

24 December 2024

India | Equity Research | Company Update

Navin Fluorine International

Speciality Chemicals

New projects, ref-gas may drive growth in near term

We maintain **BUY** on Navin Fluorine (NFIL) as we expect the company to report strong H2FY25E with revenue/ EBITDA / PAT growing by 31%/ 90%/ 31% YoY, respectively. We expect this to be driven by higher prices for R-32, commissioning of Project Nectar, new plant in Surat (Gujarat) and higher sales from Fermion. We expect revenue / EBITDA / PAT CAGR of 17%/ 27%/ 32% over FY25-27E, sustaining good growth. Our FY25-27 estimates do not completely include commissioning of HF plant, price rise in R-32 and NFIL's ambition to scale CDMO revenue to USD 100mn. We cut EPS by 2.2% for FY25E, but 9.6% for FY26E assuming continued capex and lower deleveraging may support growth. EBITDA cut in FY26E is just 0.6%. We roll over valuations to FY27E, and increase TP to INR 4,270 (from INR 3,800) with an unchanged P/E multiple of 40x.

HPP segment to benefit from uptick in R-32 prices, and doubling of volumes

HPP segment consists of three major product categories – 1) inorganic fluoride which finds application in steel and glass industries; 2) ref-gas which includes HCFC-22 (R-22), and R-32 which is used in residential AC; and 3) contract manufacturing of HFO for Honeywell.

- **Inorganic fluoride** is likely to remain stable.
- **Ref-gas: 1)** In R-32, NFIL has 4.5ktpa capacity which is fully utilised. R-32 import prices in India have doubled YoY to INR 345/kg in Q3FY25-TD (only for Oct'24), while import volumes have dipped sharply by 60% to 2.4kte in FY25-TD (Apr-Oct'24). This implies domestic producers' volumes have been growing fast, and prices should have also increased. The price increase of R-32 in Indian market should be lower than increase in import prices as NFIL/ SRF has better pricing power due to strong distribution. NFIL's R-32 exports prices have dipped 21% YoY to INR 308 in Q3FY25-TD but NFIL has limited exposure to exports market. NFIL is expected to double its capacity in Feb'25 to 9ktpa, and higher domestic realisation for R-32 should support strong revenue growth. **2)** R-22 exports prices have increased by 11% YoY to INR 299 in Q3FY25-TD. R-22 may have next phase down of 50% in CY24 volumes (32.5% from base line) w.e.f. Jan'25. We expect some volume dip in R-22 to be compensated by higher prices.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	20,650	25,601	29,939	34,931
EBITDA	3,983	5,605	7,599	9,060
EBITDA Margin (%)	19.3	21.9	25.4	25.9
Net Profit	1,663	3,047	4,252	5,289
EPS (INR)	54.6	61.5	85.8	106.7
EPS % Chg YoY	(27.9)	12.6	39.6	24.4
P/E (x)	60.7	53.9	38.6	31.1
EV/EBITDA (x)	43.3	31.2	23.1	19.4
RoCE (%)	6.9	8.7	11.2	12.6
RoE (%)	11.8	12.2	15.4	17.0

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Market Data

Market Cap (INR)	164bn
Market Cap (USD)	1,932mn
Bloomberg Code	NFIL IN
Reuters Code	NAFL.BO
52-week Range (INR)	3,897 / 2,876
Free Float (%)	70.0
ADTV-3M (mn) (USD)	6.7

Price Performance (%)	3m	6m	12m
Absolute	(1.5)	(10.2)	(11.9)
Relative to Sensex	6.0	(11.9)	(22.4)

ESG Score	2022	2023	Change
ESG score	48.3	64.7	16.4
Environment	81.0	93.2	12.2
Social	21.6	41.0	19.4
Governance	36.6	68.7	32.1

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

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.9)	(0.1)
EBITDA	(3.4)	(0.6)
EPS	(2.2)	(9.6)

Previous Reports

24-10-2024: [Q2FY25 results review](#)

31-07-2024: [Q1FY25 results review](#)

- **HFO:** NFIL supplies are likely to reach contacted value of INR 4.6bn in FY25. FP&O (foam, propellants, etc.) volumes have been growing strong for Chemours. Chemours' FP&O segment, where HFO produced by NFIL finds application, has grown by 15% in QE Sep'24. NFIL is operating its plant at ~80% utilisation, and if demand for Honeywell rises, NFIL can supply more volume from existing plant.

