

Navin Fluorine

Refer to important disclosures at the end of this report

Leveraging core capabilities; growth runway improving

CMP: Rs 2,556
as of (December 17, 2020)

TP: Rs 2,742 (▲)
12 months

Rating: BUY (■)

Upside: 7.3 %

- NFIL has announced capex of Rs1.95bn for setting up a multi-purpose plant (MPP), which is expected to commence production from H1FY23. The MPP is expected to reach peak utilization levels in 2-3 years, with an asset turnover of 1.35-1.45x (Rs2.6-2.8bn sales potential). The plant is structured to act as a launchpad for upcoming molecules.
- The plant will produce five new molecules to cater to the agro space, for which there is no domestic competition. NFIL expects some of the molecules to grow significantly and would require dedicated plants in the next 2-3 years, depending on the success of the end product.
- NFIL also has a pipeline of seven new products (for pharma and agro), which would be gradually introduced as and when required, depending on economics of five initial molecules. NFIL sees the possibility of forward-integration in some molecules from the initial launch.
- Large capex undertaking for MPP ensures long-term earnings growth, in our view. We raise our TP by 17% to Rs 2,742 as we move from target PE to target PEG methodology (forward PE/1-year prospective EPS growth). We apply 1.38x PEG on Dec'22E EPS and 25% growth in Dec'23E EPS. Maintain a Buy rating and OW in EAP.

Long-term project economics positive; MPP to unlock more possibilities for growth: The Rs1.95bn project is anticipated to have a payback period of ~4 years, with EBITDAM better than the current annual run rate and structural improvement in return ratios. Management expects peak utilization levels in 2-3 years post the commencement. The project would be undertaken through subsidiary Navin Fluorine Advanced Sciences, which may entail low tax rates. Civil costs are high for this MPP, although ~40% of the facility space would still remain vacant post the expansion. The structure of the plant would allow the plant to act as a launchpad for subsequent molecule launches as well as undertake backward integration. Management anticipates strong cash flows to entirely support such capex undertaking without the need for raising debt, subject to future evaluation.

Initial target for 5 agrochemical molecules; forward-integration on the cards: NFIL plans to produce five new molecules at this MPP, which are already commercialized (R&D and Pilot complete), to cater to the agrochemicals space. NFIL's clients are banking on the success of the end products where these molecules are used as intermediates. Management sees a volume potential of ~300-500tpa in four molecules. Some of them would even require separate dedicated facilities in 2-3 years post the commencement, subject to the success of the end product. NFIL is considering forward-integration in two of the initial five molecules to become an active ingredient supplier. NFIL has a separate pipeline of seven products (in pilot mode) for pharma and agro (50:50). They would be gradually undertaken as and when needed, subject to the market adoption of initial five molecules.

Robust outlook; maintain Buy: Large capex undertaking for MPP ensures earnings growth in the longer term, in our view. We bake in new project contribution in FY23, and raise our Revenue/EPS estimates by ~4%. We increase our TP by 17% to Rs2,742 as we move from target PE to target PEG methodology. We maintain a Buy rating and OW in EAP. PEG ratio has been ~1x in the last two years and we apply a ~38% premium in our PEG multiple due to lateral structural improvement in return ratios (RoE of 16% in FY22 to 22% in FY23). The key downside risk is any delay in the commissioning of the project.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Speciality Chemicals \(Page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	9,959	10,616	11,931	14,295	21,565
EBITDA	2,184	2,635	3,199	3,798	5,815
EBITDA Margin (%)	21.9	24.8	26.8	26.6	27.0
APAT	1,491	1,849	2,260	2,748	4,331
EPS (Rs)	30.2	37.4	45.7	55.5	87.5
EPS (% chg)	(17.2)	23.9	22.2	21.6	57.6
ROE (%)	14.5	14.9	15.1	16.2	21.7
P/E (x)	84.9	68.5	56.0	46.1	29.2
EV/EBITDA (x)	57.9	47.2	38.8	33.0	21.6
P/BV (x)	11.8	9.0	8.0	7.0	5.8

