



“Navin Fluorine International Limited Q4 FY16 Earnings Conference Call”

May 02, 2016



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Moderator: Good Morning, Ladies and Gentlemen, Welcome to the Navin Fluorine International Limited Q4 FY16 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.

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

Shekhar Khanolkar: Yes, Good Morning and A Warm Welcome to all the Participants. I am also joined by our CFO – Mr. Sitendu Nagchaudhuri and SGA, our Investor Relationship Advisors. I hope you could get a chance to look at our 'Financial Results' and 'Presentation' that is uploaded on the stock exchange as well as on Company website. I will give you a Brief Business Update followed by Commentary on the Financial Results by Mr. Sitendu Nagchaudhuri.

With the Q4 results, another year has come to an end with the company being at its historic high in business performance, in terms of revenue and profitability. With an objective to create a long-term sustainable organization with a strong but resilient business model, we initiated our journey to leverage on our capabilities in Fluorination Chemistry.

For past few years, we have continuously invested financial and managerial resources to achieve this goal and we will continue to do so. All our strategic initiatives towards moving up the value chain have now begun to culminate in to reality. This is very much visible in our annual performance where our traditional business units of Refrigerants and Inorganic Fluorides have contributed 48% of the standalone sales in current year vis-à-vis 73% FY11 while this business has continued to charter their own growth.

Today our Specialty and CRAMS business units put together have contributed 52% of our standalone sales in current year vis-à-vis 27% in FY11. This strategic shift has enabled the company to not only improve its profitability profile, but also return ratio, another important measure of business performance. We believe that the journey towards growth has just gained momentum and has immense potential for further improvement. As mentioned, our performance continues to be driven by business mix and respective product mix and geographic mix.

Starting with CRAMS business unit, the cGMP Manufacturing Plant at Dewas has become commercially fully operational and has started contributing to the P&L positively as it is

reflective in the numbers. CRAMS business unit had a breakthrough performance in FY16. It clocked the highest ever quarterly revenue of Rs. 44 crores and highest ever annual revenue of Rs. 87 crores. Our consolidated CRAMS business along with Manchester Organics, has crossed the milestone of Rs. 100 crores revenue to reach Rs. 131 crores in FY16.

We believe that, all the efforts and resources put in building this division has started fructifying and that the wheels have been set in motion. Notwithstanding the quarter to quarter fluctuation in this business, the outlook looks extremely positive for this BU with a good order visibility.

During the quarter, we also entered into an agreement with Honeywell, a U.S. chemical major to manufacture HFO-1234yf. HFO-1234yf that is Hydrofluoroolefin 1234yf is a Next Generation Refrigeration Gas for automobile cooling solution. We are putting up a small scale manufacturing plant to manufacture HFO-1234yf at Surat and we expect it to commission the same by end of this financial year. The agreement with Honeywell depicts the confidence shown by another global Fluorochemical major in our capabilities in research, development and technology within this space.

During the year, we acquired the balance 49% stake in Manchester Organics. Now, it is a 100% subsidiary of Navin Fluorine. As mentioned previously, the objective here is to create a seamless integration with MOL with Indian business. This enables the company to derive benefit not only to CRAMS BU but also for other business units.

Now, coming to Specialty Chemical BU, Specialty Chemical business has grown by 11% on year-to-year basis. This is a little lower than our expectations mainly due to slower uptick by global agro chemical companies. The business is witnessing a gradual ramp-up in demand from the global agro chemical companies as the industry undergoes a correction in its inventory levels. However, with continuous focus on investing in research and development towards expanding the portfolio with niche Fluorochemicals as well as deepening our reach across client companies as well as geographies we have a positive outlook for this BU.

Coming to Refrigerant BU. Refrigerant business units fair well during both domestic and export demand increasing on account of upcoming summers. We are yet to witness any impact on the demand scenario on account of import restriction on gas fill compressors that came into effect last year. However, from a longer-term perspective with growing urbanization and increasing AC and Refrigeration usage, in addition to increasing usage of R22 as a feedstock and life science segments we believe this BU will continue to show the growth.

Coming on Inorganic business: This BU continues to perform in line with that of the steel industry in India which continues to remain under stress. However, our initiatives towards expanding market and product portfolio globally are showing some positive results. We are gaining traction in the Western Europe regions, we expect further improvement in performance over the period to come. Our JV project at Dahej with Piramal Enterprises is moving along smoothly and product is already under customer validation.

That is all from me and now I hand over to our CFO Sitendu Nagchaudhuri to take you through the financials of the company.

Sitendu Nagchaudhuri:

Thanks Shekhar. And A Very Good Morning to all the participants. I will start sharing the highlights of our performance following which we will be happy to respond to your queries.

To begin with, the Board of Directors of the company has declared a final dividend of 110% that is Rs. 11 per equity share. Thus, the total dividend declared by the company in FY16 adds up to 210% that is Rs. 21 per equity share. This is the highest ever dividend declared by the company.

A snapshot of our annual standalone performance: The company registered revenue of Rs. 636 crores in FY16, a growth of 17% year-on-year from Rs. 546 crores in FY15. Growth has principally been driven the CRAMS, Specialty Chemicals and the Refrigerants business units. Refrigerant business unit grew by Rs. 194 crores in the previous year to Rs. 215 crores in FY16, a growth of 11% year-on-year. It contributed roughly 34% of the overall turnover of the company, of which exports contributed roughly 38%.

