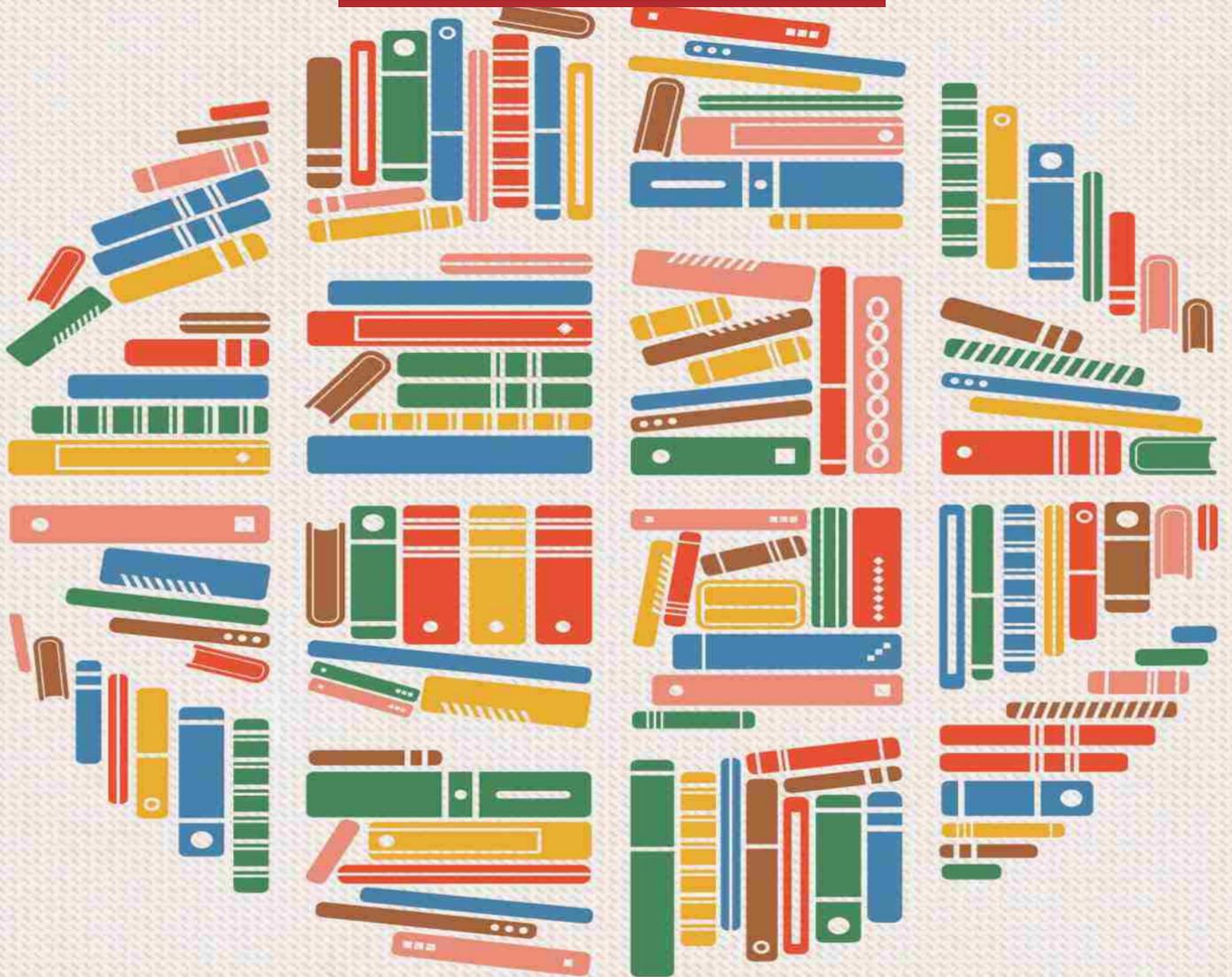


Stock TALES



Stock Tales are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

Gujarat Fluorochemicals (GUJFLU)

CMP: ₹ 3198

Target: ₹ 4000 (25%)

Target Period: 12 months

June 9, 2023

Riding on fluorochemicals expertise with value addition focus...

About the stock: Incorporated in 1987, Gujarat Fluorochemicals (GFL) started as a refrigerants manufacturer and, thereafter, diversified into other areas like speciality chemicals, fluoropolymers, new fluoropolymers and bulk chemicals like caustic soda and chloromethane.

- FY23 segmental mix: Bulk chemicals ~19%, Fluorochemicals ~27%, Fluoropolymers ~52% and others ~2%
- FY22 Geography mix: India ~49%, Europe ~22%, US ~12%, RoW~16%

Key triggers for future price performance:

- Continues to build on the advantage of being an early entrant in fluoropolymers with persistent value addition. Capacity expansion in monomer and polymer capacities to cater to the growing demand for fluoropolymers and fluoroelastomers
- Targeting new age verticals, notably battery chemicals (LiPF₆), solar panels, hydrogen fuel cells, 5G besides legacy businesses to exploit new growth avenues. LiPF₆ plant is likely to get commissioned by Q1FY24
- Focused expansion based on vertically integrated model to maximise value addition and to mitigate the risk of raw material price volatility. GFL's vertical integration is expected to drive profit margins and return ratios
- Progress on the PFAS-free technology, which is expected to prevail in future market applications

What should investors do? GFL's share price has grown at 121.3% CAGR over the past three years. We believe the firm is well-poised to develop into newer and more complicated areas by building on its vertically integrated model and an ability to exploit opportunities at every stage.

- We initiate coverage under the Stock Tales format with a **BUY** rating and a target price of ₹ 4000

Target Price and Valuation: We value Gujarat Fluorochemicals at 27x FY25E EPS of ₹ 148.2 to arrive at a target price of ₹ 4000/share.

Alternate Stock Idea: Apart from Gujarat Fluorochemicals, in our chemical coverage we like SRF.

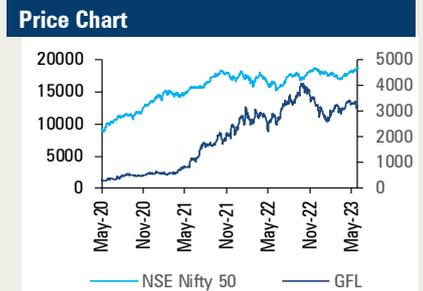
- Trigger for SRF's future revenue growth would be increasing specialty chemical business
- BUY with a target price of ₹ 3000

BUY



Particulars	
Particular	Amount
Market cap (₹ Crore)	35,276
FY23 Total Debt (₹ Crore)	1,515
FY23 Cash & Inv (₹ Crore)	161
EV (₹ Crore)	36,630
52 Week H/L	4174/2105
Equity Capital (₹ Crore)	11.0
Face Value (₹)	1

Shareholding pattern				
in %	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	66.1	66.1	63.8	63.8
DII	4.3	3.9	4.3	5.9
FII	4.1	5.0	5.8	4.9
Others	25.6	25.0	26.2	25.5



Key risks

- Delay in commissioning and ramping-up capex
- Volatility in key RM prices, inability to pass on entire cost inflation to impact margin

Research Analyst

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	FY23	4 year CAGR (FY19-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Revenue	2,729.3	2,606.4	2,650.5	3,953.6	5,684.7	20.1%	6,248.5	7,634.0	15.9%
EBITDA	788.2	439.1	595.9	1,168.5	1,965.3	25.7%	2,130.7	2,679.5	16.8%
EBITDA Margins (%)	28.9%	16.8%	22.5%	29.6%	34.6%		34.1%	35.1%	
Adj. PAT	1,262.0	189.3	-221.5	775.9	1,323.1	1.2%	1,332.2	1,628.4	10.9%
Adj. EPS (₹)	114.9	17.2	-20.2	70.6	120.4		121.2	148.2	
EV/EBITDA	44.9x	81.9x	60.5x	30.7x	18.3x		17.0x	13.6x	
P/E	27.3x	182.3x	-155.8x	44.5x	26.1x		25.9x	21.2x	
ROE (%)	36.0	5.1	-6.3	18.2	24.0		20.0	20.1	
ROCE (%)	19.1	11.0	14.2	22.6	31.5		25.7	25.9	

Company Background

Incorporated in 1987, GFL started with refrigerants manufacturing and, thereafter, diversified into fluoropolymers, new fluoropolymers and speciality chemicals to name a few in due course. In FY23, fluoropolymers formed 52% of overall revenues followed by fluorochemicals (refrigerant and specialty chemicals) (27%), bulk chemicals (caustic soda and chloromethanes) (19%) and others (2%). The company owns three manufacturing plants in Ranjit Nagar, Dahej and Jolva. The revenues from the domestic market constitute 50% of the overall pie while the Europe market contributes ~22%, US market contributes ~12% and RoW contributes ~16%.

