

Management Discussion and Analysis



Indian Economy Review

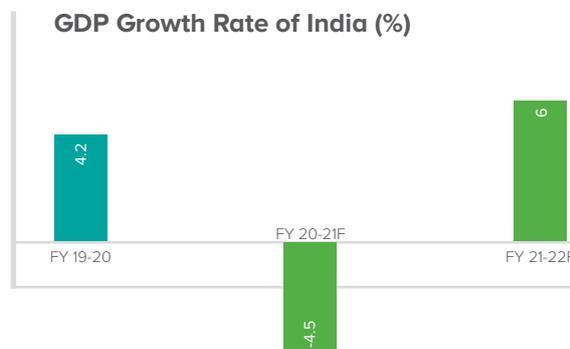
The Indian economy followed a growth trajectory for the last 6 years, but witnessed a decline in its GDP growth rate in FY19-20. The GDP growth is expected to decline and settle at 4.2% for FY 19-20 as compared to 6.8% for FY 18-19. The declining growth can be attributed to slower demand growth, weak investment, credit issues, currency fluctuations and rising inflation. Further, weak performance in the manufacturing sector, which accounts for 40% of IIP, affected the economy. The GVA of manufacturing sector also contracted at 2% in FY 2019-20, in comparison to 6.9% in FY 2018-19.

The Government has taken a slew of measures to revamp the financial sector, address the Non-Banking Financial Company (NBFCs) crisis, reduce stress in real estate and speed up the resolution process under Insolvency and Bankruptcy Code (IBC). This led to increased liquidity in the market and favourable investor confidence fostered spending by consumers. Further, Gross Fixed Capital Formation (GFCF) at current prices is estimated at ₹ 57.42 Lakh Crores in FY 19-20, against ₹ 55.70 Lakh Crores in FY 18-19. At constant (2011-12) prices, the GFCF is estimated at ₹ 45.93 Lakh Crores in FY 2019-20, against ₹ 45.48 Lakh Crores in FY 18-19.

The recent slowdown could result in some fiscal slippage from the Government and ongoing structural issues are expected to weigh on India's medium- and long-term growth potential. The growth outlook for the Indian economy has been slashed to

-4.5% for FY 20-21 following the grim economic situation amidst the CoVID-19 outbreak¹. With a lockdown imposed across the country, job loss is rampant due to minimal or close to zero manufacturing or service output in the country. But, demand is expected to grow as and when the lockdown is fully lifted and economic activity is anticipated to rebound with strong demand for products and services across the Country. It is also likely to improve opportunities for work, resulting in the growth of the economy. To further strengthen the economy, Government's proposed fiscal and economic reforms will help to improve the country's economic health and push the GDP to 6% for FY 21-22¹.

GDP Growth Rate of India (%)



(Source: IMF World Economic Outlook June 2020)

¹ IMF World Economic Outlook June 2020

Industry Overview

Fluoropolymers Landscape

Fluoropolymers are fluorocarbon-based polymers, consisting of multiple strong carbon-fluorine bonds and are highly resistant to acids, solvents, and bases. Fluoropolymers are widely used in semiconductors, automotive, aircraft, fabrics, IT and other common household appliances. It is a low friction, non-adhesive, chemical, weather, and heat resistant element, with superior electrical properties.

Electronics and electrical is the largest end-user industry for Fluoropolymers, where they are preferred for usage in cable and wire insulation, jacketing, lithium ion batteries, and semi fabrication. Technological advancement has led to the demand for products with superior tensile strength and high thermal stability and Fluoropolymers are therefore preferred around the world due to its useful properties.

Fluoropolymers are also used in coatings for all weather apparel and non-stick cookware. It is widely used in chemical plants and semiconductor parts due to its ability to withstand severe conditions without the need for regular maintenance. It therefore, helps to improve productivity of things. The excellent performance of Fluoropolymers in extreme conditions and its usage in demanding applications act as a major driver for the Indian as well as global Fluoropolymer market.

The high performance fluoropolymers market has been segmented into North America, Europe, Asia Pacific, Middle East & Africa and Latin America, in terms of region. APAC dominates the market due to the increasing demand for its wide applications in different end use industries. One of the major reasons for this high demand in APAC is due to the huge demand of vehicles in the region. North America accounts for the second-largest share in the market. The global high performance fluoropolymer market size is forecast to reach \$5 billion by 2025, growing at a CAGR of 7% during 2020-2025².

PTFE Landscape

Polytetrafluoroethylene (PTFE) is a rapidly growing Fluoropolymer formed by polymerization of monomer tetrafluoroethylene (TFE) in the presence of an initiator. It is also combined with other materials such as glass fibre, carbon and graphite to improve its mechanical properties. It is found in numerous products ranging from flexible foam and elastomers to rigid foam and solid composition material. PTFE can be characterized by distinguishing qualities like extreme chemical inertness, optimum dielectric properties, heat resistance capability and low frictional co-efficient.

APAC is the largest and the fastest growing market and China and India continue to grow at a brisk pace due to industrial expansion activities.

