

August 04, 2023

BSE Limited

Phiroze Jeejeebhoy Towers,
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 held for the quarter ended June 30, 2023

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 August 01, 2023 regarding discussion on operational and financial performance for the quarter ended June 30, 2023 (Q1 of FY 2023-24) 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**

Niraj B. Mankad

President Legal and Company Secretary

Encl.: a/a



“Navin Fluorine International Limited
Q1 FY '24 Earnings Conference Call”
August 01, 2023



MANAGEMENT: **MR. RADHESH WELLING – MANAGING DIRECTOR –
NAVIN FLUORINE INTERNATIONAL LIMITED
MR. ANISH GANTRA – CHIEF FINANCIAL OFFICER –
NAVIN FLUORINE INTERNATIONAL LIMITED
INVESTOR RELATIONS PARTNER – ORIENT CAPITAL**

MODERATOR: **MR. BHAVYA SHAH – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Navin Fluorine International Limited Q1 FY '24 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bhavya Shah from Orient Capital. Thank you, and over to you, Mr. Shah.

Bhavya Shah: Thank you and welcome to the Q1 FY '24 Earnings Conference Call. Today, on this call, we have Mr. Radhesh Welling, Managing Director; and Mr. Anish Ganatra, Chief Financial Officer of Navin Fluorine International Limited.

This conference call may contain forward-looking statements about the Company, which are based on beliefs, opinions, and expectation as of today. Actual results may differ materially. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. Our detailed Safe Harbor statement is given on page number two of Investor Presentation of Company, which has been uploaded on the stock exchange and Company's website as well.

With this, now, I hand over the call to Mr. Radhesh Welling for his opening remarks. Over to you, sir.

Radhesh Welling: Thank you. Good morning and a warm welcome to all the participants. On this call today, I'm joined by Mr. Anish Ganatra, our Chief Financial Officer, and our Investor Relations partner, Orient Capital. I hope all of you got an opportunity to go through our financial results and investor presentation, which have been uploaded on the stock exchange, as well as on the Company's website.

Let me now start with key highlights for the first quarter of FY '24 followed by business segment-wise updates, and then we'll take you through financial highlights for the period under review. I'm pleased to report our quarterly revenue of INR491 crores, marking a growth of 24% on year-on-year basis. All our businesses continue to perform well. Despite some product-specific demand headwinds, overall, our resilient business model performed well in this quarter, but more importantly, is positioned well for future profitable growth.

We saw strong Y-o-Y revenue growth in specialty and CDMO business units, whereas revenue growth in HPP business unit fell short of our initial expectations primarily due to shutdowns in AHF and HFO plants. These being one-off events, we expect business to run on normalized basis from Q2 onwards. Demand for R22 in Q1 was muted. Weak summer impacted refrigerant gas sales in domestic as well as export markets. Our operating EBITDA registered growth of 15% Y-o-Y at INR114 crores. EBITDA margin stood at 23.3%. We are optimistic about higher capacity utilization in the coming quarters, and this will positively impact our operating margins. Higher depreciation and interest expenses were charged due to capitalization of the new capacities in NFASL and the associated financing. We have shown remarkable progress even during unpredictable periods, capitalizing on opportunities for expansion, executing numerous

projects parallelly, but in a very disciplined manner and expediting our overall profitable progress.

I'm pleased to inform you all that the Board of Directors held at a meeting yesterday approved capex of INR30 crores towards development of a completely new capability in Surat. We are happy to inform you all signing of a material supplies agreement with Fermion for a set of patented commercial stage molecules in our CDMO division. This initial agreement spans over three years commencing from calendar year 2025 and is expected to create new growth opportunities for us.

I now like to quickly brief you on the status of various ongoing capexes. Our AHF project for adding 40,000 metric tons of hydrofluoric acid capacity at Dahej is progressing as per schedule. We have signed basic engineering technology and equipment agreement with global leader in this space. As a reminder, this capacity allows us to address the rising demand in the pharmaceutical and agrochemical sectors as well as in the emerging areas like EV battery chemicals, solar, etc. Our agro specialty capex is progressing well so far and is scheduled for commissioning end of this calendar year. R32 plant stabilization is in progress and sales expected to start in Q2 FY '24.

I would now like to discuss operating performance of each of the business units. Our Specialty Chemicals business continued to perform extremely well. In Q1 FY '24, we reported highest-ever quarterly sales with revenue growth of 31% on a year-on-year basis, amounting to INR230 crores. Strong order flow continues to strengthen long-term growth visibility in this division.

Our HPP business demonstrated steady growth in Q1 FY '24 with revenue reaching INR169 crores, representing an 11% increase compared to the corresponding period last year. This growth was primarily driven by expanded capacities in NFASL. However, it is important to note that the overall growth was somewhat restrained due to shutdown at our plants. The plants are now back to normalcy and running at optimal capacities. Our CDMO business reported strong year-over-year revenue growth in Q1 FY '24 with a revenue of INR93 crores reflecting Y-o-Y growth of 33% as compared to the same period last year.

Also, we are pleased to share that we have identified several promising late-stage opportunities and development work is currently in progress, positioning us for continued growth in this segment. Detailed engineering work for cGMP4 is progressing well and will be taken to the Board for approval in the coming quarters.