Specialty Chemicals business grew from Rs. 215 crores in the previous year to Rs. 239 crores in the current fiscal, a growth of 11% year-on-year, it contributed roughly 38% of the overall sales of the company, of which exports contribute around 46%.

CRAMS business grew almost three fold on a growing base of Rs. 87 crores in FY16 from Rs. 31 crores in FY15 that is a growth of 179% year-on-year. It contributed around 14% of overall sales of the company in FY16 vis-à-vis a 6% in FY15.

Inorganic Fluorides contributed Rs. 94 crores that is around 15% of the overall sales. Performance has been in line with its customer industries. However, with an expanding product portfolio and growing acceptance of our products in the overseas markets, we have been able to offset some of the headwind in the domestic sector. Exports contributed around 11% of this BUs sales.

Operating EBITDA is at Rs. 116 crores in FY16 up from Rs. 63 crores last year that is a growth of 83% year-on-year. EBITDA margin has expanded by 666 basis points to 18.3% in FY16 from 11.6% in FY15. This has been driven mainly by cost and process efficiencies across all the BUs and operating leverage setting in from the front end loaded investments in CRAMS. This was also augmented by favorable raw material prices.

Operating PBT, that is PBT before other income, more than doubled, it grew by 122% year-on-year from Rs. 41 crores in FY15 to around Rs. 92 crores in FY16. Operating PBT margin almost doubled to 14.5% in FY16 from 7.59% expansion of 688 basis points.

Net profit for FY16, grew by 75% year-on-year to Rs. 86 crores from Rs. 49 last year. Net profit margin is at 13.6% in FY16, up from 9% last year that is a growth of 50%.

Moving on to the fourth quarter numbers. During the fourth quarter, the company registered revenue of Rs. 190 crores a growth of 30% year-on-year from Rs. 146 crores in the same quarter last year.

Operating EBITDA is at Rs. 36 crores up from Rs. 18 crores in Q4 FY15 that is a growth of 95% year-on-year. EBITDA margin expanded by 635 basis points to 18.9% in fourth quarter FY16 from 12.6% in the same quarter last year.

Operating PBT grew to Rs. 29 crores in Q4 FY16 from Rs. 13 crores in the same quarter last year. Operating PBT margin is at 15.4% in Q4 FY16, up from 8.7% in Q4 FY15 which is an expansion of 663 basis points.

Net profit for Q4 FY16 is at Rs. 32 crores, up from Rs. 17 crores in the fourth quarter last year, that is a year-on-year growth of about 90%. Net profit margin expanded by 524 basis points to 16.6% in Q4 FY16, up from 11.4% in the same quarter last year.

Finally, moving on to the consolidated annual performance. The company registered a revenue of Rs. 680 crores, year-on-year growth of 15% from Rs. 592 crores in FY15. Operating EBITDA is at Rs. 117 crores from Rs. 72 crores in FY15 which is a growth of 63% year-on-year. EBITDA margin is at 17.3% in FY16, up from 12.2% in FY15 which is an expansion of 506 basis points.

Operating PBT that is a PBT before other income almost doubled to Rs. 91 crores in FY16 from Rs. 49 crores in FY15. Operating PBT margin almost doubled to 13.4% in FY16 from 8.2% in FY15.

Net profit during FY16 is at Rs. 84 crores, up from Rs. 54 crores in FY15 which is a growth of 53% year-on-year. The net profit margin is at 12.3% in FY16, up from 9.2% last year a growth of 306 basis points.

The cash and cash equivalents including non-current investments of the company stands at Rs. 199 crores as on 31st of March, 2016. The long-term debt as on 31st of March, 2016 is at 48 crores. Thus, making us a net debt free status company. Our return ratios have improved significantly on account of shifting BU mix return on capital employed has improved from 14% in FY15 to 18% in FY16 while the return on net worth has improved from 9% in last year to 15% in the current fiscal.

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

- Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** Just to check on the CRAMS business we hit highest run rate of close to 45 crores on the quarterly basis. So it was any one-off event or any lumpiness or we believe that this kind of run rate will be maintained going forward also which translate into close to Rs. 175 crores or higher at Rs. 200 crores kind of annualized revenue?
- Shekhar Khanolkar:** No, as I said in my previous calls this CRAMS the quarter to quarter there can be some movements according to the business. So it is one such which we have seen. So there is nothing which is not, it is not a question of lumpiness, or it is a not a question of extra ordinary sales loss in a year. So we have to see the overall performance on yearly basis for this business.
- Jignesh Kamani:** Sure. So fair to assume that our growth rate in the CRAMS is as per our plan and it may be positive surprise?
- Shekhar Khanolkar:** So we are going as per our plans and when we put up this plant we had a set of business projections so we are going as per our business projections.
- Jignesh Kamani:** Sure. And our unit is maximum opportunity of close to around Rs. 250 crores kind of revenue which if we are going by the plan, we might hit you can say in next one year and one and half year or two year at max. So are we planning to go for a Phase II expansion in Dewas or how is the roadmap?
- Shekhar Khanolkar:** So we are committed to grow this business. So I do not know when there is a need to invest in this business, we will definitely do so.
- Jignesh Kamani:** Sure. Second on the HFO-1234yf. What kind of CAPEX and capacity you are planning to do on the pilot plant?
- Shekhar Khanolkar:** So the CAPEX is getting finalized but it will be a small CAPEX around U.S. \$ 2 million. In terms of capacity are the things which I am not able to share the data with you at this point of time.
- Jignesh Kamani:** Sure. And it will be only for you. Can say cost plus margin basis or it will be significant marginal kind of say a margin and ROCE say?
- Shekhar Khanolkar:** No, there is some financial model which is getting worked out now so that will get clearer in coming weeks.
- Jignesh Kamani:** Sure. My last question on the R22 since because of the import restriction and export restriction, margin in the export has been much lower than the domestic margin and since we are selling close to around 34% to 38% kind of revenue in export market. So is there will be

any impact on the profitability of R22 because of weak export margin, how different between domestic and export some color on the margin?

