



## “Navin Fluorine International Ltd Q1 FY17 Earnings Conference Call”

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**MANAGEMENT: MR. SHEKHAR KHANOLKAR – MANAGING DIRECTOR,  
NAVIN FLUORINE INTERNATIONAL LIMITED  
MR. SITENDU NAGCHAUDHURI – CFO, NAVIN  
FLUORINE INTERNATIONAL LIMITED**

**Moderator:** Good morning ladies and gentlemen. Welcome to the Navin Fluorine International Ltd Q1 FY17 Earnings Conference Call. 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 the 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 the 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 – Managing Director of Naveen Fluorine International Limited. Thank you and over to you sir.

**Shekhar Khanolkar:** Good morning and a warm welcome to all the participants. I hope you have received our results and presentation and you could go through the same. We have also uploaded the same on our website.

I am also joined by our CFO – Mr. Sitendu Nagchaudhuri and SGA, our Investor Relationship advisors. To start with, I will give you brief business update followed by a commentary on the financial results by Mr. Sitendu Nagchaudhuri.

As we can see, the year has begun on a positive note with an encouraging set of numbers. This quarter witnessed highest EBITDA margin in recent times. This was driven majorly due to contribution from refrigerant and CRAMS business though the other two businesses also supported well. Our entire drive towards moving up the value chain is now gaining momentum as our efforts begin to fructify.

To begin with refrigerants BU – Refrigerants demand was strong in the June quarter in the domestic front, mainly on account of an extended summer. This more than compensated for headwinds faced on the export front due to pressure from Chinese players.

Outlook for this business is positive with increasing demand for air-conditioners and cooling solutions, in domestic markets as well as overseas markets. This demand is augmented by our focused marketing efforts and strong distributor network spread across India, South East Asia and Middle East countries.

With our cGMP manufacturing plant at Dewas has become commercially fully operational, CRAMS business performance is in line with our expectation. Keeping the lumpiness of this particular business in mind, the outlook seems to be very positive for this BU, with good order visibility. We continue to strengthen its foothold across American and European regions with stronger marketing teams within USA and Western Europe, in addition to presence through Manchester Organics Limited in the UK. With the new facility commercially operational, the company is poised to capitalize on all the hard work that went into building this business. Our Specialty Chemicals business sustained its performance in this quarter despite some headwinds

in the domestic market. With continuous support of a strong in-house R&D team, the company continues to work closely with the customers and introduce new products to widen its customer base and geographical reach.

Now coming to Inorganic Business – This business unit looks to be coming out of the woods, though domestic business continues to move in sync with the main customer industry, namely, steel industry. However, the export markets are responding positively and we expect to gain significant market share in these markets over the periods to come.

Our JV project at Dahej with Piramal Enterprises is moving along smoothly and the product is under validation process.

We believe that innovation will continue to drive growth. We continue to invest in research and development of new molecules, new applications and more efficient processing techniques.

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

**Sitendu Nagchaudhuri:**

Thanks Shekhar and a good morning and warm welcome to all the participants. I will share highlights of our performance, following which, we will be happy to respond to your queries.

In the first quarter of the year, the company registered a revenue of Rs. 164 crores, year-on-year growth of 9% from Rs. 150 crores in the same quarter last year. This growth in top line is principally driven by CRAMS, refrigerant gases and inorganic fluorides business units, witnessing good offtake of volumes and improved realizations.

Refrigerant gases business grew substantially from Rs. 61 crores in Q1 of the previous year to Rs. 66 crores in the current quarter of first fiscal. Growth of 9% year-on-year. It contributed roughly 40% of the sales of the enterprise. Of which, 21% was contributed by exports.

CRAMS revenue was at Rs. 19 crores, almost doubling its topline year-on-year contributing to 12% of sales.

Inorganic fluorides contributed Rs. 26 crores witnessing a growth of 8% year-on-year. This BU contributed 16% of the overall sales.

The growth across all the segments marginally offset by the performance in the Specialty Fluorochemicals Business.

Specialty Fluorochemicals Business contributed Rs. 53 crores in the first quarter of FY17 i.e. 32% of the total sales. Of this 38% was contributed by exports.

Overall cost of raw materials has been favorable through this quarter.

All these businesses have contributed in the growth journey of the margin improvement during the quarter.

Operating EBITDA for the quarter was at Rs. 40 crores, a growth of 55% year-on-year from Rs. 26 crores. EBITDA margin expanded multifold. It witnessed an expansion of 714 basis points, to 24.2%. Operating PBT for the quarter is at Rs. 34 crores, growth of 64% year-on-year from Rs. 21 crores in the same quarter last year. Operating PBT margin for the quarter is at 20.5% up from 13.7% in Q1 FY16. Profit after tax is at Rs. 29 crores in Q1 FY17 up from Rs. 18 crores in Q1 FY16, which signifies a growth of 58% year-on-year.

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

**Moderator:** Thank you. Ladies & gentlemen we will now begin the question and answer session. We will take the first question from the line of Sudarshan Padmanabhan from Sudarshan Mutual Fund. Please go ahead.

