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May 12, 2022

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Dalal Street, Fort,
Mumbai 400001
Scrip Code: 532504

National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex, Bandra (East),
Mumbai 400051
Symbol: NAVINFLUOR EQ

Dear Sir / Madam,

Sub.: Transcript of Earnings Call of Q4 and FY 2021-22

Pursuant to Regulation 30 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Company's Earnings Call held on May 09, 2022 regarding discussion on operational and financial performance for the Quarter and Financial Year ended March 31, 2022 (Q4 and FY 2021-22) is enclosed herewith.

This intimation is also being made available on the Company's website at www.nfil.in.

Request you to take this intimation on record.

Thanking You,

Yours faithfully,
For **NAVIN FLUORINE INTERNATIONAL LIMITED**

Akshika Thakkar
Manager - Secretarial and Legal

Encl.: a/a

“Navin Fluorine International Limited Q4 and FY22 Earnings Conference Call”

May 9, 2022

MANAGEMENT: MR. RADHESH WELLING – MD, NAVIN FLUORINE INTERNATIONAL LIMITED
MR. B. K. BANSAL – CFO, NAVIN FLUORINE INTERNATIONAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q4 and FY22 Earnings Conference Call of Navin Fluorine International Limited. Today on this call, we have Mr. Radhesh Welling – Managing Director of Navin Fluorine International Limited, along with the senior management team.

This conference call may contain forward looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. Actual results may differ materially. The statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

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

I'll hand the conference over to Mr. Radhesh Welling – Managing Director of Navin Fluorine International Limited. Thank you, and over to you, Sir.

Radhesh Welling: Good morning, everyone, and a warm welcome to all the participants. I'm joined by Mr. B. K. Bansal – the Chief Financial Officer of Navin Fluorine, and our Investor Relations partner, Orient Capital. I hope all of you have got an opportunity to go through our Financial Results and Investor Presentation which has been uploaded on the stock exchange as well as Company's website.

Before I move on to discuss the quarterly performance, let me take you through the key developments in the Company:

Navin Fluorine Advanced Sciences Limited, our wholly owned subsidiary, has announced a CAPEX of Rs. 540 crore to manufacture and supply a new fluoro specialty molecule with a peak revenue potential of approximately Rs. 600 crore. The base load for the plant is secured through a multi-year supply agreement with a multinational Company. The facility will be located at Dahej, in the state of Gujarat and will be funded through a mix of internal accruals and debt. The plant will be ready by December 2023, and supplies are expected to commence immediately thereafter. This project has very important strategic value for the Company. We will be selling part of the volume manufactured in this plant directly to our technology partner. The rest of the volume will be sold to other customers, as well as be used captively to make various downstream derivatives.

This molecule is a critical chlorine building block for which consumption has been growing and will continue to grow in the coming years. This project positions us well to now develop a number of these new downstream products and build a new set of exciting new opportunities.

I'm also pleased to inform you all, the Board of Directors last Saturday have declared a final dividend of Rs. 6 per share. We have paid an interim dividend of Rs. 5 in this year as well. The total dividend paid in the last year is Rs. 11 on face value of Rs. 2 per share.

Let me now take you through the 'Operating Performance' for Q4 and FY22. And then Mr. Bansal will update you on the 'Financial Performance':

In the financial year 2022, on a standalone basis, our operating revenue stood at Rs. 1404 crore, a growth of 24% on year-on-year basis. Operating EBITDA stood at Rs. 355 crore, a growth of 14% on a year-on-year basis. And operating profit before tax stood at Rs. 310 crore with a growth of 15% on year-on-year basis.

All our business units showed good traction in business last year, and we have achieved record revenues in high value business with a pipeline of strong set of new growth opportunities.

Moving on to discuss 'Operating Performances' of each Business Unit:

Our Specialty business achieved record quarterly and annual revenue and reported sustainable revenue growth of 22% on Y-o-Y to Rs. 159 crore for Q4 FY22. For FY22, we reported a growth of 25% on Y-o-Y basis with revenue of Rs. 566 crore in this segment. The growth of this unit is primarily driven by growth in some of the new products that were launched in the past few years and due to price hike which was initiated to offset high input cost.

As I mentioned earlier, we saw significant reduction in sales in this year of a product going into the ARV segment. We managed to address this by immediately developing another opportunity in a fairly short period of time. This new product was unfortunately at a slightly lower gross margin than the one supplied into the ARV segment, and this had some impact on the gross margin.

Our CRAMS business achieved record annual sales in FY22. For Q4 FY22, we reported a growth of 16% to Rs. 88 crore as compared to the same quarter last year. And for FY22, the business has grown by 6% to Rs. 297 crore. Our focus for this business continues to be on project pipeline expansion and acquisition of new customers.

Our Ref Gas business grew by 38% in Q4 to Rs. 80 crore compared to the same period last year. For the full year FY22, it showed a growth of 28% to Rs. 266 crore. The growth in profitability was driven by volume and price increase despite higher input costs.

Our sales for non-emissive applications continue to look robust. We witnessed a strong volume growth from the domestic market whereas exports sales were impacted due to higher logistics cost.

