WAY2WEALTH
Your Personal Investment Guide

Trading Call

Navin Fluorine International Rs 325

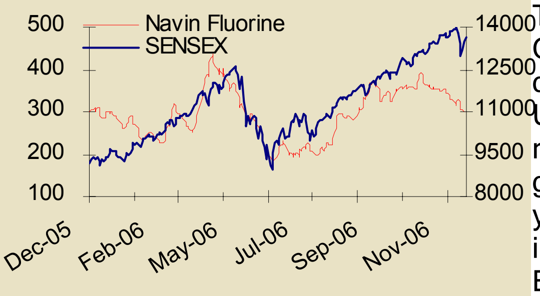
21st Dec 2006

Crediting Opportunities Buy

SCRIP DETAILS	
Market Cap (Rs crores)	327.9
P/E (x)-FY07e	15.8
Market Cap/Sales (x) FY07e	1.3
EV/EBIDTA (x) FY07e	8.6
Equity Capital (Rs crores)	10.1
Face Value (Rs)	10
52 Week High/Low (Rs)	445.8-173.5
Website: www.nfil.com	
BSE Code	NAVIN
Sensex	13,340
Nifty	3,816

(As on 30th Sep06)	
Promoters	37.1%
Mutual Funds/ Banks/ FIs	16.3%
FIIs	6.6%
Public & Others	29.3%
Bodies Corporate	10.7%

COMPARATIVE PRICE MOVEMENT



Navin Fluorine International Ltd (NFIL), traditionally a manufacturer of fluorochemicals, has emerged as a strong specialty chemicals company. Way back in 2000, most of the Company's revenues came from the fluorochemicals business but gradually, the Company has de-risked its business and currently, the three businesses of fluorochemicals, bulk fluorochemicals and specialty chemicals contribute equally to the turnover. Also, almost 45% of the Company's sales come from the export business and are likely to go up further, after the additional capacities come on-stream. NFIL has almost struck a gold mine from the huge opportunity that it has identified by implementing a CDM project, for which it has received approval from the designated national authority and would very shortly file for the same with UNFCCC.

Focus on Specialty Chemicals: high margin - high growth business

The Company believes that it has a competitive edge in the specialty chemicals segment and has decided to aggressively focus on this business segment, which is going to be the future growth driver for the Company. The Company is one of the very few global manufacturers of specialty chemicals and the Management believes that the Company is Number 2 in the world, in a few chemicals. The Company is doubling its capacity of specialty chemicals, which would get operational by Q1FY08. The specialty chemicals business is a high margin- high growth business and is expected to grow at a 35-40% CAGR. Currently, exports contribute around 50% of the segment revenues, which are expected to go up to 70% after the incremental capacities come on-stream.

Likely turnaround of the bulk fluorochemicals business

For sometime now, the bulk fluorochemicals business has been stagnant; however, recently, it has been showing signs of resurgence. The selling prices are also catching up with rise in raw materials prices. Hence, going forward, this segment would also turn out to be a growth business for the Company.

Carbon Credits - a virtual gold mine

There lies a huge opportunity ahead for NFIL, in the implementation of the CDM project for which the Company has received approval from the designated national authority and is very shortly going to file the same with the UNFCCC; the cash flows would start coming-in from Oct07. The CDM project reduces emissions of HFC23, a by-product of HCFC22, which is expected to generate 2.8 million CERs (certified emission reductions) annually, for ten years. Through this CDM project, the Company would generate substantial incremental profits (adjusted for taxes), which, on a conservative price band of Euro 5 to 7, could range from Rs 52.8 crores (at a price of Euro 5) to Rs 73.9 crores (at a price of Euro 7), which would mean an incremental EPS of Rs 52.3 to Rs 73.2.

