

# Navin Fluorine International

**BUY**

INDUSTRY	CHEMICALS		
<b>CMP (as on 26 Jul 2018)</b>	<b>Rs 649</b>		
<b>Target Price</b>	<b>Rs 915</b>		
Nifty	11,167		
Sensex	36,985		
<b>KEY STOCK DATA</b>			
Bloomberg	NFIL IN		
No. of Shares (mn)	49		
MCap (Rs bn) / (\$ mn)	32/466		
6m avg traded value (Rs mn)	69		
<b>STOCK PERFORMANCE (%)</b>			
<b>52 Week high / low</b>	<b>Rs 876/582</b>		
	3M	6M	12M
Absolute (%)	(13.7)	(21.1)	(1.6)
Relative (%)	(20.3)	(23.7)	(15.8)
<b>SHAREHOLDING PATTERN (%)</b>			
Promoters	31.07		
FIs & Local MFs	16.74		
FPIs	16.57		
Public & Others	35.62		
<i>Source : BSE</i>			

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## A steady quarter

Navin Fluorine International Ltd (NFIL) Sales/EBITDA/RPAT performance is not comparable on a YoY basis (including sales from Dahej unit in 1Q'18). Sales/EBITDA/RPAT came in at Rs 2.43bn/Rs 631mn/Rs 396mn. Adjusting for the one-off gain and M2M loss in the other income, PAT came in at Rs 400 mn (7.4% below our estimates)

NFIL witnessed good traction within the specialty chemicals segment (up 51.9% YoY to Rs 820mn) on the back of recovery in the domestic pharma business. The Refrigerant gases segment grew by 6.9% YoY to Rs 770mn, while Inorganic fluorides segment grew by 75.0% YoY to Rs 490mn. CRAMS segment declined by 30% YoY to Rs 350mn (adjusting Rs 220mn for Dahej unit in 1Q'18). We do not read much into quarterly performance for CRAMS segment due to its lumpy nature and continue to remain positive of a pickup in the ensuing quarters.

NFIL had announced a capex of Rs 1.15bn to set up a its 3<sup>rd</sup> c-GMP plant in Dewas in Dec'17. The facility is expected to generate asset turns of ~2.0x at peak utilizations. The plant is expected to be stabilize in the beginning of FY20E. NFIL is also expected to de-bottleneck

### Financial Summary

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY18E	FY19E	FY20E	FY21E
Net Sales	2,431	2,254	7.8	2,084	16.6	9,127	10,256	11,989	12,813
EBITDA	631	594	6.2	461	37.1	2,150	2,298	2,748	3,008
APAT	396	491	(19.4)	393	0.8	1,298	1,648	1,992	2,244
Diluted EPS (Rs)	8.0	10.0	(19.5)	8.0	0.8	26.3	33.4	40.4	45.5
P/E (x)						24.7	19.4	16.1	14.3
EV / EBITDA (x)						13.8	12.9	10.9	9.7
RoE (%)						14.3	15.8	17.0	17.0

Source: Company, HDFC sec Inst Research

its facility with a capex of ~Rs 100mn which is expected to add ~Rs 300mn annually. The de-bottlenecking exercise is for a single product in specialty chemicals segment. Though we remain believers in the CRAMS story, growth in Inorganic Fluorides and Refrigerants is expected to be rather modest. We remain watchful of recovery within the specialty chemicals segment as the agro-chemicals industry (~40% exposure in agro-chemicals) continues to face headwinds.

We value NFIL at 22x June'20 EPS. We maintain our Buy rating with a target price of Rs 915.

### Key highlights

- NFIL was able to report gross margins of 54.9% despite ~20% rise in prices of fluorspar. This is most likely due to sales of value added products in the specialty chemicals segment.
- Other income came in at Rs 38mn (down by 85.6% YoY) due to a higher mark to market component coupled with an income tax reversal entry of Rs 100mn in the base.

