

## Non legacy business to lead the show...

Navin Fluorine reported topline growth of 19% YoY to ₹ 309 crore against our estimate of ₹ 305 crore. The growth was largely led by the CRAMS, speciality chemical segments, which were up 51% YoY, 26% YoY to ₹ 71 crore, ₹ 122 crore, respectively. Revenue from inorganic fluoride remained higher by 12% YoY to ₹ 57 crore while the same from refrigerant was down 18% YoY to ₹ 47 crore. Despite the value added segments, revenue remained higher compared to legacy business. Gross margins for the quarter fell 342 bps YoY to 53.9%, leading to lower than expected EBITDA for the quarter. EBITDA grew 23% YoY to ₹ 80.5 crore vs. our expectation of ₹ 90.5 crore. OPM for the quarter remained at 26% (up 90 bps YoY). PAT was up 30% YoY to ₹ 58.9 crore against our estimate of ₹ 66.8 crore.

## Upcoming capex for speciality chemical to aid value added segment share

The management highlighted a capex of ₹ 195 crore for the speciality chemical segment recently, which will be largely focused on agrochemical molecules in the initial stage. The asset turn of the business was envisaged at 1.35-1.45x. However, we expect the same to expand to ~2x-2.25x given 40% of the plant would remain vacant post capex and the same space would get utilised for any incremental capacity expansion. This should aid overall asset turn on our expected lines in the medium to long run. Higher revenues from speciality chemical post FY23 along with CRAMS and HPP should aid value added segment revenue share and thereby gross margins and OPM.

## FCF generation likely to be robust, going ahead

With control on working capital along with focus towards improving share of value added segments to overall revenue, we expect FCF to improve to a certain extent over the coming years. This should assist upcoming capex from internal accruals. Since this capex is for value added segments, we anticipate prudent capital allocation would aid return ratios further.

## Valuation & Outlook

We have curtailed our OPM estimates largely on account of lower than anticipated gross margins. We value the company at 37x PER of FY23E (1.3x PEG). We arrive at a target price of ₹ 2820 (vs. ₹ 3040 earlier). We have a **HOLD** recommendation on the stock.

### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Revenue	912.7	995.9	1,061.6	1,152.2	1,353.6	1,825.3	19.8
EBITDA	215.0	218.4	263.5	305.3	372.2	547.6	27.6
EBITDA Margins (%)	23.6%	21.9%	24.8%	26.5%	27.5%	30.0%	
Adj. PAT	179.8	149.1	179.1	228.4	249.1	377.4	28.2
Adj. EPS (₹)	36.4	30.1	36.2	46.1	50.3	76.2	
EV/EBITDA	55.9x	55.2x	45.3x	39.0x	32.4x	21.8x	
P/E	68.1x	82.3x	68.5x	45.1x	49.3x	32.5x	
ROE (%)	18.3	13.9	12.7	13.9	13.6	17.6	
ROCE (%)	25.6	19.9	17.9	19.5	17.8	23.1	

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market cap (₹ Crore)	12,276
FY20 Total Debt (₹ Crore)	1
FY20 Cash & Inv (₹ Crore)	351
EV (₹ Crore)	11,926
52 Week H/L	2848/980
Equity Capital (₹ Crore)	9.9
Face Value (₹)	2

### Key Highlights

- Upcoming capex for speciality chemical to aid value added segment share
- FCF generation likely to be robust, going ahead
- Revise our rating from BUY to HOLD on stock with target price of ₹ 2820

### Key Risks

- Cancellation of any order/slowdown in order booking remains key risk to group performance
- Better than expected margins can pose upside risk to our estimates

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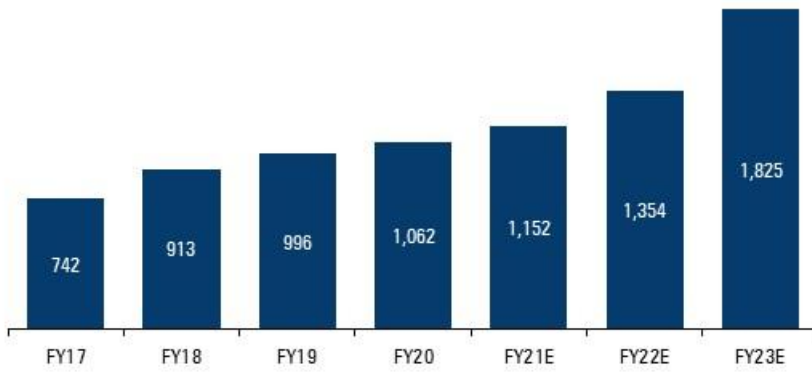
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## Conference Call Highlights

