

## Dewas plant visit

Specialty Chemicals ▶ Visit Note ▶ September 29, 2024

**TARGET PRICE (Rs): 3,500**

We visited Navin Fluorine’s plant based in Dewas, Madhya Pradesh which caters to its CDMO business vertical. The company manufacture pharma intermediates for commercialized (50-60%) and last-stage molecules. The management revisited its CDMO guidance of USD100mn by FY27 on the back of execution of cGMP-4 phase-1 (dedicated for Fermion) and conviction to start phase-2 expansion in the next 6-12 months, subject to addition of new molecules/clients. The overall tone of new CEO Nitin Kulkarni remains positive wrt all its business verticals, with focus on adding new customers, product life-cycle management, building R&D capabilities, cost rationalization and local sourcing, capacity utilization, and governance. We maintain our REDUCE rating, slightly upping our TP to Rs3,500/sh (rolling over to Sep-26E EPS).

### Navin Fluorine: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	20,774	20,650	25,062	30,828	35,058
EBITDA	5,503	3,983	5,714	7,584	8,624
Adj. PAT	3,752	2,184	3,488	4,625	5,290
Adj. EPS (Rs)	75.7	54.6	70.4	93.3	106.8
EBITDA margin (%)	26.5	19.3	22.8	24.6	24.6
EBITDA growth (%)	55.1	(27.6)	43.5	32.7	13.7
Adj. EPS growth (%)	42.5	(27.9)	28.9	32.6	14.4
RoE (%)	18.6	9.6	13.9	16.2	16.2
RoIC (%)	19.6	8.2	11.3	12.3	12.1
P/E (x)	45.5	78.1	48.9	36.9	32.3
EV/EBITDA (x)	32.5	46.1	31.9	24.1	21.2
P/B (x)	7.8	7.2	6.4	5.6	4.9
FCFF yield (%)	(4.2)	0.0	(0.7)	(0.1)	0.6

Source: Company, Emkay Research

### Building a rock-solid CDMO capability for future growth

The company’s Dewas plant is built on 47 acres of land, of which 35% is currently occupied and another 10% would get occupied after addition of the cGMP 4 block (equal to the size of its 3 existing cGMPs). The company will still have 25% vacant land to build 2 new GMPs the size of cGMP 4. The company has built adequate effluent treatment capacity to cater to cGMP 4 waste after its recent debottlenecking exercise. The company has a separate R&D laboratory, apart from its Surat R&D center with ~60 scientists (17 PhDs). Currently, the company is focusing on process improvement/development for tech-packs/name/structure of molecule provided by its clients, while the management claims to have working relationships with >20 top pharma innovators globally.

### Robust developments visible in the plant

The company had announced capex of Rs2.9bn for cGMP 4 with an initial outlay of Rs1.6bn in phase-1. This includes construction cost for building the RCC structure, common utilities, and plant & machinery for 16 reactors. The balance 16 reactors will be added in phase-2, taking the overall capacity to 200K ltr. We believe commercial production from the plant will start from Q4FY26. The capacity of cGMP 3/2/1 is 140 (30 reactors for 5-6 products)/60/10K ltr, resp. The management believes that the CDMO plant runs at 40-50% optimum utilization, leaving room for onboarding new customers.

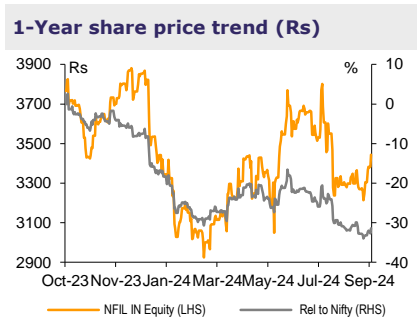
### Tactically navigating its HPP and Specialty Chemicals verticals

In the HPP vertical, the AHF and R32 projects are progressing in a timely manner. The management is confident of selling R32 post expansion, given the sales estimates of RACs by FY30 and investment of Rs14bn by Daikin. Its contract with Honeywell was signed for 7 years and will be renewed in due course. In case of its specialty chemicals vertical, the agro-specialty capex of Rs5.4bn will be commissioned by Oct-24 and has applications in 4 AIs. Currently, the asset is being upgraded to add 1 more molecule at cost to customer. Also, the company is exploring building partnerships in electronic and semiconductor chemicals, to capitalize on the demand for fluorine in the segment.