Shekhar Khanolkar: We do not segregate the margins between exports and imports, exports and domestic sales. So I would not be able to answer specifically on this question.

Jignesh Kamani: Yes, but can you just give how the margin export is shaping up compare to earlier and what is the...

Shekhar Khanolkar: Both the domestic and the international market is a function of the supply demand situation, is a function of raw materials so there are various factors which affect the margin in the both the places It is not fair to compare the margins in the domestic and export. As well as the timing wise again the margins can be different.

Jignesh Kamani: Sure. But as our CRAM business and ramp-up will happen, do you foresee that export share of R22 will come down gradually?

Shekhar Khanolkar: No, CRAMS business has nothing to do with export of R22, it is as I say it is basically a supply demand situation a competitive scenario with other Indian, Chinese producers. So the export market gets affected, the export sales will get affected with this market situation rather than anything else.

Jignesh Kamani: And as of now margin is under pressure in export market?

Shekhar Khanolkar: Sorry.

Jignesh Kamani: As of now margin continue to remain under pressure in export market?

Shekhar Khanolkar: Yes, the competitive pressures are there so, the margins would be under pressure definitely, in any of the markets.

Moderator: Thank you. The next question is from the line of Sudarsan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarsan Padmanabhan: Sir, my question largely points out to the subsidiary performance, I mean if I am looking at your standalone performance, it has been quite spectacular. But if I actually look what the consolidated performance is in terms of standalone minus consolidated, it looks like from the last year the Manchester Organics has actually kind of delivered a negative PAT. In the last year I think it had delivered some positive PAT and there is a delta of about Rs. 10 crores on that side. And second is can you also explain why there is a negative top-line growth in terms of de-growth in the top-line on this?

Sitendu Nagchaudhuri : Just to take up your questions one by one, if you are talking about MOL actually delivering negative PAT in this year, it is not a negative PAT scenario. MOL has delivered a positive PAT, albeit there were some challenges in the business as all have been shared that during the year the integration process for the balance 49% equity acquisition has been completed so there has been some challenges of completion of that integration process and transformation into a wider agenda of MOL and the CRAMS business unit of and NFIL in India. So which is what actually has taken considerable focus and attention for the business up there in Runcorn, UK. So, actually speaking on subsidiary performance there is nothing greatly to concern about and if you are talking about comparison of standalone PAT and a consolidated PAT there is a marginal gap because the dividend declared by MOL is actually out of their accumulated profits. Hence, in the consolidation, the set-off is across the P&L and the balance sheet which is what is actually showing the marginal delta between the standalone PAT and the consolidated PAT.

Sudarsan Padmanabhan: Sure, sir. Sir, I mean if you can qualitatively kind of point out because in the third quarter the management did mention that the subsidiary that is Manchester Organics is going as per the plans and which is why the company went ahead and bought the additional 49% stake. So qualitatively, so have we has the subsidiary performed in line with our expectations for this year?

Shekhar Khanolkar: The answer is yes, because we expected some kind of lower activities in the first two quarters. So it has happened as per that. So if you see the third quarter and fourth quarter we are actually going back. We are also trying to work between CRAMS of our Navin Fluorine as well as the Manchester Organics and we are looking because the performance of the CRAMS Dewas as well as Manchester is very inter dependent with each other and so we are trying to within the company we are trying to see the performance as a one kind of unit and how we are able to leverage the strengths of each other to ensure that the group performance improves. So those kinds of changes we have done into the business during this year. So as we see definitely as we go ahead, you can see the improved performance of CRAMS business which includes the Manchester Organics performance as well.

Sudarsan Padmanabhan: Sure, sir. Sir, then if I am just looking the overall debt position on the standalone side, we have been able to reduce the long-term debt more or less to zero, but if I am looking at the consolidated side there seems to be a bulge in terms of debt. I mean could you, I would assume that the company is investing into capabilities or capacities in terms of strength in Manchester Organics especially with the light of other expenses also going up I mean can you briefly tell where are we investing in terms of strengths and what is that is basically sitting on the other expenses which probably would get absorbed as to the top-line grows?

Shekhar Khanolkar: If you look at the long-term debt on a consolidated basis a part of that is attributable to the part financing of the balance 49% acquisition of the MOL which is actually sitting in our consolidated base. Having said that if you look at the working capital movement, net working

capital movements of NFIL on a standalone basis as well as all the subsidiaries who are in the front end business there is conscious focus in terms to optimize the networking capital position in line with the scope and scale of the business operations so, it is a continuous effort, the effort is on.

Sudarsan Padmanabhan: Yes, sir. Sir, just on the CRAMS business I think, this quarter we have seen the best performance in CRAMS, I mean with light of what we are doing with Piramal and also with light of probably what we are doing in terms of looking at HFO-1234yf in terms of capabilities of various businesses. I mean I do agree that on a quarter-on-quarter basis it becomes very lumpy as such. But if I am looking at probably the next two years - three years as the earlier participant pointed out, the CRAMS business do you think this Rs. 250 crores kind of capacities one would actually have to relook at it at probably a much earlier stage than what we had earlier envisaged.

