October 29, 2024

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400001
Scrip Code: 532504

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

Dear Sir / Madam,

Sub.: Transcript of Earnings Call held for the quarter and half year ended September 30, 2024

Pursuant to Regulation 30 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Company's Earnings Call held on October 23, 2024 regarding discussion on operational and financial performance for the quarter and half year ended September 30, 2024 (Q2 & H1 of FY 2024-25) is enclosed herewith.

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

Request you to take this intimation on record.

Thanking You,

Yours faithfully,
For **NAVIN FLUORINE INTERNATIONAL LIMITED**
Niraj Bipin Mankad
Digitally signed by Niraj Bipin Mankad
Date: 2024.10.29 18:06:23 +05'30'

Niraj B. Mankad
President Legal and Company Secretary

Encl.: a/a

"Navin Fluorine International Limited
Q2 FY '25 Earnings Conference Call"
October 23, 2024

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

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

Moderator: Ladies and gentlemen, good day, and welcome to the Navin Fluorine International Limited Q2 and H1 FY '25 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 the 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, Steve. Welcome to the Q2 and H1 FY '25 Earnings Conference Call. Today on this call, we have with us Mr. Vishad Mafatlal, Chairman; Mr. Nitin Kulkarni, Managing Director; and Mr. Anish Ganatra, Chief Financial Officer of Navin Fluorine International Limited.

This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions 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. Our detailed Safe Harbor statement is given on Page 2 of investor presentation of the company, which has been uploaded on the stock exchange and company website.

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

Vishad Mafatlal: Ladies and gentlemen, I would like to welcome you all to Q2 and H1 FY '25 Earnings Call. I'm joined by our MD, Nitin Kulkarni; our CFO, Anish bhai; and Payal from Orient Capital, our Investor Relations Advisor. I hope everyone got an opportunity to go through our financial results and investor presentation, which have been uploaded on the stock exchange as well as on our company's website.

I am pleased to begin by announcing that the Board has decided to declare an interim dividend of INR5 per share. At Navin Fluorine, we are committed to operating sustainably and responsibly. This commitment is reflected in our corporate culture and strategic approach.

In the last quarter, we released the second edition of Navin Fluorine's sustainability report, where we continue our journey towards sustainable excellence. Building upon the foundation laid in our inaugural report, we are proud to present our progress, achievements and ongoing initiatives in advancing sustainability across our operations. I would request all of you to refer to our sustainability report uploaded on our website.

As we move forward, I want to take this opportunity to share a broader perspective on our strategic direction. As we have mentioned, we remain committed to operational excellence, and this does not only mean optimizing our processes, but also embracing innovation, enhancing productivity and ensuring that every facet of our operations remains efficient and resilient. In line with our commitment, we have focused on maintaining disciplined execution with highest standards of safety, compliance, reliability and efficiency.

Additionally, we continue to focus on strengthening partnerships and building scalable platforms. Both Nitin and I have met our key customers across geographies in the last few months, and we will continue the engagement to deepen our partnerships. Collaboration is key to unlocking new growth opportunities. And by nurturing these relationships, we aim to create long-term value for all our stakeholders.

In addition to this, a robust financial framework underpins our growth. Our net debt to equity remains below our guidance range of 0.5x. In the last few quarters, we have made efforts in optimizing the working capital cycle, ensuring robust operating cash flows. We remain focused on maintaining financial discipline, ensuring that our resources are allocated strategically, aligned with our long-term vision. We are confident about the future and the opportunities it holds. Thank you once again for your continued support.

With that, let me hand over to Nitin to share our operating and business performance during the quarter.

Nitin Kulkarni: Thank you, Vishad bhai, and good evening, everyone, and thank you for joining the earnings call. We appreciate your time and continued support. I want to start by recognizing that our relationships with strategic partners are growing stronger and deeper, reflecting the collaborative approach we have developed over time. As we navigate the evolving market landscape, our key priorities remain clear; maximizing capacity utilization, improving productivity and driving efficiencies across businesses. These priorities will guide us as we commission new projects and develop future growth opportunities.

Now let me walk you through the performance of our key business verticals starting with our **High-Performance Product** that is (HPP) business.

During the second quarter of FY '25, the HPP business achieved 23% growth with revenue increasing from INR238 crores in quarter 2 FY '24 to INR293 crores in quarter 2 FY '25. In the last quarter, all HPP assets continued to operate at optimal level. The growth is mainly attributed to higher R32 sales and better realization for R22. Additionally, the expansion of R32 capacity with a capex of INR84 crores is proceeding as scheduled and is expected to be completed by February 2025.

Our interactions with existing and new customers is giving us confidence on offtake of the upcoming capacities as these are operational. Our AHF project, which involves an investment of INR450 crores, is on track, and we anticipate commissioning by the end of FY 2025 or early FY '26.