Target Price – 12M	Sep-25
Change in TP (%)	2.9
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	1.6
CMP (27-Sep-24) (Rs)	3,444.0

Stock Data	Ticker
52-week High (Rs)	4,469
52-week Low (Rs)	2,876
Shares outstanding (mn)	49.6
Market-cap (Rs bn)	171
Market-cap (USD mn)	2,040
Net-debt, FY25E (Rs mn)	11,395
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	763.7
ADTV-3M (USD mn)	9.1
Free float (%)	-
Nifty-50	26,179
INR/USD	83.7
<b>Shareholding, Jun-24</b>	
Promoters (%)	28.8
FPIs/MFs (%)	18.0/27.4

Price Performance (%)	1M	3M	12M
Absolute	4.7	(4.7)	(22.5)
Rel. to Nifty	-	(12.5)	(41.6)



### Meet Vora

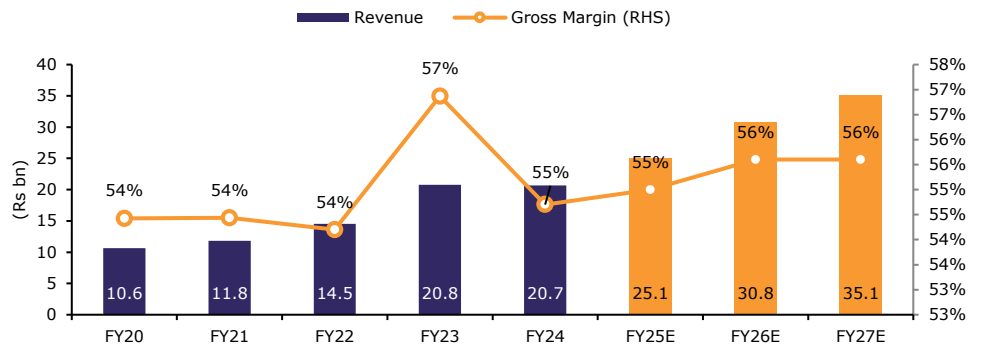
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**Exhibit 1: Specialty and CDMO ramp-up to drive 20% revenue CAGR over FY24-27E**

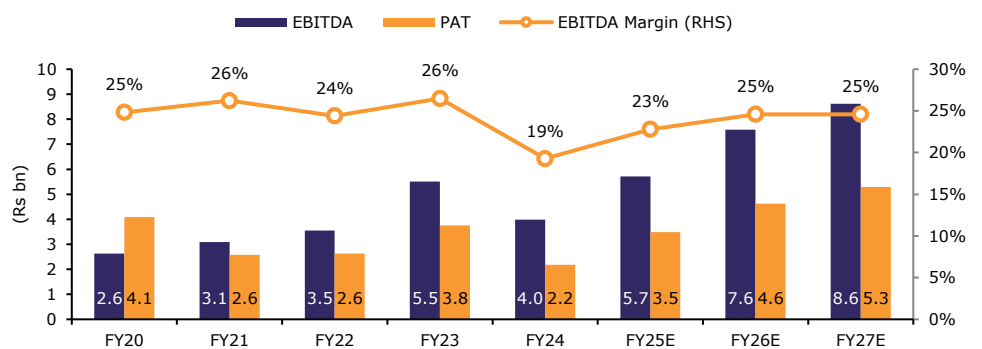
*Healthy growth in the specialty chemicals and CDMO businesses, coupled with steady ramp-up in the HPP business, to drive incremental revenue (lower base in FY24)*



