

02 August 2023

India | Equity Research | Q1FY24 Results Update

Navin Fluorine International

Speciality Chemicals

High expectation restricts earning surprise

Navin Fluorine International's (NFIL) Q1FY24 net profit dipped 17.5% YoY to INR 615mn despite revenue growth of 24% YoY and lower depreciation charges of INR 150mn. Honeywell supply plant had two months of lost sales due to shutdown and volatility in demand forecast; one molecule for agrochemicals had nil sales due to destocking. Honeywell supplies may be lower in FY24E due to lost production, and price drop from lower input prices with debottlenecking opportunity being pushed to FY26E. Two plants in specialty segment had expected near-peak output, base business is likely to grow from Q2FY24 after three quarters of sharp drop. In FY24, CDMO business to have normalised growth on a high base; however, entry into late-stage product wins ensures CDMO guidance remains unchanged. We have cut our EPS estimates by 4-8% for FY24E/FY25E assuming faster normalisation.

Accordingly, we reduce fair value to INR 3,890 (from INR 4,050), valuing the stock price at 30x (unchanged) at FY25E EPS. Maintain **REDUCE**. **Upside risks:** 1) Large contract wins; and 2) higher-than-expected EBITDA margins.

Revenues were impacted by slowdown in specialty chemicals and shutdown in Honeywell plant

Consolidated revenue rose 23.6% YoY to INR 4.9bn, but down 30% QoQ as HPP segment revenue dipped 41.5% on Honeywell plant shutdown for almost two months for planned maintenance, and breakdown (distillation columns). The company expects production to resume from Q2FY24; however, prices 'true down' has kicked in which has reduced product prices (due to drop in input prices). Further, the company has seen volatile demand forecast from Honeywell which has again made supplies unpredictable. Specialty chemicals segment revenue has grown 12.7% QoQ / 30.7% YoY to INR 2.3bn which benefited from ramp-up in dedicated agro-chemicals plant and MPP-2; however, base business declined due to drop in sales for one-key agro-chemicals. CDMO segment revenue has grown 33% YoY (on low base) to INR 930mn.

R-32 should start contributing to revenue from Q2FY24, however, our channel check suggests prices have dropped to INR 25-350/kg (vs expectation of INR 500/kg). It appears Honeywell debottlenecking opportunity has been pushed to FY26 (from earlier FY25); this also postpones double opportunity post debottlenecking. NFIL is working with Fermion on three products that are late-stage molecule. Immediate opportunity is limited for qualification, and major growth is expected from FY26 onwards.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	14,534	20,774	26,539	35,767
EBITDA	3,548	5,503	7,245	9,989
EBITDA Margin (%)	24.4	26.5	27.3	27.9
Net Profit	2,631	3,752	4,647	6,418
EPS (INR)	53.1	75.7	93.8	129.5
EPS % Chg YoY	2.0	42.6	23.9	38.1
P/E (x)	85.8	60.1	48.6	35.2
EV/EBITDA (x)	63.3	42.4	32.7	24.1
RoCE (%)	13.1	14.8	14.4	16.4
RoE (%)	15.1	18.6	19.6	22.8

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Market Data

Market Cap (INR)	226bn
Market Cap (USD)	2,742mn
Bloomberg Code	NFIL IN
Reuters Code	NAFL.BO
52-week Range (INR)	4,950 /3,765
Free Float (%)	70.0
ADTV-3M (mn) (USD)	9.8

Price Performance (%)	3m	6m	12m
Absolute	(6.0)	14.5	5.0
Relative to Sensex	9.5	12.3	15.8

ESG Disclosure	2021	2022	Change
ESG score	37.3	54.1	16.8
Environment	12.7	41.9	29.2
Social	20.6	41.8	21.3
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(6.7)	(2.8)
EBITDA	(6.9)	(3.2)
EPS	(8.2)	(4.0)

Previous Reports

14-05-2023: [Q4FY23 results review](#)

09-02-2023: [Q3FY23 results review](#)

EBITDA margin dipped 570bps QoQ to 23.3%

Gross margin fell 60bps QoQ to 58.7% due to lower contribution from CDMO business. However, EBITDA grew only 15% YoY (down 43% QoQ) to INR 1.1bn on higher fixed cost, though other expenses dropped 31% QoQ to INR 951mn (base had one-off of INR 150mn). Net profit dipped 17% YoY to INR 615mn despite lower depreciation on rise in useful value of asset. NFIL expects margins to improve as revenue bounces Q2FY24 onwards.

