



“Navin Fluorine International Limited Q3 & 9M FY2020 Earnings Conference Call”

January 28, 2020



**MANAGEMENT: MR. RADHESH R. WELLING – MANAGING DIRECTOR -
NAVIN FLUORINE INTERNATIONAL LIMITED
MR. KETAN SABLOK – CHIEF FINANCIAL OFFICER -
NAVIN FLUORINE INTERNATIONAL LIMITED**



Navin Fluorine International Limited
January 28, 2020

Moderator: Good morning, ladies and gentlemen. Welcome to Navin Fluorine International Limited Q3 & 9M FY2020 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions, and expectations of the company as on the date of this call. These statements are not a guarantee of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Radhesh Welling, Managing Director of Navin Fluorine International Limited. Thank you and over to you Sir!

Radhesh Welling: Good morning and a warm welcome to all the participants. I am joined by our CFO, Mr. Ketan Sablok and Strategic Growth Advisors, our investor relations advisors. I hope everyone got an opportunity to go through our financial results and investor presentation, which has been uploaded on the stock exchange as well as on our company's website. First, I will brief you on the performance of our various business segments and then Ketan will take you through the financials.

To start with, our high value businesses, which includes specialty and CRAMS segment grew by 18% in Q3 FY2020. Our specialty business continued its growth momentum for yet another quarter, it grew by 33% in Q3 compared to same period last year.

The segment saw good volume growth both domestic as well as export markets. We believe this segment will continue to see good overall growth trajectory driven by strong product pipeline in both life science and crop science.

During first nine months of FY2020 this segment reported 19% year-on-year growth. In this period, we were able to expand the product portfolio and significantly strengthened our existing customer penetration.

Moving on to CRAMS. During the quarter, cGMP3 has commenced commercial production post successful mechanical completion and plant trials. New projects have been signed up for this plant and we expect them to start contributing to our revenue in the coming quarters.

During this year we have good inroads into European market. We have managed to widen our customer reach and further strengthen our existing relationships with the innovator pharma companies in Europe.

We also continue to see steady flow of new molecule enquiries from US market. We are undertaking some new initiatives in the business division to achieve next level of growth. Our last capex was in this direction. We believe we will reach optimum level of utilization in the next three years starting from FY2021. Our long-term outlook this business remains positive.

Our legacy businesses, which include ref gas and inorganic fluorides registered growth of 4.5% in Q3 on year-on-year basis. In refrigerant business, this division witnessed an overall increase in profitability on back of better pricing and lower raw material cost. We are glad to inform you all that the non-emissive sector has also shown significant increase in demand.

Moving onto inorganic fluorides, we are able to maintain the performance in this division despite softening of demand from end-used industries like stainless steel and glass. Both domestic and export market registered a growth in volume, right product mix and steady pricing supported margin performance.

On operating profit, we have seen performance strengthening for each of our divisions in this quarter. operating EBITDA for Q3 stood at Rs. 65 Crores with growth of 24% on year-on-year basis. Margin expanded by 270 basis points to 25.9%. Operating PBT improved by 23% to Rs. 56 Crores with margin expansion of 211 basis points to 22.4%.

To summarize, with all the steps taken to increase contribution from high value businesses we are confident we will continue to see sustainable and profitable growth going forward. We see several opportunities leading to good performance in each of the segments and company as a whole in the coming years.

In order to capture these opportunities, the company has planned a new capex program at Dahej through a wholly owned subsidiary. The Board of Directors has initially approved capital expenditure of approximately 90 Crores for pipe development and related infrastructure on approximately 74 acres of land for Greenfield projects at Dahej. The said capital expenditure will be funded by the company out of its internal accruals. That is it from my side. I will now hand over to Ketan to give you brief on the financial performance of the company. Thank you.

Ketan Sablok:

Thank you Radhesh and a very good morning to all the participants. I will share the highlights of our financial performance following which we will be happy to take Q&A and respond to your queries.

I will start with the Q3 FY2020 standalone performance. The company registered net revenue from operations of 252 Crores as against 226 Crores in Q3 FY2019 YOY growth of 11%. Operating EBITDA grew by 24% to Rs. 65 Crores with improvement in margins by 270 basis points to 25.9%.

Operating PBT grew by 23% to Rs. 57 Crores with improvement in margins by 211 basis points to 22.4% and profit after tax stood at Rs. 45 Crores a growth of 17% with a PAT margin of 18%.

Coming to the unit wise performance, the legacy business grew by about 4% and the high value business grew by 18%. Refrigerant was steady at Rs. 57 Crores and inorganic segment grew by 9% to Rs. 51 Crores. The specialty segment grew by 33% to Rs. 97 Crores and in CRAMS we were able to do well with revenue of 47 Crores, which was down by 5%.

On a 9M FY2020 performance the company registered net revenue from operations of Rs. 757 Crores as against Rs. 711 Crores in nine months FY2019, a YOY growth of 7%. The operating EBITDA grew by 17% to Rs. 194 Crores with improvement in margins by 222 basis points to 25.6%.

