January 3, 2017

Initiation

Navin Fluorine International Ltd

Fluorinating the way ahead

Outperformer

Navin Fluorine International Ltd (NFIL) a pioneer in Fluorochemical industry has over 45 years of experience in fluorine chemistry and refrigerant science space. Leveraging on its dominance in the sector NFIL diversified into specialty chemicals segment in the year 2000 and used windfall from carbon credits to venture into Custom Research and Manufacturing Services (CRAMS) in 2010. Both these segments are high value businesses with significant entry barriers. NFIL has also entered into Joint Venture (JV) with Piramal Enterprises Ltd (PEL) and partnership with Honeywell (US), these ventures will enhance future growth. Going ahead, we expect revenue and PAT CAGR of 15% and 27% respectively over FY16-19E and EBITDA margins of ~22% in FY19E. Given its dominance in fluorination business and favourable growth outlook, we initiate coverage with target price of ₹2,900, valuing the stock at 18x its 12M Sep'18E PE.

Reshaped business model through systematic capital allocation: NFIL generated windfall income of around ₹400 crore over FY11-13, which it used to enter into the CRAMS segment. It also fully acquired Manchester Organics Ltd (UK) for ₹93 crore in FY16 to further strengthen its CRAMS business. Further, to secure future source of key raw material (Fluorspar) NFIL entered into a JV with Gujarat Mineral Development Corporation (GMDC).

Surge in share of key segments to drive growth: Scaling up the value chain NFIL entered into specialty chemical and CRAMS segments. These segments have relatively higher margins and mainly cater to the pharmaceutical, agro chemical, crop protection and specialty chemical sectors. In the CRAMS segment, the company commenced operation at the new Dewas facility in FY16 and at its peak can generate revenue of around ₹180 crore.

Investment in new avenues to further boost growth: NFIL entered into a JV with PEL (holds 51% stake) in 2014 to manufacture fluorinated intermediate exclusively for PEL. The products are in validation stage and will soon start commence large scale production. In Mar'16, NFIL entered into a partnership with Honeywell (US) to manufacture 'HFO 1234 yf' gas which is a near replacement for R-134a (used in vehicle air conditioning systems).

Strong balance sheet and healthy return ratios: NFIL's revenue and PAT has increased from FY13-16 at a CAGR of 7% and 24%, respectively. EBITDA margin has expanded by 230 bps to 17% in FY16. Going ahead, we expect revenue and PAT CAGR of 15% and 27% respectively over FY16-19E and EBITDA margins of ~22% in FY19E. The company has minimum debt on balance sheet and RoIC and RoE's are expected to increase further from 19% and 14% respectively in FY16 to 31% and 20% in FY19E.

Risk factors: 1) Lower utilization of new CRAMS facility; 2) Change in phase out plan of R-22 gas; 3) Stiff competition from Chinese players.

Valuation: We believe traction from CRAMS and specialty chemical segment along with commercialization of Piramal JV and Honeywell partnership will be the future growth drivers. Given NFIL's dominance in the fluorination space and favourable growth outlook, we initiate coverage with a target price of ₹2,900, valuing the stock at 18x its 12M Sep'18E PE.

Recommendation

Current Market Price (₹)	2,541
Target Price (₹)	2,900
Potential upside	14.1%
Sector Relative to Market	Outperform
Stock Relative to Sector	In-line

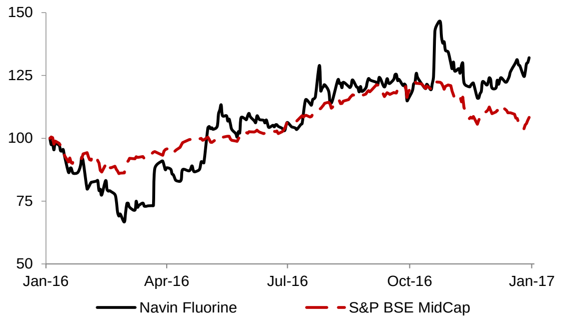
Stock Information

BSE Code	532504
NSE Code	NAVINFLUOR
Face value (₹/share)	10.0
No. of shares (Cr.)	1.0
Market Cap (₹ Cr.)	2,446
Free float (₹ Cr.)	1,500
52 Week H / L (₹)	2,875/1,262
Avg. Daily turnover (12M, ₹ Cr.)	4.4

Shareholding Pattern (%)

	Sep-16	Sep-15
Promoter	38.7	38.8
Mutual Funds	17.6	16.9
FII/FPI	10.7	7.6
Others including Public	33.0	36.7

Price Performance (%)



Source: Bloomberg, Centrum Wealth Research

Price Performance (%)

	1M	3M	6M	12M
Navin Fluorine Intl.	10.2	11.1	23.6	30.3
S&P BSE Midcap	(0.1)	(9.6)	2.7	8.3

Source: Bloomberg, Centrum Wealth Research

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Financial Summary (Consolidated)

Y/E Mar (₹ Cr.)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS (₹)	P/E (x)	EV/EBITDA(x)	RoE (%)
FY15A	592	21.7	72	12.2	58	6.5	59.53	42.7	34.1	10.2
FY16A	680	14.9	117	17.3	84	43.4	85.34	29.8	21.2	13.5
FY17E	767	12.8	157	20.4	115	37.9	117.73	21.6	15.5	16.9
FY18E	889	16.0	194	21.8	144	24.7	146.77	17.3	12.3	18.8
FY19E	1,046	17.6	228	21.8	172	19.6	175.49	14.5	10.2	19.8

