

- Navin Fluorine International Ltd (NFIL IN) reported a disappointing consolidated sales performance of Rs 2.14bn, down by 14.5% YoY. EBITDA too declined by 11.9% YoY to Rs 538mn, while adjusted PAT declined by 10.6% YoY to Rs 386mn. Reported PAT of Rs 560mn constituted an interest on income tax refund of Rs 260 mn (part of the other income).
- Gross margin expansion of 547bps YoY to 57.7% while EBITDA margins too expanded by 75bps YoY to 25.0%. Depreciation stood higher at Rs 107mn up by 30.1% YoY.

**Strong enquiries in CRAMS BU propel confidence:** The management stated that the contract manufacturing business has witnessed a strong order book for the CRAMS unit and has been much better than that of what was experienced last year. In 1QFY21, though CRAMS BU grew by 36% YoY to Rs 340mn the sequential drop is significant of 37% YoY. We believe that, CRAMS BU happens to be a lumpy business owing to the timing of deliverables (molecules) and continue to maintain our positive stance on the business. The company has also started supplying an intermediate to its pharmaceutical partner which is known to have commercially launched a drug (in which the intermediate is used). We believe this bodes well for the company as the company has stepped up from pre-to-post development stage, albeit only in 1 molecule.

**Specialty Chemicals continues its growth momentum, Inorganic Fluorides and Refrigerant gases act as a dampener:** Small de-bottlenecking projects within specialty chemicals continue to be on track and is expected to grow in healthy double digits for FY21E. Refrigerant gases and Inorganic fluorides are likely to bounce back in 2HFY21 with an improvement/recovery in demand for auto/steel/aluminium industries.

**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 7.17bn 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. We maintain the multiples in our SOTP valuation and recommend investors to accumulate the stock at CMP. We have maintained our target price to Rs 1,657/share.

### Q1FY21 Result (₹ Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	2,047	2,418	(15.3)	2,650	(22.7)
Total Expense	1,527	1,810	(15.7)	1,978	(22.8)
EBITDA	521	607	(14.3)	672	(22.5)
Depreciation	99	75	32.4	102	(3.7)
EBIT	422	533	(20.8)	570	(25.9)
Other Income	356	64	459.9	53	574.6
Interest	2	4	(44.7)	5	(52.8)
EBT	776	592	31.0	618	25.6
Tax	260	198	31.6	(2,069)	(112.6)
RPAT	516	395	30.7	2,687	(80.8)
APAT	516	395	30.7	2,687	(80.8)
			(bps)		(bps)
Gross Margin (%)	58.4	52.5	592	54.4	401
EBITDA Margin (%)	25.4	25.1	31	25.4	8
NPM (%)	25.2	16.3	887	101.4	(7620)
Tax Rate (%)	33.5	33.4	16	(335.1)	36864
EBIT Margin (%)	20.6	22.0	(143)	21.5	(88)

CMP	Rs 1,741
Target / Downside	Rs 1,657 / 5%
BSE Sensex	37,719
NSE Nifty	11,102

### Scrip Details

Equity / FV	Rs 99mn / Rs 2
Market Cap	Rs 86bn
	US\$ 1bn
52-week High/Low	Rs 1,915/Rs 602
Avg. Volume (no)	1,55,423
NSE Symbol	NAVINFIL
Bloomberg Code	NFIL IN

### Shareholding Pattern Jun'20(%)

Promoters	30.5
MF/Banks/FIs	18.9
FII	19.4
Public / Others	31.2

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	21.9	40.5	35.4
EV/EBITDA	31.4	28.4	24.3
ROE (%)	32.9	14.3	14.9
RoACE (%)	31.0	14.2	15.0

### Estimates (₹ mn)

	FY20A	FY21E	FY22E
Revenue	10,616	11,802	13,524
EBITDA	2,635	2,942	3,447
PAT	3,938	2,129	2,435
EPS (Rs.)	79.6	43.0	49.2

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## Con call highlights for Q1FY21

### Specialty Chemicals

- Specialty chemicals business saw a growth of 13% YoY to Rs 970mn driven by Crop Sciences and the Industrial Segment.
- The company lost ~Rs 100-120mn in Sales in 1QFY21 due to the Covid related shutdown of its operations during the early part of April 2020.
- The management stated that the plants are currently running at pre-covid levels and demand remains strong for this segment.

