

Navin Fluorine

Estimate changes

TP change

Rating change

Bloomberg	NFIL IN
Equity Shares (m)	49
M.Cap.(INRb)/(USDb)	209.6 / 2.8
52-Week Range (INR)	4339 / 2338
1, 6, 12 Rel. Per (%)	-1/2/49
12M Avg Val (INR M)	987

Financials & Valuations (INR bn)

Y/E March	FY22E	FY23E	FY24E
Sales	13.8	20.0	24.9
EBITDA	3.7	5.8	7.2
PAT	2.7	4.2	5.3
EPS (INR)	54.6	85.3	106.8
EPS Gr. (%)	8	56	25
BV/Sh.(INR)	377	445	531

Ratios

Net D:E	(0.2)	(0.2)	(0.2)
RoE (%)	15.4	20.7	21.9
RoCE (%)	15.3	20.6	21.8
Payout (%)	20.0	20.0	20.0

Valuations

P/E (x)	77.8	49.8	39.8
P/BV (x)	11.3	9.5	8.0
EV/EBITDA (x)	56.4	35.6	28.2
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	0.0	0.8	1.5

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	30.2	30.2	30.5
DII	16.0	15.2	16.9
FII	25.3	26.4	24.5
Others	28.6	28.2	28.1

FII Includes depository receipts

CMP: INR4,232
TP: INR4,270 (+1%)
Neutral

Margin expands; Revival in legacy business seen

- **NFIL reported a revenue/EBITDA that was 9%/8% higher than our estimate.** Gross margin was in line at 56%, while EBITDA margin grew 90bp QoQ to 26.7%.
- Growth in 3QFY22 was driven by strong growth in the legacy business – Refrigerant Gas and the Inorganic Fluorides (up 31%/28% QoQ) – and was led by increased realization and improved pricing on the back of strong demand in the domestic market. **The management is confident of maintaining its quarterly run-rate of USD10m in the CRAMS segment in 4QFY22.** Specialty Chemicals growth was led by partnerships with large international customers.
- The management expects logistic challenges to subside. This should have a positive impact on the High Value business as it is dependent on demand from export markets. It expects further price pass through in 4QFY22 as new contracts are signed/renewed. NFIL was not able to pass this on completely in 3QFY22 in the High Value business.
- **We assume an EBITDA margin of ~29% over FY23-24E (factoring in commissioning of the HPP project in 1QFY23 and MPP project in 1HFY23). EBITDAM of 26.7% in 3QFY22 is also expected to improve to 28.3% in 4QFY22**
- NFIL has started manufacturing and supply of commercial quantities for some new customers, which would aid in scaling up of the new Dahej plant. The board has also approved debottlenecking of the cGMP-3 plant and the same should be completed by CY22-end. **A new plan for HFCs is to be announced by the end of CY22**, while the Inorganic Fluorides business will continue to grow at India's GDP growth rate.
- **We expect revenue/EBITDA/PAT CAGR of 28-32% over FY21-24E**, and value the company at 40x FY24E EPS to arrive at our TP of IN4,270. We maintain our Neutral rating owing to limited upside in the stock.

Margin in line; improves to 26.7% (+90bp QoQ)

- The company reported revenue of INR3.7b (+24% YoY, +13% QoQ). **Gross margin stood in line at 55.9% (v/s 55.4% in 2QFY22).**
- EBITDA margin stood at 26.7% (in line, +90bp QoQ), with EBITDA at INR981m. PAT was in line at INR692m (+18% YoY; +11% QoQ).
- Revenue rose 24% YoY to INR10b in 9MFY22, with EBITDA up 15% to INR2.6b (as the EBITDA margin shrank 220bp to 25.8%). PAT grew 6% YoY to INR1.9b.

Segmental revenue – legacy business drives growth once again

- The contribution of the High Value business to total revenue stood at 58% (down 500bp QoQ), a growth of 10% YoY and 4% QoQ.
- CRAMS revenue stood at INR600m (-15% YoY, -27% QoQ). The management said it will maintain the quarterly run-rate at USD10m from 4QFY22. The board has also approved the debottlenecking of the cGMP-3 plant.
- Revenue from Specialty Chemicals stood at INR1.5b (+25% YoY, +25% QoQ). Growth was led by partnerships with large international customers.
- The contribution of the legacy business to total revenue stood at 42%, **with a strong 49% YoY and 29% QoQ growth.**

Swarnendu Bhushan – Research Analyst (Swarnendu.Bhushan@MotilalOswal.com)

Sarfranz Bhimani, CFA – Research Analyst (Sarfranz.Bhimani@MotilalOswal.com)

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- Inorganics Fluorides was the key contributor to revenue at INR830m (+46% YoY, +28% QoQ), led by improved pricing and demand in the domestic market
- The Refgas business posted healthy numbers, with a revenue at INR720m (+53% YoY, +31% QoQ) and increased realization in both India and export markets.

