



“Navin Fluorine International Limited Q4 FY2019 Earnings Conference Call”

May 07, 2019



**MANAGEMENT: MR. RADHESH R. WELLING - MANAGING DIRECTOR -
NAVIN FLUORINE INTERNATIONAL LIMITED
MR. KETAN SABLOK - CHIEF FINANCIAL OFFICER & HEAD
OF IT - NAVIN FLUORINE INTERNATIONAL LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Navin Fluorine International Limited Q4-FY2019 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 the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Radhesh Welling, Managing Director, Navin Fluorine International Limited. Thank you and over to you Mr Welling!

Radhesh Welling: Thank you. Good morning everyone. I am joined by our CFO Mr. Ketan Sablok and strategic growth advisors, our investor relations advisor. 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. I will start with key highlights for the quarter and for financial year ended March 2019 followed by business segment wise updates. Ketan will then brief you on all the financial highlights for Q4 and FY2019. To begin with I am very happy to inform you all that we have achieved three key milestones in our business last year, a) we delivered record revenue of Rs.955 Crores for FY2019, b) our speciality business, which is our higher value business has crossed a turnover of Rs.300 Crores and c) convergence chemicals private limited CCPL, which is our joint venture with Piramal has become profitable this year. Specifically for the financial year FY2019, our company has delivered a operating revenue growth of 17%, operating EBITDA growth of 9% and operating PBT growth of 11% in spite of some of the challenges we faced in terms of increase in raw material prices and lower than budgeted turnover of our CRAMS business.

For Q4, our performance has been even better. Operating revenue grew by 16%, EBITDA grew by 13% and our operating PBT grew by 20%. If you look at on a year-on-year basis Our CRAMS business has also shown marginal growth in this quarter over the similar quarter last year. Coming back to FY2019 performance, all the businesses have seen good performance growth for FY2019 compared to same period last year except CRAMS. The CRAMS business performance is excluding Dahej operation for financials. As mentioned earlier we reported strong growth on revenue front, revenue for FY2019 increased by 17% on year-on-year basis to Rs.955 Crores compared to FY2018 indicating higher capacity utilisation across all the businesses.

Now coming to our operating performance, despite strong growth in the revenue, our operating performance for FY2019 was impacted due to hardening of raw material prices. However, we believe the raw material prices have stabilized now and we hope to hold onto our selling prices in the coming quarters.

Now quick update on each of the businesses. Refrigerant gasses to begin with, we saw a weak demand in the domestic OEM market, however, we continue to see strong growth in the Pharma as well as in the Agrochemical sector for its non-emissive application. This has and will continue to lead to better capacity utilization. Our exports business has shown very good traction. We are seeing 50% growth in revenue year-on-year basis. This growth is contributed by both volume as well as price realizations.

On inorganic fluorides, we saw a very good growth in the domestic business on the back of strong demand. Demand from domestic steel industry was better in Q4 compared to Q3 of the current financial year. Revenue growth in this business of 36% is contributed by both increase in the volume as well as price realization. We expect this growth to continue with increased demand from both domestic market as well as positive outlook from the international market.

On the specialty chemicals, this business has grown significantly in this financial year and the growth has been seen in both domestic as well as international markets and across Pharma and Agro segments. A few of our products achieved highest turnover in the last year and we believe these products will continue to grow in the coming years. Our endeavor will be to continue to develop strong pipeline of high margin products in this segment and continue to focus on various process improvement initiatives. We are optimistic on the growth in the segment in the coming years.

On CRAMS, performance of CRAMS division was impacted due to shift of a campaign to next year, however, we have taken a few initiatives to improve on the performance of this unit in each of the following areas, new customer development, repeat orders from existing customers as well as scale up of the existing molecules. Our expansion at Dewas is inline with the timeline guided to you all. Thank you. That is it from my end, now I would handover to Ketan Sablok for financial highlights.

Ketan Sablok:

Thank you Radhesh. Good morning and a warm welcome to all participants. I will quickly share the highlights of the financial performance following which we will be happy to respond to your question. On the revenue side excluding Dahej operations, the revenue in Q4 FY2019 grew by 17% to Rs.244.3 Crores as compared to Rs.208.4 Crores in Q4 FY2018. For FY2019 excluding the Dahej operations the revenue also grew by 17% to Rs.955 Crores as compared to Rs.817.7 Crores in FY2018. Now I will briefly share the business unit wise revenue contribution and growth.

So in the refrigeration segment, the gas business revenue grew to Rs.80.4 Crores in Q4 FY2019 from Rs.68.3 Crores in Q4 FY2018 giving an increase of almost 18%. For FY2019 the revenue was Rs.280 Crores compared to Rs.245 Crores in the last year a year-on-year growth of about 14%. It contributed roughly 29% to the overall sales of which the international operations contributed roughly 44% in FY2019.

