"Navin Fluorine International Limited Q1 FY15 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Navin Fluorine International Limited Q1 FY-'15 Earnings Conference Call.

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

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 the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Shekhar Khanolkar – Managing Director at Navin Fluorine International Limited. Thank you. And over to you, sir.

Shekhar S. Khanolkar: Good Afternoon and a Warm Welcome to all the participants. I am also joined by Mr. Partha Roychowdhury – our CFO. I hope you have received the Results and Presentations. We have also uploaded the Presentation on our website.

This being our maiden call I will take this opportunity to briefly introduce Navin Fluorine.

Navin Fluorine is one of the largest integrated manufacturers of Specialty Fluorine Chemicals in India. It belongs to Arvind Mafatlal Group, one of India's oldest and respected industrial houses. As the name suggests the operations of the company are centered around fluorine chemistry which were developed over more than 4 decades.

We have four business segments – namely Refrigeration Gases, Inorganic Fluorides, Speciality Chemicals And (CRAMS) Contract Research And Manufacturing Services. I will just brief you about each of this business units starting with Refrigeration Gases: Navin Fluorine pioneers the manufacturing of Refrigeration Gases in India way back in 1967. Currently, we manufacture Refrigeration Gases 22 which is also called as R22 which is primarily used in mobile and residential air conditioning. Our brand name, Mafron, over the years it has become a generic word for Refrigeration Gases in India and many overseas markets, and helping us to become the preferred choice of OEMs as well as retail customers. We have developed a strong network of 120 odd distributors spread across India, Southeast Asia and Middle East.

Air Conditioning market as you know is one of the fastest growing segments in the consumer durable industry with increasing disposable income and reducing the prices of the air-conditioners. But even now the penetration of air conditioning in India is much lower compared to other developing countries. We can get a very lucrative opportunity for the AC makers of the world and personally for all of us.

As we know, our 22-class of refrigerants is going through a phase down. There will be a complete phase down of the gas by 2030 in developed countries. The phase down in India will begin from 2015 restricting the production of these gases for emissive purposes. But these gases can still be produced for non- emissive applications like pharmaceuticals.

Now, moving to the second business segment that is Inorganic Fluorides or Bulk Fluorides, Navin Fluorine has a rich experience in manufacturing various inorganic fluorides. Our product basket in this segment consists of hydrofluoric acid, ammonium fluoride, potassium chloride, sodium chloride and the likes of these products. These are primarily in the nature of high volume and are standardized applications. These cater to mainly industries like stainless steel, oil, gas, abrasives, electronic industries, solar sales and pharmaceuticals and agro chemical segments.

Exports currently constitute a very small portion in this business but it is a very potent market for Inorganic Fluorides. We are now actually working towards expanding our reach in the overseas market.

This division is supported by our in-house R&D team in developing newer compounds and also to develop products as per the customer specifications. The Inorganic Fluorides sector rides mostly on GDP growth rate and enjoys a positive outlook due to the demand or expedition of the growth in the infrastructure-related projects in India in coming months.

The third business segment is Specialty Chemicals. In this business, we produced a wide range of value-added Specialty Fluorine based molecules for applications in Petrochemicals, Pharmaceuticals, and Agro Chemicals. Our portfolio here consists mainly of molecules which belong to the family of Boron Trifluorides, Benzo Tri Fluorides, Fluro Benzenes, etc.

In fact, we have the world’s largest single location facility for Boron Trifluorides and we are the only producers in India. We also have a dedicated multipurpose plant which enables us to handle complex chemistries and deliver high quality fluorated products in various forms.

Backed by the research global, our robust research set of an in-house developed fluorine chemistry year-after-year we have been launching various new compounds with applications in Pharmaceutical and Agro Chemical space. In this business we work with almost all large global agro chemical companies which are based out of mainly in Europe and the US and almost all pharmaceutical manufacturing companies in India who use Fluorine-based molecules.

More than 40% of this business is realized through exports in this Speciality Chemical segment. Expanding our portfolio in continuously growing pharmaceutical, agro chemical industry will actually catalyze the growth in this segment going forward.

