

June 24, 2008

NOT RATED

PRICE Rs.249

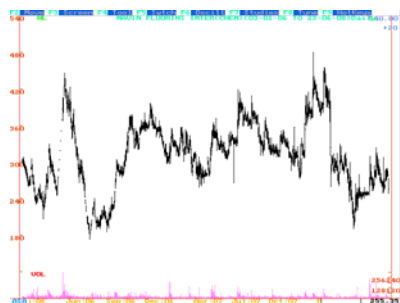
## CHEMICALS

### SHARE HOLDING (%)

Promoters	37.16
FII	4.60
FI / MF	8.13
Body Corporates	16.31
Public & Others	33.80

### STOCK DATA

Reuters Code	NAFL.BO	
Bloomberg Code	NFIL@IN	
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BSE Code	532504	
NSE Symbol	NAVINFUOR	
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Market Capitalization	Rs. 2513.8 mn US\$ 58.8 mn	
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Shares Outstanding	10.10 mn	
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52 Weeks (H/L)	Rs.480 / 190	
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Avg. Daily Volume (6m)	20427 Shares	
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Price Performance (%)		
1M	3M	6M
(11)	19	(36)
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200 Days EMA Rs.310		

Part of  Bonanza

Navin Fluorine International Ltd. (NFIL), an Arvind Mafatlal Group Company, operates the largest integrated fluorochemicals complex in India since 1967. It offers one of the widest ranges of fluorochemicals in the bulk & specialty segments. It also is one of the first few companies from India to register their Clean Development Mechanism (CDM) project on reduction of HFC 23 by thermal oxidation, with UNFCC & is expected to accumulate huge cash flow by selling about 2.8mn CERs every year. The company recently declared its Q4FY08 numbers, which were highly impressive given that the benefits from the CDM project started reflecting into its numbers from Q4FY08 onwards.

### Key takeaways from the AGM held on 23/6/08

- **Major Landmark** - the CDM project commissioned in FY08 & earned some revenues in Q4FY08. FY09 will be the first full year of Revenues from the same. The company expects substantial jump in revenues & profits from the CERs, which will be sold from FY09 onwards.
- **The CDM project** - the company will receive more than 2.8 mn CERs every year till 2012. Even after reducing a cost of 0.4mn CERs as technology & consultancy fees, the company will be left with a significant 2.4mn CERs per year.
- The management has chosen to remain silent on profits which can be generated from CERs, but as per our calculation, the yearly PBT from CERs can be as high as Rs.280crs per year (2.4mn CERs x 18 Euros per CER x Rs. 65 per Euro). There could be some CERs where the company could have pre-fixed the pricing at lower levels, but we believe that a large part of the volumes may be sold at the current spot prices. Overall, we believe it is possible for the company to earn more than Rs.200crs at the PBT level per year. Its current M-cap is about Rs.260 crs.
- Strategic review is being done to decide on the deployment of funds to be generated from CERs. Any large deployment from the same may happen only after 18 to 24 months.
- The company has a revenue (gross) target of Rs.400 crs (Rs.250crs from domestic market & Rs.150 crs from exports) from its core business in FY09 against Rs.314crs in FY08.
- **Refrigerant gases Business - CFC & HCFC.** CFC - expect an accelerated phase out over the next 2 years as per Montreal protocol - will lead to about Rs.4 - 5crs compensation from the same. HCFC business growing fast & replacing the volume loss of CFC business, management sees significant growth in this business going forward.
- Both the bulk Fluoride (Aluminum Fluoride) & hydrochloric acid business has seen good improvement & are expected to show good growth in FY09.
- The company has a revenue target of Rs. 100 crores in FY09 from its Specialty Chemicals business (Rs.85 crs in FY08). This business segment is expected to be the key growth driver for the company over the coming years, it's a low volume high value -high margin business, with Pharma & Agrochemical companies as the key clients.
- The company is leveraging on their strong R&D capabilities and is investing Rs. 10crs in a new R&D centre which will be functional from October 2008.
- Settlement with labour for past 10 years completed with liabilities already paid off, no compensation rise till 2011 as per the settlement.
- Capex will not be much in Fy09.
- Company had paid & written off about 90crs of cash to MIL in the past few years. Looking at the MIL's operations, it is hopeful to recover a part of this amount, which was earlier looking doubtful.
- We have a Positive view on the company & believe the stock can deliver excellent returns over the coming 18 to 24 months.

