

February 13, 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 EQ

Dear Sir / Madam,

Sub.: Transcript of Earnings Call held for the quarter ended December 31, 2023

Pursuant to Regulation 30 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Company's Earnings Call held on February 06, 2024 regarding discussion on operational and financial performance of the Company for the Quarter ended December 31, 2023 (Q3 of FY 2023-24) is enclosed herewith.

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

Request you to take this intimation on record.

Thanking You,

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

Niraj B. Mankad
President Legal and Company Secretary

Encl.: a/a



“Navin Fluorine International Limited
Q3 FY24 Earnings Conference Call”
February 06, 2024



MANAGEMENT: **MR. VISHAD MAFATLAL – CHAIRMAN –
NAVIN FLUORINE INTERNATIONAL LIMITED
MR. ANISH GANTRA – CHIEF FINANCIAL OFFICER –
NAVIN FLUORINE INTERNATIONAL LIMITED**

INVESTOR RELATIONS PARTNER – ORIENT CAPITAL

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

Moderator: Ladies and gentlemen, good day, and welcome to the Navin Fluorine International Limited Q3 and 9 Months FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Bhavya Shah: Thank you, and welcome to the Q3 and 9 months FY '24 Earnings Conference Call. Today on this call, we have Mr. Vishad Mafatlal, Chairman; 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 future performance and involve risks and uncertainties that are difficult to predict. A detailed safe harbor statement is given on page number 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 Q3 and 9 months FY '24 Earnings Call. I'm joined by our CFO, Mr. Anish Ganatra, and Orient Capital, our Investor Relations adviser. 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 a few developments at Navin Fluorine. The Board of Directors at the Board meeting held has approved 2 capex's amounting to INR372 crores to be funded through internal accruals. A capex of INR288 crores towards setting up a cGMP4 facility with the capacity of 200 KL. The capex will be done in phases. Phase 1 with the capacity of 100 KL will have an outlay of INR160 crores, which is expected to be commissioned by end of CY '25. Phase 2 of the capex will be initiated based on the progress of MSAs and projections for the business.

I am pleased to inform you we have expanded the MSA with the European-based API customer to cover 2 new molecules, 3 in total. These molecules are in intermediate to a patented commercial product with promising prospects. The MSA is expected to contribute materially to CDMO revenues from FY '26 and beyond.

The proposed cGMP4 Phase 1 capacity is critical to support the MSA and also unlocks the \$100 million top line aspiration for the business vertical. Further, we have entered into a strategic partnership with a U.S.-based contract development and manufacturing company. This partnership will be mutually beneficial by providing access to new chemistry capabilities to Navin in addition to scale-up opportunities and also deepening our customer penetration in the U.S. As indicated at our previous calls, our CDMO business is rebranded as Navin Molecular.

Navin Molecular brand will help further sharpen our value proposition to offer a wide ranging CDMO services to our customers, supporting projects, including nonfluoro projects through the clinical phases of commercial manufacturing. While the current order book for this segment continues to be built with efforts already done to strengthen and focus our business development team, we are confident we will be able to deliver growth in this vertical which is visible from the second half of FY '25.

Second, a capex of INR84 crores to enhance our HFC capacity, another 4,500 tons of R32 refrigerant gas which will be operational by Feb '25. Our earlier capex of R32 is commissioned and fully operational at an optimum capacity. The new capex is aimed at securing our market position in the refrigerant gas space over the next decade and beyond and is underpinned by our belief of the market demand growth, also feedback from industry players in India and globally.

Coming to our existing facility. As indicated in the past, we continue to drive operational excellence while executing projects in a disciplined fashion within a tight financial framework. In particular, our HF plant, R32 plant, R22 plants are running at optimum capacity. We continue to work jointly with Honeywell to ramp up our plant at Dahej. Though this is taking longer than expected. However, we are hopeful of putting this behind us soon.

The agro specialty plant at Dahej is progressing well, with chemical charge expected by end of March/April, followed by a first commercial supply by end of Q1 FY '25. Our AHF project at Dahej is progressing well and is as per schedule. A 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.

I'm also pleased to inform that with the view to incentivize and retain critical talent, the NRC and the Board has granted 2,27,500 options under the ESOP scheme at the prevailing market price. The options are awarded to a small pool of critical resources across our organization. The Board and I also have progressed on the search for a new CEO. We have shortlisted the pool of candidates that have been further evaluated and hope to conclude the process soon. Our key criteria remains unchanged. The candidate must have strong industry experience with an execution excellence bias and solid understanding of the growth drivers.

Finally, I'd like to end by stating that the quarter has been a tough one, not just for Navin but for the entire industry. Globally, unpredictable weather conditions, destocking of high-value inventory and cash flow management from ag majors has impacted the entire industry.

Global agrochemical players are cautious on forecasting of new demand resulting into headwinds for the Indian ag chemical players. We expect clarity on demand visibility by Q1 FY '25. However, our mid- and long-term view of the business remains intact. Our focus is to continue to drive operational excellence while making investments to ensure that as and when the short-term headwinds turn, Navin is well positioned to capitalize on the same. With that, over to you, Anish.

Anish Ganatra:

Thank you, Vishad bhai. Good evening and thank you all for attending the earnings call. The revenue and profitability in Q3 FY '24 were below our expectations. Let me take you through

business-wise performance for the quarter. Our specialty business was impacted due to deferment of campaigns and inventory destocking within our customer channel partners.

On the positive side, we have added a new molecule in the last quarter at Dahej and 4 more molecules are in pipeline for the next quarter. We are confident with the strong partnership and technology platform; we will continue to deliver innovative offerings to the customers.

