PADMANABH MAFATLAL GROUP

Creating value. Sharing Value.

Responsible Care®
OUR COMMITMENT TO SUSTAINABILITY

August 05, 2024

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

Dear Sir / Madam,

Sub.: Transcript of Earnings Call held for the quarter ended June 30, 2024

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 July 30, 2024 regarding discussion on operational and financial performance for the quarter ended June 30, 2024 (Q1 of FY 2024-25) 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 Bipin Mankad
Digitally signed by Niraj Bipin Mankad
Date: 2024.08.05 16:34:45 +05'30'
Niraj B. Mankad
President Legal and Company Secretary

Encl.: a/a

“Navin Fluorine International Limited Q1 FY25 Earnings Conference Call”

July 30, 2024

MANAGEMENT:	**MR. VISHAD MAFATLAL – EXECUTIVE CHAIRMAN, NAVIN FLUORINE INTERNATIONAL LIMITED** **MR. NITIN KULKARNI – MANAGING DIRECTOR, NAVIN FLUORINE INTERNATIONAL LIMITED** **MR. ANISH GANATRA – CFO, NAVIN FLUORINE INTERNATIONAL LIMITED**
MODERATOR:	**MR. BHAVYA SHAH – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Navin Fluorine International Limited Q1 FY25 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 "*" then "0" on your touch-tone 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: Welcome to the Q1 FY25 Earnings Conference Call. Today, on this call, we have with us Mr. Vishad Mafatlal – Chairman, Mr. Nitin Kulkarni – 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, opinion and expectations as of today. Actual results may differ materially. These statements are not the guarantees of the future performance and involve risks and uncertainties that are difficult to predict. A detailed safe harbor statement is given on page #2 of investor presentation of the Company which has been uploaded on the stock exchange and Company website.

With this, I now hand over the call to Mr. Vishad Mafatlal for his Opening Remarks. Over to you, sir.

Vishad Mafatlal: Ladies and gentlemen, I would like to welcome you all to Q1 FY25 Earnings Call. I am joined by our Managing Director – Nitin Kulkarni; our CFO, Anish bhai and Payal from Orient Capital, our Investor Relations Advisor.

I hope everyone got an opportunity to go through our financial results and investor presentations which have been uploaded on the stock exchange as well as our Company's website.

Before I move on to discussing key business updates, let me introduce Nitin to you all. Nitin took charge as Managing Director of our Company on June 24th. Nitin brings over three decades of rich experience across the specialty chemicals value chain. He is a highly respected leader with a proven track record of driving growth, establishing new business verticals, embedding manufacturing excellence and execution of large projects both brownfield and greenfield. He is well connected in the industry with strong and deep relationships across leading domestic and global majors. In his last role, Nitin was an Executive Director at OC Specialty for over a decade. Prior to that, he had worked with Navin Fluorine for a period of 7 years, heading BD, where he was instrumental in establishing the specialty chemical business. He also worked with Aditya Birla Group Chemicals Business including Tanfac and HUL (Lakme). We welcome Nitin to Navin, and we are sure that the Company will scale new heights under his leadership.

Moving on to discussion on business:

Our focus remains on achieving operational excellence, ensuring financial robustness, and executing our plans with discipline. We continue to make progress in diversifying our revenue streams, strengthening our partnerships, and building scalable platforms. These initiatives are foundational to our long-term sustainable growth and profitability. In the last quarter, despite adverse market conditions, we recorded a robust 7% year-on-year topline growth. Revenue growth was underpinned by stable orchid operations and strong sales of our new R32 capacity. Agro demand continued to witness near-term headwinds with global majors rationalizing inventory levels, impacting our specialty business.

In CDMO, our strategy to increase share of late commercial molecules is bearing results with increasing success with big pharma customers. We continue to believe second half of Navin Fluorine will be better than the first half with improving margin trajectory.

Let me also give you a quick update on the capacity expansion:

Over the past year, we have launched several expansion projects, and I am happy to report that all of them are advancing smoothly. Our agro-specialty project with a CAPEX of Rs. 540 crores is targeted to commence commercial production by September. As mentioned, we have secured firm orders for the dedicated capacity for Financial Year 2025. Our AHF project involving an outlay of Rs. 450 crores and enhancing our HF capacity by 40,000 metric tonnes at Dahej is on track to commence by end Financial Year2025, early Financial Year 2026. This expansion will support the growing demand from emerging and new sectors. Phase 1 of the approved Rs. 288 crores cGMP-4 CAPEX is underway, progressing to plan for commissioning by end of Calendar Year 2025. Additional R32 CAPEX of Rs. 84 crores to boost capacity by 4,500 tonnes is on track for completion by February 2025. Given the high operating level of our existing R32 capacity and with a solid pipeline of inquiries, additional capacities will be ramped up at a faster pace upon commissioning.

The Rs. 30 crores CAPEX for development of new capability in Surat, which is progressing as planned to be commissioned during quarter 2 Financial Year 2025. Our existing partnerships with key global players continue to deepen while we continue to make progress on expanding to newer partnerships, both in the product and service play.