### KEY FINANCIALS

Y/E	Revenue	APAT	AEPS	EPS	PER	ROCE	ROE	EV/EBIDTA
Mar.	(Rs mn)	(Rs mn)	(Rs)	(%Ch.)	(x)	(%)	(%)	(x)
FY 06	2,327.6	97.6	9.7	(46.1)	25.7	11.2	5.6	11.6
FY 07	2,604.9	113.8	11.3	16.5	22.1	13.5	6.1	9.2
FY 08	2,909.7	133.8	13.3	17.6	18.8	12.7	7.0	9.5

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Please refer to important disclosures at the end of the report

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**QUARTERLY RESULTS STATEMENT** (Rs.mn)

Y/E March	Q4FY08	Q3FY08	Q4FY07
<b>Revenue</b>	<b>939.9</b>	<b>699.7</b>	<b>652.0</b>
% Ch. QoQ	34.3	7.3	5.5
% Ch. YoY	36.1	21.0	12.5
<b>RM Consumption</b>	<b>505.9</b>	<b>448.4</b>	<b>405.4</b>
% Ch. QoQ	12.8	10.6	22.5
% Ch. YoY	42.8	34.8	28.2
% STO	53.8	64.1	62.2
<b>Staff costs</b>	<b>48.6</b>	<b>51.0</b>	<b>50.7</b>
% Ch. QoQ	(4.7)	0.6	(0.1)
% Ch. YoY	(0.1)	28.8	2.6
% STO	5.2	7.3	7.8
<b>Other Expenditure</b>	<b>167.1</b>	<b>219.1</b>	<b>194.8</b>
% Ch. QoQ	(23.7)	12.4	87.2
% Ch. YoY	(22.8)	71.1	84.3
% STO	17.8	31.3	29.9
<b>Total Expenditure</b>	<b>721.6</b>	<b>718.5</b>	<b>650.9</b>
% Ch. QoQ	0.4	10.4	22.6
% Ch. YoY	8.0	32.4	25.6
% STO	76.8	102.7	99.8
<b>PBIDT</b>	<b>218.3</b>	<b>(18.8)</b>	<b>1.1</b>
% Ch. QoQ	(1,259.8)	(1,844.2)	(98.8)
% Ch. YoY	889.6	(152.5)	(98.2)
% Margin	23.2	(2.7)	0.2
<b>Interest</b>	<b>22.0</b>	<b>26.0</b>	<b>20.4</b>
% Ch. QoQ	(15.3)	27.5	(0.4)
% Ch. YoY	4.7	63.1	4.5
% of STO	2.3	3.7	3.1
<b>PBDT</b>	<b>196.2</b>	<b>(44.8)</b>	<b>(19.3)</b>
% Ch. QoQ	(537.7)	131.9	(129.1)
% Ch. YoY	19,388.0	(325.3)	(146.4)
% Margin	20.9	(6.4)	(3.0)
<b>Depreciation</b>	<b>30.4</b>	<b>30.4</b>	<b>29.8</b>
% Ch. QoQ	0.1	1.9	22.5
% Ch. YoY	25.7	36.0	40.5
% of STO	3.2	4.3	4.6
<b>PBT excl. OI</b>	<b>165.9</b>	<b>(75.2)</b>	<b>(49.1)</b>
% Ch. QoQ	(320.6)	53.1	(216.4)
% Ch. YoY	(816.4)	3,010.9	(340.3)
% Margin	17.6	(10.7)	(7.5)
<b>Other Income</b>	<b>8.5</b>	<b>5.1</b>	<b>22.9</b>
% Ch. QoQ	65.8	(77.5)	178.3
% Ch. YoY	(82.5)	(82.1)	(62.6)
% Margin	0.9	0.7	3.5
<b>PBT incl OI</b>	<b>174.4</b>	<b>(70.0)</b>	<b>(26.2)</b>
% Ch. QoQ	(349.0)	167.0	(152.0)
% Ch. YoY	585.6	(366.2)	(132.1)
% Margin	18.6	(10.0)	(4.0)
<b>Tax</b>	<b>72.8</b>	<b>3.6</b>	<b>(8.2)</b>
% Ch. QoQ	1,926.7	(144.0)	(1,432.5)
% Ch. YoY	420.9	(63.8)	(128.5)
% of PBT	41.7	(5.1)	31.1
<b>APAT</b>	<b>101.6</b>	<b>(73.6)</b>	<b>(18.1)</b>
% Ch. QoQ	(238.0)	307.3	(136.3)
% Ch. YoY	786.2	(549.0)	(134.1)
% Margin	10.8	(10.5)	(2.8)