**Sudarshan Padmanabhan:** One thing that I would like to understand is you had made a remark in your commentary that Specialty Chemicals did see some kind of headwinds in the domestic market. Can you elaborate a bit about what is really happening in the domestic market and whether it is going to sustain in the forth coming quarters as well?

**Shekhar Khanolkar:** In the domestic markets, some of the customers basically they had to move their production schedule. So that has affected a little bit in terms of the offtake of the product in this particular quarter. So to that extent the sales gets pushed further. That is the reason that we are saying that we found some headwinds in that particular business in the domestic market.

**Sudarshan Padmanabhan:** Which means that more or less the sales that we have missed in the first quarter we should be able to get it back probably in the ensuing quarters?

**Shekhar Khanolkar:** Not necessarily. Either way, it cannot be said because as the customers-these pharma companies are multiproduct plants. So how they schedule their production and how they complete the requirements is something which is difficult to say. But yes, the pressure is on in terms of trying to see that as soon as they are ready to buy, we are there.

**Sudarshan Padmanabhan:** But would it continue in the second or third quarter or it is just a quarterly phenomenon that we are seeing?

**Shekhar Khanolkar:** This phenomenon we have seen in this quarter, so the reasons what we come to know from them looks like these are very temporary reasons.

**Sudarshan Padmanabhan:** And second is coming to your gross margin side, the majority of the jump that we are seeing in the margin expansion is largely due to the gross margins, I mean is it primarily on account of probably a big contract or a very profitable contract that we have executed in the CRAMS

segment or is there a fall in the raw material prices which we have captured or what is really the one that is driven and whether is it sustainable going forward?

**Shekhar Khanolkar:** First question, if you see the margins improvement in this quarter has been because of, of course all the businesses have contributed but majority because of refrigerant gas business and CRAMS business. Now it is not because of any specific customer or customer segment but it is across all the products under customer category in these two businesses. In terms of expansion of the margins as we have been talking with you for last many quarters, there are concrete efforts which are being put by the management team in terms of improving the margins on regular basis and we are working within certain bands. You must have seen that the lower limit and the upper limit of the band we are trying to improve on quarter-to-quarter basis. So from that perspective the efforts to improve these margins will continue over a long term basis.

**Sudarshan Padmanabhan:** Largely then I would assume that it is because of the better product mix in this quarter rather than raw material prices coming down. Is my assumption right?

**Shekhar Khanolkar:** The product mix definitely makes a lot of impact into overall business fortunes on quarter-to-quarter basis. The raw material impact has been also good in terms of compared when I compared to the last year same time. So both the things have contributed to this.

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

**Pritesh Chheda:** Taking forward from the last question which you answered on gross margin side, you said that it is not to do with material prices?

**Shekhar Khanolkar:** No, I said the material prices compared to last year, definitely the raw material prices have been favorable this quarter.

**Pritesh Chheda:** Can you tell to the extent of what gross margin expansion would be on account of material prices and second when you were answering to the previous questions, you were mentioning on refrigerant prices. My guess is for the last two quarters the refrigerant prices were lower especially I think in export market. Have those also improved?

**Shekhar Khanolkar:** No, I did not say anything on refrigerant prices as such. As a business, refrigerant business the demand was good in the first quarter because of the extended summer. So from that perspective we could sell more volumes to the domestic market. And that has added into the absolute numbers in terms of the refrigerant business.

**Pritesh Chheda:** How much of your gross margin could be on account of material prices because in annual report which is very recent you have talked about chloroform material prices being under control. So now in this quarter it is to do with chloroform then?

- Sitendu Nagchaudhuri:** Chloroform price is always subjected to situation of market fluctuations. At the moment it is actually showing some favorable trend. It is difficult to say how long it will actually exhibit similar kind of a trend. If I may pick up your question we do not really drill down into factor wise contribution details of individual factors contribution towards the gross margin expansion but fundamentally to answer your question if you look at the predominant factors, one is obviously the growth in the CRAMS business in their overall enterprise portfolio. It has actually sort of doubled the quarterly CRAMS turnover from Rs. 10 crores to about Rs. 20 crores year-on-year in the first quarter. So that is definitely since we have been consistently telling you through our interactions that if you look at the value pyramids from the value generation capability standpoint, CRAMS is at the top of the house. So that definitely does help us in the gross margin expansion. Refrigerant business with a good traction in the domestic demand also helped us do the cause. And favorable RM prices also have contributed to the kitty. But we do not really delve down into factor wise contribution percentages of each such factor.
- Pritesh Chheda:** I have just two questions on this part only. First in your comments you said that you are working towards further improvement in these margins, so that comment reference is to do with operations or that comment reference is to do with mix?
- Shekhar Khanolkar:** The reference is with respect to both, the mix and the operations. And it is also in reference to the bands within which we operate of our EBITDA margins. It is not necessarily a point at which you are were talking about specific EBITDA margins.
- Pritesh Chheda:** And lastly I want to just ask, until last quarter on the Specialty Chemicals side, there was some lower off-take in agro chemical and that is what is also mentioned in the annual report. How is the space now looking with the onset of the new season?
- Shekhar Khanolkar:** Current indications are not really that encouraging, in the sense that, we do not expect complete turnaround in that particular area at this point of time. The indication what we get from customers is that it is still a status quo.
- Moderator:** We will take the next question from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** Just from the refrigerant side you mentioned that volume growth in domestic market was very good and generally domestic market is high margin compared to export. So margin improvement is as such purely on account of the higher sales to domestic or on apple-to-apple we have also witnessed the margin in domestic has been much better that last year, or margin in export is much better that last year?
- Shekhar Khanolkar:** No, actually the product mix in terms of domestic and exports that has contributed more margins into the refrigerant business this quarter. We could sell more quantities in domestic market than export business.

