Fluorochemicals

Sector Report

Champions of magicis elementum!

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Fluorochemicals

Sector Report

September 15, 2023

Navin Fluorine International (NFIL IN)

Rating: Acc | CMP: Rs4,544 | TP: Rs5,064

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	20,774	24,626	30,995	36,534
EBITDA (Rs. m)	5,503	6,434	8,363	9,868
Margin (%)	*26.5*	*26.1*	*27.0*	*27.0*
PAT (Rs. m)	3,752	4,244	5,736	6,811
EPS (Rs.)	75.7	85.7	115.8	137.5
Gr. (%)	*42.6*	*13.1*	*35.2*	*18.7*
DPS (Rs.)	12.0	13.6	18.3	21.8
Yield (%)	*0.3*	*0.3*	*0.4*	*0.5*
RoE (%)	*18.6*	*18.0*	*20.6*	*20.6*
RoCE (%)	*19.6*	*17.3*	*20.4*	*21.3*
EV/Sales (x)	11.2	9.5	7.5	6.4
EV/EBITDA (x)	42.4	36.4	28.0	23.6
PE (x)	60.0	53.0	39.2	33.1
P/BV (x)	10.3	8.9	7.4	6.3

Gujarat Fluorochemicals (FLUOROCH IN)

Rating: Acc | CMP: Rs3,125 | TP: Rs3,230

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	56,847	50,171	69,942	76,298
EBITDA (Rs. m)	19,653	14,865	22,771	24,882
Margin (%)	*34.6*	*29.6*	*32.6*	*32.6*
PAT (Rs. m)	12,470	8,582	13,702	14,685
EPS (Rs.)	113.5	78.1	124.7	133.7
Gr. (%)	*58.4*	*(31.2)*	*59.7*	*7.2*
DPS (Rs.)	3.4	3.1	6.2	6.7
Yield (%)	*0.1*	*0.1*	*0.2*	*0.2*
RoE (%)	*25.5*	*14.5*	*19.6*	*17.6*
RoCE (%)	*27.0*	*16.0*	*21.9*	*19.8*
EV/Sales (x)	6.3	7.1	5.1	4.6
EV/EBITDA (x)	18.1	23.9	15.6	14.1
PE (x)	27.5	40.0	25.1	23.4
P/BV (x)	6.2	5.4	4.5	3.8

SRF (SRF IN)

Rating: HOLD | CMP: Rs2,371 | TP: Rs2,143

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,48,703	1,40,029	1,59,142	1,75,905
EBITDA (Rs. m)	35,292	31,115	35,902	41,340
Margin (%)	*23.7*	*22.2*	*22.6*	*23.5*
PAT (Rs. m)	21,623	16,817	19,324	22,243
EPS (Rs.)	72.9	56.7	65.2	75.0
Gr. (%)	*14.5*	*(22.2)*	*14.9*	*15.1*
DPS (Rs.)	8.8	6.8	7.8	9.0
Yield (%)	*0.4*	*0.3*	*0.3*	*0.4*
RoE (%)	*22.9*	*15.2*	*15.3*	*15.4*
RoCE (%)	*22.1*	*15.2*	*15.4*	*15.8*
EV/Sales (x)	4.9	5.3	4.7	4.2
EV/EBITDA (x)	20.8	23.7	20.7	18.1
PE (x)	32.5	41.8	36.4	31.6
P/BV (x)	6.8	6.0	5.2	4.5

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Fluorochemicals

Champions of magicis elementum!

It took more than seven decades to isolate the magicis elementum - Fluorine, an effort that landed the French chemist Henri Moissan with a Nobel in 1906. Since then, there has been no looking back for fluorinated chemicals, with increasing applications in refrigeration, life sciences, agrochem and polymers. We believe that Indian fluorochemical companies are well placed to capitalize on growing fluorination demand in mass markets given 1) global refrigerant market to expand at 6.4% CAGR over FY23-28E (to reach USD9bn by 2028) 2) remarkable 64% of New Chemical Entities (NCEs) approved by Food & Drug Administration (FDA) in CY22 made use of fluorination chemistry, almost double of 34% witnessed in CY15 3) 11 out of 15 new ISO assigned agrochemicals in 2022 had fluorination in their chemistry compared to 6 out of 17 in 1998 and 4) fluoropolymers finding applications in newer areas like battery membranes & solar films. While fluorochemicals are battling lack of consistent data, user industries like pharma and agrochemicals with size of USD516bn and USD228bn in CY22 are expected to grow by 7.7% & 3.0% CAGR respectively in CY23-30.

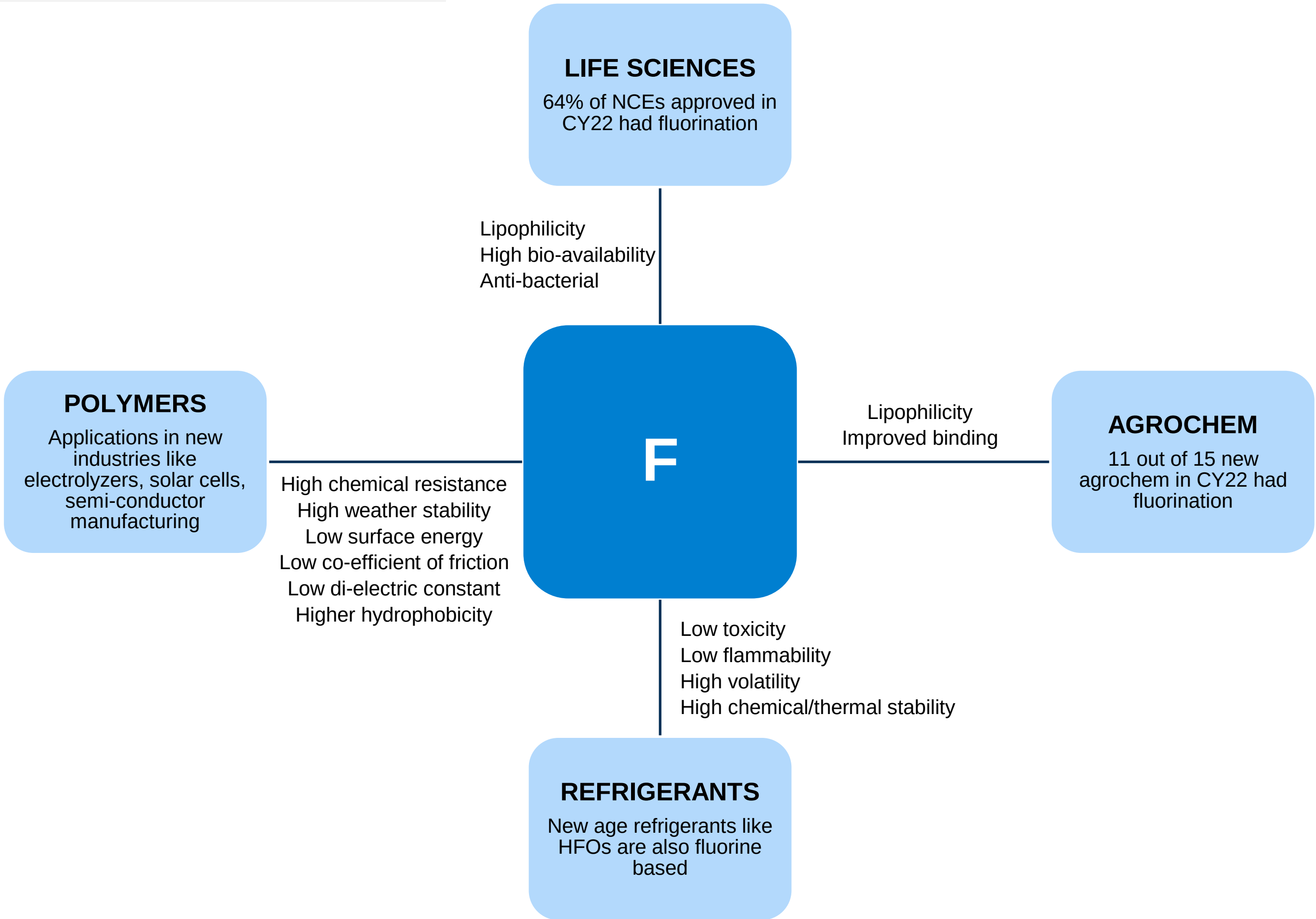
Considering strong potential upside and huge demand uptick in the industry, we initiate coverage on 3 fluorochemical companies: Navin Fluorine International Limited (NFIL) with 'Accumulate' rating at TP of Rs 5064 valuing at 40x Sep'25 EPS of Rs 127, Gujarat Fluorochemicals Limited (GFL) with 'Accumulate' rating at TP of Rs 3230 valuing at 25x Sep'25 EPS of Rs129 and SRF limited (SRF) with 'Hold' at TP of Rs 2143 valuing at implied consol Sep'25 EV/EBITDA of 11x).

Lifescience & Agrochem to grow faster than user industries : Fluorinated molecules find increased usage in both life sciences and agrochemical applications due to unique properties of a strong C-F bond namely 1) lower vulnerability to bio-degradation by stomach enzymes thereby ensuring higher bio-availability at target receptors, 2) better penetration of cell membranes, thereby increasing the absorption - a property called as lipophilicity, 3) ability to lower the acid tolerance of bacteria, thereby helping as anti-bacterial agent. Due to higher acceptance, we expect usage of fluorinated drugs to significantly outgrow user industries like pharma and agrochemicals at 7.7% and 3.0% CAGR.

Fluoropolymers - Increased usage in new-age application: Fluoropolymers are finding increased usage in automobiles, electrical and electronics and new energy applications like energy harvesting, sensors, 5G etc. due to 1) higher chemical resistance, 2) better insulation properties, and 3) stability at wider range of temperature and pressure. PTFE (polytetrafluoroethylene), accounting for ~60% of global fluoropolymers is expected to grow at ~5% CAGR till 2030. PVDF (polyvinylidene difluoride), the second largest accounting for ~20% of total fluoropolymer consumption, is expected to grow from 67,000 mtpa in CY22 to 150,000 mtpa in CY32. However, it may be noted due to ongoing research and wide scale adoption of fluoropolymers demand may easily outgrow these forecasts.

Refrigerants – Permanence across generations: Fluorine gases have been an integral part across generations of refrigerants as we move to find gases that are more environment friendly given its 1) unique property of liquefaction at ambient temperature and modest pressure, 2) inert, un-flammable and unreactive nature, and 3) low toxicity. Global refrigerant market is expected to rise by CAGR of 6% to USD9bn by 2028.

Exhibit 1: Properties of Fluorine



Source: Industry, PL

Life Sciences: Increased usage of fluorination

Fluorine makes a strong bond with carbon. Due to this strong C-F bond, fluorinated drugs are less susceptible to bio-degradation by stomach enzymes and have higher bio-availability at the target receptors. Fluorinated drugs also penetrate the cell membranes easily, thereby increasing the absorption (a property called as lipophilicity). Fluorine also lowers the acid tolerance of bacteria, thereby helping as anti-bacterial agent.

- **Gaining market share in new drugs**: Fluorine has found ever-increasing usage in life sciences, due to its several properties. In CY22, a total of 22 NCEs (New Chemical Entities) were approved by FDA. A whopping 14 out of these (64%) made use of fluorination in their chemistry, a sharp rise from 34% witnessed in CY15. Furthermore, Atorvastatin, the largest selling drug of all times also makes use of fluorination.

  While different studies put different outlook on market size of fluorinated drugs, the fact that increasing number of drugs are fluorinated combined with no particular concentration in therapeutic areas spells a promising future for fluorination in life sciences.

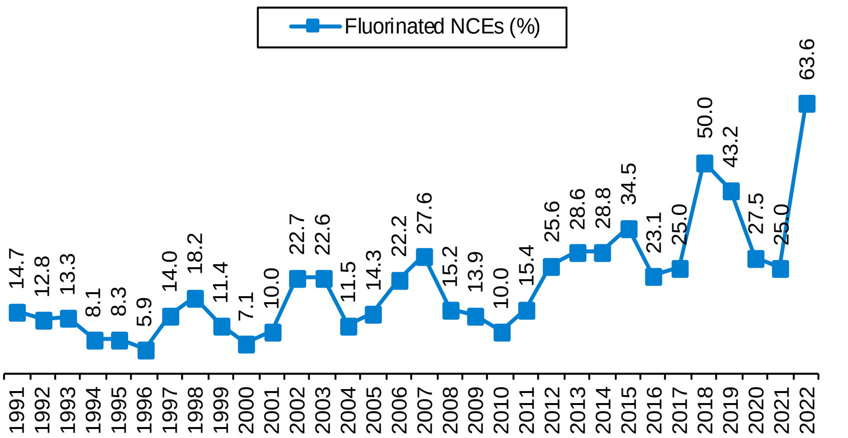
- **NFIL - Best positioned in the segment:** NFIL's Contract Development and Manufacturing Organization (CDMO) segment in particular is expected to benefit after foraying in almost all big pharma companies globally through its acquisition of Manchester Organics, UK in 2011. Additionally, CDMO has grown at 12% CAGR over FY18-23. The company has three cGMP plants but aims to complete cGMP4 by CY24-end. This would further bolster its capability to service larger quantities. It proudly claims to work only with innovator companies in the segment. Additionally, some part of its Specialty chemicals segment also caters to life sciences.

  Top 10 drugs in CY22 had 6 biological drugs, out of rest 4, two (Paxlovid, Biktarvy) were fluorinated with sales of USD 29bn.

  GFL, on the other hand, does not have any presence in life sciences as of now, while SRF does not separately publish its exposure to life sciences. It is included in the broader Chemicals segment which contributed ~50% of revenues in FY23. It is generally believed that 10% of specialty chemicals under chemicals segment caters to life-sciences. SRF also appears to be starting a CDMO segment for pharma soon.

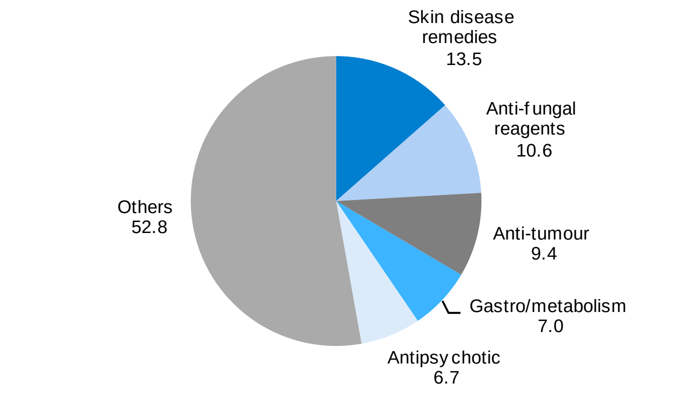
64% of NCEs approved in 2022 made use of fluorination in their chemistry

Exhibit 2: Fluorination finds increasing usage in drugs



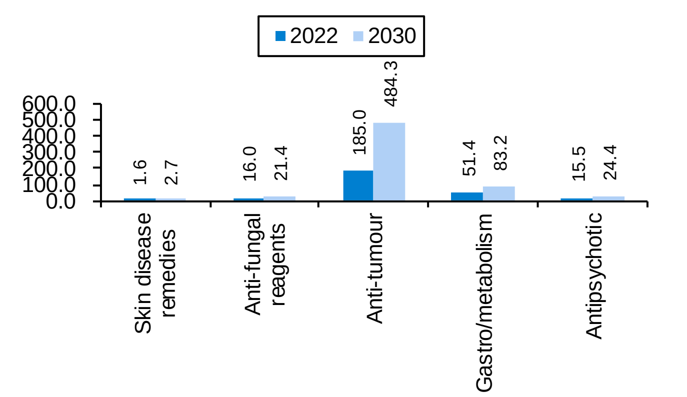
Source: Industry, PL

Exhibit 3: Contribution of fluorinated drugs (%)



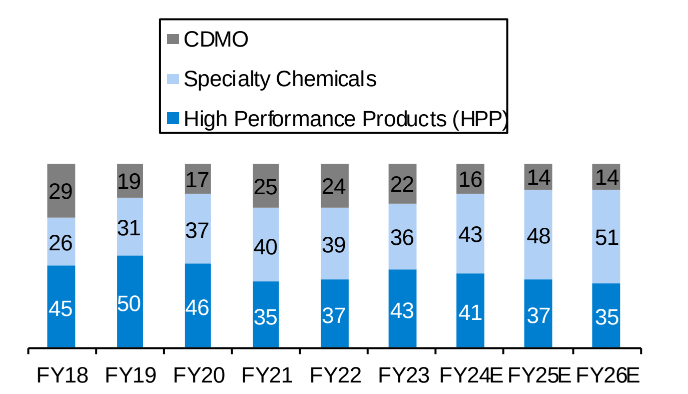
Source: Industry, PL

Exhibit 4: Outlook on Life sciences market size (USD bn)



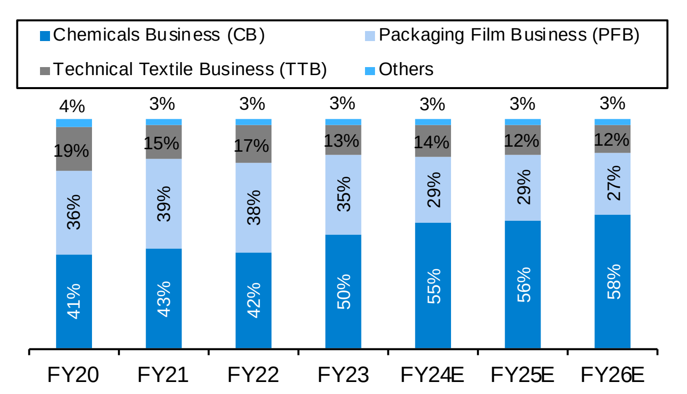
Source: Industry, PL

Exhibit 5: NFIL's life sciences contribution (%)



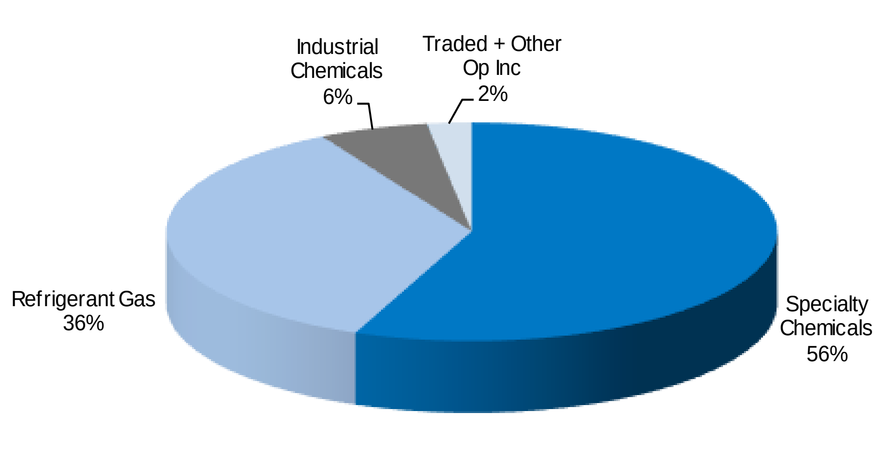
Source: Company, PL

Exhibit 6: SRF's revenue breakdown



Source: Company, PL

Exhibit 7: SRF's Chemicals Business (FY23)



Source: Company, PL

Agrochem: Sequential market share gain

To feed an ever-growing population, crop protection and high yields are of utmost importance amidst a limit on arable land. Properties that make fluorine attractive for pharmaceuticals, also make them important for agrochemicals. The ability of fluorine and fluorinated functional groups to alter the physiochemical properties like acidity, lipophilicity and stability of a parent molecule has resulted in ever-increasing usage in agrochemicals.

- **Increasing market share in agrochemicals:** In 2022, 11 out of total 15 new ISO assigned agrochemicals made use of fluorination chemistry. During 2012-22, 65% of all newly assigned ISOs in agrochemicals had fluorination in their chemistry, much higher than 55% during 2002-11.

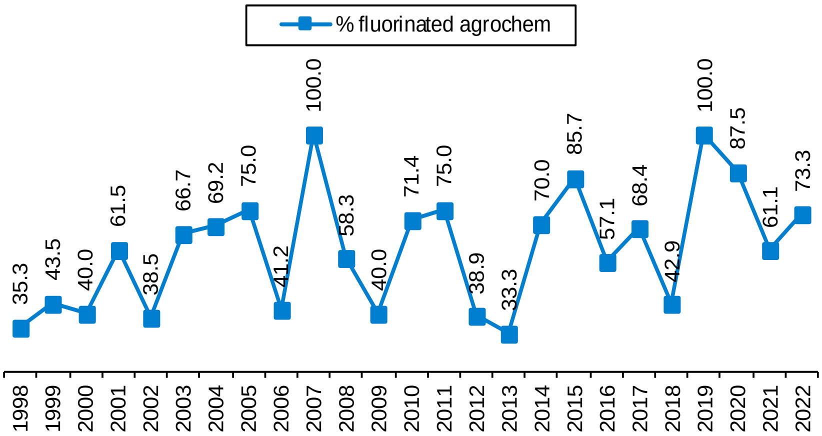
- **NFIL's focus on agrochemicals:** GFL is not present in agrochemicals. NFIL's specialty segment caters to agrochemicals. It is completing a dedicated plant of INR5.4b for an agrochemical intermediate by CY23-end. This along with another intermediate goes into making an Active Ingredient (AI). NFIL recently announced Rs 300mn project for the other intermediate too. Its Multi-Purpose Plant (MPP) has currently four products- three in agrochemical segment and one in pharma. NFIL is also expected to launch fifth product from MPP in H2CY24, which would be in the agrochemical segment.

