

## Strong beat across segments; valuations fair...

**About the stock:** Navin Fluorine (NFIL) operates one of the largest integrated fluorochemicals complexes in India with a presence in speciality chemicals, CDMO, 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 chemicals constitute 40% of overall revenues followed by CDMO 25% and the rest from refrigerants (~18%) and inorganic fluoride (~17%) businesses

**Q3FY23 Results:** Numbers were above I-direct expectations mainly due to strong CDMO performance even as other segments reported decent growth.

- Reported revenue growth was 48.7% YoY to ₹ 563.6 crore, led by specialty chemical (up 22% YoY), HPP (refrigerants gas + inorganic chemicals+ HPP) (up 63% YoY). Revenues from CDMO were up 108% YoY to ₹ 125 crore
- Gross margins were up 65 bps YoY to 56.3% while EBITDA margin rose 159 bps YoY to 27.6%. Absolute EBITDA was up 58% YoY to ₹ 155.6 crore
- Adjusted PAT rose 40% YoY to ₹ 131.3 crore. Finance cost was at ₹ 9.2 crore vs. ₹ 40 lakh in Q3FY22. Depreciation was up by 106% YoY to ₹ 25 crore

**What should investors do?** The stock appreciated at 55.3% CAGR in last three years.

- We maintain **HOLD** as the current price fairly reflects better growth outlook from speciality chemicals, HPP and recovery in CDMO

**Target Price and Valuation:** We value Navin Fluorine at 42x FY25E EPS of ₹ 102.1 to arrive at a target price of ₹ 4285/share (earlier ₹ 4570/share).

### Key triggers for future price performance:

- Ramping up of HPP, MPP and agrochemical intermediate to aid value added business revenue mix and thereby group return ratios
- Potential entry into other key segments of fluorine molecules
- Demand from performance chemicals to support revenue growth

**Alternate Stock Idea:** Besides NFIL, in our chemical coverage, we like SRF.

- Trigger for SRF's future revenue growth would be increasing specialty chemical business.
- BUY with a target price of ₹ 2550.



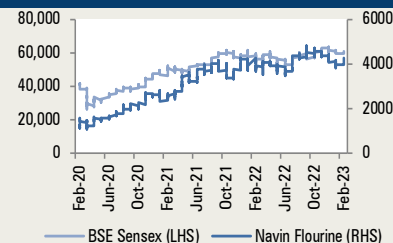
### Particulars

Particular	Amount
Market cap (₹ Crore)	21,196
FY22 Total Debt (₹ Crore)	104
FY22 Cash & Inv (₹ Crore)	200
EV (₹ Crore)	21,100
52 Week H/L	4848/3360
Equity Capital (₹ Crore)	9.9
Face Value (₹)	2

### Shareholding pattern

in %	Dec-21	Mar-22	Jun-22	Dec-22
Promoter	30.2	29.7	29.4	29.4
FII	25.3	23.5	20.1	19.2
DII	16.0	18.3	22.7	23.8
Others	28.6	28.5	27.9	27.6

### Price Chart



### Recent event & key risks

- Commercialisation of HPP, MPP and one Agrochemical Intermediate plant
- Key Risk:** (i) New molecules to aid revenue growth (ii) Sharper than expected increase in raw material prices

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## Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Revenue	995.9	1,061.6	1,179.4	1,453.4	14.4%	1,962.2	2,647.0	3,141.4	29.3%
EBITDA	218.4	263.5	309.3	354.8	17.4%	490.5	675.0	816.8	32.0%
EBITDA Margins (%)	21.9%	24.8%	26.2%	24.4%		25.0%	25.5%	26.0%	
Adj. PAT	149.1	179.1	222.9	259.0	13.7%	325.5	426.1	505.8	25.0%
Adj. EPS (₹)	30.1	36.2	45.0	52.3		65.7	86.0	102.1	
EV/EBITDA	93.2x	76.9x	64.6x	57.9x		42.3x	31.2x	25.2x	
P/E	138.0x	115.0x	92.4x	79.6x		63.4x	48.4x	40.8x	
ROE (%)	13.9	12.7	13.6	14.0		15.5	17.4	17.7	
ROCE (%)	20.9	18.4	21.0	17.8		18.3	19.1	20.0	

