

05 November 2023

India | Equity research | Q2FY24 result review

## Gujarat Fluorochemicals

Speciality Chemicals

### Near-term challenges outscoring fluoropolymer opportunity!

Gujarat Fluorochemicals' (GFL) Q2FY24 EBITDA at INR 1.6bn and EBITDA margin at 17.2% indicate dismal performance. Earnings were impacted by compression in gross margin, and lower absorption of fixed cost. However, we continue to like its business on two counts – 1) rising opportunity in fluoropolymers where change in industry structure can provide huge benefits for GFL; and 2) battery solutions where company is planning to cater demand of 30-40% cell producers with integrated electrolyte facility, cathode active material and PVDF blinder. We have cut our EPS estimates by 31%/13% for FY24E/ FY25E, and accordingly, cut target price to INR 3,225 (from INR 3,570) as our PE multiple of 25x increased to 26x (FY25E). Maintain **BUY**.

### Revenues of fluoropolymers and fluorochemicals dip 26.8% and 51.6%, YoY

GFL's revenue was down 35.2% YoY to INR 9.5bn due to revenue drop across segments. Bulk chemicals' revenue was down 36.8% to INR 1.7bn due to lower prices of caustic soda and chloromethane. Fluorochemicals revenue dipped 51.6% YoY to INR 1.9bn due to a sharp drop in specialty chemicals on rise in competitive intensity from Chinese and drop in prices. Ref-gas revenue was hurt from sharp drop in R-125 volumes to US. Fluoropolymers revenue dipped 26.8% YoY to INR 5.7bn due to lower volumes in PTFE, and drop in prices for commodity grade that is largely sold in India. New fluoropolymers' revenues were hurt from lower volumes.

### Outlook for key business segments

**1) Fluoropolymers** – company expects fluoropolymers volumes to progressively improve in FY25. It expects to benefit from legacy players' exit from western market, and restocking demand. Its blended realisation is likely to improve from higher sales of new fluoropolymers, and optimisation of product portfolio which may allow the company to move up in value chain position vacated by existing players; **2) Ref-gas** – GFL has lost certain volumes in the US as Chinese volumes and aggression have grown. It expects volumes to grow in H2, but will be lower than FY23. It is likely to start supplying to the US in CY24 with new quota opening.

### Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	39,536	56,847	48,409	65,234
EBITDA	11,685	19,653	12,989	22,262
EBITDA Margin (%)	29.6	34.6	26.8	34.1
Net Profit	7,872	13,288	7,183	13,624
EPS (Rs)	71.7	121.0	65.4	124.0
EPS % Chg YoY	(460.1)	68.8	(45.9)	89.7
P/E (x)	38.8	23.0	42.5	22.4
EV/EBITDA (x)	27.1	16.2	24.1	14.1
RoCE (%)	13.2	20.1	10.4	17.0
RoE (%)	20.3	27.2	12.3	19.9

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#### Market Data

Market Cap (INR)	305bn
Market Cap (USD)	3,668mn
Bloomberg Code	FLUOROCH IN
Reuters Code	GUJL BO
52-week Range (INR)	3,943 / 2,534
Free Float (%)	36.0
ADTV-3M (mn) (USD)	5.0

Price Performance (%)	3m	6m	12m
Absolute	(0.2)	(18.4)	(27.5)
Relative to Sensex	0.8	(24.7)	(34.7)

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

**Note** - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(11.2)	(5.6)
EBITDA	(23.6)	(9.8)
EPS	(31.5)	(13.2)

#### Previous Reports

08-08-2023: [Q1FY24 results review](#)

06-05-2023: [Q4FY23 results review](#)

### EBITDA fell 69.6% YoY to INR 1.6bn, margin collapsed to 17.2%

Gross profit margin contracted 620bp QoQ to 63.9% which was hurt from various factors – 1) consumption of high-cost inventory; 2) significant drop in realisation particularly in bulk chemicals, and commodity grade PTFE; and 3) lower sales of R-125 which has earned high margins in FY23. Power and fuel cost dipped 25.7% YoY (17.3% QoQ) to INR 1.8bn; 'other expenses' decreased 14.7% YoY. EBITDA margin came in at 17.2% (down 11.5%ps QoQ). Net profit fell 85.4% YoY to INR 527mn. The impact on EBITDA was higher due to highly integrated business model which means significant revenue lost flows down to PBT and lower absorption of fixed cost added to margin compression.