- **SRF aims at more AIs:** SRF has two large AIs as of now, P17 accounting for 17% of overall chemical segment and P32 (non-fluorinated) accounting for 11% of specialty chemicals. It intends to launch 6-7 AIs in next couple of years.

- **"Forever chemicals":** Bio-accumulation is also an increasing concern; as most fluorinated agrochemicals take much longer to degrade. Hence they are termed as 'Forever Chemicals'. Pollution of the water table as a result is an issue that scientists have started studying in detail.

A record 73% of newly assigned ISOs for agrochemicals in 2022 made use of fluorination

Exhibit 8: Fluorination in new ISO assigned agrochemicals



Source: Industry, PL

Fluoropolymers: New age solutions

Fluorpolymer is a class of polymers with fluorine atoms in their chain. A strong C-F bond not only helps in unique properties to life sciences and agrochemicals as mentioned above, but also results in a wide range of high performance plastics with outstanding chemical resistance, weather stability, low surface energy, low co-efficient of friction, low di-electric constant, higher hydrophobicity among others. In total, fluoropolymers consumption stood at 320,000mtpa in FY23 and is expected to grow at 5% going forward.

First commercial usage of PTFE was in the Manhattan project as anti-corrosive material

- **Unique properties of PTFE (Poly tetra fluoro ethylene):** PTFE, accounting for ~60% of total fluoropolymer consumption, is similar to polyethylene except that all H atoms are replaced by F atoms. The replacement results in a compact crystalline structure, making PTFE the heaviest polymer with a high melting point of ~320degC. Fluorination also gives PTFE strong chemical resistance, making it insoluble in any organic solvent. Fluorination also renders PTFE with high thermal stability, showing no obvious thermal degradation below 440degC. PTFE requires almost pure oxygen atmosphere for combustion. As a result, it is used as a flame suppressant.

Fluoropolymers find increased usage in new applications like electronics, solar, and batteries among others

- **PTFE's global market stands at ~175,000mtpa:** Globally, China is the largest producer of PTFE but 80% of that is consumed domestically. GFL currently has 18,000mtpa PTFE capacity and does not compete with China for ~85% of its products. Both SRF and Navin Fluorine have also expressed intentions to diversify into PTFE. Global PTFE market is expected to grow at 5% over CY22-30.

- **PVDF, the next big product:** PVDF's current global consumption of 67,000mtpa is expected to rise to 152,000mtpa by CY32. It is primarily used as a binder for electrodes in lithium ion batteries, main driver of growth for PVDF. Other usages are in solar panels and water treatment membranes. <u>Largest players in PVDF are Dongyue, Daikin, Arkema among others</u>.

- **Other significant fluoropolymer FKM (Fluorine Kautschuk Material):** It is a fluoro-elastomer and finds wide usage as replacement of rubber in highly corrosive or high temperature/pressure environment, typical usage being in aeronautical industry, automotive etc. The base monomer is VDF. Global market appears to be 40-45,000mtpa.

- **PFA** (Perfluoroalkoxy alkanes) is another fluoropolymer with a much smaller but specialized market of 10-15,000mtpa. It is the highest priced TFE derived polymer and finds applications in the semi-conductor industry among others.

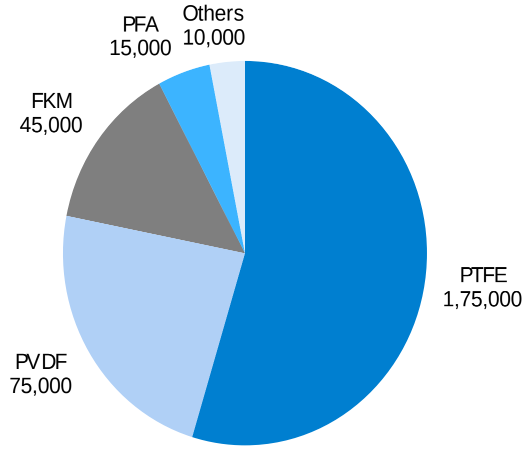
- **GFL, the largest player under coverage in fluoropolymers:** <u>GFL has a total capacity of 1,100mtpm of new fluoropolymers and intends to raise it to 1,500mtpm by FY24 end and subsequently to 1,800mtpm</u>. Total fluoropolymers capacity is expected to be 3550mtpm in FY26E. SRF also appears to have announced its foray into fluoropolymers, while NFIL is expected to follow suit subsequently.

Exhibit 9: Properties and usage of various fluoropolymers

	Melting point (degC)	Tensile Modulus (MPa)	Break elongation (%)	Dielectric strength (kV/mm)	Application temperature (degC)	Main applications	Major global players
PTFE	317-337	660	300-550	19.7	-240 to 260	chemical processing, wires & cables	AGC, DuPont, Chemours, Solvay, Daikin
PCTFE	210-215	60-100	100-250	19.7	-240 to 200	barrier films, packaging & sealing	Daikin, Hoechst, Arkema
FEP	260-282	345	~300	19.7	-240 to 200	cable insulation	DuPont, Daikin
PVF	190-200	2000	90-250	12-14	-70 to 110	lamination, film & coating	DuPont
PVDF	155-192	1,040-2,070	50-250	63-67	-20 to 150	coating, wire, cable electronics	Arkema
ECTFE	235-245	240	250-300	80	-70 to 150	flame resistant insulation	Solvay
PFA	302-310	276	~300	19.7	-268 to 260	chemical resistant components	AGC, DuPont, Solvay, Daikin
ETFE	254-279	827	150-300	14.6	-200 to 150	wire & cable insulation	AGC, Daikin
THV	145-155	82-207	500-600	48-62	-50 to 93	barrier films & insulation	DuPont, Solvay, Arkema
FKM	220	17	600	14	-26 to 230	gaskets, sealants	Chemours, Daikin

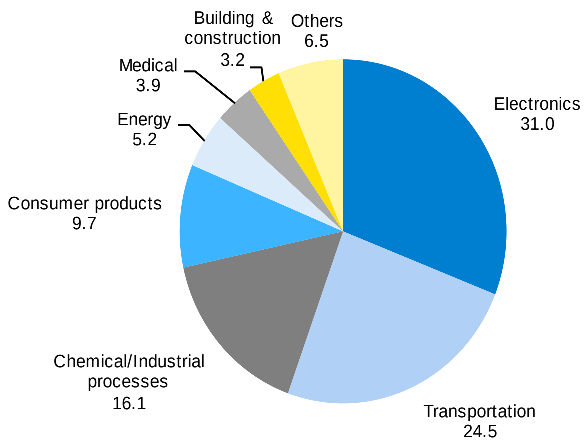
Source: Industry, PL

Exhibit 10: Global market size of various fluoropolymers (mtpa)



Source: Industry, PL

Exhibit 11: Consumption of various fluoropolymers in the US (%)



Source: Industry, PL

Exhibit 12: Usage of various fluoropolymers in electronics segment

	Ferro electric	Dielectric, insulator, barrier	Morphing Muscle	Piezo electric	Tribo electric	Electrode Binder or structure	Separator, scaffold, substrate, sealant	Proton conductor, electrolyte	Electret	Pyro electric	Photo voltaic	TCE	Optical layer
PTFE		RFB, 5G/ mmWave			EH, S,A	Li, SC			S, M				
PCTFE						SC							
PFA/MFA													
PVDF	PM	A, RFB		EH, S, A	EH,S,A	LIB, LS, SC		FC	M	S			
FEP							FC		M				
ETFE		SF											
ECTFE		RFB											
FFPM/ FFKM							Aerospace electronics						
FPM/FKM													
FEPM													
PFPE													
PFSA, PFSI, sulfonate						LS		FC, RFB IEM,S					
PFPO													
PVP						LS							
Other		IC											

5G/mmWave 5G telecom protocol and millimeter wavelength electronics (low insertion loss at high frequencies)
A Actuator
EH Energy harvesting
FC Fuel cell
HFP Hexafluoropropylene
IEM Ion exchange membrane
LIB Lithium-ion battery
LS Lithium sulfur battery
M microphone
PM Printed memory
RFB Redox flow battery
S Sensor
SC Supercapacitor
SF Smart facades
TCE Transparent conducting electrode

IDTechEx Research

Source: Industry, PL

Magenta: in wide use commercially / Orange: trials or early stages / Dark grey: speculative research / Yellow: Formulations with largest electric/electronic market value

Refrigerants: Age old to new age solutions

Refrigeration is simply moving heat from a specific place and throwing it out somewhere else. It needs two basic steps- heat absorption and heat rejection. So a refrigerant gas needs to be liquefied easily at ambient temperature using moderate pressure. Its subsequent expansion absorbs a lot of latent heat converting it into gas, thereby resulting in a drop of temperature. Initially refrigerants included methyl chloride, ammonia and sulphur chloride. However, these are flammable, toxic and highly reactive, hence the need for next generation of refrigerants.

- **Permanence of fluorine across generations:** Fluorine gases have the unique property of liquefaction at ambient temperature at modest pressure. Additionally, they are inert, have low toxicity, are unflammable and unreactive, making way for the second generation of refrigerants consisting of chlorofluorocarbons (CFCs) and hydrochlofluorocarbons (HCFCs). However, subsequent development of understanding on damage to the environment resulted in ban on refrigerants with potential of ozone depletion (ODP). Third generation of refrigerants included hydrofluorocarbons (HFCs), but they were found to have high global warming potential (GWP).

- Montreal Protocol (1987) aimed at phasing out ozone depleting substances (ODS). With it came nine amendments, finally culminating into the Kigali agreement of 2016 which targeted phasing out of HFCs which although were not ODS but were high on GWP.

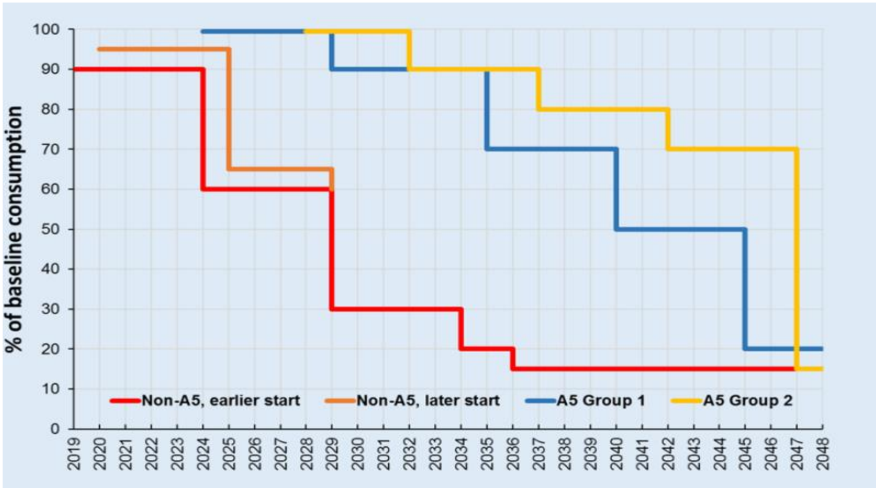
- **Fourth generation of refrigerants:** New age refrigerants like hydrofluoro olefins (HFOs) have a C=C bond which degrades in the atmosphere in a few weeks, resulting in low GWP. Comparatively, HFCs remain in the atmosphere for tens and hundreds of years. Various kinds of HFOs are HFO-1234yf, HFO-1234ze and HFO-1233zd.

- Globally refrigerants market is estimated to be USD 6.3bn and is expected to rise at CAGR of 6% to USD9bn by 2028. Global refrigerant market is expected to be 2mmtpa in 2023 and is expected to rise by 2.5% CAGR through 2028.

- **NFIL has already joined the bandwagon for HFOs:** NFIL has tied up with Honeywell for supply of HFO. It is a seven-year contract which started in FY23. Debottlenecking of the plant is expected to be completed by CY24-end and the company is also under discussion with Honeywell for doubling the capacity. NFIL has also started a 5,000mtpa R32 plant recently. SRF has also developed an indigenous technology for manufacturing HFO-1234yf and the production is expected in a couple of years. GFL was earlier expected to come up with R32 capacity but appears to have put it on hold.

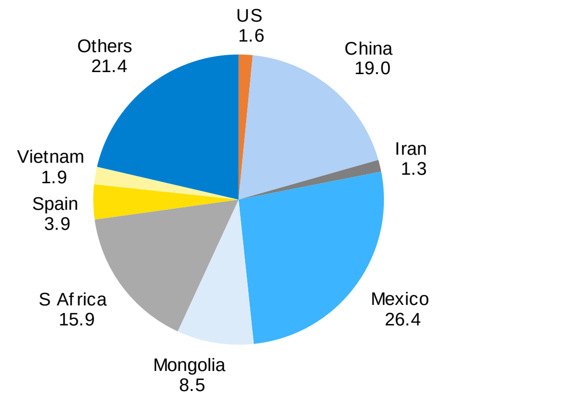
- **New age refrigerant is an evolving area:** Although HFOs degrade quickly, they disintegrate into TFA (tri fluoro acetic acid). TFA accumulates into water bodies and is nearly impossible to separate out. This may force look out for alternate refrigerants. Other non-fluorinated refrigerants like isobutane are also finding increased usage.

Exhibit 13: Kigali agreement to phase out HFCs by groups of countries



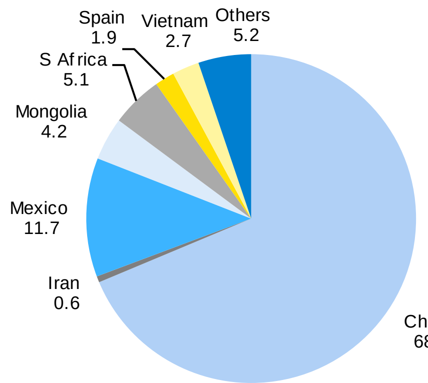
Source: Industry, PL

Exhibit 14: Distribution of fluorspar reserves globally (%)



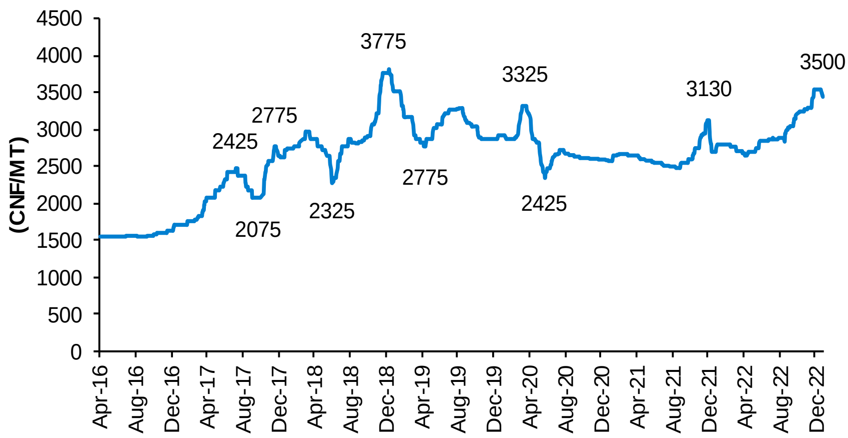
Source: Industry, PL

Exhibit 15: China & Mexico dominate mining of fluorspar (%)



Source: Industry, PL

Exhibit 16: Fluorspar prices exhibit high volatility



Source: Bloomberg, PL

Summary of Valuations and recommendations

NFIL: Focused and fast paced

- The proportion of vintage refrigerants (R22/R32) is expected to decline from 28% in FY18 to ~9-10% in FY26E. Debottlenecking of HFO capacity by 25% is expected to be completed by CY24-end, while the company is also in negotiation with Honeywell for doubling of the contract volume.
- The dedicated Rs 5.4bn agrochem plant is expected to come up by Dec'23 and would take another 3-4 years for full ramp up. In the Multi-Purpose Plant (MPP), the company is expected to launch fifth product (agrochem) in 2HCY24.
- In the CDMO (Contract Development and Manufacturing Organization) segment, the company intends to focus on late entry products. Completion of cGMP4 by CY24-end would further help it to execute larger projects for pharma innovator companies. We forecast EPS CAGR of 22% during FY23-26E. The stock is trading at ~54x FY24E EPS. Considering strong potential of upcoming projects, we initiate coverage with a 'Accumulate' rating and TP of Rs 5064 valuing at 40x Sep'25 EPS of Rs 127. Delayed project execution, uncertain demand and rise in competition are key risks to our recommendation.

SRF Limited: A bit of everything

- SRF is expanding its refrigerants capacity by 35% to 84500 mtpa (overall) by FY24E and has also developed its own process technology for HFO which would aid its revenue growth upon expiry of patents.
- 60-70% of specialty chemicals business comes from agrochemicals. The company aims to launch 6-7 AIs in next 2-3 years which would topline growth of the company.
- We are optimistic on the company given healthy performance from specialty chemicals business, strong balance sheet and deployment of capex for high-growth specialty chemicals business over next few years to tap opportunities emerging from agrochemical and pharma industries. We expect Revenue/EBITDA/PAT to grow at CAGR of 6%/5%/1% over FY23-26E.
- The stock currently trades at 24x FY24 EV/EBITDA and 42x FY24 EPS and does not leave much upside for the investors. We initiate coverage with 'HOLD' rating and SOTP based target price of Rs 2413 given high growth from specialty & fluorochemical business on the back of improved business outlook.

GFL: Furthering its presence in new age fluoropolymers

- GFL's strategic focus on new fluoropolymers such as PVDF, PTFE, FKM, PFA and battery chemicals makes it a unique and compelling proxy play on multiple new-age technologies like EVs, solar energy, 5G etc with huge growth potential.
- With increasing usage of fluorine in agrochemicals, pharmaceuticals and life science materials, fluorine chemistry is in a sweet spot globally.

- Further, fluoropolymers are extensively used in battery for separators, wirings and battery casing due to superior performance. Similarly, PVDF sheets are used in solar panels and find use in 5G equipment too. The production of green hydrogen, which is looked upon as future energy source, also uses multiple products from the fluorine basket. These segments are likely to drive growth of the company.

- We estimate Revenue / PAT CAGR of 10%/6% and EBITDA margins of 32% (with reasonable probability of upsides) and ~15% RoCE over FY23-FY26E. <u>We initiate coverage on Gujarat Fluorochemicals Ltd with a ‘Accumulate’ rating and target price of Rs3,230 valuing the stock at 25x Sep’25 EPS of Rs129. (P/E multiple).</u>

Key Risks

Unknown toxicity is key risk for all fluorination companies

Carbon-Fluorine (C-F) bond is too strong to be broken by natural forces. Hence, per and poly-fluoro alkyl substances (PFAS), a class of chemicals referred to as “forever chemicals”, accumulate in the environment after escaping from producing factories and users alike. Several of these have been proven to be carcinogenic and detrimental for immune systems. Most importantly, several others have not even gone through toxicology studies.

Some of the proven forever chemicals like PFOS (per fluoro octane sulfonic acid), PFOA (per fluoro octanoic acid) and PFHxS (per fluoro hexane sulfonic acid) have been banned internationally in 2009, 2019 and 2022 respectively. Even the new age refrigerants- HFOs have come under scanner as these molecules break up into TFA (tri fluoro acetic acid), which is not proven to be a toxic so far, but poses extreme difficulty in removal from water.

As a result, European Chemicals Agency (ECHA) has put forward a proposal in Feb’23 that could see heavy restriction on production of more than 12,000 forever chemicals. The severity of the issue can be well gauged from recent multi-billion settlements of Chemours, DuPont, Corteva and 3M over these chemicals.

Upcoming competition:

While GFL has positioned itself largely as a fluoropolymer player, the other two have also expressed their intention to foray into the segment. Additionally, upcoming large producers of green energy like RIL with its Giga factories have expressed intention for fully integrated products including battery chemicals. Last year, China alone appears to have added ~70mmtpa of nameplate PVDF capacity.

In fluorination chemistry also, there is a risk of new entrants. Anupam Rasayan has bought 26% stake in Tanfac which would help it in secured supply of AHF. Laxmi Organics and Deepak Nitrite also appear to be foraying into fluorination.

Technology risk:

New age applications like semi-conductors, batteries and new energy are evolving as we speak. While several fluoropolymers are finding increased usage, there is always a risk of new materials displacing fluoropolymers, more so as volumes rise and bio-accumulation becomes a concern.

In refrigerant also, HFOs disintegrate into TFA. It is nearly impossible to separate TFA from water. So far, it has not been banned but there are studies going on which may risk the usage of HFOs.