HPP segment revenue had grown by 41% to INR 5.7bn in H1FY25 for NFIL, and we expect H2FY25 revenue to be INR 6.4bn with Q4FY25 being a seasonally strong quarter for ref-gas. Segment revenue should grow at 10% CAGR to INR 14.5bn over FY25-27E. Our HPP estimates do not completely include the recent price rise in R-32, and commencement of AHF plant in H1FY26.

Specialty chemicals - new projects may largely drive growth

Specialty chemicals have three sub-segments – 1) intermediate for agro-chemicals; 2) pharmaceutical intermediate and 3) fine chemicals. Domestic revenue is focused on pharmaceutical intermediate, and exports are largely agro-chemicals intermediate.

- The company has defocused **pharmaceutical intermediate**, which is unlikely to grow much. The segment was serving domestic generic pharma companies where pricing volatility has been high.
- **Agro-chemicals intermediate:** Company has commissioned two plants in past 18 months – one dedicated agro-chemicals plant with total potential of INR 1.8bn revenue pa and MPP-3 with total revenue of INR 2.4bn which has been running low due to stress in agro-chemicals industry. Volumes for agro-chemical innovators have started growing again which should help NFIL improve utilisation levels at these plants in H2FY25, and reach peak utilisation over the next two years.
 - NFIL has also commissioned **Project Nectar** with total capex outlay of INR 5.4bn and total revenue potential of INR 6bn. Anchor customer has booked capacity of INR 3bn, and NFIL has already received confirmed order of INR 3bn for first year. The plant commissioning has been delayed by two months which should partly impact order execution (and our estimates for FY25). NFIL is also making certain modifications to the plant and so anchor customer can add another product which may help honour its INR 3bn contract in coming years. The product is also used by three more innovators where NFIL expects to sell the remaining 50% capacity.
 - NFIL also commissioned Surat plant with INR 300mn capex and revenue of INR 400-500mn.

Specialty chemicals segment revenue dipped by 23% to INR 3.2bn in H1FY25 for NFIL, and we expect H2FY25E revenue to be INR 6.6bn with Q4FY25 potentially being a strong quarter as new projects ramp up. We see risks to estimates if new fluoro-molecule plant (project Nectar) ramps up slower than expected. Segment revenue should grow at 22.5% CAGR to INR 14.8bn over FY25-27E. This should be largely helped by ramp up in projects discussed above, and improved volume off-take in legacy product such as BF3.

CDMO to benefit from Fermion contract, and conversion of new opportunities

NFIL has increased its efforts on contracts for late-stage molecules, and it has one big win for NCE molecule in oncology segment from Fermion. The underlying oncology product is growing strong with revenue in 9MCY24 at Euro 1bn, up 73%. The product has two suppliers, Ami Organics and NFIL. NFIL's major ramp up is likely with commissioning of cGMP-4 phase-1 and capex outlay of INR 1.6bn by Q3FY26

dedicated for Fermion contract. We expect Fermion contract to add revenue of INR 2-5bn in next 3-4 years.

NFIL also has three more products from EU and US pharma innovators, and some of these may ramp up in future. NFIL aims to scale CDMO revenue to INR 8bn in FY27 (from INR 2.6bn in FY24). We have conservatively built revenue of INR 5.6bn in FY27E.

EBITDA margin to expand to 25% in FY26E

In H1FY25, NFIL’s EBITDA margin was ~20%, depressed due to under-utilisation of assets. Employee cost was 15% of revenue which is amongst the highest in the chemical industry. It is working to improve employee productivity, and better utilisation of plants should help drive the operating leverage. Gross profit margin for H1FY25 was ~56.5%, which is close to its highest gross profit margin of FY23 (56.9%) where NFIL’s EBITDA margin was 26.5%. We expect NFIL’s EBITDA margin to grow to 25% in FY26E, and drive higher EBITDA growth.

In H2FY25E, we expect NFIL’s revenue/ EBITDA/ PAT to grow by 31%, 90% and 31%, respectively. Over FY25-27E, we expect EBITDA CAGR of 27% to INR 9.1bn, and net profit CAGR of 32% to INR 5.3bn.

Risks

Upside risks: 1) Faster than expected ramp up in projects at Dahej; and 2) CDMO revenue growing at higher-than-expected pace.

