"Navin Fluorine International Limited Q4 FY 2017 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Navin Fluorine International Limited Q4 FY 2017 Earnings Conference Call.

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

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

I would now like hand the conference over to Mr. Shekhar Khanolkar -- Managing Director of Navin Fluorine International Limited. Thank you and over to you, sir!

Shekhar Khanolkar: Good Morning and A Warm Welcome to all the Participants. I am also joined by our CFO -- Mr. Sitendu Nagchaudhuri for this discussion. I hope you could get a chance to look at our 'Financial Results' and 'Presentation' that has been uploaded on the stock exchange as well as on our website. Now, will give you a Brief Business Update followed by Commentary on the Financial Results by Mr. Sitendu Nagchaudhuri.

This year has been one of the best in the history of the company with all round improved performance on all vital parameters like profits and profitability, EBITDA margins, ROCE, etc. All the businesses have contributed to this overall performance led by CRAMS which is our growth driver.

Overall, our revenue performance has grown up by around 10% on year-on-year basis and have achieved EBITDA margins of 21.4%.

Now, I will give you Business unit wise update:

To start with Refrigerant Business unit – The performance of this business unit has been flat on a year-on-year basis mainly on account of soft demand in export market due to quota restrictions in few of the countries. However, with increased availability of import quotas from start of the calendar year 2017 the demand is back. With the increased demand for Air Conditioning the overall demand for Refrigeration Gas continues to grow in India. The use of R22 as feed stock in Pharmaceutical and Agrochemicals sector provides us the hedging for the long-term perspective. Considering the demand potential and associated growth, we believe this BU will continue to grow steadily over the next few years.

Coming to Specialty Chemical Business Unit:

During the year FY 2017 our Specialty business faced some severe challenges and hence, the performance has been 5% below the last year and much below our expectations. Agrochemicals has been facing the headwinds globally which affected us along with loss of business for some products in domestic Pharma sector. The encouraging factor here is the strong pipeline of products that we currently have. During the year, we launched a few new molecules for innovative Agrochemicals companies globally. These molecules will be a part of their commercial launch of active ingredients in next few years to come. With the product pipeline directed towards Global Pharma and Agrochemicals companies we are confident that we will be back on growth path.

Coming to Inorganic Fluorides business unit:

The business unit reported a strong growth of 28% on a full year basis. We are witnessing good traction in our key products. With good traction in exports, our strategy of market penetration thereby gaining market share has been playing out. We expect to see the continued improvement in demand for our products in coming years.

CRAMS Business Unit:

Our CRAMS business unit has shown remarkable growth in FY 2017 compared to FY 2016 on back of strong orders from many of our existing customers and new customers. The business unit has clocked, the revenue of Rs. 137 crores as compared to Rs. 87 crores in FY 2016 a year-on-year growth of 59%. The business unit has a very promising outlook for the coming years as the company has been able to derive the benefits of integrated operations with Manchester Organics Limited. With a integrated delivery and project management teams we are able to handle many complex projects simultaneously with many global customers. We continue to add new customers into the fold and at the same time are able to gain more share of the wallet from existing customers. As we start the new year we have good order visibility indicating positive traction for this business. However, looking at the nature of this year one should not read too much in the quarter-to-quarter fluctuations and concentrate on the long-term business visibility and potential.

Now, I will give brief update on our Dahej operations:

As you are aware, the company has entered into a joint venture agreement with Piramal Enterprises Limited for development, manufacture and sale of Specialty Fluorochemicals for their own use. To expedite the process of setting of the plant, it was agreed that the company will take it up on its land in Dahej at the cost of joint venture and commence the production and then transfer it to the JV company. Now subject to approval of our shareholders the Board of Directors of Navin Fluorine International Limited had decided that the same facility will be transferred to the joint venture company as a going concern on a slump sale basis together with all the identified assets liability, consents, permissions, and services of employees, etc., at the net book value as on the date of transfer. Depending on receipt of all approvals the transfer of said unit is expected to be completed during the current financial year. As the plant has already started the production and sale of the product until the assets are transferred the revenue will get accounted for in Navin Fluorine's financials. For the FY 2017, the revenue from this business has been Rs. 15.78 crores and it is included in our CRAMS revenue.

Now, I will share a couple of operational achievements for the year gone by:

1. National Safety Council has accreted our Surat and Dewas site with Certificate of Appreciation for our Health, Safety, and Environment related practices.
2. For a reasonable care initiatives in distribution the company has been declared winner in the category "Operational Excellence in Safety" at the Manufacturing Supply Chain Summit 2017.

Both these accreditations reinforce our commitment towards safety.

Now I will hand over to Sitendu Nagchaudhuri who will take you through the financial performance of the company.

Sitendu Nagchaudhuri: Thanks, Shekhar and A Very Good Morning to all the participants. I will share highlights of our financial performance following which we will be happy to respond to your queries.

To begin with, the Board of Directors of the company has declared a final dividend of 130% that is Rs. 13 per equity share. Thus, the total dividend declared by the Company during FY 2017 including the special dividend of Rs. 7.5 per share adds up to 315% that is Rs. 31.5 per equity share. The dividend payout ratio of the Company stands at 28% including the dividend distribution tax.

Before we talk further on the financial performance, let me brief you on the inter-share transfer of shares amongst promoters in the company. During the second quarter of fiscal 2017 the promoters of the company and the three listed entities in the Arvind Mafatlal Group entered into an agreement to amicably restructure shareholding of the three listed entities and other group companies. As part of an agreement executed amongst the promoters, the family members, family trusts, and companies including the three listed entities of Arvind Mafatlal Group and as approved by the Board of Directors on 6th of August 2016, the Company has divested part of its shareholding in Mafatlal Industries Limited and NOCIL Limited. The restructuring is a part of a family settlement and succession plan between Mr. Hrishikesh Mafatlal and Mr. Vishad Mafatlal. The restructuring enables each of the promoters to concentrate on the company under their respective fold by focused strategic direction.

