"Navin Fluorine International Limited Q4 and FY2020 Earnings Conference Call"

June 17, 2020

MANAGEMENT: **MR. RADHESH R. WELLING – MANAGING DIRECTOR - NAVIN FLUORINE INTERNATIONAL LIMITED**
MR. KETAN SABLOK – CFO - NAVIN FLUORINE INTERNATIONAL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Navin Fluorine International Limited Q4 FY20 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions, and expectations of the company as on the date of this call. These statements are not a guarantee of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Radhesh Welling - Managing Director of Navin Fluorine International Limited. Thank you and over to you Sir!

Radhesh Welling: Thank you. Good evening 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 which has been uploaded on the stock exchange as well as on our company's website. I hope that all of you and your loved ones are safe. These are extraordinary times and perhaps the most important thing for all of us with safety of yourselves and that of your family.

I would like to begin the call with the two key milestones that company has achieved during the FY 2020. Our revenues crossed Rs.1,000 Crores landmark and we signed a seven-year contract with one of the global companies, worth $410 million, approximately Rs.2,800 Crores, which will start contributing from FY2023 onwards. It is indeed a great achievement for the team at Navin as we report one more year of the commendable performance. Our topline grew by 7% Y-O-Y to Rs.1,022 Crores. Our operating EBITDA reported 20% growth on Y-o-Y basis to Rs.261 Crores with margin of 25.5%. Operating PBT grew by 18% year-on-year to Rs.225 Crores with 22% margin. The company's robust performance was driven by good traction in specialty chemicals business and CRAMS business. Inorganic business reported stable performance whereas refrigerant gas business reported weak numbers especially in the last quarter due to lower volumes driven by soft demand in March due to lockdown. Our high value businesses that is specialty chemicals plus CRAMS contributed 54% of our overall topline for the year and we remain very positive in both businesses.

Let me now take you through segment wise performance. To begin with specialty business, the business continues growth momentum for yet another quarter, it grew by 52% in Q4 FY2020 and by 27% in FY2020 compared to the corresponding periods last year. The growth was very well balanced between pharma, agrochemicals and industrial segments and between domestic and international markets. We now have very strong project pipeline in this business, and we believe this business will continue to perform well in the coming years.

Moving on to CRAMS, our CRAMS business performed well in the last quarter of FY2020. It grew by 26% on year-on-year basis to Rs.54 Crores in Q4FY20. On full year basis, it was marginally lower by about 3% to Rs.173 Crores. Our cGMP3 has commenced a commercial production and we are now manufacturing both new as well as some of our old product in this facility. During this year, we worked closely with global innovators in the pharmaceutical space which has led to good enquires flow especially from European majors. Our long-term outlook remains very positive for this business as we now have strong order book as we move into the new financial year. On refrigerant gas business, therevenue for the same was severely impacted due to lower sales of R22 in both domestic and international markets. The non-emissive sector continues to be good, however.

Moving on inorganic fluoride, we were able to maintain performance in this business to slight slowdown in some of the major end user segments like stainless steel and glass. Lower demand in the domestic market was nearly offset by increase in demand with the international market. We were also able to increase pricing in some of the international market, which helped us to maintain margins. Coming to our new business vertical high performance product, HPP, as you all are aware that we have already signed the seven year contract requiring total investment of about Rs.365 Crores for process plant, equipment, etc., and about Rs.70 Crores for setting up of capital power plant. The work is going on as per schedule and at this time we do not foresee any delays in the same. We will keep you updated on the progress from time to time. Before handing over to Ketan to take you through detailed financial performance, let me also quickly touch up on the impact of COVID-19 on our business operations. As you all know very well, COVID-19 pandemic outbreak has resulted into severe disruptions in terms of supply chain, RM availability, transportation, labor availability, etc. Navin Fluorine has also got impacted due to the lockdown imposed in the month of March. We restarted our operations on April 14 in phased manner. Currently all the plants manufacturing towards the life science and crop science sectors, are gaining back momentum according to pre COVID period whereas plants manufacturing products going into industrial sector are currently operating at a lower level. The company has enough inventory of key raw materials for smooth operations and is also continuously working on the development of alternate vendors.

The company is in very strong position to sustain this challenging times on the back of strong balance sheet position with a cash of about Rs.300 Crores as on March 31, 2020. The capital can be viewed as capital to be deployed for right opportunities. That is it from my side. I now hand over to Ketan Sablok to give you brief of the financial performance of the company. Over to you Ketan!