Valuation and view – growth opportunities lie ahead

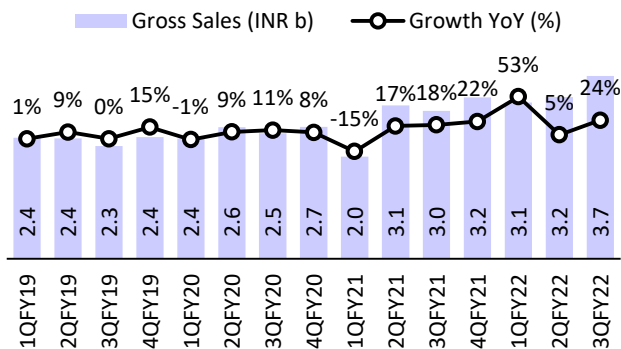
- **The board has approved a capex of INR750m for cGMP-3 debottlenecking, which is expected to be completed by the end of CY22.** cGMP-4 could be another potential growth opportunity over the next couple of years and could now be very well on the cards in CY23-24E. NFIL has a strong pipeline in the Specialty Chemicals segment from the Agrochemical and non-Agro and non-Pharma industries, which should drive growth in this segment.
- The Specialty Chemicals and CRAMS segment would continue to drive robust growth (16-19% CAGR over FY21-24E), with increasing use of fluorine in the Pharma and Agro space. Long lasting relationship in Europe with innovators is resulting in higher inquires.
- The management expects MPP to hit peak annual revenue in three years once its commissioning is complete by CY22-end. The same for other projects could be well within two years of commissioning.
- The stock is trading at 50x/40x FY23E/FY24E EPS of INR85/INR107, with an expected improvement in return ratios to ~22% (+500bp v/s FY21), despite a huge capex (INR7b over the next three years). We value the company at 40x FY24E EPS to arrive at our TP of INR4,270. We maintain our Neutral rating.

Standalone quarterly snapshot

	(INR m)											
Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Gross Sales	2,047	3,077	2,966	3,240	3,139	3,244	3,670	3,785	11,331	13,838	3,373	9%
YoY Change (%)	-15.3	16.6	17.9	22.3	53.3	5.4	23.7	16.8	10.8	22.1	13.7	
Gross Margin (%)	58%	56%	54%	53%	55%	55%	56%	57%	55%	56%	56%	
EBITDA	521	935	810	842	780	835	981	1,072	3,108	3,669	907	8%
Margin (%)	25.4	30.4	27.3	26.0	24.8	25.8	26.7	28.3	27.4	26.5	26.9	
Depreciation	99	100	101	106	109	110	112	120	407	451	114	-2%
Interest	2	3	3	6	4	3	4	3	14	14	3	40%
Other Income	356	88	104	197	76	85	72	154	745	387	95	-25%
PBT before EO expense	776	920	810	927	743	808	937	1,103	3,433	3,592	885	6%
Extra-Ord. expense	0	0	0	662	0	0	0	0	662	0	0	
PBT	776	920	810	1,589	743	808	937	1,103	4,095	3,592	885	6%
Tax	260	246	223	373	179	187	246	277	1,103	889	223	
Rate (%)	33.5	26.8	27.6	23.5	24.1	23.2	26.2	25.1	26.9	24.8	25.2	
Reported PAT	516	673	587	1,216	564	621	692	826	2,992	2,703	662	4%
Adj. PAT	516	673	587	709	564	621	692	826	2,508	2,703	662	4%
YoY Change (%)	30.6	45.1	29.6	-73.6	9.4	-7.8	17.8	16.4	-37.3	7.8	12.9	
Margin (%)	25.2	21.9	19.8	21.9	18.0	19.1	18.8	21.8	22.1	19.5	19.6	
Segmental Revenue (INR m)												
Refrigerant	460	580	470	580	590	550	720	669	2,090	2,529	578	
Inorganic Fluorides	280	490	570	590	560	650	830	759	1,930	2,799	650	
Specialty Chemicals	970	1,020	1,220	1,310	1,330	1,220	1,520	1,444	4,520	5,514	1,366	
CRAMS	340	990	710	760	670	820	600	906	2,800	2,996	779	