Our inorganic fluoride business achieved record annual sales driven by increase in pricing. In Q4 FY22, we reported a growth of 19% to Rs. 71 crore compared to the same period last year and for FY22, it recorded growth of 42% to Rs. 274 crore. We have tried to drive margins by optimizing sales mix between domestic and international market and have been successful in passing through cost increases in critical raw materials.

All our projects, that is HPP, MPP and the one related to the multi-year agreement that was done for the Agro Chemical Intermediate are progressing well and are on schedule. All the pre commissioning activities related to our HPP plant have been successfully completed. We have managed to secure all the key raw materials that will be required for plant startup, and we expect manufacturing for our HPP to start later this month.

Our Board has also approved debottlenecking of cGMP 3 plant in the back of a robust opportunity pipeline and this CAPEX is also moving on as per schedule.

I'll now hand over the line to Mr. Bansal to give you a brief on the financial performance of the Company. Thank you very much.

B.K. Bansal: Thank you, Mr. Radhesh. And very good morning to all the participants. I will share the highlights of our performance for the year ended financial year '22 and for Q4 FY22 post which we will be happy to take questions from all of you.

For financial year '22, the Company recorded net revenue from operation of Rs. 1404 crore as against Rs. 1,133 crore in FY21 delivering a growth of 24%. Operating EBITDA stood at Rs. 355 crore for FY22 as against Rs. 311 crore in FY21, showing a jump of 14%. Operating EBITDA margin stood at 25.3% as against 27.4% in the same period last year. Impact on operating EBITDA margin was due to higher employee cost, freight cost along with increase in other overheads, more particularly power costs. Operating PBT increased by 15% to Rs. 310 crore for FY22 as against Rs. 269 crore in FY21. Profit after tax stood at Rs. 266 crore for FY22 and PAT margin was 19%.

Now coming to BU's performance for the full year. Our high value business registered a growth of 18% and legacy business showed a growth of 35%. In legacy business, performance of inorganic fluoride improved substantially during FY22 as the business registered a revenue growth of 42% to Rs. 274 crore. Refrigerant gas business showed very good growth of 28% to Rs. 266 crore in FY22. Specialty grew by 25% to Rs. 566 crore, crossing the milestone of Rs. 500 crore. And the CRAMS segment grew by 6% to Rs. 297 crore.

Now I will talk about Q4:

In Q4, Company reported a growth of 23% in net revenue from operations of Rs. 390 crore as against Rs. 324 crore in the same quarter last year. Operating EBITDA delivered a growth of 14% to Rs. 96 crore as against Rs. 84 crore in Q4 last year. Operating EBITDA margin stood at 24% in Q4 FY22. Operating PBT grew by 15% to Rs. 84 crore for Q4 FY22 as against Rs. 73

crore in Q4 FY21. Profit after tax stood at Rs. 78.7 crore for Q4 and the profit margin stood at 19.8%.

The profitability is not comparable to the last quarter as we had an exceptional gain reported in Q4 of Rs. 66.2 crore on account of sales of shares held in Convergence Chemicals Private Limited, our joint venture Company and another gain on account of giving up lease rights in land situated at Dahej to Navin Fluorine Advanced Sciences Limited.

That is all from my side. Now I open the floor for questions and answers. Thank you.

Moderator: We will now begin the questions and answers session. The first question is from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

Karthi Keyan: A couple of questions. One is, a series of contracts start operations shortly in a progressive way. Given the volatility that has been seen on the raw material front in terms of costs and availability, can you guide us on how you have tried to protect yourself from a contractual perspective? I also understand that there is an effective arithmetic challenge, which is the numerator versus denominator challenge, therefore that also skews your calculations a bit. But having said that, can you give us some perspective to what extent we would be able to protect ourselves against volatility in input costs?

Radhesh Welling: So, you want to ask all your questions and then I respond to all of them? Or do you want me to respond to each of them separately?

Karthi Keyan: The second one is the new project that you announced. So, the Rs. 600 crore revenues that you have highlighted would be only specific to the partner who is providing you with the technology, right? I hope that my understanding is correct over there. And so, can you split up the CAPEX into what is for capacity and what is for maybe third-party sales? Or whatever way you can highlight that split?.

Radhesh Welling: So, let me take both these questions separately. So, first, you talked about the impact on the volatility in the RM cost, on the project financials, right?

Karthi Keyan: Yes. On various projects that are being commissioned on a progressive basis now, even starting this month, you said.

Radhesh Welling: So, if you actually look at the 4 projects that we have announced, including the one which was just recently announced, except one project, which is the MPP project, all others are primarily on a cost pass through basis. Now, the only problem there is that in some of these cases, the pass through typically doesn't happen on a daily basis or a weekly basis or a monthly basis. So, the plan earlier was that we will actually calculate the estimated cost for the year and then ascertain the price for the year because a lot of times our customer also does a back-to-back for their downstream molecule on the basis of the price that we give. Now, we are actually in discussion with the customer to actually shorten that period from 1 year to maybe 6 months, quarter, etc, wherein not only we will be able to take into account the cost at that point in time but also whatever the impact was there in the prior period where the actual minus estimate was higher, we will actually also load up that on to the future cost. So, on a net-net basis, it will be using the same kind of a passthrough mechanism, but you could see some impact in a quarter or so, because the period could be different in different agreements.

