



“Navin Fluorine International Limited Q1 FY-16 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Navin Fluorine International Limited Q1 FY-16 Earnings Conference Call. This conference call may contain certain forward looking statement about the company which are based on the belief, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and it involves risk and uncertainties that are difficult to predict. 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 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. Shekhar Khanolkar, Managing Director of Navin Fluorine International Limited. Thank you and over to you, sir.

Shekhar Khanolkar: Thank you. Good morning and a warm welcome to all the participants. I hope you have received our result and presentation. We have also uploaded the same on our website.

At the outset I would like to share recent management changes which have happened at Navin Fluorine. I am glad to share with everyone that Mr. Partha Roy Chowdhury will henceforth work with me on some new strategic initiatives with the company as he moves out of his CFO role.

At this point, I would also like to introduce you to our new CFO Mr. Sitendu Nagchaudhuri. Sitendu is a Charter Accountant with about 25 years of experience working with various Indian or multinational organization like ICI, Castrol, British Petroleum, etc., across various geographies. He brings with him his financial management expertise drawn from various industries. His previous assignment before joining Navin was a CFO with Cement Business of BK Birla Group. I have both Partha Roy Chowdhury and Sitendu with me on this call.

Now moving to our quarterly results, I will give brief business update followed by a commentary on the financial results by Mr. Partha Roy Chowdhury.

This year has begun on a positive note with encouraging set of numbers. We are glad that our marketplace efforts and initiatives have started fructifying in a manner that we have beneficiaries to the overall growth in our customer industries.

To begin with refrigeration BU. Increase in AC demand with lingering summer in most part of the country demand for refrigeration has surged substantially. Usage of R22 in pharmaceutical and agro-chemical sectors as feedstock has also shown growth. Overall hence R22 demand has shown traction in domestic market. Overseas market for R22 has remained stable. This increase in demand helps in garnering better realizations as well. Going ahead in the near-term we believe we are appropriately positioned to capitalize on growing demand for R22.

Our Specialty Chemical business sustained its growth momentum in this quarter as with improved product penetration in domestic as well as export markets. Here we continue to focus

on investing research and development towards building a strong quarter portfolio with niche Fluorochemicals require for pharmaceutical and agro-chemical sector.

CRAMS business has performance is in line with our expectations. We have got good visibility of our order book and hence, we maintain a positive outlook for this business. We continue to expand our reach with potential customers in the U.S. and Europe and are able to create interest within a few new customers during this quarter. The CAPEX spend of Rs. 60 crores at Dewas is now complete and customer audits have already begin. I am very happy to share that we are getting very positive response from these customers. We expect to see impact of this investment and customer response during later part of this year.

Coming to inorganic business, the inorganic product business has remained flat during this quarter but this is in line with the main customer industry namely steel industry which is witnessing a slowdown in India. However, the export markets are responding positively and we expect to gain significant market share in these markets over the periods to come. Our JV at Dahej at/with Piramal Enterprises is moving along smoothly and expect the project to be commercialize by FY-16 as already announced.

That is all from my side, now I will hand over the discussion to Partha, who will take you through the financial performance of the company. Partha?

Partha Roy Chowdhury: Thanks, Shekhar and a very good day to all the participants. I shall share some of the highlights of our performance following which we shall be happy to respond to your queries.

In the first quarter of the year the company registered revenue of Rs. 150 crores year-on-year growth of 16% from Rs. 130 crores in the same quarter last year. The growth in top-line was mainly driven by refrigerants, specialties and the CRAMS segment. All three segments witnessed good off-take of volumes and improved realizations.

Refrigerant gasses as our MD mentioned a moment ago grew substantially from 50 crores in Q1 of the previous year to 61 crores of quarter one of the current year. Growth of 23% year-on-year, it contributed approximately 41% of the sales. Specialty chemicals contributed 30% of the sales, growing by 23% year-on-year to Rs. 55 crores. CRAMS revenue was at 10 crores, a growth of 25% year-on-year albeit on a small base. The growth across these segments was marginally offset by the decline in inorganic fluorides business. Inorganic fluorides contributed 24 crores which is 16% of our sales.

Overall cost of raw materials have been stable through the quarter. Profitability has improved mainly on account of operating leverage facility. Operating EBITDA for the quarter was at Rs. 26 crores a growth of 109% year-on-year from 12 crores. EBITDA margin expanded multifold. It witnessed an expansion of 759 basis points to 17%. Operating PBT for the quarter is at Rs. 21 crores a growth of 171% year-on-year from 7.6 crores in the same quarter last year. Operating PBT margin for the quarter is at 13.68%, up from 5.84% in Q1 FY-15. PAT more

than doubled in Q1 of the current year to Rs. 18 crores from Rs. 8.5 crores in the Q1 of the last financial year.

