Navin Fluorine International Limited

February 15, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (fund based)	85	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities (non-fund based)	135	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**220 (Rupees Two hundred and Twenty crore only)**		
Commercial Paper (CP) issue*	30 (Rupees Thirty crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Commercial Paper (standalone)	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 instruments of Navin Fluorine International Limited (NFIL) continues to derive strength from its well-established position in the fluoro-chemicals business and increasing presence in high margin fluorine value chain with research and development capability to handle complex fluorine chemistry. The ratings are further supported by consistent improvement in operational performance leading to comfortable financial risk profile and strong liquidity position of the company. The successful commencement of commercial operations and hive off of part division under Contract Research and Manufacturing Services (CRAMS) segment to a joint venture company without impacting the credit profile of NFIL provides further comfort.

The ratings, however, continues to be constrained by modest scale of operations, exposure of the profitability margins to the volatility in key raw material prices, competitive nature of the industry, risk of slowdown in key end user industries, 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 planned capital expenditure.

The ability of the company to maintain growth whilst maintaining profitability as envisaged, and efficient working capital management are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Well-established position in fluorochemical industry: NFIL, part of Padmanabh Mafatlal group, is present in the fluorochemical sector since 1967, establishing more than five decades of experience in the industry. NFIL is one of the largest specialty fluorochemical companies and a pioneer of refrigerant gases in India.

Increasing presence in high margin fluorine value chain: The company's product portfolio covers wide range of fluorine value chain and operates through four business verticals namely CRAMS, specialty fluoro chemicals, refrigerants, and inorganic fluorides. Over the years, the company is leveraging on research and development capability to handle 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 [contribution increased to 52% in FY17 (refers to the period April 1 to March 31) from 45% in FY15].

Improvement in profitability margins: The profit before interest, depreciation and tax (PBILDT) margin improved to 23.73% in FY17 from 20.95% in FY16. The increase in operating profitability is supported by revision in portfolio mix, product mix, and geography mix. The efficient management of working capital and strong cash accruals (due to improved

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

operating margins), led to minimal working capital bank borrowings, thereby reducing interest and finance cost to Rs.0.50 crore in FY17. The same combined with profit on sale of non-trade investments (profit of Rs.26 crore), led to expansion of profit after tax (PAT) margin to 18.55% in FY17 from 13.17% in FY16.

Robust liquidity position: In FY17, the company continued to maintain operating cycle at 60 days as compared to previous year. Furthermore, due to strong internal cash accruals, except for utilization of non-fund based bank limits for import of raw materials, the fund based working capital bank utilization and commercial paper placement is nil. As on September 30, 2017, the cash and cash equivalents (including non-current investments) is around Rs.331 crore providing sufficient liquidity cushion for capital expenditure plans and supporting existing operations and is a key rating comfort.
Comfortable financial risk profile: Due to absence of long-term borrowing and major funding of working capital requirements through internal accruals, the overall gearing continues to remain comfortable at 0.23 times as on March 31, 2017.

Transfer of business operations at Dahej albeit no impact on the financial profile of the company: In December 2017, the manufacturing plant for specialty fluorochemicals with a special focus on healthcare, commenced commercial operations in March 2017, is transferred to Convergence Chemicals Private Limited (CCPL). The plant was set up under NFIL due pending approvals in CCPL. CCPL, is a joint venture company between Piramal Enterprises Limited (PEL; rating 'CARE AA; Stable/CARE A1+' for instruments) and NFIL, holding 51% and 49% equity stake respectively. The slump sale is at net book value of assets for that business undertaking at Rs.141 crore, out of which pending receipt is around Rs.13 crore. The total income contribution in FY17 and 9MFY18, is Rs.16 crore and Rs.56 crore at a net operating loss of Rs.0.11 crore and meagre profitability, respectively due to pending stabilisation of operations.

Key Rating Weaknesses
HCFC on a phase out and development of substitutes in nascent stage: NFIL's flagship product, refrigerant HCFC-22 (contributed 31% and 25% of sales in FY17 and 9MFY18 respectively) is on a phase out by 2030 due to its ozone depleting nature. However, the company is reducing dependence on refrigerant gas business and is increasing focus on high fluorine value chain segment as explained above. Also, in FY16, the company entered into an agreement for small scale manufacturing project on HFO-1234YF, new generation refrigerant gas used globally in vehicle air conditioning system. During Q2FY18, the company commenced commercial production and supply to the customer. However, effectiveness of the available substitutes in the long-term on their price and availability remains to be seen.

Modest scale of operations: Despite, the gross sales growth of 10% in FY17 at Rs.699 crore, the scale of operations of the company continued to remain at modest levels. However, the operating profitability grew at an accelerated growth rate of 24% in FY17 to Rs.171 crore from Rs.138 crore in FY16. The same is on account of increasing contribution from CRAMS segment which is margin accretive in nature and improvement in operational efficiencies. Due to the inherent characteristic of CRAMS business, the contribution to the revenues of the company is relatively lower as compared to other segments.

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 unit 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 June 2019 and funded through a mix of internal accruals and debt, yet to be finalised by the management.
The timely completion of the project without any time and cost overrun and without any additional stress on the cash flows of the company remains crucial from credit perspective and remains a key rating monitorable.

Exposed to volatility in raw material prices: Fluorspar, chloromethane, 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. The company addresses the issue by reducing supplier concentration risk and improved inventory management. However, the profitability continues to remain vulnerable to major adverse fluctuation in raw material prices.

Intense competition for refrigerant gases and risk of slowdown in end-user industry: 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, 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.

Analytical approach: Standalone

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

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, 2017, the promoter group holds 31.96% equity stake in the company. NFIL's business units are refrigerant gasses, inorganic/bulk fluorides, specialty fluorochemicals and Contract Research and Manufacturing Services (CRAMS). The company's presence is spread across in India and globally in countries including Europe, Unite States of America (USA) amongst others. In FY17, export sales contributed 42% of total sales in the company. 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.

NFIL group includes four 100% subsidiaries of which Manchester Organics Limited (MOL) is operational, and balance three companies are dormant. In addition to the above, the company's holds investments in two joint ventures namely Swarnim Gujarat Fluorspar Private Limited (49.43% equity stake; yet to commence operations) and CCPL (49% equity stake; commenced operations in Q4FY17).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	656	722
PBILDT	138	171
PAT	86	134
Overall gearing (times)*	0.05	0.17
Interest coverage (times)	42.94	343.09

A: Audited

**excluding acceptances/creditors on letter of credit*

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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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; proposed)	-	-	-	30.00	CARE A1+
Commercial Paper (proposed)	-	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based-Long Term	LT	85.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Jan-17)	1)CARE AA (25-Nov-15)	1)CARE AA- (17-Oct-14)
2.	Non-fund-based-Short Term	ST	135.00	CARE A1+	-	1)CARE A1+ (30-Jan-17)	1)CARE A1+ (25-Nov-15)	1)CARE A1+ (17-Oct-14)
3.	Commercial Paper- (Carved out)	ST	30.00	CARE A1+	-	1)CARE A1+ (30-Jan-17)	1)CARE A1+ (25-Nov-15)	1)CARE A1+ (17-Oct-14)
4.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (30-Jan-17)	1)CARE AA (25-Nov-15)	1)CARE AA- (17-Oct-14)
5.	Commercial Paper	ST	30.00	CARE A1+	-	1)CARE A1+ (30-Jan-17)	1)CARE A1+ (25-Nov-15)	1)CARE A1+ (04-Dec-14)

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