Attractive Valuations

The focused shift in product mix, to the high-margin specialty segment, is expected to improve NFIL's profitability in the coming years. Refrigerant gases would show decent growth, bulk chemicals are likely to grow at a higher rate, while the major growth driver for the Company would be the specialty chemicals segment. The big trigger for the Company is the income from the CDM project, which would start accruing from Oct 07, resulting in substantial increase in the EPS. At the CMP of Rs. 325, the stock is quoting at a 45% discount to the lower-band of our estimated fair share value of Rs 471.5 and at a 78.3% discount to the higher-band of our estimated fair share value of Rs 579.5. We recommend investors to buy the stock, with a medium-term perspective.

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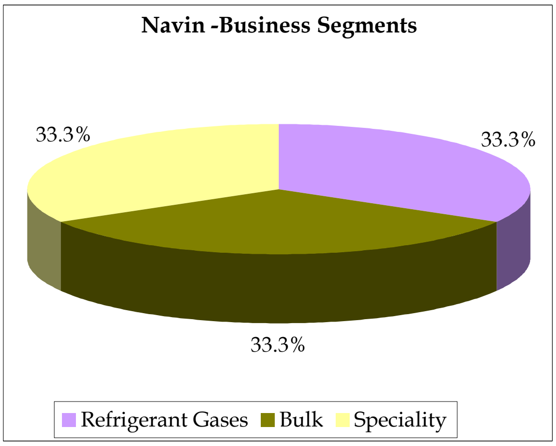
Company Background

NFIL is engaged in the manufacture of fluorochemicals, which are used as refrigerant gases in the refrigeration and air-conditioning industry, bulk fluorochemicals, which are used in the metal industry and specialty chemicals, which are used in the pharma and agro industries. The Company has manufacturing facilities at Surat in Gujarat and at Dewas in Madhya Pradesh. From just a refrigerant gases company in 2000, it has now emerged as a strong specialty chemicals company, with these three businesses now contributing equally to the turnover.



The refrigerant gases segment

Refrigerant gases contribute about 1/3rd of the Company revenues and cater to the refrigeration and air-conditioning industry. Traditionally, refrigerant gases have been the main business driver; however, due to the phase-out of CFCs, the contribution from this segment is decreasing, which is evident from the fact that from 100% of turnover in 2000, it now contributes only 33%. As per the Montreal protocol, fluoro carbons like CFCs have to be phased out by 2010, as their use depletes the ozone layer. Hence, those companies manufacturing CFCs have to shift to other products that are substitutes for CFCs. To tackle this, the Company has successfully developed hydro fluorocarbons (HCFC), which have a longer life, i.e. till 2040. Hence, the drop in the CFC business is being offset by the HCFC business. CFCs contribution to the segment has dropped to 20%, while that of HCFCs has gone up. Also, NFIL imports HFC134a and sells it in the domestic market. Going forward, it plans to make HFC134a in-house and is laying a plan for the same, which would be in the form of a JV with a foreign company; however, when and how this would happen has not yet been decided by the Company. As and when this happens, the Company would have an added advantage, since one of the main raw material - HF - is produced in-house by the Company.

Bulk fluorochemicals - Bulk fluorochemicals cater to the metal industry, mainly to the aluminium and steel industry. For sometime now, the bulk fluorochemicals business has been stagnant; however, recently, it has been showing signs of resurgence. The selling prices are also catching up, with rise in the raw material prices. Hence, going forward, this segment would also turn out to be a growth business for the Company.

Specialty business - This segment caters mainly to the pharma and agro industries and the quality of its products is affirmed by the fact that it supplies to leading players like BASF, Dr Reddy's, Aurobindo Pharma, Syngenta, Dupont, Bayer, Clariant, Lupin and Ranbaxy. One of the major strengths of the Company lies in its strong R&D base. NFIL has developed a large number of products indigenously, without any technology tie-ups with any player. This has aided a steady ramp-up in its specialty chemicals business. The Company has developed about 35 products, out of which it has commercialised around 17 products.

