Navin Fluorine International Limited

February 18, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	85.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	135.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**220.00 (Rs. Two Hundred Twenty Crore Only)**		
Commercial Paper (Carved out)*	30.00	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities and commercial paper of Navin Fluorine International Limited (NFIL: CIN No. L24110MH1998PLC115499) continues to derive strength from its strong business risk profile marked by its strong market presence with leading position in the specialty fluorochemicals business, diversified high margin product offering catering to various end-user industries and strong traction in its contract research and manufacturing services (CRAMS) business and multi-year contracts with global innovators present in high margin fluorine value chain with its strong research and development capability to handle complex fluorine chemistry. The rating also favorably factors in the extensive experience of the promoters/management in chemicals business and demonstrated track record of developing various segments and scaling them up.

NFIL had started operations with manufacturing of refrigerant gases and over the years it has significantly diversified its presence across the fluorochemical value chain. This is evident from the increasing share of revenue from its high value business segments viz. contract research and manufacturing services (CRAMS) and specialty fluorochemicals which in turn has led to substantial improvement in the operating profitability of the company. Presence in the high value fluorine chain is expected to increase going forward driven by significant investments being made by NFIL in development of high performance products (HPP) and in setting up of multi-purpose plant (MPP) for manufacturing specialty chemicals.

The rating continues to take cognizance of superior financial risk profile marked by comfortable leverage and debt coverage position as on December 31, 2020. The rating also factors in the robust growth reported by NFIL in its Total Operating Income and improved product mix translating into consistent operating profit margins and cash accruals generation. Consistent cash accruals in the absence of fixed debt repayments has led to large quantum of investment surplus as on December 31, 2020. CARE believes, the leverage and debt coverage indicators are expected to remain comfortable in medium term despite the planned capex. Further, the divestment of its 49% stake in its JV Convergence Chemicals Pvt. Ltd. (CCPL) for a total consideration of Rs. 73 crore is likely to provide additional liquidity support to the company.

The rating strengths are, partially constrained by susceptibility of its operations and operating profit margins to supply side disruptions and price volatility. Although, NFIL has demonstrated the capability to pass on the price rise to its customers, same happens with certain time lag. Supply side constrains are mitigated through diversified supplier base and long term supply arrangements with them. Rating also factors in the risk associated with phase-out of hydrochlorofluorocarbon (HCFC) which may impact the revenue under its refrigerant segment which has been declining. Nevertheless, the decline in revenue from this segment is compensated by increase in share of revenue from CRAMS and specialty chemicals segments which are high margin accretive in nature.

Rating Sensitivities

Positive Factors

- Total operating income increasing above Rs. 1500 crore on a sustained basis
- Operating ROCE above 28% on a sustained basis

Negative Factors

- Any large debt funded capex undertaken by the company adversely impacting the Total Debt / PBILDT above 2.0x on sustained basis

Detailed description of the key rating drivers

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, with more than five decades of experience in the industry. NFIL is one of the largest specialty fluorochemical companies and a pioneer in the manufacturing of refrigerant gases in India, with presence in both the segments since inception. Over the years it has significantly diversified its presence across the fluorochemical value chain. This is evident from the increasing share of revenue from its high value business segments viz. contract research and manufacturing services (CRAMS) and specialty fluorochemicals which in turn has led to substantial improvement in the operating profitability of the company. NFIL's product portfolio includes more than 50 fluorinated compounds, developed over the years. The products manufactured by NFIL finds application in various industries including agrochemicals, pharmaceuticals, stainless steel, refrigeration, metal processing, abrasives, and glass and ceramics. Recent contracts in CRAMS and HPP reflect its capabilities in fluorine chemistry, strong connect with customers and ability to scale up molecules from laboratory to multi-tonne batches.

Growing 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 CRAMS (Contract Research and Manufacturing), specialty fluorochemicals, refrigerants, and inorganic fluorides. Recently it has also added manufacturing of High Performance Product (HPP) which is a new age application of fluorine. 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.

