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May 13, 2024

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Mumbai 400001	Mumbai 400051
Scrip Code: 532504	**Symbol: NAVINFLUOR EQ**

Dear Sir / Madam,

Sub.: Transcript of Earnings Call held for the quarter and financial year ended March 31, 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 May 7, 2024 regarding discussion on operational and financial performance for the quarter and financial year ended March 31, 2024 (Q4 and 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 Bipin Mankad
Digitally signed by Niraj Bipin Mankad
Date: 2024.05.13 15:44:37 +05'30'

Niraj B. Mankad
President Legal and Company Secretary

Encl.: a/a

"Navin Fluorine International Limited

Q4 FY '24 Earnings Conference Call"

May 07, 2024

MANAGEMENT: **MR. VISHAD MAFATLAL – CHAIRMAN – NAVIN FLUORINE INTERNATIONAL LIMITED**
MR. ANISH GANATRA – CHIEF FINANCIAL OFFICER – NAVIN FLUORINE INTERNATIONAL LIMITED
MS. PAYAL – INVESTOR RELATIONS ADVISOR – ORIENT CAPITAL

MODERATOR: **MS. SHIWANI KARWAT – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY '24 Earnings Conference Call of Navin Fluorine International Limited, hosted by Orient Capital. 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 Ms. Shiwani Karwat from Orient Capital. Thank you, and over to you, ma'am.

Shiwani Karwat: Thank you, and welcome to the Q4 and FY '24 Earnings Conference Call. Today on this call, we have Mr. Vishad Mafatlal, Chairman; 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 expectations as of today. Actual results may differ materially. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. A detailed Safe Harbor statement is given on page number two 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 Q4 and FY '24 Earnings Call. I am joined by our CFO, Anish, and Payal from Orient Capital, our Investor Relations Advisor. I hope everyone got an opportunity to go through our financial results and investor presentation, which has been uploaded on the stock exchange as well as our company's website.

Before I start with my comments on the business performance, I would like to brief you on some key developments at Navin Fluorine. I am pleased to welcome Mr. Abhijit Joshi to our Board as an Independent Director. With re-composition of the Board imminent in the near term as independent directors complete their respective tenures, Abhijit would be a great addition to our diverse and experienced Board. Abhijit is a founding and managing partner of Veritas Legal. He has a legal career spanning over three decades. Over the years, Abhijit has advised various business houses from auto families, global conglomerates and large private equity houses across industry sectors on numerous complex deals and cases.

The Board and I have progressed on the search for a new CEO and have narrowed down our selection and are hopeful of concluding the process very soon.

It gives me pleasure to inform you all that the Board of Directors today has recommended a final dividend of INR7 (350%) per share of INR2 each. The company has already declared and paid two dividends, one interim and one special onetime special dividend of INR5 (250%) and INR3 (150%) per share, respectively, for the financial year ending 31st March 2024. The total dividend for the financial year ending 31st March 2024, works out to INR15 per share (750%) of INR2 each.

Moving on to some key updates on the operational performance of the business. Despite global headwinds, I'm pleased to say we have delivered robust performance across HPP and Specialty businesses, while the performance in the CDMO business is below our expectations. In the last fiscal, we have delivered revenues of INR2,065 crores and at an operating EBITDA of INR398 crores, underpinned by strong operating cash flow delivery of INR750 crores for FY '24.

Starting with the HPP business. We worked jointly with Honeywell to ramp up our plant at Dahej and the same has stabilized. Plant's production during the quarter was significantly higher than any of the last three quarters. Our HF plant, R22 and R32 plants are running at full capacity for another quarter in a row. R32 plants achieved higher than rated capacity in the last quarter.

As anticipated, we are witnessing positive trends in the domestic pricing of R32. Current weather conditions plus growth in home appliance industry should drive growth in the Refrigerant Gas business. These reaffirms our decision to double our R32 capacity, which will be operational by Feb '25. The capex is progressing well. Our AHF project for adding 40,000 metric tons of hydrochloric acid capacity at Dahej is also progressing well and is as per schedule.

Moving on to the Specialty business. Aggressive measures from inventory reduction by global Agchem majors, coupled with dumping by Chinese players have impacted the Agchem demand, albeit impacting more to players in the generic space. We are much better placed to weather the headwinds due to long-term take-or-pay contracts for dedicated plants and our continued focus on innovative molecules for our customers. Further, our strategy to launch three to four new molecules every year provides a pipeline of opportunities to our MPP assets.

Chemical charge at the agro specialty plant at Dahej has been initiated with commercial production expected by end of Q1 FY '25, early Q2 FY '25. As indicated, firm orders for the dedicated capacity for FY '25 are in place. Our capex of INR30 crores towards development of a completely new capability in Surat is on track and is expected to generate revenue from FY '25.

Moving on to the CDMO business. Our CDMO business delivered weak results due to deferral of sales of key molecules, few early-stage molecules of our customers did not get validated through the next phase. Looking ahead, our strategy to secure a right mix of late-stage molecules and to have a strong base load and early-stage molecules to create pipeline for future growth is showing early signs of success.

We have secured visibility of orders from existing MSA with European CDMO for FY '25. Completed validation campaign for one late-stage molecule from a UK pharma major. Received PO for two new late-stage commercial molecules for a European and a US major. All these are very exciting and promising opportunities with a blockbuster peak revenues for the end products.

Given the nature of the business, these will take time to mature at our customers in with validation process, etcetera. And some of these will play out in the quarters to come. We also announced a capex of INR288 crores towards setting up a cGMP-4 facility to be future ready.

Phase 1 for this capex has started, and we are progressing as per schedule. During the quarter, I have also continued my customer connect by visiting existing and new customers across businesses and geographies. This is aligned with our strategic priority to expand the customer base in the U.S., Europe and the Far East.