Before I end, let me once again assure you our long-term view of our businesses remain intact, and we are well positioned to secure growth opportunities.

I would now like to request Nitin to discuss the Operational Highlights of the business.

Nitin Kulkarni: Thank you, Vishad Bhai. Good evening, everyone. And thank you for joining our call at this hour.

It is still early days for me at Navin, though my initial impressions are extremely encouraging. And I believe that we have done reasonably well in this quarter in what is otherwise a challenging industry environment. While I continue to connect with employees, customers and other key stakeholders, I am also clear that in the near term and particularly in coming quarters, our key priority will be to maximize capacity utilization, improve productivity and drive efficiencies while commissioning projects and developing growth opportunities.

Let me start my discussions with segment-by-segment performance update:

So, to begin with the HPP vertical, the revenue for this vertical increased from Rs. 169 crores in Q1 FY24 to Rs. 281 crores in Q1 FY25 which is 66% YoY growth. Good performance was a result of stable HFO operations and strong sales of new R32 capacity. We are seeing healthy domestic and export order book for R32. The pricing for this product is showing an uptick in the domestic market and this reaffirms our decision to double our R32 capacity which will be operational by February 2025.

Compared to Q4 FY24:

R22 prices are also showing signs of improvement in the export market. We have also seen an increase in volumes in the last quarter at our HFO plant in Dahej, reflecting both in the quarterly sales as well as in margins. Our HS, R22, R32 and HFO plants have operated at optimal capacity for another consecutive quarter.

As far as Spec Chem, our specialty vertical is concerned, the revenue for this vertical decreased from Rs. 230 crore in Q1 FY24 to Rs. 160 crore in Q1 FY25. This is 30% YoY decline. As anticipated, specialty chemical vertical got impacted due to inventory level rationalization by global agro major reflecting in deferred purchasing decisions. We continue to maintain that demand scenarios should start to show recovery in second half of FY25. Irrespective of such market conditions, during this quarter, we have continued to strengthen our product pipeline in specialty chemical vertical by leveraging on our newly established R&D center at Surat. We have added a new molecule at Surat for global agro major with a peak annual revenue potential around Rs. 40 to Rs. 50 crore over a period of next three years. Complementing to this, we have also signed the supply agreement for a patented agro product catering to the Japanese market with an incremental annual revenue potential of Rs. 20 to Rs. 30 crores from Calendar Year 2025.

In the coming quarter, our key priority remains to safely commission the new specialty CAPEX, which is already in place. As far as CDMO vertical is concerned, the revenue of this vertical decreased from Rs. 92 crore in Q1 FY24 to Rs. 81 crore in Q1 FY25. There is a decline of 13% YoY in this particular segment. As we have mentioned in the past, this business cannot be analyzed on a quarterly basis. And our focus here is to improve order visibility, increased share of late stage and commercial molecules while deepening our relationships with big pharma, biotech customers and we are progressing well in this direction. In the last quarter, drug application of European big pharma players expanded in one of the therapeutic area, leading to optimism on the initial peak annual revenue projections for the end run. This is clearly a positive development for us.

Apart from these three verticals, our R&D efforts on the performance advance material business continues to make progress, including co-development with leading global performance chemical majors catering to sunrise sectors like semiconductors.

I think with this note, now I would like to hand over to Anish to brief you on financial performance in the Q1 quarter. Over to you, Anish.

Anish Ganatra: Thank you, Nitin. Good evening all and I welcome you all once again on the earnings call.

Moving on to the Financial Performance of the Company in Q1 FY25:

We reported revenues of approximately Rs. 524 crores in Q1 FY25, an increase of 7% year-on-year basis, largely led by an increase in revenue from our HPP division. Operating EBITDA for Q1 FY25 was approximately Rs. 100 crores, a drop of 12%. On a year-on-year basis, this reflects the exceptional ref gas pricing witnessed in Q1 last year. Lower specialty sales has also some impact from the lower CDMO mix in the overall revenue basket. Operating EBITDA margins stood at 19.2% as against 23.3% in Q1 of FY24. We continued our trajectory on improving the margins from 15% in Q3 FY24 to 18.3% in Q4 FY24 to 19.2% in the current quarter, and remain on track to improve it gradually during the year.

Profit after tax in Q1 FY25 stood at Rs. 51.2 crores, as against Rs. 61.5 crores in Q1 FY24, a drop of 17%. This reflects higher depreciation costs associated with commissioning of new CAPEXs. We continue to ensure a tight financial framework while it's driving growth. In Q1 FY25, the business generated operating cash flow delivery of Rs. 107 crores, aided by a continuous effort on driving working capital down. Our net debt to equity ratio at the end of June 24 stands at 0.38x, reflecting the strength of our balance sheet. That's all from my side. We can now open the lines for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Sudarshan Padmanabhan from JM Financials. Please go ahead.