Investment Positives

Focus on Specialty Chemicals; high margin - high growth business

Traditionally, NFIL has been present in the refrigerant gases business. However, due to the phase-out of CFCs, the contribution from this segment is decreasing and the Company has been aggressively targeting the specialty chemicals segment. The company believes it has a competitive edge in the specialty chemicals segment (India has emerged as a global manufacturing hub of pharma and agro products) and has decided to aggressively focus on the same. NFIL is one of the very few global manufacturers of specialty chemicals and the Management believes that the Company is Number 2 in the world, in a few chemicals. This segment is going to be the future growth driver for the Company. The Company is doubling its specialty chemicals capacity, especially that of BF3 block, where the Management believes that the Company is Number 2. It would incur a Capex of Rs 10 crores to double its capacity, which would get operational by Q1FY08 and result in a substantial increase in its turnover. The specialty chemicals business is a high margin - high growth business and is expected to grow at 35-40% CAGR. Currently, exports contribute around 50% of the segment revenues, which are expected to go up to 70% after capacity additions come

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on-stream. Also, the focus on R & D has helped NFIL develop products indigenously, without any technology tie-ups with any player, aiding easier ramp-up of capacities.

Likely turnaround of the bulk fluorochemicals business

For sometime now, the bulk fluorochemicals business has been stagnant; however, recently, it has been showing signs of resurgence. The selling prices are also catching up, with rise in raw material prices. Hence, going forward, this segment would also turn out to be a growth business for the Company.

Carbon Credits - Big opportunity for NFIL

There lies ahead a huge opportunity for NFIL, in the implementation of the CDM project. The Company is in the process of implementing the CDM project, which reduces emissions of HFC23, a by-product of HCFC22, and which is expected to generate 2.8 million CERs (certified emission reductions) annually, for ten years. HFC23 is a designated greenhouse gas under the Kyoto Protocol and gets produced during the manufacture of HCFC22. By introducing the abatement technology provided by Ineos Fluor Ltd, UK, it would be able to achieve reduction in emissions, resulting in generation of CERs. The project has already received approval from the designated national authority and is very shortly going to be filed with the UNFCCC (United Nations Framework Convention for Climate Change). It is setting up the project at a cost of Rs 25 crores and the cash flows would start coming-in from Oct07. Through this CDM project, the Company would generate substantial incremental profits (adjusted for taxes), which, on a conservative price band of Euro 5 to 7, could range from Rs 52.8 crores (at a price of Euro 5) to Rs 73.9 crores (at a price of Euro 7), which would mean an incremental EPS of Rs 52.3 to Rs 73.2.

CERs Generated - 2.8 Million		
Assume 1 Euro = Rs 58		
Realisation per CER In Euro	***Incremental PAT (Rs crores)***	***Incremental EPS (Rs)***
5 Euro	52.8	52.3
7 Euro	73.9	73.2
10 Euro	105.6	104.6

Concerns

- The key risk is the volatility in the prices of CERs, foreign exchange fluctuations and the actual flow of CERs from the project. Though the prices of CERs are highly volatile, even if we take a base-case scenario of generating Euro 5 a CER, it means an incremental EPS of Rs 52.3, which is huge.

- In its core business, NFIL is likely to face margin pressure on the back of rising prices of raw materials. Fluorspar has seen a rising trend in prices for the last few years, although it has stabilised recently. As also, the increased focus on specialty chemicals (lower fluorspar cost as a percentage of sales) would help the Company. However, any sharp fluctuation in raw material prices could have an adverse impact on the Company's profitability.

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Financials

Rs crores (Standalone)	H1FY07	H1FY06	Chg (%)	FY05	FY06	Chg (%)	FY07e	Chg (%)
Net Sales	**132.1**	**119.7**	**10.3**	**225.8**	**232.8**	**3.1**	**255.0**	**9.6**
Total expenditure	107.0	100.1	6.9	191.3	200.5	4.8	216.5	8.0
Operating Profit	**25.0**	**19.5**	**28.1**	**34.5**	**32.3**	**-6.2**	**38.5**	**19.2**
OPM (%)	*19.0*	*16.3*		*15.3*	*13.9*		*15.1*	
Non-Operating Income	3.4	3.1	9.9	21.3	5.5	-74.1	7.0	26.8
Interest	4.1	3.9	5.3	7.1	8.2	15.0	8.7	6.5
Depreciation	4.2	3.6	15.6	6.6	7.5	14.2	8.5	13.3
PBT before Extra-ord	20.2	15.1	33.3	42.1	22.2	-47.4	28.3	27.7
PBT (%)	*15.3*	*12.6*		*18.6*	*9.5*		*11.1*	
Profit after Tax	**11.0**	**10.0**	**9.8**	**17.9**	**9.8**	**-45.5**	**20.7**	**111.7**
PAT (%)	*8.3*	*8.4*		*7.9*	*4.2*		*8.1*	
Equity Share capital	10.1	9.9	2.0	7.6	10.1	33.1	10.1	0.0
EPS (Rs)	11	10	7.7	24	10	-59.1	21	111.7
CEPS	15	14	9.2	32	17	-47.1	29	69.0

