# Navin Fluorine Advanced Sciences Limited

April 08, 2022

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities@ | 500.00 | **Provisional CARE AA (CE); Stable ['Provisional' Double A (Credit Enhancement); Outlook: Stable]** | Assigned |
| Long-term/Short-term Bank Facilities@ | 300.00 | **Provisional CARE AA (CE); Stable / Provisional CARE A1+(CE) ['Provisional' Double A (Credit Enhancement); Outlook: Stable/'Provisional' A One Plus (Credit Enhancement)]** | Assigned |
| **Total Facilities** | **800.00 (Rs. Eight hundred crore only)** | | |

Details of facilities in Annexure-1

@*proposed to be backed by unconditional and irrevocable corporate guarantee to be extended by Navin Fluorine International Limited (NFIL)*

| | |
|---|---|
| **Unsupported Rating [2]** | **CARE BBB+/CARE A2 (Triple B Plus/ A Two)** |
| **Rating in the absence of the pending steps/documents** | **Same as unsupported rating** |

Note: Unsupported Rating does not factor in the explicit credit enhancement

**Detailed Rationale & Key Rating Drivers for the credit enhanced debt**

The rating assigned to the bank facilities of Navin Fluorine Advanced Sciences Limited (NFASL) is based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee proposed to be extended by Navin Fluorine International Limited (NFIL; *rated CARE AA; Stable/CARE A1+*) in favour of the lenders of NFASL.

Furthermore, the above ratings are 'provisional' and it will be confirmed once the company submits the executed unconditional and irrevocable corporate guarantee deed to the satisfaction of CARE Ratings in line with the draft of the corporate guarantee deed shared by the company.

**Detailed Rationale & Key Rating Drivers of the proposed Corporate Guarantee Provider, NFIL**

The ratings assigned to the bank facilities of Navin Fluorine International Limited (NFIL) continue to derive strength from the extensive experience of its promoters/management in chemical business and demonstrated track record of developing various segments and scaling them up. The ratings are also underpinned by its strong presence in the specialty fluorochemicals business, diversified high margin product offering catering to various end-user industries, strong /traction in its contract research and manufacturing services (CRAMS) business and multi-year contracts with global innovators who have presence in the high margin fluorine value chain, along with its strong research and development capability to handle the complex fluorine chemistry. The ratings also favourably factor in the increasing share of revenue from its high value business segments viz. CRAMS and specialty fluorochemicals which has resulted in improvement in the operating profitability of the company. The rating continues to take cognizance of its strong financial risk profile marked by comfortable leverage and debt coverage position along-with its strong liquidity.

The long-term rating, is however, constrained by susceptibility of its operations and operating profit margins to volatility in key raw material prices, competition in few business segments, risk associated with phase-out of hydrochlorofluorocarbon (HCFC) which may impact the revenue under its refrigerant segment whose contribution in the total revenue has been on a declining trend. Also, its long-term rating is constrained by inherent risks associated with large size partly debt-funded capex taken up in NFIL's subsidiary wherein NFIL has proposed to provide its corporate guarantee for the debt to be raised in the subsidiary.

**Key Rating Drivers of NFASL for Unsupported Rating**

The unsupported ratings of NFASL derive strength from its strong parentage (being a wholly-owned subsidiary of NFIL), experienced promoters, medium-term revenue visibility owing to presence of business arrangements with global customers, moderate project leverage as well as favourable demand scenario from the end-user industries.

The above rating strengths are, however, tempered by the inherent implementation and stabilization risks associated with the ongoing greenfield projects, exposure to volatility in key raw material prices as well as foreign exchange rate fluctuations, and

[1]Complete definitions of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

[2] As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

presence in an inherently polluting industry entailing continuous compliance with the prevailing stringent environmental control norms.

**Rating Sensitivities (of the Corporate Guarantee Provider, NFIL)**
**Positive Factors (***Factors that could lead to positive rating action/upgrade***)***:*

- Total operating income (TOI) increasing above Rs.2,000 crore through greater product diversification on a sustained basis
- Generating envisaged returns from its large, planned capex, thereby earning operating ROCE of above 28% on a sustained basis

**Negative Factors** *(Factors that could lead to negative rating action/downgrade):*

- Decline in profitability margins marked by PBILDT margin of less than 20% on a sustained basis thereby leading to significant moderation in its debt coverage indicators.
- Significant delay or cost overrun in its ongoing projects impacting its liquidity
- Delay in realisation of envisaged returns from the ongoing project leading to moderation in its ROCE to below 14%
- Significant moderation in Total Debt / PBILDT on a sustained basis