- Jignesh Kamani:** But on absolute both separately division wise, margin has not changed. It is just because of higher set of domestic.
- Shekhar Khanolkar:** Yeah, but export margins are under pressure because of the Chinese competition but otherwise yes, domestic, it is more of selling in domestic market has improved the overall margins.
- Jignesh Kamani:** So as we head towards the next quarter where the demand from the summer will be absent, we will gradually move to a higher export and hence the margin will come back to normal level?
- Shekhar Khanolkar:** Yeah, again, export market situation can vary on one to one basis based on availability of material from China. So that call we have to take. Export pricing- the call has to be taken every month to month basis. But the next quarter compared to the first quarter of this year, the domestic demand will not be as high as the first quarter because the summer is over.
- Jignesh Kamani:** And to what level you can say, if I can say right now if you take about in export market are we able to ramp up R22 drastically or the demand is very weak because of China competition?
- Shekhar Khanolkar:** No, demand is there. But competitive pressures are pretty high. Second thing, there are issues in terms of the quotas available to the customers in those regions from their own government. There are many other factors which play a role in terms of the quantity one can export and the timing of the exports.
- Jignesh Kamani:** And third one if you take about right now refill of the refrigerant gas and the AC has been disallowed from the last year. So are we seeing good domestic demand on account of that also because now AC will be imported and the gas will be consumed from domestic market?
- Shekhar Khanolkar:** It is difficult to pinpoint the factorial implication for that specific jurisdiction which you are talking about, ban on import prefilled compressors. We have seen generally overall robust demand traction in the market because of this external summer in Q1 but this was a part of the natural seasonal phenomenon and such seasonalities are factored when we actually go for the business plan. It is difficult to say whether this prefilled compressor ban has actually added into this demand or not.
- Moderator:** We will take the next question from the line of Pawan Kumar from Unify Capital. Please go ahead.
- Pawan Kumar:** My question was regarding Specialty Chemicals. So do we still believe we can go at say reasonable rate of 15% for the year and secondly can you share some trends on fluorspar and chloroform prices for this current quarter in the sense of how much they have gone down or gone up?
- Shekhar Khanolkar:** Specialty, we still feel that we should be able to keep that run-rate but again the quarter-to-quarter there can be some fluctuations and as I said earlier the agrochemical industry still is not

coming out openly in terms of the growth what we are expecting out of them. So that is going to be a challenge but we have a product mix which is large enough and we supply to both pharma chemical and agrochemical industries. So we have three different sectors to work with. So overall we feel that we should be able to manage that growth at this will be just start of the year. So that is answer to your first part. The second part is interest on fluorspar prices, the fluorspar prices compared to last quarter they have come down. Fluorspar prices have reasonably steady over last couple of quarters. As far as chloroform is concerned, chloroform is seeing ups and downs on quarter-to-quarter to basis. So there is no specific trend we can pick up from chloroform. It is purely a supply-demand situation that is making that product pricing differently every quarter.

**Pawan Kumar:** So over last two quarters they were relative stable, right?

**Shekhar Khanolkar:** Fluorspar was relatively stable, yes.

**Pawan Kumar:** And my second question was regarding your margins, right now they are at may be historical peak of 24%, so I wanted to understand is there because CRAMS contribution was relatively lower on an absolute basis compared to the last quarter. So is there a scope may be over a long term or a medium term to even pass these margins of 24%?

**Shekhar Khanolkar:** As I said earlier in one of the answers that it is very difficult to comment on specific margin points but fundamentally we are working towards improving the entire band which we are operating on our EBITDA margins. And this improvement is happening because we are trying to consciously work on product needs, we are consciously working on new technologies and try to go up the value pyramid. So coming back to this, yes, CRAMS business is a high-value addition business and as the CRAMS business starts gaining further momentum it will definitely have an impact on the overall band within which we are operating.

**Pawan Kumar:** So it is technically possible, right sir, higher margins?

**Shekhar Khanolkar:** But on quarter-to-quarter basis this business behaves in a certain manner. So it is very difficult to see whether the quarter-to-quarter there can be improvements, or quarter-to-quarter there can be – as I said there is a trend which is set up over last many quarters as far as we are concerned. And we are working all the way to ensure that this trend continues.

