"Navin Fluorine International Limited Q3 FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Navin Fluorine International Limited, Q3 FY21 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone 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 Mr. Welling.

Radhesh Welling: Good morning, and warm welcome to all participants. I'm joined by our CFO Mr. Ketan Sablok and Strategic Growth Advisors, our Investor Relations Advisors. I hope all of you got an opportunity to go through our financial results and investor presentation which has been uploaded on the stock exchange as well as on our company's website.

I hope you and your loved ones are safe and doing well in the current challenging times. Now, let me give you performance overview of various business units of the company.

During the year till date, we have reported a strong profitable growth with our EBITDA margin for nine months FY21 growing by 260 basis points on a Y-o-Y basis to 28%. This growth is a result of continued momentum in high value business and improved performance of our legacy business during the quarter which was particularly weak during H1 primarily on account of demand related issues. We recorded revenue of Rs.809 crores, operating EBITDA is that Rs.228 crore with margin of 28% and operating PBT of Rs.197 crores with a margin of 24% in the period nine months FY21.

Our high value business that is a Specialty and CRAMS grew by 33% on Y-o-Y basis, to Rs.525 crores for the nine months period. It now contributes 65% of the total revenue as on nine month FY21. Our Specialty business reported a growth of 16% on Y-o-Y basis to Rs. 322 crore for nine month FY21 compared to the same period last year. The business has shown sustained growth on back of strong customer partnerships. This business has been growing profitably and we see this momentum to continue. We are leveraging our R&D capabilities and deep fluorination expertise to strengthen our new opportunity pipeline, expand product portfolio and expand capacities both through Greenfield and Brownfield projects. Our CRAMS business has reported strong sales with growth of 71% to Rs. 204 crores compared to the same period last year for nine months FY21. The strong results were on the back of robust order book driven by new customer acquisitions and also deeper penetration into existing customers. Our current engagements with innovator pharma majors will augur well for sustaining our future growth.

During last nine months, we have significantly strengthened the demand generation as well as the demand fulfillment parts of the organization. Our legacy business that is ref gas and inorganic fluoride, performance was impacted on the back of a weak demand from the end user industry.

For this period of nine months FY21 the revenue was down by 22% on Y-o-Y basis to Rs. 283 crores compared to same period last year. For Q3, it was marginally down by 5% on Y-o-Y basis to Rs.103 crores compared to same period last year. Our ref gas business was down by 27% in nine months FY21 on Y-o-Y basis to Rs.150 crore compared to same period last year. The performance was impacted by lower demand in domestic market and competitive scenario in international markets for emissive application. However, we were able to record good volume traction during the quarter that is Q3, especially in international markets. On the domestic front, the trade and service sectors which is impacted on the account of COVID-19 have started showing signs of revival. Our inorganic fluoride business was down by 14% on Y-o-Y basis for nine months FY21, to Rs.134 crores compared to same period last year. This segment has started showing signs of improvement quarter-on-quarter, on the back of recovery in the end user industries like stainless steel and glass. I'm happy to share that we continue to sign up new customers leading to widening of our end user segments.

With regards to our JV with Piramal, we expect the transaction to be completed before end of FY21. Work on both the new capital investment projects is on track.

That's it from my side, I will now hand over to Ketan to give you a brief on the financial performance of the company. Thank you.

Ketan Sablok: A very good morning to all the participants, hope all of you, your families are keeping well and safe. So, while Radhesh has explained most of the points but I will again share the highlights of our financial performance following which we'll be happy to respond to your queries.

To start with the 9M FY21 performance:

The company reported net revenue from operations of Rs.809 crores a growth of 7% against Rs.757 crores in this nine month period. Operating EBITDA is up by 18% at Rs.228 crores as against Rs.194 crores in 9M FY20. The operating EBITDA margin stood at 28% compared to same period last year with a growth of 260 bps. Despite business challenges due to COVID-19 EBITDA margins have improved on the back of increase share of the high value business. Operating PBT stood at 197 crores for the nine month FY21 as against Rs.169 crores in nine months FY20 up by about 17%. Operating PBT margin stood at 24% up by 200 bps as compared to the same period last year. Profit after tax stood at Rs.178 crores for the nine month FY21 as against Rs.131 crores again up by about 35% and the PAT margin was at about 22% up by 460 bps as compared to the same period last year.

Now coming to the unit wise performance for the nine months FY21:

The higher value business grew by 33% while legacy was low by 22%. In the high value business, that specialty grew by about 16% to Rs.322 crores and CRAMS grew by 71% to Rs.204 crores. The degrowth in legacy business was due to fall of about 14%, Rs.234 crores in the inorganic fluoride business and about 27%, Rs.250 crores in the ref gas business on a Y-o-Y basis.

Now quickly on the Q3 FY21 performance:

The company reported a net revenue from operations of Rs.297 crores a growth of 18% during the quarter as against Rs.252 crores in Q3 FY20. The operating EBITDA is up by 26% at Rs.82 crores for Q3 FY21 as against Rs.65 crores in Q3 FY20 with operating EBITDA margin of 20% growth of 185 bps. Operating PBT stood at Rs.72 crores for Q3 as against Rs.57 crores in Q3 FY20 up by 27% with the operating PBT margin at 24% up by 180 bps. Profit after tax was at Rs.59 crores as against Rs.45 crores in Q3 FY20 up by 30% with PAT margins at about 20%.

