



Navin Fluorine International Ltd Q3FY16 Earnings Conference Call

February 1, 2016



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

Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Navin Fluorine International Limited Q3FY16 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participants' lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shekhar Khanolkar -- Managing Director of Navin Fluorine International Limited. Thank you and over to you, sir.

Shekhar Khanolkar: Good Morning and A Warm Welcome to all the Participants. I am also joined by our CFO -- Mr. Sitendu Nagchaudhuri. I hope you have had a look at our 'Financial Results' and 'Presentation' that is uploaded on the stock exchange as well as company website. I will give you a Brief Business Update followed by Commentary on the Financial Results by Mr. Sitendu Nagchaudhuri.

As is visible from the presentation, our performance for the quarter has been slowed by some headwinds in our Refrigerants and Specialty business. This was particularly offset by the CRAMS division which registered its highest every quarterly revenue of Rs.23 crores in Q3FY16. With all our efforts, the nine months EBITDA margins of 18% have been achieved. We believe over the next few quarters there would be some margin expansion. However, the company needs to be looked upon on a yearly basis rather than on a quarterly basis. It is this business mix, the product mix within each business unit as well as the geographic mix that drives our revenue and profitability.

To begin with Refrigerants BU: Despite the seasonal nature of the product, Refrigerants BU fared well on the domestic front on account of milder winters during October-December quarter. However, this was marred by some headwinds in the export side of the business on account of quota renewal challenges in the Middle East countries as well as foreign exchange constraints for imports imposed in a few countries. On the domestic front, we are yet to witness an impact of the import restrictions on the gas filled compressors that came into effect in Q2 of this fiscal. However, from a longer term perspective with growing urbanization and increasing AC and Refrigerants usage in addition to increasing usage of R22 as a feedstock in pharmaceutical companies, we believe this BU is well poised for growth.

Coming to Specialty Chemicals BU: This BU witnessed slower offtake for global agrochemical companies as well as domestic pharma companies. Our continuous focus on creating a diversified portfolio of products, customers and markets enable us to offset the impact to quite some extent. Here we will continue to focus on investing in research and

development towards building a strong product portfolio with niche Fluorochemicals along with widening our reach to new customers and new markets.

CRAMS BU has been delivering performance in line with our expectations. During Q3 of this fiscal, it has clocked the highest revenue of Rs.23 crores. With this, it has surpassed last year's annual revenue mark. This instills a lot of confidence in our vision for the division. Notwithstanding quarter-to-quarter fluctuation in this business, the outlook looks extremely positive for this BU with a good order visibility. The cGMP manufacturing plant at Dewas is now on stream as per our plan. We have successfully completed many customers' audits during the past few months, enhancing our confidence on our capability to build and operate a world-class cGMP facility. We expect to see some positive traction by the end of this year in this business.

Coming to Inorganic Business: This BU continued to get affected by the fortunes of steel industry in India which continues to remain under stress. However, our initiatives towards expanding markets and product portfolio globally are showing some positive results. We expect further improvement performance over the period to come.

Our JV Project at Dahej with Piramal Enterprises is moving along smoothly and we expect this project to be commercialized by end of second half of FY16 as planned.

Before I hand over to Sitendu who will take you through the financial performance of the company I would like to share a good news about Company's Safety Performance: National Safety Council of India has awarded us with a Second Highest Trophy in recognition of our Superlative Safety Performance during the Past Three Years among all Chemical and Pharmaceutical Companies in India. This only reiterates our continued investment and commitment towards sustained safety performance at our manufacturing sites. Over to Sitendu.

Sitendu Nagchaudhuri:

Thanks a lot, Shekhar and A Very Warm Welcome and Good Morning to all the Participants. I will share highlights of our Financial Performance following which we will be happy to respond to your queries. Starting with the year-to-date performance, the company has registered revenue of Rs.447 crores, year-on-year growth of 12% from Rs.400 crores in the same period last year. Top line has mainly been driven by the CRAMS, Specialty Chemicals and the Refrigerant Gases business segments. Refrigerant Gases business grew from Rs.145 crores to Rs.157 crores in nine-months FY16, which is a growth of 8% year-on-year. It has contributed roughly 36% to the overall sales of the company, of which exports contribute roughly 39%.

Specialty Chemicals business grew from Rs.158 crores in nine months of the previous year to Rs.175 crores for nine months in FY16 which is a growth of 10% year-on-year. This BU has contributed roughly 39% of the overall sales, of which exports contribute roughly 46%. CRAMS business grew almost at a three-fold level albeit on a smaller base to Rs.43 crores in the nine-months FY16 from Rs.15 crores in nine-months FY15. It has contributed roughly

10% of the overall sales in the nine-months FY16 period vis-à-vis 4% in the same period last year.

Inorganic Fluorides contributed Rs.71 crores that is 16% of the overall sales. Growing acceptance of our product portfolio in overseas markets is offsetting the weak domestic demand. Exports contributed around 12% of the sales of this BU.

Operating EBITDA is at Rs.80 crores, which is up from Rs.45 crores in the nine-months of FY15, which is a growth of 79% year-on-year. EBITDA margin is at 18% in the nine-months FY16 period, up from 11.2% in the same period last year, which is an expansion of about 673 basis points. Operating PBT that is profit before other income doubled to Rs.63 crores in the nine months of FY16 from Rs.29 crores in the same period last year. Operating PBT margin has almost doubled to 14.1% in nine-months FY16 from 7.2% in the same period last year. Net profit for the nine-months FY16 is at Rs.55 crores, up from Rs.33 crores in the same period last year, which is a growth of 68% year-on-year. Net profit margin is at 12.3% in the nine-months FY16, up from 8.2% in the same period last year, which is growth of 50%.

