

# Navin Fluorine (NAVFLU)

CMP: ₹ 3722

Target: ₹ 4040 (9%)

Target Period: 12 months

HOLD

May 9, 2022

## Focus continues on order wins, embarked capex...

**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 facilities 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 the rest from refrigerant (~18%) and inorganic fluoride (~17%) businesses

**Q4FY22 Results:** The topline was largely in line while margins missed due to lower than anticipated gross margins.

- Reported revenue growth was 21.6% YoY to ₹ 409 crore, led by speciality chemical (up 21.4% YoY), inorganic fluoride (up 20.3% YoY), refrigerants (up 37.9% YoY). Revenue from CRAMS was up 15.8% YoY to ₹ 88 crore
- Gross margins were down 36 bps YoY to 51.9% while EBITDA margin contracted 200 bps YoY to 23%, due to higher other cost (up 29% YoY)
- EBITDA was up 12% YoY to ₹ 94.3 crore
- Adjusted PAT increased 19% YoY to ₹ 70.9 crore

**What should investors do?** The stock appreciated at 72% 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 45x P/E FY24E EPS to arrive at a target price of ₹ 4040/share (earlier ₹ 4520/share).

### Key triggers for future price performance:

- Upcoming capex for speciality chemical and HPP to aid value added business revenue mix and thereby improve 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 ₹ 2160



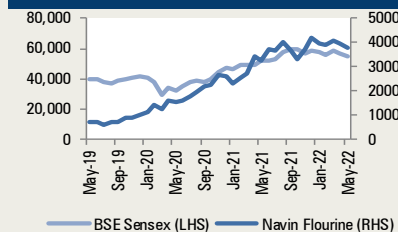
### Particulars

Particular	Amount
Market cap (₹ Crore)	18,424
FY22 Total Debt (₹ Crore)	104
FY22 Cash & Inv (₹ Crore)	200
EV (₹ Crore)	18,328
52 Week H/L	4339/3124
Equity Capital (₹ Crore)	9.9
Face Value (₹)	2

### Shareholding pattern

in %	Jun-21	Sept-21	Dec-21	Mar-22
Promoter	30.2	30.2	30.2	29.7
FII	26.7	26.4	25.3	23.5
DII	15.2	15.2	16.0	18.3
Others	28.0	28.2	28.6	28.5

### Price Chart



### Recent event & key risks

- New deal win worth ₹ 600 crore at peak utilisation
- 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	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	995.9	1,061.6	1,179.4	1,453.4	14.4%	2,003.3	2,673.9	35.6%
EBITDA	218.4	263.5	309.3	354.8	17.4%	500.8	695.2	40.0%
EBITDA Margins (%)	21.9%	24.8%	26.2%	24.4%		25.0%	26.0%	
Adj. PAT	149.1	179.1	222.9	259.0	13.7%	333.9	444.8	31.0%
Adj. EPS (₹)	30.1	36.2	45.0	52.3		67.4	89.8	
EV/EBITDA	83.3x	68.6x	57.5x	51.7x		36.9x	27.0x	
P/E	123.5x	102.9x	82.6x	71.2x		55.2x	41.5x	
ROE (%)	13.9	12.7	13.6	14.0		15.8	18.0	
ROCE (%)	20.9	18.4	21.0	17.8		19.4	20.3	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlight

### Q4FY22 Results: Decent growth across all segment led performance

- **High value business:** Revenues were up 19.3% YoY to ₹ 247 crore, led by both speciality chemical and CRAMS segments. The revenue from speciality chemical was up 21% YoY to ₹ 159 crore while the same from CRAMS remained higher by 16% YoY to ₹ 88 crore
- **Legacy business:** Revenue increased 29.1% YoY to ₹ 151 crore, driven by 20.3% YoY growth in the inorganic fluoride business to ₹ 71 crore while refrigerant business was up 37.9% YoY to ₹ 80 crore

### Q4FY22 Earnings Conference Call highlights

1. **Specialty Chemicals –**
  - Achieved record quarterly and annual revenues
  - Price hike initiated to offset high input costs
  - Strong pipeline of growth opportunities, especially in agrochemicals, driven by principles of 3P: Product, Platform & Partnership
2. **CRAMS –**
  - Achieved record annual sales in FY22
  - Focus on expanding project pipeline and further diversifying customer base
  - Debottlenecking of CGMP3 approved on the back of robust opportunity pipeline
3. **Inorganic Fluorides –**
  - Achieved record annual sales driven by pricing
  - Good traction seen from end user segments especially in India
  - Optimised sales mix between domestic & international market for better profitability
4. **Refrigerant Business –**
  - Growth in profitability driven by significant price increase despite higher input costs
  - Exports sales impacted due to higher logistics cost
  - Sales into non-emissive applications continues to look robust

