

CMP: ₹ 3320

Target: ₹ 3970(20%)

Target Period: 12 months

BUY

May 8, 2024

Fluoropolymers to drive the growth in FY25..

About the stock: Incorporated in 1987, Gujarat Fluorochemicals (GFL) started as a refrigerants manufacturer and, thereafter, diversified into other areas like speciality chemicals, fluoropolymers, new fluoropolymers and bulk chemicals like caustic soda and chloromethane.

- FY24 segmental mix: Bulk chemicals ~16%, Fluorochemicals ~25%, Fluoropolymers ~57% and others ~2%
- The company recently announced battery materials foray with the incorporation of GFCL EV Products Ltd, a 100% subsidiary of GFL, with a substantial investment plan of Rs 6000 crore over the next 4- 5 years.

Investment Rationale:

- Q4FY24- overall sequential recovery driven by Fluoropolymers and seasonality in Fluorochemicals – Revenues grew 14% QoQ (down 23% YoY) to Rs 1133 crore driven by flagship Fluoropolymers business (up 18% QoQ) and Fluorochemicals (up 23% QoQ). Commodotised Bulk Chemicals segment was down 1% QoQ. EBITDA grew 15% QoQ and margins stood at 21% (flat QoQ).

Fluoropolymers (57% of sales)- Prices remained stable, however volumes have improved from the previous quarter. Fluorochemicals (27% of sales)- Both volumes and prices for specialty chemicals continue to be sluggish but some recovery in Refrigerant volumes. Bulk Chemicals ((27% of sales)- Caustic soda/MDC prices continue to remain subdued due to increased supplies on account of excess capacity creation.

- After a subdued FY24, Fluoropolymers to lead the way in FY25 as other segments not out of the woods. – Fluoropolymers segment is witnessing recovery and brighter future with changing global dynamics. The company has invested heavily in high-grade Fluoropolymers capacity build up over the last few years. This, coupled with exit of some global legacy players is expected to improve the growth prospects of Fluoropolymers in FY25. Other segments such as Fluorochemicals and Bulk chemicals however are expected to remain muted on account of Chinese dumping and excess capacity built-up. The management however is confident of achieving the FY23 EBITDA level mainly on the back of superior Fluoropolymers performance. We expect Fluoropolymers and the newly carved out battery materials segment to drive growth in the future.

Rating and Target price

- Our target price is ₹ 3970 based on 37x FY26E EPS of 107.3. We believe the premium valuation is justified on the back of significant traction expectation in Fluoropolymers and battery materials with a lag.



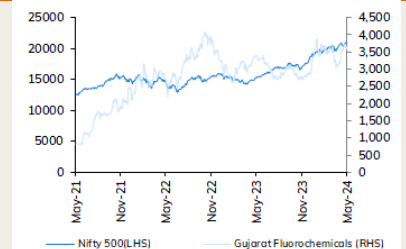
Particulars

Particular	Amount
Market cap (₹ Crore)	36,487
FY24 Total Debt (₹ Crore)	2,096
FY24 Cash & Inv (₹ Crore)	1,770
EV (₹ Crore)	36,813
52 Week H/L	3920/2537
Equity Capital (₹ Crore)	11.0
Face Value (₹)	1

Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-23
Promoter	66.2	66.2	66.2	66.2
FIs	10.2	10.0	9.1	8.5
DIs	15.4	15.6	16.7	17.5
Others	8.2	8.2	8.0	7.8

Price Chart



Key risks

- Heavy reliance on Fluoropolymers for overall performance improvement
- Weakness in Fluorochemicals spilling beyond FY25.