Moving on to the Quarterly Performance for the Third Quarter: Company registered revenue of Rs.145 crores marginally lower than that in the same quarter last year. Operating EBITDA is at Rs.23 crores, up from Rs.19 crores in the Q3FY15 which is a growth of 22% year-on-year. EBITDA margin is at 16% in the current quarter, up from 12.9% in the same quarter last year that is expansion of almost 300 basis points. Operating PBT grew to Rs.16 crores in the current quarter from Rs.13 crores in the same quarter last year. Operating PBT margin is at 11% in the current quarter, up from 9.2% in the same quarter last year which is an expansion of 184 basis points. Net profit for Q3FY16 was at Rs.14 crores with margin of 9.4% in the quarter.

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

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: On CRAMS Rs.23 crores revenue, does it include anything from Dewas?

Shekhar Khanolkar: This includes only from Dewas.

Dheeresh Pathak: Last quarter Rs.10 crores, nothing was from Dewas, right?

Shekhar Khanolkar: That was from Dewas.

Sitendu Nagchaudhuri: Last quarter also contribution was from Dewas.

Dheeresh Pathak: Manchester Organics would not come in this because this is a standalone revenue?

- Sitendu Nagchaudhuri:** I think what you alluded is probably the cGMP-II plant. Yes, the cGMP-II plant at Dewas is gaining traction with numerous customer audits being successfully handled. So the growth which you see in Dewas CRAMS is predominantly coming from the cGMP-II plant.
- Dheeresh Pathak:** I am referring to the plant on which we have spent about Rs.60 crores which you keep talking about that, it is gaining audits from customers?
- Sitendu Nagchaudhuri:** That is one I just now talked about.
- Dheeresh Pathak:** How much of that contributed year-to-date?
- Shekhar Khanolkar:** We are not segregating the revenues from both the plants because the other plant is a smaller plant and this plant is a much larger plant and a lot of activity has happened in both the plants together as well, we are not segregating it from plant-to-plant basis.
- Dheeresh Pathak:** Just to understand, Manchester would not be part of this, because that will come in consol revenues, right?
- Shekhar Khanolkar:** Right.
- Dheeresh Pathak:** The Dahej plant, the assumption should be that it will not contribute to revenues this year, it will probably contribute next year? Any update in terms of what sort of revenue contribution you expect from Dahej next year full operations for the full year?
- Shekhar Khanolkar:** That is little too early right now because the product has to be prepared in the commercial lots, then it has to take its own approvals. So it would take some time to actually start revenues getting generated from that plant. The production may start but the revenue generation will take some time.
- Dheeresh Pathak:** Some color in terms of how R22 Refrigerants market is behaving in terms of volume, pricing and outlook?
- Shekhar Khanolkar:** Overall R22 market in domestic is going good, the volumes are growing in both the Refrigerants segment as well as non-emissive use. The R22 marketing exports is little under stress due to various reasons as I talked in my talk and that continues to be the situation even during this financial year.
- Dheeresh Pathak:** 50% is exports, right in Refrigerants roughly?
- Shekhar Khanolkar:** Yes.
- Dheeresh Pathak:** Can you just briefly talk about what you mentioned briefly in the opening remarks the exports stress, but can you just elaborate what...?

- Shekhar Khanolkar:** The material goes into mostly in the Gulf region and countries who are importing this gas needs to get licenses from their own governments. There is a quota which is applicable to them as a country as well as the individual importers. If those quotas get over or new quotas are not given in appropriate time, then you have these issues where they want the product but they are not able to import. So we had faced such kind of situations. In one or two countries the situation was because of financial stress in the country they were not allowing the importers to import for more than certain value. So that also puts restrictions on the importers over there to buy the quantities from R22 suppliers.
- Dheeresh Pathak:** As per phase out restrictions, would importing countries quota completely go away or that...?
- Shekhar Khanolkar:** There are manufacturing as well as the user quotas. Yes, the restriction applies to everyone over that period.
- Dheeresh Pathak:** This is over and above the normal reduction that is expected as per phase out obligation?
- Shekhar Khanolkar:** No, there is only one phase out plant.
- Dheeresh Pathak:** No-no, what I am saying is that there is a normal reduction that will happen each year because of phase out obligations whether it is domestic or whether it is exports that you are doing or the country which is importing from you. What you are talking about the stress that is happening in terms of quotas not being available, this is over and above that normal reduction that is...?
- Sitendu Nagchaudhuri:** It is a part of the overall reduction.
- Dheeresh Pathak:** Then this is not unnatural to expect, right, because this is going to happen, this is something which is...?
- Shekhar Khanolkar:** There can be procedural delays within the countries. In some countries there would not be any procedural delays. It also is the matter of each individual country how they handle the entire quota regime.
- Moderator:** Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.
- S Padmanabhan:** Sir, just taking forward from the previous participant on the Refrigerant Gases, one, you had pointed out on the export side, but the second is also on the fact that if you remember last year we had a very high base on the Refrigerants business. I think that was the first quarter where we saw that import ban on refilled airconditioners coming in. So do you think going forward the base would get rationalized and probably the growth would come back or do you think is it primarily on account of the prices because I think we had seen some kind of price hikes initial part of the year or probably the price has kind of declined which is kind of impacting the sales?