*Sales/EBITDA/PAT numbers not comparable on a YoY basis due to inclusion of Sales from Dahej Unit (now a part of Convergence Chemicals JV).*

*Other income came in lower than expected and was impacted by a mark to market loss.*

*Gross margins and EBITDA margins have sustained despite higher fluorspar prices.*

### Quarterly Financials Snapshot

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
<b>Net Sales</b>	<b>2,431</b>	<b>2,254</b>	<b>7.8</b>	<b>2,084</b>	<b>16.6</b>
Material Expenses	1,054	964	9.3	1,043	1.0
Employee Expenses	42	33	25.3	(106)	(139.5)
Other Expenses	252	213	18.7	241	4.8
<b>EBITDA</b>	<b>452</b>	<b>450</b>	<b>0.5</b>	<b>446</b>	<b>1.4</b>
Depreciation	631	594	6.2	461	37.1
<b>EBIT</b>	<b>69</b>	<b>105</b>	<b>(33.9)</b>	<b>75</b>	<b>(7.1)</b>
Other Income & EO Items	562	489	14.8	386	45.6
Interest	38	263	(85.6)	201	(81.2)
<b>PBT</b>	<b>0.4</b>	<b>0</b>	<b>36.4</b>	<b>6</b>	<b>(92.6)</b>
Tax	599	752	(20.3)	581	3.1
<b>RPAT</b>	<b>203</b>	<b>261</b>	<b>(22.1)</b>	<b>189</b>	<b>7.9</b>
EO Items (Adj For Tax)	396	491	(19.4)	393	0.8
<b>APAT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>AEPS (Rs/sh)</b>	<b>396</b>	<b>491</b>	<b>(19.4)</b>	<b>393</b>	<b>0.8</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

Margin Analysis (% of Net Sales)	1QFY19	1QFY18	YoY (bps)	4QFY18	QoQ (bps)
Material Expenses as % of Net Sales	45.1	44.3	80	45.0	9
Employee Expenses as % of Net Sales	10.4	9.4	95	11.6	(117)
Other Expenses as % of Net Sales	18.6	19.9	(135)	21.4	(279)
<b>EBITDA Margin (%)</b>	<b>26.0</b>	<b>26.4</b>	<b>(40)</b>	<b>22.1</b>	<b>387</b>
Net Profit Margin (%)	23.1	21.7	140	18.5	460
Tax Rate (%)	16.3	21.8	(550)	18.8	(257)

Source: Company, HDFC sec Inst Research

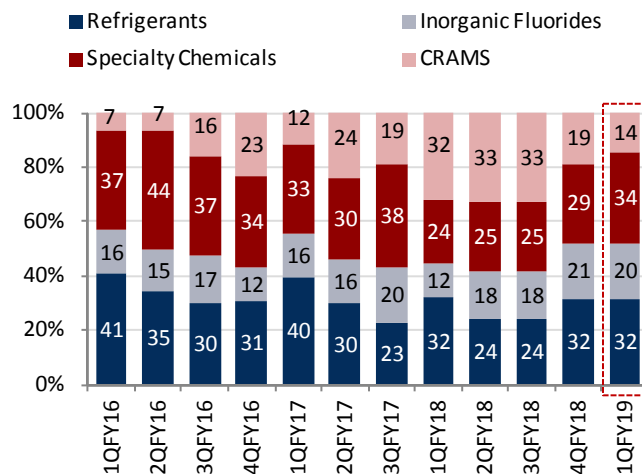
*CRAMS formed only 14% of the total sales in 1QFY19, however we do not read much into quarterly performance for CRAMS segment due to its lumpy nature and remain positive of a pickup in the ensuing quarters.*

*Recovery in the domestic pharmaceuticals industry helped the specialty chemicals BU as it grew 51.9% YoY to Rs 820mn.*

*Refrigerants demand remains buoyant in the middle east (Dubai and Saudi Arabia are the key markets).*