Our HPP business was impacted due to ramp-up challenges for our HFO plant. We continue to work closely with our partner to further improve and enhance productivity of the plant. Ref gas, in particular, R22 continues to face pricing pressure, especially in the international markets. We expect the pricing to stabilize by the end of the fiscal.

The R32 plant commissioned earlier in the year has stabilized and is operating at an optimal capacity. Our CDMO business revenues in the last quarter were below its potential. This business is lumpy in character. Hence, we cannot analyze the performance on a quarter-on-quarter basis.

Some of the key campaigns from the last fiscal are deferred and a couple of early phase molecules dropped off from clinical trials due to data not meeting the defined endpoints. As indicated by Vishadbhai the expanded MSA with European-based API customer and the strategic partnership with U.S.-based CDMO are promising and expect it to contribute along with renewed business development effort to the growth from second half of FY '25.

Moving on to financial performance of the company in Q3 FY '24. The sales in this quarter were impacted largely due to the following reasons: lower sales in CDMO segment, which is a higher-margin business vertical, slower ramp-up and stabilization of production at Dahej, lower orders in specialty due to global inventory destocking, pricing pressure in exports markets for R22, deferment of sales from 4 specialty molecules from Q3 FY '24 to Q4 FY '24.

Lower-than-expected sales resulted in decline of EBITDA margins reflected in the lower operating leverage. However, approximately 3% to 4% of the margin impact is due to one-off fixed cost, deferral of specialty molecules and delayed stabilization of HFO plant, which we expect to recoup. Further, as market conditions improve, we should start to see EBITDA margins rebound to the 24%,-25% range.

I will now share the highlights of our performance for Q3 FY '24- and 9-month FY '24, post which we will be happy to take questions from all of you. For 9 months FY '24, on a consolidated basis, the company reported revenue from operations of INR1,465 crores as against INR1,380 crores in 9-month FY '23, reflecting a growth of 6% year-on-year.

Operating EBITDA stood at INR288 crores as against INR349 crores in 9 months FY '23, down by 17%. Operating EBITDA margin stood at 19.7% as against 25.3% in 9 months FY '23, lower by 557 basis points. Exceptional item includes gain from sale of surplus unused colony land at Surat for INR54 crores.

The profit after tax stood at INR200 crores for 9-month FY '24 as against INR239 crores in 9-month FY '23, reflecting higher depreciation and finance costs associated with Dahej assets.

Now coming to the quarterly performance for Q3 FY '24. The company reported net revenue from operations to INR502 crores against INR564 crores in Q3 FY '23. Operating EBITDA was INR76 crores as against INR156 crores in Q3 FY '23. PAT stood at INR78 crores as against INR107 crores in Q3 FY '23. As mentioned earlier, PAT includes exceptional income from sale of surplus unused colony land at Surat.

Within the context of short-term headwinds, we have continued to ensure a tight financial framework. In particular, for the first 9 months of FY '24, the business has generated operating cash flow delivery of INR523 crores.

Focused efforts on reduction of working capital has secured the release of about INR253 crores cash during 9-month FY '24, net working capital days remains within the 90 days of sales guideline provided earlier. Our net debt-to-equity ratio at the end of December stands at 0.38x. The 2 new capex's that Vishadbhai referred, aggregating to INR372 crores, will be fully funded through internal accruals.

So that is it from my side. We will now open the floor for question and answers. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: A couple of questions, one on specialty chemicals and one set of questions on CDMO. In picking first, if you could please help us with an update on some of the key growth projects we've been implementing. So what exactly is the capacity utilization of the multipurpose plant? And how do we see it ramping up next year?

Do we still expect it to hit full utilization in CY '24? Also, any discussions with the customers for the dedicated plant, which is already running at optimal capacity to double the capacity there or expand. And finally, the 5 new molecules that you've talked about, 1 introduced this quarter, maybe there's 4 more next quarter. What might be the revenue potential from these?

Anish Ganatra: Abhijit, it's Anish here. Thank you for the questions. So on the capacity, as you know, we never generally talk about capacities. But what I will tell you is that in the spec chem space, we had 3 capex's. One was the MPP1 at Dahej. Then there was the MPP2 at the Dahej, and the agro-specialty plant -- dedicated agro specialty plant, part of it, which is dedicated. So on MPP1, in kind of FY '24, we expect that 80% of the peak annual revenue that we've indicated to you guys will be met.

In MPP2, we believe that in FY '24, we will have already achieved the peak annual revenue. The dedicated agro specialty plant is expected to start chemical reaction by end of March or early April, latest. And the first commercial supplies are expected to be in end of 1Q FY '25. So I don't know if that answers your questions on the capacity on new agro capex's in the spec chem bases. But I'll take your question on the molecules in a second. But let me know if you've got anything more on that.