This is all from our side and now we are open the floor for your questions and we shall be happy to answer them. Thank you very much.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Shlok Dave from Seraphic Capital. Please go ahead.

Shlok Dave: Sir, new CAPEX that you are doing the 60 crore and the 140 crore as mentioned in the presentation. Sir can you elaborate on the economics of these projects in terms of asset turnovers and margins and what kind of returns at full utilizations can you expect? And my second question was that sometime back I guess two quarters or three quarters back you had mentioned about how fluorination is gathering pace as a process and more and more companies are looking at fluorination as a key process for various reactions. How much has that gathered pace? And can we expect over a period of time quite a lot of conversion from bromination and how will the economics pan out for you and also for your clients? Thank you very much, sir, that is it.

Partha Roy Chowdhury: Thanks for the question, I am Partha Roy Chowdhury. I will first answer your question on the CAPEX sales. As I recollect there are two questions one is with regard to the 140 crore investments and the other is with regard to our recent investment in the CRAMS. The 140 crores investments is in JVC as you aware and one is to one gearing in the JVC so, therefore partners investment are almost half-half. So they are from the investment part the JVC is almost coming on stream by probably end of the third quarter we should have the JVC dispatching its first consignment et cetera, etc., We are expecting a turnover of about more than one-time out of the JVC at its fully capacity. As far as other economics of the JVC is concerned I would suggest that you wait for a while to see the results getting reflected in our Annual Report and there is going to be a line-by-line consolidation of the numbers of the JVC so you will probably able to figure out. As far as the other CAPEX is concerned the CRAMS CAPEX. As we have stated in our earlier calls we are expecting a fairly high asset turnover ratio. It could be anywhere between at full capacity three times to four times and of course the margin profile being this business being in the CRAMS space which is very niche and very specialized this business being in the pharma space we expect superior margin profiles then what we have been currently getting out of our other business units.

Shlok Dave: Sir, if I could just interrupt you here so in the CRAMS that 60 crore CAPEX at Dewas you mentioned three times to four time turnover so, this is what we have seen with some of the very niche players in CRAMS anyways if I could name some of them like DVs and all these people they use to do such kind of asset turnover. So there EBITDA margins use to be around 30%. In some quarters they have touched 50% gross margin plus. So can we expect similar economics sir?

Partha Roy Chowdhury: You cannot expect me to write down the P&L now. I am saying that this going to sort of... I cannot comment on Dewas and this question is too pointed. I am sorry and I do not think I am in position to answer that even if I have a view on this subject. Now, I will hand over on the broader fluorination space what is happening, I will hand over the mike to my Managing Director and he will respond to that.

Shekhar Khanolkar: So your question regarding fluorination as a chemistry as you have been saying that this chemistry is getting momentum and that continues. It is not that it is a conversion of bromination to fluorination. Bromination - fluorination is a very minuscule part of the entire fluorination. Fluorination as chemistry itself is getting utilized in the pharma, agro-chemical sector in large way. So conversion from bromination to fluorination has no direct relevance in terms of the fluorination growth and this chemistry as I said, continues to grow and the impact is very long-term on this.

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

Sudarshan Padmanabhan: Sir, what I would like to understand is if I am looking at the realization I think that is what you had mentioned the refrigerant businesses gone up on account of better realization and demand but given the fact that the part of the demand is from air conditioners and refrigerators which sees more usage in the summer season. Do you think the realization would remain firm for the full year or would it tend to kind of die down probably as and when towards the December when the winter season kind of picks-in?

Management: See the refrigeration business is a cyclic business. Obviously because of the weather condition so, to that extent you will have the quarter-to-quarter deviations in terms of its business and if you see the business pattern of this business for last couple of years you will find the pattern in terms of how this business moves in terms of its volume and in terms of pricing. So when you are comparing on a Q1 to Q1 it is a same kind of weather we are comparing.

Sudarshan Padmanabhan: Yes. And sir coming to the other business, that is Specialty chemicals, while we have seen a good growth on a Y-on-Y basis. Sir actually if I am looking at the last three quarters we have actually come down from 59 to 57 to 55. Given the fact that your base kind of kicks in the second quarter how do we see the Specialty chemicals going forward for the next two quarters to three quarters before we start seeing the big pop happening in the CRAMS side?

Management: In terms of turnover you are right that the turnover has remained almost steady out there. It is fundamentally it is a product mix which is happening. We are also into process of launching a few molecules, we are also in the process of converting some business from certain set of molecules to different set of molecules based on the profitability and that is why you will find these things happening. Our MPP expansion which we did year and half back is now coming on full stream in terms of products which will go into the market. So this is fundamentally, what we can see the variation which is coming out of product mix but overall if you see that

we are growing compare to last year and we are also improving our portability into business. So from that perspective we feel the business is nicely poised at this point of time.

