



# “Navin Fluorine International Limited Q3 FY-22 Earnings Conference Call”

**February 02, 2022**



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**Moderator:** Ladies and gentlemen good morning and welcome to the Q3 FY22 Earnings Conference Call of Navin Fluorine International Limited. Today on this call we have Mr. Radhesh Welling, Managing Director of Navin Fluorine International Limited along with the senior management team.

This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. Actual results may differ materially. These statements are not the guarantees 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:** Thank you very much. Good morning and a warm welcome to all the participants. I trust all of you and your families are healthy and doing well. I'm joined on today's call by Mr. B. K. Bansal – our Chief Financial Officer and Orient Capital our investor relations partner. 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 company website.

Let me take you through the operating performance for Q3 FY22 and nine months FY22 and then thereafter Mr. Bansal will take you through the detailed financial performance. For Q3 FY22 our revenue grew by 24% to Rs. 367 crores whereas our operating EBITDA grew by 21% to Rs. 98 crores, our operating profit before tax grew by 23% to Rs. 87 crores. For nine months our company crossed operating revenue of 1000 crores with the growth of 24% on YOY basis. Operating EBITDA of 260 crores with growth of 15% on YOY basis and operating profit before tax of 226 crores with the growth of 15% on YOY basis.

All our business units showed very good growth in the last quarter. Our operating margins were slightly impacted due to higher employee costs and input costs. We consider the new employee addition as an investment to our business and this will also enable future growth when our new CAPEXs come on stream during H1 FY23.

I will now discuss operating performance of each business unit, starting with specialty chemicals business. Our specialty chemicals business reported sustainable revenue growth of 24% on YOY basis to Rs. 152 crores for Q3 FY22 and growth of 26% on a YOY basis to Rs. 406 crores for nine months FY22. The growth in this unit is primarily driven by partnerships with large international customers. In the third quarter, we manufactured and supplied commercial quantities for a few new products which would further help us scale up the specialty business faster as our plant in the Dahej will start later in the calendar year. Our CRAMS business reported a de-growth of 15% to 60 crores for Q3 FY22 compared to the same period last year. For nine months FY22 business has grown by 3%. There was a delay in getting some POs which further

delayed start of the manufacturing campaign, and this resulted in lower sales in Q3. Good news is that we have secured all these Pos and the campaigns have already started in a manufacturing plant in Dewas. Of course, bunching up orders puts a lot of pressure on our operating teams, but we feel confident of shipping all these POs in Q4. In short, we are confident of maintaining a run rate of \$10 million per quarter for the year. Based on improved pipeline visibility the board of directors has approved debottlenecking of our cGMP3 facility. Our focus for this division will be to continue to expand opportunity pipeline with existing set of customers and further diversifying our customer base.

Our Ref gas business grew by 54% in Q3 FY22 to 72 crores compared to the same period last year and for nine months FY22 it delivered growth of 24% to 186 crores. Growth in revenue was primarily driven by increased realization of product in both India as well as international markets. We also witnessed strong volume growth from domestic market whereas export sales were impacted due to logistical issues. Our inorganic fluoride business grew by 47% for Q3 FY22 to 83 crores compared to the same period last year and for nine months FY22 it recorded growth of 52% to Rs. 203 crores compared to same period last year. This segment's performance improved due to increase in pricing and improved demand from the domestic market. We witnessed good traction from the end user industry within India. This BU witnessed better profitability on the back of optimized sales mix between domestic and international markets. Our aim is to widen the end user segment along with new customer addition to enable fast future growth. We are also seeing some interesting opportunities in newer segments and are in the process of developing new products for the same.

Before I handover the line to Mr. Bansal for detailed financial update, let me also quickly brief you on the CAPEX programs currently underway primarily in Dahej. Our CAPEX program in high-performance products where we sign a \$410 million multi-year contract with Honeywell International is progressing well. Despite several COVID related issues over the last 18 months, we expect to be in supply by the end of Q1 FY23. Our investments in specialty business through CAPEX programs in MPP and a dedicated manufacturing plant for another product, both of which are coming in the Dahej are coming up well. Both these plants will get commissioned later this year. As you know we have planned to manufacture five products in MPP and at least some of them have potential to successfully scale up and could require their own dedicated plants over the next few years. Launch of new products in agrochemicals through multipurpose plants will lay the foundation for the next phase of growth of our specialty chemicals business. Along with these CAPEX programs in Dahej, the board of directors has also approved investment of 75 crores in Dewas for debottlenecking of cGMP3 and some of these investments will also be for the infrastructure development. These investments and the underlying opportunity pipeline provide us very good visibility of revenue growth for the future. I will now handover the line to Mr. Bansal to give you a brief on the financial performance of the company. Thank you very much.

**B. K. Bansal:**

Thank you Mr. Radhesh and very good morning to all the participants. I hope all of you and your families are in good health. I will share the highlights of our financial performance for the nine month and this quarter and following which we will open the floor for a question-answer.

First, I will talk about nine months of FY22 on a standalone basis. During this period the company reported net revenue from operation of Rs. 1005 crores as against 809 crores in the same period last year delivering a growth of 24%. Operating EBITDA stood at 260 crores for the nine months as against 227 crores in the nine months of the previous year showing a jump of 15%. Operating EBITDA margin stood at 26% as against 28% in the nine months period and impact on operating EBITDA margin was due to higher employee costs and consulting fees paid during the year. Operating profit before tax increased by 15% to Rs. 226 crores for the nine months as against Rs. 196 crores in the same period of last year. Profit after tax stood at Rs. 188 crores for nine months and PAT margin stood at 19%.