GFL has maintained its guidance of >30% EBITDA margin which will be helped by rise in contribution from fluoropolymers sales that will off-set existing weakness, and higher absorption of fixed cost will provide operating leverage. The company expects margin in battery chemicals to be same as blended margin.

### Fluoropolymers continues to be key focus for GFL

Fluoropolymers business looks exciting in Europe and US due to industry consolidation, and exit of large legacy player such as dyneon. It is looking at capitalising the gap in market, and it has already started receiving approval for its products. Its volumes off-take is lower due to large inventory build ahead of shutdown by users, and gradual increase in volumes as inventory situation normalises. There are still some Chinese players in high fluoropolymers market, and they will need to go through approval, certification and validation process. GFL has pushed its fluoropolymer debottlenecking exercise to Q1FY25 due to weak demand. It continues to work to expand position in battery grade PVDF where industry size is likely to jump from 75ktpa to 300ktpa by 2030. PFA is doing well for the company with rise in demand from semi-conductor industry.

### See battery plant commissioning soon

GFL is likely to start integrating LiPF6 and electrolyte production soon. It has already started shipping large sample quantities to its customer both in India and overseas. It has also mentioned along with cathode active material and PVDF binder; it is now preparing to capture 30-40% batter requirement. Asset turnover of battery plant is expected at >2x with margins similar to company average.

### Risks

1) Increase in related-party transactions; and 2) execution in fluoropolymer business.