Operating PBT grew by 16% to Rs. 169 Crores with improvement in margins by 174 basis points to 22.3% and profit after tax stood at Rs. 131 Crores, a growth of 16% with PAT margin of 17.3%.

Coming to the unit wise performance, the legacy business grew by 5% while the high value grew by 8%. In the refrigerant we saw a growth of 5% to Rs. 205 Crores and inorganic segment saw a growth of 7% touching Rs. 156 Crores.

The specialty grew by 19% to Rs. 277 Crores. We saw the CRAMS business recovering and doing well in the last two quarters after a weak opening. It is down by 12% to Rs.119 Crores; however, we see good traction in this business on a long-term basis and we are very optimistic post our commencement of the cGMP3 plant.

I will just give a breakup of the domestic and export mix for each of the business segments. In refrigerant, the domestic stood at 55% while the international business was at 45%.

Inorganic domestic was at 89% and the exports was at 11%. In specialty business, the domestic business stood at 63% versus the international at 37% and CRAMS as you guys are aware is 100% exports.

I would also like to update you on the tax rate considered in this quarter. As we had explained in the last quarter's call, we are evaluating whether to move to the concessional rate of tax under Section 115BAA, given that we have some tax assessments open for the past years, which may impact our decision in this direction; however, by the year end we will be in a better position to take a call on this, so as of now in this quarter we have continued to make the tax provision at the old rate. That is all from my side, I will now open the line for Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Rohit Sinha from Emkay Global. Please go ahead.

Rohit Sinha: Congratulations for a good set of numbers Sir. Few questions on the cGMP3 plant that was commissioned in this quarter, so would it be possible to share what kind of revenue, incremental revenue was there from this plant?

Radhesh Welling: Specifically, in this particular Q3 the contribution from cGMP3 was not significant because the plant actually started the commercial production only in the month of December, so there were a few batches that we had manufactured post the mechanical completion, There were basically some trial batches that we took and the sales of those also has been taken in this quarter, but it was not of material significance.

Rohit Sinha: So, this with full operation in Q4 at least what kind of incremental revenue we can expect from at least the cGMP3?

Radhesh Welling: So, quarter-on-quarter it is little difficult to give these kind of numbers, but as we just indicated the commercial production from cGMP3 have just started in the end of December,. So, the first batch will start coming out from mid of this particular quarter. The real impact of the cGMP3 will actually start; when I say complete impact, I am talking about on a quarterly basis impact, which will actually start seeing from the Q1 of the next financial year, some of that we will see in Q4 of this financial year as well.

Rohit Sinha: And in terms of depreciation, what additional depreciation was there from this particular plant and all the incremental depreciation is for the full quarter or how are we taking this and we are seeing further increase in depreciation in the next quarter or within the range?

- Ketan Sablok:** Yes, as Radhesh has indicated the plant got capitalized towards the end of the quarter in the last week of December, so the impact of depreciation for the full quarter will actually come in Q4.
- Rohit Sinha:** In Ref-gas segment when you are saying that we have the price benefit that has helped the margin expansion, but still numbers are flat in revenue that means the volumes have gone down and price hike is there, so it is in domestic market or international market how do we see that thing?
- Ketan Sablok:** In the refrigerant as we have indicated the topline is kind of flat given that this quarter generally is not the season for the refrigerant segment, but yes the overall volumes in the refrigerant sector has seen a slight dip in this quarter, but we have been able to maintain that as we have seen a good traction in the non-emissive side of the business and we have seen a slight lowering on the RM cost side, which has helped us garner better margins in the ref gas segment in this quarter.
- Rohit Sinha:** In the specialty chemical segment I think the run rate has significantly gone up and we have been adding geographies and customers, so with this new capex coming out are we thinking of expanding specialty chemical at a significant level or do we have enough capacity right now with the orders pipeline?
- Radhesh Welling:** Yes, so as we have indicated earlier we continue to see very strong growth pipeline in specialty some of that is going to be serviced out of our existing facility in Surat through some debottlenecking, etc., in the coming year, but a lot of these opportunities that we are seeing are finally going to happen in our new setup in Dahej so that is where the majority of the capex will be happening for specialty business and that is where we will actually start seeing relatively non-incremental growth starting on the specialty side.
- Rohit Sinha:** Okay and that is it from my side Sir. I will come back in queue.
- Moderator:** Thank you. The next question is from the line of Naushad Chaudhary from Systematix Shares. Please go ahead.
- Naushad Chaudhary:** Three quick questions I have, first on the margin side Sir if I look at the margin one thing is clear there was a raw material benefit and if you can quantify how much it was from the raw material benefit and how much was it from the value addition and what could be the normalized margin going ahead?

