

Navin Fluorine International

BSE SENSEX
60,056

S&P CNX
17,743

CMP: INR4,729

TP: INR4,700 (-1%)

Neutral

On track to achieve greater heights

- A part of the Padmanabh Mafatlal Group, Navin Fluorine International (NFIL) is one of the largest manufacturers of specialty fluorochemicals in the country. It has three business segments, viz., High Performance Products (HPP), Specialty Chemicals, and Contract Development & Manufacturing Services (CDMO).
- NFIL operates one of the largest integrated fluorochemicals complexes in India with manufacturing locations at Surat & Dahej in western India and Dewas in central India.
- We visited the company's Dahej plant on 20th Apr'23, followed by a management meeting with Mr. Radhesh Welling, MD. Here are the key highlights:

FY23: a watershed year!

- The Dahej site is spread across 74 acres with 25 acres being used until now (excluding the green area), which ensures enough land bank for future expansion purpose. NFIL successfully commissioned three projects in FY23, viz., HFO, MPP and the agrochemical intermediate. The current ETP and common utility capacity are designed for all future expansions.
- Project Orchid, the contract with Honeywell to supply HFO, was announced in Feb'20. After initial delays, the plant was commissioned in FY23. There are two plants (PP1 and PP2) for the same that have been designed by NFIL and Honeywell together. Revenue guidance from the project stands at INR5.0-5.5b. A debottlenecking proposal is to be submitted to the Board that would raise the capacity by 20-25%.
- NFIL also commissioned the MPP plant, which was designed by the in-house team itself with all products in the solid form. There are four bays wherein three products are being manufactured. Supply of an agrochemical intermediate also begun in 3QFY23 wherein all the products are in liquid state with an extra bay available that could lead to doubling of capacity for the same.

Building a company for the future

- The Specialty Chemicals segment has been the fastest growing segment for NFIL with a CAGR of 20% reported during FY17-22. It is likely to be the fastest growing segment in the next three years too with the company set to commission a new fluorospecialty molecule (Project Nektar) in 3QFY24E at a capex of ~INR5.9b. Revenue from this segment is likely to surpass INR10b by FY25E.
- The CDMO (erstwhile CRAMS) business was started in FY13 and has slowly grown to be an integral part of the company's operations, contributing 21% of the overall revenue in FY22 from 3% in FY13. Management targets to achieve USD100m in revenue by FY26E from this segment.
- All new projects are expected to have higher margins than existing products with EBITDAM improving gradually to 30% from 25% currently. The company is also trying to create fungibility for specialty chemicals across Surat and Dahej. Management is also looking to replace older products of lower margins with other products that could yield higher margins at its MPP plant in Surat. The proposal is going to be taken to the Board by end-CY23.



Stock Info

Bloomberg	NFIL IN
Equity Shares (m)	50
M.Cap.(INRb)/(USDb)	234.5 / 2.9
52-Week Range (INR)	4847 / 3439
1, 6, 12 Rel. Per (%)	10/7/15
12M Avg Val (INR M)	747
Free float (%)	71.2

Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	19.6	28.6	34.3
EBITDA	5.1	7.8	9.5
PAT	3.5	5.3	6.7
EPS (INR)	70.3	107.8	134.3
EPS Gr. (%)	31	53	25
BV/Sh.(INR)	432	518	625

Ratios

Net D:E	-0.0	0.0	-0.0
RoE (%)	17.4	22.7	23.5
RoCE (%)	17.5	21.7	22.7
Payout (%)	20.4	20.4	20.4

Valuations

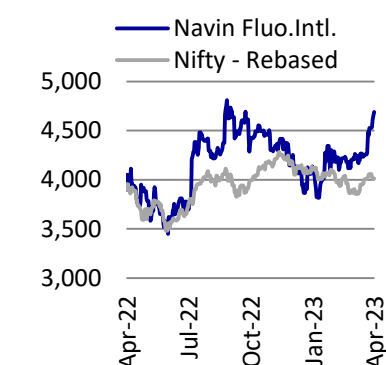
P/E (x)	67.0	43.7	35.1
P/BV (x)	10.9	9.1	7.5
EV/EBITDA (x)	45.4	30.2	24.5
Div. Yield (%)	0.3	0.5	0.6
FCF Yield (%)	0.1	0.2	1.1

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	29.4	29.4	30.2
DII	23.8	22.7	16.0
FII	19.2	20.1	25.3
Others	27.6	27.9	28.6

