

## Specialty, HPP drive growth in H1; CDMO muted...

**About the stock:** Navin Fluorine (NFIL) operates one of the largest integrated fluorochemicals complexes in India with a presence in speciality chemicals, CDMO, inorganic fluoride and refrigerant segments.

- The company has two manufacturing facilities in Surat and Dewas while it is setting up a new greenfield capacity in Dahej
- In terms of revenue contribution, speciality chemicals constitute 40% of overall revenues followed by CDMO 25% and the rest from refrigerants (~18%) and inorganic fluoride (~17%) businesses

**Q2FY23 Results:** Numbers were below I-direct estimates mainly due to a muted CDMO performance even as other segments reported decent growth.

- Reported revenue grew 23.7% YoY to ₹ 419.2 crore, led by specialty chemical (up 45% YoY), HPP (refrigerants gas + inorganic chemicals+ HPP) (up 76%). Revenues from CDMO were down 52% YoY to ₹ 39 crore
- Gross margins were up 120 bps YoY to 56.2% while EBITDA margin fell 240 bps YoY to 22.4%, due to increase in other expenses (up 44% YoY)
- EBITDA was up 11% YoY to ₹ 93.8 crore
- Adjusted PAT declined 9% YoY to ₹ 57.8 crore. Finance cost was ₹ 4 crore vs. ₹ 40 lakh in Q2FY22. Depreciation was up 49% YoY

**What should investors do?** The stock appreciated at 78% CAGR in last three years.

- We maintain **HOLD** as the current price reflects better growth outlook from speciality chemicals, HPP and recovery in CDMO, thus giving limited upside

**Target Price and Valuation:** We value Navin Fluorine at 50x FY24E EPS of ₹ 91.4 to arrive at a target price of ₹ 4570/share (earlier ₹ 4450/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
- Expected traction in CDMO from H2FY23 onwards

**Alternate Stock Idea:** Apart from Navin Fluorine, in our chemical coverage, we like Neogen Chemicals.

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 1870



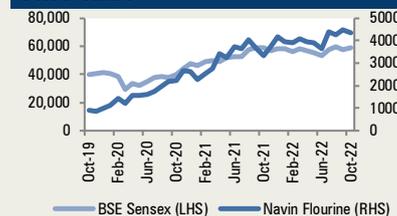
### Particulars

Particular	Amount
Market cap (₹ Crore)	21,738
FY22 Total Debt (₹ Crore)	104
FY22 Cash & Inv (₹ Crore)	200
EV (₹ Crore)	21,642
52 Week H/L	4848/3196
Equity Capital (₹ Crore)	9.9
Face Value (₹)	2

### Shareholding pattern

in %	Dec-21	Mar-22	Jun-22	Sept-22
Promoter	30.2	29.7	29.7	29.7
FII	25.3	23.5	21.4	21.4
DII	16.0	18.3	20.8	20.8
Others	28.6	28.5	28.1	28.1

### Price Chart



### Recent event & key risks

- Commercialisation of hydrofluoroolefins plant at Dahej
- Key Risk:** (i) Cancellation of 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	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	995.9	1,061.6	1,179.4	1,453.4	14.4%	1,928.8	2,733.5	37.1%
EBITDA	218.4	263.5	309.3	354.8	17.4%	482.2	710.7	41.5%
EBITDA Margins (%)	21.9%	24.8%	26.2%	24.4%		25.0%	26.0%	
Adj. PAT	149.1	179.1	222.9	259.0	13.7%	319.3	452.9	32.2%
Adj. EPS (₹)	30.1	36.2	45.0	52.3		64.4	91.4	
EV/EBITDA	98.6x	81.3x	68.4x	61.2x		45.5x	31.3x	
P/E	145.9x	121.6x	97.7x	84.2x		68.3x	48.1x	
ROE (%)	13.9	12.7	13.6	14.0		15.2	18.4	
ROCE (%)	20.9	18.4	21.0	17.8		18.0	20.1	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlight

### Q2FY23 Results: Decent growth across all segment except CDMO

- **High value business:** Revenues were up 5.9% YoY to ₹ 216 crore, led by speciality chemical segment. The revenue from speciality chemical was up 45% YoY to ₹ 177 crore while the same from CDMO declined 52% YoY to ₹ 39 crore
- **Legacy business:** Revenue increased 75.8% YoY to ₹ 211 crore, driven by commissioning of hydrofluoroolefins

### Q2FY23 Earnings Conference Call highlights

#### 1. Specialty Chemicals –

- Another good quarter. International market contributed 44% of total specialty chemicals revenues while domestic contributed 56%
- Two new plants in Dahej scheduled to start in Q3FY23
- Strong pipeline of growth opportunities, especially in agrochemicals, driven by principles of 3P: Product, Platform & Partnership

#### 2. CDMO (CRAMS) –

- All revenues of CDMO were derived from international market. The company only has international pharma innovators as its customers
- C-GMP-3 plant capacity expansion work on track to be commissioned in Q3FY23
- Successful completion of plant audits by two pharma innovators
- Received purchase order of \$16 million for late – stage clinical trial, which will be commissioned in Q2CY23 and Q3CY23

#### 3. HPP (Refrigerant Gas + Inorganic Fluorides + HPP) –

- Higher sales in India and international markets. International market contributed 46% of total specialty chemicals revenues while domestic contributed 54%
- Revenues from the new plant set up for Honeywell to start from Q2FY23
- R32 production to start from Q1FY24

### Key Developments

- Plant for manufacture and supply of hydrofluoroolefins set up by the company's wholly owned subsidiary, Navin Fluorine Advanced Sciences, in Dahej, has commenced commercial production. The customer has validated the product specifications for the requisite batch quantities on agreed parameters
- Two additional Plants in Dahej are scheduled to start in Q3FY23. Commercial production in HPP will start in a phased manner
- Debottlenecking plant is scheduled to get completed as per plan
- Declares interim dividend of ₹ 5 per share

### Management Insights

#### Operating Margins

- One of the suppliers of key raw material for HFO product did not supply the material due to which the company had to purchase the material from market at high cost. However, this issue will not be faced in current quarter
- Unable to absorb fixed cost
- Achieved sub-optimum levels. The management said that in the next two quarters the company will achieve full capacity in HFO
- High energy cost due to high crude price led to increase in other expenses

**CDMO**

- There were no shipment delays or cancelled orders from company end
- In Q3, the management is confident of receiving \$10 million invoicing in CDMO segment
- Q4FY23 looks strong. We can expect significant margin growth
- c-GMP-3 plant capacity expansion work on track to be commissioned in Q3FY23
- The company maintains 50:50 ratio portfolio i.e. 50% of client in Phase 1 and 2, 50% in Phase 3 and commercial state. Phase 1 starts at pre-clinical stage and grows as and when molecule and business with client grows

**Gross margin**

- The company reported gross margins of 56.2% in Q2FY23. This was achieved due to product mix within existing business unit and ramp up in Hydrofluoroolefins (HFO)
- The management expects a significant improvement in gross margins in future

**R-32 Project**

- New pipeline for R-32 has been planned while capacity of R-22 has not been affected
- Capex of ₹ 80 crore has been allocated. Expected revenue is ₹ 200 crore. Full ramp up is expected in CY24