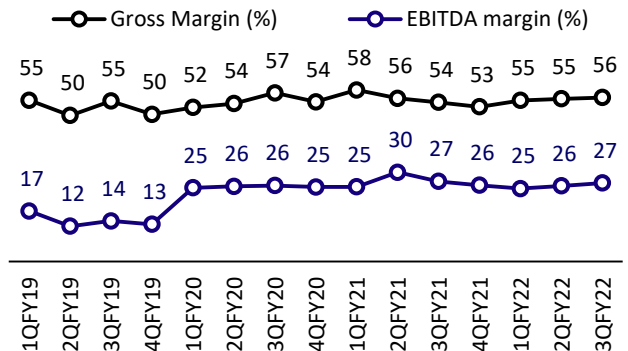
3QFY22 in charts

Exhibit 1: Sales rose 24% YoY and 13% QoQ, led by growth in the legacy business



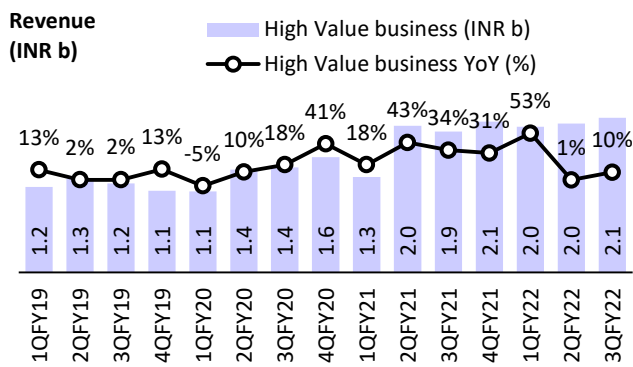
Source: Company, MOFSL

Exhibit 2: Gross/EBITDA margin expands marginally by 100bp each QoQ



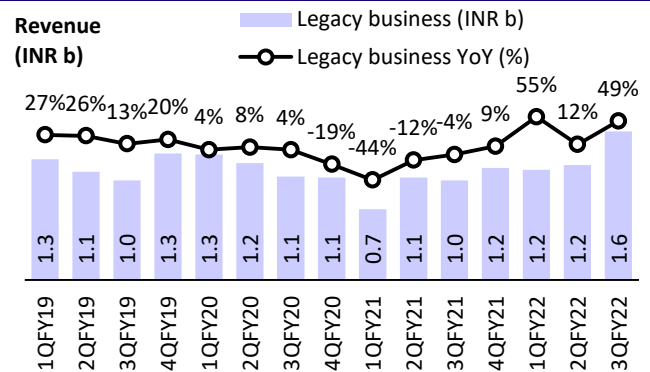
Source: Company, MOFSL

Exhibit 3: High Value business grew 10% YoY and 4% QoQ, revenue from CRAMS declines in 3QFY22



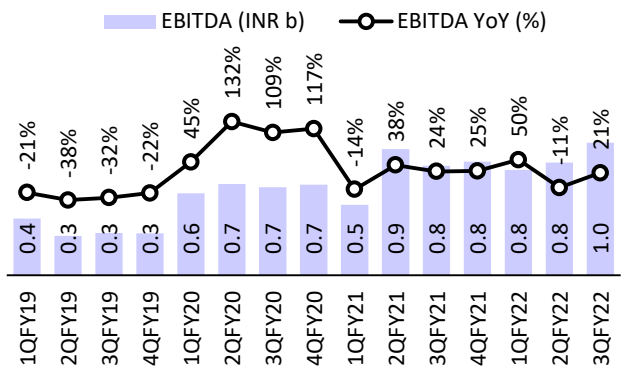
Source: Company, MOFSL

Exhibit 4: Legacy business grew 49% YoY and 29% QoQ, led by healthy growth in both Refgas and Inorganics Fluorides



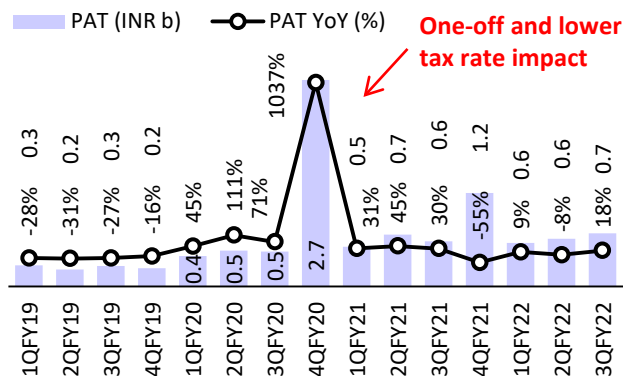
Source: Company, MOFSL

Exhibit 5: EBITDA grew 21% YoY and 17% QoQ, with EBITDA margin at 26.7% in 3QFY22