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

Anish Ganatra:

Thank you, Radhesh. Good morning to all the participants.

I will share the highlights of our performance for quarter one FY '24, post which we'll be happy to take questions from all of you. The Company reported growth of 24% in net revenue from operations to INR491 crores against INR398 crores in Q1 FY '23. Operating EBITDA grew by about 15% year-on-year to INR114 crores as against INR99 crores in Q1 FY '23. EBITDA margin stood at 23.3% for Q1 FY '24. Operating PBT stood at INR73 crores and PAT stood at

INR62 crores, lower by 15% and 17% year-on-year, respectively, primarily due to depreciation for Dahej assets and interest charge associated with the financing thereof.

So that's all from my side. We will now open the floor for Q&A. Thank you very much.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We have the first question from the line of Sudarshan Padmanabhan from JM Financial PMS.

Sudarshan P.: Yes. So what I would like to understand is on the plant shutdown that we had taken because this is relatively a new plant. So, I mean what has basically triggered the shutdown operationally? And second is with respect to the volumes that we are supposed to supply to Honeywell, is the volumes for the full year on track, I mean, whether we can basically capitalize on higher volumes in the second, third and fourth quarter to make up for the first quarter?

Radhesh Welling: So as we had mentioned before, in this particular quarter, we had planned a plant shutdown for our HFO plant, which was basically in the month of April and hence, we also had planned a plant shutdown for our AHF plant in Surat so that it coincides with the HFO plant shutdown. Accordingly, the plant basically started by end of April beginning of May. And we were ramping up capacity, but we had some issues in the plant in June. As we have mentioned before, there are two sets of manufacturing plants there, and there are obviously a lot of ancillary plants.

So in one of the plants, we had some issue in the downstream section, the purification section, not in the main, the reactions section. Because of which we had to take a shutdown and we had to actually do some changes in the equipment, etc. Some of the columns, etc, had to be changed because of which the shutdown actually went down for a little longer than what we had expected initially. So that was the reason, and in the process, we lost almost close to four weeks of production.

To your question in terms of demand, as you know, given what's going on in the market, the demand for the year has changed quite a few times. The actual volume requests that we have received from Honeywell has changed a few times, but whatever volume we have missed out in Q1, we expect that in Q2 and Q3, we should be able to make up that volume. Just to give you some idea, the plant has now started and we'll be running to optimal capacity and we expect that the plant will do so for the following months in this quarter and whatever we produce in the month of whatever was produced in the month of July and whatever will be produced in the month of August, all of that we will be required to supply immediately, just to take care of that backlog that we saw in Q1. So overall, to your question, we don't think that this particular gap that we saw in production in Q1 because of this unplanned shutdown will have any significant negative impact on the overall volume taken by Honeywell in the year.

Sudarshan P.: And with respect to the volumes that was renegotiated, any idea what would be the quantum of change, I mean, downwards?

Radhesh Welling: No, there is no volume negotiated per se. There is a volume forecast, which they typically sent to us for the following six months and we have actually constantly seen that change. And this is not something, which is only relevant to this product and Honeywell. This is actually across the Board, we are actually seeing a lot of demand volatility. So there are times when the numbers

have gone down, there are times in fact in the month of June, the sell of the final product was extremely strong, and the numbers then got further revised a little upward. So there is a constant revision that is going on, given the overall demand uncertainty that our customers are also seeing in the market.

Sudarshan P.:

Sure. And one final question before I join back the queue is on the refrigerant gas. We are seeing again very low demand as you mentioned in the press release as well due to the summer, and even the prices have kind of trended down. Do we see things improving say, probably from the second quarter or whatever that we are seeing both in the volumes and prices probably would impact us for the full year versus what we had initially thought?

Radhesh Welling:

So, it's a little difficult for us to comment on that because as you know, R22, the business tends to be a little seasonal. Q4 and Q1, that is typically February, March, April, May tend to be the high seasons because of summer, etc Now if you actually miss out on that summer season, it's a little difficult to make up that quantum in the month of Q2 or Q3. But typically what happens is these refrigerators, these air conditioners, which are there in the market require servicing, and hence, they require gas.

We expect some of that loss in volume to actually come back from end of Q3 onwards. But we don't see that gap being bridged in the Q2 quarter but we expect that towards end of Q3, we will actually see demand uptick and the overall volume that we will sell in Q3 and Q4, we expect it to be higher than what we sold last year in the same quarters. And this is specifically related to R22 going into emissive applications.

Moderator:

The next question is from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella:

On the CDMO business, if you could please offer us an outlook for this year and next year, I believe the Fermion contract kicks in only from CY '25. So should we expect that to start meaningful contributions only from '26? And if so, how significant could it be potentially? But in the meantime, for '24 and '25, do we believe we are well placed for say 20% plus growth for the CDMO business in the meantime?

Radhesh Welling:

Yes. So the agreement that we have signed with Fermion are for multiple late-stage molecules. One of them is already commercial. And the first commercial supply and when I talk about commercial supply, I mean major quantity will be supplied from beginning of calendar year '25, but the supply has already started. So we have already supplied qualification batches for the first molecule, the product has been approved, and now they have actually placed order for slightly larger quantity, which we are required to supply by end of Q3. And also, now we've actually received request from them to forward samples for qualification for the other two molecules, which are there as a part of the agreement.