Source: Company, Emkay Research

**Exhibit 2: Operating leverage to kick in by FY26/27 on the back of higher capacity utilization**

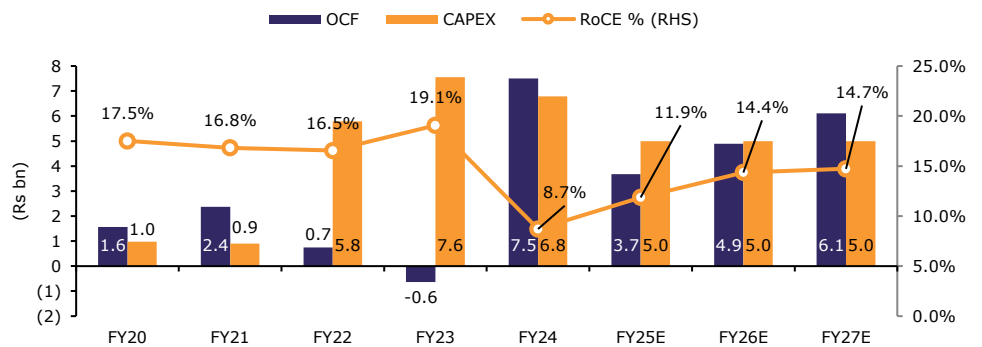
*Margin trajectory to improve, considering the higher share of the specialty/CDMO business, as guided by the management*



Source: Company, Emkay Research

**Exhibit 3: Sustainable operating cash flows to keep RoCE in control, post-capex**

*Healthy OCF generation to be sufficient for funding capex plans*



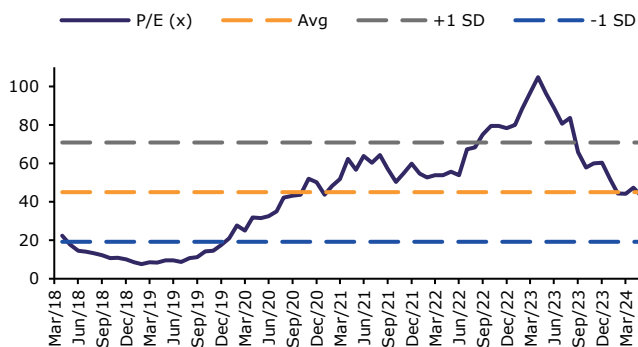
Source: Company, Emkay Research

Exhibit 4: Specialty Chemicals companies – Peer valuations, a comparison

Peer (Domestic)	Ratings	P/E (x)			EV/E (x)			RoE (%)		
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
SRF	ADD	42	31	26	24	19	17	14	17	17
PI Industries	REDUCE	42	37	33	28	24	21	18	17	16
Gujarat Fluorochemicals	SELL	73	49	39	29	21	17	10	14	15
Deepak Nitrite	ADD	47	36	33	33	33	26	16	18	17
Aarti Industries	BUY	45	30	24	20	15	13	9	12	13
Navin Fluorine International	REDUCE	49	37	32	32	24	21	14	16	16
Anupam Rasayan India *	ADD	48	26	19	25	16	13	6	10	13
Epigral	BUY	29	22	20	14	11	10	23	24	22
Tata Chemicals	NR	34	24	23	13	11	11	4	5	5
Atul	NR	46	35	28	25	20	17	9	11	12
Vinati Organics	NR	54	41	39	35	28	24	16	19	18
Clean Science & Technology	NR	54	42	29	38	30	21	22	24	28
Fine Organic Industries	NR	37	34	30	27	24	22	21	19	19
Aether Industries	NR	81	55	35	51	35	22	7	10	13
Jubilant Ingrevia	NR	44	32	24	22	17	14	9	12	14
Archean Chemical Industries	NR	22	15	12	15	10	8	20	24	24
Deepak Fertilisers & Petrochem	NR	18	15	10	10	8	7	9	9	17
Laxmi Organic Industries	NR	52	42	28	24	19	14	8	10	13
Sudarshan Chemical Industries	NR	40	29	25	19	16	14	15	18	18
Neogen Chemicals	NR	92	60	42	41	27	16	8	11	15