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-/
Target Price change (%)	16.7
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	45.7	55.5
Consensus	47.0	55.4
Mean Consensus TP (12M)	Rs 2,331	

Stock Details

Bloomberg Code	NFIL IN
Face Value (Rs)	2
Shares outstanding (mn)	49
52 Week H/L	2,760 / 929
M Cap (Rs bn/USD bn)	126 / 1.72
Daily Avg Volume (nos.)	1,42,940
Daily Avg Turnover (US\$ mn)	4.6

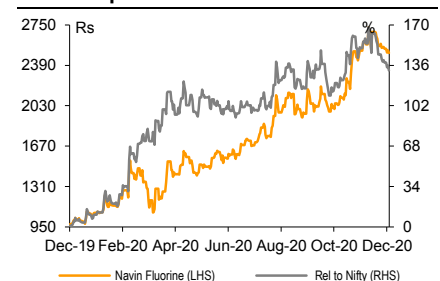
Shareholding Pattern Sep '20

Promoters	30.5%
FIIIs	21.1%
DIIIs	20.3%
Public and Others	28.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	21	60	170
Rel. to Nifty	(8)	1	15	139

Relative price chart



Source: Bloomberg

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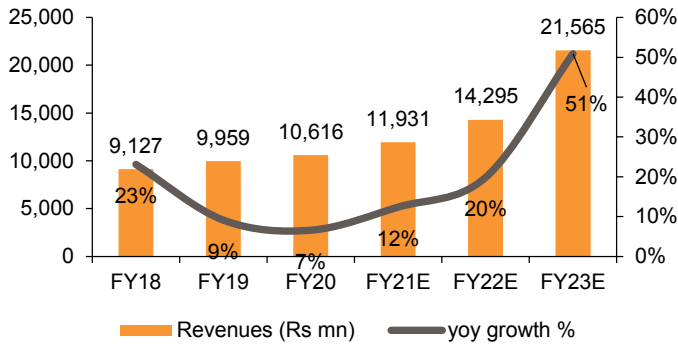
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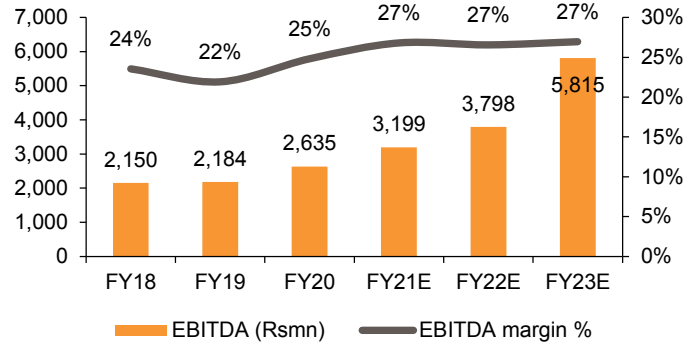
Story in Charts

Exhibit 1: Strong momentum in CRAMS and Specialty business to lift growth in FY23



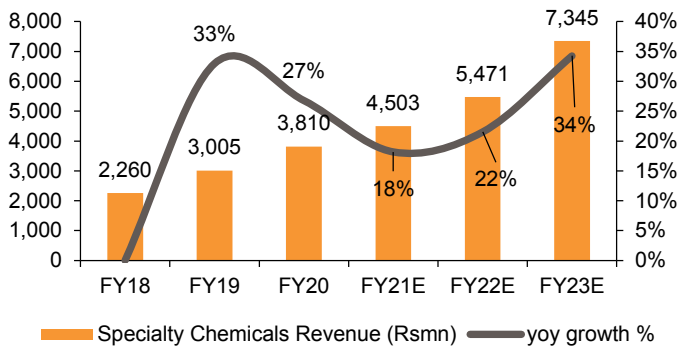
Source: Company, Emkay Research

Exhibit 2: EBITDA to improve on sustainable margin growth from high-value business



