

18 December 2020

## Navin Fluorine

*Foundation for further growth laid; upgrading to a Buy*

Rating: Buy

Target Price: Rs 3,000

Share Price: Rs 2,561

To strengthen its specialty chemicals division and for growth, Navin Fluorine announced Rs1.95bn capex in agro and pharma, expected to be funded through internal accruals and debt. The multi-purpose plant at its wholly-owned subsidiary, Navin Fluorine Advanced Sciences, at Dahej, Gujarat, is expected to be commissioned in H1 FY23, with ~1.4x asset turnover. The expansion would help launch products of complex fluorinated chemistry and strengthening customer relations. We upgrade our rating to Buy with a higher target of Rs3,000, valuing the stock at 34x FY23e EPS, earlier Rs2,500.

**Product launches.** With this multi-purpose plant, the company will have capacity to manufacture five products, specifically in agro. Of five products, three will be developed in-house and two with clients (according to their specifications). Navin has another seven products in the pipeline catering to pharma and agro. Management said the EBITDA margin would be higher than at present and the RoCE would be in a similar range. The expected payback period would be four years, with revenue of Rs2.6bn-2.8bn at peak utilisation.

**Outlook.** Per management, of five products, three would be sold to domestic customers to produce final formulations; two would be exported. Based on progress and customer requirement, the company may look at forward integration and set up plants dedicated to such products. Further, it has, with environmental clearance, enough land for expansion.

**Raising FY23e.** Management said construction is expected to be complete by Apr'22 and take two months to stabilise. Hence, commercial production would start from Jun'22. We have raised our FY23e revenue and PAT ~7% and 8% respectively, considering the plant operating for about nine months in FY23.

**Valuation.** We upgrade our rating to a Buy with a higher target of Rs3,000, at an implied multiple of 34x FY23e EPS and 26x FY23e EV/EBITDA. **Risks:** Delay in capex implementation and a pick-up in its past business

Key financials (YE Mar)	FY19	FY20	FY21e	FY22e	FY23e
Sales (Rs m)	9,959	10,616	11,117	14,036	19,280
Net profit (Rs m)	1,491	4,086	2,334	2,696	4,366
EPS (Rs)	30.2	82.6	47.2	54.5	88.2
PE (x)	84.9	31.0	54.3	47.0	29.0
EV / EBITDA (x)	56.1	46.4	41.0	32.9	22.3
PBV (x)	11.8	8.9	8.0	7.1	6.0
RoE (%)	13.9	28.9	14.7	15.1	20.6
RoCE (%)	13.8	32.0	15.2	16.0	22.4
Dividend yield (%)	0.3	0.4	0.5	0.5	0.9
Net debt / equity (x)	-0.3	-0.3	-0.2	-0.1	-0.1

Source: Company, Anand Rathi Research

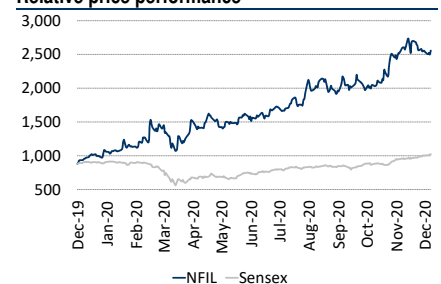
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Key data	NFIL IN / NAFL.BO
52-week high / low	Rs2760 / 929
Sensex / Nifty	46890 / 13741
3-m average volume	\$4.6m
Market cap	Rs126bn / \$1718.3m
Shares outstanding	49m

Shareholding pattern (%)	Sep'20	Jun'20	Mar'20
Promoters	30.5	30.5	30.5
- of which, Pledged	3.0	3.4	3.4
Free float	69.5	69.5	69.5
- Foreign institutions	21.1	19.4	19.0
- Domestic institutions	17.2	18.9	18.6
- Public	31.2	31.2	31.8