As we move forward to **Specialty Chemicals business**, we experienced a decline in revenue for this business with a degrowth of 15% from INR185 crores in quarter 2 FY '24 to INR158 crores in quarter 2 FY '25. Sales in this sector were affected by the current global situation, leading to cautious demand behaviour amid continued competitive pressure being witnessed globally.

Our strong customer relationship and strategy to drive value for our customers has started to show positive results as we speak. There is a strong visibility to order pipeline for Dahej and Surat assets that will drive improved capacity utilization and growth from Q3 onwards. We are continuing to make progress in product innovation within this vertical, too. Recently, we introduced a new molecule at our Surat facility, and we are on track to launch 2 additional molecules in the upcoming quarter.

On the capital expenditure front, our upcoming agro specialty plant at Dahej with a planned capex of INR540 crores is under commissioning jointly with our customers to ensure a safe and efficient start-up and commence commercial production by November '24. Simultaneously, our Surat project with an outlay of INR30 crores is commissioned, and the first dispatch will be in November 2024.

Moving into **the CDMO business**. CDMO revenue has increased from INR48 crores in quarter 2 FY '24 to INR68 crores in quarter 2 FY '25, reflecting a growth of 41% year-on-year. We have a strong order visibility with firm orders for the second half of FY '25. Additionally, our strategic focus on late stage and commercial molecules continues to give positive results with the business continuing to witness higher levels of customer inquiries than previously.

We are encouraged by the traction with our European CDMO partner and the deepening of our relationship with them. Customer projections are strong for FY '26. We have additionally secured order for 2 new late-stage intermediates, which are scheduled for supply in Q4 of this year.

Furthermore, we continue to make progress with our EU major and U.S. major clients. For the EU major clients, we have supplied quantity for process performance qualification for late-stage study. And for our U.S. major clients, we have received scale-up order for supplies in Q3 FY '25.

On the capital expenditure side, our cGMP4 project is advancing well. Phase 1 involving an outlay of INR160 crores is progressing as planned, and we aim to have it commissioned by end of quarter 3 FY '26.

So in conclusion, our strategic initiatives, combined with continued investment in capacity expansion and product innovation position us well to drive sustainable growth across all our business verticals. Thanks for your continued trust and support. We look forward to sharing more updates on our progress in coming quarters.

Now I would like to hand over, Anish, to brief you on financial performance. Over to you, Anish.

Anish Ganatra: Thank you, Nitin. Good evening all, and I welcome you all once again to the earnings call. Moving on to the financial performance of the company in Q2 and H1 FY '25.

Quarterly performance:

- We reported revenues of INR519 crores in quarter 2 FY '25, an increase of 10% year-on-year, led by an increase in revenue from our HPP and CDMO businesses.
- Operating EBITDA for Q2 FY '25 was approximately INR107 crores, an increase of 9% year-on-year.
- Operating EBITDA margin stood at 20.7% as against 20.8% in Q2 of FY '24 and improving sequentially from 19.2% in Q1 of FY '25, reflecting higher realizations in HPP as also benefits from efficiencies secured within the businesses.
- Profit after tax in Q2 FY '25 stood at INR58.8 crores as against INR60.6 crores in Q2 FY '24 and INR51.2 crores in Q1 of FY '25.

Half yearly performance,

- For H1 FY '25, on a consolidated basis, the company reported net operating revenue of INR1,042 crores as against INR963 crores in H1 FY '24, reflecting a growth of 8%.
- Operating EBITDA stood at INR208 crores as against INR213 crores in H1 FY '24, down by 2%. Operating EBITDA margin for H1 stood at 19.9% as against 22.1% in the same period last year.
- Profit after tax in H1 FY '25 stood at INR110 crores as against INR122.1 crores in H1 FY '24, a decrease of 10%.

We continue to ensure a tight financial framework while driving growth. As of 30th September, our net debt to equity stands at 0.39x, well within our guidance range of 0.5x and reflects the strength of our balance sheet. Operating net working capital days at the end of 30th September is approximately 104x days of sales.

That's all from my side. We can now open up the lines for Q&A.

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

Vivek Rajamani: Two questions from me. Firstly, on the Specialty Chemicals, I just wanted to understand what gives us the confidence of the visibility or the improved visibility for the second half given that we have seen some deferrals in the past. So could you just give some color in terms of what's changed in terms of the conversations that you're having with your customers?

Nitin Kulkarni: So to give you the feedback, these are the firm numbers because we have entered into the supply understanding for most of the spechem (Inaudible) molecules, which we are talking for the not only quarter 3, quarter 4, but for the calendar year 2025. So based on our existing capacities, we managed to speak and entered into the understanding with the customers and that has helped us to address our 3 products, which are one of the, I would say, high-volume, high-value products to enter into the -- for the supplies, including quarter 3, quarter 4 for -- and the balance of the calendar 2025. So what we are talking over here is not any assumptions, but based on the firm orders, which we have received.

Vivek Rajamani: Sure, sir. And just a clarification on this. In terms of these orders, are these multiyear orders? Because you're saying you have the visibility even in calendar '25, correct?

