

- Navin Fluorine reported in-line standalone Sales at Rs 2.65bn, up by 8.5% YoY (D.est: Rs 2.61bn). EBITDA grew by 28.7% YoY to Rs 672mn. Reported PAT stood at Rs 2.68bn owing to a favorable court order from the IT appellate tribunal pertaining to its case related to classification of receipts on account of Certified Emission Reduction (CER) as capital receipts not chargeable to tax from financial year 2007-08 to financial year 2012-13.
- NFIL witnessed a strong gross margin expansion of 426 bps YoY to 54.4% with improved business mix, depreciation up 59.8% YoY to Rs 102mn while employee costs went up 29.0% YoY to Rs 300mn.

Laying groundwork for growth

NFIL's management exuded confidence in their CRAMS BU with a much stronger order book position than last year. Along with CRAMS, Specialty Chemicals BU too is well set for a double digit growth. With new-age businesses contributing expected to contribute ~64% of standalone revenues, NFIL's return ratios are expected to propel, ROE/RoCE to improve to 14.9/15.1% in FY22E. Also, contribution from new business vertical – HPP brings in significant option value as there are various applications of the intermediate NFIL can venture into. While the refrigerant gases business might take a back-seat in the near-term, we believe high margin business (CRAMS and Spec.chemicals) will continue to drive RoCEs. NFIL has de-risked its supply chains by partnering with various vendors outside of China as well and we believe impact of COVID-19 on NFIL is limited to only to its legacy businesses

Outlook and Valuation: NFIL has a clean balance-sheet with cash and equivalents to the tune of Rs 3.5bn and an expected OCF generation of Rs 7.3bn over FY20-22E. The company's intent of creating additional capacity via small de-bottlenecking projects in specialty chemicals will take care of the near-term growth, while doing justice to the capital employed. We like NFIL's strength and capability in Fluorination, clean balance-sheet, focus on high margin portfolios and large option value from new business vertical. However, given the recent run-up in the stock price and we have changed multiples in our SOTP valuation, we recommend investors to accumulate the stock at CMP. We have revised our target price to Rs 1,657/share.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	2,650	2,443	8.5	2,516	5.3
Total Expense	1,978	1,921	3.0	1,864	6.1
EBITDA	672	522	28.7	652	3.1
Depreciation	102	64	59.8	83	23.1
EBIT	570	458	24.4	568	0.2
Other Income	53	130	(59.2)	110	(52.2)
Interest	5	2	119.8	4	23.6
EBT	618	585	5.5	675	(8.5)
Tax	(2,069)	226	NA	222	NA
RPAT	2,687	359	648.3	453	493.5
APAT	2,687	359	648.3	453	493.5
			(bps)		(bps)
Gross Margin (%)	54.4	50.1	426	57.4	(305)
EBITDA Margin (%)	25.4	21.4	399	25.9	(54)
NPM (%)	101.4	14.7	8,668	18.0	8,339
Tax Rate (%)	(335.1)	38.6	NA	32.9	NA
EBIT Margin (%)	21.5	18.7	275	22.6	(110)

CMP	Rs 1,602
Target / Upside	Rs 1,657 / 3%
BSE Sensex	34,202
NSE Nifty	9,881

Scrip Details

Equity / FV	Rs 99mn / Rs 2
Market Cap	Rs 79bn
	USD 1bn
52-week High/Low	Rs 1,694/Rs 570
Avg. Volume (no)	1,78,097
NSE Symbol	NAVINFUOR
Bloomberg Code	NFIL IN

Shareholding Pattern Mar'20(%)

Promoters	30.5
MF/Banks/FIs	18.6
FII's	19.0
Public / Others	31.8

Valuation (x)

	FY20A	FY21E	FY22E
P/E	19.4	37.2	32.5
EV/EBITDA	28.8	25.1	21.5
ROE (%)	32.9	14.3	14.9
RoACE (%)	32.1	14.2	15.0

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	10,616	11,802	13,524
EBITDA	2,635	2,942	3,447
PAT	4,086	2,129	2,435
EPS (Rs.)	82.6	43.0	49.2