- For H1FY07, the Company has reported a 10.3% growth in net sales, from Rs 119.7 crores to Rs 132.1 crores, while operating profit has increased 28.1%, due to a 270-bps margin improvement, driven by better realisation, better product mix and relatively lower raw material costs.

- Power and fuel cost as a percentage of net sales and staff cost as a percentage of net sales increased 70 bps each; however, it was more-than-offset by a 170 bps improvement in raw material cost as a percentage of net sales and a 240 bps improvement in other expenses as a percentage of net sales. PBT before extraordinary items increased 33.3%, from Rs 15.1 crores to Rs 20.2 crores. However, due to a 453%-increase in deferred tax, PAT increased only 9.8%, resulting in H1FY07 EPS of Rs 10.9.

- For FY07e, we expect the Company to achieve a 9.6%-growth in net sales, to Rs 255 crores, and a 111.7%-growth in PAT, at Rs 20.7 crores. Further, all the liabilities that the Company has towards other group companies are expected to be settled by Mar07 and on a net leve,l after settling these liabilities, the Company would turn out to be a beneficiary, sitting on sum valuable assets.

- The Company plans to incur a Capex of Rs 25 crores in FY07, Rs 10 crores towards increasing capacity, Rs 9 crores towards putting up a captive power plant and another Rs 6 crores towards maintenance Capex. Also, the Company has substantial cash on its balance sheet (which earns them good interest income), which would help towards the planned Capex.

Valuation

Sum-of-Parts			
Core Business			
	EPS FY07e	Multiple	Value Per Share
	21	10	210.0
CDM Project			
	EPS	Multiple	Value Per Share
	@ 5 Euro - 52.3	5	261.5
	@ 7 Euro - 73.9	5	369.5
Total Value per share			471.5 – 579.5

We have assigned a value of Rs 210 a share for NFIL's core business, based on FY07e EPS of Rs 21 and considering a conservative price of Euro 5 a CER and a multiple of 5x, we have assigned a value of Rs 261.5 per share for its CDM project. Thus, we estimate a total value per share in the range of Rs 471.5-579.5.

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Investment Argument and Conclusion

The CFCs are on their last leg and the residual demands are expected to bottom-out gradually. The focused shift in the product mix, to the high margin specialty segment, is expected to improve NFIL's profitability in the coming years. The refrigerant gases would show decent growth, bulk chemicals is likely to grow at a higher rate, while the major growth driver for the Company would be Specialty Chemicals. The big trigger for the Company is the income from the CDM project, which would start accruing from Oct07, which would be quite substantial and would significantly increase the EPS due to the lower equity-base of the Company. Hence, we expect the Company to generate substantial annual incremental profits (adjusted for taxes), which, on a conservative price band of Euro 5 to 7, could range from Rs 52.8 crores (at a price of Euro 5) to Rs 73.9 crores (at a price of Euro 7), which would mean an incremental EPS of Rs 52.3 to Rs 73.2. At the CMP of Rs. 325, the stock is quoting at a 45% discount to the lower-band of our estimated fair share value of Rs 471.5 and at a 78.3% discount to the higher-band of our estimated fair share value of Rs 579.5. We recommend investors to buy the stock, with a medium-term perspective.

WAY2WEALTH Research

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