On the inorganic business side, the revenues grew to Rs.52 Crores in Q4 FY2019 from Rs.42 Crores in FY2018 giving an increase of almost 23%. On a full year basis the revenues were Rs.197 Crores compared to Rs.145 Crores in the last year year-on-year growth of 36%. The inorganic business contributed roughly 21% to the overall sales of which international operations contributed roughly 10%.

Coming to the specialty business, the business grew by more than 14% in Q4 FY2019 to Rs.68.6 Crores as compared to Rs.60.4 Crores in Q4 FY2018. The growth for FY2019 was 34% to Rs.300.5 Crores as compared to Rs.224.9 Crores in FY2018. It contributed roughly 31% of overall sales of which international operations contributed roughly 40%.

Now coming to the CRAMS business the revenue excluding the Dahej operations of Q4 FY2019 was at Rs.42.9 Crores compared to Rs.38.6 Crores during previous year same quarter. It was Rs.177.9 Crores for the full year FY2019 compared to Rs.201.8 Crores last year. CRAMS contributed roughly 19% to the overall sales and the entire operations came from the international market.

Now moving on to the operating EBITDA, our operating EBITDA for Q4 FY2019 grew by 13% from Rs.46.1 Crores to Rs.52.2 Crores in Q4 FY2019 with a margin of 21.4%. For FY2019, the operating EBITDA grew by 9% from Rs. 199.8 Crores in FY2018 to Rs.218.1 Crores in FY2019 at a margin of 22.8%. On the operating PBT front, the operating PBT grew by 20% from Rs.38 Crores in Q4 FY2018 to Rs.45.6 Crores in Q4 FY2019 on a margin of 18.7%. For the full year FY2019, the growth was 11% from Rs.172.5 Crores in FY2018 to Rs.191.8 Crores in FY2019 with a margin of 20.1%. So that is all from my side. Now we open the call for questions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan P: Thank you for taking my question. Sir my question is on the gross margins, , there has been a sharp deterioration in the gross margin on y-o-y basis because of fluorspar, I understand that this time there has been more push on inorganic fluoride business and the mix has been a little different, but also can you talk about a bit on fluorspar prices because I understand the prices has been kind of stabilizing as you mentioned earlier, should not we have seen the benefit of it partially in the Q4 or is there any high cost inventory that we have if you can quantify the amount?

Ketan Sablok: Yes, if you see on the quarter-to-quarter Q3 and Q4 our businesses which has shown significant growth are the inorganic and the refrigerant business. Now we had a small dip on the speciality chemicals and the CRAMS business, so that is one of the reasons why the gross margins have been slightly impacted between Q3 and Q4 and on your question on the fluorspar front, yes the prices now what we see are stabilizing and as Radhesh has already mentioned in his speech that we have taken the price increase over the last couple of quarters. Our aim is to hold onto these

selling prices in the coming quarters so that we do keep getting the advantage of stabilized fluorspar price. You must appreciate that the fluorspar purchase that we have done over the last quarter has now started flowing in into our business and the rates have started building up into our cost, so it will take a quarter or so for the actual price stabilization impact to come into the business and going forward, our aim of keeping the selling prices intact will show better gross profit margins.

Radhesh Welling:

Yes, just to add to that if you look at on the gross margin performance, from the businesses point of view we have specialty, where the margins has continued to improve on Q-on-Q basis. Our CRAMS was almost flat in terms of gross margin. The two businesses where we have actually got impacted are refrigerant gasses and inorganic. In refrigerant gasses one of the reasons why we got impacted is because of the mix change. If you look at our overall business, our growth has primarily been driven by exports where we have actually seen a lower margin, in the domestic the growth has been relatively less than in the exports market and similarly on the inorganic side. In the exports market especially in Q4, we saw that the prices were extremely tight both on the inorganic side as well as on refrigerant gasses side, because of which the margins got impacted in these two business whereas on specialty it actually grew and in CRAMS it was flat.

Sudarshan P:

Sure Sir and with respect to the CRAMS business, if I am looking at it on a quarter-on-quarter basis for the last three quarters the CRAMS business has only been dwindling down, can you throw a bit more colour because now that the Dewas facility is coming in and it has been like every quarter we have been expecting the next quarter to be a little better, but something or the other has been pushing the sales back, when do we see the CRAMS business coming back to the earlier levels of growth and now that the capacity will also not be a kind of constraint for us?

