



“Navin Fluorine International Limited
Q1 FY21 Earnings Conference Call”

July 30, 2020



**MANAGEMENT: MR. RADHESH WELLING – MANAGING DIRECTOR –
NAVIN FLUORINE INTERNATIONAL LIMITED
MR. KETAN SABLOK – CHIEF FINANCIAL OFFICER –
NAVIN FLUORINE INTERNATIONAL LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Navin Fluorine International Limited Q1 FY2021 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 guarantee of the 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 is concluded. 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: Thank you. Good afternoon and a warm welcome to all the participants. I am joined by our CFO, Mr. Ketan Sablok and Strategic Growth Advisors, our investor relations advisors. I hope everyone got an opportunity to go through our financial results and investor presentation uploaded on the stock exchange as well as on our company’s website. We hope you all are doing well, and all your loved ones are safe.

To start with, due to COVID-19 and the nationwide lock down, we had to temporarily suspend our operations in the month of March and April. During this period and thereafter, the team has worked diligently to develop and implement strict operating guidelines and protocols to ensure safety of our staff and workforce. We have setup a special risk management office, which meets everyday to review the situation across our businesses and take whatever decisions are required to be taken on real time basis.

We believe the performance of this Q1 FY2021 does not represent normal quarter’s operations. Revenue for Q1 FY2021 was down 15% on year-on-year basis and by 23% on Q on Q basis. Our efforts towards increasing revenue contribution from high value business and some of the decisions made on product pricing and cost management helped us maintain operating EBTIDA margin at 25% plus even in this challenging quarter. Our high value businesses, which are primarily specialty and our CRAMS business degrew by 18% on Y-on-Y basis to Rs.131 Crores. It contributed 64% of the total revenue in Q1 FY2021. On Q-on-Q basis, it was down by 17% largely impacted by the plant closure. Now I will go through each of the businesses that we have.

Our specialty business, grew by 13% on year on year basis to Rs.97 Crores on the back of well-balanced growth driven by life science, crop science and industrial segments. On Q-on-Q basis, we lost revenue for approximately 15 days in the month of April due to shut down of plant operations, which resulted into revenue being down by approximately 7%. Project

flow continues to be extremely strong and now we are in the process of strengthening our technical and commercial capabilities to be ready to capture and realize the growth opportunities in this particular vertical.

Moving on to CRAMS, the business grew by 35% on year-on-year basis to Rs.34 Crores. We started this financial year with strong order book position, which should help us deliver strong future growth in this particular business. We saw some impact in Q1 FY2021 primarily again because of the lock down, but on longer term basis we remain very positive about this business on the back of strong inroads we have made and we continue to make into global pharma majors.

Coming to our legacy business that is ref gas and inorganic fluorides, revenue was down by 43% on year-on-year basis to Rs.74 Crores, On Q-on-Q basis, it was down by 31%. The performance was impacted due to weak demand from the end users due to lock down and plant closure. Legacy business contributed to 36% of the total revenue whereas ref gas, revenue was down by 41% on year-on-year basis to Rs.46 Crores. The impact was largely due to weak demand from the OEMs as well as in the trade market. On Q-on-Q basis the business was down by 18%. In international markets as well, the demand remained quite soft primarily due to destocking.

Moving on to inorganic fluorides, the business was down by 46% on year-on-year basis and by about 45% on Q-on-Q basis to Rs.28 Crore. This was mainly due to significantly lower demands from stainless steel and glass industries compared to last year as many of the end users closed their operation during this lock down.

Coming to our new business vertical high-performance product (HPP), the work is progressing well, and we remain on schedule for completion of the project by Q4 FY2022.

To sum up, we believe our business will benefit from strong tailwinds in the coming years. We are very confident to navigate through these tough times and emerge much stronger and leaner. That is, it from my side. I will now hand over to Ketan to give you a brief on the financial performance of the company in this quarter. Ketan over to you.

Ketan Sablok:

Thank you Radhesh and very good afternoon to all the participants. I hope all of you are safe and in good health. I will just share the highlights of our financial performance following which we will be happy to respond to your queries.

On a Y-O-Y basis, the performance has been as follows. The company has reported net revenue from operations of Rs.205 Crores in Q1 FY2021 as against Rs.242 Crores in Q1

FY2020. It is down by about 15%. As Radhesh already mentioned earlier due to the COVID-19 and the nationwide lock down announced by the government, Navin had temporarily suspended manufacturing operations at its facilities during March and then early April. Therefore, the Q1 FY2021 performance does not represent a normal quarter of operations and it is strictly not comparable with the previous period.

