CRISIL RESEARCH

CRISIL IER Independent Equity Research

Navin Fluorine International Ltd

Detailed Report

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 5,000 primary sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

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Last updated: August, 2014

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Navin Fluorine International Ltd

New forays brighten the long-term prospects

Fundamental Grade	**3/5 (Good fundamentals)**
Valuation Grade	**3/5 (CMP is aligned)**
Industry	**Chemicals**

November 06, 2014

Fair Value ₹671
CMP ₹622

Navin Fluorine International Ltd's (Navin's) core business revenues declined 4% in FY14 on weak domestic demand. Over the next three years, we expect growth to bounce back due to demand recovery and the company's efforts to expand its customer base across segments. Navin is also focusing on new opportunities in fluorine chemicals – it is expanding its CRAMS (contract research and manufacturing services) facility and has set up a JV with Piramal Enterprises Ltd for manufacturing a specialty chemical for the healthcare industry. We expect the higher-margin new forays to improve the company's market position and profitability in the medium-long term; we expect them to start contributing to sales over FY16-17. The company's ability to ramp up utilisation of the new CRAMS facility is a monitorable as it currently does not have an assured order book. We maintain the fundamental grade of **3/5**.

Existing businesses to recover on end-user growth and increase in customer base

- **Refrigerants:** R-22 sales are expected to revive due to pick-up in domestic AC sales, the company's improved competitiveness in the export markets and increasing usage in pharma and agrochemical industries. We forecast sales CAGR of 11% over FY14-17.
- **Specialty chemicals:** Pick-up in demand from the pharma and petrochemical industries and the company's efforts to tap new end-users through introduction of new products are expected to drive growth. We forecast revenue CAGR of 14% over FY14-17.
- **Inorganic fluorides:** With the pick-up in economic activity, demand from industries such as steel and aluminium is expected to increase. The company is also focussing on the export markets. We expect 16% revenue CAGR over FY14-17.

New forays to augment market position and profitability in the long run

- **Expansion in CRAMS:** Navin is expanding its CRAMS facility to manufacture larger quantities of the molecule developed. The expansion will enable Navin to cater to the existing clients, whose drugs enter the commercialisation phase, and add new clients looking for vendors with larger capacities.
- **JV with Piramal Enterprises:** Navin has formed a JV with Piramal Enterprises to manufacture a molecule to be used in a drug manufactured by Piramal's healthcare arm.

We forecast standalone EBITDA margin to improve from 12-12.5% in FY15-16 to 13.9% in FY17 mainly due to increase in contribution from the CRAMS business.

Introducing FY17 estimates; revenues to grow at 18% and PAT at 13% over FY14-17

The expanded CRAMS facility is expected to start contributing significantly to revenues from FY17 onwards. Accordingly, we have introduced FY17 estimates. We expect Navin's standalone revenues to grow at 17% CAGR to ₹7.1 bn in FY17 led by growth across businesses. We expect revenue contribution of ₹500 mn from the expanded CRAMS facility, which is likely to lead to margin expansion. PAT is likely to grow at 11% over this period.

Fair value revised to ₹671 factoring in economic benefits of new forays

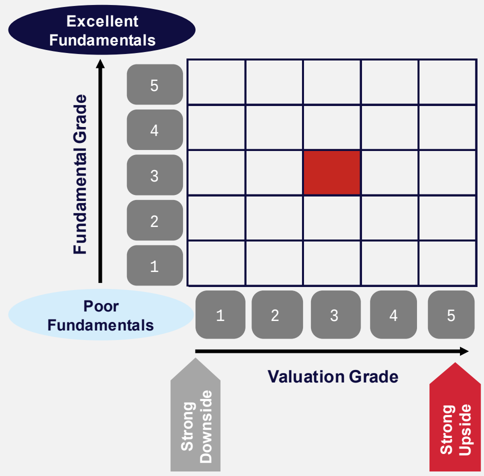
We have revised our sum-of-the-parts-based fair value to ₹671 from ₹411. Earlier, we valued Navin's core business by the P/E multiple approach - P/E multiple was assigned to Navin's FY16 EPS. However, the CRAMS facility, which has higher margin and RoE will start contributing significantly only from FY17 and is expected to scale up in the subsequent years. Hence, we have now used the discounted cash flow (DCF) method to factor in the economic benefits from the new forays. We have also built in our expectations from the JV in the DCF.

KEY FORECAST (STANDALONE)

(₹ mn)	FY13	FY14	FY15E	FY16E	FY17E
Operating income	5,251	4,497	5,197	6,143	7,128
EBITDA	812	620	652	740	994
Adj net income	418	467	472	477	647
Adj EPS (₹)	42.9	47.9	48.4	48.9	66.3
EPS growth (%)	(72.1)	11.7	1.1	0.9	35.7
Dividend yield (%)	2.5	2.6	2.6	2.6	3.0
RoCE (%)#	12.6	11.0	12.0	11.9	15.3
RoE (%)	8.4	8.9	8.6	8.3	10.6
PE (x)	14.2	12.7	12.6	12.5	9.2
P/BV (x)	1.2	1.1	1.1	1.0	0.9
EV/EBITDA (x)	6.6	7.7	7.7	6.9	4.8

NM: Not meaningful; CMP: Current market price
Calculated as (EBIT + other income)/Total capital employed
Source: Company, CRISIL Research estimates

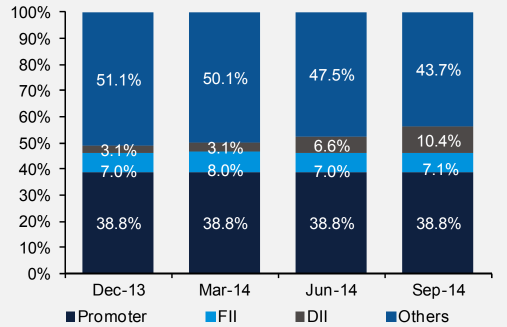
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	8338/27916
NSE/BSE ticker	NAVINFLUOR/ NAVIN
Face value (₹ per share)	10
Shares outstanding (mn)	9.8
Market cap (₹ mn)/(US$ mn)	6,071/100
Enterprise value (₹ mn)/(US$ mn)	4,870/80
52-week range (₹)/(H/L)	715/237
Beta	1.1
Free float (%)	61.2%
Avg daily volumes (30-days)	6,473
Avg daily value (30-days) (₹ mn)	3.9

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Navin	-2%	6%	63%	142%
CNX 500	5%	8%	28%	40%

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For detailed initiating coverage report please visit: www.ier.co.in
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

Table 1: Navin - Business environment

Product/Segment	Refrigerant gases	Specialty chemicals	Inorganic fluorides	CRAMS
Revenue contribution (FY14)	34%	35%	25%	6%
Revenue contribution (FY17E)	29%	33%	25%	13%
Product / application	■ R-22 – Residential air conditioning, pharmaceuticals ■ R134a – Car air-conditioners and household refrigerators (traded)	Fluorine-based compounds with applications in pharmaceuticals and agrochemicals	Hydrofluoric acid, ammonium bifluoride and cryolites, sodium and potassium fluorides – used in aluminium, glass and steel industries	Development of specialty molecules for the pharma and agrochemical industries
Geographic presence (revenue share in FY14)	Domestic 68%, exports 32%	Domestic 64%, exports 36%	Domestic 96%, exports 4%	Over 90% exports
Key export destinations	South-East Asia, the Middle East, South Africa, Europe	Europe, the US, the Middle East, South Korea	Asia	The US and Europe
Growth drivers	■ Pick-up in domestic demand for R-22 led by increase in sales of ACs ■ The demand for R-22 from other developing nations is strong as they have not yet put significant restrictions on its use ■ Increase in application of R-22 in the pharma industry	■ Increasing application in the pharma and agrochemical industries, which account for ~70% of the company's revenues in this segment ■ Established relationship with global chemical and pharma companies. such as Dr Reddy's Laboratories, Sun Pharma, Lupin, Cipla, Bayer, BASF, DuPont, Syngenta	■ Pick-up in domestic steel and aluminium demand led by economic recovery ■ Introduction of new products for the glass industry	■ Increase in presence in the US and Japan ■ Commercialisation of some of the molecules that Navin has developed
Key competitors	■ International – Chinese refrigerant players ■ Domestic – SRF Ltd, Gujarat Fluorochemicals Ltd	■ International – Honeywell, BASF, Arkema, Rhodia, Saltigo, Chinese players ■ Domestic – SRF Ltd, Tanfac Industries and other smaller players	■ International – Chinese imports ■ Domestic – Tanfac Industries	■ Domestic – SRF Ltd ■ International – Chinese CRAMS players
Revenue growth (FY12-14 – 2-year CAGR)	-12% (decline was due to weak domestic demand and fall in exports due to stiff competition from China)	-1% (flat sales due to weak domestic and export demand for the company's key product)	7%	232% (high growth as this business is at a nascent stage
Revenue growth (FY14-17E – 3-year CAGR)	11% (led by pick-up in domestic demand for refrigerant use and increased usage of R-22 in pharma and agrochemicals)	14% (demand for Navin's key product is showing signs of revival both in domestic and export markets)	16%	52%
Key risks	■ Inability to ramp up utilisation of the expanded CRAMS facility ■ Increase in prices of key raw materials is expected to depress margins as the company may not be able to pass on the increase to its customers ■ Increase in competition from Chinese players			