Now I will talk about BU wise performance for the nine months. Our high value business registered a growth of 17% and a legacy business showed a growth of 37%. In legacy business performance of inorganic fluorides improved substantially during nine months as the business registered a revenue growth of 52% to Rs. 203 crores. Refrigerant gas business also showed very good growth of 24% to Rs. 186 crores in the nine months. Specialty segment grew by 26% to Rs. 406 crores and CRAMS business grew by 3% to Rs. 209 crores.

Now I will talk about the Q3 performance. During this period company reported a growth of 24% in the net revenue from operations of Rs. 367 crores as against Rs. 297 crores in Q3 of last year. Operating EBITDA delivered a growth of 21% to Rs. 98 crores for Q3 as against Rs. 81 crores in the same period of the last year. Therefore, operating EBITDA margin stood at 27% in Q3 in line with what it was in the previous year. Operating profit before tax grew by 23% to Rs. 87 crores for Q3 as against Rs. 71 crores in Q3 of FY21. Profit after tax stood at Rs. 69 crores for FY23 as against Rs. 59 crores in the same period of the last year and the margin was at 19%. So that's all from my side. With this I open the floor for the question answer. Thank you.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhijit Akela from IIFL Securities.

**Abhijit Akela:**

Just a couple, first on the CRAMS business. If you could please quantify roughly how much of the revenue has been deferred from 3Q to 4Q and then also on the debottlenecking that you've received approval for. Is there a rough timeline that you could indicate by when it'll be ready and what could be the incremental revenue potential coming from that debottlenecking activity once it's completed?

**Radhesh Welling:**

I think the two questions, the first thing is in terms of CRAMS revenue. If you saw in this particular quarter, we delivered the revenue of 60 crores. As we have maintained our target is to ensure that we deliver a run rate of approximately about \$10 million. That delta has actually moved to the next quarter. We should be able to deliver the \$10 million that we were otherwise

would have delivered in the next quarter and this delta would get added to that. As far as the debottlenecking project is concerned, we expect that this project will get over by end of the current calendar year. We expect that by November-December period is when the project will get over and we will actually have the plant available for us from January of 23 onwards. We expect that and again it's very difficult to discuss in terms of year-on-year but we expect overall this CAPEX should help us to get our CRAMS business overall to about \$65 to \$70 million revenue.

**Abhijit Akela:** The other question I just had was on the refrigerant business; in the context of what has been a very sharp rise in the refrigerant prices in the past few months, not necessarily in R22 but even other HFCs etc. Just wanting to get your perspective on where you see that market heading overall and in that context in terms of your plans of possibly getting into HFCs if there's anything you could indicate?

**Radhesh Welling:** So, there are again two parts to this, one is increase in the overall refrigerant gas prices. As far as the pricing of R22 is concerned as we have always indicated that the pricing for R22 will continue to go up and we will probably have some volume dip on the emissive side and some volume increase on the non-emissive side. We are exactly seeing that play out. As far as HFCs are concerned, we have a plan as I had mentioned earlier, we intend to finalize the plan by the end of this financial year and then take it to the board. So that plan is currently on track. There is no deviation from that plan given what is happening on the market.

**Abhijit Akela:** The consulting expense YTD if you could just give us the number that will be really helpful.

**Radhesh Welling:** That's close to 7 crores.

**Moderator:** The next question is from the line of Levin Shah from Valuequest Investment Advisors.

**Levin Shah:** My question on the specialty side of the business particularly on the ARV front. During last quarter we had seen some pressure on the ARV business, so where we are in that business? If you can throw some more light about the growth or the outlook on that segment going ahead?

**Radhesh Welling:** As you must have also seen in the results of some of the pharma companies who specialize in the ARV segment. ARV segment continues to suffer right now, especially the markets which are supported by Gates Foundation, Clinton Foundation etc. Our performance in that particular segment continues to be down. Having said that, this is something that we had predicted when we went into this financial year and hence were able to very quickly develop a backup plan because of which if you see the performance of specialty chemicals overall hasn't really got impacted as much though that one important big segment has taken a significant dip. We expect that from the second half of the calendar year '22, the segment will again start picking up. But we expect that in Q4 and also Q1 and this is based on what we are hearing from the customer, the demand will continue to be low and from H2 onwards is where the demand will start picking up. The H2 I am talking about the calendar year H2.

- Levin Shah:** On the inventory pile-up front on ARV, like what we had mentioned that we had seen lot of pile-up of inventory. Has that been clear or that is one of the reasons that this will take couple of more quarters for it to improve?
- Radhesh Welling:** What we understand from the customer overall, the demand was low and hence that inventory pile-up actually happened. Now the demand is again starting to come back and that inventory is actually getting consumed. We believe that, so the demand is now again started coming back and the inventory rebuilding we'll again start from H2 onwards.
- Levin Shah:** Like you said, some of the customers and what we have seen in their commentaries that they are expecting a pickup from next quarter itself. Is there this inventory issue that is going to impact us or is that from next quarter onwards what few of the other large ARV companies are talking about that the growth will come back?
- Radhesh Welling:** We have now seen that commentary about the demand coming back from the next quarter onwards. Currently we are not really seeing that in terms of demand for the raw material or the case in which we supply to these pharma companies. It's quite possible that they are also sitting over some inventory here with them and that is what they will start supplying to their customer. Their production might start later in the quarter or from Q2 of the next financial year.
- Moderator:** The next question is from the line of Rohit Nagraj from Emkay Global.
- Rohit Nagraj:** First question is in terms of price hike, so have we taken entire price hikes related to logistics cost, printed cost material across our segment or there is something left and probably would be taken in this quarter?
- Radhesh Welling:** When you are saying across the segment, I assume you mean across the business, across the company. As we have given the commentary before, , we have four BU's and each of the BUs is very different from others. In Ref gas and inorganic, we have been able to successfully pass on the cost increase to the customers. In speciality we have not been able to in many cases, so almost half of it we were able to pass on and half of it we were not able to because of various reasons. In some of the cases we took a call not to pass on because of strategic reasons but in inorganic and refrigerant gas businesses we have been able pass on all the cost increases. And in CRAMS any which way it actually tends to be cost plus kind of a model.
- Rohit Nagraj:** In specialty, are we going to increase, will we able to pass it on during this quarter given that the input cost inflation is still high?
- Radhesh Welling:** In Q4 we will be able to pass for some additional products, especially those where the new contracts now come into play from 1<sup>st</sup> January, some of those we will be able to pass on the price increase. We've already negotiated that in the last quarter itself. Yes, in some of those cases we will be able to.

