

Navin Fluorine

Estimate change

TP change

Rating change


CMP: INR4,200
TP: INR4,324 (+3%)
Neutral

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Bloomberg	NFIL IN
Equity Shares (m)	50
M.Cap.(INRb)/(USDb)	208.5 / 2.6
52-Week Range (INR)	4339 / 3196
1, 6, 12 Rel. Per (%)	11/14/2
12M Avg Val (INR M)	835

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	14.0	20.2	26.3
EBITDA	3.6	5.4	7.3
PAT	2.7	4.0	5.4
EPS (INR)	53.8	80.0	108.1
EPS Gr. (%)	6	49	35
BV/Sh.(INR)	376	440	526

Ratios

Net D:E	(0.0)	0.0	0.0
RoE (%)	15.2	19.6	22.4
RoCE (%)	15.1	19.4	22.0
Payout (%)	20.4	20.4	20.4

Valuations

P/E (x)	78.1	52.5	38.8
P/BV (x)	11.2	9.5	8.0
EV/EBITDA (x)	58.3	38.7	28.6
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	0.9	(0.0)	0.4

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	9.5	9.5	11.4
DII	30.8	29.9	23.7
FII	47.8	48.1	53.7
Others	12.0	12.6	11.3

FII Includes depository receipts

Focus remains on upgrading its Fluorination capabilities

- **NFIL reported an EBITDA/PAT that was 15%/8% lower than our estimate.** Gross margin stood in line at 55%, while EBITDA margin expanded by 200bp QoQ to 26%.
- Growth in 1QFY23 was led by strong growth in the High Performance Products (HPP)/Specialty Chemicals businesses (up 33%/32% YoY), driven by higher volumes, greater pricing power, and strong partnerships, which resulted in repeat orders from customers.
- The company implemented a new organizational structure with three separate business units led by three operating CEOs. **It has appointed Mr. Partha Roy Chowdhury as CEO of the HPP business vertical. Trial supplies to Honeywell have commenced, with commercial supplies to start shortly.**
- **We assume an EBITDA margin of 27-28% over FY23-24, factoring in commissioning of various projects already underway.** We raise our FY24 EBITDA/EPS estimate by 9% each on the back of new capex being announced, in addition to the already announced capex. Thus, providing greater revenue and earnings visibility to the company.
- **We expect a revenue/EBITDA/PAT CAGR of 37%/43%/42% over FY22-24,** and value the company at 40x FY24 EPS to arrive at our TP of INR4,324. We maintain our Neutral rating owing to the limited upside in the stock.

EBITDA misses our estimate; sequential expansion in margin

- NFIL reported a revenue of INR3.9b (up 23% YoY, but down 3% QoQ).
- EBITDA margin stood at 25.8% (up 100bp YoY and 180bp QoQ), with EBITDA at INR1b.
- **Gross margin stood at 54.5% (v/s 52.3% in 4QFY22).**
- Reported PAT stood at INR790m (up 40% YoY, flat QoQ), translating into an EPS of INR16/share (v/s INR15.9 in 4QFY22).
- Other income in 1QFY23 included interest of INR9m accrued on additional income tax paid.
- NFIL has implemented a new organizational structure with three business units led by three operating CEOs.
- **The HPP business contains Refrigerant Gases, Inorganic Fluorides, and HPP, while the CDMO business contains CRAMs. The third business vertical is the Specialty Chemicals business.**

Specialty Chemicals business leads the show in segmental revenue

- The **HPP business** posted an in line revenue of INR1.5b (up 33% YoY), driven by higher volumes as well as strong pricing power.
- The manufacturing plant for Honeywell International at Dahej was inaugurated on 12th Jul'22 and revenue from the same will start flowing in from 2QFY23.
- A debottlenecking capex of INR800m has been approved by the board for a new molecule in the HPP business unit in Surat.

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- The **Specialty Chemicals business** posted an in line revenue of INR1.8b (up 32% YoY and 11% QoQ) in 1QFY23, backed by strong partnerships and repeat orders from customers.
- The pipeline remains strong given the growth opportunities, especially in Agrochemicals.
- The **CDMO business** reported weak numbers in 1QFY23, with a revenue of INR590m (34% lower than our estimate, down 12% YoY and 33% QoQ).
- The management's focus remains on expanding its project pipeline and further diversifying its customer base, with capacity expansion at its c-GMP-3 plant on track to be commissioned in 3QFY23.
- **The revenue mix in 1QFY23 stood at 39%/15%/45% for the HPP/CDMO/Specialty Chemicals business (v/s 38%/22%/40% in 4QFY22).**
- Domestic sales constituted 54% of total revenue in 1QFY23, while the rest was exports (51% in 4QFY22). Domestic sales from the HPP/Specialty Chemicals business stood at 78%/52%. Exports from the CDMO business constituted 100% of revenue.