- Radhesh Welling** Yes, so in this quarter if you see in terms of margin expansion there are specific events that happened in each of the four BUs business units, which actually contributed to this margin expansion. As far as the issue related to cost is concerned, those issues primarily impacted our ref gas and inorganic segments and on both the segments we were either able to maintain the price or take the price up hence the margin went up. In specialty there were some specific events with respect to product mix, which we have talked about on our earlier calls as well. On the CRAMS side as the business continues to grow our ability to absorb the fixed cost goes up and hence the margin continues to improve., So specifically if you see there are kind of different events that has happened in each of the four business units, which have contributed to this margin expansion. Overall as we have indicated earlier we continue to feel that the normalized margin for the business should be taken between 22% to 24%. There will be quarters where we will actually see margin more than 24%, there will be some quarters where there could be specific issues happening by which we will see margins slightly below 22%, but otherwise as far as the normalized operating margin is concerned you should assume it to be between 22% to 24%.
- Naushad Chaudhary:** Second one on our Piramal JV Sir if I look at the profit sharing numbers, it is continuously going down, we had an average of around Rs.2, Rs.3 Crores and it has come down to only Rs.30 lakh, last quarter we shared because of some of the reason that was down and it was expected to come to be better from the previous quarter, but we have not seen much improvement we can highlight this part also?
- Ketan Sablok:** Yes, so on the Piramal CCPL front as we had already indicated in our last few calls that the way this plant works is that it needs to take regular shutdown almost every two-and-a-half to three months for change of catalyst, etc. We had seen this plant taking a longer production cycle in the first quarter and the shutdown was kind of postponed because the catalyst was running well and we have had the first quarter at a good run rate, the second quarter also was pretty much good given that we could manufacture and sell in Q2 and then we had to take shutdown. The shutdown was partly in Q2 and partly in the first month of Q3. So that is why the impact of the catalyst change and the shutdown has actually come in this quarter and we had already indicated that it would not be good to look at the numbers of CCPL on quarter on quarter basis because overall for the full year the impact of these shutdowns will be visible in the later half of the year so that is what we have been seeing now and the shutdown has now been done and the plant is back into operation so we should be seeing a better quarter in the fourth quarter.
- Naushad Chaudhary:** So, on an annual basis what should be the run rate we should consider from this JV?
- Ketan Sablok:** I think the nine months you can just take it to a 12-month average



Navin Fluorine International Limited
January 28, 2020

- Naushad Chaudhary:** Thank you that is it, I will come back in queue.
- Moderator:** Thank you. The next question is from the line of Jaspreet Walia from Infina Finance. Please go ahead.
- Jaspreet Walia:** Sir in the CRAMS business you had faced problem with two customers so you said one customer came back and gave you a commercial order and in the last call you had said that second customer was supposed to come back in November with regard to how the progression in that product is going to be so what is the status on that front Sir?
- Radhesh Welling:** Yes, so as far as the first customer is concerned as you rightly said has not only come back but that has also got converted into a multiyear supply agreement, which we announced a little earlier. As far as the second one is concerned they basically have gone back to the drawing board, they are basically relooking at that entire route, they were supposed to come back to us before the holidays and they have indicated to us that they have not finalized the route yet and as soon as they are able to do that, they should come back to us.
- Jaspreet Walia:** Any incremental commercial opportunities you got in the CRAMS business in the last quarter?
- Radhesh Welling:** Yes, so if you look at traditionally this business has been skewed towards US, if you look at the initial period of this business we got pretty good customer flow and project flow from US and that continues on a steady basis what has happened in this particular year and specifically this particular quarter is that we have actually started getting good inroads in Europe as well. So, we have actually started seeing good project flow from European customers and there are some of those relationships where we have really been able to strengthen the overall relationship by which we are actually getting repeated project flows. So currently if you look at our order pipeline it is pretty evenly balanced between US and Europe.
- Jaspreet Walia:** With regard to your capex at Dahej you have announced a capex of around 450 Crores would it be just this 450 Crores or you are planning to announce incremental capex also at Dahej?
- Radhesh Welling:** So as far as Dahej is concerned let me just take a step back and just explain because this is the first time we are actually discussing about this particular capex so I think it is good to give the context to this entire Dahej capex issue. As we have indicated we have CRAMS facility in Dewas and Dewas facility will continue to be focused only on our CRAMS business. As far as our plant in Surat is concerned, Surat basically serves the other three

business units and there are very limited opportunities now available going forward to increase capacities in Surat and hence what we have now embarked upon is relatively large capex plan for Dahej. Currently we have taken approval from the board of Rs. 90 Crores, which will basically be spend on site development and setting up infrastructure including effluent treatment facilities, etc., and we have indicated that will be supported by overall capex in excess of 450 Crores, which will be spend in the next two to three years for projects related to other three business units and we are also seeing some opportunities beyond those three business units. So, the capex is going to be in excess of 450 Crores so it is going to be 450 Crores plus to be spend over the next two to three years and what we will be doing is as we keep getting approvals from the board for specific projects we will keep coming to you making those specific announcements.

Jaspreet Walia: Got it Sir. Thanks, that is all from my side.

Moderator: Thank you. The next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.

Chetan Thakkar: Sir just a question on the CRAMS business wanted to understand will the Q4 run rate see a step up from Q3?

Rdhash Welling So, in terms of Q4 we feel that it will probably be similar to what we have seen in Q3 or slightly uptick from Q3 because the major contribution from cGMP3 we will actually start seeing from Q1 FY21 onwards.