PTFE exhibits excellent chemical & thermal resistance, very low coefficient of friction, and high electrical insulation. It is used in a wide range of applications such as semiconductors, automotive components, electrical appliances, and non-stick frying pans. Additionally, PTFE is also less costly as compared to other types of HPF, which has resulted in driving its demand.

The PTFE global market is expected to reach US\$ 2953.6 million, growing at a CAGR of 5% from 2019-2024³. Increased preference for non-stick cookware and rising demand for PTFE in electrical and electronics industry is likely to augur growth in this segment. APAC is the largest and the fastest growing market and China and India continue to grow at a brisk pace due to industrial expansion activities. In 2018, the demand for PTFE in India stood at approximately 5 kilo-tonnes and it is expected to witness a healthy growth in the coming years. Its market in India is expected to grow at a CAGR of 7.2% from 2019-2027⁴. The use of PTFE in multiple industries along with its increased usage in the medical industry is anticipated to open new avenues of growth for this industry.

Global Market Size of PTFE Industry (\$ in million)



(Source: Market Research Report on PTFE industry)

²<https://www.industryarc.com/Research/High-Performance-Fluoropolymers-Market-Research-500240>

³Market Research Report on PTFE industry

⁴Research and Market report on PTFE industry



Company Overview

Gujarat Fluorochemicals Ltd (GFCL) is one of the leading producers of Fluoropolymers, Fluorospecialties, Chemicals and Refrigerants in India. A part of the Inox Group of Companies, a group with exposure to diverse sectors such as industrial gases, renewable energy, entertainment, speciality chemicals, engineering plastics, refrigerants and cryogenic engineering.

Since its inception in 1989 with India's largest refrigerant manufacturing unit, GFCL today is an established player with three manufacturing facilities in India, offices in Europe and USA, and a worldwide marketing network. With one of the largest fully integrated facilities in India, GFCL has a diverse portfolio of products including PTFE, PFA, FEP, FKM, PVDF and Fluoropolymer Additives.

GFCL's state-of-the-art facilities and strong R&D capabilities enables the Company to meet the highest quality standards while meeting regulatory compliances to efficiently fulfil the requirements of its global clientele.

The Company has received the permission (is acquired permission the right phrase?) during FY19-20 to demerge its chemical business from GFL Limited (earlier known as Gujarat Fluorochemicals Limited) and now operates as an independent company, Gujarat Fluorochemicals Ltd (earlier known as Inox Fluorochemicals Limited), which focuses on chemicals.

Key Strengths

- GFCL derives strength from its expertise in Fluorine Chemistry, vertical integration from natural minerals to Fluoropolymers and its ability to provide cost competitive products.

With one of the largest fully integrated facilities in India, GFCL has a diverse portfolio of products including PTFE, PFA, FEP, FKM, PVDF and Fluoropolymer Additives.

- The Company has a strong R&D centre, enabling it to provide best quality products that meet regulatory compliances, to fulfil the requirements of its global clientele.
- GFCL's modern manufacturing facility, well equipped Quality Assurance Lab & Research centre, coupled with its global reach have enabled the Company to become a preferred supplier for quality conscious markets.
- The Company constantly invests in state-of-the-art manufacturing technologies, while employing eco-friendly and sustainable techniques.
- The Company's constant commitment to deliver exceptional performance drives it to successfully meet customer expectations.

Process Development Capabilities

- DSIR approved Research and Development (R&D)centre at GFCL Dahej unit.
- Fluorospecialty Research and Development centre at GFCL Ranjitnagar unit.
- Multipurpose pilot plant facility for Fluorospecialty at GFCL Ranjitnagar unit.
- Multipurpose Fluorospecialty product plants with Quality Assurance (QA) lab at GFCL Ranjitnagar unit.
- More than 90 scientists and technical team dedicated for R&D and pilot plant.
- Fluorospecialty R&D centre has required facilities to conduct research related to Hastelloy-c Autoclave, Inconel 825 Autoclave, Cooling water supply and many more.

Product Portfolio

Refrigerants

GFCL is a leading manufacturer & exporter of refrigerant gases R-12 & R-22. GFCL's products are marketed under the "REFRON" brand. The Company has built a sound reputation worldwide as a reliable supplier of refrigerants, abiding by internationally accepted quality norms to supply refrigerant gases in bulk as well as in disposable cylinders. The Company's products cater to

GFCL is the only refrigerant gas producer with a 100% export oriented unit for manufacturing disposable cylinders of various capacities

varied needs and are widely used in refrigerators, air-conditioners and as propellants for aerosols and as blowing agents for Polyurethane Foam production. GFCL is the only refrigerant gas producer with a 100% export oriented unit for manufacturing disposable cylinders of various capacities, as per international standards, especially for the export markets. The manufacturing unit is equipped with state-of-the-art facilities and is accredited to international DOT 39 & EN standards.

Chemicals

GFCL's Chemical Division combines chemistry and innovation with the principle of sustainability to address diverse industry needs. GFCL has a well-established portfolio of chemicals catering to a broad range of industries. The chemical business segment of GFCL comprises of Caustic.

