



“Navin Fluorine International Limited Q3 FY-18 Earnings Conference Call”

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

Moderator: Ladies and gentlemen, good day and welcome to the Navin Fluorine International Limited's Q3 FY18 Earnings Conference Call.

This conference may contain forward-looking statements about the company which are based on the believes, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of the future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Shekhar Khanolkar, Managing Director of Navin Fluorine International Limited. Thank you and over to you, Mr. Khanolkar.

Shekhar Khanolkar: Good morning and warm welcome to all participants. I am joined by our CFO Mr. Sitendu Nagchaudhuri for this discussion and SGA, our Investor Relations Advisors.

I hope you got a chance to go through our financial results and presentation uploaded on the stock exchange as well on our company website. I will give you brief business updates followed by commentary on the financial results by Mr. Sitendu Nagchaudhuri.

I am happy to report that the company continues to be on the growth path and has delivered another strong quarter. With its innovative products and services offerings Navin is able to fulfill its customer requirements, and in the process established a long term relationship which is focused on establishing itself as one of the leading Fluorination Chemistry expert. The company is making concentrated efforts to rise up the value chain with better profitability.

The strengthening performance of the company in this quarter is a result of each business unit contributing to the overall growth in profitability and improving the return ratios. The fluorination chemistry offers huge growth opportunities and we are confident of capitalizing these opportunities with the help of strong R&D capabilities.

The recently announced CAPEX of Rs. 115 crores for our Dewas facility reinforces our belief in the future growth opportunities as the decision to invest in the 3rd cGMP facility and the associating infrastructure have been arrived at based on customer enquiries, discussions and in anticipation of future research pipeline of innovators.

Our net revenue from operations for year till date is Rs. 665 crores which is a growth of 34% over the corresponding period last year. The operating EBITDA margin is at 24.8% and for nine months of FY18 EBITDA grew by 47% to Rs. 165 crores over the same period last year.

Now let me begin with giving you B.U. wise update. CRAMS, the CRAMS BU revenue of Rs. 219 crores for nine months include Rs. 56 crores from Dahej operations. Non-Dahej revenue for CRAMS business has grown by 77% over same period last year. The business is moving ahead as per our expectations and in line with our business plans.

With a utilization of Dewas plant reaching significant level and with improving order book visibility the BU is poised for growth going forward. We have already started work on our expansion plan for approved CAPEX and we are confident at this stage that we will be ready with new facilities as and when needed to support our next cycle of growth. However as we have been saying all along we should not overlook possibilities of quarter-to-quarter fluctuation in this business due to very nature of this business.

Also during the last quarter we have executed the business transfer agreement with Convergence Chemicals Private Limited for transfer of facilities at Dahej relating to manufacture and sale of specialty fluorochemicals to CCPL with effect from 1 December 2017.

Coming to specialty chemicals B.U.. Our specialty chemicals revenue for the year till date in the current financial year has remained flat at around Rs. 165 crores compared to the same period last year. The business continues to face headwinds in the agrochemical sector. On the domestic front one of our product continues to face slowdown in the demand as the end consumer has switched to alternate route of synthesis.

Both these factors combined continue to affect the performance of this BU. However, we are now getting positive traction in some of the existing products in export market which should help us to some extent. Our R&D work on new molecules is also going as per our plans. Refrigerant BU. The BU has improved the performance by 14% with a revenue of Rs. 175 crores in nine months FY18 as compared to Rs. 154 crores in nine months of FY17.

Export business has contributed significantly especially in Q3 towards the BU growth with better volumes and price realization. We expect the growth momentum to continue in the coming quarter.

Coming to inorganic business with the revival in the aid to the industry in India the inorganic fluoride BU has grown by 21% in nine months of FY18 compared to the same period last year. Inorganic business has contributed Rs. 105 crores as against Rs. 87 crores last year for the same nine months period. As a strategy we have been focusing on addressing the demand from export market for fast few years. These efforts are giving us good result which is further supported by the current Chinese situation.

The export revenue has doubled as percentage to sales over same period last year. Our volume and price extraction in this segment of our business has also improved significantly due to sharper focus on global queues on supply demand situation.

Now I handover to Sitendu who will take you through the financial performance of the company.

Sitendu Nagchaudhuri:

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

Please note that our financials are prepared in accordance with the Ind-AS. First, I will discuss the financial performance for the nine months ended December 31, 2017. For the 9M fiscal 2018 the company has registered a net revenue from operations which is net of excise of Rs. 665 crores, a year-on-year growth of 34% from Rs. 497 crores in the same period last year. Key driver for this growth has been a positive traction and improved realization in the Refrigerant Gases as well as improving demand by the end user industry segment for Inorganic Fluoride business unit.

Refrigerant Gases business saw a growth of 14% from Rs. 155 crores in 9M FY17 to Rs. 175 crores in 9M FY18 had contributed 26% of the net revenue of the corporation in the 9M FY18. This business unit has recorded exports of approximately 34% during this period. CRAMS revenue has registered a growth of 137% to Rs. 219 crores in 9M FY18 from Rs. 92 crores in 9M FY17. Proportion of CRAMS' revenue in net revenue from operations has increased from 19% in 9M FY17 to 33% in 9M FY18.

Total CRAMS' revenue includes Rs. 55.7 crores from Dahej operations. As you are aware the business transfer arrangements has been executed and the Dahej operations has now been transferred to Convergence Chemicals Private Limited with effect from 1 December 2017.

