



“Navin Fluorine International Limited Q2 FY-’15 Earnings Conference Call”

October 22, 2014



**MANAGEMENT: MR. SHEKHAR S. KHANOLKAR – MANAGING DIRECTOR,
NAVIN FLUORINE INTERNATIONAL LIMITED
MR. PARTHA ROYCHOWDHURY – CHIEF FINANCIAL
OFFICER, NAVIN FLUORINE INTERNATIONAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY15 Earnings Conference Call of Navin Fluorine International Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. I now hand the conference over to Mr. Shekhar Khanolkar – Managing Director of Navin Fluorine International Limited. Thank you. And over to you, sir.

Shekhar S. Khanolkar: Good morning and warm welcome to all. I also take this opportunity to wish you all a very Happy Diwali and thank you for taking time out today. I am also joined by Mr. Partha Roy Chowdhury, our CFO. I hope you have received our results and presentations. We also uploaded the same on our website. I will give you a brief update on the company followed by commentary on the financial results by Mr. Partha Roy Chowdhury.

As you all know Navin Fluorine has brought in a partner at Dahej project that was announced in the previous quarter. We have joined hands with Piramal Enterprises for this project in this Specialty Chemicals space. This JV Company will develop, manufacture, sell Specialty Fluorine Chemicals with specific focus on applications in healthcare segment. Piramals will hold 51% of the equity share of the proposed JV company and 49% is held by Navin Fluorine.

In the first phase of this development, JV is expected to invest roughly about Rs.120 crores and this project is expected to be commission by H2 of FY16. This project reinforces our vision of leveraging Navin's Fluorination capabilities to tap the latent potential of Fluorine as a chemical into pharma intermediates, in the area of healthcare which is a forte of Piramal.

Our expansion at Dewas is also going on as we talked about it last time. We are investing about 60 crores in this and that would also go become operational by H1 of FY16.

Another important news which I would like to share with you all, is company's certification as a responsible care company. Over the last few quarters we have been working towards this. As you might know responsible care is a chemical industry initiative which calls on companies to demonstrate their commitment to improve in all aspect of performances in relation to safety, health and environment. Together with very open and transparent communication with all the stakeholders. It was in the month of September that we received this certification through Indian Chemical Council, as a responsible care company. This brings us into a league of highly respected chemicals companies. There are few companies in India who have got the certification and many large companies globally. Now, I will hand over the discussion to Mr. Partha Roy Chowdhury, our CFO. Who will take you through the financial performance of the company.

Partha Roychowdhury: Thanks, Shekhar and a very good morning to all the participants. I shall share some of the salient points of our performance, following which we will be happy to respond to your queries.

In the second quarter the company posted revenue of Rs.124 crores, there has been a quarter-on-quarter decline of 4% from Rs.130 crores which was in Q1 of FY15. And 24% growth year-on-year from Rs.100 crores in Q2 of FY14. The quarter-on-quarter decline in revenue was mainly due to lower volumes in the Refrigeration Gases which has seasonality and a weak CRAMS order book. It has however been partially offset by improved volumes in the Speciality Chemicals segment.

Similarly H1 of FY15 revenue of Rs.254 crores is 18% higher than H1 FY14. Which has been propelled by a strong traction in this Specialty BU.

In H1 FY15 Refrigerant Gases contributed roughly 36% of our standalone sales. Specialty Chemicals contributed 39%, Inorganic Fluorides contributed 21% and the balance is from CRAMS.

Operating EBITDA for the quarter at Rs.14 crores. Growth of 13% quarter-on-quarter from 12 crores. With EBITDA margin at 11.2% and expansion of 174 basis points sequentially.