Karthi Keyan: Before and in the subsequent period?

Radhesh Welling: In the subsequent period that adjustment will happen. So, the adjustment of the cost at that point in time plus also the impact seen in the prior period will also be added on to the cost. So, on a net-net basis, there will be a complete 100% pass through. The second point, the other project which is the MPP, that is a multi-product one, so that is a project where on some of the molecules, the principle that is going to be followed there is very similar, but for some of the molecules for some of the sales, we also have an opportunity to take advantage of the price hike in the immediate time frame. So, MPP could be slightly different, but overall the mechanism for MPP also remains the same. On the second point, a second question that you asked which is related to this new project that we have announced. So, of the total volume that we will be manufacturing in the plant, half of it will be sold to the technology partner at a price, which is again the price has been ascertained on a pass through basis and that is the mechanism that will be followed as was described for the other project. The rest of it, we are still in the process of deciding if we should also lock those into the contract or we should try to play on the spot basis, because we believe that there could be an opportunity for us to actually gain significantly more realization than what would otherwise be on a cost plus basis. So, that is something that we are trying to ascertain. But currently, what we see is that demand in the market for that rest of that volume is much higher than what we can supply, that is for the rest of the 50% volume. Also, we will have internal need to use some of that volume to do two of our downstream molecules, two of our new downstream molecules, one which is already mapped in MPP, another one which we will be actually working on, this is a new molecule that we currently are working on. The sales estimate that we have given of Rs. 600 crore is for the total volume, not just for 50%, it's for the total volume but at a price at which we will assume that the entire 100% will be sold at a price at which that 50% has currently been locked at. We believe that the rest of the 50% we could have significant upside potential given what is going on in the market right now. But just to be conservative, we've actually done the financials, assuming that the price for the rest of the 50% will also be the same.

Karthi Keyan: So, one question related to what you explained right now elaborately and it is fairly clear, therefore would your inventory policy now change to hedging yourself for a fairly longer period of time and therefore should one estimate a longer holding period for inventory going ahead?

Radhesh Welling: I'll come back to the philosophy that we are adopting. But before I get to that response, I just want to understand your question a little more. Can you just elaborate, please?

Karthi Keyan: What I'm saying is that if the raw material cost has to be passed through and there is an elaborate calculation involved over multiple periods, even if it is struggling 2 financial years, maybe the customer would advise you to actually carry larger inventory. So, therefore, there is visibility on cost upfront rather than having to do a back and forth.

Radhesh Welling: So, let me explain to you. What happens is when you talk about inventory of the raw materials, you have a KSM, key shorting material. A lot of times we really don't get impacted by the movement in this key shorting raw materials. What we get impacted by are basically two things :there are a lot of commodity items that we buy, some of these are solvents, where there is a significant spot movement, and we cannot hold inventory of all the solvents and all these commodity raw materials. A lot of these are actually bought in the market on a spot basis. The second, for a lot of what we do as you know, the starting raw material is hydrochloric acid and some of the raw materials required for hydrochloric acid have also shown significant movement, for example, sulfur, etc. Now it is not possible for us to hold a large inventory of molten sulfur for a long period of time. So, those by nature have to be bought on a spot basis, but for all the key raw materials, key starting materials, including fluorospar for HF production, your assumption is absolutely right, we have actually moved on to holding larger inventories now.

Karthi Keyan: Sir, two quick questions and then I'll get back in the queue. One is are you willing to disclose the segment into which this new molecule will be supplied, agro chemical, pharma or any other segments?

Radhesh Welling: It will be going into multiple segments, but we have consciously decided not to further elaborate on that.

Karthi Keyan: And what would be peak debt please given all these projects which are coming on based on current assessment of numbers?

B.K. Bansal: Sorry, what will be the peak debt?

Karthi Keyan: Yes, please.

B.K. Bansal: So, currently we have taken Rs. 500 crore for the project, which we announced during last year or year before that, and for this particular project which entails capital outlay of Rs. 540 crore, we are planning to take debt of additional Rs. 200 crore. Rest we will be funding from internal accruals.

Moderator: The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: I have two. I'll ask them one after the other, if that's okay. The first one was just with regard to the slight pressure on margins that you've seen in the fourth quarter, the EBITDA margins have come down to about 23% at the consol level. So, if you could please just help us understand the reasons for that pressure and what the outlook is, whether it will take another quarter or 2 in any of the business units to pass it through?