Ketan Sablok: Thank you, Radhesh and very good evening to all the participants. On the onset I hope that all of you and your families are safe and in good health during this trying times. I will share the highlights of our financial performance following which we will be happy to take questions from your side and respond to your queries. To start with, the Board of Directors have declared a final dividend of Rs.3 per share on a face value of Rs.2, about 150%. With this dividend, the total dividend payout for FY2020 including the two interim dividend announced earlier was 550%. Payout ratio adjusted for the tax provisioning of earlier years, which we have done in this quarter, comes to about 30% for FY2020. So I will be giving a brief on the Q4 performance first. The company has reported a net revenue from operations of Rs.265 crores as against Rs.244 Crores in Q4 FY2019, year-on-year growth of 8%. Operating EBITDA stood at Rs.67 Crores of Q4 FY2020 as against Rs.52 Crores in Q4 FY2019 Y-O-Y growth of 29%, operating EBITDA margin expanded by 399 bps to 25.4% in Q4 FY2020. The operating PBT stood at Rs.57 Crores for Q4 FY2020 as against Rs.46 Crores for Q4 FY2019. Year-on-year growth of 24%. Operating PBT margin expanded by 265 bps to 21.3% in Q4 FY2020. The profit after tax stood at Rs.269 Crores, profit for the quarter is higher on the back of tax adjustments and I will talk about it little later.

Now coming to the business side performance of Q4 FY2020, the legacy business was lower by about 19% whereas the high value business grew by 42%. The legacy business was down largely due to weak numbers posted in the refrigerant gas business, which was down by 31% to Rs.56 Crores on Y-O-Y basis. The inorganic segment reported stable performance, revenue stood at Rs.51 Crores, the highlight of the quarter were two businesses of specialty which grew by 52% to Rs.104 Crores and CRAMS grew by 26% to Rs.54 Crores. I will give you a brief for the FY2020 performance. As Radhesh mentioned, we crossed Rs.1,000 Crores mark this year with net revenue from operations reaching Rs.1,022 Crores in FY2020 as against 955 Crores in FY2019, Y-O-Y growth of 7%. The operating EBITDA stood at Rs. 261 Crores for FY2020 as against Rs.218 Crores for FY2019, a Y-O-Y growth of 20%. Operating EBITDA margins expanded by 267 bps to 25.5% in FY2020. Operating PBT stood at Rs.225 Crores in FY2020 as against Rs.192 Crores in FY2019, a Y-O-Y growth of 18%. The operating PBT margin expanded by 197 bps to 22% in FY2020. Profit after tax stood at Rs.400 Crores again higher due to the tax adjustment in the last quarter. On the business side performance, the legacy was marginally lower at by about 2% while the high value business grew by 16%. Refrigerant gas business was down by 6% to Rs. 261 Crores while inorganic grew by 5% to Rs.207 Crores. The Specialty segment grew by 27% to Rs.381 Crores while CRAMS was flat at Rs.173 Crores.

We have a strong balance sheet with cash and investments now totaling to about Rs.400 Crores as on March 31, 2020. The net cash flow from operating activity stood at Rs.157 Crores improved by almost Rs.66 Crores compared to last year which showcases our operational efficiency and before concluding I would like to give you an update on the tax position as on March 31, 2020.

The company had contested receipt on account of certified emission reduction that is the CER as capital receipt not chargeable to tax for earlier financial years starting from 2007-2008 to 2012-2013. During the year, we received favorable appellate orders for some of the aforesaid years. This has resulted in the company becoming liable to tax on its book profits for all these years under section 115JB of the income tax act. That is the company will be eligible for MAT credit, which can be utilized for all the tax liabilities of the succeeding years. Though this matter has been contested by the tax authority and considering the favorable pronouncement from various tribunals and High Court and of course also from the jurisdictional of High Court in Mumbai and as legally advised the management expects that a favorable decision will come on this side and there will be no outflow for the same.

Accordingly, the company has now recognized the MAT credit to the tune of Rs.73.5 Crores under section 115JAA of the act, for which claims have been made. The company has also recomputed the tax liability for the all earlier years and written back excess tax provision to the tune of Rs.141 Crores for the earlier days. That is all from my side. I will now open the line 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 Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Congratulations for the wonderful performance. Just I wanted to understand in this particular quarter due to the last two week of shutdown, what you having the approximate revenue loss?

Radhesh Welling: Because of last two weeks of shutdown, we saw the marginal revenue loss in specialty as well as our CRAMS business, but we certainly saw a relatively large number in terms of inorganic and refrigerant gas. There is a total loss to the tune of approximately about 26 Crores primarily coming from these two business units.

Anand Bhavnani: 26 Crores of the company as a whole?

Radhesh Welling: Yes it is for the company, primarily coming from ref gas and inorganic fluoride business.