Nitin Kulkarni: Correct. So the -- but there is a basket of products where we have received the visibility along with the PO till calendar year 2025. And based on that, we are giving the feedback to you.

Anish Ganatra: Just to add, I mean, I'm just complementing what Nitin said there, Vivek. If you look at what Nitin mentioned, it's covering not only Surat assets, but also the Dahej assets. We talk of the MPP and the dedicated agro plant. We have line of visibility to their full order book, not just for the remainder of this year, but going into next year.

Vivek Rajamani: Sure, sir. That's great to hear. And the second question was on CDMO. I know it's difficult to give a clear number over here. But given that you're making traction with both your European client and the U.S. client, and obviously, you have some 2 new molecules. Could you just give us a sense of what is the trajectory we should expect for the second half of this year as well as going into fiscal '26 in terms of how these will ramp up?

Anish Ganatra: So, again, on the CDMO front, Vivek, the order book is, again, based on the discussions that Nitin and Vishad bhai have had with the customer. And again, we should look to at least a like-for-like Q3, but a very strong Q4, and going forward, even stronger.

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

Sanjesh Jain: I got 3 questions from all the 3 segments. First, on the CDMO, if I remove the domestic, which I believe is a supply for the European client, the rest of the business doesn't look very exciting at under INR30 crores of revenue. What's happening on that initial stage? Has that completely been defocused? How are we looking at that part of the business?

A connected question is that now we have multiple order book, one, to be supplied to European client; two, late-stage product to be supplied in Q3, Q4. One scale-up project for a U.S. client. So it appears to be jumbled up. Do we have capacity to meet all these orders requirement on time? So that's on the CDMO.

On the Specialty, domestic suddenly has shown a sharp improvement quarter-on-quarter. I thought we were defocusing the domestic pharma part of business and largely focusing on the agrochemical and that side of the business. What has driven this domestic revenue growth in the Specialty part of it?

And the third question on HPP, Nitin, I guess you mentioned in your opening remark that we have reached optimal capacity. Is it fair to assume that until the new capacity on R22 to come, it's only pricing, which will drive the incremental growth in the HPP?

Anish Ganatra: Thanks for your questions, Sanjesh. On CDMO, again, your question about capacity and to look at whether we can meet the orders, I think, again, this -- we've timed the entire project of GMP4 coming in alongside considering what capacities are needed, one.

Second, on the order other than the large CDMO, European CDMO, your question around the fact that -- are you deemphasizing early stage? So the answer to that is no. We're not deemphasizing, but obviously, the commercial molecules will start to occupy greater pie because their volume is large, right? I mean that's the very nature, that's the precise reason why we are going into that business, right? And so it's not deemphasizing, but it's balancing. And like we've always said that you will see a proportion of 60% odd coming from commercial going forward. But remember, the pie size grows bigger, not smaller. So that's what will come in over there.

On the Specialty side, the domestic revenue, some of it is very opportunistic. We saw an opportunity to do some of the old molecules that we were doing in the pharma, and we picked it up in the current market scenario. So that is there, plus also we supply to local customers on behalf of large global players. So some of that also plays into the domestic pie. I wouldn't read over there any different message because as Nitin has mentioned before, on the Spec Chem side, both Surat and Dahej, we are witnessing and we are seeing a very strong order book in hand in the Q3 and Q4.

Nitin Kulkarni: Just to add to that, means, Sanjesh to be very frank with you, I fail to pick up that, how you arrived that only domestic sales has given us the betterment because basically, most of the Spec Chem business, I think the major portion is for the exports as well as the products, which we supply in the domestic market, those are also as a part of the supply chain. So there are a couple of products which are in the supply chain, which normally gets exported. So this is -- everything is triggered off more than 70% of the business into the agro space only and that too also with the innovators.

So pharma, there is a very small portion of this particular revenue, that too also often would be one of the traditional molecules, which customer requested us to restart the operations. So absolutely, as far as the Spec Chem business is concerned, the growth which we have observed in Q2 or whatever we have done and what we are talking in Q3, Q4 and forward is based on the existing global agrochemical customers, which are already working with us and to whom we are giving these products. As far as your point of the R22 expansion is concerned, is it about 22 or 32?

Anish Ganatra: No. So your point -- Sanjesh, please repeat your question, if you don't mind, on the HPP.

Sanjesh Jain: I said that we have optimized the capacity utilization on most of the product is what Nitin said in his opening remarks. That means until the new R32 capacity come in, it is only pricing, which can drive the growth in that segment.

Anish Ganatra: No, no. So new R32 is absolutely a new capacity that will come in. Also, as we've mentioned before, remember on the HFO project, we've always said that what we are doing today is we've got the plant running to optimal capacity that's still meeting about 80% of the demand. So there is growth over there, too, right? So there is stuff happening on that front. Plus even within the R32, there are options to build, which we are working on to debottleneck and get greater capacities, but that's still work in progress. It will be a pricing and volume growth.