Source: Company, CRISIL Research

Grading Rationale

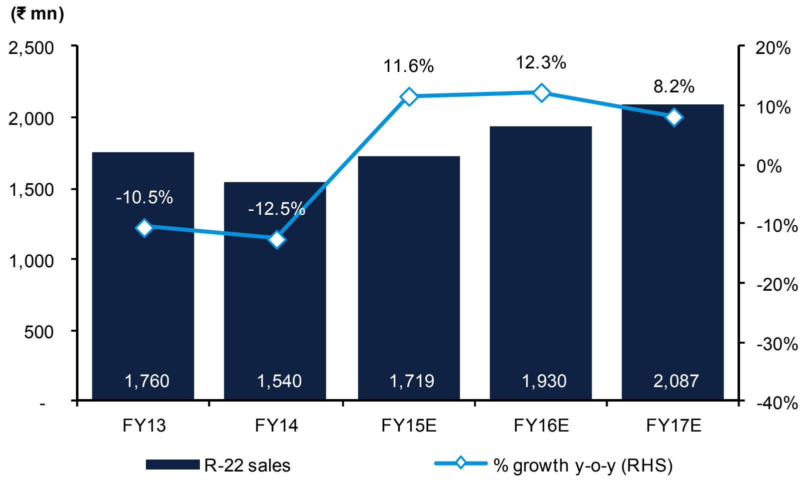
Navin's sales in FY14 were affected by weak demand in two businesses – refrigerants and specialty chemicals. However, core business margins improved as the company exhausted its high-cost fluorspar inventory and took cost rationalisation measures; core business EBITDA margin improved to 13.8% from 6.4% in FY13. Future prospects look bright – we expect revenue growth to bounce back due to improvement in domestic demand and the company's efforts to expand its customer base (such as increasing exports) across segments. Further, it is focussing on new opportunities in the fluorine chemistry space. It is expanding its CRAMS facility and has also set up a JV with Piramal Enterprises for manufacturing a specialty chemical for the healthcare industry. New forays will enhance Navin's market position as a R&D-focussed fluorine chemistry player. Consolidated profitability is also likely to improve in the medium to long term as the contribution from the high-margin businesses rises.

R-22: Refrigerant demand to bounce back; healthy offtake from non-refrigerant applications too

CRISIL Research expects Navin's R-22 sales to bounce back over FY14-16, after a two-year decline, thanks to revival in domestic AC sales and improvement in its competitiveness in the export markets. Further, R-22, which has conventionally found applications in the refrigeration industry, has been witnessing healthy demand from the pharma and agrochemical industries which is likely to support sales growth. We forecast R-22 sales to post 11% CAGR over FY14-17.

Forecast R-22 sales to post 12% CAGR over the next two years

Figure 1: R-22 sales to pick up over FY14-17



Source: Company, CRISIL Research

FY14 sales declined 12.5% on weak pricing

Domestic AC sales volumes remained flat in FY14 as a sharp increase in prices due to rupee depreciation and less intense summers impacted domestic demand. This led to weak demand for R-22. However, demand from other industries partially offset weak offtake from the AC segment. R-22 exports picked up as Navin's improved cost structure enhanced its competitiveness in the global markets. As a result, total sales volumes remained flat y-o-y in FY14. However, realisations declined 12.5% y-o-y due to stiff competition from Chinese products mainly in the export markets, which led to 12.5% decline in revenues.

Domestic AC demand to revive; healthy demand from pharma and agrochemical industries

Domestic AC sales to grow 7-8% over FY14-19

CRISIL Research expects overall AC sales volumes to gradually pick up. After remaining flat over FY12-14, domestic AC sales are expected to grow at 4% CAGR over FY14-16 and then increase to 8-9% in volume terms over FY16-19. Lower penetration, rising household incomes, growing number of nuclear families and higher value perception are some of the drivers.

Offtake from pharma and agrochemical industries has grown 15-20% over the past three years

Use of R-22 in pharma and agrochemical industries on the rise

Pharma and agrochemical industries are increasingly using R-22 as an input for their products. As per the management, Navin's sales to these industries have grown at 15-20% CAGR over the past three-four years and currently constitute 30-35% of domestic sales, up from less than 10% three years back. Both industries are expected to post robust growth over the next four-five years, which will likely support domestic sales of R-22. (Please refer to Annexure I for usage of fluorine-based chemicals in pharma and agrochemical industries.)

Domestic pesticide market to grow 13-15% over the next two years

With the increasing thrust on improving crop yields across the country, pesticide consumption is expected to log sustained growth. CRISIL Research expects the domestic pesticide industry to grow 13-15% over the next two years to ₹160 bn, driven by increase in penetration of pesticide usage in farms and in farmer level expenditure per hectare.

Domestic consumption as well as exports of pharmaceuticals set to grow

CRISIL Research expects the domestic market to grow at 10-12% CAGR over the next five years led by rising healthcare awareness and higher per capita income. Further, drugs worth US$130-150 bn are going off patent over 2012-17, which leaves a large opportunity for growth in Indian generics exports.

Exports have picked up but Chinese competition remains stiff

After declining for three consecutive years, Navin's R-22 export volumes grew 11% in FY14. Navin exhausted its high-cost inventory of fluorspar in FY13 (as mentioned in our earlier reports, the company had built one-year high-cost fluorspar inventory when there was a supply constraint) and also took a number of measures to improve plant efficiency. This resulted in lower cost of production. The company was, hence, able to compete with Chinese products in some markets. However, competition from China remains high due to abundant availability of fluorspar (key raw material for manufacturing R-22) in China. Hence, export margins are lower than domestic margins. Given that Indian manufacturers are predominantly dependent on imported fluorspar, we believe that competition from China would continue to put pressure on export margins.

Trying to synthesize new generation refrigerant gas

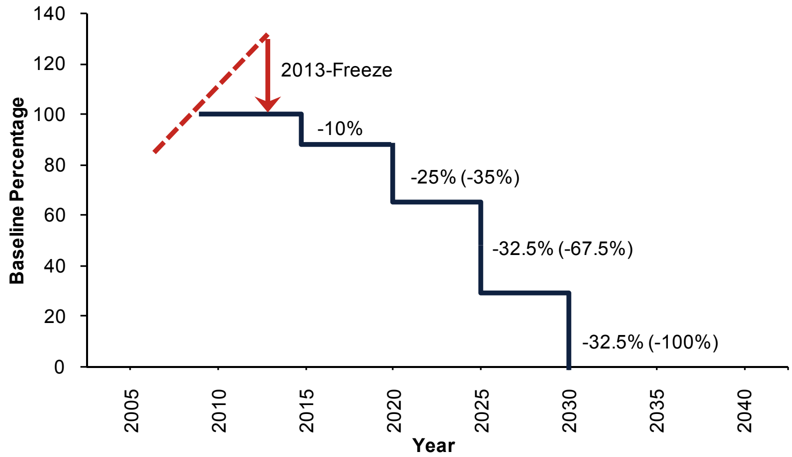
As R-22 (for refrigeration use) is under a phase-out, there is no clarity on its acceptance in the medium term. However, there is still uncertainty over which gas will be finally accepted by global authorities as an effective substitute of R-22. Despite this, domestic AC OEMs are planning to increase production/import of equipment which use other gases such as R-32 and R-401a. Hence, Navin is trying to develop the technology to manufacture R-32, which has lower ozone depleting potential (ODP) than R-22. The management indicated that they are unlikely to incur significant capex on this development. We believe that the switch from R-22 to other gases would be a gradual process and may not impact the sales of R-22 in the near term. However, it is important that Navin develops the capability to manufacture the new generation gases in order to maintain its share in the market in the medium-long term; its success in developing the technology and the cost incurred for the same are monitorables.

Export margins are lower than domestic margins due to stiff competition from Chinese manufacturers

OEMs planning to reduce dependence on R-22 despite limited clarity on its successor

The use of R-22 (a hydrochlorofluorocarbon or HCFC) as a refrigerant is in an accelerated phase-out under the Montreal Protocol because of its ozone depleting potential (ODP). While the developed nations have already reduced production and consumption of R-22 significantly, production restrictions in developing nations including India started in 2013. For these nations, 2013 production was capped at an average production of 2009 and 2010 (base line), another 10% production cut from the base line is to be done in 2015, and a complete phase-out is planned by 2030. However, currently there are no proven substitutes of R-22 – developed nations are using hydrofluorocarbons or HFCs such as R-410a which have low ODP but higher global warming potential (GWP) and, hence, are harmful to the environment. As per industry sources, 20% of the ACs used in India use gases other than R-22 – these include R-32, R-410a and R-290a. With the ban on import of AC equipment filled with R-22 coming into effect in June 2015 and reduction in domestic supply of R-22 due to production cuts in 2015, a number of AC OEMs are planning to increase the use of other gases.