Estimates revision (%)	FY22e	FY23e
Sales	-	7.0
EBITDA	-	7.0
EPS	-	7.9

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

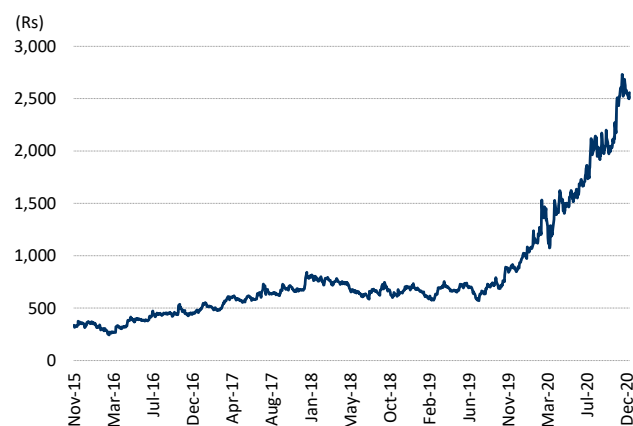
**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Net revenues	9,959	10,616	11,117	14,036	19,280
<i>Growth (%)</i>	<b>9.1</b>	<b>6.6</b>	<b>4.7</b>	<b>26.3</b>	<b>37.4</b>
Direct costs	4,766	4,838	4,780	6,036	7,905
SG&A	3,010	3,142	3,335	4,211	5,784
<b>EBITDA</b>	<b>2,184</b>	<b>2,635</b>	<b>3,002</b>	<b>3,790</b>	<b>5,591</b>
<i>EBITDA margins (%)</i>	<i>21.9</i>	<i>24.8</i>	<i>27.0</i>	<i>27.0</i>	<i>29.0</i>
- Depreciation	275	370	413	625	703
Other income	344	333	667	702	964
Interest expenses	8	20	15	15	15
PBT	2,244	2,578	3,241	3,852	5,837
<i>Effective tax rate (%)</i>	<i>34.3</i>	<i>-55.7</i>	<i>30.0</i>	<i>30.0</i>	<i>25.2</i>
+ Associates / (Minorities)	17	72	65	-	-
Net income	1,491	4,086	2,334	2,696	4,366
Adjusted income	1,491	1,702	2,334	2,696	4,366
WANS	49	49	49	49	49
FDEPS (Rs / sh)	30.2	82.6	47.2	54.5	88.2
FDEPS growth	-17.2	173.9	-42.9	15.5	61.9
<i>Gross margins (%)</i>	<i>52.1</i>	<i>54.4</i>	<i>57.0</i>	<i>57.0</i>	<i>59.0</i>

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
PBT before OI and Interest	1,909	2,265	2,589	3,165	4,888
+ Non-cash items	275	370	413	625	703
Oper. prof. before WC	2,184	2,635	3,002	3,790	5,591
- Incr. / (decr.) in WC	640	1,896	(26)	957	1,881
Others incl. taxes	729	(581)	972	1,156	1,471
<b>Operating cash-flow</b>	<b>814</b>	<b>1,320</b>	<b>2,055</b>	<b>1,677</b>	<b>2,239</b>
- Capex (tang. + intang.)	504	1,362	3,500	3,500	2,000
<b>Free cash-flow</b>	<b>310</b>	<b>(42)</b>	<b>(1,445)</b>	<b>(1,823)</b>	<b>239</b>
Acquisitions					
- Div. (incl. buyback & taxes)	464	655	583	674	1,092
+ Equity raised	0	0	-	-	-
+ Debt raised	(85)	126	-	-	-
- Fin investments	(20)	(2,332)	(1,000)	-	-
- Misc. (CFI+CFF) (adj OI & int)	(215)	(707)	(717)	(687)	(949)
Net cash-flow	(5)	2,468	(311)	(1,810)	97