## Key takeaways of recent quarter & conference call highlight

### Q3FY23 Results: Strong growth across all segment led by capacity ramp up and product mix

- **High value business (specialty chemical & CRAMS):** Revenues were up 46.7% YoY to ₹ 311 crore, led by strong growth in CRAMS segment while stability in speciality chemical segment. The revenue from speciality chemical was up 22% YoY to ₹ 186 crore while the same from CDMO increased 108% YoY to ₹ 125 crore
- **Legacy business (HPP):** Revenue increased 63.2% YoY to ₹ 253 crore, driven by commissioning of hydrofluoroolefins (HFO) and better realisations of refrigerant gas

Navin - ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	12.7	12.7	12.7
Social	20.6	20.6	20.6
Governance	78.6	78.6	78.6
<b>Overall ESG Score</b>	<b>37.34</b>	<b>37.34</b>	<b>37.34</b>

Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

### Q3FY23 Earnings Conference Call highlights

#### 1. Specialty Chemicals –

- Highest quarterly revenue achieved in Q3FY23
- Successful completion of plants by four multi-national MNC companies
- MPP and dedicated plant for agrochemical intermediate started during Q3FY23 and supplied the first batches of commercial products
- Honeywell and agrochemical intermediate are dedicated facilities and the management focus on using at full capacity in Q4FY23
- Four customers are currently auditing the Navin plant of which two are from performance material side. Three are new customers and one is exiting one
- Specialty chemical numbers are primarily driven by volume. New products from two new projects aided overall growth

#### 2. CDMO (CRAMS) –

- Highest quarterly revenue achieved in in Q3 FY23
- New project in Surat to start production from Q2FY24
- Received purchased order of \$16 million for late – stage clinical trial, which will be commissioned in Q2CY23 and Q3CY23. Some part of the contract was present in current quarter

#### 3. HPP (Refrigerant Gas + Inorganic Fluorides + HPP) –

- Highest quarterly revenue achieved in in Q3 FY23
- New plant in Dahej achieved close to designed capacity in December
- New project in Surat to start production from Q2FY24

### Management comments-

#### Gross margin

- The company recorded gross margins of 56.2% in Q2FY23. This was achieved due to product mix within existing business unit and ramp up in Hydrofluoroolefins (HFO).

#### HFO

- HFO caters to a wide range of application. International MNC like Du Pont and Chemours are currently not involved in this molecule. Currently the management is identifying ways as HFO can be used as intermediate. The management to focus on gaining market share of HFC in future
- HFO quarterly numbers Are expected to be better due to ramping up and plant was operating at full capacity in January compared to December

#### MPP Plant

- Commercialisation of one molecule has been done in the current quarter. Out of the five molecules, four are for agrochemical and one for pharma. All agrochemical molecules will cater to international market

## CDMO

- CDMO growth should be seen on an annual basis. Q4FY23 CDMO business will be in line with Q3FY23 business or could be better than Q3FY23

## Pharma chemical business

Revenue contribution	Few years back	Currently
Agrochemical	40%	60%
Pharma	40%	20%
Industrial Chemical	20%	20%

- Management's future revenue contribution is one-third from agrochemical, one-third from performance materials and one-third from pharma and industrial chemicals. Performance material side is seeing good traction for fluorine products. The management is trying to identify the opportunities
- The management is focusing on reducing the dependence on generic pharma business. However, innovative patented molecule in CDMO business will be crucial

## Recession

- The management seems concerned about recession hitting the market in H2CY23. They believe the business may see some softening due to longer period recession. Being the upstream company the management will consider the impact and finalise the annual business plan
- HFO business may get affected due to recession while slowdown in agrochemical may be impacted by drought faced in Brazil

