

CDMO muted while Specialty Outperformed...

About the stock: Navin Fluorine (NFIL) operates one of the largest integrated fluorochemicals complexes in India with a presence in speciality chemicals, CRAMS, inorganic fluoride and refrigerant segments.

- The company has two manufacturing facilities in Surat and Dewas while it is setting up a new greenfield capacity at Dahej
- In terms of revenue contribution, speciality chemical constitutes 40% of overall revenue followed by CRAMS of 25% and the rest from refrigerant (~18%) and inorganic fluoride (~17%) businesses

Q4FY22 Results: Numbers were largely in-line. Specialty chemical segment lead the show even as CDMO sales were muted.

- Reported revenue growth was 21.7% YoY to ₹ 398 crore, led by speciality chemical (up 32% YoY) and HPP (Refrigerants Gas + Inorganic Chemicals+ HPP) (up 32%). The revenue from CDMO was down by 12% YoY to ₹ 59 crores.
- Gross margins were down 41 bps YoY to 54.1% while EBITDA margin increased by 110 bps YoY to 24.9%, due to decrease in other expenses (down 29% YoY).
- EBITDA was up 27% YoY to ₹ 99.1 crores.
- Adjusted PAT increased 31% YoY to ₹ 97.4 crores.

What should investors do? The stock appreciated at 91% CAGR in last three years

- We retain **HOLD** rating on the back of better growth outlook from value added segments such as CDMO and Specialty chemicals

Target Price and Valuation: We value Navin Fluorine at 50x FY24E EPS of ₹ 89 to arrive at a target price of ₹ 4450/share (earlier ₹ 4040/share).

Key triggers for future price performance:

- Upcoming capex for speciality chemical and HPP to aid value added business revenue mix and thereby group return ratios
- Potential entry into other key segments of fluorine molecules
- Expected traction in CDMO from H2FY23 onwards

Alternate Stock Idea: Apart from Navin Fluorine, in our chemical coverage, we also like Neogen Chemicals.

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 1870



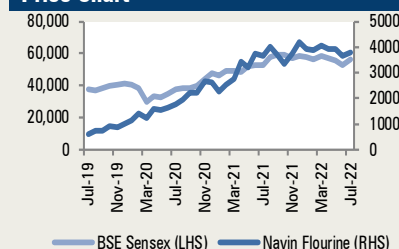
Particulars

Particular	Amount
Market cap (₹ Crore)	20,812
FY22 Total Debt (₹ Crore)	104
FY22 Cash & Inv (₹ Crore)	200
EV (₹ Crore)	20,716
52 Week H/L	4339/3196
Equity Capital (₹ Crore)	9.9
Face Value (₹)	2

Shareholding pattern

in %	Sept-21	Dec-21	Mar-22	Jun-22
Promoter	30.2	30.2	29.7	29.7
FII	26.4	25.3	23.5	21.4
DII	15.2	16.0	18.3	20.8
Others	28.2	28.6	28.5	28.1

Price Chart



Recent event & key risks

- Capex of ₹80 crore approved by Board for new molecule in HPP.
- Key Risk:** (i) Cancellation of any order or slowdown in order booking, (ii) Sharper than expected improvement in gross margins

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	995.9	1,061.6	1,179.4	1,453.4	14.4%	2,003.3	2,673.9	35.6%
EBITDA	218.4	263.5	309.3	354.8	17.4%	500.8	695.2	40.0%
EBITDA Margins (%)	21.9%	24.8%	26.2%	24.4%		25.0%	26.0%	
Adj. PAT	149.1	179.1	222.9	259.0	13.7%	333.5	441.2	30.5%
Adj. EPS (₹)	30.1	36.2	45.0	52.3		67.3	89.0	
EV/EBITDA	94.1x	77.6x	65.2x	58.4x		41.8x	30.6x	
P/E	139.3x	116.1x	93.3x	80.3x		62.4x	47.2x	
ROE (%)	13.9	12.7	13.6	14.0		15.8	17.9	
ROCE (%)	20.9	18.4	21.0	17.8		18.7	19.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q4FY22 Results: Decent growth across all segment led performance

- **High value business:** Revenues were up 17.5% YoY to ₹ 235 crores, led by speciality chemical segment. The revenue from speciality chemical was up by 32% YoY to ₹ 176 crores, while the same from CDMO was decreased by 12% YoY to ₹ 59 crores.
- **Legacy business:** Revenue increased 32.2% YoY to ₹ 152 crore, driven by higher volumes as well as strong pricing power.