**PROFIT & LOSS STATEMENT** (Rs.mn)

Y/E March	FY08	FY07	FY06
<b>Revenue</b>	<b>2,909.7</b>	<b>2,604.9</b>	<b>2,327.6</b>
% Ch. YoY	11.7	11.9	3.1
<b>RM Consumption</b>	<b>1,618.8</b>	<b>1,349.0</b>	<b>1,232.5</b>
% Ch. YoY	20.0	9.5	4.1
% STO	55.6	51.8	53.0
<b>Staff costs</b>	<b>201.1</b>	<b>175.4</b>	<b>151.4</b>
% Ch. YoY	14.7	15.8	19.6
% STO	6.9	6.7	6.5
<b>Other Expenditure</b>	<b>728.8</b>	<b>526.3</b>	<b>512.0</b>
% Ch. YoY	38.5	2.8	7.0
% STO	25.0	20.2	22.0
<b>Total Expenditure</b>	<b>2,548.7</b>	<b>2,230.6</b>	<b>2,034.6</b>
% Ch. YoY	14.3	9.6	6.3
% STO	87.6	85.6	87.4
<b>PBIDT</b>	<b>361.0</b>	<b>374.3</b>	<b>293.0</b>
% Ch. YoY	(3.6)	27.7	(14.9)
% Margin	12.4	14.4	12.6
<b>Interest</b>	<b>89.0</b>	<b>78.3</b>	<b>81.8</b>
% Ch. YoY	13.6	(4.2)	15.1
% of STO	3.1	3.0	3.5
<b>PBDT</b>	<b>272.0</b>	<b>296.0</b>	<b>211.2</b>
% Ch. YoY	(8.1)	40.1	(22.8)
% Margin	9.3	11.4	9.1
<b>Depreciation</b>	<b>114.8</b>	<b>88.3</b>	<b>75.0</b>
% Ch. YoY	30.0	17.7	14.3
% of STO	3.9	3.4	3.2
<b>PBT excl. OI</b>	<b>157.2</b>	<b>207.7</b>	<b>136.2</b>
% Ch. YoY	(24.3)	52.5	(34.5)
% Margin	5.4	8.0	5.9
<b>Other Income</b>	<b>44.8</b>	<b>45.6</b>	<b>55.3</b>
% Ch. YoY	(1.7)	(17.5)	(48.3)
% Margin	1.5	1.7	2.4
<b>PBT incl OI</b>	<b>202.0</b>	<b>253.2</b>	<b>191.5</b>
% Ch. YoY	(20.2)	32.3	(39.2)
% Margin	6.9	9.7	8.2
<b>Tax</b>	<b>68.2</b>	<b>139.5</b>	<b>93.9</b>
% Ch. YoY	(51.1)	48.6	(47.5)
% of PBT	33.8	55.1	49.0
<b>APAT</b>	<b>133.8</b>	<b>113.8</b>	<b>97.6</b>
% Ch. YoY	17.6	(16.6)	28.2
% Margin	4.6	4.4	4.2
<b>Extra ord. Items</b>	<b>54.9</b>	<b>(11.9)</b>	<b>12.1</b>
<b>RPAT</b>	<b>78.8</b>	<b>125.6</b>	<b>85.5</b>

Source : Company

## BALANCE SHEET STATEMENT

(Rs.mn)