- Shekhar Khanolkar:** Basically, the impact of prefilled cylinders is not seen anywhere yet. The increase what you were seeing earlier has nothing to do with the ban on getting prefilled air conditioners into the country. If you see the overall volumes of domestic R22, domestic R22 volumes have grown almost about 18% to 20% compared to the same quarter last year. The volumes in India for this R22 in Refrigerants application as well as non-refrigerant application is increasing on a quarter-to-quarter basis if I compare and we do not see any reason why it will not continue to grow.
- S Padmanabhan:** The export more or less, should it get abated once the additional approvals are in place or do you think the pain will continue in the export side?
- Shekhar Khanolkar:** Export will continue the way it is. As I have been saying in my previous talks on a short to medium term we do not see any major deviation in terms of how this business will be run because the limitations in terms of production sector are phased out over a period of until 2030. So there is a gradual phase down which is happening and the new alternates are still under consideration in various parts of the globe. So we do not see any short-term issues for this particular business at all.
- S Padmanabhan:** Just moving on to the specialty chemicals business which has been kind of driving growth till the second quarter and this quarter has been some kind of decline. This is something that we have seen in a lot of CRAMS companies, where one quarter seems to be higher, one quarter seems to be lower because I think the order shifts the fourth quarter, etc., Is it something that we have seen in the Specialty Chemicals business, do we still maintain our outlook of Specialty Chemicals being the growth driver...?
- Shekhar Khanolkar:** We do keep same outlook because the Specialty business again we can have a quarter-to-quarter fluctuation based on the seasonalities of the product, for example, going to Agrochemical business it will have certain seasonal impact. So that is what the differential it can make on quarter-to-quarter basis. Also currently there are certain stress levels we see with some of the global agrochemical companies in terms of their inventory pipeline. So that also is having some impact on this particular business. We strongly believe that we have a good pipeline and pipeline is skewed not only to one particular segment like Agrochemicals or Pharmaceuticals but it is a very well balanced pipeline what we have. From that perspective we feel that there is a potential for our Specialty businesses is good.
- S Padmanabhan::** I mean, this year is not specifically meant on the case that there has been lower rains and higher stress on the agro side which is why we are seeing this quarter to be bad because we normally work with a lot of innovators and not the generics if I am correct, right?
- Shekhar Khanolkar:** Yes, but anyway the innovators are also generic users because the top five to six companies actually hold the largest market share globally and for Agrochemicals intermediate companies you need to look at what is happening in the global Agrochemical companies in terms of their performance in this particular segment.

- S Padmanabhan:** Sir, just on the CRAMS business, I think this quarter we were all positively surprised by the number Rs.23 crores. Now, do you think that #1, this run rate would continue going forward? I am not asking on a quarterly-to-quarterly basis, but if I am looking at probably FY16 versus FY17 and especially given the light of probably there is a chance of your Piramal business also contributing something to the top line. If I am correct, this business also comes with much better margins. So do you think from FY16 as we move to FY17 we are going to benefit probably from say about Rs.100 crores of sales coming in from the CRAMS business?
- Shekhar Khanolkar:** I cannot comment on a specific sales number, but as I have been saying that the Dewas facility should give us at least around 3x the turnover when it runs on full scale basis. We have done what all is needed at the ground level in terms of the market penetration, our relationship with the customers, the success what we have got into the audits with some of the large innovator companies in the last couple of months, all these things give us a tremendous confidence that the performance of the CRAMS business should be good going forward. We have created the right kind of capacity at the right time for this particular business. I share with you the enthusiasm what you are saying is we are also very positive about that.
- S Padmanabhan:** This business comes with much better margins compared to your consolidated margins, if I am correct?
- Shekhar Khanolkar:** Yes.
- Moderator:** Thank you. The next question is from the line of Pawan Kumar from Unify Capital. Please go ahead.
- Pawan Kumar:** We have two questions; one, how is the Manchester progressing, can you share the number?
- Shekhar Khanolkar:** Manchester Organics is doing well because now we are in the process of completely integrating the operations into our CRAMS activities. So overall performance has been good over there so far.
- Pawan Kumar:** For the nine-months, do you have any number to share?
- Shekhar Khanolkar:** No, we will have only consolidated numbers to share for Manchester Organics at the year-end.
- Pawan Kumar:** Considering your business organics, what kind of EBITDA margins at the base level should we assume on a quarter-to-quarter basis – is the 16% what you have shown in the current quarter is a base margin and we did 21% last quarter, so are these the range or even it can move beyond this range?
- Shekhar Khanolkar:** Take it as a range, but it is very difficult to consider what is the base and what can be your quarter-to-quarter base. That is why I said in my initial statement that we need to look at this overall business as a whole and on yearly basis not on quarter-on-quarter basis.

- Pawan Kumar:** We try and understand the profile of your business from a seasonality perspective. Of the four lines of business you are in, kindly correct if my impression is wrong, it seems like the Refrigerants business as well as the Specialty Chemicals business has seasonality, driven by its usual segments. Is my impression correct?
- Shekhar Khanolkar:** Largely correct for Refrigerants definitely, yes, but Specialty it all depends on the entire product mix as well because we serve to Chemicals industry, we serve to Pharmaceuticals industry and we serve to Agrochemicals industry. Yes, Agrochemicals industry has a seasonal impact. To that extent it also gets affected. So you are right in your assumption that these two industries do get affected; Specialty partially, Refrigerants almost fully.
- Pawan Kumar:** The significant swing in your margins as you explained in your presentation are driven by product mix and geographical mix. So the seasonality is a significant driver of utilization of capacities as well as pricing in the market during those lean periods?
- Shekhar Khanolkar:** No, actually what happens is that the pricing is not that issue in terms of seasonality. For example, during lean periods if we have orders in our hand we may manufacture those and keep it ready especially in the Specialty business because we have the orders in hand and we will start supplying to those customers as and when they require. So from that perspective we may go on manufacturing it. It is not elastic to the extent that you reduce the price and customers will buy. It is basically getting driven by the demand of the products from the industry.
- Pawan Kumar:** But that sort of massive swing in pricing can come only if it is commodity, right, my impression at least is usually Specialty products do not have that sort of volatility in price because there are not that many people who play in those markets?
- Shekhar Khanolkar:** Exactly, that is why I said that it comes from the demand, it is not elastic to the extent of that if the demand is lower, if we reduce the prices the volumes will pickup, it does not happen that way in Specialty segment.
- Pawan Kumar:** Although we do not have segmental margins, is it reasonable to conclude that a lot of the dip that you experienced in this quarter, the margins have come from the Refrigeration business?
- Shekhar Khanolkar:** Partially yes, not fully because as we explained that it is a mix of product mix across the company, it is also a geographic mix which has affected, but the Refrigerants business as we said, the exports have been lower compared to same quarter last year as well as previous quarter, that has affected overall margins as well as the top line.
- Pawan Kumar:** So the export margins traditionally superior to domestic margins?
- Shekhar Khanolkar:** It depends on quarter-to-quarter basis.