We have also started exploring opportunities for our Performance Advanced Materials businesses. At Navin, we have always believed in continuously striving for excellence and building collaborative relationships with our customers. Finally, I'd like to end by stating that the end -- the year has been tough for the entire industry, though our long-term view of our businesses remains intact. Our focus remains to driving the businesses sustainably over the long-term by ensuring a focus on manufacturing excellence while pursuing disciplined growth.

I thank all of you for your reinforcement of trust upon us. With that, I will hand it over to Anish.

Anish Ganatra: Thank you, Vishad bhai. Good evening, and thank you all for attending the earnings call. Let me take you through a business-wise performance for the quarter. Our Specialty business sales increase reflects the availability of full quarter capacity at the Dahej, higher utilization at Surat and addition of new molecules within our product portfolio. In the last quarter, we added one molecule at Dahej and two molecules at Surat including a performance material molecule.

Our HPP business revenues increased due to capacity addition of R32, which got offset by muted export realizations and lower HFO. Domestic R32 prices are witnessing a positive uptrend. The challenges faced at the HFO plant are behind us now, and the plant is operating at higher utilization. The sales of this plant is significantly higher in the quarter than in the previous three quarters, in comparison to the previous three quarters. Our R32 plant has also achieved higher than weighted capacity during Q4 FY '24.

Our CDMO business revenues in the last quarter were below its potential. We have indicated in our earlier call as well, the expanded MSA with the European-based CDMO customer is promising and expect it to contribute along with renewed business development effort to growth from second half of FY '25. Of FY '25 expected sales from European MSA, we have 50% of the order in hand for FY '25.

Our future strategy for this business is to develop solid pipeline emerging of late-stage and commercial opportunities. In this direction, we have completed a validation campaign for a late-stage drug for a UK pharma major in Q4. We have secured a PO for validation campaign for a late-stage drug for an EU major pharma player.

Further, we have POs in hand for two RSMs for delivery in calendar year '25 for a drug recently approved by FDA for commercial launch for a US major customer. Moving on to the financial performance of the company in Q4 and FY '24. The sales in this quarter were impacted largely due to lower sales in CDMO segment, which is a higher-margin business and pricing pressure in the export market of R22. Lower-than-expected sales resulted in a decline of EBITDA margins, reflecting lower operating leverage.

I will now share the highlights of our performance for FY '24 and Q4 FY '24, post which we will be happy to take questions from all of you. For FY '24 on a consolidated basis, the company's reported revenue from operations of INR2,065 crores as against INR2,077 crores in FY '23. Operating EBITDA in FY '24 stood at INR398 crores as against INR550 crores in FY '24, down by 28%. Just a correction, INR550 crores in FY '23, down by 28%.

Operating EBITDA margin stood at 19.3% as against 26.5% in FY '23, lower by 720 basis points. Exceptional items include gains from sale of Colony land at Surat for INR52 crores. Profit after tax stood at INR270.5 crores for FY '24 as against INR375 crores in FY '23, reflecting higher depreciation and finance costs associated with the commissioning of Dahej assets.

Now coming to the quarterly performance for Q4 FY '24. The company reported net revenue from operations at INR602 crores against INR697 crores in quarter 4 FY '23. Operating EBITDA was INR110 crores as against INR202 crores in Q4 FY '23. PAT stood at INR70 crores as against INR136 crores last -- in the last quarter -- last year same quarter.

Within the context of short-term headwinds, we have continued to ensure a tight financial framework. In particular, for FY '24, the business generated operating cash flow delivery of INR750 crores aided by our continuous efforts on driving working capital down, resulting in a release of INR361 crores cash during FY '24. Our net debt-to-equity ratio at the end of March '24 stands at 0.35 versus 0.37 at the end of March '23. So that's it from my side.

We'll now open the floor for question and answer. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: The first question is on HFO. So on slide eight, we have mentioned that lower HFO. So is it basically volumes or is it value? And since the plant is now stabilized, when do we expect to go back into optimum utilization? And any take or pay that we have exercised in FY '24?

Anish Ganatra: All right. Can I?

Vishad Mafatlal: Yes.

Anish Ganatra: So on the first question about what does that lower HFO means. It's -- if you remember in the last year, Q4 FY '23, we achieved record production of HFO. And we said at that time that we ran the asset at its full throttle. This year, what we are saying is that the volumes have achieved stability. We have got to where we should be getting to. So that comment is related to lower volumes, okay.

Also, pricing is going to change, right - Each year, the pricing is dependent on the raw material prices that go into it, etcetera. So there is a pricing impact too, but primarily volume impact. Now what was your next question, sorry?

Rohit Nagraj: Sir, when are we expecting to go back to optimum utilization? And any take or pay that we exercised in FY '24?

Anish Ganatra: So just to give you a sense for FY '24, as you know, our plant had issues on stabilization in the early part of the year. If we do -- if we achieve the same rate as what we've achieved in quarter 4 for the remainder part of FY '25, then we should expect a 1.3x increase in the volumes.

Rohit Nagraj: Sure. And take-or-pay?

Anish Ganatra: So to answer your question in simple words, we are already there in terms of -- I mean I don't call it optimal kind of utilization. But like we have said last time that the utilization is good enough for me to meet the demand that is currently at play. Take-or-pay, we've not had to exercise because the contracts from Honeywell are supporting that, supporting the orders or supporting the minimum offtake.

Rohit Nagraj: All right. The second question is on CDMO. So until last year, we used to have about $40 million of yearly run rate. Obviously, it used to be lumpy on a quarter-to-quarter basis. Incrementally that base run rate, will it continue at 40 given that in FY '24, we have done close to about, say, $32 million, $33 million?