The operating EBITDA stood at Rs.52 Crores in Q1 FY2021 as against Rs.61 Crores in Q1 FY2020, down about 14%. Operating EBITDA margins stood at 25.4% in Q1 FY2021. The increased share of high value business helped us to maintain these EBITDA margins in spite of business challenges and the plant shutdown. To add s, the product mix and some of the price increases that we had taken during this quarter helped us sustain the EBITDA margins. The operating PBT stood at Rs.42 Crores for Q1 FY2021 as against Rs.53 Crores in Q1 FY2020, down by about 21%. On margin, operating PBT margin stood at 20.5%. The profit after tax stood at Rs.52 Crores while the margin was at 25.2%.

Coming to unit wise performance for Q1 FY2021, the legacy business was lower by 43% whereas the high value business grew by 18%. The legacy business showed a downtrend due to the fall of about 46% to Rs.28 Crores in inorganic segment and about 41% to Rs.46 Crores in refrigerant gas business Y-O-Y basis.

The specialty segment grew by 13% to Rs.97 Crores and the CRAMS segment grew by 35% to Rs.34 Crores.

I will just update you on the Q-on-Q basis on the standalone performance basis. On Q-on-Q basis, the revenue was down by 23% again impacted by suspension of operations. The operating EBITDA was down by 23% in line with the sales drop however we were able to maintain the operating EBITDA margin at 25.%. During the quarter towards our ongoing commitment to support the central and the state government in their mammoth task of fighting the COVID-19 pandemic, in the month of April the company made an aggregate contribution of about Rs.5 Crores to PM Cares Fund and the Chief Ministers Relief Funds of the three states of Maharashtra, Gujarat and Madhya Pradesh. The impact of the same is visible in the financials of Q1 FY2021 and is included in the other expenditure. There has been significant increase in the other income on the back of interest income from tax refunds, which came in this quarter. The interest element was about Rs.26 Crores. Operating PBT was down about 26% and profit after tax strictly not comparable due to the tax adjustments, which had been done in the last quarter of FY2020.

Coming to the unit wise performance, the legacy business was lower by 31% while the high value business was low by about 17%. So that is all from my side. I will now open the floor for Q&A and we will be happy to respond to your queries. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sudharshan Padmanaban from Sundaram Mutual Fund. Please go ahead.

Sudharshan P: Thank you for taking my question. Sir my question is on this legacy business, which has been sharply down. I understand that domestic there is complete lock down? It was basically seen in the month of March, April, May, etc., but with the lock down coming out and basically in several states in India as well as several countries can you give some trade across how you are seeing inorganic demand and demand improving for the ref gases? How has the traction been from the low point?

Radhesh Welling: When we got into this particular financial year lot of our customers outlets were completely closed for both refrigerant gas and inorganic fluoride so the stainless steel plants that we supply to were completely shutdown, They remained shut for the month of April and in May the operations commenced. They still continue to operate at very low capacity and the reason being seen from their side is due to lack of demand and destocking is happening, so today if I look at inorganic business, the demand has not come back for our customers to the pre COVID level because of which they are not operating their plants at the pre COVID level. We are expecting that in Q2 they should be back to pre COVID level and once the things start normalizing then we should be able to start seeing two things. One restocking of lot of that inventory that has got destocked and also impact on the demand for our product because of their demand going up, so we expect that some of that demand lost, we should actually be able to cover up in the following quarters in this year. On refrigerant gas, there is a slightly different story, not only did we actually lose the volume, but we lost the volume in typically the seasons, considered to be high demand months or high demand season, so that is where we believe the impact will be lot more going forward. Some of the OEMs have again started operating. They are not yet to the pre COVID level. The trade markets have started operating from June. Again you know initially they are basically just consuming all the stock on the inventory that they had and we expect that from the beginning of next month that the demand for ref gas should be relatively similar to what was at the pre COVID level.

Sudharshan P: And as far as the pricing how are they Sir, I would understand that the demand comes down you have had a problem from the pricing side as well?

Radhesh Welling: No, the pricing has remained fairly stable. In some cases, we actually managed to take the pricing up. The reason being lot of what we were seeing on the demand side had nothing to

do with the pricing. You know it was primarily because demand for their products was not there. So, I do not think during this time there was any impact on the pricing. In some of the cases and in some of the segments we were actually able to take prices up for some of our products in inorganic and refrigerant gas.