- Pawan Kumar:** So it is not a secular trend that exports are always superior from a margin perspective in Refrigerant?
- Shekhar Khanolkar:** Not necessarily.
- Pawan Kumar:** Do you think that the ban on importing filled cylinders will improve domestic demand and domestic margins going forward?
- Shekhar Khanolkar:** We do not have any specific number to attach to it because we have not seen any such changes at least this quarter. We will have to wait and watch.
- Pawan Kumar:** But is it reasonable to assume that given that there are only three producers or two producers, there will be some pricing power in your hands?
- Shekhar Khanolkar:** The market is a large market and it is a competitive market. As I said it is very difficult to predict how this ban would create demand and how each of the competitors would respond to the demand.
- Pawan Kumar:** Can you just clarify how many producers are there besides you...?
- Shekhar Khanolkar:** There are four producers in India.
- Pawan Kumar:** Are you the largest?
- Shekhar Khanolkar:** No, some of them are captive also, some of them have large capacities but also use for captive purposes, almost probably would be the same, some plus or minus would be there.
- Pawan Kumar:** On fluorides your user industry is entirely steel or what proportion is steel?
- Shekhar Khanolkar:** It is largely steel and glass. These are the large industry plus a little bit of pharmaceutical also comes in play.
- Pawan Kumar:** Should we assume a secular arising out of pain from the steel sector or will it compensate from growth in other sectors?
- Shekhar Khanolkar:** No, these are inorganic chemicals which go largely as I said into steel and glass. So it definitely gets affected by the fortunes of these industries.
- Pawan Kumar:** Margins also compress as demand dips, is that fair to assume, so it is a double-whammy?
- Shekhar Khanolkar:** It is very difficult to single out for this particular business because as I said there are a large number of products, some are commoditized, some still command a good margin because there

are not many producers over there and again some products go into pharmaceuticals sector, so it is very difficult to comment on overall margins coming out of this business.

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

Pritesh Chedda: Just wanted to understand the 700 bps QoQ swing in gross margin where on one side you commented that CRAMS is basically a better margin business. So if I look at the mix QoQ it has moved in favor of CRAMS and the reducing part is Specialty Chemicals. So if you could give some more color on the contraction in gross margin? I have my thoughts on it, but I would want to share it later based what comments you have.

Sitendu Nagchaudhuri: You are absolutely bang on in looking at the immediate traction on the play which is CRAMS growing, but I would like to draw your attention to a couple of other fundamental facts; CRAMS although it is growing and it is growing at a significant pace, the share of the pie of CRAMS in the overall portfolio is still to be a force to reckon with, in the last quarter it was about 6%, it has now moved to 16% but the two largest flagship BUs if I may use the term still happen to be the Specialty Fluorochemicals BU and the Refrigerants BU. If you look at the revenue mix which is the presentation uploaded in the website the, business unit wise share of pie, that clearly indicates that the Specialty Fluorochemicals business from 44% share of the total pie has come down to 37%, that is a significant reduction in the share of pie and Specialty is also pretty much higher up in the value chain in terms of margin extraction potential. The second thing as Shekhar was alluding a while ago even the Refrigeration business has actually come down from 35% to 30% and that is predominantly because of the headwinds in the exports, the traction in the exports margin. So if you look at on overall scope of scale basis, we have been significantly affected by the change in mix of the revenue contribution from these two BUs which are the Fluorochemicals and Refrigerant Gases, and as we keep on emphasizing even within each BU the margin generation potential varies from product-to-product, so product mix also comes into a significant play. So, essentially it is impact coming from Specialty Fluorochemicals and Refrigerant BU which has been partially mitigated by the growth in CRAMS. But the growth in CRAMS is not yet sufficient to cover this shortfall.

Pritesh Chedda: Because Q3 last year your Refrigerants BU was 38% in mix which is 30% now and Q2 was 35%, so a lot of the swing in gross margin because on a YoY basis the Refrigerant BU contraction in mix is much higher than the QoQ, yet the QoQ gross margins are much lower. So is it safe to conclude that it is largely driven by Specialty Chemicals and product mix within Specialty Chemicals and then it becomes counterintuitive to your earlier observation that these products are price inelastic, so I was a bit confused as to which part of the mix is driving 700 bps QoQ gross margin reduction?

Sitendu Nagchaudhuri: Let me try and pick up your question in two parts. We would not be liking to say that this is largely on account of Specialty Fluorochemicals business, the principal contributor is the both

Specialty Fluorochemicals and the Refrigerant Gases business. Secondly, I think there is a confusion in terms of the price inelasticity. What Shekhar alluded a while ago in terms of price inelasticity is price inelasticity for a particular product, it does not quite vary from a lean period to a peak period kind of a stuff. However, what you are going to keep in mind that across the product portfolio which is in offer in the Specialty Fluorochemicals BU, the corresponding positioning of a product and therefore the relative margin earning capacity is also quite at variance within the BU itself. So depends on in a particular quarter what is your product portfolio which has actually been executed through shipments.