Now moving to the CRAMS business, as you know we have been fluorine chemistry for 4 decades. We have been experiencing that while need for fluorinated molecules in Life Science segment has been growing, the capability of handling this chemistry globally is not matching, and that is the reason that we decided to leverage our strength of managing Fluorine Chemistry when we venture into CRAMS business in FY-'10. In this business, we capitalized our knowledge and technical knowhow of fluorine chemistry to offer basic research, laboratory synthesis, process developments, scale up and making small and large batch manufacturing, and that is the way we differentiate ourselves from other CRAMS player in India or in China.

We started with a contract research support setup in Surat and a compact cGMP Contract Manufacturing operations at our another site Dewas near Indore.

In 2012, we acquired 51% stake in a company called Manchester Organics Limited (a fluorine research organization based in UK.) This acquisition brought with itself research partnerships with many global pharmaceutical and agrochemical companies and had a catalogue of more than 12,000 specialized compounds at that time. In a short span of 4-years we have been able to create our presence and acceptance among the research fratenity in India as well as outside world, specifically, the global innovative pharma companies. Manchester Organics and Navin together give innovative pharma companies a secured supply chain from a perspective of small scale to large scale production and technology when they are launching new molecules.

And encouraged by this, company has decided to invest approximately Rs.65 crores towards expanding our facilities in Dewas to create a larger capability of making tonne level quantities and with larger bag sizes. This new set up is expected to become operational by end of FY-'15, and this facility is also a cGMP compliant facility.

We are also making efforts in the market place towards expanding our market reach in the markets like Americas and Japan in addition to the European markets. With newer applications of fluorine being created and developed, we believe CRAMS in Fluorine has very high potential. This was about the four business units.

Now, let me also brief you about one of our key raw materials that is Fluorspar. As you know we start with Fluorspar and Sulphur as starting raw materials and then develop the entire fluorine chemistry in-house, hence Fluorspar becomes a key raw material for us. Historically, China has been the largest supplier of this material making supply and pricing of this raw material very unpredictable. During past couple of years we have been making specific efforts to use Fluorspar from mines other than China and in the regions like South Africa and Kenya. These have helped us to derisk first from extreme supply scenarios which emerge out of China.

We have also entered into a joined venture with (GMDC) Gujarat Mineral Development Corporation and Gujarat Petrochemicals for beneficiation of Fluorspar Ore available within India with GMDC.

Now coming to our manufacturing facilities and a brief about our CAPEX plans, we have a manufacturing facility in Surat in Gujarat and Dewas at Madhya Pradesh.

In Surat, we have one of the largest single location plants in India for producing Hydrochloric Acid which is a basic starting material for doing entire fluorine chemistry. It also houses the facility for R22 Inorganic Fluorides and Specialty Chemicals along with our R&D center and our pilot plant for Specialty Fluoro Chemicals. Last year, multi-purpose plants for Speciality Chemical also came on stream at the same site.

In Dewas we have cGMP compliant manufacturing unit set up for CRAMS business, we are expanding as I said this facility by investing Rs.65 crores to create tonne level capabilities to augment our CRAMS offering, and this will be operational by end of FY-'15.

We have also just commenced Greenfield expansion at our another site that is Dahej for Speciality Chemicals. This will enhance our portfolio with value-added Fluoro-organics. The estimated CAPEX for these expansion may be around Rs.120 crores. We have just begun the construction work at the site and we expect that to be operational in first half of FY-'16.

We strongly believe that fluorine space is evolving faster and new applications in Life Sciences are being created. With over 4 decades of our experience in fluorine chemistry, we are very well placed to capture opportunities in this space which this space offers.

Now, I will hand over to Partha Roy Chowdhury – our CFO who will take you through the "Financial Performance of the Company."

Partha Roy Chowdhury: Thanks, Shekhar, and a very good morning to all the participants. I will share with you the salient features of our financial performance during the quarter, following which we will be happy to take your queries.

In the first quarter, the company registered, revenue of Rs.130 crores, a quarter-on-quarter growth of 5% from Rs.124 crores in the last quarter, and 13% growth year-on-year from Rs.115 crores in the same quarter last year.

The growth in revenue was mainly driven by improved volumes in Speciality Chemicals and exports of Refrigeration Gases on the upside. However, this growth has been partially dampened by weak pricing in the Refrigerants business.