Sudharshan P:

Sure Sir. Sir when you talked about the plant being shut down for a period of time because this lock down and in spite of that if I look at the high value business which had grown by about 18%, can you explain if the lock down was not there and the plant was running how much of additional sales we could have done? Can you give some clarity because when we started off we were very buoyant on both CRAMS and specialty to do this year, so do you think that the things will accentuate in the second quarter given that we will be operating full quarter instead of probably 10 to 20 days being shutdown?

Radhesh Welling:

So the answer is going to be different for these two businesses within the high value category. On specialty, we lost almost Rs.10 Crores to Rs.12 Crores of sales because of this shutdown. You know because for the first 15 days we were just not able to produce anything and after that when the manufacturing started we had to actually bring the production up in a very phased manner. So totally if you look at what we had estimated versus what we did in this particular quarter there was a delta of about Rs.10 Crores to Rs.12 Crores. Having said that significant portion of that is actually lost because even at pre COVID we were actually running the plant to almost full capacity. Even post COVID we actually continue to run the plant now at full capacity. So going forward, on specialties primarily the capacity, which is the constraint. It is not so much of a demand, as I mentioned earlier the overall demand continues to be strong on the specialty side but would that Rs.10 Crores to Rs.12 Crores actually move into Q2, the answer is no. You know not all of it is actually going to move into Q2, but overall, we feel positive about the foreseeable future of this specialty business as we have been giving in the commentary.

Sudharshan P:

If you still look at that it is a 25% kind of a growth this year. That is right 20% to 25% ?

Radhesh Welling:

Whatever we have indicated earlier we have strong reason to believe that we should basically be a ballpark around the same number. On CRAMS, we started the year with pretty strong order book so let us assume we are just comparing the order book on April 1, 2020 versus or April 1, 2019 the order book position was significantly better, which also means that overall this year is going to be better than what we had last year. In CRAMS what happens is your typical manufacturing cycle is longer than in most of the other businesses that we have so the cascading effect we will actually see in the following quarters in terms of sales bunching up, so unlike in specialty segment where there is clearly going to be some business lost because

of shutdown, in CRAMS there is no business that will be lost because of that shutdown. It will basically just accrue in the following quarters.

Sudharshan P:

Sir one final question from my side on the cost if I look at the other expenses, we have seen a considerable cut? if I remove this Rs.5 Crores the contribution that we have done almost from Rs.47 Crores on a Q-on-Q basis, we are down to Rs.30 odd Crores, but I am not able to see a similar kind of a benefit on the employee cost? So number one can you illustrate the kind of cost cutting that you have done on the other expenses whether we can see more cost cutting in the second quarter and a little bit color on the employee cost as well? It is really not reflecting as far as the cost is concerned as much as what we are seeing on the gross margins and the other expenses side?

Radhesh Welling:

So as you know the other expenses actually have a variable component as well, so there are a lot of utility cost, etc., that actually sit in there and some of those other expenses actually have come down in proportion to the sales coming down. There is one where we have actually done some cost rationalization, which is primarily on repairs and maintenance because you know almost for one month the plant was shut and then for some of the following weeks, the plants were not operating to the full capacity so we used that as an opportunity to relook at our R&M cycle, etc., and they have identified a few opportunities for cost rationalization there. That is what is getting reflected in the other expenses. Now as far as the employee cost is concerned, we have not behaved differently because of COVID. First of all, there has been no reduction in the work force. We have actually gone ahead with the increments, as if it were normal year primarily because we are trying to invest in the future. Also some of the new recruitment, that we had planned for last year Q4 as well as Q1, we have actually gone ahead with all those recruitments. As a matter of fact, we have actually been lot more aggressive on new recruitment than it would have otherwise been. Because of the situation, we actually had access to really good talent available in the market. So given our growth plan we have actually gone aggressively in terms of hiring, and that is actually getting reflected in the employee benefit that you are seeing there, especially Q1 of current year verses Q1 of last year.

Sudharshan P:

Sure Sir. Thanks a lot Sir. I will join back in the queue.

Moderator:

Thank you very much. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella:

Good afternoon gentlemen. Congratulations on a good quarter in challenging times and thanks for taking my questions. First just an update on the Capex outlook for this year and you know maybe even in the future so we had plans too for example consider projects in specialty chemicals this year in particular. So now how does this whole environment sort of

change those plans if it does at all and you know what kind of timeline and what kind of Capex budgets would we expect for this year and maybe next year?