Q4FY22 Earnings Conference Call highlights

1. **Specialty Chemicals –**
 - a. Achieved highest quarterly revenues.
 - b. Significant improvement in visibility driven by repeat orders from customers.
 - c. Strong pipeline of growth opportunities, especially in agrochemicals, driven by principles of 3P: Product, Platform & Partnership
2. **CDMO (CRAMS) –**
 - a. C-GMP-3 plant capacity expansion work on track to be commissioned in Q3FY23
 - b. Focus on expanding project pipeline and further diversifying customer base
 - c. Client audits at the plants are going well giving us confidence on growth of this business unit
3. **HPP (Refrigerant Gas + Inorganic Fluorides + HPP) –**
 - a. Higher sales driven by higher volumes as well as strong pricing power
 - b. Revenues from the new plant set up for Honeywell to start from Q2FY23
 - c. Debottlenecking capex of ₹80 Crores approved by board for a new molecule in HPP business unit in Surat.

NEW CAPEX

- Debottlenecking capex of ₹80 Crores approved by board for a new molecule in HPP business unit in Surat.
- Full revenue will be commissioned from FY24 & FY25.
- Annual Revenue of ~₹150 crores can be estimated.

Capacity Utilization

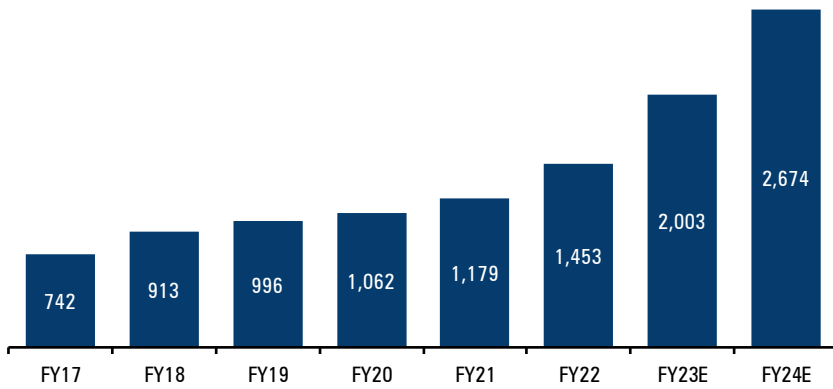
- HPP Plant in Surat is operating at full utilization rate
- Specialty Chemical Plant is operating at optimum capacity
- MPP Plant is operating at full capacity
- Inorganic Plant – Smaller molecules – some head room is available
- Inorganic Plant – Larger Molecules – operating at Full capacity
- CDMO – capacity available but from the month of August it will be operating at optimum level.

Miscellaneous Update

- Company has bifurcated the business into 3 segments earlier it was 4 segments. The 3 new segments are
 - Specialty Chemicals (earlier Specialty chemicals)
 - CDMO (earlier CRAMS)
 - HPP (earlier Refrigerant Gas + Inorganic Fluorides + HPP)
- Speciality Chemicals reported highest ever quarter. Primarily results were due to increase in volume of existing company while secondary was due to launch of 1 new molecule.
- Company has entered into long term contracts for some key raw material
- Company looks H1 to be softer and H2 to be much stronger

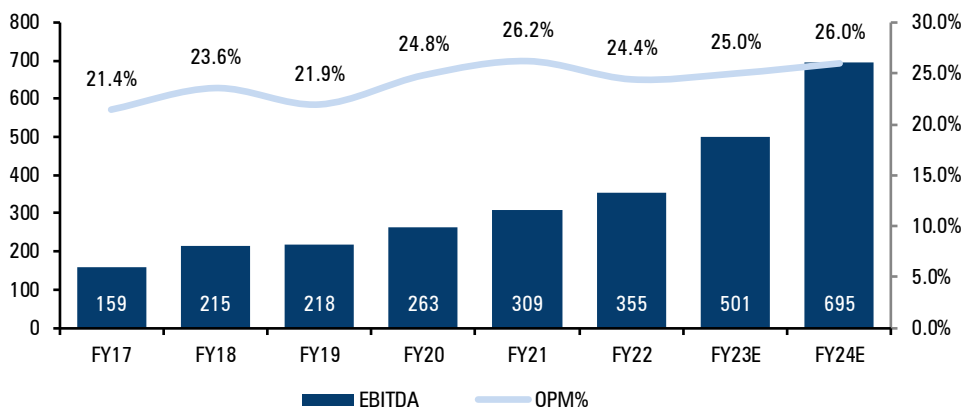
Financial story in charts....

