"Navin Fluorine International Limited H1 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Navin Fluorine International Limited H1 FY2019 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 participant 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 now hand the conference over to Mr. Vishad Mafatlal, Executive Chairman of Navin Fluorine International Limited. Thank you and over to you Sir!

Vishad Mafatlal: Good morning and a warm welcome to all the participants. I am joined by our CFO, Mr. Ketan Sablok and Strategic Growth Advisors our investor relation advisors.

Before I get started on the brief on the performance of H1 FY2019, I would like to inform you all that the board has appointed Mr. Radhesh Welling as our new Managing Director of the Company, he will be joining us from December 11, 2018. Just to give you a brief background about him, he is a mechanical engineer and has done his MBA from IMD Lausanne, Switzerland. He is 46 years old and has a total work experience of 22 years with multiple organizations in India as well as global MNCs. He has been associated with our company earlier between 2013 and 2015 as President Marketing and Corporate strategy and is very familiar with Navin, its people, systems and culture. We look forward to his contribution in the future growth of Navin.

Now I will share with you updates on the operational and financial performance of H1 FY2019. I hope you got a chance to go through our financial results and presentation that is uploaded on the stock exchange as well as on our Company website.

I am pleased to inform you all that the Board of Directors had declared an interim dividend of Rs.3.8 per share of 190% of face value. This is in line with the company's philosophy to reward our shareholders.

I will start with the key highlights for the quarter and half year followed by business segment wise updates, Then Ketan will run down you all, the financial highlights of Q2 and H1 FY2019.

We reported record half yearly revenue with both our legacy and value addition businesses growing at 27% and 18% respectively. The CRAMS business performance is excluding Dahej operations from the financial. All the businesses have seen good performance growth for the first half year of FY2019 compared to the same period last year except CRAMS. As we have always mentioned in our earlier discussions with you that CRAMS is a lumpy business and you should not evaluate the performance of the business on a quarterly basis. As you are aware we have a very positive outlook on the CRAMS business. In line with our internal expectations on the growth of this business, we had announced Rs.115 Crores capex, which is progressing very well.

Coming to Q2 performance, we reported strong growth on revenue front. Revenue for Q2 FY2019 increased by 22% on year-on-year basis to Rs.242 Crores compared to Q2 FY2018 indicating higher capacity utilization. As you can see all the business units have contributed towards this growth.

Now coming to our operating performance, despite strong growth in the revenue, our operating performance was impacted due to hardening of raw material prices and the depreciation of the rupee. We have seen the prices of our key raw materials increasing by more than 30% to 40% putting pressure on our gross margins. This we have witnessed across all business segments except in CRAMS. Generally the increase in raw material cost is passed on with a lag of quarter or so; however, the prices of raw materials saw a steep increase in a very short period. You should know that the increase in prices cannot be fully passed on, on an immediate basis as we have relationship with our customers and we have to consider that before we do so. This is therefore a gradual process, we are already in negotiation with our customers for adjusting the higher input cost and the impact for the same will be visible in the coming quarters.

A quick update on each business:

Refrigerant Gas, there was a weak demand from the OEMs in the domestic market we have therefore focused on the exports business, which has performed well due to the better demand and new customer additions.

Inorganic Fluoride, our domestic sales have improved due to better demand from steel and other industries. This business saw a phenomenal pickup in the demand; however, an increase in raw materials dented this segment the most. On the export front, we are in discussion with a few global customers and we expect further demand improvement in the export side of this business.

Specialty Chemicals, our efforts to increase share of pharmaceutical segment has started yielding results with a volume pickup in Q2 FY2019, we believe the pharmaceutical business is more stickier in nature. The export segment, which is mainly towards the agrochemical industry, has also shown improvement in terms of volume as well as pricing. We expect the growth momentum to continue.

CRAMS, in CRAMS we have done well though we do not look at it on a quarterly basis it has grown 43% sequentially. CRAMS business continues to be our clear focus in the years to come. We are continuously adding newer molecules in the pipeline along with adding newer customers and increased business with existing customers. We have building our team especially the business development team in the US. We are looking forward to building our robust pipeline of business through new customer acquisitions. Our capabilities are unique in nature and the solutions that we provide to the customers have increased our level of value addition. We have increased our performance by performing multiple steps in the value chain.