Pritesh Chedda: In this it would be nice for our better understanding if you can just give chronology of gross margin potential of these segments, so which is the highest, we know that Inorganic Fluorides is the lowest, but amongst the three and the range if you could give in the gross margin?

Sitendu Nagchaudhuri: If you look at the presentation in the business overview segment, there is a value pyramid already given and that sort of clearly tells the story – CRAMS is in the top of the house...

Pritesh Chedda: The differential in gross margin range if you could just give, 10% differential, 15% gross margin differential?

Sitendu Nagchaudhuri: Sorry, we do not get into any sort of specifics of gross margin BU wise and hence would not be able to answer this question.

Pritesh Chedda: My second question on the CRAMS side. This Rs.23 crores once you fix this number, is this number at least sustainable on a quarterly basis unless and until you add new molecules and new ramp-up or even this can be looked differently from the forthcoming quarters?

Shekhar Khanolkar: No, the CRAMS business is a business as all of you know that it has its own fluctuation because of the business model by itself. Now, the kind of capacities what we have, we can do much larger than this. But whether the Rs.23 crores will remain every quarter Rs.20 crores that will increase or decrease is difficult to comment. What I would say qualitatively what was happening years back or a couple of quarters back and today is that we have better visibility in terms of the order position what we have, that kind of visibility was not there with us probably last year. So to that extent, our understanding of the business and the markets is increasing. This is what I can say about the performance of the CRAMS business and sustainability of the performance of the CRAMS business.

Pritesh Chedda: So visibility is always less on the current business unless and until you add new molecules, etc., new clients, whatever you are producing today in that CRAMS?

Shekhar Khanolkar: Visibility is only for a quarter, not more than that because these are all new molecules, new research. So all goes where the programs of the innovator companies how their programs are succeeding in their trials and other things.

- Pritesh Chedda:** So just picking one of your comments from your past quarters on R22, that market even your competitors understanding on the market is that and the past phase out of gases whenever it has happened, is that once the gas gets phased out, the volume declines progressively happen but by virtue of these supply constraints, the fact that the product prices actually tend to compound at a certain rate, hence the margins on the product actually increase. Does this observation change as on date or that observation for the Refrigerant business continues, the market understanding continues this way which is 5-years down the line, 2-years down the line?
- Shekhar Khanolkar:** That was happening with the product which got phased out in 2007-08 period. Now, I am not sure whether the same pattern will continue because the market dynamics, availability of alternate products, the usage of this particular gases, all are different for R22. So from that perspective whether the same pattern will repeat, it is very difficult to say, number 1. Number 2 is we are talking about a period until 2030. So we are talking almost another 14-years before this product actually goes out. Whereas the 2007-08 period that was the time when the product it was actually phased out. So that '07-08 period can be compared to 2028-2030 kind of a year and not the immediate future. So it is too early for anyone to answer this question in the same context as what happened to R11 and R12.
- Pritesh Chedda:** Actually, I did not pick it. So R11, R12 the eventual phase out in those last two years is where the price increases happened. That is what you are pointing out?
- Shekhar Khanolkar:** Yes.
- Pritesh Chedda:** However the day that phase out started, so even that product would be a 8-year or 10-year phase out, initial part of that 8-year out of that 10-years there was no price movement, but in the last 2-years there was. That is how you want to point out?
- Shekhar Khanolkar:** No, I am not saying anything about the previous, I am just talking about the last 2-years what has happened, that is what I am trying to tell you because frankly speaking I really do not have with me right now in terms of what happened when the phase out was announced and how the prices started moving out against the volume for that particular product for '10-15 is we do not have that.
- Pritesh Chedda:** What would be your best guess then for R22 I will actually ask it that way?
- Shekhar Khanolkar:** I do not have any guess. As I said, we are looking at this product, whenever we are projecting we are saying for the next couple of years we see a good growth in this market because still the growth in the product in Refrigeration as well as non-emissive application is continuing in India. So from that perspective we see a good potential for this product in the near-term.
- Pritesh Chedda:** Can you give a comment on the Specialty Chemicals growth rate?

- Shekhar Khanolkar:** Specialty Chemicals growth we have been growing like last year what this year we have grown by almost 12% on an overall basis and we have a good pipeline of products coming in into this business. As and when required we are prepared to invest into this business in terms of the manufacturing assets. So from that perspective, we see there is a good growth potential for Specialty business over a long-term period.
- Moderator:** Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.
- Sandeep Baid:** My first question is on the CRAMS business. You mentioned that you can do much higher turnover on this given the capacity that you have today. So, at full capacity utilization what is the turnover that is possible from this business?
- Shekhar Khanolkar:** We have invested about Rs.60 crores in the new plant. So the new plant we expect to give at least around 3x the asset turnover about Rs.200 crores, it all depends upon the product mix as well because these are all new products, the pricing is different, number of steps are different, but overall we expect that it should be at least Rs.200 crores from a new plant.
- Sandeep Baid:** From the old plant?
- Shekhar Khanolkar:** Old plant is a very small plant. So that should give about Rs.30-35 crores, but again, some steps may happen in an old plant, some steps in a new plant, so it is a mix of the assets what you have to consider as we go along. So overall Rs.200-225 crores should be possible from that side at the current investment levels.
- Sandeep Baid:** The operating expenses for the new plant, are you expensing it or are you capitalizing it?
- Shekhar Khanolkar:** This plant is now capitalized.
- Sandeep Baid:** So the expenses that you are incurring on a day-to-day basis, are they being expensed in the P&L?
- Shekhar Khanolkar:** It will be in the P&L.
- Sandeep Baid:** All the expenses that you are doing the customer audit all these are being expensed in the P&L?
- Shekhar Khanolkar:** Yes.
- Sandeep Baid:** My second question is on your Refrigerant Gases. Can you give some kind of a split between the usage of the gas one for cooling purpose usage and the second are the usage of the gas?
- Sitendu Nagchaudhuri:** The non-emissive usage of the Refrigerant Gases being sold by us is around 20%.

