

April 22, 2014

BUY

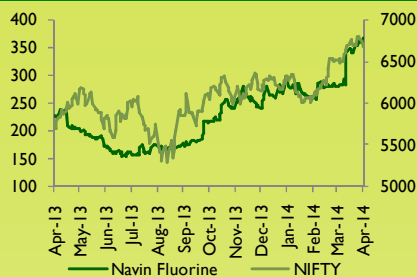
Market Data

Price	₹377
BSE Code	532504
NSE Symbol	NAVINFLUOR
Reuters Code	NAFL.BO
Bloomberg Code	NFIL IN
Sensex	22,765
Nifty	6,818
52 week range (₹)	129.5-386.9
Market Cap, ₹ Cr	368

Shareholding Trend (%)

%	Jun-13	Sep-13	Dec-13	Mar-14
<b>Promoter</b>	38.83	38.83	38.83	38.83
Indian	38.83	38.83	38.83	38.83
Foreign	0.00	0.00	0.00	0.00
<b>Public</b>				
Institutions	8.83	8.85	11.02	12.02
FIs	4.65	4.76	6.99	8.04
Mutual Funds	2.99	2.99	2.99	2.99
Non-institutions	52.34	52.31	50.15	49.14
Public	45.91	46.01	44.12	41.48
Corporate holding	6.43	6.30	6.03	7.66
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Comparative Price Movement



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Investment Argument

Navin Fluorine International (NFIL) established in 1967, is one of India's leading manufacturer of Refrigerant Gas (R22) and world's leading manufacturer of Boron trifluoride (BF<sub>3</sub>) along with other fluorine compounds. Post Kyoto Protocol, NFIL is required to phase out manufacturing of R22 in stages and completely by 2030. The benefits of carbon credit have also stopped from December 2012.

In view of this, NFIL proactively ventured into speciality Organic Fluorochemicals and CRAMS business from 2011 and is moving towards growing the new business substantially in size which would generate health bottomline along with steadily growing topline while balancing of declining sales from R22, especially from 2015.

FY13 revenue stream comprises of refrigerants (38%), speciality chemicals and CRAMS (41%) and bulk fluorides (21%). Exports accounted for 28% of its revenue in FY13. The manufacturing facilities are located at Surat- Gujarat & Dewas- Madhya Pradesh.

Based on its technological strength in manufacturing and handling fluorine (which is very highly reactive & corrosive hazardous chemical), NFIL expanded its R&D facilities in Surat to develop Speciality Organic Fluorine Chemicals and also acquired 51% stake in a Company based in UK- Manchester Organics Ltd. (MOL).

MOL is a pure chemical research organization engaged and specialised in only fluorine chemistry processes with product catalogue of more than 10,000 with established and proven chemical processes. MOL has relationship with all pharmaceutical and agrochemical majors in the world and supplies them with these speciality fluorine compounds in small quantities.

Stake in MOL is a right and faster step of NFIL in commercialization of Speciality Fluorine Compounds and CRAMS business.

Both Speciality Organic Fluorine Chemicals and CRAMS business are future growth drivers of the Company. Speciality Organic Fluorine chemicals are future ingredients of newer pharmaceutical molecules and agrochemicals as the world is fast moving towards fluorine based medicines and agrochemicals which are fast acting and have advantages over chlorine based molecules today.

Financial Summary

Year to March (₹ crore)	FY13	FY14E	FY15E	FY16E
Sales	550.0	465.4	520.6	614.8
<b>Growth (%)</b>	<b>-24.1</b>	<b>-15.4</b>	<b>11.9</b>	<b>18.1</b>
EBITDA	82.7	69.2	81.4	102.2
<b>Growth (%)</b>	<b>-67.0</b>	<b>-16.3</b>	<b>17.6</b>	<b>25.5</b>
Reported PAT	43.4	38.9	48.8	60.2
<b>Growth (%)</b>	<b>-80.1</b>	<b>-10.4</b>	<b>25.6</b>	<b>23.3</b>
EPS (Rs)	44.5	39.8	50.0	61.6
PE (x)	8.5	9.5	7.5	6.1
EV/EBITDA	3.9	4.6	3.9	3.1
RoCE (%)	10.2	9.3	11.2	12.6
RoE (%)	8.7	7.4	8.9	10.3