## Capex

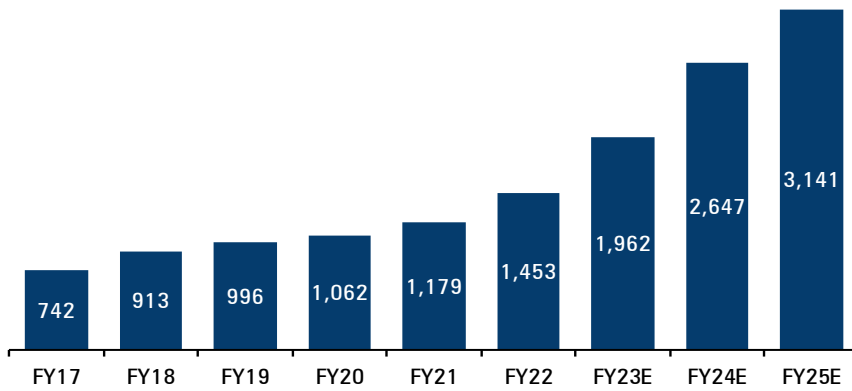
- The management may invest in a few projects in FY25, consisting of ~ ₹200 crore investment. Details about the project will be shared once the board finalises the approval. Projects may be debottlenecking, cGMP4, etc.

## Others

- There is no problem on raw material end. Availability and escalation in price are not an issue at the current moment
- Reduction of custom duty of fluorspar will have a marginal benefit of ~₹ 4-5 crore to the company
- Asset turnover for the upcoming projects likely to be in range of 1.3-1.6x

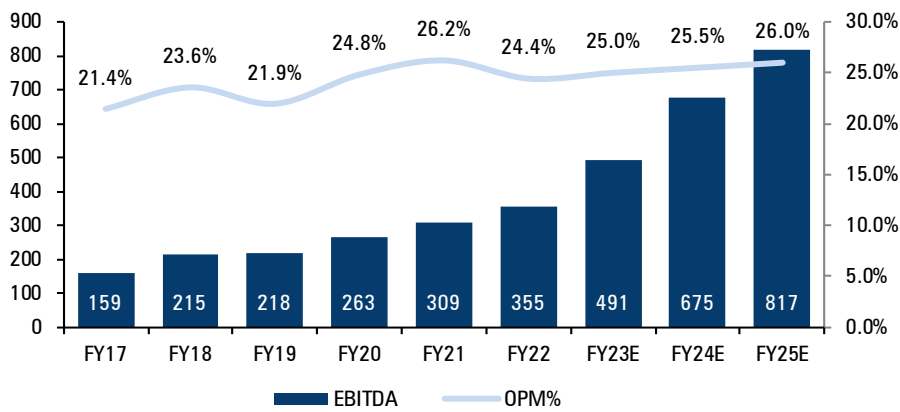
Financial story in charts....