Radhesh Welling:

So yes, as far as the capacity is concerned as we mentioned in the opening speech, our expansion in Dewas is on time and we should expect that the commissioning of the plant will happen in the month of July and we should be able to get the full capacity in H2. Now as far as the performance is concerned, if you actually look at the last few years our CRAMS business has actually shown significant growth year-on-year basis. This year, our business was clearly impacted because of some shifts which happened, there are primarily two larger orders that we were expecting in this particular year, which got shifted to next year. We continue to remain quite bullish on this particular business and the three fronts that I mentioned to your earlier, we have actually now got specific initiatives on each of those three fronts, one in terms of the new customer development, second is in terms of repeat orders from existing customers and three in terms of the scale up of the existing molecules where we have worked on the earlier phases in the previous year. Especially number two, which is more new businesses from the existing customers, the responses have been very, very encouraging. Now will that actually reflect in terms of quarter-on-quarter performance, we do not think so because this is not a business, which we have actually said number of times, wherein we can actually really measure the growth on a Y-on-Y basis or there will be some years where we probably will take a dip, but if you look at the overall trajectory of this business we remain extremely bullish on this particular business.

There is nothing that has happened in this business, which makes us re-look at our fundamental belief in this particular business. And the leading indicators that we track seem to be extremely encouraging.

Sudarshan P: Sir one last question from my side is on the Manchester Organics, so if I am actually looking at the standalone and vis-à-vis your consolidated and compared it to last year where Manchester contributed to some extent to your FY2018 consolidated numbers, it looks like the profitability of Manchester has kind of come off, so can you throw some light on why has it dropped in this year and whether we can see Manchester coming back probably in the next year?

Ketan Sablok: Yes, so on the Manchester front this year has been a little challenging, we have seen a lot of management change in that front. We have brought in some new people midway down the year to lead the business, we have kind of changed the structure of Manchester organics to bring it in line with our CRAMS business here, so in course of that this year has seen a little bit of pressure on the Manchester business, but overall if you see the Manchester business like Radhesh has spoken on the CRAMS we are quite positive on that. The catalogue side of the business in Manchester is showing a good growth and we have good indicators that the business will grow going forward . Apart from that just to update you in the current year in 2018-2019 for the Manchester business we had taken a small write down on the inventories, which were being carried for a very, very long time. The management took a call and we have written down some part of that inventory, so that is actually led to the profits dipping on the Manchester side, but now that the systems are in place and people are in place and the CRAMS business between India and MOL has been restructured, we are quite hopeful that in the current year the MOL will be back into business.

Radhesh Welling: Also if you actually look at MOL and if you actually go back to the principle as to why we acquired MOL, the reason was that we felt that there are new molecules that we will be working on at MOL, the CRAMS business will actually benefit from the scale up of those molecules and we see that a lot of that has actually started happening. So we see that there is a lot of flow that is happening from MOL, so the projects that we worked on at MOL last year, the year before or the year before that has now actually started moving into the CRAMS portfolio, the projects have actually got successfully scaled up and we see that these actually will become larger opportunities at Dewas for us, so the belief that the MOL will actually benefit our overall CRAMS portfolio, we are actually seeing that theory play out and one of the things that we were actually focusing on was to integrate MOL into our overall CRAMS piece has also started happening. In fact this particular year we also have plans to significantly invest in MOL to further upgrade our infrastructure in MOL and the primary reason to do that is we feel quite positive of our front end capabilities that we have build in MOL.

Sudarshan P: Sure Sir and what was the amount Sir that you have had taken write off at MOL?

Ketan Sablok: No, it is not a very significant amount, it is in the range of about £145000.