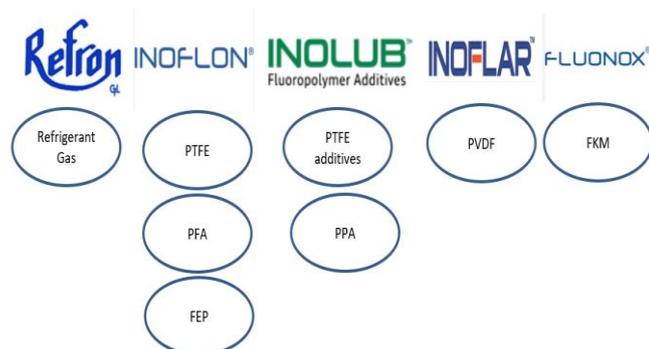
Bulk Chemicals – GFL is a leading producer of industrial chemicals used in varied applications. The chemicals business segment of GFL focuses on capacity utilisation and cost-efficiencies of raw materials, viz. salt, methanol and power and produces commodity chemicals like caustic soda lye, methylene chloride, hydrogen gas, AHCL, HCL and H2SO4.

Fluorochemicals –

- **Refrigerants** – GFL has ventured into new generation 400 series blends to replace HCFC. GFL currently offers products like HCFC 22, HFC 125, HCFC 32, HFC 134a, HFC 410a (blend of R125 and R32), HFC 407a (Blend of R125, R32 and R134a). Refrigerants find application in industries like air conditioning, cold warehousing, pharmaceutical, etc
- **Fluorospeciality chemicals** – Fluorospeciality chemicals are compounds comprising fluorine with niche applications in pharmaceuticals, agrochemicals, pesticides and fungicides intermediates

Fluoropolymers – Fluoropolymers are one of the most integral building blocks of the modern world, ranging from automobiles to telecommunications, their unique properties power inventions that lead industries towards efficiency and better performance. Fluoropolymers are widely used in automotive, semiconductors, electronics and common household appliances on account of their unique non-adhesive and low friction properties as well as their superior heat, chemical and weather resistance and superior electrical properties compared to other polymers.

Exhibit 1: Fluoropolymers and refrigerant gas brands



Source: Company, ICICI Direct Research

The company offers FKM and PVDF under the brand names Fluonox and Inoflar, respectively, while supplying PTFE, PFA, and FEP under the name Inoflon. The brand name for items like PTFE additives and PPA is Inolub while the brand name for refrigerant gas is Refron.

The group revenue grew at 20% CAGR over FY19-23 while EBITDA expanded at ~26% CAGR primarily on account of expansion in gross margins due to a favourable product mix.

Exhibit 2: Revenue (₹ crore)

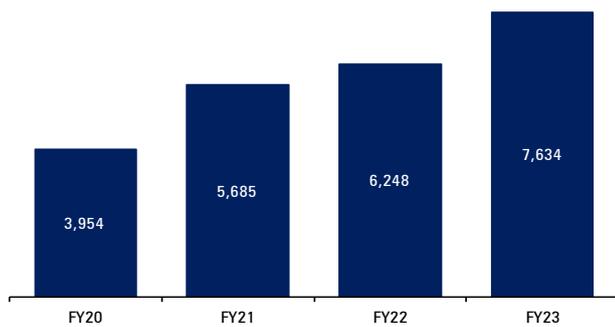


Exhibit 3: Segmental revenue breakup (₹ crore)

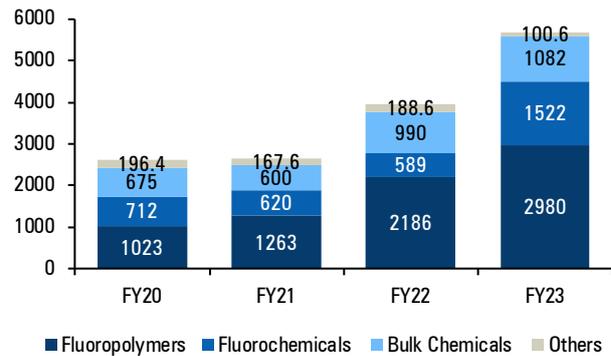


Exhibit 4: Margin trend over the years (%)

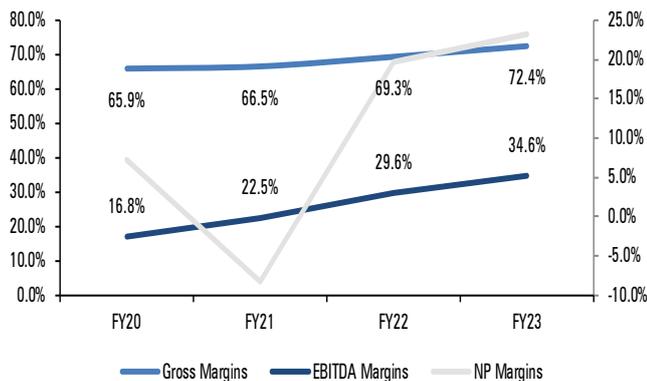
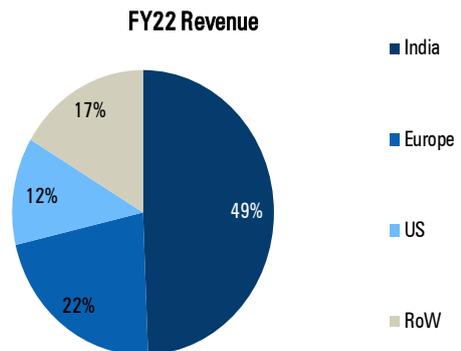


Exhibit 5: Geographical revenue break-up (%)



Product Portfolio

Bulk chemicals: - GFL manufactures caustic soda and chloromethane under this segment. As per AR FY20, GFCL's chemical complex at Dahej, Gujarat includes 1,10,000 TPA caustic soda/chlorine plant, 87,500 TPA chloromethane plant and a combined coal and gas based captive power plant with a capacity of around 90 MW. Chloromethane, when mixed with chlorine and methanol, gives rise to products like methylene-dichloride (MDC), chloroform and carbon tetrachloride (CTC).

Exhibit 6: Bulk chemicals (FY23 Revenue Contribution - ~19%)

PRODUCTS	CAUSTIC SODA	CHLOROFORM	METHYLENE DI CHLORIDE	CTC
APPLICATIONS	<ul style="list-style-type: none"> Textiles Soaps & Detergents Alumina 	<ul style="list-style-type: none"> Feedstock for Refrigerant Gas R-22 Solvent - Pharma 	<ul style="list-style-type: none"> Pharma API Foam manufacturing Agri-chem & Pharma Formulation 	<ul style="list-style-type: none"> Pesticides Agricultural Chemicals Plastics Resins

Source: Company, ICICI Direct Research

Fluorochemicals: - The fluorochemicals segment reflects revenues from refrigerants and specialty chemicals.

- **Refrigerants gas** – Refrigerants gas finds applications in air conditioners, refrigerators and can also be used as feedstock for TFE. Currently, GFL is the largest producer of R-22 in India

Refrigerant gas can be differentiated in four different categories.