### New capex –New fluoro speciality molecule

- Investment - ~₹ 540 crore, peak revenue visibility of ₹ 600 crore
- Funded by – Mix of Internal Accruals & Debt
- Project Location – Dahej
- Total 50% of total volume will be sold to technological partner. The contract is entered on a cost + basis. Will have no effect in case of escalation price in inputs
- Rest 50% will either be sold in market at market price or will be used internally. The management believes demand for new molecules will remain extremely robust as they are only manufacture of molecule using the technology
- Technology adapted by management is environment friendly process
- Planning to take debt of ₹ 200 crore for new project

### Impact on volatility in input cost on various project

- All four projects except MPP are primarily on cost through mechanism
- The company holds heavy inventory for key materials

**EBITDA margins affected by following reasons:**

- Energy cost is high in Q4
- Employee cost is high in Q4 due to retention of fresh talent
  - Further employee cost as a percentage of sales will have same impact in FY23

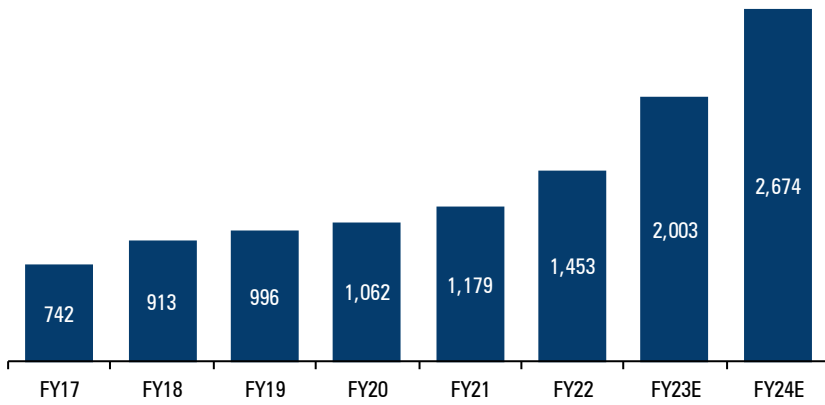
**Qualitative change due to Russia & Ukraine War** – No impact on demand side. Supply side will be affected by escalation in energy cost

**Working Capital** – Receivables – 90 days (constantly maintained)

-Inventory – 60 days (constantly maintained)

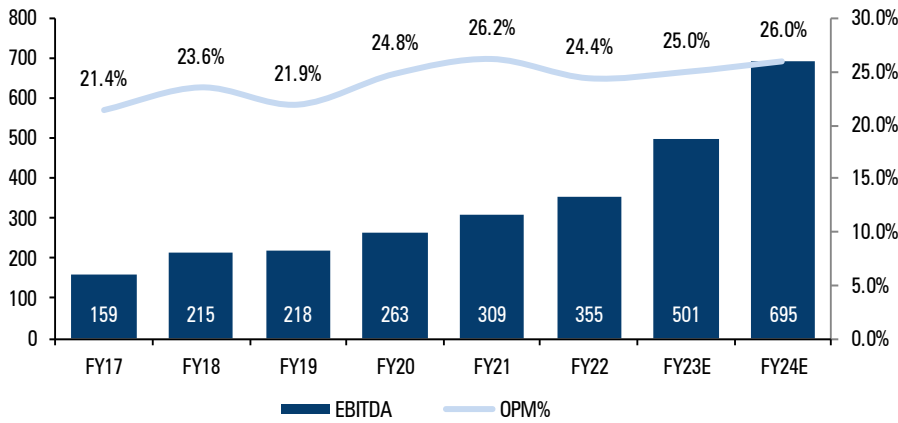
Financial story in charts....