- Sudarshan P:** Sure Sir and can you throw a bit more about what are the capex that we have on the other businesses apart from the CRAMS that we are aware of? What is the kind of build up that we are looking at in terms of capabilities and capacities?
- Radhesh Welling:** We continue to have running capex for the debottlenecking projects. We have some smaller ones in specialty, there is one that we have already talked about wherein we are actually looking to double the capacity for one of the products in the specialty and that project will be on stream by end of Q1 of this financial year. Other than that as we had mentioned on the last quarter's call, we are currently in the process of finalizing the business plan in each of the verticals and this will then translate into larger Greenfield investment in the Dahej. We should be in a position to make these announcements in this financial year. Our aim is to finalize this business plan, to begin with for specialty in Q2 of this financial year then thereafter take it to the board, get the approval from the board and thereafter we should be able to make the announcement and then thereafter to do it for refrigerant gas business, so you should expect to hear some large capex in terms of Greenfield investment for Dahej later this year.
- Sudarshan P:** Sure Sir. Thanks a lot, I will join back in the queue.
- Moderator:** Thank you. The next question is from the line of Abhijeet Akella from IIFL. Please go ahead.
- Abhijeet Akella:** Good morning gentlemen. Thanks a lot for taking my question. First just a clarification on the tax rate for the quarter, it was a bit on the higher side, so any specific reason for that and what we should estimate in terms of effective tax rate for next year?
- Ketan Sablok:** On the Tax rate Abhijeet it would be better if you look at the annualized number because on the quarter-on-quarter basis the tax provisioning which we have been doing are on an estimated annual average cost rate, so some adjustments have come in the last when we finalized the financials, so that in fact has all flown in into the last quarter, otherwise there is nothing extraordinary which I need to put forth.
- Abhijeet Akella:** Sure except on a full year basis also the effective tax rate is about 34.5% this year. So you were running at about 32% last year, so would you expect that 34, 35 is the right range to look at now?
- Ketan Sablok:** Yes.
- Abhijeet Akella:** Okay and on other income this Rs.35 Crores we have reported this year, is this kind of a sustainable run rate or are there any elements of this that may be at risk next year?
- Ketan Sablok:** We have already given in our presentation the movement of this Rs.35 Crores. So it has those one-offs in the mark to market adjustments. Apart from that the other adjusted income is about Rs.17 Crores odd for the full year., So between Rs.17 Crores to Rs.20 Crores is the normal other income, which will keep coming.

- Abhijeet Akella:** MTM item of Rs.13.4 Crores...?
- Ketan Sablok:** That is right.
- Abhijeet Akella:** What is that on exactly Sir?
- Ketan Sablok:** Those are on all the investments that we have on the mutual funds and the equities.
- Abhijeet Akella:** So you will constantly keep marking them to market and it is an ongoing income right, this will continue every year?
- Ketan Sablok:** It necessarily may not be an income, depending on the market conditions these could also be write-downs.
- Abhijeet Akella:** Sure, so it linked to the NAV basically?
- Ketan Sablok:** That is right.
- Abhijeet Akella:** Okay, understood and one last thing from my end and I will come back in the queue, the refrigerant gas business, as we come closer to the cut in capacity from January 1, 2020, how are you seeing the market behavior, are there any signs of some firming up of prices over there and also your plans for, how you protect the revenue stream over there, do you think you can maintain the revenues by increasing the proportion of non-emissive uses or by doing some expansions of this?
- Ketan Sablok:** So we have been looking at the non-emissive side of this business, we are seeing good traction on that front. We hope at least for the first cut we should be able to keep our capacities intact with the growth in this business and we are also looking at some projects where we can use the R22 for feedstock application, so let us see how it pans out, but at the current pace we hope that our capacities will be fully utilized.
- Abhijeet Akella:** Perfect, in the capex number for FY2019 what was that standalone?
- Ketan Sablok:** I think it was about in the range of about Rs.35 Crores.
- Abhijeet Akella:** So the Dewas expansion of?
- Ketan Sablok:** This is excluding the Dewas expansion. So that expansion is going on schedule and it is mostly still lying in our CWIP, so we will capitalize it as and when the plant gets operational.
- Abhijeet Akella:** Fine. Thank you so much.

- Moderator:** Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.
- Anand Bhavnani:** Thank you for the opportunity, Sir with regard to our inorganic fluoride and specialty, what kind of volume growth can we expect in FY2020?
- Radhesh Welling:** So in organic as we have indicated, about 90% of our business goes into the domestic market and if you look at the domestic market primarily is driven by the demand in the stainless steel industry and certain smaller percentage in the glass industry and we see that volume increase typically happens at GDP level or a slightly higher than a GDP level. On specialty I think volume increase will not be the right measure it will probably be value increase, which will be combination of volume increase, new product introduction and also the price correction. Overall as we have been indicated earlier, we expect that the business will continue to grow at high teens level on a year-on-year basis.
- Anand Bhavnani:** We had quite robust growth in FY2019 in these two segments so can you give us a sense of the breakups in terms of volumes and value for FY2019?
- Ketan Sablok:** As Radhesh as mentioned we generally do not give breakup, we expect the growth rates as he has indicated to be on those lines., In terms of inorganic the GDP growth and the steel industry where we have seen a good movement in the current quarter so we hope that growth will now continue into this year and in specialty we are bringing in some new molecules and new products, prices we are trying to hold on to our current levels and that is where we see the growth emanating.
- Anand Bhavnani:** Sure and congratulations for Piramal joint venture turning profitable, Sir what was the revenue in FY2019 from that joint venture?
- Ketan Sablok:** Piramal joint venture is a JV so we just add on the share of our profits, we do not bring in the turnover into our consolidated accounts.
- Anand Bhavnani:** Sure and lastly Sir you have chosen to declare a dividend and given that the tax inefficiency any particular reason we did not consider buyback and went ahead with dividend?
- Ketan Sablok:** That is for the Board to take a call and that is not something which we have discussed. We have a lot of capexes, which we have planned for this year so that is where the Board also thought it is prudent to add on to the growth of the business.
- Radhesh R. Welling:** As I mentioned earlier right now we see lot of new and good growth opportunities for each of the businesses within the organization and the expectation is that in this coming financial year we will be taking lot of these proposals to the Board and hence the Board might not have consider buyback as an option, given all the growth opportunities that we have on the table.