Radhesh Welling:

As far as the overall plan is concerned especially related to specialty nothing has changed from what it was pre COVID, so the Capex plan that we have been working on in this particular view, we continue to work on as we have indicated in our earlier commentary. As soon as we are ready with our plan, we will be presenting it to the board and once we have the approval from the board, we would be happy to share it with all of you and that should happen in the next few months. One thing that we are clearly seeing is that overall project flow has significantly gone up so which means that we will actually have follow through Capex plan on the specialty as we move ahead. Will all of that happen within this financial year? maybe or maybe not. Specifically, on the question you asked related to Capex budget, we typically do not work on any preset Capex budget. So we look at each of the opportunities on its own merit and once we feel that we have strong enough business case where we have ticked all the commercial, legal, financial, and technical boxes then we take that business case to the board. So we do not actually start a year with any preset Capex budget per se especially for the new opportunities.

Abhijit Akella:

Got it. That is helpful thank you and then just with regard to your comment regarding significantly increased project flow if I may just request you to elaborate a bit more on that? Is this rising because of the COVID environment and the kind of anti-China sentiment prevailing globally and if so or even if not is this largely in the specialty chemicals in agrochemicals or are we seeing it in any other segment as well of our business thank you?

Radhesh Welling:

So when I talked about project flow let me differentiate between numbers of enquires coming and the number of project flow. When I talk about project flow, I am talking about qualified and projects typically emerged out of engagements with select few customers. So if you generally see the enquiry flow, which you know a part of that is actually happening because of China, is significantly up, but that does not really mean much you know, and that is not what I was referring to when I was talking about project flow. The increase in the project flow let us say in Q1 versus let us say Q4 of last year or Q1 of last year is primarily because of three factors, one is basically because the strategy that we made in terms of the 3P framework that we developed last year and the overall approach to market that we came up with last year, and some of these engagements actually started last year itself and what we are seeing today in terms of project flow is a result of those engagements so that is basically part number one. Part number two is some of the projects that we had earlier got or received so those we have actually executed quite well because of which we got opportunity. We had an opportunity to go back to the same set of customers and ask for more number of projects, which has also started happening both on the pharma side as well as on the agrochemical side and the third

point, which is something that I had mentioned earlier also that we continue to see very good set of opportunities beyond these four business units that we have, which are not typically from either of the segments that we currently play in so that continues to be pretty good and some of these projects are coming from outside of the segments that we typically play in.

Abhijit Akella: Thank you so much and wish you all the best.

Moderator: Thank you very much. The next question is from the line of Siddharth from Equirus Securities. Please go ahead.

Siddharth: Sir the first one was on the molecule that we are supposed to commercialize in CRAMS in H1 FY2021 any updates on that?

Radhesh Welling: I think you are basically talking about the end product, which our customer was supposed to commercialize in this year. So that product has been commercialized and the initial feedback that we have received from the customer has been extremely encouraging. The product seemed to be doing quite well on the market.

Siddharth: Sir secondly on the high-performance product you had recently spoken about electronic, chemicals and semiconductors as well as new opportunities in fluorine? Sir could you throw some color on the opportunity size in that industry?

Radhesh Welling: So I think that will little premature to talk about the overall opportunity, size, etc. There are two things that we can however say is that one as I mentioned earlier we are clearly seeing opportunities outside of this four traditional segment that we play in and in these areas that we are talking about lot of demand for fluorine molecule is basically in terms of substitution of the other molecule. It is not basically market share gain. It is basically new market creation, which is what is happening there.

Siddharth: Then this typically will be a higher margin business for us or it will be a moderate to low business margin?

Radhesh Welling: As I said I think it is a little too early because margin is a result of not only what the markets give, but also you decide to execute on a particular opportunity. Obviously from our side the areas that we select will be such that will actually give us overall higher margin than our existing business. I mean that will obviously be our intent, but you know what will the exact margins be, how much would those be higher by, etc., is something that is I think is too early to talk about.

