capital expenditure of Rs. 147 million. Setting up this facility opened up an opportunity for the company to see certified emission reduction or CER under the framework of green development mechanism. The company had earlier filed a project design document with the United Nations Framework Convention on Climate Change (UNFCCC) for public comments and I am happy to inform you that no comments inputs were received on this filing. Once the project is registered by UNFCCC and SRF start incineration of HFC-23, the company will be entitled to CRs. Our application covers an entitlement of about 38 million CERS over a 10-year period. We have contracted to sell 500,000



CERs, subject to validation and approval of the CDM project, to a leading oil trader through ICECAP. The pricing of CERs in the international markets is still nascent, and therefore it would not be appropriate to presently comment on the cash flow from CERs, over the longer term.

Looking at our performance during the current quarter I am confident that we will noticeably improve on our FY2005 numbers. As mentioned above the refrigerant gas business has a very strong outlook. The Technical Textiles and Chemicals business will also continue to witness improving growth in the future. The chemicals operation is in a strong demand environment and we are leaders in this space. We expect to maintain our leadership and competitive stand in the market due our expansion plans across our businesses in a very well thought-out and well-assessed manner.

I would now invite Anurag to quickly run you through this quarter's financial numbers.

**Anurag Mantri:** Thank you, Ashish. We have registered a strong growth in our revenues as well as earnings during the period under review. I believe this performance is indicative of a robust operating foundation. Our Q1 revenues increased by 49% to Rs. 3,182 million from Rs. 2,139 million in Q1 FY05. Revenue increases were seen in all our established businesses as well as in our new businesses including the packaging film business. PBIT saw a significant increase of 69% for the current quarter at Rs. 593 million. This was mainly because of improved performance in the technical textile business and chemical business. Interest and finance charges increased noticeably to Rs. 100 million. This was mainly due to expansion projects being taken up across our various businesses and the booking of some one-time finance charges during the current quarter. Net profit for the current quarter increased by 97% to Rs. 237 million, which results in EPS of Rs. 3.7. Cash EPS of the current quarter was at Rs. 6.5 and net profit of the quarter was Rs. 420 million.

The company's capex plan involves an investment of about Rs. 4,250 million during the next two years in the approved projects, primarily in Technical Textile Business and Chemicals Business. This investment is in line with our phase one and phase two capex programs outlined earlier.

Our debt as on 30th June is Rs. 4600 million and our debt equity ratio is around 0.9:1. As we invest in our new businesses, some amount of debt will be added on the balance sheet in the current year. Given the healthy operating cash flows and strong operating returns, we are comfortable both in terms of servicing and



repayment of these debts. Next year onwards, we expect our debt equity ratio to improve further as greater cash flow accrues from our businesses.

Over the long-term, cash flows from CDM project are also expected to further augment our balance sheet strength. Going forward, our performance is expected to be growth oriented and will reflect the contribution from our expansion and new initiatives once they go on stream.

With that, we come to the end of our discussion and we would be glad to answer any of your questions. Thank you.

**Moderator:** Thank you very much Sir. We have our first question from Mr. Ketan Gandhi from Gandhi Securities.

**Ketan Gandhi:** The question is related to CDM projects. What is the total capex as far as the CDM project is concerned and what is the timeframe?

**Anurag Mantri:** Total capex for setting up of this incineration facility is around Rs. 12.7 crores.

**Ketan Gandhi:** Okay, and any further capex is required for the CDM project, and when do you think that EB will register your project and when do you actually expect the cash flow from this 5 lakh CER which you have recently concluded deal with?

**Ashish Bharat Ram:** On the first part, we don't expect any further capex on CDM project. As far as registration with the EB is concerned, the process, we are hopeful will be completed in the next two to three months and at this stage, we are hoping that we will be able to register sale on this first 500,000 some time during the fourth quarter of this financial year.

**Ketan Gandhi:** I am asking this question because the Ulsan project of Korea, they have given the accreditation report by the designated operational entities, still there is zero credit as far as CER is concerned, so in that regard, if you don't get the CER accreditation, still you think that you will be able to get this cash flow from the fourth quarter...?

**Ashish Bharat Ram:** No this is subject to the UNFCCC registering our project. So I am saying, that, within the next two to three months, we are expecting that the project should get registered, and if that happens then we will be in a position hopefully to look at some sales by the fourth quarter of this financial year.



**Ketan Gandhi:** But the cash flow will come only after the accreditation of the CER?

**Ashish Bharat Ram:** The incinerator for the thermal oxidation is being put up at this stage and it will be ready at a plant by end of September 2005, that is by the end of next month. So the incinerator has been put up simultaneously while we have been working on the registration. So we are hoping that in the next two to three months the registration will get complete by the end of October, and incineration can start simultaneously.

