

Navin fluorine international ltd reported Sales/EBITDA/PAT de-growth of 0.5/3.8/0.3% YoY to ₹ 2.41bn/607mn/395mn. Sales were lower than our expectations by 7.5% (D.est: ₹ 2.6bn), while EBITDA/PAT came in-line with estimates (D.est: ₹ 577/391mn). Gross margins improved on a sequential basis by 230 bps, while there was a drop on a YoY basis of 250 bps to 52.5%. The company has taken price hikes in Q1FY20 and expects gross margins to be sustainable with fluorspar prices softening.

### CRAMS revenues weak, however commentary positive

Sales from CRAMS BU declined by 28.6/41.9% YoY/QoQ to ₹ 250mn owing to a weaker pipeline for the quarter. CRAMS BU, which was expected to outperform other BU's in terms of growth has shown a subdued trend in FY19 and the effects of which have spill over in Q1FY20 as well. NFIL lost on 2 consignments from 2 different customers in FY19 which led to a 11.9% decline in Sales of CRAMS BU to ₹ 1.78bn. The new c-GMP 3 plant is expected to commission in Sept-19 is likely to support inflow of immediate enquires, if any. NFIL has successfully won a multi-year contract from a USA based customer (retained one of the customer who had deferred orders) who is expected to launch a commercial therapeutic drug in FY21. The company is expected to sell the intermediate finding application in the commercial drug in FY20, however may not be significantly revenue accretive. One can expect revenues from the above customer to meaningfully contribute to Sales/EBITDA/PAT in FY21E.

### Outlook and valuation

We continue to remain positive on NFIL on the back of a) revival in CRAMS BU b) fresh investments to kick into the specialty chemicals BU c) positive contribution from JV with Piramal. NFIL has a clean balance-sheet with cash and equivalents to the tune of ₹ 2.2bn and an expected OCF generation of ₹ 3.4bn over FY20-21E. We believe NFIL is expected to fund the capex through accruals and drive RoCE's upward of 15% in FY21E. Given the recent correction in the stock price and compelling valuations, NFIL is trading at 14.2x FY21E EPS at the CMP. We recommend investors to buy NFIL. We have a target price of ₹ 834/share (SOTP – EV/EBITDA based valuation tabulated in exhibit 1.

### Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	2,418	2,431	(0.5)	2,443	(1.0)
Total Expense	1,810	1,800	0.6	1,921	(5.7)
EBITDA	607	631	(3.8)	522	16.4
Depreciation	75	69	7.5	64	16.2
EBIT	533	562	(5.1)	458	16.4
Other Income	64	38	68.3	130	(50.9)
Interest	4	0	902.4	2	87.2
EBT	592	599	(5.1)	585	1.2
Tax	198	203	(2.7)	226	(12.6)
RPAT	395	396	(0.3)	359	9.9
APAT	395	396	(0.3)	359	9.9
			(bps)		(bps)
Gross Margin (%)	52.5	54.9	(247)	50.1	235
EBITDA Margin (%)	25.1	26.0	(84)	21.4	375
NPM (%)	16.3	16.3	4	14.7	162
Tax Rate (%)	33.4	33.9	(55)	38.6	(526)
EBIT Margin (%)	22.0	23.1	(107)	18.7	329

CMP	₹ 602
Target / Upside	₹ 834 / 39%
BSE Sensex	37,387
NSE Nifty	11,085

### Scrip Details

Equity / FV	₹ 99mn / ₹ 2
Market Cap	₹ 30bn
	US\$ 432mn
52-week High/Low	₹ 764/₹ 570
Avg. Volume (no)	31,519
NSE Symbol	NAVINFUOR
Bloomberg Code	NFIL IN EQUITY

### Shareholding Pattern Jun'19(%)

Promoters	31.0
MF/Banks/FIs	18.5
FII's	15.8
Public / Others	34.7

### Valuation (x)

	FY19A	FY20E	FY21E
P/E	22.5	16.8	14.2
EV/EBITDA	12.6	10.3	8.5
ROE (%)	14.5	15.6	16.4
RoACE (%)	12.3	14.9	15.6

### Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	9,959	11,740	13,745
EBITDA	2,184	2,670	3,165
PAT	1,491	1,772	2,098
EPS (₹)	26.8	35.8	42.4

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### Specialty chemicals BU to likely attract investments

The specialty chemicals BU grew by 4.9% YoY to ₹ 860mn. The management is expected to incur smaller capex plans in its Surat facility to de-bottleneck the plant. The company has also de-bottlenecked a product line (for which the company took a 1-month production shut-down for a single product) which could add ~₹ 250mn incrementally to the BU annually. Inorganic fluorides and refrigerant gases revenues grew by 8.2/1.3% YoY to ₹ 530/780mn respectively. Volumes in refrigerant gases fell on a YoY basis due to lower demand from domestic OEM's.