So in this year, calendar year '23 and calendar year '24, we will be supplying some quantity, but those will be limited volume, primarily meant for qualification, etc. And the actual commercial supply will start from FY '26, and some of that will actually go from our cGMP4 as that gets ready. The overall outlook for CDMO pretty much remains the same as we have provided in the past quarter. We're actually seeing pretty strong order flow. In the following quarters, we are

actually not seeing significant sales from larger repeat business. So for example, towards end of calendar year '22, beginning of '23, we had actually supplied a larger volumes for three of our customers. So the next batch will be required by them from beginning of '24 onwards.

Having said that, currently, we are actually doing a lot of first-time molecules. Now these are either Phase 1 or a lot of these are actually late-stage molecules. So we expect that the scale-up, which typically takes about five to six years as the molecule goes from Phase 1 to Phase 3 to commercial, typically, it takes longer period. In this case, it will basically take significantly shorter period because though these are first-time customers and first-time supplies, these are for late-stage molecules and hence the scale-up will happen much quicker now. So we are actually seeing a lot of good traction on late-stage opportunities that we have decided to focus on as a part of our strategy from last year onwards. So that is where we are seeing pretty good traction now.

Abhijit Akella:

And just the other question I had was with regard to the specialty chemicals business, in particular, the multi-purpose plant, has it sort of ramped up to the kind of revenue potential that you might have had in mind at the outset? Also, are the other projects within specialty chemicals now running at full? And is there any sign of demand softness from say the agrochemical sector or any other given the kind of market environment we're going through?

Radhesh Welling:

So on specialty, as you know, in Dahej, we have two new plants. There is one dedicated plant for agrochemicals, and then there is a multipurpose plant. The agrochemical plant is actually, which is a dedicated agrochemical plant is running to full capacity. The MPP is not yet running to full capacity. We expect that as we had indicated before, we expect that it will basically start getting to full capacity from year two onwards, so which is from next year onwards. Overall, on the demand side, there are a few molecules where we are seeing issue.

Primarily, there is one large molecule as I had indicated in the month of May when we met to discuss Q4 performance, I had actually talked about one large molecule, which was been supplied from Surat where the demand had actually come down almost to zero in calendar year Q1 and Q2. That is what we were seeing significant headwind because we actually supplied almost zero volume in Q1 and Q2 of calendar year '23, which is why actually, when you look at the standalone Navin Fluorine numbers, you see a gap because that molecule didn't supply from Surat.

Now, there, the good news is that we have actually received our forecast for second half of calendar year '23 and the supply has restarted, and the plant will again now start running to full capacity from Q3 onwards. So that is what is expected given the demand forecast that we have received from the customer. So there was one particular molecule where there was a significant downturn but there, from H2 onwards, we expect the volume to again come back.

This is as per the forecast that we have received from the customers as of today. These numbers are changing almost on a monthly basis. They go down, they go up. We were actually not expecting this uptick to happen so quickly. We were actually expecting it to start from only end of Q4 calendar year '23, but we have actually received that almost two quarters ahead. So as I said before also, the numbers are changing almost month-on-month basis. Sometimes they are

going down. Sometimes they are actually going up. In some of our main products, we've actually seen -- the forecast has actually been taken up by some of our customers.

Moderator: The next question is from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani: Sir, first question was on the Specialty Chemicals side. Just for this quarter, would it be possible to give some color, whether it was more of a volume story or did you also see some margin expansion? And just for going forward for FY '24. Do you still think it's going to be more of a volume story, given that some of your capacities are ramping up or do you also expect to see some of the margin tailwinds to start coming through from next couple of quarters? That was the first question.

Radhesh Welling: You are going to ask second question or do you want me to answer the first question before you go to the second?

Vivek Rajamani: Ok. I'll just ask the second question itself. Sir, you've given a lot of detail in terms of the outlook that you've mentioned. Obviously, it's very dynamic. Just wanted to get your thoughts. We've obviously been hearing that we've seen some corrections in the raw material prices, and there's, obviously, some risks that other players have been flagging that margins could compress as some of these prices come down. Obviously, you don't give a lot of sense on the demand side. If you could just speak on the margin trends as well, that would be really helpful.

Radhesh Welling: Sure. So I think on your first question on specialty, the growth that we are seeing, primarily coming from the new product introductions and the volume. It's not so much from pricing or the margins. It's primarily volume and that is what we will continue to see in the coming quarters also.

Now if you look at a lot of these new molecules that we have either introduced or are working on, a lot of them have higher margins than the molecules that we've had in our legacy portfolio. So directionally, the margins will keep expanding as we move forward. Having said that, the margins of the products that we have in our portfolio, some of them actually vary from product to product significantly.

And hence, margin also gets impacted by product mix. So for example, I earlier talked about this particular product that we were selling from Surat where H1 of calendar year '23, we did not sell anything. That product is a very high margin product. So if you actually don't have any volume of that product, it clearly impacts the margin. Now that the supply will now start of that particular product, it will positively impact the margin of the specialty business, as well as the overall business.