Revenue from Inorganic Fluoride business unit is Rs. 105 crores for 9M FY18 which grew by 21% year-on-year. This BU contributes 16% to the total revenue and exports of this BU has increased from 7% to 14% in 9M FY18. Specialty Fluorochemicals business unit continues to be subdued compared to the other BUs due to the factors enumerated by Shekhar in his speech a while ago.

Specialty chemicals business recorded a revenue of Rs. 165 crores in 9M FY18 which is similar to the corresponding period last year. As a percentage of total revenue this BU has contributed 25% in 9M FY18 as compared to 33% in 9M FY17. 39% of this BUs revenue comes from exports.

Compared to last year, raw material cost have started showing some marginal uptrend however this has not impacted margins significantly. Improvement in profitability is predominately on account of product mix as well as geography and BU mixes. Operating EBITDA which excludes other income for 9M FY18 is Rs. 165 crores registering a growth of 47% year-on-year from Rs. 112 crores during same period last year.

The operating EBITDA margin expanded by approximately 220 basis points to 24.8%. Operating PBT which excludes the other income grew by 42% to Rs. 134 crores in 9M FY18 from Rs. 94 crores in corresponding period last year. Operating profit before tax margin improved by 120 basis points from 18.9% in 9M FY17 to 20.1% in 9M FY18.

Profit after tax is Rs. 140 crores for 9M FY18 as compared to Rs. 96 crores in 9M FY17 which is a growth of 45% year-on-year. Coming to the quarter performance for the quarter ended 31 December 2017 net revenue from operations grew by 45% to Rs. 221 crores compared to Rs. 152 crores in the same quarter last year. Operating EBITDA which excludes the other income from the quarter registered a growth of 69% from Rs. 31 crores in Q3 FY17 to Rs. 52 crores in Q3 FY18.

Operating EBITDA margin improved by approximately 330 basis points to 23.6%. Operating profit before tax which excludes the other income for the quarter was at Rs. 43 crores compared to Rs. 25 crores in Q3 FY17 which is a growth of 73% year-on-year. Operating PBT margin for the quarter grew by approximately 310 basis points to 19.4% up from 16.3% in Q3 FY17. Profit after tax was Rs. 48 crores in q3 fy18 registering a growth of 235% on a year-on-year basis from Rs. 14 crores in Q3 FY17.

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

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

We take the first question from the line of Siddharth Bhattacharya from Suyash Advisors. Please go ahead.

Siddharth Bhattacharya: So in your opening commentary on the various business units, you mentioned that the Chinese situation is aiding growth for the inorganic fluoride segment, the export market. So can you please elaborate on that what exactly is happening?

Shekhar Khanolkar: No, basically as you know there are a lot of pollution related issues in China. So the customers in Europe and US who have been totally dependent on Chinese products earlier, they are looking at new relationships and new vendors. So as we have been saying for past two years we have been going to the market anyway because of Indian situation and meeting these customers.

This process of entering into some kind of a contract, entering into some kind of a relationship with them got happened because of the Chinese situation. So our efforts got supported or supplemented by the current situation in Chinese market where now we are able to get some good customers in Europe and US markets for this business.

Siddharth Bhattacharya: Okay and is this evolving scenario also affecting the other business units?

- Shekhar Khanolkar:** Not really because a little bit on refrigeration exports yes because again China is a big competitor there for us. But other business not really in a big way.
- Siddharth Bhattacharya:** And sir in terms of raw material costs I just wanted to understand what kind of optimization measures have been taken to ensure that we do not get affected by excessive volatility in the raw material prices?
- Shekhar Khanolkar:** No, we have certain raw materials where we enter into certain contracts regarding pricing and the supplier. So supplier reliability and the pricing part are taken care of in this. So as the raw material prices go on increasing or decreasing to a certain extent we do not get affected. But then the volatility in some of the raw materials is inevitable. So to that extent what needs to be done is that try to get those differences from the market that is all we are doing. So that is the way we manage our raw material supplies.
- Siddharth Bhattacharya:** And finally are we able to sort of in a way pass on the excessive volatility to our clients also let us say a certain percentage of that?
- Shekhar Khanolkar:** Yes, definitely.
- Moderator:** Thank you. We take the next question from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.
- Chetan Thacker:** Sir just wanted to check on Dahej given that we have ramped up really well in this spill. What is the scope of further ramp up in the next year because I understand volume is not the only determinant and it is actually the value that you produce out of that plant so just wanted to get a sense on that?
- Shekhar Khanolkar:** Yeah, so as we have been saying Dahej we just started production two months back. So we have started ramping up we have not yet reached the full capacity utilization and probably it will take another few months to really reach to the higher level of production in that particular this thing. But we are continuously improving our productivity from that plant.
- Chetan Thacker:** And sir on the Dewas facility similarly what is the outlook for the next year given that we ramped up quite well this year?
- Shekhar Khanolkar:** So Dewas facility when we put up that CAPEX we said that it will take three years for us to reach to the full utilization. We are in the second year of operation right now so we are on track in terms of utilization of the facility next year as well. By end of next year we will have the new facility coming up, the third plant which we had just announced.
- Chetan Thacker:** And sir in value terms fair to assume full capacity for Dewas would mean 3x asset turn or probably a little higher?