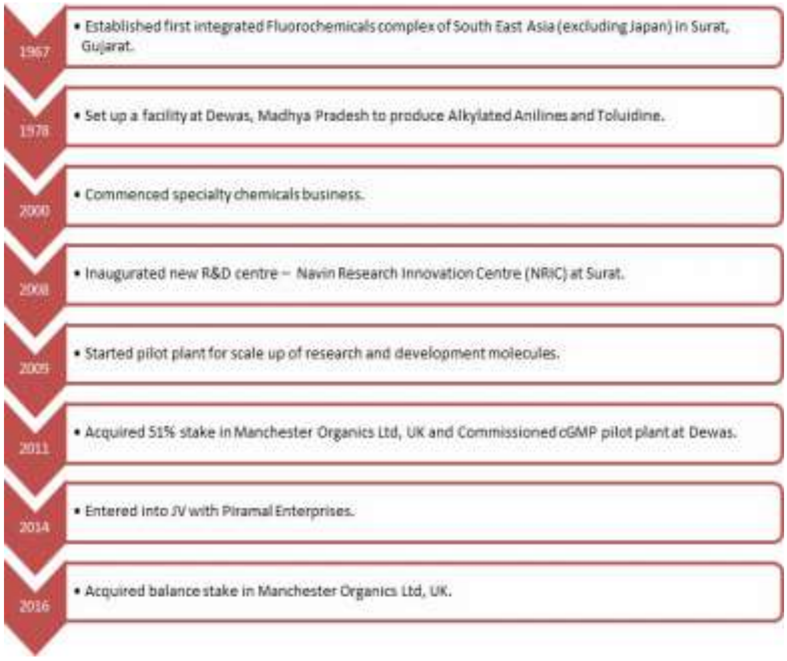
Source: Company, Centrum Wealth Research

About the company

Navin Fluorine International Ltd (NFIL) established in 1967 is a part of the Arvind Mafatlal Group. It is one of the oldest refrigerant gas players in Asia. NFIL's Mafron brand is a generic name for refrigerant gases in India and a preferred choice for original equipment manufacturers (OEM), service technicians and equipment owners. The company operates one of the largest integrated fluorochemicals complexes in India with two manufacturing facilities located in Gujarat (Surat and Dahej) and one in Madhya Pradesh (Dewas).

NFIL initially used to manufacture refrigerant gases which are used as cooling agent in air conditioners, refrigerators and commercial establishments and inorganic fluorides used as raw materials in the metal and glass industry. In the year 2000, NFIL decided to move up the value chain and ventured into the speciality chemicals segment and further scaled up operations by entering into the CRAMS segment in 2011.

Exhibit 1: Key milestones of the company



Source: Company, Centrum Wealth Research

NFIL operates in 4 lines of businesses, the base business of Refrigerants, Specialty chemicals, Inorganic fluoride and CRAMS. The products offered through these segments cater to different industries including air conditioning (OEM), Fluoropolymer, Pharmaceuticals, Agrochemicals & Crop protection, Fragrance, Oil & Gas, Stainless Steel among others. NFIL's rich clientele includes global players like Syngenta, BASF, Whirlpool, LG, Samsung, Carrier, Blue Star, Bayer, Clariant, Lupin and Sun Pharma.

Exhibit 2: Business Segments

	Refrigerants	Inorganic Fluoride	Speciality chemical	CRAMS
Revenue contribution (FY16)	34%	15%	38%	14%
Geographic distribution (Revenue FY16)	Domestic 62%, Exports 38%	Domestic 89%, Exports 11%	Domestic 54%, Exports 46%	Exports 100%
Key export market	Europe, Middle East, South-East Asia and South Africa	US, Europe, Middle East and South Korea	Asia	US and Europe
Products	HCFC 22, HCFC 22 PTFE Grade, HFC 134a, HFC 404a, HFC 410a	Aluminium Fluoride, Ammonium Bifluoride, Anhydrous Hydrofluoric	Over 48 Fluorine based products	Custom chemical syntheses of fluorinated compounds
Industry	Air-conditioning, Pharmaceuticals and Fluoropolymer	Oil & Gas, Stainless Steel, Electronics and Pharmaceuticals	Pharmaceuticals, Crop protection and Fragrances	Pharmaceuticals, Agro chemical and Specialty chemicals
Revenue contribution (FY19E)	25%	14%	30%	30%

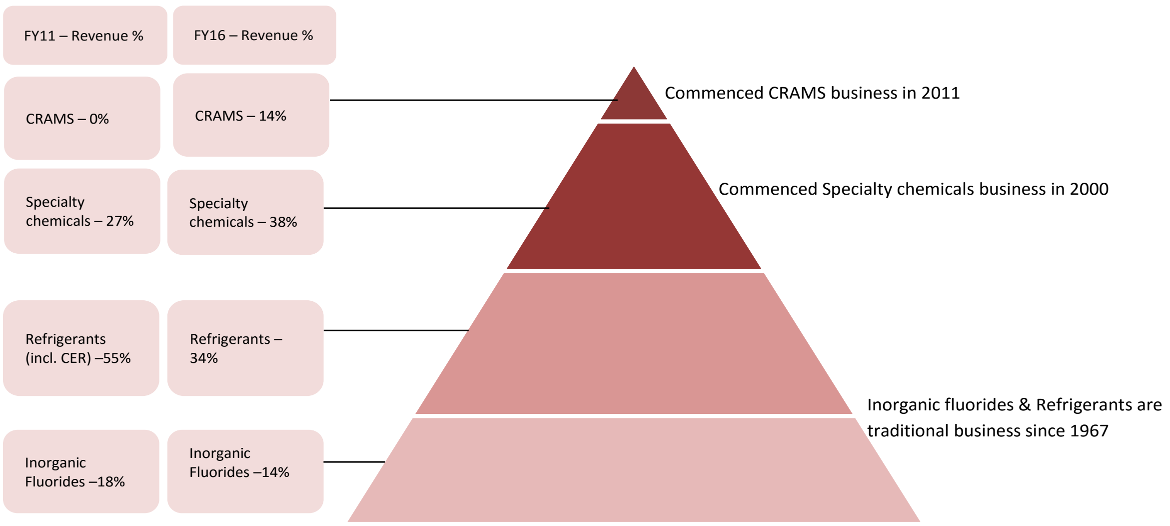
Source: Company, Centrum Wealth Research