On the unit wise performance for the quarter:

The high value business grew by 35% whereas the legacy business was lower by 5%. Again in the high value we are seeing strong momentum in specialty growing by 27% to Rs.122 crores and CRAMS increasing by 52% to Rs.71 crores. Legacy business, the inorganic fluoride started showing recovery with revenues moving up by about 10% to 57 crores, while the refrigerant gases were lower by about 18% to Rs.47 crores on a Y-o-Y basis.

I've covered most of the numbers. So that's all from my side, will now open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: Two questions, first one just a clarification sir. In the CRAMS business, how much capital we have deployed so far, as per my understanding, we have invested around Rs.210 crore in CRAMS business, is this number correct sir?

Radhesh Welling: Yes, approximately correct. The last investment that happened was CGMP plant which was approximately about Rs.115 crore and prior to that was close to about Rs.100 crore. So, your understanding is correct.

Naushad Chaudhary: Sir, this business gives us around 2.5x of asset turnover. So, it has a potential of generating around Rs.500 crore of revenue, is this also correct sir?

Radhesh Welling: So, when we did the investment of this Rs.115 crore in the CGMP plant, that is when we had said for that specific investment, the investment term to the peak annual revenue to be approximately between 2 to 2.5 times the investment that we were making.

Naushad Chaudhary: Okay. So, total of Rs.200 crore of capital which we have deployed, how much revenue can this capital generate for us?

Ketan Sablok: So, as Radhesh said that for the new investments that we had done for the CGMP3, what we had said was, we'll do an asset turn of between 2 to 2.25 times on a peak load, over a period of three years and the traction that we are seeing, we are well within that target. And as far as the investments which have already been done at Dewas, we have reached revenues which you are thinking i.e. from Rs.100 crores to Rs.200 crores depending on the projects that have come in. So, over a period of time, your understanding of about more than 2 times the asset turn is correct.

Naushad Chaudhary: So, the current quarterly run rate is optimal utilization or is there a potential to increase the utilization in CRAMS?

Radhesh Welling: There is potential to increase utilization, we are constantly working on that. As we had said, we expect to reach the peak annual turnover in about two to three years, post the commissioning of the plant and as you know the commissioning of the CGMP plant just happened earlier last year.

Naushad Chaudhary: Second question, is there any Brownfield expansion we are planning for FY22 growth in spec chem or we'll be focused on increasing more value, high value products for FY21 growth because if I do the rough calculation, I don't think we have much capacity, therefore FY22 growth in spec chem?

Radhesh Welling: Yes, so if you actually look at even your FY21 growth, I'm sure you would have read our earlier commentary that we made last year, even for FY21 growth in spec chem , we didn't really have much headroom capacity available' A lot of that has actually come through smaller Brownfield expansions that we did, primarily with respect to debottlenecking, etc. and these are kind of projects and investments that we continue to make. So these continue to happen on a regular basis. These are typically smaller debottlenecking projects that we continue to do in our existing plants. So those will continue to happen and those will actually then contribute to the growth in FY22. And those will continue to happen even after Dahej comes in.

Moderator: Thank you. The next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Just a bit on organic fluorides and on refrigerant. How should we expect the recovery to pan out let say in quarter four of next year. Refrigerant lets say for example YTD using a 27% and that gas would have been consumed and R22 market is down. So is it a realization may continue for next two, three quarters, or there could be a pent up volumes, which may come back very quickly, let's say in Q4 and Q1 next year?

Radhesh Welling: Yes, so let's take both the businesses separately. As far as the inorganic business is concerned, you will see that in this particular quarter, that is Q3 we have already seen a small growth over Q3 last year, the business has actually again started coming back on track, we will see a similar kind of growth in Q4. And as we had explained earlier, in next FY we should basically be able to see a growth of around 10% plus minus. A lot of that will happen through, because of the baseline effect as well and also some of the new customers that we have been acquiring. As, I mentioned in my opening commentary, there are two very good customers that we acquired in this particular quarter for our inorganic business, one of which was in India and other one was in US. We are trying to understand exactly how or what would the peak revenue impact be of those customers, their businesses, but we expect that in the next financial year, the growth to be in kind of low teens for our inorganic business. As far as ref gas business is concerned, again, as we had given the commentary earlier, because of the cutoff, which was going to happen from 1st January 2020. We were expecting the demand, especially in the domestic market to soften this particular year, which got further aggravated because of the COVID situation. And as you can imagine that, ref gas business typically happens on a season-to-season basis. So the volume that we lost last year, especially during the peak season, we don't expect to bring that volume back. In this particular, in the coming year now we again expect that the ref gas business to grow at a low teen level, primarily driven by the growth in the non-emissive segment, and growth in the exports market for the emissive segment.