Nitin Kulkarni: Exactly. Plus, we are putting up this R32 capex, which you are already aware, which is going to come in the Q4 of the FY '25. So based on the visibility what we see with respect to volumes and price, definitely, this is going to drive the future growth.

Sanjesh Jain: Just one follow-up on all those answers. Anish, you said that cGMP4 will help us, but I was more asking from the second half of FY '25, now we have to deliver so many -- 4 products. Do we have capacity from these?

Anish Ganatra: So Sanjesh, again, these products are campaign driven. So their quantities tend to be smaller. The commercial-stage product that we have talked about are actually study-stage products. And we clarified that even last time, right? Those are being worked. So those volumes will come in. There will be even more RFPs that we are receiving, as also Nitin mentioned in his commentary. So there is work that will carry on, but there is no concern on the capacity and the growth.

If you remember what we've done in Q4 of FY '23, if I remember, that number is significantly high just with the current base. So we are not really concerned on the capacity side there. Of course, our idea because of the continuous growth in the business that you're looking for, you will have a cGMP4 that will largely, as we've talked at the site visit, Phase 1 will get virtually dedicated to the European CDMO player. The other capacities will continue to fuel the growth for new pipeline coming in and will also support Phase 2 of cGMP4.

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

Madhav Marda: I have 2 questions. Firstly, on the Specialty Chemical business, when we say that we have strong visibility into second half of FY '25, does that mean that, if you compare to the last year of the second half, we are looking at year-over-year growth coming back for us, because first half has been obviously impacted by the industry-level challenges, which everyone is facing?

Anish Ganatra: None, yet. Remember, we shared our way and approach in the Spec Chem business, and particularly, both Nitin and Vishad bhai have been very clear how we need to respond to the current market scenario. And that has played -- started to play and show success. So I think you should expect to see a year-on-year growth coming through.

Nitin Kulkarni: And this is what we are talking is based on the POs and the firm orders which we have in hand.

Madhav Marda: Okay. So second half, Specialty Chemical, you're saying can grow over last year, according to you. Okay.

Anish Ganatra: Yes. Correct.

Madhav Marda: And my second question was on the CDMO business. Given that we're addressing pipeline molecules of pharma customers, innovator customers, would it -- just a suggestion, could we start giving, just in the presentation, how many molecules we have in different phases, like Phase 1, Phase 2, Phase 3 and how many are in process of the registration, just as a disclosure, so it just becomes easier for us to track it every quarter?

Anish Ganatra: So again -- point taken, yes, point taken.

Madhav Marda: Just like total number of molecules that we are addressing and just the phase wise schedule.

Anish Ganatra: So we don't see typically the number of molecules. I mean, we've shared a couple of key material ones. If you remember, Madhav, when we spoke -- when we started sharing this, the idea was and the intent was to show how our strategy is working across the globe. Therefore, we shared the geographies and the most material molecules that we think today are potential molecules, right?

There are several others we are working for. But each of these were different chemistries. We don't count or monitor the business in that sense, to look at the number of molecules in different stages, et cetera. Our bigger thing that we are focused on is ensuring that the pie grows and the proportion of the pie starts to look more like 60: 40, 65: 35, between late stage and early stage.

Madhav Marda: No, no, I understand that. I was just saying that given that this is a CRAMS or a CDMO business for innovator pharma customers, that's how the peers disclose in India, if you look at some of the other names. So it's just helpful for us to maybe make a comparison in that way.

Anish Ganatra: We'll think about it, so point taken, but that's not how we internally look at, so -- but point taken.

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

Abhijit Akella: So just one clarification first regarding the CDMO outlook for the second half. Anish bhai, if I heard you correctly, based on the order book, we expect at least a flattish third quarter year-over-year, followed by a very strong fourth quarter, and then even stronger in FY '26. I hope I got that correctly.

Anish Ganatra: Yes, I think that's a fair take, Abhijit.

Abhijit Akella: Okay. Got it. And both for CDMO for, say, fiscal '26 as well as Specialty Chemicals, given the kind of order visibility you have, would you be able to help us with some sort of percentage growth guidance for fiscal '26?

Anish Ganatra: So we don't give guidance. I've given you directionally, but unfortunately, I won't be able to give you guidance.

Abhijit Akella: Okay. Then just on the INR540 crores project, how much timeline seems to have slipped a little bit? Talking about November, it does seem to have slipped since -- it was previously envisaged, I think, for December last year. So what exactly is the issue there? Are there any technical problems? Or is it just market environment? And then how much revenue can we expect from it in fiscal '25 given that we only have 4 or 5 months now left to deliver?

Nitin Kulkarni: This is Nitin. So just to give you the answer about the market or the PO, absolutely, there is no problem. And we have the existing PO in hand for the customer which we are doing this project. And they are also partnering with us for the technology support. So this is one of the most complex and the high-end technology. And there are multiple touch points to really bring it to the optimization levels and to reach to the process efficiencies. So, so far, everything has progressed quite well.