- Abhijit Akella:** No, that's helpful, Anish. So just to clarify, the multipurpose plant for which we had a revenue potential of about INR270 crores. That one is running at about 80% in fiscal '24 itself. You said it? And the other one, which was INR160 crores revenue potential, that one is at full utilization for fiscal '24.
- Anish Ganatra:** That's exactly right, Abhijit. So I mean, I wouldn't say 80% capacity, but I'm referring to the 80% peak annual revenues, yes.
- Abhijit Akella:** Okay. Understood.
- Anish Ganatra:** When we start -- when we factor in or model these multipurpose plants, they're not modelled to run at 100% capacity, right? They're modelled to certain utilization level, given that there will be batch processing, yes.
- Abhijit Akella:** Okay. So of the INR270 crores, we are talking about 80% here.
- Anish Ganatra:** Yes. On the 5 molecules that you mentioned, 1 molecule has come into play in 3 quarter, 4 we were expecting in this quarter. Some of that has been deferred to next quarter because of customer requests and some of that has been deferred because we needed more time on the chemical reaction side, but we expect all of those to come into play by the end of Q4.
- Abhijit Akella:** Any revenue potential from these that you could share?
- Anish Ganatra:** I would not like to speculate that at this stage. Leave it to when we get to say it, yes.
- Abhijit Akella:** Got it. And just the other one I had was on CDMO. So while we've talked about the capex number for this MSA with the European customer, is there a revenue number also you could point at? And the other one was just that there was this large purchase order of \$60 million that we had a year back or so, we were expecting some renewal of that order in CY '24. So any update on that?
- Anish Ganatra:** So on the CDMO side, see normally that business is not associated with guaranteed MSAs or contracts, right? But -- so if you're asking -- if your question was around as to what is the capacity. That's difficult to -- I mean, in terms of the revenue potential you're looking for, see our typical asset term in CDMO tend to be about 1.75 to 2x. So that wouldn't be sort of different here either. But neither the MSA nor the projections are sort of guaranteed. The thing I can tell you is the commercial product that these intermediates go into is a patented product, and the prospects are extremely promising, and we are very excited with it as well.
- Abhijit Akella:** Sure. And on the purchase orders, any update on that for the upcoming year?
- Anish Ganatra:** Purchase order for?
- Abhijit Akella:** There was this \$16 million PO we had about a year back, and we were expecting a renewal of that order in CY '24.
- Anish Ganatra:** So that order has been deferred to this quarter -- coming Q4 quarter, the \$18 million.

- Abhijit Akella:** So 4Q FY '24 will have an \$18 million delivery.
- Anish Ganatra:** Sorry. So -- sorry, you are referring to the last year that we've done the molecule in Q4, is it -- is that what you're referring to?
- Abhijit Akella:** Yes, yes, Q3 and Q4 of last year.
- Anish Ganatra:** So that as I mentioned in my commentary, those campaigns are not expected to come in this fiscal, they will come in the following fiscal. Sorry, just to clarify that.
- Abhijit Akella:** Yes, that's fiscal '25, right? The upcoming year, '24, '25.
- Anish Ganatra:** Yes. Correct. Correct. Correct.
- Abhijit Akella:** Okay. So we do have that visibility now clearly defined. That order is coming next year.
- Anish Ganatra:** We expect it's still kind of how good the business is, right? I mean, at the end of the day, the update we have at the moment that it is expected next fiscal, but we constantly remain in touch with the customers and projections could change. There is a lot of dynamism involved in this, Abhijit.
- Moderator:** The next question is from the line of Rohit Nagraj from Centrum Broking.
- Rohit Nagraj:** So my first question is on the HFO project. So just wanted some understanding. When we started the project within a period of 3 to 6 months, we went up to the optimal utilization. And now in the last 3 quarters, we've been struggling to again get back to the optimal level or the ramp-up is slow. So is there any deferred demand issue? Or is there any structural issue at plant level? And how do we foresee in terms of the revenue potential, which earlier we were envisaging about INR400 crores to INR500 crores annually. Whether we are on target for that in FY '25 or that is also deferred?
- Anish Ganatra:** All right. So let me take that in 2 parts. First is the HFO project, as you mentioned about the ramp-up and the stabilization of the production. Now the plant is a very advanced technology plant. Honeywell operates this plant apart from obviously with us in India, in China and in the U.S. And one of our learnings out of this is being that the operating -- the optimum operating parameters of this plant is in a very, very narrow range.
- So as we experience issues, we have to be very precise in terms of how the planned parameters are being set. And that's a learning experience. Unfortunately, we did not take into account as we started the ramp-up and the technology absorption. So that has taken a little more than what we would have liked to have. But there are no structural problems. We're very closely working on this with Honeywell to resolve and fix it. And we hope that this will be behind us very, very soon, yes. So that's the first part of the question.
- The other part in terms of is there -- on the demand side, now while we are being able to dispatch and meet Honeywell's requirements on what they have ordered from us as a result of the contract that we have, the demand, obviously, also is slightly subdued. So it is -- the orders at the moment are at the minimum level of what we have under our contract, not at the higher end of that.

To answer your question on the peak annual revenue from that in terms of what we've promised. We believe that in -- it's already on track. So the FY '23, we commissioned, we said in 2 years, we will be at the peak annual revenue of up to about INR460-odd crores per year, which we are on track. That doesn't change.

Rohit Nagraj: Sure. That's helpful. Second question is, again, similar on CDMO. So we've been guiding that -- on a normalized basis, we will have about \$40 million of yearly run rate barring any lumpiness on a quarterly basis. So how are we expecting the run rate during FY '24 and in FY '25, as you mentioned that there will be this additional order of maybe \$16 million to \$18 million, would that be over and above this normalized run rate of \$40 million?

Anish Ganatra: So in CDMO, typically see, as I've mentioned this before as well Rohit, the business itself is very lumpy, plus what we've done, as I've told you before, is we changed our mindset. Earlier, we are focused on early-stage molecules. We are now complementing them with commercial stage molecules, right? As we go on into next year, our expectation is that about 30% to 35% to 40% of the revenues will come from commercial stage molecules.

And this is where our entire team is focusing efforts on. We will have some contribution from the European-based API customer into next year's revenue, though, of course, that revenue will come in materially or start to make material impact on the numbers from FY '26. Additionally, the strategic partnership that Vishadbbhai referred with the CDMO in the U.S. will also open up opportunities. But all those efforts are ongoing. This is -- obviously, it's going to be in addition to any order that we get from ongoing campaigns. All these efforts are going to be in addition to that. But I wouldn't sort of be able to put a number on it at this stage.