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**


Source: Bloomberg

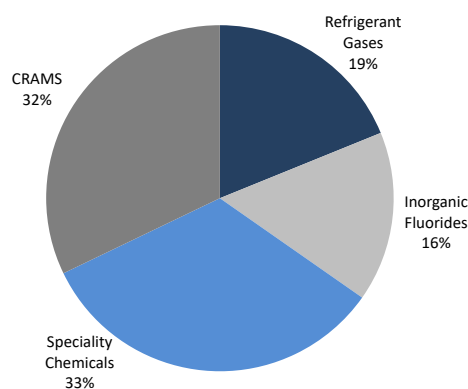
**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Share capital	99	99	99	99	99
Net worth	10,724	14,122	15,872	17,894	21,169
Debt	<b>41</b>	<b>167</b>	<b>167</b>	<b>167</b>	<b>167</b>
Minority interest	-	-	-	-	-
DTL / (Assets)	348	-151	-151	-151	-151
<b>Capital employed</b>	<b>11,114</b>	<b>14,138</b>	<b>15,888</b>	<b>17,910</b>	<b>21,185</b>
Net tangible assets	2,850	3,850	6,448	9,901	10,699
Net intangible assets	13	10	10	10	10
Goodwill	878	878	878	878	878
CWIP (tang. & intang.)	393	389	878	300	800
Investments (strategic)	1,457	1,125	579	579	579
Investments (financial)	3,379	1,379	925	925	925
Current assets (ex cash)	3,733	5,666	5,559	7,018	9,640
Cash	370	2,837	2,526	716	813
Current liabilities	1,958	1,996	1,914	2,417	3,158
Working capital	1,775	3,670	3,644	4,601	6,482
<b>Capital deployed</b>	<b>11,114</b>	<b>14,138</b>	<b>15,888</b>	<b>17,910</b>	<b>21,185</b>
Contingent liabilities	549	435	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
P/E (x)	84.9	31.0	54.3	47.0	29.0
EV / EBITDA (x)	56.1	46.4	41.0	32.9	22.3
EV / Sales (x)	12.3	11.5	11.1	8.9	6.5
P/B (x)	11.8	8.9	8.0	7.1	6.0
RoE (%)	13.9	28.9	14.7	15.1	20.6
RoCE (%) - after tax	13.8	32.0	15.2	16.0	22.4
RoIC	21.6	46.8	20.4	18.9	24.5
DPS (Rs / sh)	7.8	11.0	11.8	13.6	22.1
Dividend yield (%)	0.3	0.4	0.5	0.5	0.9
Dividend payout (%) - incl. DDT	25.9	13.3	25.0	25.0	25.0
Net debt / equity (x)	(0.3)	(0.3)	(0.2)	(0.1)	(0.1)
Receivables (days)	63	75	73	73	73
Inventory (days)	86	119	119	119	125
Payables (days)	55	74	70	70	69
CFO : PAT %	54.6	77.6	88.1	62.2	51.3

Source: Company, Anand Rathi Research

**Fig 6 – Revenue break-up, by business (Q2 FY21)**


Source: Company

## Valuation

### Change in estimates

**Fig 7 – Change in estimates**

(Rs m)	Old estimates		New estimates		Change (%)	
	FY22e	FY23e	FY22e	FY23e	FY22e	FY23e
Revenue	14,036	18,020	14,036	19,280	-	7.0
EBITDA	3,790	5,226	3,790	5,591	-	7.0
PAT	2,696	4,046	2,696	4,366	-	7.9

Source: Anand Rathi Research

To arrive at the true value of Navin Fluorine, we use the DCF method. The 11% WACC used has been arrived at as follows.

**Fig 8 – WACC**

Equity (FY20) (Rs m)	14,122
Cost of equity (%)	11
Debt (FY20) (Rs m)	167
Cost of debt (%)	9
Weighted average cost of capital (%)	11

Source: Anand Rathi Research

To arrive at future cash flows, a 5% terminal growth rate has been assumed.

**Fig 9 – Present value of FCFF (Rs m)**

(Rs m)	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e	FY31e
EBIT	3,256	3,867	5,852	7,471	9,244	11,208	13,590	16,478	19,980	24,226	29,375
EBIT (1-t)	2,279	2,707	4,378	5,588	6,914	8,384	10,165	12,326	14,945	18,121	21,972
Depreciation	413	625	703	786	890	942	997	1,055	1,116	1,182	1,251
WC changes	26	(957)	(1,881)	(2,059)	(1,942)	(2,136)	(2,349)	(2,584)	(2,843)	(3,127)	(3,440)
Capex	(3,500)	(3,500)	(2,000)	(2,000)	(2,000)	(1,000)	(1,058)	(1,058)	(1,058)	(1,058)	(1,058)
FCFF	(782)	(1,125)	1,200	2,315	3,862	6,190	7,754	9,738	12,160	15,117	18,724
PV of FCFF	(708)	(922)	890	1,554	2,346	3,403	3,859	4,386	4,958	5,579	6,254