**Ketan Gandhi:** Any idea around the price range of the 500,000 CERs to be dealt with?

**Ashish Bharat Ram:** No we can't share that due to confidentiality reasons.

**Ketan Gandhi:** Thank you Sir.

**Moderator:** Thank you very much Sir. Next question is from Mr. Melvin Mehta from IL&FS Asset Management Co. Ltd..

**Melvin Mehta:** Good afternoon to the SRF team. Are there any proposals because I think there was some rumor saying that there is a possibility of SRF being merged with SRF Polymers, any comment from the management team on this?

**Ashish Bharat Ram:** No, there is no such plan.

**Melvin Mehta:** Okay and that will continue to be the holding of the group, is it?

**Ashish Bharat Ram:** The things as they stand right now are expected to continue.

**Melvin Mehta:** Okay, and anything else, because everyone is obviously interested in the carbon credit, would you like to add something to what you already said on this?

**Ashish Bharat Ram:** I think at this stage whatever we have been disclosing either through our press releases or what I have said so far and answered in the last question is all I think we can share unless there is specific question.

**Melvin Mehta:** Okay. Thank you very much and all the very best.



**Ashish Bharat Ram:** Thank you.

**Moderator:** Thank you very much Sir. We have next question from Mr. Satish Ramanathan from Franklin Templeton Investments.

**Satish Ramanathan:** Good afternoon Sir.

I wanted to get a sense on the quantitative growth that has been achieved across businesses because the value growth could be due to price revisions and also the anti-dumping duty, so is it possible to just get a sense on where the quantity growth is also happening, the volume growth?

**Ashish Bharat Ram:** Actually the volume has grown by around 3% and the reason is that we have been held back because of our capacity constraints, and as I mentioned that as soon as we expand our capacity, we will see the quantity growth also coming up simultaneously.

**Satish Ramanathan:** Okay, this is for the technical textiles, right?

**Ashish Bharat Ram:** The NTC, I mean, the **tyre cord** business.

**Satish Ramanathan:** Okay, what about the ref gas business, the chemicals business?

**Anurag Mantri:** Satish, the ref gas business as you know, the current business of CFC and HCFC are governed by Montreal Protocol, so the possibilities of volume growth are not there in this business.

**Ashish Bharat Ram:** We are basically running the plant to full capacity, and unfortunately due to Montreal Protocol we are not allowed to expand the plant. So as long as we are running to full capacity, we are selling every kilogram, that we produce.

**Satish Ramanathan:** Okay, could you just also highlight what is happening in the packaging film business?

**Ashish Bharat Ram:** In the packaging film business, the issue that we have to deal with is that the European Union imposed anti-dumping duty on India, and which was at the level of apx 72%. Now most of the competitors that we have in India, are basically in the single digit duties. So we have also applied to European Union for the new shipper's review and we are hopeful that by the end of this financial year, we would have got a new shipper's review and then we will



be able to supply to the European Union where the margins are substantially higher than they exist in the domestic market, and then we should see a turnaround in that business also. Besides that, we are also looking at entering into value-added products and we are making inroads into the metallized film segment, that also has better conversion margins. The metallizer that was part of our capex plan will be in the plant by September and hopefully from October onwards, we should start seeing production coming of metallized films.

**Satish Ramanathan:** Okay, and what would be the value accretion due to a metallizer, compared to the products that you are making what would be the value growth that you can achieve?

**Anurag Mantri:** Given the volatility in the current pricing, it is difficult to predict at this moment, Satish. Since we are right now not present into European Union and it would primarily be exports to other countries, so it is difficult to comment or predict on the metallized films price at this moment.

**Satish Ramanathan:** No, not that, I mean, because there is a value addition that you are going to do when you move to metallized between non-metallized and metallized, so just wanted to know what would be the kind of markup in terms of percentage?

**Ashish Bharat Ram:** Sorry, I don't have that answer right now, may be some other time.

**Satish Ramanathan:** Okay, that's all I wanted.

**Moderator:** Thank you very much Sir. Participants are requested to restrict to one question in the initial round. We have our next question from Mr. Bharath S from Sundaram Mutual Fund.

**Bharath S:** Basically how are the conversion margins in **NTCF** at this point given the Caprolactam pricing scenario?

**Ashish Bharat Ram:** Conversion margins have been fairly stable. We had a lot of volatility in the raw material prices in the last financial year. This financial year we are seeing that raw material prices have become more range bound and as a result we are finding that margins are also becoming more range bound.

**Anurag Mantri:** Margins are stabilizing and becoming range bound.



**Bharath S:** Could you also tell us about, there is some kind of anti-dumping duty which is now levied on nylon tye cord and that has been a very big factor for the price moving up, so what is the status of that now and will it come up in the near future?