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	2 year CAGR (FY24-26E)
Revenues	2606.4	2650.5	3953.6	5684.7	29.7	4280.8	5480.3	6535.2	23.6
EBITDA	439.1	595.9	1168.5	1965.3	64.8	907.4	1616.7	2091.3	51.8
EBITDA margins (%)	16.85	22.48	29.56	34.57		21.20	29.50	32.00	
Net Profit	189.3	-221.5	775.9	1323.1	91.2	435.0	861.5	1178.7	64.6
EPS (₹)	17.2	-20.2	70.6	120.4		39.6	78.4	107.3	
PE (x)	192.6	-164.6	47.0	27.6		83.9	42.4	31.0	
EV to EBITDA (x)	81.9	60.5	30.7	18.3		40.1	22.1	16.9	
RoCE (%)	11.0	14.2	22.6	31.5		10.8	17.7	20.3	
ROE (%)	5.1	-6.3	18.2	24.0		7.3	12.7	14.9	

Source: Company, ICICI Direct Research

Exhibit 1: Quarterly Summary

(₹ crore)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q3FY23	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Total Operating Income	840.3	911.9	964.0	1003.9	1073.8	1334.0	1461.3	1417.9	1471.4	1209.3	946.8	991.7	1133.0	-23.0	14.2
Raw Material Expenses	280.2	326.5	304.8	271.9	311.4	371.5	398.2	389.9	410.9	361.9	341.8	356.9	392.7	-4.4	10.0
% of Revenue	33.3	35.8	31.6	27.1	29.0	27.9	27.2	27.5	27.9	29.9	36.1	36.0	34.7	674 bps	-133 bps
Gross Profit	560.1	585.4	659.3	732.0	762.4	962.4	1063.2	1028.0	1060.6	847.3	605.0	634.8	740.3	-30.2	16.6
GPM (%)	66.7	64.2	68.4	72.9	71.0	72.1	72.8	72.5	72.1	70.1	63.9	64.0	65.3	-674 bps	133 bps
Employee Expenses	54.5	64.2	68.0	68.0	65.3	77.9	80.0	79.5	84.7	91.8	87.4	83.3	88.0	3.9	5.6
% of Revenue	6.5	7.0	7.1	6.8	6.1	5.8	5.5	5.6	5.8	7.6	9.2	8.4	7.8	201 bps	-64 bps
Other Expenditure	186.8	137.5	148.0	161.7	183.8	205.5	222.7	218.3	224.8	197.3	185.2	182.0	225.3	0.2	23.8
% of Revenue	22.2	15.1	15.4	16.1	17.1	15.4	15.2	15.4	15.3	16.3	19.6	18.3	19.9	461 bps	154 bps
Total Expenditure	644.2	656.8	668.4	688.5	742.3	875.1	925.6	894.7	942.2	861.4	783.7	785.5	895.5	-5.0	14.0
% of Revenue	76.7	72.0	69.3	68.6	69.1	65.6	63.3	63.1	64.0	71.2	82.8	79.2	79.0	1500 bps	-17 bps
EBITDA	196.1	255.1	295.6	315.4	331.5	458.9	535.8	523.2	529.3	347.9	163.1	206.2	237.6	-55.1	15.2
EBITDA Margin (%)	23.3	28.0	30.7	31.4	30.9	34.4	36.7	36.9	36.0	28.8	17.2	20.8	21.0	-1500 bps	17 bps
Other Income	34.9	26.3	46.1	32.0	27.0	26.2	24.3	21.4	18.6	14.6	13.5	13.2	18.3	-1.6	38.8
Interest	23.0	24.7	20.2	20.2	13.4	20.9	23.0	38.1	34.8	28.0	34.2	37.2	33.7	-3.2	-9.6
Depreciation	50.0	50.4	50.9	51.8	52.4	55.0	57.2	60.1	63.8	65.5	67.6	71.9	81.2	27.2	12.9
PBT	158.1	206.3	270.7	275.5	292.7	409.2	479.9	446.4	449.3	269.0	74.9	110.3	141.0	-68.6	27.9
Tax rate (%)	30.2	26.7	24.3	26.9	25.3	25.9	25.6	26.0	26.1	25.2	29.5	27.4	28.4	227 bps	103 bps
PAT	110.3	151.2	204.9	201.3	218.5	303.4	357.2	330.5	331.9	201.2	52.7	80.1	101.0	-69.6	26.1
PAT Margin (%)	13.1	16.6	21.3	20.0	20.3	22.7	24.4	23.3	22.6	16.6	5.6	8.1	8.9	-1364 bps	84 bps

Source: Company, ICICI Direct Research

Q4FY24 Conference call highlights

Fluoropolymers-

- Overall prices remained stable but volumes have improved sequentially
- Exit of legacy players and consummation of the capex undertaken in earlier years to drive growth in FY25
- Threat of Chinese dumping is less in some of the high-grade products that the company is operating into.
- Rs 500 crore capex for FY25 towards development of new fluoropolymers and backward integration.
- 3M is slated to exit fluoropolymers business by the end of 2025
- Battery grade PVDF approval is a complex process and the company has reached advanced stages in multi-stage qualification – electrochemical tests. It has emulsion polymerisation-based battery grade PVDF.