Anish Ganatra: It will continue at that. But I would like to give some color to that answer. I mean like CDMO, we've always talked about the fact that our strategy is to balance the early and late-stage molecules. There is some solid meaningful progress on that, which both Vishad bhai and I have highlighted in our speech plus it is also on the slide. As all of that comes through, along with the orders that we have from Fermion MSA, we certainly internally have strong belief of having a better year this year compared to last.

Moderator: We have our next question from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: I got three. I will ask the three. One, on the CDMO business, can you help us explain that this European CDMO order which we have received 50%, what is the annual order for the -- so on the CDMO business, I just wanted to understand this European CDMO, which we are expected to start from the second half of FY '25. And we have received a firm order. What is the size of this order? And this is why we are telling that the recovery will be in the second half. That means first half again, are going to be muted. Is that the right understanding? That's number one.

Anish Ganatra: Yes. Shall I? Okay, hang on. Go on, do you want to finish?

Sanjesh Jain: Okay. Second, on the Specialty side of the business, what do we mean by performance material, what exactly are we indicating there? That's number one. And number two, with the Q4 exports being at INR1,200 crores. Are we operating everything at full capacity, what we have started except the fluoro molecules, where we are charging now so that revenues will start probably coming from Q2 onwards?

That will be a fair assumption? And last, on the margin side. This quarter, in the stand-alone, the EBITDA margin is at 12.8%, and the mix change between the Specialty and CDMO is there, but HPP contribution has remained stable. The understanding was that the margins are not very different for these two segments. Why is there a drop in the -- there's a sharp drop in the margin on that count? So these are the three questions.

Anish Ganatra: All right. So first thing on your -- so thanks for the question, Sanjesh. On the CDMO, your question about the size of the order. See typically, we would not give out numbers. But we've always said that the Fermion order was a multiyear, multimillion dollar contract that we've already disclosed in the market. Also remember the nature of this business is that you're always going to have an elongated period between the time you submit trial orders to the point that you actually get registered, etcetera.

I'm sure you're aware of that. So what's going to happen is you're going to start to see some revenue come in this year, decent sized revenue. I wouldn't put a number to that. But if you had to get an indication that, so for calendar year, whatever we get in '24, in calendar year '25, that will be twice of that. And in calendar year '26, it would be thrice of that. And that's just the way it would work in terms of completing our registrations for all the three molecules that we have the MSA for.

Now to your point, while the business is muted in the first half versus second half, the business is actually muted not because only of the Fermion order. As we've explained to you before, the entire process of going through validation takes time. We are where we are in this quarter in terms of performance that we are also not satisfied internally, simply because our order books are weak, right?

And we're addressing that. We're working that to make sure that our development teams are focused. We have the strategy around addressing which customer, what molecules we want to target. As we progress on that, we will keep you guys updated as we've done today, but that will take some time to play out. So our current estimate is that, that will start to play out in the second half of this year rather than the first half of this year.

Okay. Now your question on the Specialty business in terms of Performance Materials, what? So Performance Materials are basically all the emerging materials in both, whether you call them performance or advanced materials, but there would be things like solar grade, solar-grade HF. We would also have semiconductor grade HF into that. We will also have some advanced materials that go into specialized applications that have significantly better effectiveness in achieving the desired outcomes in those industries. And so for example, you could have things which go into the IT centers, data centers, to bring energy efficiency, etcetera, yes?

Sanjesh Jain: Got it. Got it. This is the electronic division, which we were earlier indicating? Is that a fair assumption?

Anish Ganatra: You could call it that. The reason why we are calling it advanced material because it goes beyond just electronic applications.

Sanjesh Jain: Okay, okay. Got it.

Anish Ganatra: Yes, yes. Okay. The third point around margins. Now again, I'm going to talk through on the consolidated level. On the consolidated level, the margins are lesser than last year, significantly lesser. One has to look at that. But that is a result of two things, primarily. One the fact that our CDMO contribution into that revenue is far lower compared to last year. CDMO being a high-margin business. Second is the ref gas prices compared to last quarter and this quarter that we are talking about are very different. And again, I'm sure you're aware of that, yes.

So those two things drive the margin. Having said that, in the last call that we had, we talked about a 15% margin when we reported Q3 numbers. And we talked about the journey from 15% to 20% to 25%. And if you remember that conversation, we are already part more than halfway through the 15% to 20% journey. In the coming quarters, we will take that journey further. And as the operating leverage comes in with the projects, both in your dedicated Agro projects or the CDMO or in other ways, you will start to see the operating leverage play out, taking the revenues (margin) to 20% plus.

Sanjesh Jain: Got it. On that specialty way, have we completely exhausted the capacity in MPP and dedicated now in this quarter?

Anish Ganatra: So the only way I can articulate that question or answer that question is actually through referring back to the PAR conversations, yes. So the dedicated molecule plant that we had in Dahej, which is already operational at a capex of INR125 crores, if you remember that. We've already achieved the PAR for that in FY '24. MPP 1, which we've always called as capex of INR195 crores. For FY '24, we are at 80% of the par level indicator.

Sanjesh Jain: Okay. Got it.

Anish Ganatra: Now one has to remember, so I've told you the 80%. So if you think next year is going to be 80%. But Vishad bhai has already mentioned in his commentary, the global headwinds on the Agchem side. That's going to have its play, yes. So again, in the Agchem side, nobody is expecting a hockey stick recovery. The recovery is going to be slow, progressive, and we will start to see it in the second half of the year.

Sanjesh Jain: Fair enough. That's fair enough. Just one bit. So considering that there is a gradual recovery in CDMO, margin of 25% will be more like a '26 number and not '25 number. Will that be a fair assumption?

