



“Navin Fluorine International Limited Q2 FY-16 Earnings Conference Call”

October 29, 2015



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Moderator: Ladies and gentlemen, good day and welcome to Navin Fluorine International Limited Q2 FY16 Earnings Conference Call. Please note this conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your Touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Shekhar Khanolkar. Thank you and over to you, sir.

Shekhar Khanolkar: Good Morning Everyone. I am also joined by our CFO, Mr. Sitendu Nagchaudhuri. I hope you have received our results and presentation. We have also uploaded the same on our website. I will give a brief business update followed by commentary on the financial results by Mr. Sitendu Nagchaudhuri.

We are very glad that our business performance has maintained the momentum we gained in the first quarter of the year. In this period, the company achieved one of the most coveted milestones - delivering an EBITDA margins of more than 20%. This has been mainly driven by a sustained performance in our refrigeration BU and specialty chemicals BU. And ongoing improvements in our CRAMS business unit.

To begin with refrigeration BU, although this quarter is not one of the best seasons for the business we have been able to grow it substantially vis-à-vis same period last year.

In fact we are almost maintained the last quarter revenue which was the best season for the business. From a longer term perspective with growing urbanization and increasing AC and refrigeration usage in addition to increasing usage of R22 as feed stock in pharmaceutical companies we believe that this BU will continue to well poised for growth. however quarter-to-quarter fluctuations due to dynamic market situation especially in the global markets cannot be ruled out.

Coming to Specialty Chemical BU, this business has also grew substantially via-a-vis the same period last year. This has been mainly on account of improved product penetration in the export market. In the first half of the year we have also introduced a few new products in our portfolio, which are generating positive responses. Here we continue to focus on investing in research and development towards building a strong product portfolio with Niche Fluorochemicals.

Coming to CRAMS business;

CRAMS business performance is in line with our expectations. However, this business is prone to have quarter-to-quarter fluctuations. the outlook seems to be positive for this BU with

good order visibility throughout Q3 and Q4. As you all know MOL, that is Manchester Organics Limited established in 1996 has a strong legacy in fluorination and high special chemistry. Our association with MOL began in 2011 when we acquired 51% equity shares. Even then the business models of both the companies were in perfect synergy. On one side MOL works directly with innovative pharma companies on milligram to multi kilo research phase. On the other side Navin Fluorine was developing its contract research and manufacturing services division with experience in multi hundred kilos to multi ton production activities.

Today MOL continues to bring access to not only global innovative pharmaceutical companies but also cutting-edge fluorination chemistries, which enhances the company's overall production capabilities to value added product portfolio of CRAMS as well as in specialty chemicals.

When we started working with the company in May 2011 it had a catalogue of around 8,000 compounds. Today the number stands at more than 40,000 compounds reiterates our trust on its capabilities. Navin has acquired a balance equity stake of 49% MOL through our 100% subsidiary NFIL UK Limited at an aggregate price of £6.3 million out of, which £5.6 million have been paid upfront and the balance will be paid in a default manner on fulfillment of certain conditions.

Over the last four years of association, MOL and the team of scientists at UK have outperformed our expectations. This acquisition we believe will enable the company to leverage the scope and scale of the combined CRAMS division thus created.

The CAPEX at Dewas is now complete and the project has been capitalized as on 30 September 2015. With the customer audits underway, we are receiving very positive response and feedback from these customers. We expect to see some positive traction by the end of the year at Dewas.

Now coming to inorganic business this business is in line with the key customer industry that is steel industry witnessing a slowdown in India. Slowdown in Chinese manufacturing driven by Aluminium and steel industry has created a lot of excess capacity in hydrochloric acid and other fluorinated products combined with devaluation of Chinese Yuan resulting in to pressure on prices in India as well as global markets for commodity products like HF, etcetera. Now this may affect our inorganic business in coming few quarters. However, our export development activities are responding positively and we expect improvements in performance over the period to come.

Our JV project at Dahej with Piramal Enterprises is moving along smoothly and we expect this project to be commercialized by H2 of FY16 as informed earlier.

That is all from my side. Now I will hand it over to Sitendu who will take you through the financial performance of the company.

Sitendu Nagchaudhuri:

Thanks Shekhar and a very warm welcome and 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 have declared an interim dividend of 100% that is Rs. 10 per equity share which is the highest ever interim dividend declared by the company.

Coming on to the financial performance for the Quarter 2. The company registered a revenue of Rs. 151 crores that is a year-on-year growth of 22% from Rs. 124 crores in the same quarter last year. EBITDA is up at Rs. 32 crores from Rs. 14 crores in the second quarter FY15, which is a growth of 129% year-on-year EBITDA margin is at 21% for the second quarter up from 11.2% in the same quarter last year that is a growth of almost 100%.