The capex in Dewas has been progressing well and is as per schedule. We should be ready for commercial trials by end of Q1 FY2020 and the plant is expected to be commissioned by June-July 2019. The plant will start contributing from the second half of next financial year. In the meantime, we are working on building up the project pipeline for the new unit. I want to point out one thing here that this is a long-term business. We have proven technology, deep customer relations, a strong balance sheet to support growth investments and an outstanding prospect for the long-term profitable growth for the CRAMS segment. We are confident that we shall return to growth in FY2020 and beyond.

Thank you. Now I would like to hand over to Ketan for financial highlights.

Ketan Sablok: Thank you Vishad. Good morning and a warm welcome to all the participants. I share the highlights of the financial performance following which we will be happy to respond to your queries.

On the revenue front excluding the Dahej operations, the revenue in Q2 FY2019 grew by 25% to Rs.241.7 Crores as compared to Rs.192.9 Crores in Q2 FY2018. For the half year FY2019 excluding Dahej operations revenue has grown by 22% to Rs.484.8 Crores as compared to Rs.395.9 Crores in H1 FY2018. Now I will briefly share the business unit wise revenue contribution and growth.

On the refrigerant gas segment, business revenue grew to Rs.63.16 Crores in Q2 FY2019 from Rs.51.34 Crores in Q2 FY2018 an increase of 23%. For the half year FY2019 revenue was Rs.141 Crores compared to Rs.123 Crores in H1 last year, year-on-year growth of 14%. The refrigerant gas contributed roughly 29% to the overall sales. The exports in this business unit was roughly 45% in H1 FY2019.

In the Inorganic Fluorides business segment, business revenue grew to Rs.50.48 Crores in Q2 FY2019 from Rs.38.49 Crores in Q2 FY2018 giving an increase of 31.2%. H1 FY2019 revenues were Rs.99 Crores compared to Rs.66 Crores in H1 last year and year-on-year growth of almost 50%. Inorganic Fluorides contributed about 20% to the overall sales the exports being about 9%.

The Specialty Chemicals business, the business grew by more than 40% in Q2 FY2019 to Rs.77.63 Crores as compared to Rs.55.19 Crores in Q2 FY2018. The growth for the first half was 46% to Rs.159 Crores as compared to Rs.109 Crores in H1 FY2018. Specialty Chemical has contributed to 33% to the overall sales for this half of which exports were roughly 41%.

Coming to the CRAMS business, the revenue excluding Dahej operations for Q2 FY2019 is Rs.50.47 Crores compared to Rs.49 Crores during previous year same quarter and it is about Rs.86 Crores in H1 FY2019 compared to Rs.99 Crores last year same period. CRAMS contributed roughly 18% to the overall sales for this half and it was entirely on the export side.

Now moving onto the operating EBITDA, our operating EBITDA for Q2 FY2019 grew by 6% from Rs.47.5 Crores to Rs.50.3 Crores in Q2 FY2019 with a margin of 21%. For the first half, the operating EBITDA grew by 11% from Rs.102.2 Crores in H1 FY2018 to Rs.113.5 Crores in H1 FY2019 with a margin of 23%.

On the operating PBT side, PBT grew by 8% from Rs.40.9 Crores in Q2 FY2018 to Rs.44.1 Crores in Q2 FY2019 with a margin of 18%. In H1 the growth has been 12% from Rs.89.5 Crores in H1 FY2018 to Rs.100.2 Crores in H1 FY2019 with a margin of 21%. That is all from my side.

Thank you. We can now open the floor for Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan P: Sir I would like to understand a bit more on the gross margin side in your commentary also you mentioned about rupee impacting negatively if I am correct we are net exporter so is it probably that in the second quarter we saw a lot more of domestic sales in your specialty chemical business compared to that of earlier and second is when you are talking about passing on the raw material cost to customer by and large how long do we actually think that we would be taking probably is it over the next two quarters or is it probably over the next two months so if you can give a little bit more colour on the framework on that?