Shekhar Khanolkar: I just said earlier, we are continuous to evaluate in the opportunity in the market place as when and when there is a need to put the money into the business which we definitely putting in because it is a growth engine for the company.

Sudarsan Padmanabhan: Sure, sir. Sir, I mean I do understand that I mean if you can qualitative give us the sense of the number of the contracts that we have and at which stage that we are probably to get a sense on how the business shapes up over the next two years to three years. If you can share something about that sir, how the development has been?

Shekhar Khanolkar: No, I do not have any contracts details to share because it is confidential data between the companies. But fundamentally, as I have been saying that, we have certain plans for this business for next couple of years and we are going as per the business plan and as and when the need to invest into this business in terms of assets on ground, we will definitely do that, well within time, so that we can capture the entire growth which we are looking at.

Moderator: Thank you. We will take the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, in your initial comments, you mentioned something about the import restrictions not yet impacting demand. So what exactly was that? Actually, I was not very clear.

Shekhar Khanolkar: No, those are the pre-filled compressors for ACs. So there was expectation that with the pre-filled compressors getting banned on July 2015, the demand for R22 in the local market would increase on account of that. So we are yet to see the complete impact of that particular event which has happened in July 2015 that is what I said.

Chirag Dagli: Okay, that is yet to, okay, fair point. And then sir, secondly on the Honeywell joint venture. Sir so this is effectively a manufacturing joint venture?

- Shekhar Khanolkar:** This is not a joint venture. This is we are going to make a product HFO-1234yf for them.
- Chirag Dagli:** Okay. So the way we should think about it is that NFIL will make basically manufacturing margins on that product?
- Shekhar Khanolkar:** Yes.
- Chirag Dagli:** Part of manufacturing margins because the technology comes from them?
- Shekhar Khanolkar:** Yes.
- Chirag Dagli:** Okay. And sir, which markets will this be on or it does not really matters for us because we will just supply to Honeywell?
- Shekhar Khanolkar:** Yes, so Honeywell will decide where to sell this product.
- Chirag Dagli:** Okay. And then sir, does this have scope to sort of beyond the initial \$2 million CAPEX will this sort of go up?
- Shekhar Khanolkar:** It is too early to talk on that because we have just entered into the agreement with them so we are just sorting out many other details which are relevant for this particular investment.
- Chirag Dagli:** And then the last point on this sir, if at all there is, can NFIL use the technology and manufacture for markets where Honeywell is not present?
- Shekhar Khanolkar:** This agreement does not have that provision.
- Chirag Dagli:** So if tomorrow HFO1234yf is popular in India then NFIL will actually have to get into another agreement for the technology.
- Shekhar Khanolkar:** Yes.
- Moderator:** Thank you. We will take the next question from the line of Tejas Seth from Reliance Mutual Fund. Please go ahead.
- Tejas Seth:** Sir, just wanted to understand, have we taken any price hikes for R22 this season?
- Shekhar Khanolkar:** This season?
- Tejas Seth:** Yes.
- Shekhar Khanolkar:** No, no.
- Tejas Seth:** So it would be same Y-o-Y.

- Shekhar Khanolkar:** Yes.
- Tejas Seth:** Okay. And how we see I mean in Q1 are we planning to take any price hikes?
- Shekhar Khanolkar:** This is a market driven situation so, it is very difficult to say that whether we will take price increases or not. As and when the opportunity is there the cost positions are there, we will have to take a call based on that.
- Tejas Seth:** Okay. Secondly, you had said that there is some recovery seen in this specialty segment. So how we see this year growing and we grew by 10% in FY16.
- Sitendu Nagchaudhuri:** Yes, so we grew by 11% this year but the agro chemical sector we see that there is a possibility of turning around or revival and if that happens then definitely we see a better opportunity this year then what it gave us last year.
- Tejas Seth:** Okay. So you do see higher growth coming this year on lower base.
- Shekhar Khanolkar:** Yes, if there is complete revival of agro chemical industry.
- Tejas Seth:** Okay. And sir, when can we expect Dahej contributing to growth?
- Shekhar Khanolkar:** Dahej contribution to growth will be this financial year in FY17 because we have just made the product the first batches and the product is under approval at the customer end.
- Tejas Seth:** Okay. Sir lastly, this investment of \$2 million I think you had guided that any investment which the company will make in future, 25% ROC will be the hurdle rate. So is it fair to assume that this investment would have that kind of ROC?
- Shekhar Khanolkar:** No, we are saying that whatever investment we do will be EBITDA additive investment not specific number we have talked of. So whatever our EBITDA is at, at what we are operating right now definitely it will be EBITDA additive for the company.
- Tejas Seth:** No, I mean the ROCE addition coming for this HFO CAPEX which we would do, would that be a (+25%) kind of ROCE?
- Shekhar Khanolkar:** No, I cannot comment on that.
- Tejas Seth:** Okay. Because we had thought that all the incremental CAPEX would have that kind of hurdle rate, right?
- Shekhar Khanolkar:** No, we have never mentioned that will be the hurdle rate.
- Moderator:** Thank you. The next question is from the line of Abhijeet Akela from IIFL. Please go ahead.

