



# “Navin Fluorine International Limited Q1 FY20 Earnings Conference Call”

**July 30, 2019**



**MANAGEMENT: MR. RADHESH R. WELLING – MANAGING DIRECTOR  
MR. KETAN SABLOK – CFO**

**Moderator:** Ladies and gentlemen, good morning and welcome to the Navin Fluorine International Limited Q1 FY20 earnings conference call. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions, and expectations of the company as on the date of this call. These statements are not a guarantee of future performance and involve risks and uncertainties that are difficult to predict.

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

I now hand the conference over to Mr. Radhesh Welling - Managing Director of Navin Fluorine International Limited. Thank you and over to you, sir.

**Radhesh Welling:** Good morning and a warm welcome to all the participants. I am joined by our CFO – Mr. Ketan Sablok and Strategic Growth Advisors – our investor relations advisors. I hope you got a chance to go through our financial results and presentation that is uploaded on the stock exchange as well as on our company website.

First, I will give you brief on our different business segments and then Ketan will take you through the financials.

As we began the new year, our focus was twofold. a) To significantly strengthen our new product pipeline to drive strong mid- to long-term growth and b) In short term, to focus on improving our operating efficiency. I am happy to announce that we are making good progress on both the fronts. In Q1, our revenue was in line with last quarter and we have been able to increase our operating EBITDA and operating PBT both by 16%. During the quarter, our operating EBITDA margin has improved by 370 basis points to 25.1% and operating PBT margin improved by 320 basis points to 21.9% on a sequential basis. This improvement, as mentioned earlier, is a result of our consistent focus on improving operating efficiency.

Now, coming to specific businesses, refrigerant gas and inorganic fluoride both the businesses saw a growth largely driven by pricing. In refrigerant gas business, we witnessed good traction in exports and aftermarket. Lower volumes from OEM was offset by higher sales in these categories. We have been successful in passing on the increase in the raw material prices. Inorganic fluoride growth was also primarily driven by pricing. Demand from stainless steel industry was softer than we earlier expected. We, however, saw a good traction in the exports market and expect this volume momentum to continue through the year. Going ahead, we expect stable performance in these 2 businesses.

In specialty, we are working on improving project flow from life science as well as crop science segments and seeing very good progress on that front. Also, some of our new products launch earlier are seeing very good growth momentum. We saw margin expansion in this segment on

the back of better pricing power. Increased contribution from this segment helped neutralize some of the lumpiness in the CRAMS business. We expect robust growth in this business in the years to come. For CRAMS, we started 2019 with relatively weak opening order pipeline which has led to weak sales in this particular quarter. As we have mentioned on earlier calls, our main priority here continues to be new customer development and deepening relationships with existing customers. On both counts, we are pleased with the progress we are making, and we are confident this will position the business very strongly for future growth.

I am happy to announce that we have just signed an agreement with one of the large US key account for multi-year supply of one of the molecules. Also, on the CAPEX front, our new cGMP plant commissioning is on schedule and this plant will be available for production in H2.

To sum up, our focus on improving operating efficiency has helped us improve our EBITDA margins despite some short-term challenges like slowdown in CRAMS, raw material price pressure, etc. We continue to invest in R&D and technology and are also working on the business plan for new investment in Dahej. Given the way our growth pipeline is developing, we are very confident in our future profitable growth. That's it from my side. I will now hand over to Ketan to give you brief on the financial performance of the company.

**Ketan Sablok:**

Very good morning to all the participants. I will share the highlights of our financial performance following which we will be happy to take Q&A and respond to your queries. The company's registered net revenue from operations of Rs. 242 crores for Q1 FY20 as against Rs. 243 crores in Q1 FY19 and Rs. 244 crores again in Q4 FY19. Revenue was flat on both YOY and sequential basis.

Coming to unit-wise performance, the refrigerant gas business reported revenue of Rs. 78 crores in Q1 FY20 as against Rs. 77 crores in Q1 FY19 and Rs. 81 crores in Q4 FY19. This segment grew by 1% on YOY basis and was down about 3% quarter-on-quarter basis. It contributed about 32% to the net revenue from operations in Q1 of FY20. The business unit has recorded exports of approximately 40% for this quarter. The inorganic fluoride business reported a revenue of Rs. 53 crores in Q1 FY20 as against Rs. 49 crores in Q1 FY19 and Rs. 52 crores in Q4 FY19. This segment grew by 8% on a YOY basis and was flat compared to the last quarter. Inorganic fluoride contributed 22% to the total revenue and this business unit has recorded exports of approximately 10% in Q1 FY20. So, in both these two businesses, the revenues stood at Rs. 131 crores for Q1 FY20, a growth of 3.5% YOY basis and was down about 1.6% on a quarter-to-quarter basis.

