

Non legacy business to lead show...

About the stock: Navin Fluorine (NFIL) operates one of the largest integrated fluorochemicals complexes in India with a presence in speciality chemicals, CRAMS, inorganic fluoride and refrigerant segments.

- The company has two manufacturing facility in Surat and Dewas while it is setting up a new greenfield capacity at Dahej
- In terms of revenue contribution, speciality chemical constitutes 40% of overall revenue followed by CRAMS of 25% and rest from refrigerant (~18%) and inorganic fluoride (~17%) businesses

Q1FY22 Results: Revenue was almost in line with our estimates while PAT came in lower than expected owing to higher operating cost.

- Reported revenue growth of 52% YoY to ₹ 326.5 crore, led by speciality chemical (up 37% YoY) and CRAMS (up 97% YoY)
- Gross margins declined 311 bps YoY to ~54.6% while EBITDA margin contracted 122 bps YoY to 23.8%, due to higher operating cost such as employee (+26% YoY)
- EBITDA was up 45% YoY to ₹ 77.8 crore
- PAT increased 45% YoY to ₹ 55.9 crore owing to lower than expected operational performance

What should investors do? The stock appreciated at 74% CAGR in last three years

- We retain **HOLD** rating on the back of better growth outlook from value added segments such as CRAMS and speciality chemical

Target Price and Valuation: We value Navin Fluorine at 40x P/E FY24E EPS to arrive at a revised target price of ₹ 3710/share (earlier ₹ 3460/share).

Key triggers for future price performance:

- Upcoming capex for speciality chemical and HPP to aid value added business revenue mix and thereby group return ratios
- Potential entry into other key segments of fluorine molecules
- Increase in custom synthesis/CRAMS business revenue

Alternate Stock Idea: Apart from Navin Fluorine, in our chemical coverage we also like Neogen Chemical

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 1085



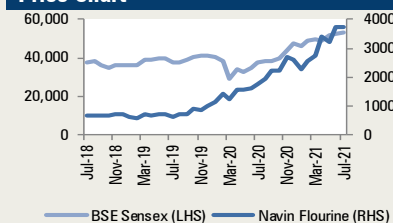
Particulars

Particular	Amount
Market cap (₹ Crore)	18,211
FY21 Total Debt (₹ Crore)	3
FY21 Cash & Inv (₹ Crore)	628
EV (₹ Crore)	17,585
52 Week H/L	4015/1692
Equity Capital (₹ Crore)	9.9
Face Value (₹)	2

Shareholding pattern

in %	Sept-20	Dec-20	Mar-21	Jun-21
Promoter	30.5	30.5	30.2	30.2
DII	21.1	24.5	25.1	26.7
FII	20.3	16.9	15.8	15.2
Others	28.1	28.1	28.9	28.0

Price Chart



Recent event & key risks

- Adding new customer in the CRAMS portfolio
- Key Risk:** (i) Cancellation of any order or slowdown in order booking, (ii) Sharper than expected improvement in gross margins

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Revenue	995.9	1,061.6	1,179.4	11.7%	1,377.1	1,860.8	2,299.5	24.9%
EBITDA	218.4	263.5	309.3	21.4%	364.9	530.3	666.9	29.2%
EBITDA Margins (%)	21.9%	24.8%	26.2%		26.5%	28.5%	29.0%	
Adj. PAT	149.1	179.1	222.9	21.7%	262.4	361.6	459.4	27.3%
Adj. EPS (₹)	30.1	36.2	45.0		53.0	73.1	92.8	
EV/EBITDA	82.3x	67.8x	56.9x		49.1x	33.5x	26.3x	
P/E	122.0x	101.7x	81.7x		69.4x	50.4x	39.6x	
ROE (%)	13.9	12.7	13.6		14.2	17.0	18.4	
ROCE (%)	20.9	18.4	21.0		19.0	22.6	24.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q1FY22 Results: Strong growth from CRAMS, speciality chemical continues

