

Navin Fluorine International (NFIL)

Chemicals | Company Update

BUY

CMP: Rs3,821 | Target Price (TP): Rs4,600 | Upside: 20%

October 04, 2023

MD resigns; pretty big shoes to fill

Key Points

- We attended a business update call arranged by the management of NFIL post it's MD, Mr. Radhesh Welling tendered his resignation.
- The management informed that the search for an external candidate is underway and ongoing projects won't get delayed during the transition.
- While we remain positive on NFIL's strong positioning in the Complex Fluorination space, execution of future projects and strategic shift, if any, need to be closely monitored under the new leadership. Maintain Buy.

Performance under the leadership of Mr. Welling: Under the leadership of current MD, Mr. Welling, NFIL has delivered a very strong performance (Revenue/EBITDA/APAT CAGR of 20%/26%/26% over FY19-23). But, most importantly, NFIL offers much greater future visibility, unlike most other chemical companies in India. Capex acceleration was concentrated mainly towards the high-value businesses over the last few years. Also, a large part of the capex was incurred towards the multi-year long-term contracts with the innovators in Global Pharmaceuticals and Agrochemicals space. CDMO, which differentiates NFIL from other Indian chemical companies, has reported 2x revenue growth over the last 4 years with a significantly greater visibility in future. As a result, revenue share of high-value businesses has increased from 50% in FY19 (similar to FY15-19 average) to 77% in FY23. As per our current estimates, high-value segments should contribute >80% of the overall revenue and even higher in terms of profitability by FY26.

Update on ongoing projects and pipeline: Management indicated that NFIL is run professionally with each division headed by a separate CEO and there are multiple touch-points when it comes to engaging with the customers. Therefore, ongoing projects such as R32 plant, AHF plant and one Specialty Chemicals project should not get delayed during the transition phase. The management alluded that with regards to future projects such as cGMP4 expansion, a delay of 1-2 months is expected considering the weak macros. On an overall basis, NFIL expects to execute current and upcoming projects seamlessly. Also, customer relationships, including the ones with the innovators, should not be impacted, per management.

Other points: With regard to the successor to Mr Welling, the management is definitely looking for an external candidate with key focus on execution capabilities and technological expertise. The Nomination and Remuneration Committee (NRC) is actively involved in the search. The management along with NRC is working towards additional measures required, if any, to address the attrition issue at the senior level management.

Maintain Buy with a revised TP of Rs4,600 (earlier Rs5,000) valued at 35x PE on Sept'25E earnings.

Est Change	Downward
TP Change	Downward
Rating Change	No change

Company Data and Valuation Summary

Reuters:	NAFL.BO
Bloomberg:	NFIL IN Equity
Mkt Cap (Rsbn/US\$bn):	189.6 / 2.3
52 Wk H / L (Rs):	4,950 / 3,727
ADTV-3M (mn) (Rs/US\$):	1,084.3 / 13.1
Stock performance (%) 1M/6M/1yr:	(16.1) / (9.7) / (15.4)
Nifty 50 performance (%) 1M/6M/1yr:	0.5 / (0.3) / 12.1

Shareholding	3QFY23	4QFY23	1QFY24
Promoters	29.4	28.8	28.8
DII's	23.8	24.8	26.0
FII's	19.2	19.6	18.5
Others	27.6	26.8	26.7
Pro pledge	3.1	3.2	3.2

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
Net Sales	20,774	26,061	33,436	39,182
Growth YoY%	42.9%	25.5%	28.3%	17.2%
Gross margin %	56.9%	56.6%	56.9%	57.0%
EBITDA	5,503	6,792	9,042	10,778
EBITDA margin %	26.5%	26.1%	27.0%	27.5%
Adj PAT	3,752	4,567	6,085	6,976
Growth YoY%	43%	22%	33%	15%
EPS	75.7	92.2	122.8	140.8
RoCE (pre-tax)	19.6%	16.4%	18.1%	17.8%
RoCE	14.8%	12.9%	14.2%	13.8%
RoE	18.6%	19.3%	22.0%	21.5%
P/E	50.5	41.5	31.1	27.1
EV/EBITDA	35.8	29.3	21.9	18.2
P/BV	8.7	7.4	6.3	5.4

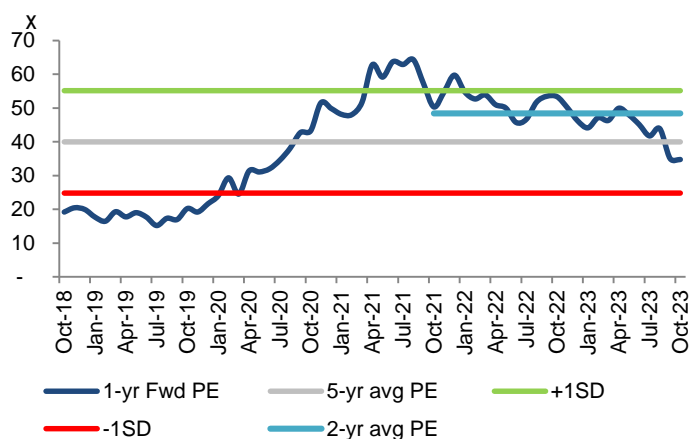
Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