- Sitendu Nagchaudhuri:** No, we have already clarified this before. We anticipate an asset turn of two around the fourth year post commercialization.
- Chetan Thacker:** Old plant?
- Sitendu Nagchaudhuri:** Old plant is 2.25, CGMP 2, up to CGMP 2 to is 2.25.
- Chetan Thacker:** And sir on the other income last year same quarter we had other income which was just of Rs. 0.5 crores. The run rate before and after that has been quite strong, so what was the reason for such a low other income in the last quarter same quarter?
- Sitendu Nagchaudhuri:** As you know , the numbers which we are looking at have been recast as per Ind-AS treatment. In Q3 in FY17 there was some Ind-AS adjustments of mark-to-market recalibration which was a negative impact because of the market movements between Q2 and Q3, which has taken down the net treasury income the MTM recalibration itself was to the tune of about Rs. 6 crores which has taken down the treasury income component down to about Rs. 3 crores offsetting the transactional gain. Compared to that if you look at the current quarter the significant amount of gain in the treasury is actually from the mark-to-market adjustment.
- Chetan Thacker:** So fair to assume that apart from the MTM, which will keep happening on and off, this other income run rate can be closer to Rs. 60 crores, Rs. 65 crores annually?
- Sitendu Nagchaudhuri:** Not really. Because although we have a very robust treasury portfolio, and from there we have a calibrated income basically, but it will not be to that tune.
- Chetan Thacker:** What would be a fair number there?
- Sitendu Nagchaudhuri:** Anything between Rs. 20 crores to Rs. 25 crores on an equated basis on the portfolio would be a fair number to estimate. I am talking about the treasury income alone but other income has got other components like property income which approximately gives us a annualize business of Rs. 12 crores to Rs. 13 crores. So in all it would be around Rs. 35 crores to Rs. 40 crores.
- Moderator:** Thank you. We take the next question from the line of Ashish Thakkar from Motilal Oswal Asset Management. Please go ahead.
- Ashish Thakkar:** So the kind of compliance that is going on in China, do you feel even the Indian companies will be having a level playing field going ahead because even there the cost would go higher?
- Shekhar Khanolkar:** Yeah, over a period of time that is what so those companies who have been investing in the good SHE practices in India so they will be at a benefit because the Chinese cost will go on increasing because there is a large amount of fixed cost business to be incurred for having right kind of SHE systems. So to that extent yes definitely, that is what we feel.

- Ashish Thakkar:** And would it also be a fair assessment in saying that as and when these companies in China their government would continue to support them in terms of various incentives?
- Shekhar Khanolkar:** No, I think Chinese government means business this time at least, so when we see the news which is coming out and when we interact with Chinese companies. So I think they are not missing any efforts in terms of to really upgrade their SHE this thing. So I do not know whether Chinese government financially supports them which I do not think so. So these entrepreneurs are putting their own money to really put into SHE streams and try to come back.
- Ashish Thakkar:** Okay because we have seen many instances it seems those guys are also raising prices the price of typically API also in India have been increasing. You feel this phenomena is a new normal for the industry?
- Shekhar Khanolkar:** It is, it will get stabilised over a certain period, but yes as of now because the cost is going to go up for everyone and there will be some rationalization in terms of the fixed cost the way the Chinese put into the product. From that perspective the good Indian companies will get benefited.
- Ashish Thakkar:** Okay that is very helpful. My second question is on the CRAMS. Since you are now doing a pretty good job in the fluorine chemistry and we have like transferred our fluorine work into a separate subsidiary or separate company to that extent. How far we are comfortable if a client approaches us for non fluorine kind of work?
- Shekhar Khanolkar:** No, I did not understand your first comment. What we have transferred is one of the products which we have been doing for Piramal's into the subsidy which is a joint venture between these two. That is independent of what we are doing at Dewas so Dewas we work for multiple clients in the Pharma industry. Now having said this, what we do at Dewas is that while the fluorination become more key chemistry on our key capabilities the customers are coming to us to ask us to do more number of steps than one or two steps.
- So our chemistry capabilities are getting more and more complex now, people are asking us to make multiple steps for their molecules which may or may not include all the steps which are fluorination. So we are already doing so many other chemistries anyway, but fluorination becomes the key, one of the steps which we do into this.
- Ashish Thakkar:** So would it be fair to assume that all these steps are spread across from Phase-I, Phase-II, Phase-III or you are typically a?
- Shekhar Khanolkar:** No, it varies from Phase-I to Phase-III all the phases because that is the way the molecule quantity also go on increasing and the products are getting more towards commercialization.
- Moderator:** Thank you. We take the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

- Chirag Dagli:** What is the export price realization for R22 and what was it say year or so back sir, not for us but generally for the market?
- Shekhar Khanolkar:** Price realization specifically I would not be able to answer the question and if you have seen the Chinese as the Chinese or Indians companies competent to the export market for R22, and prices are being very fluctuating in the last six to eight months and they are fluctuating quite widely and quite often. So that is the way it is going on at this point in time.
- Chirag Dagli:** So would it be fair to say that prices are up say 20%, 25% over a year?
- Shekhar Khanolkar:** Over the year may be in that range but may not be it is very difficult Chirag to really say because I have seen in last six to eight months the prices changing even in a matter of days. So it is very difficult to averaging out also because the volumes which every company exports are different volumes. Based on your commitment sometime we commit for one month, sometime we commit for two months and suddenly prices change.
- So each company is going through a different cycle in terms of price realization. So definitely there is a higher price realization from exports no doubt about it over last year. But quantifying it will not really be a right approach at this point in time at least.
- Chirag Dagli:** And sir, does a higher R22 price how does it sort of bake in to the other three businesses given that you would be using R22 as a key component for the other pieces also. How does it sort of build in?
- Shekhar Khanolkar:** No, we do not use 22 in any of our other products we sell 22 as 22. So from that perspective it does not affect us. That is what you are talking about, right?
- Chirag Dagli:** Yeah, I mean so this price increase does not impact any other business would you not be using a part of this because all of this is related to fluorine?
- Shekhar Khanolkar:** Yeah but 22, you are talking specifically about R22 right?
- Chirag Dagli:** Yes, sir.
- Shekhar Khanolkar:** So R22 we do not use in any of the products. We actually sell R22 as R22.
- Chirag Dagli:** Okay. So this price increase does not sort of impact any other piece at all?
- Shekhar Khanolkar:** No, for us, no.
- Moderator:** Thank you. We take the next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: On the refrigerant, this year the quarter the growth was 51%. I know that the quarter in previous year had some aberration on the export side, but even if I take Q3 of FY16 the growth looks very healthy in the range of 20% to 22%. What is driving this growth in exports, is it that the market that quota system has gone back?