At an overall Company level, I think it's a very similar story. Our contribution margins in different businesses are very different. So I think I've mentioned this before as well. I'm talking about the contribution margin or a gross margin. Of course, EBITDA margins are very, very similar because some of these higher contribution margin businesses also have a higher fixed cost load, but overall, the operating margins are very similar, but then quarter-to-quarter, our overall margins change depending on which business is actually selling more and which businesses selling less. So I don't know if that helps you.

Moderator: The next question is from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: I got two questions. First on the Honeywell contract, last year, we got a 15% to 20% price hike because of significant inflation in the raw material. This year, we are probably in the exactly opposite side of it, where the prices have fallen very sharply. When is this reset of prices going to happen? That's number one. And number two, an attached question to that, is that a right understanding we had earlier that our margins in Honeywell contract is the percentage of revenue? That's the first question.

Second question is for Anish. On the operating cost, this quarter, the other expenses have dropped by INR43 crores quarter-on-quarter. What has led to such a sharp drop? I thought it's largely a fixed cost, probably some freight cost and power cost would be saving because of plant shutdown, but the drop looks quite steep there. And a related question on depreciation, what is the impact of changes that we did last year on this quarter, can you quantify that number?

Radhesh Welling: Yes. So on the Honeywell contract, we have a true-up mechanism and as per the earlier agreement, we were required to do that true-up or true-down once a year. But given the volatility in the market right now, what we are trying to do is that we try to do a true-up or a true-down on a quarterly basis. So end of quarter, we actually estimate what the cost is likely to be for the following quarter, we accordingly change the pricing, and then whatever has actually happened, whatever that delta is which typically is not significant, we adjust in the following quarter's pricing. So whatever you are currently seeing, whatever is getting reflected in the revenue is actually the true-up pricing, true-up or true-down pricing. So that is one.

Second is in terms of margin, I think it will be difficult for me to comment because there is a lot of confidentiality, this one, attached to it. It will be difficult for me to comment on how that margin piece works as far as the Honeywell contract is concerned.

Anish Ganatra: On the other expenses, you're absolutely right. There is a quarter-on-quarter drop from INR138 crores to INR95 crores. If you look at that, we can sort of analyse it into two buckets. The INR138 crores has certain one-offs. These were related to consultancy charges. I think as we have spoken to you, even in the last quarter, there's also some exceptionally high repair costs that also goes into it and there were some provisions.

Now all of that put together is about INR15 crores. So one-offs included in the INR138 crores are about INR15 crores, the balance INR28 crores is related to activities. If you look at the quarter-on-quarter activity, our CDMO numbers for last quarter were about INR180 crores. This quarter, we are talking INR70 crores. So there is an activity drop from CDMO that leads to some reduction of that cost and also the shutdowns as you rightly mentioned in our case.

So that's on the other expenses. On the depreciation, as we said last time, our guidance continues similarly, which is about INR20 crores to INR22 crores of depreciation charge per quarter. If you look at the split of the depreciation, that is about INR11.5 crores in NFIL and about INR9 crores - INR10 crores in NFASL.

Sanjesh Jain: Just one thing on the depreciation, what is the impact of the change of the life on this INR22 crores?

- Anish Ganatra:** So last time, last quarter, we did the estimate change and last quarter, we had quantified the number as INR20 crores for the quarter. Now, of course, the way that gets calculated in the financials is you look at the full year depreciation for the new method and the old method. So there is a double dip in the Q4. But if you had to get a number, that would be about INR15 crores. So last quarter, what you saw was about INR22 crores should have been the hit in FY '23.
- Moderator:** The next question is from the line of Ankur Periwal from Axis Capital.
- Ankur Periwal:** So the first question on the CDMO side. The Fermion contract, is this the same that we had discussed upon earlier, the \$16 million opportunity or is it an incremental to that?
- Radhesh Welling:** No, this is a new one. That was with a different customer.
- Ankur Periwal:** Sure. So if I got it right, so this Fermion contract is incremental, which will drive growth for us. The \$16 million is one which has already come into the numbers or it is another opportunity that will come in this calendar year?
- Radhesh Welling:** No. So \$16 million was not an agreement. It was the PO that we had actually received, that has been supplied in the last financial year but that molecule is actually doing extremely well, that is with another large biopharma company. And as I had indicated before, we are actually expecting a further scale-up of that in the calendar year '24. So you will actually see a repeat of that happening in the calendar year '24 and the volume actually will be even higher. We expect the quantum of the PO at that point in time to be even higher. We're just trying to understand how much would that be because that is also going to be the basis for our cGMP4. This particular contract is a completely different contract with a completely different customer for different molecules.
- Ankur Periwal:** And another follow-up there. Since you mentioned most of this growth is led by the new late stage molecules that we are reporting now, while the older ones are yet to pitch in, should one factor in that this number can grow at a much faster pace going ahead once the older ones also start contributing with maybe macro stabilizing?
- Radhesh Welling:** Yes. So, the distinction between old and new, when I say old, these are the molecule, see the traditionally the business our business was engaging with the customers right from clinical stage or Phase 1 stage and continue to work on those molecules as they scale up. Now, as those molecules scale up, get to Phase 3 or commercial stage, the volume increases but typically what we have seen is that there is an order that is placed by the customer. We supply that quantity to them. Then they convert it into the API formulation, etc
- And lot of times, this entire piece happens on a campaign basis and the campaign typically is run by the customers once in every two years. And that is why we see a significant chunk coming this year; then the following year, nothing; and then again the following year. So now, if you basically run a business where a lot of these engagements all typically start at Phase 1, then the business tends to be extremely lumpy.