Broadly, the Refrigerant Gases contributed 39%, Speciality Chemicals 35%, Inorganic Fluorides 20% and the balance operating revenue came from CRAMS which is of the order of 6% to 7%.

Operating EBITDA for the quarter is Rs.12 crores.

There has been a long-term wage settlement reached with the union at Surat during the quarter. The prior period impact of this settlement is of the order of about Rs.2 crores. This has significantly impacted the EBITDA for the current quarter. Adjusted for the arrears of wages which is a one-time kind of a charge, the normalized EBITDA is Rs.14 crores against Rs.13 crores of the previous quarter. So this is at the same level of 10.5% as that of the previous quarter in terms of EBITDA margin.

However, the EBITDA has declined from Rs.18 crores to Rs.12 crores or at an adjusted level to Rs. 14 crores year-on-year resulting in a normalized margin of 10.7% against 15.6% of Q1 last year. The EBITDA margin was predominantly impacted on account of significant increase in the Chloroform price one of the major raw materials to manufacture our Refrigerant Gas, and a higher power cost as import of traded power has been stopped by the Government of Gujarat since March 24 for South Gujarat. This was offset to some extent by improved margins in Specialties and the Inorganic BU.

Depreciation is lower on account of the Companies Act 2013 revising the useful life of assets which has been considered while calculating the depreciation for the current quarter. As on June 30th we have maintained the investment of around Rs.152 crores in debt mutual funds and Rs.47 crores in commercial properties. This quarter, we have received around Rs.2.94 crores from rentals and Rs.85 lakhs from treasury income. As you all know, the tax advantage that we derived from income on investments in FMPs, debt mutual funds will no longer be available from this financial year. Accordingly, the portfolio may undergo some changes.

This is all from our side, and now we will open the floor for the question-and-answer session. Thank you very much.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Neeraj Mansingka of Edelweiss. Please go ahead.

Neeraj Mansingka: I just wanted to know about the Dahej facility. Can you share more details on what type of products you will manufacture there and capacities etc.?

Shekhar S. Khanolkar: At Dahej we are planning is a production facility for some of the Pharmaceutical or the Life Sciences business segment as well as Speciality business. So these are various products which will be manufactured in that, and we will be ready for commissioning in mid of FY-'16. So as of now what we can talk about is the mix of products which will go into Speciality, Pharmaceutical applications.

Neeraj Mansingka: Any kind of color on the type of companies which will be buying those products, and what kind of revenue potential this plant can have?

Shekhar S. Khanolkar: No, as you know these are the pharmaceutical ingredients, so typically the pharma companies within India and outside India will be the customers, and because the product mix also will be based on the kind of product mix the revenue will also change, so it will be too early to really predict the revenues which will come out of this.

Neeraj Mansingka: Is this speculative plant or there is already clarity on the buyers?

Shekhar S. Khanolkar: No, we have some clarity on the majority of the buyers definitely and that is the reason this plant is coming up.

Neeraj Mansingka: And this is your entire venture or it is a joint venture plant or something?

Shekhar S. Khanolkar: This is our entire venture.

Neeraj Mansingka: Sir any color on if you have a clarity when can the entire plant revenue potential can be seen in, broad ballpark number of how much revenues can be generated from this kind of a facility?

Shekhar S. Khanolkar: It will take round about 3-years to reach to the full capacity of the plant, and I said because the product mix which is still under discussion, so it will take some time for us to really talk about the revenues coming out of this facility.

Neeraj Mansingka: Does it help potential to change the EBITDA margin profile of a company?

Shekhar S. Khanolkar: Yes.

Neeraj Mansingka: Any color on that?

Shekhar S. Khanolkar: Again, it is too early to talk about it.

Moderator: Thank you. Our next question is from Sudarshan Padmanabhan of Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: You had mentioned that EBITDA margins are impacted by Chloroform prices, but one would assume that in your business if there is an increase in your input prices, you can actually pass it on with a lag. So can you give some more details about what is the kind of increase that has happened, and are we going to pass through some of these increases, and how are we going to see the next quarter margins?