Valuation and view

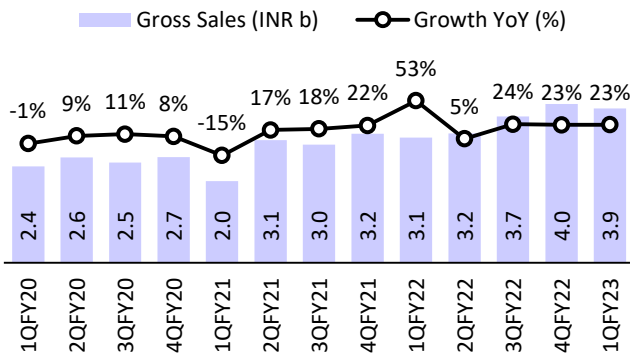
- **The board has approved a debottlenecking capex of INR800m for a new molecule in HPP, which is expected to be completed by Jul'23 (revenue potential of INR1.5b).** cGMP-3 debottlenecking is to be completed in 3QFY23. The business case for cGMP-4 is being prepared to take to the board for approval, which is a potential growth opportunity.
- The Specialty Chemicals and the CDMO businesses will continue to drive robust growth (17-20% CAGR over FY22-24E), with increasing use of fluorine in the Pharma and Agro space.
- The management expects MPP to hit peak annual revenue in the next three years. The plant will be commissioned in phases from 2QFY23. The same for other projects may be achieved within two years of commissioning.
- The stock is trading at 53x/39x FY23E/FY24E EPS of INR80/INR108, with an expected improvement in return ratios to 19-22% (up 600bp from FY21 levels), despite a huge capex (INR6.8b over the next two years). We value NFIL at 40x FY24E EPS to arrive at our TP of INR4,324. We maintain our Neutral rating.

Standalone quarterly snapshot

Y/E March	FY22				FY23				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	(%)	
Gross Sales	3,139	3,244	3,670	3,984	3,868	5,050	5,151	6,130	14,036	20,199	4,595	-16%
Change (YoY %)	53.3	5.4	23.7	22.9	23.3	55.6	40.4	53.9	23.9	43.9	41.8	
Gross Margin (%)	55%	55%	56%	52%	55%	55%	55%	54%	55%	55%	55%	0%
EBITDA	780	835	981	958	999	1,333	1,390	1,650	3,554	5,373	1,173	-15%
Margin (%)	24.8	25.8	26.7	24.0	25.8	26.4	27.0	26.9	25.3	26.6	25.5	0.3
Depreciation	109	110	112	112	115	119	123	106	443	463	116	
Interest	4	3	4	6	3	3	3	7	17	17	4	
Other Income	76	85	72	141	142	116	76	70	375	404	101	
PBT before EO expense	743	808	937	982	1,023	1,327	1,340	1,607	3,470	5,296	1,154	-11%
Extra-Ord. expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	743	808	937	982	1,023	1,327	1,340	1,607	3,470	5,296	1,154	-11%
Tax	179	187	246	194	234	334	338	427	805	1,333	291	
Rate (%)	24.1	23.2	26.2	19.8	22.8	25.2	25.2	26.6	23.2	25.2	25.2	
Reported PAT	564	621	692	788	790	993	1,001	1,179	2,664	3,963	862	-8%
Adj. PAT	564	621	692	788	790	993	1,001	1,179	2,664	3,963	862	-8%
Change (YoY %)	9.4	-7.8	17.8	11.0	39.9	59.9	44.8	49.7	6.2	48.7	21.6	
Margin (%)	18.0	19.1	18.8	19.8	20.4	19.7	19.4	19.2	19.0	19.6	18.8	1.6