### Crams

- Crams grew by 35% YoY (de-grew 37% Sequentially) to Rs 340mn and continues to hold a strong order book moving ahead.
- The management mentioned that the company has seen increase in enquiries coming from both its existing and new clients post the corona virus outbreak in China.
- Supplies to a pharmaceutical company who has launched a commercially viable drug have commissioned and the response has been encouraging.
- The strategy of the company is to partner with its clients right from the development stage to derive full benefits of the value chain.
- The company has been in talks with its existing customers to deliver more and newer molecules which is leading to a robust business development.

### Refrigerant Gases

- Ref gases revenues were down 41% YoY to Rs 460mn as it was impacted by lower demand coming from the OEM's and closure of trade market.
- Demand from the international market was soft in Q1FY21 on account of destocking by the company's customers.
- The management mentioned that in spite of lower demand the prices for Ref gases have remained stable with price hikes taken in few products.
- The management expects the Ref gas business demand to come back to pre-covid levels from next month onwards with trade markets resuming their operations from June 20.

### Inorganic Fluorides

- Inorganic Fluorides reported a sales degrowth of 46% to Rs 280mn due to low demand coming from the end use industries of Stainless Steel and Glass.

### Other Business Updates

- The company was able to maintain its EBITDA margins YoY at 25.4% on the back of increased share of High value business and better product mix.
- Employee cost in 1QFY21 was higher by 13.7% YoY as the company focused more on recruiting and maintained the increments to the workforce.
- The company has received interest on income tax refund to the tune of Rs 262mn which has been accounted under other income.
- The management mentioned that its new HPP plant is moving as per schedule and is expected to be commissioned in Q4FY22.

- The management has guided that their focus has now widened to the commercialization of intermediaries which are used to produce the HPP.
- The company has been in talks with different foreign companies to develop new verticals and business prospects.
- The idea is to introduce new products using the existing fluorination capabilities and add Bolton chemistries to broaden its technical know-how.
- The interactions of the senior management with different companies has led to preliminary discussions of certain verticals or products which are not a part of company's portfolio.
- The management expects growth in Agrochemicals and Industrial chemicals business to be sustainable for at least a year.
- De-bottlenecking initiatives of the company continue to remain strong and will help in specialty chemicals growth of upwards of 20%.
- The management stated that the tax rate for FY21 will be the same as in Q1FY21.

#### Exhibit 1: SOTP Valuation

EBITDA (Rs mn)	FY18	FY19	FY20	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
<b>Total</b>	<b>2,150</b>	<b>2,184</b>	<b>2,621</b>	<b>2,576</b>	<b>3,452</b>		<b>78,444</b>
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
<b>Target Price (Rs)</b>							<b>1,657</b>

Source: DART, Company

#### Exhibit 2: Actual Vs DART Estimates (Rs Mn)

Particulars	Actual	Estimated	Variance (%)	Comments
Revenue	2,047	2,770	(26.1)	Lower than expected revenue in Crams and Legacy business
EBITDA	521	694	(24.9)	Higher than expected margin expansion but lower revenue kept EBITDA lower
EBITDA Margin (%)	25.4	25.0	40 Bps	Same
PAT	516	478	8.0	One off income from tax refund boosts other income

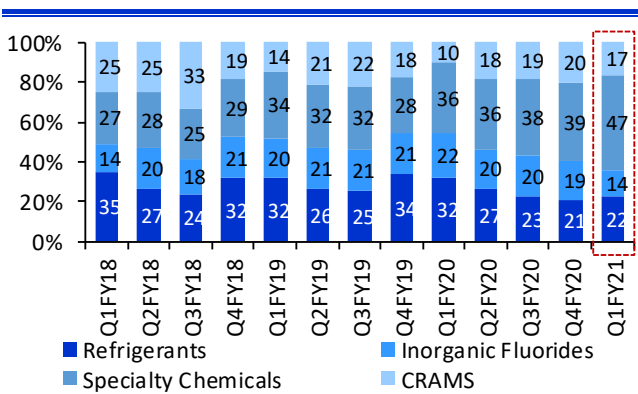
Source: DART, Company

#### Exhibit 3: Change in Estimates

Particulars (Rs Mn)	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	11,802	11,802	-	13,524	13,524	-
EBITDA	2,942	2,942	-	3,447	3,447	-
EBITDA Margin(%)	25	25	-	25	25	-
PAT	2,129	2,129	-	2,435	2,435	-
EPS(Rs)	43.0	43.0	-	49.2	49.2	-