Partha Roy Chowdhury: I am Partha Roy Chowdhury speaking. We would not really like to give you any guidance in terms of the overall EBITDA margins that we would be aiming to have in the next quarter; however, coming back to the very basic of the question that you have asked in terms of transferability of the increase in prices of raw materials through the products to the customers, the answer is in some products it is, and in some markets it is possible, whereas in certain products and in certain markets it is not possible. If we have to speak about these Refrigerant Gases given the global scenario of the Refrigerant Gases, yes, it is possible to pass the escalation in the costs to the customers through the final pricing, but there is always a lag and that lag can extend beyond a quarter because the players in the international markets are very many which includes both suppliers from developed countries as well as suppliers out of China. Does that answer your question?

Sudarshan Padmanabhan: Yes. What is the kind of increase that we have seen and how much did it impact your EBITDA, if we assume that the prices increases did not happen, what would your EBITDA would have been this quarter?

Partha Roy Chowdhury: The prices have almost doubled from about Rs.13 - 14 a kilo, it has escalated to Rs.25-26 a kilo the cost of Chloroform. So if we look at the cost escalation in Refrigerant Gas-22, it is of the order of anywhere between Rs.15 to Rs.18 per kilo at different points in time. So this is the dimension of the cost escalation in chloroform.

Sudarshan Padmanabhan: Had the prices been constant how would our EBITDA margins would have looked?

Partha Roy Chowdhury: I would not really like to reconstruct the P&L based on these assumptions, because that would sort of provide a guidance which is not something which we would like to sort of discuss.

Sudarshan Padmanabhan: Can you also throw some light on Fluorspar, we have kind of derisked ourselves from China, I think we are also looking at sourcing some from Kenya and GMDC and Gujarat Chloro, has that started and how much of that shift has actually happened this quarter?

Shekhar S. Khanolkar: This is Shekhar. Fluorspar, as I said, we are now buying from other countries like South Africa and Kenya, and basically what has allowed us since last a couple of years based on our efforts which we have done at our plant level in our operations that today we can use any Fluorspar, so we can still buy Chinese Fluorspar based on the commercial considerations going forward. So today we are more than one sources which were not there earlier. As far as the Fluorspar coming from the joint venture company, which is between GMDC and GFL and Navin Fluorine is concerned, it is still further away almost about another 2-years or so because we just enter into a technology finalization process right now, so that is still further away.

Sudarshan Padmanabhan: And sir if I am looking at your numbers we have not seen a big jump on your CRAMS space, this is something which I think we were talking about or at least it was perceived to be a growth engine. So when can we start seeing some kind of action in this space?

Shekhar S. Khanolkar: CRAMS is a nascent business for us and we are in a investment phase in this business, and as you know in CRAMS business there are a lot of projects, is unlike any other Speciality or Refrigeration, it is not a steady state business where certain volumes or certain products which would come on month-on-month basis. In this business, your business coming in to a particular month depends upon the project which various pharmaceutical companies or innovator pharma companies are doing. So there are some projects get delayed by a month or two or three months then the production also gets delayed by those many months. So that is what the business dynamics is all about. So we feel that it is a part of the business dynamics of CRAMS business.

Sudarshan Padmanabhan: Have we seen any kind of delays this quarter in that sense?

Shekhar S. Khanolkar: Yes, our expected business from this quarter we could not get.

Sudarshan Padmanabhan: Which would happen in the next quarter or subsequent quarters probably?

Shekhar S. Khanolkar: Hopefully, yes.

Sudarshan Padmanabhan: And sir can you also throw some light on how Manchester Organics performed this quarter?

Shekhar S. Khanolkar: Manchester Organics performance has been good, it is a very small company from the turnover perspective, but fundamentally what Manchester Organics helps us in terms of a joint marketing as I said earlier with the customers and there are a lot of projects we start at a very small quantity level – 5 gms 10 gms 20 gms level – which can then get scaled up at our facilities in India. So the contribution of the business from Manchester Organic does not get reflected only from the Manchester's turnover, but also they are reflected coming into Navin as its business.

Moderator: Thank you. We will take our next question from Rahul Bhangadia of Lucky Investments. Please go ahead.