**Anurag Mantri:** Anti-dumping duty currently ranges between 54-81 cents and this has resulted in better prices. However, it is difficult to assign the direct correlation, as it is also a combination of the other factors like raw material prices and market condition.

**Ashish Bharat Ram:** But basically this is the final duty that has been levied by the anti-dumping authorities, so it may stay for five years.

**Bharat S:** Okay, and is it specific to some countries or is it from?

**Ashish Bharat Ram:** It is against the Chinese imports.

**Bharat S:** And the company usually has a graph which shows what is the kind of conversion margin that you earn in this business, could you tell us where is it, and if you have to compare in the last five years, is it now at the highest point?

**Ashish Bharat Ram:** See, we don't share the conversion margins due to competitive reasons, but it is at levels which are higher than what we had in the previous three years, but not at the level which have been the highest in the past.

**Bharat S:** For the trade on the polyester film business, there is this, one of your competitor Jindal Photo which has got the same status as you for the plant, so the case of, that you also have the case of EOU, and they don't face kind of anti-dumping duty from Europe, could you also avail of the same benefit?

**Ashish Bharat Ram:** My understanding is that Jindal as a company has got that benefit of the new shipper's review or may be exporting to EU during the investigation phase, so as a corporate they have already received it in the past. So, any new plant they setup, my understanding is that will not change their status. Since we have not shipped to EU in the past, when they were levying this anti-dumping duty, we have to go through this process once.

**Bharat S:** But would you then have the same kind of advantage that they have that you also are based in an EOU and you not getting any benefit, you know, the export benefits?



**Ashish Bharat Ram:** Well, we are working on that. At this stage, I think the numbers are still being derived so that we can give the numbers to the European Union authorities. I think in the next three months, when we have our next quarterly call, we will be in a better position to share on that.

**Bharat S:** Okay, thank you very much Sir.

**Moderator:** Thank you very much Sir. We have our next question from Mr. Imran Contractor from Strat Cap.

**Imran Contractor:** This is again regarding the CDM project. I just wanted to understand what is the schedule for HCFC-22 phase out, because if I am not mistaken, you have to reduce the overall production to about 35% of 2000 levels by 2010, so is there some kind of a plan?

**Ashish Bharat Ram:** HCFC does not have to be phased out till 2040. What has to be phased out by 2010 is the CFC.

**Imran Contractor:** Okay. Thanks.

**Moderator:** Thank you very much Sir. We have our next question from Mr. Pradeep Gokhale from Tata Mutual Fund.

**Pradeep Gokhale:** My question is on account of the new plant of HFC-134a, can that plant increase your volumes or will it be subject to an overall volume restriction of the refrigerant gases, and would realization of this will be better?

**Ashish Bharat Ram:** The 134a plant that we are setting up is a substitute for R11 and R12. It will add to the topline of the company and it will not substitute any of the production that we are doing right now, and as far as realizations are concerned, we expect realizations to be healthy once the project comes on line.

**Pradeep Gokhale:** And can you elaborate a bit on your pharma chemicals business, which has just gone on stream last year I suppose?

**Ashish Bharat Ram:** As far as the pharma chemicals is concerned, it's a business which is at a very nascent stage. The logic of getting into this business is based on the R&D skills that we have built in halogen chemistry, and we are looking at leveraging on this as we go on. There are opportunities that exist not only in the pharma sector but also in the agro sector. These are chemicals which can also be used in the agro sector, and as we progress more in this business, we will look at more chemicals in this area.



**Pradeep Gokhale:** But in terms of capacities what you have set up, that won't be restraint as of now?

**Ashish Bharat Ram:** No, the capacity that we have setup is for a certain set of chemicals, because this is a chemical plant, it takes time to get up to full capacity, and once we do that we will look at alternative products also.

**Pradeep Gokhale:** Okay. Do you expect that division to break-even this year?

**Ashish Bharat Ram:** Yes, we do.

**Pradeep Gokhale:** Okay, thank you.

**Moderator:** Thank you very much Sir. We have our next question from Mr. Milan Bavishi from Anagram Stockbroking.

**Milan Bavishi:** Hello. We have booked a one-time expense, could you tell me what was that and what is the quantum of it?

**Anurag Mantri:** Milan, the one-time finance charge is because of some of the loan and commitment charges on the un-drawn loan, which we have tied up for the future expansion. So these are the one-time charges on the existing loan in the form of management fees, legal charges etc., and partly because of some of the commitment charges, because we have not drawn some of the loan, which we have already tied up for the future expansion.

