

Accumulate

- Navin Fluorine International Ltd (NFIL IN) reported a stellar 2QFY21 performance. Sales/EBITDA/PAT beat our estimates as Sales grew by 16.8% YoY to Rs 3.19bn (D.est: Rs 2.56bn).
- EBITDA/PAT grew by 33.2/43.3% YoY to Rs 907/678mn (D.est: Rs 646/462mn).
- Gross margins improved by 151bps YoY to 55.1% owing to change in business mix, EBITDA margins improved even higher 348bps YoY to 28.4% as operating leverage played out from c-GMP 3 plant (~80% utilization)

CRAMS recipe for growth

After a dismal FY20, 2QFY21 CRAMS revenues showed a significant improvement growing by 111% YoY to Rs 990mn. The company continues to foresee a robust enquiry pipeline and remains upbeat for 2HFY21 prospects (it is expected that the company replicates 1HF21 performance). The company added 2 clients in the CRAMS BU and expect capacity utilisations to sustain at current levels.

Specialty Chemicals growth could blip in FY22

The company is expected to grow its specialty chemicals BU at 10% YoY in FY21E to Rs 4.19bn. However, with capacity constraints for FY22 we could see a subdued volume growth for the year, given which the company is likely to incur capital expenditure to enhance capacities. We thus believe, the company could grow its specialty chemicals revenues by 25% over FY22-24E.

Outlook and Valuation

NFIL has a clean balance-sheet with cash and equivalents to the tune of Rs 3.5bn and strong FCFF generation beyond FY22E. The company's intent of creating additional capacity via small de-bottlenecking projects in specialty chemicals will take care of the near-term growth, while doing justice to the capital employed. We like NFIL's strength and capability in Fluorination, clean balance-sheet, focus on high margin portfolios and large option value from new business vertical. We maintain the multiples in our SOTP valuation and recommend investors to accumulate the stock at CMP. We have maintained our target price to Rs 2,463/share.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	3,189	2,729	16.8	2,149	48.4
Total Expense	2,282	2,048	11.4	1,611	41.6
EBITDA	907	681	33.2	538	68.6
Depreciation	109	85	27.7	107	1.4
EBIT	799	596	33.9	431	85.3
Other Income	97	92	5.0	362	(73.3)
Interest	4	4	0.4	3	18.6
EBT	891	684	30.2	790	12.9
Tax	247	219	12.9	260	(5.0)
RPAT	678	473	43.3	560	21.0
APAT	678	473	43.3	560	21.0
			(bps)		(bps)
Gross Margin (%)	55.1	53.6	151	57.7	(257)
EBITDA Margin (%)	28.4	25.0	348	25.0	341
NPM (%)	21.3	17.3	392	26.1	(480)
Tax Rate (%)	27.7	32.0	(425)	32.9	(520)
EBIT Margin (%)	25.0	21.8	320	20.1	499

CMP	Rs 2,275
Target / Upside	Rs 2,463 / 8%
NIFTY	11,671

Script Details

Equity / FV	Rs 99mn / Rs 2
Market Cap	Rs 113bn
	USD 2bn
52-week High/Low	Rs 2,300/ 825
Avg. Volume (no)	1,31,893
Bloom Code	NFIL IN

Price Performance	1M	3M	12M
Absolute (%)	3	31	155
Rel to NIFTY (%)	(1)	25	156

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	30.5	30.5	30.5
MF/Banks/FIs	18.6	18.9	18.5
FIIs	19.0	19.4	21.1
Public / Others	31.8	31.2	30.0

Valuation (x)

	FY22E	FY23E	FY24E
P/E	49.6	32.4	26.8
EV/EBITDA	34.0	22.1	17.9
ROE (%)	13.6	18.6	19.4
RoACE (%)	14.3	19.3	20.0

Estimates (Rs mn)

	FY22E	FY23E	FY24E
Revenue	12,707	18,383	21,145
EBITDA	3,221	4,915	5,975
PAT	2,268	3,476	4,203
EPS (Rs.)	45.8	70.3	84.9

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Focus on core business

NFIL's JV with Piramal Healthcare (Convergence Chemicals) within which NFIL had a 49% stake (for equity investment of Rs 343mn) has been acquired by Piramal Healthcare entirely for Rs 651mn + Rs 71mn for the land in GIDC earmarked for the said JV. **The company is also expected to retain the Hexafluoro Chemistry platform which could pave way for NFIL in 2 different applications 1) Pharmaceuticals 2) Electric batteries (Sulphur Hexafluoride, Uranium Hexafluoride, Lithium Hexafluoride are some of the key intermediates used in electric batteries which can find potential use in electric vehicles).**

