

**Navin Fluorine Intl. Ltd.**

₹ 361

**CERs no more, focusing on the Core****Buy**

Apr 11, 2014

**Company Background**

Navin Fluorine International Ltd (Navin) is one of the largest and the most respected Indian manufacturers of speciality fluorochemicals. It belongs to the Arvind Mafatlal Group – one of India's oldest industrial houses. Established in 1967, Navin operates one of the largest integrated fluorochemicals complexes in India with manufacturing locations at Surat and Dahej in Western India and Dewas in Central India. Its R&D centre named as Navin Research Innovation Center (NRIC) is located at Surat, India. The acquisition of subsidiary company in the UK, Manchester Organics Limited has opened newer avenues for the company. Navin now plans to work end to end with the customers from various segments like life science, crop protection and other speciality chemical sectors right through product development life cycles by leveraging its cGMP Dewas plant which enables it to supply specialized and niche fluorinated molecules from milligram to multi-kilogram level quantities.

**Key Highlights**

- ➔ Navin has launched 6 custom value added products in the Speciality chemicals and 2 in the Bulk Fluoride segments, both the products were well received by the market and would ensure strengthening of market penetration among the pharma and agro-chemical segments.
- ➔ Pursuant to the agreement entered into by Navin with Gujarat Mineral Development Corporation Limited (GMDC) and Gujarat Fluorochemicals Limited (GFL), Swarnim Gujarat Fluorspar Private Limited, a Joint Venture company (JV), has been incorporated during the year for beneficiation of fluorspar ore to be supplied by GMDC to ensure long term supply of fluorspar, which is a key raw material of Navin.
- ➔ Navin is working hard on the Contract Research and Manufacturing Segment whereby it plans to become a reputed global player, the SBU has generated profits this year.
- ➔ Navin earns a significant amount of income from foreign sources, considering the rates of the dollar prevalent for the past two quarters. We feel this gain should show up in the March Quarter results.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	4,406.5	7,940.8	5,390.5
Rev. growth (%)	0.84	80.21	(32.12)
EBITDA (INR mn)	1,233.5	3,485.8	1,034.0
Net profit (INR mn)	716.4	2,312.4	431.6
Shares outstanding (mn)	9.8	9.8	9.8
EPS (INR)	73.4	236.9	44.2
EPS growth (%)	(0.30)	222.78	(81.34)
P/E (x)	3.4	1.5	4.8
RONW (%)	25.5	40.0	8.5
ROCE (%)	23.2	34.0	7.2

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**Info Codes**

Reuters	: NAFL.BO
Bloomberg	: NFIL@IN
NSE	: NAVINFLUOR
BSE	: 532504

**Market Data**

52 Wk Range (₹)	: 372 / 148
Shares in Issue (mn)	: 9.8
Mkt. Cap (₹ bn)	: 3.56
BSE 2 Wk Avg Vol	: 20000

**Share Holding Pattern (%)**

Promoters	: 38.83
FIIs	: 6.98
DIIIs	: 3.05
Others	: 51.14

**Investment Theme**

Navin has been in the continuous turn around phase for the last few years it was one of the pioneers to get CER accreditation and with more than INR 16 bn worth of CER's (valued at current price) the future would be overwhelming if they are not capitalized. Navin has been constantly monitoring its strategies to delink CER cash flows and brought a wholly owned subsidiary in the UK. This will help it to expand its market strongly in other areas. The Dewas plant and the Surat Research facility further add up to its resources. Currently Navin has the capability to cater to various segments right from agriculture to custom fluoro-chemicals from the very step of development of its product lifecycle. There is also a street buzz circulating that the NFIL management may declare a bonus this year. The Navin management has however not commented as yet on it.

**Reap Dividends**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	3751.8	4837.0	28.92	5074.9	4.92
Other Income	781.1	3296.7	322.06	653.8	(80.17)
Change in Stocks	19.4	107.4	453.61	1.4	(98.70)
Raw Material Con.	1831.1	2672.9	45.97	2631.9	(1.53)
Employee Exp.	297.9	408.8	37.23	441.6	8.02
Indirect Taxes	227.8	303.6	33.27	370.4	22.00
Other Exp.	1005.5	1428.7	42.09	1324.8	(7.27)
Operating Exp.	3342.9	4706.6	40.79	4767.3	1.29
Operating Profit	408.9	130.4	(68.11)	307.6	135.89
Total Interest	36.0	110.7	207.50	147.6	33.33
Gross Profit	1154.0	3316.4	187.38	813.8	(75.46)
Net Dep.	94.2	122.0	29.51	125.8	3.11
Total Taxation	343.4	882.0	156.84	256.4	(70.93)
Net Profit/Loss	716.4	2312.4	222.78	431.6	(81.34)