Rahul Bhangadia: Just a kind of for continuation on the CRAMS bid that was just asked, while you have explained that sometimes project-specific stuff does delay the top line, do you still kind of hope to reach close to the Rs.45-50 crores top line mark for the full year for CRAMS?

Shekhar S. Khanolkar: As of now we feel confident about it.

Rahul Bhangadia: Second sir, you have also mentioned that there was a change in the power policy of Gujarat Government for South Gujarat, which kind of hit you. If you could just give us a sense of the quantum that kind of hit you in the quarter, and what exactly was that caused the hit?

Partha Roy Chowdhury: The impact is you can consider an average of about Rs.50 lakhs per month by which the power cost has gone up.

Rahul Bhangadia: This Rs.50 lakhs per month on a Y-on-Y basis?

Partha Roy Chowdhury: On a Y-on-Y basis yes. However, there are various things which are in the offing, none of it is yet crystallized, so we are also trying other sources and we are trying if we can sort of salvage some of these escalations by contracting out with independent power producers, etc., but the regulatory framework is not yet clear, therefore we have not been able to really start that.

Rahul Bhangadia: So sir, given this situation, is this other expenses run rate of about Rs.36-37 crores per quarter is what we should expect for the foreseeable future or assuming most of it is fixed cost?

Partha Roy Chowdhury: Yes, it is fixed cost but in the energy you can assume that; however, this block also includes things like packing material, maintenance, repairs, freight, etc. In terms of our accounting that we do the accounting classifications come in this block, whereas in the truest nature of the business and their purpose they are variable. So up to that extent there will be some variability in that Rs.36 crores.

Rahul Bhangadia: You have kind of said that you would not like to predict or give guidances on EBITDA margins for the next quarter or two quarters, but in the previous chat you have mentioned that 14-15% is the kind of number that on an annual basis that you are looking forward to. Given all the changes that have happened do you still look forward to those kind of margins? That is one. Second, were these changes in the quarter kind of not foreseeable in the sense that since you have said that the changes happened in March, some of these changes would have been kind of known to you well before, right?

Partha Roy Chowdhury: Well before meaning it depends on how you define that well before, we came to know about it 15 days before the start of the year, and even if we had known about it there is hardly anything that we could do to influence change the situation. Having said that we have just about completed Q1 and we are still looking at achieving broadly the same EBITDA margins as we have at on an annual basis last year.

Rahul Bhangadia: So in spite of all this you are still hoping to kind of catch up in the remaining three quarters?

Partha Roy Chowdhury: Yes, that is what we are attempting to do.

Moderator: Thank you. Our next question is from Saravanan Viswanathan of Unifi Capital. Please go ahead.

S Viswanathan: My question sir you had mentioned about the tax changes and FMP on a post tax basis making it less attractive. So what are the alternate views that you have – are you looking at any other acquisitions or any real estate investments?

Partha Roy Chowdhury: No, we are not looking really at any real estate investment or acquisitions as of now, but we have quite sizeable CAPEX which are going on, for which a certain amount of term borrowing has also been lined up. So we would probably prefer to draw down less on those. We would also like to top up on the working capital draw downs which we have, and then we will wait and see how the scenario changes on the interest expense side, how the interest cost pans out in the next few months, and we will take a call accordingly.

S Viswanathan: What is the CAPEX plan for the current financial year?

Shekhar S. Khanolkar: As we said, we are spending about Rs.60 plus crores in Dewas and another Rs.120 crores in Dahej. So that will be in this FY and next FY together.

Moderator: Thank you. The next question is from Chetan Wadia of JHP Securities. Please go ahead.

Chetan Wadia: You answered on the CRAMS part. My question is on the Refrigeration Gases, Speciality Chemicals and Inorganic Products. What kind of growth is expected to see in FY15 over '14 in each of these segments and can you also comment on the margins in each of the divisions?

Shekhar S. Khanolkar: I will start with Speciality business; as you know, we invested into a small investment leading to a multi-product plant at end of last year. So the results from that will start fructifying during this year onwards. So we expect our Speciality Fluorochemicals business to show a robust growth going forward during this year. So, our existing products also doing well, and that is the reason that we feel Speciality Fluorochemicals business will continue to grow. In our Refrigeration Gases business, we have one product which is Mafron RR22 and that is where the local market as I said earlier is dependent upon the growth of the air-conditioning market within India and we also have substantial amount of exports into the gulf and other South Asian countries. That we expect to remain steady going forward during this year. Inorganic Fluoro business, basically, we are a little lower on the exports side, we are trying to look for new markets for Inorganic Fluoro business outside India, and that is where we expect the growth to come from during coming years.