### Con call highlights

#### CRAMS

- The CRAMS business contributed to 10.0% of the revenues during the quarter, the revenue decline was due to weak opening order pipeline, however the management continues to be positive on this business segments for FY20 and FY21.
- New customer development and retention of existing customers has resulted in a strong pipeline and enquires for the ensuing quarters.
- CRAMS has seen a declining trend with 2 big campaigns postponing, however this year the company has successfully signed a multiyear contract with one of the lost customers (a US account).
- This product is expected to launch in FY21 and the supply from NFIL will start from this year. However, the management believes that the sale of the intermediate to the newly won multiyear contract will not be revenue/earnings accretive in FY20.
- The new product for which NFIL is working is expected to grow in terms of geographies once it is commercialised and the preliminary feedback from the customer is positive.
- The c- GMP 3 plant which is likely to commercialise in Sept-19 will take care of the immediate capacity requirements the company might have in FY20.

#### Specialty Chemicals

- NFIL has worked on 2 new molecules and de-bottlenecked capacities which has given the company strong visibility of orders flowing in.
- The company took a maintenance shutdown to de-bottleneck one particular product (for a month). The marginal capex done on the same is expected to yield an incremental ₹ 250 mn on the topline on an annualized basis.
- The company has a land parcel at Dahej where it is planning to incur large capex.
- Other than that, NFIL is looking at incurring smaller capital expenditures in its Surat facility as well.

#### Piramal JV

- The Piramal JV income was positive during the quarter compared to a loss on YoY basis, the plant ran at full capacity during the quarter, management expects this performance to continue going forward.
- The lower contribution from the JV in the previous qtr (4QFY19) was largely due to a catalyst change the company was working on which increased the Opex. However, now that the changes have been done the company is utilising capacities at a higher rate and is expected to run at full utilisation in FY20E.

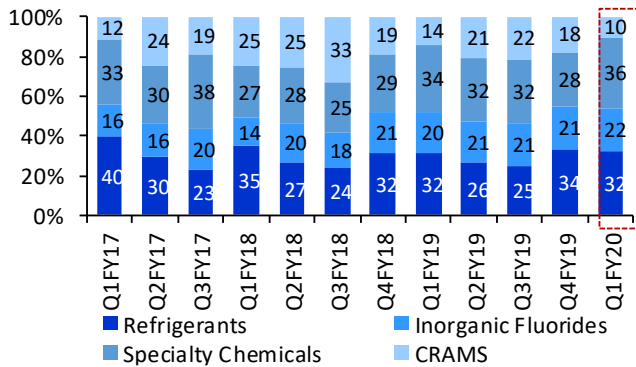
### Other Business Updates

- Other expenses are down due to adjustment of Ind As 116 of lease to the tune of ₹ 15mn.
- The company was able to pass on higher RM prices from 4QFY19 also the company got the benefit of declining fluorspar prices in 1QFY20 and has guided for sustainable gross margins.
- The other income comprises of ₹ 25 to 30 mn of rental income and the management has guided for other income to remain in the range of ₹ 40mn in the coming quarters.

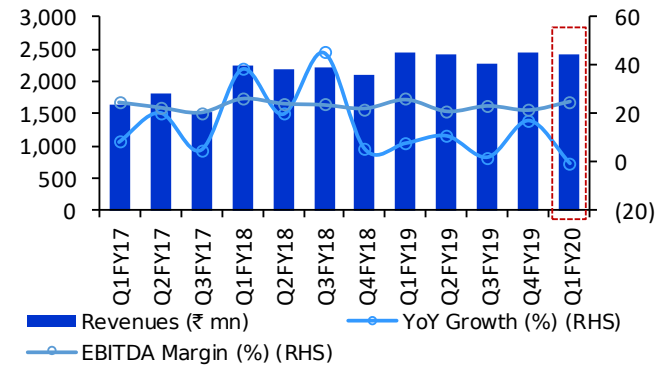
### Exhibit 1: STOP Valuation

EBITDA (₹ mn)	FY18	FY19	FY20E	FY21E	Target Multiple (EV/EBITDA)	EV
Refrigerants	436	504	529	540	9.0	4,862
Inorganic Fluorides	130	172	185	192	9.0	1,732
Specialty Chemicals	497	660	713	835	12.0	10,022
CRAMS	909	801	1,242	1,602	14.0	22,422
<b>Total</b>	<b>1,971</b>	<b>2,137</b>	<b>2,669</b>	<b>3,169</b>		<b>39,039</b>
Gross Debt	127	41	41	41		41
Cash and Equivalents	2,450	2,253	2,233	2,732		2,253
Market Cap						41,251
No of Shares						49.5
<b>Target Price (₹)</b>						<b>834</b>