**Milan Bavishi:** Okay, and what was the quantum of it?

**Anurag Mantri:** Sorry, we can't give quantum breakup in detail.

**Milan Bavishi:** Okay fine, thank you.

**Moderator:** Thank you very much Sir. We have our next question from Mr. Sachin Kasera from Pioneer Intermediaries.

**Sachin Kasera:** Good afternoon and congrats on the excellent results.

**Ashish Bharat Ram:** Thank you.



**Sachin Kasera:** I believe you mentioned something during the initial, fabric performance that you are de-bottlenecking the capacity by 6000 tonnes, could you throw some light on that when is it expected and what is the cost for the same?

**Ashish Bharat Ram:** This is actually old capex that was approved earlier. This is in the dipping machine at our Manali plant and is the downstream capacity, which will basically help in the export market.

**Sachin Kasera:** But it is only a dipping capacity. It does not include conversion from yarn to fabric?

**Ashish Bharat Ram:** No, this is beyond the fabric from greige fabric to dipped fabric.

**Sachin Kasera:** And secondly regarding this backward integration plan as well as the new plant in chemicals, I believe you mentioned the starting date for the backward integration for textile somewhere is Q4 of FY06?

**Ashish Bharat Ram:** No. The backward integration in the yarn plant will be Q3 FY06.

**Sachin Kasera:** Has there been some delay because I believe the last time we received certain press releases, it mentioned that they are somewhere around Q1 or Q2 of FY06, so has there been some one or two quarter delay in implementation for both chemical as well as this one?

**Anurag Mantri:** Earlier this was to go on stream by end Q2 FY06. Now we expect this plan to start in Q3 FY2006. There has been a delay of few weeks and that is getting spilled over to another quarter.

**Sachin Kasera:** Okay, so is it because of technical reasons or have we included something extra in the capex basically?

**Ashish Bharat Ram:** No, it is basically due to a lot of pressure on the suppliers of capital equipment due to all the growth that has taken place in the economy and some of the equipment that we were supposed to get from various capital equipment suppliers got delayed by two to three weeks. In fact, the machinery and all that is all setup right now and pre-trial has already started.

**Sachin Kasera:** So Sir, can we expect some sort of contribution say from Q4 onwards from this project?



**Ashish Bharat Ram:** No, from Q3 itself we may get the contribution.

**Sachin Kasera:** Okay. And regarding this NTCF, if you could provide any ideas in terms of whether there has been any price hikes in the last couple of quarters?

**Ashish Bharat Ram:** Well, the prices like I mentioned earlier have been pretty stable and that's because also raw material prices have been stable. It is now at a level where you know there could be some changes within a range, but no surprise.

**Sachin Kasera:** No Sir. What I am trying to understand is that if you look at the segmental results in case of technical textiles, the profitability is more from Rs. 10 crores to almost Rs. 33 crores. You mentioned that the volume growth is around 3-4%, which in turn justifies there has been a significant expansion in terms of margins, so whether that expansion has come primarily from lowering of raw material cost or...?

**Ashish Bharat Ram:** Okay, this is compared to last year, yes, in the first quarter last year, we were under tremendous pressure because raw material prices had moved up dramatically, that is when we had received the oil shock, and so Caprolactam prices have moved up accordingly whereas we were getting squeezed on the selling prices because we were not able to increase the selling prices immediately, so that is why you found that the performance last year in the first quarter was very poor.

**Sachin Kasera:** So what I am trying to say is this whole increase from 10 to 33 is largely because of lower raw material or we have got certain price hikes since...?

**Ashish Bharat Ram:** We have definitely got price hikes compared to last year. Compared to last year first quarter, there have been quite a substantial increase in prices.

**Sachin Kasera:** Would you like to share something in terms of what is the quantum of price hike that we have got?

**Ashish Bharat Ram:** To share that would not make any sense unless we share the raw material increases and I don't think we would like to share that due to competitive reasons.

**Sachin Kasera:** Okay. And regarding this polyester film business, I think for the last couple of quarters, you have been making losses. You mentioned about



getting into metallized films and thereby increasing the value addition, also going for the European Union review regarding the duties, but if you could give some ballpark in terms of whether for the full year we are looking at least making cash break even or attaining break-even for the film business because I believe that is one business which is dragging our profitability, so could you give some sense as to how that business is looking going forward?

**Ashish Bharat Ram:** I think the situation is such that, yes, when the metallizer comes we hope that it will help us to increase the value add, so there will be an improvement over there, but the major issue is going to be the EU approval so that we can start supplying into the higher margin markets, and clearly if there is some improvement on the demand-supply situation in India also, we should see some improvement, but it will be very difficult for me to comment at this stage on how the business will turn out at the end of this year.