Exhibit 1: SOTP Valuation

EBITDA (Rs mn)	FY20	FY21E	FY22E	FY23E	FY24E	Target Multiple (EV/EBITDA)	EV
Refrigerants	522	364	415	311	176	11.0	1,940
Inorganic Fluorides	186	124	130	137	144	11.0	1,582
Specialty Chemicals	1,048	922	1,153	1,403	1,753	25.0	43,834
CRAMS	865	1,274	1,609	2,172	2,749	25.0	68,724
HPP				1,000	1,000	25.0	25,000
Total	2,621	2,684	3,307	4,023	4,822		1,16,080
Gross Debt	14	14	14	14	14		14
Cash and Equivalents	3,513	3,122	2,909	3,978	5,802		5,802
Market Cap							1,21,868
No of Shares							49
Target Price (Rs)							2,463

Source: DART, Company

Exhibit 2: Actual Vs DART Estimates (Rs Mn)

Particulars	Actual	Estimated	Variance	Comments
Revenue	3,189	2,560	24.6	Higher than expected growth in CRAMS business
EBITDA	907	646	40.4	
EBITDA Margin(%)	28.4	25.2	321 bps	
PAT	678	462	46.6	

Source: DART, Company

Exhibit 3: Change in Estimates

Particulars (Rs Mn)	FY21E			FY22E		
	New	Previous	Change(%)	New	Previous	Change(%)
Revenue	11,802	11,802	-	12,707	13,524	(6.0)
EBITDA	3,033	2,942	3.1	3,221	3,447	(6.6)
EBITDA Margin(%)	25.7	24.9	77	25.4	25.5	(14)
PAT	2,474	2,129	16.2	2,268	2,435	(6.9)
EPS(Rs)	50.0	43.0	16.2	45.8	49.2	-6.9

Source: DART, Company

Con Call Highlights

Business Updates

- The company's capacity utilisation levels of its MPP plants stood at 80% for Q2FY21 which is well above the 70% level considered peak for a MPP plant.
- The management stated that the company's new HPP plant is on schedule for commissioning and is expected to be commissioned in Q4FY22.
- The company has declared an interim dividend of Rs 5 per share on a FV of 2 per share.

Full Exit from CCPL Joint Venture

- Navin Fluorine International sold its 49% stake (invested Rs 343mn) in Convergence Chemicals Private Limited (CCPL) to Piramal for a consideration of Rs 651mn along with an additional Rs 79mn for giving up leasehold rights of the GIDC land earmarked for CCPL.
- The full exit from the CCPL joint venture will however grant NFIL perpetual license to use the technical know-how for development and marketing of select products under the Hexafluoro Chemistry platform and the company will continue its RM supply agreement with CCPL.
- The company is currently working on developing derivatives in Hexafluoro chemistry which find application in the Pharma and Electric Vehicles space.

Legacy Business:

- Legacy business continues to be under pressure due to low demand from the end-users caused by the ongoing Covid Pandemic de-growing by 29% YoY to Rs 1.8bn in H1FY21 (de-grew by 12.3% YoY in Q2FY21 to Rs 1.07bn)
- Refrigerant Gases segment in H1FY21 de-grew by 30% YoY to Rs 580mn as exports revenue were impacted due to softening of prices. However, non-emissive applications continue to grow at a reasonable pace.
- Inorganic Fluorides saw a dip of 27% YoY to Rs770 mn in H1FY21 on the back of continued weak demand from the end user industrial category.

