

Navin Fluorine International

23 April, 2023

Reuters: NAFL.BO; Bloomberg: NFL IN

Futuristic approach is the key differentiator

We recently interacted with the management of Navin Fluorine International (NFL) during our plant visit to the company's Dahej facility to understand the status of ongoing projects, demand environment, update on future projects and impact on overall profitability over the medium term. We believe all the visited facilities are of a much better quality, almost adhering to the global standards and future-ready in terms of regulations which might be implemented in India, in line with USEPA or any other concerned body. All the recently commissioned and under-construction projects are margin accretive vis-a-vis the base business on account of higher salience of complex molecules and greater engagement with the innovators. The project pipeline with complex processes involving new technologies remains strong. There is a strong visibility on the CDMO business clocking USD100mn revenue over the next 2-3 years. While the Specialty Chemicals for Agrochemicals and CDMO with Pharma innovators are on a strong footing, Performance Materials and other emerging areas could enable strong growth over the long term in the Complex Fluorination space for NFL. Structurally, we are positive on the Complex Fluorination space and NFL remains our top pick. All the major specialty chemicals companies have corrected significantly from the 52-wk high unlike NFL. Therefore, from a 1-year horizon, we see limited upside from CMP. We are building in Revenue/EBITDA/APAT CAGR of 29%/35%/27% over FY23E-FY25E. We maintain ACCUMULATE rating on NFL with an unchanged Target Price (TP) of Rs4,500.

Key points of discussion are given below:

Enough headroom for future expansion: Dahej plant is spread over 74 acres, wherein NFL has built HPP plant (6.5 acres), MPP plant (4.5 acres) and a dedicated plant (2.5 acres) so far. Another dedicated plant spread over 5 acres (1 product for multiple customers) is expected to be commissioned in 2HFY24. There is enough headroom to double the capacity of HPP and MPP plants in future along with another dedicated plant when the need arises.

Engineering capabilities, proactive approach and self sufficiency are the differentiators: The management indicated that there has been a lot of focus on plant design and engineering, taking cognisance of the global regulations which could be replicated in India in future. We believe that NFL has built world-class facilities which are future-ready and the same are being already appreciated by select innovator customers. The management doesn't intend to cramp the capacity unlike some of the other companies. For example, while majority of the companies go for underground water reservoir in order to save space, NFL has built open water reservoir, which is relatively cheaper to set up. Self sufficient approach is another key aspect of NFL's Dahej facility, wherein most of the key inputs are produced in-house. Raw materials which are purchased are also available within the radius of ~30km. In terms of waste disposal, there is very limited dependence on local bodies and/or vendors.

HPP plant tracking expectations; 2x capacity likely over the medium term: For the HPP plant, total two products are produced, one of which is an intermediate which can be sold separately in future, as per the management. Capacity for the intermediate was commissioned in June'22 whereas the final product plant was commissioned in Nov'22. Both the reactions are fairly complex and involve use of a very critical imported catalyst. The company is working towards potential debottlenecking of the HFO capacity up to ~25% and the same would be presented to the BoD soon. The HPP plant has been designed by NFL, although Honeywell was deeply involved in the entire process. Overall plant structure and engineering capabilities of the NFL team has been well appreciated by the customer. Due to cost escalations, peak revenue from HFO has increased to ~Rs5bn. Cost plus arrangement is in place and in a way absolute PAT is protected.

Strong demand for all products in MPP, dedicated plant: Demand for all the products in MPP remains fairly strong, as per the management. All these products in total involve 8-9 steps; however, Dahej performs around 4 steps each. In one of the products, the first 4 steps are performed at NFL's Surat plant and for the other product, the company has identified a separate vendor based out of India while establishing the capability to do it in-house in future. The dedicated plant, which got commissioned, has been ramping up as per schedule. The management indicated that the next round of capex for doubling the capacity would be significantly lower (nearly half of the original cost) as the infrastructure is already in place.

ACCUMULATE

Sector: Chemicals

CMP: Rs4,730

Target Price: Rs4,500

Downside: 5%

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Key Data

Current Shares O/S (mn)	49.6
Mkt Cap (Rsbn/US\$bn)	234.6/2.9
52 Wk H / L (Rs)	4,848/3,433
Daily Vol. (3M NSE Avg.)	150,605

Price Performance (%)

	1 M	6 M	1 Yr
Navin Fluorine	11.0	7.0	17.4
Nifty Index	4.0	(0.6)	2.6

Source: Bloomberg

Stock price correction from 52 wk high

Coverage Universe	Change
Specialty Chemicals	
SRF	-14%
NFIL	-2%
ARTO	-43%
VO	-16%
CLEAN	-32%
NEOGEN	-10%
TATVA	-45%
Specialty Ingredients	
FINEORG	-41%
GALSURF	-27%
ROSSARI	-35%
CFIN	-5%
ADVZENY	-22%