**Sachin Kasera:** I know while we should not make one-to-one comparison, but we are just comparing the results with a company called Polyplex, came out with the results, and the Indian operations are almost as big as ours. They seem to have done an operating profit and also certain net profit, while once again I would say one-to-one is probably not feasible, but since considering that our plant is almost a very new plant, so our operating efficiencies and other costs would definitely be lower than them, so why still there is substantial difference in terms of profitability between us and the competitors?

**Ashish Bharat Ram:** The reason could be because they are able to export into the EU, which we are not able to do. The anti-dumping duty on us in the EU is 72% whereas for them it may be in single digits.

**Sachin Kasera:** Okay. So this difference is primarily because of anti-dumping duty.

**Ashish Bharat Ram:** Could be.

**Sachin Kasera:** Okay Sir. Thank you so much.

**Moderator:** Thank you very much Sir. We have our next question from Mr. Aditya Sood from Fortis Securities.

**Aditya Sood:** Hello Sir. Just wanted to have a feel on whether we have any inventory pile up as far as NTC business is concerned.

**Ashish Bharat Ram:** No, we don't have any inventory pile up.



**Aditya Sood:** And how have been the realizations as compared to last year and the first quarter?

**Ashish Bharat Ram:** I just answered that question at the last question.

**Aditya Sood:** Okay, but on an average can you give us some figures, the realization how they have moved?

**Ashish Bharat Ram:** No, I said that the margins have improved substantially over last year. Last year first quarter was one of the worst quarters we had, and this quarter is more at a normal level.

**Aditya Sood:** How does it compare with the last quarter Sir?

**Ashish Bharat Ram:** More or less at the same levels.

**Aditya Sood:** Okay. Thank you Sir.

**Moderator:** Thank you very much Sir. We have our next question from Mr. Manish Goyal from Way-2-Wealth.

**Manish Goyal:** Hello Sir. My question is, two questions, one question on HFC134A, what is the kind of capex you will incur on this particular project?

**Ashish Bharat Ram:** It will be in the region of around Rs. 55 crores.

**Manish Goyal:** Sir, can you also share in terms of technology, I believe the technology for this product is available with very few people in the world, so is it your own technology or your sourcing from somewhere?

**Ashish Bharat Ram:** No. This is our own technology.

**Manish Goyal:** Okay. My second question is relating to agreement which you have entered with the UK-based company, ICECAP Trading, notice which you have sent to BSE, on CER sales, now I just want to have some understanding is, how this contract works. Like, is it ICECAP now responsible to sell or probably he is concerned with his half a million units, which you have contracted to sell them and what are the risks associated?

**Ashish Bharat Ram:** Well basically, we have an understanding that we will sell 500,000 CERs to ICECAP Trading. As soon as we have our registration from the



UNFCCC and we set up the incinerator we will start the incineration process and once we generate these, we will sell them to ICECAP Trading.

**Manish Goyal:** In this, have you probably entered into a fixed price or how is it been worked? Is it variable or how is it?

**Ashish Bharat Ram:** Unfortunately, I cannot share that because of confidentiality reasons of the agreement.

**Manish Goyal:** Okay. Sir, on going forward then we will be able to trade on any exchanges being not part of annex 1 participant, so can we also trade on exchanges?

**Ashish Bharat Ram:** See, actually at this stage it is, like I mentioned earlier, things are still at a very nascent stage, so how the market develops for CERs and how the system will develop, all is still being worked out. So hopefully in the next few months we will have more clarity on that. At this moment, you have the opportunity to get into direct contract with buyers in the annex 1 countries.

**Manish Goyal:** Okay. So, for you the preferable mode would be this mode itself that you probably participate with annex 1 countries.

**Anurag Mantri:** No. It is not a question of preferable mode, right now the trading mechanism of the CER has itself not evolved properly because of various reasons – like I mentioned things are still at a nascent stage. CDM projects are just getting registered with UNFCCC. We will have to really wait and watch because simultaneously EU has already got a much advanced trading mechanism.

**Manish Goyal:** Okay. Sir, just probably for knowledge sake, we have been reading in newspaper that America is working on some other method to reduce emissions or to cut emissions and not support the way UNFCCC has been proposing. So, do you see a risk to your CDM project going forward?

**Ashish Bharat Ram:** See, as of now the Kyoto protocol has been signed by the existing members and it will be enforced till the year 2012. So as far as the Kyoto protocol is concerned, it is there to stay till 2012. As far as America is concerned, I guess each country decides on whatever course it will take, and it is difficult for me to comment or speculate on the US view, but as far as Kyoto protocol is concerned, it is there till 2012.