Sudarshan Padmanabhan: My question is to dwell a little deeper on your earlier commentaries on the agrochemical environment. So, I mean, even if you are looking at the commentary by other players like (Inaudible), it looks like the scenario continues to remain weak, especially the prices have been coming down. While it is heartening to see that we have been able to get products from Japanese customer and other products in place and going ahead with our Dahej CAPEX. From your investment and return on capital perspective, one is with the prices going to the probably the worst levels that we've seen in decades. Is this impacting your ROCE in terms of what you would have initially thought of versus what you are currently negotiating in terms of margins and

ROCEs and prices? And with respect to this environment, one, how worst do you think it can further go or you can do the bottom? How are we tackling it in terms of our strategy, how are we looking at us doing relatively better in this environment**?**

Anish Ganatra: Thanks Sudarshan, you have asked a couple of questions, so let me try and take them one by one. I mean, the first thing on the agrochemical sector itself, again, as you rightly pointed out, that the overall market is reflecting the industry scenario. And this is really a reflection of a couple of things happening here. Obviously, the higher for longer interest rates are affecting, how much people hold as inventory, and everybody is trying to rationalize the inventory levels. Purchasing behaviors are also changing. Having said all of that, the fundamentals at the agrochemical level remain very, very strong in the crop protection business. Every farmer and every end user is ultimately very keen to increase their yield per acre and protect their yield per acre. So, we don't see any fundamental shift in the industry dynamics. We see this more as the market stabilizing as it finishes off the de-stocking levels, establishing new inventory levels, and expect that the demand will start to gradually recover in the second half of the year. So, that's the first question. Your point about the investment and return on capital is actually linked to that. So, while we see these near-term headwinds, we see the absolute EBIT numbers or EBITDA numbers coming down (in line with turnover). But obviously, we are trying to ensure, and we have shown that, that our EBITDA percentage margin is improving quarter-on-quarter, even in this environment. And we will continue with that journey with the intent that ultimately the EBIT will start to reflect a better ROCE that we had originally envisaged. And obviously as the market recovers, you will start to see the ROCE picture that we originally envisaged on the projects. You had one more question on worse bottom. Can you please repeat that for me?

Sudarshan Padmanabhan: Yes, so what I'm trying to understand is today when you are looking at the product called Glufosinate, the prices have come down so sharply that hardly seen the scenario where the prices, I mean, nobody is making money or roughly the largest people are making money. Most have been integrated. But it does not make sense to manufacture certain molecules and then the prices are likely to kind of reverse. I mean, I'm just trying to figure out whether this is the right one?

Anish Ganatra: Yes, see, I mean, again, you have got to appreciate our portfolio on the agrochem side. A large part of our portfolio is on the innovator side, and to some extent, therefore, we remain insulated from the onslaught of the generics, okay Now, again within that context, one has to remember that we continuously work with our customers to look at new ways and new routes, new chemistries to produce the same outcome more efficiently, more effectively, and thereby help them remain competitive and also protect our EBIT margins. That's just the dynamic nature of the business and that will continue frankly. The environment that we are in, it's obviously made it more imperative, and we continue to work with our customers on that front.

Nitin Kulkarni: Yes, Nitin here. So, basically just to add on what Anish just brief you, if you really look at our customer base in agro space, then these are the top five global innovative companies and the Japanese organizations. And most of the business relationships which we have with them is based on the long-term supply contracts where we bind each other with respect to the cost structure based on our understanding and mutual agreements. And so, what is happening though the Chinese competition is really going very aggressive in the price reduction. But at the same time these global majors wants to keep the alternate supply chain on where they consider Navin in the fluorochemical as one of the partner. So, the pricing structure under which we have entered into understanding with them, it is not going to hit our bottomline and it will reflect the same numbers when it comes to EBITDA which are happening currently at Q1 or Q2 level which we are projecting.

Sudarshan Padmanabhan: One is on the biotech side, fundamentally things have improved. And there are a fair amount of developments happening on the innovator side as well as on the patented side where the large diabetes drugs are going off patent and obesity drugs are going off patent. So, on both the sides, I mean, are we seeing any kind of opportunity with the innovators where we can participate in some of these large initiatives?

Anish Ganatra: So, we are working with innovators and the molecules that we are working on, they are all late stage and commercial molecules. So, they are not in the realm of going off patent or anything like that. I mean, as we've said on the slides, you know, that effectively, our work at the moment and just to give some example here, some color here, right, that we're talking of how our efforts on securing more business is becoming more widespread. The work and the contract we've got with the UK major pharma, we have actually progressed that further from development to scale up now order being received. Similarly, on the Europe major, a pre-validation has been completed. Usually, this takes about 6 months before you get into the next stage of development or the validation, which again we expect to see ourselves securing that order. Similarly, in the US major pharma example that we've quoted there, we've completed the development work and a scale-up order has been received. The idea of showing this is showing the pipeline, showing the breadth of our business development efforts that is going on. And also, our eventual target would be to end up with having one more MSA or a couple more MSA over the years to start showing that growth. But I agree with you that if you start looking at the next 2-3 years, this is a very exciting opportunity for us in terms of growth.

Moderator: Thank you. We have our next question from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: First question is on the overall industry and industry growth construct. So, as of now, we are talking about the destocking phenomenon, which is more of a supply side issue. Are we seeing any challenge on the end demand side looking at sharp fall that we have seen in global crop prices or adverse weather conditions? So, that is the first question.