Radhesh Welling: So, on the margin, they're primarily happening because of 2 or 3 factors. And obviously, there are more factors, which are business specific. But if you look at a macro level for the Company, what we have seen is that for inorganic and ref. gas, where most of the business happens on either on a spot basis, or where the agreements are for a shorter period of time, our ability to immediately increase the price is much higher than, let us say, in CRAMS or specialty. So, there, we get impacted a little more especially in the short term. Having said that, if you look at it at a Company level, you will realize that our material cost as a percentage of sales has remained more or less the same. So, we are able to successfully pass on all the material cost increases. What we have got impacted due to especially in Q4 is the energy cost because there is a sudden spike in the energy cost in Q4, and it's been little difficult because of the existing contracts, etc. And even our relationships with some of these key customers in each of the segments, it's been difficult for us to immediately go back and get out of the contracts and pass on those things. But we believe that we should be able to pass on in the coming months or so. The second reason why our EBITDA margin has come under little pressure is also because of the higher employee cost. You will actually see and I've actually given the commentary to that before also, there are a lot of new activities, new initiatives that we are currently working on because of which we have actually hired a lot of new talent. Also, in segments outside of these 4 or 5 BUs, for a lot of activities that we are doing currently on some of the new emerging segments, which haven't started converting into sales yet. Also, because of the overall issue with respect to talent, availability, etc, we've actually had to pay higher variables, higher retentions, etc, for employee costs have gone up. As far as the employee cost is concerned, at least for FY23, we expect that employee cost as a percentage of sales will tend to be on a higher side from FY24, which is when these 3 new projects which will actually get commissioned in this particular year, we will actually see annualized impact of all the 3 projects from FY24 onwards. From there on, you will actually see a significant dip in employee cost as a percentage of the sales, as our sales basically pretty much grows significantly more than the increase in the employee cost. So, as far as the margins are concerned, we believe that whatever we are seeing on the gross margin, we should be in a quarter or two, be able to pass that on successfully unless, again, there is some completely new surprise on the employee cost piece, which basically is in the fixed cost category. We believe that FY23, the employee cost as a percentage will tend to be on a higher side. But FY24 onwards, you will actually see that our employee costs as a percentage of sales, is projected to actually be below even what it was last year, which is FY21 I'm talking about.

Abhijit Akella: The second question I had was on the CAPEX projects that are on an implementation, and I just maybe split this up into 4 or 4 small sub parts, if I may. First is on the latest announced project Rs. 600 crore per year, how long before we expect to achieve that full potential of Rs. 600 crore? Will it happen in the very first year, let's say, fiscal '25? Or will it take 2 or 3 years to get there? Second is, after this project, are there any further CAPEX announcements we can expect across any of your BUs? And in particular, regarding refrigerants, can we assume that the plan has been called off now that you've decided to go ahead with something else? And the last one was on the

HPP project. You mentioned that the plant is getting commissioned this month. So, can we expect that it pretty much wraps up to full potential within the next couple of quarters or is it going to likely take longer than that?

Radhesh Welling: So, as we have indicated, for this new project, the plant will start by December 2023, and we expect that the full fledged manufacturing and the supply will start immediately thereafter. So, the first year of the operation will basically be FY25. And from the following year, which is FY26, we believe we should be able to either meet this peak revenue potential or exceed that. So, inyear 2, we should be able to get to that number. Then on any other following CAPEXes, I know this is a question that has been asked to us consistently since we announced the HPP project, and our response remains the same. We continue to look at growth opportunities in each of the BUs separately as well as we continue to look at them outside of these 5 BUs as well. And once we are confident that we have got a project which actually meets all our strategic as well as financial criteria, we will take it to the Board. So, it will be difficult for me to comment at this point in time. But because we have done this, I wouldn't say we wouldn't be taking any more project, we will take project once we are convinced on the strategic value, on the financial value of those projects and initiatives. On your third point, it's very difficult because as you know, this is the first time we will be actually running this particular molecule in HPP. We are trying our best to ensure that there is a smooth startup. We also want to make sure that there is a completely safe startup. So, we will be starting up the plant in phases. We expect that the plant will actually start running from June, but as it always happens, especially in the chemical plant, there could be some initial teething problems. We expect that in a quarter or two, we should be able to achieve the full capacity. On the demand side, I'm happy to let you know that the demand for this molecule remains extremely robust.

Abhijit Akella: Just Radhesh Ji, on the refrigerant part, if you could just comment, whether we should expect any further movement there or not anymore?

Radhesh Welling: So, we are working on that opportunity. Again, as I said, it has to meet both these criteria, one is the strategic value and second is the financial one. We’ve been working on this for some time. Currently, it is not meeting our internal filters. So, we’re trying to currently slice and dice it in multiple ways to see if we can actually make it work. But given our internal financial metrics, it's not meeting some of those critical important requirements.

Moderator: The next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

Amar Mourya: Majority of my questions had been answered. Only one clarification like in your specialty chemical business largely from the domestic part, what would be the yearly performance of the farmer and the industrial chemical? And secondly, how should we look at the domestic business of the specialty chemical going forward?

Radhesh Welling: So, I think we should not look at domestic and international separately first of all, because sometimes it can actually be a little misleading because as you know, we supply intermediates and advanced intermediates. So, sometimes customers could ask us to move that intermediate from India to let's say, to France or Germany or something or the other way around. It's the same molecule we are supplying to the same customers, but depending on the customer requirements, the supply could be made to a converter in India or a converter outside of India. The other split becomes actually more relevant for you, which is pharma and this one, our industrial business continues to be very robust. We are looking for opportunities to further increase that business. On the pharma side, this year, we actually saw a significant drop primarily because of that one molecule which we were actually supplying into the ARV market. You must have seen the commentary from Lauraus etc, they've said that they expect some of that demand to come back later this calendar year, this is the feedback we have received from other players in the market as well. Internally, we are going with the assumption that it might not come back soon. So, we've already developed a plan B and we are focusing on making sure that those set of products that we have identified as Plan B get to the right level of profitability. That is why we are actually seeing that drop in pharmaceuticals and both other molecules are actually not for pharma. Some of those are actually for agro.