- Siddarth:** Okay Sir thank you.
- Moderator:** Thank you. The next question is from Karthikeyan from Suyash Advisors. Please go ahead.
- Karthikeyan:** Good afternoon Mr. Radhesh. I am following up on the same point you just made. Just wanted to understand this slightly better when you talk about substituting fluorine for other molecules would this be in the nature of a patent extension or a completely new chemical entity and therefore how does that change the patent lifestyle addressable opportunity for us, some thoughts on that please?
- Radhesh Welling:** Some of these are actually going to be new chemical entities and that is where we are actually working with our customers, so there are a lot of joint development efforts going on there, but the majority of those are existing chemical entities, but developing newer applications in this newer segment.. Specifically related to patent it is difficult to say because molecule to molecule is going to be different, but one thing I can definitely say is that most of what we are doing here is extremely proprietary.
- Karthikeyan:** And therefore, how close would these be to the commercialization state? Would they be a one to three year kind of a thing or do you thing the timelines could be much drawn out?
- Radhesh Welling:** No again some of these opportunities are obviously they will not be one year because if it is one year out then we need to be a currently constructing the plant so it will all be one year plus. But, there are some opportunities, which are relatively closer whereas some of them are slightly far away because especially the ones where the development work is still going on those are three to five years out, but the ones where the development work is already completed or almost completed and the application piece is going on I would say about one to two, three years out.
- Karthikeyan:** Interesting, fantastic best wishes. Thank you so much.
- Moderator:** Thank you very much. The next participant is from Hasmukh Gala from Finvest Advisors. Please go ahead.
- Hasmukh Gala:** Congratulations Sir for good set of numbers. I think very elaborately you have explained. Sir can you give us some Highlights on the HPP contract, which we have got? I think it is still quite far away? You will be doing it in Q4 FY2022 and you also said that the products that you will be dealing will be totally different than what you were existing doing so in terms of the user profile whether we have the same maybe product will be different, but the user profile of different industries to which we cater will it be the same?

Radhesh Welling: So I think related to HPP, I think we have already given out lot of information so this is a proprietary product. This is a highly patent product and this is basically a contract that we have signed with a customer, so the entire product will actually be supplied to them. This product actually goes into a number of applications. It does not go into one single application and hence there is a significant diversification in terms of application basket and there are newer applications, which are being developed for this end product. The interesting thing here is also that some of the intermediates, which get generated while manufacturing the end product, could also have very nice applications and that is what we are also working on. Some of these we are working on independently. Some of these we are working with the same customer.

Hasmukh Gala: Okay so are there any more such deals in the offering?

Radhesh Welling: We continue to talk to various customers for these kinds of opportunities. I mean this was a \$410 million contract so of course it is not like there are many \$410 million contracts. Some of them are smaller. Some of them are significantly smaller, but eventually the goal is that whatever opportunity we work on even if it is small today will eventually lead to that particular scale. That could actually happen because of the product scales up or the relationship with that particular customer scales up.

Hasmukh Gala: Sir can you tell us, you are not say having any budget for the project Capex, but what will be your routine Capex and whatever projects that will be started for FY2021 or FY2022 just to understand the cash flows?

Radhesh Welling: So I think the routine Capex just in terms of your normal plant upkeep, etc., we typically have in the vicinity of about Rs.50 Crores plus or minus and every year we tend to take a few kind of a debottlenecking projects or depending on the scale of the debottlenecking project the number could go down or go up. We are actually looking at a few such debottlenecking projects both in Surat as well as in Dewas, so we currently are working on those projects so I think in the next few months we could probably finalize this and then we would be happy to share the exact number.

Hasmukh Gala : Thank you very much Sir. Wish you all the best.

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

Ritesh: Hi Sir thanks for taking my question. Just one check I wanted to do. While you say that there is a lot of project demand coming in, I do see a lot of increase in the competitive intensity as

well because I know that let us say lot of your listed players are expanding capacities? One of the listed peers has almost doubled the capacity? Sir in that context I just wanted to check with you is it the flow of projects to India itself is increasing or is it that within the fluorine space you are getting more projects versus some of your competition and are you also expanding your chemistry capabilities to move beyond fluorination, so if you could just clarify that, that will be helpful?