Anish Ganatra: I mean, see fundamentally we have to understand that what drives the demand in the Agchem sector. Ultimately, we are catering to the crop protection business. Crop protection for an end user is directly proportional to their outcomes on yield per acre. Agriculture demand is growing as everybody knows that. The crop protection need will continue to grow. So, fundamentally at a construct level, nothing is changing here. This is a phenomenon that we are going through. We are seeing how inventory levels were stocked up following COVID. Interest rates were high, so, people are looking to bring the inventories down. It is the same story playing out. And as things play out, the weather is playing its part in the game with changing crop patterns etc. So, what's happening out there is farmers are now actually looking to stock up things closer to the time of application as opposed to buying it ahead of a season, and all this starts playing its downstream effects, including deferred purchasing decisions, etc. So, while it's a temporary thing, and as we had already anticipated, if you refer to our discussions even in the last call, we had said that FY 25 is going to be a story of two halves, first and second, right? The first half, we'd always said that Agchem delivery from our discussions with our customers looks to start recovering in the second half and that too in a gradual fashion. So, I think it's playing out as anticipated to be honest.

Keyur Pandya: Okay, noted. Second question is on the Rs. 540 crores CAPEX that we are commissioning in September '24. If you can just throw more light on the product and is it catering to the end product is patented or it is off-patented, and any of these new projects, are they impacted by over supply from China and there's more competitive prices being asked from your customers. So, does the economics change for the new project?

Anish Ganatra: So, the way this is constructed Keyur is that when we get into these arrangements, we ensure that the commercial arrangement protects our minimum sort of offtake as also our economics. And that is the fundamental way how these contracts are constructed. Now to answer your point, that particular molecule is actually a requirement for at least four large majors, not just one. And it goes into multiple products, some generics and some patented as well. So, it's a combination of everything. Like I have said before, the pressure from Chinese generics means that we will have to work closer with our customers in giving them value and that is an ongoing conversation and that's an ongoing business as usual thing to be honest. No business can sit here and take a pricing call for the next 7 years and hold that constant. You will have to constantly work with your partners and find different ways, different R&D and that's what we bring on the table. One of our thinking behind setting up a R&D center in Surat at a significant cost and setting it up as a world-class unit was also to ensure that one, we continue to build up pipelines, which we are doing, as also work with these customers on different synthesis, different routes to deliver greater value while also delivering value to our bottomline.

Keyur Pandya: Sure. Just one last bookkeeping question. The interest cost that we have seen Q-on-Q has seen a fall of Rs. 2 crores or Rs. 3 crores. I mean, just mathematically looking at increased gross borrowing, interest cost probably should have gone up. So, is there any abnormality or we should continue with this kind of quarterly run rate of interest cost? Thank you and all the best.

Anish Ganatra: So, again, so you are right, the interest cost has come down Q-on-Q and year-on-year, certainly. I mean, that's partly because of the various efforts we've taken. So, just to give you an example, as our cash position improves with greater focus on working capital, we're also borrowing less on an average on the working capital. So, that helps you drive some savings on the interest cost. Simultaneously, we also are working with our lenders to reduce the spread rate. So, some of those also start featuring there because we are optimizing. As we continue to strengthen our balance sheet, we believe we can command better spread rates and that's also playing out over there. The third thing you see is that, you have got to remember that over the years, since last June, we've also funded a significant portion through inter-Company borrowings, which do get interest paid, but then they get offset when you look at the consolidated numbers because it's from one entity to another entity. And so there are several factors here to answer your question on run rate. Obviously as the new agro chem, agrofluoro specialty plant comes on stream, the interest associated with those borrowings will start to see themselves future in the P&L. Yes, so you should factor those kinds of things as we progress. But otherwise on where we are today, this is the run rate really.

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

Chetan Thacker: Sir, just one question on the Spec Chem business in particular. So, last year we had anyways witnessed fair degree of erosion on the base business, which was there in FY23 and new products had contributed to FY24 revenue. Going in that line for FY25, what explains this dip in the first quarter and how should we see that? The expectation was at some stage the base business also comes back and new products also start to contribute. How should we look at the Spec chem business in FY25 and particular in 26?

Anish Ganatra: That is a good question Chetan. I mean if you look at what we are doing, once again I'm going to bring back to the R&D and the molecules we are introducing. If you look at the two molecules that we've talked about, one is the agro molecules being added in Surat with the annual revenue potential of Rs. 40 or Rs. 50 crore that Nitin talked about that's coming in Surat. The CAPEX of Rs. 30 crore to a development of new capability again is coming in Surat and that's going to be commissioned and will be coming in this quarter itself, Q2 only. And again that will start to show incrementally revenue from the following quarter onwards. So, while we are seeing that Surat assets are the assets in the base business, we continue to look at new molecules to replenish that. And obviously, between Dahej and Surat, we optimize our MPP to make sure that depending on where a molecule can be made more efficiently at the scale required, given that Dahej is a new asset, that molecule gets delivered to Dahej. And what we also then do is make sure that our utilization in Surat is continued with some of the new molecules that we develop. That's an ongoing journey. I mean, we don't look at this as NFIL and NFASL, just to clarify. It is a consolidated asset that we optimize across both locations.

