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### Q2FY22 result review and reco change

## Specialty Chemicals

Target price: Rs3,100

### Earnings revision

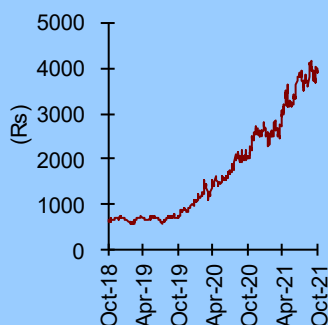
(%)	FY22E	FY23E
Sales	↓ 0.7	↑ 1.5
EBITDA	↓ 8.8	↓ 0.1
EPS	↓ 10.4	↓ 0.1

### Shareholding pattern

	Mar '21	Jun '21	Sep '21
Promoters	30.2	30.2	30.2
Institutional investors	40.9	41.8	41.6
MFs and other	13.4	12.4	12.5
Insurance Cos.	0.0	0.0	0.0
FII	27.5	29.4	29.1
Others	28.9	28.0	28.2

Source: NSE

### Price chart



INDIA



# Navin Fluorine International

REDUCE

Upgrade from Sell

Rs3,502

## Revenue growth still some time away

Navin Fluorine International's (NFIL) Q2FY22 EBITDA dip of 10.6% YoY shows it was walking a tight rope on revenue growth with limited capacity in specialty chemicals, and volatile CRAMS revenue. NFIL is also catching up with peers and is accelerating investment in capabilities by adding a technology team and expanding R&D. Company is in a sweet spot to monetise fluorination opportunities, but the evolution would be gradual compared to impatient market expectations. Acceleration in revenues is expected only after stabilisation of HPP and MPP-2 plants, which we believe could take at least 3-4 quarters (H2FY23). Despite higher investments, NFIL has been able to maintain margins, and higher realisation in ref-gas should offset any potential cost headwinds in specialty chemicals in H2FY22 in our view. We have cut our FY22E EPS by 10% and maintained FY23E estimates. We upgrade NFIL to **REDUCE** (from **Sell**) with an unchanged target price of Rs3,100 (40x FY23E EPS) as valuations (P/E) remain unattractive at 45x FY23E and 39x FY24E.

- **Unimpressive revenue growth.** Standalone revenues rose 5.4% YoY to Rs3.2bn, (+3.4% QoQ) driven by 32.7% YoY growth in inorganic fluoride segment to Rs650mn, and specialty chemical revenue growth of 19.6% YoY (down 8.3% QoQ) to Rs1.22bn. CRAMS revenue fell 17.2% YoY to Rs820mn on high base, and ref-gas revenue declined 5.2% YoY to Rs550mn. NFIL has guided for FY22 CRAMS revenue run-rate to remain stable at US\$10mn, while ref-gas should benefit from hardening of realisations. Efforts to drive new products in specialty chemicals continue, and new MPP plant should help expand revenues, which will start only from FY23. In the near term, NFIL has initiated price hike to pass on rise in input costs in specialty chemicals, but it may not be margin-accretive. Inorganic fluoride segment benefited from strong traction in underlying products as efforts on new product introductions continue.
- **Gross margin stable.** Gross margin rose 50bps QoQ to 55.4%, but was low YoY on lower contribution from CRAMS. EBITDA dipped 10.6% YoY to Rs835mn due to significant inflation in employee cost (+39% YoY) on building capabilities across technology and R&D, as well as retention benefits offered to key business people. Other expenses were up 15.4% YoY due to higher freight cost, and one-off consultancy fees (Rs50mn). EBITDA margin stood at 25.8%, up 90bps QoQ. Net profit declined 7.8% YoY to Rs621mn. Company's CWIP stood at Rs3.3bn, and it believes it is on track to commence HPP and MPP plants by Q1FY23.
- **Investing in capabilities.** NFIL has been investing in its technology development team, which is responsible to take the plant from lab to commercial scale. The technology team is a completely new addition for the company. It has hired 50 people in the team who should come handy during HPP plant knowledge transfer from buyer. It is expanding its R&D team from 120 to 200 eventually, and has plans for a new R&D facility likely in Mumbai, which will focus on specialty chemicals and new initiatives. NFIL is expanding its business development team, particularly in the US, to drive CRAMS revenue.