## Investment Rationale

### □ **Speciality Organic Fluorine Chemicals Intermediate & CRAMS are strong visible growth drivers of revenue and also command high margin**

While knowing that Carbon Credit will not be available from 2013 and eventually they will have to phase out the production of Refrigerant Gas (R22) beginning 2015 and completely by 2030, NFIL strategically expanded its R&D activities to develop processes for Speciality Organic Fluorine Compounds and simultaneously acquired 51% stake in Manchester Organics Ltd, UK.

MOL is a much specialised Fluorine chemistry based research organization in UK and has developed synthesis for more than 10,000 fluorine compounds. They synthesize and supply these specialty molecules to all the major pharmaceutical & agrochemical companies towards their research & development of newer molecules.

MOL possesses very specialised relationship with all major pharmaceutical & agrochemical companies due to their 'fluorine chemistry' expertise.

The earlier development phase of pharmaceutical drugs & agrochemical compounds were based on Chlorine and hydroxyl groups, due to abundant availability of raw material.

Over last two decades, scientists' world over moved towards development of fluorine element based molecules which have much superior advantage over earlier chlorine based compounds.

The best examples of 'Fluorine' based compounds are Atorvastatin & Pantoprazole as pharma molecules and Kixor herbicide of BASF.

NFIL has set up a small multipurpose manufacturing plant for production of such specialty compounds at Surat and also set up a CRAMS facility at Dewas, Madhya Pradesh in 2010-11.

Both the facilities are up and running. In view of growing business relationship with pharma majors through MOL and development of more products through R&D, NFIL expanded (doubled) its Surat facility which is operational since December 2013. This expanded facility is an extension of its first multipurpose plant.

NFIL has further gone ahead with setting up of second CRAMS plant at Dewas, Madhya Pradesh at a capex of ₹60 crore. This facility is expected to be ready by Q1FY16. In our view, the large part of this new capacity is already tied up with MNC majors.

We also believe that the expansion plant at Surat is also fully tied up for various products with the customers and therefore NFIL is proposing to set up a second multipurpose plant at Surat which in our view will require capex of around ₹25-30 crore and is likely to be ready over next 12-15 months.

Considering the large opportunities in Fluorine Chemistry, NFIL has acquired a large portion of land at Dahej- Gujarat chemical zone which we believe the Company will develop at appropriate time strategically as a Joint Venture with any MNC to begin with.

❑ **Bulk Fluorides -Expansion into newer geographies**

Bulk fluorides cater mainly to the steel and aluminum sectors and also having dominant applications in the glass industries. It has been a high-volume, low-margin business historically with most of the revenues accruing from the domestic market. The company is broadening its product portfolio in this segment to cater to industries such as textiles, water purification, etc. The division launched two new products during the year. The division plans to introduce specific compounds for the glass industry and increase its export reach.

❑ **Refrigerants -Stable cash generating segment**

Navin's refrigerant R-22 is under phasing out due to its ozone depleting and global warming properties. There is a production restriction at an average of 2009-2010 levels, a 10% cut in 2015 and a complete phase out by 2030. Despite this, we expect revenues from this segment to remain more or less stable as there are no proven substitutes of R-22 for room air conditioners and there is no new facility of R-22 coming up globally. More than 90% of room air conditioners use R-22.