Chetan Thacker: Understood. And just to get a sense we do not expect the base business to come back in the meaningful manner in FY25, that would be a fair assessment given what you are hearing from your customers at this point of time?

Anish Ganatra: So, I think what you should see, and I'll probably say what I have said before, is that we should start to see some uptick in demand at the end of Q2, which again, we can probably give you an update at that point in time. But obviously as that demand upticks, the uptick will go both in the base and the new assets also being commissioned. But to answer your point over there, in a meaningful sense, we should start to see the base grow also more in the next year onwards. That's the way I would hold it.

Moderator: Thank you. We have our next question from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: I got first question on the NFASL side, which is console minus standalone. The revenues there have declined 28% quarter-on-quarter, while we have said that HFO production has optimized. What explains this sharp drop in sequential while the HFO which is the larger CAPEX among the three performing well and also request to share the capacity utilization in the MPP plant as well as dedicated agro plant. That's my first question?

Anish Ganatra: Hi, Sanjesh. So, good evening. See NFASL, as you rightly said, we're seeing HFO at optimal performance. The decline you see is really the effects of the Agchem conditions that we talked about. Again, over there, one has to remember that both within the MPP, we have contracts which are take or pay and committed contracts. And also in the dedicated plant, there's a take or pay contract. So, some of those orders have come in this quarter. And to the extent those contracts relate to a delivery in a calendar year. So, some of those will be deferred in the next quarter. So, that's the way I would look at it. Utilization, again, to your point, I have mentioned this in the last sessions, Sanjesh. We should look at utilization more from a point of view of peak revenues achieved over a whole year rather than one quarter to another quarter because in this environment, purchasing decisions are getting deferred to the point of, as we said, if the end user is talking of looking at deferring decisions closer to application, the entire channel inventory is also looking to defer decisions and minimize and optimize their inventory area. So, if we look at the full year position, I think we would still be at similar levels that we talked in the last call, which would be for MPP, I think this year you would see something like 70% to 80% utilization, Freesia you would see probably 80% utilization as well, as we talked last based on what we have over site of our projections and the order book, yes?

Sanjesh Jain: Got it. That's fairly clear. An associate question there again is gross profit margin. Revenue, I can understand. As you said, there is a pushback. There is also a 400 basis point gross profit margin decline on a standalone minus consolidated. Is that the change in the product mix is also having an impact on the margins?

Anish Ganatra: So, the gross margin and you are saying standalone minus NFASL. So, you are looking at NFIL, is it? And you are comparing the drop versus what?

Sanjesh Jain: Last quarter.

Anish Ganatra: So, again on the last quarter, when you look at this, on the gross profit level in the last quarter, see some of the things we will find will be related to both. So, if I look at the NFIL, basically ref business and the Agchem business in the baseline, right, and CDMO business. CDMO, revenues are lower. So, you will see some of that getting played out on a year-on-year basis. And also, from a point of view of, if you compare year-on-year, I think you will see the stark differences because Q1 of last year, obviously had a huge amount of uptick from the ref gas price environment, right? If you look on the consolidated level, you will find that compared to the last quarter, we are actually having a higher margin gross profit.

Sanjesh Jain: That's all because of the standalone. We had a higher contribution of domestic ref gas as well as the CDMO. But when I deduct it from consolidated minus standalone, what I get is NFIL, which is advanced science, NFASL. There is a drop of 400 basis point in the margin, which is in our subsidiary?

Anish Ganatra: There you will see because of the deferral of orders in the Agchem, right, because HFO is doing pretty well. So, there's only two verticals over there. That would be obvious. That is linked to what we just said, Sanjesh, that the purchasing behaviors are today what we see that customers are deferring purchasing to more closer to applications. So, that we see play out.

Sanjesh Jain : But we haven't changed any pricing whether it is HFO or Agchem or in the MPP, we haven't made any changes to the pricing.

Anish Ganatra: No, see in HFO, our gross profit is pretty much (protected with) pass through, right? If we have a certain cost increase, it gets passed through and in the Agchem again, we haven't changed prices in that sense. So, I don't see that as the reason.

Sanjesh Jain: That is not the reason. That's fairly clear. Thanks for all the answers and best of luck for the coming quarters.

Moderator: Thank you. We have our next question from the line of Madhav from Fidelity. Please go ahead.

Madhav: First question is the specialty chemical business. The decline that we've seen, is it entirely attributable to inventory restocking or have we seen any wallet share loss with our customers given Chinese are more aggressive in the market or any price erosion in any of our key products in specialty chemicals?

Anish Ganatra: So, a large part of the impact in the Spec chem is on volume side. Some amount you will see that on the pricing side while we've not sort of, as I have said, from us when we look with the customer, we look more at our margins. And if we are able to protect our margins through different synthesis and routes, we do that. So, some of that also is being played out.

Madhav: I was asking that for our key products, which we are supplying to our customers, has there been any change in wallet share? Like have they shifted sourcing to China because they are like sort of driving down the price? So, have you seen any loss of wallet share?