Now, coming to the specialty business, this BU reported a robust revenue of Rs. 86 crores in Q1 of FY20 as against Rs. 82 crores in Q1 of FY19 and Rs. 69 crores in Q4 of FY19. This segment grew by 5% on a YOY basis and by 25% on a quarter-to-quarter basis. As a percentage to the total revenue, the BU contributed 36% in Q1 and 39% of BU's revenue came from exports.

Coming to CRAMS, we saw a weak performance due to the weak opening order pipeline in 2019. The revenue stood at Rs. 25 crores in Q1 of FY20 as against Rs. 35 crores in Q1 of FY19 and Rs. 43 crores in Q4 of FY19. This segment was down by 29% on YOY basis and 40% on quarter-to-quarter basis. It contributed 10% to the net revenue from operations in Q1 of FY20. This business is 100% exports.

Our high-value businesses reported a revenue of Rs. 111 crores and was down by 5% on a YOY basis and flat on a quarter-to-quarter basis despite of CRAMS business being down by 40%. This is on the back of our continued efforts to reduce the lumpiness impact of CRAMS on the financial performance. Nonetheless, I would like to reiterate that the company's focus is to increase the revenue share from our high-value segment, i.e., the CRAMS and the speciality business together. Going ahead, we have a good order pipeline in both the segments.

Coming to the operating EBITDA which was at Rs. 61 crores for Q1 of FY20 as against Rs. 63 crores in Q1 of FY19 and Rs. 52 crores in Q4 of FY19. It was down by 4% on a YOY basis. The EBITDA improved by 16% on quarter-to-quarter basis. Operating EBITDA margin on a quarter stood at 25.1% compared to 21.4% last quarter. The improvement in margins is on the back of better pricing and product mix. The operating PBT was at Rs. 53 crores for Q1 of FY20 as against Rs. 56 crores in Q1 of FY19 and Rs. 46 crores in Q4 of FY19. It was down 6% on YOY basis and improved by 16% on a quarter-on-quarter basis. Operating PBT margin for the quarter was at 22% up from 19% in the last quarter. Profit after tax was Rs. 39.5 crores in Q1 of FY20 as against Rs. 39.6 crores in Q1 of FY19 and Rs. 35.9 crores in Q4 of FY19 with PAT margins of 16.3% for this quarter. That's all from my side. I will now open the line for Q&A.

**Moderator:** Ladies and gentlemen, we will now begin the question & answer session. The first question is from the line of Sudharshan Padmanaban from Sundaram Mutual Fund. Please go ahead.

**Sudharshan Padmanaban:** Sir, my first question is on the CRAMS side. If I am looking at probably not only this quarter but if I am looking at right from the second quarter, consistently there has been a declining trend in this CRAMS business and historically we have been a lot more focused on driving businesses of specialty chemicals and CRAMS. If you can throw some light with respect to where do you see this business probably with the three quarters remaining and FY2021 as well and also in the light of new capacity that is coming in, what is the kind of potential that you see from a near to the mid-term as well?

**Radhesh Welling:** As far as CRAMS is concerned, you are right. In the last few quarters, we have actually seen some headwinds. If you remember, last year we talked about two big campaigns from two of our customers actually getting postponed and those were kind of hitting our immediate performance. At that point in time, what we also started working on are these two other initiatives which I mentioned in the opening remarks. Out of those two campaigns, I am happy to announce that one of the customers has actually come back to us and which has now translated into the multi-year agreement and that will translate into sales starting from this year onwards. So, this will give us good visibility, both top line as well as bottom line, for the foreseeable future.

If you see the remaining quarters, some of the work that has happened in the last few quarters on new customer development as well as on deepening our relationship with our existing customers, i.e., focusing on getting more order flow from the existing customers, both of them have translated into a lot of good project flow and pipeline for our CRAMS business. So, we are quite optimistic for the quarters to come and for our FY2021 and also the years to come. The guidance that we had earlier given for the new investment in CRAMS, we remain committed to that guidance. We continue to be extremely bullish about this particular business on the basis of the project flow and on the pipeline strength that we are seeing.