Chetan Thakkar: And the current facilities, which is there at Dewas in terms of reactor time was operating optimally throughout the quarter or was not that the case?

Radhash Welling It was functioning at optimum capacity.

Chetan Thakkar: So, any increment will now be from the cGMP3 over and above this base revenue that we will see for this year?

Radhash Welling: Yes, but I think the way you will have to think about it is slightly different because this business operates slightly differently than the specialty fluorochemicals business. As you see as the molecules mature and they start going into phase III, phase IV and also start getting commercialized and as the order quantity start increasing they cannot be done out of cGMP2, they just are not optimum to be done out of cGMP2 and the cGMP3 is primarily focused on those molecules. Whereas the new project flow that we are seeing will be continue to be serve out of cGMP2.

- Chetan Thakkar:** So, if you look at both these facilities together so we have put in around 190 odd Crores and both of them put together and that will be optimally utilized based on the projects, which are smaller in size will go to the first facility and once which are larger in quantity moving to cGMP3 based on whichever reactor is optimum for that product?
- Radhesh Welling:** That is the design basis, that is correct.
- Chetan Thakkar:** Sure. Okay Sir. Thank you so much for this. All the best.
- Moderator:** Thank you. We will move onto the next question that is from the line of Sudarsan Padmanabhan from Sundaram Asset Management Company Limited. Please go ahead.
- Sudarsan P:** Sir my question is on the CRAMS segment if I recall correctly you had mentioned that there might be some kind of order shift that can happen from Q3 to Q4, has there been any order shift that has happened from Q3 to Q4 because of probably the revamping of the facility or upgradation of the facility, etc., and if that is so how much is the quantum of that?
- Radhesh Welling :** Yes, so it will be difficult to give the exact quantum but what we had indicated earlier is that if you actually see the commissioning of cGMP3 got slightly delayed and there were orders, which we were suppose to take into cGMP3 a month or 2 earlier, which got slightly shifted because of which we said that the overall order cycle or the manufacturing cycle shift by a month or 2. So the cGMP3 which was at least supposed to start the commercial production in the month of October has actually started only in the month of December. So whatever shift that we spoke about is primarily because of that reason.
- Sudarsan P:** Which means that whatever the deferment that you are expected to kind of catch up in the fourth quarter could now be shifted to the first quarter is that a right assumption?
- Radhesh Welling:** Yes, so for manufacturing it will be Q4 and it will basically start reflecting in the actual sales from Q1FY21 onwards. Some of it will happen in Q4, but majority of that we will start see in Q1FY21 onwards.
- Sudarsan P:** Sure Sir. And Sir with respect to the specialty chemical segment I think we have seen fair amount of growth over there, if you can give some more color with respect to one we have broadly said that both the pharma side and the agro is doing well, if you can give a bit more color on what are the drivers for this, on the agri side do we see, historically we have seen some kind of slowdown there whether that issue is completely getting resolved with better demand picking up globally and even on the pharma side are we seeing addition of newer molecules, which is coming on the specialty chemical side?

- Radhesh Welling:** If you look at our specialty fluorochemicals you know that our business is divided into three segments, so it is almost 40/40/20 between pharma, agro and industrial and what we are seeing is growth in each of the three segments, so let me take the simplest one first which is the industrial. We have actually seen a pretty robust growth in industrial as well so while the pharma and agro sector grow for their specific reasons and I will come to those little later. We also continue to see growth in the industrial. So, we are actually expecting pretty robust growth in the industrial sector next year and also it is important to keep in mind that the industrial sector is a place where we have capacity headroom available in Surat, which we intent to leverage and saw that growth. Then on the pharma it is primarily driven from the growth that we are seeing of new generic molecules that are getting launched within the fluoro space and also expansion of some of the molecules that we had launched a few years back so that is primarily driven by volume expansion and new products. On agro side the growth that we are seeing primarily coming from new molecules and these are molecules, which are either just being launched or products which are going to get launch next year or the year later, etc. So, lot of what you see this year and what you will also see next year is lot of that is actually market seeding and the full impact of that you will actually see as the Dahej starts the operation the following year. So, lot of it is actually for new molecules in agrochemical it is not the existing molecules.
- Sudarsan P:** For that indicated capex that you talked about excess of Rs. 450 Crores in two to three years one is I think this 80, 90 Crores going towards that Dahej land so additionally we will be left with the Rs. 350 odd Crores, so if you can give some idea on internally with respect to your capital commitment in terms of priority now that a bit of fair amount of CRAMS has come through in terms of capex and that gives you visibility for three years then would it be a right assumption that the majority of the incremental capex would largely go towards specialty chemicals?
- Radhesh Welling:** Yes, so as we have indicated we are actually seeing opportunities beyond these standard four BUs as well, so the opportunities that we are seeing outside of those four BUs will also get significant part of this capex after which you will see capex happening in specialty, after that will be refrigerant gases and probably lowest on that picking order would be inorganic.
- Sudarsan P:** I will join back the queue.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.
- Pritesh Chheda:** Just a couple of clarifications. So, one on the spect chem side till the time the Dahej facility comes through what kind of peak revenue is possible based on the current facility or some



Navin Fluorine International Limited
January 28, 2020

minor additions to the current facility so whatever Rs. 97 Crores quarterly revenue run rate that we see what is the upside score possible there?