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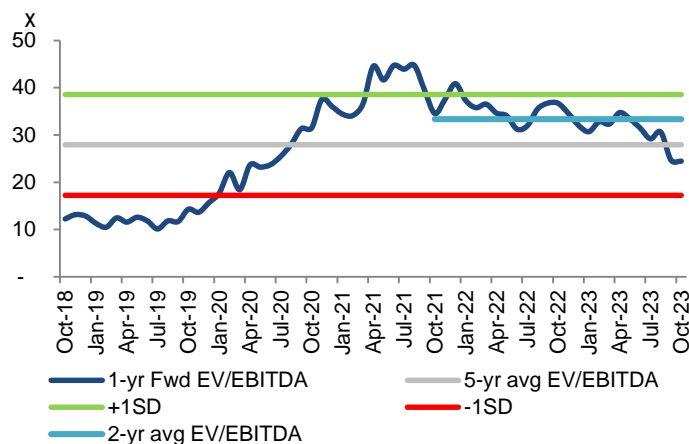
Exhibit 1: Change in earnings estimates

Consolidated (Rsmn)	Old Estimates			New estimates			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	26,061	33,436	-	26,061	33,436	39,182	0%	0%	-
EBITDA	6,715	9,632	-	6,792	9,042	10,778	1%	-6%	-
EBITDA Margin%	25.8%	28.8%	-	26.1%	27.0%	27.5%	26bps	-176bps	-
APAT	4,511	6,562	-	4,567	6,085	6,976	1%	-7%	-

Source: Nirmal Bang Institutional Equities Research

Exhibit 2: 1-year forward PE trend


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: 1-year forward EV/EBITDA trend


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 4: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	14,534	20,774	26,061	33,436	39,182
Growth YoY%	23.2	42.9	25.5	28.3	17.2
COGS	6,656	8,960	11,303	14,403	16,834
Gross margin %	54.2	56.9	56.6	56.9	57.0
Staff costs	1,815	2,494	3,438	4,358	4,976
Other expenses	2,514	3,817	4,529	5,634	6,594
EBITDA	3,548	5,503	6,792	9,042	10,778
Growth YoY%	14.7	55.1	23.4	33.1	19.2
EBITDA margin %	24.4	26.5	26.1	27.0	27.5
Depreciation	479	626	1,070	1,320	1,770
EBIT	3,069	4,877	5,722	7,722	9,008
Interest	19	275	367	381	395
Other income	392	357	456	428	404
PBT (bei)	3,442	4,959	5,810	7,770	9,017
PBT	3,442	4,959	5,810	7,770	9,017
ETR	23.6	24.3	21.4	21.7	22.6
PAT	2,631	3,752	4,567	6,085	6,976
Adj PAT	2,631	3,752	4,567	6,085	6,976
Growth YoY%	6.6	42.6	21.7	33.2	14.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	99	99	99	99	99
Reserves	18,343	21,750	25,362	29,815	34,778
Net worth	18,442	21,850	25,461	29,915	34,877
Long term debt	1,000	7,531	12,531	14,411	18,734
Short term debt	45	955	1,337	1,600	1,760
Total debt	1,045	8,487	13,869	16,011	20,494
Other non-current liabilities	574	697	697	976	976
Total Equity & Liabilities	20,060	31,033	40,027	46,902	56,348
Gross block	6,581	18,073	26,073	31,073	36,073
Accumulated depreciation	1,902	2,507	3,577	4,897	6,667
Net Block	4,679	15,566	22,496	26,176	29,406
CWIP	7,421	2,786	2,786	2,786	2,786
Intangible and others	878	878	878	878	878
Other non-current assets	546	1,292	1,034	724	507
Investments	139	127	152	152	152
Trade receivables	3,577	5,615	5,766	7,397	8,668
Inventories	2,575	4,681	4,552	5,840	6,843
C&CE & CurrentInvst.	2,000	659	4,418	7,346	13,199
Other current assets	2,041	3,689	2,582	1,808	1,265
Total current assets	10,193	14,645	17,318	22,391	29,976
Trade payables	1,465	2,435	2,446	3,139	3,678
Other current liabilities	2,329	1,825	2,190	3,066	3,679
Total current liabilities	3,794	4,260	4,636	6,204	7,357
Total Assets	20,060	31,033	40,027	46,902	56,348