Source: Bloomberg

Other points of discussion are as below

- NFIL currently uses ~8,400 MTPA AHF (42% utilised). This suggests that current AHF capacity is sufficient over the medium term. The company has recently announced a capex of Rs4.5bn to add 40k MTPA AHF capacity to cater to future demand.
- NFIL has coal power plant of 8MW. Requirement of steam and better pricing vs natural gas has led to usage of coal power. Power costs have increased significantly compared to the earlier estimates of NFIL and hence additional 12MW plant is on hold. The discount between captive power generation and grid pricing has narrowed significantly over the last 2-3 years, as per management.
- NFIL is in the process of setting up a separate team which documents all the learnings while setting up new capacities as well as running the existing ones. The engineering team gets on-boarded before the proposal is presented to the BoD, which helps the company to accurately estimate the costs as well as timelines. Another differentiating factor could be assigning key account management roles to vendors, separately for civil and mechanical works. Availability of good quality vendors is a challenge for the industry, according to the management.
- The management indicated that all the new projects are margin-accretive and rising salience of the same would lift the blended EBITDA margin of NFIL. Also, from the existing projects (mainly MPP in Surat), NFIL can do product re-mapping in case of capacity constraints wherein priority would be given to complex products with higher margins.

Exhibit 1: Financial summary (consolidated) - we are building in ~27% earnings CAGR over FY23-25E

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	11,794	14,534	19,637	26,359	32,848
Growth YoY %	11.1%	23.2%	35.1%	34.2%	24.6%
Gross margin %	54.4%	54.2%	55.9%	56.1%	56.1%
EBITDA	3,093	3,548	4,997	7,008	9,071
EBITDA margin %	26.2%	24.4%	25.4%	26.6%	27.6%
Adj PAT	2,468	2,631	3,570	4,688	5,795
Growth YoY %	36%	7%	36%	31%	24%
EPS	49.9	53.2	72.2	94.8	117.2
RoCE	17.4%	17.1%	17.6%	17.2%	19.0%
RoE	16.2%	15.1%	18.0%	20.4%	21.6%
P/E	94.8	88.9	65.5	49.9	40.4
EV/EBITDA	73.6	65.7	46.4	33.7	26.2
P/BV	14.3	12.7	11.1	9.4	8.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in earnings estimates

Consolidated (Rsmn)	Old Estimates			New estimates			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	19,637	26,359	32,848	19,637	26,359	32,848	0%	0%	0%
EBITDA	4,997	7,008	9,071	4,997	7,008	9,071	0%	0%	0%
EBITDA Margin%	25.4%	26.6%	27.6%	25.4%	26.6%	27.6%	-	-	-
APAT	3,570	4,688	5,795	3,570	4,688	5,795	0%	0%	0%

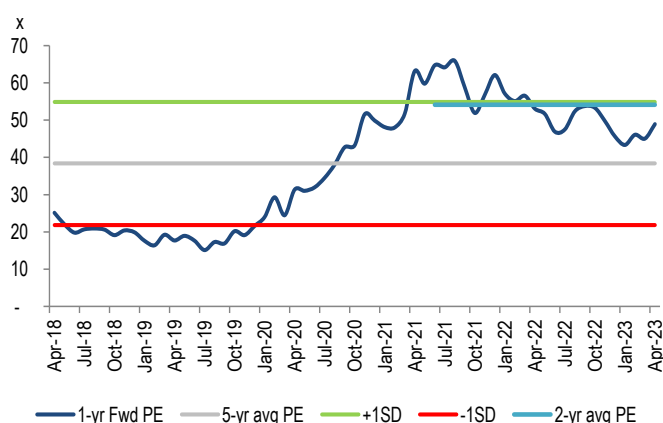
Source: Nirmal Bang Institutional Equities Research

Exhibit 3: TP calculation working with multiple scenarios of CDMO growth

Particulars (Rsmn)	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Average
CDMO revenue CAGR assumption over FY21-32E	20%	25%	30%	35%	28%
EV of all segments excl CRAMS	137,285	137,285	137,285	137,285	137,285
CDMO EV	47,412	65,570	96,239	140,014	87,309
Total EV	184,697	202,856	233,525	277,299	224,594
EBITDA (Mar'25E)	9,071	9,071	9,071	9,071	9,071
EV/EBITDA (x)	20	22	26	31	25
Less: Net debt	3,080	3,080	3,080	3,080	3,080
Total Equity Value	181,617	199,775	230,445	274,219	221,514
Number of shares	49	49	49	49	49
Target Price	3,700	4,000	4,700	5,500	4,500
Upside (%)	-22%	-15%	-1%	16%	-5%