Anand Bhavnani: Okay. Sir my second question is about our Ref business wherein because of this new regime we might have seen lower revenues, so if you can give us a sense of what is the outlook going forward because in FY2021, I guess the same regime will continue and from here on there will be this volume challenge in the emissive segment. So what is the guidance, should you assume that Q1, Q2, Q3 of this year, you might see similar fall in revenues as compared to the corresponding quarters last year as we saw in Q4?

Radhesh Welling: As far as ref gas is concerned, the prior guidance that we have given is that there will be certainly volume loss especially for emissive market segment and some of that will get compensated by increase in demand that we have seen on the non-emissive side of the market under the segment. Some of it will be compensated by increase in the prices that we believe should happen over a period of time. So we believe that we should be looking at a flat revenue line for our ref gas for the foreseeable future. Having said that we believe that in the short term, there would be a dip, till we are able to get this pricing up to the level where we will be able to compensate for the loss. Most of the dip that you are actually seeing in Q4 has primarily come from the loss of business in the month of March. It happened in the domestic market in the month of March and in the international market, it had actually started happening even prior to the actual lockdown announcement in India. So it was not so much because of the quota issue, it was more because of COVID issue. But we believe that in, this coming financial year, in immediate quarters, we will see some dip in the revenue primarily because of the volumes but we believe that we should be able to compensate for that loss through the strong demand that we have seen on the non-emissive side and the price corrections that we are looking to make in the market.

Anand Bhavnani: Thank you Sir and lastly in terms of tax losses does that include our willingness to bring forward certain capex which underwrites the balance sheet perspective would have thought from a future perspective that is our capex, our main indicatives come forward because our balance sheet has gotten strengthen because of this favorable tax outcome?

Radhesh Welling: So as far as the capex decisions are concerned, we are aware that we have always had relatively strong balance sheet with lot of cash for these kind of decisions. So I would not necessarily say that our decisions with respect to capital investment will significantly alter because of the pronouncements that we have got on the tax decision. So they will be made on the individual merit of each business space.

Moderator: Thank you. The next question is from the line of Sudharshan Padmanaban from Sundaram Asset Management. Please go ahead.

Sudharshan P: Thank you for taking my question. Sir my question is now that the cGMP3 is started, on the CRAMS side, in the fourth quarter we have seen some improvement sequentially and of course good improvement on a year-on-year basis. If you can give some color with respect to what is the utilization at this point of time and how much of revenues we can do? If you can also give some color on the JV side as well, how we are performing there?

Radhesh Welling: With respect to JV, are you talking the Piramal one?

Sudharshan P: Yes, Piramal one as well as the non-JV side if you can give me capacity utilization and what is the power for the both CRAMS, JV and non-JV?

Radhesh Welling: So specifically related to our performance in quarter four, I would say quarter four though we successfully commissioned our cGMP facility and the production in cGMP plant started, not much of it actually got translated into the actual sales because as you know the cycle time here in this particular business is relatively longer than in other businesses that we have. Overall if you see in this particular year, in this particular business, there are few things that we have been focusing on, we have been focusing on increased business coming from the existing customers getting entry into new markets especially from customers in Europe because that is where we were hardly present earlier. So all these efforts that we have been making over the year, have atleast started bearing fruit and which is what now getting translated into this phase. As we go into the new year, we are going with relatively stronger order book then what we saw going into the last year. As we have indicated earlier it is difficult for us to give capacity utilization number plant by plant because it keeps varying from month to month etc., so we won't get into that because that sometimes could be misleading number; however, as we move forward in this particular year, we at least in some of the quarters are seeing a pretty optimum utilization of all the three plants - the cGMP1, 2 as well as 3. As far as the JV is concerned, that is our Convergence Chemicals, which is a JV with Piramal, we had a record performance in this particular year, not only our sales volume went up but also our margins improved primarily because of operational improvements that we had in that particular business.

Sudharshan P: Got it Sir. Sir with respect to the long term contract, one is that \$410 million contract, that the 10 year contract that we have, as well as the seven year contract that we have, can you give some color specifically with respect to when it starts in FY2023, would it be something like \$410 million over 10 years or should be volume kind of pickup towards the second half and similarly for the seven year contract as well for the high performance product, I mean what would be the asset turn and what would be the ROCs like some color on your sales and margins on this side Sir?

Radhesh Welling: Yes. So we have actually given this indication earlier, but just to correct you before I go into this specifics. These are not two separate contracts, this is one single contract. So it is $410 million contract for seven years, the production, the manufacturing, will start in Q4 of FY2022 and FY2023 will be the first year of full operation of that particular plant and that product. As far as the ROCEs concerned, it will be in line with our current company ROCE and as we have indicated that the total investment made for this particular plant is approximately Rs.360-365 Crores and the $410 million that we have actually indicated, could be more or less easily spread over seven years, so you can calculate the asset turn on the basis of that.