- **Chlorofluorocarbons (CFC) (Class I substances)**
 - First generation of refrigerant gas. Phased out due to ozone depleting nature under Montreal Protocol
 - Phased out in all countries

- **Hydrochlorofluorocarbons (HCFC)**
 - Class-II substances - substitute for many Class-I substances. New production and imports of most HCFC was phased out as of 2020
 - However, these can be used as derivatives that do not pollute the environment or cause global warming
 - Production and import of R-22 has been stopped
- **Hydrofluorocarbons (HFC)**
 - Made from organic compounds that contain fluorine and hydrogen atoms. Do not harm ozone layer but contribute to global warming
 - HFC will be phased out by developed countries after 2035-2040
 - The US has banned import of China HFC gas while India has banned R32 import from China
- **Hydrofluoroolefins (HFO)**
 - Low carbon footprint. Patented technology with Honeywell and Chemours (subsidiary of Du Pont)
 - Prices are at a premium compared to others
- **Products manufactured by GFL**
 - HCFC-22/ R22 -(will be phased out in 2030 but will be used for TFE production)
 - HFC 125/ R125
 - HFC 410a/ R410a (Blend of R125 and R32). Therefore, GFL has set up a plant of 10,000 TPA for R32)
- **Specialty Chemicals** - GFCL has unique building blocks, capabilities and facilities to develop and custom manufacture fluoro-specialty products and intermediates catering to agrochemical, pharmaceutical, electronic and polymer industries. Globally, fluoro-specialty forms 29% of the fluorine market, which was US\$22.5 billion in 2019 and growing at 5% CAGR. GFL, with its integrated value chain starting from basic raw materials, offers a host of building blocks for these specialty chemicals.

Exhibit 7: Fluorochemicals (FY23 Revenue Contribution - ~27%)

PRODUCTS	HF BASED	TFE BASED	KF BASED	REFRIGERANTS
APPLICATIONS	<ul style="list-style-type: none"> • Agrochemical majorly Insecticides, Herbicides & Fungicides • Plant Growth Regulators 	<ul style="list-style-type: none"> • Pharmaceutical Intermediates, • Agrochemical Pesticide & Intermediates 	<ul style="list-style-type: none"> • Pharmaceutical Intermediates, • Agrochemical Pesticide & Intermediates 	<ul style="list-style-type: none"> • Air-conditioners

Source: Company, ICICI Direct Research

Fluoropolymers: - Fluoropolymers are employed in a variety of green technology applications including coatings, sealing and films. They shield components and wiring from electricity, severe temperatures and safeguard solar panels and wind turbines from inclement weather. Due to a special combination of qualities, fluoroplastics are utilised in lithium-ion battery components for electric cars, allowing conductivity while ensuring safety. Hydrogen power is also produced and stored using PTFE, FEP, and PFA. From solar to hydrogen, they provide green energy storage resistant to oxidation, heat] and chemicals. The gaskets and seals used in a variety of renewable energy applications use fluoropolymers.

Exhibit 8: Fluoropolymers (FY23 Revenue Contribution - ~52%)

PRODUCTS	PTFE	MICRO POWDERS	PFA	PVDF	FEP	FKM	PPA
APPLICATIONS	<ul style="list-style-type: none"> • Oil & Gas • Pharma & CPI • Food • Automotive • Aero-space & Defense • Electricals • Electronics & Semi-conductors • Cookware • Construction & Mechanical Parts 	<ul style="list-style-type: none"> • Printing Inks • Engineering plastics • Coatings • Industrial Finishes • Paints • Elastomers • Oils & Greases 	<ul style="list-style-type: none"> • Semi-conductors • Aero-space • Chemical Processing • Corrosion Resistant Fluid Transfer • Wire & Cables • Telecom 	<ul style="list-style-type: none"> • Chemical Processing • Electronics • Architecture • Pharma • EV Batteries • Solar Panels • Water Treatment Membranes • Oil & Gas 	<ul style="list-style-type: none"> • Wire & Cable • Defense • Aerospace • Telecom • Chemical Processing 	<ul style="list-style-type: none"> • Automotive • Chemicals • Refineries • Semiconductors • Aviation • Food & Pharma 	<ul style="list-style-type: none"> • Improve Surface Finish & Gloss for LLDPE • HDPE & PP Films • Partitioning Agent

Source: Company, ICICI Direct

Exhibit 9: GFL's journey till date

1987

Gujarat Fluorochemicals Limited (GFL), a public limited company, was incorporated in the year 1987 as a Refrigerants manufacturer in India.

2007

In the year 2007-08, GFL established a chemical complex at Dahej, Gujarat. The chemical complex comprised of a captive power plant, caustic soda and chlorine plant, chloromethane plant and a Polytetrafluoroethylene (PTFE) plant.

2013-19

With vertically integrated Fluoropolymer manufacturing facility and expertise in Fluorine chemistry, GFL expanded its monomer and polymer capacity to cater to the growing demand for Fluoropolymers and Fluoroelastomers across geographies.

GFL launched FKM (Fluoroelastomers) brand Fluonox in 2015. In 2016, subsequent to the success of our PTFE brand INOFOLON in global markets, GFL added two more Fluoropolymer products – FEP and PFA under the brand name INOFOLON. In 2018, GFL started its Additives brand INOLUB for marketing PTFE Micropowders and Polymer Processing Aids (PPA).

In 2019, GFL introduced PVDF under the brand name INOFLAR.

1988

In 1988, GFL launched a public issue and established a manufacturing plant to produce Chlorofluorocarbon Refrigerant gases and Hydrofluoric Acid in Panchmahal Gujarat.

2009

In 2009, GFL incorporated a wholly owned subsidiary, Gujarat Fluorochemicals Americas LLC, to conduct business operations across the American subcontinent. Year 2009 also marked GFL's diversification into Wind energy business through Inox Wind Limited, a leading wind energy solutions provider in India.

2011

In 2011, Gujarat Fluorochemicals entered into a JV with MeturisSarI, Morocco and Global Mines SarI, Morocco to undertake Fluorspar Beneficiation Project for supply of Acid Grade Fluorspar and Metallurgical Grade Fluorspar to GFL.

2019

Pursuant to the order passed by National Company Law Board Tribunal, Ahmedabad Bench on July 04, 2019, the Chemical Business Undertaking of erstwhile Gujarat Fluorochemicals Limited, now known as GFL Limited, was demerged to form a new company Inox Fluorochemicals Limited, which is now known as Gujarat Fluorochemicals Limited with all assets and liabilities pertaining to the Chemical Business Undertaking transferred to the resultant company on a going concern basis with effect from the appointed date, April 01, 2019.

1989

GFL commenced its commercial operations in the year 1989 and entered into a technical collaboration with Stauffer Chemicals Penwalt Corporation and Stearns Catalytic Corporation USA and commissioned a plant near Vadodara.

2013

In 2013, GFL incorporated a wholly owned subsidiary, Gujarat Fluorochemicals GmbH in Hamburg, Germany to conduct trading, processing, distribution, marketing and storage of Fluoropolymers in EMEA region.

With the introduction of PFOA free PTFE resins and dispersions in the year 2013, GFL ranked amongst the world's major players offering PFOA free Fluoropolymers.

1999

In the year 1999, GFL diversified into Entertainment business through Inox Leisure Limited – a chain of multiplexes across India.

2006

In 2006, GFL implemented Clean Development Mechanism Project entailing reduction of Greenhouse Gas emissions by the thermal oxidation of HFC-23, a by-product generated at the Refrigerant gas plant at Ranjithnagar, Gujarat. In lieu of that, the company received Carbon Credits issued by the UNFCCC to be traded in international markets.