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

Sanjesh Jain: I got a few of them. First, on the R32. We thought that R32 capacity addition was frozen in December '23. Can you just help us understand the regulation now that we are going to expand, does this qualify for the quota determination period because this capacity is coming after December '23.

Anish Ganatra: Okay. You want to finish questions or should I take them one by one.

Sanjesh Jain: Sir, let's take one by one.

Anish Ganatra: Okay. So the regulation around the December '23 date is actually for receiving subsidy under The Kigali Agreement. The quota period is the average production you have in '24, '25 and '26, '27 being the unrestricted year, and from '28, I believe, the quotas kick in, with '32 being the first year of phase down at 10%.

Sanjesh Jain: This capacity will not qualify for subsidy payout, but this whatever we sell from this plant will qualify to get the baseline capacity for the next.

Anish Ganatra: That's right. So the baseline capacity will ensure our position, our ability to tap into that market remains intact. So yes, you're right. The numbers, the production will factor into the quota determination.

- Sanjesh Jain:** That's fairly clear. Got the regulation clear now. The second is on the gross profit margin. Sequentially, it is down by 500 basis points in the stand-alone entity, close to 430 basis points, while the mix in the CDMO business has improved. Anish sir, can you help us understand what is driving down the margins in this quarter despite having a higher CDMO contribution?
- Anish Ganatra:** So you're referring to stand-alone, right?
- Sanjesh Jain:** Yes, stand-alone. As well as consol as well. Consol also, we had a equivalent decline in the gross profit margin, which is your...
- Anish Ganatra:** So on a stand-alone the sort of main drivers over there of lower margin are really the ref gas environment. There's a pricing sort of pressure in R22 which has sort of affected it. The fluorspar crisis, we had high-value inventory in stock, which has kind of played into it as well. Of course, as we deplete that stock, we expect that to be recouped from next financial year.
- In addition to that, we've had some one-off charges in the business. So if I look at your 20% to 15%, as you said, sequentially, right, 5% roughly. That 5% broadly is split out in those 3 compartments, about 1% being on spar prices, about 1.8% to 1.9% being on R22, the reasons I talked about, and about another 1.4% relating to one-off charges. So most of this, know, Sanjesh, we expect to recoup as you can obviously see the reasons play out, most of them with loss margin will be recouped over time.
- Sanjesh Jain:** Just one follow-up on this, Anish sir. I thought fluorspar prices have actually gone up. That means inventory -- excess inventory should have positively benefited us on the gross profit, right?
- Anish Ganatra:** No. So fluorspar prices have gone up, but it depends on what our contracts are, right? I mean if you look at it, this -- the material that we are now consuming is at higher fluorspar price. If you know, when we started off, I think, at the end of March '23, we had high inventories of low fluorspar prices. So that inventory is depleted and the new fluorspar inventory has come in, which was our contract from the last calendar year, and which is why I said we expect this to be recouped because as we go forward, we'll again see the benefit of low spar prices come back into the play.
- Sanjesh Jain:** Got it. Again, sorry, I'm sticking to a few bookkeeping questions to get the modeling right. The other expenses has also gone up sharply quarter-on-quarter. Any particular reasons for that? Or it is largely to do with the HFO plant getting corrected in the Dahej and that's been booked here.
- Anish Ganatra:** So the other expenses that you see in the -- as reported comprises both of production-related expenses as well as fixed costs. As I've already told you, there is an element of one-off costs within that. But the way I would hold it for your modeling purposes, if you take the 9-month number, right, and you look at the quarterly allocation, I'm talking consol level, yes. I mean I'm not talking standalone. If you take that at a consol level, that broadly should be the number that we should look at. So INR120 crores to INR130 crores per quarter, roughly.
- Sanjesh Jain:** No meaning in looking at this quarterly number, it's better to look at...

Anish Ganatra: Yes, because there are effects, right? I mean in some quarters, , like this quarter, we may have a higher CSR spend compared to last quarter, etcetera. So those timing effects also come into play.

Sanjesh Jain: Fair enough, fair enough. I got two few smaller questions. One on the peak revenue from the HFO. Last time when we met, we said that the peak revenue because of currency as well as higher raw material prices now stands at INR5.5 million. But in your -- in the previous question for peak revenue being that INR4.6 million. What has changed in last 2, 3 quarters?

Anish Ganatra: No -- so I'm referring to peak revenue on the basis on which we made the promise to the market on that basis, saying that we had talked to, if you remember, I think it was INR2,800 crores over 7 years, something like that, right? So I'm saying that on that basis, when you talk of INR2,800 crores over 7 years, what we are expecting to see in FY '25, you will largely see that, that would be met.

Sanjesh Jain: So we will be doing INR460 crores in FY '25.

Anish Ganatra: Yes, yes. That's our hope, yes. That's where we are today.

Sanjesh Jain: That's what we are looking at today. Fair, fair. My last one is on the dedicated facility. I think dedicated facility; we ramped up completely. Now we are talking of an 80% utilization. It's more of a timing issue that 80%...

Anish Ganatra: So Sanjesh, just to clarify, the dedicated capacity, as you rightly mentioned, has already been ramped up. In FY '24 itself, we would have achieved the peak revenue that we'd indicated. The multipurpose plant, which is not dedicated, I said 80% of our top line revenue, the peak revenue that we had indicated, we expect to see in FY '24 itself.

Sanjesh Jain: That's fine. I think I got confused between the two plants.

Anish Ganatra: No, no worries.

Sanjesh Jain: Sir, one last question on the CDMO. Previously, we said that we will be able to achieve that \$100 million revenue from existing cGMP 1,2,3 and cGMP4 will help us expand from there.

Anish Ganatra: So that's -- sorry, I don't mean to interrupt you, but yes, finish your question.