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



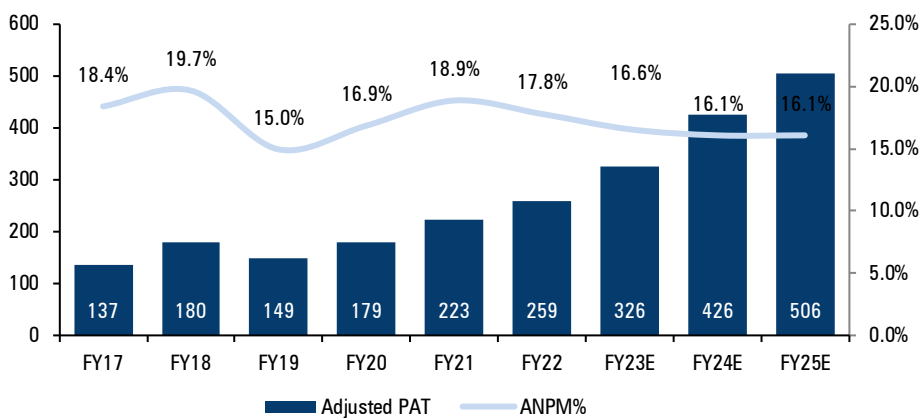
Source: Company, ICICI Direct Research

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	FY21	FY22	FY23E	FY24E	FY25E	
<b>Total Operating Income</b>	<b>1,179.4</b>	<b>1,453.4</b>	<b>1,962.2</b>	<b>2,647.0</b>	<b>3,141.4</b>	
Growth (%)	11.1	23.2	35.0	34.9	18.7	
Raw Material Expenses	537.4	665.6	902.6	1,191.1	1,382.2	
Employee Cost	141.7	181.5	235.5	330.9	392.7	
Other Expenses	191.0	251.4	333.6	450.0	549.7	
Total Operating Expenditure	870.1	1,098.6	1,471.6	1,972.0	2,324.6	
<b>EBITDA</b>	<b>309.3</b>	<b>354.8</b>	<b>490.5</b>	<b>675.0</b>	<b>816.8</b>	
Growth (%)	17.4	14.7	38.3	37.6	21.0	
Other Income	79.0	39.2	29.8	38.9	47.1	
Depreciation	44.2	47.9	80.2	132.1	171.3	
Net Interest Exp.	1.8	1.9	6.1	13.6	18.1	
Other exceptional items	15.5	0.0	0.0	0.0	0.0	
PBT	357.8	344.2	434.0	568.1	674.3	
Total Tax	110.8	81.2	108.5	142.0	168.6	
<b>PAT</b>	<b>247.1</b>	<b>263.1</b>	<b>325.5</b>	<b>426.1</b>	<b>505.8</b>	
Adjusted PAT	222.9	259.0	325.5	426.1	505.8	
Growth (%)	24.5	16.2	25.7	30.9	18.7	
Adjusted EPS (₹)	45.0	52.3	65.7	86.0	102.1	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement						₹ crore
Year end March	FY21	FY22	FY23E	FY24E	FY25E	
PBT & Extraordinary	357.8	344.2	434.0	568.1	674.3	
Add: Depreciation	44.2	47.9	80.2	132.1	171.3	
After other adjustments						
(Inc) / Dec in Working Capital	-125.5	-210.4	-182.7	-222.8	-160.9	
Taxes	17.3	-78.1	-108.5	-142.0	-168.6	
Others	-56.6	-28.9	6.1	13.6	18.1	
<b>CF from operating activities</b>	<b>237.3</b>	<b>74.7</b>	<b>229.1</b>	<b>349.0</b>	<b>534.3</b>	
Purchase of Fixed Assets	-98.7	-578.9	-380.0	-565.0	-400.0	
Others	-138.4	406.5	0.0	0.0	0.0	
<b>CF from investing activities</b>	<b>-237.1</b>	<b>-172.4</b>	<b>-380.0</b>	<b>-565.0</b>	<b>-400.0</b>	
Issue/(Buy back) of Equity	1.4	2.7	0.0	0.0	0.0	
Inc/(dec) in loan funds	1.1	102.0	200.0	300.0	0.0	
Dividend paid & dividend tax	-39.4	-54.2	-65.1	-85.2	-101.2	
Others	-8.2	-9.0	-6.1	-13.6	-18.1	
<b>CF from financing activities</b>	<b>-45.1</b>	<b>41.5</b>	<b>128.8</b>	<b>201.1</b>	<b>-119.3</b>	
Net cash flow	-44.9	-56.1	-22.1	-14.8	15.1	
Opening cash	283.8	543.9	95.8	73.7	58.9	
<b>Closing cash</b>	<b>543.9</b>	<b>95.8</b>	<b>73.7</b>	<b>58.9</b>	<b>73.9</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet						₹ crore
Year end March	FY21	FY22	FY23E	FY24E	FY25E	
<b>Liabilities</b>						
Equity Capital	9.9	9.9	9.9	9.9	9.9	
Reserves & Surplus	1,624.0	1,834.3	2,094.7	2,435.6	2,840.2	
<b>Total Shareholders Funds</b>	<b>1,633.9</b>	<b>1,844.2</b>	<b>2,104.6</b>	<b>2,445.5</b>	<b>2,850.1</b>	
Minority Interest	0.0	0.0	0.0	0.0	0.0	
Long Term Borrowings	0.0	100.0	300.0	500.0	400.0	
Net Deferred Tax liability	20.7	20.1	20.1	20.1	20.1	
Other long term liabilities	29.1	23.5	31.8	42.9	50.9	
Long term provisions	11.8	13.7	18.5	24.9	29.6	
<b>Current Liabilities and Provisions</b>						
Short term borrowings	2.5	4.5	4.5	104.5	204.5	
Trade Payables	107.4	146.5	204.3	290.1	344.3	
Other Current Liabilities	89.0	227.5	307.2	414.4	491.8	
Short Term Provisions	3.1	5.4	7.3	9.8	11.7	
Total Current Liabilities	202.0	383.9	523.2	818.7	1,052.2	
<b>Total Liabilities</b>	<b>1,897.5</b>	<b>2,385.5</b>	<b>2,998.2</b>	<b>3,852.2</b>	<b>4,402.8</b>	
<b>Assets</b>						
Net Block	398.5	415.9	1,252.8	1,840.7	2,069.3	
Capital Work in Progress	94.9	742.1	205.0	50.0	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	14.5	13.9	13.9	13.9	13.9	
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	
Long term loans and advances	4.3	6.0	8.1	10.9	12.9	
Other Non Current Assets	102.8	100.5	117.3	139.8	156.0	
<b>Current Assets, Loans &amp; Advances</b>						
Current Investments	84.5	104.2	104.2	104.2	104.2	
Inventories	180.4	257.5	376.3	522.1	619.7	
Sundry Debtors	284.1	357.7	483.8	652.7	774.6	
Cash and Bank	543.9	95.8	73.7	58.9	73.9	
Loans and Advances	2.7	0.5	0.5	0.5	0.5	
Other Current assets	99.2	203.5	274.8	370.7	439.9	
Current Assets	1,194.7	1,019.3	1,313.4	1,709.1	2,012.9	
<b>Total Assets</b>	<b>1,897.5</b>	<b>2,385.5</b>	<b>2,998.2</b>	<b>3,852.2</b>	<b>4,402.8</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY21	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>					
Adj. EPS	45.0	52.3	65.7	86.0	102.1
Adj. Cash EPS	54.0	61.9	81.9	112.7	136.6
BV	330.1	372.2	424.7	493.5	575.2
DPS	11.0	11.0	13.1	17.2	20.4
<b>Operating Ratios (%)</b>					
Gross Margin (%)	54.4	54.2	54.0	55.0	56.0
EBITDA Margin (%)	26.2	24.4	25.0	25.5	26.0
PAT Margin (%)	18.9	17.8	16.6	16.1	16.1
Debtor Days	88	90	90	90	90
Inventory Days	56	65	70	72	72
Creditor Days	33	37	38	40	40
Cash Conversion Cycle	110	118	122	122	122
<b>Return Ratios (%)</b>					
Return on Assets (%)	11.7	10.9	10.9	11.1	11.5
RoCE (%)	21.0	17.8	18.3	19.1	20.0
RoE (%)	13.6	14.0	15.5	17.4	17.7
<b>Solvency</b>					
Total Debt / Equity	0.0	0.1	0.1	0.2	0.2
Interest Coverage	187.2	182.2	71.8	42.7	38.2
Current Ratio	5.9	2.7	2.5	2.1	1.9
Quick Ratio	5.0	2.0	1.8	1.4	1.3
<b>Valuation Ratios (x)</b>					
EV/EBITDA	64.6	57.9	42.3	31.2	25.2
P/E	92.4	79.6	63.4	48.4	40.8
P/B	12.6	11.2	9.8	8.4	7.2
EV/Sales	16.9	14.1	10.6	8.0	6.5