**Manish Goyal:** Okay. Last question. Can you indicate any base price where we can take for CER pricing?

**Ashish Bharat Ram:** No unfortunately I cannot due to confidentiality reasons like I mentioned earlier.

**Manish Goyal:** No. Probably I am not looking at your contract price, but what do you think would be probably the lowest price where probably next couple of years it could trade on?

**Ashish Bharat Ram:** No, you are asking me something, which is literally impossible. It is very difficult to predict about the future prices. It is still so nascent and prices are quite volatile, it is very difficult to comment on that.

**Manish Goyal:** Thank you very much Sir.

**Moderator:** Thank you very much Sir. We have next question from Mr. Ashish Kacholia from Lucky Securities.

**Ashish Kacholia:** Good evening. I want to understand the implication of this confidentiality, I mean, the confidentiality is because of your agreement with ICECAP Trading?

**Ashish Bharat Ram:** Yes.

**Ashish Kacholia:** I see, okay. And on the delta for the nylon business, that confidentiality is because of what?

**Ashish Bharat Ram:** Because of competitive pricing with other competitors.

**Ashish Kacholia:** But can't you give us a range at least because it will help us to do a financial model right.

**Ashish Bharat Ram:** No, I don't think we can do that because we won't jeopardize the competitive position because of this.

**Ashish Kacholia:** All right, okay, thank you very much.

**Moderator:** Thank you very much Sir. You have a next question from Ms. Abhilasha Sable from Techno Shares.



**Abhilasha Sable:** Sir, I just wanted to ask that your current emission of carbon credits is around 3.8 million, okay. So the expansion thing. you just said that it is 55 crores, so what do you think, how much you would be adding further?

**Ashish Bharat Ram:** No, no the expansion of 55 crores is on HFC134A and that project has nothing to do with carbon credits. That is a separate project for manufacture of a gas, which is a new generation gas. The 3.8 million CERs is due from the thermal oxidation of HFC23, which is generated, while producing HCFC22.

**Abhilasha Sable:** Okay. Thank you.

**Moderator:** Thank you very much madam. We have a followup question from Mr. Bharath S from Sundaram Mutual Fund.

**Bharath S:** Hello. I just want to find out is that, when you look at the revenue from the CER, those are taxable for you here in India or as a part of export income would they be, you know, exempt from tax?

**Ashish Bharat Ram:** No, our understanding is it will be taxable in India.

**Bharath S:** So, if you were, that you route it through some country where you have a double taxation, you know, the avoidance....

**Ashish Bharat Ram:** We don't. We don't intend to that. I think this is a transaction that we would like to keep straightforward.

**Bharath S:** Yes. Just a last question there on, the polyester film business, actually when this project was planned, did you then envisage that you will not be able to sell in Europe and did you have some kind of target time by which you would be able to sell in Europe?

**Ashish Bharat Ram:** Yes. We had expected that it will take us at least a year or so to get the EU approvals. And in the meantime, we were intending to sell in the domestic market in any case. Right now, we are selling in the domestic market, unfortunately the margins in the domestic market have fallen far more than what we had expected them to, so as our initial plan, the EU work is carrying on, and we are finding alternate markets to see whatever we can do to make sure the loss is reduced.

**Bharath S:** If you could throw some more light on that in terms of products that you have in the pharmaceuticals business.



**Ashish Bharat Ram:** Actually, the products we are doing have code names. I can share that with you P2, P3, P4. As you may know these are the products where we are working on derivatives all the time and therefore it is not going to make any sense if I have to share any of the product names with you at this stage because various derivatives are all at still a development phase.,.

**Bharath S:** Okay, thanks a lot. Thank you.

**Moderator:** Thank you very much Sir. We have a followup question from Mr. Sachin Kasera from Pioneer Intermediaries.

**Sachin Kasera:** Sir, if you could just share the volume of the polyester film business for the current quarter.

**Ashish Bharat Ram:** You are looking in value terms or tons?

**Sachin Kasera:** Sir, in terms of tonnage. I think value terms you anyway provide in segmental results.

**Anurag Mantri:** Tonnage, Sachin, sorry, I do not have that readily available. volume terms.

**Sachin Kasera:** Secondly, regarding this carbon credit, I understand that there is a differential pricing currently in the market, for example, something in US, Europe, Japan, as well as Asia, so it true, and if that is the case then what is the reason for the same, and how does it affect company like us?

**Ashish Bharat Ram:** The US does not come into it, but yes, between the EU, Canada, Japan, there are pricing differences, and that is because of whatever is the demand-supply situation in each country. Like I mentioned in the past Sachin that things are still at a very nascent stage as this is a new market and I think things will keep evolving. At some stage, I think we will find that there will be a far greater equilibrium among all these factors.