Ketan Sablok: On the gross margin front, while the rupee has depreciated quarter-to-quarter, apart from that even the basic raw material prices have risen over the past three to four months and going by the trends, which we are seeing now, this seems to be the way forward. We are working out the best possible way to pass on this price increase to our customers, but as you are aware this is a process, which will take sometime and discussions with the customers to pass on the price increase. We are hoping this will take about a quarter to two quarters for the entire price increase to be moved onto the customers, but we must also keep in mind that parallelly the prices are also hardening so we will have to kind of work in tandem with the customer and see what best prices we can get from there.

Sudarshan P: With respect to the direction of the prices do you think probably the raw material prices has kind of peaked out or do you think that it is an incremental direction so which means that you keep passing on the raw material with a lag, but if it is directionally going to be on the upside for the next two or three quarters, which means that in every quarter it will be like a catching up in terms of lagging?

Ketan Sablok: See as of now the way we are seeing the raw material prices, the prices are still on the uptrend. The major raw materials like fluorspar, chloroform are moving on the uptrend and we will see how best we can work our way and transfer the increases to the customer.

Sudarshan P: Sir second is with respect to the mix and with respect to the cost measures as well, one is as the raw material prices goes up or any price goes up there is always excess fat of cost, which one can actually start looking attracting, the second one is if you are looking at the CRAMS business the first half was a bit more muted as you kind of alluded in the call as well, but if one is expecting the second half to be stronger on the CRAMS side is there a way where we can also try to accommodate better gross margins by changing the mix to more favourable margin businesses?

Ketan Sablok: In the second quarter, you will see the CRAMS has done better than what was it in Q1 and we have tried to change the mix and we are aiming at selling more of all the products and increase the revenue to the maximum so that the capacity utilization of the plant peaks. That is why we have seen this 25% growth, current quarter to last year, in terms of revenue. So, in the process we are working with all the four BUs to see what best we can do and how best we can keep our margins intact.

Sudarshan P: Sure Sir. Thanks a lot. I will join back the queue.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Sir just wanted to understand last year Dahej operations were accounted under which of segment?

Ketan Sablok: It was under CRAMS.

Anand Bhavnani: Sir if I see the difference between H1 FY2018 and FY2018 is Rs.47.6 Crores so if I were to subtract this number then for CRAMS revenue I get Rs.73.4 Crores for the last year, but you in the opening commentary gave us a figure of Rs.99 Crores so if you can help us reconcile the two figures?

Ketan Sablok: In the opening commentary Rs.99 Crores is excluding Dahej.

Anand Bhavnani: Rs.99 Crores is for H1 FY2018 and if I go to your presentation slide 8 the difference in revenues given with and without Dahej operations is Rs.47.6 Crores?

Ketan Sablok: Yes.

Anand Bhavnani: Rs.99 Crores plus Rs.47.6 Crores, Rs.146.6 Crores is the sum that I should be getting if I go to your previous presentations and add up the Q1 FY2018 and Q2 FY2018, but the sum is 121, so I get two different numbers if I try to triangulate that is one query when we can take it offline?

Ketan Sablok: Yes.

Anand Bhavnani: Secondly Sir if I were to see we had inventory of 88 days at the end of FY2018 and in H1 FY2019 we have 73 days so we have sufficient inventory and given that we have this inventory the fall in margins are surprising so if you can help us understand the inventory could not question us against the impact whether inventory is limited to certain products or if you can give some colour on that front?

Ketan Sablok: See the inventories we tried to maintain between 60 to 90 days as an average, so the contracts of certain key raw materials are for a longer period, it is just that the supplies we plan out in such a way that there is not much of working capital blockage, the prices are kind of a little more long term though the receipt of material is much more planned out based on our requirements.

Anand Bhavnani: Sir how much ballpark for revenues would be fixed price for contracts where the pass on is not immediate vis-à-vis flexible contracts were passed on is within let us say 15 to 20 days a month period?

Ketan Sablok: We would not like to get into that because it is a complete mix of different Bus, different products and different customers so that is the number I do not really have now.

Anand Bhavnani: If I go to the Q1 concall we had discussed that fluorspar price up by 20% and we have still been able to take the increase to compensate for these prices and if I go to the specific incidents, there are four incidences on which various participants asked about whether there were any one or whether there is pass through happening and we were assured that margins will be sustainable at the Q1 level. Now the sharp fall has happened, so is it that the company could not get the price hikes it was expecting or is there some one-off cost that has come in, in the raw material if you can comment on it?