The profit arising out of such divestment of long-term investments amounting to Rs. 27.33 crores has been shown under exceptional items in the results. And the special dividend of Rs. 7.5 per equity share has been paid out of such one-off income.

I would also like to briefly touch upon the proposed subdivision of equity shares of the company. The Board of Directors has approved a proposal of subdivision of equity shares of the company of face value Rs. 10 each into five equity shares of face value Rs. 2 each which is subject to approval of the shareholders in the forthcoming Annual General Meeting of the Company.

Now to begin with update on our financials I will start with our annual performance on standalone basis.

The company registered revenue of Rs. 701 crores in FY 2017 which is a growth of 10% year-on-year from Rs. 636 crores in FY 2016. The growth has primarily been driven the CRAMS and the Inorganic Fluorides business units. Refrigerant business recorded a revenue of Rs. 214 crores compared to Rs. 215 crores in the last fiscal. It contributed roughly 31% of the overall sales of which exports contribute roughly around 31%.

In FY 2017 the revenue from Specialty Chemicals business is Rs. 228 crores. It contributed roughly 33% of the overall turnover of the Company of which exports contribute around 43%.

The CRAMS BU has started gaining its momentum by growing 59% year-on-year to Rs. 137 crores in FY 2017 from Rs. 87 crores a year ago. It contributed roughly 20% of overall sales in FY 2017 vis-à-vis a contribution of 14% in the last fiscal.

Inorganic Fluorides business has recorded a top-line of Rs. 120 crores in FY 2017 which is a significant growth of 28% year-on-year over its sales of Rs. 94 crores during FY 2016. This business unit has contributed 17% of the overall sales of which domestic sales contributes around 92%. The business has experienced positive traction in key customer segments as well as in key product portfolios during the year and we hope to experience continuing positive traction in this segment in the current financial year.

Operating EBITDA came in at Rs. 150 crores for FY 2017 compared to Rs. 116 crores in FY 2016, a growth of 29% year-on-year. Operating EBITDA margin has expanded by 320 basis points to 21.4% in FY 2017 up from 18.2% in FY 2016.

Operating profit before tax that is profit before tax before other income grew by 32% year-on-year from Rs. 92 crores in FY 2016 to Rs. 121 crores in FY 2017. Operating PBT margin is at 17.3% in FY 2017 as compared to 14.5% in FY 2016 which is an expansion of 280 basis points.

Net profit for FY 2017 is at Rs. 134 crores, up from Rs. 86 crores in FY 2016 which is a growth of 56% year-on-year. Adjusted net profit for the fiscal which excludes the exceptional item of Rs. 27.33 crores is at Rs. 107 crores which is a growth of 24% year-on-year. Adjusted net profit margin is at 15.3% in FY 2017, up from 13.5% in FY 2016 which is an expansion of 180 basis points.

Cash profit which is adjusted PAT, add back depreciation for the current fiscal is at Rs. 135 crores, up from Rs. 107 crores in FY 2016, that is a growth of 26% year-on-year. The cash profit margin is at 19.3% in FY 2017, up from 16.8% in FY 2016, which is an expansion of 250 basis points.

Now moving on to the fourth quarter numbers

During the fourth quarter FY 2017, the Company has registered a revenue of Rs. 201 crores, a growth of 6% year-on-year compared to Rs. 190 crores in the same quarter last year.

Operating EBITDA is at Rs. 39 crores compared to Rs. 36 crores in the fourth quarter last year which is a growth of 8% year-on-year. Operating EBITDA margin has expanded by 50 basis points to 19.4% in Q4 FY 2017 versus 18.9% in the same quarter last year.

Operating PBT came in at Rs. 28 crores in Q4 FY 2017 in line with Rs. 29 crores same quarter last year. Operating PBT margin is 13.9% in Q4 FY 2017.

Net profit for Q4 FY 2017 is at Rs. 29 crores compare to Rs. 32 crores in Q4 FY 2016. The net profit margin is 14.4% in the fourth quarter of the current fiscal.

Cash profit that is profit after tax, add back depreciation for the fourth quarter is at Rs. 40 crores, up from Rs. 37 crores in the fourth quarter of FY 2016 which is a growth of 8% year-on-year. Cash profit margin stands at 19.9% during the fourth quarter FY 2017, up from 19.5% in the fourth quarter last year which is an expansion of 40 basis points.

Our return ratios have improved significantly on account of shifting business unit mix and our continuing focus on moving up the value chain with greater profitability. Return on Capital Employed has improved from 18% in FY 2016 to 20% in FY 2017. Return on Net Worth has improved from 14% to 19% in the current fiscal.

Lastly, moving on to the Consolidated Annual Performance.

Company has registered a revenue of Rs. 748 crores during the year, up from Rs. 680 crores in the last fiscal, recording a year-on-year growth of 10%. Operating EBITDA came in at Rs. 158 crores compared to Rs. 117 crores in FY 2016 which is a growth of 35% year-on-year. Operating EBITDA margin is at 21.1% in FY 2017 compared to 17.2% in FY 2016 which is an expansion of 390 basis points.

Operating PBT that is a profit before tax before other income grew by 38% to Rs. 126 crores in FY 2017 compared to Rs. 91 crores in the last fiscal. Operating PBT margin is at 16.8% in FY 2017, up from 13.4% in FY 2016 which is an expansion of 340 basis points.