Operating PBT that is the PBT before other income grew more than three-folds to Rs. 26 crores in Q2 FY16 from Rs. 8.6 crores in the same quarter last year. Operating PBT margin is at 17.4% in the quarter 2 up from 6.9% in quarter 2 last year, which is a growth of more than 150%. Net profit for quarter 2 is at Rs. 23 crores up from Rs. 10 crores in the same quarter last year propelling a growth of 130% year-on-year.

The net profit margin is at 15.4% in the second quarter up from 8.1% in the same quarter last year. That is a growth of almost 90%.

Moving on to the financial performance during the first half of the financial year. The company has registered a revenue of Rs. 301 crores that is a year-on-year growth of 19% from Rs. 254 crores in the same quarter last year. This growth in topline is principally driven by strong traction in the refrigerant, specialty Fluorochemicals and the CRAMS business units. Refrigerant and gases business units maintain its momentum growing from Rs. 90 crores in the topline in H1 of the previous year to Rs. 113 crores of the current H1 in the current financial year a growth of 25% year-on-year.

This BU has contributed around 38% of the overall sales of the company of which exports contributes roughly around 42%. The specialty fluorochemicals business grew substantially from Rs. 99 crores in H1 of the previous year to Rs. 121 crores in the H1 FY16, which is a growth of 22% year-on-year. The specialty chemicals BU contributes around 40% of the overall sales of which the contribution of exports stands at 53%.

During the first half of the year the CRAMS business unit clocked a revenue of Rs. 20 crores which is a growth of 88% year-on-year albeit on a smaller base. The growth across these BUs have been marginally offset by a fall in the inorganic fluorides business units. Inorganic

fluorides business units contributed Rs. 46 crores in the topline, which is 15% of the overall sales. The growing acceptance of our products in the overseas market is partially mitigating the weak domestic demand especially mean for our sector. Exports contributed around 11% of this BU sales.

Profitability has improved mainly on account of operating leverage settling in which can be evident in the overheads like manpower cost and other expenses reducing as a percentage of the total sales.

EBITDA during the first half-current financial year is at Rs. 57 crores, which is a growth of 119% year-on-year from Rs. 26 crores. EBITDA margin is at 19% from 10.3% in the first half of FY15, which is a growth of 85% year-on-year. Operating PBT for the first half is at Rs. 47 crores, which is a growth of 189% year-on-year from Rs. 16 crores in the same period last year.

Operating PBT margin is at 15.6% from 6.4% in the first half of last year clocking a growth of more than 100% year-on-year. Profit after tax more than doubled in the H1 FY16 to Rs. 41 crores up from Rs. 19 crores in the first half of last Fiscal. PAT margin during the first half is at 13.7% from 7.3% in the same period last year, which is a growth of about 123% year-on-year.

That is all from our side and now we can open the floor for questions and answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session.

The first question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla: My first question is on the refrigerant business. If you see the first half and deduct the quarter 1Q performance there is a strong growth of around 45%. Can you share some color on the volume and the price lead growth in this segment?

Shekhar Khanolkar: Yes, basically there was a growth in both volume as well as price for this quarter. We could get some price increases in the market in domestic as well as export markets, and there were large volumes. Also we could get higher volumes in the export market for the second quarter and that has resulted into increase in the overall contribution of refrigerant gas business and the overall performance of the business.

Ranjit Cirumalla: So if I recollect in the 1Q we did share that the price lead growth was around 15 odd percent. So it would be the same in the 2Q or it would be more than that?

Shekhar Khanolkar: Sorry?

Ranjit Cirumalla: During the 1Q Con Call we did share that the price lead growth of the realization for refrigerant was around 15 odd percent. So would that be the same thing in the 2Q?