Figure 2: R-22 phase-out road map



Source: Industry sources, CRISIL Research

Table 2: Alternate gases to R-22 have high GWP, flammability

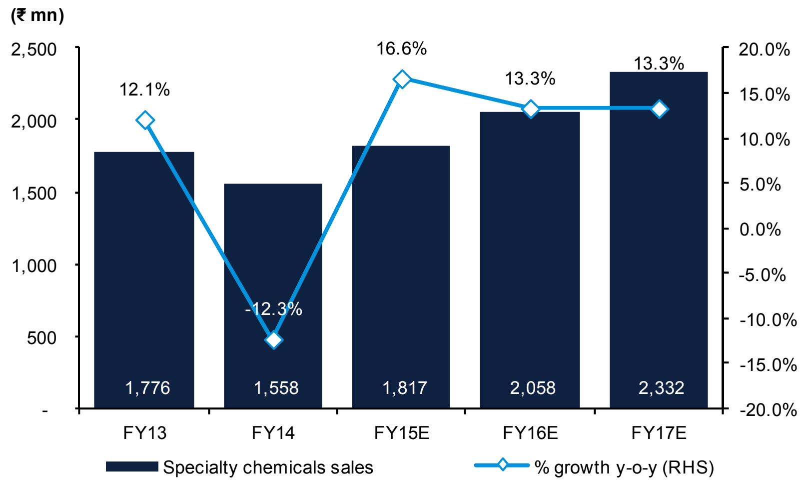
Type of refrigerant	Gases	Energy efficiency (COP)	ODP	GWP	Comments
CFC	CFC-11	6.6	1	5	-
	CFC-12	6.3	1	11	-
HCFC	HCFC-22 (R-22)	6.1	0.05	1.7	-
	HCFC-123	6.5	0.025	0.5	-
HFC	HFC-134a (R-134a)	6.2	-	1.3	-
	HFC-410a (R-401a)	5.8	-	2.1	-
	HFC-32	5.9	-	0.8	Some flammability
	HFC-152a	6.3	-	0.1	Some flammability
	HFC-245fa	6.4	-	1.6	
Others	HFO-1234yf	6	-	-	Some flammability
	Propane	6.1	-	-	Flammability
	Isobutane	6.3	-	-	Flammability
	Carbon dioxide	1.5	-	-	
	Ammonia	6.25	-	-	Flammability and toxicity

Source: Trane (global provider of air conditioning services)

Specialty chemicals: Targeting new markets

Revenues declined 12.3% in FY14 as demand for a key product (~60% of specialty chemicals revenues) was muted in the domestic and export markets; this product is sold to the pharma and agrochemical companies in the domestic market and to the petrochemical companies in the export markets. In order to revive growth in the specialty chemicals segment, the company is targeting newer markets and end-user industries. It is trying to expand its customer base by introducing variants of this product, which has revived sales growth over the past nine months; Q4FY14 and H1FY15 revenues grew 14% and 31%, respectively, on higher sales volumes. The company is also planning to tap new end-user industries such as rubber tyres in the export markets. The management has indicated that demand from the existing customers is picking up too. Based on these factors, we expect Navin's specialty chemicals revenues to bounce back – we forecast revenue CAGR of 14% over FY14-17.

Figure 3: Specialty chemicals sales to post 14% CAGR over FY14-17



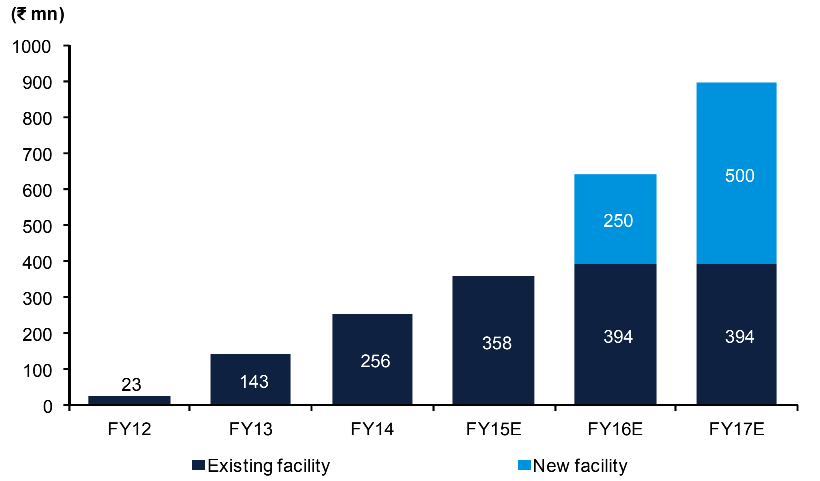
Source: Company, CRISIL Research

CRAMS: Expansion to enhance capabilities; ramp-up in utilisation is a monitorable

Navin's CRAMS business (6% of FY14 sales) has reported good traction since its commencement in FY11. Navin develops fluorine-based molecules in small quantities (up to kg level) for its clients – these molecules are used as inputs for clients' (mostly pharma companies) R&D activities. But it is now expanding its facility to manufacture larger quantities as some of the drugs in which these molecules were used are expected to enter the commercialisation phase. This would also help the company in adding clients who are looking for vendors with larger capacities. Navin will incur capex of ₹600 mn for this facility which is expected to be operational by end-FY15. Navin's established relationship with some of the large pharma MNCs such as Novartis, Pfizer, etc. work in its favour. However, given that drug discovery is a long process and the success rate of a new drug is less than 5%, we remain cautious on the ability of the company to increase the utilisation of this expanded facility in the near term – the management has indicated that they currently do not have any assured contracts. We forecast CRAMS revenue to grow from ₹256 mn in FY14 to ₹894 mn in FY17 – the new CRAMS facility is expected to contribute ₹250 mn in FY16 and ₹500 mn in FY17.

Navin is expected to incur ₹600 mn for the expansion of the CRAMS facility

Figure 4: CRAMS revenues to grow at 52% CAGR over FY14-17



Source: Company, CRISIL Research

Healthy traction continued in FY14

CRAMS reported revenues of ₹256 mn in FY14, up 79% y-o-y. The order book of this business has been growing well thanks to Navin's vast experience in handling fluorine-based chemicals, strong R&D focus and synergies with Manchester Organics Ltd (MOL, the UK-based subsidiary which was acquired in FY12). The company has also enhanced its marketing efforts – it has recruited sales personnel in the US and Japan in addition to the ones already present in Europe.

Synergies with MOL: The acquisition of MOL has given the company access to some of the advanced molecules as well as established relationship with global pharma and agrochemical companies. Since MOL has R&D capabilities but does not have a large-scale manufacturing facility, it was unable to service clients who required higher quantities. Navin, with its manufacturing facilities in India, is addressing this market.

JV with Piramal to augment market position

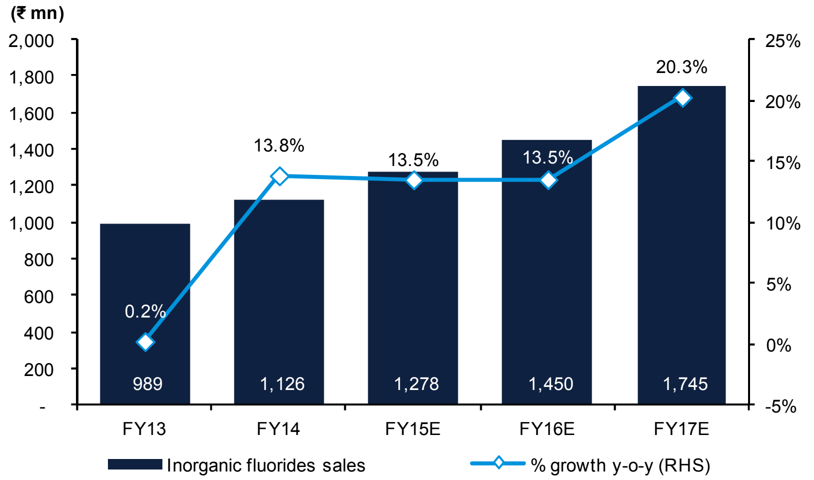
Navin has entered into a JV with Piramal Enterprises for manufacturing a specialty chemical which will be used by Piramal's healthcare arm in one of its drugs. Navin will hold 49% stake in the JV. The total capex envisaged is ₹1.2 bn for the first phase and the JV is expected to commence operations by end-FY16. This facility will be set up on Navin's land in Dahej, Gujarat, which the company would be leasing to the JV and may be expanded in future if the need arises. The management has indicated that the asset turnover at peak utilisation is likely to be 1x. We believe that a reputed pharma company partnering with Navin to manufacture a critical raw material is further proof of Navin's capability in the fluorine chemistry space and may result in more such opportunities in the future.

Navin will hold 49% stake in the JV

Inorganic fluorides: Healthy prospects due to economic revival, increase in export competitiveness

Navin's inorganic fluorides posted 14% revenue growth in FY14 led by 8% volume growth. While domestic volumes grew 6%, the company's increased focus and competitiveness (as in the case of refrigerants) in the export markets led to 78% growth in export sales (4% of revenues). Some of the products introduced by the company over the past two years – such as sodium fluoride (used in toothpastes) – achieved scale and added to domestic sales growth. We expect inorganic fluorides to post 16% revenue CAGR over FY14-17 driven by 12% volume growth due to (a) increase in domestic demand from industries such as steel and aluminium (majority consumers of inorganic fluorides) due to revival in the economy, (b) new product launches in the domestic market – the company has recently launched a new product for the glass industry, and (c) increase in exports as the company is now competitive in the global markets due to rationalisation of its cost structure.

Figure 5: Inorganic fluorides to post 16% revenue CAGR over FY14-17



Source: Company, CRISIL Research

Profitability to improve in FY17...

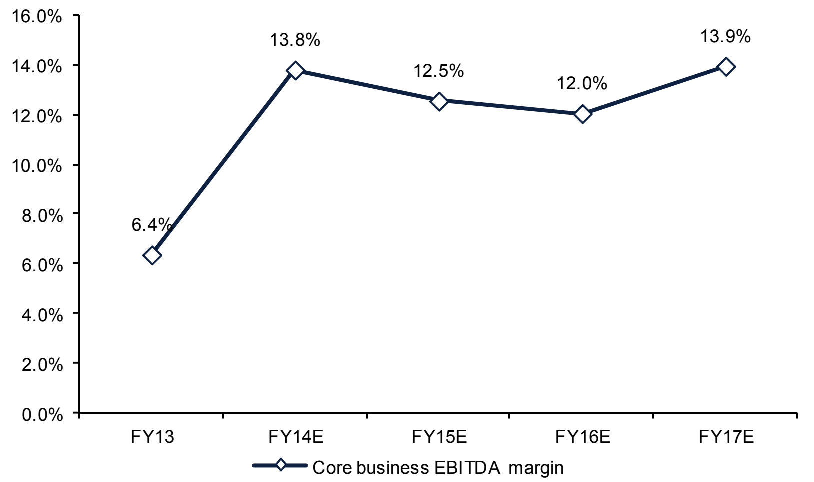
Over FY15-16, margins are likely to remain subdued due to:

- Increase in power cost vis-a-vis FY14 as the government of Gujarat has disallowed import of cheaper power through merchant channels.
- Increase in contribution of exports across segments, which have lower margins vs domestic sales.
- The new CRAMS facility is likely to be commissioned by end-FY15. We expect the utilisation to take some time to pick up. As a result, the unabsorbed fixed cost would likely impact margins in FY16.