Net profit for FY 2017 is at Rs. 138 crores, up from Rs. 84 crores in FY 2016, which is a growth of 64% year-on-year. Adjusted net profit for FY 2017 which excludes the exceptional item of Rs. 27.33 crores is at Rs. 111 crores a growth of 32% year-on-year. Adjusted net profit margin is at 14.8% in FY 2017, up from 12.4% in FY 2016 an expansion of 240 basis points.

Cash profit that is Adjusted PAT add back depreciation for the current fiscal on a consolidated basis is at Rs. 141 crores compared to Rs. 106 crores in FY 2017 which is a growth of 33% year-on-year. Cash Profit margin is at 18.9% in the current fiscal, up from 15.6% in the last fiscal which is an expansion of 330 basis points.

The cash and cash equivalents of the Company including current and non-current investments stands at Rs. 236 crores as at 31st of March, 2017. The long-term debts of the Company as on same date is at Rs. 51 crores. Thus, making us a net debt free company.

That is all from our side and now, we can open the floor for Q&A. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. First question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir, my question is largely with respect to the subsidiary this year. I mean, if I am just doing the consolidated minus standalone it looks like the subsidiary's performance have improved quite sharply I mean, moving Rs. 1 crore contribution of last year to about Rs. 9 crores this year. Could you throw some light on what is really happening in Manchester Organics and what is the kind of execution that they are doing to see this kind of traction in terms of profitability?

Shekhar Khanolkar: Yes, the better results which we see on consolidated basis is mostly because of Manchester Organics. So, Manchester Organics has shown improved performance during this year. As you are aware the CRAMS portion of Manchester Organics combines with Navin Fluorine's Dewas facility. So, we have integrated CRAMS model. So the businesses which are coming in and the kind of traction we have generated within U.S. and European markets bring business to both Dewas facility as well as the Manchester facility and that is where you find the Manchester facility is almost running at the full capacity during this year. Along with that we have the small molecule sale (the catalog chemical sale) out of Manchester which has also substantially grown during this year. So, fundamentally these are the two reasons where you find that Manchester Organics performance considerably improving over last year.

Sudarshan Padmanabhan: Sir, on the other parts of the business I mean I am just focusing on the two key businesses that is Specialty business and CRAMS. CRAMS I do agree that on a quarter-on-quarter basis one might not be able to capture the real inherent strength of the business. But broadly if you can on the CRAMS side give us some kind of roadmap with respect to how things are shaping with the Piramal and the non-Piramal side and also some issues with respect to be the Specialty Chemicals as you talked about the Agrochemicals side. Do we see some kind of a turnaround happening there or should this issue persist as we move to FY 2018? And second is if you can also give us some idea with respect to the book value of the assets that we would be transferring it to the JV?

Shekhar Khanolkar: Okay, you have many questions in one question. But to start with the non-Dahej performance of CRAMS. Our CRAMS business is going on well. As I said in my initial speech, we have good visibility of the orders. Our traction in the market is really improving. The customers who have been supporting for last couple of years are giving us more business and we are also adding new customers in the portfolio. We are adding business management team in our U.S. market so that we can reach to more customers in the U.S. going forward. So, all those things are really helping us to improve the performance of the business as well as the kind of investment which we made at Dewas site is actually going as per our expectation. The Dahej is basically a Piramal business. As I said earlier, we have just started dispatches out of that facility and as of now that turnaround is part into our CRAMS business turnover.

Sitendu Nagchaudhuri: The net asset value as on 31st of March 2017 if you look at the Dahej operation from the standalone basis is around Rs. 169 crores. But that should not be giving any line in the sand or the yardstick in terms of the transfer because the transfer depending on the effective transaction date there will be a calibration of the net asset value of all the assets and liability, rights and reserves including employee liabilities and the net asset value for the consideration for the business transfer will be defined accordingly.

Sudarshan Padmanabhan: And the outlook on the Specialty Chemicals?

Shekhar Khanolkar: Yes, so outlook on Specialty Chemicals business, yes, we had tough this year mostly on Agrochemicals areas as well as one of the products which we supply to the domestic Pharma sector there we had some set back. As far as the Agrochemicals sector is concerned we are seeing some turnaround though not fully. So, to that extent definitely we expect the things to improve in the Agrochemicals side. We are also launching a few molecules which will go into Pharma segment within India. So, that traction also we expect during this year. So, whatever we have lost in last year in terms of this thing we expect that we should be able to really work on those areas during this year.

Sudarshan Padmanabhan: Okay. Sir, just one more small question, if I can squeeze in. If I am looking at your standalone business, the other current liabilities it seems to have short up quite substantially I mean right from Rs. 11 crores to something like around Rs. 114 crores kind of. I mean, if you can just give us some clarity on what is the addition?

Sitendu Nagchaudhuri: Yes, essentially this is as Shekhar alluded a while ago in his speech in order to facilitate the fructification of the operations on the ground, it was decided that NFIL will actually establish the plant and ensure commissioning of commercial operations, and the JV will essentially have to reimburse NFIL for that. So, basically since we could manage to get the final product validation form the eventual customer in the Q4 this year, the plant and machinery, and the whole operations was capitalized and commercial operations have since begun. The funds which we have received from our Joint Venture company Convergence Chemicals Private Limited has been shown under Other Current Liabilities. So, which is the reason basically of Other Current Liabilities moving upwards quite sharply year-on-year.

Moderator: Thank you. We move to the next question that is from the line of Pavan Kumar from Unifi Capital. Please go ahead.

Pavan Kumar: What has been our volume growth on the Refrigerants side? And what is outlook going forward the main focus being on exports?

Shekhar Khanolkar: On Refrigerants side our domestic volume increase is almost around 10% to 11% over previous year on year-to-year basis and as I explained during my speech, we had lower exports than what it was last year. So, that is why if you see the overall performance of Refrigerants business it is flat compared to last year.