And hence what we had decided last year was to consciously focus on lot more late-stage opportunities and position yourself as an alternate supplier for those late-stage opportunities and which is what now, we've actually started doing. So, these are late-stage opportunities but new to us. So we are just supplying them the qualification batches, etc. So to your question, the answer is absolutely because as these qualification batches get approved and the demand continues to be there for those molecules, the scale-up will be much faster than what we have seen traditionally because the entry point itself is either late stage Phase 2 or Phase 3.

Moderator: The next question is from the line of Archit Joshi from B&K Securities.

Archit Joshi: Sir, I have a few. The first one, you did mention about some sort of demand volatility that you're experiencing in some of the businesses. And now that we are hearing a lot of talk on inventory destocking, especially on the agri side and the fact that two of our plants in Dahej are dedicated towards the agrochemical sector, are you seeing some sort of weakness there?

And number two. Sir, in the HFO plant, I think we had signed a contract for seven years and the INR400 crores annual number that one would have anticipated earlier, there were some cost escalations and the revenue number seem to be a little higher because of the past, would there be any change to that number?

Radhesh Welling: Sorry, what was the number you talked about for the second question? I wasn't able to get part of your question.

Archit Joshi: Yes. So sir, it was a INR2,800 crores contract for seven years. So approximately, INR400 crores figure, that's how I calculated. But I think during the plant visit, you mentioned that because of some adjacent forays and some costs going up a little upwards of INR400 crores. What would be the outlook for this year to that account?

Radhesh Welling: Yes. So, I think to your first question, I think I have already mentioned that we have two plants. There is a dedicated agro plant in Dahej, which is running to full capacity, that has been running. In Q4, it ran full capacity; Q1, it ran trying to full capacity. We expect that Q2 also, it will run to full capacity. It's a little difficult for me to give you this one for Q3 and Q4. But right now, it is running to full capacity. MPP, we expect that the capacity utilization will be lower this year, but that is how it was planned, and we expect the capacity utilization to get to optimal level from the next year.

So basically, I'm talking about calendar year '24 onwards. Of the four molecules that we have planned in MPP, we are seeing some issues on the two molecule, but that is not really resulting into any downturn in terms of sales for us this year. Next year, when we've actually earlier expected for the volume ramp-up to happen, we believe that this destocking process would have actually got done, and we expect that the demand to be back as per our earlier expectation.

The good news is that for all the molecules, this four plus one molecule, that we mapped in these new assets in the Dahej, the end market demand continues to be very strong. So whatever volatility that we are seeing is primarily from the perspective of destocking. And hence, one point of view that we are looking at is that next year, if the demand continues to be as strong -- the end consumer demand continues to be as strong as it is today or as strong as it is this year.

And some of that destocking start reversing into restocking, what would that really mean for the demand from our intermediates because we expect that there will be a significant uptick in demand next year, at least basis on the start of the initial conversations that we've had with our customer.

On the second point, it will be difficult for me to give you an outlook for this particular year for the HFO, but overall, your understanding is absolutely right. So that has happened because of two main reasons. I mean obviously, the cost keeps having impact. On a quarter-to-quarter basis, it's different, but primarily because of two reasons, one, as you know, it's a dollar-denominated contract, and as the dollar appreciates, it has impact on the rupee revenue that we generate from the contract. And the second, there was some cost escalation, which was within the prescribed limit of 10% and there was a pass-through mechanism, which was defined in the agreement. So because of that, there is an increase in the pricing and hence the increase in the realization.

Archit Joshi:

I have two more. I'll just squeeze in quickly. Sir, one on the working capital. In FY '23, we saw some jump in our receivable and inventory days and supplementarily, that we are adding new customers. Would you allude that to the fact that newer customers are having slightly higher days in terms of credit and what would be the sustainable level of working capital days that we see going ahead?

And sir, if you can also comment on the recent resignation by one of our CEO in CDMO, what was his contribution like and how are we looking at this with respect to replacement of in the current existing hierarchy?

Radhesh Welling:

So let me take to second question first and then I will let Anish respond to your question on working capital. So you're referring to resignation of Ravi, who was the CEO of our CDMO business. As you know, he joined the Company last year. He actually decided that he wanted to do something of his own and hence he basically expressed his desire to leave to start his own entrepreneurial venture, which we respect a lot. We have identified two internal candidates for this position and we are in the final stages of deciding between these two candidates. In the next few weeks, we would decide among these two candidates. But to your question, in all likelihood, it would be an internal candidate and not an external search.