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	3,442	4,959	5,810	7,770	9,017
Depreciation	479	626	1,070	1,320	1,770
Interest	19	275	367	381	395
Other adjustments	-308	-91	-456	-428	-404
Change in Working capital	-2,104	-5,307	1,462	-577	-580
Tax paid	-781	-1,098	-1,244	-1,685	-2,041
Operating cash flow	747	-636	7,010	6,781	8,157
Capex	-5,789	-7,577	-8,000	-5,000	-5,000
Free cash flow	-5,042	-8,213	-990	1,781	3,157
Other investing activities	4,065	1,021	689	738	621
Investing cash flow	-1,724	-6,556	-7,311	-4,262	-4,379
Issuance of share capital	-	-	-	-	-
Movement of Debt	978	7,397	5,382	2,142	4,483
Dividend paid (incl DDT)	-542	-543	-955	-1,631	-2,014
Other financing activities	-21	-275	-367	-102	-395
Financing cash flow	415	6,579	4,059	409	2,075
Net change in cash flow	-561	-613	3,759	2,928	5,853
Opening C&CE	1,319	757	145	3,904	6,832
Closing C&CE	757	145	3,904	6,832	12,685

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

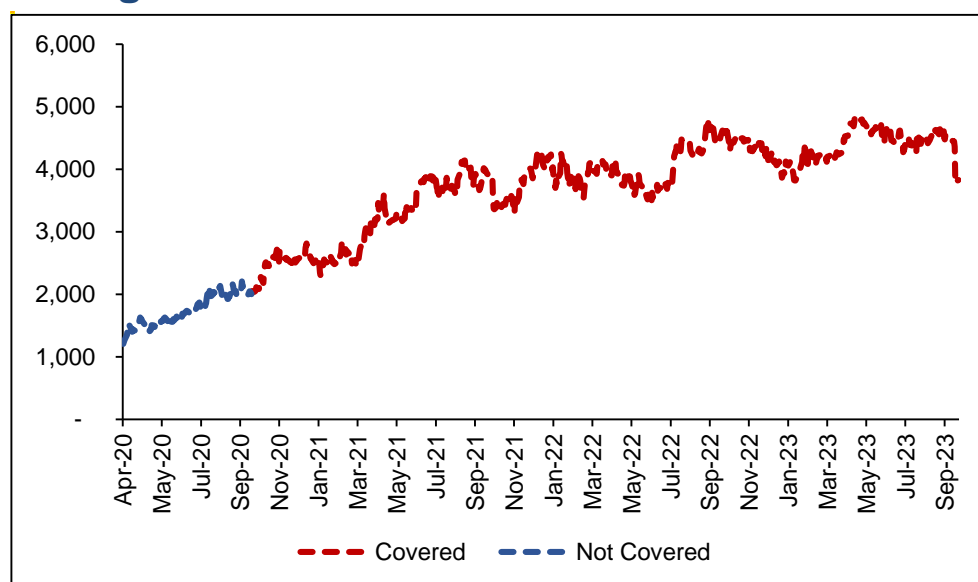
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
Adj EPS	53.2	75.7	92.2	122.8	140.8
Book value	372.9	441.0	513.8	603.7	703.9
Valuation (x)					
EV/EBITDA	53.0	35.8	29.3	21.9	18.2
P/E	71.8	50.5	41.5	31.1	27.1
P/BV	10.2	8.7	7.4	6.3	5.4
Return ratios (%)					
RoCE	13.1	14.8	12.9	14.2	13.8
RoCE (pre-tax)	17.1	19.6	16.4	18.1	17.8
RoE	15.1	18.6	19.3	22.0	21.5
Profitability ratios (%)					
Gross margin	54.2	56.9	56.6	56.9	57.0
EBITDA margin	24.4	26.5	26.1	27.0	27.5
PAT margin	17.6	17.8	17.2	18.0	17.6
Liquidity ratios (%)					
Current ratio	2.7	2.8	2.9	2.9	3.3
Quick ratio	2.0	1.9	2.1	2.1	2.5
Solvency ratio (%)					
Debt to Equity ratio	0.1	0.4	0.5	0.5	0.6
Net Debt to Equity ratio	-0.1	0.4	0.4	0.3	0.2
Turnover ratios					
Fixed asset turnover ratio (x)	2.2	1.1	1.0	1.1	1.1
Debtor days	81	81	81	81	81
Inventory days	55	64	64	64	64
Creditor days	32	34	34	34	34
Net Working capital days	104	110	110	110	110

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
16 October 2020	ACCUMULATE	1,999	2,200
29 October 2020	ACCUMULATE	2,278	2,200
7 January 2021	BUY	2,750	3,400
12 January 2021	BUY	2,669	3,400
27 January 2021	BUY	2,569	3,400
10 May 2021	ACCUMULATE	3,370	3,400
6 July 2021	BUY	3,820	4,400
27 July 2021	BUY	3,710	4,400
23 September 2021	BUY	3,923	4,700
20 October 2021	BUY	3,509	4,700
2 February 2022	ACCUMULATE	4,257	4,600
9 May 2022	BUY	3,757	4,500
25 July 2022	BUY	3,788	4,500
20 September 2022	ACCUMULATE	4,629	4,500
20 October 2022	ACCUMULATE	4,350	4,500
30 October 2022	ACCUMULATE	4,499	4,500
8 February 2023	ACCUMULATE	4,281	4,500
23 April 2023	ACCUMULATE	4,730	4,500
14 May 2023	ACCUMULATE	4,752	4,700
01 August 2023	BUY	4,272	5,000
04 October 2023	BUY	3,821	4,600

Rating Chart



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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