- Sitendu Nagchaudhuri:** The pricing trend of the refrigerant BU by and large follows a consistent pattern in Q2 versus Q1. We have not really seen much significant change.
- Ranjit Cirumalla:** And my final question on the refrigerant business side is that we know that there is a mandatory cut imposed to around 10 odd percent on a calendar year basis. So I just wanted to understand how we are showing the volume growth?
- Sitendu Nagchaudhuri:** No, this is within the limits what are available to us.
- Ranjit Cirumalla:** Okay, so in that case I would like to understand that the production cut to what we believe is around 2008, 2009 level. So our FY15 volumes would have been lower than those levels that is why we are showing such a huge growth?
- Sitendu Nagchaudhuri:** A couple of points we have to keep in mind over here is the restriction on the problem reduction is to the extent of the emissive usage part of the refrigerant gas segment. It does not apply to the non-emissive part of the segment of the gas usage. Number 2 is basically, there is a reinforced focus on exploring the export markets for refrigerant gas, which hitherto was not much in FY14-15. So if all ends up there could still be volume growth in the BU as a combination of both these factors.
- Moderator:** Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.
- Sudarshan Padmanabhan:** Sir, what I want to understand here is if I am going through the numbers, while I agree that there is a part of operating leverage that has played, but there is a good 540 bps improvement in your gross margins. And if I am looking at even sequentially, there is the Rs. 150 crores or Rs. 151 crores, your top line sequentially is not substantially higher. But if I am looking at most of the benefits on a sequential basis is primarily driven from the raw material cost coming down. So the two parts of it. Number one, how sustainable is it and what was it driven by. Was it product mix or any specific thing?
- Shekhar Khanolkar:** See basically it is a mix of both, one is of course the raw materials have helped us. Second thing is, there is a product mix, which has some change in specialty business that has shown considerable improvement especially to the export segment of specialties. So these are the things which have added into the overall business performance for this quarter. Now the question on sustainability, basically as you know, our entire segment is coming from four different parts like refrigeration gases, inorganic fluoride, CRAMS and specialty which has own market dynamics. And that changes from quarter to quarter. From that basis, our target has been which we have been talking about is to reaching about 20% EBITDA margins, which we have reached this time. But it will take some more quarters to go by which would have little more understanding in terms of how we can sustain these margin levels on a longer term basis. So the combination which is coming out, which is playing now within specialty business, within CRAMS business as well as in refrigeration will going forward will determine

the sustainability on a long term basis. But we believe that we have reached to a level where we understand the dynamics in a far better way now. especially with the CRAMS and specialities business have started performing to our expectations.

Sudarshan Padmanabhan: Sir second thing on your CRAMS business. I think we have shown a good improvement on a half-yearly basis, but on a QoQ it is a bit muted. If you can kind of give us a route map as to how we expect this business to kind of pan out over the next two to three year given your visibility of this?

Shekhar Khanolkar: Yes, as we have been talking about our expected growth in CRAMS business. our CAPEX of Dewas had just completed in September that would give us a large capacity for us to grow this business in next couple of years. We have been having very good traction with the customers in last two years at a smaller scale of operations through our current pilot plant but now some of these customers are coming back to audit our larger plant and we already had some successful audits done. Now with this, we expect the CRAMS business to grow substantially large, and we have been talking about around Rs. 80 crores to Rs. 100 crores of first year business out of the overall facilities from Dewas and we are still on to that expectation levels.

Sudarshan Padmanabhan: The last question from my side. We have acquired the additional stake in Manchester Organics. Now I just want to understand how this is, what has changed over the last two years at Manchester and how do you plan to leverage on the capabilities being built in Manchester to your business?

Shekhar Khanolkar: As I said when we acquired Manchester four years back, they had a catalogue of about 8000 chemicals; today their catalogue has grown to 40,000 chemicals. There are lot many new chemistries and new products have been added into the portfolio, which we have been giving to many innovative pharma companies. And as this model works, it takes a few years to get those products established or those products approved by this innovative pharma companies. Today some of the molecules which we are offering to the customers at a scale of say 100 Kgs to 500 Kgs levels, have been given to those customers probably may be 3 years, 5 years back by Manchester Organics. So that is the way the growth pans out over a period of time. So another important aspect at Manchester is that in last four years we have been adding some additional capabilities in Manchester and now the Manchester Organics business and Navin Fluorine's CRAMS business, they have been working in a very integrated fashion and a lot of new activities in terms of product management, in terms of project management, in terms of new business development initiatives have been now taken in last couple of years. So this acquisition or the completion of this acquisition I would say would add further momentum to this activity.

Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

- Rahul Bhangadia:** I am sorry I got disconnected in the meanwhile so maybe one or two questions might be a repeat, but have you spoken sir on the chloroform and the sulphur prices that you had in Q2 vis-à-vis Q1 in last year?
- Shekhar Khanolkar:** No, so what is your question?
- Rahul Bhangadia:** The question is whether they are at the same elevated levels that they were in Q1 and have, they softened any bit or have they gone up any bit?
- Shekhar Khanolkar:** Chloroform is softening over Q1 and Sulphur is almost at the same level I would say though Sulphur has also come down a little bit, but Sulphur is almost at the same level.
- Sitendu Nagchaudhuri:** Marginally.
- Shekhar Khanolkar:** Marginally but chloroform is softening.
- Rahul Bhangadia:** So chloroform over the last one year had doubled in prices. How much would it have softened by now?
- Shekhar Khanolkar:** It is actually, it is coming down gradually it is not really lowering of chloroform pricing is not seen as of now. So I would say at this point of time the trend is the pricing is coming down.
- Sitendu Nagchaudhuri:** Although it is not a steep correction, it is a gradual softening.
- Rahul Bhangadia:** And sir, my second question would be you had mentioned that in the earlier call that this year the CRAMS' turnover you would at least double last year's this thing, so that would be of the order of Rs. 65 crores to Rs. 70 crores given the first half performance and what you have seen in the first month of the third quarter. Would you still stand by that?
- Sitendu Nagchaudhuri:** I think you missed this answer when Shekhar.
- Rahul Bhangadia:** Yes, that is why, I am sorry about that.
- Sitendu Nagchaudhuri:** Just for your ready reference. What we alluded a while back is the cGMP2 has just been commissioned and the customer audits are under way. In fact a few customer audits just been completed successfully. So what we actually hope is that with this facility which is a reinforced capability of going up to a few tons of production capability post streamlining of the cGMP2 in about a year from that streamlining, we expect probably an Rs. 80 crores to Rs. 100 crores kind of a sort of turnover. So if you are talking about the current Fiscal, which is 15-16 and already the pilot plant at the core facility has done about 20 in the first half. So if you talk about an all ends up annual expectation of 55 to 60, as of now it looks probably attainable.
- Moderator:** Thank you. The next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