**CEO and adding new business segment**

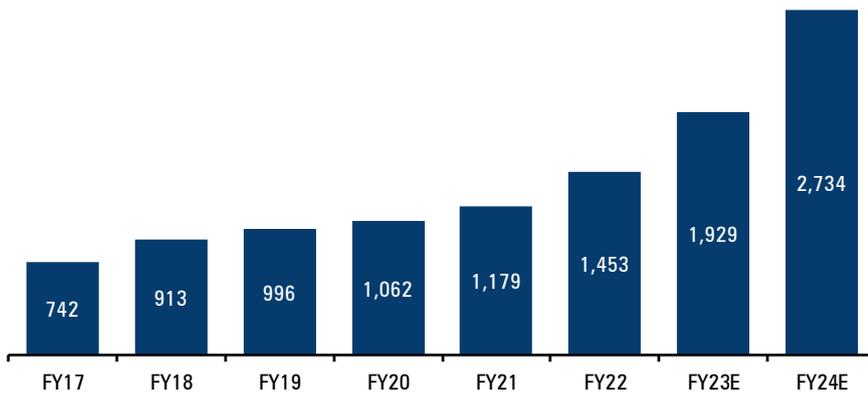
- Mr Partha is the CEO of HPP segment
- Amrit Singh is the CEO of specialty chemical segment
- Ravi Venkatraman is the CEO of CDMO. Previously, Mr Ravi was with Dr Reddy's
- The management is looking at new emerging segment and will announce the capex if everything gets finalised

**Backward Integration**

- The company expects price of NDC derivatives of chloromethane, which is raw material of R-32 to remain high in the next two to three years
- NFIL is looking for investment in chloromethane

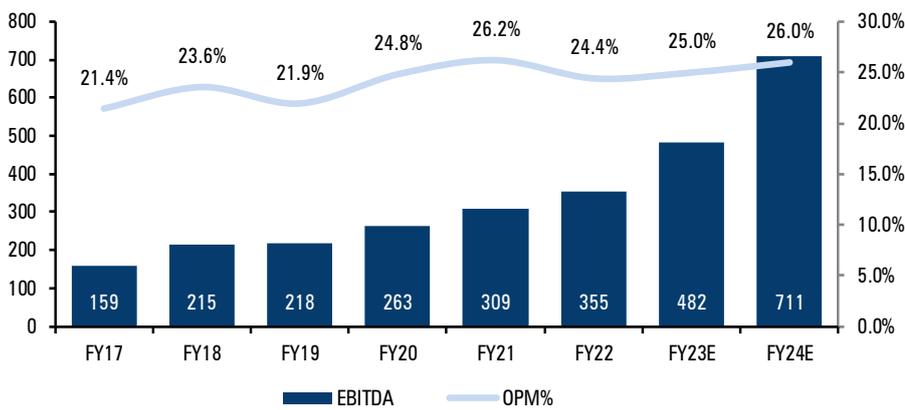
Financial story in charts....