FII Includes depository receipts

Stock performance (one-year)



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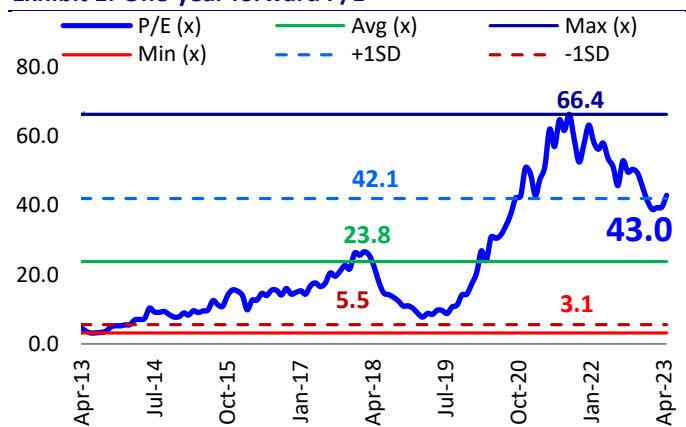
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- In addition to the expansions that are already underway and are set to be completed in FY24E, the senior leadership is preparing a business plan for two new projects to be taken to the Board for approval in CY23. The projects are: CDMO (cGMP-4) and one other project in the Specialty Chemicals segment. Both the projects would require an investment of ~INR2b each.

Valuation and view

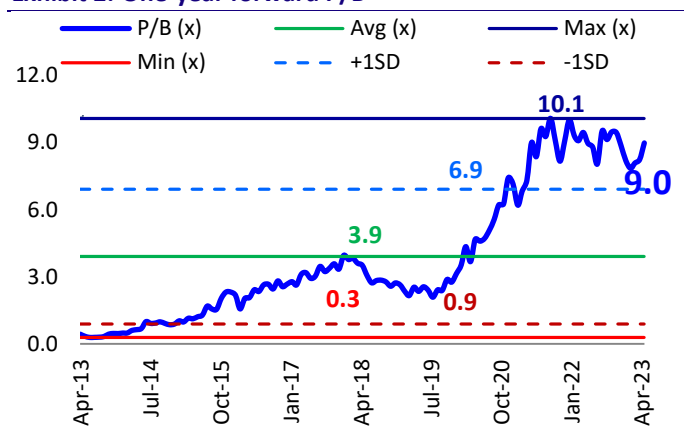
- The HPP and the Specialty Chemicals segments will drive robust growth (at 33-40% CAGR over FY23-25E), with increasing use of fluorine in the Pharma and Agro space. The company is already receiving new orders.
- Management expects peak revenue for: a) the Agrochemical Intermediate to be achieved in FY24, and b) the MPP plant to be achieved in FY25. Three new molecules at the MPP plant are expected to be commissioned in CY23.
- The stock is trading at 35x FY25E EPS of INR134, with an expected improvement in return ratios to 22-24%, despite a huge capex (INR10.6b over the next three years). We value the company at 35x FY25E EPS to arrive at our TP of INR4,700.
We maintain our Neutral rating on the stock owing to limited upside.

Exhibit 1: One-year forward P/E



Source: Company, MOFSL

Exhibit 2: One-year forward P/B



Source: Company, MOFSL

Story in charts

Exhibit 3: Expect ~35% revenue CAGR over FY23-25...

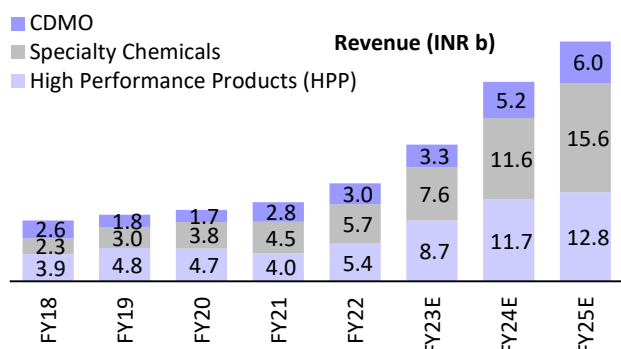


Exhibit 4: ...with Spec Chem CAGR of 40%

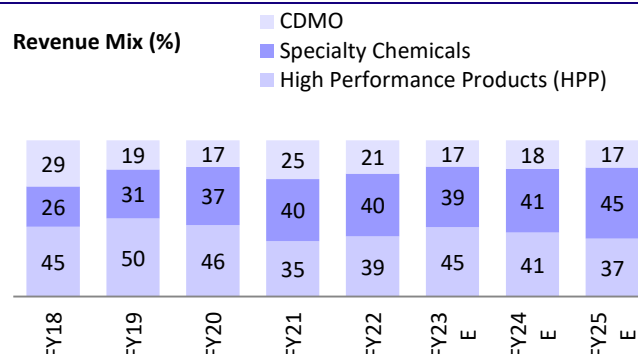


Exhibit 5: Exports were ~50% of total revenue in FY22...