- Tejas Sheth:** Sir, just wanted to check on has INR depreciation played any role in the higher realizations for your business in this quarter.
- Sitendu Nagchaudhuri:** Not really significantly because as far our hedging policy basically we have an equitable coverage in both sides. So basically on the export fronts from those tailwind but on the import front there was a bit of a hedge because of the softening rupee. So all ends up it is not significant in the overall performance.
- Tejas Sheth:** Okay so the view on the higher realizations in refrigerant would be sustainable.
- Shekhar Khanolkar:** Yes, especially in the domestic market but there is a price, as I said in my earlier communication there is a lot of dynamics in the export market which is currently happening because of the Chinese situation. So we really do not know where the prices will head in Q3 as well as in Q4.
- Tejas Sheth:** Sir, on the refrigerant side, what will be our utilization rate in this quarter with the volume increase which we have seen?
- Shekhar Khanolkar:** It is almost in a similar way, there is nothing significantly different than what we have been experiencing last couple of quarters.
- Tejas Sheth:** And sir, how has been the performance of Manchester Organics in H1?
- Shekhar Khanolkar:** Manchester Organics, performance wise, they are good, they are growing. And the performance of Manchester Organics will also see in relation to the performance of our CRAMS business at Dewas. So that is the way because the Manchester Organics capabilities we leverage to get the products out of our Dewas facilities.
- Tejas Sheth:** And sir just last one bookkeeping question. This quarter the tax rate is pretty high I mean it is at 34%. So how do we see the tax rate for the whole year?
- Shekhar Khanolkar:** Tax rate, unless someone changes, we cannot change.
- Sitendu Nagchaudhuri:** Just to be a dynamic kind of a thing at any point in time basically.
- Tejas Sheth:** I am sorry, I did not get it.
- Shekhar Khanolkar:** No, it is a existing tax rate.
- Tejas Sheth:** No because last few quarters we have never been above 30%.
- Sitendu Nagchaudhuri:** So there are factors which come into play when you finalize the tax absorption which comes in because there are a number of factors, depreciation and other things and stuff like that so it is

very dynamic and you cannot have a line in the sand and say that this will be a constant effective tax rate for the company going forward.

Tejas Sheth: Okay, so it will be above 30% for this year?

Sitendu Nagchaudhuri: Yes it would be more or less tracking around that zone.

Moderator: Thank you. The next question is from the line of Devang Mehta from Canara Robeco. Please go ahead.

Devang Mehta: Just wanted to understand slightly a bit repetitive but trying to understand on the gross margin, we have seen almost 540 bps improvement. And can you quantify in what could be the raw material benefit and what could be the benefit from the product mix or pricing?

Sitendu Nagchaudhuri: I think basically the way to look at it would be as Mr. Khanolkar alluded a while ago that it depends on a number of factors, it depends on the mix amongst within the portfolios of our contribution mix between various BU segments. So as we sort of move on through the current Fiscal we see that there is a reinforced focus in terms of the BUs like the specialty fluorochemicals and CRAMS whose contribution is gradually going up the plate, which actually helps to improve the contribution margin on the portfolio as a whole because they are intrinsically higher value addition BUs as opposed to the traditional bricks and mortar BUs like ref gas or an inorganic fluorides BU. So it is not a play from all various factors, it has got a play between the pricing and the mix and the markets we play on.

Devang Mehta: One question on the refrigerant segment. As the pricing is strong, if you can quantify out of the total sales first half what would be the non-refrigerant means non-cooling segment part out of this?

Shekhar Khanolkar: Typically on a yearly basis it is around 20% to 25%. So I do not have right now the quarterly number but it is typically around 20% to 25%.

Devang Mehta: And is it so that the 10% deduction that we have taken in the refrigerant we can frontload it in the first half of the year, right?

Shekhar Khanolkar: Yes, that option is you see it is a January to December year.

Devang Mehta: Correct.

Shekhar Khanolkar: So that option is available.

Devang Mehta: Okay, so just wanted to understand is that also playing a part in the higher margins?