- Speciality chemical: Debottlenecking of present capacity can lead to high teens topline growth for the segment in FY22. Post that, new capacity at Dahej would augur well for topline growth. However, small debottlenecking would likely continue ahead as well
- Inorganic fluoride – Expecting this business to register growth of around 10% this fiscal while the same can be at low teens in the next fiscal. Sectors like stainless steel and glass are showing signs of recovery. It is focusing more on acquiring new customers
- CRAMS: One molecule has been driving robust growth for this segment currently. We are expecting another molecule to ramp up in the next fiscal. Both these molecules can enhance growth for this segment in FY22E
- Ref gas: Trade and service sectors have been slowly reviving. Export volumes have shown good traction during the quarter. Working on understanding the prospects of the next generation of ref gases
- Capacity expansion: CRAMS expansion can take nine to 12 months while the same for specialty chemical brownfield expansion takes nine to 12 months and greenfield of around 15-18 months. Capex announced is progressing in the prescribed time frame and would likely get commissioned as per budget
- CCPL transaction is likely to be complete by the end of FY21. The company would receive ₹ 65.1 crore for 49% stake in CCPL along with ₹ 7.9 crore for leasehold rights of the GIDC land earmarked for CCPL

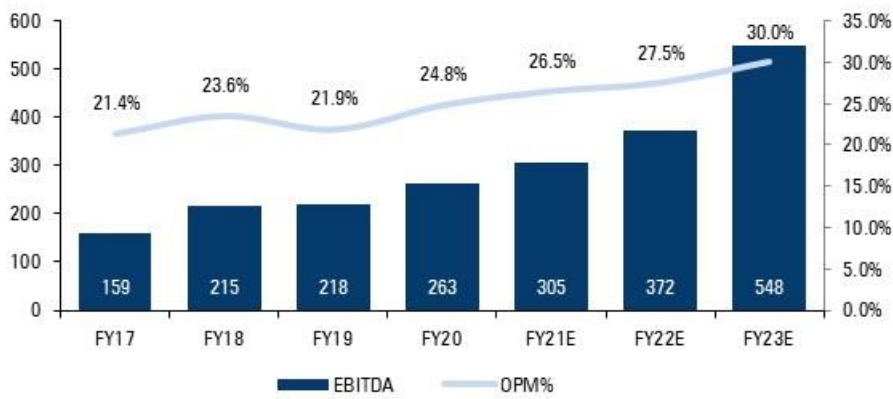
## Financial story in charts

Exhibit 1: Revenue trend (₹ crore)