Ketan Sablok: The raw material prices, as I have already alluded, have been on a continuous uptrend. The prices of fluorspar have continued to rise almost another 22% to 25% quarter-to-quarter, so we are in the process of seeing how best we can pass on. Prices have gone up in the specialty as well as in the inorganic business segment. With the raw material prices moving up the lag is still there and we hope that in the coming quarters we will be able to pass on as much as we can to the customers.

Anand Bhavnani: The inventory of 88 days did not support us in anyway cushion against the lag?

Ketan Sablok: Not quite, because it was a mix of lot of inventories and not just fluorspar.

Anand Bhavnani: Fluorspar ballpark is 50% up since the end of FY2018?

Ketan Sablok: Yes.

Anand Bhavnani: I will come back in the queue for additional questions. Thank you.

Moderator: Thank you. The next question is from the line of Karthikeyan VK from Suyash Advisors. Please go ahead.

Karthikeyan VK: Just continuing on the same question could you breakup the revenues in two parts where the pricing is entirely market based and where it is contract based just to understand?

Ketan Sablok: There are contracts both in the inorganic as well as in some customers in specialty. There the time lag will be a little longer in terms of passing on the price increases and we have a mix of certain customers where we can immediately pass on the price hike.

Karthikeyan VK: What I am asking you is if you can breakup the revenue mix into spot price sales versus contract based sales that is what I am asking you for all the major segments, I assume CRAMS is 100% contractual so other three if you could give us some sense of the breakup?

Company Speaker: Basically in the CRAMS business specifically if you see we do not have much of an impact of raw materials because volumes where we are talking about is significantly lesser in volume, predominantly the impact of the increase in the raw material prices are seen in the three businesses wherein refrigerants, inorganic fluoride as well as specialty chemicals. Now there are two contracts whereas some spots in the refrigerant space, there are contracts, which are largely on spot, in the other two businesses there are contracts because of the business confidentiality we will not be able to give you the exact breakup of how the contracts are.

Karthikeyan VK: Fair enough sure. Thank you.

Moderator: Thank you. The next question is from the line of Amar Maurya from Emkay Global. Please go ahead.

Amar Maurya: Again on this gross margin contraction, is it also largely to do with the sharp currency movement and given that in lot of your other businesses where you have a domestic sales so if you can quantify the gross margin contraction happening from both the side what is the part where currency has impacted the raw material versus the actual raw material prices going up?

Ketan Sablok: See it is a mix of both , the raw material prices have also moved up, the rupee has also depreciated I do not have the exact breakup on this how much is because of the rupee depreciation and how much is for the raw material, but prices of our major raw materials have increased by more than 40% year-on-year. It is a mix of both rupee as well as the basic raw material price increase.

Amar Maurya: Like whenever you take a delivery of inventory and is there a lag effect why I am asking this to you because the currency has seen a sharp improvement probably in the late end of the quarter, but then is that a lag effect between the payments, which you do and the inventory, which you order how do we monitor, what is the parameter into this?

Ketan Sablok: If you want to monitor this then you will have to monitor the individual raw material price increases so you will have monitor prices of our major raw materials like fluorspar, chloroform and even some of the local raw materials, where now prices have gone up, like sulphur because of the oil price movement and also prices of bromine have gone up. If you see an overall mix of imported as well as local raw material, prices everything is on an upward trend.

Amar Maurya: Secondly Sir like in your standalone profitability breakup where we had given the numbers of the Dahej and Ex-Dahej so if I just strip the number probably the kind of margin, which we are largely reported in the Dahej was something around 20% kind of a margin in EBITDA, so is this a suppressed margin or at what utilization this margin was?

Ketan Sablok: No, I do not think we have reported separately.

Amar Maurya: I am saying I had just done one thing where you had given including Dahej operation and excluding Dahej operations so where you have including Dahej operation of Rs.218 Crores and excluding Dahej operations of Rs.192 Crores so basically that is largely Dahej revenue and same is with the EBITDA right so Rs.52 Crores versus Rs.47.5 Crores, so on Rs.26 Crores of revenue we had reported something around Rs.5.4 Crores kind of EBITDA number so this is just 20.7% kind of EBITDA, I just wanted to understand at that point of time what was the Dahej utilization level?