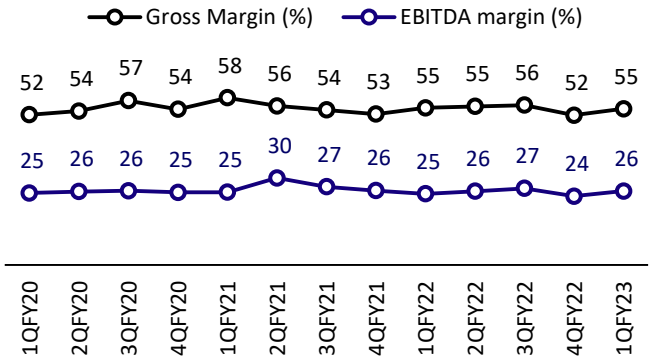
1QFY23 in charts

Exhibit 1: Sales rose 23% YoY, but fell 3% QoQ led by growth in the Specialty Chemicals business



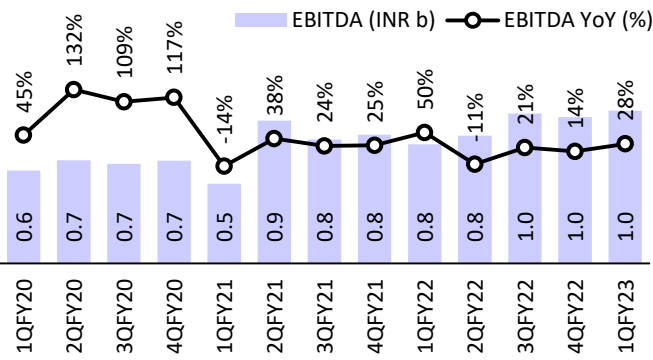
Source: Company, MOFSL

Exhibit 2: Gross/EBITDA margin expands sequentially in 1QFY23



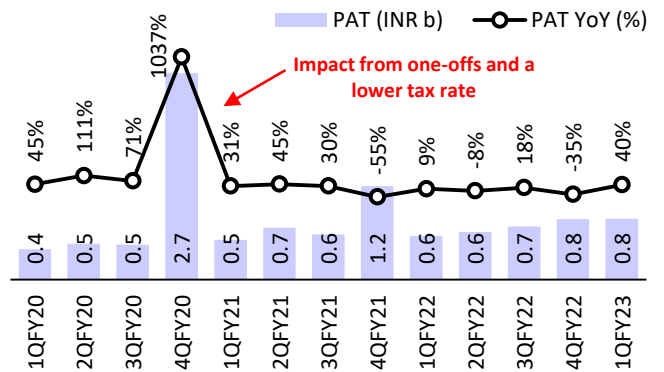
Source: Company, MOFSL

Exhibit 3: EBITDA grew 28% YoY, with EBITDA margin at 25.8% in 1QFY23



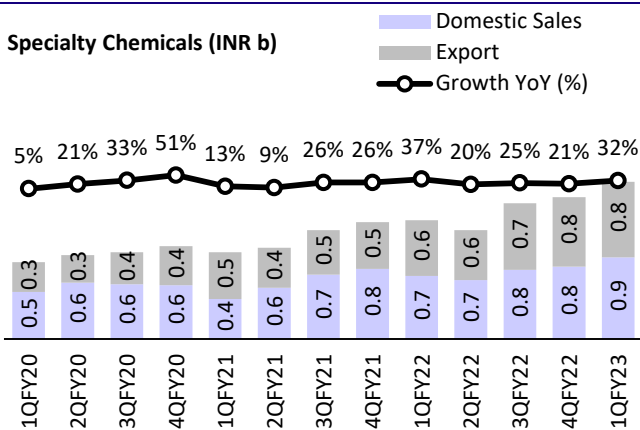
Source: Company, MOFSL

Exhibit 4: Reported PAT up 40% YoY (flat QoQ), margin at 20.4% in 1QFY23



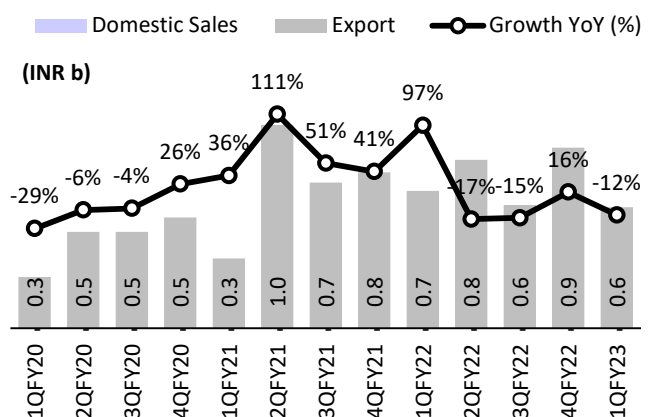
Source: Company, MOFSL

Exhibit 5: Revenue from Specialty Chemicals grew 32% YoY and 11% QoQ in 1QFY23



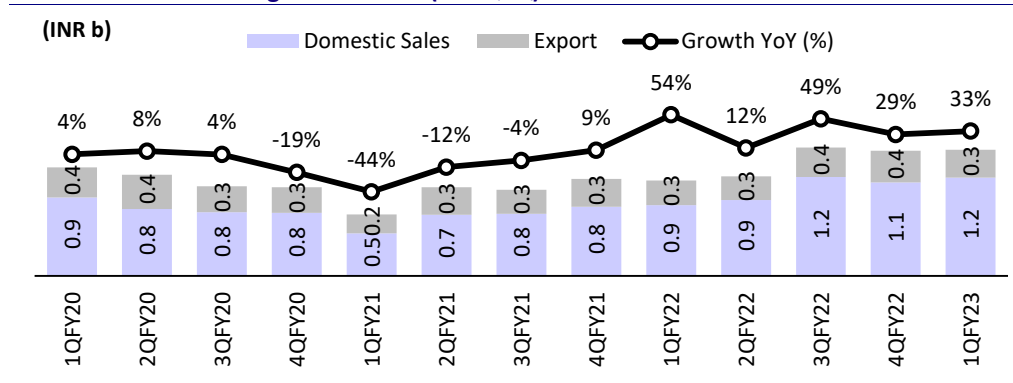
Source: Company, MOFSL

Exhibit 6: CDMO revenue declines by 12% YoY and 33% QoQ in 1QFY23



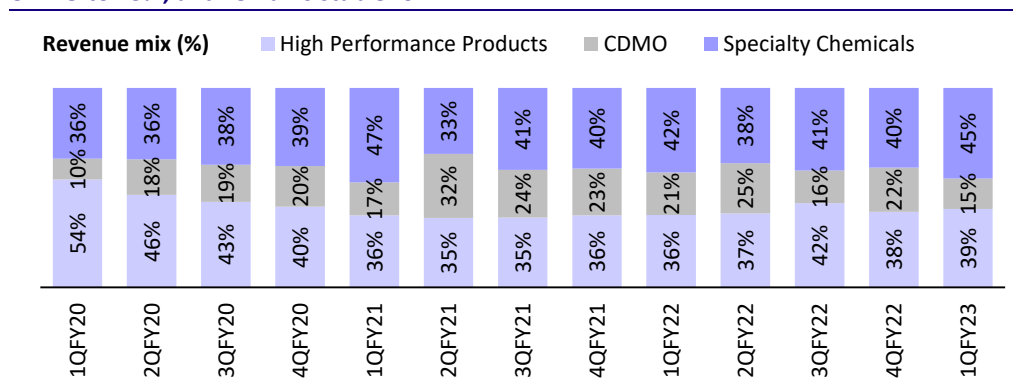
Source: Company, MOFSL

Exhibit 7: HPP revenue grew 33% YoY (flat QoQ)



Source: Company, MOSL

Exhibit 8: Revenue mix for the Specialty Chemicals segment improves to 45%, declines for CDMO to 15%, and remains stable for HPP



Source: Company, MOSL

Key highlights from the management interaction

Operational highlights

- NFIL’s strong performance in Ref Gas and Inorganic Fluorides was driven by higher volumes and prices. Growth in Ref Gas was led by volumes, and that in Inorganic Fluorides was driven by higher prices.
- Volumes have grown in all the three areas for Ref Gas, which has resulted in an expansion in margin.
- Ref Gas and Inorganic Fluoride plants are running at full capacity, with headroom in Ref Gas for capacity expansion. Within Inorganic Fluorides, it has headroom to grow capacity in small molecules, but no scope for capacity growth in large molecules.

Segmental highlights

- The performance of the **Specialty Chemicals** segment remains high, through partnerships and due to strong products in the pipeline. The plant is running at close to optimum capacity utilization.
- **HPP**: The management is trying to identify new business opportunities in its inorganic and industrial gases portfolio. It has completed work on one molecule, with work on the second molecule ongoing. It has two main plants: the first plant manufactures intermediates, which feeds the second plant. It has

stabilized production at the second plant within four weeks, even though its technology partner said it would take three-to-six months.