Pavan Kumar: Can we expect say 5% to 10% growth given that the at least support by the realization given that R22 production is going to come down slowly?

Shekhar Khanolkar: No, the domestic market in India continues to grow for the Refrigeration application plus the non-Refrigeration application like Pharma and Agrochemicals, those applications are also growing. So, from that perspective I do not see any issue in terms of volume growth for this business. And the pricing is a function of various factors including supply-demand situation as well as raw material costing and the prices in other countries. So, all those things will play on the pricing of R22 going forward.

Pavan Kumar: Okay. And can you throw some light on 1234yf facility that we are setting up and if we are going to see any kind of revenues from that?

Shekhar Khanolkar: Yes, so that facility is under construction right now and we expect that in next few months we should be able to start production out of that.

Pavan Kumar: Any idea you can give on the scale of revenues from there sir?

Shekhar Khanolkar: We do not have that number right now with us because as we have said earlier, it is a small-scale manufacturing plant so this is fundamentally to ensure that the technology transfer happens in a right way and it is basically a kind of proving the technology that is objective of this particular plant.

Pavan Kumar: Okay. And one last thing, Specialty segment, what is the kind of internal growth rates we would be targeting?

Shekhar Khanolkar: No, we are always trying to be far better than the market that is what our expectations are and that is why I said that the business has performed below our expectations apart from being lower than last year. So, we expect that the Agrochemicals market would turn positive during this year and we should be able to grab our share into this market.

Moderator: Thank you. Next question is from the line of Satish Mishra from HDFC Securities. Please go ahead.

Satish Mishra: Sir, my first question is related to CRAMS business. So, I believe quarterly Rs. 45 crores includes Dahej also as you said.

Shekhar Khanolkar: Yes.

Satish Mishra: So, just to understand this Rs. 40 crores - Rs. 44 crores already we achieved year back. So, that way there is a lumpiness I understand in the business but there has been no increase even after a series of audits by different companies over the last one year. And at the same time, we are not even announcing the second line of our CAPEX for this business which require at least 8 months to 12 months to come in. So, just a confusion whether the response in audits were not that good, so we are not going ahead with the second CAPEX or is it actually going to take more time versus what we have assumed earlier?

Shekhar Khanolkar: No, first of all which second CAPEX you are talking of? Basically, we invested into 2015 in this facility about Rs. 60 crores and we have been saying that it will take three years for us to fill the facility. So, as I have been saying every quarter that we are on line in terms of how the facility is getting filled, so that is number one. Number two, as we have always been saying that there is going to lumpiness in terms of the demand and sales which happen in a particular quarter. So, I would not get into a quarter-to-quarter comparison. Even if you remove the Rs. 15 crores of the sales from the CRAMS business still we have grown from Rs. 86 crores to almost about to Rs. 122 crores in this business out of our Dewas facility. So, I think, from the business perspective from the traction of the customer perspective absolutely there are no issues. In fact, it is a very positive story for us. The audits which are being conducted by the customers are going very good for us and that is actually bringing new customers into our fold.

Satish Mishra: Okay. So, sir what will be CAPEX in FY 2018 - FY 2019, if you can give some sense?

Shekhar Khanolkar: So, we are watching the moment of different molecules, how they are going and what kind of demand will pan up during next 12 months to 24 months and based on that as you rightly said it will take about 10 months to really put up a new facility additional facility as and when we require. So, from internally we are working on this and we know when we will be ready when we need to put the facility on ground.

Satish Mishra: Okay. And sir, just second question on the Refrigerant just for my understanding, this Montreal Protocol is also applicable for exports quota. But in your initial remark you said that there will be some increase in export quota by some of the countries. So, just to understand…

Shekhar Khanolkar: No, the quota is for the production quota. So, from production perspective there is a upper limit. The quota which comes in is the import quota of the countries where we are exporting because each country has a quota for the import of material if they do not have manufacturers within the country, so that way the Gulf countries have independently each country would have certain quota. So, when I was mentioning quota I was mentioning for that particular quota for the calendar year and typically what we have seen in last two years is that the quota gets exhausted early in the last couple of months of the calendar year they would not have quota, so they would not be able to import. This quota gets released again in January of next year which has happened for 2017 as well.

Satish Mishra: And sir, if you can give some sense how much they have increased in the quota percentage wise?

Shekhar Khanolkar: We do not have those numbers because no one divulge the quota to others, so we do not have the quota numbers which they have.

Moderator: Thank you. Next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, if I look at our non-CRAMS business over the last four years - five years, Refrigerants, Spechem, as well as Bulk Fluorides have all grown in single-digits while CRAMS has been a big driver for the last four years and in that period we have seen our margins improved dramatically. Would you say that all the improvement in margins is because of the CRAMS piece only?

Sitendu Nagchaudhuri: No, not really. Well, you are absolutely right that CRAMS is the flag bearer in terms of the growth of the Company of the Fluorine value chain. However, if you look at on a standalone basis, each business unit be that as it may, whether it is Specialty Chemicals or Inorganic Fluorides or Refrigeration Gases have actually improved its own capability to extract marginal value. So, there has been an increase and sustainable growth in the top-line as well as margins. The top-line growth has been mild as Shekhar was alluding a while ago, for example, in case of Specialty Fluorochemicals business in the current fiscal. However, on an underlying basis if you look at the margin extraction capability, the capability for each business unit has been improving year-on-year. So, everyone is contributing. Predominant contribution is certainly coming from CRAMS.

Chirag Dagli: So, the gross margin improvement that we have seen over the last four years - five years, you were saying that will come from all the businesses?

Sitendu Nagchaudhuri: It is a combination of factors like contribution from CRAMS, factors like Business Unit mix, product portfolio mix, geography mix and whole host of other factors.