EBITDA for H1 FY15 declines by 24% year-on-year to Rs.26 crores from Rs.34 crores in H1 FY14. This primarily has been on account of the following. High raw material cost as compared to the same period last year. Chloroform price is more than doubled. However the general belief is that Chloroform prices has peaked and may relent in the coming months as a supply pipeline is getting eased out. Sulfur prices have also firmed up impacting our margin. Here again the general expectation is that a declining crude price may result in softening up of Sulfur prices as well. CRAMS revenue has been down by 15%. However, based on the current order book CRAMS revenue in H2 is expected to more than double, making up for the short fall.

Net profit for the quarter is at Rs.10 crores a margin of 8.1% and net profit in H1 FY15 is at Rs.19 crores.

As on September 30th, we have an investment of around Rs. 137 crores mostly in debt mutual fund. In the first half of FY 15 we have received around Rs.5 crores from rental and about Rs.4 crores from the treasury income. That is all from our side and now we can open the floor for question and answer. Thank you very much.

Moderator: Thank you sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have first question from the line of Sameer Rachh from Reliance Mutual Fund. Please go ahead.

- Sameer Rachh:** You just mentioned about revenues of our segments on a first half year basis. Can you please give breakup of it quarter wise?
- Partha Roychowdhury:** Can you come with your question once again please?
- Sameer Rachh:** Sir I just want a breakup of our revenue based on different business segment for Q2 in particular.
- Partha Roychowdhury:** 31% has come from Refrigerant Gases, approximately 22% is from the Inorganic Fluorides, Specialty Chemicals is 44% and the balance has come from CRAMS which is around 3%.
- Sameer Rachh:** Okay so basically you expect and this is for Q2 right?
- Partha Roychowdhury:** Yes.
- Sameer Rachh:** So basically you expect CRAMS revenues to go up significantly in second half?
- Partha Roychowdhury:** Yes. That is what our current visibility is.
- Sameer Rachh:** Right. Sir my second question pertains to our JV with Piramal kind of, so once it starts in FY 16 what kind of revenue and profit potential it would have?
- Partha Roychowdhury:** We have a very sort of serious confidentiality obligations around this arrangement. So we would not really like to give you any indicative sort of numbers, but I can give you a very broad sort of guidance saying that these numbers are going to be fairly strong.
- Sameer Rachh:** Okay, so basically since this is going to go on stream in FY16 so it will start contributing to our profits only by FY17?
- Partha Roychowdhury:** Yes, that would be a correct estimate, there can be some marginal impact here and there in FY16 towards the later part as well. But if are really looking at sort of evaluating this for our full year sort of a thing it will get into FY17.
- Sameer Rachh:** Right. And sir we settle for only 49% stake so because of that we would not be able to consolidate properly this revenues and profit of this company. So couldn't we have gone for 51%.
- Partha Roychowdhury:** The word properly is very important here as you have said. We will still be able to consolidate this as a joint venture.
- Sameer Rachh:** Okay.
- Partha Roychowdhury:** Okay, so that is one. So there is not going to be a 100% consolidation and minority interest but there is going to be a line by line proportion and consolidation.