Sudarshan Padmanabhan: Sir, can you just give us a broad sense as to how the profitability has moved on the spec I mean whether it would be something like 200 bps - 300 bps or would it be substantially higher to make a meaningful change?

Partha Roy Chowdhury: Are you asking this question with regard to the Specialty chemicals do you?

Sudarshan Padmanabhan: Yes, sir. Just asking whether it is because improvement can be the tune of what magnitude is something which you are not aware of. So if you can just give some qualitative sense on the magnitude of improvement that we are seeing.

Partha Roy Chowdhury: As Mr. Khanolkar has said the overall numbers there are function of the product mix within the BU. During the current quarter the margin profile in this BU as in other BUs except the inorganic fluorides vertical have gone up. The margin profiles have substantially gone up and that is reflected in the EBITDA margins, okay. So therefore, my comment to what you said is yes, the margins have substantially gone up in terms of sustainability of these margins going forward our current sense is they are going to be more or less the same levels as they are in this view. Does it answer your question Mr. Padmanabhan?

Sudarshan Padmanabhan: Yes, sir. That is pretty clear on this. Sir on the CRAMS side of the business I mean if I am looking at the customer that we are looking towards is it more toward the generic players or are we targeting a lot of MNC companies which are into proprietary drugs which is patented molecules?

Partha Roy Chowdhury: See in CRAMS space we are in intermediate space. We are not into a final EPS phase. So, from that perspective we work with mostly innovative pharma companies in the CRAMS phase. So those molecules are not launched yet but are in a various phases of development like Phase-III, Phase-II, Phase-I kind of development process. So we are in that space our CRAMS operate.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: In refrigeration gases how much was the volume growth?

Partha Roy Chowdhury: The volumes in the refrigeration gases have grown about 10% to 11%.

Dheeresh Pathak: 10% to 11% and the cost revenues from Dewas and Dahej would be expected, can you just guide in terms of cost revenues from both the facilities?

Partha Roy Chowdhury: Dewas and Dahej we can think of some revenues in the last quarter of this financial year.

- Dheeresh Pathak:** Okay. And FY-17, would see good utilization like fairly good utilization or would have muted utilizations?
- Partha Roy Chowdhury:** We are hoping for good utilization and we see that it is primarily as we have been saying in our earlier this thing there is certain ramp-up which is planned for these particular plants. So as of now we find that we are on track.
- Dheeresh Pathak:** Okay. So as these plants come up in the initial stage of utilization being low then this margin that we have in this quarter you would expect that obviously it is a function of each business unit and mix that you explained earlier in your comments. But as the plans come up there will be some drag initially on the margin from next two quarters to three quarters probably the expectation should be that the margins will be lower than what we have done this quarter?
- Partha Roy Chowdhury:** We have almost done with our fixed investment in terms of people at both the locations. Though as we start putting more volume in the plant there will be a few additions there but in terms of the basic infrastructure which includes people is already in space so already the business is taking those cost.
- Dheeresh Pathak:** Okay. And last question is on the refrigerant gasses I have assume a bulk of it is R22, right?
- Partha Roy Chowdhury:** Yes.
- Dheeresh Pathak:** Okay, in terms of 20-30 when my understanding is that India would also stop using R22. So by then we will have to find alternative uses of our capacity of R22, is right?
- Management:** R22 first of all continue to use in non-refrigeration feedstock applications so, it depends on those application grow until 2030. So it is little too far off right now to really predict future beyond 2030 on this product.
- Dheeresh Pathak:** Okay. Sir can you just help us understand of the total production of R22 how much do we use for sale in the market and how much do we do use as our own capital consumption for various downstream products?
- Management:** We do not use for captive R22 everything is sold in the market.
- Moderator:** Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia:** Sir you said R22 volume growth of around 10% to 12%, just a little confused in our phase out thing for R22 how our volumes are growing given that we do not forward and integrate R22 and do some other molecules.