Shekhar Khanolkar: Not necessarily because it has nothing to do with the margins, it is basically the allocation of volumes which one can have between four quarters of calendar year. So it is also depend upon

the market dynamics. It cannot depending up on your own planning of how you want to sell the product which is more of a market dynamics.

Devang Mehta: And one last thing the refrigerant, the same the number that you have mentioned in the presentation on the domestic and exports break up, can I get it for H1 FY15 the breakup of refrigerants for domestic and exports?

Sitendu Nagchaudhuri: If you refer back to earlier presentations in the website you will get that.

Moderator: Thank you. The next question is from the line of Akash Manghani from Bank of India AXA Mutual Fund. Please go ahead.

Akash Manghani: Just follow-on on what the earlier participant asked. You mentioned the movement in the gross margin was as the result of the RM benefit and the product mix. Now if I look at H1 versus H1, your specialty chemical and CRAMS together last year was 43% of turnover, this year it is 47. So 3% movement over there. Now I would like to understand these two businesses if you can give me some sense of how much higher is the margin or broadly what is the gross margin that you earn in these two businesses? Because it seems that lot of the benefit would have been RM linked because the movement in contribution is not a great deal?

Sitendu Nagchaudhuri: Actually we do not get into BU wise specific discussions on contribution margins, gross margin stuff. But to help you understand the picture better, if I may say that if you look at the value pyramid of all the business segments in which we operate, at the top of the pyramid is CRAMS because that is where the highest degree of value addition happens because it is the service, it is a combination. The offer, is not a product, it is a combination of a very specialized degree of R&D capability and the product. So therefore it is the highest value generator in terms of at the margin level followed by the specialty fluorochemicals. So more and more traction happens in these two particular segments which helps to improve the overall contribution margin as well as the contribution margin percentage for the company as a whole.

Akash Manghani: Also you already mentioned that with regards to the margin you are looking at a longer term margin of 20 odd percent. Now I understand your product mix changes every quarter, but if I look around annual basis say FY17, FY18, assuming raw material prices remains stable, this sort of gross margin is sustainable? I do not know what is happening with end material prices with refrigerant, I mean it looks like you cannot take a call on pricing, but what is your sense of where gross margins can be throughout the year in FY17?

Shekhar Khanolkar: As I said earlier, this is the number, which we would like to hit in on regular basis. So all businesses are really working towards that and that is the fundamental reason for lot of product mix changes which are happening right now and conversion of R&D products into the commercial scale. It will take some time to bring in that sustainability into these margins. So as I said in my initial comments, it will take a couple of quarters more for us to confidently say that these margins will be at these levels for years to come. So we will have to give it some

time to really reach to that level and talk to you with that kind of confidence. But all the indications in terms of where the business is growing, and the developments which are happening in various businesses, we are sure to reach to this level sooner.

Moderator: Thank you so much. The next question is from the line of Dipen Sheth from HDFC Securities. Please go ahead.

Dipen Sheth: I just had two quick queries. One, I remember somebody spoke about chloroform prices and your remark that they continue to be high, but are probably coming off now. So just to get a sense and I am not asking for exact information, but there is about Rs. 63 crores of raw material cost on Rs. 150 odd crores of revenue here. So out of that Rs. 63 crores, is chloroform like Rs. 5 crores or Rs. 6 crores or is it like Rs. 20 crores, Rs. 30 crores? Where does chloroform figure in our raw material cost mix?

Shekhar Khanolkar: See chloroform, fluorspar, Sulphur and boric acid if I take these four key raw materials, these four key materials take care of more than 80%, 85% of our overall raw material consumption.

Dipen Sheth: And chloroform itself would be a fairly high part of that 80%, 85%?

Shekhar Khanolkar: It will be a significant part of this overall.

Dipen Sheth: So let us say maybe 30%, 40% out of that 80% could be chloroform, I am not asking for an exact number, because the reason I am asking this is that if it is that important what does it take for you to kind of manufacture chloroform, is that something you have thought about?

Shekhar Khanolkar: No, we are not backward integrating into chloroform manufacturing.

Dipen Sheth: You have no intent of doing so?

Shekhar Khanolkar: No intentions to get into that.

Dipen Sheth: Also one second question that I would have is that since you have acquired the residual stake in Manchester for I think about Rs. 60 odd crores, right if I remember right £6 odd million. So I would expect on your standalone balance sheet non-current investments to go up by Rs. 60 odd crores, but they have gone up by just about what Rs. 21 crores, Rs. 22 crores? How is that?

Sitendu Nagchaudhuri: The infusion which has happened currently for the balance acquisition is about 5.6 million GBP so it is about roughly Rs. 56 crores of which essentially Rs. 26 crores thereabout has been actually on own internal accruals and the balance has actually been a term loan which has been taken by NFIL UK Limited from one of the international banks. So basically if you look at the movement of Rs. 22 crores the principal component of that movement is a Rs. 26 crores movement and as marginally offset by other movements.