Sanjesh Jain: I got you -- you got the question and that's what I was...

Anish Ganatra: Okay. No. So what we said was that 1, 2 and 3 would not be sufficient to take us to \$100 million. We would need a 4. If you see what we've done is while announcing the capex for 4 at INR288 crores, we have opened up Phase 1, which we believe is very, very critical to support the MSA that was referred by Vishadbhai. And that not only supports the MSA, but also unlocks our ability to achieve that \$100 million. So it's a double side thing that you will see just with that portion of the capex.

Sanjesh Jain: And we still hold that by FY '27, we should be hitting that \$100 million kind of number.

- Anish Ganatra:** So that is directional, okay... That is directional. It could be '27 or '28. Would I worry about it if it slipped by a year, I wouldn't care about it. I mean, directionally, we are there. Does pace matter?.
- Sanjesh Jain:** No, no, that's fine. That's very difficult to predict, but I got the point.
- Anish Ganatra:** Yes. So the idea is, today, we are investing in the business with that as an aspiration, yes?
- Vishad Mafatlal:** So Sanjesh, just one thing to add is the sheer fact that -- in this market, we are going ahead with the calculated investment in this business is the belief that the management and the customer have the understanding and the belief in us that we can deliver, we are the right partner of choice and that this business is going to increase going forward. And that time, if we go ahead and invest, we will lose out because customers today are looking at capacity. They cannot wait if the molecules are flying off. So it's our definite belief that going forward, this business has to reach the optimum levels that you have discussed with Anishbhai.
- Moderator:** The next question is from the line of Siddharth Gadekar from Equirus.
- Siddharth Gadekar:** First on the specialty chemical business, with capacity utilization that you have alluded to in this quarter for the entire year, if we do a back calculation, it seems the base business specialty, which was there till FY '22 would have declined by anywhere between 45% to 50%. What has led to that significant decline? And how should we look at that business going ahead?
- Anish Ganatra:** No. So when you talk of the base business, I think you're referring to our legacy capacity in Surat, right?
- Siddharth Gadekar:** Yes.
- Anish Ganatra:** Yes. So there are 2 things that have happened this year, yes. There has been 2 sorts of -- one of our molecules in Surat has faced some demand challenges, which has started to recover. But during the year, that has been the case. The other thing also to remember is that we ran several campaigns from Surat last year, which obviously have not seen themselves in this fiscal, but are expected to come back into next fiscal.
- The third thing is I referred to the 4 molecules. Out of the 4 molecules, 3 molecules, I believe, are going to come in Surat. So all of that is going to bring the business again in the base. So some of the nature of these businesses is when it's campaign-driven, you kind of tend to see that year-on-year, yes.
- Siddharth Gadekar:** Okay. Got it. Sir, secondly, on the HFO side, we have always spoken about the debottlenecking, which was expected to come in CY '23. And then we were also talking about a possibility over Phase II. Where do we stand on that project?
- Anish Ganatra:** So again, see, the thing is I don't know how this gets -- I'm going to clarify this once again. The debottlenecking was a project and is a project that remains in our hopper. It is not a project that has matured enough for us to even take it to the Board. As and when that matures, we will take

it to the Board, we will announce it to the market. So that is a possibility in the hopper, much like a lot of other projects that we have in the hopper.

We continue to look at these, develop this and those become conversations with customers, okay. So that is not to be taken as something that we have committed to. Yes. And similarly, on your question on the doubling the capacity of HFO, etcetera. I mean, our discussions with Honeywell and particularly between Vishadbhai and at the highest levels in Honeywell, cover a range of topics and range of opportunities. And depending on the market dynamics, those opportunities are being matured and will sort of see themselves come in to play. Sorry, you want to add something Vishadbhai? Did I answer your question, Siddharth?

Siddharth Gadekar: Yes. So just one last thing on R32 capacity. So going into CY '28, is it fair that we will be operating the capacity at around 66%, 67% capacity utilization?

Anish Ganatra: R32?

Siddharth Gadekar: Yes.

Anish Ganatra: No, R32 is a low GWP product with a very long cycle. So it's first cut starts in 2032.

Siddharth Gadekar: But given that we have to produce an average of '24 to '26, so our average will be lower than what we produce in '25, '26. So technically, from '28 our production will be around...

Anish Ganatra: So what will happen is we currently have a capacity that's already in play at 4,500, right? So that capacity is actually operating extremely well, and we may be able to do more than 4,500. But argument's sake, let's just hold that to 4,500. So that 4,500 goes into the quota as an average of 3 years production, so 4,500.

With the current new capacity that we've announced today, we will be able to take in 2 years as opposed to 3 years because that plant will take 12 months to commission. So by February, we commission the plant, which means we won't have production for '24, correct?

Our production for '25 and '26, the production for '25 and '26 will basically get divided by 3. So that's what we'll get into the system in '28. So to answer you in a more simple and direct way, doing the math for you is basically, we are saying 9,000 metric tons will be our expanded capacity and 7,500 will be the quota to us from '28 onwards.

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

Vivek Rajamani: So first question on your Specialty Chemicals and the CDMO segments. In 2Q, you had mentioned we'd seen certain deferrals which you were expecting in this quarter. Just wanted to clarify if these are the same molecules which are continuing to see some sort of deferment or postponement even in this quarter? And if you could just spend a minute to kind of explain what exactly is the issues that the customers are facing with respect to some of these molecules?

Anish Ganatra: So some of this is -- it's a combination of deferrals -- and mainly deferrals. And also in some cases, we had to do more work on getting the chemical reactions right. But the deferrals are nothing different to what's happening across the industry at the moment. Everybody is looking

at year-end and trying to reduce their inventory and cost of carrying the inventory, etcetera. So that's a deferral. It's not an order which is lost, but we expect that to be made up in this quarter.