**Sudharshan Padmanaban:** That would mean that this quarter would be probably the bottom? In terms of the run rate, we should start seeing an upward movement from the forthcoming quarters. Would that be a right assumption?

**Radhesh Welling:** Yeah, that would be right assumption.

**Sudharshan Padmanaban:** Sir, second is on the margins. Post the fourth quarter, we were quite shaky, especially on the margins, primarily on account of rising raw material prices which started correcting in the first quarter, and also you made a remark that we have seen some benefits on the mix as well. Also, apart from the gross margins side which has improved about 250 BPS on a Q-on-Q basis, we have seen a sharp reduction in the other expenses, both on an absolute basis and both as a percentage of sales. So, can you give us some color whether we have seen any kind of benefits with respect to the prices of raw materials coming down, what is the quantum or how much of this is primarily because of the raw material prices coming down and broadly how much could be because of the mix and what is sustainable going forward? And second is, on the other expenses side, what have we done to primarily bring down the cost on an absolute basis and whether this cost is also kind of sustainable going forward?

**Radhesh Welling:** As far as the raw material pricing is concerned, we had mentioned this earlier on our calls as well, your operating margin is a reflection of the business model that you have, and last time also when we were on the call, we had shared our confidence in our ability to pass on the price increases with some lag. We actually have been able to do this in this particular quarter and we see significant price increases in some of the businesses, especially on some of the main products, which have helped us improve the margin. As far as the raw material increase is concerned, we have not seen any significant raw material increase specifically in this particular quarter. The raw materials have started kind of plateauing now. Yet, the final product price increase that we took was in response to the increase that we saw in raw material in the previous quarter which has helped us improve the overall margin of the business.

**Ketan Sablok:** Just to update you on the other expenses figure being lower than the last year, , as you are aware, we now have a new standard on lease of IND-AS 116. The other expenditure has had an impact of about Rs. 1.2 crores on the fixed expenses where the expenses have moved from this block to the depreciation and the interest blocks. That is one of the main reasons. The second was in the last year in the 1st quarter, we had a significant amount of donation which we had done under

our CSR expense. That has not been done in this quarter. This probably will flow in sometime during the year. These two have had a major impact on the other expenses. Otherwise, the expenses overall are comparable. Fifty lakhs to 1 crore could be a normal movement in the other expenses.

**Sudharshan Padmanaban:** Even if I remove this Rs. 1.5 crores out and look at it on a Q-on-Q basis, because the top line is fairly constant, still it would be something like a Rs. 42 crores versus Rs. 47 crores. So, there has been an improvement.

**Ketan Sablok:** The 42 to 47, that 5 crores is, as I said, 1.5 crores is on account of the lease movement. Then, in the Q4, we had the annual expenses of CSR which we had spent during the quarter, then, our China office expenses, we wrote down the entire expense in the last quarter. So, Q4 of FY19 exactly would not be comparable quarter in terms of expenses with Q1 of FY20 but definitely Q1 FY20 and Q1 FY19 can be comparable quarters where the major movement of the 4 crores of expenses is on account of Rs. 1.5 crores for the lease standard and around Rs. 2 crores was for the donations which we had done in Q1 FY19.

**Sudharshan Padmanaban:** One final question from my side is on the specialty chemicals side where if you are taking a block of the last 6 to 8 quarters, we have seen an improvement in this business quantitatively as well as qualitatively in terms of margins. What has really caused this kind of improvement, specifically in the last 3 to 4 quarters which we are benefiting? And second thing is, which are the areas where you are actually seeing, whether is it more of in any specific customer who has started contributing or what exactly is the sustainability of this kind of a jump that we are seeing in the specialty chemicals side?

**Ketan Sablok:** In specialty, as we had even discussed in couple of earlier quarters, we had been working on a couple of new molecules and these molecules have actually seen a good traction in the last 2 quarters, and continuously, the requirement from the customer's side on these products is on the rise. We see a good movement in these products, and we had also, as indicated in the last quarter, done a small de-bottlenecking for an existing product. That de-bottlenecking has now been done in this quarter and we expect the offtakes to improve from Q2 onwards. So, overall, the traction which we are seeing is majorly coming from all the new molecules that we were working on which have now started seeing the movement.

**Sudharshan Padmanaban:** Are we evaluating any CAPEX into this space? Because this business is doing well and we are de-bottlenecking and eventually we would kind of hit the wall as far as capacities are concerned?

