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Q4FY20 result review  
and reco change

## Specialty Chemicals

Target price Rs1,575

### Earnings revision

(%)	FY21E	FY22E
Sales	↑ 2.1	↑ 4.5
EBITDA	↑ 3.9	↑ 6.1
EPS	↑ 2.6	↑ 5.9

### Target price revision

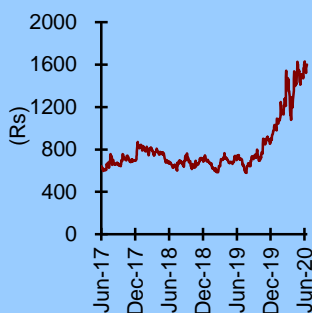
Rs1,575 from Rs1,430

### Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	31.0	31.0	30.5
Institutional investors	35.0	35.4	37.7
MFs and other	15.9	15.4	16.8
Insurance Cos.	0.2	0.2	0.3
FII's	18.9	19.8	20.6
Others	34.0	33.6	31.8

Source: NSE

### Price chart



# Navin Fluorine International

**HOLD**

Specialty chemicals revenue guidance strong **Rs1,600**

Downgrade from ADD

Navin Fluorine International's (NFIL) Q4FY20 EBITDA grew 28.7% YoY to Rs672mn driven by strong growth in specialty chemicals. We are a tad disappointed by the 310bps QoQ gross margin dip despite better mix. NFIL's outlook on specialty chemicals is a positive surprise considering the capacity limitation. We see near-term headwinds in ref-gas and inorganic fluoride segments, but the impact on earnings should be minimal. Specialty chemicals capex announcement is critical for growth beyond FY21. HPP remains a new growth driver. We have increased our EPS estimates by 3% and 6% for FY21E and FY22E due to strong guidance on specialty chemicals. We increase our target price to Rs1,575 (earlier: Rs1,430) as we raise EPS multiple to 26x (from 25x). Downgrade to HOLD (from Add) on limited upside.

- ▶ **Standalone revenues grew 8.5% YoY to Rs2.6bn** driven by 52.9% growth in specialty chemicals to Rs1,040mn and 25.6% in CRAMS to Rs540mn. Ref-gas revenues dipped 32.5% YoY to Rs560mn and inorganic fluoride revenues were flat YoY at Rs510mn largely due to Rs260mn impact from lockdown. Specialty chemicals saw strong domestic and export growth – 39.9% YoY to Rs603mn and 75.6% YoY to Rs437mn.
- ▶ **Gross margin dip of 310bps QoQ despite revenue mix improvement disappoints.** Gross margin was down 310bps QoQ (up 430bps YoY) despite 250bps improvement in mix of high-value business due to lower-margin products in specialty chemicals. Gross profit rose 17.7% YoY to Rs1.44bn. EBITDA grew by a strong 28.7% YoY to Rs672mn. EBITDA margin improved 400bps YoY (down 50bps QoQ) to 25.4%. PAT came in at Rs2.6bn aided by: 1) one-time reversal of excess provision of Rs1.4bn pertaining to favourable judgment in court cases, and 2) MAT credit of Rs735mn.
- ▶ **Revenue growth outlook.** 1) NFIL does not have much headroom in specialty chemicals capacity, but debottlenecking should enable it to drive FY21 revenues at same pace as FY20 (~27% growth). Also, new capacity likely to be announced should help accelerate revenue growth from FY22 onwards. 2) CRAMS orderbook (based on PO) was strong at FY20, which should drive much higher revenue growth in FY21. Company expects to achieve full capacity utilisation of 2.25x to 2.5x in next 3-4 years. And 3) Ref-gas may see revenue decline in FY21 on reduction of quota, but there should be capacity ramp-up in future for non-emissive use and feedstock in new products.
- ▶ **Dahej greenfield capex announcement likely in FY21.** NFIL has a strong product pipeline for specialty chemicals. Company is in final stages of announcing greenfield capex in FY21, from which commercial production is expected to commence in FY22. The lead time is lower due to ready availability of utilities and ETP. Processing plant construction should be completed in 12-18 months. Capex plans for ref-gas (either in HFC / HFO) are under consideration, but may take longer to finalise, while inorganic fluoride expansion in future is also likely.