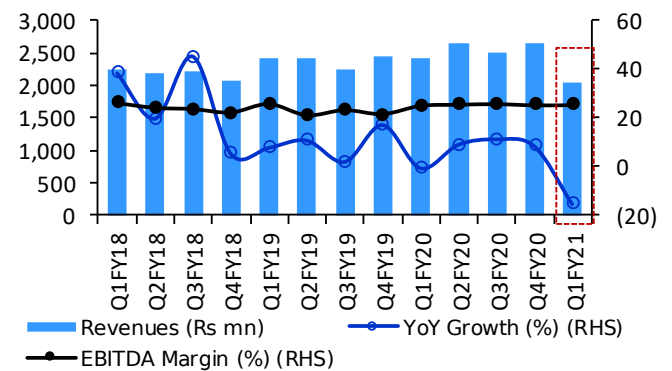
Source: DART, Company

**Exhibit 4: Quarterly Revenue Mix (%)**



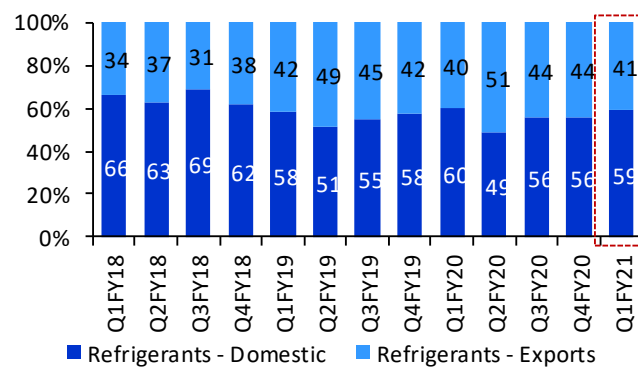
Source: Company, DART

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



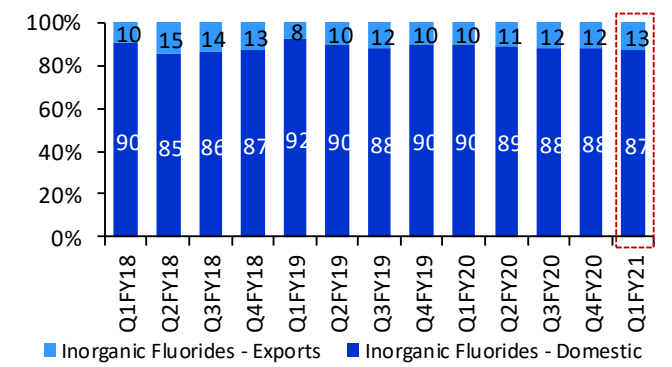
Source: Company, DART

**Exhibit 6: Refrigerant Gases – Domestic vs Exports**



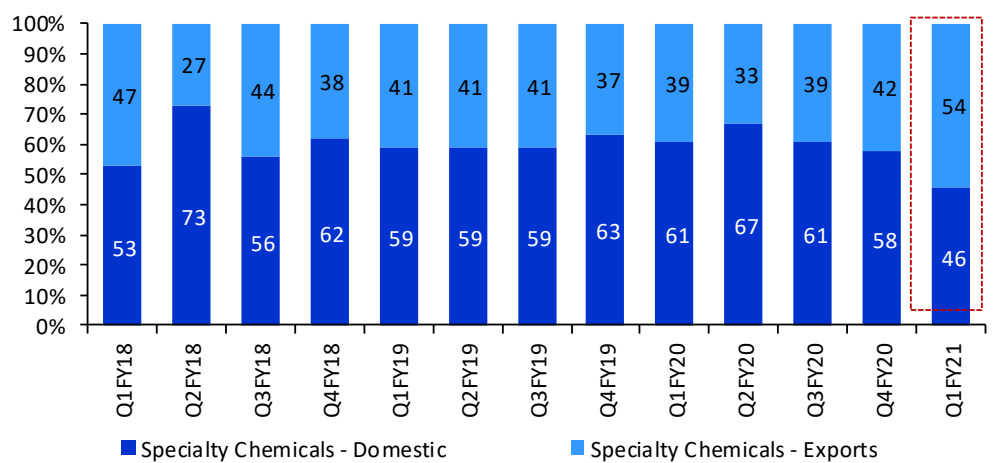
Source: Company, DART

**Exhibit 7: Inorganic Fluorides – Domestic vs Exports**



Source: Company, DART

**Exhibit 8: Specialty Chemicals – Domestic vs Exports**



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>9,959</b>	<b>10,616</b>	<b>11,802</b>	<b>13,524</b>
<b>Total Expense</b>	<b>7,776</b>	<b>7,981</b>	<b>8,860</b>	<b>10,076</b>
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
<b>EBIDTA</b>	<b>2,184</b>	<b>2,635</b>	<b>2,942</b>	<b>3,447</b>
Depreciation	275	370	425	501
<b>EBIT</b>	<b>1,908</b>	<b>2,265</b>	<b>2,517</b>	<b>2,947</b>
Interest	8	20	50	101
Other Income	173	185	250	275
Exc. / E.O. items	171	148	0	0
<b>EBT</b>	<b>2,244</b>	<b>2,578</b>	<b>2,717</b>	<b>3,121</b>
Tax	770	(1,436)	684	785
RPAT	1,491	4,086	2,129	2,435
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>17</b>	<b>72</b>	<b>95</b>	<b>100</b>
<b>APAT</b>	<b>1,376</b>	<b>3,938</b>	<b>2,129</b>	<b>2,435</b>

**Balance Sheet**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	99	99	99	99
Minority Interest	0	0	0	0
Reserves & Surplus	10,626	14,023	15,449	17,122
<b>Net Worth</b>	<b>10,725</b>	<b>14,122</b>	<b>15,547</b>	<b>17,221</b>
Total Debt	41	14	14	14
Net Deferred Tax Liability	348	(151)	(151)	(151)
<b>Total Capital Employed</b>	<b>11,114</b>	<b>13,984</b>	<b>15,410</b>	<b>17,084</b>

**Applications of Funds**

Net Block	<b>3,740</b>	<b>4,737</b>	<b>6,979</b>	<b>8,486</b>
CWIP	393	389	100	100
Investments	2,953	1,829	1,829	1,829
<b>Current Assets, Loans &amp; Advances</b>	<b>5,986</b>	<b>9,179</b>	<b>8,487</b>	<b>8,796</b>
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	2,022	1,774
