

# Navin Fluorine International

## BUY

### Top level exits a valid concern

#### Summary

We attended the call held by Navin Fluorine International (NFIL) to update on the resignation of the CEO, Radhesh Welling. Vishad Mafatlal, the Chairman handled most of the queries. The search for a senior professional as a successor is underway and will be updated in due course. The management mentioned that all the top clients have been informed about this transition and all of the major capex is on track although there could be slight delays of a quarter or so. Although the management did attempt to assuage investor concerns by stating that major capex plans and client engagements stay on track, we believe that recent exits of the CDMO head and the CEO are valid concerns warranting a cut in target multiple. We maintain our BUY rating with a downward revised target price of Rs 4,625 at 40x FY25E (Earlier 45x) earnings.

#### Key Highlights and Investment Rationale

- **Capex and Client Engagements on Track:** Management maintained that all of the 3 business verticals, Specialty Chemicals, HPP and CDMO have strong independent CEOs and are well equipped to navigate through this management transition. Major capex plans are on track but could face a slight delay owing to the current ongoing. Clients continue to engage deeply with the company and there is no pushback from them amid the backdrop of an uncertain macro. The company has strengthened the Board with the addition of Mr Sudhir Deo who has decades of rich experience in the chemical domain.
- **Fortifying employee retention measures:** The management has implemented tools such as ESOP schemes, training programs and healthy remuneration to strengthen employee retention. Smooth transition will be facilitated for the incoming CEO who is most likely to be an external candidate having strong technical and leadership attributes.

**TP** **Rs4,625**
**CMP** **Rs3,823**

Potential upside/downside 21%

Previous Rating BUY

#### Price Performance (%)

	-1m	-3m	-12m
Absolute	(16.8)	(14.6)	(14.4)
Rel to Sensex	(16.5)	(14.6)	(29.2)

#### V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	92	116
Consensus	91	127
% difference	1.0	(8.5)

#### Key Stock Data

Bloomberg / Reuters	NFIL IN / NAFL.BO
Sector	Specialty Chemicals
Shares o/s (mn)	50
Market cap. (Rs mn)	189,545
3-m daily average value (Rs mn)	34.7
52-week high / low	Rs4,922 / 3,729
Sensex / Nifty	65,226 / 19,436

#### Shareholding Pattern (%)

Promoters	28.8
FII	18.5
DII	20.4
Public	32.3

#### Financial snapshot

	(Rs mn)				
Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	11,794	14,534	20,774	27,659	35,047
Change yoy, (%)	11	23	43	33	27
EBITDA	3,093	3,548	5,503	7,564	9,606
Change yoy, (%)	17	15	55	37	27
EBITDA Margin(%)	26.2	24.4	26.5	27.3	27.4
Adj.PAT	2,420	2,631	3,752	4,581	5,730
EPS (Rs)	49	53	76	92	116
Change yoy, (%)	(40.8)	8.7	42.6	22	25
PE(x)	79.0	72.7	51.0	42	33
Dividend Yield (%)	-	-	-	-	-
P/B (x)	11.7	10.4	8.7	7.4	6.2
RoE (%)	14.8	14.3	17.2	18	18
RoCE (%)	15.6	15.3	16	17	19

Source: IDBI Capital Research, Company

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**Exhibit 1: Quarterly Snapshot (Consolidated)**