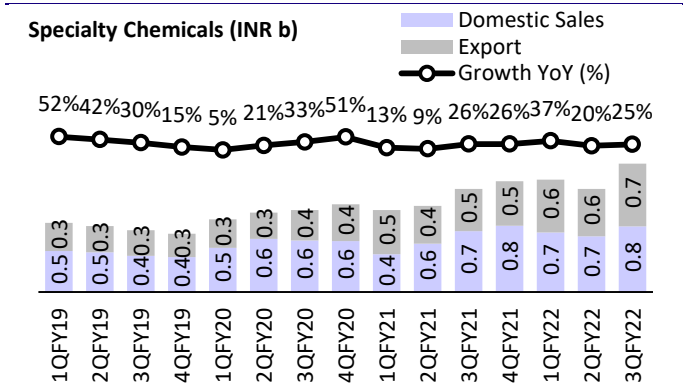
Source: Company, MOFSL

Exhibit 6: PAT up 18% YoY and 11% QoQ, margin at 18.8% in 3QFY22



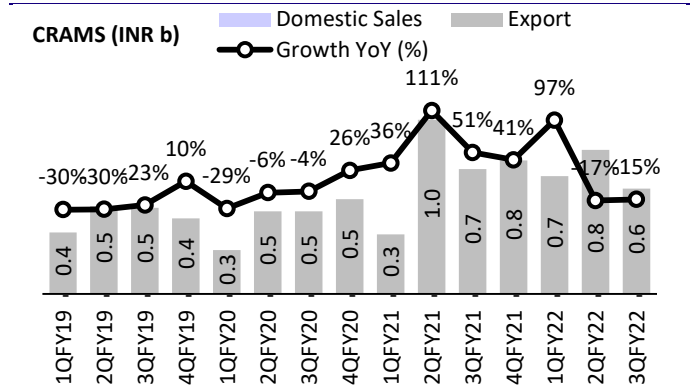
Source: Company, MOFSL

Exhibit 7: Specialty Chemicals grew 25% YoY (+25% QoQ), with Agro/Pharma/Others' revenue mix at 60:20:20



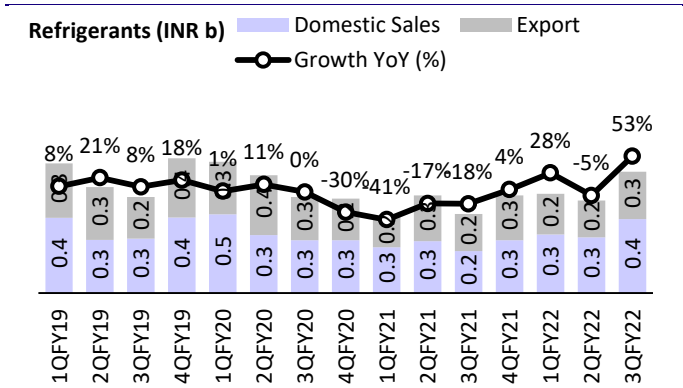
Source: Company, MOFSL

Exhibit 8: CRAMS fell 15% YoY and 27% QoQ due to delays in acquiring some POs which impacted production



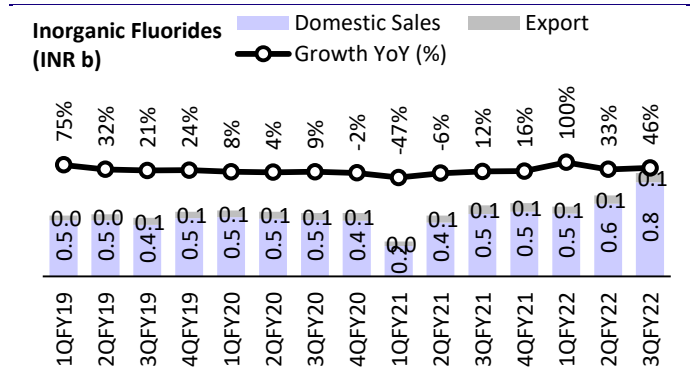
Source: Company, MOFSL

Exhibit 9: Refgas business grew 53% YoY and 31% QoQ, with exports at 39% of total revenue



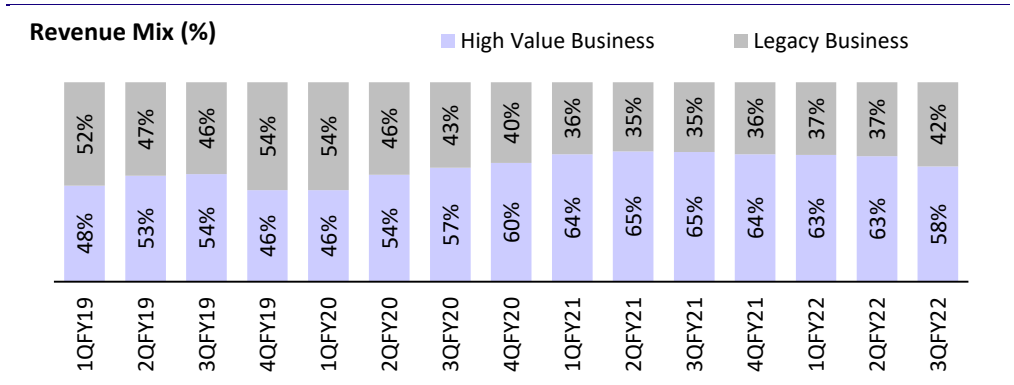
Source: Company, MOFSL

Exhibit 10: Inorganic Fluoride grew 46% YoY and 28% QoQ on the back of strong domestic market demand