- Anand Bhavnani:** I am not talking about the quantum, whatever was declared as dividend instead you could have done buyback so it is more of choice of returning money back to the shareholders so the method is a bit tax inefficient because of the new regulation that came last year so most companies now go ahead with buyback instead of dividend so the method is the question and not on the quantum?
- Ketan Sablok:** But we have been constant dividend paying company since inception so that we did not want to disappoint any of our investors and the shareholders on this front. Anyway we take your point and we will see what is to be done.
- Anand Bhavnani:** I will come back in the queue for additional questions.
- Moderator:** Thank you. The next question is from the line of Karthikeyan VK from Suyash Advisors. Please go ahead.
- Karthikeyan VK:** Could you talk a bit about the refrigerant gases business the export side, there has been a very smart jump in that side so is the volumes sustainable and additional question is what percentage of the revenue currently comes from non-emissive applications?
- Radhesh R. Welling:** As far as the exports is concerned, you are right we actually saw a pretty significant jump in terms of our exports revenue. We expect that the business that we have currently is sustainable, we have very strong brand equity in India around Mafron brand and in the last two years we have actually spent lot of efforts in creating especially in the Middle East market from where our growth has actually come. We believe that the growth in the refrigerant gases and exports market will continue. We have actually developed a risk mitigation strategy because of decrease that we were expecting to see on the OEM side in the domestic market so that will definitely continue. As a matter of fact going into January 2020 deadline we actually feel that the prices especially on the export side will significantly firm up.
- Karthikeyan VK:** Just to understand what you said, did you say the revenue is sustainable or, the growth rate is sustainable just to clarify?
- Radhesh R. Welling:** Revenue is sustainable because if you actually look at the growth rate, you actually grown 50% year-on-year
- Karthikeyan VK:** Just to clarify in spite of this you are saying that the gross margins are compression, right?
- Radhesh R. Welling:** Because the price realization in the export market is different from the realization that we see in the domestic market.
- Karthikeyan VK:** I understand okay fine. Sure, just one more thing on the CRAMS side, you said that the projects were deferred to this year, did I get that right to FY2020 from FY2019 or is it like indefinitely defer just to be sure about that?

- Radhesh R. Welling:** First of all they are indifferently deferred as we mentioned there were basically two such opportunities and both of them actually got deferred for two completely different reasons. One of them because in that company they had a change in the leadership and they basically decided to wait for the decision to happen till the new CEO comes in and he is actually suppose to join by middle of this year post that they will be taking a call on that particular campaign and they have actually indicated to work that the campaign will probably go to 2020, which means that for us it will mean no business in the current financial year, but that decision we will basically know only probably some point in time in Q2 and Q3 of this year. On the first one, we feel that decision will actually be happening by end of this quarter or beginning of next quarter, so that particular campaign should happen in this particular financial year.
- Karthikeyan VK:** Both of these can happen this year broadly speaking in terms of revenue?
- Radhesh R. Welling:** Both of them have been deferred, one of them is likely to happen this year and second one it is a very difficult to comment at this point in time because we will just wait for the leadership change to happen in the organization.
- Karthikeyan VK:** Correct and you are saying that in spite of that growth would resume this year right I mean with this project also?
- Radhesh R. Welling:** Actually again we talked about two opportunities. The probability of one happening this year is higher than the other one, so we have actually going with assumption that the second one is not going to happen and we have actually developed plan B, plan C on the basis of that.
- Karthikeyan VK:** Perfect. Great and thanks very much and best wishes.
- Moderator:** Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.
- Sanjesh Jain:** I have got few questions, one on the refrigerant gas side, can you quantify what are the gases we sell apart from R22 because domestic growth clearly shows that, is there any growth coming from non-R22 is what I wanted to look forward?
- Ketan Sablok:** The primary gas and the only gas we manufacture is R22 in the refrigeration.
- Sanjesh Jain:** But we do trade right?
- Ketan Sablok:** We do a small bit of trading on 134A gas and some of the others in a smaller volume, in 410 and all but those are not, I would say significant.
- Sanjesh Jain:** What would be our utilization on R22, are we running up on full utilization now?
- Ketan Sablok:** Yes current year we were fully utilized on the R22 capacity.