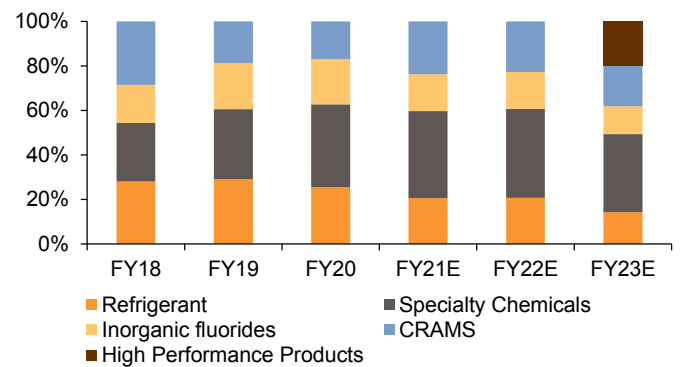
Source: Company, Emkay Research

Exhibit 3: Specialty Chemicals to see double-digit growth in next three years, led by capex undertakings



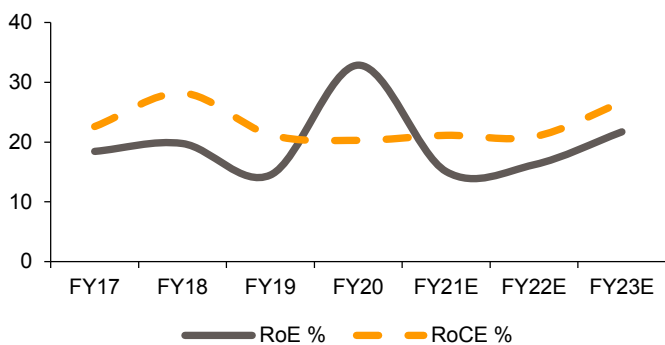
Source: Company, Emkay Research

Exhibit 4: HPPS to start from Q4FY22 and deliver sales from FY23 onward



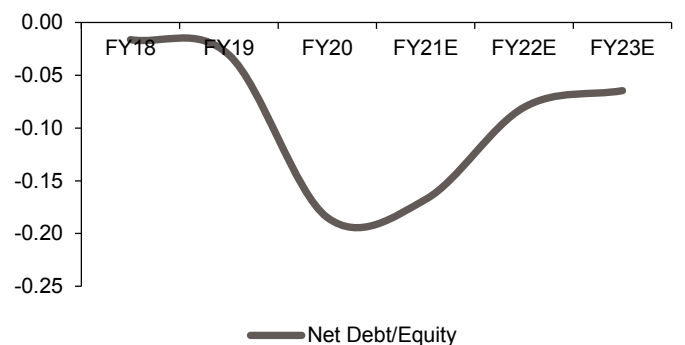
Source: Company, Emkay Research

Exhibit 5: Return ratios to improve, led by larger share of high value business



Source: Company, Emkay Research

Exhibit 6: Net Debt/Equity to remain below zero assuming no debt raise for the current MPP project



