

## Non legacy business to lead show...

**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

**Q3FY22 Results:** Numbers were above our estimates across all parameters, led by strong growth from speciality chemical, inorganic fluoride and refrigerants.

- Reported revenue growth was 23% YoY to ₹ 379 crore, led by speciality chemical (up 25% YoY), inorganic fluoride (up 46% YoY) and refrigerants (up 53% YoY)
- Gross margins were up 170 bps YoY to 55.6% while EBITDA margin was up 40 bps YoY to 26%, due to higher operating cost such as employee (up 30% YoY) and other cost (up 28% YoY)
- EBITDA was up 24% YoY to ₹ 98.6 crore
- PAT increased 17% YoY to ₹ 68.8 crore

**What should investors do?** The stock appreciated at 85% 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 ₹ 4520/share (earlier ₹ 3710/share).

### Key triggers for future price performance:

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



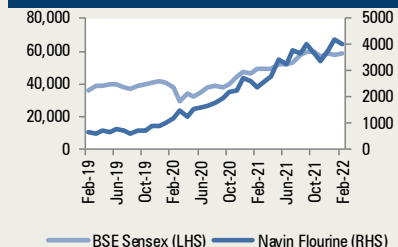
### Particulars

Particular	Amount
Market cap (₹ Crore)	20,939
FY21 Total Debt (₹ Crore)	3
FY21 Cash & Inv (₹ Crore)	628
EV (₹ Crore)	20,313
52 Week H/L	4339/2338
Equity Capital (₹ Crore)	9.9
Face Value (₹)	2

### Shareholding pattern

in %	Mar-21	Jun-21	Sept-21	Dec-21
Promoter	30.2	30.2	30.2	30.2
FII	25.1	26.7	26.4	25.3
DII	15.8	15.2	15.2	16.0
Others	28.9	28.0	28.2	28.6

### Price Chart



### Recent event & key risks

- Adding new customers in the CRAMS portfolio
- 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	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Revenue	995.9	1,061.6	1,179.4	11.7%	1,438.0	1,920.0	2,428.6	27.2%
EBITDA	218.4	263.5	309.3	21.4%	371.0	556.8	728.6	33.1%
EBITDA Margins (%)	21.9%	24.8%	26.2%		25.8%	29.0%	30.0%	
Adj. PAT	149.1	179.1	222.9	21.7%	265.3	379.9	497.2	30.7%
Adj. EPS (₹)	30.1	36.2	45.0		53.6	76.8	100.5	
EV/EBITDA	94.8x	78.1x	65.7x		55.7x	37.1x	28.0x	
P/E	140.3x	116.9x	93.9x		78.9x	55.1x	42.1x	
ROE (%)	13.9	12.7	13.6		14.4	17.7	19.5	
ROCE (%)	20.9	18.4	21.0		19.2	23.6	26.0	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlight

### Q3FY22 Results: Decent growth from speciality chemical continues but legacy business records strong growth

- **High value business:** Revenues were up 9.8% YoY to ₹ 212 crore, led by speciality chemical segment, which was up 25% YoY to ₹ 152 crore. Growth from CRAMS remained subdued owing to a delay in shipment, which is likely to be recognised in the coming quarter. The revenue from CRAMS was down 15% YoY to ₹ 60 crore
- **Legacy business:** Revenue increased 49% YoY to ₹ 155 crore, driven by 46% YoY growth in the inorganic fluoride business to ₹ 83 crore while refrigerant business was up 53% YoY to ₹ 72 crore

### Q3FY22 Earnings Conference Call highlights

#### CRAMS:

- There had been sales deferral in Q3 leading to poor growth in the segment. It is confident of achieving US\$40 million worth of overall revenue this fiscal
- Debottlenecking would be completed by November/December 2022 while the plant would be available from January 2023. This would assist overall revenue visibility of US\$65-70 million for the segment
- Post design layout being ready, it may announce capex towards cGMP4, which can take 12-15 months of commissioning post capex approval
- The company is focusing on expanding its project pipeline and further diversifying its customer base