- Sameer Rachh:** Revenues will come basically to on our topline..
- Partha Roychowdhury:** Yes.
- Sameer Rachh:** And can you just, that other investment of 50 crores which we mentioned, what kind of potential revenue that can generate?
- Partha Roychowdhury:** This is the expansion at Dewas which is on an existing site. So these revenues which we are expecting out of this to start with on the first full year is going to be at least 1.5 times the investment value that is the number we are looking at. However as it sort of grows into full scale operation, the revenues could be of the order of 3X but that is our current internal estimate. I would not really like you to take any sort of guidance out of this. This is how we are internally viewing it at this point in time.
- Moderator:** Thank you. We have the next question from the line of Sudarshan Padmanabhan of Sundaram Mutual Fund. Please go ahead.
- Sudarshan Padmanabhan:** Sir I just want to understand if you are looking at the raw material prices your typically even on a Q-on-Q basis we have seen some kind of an improvement. I just want to know whether it is primarily on account of your sales mix which you just mentioned that Speciality Chemicals is higher or is there some kind of cost cutting that you have done considering that the first quarter you have seen about 50% kind of gross margin as such. So how do we see the raw material cost going forward specially with the CRAMS picking up as well?
- Shekhar S. Khanolkar:** First of all in CRAMS the raw material scenario for CRAMS and other business were little different. In CRAMS business typically the raw material is of pass through. So most of the time raw material cost are completely absorbed, completely can be passed on to the customer because your business is based on a specific order and buy raw material at specific time for that. So all the data in terms of raw materials available and that cost we just put in to your costing and customer base for it. So I do not have much problem in terms of passing our raw material cost into CRAMS business. But the raw material plays major role into other businesses whether it is Refrigeration business or Specialty business where either their contracts with the customers specially in Specialty Chemicals business or Refrigeration business the pricing is based on a global pricing so it also depends upon the demand and supplies in the market where we export R22 and those kind of things. So coming to specifics as we said in Chloroform we had lot of cost issues as well as the supply issues in last two quarters, which we expect to get eased out going forward. So that should help us going forward and same thing in Sulfur the crude price is coming down we also expect Sulfur to come down. Which are two major raw materials in most of our products.
- Sudarshan Padmanabhan:** And sir if we are looking at for example if there is a jump in Sulfur, we just saw the jump in Chloroform as well. How do you pass, how much of hit do you take on your raw materials and how much pass through, how much is normally the lag between you passing through and

second is how much is the hit that you take and how much is the hit that you pass on, on an average.

Shekhar S. Khanolkar: Now if you are talking some specific raw materials for example Sulfur is a raw material which goes in to manufacturing hydrofluoric acid which is the base starting material from where we build all the products in our portfolio. Whether it is a Refrigeration portfolio or whether it is a Speciality portfolio. Now HF prices, again these prices are competitive China, is one of the largest producers globally so the prices definitely depend upon the global prices of the products. From that perspective in some of the products in Speciality, we can really go back and increase the prices and recover the entire this thing. Partially we can recover in our Inorganic Fluorides business also, the prices from the customers. But it becomes little difficult to wherever there is an exports which are there or lot of imports of competing products are there. Where getting the entire cost increases from the customer becomes little difficult and many times there are contracts so unless the contracts get over we have to really go ahead and supply at those prices. And then the issue comes when the contract gets over, then new contracts are based on the raw material prices then prevailing. So it is not necessary that all the time you can get the entire cost increase back from the customers, but always the endeavor is that try to get it as quickly and as far as possible from the further market place.

Sudarshan Padmanabhan: And sir if I am looking at the other expenses say I can understand that your other expenses percentage of sales can be optically higher considering that there has been a Q-on-Q drop, but I just want to know whether there is any one off element that is booked on your other expenses or is there any one off element that is there in your numbers in this quarter?

Shekhar S. Khanolkar: This quarter no. Our one off expenses of almost Rs.2.5 crores of were on the wages settlement which happened in Q1. But overall our some of the cost have gone up because we are actually in an investment mode. Where lot of investments are happening in terms of the new plants which are coming up, will require people and process in the systems. So there is lot of investment which is happening in those areas which is not actually contributing to the turnover. But as of now it is contributing to the cost, so it is basically the cost which we are bearing for future.

Sudarshan Padmanabhan: And when do we expect this Dahej facility to start contributing for you, in the first half then the revenues should start, we start seeing the trickle down of the revenues. Both Dahej as well as Dewas if you can give us some kind of.

Shekhar S. Khanolkar: As Mr. Partha Roy Chowdhury said for Dahej the real impact we will see only in FY17. FY16 the products will be made and sold, of course some of the raw materials will also come from Navin Fluorine into that so to that extent some benefit would come to Navin Fluorine in terms of consumption of raw materials which the JV would have. But otherwise the complete sales and its impact would be seen in FY17. Dewas typically it is GMP plant and which should go on in our mechanical completion and the first batch we should be able to take by end of this financial year. But it take some time to ramp up capacities there because the potential

customers they have to typically come and audit your plant and inspect your plant, that process takes time. So even if you are ready for making your product, you cannot start unless the customers audit and approve the plant. So that process takes time but revenues definitely we are budgeting for next year coming out of this Dewas facility so it will have an impact on our FY16 numbers.

