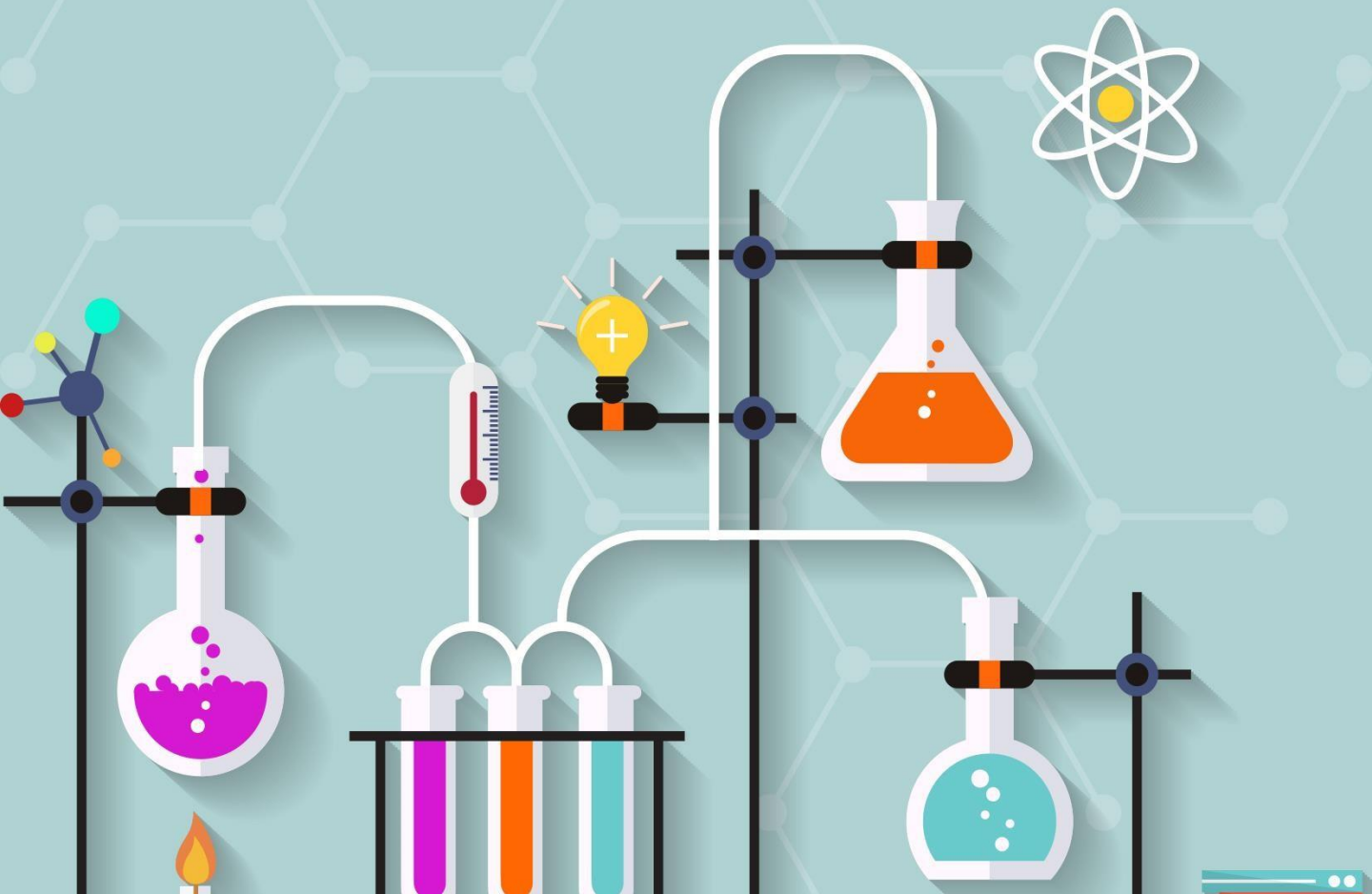


# GUJARAT FLUORO-CHEMICALS LTD.



# GUJARAT FLUORO CHEMICALS LTD.

**Significant capex in place to ensure robust growth in revenues**

CMP INR 2,968	Target INR 5,015	Potential Upside 68.9%	Market Cap (INRmn) INR 3,26,254	Recommendation BUY	Sector Specialty Chemicals
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## Result Highlights for Q3FY23:

- Gujarat Fluorochemicals Limited reported a revenue of INR 14,179mn in Q3 FY23 as against INR 14,613mn in Q2 FY23, a dip of 2.90% on a QoQ basis and an increase of approximately 41.25% on a YoY basis, as against INR 10,038mn in Q3 FY22.
- On operational front, the EBITDA stood at INR 5,232mn, substantially improved by 65.9% on a YoY basis, at INR 3,154 in Q3FY22 and decreased 2.4% on a QoQ basis, at INR 5,357mn in Q2FY23. The EBITDA margin stood at 36.9% as against 31.42% in Q3FY22 and 36.6% in Q2FY23.
- Net Profit stood at INR 3,305mn as against INR 2,012mn (+64.2%) on YoY basis and INR 3,572mn (-7.5%) sequentially, with NPM at 23.3% (+330 bps YoY/-110 bps QoQ).
- EPS during the quarter came at INR 30.09 vs 18.32 in the same period last year.

## MARKET DATA

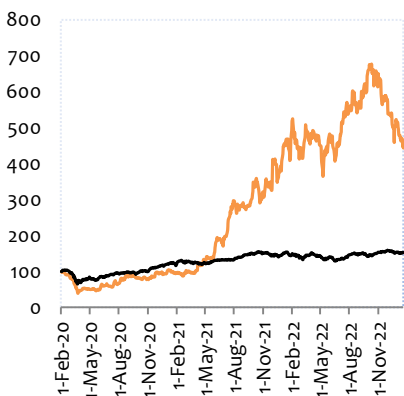
Shares outs (Mn)	110
Mkt Cap (INRmn)	3,26,254
52 Wk H/L (INR)	4,173/2,112
Volume Avg (3m K)	180.3
Face Value (INR)	1
Bloomberg Code	FLUROCHIN

## KEY FINANCIALS

INRmn	Q3FY23	Q3FY22	YoY	Q2FY23	QoQ
Revenue	14,179	10,038	41.2%	14,613	-2.9%
EBITDA	5,232	3,154	65.9%	5,357	-2.4%
PAT	3,305	2,012	64.2%	3,572	-7.5%
EBITDA Margin (%)	36.9%	31.4%	550bps	36.6%	30bps
NPM (%)	23.3%	20.0%	330bps	24.4%	-110bps

Source: Company, KRChoksey Research

## SHARE PRICE PERFORMANCE



## Steady revenue growth across verticals:

Consolidated revenue from operations for Q3FY23 was INR 14,179mn up 41% on a YoY basis. Volumes and prices remained stable during the quarter, barring marginal impact due to the holiday season in USA and Europe. The demand for new fluoropolymers continues to be robust, leading to price stability. Fluorine molecules are gaining traction over the conventional molecules due to the increased biological activity of agrochemicals and pharmaceuticals, creating more market demand. New fluorochemicals plants that have now been commissioned are expected to gradually ramp up production in the upcoming quarters as soon as product qualifications are received.

## Price stability to support margins:

GFL delivered robust performance in Q3FY23. On operational front, EBITDA stood at INR 5,232mn up 65.9% YoY from INR 3,154mn in Q3FY22 and down 2.4% from INR 5,357mn in Q2FY23. GFL's integrated value chains starting with basic raw materials, offers a host of building blocks for the specialty chemicals, which helps them to maintain its margins. Net Profit was INR 3,305mn as opposed to INR 2,012 (+64.2% YoY) and (-7.5% QoQ), with NPM at 23.3% (+330 bps YoY/-110 bps QoQ). GFL has developed technology and products, which caters to various end user industries with huge growth potential, and provides higher margins. Bulk chemical prices are expected to stay under pressure for Q4FY23 due to softening input costs and over supply. Thus, it will have an impact on the margins for the near term, offset by introduction of high margin products.

## Commissioning of capacities to ramp up revenue:

GFL is in the process of setting up an integrated battery chemical complex. In addition, GFL has developed suitable PVDF grades for cathode binder applications. This initiative will require significant capex in the next few years and will provide robust growth visibility in revenues and profits.