#### Speciality Chemical:

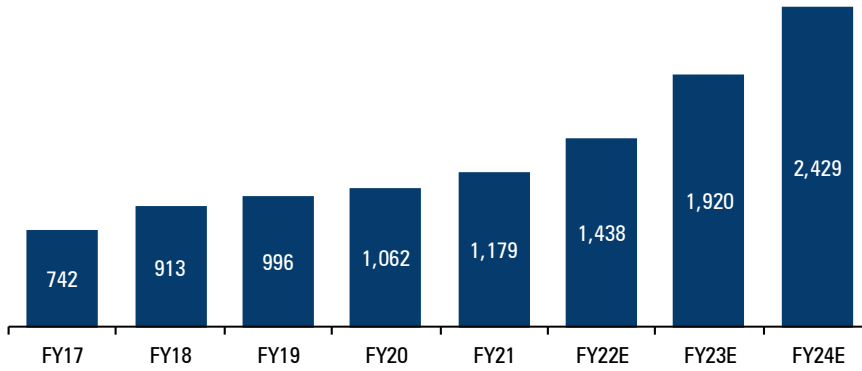
- Growth for the quarter was led by decent demand from the international business along with price hike for some molecules to negate the impact of input inflation
- Growth is largely led by the agrochemical and other segments excluding pharma. Large part of growth is driven by agrochemical. The management sounds assured on agrochemicals to sustain growth momentum for the segment. The pharma business remained subdued due to poor sales from ARV segment. It plans to defocus domestic pharma due to relentless headwinds allied to demand environment
- The company was able to pass on cost inflation for around 50% of its contracts. Some contracts are due for renewal in the beginning of this calendar year. Hence, these will be revised with inflated prices

#### Other updates:

- The HPP plant is likely to get commissioned in Q1FY23E while MPP capacity at Dahej may come on board by H1FY23E
- There was an increase in refrigerant gas prices, which led growth for the segment
- Consultancy charges remained at ₹ 7 crore for YTD'22

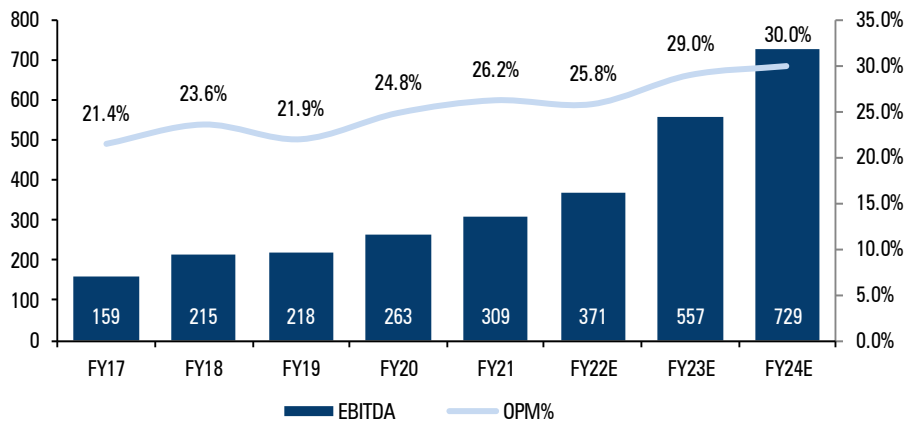
Financial story in charts....

