

Buy

- Navin Fluorine International Ltd (NFIL) reported a healthy consolidated sales growth of 18.7% YoY to Rs 3.09bn (marginal sequential de-growth of 3.1%).
- EBITDA grew by 22.9% YoY to Rs 805mn and PAT growth stood at 29.7% YoY to Rs 589mn.
- NFIL's growth momentum in new-age businesses aided higher profitability, as order enquiries in CRAMS and small de-bottlenecking capex' bear fruits.
- Headwinds in refrigerant gases are yet to relinquish, as realisations and volumes of R-22 gas continue to be under-pressure.
- While Inorganic fluorides business has now seen a couple of client addition – which could improve growth visibility in ensuing quarters.

Outlook and Valuation

NFIL has a clean balance-sheet with cash and equivalents to the tune of Rs 3.5bn and strong FCFF generation beyond FY22E. 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 also remain excited about growth in CRAMS as repeated business remains steady and new molecules being supplied to American and European companies could reach commercial stages bringing in stickiness to the existing lumpy CRAMS BU. We like NFIL's strength and capability in Fluorination, clean balance-sheet and focus on high margin portfolios. We have fine-tuned our estimates and upgrade our rating to Buy. We have a target price of Rs 3,115/share on the basis of SOTP valuation (Exhibit 1) on FY24E EBITDA.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	3,091	2,605	18.7	3,189	(3.1)
Total Expense	2,286	1,950	17.2	2,282	0.2
EBITDA	805	655	22.9	907	(11.3)
Depreciation	110	92	20.0	109	1.3
EBIT	695	563	23.4	799	(13.0)
Other Income	99	116	(14.6)	97	2.7
Interest	4	6	(41.6)	4	(6.6)
EBT	790	673	17.4	891	(11.3)
Tax	226	222	1.9	247	(8.6)
RPAT	589	454	29.7	678	(13.2)
APAT	589	454	29.7	678	(13.2)
			(bps)		(bps)
Gross Margin (%)	53.9	57.3	(342)	55.1	(121)
EBITDA Margin (%)	26.0	25.1	90	28.4	(241)
NPM (%)	19.1	17.4	162	21.3	(221)
Tax Rate (%)	28.6	32.9	(436)	27.7	84
EBIT Margin (%)	22.5	21.6	86	25.0	(257)

CMP	Rs 2,472
Target / Upside	Rs 3,115 / 26%
NIFTY	13,968

Script Details

Equity / FV	Rs 99mn / Rs 2
Market Cap	Rs 122bn
	USD 2bn
52-week High/Low	Rs 2,850/ 977
Avg. Volume (no)	1,43,807
Bloom Code	NFIL IN

Price Performance	1M	3M	12M
Absolute (%)	(3)	16	123
Rel to NIFTY (%)	(4)	(1)	108

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	30.5	30.5	30.5
MF/Banks/FIs	18.9	18.5	15.1
FIIIs	19.4	21.1	24.5
Public / Others	31.2	30.0	29.8

Valuation (x)

	FY22E	FY23E	FY24E
P/E	45.4	30.5	26.8
EV/EBITDA	32.5	22.4	18.8
ROE (%)	15.9	20.5	19.9
RoACE (%)	16.1	20.8	20.1

Estimates (Rs mn)

	FY22E	FY23E	FY24E
Revenue	13,372	19,101	21,633
EBITDA	3,704	5,310	6,204
PAT	2,696	4,010	4,561
EPS (Rs.)	54.5	81.1	92.2

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Great deal of growth visibility

The management recently announced a capex of Rs 1.95bn (1.35-1.5x asset turns, ~Rs 2.8bn peak sales) which will commission in 1HFY23E. The new capacity will initially undertake manufacturing of 5 products with 7 additional products under its pipeline. We can start expecting revenues from the HPP plant from FY23E (~Rs 4.0bn in sales/year). Also, the management mentioned that CRAMS BU has witnessed decent client addition with the optionality of a few molecules going into commercial development for the Pharmaceutical client. Specialty Chemicals is expected to continue its growth momentum with the help of smaller de-bottlenecking capex' which will add more capacities to meet incremental demand.