Anish Ganatra: I would not jump to that. And I would not say that in either way, I would not answer that. I think I've given enough guidance directionally. I don't want to give specific numbers to you. But in our own sort of way, if you look at last quarter, we were at 15%. This quarter, we are at 18% and 18% is sustainable. We are going to take this 18% to 20%. So I'm sure directionally, again, you can see the pace at which we are working. I'll leave it at that.

Moderator: We have our next question from the line of Sudarshan Padmanabhan from JM Financials.

Sudarshan Padmanabhan: Sir, my question is to understand the underlying demand on the Specialty Chemicals side. So we have seen the fourth quarter to be much better than the previous three quarters. You had talked about at least the agrochemicals being a pain. If you can throw some color with respect to where are we seeing the longer-term demand coming in from? I mean, on a quarter-to-quarter the growth that you are seeing, is it a reflection of an improved demand environment or is it largely driven by restocking? Some color on this.

Anish Ganatra: Okay. So thanks, Sudarshan. See, again, from -- and again, you guys know this better than me. I mean every global industry player has talked about the Agchem environment. And we are no different in that, okay? So on the Agchem environment, if you look at the full year, the year has been full of challenges, both in terms of the uncertainty on demand, the impacts from higher for longer interest rates, the impact that has on the end farmer behaviour in terms of the stocking mentality, in terms of the dumping that's going on from China at cost. So there are several headwinds in that space, right?

Now we are in a relatively fortunate space because we have a good mix of innovator products, which tend to remain more protected compared to the generic Agchem players. So to some extent, we have the protection. But having said that, when prices are cheap, the farmers -- end farmers may find substitutes. But those substitutes are short-term behaviour changes. In our interaction with the customers, everybody expects that to come back.

And again, if I look at the whole year, we would see that demand coming back towards the Q3, Q4 of this year rather than sooner. So we do expect the first half to remain muted compared to the second half. Second half of the fiscal, we are expecting recovery, but not a hockey stick type recovery. The recovery will be gradual and progressive. Does that answer your question, Sudarshan?

Sudarshan Padmanabhan: Yes, sir. The second question from my side is on understanding the CRO CDMO space. What we understand from a lot of Indian players as well as global players is there's been a slowdown again because of higher interest regime. I mean not specifically taking about projects, but are we seeing that kind of a slowdown impacting us on the health care side as well?

Anish Ganatra: So Sudarshan, we've remained -- we've actually been very encouraged from our conversations with the customers. And it's a testament to the fact we started talking about shift in the strategy only a couple of months where we said we wanted to balance late stage versus early stage molecules. And as that strategy comes into play, we are extremely pleased with the reception we've had - the 3, 4 examples we've shared today on the call.

I mean I don't want to talk about numbers, but they are very, very promising prospects. Having said that, small biotechs, the higher -- the interest rates are higher, everybody is out to optimize. The way we are optimizing our business, focusing on efficiency, everybody else is doing it. And in these environments only the most successful things come out and shine. So we also see that, yes.

Sudarshan Padmanabhan: One final question before I join the queue is on the refrigerant gas. I mean, we have heard a lot of our peers talking about competition from China. And even we have seeing a lot of issues or pain in the past. We are seeing, I mean, as you had mentioned, green shoots over here. So can you -- I mean, given that we are putting capacity in here that R32 coming up. Can you throw some color with respect to how do we see the pickup that's happening there, both in terms of the volume as well as in terms of pricing?

Anish Ganatra: See, R32, we are very, very kind of confident about the decision that we've taken. And one has to look at this in the global context as well, apart from obviously the growth in the domestic over time. In the global context, if you see '24 is like a barrier year where a lot of the geographies, whether it is EU, US or Japan, all of them have gone through a quota cut restriction on GWP, right? China is already under a restricted regime under the quota.

So today, they are not able to do what they did last year. Apart from that, China itself has its own quota for domestic and exports, which is not fungible. So all of that starts to play into over time on how R32 will help the world transition to a lower GWP in the same way that it will do for India. So we remain very, very confident of what the decision we've taken and the prospects of R32, both in the short-term and long-term.

Moderator: We have our next question from the line of Chetan Thacker from ASK Investment Managers.

Chetan Thacker: Just one question. I see a contract liability of INR90 crores on the balance sheet. What does that pertain to?

Anish Ganatra: So again, a good question, Chetan. So what has happened over there is our customer wanted to bring in greater flexibility to the dedicated agro plant that we are currently commissioning. And to do that, they have actually funded the capex associated with it, which is a great sign of the confidence and the relationship we have with them. So that represents primarily that number.

Chetan Thacker: So once the revenue comes, that gets offset?

Anish Ganatra: Sorry?

Chetan Thacker: Once the revenue starts getting improved, that will get offset. That will be a fair understanding.

Anish Ganatra: Oh, yes, yes. But we are upgrading the asset as we speak, to make it more flexible to cater to higher level of molecules. And again, the customer is funding that, eventually, that will be seen in our top line as we continue to commission the plant and start delivering the revenues around it. So you're right.

Moderator: We have our next question from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani: Just one clarification and one question from my side. I think in one of the responses to the earlier participant, you mentioned CY '25 with the 2x of CY '24 and CY '26 will be 3x of CY '24. Just wanted to clarify, this was with respect to only the Fermion contract or with respect to your entire CDMO pipeline?

Anish Ganatra: No, this is only the Fermion contract.

Vivek Rajamani: Got it, sir. And the second one was also...

Anish Ganatra: Vivek, that's essentially the nature of the MSA, right? I mean we are going through our registration process, so it will start to trickle in. And we've always maintained this, that visible revenues from the Fermion contract, you will start to see from calendar year '25 onwards.