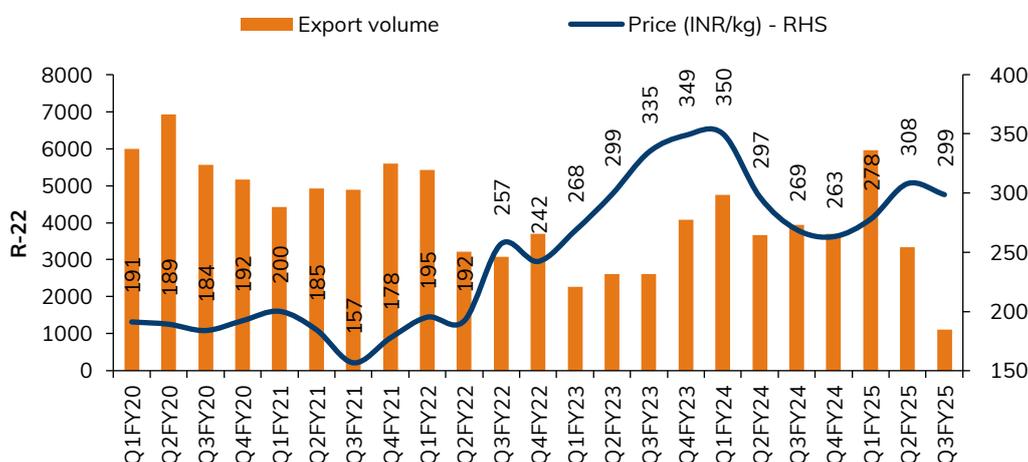
Downside risks: 1) Delay in plant commissioning at Dahej impacting revenues and margins; and 2) gradual-than-expected recovery in specialty chemicals business.

Exhibit 1: HPP segment revenue to grow at CAGR of 9.5% over FY25-27E

INR mn	FY24	FY25E	FY26E	FY27E	CAGR (% FY25-27)
Revenue					
HPP segment	9,550	12,135	13,367	14,549	9.5
of which					
Legacy (incl R-22)	4,838	5,806	5,225	5,656	(1.3)
HFO	3,962	4,754	4,992	5,491	7.5
R-32	750	1,575	3,150	3,402	47.0

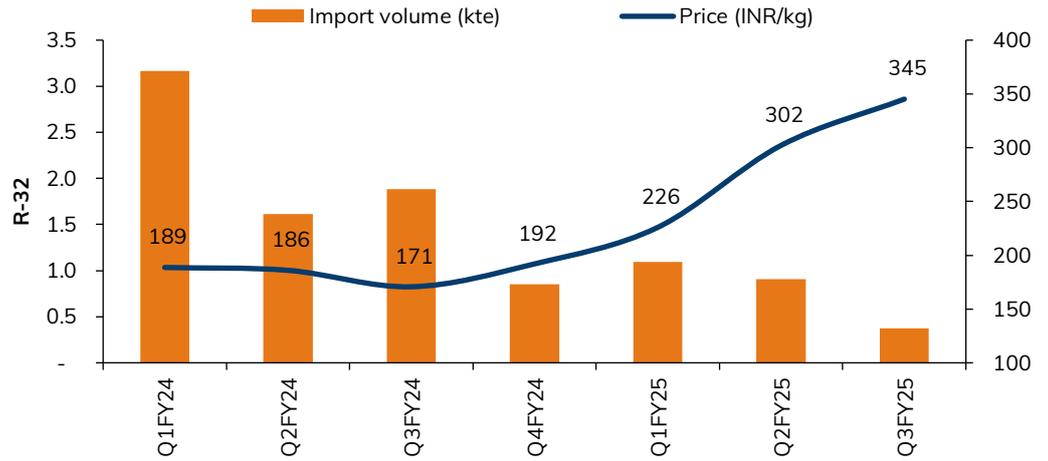
Source: Company data, I-Sec research

Exhibit 2: R-22 prices have grown 11% YoY in Q3FY25-TD



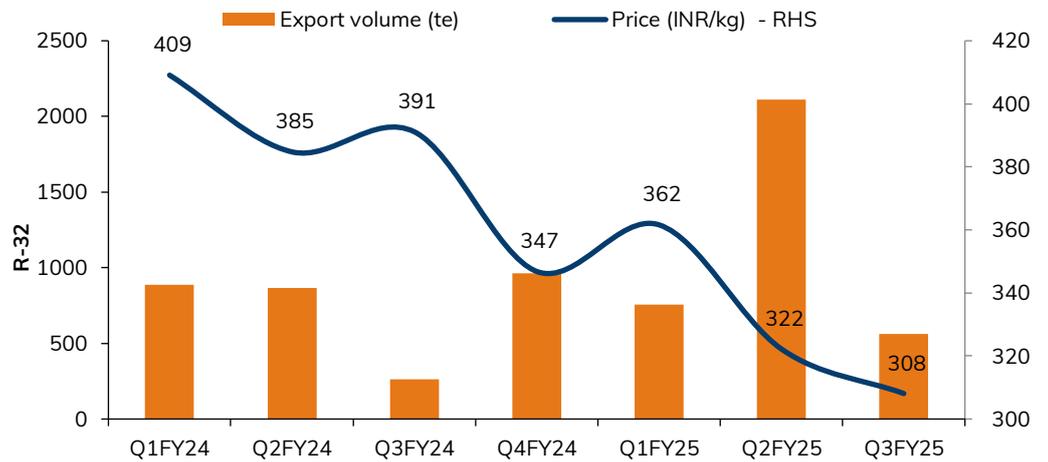
Source: Commerce ministry, I-Sec research