Shekhar Khanolkar: No, quota system remains where it is. Compared to last year the numbers are from the quota point of view are the same. I was just explaining earlier the last six months has seen a huge fluctuation in terms of the pricing in the export market and how you utilize your quota based on domestic demand. So if the domestic demand is subdued which was the case during last quarter most of the companies try to export it, we try to export more volumes. And we could get better price.

So what you have seen that the growth right now is a combination of higher realization and higher volumes. It is a mix of both and so the dynamics which play here is two way dynamics, one is your domestic volumes which are going into the market place because there is a restriction in terms of overall manufacturing quota and second factor is what is the Chinese companies are manufacturing during that quarter. So these two things affect what is the export volumes and export value which we can generate out of exports.

Tejas Sheth: Okay, no but the same situation was there in Q3 FY17 right when we saw a decline year-on-year?

Shekhar Khanolkar: Yeah but the pricing scenario was little different than what the prices are in this quarter. As I said, you have a quota for January to December calendar year. Now how to utilize this quota which each company decides or we decide based on our understanding of the current market and our understanding of how the market prices will move by the end of December. So we decide how much to sell in certain months based on our expectation in terms of the pricing movement by next quarter or something of that sort. The total objective is that the overall manufacturing has to be within that quota and whatever domestic demand is that needs to be fulfilled.

Tejas Sheth: Sir, in the CRAMS side any qualitative details you would want to share in terms of how many molecules we added, what kind of clients now we are getting traction with in different region per se also, because the quarterly run rate has increased substantially even excluding Dahej?

Shekhar Khanolkar: Actually I do not have any new comment to make on this but basically if you see this year performance has if you are talking geographically I can say that we have more US business than the European business during this year so far. And that is because some of the projects and it is basically project based. Some of the projects some of these American companies have been working on have really moved very fast and that is helping us during this quarter.

But at the same time we are working with many of the European companies as well so it all depends upon the kind of progress certain projects are doing from this. So if you are just asking

geographically yes right now if you see the mix it is far higher in the US business coming to me than the European business.

Tejas Sheth: Okay so it will be fair to assume that better volatility on quarter-on-quarter basis would have reduced considering that we are moving more towards the commercialization stage?

Shekhar Khanolkar: It has reduced but it will never vanish because you work on so many projects at a time that some projects may fall through, some projects may suddenly come up which was not there in the vicinity in the last six months so you have those things happening. So or some projects are so big that the production may not happen in a one particular quarter and everything will go into next quarter.

So the volatility as your capacity starts utilizing at a higher level than the volatility part starts coming down but that still remains. For example for us by the time this capacity gets utilized we will have another plan coming in and a large capacity coming in. So you will be again subjected to volatility from the production perspective. So it is a part and parcel of this business.

Tejas Sheth: Okay sir just last question if I may. On the specialty chemicals you passed a comment that you are seeing some traction or recovery kind of thing. Would you like to point out?

Shekhar Khanolkar: No, what we are trying to do in specialty is that some of the molecules one is of course we are trying to go into more of a non agro kind of areas as well. This situation has been there for many quarters so we have been making efforts into the market to try to reach to newer customers or the products which were in the pipeline try to go into commercialization, we are trying to get new geographies. Those efforts which were happening in last almost one and a half years, two years we are trying to see some green shoots there in terms of kind of things which we feel that to a certain extent compensate of losses what is happening right now in terms of the loss of the customers.

Tejas Sheth: But the overall agrochem procurement market remains same?

Shekhar Khanolkar: Yeah, we still do not have any great positive feeling at least as I am speaking to you today.

Moderator: Thank you. We take the next question from the line of Kartik Mehta from Canara Robeco. Please go ahead.

Kartik Mehta: Sir, just wanted to understand that in chemical not from you but also from other companies we keep we have started hearing that because of China the few products price realizations have gone up or maybe supply. People have started procuring other than China and India is one of the destination in that and also the cost pressure in China. So it would have a double effect positive as well as negative depending upon the company.

So for example few of the products realization might go up which would help your profitability but your procurement cost for the few of the raw material would also go up. So how are we positioned, net-net what is the impact in our margin favorably assuming the current quarter numbers it looks like but overall how do you look at that?

Shekhar Khanolkar: I absolutely agree with you that while it benefits some companies but if your raw material is so skewed towards Chinese raw materials and you are bringing Chinese raw materials and then doing some few steps and selling it again then you will have an issue because the raw materials also are not available or the pricing has gone through roof. For us we have been always looking at our supply chain strategy very minutely at all times.