Source: Company, Emkay Research

Key conference call highlights

- Project capex of Rs1.95bn is expected with a four-year payback period and asset turnover of 1.35-1.45x (Rs2.6-2.8bn). Peak utilization is expected in 2-3 years. EBITDA margin will be slightly better and RoCE in the similar range.
- Project entails five completely new products for which there is no domestic competition (100% agro). Three products will be domestic oriented (for further formulations and then exported), while two will focus on direct exports. Management expects some of the products to become large plays and hence, would require dedicated plants in 2-3 years post the commencement. Four products are expected to have a potential of 300-500tpa, assuming the end product picks up.
- Such five products are already commercialized (R&D and Pilot complete), and customers are banking on the success of the end products. It will involve more complex fluorination chemistry. Material supply/LOI are already in place with customers for supply. NFIL is the second vendor (not originator) for four products and originator for one product.
- The MPP (acting as a launchpad) would be structured in a way that it will allow backward integration as well. Management expects projected internal cash flows to be enough for such capex, however, it will relook going ahead. Such an undertaking has high civil costs and 40% of the area would still remain vacant for future purposes post current undertaking. After this project, total Dahej land availability will be 2/3rd of the original allocated area.
- NFIL also has a pipeline (in pilot mode) for another seven products (50:50 agro and pharma), which would be integrated as and when required from this MPP facility. In case one or more of the five initial products require a dedicated facility (successful) or do not take off as expected, they shall be replaced with the product from the pipeline. However, the MPP cannot manufacture all (5+7) 12 products together. All 12 products are intermediates or advanced intermediates. One of the seven products is a pure pharma import substitute.
- NFIL will never become an API or AI player, but for strategic reasons NFIL could forward-integrate for specific products. It is already in discussion for two of the initial five molecules on doing the AI (forward), and the registration is in process.
- HPP is expected to commercialize in Q4FY22.

Exhibit 7: Segment revenues (standalone)

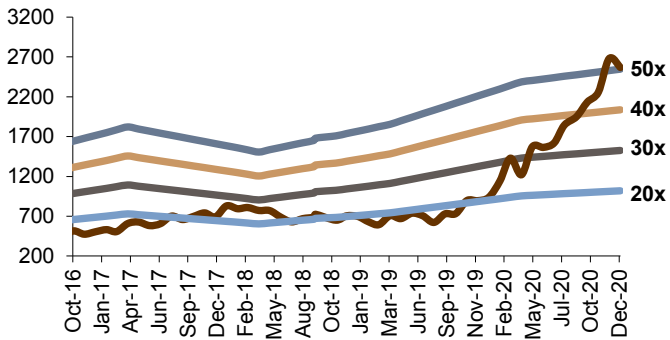
Parameters	FY19	FY20	FY21E	FY22E	FY23E
Refrigerant	2,776	2,610	2,368	2,840	3,000
	15%	-6%	-9%	20%	6%
Specialty Chemicals	3,005	3,810	4,503	5,471	7,345
	33%	27%	18%	22%	34%
Inorganic fluorides	1,983	2,070	1,892	2,284	2,627
	34%	4%	-9%	21%	15%
CRAMS	1,779	1,730	2,730	3,100	3,850
	-27%	-3%	58%	14%	24%
High Performance Products	-	-	-	-	4,143
EBITDA margins (%)	21.9%	24.8%	26.8%	26.6%	27.0%

Source: Company, Emkay Research

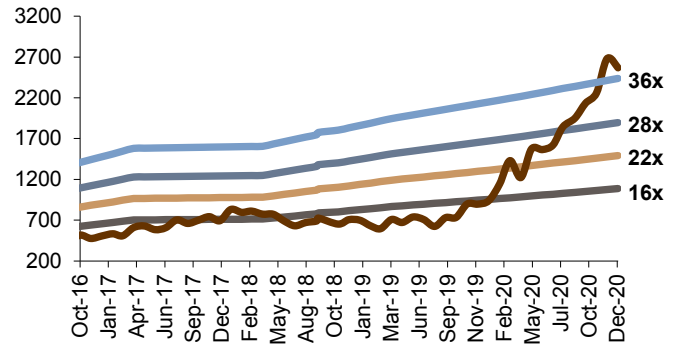
Exhibit 8: Revision in estimates (consolidated)

Rs mn	FY21E			FY22E			FY23E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenues	11,931	11,931	0.0	14,296	14,296	0.0	20,785	21,565	3.8
EBITDA	3,199	3,199	0.0	3,798	3,798	0.0	5,589	5,815	4.0
EBITDA margins %	26.8	26.8	0bps	26.6	26.6	0bps	26.9	27.0	7.4bps
Net profits	2,260	2,260	0.0	2,748	2,748	0.0	4,155	4,331	4.2
EPS (Rs)	45.7	45.7	0.0	55.5	55.5	0.0	84.0	87.5	4.2