Amar Mourya: So, secondly, sir, as you said, that industrial now is looking very promising. And you also indicated in the last call that you had been talking to a couple of international customers, primarily 2 customers. So, should we see that the 20% piece of the industrial which was there in the specialty should grow significantly and can you attract some large MPP kind of a project into that as well?

Radhesh Welling: So, first of all, I don't think we are seeing a strong growth, I wouldn't really qualify it as such. We are seeing relatively good growth. We have some capacity headroom available there. So, our effort is to basically make sure that we are able to identify and convert opportunities which can help us utilize that available capacity. But as you probably know, in industrial segment, what we currently have is basically one molecule which goes into multiple sectors, where we are basically a market leader. We are currently in the process of evaluating some other opportunities, primarily on the contract manufacturing side. Will it actually get converted into a large HPP kind of or MPP kind of project? It's a little early to tell.

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

Sanjesh Jain: First on this new project, new fluoro molecule, the Rs. 600 crore of revenue also includes the captive consumption or this is purely external sales which we are calling out? That's the first on the clarification. Second, can you just tell us what are the end industry users which we have for this molecule? I know we didn't call out the use for the technological provider, but can you give us a broad understanding on what are the use cases for this application overall you're looking at? And that's my last question.

Radhesh Welling: So, if you look at the Rs. 600 crore guideline that we have given is on the assumption that as you know 50% of that volume is already locked at a certain price, which is basically following the cost-plus model. We have basically taken that price and multiplied by the entire volume, that is how we have arrived at that Rs. 600 crore calculation. Of course, there is a potential for us to get a higher upside, etc. Now, if part of that volume were to be used for captive consumption, the product will be internally sold to that project at the market price. But the Rs. 6 crore, the guideline that we have given is based on the assumption that I just now described. What was your other question?

Sanjesh Jain: What are the general use cases for this new product which we are developing? I know you don't want to call it of the technological provider use case, but in general, what are the use cases for this new molecule?

Radhesh Welling: We will unfortunately not be able to announce the application segments because that is what the technology provider has specifically requested us to do. And also there are some other confidentiality issues around this product as well as some of the critical applications. So, we will not be announcing the application segments for this. I'm sorry for that.

Sanjesh Jain: No problem. Just one follow up on that. The asset turn looks lower at close to 1.1x. Is it that we will be also manufacturing a certain intermediate for this particular product?

Radhesh Welling: As far as the asset turn is concerned, when we look at project economics, asset turn is one of the few parameters that we look at. It's not the only parameter we look at. And probably if I were to actually stack all the criteria that we look at, it will probably be, fifth or sixth criteria. One obviously, the strategic importance of the project as I described earlier. Then we look at the profitability of this particular molecule. Now, on the profitability of the projects that we have announced till now, this is probably going to be a lot more profitable than all the other projects that we have announced earlier. As per our current estimate, the profitability will be slightly higher than the most profitable molecule that we will be manufacturing in the earlier 3, this one, because of which the overall project IRR is on a much higher side than for the other 3 projects that we have actually made the announcement for.

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

Tejas Sheth: I just have 1 question. What are now the thoughts on the HFC side? So, are we looking to add R32 to the portfolio of products and participate in the timeline which is getting ended or now with such a large CAPEX announcement, that's a backburner?

Radhesh Welling: I think I've just responded to that question a little earlier, that we have been looking at the opportunities on the ref. gas side, especially on the HFCPs. We've not been able to make the proper financial case for it. We are actually trying to see if we can slice and dice it, slice and dice that opportunity to make it more financially attractive. But at this point in time, I really don't have much more to comment on.

Tejas Sheth: But even if we think of adding, can we complete the project in the stipulated time?

Radhesh Welling: Yes, we will be able to. The reason we will be able to is because we have already completed most of the basic engineering for that which typically happens only after the project is approved.

Moderator: The next question is from the line of Madanagopal from Sundaram Alternates. Please go ahead.

Madanagopal: Sir, you referred to the new project and you mentioned that when you are pricing it, 50% is logged at a price which is cost plus and the remaining 50% you're saying you've taken the current price. So, in the future, depending upon the market price or because of the raw materials inflation, this price will go up. How is it structured?

Radhesh Welling: So, as I said, for 50% of that volume, we have signed a multi-year contract, which is on a cost plus basis. So, any cost increase or decrease or any cost increase or decrease, there will be a pass through. And for the sake of calculation of project economics, we have assumed the same price for the rest of the 50% as well.

Madanagopal: So, this remaining 50%, the repricing will happen depending upon the market price of the molecule at that point of time?

Radhesh Welling: That's correct.

Madanagopal: And this is a similar structure we have followed for the other large projects, which we have announced in the last 2 years.

Radhesh Welling: No. So, if you see, there are 3 other projects that we have announced. Out of those 3 projects, 2 projects were for single molecule single customer. So, there was no question of having agreement only for 50% of the volume. Here though the technology partner has actually given to us this proprietary technology, they have given us the freedom to operate wherein we have the ability to sell the rest of the volume to other customers and other segments.