- Sandeep Baid:** Do you see that increasing going forward?
- Sitendu Nagchaudhuri:** Yes.
- Sandeep Baid:** So the BU will continue to exist even beyond 2030 to that extent?
- Sitendu Nagchaudhuri:** The restriction is actually on the emissive part of the usage of the HCFC, it does not include the non-emissive part.
- Moderator:** Thank you. The next question is from the line of Ranjeet Cirumalla from B&K Securities. Please go ahead.
- Ranjeet Cirumalla:** My first question is on the CRAMS business. Would it be fair to assume that the revenues we have got of Rs.23 crores, is it a spillover of the one cGMP plant?
- Shekhar Khanolkar:** No, it is coming from both.
- Ranjeet Cirumalla:** Yes, but in that case then have you got the orders, we have done so many client audit for the cGMP too?
- Shekhar Khanolkar:** Yes, we have already started using this plant. So we are using both the plants. It depends upon the size of the order. If it is small quantities, we can make in the smaller plant. If there is large quantities you have to go to the larger plant. Again, some kind of reactions we may go only in the larger plant. So we will be using both the plants together. But to answer your specific question, yes, the new plant already has started using after the successful audits from the customer.
- Ranjeet Cirumalla:** So the clients have come back with the orders?
- Shekhar Khanolkar:** Yes.
- Ranjeet Cirumalla:** Just to understand more on the Refrigerant side, this 20% non-emissive usage, has it gone up in the past like if you want to compare on a YoY basis?
- Shekhar Khanolkar:** It is going up on regular basis.
- Ranjeet Cirumalla:** Then to understand it further, in the emissive part, we are seeing the 10% because the norms are both for the users and the manufacturers, so we being the manufacturer, so we also have to comply with that 10% cut, so that is being complied?
- Shekhar Khanolkar:** Yes.

- Ranjeet Cirumalla:** Then I am just a bit confused to understand that how can we see a growth in the Refrigerant business is the emissive part, that we have alluded in the commentary that 18-20% growth was there.
- Shekhar Khanolkar:** Fundamentally, this restriction of the production applies for emissive. So all the companies have sufficient capacities. Only if there is non-emissive usage continues to go up, that is not getting counted into the restrictions of reduction in the volumes. We can go on catering to a non-emissive customers to the extent of what total capacities what we have.
- Ranjeet Cirumalla:** This pre-filled containers which has been banned, that would be a part of emissive or non-emissive?
- Shekhar Khanolkar:** Emissive.
- Ranjeet Cirumalla:** Then would you be able to capture that growth because we would have to comply with 10%?
- Shekhar Khanolkar:** Anyway you have to comply within the production limits what is set by the government. So, any increase in the business happens because of the ban of those prefilled cylinders will get counted in the overall limit of emissive usage what all of us have.
- Ranjeet Cirumalla:** We can eventually grow this emissive part as well if you capture the other part because it is the geography specific or the individual specific thing. So can we actually grow the emissive part of the business?
- Shekhar Khanolkar:** We can grow to the emissive part to the extent of the market demand on one side and second side is the production restriction which we have from the government.
- Ranjeet Cirumalla:** On the Specialty Chemicals side, can you throw some light on how many molecules do this particular BU manufacture as a whole?
- Shekhar Khanolkar:** As a whole, we have huge molecules, if you see our website, there are large number of molecules which are pooled there and we have capable to manufacture all those molecules. Every quarter it changes what kind of molecules and how many number of molecules which we manufacture.
- Ranjeet Cirumalla:** Would the current depreciation quarterly run rate be there because the Dewas would have fully capitalized now, so would that be a fair assumption?
- Sitendu Nagchaudhuri:** So far as Dewas is concerned, the capitalization has actually happened. So basically from current quarter onwards, that will be on an elapsed basis full run rate. However, we have this investment in Dahej and other maintenance CAPEX. So to that extent basically there could be some set of portfolio impact on the depreciation side of the house.

- Ranjeet Cirumalla:** That would be under consolidated numbers?
- Sitendu Nagchaudhuri:** We are actually exploring the financial treatment of that. So, IND-AS comes into play from the next year. So it will be a little premature for us to comment as to how that treatment be. So certainly it will be in the consolidated numbers. Whether it will be in the standalone numbers or not, it is premature to comment now.
- Moderator:** Thank you. The next question is from the line of Satish Mishra from HDFC Securities. Please go ahead.
- Satish Mishra:** First question is related to Specialty. Will it be possible to have some sense on what is the proportion of Agri and Pharma in our domestic as well as exports?
- Shekhar Khanolkar:** Yes, Agri and Pharma are around 40% each I would say and about 20% goes into Chemicals sector.
- Satish Mishra:** Both in domestic as well as...?
- Shekhar Khanolkar:** Specialty is more Pharma domestic and Agro export.
- Satish Mishra:** This 40-40 you are saying for the whole unit, not...?
- Shekhar Khanolkar:** Yes, I am saying from the segment perspective, that is Agrochemicals and Pharmaceuticals.
- Satish Mishra:** For Refrigerant, though you talked about good long-term outlook, but just to get a sense, in the near-term, all the pains because of this cut, has it got reflected or is it expected that we can see further a bad quarter?
- Shekhar Khanolkar:** No, this is nothing to do with the cut in the production.
- Satish Mishra:** No-no, basically, all what you talked about the problems in export, cut in the quota and all.
- Shekhar Khanolkar:** No, this kind of problem will persist, is not necessarily in the specific quarter but this quota if you are given on say December to January period, then you may have issue again in the November-December next year or something, so that cycle of quota is January-December, so you may face those issues during that time again.
- Satish Mishra:** Again, just to understand, say for example, if there is a quota reduction of say 25% over the next five-years, so does it happen gradually 5% every year or is it that you have to comply with it at the end of 20-20?
- Shekhar Khanolkar:** From production perspective, there are very clear deadlines until 2030 which year how much production quotas will come down. So what I talked of in export market is different than the