Source: Company, Emkay Research

Exhibit 9: PE Band

Source: Company, Emkay Research

Exhibit 10: EV/EBITDA Band

Source: Company, Emkay Research

Exhibit 11: Peer comparison

Company Name	Price (Rs)	Mkt Cap (Rs bn)	Reco	TP (Rs)	PE			PB (x)			EV/EBITDA		
					FY20	FY21e	FY22e	FY20	FY21e	FY22e	FY20	FY21e	FY22e
Advanced Enzyme Tech	343	38	Hold	332	29.6	26.8	23.4	4.6	3.9	3.4	18.6	16.8	14.4
Apcotex Industries	167	9	Hold	140	52.2	51.5	28.1	3.4	3.4	3.1	27.1	23.6	15.4
BASF India	1664	72	Buy	1630	389.2	52.1	37.0	5.2	3.7	3.4	33.3	20.1	17.2
Camlin Fine Sciences	121	15	Buy	140	48.5	26.5	16.3	3.7	2.9	2.5	14.4	12.9	9.8
GHCL	198	19	Buy	186	4.7	6.1	4.5	0.9	0.8	0.7	4.2	4.2	3.1
Navin Fluorine	2559	124	Buy	2742	56.0	46.1	29.2	8.0	7.0	5.8	38.8	33.0	21.6
SRF	5343	317	Buy	5466	34.1	28.0	21.2	6.3	4.8	3.9	23.7	16.8	13.0
Tata Chemicals	498	127	Hold	324	1.8	23.3	16.8	1.0	1.0	0.9	10.4	11.6	9.7
Vinati Organics	1155	119	Buy	1330	35.5	42.3	30.6	9.3	8.0	6.6	28.5	31.6	22.7

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	9,959	10,616	11,931	14,295	21,565
Expenditure	7,776	7,981	8,941	10,597	15,921
EBITDA	2,184	2,635	3,199	3,798	5,815
Depreciation	275	370	432	454	592
EBIT	1,908	2,265	2,766	3,344	5,223
Other Income	344	333	500	350	350
Interest expenses	8	20	15	20	20
PBT	2,244	2,578	3,251	3,674	5,553
Tax	770	802	1,057	926	1,222
Extraordinary Items	(20)	(28)	0	0	0
Minority Int./Income from Assoc.	(17)	(72)	(65)	0	0
Reported Net Income	1,471	1,821	2,260	2,748	4,331
Adjusted PAT	1,491	1,849	2,260	2,748	4,331

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	99	99	99	99	99
Reserves & surplus	10,626	14,023	15,738	17,942	21,729
Net worth	10,724	14,122	15,837	18,041	21,828
Minority Interest	0	0	0	0	0
Loan Funds	272	465	465	465	465
Net deferred tax liability	0	0	0	0	0
Total Liabilities	10,997	14,587	16,303	18,506	22,293
Net block	4,695	5,676	7,509	10,555	12,963
Investment	4,653	3,297	3,362	3,362	3,362
Current Assets	3,724	7,161	7,270	6,620	9,095
Cash & bank balance	370	2,838	2,882	1,677	1,637
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	2,075	1,547	1,838	2,031	3,127
Net current assets	1,649	5,614	5,431	4,589	5,968
Misc. exp	0	0	0	0	0
Total Assets	10,997	14,587	16,303	18,506	22,293

