SRF Limited

Update on Refrigerant Segment

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Moderator: Ladies and gentlemen, good day, and welcome to SRF's Update on Refrigerant Segment. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ranjit Cirumalla. Thank you, and over to you, sir.

Ranjit Cirumalla: Thank you. Good afternoon everyone and thank you for joining us today. We at IIFL Capital Services Limited are pleased to host SRF Limited's Update on Refrigerant Segment Conference Call. We have with us today, Mr. Prashant Yadav, President and CEO of Fluorochemicals; and Mr. Rahul Jain, President and CFO of SRF Limited.

In this session, Prashant will share his perspective on the outlook of the HFCs amidst the evolving regulatory environment. And we request participants to strictly restrict their questions on the HFC segment. I would now like to invite Mr. Rahul Jain, President and CFO to initiate the proceedings for the call. Thank you, and over to you, sir.

Rahul Jain: Thank you Ranjit. Good afternoon everyone. Thank you for joining us today on this investor call focused on the regulatory framework governing hydrofluorocarbons (HFCs). As indicated during our Q1 FY26 results call on July 24, 2025, we are pleased to host this dedicated session to share our insights and strategic positioning.

I am joined by Mr. Prashant Yadav, CEO of our Fluorochemicals business, who will walk us through the global regulatory landscape and its implications for SRF. Before we begin this call, I would also like to point out that some statements made in this call may be forward-looking, and a disclaimer to this effect is a part of our earnings presentation and is applicable to this call as well. Prashant, over to you.

Prashant Yadav: Thank you Rahul. Good afternoon all and thank you for joining.

I'll begin by sharing the regulatory landscape of our industry, which is based on the global regulation of HFC under the Kigali Amendment framework. I'm confident that many people are already familiar with this framework.

This framework categorizes countries into two large groups, the Non-A5 countries, which includes the U.S., Europe, Japan and other developed countries; and the A5 group, which is further divided into two subgroups, Group 1 and Group 2. Group 1 comprises of China, Southeast Asia, Latin America and South Africa; and Group 2 includes India, GCC countries and Pakistan. So these are the three broad categorization in the Kigali framework on HFC.

The Kigali Amendment talks about a phasedown of the HFCs, which means that in the end, 15% of the baseline consumption and production will be allowed forever. Though there are different years for each group, but broadly speaking, beyond 2045, 15% will be permitted to be produced

and consumed forever. So for example, essential applications like for pharma inhalers, MDIs etc., can continue to be used.

Also, each group has a unique baseline period and a defined schedule for reducing HFC usage over a long period of time. For Non-A5 countries, the baseline is the average HFCs of 2011, 2012, and 2013, plus 15% of the HCFC baseline. For A5 Group 1 countries, the baseline is the average HFCs of 2020, 2021, and 2022, plus 65% of the HCFC baseline, with the freeze year in 2024. So, for China the baseline years are 2020–2022, with the freeze year of 2024, which has already passed. For A5 Group 2 countries, including India, the baseline is the average HFCs of 2024, 2025, and 2026, plus 65% of the HCFC baseline. For Group 2, the freeze year starts in 2028. And just to note, all years mentioned refer to calendar years under the HFC regulations.

Another point to note is that if you look at the past, and also in the case of HFCs, China had already set up all the capacities by December 31, 2019, i.e. generally before the start of the baseline. That is more so because if any future monetary benefit comes, that is for the capacities which are set up before the start of the baseline period.

The other important aspect of the regulation is that there is production and consumption quotas, and both are treated entirely differently. So entitlement to production quota does not automatically guarantee entitlement to consumption quota and vice versa.

The Non-A5 countries are already in their phasedown phase. But in the medium term, some HFC blends might see growth in the non-A5 countries.

Entitlements are generally calculated in terms of global warming potential (GWP), with GWP assigned to each HFC product. This is then multiplied to define the tons of CO_2 equivalent during the baseline period. In the past we have seen that US and China have gone ahead and implemented it, and our understanding is as things stand today, they have not used the HCFC component for baseline calculation, which is allowed in the regulation.

India is currently in the middle of the 36-month baseline period. One aspect of the regulation that has already been implemented in India is import and export licensing. At present, a license is required in the country both to import and to export HFCs.

Now giving a broad perspective of how market will look like in the HFC. Asia will be the growth driver for HFCs in the medium term to long-term period, because Asia is also seeing one transition happening, which is that the existing HCFCs are moving to the HFCs. The Non-A5 countries are already in the process of transitioning to the lower GWP alternatives, with some of them being HFC blends. So overall, globally HFCs will see flat to medium growth in the medium to long-term, with Asia growing at a higher rate than the non-A5 countries.