- **High value business:** Revenues were up 53% YoY to ₹ 200 crore, led by both speciality chemical and CRAMS segments, which remained higher by 37% YoY to ₹ 133 crore and 97% YoY to ₹ 67 crore, respectively. The growth in speciality chemical was due to better demand across domestic and international market along with market share gains. On the other hand, CRAMS business growth was primarily on account of better traction towards repeat orders
- **Legacy business:** Revenue increased 54% YoY to ₹ 114 crore, driven by 28% YoY growth in the refrigerant business to ₹ 59 crore, while inorganic fluoride was up by 100% YoY to ₹ 56 crore

Q1FY22 Earnings Conference Call highlights

CRAMS:

- The company has been witnessing good inquiries from US and Europe for its CRAMS portfolio. It has added two new mid-sized biologic pharma companies from US under CRAMS during the quarter
- From Europe, it is witnessing new product inquiries from existing innovator customers
- It plans to debottleneck its cGMP3 CRAMS facility during the course of the year, which can help to drive volume growth by at least 15%
- Post design layout being ready, it may announce capex towards cGMP4, which can take 12-15 months of commissioning post capex approval
- There has been a delay in execution of one contract to the tune of ₹ 5-6 crore, which is expected to be booked in July 2021 vs. June 2021

Speciality Chemical:

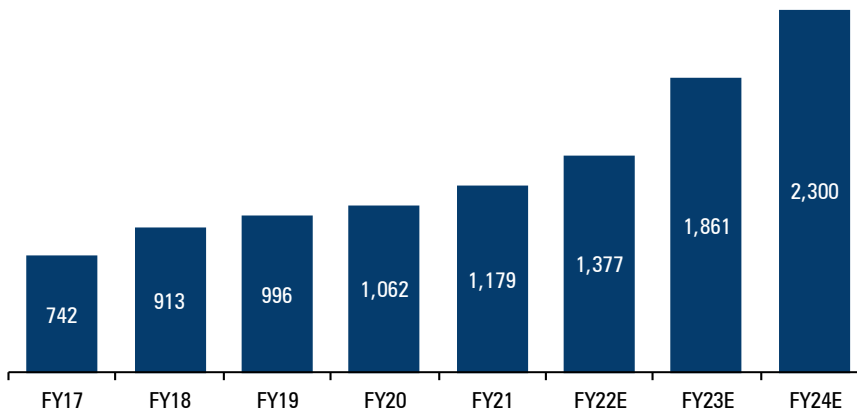
- Total 40% of revenue comes from agrochemical while 40% comes from pharma and 20% from industrial, of which industrial is multi-year contract. On the other hand, pharma is spot contract and half of the agro is multi-year, while half is on spot. Multi-year contract price revision happens at the beginning of calendar year in cash on any input price fluctuation
- Due to rise in input cost for one of the RM, part of the 20% of agrochemical business has been impacted. One of the customers allowed to take a price increase post Q2FY22E while another agreed from the beginning of the next calendar year

Other updates:

- HPP plant is likely to get commissioned in Q4FY22E or Q1FY23E while MPP capacity at Dahej may come on board by H1FY23E
- It acquired two customers from Korea, of which one is for industrial segment while another is for inorganic fluoride
- Rise in employee cost during the quarter is on account of increase in the employee count for technology division and higher variable and fixed payout. Around 40% is due to increase in employee counts while the rest is from higher variable & fixed payout

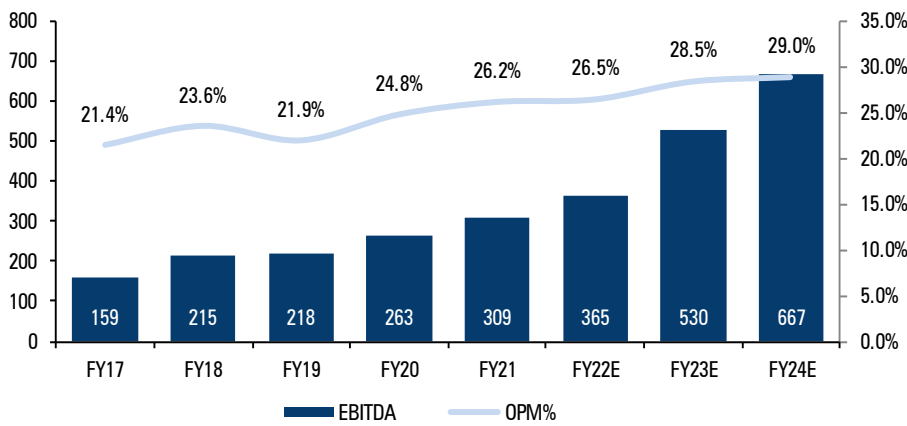
Financial story in charts....