Market Cap	Rs173bn/US\$2.3bn
Reuters/Bloomberg	NAFL.BO/NFIL IN
Shares Outstanding (mn)	49.5
52-week Range (Rs)	4140/2036
Free Float (%)	69.8
FII (%)	29.1
Daily Volume (US\$/'000)	15,790
Absolute Return 3m (%)	(8.2)
Absolute Return 12m (%)	72.3
Sensex Return 3m (%)	17.6
Sensex Return 12m (%)	52.7

Year to Mar	FY21	FY22E	FY23E	FY24E
Revenue (Rs bn)	11.8	14.0	20.7	23.4
Net Income (Rs bn)	2.4	2.7	3.8	4.4
Recurring EPS (Rs)	52.0	54.6	77.5	88.7
% Chg YoY	(37.0)	5.0	41.8	14.6
P/E (x)	67.3	64.1	45.2	39.5
CEPS (Rs)	61.0	63.4	93.5	106.9
EV/E (x)	54.0	47.2	31.5	26.6
Dividend Yield (%)	0.3	0.5	0.7	0.8
RoCE (%)	11.8	13.6	17.1	16.7
RoE (%)	16.9	15.6	19.6	19.6

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- **Other highlights.** 1) Capex for new projects in HPP and MPP-2 has been progressing on expected lines. 2) Company plans debottlenecking in CRAMS cGMP-3 plant, which should take six months to execute; cGMP-4 would follow as the order pipeline increases. New plant execution would take 12-15 months. 3) Revenue from the new initiatives will take at least 2-3 years as they have long approval and audit cycle. 4) Repeat order in CRAMS is driven from same products, and also new product addition from same customer. It has seen one product entering phase-3 while a few are reaching advance stage in phase-2 where material requirement is higher. 5) Company plans to take price hike to pass on raw material inflation in specialty chemicals. 6) Ref-gas price negotiation has started and the benefit should flow from next quarter. 7) Employee cost will remain at 11-12% of sales for next few years.

**Table 1: NFIL (consolidated financials)**

Rs mn	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	QoQ (%)	YoY (%)
Net revenue	3,189	3,091	3,364	3,265	3,390	3.8	6.3
Cost of Goods sold	1,432	1,425	1,607	1,484	1,524	2.7	6.4
<b>Gross profit</b>	<b>1,757</b>	<b>1,666</b>	<b>1,758</b>	<b>1,781</b>	<b>1,866</b>	<b>4.7</b>	<b>6.2</b>
<i>Gross profit margin (%)</i>	<i>55.1</i>	<i>53.9</i>	<i>52.2</i>	<i>54.6</i>	<i>55.0</i>		
Employee cost	340	362	369	438	436	(0.4)	28.4
<i>% of revenue</i>	<i>10.7</i>	<i>11.7</i>	<i>11.0</i>	<i>13.4</i>	<i>12.9</i>		
Other expenses	510	499	546	566	588	3.9	15.2
<i>% of revenue</i>	<i>16.0</i>	<i>16.1</i>	<i>16.2</i>	<i>17.3</i>	<i>17.3</i>		
<b>Total expenses</b>	<b>850</b>	<b>861</b>	<b>915</b>	<b>1,004</b>	<b>1,024</b>	<b>2.0</b>	<b>20.5</b>
<b>EBITDA</b>	<b>907</b>	<b>805</b>	<b>842</b>	<b>778</b>	<b>842</b>	<b>8.2</b>	<b>(7.2)</b>
<i>EBITDA margin (%)</i>	<i>28.4</i>	<i>26.0</i>	<i>25.0</i>	<i>23.8</i>	<i>24.8</i>		
Depreciation	109	110	116	120	119	(1.1)	9.3
<b>EBIT</b>	<b>799</b>	<b>695</b>	<b>727</b>	<b>658</b>	<b>723</b>	<b>9.9</b>	<b>(9.5)</b>
<i>EBIT margin (%)</i>	<i>25.0</i>	<i>22.5</i>	<i>21.6</i>	<i>20.1</i>	<i>21.3</i>		
Other income	97	99	233	89	105	18.0	8.5
Finance cost	4	4	8	5	4	(20.6)	1.6
<b>PBT</b>	<b>891</b>	<b>790</b>	<b>952</b>	<b>742</b>	<b>824</b>	<b>11.1</b>	<b>(7.6)</b>
Tax expenses	247	226	375	182	192	5.0	(22.5)
<i>ETR (%)</i>	<i>27.7</i>	<i>28.6</i>	<i>39.4</i>	<i>24.6</i>	<i>23.3</i>		
Exceptional item							
Profit from JV	34	24	16	(0)	(0)		
<b>PAT</b>	<b>678</b>	<b>589</b>	<b>593</b>	<b>559</b>	<b>632</b>	<b>13.1</b>	<b>(6.8)</b>
<i>Net profit margin (%)</i>	<i>21.3</i>	<i>19.1</i>	<i>17.6</i>	<i>17.1</i>	<i>18.7</i>		
<b>Recurring EPS (Rs)</b>	<b>13.7</b>	<b>11.9</b>	<b>12.0</b>	<b>11.3</b>	<b>12.8</b>	<b>13.1</b>	<b>(6.8)</b>