Anish Ganatra:

Archit, so on your question on working capital, I mean, compared to last year, as we've said, the numbers, if I remember correctly were about 137- 138 days of sales. And as we mentioned last time, we have already initiated actions to bring that down to more of a normal level. Of course, last year also, had the effect of one-time investment in working capital, following the commercialization of Dahej assets. Yes. so kind of looking forward, I mean, our target is to hold the working capital to between 90 to 100 days, that is our sort of intent, and we have started to make headway into that area. And you will obviously see the numbers when we report the first half of the financial September along with the working capital and cash flow. But you should expect to see it within that range as I said.

Moderator:

The next question is from the line of Anubhav Sahu from McPro Research.

Anubhav Sahu: Yes, a couple of questions. One is regarding the supply agreement with Fermion. So if I got it right, we would be supplying molecules for three products. Two late-stage and one which is already commercial. If you could talk about any indication on the size of the contract or if there is any exclusivity in the contract? And are we here dealing with the non-fluorination chemistry as far as this contract is concerned?

Radhesh Welling: Yes. So they have actually talked about supply of intermediates for multiple molecules. And as you rightly said, one of them is a commercial molecule and some others are late-stage molecules, and there are multiple molecules that had been identified in the agreement. The commercial molecule that we have already started supplying qualification batches for, etc, is a non-fluorinated molecule. So that has actually got nothing to do with fluorination.

Out of the other two, one of them will be fluorination, other one will not be a fluorination molecule again. And there is no exclusivity there. They are free to obtain from other suppliers. Currently, they are sourcing from another supplier in Europe. So we will actually be the second supplier because as I mentioned, these are all late-stage opportunities. So they have already sourced this intermediate till now from another supplier in Europe. So there is no question of exclusivity.

And the material supply agreement that typically gets signed in CDMO because it doesn't have a take or pay or it doesn't require a dedicated investment, so what typically the way it is framed is they give an indicative volume and the indicative pricing gets negotiated and agreed upon. And as per that, we believe that over the three years period, the agreement should basically give a revenue of approximately about \$40 million. I think more than the revenue per se, what it really does for us is, a, it proves our credibility now to supply molecules outside of our core fluorination value proposition.

The second is it actually gives us certain baseload and hence a certain revenue and earning visibility because one of the issues that this business has faced is that of a lumpiness. And through these late-stage opportunities and through these agreements, that is one of the points that we are trying to address. So that is where this really adds significant value that through contracts like these, we will actually bring in certain steadiness to our business. It's not going to happen from this quarter or next quarter, but we expect that from the next year onwards, we will actually start seeing a certain baseload, which will actually come every quarter.

Anubhav Sahu: And sir, secondly on the launch pipeline from the MPP, I believe we have launched three agro intermediates and fourth one is still to be launched, right?

Radhesh Welling: No, we've actually supplied all four. We supplied all four. We already have three of them already approved. The fourth is currently in the process of getting approval.

Moderator: We have the next question from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: First question is again on Honeywell. We had indicated last year that during 2023, we will be again putting up discussions with them for a new HFO facility. So any further work on this? And apart from this, whether there are any other opportunities on which we are currently discussing with Honeywell?

Radhesh Welling: Yes. So what I had mentioned was the first step would be -- there would be a kind of a debottlenecking capex, which will increase the current capacity by about 25%. So that is in advanced stage of discussion and closure. We expect that within this calendar year, we would close that. And once that happens, it will entail a small capex, which it will take us about a year to do that.

So we expect that capex to get done by end of calendar year '24, which means that we will have that additional 25% capacity available to us from beginning of calendar year '26. And then post that, we will look at possibly adding another line for the same product. Other than that, there are two other projects that we are currently in discussion with Honeywell and both of those are progressing extremely well. One of them is on HFO, another HFO, and the second one is a completely different application.

Rohit Nagraj: So that application is not a ref gas, but other than ref gas application?

Radhesh Welling: There is one HFO. I don't want to talk about the specific application for that HFO because of the confidential reason. But the other one has got nothing to do with refrigerant gas or anything. It's basically in the advance material -- it's under advance material business that we are incubating.

Rohit Nagraj: And second question is that now we have done the maintenance shutdown, what is the next shutdown that we will undertake on the Honeywell plant shutdown?

Radhesh Welling: If you had asked me this question in the month of May, I would have said that the next shutdown should be next year in around in April, but immediately a month after that unfortunately, we experienced a breakdown. So if you ask me, when is the next planned shutdown, it should happen in Q1 of FY '25. But as you know, this is a new plant, this is a new technology. So as we go, we are also learning more on this technology, et cetera. So that is not what we expect, but there could be some unforeseen issues but notwithstanding, the next plant shutdown will happen in Q1 of FY '25.

Moderator: The next question is from the line of Dheeresh Pathak from WhiteOak Capital.

Dheeresh Pathak: To the extent you can share, what new capability built up you're doing within the firm? You mentioned INR30 crores in Surat. And apart from that, any other capability build-up that you're doing in the organization?

Radhesh Welling: Yes. So, there are a number of new capabilities that we continue to work on. We actually do the piloting in those and then scale up these capabilities. This is one very important technology platform that we have been working on and that is where we are actually investing to set up this particular platform now. It will be ready by -- it will take us approximately about 15 months to 18 months to have this plant ready.