Radhesh Welling: Yes, so we will see incremental growth happening next year which will be coming primarily from Surat. We expect that growth probably would be similar to the kind of growth that we saw this year probably plus, minus and then the following year is when we will actually see a significant growth primarily coming from Dahej.

Pritesh Chheda: So, we saw about 18% to 20% spect chem growth so that growth you are referring?

Radhesh Welling: That is correct.

Pritesh Chheda: And when will the commercial production in Dahej start and is it a modular way of setting up the facility if you could give some idea there?

Radhesh Welling: Yes, so it will basically start from calendar year 2021 so FY2022 and yes it will be modular.

Moderator: Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: Just to clarify this 90 Crores capex is over and above the 450 Crores that we have talked about that was one and what is the expected asset turns and the margin profile and the ROCE or IRR that we are working with for this capex?

Radhesh Welling: Yes, so as far as the 90 Crores is concerned 90 Crores is subset of that 450 Crores and again as we have indicated is going to be in excess of 450 Crores, but that 90 Crores is subset of that. Now as far as asset turns, margin profile, return profile is concerned what we would like to do is that with individual announcements we will talk about the asset turns and the margin profile while making those specific announcements because as I indicated earlier the projects that will be coming up in Dahej will be spanning multiple businesses and each business would have slightly different return in margin profile so when we make those specific announcements we would be happy to give you more color on those specific projects, but if you look at the overall company performance our intent will always remain to deliver the margin and the return profile, which is similar to what we currently have at a company level.

Abhijit Akella: And my second and last question is if you could just give us an update on the Honeywell 1234yf business whether there is any kind of progress or any further negotiations to the customer on that? Thank you.

- Radhesh Welling :** No, so as we have indicated the primary reason that we went into that project was to see if we could really scale that technology for manufacturing that particular product to a larger scale. Now that option is clearly out, because they have decided that this is not the technology that they would like to go for commercial scale plant. So what we have decided to do is that we will basically discontinue that particular technology, we are currently in discussion with Honeywell, we have identified three new opportunities with them and these are the products, which will be manufactured in the same assets again at a relatively smaller scale because it is kind of a larger pilot facility that we have currently and with a hope that one of those will then scale up into a larger scale manufacturing facility.
- Abhijit Akella:** Okay great. Thank you so much Sir and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Vihang from Samsung Asset Management. Please go ahead.
- Vihang:** Sir in CRAMS I believe you have previously guided for around 200 to 225 Crores of full year revenues for FY2020 and I believe you just mentioned to one of the previous participants that in Q4 as well CRAMS is going to be similar lines as Q3, so just wanted your sense on like with cGMP3 as well commercializing do you see yourself meeting this guidance of 225 Crores for FY2020 and just in addition to that question would be what would be the revenue potential you are seeing from the new molecule for FY2021 on a full year basis?
- Ketan Sablok:** I am not sure when we gave this guidance of 225 Crores in FY2020, but coming to your question on the cGMP3 yes, we have given a guidance over there that on a three-year basis we will optimize the cGMP3 and we will be giving an asset turn of 2.25x and we are still sticking to that guidance. Given the kind of project flow and the traction we are seeing on this business, we are quite confident that we will be able to reach those numbers in a three-year horizon.
- Vihang:** Sir and in refrigerants I believe you had mentioned earlier that, you are doing some work internally and you are planning to probably announce some capex going down the line, so would that be a part of this 450 Crores capex plan that you have conveyed to the market or that would be something incremental?
- Ketan Sablok:** As Radhesh has already indicated that 450 Crores is just an indicated number, which we have given. So whatever the new capex that will be coming up, will definitely come up in Dahej, the numbers could be more than 450 Crores, but as of now the intent is to start setting up capex within the specialty and the new line of business that we are looking at and

then probably get into the ref gas part. So as and when these capexes actually get the board approval we will be coming and announcing them. So yes, whatever the capex comes up in ref gas will happen at the Dahej facility.

Vihang: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla: Sir one clarification the ramp up which you have said of starting from FY2021 three years was this for Dewas cGMP3 or the Dahej plant?

Radhesh Welling: You are talking about the cGMP3 or because we talked about both, so there was a separate question on specialty where we talked about Dahej.

Ranjit Cirumalla: Yes, in the opening remarks you have said that starting FY2021 it would take three years.

Radhesh Welling: That was for CRAMS, which is for Dewas.

Ranjit Cirumalla: It is Dewas III plant?

Ketan Sablok: Yes.

Ranjit Cirumalla: Is it possible to elaborate which is the fourth subsegment, which you are looking to like out of these four different segments you have said that there would be a fifth different vertical, which could be potentially you would be creating?