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12	Mar 13
<b>SOURCES OF FUNDS</b>	<b>3,023.5</b>	<b>3,822.8</b>	<b>5,767.1</b>	<b>5,927.0</b>
Equity Share capital	101.0	97.6	97.6	97.6
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	2,808.9	3,220.5	4,736.1	4,997.0
Long Term Loans	108.1	0.0	0.0	0.0
Short Term Loans	5.5	504.7	933.4	832.4
<b>USES OF FUNDS</b>	<b>3,023.5</b>	<b>3,822.8</b>	<b>5,767.1</b>	<b>5,927.0</b>
Gross Block	2,198.0	2,552.5	3,320.2	3,442.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	726.3	825.7	955.7	1,137.9
Net Block	1,471.7	1,726.8	2,364.5	2,304.8
Capital Work in Progress	261.5	322.4	52.3	87.1
Investments	11.6	477.7	2,049.5	2,466.4
Current Assets	2,976.6	3,994.4	5,239.7	4,613.7
Less : Current Liabilities	1,697.9	2,698.5	3,938.9	3,545.0
Total Net Current Assets	1,278.7	1,295.9	1,300.8	1,068.7
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	11.6	477.7	1,745.7	1,538.0
Mkt Val. Quoted Investments	0.0	0.0	304.1	910.5
Contingent Liabilities	269.8	295.0	167.1	181.2
Dividend (%)	140	150	750	150

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 13	Jun 13	Sep 13	Dec 13
Net Sales	1,046.20	1,148.50	998.70	1,100.50
Cost Of Sales	1,080.40	969.70	835.10	969.90
Operating Profit	(34.20)	178.80	163.60	130.60
Recurring Income	48.50	63.30	68.00	30.30
Adjusted PBDIT	14.30	242.10	231.60	160.90
Financial Expenses	20.40	12.00	11.00	14.10
Depreciation	49.20	50.60	52.40	50.90
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	(55.30)	179.50	168.20	95.90
Tax Charges	20.70	45.50	45.30	27.50
Adjusted PAT	(76.00)	134.00	122.90	68.40
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	(76.00)	134.00	122.90	68.40

## 52 Week Index Relative Percentage Appreciation



## Navin vs SENSEX

## Risks Associated

The Certified Emission Reductions on which the company was valued till now have been seeing highly volatile prices with a downward trend since the last year and a half. This is because looking at the opportunity there were a large number of projects which came up for Carbon Credit certification in the last 7 years, more than 80% of which were in India and China thereby ripping the demand by an oversupply of CER's. The base of Kyoto Protocol which expired in 2012 has no takers in 2013 and the protocol is still not ratified by a majority of countries.

Another reason for the non-ratification is that most of the countries have either exceeded their Carbon Foot print reduction targets or achieved them successfully thereby grossly bringing down the demand. Few countries like Australia are however yet to achieve their targets however they have decided to give priority to the CER's generated from other third world countries who could not benefit in the last bull run, thereby reducing the scope of demand for CER's in India.

However Navin has already accumulated ample CER's in the bull run and till the last time it requested CER's had accumulated CER's equivalent to INR 16.8 bn taking the current all time low price into consideration. It is not clear however if it has capitalized on those CER's or not. Whatever the case it is observed that Navin is finally getting out of the CER valuation trying to focus on core businesses.

## Navin

### In a Nutshell

Navin Fluorine International Limited is part of the Arvind Mafatlal Group based in Mumbai. With one of the largest integrated fluoro-chemicals complex in India, since 1967, it primarily focuses on four business lines – Refrigeration gases, Inorganic Fluorides, Speciality Fluorides and Contract Research And Manufacturing Services. It has manufacturing facilities at Surat, Gujarat and Dewas, Madhya Pradesh. It is one of the few companies in fluorination chemistry with the experience, capability and expertise in scale up from research to pilot and manufacturing. Its subsidiary company in the UK, Manchester Organics Limited participates in this early discovery phase with the innovator customers. Navin's facility supports life science, crop protection and other speciality chemical sectors right through product development life cycles. With high focus on fluorine chemistry and to support development of new products, Navin is making further investments in strengthening its manufacturing capabilities by building a world class cGMP multi-purpose plant to supply and service multi ton requirements of customers. The company has been one of the earliest winners of Carbon credits from India. The potential revenue from these CER is far more than company's net worth and has been a key rationale for investment throughout till now. The CER benefits have been withdrawn since 2012. However company's core business is also improving. Its UK based acquisition is expected to boost its research capabilities & cement its position further in Speciality chemical business. The company's chemical business has seen a turnaround and has been making profits. Going forward, the trend is expected to continue.

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### Rating Interpretation

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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