Exhibit 1: SOTP Valuation

EBITDA (Rs mn)	FY20	FY21E	FY22E	FY23E	FY24E	Target Multiple (EV/EBITDA)	EV
Refrigerants	522	418	397	339	322	10.0	3,222
Inorganic Fluorides	186	147	165	152	159	10.0	1,594
Specialty Chemicals	1,048	1,124	1,326	1,495	1,719	25.0	42,973
CRAMS	865	1,427	1,784	2,230	2,788	25.0	69,690
HPP				1,000	1,000	25.0	25,000
MPP				104	228	25.0	5,688
Total	2,621	3,116	3,672	5,319	6,216		1,48,166
Gross Debt	14	14	14	14	14		14
Cash and Equivalents	3,513	2,853	1,887	3,573	5,947		5,947
Market Cap							1,54,099
No of Shares							49
Target Price (Rs)							3,115

Source: DART, Company

Exhibit 2: Actual Vs DART Estimates (Rs Mn)

Particulars	Actual	Estimated	Variance	Comments
Revenue	3,091	2,920	5.9	Higher than expected growth in Inorganic Fluorides and Specialty Chemical business
EBITDA	805	751	7.2	
EBITDA Margin (%)	26.0	25.7	32 bps	
PAT	589	531	10.9	

Source: DART, Company

Exhibit 3: Change in Estimates

Particulars	FY21E			FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	11,805	11,802	0.0	13,372	13,524	(1.1)	19,101	18,383	3.9
EBITDA	3,113	2,942	5.8	3,704	3,447	7.4	5,310	4,915	8.0
EBITDA Margin (%)	26.4	24.9	144.0	27.7	25.5	220.9	27.8	26.7	106
PAT	2,567	2,129	20.6	2,696	2,435	10.7	4,010	3,476	15.4
EPS (Rs)	51.9	43.0	20.6	54.5	49.2	10.7	81.1	70	15.3

Source: DART, Company

Con Call Highlights

High Value Business

- High value business contributed 65% to revenue in Q3FY21 leading to higher margins on consolidated level of 28%, up by 260bps YoY.

Specialty Chemicals

- Specialty chemicals business grew by 27% YoY to Rs 1.22bn on the back of strong customer partnerships and leveraging its R&D capabilities to capture new opportunities.
- Company has started supplying a small quantity of less than 100MT from Surat for Agro chemical customer.
- Similar growth as Q3FY21 is expected in Specialty chemicals segment in Q4FY21.
- 20-22% growth is expected by the management in Specialty Chemicals segment in FY22.
- Specialty Chemicals currently has 25 molecules under its portfolio with new qualified opportunities identified for additional 15 molecules.

CRAMS

- CRAMS business grew by 52% YoY in Q3FY21 largely driven by sale of newly commercialized molecule.
- Company is close to commercializing another Molecule for a European customer which will only be sold in European market and has already started supply of smaller quantities of 2nd molecule in Q3FY21.
- Company has deployed ~Rs2.15bn in CRAMS segment and expects asset turnover of 2-2.5x at peak utilization.
- Capital employed in CGMP3 is ~Rs 1.15bn, facility will take 2-3 years to reach peak utilization.
- Manchester organics business was impacted due to fresh lockdown announced in UK.
- R&D business in Manchester Organics was pushed back by 4-5 months due to Covid.
- The plant in UK has been operating with Minimum staff and the company plans on upgrading and expanding operations at UK plant and also has plans on setting up a pilot plant.
- Consultants appointed in North America and Europe to expand CRAMS business.
- Management's target is to achieve steady revenue of USD 10mn going forward.

Legacy Business

- Legacy business revenues in Q3FY21 fell by ~4% to Rs 1.04bn due to continued weak demand from the end user industries.

Refrigerant Gases

- Refrigerant gases revenue in Q3FY21 were down by ~18% to Rs 470mn due to lower demand from domestic market and increasing competition in Emissive segment in international market.
- Trade and services sectors have started showing signs of revival and export volumes have begun to gain traction during the quarter.
- Ref gases realizations have suffered with global pricing of R22 under pressure.
- Non emissive category contributes ~20% to the total volumes sold in Ref gas business which is expected to increase going forward.
- Refrigerant gases revenue is expected to grow in low teens next year driven by growth in non-emissive category and export growth in the emissive gases.