- Rohit Nagraj:** Overall CAPEX number before the 75 crores for Dewas was close to about 900 crores. Let's say 1000 crores of overall CAPEX, what is the kind of revenue potential that we see for optimal utilization from this entire CAPEX?
- Radhesh Welling:** I think we have already given the numbers. Whenever we have announced the individual CAPEXs we have already given the numbers. I think it will be misleading for me to give on an aggregate basis. I think it will be good for you to look at individual CAPEXs because as some of these CAPEXs were related to infrastructure development etc. for Dahej when, the investment was just starting up in Dahej. I think you will have to look at it for HPP separately, you'll have to look at MPP separately, you'll have to look at it for the other specialty investment which we made for a dedicated plant separately.
- Rohit Nagraj:** Just in terms of timeline for optimal utilization, normally is it 3 years after the plant is commissioned?
- Radhesh Welling:** For MPP, we expect to hit the peak annual revenue from year 3 onwards but for the other two projects we expect to hit peak annual revenue from year 2 onwards.
- Moderator:** The next question from the line of Amar Maurya from Alfaccurate Advisors.
- Amar Maurya:** As you indicated that like in specialty chemicals we are yet to or partial pass-on of pricing RM inflation has been done. Given in this quarter CRAMS was also a relatively run rate wise lower. So should we expect that this kind of margin which you had delivered in this particular quarter should continue because two value added segments where one has underperformed and second was partial pass-on?
- Radhesh Welling:** Currently given the business environment, it's very difficult to predict what's going to happen the following month, forget for the quarter. But overall if you look at our internal hypothesis you are absolutely right. That is what our assessment is. That in this quarter Q4 for the reasons that you've just now described, the margin should be slightly higher than what we did in Q3.
- Moderator:** The next question is from the line of Ankur Periwal from Axis Capital.
- Ankur Periwal:** Continuing with the same thought on the margins front, so two factors there, one the pricing that benefits which we have seen on the Ref gas and inorganic and the gradual pass-through which we will see in specialty chemical plus the ramp up in the CRAMS side. Should we believe that the nine months number which is around 26% EBITDA is the base case there and incrementally things should be improving on that side?
- Radhesh Welling:** Yes, we believe so.
- Ankur Periwal:** From a revenue growth and the consultation fee 7 odd crores that we paid YTD, is there some what outgo which can happen in Q4 or next financial year or this is largely?

- Radhesh Welling:** That's done.
- Ankur Periwal:** From a revenue growth perspective what could be an incremental volume off-take in the inorganic business side, Ref gas you did mention that some bit of volume shifting between emissive and the non-emissive but on the inorganic side if we can highlight?
- Radhesh Welling:** You're talking about in Q4?
- Ankur Periwal:** No, I'm saying not in Q4 but from FY23 onwards, after FY22 what sort of incremental capacity will be there on the inorganic side which can drive volume growth?
- Radhesh Welling:** If we expect that as we have mentioned our inorganic business at least in the immediate future will continue to grow at a GDP plus minus level. So it is basically because most of these products are actually going to the industrial applications which tend to grow at a GDP level so it'll continue to grow at GDP level. However, there are some new opportunities that we have just identified and just started working on in our inorganic business. We believe that those opportunities though will not come in immediately in FY23 but we believe that from FY24 onwards those will probably start coming into our revenues. So, which means that post that period we will also start seeing further incremental growth because of these new opportunities. It's a little difficult at this point in time to really quantify what exactly that number would be for FY24 and then FY25 etc. We probably should be in a better position to quantify and communicate that impact in another quarter or so because we are still working on these opportunities right now.
- Ankur Periwal:** My question was more from a capacity availability or a possible debottlenecking.
- Radhesh Welling:** In inorganic we have a capacity headroom available and unlike in a specialty what happens in inorganic is it's typically possible for us to add capacity. So, we have two things in inorganic, we have our base product which is the hydrofluoric acid and then we have a lot of downstream derivatives. With the downstream derivatives we can add additional capacity at a fairly short notice, on the upstream hydrofluoric acid we've actually just started some small debottlenecking project to get us further about 10%-15% capacity. We are currently in the process of evaluating a CAPEX for setting up a new hydrofluoric acid plant in Dahej.
- Ankur Periwal:** Lastly if you can maybe some comments from your side on the incremental opportunity that you are seeing in the newer chemistry or the EV side where have been working on?
- Radhesh Welling:** In inorganic fluorochemical you're talking about?
- Ankur Periwal:** On an overall business side, not only on inorganic but across.
- Radhesh Welling:** If you look at Navin Fluorine as I've mentioned before, each of the businesses is very different, so it's very difficult to actually talk about this on an aggregate basis. We have individual opportunities in each of the BUs and the ones which I have given commentary before, is on the



opportunities that we are seeing beyond the five BUs that we currently have. But right now it will be difficult to add further comment to that commentary or further color to that commentary.

**Moderator:** The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life Asset Management.

**Naushad Chaudhary:** A couple of clarity on the inorganic fluoride business; firstly, in the new products pipeline is it something which you are indicating for potassium fluoride which we had talked about earlier or are we working on something which is very new and could be exciting for this division?