**Radhesh Welling:** Yes, there are 2 kinds of CAPEX we are looking at in this particular business. As I mentioned in my commentary, we see very strong project flow in this particular business. So, there are some smaller CAPEX that we will be doing in our existing facility in Surat but there are larger CAPEX that we are planning to make in Dahej which is going to be a completely new site for us and those announcements will be made later this year. We are actually looking at significant investment in this particular business going forward.

- Moderator:** We will move on to the next question that is from the line of Abhijeet Akela from India Infoline. Please go ahead.
- Abhijeet Akela:** Congratulations on a good quarter, sir. First, just a clarification on the income from JVs. It is about Rs. 3.5 crores positive this quarter compared to a small loss last year in 1Q. If you could just comment on whether this is from the Piramal JV? Is this a sustainable level of performance going forward?
- Ketan Sablok:** Yes, that's the number from the Piramal JV and the JV has had an excellent quarter. The plant has run to its full capacity and we have been able to kind of export the entire volumes in this quarter. So, yes, that additional number is for the CCPL JV.
- Radhesh Welling:** Actually, if you see the performance of this particular JV, it is in line with the commentary that we had given in the previous quarter where we said that, there was a specific technical issue with respect to the performance of the catalyst and we were working on addressing that, which we addressed in the last particular quarter and hence the performance of the plant has been excellent in this particular quarter which has now led to the results, and we expect that this particular performance would continue in the following quarters.
- Abhijeet Akela:** Regarding the new order that you have won in CRAMS, congratulations on that. Any guidance you can provide with regard to how large the order is and how much of it starts to translate this year itself?
- Radhesh Welling:** It is a little difficult for us to give you lot more color on that because of the NDA that we typically have with these customers, it is quite watertight, but what I can mention is that this is for a product which is going to be launched commercially and I can say that this is not an incremental revenue. This particular contract is going to have a non-incremental impact on both the top line as well as bottom line of our CRAMS business and this is going to be kind of a recurring revenue, and as this molecule or as this API gets launched in more markets and they are also looking at some other adjacent therapeutic segments to launch this particular molecule in, our sales will also grow. Our customer is extremely positive with the feedback that he has received on the previous clinical trials. On the basis of the feedback received from our customer, we are extremely positive on that.
- Abhijeet Akela:** Just to clarify, is this the first molecule in our CRAMS business that has actually gone into commercial scale? This molecule has graduated beyond the phase III clinical trial and it has gone commercial basically?
- Radhesh Welling:** That's correct. It is currently getting launched. It is actually going to get launched next year, i.e., towards end of 2020. For that launch, we will need to start supplying the material to them from this year onwards and it is going to be launched for one particular therapeutic segment in one particular geography, and as the molecule progresses, it will be launched in multiple geographies across the segments.

- Abhijeet Akela:** Also, just on that point, would you expect your existing capacities to suffice for this molecule once it ramps up or would you need to consider making an additional investment?
- Radhesh Welling:** This new investment that we have made in what we call cGMP3 will help us supply the quantity that is required in the immediate future. Next year if they actually come back to us and inform us that it is probably going to be multiple geographies in the immediate future, then we probably will need to re-look at it, but the guidance that we have received from them for the immediate future, for that quantity, our cGMP3 will suffice.
- Abhijeet Akela:** On the specialty chemicals business, are there new orders that have come through this quarter? Also, if you could just talk a little bit about this de-bottleneck capacity which is going to start contributing from this July-September quarter onwards, what kind of revenue potential would that hold?
- Radhesh Welling:** As far as the performance in this specific quarter, some of the products that we had earlier launched have actually helped both on the top line as well as on the margin. What actually brought the performance a little down in this particular quarter is because of the shutdown that we had to take for de-bottlenecking, there we have put some additional infrastructure and bring that on line. So, because of that, revenue was a little bit down. On an annualized basis, the small investment that we have made should give us a topline contribution of about Rs. 25 crores.
- Abhijeet Akela:** These 25 crores will be over and above the run rate we have seen in this quarter? Is that the right way to think about it?
- Radhesh Welling:** Yes, annualized basis Rs. 25 crores, that's correct.
- Abhijeet Akela:** How much revenue did we lose this quarter, sir, because of the shutdown?
- Radhesh Welling:** We actually lost 1 month's production.
- Abhijeet Akela:** So, it would have been 50% higher from specialty chemicals?
- Radhesh Welling:** No, I am talking specifically about that one particular product, not the entire capacity. Only that particular line, we had to close down. The rest of the plants were running smoothly.
- Abhijeet Akela:** Sir, just one last quick clarification. The margin improvement we have seen in this quarter at the overall level, 25%, would you say that is largely coming from the specialty chemicals side?
- Radhesh Welling:** If you look at specific improvement, yes, we have actually seen significant improvement on the specialty side both on the pricing front as well as on the mix front but there is also a contribution from the inorganic and refrigerant gas side because we took some beating in the previous quarters where our raw material prices increased but we were not able to immediately effect the price increase which we were able to take this quarter.