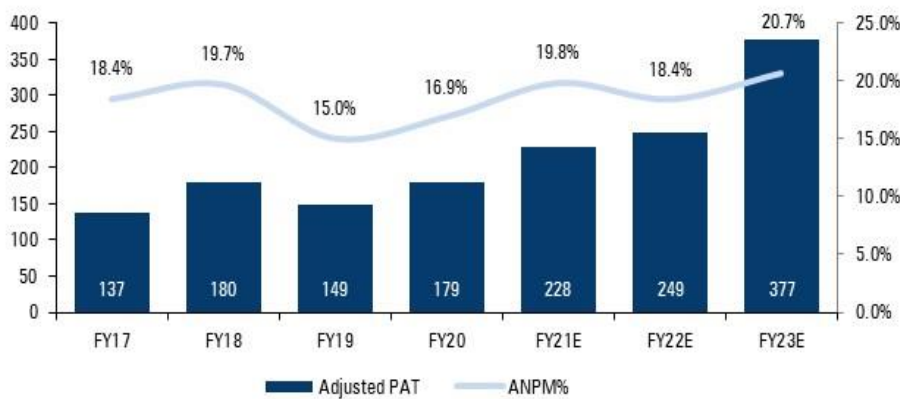
Source: Company, ICICI Direct Research

Exhibit 2: OPM likely to improve due to high value added segment revenue share



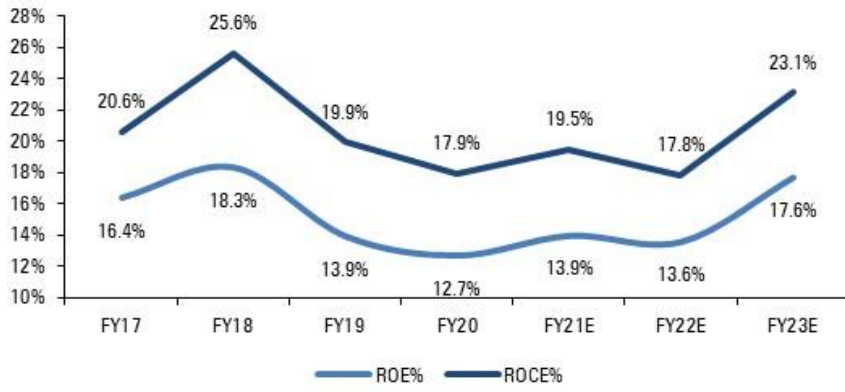
Source: Company, ICICI Direct Research

Exhibit 3: PAT trend



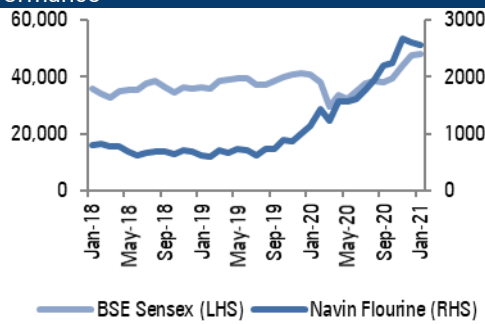
Source: Company, ICICI Direct Research

Exhibit 4: RoNW & RoCE trend (%)



Source: Company, ICICI Direct Research

Exhibit 5: Price performance



Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 6: Profit and loss statement ₹ crore

Year end March	FY19	FY20	FY21E	FY22E	FY23E
<b>Total Operating Income</b>	<b>995.9</b>	<b>1,061.6</b>	<b>1,152.2</b>	<b>1,353.6</b>	<b>1,825.3</b>
Growth (%)	9.1	6.6	8.5	17.5	34.8
Raw Material Expenses	476.6	483.8	518.5	595.6	794.0
Employee Cost	115.5	130.8	140.6	162.4	200.8
Other Expenses	185.5	183.5	187.8	223.3	282.9
Total Operating Expenditure	777.6	798.1	846.9	981.4	1,277.7
<b>EBITDA</b>	<b>218.4</b>	<b>263.5</b>	<b>305.3</b>	<b>372.2</b>	<b>547.6</b>
Growth (%)	1.6	20.7	15.9	21.9	47.1
Other Income	34.4	33.3	65.7	49.7	59.1
Depreciation	27.5	37.0	43.7	85.4	96.7
Net Interest Exp.	0.8	2.0	1.4	0.0	0.0
Other exceptional items	0.0	0.0	32.5	0.0	0.0
PBT	224.4	257.8	358.4	336.6	510.0
Total Tax	77.0	-143.6	93.9	87.5	132.6
<b>PAT</b>	<b>147.4</b>	<b>401.4</b>	<b>264.5</b>	<b>249.1</b>	<b>377.4</b>
Adjusted PAT	149.1	179.1	228.4	249.1	377.4
Growth (%)	-17.1	20.1	27.5	9.1	51.5
Adjusted EPS (₹)	30.1	36.2	46.1	50.3	76.2

Source: Company, ICICI Direct Research

### Exhibit 7: Cash flow statement ₹ crore

Year end March	FY19	FY20	FY21E	FY22E	FY23E
PBT & Extraordinary	224.4	257.8	358.4	336.6	510.0
Add: Depreciation	27.5	37.0	43.7	85.4	96.7
After other adjustments (Inc) / Dec in Working Capital	-61.5	-70.6	-27.5	-80.3	-163.6
Taxes	-71.9	-46.2	-93.9	-87.5	-132.6
Others	-28.4	-21.3	-31.1	0.0	0.0
<b>CF from operating activities</b>	<b>90.2</b>	<b>156.7</b>	<b>249.6</b>	<b>254.1</b>	<b>310.6</b>
Purchase of Fixed Assets	-61.6	-107.7	-250.0	-350.0	-150.0
Others	37.3	192.9	72.9	0.0	0.0
<b>CF from investing activities</b>	<b>-24.3</b>	<b>85.1</b>	<b>-177.1</b>	<b>-350.0</b>	<b>-150.0</b>
Issue/(Buy back) of Equity	2.1	1.2	0.0	0.0	0.0
Inc/(dec) in loan funds	-8.5	-8.7	-1.4	0.0	0.0
Dividend paid & dividend tax	-61.1	-71.4	-45.7	-49.8	-75.5
Others	-0.8	-2.0	-1.4	0.0	0.0
<b>CF from financing activities</b>	<b>-68.4</b>	<b>-80.9</b>	<b>-48.5</b>	<b>-49.8</b>	<b>-75.5</b>
Net cash flow	-2.5	160.9	24.0	-145.7	85.1
Opening cash	37.4	37.0	283.8	307.8	162.1
<b>Closing cash</b>	<b>37.0</b>	<b>283.8</b>	<b>307.8</b>	<b>162.1</b>	<b>247.2</b>