Of course, as you also know, during the start-ups, the way we faced problem during Orchid time, similar type of challenges which we are facing, which we have addressed quite well, and everything is now moving into the right direction. So there are some, as you rightly said, delays, but those delays are not where we are stuck somewhere or we are clueless. Absolutely, we are bang on as far as the progress of the, I will say, stabilization concern. And as we said that November is the month when you will see that we have started dispatching and producing this product.

Abhijit Akella: Got it, Nitinji. Just last question, if I may, before I get back in the queue. One is the -- for the non-dedicated portion of that contract, which I presume you will start supplying commercially next year, will the margin profile be materially sort of more dilutive compared to the dedicated portion? What sort of margin profile should we work with?

Anish Ganatra: So, Abhijit, again, for the non-dedicated portion when it comes in, we will have to remain competitive to the market. And whatever that is, we will remain competitive. I mean I think the work that the team is doing here is absolutely focusing on making sure that the plant comes up efficiently and reliably. And part of the reason why the effort is being put on making sure that it comes in, in the right way is to ensure the reliability remains high, and therefore, we are able to have good norms, good yields, good outcomes, which will help us also to remain...

Nitin Kulkarni: Competitive.

Anish Ganatra: Yes. It's true for all seasons, right? I mean, no matter what the market is, ultimately, if you are the last man standing, then you are likely to remain profitable no matter what. So that's our intent, yes.

Nitin Kulkarni: Absolutely.

Abhijit Akella: Okay. So got it. The Surat, INR30 crores capex, what would the revenue potential from that be? Just that's the last thing from me.

Anish Ganatra: The peak revenue is about INR50-odd crores. We'll start with the campaigns in this year from the product, and it will start -- it's starting in this quarter itself actually. And we'll slowly ramp it up over the next sort of 1.5 years or so.

Nitin Kulkarni: Yes, so just to add to what Anish said, so this -- already project commissioned, we have started the operations, and from next month, you will find the deliveries. And for this particular capex and the product, we again -- like my other comments, we got the firm PO in hand for the next year, complete.

Anish Ganatra: Also, Abhijit, remember, this is not a dedicated plan. So it's an extra capability we've introduced in Surat. So how we optimize and run that asset will also depend on other competing push for that capacity, yes.

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

Ankur Periwal: First question on the customer feedback and your comment on the overall order book, especially for the Specialty Chemical business. This order book visibility, which is both from Q3, Q4 as well as for the next financial year, is it largely led by the new products that we were doing with the Global Innovators? Or the older product portfolio and seeing some recovery in terms of demand here?

Nitin Kulkarni: So, Ankur, this is basically a mix of both. And rather, I will say, the old molecules as well as -- means, we are talking of all 3 old molecules, order visibilities there, rather it is better than what we have seen in the current financial year. And it is reciprocated in the orders or in the contracts also. So it is -- basically what we are talking is you can say 50%, 50% blend between the new products, which we have launched in the last 6 to 8 months plus what we are talking about this INR30 crores project plus the traditional molecules for which we have already these capacities in hand.

Anish Ganatra: I think the thing to bear in mind there, Ankur, is also a fact that we've said about the Dahej assets, which you should think of about -- so this includes both Surat and Dahej, but specifically for Dahej, you should think of the NPP and the dedicated agro. And in both those cases, you have the par numbers, right, already with you. So when we are talking of a strong order book, we are virtually saying of how much increase and good utilization of that capacity will start to come through. So it's a combination of everything.

Ankur Periwal: Sure. Sure, Anish. That's helpful to hear. Second bit on the CDMO demand, which you had highlighted. So if I -- just clarifying there, while the Phase 1 of the new cGMP4 will be dedicated for the earlier contract that we have in between the new products that we launched, it will be more on campaign-based. In the longer term, these products will get probably used or will be getting manufactured in cGMP4 Phase 2?

Anish Ganatra: So it's a bit premature on where they will eventually scale up. But as you know, the pipeline for registration of projects, et cetera, is quite elongated in this business, right? So where we are doing is these are late-stage molecules. They are still in study phase, and the idea is to continuously build our pipeline. So while we are growing the -- growing and deepening our relationship with European CDMO, some of these promising molecules also we hope will materialise. And this is just, at this stage, all I can say, the risk profile in that businesses, right?

So the idea here is that one of these will come in, and like we've talked at the site visit also, the fact that these are late stage and they are all innovator, they're all blockbusters. So not necessarily all will come. One could come, not necessarily even one could come. We don't know that yet today. But the idea is that it does take time for them to get to the scale-up position.

And if you remember, even for the European CDMO molecule, we had said that the work actually on that had started 2 years ago, if you remember. So there is enough sort of headroom available for us to continue doing what we are doing in the capacities we have, 1, 2 and 3 is also a good size capacity. The potential for that is also quite good. Phase 1, when we say dedicated, we think we are actually dedicating in terms of allocating it to Fermion. And you -- and then Phase 2 comes in when some of these mature, yes.