Madanagopal: And only with us they've done this. So, probably you'll be the only manufacturer of this molecule. Is it the right way to understand?

Radhesh Welling: We would be the only manufacturer of this molecule using this particular technology, because this technology is a far superior technology to some of the other technologies which are currently being used in the market, that the technologies which are used currently in the market to manufacture this molecule are extremely environment unfriendly. And hence, some of those plants have been getting closure notices, etc. So, this is the only completely environment friendly process to manufacture this particular molecule.

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

Ankur Periwal: Sir, 2 questions. First, on the working capital side. You did mention some bit of inventory built up because of the new projects, RM inflation trying to be more share on the RM procurement side. Your comments on the receivable side because over the years, even that side is seeing some bit of uptick. Is it because of the higher share of the newer projects kicking in or your thoughts there?

B.K. Bansal: So, as far as receivables are concerned, generally, it is around 90 days, and it has been constantly maintained for maybe 1 or 2 days here or there. As far as inventory is concerned, generally, we are maintaining an inventory of 60 days. So, again, a few days here and there. So, for this project also, as Mr. Radhesh has already explained, there are many commodity items, etc., which we cannot store or buy and store for a longer period of time. So, we have to buy them on a spot basis. So, similarly, the working capital cycle would remain around the same level as it is currently.

Ankur Periwal: And just a second one on the margin outlook side. Given that the newer projects or the larger growth incrementally is coming from the specialty side or the new projects, which are again on the high value side, the business side. Will it be fair to say that there will be margin accretion incrementally from the base that we are setting today? Where I'm coming from is you mentioned there is RM inflation. Apart from RM inflations, there is power and fuel, manpower cost, the higher variables to retain the staff, etc. So, will it compensate or it will be net accretive?

Radhesh Welling: So, I think there are 3 pieces in this. One, if you look at a lot of these projects, I would say, almost all of them, when they are conceived and even today, they actually are all at a higher gross margin than our base business. And that's the reason why we have gone for these projects. The second point is around the employee costs. Once we start seeing annualized impact of all the 3 projects, which will happen from the next financial year onwards, even your employee cost as a percentage of sales, we'll see a significant drop. I think FY23 is actually going to be a little difficult year to predict given the fact that these plants are starting up. There's a significant cost that we're actually bringing on or ahead of these plant start-ups, etc. But from FY24, you will actually start seeing a significant margin uptick because of these 2 factors.

Moderator: The next question is from the line of Alok Ranjan from IIFL Asset Management. Please go ahead.

Alok Ranjan: Sir, just 1 question, on the new contract that we have announced, especially, you touched upon 3 things; product, partnerships and platforms. Could you elaborate more on the platform part? You mentioned that it's a novel technology that you have got. At the same time, there is huge demand on the spot market for this product. So, I just wanted to understand like how it can become a platform? Is it like Rs. 600 crore or the indirect impact can be much higher on the Company? Or it can become a kind of molecule which will be required in many other new products that we are looking at. So, the indirect and direct impact can be much higher in terms of the top line opportunity.

Radhesh Welling: Yes. So, first of all, as you rightly said, the direct and indirect impact, especially the indirect impact of this project is much bigger than just the Rs. 600 crore that we've talked about. And that is why I said in my opening commentary that this project actually has a very high strategic value for Navin Fluorine. Now looking at the specific 3 piece product, as I mentioned, this is a critical fluorine building block, which is basically going to be used in a number of value chains to manufacture a number of downstream derivatives. And hence, the first P, which is product. The technology partner that we are working with is a critical and important partner for us. So, we've actually doing out some other important projects with this Company. And we have excellent relationships in that Company going right upto the CEO level. And clearly, there is intent and opportunities identified to grow this relationship to $100 million plus and hence, partnership. Third, on the platform side, as I mentioned, this is a proprietary technology, and this technology will actually help us work on some other opportunities outside of the specific molecule of this specific project. And that is how I said that this basically addresses all the 3 Ps that we have been talking about.

Alok Ranjan: So, another thing, Sir, if it is a basic building block, can we say that it is one of the major basic building block capability that it has got over the last 3 years? Or are there a couple of other basic building block capabilities that we have?

Radhesh Welling: So, we have others, but what do you mean by basic building blocks?

Alok Ranjan: So, you mentioned in your press release that this is one of may be basic building blocks that we are trying to create and that we have got.

Radhesh Welling: So, what happens is in Fluorine, anything that you do in Fluorine, the basic building block is hydrochloric acid. Everything is actually a derivative of hydrochloric acid and we have already been present in hydrochloric acid for more than 50-odd years. Now, based on the segment, based on the business, etc., you have various value chains that you're playing in. And each of these value chains typically requires a starting fluorinated raw material. Now if you look at all these important value chains, when I say important value chains, I'm talking about value chains, which have significant future growth potential, you will actually see this particular molecule playing into a lot of these value chains. And hence, we are saying that this is an important fluorine building block, which plays into number of these value chains. So, by being an important player in this particular molecule, actually positions us very well to actually play in each of those value chains as well. So, the customers who actually require the downstream products in any of those value chains will have to come to us because we control this particular building block.