- Sanjesh Jain:** From here onwards at least volume growth is not possible right?
- Ketan Sablok:** No, the current capacities are completely utilized and we do not see any addition in this capacity.
- Sanjesh Jain:** Okay that is helpful. Second on the international business of specialty chemical, which I believe predominantly is agrochemical, I thought agrochemical is generally strong in Q4 any particular reason why have we seen dip quarter-on-quarter in specialty chemicals, domestic has grown smart, but international has not grown any particular reason there?
- Radhesh R. Welling:** If we look at our specialty business we primarily saw the pharma and agrochemical sectors continue to grow in Q4, we have actually got some hit is on the industrial side. We have one particular product, which predominantly sales into the industrial segment and there we primarily supply to this one particular large customer in far east and they we are actually sitting over huge inventory coming into this particular year that is beginning of 2019. They have actually decided to postpone their purchase of this particular product, so if you actually look at our overall business in the specialty, our agro has continued to grow, pharma has continued to grow, the industrial business is what has actually taken a dip in Q4.
- Sanjesh Jain:** Correct that is clear. One last question on the cost side, what will be the cost increase when this new facility of Dewas will come in?
- Ketan Sablok:** What exactly you mean by cost increase?
- Sanjesh Jain:** There will be certain fixed cost when we will commercialize right because we are not seeing the existing facility getting completely utilized I was just wondering what is the fixed cost for Dewas facility, cGMP 3, which we are starting, which will probably start showing from next quarter onwards right when we commercialize?
- Ketan Sablok:** As we have these additional capacities what we feel is that the fixed cost overall should come down and we will be operating at a better leverage in terms of the fixed cost that is what we are anticipating.
- Sanjesh Jain:** That I completely understand as we fill in the capacity operating leverage will kick in, but just wanted to understand what could be potential cost increase in the next quarter when we commercialize or probably quarter after that?
- Ketan Sablok:** I think this would be a better question to take call on later on during the year when actually the plant is commercialized.
- Sanjesh Jain:** Sure that is it. Thank you.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

- Pritesh Chheda:** Sir for FY2019 what would be our volume growth in that 16%, 17% revenue growth that we have reported rendered volume growth?
- Radhesh R. Welling:** You can assume almost half of it.
- Pritesh Chheda:** Okay and on the capacity utilization side?
- Radhesh R. Welling:** Yes lot of it is volume growth, but as Ketan as mentioned earlier there is also one particular new product, which has got introduced, actually impacting the revenue, both on the pricing as well as on the volume side.
- Pritesh Chheda:** When you called out a teen growth in specialty in higher growth in organic fluoride for FY2020, do we have the capacities there or do we need to have capacities?
- Radhesh R. Welling:** No so whatever numbers that we talked about was on the basis of existing capacities.
- Pritesh Chheda:** Okay so we have the capacities?
- Radhesh R. Welling:** Yes as far as the specialty is concerned we have actually undertaken a small capex last year to do some debottlenecking in one of the critical products so we will actually double up the capacity in that particular product this year and also we continue to do smaller debottlenecking projects. So whatever we are talking about for the current year is basically going to be more or less from the same capacity.
- Pritesh Chheda:** On the margin side one clarification when you say that you have taken incrementally some pricing actions so one should look at the reference exit margin, which the company has reported and improvement over it or you should look at the annual margin of the company and look for improvement over it?
- Ketan Sablok:** We should look at the annual margins and then look at because quarter-on-quarter the kind of business we are in the specialty and the CRAMS it would not be a fair estimate to look at on a quarterly basis.
- Pritesh Chheda:** You called out it is a couple of quarters in which we will see the improvement in margin because the pricing increases is coming in a stage manner that is how you called out?
- Radhesh R. Welling:** Yes that is right.
- Moderator:** Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