Exhibit 3: R-32 import prices have grown 2x YoY in Q3FY25-TD



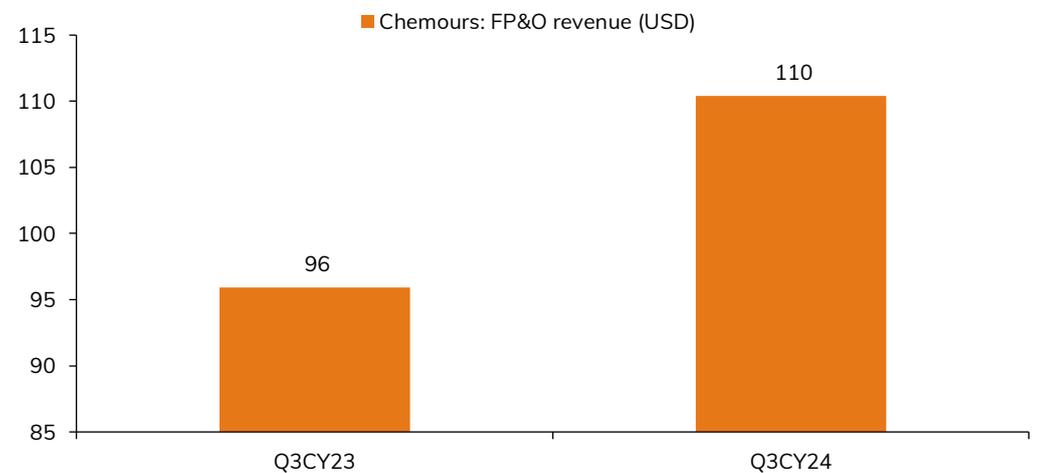
Source: Commerce ministry, I-Sec research

Exhibit 4: R-32 exports prices have been declining



Source: Commerce ministry, I-Sec research

Exhibit 5: Chemours FP&O segment revenue grew 15% YoY

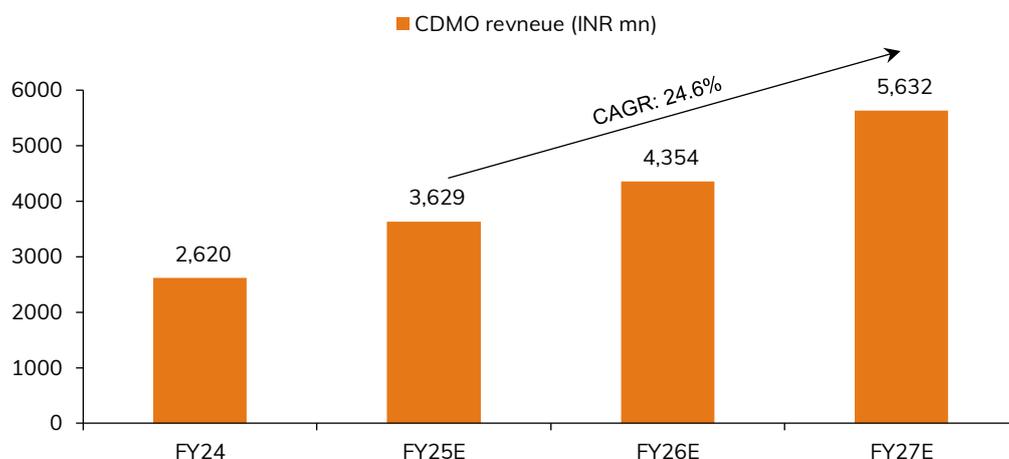


Source: Company data, I-Sec research

Exhibit 6: Specialty chemicals segment revenue to grow at CAGR of 22.5% over FY25-27E