Ritesh Gupta: Understood. And sir if you could just give us an update in terms of CRAMS, I understood that in the past that, this is one of the molecules which have been commercialized. Could you just give us a sense in terms of how they are ramping up in terms of the launch, how are they ramping up. What part of the value chain you're doing in that particular molecule. If you just remind us on that?

Radhesh Welling: So that particular molecule has done quite well. We actually, again got repeat orders for this financial year for that particular molecule, because they're actually expanding the geographies for that particular molecule. So that molecule is doing very well. We are expecting another molecule to actually get very close to the commercialization, the customer has already started ordering for the commercialization for that particular molecule. So the first one that I talked to you about was with a US based customer for primarily for US market. The second molecule that I'm talking to you about now is for a European customer, primarily for European market. Also, there are two other molecules, which are currently in the pipeline a little further away from the commercialization. But for those also the results have been extremely heartening. So those molecules are also progressing quite well through our pipeline.

Ritesh Gupta: Understood. Sir but when I see your growth rate, while they are of course very good in absolute sense. But let's say, my understanding is that when something goes from a lab stage to commercial stage, the volumes increase dramatically. And they are not just let say 1x or 2x but they probably would be let say 4x, 5x. So, if you could just give us a sense that is it yet to happen for that USA based molecule or because let's see, you might have to actually put a dedicated plant for that particular molecule. So, I'm also working for that CAPEX let's say if that happens. So how should we think about that in terms of the volumes spurt let say once the molecule get commercialized?

Radhesh Welling: Yes. So typically, if you see as the molecule progresses from preclinical to stage one, to stage two, right up through commercialization your understanding is correct that it actually moves from gram level two kg level to metric tonne level. The volume that we are currently manufacturing and supplying for this commercialized product is on a metric tonne level. However, unlike agrochemicals, the volume doesn't go into 100s of metric tonnes, for pharmaceutical , it remains at a metric tonne level. Of course, we see that 10x effect, but it's still at 10s of metric tonne level, not 100s of metric tonne level. Now, what is the right time to actually go for a dedicated plant for such opportunities, this is something that we are continuously having conversation with our customers. Because in lot of these cases, even the customer does not have complete visibility on how this molecule is likely to work for the next five to seven years, to be able to justify a dedicated CAPEX. So we are continuously in dialogue with this customer and with other customers, were the products are also approaching commercialization to understand what would be the right time to either, go for dedicated plant for that specific product, or to go for a larger MPP designed specifically around these three or four opportunities.

Ritesh Gupta: And just if I can squeeze in the last, in terms of your Manchester Organics, and in the past you said that you will keep it separate from India business and now you've been taking a lot of strategic steps there. So if you could just highlight some of the changes or some progress that have been made on the Manchester side augmentation of R&D capabilities, etc?

Radhesh Welling: Are you asking any specific business related or overall?

Ritesh Gupta: I'm just asking for the Manchester Organic business?

Radhesh Welling: Manchester okay. No, so Manchester unfortunately because of what's going on in UK, some of those efforts have been a little slower than what we would have liked them to be, currently as you know there is a lockdown in works, we have basically got very minimum staff currently operating in UK. And because, a lot of these activities which are going on with respect to you filling up the capacity, etc for our plants in India, the senior leadership team within that business, the focus of that team also has kind of shifted a little bit, we expect that, we are currently working on finalizing the overall business case for Manchester Organics, which will focus on not only significantly upgrading our R&D capability there, but also expanding the capability and also bringing in some piloting capability where we will be able to do multi 100 kg level product in Manchester. So that effort is on and we expect that the business case would be ready by Q1 FY22.

Ritesh Gupta: But, sir just on this COVID bit does it actually puts you one year behind in terms of let's say, whatever the development was going on, even let's say with pharma companies, whatever the development was happening probably could have got delayed. Is it the right understanding and probably what you are working for those clients in your R&D side would have also got delayed a bit, because I would understand R&D the job which you can't probably stay away from, work from home and do it. So, is that something right understanding?

Radhesh Welling: Yes. So when COVID actually set in, which was basically around February, March of 2020. Post that we clearly saw an issue for about four to five months, where the things were extremely slow. Of course, we were not able to have a lot of these meetings with the customers that we would have liked to. But some of the pharma companies also change their focus and move to COVID specific therapeutic areas. So we saw that happen for a period of about four to five months, but it came back on stream pretty quickly. So your question related to one year might not be true, but a few months definitely.

Moderator: Thank you. The next question is from the line of Karthik Keyan from Suyash Advisors. Please go ahead.

Karthik Keyan: Can you elaborate a bit on one line you've written in your presentation, which says you have strengthened demand generation and demand fulfillment parts of the organization. Why would this have been necessary, because I thought you were already pretty well placed on that count. So, some details on that would be helpful?

Radhesh Welling: Yes, so this comment was specific to CRAMS business. So this period, in the last nine months if you see we have strengthened our presence in the market, we have actually brought in two new resources. One is a full time resource that we have actually brought in North America. and one we have actually brought in, in form of a consultant in Europe to further strengthen the order book for our CRAMS business. And on demand fulfillment side, we have significantly strengthened our Dewas team. So we've actually made some changes, we've kind of upgraded our capabilities, because we clearly realized that the kind of capabilities that we had, which helped us deliver, the top line of close to about Rs.100 crore - Rs.150 crore would not be adequate for us to deliver the top line that we expect to deliver in the next year or two. So we had to again, go back to the drawing board and significantly upgrade those capabilities. So that process happened in this particular period. That was primarily from the point of execution. So, it includes operations, includes QA, includes R&D, includes technology transfer, we didn't have technology transfer as a separate function prior to that, which we brought in this particular period.