Ketan Sablok: That time Dahej operation had just began, the Dahej EBITDA levels will be in line with the Company EBITDA levels. Since it is in the same phase of chemical and CRAMS business we expect the EBITDA margins to be the same.

Amar Maurya: So you are saying average company level or average CRAMS level?

Ketan Sablok: Average company level.

Amar Maurya: Thank you.

Moderator: Thank you. The next question is from the line of Rohit Sinha from Emkay Global. Please go ahead.

Rohit Sinha: Just I want the breakup of this other income if you can provide major details because as per my understanding we have around Rs.3 Crores of property income, which is recurring, so apart from that what would be the other?

Ketan Sablok: We have certain investments in Q2, we have sold some investments and we have some mark-to-market movement in the investment portfolio. If you see slide 7, there you will see a quarterly income reported of about Rs.8 Crores out of which one off is Rs.2.4, there is a mark-to-market of Rs. 1.1 Crores, so adjusted income is about Rs.4 Crores out of which the rent income is about Rs.3 Crores and we have miscellaneous small other income some dividend income, so that is how it works us. We target at about standard other income of about Rs.4 Crores to Rs.4.5 Crores every quarter.

Rohit Sinha: That is it from my side.

Moderator: Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Sir what is the movement in the dollar price of RMs in the first half versus last year?

Ketan Sablok: As I have already talked about it, we have not worked out the exact breakup of how much is the raw material price movement is because of dollar and the per se raw material price increase, but overall there is an increase of about around 40% in all raw material prices.

Jasdeep Walia: This year you are talking about in rupee terms right?

Ketan Sablok: Yes all in rupee.

Jasdeep Walia: Got it. Sir theoretically rupee movement should be a pass through in your business because whether you sell your products in India or abroad, the product selling price in denominator in dollars so rupee depreciation theoretically should not be effective at all?

Ketan Sablok: See almost 52% of our business is domestic.

Jasdeep Walia: Sir but the pricing will be in Dollars only right for even the domestic sales?

Ketan Sablok: Why should that be the case?

Jasdeep Walia: Because it is a global commodity right?

Ketan Sablok: No it is not like that.

Jasdeep Walia: Got it and Sir what is the reason behind this sharp increase in fluorspar and chloroform prices?

Ketan Sablok: There is an increase in demand and there is a shortage of supply, a lot of Chinese mines have kind of closed down due to pollution issues in China, so overall the prices of fluorspar have gone up.Sulphur prices have gone up because of the crude prices going up.

Jasdeep Walia: This is the reason behind increase in fluorspar prices significant right the mines have closed down and what else you have seen?

Ketan Sablok: There is a demand increase also with the steel industry now growing. In steel and aluminum, the requirement of Fluorspar globally has gone up, so that is also resulted in the price increase.

Jasdeep Walia: Sir in China we have seen a sustained crack down on pollution so given that background it seems like fluorspar prices will remain high for the foreseeable future?

Ketan Sablok: Yes that is what we also see .

Jasdeep Walia: So then it is not like after let us say one or two quarters the price will come down, so it will be even next year may be the price should be flattish?

Ketan Sablok: That is the indication we are getting.

Jasdeep Walia: Got it Sir. Thank you.

Company Speaker: In fact that is one of the reasons we will be able to pass on the increase in the raw material prices to the end customer.

Jasdeep Walia: Got it. Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.

Chetan Thakkar: Sir just wanted to understand on the CRAMS business for the year as a whole should we expect the reactors to be running at full utilization and H2 will compensate for the lower H1 given the schedules?

Vishad Mafatlal: We cannot directly say because the business is a lumpy business, but our endeavor is to keep the margins the same and run the plant to the best of its capacity.

Chetan Thakkar: Sir but you would broadly have an idea based on schedules that how this entire year would pan out, so just wanted to get a sense on whether with the operating at near full utilization and because you have seen a muted H1 and understanding the lumpiness quarterly, but on an annual basis just wanted to get a sense?

Vishad Mafatlal: As of now we do not anticipate any major disruption.