Source: Company, ICICI Direct Research

Exhibit 10: Manufacturing facilities

RANJIT NAGAR, GUJARAT, INDIA	DAHEJ, GUJARAT, INDIA	JOLVA, GUJARAT, INDIA
		
<p>Specialty Chemicals & Refrigerants</p>	<p>Fluoropolymers, Specialty & Bulk Chemicals</p>	<p>Fluoropolymers, Specialty & New Age Chemicals</p>
<p>Commissioned in 1989</p>	<p>Commissioned in 2007</p>	<p>Under Phased Commissioning</p>
<p>Largest Refrigerant Capacity in India</p>	<p>Largest Fluoropolymer Plant in India</p>	
<p>ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 certified</p>	<p>Vertically Integrated Plant</p>	
	<p>ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 certified</p>	

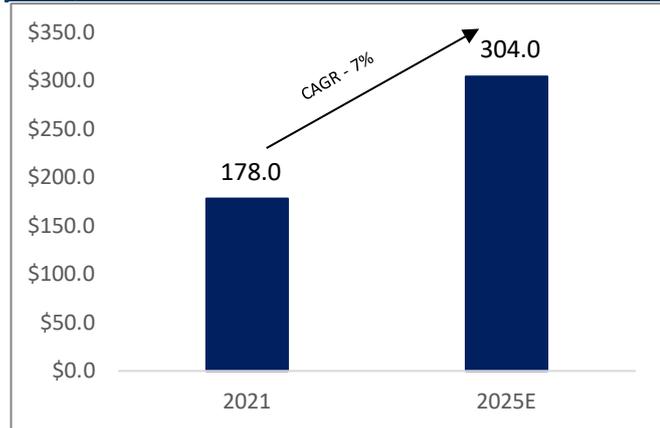
Source: Company, ICICI Direct Research

Industry Background

The Indian chemical industry is expected to grow from US\$178 billion in 2021 to \$304 billion by 2025, according to a November 2022 report by KPMG on the country's specialty chemicals industry. This industry is expected to play a significant role in the economy and contribute roughly 7% of GDP. In India, a sizeable component of the country's chemical sector is made up of specialty chemicals. The sector has seen a sizeable rise from end-user categories such as the food industry, vehicle industry, real estate business, clothing and cosmetics industry, among other industries, as a result of increased demand for value-added goods from both domestic consumption and exports. In addition, it is anticipated that India's market for specialty chemicals would grow faster than that of China, Japan and the rest of the globe.

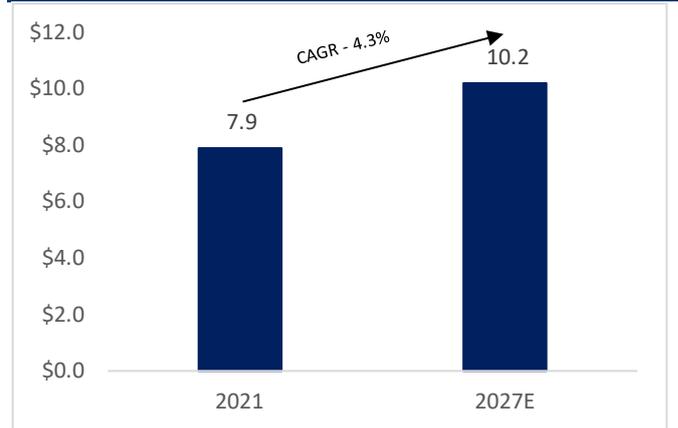
Fluoropolymers are polymer materials containing fluorine atoms in their chemical structures. A fluoropolymer is a fluorocarbon-based polymer with multiple carbon-fluorine bonds. The development of the fluoropolymer industry began with the discovery of the polytetrafluoroethylene (PTFE) by Dr Plunkett at DuPont in 1938. The white powder found by accident led to one of the most important applied chemistry areas—the fluoropolymer industry — which greatly influenced the whole world in the following 70 years. These products possess properties such as chemical inertness (does not react to any chemicals), heat resistance, dielectric properties and have low friction. PTFE is available in granular, fine powder and water-based dispersion forms. The high-performance fluoropolymers market has been segmented into North America, Europe, Asia Pacific, Middle East & Africa and Latin America, in terms of region. APAC dominates the market due to the increasing demand for its wide applications in different end use industries. The global fluoropolymers market is expected to grow from ~US\$8 billion in 2021 to ~US\$10 billion by 2027, recording a CAGR of 4.3%. The growing use of fluoropolymers in the automotive, chemical, medical and construction industries as well as new age industries such as EVs, 5G networks, internet of things, solar energy, etc, can lead to further market expansion.

Exhibit 11: Global market size of specialty chemicals (US\$ billion)



Source: KPMG, ICICI Direct Research

Exhibit 12: Global market size of fluoropolymers (US\$ billion)



Source: Company, ICICI Direct Research

Investment Rationale

Early entry in fluoropolymers to the fore; continues to build on same with persistent value addition...

The company was an early entrant in India for fluoropolymers. It began with a dedicated PTFE plant at Dahej in 2007. During 2013-19, the company expanded its monomer and polymer capacities to cater to the growing demand for fluoropolymers and fluoroelastomers. The company was able to take advantage of backward integration (see Exhibit 10), to expand into other value-added products down the value chain. The items with red markings identify the raw materials that the business acquires. A wholly owned subsidiary of the fluorspar firm in Morocco, provides fluorspar that is equivalent to 35-40% of the company's requirement. The global fluoropolymers market is expected to grow from ~US\$8 billion in 2021 to ~US\$10 billion by 2027, recording a CAGR of 4.3%.

PTFE: Polytetrafluoroethylene (PTFE) is a rapidly growing fluoropolymer formed by polymerisation of monomer tetrafluoroethylene (TFE) in the presence of an initiator. To enhance its mechanical qualities, it is also mixed with other substances including glass fibre, carbon and graphite. Extreme chemical inertness, ideal dielectric characteristics, heat resistance capacity and low frictional coefficient are defining characteristics of PTFE. It is utilised in a variety of products, including semiconductors, electrical appliances, automobile parts, and non-stick frying pans.

The PTFE market is anticipated to increase from US\$1.1 billion to US\$1.3 billion, at a CAGR of 5.5% from 2020 to 2026E. India exports 15,000 MT of PTFE in FY22, with the bulk going to the US, Germany and Italy. On the other hand, the import component is around 3000 MT of PTFE. We think GFL is well positioned to take the market share for PTFE imports since it is an integrated producer and has a debottlenecking strategy that will raise capacity from ~1550 tonnes per month to ~1800-1900 tonnes per month (an increase of 20%). Besides this, the 3M capacity outage is likely to result in a supply shortage for TFE-based fluoropolymers, which puts GFL in a prime position to gain significant market share.

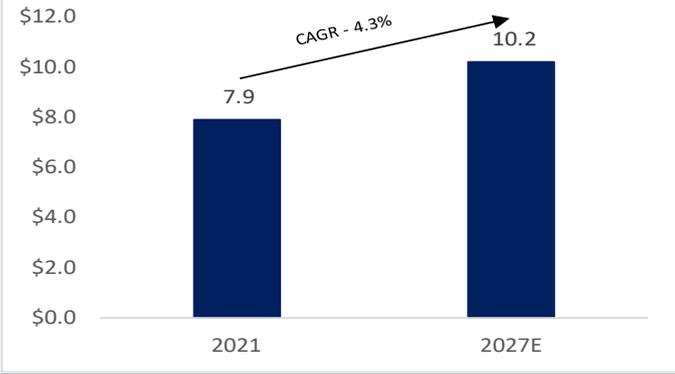
PVDF: Polyvinylidene fluoride (PVDF) is a highly non-reactive thermoplastic fluoropolymer that is inherently flame retardant. It has a high degree of purity, strong mechanical properties, electrochemical stability and broad chemical resistance at high temperatures. PVDF is commonly used in the chemical processing, semiconductor, membranes, healthcare and oil & gas industries, as well as in lithium-ion batteries, wire & cable insulation, thermoplastic composites and food contact applications. Moreover, PVDF is a high-performance material for Li-ion battery components enabling faster charging and increased safety, drive range and heat resistance and save up to 1.67 MT carbon dioxide emissions over a vehicle's useful life.