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



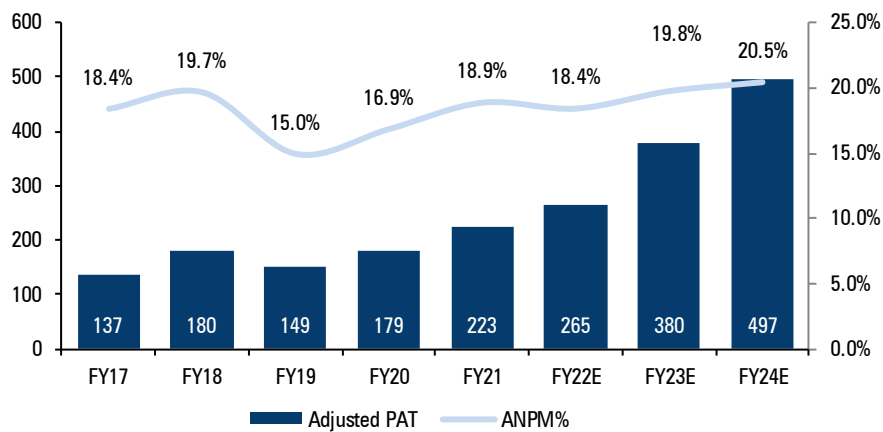
Source: Company, ICICI Direct Research

**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	FY22E	FY23E	FY24E
<b>Total Operating Income</b>	<b>1,061.6</b>	<b>1,179.4</b>	<b>1,438.0</b>	<b>1,920.0</b>	<b>2,428.6</b>
Growth (%)	6.6	11.1	21.9	33.5	26.5
Raw Material Expenses	483.8	537.4	642.8	844.8	1,044.3
Employee Cost	130.8	141.7	184.1	220.8	279.3
Other Expenses	183.5	191.0	240.1	297.6	376.4
Total Operating Expenditure	798.1	870.1	1,067.0	1,363.2	1,700.0
<b>EBITDA</b>	<b>263.5</b>	<b>309.3</b>	<b>371.0</b>	<b>556.8</b>	<b>728.6</b>
Growth (%)	20.7	17.4	20.0	50.1	30.9
Other Income	33.3	79.0	34.7	41.1	49.2
Depreciation	37.0	44.2	50.4	91.4	114.8
Net Interest Exp.	2.0	1.8	1.6	0.0	0.0
Other exceptional items	0.0	15.5	0.0	0.0	0.0
PBT	257.8	357.8	353.7	506.5	663.0
Total Tax	-143.6	110.8	88.4	126.6	165.7
<b>PAT</b>	<b>401.4</b>	<b>247.1</b>	<b>265.3</b>	<b>379.9</b>	<b>497.2</b>
Adjusted PAT	179.1	222.9	265.3	379.9	497.2
Growth (%)	20.1	24.5	19.0	43.2	30.9
Adjusted EPS (₹)	36.2	45.0	53.6	76.8	100.5

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
PBT & Extraordinary	257.8	357.8	353.7	506.5	663.0
Add: Depreciation	37.0	44.2	50.4	91.4	114.8
After other adjustments					
(Inc) / Dec in Working Capital	-70.6	-125.5	-68.8	-128.2	-151.9
Taxes	-46.2	17.3	-88.4	-126.6	-165.7
Others	-21.3	-56.6	1.6	0.0	0.0
<b>CF from operating activities</b>	<b>156.7</b>	<b>237.3</b>	<b>248.5</b>	<b>343.1</b>	<b>460.1</b>
Purchase of Fixed Assets	-107.7	-98.7	-550.0	-240.0	-100.0
Others	192.9	-138.4	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>85.1</b>	<b>-237.1</b>	<b>-550.0</b>	<b>-240.0</b>	<b>-100.0</b>
Issue/(Buy back) of Equity	1.2	1.4	0.0	0.0	0.0
Inc/(dec) in loan funds	-8.7	1.1	-2.5	0.0	0.0
Dividend paid & dividend tax	-71.4	-39.4	-53.1	-76.0	-99.4
Others	-2.0	-8.2	-1.6	0.0	0.0
<b>CF from financing activities</b>	<b>-80.9</b>	<b>-45.1</b>	<b>-57.1</b>	<b>-76.0</b>	<b>-99.5</b>
Net cash flow	160.9	-44.9	-358.7	27.1	260.6
Opening cash	37.0	283.8	543.9	185.2	212.3
<b>Closing cash</b>	<b>283.8</b>	<b>543.9</b>	<b>185.2</b>	<b>212.3</b>	<b>472.9</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22E	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	1,836.2	2,140.1	2,537.9
<b>Total Shareholders Funds</b>	<b>1,412.2</b>	<b>1,633.9</b>	<b>1,846.1</b>	<b>2,150.0</b>	<b>2,547.8</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	0.0	20.7	20.7	20.7	20.7
Other long term liabilities	28.9	29.1	35.4	47.3	59.9
Long term provisions	10.3	11.8	14.4	19.2	24.3
<b>Current Liabilities and Provisions</b>					
Short term borrowings	1.4	2.5	0.0	0.0	0.0
Trade Payables	98.1	107.4	137.9	184.1	232.9
Other Current Liabilities	74.9	89.0	108.5	144.8	183.2
Short Term Provisions	2.8	3.1	3.8	5.0	6.4
Total Current Liabilities	177.2	202.0	250.1	334.0	422.4
<b>Total Liabilities</b>	<b>1,628.5</b>	<b>1,897.5</b>	<b>2,166.8</b>	<b>2,571.3</b>	<b>3,075.2</b>
<b>Assets</b>					
Net Block	386.0	398.5	852.9	1,016.6	1,126.8
Capital Work in Progress	38.9	94.9	140.0	125.0	0.0
Intangible assets under devel.	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	14.5	14.5	14.5
Deferred tax assets	15.1	0.0	0.0	0.0	0.0
Long term loans and advances	9.9	4.3	5.2	7.0	8.8
Other Non Current Assets	179.5	102.8	113.6	133.6	154.7
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	67.5	84.5	84.5	84.5	84.5
Inventories	157.9	180.4	224.6	305.1	385.9
Sundry Debtors	218.5	284.1	334.9	420.8	532.3
Cash and Bank	283.8	543.9	185.2	212.3	472.9
Loans and Advances	4.5	2.7	2.7	2.7	2.7
Other Current assets	51.4	99.2	121.0	161.5	204.3
Current Assets	783.6	1,194.7	952.8	1,186.9	1,682.6
<b>Total Assets</b>	<b>1,628.5</b>	<b>1,897.5</b>	<b>2,166.8</b>	<b>2,571.3</b>	<b>3,075.2</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>					
Adj. EPS	36.2	45.0	53.6	76.8	100.5
Adj. Cash EPS	43.7	54.0	63.8	95.2	123.6
BV	285.3	330.1	373.0	434.4	514.8
DPS	7.0	0.0	10.7	15.4	20.1
<b>Operating Ratios (%)</b>					
Gross Margin (%)	54.4	54.4	55.3	56.0	57.0
EBITDA Margin (%)	24.8	26.2	25.8	29.0	30.0
PAT Margin (%)	16.9	18.9	18.4	19.8	20.5
Debtor Days	75	88	85	80	80
Inventory Days	54	56	57	58	58
Creditor Days	34	33	35	35	35
Cash Conversion Cycle	96	110	107	103	103
<b>Return Ratios (%)</b>					
Return on Assets (%)	11.0	11.7	12.2	14.8	16.2
RoCE (%)	18.4	21.0	19.2	23.6	26.0
RoE (%)	12.7	13.6	14.4	17.7	19.5
<b>Solvency</b>					
Total Debt / Equity	0.0	0.0	0.0	0.0	0.0
Interest Coverage	129.9	NM	NM	NM	NM
Current Ratio	4.4	5.9	3.8	3.6	4.0
Quick Ratio	3.5	5.0	2.9	2.6	3.1
<b>Valuation Ratios (x)</b>					
EV/EBITDA	78.1	65.7	55.7	37.1	28.0
P/E	116.9	93.9	78.9	55.1	42.1
P/B	14.8	12.8	11.3	9.7	8.2
EV/Sales	19.4	17.2	14.4	10.8	8.4