Soda Lye, Methylene Chloride, Hydrogen Gas, AHCL, HCL and H2SO4. GFCL's chemical complex at Dahej Gujarat includes 110000 tpa caustic soda/chlorine plant, 87500 tpa Chloromethane plant and a combined coal and gas based captive power plant with a capacity of around 90 MW.

Fluoropolymers

GFCL operates a world-class Polytetrafluoroethylene (Fluoropolymers) resin manufacturing facility at Dahej, India. The plant produces a variety of Suspension and Emulsion Fluoropolymers resins. GFCL markets Fluoropolymers resin under the brand name INOFOLON to meet the requirements of demanding applications that need to operate under high temperature and extensive chemical pressure, most commonly found in industries like Automotive, Aerospace, Oil and Gas, Food and Pharmaceutical.

The Company has 2 manufacturing plants in Gujarat with modern & backward-integrated PTFE manufacturing facilities. Manufacturing processes are controlled by modern DCS systems and technologically advanced hardware to consistently deliver quality products. Both the units in Gujarat are ISO certified.

Fluorospecialty Business

GFCL has unique building blocks, capabilities and facilities to develop and custom manufacture Fluorospecialty products and intermediates catering to Agrochemical, Pharmaceutical, Electronic and Polymer Industries. The Company has a dedicated Fluorospecialty Analytical cell with best-in-class equipment. Some of them are listed below

- Gas Chromatography (GC) with FID/HS – 11
- High performance liquid Chromatography (HPLC) – 3
- FTIR Spectroscopy – 1
- UV Spectrophotometer – 2
- GC MS
- Fluoro-ionometer -2
- Karl Fischer – 2
- 19F/H1/C13 NMR 300 MHz
- Auto titrator – 2
- pH Meter
- Melting Point apparatus

Joint Ventures and foreign subsidiaries

Gujarat Fluorochemicals Americas LLC, a subsidiary of GFCL, is engaged in processing and marketing PTFE products manufactured by GFCL in North and Latin America. Another foreign subsidiary, Gujarat Fluorochemicals GmbH is involved in trading as well as import and export, processing, distribution, marketing and storage of polymers and organic and inorganic compounds, especially Poly Tetra Fluoro Ethylene (PTFE grades). It also provides after sales services and technical support to its German and EU customers.

Manufacturing Facilities

Please refer to Manufactured Capital of the Integrated Section for details.

Financial Highlights

Standalone

(Figures in ₹ Lakhs)	FY 2019-20	FY 2018-19	YoY Change (in %)
Revenue from Operation	2,49,639	2,73,055	-9
EBITDA	52,448	85,319	-39
PBT	32,302	64,238	-50
PAT	18,995	1,24,618	-85
Networth	3,69,242	3,50,456	5

Revenue Mix

(Amount ₹ in Lakhs)

	FY 2019-20	FY 2018-19
Caustic Soda	35200	46100
Chloromethane	30400	35100
Refrigerants	43900	49100
PTFE	92700	111800
Others	45000	30300

Key Ratios on Standalone basis

In accordance with the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations 2018, the Company is required to provide details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations therefor. The key financial ratios are given below:

Ratios	FY 2019-20	FY 2018-19	Reason for change in ratio by 25% and above in FY 2019-20 compared to FY 2018-19
Debtors Turnover (no. of days)	3.85	4.50	N.A.
Inventory Turnover (no. of days)	2.27	3.01	Decrease in the year end sales due to COVID-19 related lock-down, has increased inventories in hand as on 31 st March,2020, adversely impacting Company's turnover.
Interest Coverage Ratio (in times)	4.44	12.68	Increase in debt due to funding of capital expenditure and lower EBIT due to reduction of sale price across segment
Current Ratio (in times)	1.05	1.19	N.A.
Debt Equity Ratio (in times)	0.46	0.26	Increase in debt due to funding of capital expenditure
Operating Profit Margin	12%	24%	Margins are under pressure due to reduction in sales price across segment due to general Economic slowdown & specially due to slump in Auto and Pharma sector.
EBITDA Margin	21%	31%	
PAT Margin (Before earlier year taxation)	7%	15%	
Return on Net Worth	5%	12%	Return has lower down due to reduction in EBITDA/PAT margin and increase in borrowing.

Human Resources

GFCL believes that overall employee development will help it to grow and achieve excellence in business operations. The Company significantly contributes towards training and skill development programs for employees, thereby improving confidence, loyalty and team spirit. GFCL also follows a Skill Will model which identifies and nurtures talent to groom future leaders for the organization. The Company believes in transparency and follows an open door policy, allowing employees to offer suggestions for organizational improvement.

Please refer to Human Capital of the Integrated Section for more details.

Risk Management and Internal Controls

Please refer to Risk Management of the Integrated Section for more details.

Cautionary Statement

This document contains statements about expected future events, financial and operating results of Gujarat Fluorochemicals Limited, which are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in it's entirely by the assumptions, qualifications and risk factors referred to in the management's discussion and analysis of Gujarat Fluorochemicals Limited's Annual Report, 2019-20.