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



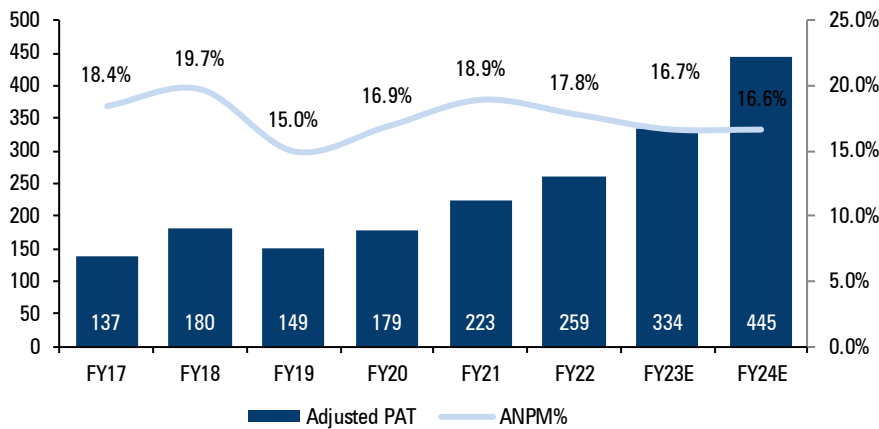
Source: Company, ICICI Direct Research

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	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>1,061.6</b>	<b>1,179.4</b>	<b>1,453.4</b>	<b>2,003.3</b>	<b>2,673.9</b>
Growth (%)	6.6	11.1	23.2	37.8	33.5
Raw Material Expenses	483.8	537.4	665.6	921.5	1,216.6
Employee Cost	130.8	141.7	181.5	240.4	320.9
Other Expenses	183.5	191.0	251.4	340.6	441.2
Total Operating Expenditure	798.1	870.1	1,098.6	1,502.5	1,978.7
<b>EBITDA</b>	<b>263.5</b>	<b>309.3</b>	<b>354.8</b>	<b>500.8</b>	<b>695.2</b>
Growth (%)	20.7	17.4	14.7	41.2	38.8
Other Income	33.3	79.0	39.2	29.2	37.8
Depreciation	37.0	44.2	47.9	80.2	129.3
Net Interest Exp.	2.0	1.8	1.9	4.6	10.6
Other exceptional items	0.0	15.5	0.0	0.0	0.0
PBT	257.8	357.8	344.2	445.2	593.1
Total Tax	-143.6	110.8	81.2	111.3	148.3
<b>PAT</b>	<b>401.4</b>	<b>247.1</b>	<b>263.1</b>	<b>333.9</b>	<b>444.8</b>
Adjusted PAT	179.1	222.9	259.0	333.9	444.8
Growth (%)	20.1	24.5	16.2	28.9	33.2
Adjusted EPS (₹)	36.2	45.0	52.3	67.4	89.8

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
PBT & Extraordinary	257.8	357.8	344.2	445.2	593.1
Add: Depreciation	37.0	44.2	47.9	80.2	129.3
After other adjustments					
(Inc) / Dec in Working Capital	-70.6	-125.5	-210.4	-196.1	-218.2
Taxes	-46.2	17.3	-78.1	-111.3	-148.3
Others	-21.3	-56.6	-28.9	4.6	10.6
<b>CF from operating activities</b>	<b>156.7</b>	<b>237.3</b>	<b>74.7</b>	<b>222.6</b>	<b>366.5</b>
Purchase of Fixed Assets	-107.7	-98.7	-578.9	-300.0	-565.0
Others	192.9	-138.4	406.5	0.0	0.0
<b>CF from investing activities</b>	<b>85.1</b>	<b>-237.1</b>	<b>-172.4</b>	<b>-300.0</b>	<b>-565.0</b>
Issue/(Buy back) of Equity	1.2	1.4	2.7	0.0	0.0
Inc/(dec) in loan funds	-8.7	1.1	102.0	100.0	300.0
Dividend paid & dividend tax	-71.4	-39.4	-54.2	-66.8	-89.0
Others	-2.0	-8.2	-9.0	-4.6	-10.6
<b>CF from financing activities</b>	<b>-80.9</b>	<b>-45.1</b>	<b>41.5</b>	<b>28.6</b>	<b>200.4</b>
Net cash flow	160.9	-44.9	-56.1	-48.8	1.9
Opening cash	37.0	283.8	543.9	95.8	47.0
<b>Closing cash</b>	<b>283.8</b>	<b>543.9</b>	<b>95.8</b>	<b>47.0</b>	<b>49.0</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>					
Equity Capital	9.9	9.9	9.9	9.9	9.9
Reserves & Surplus	1,402.3	1,624.0	1,834.3	2,101.4	2,457.2
<b>Total Shareholders Funds</b>	<b>1,412.2</b>	<b>1,633.9</b>	<b>1,844.2</b>	<b>2,111.3</b>	<b>2,467.2</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	0.0	0.0	100.0	200.0	400.0
Net Deferred Tax liability	0.0	20.7	20.1	20.1	20.1
Other long term liabilities	28.9	29.1	23.5	32.4	43.3
Long term provisions	10.3	11.8	13.7	18.9	25.2
<b>Current Liabilities and Provisions</b>					
Short term borrowings	1.4	2.5	4.5	4.5	104.5
Trade Payables	98.1	107.4	146.5	208.6	293.0
Other Current Liabilities	74.9	89.0	227.5	313.6	418.6
Short Term Provisions	2.8	3.1	5.4	7.4	9.9
Total Current Liabilities	177.2	202.0	383.9	534.1	826.0
<b>Total Liabilities</b>	<b>1,628.5</b>	<b>1,897.5</b>	<b>2,385.5</b>	<b>2,916.8</b>	<b>3,781.8</b>
<b>Assets</b>					
Net Block	386.0	398.5	415.9	1,252.8	1,763.5
Capital Work in Progress	38.9	94.9	742.1	125.0	50.0
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	13.9	13.9	13.9
Deferred tax assets	15.1	0.0	0.0	0.0	0.0
Long term loans and advances	9.9	4.3	6.0	8.3	11.0
Other Non Current Assets	179.5	102.8	100.5	118.6	140.6
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	67.5	84.5	104.2	104.2	104.2
Inventories	157.9	180.4	257.5	384.2	527.5
Sundry Debtors	218.5	284.1	357.7	494.0	659.3
Cash and Bank	283.8	543.9	95.8	47.0	49.0
Loans and Advances	4.5	2.7	0.5	0.5	0.5
Other Current assets	51.4	99.2	203.5	280.6	374.5
Current Assets	783.6	1,194.7	1,019.3	1,310.5	1,714.9
<b>Total Assets</b>	<b>1,628.5</b>	<b>1,897.5</b>	<b>2,385.5</b>	<b>2,916.8</b>	<b>3,781.8</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
Adj. EPS	36.2	45.0	52.3	67.4	89.8
Adj. Cash EPS	43.7	54.0	61.9	83.6	115.9
BV	285.3	330.1	372.2	426.1	497.9
DPS	7.0	11.0	11.0	13.5	18.0
<b>Operating Ratios (%)</b>					
Gross Margin (%)	54.4	54.4	54.2	54.0	54.5
EBITDA Margin (%)	24.8	26.2	24.4	25.0	26.0
PAT Margin (%)	16.9	18.9	17.8	16.7	16.6
Debtor Days	75	88	90	90	90
Inventory Days	54	56	65	70	72
Creditor Days	34	33	37	38	40
Cash Conversion Cycle	96	110	118	122	122
<b>Return Ratios (%)</b>					
Return on Assets (%)	11.0	11.7	10.9	11.4	11.8
RoCE (%)	18.4	21.0	17.8	19.4	20.3
RoE (%)	12.7	13.6	14.0	15.8	18.0
<b>Solvency</b>					
Total Debt / Equity	0.0	0.0	0.1	0.1	0.2
Interest Coverage	129.9	187.2	182.2	97.1	56.8
Current Ratio	4.4	5.9	2.7	2.5	2.1
Quick Ratio	3.5	5.0	2.0	1.7	1.4
<b>Valuation Ratios (x)</b>					
EV/EBITDA	68.6	57.5	51.7	36.9	27.0
P/E	102.9	82.6	71.2	55.2	41.5
P/B	13.0	11.3	10.0	8.7	7.5
EV/Sales	17.0	15.1	12.6	9.2	7.0