	% share in revenue				
Segments	**FY18**	**FY19**	**FY20**	**9MFY20**	**9MFY21**
Specialty fluoro chemicals	32	31	37	37	40
Refrigerant gases	28	29	26	27	19
CRAMS	23	19	17	16	25
Inorganic/Bulk Fluorides	17	21	20	21	17
Total	**100**	**100**	**100**	**100**	**100**

Sustained growth in total operating income in FY20 and in 9MFY21

During the year FY20, NFIL reported a growth of 6% in total operating income with high value business contributing 54%, up by 16% on YoY basis. In 9MFY21, despite temporary shutdown of operations on the back of Covid -19 pandemic, NFIL has posted sustained growth in TOI of 10% on a YoY basis. While the legacy businesses of refrigerant gases and inorganic fluorides underperformed by registering a de-growth of 27% and 14% respectively in 9MFY21 on a YoY basis, steady customer orders in CRAMS and specialty chemicals business supported the revenue growth of the company during this period.

Revenue growth to be supported by capex in HPP and speciality fluorochemicals space

In the past, NFIL has undertaken timely capex to augment its growth trajectory. This can be observed through consistent increase in gross block over FY10-20. Along with investing in cGMP3 plants to increasing capacities with time, the management has focused on augmenting capacity at its Surat multipurpose plant to enable growth.

- **High Performance product**

NFIL has recently entered into a $410 mn (~Rs. 2800 crore) contract with a global company for manufacture and supply of High Performance Products (HPP) in the fluorochemical space. The product is a new age application of fluorine with application across a spectrum of industries. The contract is for a period of 7 years and the expected revenue shall be staggered over that period. The project will be executed through its wholly owned subsidiary Navin Fluorine Advanced Sciences Limited (NFASL) at Dahej, Gujarat. The total investment required for the project is expected to be Rs. 436 crore which will include a captive power plant for Rs. 71 crore. Currently, apart from the customer itself, there are no other manufacturers for this product globally.
Production shall commence from Q4FY22 with FY23 being the first full year of production. So far, the capex is being funded using internal accruals but at a later stage, if the need arises debt shall be taken for the project.

- **Multi- Purpose Plant**

In December 2020, the board of NFIL approved a capex of Rs. 195 crore towards setting up of a multipurpose plant at Dahej which will be manufacturing new speciality fluorochemicals to be used in the pharma and crop science industries. The project shall be carried out by NFASL and is expected to be completed by H1FY23. Peak revenue of Rs. 260-280 crore is expected from this project in about 2-3 years of commencement of commercial production.

Improved profitability margins in FY20 and in 9MFY21 on account of increase in the share of revenue from high value CRAMS and specialty fluorochemicals

Over the past few years, in order to further diversify the business and improve profitability levels, NFIL increased focus on CRAMS and speciality chemicals business which are highly margin accretive in nature. NFIL's PBILDT margin improved from

24.20% in FY19 to 27.25% in FY20 and has further improved to 31.24% in 9MFY21. The jump in operating margins in 9MFY21 is on account of significant increase in share of revenue from CRAMS and speciality segments from 54% in FY20 to 65% in 9MFY21. NFIL's product mix is expected to considerably change over the medium term, driven by higher growth from specialty chemicals and CRAMS segments, while the legacy businesses will grow at a slower rate than the higher value segments.

Strong financial risk profile as indicated by negligible gearing and healthy debt coverage indicators
Absence of long term debt, low utilization of working capital limits (only non-fund based limits are utilized) and healthy accretion to reserves have led to negligible gearing for NFIL in the past. Strong cash accruals coupled with negligible interest and finance charges have resulted in comfortable debt coverage indicators. As per recent development, the board of NFIL has approved the sale of 49% stake in CCPL to Piramal Enterprises Limited at a consideration of Rs. 65 crore. That apart, NFIL shall receive a onetime payment of Rs.7.90 crore towards the lease of the land used by CCPL. So far, the company has received Rs. 7.90 crore and will receive the balance by the end of the financial year.

Key Rating Weaknesses
Susceptibility of profit margins to volatility in key raw material prices
Fluorspar, chloroform, and sulphur are the major raw materials for NFIL. China is the key global supplier of fluorspar and accounts for major production across the globe. However, NFIL has addressed this issue by developing suppliers in other regions like Kenya, South Africa, South East Asia etc. and also with an optimized management of inventory. Nevertheless, the profitability continues to remain vulnerable to supply side disruptions leading to volatility in raw material prices.

Intense competition and risk of slowdown in the key end user industries
The company faces stiff competition from Chinese manufacturers in few of business verticals (majorly in refrigerant gasses) due to abundant availability of fluorspar in China. Furthermore, the company is exposed to slowdown in key end-user industries namely consumer durables, metals, agrochemicals amongst others. The 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 is diversifying operations and increasing presence in other segments to de-risk the business.