Ankur Periwal: Sure, Anish. And just last one, if I may. We did mention our focus to gain volume, bring in efficiencies and sort of scale up the capacity utilization across all plants. And at the same time, our guidance on the margin's trend guidance or, let's say, directionally, we are looking at a 25% sort of a margin outlook. Will this -- the bridge over here, will it largely be because of the shift in product mix, revenue mix more skewed towards Specialty and CDMO? Or there is some bit of pricing element uptick as well that we are building in, in our broad assumptions?

Anish Ganatra: It's a basket of things. See, where we are. We had said that, if you remember when we had hit, I think it was Q3 of last year when we did 15% margin, we are talked of our journey from 15% to 20%, 20% to 25%. I think we are well on track on that journey, and it will slowly and progressively get to that target number. Our intent is to get there in a sustainable manner. That's the main thing.

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

Anubhav Sahu: Yes. I have a couple of questions. So one is on European CDMO agreement, which as I remember back, it's a 3-year supply agreement starting from calendar year '25, which you also have mentioned that from Q4 '24, we would be starting supply of 2 intermediates. So these 2 intermediates, which you've mentioned, are they additional ones than the original 3 molecules we talked about? Does it change in terms of the number of molecules which we are catering to this point?

Anish Ganatra: So these 2 new ones are actually 2 new molecules as the name suggests. So that's what we intend to say. You're right on that. And the 3-year agreement is renewable automatically. So -- as we've said before, that this particular end-stage molecule is for a drug that…will come…. is patented all the way in most geographies till 2035 and beyond.

Anubhav Sahu: Okay. A second part for this is the timeline of supplies. I mean though you have kind of took this question earlier, but still just trying to understand that because there would be a dedicated facility, cGMP, for this client. So is the supply is going to be more backended in some ways? How do you take such...?

Anish Ganatra: So remember, when I said dedicated facility, we call it dedicated because in our capacity allocation, we are taking that, that particular capacity is required for something like this at its peak, right? Before that, of course, the plants are fungible. We've got capability and flexibility to deliver that growth, as it progresses to that peak, even from 1, 2 and 3. So the sales will start. In fact, the sales have already been there. I mean, I think someone on the call before referred to the supplies domestically for the same molecule, right? So that is already in the process. It's not like we've not done the dispatches under that contract.

Anubhav Sahu: Okay. But the commercial one will start from Q4, this is what you mentioned?

Anish Ganatra: Sorry.

Anubhav Sahu: The commercial supplies will start in Q4. Is that the case?

Anish Ganatra: No, no, the commercial supply for the European CDMO MSA has already started, okay? It's already started. We have now firmer order positions, which I'm saying will show you the growth in Q4 and in the coming quarters.

Anubhav Sahu: Okay. My last question is on the -- I'm just trying to understand the demand-supply dimension specialty. So just trying to have a perspective from you that which is the bigger factor, whether it is a moderation in demand or China dumping in other regions? Or is there still a case for channel inventory rationalization? Which one -- of these 3, which is the more concerning factor for this right now?

Anish Ganatra: Okay. So I think, again, channel inventory in our view is like a dead horse, yes, there's too much beating going on, on that. I think we have to recognize the fact that -- and as we've said this before, that this market means that in a strategic relationship, you have to work closely with your partners. We were early to recognize that, and we have played that to our strength.

So as we talked and established our equations with the customers, we have agreed that we will remain part of their supply chain, work with them on delivering the products. And like I said, there will be a reduction in pricing, but the absolute EBITDA will be protected or increased because we've now got higher capacities that we are committing to them.

Moderator: The next question is from the line of Dhara from ValueQuest.

Dhara: Sir, my first question was on the subsidiary. So if I do consol minus stand-alone, your subsidiary has reported a 15% Y-o-Y decline on revenues. This is the subsidiary from where you're doing all the new projects. So if you can help us understand what is driving the 15% degrowth on the top line?

Anish Ganatra: Yes. So again, Dhara, again, on the subsidiary, and this is what I was saying before, the Specialty business, we've seen a difficult time. And obviously, Q2 has seen that not all our capacities are utilized well. But that's exactly what we are talking about, that we were early to recognize that this would be the situation. And we've taken corrective actions, which now are giving us line of sight into Q3 and beyond for higher level of capacity utilization and the conversation, we've just shared, Nitin, myself and Vishadbhai.

Dhara: These are all new projects that we have executed, the INR195 crores capex, the Dedicated project, the Honeywell project that you couldn't secure. So if you could specifically called out where the underperformance is?

Anish Ganatra: So Honeywell project, as again, we've said, is actually doing quite okay. We've said there's no problem. 80% is there. I've talked about the 80% capacity over there, and that's not because we have issues, our issues on the plant are fully behind us. We have tested the plant to run at 100 or even higher 100%. So we have that in place, right?

The Honeywell order book will increase as time goes by. We are already seeing interest rates being softened. The industry on the construction side will boom. This is one of the end users of the product, so that will come in. On the Spec Chem side, it's market related, the market dynamics. And like I said before, we recognized it, and we responded to it to come back out of it and come back out of it strongly.