Shekhar Khanolkar: Chirag, if you see the CRAMS business while growth percentage is pretty high, it is coming from a very low base. So, unless other businesses contribute you will not see the kind of exponential growth which we are having in the EBITDA margins or PBT margins. So, fundamentally, it is coming from all the businesses.

Chirag Dagli: And your comment on the sustainability of the current gross margins that we are seeing on a full year basis and not just for the quarter. But for FY 2017 we have seen very sharp improvement in gross margin. So, the current base, how sustainable is the current base of gross margin?

Shekhar Khanolkar: We are quite confident of maintaining this margin. Of course, there can be some external situation which may turn otherwise. But from the internal business processes point of view and the strategic shift what we are having in each of these business units in last three years to four years we are confident to maintain that. Fundamentally, if you remember we have been always talking that our objective in last so many years has been to improve our margin which we are not really happy about and that is where our efforts have been there to bring the new molecules and new products and going up the value chain. So, that is where our efforts have been and we feel that these efforts will give us sustainable results going forward.

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

Ranjit Cirumalla: The bulk of Piramal JV revenues would have got captured in the 4Q, would that be a right assumption?

Sitendu Nagchaudhuri: The commercial operations just about commenced in the fourth quarter. So, whatever has happened in terms of commercial shipment, has been captured in our financial this year.

Ranjit Cirumalla: So, the Rs. 15 odd crores revenues would have been spread over the full year?

Sitendu Nagchaudhuri: No. the commercial operations have commenced during the fourth quarter. So, since the commencement up till 31st of March whatever shipment has happened effect of that is Rs. 15.78 crores.

Ranjit Cirumalla: Okay. And what would be when we will do the asset transfer, so the other expenditure on the depreciation should normalize.

Sitendu Nagchaudhuri: As we have already expressed in Shekhar's speech as well as in our disclosures to the exchanges, this transfer of undertaking from Navin Fluorine to Convergence Chemicals Private Limited is subject to a whole host of regulatory and other approvals including the shareholders approvals, etc., so we are on the process. It is difficult to actually pin down a particular date or a period for this purpose.

Ranjit Cirumalla: Fine. My second question is on the CRAMS side, sir we have seen the revenues increasing from Rs. 31 odd crores to almost Rs. 120 odd crores ex of Piramal revenues. My question is on the client slide which we normally give it in our presentation. There has been not much or any addition towards the client side, if you come to the page 18. So, just wanted sir, what could have been the number customer that we would have been added in this. Earlier the revenue base was so small so we could not have added since it is around Rs. 120 odd crore.

Shekhar Khanolkar: Okay. You do not go by the pictures and this thing because we do not go on updating it every quarter in terms of additions or deletions.

Ranjit Cirumalla: I am comparing from the last year.

Shekhar Khanolkar: Yes, but fundamentally these are not necessarily on the CRAMS customers, these are customers for all our businesses together and these customers go on adding on a regular basis. So, that is just to give an idea the kind of clientage what we have.

Ranjit Cirumalla: That is what my question would be like at Rs. 30 crores probably they would not have too many questions on the CRAMS but as the business grows we do not need some more clarity whatever would be convenient to the management I am not looking at the order book or probably number of clients but some clarity so that it does not remain a black box for the investors.

Shekhar Khanolkar: I agree, but you know we are bound with non-disclosure agreements with customers. So, we will not be able to give you the names of the customers. But fundamentally as you have been saying we are working with almost all large U.S. and Europe based innovator pharma companies.

Ranjit Cirumalla: Can you give the number of products that we are working currently?

Shekhar Khanolkar: There are many products. See, this is a CRAMS business, so every time you do a new product for the customer or you just add the quantity. So, the products can be 25 products or 32 products which frankly speaking will not make any specific difference because these products are always coming in new products. We are an innovator company pipeline products. So, here, every time the product which comes to you, the projects which come to you are a new project and at any given point in time we work with many customers and many projects.

Moderator: Thank you. We take the next question from the line of Anand Trivedi from GE Capital. Please go ahead.

Anand Trivedi: My question actually has already been answered in many ways but I just wanted to get some more clarity. On the margin side you benefit obviously from the raw material prices not going up. Is that a sustainable trend or is that something that you see as one-off thing?

Shekhar Khanolkar: See, when the raw material prices are down your customer expectations are also that they expect the reduction in the prices. The key is here that to what extent you are able to maintain those margins within the company and ensuring that you continue to get your market shares. So, we have been sustainably doing this for past couple of years and as far as the key raw material are concerned, yes, there are uptrends which we are seeing right now. But we are working in the market to work on the pricing to negate the impact of the rising cost of the raw materials.

Anand Trivedi: But in that case the operating margin of 21% is that sustainable or you see that normalizing?

Shekhar Khanolkar: No, as I said earlier, I do not see any issues in terms of sustainable margins because finally if you are able to extract the cost increases in the raw materials from the market as of now we feel confident that we will be able to do that as the year just started we feel confident that we will be able to sustain these margins because we able to extract this increase in raw material prices from the customers.

Anand Trivedi: Okay. And a follow-up question on the CRAMS. Right now CRAMS is 20% by business given the growth that we have seen over the next three years to five years, what do you expect that to become? Do you expect that to become 30% or a bigger amount?

Shekhar Khanolkar: It is very difficult to put a number there but yes, the CRAMS business is starting on a small base, so it is going very fast and it will continue to grow fast because as I said earlier that there is good traction in this business. At the same time, our other businesses are also growing, if you do not consider this particular year for Specialties where we have lost about 5%, we see still a very good potential in the Specialty business because of a new product pipeline which is there. So, from that perspective Specialty business will continue to grow. Our Inorganic business have grown by almost 28% over last year. Our Refrigeration business, the domestic market is growing at 10% to 11%. So, it is going to be that all other businesses, are going to grow and with that the CRAMS business will have to grow much faster. But directionally yes, the CRAMS business would be finding more space into our overall revenues going forward.