Reshaped business model through systematic capital allocation

The refrigerant business of NFIL mainly consists of R-22 gas which is used in air-conditioners and as a feedstock in pharmaceuticals and specialty chemicals industry. An international carbon credit system was approved in conjunction with the Kyoto Protocol in 1997 to reduce greenhouse gases and provide incentives to users to bring down carbon emission below their quota. As per the system, carbon credits could be earned if a company pollutes less than its quota and in turn could trade these credits in the international market to companies that pollute more.

NFIL generated income of around ₹400 crore over FY11-13 from trading in these carbon credits, post which in FY14 the EU levied a ban on trading of carbon credit. NFIL utilized this windfall income to diversify its presence in higher margin CRAMS business by investing ₹60 crore for setting up a multi-product plant in Dewas. To further strengthen its CRAMS business, NFIL invested around ₹93 crore (₹33 crore in FY12 for 51% stake and ₹60 crore in FY16 for the balance) to acquire 100% stake in Manchester Organics Ltd (MOL).

Exhibit 3: Scaling up the value chain



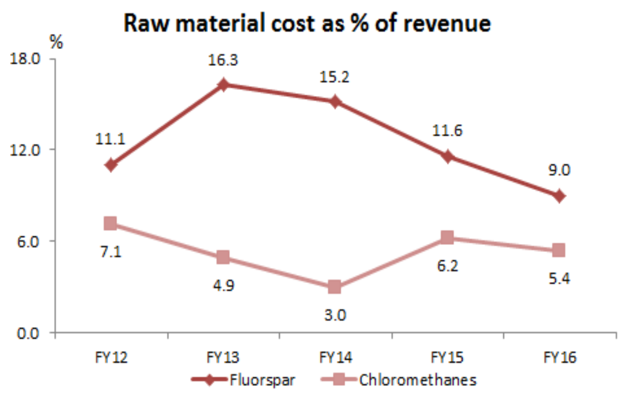
Source: Company, Centrum Wealth Research

The refrigerant business in the near term is unlikely to be affected due to the mandatory phase out of R-22 gas as the government has banned import of pre-filled R-22 gas cylinders. It is expected to be steady cash generator for NFIL as even though the segment may not see any volume growth, realization from the segment are expected to increase as demand for R-22 gas will outpace supply due to the imposition of production cuts.

In order to secure its raw material source and reduce price volatility, NFIL (holds 25%) and Gujarat Fluorochemicals Ltd (GFL) entered into a joint venture (JV) - Swarnim Gujarat Fluorspar Pvt Ltd with Gujarat Mineral Development Corporation Ltd (GMDC) pursuant to which entire quantity of acid grade fluorspar produced by GMDC will be bought equally by NFIL and GFL. The JV is yet to commence operations.

Further NFIL has incorporated a trading outfit in China – Navin Fluorine (Shanghai) Co. Ltd to ensure smooth supply of other key raw materials. The company plans to invest ₹13 crore over the next 20 years in this venture.

Exhibit 4: Key raw material cost trend continues to be downward



Source: Company, Centrum Wealth Research

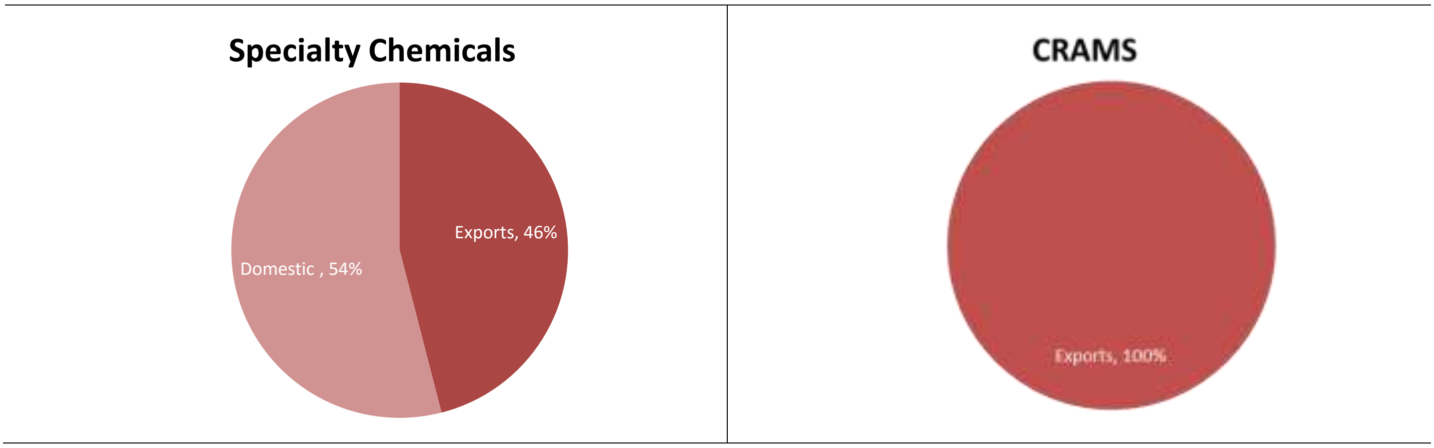
Surge in share of key segments to drive growth

To capitalize on its expertise in the Fluorochemical industry, NFIL diversified its revenue base by entering the speciality chemical segment in 2000 and CRAMS in 2011.