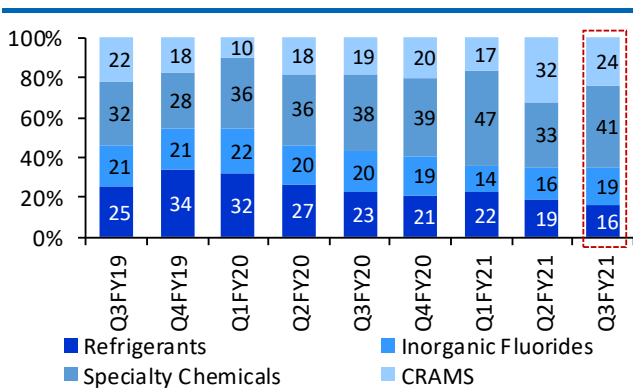
Inorganic Fluorides

- Inorganic Fluorides grew by 10% YoY in Q3FY21 supported by recovery in Stainless Steel and Glass sectors and addition of 2 new customers (one in India and another one is US) during Q3FY21.
- Similar revenue growth as Q3FY21 is expected in Q4FY21.

Capex

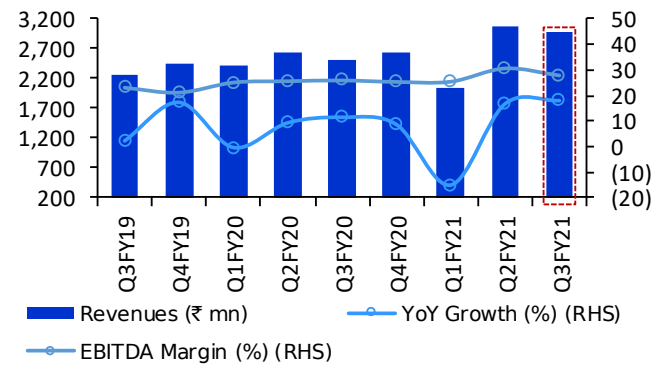
- Company will do a capex of Rs 1.95bn to help commercialize new products in life science and crop science sectors in Specialty chemicals business.
- Capacity is expected to be operational by H1FY23.
- At peak utilization, the said capex is expected to reap revenues of between Rs 2.6-2.8bn.

Exhibit 4: Quarterly Revenue Mix (%)



