

Navin Fluorine International

Promising future

We retain our ADD rating on NFIL with a TP of INR 1,721 on the back of (1) Earnings visibility given the long term contract, and (2) Tilt in sales mix towards high margin customised products. The stock is currently trading at 24.6x FY22E EPS, which is low, given the RoIC of 20.0/23.0% in FY21/22E.

- **View on the result:** 4Q EBITDA/PBT were 19/7% above estimates owing to higher than anticipated raw material cost and lower other income.
- **Tax adjustment:** NFIL received favourable appellate orders courtesy which the company was liable to pay tax on book profits on capital receipts from FY08-FY13. Accordingly, NFIL availed MAT Credit of INR 736mn and wrote back excess tax provisions of INR 1,413mn for earlier years.
- **CRAMS Business Unit (BU):** Q4 revenue from this BU grew by 25.6/14.9% YoY/QoQ to INR 540mn. For FY20, revenue stood at INR 1.7bn (-2.8%) and comprised 16.9/18.6% of FY20/19 revenue mix. With a strong order pipeline and a growing customer base, we are confident that the BU will contribute ~26% to the top line in FY22E i.e. INR 3.88bn.
- **Specialty Chemicals BU:** The BU continued to support margin and volume growth. It generated INR 1bn in revenue (+50.7/7.2% YoY/QoQ) and formed 39% of 4Q revenue mix. Demand from the pharma/agro-chemical/industrial customers that contribute 40/40/20% in the BU's customer mix drove earnings. In FY20, the BU generated INR 3.8bn in revenue (+27.0% YoY) and formed 37% of revenue mix. We expect the current traction to continue and that revenue will grow to INR 4.8/6.0bn in FY21/22 and form 40% of the mix.
- **Update on the newly commissioned at Dewas facility:** The company has a strong order book position and enquiry inflow in FY21. We expect full utilisation in FY23 and revenue contribution of INR 2.6bn at peak utilisation.
- **Outlook for FY21/22:** We expect high value business units (54/50% of revenue mix in FY20/19), i.e. Specialty Chemicals and CRAMS BU to be the growth drivers in FY21/22. EBITDA should grow by 30.4/43.0% to INR 3/5bn led by unabated demand from pharma/agrochemical customers. EBITDA margins should expand to 27.2/31.2% in FY21/22 vs. 24.8% in FY20 with tilt in product mix towards high margin high value business.
- **View on consolidated balance sheet:** Debt contracted by 66%YoY to INR 14mn and cash and equivalents jumped 56%YoY to INR 3,513mn, taking the company's net cash position to INR 3,500mn from INR 2,212mn in FY19. In the current uncertain scenario, NFIL is in a comfortable position to meet its financial commitments and capex plans.
- **Change in estimates:** We tweak our FY21/22E EPS estimates by +3.1/3.7% to INR 46.9/65.0 to factor-in the company's performance in 4QFY20.

Standalone Financial Summary

Year Ending	4Q	3Q	QoQ	4Q	YoY	FY19*	FY20P*	FY21E*	FY22*
March (INR mn)	FY20	FY20	(%)	FY19	(%)				
Net Sales	2,650	2,516	5.3	2,443	8.5	9,959	10,616	12,618	15,726
EBITDA	672	652	3.1	522	28.7	2,184	2,635	3,435	4,914
APAT	2,679	389	589.1	295	807.9	1,491	4,086	2,319	3,212
Diluted EPS (INR)	54.2	7.9	589.1	6.0	807.9	30.2	82.6	46.9	65.0
P/E (x)						53.1	19.4	34.1	24.6
EV / EBITDA (x)						35.2	28.7	22.2	15.6
RoE (%)						14.5	32.9	15.5	19.0

Source: Company, HSIE Research | * Consolidated

ADD

CMP (as on 17 Jun 2020)	INR 1,600
Target Price	INR 1,721
NIFTY	9,881

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,628	INR 1,721
	FY21E	FY22E
EPS %	3.1	3.7

KEY STOCK DATA

Bloomberg code	NFIL IN
No. of Shares (mn)	49
MCap (INR bn) / (\$ mn)	79/1,038
6m avg traded value (INR mn)	294
52 Week high / low	INR 1,694/570

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	24.1	69.2	114.7
Relative (%)	14.5	88.2	128.7

SHAREHOLDING PATTERN (%)

	Mar-20	Dec-19
Promoters	30.51	31.03
FIs & Local MFs	18.63	17.40
FPIs	19.02	18.00
Public & Others	31.84	33.57
Pledged Shares	0.0	0.0

Source : BSE

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Takeaways from the earnings conference call:

- **Update on the High-Performance Product (HPP) vertical:** NFIL had signed a 7-year exclusive supply contract with a global company for HPP having a total revenue potential of INR 29bn starting FY23. The management maintained that the project is on track and no delay is expected. RoCE of this project is in line with the company's current RoCE.
- **Impact of Lockdown 1.0 on Q4 earnings:** Revenue from Specialty chemicals was largely unaffected by the lockdown in the last week of March. However, NFIL lost INR 260mn in revenue mainly from the legacy business.
- **Newly commissioned Certified Good Manufacturing-3 (cGMP-3) facility:** While the contribution from the facility was negligible in 4Q, NFIL has a strong orderbook lined up, courtesy good traction from European pharma players. Expect optimum utilization of all three cGMP units in FY21.
- **Covid-19 impact on 1QFY21:** Plants catering to Industrial demand is running at pre-Covid-19 levels but demand for refrigerant gas is currently subdued. Pressure due to the high inventory build-up should ease as unlocking progresses.
- **Future capex plans:** NFIL plans to carry out a few debottleneck projects in the Specialty chemicals BU in FY21 (similar to FY20). However, given the capacity constrains at the Surat facility, new capacity addition plans may be announced in the near future. This new plant will be at Dahej.