INR mn	FY24	FY25E	FY26E	FY27E	CAGR (% FY25-27)
Revenue					
Spl Chemicals segment	8,500	9,837	12,218	14,750	22.5
of which					
MPP-3	2,174	2,524	2,774	3,329	14.8
Dedicated agro	1,500	1,425	1,710	1,881	14.9
Project Nectar	-	1,000	2,200	3,080	75.5
Others	4,826	4,888	5,534	6,460	15.0

Source: Company data, I-Sec research

Exhibit 7: CDMO segment revenue to grow at CAGR of 25% YoY over FY25-27E


Source: Company data, I-Sec research

Exhibit 8: NFIL EBITDA and PAT to grow by 90% and 31%, respectively, in H2FY25E

INR mn	H1FY24	H2FY24	H1FY25	YoY (%)	H2FY25	YoY (%)
HPP	4,070	5,480	5,740	41.0	6,395	16.7
Specialty chemicals	4,160	4,340	3,200	(23.1)	6,637	52.9
CDMO	1,410	1,210	1,490	5.7	2,139	76.7
Total revenue	9,629	11,038	10,422	8.2	15,178	37.5
Gross profit	5,582	5,714	5,879	5.3	7,478	30.9
GPM (%)	58.0	51.8	56.4		49.3	
EBITDA	2,126	1,857	2,077	(2.3)	3,528	89.9
EBITDA (%)	22.1	16.8	19.9		23.2	
D&A	456	506	546	19.8	707	39.7
EBIT	1,670	1,351	1,531	(8.3)	2,821	108.7
EBIT (%)	17.3	12.2	14.7		18.6	
Other income	314	244	214	(31.8)	344	40.9
Finance cost	394	351	295	(25.3)	687	95.4
PBT	1,590	1,244	1,451	(8.8)	2,478	99.2
Tax	369	282	350	(5.0)	532	88.7
ETR (%)	23.2	22.6	24.2		21.4	
PAT	1,221	1,484	1,100	(9.9)	1,947	31.2

Source: Company data, I-Sec research

Exhibit 9: NFIL EBITDA and PAT to grow at CAGR of 27% and 32%, respectively over FY25-27E

INR mn	FY24	FY25E	FY26E	FY27E	CAGR (% FY25-27)
Revenue	20,650	25,601	29,939	34,931	16.8
Gross profit	11,296	13,357	16,216	19,004	19.3
GPM (%)	54.7	52.2	54.2	54.4	
EBITDA	3,983	5,605	7,599	9,060	27.1
EBITDA (%)	19.3	21.9	25.4	25.9	
D&A	962	1,253	1,603	1,776	19.1
EBIT	3,021	4,351	5,996	7,284	29.4
EBIT (%)	14.6	17.0	20.0	20.9	
Other income	559	559	614	645	7.5
Finance cost	746	981	1,197	1,197	10.5
PBT	2,834	3,929	5,413	6,732	30.9
Tax	650	882	1,161	1,444	28.0
ETR (%)	22.9	22.4	21.4	21.4	
PAT	2,705	3,047	4,252	5,289	31.7

Source: Company data, I-Sec research

Exhibit 10: Earnings revision

INR mn	Revised		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	25,601	29,939	26,101	29,982	(1.9)	(0.1)
EBITDA	5,605	7,599	5,802	7,644	(3.4)	(0.6)
EBITDA margin (%)	21.9	25.4	22.2	25.5		
PAT	3,047	4,252	3,117	4,702	(2.2)	(9.6)
EPS (INR)	61	86	63	95	(2.2)	(9.6)

Source: Company data, I-Sec research

Exhibit 10: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	28.8	28.8	28.4
Institutional investors	44.2	45.4	46.4
MFs and other	15.6	13.8	15.2
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	11.3	11.9	12.4
FIIIs	17.3	19.7	18.8
Others	27.0	25.8	25.2

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart


Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	20,650	25,601	29,939	34,931
Operating Expenses	16,667	19,996	22,340	25,871
EBITDA	3,983	5,605	7,599	9,060
EBITDA Margin (%)	19.3	21.9	25.4	25.9
Depreciation & Amortization	962	1,253	1,603	1,776
EBIT	3,021	4,351	5,996	7,284
Interest expenditure	746	981	1,197	1,197
Other Non-operating Income	559	559	614	645
Recurring PBT	2,834	3,929	5,413	6,732
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	650	882	1,161	1,444
PAT	2,705	3,047	4,252	5,289
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	521	-	-	-
Net Income (Reported)	2,705	3,047	4,252	5,289
Net Income (Adjusted)	1,663	3,047	4,252	5,289