Access to key raw materials is an issue

- **Limited availability of fluorspar:** Access to reliable fluorine source (acid grade fluorspar) is a critical requirement, especially for Indian fluorination companies considering the fact that India has no commercially proven reserve of fluorspar. Fluorspar reserves are mainly concentrated in Mexico, China and South Africa which account for ~60% of global reserves (2022). When it comes to mining of fluorspar, China accounts for 69% of the market, while Mexico accounts for another 12% (2022).
- Due to concentrated availability, fluorspar prices are very volatile and secured access becomes a key determinant for sustainable business.
- **SRF lacks strategic sourcing of fluorspar:** Both NFIL and GFL have a JV with Gujarat Mineral Development Corporation, known as Swarnim Gujarat Fluorspar which enables them easy access of acid grade fluorspar. NFIL has recently announced expansion of its AHF capacity from 20,000 mtpa to 60,000 mtpa at cost of Rs4.5bn. SRF does not appear to have any strategic sourcing for fluorspar, however has largest HF capacity.

COMPANIES

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Navin Fluorine International (NFIL IN)

Rating: ACCUMULATE | CMP: Rs4,544 | TP: Rs5,064

September 15, 2023

Company Report

CDMO, the key driver

We initiate coverage on Navin Fluorine International Ltd (NFIL) with 'Accumulate' rating and TP of Rs 5,064 valuing at 40x Sep'25 EPS of Rs 127. We believe NFIL presents an attractive investment opportunity led by 1) growing emphasis in CDMO (Contract design manufacturing organisation) with completion of cGMP4 by CY24-end, enabling the company to service larger quantities, 2) launch of new molecules from MPP (multi-purpose plant) and the dedicated Rs5.4bn agrochemical plant, 3) growth in HFO (hydrofluoro olefins) with debottlenecking of 25% by CY24-end and possibility of further expansion, and 4) possibility of venturing into fluoropolymers as new vertical. We expect Revenue/PAT CAGR of 20%/22% and margins of 27% over FY23-26E. The company is tripling its 20,000mtpa HF (hydrofluoric acid) capacity over next two years along with backward integration, thereby aiding expansions. The stock is currently trading at 53x FY24E EPS. Initiate with 'Accumulate'

CDMO- A key growth driver: NFIL works only with innovator companies. The company is looking to add cGMP4 facility by CY24 end which would help it service late-stage molecules with larger quantities from clients. The company has also started looking at non-fluorinated chemistry like the recent deal with Fermion, in order to increase its wallet-share with clients. In this segment, the company has clocked 12% CAGR over FY18-23. <u>With the visibility that we have now, we build in a conservative 5% CAGR in CDMO revenue over FY23-26E.</u> However, the inherent nature of the business is such that likelihood of surprise is high with focus on late stage molecules.

HPP segment to offer scalability & growth visibility: Demand of HFO in CY23 has been cut down ~20% by Honeywell and is expected to normalize next year, which would be followed by 25% capacity debottlenecking by CY24 end. The company is also in discussion to further raise offtake with customers. It is also coming up with ~5,000mtpa capacity (R32) in a few days. Over FY18-FY23, <u>the segment has grown by 18% CAGR, however we expect 13% CAGR over FY23-26E primarily led by HFO demand normalization & capacity debottlenecking.</u>

Specialty chemicals- Higher agrochemical concentration: NFIL has already launched three agrochemical products in its MPP plant in addition to one pharma intermediate. The fifth molecule is expected to launch in H2CY24. The Rs5.4bn dedicated agrochemical plant is also expected to be completed by Dec'23. Accordingly, <u>we expect ~35% revenue CAGR over FY23-26E (v/s 27% CAGR seen during FY18-23).</u>

Backward integration & new vertical provides growth visibility: Although the company does not have any presence in fluoropolymers as of now, it has stated its intent to venture into new age applications of fluoropolymers like batteries, electronics and renewable energy. This is a fast emerging field and availability of HF capacity would enable the company to foray into high value grades like PVDF over medium-to-long term.

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	20,774	24,626	30,995	36,534
EBITDA (Rs. m)	5,503	6,434	8,363	9,868
Margin (%)	*26.5*	*26.1*	*27.0*	*27.0*
PAT (Rs. m)	3,752	4,244	5,736	6,811
EPS (Rs.)	75.7	85.7	115.8	137.5
Gr. (%)	*42.6*	*13.1*	*35.2*	*18.7*
DPS (Rs.)	12.0	13.6	18.3	21.8
Yield (%)	*0.3*	*0.3*	*0.4*	*0.5*
RoE (%)	*18.6*	*18.0*	*20.6*	*20.6*
RoCE (%)	*19.6*	*17.3*	*20.4*	*21.3*
EV/Sales (x)	11.2	9.5	7.5	6.4
EV/EBITDA (x)	42.4	36.4	28.0	23.6
PE (x)	60.0	53.0	39.2	33.1
P/BV (x)	10.3	8.9	7.4	6.3

Key Data	NAFL.BO | NFIL IN
52-W High / Low	Rs.4,950 / Rs.3,765
Sensex / Nifty	67,839 / 20,192
Market Cap	Rs.225bn/ $ 2,708m
Shares Outstanding	50m
3M Avg. Daily Value	Rs.786.18m

Shareholding Pattern (%)

Promoter's	28.81
Foreign	18.50
Domestic Institution	25.97
Public & Others	26.72
Promoter Pledge (Rs bn)	-

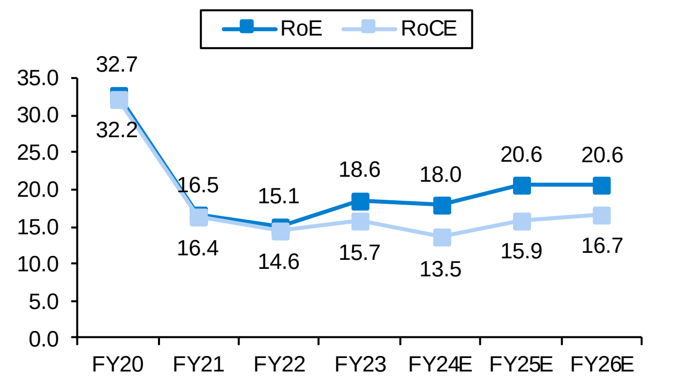
Stock Performance (%)

	1M	6M	12M
Absolute	1.4	8.8	(5.5)
Relative	(2.3)	(7.7)	(16.5)

Swarnendu Bhushan
swarnendubhushan@plindia.com | 91-22-66322260

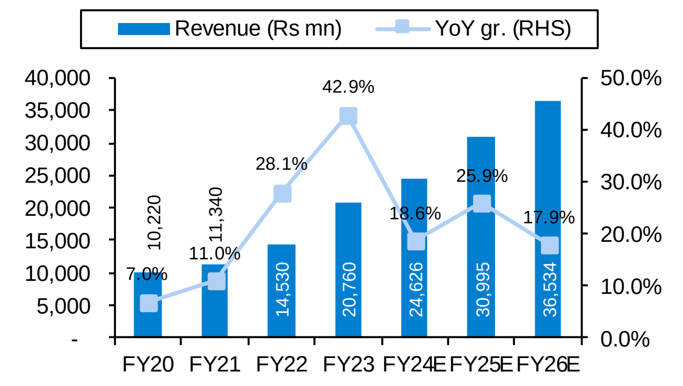
Story in Charts

Exhibit 17: Return Ratios to improve to ~20%



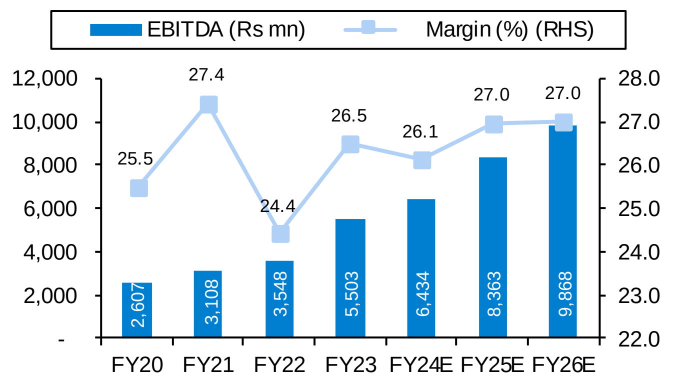
Source: Company, PL

Exhibit 18: Revenue to grow 21% CAGR over FY23-FY26E



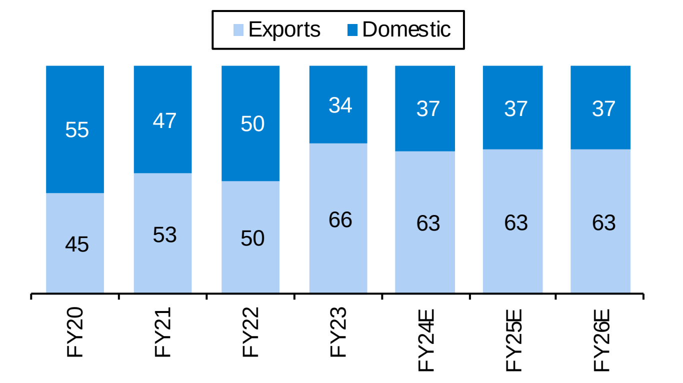
Source: Company, PL

Exhibit 19: EBITDA margins to increase to 27%



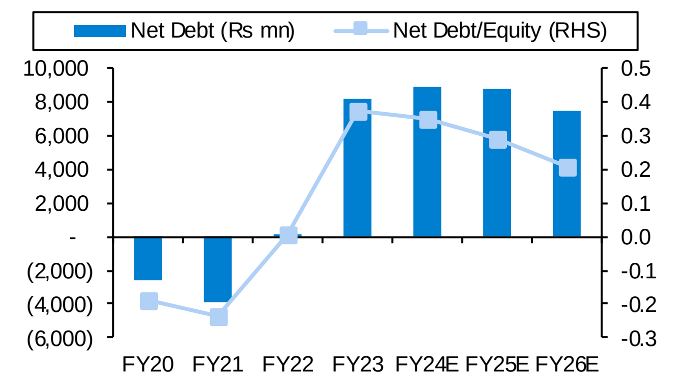
Source: Company, PL

Exhibit 20: Exports share (%) increasing with new products



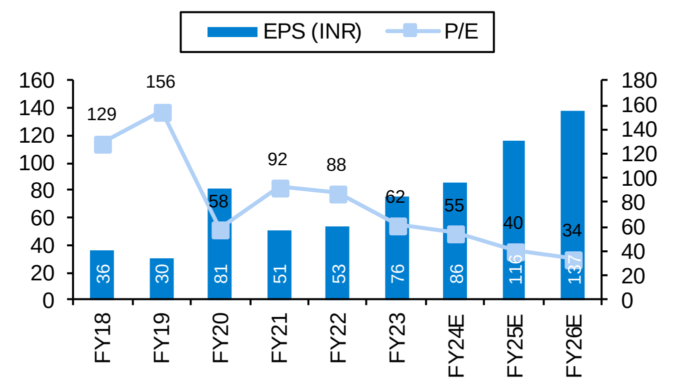
Source: Company, PL

Exhibit 21: Net D/E stable at 0.2x



Source: Company, PL

Exhibit 22: FY26E P/E at ~35x, seems inexpensive



Source: Company, PL

Navin Fluorine – Pioneer in organic fluorine

Established in 1967, Navin Fluorine International Ltd (NFIL) is a leading flourine and specialty chemicals manufacturer in India, that produces a wide range of organic and inorganic fluorochemicals and refrigerated gases. The company makes more than 40 commercial products used as raw materials in pharmaceuticals, agrochemicals, insecticides, and cleaners among others. For a large part of its history, NFIL has been present in these commoditized high volume products and started diversifying with specialty chemicals (since 2007) catering to agrochemicals, pharmaceuticals & industrials and CRAMS (in 2011) primarily for pharmaceuticals. It has R&D operations in India and UK, through Manchester Organics (MOL).

Business Overview

HPP segment: The HPP (high performance product) segment of NFIL consists of vintage refrigerants, HFOs and inorganic fluorides.

- **Refrigerants:** In the refrigerants business, NFIL has only R22 in its portfolio, which it sells under 'Mafron' brand in India and abroad. Company is trying to expand into non-emissive applications such as feedstock for pharmaceuticals and agrochemicals segments to compensate for production cut in the emissive category. It is also expected to launch 5,000mtpa of R32 in the near term.

- **Inorganic fluorides:** In inorganic fluorides, NFIL caters to domestic steel and glass segments, oil & gas, abrasives, electronic products, life science and crop protection.

CDMO: Under CDMO business, it caters to pharmaceuticals which include route development, process and scale-up from lab scale to ton scale production. NFIL's primary focus is on fluorination but gradually also increasing capabilities on other chemistries to become a one-stop solution for its customers.

Specialty chemicals: NFIL caters largely to agrochemicals, pharmaceuticals and performance materials as of FY23. Revenue is currently balanced between domestic and export sales, with domestic sales largely for pharma companies and export sales for agrochemical companies.

Exhibit 23: Key Customers

Source: Company, PL

Investment Rationale

CDMO - cGMP4 a key growth driver

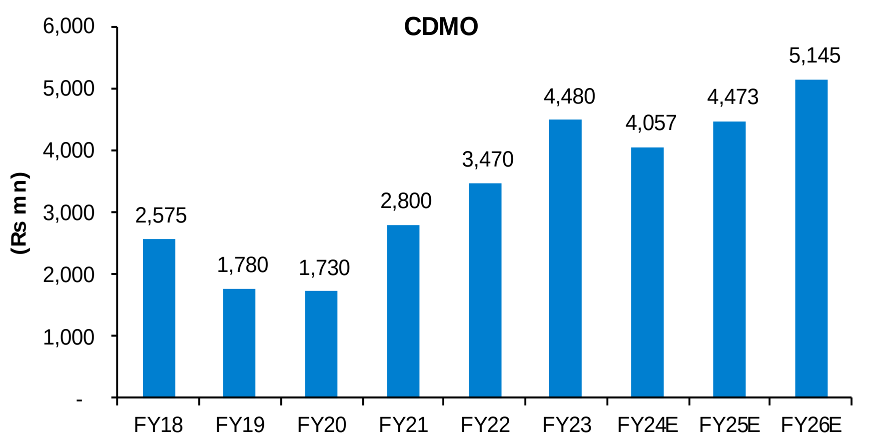
- NFIL has taken a balanced approach focusing on both pharma and agrochemicals, unlike its peers. It built a scalable contract manufacturing business model catering to pharma innovators, thus creating edge over peers.

- Over the years and also helped by acquisition of Manchester Organics in initial years, NFIL developed unique pharma innovator relationships catered through CRAMS segment, thereby CDMO business reported a CAGR of 24% over FY20-FY23. NFIL is also planning to work with innovators for late-stage entry in product development once cGMP-4 plant is commercialized.

- It also intends to go beyond just fluorination for pharma's CDMO. In the same context, it has signed a contract with Fermion (non-exclusive) for three patented late stage molecules; commercial supply will start in CY25. Management has given revenue visibility of USD40m over a 3 years' contract period. This will be supplied from the cGMP4 facility, engineering work of which is on the verge of completion. The facility is expected to be completed by CY24 end.

- The company has a vision of achieving USD100mn revenues from CDMO in next few years. <u>On a conservative basis, we forecast revenue CAGR of 5% over FY23-26E.</u>

Exhibit 24: CDMO at 5% CAGR over FY23-FY26E



Source: Company, PL

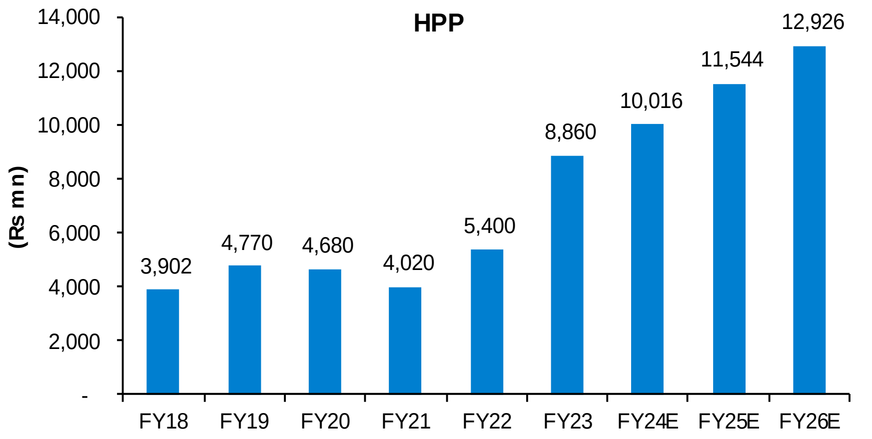
HPP to offer huge scope of growth and scalability

- Announced in CY20, NFIL entered into a 7-year contract worth USD 410mn (~Rs 28bn) with Honeywell International Inc. to manufacture hydrofluoroolefins (HFO) in India for which NFIL invested USD 61.5mn (~Rs 4.4bn). The said plant commercialized in FY23 and revenue guidance from the same project was ~Rs 5-5.5bn at peak utilization levels.

- In Q1FY24, NFIL guided ~20% demand cut in CY23 by Honeywell due to poor demand of refrigerants. CY24 is expected to grow on basis of normalization.

- NFIL is currently completing debottlenecking of HFO plant which would raise capacity by 25% by CY24-end thereby aiding growth for CY25.
- The company is also in talks with Honeywell for raising contracted quantity, which may be EPS accretive in FY26 or beyond.
- NFIL has also re-purposed part of its R22 plant to produce ~5,000mtpa of R32 at a capex of Rs800mn which will be adding Rs 2000mn at peak utilization.
- We build in 13% revenue CAGR from HPP segment over FY23-26E.

Exhibit 25: HPP at 13% CAGR over FY23-FY26E



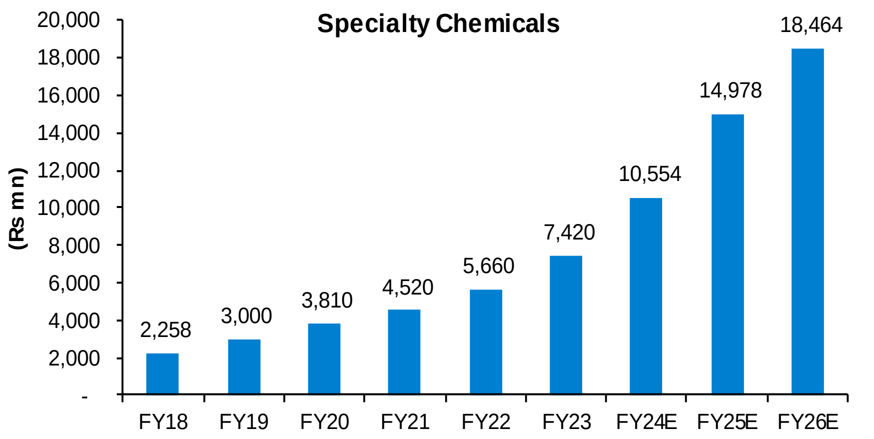
Source: Company, PL

R32 project is based on liquid phase technology, which the management believes is cleaner and cheaper compared to vapor phase standalone R32 project.

Specialty chemicals to witness 35% revenue CAGR

- NFIL's specialty chemicals segment, primarily caters to domestic pharma and global agrochemical (including the innovators) companies. Company works on both long term contracts supplying to single customers and catalogue based products supplying to multiple customers.
- The company recently launched four molecules from its MPP plant and is expected to launch fifth molecule in H2CY24. It is also expected to complete Rs5.4bn dedicated agrochemical intermediate plant at Dahej by Dec'23.
- Specialty chemicals segment grew at CAGR of 27% during FY18-23 primarily on the back of volume growth. Although agrochemical demand remains weak, we build in a revenue CAGR of ~35% over FY23-26E led by new projects in pipeline.

Exhibit 26: Segment to grow at 35% CAGR over FY24-FY26E



Source: Company, PL

Backward integration & new vertical give growth visibility

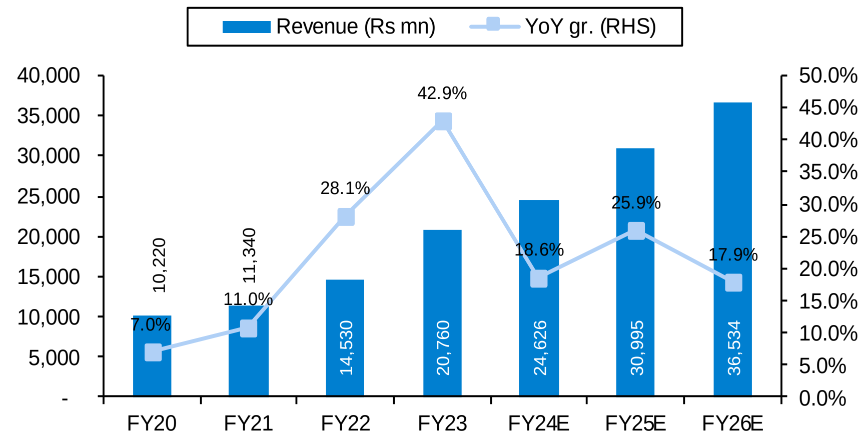
- NFIL has a JV with GMDC and GFL for beneficiation of fluorspar into acid grade HF. The company currently has a capacity of 20,000mtpa of HF and aims to triple it to 60,000mtpa in next two years at a cost of Rs4.5bn.
- Higher HF capacity would also help in its intended foray into new age fluoropolymers like PVDF, FKM etc. who find applications in electronics, semi-conductors, electrical batteries and renewables. This will provide further visibility for sustainable revenue growth in the long term.