- Abhijeet Akela:** So, inorganics and refrigerant, the margins are sustainable at current levels?
- Radhesh Welling:** That's correct.
- Moderator:** The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.
- Anant Bhavnani:** I have 3 questions. My first question is about our margins. You mentioned earlier in the call that because of the delayed price hikes that we took, our margins have expanded. So, my question is customers might be noticing that Flourspar prices have come down, would it be that we will have to pass on the fall in raw material prices in a delayed manner and then margins will revert to, let us say 23% or 22%? Is that a possibility?
- Radhesh Welling:** First of all, the Flourspar prices have not significantly come down, they kind of plateaued. But if you actually look at quarter on quarter, there are certain products or certain raw materials could actually impact our margins slightly up or slightly down, but overall if you look at on an annualized basis, we are very confident of maintaining the EBITDA margin at our guidance level that we have given.
- Anant Bhavnani:** Second, sir, in case of other expenses, just wanted to clarify, is there any one-off asset gain which would have led to other expenses or is it purely the CSR donation and these impact?
- Ketan Sablok:** The one-off is only the change in the 116. That is the only one-off. Otherwise, it is a normal expenditure in the quarter.
- Anant Bhavnani:** Sir, with regards to our other income, I see that as per the bond portfolio that we have both short term and long term and the rental income we have, if we have to just consider those, we should be making 6.8 to 7 crores of other income, but in the presentation, you have elaborated that the adjusted other income is actually lower. So, what do you want to indicate? Is it that the other income would be at 4-crore level going forth for each quarter from hereon or is the current 7-crore number more sustainable?
- Ketan Sablok:** It has been few quarters that we have started adding this slide just to clarify on the other income given the fact that it moves significantly because of the sale and the mark-to-market adjustments of our investment portfolio, something which is not really in our hands to work on. So, we have started explaining in our presentation the movement of the other income with respect to the mark-to-market adjustment. If you see the 6.4 crores of other income that we have reported this quarter, if you adjust for those one-time gains and the MTM adjustments, the adjusted other income will be to the tune of 3.5 to 4 crores which we guide as we will maintain it on a quarter-to-quarter basis.
- Anant Bhavnani:** Sir, but if you say 4 crores is what you would maintain on a quarter-to-quarter basis, that is highly surprising because your bond portfolio is roughly 70 odd crores in size and you have roughly 1.5 crores of rental income and if you gain a basic 6% to 7% yield on your bond

portfolio, if there is no mark to market or any other impact, you should be making 7 crores of other income irrespective of other movement. So, why is it that our yield from bond portfolio such low and if you can clarify what is the breakup in terms of bond's yield that we have earned in this quarter from the entire fixed income portfolio?

**Ketan Sablok:**

I don't think we will be able to give you those details off-hand but the other income as such comes to about 2.5 to 3 crores per quarter and there are some other incomes of about interest and other miscellaneous income which comes to about a crore. So, we should be doing an adjusted other income of 4 crores subject to the adjustments in the investment mark-to-market movements.

**Anant Bhavnani:**

I will take this offline. And lastly, there is a question on refrigerants. You, earlier in the discussion, mentioned that refrigerants are largely pricing-led gain, we see that from the calendar year '20, we will be bringing down our production in line with the global regulations. So, do you see further pricing gains as we get closer to the deadline and if you can give us some sense? Also, in the past, there was hoarding of these gases for which production was to be cut down in 2015. So, do you anticipate volume ramp up as well because of any such hoarding of these gases? So, comment on volume and pricing in the run up to the regulation?

**Ketan Sablok:**

Closer to the year end, we are expecting some price increases will happen. So, overall on an annualized basis, we expect to maintain our top line in this view based on the fact that the prices will go up as well as our emphasis which has been for the last few quarters to increase our pie in the non-emissive sector. So, we are expecting that sector also to grow. Overall, this business as of now looks to be stable for the next few quarters.