- Abhijeet Akela:** First, just to understand the Q-o-Q movement in the margins so, if we see from 15.8% in last quarter at the EBITDA level, we have gone to 18.9% and so is this mainly because of CRAMS or was there also an improvement in ref. gases which last quarter you had mentioned was under pressure or in Specialty Chemicals so, if you could please just help us understand.
- Shekhar Khanolkar:** Yes, it is coming from actually all three BUs, it is coming from Refrigeration gases, and it is coming from Specialties and coming from CRAMS. All the three businesses have contributed to this increase in the EBITDA margins.
- Abhijeet Akela:** And in ref gases what is the reason, have prices gone up or what happened there?
- Shekhar Khanolkar:** No, it also changes the mix of the sales doing, this is a season month so the change of product mix in terms of exports and domestic that also does affect the EBITDA margins.
- Abhijeet Akela:** Okay. So I mean just one last thing about that, is it possible to sort of help us indicate which of these would have been the biggest driver or are all three of them roughly equal contributor?
- Shekhar Khanolkar:** All of three of them have contributed. It is very difficult to specifically single out a particular business. But all the three businesses have contributed into this growth.
- Abhijeet Akela:** And second, you mentioned about this MOL dividend which came in to the standalone, I guess it will be part of other income within the standalone financials?
- Sitendu Nagchaudhuri:** Yes, a part of the treasury income, other income, yes.
- Abhijeet Akela:** And can you quantify, how much that was?
- Sitendu Nagchaudhuri:** About Rs. 3 crores.
- Abhijeet Akela:** Okay. So basically the standalone net profit and other income went up by Rs. 3 crores and then that got knocked-off during consolidation that is why we see this gap between standalone and console. Is that correct?
- Sitendu Nagchaudhuri:** Yes.
- Abhijeet Akela:** And finally, just on the Piramal JV, by which quarter do you think the revenues are likely to sort of start coming through and also just from a longer-term perspective, how do we de-risk ourselves from the CAPEX that we are doing here in case the customer is not interested in continuing with the production there, is there some kind of sale clause of something like that?
- Shekhar Khanolkar:** Yes, to answer your first question, see the product is under approval the customer end and typically takes about three months to six months to get the approval for the product. So the real sales would start only once we get the approval from the customer. Regarding the second part,

there are contractual commitments to both the parties in terms of the delivery performance and buy and sell performance of the final product. So we are adequately taken care of in the agreement between Piramal and Navin Fluorine.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alfa Accurate Advisors. Please go ahead.

Rajesh Kothari: What is your total CAPEX you are planning in the current year and next year?

Shekhar Khanolkar: We have various projects and other things which are going on right now. So we still do not have specific numbers to present to you today. But there are couples of activities which are being planned during this year partially for outside the regular CAPEXs including we are also planning to spend some money on making our Surat facility a zero discharge facility. Some amount of money also would go into that CAPEX to make it more long-term sustainable manufacturing site. Apart from that we are also looking at some expansion activities or de-bottlenecking activities for our Specialty business. Those activities are also under finalization right now. So it will be a little too early for me to give exact number. But there are couple of infrastructure CAPEXs, couple of growth CAPEXs, and couple of maintenance CAPEXs are under review at this point of time.

Rajesh Kothari: Any ball mark number which you like to say, may be a broad range of course you can revise in next quarter but any broad range which you like to give?

Shekhar Khanolkar: I would not like to hazard a guess right now because we are still in a finalization mode.

Rajesh Kothari: I see. Coming to the Dewas facility, what is the total CAPEX you have done at Dewas?

Shekhar Khanolkar: Dewas, including this last Rs. 60 crores plus the money we have put into the earlier pilot plant we have spent more than Rs. 100 crores on to that site.

Rajesh Kothari: Okay. And by when do you think you will reach your target capacity utilization?

Shekhar Khanolkar: Yes, as per our business plan, we said three years from start of the production at that site.

Rajesh Kothari: So it has already started, am I right?

Shekhar Khanolkar: Yes, it just started in this second quarter of this year.

Rajesh Kothari: Second quarter of FY16, correct? Last year it started?

Shekhar Khanolkar: Yes.

Rajesh Kothari: So what is the current capacity utilization?

- Shekhar Khanolkar:** It is very difficult to say capacity utilization because as you know it is a multiproduct plant and number of steps in every product changes so, it is very difficult to say what kind of utilization. So we say that the ballpark turnover which we will reach in our three years' time we will be around Rs. 250 crores. It is again a ballpark number because again the product pricing and other things are not known.
- Rajesh Kothari:** And let us assume that if you want to expand going by the strong growth what you are reporting then how much time it will take for you go to the Phase-II or new expansion to come on stream?
- Shekhar Khanolkar:** We have enough infrastructures at the ground level in Dewas, it is a pretty large site. So in terms of expanding pretty quickly is possible. So it is a normal time in terms of construction and getting equipment so you can take a time span of between say 10 months to 15 months should be good enough for us to put up another large facility.
- Rajesh Kothari:** I see which can be similar to existing facility kind of thing.
- Shekhar Khanolkar:** Right.
- Rajesh Kothari:** Okay, I see. And one more question, the Specialty Chemical business current year has been kind of a little bit sluggish. So any reason why the growth is sluggish?
- Shekhar Khanolkar:** Yes, as I mentioned and my speech it is more of because of the some of the Agrochemical majors, they have delayed their purchase plans because of the inventory issues and other issues at their site. So we hope that the situation will get sorted out during next couple of months and the business can again go back to its expected growth levels.
- Rajesh Kothari:** I see and Agrochemical contributes how much to this division revenue?
- Shekhar Khanolkar:** Agrochemicals is a large part of our revenue, it is probably between 30% to 40%.
- Rajesh Kothari:** Okay. So non-agro side was good growth?
- Shekhar Khanolkar:** Non-agro side was okay. It was I would say average growth performance from the pharma and chemical side.
- Moderator:** Thank you. The next question is from the line of Siddhartha Bhattacharya from Suyash Advisors. Please go ahead.
- Karthikeyan:** This is Karthikeyan here. Yes, I had a couple of clarifications – one would be on this HFO1234 yf arrangement. Just wanted to understand, do you believe therefore that this is the next generation gas that will prevail? I have a reason to ask this, would you be prevented from

entering into similar arrangements for say some other gas as well, how exactly should one thing about that?