- Jasdeep Walia:** Sir you are facing some production issues at Dahej in your Piramal JV with regards to use some of catalyst and last quarter you had indicated that you have changed the catalyst and in one quarter you would know whether that is working or not so is that working now?
- Radhesh R. Welling:** If you actually look at our performance in that particular business and what we talked about in our earlier commentary that joint venture has become profitable, it is primarily because some of the efforts that were taken in Q4, some of the catalyst related issues were actually addressed and in the month of March and now again in the month of April we have actually seen record production
- Jasdeep Walia:** And Sir what kind of utilization levels is that plant running at right now?
- Radhesh R. Welling:** At least for the last two months if we look at the performance it is running to the full capacity.
- Jasdeep Walia:** And Sir what are the expansion plans in that case?
- Radhesh R. Welling:** Our initial focus would be to actually run on a continuous basis at that particular capacity, once we are confident about that over the next few quarters, thereafter we will actually start looking at the expansion plans.
- Jasdeep Walia:** And Sir expansion will be in the same product or it could be different products?
- Radhesh R. Welling:** We see opportunities in other downstream as well, but that is a decision that we will actually take at the right time, currently our focus there is to ensure that we continue with the production level that we have seeing currently. So all our efforts currently are to ensure that we continue at this particular production level for the next few months and quarters.
- Jasdeep Walia:** Got it Sir thank you. That is all.
- Moderator:** Thank you. The next question is from the line of Amar Maurya from Emkay Global. Please go ahead.
- Amar Maurya:** Sir just continuing this Piramal JV question like we almost indicated that in financial year 2020 will reach to something around two times kind of sweat asset ratio in Piramal JV so are we on the track for that?
- Ketan Sablok:** The current business and the plant the way it is functioning now, we are hopeful that the current year should be good, we have seen two good months of production and sales, we have seen the first year of positive numbers so we will get a better indication of how the plant is running over the next few quarters and probably next quarter we will be able to comment on where we stand on this front.

- Amar Maurya:** And just to get the filler like what was the fixed asset turnover ratio in this particular year as ending year?
- Ketan Sablok:** We are not discussing CCPL because it just comes as a joint venture profit number in our results, so it would not be fair for us to discuss the numbers just from our side as a joint venture partner.
- Moderator:** Thank you. The next question is from the line of Manoj Garg from WhiteOak Capital. Please go ahead.
- Manoj Garg:** While we understand that it is very difficult to track CRAMS business on a quarter-on-quarter basis, but if you look at in terms of the next two to three years kind of timeframe whatever indication you have guided earlier in terms of new capacity coming in and you should be able to use that new capacity at optimum level within the next three years so do we think at least those things are very much on track?
- Radhesh R. Welling:** Absolutely.
- Manoj Garg:** Okay fair that is good to hear and the second thing is while you have given an outlook in terms of high teens kind of growth on both specialty chemicals as well as the inorganic fluorides, but when you look at company as a whole what kind of revenue growth you are indicating over the next one or two years?
- Radhesh R. Welling:** First of all as I mentioned earlier we talked about high teen kind of growth on the specialty side, on the inorganic we said that it will be at GDP level so we have not actually talked about high teen level for inorganic that is as it stands today. We have actually got some other growth plans within the inorganic, if those happen then obviously the numbers will change but as the business stands today it will be at GDP plus level. For specialty, as the business stands today we are talking about high teen level. We obviously in each of these businesses we have some new opportunities that we are currently looking at and will get converted and finalized into business plans, etc., those is the overall about these numbers. At a company level it will be very difficult to give the numbers, we have actually given you for two businesses and CRAMS directionally how it is going to pan out, so I think it is probably easy for you to put these numbers together and see where it will go.
- Manoj Garg:** Sure and just last question from my end in terms of margins obviously like this year has got impacted because of increase in raw material prices and all those things and lower contribution of high margin businesses, but going forward if you look at in terms of expressional goal where do you think the margins are likely to look at stabilized?
- Radhesh R. Welling:** Our Efforts would be to continue to get operating margins for the level that we have talked about earlier, which is between 22% to 24%.
- Manoj Garg:** Sure. That is all from my side. Wish you all the best.

- Moderator:** Thank you. The next question is from the line of Sameer Shah from ValueQuest. Please go ahead.
- Levin Shah:** On this CRAMS I would just like to know that excluding these two projects that we said, which have been deferred, what would be the growth in the business excluding those two projects?
- Ketan Sablok:** You are talking about in the last financial year?
- Levin Shah:** Yes FY2019.
- Ketan Sablok:** I do not think we would like to discuss this project wise because it is not that these are the same products, which are getting manufactured year-on-year. These are specific projects and they are not actually comparable, so it would not be prudent to discuss without this and with this what would be the growth or degrowth
- Levin Shah:** No Sir just to understand that like whatever we have faced challenges because of these two projects so if you remove that as the business done well, it is just to understand on that part?
- Ketan Sablok:** The customers in this business are varied so I have already said we would not like to pinpoint numbers on specific projects and discuss with some projects and without some projects.
- Levin Shah:** Okay fair enough and Sir secondly on this refrigerant business if we see international business we have done very well, but if you look at the domestic numbers we have actually degrown so what has led to this degrowth in the domestic business?
- Radhesh R. Welling:** Domestic business if you actually see there is no degrowth. It is flat and the way to look at the business is that if we are actually losing out on the OEM side, we are more than compensating from the growth that we are seeing on non-emissive side in domestic. So if you look at year-on-year or quarter-on-quarter on the domestic side, it is almost flat. On the export side there is a significant growth.
- Levin Shah:** Domestic we are maybe flat or degrowing on the OEMs is because the R22 has not been used by most of the OEMs?
- Radhesh R. Welling:** That is correct yes.
- Levin Shah:** Thanks a lot Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.
- Nilesh Ghuge:** As you mentioned in your earlier question that tax rate will be higher as compared to the FY2018 and what is the reason behind that?