Vivek Rajamani: Sure, sir. And just the second question was also on CDMO. I think, you've been talking about the strategy to have a much better balance of early-stage and late-stage molecules, which you guys have been working on. Just internally, I just wanted to get your sense on how long do you think the strategy is going to take before we start to kind of see this reflected in the numbers from a volatility perspective?

Anish Ganatra: So again, the Fermion contract is a commercial molecule. So this is not -- this essentially is going to be in play even as we speak now. It's just the emphasis and our focus on how we target customers and how we target the molecules we are working on. And it will always be a balance. So the strategy will start to see itself play out from second half of this year. Will it have played out completely? No, that will continue. And this strategy is what underpins our unlocking of the $100 million that we've indicated before.

Moderator: We have our next question from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: First, on the commercial molecules that we're now in the process of signing up in CDMO, just to understand...

Anish Ganatra: Sorry, Abhijit, your voice is -- we lost you for a minute. Can you hear us?

Abhijit Akella: Can you hear me now?

Anish Ganatra: Yes, yes. What was your question?

Abhijit Akella: Yes, yes. Just on the CDMO business. These commercial stage molecules that we are now signing up, will margins on these be comparable to the rest of the CDMO business that we have been making thus far in past years?

Anish Ganatra: So Abhijit, that's always the case. When you're doing -- in any of these business, when you're doing the prequalification early trial, you have smaller quantities, higher margins. And then as you progress, you get significantly higher quantities and a decent margin. That's what we are aiming for. So you can't expect significant volumes at astronomical margins that would be unreasonable. But that's the nature of the game.

So like we've shared before, the commercial molecules will start to provide a base load, make sure the lumpiness is reduced from a strategic lens point and allow us to focus on also develop promising CRO work on the early stage, which then starts to fill in the pipeline as the commercial molecules drop off the patents over time. So it makes the business very sustainable.

Abhijit Akella: That's helpful. And one more question is on the agrochemical side. So when we are talking about still some lingering softness in FY '25, does this pertain primarily to the multipurpose plant, MPP1 or is it also related to the Surat portfolio of products we have, where is the softness?

Anish Ganatra: So the AgChem scenario is across, right? It does not distinguish between assets and Surat or Dahej. It's an industry phenomena that slowdown, etcetera. But having said that, about 65%, 70% of our molecules tend to be in the patented bucket. We are supporting patented molecules, right, with patented end use. So that protects us and gives us reasonable better protection than some of the other players who are primarily into generics or have a higher generic footprint, okay?

Moderator: We have our next question from the line of Dhavan Shah from AlfAccurate Advisors.

Dhavan Shah: My question is on the CDMO side. We mentioned that there is some approval from the FDA recently for one of the drug, which will be delivered in CY '25. So what is the opportunity size there? I mean, what could be the size of the molecule there? And what is our opportunity size in CY '25 or maybe the overall?

Anish Ganatra: So again, I'm not going to be specific on numbers. But the three examples, we have three kind of things we've picked out and shared with you guys, all of those are in the end drug is possibly in billions of dollars forecast. Of course, that doesn't mean our numbers go that way. But it tells you that it's a big drug, multi-blockbuster thing. So we will have a good share. It gives us more sustainability. Frankly, that's what we are looking for, right?

Dhavan Shah: Right. And the delivery would be starting in CY '25 itself or it will be gradual, maybe from '26, '27?

Anish Ganatra: No. So it will be phased. It will be phased. Fermion will start in '25, as we've said, FY '25 and then progressively, it will come. Also remember the way that business works is you get your early orders, you get prequalification trials, process trials. So you keep getting small, small orders until you start going through that entire process of registration. And then fingers crossed, things work both from the customer point of view, in terms of the molecule itself and also for us in terms of the chemistry that we are working with them on.

Dhavan Shah: Okay. And I think there is some difference of the molecules also plus the Fermion cells would be there plus this molecule in CY '25 or maybe FY '26 itself. So what kind of run rate are we looking at? Because right now, CDMOs are running at roughly $30 million kind of annual run rate. Considering all this...

Anish Ganatra: So sorry to cut you there, Dhavan. But see, we've already indicated that our mix of commercial to early stage, our intent is to get 50-50 or 60-40 type kind of ratio, right? And we've indicated that with all the new capex we've announced, the Phase 1 of that, that opens up the $100 million opportunity. So that tells you in a way how we will progress directionally to that, yes.

Dhavan Shah: Sure, sure. And the last one, would it be possible to break it up the gross book among the three segments. Right now, roughly in FY '24. And I think we have roughly INR2,000 crores gross book. So what could be for spec and CDMO and HPP? And what kind of the peak revenues can we expect from this current capacity?

Anish Ganatra: So we don't do segmental reporting because for us, it's part of the same value chain chemistry. So unfortunately, I won't be able to do that or share that with you because that's not how we look at the business. We look at optimizing it across the value chain.

Moderator: We have our next question from the line of Archit Joshi from B&K Securities.

Archit Joshi: My first question is within the spec chem piece, especially with the multipurpose plant comment about capacity utilization that you made earlier that our exit rate was approximately 80%. I was just trying to do some numbers here given that you have mentioned the total potential from the MPP with respect to sales that we can deliver close to INR270 crores to INR280 crores.

And going by the same cues, there were approximately four to five products, which would have contributed to that kind of a top line. So with this 80% utilization that we mentioned, are all those four or five products being produced? Or there is some more product launches eventually that will help us to get to that number, let's say, a couple of years down the line?