Chetan Thakkar: Sir from a medium-term perspective just wanted to get a sense that given CRAMS will continue to grow than the other businesses, so would it be a fair understanding that the company as a whole ROCE continues to improve?

Vishad Mafatlal: Yes for sure. I had mentioned in the speech was that we are building the capabilities of CRAMS not just by this new infrastructure, but also in terms of our teams, which is quite critical to do this business, so you have the project management team, the R&D team, the business development teams and the most critical part about this business is to build a robust pipeline of customers. So the customer acquisition is a key for the growth beyond this year that is what we are in the process of acquiring while the next plant comes up and can be operational in the second half we are already ready to fill the business.

Chetan Thakkar: The backend work of that in terms of molecules and ramp up of that plant is also fairly visible as you go ahead and commercialize the plant?

Vishad Mafatlal: Yes the whole thing has to be planned at least six to eight months in advance.

Chetan Thakkar: Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Abhijeet Akella from India Infoline. Please go ahead.

Abhijeet Akella: Just a few clarifications one is fluorspar as a percentage of your total raw material consumption I believe it is just wanted to confirm is about 20% or so is that the correct number?

Ketan Sablok: Yes, that is about 20% - 25%.

Abhijeet Akella: Got it and in terms of how we should think about the impact of currency depreciation on the company from what I could gather from the last year annual report I think our non-CRAMS exports are about Rs.190 Crores last year and the total imports where somewhere around Rs.230 Crores or Rs.240 Crores so should we interpret that to mean that rupee depreciation is negative for the company overall because in CRAMS obviously you are passing everything through and in the rest of the business you were slight net importer is that the correct way to think about it?

Ketan Sablok: If you see the company as a whole we are net exporter, yes if you take out the CRAMS business we are about in line with the import and in the exports. Now in the current year if you see our exports percentage has gone up compared to our last year H1 as well as last year Q2. We are hoping that this impact will get negated by the year end. Our focus again in our businesses like refrigerant and inorganic as well as specialty is on the export side and we hope that rupee movement will not affect us much by the end of the year.

Abhijeet Akella: What I understand is the impact of these margin pressures is mostly in the inorganic and specialty segments, in these segments at what periodicity the contracts typically renegotiated is there sort of fixed time of the year when it is done or is it done on a quarterly basis, if you could just help us understand?

Ketan Sablok: Certain contracts we have in specialty and inorganic for a quarter kind of a period, so we will have to wait for the quarter to end before we can renegotiate on those contracts in terms of pricing.

Abhijeet Akella: That is the maximum duration?

Ketan Sablok: Yes.

Abhijeet Akella: Understand and also just wanted to clarify in Q1 we had seen really strong margins, which we understood was because the company had won some new business in inorganic and in specialty and therefore there was scale benefits, etc., and 26% EBITDA margins we have reported, so can we still expect that once everything is done the company can still sort of aspire to get back closer to those levels or was there some kind of one off in that quarter?

Ketan Sablok: The company will always inspire to go back to 26% margin, but it is only a question of time and how the raw material prices move and how much we can transfer to the customer. We have endeavored always to get the best margins and as a philosophy Navin has always worked on margin and we are hopeful that the margins as well as the return ratios are going to improve.

Abhijeet Akella: Great that is good to hear. Last quick couple of things I get back in the queue. The other income previously we had heard that on an annual basis it should be about Rs.35 Crores to Rs.40 Crores per year, I think in your recent commentary you mentioned you are targeting about Rs.4 Crores, Rs.4.5 Crores per quarter, just wanted to reconcile are we still on track for Rs.35 Crores as we previously guided to?

Ketan Sablok: About Rs.20-25 Crores that is the adjusted other income and any other movement in terms of MTM and if we plan to sell off some of shares, which we holding in MIL and NOCIL then those will add on to this.

Abhijeet Akella: In terms of accounting policy would you have any thoughts of classifying these MTM gains directly into other comprehensive income so that they do not affect the P&L?

Ketan Sablok: When we moved into the Ind-AS accounting system we had taken this call and included them through the P&L so we will not like to shift now something back into other comprehensive income, so we will be dealing with this in the same manner going forward.