Sudharshan P: Okay. Thanks a lot. I will join back in the queue.

Moderator: Thank you. The next question is from the line of Vihang Subramanian from Samsung Asset Management. Please go ahead.

Vihang Subramanian: Hi Sir. Thanks a lot for taking my questions. Just one thing, when I look at your business over the last two to three years, margin have also improved. So basically going ahead when I look at the – like say FY2023, like refrigerants and inorganic fluorides are kind of going to be flattish or low single digit growth, but as the high value businesses increase in proportion to the total do you see that the margin should also probably move north of like 25% like 26-27% types?

Radhesh Welling: You are absolutely right in terms of your assumptions with respect to each of those four businesses. When we have given this indication, we are not necessarily talking about quarter to quarter or year-on-year. But directionally we believe that ref gas will remain flattish because whatever volume reduction has happened in emissive segment, we will be able to make up through non emissive segment and price correction. Inorganic will continue to grow at GDP plus/minus level. Major growth that the organization will see will be coming from specialties and CRAMS and from the new business that we have just formed in high performance products. We believe that the margins in specialty business unit and high performance product will be higher than some of the legacy businesses. At the same time in CRAMS, we have invested heavily in fixed cost, ahead of the growth. So as the top line and the gross margin in terms of absolute number grows, I will able to absorb some ofthis fixed cost, we will hopefully start seeing improvement in the margin. But we will need to see how that actually wears out because we do not want to give any specific guidance at this point in time till we actually seen how the things are panning out

Vihang Subramanian: So other thing is ref side, I think last time when we are spoke and you said that we might be planning to think of some new capex there or launch some new products there, so any color you could give us and probably not like right now but like over the next three to five years, do you thing that the ref gas, I know you said the directionally it will be flattish but if there is any work that we are doing to kind of change that?

Radhesh Welling: Yes. So currently as you know we are only present in the HCFC category. We are evaluating options in both HFCs as well as HFO category and the flattish guidance that I had given primarily on the basis of what we have today on the ground, which is the products that we have on the HCFC. So I was not taking into account any future investment that could come up in HFC or HFO because that will be premature to speculate on. We are currently developing business case on the HFC segment and are trying to learn more on that segment. So once we have the business case, we take it to the board , get the approval, we will be happy to make those announcements. But currently, this is what I have indicated before, if you look at our priorities, our immediate priority is going to the specialty, then we are talking about HPP where we have announced major capex, and then whatever further capexes that we require in CRAMS. So it is not only from the point of view of access to the capital but also from the point of view management bandwidth to be able to execute this project well. So those would continue to be our priority given our return expectations etc.

Vihang Subramanian: Okay Sir. That is it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Radhesh, one on the long term contract that we have embarked upon, I hope there is a proper safety network in terms of take of the protective clauses because we will be investing into the project and if there is any change of the mind that the customers end at a later date, then it can put everything into jeopardy. You might be aware of recent event where the industry had the 10 year contract with buyer and that project prematurely terminated with the compensation being sort to the paid. I wanted to understand the safety mechanism in this contact?

Radhesh Welling: Before getting into the specific safety or another down side protection part of the contract, I would like to distinguish between the product that we are looking at versus the other product that you talked about. This product is a relatively new product goes into multiple applications and the overall demand for this particular product is growing exponentially. So that is basically the context driving this entire investment so that is point number one. Point number two, you are absolutely right because this is a pretty significant investment for our company and we have put in measures for downside protection wherein we captured not only the investment that you would be making in the plant, but also the margin that we would have otherwise made in this particular project. So both from the point of view of capital investment and margin, there is adequate downside protection provided in the contract.

Bharat Shah: There can be any force majeure applied by them is an excuse and walk away from contract for any change of strategy or any other reason leaving to high.

Radhesh Welling: So there is, as it is there in any contract, there is provision for force majeure on both the sides, and in event of force majeure, there is adequate time that will be given to both the parties, one is the demand side for them for supply sides for us, wherein we could address the specific demand side or supply side issues ,in event- our customers are not able to address the demand side issues, yes, then we again go back to the same protection, downside protection that we earlier talked about.

Bharat Shah: In the sense that your customer cannot say that he is change of strategy there is some issue he is facing in the demand using your product and site that as the reason to walk out?