\*calculated, Source: Company, ICICI Direct Research

### Exhibit 8: Balance sheet ₹ crore

Year end March	FY19	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>					
Equity Capital	9.9	9.9	9.9	9.9	9.9
Reserves & Surplus	1,062.6	1,402.3	1,629.0	1,828.3	2,130.2
<b>Total Shareholders Funds</b>	<b>1,072.5</b>	<b>1,412.2</b>	<b>1,638.9</b>	<b>1,838.2</b>	<b>2,140.1</b>
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	34.8	0.0	0.0	0.0	0.0
Other long term liabilities	14.5	28.9	31.3	36.8	49.6
Long term provisions	8.6	10.3	11.2	13.1	17.7
<b>Current Liabilities and Provisions</b>					
Short term borrowings	4.1	1.4	0.0	0.0	0.0
Trade Payables	71.3	98.1	110.5	129.8	175.0
Other Current Liabilities	99.0	74.9	81.3	95.5	128.7
Short Term Provisions	2.4	2.8	3.1	3.6	4.9
Total Current Liabilities	176.9	177.2	194.8	228.9	308.6
<b>Total Liabilities</b>	<b>1,307.2</b>	<b>1,628.5</b>	<b>1,876.3</b>	<b>2,117.0</b>	<b>2,516.0</b>
<b>Assets</b>					
Net Block	286.3	386.0	431.1	895.7	949.0
Capital Work in Progress	39.3	38.9	200.0	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	239.1	127.9	95.4	95.4	95.4
Deferred tax assets	0.0	15.1	15.1	15.1	15.1
Long term loans and advances	7.5	9.9	10.7	12.6	17.0
Other Non Current Assets	86.5	179.5	190.1	213.8	269.1
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	188.4	67.5	67.5	67.5	67.5
Inventories	111.9	157.9	173.6	211.4	290.0
Sundry Debtors	172.7	218.5	236.8	285.6	385.1
Cash and Bank	37.0	283.8	307.8	162.1	247.2
Loans and Advances	4.8	4.5	4.5	4.5	4.5
Other Current assets	46.0	51.4	55.8	65.6	88.4
Current Assets	560.8	783.6	846.0	796.7	1,082.8
<b>Total Assets</b>	<b>1,307.2</b>	<b>1,628.5</b>	<b>1,876.3</b>	<b>2,117.0</b>	<b>2,516.1</b>

Source: Company, ICICI Direct Research

### Exhibit 9: Key ratios

Year end March	FY19	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>					
Adj. EPS	30.1	36.2	55.0	50.3	76.2
Adj. Cash EPS	35.7	43.7	63.9	67.6	95.8
BV	216.9	285.3	331.1	371.4	432.3
DPS	0.0	7.0	9.2	10.1	15.2
<b>Operating Ratios (%)</b>					
Gross Margin (%)	52.1	54.4	55.0	56.0	56.5
EBITDA Margin (%)	21.9	24.8	26.5	27.5	30.0
PAT Margin (%)	15.0	16.9	19.8	18.4	20.7
Debtor Days	63	75	75	77	77
Inventory Days	41	54	55	57	58
Creditor Days	26	34	35	35	35
Cash Conversion Cycle	78	96	95	99	100
<b>Return Ratios (%)</b>					
Return on Assets (%)	11.4	11.0	12.2	11.8	15.0
RoCE (%)	19.9	17.9	19.5	17.8	23.1
RoE (%)	13.9	12.7	13.9	13.6	17.6
<b>Solvency</b>					
Total Debt / Equity	0.0	0.0	0.0	0.0	0.0
Interest Coverage	271.4	129.9	NM	NM	NM
Current Ratio	3.2	4.4	4.3	3.5	3.5
Quick Ratio	2.5	3.5	3.5	2.6	2.6
<b>Valuation Ratios (x)</b>					
EV/EBITDA	55.2	45.3	39.0	32.4	21.8
P/E	82.3	68.5	45.1	49.3	32.5
P/B	11.4	8.7	7.5	6.7	5.7
EV/Sales	12.1	11.2	10.3	8.9	6.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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