Increase in low-margin exports would likely weigh on the EBITDA margin

However, with the increase in contribution of the CRAMS business and better utilisation of Navin's facilities, we expect standalone EBITDA margin to increase by 190 bps y-o-y to 13.9% in FY17.

Figure 6: Core business EBITDA margin trend



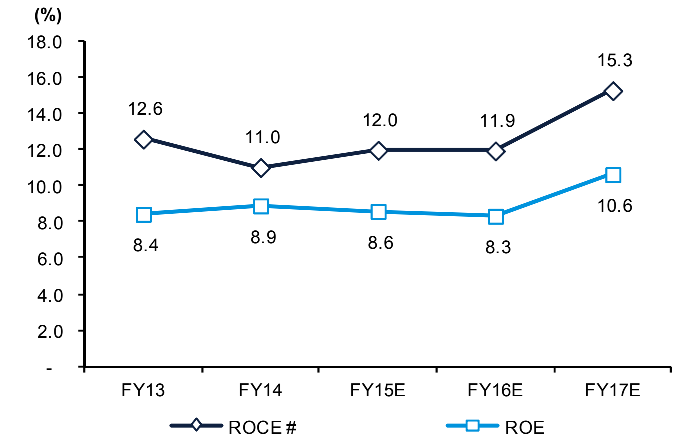
Source: Company, CRISIL Research

…and lead to improvement in return ratios

Over the past two years, Navin's RoE has been subdued at 8-9%. This is mainly as (a) carbon credit income stopped in December 2012, (b) the balance sheet contains large unutilised cash and non-core investments which include investments in group companies and real estate assets (in FY14, 42% of the company's net worth was deployed in non-core assets and cash), and (c) the returns (RoIC) generated by the core business have been subdued at 9-11%. In FY17, RoE is expected to improve to 10.6% due to improvement in business RoIC on better EBITDA margin.

The core business RoIC has been 7-10% over the past two years

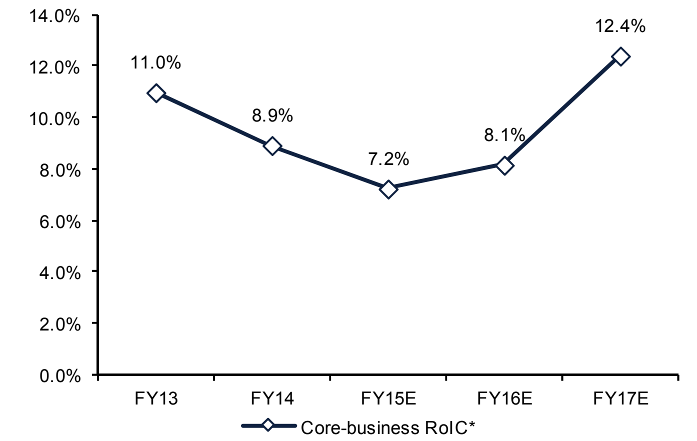
Figure 7: Return ratios to improve due to...



 # Calculated as (EBIT + other income)/Total capital employed

Source: Company, CRISIL Research

Figure 8: ...increase in core business returns



** Calculated as (PAT+ interest- other income)/(Total capital employed – cash – marketable securities – all investments including real estate investments)*

Source: Company, CRISIL Research

Navin has lower revenue CAGR, returns vis-à-vis peers

Navin does not have any like-to-like peer. We have compared Navin's past performance with manufacturers of fluorine chemicals. While most companies have a diversified product portfolio, Navin has maintained its focus on the fluorine chemistry – players such as SRF and Gujarat Fluorochemicals have significantly diversified revenue streams. We note that Navin's revenue growth (adjusted for carbon credit sales) has been the lowest amongst the peer set over the past five years. Also, the company's return ratios are lower than that of peers.

Table 3: Navin's performance vis-a-vis peers

Company (₹ mn)	Product portfolio	FY14 revenues	5-year sales CAGR	FY14 EBITDA margin	FY14 PAT	5-year PAT CAGR	Average RoE (FY13-14)
Navin #	Refrigerants, inorganic fluorides, fluorine-based specialty chemicals, CRAMS	4,497	7.8%	13.8%	467	1.5%	8.7%
Srf * #	Refrigerants, chlorinated solvents, fluorochemicals, technical textiles, packaging films, engineering plastics	34,021	18.6%	15.2%	2,166	5.8%	11.9%
Gujarat Fluorochemicals*#	Polytetrafluoroethylene resins, refrigerants, caustic soda dyes and flakes, fluorochemicals	11,409	22.4%	17.8%	744	-26%	10.1%

** Standalone business; # Calculated excluding carbon credit income*

Source: Company annual reports

Key Risks

Inability to increase utilisation of the new CRAMS facility

Navin has invested ₹650 mn in augmenting its CRAMS facility to provide higher quantities of the developed molecule. This facility is expected to be operational by end-FY15. However, currently, there are no assured orders. Given that the commercialisation of molecules in the pharma industry is time consuming with very low success rates, Navin's ability to ramp up utilisation of the expanded facility is a concern.

Increase in raw material prices

Prices of Navin's key raw materials – fluorspar and chloroform – have been volatile. The company is unable to completely pass on the increase in raw material prices as the demand has been weak. Any further increase in raw material prices would have an adverse impact on the company's EBITDA margin.

Competition from China

Chinese manufacturers are more cost competitive than their Indian counterparts due to abundant availability of fluorspar in China; Indian manufacturers rely on imports. Indian manufacturers face stiff competition from China especially in the export markets. Increase in competition or dumping by Chinese manufacturers in Navin's key export geographies is likely to adversely impact Navin's business.

Inability to keep up with technology changes

Navin's inability to produce a new generation refrigerant gas could lead to loss of market share

Navin's key product R-22 is under a phase-out for refrigeration applications. This gas is likely to be replaced by new generation gases such as R-32, R-410a, R-290a, etc. Navin's inability to develop/procure the technology to produce these gases could lead to loss of market share.

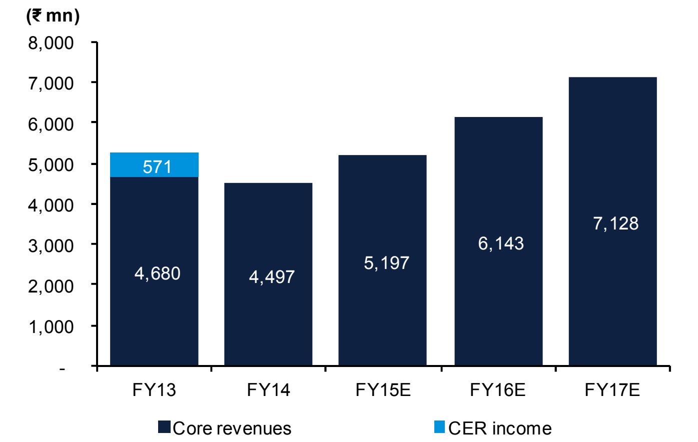
Financial Outlook

Standalone revenues to post 17% CAGR over FY14-17

We expect standalone revenues to grow at a CAGR of 17% over FY14-17 to ₹7.1 bn, driven by growth across all business segments. The commissioning of the new CRAMS facility is expected to add ₹250 mn to sales in FY16 and ₹500 mn in FY17.

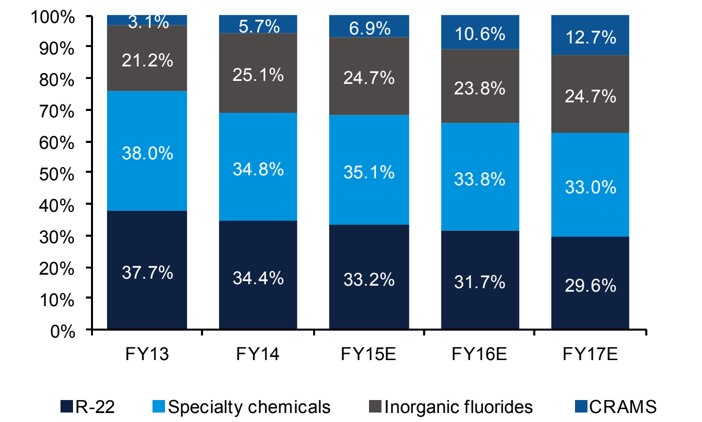
Standalone business revenues to be driven by growth across segments

Figure 9: Revenue trend over FY13-17



Source: CRISIL Research

Figure 10: Contribution of CRAMS on the rise



Source: CRISIL Research

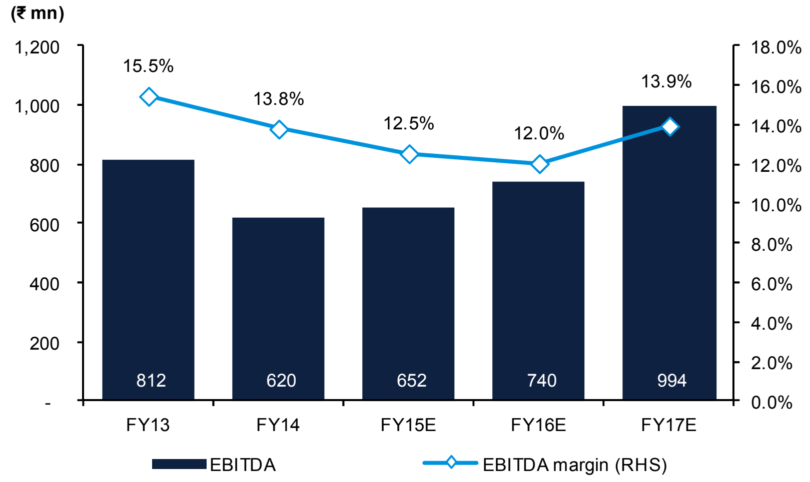
EBITDA margin to increase over FY15-17

We expect Navin's EBITDA margin to decline by 180 bps to 12% in FY16 due to:

- Increase in power cost vis-a-vis FY14 as the government of Gujarat has disallowed import of cheaper power through merchant channels.
- Increase in contribution of lower-margin exports.
- The new CRAMS facility is likely to be commissioned by end-FY15. We expect the utilisation to take some time to pick up. As a result, the unabsorbed fixed cost would likely impact margins in FY16.