Karthik Keyan: Yes. Second thing on the second commercialization molecule that is on the verge of commercialization, any thoughts on timelines?

Radhesh Welling: No. So we have already started supplying the quantity for that. Exact timeline the customer has not informed us because of the confidentiality, but we are seeing there is a line of sight visible now.

Karthik Keyan: Right. So, for FY22 for example would commercial volumes account for at least 30% of revenues kind of thing in the CRAMS piece, some indication on that, could you want to comment on that?

Radhesh Welling: If you actually look at our revenue for FY 21. A large percentage of that sales, I say large percentage I don't mean 60%, 70%, but there is a significant portion of that sales has actually come from the repeat business for one molecule, which was commercialized and the second molecule which is close to commercialization, because as I said, we've already started getting the volume for that. We hope to, or we expect to see that continue for FY22 as well.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: First question, what is the typical time lag before, which will be there typically for a new plant to come up, the moment we decide that we'll go ahead and the time when, let's say the plant will be commissioned, both across spec chem and CRAMS?

Radhesh Welling: So, I'll give you three scenarios. First is CRAMS, CRAMS because last time when we did CGMP3, we actually did there were some issues with respect to OSBL which we actually addressed there. So, CRAMS we feel confident that we should be able to bring in new capacity in a period of about 9 to 12 months. As far as Specialty is concerned, when we talk about the Brownfield projects, where there is a either a capacity expansion or we actually add one more line or something like that, it typically takes again 9 to 12 months and for Specialty to come in Dahej, it's basically the Greenfield that will take about 15 to 18 months.

Ankur Periwal: Sure. So, the reason I asked this question was more given the number of inquiries which you had earlier highlighted what we are getting, as well as the few molecules which are getting commercialized, which as per you probably could see the light of the day over the next let's say couple of quarters coming in. But at the same time barring that, Rs.2 billion incremental CAPEX which we announced on spec chem, there is still some catch up. While on CRAMS you had mentioned that we'll probably take a call, in the coming quarters once we have more clarity, but on the spec chem side whether debottlenecking led expansion will suffice enough for us to drive growth over the next, let's say one, two years or there should be some more capacity addition or built up going ahead?

Radhesh Welling: So the question is, will it suffice in the next one year. The answer is no, but we don't really have any much option, because the Dahej investment which we announced end of calendar year, last year, the plant will actually get commissioned only in FY22. Now, one thing you need to understand is that when we talk about inquiries, it takes time for us to go from inquiry to actually get to the stage where we are actually building the plant for that particular product. So when the inquiry comes in, we first do our internal assessment if that is the right opportunity for our company, over a longer period of time, does it tick all the boxes that we have for filters, then it completes the complete R&D piece, then it completes the piloting, etc. Which is when it basically gets ready for setting up of new plant. But the way we are currently looking at is that these products, the new opportunities which are coming up will come into R&D, then we go into the pilot plant, and we are now looking at our smaller MPP or at least the sections of that smaller MPP in Surat, as kind of a incubation piece before it merits a full-fledged larger plant in Dahej. So for example, one of the projects that we are expecting certain growth from for next year, we've completed R&D, we've completed the piloting, and we will be supplying multi tonnesof the volume. So, it's basically in about just less than 100 metric tonne level from our Surat plant.

So, for as you can imagine that is for our agro business, that will basically be like a incubation piece for this new agro opportunity. Once we have done that successfully, we will also get a lot more confidence over the process, etc. And then those opportunities will be ready for larger client either dedicated plant or to be put in larger multi-purpose plant in Dahej. And we believe that the cycle will continue.

Ankur Periwal: Sure, that's helpful. Sir just one clarification if I may, you mentioned the delta in the CRAMS business that we are seeing, from a nine month year-on-year perspective, that is largely or that is also led by the first molecule which has got commercialized, the second one has not yet contributed is that correct?

Radhesh Welling: Second one has also started contributing. Because as I mentioned in my earlier, in the opening commentary is basically led by the new customer acquisitions as well as some of these repeat business. As you can imagine that we've actually seen good trend on new customer acquisition. But while that process is at the front end of this one, the typical revenue impact tends to be relatively limited.

Ankur Periwal: Fair enough and broadly we should be on optimal utilization front on the CRAMS side with these perhaps, two molecules?

Radhesh Welling: These two there are some other opportunities in the pipeline also we continue to ensure that we have enough opportunities in the pipeline, should one of them or two of them fall off. So it's important that we continue to have enough number of opportunities. So we feel confident that we should be able to get to the optimum level, as we had indicated when we did the CAPEX.

Moderator: Thank you. The next question is from the line of Tejas Sheth from Nippon India Asset Management. Please go ahead.