- The key raw material for the HPP plant is HF, which comes from Surat. The management is evaluating the setting up of a large HF facility. The other RMs are being sourced via long-term contracts with suppliers.
- **CDMO:** An important plant audit was completed for a US-based company. It has already received its first order. The management expects soft growth in 1H, but strong growth in 2HFY23, given its strong product pipeline. It has headroom to raise capacity as the plant is expected to run at optimum capacity in Aug'22.

Capex updates for the remainder of FY23 and for FY24

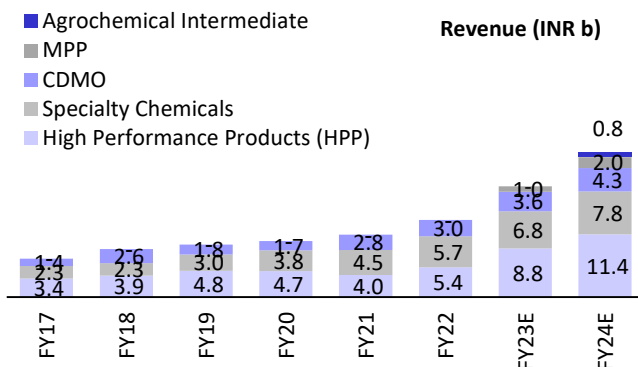
- All capex is on schedule. The commissioning of MPP will be undertaken in stages from 2QFY23. A large upgradation of its R&D facility and pilot plant in Surat is also being undertaken.
- **A debottlenecking of INR800m has been approved for a new molecule in HPP. The manufacture of this product, with a revenue potential of INR1.5b, will start from Jul'23.**

Other highlights

- The company has a new organizational structure with three business units: HPP, CDMO, and Specialty Chemicals. The management has appointed Mr. Partha Roy Chowdhury as CEO of the HPP business. He was earlier with NFIL from CY99 to CY16 and was CFO of LXCHEM from CY17 to CY22.
- It is upgrading its Fluorination capabilities. The management expects a gap in capabilities to exist between competition and NFIL. Issues on the engineering side remain.
- The management said it has no immediate plans to get into APIs. It, however, plans to foray into the manufacture of advanced intermediates.
- The management said that Specialty will be a service business, CDMO will be a service and product business, and HPP will be a product-based business.
- **NFIL's priorities in the near term**
 - Talent management in the organization.
 - Ensure smooth operation of the three plants being commissioned in coming months.
 - As it is manufacturing many molecules for the first time, it is looking to lock-in raw materials via contracts. These new molecules will be commissioned later in FY23.

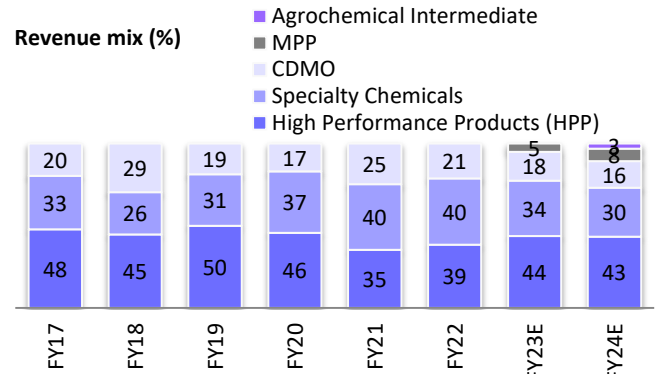
Financial story in charts

Exhibit 9: Expect ~37% revenue CAGR over FY22-24...