**Detailed description of the key rating drivers (of the Corporate Guarantee Provider, NFIL)**
**Key Rating Strengths**
***Well-established position in fluorochemical industry and experienced promoters***
NFIL, a part of Padmanabh Mafatlal group, is present in the fluorochemical industry since 1967 and is one of the largest specialty fluorochemical companies as well as a pioneer in the manufacturing of refrigerant gases in India. NFIL's product portfolio comprises of more than 60 fluorinated compounds, developed over the years. The products manufactured by NFIL find application in various industries including agrochemicals, pharmaceuticals, aluminum smelting, refrigeration, metal processing, abrasives, glass and ceramics. Its recent contracts in CRAMS and High-Performance Product (HPP) segments reflect its capabilities in fluorine chemistry, strong connect with customers and ability to scale up molecules from laboratory to multi-tonne batches.
The company is currently headed by second generation entrepreneur, Mr. Vishad Mafatlal, who has over 24 years' experience in textile and chemical sectors. The day-to-day operations of the company are managed by a team of well-qualified and experienced key management personnel. Over the years, promoters have successfully diversified their operations and expanded their presence in speciality chemicals and CRAMS segment.

***Growing and diversified presence in high value fluorine value chain***
NFIL has a diversified product portfolio across the fluorine value chain. It operates through four business verticals namely refrigerants, inorganic fluorides, specialty fluoro-chemicals and CRAMS. Recently, it has also added manufacturing of High-Performance Product (HPP) which is a new age application of fluorine with technology in place for the product with revenue generation envisaged to begin from Q1FY23. Over the years, NFIL has been increasing its focus on development of specialty chemicals and CRAMS business verticals which are margin accretive in nature and high-up in the fluorine value chain.

***Growth in TOI in FY21 and 9MFY22***
During FY21 (refers to the period April 1 to March 31), NFIL reported a growth of 13% in its TOI with high value businesses (specialty chemicals and CRAMS) contributing 65% of its TOI, up by 11% on Y-o-Y basis. Further, during 9MFY22, the revenue continued to grow by around 19% on a Y-o-Y basis on the back of uptick in legacy businesses (refrigerants and inorganic fluorides) driven by improved demand scenario and increased realizations as well as sustained growth in high value businesses.

***Improved operating profitability margins with higher share of revenue from CRAMS and specialty fluorochemicals segments***
Over the past few years, in order to further diversify the business and improve profitability levels, NFIL increased its focus on CRAMS and speciality chemicals businesses which are highly margin accretive in nature. NFIL's PBILDT margin improved from 27.25% in FY20 to 29.31% in FY21 on account of significant increase in share of revenue from CRAMS and specialty segments. The profitability margins moderated slightly during 9MFY22 owing to higher input and freight costs. NFIL's product mix is expected to considerably change over the medium term, driven by high growth from specialty chemicals and CRAMS segments, while the legacy businesses are expected to grow at a slower rate than the high value segments.

***Strong financial risk profile marked by comfortable capital structure and strong debt coverage indicators***
Absence of any long-term debt, low utilization of working capital limits and healthy accretion to reserves have led to negligible overall gearing for NFIL. Strong cash accruals coupled with negligible interest and finance charges have resulted in strong debt coverage indicators. The financial risk profile is expected to remain robust in the medium term even after availment of debt for the large size capex taken up in NFIL's subsidiary viz. Navin Fluorine Advanced Sciences Ltd. (NFASL).

***Liquidity: Strong***
NFIL's liquidity position continues to remain strong on the back of strong cash accruals with no existing term debt repayments. Healthy cash flow from operations have also resulted in nil utilization of fund based working capital limits. With an overall gearing of 0.02 times as of March 31, 2021, the company has sufficient gearing headroom, to raise additional debt for its capex. Also, it had unencumbered cash and cash equivalents as well as mutual fund investments of Rs.624 crore on March 31, 2021 which further supports its liquidity. During 9MFY22, after investment of substantial part of its planned equity commitment for the ongoing capex in NFASL, NFIL was still left with sizeable amount of free liquidity.

**Key Rating Weaknesses**

***Vulnerability of operating margins to fluctuations in raw material prices***

Fluorspar, chloroform and sulphur are the major raw materials for NFIL. The prices of fluorspar which accounts for over 40% of its overall raw material cost is highly volatile. China is the key global supplier of fluorspar. However, NFIL has entered into long term supply contracts with certain South African miners for the supply of fluorspar and has thus partially de-risked itself from China. While NFIL has been able to pass on increase in raw material prices to its customers, it happens with a certain lag. As such, its operating margins remain susceptible to fluctuations in raw material prices to an extent.