Source: Company, MOFSL

Exhibit 11: Revenue mix in the High Value business (Specialty + CRAMS) fell in 3QFY22 on a revival in the legacy business (Refgas + Inorganic Fluoride) post lifting of the lockdowns



Source: Company, MOFSL

Key highlights from the management interaction

Operational highlights

- **Operating margin was impacted by higher employee and input cost.** Addition to employees was in line with upcoming new businesses.
- In the legacy business, Inorganic Fluorides was the main contributor in 9MFY22. Growth in High Value business is dependent on international markets and may see some relief as logistic challenges subside.
- Cost increases were completely passed on in Inorganic Fluorides and the Refgas business. In the Specialty Chemicals business, the company was able to pass it on to a few customers only. CRAMS is a cost plus model and thus remains secured. **The management expects further price pass through in 4QFY22 as new contracts are signed/renewed.**
- Consultation fees of INR70m have been paid in 9MFY22. No further expenses will be incurred on it.

Segmental highlights

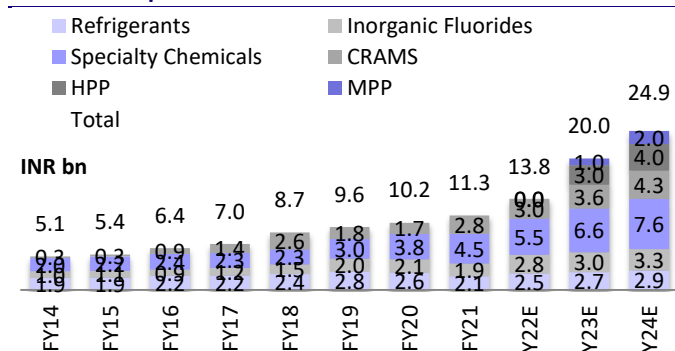
- **Specialty Chemicals:** The strong pipeline is from Agrochemical and non-Agro and non-Pharma segments (not majorly from the Pharma space). **The ARV (Antiretroviral) segment continues to suffer, thus impacting NFIL as well. The management expects a revival in 2HCY22.** From a revenue mix of 40:40:20, the spilt has been skewed to 60:20:20 for Agro, Pharma, and Others in FY22.
- The **CRAMS** segment clocked a decline of 15% YoY in 3QFY22 owing to delays in acquiring some POs, which impacted production. The management is confident of maintaining its USD10m run-rate from 4QFY22. The board has approved a debottlenecking of its CGMP3 business. The exercise is expected to be completed by CY22-end.
- **Refrigerant Gas:** NFIL saw strong volume growth in the domestic market, while exports were impacted by logistic issues. **Pricing of R22 will continue to rise, with a decline in volumes on the emissions side and an increase on the non-emission side.** Segmental growth won't be from volumes growth going forward as OEMs have already moved away from R22.
- **Inorganic Fluorides:** Performance improved due to improved pricing and demand in the domestic market. The company is seeing better profitability on the back of improved sales mix between domestic and international markets. This segment will continue to grow at India's GDP growth rate as most of its products go into industrial sectors.

Capex guidance

- HPP is progressing well, despite COVID-led challenges, with commissioning expected in 1QFY23. MPP and a dedicated manufacturing plant in Dahej are coming up well, with commissioning expected later in CY22. Five products would be launched in the MPP segment. Of this, few would require dedicated units.
- An investment of INR750m has been approved for CGMP3 debottlenecking. MPP will hit peak annual revenue in three years, while the same will be achieved in two years for two other projects.
- The management is evaluating new capacity for hydrofluoric acid in Dahej. It is currently increasing capacity by 10-15% by debottlenecking.