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



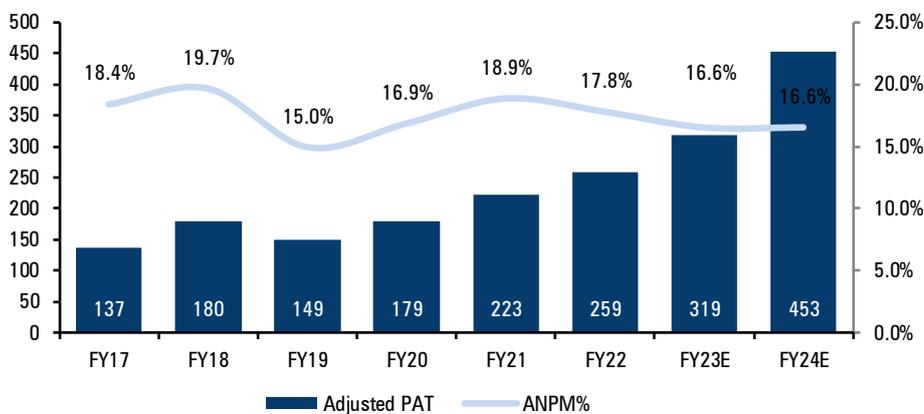
Source: Company, ICICI Direct Research

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	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>1,061.6</b>	<b>1,179.4</b>	<b>1,453.4</b>	<b>1,928.8</b>	<b>2,733.5</b>
Growth (%)	6.6	11.1	23.2	32.7	41.7
Raw Material Expenses	483.8	537.4	665.6	887.2	1,243.7
Employee Cost	130.8	141.7	181.5	231.5	328.0
Other Expenses	183.5	191.0	251.4	327.9	451.0
Total Operating Expenditure	798.1	870.1	1,098.6	1,446.6	2,022.8
<b>EBITDA</b>	<b>263.5</b>	<b>309.3</b>	<b>354.8</b>	<b>482.2</b>	<b>710.7</b>
Growth (%)	20.7	17.4	14.7	35.9	47.4
Other Income	33.3	79.0	39.2	29.8	38.9
Depreciation	37.0	44.2	47.9	80.2	132.1
Net Interest Exp.	2.0	1.8	1.9	6.1	13.6
Other exceptional items	0.0	15.5	0.0	0.0	0.0
PBT	257.8	357.8	344.2	425.7	603.9
Total Tax	-143.6	110.8	81.2	106.4	151.0
<b>PAT</b>	<b>401.4</b>	<b>247.1</b>	<b>263.1</b>	<b>319.3</b>	<b>452.9</b>
Adjusted PAT	179.1	222.9	259.0	319.3	452.9
Growth (%)	20.1	24.5	16.2	23.3	41.9
Adjusted EPS (₹)	36.2	45.0	52.3	64.4	91.4

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
PBT & Extraordinary	257.8	357.8	344.2	425.7	603.9
Add: Depreciation	37.0	44.2	47.9	80.2	132.1
After other adjustments					
(Inc) / Dec in Working Capital	-70.6	-125.5	-210.4	-171.8	-261.9
Taxes	-46.2	17.3	-78.1	-106.4	-151.0
Others	-21.3	-56.6	-28.9	6.1	13.6
<b>CF from operating activities</b>	<b>156.7</b>	<b>237.3</b>	<b>74.7</b>	<b>233.8</b>	<b>336.8</b>
Purchase of Fixed Assets	-107.7	-98.7	-578.9	-380.0	-565.0
Others	192.9	-138.4	406.5	0.0	0.0
<b>CF from investing activities</b>	<b>85.1</b>	<b>-237.1</b>	<b>-172.4</b>	<b>-380.0</b>	<b>-565.0</b>
Issue/(Buy back) of Equity	1.2	1.4	2.7	0.0	0.0
Inc/(dec) in loan funds	-8.7	1.1	102.0	200.0	300.0
Dividend paid & dividend tax	-71.4	-39.4	-54.2	-63.9	-90.6
Others	-2.0	-8.2	-9.0	-6.1	-13.6
<b>CF from financing activities</b>	<b>-80.9</b>	<b>-45.1</b>	<b>41.5</b>	<b>130.0</b>	<b>195.8</b>
Net cash flow	160.9	-44.9	-56.1	-16.2	-32.4
Opening cash	37.0	283.8	543.9	95.8	79.6
<b>Closing cash</b>	<b>283.8</b>	<b>543.9</b>	<b>95.8</b>	<b>79.6</b>	<b>47.2</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22	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	1,834.3	2,089.7	2,452.1
<b>Total Shareholders Funds</b>	<b>1,412.2</b>	<b>1,633.9</b>	<b>1,844.2</b>	<b>2,099.6</b>	<b>2,462.0</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	0.0	0.0	100.0	300.0	500.0
Net Deferred Tax liability	0.0	20.7	20.1	20.1	20.1
Other long term liabilities	28.9	29.1	23.5	31.2	44.3
Long term provisions	10.3	11.8	13.7	18.2	25.7
<b>Current Liabilities and Provisions</b>					
Short term borrowings	1.4	2.5	4.5	4.5	104.5
Trade Payables	98.1	107.4	146.5	200.8	299.6
Other Current Liabilities	74.9	89.0	227.5	301.9	427.9
Short Term Provisions	2.8	3.1	5.4	7.2	10.2
Total Current Liabilities	177.2	202.0	383.9	514.4	842.1