**Exhibit 1: Gujarat Fluorochemicals financials (consolidated)**

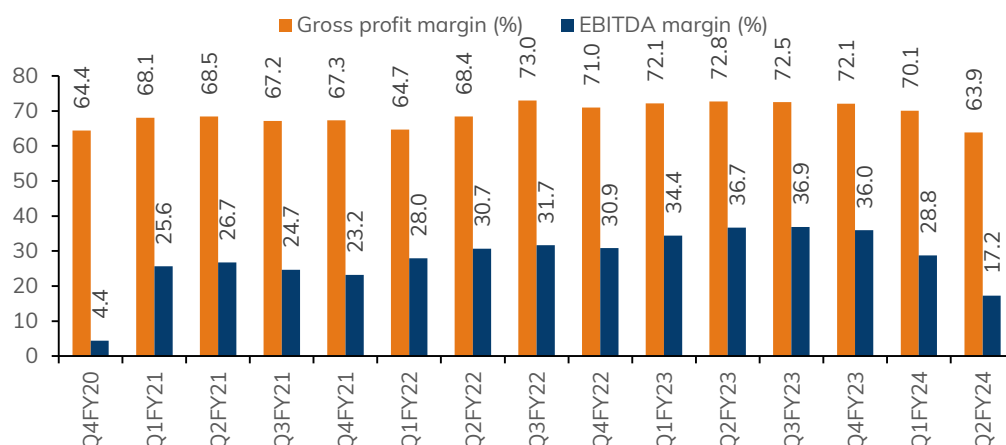
INR mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	QoQ (%)	YoY (%)
Revenue	14,613	14,179	14,714	12,093	9,468	(21.7)	(35.2)
COGS	3,982	3,899	4,109	3,619	3,418	(5.6)	(14.2)
<b>Gross profit</b>	<b>10,632</b>	<b>10,280</b>	<b>10,606</b>	<b>8,473</b>	<b>6,050</b>	<b>(28.6)</b>	<b>(43.1)</b>
GPM (%)	72.8	72.5	72.1	70.1	63.9		
Employee cost	800	795	847	918	874	(4.8)	9.2
% of revenue	5.5	5.6	5.8	7.6	9.2		
Power & fuel	2,465	2,380	2,365	2,215	1,832	(17.3)	(25.7)
% of revenue	16.9	16.8	16.1	18.3	19.3		
Other expenses	2,009	1,873	2,101	1,861	1,714	(7.9)	(14.7)
% of revenue	13.7	13.2	14.3	15.4	18.1		
<b>Total expenses</b>	<b>5,274</b>	<b>5,048</b>	<b>5,313</b>	<b>4,994</b>	<b>4,419</b>	<b>(11.5)</b>	<b>(16.2)</b>
<b>EBITDA</b>	<b>5,358</b>	<b>5,232</b>	<b>5,293</b>	<b>3,479</b>	<b>1,631</b>	<b>(53.1)</b>	<b>(69.6)</b>
EBITDA (%)	36.7	36.9	36.0	28.8	17.2		
Depreciation	572	601	638	655	676	3.1	18.1
<b>EBIT</b>	<b>4,786</b>	<b>4,631</b>	<b>4,655</b>	<b>2,824</b>	<b>955</b>	<b>(66.2)</b>	<b>(80.0)</b>
Other income	243	214	186	146	135	(7.3)	(44.3)
Finance cost	230	381	348	280	342	22.1	48.8
<b>PBT</b>	<b>4,799</b>	<b>4,464</b>	<b>4,493</b>	<b>2,690</b>	<b>749</b>	<b>(72.2)</b>	<b>(84.4)</b>
Tax	1,226	1,159	1,174	678	221	(67.4)	(82.0)
ETR (%)	25.6	26.0	26.1	25.2	29.5		
Minority interest /JV	-	(22)	(56)	(65)	(65)		
Exceptional item	-	-	-	-	-		
<b>Net profit</b>	<b>3,612</b>	<b>3,295</b>	<b>3,319</b>	<b>2,012</b>	<b>527</b>	<b>(73.8)</b>	<b>(85.4)</b>
Net profit (%)	24.7	23.2	22.6	16.6	5.6		
EPS (INR)	32.9	30.0	30.2	18.3	4.8		

Source: I-Sec research, Company data

**Exhibit 2: Gujarat Fluorochemicals financials (segmental)**

INR mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	QoQ (%)	YoY (%)
<b>Segment revenue</b>							
Bulk chemicals	2,690	2,850	2,370	1,670	1,700	1.8	(36.8)
Fluorochemicals	3,820	3,490	4,760	3,310	1,850	(44.1)	(51.6)
Fluoropolymers	7,840	7,630	7,230	6,740	5,740	(14.8)	(26.8)
Other Products	263	209	354	373	178	(52.3)	(32.5)
<b>Total</b>	<b>14,613</b>	<b>14,179</b>	<b>14,714</b>	<b>12,093</b>	<b>9,468</b>	<b>(21.7)</b>	<b>(35.2)</b>
<b>Mix (%)</b>							
Bulk commodities	18.4	20.1	16.1	13.8	18.0		
Fluorochemicals	26.1	24.6	32.3	27.4	19.5		
Fluoropolymers	53.6	53.8	49.1	55.7	60.6		
Other Products	1.8	1.5	2.4	3.1	1.9		