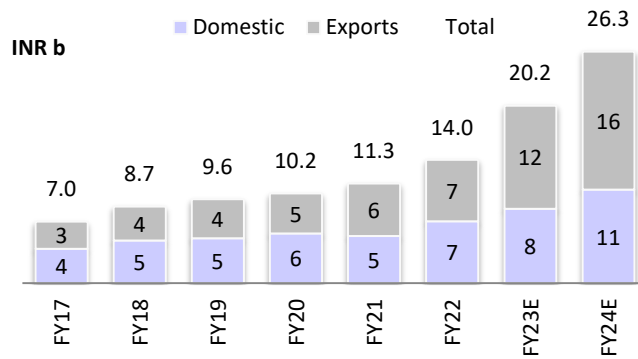
Source: Company, MOFSL

Exhibit 10: ...with a Specialty Chemicals CAGR of 17%



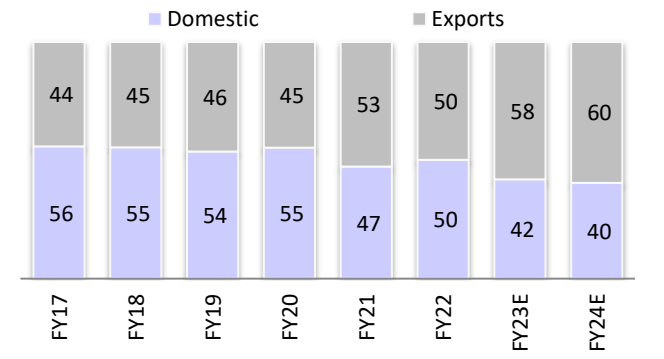
Source: Company, MOFSL

Exhibit 11: Exports constitute ~50% of total revenue in FY22...



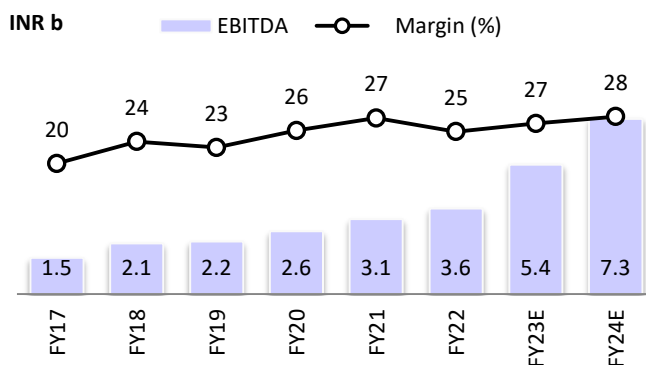
Source: Company, MOFSL

Exhibit 12: ...and is set to grow to ~60% by FY24



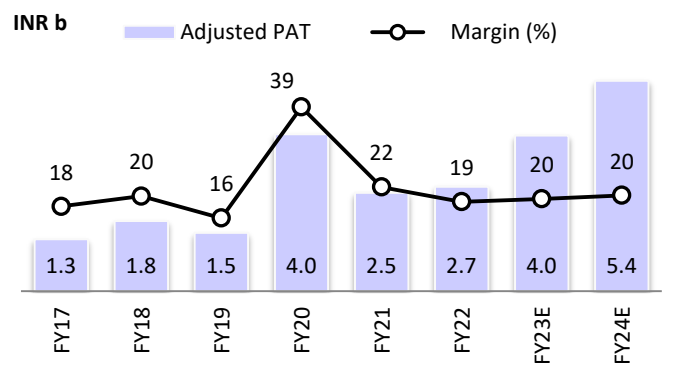
Source: Company, MOFSL

Exhibit 13: Expect ~43% EBITDA CAGR over FY22-24...