And we have always tried to see that we are not dependent fully on China and as you have seen some of our raw materials like Fluorspar and other things we do not buy from China. Some of the large raw materials which we buy whether it is Fluorspar, chloroform, boric acid those are all non China supplies. That itself is a huge raw material part of our overall raw material spend. As far as the products which even for CRAMS business we do import a few products from China but we also have been working for quite some time to see that we can buy from Indian suppliers and trying to make conscious efforts to build some of the capabilities with other suppliers in India who can give us those products.

So supply chain strategy is an integrated part of our overall business model and it is not for today, it has been there for last many years and we are seeing that the revisions is coming out of this strategy which we started off a couple of years back.

Kartik Mehta: So having said that you might be procuring large part of your raw material from country other than China, but is it the case that ultimately they are procuring their raw material from China to make the product which is your raw material?

Shekhar Khanolkar: As of now some of the raw material which we bring that is not the case. For example Fluorspar, boric acid or chloroform or these kind of things that is not the case because these are other petrochemical suppliers or the mine products those kind of things. So to the large extent I would say that we are immune from this thing but no manufacturer would completely buy from China. So to that extent definitely it would affect everyone.

Kartik Mehta: And in the specialty chemical front I understand it is a mix of Pharma and agrochemical both for you. So any change in the mix as of now on a nine month basis?

Shekhar Khanolkar: Not in a major way because we lost some volumes in agro-chemical at the same time we lost some volumes in Pharma as well. So from that perspective if I look at, I do not see much change in the product mix over same period nine months.

Kartik Mehta: Till 50:50?

- Shekhar Khanolkar:** Yeah, 50:50 means we are about 40:40 and then we have some chemical business as well. The project goes into chemical business so to that extent about 20% there.
- Kartik Mehta:** And when we say we lost the business or volume, is it that there is a competitive intensity in this space and specialty is no more that specialty?
- Shekhar Khanolkar:** No, as I mentioned in my call that this product which was used in one of the Pharma products there is a change of route which they have gone for. That does not require this particular product so we have not lost market to any competitor. We have lost particular segment of that product because the customer has changed the route of synthesis. So these things happen in Pharma business.
- Kartik Mehta:** So on the predictability front generally CRAM is relatively predictable given your earlier guidance of as a turnover and even refrigerant is more or less historical evidence are there with some advantage now because of China factor. Inorganic side you said that earlier in the call you used to guide us 15% sort of a revenue growth but now it seems that our growth rates have actually inched up further. So any change in the perspective at least on inorganic fluoride as well as in the specialty chemical any thought that what sort of a growth we are looking at?
- Shekhar Khanolkar:** In inorganic yes our growth rates are much higher right now compared to what we have been talking earlier. I would like to see a more sustainability in that over a period of time. So I would not really comment at this point in time because as you said we are getting into exports or exports have doubled our percentage of sales turnover compared to last year. But the sustainability will come over a period of time. So I would not really put any growth numbers right now and change that at this point in time.
- As far as specialty is concerned, yes we have been seeing a flat growth, so basically whatever we are losing some sales is now the products in the domestic market we are able to make that up through other products which were in the pipeline products. So to that extent we are able to maintain where we are at this point in time and the new pipeline will be continuous and we are not stopping any efforts in our pipeline building. So that continues to happen. So at an appropriate time, we will start getting these products out in the marketplace when the market is ready to pick up those products especially in agro industry.
- Kartik Mehta:** Sir, any number you would like to put in?
- Shekhar Khanolkar:** No, nothing at this point in time.
- Kartik Mehta:** Like a low single digit or something like that or?
- Shekhar Khanolkar:** Nothing.

- Moderator:** Thank you. We take the next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Sir, for nine months it is showing in the presentation the refrigerant growth is 14%, what is the volume growth for nine months?
- Sitendu Nagchaudhuri:** It is actually a combination of a volume growth as well as a pricing traction and that too has got some segregation between domestic and exports. All such factors contribute to the in the top line growth percentage which you see in the presentation.. Having individual components of volume as well as pricing traction and domestic as well as exports mix.
- Dheeresh Pathak:** But can you share volume growth for nine months specifically?
- Sitendu Nagchaudhuri:** We do not specifically get into either a volume or a pricing calibration at the level of any particular BU, suffice to say that in exports we have seen some positive tractions in the current quarter versus the same quarter last year.
- Dheeresh Pathak:** Sir, just to refresh our capacity is 10k and last year we had done almost full utilization of capacity, right?
- Sitendu Nagchaudhuri:** See if you are talking about the Emissive applications, we have got actually quota a limit up to which we can actually use our production capacity that is around 8,100 MTs pa., but we have a capacity or service capacity is around 10k and the balance can be utilized for the non Emissive applications which is the feed stock applications.
- Dheeresh Pathak:** So what you showed to us in refrigerants that would be essentially MSF and that would be linked through the 8,100 cap that we have, correct?
- Sitendu Nagchaudhuri:** No, what we have shown in Refrigerant Gases is a combinations of Emissive as well as non Emissive applications. .
- Dheeresh Pathak:** Can you share how much is Emissive and how much is non Emissive ?
- Sitendu Nagchaudhuri:** If you look at the non- Emissive applications, tilla few years ago, it was a very miniscule part of the portfolio. It is actually growing at a healthy clip. Currently the non Emissive contribution to the overall refrigeration portfolio would be about 12%.
- Dheeresh Pathak:** Okay and in terms of the Emissive capacity that we have, last year we would have sold almost all 8,100 or how much did we sell?
- Sitendu Nagchaudhuri:** Yeah, almost near the full capacity.
- Dheeresh Pathak:** Whatever volume growth we will get, we will get from non Emissive volume, right?