<b>Total Liabilities</b>	<b>1,628.5</b>	<b>1,897.5</b>	<b>2,385.5</b>	<b>2,983.5</b>	<b>3,894.2</b>
<b>Assets</b>					
Net Block	386.0	398.5	415.9	1,252.8	1,840.7
Capital Work in Progress	38.9	94.9	742.1	205.0	50.0
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	127.9	14.5	13.9	13.9	13.9
Deferred tax assets	15.1	0.0	0.0	0.0	0.0
Long term loans and advances	9.9	4.3	6.0	7.9	11.3
Other Non Current Assets	179.5	102.8	100.5	116.2	142.6
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	67.5	84.5	104.2	104.2	104.2
Inventories	157.9	180.4	257.5	369.9	539.2
Sundry Debtors	218.5	284.1	357.7	475.6	674.0
Cash and Bank	283.8	543.9	95.8	79.6	47.2
Loans and Advances	4.5	2.7	0.5	0.5	0.5
Other Current assets	51.4	99.2	203.5	270.1	382.8
Current Assets	783.6	1,194.7	1,019.3	1,299.9	1,748.0
<b>Total Assets</b>	<b>1,628.5</b>	<b>1,897.5</b>	<b>2,385.5</b>	<b>2,983.5</b>	<b>3,894.2</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
Adj. EPS	36.2	45.0	52.3	64.4	91.4
Adj. Cash EPS	43.7	54.0	61.9	80.6	118.1
BV	285.3	330.1	372.2	423.7	496.9
DPS	7.0	11.0	11.0	12.9	18.3
<b>Operating Ratios (%)</b>					
Gross Margin (%)	54.4	54.4	54.2	54.0	54.5
EBITDA Margin (%)	24.8	26.2	24.4	25.0	26.0
PAT Margin (%)	16.9	18.9	17.8	16.6	16.6
Debtor Days	75	88	90	90	90
Inventory Days	54	56	65	70	72
Creditor Days	34	33	37	38	40
Cash Conversion Cycle	96	110	118	122	122
<b>Return Ratios (%)</b>					
Return on Assets (%)	11.0	11.7	10.9	10.7	11.6
RoCE (%)	18.4	21.0	17.8	18.0	20.1
RoE (%)	12.7	13.6	14.0	15.2	18.4
<b>Solvency</b>					
Total Debt / Equity	0.0	0.0	0.1	0.1	0.2
Interest Coverage	129.9	187.2	182.2	70.4	45.3
Current Ratio	4.4	5.9	2.7	2.5	2.1
Quick Ratio	3.5	5.0	2.0	1.8	1.4
<b>Valuation Ratios (x)</b>					
EV/EBITDA	81.3	68.4	61.2	45.5	31.3
P/E	121.6	97.7	84.2	68.3	48.1
P/B	15.4	13.3	11.8	10.4	8.9
EV/Sales	20.2	17.9	14.9	11.4	8.1

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
SRF	2520	2,735	Buy	74,699	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	2987	3,710	Buy	45,324	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Aarti Industries	768	885	Hold	27,822	36.1	25.1	31.6	22.7	32.7	25.9	24.0	19.6	16.0	12.0	13.0	13.9	13.3	13.5	14.8
Tata Chemical	1185	1,370	Buy	30,186	47.5	63.6	73.0	24.3	18.2	15.8	14.7	10.9	8.5	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2016	2,320	Hold	20,717	33.7	40.1	51.5	56.0	47.1	36.7	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	505	565	Buy	25,214	8.5	10.9	12.5	56.1	43.5	38.0	38.9	30.4	26.1	30.2	30.4	28.2	22.0	22.6	21.0
Navin Fluorine	4400	4,570	Hold	21,738	52.3	64.4	91.4	84.2	68.3	48.1	61.2	45.5	31.3	17.8	18.0	20.1	14.0	15.2	18.4
Rallis India	214	200	Hold	4,161	8.4	8.9	12.4	24.3	23.1	16.6	13.9	14.1	10.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	416	515	Hold	2,882	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1513	1,645	Buy	3,773	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	1867	2,215	Buy	3,660	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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