

Navin Fluorine International

Well-oiled machine

We retain our BUY rating on Navin Fluorine International Ltd (NFIL) with a target price of INR 5,471 on the back of (1) earnings visibility, given long-term contracts; (2) tilt in sales mix towards better margin products; (3) capacity expansion-led growth; and (4) strong R&D infrastructure. The stock is currently trading at 29x FY25E EPS.

We recently visited Navin Fluorine Advanced Sciences Ltd's (NFASL, a wholly-owned subsidiary of NFIL) plant which is spread over ~75 acres of land in Dahej, Gujarat. The plant is designed with the philosophy of sustainability and keeping in mind the various regulations that are imposed now and that can be imposed in the future in terms of safety, environment, waste management, structure, etc. The plant is a self-sustainable unit where the company has built the capability to produce all its raw materials in-house in case of any disruption at its supplier's end which ensures business continuity.

We expect the EBITDA margin to improve by 636bps from 27% in FY23E to 33% in FY25E, owing to the increase in the value-added products in the product portfolio with superior margins. We expect NFIL's PAT to grow at a 47% CAGR over FY23-25E, led by a 47% CAGR in EBITDA.

Key takeaways from NFASL's plant (Dahej) visit

- Out of the 75 acres of land, 5 acres are occupied by the hydro fluoro olefins plant (Honeywell plant), 4.5 acres are occupied by the multi-purpose plant (MPP), 2.5 acres are occupied by the fluoro agrochemical intermediate and 5 acres are dedicated to the new fluoro speciality chemical plant. Around 25 acres of the land are still available for future expansion plans.
- The Honeywell plant (part of the HPP business unit) is divided into two stages. The output from the first stage or intermediate undergoes a fluorination reaction in the second stage to produce a gaseous finished product. Reactors in both stages are continuous flow reactors, operating at moderate operating conditions. The raw material to finished product conversion cycle takes about 8 to 10 days. The residence time in reactors is less as reactants are highly reactive, but the highly reactive raw material leads to many side reactions. Thus, downstream unit operations for purification take a lot of time.
- Honeywell supplied the proprietary technology and catalyst to NFASL. It had taken full part in designing the plant as well. Product and process technology, both are patented till 2028 and 2038 respectively. The plant is operating at optimum capacity utilisation. NFASL manufactures both the intermediate and final product for Honeywell and transports it to them according to their requirement.
- The contract with Honeywell secures the net profit margin for NFASL and is a complete cost pass-through contract. The company is in the process of debottlenecking the plant, which will expand the plant's capacity by 20%.
- The MPP is designed to produce five intermediates or advanced intermediates for agrochemical intermediates (AI) and for active pharmaceutical ingredients (API). Three products are currently being produced in it. The technology as well as catalysts used to produce the products in the MPP are indigenously developed by NFASL. MPP uses batch processing for production so it's convenient to switch between products. The company mainly wants to focus on agrochemical and performance material end-user industries in its speciality chemicals business unit. The MPP is a part of the speciality business unit. There exists sufficient space for putting up an additional MPP at Dahej.

BUY

CMP (as on 21 April 2023) INR 4,733

Target Price INR 5,471

NIFTY 17,624

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 5,471	INR 5,471
EPS %	FY23E	FY24E
	-	-

KEY STOCK DATA

Bloomberg code	NFIL IN
No. of Shares (mn)	50
MCap (INR bn) / (\$ mn)	235/2,857
6m avg traded value (INR mn)	641
52 Week high / low	Rs 4,848/3,433

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.4	7.0	17.0
Relative (%)	18.0	6.4	14.0

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	29.40	28.81
FIs & Local MFs	23.78	24.84
FPIs	19.19	19.58
Public & Others	27.63	26.77
Pledged Shares	3.09	3.15