The Indian HFC market, in the current scenario with a mild summer, will look more like a 6 to 7% growth market. But in the medium to long term, we expect a healthy growth rate coming in the Indian HFC market going forward.

Globally, fourth generation or the new generation gases currently are growing at a reasonably healthy rate, driven by the Western world where most of the OEMs have moved to the new generation refrigerants or the blends of HFOs and HFCs.

Now, talking about how SRF is placed on the refrigerant space; we are fully backward integrated. There are very few players in the world which are backward integrated. We have our own technology, all our plants have multiproduct manufacturing capability, we have very strong robust supply chains in place, and a strong brand and distribution. And we are one of the few players which have a strong brand and distribution of our own in India as well as in Thailand, and in Middle East, and we are also exporting to a lot of geographies beyond these three home markets. Also, some time ago we had announced our entry into the fourth-generation capacities, which will be coming up in the near future. And hence, we will strengthen our position in the new generation of refrigerants as well as we go forward. So broadly speaking, SRF is highly competitive and holds a leadership position in refrigerants, practice efficient capital allocation, possess our own technology for next-generation products, and will leverage our brand and distribution network of the current refrigerants to support the ramp-up of fourth-generation refrigerants in the future. We are confident that our integrated model, regulatory alignment, and market agility will continue to deliver value to all our stakeholders.

Thank you, and we look forward to your questions.

Moderator: Our first question comes from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: First question, what is the potential quota for R32 in India as a whole that you are seeing? If I go by simple mathematics, based on what you explained, the HCFC quota for India was around 27,000–28,000 metric tonnes, or close to 30,000 metric tonnes. And between us and Navin, who have sold during the quota, it appears that the total India quota will be upwards of 100,000 metric tonnes. Would that be a fair assumption for us to consider India's overall quota?

Prashant Yadav: Sanjesh, I'll put it in simple terms so that everybody can then do their own math. Right now, we are in the middle of the baseline formation. What we should wait for is how 2024, 2025, and 2026 unfold for HFCs. Currently, 18 months are remaining in this baseline formation period, so what happens in the next 18 months in India—both from production and consumption perspectives—will be very important. Once we have this baseline, then it's not just about R32 specifically, all the products will be converted into GWP terms and based on GWP terms the HFC baseline for 2024, 2025, and 2026 will be formed. On top of this, 65% of the HCFC baseline based on average of 2009 and 2010, in GWP terms, across all HCFC components will be added to determine the final baseline.

It's very difficult to say whether the total will reach 100,000 metric tonnes or not, because 18 months of HFC activity is still to be accounted for. The actual numbers will become clearer once we approach the end of the HFC baseline formation period.

Sanjesh Jain: That's fair. But any understanding on how India will go, because I think the U.S. went with the GWP quota and China went through a product-wise quota. Any understanding here on how India is looking, that will be helpful, whether we will get a GWP quota, which is fully fungible between the products or we are looking at a quota based on the HFC products?

Prashant Yadav: If you look from a regulation point of view, it is actually in GWP terms. Now countries can decide to implement GWP or countries can decide to convert that GWP into the product. But whenever they will be converted to product, it will also be dependent on how much of that product is required. So, in India, 134A has quite significant consumption, and there is a blend, which also has got a significant consumption. But there is a large consumption of some of the other HFCs also in the country.

So, the regulation says GWP and its reduction over a period of time. But this will depend on the policy framework, which still needs to be made from the country's point of view. But if I look at it, GWP quota might be a better thing for India.

Sanjesh Jain: Got it. Just one last question. From an India perspective, assuming that we have X amount of quota because we get some quota from R22, will government be open to providing GWP quota if there is excess in their hand to a newer entrant who otherwise didn't have any quota from R22 or being sold during the quota determination period?

Prashant Yadav: Sanjesh, I will leave that for the government to decide. But if you look at what has happened in the U.S. and China—or even in Southeast Asia and other countries—governments have largely stuck to the HFC baseline. This is because the regulations are tied to the environmental commitments that each country has ratified. Take China, for example: they have limited themselves strictly to the HFC side. Having said that, anyone can calculate the HCFC baseline. India's consumption in 2009–2010 was relatively small, so it's possible to estimate the HCFC allocation. So even if it comes into play, it's likely that those holding HCFC will be entitled to use it for their own purposes, which would benefit companies already active in the market. But I think that is still to be finalized and the regulation is to be put in place.