Shekhar Khanolkar: See this is an opportunity which we have got working with Honeywell for this particular product. So the arrangement here as I said earlier is to make a product for Honeywell's own consumption. So that is the way it is. If there are any other opportunity, any other gas or any other company that is independent of this arrangement.

Karthikeyan: Right. So there is nothing that prevents you from doing a similar arrangement for another product just to heads your bids I am just trying to understand.

Shekhar Khanolkar: No, we do not have any such restrictions.

Karthikeyan: The second thing was on the different between standalone and consolidated has it been said is about Rs. 1.5 crores to Rs. 2 crores. The Auditor Note talks about combine profits of Rs. 1.5 crores in the four subsidiary entities. Just wanted to understand what are the loss making entities and how should one think about, where is the loss coming from?

Sitendu Nagchaudhuri: Yes, the principal business process generating entities which are essentially Manchester Organics Limited and there is another one called Sulakshana Securities, they are the ones who are actually making the profit and yes, individually these companies are making profit. But on consolidated basis, if you look at the movement of MOL dividend to both NFIL and other wholly owned 100% step down subsidiary in the NFIL UK Limited, the net result of the consolidation knock-off plus the subsidiaries net PAT all boils down to the final fact of the consolidated PAT being lower than the standalone PAT by about Rs. 3 crores.

Karthikeyan: Right. No, what I was asking you was the Auditor Note talks about Rs. 1.5 crores of combine profits in these four entities. So which would mean that if you exclude MOLs profit what remains a negative number, therefore, if they paid Rs. 3 crores dividend I am assuming that they have at least Rs. 3 crore profit.

Sitendu Nagchaudhuri: As I clarified, that has been paid out of the accumulated profits which are there in the balance sheet. Apart from Manchester Organics Limited who has made profits and Sulakshana Securities who actually deal in the property space, who has also made some profit, there are companies like NFIL Shanghai Private Limited, which is our latest venture in the Mainland of China. Predominantly, in order to actually explore options for some supply chain optimization and stuff and entities like NFIL UK and the joint venture with the GMDC and GFL in Gujarat. All these places there are some operating expenses which eventually went into marginal loss.

Karthikeyan: Right. Just an extension to the subsidiary question on Manchester Organics operations, have you kind of say moved certain contracts from MOL to Dewas itself you know as a part of the overall optimization process, can we understand that?

- Sitendu Nagchaudhuri:** No, not really. The whole approach is synchronization of the capabilities across both locations and running a line of best fit for the business unit. So whenever an opportunity come up then we actually evaluate that opportunity and try and find out the best location who is in a best position to actually service that demand?
- Moderator:** Thank you. The next question is from the line of Ranjit Cirumulla from B&K Securities. Please go ahead.
- Ranjit Cirumulla:** Referring to your Slide #9 of the presentation for the Dewas thing, you have said that there are numerous clients' audits have completed successfully. If I just wanted some ball figure of how many clients or customer audits if you can share.
- Shekhar Khanolkar:** No, we would not be able to share number of audits but these are some of the important audits for us and so from that perspective we thought we would update the investors. This is a new facility. So we just wanted to update all of you that that these lots of audits have happened and those have happened successfully.
- Ranjit Cirumulla:** I just do not need a specific number but it would be upwards of mid-teens?
- Shekhar Khanolkar:** It is very difficult to let the number know because again it does not have a direct implication in terms of what business it can transit into because some of these companies are already with us, they have audited earlier small plant, they have come for the larger order some are coming absolutely new companies. So from the business perspective these are important audits but as of now I cannot divulge any specific numbers.
- Ranjit Cirumulla:** Okay, sir. And second one would be in consolidation there would be some OPEX related to the Piramal JV as well in this particular area?
- Sitendu Nagchaudhuri:** As of now in the consolidated there is no OPEX we have to do in Piramal JV, no.
- Ranjit Cirumulla:** Not even the debt side?
- Sitendu Nagchaudhuri:** So the debt is actually on the JV books so we have gone for this equity base line for line consolidation. So to that extent it has been actually taking care of in consolidate financials.
- Ranjit Cirumulla:** Okay, sir. And there is a final question in the long-term what we have been saying is that some of the CRAMS as and when it would get in scale. Could become a part of Specialty Chemical so, have we seen some of the molecule will shifted to Specialty Chemical?
- Shekhar Khanolkar:** No, it is too early for that because these are all innovative molecules at this point. So unless commercially the products are launched and then go out of certain patent then only it gets transferred to the Specialty business.