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Con call highlights for Q4FY20

Business Updates

- The company reported a topline growth of 7% YoY to Rs 10.02bn and a EBITDA of 20% to Rs 2.61bn in FY20 with high value business contributing 54% up 16% YoY.
- The company suffered a revenue loss of ~Rs 260 mn on account of lockdown due to the Covid-19 breakout primarily in the Inorganic and Ref Gas business.
- The management mentioned that the company's recently announced 7-year contract for manufacturing a High Performance Pigment (HPP) is running on schedule and is expected to be commissioned in Q4FY22 with full operation from FY23 onwards.
- The management stated that all of its plants in the Specialty Chemicals and CRAMS segment are operating at pre-Covid utilization levels. However, the Covid-19 impact which was primarily felt on the Inorganic Fluorides and the Ref gas segment has resulted in fall in utilization levels of these 2 segments to 2/3rd of pre-Covid levels.
- The company will continue to follow the older tax provisions with higher tax rates as it has unutilized MAT credit in its books.
- The management mentioned that the company is fully insulated against supply of critical RM coming from China and has alternate vendor arrangements in place. The company has a well-diversified procurement structure for its key RM Fluorspar and has no significant exposure to China both in terms of demand and supply.
- The company has received a favorable court order from the IT appellate tribunal pertaining to its case related to classification of receipts on account of Certified Emission Reduction (CER) as capital receipts not chargeable to tax from financial year 2007-08 to financial year 2012-13. Accordingly, the Company has now recognized MAT Credit entitlement of Rs 736 mn under section 115JAA of the Act, for which claims have been made. The Company has recomputed the tax liabilities for these years and written back excess tax provisions amounting to ₹ 1.41bn for earlier years.
- The company liquidated ~Rs 2.0 bn of its investments in the capital market due to the volatility caused by the Covid-19 outbreak and has parked these funds in Fixed Deposits with different banks with varying tenures.

Specialty Business

- Specialty business grew by 52% Yoy to Rs 1.04bn in Q4FY20 and 27% YoY to Rs 3.81bn for FY20 with strong performance coming from both domestic and international market equally spread across Pharma, Agro and Industrial applications.
- The company undertook a number of small brownfield bottlenecking projects at Surat which also contributed to the strong segment growth.
- The company is planning for greenfield expansion at Dahej which is at an advanced stage of discussion and the project is expected to come online by the end of FY22.
- The management has guided for FY21 growth to be on similar lines as FY20. However, with new investment plans which are in the advanced stages aimed towards greenfield expansion projects at Dahej the management

expects the growth to improve in FY22 with further improvement in FY23 which will see a full year of operation of its new plants.

- Growth in Pharma is expected to come from India while growth in Agro and Industrial are expected to be driven by the international market.

CRAMS

- Crams grew by 26% YoY to Rs 540 mn in Q4FY20 while there was degrowth of 3% YoY for FY20 with sales of Rs 1.73bn.
- The company has successfully commissioned its cGmp-3 plant but with the Covid-19 outbreak resulting in lockdown the ramp up is expected to be delayed.
- The company has been getting strong enquires from European majors as well as from other new and existing customers and has a strong order book which is expected to drive its growth in FY21.

Inorganic Fluorides

- The company reported a stable performance with sales being fattish YoY at Rs 510 mn for the quarter with a growth of 5% YoY on a full year basis to Rs 2.07bn.
- The quarterly performance was largely impacted due to the Covid-19 situation which resulted in slowdown in the stainless steel industry.
- Lower demand in the Domestic market was compensated by increased demand internationally.
- Improved pricing in international markets helped maintain margins.