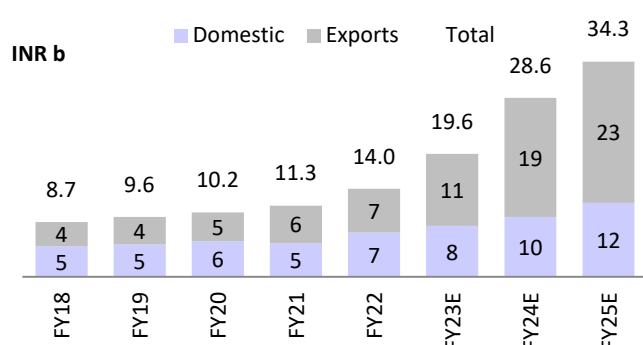


Exhibit 6: ...and set to grow to ~66% by FY25E

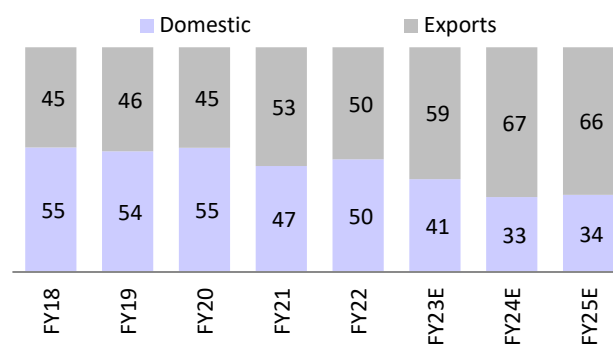
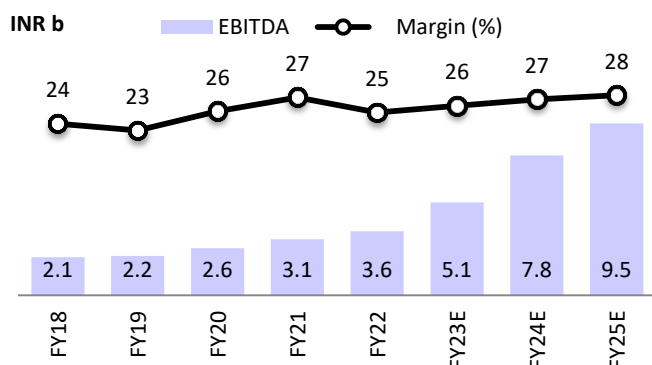
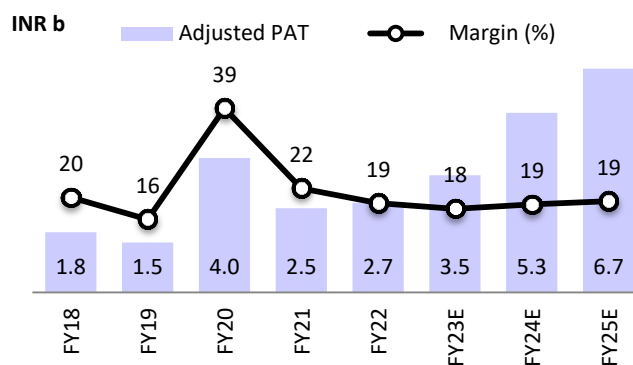


Exhibit 7: Expect ~39% EBITDA CAGR over FY23-25...