The PVDF market is anticipated to increase from US\$1.1 billion to US\$2.6 billion, with a CAGR of 9% from 2022 to 2032E. India imported ~125 MT of PVDF in FY22. The global chemical leader Solvay has announced a capex of €300 million to expand PVDF production capacity in Europe. We believe GFL is well poised to take the market share of PVDF import substitution in India. We also expect further capex in fluoropolymer segment to largely be towards PVDF products. Moreover, GFL is setting up India's first PVDF solar film project, which will be commissioned in the next financial year. Capex allocated for the projected is ~₹ 100 crore with anticipated asset turnover of ~1.5x.

FKM: Fluoroelastomers (FKM) are fluoro-rubber containing vinylidene fluoride (VDF) as a monomer. FKM finds application mainly in automobile and aerospace industries for O-rings, gaskets, seals and hoses. FKM's are highly temperature resistant, exceptional oil resistance and have superior oil additives. As per Fortune Business Insights, the FKM market is expected to grow from US\$1.4 billion to US\$1.8 billion, with a CAGR of 3.7% from 2019 to 2027E.

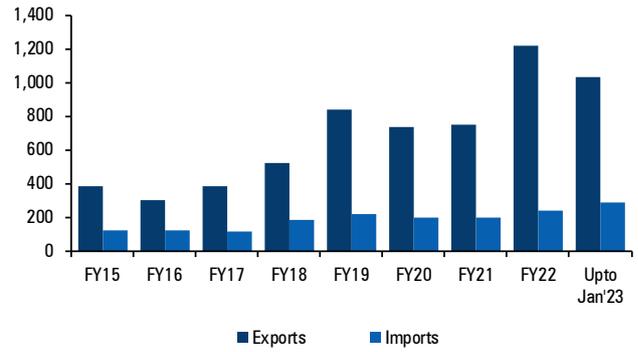
The current capacity of new fluoropolymers (apart from PTFE) is ~ 900-1000 tonne per month and is expected to grow to ~1500 tonne per month with capex getting commissioned in the coming two to three quarters.

Exhibit 13: Global market size of fluoropolymers (US\$ billion)



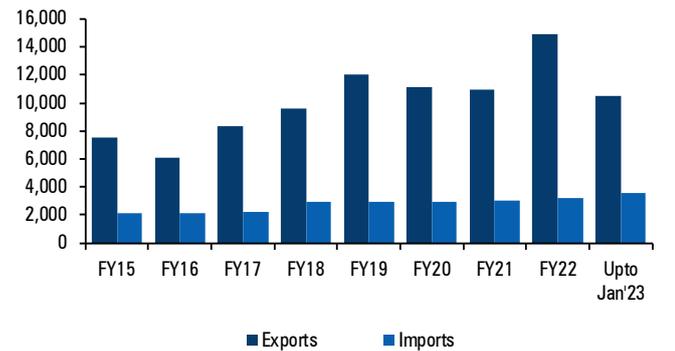
Source: GFL AR FY22, ICICI Direct Research

Exhibit 14: India's PTFE exports/imports (₹ crore)



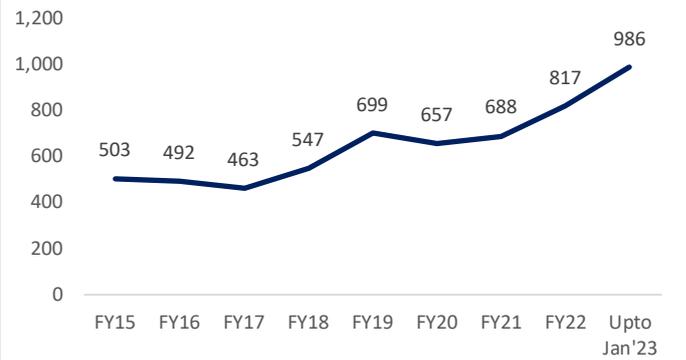
Source: Ministry of commerce, ICICI Direct Research

Exhibit 15: India's PTFE exports/imports (MT)



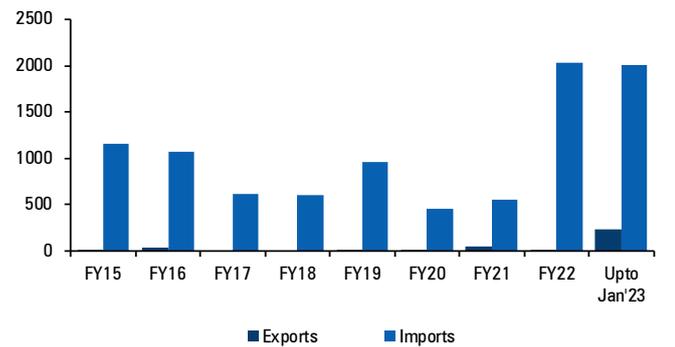
Source: Ministry of commerce, ICICI Direct Research

Exhibit 16: PTFE export realisation trend (₹/kg)



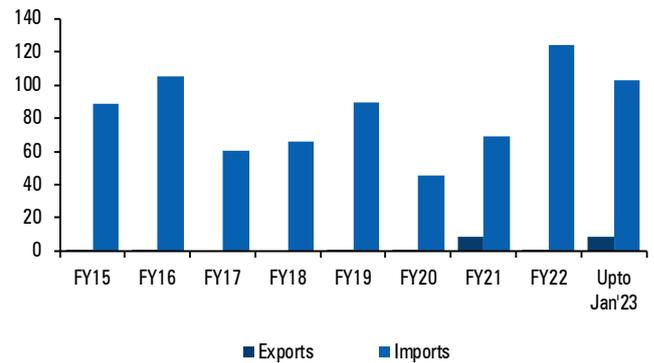
Source: Ministry of commerce, ICICI Direct Research

Exhibit 17: India's PVDF exports/imports (₹ crore)



Source: ICICI Direct Research

Exhibit 19: India's PVDF exports/imports (MT)



Source: ICICI Direct Research

Exhibit 18: PTFE export realisation trend (₹/kg)



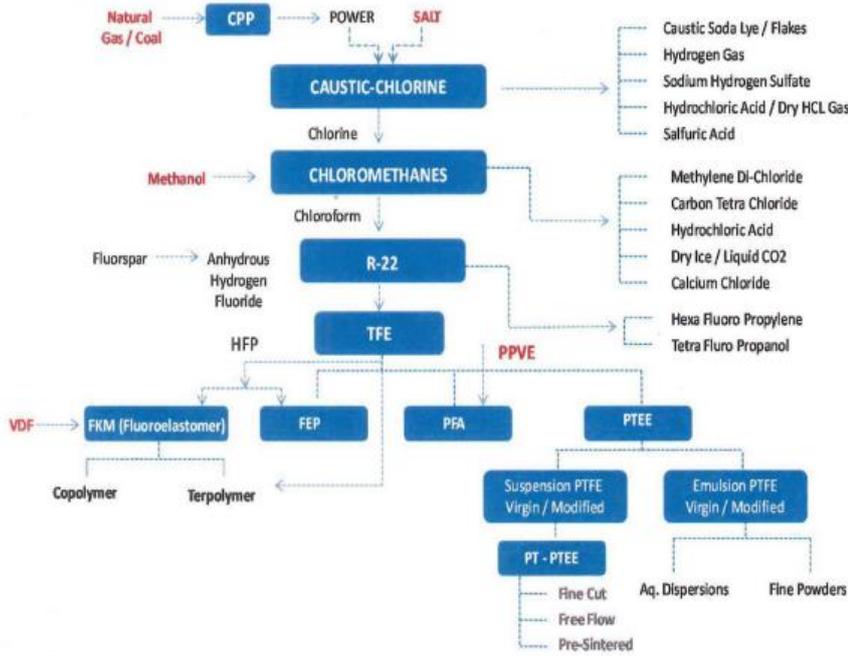
Source: ICICI Direct Research

Exhibit 20: Capex growing at 11% CAGR



Source: ICICI Direct Research

Exhibit 21: List of fluoropolymers to be manufactured from R22



Source: Industry report, ICICI Direct Research

Foray into new age verticals, notably battery chemicals (LiPF6) to exploit new growth avenues

