Navin Fluorine International Limited (Revised)

April 5, 2019

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 (Rupees Two hundred and Twenty crore only)**		
Commercial Paper*	30 (Rupees Thirty crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1
**carved out of the sanctioned working capital limits of the company.*

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and short-term instrument of Navin Fluorine International Limited (NFIL) continues to derive strength from the long track record and extensive experience of the promoters/management leading to well-established position in the fluoro-chemical business, having diversified revenue profile catering to various end-user industries backed by increasing presence in high margin fluorine value chain with research and development capability to handle complex fluorine chemistry. Furthermore, the rating derives strength from consistent improvement in operational performance leading to strong financial risk profile characterized by favorable capital structure and healthy liquidity in FY18 (refers to the period from April 01 to March 31) and 9MFY19.

The rating strengths are, however, tempered by modest scale of operations, exposure of the profitability margins to the volatility in key raw material prices, competitive nature of the industry for refrigerant gases, risk of slowdown in key end user industries, and phase-out of its HCFC-22/R-22 gas business under Montreal Protocol by the year 2030. Furthermore, the rating strengths are tempered due to project risk for the ongoing capital expenditure (phase – III expansion for Contract Research and Manufacturing Services (CRAMS) business).

Going forward, NFIL's ability to scale up its operations while sustaining its profitability margins from the core business amidst phase-out of HCFC under Montreal Protocol while maintaining the favorable capital structure, efficient working capital management and healthy liquidity along with successful implementation of on-going capex as per the planned funding profile are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Well-established position in fluoro-chemical industry and experienced promoters

NFIL, part of Padmanabh Mafatlal group, is present in Fluorochemicals industry since 1967, establishing more than five decades of experience in the industry. NFIL is one of the largest specialty fluoro-chemical companies and a pioneer of refrigerant gases in India with presence in both the segments since inception.

Diversified revenues with presence in high value fluorine value chain

The company'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, the company 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 fluorine value chain. During FY18 and 9MFY19, combined sales from specialty chemicals and CRAMS business verticals contributed around 48.97% and 51.69% to the total revenues of NFIL respectively.

Consistent improvement in operational performance resulting in healthy profit margins

The profit before interest, depreciation and tax (PBILDT) margin improved to 25.60% in FY18 from 23.72% in FY17; primarily on the back of revision in portfolio mix, product mix, and geography mix. Furthermore, efficient management of

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

working capital, repayment of term debt and strong cash accruals (due to improved operating margins), led to utilization of only non-fund based bank limits, this aided in reduction of interest and finance cost to Rs.1.19 crore in FY18 (FY17: Rs.2.70 crore). The same combined with profit on sale of non-trade investments/MTM gain and other income in FY18 led to expansion of profit after tax (PAT) margin to 19.32% in FY18 (FY17: 17.90%).

Strong financial risk profile

The total debt in NFIL's consolidated financials comprises of minimal term debt availed by group entity and utilization of non-fund based limits for raw material imports. While, the fund based working capital requirements are met through internal cash accruals, and additionally supported through strong liquidity position of the company. Moreover, the company has provided corporate guarantee of Rs.49 crore to lender for the term debt availed by CCPL for setting up the manufacturing unit (loan of Rs.100 crore and guarantee of 49% to the extent of shareholding in the company). Factoring the same, the adjusted overall gearing stood comfortable at 0.06 times as on March 31, 2018 (excluding acceptances and including debt guaranteed to CCPL).

Robust liquidity position

During FY18, the company's operating cycle remained at similar level of 72 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 December 31, 2018, the company's unencumbered cash and cash equivalents (including non-current investments) stood at Rs.408.21 crore (standalone) indicating sufficient liquidity cushion for capital expenditure plans and for supporting existing operations and is a key rating comfort.

Key Rating Weaknesses

Modest scale of operations

Despite, the gross sales growth of 24% on a year-on-year basis in FY18; the scale of operations of the company continued to remain at modest level at Rs.919.84 crore in FY18. The increase in sales is majorly on account of increasing contribution from specialty chemicals and also growth in inorganic fluorides business segment.

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, the company has over the past few years, addressed this supplier concentration risk by identifying and dealing with suppliers from other continents like South Africa, Kenya amongst others and also strategic inventory management However, the profitability continues to remain vulnerable to major adverse fluctuation 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 risk of slowdown in key end-user industries namely consumer durables, metals, pharmaceuticals, 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 31% and 28% sales in FY17 and FY18 respectively) is on a phase out by 2030 due to its ozone depleting nature (with 25% reduction in quota from January 1, 2020 under emissive segment). The company is awaiting emergence and acceptance of a globally sustainable substitute gas before evaluating any further production facility for the same. However, since there is no such curb or reduction in quota for supplies of the gas to the non-emissive segment the company is increasing focus on sales under such non-emissive segment (contribution of refrigerant gas segment to total sales reduced to 28% in FY18 from 34% in FY16).

Additional investment in CRAMS to support business growth plans albeit project risk

In December 2017, the company announced investment of additional capital expenditure under phase III development for CRAMS unit in Dewas for value added complex chemicals and fluoro intermediates. The expansion is in view to meet the growing demand and support future growth plans of the company. The total cost is expected to be around Rs.115 crore expected to be completed by December 2019 and funded through internal accruals. The timely completion of the project without any time and cost overrun and without any stress on the cash flows of the company remains crucial from credit perspective and remains a key rating monitorable.

Analytical approach: CARE analysed NFIL's credit profile by considering the consolidated financial statements of the group (revised from standalone analysis of the credit profile of NFIL) 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.

Applicable Criteria
[Criteria on assigning Outlook 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, 2018, the promoter group holds 31.96% equity stake in the company. NFIL is engaged in refrigerant gasses, inorganic/bulk 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 FY18, around 48% is in India and balance 52% is 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 facility for CRAMS business (India's only fluorine based CRAMS facility which is cGMP certified).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	763.18	930.38
PBILDT	181.05	238.17
PAT	136.60	179.78
Overall gearing (times)*	0.08	0.06
Interest coverage (times)	67.12	199.63

A: Audited
*excluding acceptances/creditors on letter of credit and includes part of debt guaranteed to CCPL.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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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Annexure-1: Details of Instruments/Facilities

Name of the Instrument/Bank Facilities	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- (Carved out)*	-	-	-	30.00	CARE A1+

**carved out of the sanctioned working capital limits of the company.*

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based-Long Term	LT	85.00	CARE AA; Stable	-	1)CARE AA; Stable (15-Feb-18)	1)CARE AA; Stable (30-Jan-17)	1)CARE AA (25-Nov-15)
2.	Non-fund-based-Short Term	ST	135.00	CARE A1+	-	1)CARE A1+ (15-Feb-18)	1)CARE A1+ (30-Jan-17)	1)CARE A1+ (25-Nov-15)
3.	Commercial Paper- (Carved out)*	ST	30.00	CARE A1+	-	1)CARE A1+ (15-Feb-18)	1)CARE A1+ (30-Jan-17)	1)CARE A1+ (25-Nov-15)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (30-Jan-17)	1)CARE AA (25-Nov-15)

**carved out of the sanctioned working capital limits of the company.*

Annexure-3: List of entities consolidated is given below:

Name of the company	% consolidated
Subsidiary:	
Sulkashana Securities Limited	100%
Manchester Organics Limited	100%
Navin Fluorine (Shanghai) Company Limited	100%
NFIL (UK) Limited	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	80.00%

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