Vivek Rajamani: So you mean Q4?

Anish Ganatra: Yes, Q4. That's right.

Vivek Rajamani: Sure, sir. And the second question I had was, and I can understand this is a bit of a difficult question to answer. But just with respect to both your Specialty Chemicals and CDMO. Would it be possible to give a sense of how much do you think your portfolio is immune to these risks or deferrals? Or how much part of your portfolio do you think is actually immune to such risks? And how much is actually very, very reliant on the customers changing the use and demand? Would it be possible to give some sense there?

Anish Ganatra: So I can't -- so again, as you rightly said in the beginning, it's a very difficult question to answer. What I can tell you is strategically we try to play in products which go into early-stage patented life cycle. So that the risk of them being subjected to market dynamics, substitutes, etcetera, is reduced and is minimal, okay? That's our -- that's always been our philosophy, and that continues to be our philosophy. As Vishadhai tells us, he doesn't want to be in the me-too business. So that is our thinking, right?

But at the end of the day, the deferral again in CDMO, what you talked about -- see in CDMO, the deferrals are not actually deferrals. They are the nature of the business. The CDMO intermediate business runs on a campaign basis. And those campaigns are ordered in 1 year, but then depending on how they are rolled out, etcetera, could take another year of gap and then come back to you.

So that happens as a very natural part of the business. What we are seeing in the spec chem business is what's happening by global majors to control costs, etcetera, and manage their inventories, etcetera, as you get into year end and obviously, look at destocking effects, etcetera, etcetera, which again, you probably know more than I do, Vivek.

Moderator: The next question is from the line of Chetan Thacker from ASK Investment Managers.

Chetan Thacker: Just two clarifications largely. One is on the HFO plant. Just wanted to clarify, so this year, we will be undershooting the optimum number that is there on revenue, and that should get back to that optimal number in FY '25. Is that correct understanding?

Anish Ganatra: So what I'm saying is that in FY '25, we expect the peak annual revenue that we've indicated in rupee terms to be met. In FY '24, we will still be delivering the demand that Honeywell has put on us. So there is not likely to be any unmet demand. Like I said, as we speak and touch wood, the plant today is operating at 80% of what we expect it to.

Chetan Thacker: But the demand itself, you mentioned is subdued. So that would mean that the number itself is lower than the optimal number?

- Anish Ganatra:** So the -- so as you have this, Chetan, in any of these agreements, you have a certain minimum demand and a certain maximum capacity demand, right, which you can't go beyond. What I'm saying today is that we have the minimum demand. If the environment was better, you would have probably seen it higher than that minimum demand. That's all I'm saying.
- Chetan Thacker:** Understood. And sir, just on the spec chem bit, so the base business is expected to come back in FY '25. And the additional 3 molecules that will get added, that will also start to contribute in '25. That should be a fair understanding over and above what we're seeing in today's numbers.
- Anish Ganatra:** So over time, I mean, our philosophy is to optimize and utilize the assets across both the entities. See, we don't see this as entity-by-entity-by-entity conversation. We see it as a collective spectrum conversation on how to optimize the assets, whether they are in Surat or in Dahej.
- Chetan Thacker:** Understand. Just not talking about on an asset level, but at an overall revenue level, the number that we are seeing today for FY '24. For FY '25, there will be a bump up which happens as the base business, again recovers, which you mentioned right now, campaigns come back and you see 1 molecule...
- Anish Ganatra:** So we have visibility to the next -- this Q4 being stronger than Q3, and I'm saying visibility to that. What we are saying, and this includes the deferral of the molecule that I mentioned, okay, as a result of that, too. What we also know and in speaking with our customers that the challenges within the spec chem business are going to play out and recovery is going to be progressively better next year. But we expect that recovery to be better in the second half of next year rather than the first half.
- Chetan Thacker:** Understood. And on the CDMO bit, again, FY '25 will start getting more towards normalization, and we remain -- we would adhere to the medium-term target of \$100 million once this cGMP4 comes in place.
- Anish Ganatra:** So directionally right. Again, we will given the efforts that we've taken, the agreements that we've done, including the 2 that we have discussed earlier that Vishad bhai pointed out it will take some time for us to play that out. So the CDMO business should start seeing in the way we've described to you a stable revenue from commercial business with capacities that we use to get higher-margin early-stage products. That will start becoming more and more visible again as we go into second half of next year.
- Moderator:** The next question is from the line of Archit Joshi from B&K Securities.
- Archit Joshi:** I just had a few facts checks, especially in CDMO. So you've had a few announcements in the past. So there was -- there's been a contract that we signed with Fermion. And then there was a discussion about the \$16 million PO with an American company. And now speaking of expansion of the MSA with 1 European customer and the commercial opportunity that we have received from an American customer. Is there any overlap with this?
- Anish Ganatra:** There is definitely overlap.
- Archit Joshi:** Yes. Right, sir. So...

Anish Ganatra: There is definitely overlap, Archit. The first name that you referred is actually the European-based API. We had signed an MSA with them covering 1 molecule. Now this expands it to 2 molecules -- 2 more molecules. So in total, 3 molecules. Yes, and the American CDMO is something very new. That's absolutely recent. We've never announced that before. That -- the partnership there is very promising because here we are tying up with a player who's got the skills or experience in the early stages.

And we've got experience and capacity in the commercial stage. So this is going to be a complementary partnership both in terms of how we utilize our common capacities to -- capabilities in a more complementary manner, but also it will open up access for us in the U.S. markets to customers.