In the speciality chemicals segment, The company is regularly enhancing its product portfolio and is now offering 48 products including key products like Borontrifluoride, fluorobenzene and benzotrifluoride mainly catering to the pharmaceutical, agrochemical and petrochemicals industries.

Due to the overall slowdown in the global agrochemical industry NFIL is currently facing headwinds in this business. However, the management is confident that growth in this segment would bounce back in the near term because of introduction of new products and addition of new clients. We expect growth in the segment to bounce back in FY18 and expect it to increase at a CAGR of 10% over FY17-19E.

Exhibit 5: Geographical revenue distribution of key businesses (FY16)



Source: Company, Centrum Wealth Research

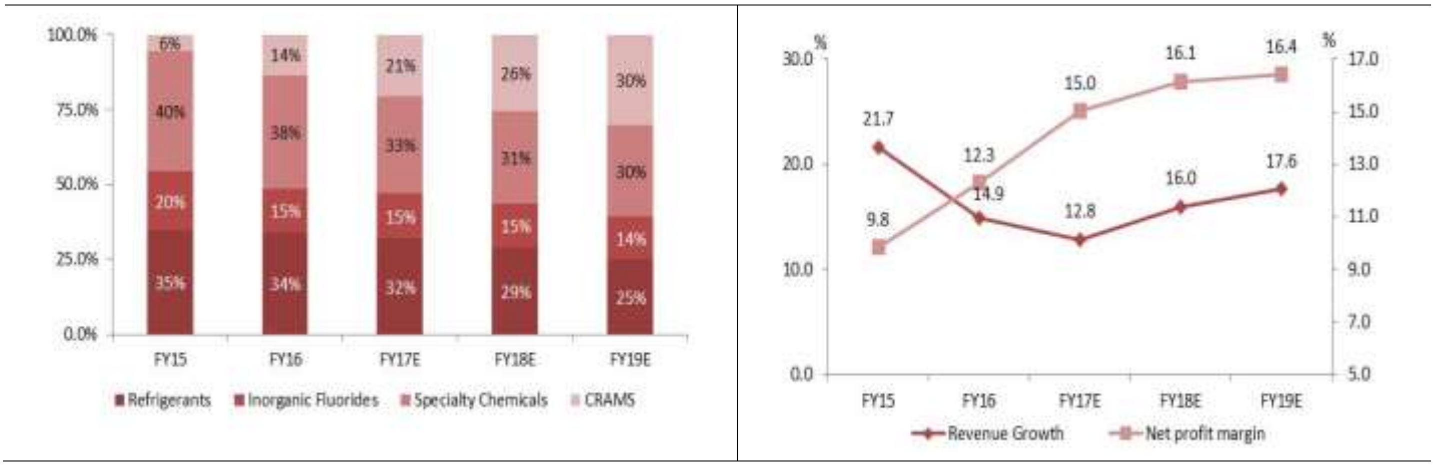
In the CRAMS space, the company is currently working on around 40 molecules to be delivered to more than 20 global pharmaceutical majors. NFIL continues to strengthen its foothold across American, European and Asia Pacific regions with stronger marketing teams across USA, Western Europe and Japan.

NFIL has invested around ₹60 crore to augment its pilot plant facility at Dewas with cGMP compliant contract manufacturing facility to deliver ton level quantities. The new facility has undergone successful customer audits by global pharmaceutical companies and had commenced commercial production at the end of FY16.

The new facility will act as a centre for Innovation which will continue to drive growth. NFIL further plans to continue its investment in research and development of new molecules, new applications and more efficient processing techniques.

The acquisition of Manchester Organics Ltd UK (MOL) will help NFIL gain a higher share in the CRAMS universe of fluorinated molecules. MOL has not only given NFIL access to global innovative pharmaceutical companies but also provided an edge in fluorination chemistries; this has enhanced the company's overall production capabilities of value added product portfolio in the CRAMS and specialty chemicals segment. We expect robust growth in the CRAMS segment, increasing at a CAGR of 54% to ₹320 crore over FY16-19E.

Exhibit 6: Higher contribution from key segments to drive growth and EBITDA margins



Source: Company, Centrum Wealth Research

Growth in Inorganic Fluorides to bounce back

The inorganic fluoride segment mainly caters to industries like stainless steel, glass, oil & gas, abrasives, electronic industries, pharmaceutical, agrochemcials etc. The volume of products in this segment is high with applications in standard processes.

Over the last couple of year, revenue from this segment had declined due to slowdown in domestic demand and pricing pressure on account of cheaper imports. However, the company's continued focus on strengthening its product portfolio by introducing new products for new applications in industries like electronics and geographical diversification has resulted in a turnaround in business. In H1FY17 revenue from this segment has grown at 20.5% to ₹55 crore and going ahead we expect revenue from this segment to witness a CAGR of 17% to ₹152 crore over FY16-19E.

Exhibit 7: Pick up in Inorganic Fluorides on card

Source: Company, Centrum Wealth Research

JV with Piramal & Honeywell to cater long term benefits

NFIL and Piramal Enterprises Ltd (PEL) in 2014 entered into a JV, Convergence Chemicals Pvt Ltd (CCPL) manufacture fluorinated intermediate used in pharmaceutical industry. As per the agreement NFIL will hold 49% and PEL will have 51% stake in CCPL.