**Moderator:**

Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in this conference, please limit your questions to 2 per participant only. The next question is from the line of Saravanan Vishwanathan from Blend AIF. Please go ahead.

**Saravanan Vishwanathan:**

Sir, just wanted to understand, with respect to the CRAMS order that you mentioned, it will be a multi-year kind of opportunity, are we expecting any impact to be there in the forthcoming quarter or it will be back-ended H2 FY20?

**Radhesh Welling:**

The sales will actually start accruing from this quarter onwards.

**Saravanan Vishwanathan:**

Sir, with respect to the Dahej CAPEX that you earlier hinted, I understand that at Dahej, our current facility is in the joint venture with Piramal. Is it safe to assume that the CAPEX would be on our own or it is likely to be in some kind of joint venture, any new product with any other entity? If you can give us a sense on that.

**Radhesh Welling:**

In Dahej, we have a large piece of land. One small part of that entire land has been marked for our joint venture with Piramal for that specific product for specific application. The rest of the land belongs to us and the new CAPEX that we are talking about, that is primarily going to be

our investment. So, that is going to be 100% Navin Fluorine investment and will be going into multiple applications.

**Saravanan Vishwanathan:** Sir, with respect to our investment, we have a very large investment portfolio. So, just wanted to understand that on year-on-year basis from the annual report, we see frequently there is addition of newer instruments like we had market-linked instruments which have gone up to Rs. 45 crores from Rs. 32 crores last year. What is the thought process behind managing this portfolio? Who is actively involved? Whose responsibility is this?

**Ketan Sablok:** This portfolio that we have, is managed by a separate team here within the organization which looks after this entire treasury portfolio and we have a separate investment advisory which is part of the board and we generally invest in the instruments which are AAA or AA rated at least at the time of when we go into the investment. So, overall, the entire portfolio is on very, very safe kind of papers.

**Saravanan Vishwanathan:** Just a follow up last question to that. We are a company which specializes in fluorine chemistry. As an investor when I look at our equity-linked debenture portfolio going to Rs. 45 crores from Rs. 32 crores, the question that comes to my mind is why the fluorine company investing in instruments which are linked to market? I understand you need investment for future CAPEX, but what is the thought process and if you have a specific policy of allocating certain percentage of portfolio to equity-linked instruments, if you can elaborate if you want to gradually take it to let us say 25% or 30%, if you have any number on that?

**Ketan Sablok:** No, there are no specific numbers but whenever we do additional investments, that is the time we discuss amongst ourselves and we take a call given the nature of the investment we want to do, and any which way whenever we plan to get into any large CAPEX, we will take a judgmental call at that time as to how much of the investment portfolio we will need to dilute and put it into the CAPEX.

**Saravanan Vishwanathan:** Sir, just a small suggestion. Because we have a huge investment portfolio, clear communication on our investment policy would be very helpful because these investments in market-linked debenture is something which would concern a lot of investors because market-linked debentures might move adversely, and at the time of CAPEX, we might not realize the values that we would have actually earmarked for investments.

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

**Sanjesh Jain:** One question on the JV again. Is that JV now running 100%? Is this the profit peaked at the investment which we have done?

**Radhesh Welling:** In terms of volumes, yes, it is almost close to the peak. Obviously, if you look at the first quarter, the plant has actually run uninterrupted. So, obviously it will not be first quarter multiplied by 4

because we will need to take the shutdown for the catalyst change, etc., but, yes, in terms of volume, in Q1 we ran at full capacity.

**Sanjesh Jain:** Any plans over there to increase the capacity? Because I understand that the product for which this intermediary is that pretty large. So, is there any opportunity to increase the capacity? Any thoughts there?

**Radhesh Welling:** If you see over the past few years, our performance was getting suffered because of production-related issues and we had set getting the production to the right level as our priority. Now that we have actually addressed that, our immediate priority will be to ensure that we at least see for a period of quarter or two for a steady performance but as we get close to end H1 and beginning H2 is when we will actually start working on the expansion possibilities.

**Sanjesh Jain:** Just to understand this a little bit more, how large can this product be for you and what kind of opportunity is there for us?

**Radhesh Welling:** In terms of supply, we can add about 50% capacity with limited CAPEX. If we have to add more capacity, then the CAPEX will be significant but from the demand side, we can actually have double the capacity for the end product.