- Dipen Seth:** So only that has reflected in the standalone balance sheet? Between March and September I can see that non-current investments have gone from Rs. 179 crores to Rs. 201 crores?
- Sitendu Nagchaudhuri:** So that was the Rs. 23 crores, we are doing currently infusion and some other marginal changes.
- Dipen Seth:** And then a step down subsidiary has invested the remaining amount, so it obviously would not figure in standalone?
- Sitendu Nagchaudhuri:** Exactly.
- Moderator:** Thank you. The next question is from the line of Shlok Dave from Seraphic Capital. Please go ahead.
- Shlok Dave:** Sir, I missed a couple of numbers that you gave which was in H1 what was the growth in the refrigerant section and what was the de-growth in inorganic BU?
- Shekhar Khanolkar:** You are asking H1 growth in refrigerant?
- Shlok Dave:** You gave four numbers I believe, I got two of them specialty chemicals was 22%, CRAMS was 88%. You have mentioned that inorganic fluorides de-grew but I think I missed that number and the refrigerant division how much it grew by?
- Shekhar Khanolkar:** So H1 to H1 refrigerant grew by about 25% and inorganic actually there is a de-growth of about 13%.
- Shlok Dave:** Sir, we have been talking about these increases in chloroform pricing and R22 prices, this has been a trend for the last 2, 3 quarters now. So I was just wondering what is the reason for the hike, because I mean if there is more value addition, the mix is improving and you are getting more value for the product, then it is okay. I kind of figured it out. But chloroform is a fairly generic organic chemical right, so I do not really understand why the prices have doubled. What is the driving force here?
- Shekhar Khanolkar:** For chloroform?
- Shlok Dave:** Yes for all the products where the prices are doubling. I mean it is very surprising that only this segment considering what has happened to crude. I guess somehow it is linked to crude somewhere it may not linked to crude. But I just do not get the reason why what is the driving force here?
- Shekhar Khanolkar:** Yes, we also tried to find this reason from our suppliers. But fundamentally the only thing what we can see is the supply demand scenario for chloroform and chloroform also is a co-product run with other products like MDC where the dynamics of MDC within Indian market is also little different with anti-dumping duties and other things. So overall chloroform, there

are large European and US based manufacturers, and if there is any stoppage of any plant or any shutdowns then that affects the chloroform markets. So really that is what we understand.

Shlok Dave: Sir, you mentioned that CRAMS you have a very clear pipeline for Q3 and Q4. And you have mentioned that the current facility should be able to do Rs. 55 crores to Rs. 60 crores. Am I right in that and the only question on the CRAM side is, that what is the nature of the audits that you are taking? You mentioned that earlier you were doing only pilot scale but do you expect straightaway you will start getting kilogram scale orders or will it be you will be starting significantly smaller than that?

Shekhar Khanolkar: No in the pilot line facility we get kilogram orders. In a large facility we expect to get larger multi hundred kilogram orders. And this audits basically audits from this pharma company who come in for auditing the facilities in terms of its capabilities and in terms of the GMP, environment and the documentation which is required for that particular activity.

Moderator: Thank you. The next question is from the line of Veena Patel from iWealth Management. Please go ahead.

Veena Patel: Sir my questions were pertaining to the specialty chemical BU. So you just mentioned in your opening remarks that you have launched few new products. So can we just get the number of the products that you have launched?

Shekhar Khanolkar: We have launched about three products in last six months.

Veena Patel: The existing basket was around 15 and after the commissioning of the multipurpose plant last year so we had other additional about 10 products that we had launched. So the total number now stands to be around 28?

Shekhar Khanolkar: No, it is very difficult to give those exact numbers because the multipurpose plant came in 2010. We are in 2015 now so there are lot of products have come and lot of products get changed, so that continuously goes on happening.

Veena Patel: Okay sir currently how much would be the number of the molecules in your product basket?

Shekhar Khanolkar: We may be having around 40 to 45 molecules, a part of the list you can also see on our website.

Veena Patel: And sir what would be the utilization levels in this particular segment?

Shekhar Khanolkar: In specialities, we have multiple plants so it is very difficult to give a specific utilization because we have a multiple NPP, which is one plant, which brings in about 10 to 15 products. Then we have independent plants as well. So it is very difficult to give any capacity utilization of the specialty but we have as I have been saying in the previous telecon also we have sufficient capacity for our growth aspirations.