NFIL has set up a dedicated facility for this JV in Dahej for an initial investment of ₹140 crore, which will be equally contributed by NFIL and PEL (equity contribution by NFIL is expected to be around ₹35 crore and balance by debt). Raw materials for this facility will be supplied from NFIL's fluorination plant and the final product will cater to PEL's fast growing 'critical care' segment.

The company is currently conducting trial run of the product from the plant and the final product is under approval with the customer. Post receipt of the approval, full scale commercial production and sale is expected to commence during FY17.

In Mar'16, NFIL entered into a partnership with Honeywell to manufacture Solstice yf (HFO 1234 yf) in India. As per the terms of the agreement, Honeywell will license its proprietary process technologies to produce the refrigerant to NFIL and in turn NFIL will set up a facility in Surat to manufacture HFO 1234 yf exclusively for Honeywell.

HFO-1234yf is a next generation hydro fluoro-olefin (HFO) refrigerant with global warming potential (GWP) less than 1 and is a near replacement for R-134a gas, which is used in vehicle air conditioning systems globally. HFO 1234 yf is also being used in a growing number of stationary air conditioning and commercial refrigeration applications. The demand for HFO 1234 yf in mobile air conditioning is increasing rapidly due to increased global environmental regulations and policies aimed at reducing the global warming impacts of hydro fluorocarbons (HFCs). Further, Honeywell and its key suppliers are investing approximately $300 million to increase global production capacity for HFO 1234 yf. Production from this plant is expected to start in 2017.

Restructuring of shareholding among promoter group of companies

In Aug'16 as a part of a family settlement and succession plan, the companies under the Arvind Mafatlal group entered into an agreement to restructure the promoter shareholding of the 3 listed companies and other group companies. As per the agreement Mr. Vishad Mafatlal and NFIL will sell its stake in Mafatlal Industries Ltd (MIL) and NOCIL Ltd, while Mr. Hrishikesh Mafatlal, MIL and NOCIL will sell their stake in NFIL. Mr. Hrishikesh Mafatlal the then chairman of NFIL stepped down from the position and was replaced by Mr. Vishad Mafatlal, who was earlier the non-executive promoter and director. Sale of shares held by MIL, NOCIL and NFIL in each other will be done through the stock exchange. NFIL is expected to sell part of its holding in MIL and NOCIL and the balance shares are proposed to be reclassified as public shareholding. In Q2FY17, NFIL sold part of its stake in MIL and NOCIL and recorded a profit on sale of investment of ₹27 crore. As on Sep'16, NOCIL and MIL held 4.8% and 1.2% equity stake respectively in NFIL, while NFIL held 2.4% stake in NOCIL and 7.7% in MIL.

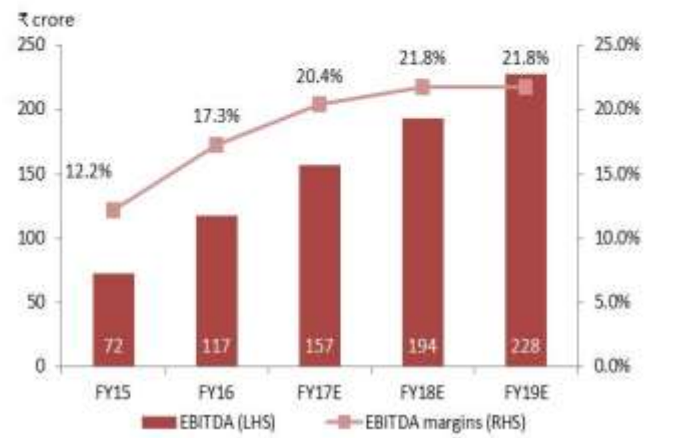
Strong balance sheet and healthy return ratios

NFIL's revenue and PAT has increased at CAGR of 7% and 24% respectively, over FY13-16. EBITDA margin during the period has expanded by 230 bps to 17.3% in FY16 largely on account of fall in raw material prices. The company has minimum debt on its balance sheet and RoE's which were in single digit (9%) in FY13, have increased to over 13% in FY16. Going ahead we expect revenue and PAT CAGR of 15% and 27% respectively over FY16-19E. We expect higher revenue contribution from value added products will further enhance margins by 450 bps to ~22% in FY19E. RoE's are expected to improve to 20% in FY19E.

Exhibit 8: Revenue to grow at steady pace

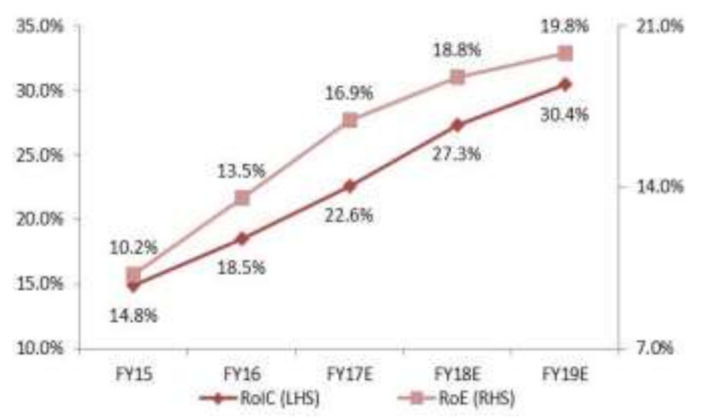
Source: Company, Centrum Wealth Research