- Ketan Sablok:** Going ahead what we said it will be in the range of between 33%, 34% that is annualized numbers, that is what we foresee now.
- Nilesh Ghuge:** Earlier it was in the range of 31% so why it was so low?
- Ketan Sablok:** That is also to do with the movement in our investments, we sold off some investments, we bought in some investments so they have impacted the tax provisioning slightly and also had to do with the project capitalization which we did in the last few years and some R&D spend also was on the higher side. We have got a little bit of benefit on that, but going forward we see this to be in that range what I have indicated 33% to 34%.
- Nilesh Ghuge:** Okay thanks.
- Moderator:** Thank you. The next question is from the line of Siddharth Bhattacharya from Anvil Wealth Management. Please go ahead.
- Siddharth B:** I wanted to understand the CRAMS deferment better so you said that you have been doing new customer development, we are getting new enquiries for business from existing customers and as well scaling up of existing products so in terms of deferment by customers how does Navin mitigate this so does it take a long time for you to change over between campaigns because I am assuming that there would be like list of guys whose products you would want to take on to the production lines so I just want to understand this better?
- Radhesh R. Welling:** If you look at our CRAMS business we actually work with multiple customers on multiple products and some of these opportunities are the front-end opportunities where they come to us at a discovery phase and then goes into Phase I, Phase II, etc. Some of these are repeat orders where we have already delivered on Phase I and then they come back to us for phase II or we have delivered on Phase I and Phase II and they come back to Phase III. Now with improved customer engagement there is lot of information that is exchanged between us and the customer and hence we typically expect what is actually likely to come, so we try to at least bring in visibility into the future earnings. Now last year and going into this particular year, we were not as strong on that particular aspect and we also had limited infrastructure because we did not have the cGMP 3., So what was happening was that dependence on these two campaigns was significantly high. Now we have actually kind of regrouped, we have gone back and said okay what in our current business model, what we need to tweak to ensure that we do not see similar kind of issues going forward. Some of the aspects of that you talked about and there are some other aspects as well that we are addressing to ensure that we do not actually see similar kind of a thing repeating in the future.
- Siddharth B:** So would it be safe to assume that we have enough of waiting line of customers as of now to ensure that if deferment happens some campaigns can be preponed to that particular quarter?

- Radhesh R. Welling:** First of all there is nothing like queue, so the customer does not wait indefinitely for your asset to become available because these are all innovator drug companies in US or Europe and they have urgency in terms of rolling out the product for whichever phase it is. The way you improved that is that you improve your engagement with the customer so that you actually come to know as to exactly what is happening. For example, if the molecule is in Phase I, that we know ahead of time as to how the molecule is actually performing in Phase I, how they are looking at the data, what are they thinking in terms of moving the molecule either for another Phase I or moving further into Phase II, etc. As we improve our customer engagement, we will get better at getting the forward looking data from the customer and hence we will be able to plan our business in a much better way.
- Siddharth B:** Got that. Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints we would like to take the last question for today, which is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** My question is on the EBITDA margin guidance, now if I look at FY2019 despite the volatile raw material and the delays in pass through we have still delivered almost 22% EBITDA margin and going ahead when CRAMS is expected to scale up, which is again higher margin product and we are talking price hikes to pass through the raw material hikes our guidance still remains the same, is there something which we are missing out?
- Radhesh R. Welling:** No, so if you look at our overall operating margin guideline that is the guideline that we have set for our business, we need to be at operating margin level of 22% to 24%, on a quarter-to-quarter basis it can be either little less than 22% or little higher than 24% depending on what exactly happened in that particular quarter, depending on what percentage of the revenue exactly came from each of the businesses in that particular quarter, but because of some of the changes that happen quarter-to-quarter, we do not change our overall guiding principle of how we run the business. So overall principle continues to be 22% to 24% operating margin business.
- Ankur Periwal:** Okay fair enough that is it from my side. Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen, I would like to hand the conference over to Mr. Radhesh R. Welling for closing comments.
- Radhesh R. Welling:** I would like to thank everyone for joining on the call. I hope we have been able to respond to your queries adequately. For any further information request you to get in touch with SGA, our investor relations advisors. Thank you very much and have a good day.
- Moderator:** Thank you on behalf of Navin Fluorine International that concludes this conference. Thank you for joining us. You may now disconnect your lines.