Moderator: Our next question comes from the line of Arjun Khanna from Kotak Mutual Funds.

Arjun Khanna: Sir, the first question is on the allocation of quota. You did talk about that we aren't certain at this point in time. But like you mentioned, the regulation is GWP for country quota. Now in terms of allocation of that quota, is it completely on the discretion of the government or are there some regulations around that also? That would be the first question. The second question would be around production and consumption quota. So if you could just touch about that in terms of importers, exporters, how that would actually flow through?

Prashant Yadav: Thanks, Arjun. If you look at how the U.S. and China have given the allocation and if you look in the past in the HCFC space in India, the quota was given based on each company's baseline formation. In the U.S., it is company-wise, the whole list is public and anybody can see how much each company has received. The same is true in China, where there are 30–35 players, and each of them has their own allocation based on what they did during the baseline period. In India also, the same philosophy was followed for HCFCs. So there is consistency in the implementation of this philosophy over a long period of time under the Montreal Protocol. I think the same principles are followed and will continue to be followed going forward. I believe that answers the first question.

On the second part of the question, production and consumption, these are two separate things. The average of the amount you produce during baseline period determines your entitlement for that amount. Whatever you sell is a separate thing, and the average of those sales becomes the average consumption for that company.

Arjun Khanna: Sure. So just as a follow-up on this. So potentially, if India does have surplus quota, given that the consumption quota is frozen, will production quota be the surplus one? How does one understand production and consumption quota for the country?

Prashant Yadav: Production quota is based on the total production. Whatever you produce, which is broadly say, domestic sales and exports sales put together, is the total production. Whatever sales you do in the domestic market is the consumption. Somebody can have less domestic, more exports, or more exports, less domestic; so based on how much you do in domestic market determines consumption quota and whatever actually you produce is total production for production quota.

Arjun Khanna: Sir, my question was more in the context of Indian players—or India overall—since our domestic consumption is not that high—many players including us, have multiple home bases and export to the U.S. markets etc., so given that, our production quota may exceed our consumption quota and with the baseline addition, could units still fulfill this production quota even post the baseline determination year?

Prashant Yadav: It's already documented in a clear, black-and-white mathematical model that anyone can use to work out their own numbers. Specifically, the average of HFCs production in 2024, 2025, and 2026 will become the HFC baseline. You can convert this into GWP terms, and further add GWP equivalent of 65% of the average HCFC for 2009 and 2010 to that. That forms the baseline year.

If you don't have a baseline and if you don't have an entitlement, then you can't do anything after 2028. Because after 2024, 2025, 2026 of the baseline, 2028 is the freeze year; which means from 2028 onwards you are capped by the baseline average. So you must have a baseline to actually start or continue operations beyond 2028. So in the freeze year, you need to have your entitlement, and based on the entitlement you are allowed to produce or sell that much quantity

going forward.

Arjun Khanna: Sure. Very helpful. Just a final question, sir. If SRF sees demand for export markets to be stronger, is it possible for SRF to set up an HFC plant or say, an R32 plant in the future post the determination year, given that we have a baseline of 2009, 2010, 2011 for HCFCs and given the fact that R125 sales will incrementally come off and the GWP level is significantly higher than R32. So does the regulation allow us to set up a plant even post the determination years?

Prashant Yadav: We should look at how the U.S. and China have done it and how India has done it in the past in HCFC. In China, 31st December 2019 was the start of the baseline, which means that any future monetary benefits are only eligible to plants which are set up before the baseline period. That is how the past has been in the CFC and HCFC era, that is how China has implemented it in HFCs, and that is how the regulation is. This is part number one.

The second is, from 2032, there will be a 10% cut. If you don't have a baseline and you don't have an entitlement, which comes only if you have HFC production during the period of 2024 to 2026, it is going to be difficult. India is in the midst of forming the final policy framework for this. But you must have an entitlement to run your operations. Otherwise, it's going to be very difficult or next to impossible.

Moderator: Our next question comes from the line of Meet Vora from Emkay Global.

Meet Vora: Just wanted to understand this timeline for setting up the plant before the baseline, also includes retrofitting the plant? Why I'm asking this is after December 2023, we have already seen Brownfield expansions in India by converting existing plants and wanted to check by what time can one retrofit a plant from a high GWP to low GWP gas, should need arise?

Prashant Yadav: Thanks for the question. So, you can do retrofit, you can do production, you can do all that stuff, but the basic framework is that you need to have entitlement to do anything. If you don’t have that base entitlement, you cannot proceed.