Refrigerant Gases

- Lockdown due to Covid-19 outbreak resulted in lower volumes and lower sales of R-22 both in the domestic as well as international market.
- The decline in emissive gases segment was compensated by increase in non-emissive gases sales and increase in prices internationally.
- The company which is currently only into HCFC manufacturing is evaluating plans to expand into the HFC and HFCF gas production.
- The management expects the Ref Gas business to remain flattish over the next year with a slight dip in revenues over the immediate coming quarters and volume losses in Emissive gases are expected to be compensated by growth in volumes of Non Emissive gases and prices corrections in the international market.

JV with Piramal

- The company's JV with Piramal – CCPL saw a strong performance this year with a PAT of Rs 150 mn with Sales and Volumes improving on the back of increased operational efficiencies.
- The management expects improved returns in the coming years with production volumes ramping up sharply.

Exhibit 1: SOTP Valuation

EBITDA (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E	Target Multiple (EV/EBITDA)	EV
Refrigerants	448	505	522	372	424	11.0	4,664
Inorganic Fluorides	148	172	186	130	137	11.0	1,506
Specialty Chemicals	520	705	1,048	964	1,378	25.0	34,439
CRAMS	1,034	801	865	1,109	1,513	25.0	37,835
Total	2,150	2,184	2,621	2,576	3,452		78,444
Gross Debt	127	41	14	14	14		14
Cash and Equivalents	2,450	2,253	3,513	5,318	5,071		3,513
Market Cap							81,943
No of Shares							49
Target Price (Rs)							1,657

Source: DART, Company

Exhibit 2: Actual Vs DART Estimates (Rs Mn)

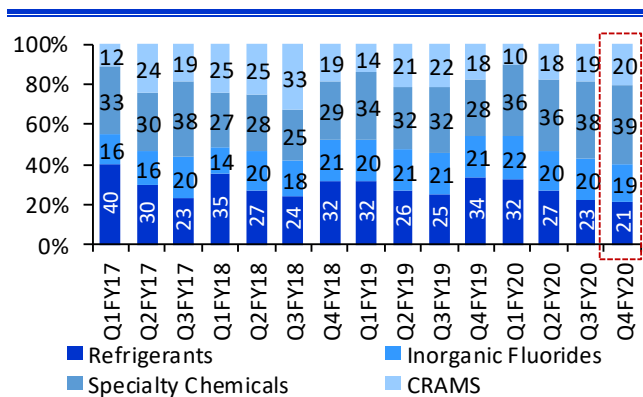
Particulars	Actual	Estimated	Variance (%)	Comments
Revenue	2,650	2,610	1.5	In line
EBITDA	672	560	20.0	Improvement in product mix led to higher margin
EBITDA Margin (%)	25	21	390 bps	
PAT	2,687	387	593.8	Reversal of excess tax provisions of earlier years, on the basis of favourable court order

Source: DART, Company

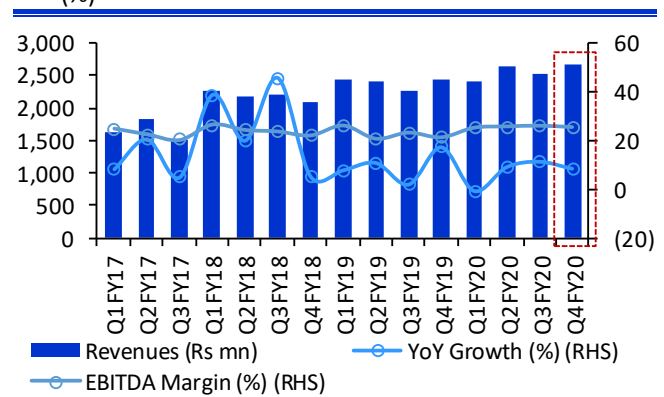
Exhibit 3: Change in Estimates

Particulars (Rs Mn)	FY21E			FY22E			Comments
	New	Previous	Chg (%)	New	Previous	Chg (%)	
Revenue	11,802	11,703	0.8	13,524	14,040	(3.7)	Higher than expected contribution from CRAMS
EBITDA	2,942	2,475	18.9	3,447	3,532	(2.4)	
EBITDA Margin(%)	24.9	21.1	378 bps	25.5	25.2	34 bps	
PAT	2,129	1,659	28.3	2,435	2,252	8.1	
EPS(Rs)	43.0	33.5	28.3	49.2	45.5	8.1	