Consolidated (Rs mn)	Q1FY24	Q1FY23	QoQ (%)	Q4FY23	QoQ%
<b>Net Sales</b>	<b>4,912</b>	<b>3,975</b>	<b>23.6%</b>	<b>6,971</b>	<b>-29.5%</b>
<b>Expenditure</b>	<b>-3,769</b>	<b>-2,984</b>	<b>26.3%</b>	<b>-4,953</b>	<b>-23.9%</b>
<i>as % of sales</i>	<i>-77%</i>	<i>-61%</i>	<i>26.3%</i>	<i>-101%</i>	
Consumption of RM	-2,027	-1,823	11.2%	-2,837	-28.6%
<i>as % of sales</i>	<i>-41%</i>	<i>-37%</i>	<i>11.2%</i>	<i>-58%</i>	
Employee Cost	-792	-507	56.3%	-730	8.6%
<i>as % of sales</i>	<i>-16%</i>	<i>-10%</i>	<i>56.3%</i>	<i>-15%</i>	
Other expenditure	-951	-654	45.3%	-1,387	-31.4%
<i>as % of sales</i>	<i>-19%</i>	<i>-13%</i>	<i>45.3%</i>	<i>-28%</i>	
<b>EBITDA</b>	<b>1,142</b>	<b>991</b>	<b>15.2%</b>	<b>2,018</b>	<b>-43.4%</b>
Depreciation	-213	-124	72.4%	-76	180.5%
<b>EBIT</b>	<b>929</b>	<b>868</b>	<b>7.1%</b>	<b>1,942</b>	<b>-52.2%</b>
Other Income	83	109	-23.9%	40	107.5%
Interest	-194	-3	6600.0%	-140	38.7%
Exceptional	0	0	-	0	
PBT	818	974	-16.0%	1,842	-55.6%
Total Tax	-202	-229	-11.7%	-478	-57.6%
<b>Reported PAT</b>	<b>615</b>	<b>745</b>	<b>-17.4%</b>	<b>1,364</b>	<b>-54.9%</b>
Discontinued Ops	0	0	-	0	NA
<b>Adjusted PAT</b>	<b>615</b>	<b>745</b>	<b>-17.4%</b>	<b>1,364</b>	<b>-54.9%</b>
<b>Adjusted EPS</b>	<b>12</b>	<b>15</b>	<b>-17.4%</b>	<b>28</b>	<b>-54.9%</b>
Margins (%)	YoY (bps)			QoQ (bps)	
EBIDTA	23.3%	24.9%	(168)	28.9%	(569)
EBIT	18.9%	21.8%	(291)	27.9%	(894)
EBT	16.6%	24.5%	(785)	26.4%	(977)
PAT	12.5%	18.7%	(620)	19.6%	(703)
Effective Tax rate	-24.8%	-23.5%	(121)	-26.0%	120

Source: Company, IDBI Capital

**Exhibit 2: Quarterly Segmental Snapshot (Consolidated)**

Segment	Revenue( Rs mn)	Q1FY24	Q1FY23	QoQ (%)	Q4FY23	QoQ (%)
Speciality		2,300	1,760	31%	2,040	13%
HPP		1,690	1,520	11%	2,890	-42%
Crams		930	700	33%	2,030	-54%
Total		4920	3980		6960	

Source: Company, IDBI Capital

**Conference call highlights:**

- **Management Update:** Radhesh Welling and Vishad Mafatlal will collaborate to support the company's operations till 15<sup>th</sup> December, 2023. Company's growth plans remain unchanged, and company has appointed Sudher Deo as an additional Director.
- **Key Customers:** Company's relationship with Honeywell continues to be built on mutual trust and consistent performance at all levels. Capital expenditure is on track, and there have been no changes or impacts from their major customers. Many of them are committed to future projects. Management mentioned that they have three capable CEOs in place and have multiple touch points with their international key accounts.
- **R & D growth trajectory:** R&D operations continue as before, and Navin will maintain its current course, as it has for the past 4 years.
- **Future Projects:** Projects in pipeline are progressing as planned, with no issues expected in their delivery. Future projects in specialty chemicals and CGMP4 are under evaluation and could be affected by macro challenges.
- **Senior Management:** Radhesh Welling was responsible for leading all teams, a role that Vishad Mafatlal will now take on. Company mentioned that they have a strong 2<sup>nd</sup> and 3<sup>rd</sup> line of leadership. The NRC Committee is specifically addressing HR-related issues.
- **Candidate Requirements:** The management is considering external candidates for the Managing Directors position. Execution Requirement remains vital, especially for large projects, and having deep technological and operational expertise is crucial.
- **Fund Raising:** Navin's future project discussions will continue, and they are planning for a fundraising effort to support their growth requirements. The approval for the QIP has already been obtained, and they aim to raise funds to accelerate their growth.
- **Focus Areas:** While the company has mentioned that other key senior roles are currently filled, the company's objective is to reduce attrition.