Tejas Sheth: On the commercialization trend, typically would the understanding be right that this will lead to lower volatility in the CRAMS revenue and what would be usually the margin profile once the commercialization hits, is it something which is very significantly lower and if we have to put up a dedicated plant what is usually the ticket size?

Radhesh Welling: On the CRAMS it is little difficult for us to comment right now on the dedicated plant. As far as the stickiness of this is concerned, so that is a, again it's a little difficult question to answer, because these are all new molecules. So they can actually fail at any point in time, they can fail after phase one, phase two, phase three post commercialization also, there could be some problems that could happen with one or two molecules. And thereby there could be some issues, we are continuing to do various things to ensure that we decrease the volatility in our business. But by definition, just because one molecule has got commercialized doesn't mean that the volatility has gone down because tomorrow, if there is some problem with that one molecule, suddenly there could be a potential dip. So, the volatility of the business is slightly a kind of a different topic and we continue to address that, as I mentioned earlier, through newer opportunities, newer customer opportunities, also to ensure that we have number of these kind of products, which are getting close to the commercialization, and hence the number of repeat business continues to go up.

Tejas Sheth: Okay. Just on this, once we have touch let's say a commercial level for a client. Does the clients confidence on outsourcing more of their projects towards Navin Fluorine improves substantially enhance a larger share of their outsourcing comes to us is that the right understanding?

Radhesh Welling: We are seeing that, your understanding is absolutely right.

Tejas Sheth: Okay. So there could be a point of us where we would be very small share of their outsourcing. But now we've been showing our results towards the commercialization of a molecule we can get a good share of their revenue potential, the client mining may improve substantially?

Radhesh Welling: Yes. So to give you an example, this second molecule which is close to commercialization is the molecule that we have been working on for past six years. And in the last one year, because of the way the relationship has developed with that particular partner currently, we have five new opportunities that we are working on with that particular partner. Not necessarily the same thing will happen with everyone, but just to give you one example of what you were describing,

Tejas Sheth: Okay, and that's good to hear. Just last question the new manpower, which we have put up in US and one consultant in Europe, is that only for CRAMS or even they will?

Radhesh Welling: Only for CRAMS.

Tejas Sheth: But they will not source any business on the Specialty side for us?

Radhesh Welling: No. At least that is not the intent, but in their conversations if an opportunity comes up, sure. But that's not the intent, the intent is for CRAMS.

Tejas Sheth: No, but they would be predominantly approaching pharma companies rather than agro chem companies, right?

Radhesh Welling: Yes, but we also have a pharma piece in Specialty right, it's a different color. So that's why I am saying, so through those conversations if an opportunity comes up, which fits the profile of the opportunity that we work on in Specialty definitely, but your understanding is absolutely right, the intent is CRAMS.

Moderator: Thank you. The next question is from the line of Abhijit Akella from IIFL Security. Please go ahead.

Abhijit Akella: Just two from my side. First, on the Specialty chemical business, we've been indicating that in FY21, we would see similar kind of growth rate in terms of revenues as last year. So, somewhere in the mid-20s, given the kind of performance we've had so far in the nine months that would imply a fairly sharp increase in the fourth quarter. So anything along those lines that we are seeing in terms of further jump in spec chem revenue?

Radhesh Welling: So we are expecting if you see in Q3, we saw a growth of approximately about 27%. So, it was close to about mid-20s, we expecting a similar kind of growth in Q4.

Abhijit Akella: Okay, got it. And the other one was just on the CRAMS business also, we can expect a similar growth rate or similar revenue number as in 3Q?

Radhesh Welling: Yes, so our focus right now is to ensure that we give, first of all we try to bring some steadiness to the revenue in CRAMS and at least our internal target now is to stabilize that run rate at around $10 million plus minus on a quarterly basis.

Abhijit Akella: Got it, perfect. And last thing so on the CAPEX side, I know there are some more announcements expected both maybe in spec chem and in refrigerants. So, what could we expect in terms of timeline and which area specifically?

Radhesh Welling: That's something which is difficult to give specific timeline around. We are working on opportunities in Specialty chemicals. We are also working on opportunities in refrigerant gases. But it's very, very difficult to give specific timeline, because while we work on this, it's also important for us to ensure that we execute on the opportunities which are already in the pipeline. So, we ensure that we continue to strike the right balance, but we expect that in the months to come, we should be able to bring at least some of those opportunities to the board, and then make appropriate announcement poster board approval.

Moderator: Thank you. The next question is from the line of Rohit Nagaraj from Sunidhi Capital. Please go ahead.

Rohit Nagaraj: Sir the first question is on the spec chem business. So currently, how many molecules are there in our portfolio both for pharma as well as agro and what is the pipeline that we are looking at and in terms of commercialization in next couple of years, how many molecules will be commercialized, thank you.

Radhesh Welling: Currently we have about 20 to 25 molecules that are currently in the pipeline. As far as new opportunities are concerned, there are quite a bit. We continue to filter those out, but we currently, I would say, have at least about 15 qualified opportunities in the pipeline and what is your third question sorry?