Financial Analysis

Revenue CAGR of 21% over FY23-FY26E

We expect strong revenue growth from new value added business verticals and overall topline to register ~21% CAGR over FY23-26E to Rs36.5bn. NFIL's specialty chemicals business will have greater proportion in the revenue mix (from 30% in FY19 to ~51% in FY26E). Export revenue is also expected to increase on supply-chain disruptions, due to China's clamp-down on production as global operators focus on diversifying their supply chains & product applications while adding customers and breaking into newer markets.

Exhibit 27: Revenue CAGR of 21% over FY23-FY26E

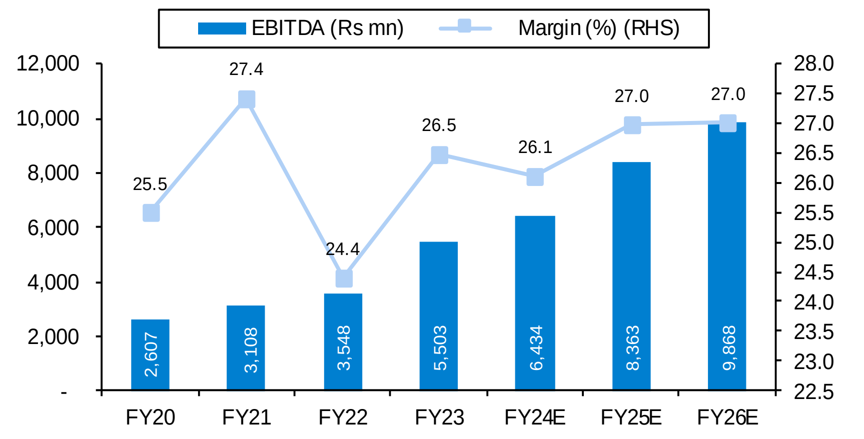


Source: Company, PL

EBITDA CAGR of 21% over FY23-FY26E

We expect EBITDA CAGR of 21% over FY23-FY26E on account of increasing revenues from value added business such as specialty chemicals business and CDMO business. EBITDA margins to expand by ~50-100bps over FY23-FY26E, given improving focus on margin accretive businesses.

Exhibit 28: EBITDA CAGR of 21% over FY23-FY26E

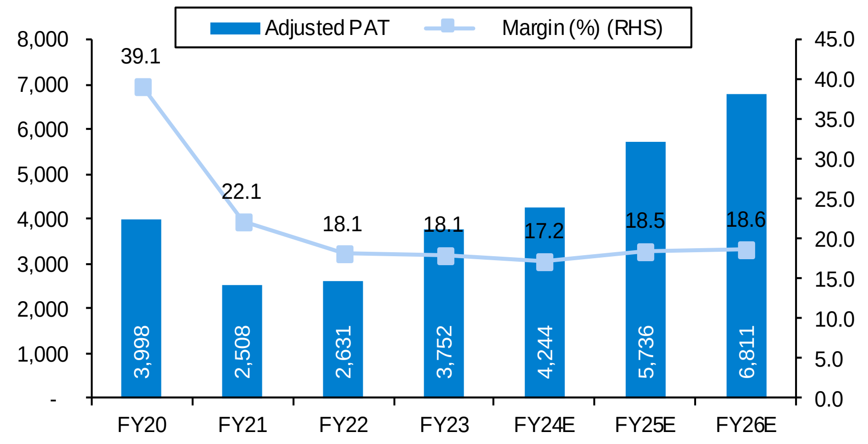


Source: Company, PL

PAT CAGR of 22% over FY23-FY26E

We expect 22% PAT CAGR over FY23-26E to Rs6.8bn, aided by robust revenue growth, healthy operating-profit margins and better leverage.

Exhibit 29: PAT CAGR of 22% over FY23-FY26E

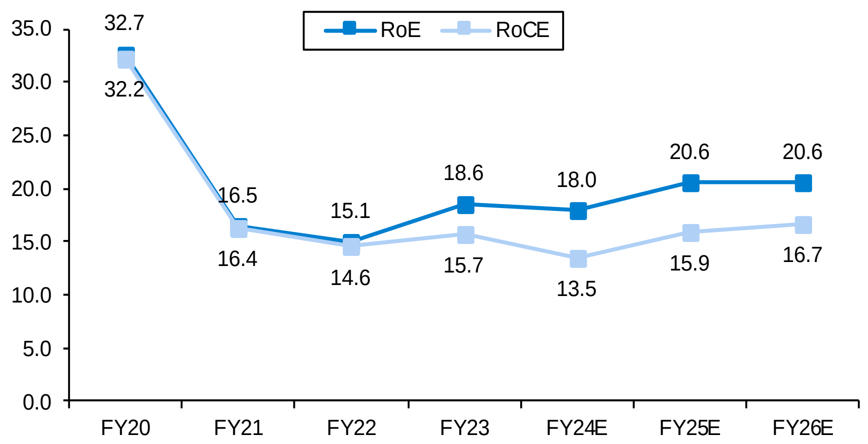


Source: Company, PL

Return ratios to remain stable at 18-20% over FY23-FY26E

We expect return ratios to be stable at 18-20% over FY23-FY26E led by expansion across segments.

Exhibit 30: Stable return ratios at ~18-20%



Source: PL, Company

Valuations

The proportion of vintage refrigerants (R22/R32) is expected to decline from 28% in FY18 to 9-10% in FY26. Debottlenecking of HFO capacity by 25% is expected to be completed by CY24-end, while NFIL is also in negotiation with Honeywell for doubling of the contract volume.

The dedicated Rs 5.4bn agrochem plant is expected to come up by Dec'23 and would take another 3-4 years for full ramp up. In Multi-Purpose Plant (MPP), the company is expected to launch fifth product (agrochem) in 2HCY24.

Over FY23-25E, the company will invest ~Rs 8.3bn in HPP, specialty and CRAMS business units. The HPP, MPP and agro-chemical projects are all done through Navin Fluorine Advanced Sciences Limited, a wholly owned subsidiary of the company, which will lay foundation for next phase of growth

In CDMO (Contract Development and Manufacturing Organization) segment, the company intends to focus on late entry products. Completion of cGMP4 by CY24-end would further help it to execute larger projects for pharma innovator companies. We forecast EPS CAGR of 22% for FY23-26E. The stock is trading at 54x FY24E EPS of ~Rs 86. Considering strong potential of upcoming projects, we initiate coverage with 'Accumulate' rating and TP of Rs 5064 valuing at 40x Sep'25 EPS. Delayed project execution, uncertain demand and rise in competition are key risks to our recommendation.

Exhibit 31: Valuation Table

Sep'25 EPS (Rs)	127
Target PE (x)	40
Target Price (Rs)	5,064

Source: PL

Key Risks

- **Leadership Risk:** Current MD, Mr Radhesh Welling, has brought new momentum and client engagements to the business. We believe his exit could be detrimental to the performance of the company.

- **Loss of customer especially in CRAMS:** CRAMS contributes ~20% to topline as of FY23. Any loss of customer especially in CRAMS business to detoriate performance of the company.

- **Downturn in key user industries:** Pharmaceuticals and Agrochemicals industry contribute around 80% to company's overall topline. Any delay or downturn globally in the mentioned industries may impact performance of the company.

- **Sharp surge in RM can hurt margins:** Any sharp surge or unavailability of RM such as fluorspar or to impact business operations & performance of the company.

Annexure

Exhibit 32: Key Managerial Personnel

Member	Designation
Vishad P. Mafatlal	Chairman
Radhesh R. Welling	Managing Director
Basant Kumar Bansal	Chief Financial Officer
Mohan M. Nambiar	Non-Independent Non-Executive Director
Pradip N. Kapadia	Independent Non-Executive Director
Sunil S. Lalbhai	Independent Non-Executive Director
Sharad M. Kulkarni*	Independent Non-Executive Director
Sudhir G. Mankad	Independent Non-Executive Director
Harish H. Engineer	Independent Non-Executive Director
Atul K. Srivastava	Independent Non-Executive Director
Radhika V. Haribhakti	Independent Non- Executive Director
Ashok U. Sinha	Independent Non- Executive Director
Sujal A. Shah^	Independent Non- Executive Director
Apurva S. Purohit#	Independent Non- Executive Director

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	**20,774**	**24,626**	**30,995**	**36,534**
YoY gr. (%)	*42.9*	*18.5*	*25.9*	*17.9*
Cost of Goods Sold	8,960	10,392	13,080	15,417
Gross Profit	11,814	14,234	17,915	21,117
Margin (%)	*56.9*	*57.8*	*57.8*	*57.8*
Employee Cost	2,494	3,367	3,973	4,672
Other Expenses	3,817	4,433	5,579	6,576
EBITDA	**5,503**	**6,434**	**8,363**	**9,868**
YoY gr. (%)	*55.1*	*16.9*	*30.0*	*18.0*
Margin (%)	*26.5*	*26.1*	*27.0*	*27.0*
Depreciation and Amortization	626	810	838	982
EBIT	**4,877**	**5,624**	**7,525**	**8,886**
Margin (%)	*23.5*	*22.8*	*24.3*	*24.3*
Net Interest	275	281	273	272
Other Income	357	315	397	468
Profit Before Tax	**4,959**	**5,659**	**7,649**	**9,081**
Margin (%)	*23.9*	*23.0*	*24.7*	*24.9*
Total Tax	1,207	1,415	1,912	2,270
Effective tax rate (%)	*24.3*	*25.0*	*25.0*	*25.0*
Profit after tax	**3,752**	**4,244**	**5,736**	**6,811**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**3,752**	**4,244**	**5,736**	**6,811**
YoY gr. (%)	*42.6*	*13.1*	*35.2*	*18.7*
Margin (%)	*18.1*	*17.2*	*18.5*	*18.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**3,752**	**4,244**	**5,736**	**6,811**
YoY gr. (%)	*42.6*	*13.1*	*35.2*	*18.7*
Margin (%)	*18.1*	*17.2*	*18.5*	*18.6*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,752	4,244	5,736	6,811
Equity Shares O/s (m)	**50**	**50**	**50**	**50**
EPS (Rs)	**75.7**	**85.7**	**115.8**	**137.5**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	**17,283**	**21,283**	**25,283**	**29,283**
Tangibles	17,283	21,283	25,283	29,283
Intangibles	-	-	-	-
Acc: Dep / Amortization	**2,565**	**3,375**	**4,213**	**5,195**
Tangibles	2,565	3,375	4,213	5,195
Intangibles	-	-	-	-
Net fixed assets	**14,718**	**17,908**	**21,070**	**24,088**
Tangibles	14,718	17,908	21,070	24,088
Intangibles	-	-	-	-
Capital Work In Progress	2,786	2,786	2,786	2,786
Goodwill	-	-	-	-
Non-Current Investments	438	438	438	438
Net Deferred tax assets	(348)	(348)	(348)	(348)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	4,681	5,582	6,821	8,036
Trade receivables	5,615	6,679	8,407	9,909
Cash & Bank Balance	348	485	130	649
Other Current Assets	6,706	6,706	6,706	6,706
Total Assets	**35,293**	**40,586**	**46,358**	**52,612**
Equity				
Equity Share Capital	99	99	99	99
Other Equity	21,750	25,323	30,152	35,885
Total Networth	**21,850**	**25,422**	**30,251**	**35,984**
Non-Current Liabilities				
Long Term borrowings	8,487	9,335	8,868	8,159
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	406	498	620	731
Other current liabilities	4,203	4,983	6,271	7,392
Total Equity & Liabilities	**35,293**	**40,586**	**46,358**	**52,612**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	4,959	5,659	7,649	9,081
Add. Depreciation	626	810	838	982
Add. Interest	275	281	273	272
Less Financial Other Income	357	315	397	468
Add. Other	(91)	-	-	-
Op. profit before WC changes	5,769	6,749	8,760	10,336
Net Changes-WC	(5,307)	(1,094)	(1,556)	(1,487)
Direct tax	(1,098)	(1,415)	(1,912)	(2,270)
Net cash from Op. activities	**(636)**	**4,241**	**5,292**	**6,579**
Capital expenditures	(7,555)	(4,000)	(4,000)	(4,000)
Interest / Dividend Income	30	-	-	-
Others	969	-	-	-
Net Cash from Invt. activities	**(6,556)**	**(4,000)**	**(4,000)**	**(4,000)**
Issue of share cap. / premium	-	-	-	-
Debt changes	7,442	849	(467)	(709)
Dividend paid	(543)	(672)	(908)	(1,078)
Interest paid	(275)	(281)	(273)	(272)
Others	(45)	-	-	-
Net cash from Fin. activities	**6,579**	**(104)**	**(1,648)**	**(2,060)**
Net change in cash	**(613)**	**137**	**(356)**	**519**
Free Cash Flow	(8,191)	241	1,292	2,579

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**4,192**	**5,636**	**6,971**	**4,912**
YoY gr. (%)	*23.7*	*48.7*	*70.5*	*23.6*
Raw Material Expenses	1,836	2,464	2,837	2,027
Gross Profit	2,356	3,172	4,134	2,885
Margin (%)	*56.2*	*56.3*	*59.3*	*58.7*
EBITDA	**938**	**1,556**	**2,018**	**1,142**
YoY gr. (%)	*11.5*	*57.8*	*114.1*	*15.2*
Margin (%)	*22.4*	*27.6*	*28.9*	*23.3*
Depreciation / Depletion	177	250	76	213
EBIT	**762**	**1,306**	**1,942**	**929**
Margin (%)	*18.2*	*23.2*	*27.9*	*18.9*
Net Interest	40	92	140	194
Other Income	109	99	40	83
Profit before Tax	**831**	**1,313**	**1,842**	**818**
Margin (%)	*19.8*	*23.3*	*26.4*	*16.6*
Total Tax	252	247	478	202
Effective tax rate (%)	*30.4*	*18.8*	*26.0*	*24.8*
Profit after Tax	**578**	**1,066**	**1,364**	**615**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**578**	**1,066**	**1,364**	**615**
YoY gr. (%)	*(8.6)*	*54.9*	*81.4*	*(17.4)*
Margin (%)	*13.8*	*18.9*	*19.6*	*12.5*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**578**	**1,066**	**1,364**	**615**
YoY gr. (%)	*(8.6)*	*54.9*	*81.4*	*(17.4)*
Margin (%)	*13.8*	*18.9*	*19.6*	*12.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**578**	**1,066**	**1,364**	**-**
Avg. Shares O/s (m)	50	50	50	50
EPS (Rs)	**11.6**	**21.3**	**27.3**	**12.3**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	75.7	85.7	115.8	137.5
CEPS	88.4	102.0	132.7	157.3
BVPS	441.0	513.1	610.5	726.2
FCF	(165.3)	4.9	26.1	52.0
DPS	12.0	13.6	18.3	21.8
Return Ratio(%)				
RoCE	19.6	17.3	20.4	21.3
ROIC	15.2	13.1	15.4	16.2
RoE	18.6	18.0	20.6	20.6
Balance Sheet				
Net Debt : Equity (x)	0.4	0.3	0.3	0.2
Net Working Capital (Days)	174	174	172	172
Valuation(x)				
PER	60.0	53.0	39.2	33.1
P/B	10.3	8.9	7.4	6.3
P/CEPS	51.4	44.5	34.2	28.9
EV/EBITDA	42.4	36.4	28.0	23.6
EV/Sales	11.2	9.5	7.5	6.4
Dividend Yield (%)	0.3	0.3	0.4	0.5

Source: Company Data, PL Research

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Gujarat Fluorochemicals (FLUOROCH IN)

Rating: ACCUMULATE | CMP: Rs3,125 | TP: Rs3,230

September 15, 2023

Company Report

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	56,847	50,171	69,942	76,298
EBITDA (Rs. m)	19,653	14,865	22,771	24,882
Margin (%)	*34.6*	*29.6*	*32.6*	*32.6*
PAT (Rs. m)	12,470	8,582	13,702	14,685
EPS (Rs.)	113.5	78.1	124.7	133.7
Gr. (%)	*58.4*	*(31.2)*	*59.7*	*7.2*
DPS (Rs.)	3.4	3.1	6.2	6.7
Yield (%)	*0.1*	*0.1*	*0.2*	*0.2*
RoE (%)	*25.5*	*14.5*	*19.6*	*17.6*
RoCE (%)	*27.0*	*16.0*	*21.9*	*19.8*
EV/Sales (x)	6.3	7.1	5.1	4.6
EV/EBITDA (x)	18.1	23.9	15.6	14.1
PE (x)	27.5	40.0	25.1	23.4
P/BV (x)	6.2	5.4	4.5	3.8

Key Data	GFLL.BO | FLUOROCH IN
52-W High / Low	Rs.4,174 / Rs.2,534
Sensex / Nifty	67,839 / 20,192
Market Cap	Rs.343bn/ $ 4,127m
Shares Outstanding	110m
3M Avg. Daily Value	Rs.465m

Shareholding Pattern (%)

Promoter's	63.80
Foreign	6.44
Domestic Institution	5.86
Public & Others	23.88
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.1	(1.9)	(13.5)
Relative	5.2	(16.7)	(23.5)

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Fluoropolymers to drive growth

We initiate coverage on Gujarat Fluorochemicals Ltd (GFL) with 'Accumulate' rating and TP of Rs 3230 valuing at 25x Sep'25 EPS of Rs129. GFL is a play on growth opportunities in fluorochemicals & fluoropolymers given 1) its market leadership in fluoropolymers amidst high technological entry barrier 2) capacity expansion (total fluoropolymers capacity from ~25,000mtpa to ~40,000mtpa inclusive of PTFE- Polytetrafluoro ethylene & new age fluoropolymers) coupled with ever increasing usage of fluoropolymers (36%) in high value applications like semiconductor industry and renewables, 3) foray in newer fluoropolymers such as PVDF (Polyvinylidene fluoride), PFA (per fluoro alkaoxyl alkanes) and FKM (fluoro elastomers) fetching ~20% higher realization than PTFE and 4) addition of refrigerants like R142b and R225 with a view to launch HFOs (hydrofluoro olefins) post patent expiry. We expect Revenue/PAT CAGR of 10%/8% and EBITDA margins of ~32% over FY23-26E given increasing share of new age fluoropolymers and higher PTFE grades. The stock is currently trading at ~30x TTM P/E and at inexpensive valuations. Initiate with 'Accumulate'.

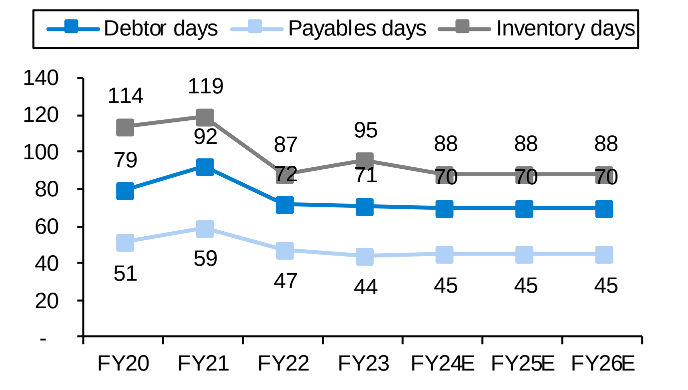
New age fluoropolymers, the key driver for growth: Over the years, GFL's largest revenue contributors have been bulk chemicals and fluorochemicals. However, lately, focus has shifted to fluoropolymers such as PTFE, PVDF, FKM, PFA among others. The company has ~10-15% market share globally in PTFE and remains well placed on account of low Chinese competition for its grades, high technology barrier and close customer engagement. GFL is working on adding not only more grades in this space but also new age products such as PVDF, FKM, PFA to cater to increasing demand of EVs and solar panels. As per our estimates, new fluoropolymers revenues grew 90% YoY in FY23. We expect 20% CAGR in fluoropolymers segment over FY23-FY26E with increased usage in EV, Li-ion battery and solar panels among others.

Fluorochemicals story intact: Company manufactures fluorochemicals such as R22, R142b, R404, R410a etc. and fluorospecialty. Over the years, R22 emerged as the company's largest product (with capacity of 65,000mtpa). However, it re-initiated investments in the ref-gas space and restarted supplies of R125 (in FY23) to cater to higher export demand (led by imposition of ADD by US on Chinese ref gas imports). We believe fluorochemicals revenue will be driven by expansion of R142b capacity and higher volumes in R22 in near term. We build in 6% de-growth over FY23-26E on account of softness in demand and normalization of prices.