- Management:** So the growth which is there in R22 is in both the segments in the refrigeration, air conditioner segment, as well as feedstock segment that is pharma and agro and that is where you are seeing the volume growth in the domestic market.
- Rahul Bhangadia:** If you were to kind of segregate R22 your scale of R22 in to ACs and non-ACs how would it work out?
- Management:** We do not segregate that way in terms of this thing. We see as an overall capacity utilization and overall market as for R22 gas.
- Rahul Bhangadia:** Just about the data point on R22 which you said 10% - 11% so that will it be fair to say you had a 10% to 12% inflation in R22 prices Y-o-Y Yes?
- Management:** It is like this. You see the Kota regimes work on an annualized basis which is January to December therefore and this is a quarter-to-quarter caparison. Therefore, there would not be swings during this period and you shall continue to get see the swings until such time when the volumes really come down very-very sharply because the seasons result not coordinated with the phase down scales while we phase down on annualized basis we sale and report on a quarterly basis.
- Rahul Bhangadia:** Sir, when is the first big phase down or big percentage in R22 production as per the plan?
- Management:** That is calendar year '15 that has begun. So we have sort of gone through the first six month of this phase down but it is not necessary that we need to cut down our production equally over every month.
- Rahul Bhangadia:** Okay. And sir last question before I join the queue again. Anything you can share on the chloroform and sulphur prices which you have been sharing over the last two quarters.
- Management:** Chloroform and sulphur prices continue to remain firm. In fact sulphur prices have fund up probably a little bit more than they were in the earlier times.
- Moderator:** Thank you. The next question is from the line of Ashutosh Garud from Reliance Wealth PMS. Please go ahead.
- Ashutosh Garud:** So I just wanted to know the margins which we have done in this quarter and as you mentioned that the fixed cost has already been done by our company so are these margins sustainable going ahead in the next three quarters - four quarters?
- Management:** You are talking specifically to CRAMS business or overall?
- Ashutosh Garud:** The overall business the EBITDA margins which hew have done right now.

- Management:** So if you see our overall business mix this time if it continues the same way then I do not see any reason why we cannot sustain the margins because there are no extra ordinary business activities this quarter that is bringing in higher EBITDA margins compare to previous quarter. So we feel that those are sustainable margins.
- Ashutosh Garud:** As one can see on the trend wise these are one of the best margins which you have done. So you think the three quarters - four quarters of sustainability of such margins is easily possible because the fixed cost has been already done on the company front?
- Management:** We are in fact not saying anything of this kind. We are sharing our views on our business. If we have to comment on this in the affirmative or otherwise it would probably tantamount to giving some kind of a direction and guidance which we would not like to give at this point of time.
- Ashutosh Garud:** Okay, yes, fair enough. So on the JVC CAPEX of 140 crore you guys are going to do 140 and it would be a 280 crore kind of this thing?
- Management:** No, it is 140 for the JVC when we talk about...
- Ashutosh Garud:** 70-70 basically.
- Management:** Yes, correct.
- Ashutosh Garud:** Yes, okay. And earlier you mentioned about two CAPEX that is 60 crore and 100 crore.
- Management:** No, 60 crore is a CRAMS CAPEX for Dewas.
- Ashutosh Garud:** Okay. And is there anything on 100 crore or there is nothing on 100 crore?
- Management:** No, JVC was earlier we thought of between 100 crores to 120 crores estimated one-off but we have added few things into so that is why it is up to 140 crores.
- Ashutosh Garud:** Okay. And the CRAMS CAPEX is expected to go in operation by Q3 or Q4 of this year?
- Management:** Yes, we are on target of that.
- Ashutosh Garud:** And what kind of utilization levels you are expecting for FY-17 next financial year that is?
- Management:** That is too early to talk about next year's pan utilization because as you know the CRAMS business has a very high volatility in terms of the cyclic nature which is you do not know what is going to happen next quarter because all depends upon the pharmaceutical you know the pharmaceutical companies program management of their new molecules so, but overall we find that there is a good traction with customers with whom we have being building relationship for past couple of years.

- Moderator:** Thank you. The next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.
- Tejas Sheth:** Okay, I just wanted to know realizations for R22 were they up Y-o-Y basis?
- Management:** They are up, yes.
- Tejas Sheth:** By what percentage.
- Management:** I do not think we would like to comment on that because this market has several segments, we have exports, and we have domestic, we have OEM sales et cetera, etc. So, overall the price is up.
- Tejas Sheth:** Okay. Sir how in the auditing at Dewas plant any good progress which we have seen in this quarter?
- Management:** Once we have basic infrastructure ready then we have started inviting some of our global and already have started coming in of course it all depend upon on their schedule of travel and other things so, the audits have started-up a few audits were already completed successfully. So that is why I said it is very good traction which is coming once the audit is completed then they go back report and then their supply chain start looking at us as vendor for them. So the process actually has begun with some of these customers.
- Tejas Sheth:** Have we tied-up with any of our capacities
- Management:** No, there are no long-term ties-up for this capacities.
- Tejas Sheth:** Okay. And sir our Dahej plant you said first revenue we can see in Q4 just wanted to know would this plant get 100% utilization in FY-17?
- Management:** See it is too early to say because this product it depend on the customer when he takes the product and how it moves into his market so from that perspective I cannot give any confirmation to that we can work on full scale because see first you are yet to get the product on stream once that happens then the product has to get stabilized so it is a long way ahead as of now.
- Tejas Sheth:** Well I thought that plant is on take or pay basis.
- Management:** These are on take and pay basis. So I do not know they will take in first year so then what remains at the financial calculations but in terms of how much capacity utilization will happen is something which we know only when the business predictions are available to us.
- Moderator:** Thank you. The next question is from the line of Satish Mishra from HDFC Securities. Please go ahead.