Sudarshan Padmanabhan: But typically it will be like Dahej where the meaningful impact will happen on FY17?

Shekhar S. Khanolkar: Dewas impact will be little more as we are expecting than Dahej because Dewas as Mr. Partha Roy Chowdhury said, we are looking at at least 60 to 80 crores of additional sales from the first year.

Sudarshan Padmanabhan: Okay. So 60 to 80 crores coming from Dewas from the first year.

Shekhar S. Khanolkar: Yes. But as I said it all depends upon the customers coming in for audits with their scheduling and other things. That is the time which is very crucial for us, so how fast we get them to come to India and get the plants audited is something which is pretty important for this business.

Sudarshan Padmanabhan: And sir if you can also give us the sense as to, the total CAPEX that has been envisage for both these units from your side. How much has been invested till now and what is the kind of fixed, expense that you are incurring now which is not benefiting probably in FY15 where you can actually start seeing some kind of operating leverage kicking in from FY16.

Partha Roychowdhury: You see the investment which have already gone in into these two CAPEX is of the order of about Rs.40 crores, cash outage. Part of it has been funded through our term loan which we have taken; part of it has been funded from our internal accruals. And if you are really looking at the expenses the P&L or revenue items which are featuring in the results now, which are somewhat futuristic we do really have a very close tab on that, but if I have to sort of.

I will tell you in a qualitative manner, we have the people who are going to man the expanded capacity in Dewas, are by and large on board. And this is an existing site, expansion is taking place at that point in time. So there are lot of administrative sort of expenses which are being spent around that initiative. So this is how we are sort of looking at it. My assessment would be anywhere between 3 to 4 crores.

Sudarshan Padmanabhan: That is on a quarterly basis?

Partha Roychowdhury: No, on an annualized basis. I am talking about revenues expenses and these are very-very rough numbers.

Sudarshan Padmanabhan: And what will be the total CAPEX that you have envisaged for Dewas and Dahej?

- Partha Roychowdhury:** Dewas is going to be of the order of Rs.60 to Rs.65 crores. Dahej, the total outlay is going to be of the order of Rs.120 odd crores. But that is in a different entity as of now the arrangement between the partners is we will sort of have a 1:1 gearing. So the numbers will eventually emerge out of that.
- Moderator:** Thank you. Our next question is from Ranjit Cirumalla from B&K Securities. Please go ahead.
- Ranjit Cirumalla:** Can you put a number to this Chloroform and Sulfur as a percentage of our raw materials?
- Partha Roychowdhury:** Chloroform is about say anywhere between 12% to 15%.
- Ranjit Cirumalla:** Of raw materials?
- Partha Roychowdhury:** Material consumption yes.
- Ranjit Cirumalla:** Okay. And Sulfur would be?
- Partha Roychowdhury:** Sulfur would be again about 8% to 9%.
- Ranjit Cirumalla:** Sir, when asked about the revenue potential you said that you have some strict confidential agreement.
- Partha Roychowdhury:** Correct.
- Ranjit Cirumalla:** But the Dewas was there you said 1.5% of the investment value would be recognized.
- Partha Roychowdhury:** 1.5x.
- Ranjit Cirumalla:** Yes, and the potential would be around 3x. I am asking you the same logic could be applied to this Dahej as well because they are in the same line.
- Partha Roychowdhury:** No. You cannot do that because Dewas is our own project.
- Ranjit Cirumalla:** I am asking about their recognizable variable potential of that particular investments.
- Partha Roychowdhury:** Dahej investment Ranjit is an expandable investment. I would not say that at the first phase it is going to be 3x. It is going to be may be 1-1.5x. And then from marginal investment it gets expandable. So depending on the demand situation of the final product, etc., we will take our call which is may be in 2017.
- Ranjit Cirumalla:** Probably that is because you would also be spending some part on the utility so the capacities would be lower than 120 crores?
- Partha Roychowdhury:** No. Can you come again?