**Sanjesh Jain:** So, we can double the capacity if the demand is there?

**Radhesh Welling:** That's correct.

**Sanjesh Jain:** This new order which we have got, will it be part of CRAMS or will it be part of specialty?

**Radhesh Welling:** Which new order you are talking about? The one that we have signed the agreement for?

**Sanjesh Jain:** Correct.

**Radhesh Welling:** Yeah, that's CRAMS.

**Moderator:** The next question is from the line of Rohan Gupta from Edelweiss Broking Limited. Please go ahead.

**Rohan Gupta:** Sir, a couple of questions. One is on specialty chemicals. You were talking about significant opportunities and on that you gave a guidance of Dahej investment. Can you give some sense that what kind of investment you are looking in Dahej in specialty chemicals over the next couple of years?

**Radhesh Welling:** Our immediate priority is basically to finalize the business plan this year which will then result into the first phase of investment. The exact quantum and the revenue impact, etc., we are still working on and once we are ready, we will be taking it to the board for final approval and as

soon as that happens, we will be making an announcement but that will happen in this particular year, and thereafter, there will be more investments coming in phases.

**Rohan Gupta:** But any CAPEX definitely will need at least 12 to 18 months sort of time lag to get converted into revenues. That is the essential nature of specialty chemicals business. Or do you already have some of the existing products seeing huge demand and you are short of capacity in your current facilities and revenues can be achieved much earlier than almost 18 months to 2 years' time lag?

**Radhesh Welling:** The investment that we are talking about for Dahej will start translating into the revenue contribution from FY21-22 onwards. Also, we are making some investment in our existing Surat facility which will help revenue growth next year as well.

**Rohan Gupta:** Okay, you can't quantify Dahej investment, but can you give some sense on Surat de-bottlenecking investment?

**Radhesh Welling:** As I said, probably when we actually meet for our next call, I think we should be able to give you the exact investment because we are just finalizing that. That would actually take less than 12 months to actually get translated into revenue because that is in our existing setup.

**Moderator:** The next question is from the line of Nav Bharadwaj from Anand Rathi. Please go ahead.

**Nav Bharadwaj:** We have elaborated on the potential of the new CAPEX that we have laid out for CRAMS. Could you give us a sense of the older capacity that we have for CRAMS? What is the true revenue potential from that?

**Ketan Sablok:** The revenues that we have generated last year which was almost to the tune of 200 crores, that is the kind of revenue we target from the existing facility, and the new facility that will come in on stream in H2, we have indicated that, that will give us an asset turn of 2x to 2.25x over a period of 3 years. Overall, the last facility also gave us this kind of return and that is what we are expecting from the new facility also.

**Nav Bharadwaj:** Also, my second question on CRAMS was that on a median basis, each campaign, what kind of a volume or value term if you could give us? Each campaign or each order, what kind of size do you talk about? Is it in kgs? Is it in tons? What kind of numbers do we speak?

**Radhesh Welling:** First of all, the market that we serve here, we are primarily talking about innovator drug companies for the new molecules which are getting launched. So, unlike in a specialty business, here we don't talk about ton level. These are maximum up to ton, not multi-ton level. But It is a little difficult to actually give the exact quantum in terms of quantity or value, etc., because each order is very unique, but typically they start from gram level and they go up to ton level.

**Nav Bharadwaj:** But a median number for this would be if you could share?

- Radhesh Welling:** We don't actually track it that way either. So, it will be very difficult for me to give median number. We actually look at the quality rather than specific weight factor. For example, in my opening commentary, I talked about focus on lot of new customer development. As the new customers come, typically orders will start at a gram level. It doesn't really tell us much in terms of the specific volumes or value.
- Moderator:** The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.
- Jasdeep Walia:** This new multi-year order that you have signed in the CRAMS business, this product addresses which therapeutic segment, sir?
- Radhesh Welling:** That is something that we just cannot disclose.
- Moderator:** The next question is from the line of Devang Patel from Crest Wealth. Please go ahead.
- Devang Patel:** Sir, my question was on refrigerant gases where domestic revenue is down about 30% because of lower OEM sales. My question is how much is the growth getting affected because we use an older generation of gas, and on the same point, what is our thinking on migration to a newer generation in terms of timelines and CAPEX?
- Ketan Sablok:** In terms of the drop in the OEM demand in the older generation gas, yes, that is what we have seen now but we saw a good requirement from the aftermarket side as well as from the exports. So, that helped us even out the OEM drop during this quarter.
- Radhesh Welling:** As far as the new generation gas is concerned, we are currently working on that. We have identified a few molecules for that, and that is something which is currently being worked upon and again, as we talked about in specialty, this will also be part of our business plan for investment in Dahej, which we are expecting to take to the board this year.
- Devang Patel:** Would the technology we developed in-house or are we looking for tie-ups, and on the Honeywell tie-up again, what is the value contribution currently?
- Radhesh Welling:** As far as the technology thing is concerned, basically we are looking at all possible options. For some of these molecules, we have already developed technology. On others, we are talking to the partners for access to the technology.
- Devang Patel:** So, more or less, the plan will be finalized this year and announced later in the year?
- Radhesh Welling:** That's correct.
- Moderator:** The next question is from the line of Amar Morya from ALFAccurate Advisors. Please go ahead.