- Satish Mishra:** Sir my first question is related to the Dewas facility. If in case we want to put another line what will be the CAPEX for that and how much time will it take?
- Management:** Another line?
- Satish Mishra:** Yes.
- Management:** See what we have done is we have put a modular fashion. If you see the same size what we have then probably it will take similar time about 12 months to 15 months to put up maybe little lesser because we already have various labs and kilo labs and the utility is already build. So to that extend it will be a little lower CAPEX but it depend on the timings when we are going for the expansion so, it is little too early for us. We have inner space enough facilities to do an expansion quickly if the opportunity such comes up.
- Satish Mishra:** Yes, sir. So basically I want to understand to what extent how many modules we can put?
- Management:** It is a large site many-many modules can put up so we have utilized only 10% of the site.
- Satish Mishra:** Okay, great. And sir, second question is related to the quarterly results. If you see the revenues Q-o-Q basis are more or less same. So you also mentioned about the operating leverage benefit. So I just want to understand that of all the existing business we are more or less operating at full capacity utilization but it is only the realization change or change in product mix that will bring the difference, am I correct?
- Management:** No, I would not say that because there are a couple of points there one is of course the change of product mix brings you more revenues there are some other plants we have high utilization at Surat. We still have capacities in Surat in some of the businesses like inorganic business. Dewas new facility which is now completely so we will have value coming in there so, we have enough capacities right now to grow our top-line going forward.
- Satish Mishra:** Okay, fine. And last question you just answered that here is nothing like ship from bromination to fluorination. Can you also give your view on the chlorination to fluorination because this is what we always read that there is shift from chlorination to fluorination which is leading to all this big demand just your view on that?
- Management:** It is almost the same. See there are multiple products which as chlorine in that, there are multiple product which has bromine and fluorine in that. These are very basic chlorination bromination, very basic reactions so those will not go anywhere. So conversion is not really I would say big thing which is one of the factors in the overall fluorination industry but otherwise fluorination does not have as a industry to grow it does not have to really depend upon whether companies are trying to move from chlorination to fluorination or bromination to fluorination. There is only one additional thing which is happening because the pharmaceutical companies find fluorinated molecules giving better efficacy then the chlorinated or brominated molecules.

- Moderator:** Thank you. The next question is from the line of Devang Mehta from Canara Robecco Asset Management. Please go ahead.
- Devang Mehta:** Just wanted to understand what was the volume of R22 last year and this year what kind of volume has to be restricted if you can share some numbers?
- Management:** You are talking of the production capacities?
- Devang Mehta:** Yes.
- Management:** Our production capacity is of the order of 9,000 tonnes to 10,000 tonnes and as you know we are on a phase down schedule. So FY-15 except the feedstock application the production has to come down by 10% eventually our production for all MSC usages are going to be of the order of about 8,100 tonnes - 8,200 tonnes. But that is again on a calendar year basis. So therefore, it is not really possible as I said earlier to sort of keep on correlating the volumes and the prices of refrigerant gasses business because we can choose to produce and sell all of it in two quarters or three quarters depending on the market. However, having said that there is going to be a feedstock demand which is going to remain which is also growing so that feedstock demand does not come within the control regime so that is again an independent sort of activities while the product is the same.
- Devang Mehta:** Correct. So this year calendar year it is 10% so is it liner for next 10 years the 10%...
- Management:** No, it has a step down sort of an approach staircase kind of an approach and you can look for the Ozone rules 2013 of the Environment Act and you will exactly know the phase down schedule.
- Devang Mehta:** In that it also says that import gas field compressors for air conditions is to be stopped from 1st July. So additional demand for air conditioners in India how do you think that would be met, if can share your thoughts?
- Management:** The additional demand will be met by the domestic producers.
- Devang Mehta:** So still enough capacities apart from so with our competitors to meet that demand?
- Management:** I guess so, I mean I cannot really comment on the industry as a whole but I guess it should be so.
- Devang Mehta:** Or should we see a sharp increase in the prices?
- Management:** You wait for one or two quarters and you will probably be able to take up. We would not be able to really comment on that we will have to see how these OEMs behave and all that we do not know how the AC demand is going to pan out.