- Ranjit Cirumalla:** Sir you are saying that because probably the 120 crores is not the actual product.
- Partha Roychowdhury:** No, you reverse your view. What you do is you are looking at it from a certain point, you look at it from absolutely the diametrically opposite point, where you say that we are investing a certain amount of money which is probably disproportionately larger in site developed, which happens with any Greenfield site. And despite that we are saying that we will have a capacity which is 1 to 1.5. That is the broad sense.
- Ranjit Cirumalla:** And sir for the Dewas things who are the customers not the name list but would it be Pharma or Agri space?
- Shekhar S. Khanolkar:** This Pharma space
- Ranjit Cirumalla:** Even for Dewas it would be Pharma?
- Shekhar S. Khanolkar:** Yes.
- Ranjit Cirumalla:** Sir the power situation has impacted us in the 1Q, same situation persist or has been some improvement?
- Shekhar S. Khanolkar:** Same situation persist right now, no further positive or negative development in Gujarat.
- Ranjit Cirumalla:** And that would be there for the next two quarters?
- Shekhar S. Khanolkar:** We would not but we do not have anything as of now any positive information with us to share.
- Ranjit Cirumalla:** Okay, sir and one last thing the inventory from the March levels has gone up by around Rs.20 odd crores. So is there any specific reason to that?
- Partha Roychowdhury:** It is up and there are some materials which have been manufactured in Q2 for dispatches in Q3. That is one reason, and by and large the inventory has also gone up which we will deal within the coming one or two months.
- Moderator:** Thank you. Our next question is from Rahul Bhangadia of Lucky Investments. Please go ahead.
- Rahul Bhangadia:** I had a question on the JV Piramal, as layman I wanted to understand it you had just mentioned in an answer to a question that before FY16 itself, Navin Fluorine might get a little bit of a turnover providing raw material to the JV. Now my question is that broadly while you are bound by your confidentiality agreements but could you give us a sense that broadly where does the JV start in terms of the value chain, does it start where Navin Fluorine today ends or Navin Fluorine today's sells. Or there is part somewhere much before where Navin Fluorine sells today?

- Shekhar S. Khanolkar:** It is very difficult to give answer in specific context but see Navin Fluorine makes a lot of Pharma intermediates and very advance intermediates as well for various Pharma companies globally. Now, the starting material is typically is from us like Hydro Fluoric acid, and then it subsequent steps what we do at Surat and by that becomes a raw materials for our plants at Dewas as well. This particular products or a group of products which will make for in this JV would have some starting material coming from our existing facilities. So from there this JV we build further stream of products which will go for Piramals.
- Rahul Bhangadia:** Basically that JV will not start at the very basic level where Navin Fluorine is active and has the expertise required, is that a way to look at it?
- Shekhar S. Khanolkar:** No. Because the Fluorination expertise is coming from Navin Fluorine. So JV does not have Fluorination expertise. So this agreement is such that Fluorination expertise is coming into JV the healthcare market experience is coming from Piramals and that is why the product is being manufactured into this JV. So all Fluorination part of the raw materials will definitely come from Navin Fluorine.
- Rahul Bhangadia:** So will it be kind of manufactured within Navin Fluorine or what expertise flows on to the JV as well?
- Shekhar S. Khanolkar:** No. It will be manufactured within Navin Fluorine.
- Rahul Bhangadia:** And you will pass on the product to the JV on which they will build up on.
- Shekhar S. Khanolkar:** Right.
- Rahul Bhangadia:** That is how we should understand it?
- Shekhar S. Khanolkar:** Yes.
- Rahul Bhangadia:** No. To be frank from where I am coming is that is Piramal going to be in any position to kind of gain experience from your own expertise in Fluorination when they are in the JV given that they are at 51%.
- Shekhar S. Khanolkar:** No. Because as I told you the arrangement is Navin Fluorine Fluorination expertise is fundamentally basically fluorination one is expertise and you also record assets on ground to make fluorinated products. The JV does not have assets on ground to make fluorinated products. That assets will remain in Navin Fluorine. So the fluorinated molecules whenever required for this JV would come from Navin Fluorine.
- Rahul Bhangadia:** Okay, so in short the products that or the fluorination expertise that Navin Fluorine has stay within Navin Fluorine, you provide the product on which that JV builds up that is how we look at it.