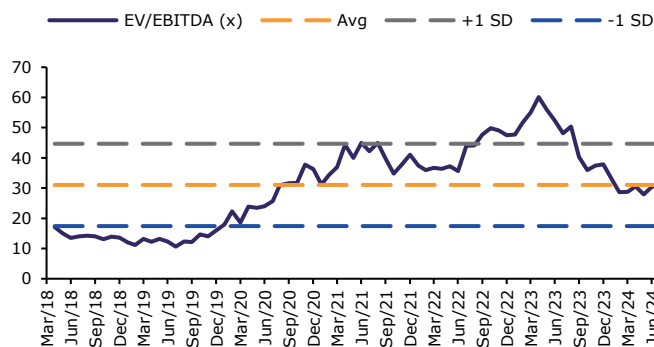
Source: Bloomberg, Emkay Research; Note: \*Standalone

Exhibit 5: One-year forward P/E



Source: Bloomberg, Emkay Research

Exhibit 6: One-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

## Navin Fluorine: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>20,774</b>	<b>20,650</b>	<b>25,062</b>	<b>30,828</b>	<b>35,058</b>
Revenue growth (%)	42.9	(0.6)	21.4	23.0	13.7
<b>EBITDA</b>	<b>5,503</b>	<b>3,983</b>	<b>5,714</b>	<b>7,584</b>	<b>8,624</b>
EBITDA growth (%)	55.1	(27.6)	43.5	32.7	13.7
Depreciation & Amortization	626	962	1,105	1,608	1,849
<b>EBIT</b>	<b>4,877</b>	<b>3,021</b>	<b>4,609</b>	<b>5,976</b>	<b>6,775</b>
EBIT growth (%)	58.9	(38.0)	52.6	29.6	13.4
Other operating income	0	0	0	0	0
Other income	357	559	614	676	743
Financial expense	275	746	753	722	737
<b>PBT</b>	<b>4,959</b>	<b>2,834</b>	<b>4,471</b>	<b>5,929</b>	<b>6,782</b>
Extraordinary items	0	0	0	0	0
Taxes	1,207	650	984	1,304	1,492
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>3,752</b>	<b>2,705</b>	<b>3,488</b>	<b>4,625</b>	<b>5,290</b>
PAT growth (%)	42.6	(27.9)	28.9	32.6	14.4
<b>Adjusted PAT</b>	<b>3,752</b>	<b>2,184</b>	<b>3,488</b>	<b>4,625</b>	<b>5,290</b>
<b>Diluted EPS (Rs)</b>	<b>75.7</b>	<b>54.6</b>	<b>70.4</b>	<b>93.3</b>	<b>106.8</b>
Diluted EPS growth (%)	42.5	(27.9)	28.9	32.6	14.4
<b>DPS (Rs)</b>	<b>11.0</b>	<b>15.0</b>	<b>16.4</b>	<b>14.1</b>	<b>18.7</b>
<b>Dividend payout (%)</b>	<b>14.5</b>	<b>27.5</b>	<b>23.3</b>	<b>15.1</b>	<b>17.5</b>
EBITDA margin (%)	26.5	19.3	22.8	24.6	24.6
EBIT margin (%)	23.5	14.6	18.4	19.4	19.3
Effective tax rate (%)	24.3	22.9	22.0	22.0	22.0
<b>NOPLAT (pre-IndAS)</b>	<b>3,690</b>	<b>2,328</b>	<b>3,595</b>	<b>4,661</b>	<b>5,285</b>
Shares outstanding (mn)	49.6	49.6	49.6	49.6	49.6