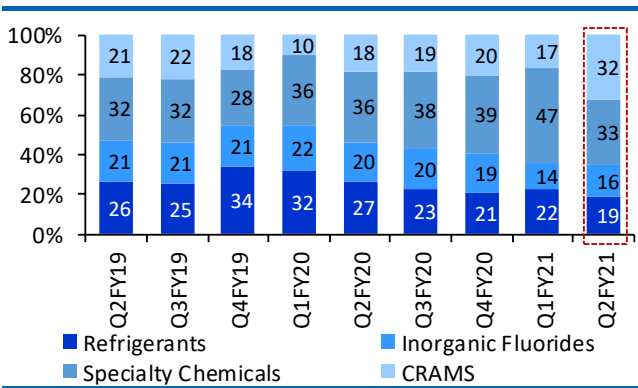
High Value Business:

- High Value Business grew by 32% YoY to Rs 3.32bn in H1FY21 contributing 65% to the total revenues while the growth in Q2FY21 came in at 42% with revenues of Rs 2.01bn.
- Specialty chemicals business segment grew by 11% YoY to Rs 1.99 bn in H1FY21 driven by continued growth momentum in its Life and Crop Sciences vertical.
- The management stated that the company has commissioned smaller de-bottlenecking capex at the end of Q2FY21 and also has plans for more de-bottlenecking activities in Q3FY21 which will increase capacities of its existing plants.
- CRAMS business segment grew by 85% YoY to Rs in H1FY21 (grew by 111% YoY in Q2FY21 with revenues of Rs 990 mn) on the back of higher capacity utilization levels.

Guidance:

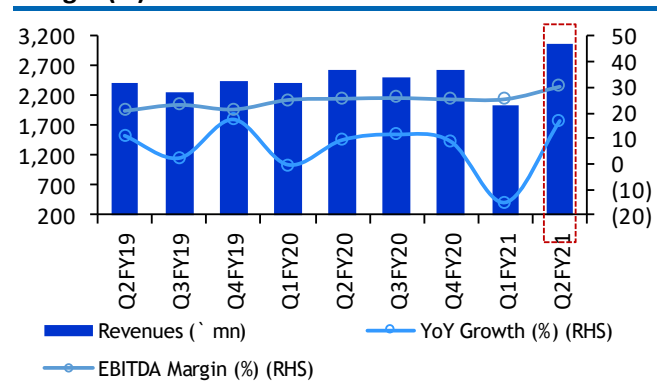
- The management expects to maintain the increased run rate in CRAMS segment of Rs 1.3 bn in H1FY21 for the 2nd half of the year on the back of small debottlenecking activities and higher capacity utilisations.
- Spec Chemicals growth for FY21 is expected to be on similar lines of last year while the management expects muted growth in FY22 due to debottlenecking activities.

Exhibit 4: Quarterly Revenue Mix (%)



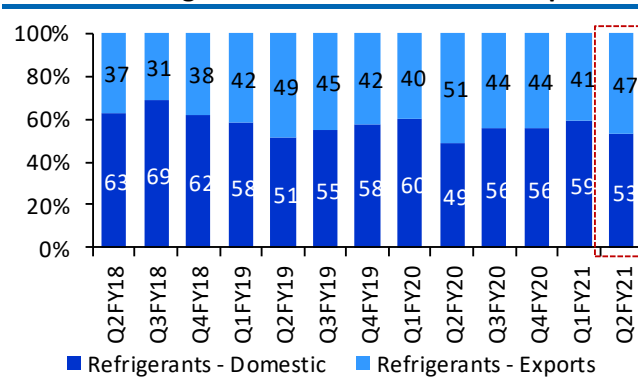
Source: DART, Company

Exhibit 5: Quarterly Revenue (Rs Mn) vs EBITDA Margin (%)