Archit Joshi: Got it, sir. And with the same American partner that we are speaking of, we have intended to commission around INR160 crores in Phase 1, which I think Vishadji mentioned earlier is towards this particular contract. But the total capex number being INR288 crores, I was just wondering if there are 2 dedicated blocks separate to service different customers? Or how should we read this?

Anish Ganatra: So say, let me first sort of clarify this, okay. In CDMO business, we do not have any dedicated blocks. When we say dedicated, dedicated, what we mean is we've allocated the capacity. There's no concept of dedicated plants, there's no concept of take or pay or anything of that sort, okay? The other thing that you talked about was the reference you made to the Phase 1.

The Phase 1 supports the European-based API customer and not the American one. The third thing to point out is we have entered into a partnership with the American API. It's a strategic partnership, which means we have an arrangement, Amutual beneficial commercial arrangement that we will tap into our respective capabilities and we see how to maximize the value of that relationship.

Archit Joshi: Got it, sir. And just one last clarification. I wanted to squeeze in. Earlier, just picking up cues from the previous calls, I think the multipurpose plant that we had announced our capex for, we had close to 3 molecules towards agri, and I think 1 was in the pipeline which you were supposed to go towards pharma. And we are now speaking of 4 more molecules, I think which takes the total tally to close to 7, 8 molecules. So these new 4 molecules would effectively come under the same ambit of the total potential that we are talking of, let's say, INR60 crores to INR70-odd crores.

Would that be a fair assumption?

Anish Ganatra: No. So again, you know what I think you're mixing 2 things up because the MPP 1 client had certain molecules that have been brought into play in the Dahej, and that was an indication. Your first comment relates to that. I think the second comment which I was talking about 4 new molecules, as I said, 3 of those are actually coming in Surat and one is being introduced in Dahej. So they are mutually exclusive in that sense.

Moderator: The next question is from the line of Madhav from Fidelity.

Madhav: Sir, my question was on the R32 capacity. Just wanted to understand, given that we are -- actually, first question here is, why didn't you announce these 4,500 tons earlier, then you can make use of the quota for CY '24 as well because this baseline period has been known. So I'm just wondering why announce it now and not earlier than sort of let go of 14, 16 months of production for the quota?

Anish Ganatra: So again, a good question. I mean I think -- see, this is something that is a homegrown developed technology. Having done the first phase gives us significant confidence of going into the expansion. And so one driver is that. Second, we believe that the R32 pricing environment will see a similar pricing environment that you saw in R22 as the quotas kick in, etcetera, etcetera.

Third, we know that it's a low GWP product. So it has a longer play apart from having a play in the transition to HFO eventually, whether in India or outside. Outside the likelihood, overseas of it being used in blends. Similarly, in India, that transition will also go to blends, etcetera. So we have strong belief on the demand for this. We also think that this is very strategic for us in the sense that it's secures our play in the industry and the market position that we have. So to answer your question in a simple way, better late than never..

Madhav: Understood. And when you said pricing should be like R22, basically, you're saying that once the quota, etcetera, is frozen after CY '26, as demand kind of grows because India should -- and the world should see good pickup for R32, as you mentioned, across various blends etcetera. So you're saying that's why demand support should be quite tight for this product longer term, is that how we should reason.

Anish Ganatra: Yes, yes. So both the demand side and also I meant that you've seen an R22 that every time the quota kicks in, the pricing sort of becomes more tighter, right, and more stronger. So having -- so that's what we expect to play. Of course, this is a long play. So things will pan out as they pan out. But it's not unfair to expect a similar pricing curve that you saw in our R22 in R32. You would expect to see something similar play out.

Moderator: The next question is from the line of Rohan Gupta from Nuvama.

Rohan Gupta: Just first is on taking from the previous question itself sir, so R32, you had mentioned that the current capacity has been fully utilized. While we understand that the industry scenario still remains weak and there has been significant capacity additions has happened. Just wanted to understand, sir, what is driving this demand, whether it's domestic exports from where it will be primarily coming from the exports market? Or what is the driver?

Anish Ganatra: So our -- so first, your -- the 4,500 we talked of is absolutely, we've had very good response. And the uptake is very good. So that is not a question. And also in our conversations both with the industry and globally, we believe that R22 has a very unique play in the transition. As I mentioned earlier, the blending opportunities will increase, but given one, it is low GWP and it is a fairly competitively priced product compared to HFO. So you will see it being played more and more in the blending philosophy even globally. Our view is also that India itself will have short capacity to meet the demand from '28, '29 onwards.

- Rohan Gupta:** Sir, my question was around the current demand environment of R32, which you have mentioned that the plant is fully utilized.
- Anish Ganatra:** Yes. So current demand is fully utilized. It's not a problem. My reference on pricing pressure was in relation to R22, unless I'm -- I don't know if that was what was driving the confusion.
- Rohan Gupta:** No, sir, I'm talking about R32 only. And just wanted to understand what is the driving factor for R32 which has led to full utilization at our plant?
- Anish Ganatra:** Driving factor is there's enough demand. I mean that's -- I don't -- sorry.
- Rohan Gupta:** Sir, second question is on your...
- Anish Ganatra:** So R32 is also being exported. And as you know, even in U.S. as the quota -- as the restrictions kick in, I believe it's from 1st January of this year, the blending potential for R32 will also increase, like I said before.
- Rohan Gupta:** Okay. Sir, second question is some clarification with -- sir, can you hear me?
- Anish Ganatra:** Yes.
- Rohan Gupta:** Sir, second question is on the CDMO U.S.-based new contract, which we have done with. So just wanted to understand that about -- a little bit more about this new customer, the kind of chemistries which we will be doing here and the kind of investment which we may need to put for this CDMO/cGMP facility. If I clarify the INR288 crores investment, which has been approved by the Board, it does not include this U.S.-based new customer coming in, right?
- Anish Ganatra:** So can I just clarify, the U.S.-based partnership is with another CDMO player. It's not a customer. There are 2 capabilities here. We bring in fluorination capabilities, apart from other chemistry synthesis that we are good at. Those players, the CDMO in the U.S. also brings in their unique capabilities to the table. They bring in their access to the U.S. market, we are stronger in the Europe market.
- So we're bringing that. So I think it's a partnership in that sense where we share the chemistry capability with each other. We share the market capability with each other, and we allow access. So it's an enabler to future growth. There is no investment involved in that. The European-based MSA, which is a customer where we have to do investment. So the INR160 crores supports that MSA.
- Moderator:** We have the next question from the line of Dheeresh from WhiteOak.
- Dheeresh:** So Anish, when you are explaining the project's revenue potential, the key projects that we had undertaken in the last few years, I just want a clarification on that. So Orchid is where we are seeing INR400 crores revenue potential, right?
- Anish Ganatra:** INR460 crores is the peak annual revenue is what we are saying.
- Dheeresh:** Understood. And this we expect to do in FY '25 as per my current understanding?