However, with the increase in contribution of the CRAMS business and pick-up in utilisation of the existing facilities, we expect the margin to increase to 13.9% in FY17.

Figure 11: EBITDA and EBITDA margin trend



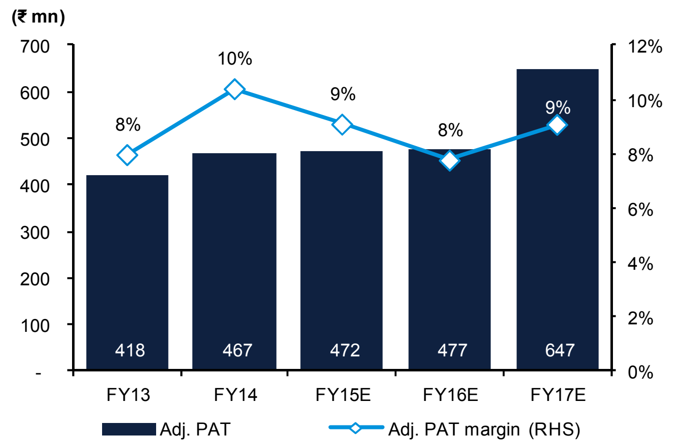
Source: CRISIL Research

PAT to increase to ₹647 mn in FY17; return ratios to improve

PAT is expected to remain flat over FY14-16 despite revenue growth due to decline in EBITDA margin. However, with the increase in EBITDA margin in FY17, we expect PAT to post 36% y-o-y growth; over FY14-17, PAT is expected to post 11% CAGR. Further, we expect return ratios to start improving from FY17 as business returns pick up on higher profitability.

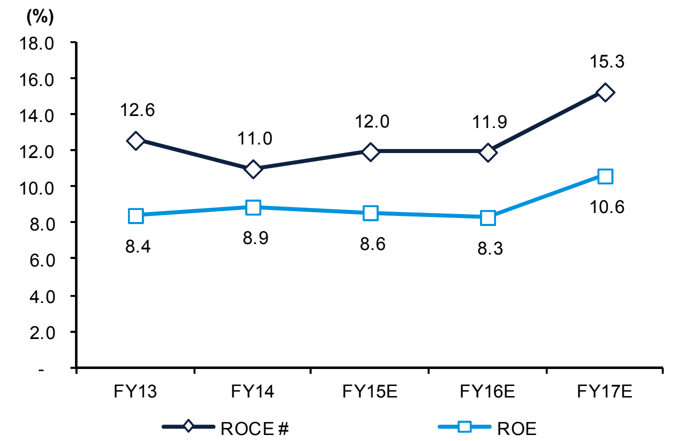
PAT to post 13% CAGR over FY14-17

Figure 12: PAT to post 11% CAGR over FY14-17



Source: CRISIL Research

Figure 13: Return ratios showing upward trajectory



 # Calculated as (EBIT + other income)/Total capital employed

Source: CRISIL Research

H1FY15 results snapshot

Navin's H1FY15 earnings were below CRISIL Research's expectations.

- Revenues grew 18% y-o-y to ₹2.5 bn, driven by the specialty chemicals (up 31% y-o-y) and refrigerant (18% y-o-y) businesses. The bulk fluorides business remained flat and CRAMS revenues declined 13% y-o-y.
- EBITDA margin contracted 492 bps y-o-y to 11.1% and was lower than expected due to (a) increase in raw material prices which the company was unable to pass on, (b) lower contribution from the high-margin CRAMS business and (c) increase in fixed cost on account of the ongoing expansion at the CRAMS facility.
- Adjusted PAT declined 20% y-o-y to ₹206 mn.

H1FY15 Results Summary

(₹ mn)	H1FY15	H1FY14	y-o-y (%)
Revenue from core business	2,534	2,137	19%
Revenue from CER		-	-
Other operating income	9	10	-18%
Operating income	**2,543**	**2,147**	**18%**
Raw materials cost	1,235	1,005	23%
Raw materials cost (% of operating income)	48.7%	47.0%	173bps
Employee cost	285	247	15%
Other expenses	741	552	34%
EBITDA	**281**	**343**	**-18%**
EBITDA margin	**11.1%**	**16.0%**	**-492bps**
Depreciation	89	103	-14%
EBIT	**192**	**240**	**-20%**
Interest and finance charges	10	23	-55%
Operating PBT	**182**	**217**	**-16%**
Other Income	95	131	-27%
Extraordinary Income/(expense)	(20)	-	-
PBT	**257**	**348**	**-26%**
Tax	71	91	-21%
Reported PAT	**186**	**257**	**-28%**
Adj PAT	**206**	**257**	**-20%**
Adj PAT margin	**8.1%**	**12.0%**	**-387bps**
No of equity shares (mn)	9.8	9.8	0%
Adj EPS (₹)	**21.1**	**26.3**	**-20%**

Source: Company, CRISIL Research

Earnings estimates revised

Navin's effective tax rate is expected to be higher over FY15-16 as the tax benefit which the company availed in earlier years by investing its cash in fixed maturity plans for one year is no longer available. Hence, we have reduced our FY15-16 earnings estimates. Also, we have introduced FY17 estimates as we believe the impact of the expanded CRAMS facility on the company's revenues and profitability would be visible from this year.

		FY15E			FY16E			FY17E
Particulars	Unit	Old	New	% change	Old	New	% change	
Revenue	(₹ mn)	5,197	5,197	0.0%	5,936	6,143	3.5%	7,128
EBITDA	(₹ mn)	678	652	-3.8%	715	740	3.5%	994
EBITDA margin	%	13.0%	12.5%	-50 bps	12.0%	12.0%	0 bps	13.9%
Tax rate	(₹ mn)	25%	31%	600 bps	25%	31%	600 bps	31%
PAT	(₹ mn)	522	472	-9.5%	517	477	-7.7%	647
PAT margin	%	10.0%	9.1%	-96 bps	8.7%	7.8%	-94 bps	9.1%
EPS	₹	53.5	48.4	-9.5%	52.9	48.9	-7.7%	66.3

Reasons for changes in estimates

Line item	FY15E	FY16E	FY17E
Revenues	Maintained	Increased as we now factor in higher revenues from the new CRAMS facility	Introducing FY17 estimates. Revenues are expected to grow 16% y-o-y led by growth across businesses. The new CRAMS facility is expected to contribute ₹500 mn in FY17
EBITDA margins	Lowered due to lower-than-expected margins in H1FY15	Maintained	EBITDA margin is expected to improve by 190 bps y-o-y in FY17 due to increase in contribution from the CRAMS business and higher utilisation of existing facilities
PAT margins	Reduced mainly as Navin's tax rate is expected to be higher at 31% from 25% expected earlier as the tax benefit on fixed maturity plans (in which the company has invested most of its cash) has been removed for instruments with maturity of one year		PAT is expected to increase 36% y-o-y due to increase in revenues and EBITDA margin

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Management led by experienced professionals

Navin is led by experienced professionals

Navin's top management consists of professionals at key positions. The management is led by Mr Shekhar Khanolkar, Managing Director, who is a chemical engineer with over 20 years of experience in the chemical industry. He is supported by Mr Partha Roychowdhury, CFO, who is a CA with over 29 years of industry experience.

Ably supported by strong second line

Navin's top management is supported by a strong second line. Dr. Ashis Mukherjee, Chief Technology Officer and President – CRAMS, has 21 years of experience in pharma, R&D and CRAMS; prior to this, he was head of the CRAMS division of PI Industries. Mr G C Jain, President – Operations has an experience of 34 years; prior to this he was with Reliance Industries.

Proven capabilities in fluorine chemistry

Fluorine is one of the most chemically reactive substances, and is incompatible with common materials including glass. Navin has been present in this space for over 30 years and is one of the few domestic manufacturers with proven capabilities in handling fluorine chemistry. Further, the company has been investing 1-2% of its turnover in R&D over the past four-five years which has enabled it to enhance its capabilities and manufacture high value-added products.

Focusing on new avenues, improving profitability

Navin's existing businesses – refrigerants, bulk fluorides and specialty chemicals – have been growing moderately over the past few years. Navin is focussing on opportunities in the high-margin CRAMS and specialty chemicals segments. It is expanding its CRAMS facility to build capabilities to produce tonne-level quantities. Also, the company has entered into a JV agreement with Piramal Enterprises for manufacturing a specialty chemical for the healthcare industry. The management has indicated that it may also pursue inorganic growth and is willing to enter into more JVs with reputed pharma companies. While we are cautious of the utilisation of the new CRAMS facility, we believe that these initiatives are likely to improve the overall profitability of the company in the long run.