Anish Ganatra: No, not for the key customers, like I said, because our philosophy has largely been contracting and holding with firm arrangements, we don't see that shift. We see more deferral of buying decisions from one quarter to the next.

Madhav: And the second question was on the R32 capacity which came in the 5000 tonnes, was that running at peak utilization in Q1? So, if I just do a maths, like 1250 tonnes is peak capacity is what we run at or it runs differently based on the season?

Anish Ganatra: No, R32 is more than the capacity. So, we've had a very solid and strong response in the market on R32. It's ramped up to what you can, it's juiced out.

Madhav: Just last part if you could remind me like when did we start producing the new R32s?

Anish Ganatra: This was in July last year. That's when we started. Of course it took a couple of months to ramp up, but that's when we started.

Moderator: Thank you. We have our next question from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Welcome to Mr. Kulkarni and all the best. So, just two from my side. Anish Bhai, just one on the Rs. 540 crore Agchem plant which is about to get commissioned. So, just sort of wondering what sort of capacity utilization we could expect maybe for fiscal 25 this current year and then how much for next year from that plant. And number two, what would be incremental depreciation and finance cost attributable to that plant B, I guess it will start hitting the financials from 2Q onwards or will it be 3Q onwards, please?

Anish Ganatra: So, on the first question about the 540 crore, the utilization for this year etc., as we've said before, Abhijit, the firm purchase order from customer for this year's capacity is already with us. So, that will start in September and then slowly ramp up to the end of the year, right? That's what we are looking at. And our endeavor is to meet the firm customer order that we already have in place for that. The strategy around that plant, as you know, half of it is dedicated and half of it was own account. Our approach for this year was always to meet the customer demand and carry through some qualifying campaigns so that going into next year we have those orders. Additionally, as I have also said before, that at the customer's cost, we are also upgrading the flexibility of that plant to cater to additional molecule. On the second question around depreciation and interest, so obviously when it starts in September, we will start taking both the depreciation charge and the interest into the P&L. Interest, I would roughly take as about 8%, which is what we would look at in terms of what would go into the P&L. And depreciation over 20 years, roughly. Again, we'll look at the that at the time when we capitalize, but that's the typical charge we will take on.

Abhijit Akella: Sorry, Anish Bhai, I missed, you said 10 years, is it?

Anish Ganatra: 20.

Abhijit Akella: And the 8% will be on the entire CAPEX amount of Rs. 540 crores?

Anish Ganatra: Yes, finance cost will come in. And again, of course, it will come in only for a month or as long as the plant is commissioned during this period. And then on a quarterly basis from the following quarter, the whole thing will hit the P&L.

Abhijit Akella: And we have orders in hand for the 50% that is the dedicated portion. So, that is what we should expect in run at full utilization this year?

Anish Ganatra: Yes. Because if you look at it, if the plant comes in September, then from September to March, the full plant is only available for 50% of the whole year. So, so it's actually the full capacity is what we actually have the orders for.

Abhijit Akella: So, the entire 100% of the plant is sold out as of now?

Anish Ganatra: If you think of this year, so if you remember, half of that capacity was dedicated and half was to our own account. Now given this. we would always have to run qualification campaigns. So, our original base case plan was that for the first year, we will run this plant to meet the dedicated capacity, which is exactly what will happen, which is half, right? So, the plants aren't divided. It's not like I will run only half a plant to meet the demand, the capacity is divided. If the whole plant is running and I have orders for that capacity, in six months, I have my intent and endeavor will be to meet that order fully. Additionally, I would also want to do a couple of metric tonnes, 100 metric tonnes or so, to actually do qualification rounds so that my order book for the following year gets secured.

Abhijit Akella: Just one other thing was on the hydrogen fluoride plant that's going to come up by end of the year, the AHF plant. Approximately how much would we expect to consume captively versus sell in the merchant market? Thank you.

Anish Ganatra: So, the AHF plant is double our current capacity in Surat as you know. So, combined, we will have, I mean, again, I have to probably take you a little bit back here because when our sort of HFO plants started in Dahej and we started to utilize more HF captively, we actually stood out of the captive market for some time because we didn't have HF. Since then, not only HFO is there, but we've now got two R32 plants. With the result that today, we are actually waiting, we are short of HF in some sense, right because as soon as our R32 plant comes in, again, we are going to need more HF. So, a lot of the HF capacity that's coming on board will start to get utilized internally. Originally, we would look at meeting the market demand to about so I'm just saying this because this is what our peak merchant sales were at one point in time, about 7000-8,000 metric tonnes. So, that's where we would go with the merchant sales. And then of course, as Nitin has also alluded in his speech about the work that's ongoing for the semicon side and the advanced materials, more downstream applications of that HF will start coming through. But that will take some time to mature. So, again, you do an HF plant in this business to stay in business.

Moderator: Thank you. We have our next question from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: First question on the Spec chem side. So, the new project that we have announced, Japan based, the customer, Rs. 20- Rs. 30 crores is incremental. The Rs. 40-Rs. 50 crore revenue that we were talking of on the agro side, is it also incremental or is it a part of the earlier MPP that we had commissioned?