Vertical integration across value chain – backbone of company: GFL has a strong backward integration model with manufacturing of caustic soda-chlorine to chloromethane. The company also manufactures RMs such as R22, TFE while it also has access to fluorspar through its JV with GMDC & NFIL, which takes care of RM requirement. With backward integration in place coupled with higher realisations, gross margins improved from 65% to 72% during FY20-FY23. However, given competitive intensity, gross margins may remain under pressure and drop to ~70% over FY24-FY26E.

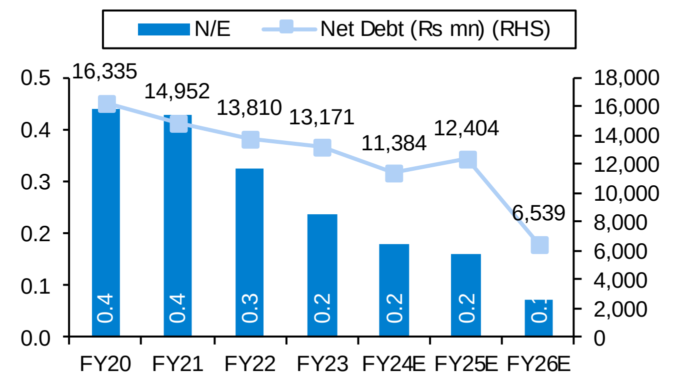
Story in Charts

Exhibit 33: Working capital days to stay at 113 days



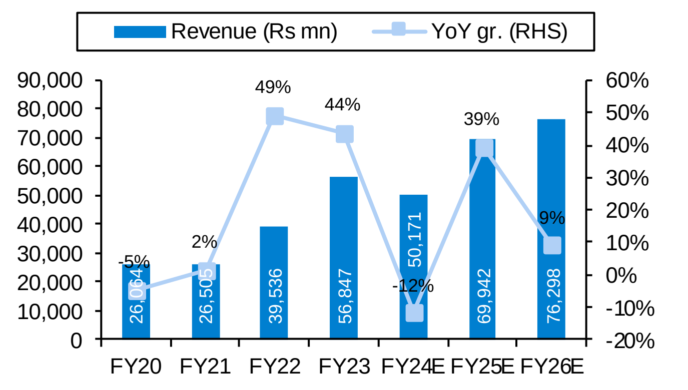
Source: Company, PL

Exhibit 34: Despite focus on new verticals, Net D/E at 0.2x



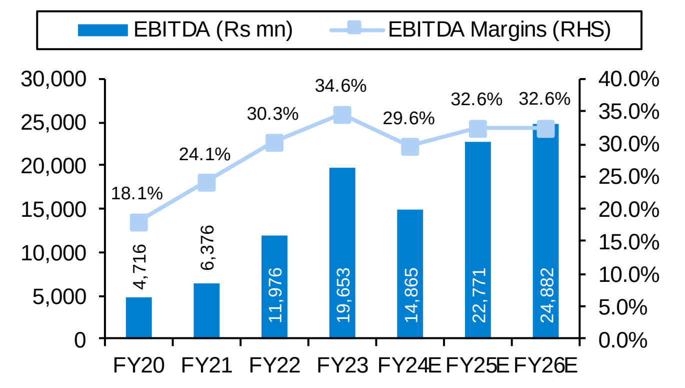
Source: Company, PL

Exhibit 35: Revenue to grow 10% CAGR led by fluoropolymer



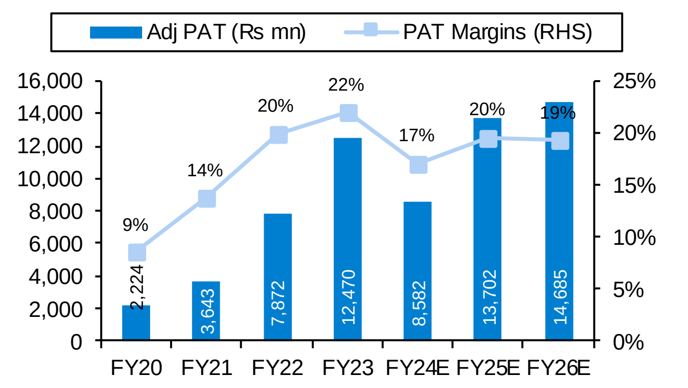
Source: Company, PL

Exhibit 36: EBITDA margins to bottom out at 32-33%



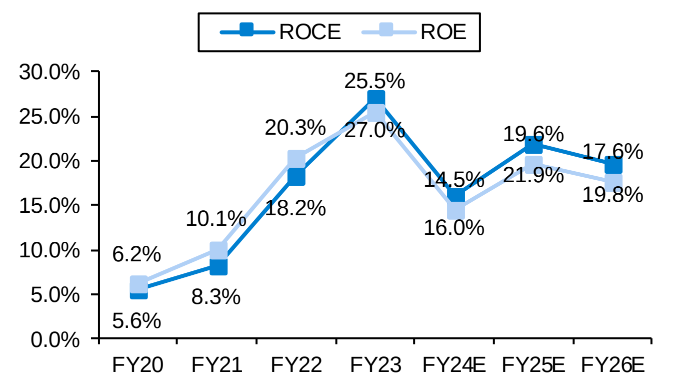
Source: Company, PL

Exhibit 37: Adj PAT to grow at 6% CAGR over FY23-FY26E



Source: Company, PL

Exhibit 38: Return ratios at 17-20%



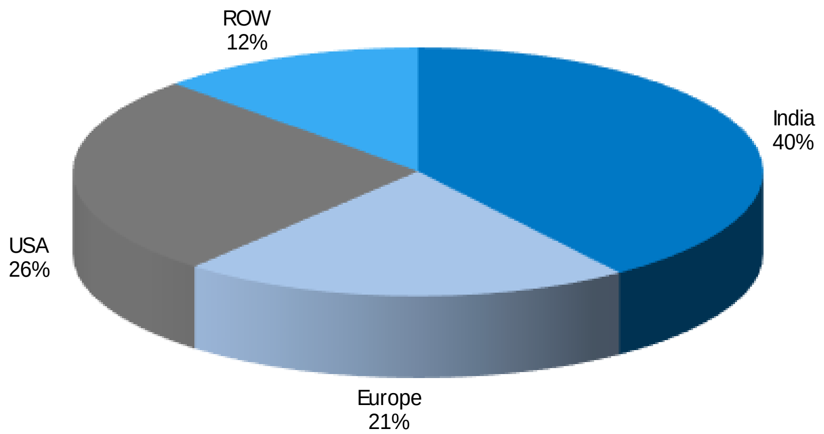
Source: Company, PL

GFL - Leading fluoropolymers producer

Incorporated in 1989, Gujarat Fluorochemicals Ltd (GFL) started manufacturing refrigerant gases such as R11, R12, R22 etc. at its facility in Ranjit Nagar, Gujarat. Over the years, company diversified its product basket and developed high value fluoropolymers along with fluorospecialty chemicals. Going ahead, GFL is developing new grades of fluoropolymers and also venturing in new age fluoropolymers which is expected to be big revenue driver for the company.

Company derives ~50% of its revenue from exports to countries such as USA & Europe as of FY23.

Exhibit 39: Geographic Mix (FY23)



Source: Company, PL

Business Overview

GFL's businesses are largely divided in 3 parts:

- **Bulk chemicals:** This comprises of caustic soda, chlorine, chloromethanes contributing ~20% to overall topline as of FY23. The segment has done well over FY20-FY23 (growing at CAGR of 17%) on account of pricing benefits in the chlor-alkali value chain.

- **Fluorochemicals:** Currently contributes ~25-27% to overall topline. In this segment, company manufactures refrigerant gases such as R-22, R410a, R407c & blends and other fluorospecialty chemicals.

- **Fluoropolymers:** GFL manufactures PTFE and New Age Fluoropolymers both contributing ~50-52% to overall topline, of which PTFE is larger part contributing >30% to topline. The segment is in great demand led by usage industries such as EV, solar panels, lithium ion battery, hydrogen fuel etc.

Product Profile

Exhibit 40: Bulk Chemicals Peers & Applications

Product	Applications	Global Peers	Domestic Peers
Caustic Soda	Textiles	Arkema, Covestro AG, Formosa Plastics Corporation, Olin Corporation, , The Dow Chemical	Grasim, DCM Shriram, Meghmani Finechem Ltd
	Soaps & Detergents & Alumina		
Methylene Dichloride	Pharma API, Foam manufacturing, Agri chem and Pharma, Formulations	Azko Nobel Industrial Chemicals , KH	
		Chemicals , Iris Biotech GmBH,	
Chloroform	Feedstock for R22, solvent for pharma, cleaning agent	BASF SE, Dow Chemicals , Tokuyama	GACL
		Corporation, Solvay	
Carbon Tetra Chloride	Pesticides, Agri chemicals, Plastics, Resins	Dow Chemical , INEOS Group, Shin-Etsu,	Meghmani Finechem, Gujarat
		Shanghai Chlor-Alkal i , Solvay	Alkalies & Chemical Ltd

Source: Company, PL

Exhibit 41: Fluorochemicals Peers & Applications

Product	Applications	Global Peers	Domestic Peers
R22	Residential AC feeds tock for fluoropolymers	Arkema, Chemours , Linde Gas , Honeywel l , Daikin, Du Pont	NFL, SRF
R125	Residential AC	3F, Ying Peng Chemical , Yuean Chemical , Limin Chemical	NFL, SRF
R410a	Residential AC	Dongyue Group, Arkema, Chemours , Daikin	SRF

Source: Company, PL

Exhibit 42: Fluoropolymers Peers & Application

Product	Applications	Global Peers	Domestic Peers
PTFE			
PFA PVDF FKM FEP	water treatment membranes, O&G, automotive, EV batteries, cookware	3M, Solvay, Dongyue, Chemours	SRF, NFIL

Source: Company, PL

Exhibit 43: Manufacturing Facilities

Plant	Location	Setup in	Description
Ranjitnagar	Gujarat, India	1989	Manufactures R22, AHF. MPP for fluorospecialt also present
Dahej	Gujarat, India	2007	Manufactures PTFE resin, value added fluoropolymers such as PFA,FEP,PVDF,FKM. Other plants
Jolva	Gujarat, India	2022	Phased commisioned of new projects under fluoropolymers & new age chemicals
Taurit	Morocco	2017	Mining florspar
Rockdale	Texas, USA	2007	Produces PTFE Blends

Source: Company, PL

Investment Rationale

Entry into new age fluoropolymers to propel top-line

High entry barriers & rising PTFE demand to sustain volume growth

- Production of PTFE is challenging as the rigid polymer chains crystallize easily and have high melt viscosity compared to other polymers, thereby requiring specialized processing equipment.
- Company started manufacturing PTFE (Polytetra Fluoroethylene) since 2007, in order to diversify its products basket and insulate itself from sluggish performance of refrigerants. Currently PTFE alone contributes ~ 35-40% to overall topline as of FY23.
- As of CY22, global demand for PTFE stands at ~175,000mtpa, growing at 5% rate every year, as per management. Currently, company's installed capacity for PTFE stands at 18,000mtpa and it plans to debottleneck it to 21,000mtpa by Q1FY25.
- As per management, commodity grade PTFE are dominated by Chinese manufacturers, while premium grade is manufactured mainly by Western manufacturers.
- Company manufactures almost ~85% of premium grades of PTFE. Premium grades command ~20-40% higher realization.
- Also, the company manufactures PTFE largely using non-fluorinated surfactants, which would provide edge over competitors. Going ahead, management guided that it will manufacture new age fluoropolymer products such as PVDF, PFA, FKM using non-fluorinated technology thus insulating against concerns on usage of fluorinated surfactants.
- <u>We expect 20% CAGR in fluoropolymers segment over FY23-26E primarily driven by debottlenecking of PTFE capacity and launch of new fluoropolymers.</u>

PTFE can be manufactured from PFAS route, however the same is under regulatory ban globally. Wrt use of PFAS technology, global manufacturer such as Chemours & 3M had been impacted and exited the business in FY23.

PTFE prices expected to remain under pressure

- R22 is a key raw material used in manufacturing PTFE and other fluoropolymers such as PFA, FKM, FEP etc. With increasing demand for PTFE, other fluoropolymers, new age verticals etc. R22 remains in short supply driving prices at new highs. However, we believe global manufacturers such as Dongyue and Solvay will benefit as they are backwardly integrated with RM manufacturing capacities and capabilities.
- Due to higher demand from automotive applications, PTFE prices rose from Rs/kg 500 to Rs/kg 960 over last few years, however, we believe with increasing competition (SRFs upcoming PTFE plant, capacity expansion by global players such as Dongyue), PTFE prices are expected to remain under pressure. However, our 20% CAGR in fluoropolymers is mainly due to volume growth.

New fluoropolymers realisations are at >25% premium to Fluoropolymer such as PTFE, thus also margin accretive.

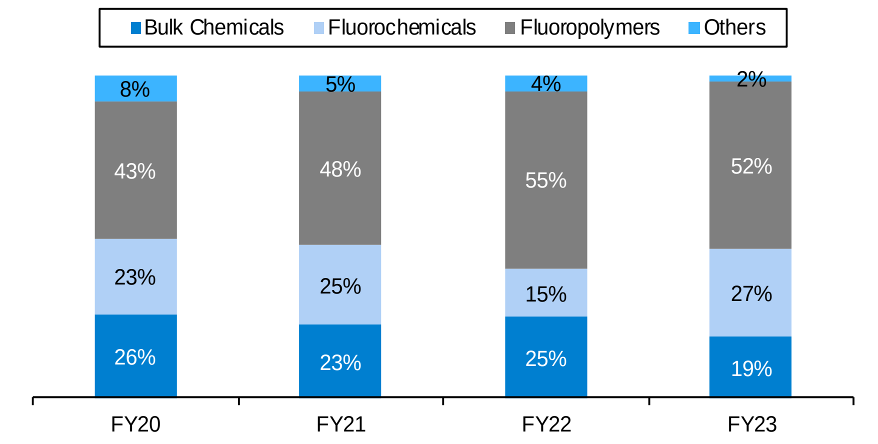
New age fluoropolymers – Key growth driver

- PVDF, FKM, PFA - the new age fluoropolymers have been the key focus of the company. The company is working on adding more variants in this space, specially to cater to increasing EV demand globally. Also company stands backward integrated for manufacturing new age fluoropolymers providing edge over Indian peers.

- New fluoropolymers reported +90% revenue CAGR during FY20-FY23, driven by increased realizations for PVDF, FKM etc.

- We expect ~30% CAGR for the segment over FY23-FY26E with increased usage in EV space, lithium ion battery etc.

Exhibit 44: Fluoropolymers share increasing to ~52-55%



Source: Company, PL

Fluorochemicals story intact

- GFL has primarily been the largest producer of R22 (with capacity of 65,000mtpa) in India. However, it re-initiated investments in the ref-gas space and restarted supplies of R125 (~5,000mtpa capacity) to cater to higher export demand (led by imposition of anti-dumping duty by US on Chinese ref gas imports).

- The company achieved over 100% YoY growth in fluorochemicals segment on account of higher realisations of R-125, R142b in FY23.

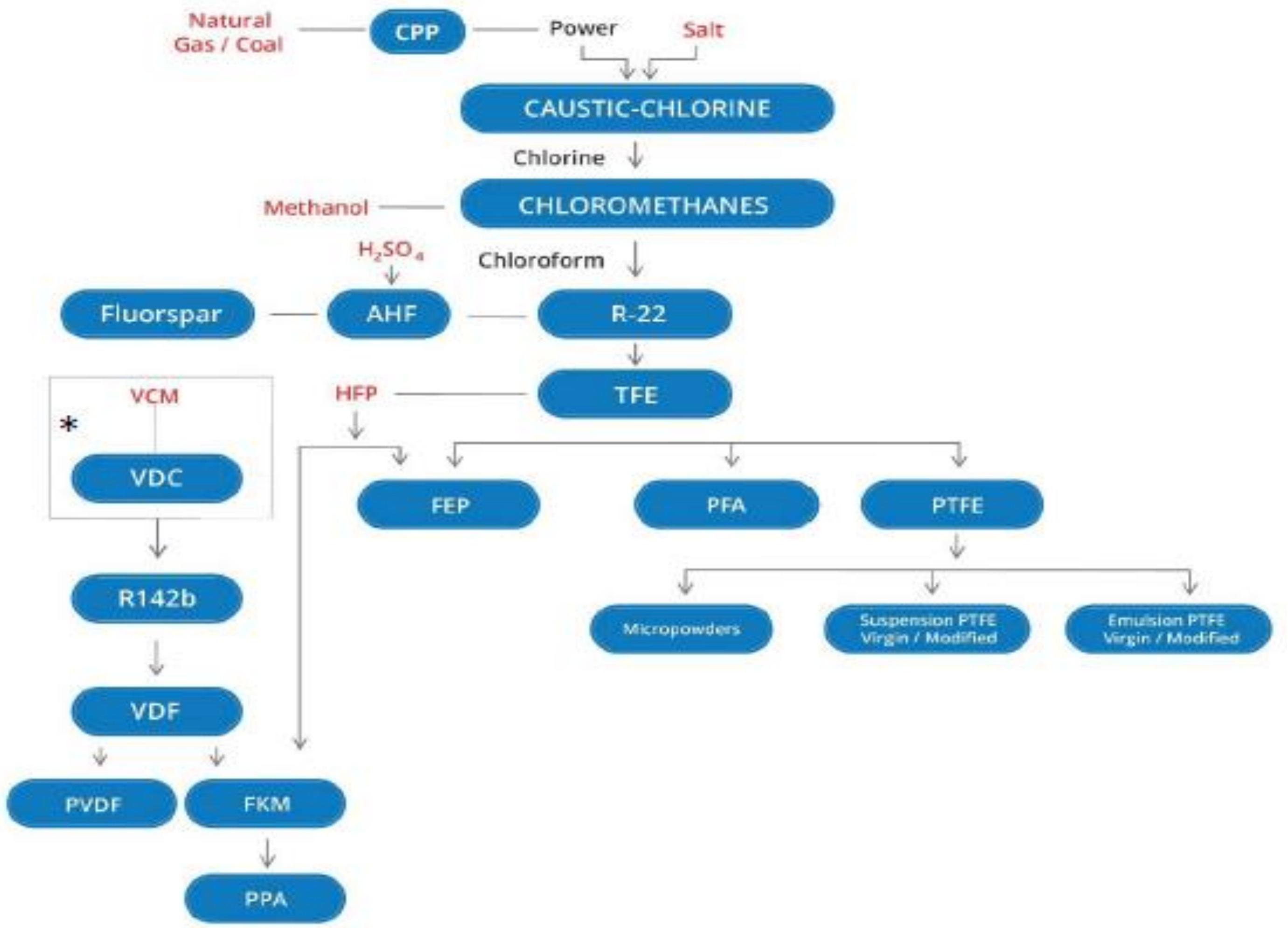
- Management indicated that it intends to pursue production of HFOs (4th generation gases) post patent expiry and thus has been producing R225 – a key intermediate in one of the two processes utilized for manufacturing HFOs.

- However, we expect normalization in realizations going forward. As a result, we forecast de-growth of 6% in fluorochemicals over FY23-26E.

Vertical integration across value chains- a key strength

- The company has JV with GMDC and NFIL for fluorspar sourcing and it is expanding its AHF capacity which will help supply key RMs for fluoropolymer, ref-gas and battery chemicals.
- GFL expects to increase capacity of R-142b, (a key feedstock for PVDF/FKM) to 25,000mtpa providing feedstock security for PVDF manufacturing.
- With all these key RMs like fluorspar, AHF, TFE, R142b in abundant availability, <u>we believe GFL has edge over competitors in terms of maintaining a stable margin profile.</u>

Exhibit 45: Value Chain Diagram



Source: Company, PL

Focus on New Age applications

GFL is aggressively investing into new-age industries such as lithium ion batteries for EVs, solar panels and hydrogen fuel cells/PEM technology. These products require long gestation period and customer approvals along with stringent compliance norms.

Electric vehicle batteries:

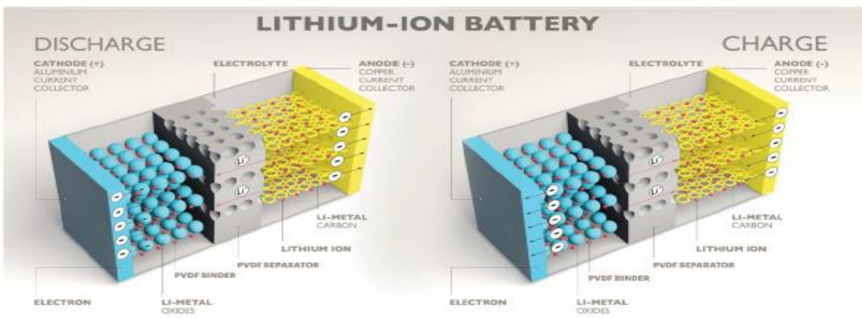
- GFL is in the process of setting up an integrated battery chemicals complex and has developed suitable PVDF grades for cathode binder application.
- As per McKinsey analysis, dated October 2019, Battery demand (by 2030) for EVs energy storage and consumer electronics is estimated at 2,633 GWH with EV battery chain providing revenue opportunities of USD300bn by CY30.
- Globally, a lot of manufacturers are planning to set up EV battery manufacturing plants in India over next few years to meet the Government push to make India a significant global manufacturer of EV vehicles.
- To grab the opportunity size in EV battery space, GFL has planned capex of Rs 2.5bn for initial capacity (to manufacture electrolyte salt and formulations) and expects to generate asset turns of ~1.8-2x over FY25-FY26E.