production quotas I am talking of. Export market, what is happening is each importing country because they do not have any production facility in their country has to allocate quotas to their country traders or actual users. The issues happen in that particular quota releasing by those governments to their importers. This is different than the production quotas the timeline till 2030 which the producing countries have.

Satish Mishra: So Agrochemicals slowdown is slightly understandable as there is a problem in the agri commodity prices. But why there were a problem in the Pharma sector?

Shekhar Khanolkar: Some of the products which we sell into some of these domestic companies, either they have a product mix kind of a thing decision they have taken or some other reason, but fundamentally we face some stress into some of these pharmaceutical companies for our products. I would not generalize it for the pharmaceutical segment in India. But I would put a combination of our products and our customers, I would put it that way.

Satish Mishra: So again as per your understanding, was it one-off sort of time or that is going to sustain?

Shekhar Khanolkar: I do not think that is a long-term issue. That can get sorted out in anytime. That is what we hope.

Satish Mishra: Apart from the JV, how much CAPEX will be there in FY17?

Shekhar Khanolkar: FY17 is too early to talk of.

Satish Mishra: Second half of '16?

Shekhar Khanolkar: As of now, what CAPEX we have that is one which is going on right now at Dahej plus there are regular maintenance CAPEX which are happening. So not a major CAPEX to enhance the production capacities.

Moderator: Thank you. The next question is from the line of Vipul Shah from Monarch Network Capital. Please go ahead.

Vipul Shah: If I bifurcate the export revenue for third quarter, which I derived from the nine-month numbers, what I found is there is a significant revenue reduction in export compared to second quarter in Specialty Chemicals segment. So is there a cyclical sector or there is actual genuine slowdown on exports market?

Shekhar Khanolkar: As I have been saying, this is again a product mix if you are supplying to Agrochemicals industry. We supply most of the exports are in Agrochemicals sector in Specialties business. So, a little slowdown in that has probably affected the exports in the Specialty segment because most of our export happen in Agrochemicals sector. So that is the impact what we have been seeing from Q2 to Q3.

- Vipul Shah:** Refrigerant Gas, your quota is derived based on averages of some previous year's production if I guess correctly 2013 and beyond that. So considering that, do we have any growth for scope for the volume growth in emissive segment in Refrigerant Gas if demand is there?
- Shekhar Khanolkar:** Basically, the quota is based on the average between 2009 and 2010. That is one part of it. Second part of it is the current capacities in the quota which the country has, it is good enough to take care of the country's requirement as well as the growth which is predicted in next couple of years. So from that perspective, I do not see any issues for the Refrigerant manufacturers in India to participate in the growth of the emissive use of the product in India.
- Vipul Shah:** We have a scope for volume growth also?
- Shekhar Khanolkar:** Yes.
- Moderator:** Thank you. The next question is from the line of Siddharth Bhattacharya from Suyesh Advisors. Please go ahead.
- Karthikeyan:** This is Karthikeyan here. A couple of things: One is I wanted to understand has the Dewas facility achieved breakeven at current revenue run rate and when it starts contributing to profitability?
- Shekhar Khanolkar:** It is too difficult to give those numbers in terms of the breakeven capacities and other things because Dewas is a growing site. As we are increasing the scale of the operations, we are adding a few equipments, we are adding a few people, so we are in a growth phase over there. So it is difficult to really pinpoint that ex turnover we will be able to break even into this but I am sure that this business will contribute in a big way in our EBITDA margins as well as on the PBT margins for the company over the next few quarters.
- Karthikeyan:** A couple of other questions; one is related to Specialty Chemicals. We started the year with reasonably strong growth expectations; we have done so far in the nine months about 9-10% kind of growth. Where do we stand in terms of growth expectations for the year and if possible some thoughts on where we could be give us a small number, I am not talking about guidance, but a number which is bare minimum you could do next quarter and next year also?
- Shekhar Khanolkar:** As I said earlier, the thing is that we have a strong pipeline of the products with us in our R&D. There is a continuous pipeline which the products move from R&D to pilot plant, pilot plant to the last plant. So that process is continuously going on with many pharmaceutical as well as Agrochemicals companies in India and abroad. So, we expect a very good traction to happen in this business going forward in the next couple of quarters.
- Karthikeyan:** Over the next couple of quarters, you see an improvement in terms of outlook, is that a reasonable way to remember?