**Radhesh Welling:** It will be difficult for me to give you a specific name of the product etc. but this is not potassium fluoride.

**Naushad Chaudhary:** In terms of the quarterly run rate for this division, so we have surpassed 80 crores in this quarter. Do you believe this kind of run rate could be maintained and given the product pipeline which you have in mind can this division also be Rs. 150 to 200 crores of quarterly run rate business in coming years?

**Radhesh Welling:** It will be very difficult for me to predict at this point in time. I think it's important for us to look at this business on an annualized basis. Then as I mentioned earlier, till we are able to translate those new opportunities into specific CAPEX programs and then bring them into our revenues. It will be fair to assume that what we will be doing for the annualized basis will actually grow at the GDP level because a lot of it as you know is also dependent on the demand from the end user segments. It is a little difficult for us to predict at this point in time.

**Naushad Chaudhary:** In terms of growth for this division especially in this quarter, was it driven by a traditional end-user steel glass or the new end-user industry which we were targeting I think pharma and auto we were talking?

**Radhesh Welling:** Driven by the traditional industries.

**Moderator:** The next question is from the line of Dhavan Shah from ICICI Securities.

**Dhavan Shah:** I have a question on the CRAMS, based on the \$10 million kind of run rate for this fiscal we may end up roughly 300 odd crores kind of revenue. How are you seeing the utilization will pick up for this cGMP3 from the next year itself and what kind of the quarterly run that we can see? Can we end up roughly 400 crores kind of revenue in the next fiscal for CRAMS business, is that understanding correct if you can share thoughts on that?

**Radhesh Welling:** No, it will be very difficult for me to give that kind of information at this point in time. As we have indicated, we have already provided indication in terms of what we expect from the main cGMP plant. The debottleneck that we are doing currently as I mentioned will get completed by December and from January this will be available. But specifically, what is that number in FY23 it will be difficult for me to give that at this point in time. We continue to work, clearly there

will be a growth on this \$10 million run rate that we are currently looking at. With this 10 million run rate we are at a capacity utilization of approximately, on an aggregate basis we are at a capacity utilization of approximately about 60% to 63%. We expect a significant improvement in terms of capacity utilization next year. But in terms of what that would get converted in terms of revenue etc. it will be difficult for me to give you that number today. We have planned a team meeting later this month when we are actually going to do a deep dive into understanding what next year is going to look like. I think by March or so I'll be in a better position to give you that commentary on FY23.

**Dhavan Shah:** On the gross margins, if I look at our non-legacy business contribution was 58% odd this quarter but till our gross margin was 55.6% odd and that is mainly because of I suppose the price growth we have seen for the non-legacy business. Do you foresee that in the years to come when we'll see the non-legacy business will continue to drive higher growth? We can see the expansion in the gross margin above than this 56% odd, can we see that run rate?

**Radhesh Welling:** Yes.

**Dhavan Shah:** This could be a base, even though and this is sustainable you are saying?

**Radhesh Welling:** I mean, as you can understand, it is difficult for me to predict how it's going to happen, how the gross margins will fare on a quarter-to-quarter basis but directionally definitely it'll move up.

**Dhavan Shah:** One last question is on the pet-chem. You mentioned some new molecules you have added for this segment. So, can you share thoughts on that? What would be the size and for the next seven months when the new category will come up, you'll see the growth over here. The present utilization of the pet-chem and the how is it placed in the coming year if you can share thoughts on that, the molecule wise and the utilization wise?

**Radhesh Welling:** The new molecules that we basically manufactured and delivered in this particular quarter were primarily in agrochemicals and some of those will also then get mapped in as we scale these molecules and these opportunities will get further mapped in our MPP in Dahej. Also, in terms of pipeline we've got an extremely strong pipeline right now in our specialty business, mostly coming from agrochemicals and non-pharma non-agro chemicals. We are not really a strong pipeline on the pharma side, especially in the specialty business. We are seeing it in agro-business and we are actually seeing it coming from segments which are outside of agro and pharma.

**Dhavan Shah:** What could be the utilization of this pet-chem business currently?

**Radhesh Welling:** You are talking about capacity utilization?

**Dhavan Shah:** Yes.

**Radhesh Welling:** Capacity utilization is a little difficult to provide number on because in specialty we have a number of plants. There is only one plant that is currently a dedicated plant which is for a molecule in our industrial segment where current capacity utilization is approximately about 75% but all other plants are basically kind of MPP in nature. Hence, we continue to do various smaller debottlenecking projects basis the molecule etc. Like for example earlier I talked about us working on a plan B for the slowdown in demand in ARVs. When we saw that happening, we immediately identified some other debottlenecking projects to retrofit that plant for some other molecules etc. Those kinds of smaller CAPEXs continue to bring incremental capacity in the specialty in Surat. But of course, the major capacities which will be coming up in specialty will be later this year when these two large CAPEXs will get commissioned in Dahej.

**Moderator:** The next question is from the line of Anubhav Sahu from MC Research.

**Anubhav Sahu:** I have couple of questions. One is if you could give an assessment of the quantitative landscape in fluorochemicals within India as few of the domestic companies are foraying into fluorochemicals and beyond this. And secondly if you can elaborate our priorities in fluorochemistry, I mean the sub-segments we want to focus on going forward?