**Pawan Kumar:** One last question, regarding the tax rate, what is the tax rate we should be assuming for the entire year since it has been fluctuating from 15% in the last quarter to around 27% this quarter?

**Sitendu Nagchaudhuri:** This 15% in last quarter which you see the reason for that was predominantly some R&D tax credits for our new unit in Dewas. That has fructified towards the end of the last quarter. For the whole year this impact has been considered in the last quarter, which is why it has gone down to 15%. Generally, if you look on a full year basis our effective tax rate last year was



around 26% to 26.5% that has now marginally moved up to about 27.5%. We expect to actually monitor through the year around that range only, anything between 26% to 28%.

**Moderator:** We will take the next question from the line of Alok Rawat from Karma Capital. Please go ahead.

**Alok Rawat:** Couple of questions – one, could you talk about refrigerant? You have signed an agreement with Honeywell for HFO-1234yf and how big an opportunity it could be and how long would it take to fructify? What would be the potential markets and secondly sir on the Specialty Chemicals could you also elaborate a bit on the export outlook? Generally, we have heard that global agri-cycle is not very strong and have you seen any impacts? What kind of impacts you have seen?

**Shekhar Khanolkar:** First part of Honeywell I can answer to you. Basically I would say it is a contract manufacturing opportunity for us. We have already started work in the project and we expect the first product which we can give it to them by early next year. And as we said earlier that this is a small scale manufacturing plant and as of now this is a scale at which we are operating and we are not yet clear in terms of any future opportunities at this point of time. Can you just repeat the second question?

**Alok Rawat:** A follow-up on this. So this technology will belong to Honeywell I mean the opportunity is only with Honeywell. Is that the right way to look at it?

**Shekhar Khanolkar:** Yes.

**Alok Rawat:** Second question was on the Specialty Chemical, export outlook and whether you are seeing, what kind of pressures you are seeing in terms of softer demand from global agri industry?

**Shekhar Khanolkar:** As I said earlier our interaction with the global agrochemical companies in last couple of months we find that they are still in status quo in terms of their markets, that is their opinion about the markets. So we feel that this current status of the agro industry globally would continue for some more time, probably middle or end of this calendar year but that is what comes out of the discussions when we meet these large players.

**Alok Rawat:** And if I may ask one more question on CRAMS outlook, would the business be running for FY17 and run-rate similar to first quarter or it could even ramp up higher and secondly what visibility you have in terms of order books or orders which are close to finalization?

**Shekhar Khanolkar:** We keep a track of various discussions and various quotation which we give to customers and there are certain orders which we get in our hand for execution. Certain orders we put a probability factor in terms of the probability of their order getting fructified during that particular quarter. So we have a monitoring mechanism within the company for all such orders.

So in terms of the outlook CRAMS we feel the outlook from the CRAMS business is good for coming quarters.

**Alok Rawat:** So the quarterly run-rate can it go higher based on the orders that you have, based on the visibility that you have?

**Shekhar Khanolkar:** This business has a huge lumpiness. The quarter-to-quarter fluctuations are pretty high because it is not a steady demand of one particular product we talk of. We basically hear the customers have their development programs which are further connected with various other clinical trials and other factors. So there are too many external, internal factors there that dominate the entire scenarios. So many times customers themselves are not aware of what is going to happen with their further trials or the results so on and so forth. So from that perspective, it is very difficult to really predict quarter-to-quarter increases or decreases or run-rates for this particular business.

**Moderator:** The next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

**Tejas Sheth:** Sir on the CRAMS side just wanted to understand any new clients or new molecules being added in the last quarter?

**Shekhar Khanolkar:** CRAMS almost every molecule is a new molecule. So because we work on the products which are yet to get commercialized, so we work on the products which are in various phases of trials. So, most of the time some of the molecules they get repeated with the larger quantities but otherwise you have new customers, new molecules or the same customer's new products which they give to us.

**Tejas Sheth:** Okay, so a lot of audits were being done, so any of these audits got converted into order in last quarter?

**Shekhar Khanolkar:** Overall, not specific quarter but we continuously get plant audited by many customers and typically with our experience we find that within 3 to 6 months for those audits to start getting fructified in terms of we have start getting orders from those customers.

**Tejas Sheth:** Exactly, that is what I was mentioning I mean from September to December last year we had many orders and as you said 3 to 6 months it takes to convert that into order. So we are seeing that traction to our satisfaction?

**Shekhar Khanolkar:** Yeah, so we had couple of molecules made this quarter where we have made those for the first time and the new customer.