Radhesh Welling: Yes, so at the right time when we have more information to share we would be happy to. I think right now it is a little too early for obvious reasons we would not want to provide more color on that right now. The only reason we mentioned that is so that you are aware that we are actually seeing opportunities beyond these four BUs and the capex, which will be coming up in Dahej, a significant part of that will be also going for opportunity beyond this four BUs. The specific opportunity, the capex returns, etc., we will be happy to provide you more information as and when we get the board approval then we will be ready to make the announcement.

Ranjit Cirumalla: And one last thing the Honeywell pilot plant is it at Dewas or at Surat?

Radhesh Welling: In Surat.



Navin Fluorine International Limited
January 28, 2020

- Ranjit Cirumalla:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Nippon India AMC. Please go ahead.
- Manish Poddar:** I just had a couple of questions, first was on the refrigerant segment have we taken any pricing increase in January of this year?
- Radhesh Welling:** Are you talking about price increase?
- Manish Poddar:** Yes.
- Radhesh Welling:** We have taken price increase and across the sector we are actually seeing slight upward movement on the pricing.
- Manish Poddar:** And would you be able to quantify how much have we taken in pricing?
- Radhesh Welling:** No, that will be difficult because it is across the segments and within the segment also it is different for different customers.
- Manish Poddar:** Would you be able to give an outlook on the raw material structure for CY2020?
- Radhesh Welling :** So the main raw material that we have is basically the fluorspar and we had a few quarters back had indicated that as far as the increase that we were seeing in the fluorspar price in H2 of the last calendar year, which in 2019, it will basically plateau and then start moving down and it exactly happened as per our anticipation in H2 of last year we actually saw the prices plateau and then they started actually moving down, we will actually see the impact of that in the current calendar year 2020 the fluorspar prices overall will be slightly lower than what we saw in the last year. So that is the one of the main raw materials that we have and that is the one where it is relatively easy to give kind of a yearly outlook because we also typically enter into yearly contracts, but otherwise there are a number of other smaller raw materials and they basically are all over the place. One of the critical raw materials for the ref gas has actually moved down significant, which has actually translated into margin improvement in that specific BU and that will continue as we move into next financial year.
- Manish Poddar:** Would it be fair then let us say your margins, which you have clocked let us say in the nine month, next year margins would increase on a YOY basis on a full year front primarily because the raw material is benign relative to YOY you will have a facility expansion at the

CRAMS and both high margin business you have grown then why are you giving the lower margin guidance that is I am just not able to get the dichotomy in that commentary?

Radhesh Welling No, so there are typically events that happened in a specific year or there are events that happened in specific quarter because of which the margin of that particular business or overall margin of the company can move up or down in that particular year or that particular quarter so that is the difference, but when we actually give a margin guidance that guidance is given on basis of the overall profile of the businesses and overall profile of the company, so that is more because of the strategic shift that happens in any of the businesses. So, if you look at that, we still feel very comfortable in giving guidance of 22% to 24%; however, there are always tactical things that keep happening in each of the businesses and the tactical moves that we get making in an effort to move the margins up, but that is typically not used by the company as a basis for giving the overall guidance.

Manish Poddar: So, this guidance was long-term guidance?

Radhesh Welling: It is a directional guidance, currently we still feel very comfortable in giving that overall directional guidance, which is that of 22% to 24%. If there is a complete strategic shift in any of the BUs or overall at a company level we would be happy to come back to you and say okay because of X, Y, Z, reasons we are now moving that range from A to B.

Manish Poddar: Thank you so much.

Moderator: Thank you. The next question is from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

Karthi Keyan: Can you elaborate just a bit on the progress you are making on the non-emissive side in refrigerant gas?

Ketan Sablok: We are seeing good traction in the non-emissive side, in the ref gas business. We have seen good demand flowing in, in the last two quarters and specifically in Q3 and we are quite hopeful that this demand uptick from the non-emissive will flow into the next year and help us maintain the volume drop that we are seeing in the emissive side because of the quota cut that is coming in.

Karthi Keyan: Can you give a couple of examples of where these are?

Ketan Sablok: So, these are into various agro and pharma, they go in as feedstock into the agro and the pharma sector.



Navin Fluorine International Limited
January 28, 2020

- Karthi Keyan:** Great, wonderful commentary, best wishes. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** If you talk about the China because of the spreading of Wuhan virus many part of the China has been issued holiday, some plants are closed until February, so are you seeing any disruption in the fluorspar or any other raw material we are sourcing from China and we will have any impact on our procurement cycle?
- Radhesh Welling:** Yes, we have actually keeping a continuous tab on this particular situation. As per our current assessment we do not see any disruption because of the current situation, but we are keeping a very close tab on that. If at all the impact is definitive, it is not going to be on fluorspar because as we had indicated earlier our supply chain for fluorspar is pretty diversified from China. If at all it could happen for some of the other raw materials in some of the other businesses, but as per our current assessment we do not see any major impact.
- Jignesh Kamani:** Generally, some of the raw material which we are buying from China, what kind of inventory we will be carrying so, for more than one month it will impact or as of now does not look like?
- Radhesh Welling:** No, so as far as the inventory is concerned, they are different for different businesses and different products. So for example if there is a campaign, a new campaign that we are starting in the month of April for which the raw material was very critical, we actually got the raw material already procured. So depending on the criticality of the product, criticality of that campaign or business the inventory norms could be different.
- Jignesh Kamani:** And on the business side are you seeing some of the client who have supposed to buy from China are coming to us and dropping a power of volume requirement or providing a new business?
- Radhesh Welling :** Yes, so there are some inquiries that keep coming to us because of the issues that are happening in China, but typically the inquiries that we go after are those where it is possible for us to have a sustainable competitive edge not just because of some short-term issue in China.
- Jignesh Kamani:** Thanks a lot.