Rohit Nagaraj: The current portfolio, how many molecules are there which are in pharma as well as in agri?

Radhesh Welling: Yes. So currently, we have about 25 molecules and about 15 new qualified opportunities. That's over and above the existing ones that we have in the pipeline right now.

Rohit Nagaraj: Okay, and the commercialization in the next say FY22 and FY23?

Radhesh Welling: That's correct, yes in the next two years we are expecting those to start getting commercialized.

Rohit Nagaraj: Alright, so the second question is on the multipurpose plant that we have put up a slide in the deck. So this particular plant, are those molecules finalized as of now or we're making the initial infrastructure development and based on these, just now you told that 10, 15 molecules are in the pipeline, based on how that progresses those molecules will be finalized for this MPP?

Radhesh Welling: No, so when we took this opportunity for this investment to the board, which happened in end of December, that time we already had a good set of opportunities where we had completed R&D work, where we had completed the piloting and there was some form of an agreement with the customer for the next, let's say five to seven years. In some cases, it was three years, some cases it was seven years. On the basis of those opportunities, we actually went to the board for seeking approval for that particular investment. These 15 opportunities that I mentioned to you, those include the four opportunities that we talked about during that investment call that we had during end of December.

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

Sanjesh Jain: First question on the ref gas side, this year that means in CY20 we have seen a 28% decline 25% probably was a volume dip and if I look at export realization have fallen by 13%. So, emissive should have come down by 35%, 38% whereas the decline is 28% that is non- emissive is contributing, can you give us some understanding on, what is the current contribution of non-emissive. And by when can you reach or entirely start using the capacities available for us for the non- emissive and can the realization and some thoughts on the realization between emissive and non- emissive. Thank you.

Ketan Sablok: Yes, so in the current nine month period, the volumes have significantly dipped, especially in the first half because of the slowdown in the market. While the dip has happened both to some extent, even on the non- emissive side because of the lockdown and things like that. But in the quarter three, we saw the trade and the service sector now slowly coming back, at least opening up towards the end of the quarter. So probably in the month of December, half of November and December we saw some traction coming on the trade side. And our volumes, also on the export front have been a little better in this quarter, but as you said the realizations have kind of suffered. One because of the global pricing scenario of R22 and many of the export customers had to complete their part of the quota, we had to complete our part of the quota for the calendar year, FY20. So all these things cumulatively played into the overall volume dips that we've seen as well as the realization pressures that we have seen on the export side. Going-forward, Q4 we're seeing prices in at least the exports, again, slowly strengthening. We have seen towards the end of December prices again coming back to showing an upward trend at least and with the new year and the export customers again, getting back their quota. We hope that the Q4 ref gas business will be stronger than what we've seen in the quarter both from the volume front as well as from on the realization side.

Sanjesh Jain: No, I'm telling you I've done better because 25% volume dip, which was because of phase two, and assuming 10%, 13% of a realization decline the revenue should have declined by 38%. It's declined by 27%, 28%. So there is a 17% coming from non- emissive. Whereas you're telling that non- emissive has fallen?

Ketan Sablok: I am talking about it on a quarter-to-quarter basis.

Sanjesh Jain: No, I'm looking at a nine month as a block

Ketan Sablok: Okay. So nine months yes, the emissive have shown but on a quarter and especially I was talking from a quarter three perspective where we've seen a dip specifically in the export realizations.

Sanjesh Jain: No, my question is more on the non-emissive side not on the emissive side, I am telling what is the contribution of non-emissive, how should we see this, will the non-emissive demand will be good enough to completely run the capacity at peak utilization?

Ketan Sablok: Yes, of course the non- emissive side, today we are at about 20% odd of our total volume sales comes from the non- emissive side. And going forward we are expecting this segment to show a growth, not sure whether it will be able to make up for the entire 25% dip in the quota volumes, but we are also expecting that realizations once they become stronger, then at least on the overall top line, we should be able to maintain our current FY numbers going forward. So, it will be a mix of better realizations in the next year plus growth in the non- emissive.

Sanjesh Jain: Okay. On the realization phase it was surprising to see a 25% cut in the volume and 13%, 14% decline in the pricing. I thought the phase down should have helped in hardening the prices, the reverse has happened what is the reason?

Ketan Sablok: So, a lot of this got to do with, in the domestic market.

Sanjesh Jain: No, domestic and international quotas are not fungible right so we are looking at international?

Ketan Sablok: Yes, so internationally yes we saw that once China opened up post the lockdown, they significantly brought down prices internationally. So internationally, the price got suffered more.

Sanjesh Jain: No, but the quota was lowered, they can sell only what they can sell right. My whole question is the demand being equal, the production being lower what has been the reason for such a sharp correction in the prices whereas the expectation was hardening of prices?

Radhesh Welling: No. So, let me just intervene here. In terms of pricing, even if there is the quota typically gets set for the country, then within that quota a company can actually have the flexibility. So for example, for last year, there was a quota which got set for India and then we went back later in the last year, asked for a higher quota for exports. So that provision does exist. So what we actually saw, what Ketan was referring to, typically there is a certain pricing expectation in terms of what the suppliers will basically price their product. And, what we saw is towards the end of last year, the calendar year 2020, the prices coming out of China for whatever reason, were significantly lower than what we are expecting and what the prices were at earlier, it was necessary for us to push the additional volume. And we also had to take a hit on the overall pricing, especially for the volume that we sold in the international market, that is what he's referring to.