**Tejas Sheth:** Secondly, how sooner you expect the Dahej, the JV with Piramal getting into commercial?

- Shekhar Khanolkar:** See the product is under regulatory trials in the sense that it needs approval from the authorities. So that process itself is a 3 to 6 months' process. So, once we have that, because internally a product is approved the quality but finally it has to get approved by the authorities. So that is going on right now. So as soon as that happens, we can actually get going under production.
- Tejas Sheth:** So Q3 would be the earliest we can expect?
- Shekhar Khanolkar:** Ideally yes, but there is no guarantee because it is with the authorities. It is not in our hands. So typically as I said it takes 3 to 6 months, but again there is no specific timeframe which the authorities will let that they will approve the product within that particular timeframe.
- Tejas Sheth:** And sir as you said there could be some concerns towards growth in Specialty Chemicals but can that gap be filled by inorganic fluoride this year because your commentary was quite bullish on that sir?
- Shekhar Khanolkar:** Yes, inorganic business we are getting a good traction in some of the other products. It was getting good traction in terms of other geographies where we are trying to operate, so from that business yes. And specialty business the answer was in context of whether we will be having a 15-20% growth rates. In that context yes, there are challenges but we will be able to overcome those challenges. But otherwise the business is growing; the new products are getting worked on with the customers. So that process continues in the specialty business.
- Tejas Sheth:** Lastly sir, how is the performance of MOL this quarter?
- Shekhar Khanolkar:** MOL, this particular quarter, the overall performance is better than the corresponding quarter last year and overall the catalog business is also doing well. And the CRAMS business we monitor along with our Dewas CRAMS activity as well because some of these molecules get converted into larger molecules, larger scale up at Dewas.
- Tejas Sheth:** So we should do much better performance because I think FY16-
- Shekhar Khanolkar:** Yeah, because we look at both the businesses together internally and because the facility has limitation in terms of number of people and the labs out there. And we have built up new facilities in Dewas. So we try to ensure that we are managing our assets in a right way.
- Moderator:** We will take the next question from the line of Sangeeta Puroshotam from Cogito. Please go ahead.
- Sangeeta Puroshotam:** My question actually relates first to the margins and then also on the outlook for the sales growth. Now you have mentioned that the number of steps that you are taking both in terms of product mix and operating efficiencies might just then take them to a higher band. Now last year also what we had seen is there tends to be in the business a fair amount of fluctuation

from quarter-to-quarter. And if we look at say the overall year, we ended up put margins which were more than 18%. Now how much can this band actually move up by? Is there a sense that you have that you are targeting like a 1% to 2%-point improvement or if you could give us some sense or color on that? Again from the overall segment if we look at the whole year what is the kind of outlook and what is the kind of topline growth guidance and any you can give? Are we looking at the year growing at overall at about 15% or 12%? If you could just give some sense on how you are thinking it is going to pan out?

**Sitendu Nagchaudhuri:** To answer the first part of your question, you are absolutely spot on, there has been quarter-on-quarter fluctuations in our performance. Top line margins as well as bottom line and we have been actually consistently sharing with you that update from our side that looking at the nature of the business and most of our business units quarter-on-quarter fluctuations are going to stay. That happens to be the name of the game, but our intention and effort is actually to ensure to push the entire enterprise performance across business units to move up the value chain on a year-on-year basis which is what we have been trying to do and as you rightly noticed that fiscal 2015-16 has shown a significant improvement in all the parts of – not just in terms of EBITDA which reflects in the EBITDA percentage and PBT percentage but also on the return aspects of RONW and ROCE. Now it is very difficult to answer the second part of your question as to aspirationally what is the specific percentage or percentage band which we are actually aspiring to be a yardstick for a year-on-year kind of a thing. But suffice to say that on all these four parameters of EBITDA percentage, PBT percentage, RONW and ROCE our intention and endeavor has been and will be to move the year-on-year performances up from where we left last year.

**Sangeeta Puroshotam:** And in terms of your top line what do you expect that to broadly grow at?

**Sitendu Nagchaudhuri:** Top line growth will vary significantly from business-to-business madam, for example CRAMS being the newest entrant to the block and albeit on a smaller base. But if you look at the traction specially with the large scale CGMP plant in Dewas coming into full blown traction, that would obviously have significant top line growth opportunity as compared to the other businesses. Specialty fluorochemicals business although we actually has experienced some bit of headwind in the domestic segment for the quarter but hopefully that will not be sustaining through the year and globally as we keep on hearing that global agrochemical industry seems to be on the cusp of an upcycle, although we yet to see any traction on the market place but putting in all these factors we think on an yearly basis around say 15% growth year-on-year still seems to be a manageable ask, we are actually aspiring for that. Enterprise as a whole- our focus is not so much on the top line, but it is on the bottom line, on the profitability part of it.

**Sangeeta Puroshotam:** Right which is why I was asking if there was any range on the margin improvement that you had in mind?