Radhesh Welling: Yes. So we need to distinguish between a temporary phenomena and kind of a permanent phenomena. So if it is a temporary phenomena for a month or two, there is a provision that for a slight postponement but if there is a permanent shift in the demand or a demand disruption, etc., it will then entail us for the payment I earlier talked about. So there is a clear provision in that kind of a force majeure, you are talking about and there is a significant demand disruption etc. The customer will not be able to walk away from the contract without providing for the capital investment and the margin that you would have otherwise earned in the project.

Bharat Shah: That is a watertight kind of arrangement.

Radhesh Welling: Yes. That is correct.

Bharat Shah: My second question was about, given the way the things are with China, do we have any exposure right over the forward or backward linkages, which potentially impact us either in terms of raw material or in terms of direct or indirect relationship to sell our goods to them. Are there any material exposure or any alternatives?

Radhesh Welling: So we do not really sell much into China directly or indirectly. From the demand perspective as such, we have not impacted directly by China. As far as raw materials are concerned, as you are aware, some of our main raw materials are fluorspar, etc where we are pretty well diversed, so we are not impacted by China. There are some smaller raw materials, which are required for specialty as well as for CRAMS where we have started working on either backward integration or developing alternate vendors. So we are not seeing any major impact neither with the short term or midterm because of those raw materials. There is one particular thing that we might face but that is a more of a short term disruption then any fundamental shift, is where let say we are supplying an intermediate to the customer and customer is buying another intermediate from a supplier in China and then there is typically a coupling reaction to make the final AI and if the customer have the problem in getting that other intermediate in might ask us to postpone the delivery by a month or two. But that is about it, there is no significant or permanent shift that we are seeing either from the demand side or supply side to our existing business because of the China situation as of now.

Bharat Shah: Suppose raw material from China is shut out, say assuming from tomorrow, beyond the short term disruption we will not have any permanent impact on the business?

Radhesh Welling: Not for any of the major raw materials, we will have to look at the number on the specific business, but all the critical raw materials where we are only dependent on China. We have already developed the vendors outside of China, so we will not be.

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

Sanjay Jain: Thanks for the opportunity. I had two questions Sir. One on the gross margin side, quarter-on-quarter we have seen the mix improve towards higher value product, but if you look at quarter-on-quarter, the gross margin has declined by around 310 basis point where the mix has been improved by 250 basis points that is the one. Just wanted to understand what is going wrong or what is missing in our understanding in terms of gross margin movement. The other one is on the specialty chemical the year has been fantastic we have not done any major capex on the specialty, how much headroom do we have in terms of the revenue traction from the existing capacity and any plans on the future capex there, thank you.

Radhesh Welling: So I will take the second question first and then I ask Ketan answer the other question. So as far as specialty is concerned, this year we did number of debottlenecking projects which have led to big or smaller debottlenecking project putting in reactor or moving from a low value reactor to higher value reactor, etc., which has given some additional space which has contribute to that additional sales of this year. We foresee that we will continue with similar kind of a strategy for FY2021 as well. More or less our capacity headroom is very limited in our existing facility in Surat. We are currently working on a number of projects and we should be in this year hopefully coming to you with some announcement in respect to capex for specialty, so we are working on a few business cases, in this year, the financial year going to the board for its approvals and once we have this approval we will be coming back to you with specific announcements. So we expect those multipurpose plants or dedicated plants will come up in Dahej and will hopefully start contributing towards revenue growth from FY2022 onwards, FY2022 is when it will come so FY2023 onwards on a full annualized basis. The other question, I will refer it to Ketan.

Ketan Sablok: So on the gross margin front, I think there is no specific reason why the margins have come down. But even though the sales picking up somewhere in the last quarter, but is more to do with product mix especially in the specialty business, wherein certain products where the margin profile was slightly stronger at a higher sales volumes in the Q3compared to the product getting sold in the Q4 so that probably be the reason why the gross margins are slightly lower and to add to that as we had indicated that because of this lockdown almost, Rs.25,- Rs.26 Crores of sales we are unable to schedule. I think if those would have happened, thenthe overall margins in these products would have definitely improved the margins this quarter, most of these products then now gone and stuck in the inventory.

Sanjay Jain: Yes thanks Ketan, that is just a clarification you said that most of the revenue loss was from ref and inorganic that could have only deteriorated the margins. Just one question on the JV side, you said it has been a record but if I look at the PAT contribution for our company and the investment we have done it is still under 10% ROCE how should we see that, what utilization level we are and how much headwinds you have in terms of expanding the ROCE in that particular business?

Ketan Sablok: So as you know this was the first year after the JV was formed that we have managed a year of stable performance. This year we have profit after tax of almost Rs.15 Crores in the JV and yes, the ROCE of the JV compared to the investments that we have done have not been really great but with the productivity now improving in the current year and probably with production volumes ramping up further in this year I think the returns will show up on the account.