Source: Company data, I-Sec research

Table 2: NFIL (standalone financials)

Rs mn	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	QoQ (%)	YoY (%)
Net revenue	3,077	2,966	3,240	3,139	3,244	3.4	5.4
Cost of Goods sold	1,367	1,359	1,532	1,416	1,447	2.1	5.9
<b>Gross profit</b>	<b>1,710</b>	<b>1,607</b>	<b>1,708</b>	<b>1,722</b>	<b>1,798</b>	<b>4.4</b>	<b>5.1</b>
<i>Gross profit margin (%)</i>	<i>55.6</i>	<i>54.2</i>	<i>52.7</i>	<i>54.9</i>	<i>55.4</i>		
Employee cost	283	294	325	396	394	(0.5)	39.1
<i>% of revenue</i>	<i>9.2</i>	<i>9.9</i>	<i>10.0</i>	<i>12.6</i>	<i>12.1</i>		
Other expenses	492	490	541	546	568	4.0	15.4
<i>% of revenue</i>	<i>16.0</i>	<i>16.5</i>	<i>16.7</i>	<i>17.4</i>	<i>17.5</i>		
<b>Total expenses</b>	<b>775</b>	<b>784</b>	<b>866</b>	<b>942</b>	<b>962</b>	<b>2.1</b>	<b>24.1</b>
<b>EBITDA</b>	<b>935</b>	<b>823</b>	<b>842</b>	<b>780</b>	<b>835</b>	<b>7.1</b>	<b>(10.6)</b>
<i>EBITDA margin (%)</i>	<i>30.4</i>	<i>27.8</i>	<i>26.0</i>	<i>24.8</i>	<i>25.8</i>		
Depreciation	100	101	106	109	110	0.5	9.6
<b>EBIT</b>	<b>835</b>	<b>722</b>	<b>736</b>	<b>671</b>	<b>726</b>	<b>8.2</b>	<b>(13.0)</b>
<i>EBIT margin (%)</i>	<i>27.1</i>	<i>24.3</i>	<i>22.7</i>	<i>21.4</i>	<i>22.4</i>		
Other income	88	91	197	76	85	11.9	(3.1)
Finance cost	3	3	6	4	3	(28.7)	(6.4)
<b>PBT</b>	<b>920</b>	<b>810</b>	<b>927</b>	<b>743</b>	<b>808</b>	<b>8.8</b>	<b>(12.1)</b>
Exceptional item	-	-	662	-	-		
Tax expenses	246	223	373	179	187	4.8	(24.0)
<i>ETR (%)</i>	<i>26.8</i>	<i>27.6</i>	<i>40.2</i>	<i>24.1</i>	<i>23.2</i>		
<b>PAT</b>	<b>673</b>	<b>587</b>	<b>1,216</b>	<b>564</b>	<b>621</b>	<b>10.0</b>	<b>(7.8)</b>
<i>Net profit margin (%)</i>	<i>21.9</i>	<i>19.8</i>	<i>37.5</i>	<i>18.0</i>	<i>19.1</i>		
<b>Recurring EPS (Rs)</b>	<b>13.6</b>	<b>11.9</b>	<b>11.2</b>	<b>11.4</b>	<b>12.5</b>	<b>10.0</b>	<b>(7.8)</b>