- Sitendu Nagchaudhuri:** As I said madam basically our objective would be for all the aspects of margin as well as return to improve from where we left last year on a year-on-year basis. Whilst, there will be quarter-on-quarter fluctuations.
- Moderator:** Thank you. The next question is from the line of Abhijeet Akela from IIFL. Please go ahead.
- Abhijeet Akela:** The first thing was just about Manchester Organics, so in the annual report for Manchester the Director's letter talks about difficult market conditions and increased competition, which impacted performance last year, this is slightly different from what we had heard previously that there was this integration challenge and therefore a loss of focus because of that. So I just wanted to understand what exactly these challenges were and whether you are seeing that continuing or how things are going there?
- Shekhar Khanolkar:** See basically the last year as you said in a previous this thing is when you have having integration on the teams then there is lot of focus on those activities so that do affect your attention into the details. If you see the two parts which are there in the MOL business – the Manchester Organic Business, one is the CRAMS business other one is the catalogue business. Now the catalogue business is also growing for us but catalogue business also has its own challenges because the catalogue business depends upon directly the R&Ds spends by various universities or the research companies, the innovator companies. That business is a competitive business though is a good margin business, so there can be some fluctuations in that particular activities on quarter-to-quarter basis. So we had some of those challenges as well the last year but the advantage is in that business is that the market share set is very huge. The kind of product range what we have is also increasing, in last couple of months we have added thousands of more products into our catalogue. Our catalogue today has more than 45,000 molecules into the list and we are now taking concerned efforts to increase that catalogue as well as catalogue size, as well as to improve the stocks on hand for that particular catalogue. So all these efforts are definitely will help us in terms of the growth of this business but the competitive challenge is price reductions which happened by various companies and you need to be on an absolutely on day-to-day basis should be on top of that pricing structure which happens for these molecules. So that requires a lot of focus and energy, so probably the combination of these two affected our business during that time last year. But now the things are absolutely coming back to normal so we can expect a good traction in this particular business.
- Abhijeet Akela:** Also just wanted to clarify just on that point, I believe the two scientists who were on the board of Manchester have stepped down from the board so just wanted to understand whether they are continuing in the company or they are moving out.
- Shekhar Khanolkar:** They are continuing with the company.
- Abhijeet Akela:** Okay they are just not part of the management as in the Directors.

**Shekhar Khanolkar:** Right.

**Abhijeet Akela:** Okay understood and just one of the thing with regard to the margin expansion in EBITDA margin in this quarter, the Q-o-Q actually the CRAMS revenue has more than halved actually, 44 crores last quarter to 19 and yet we have seen such strong margin expansion so Q-o-Q is it mainly the fluctuation in raw material cost and ref. gases if there anything else sir.

**Shekhar Khanolkar:** No I just said earlier it is the combination of raw material prices, combination of the ref. gas margins as well as whatever business we have done in CRAMS also has been at a very good margins, so all those has contributed to the overall expansion of the margins.

**Moderator:** The next question is from the line of Sneha Talreja from Emkay Global. Please go ahead.

**Sneha Talreja:** The first question was that in the Specialty Chemical segment, sir we have been talking about that the growth was slow mainly because of the domestic market, but if I look at your PPT where in you have given the exports share. Sir if I look at the share, the share has actually gradually come down from Q4 compared to now, so in Q4 our share was standing at 46% and thus I can see a decline in my exports market by 19% Y-o-Y, so is it because of agrochemicals or because our global market is basically to do with agrochemicals and domestic is to do with the pharma?

**Sitendu Nagchaudhuri:** The Specialty Chemicals business model is predominantly as you rightly said the domestic is basically to do with the pharma on the formulation side of the spectrum and the global the exports segment is essentially for the Innovator agrochemicals companies who actually engaged in the active technical trials, so that is fine so. On the quarter-on-quarter converts stuff which you are talking about if you look at versus sequential quarter yeah there has been some sort of downturn on the exports side of it but predominantly if you look at the margin extraction in terms of good throughput realization, the challenges we faced more in the domestic side because of the demand downturn predominantly on fundamental product lines on the domestic side.

**Sneha Talreja:** Okay so we are expecting the revival to happen mostly in the domestic segment but exports market continues to remain challenging that is what I can get?

**Sitendu Nagchaudhuri:** Export market continues to remain challenging. We are actually, hoping that the onset of the up-cycle in the global agro does result into some set of traction in the market demand which is yet to happen but we are hopeful that it rather should happen during this year.

**Sneha Talreja:** Okay, Sir my last question was in inorganic fluoride segment, sir basically in the earlier calls we were targeting higher exports and if at all I see again the exports mix which has just come down, so is it because of the new product additions that we have made in the domestic market?