***Intense competition and exposure to cyclicality in the key end user industries***

The company faces stiff competition from Chinese manufacturers in few of its business verticals (primarily in refrigerant gases) due to abundant availability of fluorspar in China. Furthermore, the company is exposed to cyclicality in key end-user industries namely consumer durables, metals, agrochemicals amongst others. These industries are vulnerable to macroeconomic factors and economic cycles which in turn can impact the growth prospects of the company. Over the years, the company has been diversifying its operations and increasing its presence in other segments to de-risk the business to a certain extent.

***Phasing out of HCFC-22/R-22 gas business under Montreal Protocol by 2030***

NFIL's flagship product, refrigerant HCFC-22, commonly known as R-22 (contributed 29% of sales in FY19, 26% in FY20 and 18% in FY21) is to be completely phased out by 2030 due to its ozone depleting nature (with 35% reduction in quota w.e.f. January 01, 2020 under emissive segment). NFIL is thus reducing its dependence on refrigerant gas business and consequently, increasing focus on CRAMS and specialty chemicals businesses as well as HCFC-22 sales in the non-emissive segment.

***Inherent project risk associated with the implementation and stabilization of a large-size capex in its subsidiary which is proposed to be partly debt-funded***

NFASL (wholly owned subsidiary of NFIL) has taken up greenfield projects in the specialty chemicals segment wherein it has received a multi-year contract of USD 410 million from Honeywell International Inc. for manufacturing and supply of High-Performance Product (HPP) in fluorochemical space. Also, NFASL has taken up capex to launch new products in agrochemicals by setting up Multi-Purpose Plants (MPPs). The entire planned capex for HPP and MPPs in NFASL is being taken up at Dahej, Gujarat. The total cost of these projects is estimated to be around Rs.1,090 crore which is planned to be funded by bank term debt of Rs.500 crore and remaining through investment by NFIL from its available liquidity. Inherent project risk is associated with such large size projects. However, the construction of these projects is at an advanced stage whereby NFASL has incurred total capex of nearly Rs.690 crore by end-February 2022 and these projects are planned to be completed in a staggered manner by Q3FY23. Furthermore, there is committed off-take or pay business agreement with certain global customers for a tenor of 7 years for HPP and 5 years for MPPs which provides good revenue visibility for the medium term, post completion of these projects. The debt for these projects is tied-up with banks wherein principal repayment is scheduled to commence from FY25 onwards. NFIL is in the process of executing its corporate guarantee for the entire debt in NFASL. The consolidated debt of NFIL is envisaged to increase in the medium-term. Timely completion of these projects in NFASL without any major cost overrun, receipt of all regulatory approvals for operating the plant at optimum level and stabilization of the plants post its commissioning along-with generating envisaged returns from the same would be critical so as to improve return indicators of NFIL on a consolidated basis, apart from maintaining its hitherto healthy leverage and debt coverage indicators.

**Analytical approach:**

**Credit Enhanced (CE) Ratings:** Assessment of the guarantor i.e., NFIL. The rating is based on credit enhancement in the form of proposed unconditional and irrevocable corporate guarantee to be extended by NFIL in favor of the lenders of NFASL.
The guarantor i.e., NFIL's credit profile has been analyzed on a consolidated basis owing to financial and operational linkages of NFIL with its subsidiaries, common management and corporate guarantee planned to be provided by NFIL for debt to be raised in NFASL. List of companies getting consolidated in NFIL is given in **Annexure-5**

**Unsupported Ratings:** Standalone. Furthermore, strong management and financial linkages with NFIL have been taken into consideration. The parent entity i.e. NFIL intends to diversify its product portfolio by undertaking greenfield expansion through NFASL, thereby reiterating its importance to the parent.

**Applicable Criteria**

**Policy on assignment of Provisional Ratings**
**Criteria on assigning rating outlook and credit watch**
**CARE's Policy on Default Recognition**
**Criteria for Credit enhanced debt**
**Criteria for Short Term Instruments**
**Rating Methodology: Manufacturing Companies**
**Financial ratios – Non-Financial Sector**
**Liquidity Analysis of Non-Financial sector**
**Rating Methodology – Project Stage Companies**
**Rating Methodology- Notching by factoring linkages in Ratings**

**Validity of the Provisional Rating:**
The provisional ratings shall be converted into a final rating after receipt of the above-mentioned transaction documents duly executed within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings Ltd.'s Policy on Assignment of Provisional Ratings.