- Moderator:** Thank you. We will take the next question from the line of Pawan Kumar from Unify Capital. Please go ahead.
- Pawan Kumar:** My first question would be about MOL, can you give us the exact quantum of PAT for MOL this year?
- Sitendu Nagchaudhuri:** The exact quantum of PAT in the MOL have sort of clocked around a couple of crores of PAT.
- Pawan Kumar:** Okay. And what is our outlook going forward, Shekhar did mention that there were certain challenges that MOL faced this year. So what are the nature of challenges? Is it more related something to employee expenses kind of stuff or what is it exactly and are we expecting MOL to bounce back to last year's levels going forward?
- Shekhar Khanolkar:** Yes, see basically we face some challenges into our Catalog business as part of MOL to certain extent and to certain in the Custom Synthesis business but we feel that those are very momentarily and temporary challenges. And going forward, we expect to bounce back to our expected growth rates in this business.
- Pawan Kumar:** So sir what would be these expected growth rate, can we expect around 10% to 15% or what are the kind of growth rate we are expecting?
- Shekhar Khanolkar:** 10% to 15% I don't see any issues. Because typically in the Western World, this is still a far higher growth rate compared to the typical growth rates into the Western World.
- Pawan Kumar:** Okay. So can we expect a level of bounce back to last year's going forward this year in FY15, is there any probability?
- Shekhar Khanolkar:** It is too early for me to comment on this, but I do not see any problems or any challenges at this point of time, but we are just talking first month of the year.
- Pawan Kumar:** Okay. And regarding the PAT of this particular Piramal JV unit, can you disclose that sir, right now? What will be PAT contribution for the Piramal JV.
- Sitendu Nagchaudhuri:** No, we are not in a position to disclose any such number because of the confidentiality arrangement with the partners.
- Pawan Kumar:** Because of capitalization of those assets, can we assume that there has been increase in loss on the Piramal JV side which has led to overall negative performance in the subsidiaries?
- Sitendu Nagchaudhuri:** No, we do not think that could be an attributable reason, no.

- Pawan Kumar:** And finally, sir on the Specialty Chemical segment – since we are peaking out on the capacity utilization if I am right, are there any ideas going forward on putting up additional CAPEX on that side?
- Shekhar Khanolkar:** As I said earlier, we are working on various CAPEXs which include kind of debottlenecking a capacity addition in various businesses so specialties will be a part of that as well.
- Pawan Kumar:** On the Fluorspar JV, what would be the PAT contribution, sir?
- Shekhar Khanolkar:** It is too early to talk about it because we are still it is a work-in-progress.
- Pawan Kumar:** I am asking about the past number sir, FY16 performance.
- Shekhar Khanolkar:** So there are some expenses which have happened during this year so that is what has get consolidated into our entire consolidated financials for this year.
- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** Sir, I am looking at your presentation Slide #18, you mentioned clients across the globe. So I just wanted to understand, are these clients for whom we have done some work or are these clients were on a regular basis we are supplying products to?
- Shekhar Khanolkar:** We have done some work with these clients.
- Chirag Dagli:** Some or the other, because I mean if you have done some work then the list is fairly small?
- Shekhar Khanolkar:** It is not the exhaustive list. So we have work with some of these people. We are still working with some of these people that are the way it is.
- Chirag Dagli:** The reason you have identified some of these name is there is a fair amount of scale in the kind of work that you are doing and probably some element of sustainability.
- Shekhar Khanolkar:** No, not necessarily, we have a few clients who have just picked up from these things.
- Chirag Dagli:** There is no pattern and no design in that, okay.
- Shekhar Khanolkar:** There are more than the names in that.
- Chirag Dagli:** Okay. And then sir, on the Honeywell JV, sir I am just trying to understand why is it that someone like Honeywell would actually enter into a manufacturing agreement is, it that they do not have enough capacities at their end or is there something larger to this eventually?

Shekhar Khanolkar: I would not know exactly what is in Honeywell's mind but fundamentally as I said earlier, we have just entered into an agreement for manufacturing this product into small quantities for them and the market for HFO1234yf and the entire situation is very dynamic as you may be aware and these are the large companies so they would have their own plans. They have given a press release as well to explain the rational what they have when they wanted to enter into those.

Moderator: Thank you. We will take the next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, I have few questions, and I am just trying to first compare between quarter three and quarter four and the reasoning associated with respect to the changes in margins. During quarter three there was a mix change but we highlighted Refrigerant gases as one of the key reason where the mix change did translate into margins. And quarter four, we are highlighting all the SBUs the reasons for the mix change. So if you could just be a little bit more granular between the margins and how do you see mix change and margin being a linear function in the years to come or a non-linear function in the years to come? Because the last quarters have perplexed us as its behaving linear and its behaving non-linear.

Shekhar Khanolkar: Yes, so it is a definitely a non-linear. See fundamentally as we know there are a couple of businesses, in each business there are various product mix, there are geographic mix so combination of all these things make an impact on the numbers. So in some quarter, some business may perform well but in that business again some products may not perform well. So Yes, these kind of things continuously getting churned so from that perspective it is very difficult to have a linear relationship created out of this.

Pritesh Chheda: Okay. Now on the Refrigerant gas side, you mentioned that there is no price changes and until let us say quarter three and post quarter three, we were of the belief that pricing has not changed, international market is tight hence, the margin is behaving differently. Has any of these things changed in Refrigerant gases by any change, you highlighted mix.

Shekhar Khanolkar: Yes, see fundamentally, if you remember in the third quarter we have very clearly said that there were issues in terms of the export quotas which some of these countries would have. There were issues in terms of the payment capabilities or restrictions on the payments within some of these countries in Gulf region. So as you come into new calendar year some of these challenges go out and so to that extent you come back to the market. At the same time, you have to see what kind of other raw material situations are there in various countries. You have to also see the pricing which happens in that market coming from China and other Indian suppliers. So these kind of dynamics definitely go on working into a product mix or into the pricing of the product and we take calls accordingly in terms of what quantities to be exported, what quantities not to be exported, which countries, which customer based on the kind of margin portfolio which gets emerged over a period of time.