Radhesh Welling:

Yes. So I think what is important to understand is the distinction between enquires and project flows. So clearly the number of enquiries coming into India have really gone up and that has benefited everyone including Navin Fluorine, but what I was talking about was qualified projects. So what we are trying to do is some of these projects require very basic chemistry, even within fluorination they require very basic kind of fluorination, and we have decided that we will not play into any of those basic chemistries. So there are two things that we are looking to do. One within the fluorination so though lot of times we tend to think fluorination as one basket, fluorination is like an ocean. Right from very basic halax reaction you can go into very, very complex piece within the fluorination piece, so we are trying to migrate towards the high value piece within the fluorination space and as you very rightly indicated we are also looking at some other aggressive difficult chemistries to get into so lot of these projects that we are now focusing on are based on these three criteria. A, do we have the building block. So are we able to control the value chain or own the value chain in that particular product category. Second does this require a simple chemistry, which anybody can do and the third piece is that is there any other bolt on chemistry that we can develop expertise in through this project delivery. Typically the project has to tick at least two of these three boxes for us to say yes to a project.

Ritesh:

Just on the competition bit like I know that there is a tailwind of China shift to India, etc., but then you see lot many Indians there are also trying so aggressively ramp up on some of the capabilities so do you see a sort of margin pressure may not be today may be two to three years down the line could there be a margin pressure kind of a thing? I know you are talking about capability, but could there be a chance that as the revenue size grows bigger for the project the margins may actually see some bit of compression even let us say for your CRAMS business as things get commercialized probably margins may get compressed?

Radhesh Welling:

So these are two different questions. Let me address the CRAMS first. On CRAMS as we have indicated that as the project scale up and the products either get ready for commercialization or the products get commercialization your contribution margin or your gross margin will go down, but because the scale will go up and hence that will actually be able to absorb the significant fixed cost that we have invested in that particular business, your EBITDA will continue to remain more or less the same.. On specialty, what we are seeing

that these enquiries there is almost like a natural selection that happens in India so these projects are let us say A type when they typically go to company A. If they are B type they typically end up going to company B. There are seldom any project where we will be directly competing with let say another company either a listed or unlisted company within India, so lot of that natural selection actually happens as a part of the convergence from enquiry to project. So to answer to your question would margin get compressed? That is difficult to tell, but the margin compression will not be directly proportionate to the enquires flow into India.

Ritesh: Got it.

Moderator: Thank you very much. The next participant is Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir my question is I mean continuation of the competition scenario, which you explained to the previous participant so this is about India, but on a global scale when we get a business from a client then how does our client do the selection vis-à-vis any other company in their own geography or all over the world so how does the selection happen? Does our cost give very significant role or it is our chemistry skill, which we want to cater to the higher end of the fluorination pie and is it based upon that?

Radhesh Welling: The selection will obviously require a lot of time to answer and I do not think we will have enough time to talk about it today on the call, but generally what Navin tries to do is that we try to play in any project, we try to play up front. We try to play closer to the point of development even if it is agrochemical or pharmaceutical, we typically engage with the customer right from the development stage or the discovery stage to commercialization stage versus let us say lot of other Indian companies who actually come into picture either towards closer to the product getting off patent or three to four years post the product commercialization. So we typically tend to play up front and then continue to engage with the customer through the life cycle of that particular product.

Dhaval Shah: Then based upon on some other MNC companies competing with us so in Indian cost at that it will really help you to get that business?

Radhesh Welling: You obviously need to be cost competitive. That goes without saying, but most of the projects that are won by Navin Fluorine are because of our technical capability and capabilities related to overall governance and the strength of our balance sheet, so typically these are three factors, which help us win the projects.

Girik Capital: Got it Sir. Great Sir and good luck. Thank you.

Moderator: Thank you very much. The next question is from Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir good afternoon Sir. Sir my first question is in the CRAMS side of the business any further Capex apart from the HPP project any further Capex on CRAMS, specialty chemical in the parent company?

Radhesh Welling: Yes so as I mentioned, the question is specifically related to parent company.

Rajesh Kothari: Yes?

Radhesh Welling: So most of our new Capex that will happen going forward are going to happen in our wholly owned subsidiary, which is Navin Fluorine Advance Sciences Limited. So basically when you talk about Navin Fluorine, it is primarily the plant in Surat, which is there, but yes if you specifically ask me would there be a Capex coming, surely as I mentioned earlier there will be Capex coming up in specialty in the next few quarters and CRAMS is something that we continue to closely evaluate as the order book strengthens and basis are engagement with the customer and the input that we get from the customer on how the molecules are performing, we continue to look at opportunities in CRAMS.

Rajesh Kothari: So therefore it seems the HPP project what you are putting up that \$410 million contract what are the facilities you put up over there whether the same facility also can be used for the other customer apart from that customer, which you have contracted or it is dedicated only for that?