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Market Cap	Rs79bn/US\$1bn
Reuters/Bloomberg	NAFL.BO/NFIL IN
Shares Outstanding (mn)	49.4
52-week Range (Rs)	1628/578
Free Float (%)	69.5
FII (%)	20.6
Daily Volume (US\$/000)	3,861
Absolute Return 3m (%)	24.2
Absolute Return 12m (%)	116.5
Sensex Return 3m (%)	9.9
Sensex Return 12m (%)	(13.1)

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs bn)	10.0	10.6	11.7	13.9
Net Income (Rs bn)	1.5	4.1	2.3	3.0
Recurring EPS (Rs)	30.2	82.6	46.8	60.6
% Chg YoY	(17.3)	174.0	(43.3)	29.4
P/E (x)	53.1	19.4	34.2	26.4
CEPS (Rs)	35.7	90.1	55.6	70.1
EV/E (x)	34.3	28.4	25.6	20.1
Dividend Yield (%)	0.5	0.7	0.8	1.1
RoCE (%)	12.1	28.3	12.6	15.0
RoE (%)	14.5	32.9	15.5	17.7

## Conference call highlights

### CRAMS

- No material revenues were booked from commissioning of cGMP-3 due to long execution cycle. However, FY21 looks much better for CRAMS due to strong orderbook, particularly from European customers.
- CRAMS revenues at optimal utilisation (with asset turnover at 2.25x) will be Rs5.4bn in next 3-4 years compared to Rs1.7bn in FY20.

### Specialty chemicals

- Company expects growth across products / geographies, esp. pharmaceuticals (mostly domestic), and agro and industrial (exports).
- NFIL's pharma and agro chemical operations have been running at pre Covid-19 utilisation, and industrials too have reached those levels.
- Specialty chemicals business has a strong product pipeline, which provides strong revenue growth visibility.

### Ref-gas / inorganic fluorides

- Domestic sales were mostly impacted by lockdown and exports were hit due to cut in quota.
- Volume growth from non-emissive applications has been strong.
- Inorganic fluoride business benefited from higher pricing. Domestic sales were impacted due to lower demand from steel / glass segments; exports though are doing well.
- The segments have already reached 2/3<sup>rd</sup> of pre Covid-19 capacity utilisation.

### Others

- Company expects JV profitability to grow with improvement in efficiency.
- It does not see much risk to raw material procurement. Company is working on either backward integrating a few raw materials, or developing alternate vendors in India. Dependence on China for raw materials is very low.
- NFIL expects working capital to moderate in coming quarters (it had increased due to lockdown).
- Company should pay MAT for now and is likely to shift to tax regime in FY21 or FY22.
- HPP work is progressing on schedule; manufacturing should commence in FY23.