Shekhar S. Khanolkar: Right. So there is a basically value addition which happens on our fluorinated molecules within this JV.

Rahul Bhangadia: Okay, thank you so much.

Moderator: Thank you. We have next follow up question from Sudarshan Padmanaban of Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanaban: Sir you have given some outlook for the CRAMS segment this year and if you are actually looking at it I think a lot of efforts has gone into building up capabilities towards CRAMS. If you can give us a slightly longer kind of a picture as to how do you see this segment being and our contributing and being a part of your overall business probably in the next three years, next five years. We could probably get a sense as to how this business is going to evolve?

Partha Roychowdhury: I can give you a brief outlook of this business for next couple of years. Fundamentally as you know we have started investing into this business in last couple of years back. There are two places where we invested into this, one was when we invested into Surat where we put our first pilot cGMP facility at Dewas pilot cGMP facility. At the same time we invested into taking a 51% share into Manchester Organics in the UK. The objective was that in our proposition the CRAMS business is little different from all other CRAMS companies within India or outside. There are many CRAMS company but what we differentiate with is our fluorination capabilities. Globally there are not many companies outside China who have that fluorination capabilities. And that is what in last couple of years we have seen is actually give us lot of traction in the market place. Much-much ahead in terms of the cycle typical CRAMS business goes through. So that is the reason that we are feeling very confident and we were little, I would say fast in terms of putting up another 60 to 65 crores into expanding our current JV product plant in Dewas and that is why we are putting investment. So putting this investment into assets on ground, putting investment to people into this business shows our confidence in terms of how this business is planning out for us. We are also lucky to have some of the large corporates globally innovative Pharma companies working us with very closely on some of the molecules which they are really finding tough to get outside and that is fundamentally actually giving us a strength to really go out looking at this business in a very optimistic way. So we feel that the space we are in is something very unique space, there are globally you find some of the companies saying that, they do not like more and more suppliers because there are lot of CRAMS suppliers, but when we go to them with fluorination as a proposition then they definitely ask us to be a partner with them. And fundamentally definitely there are entry barriers in this business because of this fluorination capabilities. And that is why you will not find many companies into that in fact, we are also supplying to some of the CRAMS companies who do other chemistries but do not do fluorinations. So whereas we can do all the chemistries plus fluorination. So that is actually separating us out from all those CRAMS companies though they may be bigger in turnover than us at this point of time. And definitely because of the skills and expertise require in this business, this is highly profitable and high margin

business. So, I think that should give you an overall understanding of where we are heading too.

Sudarshan Padmanaban: And would I be right to say that currently if you are looking at most of the CRAMS companies in the Pharma space they do margins in upward of 25% plus so would I be right now if I assume that on peak utilization and to scale up your business you should be doing similar margins as compared to the others who are doing it right now?

Shekhar S. Khanolkar: Yes. So margins of course, as you know every time you do a product you do a new product in CRAMS business, so when you do it on a smaller scale with uniqueness of chemistry the margins are pretty high. Now when you get repeat business for those for example if you do in some 100kgs, 500kgs right now probably in the new plant when you do two tons, five tons we will have to give a better rate to the customers. But overall yes the margins will be pretty high in this business.

Sudarshan Padmanaban: And in India would you be the only person who is being an expert in this space or SRF would be competing with you in the CRAMS space. Would I be wrong to say that your business would be quite similar to SRF in the CRAMS segment?