Moderator: The next question is from the line of Naitik, an individual investor.

Naitik: So, a couple of years back we had consultants to especially look at the pharma space, wherein you're in specialty chemical, pharma, CRAMS and also how to best integrate Manchester Organics. So, this is that in the current analysis, what is your expectation on how the pharma space would move over the next 4 - 5 years?

Radhesh Welling: So, they were actually looking at the Company holistically. And when we talk about pharma, they were primarily looking at the innovative pharma segment, which primarily sits under

CRAMS. We've identified the key accounts to actually further grow our business with. We've identified some specific molecules, etc., that we can grow with. So, earlier, I think, about 2 years back or so, I had given a commentary that one of the first molecules from our pipeline just got commercialized. Now, we've actually got 3 more molecules, which are progressing extremely well. So, we have actually seen a pretty good growth trajectory in our CRAMS business. Unfortunately, what happens there is that the business tends to be extremely lumpy. So, currently, for example, we are actually seeing an extremely strong order book for the calendar year 2023 because there are a lot of campaigns that are likely to happen in 2023. We have already got this feedback from our customers, etc., on the basis of which we have already started working on the plan for CGMP4.

Now some of that molecule which will be required for this 2023 campaign, we will actually have to start manufacturing from Q3 FY23, which is Q4 of the calendar year 2022 itself. But what we are trying to see is how much of that we can actually bring into H1 and how do you really build a stronger one for our H1. But on a mid to long-term basis, we are actually seeing extremely strong traction for I would say 3 reasons; A, we are actually seeing a lot of repeat business coming in from some of the strategic key accounts. Two, some of these molecules that we have been working on for some time now are actually seeing good growth in the market. And the third is we're really building a pretty good pipeline of new customers that we are currently acquiring. So, the third piece will really help us in the long term because when typically, these customers get acquired, typically the acquisition happens at the front end of the product development cycle. And typically, at that stage, the order is only at a gram or a kg level, but that basically positions us very strongly for the years to come.

Naitik: So, can we expect that by FY26 onwards, these products would start scaling up on a broader level?

Radhesh Welling: No, we are actually expecting it much sooner than FY26.

Naitik: Sir, one last question would be on the employee side. So, over the past few years, we have built up our T&D and R&D teams and significantly better addressed some of these new projects. So, what steps are we taking to retain these employees, especially given that new competition is entering into the Fluorine mixture?

Radhesh Welling: So, that's the question we continue to ask ourselves in terms of how do we really ensure that, especially some of the key talent is retained. So, we have various pieces to that. One obviously is through comp, including the retention piece. But what we have really seen or excites some of this talent is the kind of opportunities that they work on. And some of these opportunities that we talk about, some of these have actually already got converted into some of these CAPEXes or some of the other things that we are working on. There are not many companies working currently on these kinds of opportunities, either in India or outside of India.

So, for the right talent, just this opportunity of getting to work on some of these exciting opportunities helps them continue to look forward to coming to work on a day-to-day basis. So, our aim is multifold. A, we actually continue to present to them these exciting opportunities. B, we continue to provide to them an ecosystem where they are challenged and where the growth happens for them. And C, is through compensation.

Moderator: The next question is from the line of Dhruv Muchhal from HDFC Asset Management.

Dhruv Muchhal: Sir, on the new project, on the new molecule, if I understand correctly, this is also a molecule which is currently available in the market. So, if you can probably share some sense on the current market size of this molecule? How has the overall market grown in the last 3 - 5 years? And also, which are the other competitors here? I mean are they from Europe or is the market primarily from China?

Radhesh Welling: For competition reason, I don't think we will be able to give out all these information at this stage. We will be happy to share a lot of this information closer to the plant getting commissioned. We cannot give all this information at this stage where we have just started working on the project on the CAPEX.

Dhruv Muchhal: And sir, the second thing is on the CAPEX for FY23, the cash CAPEX that you expect for FY'23 and 24?

Radhesh Welling: Sorry?

Dhruv Muchhal: The cash CAPEX that we expect for FY23 and 24, the cash outflow or CAPEX?

B.K. Bansal: So, the cash outflow in FY23 will be around Rs. 300 crore. That is including subsidiary.

Dhruv Muchhal: Because I was expecting a decent capitalization this year, that is because we already have a decent CWIP of about Rs. 740 crores.

B.K. Bansal: So, only the CWIP is around Rs. 800 crores, and the total project, which we announced was around Rs. 1,100 crore, so that is how I said Rs. 300 crores, will go from the system in the current financial year. So, the capitalization will take place in the current financial year.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital.

Nitin Agarwal: Sir, in the last 3 to 6 months because of these various global uncertainties because of the Russian-Ukraine war as well as the issues which have been happening in China, is there any qualitative change that you're seeing in your business development efforts across various verticals? I mean, are you getting more client traction in any particular verticals? Any color on that?

Radhesh Welling: No. So, I think these are 2 slightly different pieces, right? One is the Ukraine and Russia piece, the other is China piece. I think the China piece, especially the impact of that on the demand is pretty well documented. And I don't think there is much that I can add to that. As I've mentioned before, the number of inquiries have gone up significantly, but our model is not inquiry led. So, we tend to focus on value chains, which are going to be of importance to us and then grow within those value chains.