Chetan Wadia: What kind of investments are you looking up to be in the CRAMS space, what kind of revenue you can see in FY15-16 there?

Shekhar S. Khanolkar: As I said the investment at Dewas is basically CRAMS business which is about in order of Rs.60-65 crores which happened during this financial year, and it will take almost about 2.5-3 years to ramp up the entire facility in terms of the filling of the capacity.

Moderator: Thank you. The next question is from Siddharth Purohit of Sushil Finance. Please go ahead.

Siddharth Purohit: Just wanted a clarification on the Refrigerant side. Earlier, you were saying that possibly Refrigerant business can see a drop in volume as well as revenue, but surprisingly this quarter we have seen a good amount of growth. So, is it fair to assume a similar run rate in the coming couple of quarters? And Inorganic Fluoride again, has been soft both quarter-on-quarter and year-on-year. So any outlook on that front?

Partha Roy Chowdhury: As far as our Refrigerant Gases business is concerned, you have to keep one thing in mind that this business has a certain amount of seasonality, and if we are comparing year-on-year you will find a substantial upside, that upside is volume-driven and that upside is also export-driven. So, this phenomenon will probably continue into the second quarter, but at a lower rate, and in third quarter this is not going to be there. So, this is how the Refrigerant Gases business is going to pan out. And as far as Inorganic Fluoro are concerned, we will see a steady performance.

Moderator: Thank you. The next question is from Nilesh Joshi of Techno Shares. Please go ahead.

Nilesh Joshi: A couple of questions; Shekhar, again, on CRAMS. When we see a few programs got say postponed or delayed by some manufacturers and we are very close to commissioning a very large plant of Rs.65 crores over in next nine months. Does this worry that this kind of a lumpiness would always happen when the new plant comes up or this was just a one-off and eventually we will have stability in the quarterly run rate, especially like I thought that we have so many customers that in case who gets delayed in the program at least some other would make it. So can you just help me to understand?

Shekhar S. Khanolkar: In the CRAMS business, what happens is at any scale you operate, you will always have some kind of pluses or minuses happening, because that is the fundamental business with the pharmaceutical innovator companies because they have the trials going at various places, their requirements go on changing. So this kind of a thing will happen at various places. Even if you have say 20 customers that are small scale and if you have 200 customers in large scale you will have this phenomena for this business. That is number one. Number two is as far as we are concerned, we are not at all worried in terms of… as you said that large capacity coming up in a few months down the line with the results for this quarter. Simply because when we decided to go for this investment we have certain customers in mind, certain customers who we have been supplying for the last one year and we know that how they are growing, and we know that their requirements will be coming up sometime during next year, and that is what we are preparing for. In this business, there is another thing is that you need to put your assets on ground first, have the customers coming in for audits, approvals and then only the business starts coming in. So unless your asset is on ground you just cannot think of getting into this business in a big way. So in a nutshell, we are not really worried about this quarter's little lower than expected performance for this business when I compare with the investments which are coming up during next year.

Nilesh Joshi: Second, Shekhar, is on the Dahej. If I recall, we were planning some Rs.65 crores and now I think in this presentation you have said Rs.120 crores. So, what has changed that – is it some more products you are looking at or you are also going for HF to be manufactured at Dahej?

Shekhar S. Khanolkar: No, basically this is because we have decided to scale up the plot size, and that is why the investments are actually going up.

Nilesh Joshi: So we will do the entire CAPEX, the plant size and your reactor capacity, etc., right from the day one to the new size, right?

Shekhar S. Khanolkar: Yes.

Nilesh Joshi: But no HF you are planning at Dahej?

Shekhar S. Khanolkar: As of now, no.

Nilesh Joshi: Partha, you talked about Chloroform price increases. So is it because of some availability issue or is it a one-time or it is going to be a permanent issue this kind of price increases or you keep seeing such fluctuations in the history of our fluoride like?