- Sitendu Nagchaudhuri:** Non Emissive as a sector seems to be showing some steady growth.
- Dheeresh Pathak:** And this in the presentation you have put these asterisks and mentioned that financials of Dahej operations included till 30th but if the understanding is correct, it is entirely in CRAM segment right it is not in refrigerants and inorganic?
- Sitendu Nagchaudhuri:** No, it is in CRAMS.
- Dheeresh Pathak:** So it is 73 for this quarter and minus 9.4 for Dahej the balance would be the Dewas, right?
- Sitendu Nagchaudhuri:** Yes.
- Dheeresh Pathak:** And Dewas based on this quarter run rate, it seems you are running at full utilization. Obviously mix will have an impact but it seems you are running based on the guidance you had shared earlier Rs. 250 crores of revenue potential. You are almost running at full utilization now, right?
- Sitendu Nagchaudhuri:** And the current trend seems to be that this business is actually showing the traction as per our earlier estimate. But as Shekhar alluded a while ago in this business, lumpiness or fluctuation across quarters is probably a continuous challenge.
- Dheeresh Pathak:** Okay but that number that you had shared Rs. 250 crores is there any debottlenecking that you have done in the existing operations or because of the mix now can that number be much better till the new expansion comes in?
- Sitendu Nagchaudhuri:** No, essentially it is a steady ramp up of the existing capacity and as more and more customer programs, these are research programs as they move into more advanced level of research that help improve capacity utilization .
- Dheeresh Pathak:** Okay the question I am asking is that you are not constrained by capacity in Dewas till your expansion happens is what I am asking?
- Shekhar Khanolkar:** No, but as you know if you are trying to multiply by 4 this year, this quarter's turnover then that is not necessarily the right way of doing it because you do not know what kind of a production and dispatches would happen in different quarters. So trying to see that the capacity there is 100% utilization or not with this quarter's sales performance will be little difficult because the capacity gets determined by the production which happens during the quarter.
- Dheeresh Pathak:** Correct, no that aside but for let us say next year, and the year after till the new capacity expansion Rs. 115 crores come in you have enough mix?
- Shekhar Khanolkar:** Yeah, so we are in the process where we feel that yes next year our business targets what we have or what we are planning to take this capacity will be good enough for us to do that.

- Moderator:** Thank you. We take the next question from the line of Pawan Kumar from Unifi Capital. Please go ahead.
- Pawan Kumar:** Sir, my questions are majorly bookkeeping ones. In the other income this particular quarter are there any kinds of extraordinary components and number two, what would be that our treasury income part of it?
- Sitendu Nagchaudhuri:** If I heard you right you would like to have some topline breakup of other income for the quarter, right?
- Pawan Kumar:** Yes, of the Rs. 23 crores that you reported this quarter?
- Sitendu Nagchaudhuri:** Of the Rs. 23 crores which we reported as other income in this quarter roughly around Rs. 3 crores is property income which is essentially lease rental incomes and Rs. 19.5 crores essentially is the treasury income. Of this Rs. 19.5 crores roughly about Rs. 15 crores is the net mark-to-market impact. And the balance Rs. 4.5 crores is the realized gain in treasury income.
- Pawan Kumar:** So Rs. 15 crores is mark-to-market gains which is non-sustainable part, right?
- Sitendu Nagchaudhuri:** Well, it has to be recalibrated every quarter end, every period end. So it is anybody's guess as to how be the mark-to-market movements are for forth going quarters. It is notional it is not realized.
- Pawan Kumar:** Can we assume a Rs. 10 crores other income per quarter to be sustainable Rs. 10 crores to Rs. 15 crores range?
- Sitendu Nagchaudhuri:** I think basically I have answered this question a while ago. I mean between treasury income and property income if I look at it, our property income outlay on an annual basis is around Rs. 12 crores mark. Our treasury income outlay on an annual basis is around at Rs. 20 crores mark. So basically between Rs. 30 crores to Rs. 35 crores is the range where we see our transactional other income range.
- Pawan Kumar:** And what are the cash balances right now and what is the cash that has come in from the sale take of Piramal JV?
- Sitendu Nagchaudhuri:** If you look at our total investable treasury portfolio as we speak it is north of Rs. 300 crores. If we are talking about the business transfer to CCPL the business has been actually transferred as a net book value for all the assets, liabilities, contracts and so on and so forth. The closing dates' net book value of all the assets which have been transferred is around Rs. 154 crores of which we have already received from CCPL Rs. 141 crores. So the balance around Rs. 13 crores is yet to be received.
- Pawan Kumar:** So net on net you would fully receive Rs. 154 crores from this particular transaction?