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	15,532	16,494	18,015	20,198
of which cash & cash eqv.	275	1,947	1,583	1,463
Total Current Liabilities & Provisions	8,579	10,776	11,914	13,035
Net Current Assets	6,953	5,718	6,101	7,163
Investments	5,453	2,453	2,453	2,453
Net Fixed Assets	23,990	27,181	29,579	32,003
ROU Assets	-	-	-	-
Capital Work-in-Progress	7,111	3,555	3,555	3,555
Total Intangible Assets	878	878	878	878
Other assets	2,166	2,491	2,865	3,294
Deferred Tax Assets	-	-	-	-
Total Assets	43,770	48,279	52,597	57,664
Liabilities				
Borrowings	13,399	14,399	14,399	14,399
Deferred Tax Liability	643	643	643	643
Provisions	185	213	245	281
Other Liabilities	308	381	446	520
Equity Share Capital	99	99	99	99
Reserves & Surplus	23,728	25,937	29,022	32,857
Total Net Worth	23,827	26,037	29,121	32,956
Minority Interest	-	-	-	-
Total Liabilities	43,770	48,279	52,597	57,664

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	5,018	6,020	5,237	5,186
% growth (YOY)	(11.0)	(13.6)	6.6	9.9
EBITDA	757	1,101	1,004	1,074
Margin %	15.1	18.3	19.2	20.7
Other Income	119	125	103	112
Extraordinaries	521	-	-	-
Adjusted Net Profit	259	704	512	588

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	3,889	4,723	6,438	7,617
Working Capital Changes	3,610	(1,347)	(1,051)	(1,532)
Capital Commitments	(7,324)	(4,445)	(4,000)	(4,200)
Free Cashflow	175	(1,069)	1,387	1,885
Other investing cashflow	(4,152)	3,559	614	645
Cashflow from Investing Activities	(3,611)	3,559	614	645
Issue of Share Capital	1	-	-	-
Interest Cost	(746)	(981)	(1,197)	(1,197)
Inc (Dec) in Borrowings	4,913	1,000	-	-
Dividend paid	(745)	(837)	(1,168)	(1,453)
Others	(66)	-	-	-
Cash flow from Financing Activities	3,357	(818)	(2,366)	(2,650)
Chg. in Cash & Bank balance	(78)	1,671	(364)	(120)
Closing cash & balance	66	1,947	1,583	1,463

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	54.6	61.5	85.8	106.7
Adjusted EPS (Diluted)	54.6	61.5	85.8	106.7
Cash EPS	74.0	86.8	118.2	142.6
Dividend per share (DPS)	15.0	16.9	23.6	29.3
Book Value per share (BV)	480.9	525.5	587.7	665.1
Dividend Payout (%)	27.5	27.5	27.5	27.5
Growth (%)				
Net Sales	(0.6)	24.0	16.9	16.7
EBITDA	(27.6)	40.7	35.6	19.2
EPS (INR)	(27.9)	12.6	39.6	24.4
Valuation Ratios (x)				
P/E	60.7	53.9	38.6	31.1
P/CEPS	44.8	38.2	28.1	23.3
P/BV	6.9	6.3	5.6	5.0
EV / EBITDA	43.3	31.2	23.1	19.4
EV/SALES	8.4	6.8	5.9	5.0
Dividend Yield (%)	0.5	0.5	0.7	0.9
Operating Ratios				
Gross Profit Margins (%)	54.7	52.2	54.2	54.4
EBITDA Margins (%)	19.3	21.9	25.4	25.9
Effective Tax Rate (%)	28.1	22.4	21.4	21.4
Net Profit Margins (%)	8.1	11.9	14.2	15.1
NWC / Total Assets (%)	8.2	(2.8)	(2.0)	(2.7)
Net Debt / Equity (x)	0.3	0.4	0.4	0.3
Net Debt / EBITDA (x)	2.1	1.9	1.4	1.2
Profitability Ratios				
RoCE (%)	6.9	8.7	11.2	12.6
RoE (%)	11.8	12.2	15.4	17.0
RoIC (%)	7.5	9.8	12.3	13.6
Fixed Asset Turnover (x)	0.8	0.9	1.0	1.1
Inventory Turnover Days	65.7	64.7	63.7	63.7
Receivables Days	90.6	89.6	88.6	88.6
Payables Days	53.5	55.5	57.5	57.5

Source Company data, I-Sec research

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