Source: BSE

Nilesh Ghuge

nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar

harshad.katkar@hdfcsec.com
+91-22-6171-7319

Rutvi Chokshi

rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

Akshay Mane

akshay.mane@hdfcsec.com
+91-22-6171-7338

- The fluoro agrochemical intermediate plant (Capex of INR 1.25bn) that was commissioned in Q3FY23, is ramping up well. It is a dedicated plant that produces a single product for a single customer. The technology and catalyst are developed in-house by NFASL. There exists scope for doubling the plant capacity in the future depending upon its demand.
- The new fluoro speciality plant (Capex of INR 5.4bn announced in May 2022) shall come on stream by December 2023. This is a single product dedicated plant with multiple customers. NFASL has an assured contract with a large MNC to offtake 50% of the volumes, and the remaining 50% can be sold to the open market. Hence, 50% of the volumes have a complete cost pass-through. The MNC had provided NFASL with the technology to produce this fluoro speciality chemical.
- The Dahej site doesn't have any hydrofluoric acid (HF) plant and hence needs to procure its HF from NFIL's plant in Surat. In order to cater to the growing demand for its products, NFIL is planning to set up a 40kTPA HF plant in Dahej at NFASL's site which will triple HF's capacity of the company. This plant shall allow the company to scale up its operations faster with ease in the availability of the key raw material.
- NFIL is in the process of setting up the cGMP-4 plant owing to the strong traction in its CDMO business. The company is in process of gradually changing the products being manufactured from its MPP at Surat. This exercise will result in more than doubling the contribution margin from this MPP.

Financial summary (consolidated)

INR mn	Q3 FY23	Q2 FY23	QoQ (%)	Q3 FY22	YoY (%)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	5,636	4,192	34.4	3,790	48.7	11,794	14,534	20,211	27,605	35,291
EBITDA	1,556	938	65.8	986	57.8	3,093	3,548	5,379	8,242	11,639
APAT	1,066	578	84.3	688	54.9	2,216	2,606	3,665	5,480	7,951
AEPS (INR)	21.5	11.7	84.3	13.9	54.9	44.7	52.6	74.0	110.6	160.6
P/E (x)						105.5	89.7	63.8	42.7	29.4
EV/EBITDA(x)						73.6	65.6	44.2	29.0	20.3
RoE (%)						14.6	15.0	18.5	23.6	28.1

Source: Company, HSIE Research

Financials (Consolidated)

INCOME STATEMENT

INR mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	9,127	9,959	10,616	11,794	14,534	20,211	27,605	35,291
<i>Growth (%)</i>	<i>23.1</i>	<i>9.1</i>	<i>6.6</i>	<i>11.1</i>	<i>23.2</i>	<i>39.1</i>	<i>36.6</i>	<i>27.8</i>
Material Expenses	4,023	4,766	4,838	5,374	6,656	8,996	11,958	15,120
Employee Expenses	1,105	1,155	1,308	1,417	1,815	2,432	2,675	3,144
Other Operating Expenses	1,849	1,855	1,835	1,910	2,514	3,404	4,730	5,387
EBIDTA	2,150	2,184	2,635	3,093	3,548	5,379	8,242	11,639
<i>EBIDTA Margin (%)</i>	<i>23.6</i>	<i>21.9</i>	<i>24.8</i>	<i>26.2</i>	<i>24.4</i>	<i>26.6</i>	<i>29.9</i>	<i>33.0</i>
<i>Growth (%)</i>	<i>35.4</i>	<i>1.6</i>	<i>20.7</i>	<i>17.4</i>	<i>14.7</i>	<i>51.6</i>	<i>53.2</i>	<i>41.2</i>
Depreciation	398	275	370	442	479	802	1,154	1,496
EBIT	1,752	1,908	2,265	2,651	3,069	4,578	7,089	10,142
Other Income (incl EO items)	925	344	333	946	392	400	408	416
Interest	12	8	20	18	19	231	463	504
PBT	2,665	2,244	2,578	3,578	3,442	4,747	7,034	10,055
Tax	840	770	(1,436)	1,108	812	1,082	1,554	2,104
PAT before share of JV	1,825	1,474	4,014	2,471	2,631	3,665	5,480	7,951
Minority Interest	-	-	-	-	-	-	-	-
EO items (net of tax)	367	119	230	359	24	-	-	-
Share of Profits from JV/Associates	(27)	17	72	105	(0)	-	-	-
APAT	1,431	1,372	3,855	2,216	2,606	3,665	5,480	7,951
<i>Growth (%)</i>	<i>4.7</i>	<i>(4.1)</i>	<i>181.0</i>	<i>(42.5)</i>	<i>17.6</i>	<i>40.6</i>	<i>49.5</i>	<i>45.1</i>
AEPS	28.9	27.7	77.8	44.7	52.6	74.0	110.6	160.6
<i>Growth (%)</i>	<i>4.7</i>	<i>(4.1)</i>	<i>181.0</i>	<i>(42.5)</i>	<i>17.6</i>	<i>40.6</i>	<i>49.5</i>	<i>45.1</i>