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	2182	2,550	Buy	64,894	63.5	58.3	73.6	34.4	37.4	29.7	21.3	22.4	17.9	23.8	18.9	21.0	22.1	17.7	19.0
PI Industries	3620	3,930	Hold	50,572	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Tata Chemical	965	1,170	Buy	24,642	93.0	97.3	110.6	10.4	9.9	8.7	6.6	5.5	5.4	11.8	11.3	11.7	11.6	11.0	11.2
Vinati Organics	1888	2,055	Hold	19,405	33.7	41.6	48.0	56.0	45.4	39.4	44.7	35.6	30.3	24.3	23.9	22.4	19.0	19.7	19.2
Sumitomo Chemical	438	525	Buy	21,860	8.5	10.8	12.4	51.6	40.5	35.2	35.7	28.4	24.2	30.2	30.1	28.1	22.0	22.4	20.9
Navin Fluorine	4162	4,285	Hold	20,668	52.3	65.7	86.0	79.6	63.4	48.4	57.9	42.3	31.2	17.8	18.3	19.1	14.0	15.5	17.4
Rallis India	224	223	Hold	4,353	8.4	8.7	11.8	26.5	25.7	18.9	15.2	15.5	11.4	12.7	11.4	14.7	9.7	9.4	11.6
Sudarshan chemical	391	385	Hold	2,621	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1245	1,645	Buy	3,109	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	1710	2,215	Buy	3,356	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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