Abhijeet Akella: Great. Lastly just on Dahej and Manchester Organics, if there is any update you can provide?

Ketan Sablok: Last time we have reported that Dahej, there were some issues on catalyst and all which now been resolved, we are running at very healthy utilization. We are going to watch and wait in the next two quarters if we continue at this run rate in Dahej we will probably review the capacity enhancement. As far as Manchester Organics we are doing better than last year.

Abhijeet Akella: Thank you very much. Wish you all the best.

Moderator: Thank you. The next question is from the line of Manoj Garg from WhiteOak Capital. Please go ahead.

Manoj Garg: Vishad very clearly if you look at over the last few years the contribution of CRAMS to our revenues have increased now almost to around 20%-25%, from a mid-term perspective where do you see this contribution going up over the next three to five years?

Vishad Mafatlal: Capex comes into play from the next year and second half the overall size of the business will go up, the capex of Rs.115 Crores roughly will give us about 2 to 2.2 times asset turnover so peak capacity is at about Rs.250 Crores, Rs.260 Crores from that, which we should reach in three years so based on that plus the existing capacities overall the CRAMS business seems to be on a very strong wicket in the margin looking like we can maintain it right through.

Manoj Garg: When you are alluding that probably the aspiration is to move margins towards the 26%-27%, you do believe that the higher revenue contribution of CRAMS going to be major contributor into that?

Vishad Mafatlal: Yes.

Manoj Garg: The second thing if you look at this well over the last six months there are two top management exit for CFO and then CEO, how do you look at in terms of the retention of the top management and anything if you would like to put in the perspective of it?

Vishad Mafatlal: That is true that we had last year two exits, it is not quite natural for Navin because if you see the history our average top senior management probably have been with the company over 8 to 10 years minimum than average so this was an aberration. In terms of the CFO, Ketan has been in the system for 23 years has worked across the finance function. It was a blessing that we have someone who could have a natural fit into this position and as far as the CEO well Mr. Khanolkar had his own aspiration then he moved on. We have found someone actually who is natural fit to Navin someone who was worked with us for three years, someone who has complete buying on the culture, ethos and values of this company, someone who has a complete buying on the board and myself so we are actually confident that these changes will really benefit this company going forward. The second line management with Navin as I told you have been for over 10 years as an average so this aberration sometime happen in 50 years of the company, but it is not normal for us.

Manoj Garg: Fair enough and Sir just last question if I can, on the refrigeration side like if we look at one of your peers has been very aggressive in terms of expanding capacity are getting into new refrigerant gases and all, but we have stick to the existing one only and may be we had in April one project with Honeywell, how do you look at this as an opportunity and do you think that Navin will have any further plan getting more deeper on the refrigeration side?

Vishad Mafatlal: Refrigeration is a complex business going forward because it is regulated. Now there are so many changes that are taking place in United States and UK in terms of which gases are going into the automobile as well as the other allied industries. The products that are made in India by our peers basically are not now going to be used in the auto and the other industries in UK and US, so being prudent we feel that large capex is in this business where technological changes happens so fast does not seem to be our fit; however, joint ventures or technology transfers are working closely with companies like Honeywell and the rest of our other products we definitely would look at that seriously.

Manoj Garg: That is very helpful Sir and wish you all the best.

Moderator: Thank you. The next question is from the line of Andre Purushottam from Cogito Advisors. Please go ahead.

Andre Purushottam: For the three non-CRAMS businesses I wanted to understand that if you are trying to focus trends forward is it better to look at them sequentially or is it better to look at them year-on-year and if it is better to look at them year-on-year what are the underlying reasons for the seasonality of this business?

Ketan Sablok: The refrigerant business per se if you see it will always do well in the summer seasons in the domestic market; however, the exports do not get really affected by the seasonality. We are in the process now, to look more into the export side and we have ventured into acquiring a lot of new customers in the middle eastern market, so that is on the refrigerant side. In the inorganic you can have a look at either quarter-on-quarter or year-on-year and there is no such seasonality in this business. The business is growing with the growth in the steel industry as well as our expansion into exports. If you see in terms of value there has been a significant growth in the export inorganic businesses both quarter-to-quarter and year-on-year. New customers have been incorporated, new geographies have been taken in this business, so our focus now in inorganic is even though the domestic market is growing we are now venturing deeply into the export side. On the specialty front again, we are seeing good visibility over the next two to three quarters. We hope the growth momentum of specialty will continue at least definitely for the next couple of quarters, so the growth in specialty will be there for this complete year.