**Table 1: NFIL (consolidated financials)**

Rs mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ (%)
Net revenue	2,526	2,515	2,729	2,605	2,766	6.2
Cost of Goods sold	1,273	1,202	1,267	1,112	1,257	13.0
<b>Gross profit</b>	<b>1,253</b>	<b>1,313</b>	<b>1,463</b>	<b>1,493</b>	<b>1,509</b>	<b>1.1</b>
<i>Gross profit margin (%)</i>	49.6	52.2	53.6	57.3	54.6	
Employee cost	281	305	321	330	351	6.4
<i>% of revenue</i>	11.1	12.1	11.8	12.7	12.7	
Other expenses	457	396	461	508	470	(7.5)
<i>% of revenue</i>	18.1	15.8	16.9	19.5	17.0	
<b>Total expenses</b>	<b>737</b>	<b>702</b>	<b>781</b>	<b>838</b>	<b>821</b>	<b>(2.0)</b>
<b>EBITDA</b>	<b>516</b>	<b>611</b>	<b>681</b>	<b>655</b>	<b>688</b>	<b>5.0</b>
<i>EBITDA margin (%)</i>	20.4	24.3	25.0	25.1	24.9	
Depreciation	67	82	85	92	111	20.8
<b>EBIT</b>	<b>449</b>	<b>529</b>	<b>596</b>	<b>563</b>	<b>577</b>	<b>2.5</b>
<i>EBIT margin (%)</i>	17.8	21.0	21.8	21.6	20.9	
Other income	112	68	92	116	57	(51.0)
Finance cost	3	5	4	6	5	(20.6)
<b>PBT</b>	<b>558</b>	<b>592</b>	<b>684</b>	<b>673</b>	<b>629</b>	<b>(6.5)</b>
Tax expenses	223	196	219	222	(2,072)	(1,035.2)
<i>ETR (%)</i>	39.9	33.1	32.0	32.9	(330)	
Profit from JV	17	35.4	8	3	26	
<b>PAT</b>	<b>352</b>	<b>431</b>	<b>473</b>	<b>454</b>	<b>2,727</b>	<b>500.4</b>
<i>Net profit margin (%)</i>	13.9	17.1	17.3	17.4	98.6	
<b>EPS (Rs)</b>	<b>7.1</b>	<b>8.7</b>	<b>9.6</b>	<b>9.2</b>	<b>55.1</b>	<b>500.4</b>

Source: Company data, I-Sec research

**Table 2: NFIL (standalone financials)**

Rs mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ (%)	YoY (%)
Net revenue	2,443	2,418	2,639	2,516	2,650	5.3	8.5
Cost of Goods sold	1,218	1,149	1,220	1,071	1,209	12.9	(0.8)
<b>Gross profit</b>	<b>1,224</b>	<b>1,269</b>	<b>1,419</b>	<b>1,445</b>	<b>1,441</b>	<b>(0.3)</b>	<b>17.7</b>
<i>Gross profit margin (%)</i>	50.1	52.5	53.8	57.4	54.4		
Employee cost	232	256	270	293	300	2.3	29.0
<i>% of revenue</i>	9.5	10.6	10.2	11.6	11.3		
Other expenses	470	406	473	500	470	(6.2)	(0.1)
<i>% of revenue</i>	19.2	16.8	17.9	19.9	17.7		
<b>Total expenses</b>	<b>702</b>	<b>661</b>	<b>743</b>	<b>793</b>	<b>769</b>	<b>(3.1)</b>	<b>9.5</b>
<b>EBITDA</b>	<b>522</b>	<b>607</b>	<b>676</b>	<b>652</b>	<b>672</b>	<b>3.1</b>	<b>28.7</b>
<i>EBITDA margin (%)</i>	21.4	25.1	25.6	25.9	25.4		
Depreciation	64	75	77	83	102	23.1	59.8
<b>EBIT</b>	<b>458</b>	<b>533</b>	<b>599</b>	<b>568</b>	<b>570</b>	<b>0.2</b>	<b>24.4</b>
<i>EBIT margin (%)</i>	18.7	22.0	22.7	22.6	21.5		
Other income	130	64	87	110	53	(52.2)	(59.2)
Finance cost	2	4	3	4	5	23.6	119.8
<b>PBT</b>	<b>585</b>	<b>592</b>	<b>682</b>	<b>675</b>	<b>618</b>	<b>(8.5)</b>	<b>5.5</b>
Tax expenses	226	198	218	222	(2,069)	(1,031.5)	(1,015.0)
<i>ETR (%)</i>	38.6	33.4	32.0	32.9	(335.1)		
<b>PAT</b>	<b>359</b>	<b>395</b>	<b>464</b>	<b>453</b>	<b>2,687</b>	<b>493.5</b>	<b>648.3</b>
<i>Net profit margin (%)</i>	14.7	16.3	17.6	18.0	101.4		
<b>EPS (Rs)</b>	<b>7.3</b>	<b>8.0</b>	<b>9.4</b>	<b>9.2</b>	<b>54.5</b>	<b>493.5</b>	<b>648.3</b>