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
PI Industries	2428	3,340	Buy	36,836	48.6	53.8	66.8	56.4	50.9	41.0	39.1	34.5	28.6	17.2	17.2	18.3	13.8	13.4	14.5
Aarti Industries	982	1,120	Buy	35,591	14.5	18.8	32.0	66.5	51.3	30.1	38.3	29.0	19.2	10.7	11.0	16.1	15.0	12.8	18.3
Tata Chemical	919	1,035	Buy	23,419	10.1	39.9	49.3	88.5	22.3	18.0	16.9	11.2	8.9	4.1	6.6	7.7	1.8	6.8	7.9
Vinati Organics	1948	2,320	Buy	20,022	26.2	31.5	41.8	74.3	61.9	46.6	56.3	49.4	35.2	21.7	23.3	26.0	17.4	18.0	20.0
Sumitomo Chemical	376	505	Buy	18,793	6.9	8.5	10.1	54.6	44.4	37.4	37.7	30.6	25.3	29.8	29.3	28.1	22.4	22.1	21.2
Navin Fluorine	4230	4,520	Hold	20,939	45.0	53.6	76.8	93.9	78.9	55.1	65.7	55.7	37.1	21.0	19.2	23.6	13.6	14.4	17.7
Rallis India	277	305	Hold	5,388	11.4	9.7	13.8	24.3	28.7	20.1	15.9	18.5	12.8	18.0	13.9	18.2	13.9	10.9	13.9
Sudarshan chemical	579	695	Buy	4,011	20.4	19.7	25.7	28.4	29.4	22.6	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1659	2,160	Buy	4,137	13.4	16.5	33.5	123.6	100.5	49.6	63.3	47.4	30.6	15.1	11.2	16.9	17.1	9.3	16.0
Astec Lifesciences	1730	2,120	Buy	3,389	33.2	43.1	55.0	52.1	40.2	31.5	32.0	23.9	19.3	18.9	21.6	22.4	21.0	21.6	21.9

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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