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at Navin is good supported by good board practices and an independent board.

Board has been strengthened over the past year

Navin's board consists of 11 members, of whom seven are independent directors which meets the requirements of Clause 49 of SEBI's listing guidelines. The board is chaired by Mr H. A. Mafatlal, the Promoter Director. The independent directors are highly experienced and from diverse backgrounds. The following independent directors have been inducted over the past year.

- Mr H. H. Engineer: He has over 44 years of experience in the banking sector and retired as an Executive Director, Wholesale Banking of HDFC Bank Ltd.
- Mrs Radhika Haribhakti: She holds a post graduate diploma in management from IIM Ahmedabad. She has over 30 years of experience in commercial and investment banking with various foreign banks and is also actively involved in the development of the micro finance sector since 1996.

Navin's board consists of experienced professionals from diverse industry backgrounds

Disclosure levels have improved

Navin's disclosure levels have improved over the past year. In Q1FY15, it started providing quarterly presentations and conducting quarterly earnings call which is a positive. The company has also been sharing segment-wise revenues and profitability on a quarterly basis.

Healthy dividend payout over the past five years

The company has maintained a healthy dividend payout of 17-34% over the past five years which is a positive for the minority shareholders.

Board processes in place

The company has all the necessary committees – audit, remuneration and investor grievance – in place to support corporate governance practices. The audit committee is chaired by an independent director, Mr T. M. M. Nambiar, who was earlier the Managing Director of ACC Ltd.

Valuation Grade: 3/5

We have revised our SoTP-based fair value to ₹671 from ₹411. Earlier, we valued Navin's core business by the P/E multiple approach - P/E multiple was assigned to Navin's FY16 EPS. However, the expanded CRAMS facility will start contributing significantly only from FY17. Further, CRAMS (which has higher profitability and RoE compared with the existing businesses) is expected to significantly scale up in the subsequent years. Hence, we have now used the DCF method to factor in its economic benefits. We have also built in our expectations from the JV in the DCF. Accordingly, we have revised the value of the core business from ₹250 to ₹501 (including cash valuation). The non-operating assets are valued on a case-to-case basis. Based on the current market price of ₹622, the assigned valuation grade is **3/5**.

Fair value revised to ₹671 per share

	Old Value (₹ mn)	New Value (₹ mn)	Valuation per share (₹)	Discount rate	Discounted valuation per share (₹)	Methodology used and rationale for revision
Commercial real estate property in Lower Parel (Mumbai)	692	692	71		71	Rental income from the property is valued at 10% capitalisation rate
Commercial real estate property in Nariman Point (Mumbai), owned by Navin's subsidiary Sulakshana Securities Ltd	408	408	42		42	
Commercial real estate property in Churchgate (Mumbai)	175	175	18		18	
Commercial real estate property in Sion (Mumbai)	78	78	8		8	
Equity investment in MIL	306	402	41	25%	31	Holding company discount of 25% on the market value of investment; increased due to increase in MIL's market cap
Value from non-core assets					**170**	
Core business valuation (₹)	250	501	501		501	DCF has been used instead of P/E in order to factor in economic value of the new forays; this value also includes value of cash
Fair value					**671**	

Core business valued by DCF

- We have taken FY16 as the first year of discounting and have considered the discounted value of the firm's estimated free cash flows, including cash flows from the JV, from FY15 to FY24.
- We have assumed a terminal growth rate of 3% beyond the explicit forecast period.

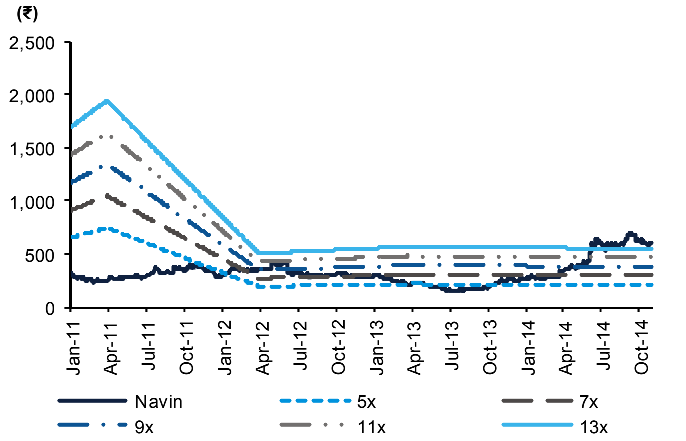
WACC computation

	FY15-24	Terminal value
Cost of equity	18.0%	18.0%
Cost of debt (post tax)	6.7%	6.7%
WACC	**17.3%**	**16.3%**
Terminal growth rate		3.00%

Sensitivity analysis

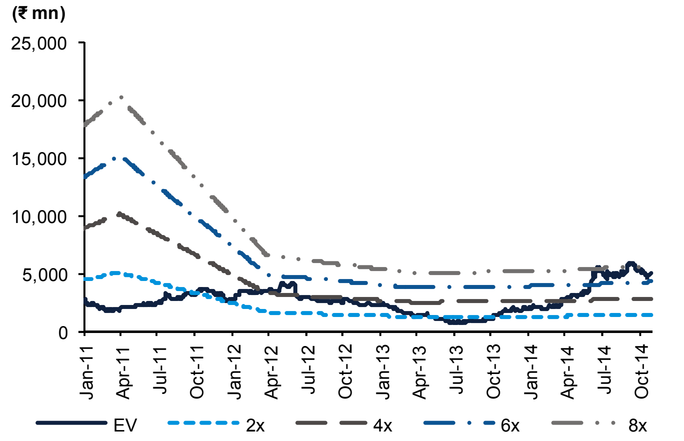
		Terminal growth rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
Terminal WACC	14.3%	532	555	581	612	650
	15.3%	498	516	537	561	591
	16.3%	470	485	**501**	521	544
	17.3%	447	458	472	488	506
	18.3%	427	436	448	460	475

One-year forward P/E band



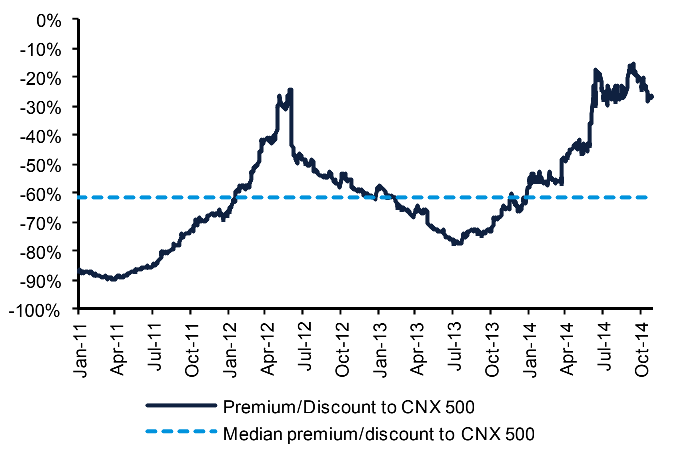
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



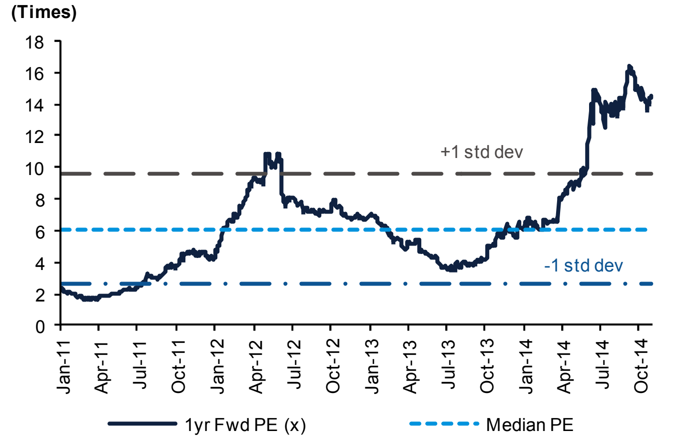
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



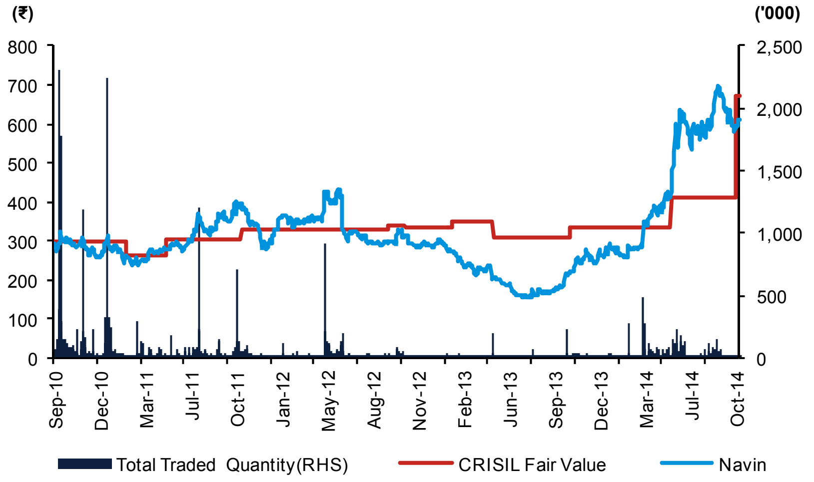
Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