Partha Roy Chowdhury: We do keep seeing such fluctuations in Chloroform. To answer your question in a straightforward manner, it is the supply side which plays up.

Nilesh Joshi: So maybe some suppliers are off to maintain or something like that?

Partha Roy Chowdhury: No, mainly Chloroforms producers all over the world, they produce C1, C2, C3, C4, all of them. So if the C1 market is good, so they exit at C1. If C2 is good, they exit at C2 which creates imbalances in the other products. So this is some such situation. This is my personal view… I do not think that the Chloroform price has found a new sort of an equilibrium or anything of that kind.

Nilesh Joshi: So it does come back to the original price over a period?

Partha Roy Chowdhury: Yes, it does.

Nilesh Joshi: So probably this kind of situation even we could not pass on 100% is eventually it will come back to those equilibrium levels?

Partha Roy Chowdhury: Yes, 1.5 years back it was at $1,000, and then it came down to $200 odd. So, it keeps happening like this.

Moderator: Thank you. The next question is from Dikshit Mittal of Subhkam Ventures. Please go ahead.

Dikshit Mittal: On this Speciality Chemical plant in Dahej, sir, when do we expect to start production from this plant?

Shekhar S. Khanolkar: In the middle of next financial year.

Dikshit Mittal: In FY16?

Shekhar S. Khanolkar: Yes.

Dikshit Mittal: Sir, typically what kind of asset turnover this plot enjoys, sir?

Partha Roy Chowdhury: The asset turnover of this plant is of the order of maybe 1.2x.

Dikshit Mittal: Sir, these are R&D Chemicals or like Commodity Specialty Chemicals?

Shekhar S. Khanolkar: These are Specialty Chemicals going into Pharma, Life Sciences Applications.

Dikshit Mittal: So will they have materially different margin profile as compared to our current chemical profile?

Partha Roy Chowdhury: Yes, they will, and when we talk about the turnover in terms of number of times, etc., one has to keep in mind that this Dahej site is a Greenfield site and a lot of site development expenditures are going on. So if you really put a very simple mathematical sort of multiplier and try to extrapolate then that may not be very, very correct.

Moderator: Thank you. Our next question is from Rohit Nagraj of Sunidhi Securities, please go ahead.

Rohit Nagraj: Sir, what is the hedge that we have in terms of import of raw materials and the export of our products – do we have a natural hedge that our imports and exports are largely equal or some of them is greater than the other?

Partha Roy Chowdhury: We have a natural hedge, Rohit. While we say we have a natural there are timing differences, and the timing differences are quite significant. Therefore, as a matter of our policy we close out both the ends to the extent possible. If you know the dates of crystallization of these transactions, we close out those rates.

Rohit Nagraj: So in our experience, the FOREX fluctuation not impacted us significantly, last year …

Partha Roy Chowdhury: No, they did; in 2011-12, 2012-13, if you see our annual accounts, you will realize they really did impact us quite significantly.

Rohit Nagraj: So, have we taken any steps now that in order to reduce this particular exposure and reduce the FOREX losses?

Partha Roy Chowdhury: Yes, we have sort of started closing out the transactions; we completely sell or completely buy the exposures depending on the transaction.

Rohit Nagraj: Generally, what is the credit period for the raw materials and for the export products, what will be the debtor days?

Partha Roy Chowdhury: Basically, the difference could vary from anywhere between 120 days to as high as 180 days, that depends.

Rohit Nagraj: Sir, in terms of the CAPEX that we have mentioned, close to about Rs.180-185 crores, what would be the funding arrangement for the same – is it going to be totally funded from internal accruals or partly you will be taking out debt or so?

Partha Roy Chowdhury: Partly, we shall be taking some debt, but though we have lined up some debt, the quantum of drawdown is not yet decided, especially in view of the change in the tax regime, which has happened recently.

Rohit Nagraj: Sir, this CAPEX would be sufficient for our growth for the next say two to three years, beyond that only we will have to do then incremental CAPEX in terms of our …?

Partha Roy Chowdhury: As of now, that is our visibility, Rohit.

Moderator: Thank you. Our next question is from Prateek Poddar of ICICI Prudential Asset Management, please go ahead.