**Risks associated with provisional nature of credit rating:**
When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings Ltd., the final rating is assigned by CARE Ratings Ltd. In absence of receipt of documents or where such documents deviate significantly from that considered by CARE Ratings Ltd., the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

**About the Corporate Guarantee Provider – Navin Fluorine International Limited**
NFIL, incorporated in 1998, is part of the Padmanabh Mafatlal group and is engaged in the manufacturing of fluorinated specialty chemicals. As on December 31, 2021, the promoter group held 30.19% equity stake in the company. NFIL operates in four major business segments, viz., refrigerant gases, inorganic fluorides, specialty chemicals and CRAMS. It operates one of the largest integrated fluorochemical complexes in India with a strong focus on R&D. NFIL's presence is spread across the domestic and export markets, including Europe, the USA, South-east Asia and the Middle Eastern countries.
NFIL's manufacturing facilities are in Surat, Gujarat and Dewas, Madhya Pradesh. The R&D centre is also located in Surat. The Surat plant manufactures refrigerant gases, inorganic fluorides and specialty chemicals, whereas the manufacturing plant at Dewas is a cGMP-compliant facility for the CRAMS business (India's only fluorine-based CRAMS facility which is cGMP-certified, according to the company).

| Brief Financials of NFIL – Consolidated (Rs. crore) | FY20 (A) | FY21 (A) | 9MFY22 (Prov.) |
|---|---|---|---|
| TOI | 1091.04 | 1230.64 | 1071.24 |
| PBILDT | 297.32 | 360.67 | 287.37 |
| PAT | 408.59 | 257.52 | 187.91 |
| Overall gearing (times) | 0.02 | 0.02 | NA |
| Interest coverage (times) | 148.33 | 196.16 | 228.07 |

*A: Audited; Prov.: Provisional; NA: Not Available; Financials classified as per CARE Ratings Limited's standards.*

**About the Company – Navin Fluorine Advanced Sciences Limited**
Incorporated in 2020, NFASL is a wholly owned subsidiary of NFIL. Through NFASL, the parent entity has undertaken various greenfield projects at Dahej, Gujarat in order to expand its product portfolio. NFASL is setting up three projects viz. HPP and MPP in phases (MPP-1 & MPP-2) to create opportunities for new products in life science and crop science sectors in the fluorochemicals space. NFASL is also constructing a captive power plant having capacity of 8 MW and a common infrastructure to service all the plants. The total cost of these projects is estimated to be around Rs.1,090 crore which is proposed to be funded by bank term debt of Rs.500 crore and remaining through equity from NFIL. The construction of these projects has already started and is expected to be completed in a staggered manner by Q3FY23.

**Brief Financials:** Not Applicable since NFASL is still a project stage entity.

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: Not Applicable**

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Not applicable

**Complexity level of various instruments rated for this company:** Annexure 3

**Annexure-1: Details of Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | March 2028 | 500.00 | Provisional CARE AA (CE); Stable |
| Fund-based/Non-fund-based-LT/ST | - | - | - | 300.00 | Provisional CARE AA (CE); Stable / CARE A1+ (CE) |
| Un Supported Rating-Un Supported Rating (LT/ST) | - | - | - | 0.00 | CARE BBB+ / CARE A2 |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2022-2023 | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Term Loan | LT | 500.00 | Provisional CARE AA (CE); Stable | - | - | - | - |
| 2 | Fund-based/Non-fund-based-LT/ST | LT/ST* | 300.00 | Provisional CARE AA (CE); Stable / CARE A1+ (CE) | - | - | - | - |
| 3 | Un Supported Rating-Un Supported Rating (LT/ST) | LT/ST* | 0.00 | CARE BBB+ / CARE A2 | - | - | - | - |

* Long Term / Short Term

**Annexure 3: Complexity level of various instruments rated for this company**

| Sr. No | Name of instrument | Complexity level |
|---|---|---|
| 1 | Fund-based - LT-Term Loan | Simple |
| 2 | Fund-based/Non-fund-based-LT/ST | Simple |
| 3 | Un Supported Rating-Un Supported Rating (LT/ST) | Simple |

**Annexure 4: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please **click here**

**Annexure 5: List of entities which have been consolidated with NFIL (as on March 31, 2021)**

| Name of the entity | % holding of NFIL |
|---|---|
| Sulakshana Securities Limited | 100% |
| Navin Fluorine Advanced Sciences Limited (NFASL) | 100% |
| Manchester Organics Limited | 100% |
| Navin Fluorine (Shanghai) Company Limited | 100% |
| NFIL (UK) Limited | 100% |
| NFIL (USA) Inc | 100% |
| Swarnim Gujarat Fluorspar Private Limited | 49.43% |

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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**About CARE Ratings Limited:**
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.



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