Moderator: Thank you. The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.

Manoj Garg: Radhesh just a question since you have indicated that you have limited headroom on the spec chem side over the next one or two years so how do we see the growth till that time, you see that the capex coming in fiscal year 2023?

Radhesh Welling: So we expect the growth that we saw in this particular year which is FY2020 we expect similar kind of a growth in this coming year which is FY2021 and we expect that from FY2022 onwards this new investment that we will have in specialty will start kicking in growth. Typically in our kind of business what happens is the investment and the growth does not happen in a very linear manner so you do a significant investment and then a year immediately after the investment you kind of start seeing uptake in the sales. So we expect that FY2021 would be on the lines of what we saw in FY2020 but FY2022 is when the new investment will actually kick in and FY2023 will be the full year of the annualized performance this new investment in speciality

Manoj Garg: Sure understood and on this new project of HPP we have indicated that you will be manufacturing both intermediate as well as right now one product but it has applications in the various areas so are we the sole manufacturers of this intermediate or there are like other suppliers as well and how do we see the ramp up in terms of the other portfolio through this intermediate?

Radhesh Welling: Yes so currently the plan is for us to make the intermediate and the final product, the final product would be supplied to the customer and currently there is only one manufacturer who is doing both the intermediate and the final product which is the customer himself. As I mentioned there are some other opportunities for the intermediate but currently the capacity that we are setting of the investments that we have announced is to make intermediate with matching capacity of final product. So we are basically in the process of evaluating what else can be done, what as a kind of a backup options in case the final products start seeing some demand related issue. We can put the intermediate in other options but that would be then part of our expansion option beyond this particular project that we have talked about. So for now we are focusing on manufacturing of this intermediate which will then go into the final product and the final product with move to the customer as there is a matching capacity that we are setting up the plant for.

Manoj Garg: Sure, that is very helpful and wish you all the best. Thank you very much.

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

Abhijit Akella: Yes good afternoon Sir. Thanks a lot for taking my questions. The first question was just on the legacy business and the industrial side of the business, so you spoke about the fact that the industrial plants are operating at suboptimal capacities if you could just quantify what level of utilization they are at and when we think about how the refrigerant business, inorganic fluorides and the industrial piece of speciality chemicals should perform in

FY2021, should we expect say double digit kind of decline in any of these parts of the business?

Radhesh Welling: Yes so if you look at our total business we typically tend to divide this into the three segments that is pharma, agro and industrial. Now if you look at the specialty business that also has three segments, our CRAMS business of only pharma and your ref gas and inorganic business primarily serves the industrial application. There is only a small part of that non-emissive R22 which goes into pharma otherwise it is primarily industrial. In fact industrial piece, given the speciality it is now operating at full capacity, it is operating at a pre-COVID level. So everything in speciality and in CRAMS more or less is operating at pre-COVID level. As of today we do not see any impact, on the industrial slowdown. The ref gas as well as inorganics we started the plant in the month of April as we started for other applications as well but the ramp up has been relatively lower. So currently we are at about approximately, again there are number of products in both these businesses especially inorganic etc. that go into the industrial application, but I would say we are at two-third capacity utilization, plus minus with some product it is much better and some product is slightly below that.

Abhijit Akella: Okay got it thanks for that and the second thing was just with regard to on the balance sheet there seems to have been a shift of our investments, current as well as non-current investments into cash and bank balances so if you could just explain what that is about and is this also the reason why other income has fallen sharply in this quarter and what we should expect on this front going forward, thank you?

Ketan Sablok: Yes, so the way situation was developing in March, we realized that therewas lot of volatility in the fixed income market and the time when India went into lockdown on account of the COVID-19 resulted in lot of short term uncertainties. At that time considering these uncertainties and to preserve the safety of our investments, we redeemed almost around Rs.200 Crores towards mid Marchand we have parked these funds as of now into fixed deposits with various banks and of different tenures. That is why here you see the cash and bank numbers in the balance sheet, and we will keep assessing the situation and we will take a call in the coming months based on how the markets are dealing and how the economy is taking shift but as of now most of these are moved into the fixed deposit scheme.

Abhijit Akella: Understood. Thank you so much I will come back in the queue.

Moderator: Thank you. The next question is from the line of Balwinder Singh from Canara HSBC Insurance. Please go ahead.

Balwinder Singh: Hi most of my questions have been answered, just one thing so you highlighted on the speciality side of the business that FY2021 will be similar to FY2022 to and on FY2022-FY2023 will take off because of the capex, on the CRAMS side what is your view given that cGMP3 will have full year of performance this year so what kind of growth rates can we expect on the CRAMS side for FY2021, also on FY2022 what is your outlook on CRAMS?