Usage of 134A has started in car air-conditioning and home refrigeration but no equipment are commercially in place for domestic air conditioning which can use 134A. So we expect demand for R-22 to remain strong till new equipment requiring 134A is introduced in the market place which we feel is not an easy task and can take few years. Global demand for RACs is expected to remain strong led by the Asia-Pacific region on the back of rising affordability and awareness, and increasing trend towards living a comfortable life. We thus expect replacement demand for refrigerant gas to remain robust and prices of R-22 to go up on account of supply and capacity constraint after 2015.

❑ **Raw material availability improved**

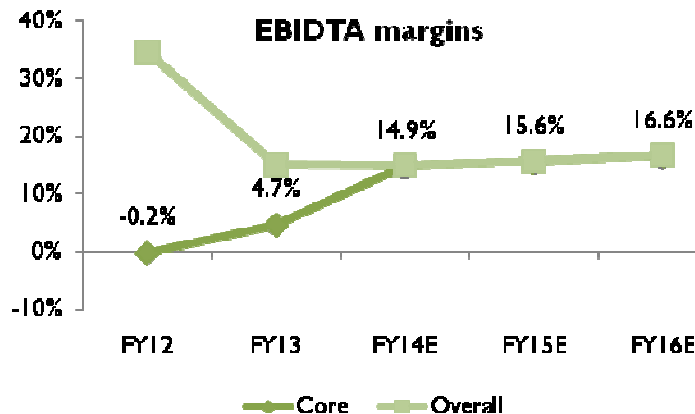
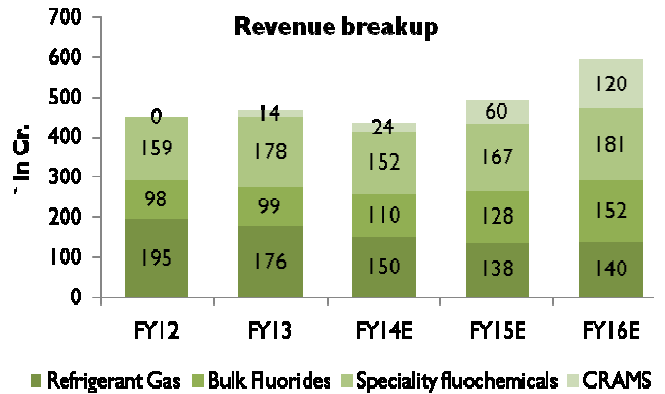
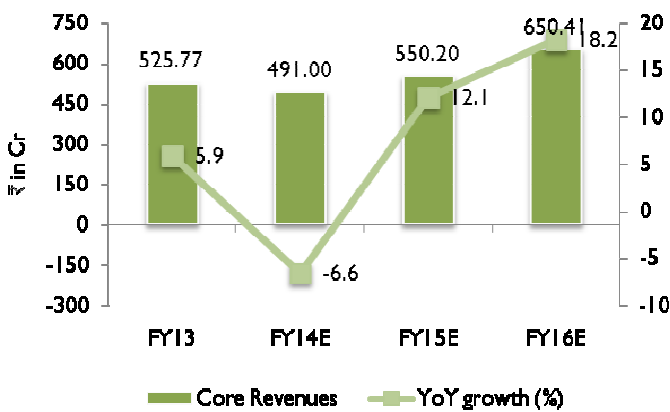
NFIL has reduced its dependence on Chinese fluorspar as it is currently sourcing a majority of its requirement from Kenya and South Africa. NFIL is also developing a local source of fluorspar and has entered into a joint venture with Gujarat Mineral Development Corporation and Gujarat Fluorochemicals Ltd in FY12 for beneficiation of fluorspar ore from reserves located in Gujarat. The Company expects to source fluorspar from these reserves starting FY17. Vendor diversification is a huge positive for the company and it would help the company reduce the raw material supply risk.

❑ **Strong balance sheet**

The Company enjoys stress-free balance sheet with low gearing ratio which currently stands at 0.16x. It has cash and cash equivalent worth ₹124 crores as of December 2013 which it can use for any future acquisitions or greenfield expansions. It also has a consistent dividend paying track record.