Source: Company data, I-Sec research

Table 3: NFIL – segmental revenues

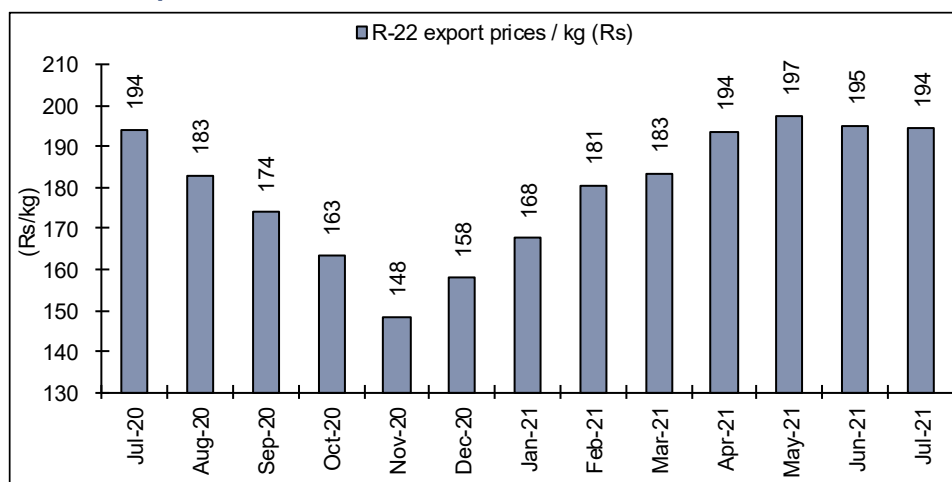
Rs mn	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	QoQ (%)	YoY (%)
Refrigerants	580	470	580	590	550	(6.8)	(5.2)
Inorganic Fluorides	490	570	590	560	650	16.1	32.7
Specialty Chemicals	1,020	1,220	1,310	1,330	1,220	(8.3)	19.6
CRAMS	990	710	750	670	820	22.4	(17.2)
<b>Total revenue</b>	<b>3,080</b>	<b>2,970</b>	<b>3,230</b>	<b>3,150</b>	<b>3,240</b>	<b>2.9</b>	<b>5.2</b>
<b>Contribution (%)</b>							
Refrigerants	18.8	15.8	18.0	18.7	17.0		
Inorganic Fluorides	15.9	19.2	18.3	17.8	20.1		
Specialty Chemicals	33.1	41.1	40.6	42.2	37.7		
CRAMS	32.1	23.9	23.2	21.3	25.3		