**Radhesh Welling:** So obviously for short to midterm our focus will continue to be agrochemicals and pharmaceuticals. I would say mid to long-term; the number one focus area will be pharmaceuticals which will primarily be addressed through our CRAMS business. As I mentioned we are looking at a lot of newer opportunities which are from newer segments. Going forward a lot of new projects we believe will actually come in from those segments because we believe that in the next 3 to 4 years the competitive intensity will actually become stronger especially on the agrochemicals side. So though now short to mid-term we continue to grow our agro order book and a lot of our growth etc. will come from agro. We are cognizant of the fact that competitive intensity especially on the agro will grow. Hence our emphasis is currently on identifying a lot of opportunities outside of agro. So, from FY24- 25 onwards a lot of the new growth will be coming from newer segments. Just to again answer your question on the competitive intensity, we believe that there will be more players coming on the fluoro side. We also believe that people who are currently there will grow stronger, but we are not seeing significant competition in this space beyond agrochemicals. Most of these companies are limiting themselves to agrochemicals and hence the need to diversify outside of agrochemicals for us. Do you have a set of segments in mind within fluorochemicals where incrementally we won't be investing more or we won't be venturing into because maybe the ROE is low or the competitive intensity is high?

**Radhesh Welling:** Yes absolutely, we have already identified those segments and the work is going on in those segments.

**Anubhav Sahu:** If you can just mention me, how much specialty chemicals revenue growths for the pharma and market?

**Radhesh Welling:** If you see this year, we have actually seen a de-growth primarily because of the ARVPs. We will have to see how this ARV comes back next year but minus ARV, we are actually seeing a kind of a low double-digit growth for next year coming in specialty from pharma. We have identified some new intermediates which we have just started sampling and we are basically looking at mapping the plants in Surat for those molecules. Of course, if the ARV comes back as it is anticipated in the second half, from second half onwards, the growth will be more but otherwise it will probably be a low single-digit. I am only talking about pharma specialty. I am not talking about pharma CRAMS.

**Anubhav Sahu:** Within specialty, what percentage of revenue goes to pharma as of now?

**Radhesh Welling:** No, that's very difficult for me to give. I don't have those numbers immediately available with me because of what we will have to look at because earlier the split was 40-40-20, 40 from agro, 40 from pharma and 20 from agro. This year the split has actually skewed towards agrochemicals. We will have to basically and that pharma piece which was almost 40% of the total basket will this time, this year will come down to almost 20%. Then if that 20% actually grows by 10% or so it will be about 2%-3% or so but we will have to look at that exact number. I don't have that number available with me. If we finalize the budget for next year, that is when we will actually look at that exact number.

**Moderator:** The next question is from the line of Rohan Gupta from Edelweiss.

**Rohan Gupta:** Just taking from the previous question only. This year we have seen that in specialty chemicals the pharma business has de-grown and the contribution in the entire specialty has come down from almost 40% to 20%. It means that from agro, a lot of growth has basically been there because the specialty overall has grown significantly. Just wanted to understand this if next year we see that pharma growth comes back even at a lower single digit also, then we see this agro growth what has been in the current year can sustain in specialty chemical next year also or it is going to be non-agro, non-pharma which is going to be the driving factor?

**Radhesh Welling:** See if you actually look at next year which is FY23 there are a lot of newer variables which are coming in because your MPP as well as the other dedicated plant actually gets commissioned in FY23. But if you look at FY24, which is the full annualized year that we will get for all these newer plants and if you look at let's say FY24 performance of specialty versus let's say FY21 or FY22 performance of specialty; you will see a disproportionate growth in specialty would be actually coming in from agrochemicals primarily because lot of these newer projects which are coming up, newer CAPEX programs are for agrochemicals. Specifically, in FY22 if you see, you are absolutely right, large portion of a large percentage of that growth has come from agrochemicals. But at the same time, we have also seen a very good growth come from the industrial segment, in specialty in FY22. Within industrial also we are actually looking at some other newer molecules which we can actually add to our industrial specialty basket.

**Rohan Gupta:**

Within pharma, though you have mentioned that it's a basically from ARVPs where we have seen a slightly de-growth coming in the current year. The companies have not been able to focus on those segments but how do you see that overall pharma business in terms of, for Indian context? We are seeing that in agrochemicals, India has continuously, not only our company but many players have seen a significant growth in intermediates and agrochemical AI in the current year and last year? How do you see this pharma piece going forward? Are there enough opportunities in pharma and will next year may be slightly weaker but over next 2 to 3 years, can there be growth in the pharma can be there or is the business model is right now under pressure?

**Radhesh Welling:**

I will give that answer slightly differently. If you look at the pharma piece where the end product is actually going into the regulated market, lot of that we actually do under CRAMS. There we are actually seeing pretty good positive traction and the specialty; we primarily supply to the Indian pharmaceutical companies. Again, lot of those are generic molecules etc. We believe that as we move forward that will basically, we intend to defocus on that particular segment in that particular area, the reason being we are seeing the level of predictability there is very low. In all our businesses, our aim is to ensure that we bring predictability, the earning predictability. Of course, in CRAMS it tends to be lumpy from quarter-to-quarter but directionally there is a very good predictability in terms of how this business is going to scale up etc. In domestic pharma we just don't see that. We see that most of the customers actually give us a commentary in terms of some what is going to happen the following quarter and the following quarter the things actually are completely different from what the customers have actually told us. Even in some cases the customers actually, forget about the agreement, in some cases, the customers even give us the POs and don't pick up the material. That's just not kind of an engagement we would like to base our growth on. So, we are actually kind of de-focusing and de-emphasizing the domestic pharma piece. That's from the quality of business perspectives not something that we want to really focus on.

**Rohan Gupta:**

So, we can say that in pharma from our dependency on generic companies, we are moving towards the CRAMS model which will be more sustainable and high margin depending on the exports market?

**Radhesh Welling:**

That's correct. Even in the domestic market we probably will pursue some opportunities on the, we will probably pursue some, this one on the opportunistic basis but strategically that's not an area that we would really like to emphasis on.