Anand Trivedi: One last follow-up question, are the margins in the CRAMS business that much better than what they are in the other businesses.

Shekhar Khanolkar: We cannot discuss the individual business margins. But the CRAMS business works in a different space. So that space has that investment requirements and the assets to that extent the margins are definitely in proportion to that.

Moderator: Thank you. Next question is from the line of Sneha Talreja from Edelweiss Financial. Please go ahead.

Sneha Talreja: My question is pertaining to Specialty Chemical segment. If I see the fourth quarter revenues they are actually much higher than what we have seen in the last three quarters. Just wanted to understand is it seasonal nature of business that we are seeing or there has been some improvement in Agrochemicals side or we have kind of gain something in that one product in the domestic Pharma business where we were facing some issues?

Shekhar Khanolkar: It is very difficult to give a specific trend for this particular increase. But basically, what happens in Agrochemicals space, your dispatches or your sales happens in the second-half of the year mostly, so to that extent, yes. That is what happens in Agrochemicals part of the business. Pharmaceutical part of the Specialty business is quite steady. We had some dispatches for some of the new molecules during last quarter to various markets and that is the reason that we have little better turnover coming from those products in last quarter. But I would not see a specific trend in that.

Sneha Talreja: Okay. So, can we quantify how much would it be from the new molecules?

Shekhar Khanolkar: We would not be able to disclose those numbers.

Sneha Talreja: Okay. Sir, secondly on the CRAMS segment have we got any kind of, or are we still into the primarily research space or have we got some kind of permanent orders or are we seeing any visibility in the coming few quarters.

Shekhar Khanolkar: See, in this business we work with innovator pharma companies, so when the product is going through pre-commercial trials, so basically Phase-I, Phase-II, Phase-III kind of this thing. So, as some of the customers where we have started off may be at 10 kgs or 15 kgs or even before that, some of these customers are reaching to a larger scale as the product is going to the next level. We have not seen a commercial launch here but basically we have been working with many molecules and many customers which are in the Phase-I or Phase-II or Phase-III kind of a phases.

Sneha Talreja: Okay. Any visibility of commercial launch during the year, I mean is there any customer who has actually already informed you about the commercial launches?

Shekhar Khanolkar: We get indications from the customers but that time horizon is pretty long. They may say that this product will go commercial in next 12 months to 18 months kind of thing. So, we do get those kind of this things but finally in these cases it is very unpredictable kind of situation. The product for them can fail at any stage into the commercialization process. So, you have to take the things as they come in.

Sneha Talreja: Okay. Sir, my last question is relating to other expenses, we have seen sharp increase in other expenses quarter-on-quarter also and year-on-year also and that have been constantly increasing as a percentage of sales, is it mainly due to the JVs part?

Sitendu Nagchaudhuri: No, the JV operations part, when you say JV part you mean Dahej?

Sneha Talreja: For the Dahej unit, right, the newly formed one.

Sitendu Nagchaudhuri: Yes, certainly, when you actually start commencement of commercial operations there will be expenses and if you look at the trend basically when you are stabilizing operations immediately post-commercialization the trend of the expenses will be high. So, that is absolutely true in case of Dahej operations. Otherwise, also if you look at operations as a whole overall base other expenses yes, it is increasing year-on-year but if you look at the percentage of the turnover growth basically we are actually well within our target limits.

Moderator: Thank you. We move to the next question that is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: On Refrigeration Gases, for FY 2017 depending upon what your production quota is like did you produce up till the maximum allowed or did you produce less and how much less?

Shekhar Khanolkar: We produced almost to the maximum what was allowed to us.

Dheeresh Pathak: Okay. So, then from a volume point of view, we will not see growth, right because even though domestic market might be growing at 10% or whatever you are already producing….

Shekhar Khanolkar: No, see okay I stand corrected. Basically we have produced that but the production what we had it also included the non-Refrigerant application production. Now, for non-Refrigerant application production there is no quota, okay. So, to that extent we can produce more than what we have. And if I remove that non-production part into my total production capacity, still we have a lot of room to participate in the local market.

Dheeresh Pathak: How much volumes can you add, can you give a sense to that like based upon your capacity and based on your total production this year?

Shekhar Khanolkar: I can give you in general, see, we have grown about 10% to 11% this year in domestic market that includes both, the non-Refrigerant as well as the Refrigerant part. Even if the Refrigerant part continues to grow by 10% to 11% for next few years, we will have enough quota available to us to sustain those growth rates. So, I do not see any issues for at least next couple of years to really participate into the growth of the domestic Refrigerant market.

Dheeresh Pathak: But you said, from the emissive side you already produce to whatever extent the quota allowed, right?

Shekhar Khanolkar: No, that is why I said, I corrected myself. From the overall quota, it does not include the emissive part of it. If I remove the non-emissive part of it then we have sufficient space to meet the market demand which is growing at around 10% to 11%.

Dheeresh Pathak: Okay. But that will happen only for one year or two years or you think you have enough runway, for how many years do you have that runway? I mean, can you just share actual capacity?

Shekhar Khanolkar: At this rate, I do not see any issues for next couple of years at least next four years to five years, if the market behaves in the way it is behaving right now.

Dheeresh Pathak: Okay, all right. And second question on Dahej, the Rs. 15 crores is total 100% of the revenue of the JV right, not 49%?

Shekhar Khanolkar: It is 100%.