LiPF6: Lithium hexafluorophosphate (lithium salt), an inorganic compound with the formula $LiPF_6$. It is a white crystalline powder. Among all conducting salts, lithium hexafluorophosphate ($LiPF_6$) remains the only candidate to be used in the majority of commercial lithium-ion batteries, due to its well-balanced properties, such as high ionic conductivity, good electrochemical stability and effective aluminium current collector passivation. GFL’s value chain for $LiPF_6$ will start from Lithium Fluoride \rightarrow PF_5 \rightarrow $LiPF_6$ and will also go on to make electrolyte. $LiPF_6$ plant is likely to get commissioned by Q2FY24. Battery demand in 2030 for EVs, energy storage and consumer electronics is estimated at 2633 GWH with EV battery chain providing revenue opportunities of US\$300 billion by 2030. We believe currently there are two players in India who have set up a plant in India for $LiPF_6$. Neogen Chemical, in our coverage, has announced a capex of ₹ 450 crore for capacity of 10000 TPA of electrolyte, 2000 TPA of $LiPF_6$. Based on the past track record of GFL’s management and its R&D team capabilities, we believe it can become one of the largest players in the battery chemicals market in the long run.

Exhibit 22: New Age Vertical – Electric Vehicle Batteries

APPLICATIONS	ELECTRIC VEHICLES BATTERIES
PRODUCTS	<ul style="list-style-type: none"> • PVDF Electrode Binders • Battery Chemicals • $LiPF_6$ • Additives • Electrolyte Formulations

Hydrogen fuel cells: GFL, with its rich experience and a portfolio of major fluoropolymers is well equipped to cater to the fluoropolymers required for hydrogen electrolyzers, fuel cells and charging stations. GFL has also taken up the project to indigenously develop and produce the PEM membranes. Electrolyzers enable the transformation of renewable energy such as wind and solar power into green hydrogen. Fluoropolymers are integral to the functioning of electrolyzers. In addition, fluoropolymer-based proton exchange membranes (PEM) form the heart of fuel cells and electrolyzers.

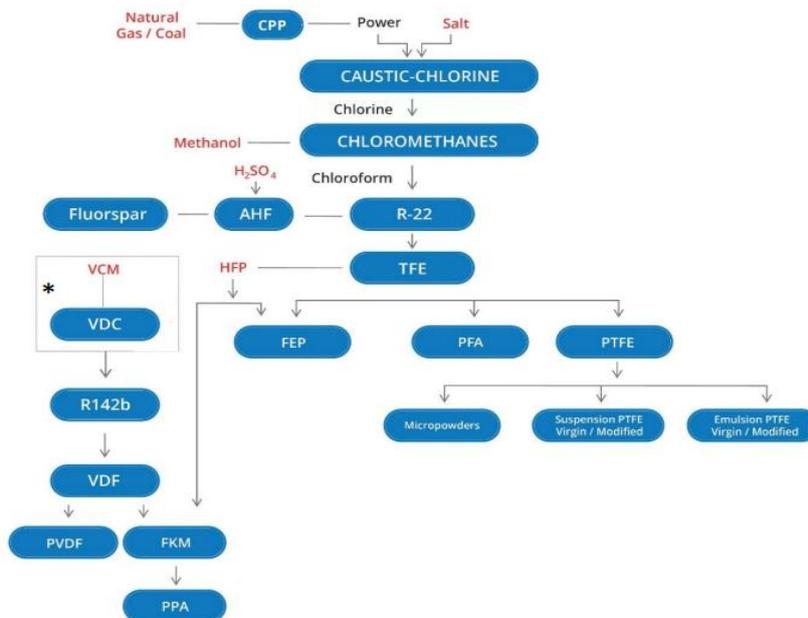
Exhibit 23: New age vertical – Hydrogen fuel cells/electrolysers

APPLICATIONS	HYDROGEN FUEL CELLS / ELECTROLYZERS
PRODUCTS	<ul style="list-style-type: none"> • Fluoropolymers(FKM, PTFE, FEP) • Membranes • Charging Accessories

Vertically integrated model to maximise value addition...

With a vertically integrated Dahej plant at its disposal, the company is well poised to cash in on the opportunities arising for products in the value chain besides insulating itself from the volatility in raw material prices. Profit margins and return ratios are expected to be driven by GFL's vertical integration with caustic-chlorine chain and fluorspar (leading to 72.4% gross margins in FY23) besides a structural shift towards fluoropolymer chain, new-age products and fluoro-specialty chemicals. In order to deepen its backward integration, the company will continue to invest in VDC and R142b plant (key raw materials for PVDF and FKM), with an emphasis on lowering power costs to increase profitability. Salt and power become the key raw material for manufacturing of caustic – chlorine and its captive power plant helps the company to reduce power cost. GFL also enjoys the benefit of captive fluorspar mines in Morocco. The fluorspar mines in Morocco are able to cater to ~35-40% of the company's total fluorspar requirements. Advantages of backward integration have enabled the company to maintain its competitiveness in international markets. With the potential for deeper backward integration and a reduction in its primary cost, power, GFL is concentrating on cutting costs. Power and fuel accounts for 17-18% of overall revenues for the company. In order to reduce the burden, it intends to build a windmill with a capacity of 100 MW. For this, it has already advanced ₹ 900 crore to group company Inox Wind.

Exhibit 24: GFL operations remain largely integrated



* Under Implementation

Source: Company, ICICI Direct Research

Exhibit 25: All three fluorine players earn decent EBIT margins due to backward integrated model

Score	FY20	FY21	FY22
GFL	18%	22%	28%
SRF - Chemical Biz	17%	20%	27%
NFIL	24%	29%	24%

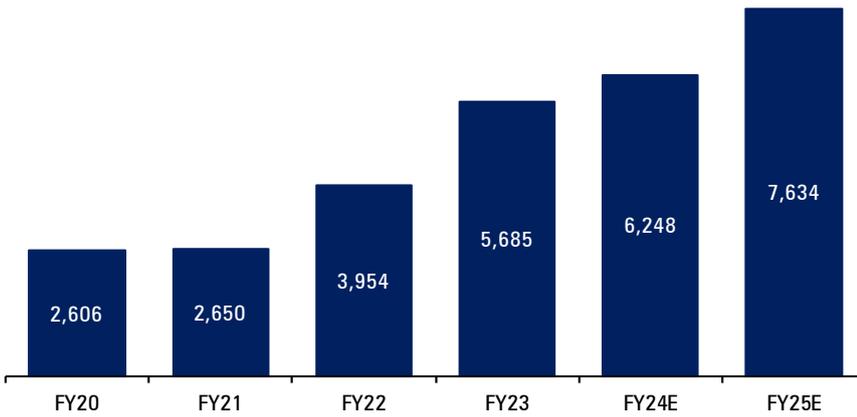
Progress on PFAS-free technology expected to prevail in future market applications...

Per- and polyfluoroalkyl substances (PFAS or sometimes referred as fluorinated polymerisation aids) are a large class of synthetic chemicals that are quite prevalent in society. However, they are more often identified as environmental contaminants and some of them have been connected to harmful effects on human health. Some research papers have highlighted that PFAS can pollute soil, groundwater and surface water. The long-standing health and environmental risks of PFAS are now increasingly being discussed at the global level as a result of recent legal proceedings against 3M and Du Pont. Some countries have already opted to ban all PFAS, often known as forever chemicals. As a result, 3M decided to shut down the capacity while Solvay decided on some reduction in PTFE capacity.