Other highlights

- 1) HPP segment revenue was also impacted by lower R-22 sales due to mild summers in India. The company does not expect to recoup the entire lost sales during seasonally strong quarter (Q1FY24). We believe R-22 has dropped in India significantly ahead of phase down, and is unlikely to recover significantly;
- 2) Honeywell plant had breakdown in distillation column while two reaction and ancillary plants had no issues. Honeywell product forecast has seen major volatility in demand which has also hurt volumes, in our view. NFIL anticipates to sell the entire production for the next two quarters. Volatility in raw material prices has forced companies to work on cost+ basis alignment each quarter (vs earlier annual reset). Lower HPP sales is also a reflection of a drop in HFO realisation. NFIL expects to get approval for debottlenecking from Honeywell which will add 25% capacity in FY25, and revenues FY26 onwards;
- 3) MPP-2 plant has produced all 4+1 products, but utilisation may peak in FY25 with annual revenue of INR 2.7bn. Dedicated agrochemicals (annual revenue of INR 1.6bn) have achieved peak utilisation;
- 4) cGMP-4 plant engineering and designing works have been finalised, and the management will approach for Board approval soon. The visibility of CDMO business has improved from late-stage product approval from Fermion (three products of which one has been supplied for qualification while two will be supplied soon). USD 16mn contract supplies in FY23 has high base and therefore expects normalised CDMO revenue growth for FY24; and
- 5) Working capital days to settle at 90-100days.

Exhibit 1: NFIL (consolidated financials)

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Net revenue	3,975	4,192	5,636	6,971	4,912	(29.5)	23.6
Cost of Goods sold	1,823	1,836	2,464	2,837	2,027	(28.6)	11.2
Gross profit	2,152	2,356	3,172	4,134	2,885	(30.2)	34.0
Gross profit margin (%)	54.1	56.2	56.3	59.3	58.7		
Employee cost	507	572	686	730	792	8.6	56.3
% of revenue	12.7	13.6	12.2	10.5	16.1		
Other expenses	654	846	930	1,387	951	(31.4)	45.3
% of revenue	16.5	20.2	16.5	19.9	19.4		
Total expenses	1,161	1,418	1,616	2,116	1,742	(17.7)	50.1
EBITDA	991	938	1,556	2,018	1,142	(43.4)	15.2
EBITDA margin (%)	24.9	22.4	27.6	28.9	23.3		
Depreciation	124	177	250	76	213	180.5	72.4
EBIT	868	762	1,306	1,942	929	(52.2)	7.1
EBIT margin (%)	21.8	18.2	23.2	27.9	18.9		
Other income	109	109	99	40	83	107.5	(23.9)
Finance cost	3	40	92	140	194	38.7	6,600.0
PBT	974	831	1,313	1,842	818	(55.6)	(16.0)
Tax expenses	229	252	247	478	202	(57.6)	(11.7)
ETR (%)	23.5	30.4	18.8	26.0	24.8		
Exceptional item							
Profit from JV	-	-	-	(0)	-		
PAT	745	578	1,066	1,364	615	(54.9)	(17.4)
Net profit margin (%)	18.7	13.8	18.9	19.6	12.5		
Recurring EPS (INR)	15.0	11.7	21.5	27.6	12.4	(54.9)	(17.5)

Source: I-Sec research, Company data

Exhibit 2: NFIL (standalone financials)

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Net revenue	3,868	3,664	4,235	4,514	3,507	(22.3)	(9.3)
Cost of Goods sold	1,759	1,617	1,912	1,866	1,454	(22.1)	(17.3)
Gross profit	2,110	2,047	2,323	2,648	2,053	(22.5)	(2.7)
Gross profit margin (%)	54.5	55.9	54.9	58.7	58.5		
Employee cost	440	469	559	562	587	4.4	33.5
% of revenue	11.4	12.8	13.2	12.5	16.7		
Other expenses	671	678	685	845	621	(26.6)	(7.5)
% of revenue	17.3	18.5	16.2	18.7	17.7		
Total expenses	1,111	1,147	1,244	1,408	1,207	(14.2)	8.7
EBITDA	999	900	1,079	1,241	845	(31.9)	(15.4)
EBITDA margin (%)	25.8	24.6	25.5	27.5	24.1		
Depreciation	115	118	122	71	116	64.2	0.9
EBIT	884	782	957	1,170	730	(37.7)	(17.5)
EBIT margin (%)	22.9	21.3	22.6	25.9	20.8		
Other income	142	84	97	86	116	34.2	(18.7)
Finance cost	3	3	7	8	16	113.3	400.0
PBT	1,023	863	1,047	1,249	829	(33.6)	(19.0)
Exceptional item	-	-	-	-	-		
Tax expenses	234	222	231	371	199	(46.3)	(14.7)
ETR (%)	22.8	25.7	22.1	29.7	24.0		
PAT	790	641	816	878	630	(28.3)	(20.2)
Net profit margin (%)	20.4	17.5	19.3	19.5	18.0		
Recurring EPS (INR)	16.0	13.0	16.5	17.7	12.7	(28.4)	(20.3)