Figure 14: Fair value movement since initiation



Source: Company, CRISIL Research

Peer comparison

	M. Cap	P/E (x)			P/B (x)			EV/EBITDA (x)			RoE (%)		
	(₹ mn)	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E
Navin	**6,071**	**13.0**	**12.9**	**12.7**	**1.1**	**1.1**	**1.0**	**7.8**	**8.1**	**7.5**	**8.9**	**8.6**	**8.3**
SRF Ltd	69,535	30.0	14.8	11.4	2.4	2.1	1.9	13.2	8.4	7.0	8.1	15.3	17.7
Gujarat Fluorochemicals Ltd	108,106	46.2	19.0	9.7	2.6	2.3	1.9	17.3	10.6	6.8	5.8	12.3	20.1
Aarti Industries Ltd	37,122	16.5	13.2	10.1	3.1	2.7	2.2	9.1	7.5	6.2	20.0	20.9	23.6
Atul Ltd	43,207	18.1	15.7	13.0	4.2	3.5	2.8	11.8	9.9	8.4	25.7	24.7	24.0
Camlin Fine Sciences Ltd	7,524	21.1	19.2	14.2	6.5	5.0	3.8	11.6	9.9	7.7	36.2	25.9	27.1
Thirumalai Chemicals Ltd	2,834	9.3	8.3	7.6	0.5	0.5	0.4	3.5	2.9	2.6	5.7	6.2	6.8
Vinati Organics Ltd	22,429	24.3	NA	NA	6.8	NA	NA	14.2	NA	NA	31.3	NA	NA
Vivimed Labs Ltd	15,171	9.5	NA	NA	1.1	NA	NA	8.6	NA	NA	13.2	NA	NA
Omkar Speciality Chemicals Ltd	4,891	20.0	14.7	13.5	2.0	1.8	1.7	10.6	9.3	7.2	10.5	13.1	12.9

Source: CRISIL Research, Industry sources

CRISIL IER reports released on Navin Fluorine International Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
13-Sept-10	Initiating coverage	2/5	₹300	3/5	₹292
25-Oct-10	Q2FY11 result update	2/5	₹300	3/5	₹296
16-Feb-11	Q3FY11 result update	2/5	₹265	3/5	₹261
23-May-11	Q4FY11 result update	2/5	₹304	3/5	₹279
01-Nov-11	Detailed report	3/5	₹329	2/5	₹391
05-Mar-12	Q3FY12 result update	3/5	₹329	3/5	₹354
24-May-12	Q4FY12 result update	3/5	₹329	3/5	₹329
01-Aug-12	Q1FY13 result update	3/5	₹329	4/5	₹298
14-Sep-12	Detailed Report	3/5	₹342	4/5	₹298
22-Oct-12	Q2FY13 result update	3/5	₹335	3/5	₹314
15-Feb-13	Q3FY13 result update	3/5	₹349	5/5	₹257
17-May-13	Q4FY13 result update	3/5	₹309	5/5	₹203
02-Aug-13	Q1FY14 result update	3/5	₹309	5/5	₹158
31-Oct-13	Q2FY14 result update	3/5	₹335	5/5	₹245
13-Jan-14	Detailed Report	3/5	₹335	4/5	₹278
13-Feb-14	Q3FY14 result update	3/5	₹335	5/5	₹262
11-Jun-14	Q4FY14 result update	3/5	₹411	1/5	₹579
06-Nov-14	Detailed Report	3/5	₹671	3/5	₹622

Company Overview

Navin is one of the four major fluorine players in India, with the highest nameplate capacity for hydrofluoric acid (HF). Its key business segments include refrigerants (34% of FY14 revenues), specialty chemicals (35%) bulk fluorides (25%) and CRAMS (6%). Exports accounted for 40% of its revenues in FY14.

At 22,000 tonnes, Navin has the highest nameplate capacity for HF in India

Profile of fluorochemical manufacturers in India

Company	HF capacity (tonnes)	Key focus area in fluorochemicals	Other businesses
Navin	22,000	■ Refrigerants ■ Bulk fluorides ■ Specialty chemicals	■ None
Tanfac Industries	15,600	■ Bulk fluorides for the aluminium industry	■ None
SRF Ltd	12,000	■ Refrigerants ■ Specialty chemicals ■ Backward integrated into chloromethane	■ Technical textiles ■ Packaging films
Gujarat Fluorochemicals Ltd	25,000 (refrigerant capacity)	■ Backward integrated into chloroform (which is combined with HF to produce refrigerants) ■ Forward integrated into PTFE (in which refrigerants are an input)	■ PTFE ■ Chemicals ■ Multiplexes ■ Power

Source: CRISIL Research

Milestones

1967	Fluorochemicals business was started as a part of Mafatlal Industries
2000	Commenced specialty chemicals business
2003	Fluorochemicals business was hived off into Navin as a part of restructuring
2011	Acquired UK-based Manchester Organics Ltd
	Commenced CRAMS business
2014	Formed JV with Piramal Enterprises Ltd to manufacture specialty chemical with applications in the healthcare industry

Annexure I: Usage of fluorine molecules in the pharma and agrochemical industries

Fluorine compounds are increasingly being used in the pharma and agrochemical industries. As per industry sources, 20% of the existing drugs and 30% of agrochemicals have fluorine; the usage in new molecules is much higher. Fluorine is used in these industries because of the following properties:

- **Pharma** – Fluorine increases a drug's ability to pass through the cell membrane. It also delays the metabolism and elimination of the drug by the body. As a result, the drug is available to the body for a longer time reducing the frequency of doses. Fluorine compounds are used in various drug categories including statins (cholesterol lowering drugs), anti-inflammatories, antacids, antidepressants, neuroleptics and antibiotics.
- **Agrochemicals** – Fluorine compounds are used in herbicides, insecticides and fungicides. Fluorine increases effectiveness of an agrochemical compound by enhancing the binding of the molecule to the target thereby delaying its deactivation.

Annexure II: Financials (standalone)

Income statement

(₹ mn)	FY13	FY14	FY15E	FY16E	FY17E
Operating income	**5,251**	**4,497**	**5,197**	**6,143**	**7,128**
EBITDA	**812**	**620**	**652**	**740**	**994**
EBITDA margin	**15.5%**	**13.8%**	**12.5%**	**12.0%**	**13.9%**
Depreciation	196	206	205	240	247
EBIT	**616**	**415**	**447**	**500**	**747**
Interest	61	54	20	19	9
Operating PBT	**555**	**361**	**426**	**482**	**738**
Other income	120	241	258	209	200
Exceptional inc/(exp)	13	39	(20)	-	-
PBT	**688**	**641**	**665**	**691**	**938**
Tax provision	256	135	212	214	291
Minority interest	-	-	-	-	-
PAT (Reported)	**432**	**507**	**452**	**477**	**647**
Less: Exceptionals	13	39	(20)	-	-
Adjusted PAT	**418**	**467**	**472**	**477**	**647**

Ratios

	FY13	FY14	FY15E	FY16E	FY17E
Growth					
Operating income (%)	(24.8)	(14.4)	15.6	18.2	16.0
EBITDA (%)	(67.9)	(23.6)	5.1	13.5	34.3
Adj PAT (%)	(72.1)	11.7	1.1	0.9	35.7
Adj EPS (%)	(72.1)	11.7	1.1	0.9	35.7
Profitability					
EBITDA margin (%)	15.5	13.8	12.5	12.0	13.9
Adj PAT Margin (%)	8.0	10.4	9.1	7.8	9.1
RoE (%)	8.4	8.9	8.6	8.3	10.6
RoCE (%)	12.6	11.0	12.0	11.9	15.3
RoIC (%)	14.0	15.4	15.2	14.5	17.2
Valuations					
Price-earnings (x)	14.2	12.7	12.6	12.5	9.2
Price-book (x)	1.2	1.1	1.1	1.0	0.9
EV/EBITDA (x)	6.6	7.7	7.7	6.9	4.8
EV/Sales (x)	1.0	1.1	1.0	0.8	0.7
Dividend payout ratio (%)	34.0	30.7	34.5	32.7	27.1
Dividend yield (%)	2.5	2.6	2.6	2.6	3.0
B/S ratios					
Inventory days	62	57	60	60	60
Creditors days	68	89	89	89	89
Debtor days	70	82	80	79	77
Working capital days	55	88	76	71	71
Gross asset turnover (x)	1.4	1.1	1.3	1.4	1.5
Net asset turnover (x)	1.9	1.6	2.0	2.2	2.4
Sales/operating assets (x	1.8	1.6	1.8	2.0	2.3
Current ratio (x)	3.6	3.6	2.8	2.6	2.6
Debt-equity (x)	0.2	0.1	0.0	0.0	(0.0)
Net debt/equity (x)	(0.1)	(0.2)	(0.2)	(0.1)	(0.2)
EBITDA/interest (x)	13.3	11.5	31.8	39.6	106.4
EBIT/interest (x)	10.1	7.7	21.8	26.8	79.9

Per share

	FY13	FY14	FY15E	FY16E	FY17E
Adj EPS (₹)	42.9	47.9	48.4	48.9	66.3
CEPS	62.9	68.9	69.4	73.4	91.6
Book value	521.9	555.1	572	602	647
Dividend (₹)	15.0	16.0	16.0	16.0	18.0
Actual o/s shares (mn)	9.8	9.8	9.8	9.8	9.8