- Veena Patel:** And sir, you just mentioned about the exports faring well for the speciality chemical division. So which geographies have been promising for specialty chemicals?
- Shekhar Khanolkar:** We export to US, Europe and other Asian countries as well.
- Veena Patel:** Okay the growth traction is coming mainly from the US and European markets?
- Shekhar Khanolkar:** All three markets.
- Veena Patel:** And sir, one last question on the raw material prices, because the previous participants have asked about the chloroform and Sulphur prices but what is the pricing with regard to fluorspar?
- Shekhar Khanolkar:** Fluorspar pricing has been pretty stable during this year.
- Veena Patel:** As compared to first half FY 15?
- Shekhar Khanolkar:** Last year, Yes.
- Veena Patel:** They have been pretty stable?
- Shekhar Khanolkar:** Yes.
- Moderator:** Thank you. The next question is from the line of Abhijeet Akella from IIFL. Please go ahead.
- Abhijeet Akela:** Actually just follow up on the raw material part, just one quick one. You have mentioned that there will be four raw materials which contribute 80%, 85% of the total. If you could give some rough breakdown of that, that would be really helpful?
- Shekhar Khanolkar:** Sulphur, fluorspar, and chloroform and boric acid as I said these are the four products. So which constitute about 80%. Now specific breakdown also changes with the product mix, so it is very difficult to give a specific breakdown of that. But it is good to tell you that Sulphur and fluorspar are the basic raw materials for us to make hydrochloric acid and that is the key starting material for all other products. So Sulphur and fluorspar constitute a larger percentage of the overall basket of raw materials.
- Abhijeet Akela:** And from what I understood from your previous remarks, basically chloroform is the one which has declined significantly this year, whereas the others have been largely stable?
- Sitendu Nagchaudhuri:** Well, it is not really significantly declined, it is a gradual decline, It is not a steep correction.
- Abhijeet Akela:** And in which division impact of this chloroform price decline have been experienced the most?
- Sitendu Nagchaudhuri:** Effusion gas.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, a bit on the gross margin side from the comments that so far I have heard and I am just trying to correlate with what has happened between Q1 and Q2. Between Q1 and Q2 there is not a change in the refrigerant price, there is some drop in chloroform with all the other material prices remaining the same. At the company level there is not much change in the product mix. So is it fair to assume that lot of the gross margin expansion is to do with the product mix within the specialty and the CRAM side?

Shekhar Khanolkar: Yes.

Pritesh Chheda: And if incrementally wherever specialty and CRAMS will build-on on revenues as we are moving forward because the Dewas facility would commence operation. Is it fair to assume that the margin trajectory should add not considering everything else is unchanged?

Shekhar Khanolkar: We have to also see there are some production specialty business are seasonal products. So you have to also give you know some kind of a margin for that particular activity also. And that is why I just said that the sustainability of these large margins will take some quarters to get established. And you will have to show some patience until then. But all the signs in terms of where the business is leading we expect that it will happen as soon as possible.

Sitendu Nagchaudhuri: And will we keep on focusing really the reinforced focus on these two segments the specialty and CRAMS. But we should not lose over the fact that the other traditional BUs like the refrigeration gas or the inorganic fluoride, it is subject to lot of vagaries in the market place in terms of business dynamics, quarter-on-quarter fluctuations, headwinds coming in terms of the Chinese devaluation, the competition in the export sectors which actually could be a potential challenge to even sustain the margin in those segments. So therefore, we are talking about a portfolio basis, as Mr. Khanolkar alluded a while back. So we need to actually have at least a few more quarters pass by, before we can have some reasonable assurance on sustainability of these margins.

Pritesh Chheda: On the Dewas side of the facility where the asset turnover probability is about 3x of the capital that we have invested and we are looking forward to about Rs. 100 odd crores in first 12 months of revenue, At least there you must be knowing the product line which are supposed to now go through the commercial stage and having some fair bit of guess on the margin profile. So considering that is it fair to assume that FY17, which is obviously the year where you see the full benefits of Dewas also playing out, and everything else remaining constant the margin which we have reported in this quarter is more sustainable for FY17 as a whole actually?

Shekhar Khanolkar: There are too many assumptions in your question. So it is very difficult to really come out with any answer to this question. But as I said, the CRAMS business we feel that we can see really a green shoots in this CRAMS business. We can also have some more visibility in terms of

what can come up in this year and what can come up next year. But as these are all new products, these are different products in terms of margins, in terms of when these products would get materialized we have to live quarter-to-quarter on those kind of products. So, it is very difficult for me to really put those into a number.

Pritesh Chheda: Okay, whatever products on the Dewas site which are coming in, are those high margin products or?

Shekhar Khanolkar: Overall CRAMS business we expect to be a better margins than our existing other businesses. So that will fall into that category.

Pritesh Chheda: And my last question any updates on Dahej, the JV with Piramal?

Shekhar Khanolkar: Yes, as I said in my opening remarks Dahej. JV activities are going on as per the schedule and we hope to complete our CAPEX by H2 of this financial year.

Pritesh Chheda: Okay so the commercial production will start in FY17?

Shekhar Khanolkar: Yes.