Radhesh Welling: So if you look at that entire Capex had two elements. The first element was the investment that we got approval from the board on developing the infrastructure, so that meant the investment in road, boundary, setting up the effluent treatment plant, administrative block, etc., All those facilities basically will be used for not only HPP project but also projects, which will be coming later on. Then there is investment specifically related to process plant for this particular project, so that is a dedicated investment for this product for this customer.

Rajesh Kothari: I see so the Rs.365 Crores is the dedicated manufacturing facility?

Radhesh Welling: That is the dedicated facility.

Rajesh Kothari: You know this Capex of Rs.365 Crores plus Rs.71 Crores for captive power these inherently means what kind of a return on capital employed post tax?

Radhesh Welling: Most of this data actually we had given out when we announced the project. Our expectation is that return on capital will continue to be more or less similar to the overall return on the capital that we have for the company. It will be slightly higher overall.

Rajesh Kothari: I am asking post tax?

Radhesh Welling: Yes post tax.

Rajesh Kothari: Got it. One question if I can squeeze within the specialty chemical how the agrochemical is doing verses the other segment?

Radhesh Welling: So if you look at just the number of projects we are actually seeing them across the segment, but typically the projects in agrochemical tend to be larger than the projects let us say in pharma. So they tend to be of higher value, but what we try to do is that we try to strike as much as possible a balance between these projects coming from different segments, so that our pipeline does not get too lop sided because otherwise what happens is typically if there is a down cycle in agro industry then your entire business goes for a toss, so we would rather not put ourselves in such a situation.

Rajesh Kothari: But that is basically your target, but in terms of the actual because for example if you look at the last three to four years there were issues of inventory, the plant shifting, deferment of the demand and so on and so forth so I am seeing more from and even the clients perspective how do you see the user industry stance in your specialty chemical business?

Radhesh Welling: Specialty chemical is too wide a space and we are primarily talking only about two or three segments within the specialty chemical industry, but again as I mentioned the project flow continues to be strong in both pharma as well as agro and so is the case on the industrial segment. Pharma typically tends to be of lower volume, higher margin and steady state demand versus agrochemical it is typically higher volume, relatively lower margin and huge amount of volatility in demands from year to year.

Rajesh Kothari: And industrial?

Radhesh Welling: Industrial is very project or a product specific whereas in pharma and agro it typically tends to be almost like a service business. In industrial it tends to be a product driven business. So that depends on which of the products are you looking to develop and deliver. In the products that we currently have in industrial segment we are the world leaders in that, we have the largest market share and now we are actually looking at some other such possibilities that we can expand that particular business in.

Moderator: Thank you very much. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. Congratulations for a relatively solid performance by the standards of the economic conditions. The two questions that I have one is if I were to go to the Manchester organic website and I should congratulate you have updated it very well I see that there is a catalogue of over 50,000 products that we talk about, there are certain case studies that you have put so if you can give us a sense of how does this catalogue of 50,000 products stand vis-a-vis our competitors in the global fluorination arena, so if we have to compare with certain European players and certain Chinese players if you can give us some sense on that aspect of the business?

Radhesh Welling: Catalogue business actually runs in a very different manner. If you look at in the catalogue business some of the companies that we compete with are fairly large catalogue companies so those are like Apollo, etc., so that will not be the right comparison. Now if you look the companies that we compete versus especially on the fluorine side of the business there are not many companies. There is hardly any company, which is present in the catalogue business. I do not know even one company, which actually has a catalogue business, but if you look at these 50,000 molecules, these molecules actually have been developed over years and years.. What this catalogue of 50,000 products actually does for you is that typically it gives you a reach within the medicinal scientist or chemist within the Pharma companies who whenever they require any molecule or any fluorine starting raw material they look at this particular catalogue and then select one of those or a variant of one of those and that actually becomes like a conversation starter for our CRAMS business and lot of products, which have actually got developed in this business have actually emerged from those conversations and that is how that catalogue really helps us.

Anand Bhavnani: Now coming to the CRAMS part last year when we discussed in FY2020 CRAMS business there were two molecules that we were anticipating could get into some kind of commercialization, one molecule is in H1 any update on the second molecule?

Radhesh Welling: No the second molecule as I had indicated at that time the customer had actually gone back to the drawing board and tried to reformulate that particular product, but the focus of that customer has actually shifted from the molecule to a lot of other activities that are going on inside the company. They also had a change in the CEO, which is what I had indicated because of which this particular project had actually gone on the back burner so we will continue to talk to that particular customer, but that particular project has been put on the back burner for now.

