



“Navin Fluorine International Limited Conference Call”

December 22, 2017



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

Moderator: Ladies and Gentlemen, Good Day and Welcome to Navin Fluorine International Limited Conference Call.

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

Due to time constraints, we would end the call in around 30 minutes. So we would request the participants to limit their questions to one per participant. And also, restrict their discussion to CAPEX only.

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

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

Shekhar Khanolkar: Good Afternoon and A Warm Welcome to all the Participants. First of all, thank you very much for taking the call on a very short notice. I am also joined by our CFO -- Mr. Sitendu Nagchaudhuri and SGA -- our Investor Relations Advisors for this discussion. We decided to have a quick call to discuss the CAPEX of Rs. 115 crores which was approved in yesterday's Board Meeting. So I would request you to restrict the discussion to the CAPEX only.

Now, I will briefly share the details of the CAPEX. The Board of Directors of the Company had meeting here yesterday has approved a capital expenditure of Rs. 115 crores towards creating additional cGMP capacity and associated infrastructure as its Dewas facility. The expanded capacity will be utilized for the company's expanding contract manufacturing activity for the value-added complex chemicals and Fluoro intermediate manufactured for innovator pharma companies across the globe. The investment in expansion of the capacity is based on customer enquiries, discussions and in anticipation of future research pipeline of innovators. The new capacity addition will have similar capabilities as with the company's existing multi product plant configuration having multi stage batch and product processing capabilities. The new capacity is expected to come on stream by June 2019. The capital investment of Rs. 115 crores will be funded through a combination of internal accruals and debt.

This is from our side. Now we can open the floor for Question-and-Answers. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Sudarshan Padamanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padamanabhan: Sir, I have a couple of questions from my side. One is, given that you have mentioned that the nature of manufacturing would be very similar to what it is. Should one assume that the asset utilization would also be similar to what you had initially guided that you know Rs. 100 crores is giving you closer to about Rs. 250 crores to Rs. 300 crores for the earlier CAPEX?

Shekhar Khanolkar: No, basically this particular facility when I am saying similar, it is basically similar in terms of the capabilities in terms of reaction capabilities, in terms of the way we are doing multistage batch wise production etc, so it is similar from that perspective. So, the Rs. 115 crores CAPEX what we are putting right now includes the manufacturing plant and as well as the other associated buildings like the process lab, the new R&D centers and the utilities etc. So, in this case the asset turnover or ratio may not be as it was in the first case. Here we are expecting it to be around 2x as we get into the production.

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

Amar Maurya: Continuing to the first question. Sir, within how much time you will reach to the 2x utilization ratio. So, say for example, in June 2019 you will start your commencement. So it will take same transition time how it took in Rs. 100 crores CAPEX?

Shekhar Khanolkar: We expect that within four years post-commissioning, that means by FY 2023, we should be able to reach to this asset turnover.

Moderator: Thank you. We take the next question from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: Would the margin profile be again similar to what we are getting right now in our CRAMS business number one and then out of the Rs. 115 crores how much is likely to be debt and how much is likely to be internal accrual?

Shekhar Khanolkar: As I said overall in terms of the configuration of the business coming out of this facility would be in a similar way of that of our cGMP-2 the earlier facility which came up in 2015 - 2016. So, from that perspective we expect similar margin from this facility as well because the customers what we are catering to are the same innovative pharma companies and again the products what we will be supplying will be into their research pipeline only.. So from that perspective, the overall configuration remains the same and hence we expect the margin profile should remain the same.

Sangeeta Purushottam: Right, okay. And the break-up between debt and internal accrual?

Shekhar Khanolkar: Yes. So we are yet to close in terms of what percentage of a debt we will take, that is something which we are currently discussing internally.