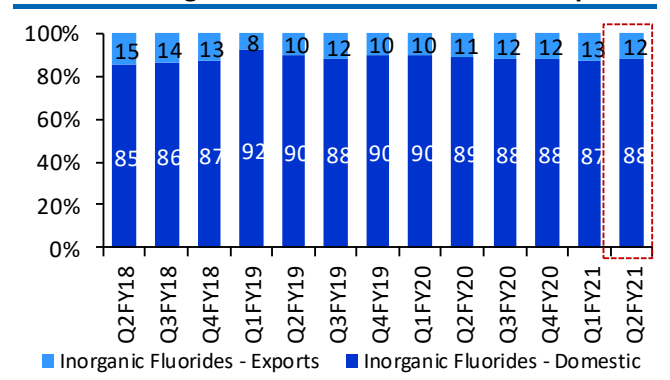
Source: DART, Company

Exhibit 6: Refrigerant Gases – Domestic vs Exports



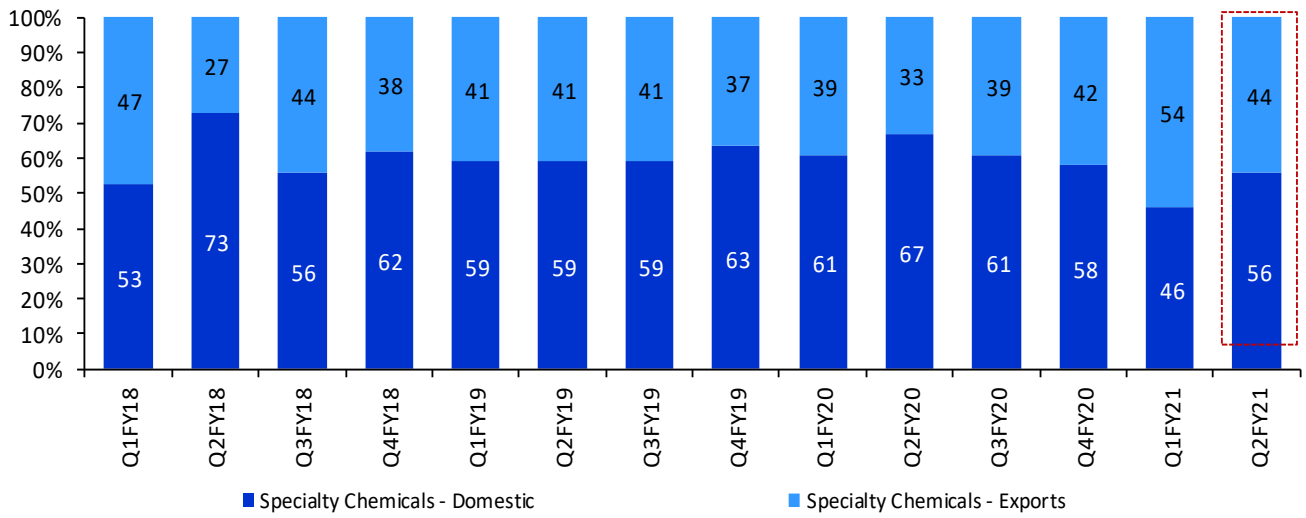
Source: DART, Company

Exhibit 7: Inorganic Fluorides – Domestic vs Exports



Source: DART, Company

Exhibit 8: Specialty Chemicals – Domestic vs Exports



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY21E	FY22E	FY23E	FY24E
Revenue	11,802	12,707	18,383	21,145
Total Expense	8,769	9,486	13,468	15,170
COGS	5,274	5,600	8,300	9,341
Employees Cost	1,425	1,567	1,822	2,002
Other expenses	2,070	2,318	3,346	3,826
EBIDTA	3,033	3,221	4,915	5,975
Depreciation	425	501	583	673
EBIT	2,608	2,721	4,332	5,302
Interest	50	101	103	105
Other Income	654	411	416	420
Exc. / E.O. items	0	0	0	0
EBT	3,212	3,031	4,646	5,617
Tax	809	763	1,169	1,414
RPAT	2,474	2,268	3,476	4,203
Minority Interest	0	0	0	0
Profit/Loss share of associates	70	0	0	0
APAT	2,474	2,268	3,476	4,203

Balance Sheet

(Rs Mn)	FY21E	FY22E	FY23E	FY24E
Sources of Funds				
Equity Capital	99	99	99	99
Minority Interest	0	0	0	0
Reserves & Surplus	15,794	17,300	19,956	23,280
Net Worth	15,893	17,399	20,055	23,379
Total Debt	14	14	14	14
Net Deferred Tax Liability	(151)	(151)	(151)	(151)
Total Capital Employed	15,755	17,262	19,918	23,242

Applications of Funds

Net Block	6,974	8,476	9,395	10,225
CWIP	100	100	100	100
Investments	1,829	1,829	1,829	1,829
Current Assets, Loans & Advances	8,837	8,916	11,119	13,841
Inventories	1,455	1,567	2,266	2,607
Receivables	2,357	2,538	2,973	3,530
Cash and Bank Balances	2,447	2,234	3,302	5,127
Loans and Advances	120	120	120	120
Other Current Assets	1,783	1,783	1,783	1,783
Less: Current Liabilities & Provisions	1,985	2,059	2,526	2,753
Payables	970	1,044	1,511	1,738
Other Current Liabilities	1,015	1,015	1,015	1,015
		<i>sub total</i>		
Net Current Assets	6,852	6,857	8,593	11,089
Total Assets	15,755	17,262	19,918	23,242