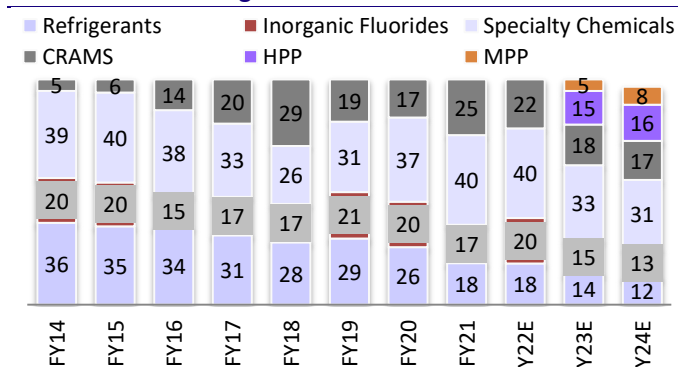
Financial story in charts

Exhibit 1: Expect ~30% revenue CAGR over FY21-24E



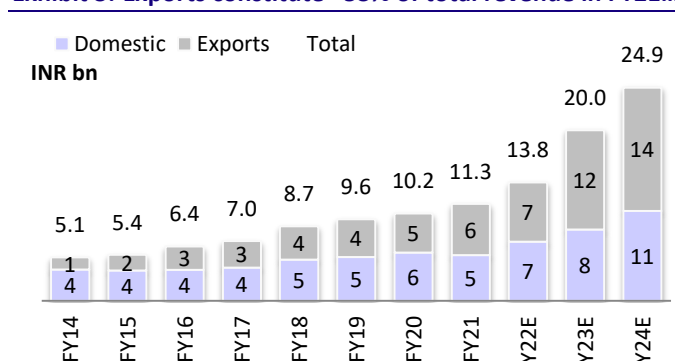
Source: Company, MOFSL

Exhibit 2: ...with a High Value business CAGR of 16-19%



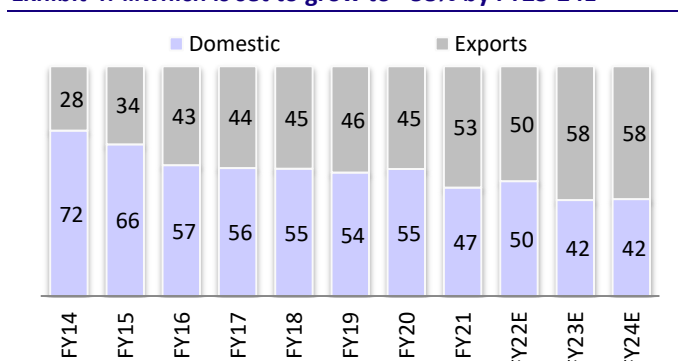
Source: Company, MOFSL

Exhibit 3: Exports constitute ~53% of total revenue in FY21...



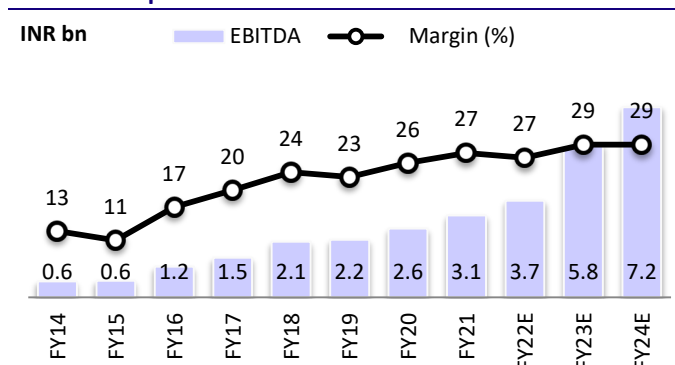
Source: Company, MOFSL

Exhibit 4: ...which is set to grow to ~58% by FY23-24E



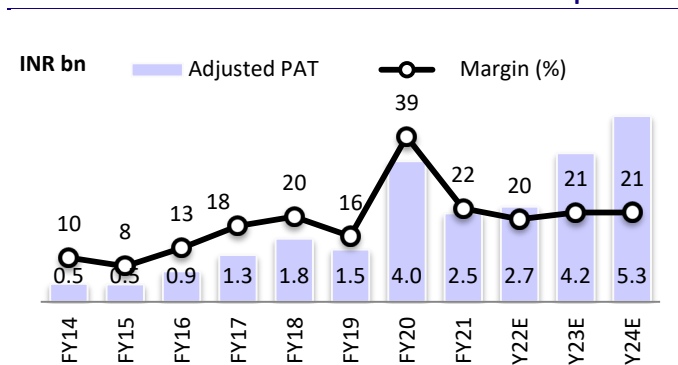
Source: Company, MOFSL

Exhibit 1: Expect ~32% EBITDA CAGR over FY21-24E...