Lithium Ion Battery & electrolyte salts:

Lithium Ion Battery is becoming increasingly popular due to its numerous advantages compared to conventional battery systems. The lithium-ion battery market in India is anticipated to be driven by factors, such as electric vehicles and energy storage systems (ESS) for both commercial and residential applications.

- The global Lithium-ion battery market was USD44.5bn in CY21 and is projected to reach USD193bn by CY28, exhibiting a CAGR of 23.3%, as per globe newswire.
- Global manufacturers include BYD Company, LG Chem, Samsung SDI, Panasonic Corporation, Hitachi etc.
- According to Mordor intelligence, India's lithium-ion battery market was valued at USD1.7bn in CY20 and is expected to reach USD4.85bn by CY27, registering a CAGR of 17.2%.

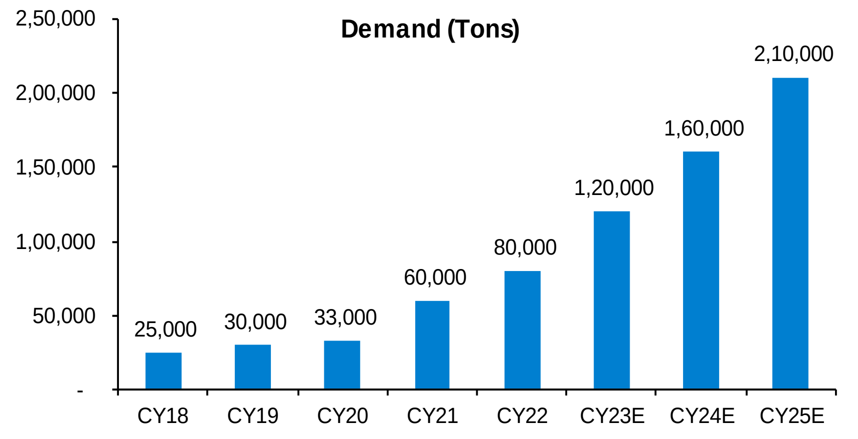
Exhibit 46: Components of Lithium Ion Battery



Source: Company, PL

- LiPF6 (Lithium hexafluorophosphate) is widely utilized in devising of lithium ion batteries. Increasing demand for lithium ion batteries from sectors such as consumer electronics, automotive and others is increasing demand for LiPF6.
- Growth within sales of electric vehicles will increase demand for lithium ion batteries. In a Li-ion battery electrolyte, LiPF6 offers high energy densities and considerable power densities.
- The global LiPF6 market size is estimated to be worth USD3.1bn in CY22 and expected to reach to USD5.5bn by CY28 growing at CAGR of 9.7%, according to GII Research.
- The global major manufacturers of LiPF6 include DuoFuDuo, Tinci Materials Technology, Xintai Material Technology, Morita New Energy Materials, Jiangsu Jiujiujiu Technology, Shandong Shida Shenghua Chemical, Hubei Hongyuan, Yongtai Technology, and Stella Chemifa, etc. In terms of revenue, the global three largest players hold a 55% market share of LiPF6 in CY21.

Exhibit 47: LiPF6 Global Market Size

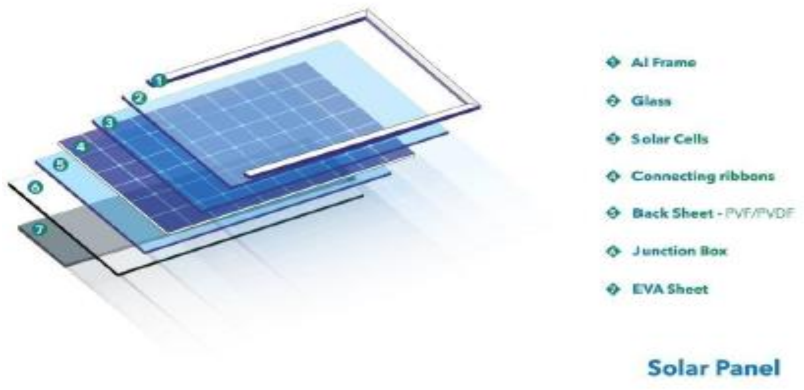


Source: Kanto Denka Presentation, PL

Solar panels:

- Solar panels are the heart of solar power plants and these contain back sheet based on PVDF film.
- GFL plans to set-up India's first PVDF solar film project to be commissioned in FY24. With its own integrated PVDF manufacturing facilities, the plant will be ideally suited to cater both domestic and international markets. Intended capex for the same stands at Rs 1bn with asset turns of 1.5x. Demand of solar panels would be driven by government's ambitious target of achieving 450GW of renewable energy by 2030.

Exhibit 48: Solar Panels (Structure)



Source: Company, PL

Bulk Chemicals: Slow growth, no capex plans in near term

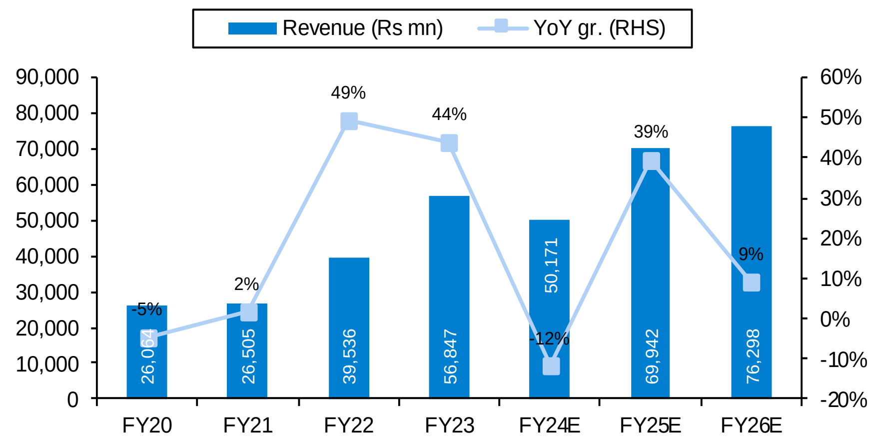
GFL manufactures bulk commodities such as caustic soda and chloromethane, all low margin products. As of FY23, bulk chemicals grew 10% YoY, contributing 20% to the topline. The company has fully integrated operations for its ref-gas and fluoropolymer business and in the process, these products are produced as co-products. Management guided no capacity expansion plans in these segment and expects flat growth in FY24/FY25E.

Financial Analysis

Revenue CAGR of 10% over FY23-FY26E led by volumes

GFL reported revenue CAGR of 30% during FY20-23, due to sharp increase in realisations across fluorochemicals & PTFE business led by demand–supply mismatch. Due to downturn in pricing and capex delays (on account of poor global agrochem demand), the company reported de-growth YoY & QoQ in Q1FY24. We expect revenue CAGR of 10% over FY23-FY26E, mainly driven by volume growth across segments (with capacity expansions in place).

Exhibit 49: Revenue CAGR of 10% over FY23-26E

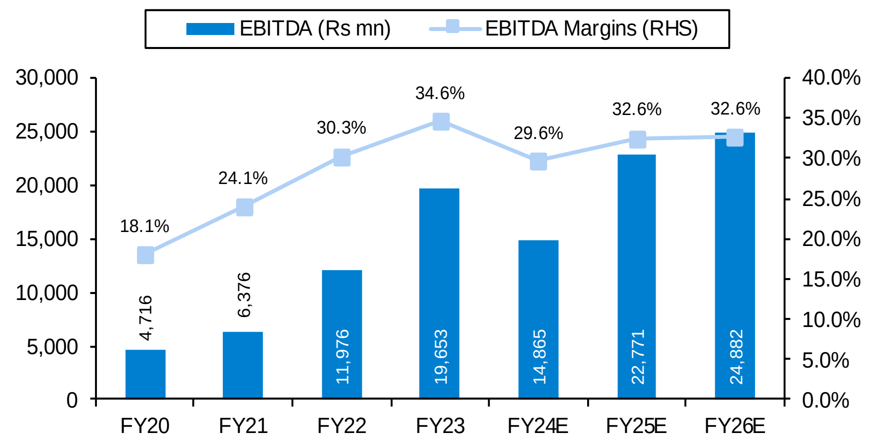


Source: Company, PL

EBITDA CAGR of 8% over FY23-FY26E

GFL reported EBITDA CAGR of 60% during FY20-FY23, primarily led by pricing growth. However, with increase in competition across global and domestic peers, we expect EBITDA CAGR of 8% over FY23-26E with EBITDA margins at ~32-33%.

Exhibit 50: EBITDA CAGR of 8% over FY23-FY26E

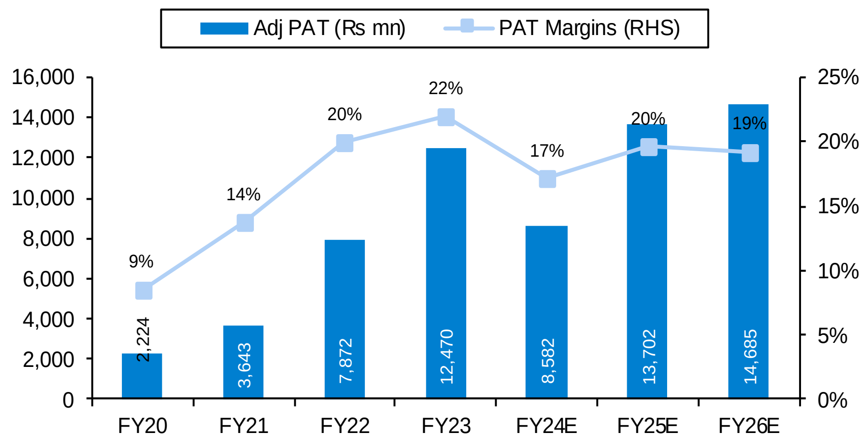


Source: Company, PL

PAT CAGR of 6% over FY24-FY26E

The bottom-line of the company grew >70% CAGR during FY20-FY23. However, we expect PAT CAGR of ~6-7% and PAT margins of 19-20% over FY23-FY26E.

Exhibit 51: PAT CAGR of 6% over FY24-FY26E



Source: Company, PL

Valuation

With increasing usage of fluorine in agrochemicals, pharmaceuticals and life science materials, fluorine chemistry is in a sweet spot globally. GFL's strategic focus on new fluoropolymers such as PVDF, PTFE, FKM, PFA and battery chemicals makes it a unique and compelling proxy play on multiple new-age technologies such as EVs, solar energy, 5G etc with huge growth potential.

Further, fluoropolymers are extensively used in battery for separators, wirings and battery casing due to superior performance. Similarly, PVDF sheets are used in solar panels and find use in 5G equipment too. We believe these segments are likely to drive growth of the company, going ahead.

We estimate healthy revenue growth across segments such as fluoropolymers and new age verticals on account of 1) capacity expansions, 2) healthy business scenario and 3) increasing product basket.

We expect EBITDA/PAT CAGR of 8%/6% over FY23-FY26E (with reasonable probability of upsides) with ~18-20% RoCE. Initiate coverage on Gujarat Fluorochemicals Ltd with a 'ACCUMULATE' rating and target price of Rs 3,230 valuing the stock at 25x Sep'25 EPS of Rs 129 (P/E multiple).

Exhibit 52: Valuation Table

Sep 25 EPS (Rs)	129
Target PE (x)	25
TP (Rs)	3,230

Source: PL

Key Risks

- **Delay in capacity expansion:** Company has guided for significant capacity expansion across business segments such as new age polymers, PTFE, fluorochemicals like R32 & HFO going ahead. Any slowdown in execution of the mentioned capex to impact negatively.
- **Regulatory tailwind:** Any regulatory ban such as use of environmental unfriendly PFAS/PFOA could erode the company financials.
- **Higher competitive intensity:** Increasing competitive intensity especially in fluoropolymers space to impact realizations in fluoropolymers and refrigerants business.
- **Capacity addition in China:** Chinese manufacturers have been adding capacities to cater to growing demand. Any large capacity addition in China can have a negative impact on company's profit margins.

Annexure

Exhibit 53: Key Managerial Personnel

KMP	Designation/Role
Mr Vivek Kumar Jain	Managing Director
Mr Manoj Agrawal	Chief Financial Officer
Mr Bhavin Desai	Company Secretary

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	**56,847**	**50,171**	**69,942**	**76,298**
YoY gr. (%)	*43.8*	*(11.7)*	*39.4*	*9.1*
Cost of Goods Sold	15,705	15,206	20,403	22,257
Gross Profit	41,141	34,965	49,539	54,041
Margin (%)	*72.4*	*69.7*	*70.8*	*70.8*
Employee Cost	3,221	3,543	3,827	4,133
Other Expenses	18,267	16,556	22,941	25,026
EBITDA	**19,653**	**14,865**	**22,771**	**24,882**
YoY gr. (%)	*64.1*	*(24.4)*	*53.2*	*9.3*
Margin (%)	*34.6*	*29.6*	*32.6*	*32.6*
Depreciation and Amortization	2,361	3,097	3,835	4,445
EBIT	**17,293**	**11,769**	**18,937**	**20,438**
Margin (%)	*30.4*	*23.5*	*27.1*	*26.8*
Net Interest	1,168	989	1,142	1,396
Other Income	904	995	1,005	1,105
Profit Before Tax	**17,029**	**11,774**	**18,799**	**20,147**
Margin (%)	*30.0*	*23.5*	*26.9*	*26.4*
Total Tax	4,617	3,192	5,097	5,462
Effective tax rate (%)	*27.1*	*27.1*	*27.1*	*27.1*
Profit after tax	**12,412**	**8,582**	**13,702**	**14,685**
Minority interest	(58)	-	-	-
Share Profit from Associate	0	0	0	0
Adjusted PAT	**12,470**	**8,582**	**13,702**	**14,685**
YoY gr. (%)	*58.4*	*(31.2)*	*59.7*	*7.2*
Margin (%)	*21.9*	*17.1*	*19.6*	*19.2*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**12,470**	**8,582**	**13,702**	**14,685**
YoY gr. (%)	*58.4*	*(31.2)*	*59.7*	*7.2*
Margin (%)	*21.9*	*17.1*	*19.6*	*19.2*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,470	8,582	13,702	14,685
Equity Shares O/s (m)	**110**	**110**	**110**	**110**
Adj EPS (Rs)	**113.5**	**78.1**	**124.7**	**133.7**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	**45,361**	**57,861**	**67,861**	**77,861**
Tangibles	43,099	55,599	65,599	75,599
Intangibles	2,262	2,262	2,262	2,262
Acc: Dep / Amortization	**14,095**	**17,192**	**21,026**	**25,471**
Tangibles	13,438	16,535	20,369	24,814
Intangibles	657	657	657	657
Net fixed assets	**31,266**	**40,669**	**46,835**	**52,390**
Tangibles	29,661	39,065	45,230	50,785
Intangibles	1,605	1,605	1,605	1,605
Capital Work In Progress	11,424	11,424	11,424	11,424
Goodwill	-	-	-	-
Non-Current Investments	6,043	6,043	6,043	6,043
Net Deferred tax assets	(2,410)	(2,410)	(2,410)	(2,410)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	2	2	2	2
Inventories	14,854	12,096	16,863	18,395
Trade receivables	11,068	9,622	13,414	14,633
Cash & Bank Balance	1,610	2,096	6,749	14,189
Other Current Assets	-	-	-	-
Total Assets	**83,714**	**89,514**	**1,11,870**	**1,28,575**
Equity				
Equity Share Capital	110	110	110	110
Other Equity	55,097	63,337	76,356	90,308
Total Networth	**55,207**	**63,447**	**76,466**	**90,417**
Non-Current Liabilities				
Long Term borrowings	1,832	1,832	1,832	1,832
Provisions	395	395	395	395
Other non current liabilities	477	477	477	477
Current Liabilities				
ST Debt / Current of LT Debt	12,950	11,649	17,323	18,897
Trade payables	6,910	6,185	8,623	9,407
Other current liabilities	3,529	3,114	4,342	4,736
Total Equity & Liabilities	**83,714**	**89,514**	**1,11,870**	**1,28,575**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	17,847	11,774	18,799	20,147
Add. Depreciation	2,361	3,097	3,835	4,445
Add. Interest	1,168	989	1,142	1,396
Less Financial Other Income	904	995	1,005	1,105
Add. Other	(461)	(995)	(1,005)	(1,105)
Op. profit before WC changes	20,915	14,865	22,771	24,882
Net Changes-WC	(8,827)	3,063	(8,208)	(2,639)
Direct tax	(4,700)	(3,305)	(4,762)	(5,355)
Net cash from Op. activities	**7,389**	**14,623**	**9,801**	**16,889**
Capital expenditures	(6,700)	(12,500)	(10,000)	(10,000)
Interest / Dividend Income	351	995	1,005	1,105
Others	1,586	-	-	-
Net Cash from Invt. activities	**(4,764)**	**(11,505)**	**(8,995)**	**(8,895)**
Issue of share cap. / premium	(37)	0	-	-
Debt changes	(796)	(1,301)	5,673	1,574
Dividend paid	(439)	(343)	(685)	(734)
Interest paid	(1,336)	(989)	(1,142)	(1,396)
Others	(33)	1	1	1
Net cash from Fin. activities	**(2,641)**	**(2,632)**	**3,847**	**(555)**
Net change in cash	**(16)**	**486**	**4,653**	**7,439**
Free Cash Flow	639	2,123	(199)	6,889

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**14,613**	**14,179**	**14,714**	**12,093**
YoY gr. (%)	*51.6*	*41.2*	*37.0*	*(9.3)*
Raw Material Expenses	3,913	3,829	4,038	3,461
Gross Profit	10,701	10,351	10,677	8,631
Margin (%)	*73.2*	*73.0*	*72.6*	*71.4*
EBITDA	**5,358**	**5,232**	**5,293**	**3,479**
YoY gr. (%)	*81.3*	*65.9*	*59.7*	*(24.2)*
Margin (%)	*36.7*	*36.9*	*36.0*	*28.8*
Depreciation / Depletion	572	601	638	655
EBIT	**4,786**	**4,631**	**4,655**	**2,824**
Margin (%)	*32.8*	*32.7*	*31.6*	*23.4*
Net Interest	230	381	348	280
Other Income	243	214	186	146
Profit before Tax	**4,799**	**4,464**	**4,493**	**2,690**
Margin (%)	*32.8*	*31.5*	*30.5*	*22.2*
Total Tax	1,226	1,159	1,174	678
Effective tax rate (%)	*25.6*	*26.0*	*26.1*	*25.2*
Profit after Tax	**3,572**	**3,305**	**3,319**	**2,012**
Minority interest	40	(11)	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**3,612**	**3,295**	**3,319**	**2,011**
YoY gr. (%)	*74.4*	*61.0*	*49.8*	*(33.7)*
Margin (%)	*24.7*	*23.2*	*22.6*	*16.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**3,612**	**3,295**	**3,319**	**2,011**
YoY gr. (%)	*74.4*	*61.0*	*49.8*	*(33.7)*
Margin (%)	*24.7*	*23.2*	*22.6*	*16.6*
Other Comprehensive Income	(31)	184	(3)	(15)
Total Comprehensive Income	**3,582**	**3,478**	**3,316**	**1,997**
Avg. Shares O/s (m)	110	110	110	110
EPS (Rs)	**32.9**	**30.0**	**30.2**	**18.3**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
Adj EPS	113.5	78.1	124.7	133.7
CEPS	135.0	106.3	159.6	174.1
BVPS	502.6	577.6	696.1	823.1
FCF	5.8	19.3	(1.8)	62.7
DPS	3.4	3.1	6.2	6.7
Return Ratio(%)				
RoCE	27.0	16.0	21.9	19.8
ROIC	20.2	12.0	16.9	16.0
RoE	25.5	14.5	19.6	17.6
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.2	0.1
Net Working Capital (Days)	122	113	113	113
Valuation(x)				
PER	27.5	40.0	25.1	23.4
P/B	6.2	5.4	4.5	3.8
P/CEPS	23.2	29.4	19.6	17.9
EV/EBITDA	18.1	23.9	15.6	14.1
EV/Sales	6.3	7.1	5.1	4.6
Dividend Yield (%)	0.1	0.1	0.2	0.2

Source: Company Data, PL Research

SRF (SRF IN)

Rating: HOLD | CMP: Rs2,371 | TP: Rs2,143

September 15, 2023

Company Report

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,48,703	1,40,029	1,59,142	1,75,905
EBITDA (Rs. m)	35,292	31,115	35,902	41,340
Margin (%)	*23.7*	*22.2*	*22.6*	*23.5*
PAT (Rs. m)	21,623	16,817	19,324	22,243
EPS (Rs.)	72.9	56.7	65.2	75.0
Gr. (%)	*14.5*	*(22.2)*	*14.9*	*15.1*
DPS (Rs.)	8.8	6.8	7.8	9.0
Yield (%)	*0.4*	*0.3*	*0.3*	*0.4*
RoE (%)	*22.9*	*15.2*	*15.3*	*15.4*
RoCE (%)	*22.1*	*15.2*	*15.4*	*15.8*
EV/Sales (x)	4.9	5.3	4.7	4.2
EV/EBITDA (x)	20.8	23.7	20.7	18.1
PE (x)	32.5	41.8	36.4	31.6
P/BV (x)	6.8	6.0	5.2	4.5

Key Data	SRFL.BO | SRF IN
52-W High / Low	Rs.2,845 / Rs.2,040
Sensex / Nifty	67,839 / 20,192
Market Cap	Rs.703bn/ $ 8,448m
Shares Outstanding	296m
3M Avg. Daily Value	Rs.1494.5m

Shareholding Pattern (%)

Promoter's	50.53
Foreign	20.04
Domestic Institution	13.71
Public & Others	15.72
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.4	4.3	(16.0)
Relative	(0.3)	(11.5)	(25.8)

Swarnendu Bhushan
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Fluorochemicals to continue league

We initiate coverage on SRF Limited (SRF) with 'Hold' rating and TP of 2,143 (implied consol Sep' 25E EV/EBITDA of 11x). SRF is structurally placed to maintain its leadership position in chemicals business given 1) proposed capacity expansion of ~35% in refrigerants by FY24E, 2) addition of 5,000mtpa PTFE capacity by H2FY24, 3) in-house process development of HFO to aid long term growth post patent expiry and 4) planned launch of 6-7 agrochemical ingredients in next 2-3 years. The company has debottlenecked its South African packaging films capacity by 15% in FY23 and is adding 21,000mtpa aluminium foil capacity by Q3FY24. Additionally, healthy balance sheet and strong financials (despite large capex) provide us further comfort. We expect Revenue/EBITDA/PAT CAGR of 6%/5%/1% over FY23-26E. SRF trades at 24x FY24 EV/EBITDA and 42x FY24 EPS despite muted growth prospects and does not leave much upside for the investors. Accordingly, we initiate coverage with 'Hold' rating.