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net sales</b>	<b>10,616</b>	<b>11,794</b>	<b>14,534</b>	<b>20,774</b>	<b>27,659</b>	<b>35,047</b>
<i>Change (yoy, %)</i>	6.6	11	23	43	33	27
Operating expenses	(7,981)	(8,701)	(10,986)	(15,271)	(20,095)	(25,441)
<b>EBITDA</b>	<b>2,635</b>	<b>3,093</b>	<b>3,548</b>	<b>5,503</b>	<b>7,564</b>	<b>9,606</b>
<i>Change (yoy, %)</i>	20.7	17	15	55	37	27
<i>Margin (%)</i>	24.8	26.2	24.4	26.5	27.3	27.4
Depreciation	(370)	(442)	(479)	(626)	(1,122)	(1,507)
<b>EBIT</b>	<b>2,265</b>	<b>2,651</b>	<b>3,069</b>	<b>4,877</b>	<b>6,442</b>	<b>8,099</b>
Interest paid	(20)	(18)	(19)	(275)	(520)	(671)
Other income	333	790	392	357	106	112
<b>Pre-tax profit</b>	<b>2,578</b>	<b>3,578</b>	<b>3,442</b>	<b>4,959</b>	<b>6,028</b>	<b>7,540</b>
Tax	1,436	(1,108)	(812)	(1,207)	(1,447)	(1,810)
<i>Effective tax rate (%)</i>	(55.7)	31.0	23.6	24.3	24.0	24.0
Minority Interest	72.2	104.7	(0.1)	(0.0)	-	-
<b>Net profit</b>	<b>4,086</b>	<b>2,575</b>	<b>2,631</b>	<b>3,752</b>	<b>4,581</b>	<b>5,730</b>
Exceptional items	-	155	-	-	-	-
<b>Adjusted net profit</b>	<b>4,086</b>	<b>2,420</b>	<b>2,631</b>	<b>3,752</b>	<b>4,581</b>	<b>5,730</b>
<i>Change (yoy, %)</i>	174.0	(41)	9	43	22	25
EPS	82.4	48.8	53.1	75.7	92.4	115.6
Dividend per sh	-	-	-	-	-	-
<i>Dividend Payout (%)</i>	-	-	-	-	-	-