Source: I-Sec research, Company data

**Exhibit 3: Gross margin and EBITDA margin trends**

Source: I-Sec research, Company data

**Exhibit 4: Earnings revision**

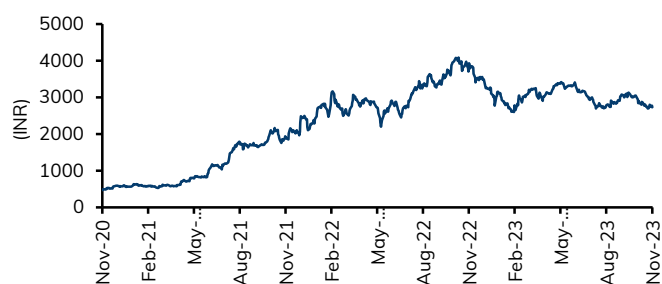
INR mn	Revised		Earlier		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	48,409	65,234	54,539	69,119	(11.2)	(5.6)
Gross profit	32,614	44,602	38,926	48,986	(16.2)	(9.0)
GPM (%)	67.4	68.4	71.4	70.9		
<b>EBITDA</b>	<b>12,989</b>	<b>22,262</b>	<b>16,996</b>	<b>24,679</b>	<b>(23.6)</b>	<b>(9.8)</b>
EBITDA (%)	26.8	34.1	31.2	35.7		
PAT	7,183	13,624	10,486	15,694	(31.5)	(13.2)
<b>EPS (INR)</b>	<b>65.4</b>	<b>124.0</b>	<b>95.5</b>	<b>142.9</b>	<b>(31.5)</b>	<b>(13.2)</b>

Source: I-Sec research

**Exhibit 5: Shareholding pattern**

%	Mar'23	Jun'23	Sep'23
Promoters	63.8	63.8	63.8
Institutional investors	10.8	12.3	12.5
MFs and others	5.6	5.6	6.8
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.1	0.6
FIIIs	5.2	6.6	5.1
Others	25.4	23.9	23.7

Source: Bloomberg

**Exhibit 6: Price chart**

Source: Bloomberg

## Financial Summary

### Exhibit 7: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>39,536</b>	<b>56,847</b>	<b>48,409</b>	<b>65,234</b>
Operating Expenses	27,851	37,194	35,420	42,971
<b>EBITDA</b>	<b>11,685</b>	<b>19,653</b>	<b>12,989</b>	<b>22,262</b>
EBITDA Margin (%)	29.6	34.6	26.8	34.1
Depreciation & Amortization	2,054	2,361	2,870	3,612
EBIT	9,630	17,292	10,119	18,651
Interest expenditure	784	1,168	1,244	1,200
Other Non-operating Income	1,606	1,723	727	763
<b>Recurring PBT</b>	<b>10,452</b>	<b>17,847</b>	<b>9,602</b>	<b>18,213</b>
<b>Profit / (Loss) from Associates</b>	<b>0</b>	<b>0</b>	-	-
Less: Taxes	2,693	4,617	2,420	4,590
PAT	7,759	13,230	7,183	13,624
Less: Minority Interest	(113)	(58)	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>7,872</b>	<b>13,288</b>	<b>7,183</b>	<b>13,624</b>
<b>Net Income (Adjusted)</b>	<b>7,872</b>	<b>13,288</b>	<b>7,183</b>	<b>13,624</b>

Source Company data, I-Sec research

### Exhibit 8: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	24,193	34,977	32,027	42,221
of which cash & cash eqv.	1,529	1,610	5,874	6,018
Total Current Liabilities & Provisions	7,891	10,439	8,785	11,579
<b>Net Current Assets</b>	<b>16,302</b>	<b>24,538</b>	<b>23,242</b>	<b>30,642</b>
Investments	2,696	44	44	44
Net Fixed Assets	31,272	41,204	48,334	52,934
ROU Assets	466	1,291	1,291	1,291
Capital Work-in-Progress	6,798	11,577	11,577	5,788
Total Intangible Assets	132	161	161	161
Other assets	1,236	3,492	3,667	3,850
Deferred Tax assets	3	3	3	3
<b>Total Assets</b>	<b>68,780</b>	<b>83,714</b>	<b>87,691</b>	<b>103,421</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>15,527</b>	<b>14,782</b>	<b>13,782</b>	<b>13,782</b>
<b>Deferred Tax Liability</b>	<b>2,595</b>	<b>2,413</b>	<b>2,413</b>	<b>2,413</b>
Provisions	329	395	296	463
Other Liabilities	136	477	406	548
Equity Share Capital	110	110	110	110
Reserves & Surplus	42,441	55,097	61,899	74,527
<b>Total Net Worth</b>	<b>42,551</b>	<b>55,207</b>	<b>62,009</b>	<b>74,637</b>
Minority Interest	(248)	-	-	-
<b>Total Liabilities</b>	<b>68,780</b>	<b>83,714</b>	<b>87,691</b>	<b>103,421</b>