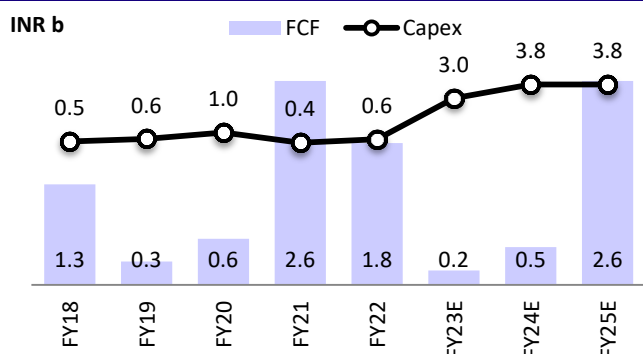
Source: Company, MOFSL

Exhibit 8: ...with a PAT CAGR of ~36% over the same period



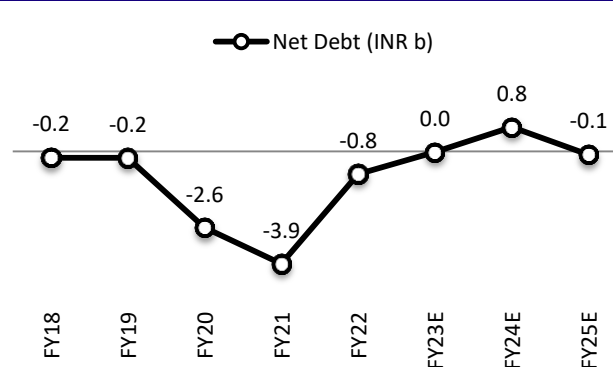
Source: Company, MOFSL

Exhibit 9: Capex for the next three years will be INR10.6b...



Source: Company, MOFSL

Exhibit 10: ...to be funded via internal accruals and debt



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement						(INR m)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	8,861	9,551	10,223	11,331	14,036	19,591	28,557	34,330
Change (%)	20.3	7.8	7.0	10.8	23.9	39.6	45.8	20.2
Gross Margin (%)	56.6	52.3	54.5	54.9	54.5	56.0	56.5	57.0
EBITDA	2,107	2,181	2,607	3,108	3,554	5,143	7,755	9,524
Margin (%)	23.8	22.8	25.5	27.4	25.3	26.3	27.2	27.7
Depreciation	382	259	337	407	443	799	816	824
EBIT	1,725	1,922	2,270	2,702	3,112	4,345	6,939	8,700
Int. and Finance Charges	7	5	16	14	17	225	254	263
Other Income	906	348	313	745	375	451	454	455
PBT bef. EO Exp.	2,625	2,265	2,567	3,433	3,470	4,570	7,140	8,893
EO Items	0	0	0	662	0	0	0	0
PBT after EO Exp.	2,625	2,265	2,567	4,095	3,470	4,570	7,140	8,893
Total Tax	835	780	-1,431	1,103	806	1,087	1,797	2,238
Tax Rate (%)	31.8	34.5	-55.7	26.9	23.2	23.8	25.2	25.2
Reported PAT	1,790	1,485	3,998	2,992	2,664	3,483	5,343	6,654
Adjusted PAT	1,790	1,485	3,998	2,508	2,664	3,483	5,343	6,654
Change (%)	34.9	-17.0	169.3	-37.3	6.2	30.7	53.4	24.6
Margin (%)	20.2	15.5	39.1	22.1	19.0	17.8	18.7	19.4

Consolidated - Balance Sheet						(INR m)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	99	99	99	99	99	99	99	99
Total Reserves	9,601	10,493	13,790	16,402	18,543	21,315	25,566	30,861
Net Worth	9,700	10,592	13,889	16,501	18,642	21,414	25,665	30,960
Total Loans	0	0	0	0	0	1,500	2,000	1,500
Deferred Tax Liabilities	239	295	206	167	167	167	167	167
Capital Employed	9,939	10,887	14,096	16,668	18,809	23,081	27,832	32,627
Gross Block	3,232	3,511	4,643	4,937	5,631	8,631	12,431	16,231
Less: Accum. Deprn.	477	715	1,053	1,459	1,902	2,700	3,517	4,341
Net Fixed Assets	2,755	2,796	3,591	3,478	3,729	5,930	8,914	11,890
Capital WIP	201	393	389	365	259	259	259	259
Total Investments	5,219	5,267	3,387	4,503	6,187	6,187	6,187	6,187
Curr. Assets, Loans, and Adv.	3,817	4,224	7,042	10,320	11,064	14,071	17,345	20,122
Inventory	924	929	1,361	1,543	2,295	3,163	4,554	5,430
Account Receivables	1,471	1,675	2,093	2,759	3,521	4,915	7,164	8,612
Cash and Bank Balance	219	224	2,641	3,889	782	1,527	1,160	1,612
Cash	136	127	1,692	761	735	1,480	1,114	1,566
Bank Balance	83	97	890	3,128	47	47	47	47
Loans and Advances	1,203	1,397	947	2,128	4,467	4,467	4,467	4,467
Curr. Liability and Prov.	2,053	1,794	1,644	1,998	2,430	3,367	4,873	5,830
Account Payables	889	679	922	1,027	1,416	1,951	2,809	3,350
Other Current Liabilities	1,056	1,005	590	824	834	1,163	1,696	2,039
Provisions	108	110	131	147	180	252	367	441
Net Current Assets	1,764	2,431	5,398	8,322	8,635	10,705	12,472	14,291
Appl. of Funds	9,939	10,887	14,096	16,668	18,809	23,081	27,832	32,627