It will be ready by end of next year, calendar year '24 and this is a very unique capability. It basically strengthens and expands our existing value proposition. This specific capability or the specific investment was actually done for one particular molecule upon which we have a very strong outlook and should get converted into revenue of approximately about INR45 crores on annualized basis. But more importantly, this capability actually will position us very, very

strongly for future growth. So it will actually help us attract lot of new projects, not only in agrochemical business, but in other businesses as well, it positions us extremely strongly to get new projects moving forward.

Dheeresh Pathak: Okay. Anything else apart from this in the recent past that we've been focusing on?

Radhesh Welling: Yes. As I mentioned, there are a lot of other capabilities that we keep developing and bringing on board. Not all new capabilities require completely fresh investments. So some of these capabilities can easily be mapped within the current set of assets because of which it doesn't actually get announced. But typically, what we do is that we have identified as I've discussed earlier about our business model around three piece. So, one of the piece is that of a platform.

So there are chemistry and technology platforms that we continue to develop and typically what we do is these get developed in R&D, then they are taken to a pilot and then we either map them in our existing assets or we have to invest in completely new set of assets. So this one was the first one, which required a completely new set of assets. But we've actually developed multiple such platforms, which got mapped in our existing assets. But this is an ongoing exercise, and this is what we believe will continue to differentiate us from other players in India and globally.

Moderator: We'll take the next question from the line of Dhvaneet Savla, from DN Trading.

Dhvaneet Savla: I just got a question with regard to the interest cost in our balance sheet, I just wanted to know that what is the average cost of the debt we are paying right now? And is there any provision to prepay our debt or is it primarily going to be used to fund further capex?

And just one more point that, there has been a significant increase in depreciation. Is there any particular reason or is it just because of our new facilities, which we have brought in this quarter?

Anish Ganatra: Let me take those questions. So your question on depreciation is exactly right. It's all related to new capacities coming on stream and those are also reflected in the standalone numbers and the consol numbers. So the difference you can see relates largely to Dahej assets, yes. On the interest costs, see, our sort of philosophy on funding these assets, and of course, all of the interest costs relates to the new assets that have been commissioned in Dahej and the philosophy around funding these.

We ensure that they are taken on a term loan with sufficient space to allow for the assets to fund for those interest costs by themselves. So if you see our intent is that any new asset that we fund, we essentially ensure that the asset is self-paying on the interest and the principal components thereof. So we take some moratorium for the principal side but the interests are funded regularly. The average cost of borrowing for us is in the range of about 8.3%.

Moderator: The next question is from the line of Jason Soans from IDBI Capital.

Jason Soans: Sir, I had a limited question as per se, we're seeing a lot of weakness in the global agrochemical chain and what we've come to understand is that there is a lot of dumping from China as well, where they're driving down prices of intermediates, a category where we compete as well, probably not in the same value chain, but we do compete in there. And so basically intermediates

prices are getting driven down as well as finished goods. So I understand we have contracted volumes and our margin would be stable probably since we have contracted volumes. But I just wanted to understand from you, is that best to the absolute EBITDA or EBITDA per tonne, however, you calculate it for our intermediates in terms of contract divergence or something in light of these falling prices and this inventory destocking?

Radhesh Welling:

So, if you actually read my commentary over the last, let's say, two years, one of the things that I have constantly been saying whenever there was a question related to China plus one, I have always mentioned that China will be back, and China will be back with vengeance, hence it is extremely important to select the value chains that you want to play in very, very carefully because there are certain value chains where the SOEs are extremely strong, and those are the value chains, which are going to get impacted severely. Some of that we have already started seeing this particular year.

We have been very careful in selecting opportunities in value chains, where we don't see a direct competition from China, and hence no straight threat coming in from China. So in most of our new molecules, so molecules which are mapped in let's say Dahej or some of the new opportunities that we have been working on in agro or otherwise, we are not really seeing any immediate threat from China, at least not at this point in time.

Having said that, there are some old molecules in our portfolio, there, where we actually don't even have any long-term agreements or things like that. That is where we are actually seeing some pressure, but that as a percentage of our total portfolio, that's a very small percentage. And hence, it doesn't have any material impact on our overall margins.

Jason Soans:

And sir, my next question is, just wanted to touch upon in terms of SpecChem, you have highlighted before that the contribution is broadly 40% pharma, 40% agrochem and 20% are the emerging areas of industrial. So, what is the current proportion and how do you see this mix changing? And probably you can just give me some color on how the outlook for pharma or other emerging areas is in terms of specialty chemicals.

Radhesh Welling:

Yes. So I think just one point before I can answer that question. To your earlier question, my commentary was specifically related to specialty, yes, because the question that you were asking whether we have been impacted by some of that dumping, etc, actually holds true for HPP where I have already provided the commentary around R22. So my commentary was specific to your question, which was around specialty. So I just want to make that clear. That is it's not related to R22 or other products that we have in other business units.

As far as the breakup is concerned, you're absolutely right. Earlier, it was 40-40-20. 40% from pharma, 40% from agro and 20% from industrial. And as I have mentioned from last year onwards, we have actually started reducing our pharma business because we believe that that's not really a long-term sustainable and profitable business for us. Hence, we have consciously been reducing that particular business getting out of low-margin products and not really actively working on any new opportunities on the pharma side within the specialty.