Source: Company, HSIE Research

BALANCE SHEET

INR mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS								
Share Capital	99	99	99	99	99	99	99	99
Reserves	9,736	10,626	14,023	16,240	18,343	21,092	25,202	31,166
Total Shareholders' Funds	9,835	10,724	14,122	16,339	18,442	21,191	25,301	31,265
Long-term Debt	42	-	-	-	1,000	5,500	6,750	5,750
Short-term Debt	84	41	14	25	45	45	45	45
Total Debt	127	41	14	25	1,045	5,545	6,795	5,795
Deferred Taxes	308	348	(151)	207	201	151	101	51
Other LT Liabilities	257	231	391	409	372	372	372	372
Minority Interest	-	-	-	-	-	-	-	-
TOTAL SOURCE OF FUNDS	10,526	11,345	14,376	16,980	20,060	27,259	32,569	37,483
APPLICATION OF FUNDS								
Net Block	2,826	2,863	3,860	3,985	4,156	16,025	20,146	21,700
CWIP	201	393	389	949	7,421	1,750	1,175	625
Goodwill	878	878	878	878	878	878	878	878
LT Investments	2,928	3,258	3,097	1,136	1,087	1,185	1,299	1,429
LT Loans & Advances	73	73	75	81	121	121	121	121
Inventories	1,138	1,119	1,579	1,804	2,575	3,223	3,962	5,065
Debtors	1,556	1,727	2,185	2,841	3,577	4,820	6,627	8,504
Cash & Equivalents	2,450	2,253	3,513	6,284	2,000	1,503	1,273	2,767
Other Current Assets	506	508	559	1,019	2,041	2,121	2,201	2,281
Total Current Assets	5,651	5,607	7,836	11,947	10,193	11,667	14,063	18,618
Creditors	984	713	981	1,074	1,465	2,038	2,783	3,558
Other Current Liabilities	1,046	1,014	777	920	2,329	2,329	2,329	2,329
Total Current Liabilities	2,030	1,727	1,758	1,995	3,794	4,367	5,112	5,887
Net Current Assets	3,621	3,880	6,078	9,953	6,398	7,301	8,951	12,730
TOTAL APPLICATION OF FUNDS	10,526	11,345	14,376	16,980	20,060	27,259	32,569	37,483

Source: Company, HSIE Research

CASH FLOW STATEMENT

INR mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	2,638	2,261	2,650	3,683	3,442	4,747	7,034	10,055
Non-operating & EO items	(35)	215	144	(187)	(17)	0	-	-
Adjusted PBT	2,673	2,045	2,506	3,870	3,459	4,747	7,034	10,055
Interest expenses	12	8	20	18	19	231	463	504
Depreciation	398	275	370	442	479	802	1,154	1,496
Working Capital Change	(1,720)	(264)	268	(1,279)	(966)	(1,399)	(1,880)	(2,285)
Tax Paid	(840)	(770)	1,436	(1,108)	(812)	(1,082)	(1,554)	(2,104)
OPERATING CASH FLOW (a)	523	1,295	4,600	1,943	2,179	3,298	5,216	7,666
Capex	897	(504)	(1,362)	(1,127)	(7,122)	(7,000)	(4,700)	(2,500)
Free cash flow (FCF)	1,419	791	3,238	816	(4,943)	(3,702)	516	5,166
Investments	(1,193)	(172)	1,124	1,144	17	(66)	(73)	(80)
Others	150	(120)	(1,446)	1,190	45	(83)	(91)	(101)
INVESTING CASH FLOW (b)	(146)	(796)	(1,685)	1,208	(7,060)	(7,148)	(4,863)	(2,681)
Debt Issuance/(Repaid)	(59)	(85)	(27)	11	1,020	4,500	1,250	(1,000)
Interest Expenses	(12)	(8)	(20)	(18)	(19)	(231)	(463)	(504)
FCFE	1,349	697	3,191	809	(3,942)	568	1,303	3,663
Dividend	(350)	(386)	(545)	(545)	(545)	(916)	(1,370)	(1,988)
Others	(0)	(24)	144	2	(55)	-	-	-
FINANCING CASH FLOW (c)	(420)	(504)	(448)	(550)	400	3,353	(583)	(3,491)
NET CASH FLOW (a+b+c)	(44)	(5)	2,468	2,601	(4,480)	(497)	(230)	1,494
EO Items, Others	-	-	-	-	-	-	-	-
Closing Cash & Equivalents	374	370	2,837	5,439	958	461	231	1,725