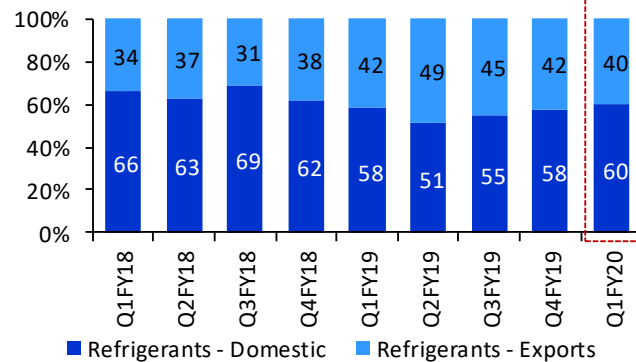
Source: Company, DART

**Exhibit 2: Quarterly Revenue Mix (%)**


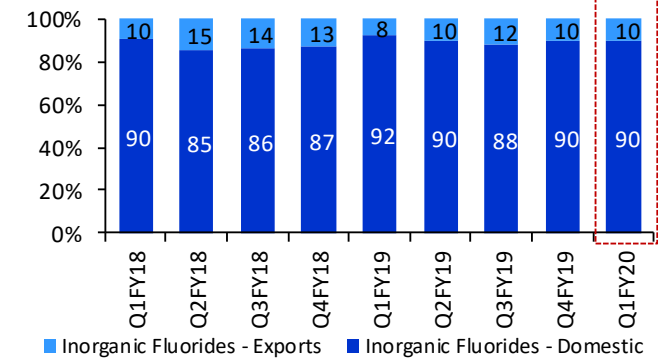
Source: Company, DART

**Exhibit 3: Quarterly Revenue (₹ Mn) vs EBITDA Margin (%)**


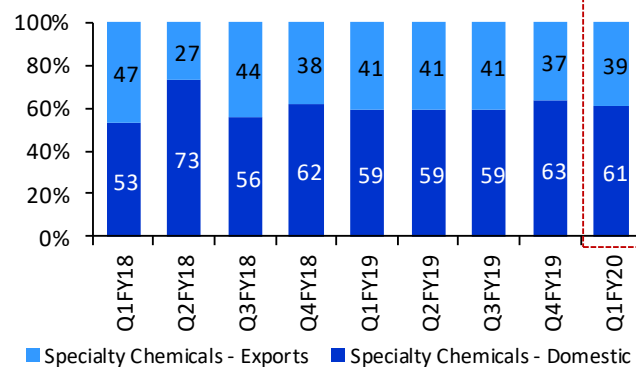
Source: Company, DART

**Exhibit 4: Refrigerant Gases – Domestic vs Exports**


Source: Company, DART

**Exhibit 5: Inorganic Fluorides – Domestic vs Exports**


Source: Company, DART

**Exhibit 6: Specialty Chemicals – Domestic vs Exports**


Source: Company, DART

### Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
<b>Revenue</b>	<b>9,127</b>	<b>9,959</b>	<b>11,740</b>	<b>13,745</b>
<b>Total Expense</b>	<b>6,977</b>	<b>7,776</b>	<b>9,070</b>	<b>10,580</b>
COGS	4,023	4,766	5,565	6,492
Employees Cost	1,105	1,155	1,198	1,340
Other expenses	1,849	1,855	2,306	2,749
<b>EBIDTA</b>	<b>2,150</b>	<b>2,184</b>	<b>2,670</b>	<b>3,165</b>
Depreciation	398	275	317	358
<b>EBIT</b>	<b>1,752</b>	<b>1,908</b>	<b>2,353</b>	<b>2,807</b>
Interest	12	8	0	0
Other Income	425	177	300	300
Exc. / E.O. items	500	167	0	0
<b>EBT</b>	<b>2,665</b>	<b>2,244</b>	<b>2,653</b>	<b>3,107</b>
Tax	840	770	896	1,042
RPAT	1,798	1,491	1,772	2,098
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>(27)</b>	<b>17</b>	<b>14</b>	<b>33</b>
<b>APAT</b>	<b>1,299</b>	<b>1,325</b>	<b>1,772</b>	<b>2,098</b>

### Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
<b>Sources of Funds</b>				
Equity Capital	99	99	99	99
Minority Interest	0	0	0	0
Reserves & Surplus	9,736	10,626	11,929	13,500
<b>Net Worth</b>	<b>9,835</b>	<b>10,724</b>	<b>12,028</b>	<b>13,599</b>
Total Debt	127	41	41	41
Net Deferred Tax Liability	308	348	348	348
<b>Total Capital Employed</b>	<b>10,269</b>	<b>11,114</b>	<b>12,417</b>	<b>13,988</b>

### Applications of Funds

Net Block	3,703	3,740	4,395	5,145
CWIP	201	393	400	300
Investments	2,780	2,953	2,953	2,953
<b>Current Assets, Loans &amp; Advances</b>	<b>5,871</b>	<b>5,986</b>	<b>6,679</b>	<b>7,792</b>
Inventories	1,138	1,119	1,287	1,506
Receivables	1,556	1,727	2,273	2,667
Cash and Bank Balances	374	370	349	849
Loans and Advances	191	121	121	121
Other Current Assets	535	765	765	765
<b>Less: Current Liabilities &amp; Provisions</b>	<b>2,286</b>	<b>1,958</b>	<b>2,009</b>	<b>2,202</b>
Payables	984	713	1,126	1,318
Other Current Liabilities	1,303	1,245	884	884
<b>Net Current Assets</b>	<b>3,585</b>	<b>4,028</b>	<b>4,669</b>	<b>5,591</b>
<b>Total Assets</b>	<b>10,269</b>	<b>11,114</b>	<b>12,417</b>	<b>13,988</b>

E – Estimates

### Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
<b>(A) Margins (%)</b>				
Gross Profit Margin	55.9	52.2	52.6	52.8
EBIDTA Margin	23.6	21.9	22.7	23.0
EBIT Margin	19.2	19.2	20.0	20.4
Tax rate	31.5	34.3	33.8	33.5
Net Profit Margin	19.7	15.0	15.1	15.3
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	44.1	47.9	47.4	47.2
Employee	12.1	11.6	10.2	9.7
Other	20.3	18.6	19.6	20.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	146.8	230.8	55766.1	60480.9
Inventory days	46	41	40	40
Debtors days	62	63	71	71
Average Cost of Debt	7.7	9.8	0.1	0.1
Payable days	39	26	35	35
Working Capital days	143	148	145	148
FA T/O	2.5	2.7	2.7	2.7
<b>(D) Measures of Investment</b>				
AEPS (₹)	26.3	26.8	35.8	42.4
CEPS (₹)	34.3	32.3	42.2	49.7
DPS (₹)	7.1	7.8	8.0	9.0
Dividend Payout (%)	27.0	29.1	22.3	21.2
BVPS (₹)	198.9	216.9	243.2	275.0
RoANW (%)	19.8	14.5	15.6	16.4
RoACE (%)	14.0	12.3	14.9	15.6
RoAIC (%)	19.2	18.5	20.6	22.3
<b>(E) Valuation Ratios</b>				
CMP (₹)	602	602	602	602
P/E	22.9	22.5	16.8	14.2
Mcap (₹ Mn)	29,752	29,752	29,752	29,752
MCap/ Sales	3.3	3.0	2.5	2.2
EV	27,428	27,540	27,560	27,060
EV/Sales	3.0	2.8	2.3	2.0
EV/EBITDA	12.8	12.6	10.3	8.5
P/BV	3.0	2.8	2.5	2.2
Dividend Yield (%)	1.2	1.3	1.3	1.5
<b>(F) Growth Rate (%)</b>				
Revenue	23.1	9.1	17.9	17.1
EBITDA	35.4	1.6	22.3	18.5
EBIT	35.9	8.9	23.3	19.3
PBT	46.4	(15.8)	18.2	17.1
APAT	(4.9)	1.9	33.7	18.4
EPS	(4.9)	1.9	33.7	18.4

### Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	1,328	1,174	1,427	2,034
CFI	(296)	(677)	(979)	(1,007)
CFF	(315)	(601)	(468)	(527)
FCFF	2,224	670	448	1,027
Opening Cash	1,804	2,450	2,253	2,233
Closing Cash	2,450	2,253	2,233	2,732

E – Estimates

**DART RATING MATRIX**

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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