### Divisional Analysis

FY13	Refrigerants	Bulk fluorides	Specialty chemicals	CRO/ CRAMS
<b>Sales contribution (percent of non CER sales)</b>	38%	21%	38%	3%
<b>Applications</b>	Air-conditioning (residential and cars) and household refrigerators	Metal industries (mostly steel, abrasive and glass)	Pharmaceutical, agrochemical and petrochemical industries	Research for a broad range of pharma and agro companies
<b>Geographical presence</b>	India, Southeast Asia, Middle East and South Africa	India and Asia	India, Europe, the US and Asia	India, Europe and the US
<b>Revenue by geography</b>	Domestic: 68%	Domestic: 97%	Domestic: 54%	Exports more than 90%
	Exports: 32%	Exports: 3%	Exports: 46%	



## Key Concerns

- Availability of fluorspar which is a key raw material was a key risk few years ago. In the past there was volatility in supply and prices of fluorspar. Now China and Kenya have become important sources of supply, so prices are expected to remain stable.
- Slowdown in end-user demand.
- Unpredictable pricing by Chinese competitors in some of the Company's products.
- Since the company accrues 40% of its revenues from exports and imports 60-70% of its raw material requirement, adverse movement in the exchange rate would result in forex loss on unhedged exposure.

## Valuation

Navin's ability to handle complex fluorination chemistry backed by robust R&D capabilities will enable it to expand its product portfolio in the specialty chemicals and bulk fluorides segments over the coming years. Its CRAMS business is seeing good traction and we expect it to contribute significantly to the revenues going forward along with healthy margins.

At the CMP of ₹377, the stock quotes at P/E of 7.5x its FY15E consolidated EPS of ₹50 and EV/EBIDTA of 3.9x. The Company enjoys stress-free balance sheet with low gearing ratio and cash & cash equivalent of ₹124 crores. **With consistent dividend paying track record and attractive valuations, we recommend Navin Fluorine for the long-term. BUY.**

## Financial Summary, Consolidated (₹ in crore)

INCOME STATEMENT				
	FY13	FY14E	FY15E	FY16E
<b>Revenues</b>	<b>550.0</b>	<b>465.4</b>	<b>520.6</b>	<b>614.8</b>
- Carbon Credits	57.11	0.00	0.00	0.00
Total Expenditure	467.3	396.2	439.1	512.6
<b>Operating Profit</b>	<b>82.7</b>	<b>69.2</b>	<b>81.4</b>	<b>102.2</b>
Dep. & Amortizations	20.8	22.0	23.1	27.9
<b>EBIT</b>	<b>61.9</b>	<b>47.2</b>	<b>58.3</b>	<b>74.3</b>
Interest	6.1	4.7	3.0	2.1
<b>EBT</b>	<b>55.8</b>	<b>42.5</b>	<b>55.4</b>	<b>72.2</b>
Other Income	14.1	19.3	22.0	20.0
Extraordinary Items	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>70.0</b>	<b>61.8</b>	<b>77.4</b>	<b>92.2</b>
Tax	25.8	22.3	27.8	31.4
<b>PAT</b>	<b>44.1</b>	<b>39.6</b>	<b>49.5</b>	<b>60.9</b>
Minority Interest	0.72	0.72	0.72	0.72
<b>Reported PAT</b>	<b>43.4</b>	<b>38.9</b>	<b>48.8</b>	<b>60.2</b>
<b>PAT (excl. OI)</b>	<b>34.2</b>	<b>26.3</b>	<b>34.5</b>	<b>47.2</b>
Revenue Growth (%)	-24.1%	-15.4%	11.9%	18.1%
Op. Profit Growth (%)	-67.0%	-16.3%	17.6%	25.5%
PAT Growth (%)	-80.1%	-10.4%	25.6%	23.3%