- Shekhar Khanolkar:** Yes.
- Karthikeyan:** On the Refrigerants business, you talked about production quotas. Now, my preliminary understanding was basically that your quota remains flattish for 5-years following and then next level of quotas kick in or have I misunderstood that?
- Shekhar Khanolkar:** There is a very clear reduction, for example, 2015 January, there was a 10% reduction, there will be next reduction happen in 2010.
- Karthikeyan:** So nothing changes till then, right?
- Shekhar Khanolkar:** No.
- Moderator:** Thank you. The next question is from the line of Zeeshan Bagwan from JM Financial. Please go ahead.
- Zeeshan Bagwan:** Could you just provide us with gross margins for different business segments?
- Shekhar Khanolkar:** No, we do not provide any specific gross margins for any of the segments.
- Zeeshan Bagwan:** Sir any ranges as such?
- Sitendu Nagchaudhuri:** If you refer to the 'Investor Presentation' where there is value pyramid given that tends to tell you about the direction, CRAMS comes on the top of the house in terms of the margin generation capability, followed by the Specialty Fluorochemicals business and followed by the other two. So that probably directionally answers your question.
- Moderator:** Thank you. The next question is from the line of Akash Adukiya from Ambit Capital. Please go ahead.
- Akash Adukiya:** I just wanted to understand the R22 pricing in the domestic markets. Any comments on that?
- Sitendu Nagchaudhuri:** There has not been any significant change in the R22 domestic pricing in the current quarter versus last quarter.
- Moderator:** Thank you. The next question is from the line of Praik Poddar from ICICI Prudential AMC. Please go ahead.
- Praik Poddar:** Just two questions; one is related to the pricing of R22. You mentioned a while back when we took to the last quarter there has been no price impact, but versus last year directionally have we seen price increases?
- Shekhar Khanolkar:** Compared to last year there is some price increase we see in the market.

- Praik Poddar:** Is it possible for you to quantify some as in a range or something 5-10 or 10-...?
- Shekhar Khanolkar:** Because there are multiple segments in the market like OEMs and direct market. We could get some price increase in some segments, in some segments we could not get. So it is very difficult to average out the pricing what we have got. But, if you see the numbers, the increase is both because of the price as well as the volumes.
- Praik Poddar:** Going forward into next year, you would not have now any volume cuts, right, because whatever volume cut had to happen had happened CY 2015?
- Shekhar Khanolkar:** Yes.
- Praik Poddar:** Second is, directionally, you should aim for improvement in gross margins with the contribution from CRAMS going up?
- Shekhar Khanolkar:** Yes, it should go up because as we said, the CRAMS business is on a growth path and it has been contributing from a percentage point of view in a better way than the other businesses as of now. So yes, to that extent, you are correct.
- Praik Poddar:** So directionally, I should see your gross margin improvement?
- Shekhar Khanolkar:** Yes.
- Praik Poddar:** So this is what bothers me, if I see this quarter versus last quarter gross margins did not improve despite CRAMS growing substantially. Is that a one-off and going forward you would see some reversals or we need to also in our understanding take into account how the other segments behave?
- Sitendu Nagchaudhuri:** What we are going to really look at rather than getting into this one-off or a sustainable kind of thing, we all of us need to look into the contribution percentage of CRAMS in the overall enterprise portfolio of the top line. Any meaningful value creation or margin enhancement by CRAMS will be at the portfolio level for the enterprise only when CRAMS actually comes into its full play potential and becomes one of the large reckoning flagship BUs like the Specialty or the Refrigerant business. Till that time, CRAMS is actually growing at a very fast clip but to be able to meaningfully change and alter the portfolio margin performance of the enterprise, it needs to actually have that open scale to be built up which will be built up over the coming quarters and coming few couple of years.
- Praik Poddar:** Dewas cGMP-II plant, did that contribute anything to the revenue mix this quarter?
- Sitendu Nagchaudhuri:** It has started contributing to the revenue mix in this quarter.
- Praik Poddar:** Last quarter there was no contribution from cGMP-II plant?

- Sitendu Nagchaudhuri:** No, it actually started gaining momentum from this quarter onwards.
- Praik Poddar:** Bulk of the increase is attributable to this plant, is that a correct understanding?
- Sitendu Nagchaudhuri:** This question has been answered by Shekhar a while ago. We do not actually entertain plant wise turnover performance because quite a few cases what happens is it is conjugant responsibilities, so up to a particular stage a molecule could be developed in cGMP-I and then gets transferred to cGMP-2 and stuff which is why we look at CRAMS operations at Dewas as a whole rather than having a plant wise breakup
- Moderator:** Thank you. The next question is from the line of Aditya Wagle from Aequitas. Please go ahead.
- Aditya Wagle:** I just wanted to ask about your Dahej JV. In the past you had mention the asset turnover of 1x. So that still holds, right?
- Shekhar Khanolkar:** Yes.
- Aditya Wagle:** Secondly, I wanted to ask, can you give us some details about the Fluorspar JV, the GMDC and GFL?
- Shekhar Khanolkar:** The work is going on, on that. We are still in the process of identifying the right partner to take the activities further. There is a continuous interaction/discussion which happen between three of us on this and it will take some time for us to actually start getting the work done on the ground because we are in the process of finalizing the technology partner and the company who will actually start the construction of the plant.
- Aditya Wagle:** Your presentation mentions production from FY17. So that...?
- Shekhar Khanolkar:** That is what we are still expecting because it is where the site structure is available there. So once we finalize the entire partner with whom we are going to work, then we should be able to speed up the operations.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.
- Shekhar Khanolkar:** Before ending the call, we would like to reiterate that we are continuously striving to improve our portfolio towards value-added molecules and reach out to diverse set of customers and markets with objective to be as resilient as possible to fluctuations in demand scenario. I would like to thank everyone for joining on the call and hope we have been able to respond to your queries adequately. For any further information/request, you get in touch with SGA, our Investor Relations Advisors.



*Navin Fluorine International Limited
February 1, 2016*

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