Sanjesh Jain: No, so we changed the quota more from domestic to international in the anticipation of the hardening of the prices?

Radhesh Welling: No. So typically, we get a quota for the total production and we get quota for exports we don't get quota for domestic sales separately. So, what happened was, because the local market was much lower because of COVID and other related issues, especially during the peak season, which typically comes up in Q1 because the demand was very soft, we realized that we might not be able to utilize the full quota and that is why we went back and asked for additional exports quota.

Sanjesh Jain: Understood. One follow up on the CRAMS, in the initial remark Radhesh you mentioned that new customer have been added good part of the growth and now you said that the commercialization of new products have added to the growth. Can you give some color on the new product, new customer addition and some brief on what is the contribution of the new customer, which geographies these coming in and what kind of product categories we are looking at here. Product category more it is either a fluorine or non- fluorine kind of thing. I think you are doing far as of now?

Radhesh Welling: Mostly it's fluorine, there is very little which is coming in non-fluorine. Some of the non-fluorine that we are seeing is coming in from the customer with whom we have had long standing relationships and they are now coming to us for non-fluorine opportunities as well. For all of the new customer is all fluorine related, in terms of revenue contribution as you can imagine, a significant portion is primarily coming from repeat business from existing customers, a repeat business could be either newer molecules or these are basically businesses which you, these are products which we have been supplying over the last few years. The second part, the new customer acquisition, that becomes important not from the revenue perspective for that specific quarter. But that positions the company very, very well for the years to come, because what we bring in today as new customers and new products will then get scaled up over the next few years to the stage where the old businesses are today. So from that perspective it actually becomes important, but specifically if you look at the revenue impact coming in from these new customers it's not significant revenue impact.

Sanjesh Jain: And which geographies are these?

Radhesh Welling: In terms of geographies, the new customers that I talked about was primary from US. But today, if you see overall our core portfolio it's actually so earlier, if you look at it, let's say three years back, it was relatively uni-dimensional, it was all focused on US. And we've actually gradually started moving it, more towards Europe. So, overall if you see, it's pretty well balanced between US and Europe, but specifically related to this new customer acquisition, that I mentioned a lot of them were from US.

Sanjesh Jain: Thank you. Just one clarification on your initial comment, besides that this FY21 run rate will continue in FY22. So that's a fair assumption to make that FY22 will have a similar kind of growth of FY21?

Radhesh Welling: Similar kind of what sorry?

Sanjesh Jain: Growth in spec chem for FY21?

Radhesh Welling: You are talking about spec chem, you are talking about**?**

Sanjesh Jain: Spec chem.

Radhesh Welling: Yes, more or less we should probably see similar kind of a growth plus minus.

Sanjesh Jain: Yes, so 20%, 22% kind of revenue growth we are talking about that?

Radhesh Welling: Yes, 20% is what our expectation would be.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Sir, earlier someone asked on the margin profile once the CRAMS portfolio move is commercialized vis-à-vis which is in the clinical stage. So how this ramp up of volume and margins really play out, if can throw some color on that?

Radhesh Welling: Sure. And, I'm sorry that I missed that question, which was asked earlier you're right. So on margin, we have actually given this commentary before as well especially on the CRAMS. Typically, what happens is when the molecule is in early stage as you can imagine the price tends to be very high, then the price continues to move down and what we basically have seen, and we will continue to see, that the margin at a contribution margin level or a gross margin level, kind of starts dipping in, especially when the molecule is just getting enough from a scale to let's say 5x scale, etc you actually see margins slightly drop, because all the improvements, etc have not actually featured in yet. But at the same time, because we get a certain scale, at an EBITDA level it more or less tends to actually stay. And again, I'm not talking about quarter-on-quarter, but directionally it continues to be same because what typically happens is ahead of growth, we typically start building in fixed cost right as I mentioned, we've actually brought in more people this time in CRAMS,etc. So when you do that, it basically the fixed cost goes up and hence the EBITDA margin, at the operating level comes down, the scale goes up it starts absorbing that. So year-on-year, our efforts will be to ensure that we either, maintain the operating margin or we actually start moving the operating margins up as these opportunities start scaling up. Again that commentary might not be relevant for quarter-on-quarter numbers, because quarter-on-quarter a lot of things happen so it is little difficult to comment on a quarter-on-quarter basis. But if you see overall trajectory, you will see that, that's happening.

Bharat Sheth: And that remains for pharma as well as agro?

Radhesh Welling: We don't have any agro on the CRAMS side, CRAMS is all pharma.

Moderator: Thank you. The next question is from the line of Jason Soans from Monarch Network Capital. Please go ahead.

Jason Soans: I just wanted some color on obviously spec chem derives its revenues from life science and Crop care segments. Just wanted to know, how is the end user industry, how is the demand coming from both these key end user industries?