Source: Company data, I-Sec research

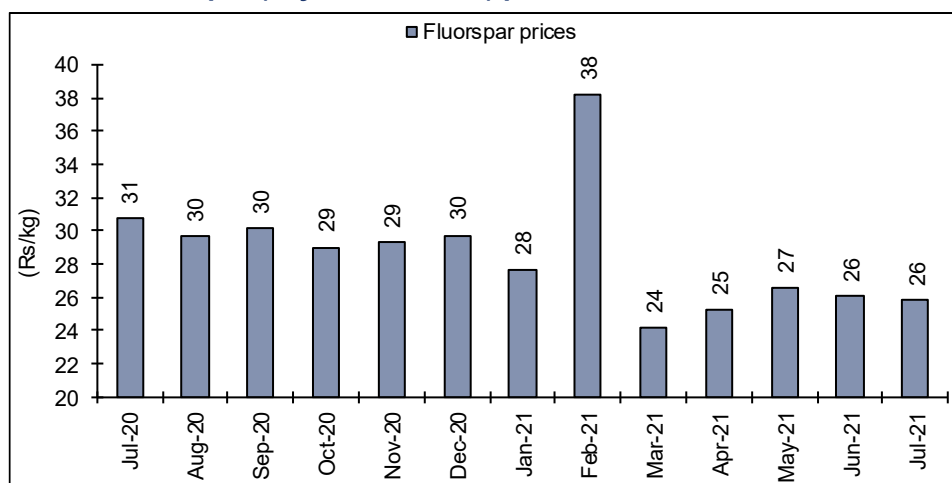
Table 4: NFIL – geographic revenues

Rs mn	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	QoQ (%)	YoY (%)
<b>Domestic</b>							
Refrigerants	275	249	328	348	330	(5.2)	20.2
Inorganic Fluorides	188	359	367	504	585	16.1	211.8
Specialty Chemicals	668	785	818	705	659	(6.5)	(1.4)
CRAMS	-	-	-	-	-		
<b>Total Domestic</b>	<b>1,130</b>	<b>1,394</b>	<b>1,514</b>	<b>1,557</b>	<b>1,574</b>	<b>1.1</b>	<b>39.2</b>
<b>Exports</b>							
Refrigerants							
Inorganic Fluorides	306	221	252	242	220	(9.1)	(28.0)
Specialty Chemicals	302	211	223	56	65	16.1	(78.5)
CRAMS	352	445	492	625	561	(10.2)	59.5
<b>Total Exports</b>	<b>990</b>	<b>710</b>	<b>750</b>	<b>670</b>	<b>820</b>	<b>22.4</b>	<b>(17.2)</b>

Source: Company data, I-Sec research

**Chart 1: Export realisation for R-22**

Source: I-Sec research, Gol

**Chart 2: Fluorspar (key raw material) prices**

Source: I-Sec research, Gol

**Table 5: Earnings revision**

(Rs mn)	Revised		Earlier		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	13,999	20,715	14,102	20,412	(0.7)	1.5
EBITDA	3,598	5,520	3,945	5,524	(8.8)	(0.1)
EBITDA margin (%)	25.7	26.6	28.0	27.1		
PAT	2,703	3,834	3,018	3,836	(10.4)	(0.1)
EPS (Rs)	55	77	61	78	(10.4)	(0.1)

Source: I-Sec research

## Financial summary

Table 6: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Operating Income (Sales)	11,794	13,999	20,715	23,361
Operating Expenses	8,701	10,401	15,195	16,971
EBITDA	3,093	3,598	5,520	6,390
% margins	26.2	25.7	26.6	27.4
Depreciation & Amortisation	442	437	792	898
Net Interest	18	11	11	11
Other Income	790	480	433	425
Recurring PBT	3,423	3,629	5,150	5,905
Add: Extraordinaries	155	-	-	-
Less: Taxes	1,108	926	1,316	1,513
- Current tax	1,108	926	1,316	1,513
- Deferred tax				
Add: Share of JV	105	-	-	-
Net Income (Reported)	2,575	2,703	3,834	4,392
Recurring Net Income	2,420	2,703	3,834	4,392