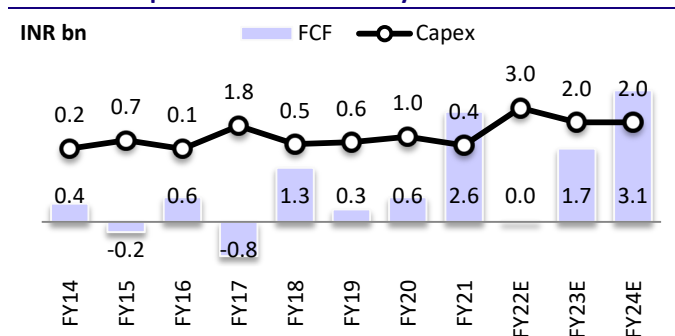
Source: Company, MOFSL

Exhibit 2: ...with PAT CAGR of ~28% over the same period



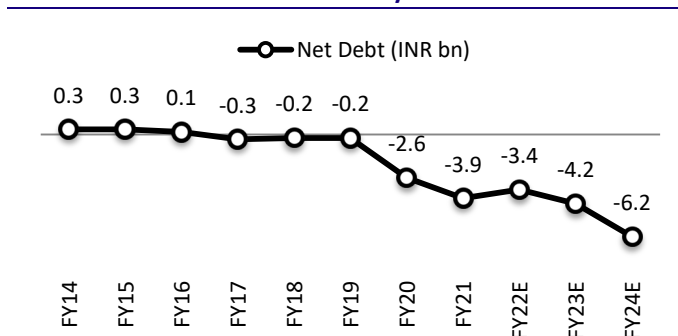
Source: Company, MOFSL

Exhibit 3: Capex for the next three years is INR7b...



Source: Company, MOFSL

Exhibit 4: ...which will be funded by internal accruals



Source: Company, MOFSL

Financials and valuations

Standalone Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	6,785	7,368	8,861	9,551	10,223	11,331	13,838	19,966	24,938
Change (%)	16.1	8.6	20.3	7.8	7.0	10.8	22.1	44.3	24.9
Gross Margin (%)	57.0	57.9	56.6	52.3	54.5	54.9	55.8	55.8	55.8
EBITDA	1,161	1,499	2,107	2,181	2,607	3,108	3,669	5,789	7,230
Margin (%)	17.1	20.3	23.8	22.8	25.5	27.4	26.5	29.0	29.0
Depreciation	209	284	382	259	337	407	451	536	656
EBIT	952	1,216	1,725	1,922	2,270	2,702	3,219	5,253	6,574
Int. and Finance Charges	32	5	7	5	16	14	14	14	14
Other Income	247	557	906	348	313	745	387	399	499
PBT bef. EO Exp.	1,167	1,768	2,625	2,265	2,567	3,433	3,592	5,638	7,059
EO Items	0	0	0	0	0	662	0	0	0
PBT after EO Exp.	1,167	1,768	2,625	2,265	2,567	4,095	3,592	5,638	7,059
Total Tax	302	441	835	780	-1,431	1,103	889	1,419	1,777
Tax Rate (%)	25.9	25.0	31.8	34.5	-55.7	26.9	24.8	25.2	25.2
Reported PAT	865	1,326	1,790	1,485	3,998	2,992	2,703	4,219	5,282
Adjusted PAT	865	1,326	1,790	1,485	3,998	2,508	2,703	4,219	5,282
Change (%)	75.1	53.4	34.9	-17.0	169.3	-37.3	7.8	56.1	25.2
Margin (%)	12.7	18.0	20.2	15.5	39.1	22.1	19.5	21.1	21.2

Standalone Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	98	98	99	99	99	99	99	99	99
Total Reserves	7,132	8,137	9,601	10,493	13,790	16,402	18,564	21,939	26,165
Net Worth	7,230	8,235	9,700	10,592	13,889	16,501	18,663	22,038	26,264
Total Loans	299	0	0	0	0	0	0	0	0
Deferred Tax Liabilities	213	207	239	295	206	167	167	167	167
Capital Employed	7,742	8,443	9,939	10,887	14,096	16,668	18,830	22,205	26,431
Gross Block	4,304	4,377	3,232	3,511	4,643	4,937	7,937	9,937	11,937
Less: Accum. Deprn.	1,633	272	477	715	1,053	1,459	1,910	2,446	3,102
Net Fixed Assets	2,671	4,105	2,755	2,796	3,591	3,478	6,027	7,491	8,835
Capital WIP	139	168	201	393	389	365	365	365	365
Total Investments	2,909	3,157	5,219	5,267	3,387	4,503	4,503	4,503	4,503
Curr. Assets, Loans, and Adv.	3,406	3,805	3,817	4,224	7,042	10,320	10,143	12,972	16,632
Inventory	627	989	924	929	1,361	1,543	1,817	2,533	3,164
Account Receivables	1,401	1,308	1,471	1,675	2,093	2,759	2,834	4,089	5,107
Cash and Bank Balance	152	297	219	224	2,641	3,889	3,364	4,222	6,234
Cash	93	224	136	127	1,692	761	236	1,094	3,105
Bank Balance	59	74	83	97	890	3,128	3,128	3,128	3,128
Loans and Advances	1,226	1,211	1,203	1,397	947	2,128	2,128	2,128	2,128
Curr. Liability and Prov.	1,383	2,793	2,053	1,794	1,644	1,998	2,208	3,126	3,905
Account Payables	759	760	889	679	922	1,027	1,232	1,717	2,145
Other Current Liabilities	547	1,941	1,056	1,005	590	824	799	1,153	1,440
Provisions	77	91	108	110	131	147	177	256	320
Net Current Assets	2,023	1,012	1,764	2,431	5,398	8,322	7,934	9,846	12,728
Appl. of Funds	7,742	8,443	9,939	10,887	14,096	16,668	18,830	22,205	26,431