**Sachin Kasera:** Also, you just mentioned about demand and supply, I didn't understand, because I believe it is an industrial commodity which can be traded anywhere because I believe what we are selling today is in international market, so how does the regional demand-supply basically impact the pricing..?

**Ashish Bharat Ram:** This is for what?



**Sachin Kasera:** In terms of carbon credit Sir....

**Anurag Mantri:** Sachin, there is a different trading mechanism, **EU** prices which you are talking about is covered under EU ETS, that is, European Union Emission Trading System, which was effective in fact event before the Kyoto protocol. So, that mechanism is different from the Kyoto protocol, that is why although the nature of the EU and CER are sort of similar, but, CERs, are generated in a non annex-1 countries, while the EUAs are generated in the annex-1 countries. So like-to-like comparison is really not meaningful and not possible.

**Sachin Kasera:** Okay. Thank you Sir.

**Moderator:** Thank you very much Sir. We have our next question from Mr. Jigar Valia from Parag Parikh Financial Advisory.

**Jigar Valia:** Hello. Sir, there are some rumors that the group is getting into a property business through SRF or some group company, can you validate or refute that?

**Ashish Bharat Ram:** No, we are not getting into any property business.

**Jigar Valia:** Okay. Sir, I just wanted to understand how much would Caprolactam constitute as our total cost for nylon, as a percentage of total cost?

**Ashish Bharat Ram:** Let me understand this question, you are asking in terms of selling price?

**Jigar Valia:** Yes, either you can tell me in terms of the volumes or in terms of the total price.

**Ashish Bharat Ram:** In terms of as a percentage of selling price, it will be roughly in the region of around 50-53%.

**Jigar Valia:** 50-53%. That's it. Thank you Sir.

**Moderator:** Thank you very much Sir. We have our next question from Mr. Pritesh Chedda from Share Khan.

**Pritesh Chedda:** Hello Sir. Just wanted to get a feel on the fluorochemical, speciality chemical side. Have you already entered this business or you suppose to or plan to enter this business?



**Ashish Bharat Ram:** We have entered this business. We have started selling also.

**Pritesh Chedda:** How much has it contributed say in this quarter?

**Ashish Bharat Ram:** So far the contribution is negative.

**Pritesh Chedda:** Okay. And just want to understand the usually fluoro chemistry starts from fluorspar, which is a basic raw material for the entire fluoro chemistry, and it is usually imported from China, with China levying a huge duty on it before it arrives to India. So would you be able to compete on cost when it comes to selling your chemistry, be it fluoro chemicals with regards to pharmaceuticals or fluoro chemicals with regards to agrochemical or whatever...

**Ashish Bharat Ram:** See there are two things, number one, as far as the specialty chemicals in concerned, these are high margin chemicals, and while fluor spar is the main raw material it still constitutes a small proportion of it, because by the time it gets utilized in the final chemical it is not a very high proportion. Number two, as far as the normal refrigerant gases are concerned, the barrier over there is still not so much the cost of fluor spar as the availability of the technology, therefore products like HFC 134a etc., the fact that we have the technology whereas lot of people don't, gives us an opportunity to be competitive enough.

**Pritesh Chedda:** Okay. So what I understand is that as and when the chemical goes downstream, the impact of fluorspar is negligible.

**Ashish Bharat Ram:** Because there are lot of other chemicals which come in.

**Pritesh Chedda:** And that is the place where you are going to compete with China, because China I think is very far ahead in certain fluoro chemicals because the availability of fluor spar is there.

**Ashish Bharat Ram:** Well, partly that, but I believe there is also an R&D component involving the ability to develop these chemicals, and you know, there is enough benefit from there.

**Pritesh Chedda:** But are you looking at the specialty chemicals for domestic markets, because I assume that domestic market there is not much market for the agro based fluoro chemicals. These are usually on the expensive side and preferred by...



**Ashish Bharat Ram:** I think there are two ways, what is happening is that there is some element of corporatization of agriculture, which is starting to happen, and I think as that advances we will find that the demand for these chemicals will improve in the domestic market also. Right now we are looking primarily at the export market.

**Pritesh Chedda:** And just want to understand what capacity do you have through this specialty chemicals, is there any specific capacity in which you tend to produce a lot of chemicals or these are, I mean, how it is...?

**Ashish Bharat Ram:** Yes, this is like a multipurpose plant, and so we are producing certain chemicals right now, and the capacity differs as per the process.

**Pritesh Chedda:** But the capacity on books as of now is...

**Ashish Bharat Ram:** For example TFA which is trying trifluoro-acetic acid, there is a capacity of 200 tonnes per annum.

**Pritesh Chedda:** Okay. And cumulative for all chemicals at present taken together the book capacity would be how much? Then at the end of it, it depends on the product mix I agree, but...