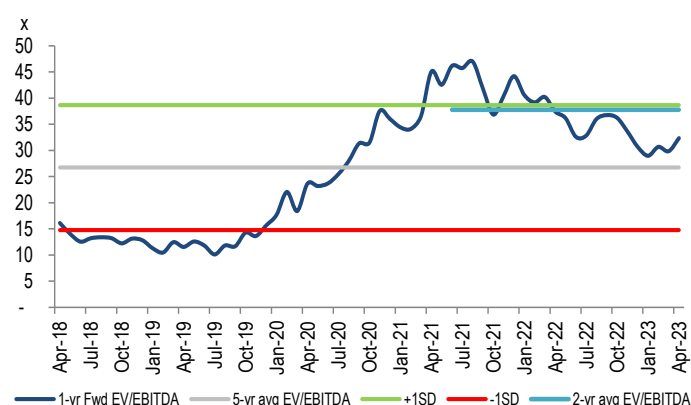
Source: Nirmal Bang Institutional Equities Research

Exhibit 4: 1-year forward PE trend



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: 1-year forward EV/EBITDA trend



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 6: Income statement

Y/E March (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	11,794	14,534	19,637	26,359	32,848
Growth YoY%	11.1	23.2	35.1	34.2	24.6
COGS	5,374	6,656	8,667	11,578	14,425
Gross margin %	54.4	54.2	55.9	56.1	56.1
Staff costs	1,417	1,815	2,726	3,477	4,104
Other expenses	1,910	2,514	3,246	4,295	5,247
EBITDA	3,093	3,548	4,997	7,008	9,071
Growth YoY%	17.4	14.7	40.8	40.2	29.4
EBITDA margin %	26.2	24.4	25.4	26.6	27.6
Depreciation	442	479	901	1,553	1,801
EBIT	2,651	3,069	4,096	5,455	7,270
Interest	18	19	37	162	162
Other income	790	392	494	823	456
PBT (bei)	3,423	3,442	4,553	6,116	7,563
PBT	3,578	3,442	4,553	6,116	7,563
ETR	31.0	23.6	21.6	23.3	23.4
PAT	2,575	2,631	3,570	4,688	5,795
Adj PAT	2,468	2,631	3,570	4,688	5,795
Growth YoY%	35.7	6.6	35.7	31.3	23.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	99	99	99	99	99
Reserves	16,240	18,343	21,064	24,697	28,851
Net worth	16,339	18,442	21,163	24,796	28,951
Long term debt	-	1,000	5,000	10,000	10,000
Short term debt	25	45	1,000	1,400	1,500
Total debt	25	1,045	6,000	11,400	11,500
Other non-current liabilities	616	574	860	860	1,204
Total Equity & Liabilities	16,980	20,060	28,023	37,056	41,655
Gross block	6,030	6,581	14,581	22,581	30,581
Accumulated depreciation	1,515	1,902	2,804	4,357	6,158
Net Block	4,515	4,679	11,777	18,224	24,423
CWIP	949	7,421	2,000	2,000	2,000
Intangible and others	886	878	878	878	878
Other non-current assets	532	546	273	218	284
Investments	145	139	139	167	200
Trade receivables	2,841	3,577	4,336	5,820	7,252
Inventories	1,804	2,575	2,958	3,971	4,949
Cash & Cash equivalents	6,284	2,000	8,019	9,424	7,316
Other current assets	1,019	2,041	1,429	1,000	700
Total current assets	11,947	10,193	16,742	20,214	20,217
Trade payables	1,074	1,465	757	1,012	1,260
Other current liabilities	920	2,329	3,028	3,633	5,087
Total current liabilities	1,995	3,794	3,785	4,645	6,347
Total Assets	16,980	20,060	28,023	37,056	41,655

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
PBT	3,578	3,442	4,553	6,116	7,563
Depreciation	442	479	901	1,553	1,801
Interest	18	19	37	162	162
Other adjustments	-585	-308	-494	-823	-456
Change in Working capital	-1,255	-2,104	-539	-1,208	-408
Tax paid	173	-781	-982	-1,427	-1,769
Operating cash flow	2,373	747	3,476	4,373	6,894
Capex	-987	-5,789	-2,579	-8,000	-8,000
Free cash flow	1,386	-5,042	897	-3,627	-1,106
Other investing activities	-1,384	4,065	1,513	850	257
Investing cash flow	-2,371	-1,724	-1,066	-7,150	-7,743
Issuance of share capital	-	-	-	-	-
Movement of Debt	-38	978	4,955	5,400	100
Dividend paid (incl DDT)	-394	-542	-849	-1,056	-1,640
Other financing activities	-18	-21	249	-162	182
Financing cash flow	-451	415	4,355	4,182	-1,358
Net change in cash flow	-449	-561	6,765	1,404	-2,207
Opening C&CE	1,767	1,319	757	7,522	8,927
Closing C&CE	1,319	757	7,522	8,927	6,720