## MARKET INFO

SENSEX	60,682
NIFTY	17,856

## SHARE HOLDING PATTERN (%)

Particulars	Dec-22	Sep-22	Jun-22
Promoters	63.80	66.08	66.08
FII's	5.75	4.99	4.10
DII's	4.25	3.90	4.25
Others	26.19	25.04	25.57
Total	100	100	100

**29.6%**
**Revenue CAGR  
between FY22 - FY24E**
**40.0%**
**EBITDA CAGR  
between FY22 - FY24E**

# GUJARAT FLUOROCHEMICALS LTD.

## Valuation and view:

We believe GFL’s future capex plans and its vertically integrated facility make it one of the most reliable producers, of a wide range of fluoropolymers, globally. With fluorine molecules gaining traction over conventional molecules due to increased biological activity in agrochemicals and pharmaceuticals, it is expected to create more market demand. GFL will have demand tailwind in TFE-based fluoropolymers due to shutdown of capacity by 3M which will create a void in high-performance fluoropolymers and some reduction in PTFE capacity by Solvay. Fluoropolymers` applications in 5G, EV batteries, solar Panels, hydrogen fuel cells, semi-conductors, Internet of Things (IOT), and clean environment will create a huge growth potential for GFL.

The stock is currently trading at a P/E multiple of 25.9x/20.71x FY23E/FY24E earnings. **We maintain ‘BUY’ rating on the stock and apply a P/E multiple of 35x to its FY24E earnings, which yields an increased revised target price of INR 5,015 per share.**

## Key Concall Highlights:

### Business verticals:

- Caustic soda/MDC prices remained stable during the quarter.
- Bulk chemical prices are expected to be impacted by additional domestic supplies as well as a fall in input costs in Q4FY23.
- Plants for bulk chemicals are running at full capacity during the quarter.
- Overall demand and prices are expected to remain stable during Q4FY23.
- Battery chemicals: GFL is in the process of setting up an initial commercial capacity for LiPF6, which is expected to come up in the 1st quarter of FY24 and will take a few quarters to get through the approval processes.
- There is an increase in demand for new fluoropolymers, namely FKM, PVDF, and PFA which the company intends to meet through additional capacities.

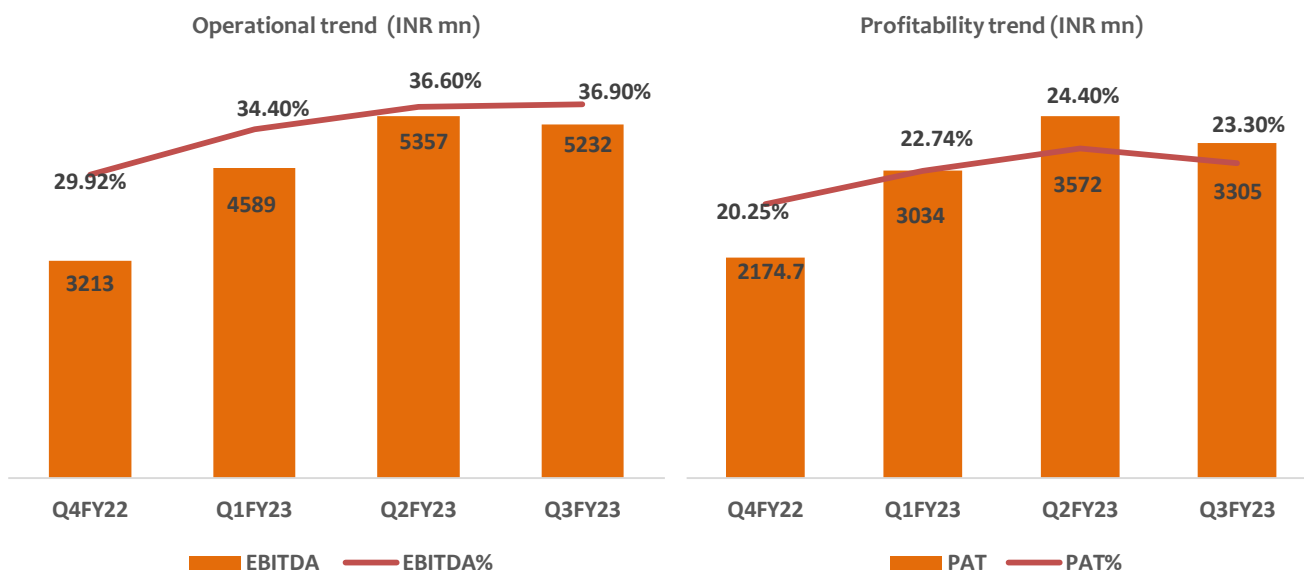
### Capex programme:

- In addition to de-bottlenecking PTFE capacity, additional capacities for new fluoropolymers are being established, and sales are expected to ramp up over the next few quarters, beginning in Q4FY23.
- GFL is currently investing or has planned capital expenditures to increase its capacity for chemicals for backward integration, fluoropolymers, and new age products.
- PVDF will be commissioned in July of the current financial year.
- The company is expected to incur a capex of INR 12.5 bn in FY2023 and INR 12.5bn in FY24.