Radhesh Welling: So typically we do not give forward looking guidance at the company level or the business level. In terms of speciality basically I had just given a directional understanding that the growth will be similar to what we saw in the last year that is FY2020 as far as in CRAMS we have clearly mentioned that there are three points, one we have mentioned that we should be reach the asset turn of 2 to 2.25 times the investment that we have made in about three to four years, we remain fully committed on that. The second point that we have mentioned is that we have actually seen pretty strong order flow, enquiry flow both from our old customers as well as new customers in CRAMS and third we have actually gone into this particular year with much better order book position. When I talk about order book position by order book we mean actual order in hand we have gone into this new financial year with much better order book then what we went into the previous financial year so we expect that coming year will be stronger the performance will be significantly stronger than the last year but it is difficult for us to give percentage guidance year on year.

Balwinder Singh: Sure Sir completely appreciate that and on the capex side we are evaluating opportunities on the ref gas and on this speciality chemicals side so you mentioned that there we can see some capex announcements going ahead is my understanding correct?

Radhesh Welling: Yes, so as we had indicated earlier there are basically three or four areas where we should be seeing capital investments one is when we talked earlier about areas outside of these four BU's which has already happened now, which is in form of HPP. Second we talked about in speciality so which is something that we are currently working on, the third one is on ref gas where we are developing the business case and fourth is additional capex that will be coming up in trans depending on this order book or order flow etc. Basically in the order of priority so HPP is something that has already happened, we are already in advance stage as far as speciality is concerned not as advanced in other two areas as far as completion of the plan and taking it to board etc. is concerned.

Balwinder Singh: Great Sir that is really helpful, all the best.

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

Karthikeyan: Hi good afternoon to both of you, wonderful commentary I would not go over the same topics just one clarification is the tax reversion that you talked about to early on Rs.20 Crores is done or is it still continuing I am asking it because you spoke about how this will be happened again so can you throw some light, can we still be contested so just clarify?

Ketan Sablok: Sure, for some of the years the department has gone into appeal for the other years they still have not taken up the appeal but we have favorable orders from multiple high courts on similar matters and this year we also had a favorable order from the jurisdictional high court that is the Mumbai High Court that led us to conclude that this case is strong for the company and we took tax and legal advice and then we went ahead with the write back.

Karthikeyan: And what part has not been recognized yet and which is spending a favorable order or not contested so far?

Ketan Sablok: No that is for a department to contest we have taken the entire amount.

Karthikeyan: You have done entire amount right,

Ketan Sablok: Yes, the cases are the same.

Karthikeyan: Yes, true, fair. Thank you, very much and best wishes.

Moderator: Thank you. The next question is from the line of Amar Maurya from ALFAccurate Advisors. Please go ahead.

Amar Maurya: Thanks a lot for the opportunity. Two questions from my side. Number one is on speciality chemical the kind of run rate which we have seen in export basically that has led to a significant growth otherwise if you see the nine month figure it was basically any exports that was only 7-8% kind of a growth so my question does this Rs.57 Crores kind of a run rate for exports in speciality is sustainable?

Radhesh Welling: Yes going forward the growth trajectory that we talked about either for this year or going forward either for short term or for midterm these three segments that is pharma, agro and industrial will come from domestic as well as international markets. The growth in pharma is primarily from India and the growth in agro and the growth in industrial will be primarily international. Going forward I mean quarter to quarter there could be some movement here and there but otherwise we are quite confident about the growth at least that is our intent to ensure that the growth is well balanced between these three segments and domestic and international markets.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir just one question, Sir given in our CRAMS entire business is from the exports in terms of a business that you planned a new business what constraints are we facing right now or things getting back to normal, just some thoughts on that and also since given lot of research was focus towards COVID vaccine and medicine has the other therapies taken a step back which could impact our CRAMS areas headroom that we are focusing on?

Radhesh Welling: Yes some of our main customers are currently not really focusing on COVID related medications so we have not seen any shift from the therapeutic areas that they have traditionally being focused on through COVID related discoveries etc. So we do not foresee a major shift happening either in short term or mid to long term, as far as the disruptions is concerned. We did see some challenges towards end of March, beginning of April but those were primarily related to supply chains, to transportation and shipping etc., but currently we are not really seeing any major disruption either from the logistics point of view or RM movement point of view. So logistics I am talking about logistics of our finished goods or logistics of movement of the raw material.

Dhaval Shah: And also your travel by the business development team and staff by yourself has been restricted to western countries so that is not a big problem right now compared...