Exhibit 9: EBITDA margins driven by segmental mix



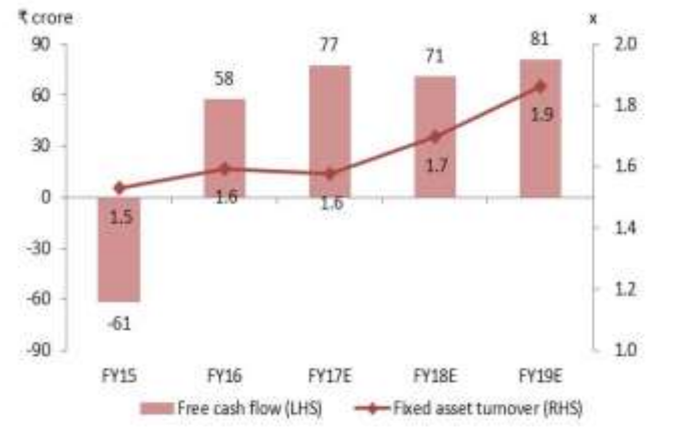
Source: Company, Centrum Wealth Research

Exhibit 10: Further expansion of return ratios on cards



Source: Company, Centrum Wealth Research

Exhibit 11: Set to generate healthy free cash flows



Source: Company, Centrum Wealth Research

Key Risks

- **Lower utilization of new CRAMS facility:** CRAMS segment often faces lumpiness in business; inability to get new orders may result in lower utilization of the facility and hamper the growth prospects of the company.
- **Change in phase out plan of R-22 gas:** An early phase out on use of R-22 gas under the Montreal Protocol may hamper prospects of the refrigerant segment.
- **Stiff competition from China:** NFIL competes with companies in China for some of its molecules. Significant depreciation of Chinese Yuan (CNY) as compared to INR, may lead to increased competition for Indian players.

Exhibit 12: Quarterly Results - Standalone

Y/E Mar (₹ Cr.)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Revenue	**151**	**145**	**190**	**164**	**183**
YoY Growth %	*21.7*	*(0.5)*	*29.9*	*9.3*	*20.8*
Cost of Raw Material	63	70	88	65	79
% of Sales	*41.8*	*48.2*	*46.3*	*39.6*	*43.1*
Personnel Expenses	15	15	19	18	18
% of Sales	*10.2*	*10.3*	*10.1*	*11.2*	*10.0*
Other Expenses	41	37	47	41	45
% of Sales	*27.0*	*25.7*	*24.7*	*25.1*	*24.6*
EBIDTA	**31.7**	**23.0**	**35.9**	**39.7**	**40.6**
EBIDTA margin %	***21.0***	***15.8***	***18.9***	***24.2***	***22.3***
Depreciation	5	6	6	6	6
Interest	1	1	1	0	0
Other Income	9	4	8	6	6
Exceptional Expense	-	-	-	-	(27)
PBT	35	20	37	39	41
Provision for tax	12	6	6	11	13
Effective tax rate %	*33.9*	*31.9*	*14.8*	*27.5*	*31.3*
Net Profit (Adjusted)	**23**	**14**	**32**	**29**	**33**
YoY Growth %	*130.5*	*(4.3)*	*89.7*	*57.7*	*43.0*
PAT margin %	**15.4**	**9.4**	**16.6**	**17.4**	**18.2**

Source: Company, Centrum Wealth Research

Valuation

We believe traction from CRAMS and specialty chemical segment along with commercialization of Piramal JV and Honeywell partnership will be the future growth drivers. Given NFIL's dominance in the fluorination space and favourable growth outlook, we initiate coverage with a target price of ₹2,900, valuing the stock at 18x its 12M Sep'18E PE.

Exhibit 13: Business Comparison

Company	MKT CAP (₹ Cr.)	Revenue (₹ Cr.)	Rev Growth (%)		EBITDA Margin (%)		PAT Growth (%)	
		FY16	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
SRF	8,947	4,531	10.0	12.2	21.4	21.9	18.3	18.5
Aarti Industries	5,789	3,071	15.7	13.3	21.6	21.9	19.9	16.1
Gujarat Fluoro. (Standalone)	5,229	1,319	36.4	16.6	28.0	30.6	176.7	29.6
Navin Fluorine	2,479	680	12.8	16.0	20.4	21.8	37.9	24.7
Camlin Fine Science	1,063	489	8.4	30.0	15.1	18.3	(51.3)	189.7

Source: Bloomberg Consensus Estimates, Centrum Wealth Estimates (Navin Flourine Intl.)