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	1,900	2,245	2,751	3,324	5,203
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(770)	(1,497)	227	(363)	(1,419)
Operating Cashflow	817	2,914	2,919	2,839	3,504
Capital expenditure	(493)	(1,351)	(2,265)	(3,500)	(3,000)
Free Cash Flow	324	1,563	654	(661)	504
Investments	205	1,356	(65)	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(308)	(23)	(2,265)	(3,500)	(3,000)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(111)	193	0	0	0
Dividend paid (incl tax)	386	544	544	544	544
Other Financing Cash Flow	(899)	(968)	(1,153)	(1,088)	(1,088)
Financing Cashflow	(513)	(423)	(609)	(544)	(544)
Net chg in cash	(5)	2,468	45	(1,206)	(40)
Opening cash position	374	370	2,838	2,882	1,677
Closing cash position	370	2,838	2,882	1,677	1,637

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	21.9	24.8	26.8	26.6	27.0
EBIT Margin	19.2	21.3	23.2	23.4	24.2
Effective Tax Rate	34.3	31.1	32.5	25.2	22.0
Net Margin	14.8	16.7	18.4	19.2	20.1
ROCE	21.2	20.3	21.1	21.2	27.3
ROE	14.5	14.9	15.1	16.2	21.7
RoIC	34.8	31.4	29.9	28.4	34.0

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	30.2	37.4	45.7	55.5	87.5
CEPS	35.7	44.8	54.4	64.7	99.5
BVPS	216.9	285.4	320.1	364.6	441.2
DPS	7.8	11.0	11.0	11.0	11.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	84.9	68.5	56.0	46.1	29.2
P/CEPS	71.7	57.1	47.0	39.5	25.7
P/BV	11.8	9.0	8.0	7.0	5.8
EV / Sales	12.7	11.7	10.4	8.8	5.8
EV / EBITDA	57.9	47.2	38.8	33.0	21.6
Dividend Yield (%)	0.3	0.4	0.4	0.4	0.4

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.0	(0.2)	(0.2)	(0.1)	(0.1)
Net Debt/EBIDTA	0.0	(0.9)	(0.8)	(0.3)	(0.2)
Working Cap Cycle (days)	46.9	95.5	78.0	74.4	73.3

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	9.1	6.6	12.4	19.8	50.9
EBITDA	1.6	20.7	21.4	18.7	53.1
EBIT	8.9	18.7	22.1	20.9	56.2
PAT	(18.2)	23.8	24.1	21.6	57.6

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue	2,729	2,605	2,766	2,149	3,189
EBITDA	681	655	688	538	907
EBITDA Margin (%)	25.0	25.1	24.9	25.0	28.5
PAT	473	454	2,727	560	679
EPS (Rs)	9.6	9.2	55.1	11.3	13.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoters	31.0	31.0	30.5	30.5	30.5
FIIs	17.1	18.0	19.0	19.4	21.1
DIIs	17.9	17.4	18.6	18.9	20.3
Public and Others	34.0	33.6	31.9	31.2	28.1

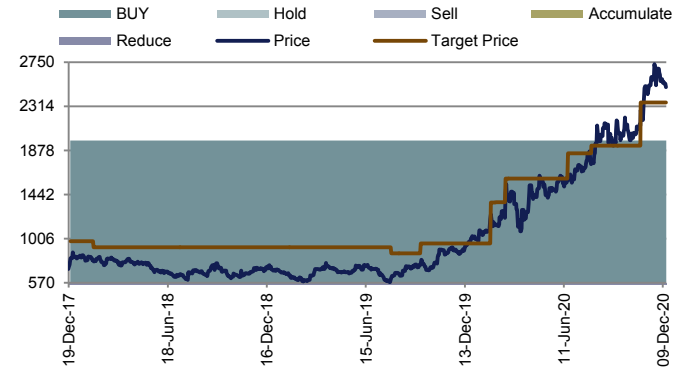
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Oct-20	2,275	2,350	12m	Buy	Rohit Sinha
31-Jul-20	1,761	1,925	12m	Buy	Rohit Sinha
18-Jun-20	1,584	1,850	12m	Buy	Rohit Sinha
16-Apr-20	1,437	1,600	12m	Buy	Rohit Sinha
25-Feb-20	1,454	1,600	12m	Buy	Rohit Sinha
07-Feb-20	1,140	1,365	12m	Buy	Rohit Sinha
29-Jan-20	1,246	1,364	12m	Buy	Rohit Sinha
06-Jan-20	980	958	12m	Buy	Rohit Sinha
13-Dec-19	938	958	12m	Buy	Rohit Sinha
24-Oct-19	826	958	12m	Buy	Rohit Sinha
23-Sep-19	762	958	12m	Buy	Rohit Sinha
31-Jul-19	623	860	12m	Buy	Rohit Sinha
07-May-19	678	922	12m	Buy	Amar Mourya
02-Apr-19	751	922	12m	Buy	Amar Mourya
25-Jan-19	642	922	12m	Buy	Amar Mourya
01-Nov-18	639	922	12m	Buy	Amar Mourya
26-Jul-18	649	922	12m	Buy	Amar Mourya
09-Jul-18	647	922	12m	Buy	Amar Mourya
11-May-18	768	922	12m	Buy	Amar Mourya
02-Feb-18	783	922	12m	Buy	Amar Mourya
22-Dec-17	814	982	12m	Buy	Amar Mourya