Balance Sheet

(₹ mn)	FY13	FY14	FY15E	FY16E	FY17E
Liabilities					
Equity share capital	98	98	98	98	98
Reserves	4,997	5,321	5,488	5,780	6,222
Minorities	-	-	-	-	-
Net worth	**5,095**	**5,419**	**5,585**	**5,877**	**6,320**
Convertible debt	-	-	-	-	-
Other debt	832	570	220	220	(0)
Total debt	**832**	**570**	**220**	**220**	**(0)**
Deferred tax liability (net)	326	332	332	332	332
Total liabilities	**6,253**	**6,320**	**6,137**	**6,429**	**6,651**
Assets					
Net fixed assets	2,749	2,727	2,557	3,017	2,920
Capital WIP	92	110	523	123	123
Total fixed assets	**2,842**	**2,837**	**3,080**	**3,140**	**3,043**
Investments	**898**	**638**	**788**	**938**	**938**
Current assets					
Inventory	719	573	727	864	980
Sundry debtors	957	1,080	1,130	1,318	1,489
Loans and advances	398	511	520	614	713
Cash & bank balance	257	234	221	208	345
Marketable securities	1,134	1,537	937	837	837
Total current assets	**3,465**	**3,936**	**3,535**	**3,842**	**4,365**
Total current liabilities	**961**	**1,099**	**1,274**	**1,499**	**1,702**
Net current assets	**2,504**	**2,838**	**2,261**	**2,343**	**2,663**
Intangibles/Misc. expenditu	**9**	**8**	**8**	**8**	**8**
Total assets	**6,253**	**6,320**	**6,137**	**6,429**	**6,651**

Cash flow

(₹ mn)	FY13	FY14	FY15E	FY16E	FY17E
Pre-tax profit	675	602	685	691	938
Total tax paid	(217)	(129)	(212)	(214)	(291)
Depreciation	196	206	205	240	247
Working capital changes	(631)	49	(37)	(194)	(183)
Net cash from operations	**23**	**728**	**641**	**522**	**711**
Cash from investments					
Capital expenditure	(162)	(201)	(448)	(300)	(150)
Investments and others	(430)	(143)	450	(50)	-
Net cash from investments	**(592)**	**(344)**	**2**	**(350)**	**(150)**
Cash from financing					
Equity raised/(repaid)	0	-	-	-	-
Debt raised/(repaid)	(101)	(262)	(350)	-	(220)
Dividend (incl. tax)	(171)	(183)	(186)	(186)	(206)
Others (incl extraordinaries)	13	39	(120)	1	1
Net cash from financing	**(258)**	**(406)**	**(656)**	**(185)**	**(425)**
Change in cash position	(828)	(22)	(14)	(13)	137
Closing cash	257	234	221	208	345

Quarterly financials

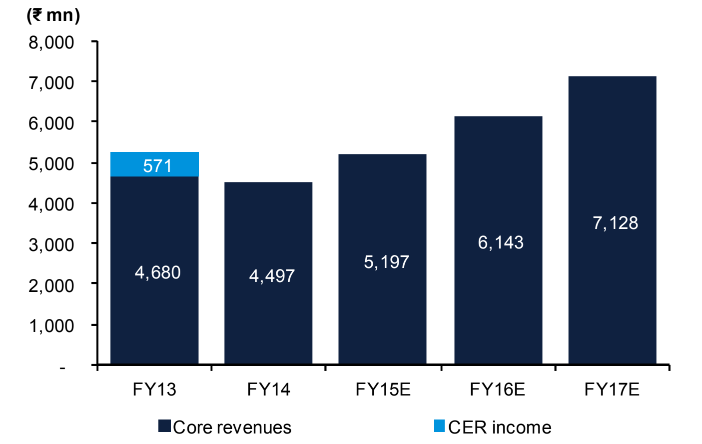
(₹ mn)	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15
Operating income	**999**	**1,101**	**1,244**	**1,301**	**1,242**
Change (q-o-q)	-13%	10%	13%	5%	-5%
EBITDA	**164**	**131**	**133**	**143**	**139**
Change (q-o-q)	-8%	-21%	2%	7%	-3%
EBITDA margin	**16.5%**	**11.9%**	**10.7%**	**11.0%**	**11.2%**
PAT	123	68	181	85	101
Adj PAT	**123**	**68**	**181**	**105**	**101**
Change (q-o-q)	-8%	-44%	165%	-42%	-4%
Adj PAT margin	**12.3%**	**6.2%**	**14.6%**	**8.1%**	**8.1%**
Adj EPS	**12.6**	**7.0**	**18.6**	**10.8**	**10.3**

 # Calculated as (EBIT + other income)/Total capital employed

Source: CRISIL Research

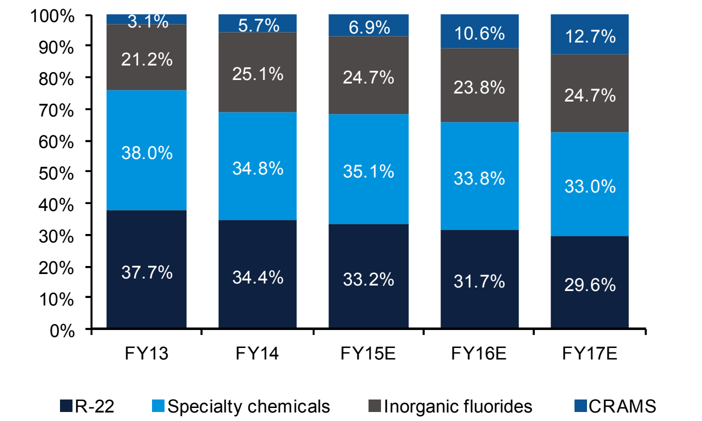
Focus Charts

Revenues to post 17% CAGR over FY14-17



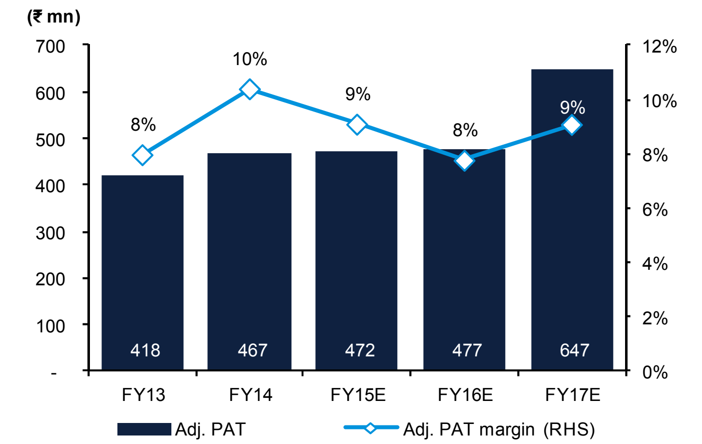
Source: Company, CRISIL Research revenues

Contribution of CRAMS business to increase



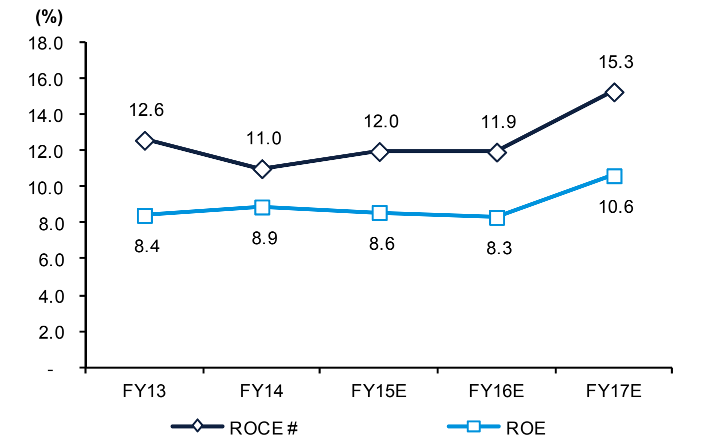
Source: Company, CRISIL Research

PAT to post 11% CAGR over FY14-17



Source: Company, CRISIL Research

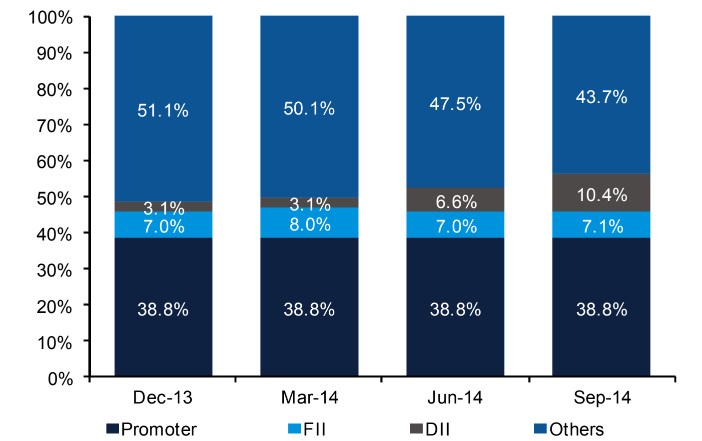
Return ratios to pick up



 # Calculated as (EBIT + other income)/Total capital employed

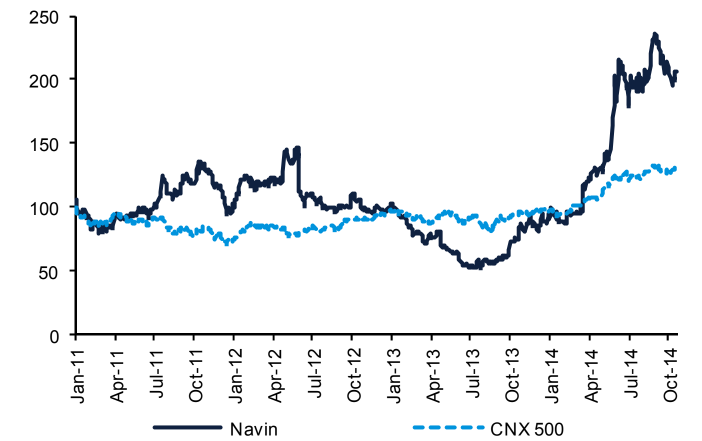
Source: Company, CRISIL Research

Shareholding pattern over the quarters



Source: Company, CRISIL Research

Movement vis-a-vis CNX 500



-Indexed to 100

Source: Company, CRISIL Research

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