- Moderator:** Thank you. We take the next question from the line of Abhijeet Akela from IIFL. Please go ahead.
- Abhijeet Akela:** Just one clarification. So, if I understood you correctly, you said that the this new facility is basically again for research stage pharma molecules and so this does not include any commercial manufacturing plant for the scale up of any existing molecules you might have been working on it, is that understanding correct?
- Shekhar Khanolkar:** See, as you know the scale up starts with a few kgs to go up to a tonne level or a multi tonne level until the product gets commercialize in most of the molecules. So we are in the evolution phase where for some other molecules we are going into next stages. But as of now we do not have anything planned in this particular facility which will be like a molecule which gets commercialize and you make material for that, so currently that is not being planned in this particular facility. As of now, what we are considering for this facility is the similar way, the way we are working with the molecule which are in pool of Phase-I, Phase-II, Phase-III etc, kind of stages the probably in some of the molecules that quantities would increase and would go to tonne levels in this particular facility. But again, these are all pre-commercialization stage only.
- Abhijeet Akela:** Understand. So just to clarify. Basically, this is again an extension of our CRO work, this is not really CMS work yet. But there is a chance that if some of those molecules we have been working on progress to the next stage of commercialization, we would look to set up further CAPEX for that also?
- Shekhar Khanolkar:** Exactly. Because this particular CAPEX does not envisage those kind of investments or those kind of molecules to be manufactured into this facility. If those kind of things materialize we will definitely look at it as independent CAPEX going forward.
- Moderator:** Thank you. We take the next question from the line of Pawan Kumar from Unifi Capital. Please go ahead.
- Pawan Kumar:** Sir, is this CAPEX going to come in modular form or the whole thing gets capitalized in June or July 2019 and then the whole manufacturing unit comes up?
- Shekhar Khanolkar:** Yes, so actually, all the facilities, the manufacturing plant, the R&D set-up and all those facilities are coming up at the same time during this period of 15 months. So, from that perspective everything will get capitalized almost at the same time because that is how the production would get started. So there is nothing specific as a phase wise, the entire manufacturing facility will be available to start by June 2019.
- Pawan Kumar:** In the contract manufacturing part, sir, are we doing any contract manufacturing of any particular molecule as of now? Any molecule in commercialization stage?
- Shekhar Khanolkar:** No, as of now we are not doing any molecule into commercialization stage.

Moderator: Thank you. We take the next question from the line of Rahul Singh from Ampersand Capital. Please go ahead.

Rahul Singh: Yes, I just had a question on the Rs. 115 crores capex break-up you mentioned that there are some utilities and so on. So, going forward if this had to scaled up the incremental CAPEX would be much lower I presume to add the same capacity and then can we expect the asset turns be more than 2x?

Shekhar Khanolkar: No. Actually what we are doing is this is our third plant, we started with one pilot plant in 2011 then we went for another second commercial plant in 2015 and now we are getting third commercial plant so that is the way we are building. So we are building the plant in a modular fashion. And most of the utilities and everything are getting build in a modular fashion at least at this particular stage. The common facility in the sense that when you build one more modular facility based on the previous one, you save to certain extent on the capital cost of building saving on administration building or other things. To that extent definitely the overall CAPEX requirement starts coming down. But for any new manufacturing facility in this business also require a proportionate number of scientist and the process labs and those kinds of infrastructure. So that will have to get built along with the manufacturing plant per se as we go ahead in the CAPEX building process.

Rahul Singh: Okay. So then the stark difference between the earlier asset turnover which you have already achieved and this one what explains that which means that the second round of the CRAMS CAPEX had a lot of benefit coming in from that common facilities?

Shekhar Khanolkar: To certain extent, yes. Last CAPEX we talked about up to 2.5x the asset turn. Here we are talking of 2x because if you see the overall capacity of this plant will be little higher than the previous one. The size of equipments also will be higher than the cGMP-2 plant. So to that extent we are not really sure in terms of how everything will pan out over a period of time. Probably as we go into the next financial year with the existing manufacturing projects and the visibility start increasing, we will have a little more understanding of how the things will pan out in this new plant.

Moderator: Thank you. We take the next question from the line of Sudarshan Padamanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padamanabhan: Sir, on your funding side, I mean we have a cash rich balance sheet and we are also generating fair amount of cash. All do we have to fund it through debt and internal accruals? I think, fair amount of cash is available for us.

Sitendu Nagchaudhuri: Combination of debt and internal accrual is actually part of the financial structuring analysis which is currently on. We can reassure you that whatever would be the ultimate financial structure that will be value additive for the enterprise and not value destructive.

Sudarshan Padamanabhan: Sure. Just continuation of that, would we actually keep a little bit of cash because we would believe that there are some capabilities that would be required in addition to this, probably into the manufacturing side apart from the research side, so therefore, it is better to have some kind of debt buffer and further funding can be done through cash again no debt to have at an optimal level?

Sitendu Nagchaudhuri: Any given point in time at the company level, we keep on evaluating potential opportunities not just for CRAMS but for all the different business units. So, whenever we are trying to pinpoint outlay for a particular project, we need to have some project specific assumptions and we cannot afford to put in our entire treasury war chest in to any one particular project.

Moderator: Thank you. We take the next question from the line of Karthikeyan VK from Suyash Advisors. Please go ahead.

Karthikeyan VK: My question was with regard to this visibility for these facilities while you are being conservative and guiding units utilize fully. Given the fact that you are making a substantial commitment in relation to what you have done in past. Can you guide us through some aspects of the visibility for you in terms of demand whether it is coming from existing customers, will this require new customers could you take us through that?