Source: Company, ICICI Direct Research

**Exhibit 8: ICICI Direct coverage universe (Chemicals)**

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
SRF	2513	3,065	Buy	81,517	40.4	63.7	73.4	62.2	39.4	34.2	37.2	25.9	22.5	18.7	24.3	24.0	17.5	23.5	22.9
PI Industries	2848	3,375	Buy	44,358	48.6	55.4	70.1	58.6	51.4	40.7	39.3	34.4	27.6	17.2	17.2	18.8	13.8	13.8	15.0
Aarti Industries	888	1,175	Buy	35,154	14.5	37.1	35.1	61.2	23.9	25.3	39.6	19.3	18.8	10.7	17.7	16.0	15.0	22.8	18.0
Tata Chemical	960	1,155	Buy	24,463	10.1	47.5	63.6	95.4	20.2	15.1	18.9	12.5	9.2	1.8	6.6	8.3	4.1	6.6	8.4
Vinati Organics	2099	2,320	Buy	20,493	26.2	31.5	41.8	80.1	66.7	50.2	56.3	49.4	35.2	21.7	23.3	26.0	17.4	18.0	20.0
Sumitomo Chemical	429	520	Buy	21,254	6.9	8.7	10.3	62.0	49.1	41.7	41.8	33.4	28.0	29.8	30.0	28.5	22.4	22.6	21.4
Navin Fluorine	3722	4,040	Hold	18,443	45.0	52.3	67.4	82.6	71.2	55.2	57.5	51.7	36.9	21.0	17.8	19.4	13.6	14.0	15.8
Rallis India	235	235	Reduce	4,937	11.4	8.4	8.9	20.6	27.8	26.5	14.5	17.4	17.3	18.0	12.7	11.6	13.9	9.7	9.5
Sudarshan chemical	523	695	Buy	3,723	20.4	19.7	25.7	25.7	26.6	20.4	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1549	2,160	Buy	4,142	13.4	16.5	33.5	115.4	93.8	46.3	63.3	47.4	30.6	15.1	11.2	16.9	17.1	9.3	16.0
Astec Lifesciences	1875	2,215	Buy	3,675	33.2	45.1	54.8	56.5	41.6	34.2	34.6	25.6	21.6	18.9	19.3	17.7	21.0	22.3	21.3

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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