Source Company data, I-Sec research

### Exhibit 9: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	14,179	14,714	12,093	9,468
% growth (YoY)	40.7	37.0	(9.3)	(35.2)
EBITDA	5,232	5,293	3,479	1,631
Margin %	36.9	36	28.8	17.2
Other Income	214	186	146	135
Extraordinaries				
Adjusted Net Profit	3,295	3,319	2,012	527

Source Company data, I-Sec research

### Exhibit 10: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>9,957</b>	<b>16,216</b>	<b>10,569</b>	<b>17,673</b>
Working Capital Changes	(2,543)	(8,827)	5,592	(7,884)
Capital Commitments	(6,740)	(6,750)	(10,000)	(8,212)
<b>Free Cashflow</b>	<b>674</b>	<b>639</b>	<b>6,162</b>	<b>1,577</b>
<b>Other investing cashflow</b>	<b>426</b>	<b>1,937</b>	<b>727</b>	<b>763</b>
Cashflow from Investing Activities	901	1,986	727	763
Issue of Share Capital	-	-	-	-
Interest Cost	(870)	(1,336)	(1,244)	(1,200)
Inc (Dec) in Borrowings	(322)	(796)	(1,000)	-
Dividend paid	-	(439)	(381)	(995)
Others	(220)	(37)	-	-
Cash flow from Financing Activities	(1,435)	(2,641)	(2,625)	(2,195)
<b>Chg. in Cash &amp; Bank balance</b>	<b>140</b>	<b>(16)</b>	<b>4,264</b>	<b>144</b>
Closing cash & balance	255	240	5,874	6,018

Source Company data, I-Sec research

### Exhibit 11: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	71.7	121.0	65.4	124.0
Adjusted EPS (Diluted)	71.7	121.0	65.4	124.0
Cash EPS	90.4	142.5	91.5	156.9
Dividend per share (DPS)	2.0	4.0	3.5	9.1
Book Value per share (BV)	385.1	502.6	564.5	679.4
Dividend Payout (%)	2.8	3.3	5.3	7.3
<b>Growth (%)</b>				
Net Sales	49.2	43.8	(14.8)	34.8
EBITDA	73.7	68.2	(33.9)	71.4
EPS (INR)	(460.1)	68.8	(45.9)	89.7
<b>Valuation Ratios (x)</b>				
P/E	38.8	23.0	42.5	22.4
P/CEPS	30.8	19.5	30.4	17.7
P/BV	7.2	5.5	4.9	4.1
EV / EBITDA	27.1	16.2	24.1	14.1
EV/SALES	8.0	5.6	6.5	4.8
Dividend Yield (%)	0.1	0.1	0.1	0.3
<b>Operating Ratios</b>				
Gross Profit Margins (%)	69.3	72.4	67.4	68.4
EBITDA Margins (%)	29.6	34.6	26.8	34.1
Effective Tax Rate (%)	25.8	25.9	25.2	25.2
Net Profit Margins (%)	19.9	23.4	14.8	20.9
NWC / Total Assets (%)	23.7	29.3	26.5	29.6
Net Debt / Equity (x)	0.3	0.2	0.1	0.1
Net Debt / EBITDA (x)	1.0	0.7	0.6	0.3
<b>Profitability Ratios</b>				
RoCE (%)	13.2	20.1	10.4	17.0
RoE (%)	20.3	27.2	12.3	19.9
RoC (%)	14.3	21.0	10.9	18.3
Fixed Asset Turnover (x)	1.1	1.3	0.9	1.0
Inventory Turnover Days	87.5	95.4	85.4	85.4
Receivables Days	71.8	71.1	71.1	71.1
Payables Days	47.4	44.4	44.4	44.4

Source Company data, I-Sec research

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