Anish Ganatra: No. So okay, so we'd indicated peak revenue in the range of INR260 crores to INR280 crores, if I remember that correctly. And the 80% that I talked of is on the lower end of the range of the INR260 crores. Now to answer your question, see, the fact that the strategy in the spec chem business is very central, right? You have dedicated plants and you have MPP. Now you take the plant from a product from a lab stage to the production stage in the MPP. As it scales up, the question then starts with the customer on converting that into a dedicated plant.

So MPP is like a pipeline that allows you to grow into a dedicated pipeline. Now what we are looking over there is three, four molecules that we introduce every year. And some of those molecules will continue to remain some level and not go to very high levels of volume, some of them will not, right? So that is the nature of the business. And that is why you have MPP as a pipeline provider to dedicated large-scale plants.

So that's how it kind of works. So the molecules that we started off, if you remember in Dahej with about four or five molecules. Today, we've added in another three molecules into that. So we've taken the basket of the product portfolio to eight, nine molecules that we can service from the MPP. If any of these scales up to a certain reasonable size, they will convert into a conversation with the customer to look for a potential dedicated plan. Much in the same way that we did the dedicated agro plant for INR125 crores.

Archit Joshi: Got it. Perfect. Sir, one last question on CDMO. While it's quite appreciable that you've started giving out some details on how we are progressing with some pharma companies and the U.K. pharma major addition after the previous quarter announcement with some strategic dealing with a US-based company. I just wanted to understand if one has to substantiate this.

Is this in the same direction that you mentioned earlier that will help us reach a 50-50 split between early stage to commercial molecules? And would this also mean that in the next leg of our capex, which we announced last quarter of INR288 crores, these initiatives will land some place in that new plant over a period of time?

Anish Ganatra: Yes, indeed, indeed. So the new plant that we've -- new capex that we've announced is like we've always split, right, Phase 1 and Phase 2. Phase 1 is largely to cater to Fermion or the European CDMO player that we've talked about. And as these molecules reach a scale, Phase 2 will start opening up a conversation for us as well.

Moderator: We have our next question from the line of Madhav Marda from FIL.

Madhav Marda: I just wanted to -- I have one question. When we give the CDMO, you want to get to the $100 million annualized revenue. This project which you speak about, which is the billions of dollars in sales for the end product, does that -- like -- do we assume ramp-up of that $100 million guidance or because that is a very large opportunity with that click it could kind of exceed the $100 million?

Anish Ganatra: So when we spoke at the last quarter and we announced the Phase 1, we talked about Phase 1, unlocking the $100 million itself. But it's all fungible. Ultimately, we are starting in the bank from where we are today. So you've got to look at it in perspective of that number, too. It's not like we are at INR600 crores today to go beyond that, if you know what I'm saying. So all of this will contribute to that. When we are at $100 million, we'll talk beyond $100 million.

Madhav Marda: Yes. No, but this $100 million assumes the ramp-up of that particular molecule, which we are talking about?

Anish Ganatra: No. So everything will play into it. No. I mean it's not like today, when I'm getting an opportunity, I'm not going to say this molecule is incremental to that. It's incremental to where I am today. So everything plays into getting there, yes.

Madhav Marda: Okay. Okay. And just a follow-up there, like we're basically supplying an intermediate for this drug is like a fluoro intermediate or something like that? Is that how we should look at the product which you supply?

Anish Ganatra: Yes. So sorry, can you repeat your question?

Madhav Marda: This product which we are supplying or the molecule which we are supplying for this blockbuster drug, it's like a fluoro intermediate or something of that sort?

Anish Ganatra: Yes, all of them. All of them fluoro intermediates.

Moderator: We have our next question from the line of Dhruv Muchhal from HDFC Asset Management Company.

Dhruv Muchhal: In the last quarter, you had mentioned that the HPP Honeywell contract would give about INR450 crores revenue in FY '25. Does that guidance remain? And is there any implication because of any raw material price movement for us to change our guidance?

Anish Ganatra: No, that still remains intact. That doesn't change.

Dhruv Muchhal: There should be no implication of further downwards because of the RM pricing.

Anish Ganatra: No. So again, we wouldn't go down that path. Today, what we can see is in that range. But yes, if it goes up, it goes up, I mean, I wouldn't sort of comment on it today. But the guidance we gave is intact.

Dhruv Muchhal: Okay, sir. And the second question is just to get a summary on the spec chem. So this year, I think you're about INR850 crores revenue. You have the INR540 crores project coming up. But -- so overall, how should we see growth for the next year, say, it verifies. If you can give some guidance in terms of growth that you're expecting for FY '25?

Anish Ganatra: If you start, and I'll probably answer this on a more holistic level than just spec Chem. If you look at our FY '24 numbers, and you start to think about what is Navin doing beyond that, which will start to see itself coming into light in FY '25. Clearly, the -- there will be some contribution coming from the new R32 capex as that comes on stream. There will also be some contribution coming in.

And I have indicated that just before that the HFO plant that we've done this year, if I take it to next year, it's 1.3x of that. So that will come into play in terms of growth. If the dedicated agro plant that we put into commissioning at the end of June, early this, that will come into play. The CDMO growth that we've talked about will also come into play.

So I've given you the building blocks, but I'll leave you to make the assessment on the numbers.

Dhruv Muchhal: Yes. So just to clarify, because your comments just to be sure. So you have these two MPPs, one MPP and one dedicated, which is almost fully ramped up. There is no weakness in this segment. The weakness that we are seeing is probably in the new business or the -- some of the existing businesses which are already weak. Maybe weakness probably could be there, but the existing contracts or entities been dedicated in MPP, where the run rate of revenue should probably continue.