- Devang Mehta:** Correct. And last thing on the capacity utilization inorganic fluoride would be about around 60%-65% only?
- Management:** Yes, maybe 70%.
- Devang Mehta:** And specialty would be around 80%-85%?
- Management:** Yes, I think so, yes.
- Moderator:** Thank you. The next question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.
- Nirav Jimudia:** Sir, I have just two questions. So first is on our natural gas cost. Last year our cost per cubic meter was around Rs. 37.5 per cubic meter and sir for this year we have seen in last eight months crude prices have moderated and so as the LNG prices. So has there been any passing of benefits by the players in Gujarat to you in terms of supply of industrial gas to you so that in terms of reducing the cost or something like that?
- Management:** Yes, they do that but it is not directly link to the global prices per se. It is on trend basis if that is coming down then we need to negotiate for a better price so, that is the way it happens.
- Nirav Jimudia:** But sir, has there been any moderation in terms of percentage terms if you can share something?
- Management:** Yes, definitely the prices have come down.
- Nirav Jimudia:** And sir just more technical side sir. Our per unit consumption of natural gas per tonne of production has been continuously falling like in 2013 it was something around 360 cubic meter per metric tonne it has fallen to 198 and in this year it is 131. So has there been any direct correlation with reference to the product or because of some changes in the plant we are being able to reduce this consumption per metric tonne of natural gas usage.
- Management:** It is both. The capacity utilizations have gone up and there is a continuous perpetual attempt to keep on rationalizing the conversion and utilities are a fairly large portion of our conversion cost and it is in double-digit percentage. So it is a consequence of that.
- Nirav Jimudia:** Okay. And sir, second question is, are we planning capacity expansion for HS we may after this Piramal JV we may again think of some expansion once those capacity is exhausted. So sir are we planning any expansion for HS going forward?
- Management:** At this point of time, no.
- Moderator:** Thank you. The next question is from the line of Siddharth Purohit from Sushil Finance. Please go ahead.

- Siddharth Purohit:** Sir just one thing, as per budget there was some provision that AC compressors are fitted with R22 gas was supposed to be not imported earlier. So has there been any incremental demand that you saw because of that and also prices going up because of that in the domestic market?
- Management:** We do not have a handle on whether there is a direct correlation between these two but I guess this could I do not think in this quarter that is an event because this is banned only from 1st of July and we are talking about June so, nobody would really stop imports in anticipation of imports getting stopped at a later date. So therefore I do not think is a correlation to that or quarter consequence of that.
- Siddharth Purohit:** Okay, fair enough. Sir one more thing in fact what would be our trend in other incomes non-operating other income because it is more or less kind of a little bit fluctuation every quarter so, ideally now that we are utilizing our cash and all so, what would be our trend in other income for the entire year?
- Management:** For the current year it is going to be along the same lines as the earlier years.
- Moderator:** Thank you. The next question is from the line of Dipen Sheth from HDFC Securities. Please go ahead.
- Dipen Sheth:** I just wanted some clarity on, one, on the operations at Manchester Organics this quarter because this is a disclosure that only happens I guess at the end of the year when see your console numbers. So any color that you can share from there any numbers or insights on the business there?
- Management:** They are doing well as they had done in the previous years.
- Dipen Sheth:** Yes, I guess they did something like a 50 crore, revenue last year if I remember right, 49 crores or 50 crores I am not sure.
- Management:** Yes, that is what I remember GBP 5 million.
- Dipen Sheth:** Right. And so should we just assume that things are pretty much on a pro-rata basis flat there and nothing which is substantial...
- Management:** They are on the right track and it is operations are very much stable there and so no issues out there.
- Dipen Sheth:** And the business justification of sorts for investing their and owning that operation, was that it would lead to spin-off benefits for our India business. So is the uptick in CRAMS or Specialty chemicals whether anticipated or planned in any way connected intimately with the developments at Manchester?