Exhibit 14: Relative Valuation

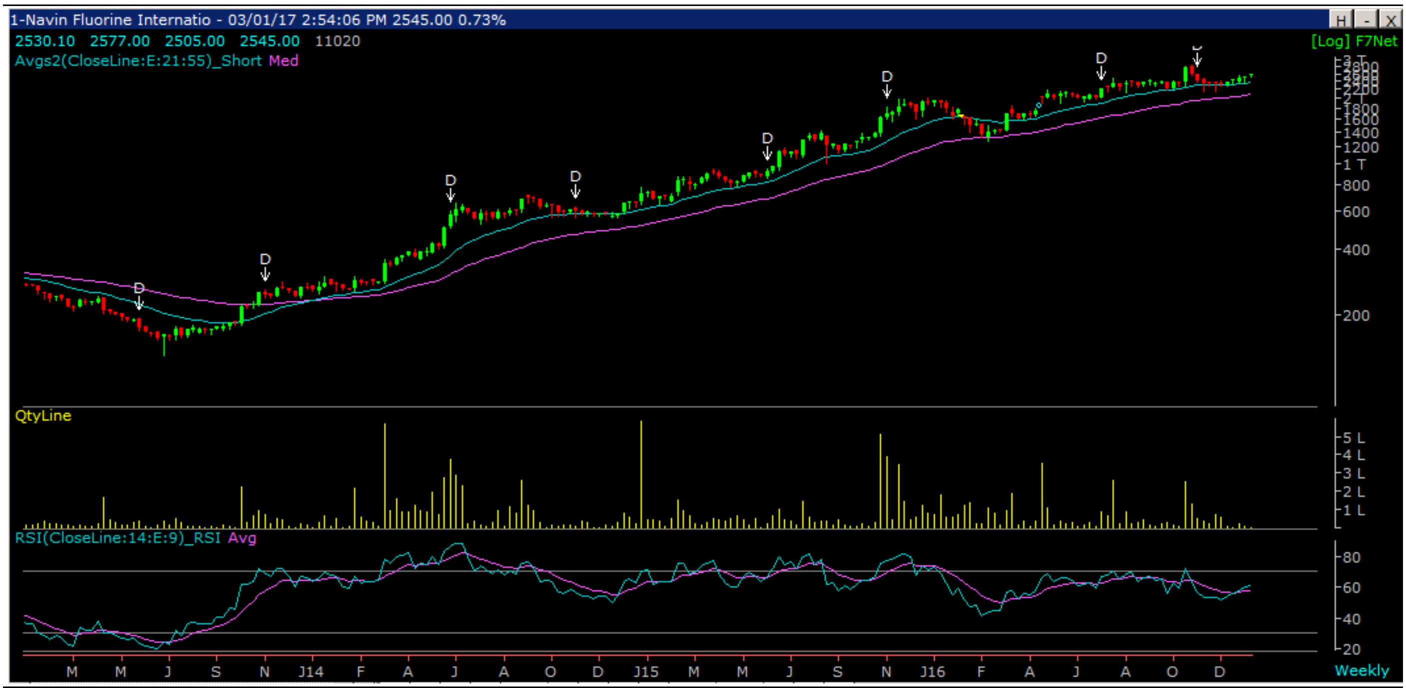
Company	MKT CAP/FY16 Sales (x)	P/E (x)		EV/EBITDA (x)		ROE (%)	
		FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
SRF	1.97	17.9	15.1	10.0	8.8	17.1	17.5
Aarti Industries	1.88	15.1	12.9	9.3	8.1	25.3	24.7
Gujarat Fluoro. (Standalone)	3.96	18.2	14.0	17.2	13.4	9.5	11.4
Navin Fluorine	3.65	21.6	17.3	15.5	12.3	16.9	18.8
Camlin Fine Science	2.17	58.8	20.2	15.6	9.9	9.8	21.0

Source: Bloomberg Consensus Estimates, Centrum Wealth Estimates (Navin Flourine Intl.) (Price data as on 3-1-2017)

Technical View on Navin Fluorine International Ltd.

- Navin Fluorine is trending strong since the past many months and has been tracing a clear higher high higher low setup in the time frame.
- The scrip is a short medium and long term buy as it structure is a well-defined bullish structure in terms of price action trend, oscillator and moving average setups.
- Buying is recommended at current juncture and on dips towards 2450-2375 range which is a trading demand range for the scrip for a six month price objective of2950.
- Short term traders can maintain a stop loss bleow 2300 but overall 2190 is an ideal positional stop loss.

Exhibit 15: Technical Chart



Source: Company, Centrum Wealth Research

Financials - Consolidated

Income Statement

Y/E Mar (₹ Cr)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	**592**	**680**	**767**	**889**	**1,046**
Growth (%)	**21.7**	**14.9**	**12.8**	**16.0**	**17.6**
Cost of Raw Material	289	311	333	379	446
% of sales	48.9	45.8	43.5	42.6	42.6
Personnel Expenses	74	81	88	100	118
% of sales	12.5	11.9	11.5	11.3	11.3
Other Expenses	156	171	189	217	255
% of sales	26.4	25.1	24.6	24.4	24.4
EBIDTA	**72**	**117**	**157**	**194**	**228**
EBIDTA margin %	**12.2**	**17.3**	**20.4**	**21.8**	**21.8**
Depreciation	20	22	26	28	30
Interest	3	4	2	2	2
Other Income	30	24	25	30	36
PBT	78	116	154	194	232
Provision for Tax	20	32	38	50	60
Effective tax rate %	25.6	27.7	25.0	26.0	26.0
Net Profit (Reported)	**58**	**84**	**115**	**144**	**172**
Growth %	6.5	43.4	37.9	24.7	19.6
PAT margin %	**9.8**	**12.3**	**15.0**	**16.1**	**16.4**

Source: Company, Centrum Wealth Research

Balance Sheet

Y/E Mar (₹ Cr)	FY15A	FY16A	FY17E	FY18E	FY19E
Share Capital	10	10	10	10	10
Reserves & Surplus	578	636	710	802	912
Shareholder's Fund	**588**	**645**	**719**	**812**	**922**
Total Loan Fund	61	82	82	82	82
Minority Interest	12.9	0.01	0.01	0.01	0.01
Deferred Tax Liabilities	32	37	37	37	37
Total Cap. Employed	**694**	**764**	**838**	**930**	**1041**
Net Fixed Assets	334	395	394	397	412
Investments	171	170	215	255	305
Cash and Bank	28	29	42	51	54
Inventories	76	76	97	102	132
Debtors	120	150	156	194	220
Loans and Advances & OCA	122	135	152	177	208
Total Current Assets	346	389	448	524	614
Current lia. and prov.	158	190	219	245	290
Net current assets	189	199	229	279	324
Total assets	**694**	**764**	**838**	**930**	**1,041**