As you might know, specialty business focuses on generic pharma business, primarily working with the Indian pharmaceutical companies as against CDMO business where we work with innovators on patented molecules. So that's a very fundamental difference between the pharma business that we target under these two business units. So, currently, a significant portion actually comes from agrochemicals and industrial, and there is a very small percentage, which comes from performance material. As we move forward, we believe that the performance material, a percentage of sales coming from performance material will go up, agrochemical will continue to remain same as an overall percentage of the business.

- Moderator:** The next question is from the line of Ranvir Singh from Nuvama.
- Ranvir Singh:** My question relates to the Honeywell contract. That \$410 million contract initially we talked about, of that, what portion we have already supplied and what remains now?
- Radhesh Welling:** No, I think as I had indicated, it's a seven-year contract. So we've actually just in the first year of supply of that particular contract. So we've just started. We're really at the starting point right now at that contract.
- Ranvir Singh:** So some portion was captured in FY '23 and in Q1 FY '24, right?
- Radhesh Welling:** That's correct.
- Ranvir Singh:** Okay. And so this may not be evenly spread across the year. So if you could just indicate that whether this is concentrated towards initial years, or the larger part will come in later years of this contract?
- Radhesh Welling:** No. So once the plant ramp-up happens, it was supposed to be almost even across the year. It has not been because of some of these challenges that we have faced in Q1 as I mentioned to you, which were primarily from the supply side. But otherwise, the supply under the contract was supposed to be even post-ramp-up of the plant.
- Ranvir Singh:** Okay. And you talked about 25% capacity expansion through debottlenecking. So, this is towards the same \$410 million contract or the contract size is also expected to increase from here?
- Radhesh Welling:** No, that will be over and above that contract because that was for the 100% capacity, and now we will actually increase that by another 25%. So that will be over and above the original agreement and which is what we are currently in negotiation with them to revise that initial contract to add on the volume, this particular 25% volume to that initial contract.
- Ranvir Singh:** And so, in FY '23, can you attribute any percentage, what percentage we have supplied so far?
- Radhesh Welling:** No. That will be very difficult for us to do.
- Moderator:** Ladies and gentlemen, this would be the last question for today, which is from the line of Nitin Agarwal from DAM Capital.

Nitin Agarwal Radhesh, on the specialty business, when you look through the next say 12 months to 18 months, the drivers of the business will be what, will it be the scale-up of the MPP contract and the new specialty chemical project, which is likely to come up in FY '25? Beyond these, what other drivers would be there for this business?

Radhesh Welling: So, I think there'll be four or five drivers. One, there are plants in Surat right now, which are not running to full capacity as I had indicated earlier. So Surat will actually ramp up almost to full capacity. So that's point number one. Point number two, the MPP that we have invested in Dahej, that we will actually ramp up the capacity utilization in that. Number three, the dedicated agro project that we have invested in, where the plant is supposed to be commissioned by end of this year.

So that will add a significant number to our revenue, this one. And fourth, there are other projects that we're working on, which don't require large new capexes, which require minor debottlenecking here and there. Some of that will happen in Surat, some of that will happen in Dahej. So these are the four growth drivers, which will more or less happen given the current capex announcement that have happened.

Over and above that, there are number of new molecules and opportunities that we are currently working on, which are in the pipeline, but those have to be then converted into specific capexes, then we'll have to go to the Board and get approval on, but these are the four sets of growth opportunities with the current set of capexes.

Nitin Agarwal: And just on the four points that you mentioned, is it fair to assume that the new multi-year contract scale-up probably would be the largest contributor of these four in terms of significance?

Radhesh Welling: Yes. I would imagine so.

Nitin Agarwal: And secondly, on the CDMO business, you mentioned that the \$16 million contract been pretty much serviced out last year and this year and this fresh sort of supplies come in next fresh PO comes in only in FY '25. So from a FY '24 perspective, will CDMO be like possibly a decline year versus last year?

Radhesh Welling: No, we hope it will not be a declining year. We are still trying to track the similar kind of a growth trajectory. As I had mentioned to you, the sales split will probably change. Last year, there was a significant percentage of our total sales, which came from, late-stage repeat business whereas here, there will be a significant percentage of the total sales will come from new business, so the split will be different, but we expect that there will be a nominal increase in -- that is what is expected, there'll be a nominal increase in this particular year, but we will see a significant uptick in the following year.

Nitin Agarwal: Right. And lastly on CDMO, in the shift in strategy you talked about, does it also imply differentiated margins versus do you make more margins in products where you work through the initial development phases versus products that you take on in the late development phases?

Radhesh Welling: No. So at contribution margin levels, they differ. But I think what you'll have to look at is that if they are at an initial stage, though the contribution margin is high, typically, the fixed costs required to service that business is also significantly high. So if we look at it at our operating margin level, they almost even out.

Nitin Agarwal: Okay. And obviously the late stage molecules come with a much higher volumes.

Radhesh Welling: That's correct.

Moderator: Thank you. As that was the last question for today, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Radhesh Welling: Thank you. So I'd like to thank everyone for taking time out and joining on the call today. 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 Relation partner, Orient Capital. Thank you very much and have a good day.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Navin Fluorine International Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.