Exhibit 1: Better growth visibility from ongoing capex to aid topline (₹ crore)



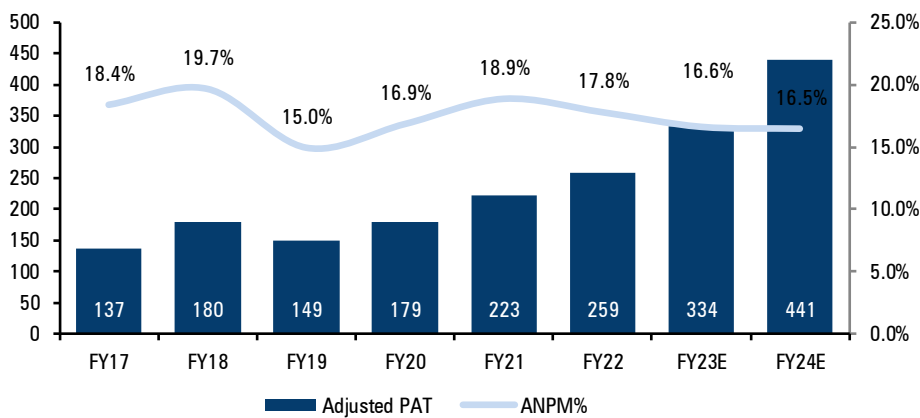
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
Total Operating Income	1,061.6	1,179.4	1,453.4	2,003.3	2,673.9
Growth (%)	6.6	11.1	23.2	37.8	33.5
Raw Material Expenses	483.8	537.4	665.6	921.5	1,216.6
Employee Cost	130.8	141.7	181.5	240.4	320.9
Other Expenses	183.5	191.0	251.4	340.6	441.2
Total Operating Expenditure	798.1	870.1	1,098.6	1,502.5	1,978.7
EBITDA	263.5	309.3	354.8	500.8	695.2
Growth (%)	20.7	17.4	14.7	41.2	38.8
Other Income	33.3	79.0	39.2	30.2	38.8
Depreciation	37.0	44.2	47.9	80.2	132.1
Net Interest Exp.	2.0	1.8	1.9	6.1	13.6
Other exceptional items	0.0	15.5	0.0	0.0	0.0
PBT	257.8	357.8	344.2	444.7	588.2
Total Tax	-143.6	110.8	81.2	111.2	147.1
PAT	401.4	247.1	263.1	333.5	441.2
Adjusted PAT	179.1	222.9	259.0	333.5	441.2
Growth (%)	20.1	24.5	16.2	28.8	32.3
Adjusted EPS (₹)	36.2	45.0	52.3	67.3	89.0

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
PBT & Extraordinary	257.8	357.8	344.2	444.7	588.2
Add: Depreciation	37.0	44.2	47.9	80.2	132.1
After other adjustments (Inc) / Dec in Working Capital	-70.6	-125.5	-210.4	-196.1	-218.2
Taxes	-46.2	17.3	-78.1	-111.2	-147.1
Others	-21.3	-56.6	-28.9	6.1	13.6
CF from operating activities	156.7	237.3	74.7	223.8	368.7
Purchase of Fixed Assets	-107.7	-98.7	-578.9	-380.0	-565.0
Others	192.9	-138.4	406.5	0.0	0.0
CF from investing activities	85.1	-237.1	-172.4	-380.0	-565.0
Issue/(Buy back) of Equity	1.2	1.4	2.7	0.0	0.0
Inc/(dec) in loan funds	-8.7	1.1	102.0	200.0	300.0
Dividend paid & dividend tax	-71.4	-39.4	-54.2	-66.7	-88.2
Others	-2.0	-8.2	-9.0	-6.1	-13.6
CF from financing activities	-80.9	-45.1	41.5	127.2	198.1
Net cash flow	160.9	-44.9	-56.1	-29.1	1.8
Opening cash	37.0	283.8	543.9	95.8	66.7
Closing cash	283.8	543.9	95.8	66.7	68.6