Sitendu Nagchaudhuri: No, it is for the simple reason the revenues are recorded in Navin Fluorine financials because operations are yet to be transferred to the JV.

Dheeresh Pathak: Okay. And when that happens then you will do a single line consolidation below EBITDA, right you will do the equity…..

Sitendu Nagchaudhuri: When it happens, hopefully assuming that this happens in the current financial year since, both the JV as well as all the parent companies will be under IndAS guidelines, it will be one line equity accounted share of profit consolidation in our consolidated financials.

Dheeresh Pathak: Okay. So, for that Rs. 148 crores that you mentioned the asset value, so you would have got the money now of which half of you have got Rs. 74 crores or something you would have got?

Sitendu Nagchaudhuri: See, certain portion of the spend has all been received from the JV but as I alluded earlier in my speech that we should now draw line on the sand Rs. 169 crores because Rs. 169 crores is value of the net assets for the operations as at 31st March 2017 and there will be whole host of other assets in terms of receivables and payables and liabilities in terms of payables and the net as book value of such assets and liabilities as on the transfer date will in turn govern the consideration for the Business Transfer Agreement by way of slump sales.

Moderator: Thank you. Next question is from the line of Abhijit Akella from India Infoline. Please go ahead.

Abhijit Akella: Sir, just a clarification regarding the JV, so the Rs. 15 crores of revenue as well as the corresponding expenses are included in the standalone financials and yet the margins that you have shown for the standalone financials are pretty solid on a Y-o-Y basis. So, has the JV done comparable kind of EBITDA margin or you know has there been expansion in the non-JV part of the business that allowed us to maintain the margin?

Shekhar Khanolkar: This is just a Rs. 15 crores of sales which has happened during this quarter. So, very frankly it has hardly any impact on overall performance of the Company. So, it will be very difficult to analyze from that perspective probably as we go on next quarters until such time this business gets transferred to the JV we will have a little more clarity in terms of the impact of this particular business on overall numbers of the Company.

Abhijit Akella: Yes, but just to clarify this Rs. 15 crores is entirely in 4Q itself, right?

Sitendu Nagchaudhuri: Yes.

Shekhar Khanolkar: Yes.

Abhijit Akella: So, I mean from a 4Q standpoint is almost 7.5% of the quarter's revenue which is not that small and if it made losses then we would have seen some dent which we have not seen.

Shekhar Khanolkar: Yes, in terms of EBITDA margins what we have seen is good as far as this business is concerned.

Abhijit Akella: Okay. Can it be comparable to what Dewas sir?

Sitendu Nagchaudhuri: Sorry, for interruption as Shekhar alluded a while ago it is a little too premature to comment about the profitability trend of this business, just about started commercial operations. So, predominantly if you look at the company's performance whether quarter-on-quarter or year-on-year in terms of profitability or in terms of the value extraction it will be safe to assume that it is fundamentally driven by the core underlying business units including up to core CRAMS. This new operation is a little pre-mature to comment, we will only see going up in the coming quarters just how things shape up before we transfer.

Abhijit Akella: Okay, fine. Thank you. And just one quick clarification, when you talk about your target of touching 2.5x asset turns in the CRAMS business by end of FY 2019, are you referring to the Rs. 100 crores of total investment that you have made or only the Rs. 60 crores of commercial investment you have made?

Shekhar Khanolkar: Rs. 100 crores of the total investment made at Dewas.

Moderator: Thank you. Next question is from the line of Kartik Mehta from Canara Robeco. Please go ahead.

Kartik Mehta: Sir, in the CRAMS business I can understand that you cannot quantify that how many projects are going through Phase-I, Phase-II, and Phase-III. But would you be able to give me percentage of project migrated from a particular phase to a particular phase? I am not even asking Phase-I to Phase-II to Phase-II to Phase-III?

Shekhar Khanolkar: We cannot give that unfortunately.

Kartik Mehta: Yes, because the volume would be 8x to 10x more…

Shekhar Khanolkar: See, our business model is different. Our business ensures that we are recovering all our cost and margin expectations in whichever stage the molecule is whether it is Phase-I, Phase-II, or Phase-III. This business is not dependent on the commercialization of the molecule. So, from that perspective for me whether it is in Phase-I, Phase-II, Phase-III or IIIA it does not matter.

Kartik Mehta: No, it matters because your volume in Phase-II would be 8x to 10x more than the Phase-I.

Shekhar Khanolkar: But the volume has its own perils, when you talk of volumes then you talk of the pricing picture comes in there. So, you have various the customer did not give the same price for say 50 kgs and same price for 500 kgs or 1 tonne. So, Yes, those criteria is coming. As far as we are concerned, we ensure that we recover all our R&D cost all other cost and our profit expectations, each and every stage of the molecule development.

Kartik Mehta: Sir, my only request is that. If not now, but later on, you start if it is feasible at least preparing a bucket that how many percentage, not even the number, the percentage of the projects Phase-I, Phase-II, Phase-II or migration whatever has happened. So, that would give us some perspective that how is the progress happening.

Shekhar Khanolkar: Okay, we will look into that absolutely.

Kartik Mehta: Yes, and another is that which are the therapies where these molecules are going to be functionally if at all generally?

Shekhar Khanolkar: Across, right from oncology to many other.

Kartik Mehta: But majorly would be one of two major therapy, right?

Shekhar Khanolkar: No, this is not necessarily, this is across the board and these are all companies across the board. So, again we have very large Pharmaceutical companies, mid-sized Pharmaceutical companies, biotechnology companies, across the spectrum is there.

Kartik Mehta: And these molecules would be substitute to the existing molecules available or all together new discovery?