- Sitendu Nagchaudhuri:** Sorry could you please repeat?
- Pawan Kumar:** So net on net you would have totally received Rs. 154 crores from this particular transaction, right?
- Sitendu Nagchaudhuri:** Before the close of this year, yes.
- Pawan Kumar:** So in the refrigerant part of it is there any kind of refrigerant business this is an off season but it has gone up significantly. So I wanted to understand is that particular traction in the refrigerant business sustainable going forward at this particular rate of say Rs. 53 crores in third quarter which looks very, very odd?
- Sitendu Nagchaudhuri:** So as I said earlier answering some other question that traction changes as per the exports and this quarter exports were far better than compared to previous year same quarter. And that is the reason that I think that depends upon the production and pricing in China because China and India are only two suppliers. So it is a function of both these country's productions and pricing.
- Pawan Kumar:** One last question, Sitendu. This is more of a bookkeeping one. Out of this Rs. 300 crores plus whatever our cash portfolio which might have how much would be invested in debt?
- Sitendu Nagchaudhuri:** We actually follow an investment framework of the company which gives us the guidance in terms of the dos and don'ts of the investments and predominantly focus on the debt and debt structured instruments. We try and avoid equity.
- Pawan Kumar:** So major parts of Rs. 300 crores would be in debt instruments?
- Sitendu Nagchaudhuri:** Major part of that would be in debt and debt structured instruments.
- Moderator:** Thank you. We take the next question from the line of Abhijeet Akela from India Infoline. Please go ahead.
- Abhijeet Akela:** Just one other clarification on the other income. Last quarter when we had asked for a breakdown of the other income of Rs. 21 crores for 2Q you had mentioned that about Rs. 7 crores was I think NPM and Rs. 14 crores was something you saw as sustainable whereas in this quarter what we are hearing is the annual number is more in the range of Rs. 35 crores, Rs. 40 crores. So just wanted to get a bit more clarify on that?
- Sitendu Nagchaudhuri:** You are absolutely right spot on. Last quarter the Rs. 14 crores which you see transactional had a one off of Rs. 10 crores which was a refund from the income tax authority's interest income of the refund. That sort of refund will not be actually happening on a going basis every quarter.
- Abhijeet Akela:** So Rs. 35 crores to Rs. 40 crores is a good run rate to work?

- Sitendu Nagchaudhuri:** Around Rs. 35 crores is a good ballpark for the other income across the two domain of property income and treasury income on a full year basis.
- Abhijeet Akela:** And just to clarify this MTM is related to equity investments or is it related to?
- Sitendu Nagchaudhuri:** We have still some bit of investment in our erstwhile group companies which are NOCIL and Mafatlal Industries Limited. So predominantly come from the MTM revaluation of our investment in these two companies, NOCIL and MIL.
- Abhijeet Akela:** Just on the inorganic fluoride side is it possible for you to give us a bit of color on how much the volume growth component would have been within the overall revenue growth?
- Shekhar Khanolkar:** Volume growth majorly has come from the exports market which was as I said earlier our 9 months turnover from export was 7% of our last year's same period, 7% of the total sales turnover. This year so far it is about 14%. So almost doubling the export that is brought in that higher turnover in inorganic business.
- Abhijeet Akela:** I was just wondering how much of this revenue growth overall for the inorganic business would have roughly come from volumes I mean even if you just give us a sense of say half of it or three-fourth of it is from volumes?
- Sitendu Nagchaudhuri:** No, we do not actually get it as I alluded a while ago specifics of the breakup between pricing traction and volume traction because there are lot many factors which come in to play, domestic play, exports play, our product mix within the BU and lot many other factors. So we would not hazard any guess here.
- Shekhar Khanolkar:** It has come from both to that extent I think we can definitely tell you that.
- Abhijeet Akela:** Tax rate this quarter was a bit low, what should we expect going forward for the full year?
- Sitendu Nagchaudhuri:** We will maintain our guidance over here that we will actually be within the range between 31% to 35%. It will obviously vary from quarter on quarter because there are number of factors, the treatments of individual components and stuff. Yeah, this quarter is a little low. If I look at the YTD basis it is about 31.75%. That we maintain our guidance that we will be in the range between 31% to 35%.
- Moderator:** Thank you. Next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.
- Sanjesh Jain:** A question on the gross margin. Our CRAMS business contribution over last year same quarter that is Q3 FY17 to Q3 FY18 has gone up from 19% to 33% but our gross profit contribution has remain same at 59%. So I thought CRAMS is a higher margin business so can you share some color on why the margin still remain the same at the gross level?

- Sitendu Nagchaudhuri:** Which part exactly you are leading at?
- Sanjesh Jain:** So last year same quarter that is Q3 FY17 to Q3 FY18 so it remains flattish or slightly around the same of around 59%?
- Sitendu Nagchaudhuri:** Yeah so if you are talking about the gross contribution that is you are just saying net revenue from operations and you are netting of the raw material cost from that?
- Sanjesh Jain:** Right.
- Sitendu Nagchaudhuri:** Yeah, that will have actually we have eluded time and again in our earlier discussions that it will have a combinations of number of factors like the BU mix, the portfolio mix, within a BU the mix of exports and domestic as well as the individual product mix. So obviously CRAMS is done on an underlying basis steady performance year-on-year in this quarter.
- Specialty fluorochemicals business which is one of the regional business and which is our strategic focus ; as we have been explaining , continues to face some headwinds in the current quarter , and that will actually translate in to some sort of margin challenge also. Inorganic has done well, refrigerant seems to be steady state. So all these will have an impact on the portfolio basis for the corporate contribution level.
- Sanjesh Jain:** I understand that but again if I hear all your commentary all looks like most of the reasons should have increase the cost of fixed margin we are looking a better realization within inorganic and?
- Sitendu Nagchaudhuri:** I think consider all these factors the tractions can be shown different BUs we think this is the right reflection because specialty fluorochemicals continues to have some considerable headwinds.
- Sanjesh Jain:** But again researching more towards CRAMS, right which I think is a better margin than your specialty?
- Sitendu Nagchaudhuri:** Yes.
- Sanjesh Jain:** So that mix has already favored us?
- Shekhar Khanolkar:** No, I think the CRAMS business I would not look from only from the point of view of the gross contribution margin basis because overall if you see the CRAMS business it has two components when I look at the overall business. One is the raw materials and the other is the fixed cost as this is more of a people business. So when we look at these businesses especially the CRAMS business we have to look at the overall EBITDA margin basis whether we have been able to improve the EBITDA margins. And because there is a huge amount of people cost the research development cost which is non raw material cost which goes into this thing.