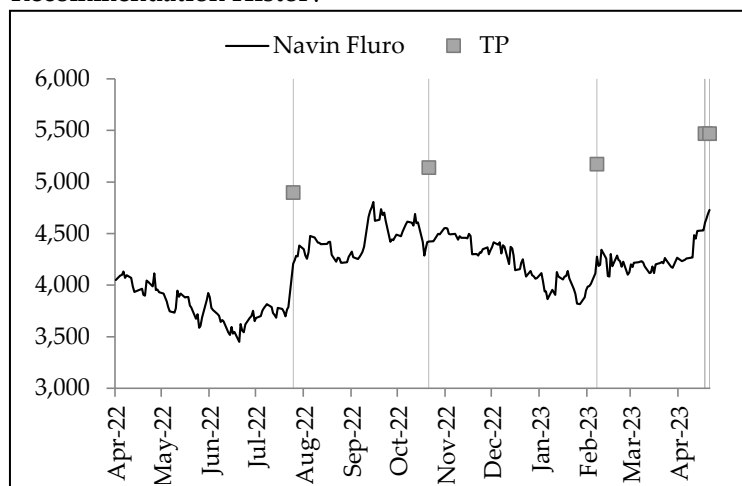
Source: Company, HSIE Research

KEY RATIOS

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY %								
Gross Margin	55.9	52.1	54.4	54.4	54.2	55.5	56.7	57.2
EBITDA Margin	23.6	21.9	24.8	26.2	24.4	26.6	29.9	33.0
EBIT Margin	19.2	19.2	21.3	22.5	21.1	22.6	25.7	28.7
APAT Margin	15.7	13.8	36.3	18.8	17.9	18.1	19.9	22.5
RoE	15.7	13.3	31.0	14.6	15.0	18.5	23.6	28.1
Core RoCE	20.4	20.0	44.5	18.6	24.4	21.3	21.0	25.7
RoCE	14.7	12.6	30.2	14.2	14.2	16.2	19.5	23.8
EFFICIENCY								
Tax rate %	31.5	34.3	(55.7)	31.0	23.6	22.8	22.1	20.9
Fixed Asset Turnover (x)	2.6	3.5	3.2	3.0	3.6	2.0	1.5	1.7
Inventory (days)	46	41	54	56	65	58	52	52
Debtor (days)	62	63	75	88	90	87	88	88
Other Current Assets (days)	20	19	19	32	51	38	29	24
Payables (days)	39	26	34	33	37	37	37	37
Other Current Liab & Provns (days)	28	24	27	26	58	42	31	24
Cash Conversion Cycle (days)	61	73	88	116	110	105	102	103
Net Debt/EBITDA (x)	0.1	0.0	0.0	0.0	0.3	1.0	0.8	0.5
Net D/E (x)	(0.2)	(0.2)	(0.2)	(0.4)	(0.1)	0.2	0.2	0.1
Interest Coverage (x)	182.5	272.4	129.6	187.2	182.2	21.6	16.2	21.0
PER SHARE DATA (INR/sh)								
EPS	28.9	27.7	77.8	44.7	52.6	74.0	110.6	160.6
CEPS	36.9	33.3	85.3	53.7	62.3	90.2	133.9	190.8
DPS	7.1	7.8	11.0	11.0	11.0	18.5	27.7	40.1
BV	198.6	216.5	285.1	329.9	372.4	427.9	510.9	631.3
VALUATION								
P/E (x)	163.4	170.4	60.6	105.5	89.7	63.8	42.7	29.4
P/Cash EPS (x)	127.9	141.9	55.3	88.0	75.8	52.3	35.2	24.7
P/BV (x)	23.8	21.8	16.6	14.3	12.7	11.0	9.2	7.5
EV/EBITDA (x)	107.7	106.0	87.4	73.6	65.6	44.2	29.0	20.3
EV/Revenue (x)	25.4	23.2	21.7	19.3	16.0	11.8	8.7	6.7
OCF/EV (%)	0.2	0.6	2.0	0.9	0.9	1.4	2.2	3.2
FCFF/EV (%)	0.6	0.3	1.4	0.4	(2.1)	(1.6)	0.2	2.2
FCFE/M CAP (%)	0.6	0.3	1.4	0.3	(1.7)	0.2	0.6	1.6
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.2	0.4	0.6	0.9

Source: Company, HSIE Research

Recommendation History



Date	CMP	Reco	Target
26-Jul-22	4,208	BUY	4,900
21-Oct-22	4,424	BUY	5,140
9-Feb-23	4,185	BUY	5,174
18-Apr-23	4,528	BUY	5,471
22-Apr-23	4,733	BUY	5,471

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

We, Nilesh Ghuge, MMS, Harshad Katkar, MBA, Rutvi Chokshi, CA & Akshay Mane, PGDM authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We 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.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

Any holding in stock – NO

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com