**Rohan Gupta:**

Another question is once again from the previous participants' where you talked about the rising competition in fluorination chemistry. You see that, are there enough growth opportunities though you mentioned that your focus will be continuously on agro and also diversifying into other industries but so as other companies also. Like some companies are focusing more on the batteries and for the future developments and some are like; yesterday only we have heard that Anupam Rasayan buying the Tanfac which once again happened to have a presence in the fluorine chemistry. So, there are Laxmi Organics is probably putting another capacity getting

into that. What I am saying that competitive intensity in the fluorine where probably that market was dominated by three leading players in the country is now seeing multiple players trying to enter into these markets. Though fluorination what we understand is a complex chemistry but definitely that with a more players getting into that can cause some rising competition. How do you see, are there enough growth opportunities in domestic or in exports market which can absorb these rising competition and new players entering into market? Or you see that the competition itself will increase significantly in this segment?

**Radhesh Welling:**

Just to give you some idea on this; if you look at these three players that you are talking about; now if you look at specifically at Navin Fluorine we have been doing this for the last almost 55 years. So, there is a lot of resident knowledge etc. which exists. This is not something which is very easy to acquire in a year or two. Having said that, we believe that in the next 3 to 4 years if you look at the value pyramid within the fluorine space, right at the bottom of the pyramid in terms of chemistry complexity etc. is an agrochemical piece. That is why I believe that that is a piece where the intensity will first come in. But the other pieces, the pharma piece especially where you supply to the regulated market tends to be extremely sticky business. And in some of these other non-pharma, non-agro sectors, the chemistry capabilities and the engineering capabilities that are required to be successful, I don't see any of the current and new players who are trying to get into fluorination actually having those capabilities. I have mentioned this before as well, most of these other players probably have F1 capability. None of them has F3 capability or F4 capability or F5 capability or F6 capability. Lot of fundamental building blocks in F3-F4-F6, there are very few players globally who actually have these building blocks. We are one of the very few players globally, I am not just saying in India, globally to have those building blocks. Even if some of these newer companies have to get into those chemistries, they will have to be dependent on us for those building blocks and again those chemistries are extremely difficult to handle. We have actually tried for 3-4-5 years, failed and then eventually have gained expertise in those. This is not something which is very easy to acquire. Having said that, we believe that the intensity will definitely grow stronger on the agrochemicals side which is at the bottom of that value pyramid.

**Rohan Gupta:**

You want to say that even the competition goes up probably these new players will enter into lower end of the product and that actually will be positive for you because ultimately like as you mentioned that for F25-F26 and those kind of intermediates and building blocks, they have to be dependent on you and that will further drive the growth for your company and the old fluorine chemical chemistry players in the country?

**Radhesh Welling:**

Yes, just to give you some numbers. If you actually look at let's say fluoro-intermediate market for pharma or fluoro-intermediate market for agrochemicals; total supply from India is less than 5%. It's about 3% to 4%. So, there is a significant upside possible.

**Rohan Gupta:**

In the refrigerant gas business we have seen that the significant pick up in revenues in the current quarter we can understand is primarily driven by the price increase. Is there any scope for further volume growth because what I understand is R22, we were fully utilized and as per the protocol

whatever we can sell outside we were selling it outside? Is there any scope for volume growth in the refrigerant gases or in the current quarter the growth is also driven by the volume or all price increase?

**Radhesh Welling:** Directionally the growth in refrigerant gas will not come from volume growth of R22, the main product that we have. We will actually see de-growth in the MSF side which will get compensated by the growth on the non-MSF side. It's primarily because most of the OEMs have now moved out of R22. Lot of growth there will now happen through the new molecule, new products that we will actually work on and develop.

**Moderator:** The next question is from the line of Chintan Modi from Haitong Securities.

**Chintan Modi:** When we look at the recent trends like say inorganic fluorides have started doing well, ref-gas has started doing well and more like commodities across the board is doing well. Secondly when we read your commentary, other companies' commentary, the intensity or focus on domestic market has also improved in the last couple of quarters. Do you believe that this is more I mean this is coinciding with the logistics issues and most of the regions have got isolated? Do you believe this is more like opportunistic till the time logistics issues are there and probably once this gets resolved, everything will go back to normal?

**Radhesh Welling:** So, if you actually look at the growth that we have been seeing or we will see going forward as well, our growth will be across the Bus. Lot of these pricing movement because of the pricing which are primarily happened in inorganic and they have happened primarily in inorganic and ref-gas but in specialty and CRAMS, lot of that growth is basically coming from the international markets. To your observation the growth is primarily coming from the domestic market, that is true for inorganic business and ref-gas. How is this pricing actually fair going forward for inorganic and ref-gas, it's a little difficult to predict? Having said that we believe that both CRAMS and specialty will continue to grow, the growth will continue to be strong.

**Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital.

**Nitin Agarwal:** My question is on the CRAMS business. Just to reconfirm we said after the debottlenecking, the optimal capacity peak revenue possible on this plant will be about \$70-75 million?

**Radhesh Welling:** No, I said close to about \$70 million. \$70 million plus-minus. But again, this is something which is a little difficult to predict because depending on which molecule scales up, what kind of chemistries would be required for those and how these molecules actually bunch together, what kind of molecules we do in particular quarter versus the chemistries that we do over the year, spread over the quarter. So, there are a lot of things which actually play into this but we believe that will be about \$70 million plus-minus.

**Nitin Agarwal:** You said the debottlenecking would be in place by the end of this year, almost about the end of FY23, the increased capacity?



**Radhesh Welling:** That's correct.

**Nitin Agarwal:** On the pipeline in this business currently how many commercial products are we doing here?

**Radhesh Welling:** No, we typically don't give this information.

**Nitin Agarwal:** Qualitatively, how have your conversations changed in the CRAMS business, in pharma CRAMs versus the conversation that you have been having with the investors and maybe few years back, I mean in terms of the complexity of the products that they are taking, bit talking to you about intermediates versus the APIs and the size of the contracts? Has there been any meaningful changes in your conversations?