One more way to answer this is, today we have an HCFC baseline and quota implemented. So suppose somebody has got 100 metric tons equivalent quota of HCFC today and a some customer asks for 200 tonnes, then you cannot produce 200 tonnes, because 100 tonnes is capped. Under that 100-tonne cap or baseline, you have the flexibility to do various things, but you cannot exceed that. So that's very, very sacrosanct. It is measured, there is a quarterly return and it is audited as well. So it is a very tightly controlled, regulated and monitored from government's point of view; and you'll see more tighter regulations and more audits coming in from 2028 onwards. And India has already started import and export licenses for HFCs, which is one small step in this direction.

Meet Vora: Sure. So just in that case, if someone sets up a plant, say, in next year, then probably based on your understanding, you will get quota only for 6 months or 1 year of production that he has

done during that year? That's correct, right?

Prashant Yadav: So if you set up next year, i.e. in 2026, then 2024 and 2025 are over. So say you produce 500 tonnes in 5 months of 2026, then you have to divide it by 3, and convert it into GWP terms. That becomes your HFC baseline and that is what you get as an HFC entitlement.

If you look at what China and the U.S. have done; they have not touched the HCFC baseline and have kept their focus only on the HFC. However, the regulation does include a formula of 65% of HCFC, and there are many players who operate on both HCFC and HFC side. So that's where the complications start. But what happens with HCFCs is still to be decided. But if you look at China, they have taken a higher position and have not used the HCFC baseline to date.

Meet Vora: But in that case, maybe in the last 1 or 2 years, what we have seen is that Chinese government gives additional gas quota, whether it is for R32 or any other gas. So is it that they have government level extra quota, which they allocate to existing players and that kind of thing can happen in India in 2028 or 2029?

Prashant Yadav: There's no extra quota. It is mathematically derived based on the formula, which is black and white. Actually, it is public document, and anybody can read that and derive the number by themselves. What the U.S. has done is they have given quota in GWP terms. You have talked about China giving extra for R32 but also see what China has done to R134a; they have significantly reduced R134a; so, China has swapped between products. So, the regulation is on GWP basis but as a country you can decide on how you want to play it. The U.S. does it on GWP terms, and China also does it on GWP terms, but they convert it into products because they have got 30-35 players whom they have to regulate. But China has very strict implementation.

Moderator: We have our last question coming from the line of Abhijit Akella from Kotak Institutional Equities.

Abhijit Akella: So first question is, in your estimate, what is the world demand for R32 at present in tonnes? And where do you see it going over the next 5 years or so, by 2030 or so?

Prashant Yadav: I'll answer it from a total HFC perspective. Global HFC production would be about 700,000 metric tonnes today, and Asia will be the driver of growth to a large extent on a total HFC level. Also, it's not only about R32, there are a couple of other HFCs that are equally important in the HFC market. R134 is also a major HFC along with R32, and there are many blends which are also consumed globally. So we expect overall global growth to be marginal, but Asia will likely see some growth over the medium to long term; and by medium term I mean around 5 years, and by long term, around 10 years. Also, all the HCFCs are today consumed or produced in Asia and a lot of these HCFCs will move to HFCs, so Asia will see growth. Obviously, there's a shift from HFCs to fourth generation or next generation which will happen in the Western world. And hence, global growth will be marginal.

Abhijit Akella: And just the last question from my side was, with regard to R32, what is China's total quota, would you have a sense for that? Are they producing already at the full quota entitlement or are they a little bit below that just to support the prices? And a related question, the U.S. has antidumping duties on imports of Chinese R32, which was implemented in early 2021. The 5-year period for that is expiring early next calendar year 2026. Would you expect that, that ADD could be removed on Chinese exports of R32 to the U.S?

Prashant Yadav: It's very difficult to answer whether Chinese ADD will be removed or not. But ADD is not only on R32, it is also there on R134A and on R125. So most of the HFCs coming from China to the U.S. are under ADD. And ADD on R134A was before R32, and it is still continuing; R134A was the first product where ADD was put against China, and it has continued and has always kind of got extended. So I hope and I expect that the same will happen to R32.

As for China data, since they do calendar year announcements, so their production or consumption for R32 is in public domain. Having saif that, China's consumption for R32 is growing, and that is something good. Our expectation is that it will lead to a more balanced demand-supply situation in medium term to long term in the HFCs.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Rahul Jain: Thank you, everyone, for joining us on the call. I hope some of the questions that you had, with Prashant here, have been answered. We thank you for your support, as always, and look forward to future engagements. Thank you.