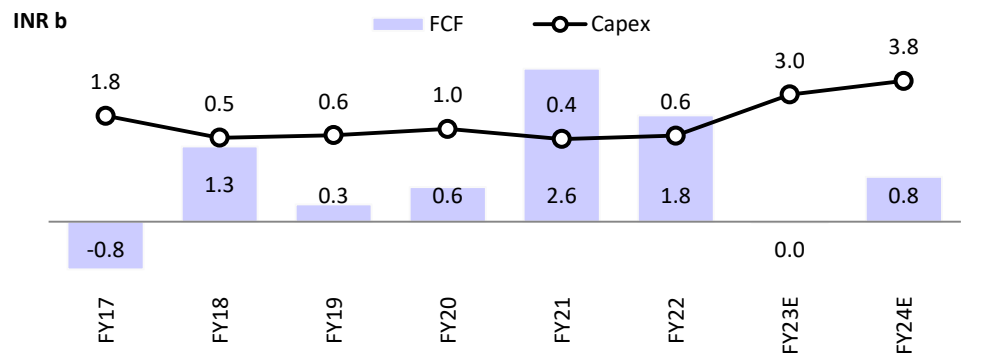
Source: Company, MOFSL

Exhibit 14: ...with a PAT CAGR of ~42% over the same period



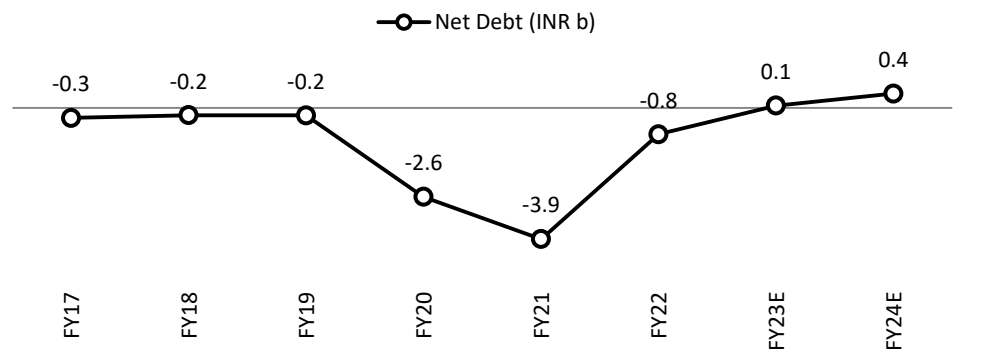
Source: Company, MOFSL

Exhibit 15: Capex for the next three years is INR6.8b...



Source: Company, MOFSL

Exhibit 16: ...to be funded via internal accruals and debt



Source: Company, MOFSL

Financials and valuations

Standalone Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	7,368	8,861	9,551	10,223	11,331	14,036	20,199	26,323
Change (%)	8.6	20.3	7.8	7.0	10.8	23.9	43.9	30.3
Gross Margin (%)	57.9	56.6	52.3	54.5	54.9	54.5	54.5	54.5
EBITDA	1,499	2,107	2,181	2,607	3,108	3,554	5,373	7,281
Margin (%)	20.3	23.8	22.8	25.5	27.4	25.3	26.6	27.7
Depreciation	284	382	259	337	407	443	463	632
EBIT	1,216	1,725	1,922	2,270	2,702	3,112	4,909	6,649
Int. and Finance Charges	5	7	5	16	14	17	17	17
Other Income	557	906	348	313	745	375	404	526
PBT bef. EO Exp.	1,768	2,625	2,265	2,567	3,433	3,470	5,296	7,159
EO Items	0	0	0	0	662	0	0	0
PBT after EO Exp.	1,768	2,625	2,265	2,567	4,095	3,470	5,296	7,159
Total Tax	441	835	780	-1,431	1,103	806	1,333	1,802
Tax Rate (%)	25.0	31.8	34.5	-55.7	26.9	23.2	25.2	25.2
Reported PAT	1,326	1,790	1,485	3,998	2,992	2,664	3,963	5,357
Adjusted PAT	1,326	1,790	1,485	3,998	2,508	2,664	3,963	5,357
Change (%)	53.4	34.9	-17.0	169.3	-37.3	6.2	48.8	35.2
Margin (%)	18.0	20.2	15.5	39.1	22.1	19.0	19.6	20.4

Standalone Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	98	99	99	99	99	99	99	99
Total Reserves	8,137	9,601	10,493	13,790	16,402	18,543	21,697	25,959
Net Worth	8,235	9,700	10,592	13,889	16,501	18,642	21,796	26,058
Total Loans	0	0	0	0	0	0	150	500
Deferred Tax Liabilities	207	239	295	206	167	167	167	167
Capital Employed	8,443	9,939	10,887	14,096	16,668	18,809	22,113	26,725
Gross Block	4,377	3,232	3,511	4,643	4,937	5,631	8,631	12,431
Less: Accum. Deprn.	272	477	715	1,053	1,459	1,902	2,365	2,997
Net Fixed Assets	4,105	2,755	2,796	3,591	3,478	3,729	6,265	9,433
Capital WIP	168	201	393	389	365	259	259	259
Total Investments	3,157	5,219	5,267	3,387	4,503	6,187	6,187	6,187
Curr. Assets, Loans, and Adv.	3,805	3,817	4,224	7,042	10,320	11,064	12,863	15,319
Inventory	989	924	929	1,361	1,543	2,295	3,246	4,169
Account Receivables	1,308	1,471	1,675	2,093	2,759	3,521	5,067	6,603
Cash and Bank Balance	297	219	224	2,641	3,889	782	83	80
Cash	224	136	127	1,692	761	735	37	34
Bank Balance	74	83	97	890	3,128	47	47	47
Loans and Advances	1,211	1,203	1,397	947	2,128	4,467	4,467	4,467
Curr. Liability and Prov.	2,793	2,053	1,794	1,644	1,998	2,430	3,462	4,473
Account Payables	760	889	679	922	1,027	1,416	2,002	2,572
Other Current Liabilities	1,941	1,056	1,005	590	824	834	1,200	1,563
Provisions	91	108	110	131	147	180	260	338
Net Current Assets	1,012	1,764	2,431	5,398	8,322	8,635	9,401	10,846
Appl. of Funds	8,443	9,939	10,887	14,096	16,668	18,809	22,113	26,725