Shekhar Khanolkar: It can be a combination of both because these companies are investing huge amount of money into new discoveries, so that is something which they would look at whether they are substituting someone or they are actually participating in the expanded market so for example, oncology kind of markets are growing very fast. So, if they are adding the products to take a higher market share of the product or they are replacing their own molecules, or something which is strategic part of those customers.

Kartik Mehta: Okay. And if you remove Rs. 15 crores from the CRAMS reported revenue then the Y-o-Y this quarter number would have been down, right?

Sitendu Nagchaudhuri: Yes, but as we keep on telling that looking at quarter-on-quarter performances, this is not the right way to look at it. If you look at year-on-year performance removing this Rs. 15 crores, CRAMS has clocked in turnover of Rs. 122 crores which is about a 42% growth over the Rs. 86 crores reported last year.

Kartik Mehta: Fair point, I just wanted to clarify. And in an inorganic fluoride in the last five years this is the highest number we have reported. So, it is purely because we have increased the focus on the export market.

Shekhar Khanolkar: In last couple of years we have been trying to go to various markets with some of these products and there is a lot of competitive pressures but we have been able to successfully get into many new markets and also some other products which have never exported before we have started exporting. So, yes, that is definitely adding to our overall revenues for this year.

Kartik Mehta: So, what should be the mix growing, at presently it is 8% exports, right?

Shekhar Khanolkar: Yes, exports it started almost from 0% to 4% to 8% to about 10% - 11%. We expect to grow but at the same time the local market is also going to grow because we find as the infrastructure start growing in India definitely steel, glass, these industries which follow GDP path would also grow. So, it will be a growth which will happen in domestic as well as in the export sector both.

Kartik Mehta: Right. So, ahead this double-digit sort of a growth is feasible in this segment?

Shekhar Khanolkar: Yes, absolutely. I do not see any issues why not.

Kartik Mehta: All right. And lastly, on Specialty Chemical front, it has been quote muted given that global Agrochemicals cycle has been kind of sluggish and we have probably 50-50 coming from Agrochemicals and Pharma in this segment, so in Pharma that to concentrated to select molecules. So, have we made any some new progress all together moving away I mean, though we maintain the same businesses trying to revive based upon the macro tailwinds. But from our side we have done something which would be driving the revenue going forward?

Shekhar Khanolkar: Yes, so as I said earlier we have a couple of new products in the pipeline which we have already launched. So, what happens is when the overall market is not good for example, Agrochemicals companies they also tend to postpone some of these trials, so that also affects you. But from our side we have been launching various products during this year as well. Now, these products will go into the commercial and for example, some products will get commercial launch in 2018 - 2019 or 2019 - 2020. So, that is when the volumes will start coming in. so, we are working with many of these Agrochemicals companies where we are launching new products to them which will go into their active ingredients in next couple of years. Same thing in the Pharma sector in India, we are launching a couple of molecules which will see a good traction during this year, which we expect that they would replace some of the lost business this year.

Kartik Mehta: Okay. And R&D cost would be what roughly for the full year have you given it?

Sitendu Nagchaudhuri: It comes in the detailed Annual Report. It is actually maintaining its own sort of percentage, the focus remains in R&D.

Moderator: Thank you. Next question is from the line of Pratik Poddar from ICICI Prudential. Please go ahead.

Pratik Poddar: Sir, just a couple of questions on the JV. When would have this JV begun commercial productions from would it be March?

Shekhar Khanolkar: The Piramal one, Yes, it has started production in March.

Pratik Poddar: In March. And generally what we understand is that there are pre-operative expenses which kind of come in with the commissioning of plants. Anything which was loaded on to on that front in this quarter?

Sitendu Nagchaudhuri: Whatever goes in and the part of the capitalization has gone into capitalization and that part also alluded a while ago that when you are starting up a commercial production the expense trends seem to be slight on the higher side. All that which needs to be charged off has been loaded into the cost of operations.

Pratik Poddar: Yes, so the only thing I was trying to decipher is from a matching concept the revenue of whatever you have recorded for one month will not match the cost, right? The cost would be inflated to that extent?

Sitendu Nagchaudhuri: Well, anywhere if you try and make any sensible clarity in terms of the value extraction for this operation one month is a little too premature on the timeframe. So, as we said a while ago that we will watch the operations for may be at least a couple of more quarters to see some sort of sense of the value extraction potential of this business.

Pratik Poddar: Sure. But just to appreciate the business, until the value creation in the other underlying business ex of JV you know if you could give us some directional sense to how much of the expenses were or how much of the expenses were not matching in line with revenues for that, I can appreciate at least the other part of the businesses where you must have done a phenomenal job because on a Y-o-Y basis I still see margin expansion despite just one month of revenue for the JV but the fixed cost would have been higher, that is intuitive.

Shekhar Khanolkar: I think it is little too premature. You will have to just wait for at least a quarter or two quarters then your analyze will be a little more coming to the reality.

Pratik Poddar: And sir, once you transfer this part to the JV will you be compensated by the other partner in terms of capital or how is it, I am just trying to understand that part.

Sitendu Nagchaudhuri: No, basically the entire operations will be transferred on the net book value of all the assets and the liabilities, the rights and obligations which will be transferred as a business undertaking by way of slump sale. So, there will be a net consideration which will be predominantly being arrived from the net book value for the assets and liabilities as on the transition date and it will be paid off by the JV.

Moderator: Thank you. Ladies and gentlemen, due to time constraints this was the last question. I would now like to hand over the floor to Mr. Shekhar Khanolkar for his closing comments. Over to you, sir.

Shekhar Khanolkar: I would like to thank everyone for joining on the call. I hope, we have been able to respond to your queries adequately. For any further information, I request you to get in touch with SGA our Investor Relations Advisor. Thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Navin Fluorine International Limited, that concludes this Conference Call. Thank you for joining us and you may now disconnect your lines.