**Radhesh Welling:** I think there are three things that have changed a lot. One we have started talking about a number of more opportunities with the existing set of customers. As I have mentioned before whereas we were actually maybe supplying or we were having the opportunity of one molecule with each of these customers. Now with some of the customers we actually have four molecules in the pipeline, five molecules in the pipeline. Supplying more molecules to the existing set of customers, that is one change. The second is that earlier we were supplying primarily intermediates. Now a lot of conversation is around advanced intermediates and we have just started looking at opportunities on the API side as well basically to go further down into the further cGMP steps. We don't know yet if we will actually go all the way to API or we'll limit our this one to advanced intermediate. We are very clear that we don't want to be an API player but that is something that we are looking at as an option to have available, to provide additional service to the existing customers. For the existing molecules if the customer wants us to do further GMP steps, we could look at that opportunity. We don't see ourselves as becoming an API player because that's not where we believe the real value addition can happen from Navin Fluorine side, I think that is the second one. The third is that we have actually talked about this before, but we are actually seeing a lot more traction now with small to mid-size biotech, bio-pharma companies where we have actually seen a lot of newer opportunities coming from these set of customers. Those I would say are the three fundamental changes in the quality of discussion currently happening in the CRAMS business.

**Nitin Agarwal:** Typically, our customers insist on you having upfront investments in largest capacities before they commit businesses or that is not really a constraint for you because you don't have too much surplus 'free capacity' in this business?

**Radhesh Welling:** For these molecules which are scaling up, there we are only supplying the molecule. So, there was no need as such to actually see the steel in the ground. But having said that when we actually have these discussions going on with the customer where they kind of give us some kind of an indication in terms of how the molecules are scaling up it becomes important for us to ensure that we have these capacities available for these molecules to scale up. As I have mentioned before we have already started having a lot of these dialogues with the customer and trying to see how many of those opportunities would be required to put in a cGMP4. We have already



started having those conversations and we are hoping that in the coming year which is FY23, before the end of FY23 we would probably have a lot more concrete plans on cGMP4 which we will be able to take to the board.

**Moderator:** The next question is from the line of Sanjesh Jain from ICICI Securities.

**Sanjesh Jain:** I am sticking to the same question of competition, competitive intensity, agrochemical versus pharma. Our discussion previously indicated that you will defocus on pharma and your focus on agro will significantly increase and you have identified certain customers where you think the scaling up happened and your today's commentary looks very different and this discussion probably happened not beyond say the quarter, within this quarter, right? What has changed you to think what's happening on the agrochemical side and why there is a change in the thought process, that's number one? Number two, on building the capabilities from F3 to F6 which is a competitive strength for Navin Fluorine. We are also taking of commercializing them in '25 or somewhere into '24-25-26 it's like 3-4 years from now. There is one company which is already, non-fluorine company talking of manufacturing F6 and electrolyte salt which comes from a non-fluorine background. I think 3 to 4 years for a chemistry to develop is a fair enough time for a strong company. What gives you confidence that competition will not catch up as we catch up by that time? These are the two initial questions from my side.

**Radhesh Welling:** So, let me take the second question first. These chemistries will not take till FY25 to develop. We are already doing these molecules. I am saying that it will basically require till '24-25 to really scale up where it will require dedicated CAPEX and we will have material impact on the P&L. All of these molecules that I mentioned are based on F6 chemistry or F4 chemistry or F3 chemistry we are already manufacturing and supplying. In your first question, you talked about the change in the commentary. I don't believe there has been any change in the commentary. We have always maintained that short to mid-term, our focus will be on agrochemicals. Over a period of time, we believe that agrochemical is a sector where a lot more companies will come in and hence it is important for us to diversify beyond agrochemicals which is what we have already started working on.

**Sanjesh Jain:** We will take this offline sometime when we meet again. Just to sticking on to the pharma side of it. We have been constantly telling that CRAMS will remain the core part of our business and probably we are incrementally putting a lot more capital there which is clearly a stated intention. How should we envisage specialty chemical in that perspective that agrochemical will remain a lower focus and domestic pharma will remain a lower focus. How should our specialty chemical look like say 3 year-4 years down the line?

**Radhesh Welling:** I don't know if you heard me correctly. I didn't say that agrochemicals will be lower focused. I said for the short to mid-term, agro is going to be the main driver of growth. All the new CAPEXs that are coming in Dahej, if you have seen the commentary, they are all based on agrochemicals. Till FY, the growth that is going to primarily happen in specialty, is primarily going to be driven by agrochemicals. There is no mention that there is an immediate de-focus on agrochemicals.

What I am giving you is a short to mid-term focus and then mid to long-term focus. When I talk about the agro piece, it's more to do with the mid to long-term focus; short to mid-term it will continue to be in the agro sector. On the pharma piece especially on the specialty side, as I said that we will continue to pursue those opportunities but it will be more on a transactional basis or more on an opportunistic basis rather than on a very strategic one, saying that okay this is the piece that we really want to grow. Like the way we have actually talking about pharma on the CRAMS side.

**Sanjesh Jain:**

Just last bit of clarification on the agrochemical side. From now to say mid-term if I take mid-term as 5 years it will be predominantly again the agrochemical side where we will be competing with all the other fluorine agrochemical intermediate companies, right?

**Radhesh Welling:**

No, the growth that we are actually going to see from today till let's say FY25 in agrochemicals is primarily going to be driven by the opportunities which are already there in the pipeline or the emerging ones that we have already initiated the discussions etc. We don't see in those molecules currently any competition from any of the other Indian companies. Typically, the way agrochemical companies work is that they don't typically have two or three companies in the same country or a same geography working on the same molecule. Typically, if there are three companies in India, they will not give the same molecule to three companies. They will select one company for a molecule. The molecules that we are working on, the molecules on the back of which we are actually predicting this growth or the CAPEX, on the back of which we have actually done the CAPEX program, those molecules are being developed and will be supplied only by Navin Fluorine.