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	11,634	9,769	11,546	16,781
of which cash & cash eqv.	5,439	2,552	733	4,459
Total Current Liabilities & Provisions	2,403	2,802	4,002	4,489
Net Current Assets	9,231	6,967	7,544	12,293
Investments	1,530	1,530	1,530	1,530
of which				
Strategic/Group	547	547	547	547
Other Marketable	983	983	983	983
Net Fixed Assets	4,933	9,082	13,177	11,486
Goodwill	878	878	878	878
Total Assets	16,572	18,456	23,128	26,186
<b>Liabilities</b>				
Borrowings	25	25	2,025	2,025
Deferred tax liability	207	207	207	207
Minority Interest	-	-	-	-
Equity Share Capital	99	99	99	99
Face Value per share (Rs)	2.0	2.0	2.0	2.0
Reserves & Surplus	16,240	18,126	20,798	23,856
Net Worth	16,339	18,225	20,897	23,955
Total Liabilities	16,572	18,457	23,129	26,187

Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Dec-20	Mar-21	Jun-21	Sep-21
Net sales	3,091	3,364	3,265	3,390
% growth (YoY)	18.7	21.6	51.9	6.3
EBITDA	805	842	778	842
Margin (%)	26.0	25.0	23.8	24.8
Other income	99	233	89	105
Add: Extra ordinaries	-	155	-	-
Net profit	589	748	559	632

Source: Company data

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Operating Cashflow	3,627	2,672	4,204	4,877
Working Capital Changes	(1,255)	(622)	(2,396)	(1,023)
Capital Commitments	(987)	(4,586)	(4,887)	793
Free Cashflow	1,386	(2,536)	(3,079)	4,647
Cashflow from Investing Activities	(1,384)	480	433	425
Issue of Share Capital	14	-	-	-
Inc (Dec) in Borrowings	11	-	2,000	-
Dividend paid & Others	(476)	(830)	(1,173)	(1,345)
Chg. in Cash & Bank balance	(449)	(2,886)	(1,819)	3,727

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Per Share Data (in Rs.)</b>				
Recurring EPS	52.0	54.6	77.5	88.7
Reported EPS	52.0	54.6	77.5	88.7
Recurring Cash EPS	61.0	63.4	93.5	106.9
Dividend per share (DPS)	11.0	16.5	23.5	26.9
Book Value per share (BV)	330.1	368.2	422.2	484.0
<b>Growth Ratios (%)</b>				
Operating Income	11.1	18.7	48.0	12.8
EBITDA	17.4	16.3	53.4	15.8
Recurring Net Income	(37.0)	5.0	41.8	14.6
Diluted Recurring EPS	(37.0)	5.0	41.8	14.6
Diluted Recurring CEPS	(32.3)	4.1	47.3	14.3
<b>Valuation Ratios (% YoY)</b>				
P/E	67.3	64.1	45.2	39.5
P/CEPS	57.5	55.2	37.5	32.8
P/BV	10.6	9.5	8.3	7.2
EV / EBITDA	54.0	47.2	31.5	26.6
EV / Operating Income	14.2	12.1	8.4	7.3
EV / Operating FCF	113.8	(67.0)	(56.4)	36.6
<b>Operating Ratios</b>				
Other Income / PBT (%)	23.1	13.2	8.4	7.2
Effective Tax Rate (%)	32.4	25.5	25.6	25.6
NWC / Total Assets (%)	22.9	23.9	29.4	29.9
Inventory Turnover (days)	55.8	50.6	50.0	50.8
Receivables (days)	87.9	89.2	91.4	92.5
Payables (days)	33.2	35.1	35.1	35.2
Net Debt/EBITDA Ratio (x)	(2.1)	(1.0)	0.1	(0.5)
Capex % of sales	8.4	32.8	23.6	(3.4)
<b>Profitability Ratios (%)</b>				
Recur. Net Income Margins	21.8	19.3	18.5	18.8
RoCE	11.8	13.6	17.1	16.7
RoIC	18.2	19.1	19.6	19.6
RoNW	16.9	15.6	19.6	19.6
Dividend Yield	0.3	0.5	0.7	0.8
Gross Margins	54.4	55.4	55.8	56.5
EBITDA Margins	26.2	25.7	26.6	27.4

Source: Company data, I-Sec research

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**BUY: >15 return; ADD: 5 to 15 return; HOLD: Negative 5 to Positive 5 return; REDUCE: Negative 5 to Negative 15 return; SELL: < negative 15 return**

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