Exhibit 1: Better growth visibility from ongoing capex to aid topline (₹ crore)



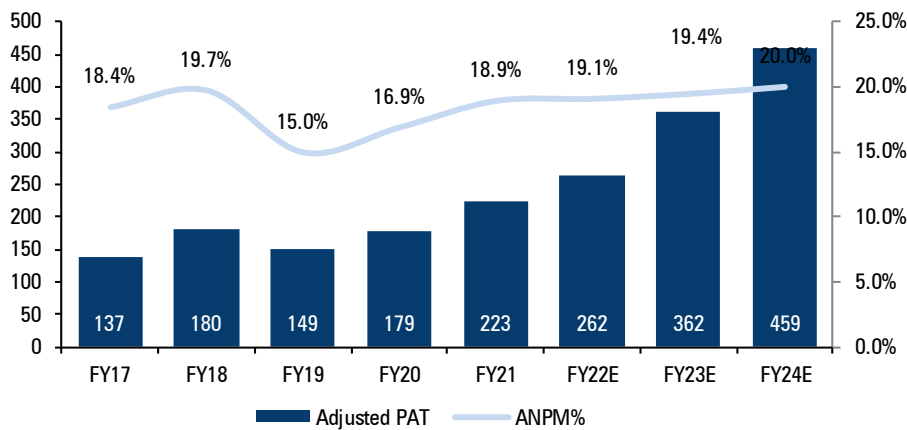
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	1,061.6	1,179.4	1,377.1	1,860.8	2,299.5
Growth (%)	6.6	11.1	16.8	35.1	23.6
Raw Material Expenses	483.8	537.4	619.7	828.0	1,011.8
Employee Cost	130.8	141.7	165.3	214.0	264.4
Other Expenses	183.5	191.0	227.2	288.4	356.4
Total Operating Expenditure	798.1	870.1	1,012.2	1,330.4	1,632.7
EBITDA	263.5	309.3	364.9	530.3	666.9
Growth (%)	20.7	17.4	18.0	45.3	25.7
Other Income	33.3	79.0	36.6	43.2	51.0
Depreciation	37.0	44.2	50.4	91.4	105.4
Net Interest Exp.	2.0	1.8	1.2	0.0	0.0
Other exceptional items	0.0	15.5	0.0	0.0	0.0
PBT	257.8	357.8	349.9	482.2	612.5
Total Tax	-143.6	110.8	87.5	120.5	153.1
PAT	401.4	247.1	262.4	361.6	459.4
Adjusted PAT	179.1	222.9	262.4	361.6	459.4
Growth (%)	20.1	24.5	17.7	37.8	27.0
Adjusted EPS (₹)	36.2	45.0	53.0	73.1	92.8

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
PBT & Extraordinary	257.8	357.8	349.9	482.2	612.5
Add: Depreciation	37.0	44.2	50.4	91.4	105.4
After other adjustments					
(Inc) / Dec in Working Capital	-70.6	-125.5	-49.9	-129.4	-131.1
Taxes	-46.2	17.3	-87.5	-120.5	-153.1
Others	-21.3	-56.6	1.2	0.0	0.0
CF from operating activities	156.7	237.3	264.1	323.6	433.7
Purchase of Fixed Assets	-107.7	-98.7	-550.0	-115.0	-100.0
Others	192.9	-138.4	0.0	0.0	0.0
CF from investing activities	85.1	-237.1	-550.0	-115.0	-100.0
Issue/(Buy back) of Equity	1.2	1.4	0.0	0.0	0.0
Inc/(dec) in loan funds	-8.7	1.1	-2.5	0.0	0.0
Dividend paid & dividend tax	-71.4	-39.4	-52.5	-72.3	-91.9
Others	-2.0	-8.2	-1.2	0.0	0.0
CF from financing activities	-80.9	-45.1	-56.2	-72.3	-91.9
Net cash flow	160.9	-44.9	-342.1	136.3	241.8
Opening cash	37.0	283.8	543.9	201.8	338.0
Closing cash	283.8	543.9	201.8	338.0	579.8