- Management:** Yes, because the Manchester Organics that was the move we made four years back because when we wanted to get in CRAMS business so that has really fructified and many molecules which actually started off with Manchester Organics are now getting commercialized in Dewas facility. So from that perspective the strategy has worked.
- Dipen Sheth:** Sir also you mentioned that the investment of about 140 crores into conversions is pretty much through, right?
- Management:** Yes.
- Dipen Sheth:** So the last balance sheet mentions a total investment of just under 30 crores so, we have invested actually an incremental 110 crores in this last trailing quarter into that operation.
- Management:** It is not like that Dipen. What you have seen in the balance sheet I am sure you are referring to the investment block. It is equity infusion. There is one is to one gearing for funding that project so you see 70 crores is going to be the promoter sort of contribution.
- Dipen Sheth:** Okay. So it is 70 and 70 not 140 and 140?
- Management:** No, total is 140.
- Dipen Sheth:** Okay. So our contribution to that operation would be in the region of about 35 crores, have I understood this correctly?
- Management:** You have, yes.
- Dipen Sheth:** So 35 from our side, 35 from the Piramals and let us say we would leverage that 1 for 1?
- Management:** Absolutely.
- Dipen Sheth:** So on 29 crores then the incremental outflow during the quarter would be in the region of 5 crores - 6 crores or something nothing more than that.
- Management:** Yes, that is the limits, yes.
- Dipen Sheth:** Okay. So therefore now this lands into the next query if you will just allow me one more. So what does the balance sheet today look like in terms of our debt exposure gross and net on the standalone balance sheet.
- Management:** What is net debt exposure? I mean what you do mean by net debts exposure?
- Dipen Sheth:** Net of cash or net of treasury or investments or mutual funds or stuff that we might be holding. So there would be a gross debt exposure and if I net off cash and treasury investments I will get a net debt exposure.

Management: There is no net debt exposures.

Dipen Sheth: It is unlikely yes.

Management: Yes, absolutely.

Dipen Sheth: And would be net cash to the extent of how much now?

Management: Why you are asking me?

Dipen Sheth: Okay, we will let it go. No worry, sir.

Moderator: Thank you. The next question is from the line of Amit Surekha from Bharti Axa Life Insurance. Please go ahead.

Amit Surekha: Sir I just wanted to make sure that I have got it right. So CY-16 for the phase out we have to do a minus 9% to 10% lower output but that is only on AC side?

Management: That is on emissive usage side.

Amit Surekha: Okay. So which mean that our agro and pharma demand is very strong for us the volume might not actually come down for the entire year.

Management: Your understanding theoretically is correct.

Amit Surekha: Is correct, okay. And second thing, I understand you cannot comment on the actual R22 pricing right now. But it will help if you can give some sort of outlook on R22 prices given where they are last one month how do you see the pricing moving forward?

Management: Should remain broadly at the same level. And you have to connect my response to a similar question earlier. There are product mix issues which sort of play up.

Moderator: Thank you. The next question is from the line of Vaibhav Baid from Motilal Oswal Securities. Please go ahead.

Vaibhav Baid: Can you just give distribution of your margins like in the CRAMS side how much are they on the EBITDA side?

Management: We cannot disclose individual business wise. It is one business segment.

Vaibhav Baid: Okay. And sir just wanted an outlook on the Specialty chemicals like for the next two years the growth will be coming from CRAMS and Specialty chemicals the major growth?

- Management:** Yes, the major growth will come from CRAMS and Specialties. We are also hoping that inorganic business will start giving better numbers once the domestic steel industry starts going up.
- Vaibhav Baid:** Okay. And sir this quarter margins are shot up quite a bit. So the major increase is because of which segment doing very well?
- Management:** Specialty has done very well, refrigeration has done very well, and CRAMS has done good.
- Vaibhav Baid:** Okay. And sir on an outlook on the Specialty chemicals especially, is there a structural change that is happening I am talking on the export side so, is there a structural change where companies are now looking to India rather than China and is it sustainable enough?
- Management:** Companies the American-European companies who were buying from China have for last decade or so also looking at India. So it is not China or India they are looking at China and India so from perspective the opportunities are coming to India in a big way. The cost differential between Chinese cost and Indian cost is also narrowing down so that makes more of a reason for the western companies to look at India as an option.
- Vaibhav Baid:** Okay. And how much would be cost difference of an entirety if some has to know?
- Management:** It is very difficult to say depends upon the scale of operations which kind of industry or which kind of product profile you have so it is varying. But as I said there is a substantial reduction in the cost differential which makes these companies to look at India as an option for the risk sharing basis.
- Vaibhav Baid:** Okay. And sir also just on the CRAMS side who would be your competitor in terms of the business?
- Management:** The kind of facilities what we have build-in with a very specialized vapor phase fluorination with certain gasses and other things. These kind of facilities are as per my knowledge are not there anywhere. So our competition is from some of the Chinese companies one or two large Chinese companies and possibly from European companies but not really a major one.
- Vaibhav Baid:** But no Indian's are there?
- Management:** No, the space in which we are operating right now is a JMP fluorination space, I do not see any Indian company.
- Vaibhav Baid:** Sir this you are talking about which division CRAMS or Specialty chemicals?
- Management:** CRAMS, okay.