Now the second part, which is Ukraine-Russia, so there at least for the business that we are in, we are not really seeing any or not even forecasting any significant impact on the demand side. But on the supply side, obviously, there is a significant impact on the energy cost, etc., because of which, some of these cost escalations we have seen from time to time. But on the demand side, we are not really anticipating any significant change either on the upside or downside to what we do today.

Nitin Agarwal: And sir, secondly, in the past, you've talked about probably exploring some partnership optional routes to participate in some of the newer age opportunities on fluoropolymers and other as a category. Has there been any progress? Any meaningful progress you've made on that account over the last few quarters?

Radhesh Welling: So, I think it's too early to comment. Typically, these kinds of opportunities we work on, we develop. There are a number of new product development activities that are currently going on inside the Company. Some of them have actually moved on to the piloting stage. There are discussions going on with the customers, etc. But still, they actually move to the CAPEX stage or where the sales coming from these activities start becoming material, we hesitate to start talking about it or about these kinds of initiatives.

Moderator: The next question is from the line of Roshan Gupta from Edelweiss.

Rohan Gupta: Sir, we have been a cash plus Company for almost the last 2 to 3 years. And now with the ongoing CAPEXs, we are probably going to be down and leverage one despite a solid cash flow generation. I hope that the Company is still hoping for the new CAPEX plan. Just wanted to understand the Company's comfort level in terms of the leveraging of the balance sheet. How do you think that and how far can you stress the balance sheet in terms of debt equities or debt EBITDA number? If there are aggressive opportunities for CAPEX, how much would be comfortable in leveraging the balance sheet?

B.K. Bansal: Our thought process is very conservative. We have not gone very aggressively in terms of borrowing. If you see our debt equity ratio it is 1:1. And even for the new project, as I said, against Rs. 540 crores of CAPEX, we will be raising only Rs. 200 crores of debt. So, overall, it will be less than 1. And I think we don't see any challenge in maintaining that kind of debt level.

Radhesh Welling: And going forward, if you actually talk about new opportunities, as we have indicated before as well, we continue to look at each of the opportunities first in isolation, try to understand the strategic value of those opportunities and then the financial returns and then holistically in terms of how they fit into the overall Company strategy. And if the opportunities get done, then we look at how to finance these opportunities, etc. But currently, a lot of opportunities that we are looking at, we don't see any issues with respect to our balance sheet, etc.

Rohan Gupta: And just a second question, just a clarification from the previous one on CAPEX. Capitalization of you mentioned that it will be Rs. 300 crores in FY23.

B.K. Bansal: Not capitalization, I said cash payout in FY23 would be Rs. 300 crore. And then capitalization will be almost for the entire Rs. 1,100 crore.

Rohan Gupta: Close to all the CWIP of Rs. 800 crore, you are saying that will be capitalized.

B.K. Bansal: Rs. 800 crore plus Rs. 300 crore, we will be paying out, that also will get capitalized in the current financial year. And on the debt equity side, the number which I said, that 1:1 ratio, that is at the subsidiary level, but at the consol level, it is less than 0.5%.

Moderator: The next question is from the line of Ishmohit Arora from SOIC LLP.

Ishmohit Arora: Sir, one question was when do we plan the CGMP4?

Radhesh Welling: CGMP4. Now, as I mentioned earlier, we are currently working on that project. And typically, when we work on these kinds of projects, we don't typically have internal deadlines, etc. So, as we feel comfortable on the merit of the investment, first we will actually present it to the Board. And upon approval, we will have the announcement made.

Ishmohit Arora: And the second question was, given the increasing competitive intensity we are seeing in agrochemicals, how do we plan to diversify out of this business segment?

Radhesh Welling: So, I think it's basically divided into 3 things. A, we continue to develop certain critical mass in the sector segments that we already are present in, including agrochemicals, using this principle of 3Ps, we strengthen our play in the value chain through partnerships, etc., and thereby we grow. Second, within these segments, there are multiple avenues of growth. Like, for example, we talked about pharma, what's happening on the innovative pharma side, etc..

And the third, and that business, though lumpy in the short term, it tends to be extremely sticky. And that itself takes a long time to develop and get to a critical mass. So, that is where we're putting in a lot of effort. And the third completely new segment, which is a related question, was asked earlier. So, there, we continue to put in a lot of effort and people on to initiatives in some of these emerging segments, which we believe, as I indicated before as well, that from FY25, we will actually start seeing, hopefully material contribution coming from these new segments.

Ishmohit Arora: And just the last question from my side. Sir, the joint venture that we had with Piramal, so are we expecting to use that platform for any CAPEXes in the future for hexafluoroacetone?

Radhesh Welling: We're currently evaluating one opportunity currently using that platform.

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

Radhesh Welling: I would like to thank everyone for joining us on the call. I hope we have been able to respond to your queries adequately. If you have any further queries, you may reach out to our Investor Relations partner, Orient Capital. Thank you very much. Have a great day and a great week ahead. Thank you. Bye-bye.

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