Radhesh Welling: Yes, so as far as the agro piece is concern, the demand continues to be strong. Some of it is also because of the China related issue. But, as I have mentioned previously as well, we don't really focus a lot on that opportunity because we believe a lot of that could be a kind of a short term uplift, a lot of what we are seeing the growth that we are seeing on the agro side is driven by new product launches, that are happening for the customers and that will continue to be the case in the years to come. On the life science side, again this is basically the molecules which are getting off patent, so, this is primarily driven by generic opportunities, opportunities that we are basically seeing in the Indian market. And again, we will basically keep tracking the growth that the pharma industry at a macro level will see, plus impact of the import substitution.

Jason Soans: Okay. And my next question is, with regards to CRAMS, it's more of strategic in nature. So, we obviously have a lot of long runway for growth for CRAMS. So, in terms of strategy you have Asian peers such as Tiger Med, and Samsung Biologics, etc who have excelled in terms of growing fast. So where do you see Navin Fluorine growing, obviously we have like in depth expertise in fluorine. So how do you see CRAMS shaping up in the next three to four years, what is your long term vision for CRAMS?

Radhesh Welling: First of all, one thing let me make it clear some of the examples that you gave be it Samsung Biologics, or be it SK Biotech, etc they play in completely different arena. We play primarily on the small molecules side and there again, our focus is on intermediate advanced intermediate, we don't necessarily call ourselves a supplier of API because there are 10,000 other people who actually call themselves that. And again, our specialization is around a certain chemistries and technology platforms. That is how we clearly differentiate ourselves. And when we look at the market space, we don't see many players. We don't see anybody in India, we see very few people in China, or let say Asia and there are very few people in the Western Hemisphere who have similar kind of value proposition. So, we don't really see a lot of players actually having kind of value proposition that we have in this particular space.

Jason Soans: Okay sir. And just a small confirmation, you said inorganic fluorides and refrigerant gases expect to assure growth of low teens in FY22 right?

Radhesh Welling: That is the expectation, Yes.

Jason Soans: That is the expectation. And what about Specialty chemicals and CRAMS sir?

Radhesh Welling: Yes, as I mentioned in CRAMS our focus is going to be to ensure that we generate a run rate of $10 million per quarter, that is what our primary focus for FY22 is going to be, because to ensure that we bring in that steadiness, something that we so far or not had in that particular business. So that would be our primary focus and in specialties, as I mentioned earlier, our target would be to get too close to 20% growth next year.

Jason Soans: Okay. And one final question from my side just wanted to your deal with Convergence Chemicals, Piramal Pharma and with 100%, in the Convergence Chemicals, just wanted to know, the exact rationale behind it just?

Radhesh Welling: Rationale behind what, sorry?

Jason Soans: The rationale behind the Piramal Pharma increasing the stake 100% in Convergence Chemicals?

Radhesh Welling: No, so that is completely separate discussion, we've already had a lot of commentary around that. That was a joint venture that we had with Piramal. Where we had 49% they had 51% stake. And we decided that because we wanted to focus on what we are good at, and we wanted Piramal to focus on what they are good at, because if you look at CCPL, that was primarily a single customer, single product, single customer opportunity. And, given the fact that we felt that we are better off conserving our resources, both financial and human resources, on opportunities that we can scale up on our own, and hence we decided that for both the parties, it would be the right thing to do, to sell our 49% to Piramal. So that is what has actually happened and that agreement with Piramal gives us access to the technology, which we had originally built, they can continue to use the technology for manufacturing of that product for their requirement. But we will have access to that technology to do anything else that we want to do in other segments.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity. Please go ahead.

Madhav Marda: I just had one question, actually business has been doing quite well, especially on the facility and the high value businesses. Just wanted to understand like on the high value businesses, what are the key risks that you see going ahead, outlook seems good like we are well positioned. But what could sort of that worries you on both?

Radhesh Welling: I would say there are, the top two, three things that worry me. One, is selection of wrong opportunity. Because as you all know, the overall inquiry flow is very strong, especially on the Specialty chemical. So it's important that we don't get unnecessarily influenced by the strong inquiry flow, and not convert all of them into opportunities. So ensuring that we qualify these inquiries, the one most important thing that a lot of my personal time also goes into that, so that we don't end up going down the path for completely wrong opportunity, because we are looking at something which is going to be sustainable and profitable, not only next year but over the next 5, 7, 10, 15 years. So that's point number one. The second point is to ensure that we build the organization wherein we will be able to execute on these opportunities very, very diligently, because the discipline in execution is going to be one of the very key factors in doing that. And the third thing is, while we look at all these opportunities, we continue to look at a lot of these opportunities to grow as well as to invest, we continue to maintain the capital prudence, capital allocation prudence. So, those would be the three important factors and the risk associated with not doing those three things would be the key risks.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Mr. Welling for closing comments.

Radhesh Welling: Thank you. The businesses are poised to grow from here, backed by end user industry tailwinds, new capacity additions, new customer acquisitions, as well as new product introductions. We are confident of continuing our journey to move up the fluorine value chain supported by our strong expertise and experience in fluorine chemistry. 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. Please take care and stay safe, thank you very much.

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