GFL has developed an in-house technology for the entire portfolio of fluoropolymers without the use of PFAS. In recent conference calls, it has indicated achievement of ~80% transition of all its fluoropolymers into PFAS-free technology. By FY24, it expects ~100% transition. The company expects a gradual improvement in both volume as well as price mainly on the back of some key players' exits (that are late in adaptation).

Financial story in charts

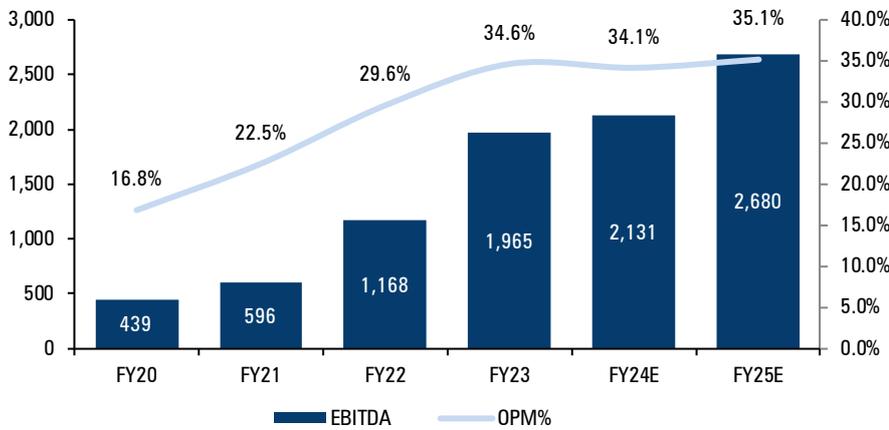
Exhibit 26: Revenues trend (₹ crore)



Revenues to grow at ~13% CAGR over FY22-25E on the back of better growth from fluoropolymer segment

Source: Company, ICICI Direct Research

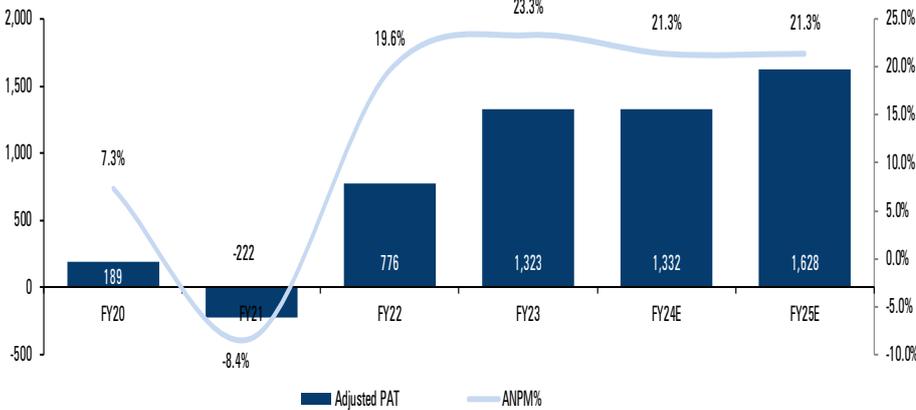
Exhibit 27: OPM trend over the years...



Operating leverage likely to aid operational performance. EBITDA is expected to grow at a CAGR of ~14% over the same period

Source: Company, ICICI Direct Research

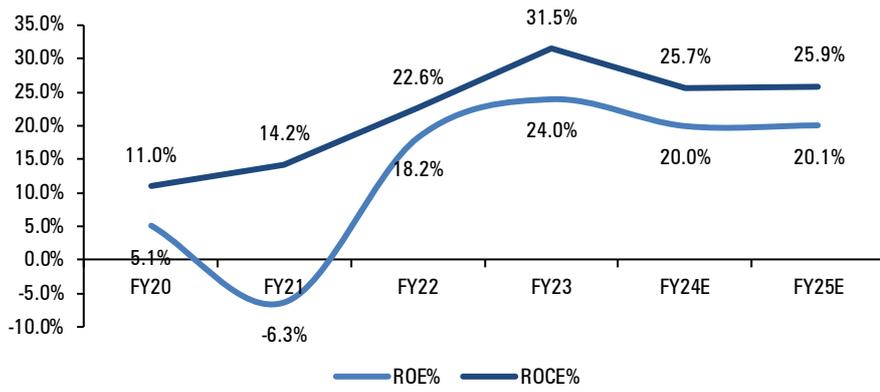
Exhibit 28: PAT trend over the years...



PAT expected to grow at ~26% CAGR over the same period

Source: Company, ICICI Direct Research

Exhibit 29: RoE & RoCE trend (%)



Source: Company, ICICI Direct Research

Key risks and concerns

Competition from China may temper growth of GFL

China's Dongyue Group has a PTFE capacity of 55000 TPA and a 10000 TPA, 3000 TPA and 12000 TPA capability for FEP, FKM, and PVDF, respectively, which is 2-3x of GFL's capacity. Hence, for any new opportunity arising in the global market, Chinese player will be poised to acquire the market share. However, majority of the demand for fluoropolymer is consumed in China only.

Delay in commissioning, ramping up of capex

Any delays in capital commissioning of fluoropolymers and battery chemicals are major risks to our projections and have the potential to considerably slow GFL's growth.

Large volatility in key RM prices, inability to pass on entire cost inflation to impact margins

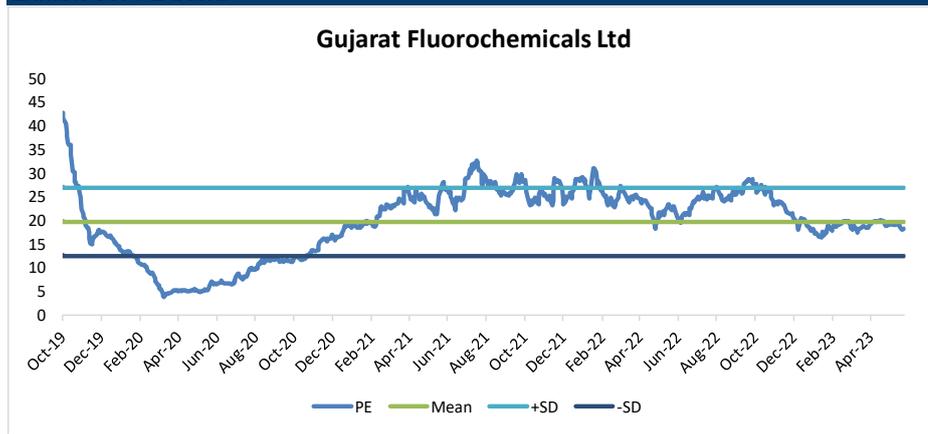
Fluorspar, lithium carbonate, VCM remain one of the key raw materials for GFL. Fluorspar deposits are highly concentrated and, as per estimates, the economically mineable reserves would only last for ~35-40 years and total reserves for 70 years. Key fluorspar producing countries are China, Mexico, South Africa, Mongolia and Kenya. However, a wholly owned subsidiary of the fluorspar firm, in Morocco, provides fluorspar that is equivalent to 35-40% of the company's requirement.

Valuation and outlook

Starting with refrigerant gas, the company ventured into other businesses like fluorochemicals and fluoropolymers over a period of time. The focus, so far, has been to efficiently use cash flows towards value-added new age verticals, capacity expansion for new fluoropolymers and debottlenecking of its PTFE plant. As this transition is likely to continue, we expect margins and return ratios to hold up at higher levels despite embarked capex. We anticipate stronger FCF creation and a resulting allocation towards high RoCE producing businesses. We expect revenues and EBITDA to grow at a CAGR of 25% and 32% to ₹ 7634 and ₹ 2679.5, respectively, in FY22-25E.

Our target price is ₹ 4000, based on 27x FY25E EPS of ₹ 148.2. We initiate coverage under Stock Tales format with a **BUY** recommendation. We believe premium valuations are justified on the back of industry tailwinds, focused approach and waning overhang related to intergroup holding that has waned substantially over the years.