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	26.8	36.2	30.0	80.8	50.7	53.8	80.0	108.1
EPS Growth (%)	53.4	34.9	-17.0	169.3	-37.3	6.1	48.8	35.2
Cash EPS	32.5	43.9	35.2	87.6	58.9	62.7	89.3	120.9
BV/Share	166.4	196.0	214.1	280.7	333.5	376.2	439.9	525.9
DPS	5.3	7.0	7.8	11.0	11.0	11.0	16.3	22.1
Payout (%)	26.2	19.9	41.7	17.9	18.2	20.4	20.4	20.4
Valuation (x)								
P/E ratio	156.7	116.1	140.0	52.0	82.9	78.1	52.5	38.8
Cash P/E ratio	129.1	95.7	119.2	47.9	71.3	67.0	47.0	34.8
P/BV ratio	25.2	21.4	19.6	15.0	12.6	11.2	9.5	8.0
EV/Sales ratio	28.2	23.4	21.7	20.1	18.0	14.8	10.3	7.9
EV/EBITDA ratio	138.4	98.5	95.2	78.7	65.6	58.3	38.7	28.6
Dividend Yield (%)	0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.5
FCF per share	-16.2	25.7	5.9	11.8	52.1	36.1	-0.4	15.3
Return Ratios (%)								
RoE	17.2	20.0	14.6	32.7	16.5	15.2	19.6	22.4
RoCE	16.4	19.5	14.3	32.2	16.4	15.1	19.4	22.0
RoIC	19.5	25.8	27.1	55.7	25.3	24.5	27.0	27.8
Working Capital Ratios								
Fixed Asset Turnover (x)	2.2	2.6	3.4	3.2	3.2	3.9	4.0	3.4
Asset Turnover (x)	0.9	0.9	0.9	0.7	0.7	0.7	0.9	1.0
Inventory (Days)	49	38	35	49	50	60	59	58
Debtor (Days)	65	61	64	75	89	92	92	92
Creditor (Days)	38	37	26	33	33	37	36	36
Leverage Ratio (x)								
Current Ratio	1.4	1.9	2.4	4.3	5.2	4.6	3.7	3.4
Net Debt/Equity ratio	0.0	0.0	0.0	-0.2	-0.2	0.0	0.0	0.0

Standalone Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,768	2,625	2,265	2,567	4,095	3,470	5,296	7,159
Depreciation	284	382	259	337	407	443	463	632
Others	-519	-694	-277	-210	-1,054	-272	17	17
Direct Taxes Paid	-306	-496	-710	-456	-186	-807	-1,333	-1,802
(Inc.)/Dec. in WC	-275	-90	-637	-684	-305	-467	-1,465	-1,447
CF from Operations	951	1,727	900	1,555	2,958	2,366	2,978	4,558
Capex	-1,750	-457	-606	-972	-382	-575	-3,000	-3,800
Free Cash Flow	-800	1,270	294	582	2,576	1,791	-22	758
Change in Investments	133	-1,338	190	1,706	-914	2,933	0	0
CF from Investments	-196	-1,489	-315	766	-3,452	-1,812	-3,000	-3,800
Inc./Dec. in Debt	-299	0	0	0	0	0	150	350
Interest Paid	-5	-7	-5	-16	-14	-17	-17	-17
Dividend Paid	-343	-350	-611	-714	-394	-542	-810	-1,094
CF from Fin. Activity	-623	-326	-595	-756	-437	-579	-676	-761
Inc./Dec. in Cash	131	-87	-9	1,565	-931	-25	-698	-3
Opening Balance	94	224	136	127	1,692	760	735	37
Closing Balance	224	136	127	1,692	760	735	37	34

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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