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

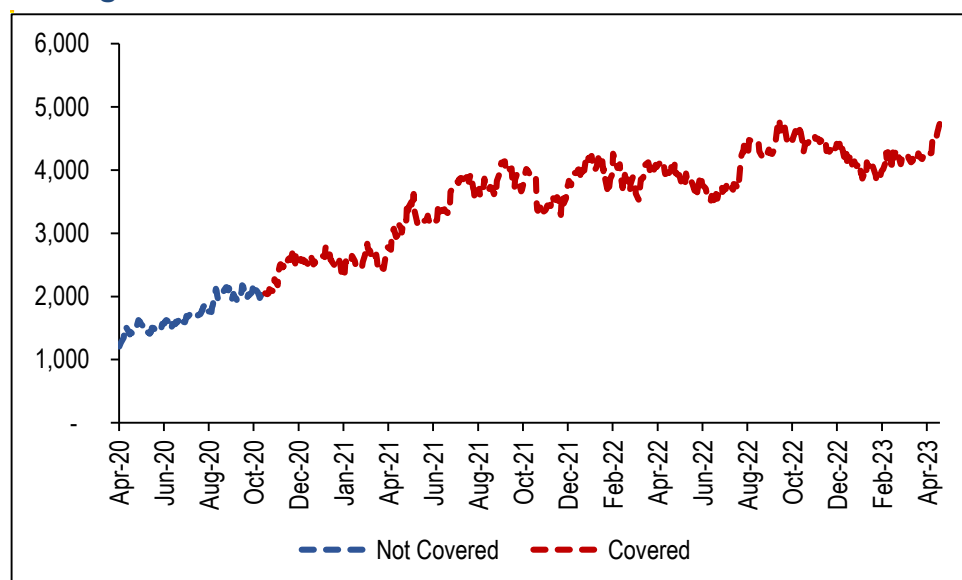
Y/E March (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
Per share (Rs)					
Adj EPS	49.9	53.2	72.2	94.8	117.2
Book value	330.4	372.9	428.0	501.4	585.5
Valuation (x)					
EV/EBITDA	73.6	65.7	46.4	33.7	26.2
P/E	94.8	88.9	65.5	49.9	40.4
P/BV	14.3	12.7	11.1	9.4	8.1
Return ratios (%)					
RoCE	17.4	17.1	17.6	17.2	19.0
RoE	16.2	15.1	18.0	20.4	21.6
Profitability ratios (%)					
Gross margin	54.4	54.2	55.9	56.1	56.1
EBITDA margin	26.2	24.4	25.4	26.6	27.6
PAT margin	19.6	17.6	17.7	17.2	17.4
Liquidity ratios (%)					
Current ratio	5.9	2.7	3.5	3.3	2.6
Quick ratio	5.0	2.0	2.9	2.7	1.9
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.1	0.3	0.5	0.4
Turnover ratios					
Fixed asset turnover ratio (x)	2.0	2.2	1.3	1.2	1.1
Debtor days	78	81	81	81	81
Inventory days	52	55	55	55	55
Creditor days	32	32	32	32	32
Net Working capital days	98	104	104	104	104

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
16 October 2020	ACCUMULATE	1,999	2,200
29 October 2020	ACCUMULATE	2,278	2,200
7 January 2021	BUY	2,750	3,400
12 January 2021	BUY	2,669	3,400
27 January 2021	BUY	2,569	3,400
10 May 2021	ACCUMULATE	3,370	3,400
6 July 2021	BUY	3,820	4,400
27 July 2021	BUY	3,710	4,400
23 September 2021	BUY	3,923	4,700
20 October 2021	BUY	3,509	4,700
2 February 2022	ACCUMULATE	4,257	4,600
9 May 2022	BUY	3,757	4,500
25 July 2022	BUY	3,788	4,500
20 September 2022	ACCUMULATE	4,629	4,500
20 October 2022	ACCUMULATE	4,350	4,500
30 October 2022	ACCUMULATE	4,499	4,500
8 February 2023	ACCUMULATE	4,281	4,500
23 April 2023	ACCUMULATE	4,730	4,500

Rating Chart



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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