**Ashish Bharat Ram:** For some other chemicals our capacity comes down dramatically, so it varies from product to product.

**Pritesh Chedda:** But as of now, how much of revenue do you generate say on quarterly basis from this?

**Anurag Mantri:** It gets clubbed with the chemical business, and this business is still in a development phase

**Pritesh Chedda:** Okay. For 134a what is the capacity that you are setting up and when should it get operational?

**Ashish Bharat Ram:** It will be a 3000 tons per annum capacity, and we are expecting it to come online by Q1 FY07.

**Pritesh Chedda:** Okay. But I presume that the market for 134A would be about 3000 tons, Indian market, would you be able to sell?



**Ashish Bharat Ram:** Yes, there is also a huge export market available. So between the export market and the domestic market I do not see any issue with selling this product.

**Pritesh Chedda:** Okay. I presume that this particular product is replacing the existing gas which is used in ACs, refrigerators, car ACs, am I correct?

**Ashish Bharat Ram:** Not completely, it is partially replacing 11 and 12.

**Pritesh Chedda:** 11 and 12, Maferon, what you call as, I think it is called as Maforin 11 and 12.

**Ashish Bharat Ram:** Maferon is a brand.

**Pritesh Chedda:** It is a brand. Okay, it is replacing that 11 and 12 in the market.

**Ashish Bharat Ram:** Yes

**Pritesh Chedda:** Okay, thank you Sir.

**Moderator;** Thank you very much Sir. We have a question from Mr. Prayas Jain from India Infoline.

**Prayas Jain:** HelloAs far as credits go you are getting 3.83 million credits per annum?

**Ashish Bharat Ram:** yes, we should, that is what we have applied for.

**Prayas Jain:** And Sir you have contracted for 5 lakh, Sir, any talks on the rest of the stuff?

**Prayas Jain:** And Sir, what about the remaining credits, like around 3.3 million credits?

**Ashish Bharat Ram:** Well, we are not commenting anything on that right now.

**Prayas Jain:** Okay fine. Thanks a lot Sir.

**Moderator:** Thank you very much Sir. We have a followup question from Mr. Pritesh Chedda from Share Khan.



**Pritesh Chedda:** Yes Sir, just wanted to understand what is the current trading which is happening in CER at presents, like we have that international emission reduction association, whatever, some report was floating in the market on carbon market study, and there they talked about some 100 million CERs to be traded until January to April 2005, are these figures correct or do you have a sense of what is at present...

**Ashish Bharat Ram:** Unfortunately, I have not got a copy of this report and I cannot comment on that.

**Pritesh Chedda:** Should I email it to you?

**Ashish Bharat Ram:** Sure, please do.

**Pritesh Chedda:** Yes. Because in that report it is about 100 million, even I was wondering where this 100 million came in, do you have any figures on what is the amount of **trading** that is happening at present?

**Ashish Bharat Ram:** The issue, I mean, the trading that is happening is more on the EUA side, on the CER side there is really not much trading happening because all CER sales at the moment are on a direct basis, hence there is no trading mechanism which has been established as yet, so all deals on the CER side if any have been done on a principal to principal basis,

**Pritesh Chedda:** Okay. So more of private space.

**Ashish Bharat Ram:** Yes.

**Pritesh Chedda:** Okay. But what would be, okay. And on the EUA side I can get it from the exchange whatever is...

**Ashish Bharat Ram:** Yes, you can get that from there.

**Pritesh Chedda:** But still do you have offhand what were these figures until say first six months or seven months?

**Ashish Bharat Ram:** The daily trading that is happening seems to be in the region of around a million or so, so you know it goes up sometimes, sometimes it is lower than that.

**Pritesh Chedda:** But these volumes are one where actually the CER is exchanged, or these volumes are speculative in nature?



**Ashish Bharat Ram:** No, these are where EUAs are being exchanged.

**Pritesh Chedda:** Whatever, EUA, they are actually exchanged or they are speculative in nature?

**Ashish Bharat Ram:** No, these are actually being exchanged.

**Pritesh Chedda:** Okay. And can you convert the CER into EUA and sell it in the open exchange or.

**Ashish Bharat Ram:** No, as of now there is no such method.

**Pritesh Chedda:** At present there is no such mechanism. So what you can do is do a block deal on a private space only at the moment?

**Ashish Bharat Ram:** Yes.

**Pritesh Chedda:** Okay. Thank you.

**Moderator:** Thank you very much Sir. At this moment there are no further questions from participants. I would like to handle the floor back to Mr. Ashish Bharat Ram for final remarks.

**Ashish Bharat Ram:** Thank you very much and I look forward to doing this again sometime soon. Thank you.

**Moderator:** Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.

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