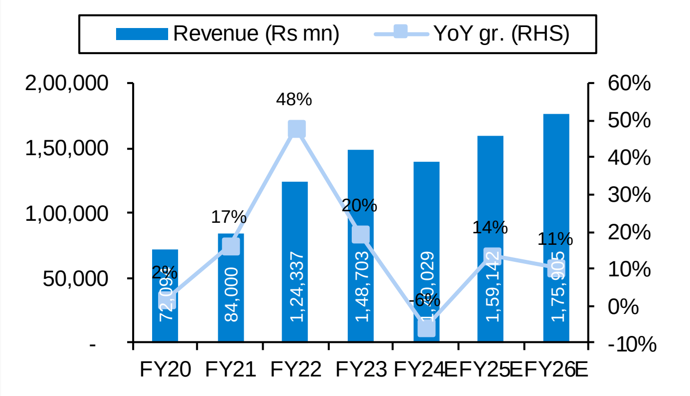
Chemicals segment – key growth driver: Over FY19-23 chemicals segment grew at +30% CAGR primarily driven by 1) volume growth across fluorochemicals and 2) specialty chemicals business. The contribution of specialty chemicals business in the segment grew from ~40% to 56% over FY19-23 led by addition of new Active Intermediates (AIs) like P32 and P17 and value added products. Further, it intends to launch 6-7 new AIs in next 2-3 years. In fluorochemicals segment, the company is adding 7,500mtpa of R22 capacity in FY24E and 15,000mtpa of R32 swing capacity (R134a/125) by Oct'23. Additionally, it has successfully conducted lab trials for HFO through non-patented process and awaits application patent to expire before commercialization of the same. The company is also expected to foray into PTFE with start of 5,000mtpa plant in H2FY24. This will also open the doors for foray into other fluoropolymers like PVDF, FKM and FEP which find increasing applications across new age industries like batteries, solar and semi-conductors among others. Consequently, we expect the segment to grow at 11% CAGR over FY23-FY26E.

Uncertainty expected in packaging segment: In the packaging segment, the company expanded its BOPP (Biaxially Oriented Polypropylene) facility by 55% in FY23. Along with the upcoming 21,000mtpa aluminium foil project, SRF would be among the very few globally offering packaging solutions in all three substrates. However, due to capacity additions globally, near term glut is expected to persist for some time to come. Conservatively, we forecast revenues of Rs48bn in FY26E, below Rs52bn achieved in FY23.

Technical textiles facing headwinds: Technical textiles business grew at 2% CAGR during FY19-23 on the back of demand from OEM space owing to uncertain environment in auto sector coupled with Covid-19 restrictions. Being proxy play to automotive industry, this segment is expected to grow on the back of higher automobile sales. Further, demand for belting fabrics remains healthy given stable outlook for end user industries such as steel, coal, power etc. We expect 3% CAGR for the segment over FY23-FY26E given growth in Nylon Tyre Cord Fabric & belting fabric business.

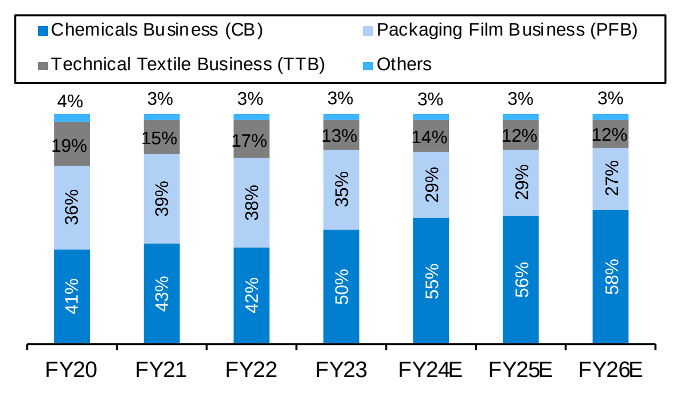
Story in Charts

Exhibit 54: Revenues to grow 6% CAGR led by chemicals



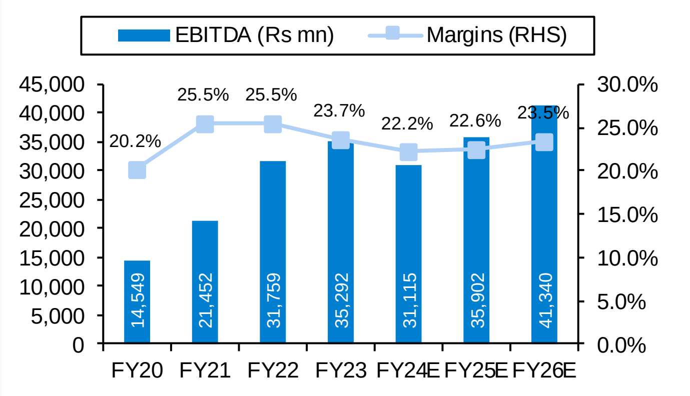
Source: Company, PL

Exhibit 55: Chemicals mix to improve to 58% by FY26E



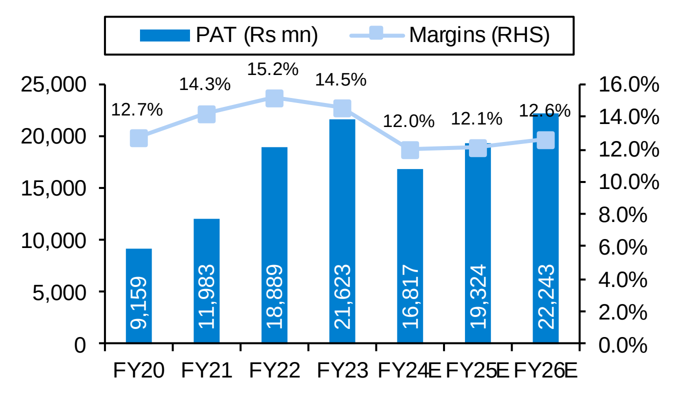
Source: Company, PL

Exhibit 56: Margins at 23% led by value added products



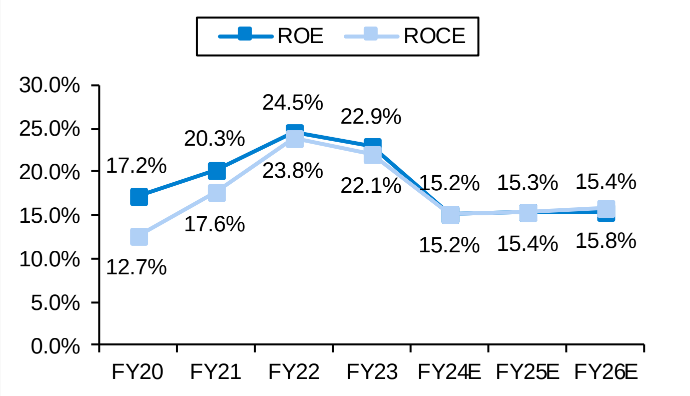
Source: Company, PL

Exhibit 57: PAT to grow at 1-2% CAGR over FY23-FY26E



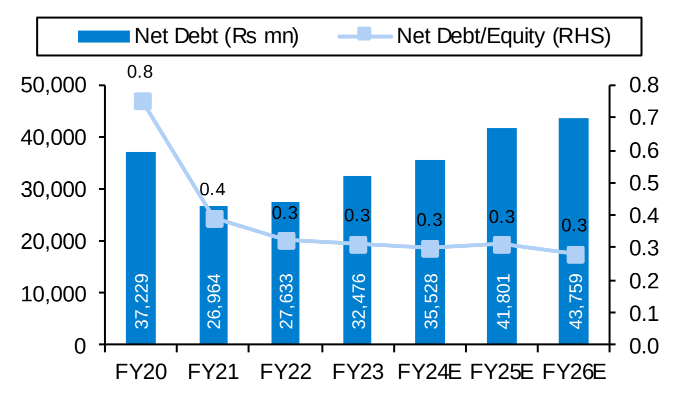
Source: Company, PL

Exhibit 58: Return Ratios at 15-16% due to capex



Source: Company, PL

Exhibit 59: Despite heavy capex, Net D/E to be 0.3x



Source: Company, PL

SRF – Fluorospecialty brightens outlook

SRF Limited is a chemical based multi-business entity engaged in manufacturing of industrial and specialty intermediates. Incorporated in 1970, Shree Ram Fibres (SRF) is promoted by one of the oldest business groups in India, the Shriram Group, founded by Sir Lala Shri Ram. SRF started with nylon tyre cord and thereafter diversified into refrigerant gases, specialty chemicals and packaging film among other. It's manufacturing facilities are located across India, South Africa, Thailand and Hungary.

SRF's business profile comprises of 1) Chemicals (50% revenue & 32% EBIT margin), 2) Packaging films- BOPET and BOPP films (35% revenue & 11% EBIT margin) and 3) Technical Textile - nylon and polyester, tyre cord, belting fabrics, industrial yarns (13% revenue & 14% EBIT margin).

Business Overview:

- **Chemicals:** Chemical business primarily consists of two sub-segments: (i) Fluorochemicals which includes refrigerants, pharma propellants, and industrial chemicals and (ii) Specialty chemicals which supplies intermediates to global agrochemical and pharmaceutical majors. Within fluorochemicals, refrigerants overall capacity stands at 62,500mtpa expected to rise by 35% in FY24E.

- **Packaging Films**: SRF manufactures Bi-axially Oriented Polyethylene Terephthalate (BOPET), Bi-axially Oriented Polypropylene (BOPP) films and also offers a range of metallized and coated film products to its customers. It provides packaging solutions to food and non-food category of FMCG and industrial products. The company has installed capacity of 170,000mtpa in BOPP and 203,500mtpa in BOPET and is adding 21,000mtpa aluminum foil capacity in Q3FY24.

- **Technical Textiles:** This involves sale of Nylon Tyre Cord Fabrics (NTCFs), polyester tyre cord fabrics, belting fabrics and polyester industrial yarn. NTCF is a key product under this segment (contributing ~70-75% revenue). SRF has 40% share in India's NTCF market and is 5th largest player globally. It is also 2nd largest manufacturer of conveyor belting fabrics in the world.

Exhibit 60: Product Profile

Segments	Subsegments	Products	Applications	Domestic Peers	Global Peers
Chemicals Business	Specialty Chemicals	API Intermediates/ AI Applications	Agrochemicals, Pharmaceuticals	NFIL, GFL, Tanfac	Chemours, Honeywell, 3M, Daikin, Dongyue
	Fluorochemicals	R134a, R22, R410a, R407c	Air conditioners, pharma, automobile, AC, refrigerators etc		
Packaging Films Business		BOPP, BOPET	FMCG, Soaps, food, agro, solar panels etc	Uflex, EPL, Jindal Polyfilms	Berry Global Group, Avient Corp etc
Technical Textiles Business		Tyre cord Fabrics, belting fabrics and industrial yarn	Tyres, seat belts, conveyor belts	Century Enka Ltd	Berry Global, Aashi Kasei etc
Others		Coated Fabrics, laminated fabrics	Architecture,lifestyle, sports etc		

Source: Company, PL

Investment Rationale

Chemicals segment - The key growth driver

- SRF is a market leader in fluorine chemistry with more than 25 years of experience in handling fluorine molecules. Its strong knowledge of fluorination and focus on R&D had led to development of complex organo-fluorine compounds. SRF's chemical segment consists of two sub-segments: 1) Fluorochemicals (refrigerants and fluoropolymers) and 2) Specialty chemicals.

Mandatary installation of AC systems in truck cabins expected to bolster the domestic demand for ref gases/fluorochemicals going ahead. (new avenue for industry growth)

  - **Fluorochemicals**: In refrigerants SRF's basket includes hydrochlorofluorocarbon-22 (HCFC-22), HFC -32, the new-generation refrigerants – hydrofluorocarbon-134a (HFC-134a) and HFC blends such as R410A, R404A and R407C. The company is adding 7,500mtpa of R22 capacity and 15,000mtpa swing capacity (R134a/125) for R32 by Oct'23. Although refrigerant demand in FY24 has been lackluster so far, the company would benefit from expansions once the demand normalizes. In fluoropolymers the company is adding 5,000mtpa PTFE capacity by H2FY24 at a cost of Rs11bn. While this capacity is small in comparison to 18,000mtpa of GFL, the foray enables entry into other valuable grades like FKM, FEP in future.

  - **Specialty chemicals**: Within specialty chemical business, 80-85% contribution comes from global innovators such as Corteva, BASF, Solvay, Adama etc. while global generics players contributed 10-15% to chemical revenues as of FY23. The company intends to launch 6-7 AIs in next 2-3 years. Company plans to double its revenue share from pharmaceuticals intermediates portfolio to 25% in next few years (currently 9-10% of chemicals business).

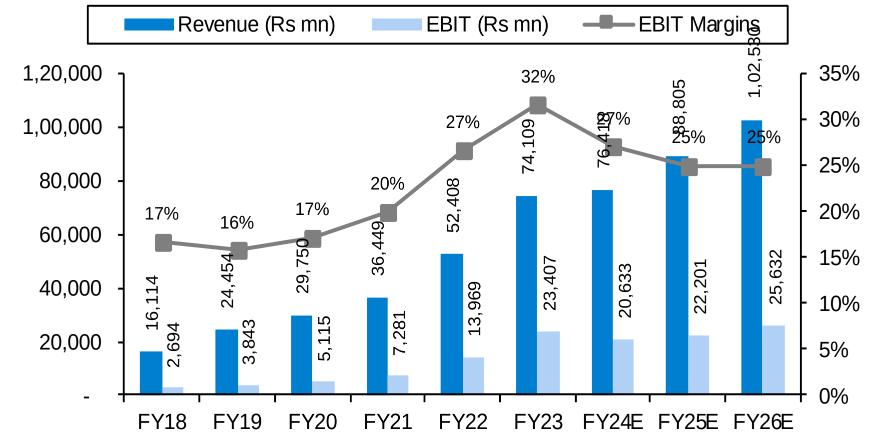
Overall, the Indian PTFE market demand stood at 5,700mtpa in CY20 and is expected to reach 9,270mtpa by CY27, growing at a healthy CAGR of 7%, according to Maximize Market Research.

- **RM availability, a key strength**: SRF manufactures RMs such as chloroform, trichloro-ethylene, perchloroethylene etc. While chloroform is internally consumed for manufacturing HCFC-22, HFC-134a and HFC 125 are backward integrated into trichloroethylene/perchloroethylene respectively. We believe there is abundant availability of raw materials to speed-up company's performance.

- **11% CAGR in Chemicals business**: SRF intends to spend ~Rs25bn each year in chemicals segment. In the industrial chemicals segment, it is expanding chloromethane capacity to 100,000mtpa as of FY24E. We expect 11% revenue CAGR in chemicals segment in FY23-26E led by 1) commissioning of Rs 11bn capex, 2) PTFE commercialization and 3) demand recovery for existing refrigerants/fluorochemicals.

According to management, domestic market size of aluminum foil stands at 200,000 MTPA growing at 8-8.5% annually led by increasing use in packaging industries.

Exhibit 61: Capex & increasing demand to drive chemicals performance



Source: Company, PL

Uncertainty expected in packaging business

SRF manufactures Bi-axially Oriented Polyethylene Terephthalate (BOPET), Bi-axially Oriented Polypropylene (BOPP) films which are widely used in applications such as food, plastics, packaging, detergents, soaps, solar panels, labelling etc.

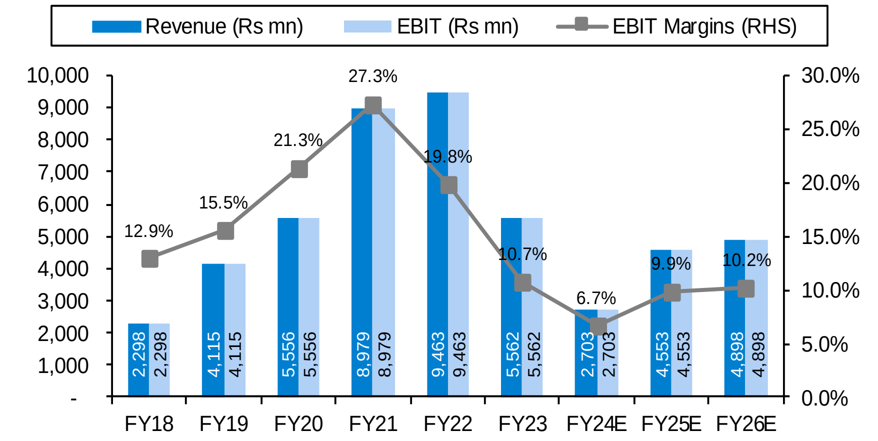
- **Adding third substrate**: Aluminum Foil is a very thin sheet which provides great protection against light and oxygen. It is extensively used in primary packaging and industries such as food, pharmaceuticals, cosmetics, industrial packaging etc. and increases company's offering to consumers in the segment. China is world's largest producer and exporter of aluminum foil whereas India, Thailand and South Korea have been largest destinations for exports of Chinese aluminum foil. According to management, the domestic market size for aluminum foil stands at ~200,000mtpa and is expected to grow in the range of 8-8.5% annually led by increased use by packaging industries.

- **Capturing ~10% of domestic market**: Company is setting up an aluminum foil manufacturing facility (capacity of 21,000mtpa) at Jaitapur near Indore in Madhya Pradesh by incorporating a wholly owned subsidiary SRF Altech with a capex of ~Rs 4.3bn. Management expects asset turns of ~1.75-2x with an IRR of ~15-18% in this business.

- **Concerns on margins**: EBIT margin in the packaging segment has come off from 18% in 1QFY16-1QFY23 to 6% post that and 4.1% in past two quarters. Margins in both BOPET and BOPP are likely to remain under pressure, as new lines have been added; besides several more lines are in pipeline globally.

<u>We build in slow recovery of 9-10% EBIT margin over FY25-26E with demand normalization. We also expect drop in revenues over FY23-26E.</u>

Exhibit 62: Performance impacted due to uncertain environment



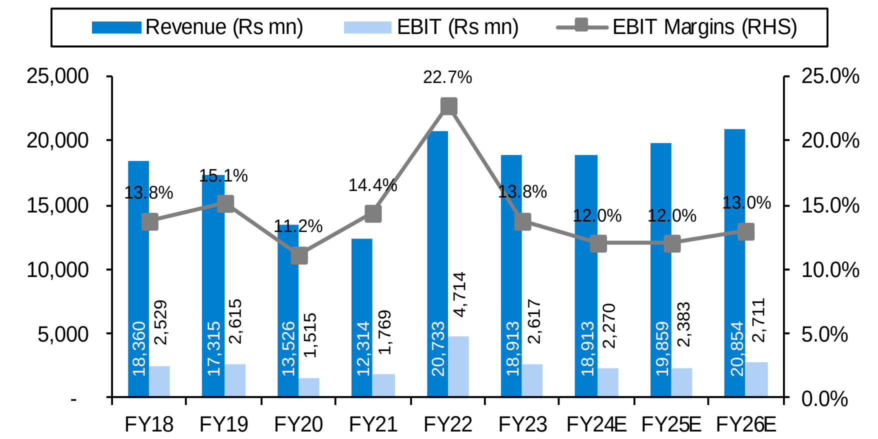
Source: Company, PL

Technical Textiles facing headwinds

SRF is the largest manufacturer of technical textiles in India with product basket varying from sale of Nylon Tyre Cord Fabrics (NTCFs), polyester tyre cord fabrics, belting fabrics and polyester industrial yarn. NTCF has been a key product under this business segment (contributing ~70-75% revenue).