### Other highlights:

- Price GFL is setting up India’s first PVDF solar film project, which will be commissioned in the next financial year. With the company’s own integrated PVDF manufacturing facilities, this plant will be ideally suited to cater to both the domestic and international markets.
- The net debt to equity ratio has reduced to 0.21.

## Financial performance



Source: Company, KRChoksey Research

# GUJARAT FLUOROCHEMICALS LTD.

## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INRmn	FY 20	FY 21	FY 22	FY 23E	FY 24E
<b>Revenues</b>	<b>26,063</b>	<b>26,505</b>	<b>39,536</b>	<b>55,350</b>	<b>66,420</b>
COGS	9,539	8,976	11,957	16,052	19,262
<b>Gross profit</b>	<b>17,558</b>	<b>17,948</b>	<b>27,665</b>	<b>39,299</b>	<b>47,159</b>
Employee cost	2,049	2,179	2,655	3,875	3,985
Other expenses	5,096	5,065	6,311	7,749	9,299
Power & fuel	4,813	4,420	6,740	8,856	10,627
Material extraction	389	325	275	277	332
<b>EBITDA</b>	<b>5,211</b>	<b>5,959</b>	<b>11,684</b>	<b>18,542</b>	<b>22,915</b>
<b>EBITDA Margin</b>	<b>20.0%</b>	<b>22.5%</b>	<b>29.6%</b>	<b>33.5%</b>	<b>34.5%</b>
Depreciation & amortization	1,924	2,021	2,054	3,321	3,150
<b>EBIT</b>	<b>10,944</b>	<b>17,521</b>	<b>22,065</b>	<b>17,521</b>	<b>22,065</b>
Interest expense	1,048	1,126	784	784	784
Other income	2,163	2,011	1,314	2,300	2,300
<b>PBT</b>	<b>4,402</b>	<b>4,823</b>	<b>10,160</b>	<b>16,737</b>	<b>21,281</b>
Tax	1,428	7,039	2,704	4,184	5,533
Exceptional item	-1,075	0	-291	0	0
<b>PAT</b>	<b>1,899</b>	<b>-2,216</b>	<b>7,747</b>	<b>12,553</b>	<b>15,748</b>
<b>Adj. PAT</b>	<b>1,899</b>	<b>-2,216</b>	<b>7,747</b>	<b>12,553</b>	<b>15,748</b>
EPS (INR)	17.3	-20.2	70.5	114.2	143.3
Adj. EPS	17.3	-20.2	70.5	114.2	143.3

Source: Company, KRChoksey Research

### Exhibit 2: Cash Flow Statement

INRmn	FY20	FY 21	FY 22	FY 23E	FY 24E
Net Cash Generated From Operations	5,471	6,164	7,413	14,789	19,082
Net Cash Flow from/(used in) Investing Activities	(11,923)	(3,734)	(5,838)	(7,917)	(10,899)
Net Cash Flow from Financing Activities	6,217	(2,480)	(1,435)	(1,838)	(1,795)
Net Inc/Dec in cash equivalents	(235)	(50)	140	5,034	6,389
Opening Balance	0	166	116	256	5,290
Closing Balance Cash and Cash Equivalents	166	116	256	5,290	11,679

Source: Company, KRChoksey Research

### Exhibit 3: Key Ratios

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margins (%)	19.99%	22.48%	29.55%	33.50%	34.50%
Net Profit Margin (%)	7.29%	-8.36%	19.59%	22.68%	23.71%
RoE (%)	5.11%	-6.34%	18.21%	22.78%	22.23%
RoCE (%)	4.53%	-4.72%	16.52%	21.27%	21.17%
RoA (%)	3.13%	-3.73%	11.26%	14.39%	15.16%
Debt/Equity	0.13	0.11	0.10	0.07	0.05