- Sitendu Nagchaudhuri:** It is not really new products in the domestic market but in quite a few cases we have been actually successfully managed to rest long-term contracts with key customers who otherwise would have been looking into the imports channel for their products, so essentially one way to look at it- it is an import substitution and we have sort of actually tried to fill in those gaps.
- Sneha Talreja:** Okay and these contracts are long term contracts or were they something to do with the recent quarter.
- Sitendu Nagchaudhuri:** There are now for months but it they are not really that long term if you say they run across years, they run across months, not years.
- Moderator:** The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.
- Ranjit Cirumalla:** First of all, I would like to share my thoughts like during the 2Q when we had that abnormally high margins of 20% you had started off the call by cautioning but now we are 24%, you probably seem to be more confident of sustaining these margins.
- Sitendu Nagchaudhuri:** Mr. Cirumalla we are still cautioning.
- Ranjit Cirumalla:** But it was not in the earlier not in the opening remarks at least.
- Sitendu Nagchaudhuri:** We have been consistent, let us reiterate one point clearly that to all of you Ladies and Gentlemen that as we go forward we are bound to see quarter-on-quarter fluctuations in the margin, actual margin realization and the return ratios, however, as I explained a while ago, our endeavor would be that on a year-on-year basis we should try and improve all these operating parameters. Quarter-on-Quarter will remain fluctuating.
- Ranjit Cirumalla:** Sir my first question is on the refrigerant side, if you saw, there is some difficulty in understanding the regulation part. If you see we are already in 10% mandatory cut, but if you see our domestic sales which has gone up by almost 45% YOY, so just wanted to understand it is purely driven by volumes or how should one look at these?
- Shekhar Khanolkar:** The domestic volumes have been higher so yeah so that has increased the sales for this quarter so we are still within the limits which are prescribed in terms of the production quotas to us.
- Ranjit Cirumalla:** Even for the domestic market.
- Shekhar Khanolkar:** It is production quota. It does not talk of the domestic or the global markets.
- Ranjit Cirumalla:** Okay based on the current trend is there is a scope for even further expansion of the volumes.
- Sitendu Nagchaudhuri:** It will depend on a number factors in terms of the traction what is happening in the exports market, what is the headroom available, or how is the domestic demand? You see the growth in

domestic number which you see this quarter upon same quarter last year a sizeable chunk of that is actually coming as Shekhar alluded a while ago, it is a switchover from exports to domestics since export had the significant headwinds in terms of pricing pressure from the Chinese suppliers and therefore there was an opportunity to actually cater to that robust demand in the domestic sector. We are well within our quotas and limits. So, there is no constraint on that front.

**Ranjit Chirumalla:** Even on the 1Q current run rate, roughly we have done 52 odd crores, so even that 52 odd crores is well within the limits is what you have.

**Sitendu Nagchaudhuri:** Yeah.

**Ranjit Chirumalla:** **In the CRAMS business**, are we in a position to get any concrete order book for this particular facility?

**Shekhar Khanolkar:** We as we said we get some visibility of the orders for coming quarters but there can be a lot of fluctuations in orders, different sequencing can happen of the orders. It is very difficult to really come out with specific number for a quarter.

**Ranjit Chirumalla:** Not for a quarter, for annualized basis or probably over the next few years' executable orders.

**Shekhar Khanolkar:** No we do not get this few years' projection here because these are all products which are into the research phase. These are not commercialized products, so neither us nor the companies which are asking us to make these products are sure of the success and the future of these products so from that perspective we do not come to know how these product is going to fair on long term or even quarter-to-quarter basis.

**Ranjit Chirumalla:** Can you just give out a ballpark figure of how the capacity ramp up or the utilization at Dewas facility?

**Shekhar Khanolkar:** So as you said earlier that we expect the 100% utilization within 3 years of this particular facility.

**Ranjit Chirumalla:** And we would be completing in the first year in December.

**Shekhar Khanolkar:** The plant got commissioned end of last financial year, so the end of next financial year we will be completing the first year of this plant.

**Moderator:** The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

**Dheeresh Pathak:** Continuation with the earlier question, what is the utilization now? You said 100% in 3 years, what is the current utilization?



- Shekhar Khanolkar:** No, it will be what we can say is 100% in 3 years, it may not be sequential or it may not be like 30%, 30%, 30% because as there are lot of investment which are happening in this business at the ground level and there are lot of traction is getting generated with the customers, we are adding a few new customers who are working with the existing customer to get more orders from them, so it is going to be a combination of that. We are at a nascent stage of this business, so it may not be a straight line curve.
- Dheeresh Pathak:** Sir, that I understand, I want to know what is the current utilization.
- Shekhar Khanolkar:** No, we cannot just specifically say current utilization of this plant at this point of time.
- Dheeresh Pathak:** Okay, on refrigerant gases post the 10% production cut, what percentage of what you are allowed to produce, are you currently producing?
- Sitendu Nagchaudhuri:** This cuts actually apply on a calendar year basis, so we actually have clear idea about what is our overall production limit for the whole year and we track our performance in terms of production, sales and throughput month-on-month. We have just finished the sixth month, so we are in track in terms of the business plan for the whole year.
- Dheeresh Pathak:** Sir, would it be fair to say that this calendar year, you would produce the maximum based on the run rate and the market conditions that you are seeing. You would produce pretty much whatever you are allowed to produce?
- Shekhar Khanolkar:** Our endeavor is that but we do not know how the markets will behave in the next six months of this calendar year, the domestic as well as the exports. Because first financial quarter cannot be repeated subsequently because first quarter had the summer season out here and again there can be challenges in the last quarter of the calendar as well in the export markets so we are to get into all this dynamics of the business. But we are aware of in terms of the total capacity utilization how we want to do it and ensure that we are well within those limits which have been prescribed to us.
- Dheeresh Pathak:** Last calendar year, did you produce maximum of what you were allowed to produce or what was the utilization versus what you were allowed to produce?
- Sitendu Nagchaudhuri:** Last calendar year, we were pretty much near about what was our limit; we were pretty much near about what was our limit.
- Dheeresh Pathak:** Okay and this quarter what, can you just give us sense.
- Sitendu Nagchaudhuri:** We are going to keep in our point in mind basically all these restrictions which you are talking about they are actually for the emissive side of this spectrum, what we see is a steady growth in the non-emissive- that is the feedstock application side of the R22 applications, that is

outside the quota limit and for which there is no restriction either to produce, so far the usage and utilization of this is in the non-emissive segment.