- Anish Ganatra:** Yes, in FY '25.
- Dheeresh:** Okay. MPP, which was supposed to be INR280 crores as per my understanding on an annualized basis, we are saying -- we are turning 80% of that in current year and then do full in FY '25, right?
- Anish Ganatra:** So MPP1, which you said that was, I think, INR260 crores to INR280 crores as far as my memory goes. And I'm saying 80% of that. Yes, that's right.
- Dheeresh:** 80% in FY '24 we'll do.
- Anish Ganatra:** As I said, it's the range, yes, INR260 crores to INR280 crores.
- Dheeresh:** Yes. Yes. Understand, understand. I understand, not a precise estimate just the range I am trying to understand.
- Anish Ganatra:** I'm giving you a broad sort of indication that while we have had -- we would have thought that should have come in this year fully, it has slipped slightly, but not materially is all I'm saying.
- Dheeresh:** I totally understand that it's not a point estimate. There will be a range around it, understand that. Freesia which is agro intermediate, that was supposed to be INR160 crores that we have already done full revenue this year, right?
- Anish Ganatra:** That's correct. That we expect by end of FY '24.
- Dheeresh:** What about next year?
- Anish Ganatra:** So next year will have 2 years to run its par once it(new agro-capacity) comes into play, which, again, I think that as we see today, that's the target.
- Dheeresh:** FY '26 is when you expect to hit INR600 crores.
- Anish Ganatra:** So if we are saying the chemical reaction we said we will start in March or end of March, and with first supplies coming in July for all practical purposes, I would see the 2-year period being FY '27, that's when you should start to see or expect to see peak revenues.
- Moderator:** The next question is from the line of Ranjit from IIFL Securities.
- Ranjit:** My question is largely on the thought process. Earlier, we were only kind of sticking to R22, now over the years we have seen kind of a diversified to HFO and now we are also getting aggressive in R32. How do we see the refrigerant space evolving probably 5 years down the line? Is there a plan to further diversify into more refrigerants, given that we have an HF capacity coming in the Dahej in 3 years' time frame?
- Anish Ganatra:** Sir, Ranjit, again, if you look at the refrigerant growth space, even in India is growing at double digit. R32 is also having a CAGR globally of double digit. Will we remain in refrigerant space? We were pioneers in that space. I think it makes sense for us to remain in that and play into the

transition from high GWP to low GWP to eventually HFO. So we will be playing our part as a player in the industry in that transition. I don't think we've ever said we would not do that.

Ranjit: So will that also pay way for our entry into blends in the future?

Anish Ganatra: I can't speculate that, but I'm kind of saying the whole landscape is open, depending on what opportunity is available and how our capabilities are there to tap into it.

Ranjit: One last...

Anish Ganatra: But we will move fast wherever we see the opportunity is right, and our capabilities meet that.

Ranjit: Right. Understood. And any plans on utilization of HF capacity that is likely to come up in a couple of years at Dahej?

Anish Ganatra: Lots of things are being worked in the hopper and lots of things will be progressed in a progressive fashion. But we've consciously put in the capacity to ultimately use in the downstream. We are -- and I think we've said this before, we will be looking at emerging sectors, etcetera, as we progress into the future. So some of that will play out as well.

Ranjit: Hopefully, we should hear in next year, next fiscal something -- some announcement on this...

Anish Ganatra: I'm not going to second guess that one. It would be when it would be. We are working at it, believe it, as soon as we can talk about it, we will talk about it.

Ranjit: Right. So the question was because even on the cGMP4, we have kind of given out a 3-year time period to kind of Phase 1 and Phase 2 so whenever we do make an announcement, even on that new emerging opportunities, one should take a similar time frame. So that was the impact....

Anish Ganatra: So I mean, again, I know what you're saying there, but the intent is there. We're working, it is in the hopper. I mean I don't know what else to say at this stage. It will be -- it will come when it will come Ranjit. But it's not something that we have lost line of sight to. We are putting a lot of effort internally to progress that area. So if things materialize, we'll probably hear on it sooner than later.

Ranjit: Right. And finally, on the gross debt level, can you share the figure for -- the gross debt figure for the December ending quarter.

Anish Ganatra: Gross debt figure is INR 1,200 crores, including I'm talking the expanded debt, including what we take borrowed on working capital, yes.

Moderator: Ladies and gentlemen, in the interest of time, that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Anish Ganatra: All right. I would like to thank everyone for taking the time out in joining the call today. I hope we've been able to respond to your queries adequately. Thank you all. Have a good evening, and good night. Thanks.



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