Source: Company, Centrum Wealth Research, OCA: Other current asset

Cash Flow

Y/E Mar (₹ Cr)	FY15A	FY16A	FY17E	FY18E	FY19E
Cash flow from Ops					
Net Profit Before Tax	78	116	154	194	232
Depreciation and amort.	20	22	26	28	30
Others	(9)	(2)	(23)	(28)	(34)
Change in working capital	(69)	(33)	(16)	(42)	(41)
Tax expenses	(20)	(27)	(38)	(50)	(60)
Cash flow from Ops	**1**	**76**	**102**	**101**	**126**
Cash flow from Invest					
Capex	(62)	(18)	(25)	(30)	(45)
Other investing activities	66	(35)	(20)	(10)	(14)
Cash flow from Invest	**3**	**(53)**	**(45)**	**(40)**	**(59)**
Cash flow from financing					
Proceeds from eq. & warr.	0	1	-	-	-
Borrowings	(0)	7	-	-	-
Interest paid	(18)	(22)	(41)	(51)	(61)
Dividend paid	(3)	(4)	(2)	(2)	(2)
Cash flow from financing	**(21)**	**(17)**	**(43)**	**(53)**	**(64)**
Net Cash Flow	**(17)**	**6**	**14**	**8**	**4**

Source: Company, Centrum Wealth Research

Key Ratios

Y/E Mar	FY15A	FY16A	FY17E	FY18E	FY19E
Return ratios (%)					
RoE	10.2	13.5	16.9	18.8	19.8
RoCE	12.1	16.4	19.4	22.2	23.8
RoIC	14.8	18.5	22.6	27.3	30.4
Turnover Ratios (days)					
Inventory	44	41	41	41	41
Debtors	65	72	73	72	72
Creditors	46	50	50	50	50
Fixed asset turnover (x)	1.5	1.6	1.6	1.7	1.9
Solvency Ratio (x)					
Debt-equity	0.1	0.1	0.1	0.1	0.1
Interest coverage	24.5	31.6	72.1	90.9	108.5
Per share (₹)					
Adj. EPS	59.5	85.3	117.7	146.8	175.5
BVPS	600.6	659.6	735.2	829.6	942.3
CEPS	80.1	108.3	143.9	175.0	205.8
Dividend Ratios					
DPS (₹)	16.0	21.0	35.0	43.5	52.2
Dividend Yield (%)	0.6	0.8	1.4	1.7	2.1
Dividend Payout (%)	32.3	29.6	29.7	29.6	29.7
Valuation (x)					
P/E	42.7	29.8	21.6	17.3	14.5
P/BV	4.2	3.9	3.5	3.1	2.7
EV/EBIDTA	34.1	21.2	15.5	12.3	10.2
EV/Sales	4.2	3.7	3.2	2.7	2.2

Source: Company, Centrum Wealth Research

Annexure

Types of refrigerants:

- **Chlorofluorocarbons (CFCs)** – CFCs are known to contribute to the greenhouse gas effect. The production of new stocks of CFC was ceased in 1994. The most common type of CFC was R12.
- **Hydrochlorofluorocarbons (HCFCs)** – R-22, a widely used HCFC is slightly less damaging to the ozone than R12. The Montreal Protocol has set out a mandatory timetable for the phase out of all ozone-depleting substances as per which R-22 will phase out completely by 2020 from developed markets and by 2030 from developing markets.
- **Hydrofluorocarbons (HFCs) -** It includes gases like R-410A and R-134. With no chlorine in the mix, it is safer for the environment and is now being used in place of R-22. Air conditioners that run on R-410A are more efficient, offer better air quality, increase comfort and improve reliability.

Montreal Protocol

The Montreal Protocol on Substances That Deplete the Ozone Layer was a landmark international agreement designed to protect the stratospheric ozone layer. The treaty was originally signed in 1987 and substantially amended in 1990 and 1992. The Montreal Protocol stipulates that the production and consumption of compounds like chlorofluorocarbons (CFCs), halons, carbon tetrachloride, and methyl chloroform which deplete ozone in the stratosphere are to be phased out by 2000 (2005 for methyl chloroform).

Kyoto Protocol

The Kyoto Protocol is a plan created by the United Nations (UN) for the United Nations Framework Convention on Climate Change (UNFCCC) which was agreed upon in 1997. It tried to reduce the effects of climate change, such as global warming. As per the plan countries that adopt the Kyoto Protocol will have to try to reduce the amount of carbon dioxide and other greenhouse gases that are released in the air. The goals of Kyoto were to see participants collectively reducing emissions of greenhouse gases by 5.2% below the emission levels of 1990 by 2012.

Key events in the Refrigerant industry

1820	• Artificial ice was made for the first time as an experiment.
1928	• Freon refrigerant was discovered by Thomas Midgley, Jr.
1987	• Montreal Protocol was signed to protect the earth's ozone layer.
1992	• The R-22 Alternative Refrigeration Evaluation Program (AREP) starts.
1995	• Chloroflourocarbon (CFC) manufacturing was stopped in the USA.
1997	• Kyoto Protocol signed to protect the earth's climate by reducing greenhouse gases.
2013	• Production levels of HCFC was capped to average production between 2009-10.
2015	• HCFC production cut by 10%.
2020	• HCFC production to be further reduced by 25%.
2025	• HCFC production cut by additional 32.5%.
2030	• Complete phase out of HCFC.

Appendix A

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