**Dheeresh Pathak:** Are you using anything captively when what percentage are using for your feedstock?

**Shekhar Khanolkar:** No we don't use anything captively.

**Dheeresh Pathak:** You don't use okay and this quarter do you see any price increase in the domestic refrigerant and how much was then?

**Shekhar Khanolkar:** We are not seeing any price increase.

**Dheeresh Pathak:** Okay.

**Moderator:** We will take the next question from the line of Rohan Gupta from Emkay Global. Please go ahead.

**Rohan Gupta:** On your Specialty Chemical business, can you give us a breakup between volume growth and price led because there was some price drop has happened or realization was weak can you give us some idea about the volume growth in that business?

**Shekhar Khanolkar:** We do not specifically discuss volume growth numbers and the price growth numbers.

**Rohan Gupta:** But sir, would it be fair that some of the product prices like chloroform and all has been volatile and even fluorspar also has been slightly on a weaker side compared to previous quarter, so the Specialty Chemical realization overall would have been weaker.

**Shekhar Khanolkar:** No, chloroform does not go into any of the specialty products, chloroform basically the raw material for refrigerant business and there are pricing mechanism in the market place, there are couple of dynamics which come into play, one is the different raw material prices. Second thing is supply-demand situation of the product. Third thing is some of the times you also enter into some yearly contracts with the customers at a fixed price, so there you have to supply irrespective of the costing goes down or all out. So you have these various factors come into play as far as the specialty business is concerned so to that extent the entire margin movement happens based on the delivery made to the customers.

**Rohan Gupta:** So generally in a Specialty Chemical business most of the companies enter into back-to-back arrangement or it is always plus contract with the stable margin, so that is not the case with in our business, like some margin fluctuation can happen depending on the RM prices?

**Shekhar Khanolkar:** It is both ways. It is not that the entire thing is contracted out that is not the model which we work. At the same time, there are some contracts definitely made at the start of the year for the entire years' supplies. So we have flexibility in terms of our customer profile and the product

profile to have the balance between the contracted quantities and non-contracted quantities, so to that extent definitely we can make use of the raw materials and other things into the market place and that is why I am saying that predicting a specific margin and how the raw material prices going down or up on that particular product in that particular quarter is going to be extremely difficult.

**Rohan Gupta:**

And sir just taking from the last question that some other participant also asked the same question, compared to Q4 versus Q1, where the high margin business of CRAMS have contributed significantly to the revenues in Q4, while the revenue contribution from the CRAMS has come down but still we have seen a margin expansion and answer to that query you also mentioned that CRAMS definitely is a high margin business but margin from product-to-product also varies significantly, I mean is there huge variation in the product-to-product margin of CRAMS or generally CRAMS should be assumed as a 30% margin across.

**Shekhar Khanolkar:**

No product-to-product margins are different, I did not say specifically to CRAMS business, I have said across the all segments, the margins are different product-to-product. There is no specific margin percentage we talked of in the CRAMS business so there is no number like 30%, 40%, 20% which we discussed about the CRAMS margin. The CRAMS business is a high margin business, which is the fact and hence even though it's contribution to the overall sales of the quarter is lower, its contribution to overall margin of the business is higher.

**Rohan Gupta:**

Okay, but overall cramp business margins are on a high trajectory and it is not dependent on any products or any specialty products or chemicals.

**Shekhar Khanolkar:**

No.

**Rohan Gupta:**

Sir, just last question on that, you have mentioned there is some headwinds in the pharma domestic business in the Specialty Chemical segment, so the global agrochemical weakness we understand but why would have been in a pharma we would have seen a domestic market weakness and it is the only one or two products or one or two customers we had dropped in or overall weakness you see in the business and that is going to remain here?

**Shekhar Khanolkar:**

No, we don't see it as an overall phenomenon. It is specific to certain products what we make and certain customer segments, so it is limited to that, it is not overall sectorial thing.

**Rohan Gupta:**

Okay, so that was a quarter specific thing, we would have been corrected may be going forward.

**Shekhar Khanolkar:**

Exactly.

**Moderator:**

Ladies and gentleman that was the last question. I would now like to hand the conference over to the management for their closing comments.



*Navin Fluorine International Ltd  
July 26, 2016*

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

**Moderator:** Thanks you members of the management team. Ladies and gentleman, on behalf of Navin Fluorine International Limited that closes this conference. Thank you for joining us and you may now disconnect your lines.