Source: Company data, I-Sec research

**Table 3: NFIL – segmental revenues**

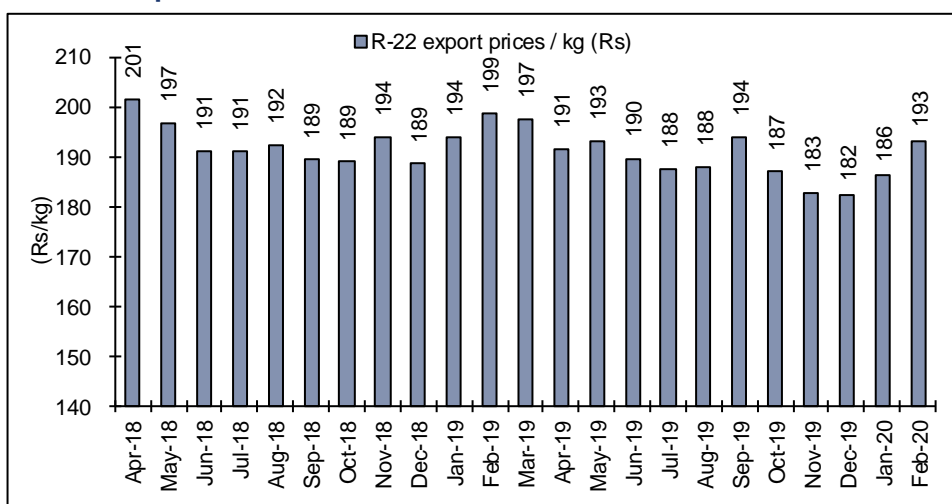
Rs mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ (%)	YoY (%)
Refrigerants	830	780	700	570	560	(1.8)	(32.5)
Inorganic Fluorides	510	530	520	510	510	-	-
Specialty Chemicals	680	860	940	970	1,040	7.2	52.9
CRAMS	430	250	470	470	540	14.9	25.6
<b>Total revenue</b>	<b>2,450</b>	<b>2,420</b>	<b>2,630</b>	<b>2,520</b>	<b>2,650</b>	<b>5.2</b>	<b>8.2</b>
<b>Contribution (%)</b>							
Refrigerants	33.9	32.2	26.6	22.6	21.1		
Inorganic Fluorides	20.8	21.9	19.8	20.2	19.2		
Specialty Chemicals	27.8	35.5	35.7	38.5	39.2		
CRAMS	17.6	10.3	17.9	18.7	20.4		