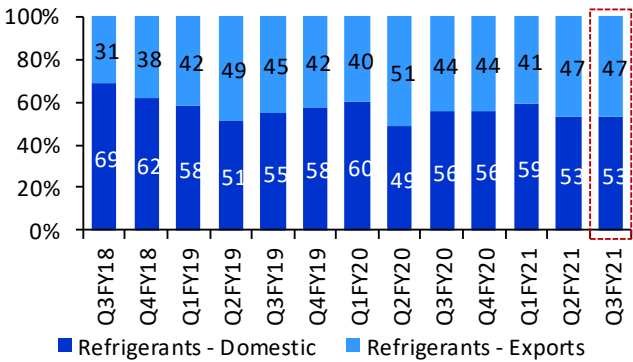
Source: DART, Company

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



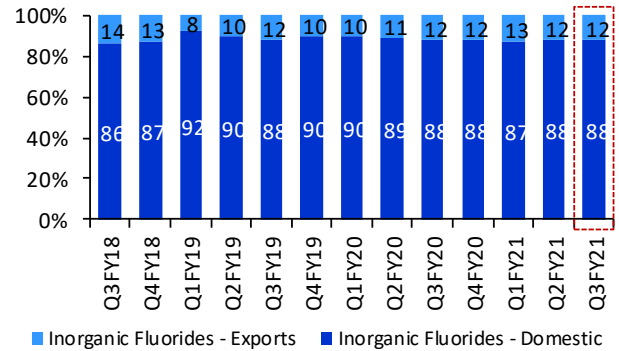
Source: DART, Company

Exhibit 6: Refrigerant Gases – Domestic vs Exports



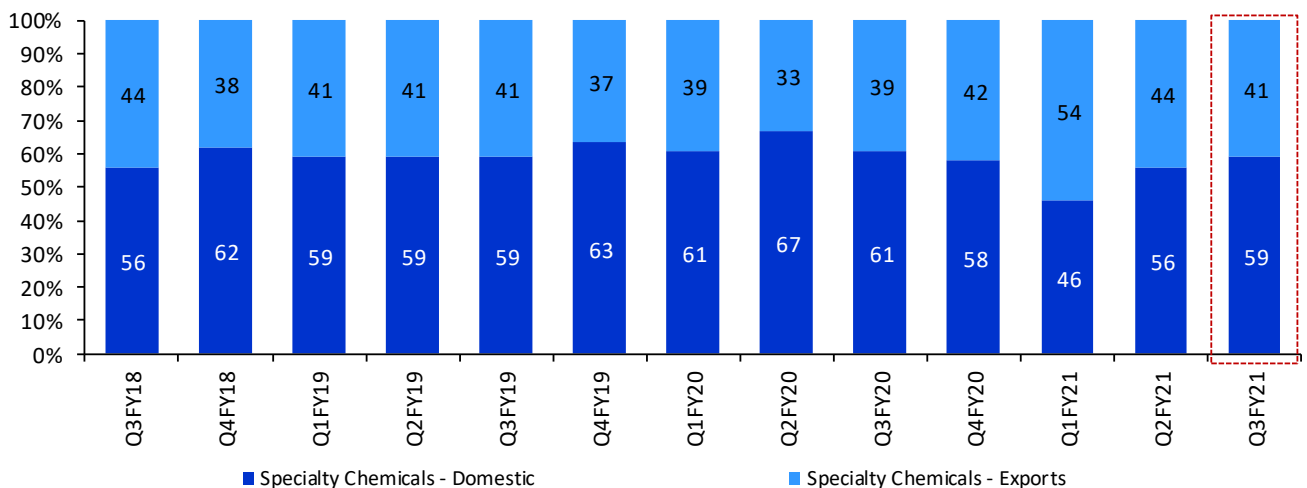
Source: DART, Company

Exhibit 7: Inorganic Fluorides – Domestic vs Exports



Source: DART, Company

Exhibit 8: Specialty Chemicals – Domestic vs Exports



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY21E	FY22E	FY23E	FY24E
Revenue	11,805	13,372	19,101	21,633
Total Expense	8,692	9,668	13,791	15,429
COGS	5,156	5,753	8,567	9,677
Employees Cost	1,410	1,556	1,878	2,087
Other expenses	2,125	2,359	3,345	3,665
EBIDTA	3,113	3,704	5,310	6,204
Depreciation	425	501	655	746
EBIT	2,688	3,203	4,655	5,458
Interest	5	11	13	15
Other Income	654	411	416	420
Exc. / E.O. items	0	0	0	0
EBT	3,337	3,603	5,058	5,863
Tax	840	907	1,048	1,301
RPAT	2,567	2,696	4,010	4,561
Minority Interest	0	0	0	0
Profit/Loss share of associates	70	0	0	0
APAT	2,567	2,696	4,010	4,561

Balance Sheet

(Rs Mn)	FY21E	FY22E	FY23E	FY24E
Sources of Funds				
Equity Capital	99	99	99	99
Minority Interest	0	0	0	0
Reserves & Surplus	15,887	17,822	21,012	24,695
Net Worth	15,986	17,921	21,111	24,794
Total Debt	14	14	14	14
Net Deferred Tax Liability	(151)	(151)	(151)	(151)
Total Capital Employed	15,849	17,783	20,974	24,656

Applications of Funds

Net Block	7,174	9,676	10,523	11,280
CWIP	100	100	100	100
Investments	1,829	1,829	1,829	1,829
Current Assets, Loans & Advances	8,731	8,292	11,106	14,240
Inventories	1,617	1,832	2,617	2,963
Receivables	2,358	2,671	3,014	3,427
Cash and Bank Balances	2,178	1,212	2,898	5,272
Loans and Advances	120	120	120	120
Other Current Assets	1,783	1,783	1,783	1,783
Less: Current Liabilities & Provisions	1,985	2,114	2,585	2,793
Payables	970	1,099	1,570	1,778
Other Current Liabilities	1,015	1,015	1,015	1,015
	<i>sub total</i>			
Net Current Assets	6,745	6,178	8,522	11,448
Total Assets	15,849	17,783	20,974	24,656