Navin Fluorine International Limited
January 28, 2020

Moderator: Thank you. The next question is from the line of Devang Patel from Crest Wealth. Please go ahead.

Devang Patel: Sir for the traditional businesses you mentioned the raw material prices you have been able to hold prices or increase prices in ref gas for example, so are you seeing better pricing power now what is driving it and how sustainable is it?

Radhesh Welling: Yes, so as far as ref gas is concerned we will have to again divide that into three parts, one is the domestic emissive, international emissive and domestic non-emissive. So as far as the international emissive is concerned, we have really not seeing any increase in the prices. If at all there seem to be some pressures coming from China, but there we are not seeing any significant change in the pricing and the domestic because of the supply issue, because there was a cut coming in terms of the production cap from January 1, 2020, because the supply has actually gone down, that we have seen upswing in the pricing across the sector within the emissive, that is starting from OEM to trade, etc., and on the non-emissive front, we are seeing very slight increase in the overall pricing.

Devang Patel: Dahej capex you mentioned it will be the wholly owned subsidiary so is this to take advantage of lower taxes or are there some JVs or technical tie-ups later in the new business?

Radhesh Welling Yes, so there are some strategic moves that we intend to make and those are the moves, which are driving this decision for going for wholly owned subsidiary.

Devang Patel: Right Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Congratulations for the wonderful numbers. In the opening commentary you elaborated that we have seen increasing the higher number of inquiries for spec chem businesses and to some extent if I got you correct for CRAMS as well, if you can just give us a thought process to some customers and that is driving this and if you can quantify upgrade in terms of inquiries like are they are higher by certain number like we had ex inquiries now they are X plus 5 if possible give some color on the inquiry that you spoke about?

Radhesh Welling Yes, so a lot of times when we talk about an inquiry flow lot of times it actually sounds very reactive so in our particular case what is happening is, let us say in specialty side let us look at these three divisions pharma, agro and industrial. As I mentioned earlier on

industrial side because that was one opportunity where we had capacity headroom and hence we have actually aggressively gone and identified new opportunities then converted those new opportunities. On the agro side we identified a few customer partners and we have significantly strengthened the relationship there, which is then getting converted into the order flow and on the pharma it is basically just driven by some of the new molecules fluoro molecules, which are getting off patent and hence the new DMFs, which are getting filed by the Indian generic pharma companies. So, there are three completely different reasons for the three subsegments within the specialty sector. On the CRAMS, US continues to provide steady flow of new inquiries or new orders, which are coming in. In terms of Europe what has happened is we have actually aggressively gone and opened up new doors with a number of new, innovator pharma companies from Europe, which has then led to some of these new opportunities. It will be difficult to quantify the exact percentage of numbers, but that is basically the overall color to what we, that the overall commentary that we gave earlier.

Anand Bhavnani: Thank you and good luck for the current year.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Yes, sir couple of questions. First is there any incremental investment plan In Specialty segment

Radhesh Welling: So, as we indicated earlier there are two kinds of investments that will be going into specialty. One there will be incremental investment that will be going in Surat for some of the debottlenecking projects and then there will be a larger capex that will be happening in Dahej in specialty. So, as we are in the process of finalizing the business plans for this Dahej capex program and as we are ready, and we presented to the Board and get approval from the Board we would be happy to provide more information on that.

Dhaval Shah: And on the Manchester facility, will it have any volume based manufacturing or it will be more of a research lab kind of setup?

Radhesh Welling: Yes, if you look at Manchester that is basically a research lab setup. We also have a slightly larger facility, which basically is called kilo lab, but we have ability to only supply at a gram to Kg level from our facility in Manchester.

Dhaval Shah: In the future also it is going to be same plan or we might do some volume based manufacturing also there?