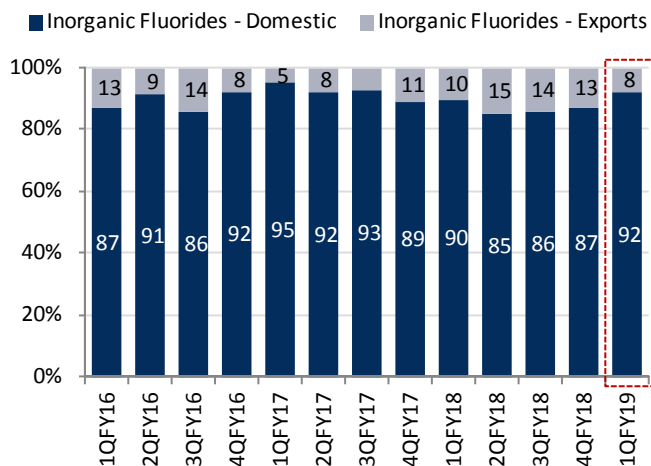
### Quarterly Performance

#### Quarterly Revenue Mix



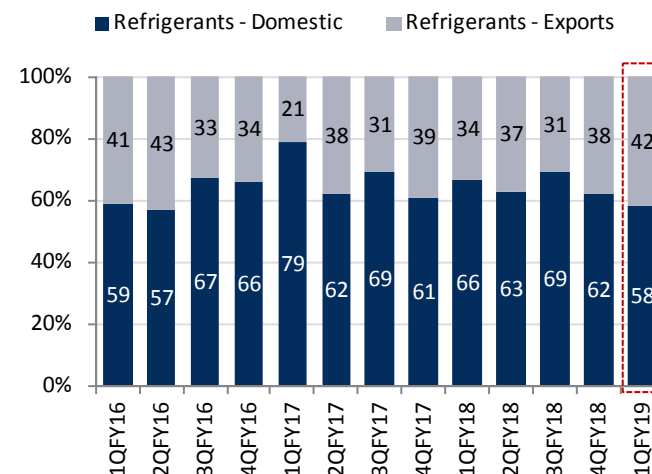
Source: Company, HDFC sec Inst Research

#### Inorganic Fluorides – Domestic vs Exports



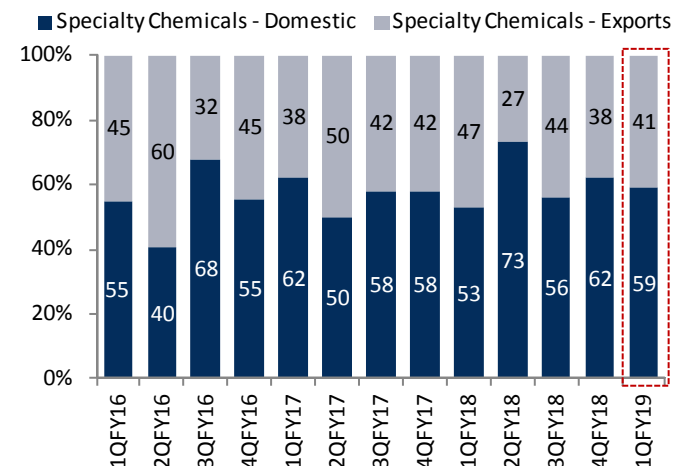
Source: Company, HDFC sec Inst Research

#### Refrigerant Gases – Domestic vs Exports



Source: Company, HDFC sec Inst Research

#### Specialty Chemicals – Domestic vs Exports



Source: Company, HDFC sec Inst Research

***We expect Refrigerants gases to grow between 5.0-7.0% annually as OEM manufacturers find alternatives to HCFC-22.***

***The 3<sup>rd</sup> c-GMP facility is expected to add ~Rs 1.3bn to the topline in FY21E.***

### Assumptions

Revenues (Rs mn)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Refrigerants	1,950	1,760	1,549	1,940	2,150	2,110	2,420	2,541	2,719	2,855
<i>Growth (%)</i>	<i>(18.3)</i>	<i>(9.7)</i>	<i>(12.0)</i>	<i>25.3</i>	<i>10.8</i>	<i>(1.9)</i>	<i>14.7</i>	<i>5.0</i>	<i>7.0</i>	<i>5.0</i>
Inorganic Fluorides	980	990	1,129	1,050	940	1,200	1,480	1,598	1,726	1,864
<i>Growth (%)</i>	<i>27.2</i>	<i>1.0</i>	<i>14.0</i>	<i>(7.0)</i>	<i>(10.5)</i>	<i>27.7</i>	<i>23.3</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>
Specialty Chemicals	1,590	1,780	1,560	2,150	2,390	2,260	2,260	2,441	2,734	3,007
<i>Growth (%)</i>	<i>35.3</i>	<i>11.9</i>	<i>(12.4)</i>	<i>37.8</i>	<i>11.2</i>	<i>(5.4)</i>	<i>-</i>	<i>8.0</i>	<i>12.0</i>	<i>10.0</i>
CRAMS	-	140	260	310	870	1,220	2,020	2,908	3,889	4,119
<i>Growth (%)</i>	<i>NA</i>	<i>NA</i>	<i>85.7</i>	<i>19.2</i>	<i>180.6</i>	<i>40.2</i>	<i>65.6</i>	<i>44.0</i>	<i>33.7</i>	<i>5.9</i>