Radhesh Welling: No, we have business development teams based in those specific markets. We have an office in U.S. which is responsible for business development there and we have offices in Germany, in U.K. etc. that are responsible for business development in those specific markets. We do not see any major impact because of travel related restrictions even though there was a complete lockdown in those countries, lot of business continue to happen on phone, so travel does not seem to be a constraint.

Dhaval Shah: Yes that is great, good luck.

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

Ankur Periwal: Thank you Sir, Sir most of the questions have been answered just one question on balance sheet especially working capital now if I look historically although your initial comment did mention slightly higher inventory to be sure on the production side but there has been slight uptake in terms of receivable and payables and if I look at the net number which is receivable, less payables over the last two to three years there has been slight uptake from around 25 to 30 days to 40 plus days now is that just a onetime thing because of lockdown or there is something more that we need to look into it?

Ketan Sablok: So if you see the inventory position in the current balance sheet as of March we are at around 49 days and on the receivable front we are at about 75 days so this has slightly gone up, more to do with the lockdown impact in March and with the lower sales happening in the month of March most of these sales have gone and parked themselves in inventories and that is whey the inventory number has slightly gone up. Also the planned collections which were there for the month of March, all these collections got delayed because of the closure of banks and lot of the payments could not materialized. Of course now the banks have started operating and most of the receivables are back on track. I would say at least this year end has been one off case and we should be back to our improved position going forward.

Ankur Periwal: Sure Sir, thanks a lot that is helpful.

Moderator: Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla: Hi Sir thanks for the opportunity and congratulations for these set of numbers. The first question you said we were to change on our tax rates going forward so have we decided anything on the tax rate is concerned, second you said the speciality chemicals we should start seeing a growth from FY2022 onwards so given that we are probably embarking on some brown field expansion and Greenfield is **not** coming bit later?

Ketan Sablok: I will just take the first part on the tax point. With this the current tax position that we are in I think for the current year FY2021 we will stay put with our earlier tax regime because we have these MAT credits which we would like to utilize and probably we will take the call on the new tax in the year FY2021-FY2022.

Radhesh Welling: Second question I believe you have on the speciality business but your question was not bit clear can you just repeat I could not get your question?

Ranjit Cirumalla: Yes Sir you indicated that the speciality chemicals growth would be on the higher side from FY2022 onwards. For FY2021 you have indicated that for the company at the overall level the growth would be in the range of FY2020 but from FY2022 onwards one can see a higher growth and you believe that probably would be led by the CRAMS and speciality, you also indicated that something would be coming up soon in the speciality chemicals, in the capex part so I was just asking a question that would it be safe to assume that capex would be more of a Brownfield expansion and one has to probably wait for a Greenfield expansion on this speciality chemicals right?

Radhesh Welling: We continue to do smaller brownfield debottlenecking projects in Surat which is where our existing speciality plants are, which is what led to the growth that you saw in FY2020 and that is what will also lead to the growth in FY2021. What I talked about which is FY2022, FY2023 onwards, That will be a Greenfield investment that will happen in a completely new location. That will happen in the Dahej where we have already announced investment in setting up of infrastructure and other project in HPP so that investment is a completely separate set of investment that will happen in speciality that will be Greenfield. As far as Brownfield is concerned those are the ones which are very small ones and we will be continuing to do those kind of debottlenecking projects, but there is no further scope for any significant Brownfield investment in Surat which is where our existing specialty is.

Ranjit Cirumalla: Yes specifically you indicated the time frame that you indicated was less than 12 to 18 months I thought it will be more the Brownfield expansion because for the HPP we are almost taking 24 months like the end of FY2022 and FY2023 the ramp up will be seen, that the time frame from a speciality chemicals looks little less than what we have indicated for HPP?

Radhesh Welling Correct, now if you look at HPP there is a complete CLPs that is involved there which is investment in the roads, setting up of basic infrastructure etc, once that have been done, that will not be required even setting up to effluent treatment plant etc., typically those are the things which takes significantly longer duration, once we do that the time required for processing plant is typically about 12 to 18 months. So we are expecting that the business case will get finalized for speciality in this coming financial year, we will take it to the board, the final announcements will be made and the production from those plants will start in FY2022 and FY2023 will be the year when you will actually see the full annualized impact of those investments coming up in speciality business.

Ranjit Cirumalla: Thank you Sir, thanks for clarifying this.

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

Radesh Welling: Yes, I would like to thank everyone for joining on the call. I hope we have been able to respond to your queries adequately, should you need any further information or if you have any further questions, request you to please get in touch with SGA, our investor relations advisors. Please take care and stay safe. Thank you very much.

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