Source: Anand Rathi Research

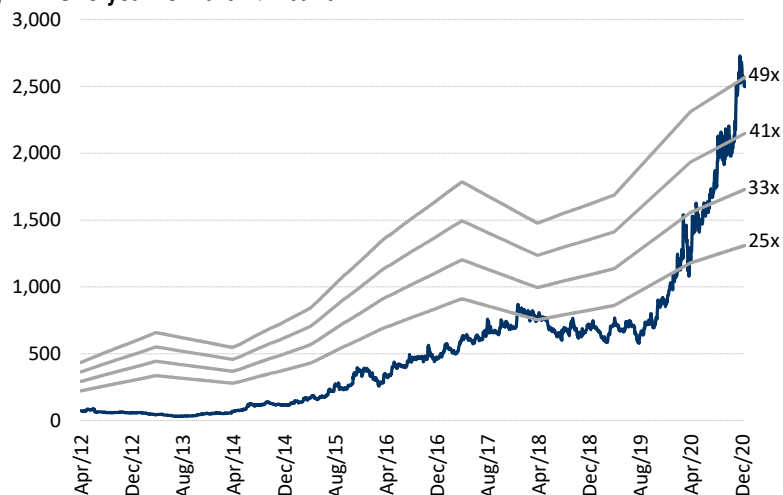
### Target price

**Fig 10 – DCF-based valuation (Rs m)**

Present value	31,599
Terminal value	114,081
Debt	(167)
Cash	2,837
Total value	148,350
No. of shares (m)	49
Target price (Rs)	3,000

Source: Anand Rathi Research

We upgrade our rating to a Buy on the stock with a higher target price of Rs3,000. At this, the company is valued at PEs of 55x FY22e and 34x FY23e. On EV/EBITDA, it is valued at 39x FY22e and 26x FY23e.

**Fig 11 – One-year-forward P/E band**

Source: Anand Rathi Research

### Risks

- Delay in capex implementation.
- No pick-up in non-emissive (feedstock) refrigerant gases.
- Protracted global slowdown, leading to a continual deceleration in key consumer sectors such as autos, agro-chemicals, pharmaceuticals and refrigerants.
- A slowdown in the domestic steel industry would impact the performance of inorganic fluorides.
- Re-starting of capacities in China and a pick-up in utilisation.
- Inability to pass on to customers increases in fluorspar prices.
- Inability to scale up the average ticket size of products in CRAMS.

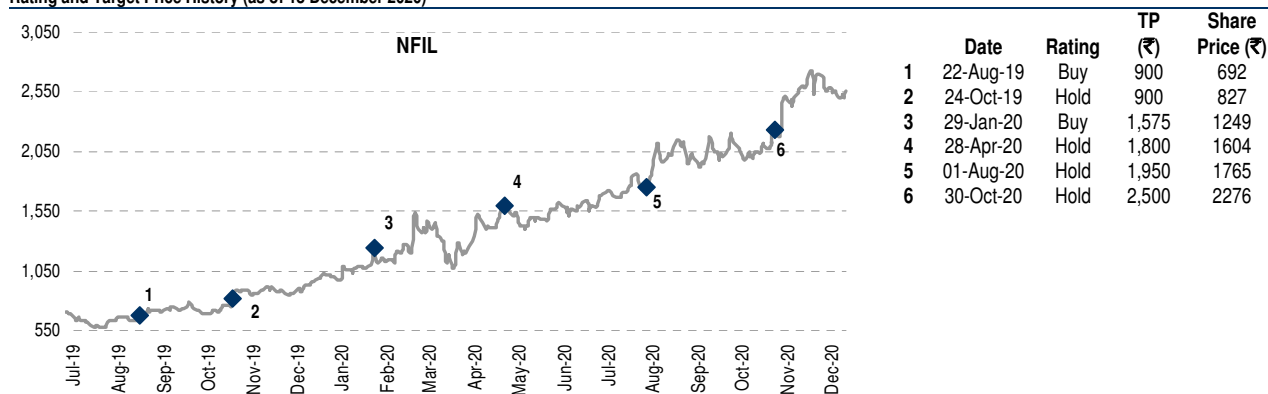
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