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	17.5	26.8	36.2	30.0	80.8	50.7	54.6	85.3	106.8
EPS Growth (%)	75.1	53.4	34.9	-17.0	169.3	-37.3	7.8	56.1	25.2
Cash EPS	21.7	32.5	43.9	35.2	87.6	58.9	63.7	96.1	120.0
BV/Share	146.1	166.4	196.0	214.1	280.7	333.5	377.2	445.4	530.8
DPS	4.2	5.3	7.0	7.8	11.0	11.0	10.9	17.1	21.4
Payout (%)	28.6	26.2	19.9	41.7	17.9	18.2	20.0	20.0	20.0
Valuation (x)									
P/E	243.1	158.5	117.5	141.6	52.6	83.8	77.8	49.8	39.8
Cash P/E	195.8	130.6	96.8	120.6	48.5	72.1	66.7	44.2	35.4
P/BV	29.1	25.5	21.7	19.8	15.1	12.7	11.3	9.5	8.0
EV/Sales	31.0	28.5	23.7	22.0	20.3	18.2	14.9	10.3	8.2
EV/EBITDA	181.1	140.0	99.7	96.3	79.6	66.4	56.4	35.6	28.2
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.5
FCF per share	11.7	-16.2	25.7	5.9	11.8	52.1	0.6	34.7	62.3
Return Ratios (%)									
RoE	13.4	17.2	20.0	14.6	32.7	16.5	15.4	20.7	21.9
RoCE	12.5	16.4	19.5	14.3	32.2	16.4	15.3	20.6	21.8
RoIC	17.7	19.5	25.8	27.1	55.7	25.3	26.2	33.2	34.6
Working Capital Ratios									
Fixed Asset Turnover (x)	2.8	2.2	2.6	3.4	3.2	3.2	2.9	3.0	3.1
Asset Turnover (x)	0.9	0.9	0.9	0.9	0.7	0.7	0.7	0.9	0.9
Inventory (Days)	34	49	38	35	49	50	48	46	46
Debtor (Days)	75	65	61	64	75	89	75	75	75
Creditor (Days)	41	38	37	26	33	33	32	31	31
Leverage Ratio (x)									
Current Ratio	2.5	1.4	1.9	2.4	4.3	5.2	4.6	4.1	4.3
Net Debt/Equity ratio	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2

Standalone Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,167	1,768	2,625	2,265	2,567	4,095	3,592	5,638	7,059
Depreciation	209	284	382	259	337	407	451	536	656
Others	-73	-519	-694	-277	-210	-1,054	14	14	14
Direct Taxes Paid	-261	-306	-496	-710	-456	-186	-889	-1,419	-1,777
(Inc.)/Dec. in WC	-325	-275	-90	-637	-684	-305	-137	-1,053	-870
CF from Operations	717	951	1,727	900	1,555	2,958	3,030	3,716	5,082
Capex	-137	-1,750	-457	-606	-972	-382	-3,000	-2,000	-2,000
Free Cash Flow	581	-800	1,270	294	582	2,576	30	1,716	3,082
Change in Investments	42	133	-1,338	190	1,706	-914	0	0	0
CF from Investments	-314	-196	-1,489	-315	766	-3,452	-3,000	-2,000	-2,000
Inc./Dec. in Debt	-150	-299	0	0	0	0	0	0	0
Interest Paid	-32	-5	-7	-5	-16	-14	-14	-14	-14
Dividend Paid	-216	-343	-350	-611	-714	-394	-541	-844	-1,056
CF from Fin. Activity	-392	-623	-326	-595	-756	-437	-555	-858	-1,071
Inc./Dec. in Cash	11	131	-87	-9	1,565	-931	-524	858	2,012
Opening Balance	83	94	224	136	127	1,692	760	236	1,094
Closing Balance	94	224	136	127	1,692	760	236	1,094	3,105

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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