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
Liabilities					
Equity Capital	9.9	9.9	9.9	9.9	9.9
Reserves & Surplus	1,402.3	1,624.0	1,834.0	2,123.2	2,490.7
Total Shareholders Funds	1,412.2	1,633.9	1,843.9	2,133.1	2,500.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	0.0	0.0	0.0	0.0	0.0
Net Deferred Tax liability	0.0	20.7	20.7	20.7	20.7
Other long term liabilities	28.9	29.1	33.9	45.9	56.7
Long term provisions	10.3	11.8	13.8	18.6	23.0
Current Liabilities and Provisions					
Short term borrowings	1.4	2.5	0.0	0.0	0.0
Trade Payables	98.1	107.4	132.1	178.4	220.5
Other Current Liabilities	74.9	89.0	103.9	140.3	173.4
Short Term Provisions	2.8	3.1	3.6	4.9	6.0
Total Current Liabilities	177.2	202.0	239.5	323.7	400.0
Total Liabilities	1,628.5	1,897.5	2,151.9	2,542.0	3,001.0
Assets					
Net Block	386.0	398.5	852.9	1,016.6	1,011.2
Capital Work in Progress	38.9	94.9	140.0	0.0	0.0
Intangible assets under devl.	0.0	0.0	0.0	0.0	0.0
Goodwill on Consolidation	87.8	87.8	87.8	87.8	87.8
Non-current investments	127.9	14.5	14.5	14.5	14.5
Deferred tax assets	15.1	0.0	0.0	0.0	0.0
Long term loans and advances	9.9	4.3	5.0	6.7	8.3
Other Non Current Assets	179.5	102.8	111.1	131.1	149.3
Current Assets, Loans & Advances					
Current Investments	67.5	84.5	84.5	84.5	84.5
Inventories	157.9	180.4	215.1	295.7	365.4
Sundry Debtors	218.5	284.1	320.7	407.8	504.0
Cash and Bank	283.8	543.9	201.8	338.0	579.8
Loans and Advances	4.5	2.7	2.7	2.7	2.7
Other Current assets	51.4	99.2	115.8	156.5	193.4
Current Assets	783.6	1,194.7	940.6	1,285.3	1,729.9
Total Assets	1,628.5	1,897.5	2,151.9	2,542.0	3,001.0

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22E	FY23E	FY24E
Per share data (₹)					
Adj. EPS	36.2	45.0	53.0	73.1	92.8
Adj. Cash EPS	43.7	54.0	63.2	91.5	114.1
BV	285.3	330.1	372.5	431.0	505.2
DPS	7.0	0.0	10.6	14.6	18.6
Operating Ratios (%)					
Gross Margin (%)	54.4	54.4	55.0	55.5	56.0
EBITDA Margin (%)	24.8	26.2	26.5	28.5	29.0
PAT Margin (%)	16.9	18.9	19.1	19.4	20.0
Debtor Days	75	88	85	80	80
Inventory Days	54	56	57	58	58
Creditor Days	34	33	35	35	35
Cash Conversion Cycle	96	110	107	103	103
Return Ratios (%)					
Return on Assets (%)	11.0	11.7	12.2	14.2	15.3
RoCE (%)	18.4	21.0	19.0	22.6	24.5
RoE (%)	12.7	13.6	14.2	17.0	18.4
Solvency					
Total Debt / Equity	0.0	0.0	0.0	0.0	0.0
Interest Coverage	129.9	NM	NM	NM	NM
Current Ratio	4.4	5.9	3.9	4.0	4.3
Quick Ratio	3.5	5.0	3.0	3.1	3.4
Valuation Ratios (x)					
EV/EBITDA	67.8	56.9	49.1	33.5	26.3
P/E	101.7	81.7	69.4	50.4	39.6
P/B	12.9	11.1	9.9	8.5	7.3
EV/Sales	16.8	14.9	13.0	9.6	7.6

Source: Company, ICICI Direct Research

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