Pritesh Chheda: And will it be 100% utilized in year 1 of operations?

Shekhar Khanolkar: Cannot be said right now because it requires stabilization of the product, it requires approval of customer. So there is a process which is there, so to that extent it will take some time to really reach to that 100% level.

Pritesh Chheda: And what is the peak revenue potential on the current CAPEX in Dahej?

Shekhar Khanolkar: It is about asset turnover of about one.

Pritesh Chheda: One time?

Shekhar Khanolkar: Yes.

Moderator: Thank you. The next question is from the line of Pawan Kumar from Unify Capital. Please go ahead.

Pawan Kumar: In the CRAMS segment how many clients and how many different projects are you currently working with?

Shekhar Khanolkar: We have multiple number of clients and the number of clients go on adding as our efforts in the marketplace are now increasing and more focused. So I would say between 30 to 50 clients and more than the clients, a few clients have multiple projects as well.

- Pawan Kumar:** So it is 13 to 15 clients?
- Shekhar Khanolkar:** 30 to 50.
- Pawan Kumar:** 30 to 50 clients and multiple projects for the same client as well?
- Shekhar Khanolkar:** Some of them.
- Pawan Kumar:** So there would not be no any reliance on any particular client, would there be any concentration on a particular group of clients?
- Shekhar Khanolkar:** Nothing specific because as I said this business is in a very nascent stage right now. So there are various large number of clients. Large number of clients are trying to test our capabilities and once they are encouraged they are adding more products to their list. So as of now we are not really dependent on any single client.
- Pawan Kumar:** So this could be even bigger companies as well as small and medium size biotech companies, I mean pharma companies?
- Shekhar Khanolkar:** The entire all sorts of combinations are there in this.
- Pawan Kumar:** All combinations?
- Shekhar Khanolkar:** Yes.
- Pawan Kumar:** And second question is on the see in Q1 we had reported 17% EBITDA margin, in Q2 we have done 21%. So is that a band we can work on, if we take on a quarterly basis or it could even go out of this band 17 to 21%?
- Shekhar Khanolkar:** It is too difficult right now to talk about that but I think for the sake of simplicity you can take it as a band. I can say only that because it is very difficult for me to give any specific numbers to this, but you can consider this as a band.
- Pawan Kumar:** So H2 will it continue to be seasonally better like other years?
- Sitendu Nagchaudhuri:** No there is no one size fits all seasonality for all the four BUs, it varies from BU-to-BU. So the seasonality of ref gas segment will in fact certain segments may not have any seasonality at all in the first place like the CRAM segment.
- Dheeresh Pathak:** I want to know the size of the R22 domestic market?
- Shekhar Khanolkar:** The domestic market of R22 is around 10,000 to 12,000 tons.
- Dheeresh Pathak:** Okay how much of that is replacement and how much is new equipment?

- Shekhar Khanolkar:** It is very difficult to answer.
- Dheeresh Pathak:** Ballpark numbers would do?
- Shekhar Khanolkar:** Replacement and?
- Dheeresh Pathak:** New equipment?
- Shekhar Khanolkar:** New equipment; replacement will be a larger segment than new equipment.
- Dheeresh Pathak:** Let us say 80% would be replacement?
- Shekhar Khanolkar:** No maybe 70:30 or something. So it is very difficult to say.
- Dheeresh Pathak:** What is your capacity of R22?
- Shekhar Khanolkar:** About 10,000 tons.
- Dheeresh Pathak:** What is your utilization last year?
- Shekhar Khanolkar:** It is not a question of our capacities, it is a question of the limits of production, which are available for production. So we have enough capacities to take care of the limits which are available for production.
- Dheeresh Pathak:** Okay so would it be fair to say that you have like if you are supplying 50% domestic then you have like what 50% of the domestic market?
- Shekhar Khanolkar:** Yes 3, 4 sorry?
- Dheeresh Pathak:** You are supplying 50% domestic right, 10,000 if you are fully utilized then you are supplying 5,000 to domestic?
- Shekhar Khanolkar:** No, but I am not saying it is fully utilized or not. So I think this calculation would not work. There are four suppliers in domestic market,
- Dheeresh Pathak:** Yes I want to know your utilization, sir?
- Shekhar Khanolkar:** Yes as I said I already answered this question, that we have a total capacity of 10,000 tons and the utilization has nothing to do with the capacity because the quota or in terms of the available limits in terms of production those productions are far lower than the capacity. So the capacity utilization has no specific significance.
- Moderator:** Thank you. As there are no response from the current participant ladies and gentlemen. I would now like to hand the floor over to the management for closing comments.

Shekhar Khanolkar: So I would like to thank all of you for joining on this call. I hope we have been able to respond to your queries adequately. For any further information, I request you to get in touch with SGA, our investment relationship advisors. Thank you.

Moderator: 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.