BALANCE SHEET				
	FY13	FY14E	FY15E	FY16E
Equity Share Capital	9.8	9.8	9.8	9.8
Reserves & Surplus	494.4	516.9	548.3	590.0
<b>Networth</b>	<b>504.1</b>	<b>526.6</b>	<b>558.0</b>	<b>599.8</b>
Non-current liabilities	24.0	25.8	25.4	25.6
Current liabilities	157.9	112.3	99.4	101.2
Deferred tax liability	32.6	35.0	36.6	36.6
Minority Interest	7.0	7.0	7.0	7.0
<b>Equities and Liabilities</b>	<b>725.6</b>	<b>706.7</b>	<b>726.3</b>	<b>770.2</b>
Gross Block	369.1	392.8	412.8	472.8
Depreciation	120.2	142.2	165.3	193.2
<b>Net Block</b>	<b>248.9</b>	<b>250.6</b>	<b>247.5</b>	<b>279.7</b>
Intangible assets	0.9	0.9	0.9	0.9
Capital WIP	8.7	0.0	50.0	40.1
Investments	119.2	135.0	85.0	70.0
Inventory	77.4	63.4	71.3	86.0
Short-term loans and advances	12.4	12.8	14.3	16.8
Trade receivables	74.4	66.3	74.2	87.6
Cash and cash equivalents	31.8	2.5	5.1	6.1
<b>Total Current Assets</b>	<b>279.2</b>	<b>255.0</b>	<b>274.8</b>	<b>306.5</b>
Long-term loans and advances	27.7	24.2	27.1	32.0
<b>Total Assets</b>	<b>725.6</b>	<b>706.7</b>	<b>726.3</b>	<b>770.2</b>

CASH FLOW	FY13	FY14E	FY15E	FY16E
Operating cash earnings	63.9	53.3	63.8	80.2
Depreciation	20.8	22.0	23.1	27.9
Interest	6.1	4.7	3.0	2.1
Change in WC	10.0	22.2	-14.2	-24.6
Tax paid	28.1	19.8	24.8	27.7
Interest Paid	0.0	0.0	0.0	0.0
<b>CFO</b>	<b>72.7</b>	<b>82.4</b>	<b>50.9</b>	<b>57.9</b>
Net Capex	16.2	15.0	70.0	50.0
Net Borrowings	-10.8	-41.4	-20.2	-12.0
<b>FCFE</b>	<b>45.7</b>	<b>26.0</b>	<b>-39.3</b>	<b>-4.1</b>

RATIOS	FY13	FY14E	FY15E	FY16E
Gearing (%)	0.22	0.16	0.10	0.06
Inventory turnover	5.9	6.6	7.7	7.8
Debtors (sale days)	52	52	52	52
RONW (%)	8.7	7.4	8.9	10.3
ROCE (%)	10.2	9.3	11.2	12.6
OPM (%)	15.0	14.9	15.6	16.6
NPM (%)	7.9	8.4	9.4	9.8
Eff. Tax Rate	31.3	32.0	32.0	30.0

VALUATION PARAMETERS				
	FY13	FY14E	FY15E	FY16E
EPS (₹)	44.5	39.8	50.0	61.6
EPS (₹) (excl. OI) (₹)	35.0	27.0	35.4	48.3
P/E Ratio	8.48	9.47	7.54	6.12
Book Value	523.8	546.9	579.1	621.9
P/BV	0.72	0.69	0.65	0.61
CEPS (₹)	70.5	65.6	77.6	94.8
Dividend %	150.0	150.0	150.0	150.0
DPS (₹)	15.0	15.0	15.0	15.0
Dividend Yield	4.0	4.0	4.0	4.0
Mcap/Sales	0.7	0.8	0.7	0.6
EV/EBITDA	3.9	4.6	3.9	3.1
EV/Sales	0.6	0.7	0.6	0.5

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- |   |                   |
|---|-------------------|
| 1. Name of the analyst  | : Nisha Harchekar |
| 3. Analysts' ownership of any stock related to the information contained  | : NIL             |
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