Source: DART, Company

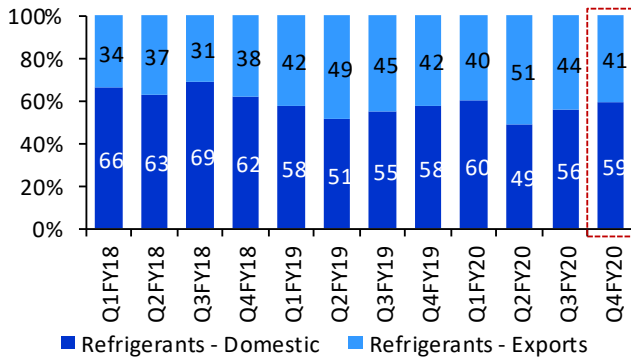
Exhibit 4: Quarterly Revenue Mix (%)


Source: DART, Company

Exhibit 5: Quarterly Revenue (Rs Mn) vs EBITDA Margin (%)


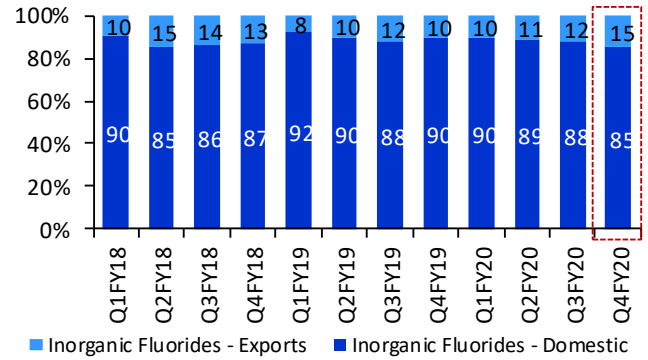
Source: DART, Company

Exhibit 6: Refrigerant Gases – Domestic vs Exports



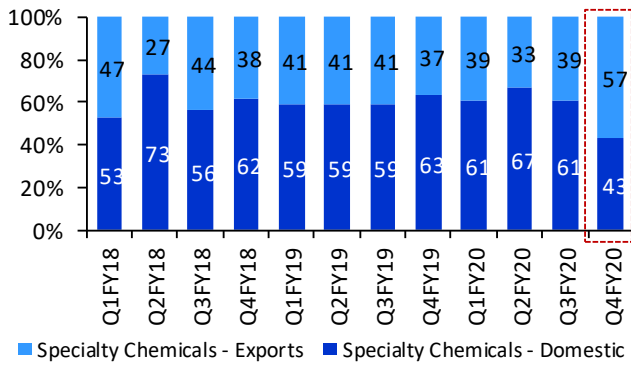
Source: DART, Company

Exhibit 7: Inorganic Fluorides – Domestic vs Exports



Source: DART, Company

Exhibit 8: Specialty Chemicals – Domestic vs Exports



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	9,959	10,616	11,802	13,524
Total Expense	7,776	7,981	8,860	10,076
COGS	4,766	4,838	5,365	6,092
Employees Cost	1,155	1,308	1,425	1,604
Other expenses	1,855	1,835	2,070	2,380
EBIDTA	2,184	2,635	2,942	3,447
Depreciation	275	370	425	501
EBIT	1,908	2,265	2,517	2,947
Interest	8	20	50	101
Other Income	177	333	250	275
Exc. / E.O. items	167	0	0	0
EBT	2,244	2,578	2,717	3,121
Tax	770	(1,436)	684	785
RPAT	1,491	4,086	2,129	2,435
Minority Interest	0	0	0	0
Profit/Loss share of associates	17	72	95	100
APAT	1,378	4,086	2,129	2,435