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Speciality Chemicals



Analyst: Rohit Sinha

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Sector

Speciality Chemicals

Analyst bio

Rohit Sinha holds a CFA degree and comes with total four years of experience in the Specialty Chemicals sector. He currently covers nine stocks in the Specialty Chemicals space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Speciality Chemicals	0.20	0.20	-1%	0	100.00
Advanced Enzyme Tech	0.00	0.00	NA	0	1.00
ApcoTex Industries	0.00	0.00	NA	0	1.88
BASF India	0.00	0.00	NA	0	0.88
Camlin Fine Sciences	0.00	0.02	NA	2	8.56
GHCL	0.00	0.01	NA	1	4.75
Navin Fluorine	0.00	0.05	NA	5	23.60
Orient Refractories	0.00	0.01	NA	1	3.71
SRF	0.20	0.10	-52%	-10	47.86
Tata Chemicals	0.00	0.01	NA	1	4.02
Vinati Organics	0.00	0.01	NA	1	2.83
Cash	0.00	0.00	NA	0	0.92

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

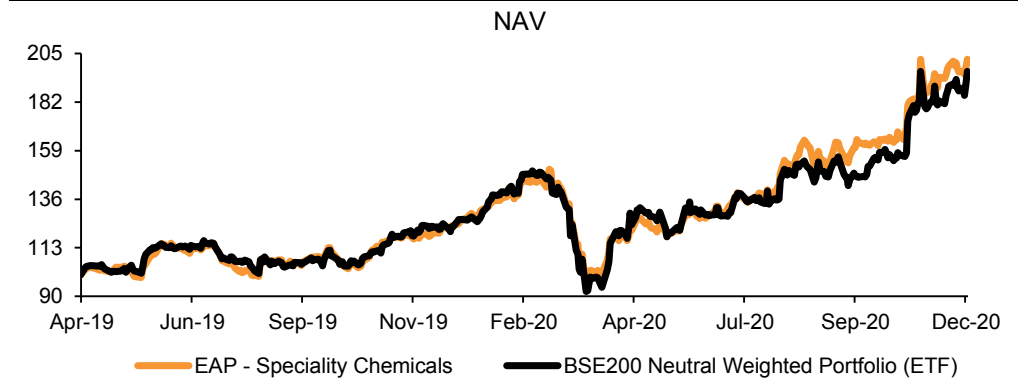
Sector portfolio NAV

	Base					Latest
	1-Apr-19	19-Mar-20	18-Jun-20	17-Sep-20	17-Nov-20	17-Dec-20
EAP - Speciality Chemicals	100.0	103.5	128.6	162.8	186.0	202.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	101.3	128.1	156.2	179.8	196.6

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 18 Dec 2020 15:08:22 (SGT)

Dissemination Date: 18 Dec 2020 15:09:22 (SGT)

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