Anand Bhavnani: And the second question on CRAMS now the presentation and the opening remarks you explained that the order pipeline is strong, but if you can give us some sense on the word strong like when you say strong can we anticipate a certain amount of growth even a ballpark sense will be very useful so if you can comment a bit on how do you see capacity utilization in the context of your statement that the order pipeline is strong?

Radhesh Welling: CRAMS business is a very difficult business to look at it from the quarter to quarter perspective so what I mean by that is that so when we had presented the investments for our cGMP 3 plant, we had indicated that we will be at X number in three to four years and in the initial one year we actually had some hiccups because of which and that is primarily because our order book position was not strong enough for various reasons that had been explained in our previous commentary so last year we actually managed to address that and because of that now we feel fully confident in our ability to achieve the numbers that we have actually given out for the Capex of cGMP 3, which is where we had basically said that we will be approximately about 2 to 2.25 times asset turn in about three years. We feel fairly confident now of achieving that versus where we were let us say a year back.

Anand Bhavnani: Wonderful. If I may squeeze one last question. In case of our CRAMS you mentioned that the project cycles are longer than our other segments and the revenue can then be work done this quarter might spill into revenues as next quarter in terms of timelines what is the number of like number of days of typical project cycle in CRAMS, what is the longest project cycle and what is the smallest product cycle that we have done you can give some sense on that?

Radhesh Welling: The comment that I made earlier was not with respect to project cycle it was with respect to the manufacturing cycle that I was talking about ,from the point the raw material is fed in to the point the final product comes out typically it tends to be longer in the CRAMS versus let us say specialty or any other business

Anand Bhavnani: Can you quantify a bit like it is like a few days or for a few weeks in CRAMS?

Radhesh Welling: That depends on the product to product so it is going to very different because some would have three steps and some would have say seven steps, but I am saying typically if you look at in specialty if there is a seven step product it would not take more than a week, but in CRAMS if it is a seven step product, it could actually take two months.

Moderator: Thank you very much. The next question is from the line of Nav Bhardwaj from Anand Rathi Shares and Stock Brokers. Please go ahead.

- Nav Bhardwaj:** Thank you for taking my question. Sir just a continuation on the previous one if you could shortly explain the revenue recognition in CRAMS when do we recognize at what stage do we recognize the revenue in CRAMS?
- Radhesh Welling:** So the revenue recognition happens at the same time for all the businesses, which is when we actually make the sale. In case of CRAMS depending on the payment terms, so if it is CIF or FOB, let us assume it is CIF, so it will be the bill of leading date. So a lot of it also depends on the payment term, but the point of recognition is very similar for all the businesses.
- Nav Bhardwaj:** Great also in terms of specialty Sir this time the revenue that we have got the growth that we have received is it in terms of more from the pharmaceuticals or from the agrochemicals or industries where have we seen the growth coming in from mostly?
- Radhesh Welling:** In this specific quarter we actually saw more growth coming from industrial and agro than from Pharma.
- Nav Bhardwaj:** What about sustainability of these growth that you received?
- Radhesh Welling:** I think we should be able to, from quarter to quarter these three segments will have slight up and down, but as we have always indicated we believe that our growth in specialty will continue to be driven by these three segments at least for the next year also, so when you talk about distribution of 40:40:20 we believe it will basically continue to be approximately 40:40:20 from quarter to quarter it could be slightly up or down.
- Nav Bhardwaj:** One small book keeping question Sir do you expect to maintain the same tax rate that we have currently?
- Ketan Sablok:** For the current year we will be maintaining the same tax rate.
- Nav Bhardwaj:** Any guidance for the next year Sir.
- Ketan Sablok:** So we will take that call closer to the year ending.
- Nav Bhardwaj:** Thank you so much. All the best going ahead.
- Moderator:** Thank you very much. Ladies and gentlemen due to time constraint that will be the last question for today. I will now hand the conference over to Mr. Welling for closing comments.



Navin Fluorine International Limited
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Radhesh Welling: I would like to thank everyone for joining on the call. I hope we have been able to respond to your queries adequately. For any further information, I request you to get in touch with SGA our investor relation advisors. Please take care and stay safe. Thank you very much.

Moderator: Thank you very much. On behalf of Navin Fluorine International Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.