**Sanjesh Jain:**

In terms of the way I understand you so say for '25 the focus will be agrochemical. How should we see these contracts which will be ending say 4 years or 5 years down the line? There will be a significant competition for the renewal again, right? From a long-term perspective...?

**Radhesh Welling:**

Let me repeat again. For these molecules, we will continue to be the supplier after beyond, lot of these agreements that we signed either for 5 years or 7 years; all of them have clauses for continuation of those agreements. Typically, the only variable that comes into picture there, is how well are those molecules performing on the market? If the molecules continue to perform or if that performance actually improves, we will continue to be the supplier. As I mentioned earlier in my commentary, some of the molecules that we have currently mapped in our new MPP in Dahej, we believe that as those molecules scale up in the years to come, they would also require dedicated plants. When they talk about competitive intensity growing, let's say in the next 3 or 4 years those are for new opportunities which will come up in '23-24-25. The opportunities which are already in the pipeline will remain with us.

**Moderator:**

The next question is from the line of Dhruv Muchhal from HDFC AMC.

**Dhruv Muchhal:**

One clarification, you mentioned that the fluoro-intermediate market for pharma and agro which is getting supplied from India is about 3% to 4% of the global market. Based on that if I do a

rough math so the market size comes to be around what \$15 to \$20 billion odd somewhere in that range. Is that a good sense of the overall market for intermediates for pharma and agro because this data is currently not readily available so just wanted to clarify?

**Radhesh Welling:** I don't have the data right now with me but we just did that assessment on the part of that consulting assignment and that is where this one was coming but the overall numbers etc. I don't have those in front of me right away.

**Moderator:** The next question is from the line of Dhruv Bhatia from BOI AXA Mutual Fund.

**Dhruv Bhatia:** A couple of questions on the CRAMS side. The visibility that you are getting with this debottlenecking of cGMP3 and you will probably announce for cGMP4. Is it coming more from existing projects which are ramping up further or is it coming more so as you mentioned mid-sized biopharma or are they more new inquiries which are there which are kind of onboarding into commercialization?

**Radhesh Welling:** Those are primarily a basis the way the existing molecules are performing, and we are hoping that more of these molecules will actually scale up and hence will require a larger manufacturing footprint. For example, if you see cGMP3 is a much larger plant than cGMP2 and similarly cGMP2 is a much larger plant than cGMP1. When we come up with cGMP4 it will probably have some specific capabilities. It could have let's say larger high-pressure fluorination blocks etc. So that we will decide at that point in time but currently if you see, our overall plan is basis the way the existing molecules are looking to scale up. The way it will happen is the existing molecules will scale up, will require larger plants etc. And as those move into the newer plants or these larger plants, these new opportunities that I was talking about from the newer biopharma companies etc. will come into cGMP1-cGMP2 etc.

**Dhruv Bhatia:** On the agro side, if you just talk about more of this multi-year contract the 800 crores contract. You could just give a little more color on is it a patented molecule which you have won or is it you have won this order from an existing supplier who was supplying to the customer? I mean you could just give a little more color on that?

**Radhesh Welling:** This is a molecule which has just got off the patent but the customer continues to develop, formulate and launch new formulations along with some other patented molecules etc. There the molecule is performing extremely well on the market and they believe that it will continue to perform very well at least for the next foreseeable future. On the basis of that they have actually signed this contract which also has a take-or-pay clause attached to that particular contract. Currently this molecule is being supplied by another, we believe that initially it was supplied by companies from Western Hemisphere, then after they qualified a manufacturer in China for this molecule. That is what our understanding is.

**Dhruv Bhatia:** Lastly this mid-term opportunity you talked about in agrochemicals; is this coming more from a lot of molecules going off-patent and fluorine as a chemistry getting more used in these

molecules? Or is it coming more from this Western Hemisphere to Eastern where you are seeing a lot of players looking at Indian companies supplying to as a supplier base?

**Radhesh Welling:** No, a lot of these newer opportunities, when I say newer, I am talking about new to Navin Fluorine are actually new to market opportunities. These are not where let's say Navin is replacing either another company in India or Navin replacing a company in China. There is a possibility that in some of these cases, initial volume at a Kg level was supplied by some company in the Western Hemisphere but otherwise we would be the first manufacturer and supplier for a commercial scale quantity. A lot of these are actually new to the market.

**Dhruv Bhatia:** This will give you a lot more comfort in terms of visibility for the future or for any of these molecules which are getting commissioned by you?

**Radhesh Welling:** Yes, so I think that comfort clearly depends on how these molecules perform on the market, right? Sometimes it's good to work on the molecule which has been there in the market for a long period of time and performing extremely well because then there is a clear visibility. You know it's a very established molecule and is probably going to be in the market for the next 10 years or so. It's very important that you have the right balance. If you today look at these investments that we have, one which is the dedicated plant for one molecule and the other one which is in the form of MPP. The MPP is basically the products which we have mapped MPP, most of them are either new products or for new formulations whereas the dedicated plant it's for a molecule which has been there on the market for some time. We try to ensure that there is a right balance and right mix because you don't want to have too many uncertainties also where you have all the new molecules and suddenly if they don't perform well, then you could have a problem. It's important that you have the right balance between the two.

**Moderator:** Thank you. Ladies and gentlemen due to the time constraints, that was the last question for today. I now hand the conference over to Mr. Radhesh Welling for closing comments.

**Radhesh Welling:** I would like to thank everyone for joining on the call. I hope we have been able to respond to your queries adequately. If you need any further information, request you to get in touch with Orient Capital, our Investor Relations advisors. Thank you very much and take care.

**Moderator:** Thank you. On behalf of Navin Fluorine International Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.