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Equity Capital	9.9	9.9	9.9	9.9	9.9
Reserves & Surplus	1,402.3	1,624.0	1,834.3	2,101.1	2,454.0
Total Shareholders Funds	1,412.2	1,633.9	1,844.2	2,111.0	2,464.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	0.0	0.0	100.0	300.0	500.0
Net Deferred Tax liability	0.0	20.7	20.1	20.1	20.1
Other long term liabilities	28.9	29.1	23.5	32.4	43.3
Long term provisions	10.3	11.8	13.7	18.9	25.2
Current Liabilities and Provisions					
Short term borrowings	1.4	2.5	4.5	4.5	104.5
Trade Payables	98.1	107.4	146.5	208.6	293.0
Other Current Liabilities	74.9	89.0	227.5	313.6	418.6
Short Term Provisions	2.8	3.1	5.4	7.4	9.9
Total Current Liabilities	177.2	202.0	383.9	534.1	826.0
Total Liabilities	1,628.5	1,897.5	2,385.5	3,016.5	3,878.6
Assets					
Net Block	386.0	398.5	415.9	1,252.8	1,840.7
Capital Work in Progress	38.9	94.9	742.1	205.0	50.0
Intangible assets under devl.	0.0	0.0	0.0	0.0	0.0
Goodwill on Consolidation	87.8	87.8	87.8	87.8	87.8
Non-current investments	127.9	14.5	13.9	13.9	13.9
Deferred tax assets	15.1	0.0	0.0	0.0	0.0
Long term loans and advances	9.9	4.3	6.0	8.3	11.0
Other Non Current Assets	179.5	102.8	100.5	118.6	140.6
Current Assets, Loans & Advances					
Current Investments	67.5	84.5	104.2	104.2	104.2
Inventories	157.9	180.4	257.5	384.2	527.5
Sundry Debtors	218.5	284.1	357.7	494.0	659.3
Cash and Bank	283.8	543.9	95.8	66.7	68.6
Loans and Advances	4.5	2.7	0.5	0.5	0.5
Other Current assets	51.4	99.2	203.5	280.6	374.5
Current Assets	783.6	1,194.7	1,019.3	1,330.2	1,734.5
Total Assets	1,628.5	1,897.5	2,385.5	3,016.5	3,878.6

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adj. EPS	36.2	45.0	52.3	67.3	89.0
Adj. Cash EPS	43.7	54.0	61.9	83.5	115.7
BV	285.3	330.1	372.2	426.0	497.3
DPS	7.0	11.0	11.0	13.5	17.8
Operating Ratios (%)					
Gross Margin (%)	54.4	54.4	54.2	54.0	54.5
EBITDA Margin (%)	24.8	26.2	24.4	25.0	26.0
PAT Margin (%)	16.9	18.9	17.8	16.6	16.5
Debtor Days	75	88	90	90	90
Inventory Days	54	56	65	70	72
Creditor Days	34	33	37	38	40
Cash Conversion Cycle	96	110	118	122	122
Return Ratios (%)					
Return on Assets (%)	11.0	11.7	10.9	11.1	11.4
RoCE (%)	18.4	21.0	17.8	18.7	19.6
RoE (%)	12.7	13.6	14.0	15.8	17.9
Solvency					
Total Debt / Equity	0.0	0.0	0.1	0.1	0.2
Interest Coverage	129.9	187.2	182.2	73.5	44.1
Current Ratio	4.4	5.9	2.7	2.5	2.1
Quick Ratio	3.5	5.0	2.0	1.8	1.5
Valuation Ratios (x)					
EV/EBITDA	77.6	65.2	58.4	41.8	30.6
P/E	116.1	93.3	80.3	62.4	47.2
P/B	14.7	12.7	11.3	9.9	8.4
EV/Sales	19.3	17.1	14.3	10.5	7.9

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2340	2,735	Buy	69,466	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	2729	3,155	Buy	41,403	55.5	64.4	78.9	49.2	42.4	34.6	35.0	29.4	23.8	16.3	17.2	18.4	13.8	13.9	14.7
Aarti Industries	712	860	Hold	25,812	21.7	24.4	30.7	32.8	29.2	23.2	22.6	18.9	15.4	12.0	12.6	13.6	13.3	13.2	14.4
Tata Chemical	825	1,155	Buy	21,009	47.5	63.6	73.0	17.4	13.0	11.3	12.4	9.1	6.8	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2018	2,320	Buy	20,745	33.7	40.1	51.5	59.8	50.3	39.2	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	474	520	Buy	23,679	8.5	10.2	11.5	55.9	46.7	41.1	35.9	30.1	26.0	30.2	28.6	26.7	22.0	21.3	19.9
Navin Fluorine	4200	4,450	Hold	20,812	52.3	67.4	89.0	80.3	62.3	47.2	58.4	41.8	30.6	17.8	18.7	19.6	14.0	15.8	17.9
Rallis India	208	200	Hold	3,987	8.4	8.9	12.4	24.3	23.1	16.6	13.9	14.1	10.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	425	565	Buy	2,939	18.8	23.7	31.5	22.6	18.0	13.5	14.2	11.5	8.9	10.9	13.3	16.6	15.6	17.2	19.5
Neogen Chemicals	1348	1,870	Buy	3,362	17.9	30.1	37.4	75.3	44.8	36.0	43.5	30.0	24.3	12.0	15.7	17.1	10.2	14.8	15.7
Astec Lifesciences	1959	2,215	Buy	3,840	45.1	54.8	69.3	43.4	35.7	28.3	25.0	21.0	16.7	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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