Shekhar Khanolkar: See, as I have been saying in past couple of quarters. Our visibility in terms of our customers is definitely far better than what it was or what use to be in earlier years and that is giving us a lot of confidence while going ahead with this particular investment. We have been working on this investment from the market side with our deliberation with our various customers within U. S. and the Europe for quite some time. And we have a sort of understanding of their product pipeline as far as what they are trying to do with the existing molecules, success of the existing molecules. All those aspects have been taken in to consideration while designing the capacity for this particular facility. So the sales what we are planning over the next three years to four years from this facility is expected out of our existing customers as well as the new customers whom we have been targeting within U. S. and Europe and that is the reason we have been also augmenting our market capabilities and project management capabilities to see that we can meet the customer expectations from the existing as well as the new ones.

Karthikeyan VK: You want to quickly talk about the feedback you get from customers with reference to their satisfaction if you may?

Shekhar Khanolkar: We do that on regular basis as a part of our organization process in terms of getting feedback from the customers in terms of the service, in terms of the quality and other expectations from the customers. And so far we had been getting excellent feedback from the customers on various aspects. And we have been fairly successful in all the audits that the customer had done at our facilities and their delivery and quality expectation and we have been meeting their pricing expectation as well. All these factors primarily go into your assumption which you take for the future business that is where this investment comes in.

- Moderator:** Thank you. We take the next question from the line of Pratiksha Daptari from Aqintas. Please go ahead.
- Pratiksha Daptari:** I wanted to ask if you could share any details about the interest cost that you expect for this CAPEX and the moratorium that you will avail for the debt.
- Sitendu Nagchaudhuri:** As we alluded a while ago such details are work-in-progress. We are evaluating various options so it will be premature for us to comment on any specifics on the rates or the range or the moratorium period as of now.
- Moderator:** Thank you. We take the next question from the line of Pawan Kumar from Unifi Capital. Please go ahead.
- Pawan Kumar:** Sir, if any of the molecule goes into commercial production, do we have the capability to handle it with our existing facility? If not, how much CAPEX would be required for a new contract manufacturing kind of set up?
- Shekhar Khanolkar:** See, as of now the facilities what we have right now and what we are building, we will have capability to make some tonne level product. Now if someone wants more than those levels in a shorter period of time then definitely we require an independent commercial facility for that. And that is why in this particular facility we have not planned any commercial production at that particular scale. So as and when it comes and everything in terms of the commercials everything is right, we are open to build additional facility during this period.
- Pawan Kumar:** Okay. But anything that we can invasion in next six months or one year?
- Shekhar Khanolkar:** I do not know. I cannot say anything at this point in time.
- Moderator:** Thank you. We take the next question from the line of Rahul Singh from Ampersand Capital. Please go ahead.
- Rahul Singh:** Just one quick follow-up. In CRAMS what is the cumulative CAPEX this date?
- Shekhar Khanolkar:** In CRAMS we have spent about Rs. 85 crores so far at our Dewas site for various that is first pilot plant and then the second commercial plant and that is what we have spent so far about Rs. 85 crores.
- Rahul Singh:** Okay. And you will do annual revenue if I take first-half just annualize it about Rs. 280 crores this year.
- Shekhar Khanolkar:** As of now we have done up to H1, we have done about H1 is about Rs. 106 crores coming from Dewas facilities.

- Rahul Singh:** Okay. So that still comes to close to 3x the CAPEX the asset turn for this year itself, so just wanted to clarify that.
- Shekhar Khanolkar:** You have taken, entire Rs. 80 crores you are talking?
- Rahul Singh:** Yes, Rs. 70 crores. Dewas will be Rs. 60 crores out of that Rs. 80 crores I guess.
- Sitendu Nagchaudhuri:** No Rs. 85 crores is at Dewas but the first investment of about Rs. 20 crores - 25 crores was on CRO and a small pilot facility. In 2015-2016 we put up a Rs. 60 crores for a facility that is a major commercial facility for us.
- Rahul Singh:** Okay. So on the base of the CAPEX of Rs. 85 crores you are generating Rs. 220 crores revenue or Rs. 280 crores. How should we look at it?
- Sitendu Nagchaudhuri:** I think we should not extrapolate the H1 number straight away and try to get into annual number because in CRAMS as we keep on saying, there is significant degree of lumpiness across the quarters. Hence, looking at H1 number and trying to extrapolate, and guess an annual estimate would not be appropriate for business of this nature.
- Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Mr. Shekhar Khanolkar for closing comments.
- Shekhar Khanolkar:** So we strongly believe that there is tremendous potential in the contract manufacturing space with the increasing pipeline of products by the pharma companies. Our CAPEX announcement is in the right direction to capitalize in the future research pipeline by innovative pharma companies. I would like to thank everyone for joining on the call. I hope, we have been able to respond to your queries adequately. I also take this opportunity to wish all of you a very happy, safe and prosperous new year. For any further information, I request you to get in touch with SGA our Investor Relations Advisor. Thank you very much.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Navin Fluorine International Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.