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	36.2	30.0	80.8	50.7	53.8	70.3	107.8	134.3
EPS Growth (%)	34.9	-17.0	169.3	-37.3	6.1	30.7	53.4	24.6
Cash EPS	43.9	35.2	87.6	58.9	62.7	86.4	124.3	150.9
BV/Share	196.0	214.1	280.7	333.5	376.2	432.2	518.0	624.8
DPS	7.0	7.8	11.0	11.0	11.0	14.4	22.0	27.4
Payout (%)	19.9	41.7	17.9	18.2	20.4	20.4	20.4	20.4
Valuation (x)								
P/E	130.3	157.0	58.3	92.9	87.6	67.0	43.7	35.1
Cash P/E	107.4	133.7	53.8	80.0	75.1	54.5	37.9	31.2
P/BV	24.0	22.0	16.8	14.1	12.5	10.9	9.1	7.5
EV/Sales	26.3	24.4	22.5	20.2	16.6	11.9	8.2	6.8
EV/EBITDA	110.5	106.8	88.4	73.7	65.5	45.4	30.2	24.5
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.2	0.3	0.5	0.6
FCF per share	25.7	5.9	11.8	52.1	36.1	3.7	9.7	51.9
Return Ratios (%)								
RoE	20.0	14.6	32.7	16.5	15.2	17.4	22.7	23.5
RoCE	19.5	14.3	32.2	16.4	15.1	17.5	21.7	22.7
RoIC	25.8	27.1	55.7	25.3	24.5	24.8	29.4	29.1
Working Capital Ratios								
Fixed Asset Turnover (x)	2.6	3.4	3.2	3.2	3.9	4.1	3.8	3.3
Asset Turnover (x)	0.9	0.9	0.7	0.7	0.7	0.8	1.0	1.1
Inventory (Days)	38	35	49	50	60	59	58	58
Debtor (Days)	61	64	75	89	92	92	92	92
Creditor (Days)	37	26	33	33	37	36	36	36
Leverage Ratio (x)								
Current Ratio	1.9	2.4	4.3	5.2	4.6	4.2	3.6	3.5
Net Debt/Equity ratio	0.0	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	2,625	2,265	2,567	4,095	3,470	4,570	7,140	8,893
Depreciation	382	259	337	407	443	799	816	824
Others	-694	-277	-210	-1,054	-272	225	254	263
Direct Taxes Paid	-496	-710	-456	-186	-807	-1,087	-1,797	-2,238
(Inc.)/Dec. in WC	-90	-637	-684	-305	-467	-1,325	-2,134	-1,367
CF from Operations	1,727	900	1,555	2,958	2,366	3,182	4,278	6,374
Capex	-457	-606	-972	-382	-575	-3,000	-3,800	-3,800
Free Cash Flow	1,270	294	582	2,576	1,791	182	478	2,574
Change in Investments	-1,338	190	1,706	-914	2,933	0	0	0
CF from Investments	-1,489	-315	766	-3,452	-1,812	-3,000	-3,800	-3,800
Inc./(Dec.) in Debt	0	0	0	0	0	1,500	500	-500
Interest Paid	-7	-5	-16	-14	-17	-225	-254	-263
Dividend Paid	-350	-611	-714	-394	-542	-712	-1,091	-1,359
CF from Fin. Activity	-326	-595	-756	-437	-579	563	-845	-2,122
Inc./Dec. in Cash	-87	-9	1,565	-931	-25	746	-367	452
Opening Balance	224	136	127	1,692	760	735	1,481	1,114
Closing Balance	136	127	1,692	760	735	1,481	1,114	1,566

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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