- Amar Morya:** Congratulations for a good margin set. Sir, I have three questions. First, what is the volume growth we had seen in the R-gas, specialty and inorganic fluoride? And secondly, as you are guiding for the CRAMS like 2.5 times or 2 times kind of fixed asset ratio, in our old investment also, we guided something around that kind of a fixed asset turnover ratio, but we are significantly below that level. When we will reach to that mark, at least in our old CRAMS investments? Thirdly, you indicated about the new clients signing in the CRAMS business. Is this the same client which had deferred the campaign, or this is on and above the new client which you had won in the same campaign?
- Radhesh Welling:** Let me start with your third question first. There were 2 campaigns which had got postponed and this particular order that we have signed is with one of the customers who had actually postponed their campaign which is again in line with the commentary that we had made in earlier quarters that we have not lost the order but it is just getting deferred and we remain very positive. So, that now got translated into specific agreement that we have signed. It is with the same customer. This is again an order which started from gram level, then had gone to kg level, then multiple kg level, and now actually getting translated into ton level.
- As far as the second question is concerned, the guidance that we have given for the new investment in CRAMS has the same asset turn that we have seen from the older investment in CRAMS. So, there is a consistency there.
- Ketan Sablok:** And in terms of the refrigerant and inorganic movement, as we have already indicated, the OEM drop in the refrigerant was made up by the exports and the aftermarket sales. The growth in the inorganic was mostly pricing related. Overall, we saw a softer demand from the stainless steel sector but we were able to pass on the raw material price increases of the earlier quarters to the customers in this quarter. So, that helped us in building up the revenue number.
- Amar Morya:** So, sir, is it fair to assume that in R-gas as well as in specialty, the revenue growth was largely linked to the volume growth?
- Ketan Sablok:** It was a mix of both. In refrigerant, we also took some price increases and in specialty, a lot of new molecules that we had been working showed traction in the earlier quarters, that traction has been maintained in this quarter as well.
- Moderator:** The next question is from the line of Siddharth Shah from Solidarity Advisors Private Limited. Please go ahead.
- Siddharth Shah:** Sir, my question is, with CRAMS being lumpy and the company wanting to increase the share of higher value business among the total mix, naturally the share of specialty chemicals would have to increase. So, what is the strategy that the company is adopting and by when would that happen and materialize?

- Ketan Sablok:** As Radhesh had talked about in his speech and through the call, there are a lot of initiatives that we are taking both on the CRAMS as well as on the specialty side of the business, and we are working on a large number of molecules in the specialty business. In fact, we have been doing that for the last few quarters and we have seen good traction in those molecules in the quarters and especially in this quarter, and we are quite positive on some of the expansions, small de-bottlenecking which we have done in specialty in the last 6 months, which will see the light in the second quarter and in H2. And overall, we are very positive on the kind of pipeline that we have seen, both in specialty and CRAMS. So, it is a two-fold approach that we are now working on, on the high-value businesses so as to stabilize the revenues and the returns on a quarter-to-quarter basis. And in CRAMS, with the addition and the traction that we are seeing with large amount of new customers that our business development teams are interacting with and the feedback that we are getting from them, we are quite positive that this lumpiness impact would be addressed over the next few quarters.
- Siddharth Shah:** Sir, just in addition to that, how much percentage of the business in the high-value segment would be the IP of Navin Fluorine?
- Radhesh Welling:** All of it is our own IP.
- Moderator:** Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Radhesh Welling for his closing comments.
- Radhesh Welling:** I would like to thank everyone for joining on the call. I hope we have been able to respond to your queries adequately. If you need any further information or if you have any further queries, we request you to get in touch with SGA, our investor relations advisors. Thank you very much and have a good day.
- Moderator:** Ladies and gentlemen, on behalf of Navin Fluorine International, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.