Exhibit 30: PE band



Source: Company, ICICI Direct Research

Peer Comparison

Exhibit 31: Comparison of Financial Parameters

Company Name	FY20	FY21	FY22	FY23	CAGR FY20-23 (%)	FY24E	FY25E	CAGR FY23-25E (%)
Revenue (₹ crore)								
SRF	7209	8400	12434	14870	27.3%	16897	19359	14.1%
Gujarat Fluorochemicals	2606	2650	3954	5685	29.7%	6248	7634	15.9%
Navin Fluorine	1062	1179	1453	2077	25.1%	2662	3613	31.9%
Neogen Chemicals	306	336	487	686	30.9%	799	957	18.1%
EBITDA (₹ crore)								
SRF	1455	2145	3176	3529	34.4%	3882	4757	16.1%
Gujarat Fluorochemicals	439	596	1168	1965	64.8%	2131	2680	16.8%
Navin Fluorine	263	309	355	550	27.8%	692	1012	35.6%
Neogen Chemicals	58	64	87	112	24.3%	141	176	25.6%
ROCE(%)								
SRF	16.1	18.7	23.8	21.9		20.6	22.1	
Gujarat Fluorochemicals	11.0	14.2	22.6	31.5		25.7	25.9	
Navin Fluorine	18.4	21.0	17.8	17.2		17.5	21.4	
Neogen Chemicals	18.4	15.1	12.0	11.8		11.7	11.5	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 32: Profit & Loss statement (₹ crore)				
Year end March	FY22	FY23	FY24E	FY25E
Total Operating Income	3,953.6	5,684.7	6,248.5	7,634.0
Growth (%)	49.2	43.8	9.9	22.2
Raw Material Expenses	1,214.6	1,570.5	1,718.3	2,061.2
Gross Profit	2,739.0	4,114.1	4,530.2	5,572.8
Employee Cost	265.5	322.1	368.7	450.4
Other Operating Expenses	1,305.1	1,826.7	2,030.8	2,442.9
EBITDA	1,168.5	1,965.3	2,130.7	2,679.5
Growth (%)	96.1	68.2	8.4	25.8
Other Income	160.6	172.3	120.0	115.0
EBITDA, including OI	1,329.0	2,137.6	2,250.7	2,794.5
Depreciation	205.4	236.1	327.5	453.5
Net Interest Exp.	78.4	116.8	128.6	147.4
Other exceptional items	0.0	0.0	0.0	0.0
PBT	1,045.2	1,784.8	1,794.6	2,193.7
Total Tax	269.3	461.7	462.4	565.3
Tax Rate	25.8%	25.9%	25.8%	25.8%
PAT	775.9	1,323.1	1,332.2	1,628.4
Adj. PAT after Minority interest	775.9	1,323.1	1,332.2	1,628.4
Adj. EPS (₹)	70.6	120.4	121.2	148.2
Shares Outstanding	11.0	11.0	11.0	11.0

Source: Company, ICICI Direct Research

Exhibit 33: Cash flow statement (₹ crore)				
Year end March	FY22	FY23	FY24E	FY25E
PBT & Extraordinary	775.9	1,323.1	1,794.6	2,193.7
Depreciation	205.4	236.1	327.5	453.5
After other adjustments				
(Inc) / Dec in Working Capital	-254.3	-882.7	-391.1	-602.0
Taxes	37.3	-8.3	-462.4	-565.3
Others	-22.9	70.7	128.6	147.4
CF from operating activities	741.4	738.9	1,397.2	1,627.2
Purchase of Fixed Assets	-674.0	-731.3	-1,500.0	-1,500.0
Others	65.4	250.0	0.0	0.0
CF from investing activities	-608.7	-481.3	-1,500.0	-1,500.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0
Borrowings (Net)	154.3	463.5	400.0	100.0
Others	-111.3	-184.5	-312.7	-331.5
CF from financing activities	42.9	279.1	87.3	-231.5
Net cash flow	175.7	536.6	-15.5	-104.2
Effects of foreign currency translation	0.0	0.0	0.0	0.0
Opening Cash	21.7	152.9	161.0	145.5
Closing Cash	152.9	161.0	145.5	41.3

Source: Company, ICICI Direct Research

Exhibit 34: Balance Sheet Statement (₹ crore)				
Year end March	FY22	FY23	FY24E	FY25E
Liabilities				
Share Capital	11.0	11.0	11.0	11.0
Reserves	4,244.1	5,509.7	6,657.8	8,102.2
Total Shareholders Funds	4,255.1	5,520.7	6,668.8	8,113.2
Minority Interest	-24.8	0.0	0.0	0.0
Long Term Borrowings	435.4	216.9	516.9	616.9
Net Deferred Tax liability	259.5	241.3	241.3	241.3
Other long term liabilities	13.6	14.0	3.4	4.2
Long term provisions	32.9	39.5	44.9	54.8
Current Liabilities and Provisions				
Short term borrowings	1,117.3	1,298.2	1,398.2	1,398.2
Trade Payables	513.5	691.0	770.4	941.2
Other Current Liabilities	259.5	329.3	361.9	442.2
Short Term Provisions	16.1	20.4	22.4	27.4
Total Current Liabilities	1,906.4	2,338.9	2,552.9	2,809.0
Total Liabilities	6,878.0	8,371.4	10,028.3	11,839.4
Assets				
Net Block	2,460.6	2,994.1	4,309.0	5,355.6
Capital Work in Progress	679.8	1,142.4	1,000.0	1,000.0
Intangible assets under devl.	46.6	129.1	129.1	129.1
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Non-current investments	256.6	23.4	23.4	23.4
Deferred tax assets	0.3	0.3	0.3	0.3
Long term loans and advances	0.4	0.0	17.1	20.8
Other Non Current Assets	995.6	584.2	1,465.3	1,789.5
Current Assets, Loans & Advances				
Current Investments	18.8	0.2	0.2	0.2
Inventories	947.3	1,485.4	1,095.6	1,338.6
Sundry Debtors	778.1	1,106.8	1,027.1	1,150.3
Cash and Bank	152.9	161.0	145.5	41.3
Loans and Advances	37.0	27.7	27.7	27.7
Other Current assets	504.0	716.9	788.0	962.7
Current Assets	2,438.1	3,497.9	3,084.1	3,520.7
Total Assets	6,878.0	8,371.4	10,028.3	11,839.4

Source: Company, ICICI Direct Research

Exhibit 35: Key Ratios				
Year end March	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Adj. EPS	70.6	120.4	121.2	148.2
Adj. Cash EPS	89.3	141.9	151.0	189.4
BV	387.4	502.3	606.8	738.2
DPS	16.8	16.8	16.8	16.8
Operating Ratios (%)				
Gross Margin (%)	69.3	72.4	72.5	73.0
EBITDA Margin (%)	29.6	34.6	34.1	35.1
PAT Margin (%)	19.6	23.3	21.3	21.3
Debtor Days	72	71	60	55
Inventory Days	87	95	64	64
Creditor Days	47	44	45	45
Cash Conversion Cycle	112	122	79	74
Return Ratios (%)				
Return on Assets (%)	11.3	15.8	13.3	13.8
RoCE (%)	22.6	31.5	25.7	25.9
Core RoIC (%)	17.1	25.2	21.4	22.1
RoE (%)	18.2	24.0	20.0	20.1
Solvency Ratios				
Total Debt / Equity	0.4	0.3	0.3	0.2
Interest Coverage	14.3	16.3	15.0	15.9
Current Ratio	1.3	1.5	1.2	1.3
Quick Ratio	0.8	0.9	0.8	0.8
Valuation Ratios (x)				
EV/EBITDA	30.7	18.3	17.0	13.6
P/E	44.5	26.1	25.9	21.2
P/B	8.1	6.3	5.2	4.3
EV/Sales	9.1	6.3	5.8	4.8

Source: Company, ICICI Direct Research

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Sell: <-15%



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