Shekhar S. Khanolkar: The fundamental difference I find here is as of now what I know in this business, we are the only company who do fluorinations in the cGMP environment in India. And more and more pharma companies are actually demanding the N-1, N-2 also to be done in the cGMP facilities. And the kind of competence we have in terms of handling very high pressure of fluorination reacts into cGMP facility. I am not sure whether anyone in India has this.

Moderator: Thank you. We have the next question from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

Dhiresh Pathak: Referring with the earlier participant's questions in terms of comparing and contrasting with what SRF does apart from what you said that you have a cGMP facility with high pressure fluorination handling capabilities. The other difference that comes to mind is that your vertical focus on healthcare versus their vertical focus on agrochemical would that be right understanding?

Shekhar S. Khanolkar: At least I can talk about my focus yes, our focus is more on the healthcare and pharmaceutical segments and that is the reason that we are heavily investing into cGMP facilities.

Dhiresh Pathak: And just coming again what Piramal brings to the table apart from money is can you just explain that?

Shekhar S. Khanolkar: Piramal is fundamentally the user of this products coming out of this plant. So the JV does not have to do any market and the entire product which will get manufactured will be bought by Piramals. So for us it is a complete 100% customer ready-to-buy the material.

- Dhiresh Pathak:** Okay. So basically bring in customer relationship had yourself customer relationships you would not need Piramal because you already have the money right?
- Shekhar S. Khanolkar:** For understanding perspective this product will be used by Piramals. So it is not that JV is going to market this product or Piramal is going to market this product to outside Piramals that is not the objective of this particular JV at this point of time.
- Dhiresh Pathak:** No, but ultimately Piramal is going to do some further value add and he is not the innovator right as I understand so he is going to be.
- Shekhar S. Khanolkar:** Yes. There will be further value add but that is their forte. that is not our forte so we are not in API business, we are in the intermediate business.
- Dhiresh Pathak:** Okay. So Piramal is going to convert the intermediate business.
- Shekhar S. Khanolkar:** I do not know, as per as we are concerned we are not in API so we make intermediate whoever ask for intermediate so this particular product Piramal would take it and then they would have their further processing to do on that, which is their business.
- Dhiresh Pathak:** Right. No, because I was of the understanding sir that in innovator businesses NCE related CRAMS innovator companies do not buy API they only buy intermediate and then they make their only APIs internally.
- Shekhar S. Khanolkar:** Not necessarily, everyone has a different model in this.
- Dhiresh Pathak:** This is something which has been like may be it is a wrong understanding but has been said by many players that NCE a new molecule which innovators are launching they will not buy the API they will just buy the intermediate, second N-3, N-4 and make the API themselves. So my understanding would be that Piramal would also be not making the API they would do some value add may be from N-10 if you are supplying they will go to N-3 or 4.
- Shekhar S. Khanolkar:** We really do not have anything to share on this right now with us because that is not a scope of the JV beyond this.
- Dhiresh Pathak:** And when revenues starts flowing in from these JVs they will be reported in the CRAMS segment right?
- Shekhar S. Khanolkar:** No. This is a part of company, it is a separate company.
- Dhiresh Pathak:** In your presentation when you give revenue break up once in FY17 revenue start coming in and you do line by line consolidation in terms of segment revenue streams you will show it to investors as CRAMS revenue or Speciality Chemicals?