Nitin Kulkarni No, this is incremental.

Ankur Periwal: Sure. And how about the molecules that we were commissioning on the Agchem side? If I recollect, there were 4 agro and 1 pharma. Are all of them commissioned now or what is the status?

Anish Ganatra: No, so these molecules, if you are referring to the pipeline, see our intent is always to do about 4 to 5 molecules each year. And roughly, historically, we've said it will be three to four in agro and one in pharma. But that doesn't mean that's how it plays out, right? As those molecules get done, those campaigns get delivered. And then again it's a campaign nature. You might run a campaign this year, and something may come tomorrow. But the idea is to continuously provide the pipeline for your MPP plants to be utilized fully. And then, if obviously it goes beyond the MPP side, the conversation on dedicated starts, yes.

Nitin Kulkarni: So, if you go through our presentation in the specialty chemical commentary, you will find the various initiatives and the incremental revenue which we are going to get with these three molecules.

Ankur Periwal: Sure. Anish bhai, my question was more specific to the MPP that we had done, Rs. 235 crore CAPEX wherein we were doing four agro and one pharma, we had deferred one pharma earlier. So, has that product come back now or is there any visibility on that?

Anish Ganatra: You are talking of the Dahej MPP plant, that has already commissioned. So, there is Dahej MPP, we are currently doing, I think, about 4 to 5 molecules over there. And with those molecules, some of them like the one that we talked here, the Japanese market will actually be done from Dahej. So, that Rs. 20 to Rs. 30 crore will come into Dahej. So, those agro molecules will come there. I don't think there is a pharma molecule there, to be honest. I don't know where that has come up, but I don't think there is a pharma molecule there.

Ankur Periwal: Okay, fair enough. And just lastly, on the HPP side, you did mention that R32 has been running probably ahead of capacity. Will be fair to say that from a volume perspective, both HPP and R32 would have hit the peak give and take in this quarter, Q1?

Anish Ganatra: I think from a capacity side, true. From a pricing side, not yet. And I think what we are seeing, as we said, but pricing side, we are seeing signs of recovery. And one has to remember that R22, with the cut coming in, is expected to continue to see price rises in the export market. So, that's going to become better. R32 is already seeing price rises, even Q-on-Q. And we see that market firming up as well. Additionally, during the quarter itself, we've had a very strong response from even the US and Europe on our R32 demand. And those demands are coming in at a price equivalent or better realization than India. So, despite what one talks about the dumping and all that.

Moderator: Thank you. We have our next question from the line of Surya Narayan from Phillip Capital India. Please go ahead.

Surya Narayan: My first question is on the CDMO business. In the recent quarter that we have seen, even domestic supply is also the kind of key contributing. So, what is the nature of this domestic CDMO business?

Anish Ganatra: Sudhir Narayan, so thanks for the question. I mean, again, if you look at, the typical process of us getting registered with a large player takes time, right? And with the European CDMO, all our molecules under that MSA are likely to be registered. One is already been done. I think two more are expected later in the year. So, until those registrations are completed, we are actually supplying that molecule to a domestic customer at the behest of the global major. It is part of the supply agreement. But that is only till our registration is completed, and then it moves on direct to export. So, it's a temporary thing that you see there.

Surya Narayan: My second question was about this Rs. 540 crore project, which is going to be commissioned soon. Here, you have indicated that you have firm orders, obviously. But given the kind of situation, that was the understanding since some time. But the market is not progressing the way it was expected because on account of let's say inventory rationalization continued and the Chinese aggression and all that. So, given that, are we sure about the offtake that we will be seeing for the firm order that is there, sir?

Anish Ganatra: Yes, indeed. It's a firm non-cancellable order from a global major. And again, it's a relationship we have, we closely work with, Nitin talks to them regularly. So, does Vishad Bhai and there is absolutely full commitment behind that order.

Nitin Kulkarni: See, this is not a single product relationship with this global act player. There is a basket of products, which is more than 4 or 5 products we offer to them under certain agreements and commitments. So, already this is a matured relationship, and this particular project is part of this relationship to have the robust supply chain. So, all the understanding and deliverables are intact and there is no change in any, I will say, conditions or deliverables than what we have already agreed to. So, everything is well in place.

Surya Narayan: Just last one, sir. One clarification about the pricing trend for the let's say HFO, whether there is any dent or any correction that you are witnessing and the same would be the question about even for CDMO, have you seen any kind of price erosion kind of a trend for your existing products?

Nitin Kulkarni: No, as far as HFO is concerned, we have the pass-through understanding with the customer.

Anish Ganatra: So, our margins are protected completely. There is no sort of price conversation over there. On the CDMO front, again, if you look at the scale of these molecules, when you work with late-stage commercial and any of these molecules that are potentially blockbusters, the end product is more than billions of dollars, right? And the intermediate cost is a very small fraction of it. It's a service industry rather than a cost driven industry. You have got to make sure that you take the product, run the chemistry and provide it in time. That's the main part of the business.

Nitin Kulkarni: So, the quality and the on-time delivery, that is the key rather than looking at some commercial benefits here and there.