Dhara: Sure. The second question that I have is on the European CDMO contract. Sorry, I'm harping on this question again. But as I understand, the cGMP4, the INR160 crores capex, will take care of the larger ramp-up of this project with European CDMO. But if you have to put a number to FY '25 that will be doing in your existing cGMP1, 2, 3, what sort of revenue potential?

Anish Ganatra: I won't put a number to it. But if you look at our -- in the cGMP or in this particular business, and when we've talked about the capex, we've talked of peak annual revenues at 2x of capex. So you should look at the peak annual revenue. That will come in over time, yes. I'm not going to give a guidance of which year and when. But I've already -- there is a guidance out there of the $100 million by FY '27. We stand to it, yes.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Sir, first question is one of the competitors has announced that they are planning new HFO capacity in India. So what is our dialogue with Honeywell, as I think earlier we were contemplating of debottlenecking the capacity and maybe subsequently doubling the capacity for which we have kept the space at Dahej? So what is the current status? And what would be the roadmap for this year?

Anish Ganatra: So, Rohit, again, I will not be able to talk of the rationale of what the competitor may have announced. All I can tell you is that our conversations with Honeywell with like any other strategic customers are continuing, ongoing, and there is always opportunities that we are exploring to deepen. But at this stage, I can't talk about the debottlenecking or anything because as these projects will come up, we will sort of discuss with the customer, and also, once the internal commercials, et cetera, are clear, then we talk about it with the Board. Once approved, then we come out with it.

The other thing to remember also, whether there's new capacity coming in for HFO, the market for this is always going to increase. It's not shrinking. So there's enough space for everyone in that.

Rohit Nagraj: Sure. That's helpful. And second question is you just now mentioned that for the CDMO we still have the target of $100 million in FY '27. So what could be the contours of the same given that FY '25 we will be having closer to, say, $40-plus-minus million, and we are contemplating almost 2.5x increase in the next 2 years?

Anish Ganatra: So I mean, again, I think we've said a lot for you to do the math because it's the first phase of cGMP4. At INR160 crores, it's going to give you 2x revenue. You know where that is coming from. And obviously, we've had a track record of doing the base business at a certain level. And like we've said, there were certain molecules that have not come in, in the past will come in, in the future. That optimism and that assurance is still remaining.

Simultaneously, Nitin and the team are also working deeply to extend the reach of our relationship with the customers, both new customers and deeper. So there's a combination of things, including the ones that we've shared with you, some of the molecules that we are working on in late stage. Late-stage molecules have a risk profile, that risk profile is relatively low compared to early stages, right? So some of them will work. There's a portfolio effect that will play out on all of this.

Moderator: The next question is from the line of Reshma Jain from DSP Asset Manager. Sorry to interrupt, the current participant has been disconnected. We'll move on to the next participant. It's from the line of Keyur Pandya from ICICI Prudential.

Keyur Pandya: 2 questions. First, on the growth side for FY '25, now since this INR540 crores project is commissioned with some delay, so the growth in this Specialty Chemical would be driven by this INR190 crores capex MPP? And if that is so, then if you can just talk about number of molecules or what kind of utilization is working at?

And second, is it fair to assume that next year's growth would be largely driven by 2 key segments? I mean, one, ramp-up of this INR540 crores project, and second is CDMO, very first question.

Anish Ganatra: Sorry, I lost you there. What did you say second was, Keyur?

Keyur Pandya: So one is ramp-up of this INR540 crores project, and second is CDMO for the next year...

Anish Ganatra: So I don't think that's correct. See, all our verticals, I mean, if you look at the growth we've done in HPP and the further growth potential that even exists in the base business. And I'm not even talking about new R32 that's coming in, right? So you got new R32 that's coming in. You've got AHF that is going to come in next year. So that will also start trickling into the revenue and the growth. So our pillars of growth are very strong in HPP. Spec Chem, I think we've already given you a good purview of what we see in Q3, Q4 and beyond. And CDMO, again, we've given you. So actually, the growth will come from all 3 verticals.

Keyur Pandya: Just one follow-up. So on the current project, so the MPP of INR190 crores project, how would be the utilization, I think the revenue potential of INR270 crores, INR280 crores? If you can just talk about what number of molecules or the revenue run rate debt which are -- which we have...

Anish Ganatra: So in the MPP molecule, MPP plan, particularly around capacity utilization, see, when we last spoke, I have said capacity in MPP is very difficult to define in tonnage terms. But in terms of value, we have talked about saying that, that MPP would be somewhere around -- we would be in the range of about 70%, 75% in terms of the peak annual revenue. But of course, as we go into the next year and coming year, given the order visibility that we have, we expect that to increase.

Plus we also use the MPP to continuously do new molecules. And part of the reason for doing those new molecules is to actually keep the pipeline strong so that you are able to utilize your own assets and also use that as a decision-making if you wanted to make further investments into it.