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	4,959	2,834	4,471	5,929	6,782
Others (non-cash items)	0	0	0	0	0
Taxes paid	(1,098)	(343)	(958)	(1,271)	(1,467)
Change in NWC	(5,057)	(379)	2,948	(1,390)	(1,020)
<b>Operating cash flow</b>	<b>(636)</b>	<b>7,499</b>	<b>3,679</b>	<b>4,890</b>	<b>6,113</b>
Capital expenditure	(6,900)	(7,585)	(5,000)	(5,000)	(5,000)
Acquisition of business	34	40	0	0	0
Interest & dividend income	79	100	120	0	0
<b>Investing cash flow</b>	<b>(6,556)</b>	<b>(10,935)</b>	<b>(386)</b>	<b>(4,324)</b>	<b>(4,257)</b>
Equity raised/(repaid)	17	0	0	0	0
Debt raised/(repaid)	7,279	4,913	(1,712)	695	(204)
Payment of lease liabilities	14	14	14	0	0
Interest paid	(275)	(746)	(753)	(722)	(737)
Dividend paid (incl tax)	(543)	(745)	(812)	(698)	(925)
Others	101	(65)	0	0	0
<b>Financing cash flow</b>	<b>6,579</b>	<b>3,357</b>	<b>(3,276)</b>	<b>(725)</b>	<b>(1,866)</b>
Net chg in Cash	(613)	(78)	17	(159)	(10)
OCF	(636)	7,499	3,679	4,890	6,113
Adj. OCF (w/o NWC chg.)	(5,692)	7,120	6,627	3,500	5,093
FCFF	(7,536)	(86)	(1,321)	(110)	1,113
FCFE	(7,732)	(732)	(1,954)	(832)	0
OCF/EBITDA (%)	(11.6)	188.3	64.4	64.5	70.9
FCFE/PAT (%)	(206.1)	(27.1)	(56.0)	(18.0)	0.0
<b>FCFF/NOPLAT (%)</b>	<b>(204.2)</b>	<b>(3.7)</b>	<b>(36.8)</b>	<b>(2.4)</b>	<b>21.1</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	99	99	99	99	99
Reserves & Surplus	21,750	23,728	26,404	30,331	34,696
<b>Net worth</b>	<b>21,850</b>	<b>23,827</b>	<b>26,503</b>	<b>30,430</b>	<b>34,795</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	348	643	643	643	643
<b>Total debt</b>	<b>8,487</b>	<b>13,399</b>	<b>11,688</b>	<b>12,382</b>	<b>12,178</b>
<b>Total liabilities &amp; equity</b>	<b>30,684</b>	<b>37,869</b>	<b>38,834</b>	<b>43,456</b>	<b>47,616</b>
Net tangible fixed assets	6,291	6,539	6,748	322	0
Net intangible assets	15	31	31	5	0
Net ROU assets	40	12	12	0	0
Capital WIP	2,786	7,111	4,000	1,000	1,000
Goodwill	878	878	878	878	878
Investments [JV/Associates]	633	593	593	593	593
<b>Cash &amp; equivalents</b>	<b>348</b>	<b>275</b>	<b>293</b>	<b>133</b>	<b>123</b>
Current assets (ex-cash)	15,584	17,550	14,147	16,676	18,532
Current Liab. & Prov.	4,609	5,901	5,446	6,586	7,422
<b>NWC (ex-cash)</b>	<b>10,974</b>	<b>11,649</b>	<b>8,701</b>	<b>10,091</b>	<b>11,110</b>
<b>Total assets</b>	<b>30,683</b>	<b>37,869</b>	<b>38,834</b>	<b>43,456</b>	<b>47,616</b>
Net debt	8,138	13,124	11,395	12,249	12,055
Capital employed	30,684	37,869	38,834	43,456	47,616
<b>Invested capital</b>	<b>26,917</b>	<b>29,890</b>	<b>33,948</b>	<b>41,730</b>	<b>45,900</b>
BVPS (Rs)	441.0	480.9	534.9	614.1	702.2
Net Debt/Equity (x)	0.4	0.6	0.4	0.4	0.3
Net Debt/EBITDA (x)	1.5	3.3	2.0	1.6	1.4
Interest coverage (x)	0.1	0.2	0.1	0.1	0.1
<b>RoCE (%)</b>	<b>20.7</b>	<b>10.4</b>	<b>13.6</b>	<b>16.2</b>	<b>16.5</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	45.5	78.1	48.9	36.9	32.3
P/CE(x)	39.0	54.3	37.2	27.4	23.9
P/B (x)	7.8	7.2	6.4	5.6	4.9
EV/Sales (x)	8.6	8.9	7.3	5.9	5.2
EV/EBITDA (x)	32.5	46.1	31.9	24.1	21.2
EV/EBIT(x)	36.7	60.8	39.5	30.6	27.0
EV/IC (x)	6.6	6.1	5.4	4.4	4.0
FCFF yield (%)	(4.2)	0.0	(0.7)	(0.1)	0.6
FCFE yield (%)	(4.5)	(0.4)	(1.1)	(0.5)	0.0
Dividend yield (%)	0.3	0.4	0.5	0.4	0.5
<b>DuPont-RoE split</b>					
Net profit margin (%)	18.1	10.6	13.9	15.0	15.1
Total asset turnover (x)	0.8	0.6	0.7	0.7	0.8
Assets/Equity (x)	1.3	1.5	1.5	1.4	1.4
<b>RoE (%)</b>	<b>18.6</b>	<b>9.6</b>	<b>13.9</b>	<b>16.2</b>	<b>16.2</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	17.8	11.3	14.3	15.1	15.1
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
<b>RoIC (%)</b>	<b>19.6</b>	<b>8.2</b>	<b>11.3</b>	<b>12.3</b>	<b>12.1</b>
<b>Operating metrics</b>					
Core NWC days	192.8	205.9	126.7	119.5	115.7
<b>Total NWC days</b>	<b>192.8</b>	<b>205.9</b>	<b>126.7</b>	<b>119.5</b>	<b>115.7</b>
Fixed asset turnover	1.7	1.0	1.0	0.9	0.9
Opex-to-revenue (%)	30.4	35.4	32.2	31.0	31.0