Fluorochemicals/ Bulk Chemicals-

- For fluorochemicals, refrigerant volumes have picked up but prices remain Sluggish.
- In specialty chemicals, both volumes and prices continue to remain sluggish
- Bulk chemicals plants are running at full capacity
- Caustic soda/MDC prices continue to remain subdued due to excess capacities.
- The management expects headwinds to persist in fluorochemicals, and has guided for flat or slightly negative growth for FY25.

Battery Materials (GFCL EV)

- GFCL EV's current product portfolio includes electrolyte salts LiPF6, additives, electrolyte formulations, cathode active materials such as LFP and cathode binders such as PVDF and PTFE along with a specialized offerings of NaPF6 for sodium ion batteries and proprietary additives for fast charging.
- The company has already spent ₹ 800 crore in FY24 and plans to spend another ₹ 800 crore via external funding (separate SPV via GFCL EV).
- The asset turnover for the investment could be 2x with ~25% EBITDA margin profile
- The company is working with almost all Indian battery manufacturers. The capacities in India are expected to be operational from H2FY25

Financial Tables

Exhibit 3: Profit and loss statement					₹ crore
Year end March	FY23	FY24E	FY25E	FY26E	
Total Operating Income	5,684.7	4,280.8	5,480.3	6,535.2	
Growth (%)	43.8	-24.7	28.0	19.2	
Raw Material Expenses	1,570.5	1,453.3	1,753.7	2,025.9	
Gross Profit	4,114.1	2,827.5	3,726.6	4,509.3	
Employee Cost	322.1	350.4	383.6	457.5	
Other Operating Expenses	1,826.7	1,569.7	1,726.3	1,960.5	
EBITDA	1,965.3	907.4	1,616.7	2,091.3	
Growth (%)	68.2	-53.8	78.2	29.4	
Other Income	172.3	106.9	75.0	80.0	
EBITDA, including OI	2,137.6	1,014.3	1,691.7	2,171.3	
Depreciation	236.1	286.1	376.8	443.3	
Net Interest Exp.	116.8	133.1	136.2	115.2	
Other exceptional items	0.0	0.0	0.0	0.0	
PBT	1,784.8	595.1	1,178.7	1,612.7	
Total Tax	461.7	160.1	317.2	434.0	
Tax Rate	25.9%	26.9%	26.9%	26.9%	
PAT	1,323.1	435.0	861.5	1,178.7	
Adj.PAT after Minority interest	1,323.1	435.0	861.5	1,178.7	
Adj. EPS (₹)	120.4	39.6	78.4	107.3	
Shares Outstanding	11.0	11.0	11.0	11.0	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
Year end March	FY23	FY24E	FY25E	FY26E	
PBT & Extraordinary	1,323.1	435.0	1,178.7	1,612.7	
Depreciation	236.1	286.1	376.8	443.3	
After other adjustments					
(Inc) / Dec in Working Capital	-882.7	-144.0	179.7	-304.3	
Taxes	-8.3	-34.8	-317.2	-434.0	
Others	70.7	84.1	166.2	115.2	
CF from operating activities	738.9	626.4	1,584.2	1,433.0	
Purchase of Fixed Assets	-731.3	-970.6	-650.0	-950.0	
Others	250.0	-10.5	0.0	0.0	
CF from investing activities	-481.3	-981.0	-650.0	-950.0	
Proceeds from issue of shares	0.0	0.0	0.0	0.0	
Borrowings (Net)	463.5	628.6	-300.0	-300.0	
Others	-184.5	-171.5	-158.2	-137.2	
CF from financing activities	279.1	457.1	-458.2	-437.2	