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Shareholders' funds</b>	<b>14,122</b>	<b>16,339</b>	<b>18,442</b>	<b>21,850</b>	<b>25,888</b>	<b>31,075</b>
Share capital	99	99	99	99	99	99
Reserves & surplus	14,023	16,240	18,343	21,750	25,789	30,976
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>1,000</b>	<b>7,531</b>	<b>10,531</b>	<b>11,531</b>
Other liabilities	391	616	1,574	8,229	11,229	12,229
<b>Curr Liab &amp; prov</b>	<b>1,800</b>	<b>2,841</b>	<b>3,577</b>	<b>5,615</b>	<b>7,476</b>	<b>9,473</b>
Current liabilities	1,772	2,020	3,839	5,215	6,312	7,475
Provisions	28	42	54	80	80	80
<b>Total liabilities</b>	<b>2,164</b>	<b>2,636</b>	<b>5,413</b>	<b>13,443</b>	<b>17,540</b>	<b>19,704</b>
<b>Total equity &amp; liabilities</b>	<b>16,285</b>	<b>18,975</b>	<b>23,855</b>	<b>35,293</b>	<b>43,428</b>	<b>50,779</b>
Net fixed assets	4,917	5,371	12,079	18,397	23,275	26,768
Investments	1,279	145	139	130	130	130
Other non-curr assets	2,312	1,511	1,444	2,104	2,104	2,104
<b>Current assets</b>	<b>7,777</b>	<b>11,947</b>	<b>10,193</b>	<b>14,662</b>	<b>17,919</b>	<b>21,777</b>
Inventories	1,579	1,804	2,575	4,681	6,214	7,873
Sundry Debtors	2,185	2,841	3,577	5,615	7,476	9,473
Cash and Bank	2,779	5,439	958	348	212	413
Loans and advances	45	-	5	-	-	-
<b>Total assets</b>	<b>16,285</b>	<b>18,975</b>	<b>23,855</b>	<b>35,293</b>	<b>43,428</b>	<b>50,779</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	2,578	3,578	3,442	4,959	6,028	7,540
Depreciation	370	442	479	626	1,122	1,507
Tax paid	(462)	174	(781)	(1,098)	(1,447)	(1,810)
Chg in working capital	(706)	(760)	(1,093)	(5,307)	(2,596)	(2,794)
Other operating activities	(213)	(1,061)	(1,300)	184	520	671
<b>Cash flow from operations (a)</b>	<b>1,566</b>	<b>2,373</b>	<b>748</b>	<b>(636)</b>	<b>3,627</b>	<b>5,115</b>
Capital expenditure	(979)	(906)	(5,758)	(7,555)	(6,000)	(5,000)
Chg in investments	1,697	(2,772)	3,757	799	-	-
Other investing activities	134	1,307	278	200	-	-
<b>Cash flow from investing (b)</b>	<b>851</b>	<b>(2,371)</b>	<b>(1,724)</b>	<b>(6,556)</b>	<b>(6,000)</b>	<b>(5,000)</b>
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(27)	11	1,020	7,442	3,300	1,300
Dividend (incl. tax)	(714)	(394)	(542)	(543)	(543)	(543)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(68)	(67)	(63)	(320)	(520)	(671)
<b>Cash flow from financing (c)</b>	<b>(809)</b>	<b>(451)</b>	<b>415</b>	<b>6,579</b>	<b>2,237</b>	<b>86</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,609</b>	<b>(449)</b>	<b>(561)</b>	<b>(613)</b>	<b>(136)</b>	<b>201</b>

**Financial Ratios**

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	282.4	327	369	437	518	622
Adj EPS (Rs)	81.7	48.4	52.6	75.0	91.6	114.6
Adj EPS growth (%)	174.0	-41	9	43	22	25
EBITDA margin (%)	24.8	26.2	24.4	26.5	27.3	27.4
Pre-tax margin (%)	24.3	30.3	23.7	23.9	21.8	21.5
Net Debt/Equity (x)	-0.2	-0.3	0.0	0.3	0.4	0.4
ROCE (%)	15.6	16	15	16	17	19
ROE (%)	28.9	15	14	17	18	18

**DuPont Analysis**

Asset turnover (x)	0.7	0.6	0.6	0.6	0.6	0.7
Leverage factor (x)	1.2	1.2	1.3	1.6	1.7	1.6
Net margin (%)	38.5	20.5	18.1	18.1	16.6	16.3

**Working Capital & Liquidity ratio**

Inventory days	54	56	65	82	82	82
Receivable days	75	88	90	99	99	99
Payable days	45	45	49	58	59	59

**Valuations**

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	46.8	79.0	72.7	51.0	41.7	33.4
Price/Book value (x)	13.5	11.7	10.4	8.7	7.4	6.2
EV/Net sales (x)	-0.3	-0.5	0.0	0.3	0.4	0.3
EV/EBITDA (x)	-1.1	-1.8	0.0	1.3	1.4	1.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company; IDBI Capital Research





# Notes

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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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