Keyur Pandya: Noted. Just last question and second question, so on the capex side, capex for FY '25 and '26 and the areas of capex?

Anish Ganatra: So the capex that will continue into '25 and '26, of what I can tell you now, are only the Board-approved projects, which are R32, AHF and the cGMP4, yes. Those are continuing. Like we said before, there are several projects we are working on in the hopper. Some of that will mature, and we do hope to look at progressing at least one of those options by middle of next year, middle to late middle. This is just rough indication, yes. And that's to fuel the growth beyond '27, as we are talking about. Does that help, Keyur?

Moderator: Actually, sir, Keyur has been disconnected. We will move on to the next question. It's from the line of Archit Joshi from B&K Securities.

Archit Joshi: I just have one question on CDMO. While we have discussed a lot of permutations around the $100 million target that we have for the business segment, what would be the significance and the roadmaps that we expect for the U.S. major and the U.K. major that we have been dealing with? How would be the nature of that business? Would it be campaign-based? Or do we expect something significant, let's say, in a 2-, 3-year timeline?

Anish Ganatra: It will progress. It's very difficult to give you that timeline, and that's the reason why we work with a hopper of products over there. So it's not just these 2, but there are others as well. These 2 currently look most promising. But again, that's all I can tell you today, but which one, what will come out, very difficult for me to second guess that, Archit.

Archit Joshi: Would it be fair to assume that these will be some of the important or, let's say, significant ones while we are considering the $100 million number, given that...

Anish Ganatra: So think of it this way. I mean, I would answer your question in another way. I mean if you look at FY '23, I think our revenues were in the range of about INR330 crores, INR350-odd crores, right? And that was with neither Fermion nor the European CDMO, nothing, right? So if you just extrapolate that, the potential of the business is there for you. We have reinvigorated the business development teams. There's a lot of direct involvement from Nitin and his -- and the CDMO business leadership in this area.

There will be growth. It doesn't have to depend on just 1 or 2 of these molecules, if you know what I mean. It depends on the overall macro in the industry. And we know the macro in the industry with the Biosecure Act that there is greater emphasis to -- for the large players to look at optionality other than China, and India tends to be more competitive in that space once you step out of China.

Moderator: In the interest of time, we will take the last question from Nitesh Dhoot from Dolat Capital.

Nitesh Dhoot: Sorry if I'm repeating this question, but the CDMO revenue mix has moved significantly in favor of India at 61%. Is there...

Anish Ganatra: Nitesh, it's sounding all jumbled up. Maybe you will have to either come closer to the microphone or talk slowly.

Nitin Kulkarni: And loudly.

Anish Ganatra: And loudly.

Nitesh Dhoot: Sir, is it any better?

Anish Ganatra: Yes, better. Just go slow.

Nitesh Dhoot: Yes, sure. So I was asking on the CDMO revenue mix that has moved significantly in favor of India at 61%. So while -- so is it to do the increase in the late-stage molecules, and how -- and this is how it will be going forward?

Anish Ganatra: No, I don't think you should read anything into that. That supply into India is at the behest of a global customer. So that's just being supplied today to India. It may continue to India. The proportion will change. We know for sure. It's also an equation of the registration timeline. And I think we've shared that before as well, Nitesh. When you -- I think you were at Dewas right [Inaudible].

Nitesh Dhoot: Just one more question that is on the finance cost. So what I see is that the net debt has increased by over 20% year-on-year, but the interest cost has gone down by around 30%.

Anish Ganatra: No. So net -- sorry, did you say net debt has increased by 20%?

Nitesh Dhoot: That's year-on-year, I mean, if I'm looking at Q2 to Q2.

Anish Ganatra: Okay, okay. So if I look at March to now, right, if you look at March to now, our debt hasn't increased that much. But to point you on your finance question, I think I know where you're coming from. You're looking at the interest cost, aren't you?

Nitesh Dhoot: Yes.

Anish Ganatra: Yes. So see, what happens, Nitesh, over there is our project loans that we take, some of the project loans are generic project loans. And in the early stages of the projects, a lot of the allocation happens between the projects and the GST-associated with capex, but as you know, the GST on capex is a working capital item, which gets unwound at a later stage.

So earlier, the amount of projects, the interest cost that is attributed to the non-fixed asset type expense, but still capex in nature, gets -- hits the P&L. And now as your spend increases towards the fixed assets itself, that gets allocated to capital. That's the way to think about it, yes?

Moderator: So, Mr. Nitesh, did it answer your question? Sir, the current participant has been disconnected. As this was the last question, I would like to hand the conference over to the management for their closing comments.

Anish Ganatra: All right. So thank you all for the time today. On behalf of Vishad bhai, Nitin and the management of Navin, I would like to wish everybody a very happy Diwali, and also, of course, Payal. Couldn't miss you, Payal. Yes. So again, Happy Diwali to you and your families and stay connected. Thank you.

Nitin Kulkarni: Thank you.

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