Loans and Advances	121	120	120	120
Other Current Assets	765	1,783	1,783	1,783
<b>Less: Current Liabilities &amp; Provisions</b>	<b>1,958</b>	<b>2,149</b>	<b>1,985</b>	<b>2,126</b>
Payables	713	981	970	1,112
Other Current Liabilities	1,244	1,168	1,015	1,015
<i>sub total</i>				
Net Current Assets	4,028	7,030	6,502	6,669
<b>Total Assets</b>	<b>11,114</b>	<b>13,984</b>	<b>15,410</b>	<b>17,084</b>

E – Estimates

**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
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>(B) As Percentage of Net Sales (%)</b>				
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
<b>(C) Measure of Financial Status</b>				
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	201	180
FA T/O	2.7	2.2	1.7	1.6
<b>(D) Measures of Investment</b>				
AEPS (Rs)	27.8	79.6	43.0	49.2
CEPS (Rs)	33.4	87.1	51.6	59.3
DPS (Rs)	7.8	11.0	12.0	13.0
Dividend Payout (%)	28.0	13.8	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	31.0	14.2	15.0
RoAIC (%)	18.5	20.7	20.5	20.5
<b>(E) Valuation Ratios</b>				
CMP (Rs)	1741	1741	1741	1741
P/E	62.6	21.9	40.5	35.4
Mcap (Rs Mn)	86,147	86,147	86,147	86,147
MCap/ Sales	8.6	8.1	7.3	6.4
EV	83,935	82,648	83,464	83,711
EV/Sales	8.4	7.8	7.1	6.2
EV/EBITDA	38.4	31.4	28.4	24.3
P/BV	8.0	6.1	5.5	5.0
Dividend Yield (%)	0.4	0.6	0.7	0.7
<b>(F) Growth Rate (%)</b>				
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	(5.1)	186.3	(45.9)	14.4
EPS	(5.1)	186.3	(45.9)	14.4
<b>Cash Flow</b>				
<b>(Rs Mn)</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>
CFO	1,174	2,238	2,316	2,623
CFI	(677)	(239)	(2,379)	(2,007)
CFF	(695)	(739)	(753)	(863)
FCFF	670	875	(63)	615
Opening Cash	2,450	2,253	3,513	2,697
Closing Cash	2,253	3,513	2,697	2,450

E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Jun-20	Accumulate	1,657	1,584

\*Price as on recommendation date

### DART Team

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**Dolat Capital Market Private Limited.**

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