Net cash flow	536.6	102.4	476.0	45.8	
Effects of foreign currency translation	0.0	0.0	0.0	0.0	
Opening Cash	152.9	161.0	198.5	644.5	
Closing Cash	161.0	198.5	644.5	690.3	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet					₹ crore
Year end March	FY23	FY24E	FY25E	FY26E	
Liabilities					
Share Capital	11.0	11.0	11.0	11.0	
Reserves	5,509.7	5,925.4	6,764.8	7,921.6	
Total Shareholders Funds	5,520.7	5,936.3	6,775.8	7,932.6	
Minority Interest	0.0	0.0	0.0	0.0	
Long Term Borrowings	216.9	462.9	362.9	262.9	
Net Deferred Tax liability	241.3	266.5	266.5	266.5	
Other long term liabilities	14.0	11.1	3.0	3.6	
Long term provisions	39.5	54.5	39.4	46.9	
Current Liabilities and Provisions					
Short term borrowings	1,298.2	1,633.1	1,433.1	1,233.1	
Trade Payables	691.0	518.9	750.7	984.8	
Other Current Liabilities	329.3	331.1	423.9	505.5	
Short Term Provisions	20.4	19.7	25.2	30.0	
Total Current Liabilities	2,338.9	2,502.8	2,632.9	2,753.4	
Total Liabilities	8,371.4	9,234.1	10,080.5	11,265.8	
Assets					
Net Block	2,994.1	4,105.6	4,820.1	5,526.7	
Capital Work in Progress	1,142.4	1,091.3	650.0	450.0	
Intangible assets under devl.	129.1	192.4	192.4	192.4	
Goodwill on Consolidation	0.0	0.0	0.0	0.0	
Non-current investments	23.4	16.1	16.1	16.1	
Deferred tax assets	0.3	1.0	1.0	1.0	
Long term loans and advances	0.0	0.0	0.0	0.0	
Other Non Current Assets	584.2	424.1	3.3	3.3	
Current Assets, Loans & Advances					
Current Investments	0.2	0.0	0.0	0.0	
Inventories	1,485.4	1,571.3	1,726.7	1,969.5	
Sundry Debtors	1,106.8	844.6	1,051.0	1,253.3	
Cash and Bank	161.0	198.5	644.5	690.3	
Loans and Advances	27.7	27.3	0.0	0.0	
Other Current assets	716.9	761.9	975.4	1,163.1	
Current Assets	3,497.9	3,403.6	4,397.6	5,076.3	
Total Assets	8,371.4	9,234.1	10,080.5	11,265.8	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
Year end March	FY23	FY24E	FY25E	FY26E
Per share data (₹)				
Adj. EPS	120.4	39.6	78.4	107.3
Adj. Cash EPS	141.9	65.6	112.7	147.6
BV	502.3	540.2	616.5	721.8
DPS	4.0	2.0	2.0	2.0
Operating Ratios (%)				
Gross Margin (%)	72.4	66.0	68.0	69.0
EBITDA Margin (%)	34.6	21.2	29.5	32.0
PAT Margin (%)	23.3	10.2	15.7	18.0
Debtor Days	71	72	70	70
Inventory Days	95	134	115	110
Creditor Days	44	44	50	55
Cash Conversion Cycle	122	162	135	125
Return Ratios (%)				
Return on Assets (%)	15.8	4.7	8.5	10.5
RoCE (%)	31.5	10.8	17.7	20.3
Core RoIC (%)	25.2	7.9	15.6	18.9
RoE (%)	24.0	7.3	12.7	14.9
Solvency Ratios				
Total Debt / Equity	0.3	0.4	0.3	0.2
Net Debt / EBITDA	0.7	2.1	0.7	0.4
Interest Coverage	16.3	5.5	9.7	15.0
Current Ratio	1.5	1.4	1.7	1.8
Quick Ratio	0.9	0.7	1.0	1.1
Valuation Ratios (x)				
EV/EBITDA	18.3	40.1	22.1	16.9
P/E	26.1	79.4	40.1	29.3
P/B	6.3	5.8	5.1	4.4
EV/Sales	6.3	8.5	6.5	5.4

Source: Company, ICICI Direct Research

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