Anish Ganatra: So one has to remember, see, when you have a take-or-pay, that will -- you'll always get the volumes, okay? In this market, in this scenario, all of us have to remain competitive. So revenues will see pressure at some point because we have to get more efficient as we start to build this asset and which we are doing.

And which is why whenever we talk about the strategy in Navin everybody talks about and particularly Vishad bhai talks about operational excellence and disciplined growth, yes. And that's the idea that you come in, you bring in, you operate the asset efficiently. You share the results of that efficiency with the customer. And in the process actually get your growth as well, a combination of everything. We have to be cognizant to the environment in which we are operating.

Dhruv Muchhal: That's helpful. And sir, quickly, what is your capex guidance for FY '25?

Anish Ganatra: Sorry, your voice is not clear. What did you say?

Dhruv Muchhal: Sir, capex for FY '25?

Anish Ganatra: Capex?

Dhruv Muchhal: For FY '25.

Anish Ganatra: For FY '25. And I think, again, I've said this before, see, our operating framework, whatever cash flow, we said INR600 -- INR500 crores to INR600 crores of cash flow. I think that still remains -- ops cash flow that still remains intact. We will continue to have capex spend in that range. actual capex spend in that range, whether that is for committed capex or new capex. That's the capacity we have within the financial framework that we've set out for ourselves.

Moderator: We have our next question from the line of Ranjit from IIFL Securities.

Ranjit: Thank you for the opportunity, just carrying forward the capex question. So now most of the issues that we had in FY '24 seems to be stabilized and running at an optimal utilization. So what's the thought process on the next level of capex? I believe AHF is what is likely to be there by the end of this financial or early next financial year. So how do you intend to utilize that and the thought process behind utilizing that incremental AHF capacity?

Anish Ganatra: So the incremental AHF capacity will come into play at the end of FY '25 or early FY '26. But in terms of your question on the capex guidance, see, if you think about it, and we've always laid this out, right? Our strategy is to create four material businesses. The three vertical segments that we currently have, HPP, Specialty and CDMO. And we've laid out I think a good approach to get to where we want to get to in those three. And combined with that, we're starting to look at making headway into Advanced Materials and Performance.

So that is going to drive our capex allocation into which segment and how we do it. But I would sort of say, over the next 12 to 18 months, I wouldn't be wrong to say that you'll start to see some specific capex dedicated to the Performance in Advanced Materials to start to play.

Ranjit: So if you say the next 12 to 18 months, then probably that will take another 12 months to take shape.

Anish Ganatra: That depends on how the opportunity matures, Ranjit. A lot of this is we are going to be very disciplined about this. We are going to make sure that one, we have the technical capability on getting into what we are getting into, where we are getting into partnerships. We want to make sure those partnerships are with players that we can establish strategic relationships. So all of that will take time. We are not going to be under -- see pressure to sort of accelerate some of this just for the sake of accelerating. So I'm giving you a very outer window, but that's not sort of where we are.

I mean if you remember the entire fundraise conversation that we talked about was always -- was always indicated as growth capex to accelerate projects. And so we've created that flexibility in our financial framework. That our internal cash flow as well as the ability to raise further money to accelerate something if it's promising enough and the right thing to do from our commitment to our Board, to our shareholders and obviously, in terms of the financials and economics around it.

Moderator: We have our next question from the line of Jason Soans from IDBI Capital.

Jason Soans: I just wanted to know, sir, when you go back, the breakup for the Specialty chemicals, usually used to be pharma, 40% agrochem 40% and electronic materials of this industrial would be 20%. Now in the wake of this weakness in the Agrochemicals segment, how does that revenue contribution look? And you've already given a lot of commentary on agrochem. So I just wanted some color on the outlook for the pharma and the Advanced Materials or electronic materials, whatever name you call it. Just some color on the potential for both these segments and the outlook for pharma as well as electronic materials.

Anish Ganatra: So in the Agchem business, the shift from pharma to Agchem has been going on for some time. I mean today, we are possibly about 80%-90% Agchem driven. And we remain constructive about the Agchem sector itself. See ultimately, the need and the demand for agri products is not going anywhere. It's going to remain. It's going to remain in terms of both the requirement to produce the agricultural products as well as the demand for some of these products that allow the farmers to increase their productivity per acre.

So that need is always going to remain. We might have these cycles come in and go out, but that need doesn't change. So our view of the sector has not changed, while we are seeing some short-term headwinds. So that's coming from the Agchem. On the Performance Materials and Advanced Materials, again, they are very, very promising, and things will shape out. We have to be careful in terms of how we progress the opportunity there, the R&D work that we are doing in this space. And we don't talk a lot about it, but we are doing some R&D work ourselves.

And also our discussions with customers where we believe that our journey to get the technology is going to take longer. We will accelerate through the right partnerships. So it's going to be a combination of everything. But the opportunity on advanced material and performing space, I'm sure if you Google, you can pick up far more than what I can tell you.

Jason Soans: Sure, sir. So in spec chem we are around 80% to 90% Agchem and probably 10%, 20% must be electronic materials. That's what you're saying.

Anish Ganatra: No, No, no, no. So spec chem today does not have a lot. I mean, the one molecule. See we are incubating advanced materials in different parts of the business. So the molecule I gave you as an example because it's a significant milestone for us that we've now done a molecule in the performance material that we've successfully delivered to the customer. That opens up the opportunity in that space, right?

So that was the signal to you. The spec chem traditional business has always been between Agchem and Pharma. And our split over there is predominantly about 80% on Agchem.

Jason Soans: 80% on Agchem. Sure, sir. And just further going, so I just wanted to know, I know it's been a volatile environment, and it's been a difficult year for the company. But just wanted your view on traction on further multiyear or long-term contracts. We've been winning -- it's been some time we have won some. So just wanted to know what's your outlook on further winning some multiyear long-term contracts going ahead?