- Partha Roychowdhury:** CRAMS is not a segment for us. Therefore it is not going to be a part of the standalone accounts it is going to be part of the consolidated accounts. So that is how it is going to appear.
- Dhires Pathak:** And you will show it separately as revenues from this JV and revenues from Dewas?
- Partha Roychowdhury:** Yes it is under section 212 whatever needs to be disclosed will be disclosed.
- Moderator:** Thank you. We have the next follow up question from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.
- Ranjit Cirumalla:** Sir if I compare your sequential performance that is Q-on-Q first quarter versus second quarter. Thought the raw material prices were up for and CRAMS was down, you still manage to push the gross margin expansion from around 49.9% to 52.7%. I would like to know the reason behind this, is it just because of the lower contribution from the Refrigerant Gases or more from the Speciality Chemicals which remains a high margin business?
- Partha Roychowdhury:** It is a combination of both. As we are in Q2 the Refrigerant Gases export business slackens up a little bit because we are out of season. And the revenues for Speciality has ramped up. So our combination of these two factors have resulted in a higher EBITDA. There has also been a decline if you see the employee cost benefit we had a charge of 2.5 crores in the last quarter itself. That charge is not there in this quarter.
- Ranjit Cirumalla:** I am comparing only the cost of raw materials.
- Partha Roychowdhury:** Okay, as a percentage of the turnover.
- Ranjit Cirumalla:** Yes.
- Partha Roychowdhury:** So therefore what I told you just now holds for that.
- Ranjit Cirumalla:** So then it would be fair to assume that in the pecking order of profitability the CRAMS should be at the top then followed by Speciality Chemicals.
- Partha Roychowdhury:** Not necessarily all the time.
- Ranjit Cirumalla:** Okay, depending on the batches for Speciality Chemicals that would differ.
- Partha Roychowdhury:** And other products as well.
- Ranjit Cirumalla:** Sure sir. The ramp up in Speciality Chemicals is expected to continue for the second half as well.
- Partha Roychowdhury:** Yes, ramp up meaning the ramped up.

- Ranjit Cirumalla:** Yes, the 2Q numbers.
- Partha Roychowdhury:** Yes, there is not going to be any further ramp up from here, which is significant.
- Moderator:** Thank you. We have the next follow up question from the line of Rahul Bhangadia of Lucky Investments. Please go ahead.
- Rahul Bhangadia:** I just have a follow up question on the Piramal JV bit. Is there a formal kind of understanding of what kind of returns that particular JV should generate or is there a minimum number that the JV looks at, or that is still somewhere, something that has not been discussed. I am just trying to understand the return on investment in that JV that you may have envisaged.
- Partha Roychowdhury:** Can we answer this question a few quarters later. You must allow us to respect the confidentiality around these agreements. And I have given you some indication of this in earlier part of my conversation. So, I would sort of request you to stay put at that and give us a few more may be another two, three quarters and then we can probably discuss this.
- Moderator:** Thank you. We have the next follow up question from the line of Sameer Rachh from Reliance Mutual Fund. Please go ahead.
- Sameer Rachh:** This is one follow up question from my side. Most of the CAPEX will start contributing in FY17 so just wanted to understand what are the growth drivers for FY16?
- Shekhar S. Khanolkar:** See we had invested into multiproduct plant for Speciality last year and then we expanded putting another 8 crores end of last year. So those plants have now started giving the products. And those products are getting approved from the customers. So there is a growth which will come into Speciality from that business. Plus we have certain debottlenecking and certain capacities in-house maintained and plus we have some additional capacities for Inorganic Fluorides business as well. So those two businesses will definitely add in to our turnover for 2015-16. At the same time as we know the CRAMS business our current cGMP plant which will run on the full capacity next year. The current pilot cGMP plant, plus we are confident of getting revenues from the new expansion which we are doing even in the FY15-16. So these are the fundamental growth drivers for '15-16.
- Sameer Rachh:** So you have growth drivers for FY16 also.
- Shekhar S. Khanolkar:** Yes.
- Moderator:** Thank you. As there are no further questions from the participants I now hand the floor back to Mr. Shekhar Khanolkar or closing comments. Thank you and over to you sir.
- Shekhar S. Khanolkar:** So, I would like to thank all of you for joining 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,



Navin Fluorine International Limited
October 22, 2014

who are our investor relationship advisors. And thanks a lot and once again wish you a very Happy Dipawali. Thank you.

Moderator:

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