Source: HDFC sec Inst Research

## Income Statement

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>7,415</b>	<b>9,127</b>	<b>10,256</b>	<b>11,989</b>	<b>12,813</b>
<b>Growth (%)</b>	<b>9.1</b>	<b>23.1</b>	<b>12.4</b>	<b>16.9</b>	<b>6.9</b>
Material Expenses	3,272	4,023	4,511	5,241	5,611
Employee Expenses	918	1,105	1,198	1,385	1,466
Other Operating Expenses	1,637	1,849	2,249	2,615	2,727
<b>EBIDTA</b>	<b>1,588</b>	<b>2,150</b>	<b>2,298</b>	<b>2,748</b>	<b>3,008</b>
<b>EBIDTA Margin (%)</b>	<b>21.4</b>	<b>23.6</b>	<b>22.4</b>	<b>22.9</b>	<b>23.5</b>
Growth (%)	35.3	35.4	6.9	19.6	9.5
Depreciation	299	398	424	462	468
EBIT	1,289	1,752	1,873	2,285	2,540
Other Income	558	925	450	500	600
Interest	27	12	0	0	0
PBT	1,820	2,665	2,323	2,785	3,140
Tax	451	840	717	859	968
PAT	1,370	1,825	1,607	1,926	2,172
EO items (net of tax)	-	500	-	-	-
Share of Profits from JV/Associates	-	(27)	42	66	72
<b>APAT</b>	<b>1,370</b>	<b>1,298</b>	<b>1,648</b>	<b>1,992</b>	<b>2,244</b>
<b>Growth (%)</b>	<b>63.6</b>	<b>(5.0)</b>	<b>27.0</b>	<b>20.9</b>	<b>12.6</b>
<b>AEPS</b>	<b>27.9</b>	<b>26.3</b>	<b>33.4</b>	<b>40.4</b>	<b>45.5</b>
<b>Growth (%)</b>	<b>63.6</b>	<b>(5.8)</b>	<b>27.0</b>	<b>20.9</b>	<b>12.6</b>

Source: Company, HDFC sec Inst Research

## Balance Sheet

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital	98	99	99	99	99
Reserves	8,254	9,736	10,900	12,294	13,865
<b>Total Shareholders Funds</b>	<b>8,352</b>	<b>9,835</b>	<b>10,998</b>	<b>12,393</b>	<b>13,963</b>
Long-term Debt	111	42	42	42	10
Short-term Debt	74	84	99	99	10
<b>Total Debt</b>	<b>185</b>	<b>127</b>	<b>141</b>	<b>141</b>	<b>20</b>
Other Liabilities	243	257	257	257	257
Net Deferred Tax Liability	271	308	258	208	158
<b>TOTAL SOURCES OF FUNDS</b>	<b>9,051</b>	<b>10,526</b>	<b>11,654</b>	<b>12,999</b>	<b>14,398</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	4,153	2,826	3,481	3,740	4,179
CWIP	168	201	300	300	100
Good will	878	878	878	878	878
LT Investments	1,834	2,928	3,028	3,178	3,328
LT Loans & Advances	68	73	173	423	673
Inventories	1,127	1,138	1,279	1,495	1,598
Debtors	1,376	1,556	1,749	2,405	2,490
Cash & Equivalents	1,804	2,450	2,413	2,312	2,974
Other Current Assets	366	506	506	606	606
Total Current Assets	4,673	5,651	5,946	6,818	7,667
Creditors	778	984	1,105	1,292	1,381
Other Current Liabilities	1,945	1,046	1,046	1,046	1,046
Total Current Liabilities	2,723	2,030	2,151	2,338	2,427
Net Current Assets	1,951	3,621	3,795	4,480	5,240
<b>TOTAL APPLICATION OF FUNDS</b>	<b>9,051</b>	<b>10,526</b>	<b>11,654</b>	<b>12,999</b>	<b>14,398</b>