Source: I-Sec research, Company data

Exhibit 3: NFIL – segmental revenues

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
HPP (ref-gas/inorganic)	1,520	2,110	2,530	2,890	1,690	(41.5)	11.2
Specialty Chemicals	1,760	1,770	1,860	2,040	2,300	12.7	30.7
CDMO	590	390	1,250	2,030	930	(54.2)	57.6
Total revenue	3,870	4,270	5,640	6,960	4,920	(29.3)	27.1
Contribution (%)							
HPP (ref-gas/inorganic)	39.3	49.4	44.9	41.5	34.3		
Specialty Chemicals	45.5	41.5	33.0	29.3	46.7		
CDMO	15.2	9.1	22.2	29.2	18.9		

Source: I-Sec research, Company data

Exhibit 4: NFIL – domestic/overseas revenue breakup

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Domestic							
HPP (ref-gas/inorganic)	1,186	971	734	838	828	(1.2)	(30.2)
Specialty Chemicals	915	991	688	755	805	6.7	(12.0)
CDMO	-	-	-	-	-		
Total Domestic	2,101	1,962	1,422	1,593	1,633	2.5	(22.3)
Exports							
HPP (ref-gas/inorganic)	334	1,139	1,796	2,052	862	(58.0)	157.7
Specialty Chemicals	845	779	1,172	1,285	1,495	16.3	77.0
CDMO	590	390	1,250	2,030	930	(54.2)	57.6
Total Exports	1,769	2,308	4,218	5,367	3,287	(38.8)	85.8

Source: I-Sec research, Company data

Exhibit 5: Earnings revision

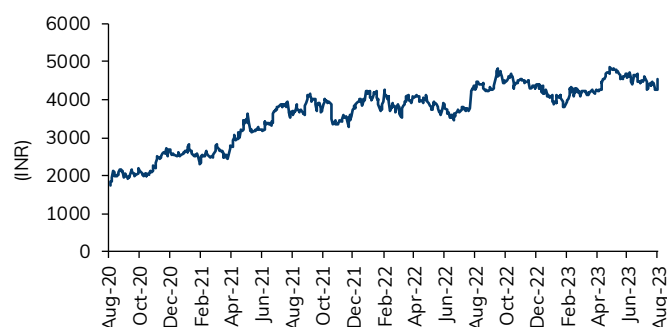
INR mn	Revised		Earlier		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	26,539	35,767	28,452	36,815	(6.7)	(2.8)
EBITDA	7,245	9,989	7,779	10,320	(6.9)	(3.2)
EBITDA margin (%)	27.3	27.9	27.3	28.0		
PAT	4,647	6,418	5,061	6,683	(8.2)	(4.0)
EPS (INR)	94	130	102	135	(8.2)	(4.0)

Source: I-Sec research, Company data

Exhibit 6: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	29.4	28.8	28.8
Institutional investors	43.0	44.4	44.5
MFs and other	19.4	20.3	20.4
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	4.0	4.5	4.6
FII	19.6	19.6	19.5
Others	27.6	26.8	26.7

Source: Bloomberg, I-Sec research

Exhibit 7: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 8: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	14,534	20,774	26,539	35,767
Operating Expenses	10,986	15,271	19,294	25,779
EBITDA	3,548	5,503	7,245	9,989
EBITDA Margin (%)	24.4	26.5	27.3	27.9
Depreciation & Amortization	479	626	900	1,307
EBIT	3,069	4,877	6,345	8,682
Interest expenditure	19	275	663	779
Other Non-operating Income	392	357	393	432
Recurring PBT	3,442	4,959	6,075	8,336
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	812	1,207	1,428	1,917
PAT	2,631	3,752	4,647	6,418
Less: Minority Interest	0	0	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,631	3,752	4,647	6,418
Net Income (Adjusted)	2,631	3,752	4,647	6,418