As on 31 <sup>st</sup> March	FY08	FY07	FY06
<b>SOURCES OF FUNDS</b>			
Eq.Share Capital	101.0	101.0	100.9
Reser. & Surplus	1,822.9	1,755.8	1,641.8
<b>Net Worth</b>	<b>1,923.9</b>	<b>1,856.7</b>	<b>1,742.7</b>
Secured Loans	917.5	924.7	880.7
Unsecured Loans	-	-	-
<b>Total Loan Funds</b>	<b>917.5</b>	<b>924.7</b>	<b>880.7</b>
<b>Total Capital Employed</b>	<b>2,841.4</b>	<b>2,781.5</b>	<b>2,623.4</b>
<b>APPLICATION OF FUNDS</b>			
Gross Block	2,296.7	1,783.0	1,639.1
Less : Dep.	739.3	628.3	542.6
Net Block	1,557.3	1,154.8	1,096.5
Cap. WIP	273.9	570.4	320.1
<b>Fixed Assets</b>	<b>1,831.2</b>	<b>1,725.2</b>	<b>1,416.6</b>
Investments	<b>162.5</b>	174.3	226.2
Sundry Debtors	714.3	457.9	415.0
Cash & Bank Bal.	222.9	458.9	607.6
Loans & Adv.	824.9	561.3	583.0
Inventories	680.3	594.2	572.1
<b>Current Assets, Loans &amp; Adv.</b>	<b>2,442.4</b>	<b>2,072.3</b>	<b>2,177.7</b>
Current Lia.	1,366.6	1,008.4	987.6
Provisions	81.6	85.8	193.7
<b>Current Liab. &amp; prov.</b>	<b>1,448.2</b>	<b>1,094.3</b>	<b>1,181.3</b>
<b>Net Curr. Assets</b>	<b>994.2</b>	<b>978.0</b>	<b>996.4</b>
Deferred Tax Assets (Net)	(146.5)	(96.0)	(15.8)
<b>Total Assets</b>	<b>2,841.4</b>	<b>2,781.5</b>	<b>2,623.4</b>

Source : Company

## FINANCIAL RATIO STATEMENT

Y/E March	FY08	FY07	FY06
<b>GROWTH (%)</b>			
Net Sales	11.7	11.9	3.1
Net Profit	17.6	16.6	(28.2)
EBITDA	(3.6)	27.7	(14.9)
EPS	17.6	16.5	(46.1)
CEPS	(17.2)	45.4	(32.2)
Gr. Fixed Assets	28.8	8.8	15.5
Capital Employed	2.2	6.0	19.5
<b>VALUATION</b>			
EPS (Rs.)	13.3	11.3	9.7
CEPS (Rs.)	24.2	29.2	20.1
BVPS (Rs)	190.6	183.9	172.7
PER (x)	18.8	22.1	25.7
PEG (x)	1.1	1.3	(0.6)
P/CEPS (x)	10.3	8.5	12.4
P/BV (x)	1.3	1.4	1.4
EV/EBITDA (x)	9.5	9.2	11.6
EV/Net Sales (x)	1.2	1.3	1.5
<b>PROFITABILITY(%)</b>			
ROCE	12.7	13.5	11.2
ROE	7.0	6.1	5.6
EBITDA Margin	12.4	14.4	12.6
EBDTA Margin	9.3	11.4	9.1
N.Profit Margin	4.6	4.4	4.2
Tax/PBT	33.8	55.1	49.0
<b>TURNOVER</b>			
Debtor Days	90	64	65
Creditor Days	171	141	155
N.Fixed Assets(x)	1.6	1.5	1.6
Total Assets (x)	1.0	0.9	0.9
CMP (Rs.)	249.0	249.0	249.0
Market Cap. (Rs.mn)	2,513.8	2,513.7	2,511.9
EV (Rs.mn)	3,431.3	3,438.4	3,392.6

## Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

### Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

### Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

#### Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- \*\* Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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"Early Signals Stock Pick" is a follow-up report on the stocks covered earlier in our product "Early Signals". While we do not claim that we have compiled information based on our meeting with the management, we have taken enough care to ensure that the content of the report is reliable. Although the stock is not covered as a part of our normal rated calls, based on our analysis of the company, we find the company interesting at the current valuations and believe it could give decent returns over the coming 12 to 18 months.

#### Additional information with respect to any securities referred to herein will be available upon request.

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