Phasing out of HCFC-22/R-22 gas business under Montreal Protocol by 2030
NFIL's flagship product, refrigerant HCFC-22 (contributed 25% sales in FY20) is on a phase out by 2030 due to its ozone depleting nature (with 35% reduction in quota w.e.f January 1, 2020 under emissive segment). NFIL is thus reducing its dependence on refrigerant gas business and is increasing focus on high fluorine value chain segment sales like CRAMS and specialty chemicals and HCFC-22 sales in non-emissive segment.

Strong liquidity position
NFIL's liquidity position continues to remain strong on the back of strong cash accruals. Healthy cash flow from operations have also resulted in nil utilization of fund based working capital limits. Further, absence of long term debt on the books and presence of unencumbered cash and cash equivalents of Rs.351.36 crore as on December 31, 2020 supports the liquidity position of the company.

Analytical approach:
CARE analyzed NFIL's credit profile by considering the consolidated financial statements of the group owing to financial and operational linkages between the parent and group entities, common management, and corporate guarantees provided by NFIL to various group entities for raising debt. (Refer to Annexure 5)

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology: Consolidation

About the Company
Navin fluorine International Limited (NFIL, CIN No.: L24110MH1998PLC115499), part of Padmanabh Mafatlal Group, was established in 1967 at Surat, Gujarat and later incorporated in 1998. As on December 31, 2020, the promoter group holds 30.51% equity stake in the company. NFIL is engaged in refrigerant gasses, inorganic fluorides, specialty fluorochemicals and CRAMS. The company's presence is spread across in India and globally in countries including United Kingdom, United States of

America amongst others. The manufacturing facilities are located in Surat, Gujarat, which is strategically located near a port, and Dewas in Madhya Pradesh. The research and development centre is located in Surat. The Surat plant manufactures refrigerant gases, inorganic fluorides, and specialty chemicals. Whereas, the manufacturing plant at Dewas is a cGMP compliant capabilities for high pressure fluorination for CRAMS business (India's only plant which cGMP certified).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	9MFY21 (UA)
Total operating income	1,025.07	1091.04	898.71
PBILDT	248.09	297.32	280.78
PAT	149.10	408.59	182.73
Overall gearing (times)	0.01	0.02	NA
Interest coverage (times)	300.02	148.33	261.21

A: Audited; UA: Unaudited

The financials have been classified as per CARE's standards

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: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	85.00	CARE AA; Stable
Non-fund-based-Short Term		-	-	-	135.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)		-	-	-	30.00	CARE A1+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	85.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Feb-20) 2)CARE AA; Stable (05-Apr-19)	-	1)CARE AA; Stable (15-Feb-18)
2.	Non-fund-based-Short Term	ST	135.00	CARE A1+	-	1)CARE A1+ (18-Feb-20) 2)CARE A1+ (05-Apr-19)	-	1)CARE A1+ (15-Feb-18)
3.	Commercial Paper-Commercial Paper (Carved out)	ST	30.00	CARE A1+	-	1)CARE A1+ (18-Feb-20) 2)CARE A1+ (05-Apr-19)	-	1)CARE A1+ (15-Feb-18)
4.	Commercial Paper	ST	-	-	-	1)Withdrawn (05-Apr-19)	-	1)CARE A1+ (15-Feb-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Carved out)	Simple
2.	Fund-based-Long Term	Simple
3.	Non-fund-based-Short Term	Simple

Annexure 5: List of entities which have been consolidated

Name of the company	% holding
Subsidiary:	
Sulkashana Securities Limited (SSL)	100%
Manchester Organics Limited (MOL)	100%
Navin Fluorine (Shanghai) Company Limited	100%
NFIL (UK) Limited (NUK)	100%
Step down subsidiary:	
NFIL (USA) Inc	100% of NUK
Joint venture:	
Swarnim Gujarat Fluorspar Private Limited	49.43%
Convergence Chemicals Private Limited	49.00%
Associate:	
Urvija Associates*	-

* Divested the stake in July 2018

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

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact-1
Name: Arti Roy
Contact No: 9819261115
Email ID- arti.roy@careratings.com

Analyst Contact-2
Name: Mr. Sudarshan Shreenivas
Contact No: +91-22-6754 3566
Email ID- sudarshan.shreenivas@careratings.com

Relationship Contact
Name: Mr. Saikat Roy
Contact no. +91-22-6754 3404
Email ID: saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**