Navin Fluorine International Limited
January 28, 2020

- Radhesh Welling:** Yes, so we are actually relooking at that entire Manchester Organics piece and there will be some decisions that will be taken in this coming financial year with respect to that.
- Dhaval Shah:** Any color you can share on the end drug market size on the CRAMS, which is going commercial?
- Radhesh Welling :** I think CRAMS business that we have unlike some of the other businesses is heavily protected by the confidentiality agreements that we have with the specific customers so it becomes little difficult to give specific names, but overall I think given the project flow that we are seeing both from US as well as from Europe and also the repeat business that we are seeing from some of our existing customers we continue to remain very optimistic about this particular business.
- Dhaval Shah:** I will join the queue. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.
- Sanjesh Jain:** One question followup on the Dahej facility where are we in terms of approval cycle and can you help us with the timeframe we are looking, you said that we have got approval for the land development and ATP and have we received the environmental clearance and if yes when we are starting the construction work and is that commercial production will start from FY2022 so can you just help us with the timeframe?
- Radhesh Welling** Yes, so we already have received environmental clearance. So most of the clearances that are required to start the work we already have, the actual work on the land will start form next month onwards that is basically related to construction of the facilities, etc., that is talking about boundary wall, road, etc. As far as contribution of the products that we will be manufacturing in Dahej towards the P&L of the company that will start happening from FY2022 onwards.
- Sanjesh Jain:** So, is it construction or commercial launch?
- Radhesh Welling** The construction will start from next month onwards so various activities will start from next month onwards and the actual contribution, which means the plant will be ready, the product will actually start coming out and the qualification process will be over and the actual phase of the product from Dahej will begin from FY2022 onwards, which is calendar year 2021 onwards.



Navin Fluorine International Limited
January 28, 2020

- Sanjesh Jain:** Second is what was the contribution of non-emissive sales for ref gas in this quarter?
- Ketan Sablok:** It was about 14% to 15% in this quarter.
- Sanjesh Jain:** So, we are close to reaching that 25%, which will free us because of the quota, which has got cut from January 1, 2020 right?
- Ketan Sablok:** No, I cannot give you an indication on that front, but this quarter we were at about 14% to 15%.
- Sanjesh Jain:** That is it from my side. Thanks, and best of luck.
- Moderator:** Thank you. The next question is from the line of Amar Maurya from Alfa Accurate. Please go ahead.
- Amar Maurya:** First thing, if you can help us like what would be the mix of pharma, agro and industrial in overall specialty chemical now?
- Radhesh Welling:** Yes, we are actually tracking what we had indicated earlier which is 40/40/20, coming from pharma, agro and industrial and going forward at least in the near future we will continue to have similar split.
- Amar Maurya:** So basically 40/40 from the pharma and agro and 20% from the industrials?
- Radhesh Welling:** That is correct.
- Amar Maurya:** But, as you said that now you have more capacity left with the industrials so still you believe that the ratio will remain same?
- Radhesh Welling:** Yes, because in terms of pharma and agro we continue to do the debottlenecking projects that I talked about earlier.
- Amar Maurya:** Surat.
- Radhesh Welling :** That is correct so as far as the next financial year is concerned the split will continue to remain the same till Dahej starts.
- Amar Maurya:** Secondly this 1234yf, which is getting discontinued I believe it was consolidated into CRAMS so what is the kind of revenue loss we will see in the next year there?



Navin Fluorine International Limited
January 28, 2020

- Ketan Sablok:** I do not think those numbers are very significant. I do not think we need to get into specific numbers. 1234YF was a pilot facility so any which way the numbers were not quite significant.
- Amar Maurya:** So, you do not think so it is very material number?
- Radhesh Welling:** No and also, I think on this particular subject if you look at it on a long-term basis we believe that this is actually going to be incrementally beneficial for the company because it will get replaced by some other opportunities where there is a potential for a commercial scale up to the commercial level.
- Amar Maurya:** By when these new opportunities will start if I can?
- Radhesh Welling:** The initial phase would be to actually do the piloting, etc., so it will be at a smaller scale and once we are ready to actually scale that up we will be happy to come back and make that announcement.
- Amar Maurya:** Sure. Thank you.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint, we will be taking our last question that is from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.
- Nav Bhardwaj:** Could you quantify the debottlenecking that we will be taking forward in Surat?
- Radhesh Welling:** No, I think that these are projects that we continue to keep doing in Surat, almost every quarter we actually keep taking up these projects, so wherever we actually see a kind of an incremental opportunity in specific products we just invest in those opportunities and these are very quick turnaround opportunities. So, this is not a significant investment, and is little difficult to quantify, we have not quantified this in the past as well, these are relatively smaller opportunities however giving significant impact.
- Nav Bhardwaj:** My last question being on the previous call we have guided for a heavy quarter for CRAMS in Q4 we maintained the same guidance right now?
- Radhesh Welling:** We have guided what sorry?
- Nav Bhardwaj:** Heavy quarter in Q4 for CRAMS you said that Q3 will be a little softer and Q4 will be little ramped up.



Navin Fluorine International Limited
January 28, 2020

- Radhesh Welling:** I think what we had indicated was in context of cGMP3 plant starting up, the plant was expected to start up in the month of October that has got postponed by about two months, the plant has just now started in the month of December so overall if you see the level of activity and the overall level of manufacturing, etc., in Q4 will be much higher than what we have seen earlier; however, in terms of sales we will actually start seeing the impact from Q1 onwards.
- Nav Bhardwaj:** Thank you so much. All the best going ahead.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.
- Radhesh Welling:** Thank you everyone. I would like to thank everyone for joining on the call. I hope we have been able to respond to your queries adequately. For any further information, request you to get in touch with SGA, our investor relations advisor. Thank you very much and have a good day.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Navin Fluorine International that concludes this conference. Thank you for joining us. You may now disconnect your lines.