So to that extent and so far ours as an overall company basis the more of the raw material cost comes from other three businesses. And there is more of a fixed cost also comes from the CRAMS business. So if you see overall we have increased our EBITDA margin by almost 330 basis points. So that is coming with the combination of the raw material cost as well as the overall fixed cost which is a major portion of which CRAMS business takes up.

Sanjesh Jain:

Sir, on the CRAMS business so our Dewas business has seen some acceleration in this quarter somebody in the call had asked this. It has full capacity utilization it looks like you are doing a Rs. 64 crores of revenue in this quarter. This should be peak or we still have some headroom in terms of increasing our revenue from Dewas?

Shekhar Khanolkar:

As I answered earlier so it depends upon the quarter to quarter. Sometimes you are producing a particular quarter but you produce 5 tons or 7 tons whatever it is various molecules then it may not go this quarter to next quarter. You have those kinds of things happening sometimes customers has to project some of them bunch type kind of a thing. So you have that kind of fluctuation which happens.

The best estimate in terms of whether how much capacity we are utilizing or how much we can able to process on an yearly basis you get some arrear because there are four quarters some adjustments which happens some fluctuations can get reduced over there. But a quarter-to-quarter it is very difficult to say that we have issues with capacity We know that we can our expectation from the market for the next year and whether we will be able to supply from our facility for next year. So from that perspective we have no issues at this point.

Sanjesh Jain:

Sir, from order book perspective we are comfortable with whatever capacity and you have a new capacity coming on time will be only incremental?

Shekhar Khanolkar:

Absolutely.

Moderator:

Thank you. We take the next question from the line of Amar Morya from Emkay Global. Please go ahead.

Amar Morya:

Sir, my first question was on the specialty chemical business. Now if I see your specialty chemical business on a 9 month basis it has shown a growth of around 0.6% and given that all other segments either the either the refrigeration, inorganic fluoride and CRAMS had shown a traction in terms of the revenue as well as on the profitability front. But despite that your gross margin level has not inched up in fact it has declined by 0.6% on a quarter-over-quarter basis. So is it fair to assume that the profitability in the specialty chemical business had declined significantly?

Sitendu Nagchaudhuri:

We would not really say that the profitability or the profit extraction capability of specialty chemical BU as such declined significantly but as we have been actually giving some update in terms of the factors in this particular BU on the domestic front as Shekhar mentioned that one

of our key product portfolio there is an alternative route of synthesis by our customers and therefore that has actually facing some headline challenge.

On the agrochemicals the customer parts in the global agro market we are yet to see the traction taking through and that is actually impacting some of the mid to long range contracts, product contracts and hence the off take that is certainly impacting margin towards an extent. Having said all that if you will try and say that if it is humungous or significant amount of margin erosion in this spectrum still not on a portfolio basis. Whether it is going to continue we would rather like to see that the tailwind starts in the global agro but it is yet to be seen. It is not still there.

Amar Morya: So like even the agro business like on a year-over-year basis are we seeing that there is margin erosion happened in the agro business as well on the export front?

Sitendu Nagchaudhuri: Movements are actually getting little more challenged because for example the beginning of the fiscal we used to see beginning of the calendar year rather we used to see from the global major's contracts which are coming in for greater part of the whole year. Now the current trend seems to be when such customers are talking to us they are offering in terms of one or a couple of quarters at the max. So we do not have that annual visibility. So movements on off takes certainly is actually taking some beating. But we hope that it will move in a positive gear soon.

Amar Morya: But there is no price erosion happening, right?

Sitendu Nagchaudhuri: After the product the individual products are getting hit and those products happen to be in the high margin category then to that extent there is a margin challenge. But we are not actually trying to down price any of our offerings.

Amar Morya: And secondly sir, I mean HF prices had gone up how much in on a year-on-year basis?

Shekhar Khanolkar: HF prices?

Amar Morya: Yeah, Hydrofluoric acid prices?

Shekhar Khanolkar: So those are changing on regular basis. So I do not have any specific number to share but if you have seen the Chinese prices, if you have seen the pricing in the market they are fluctuating quite often during this financial year. But I do not have any specific number to what extent it is.

Amar Morya: And do we buy HF from the open market or we basically convert the fluorspar. So completely we are integrated 100%, right?

Sitendu Nagchaudhuri: Yes.

Amar Morya: And how much of Fluorspar price had gone up on a year-on-year basis?

- Shekhar Khanolkar:** Fluorspar prices are going up. They are still volatile on a regular basis but yes, they are going up almost about by (+50%).
- Amar Morya:** On a year-over-year basis?
- Shekhar Khanolkar:** Yes.
- Moderator:** Thank you. Well, due to time constraint that was the last question. I now hand the floor over to Mr. Shekhar Khanolkar for his closing comments.
- Shekhar Khanolkar:** I would like to thank everyone for joining on the call. I hope we have been able to respond to your questions adequately. For any further information, request to get in touch with SGA, our Investor Relations Advisors. Thank you very much.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Navin Fluorine International Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines now. Thank you.