- Pritesh Chheda:** Okay. So but the pricing has not changed, right. So pricing has not changed then the margins cannot change.
- Shekhar Khanolkar:** No, pricing in the domestic market did not change but pricing in export market changed.
- Pritesh Chheda:** So it improved in quarter four versus quarter three that is what how you want to put it or it has further dipped in quarter four?
- Shekhar Khanolkar:** See as I said, the overall if you see the mix of the pricing, even in export markets say for example if I go into X country and next quarter, I do not sell that quantity in the country and go to the Y country automatically it affects the margin. It does not mean that we have increased or decreased prices in that particular market. It is a very dynamic market especially the Gulf region and there the pricing changes very often and there is a little control in terms of one single producer to be influencing those pricing decisions in that market place.
- Pritesh Chheda:** Okay, understood. And throughout the call between standalone and console we are analyzing the PAT number, I am not a bit confused. If you check the EBITDA number, there is a difference of about Rs. 9 crores to Rs. 10 crores. So ideally, our analysis would always say that there is some entity which is putting a loss so at the EBITDA number if you could explain a bit, not at the PAT number. If you see the difference between standalone and console in FY15 would be about 9 crores and which has shrunk to about Rs. 1 crore in FY16 so, there is an almost Rs. 8 crores swing.
- Shekhar Khanolkar:** That is also because last year there was the amount was 45%.
- Pritesh Chheda:** So in fact, if it is 50 this year than it should increase more if MOL is profitable. So there is no point in giving the PAT differential. Yes, sir. Meanwhile I will put forth another question. On the CRAMS side last year, we gave out a Rs. 60 crores number and then we end up delivering Rs. 80 crores though we were not so positive at the end of quarter three and you gave a number of Rs. 245 crores in three years that is how I read it, that means three years from now you read a Rs. 245 crores CRAMS business that is how you want to put it or do you have a moving targets for 2017, the way you gave us for 2016?
- Shekhar Khanolkar:** See I cannot give any guidances for future because again this quarter three to quarter four fluctuations as I have been saying that in this business you will have these quarter-to-quarter fluctuations. Now this year, yes, we talked about Rs. 60 crores that was what we thought we would be doing but we have done definitely more than that and I have been saying that we have also added a few people into the market place the traction of the customers is increasing and so that definitely helps the business as we go along. It also has to be matching the delivery capabilities and delivery performance which were to show. So this quarter was from that perspective was good for us to really put a strain and stress on our delivery performance and we could see how we can improve our delivery performance. So from that perspective, I think this was a good indicator for us. But as of now, we are just keeping the same kind of indication

which you gave earlier that reaching the Rs. 250 crores turnover in next three years. If we find the FY17 is also exceptionally good then definitely it changes the entire dynamics and as I may have said to someone, we probably would have to add some more investments as and when require. So it is a dynamic model.

Pritesh Chheda: Okay. Sir, just that your comment on linearity and non-linearity of margins at least from an annual basis if the mix keeps on changing in favor of CRAMS and Specialty Chemical the linearity of margin should be assumed with mix at least on annual basis?

Shekhar Khanolkar: Yes, annual basis as I said in my initial speech the contribution of the Specialty and CRAMS business is going up into our entire portfolio and this businesses being at a higher end of the Fluorination chart definitely would add to the increase in the EBITDA margins. So from that perspective what you are saying is correct that it should actually increase but to what extent is increase that is where the linearity comes in. But definitely we feel that with these two businesses we are contributing more into the business, overall business the contribution of margins definitely should improve as we go along.

Pritesh Chheda: And that last pending answer on the EBITDA analysis.

Sitendu Nagchaudhuri: So essentially when we have taken the consolidated numbers we have taken performance from all the businesses as we said for MOL per se this year was not as good as last year on account predominately the completion of the transformation or balance 49% equity acquisition and the wider transformation between NFIL India CRAMS and MOL CRAMS and stuff like that. To that extent basically there was a hit in MOL per se the EBITDA level which they have trying to actually recoup through some of the balancing acts which is what we are actually showing up so if you are looking at the movement between standalone and consol EBITDA last year versus this year the Rs. 6 or Rs. 7 gap which you are talking about a bulk of which is actually coming from MOL.

Pritesh Chheda: So I conclude this way, MOL had a lower EBITDA versus last year.

Sitendu Nagchaudhuri: Yes.

Pritesh Chheda: And the dip is substantial and there are no entities which are putting us significant loss at the EBITDA other entities.

Sitendu Nagchaudhuri: Yes, you are absolutely right.

Shekhar Khanolkar: You are right, Yes.

Pritesh Chheda: This is how I should conclude?

Sitendu Nagchaudhuri: Yes.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was our last question. I would now like to hand the floor over to the management for their closing remarks.

Shekhar Khanolkar: So before ending this call, we would like to reiterate that our journey towards growth is gaining momentum as we continue starting to improve our product portfolio towards niche fluorochemicals and reach out to diverse set of customers and markets. I would like to thank everyone for joining on the call. And I hope, we have been able to respond to your queries adequately. For any further information, I request you to get in touch with SGA, our Investor Relationship Advisors. Thank you.

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