Source: Company, HDFC sec Inst Research

## Cash Flow

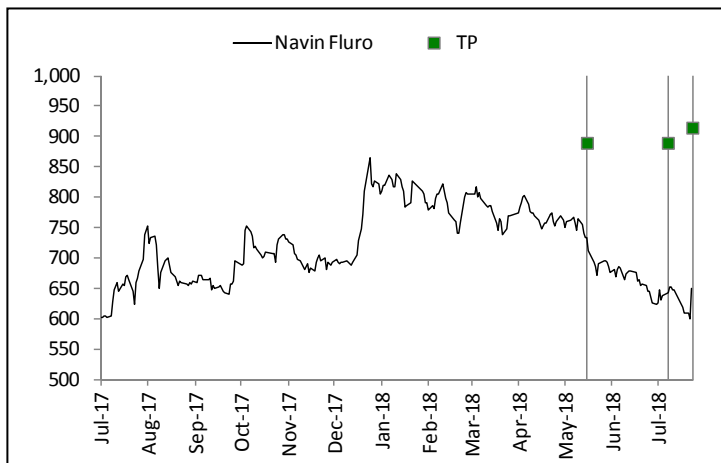
(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Reported PBT	1,567	2,665	2,323	2,785	3,140
Non-operating & EO items	(109)	(925)	(450)	(500)	(600)
Interest expenses	18	12	0	0	0
Depreciation	299	398	424	462	468
Working Capital Change	832	(131)	(312)	(1,036)	(349)
Tax Paid	(323)	(840)	(717)	(859)	(968)
<b>OPERATING CASH FLOW ( a )</b>	<b>2,283</b>	<b>1,178</b>	<b>1,269</b>	<b>853</b>	<b>1,691</b>
Capex	(1,842)	544	(821)	(722)	(707)
Free cash flow (FCF)	441	1,723	448	131	984
Investments	(420)	(1,193)	-	(100)	(100)
Non-operating Income	558	425	450	500	600
Others	42	(190)	(0)	(0)	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(1,661)</b>	<b>(414)</b>	<b>(371)</b>	<b>(322)</b>	<b>(207)</b>
Debt Issuance/(Repaid)	36	(59)	15	-	(121)
Interest Expenses	21	(12)	(0)	(0)	(0)
FCFE	498	1,652	462	131	863
Share Capital Issuance	0	1	-	-	-
Dividend	(343)	(592)	(485)	(598)	(673)
Others	(165)	(1)	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(452)</b>	<b>(663)</b>	<b>(470)</b>	<b>(598)</b>	<b>(794)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>170</b>	<b>102</b>	<b>428</b>	<b>(67)</b>	<b>689</b>
EO Items, Others	816	544	(465)	(34)	(28)
Closing Cash & Equivalents	1,804	2,450	2,413	2,312	2,974

Source: Company, HDFC sec Inst Research

## Key Ratios

	FY16	FY17	FY18	FY19E	FY20E
<b>PROFITABILITY (%)</b>					
GPM	55.9	55.9	56.0	56.3	56.2
EBITDA Margin	21.4	23.6	22.4	22.9	23.5
EBIT Margin	17.4	19.2	18.3	19.1	19.8
APAT Margin	18.4	14.2	16.1	16.6	17.5
RoE	18.5	14.3	15.8	17.0	17.0
Core RoCE	17.2	19.2	23.8	24.1	23.1
RoCE	16.3	13.3	14.9	16.2	16.4
<b>EFFICIENCY</b>					
Tax Rate (%)	24.8	31.5	30.8	30.8	30.8
Asset Turnover (x)	2.1	2.6	3.3	3.3	3.2
Inventory (days)	55.5	45.5	45.5	45.5	45.5
Debtors (days)	67.7	62.2	62.2	73.2	70.9
Other Current Assets (days)	18.0	20.2	18.0	18.4	17.3
Payables (days)	38.3	39.3	39.3	39.3	39.3
Other Current Liab & Prov (days)	95.8	41.8	37.2	31.8	29.8
Working Capital (days)	7.2	46.8	49.2	66.0	64.6
Debt/EBITDA (x)	0.1	0.1	0.1	0.1	0.0
Net D/E	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Interest Coverage	68.5	182.5	NA	NA	NA
<b>PER SHARE DATA</b>					
AEPS (Rs/sh)	27.9	26.3	33.4	40.4	45.5
CEPS (Rs/sh)	34.0	34.4	42.0	49.7	55.0
DPS (Rs/sh)	6.3	10.0	8.2	10.1	11.4
BV (Rs/sh)	170.6	199.3	222.9	251.2	283.0
<b>VALUATION</b>					
P/E	23.3	24.7	19.4	16.1	14.3
P/BV	3.8	3.3	2.9	2.6	2.3
EV/EBITDA	19.0	13.8	12.9	10.9	9.7
Dividend Yield (%)	1.0	1.5	1.3	1.6	1.8

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**


Date	CMP	Reco	Target
17-May-18	737	BUY	890
9-Jul-18	639	BUY	890
26-Jul-18	649	BUY	915

**Rating Definitions**

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12-month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12-month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12-month period

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Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.