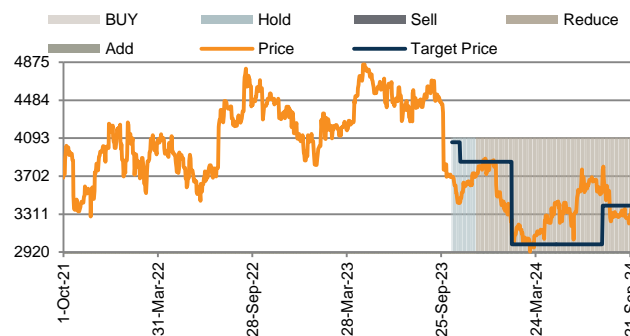
Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Aug-24	3,290	3,400	Reduce	Meet Vora
30-Jul-24	3,771	3,400	Reduce	Meet Vora
14-Jul-24	3,657	3,000	Reduce	Meet Vora
07-Jun-24	3,329	3,000	Reduce	Meet Vora
08-May-24	3,411	3,000	Reduce	Meet Vora
07-Apr-24	3,148	3,000	Reduce	Meet Vora
26-Feb-24	3,109	3,000	Reduce	Meet Vora
07-Feb-24	3,093	3,000	Reduce	Meet Vora
30-Nov-23	3,701	3,850	Reduce	Meet Vora
22-Nov-23	3,610	3,850	Hold	Meet Vora
31-Oct-23	3,438	3,850	Hold	Meet Vora
15-Oct-23	3,692	4,050	Hold	Meet Vora

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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