E – Estimates

Important Ratios

Particulars	FY21E	FY22E	FY23E	FY24E
(A) Margins (%)				
Gross Profit Margin	55.3	55.9	54.9	55.8
EBIDTA Margin	25.7	25.4	26.7	28.3
EBIT Margin	22.1	21.4	23.6	25.1
Tax rate	25.2	25.2	25.2	25.2
Net Profit Margin	21.0	17.8	18.9	19.9
(B) As Percentage of Net Sales (%)				
COGS	44.7	44.1	45.1	44.2
Employee	12.1	12.3	9.9	9.5
Other	17.5	18.2	18.2	18.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	52.1	26.9	42.1	50.5
Inventory days	45	45	45	45
Debtors days	73	73	59	61
Average Cost of Debt	356.8	720.5	734.4	748.7
Payable days	30	30	30	30
Working Capital days	212	197	171	191
FA T/O	1.7	1.5	2.0	2.1
(D) Measures of Investment				
AEPS (Rs)	50.0	45.8	70.3	84.9
CEPS (Rs)	58.6	56.0	82.0	98.6
DPS (Rs)	12.0	13.0	14.0	15.0
Dividend Payout (%)	24.0	28.4	19.9	17.7
BVPS (Rs)	321.2	351.7	405.3	472.5
RoANW (%)	16.5	13.6	18.6	19.4
RoACE (%)	16.5	14.3	19.3	20.0
RoAIC (%)	21.3	19.2	27.4	30.5
(E) Valuation Ratios				
CMP (Rs)	2275	2275	2275	2275
P/E	45.5	49.6	32.4	26.8
Mcap (Rs Mn)	1,12,563	1,12,563	1,12,563	1,12,563
MCap/ Sales	9.5	8.9	6.1	5.3
EV	1,09,454	1,09,668	1,08,599	1,06,774
EV/Sales	9.3	8.6	5.9	5.0
EV/EBITDA	36.1	34.0	22.1	17.9
P/BV	7.1	6.5	5.6	4.8
Dividend Yield (%)	0.5	0.6	0.6	0.7
(F) Growth Rate (%)				
Revenue	11.2	7.7	44.7	15.0
EBITDA	15.1	6.2	52.6	21.6
EBIT	15.2	4.3	59.2	22.4
PBT	24.6	(5.7)	53.3	20.9
APAT	(37.2)	(8.3)	53.3	20.9
EPS	(37.2)	(8.3)	53.3	20.9
Cash Flow				
(Rs Mn)	FY21E	FY22E	FY23E	FY24E
CFO	2,736	2,652	3,494	4,311
CFI	(2,374)	(2,002)	(1,502)	(1,502)
CFF	(753)	(863)	(923)	(984)
FCFF	362	649	1,992	2,808
Opening Cash	3,513	3,122	2,909	3,978
Closing Cash	3,122	2,909	3,978	5,802

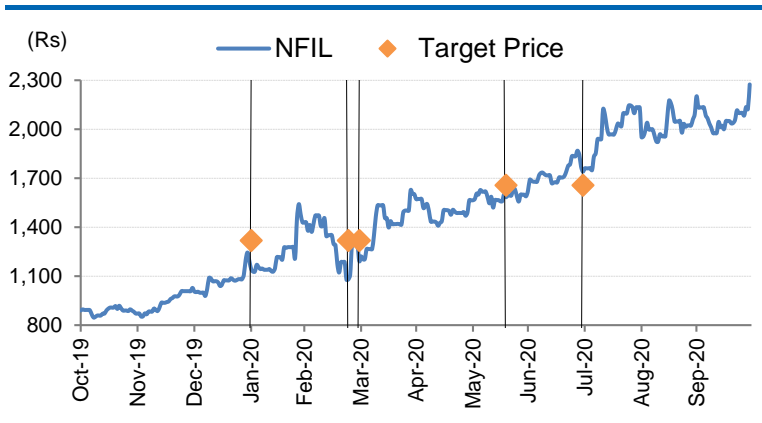
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-20	Accumulate	1,319	1,145
Mar-20	Buy	1,319	1,081
Mar-20	Reduce	1,319	1,193
Jun-20	Accumulate	1,657	1,584
Jul-20	Accumulate	1,657	1,741

*Price as on recommendation date

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