Moderator: Thank you. We have our next question from the line of Vivek Rajamani from Morgan Stanley. Please go ahead.

Vivek Rajamani: I have a question on the Spec chem side, but I think you have answered that a lot of details. So, just one question on the CDMO. I know it is bit tough to kind of give a number here, but given the extent of pipeline that you have, would it be possible to give a simplistic guide path in terms of how we should think about F25 versus F24 and maybe F26 versus F25?

Anish Ganatra: So, F25 will definitely be better than F24. There is no sort of, as the quarters go past and as the order book visibility improves, our confidence on that is increasing. So, there's no doubt about that. FY26 rather than say that, I would probably give you an indication that if all of this plays out in the way we are thinking, FY27, the 100 million aspirations should be with us. We should be there.

Vivek Rajamani: So, FY27 is where you think you will hit your 100 million aspiration, correct?

Anish Ganatra: Correct. And there's a logic, right, that the extra capacity that we are putting on is coming on stream at the end of calendar year 25. That itself is coming in FY26. So, a year from there is what we are saying.

Nitin Kulkarni: And that is quite sizable on capacity we are putting in.

Moderator: Thank you. We have our next question from the line of Archit Joshi from B&K Securities. Please go ahead.

Archit Joshi: One question on the Rs. 540 crore CAPEX, we had a Rs. 600 crore sales guidance that we ventured a few quarters ago given the deterioration in prices that we have seen over the last few quarters would that number still stay and also if you can give a margin guidance as to what we can expect that to be. Thank you.

Anish Ganatra: So, the Rs. 540 crore CAPEX will come on stream in September which will be FY25, and peak revenues are still being targeted in 2 years. So, we are still holding the FY27 for peak revenues and I think we have said 1.1 or something like that on the peak revenues. That continues to be the case as we stand now. Our intent and endeavor is always to make sure that the return, which is the EBITDA margin out of the project starts to deliver where we think it is. And in terms of guidance on that, I think again, yes, see one way to look at it is we've always been guiding an overall number that we see ourselves in at 24% to 25% EBITDA, right? So, that's what one would hold on. But remember, these are all snapshot numbers that I'm telling you. They're true as I tell you. As things move, things will move. There is a business dynamism around lot of these.

Archit Joshi: So, the price deterioration has not impacted that peak number that we were targeting. That was the only limited clarification I was thinking?

Anish Ganatra: No like I said, we are also adding in the flexibility for a different molecule. So, it's a combination of everything. But the drive will be to get to the peak.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: The first question is in terms of the CDMO for pharma and on the agrochemical side under the specialty chemicals basket. What would be the geography in terms of Europe and US? And in the last couple of years after the COVID-related restrictions have been over in China, have we seen competition from Chinese people for the newer projects, obviously for the historical projects they are already secured but in terms of newer projects on both these segments. Thank you.

Anish Ganatra: So, CDMO pharma, I mean frankly has got a lot of tailwinds just from the Bio Secure Act. I mean if you look at what's happening, we are seeing an increasing number of RFPs from global majors. Everybody is looking to derisk their portfolio and obviously India is going to benefit out of that. So, frankly, we are happy with the level of inquiries we are getting. Our aim is to convert more and more of those into orders and then from orders to large orders and then possibly some MSAs. Yes, that's the way we look at it. On the agro side, again, we have made some entry into the CDMO space there too. And the idea again is that while we work and as we have our R&D center in Surat, the idea will be to work closely with large innovators early in their product development stage so that we can help them not only develop the molecule but also test it at lab and pilot levels and then eventually scale it commercially for us. Nitin, you want to add anything on that?

Nitin Kulkarni: No, he was talking about the geography, where we are. So, we are quite present in Europe, US, as well as he was talking about agro as well as pharma. So, I think Japan, Europe and US, these are the three regions where we are actively involved when it comes to CDMO linked with agro as well as pharma. And we haven't seen any decline in the demand for the products which we are supplying to them from last more than three to four years except the deferment of the volumes when it comes to agro segment because of the current market conditions.

Rohit Nagraj: Just I can squeeze in, in terms of CAPEX, so current CAPEX will get over by FY25 end. What is the next leg of CAPEX that we will need for maybe growth beyond FY27? When will we start working on that. Thank you so much.

Anish Ganatra: Yes, so again a good question. I mean, as we finish this FY25, we will be sort of actual CAPEX outflow which will be in the range of about Rs. 600 to Rs. 650 odd crores. By the middle of calendar year 2025, we will start to formulate some views on where the next growth of CAPEX is, but what we are doing in the meantime is ensuring that our balance street strength, the conversion of EBITDA into cash flow and our net debt to equity remains within the guidance that we've indicated, such that those CAPEXs are then pushed out. Some glimpse has already been given in Nitin’s conversation earlier, where he shared about the work that is being done in the performance material area. So, all I can say is, watch that space.

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

Anish Ganatra: All right, I just want to take the opportunity to thank you all for taking the time out and joining the call today. Hope that we've been able to answer your queries adequately. And thank you, and good evening, all. Good night. Take care.

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.