Source: Company, KRChoksey Research

# GUJARAT FLUOROCHEMICALS LTD.

## Exhibit 4: Balance Sheet

INRMn	FY20	FY 21	FY 22	FY 23E	FY 24E
<b>Non-current assets</b>					
Property, plant and equipment (PPE)	23,270	22,888	24,474	26,515	27,205
Capital work-in-progress	3,184	4,000	6,798	3,750	4,236
Right of use assets	510	490	466	130	328
Investment property	101	99	65	65	65
Intangible assets	257	188	133	0	135
Investment accounted for using equity method	9	8	9	0	0
<b>Financial assets</b>					
Other investments	1,904	186	0	0	0
Loans	82	115	4	6	6
Other non current financial assets	89	3,051	2,557	3,580	4,296
Deferred tax assets (net)	2,385	0	3	0	0
Other non current assets	9,442	9,423	9,892	15,376	18,452
Income tax assets (net)	166	0	0	0	0
<b>Total non current assets</b>	<b>41,399</b>	<b>40,448</b>	<b>44,400</b>	<b>49,423</b>	<b>54,723</b>
<b>Current assets</b>					
Inventories	8,128	8,639	9,473	13,648	15,468
<b>Financial assets</b>					
Investments	674	685	188	511	511
Trade receivables	5,647	6,671	7,781	12,132	14,558
Cash and cash equivalents	166	116	255	5,290	11,679
Bank balances other than (iii) above	0	101	1,274	1,274	1,274
Loans	419	495	370	408	408
Other current financial assets	483	1,641	3,176	3,415	4,098
Current tax assets (net)	3,069	0	0	0	0
Other current assets	683	688	1,862	1,129	1,129
<b>Total current assets</b>	<b>19,269</b>	<b>19,036</b>	<b>24,380</b>	<b>37,807</b>	<b>49,125</b>
<b>TOTAL ASSETS</b>	<b>60,668</b>	<b>59,485</b>	<b>68,780</b>	<b>87,230</b>	<b>1,03,847</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	110	110	110	110	110
Other equity	37,046	34,818	42,442	54,995	70,743
<b>Equity attributable to the equity shareholders</b>	<b>37,156</b>	<b>34,928</b>	<b>42,551</b>	<b>55,104</b>	<b>70,852</b>
Non-controlling interests	-107	-139	-248	0	0
<b>Total equity</b>	<b>37,049</b>	<b>34,789</b>	<b>42,303</b>	<b>55,104</b>	<b>70,852</b>
<b>Non-current liabilities</b>					
<b>Financial liabilities</b>					
Borrowings	4,787	3,921	4,354	3,919	3,527
Other non current financial liabilities	147	64	13	554	664
Provisions	252	286	329	921	942
Deferred tax liabilities (Net)	0	2,638	2,595	2,858	2,858
Income tax liabilities	0	100	123	156	161
<b>Total non-current liabilities</b>	<b>5,186</b>	<b>7,009</b>	<b>7,414</b>	<b>8,407</b>	<b>8,152</b>
<b>Current liabilities</b>					
<b>Financial liabilities</b>					
Borrowings	10,416	10,183	11,173	9,497	8,072
Trade payables	3,671	3,386	5,135	7,279	8,735
Other financial liabilities	3,823	3,729	1,676	5,535	6,642
Other current liabilities	178	202	269	376	423
Provisions	139	158	161	180	160
Current tax liabilities (Net)	204	229	650	850	811
<b>Total current liabilities</b>	<b>18,431</b>	<b>17,887</b>	<b>19,064</b>	<b>23,717</b>	<b>24,843</b>
<b>Total liabilities</b>	<b>23,617</b>	<b>24,896</b>	<b>26,477</b>	<b>32,125</b>	<b>32,995</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>60,666</b>	<b>59,685</b>	<b>68,780</b>	<b>87,230</b>	<b>1,03,847</b>

Source: Company, KRChoksey Research

# GUJARAT FLUORO CHEMICALS LTD.

Gujarat Fluorochemicals Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
10-Feb-23	2,968	5,015	BUY	Buy	More than 15%
20-Oct-22	3,659	4,045	ACCUMULATE		
28-July-22	3,270	3,578	ACCUMULATE	Accumulate	5% – 15%
16-May-22	2,495	3,215	BUY		
31-Jan-22	2,620	3,167	BUY	Hold	0 – 5%
12-Nov-21	2,104	2,346	ACCUMULATE		
1-Oct-21	1,954	2,201	ACCUMULATE	Reduce	-5% – 0
				Sell	Less than – 5%

### ANALYST CERTIFICATION:

I, Abhishek Agarwal [CA,CFA L3 Cleared, B.com] Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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