E – Estimates

Important Ratios

Particulars	FY21E	FY22E	FY23E	FY24E
(A) Margins (%)				
Gross Profit Margin	56.3	57.0	55.1	55.3
EBIDTA Margin	26.4	27.7	27.8	28.7
EBIT Margin	22.8	24.0	24.4	25.2
Tax rate	25.2	25.2	20.7	22.2
Net Profit Margin	21.7	20.2	21.0	21.1
(B) As Percentage of Net Sales (%)				
COGS	43.7	43.0	44.9	44.7
Employee	11.9	11.6	9.8	9.6
Other	18.0	17.6	17.5	16.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	533.6	290.1	358.1	363.9
Inventory days	50	50	50	50
Debtors days	73	73	58	58
Average Cost of Debt	35.9	78.7	92.7	107.0
Payable days	30	30	30	30
Working Capital days	209	169	163	193
FA T/O	1.6	1.4	1.8	1.9
(D) Measures of Investment				
AEPS (Rs)	51.9	54.5	81.1	92.2
CEPS (Rs)	60.5	64.6	94.3	107.3
DPS (Rs)	12.0	13.0	14.0	15.0
Dividend Payout (%)	23.1	23.9	17.3	16.3
BVPS (Rs)	323.1	362.2	426.7	501.1
RoANW (%)	17.1	15.9	20.5	19.9
RoACE (%)	16.8	16.1	20.8	20.1
RoAIC (%)	21.7	21.2	26.9	29.1
(E) Valuation Ratios				
CMP (Rs)	2472	2472	2472	2472
P/E	47.6	45.4	30.5	26.8
Mcap (Rs Mn)	1,22,282	1,22,282	1,22,282	1,22,282
MCap/ Sales	10.4	9.1	6.4	5.7
EV	1,19,443	1,20,409	1,18,723	1,16,349
EV/Sales	10.1	9.0	6.2	5.4
EV/EBITDA	38.4	32.5	22.4	18.8
P/BV	7.6	6.8	5.8	4.9
Dividend Yield (%)	0.5	0.5	0.6	0.6
(F) Growth Rate (%)				
Revenue	11.2	13.3	42.8	13.3
EBITDA	18.1	19.0	43.4	16.8
EBIT	18.7	19.2	45.3	17.2
PBT	29.4	8.0	40.4	15.9
APAT	(34.8)	5.0	48.7	13.7
EPS	(34.8)	5.0	48.7	13.7

Cash Flow

(Rs Mn)	FY21E	FY22E	FY23E	FY24E
CFO	2,622	2,809	4,022	4,770
CFI	(2,574)	(3,002)	(1,502)	(1,502)
CFF	(708)	(773)	(833)	(894)
FCFF	48	(193)	2,519	3,267
Opening Cash	3,513	2,853	1,887	3,573
Closing Cash	2,853	1,887	3,573	5,947

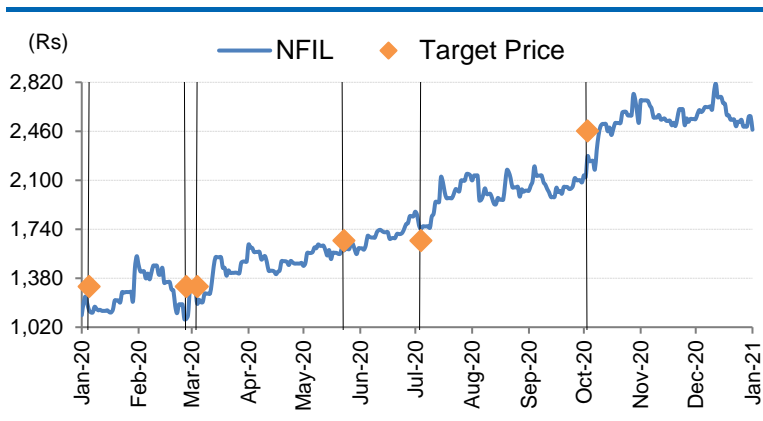
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Jul-20	Accumulate	1,657	1,741
Oct-20	Accumulate	2,463	2,275

*Price as on recommendation date

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