Andre Purushottam: On specialty we have discussion that in agrochemicals, which is an important component that has been doing reasonably well and I remember in the previous calls last couple of years we have been talking about fairly muted agrochemicals, so I just wanted to know as to what you think is the sustainability of the agrochemical space within the specialty chemical side, are you pretty sanguine going forward that the demand will remain robust?

Ketan Sablok: As of now we are seeing improvement in the agro sector, the industry is improving and that is visible in our sales. Even though initially we were trying to focus more on pharma, that focus is still on, but while focusing on pharma with the growth in the agro sector we are seeing a good traction in our products supply to this side. We are seeing movement in the agro sector and we are taking the best we can from here.

Andre Purushottam: Prospects look good on this?

Ketan Sablok: As of now yes, they look good.

Andre Purushottam: Thank you.

Moderator: Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: One on CRAMS wanted to understand this ramp up in the third facility, which we are planning to commission next year mid sometime around 2019 so will that be re-audit by your customer and how should we look at the ramp up of that plant that is number one, number two on the specialty chemical side now that it is growing fast do we have any capex plan around specialty chemical that is my two questions? Thank you.

Vishad Mafatlal: In terms of CRAMS, yes as soon as the new facility will be ready like in the case of the existing facility the periodic audits from new customers as well as existing customers will happen, but since we have been working with them for the last couple of years capability of the company is perfect to handle them, the ramp up will happen for the next year, we are looking at only six months for the sales, FY2020 onwards will be looking at ramping up beyond that and as far as specialty chemicals we are looking at value added products both in pharma as well as the chemical allied space. We are looking at small incremental capex of up to Rs.10 Crores where we will get maximum benefit in form of higher EBITDA.

Sanjesh Jain: Just one quick question follow-up question on both, one on the CRAMS does the exiting customers who have given order and say previous to facility will also need to re-audit the new facility, on the specialty CRAMS it sounds a little that you are going by only just Rs.10 Crores as that the demand outlook are visibility is lower, what is stopping you from doing big capex because your balance sheet does support that?

Vishad Mafatlal: Yes so for the CRAMS side the existing business with the existing customer it is all product driven these molecules are going in for a specific product for their job so it is driven by that so if there is a new drug coming in, new molecule for a new drug of course they will have to audit, even if a new molecule of a drug comes in for the existing plants they are going to come and audit, so that is the way the procedure is and we are following it fully. As far as your question on the specialty chemicals and why we are shy of big capex it is not that, the thing is that we are focusing on highest returns and EBITDA margin. We do not want to pursue putting in large investments with lesser margins, so if that opportunity comes we will take it, but as far as now we are seeing incremental gains therefore we are spending less but getting better returns.

Sanjesh Jain: Got it. That is it from my side and thank you. Best of luck.

Moderator: Thank you. Ladies and gentlemen due to time constraints, we take one last question. The questions is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla: Since we are looking at this RM inflations to be quite sustainable in the near future, are there any plans to backward integrate into those chemicals and I understand fluorspar would be difficult, but definitely we can think for the chloroform and chloromethane side?

Vishad Mafatlal: As of now nothing on the chloromethane and chloroform side. On the fluorspar front we have been working for some years now with GMDC on that project, but even in there we have not seen much traction of course we are in talks with the JV partner, so we will have to just wait and watch where we are on the fluorspar front, but no backward integration in any other part as of now.

Ranjit Cirumalla: Second one would be on the HFO-1234yf are we still supplying it or what is the status on that?

Vishad Mafatlal: Yes, the supplies are as still on to Honeywell and it is the part of the CRAMS.

Ranjit Cirumalla: That is right. Are we in a position to quantify that?

Vishad Mafatlal: No, we do not give that figure.

Ranjit Cirumalla: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Vishad Mafatlal for closing comments.

Vishad Mafatlal: I would like to thank everyone for joining on the call. I hope we have been able to respond to your queries adequately. Thank you. Happy Diwali to all.

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