Prateek Poddar: Sir, you have raised amount to be invested in Dahej quite materially. Any specific reason for that?

Shekhar S. Khanolkar: No, as we said earlier, Dahej is a Greenfield site, so there are expenses which will go into site preparation as well, so the site infrastructure investments are also included into this CAPEX, so that is why the amount is a little higher.

Prateek Poddar: These site infrastructure investments, are these common utilities, which you would later leverage upon by adding more and more multipurpose plants, is it something like that?

Partha Roy Chowdhury: It actually, Prateek starts from making the roads. To make the roads, you put the lamp posts, you draw the electrical wirings, and all that stuff, so it is starting from there, utilities will come at the next level, so all these are included.

Prateek Poddar: I am just saying for three years out with Dahej ramping up and obviously Dewas ramping up, the product profile on the revenue side would be now more skewed towards Specialty Chemicals and CRAMS. Is that a fair understanding.

Partha Roy Chowdhury: Yes.

Prateek Poddar: Just one clarification, last time when we spoke, the margins are more than the company level margins on these two segments – Crams and Speciality, is that also correct?

Partha Roy Chowdhury: Yes.

Moderator: Thank you. The next question is from Nirav Jimudia of Anvil Research, please go ahead.

Nirav Jimudia: I have just two questions; sir, first is like you mentioned in your initial remarks that Chloroform prices have almost doubled this quarter. So sir, based on the raw materials, Chloroform required for the production of R22, is it fair to assume that the impact would have been at Rs.4 crores for this quarter, like based on the chloroform used for the production of our R22 gas?

Partha Roy Chowdhury: Nirav, I would not really like to say, yes or no. These are very standard input/output norms, the price is a public domain sort of information. So you please do not us ask to corroborate mathematical.

Nirav Jimudia: Like sir, because of our margins have like from last …?

Partha Roy Chowdhury: I know, but these numbers are available in the public domain and as I said I have given you our buy out rate of Chloroforms then and now, you can calculate these numbers.

Nirav Jimudia: Second is slightly on the technology side, like I was just reading the Manchester Organics website, whereby it was written that earlier we used to have the fluorination using the AHF agents, then the technology developed was like Halex Reaction, which was developed. Now with the collaboration with OmegaChem, we have developed a new technology called XtalFluor. So just wanted to understand more on this, why is this technology superior than the earlier technologies which were there in place?

Shekhar S. Khanolkar: Fundamentally yes, the chemistries in fluorination has been AHF and many other solidification like KF and other agents. Technology which is developed by OmegaChem in collaboration with Manchester Organics is a new fluorinating agent, which is comparable to the fluorinating agents like DAST, and Selectrode, which were launched some time in 1970s and 1980s, but when you compare chemistries which one can have with this particular new agent against these chemistries, there is a huge difference. One fundamental difference is that the chemistries with DAST have always remained in last 20 years in a very small scale manufacturing. Those could not scale up. The advantage with XtalFluor is that XtalFluor chemistries can be scaled up, because of the uniqueness of the chemistry and handling ease which it has over products like DAST and Selectrode. That is what the uniqueness of this chemistry which is attracting many pharmaceutical companies when they are looking at innovative chemistries into their molecules.

Nirav Jimudia: But like how this technology help in better running the margins – since it will help us to scale up the operations, would it also help to improve the margins in that sense, given the superiority over the DAST technology.

Shekhar S. Khanolkar: For us or for the customer?

Nirav Jimudia: For us like.

Shekhar S. Khanolkar: For us, because the agreement internally within OmegaChem and Manchester Organics and us is that any large scale manufacturing of this particular product will be done only at Navin Fluorine. Today, we have already starting supplying those kinds of products into innovative pharma companies, and the kind of interest these pharmaceutical companies are showing, we feel there is a good future for the growth of this molecule.

Moderator: Thank you, and I now hand the floor back to Mr. Shekhar Khanolkar for closing comments.

Shekhar S. Khanolkar: First of all, I would like thank all of you for joining this call and I hope we have been able to respond to your queries adequately. If any further information or queries you have, I would request you to get in touch with SGA, who are our investor relationship advisors. Thank you very much.

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