Anish Ganatra: So see, we've taken this call internally that our sort of approach with customers will not be transactional where we are very comfortable with customers. We will get into a strategic relationship. We know that global majors are all looking to create network flexibility. And we want to be available to them, and we want to make sure that we participate in that journey. And so that relationship will not be transactional.

But yes, as we get into those contract discussions, we are here to work with them and work on those long-term contracts. So that is the nature of the business. But we are always going to have a balance between long-term take-or-pay contracts and a product play. So for example, the R32 capex that we announced in the last quarter, and we signalled to the market that we are in the product play in the refrigerant gas business, and we want to participate into India's journey on going from high GWP to a low GWP product, and we will play our part into that. It will be a combination of things.

Jason Soans: Sure. Sir, just lastly, if I can squeeze in. There have been enough questions on CDMO. But sir, just in terms of our performance perspective, there were big plans as such. And of course, FY '24 has been weak in that perspective. It's quite heartening to know you have a lot of things in the pipeline. So -- but what has transpired in this year, of course, you want to scale up this business. But is it a lot of increased competitive intensity from other CDMO players? And how do we just plan to correct the situation? Just wanted your thoughts on it.

Anish Ganatra: So again, see, CDMO player in Pharma, we've always been an early proponent in that business. 2011 was when we actually made our entry into that by acquisition of the MOL business in U.K. And it's been an evolution from that, where we evolved. And that's where we've kind of used our own learnings over the years to develop our strategy that we think will work for us and that's aligned with what the market needs. But we remain very constructive with that segment.

In terms of your question on what drives it, I mean, there are different things. I'm sure you read about the Biosecure Act recently as well being talked in the U.S. and that will have its own drivers. So there will be different drivers at different points in time, but our long-term view remains intact on that.

Moderator: We will take last two questions for the day. We have next question from the line of Surya Patra from Phillip Capital India.

Surya Patra: My question is on the CDMO business. Is the softness in the CDMO business, what we have seen in the fourth quarter, is it because of the inventory rationalization trend that has been there in the pharma space or it is because of the pricing angle or it is because of your larger dependency or your dependency on the small and midsized biotech pharma company? What would be the kind of reason for that? And when you are saying that the sequential recovery and all that, so what would lead the recovery on the CDMO side of that?

Anish Ganatra: Yes. So again, we've talked about the CDMO business has historically been a campaign-driven business, continues to remain a campaign-driven business. And our earlier focus was on early-stage molecules. We are now balancing that with late-stage molecules. The year-on-year, the degrowth that you see in CDMO in the quarter, relates to a molecule that we had in the last year, last -- this time last year, Q4 versus this year, we don't have it because it was a campaign that was run at that point in time. Does it mean it will not come in the future? It could and we certainly hope it will, yes.

But the nature of the business is that those are campaign-driven orders. And that's why you see the lumpiness. To address that lumpiness is exactly what we are doing in terms of our strategic thinking that we will balance it with commercial molecules as well. So does that -- I hope that answers your question, Surya.

Surya Patra: Yes, yes. And along-side sir, I just wanted to understand maybe about the industry trends and all that. So do you face even pricing challenge for your CDMO business? That is one. And whether you have faced the inventory rationalization trend, what the pharma expecting currently? And do you -- what portion of your business would be dependent on the small and midsized biotech pharma companies?

Anish Ganatra: So CDMO business tends to be -- it's a very different animal in some sense, because you are looking at a multibillion-dollar opportunity. If you were one of these drug companies, you are into a space where your product has got promising prospects and all you're looking to make sure that you get a good partner who works with you as a partner, who's got the capability to handle the chemistry. And is able to service you in time. It's more a service industry than a product play. Because each molecule is a different chemistry, right? So pricing doesn't play, but your ability to service plays a bigger importance in the CDMO business compared to what we would do in the Agchem business. So there are different models in some sense. I hope that sort of explains.

Surya Patra: Yes. But if you can still share, sir, what portion of your business CDMO would be dependent on small and midsized biotech industry?

Anish Ganatra: No. So we don't look at it that way. We look at it more like which molecules we are playing with. Are those molecules progressing on the journey from trial to commercial launch approval. And that's the play. The play is not in terms of selecting companies, but selecting molecules really. That fit with our alignment and the chemistry capability as well as the outlook on the product.

Surya Patra: Okay. If you just allow one more question, sir. On the Honeywell side, if there is a kind of moderation, it could be because of what reason, if you can just share?

Anish Ganatra: So you'll have to elaborate, Surya, because I don't know what you mean when you say moderation.

Surya Patra: No. In fact, we have seen some kind of a slowness in the uptake of the HFO, right?

Anish Ganatra: No, I don't think we ever said that. What we said was that if you look at our performance for the last year, we had issues with the plant, which everybody is aware of. This quarter that we are talking about, we put those issues behind us, and the plant has actually delivered production that is more than that was delivered in any of the previous three quarters. That's what we're saying. So it's not -- nothing to do with demand really.

Surya Patra: Okay. And sir, any update on the debottlenecking of the Honeywell project, in the plant associated with Honeywell?

Anish Ganatra: I've said this so many times on previous calls, but I will repeat it once more. The debottlenecking of Honeywell plant was not something that was an approved project. It was in the hopper continues to remain in the hopper. We'll bring it out when the right time and the right opportunity.

Moderator: Due to time constraints, that would be the last question for today. I would now like to hand the conference over to the management for the closing comments.

Anish Ganatra: Okay. I would like to thank everyone for taking the time out and joining on the call today. I hope we've been able to respond to your queries adequately. Thank you all.

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.