Navin Fluorine International Limited

February 18, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (fund based)	85.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities (non-fund based)	135.00	CARE A1+ (A one Plus)	Reaffirmed
Total Facilities	**220.00 (Rupees Two hundred and Twenty crore only)**		
Commercial Paper*	30.00 (Rupees Thirty crore only)	CARE A1+ (A one Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

*carved out of sanctioned working capital limits of the company

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 presence and leadership position in fluoro-chemicals business, diversified product offering catering to various end-user industries, and increasing presence in high margin fluorine value chain with research and development capability to handle complex fluorine chemistry.

The rating also favorably factor in the extensive experience of the promoters/management in chemicals business and demonstrated track record of developing various segments and scaling them up.

The rating continues to take cognizance of superior financial risk profile marked by comfortable leverage and debt coverage position as on December 31, 2019. 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. Consistent cash accruals as against limited debt has led to large quantum of investment surplus.

CARE believes, the leverage and debt coverage indicators are expected to remain comfortable in medium term on back of limited envisaged capex towards its existing facilities.

The rating strengths are, however, tempered 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) under Montreal Protocol, which may impact the income generated under its refrigerant segment.

Rating Sensitivities

Positive Factors:

- Total operating income increasing above Rs. 1500 crore on a sustained basis
- Operating profit margins above 25% 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 fluoro-chemical 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. In the year 2011, NFIL forayed into development of complex products used in global pharma industry by capitalising on its research and development expertise through the CRAMS vertical. NFIL's product portfolio includes of 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.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Diversified revenues with presence in high value fluorine value chain

NFIL's product portfolio covers wide range of fluorine value chain and operates through four business verticals namely Contract Research and Manufacturing Services (CRAMS), specialty fluoro chemicals, refrigerant gases, and inorganic fluorides. Through its long presence in the industry and in house research and development expertise developed over the years, NFIL has established expertise in handling complex fluorine chemistry and thereby increasing focus on development of specialty chemicals and CRAMS business verticals which are margin accretive in nature and high in the fluorine value chain. During FY19 and H1FY20, combined sales from specialty chemicals and CRAMS business verticals contributed around 51% and 50% to the total revenues of NFIL respectively.

Sustained growth in total operating income in FY19 albeit, the growth momentum tapered off in H1FY20 on the back of underperformance of the CRAMS division

During the year FY19, NFIL reported a growth of 10% in total operating income on the back of healthy growth in speciality chemicals, inorganic fluorides and refrigerant gas business. Domestic business grew by 20% whereas, exports grew by 14% during FY19. In H1FY20, economic slowdown in the domestic economy led to a 4% decline in revenue whereas exports registered a 11% growth on the back of increased penetration to newer markets.
The inorganic fluoride segment registered a growth of 36% in FY19 on a yoy basis fuelled by positive traction in volume as well as prices in the domestic market. Addition of new customers also aided growth in this segment during the year. Marginal growth in revenue from this segment in H1FY20 on a yoy basis was led by increase in realisations. NFIL increased pricing of most of its products in H1FY20 to factor in the increase in fluorspar prices.
CRAMS segment registered a de- growth in revenue by about 12% in FY19, as two customers deferred their orders. Out of these two orders, in Q1FY20, NFIL signed an agreement with one of the clients for multi-year supply of one of the molecules developed by them. As such, this molecule has now reached commercial production stage is likely to result in recurring flow of revenue for NFIL.
Despite restrictions on R-22 consumption and production levied in both domestic and export markets, revenue from this segment registered a growth of 14% in FY19 on a yoy basis on account of increased sales to non- emissive sectors such as agro chemicals and pharmaceuticals. Further, where domestic market was more or less stable, increased penetration to key export markets such as Middle East fuelled growth during the year. While demand from OEMs was weak during the year, on account of planned phase out of R-22, demand from after- markets was strong. In H1FY20, performance was more or less stable in both domestic and export markets.
The specialty fluorochemical division registered steady growth in FY19 and H1FY20 on the back of long standing relation with customers which has led to consistent volume growth in this segment.

Leverage and debt coverage indicators continue to remain comfortable

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.
NFIL has extended a corporate guarantee of Rs.49 crore (49% of the total loan amount of Rs. 100 crore (outstanding as on 31/12/19 Rs 75 Cr out of which NFIL's share is Rs.36.75 crore)) to its JV Convergence Chemicals Pvt. Ltd. [JV between NFIL and Piramal Enterprises Limited (PEL rated CARE AA; Stable/ CARE A1+ as on December 31, 2019) in the ratio of 49:51]. After factoring in the corporate guarantee, the adjusted gearing of NFIL stands at 0.05 as on March 31, 2019. This term loan is repayable in 20 quarterly instalments till FY24.

Key rating weakness

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 29% sales in FY19) is on a phase out by 2030 due to its ozone depleting nature (with 35% reduction in quota from 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

During FY19, NFIL's operating cycle remained at similar level of 74 days vis-à-vis previous year. Moreover, on account of strong internal cash accruals, except for utilization of non-fund based bank limits for raw materials imports, the utilization of fund based bank limits and commercial paper placement remained NIL. As on March 31, 2019, NFIL's unencumbered cash and cash equivalents (including non-current investments) stood at Rs.419.44 crore indicating sufficient liquidity cushion for capital expenditure plans and for supporting existing operations and is a key rating comfort.

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 3)

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

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, 2019, the promoter group holds 31.03% 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. Out of the total sales in FY19, around 51.3% was contributed by exports. The manufacturing facilities are located in Surat, Gujarat, and Dewas, Madhya Pradesh which are strategically located near ports. The research and development centre is located in Surat. The Surat plant is for manufacturing of 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).

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure 4*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (UA)
Total operating income	930.38	1,025.07	812.62
PBILDT	238.17	248.09	222.36
PAT	179.78	149.10	135.89
Overall gearing (times)*	0.11	0.05	0.03
Interest coverage (times)	199.63	300.02	146.96

The financials have been classified as per CARE's standards
A: Audited; UA: Unaudited
*Adjusted for the corporate guarantee extended by NFIL to Convergence Capital Pvt. Ltd.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based-Long Term	LT	85.00	CARE AA; Stable	1)CARE AA; Stable (05-Apr-19)	-	1)CARE AA; Stable (15-Feb-18)	1)CARE AA; Stable (30-Jan-17)
2.	Non-fund-based-Short Term	ST	135.00	CARE A1+	1)CARE A1+ (05-Apr-19)	-	1)CARE A1+ (15-Feb-18)	1)CARE A1+ (30-Jan-17)
3.	Commercial Paper-Commercial Paper (Carved out)	ST	30.00	CARE A1+	1)CARE A1+ (05-Apr-19)	-	1)CARE A1+ (15-Feb-18)	1)CARE A1+ (30-Jan-17)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (30-Jan-17)
5.	Commercial Paper	ST	-	-	1)Withdrawn (05-Apr-19)	-	1)CARE A1+ (15-Feb-18)	1)CARE A1+ (30-Jan-17)

Annexure 3: 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

Annexure 4: Detailed explanation of covenants of the rated instrument / facilities: Not available

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

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About CARE Ratings:
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