- Vaibhav Baid:** And sir, on the Specialty chemical side how are the prices have they come down or the raw material that you convert basically?
- Management:** No, the prices have been stable. So there is no adverse or positive impact on raw materials.
- Moderator:** Thank you. The next question is from the line of Siddhart Bhattacharya from Suyash Advisors. Please go ahead.
- Siddhart Bhattacharya:** Sir, wanted your perspective on the CRAMS business. Two questions one would be the Devas facility in terms of ramp-up to what extent is that contingent upon the commercialization of any of the molecules that you are currently working on and secondly say five year perspective if you like. Would you believe that there is enough opportunity for you to grow this into say a 500 crore revenue kind of a business maybe larger I mean maybe even 1,000 crores but wanted to get your perspective on the scale potential in this business? Thank you.
- Management:** Yes, fundamentally we are in a space where we work with in older companies when they are developing the molecules and at various stages of development they need the scale up facilities that is where we come into picture. Now that the molecules start growing in terms of our volumes as the product moves from say Phase -I to Phase-II, Phase-II to Phase-III or those kind of phases. So possibility that at any particular phase whether a Phase-II/a, Phase-II/b or Phase-III the molecule can fall apart as far as the customer is concerned till you do not get a growth opportunity over there. So this is the part of the business so we really do not know whether the molecule go to the final stage and then when it gets commercially launched whether you will get that business. That is a cycle you have to go along with these companies. The advantage here is that when you are working with large company which have a big pipeline and who are investing a large sum of money into R&D and development of new molecules and if they have a sustained pipeline then being with them helps us. In terms of growth opportunity there are immense growth opportunity achieving a turnover of 500 crore to 1,000 crores in this business is not a herculean task because the kind of research money which goes into with this large corporation these are minuscule amounts.
- Siddhart Bhattacharya:** Interesting, very-very interesting. And you see enough visibility for you to think that you could be a 1,000 crores in five years' time I am not asking you for guidance. What I am really saying is that is a very achievable kind of a benchmark in your mind.
- Management:** We have just started to take the first step, so we cannot just think of running a marathon at this point of time.
- Moderator:** Thank you. The next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.
- Chetan Thakkar:** Sir, I just wanted to get a sense on how much CAPEX would we need on Specialty chemical business by the end of this year?

- Management:** We are in a process of evaluating a few possibilities at this point of time and it will take another few months for us to come out with exact numbers. But as I said last time as we are still evaluating various proposals at this point of time.
- Chetan Thakkar:** And sir fair to assume by the end of this year we would be optimally utilizing a Specialty chemical plant which would mean we will need CAPEX in any case.
- Management:** Not necessary to that extent we have capacities we are adding products where we can have a higher contribution margins. So that kind of products churn up continuously go on in various plants what we have. So from that perspective we very poised in terms of achieving our expected growth for next FY also and meanwhile we will start building capacity as and when those are required.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Sir, you mentioned that Dewas you can get around 3x to 4x asset turnover so that means at a full utilization you can do around 250 crores of revenues from Dewas, am I right, sir?
- Management:** Yes.
- Dikshit Mittal:** Sir, is there any timelines for that? Is it possible in next two to three years to achieve full utilization?
- Management:** I would like to do it tomorrow because the plant is ready and people are there but it all depends on the business as it comes and as the molecules of the customer go. But yes, reaching to a full capacity in two years to three years is a very reasonable expectation.
- Dikshit Mittal:** Okay. And sir, when will you be capitalizing this 60 crores in the balance sheet?
- Management:** Now, in the second quarter.
- Dikshit Mittal:** In the second quarter, okay. And sir, if I see quarter-on-quarter this expansion in EBITDA margins that is around 440 bps. If I see your revenue breakup the growth has only come from refrigerant gasses. So that means the incremental EBITDA that has come in around 6 crores to 7 crores. So that is on account of refrigerant gasses or other segment has also...
- Management:** No, other segments have also grown if you see the Specialty chemicals it has grown from 45 to 55, okay.
- Dikshit Mittal:** No, sir, I am talking quarter-on-quarter. Quarter-on-quarter they are flat in terms of specialty is flat and inorganic it is also flat only thing is refrigerant has grown.

- Management:** As I said earlier the specialty has also contributed in terms of higher EBITDA margins though the turnovers has remained flat.
- Dikshit Mittal:** Okay, sir. Sir Manchester Organics you will be maintaining the £5 million run rate for the next year as well or will there be any growth in terms of revenues?
- Management:** There is a growth which is happening over there for last couple of years so it is a normal course of provision. They are doing as well as of now first quarter has been good for them as well.
- Dikshit Mittal:** Okay. So basically they are into like smaller batch kind of thing but they are not bulk.
- Management:** They are into small molecules which go into the catalog chemistry.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor over back to the management for closing remarks.
- Shekhar Khanolkar:** I would like to thank everyone for joining on this call. I hope we have been able to respond to your queries adequately. For any further information, I request you to get in touch with SGA, our investor relationship advisors. Thanks you.
- 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.