Source: Company data, I-Sec research

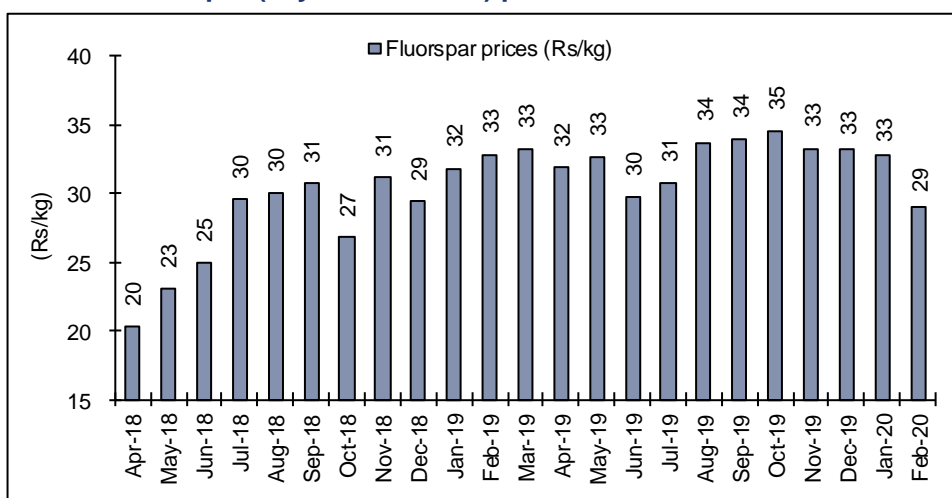
**Table 4: NFIL – geographic revenues**

Rs mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	QoQ (%)	YoY (%)
<b>Domestic</b>							
Refrigerants	485	468	343	314	314	0.0	(35.3)
Inorganic Fluorides	459	477	463	454	449	(1.1)	(2.2)
Specialty Chemicals	431	525	630	611	603	(1.3)	39.9
CRAMS	-	-	-	-	-	-	-
<b>Total Domestic</b>	<b>1,375</b>	<b>1,470</b>	<b>1,436</b>	<b>1,379</b>	<b>1,366</b>	<b>(0.9)</b>	<b>(0.7)</b>
<b>Exports</b>							
Refrigerants	346	312	357	257	246	(3.9)	(28.7)
Inorganic Fluorides	51	53	57	56	61	9.1	20.0
Specialty Chemicals	249	335	310	359	437	21.7	75.6
CRAMS	430	250	470	470	540	14.9	25.6
<b>Total Exports</b>	<b>1,075</b>	<b>950</b>	<b>1,194</b>	<b>1,142</b>	<b>1,284</b>	<b>12.5</b>	<b>19.4</b>

Source: Company data, I-Sec research

**Chart 1: Export realisation for R-22**

Source: I-Sec research, Gol

**Chart 2: Fluorspar (key raw material) prices**

Source: I-Sec research, Gol

**Table 5: Earnings revision**

Rs mn	Revised		Earlier		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	11,669	13,939	11,427	13,344	2.1	4.5
EBITDA	2,966	3,866	2,856	3,645	3.9	6.1
EBITDA margin (%)	25.4	27.7	25.0	27.3		
PAT	2,315	2,995	2,255	2,828	2.6	5.9
EPS (Rs)	47	61	46	57	2.6	5.9

Source: I-Sec research

## Financial summary

Table 6: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Income (Sales)</b>	<b>9,959</b>	<b>10,616</b>	<b>11,669</b>	<b>13,939</b>
<b>Operating Expenses</b>	<b>7,776</b>	<b>7,981</b>	<b>8,703</b>	<b>10,073</b>
<b>EBITDA</b>	<b>2,184</b>	<b>2,635</b>	<b>2,966</b>	<b>3,866</b>
% margins	21.9	24.8	25.4	27.7
Depreciation & Amortisation	275	370	435	470
Net Interest	8	20	13	10
Other Income	344	333	344	365
<b>Recurring PBT</b>	<b>2,244</b>	<b>2,578</b>	<b>2,862</b>	<b>3,751</b>
Add: Extraordinaries	-	-	-	-
Less: Taxes	770	(1,435)	711	924
- Current tax	770	(1,435)	711	924
- Deferred tax	-	-	-	-
Add: Share of JV	17	72	164	168
<b>Net Income (Reported)</b>	<b>1,491</b>	<b>4,086</b>	<b>2,315</b>	<b>2,995</b>
<b>Recurring Net Income</b>	<b>1,491</b>	<b>4,086</b>	<b>2,315</b>	<b>2,995</b>

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	4,103	8,504	7,847	7,090
of which cash & cash eqv.	370	2,837	1,867	(93)
Total Current Liabilities & Provisions	1,958	2,149	2,330	2,788
<b>Net Current Assets</b>	<b>2,145</b>	<b>6,354</b>	<b>5,517</b>	<b>4,302</b>
<b>Investments</b>	<b>4,836</b>	<b>1,954</b>	<b>1,955</b>	<b>1,955</b>
<b>of which</b>				
Strategic/Group	894	405	405	405
Other Marketable	3,942	1,549	1,550	1,551
<b>Net Fixed Assets</b>	<b>3,256</b>	<b>4,798</b>	<b>7,511</b>	<b>10,885</b>
<b>Goodwill</b>	<b>878</b>	<b>878</b>	<b>878</b>	<b>878</b>
<b>Total Assets</b>	<b>11,114</b>	<b>13,984</b>	<b>15,860</b>	<b>18,020</b>
<b>Liabilities</b>				
Borrowings	41	14	214	214
Deferred tax liability	348	(151)	(151)	(151)
Minority Interest	-	-	-	-
Equity Share Capital	99	99	99	99
Face Value per share (Rs)	2.0	2.0	2.0	2.0
Reserves & Surplus	10,626	14,023	15,700	17,859
<b>Net Worth</b>	<b>10,724</b>	<b>14,122</b>	<b>15,798</b>	<b>17,958</b>
<b>Total Liabilities</b>	<b>11,114</b>	<b>13,984</b>	<b>15,860</b>	<b>18,020</b>

Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net sales	2,418	2,639	2,516	2,650
% growth (YoY)	(0.5)	9.1	11.3	8.5
EBITDA	607	676	652	672
Margin (%)	25.1	25.6	25.9	25.4
Other income	64	87	110	53
Add: Extra ordinaries	-	-	-	-
Net profit	395	464	453	2,687

Source: Company data

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow</b>	<b>1,516</b>	<b>2,272</b>	<b>2,419</b>	<b>3,110</b>
Working Capital Changes	(615)	(706)	(134)	(744)
Capital Commitments	(564)	(1,077)	(3,147)	(3,845)
<b>Free Cashflow</b>	<b>337</b>	<b>489</b>	<b>(862)</b>	<b>(1,479)</b>
<b>Cashflow from Investing Activities</b>	<b>321</b>	<b>1,929</b>	<b>343</b>	<b>365</b>
Issue of Share Capital	21	12	-	-
Inc (Dec) in Borrowings	(85)	(27)	200	-
Dividend paid & Others	(619)	(794)	(652)	(845)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(25)</b>	<b>1,609</b>	<b>(971)</b>	<b>(1,960)</b>

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (in Rs.)</b>				
Recurring EPS	30.2	82.6	46.8	60.6
Reported EPS	30.2	82.6	46.8	60.6
Recurring Cash EPS	35.7	90.1	55.6	70.1
Dividend per share (DPS)	7.8	11.0	12.9	16.9
Book Value per share (BV)	216.9	285.6	319.5	363.2
<b>Growth Ratios (%)</b>				
Operating Income	9.1	6.6	9.9	19.5
EBITDA	1.6	20.7	12.6	30.3
Recurring Net Income	(17.1)	174.0	(43.3)	29.4
Diluted Recurring EPS	(17.3)	174.0	(43.3)	29.4
Diluted Recurring CEPS	(19.7)	152.3	(38.3)	26.0
<b>Valuation Ratios (% YoY)</b>				
P/E	53.1	19.4	34.2	26.4
P/CEPS	44.8	17.8	28.8	22.8
P/BV	7.4	5.6	5.0	4.4
EV / EBITDA	34.3	28.4	25.6	20.1
EV / Operating Income	7.5	7.0	6.5	5.6
EV / Operating FCF	219.4	127.2	(88.1)	(52.7)
<b>Operating Ratios</b>				
Other Income / PBT (%)	15.3	12.9	12.0	9.7
Effective Tax Rate (%)	34.3	(55.7)	24.8	24.6
NWC / Total Assets (%)	16.0	24.9	22.8	24.2
Inventory Turnover (days)	41.0	54.3	50.6	50.0
Receivables (days)	63.3	75.1	70.6	71.6
Payables (days)	26.1	33.7	34.8	35.7
Net Debt/EBITDA Ratio (x)	(2.0)	(1.7)	(1.1)	(0.3)
Capex % of sales	6.2	10.1	27.0	27.6
<b>Profitability Ratios (%)</b>				
Recur. Net Income Margins	15.0	38.5	19.8	21.5
RoCE	12.1	28.3	12.6	15.0
RoIC	20.8	43.5	17.0	17.5
RoNW	14.5	32.9	15.5	17.7
Dividend Yield	0.5	0.7	0.8	1.1
Gross Margins	52.1	54.4	55.4	55.5
EBITDA Margins	21.9	24.8	25.4	27.7

Source: Company data, I-Sec research

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**BUY: >15 return; ADD: 5 to 15 return; HOLD: Negative 5 to Positive 5 return; REDUCE: Negative 5 to Negative 15 return; SELL: < negative 15 return**

#### ANALYST CERTIFICATION

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