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	99	99	99	99
Minority Interest	0	0	0	0
Reserves & Surplus	10,626	14,023	15,449	17,122
Net Worth	10,724	14,122	15,547	17,221
Total Debt	41	14	14	14
Net Deferred Tax Liability	348	(151)	(151)	(151)
Total Capital Employed	11,114	13,984	15,410	17,084

Applications of Funds

Net Block	3,740	4,737	4,358	5,865
CWIP	393	389	100	100
Investments	2,953	1,829	1,829	1,829
Current Assets, Loans & Advances	5,986	9,179	11,108	11,417
Inventories	1,119	1,579	1,455	1,667
Receivables	1,727	2,185	2,432	2,776
Cash and Bank Balances	370	2,837	4,643	4,395
Loans and Advances	121	120	120	120
Other Current Assets	765	1,783	1,783	1,783
Less: Current Liabilities & Provisions	1,958	2,149	1,985	2,126
Payables	713	981	970	1,112
Other Current Liabilities	1,245	1,168	1,015	1,015
sub total				
Net Current Assets	4,028	7,030	9,123	9,290
Total Assets	11,114	13,984	15,410	17,084

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	52.2	54.4	54.5	55.0
EBIDTA Margin	21.9	24.8	24.9	25.5
EBIT Margin	19.2	21.3	21.3	21.8
Tax rate	34.3	(55.7)	25.2	25.2
Net Profit Margin	15.0	38.5	18.0	18.0
(B) As Percentage of Net Sales (%)				
COGS	47.9	45.6	45.5	45.0
Employee	11.6	12.3	12.1	11.9
Other	18.6	17.3	17.5	17.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	230.8	113.0	50.3	29.2
Inventory days	41	54	45	45
Debtors days	63	75	75	75
Average Cost of Debt	9.8	72.4	356.8	720.5
Payable days	26	34	30	30
Working Capital days	148	242	282	251
FA T/O	2.7	2.2	2.7	2.3
(D) Measures of Investment				
AEPS (Rs)	27.9	82.6	43.0	49.2
CEPS (Rs)	33.4	90.1	51.6	59.3
DPS (Rs)	7.8	11.0	12.0	13.0
Dividend Payout (%)	28.0	13.3	27.9	26.4
BVPS (Rs)	216.8	285.4	314.2	348.1
RoANW (%)	14.5	32.9	14.3	14.9
RoACE (%)	12.3	32.1	14.2	15.0
RoAIC (%)	18.5	20.7	23.0	25.1
(E) Valuation Ratios				
CMP (Rs)	1602	1602	1602	1602
P/E	57.5	19.4	37.2	32.5
Mcap (Rs Mn)	79,255	79,255	79,255	79,255
MCap/ Sales	8.0	7.5	6.7	5.9
EV	77,043	75,756	73,951	74,198
EV/Sales	7.7	7.1	6.3	5.5
EV/EBITDA	35.3	28.8	25.1	21.5
P/BV	7.4	5.6	5.1	4.6
Dividend Yield (%)	0.5	0.7	0.7	0.8
(F) Growth Rate (%)				
Revenue	9.1	6.6	11.2	14.6
EBITDA	1.6	20.7	11.7	17.2
EBIT	8.9	18.7	11.1	17.1
PBT	(15.8)	14.9	5.4	14.8
APAT	(4.9)	196.4	(47.9)	14.4
EPS	(4.9)	196.4	(47.9)	14.4
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	1,174	2,386	2,316	2,623
CFI	(677)	(239)	242	(2,007)
CFF	(695)	(887)	(753)	(863)
FCFF	670	1,023	2,558	615
Opening Cash	2,450	2,253	3,513	5,318
Closing Cash	2,253	3,513	5,318	5,071

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

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

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-19	Buy	834	602
Oct-19	Accumulate	911	826
Jan-20	Accumulate	1,319	1,145
Mar-20	Buy	1,319	1,081
Mar-20	Reduce	1,319	1,193

*Price as on recommendation date

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