- Technical textiles business grew at 2% CAGR over FY19-FY23 due to muted demand in OEM space owing to uncertain environment in auto sector coupled with Covid-19 restrictions.
- Being proxy play to automotive industry, we believe the segment will grow on the back of higher automobile sales. While demand in belting fabrics remains healthy due to stable outlook for end user industries such as steel, coal, power etc.
- We build in revenues CAGR of 3% over FY23-FY26E for the segment with EBIT margin of ~12%, in-line with historic averages.

Exhibit 63: Slow growth over FY23-FY26E on account of headwinds



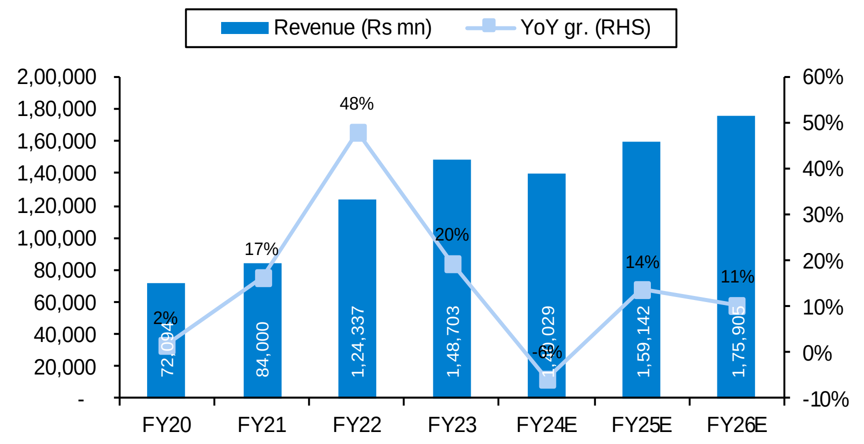
Source: Company, PL

Financial Analysis

Revenue CAGR of 6% over FY23-26E

Between FY19-23 topline grew at 20% CAGR driven by volume growth primarily from specialty chemicals business (which grew at 41% CAGR in the same period). Going forward, we expect 11% CAGR in chemicals segment led by fluorochemicals capacity expansion and new product launches in specialty chemicals business. Overall, we believe topline to grow 6% CAGR over FY23-FY26E.

Exhibit 64: Revenue CAGR of 6% over FY23-26E

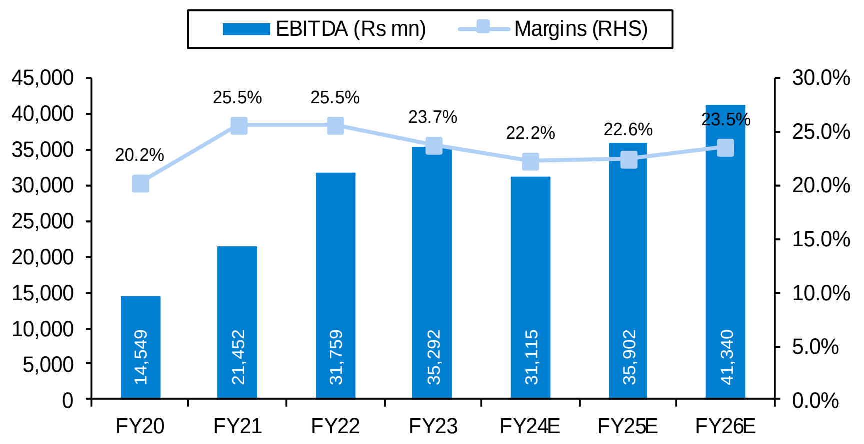


Source: Company, PL

EBITDA CAGR of 5% over FY23-26E

Over FY19-23, EBITDA grew 28% CAGR driven by higher realizations and better opex. We expect ~5% EBIDTA CAGR over FY23-26E, while EBITDA margins to remain stable at around 23%.

Exhibit 65: EBITDA CAGR of 5% over FY23-26E

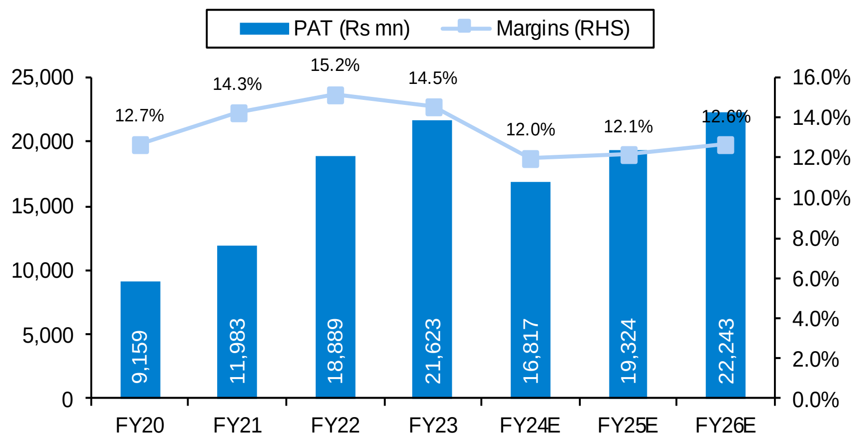


Source: Company, PL

PAT CAGR of ~1% over FY23-26E

Over FY19-FY23, PAT grew +30% CAGR driven by EBITDA, however we believe PAT to grow at low single digit over FY23-FY26E and PAT margins to be 12%.

Exhibit 66: PAT CAGR of ~1% over FY23-26E



Source: Company, PL

Valuations

- SRF is expanding its refrigerants capacity by 35% to 84,500mtpa (overall) by FY24E and has also developed its own process technology for HFO, which will aid revenue growth (upon expiry of patents).
- 60-70% of specialty chemicals business comes from agrochemicals. The company plans to launch 6-7 AIs in next 2-3 years to aid company's topline.
- We are optimistic on SRF given healthy performance from specialty chemicals business, strong balance sheet and deployment of capex for high-growth specialty chemicals business over next few years to tap opportunities emerging from agrochemical and pharma industries. We expect Revenue/EBITDA/PAT CAGR of 6%/5%/1% over FY23-26E.
- The stock currently trades at 24x FY24 EV/EBITDA and 43x FY24 EPS and does not leave much upside for the investors. We initiate coverage with 'HOLD' rating and SOTP based target price of Rs 2,143.

Exhibit 67: Valuation Table (SOTP Based)

	EBITDA (Rs mn) Sep'25	Target EV/EBITDA multiple	Total Enterprise Value (Rs mn)
Specialty Chemicals	30,378	20	6,07,556
Packaging Films Business	7,006	7	49,039
Technical Textiles Business	3,083	7	21,584
Total Enterprise Value	40,467		6,78,179
less : Net Debt			43,759
			6,34,420
No of shares			296
TP			**2,143**

Source: PL

Key Risks

Volatility in fluorspar prices: Under chemical business, company uses fluorspar as a key raw material. We believe, any major fluctuation in fluorspar prices globally may have a corresponding impact on its margins and profitability.

Increasing competition in refrigerants business a concern: With global and domestic manufacturers entering new age fluoropolymers and refrigerants such as R32 and R125, company's performance may be impacted going ahead.

Delay in commercialization of PTFE: Company's inability to manufacture PTFE, on time, to drag overall performance.

Annexure

Exhibit 68: Key Managerial Personnel

Member	Designation
Arun Bharat Ram	Chairman Emeritus
Ashish Bharat Ram	Chairman and Managing Director
Kartik Bharat Ram	Joint Managing Director
Pramod G Gujarathi	Director, Safety & Environment
Vellayan Subbiah	Non-Executive, Non-Independent Director
Tejpreet S Chopra	Independent Director
Lakshman Lakshminarayan	Independent Director
Bharti Gupta Ramola	Independent Director
Puneet Yadu Dalmia	Independent Director
Yash Gupta	Independent Director
Raj Kumar Jain	Independent Director

Source: Company, PL

Exhibit 69: Installed Capacities (Chemicals- Product-wise)

List of Products	Existing capacity	Total capacity (after addition)
Ethyldifluoroacetate & Others	25,100	34,650
Trichloroethylene & other chlorine compounds	1,50,000	3,00,000
Chlorotrifluoroethane (HCFC 133a)	500	500
HFC 134a & others	75,000	75,000
Anhydrous hydrochloride acid	1,500	14,760
Dicalcium Phosphate	50,000	50,000
Tetrahydrofuran	20,000	20,000
PTFE	10,000	10,000
IPA	50,000	50,000
Calcium chloride	50,000	2,82,130
HFC 22	25,000	25,000
Ethanol	684	2,371

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	**1,48,703**	**1,40,029**	**1,59,142**	**1,75,905**
YoY gr. (%)	*19.6*	*(5.8)*	*13.6*	*10.5*
Cost of Goods Sold	73,935	68,165	77,407	83,905
Gross Profit	74,767	71,863	81,735	92,000
Margin (%)	*50.3*	*51.3*	*51.4*	*52.3*
Employee Cost	8,138	9,102	9,867	10,906
Other Expenses	31,337	31,646	35,966	39,754
EBITDA	**35,292**	**31,115**	**35,902**	**41,340**
YoY gr. (%)	*11.1*	*(11.8)*	*15.4*	*15.1*
Margin (%)	*23.7*	*22.2*	*22.6*	*23.5*
Depreciation and Amortization	5,753	7,286	8,773	10,273
EBIT	**29,539**	**23,829**	**27,129**	**31,067**
Margin (%)	*19.9*	*17.0*	*17.0*	*17.7*
Net Interest	2,048	2,391	2,496	2,621
Other Income	749	525	603	603
Profit Before Tax	**28,240**	**21,962**	**25,236**	**29,049**
Margin (%)	*19.0*	*15.7*	*15.9*	*16.5*
Total Tax	6,617	5,146	5,913	6,806
Effective tax rate (%)	*23.4*	*23.4*	*23.4*	*23.4*
Profit after tax	**21,623**	**16,817**	**19,324**	**22,243**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**21,623**	**16,817**	**19,324**	**22,243**
YoY gr. (%)	*14.5*	*(22.2)*	*14.9*	*15.1*
Margin (%)	*14.5*	*12.0*	*12.1*	*12.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**21,623**	**16,817**	**19,324**	**22,243**
YoY gr. (%)	*14.5*	*(22.2)*	*14.9*	*15.1*
Margin (%)	*14.5*	*12.0*	*12.1*	*12.6*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	21,623	16,817	19,324	22,243
Equity Shares O/s (m)	**296**	**296**	**296**	**296**
EPS (Rs)	**72.9**	**56.7**	**65.2**	**75.0**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	**1,30,996**	**1,60,452**	**1,90,452**	**2,20,452**
Tangibles	1,25,785	1,55,241	1,85,241	2,15,241
Intangibles	5,211	5,211	5,211	5,211
Acc: Dep / Amortization	**30,498**	**37,784**	**46,556**	**56,829**
Tangibles	29,306	36,592	45,365	55,638
Intangibles	1,191	1,191	1,191	1,191
Net fixed assets	**1,00,498**	**1,22,668**	**1,43,896**	**1,63,623**
Tangibles	96,479	1,18,649	1,39,876	1,59,604
Intangibles	4,019	4,019	4,019	4,019
Capital Work In Progress	24,055	24,599	24,599	24,599
Goodwill	-	-	-	-
Non-Current Investments	4,374	2,733	2,733	2,733
Net Deferred tax assets	(7,906)	(7,906)	(7,906)	(7,906)
Other Non-Current Assets	682	682	682	682
Current Assets				
Investments	4,901	4,901	4,901	4,901
Inventories	22,743	19,182	21,800	24,097
Trade receivables	17,856	16,815	19,110	21,123
Cash & Bank Balance	6,165	8,168	4,554	4,928
Other Current Assets	2,348	2,211	2,513	2,778
Total Assets	**1,87,545**	**2,05,664**	**2,28,973**	**2,54,069**
Equity				
Equity Share Capital	2,974	2,964	2,964	2,964
Other Equity	1,00,296	1,15,046	1,32,001	1,51,526
Total Networth	**1,03,271**	**1,18,010**	**1,34,965**	**1,54,490**
Non-Current Liabilities				
Long Term borrowings	23,115	29,115	29,115	29,115
Provisions	608	608	608	608
Other non current liabilities	3,293	3,293	3,293	3,293
Current Liabilities				
ST Debt / Current of LT Debt	20,425	19,481	22,140	24,472
Trade payables	22,313	21,011	23,879	26,394
Other current liabilities	6,428	6,053	6,879	7,604
Total Equity & Liabilities	**1,87,545**	**2,05,664**	**2,28,973**	**2,54,069**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	28,240	21,962	25,236	29,049
Add. Depreciation	5,753	7,286	8,773	10,273
Add. Interest	2,048	2,391	2,496	2,621
Less Financial Other Income	749	525	603	603
Add. Other	(1,343)	(525)	(603)	(603)
Op. profit before WC changes	34,698	31,115	35,902	41,340
Net Changes-WC	(604)	3,294	(2,030)	(1,781)
Direct tax	(5,077)	(5,159)	(5,884)	(6,781)
Net cash from Op. activities	**29,017**	**29,250**	**27,988**	**32,778**
Capital expenditures	(28,243)	(30,000)	(30,000)	(30,000)
Interest / Dividend Income	273	525	603	603
Others	(1,644)	1,641	-	-
Net Cash from Invt. activities	**(29,614)**	**(27,834)**	**(29,397)**	**(29,397)**
Issue of share cap. / premium	-	(10)	-	-
Debt changes	6,599	5,056	2,659	2,332
Dividend paid	(2,133)	(2,018)	(2,319)	(2,669)
Interest paid	(1,945)	(2,391)	(2,496)	(2,621)
Others	(325)	(49)	(49)	(49)
Net cash from Fin. activities	**2,196**	**587**	**(2,205)**	**(3,007)**
Net change in cash	**1,599**	**2,003**	**(3,614)**	**374**
Free Cash Flow	635	(750)	(2,012)	2,778

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**37,278**	**34,697**	**37,781**	**33,384**
YoY gr. (%)	*31.3*	*3.7*	*6.4*	*(14.3)*
Raw Material Expenses	19,529	16,944	18,884	17,005
Gross Profit	17,749	17,753	18,897	16,379
Margin (%)	*47.6*	*51.2*	*50.0*	*49.1*
EBITDA	**7,691**	**8,335**	**9,316**	**6,962**
YoY gr. (%)	*14.0*	*(5.4)*	*(1.7)*	*(30.0)*
Margin (%)	*20.6*	*24.0*	*24.7*	*20.9*
Depreciation / Depletion	1,393	1,507	1,546	1,566
EBIT	**6,298**	**6,829**	**7,770**	**5,396**
Margin (%)	*16.9*	*19.7*	*20.6*	*16.2*
Net Interest	445	620	659	656
Other Income	327	100	223	118
Profit before Tax	**6,181**	**6,309**	**7,334**	**4,858**
Margin (%)	*16.6*	*18.2*	*19.4*	*14.6*
Total Tax	1,371	1,200	1,709	1,265
Effective tax rate (%)	*22.2*	*19.0*	*23.3*	*26.0*
Profit after Tax	**4,810**	**5,109**	**5,625**	**3,593**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**4,810**	**5,109**	**5,625**	**3,593**
YoY gr. (%)	*25.8*	*1.1*	*(7.1)*	*(40.9)*
Margin (%)	*12.9*	*14.7*	*14.9*	*10.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**4,810**	**5,109**	**5,625**	**3,593**
YoY gr. (%)	*25.8*	*1.1*	*(7.1)*	*(40.9)*
Margin (%)	*12.9*	*14.7*	*14.9*	*10.8*
Other Comprehensive Income	(1,526)	-	-	-
Total Comprehensive Income	**3,284**	**5,109**	**5,625**	**3,593**
Avg. Shares O/s (m)	296	296	296	296
EPS (Rs)	**16.2**	**17.2**	**19.0**	**12.1**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	72.9	56.7	65.2	75.0
CEPS	92.4	81.3	94.8	109.7
BVPS	348.4	398.1	455.3	521.2
FCF	2.1	(2.5)	(6.8)	9.4
DPS	8.8	6.8	7.8	9.0
Return Ratio(%)				
RoCE	22.1	15.2	15.4	15.8
ROIC	18.2	12.6	12.6	12.7
RoE	22.9	15.2	15.3	15.4
Balance Sheet				
Net Debt : Equity (x)	0.3	0.3	0.3	0.3
Net Working Capital (Days)	45	39	39	39
Valuation(x)				
PER	32.5	41.8	36.4	31.6
P/B	6.8	6.0	5.2	4.5
P/CEPS	25.7	29.2	25.0	21.6
EV/EBITDA	20.8	23.7	20.7	18.1
EV/Sales	4.9	5.3	4.7	4.2
Dividend Yield (%)	0.4	0.3	0.3	0.4

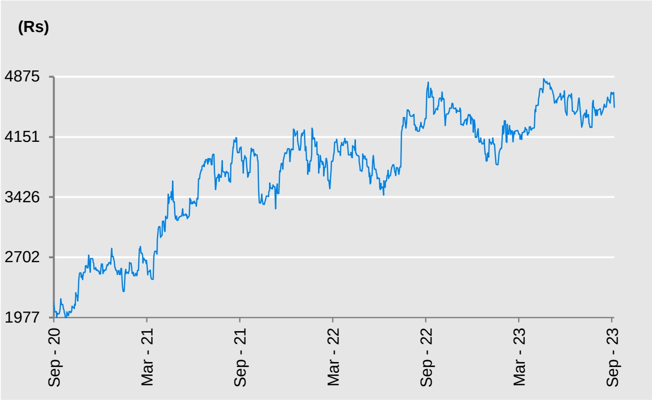
Source: Company Data, PL Research

Notes

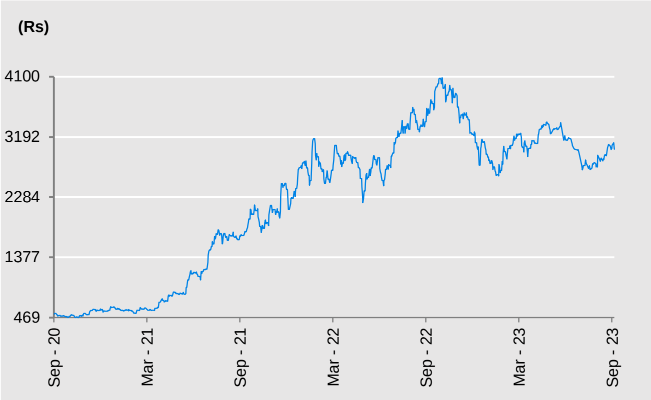
Notes

Notes

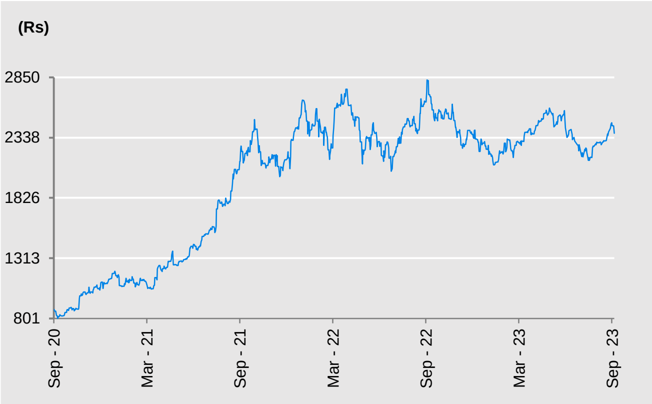
Navin Fluorine International



Gujarat Fluorochemicals



SRF



Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	495	473
2	Bharat Petroleum Corporation	Hold	353	352
3	Bharti Airtel	Accumulate	935	890
4	Clean Science and Technology	Hold	1,206	1,298
5	Deepak NIitrite	Reduce	1,803	2,092
6	Gujarat Gas	Accumulate	516	455
7	Gujarat State Petronet	BUY	327	276
8	Hindustan Petroleum Corporation	Hold	263	261
9	Indian Oil Corporation	Hold	97	92
10	Mahanagar Gas	Hold	1,056	1,056
11	NOCIL	Hold	230	228
12	Oil & Natural Gas Corporation	BUY	218	177
13	Oil India	BUY	341	277
14	Reliance Industries	BUY	2,898	2,444
15	Vinati Organics	Accumulate	1,955	1,815

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Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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