Source Company data, I-Sec research

Exhibit 9: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	9,692	15,610	18,316	21,988
of which cash & cash eqv.	958	348	(189)	(1,614)
Total Current Liabilities & Provisions	3,839	5,215	8,787	12,144
Net Current Assets	5,525	11,001	13,057	15,257
Investments	1,709	955	955	955
Net Fixed Assets	11,577	17,851	22,558	27,554
ROU Assets	-	-	-	-
Capital Work-in-Progress	7,421	2,786	1,393	696
Total Intangible Assets	878	878	878	878
Other assets	251	946	1,087	1,250
Deferred Tax assests	-	-	-	-
Total Assets	19,688	30,684	37,446	44,644
Liabilities				
Borrowings	1,045	8,487	11,487	13,487
Deferred Tax Liability	201	348	348	348
Provisions	137	151	174	200
Other Liabilities	235	199	254	342
Equity Share Capital	99	99	99	99
Reserves & Surplus	18,343	21,750	25,513	30,710
Total Net Worth	18,442	21,850	25,612	30,810
Minority Interest	-	-	-	-
Total Liabilities	19,688	30,684	37,446	44,644

Source Company data, I-Sec research

Exhibit 10: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	4,192	5,636	6,971	4,912
% growth (YOY)	23.7	48.7	70.5	23.6
EBITDA	938	1,556	2,018	1,142
Margin %	22.4	27.6	28.9	23.3
Other Income	109	99	40	83
Extraordinaries	-	-	-	-
Adjusted Net Profit	578	1,066	1,364	615

Source Company data, I-Sec research

Exhibit 11: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	2,851	4,672	5,817	8,072
Working Capital Changes	(2,104)	(5,307)	(2,593)	(3,626)
Capital Commitments	(5,758)	(7,555)	(5,607)	(6,304)
Free Cashflow	(5,041)	(8,213)	(2,382)	(1858)
Other investing cashflow	4,035	1021	393	432
Cashflow from Investing Activities	4,065	1,021	393	432
Issue of Share Capital	25	12	-	-
Interest Cost	(19)	(275)	(663)	(779)
Inc (Dec) in Borrowings	1,020	7,442	3,000	2,000
Dividend paid	(542)	(543)	(884)	(1,221)
Others	(69)	(57)	-	-
Cash flow from Financing Activities	415	6,579	1,452	0
Chg. in Cash & Bank balance	(561)	(613)	(537)	(1,426)
Closing cash & balance	757	145	(189)	(1,614)

Source Company data, I-Sec research

Exhibit 12: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	53.1	75.7	93.8	129.5
Adjusted EPS (Diluted)	53.1	75.7	93.8	129.5
Cash EPS	62.8	88.4	112.0	155.9
Dividend per share (DPS)	11.0	12.0	17.8	24.6
Book Value per share (BV)	372.2	441.0	516.9	621.8
Dividend Payout (%)	20.7	15.8	19.0	19.0
Growth (%)				
Net Sales	23.2	42.9	27.8	34.8
EBITDA	14.7	55.1	31.7	37.9
EPS (INR)	2.0	42.6	23.9	38.1
Valuation Ratios (x)				
P/E	85.8	60.1	48.6	35.2
P/CEPS	72.6	51.5	40.7	29.2
P/BV	12.2	10.3	8.8	7.3
EV / EBITDA	63.3	42.4	32.7	24.1
EV/SALES	15.5	11.2	8.9	6.7
Dividend Yield (%)	0.2	0.3	0.4	0.5
Operating Ratios				
Gross Profit Margins (%)	54.2	56.9	57.0	57.3
EBITDA Margins (%)	24.4	26.5	27.3	27.9
Effective Tax Rate (%)	23.6	24.3	23.5	23.0
Net Profit Margins (%)	18.1	18.1	17.5	17.9
NWC / Total Assets (%)	(8.8)	(15.0)	(6.1)	(7.1)
Net Debt / Equity (x)	(0.1)	0.4	0.4	0.5
Net Debt / EBITDA (x)	(0.3)	1.4	1.6	1.5
Profitability Ratios				
RoCE (%)	13.1	14.8	14.4	16.4
RoE (%)	15.1	18.6	19.6	22.8
RoIC (%)	17.1	15.6	14.6	16.2
Fixed Asset Turnover (x)	1.3	1.2	1.2	1.3
Inventory Turnover Days	64.7	82.2	77.2	72.2
Receivables Days	89.8	98.7	93.7	88.7
Payables Days	36.8	42.8	37.8	37.8

Source Company data, I-Sec research

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