DCF based valuation: Our TP is INR 1,721 based on Sep-21E free cash flows (WACC 10%, Terminal growth 3.0%). The stock is currently trading at 24.6x FY22 EPS.

Quarterly Financial Snapshot

(INR mn)	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	FY20	FY19	YoY (%)
Net Sales	2,650	2,516	5.3	2,443	8.5	10,223	9,551	7.0
Material Expenses	1,209	1,071	12.9	1,217	(0.6)	4,627	4,419	4.7
Traded Goods	-	-	NA	2	NA	22	134	(83.6)
Employee Expenses	300	293	2.3	232	29.0	1,118	969	15.4
Other Operating Expenses	470	500	(6.2)	470	(0.1)	1,848	1,847	0.1
EBITDA	672	652	3.1	522	28.7	2,607	2,181	19.5
Depreciation	102	83	23.1	64	59.8	337	259	30.4
EBIT	570	568	0.2	458	24.4	2,270	1,922	18.1
Other Income (Including EO Items)	53	110	(52.2)	130	(59.2)	313	348	(9.9)
Interest Cost	4.9	4.0	23.6	2.2	119.8	16.0	4.7	239.4
PBT	618	675	(8.5)	585	5.5	2,567	2,265	13.3
Tax	(2,069)	222	NA	226	NA	(1,431)	780	NA
RPAT	2,687	453	493.5	359	648.3	3,998	1,486	169.1
EO (Loss) / Profit (Net Of Tax)	(8)	(64)	-	(64)	-	(148)	(181)	-
APAT	2,679	389	589.1	295	807.9	3,850	1,305	195.1
AEPS (Rs/sh)	54.2	7.9	589.1	6.0	807.9	77.9	26.4	195.1

Source: Company, HSIE Research

Margin Analysis

	4Q FY20	3Q FY20	QoQ (bps)	4Q FY19	YoY (bps)	FY20	FY19	YoY (bps)
Material Expenses at % of Net Sales	45.6	42.6	305	49.9	(426)	45.5	47.7	(220)
Employee Expenses at % of Net Sales	11.3	11.6	(34)	9.5	179	10.9	10.2	79
Other Expenses at % of Net Sales	17.7	19.9	(217)	19.2	(152)	18.1	19.3	(126)
EBITDA Margin (%)	25.4	25.9	(54)	21.4	399	25.5	22.8	267
EBIT Margin (%)	21.5	22.6	(110)	18.7	275	22.2	20.1	208
Net Profit Margin (%)	101.1	15.5	8,563	12.1	8,900	37.7	13.7	2,400
Tax Rate (%)	NA	32.9	NA	38.6	NA	(55.7)	34.4	NA

Source: Company, HSIE Research

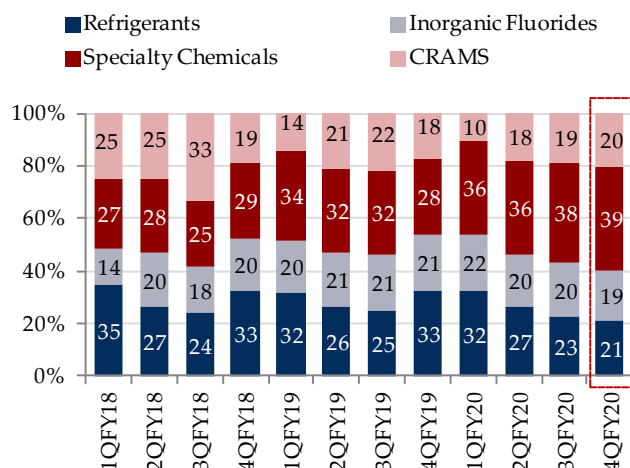
Unit-Wise Revenue Trend

INR mn	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Refrigerants	710	520	530	680	770	640	570	800	780	700	570	560
Inorganic Fluorides	280	390	390	420	490	500	470	520	530	520	510	510
Specialty Chemicals	540	550	560	600	820	770	730	690	860	940	970	1040
CRAMS	500	490	730	390	350	510	490	430	250	470	470	540
Total	2030	1950	2210	2090	2430	2420	2260	2440	2420	2630	2520	2650

Source: Company, HSIE Research

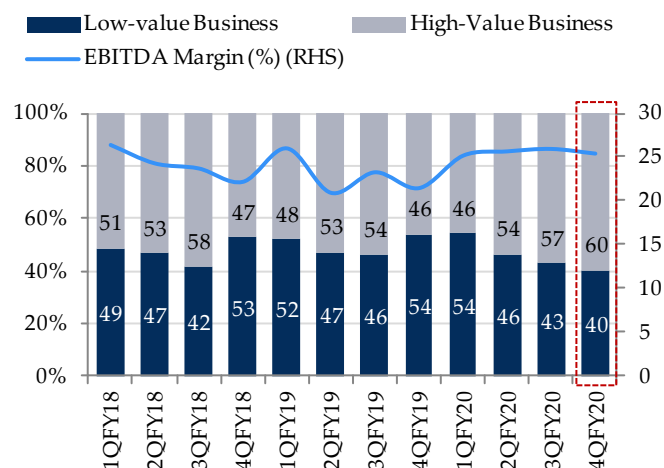
Navin Fluorine: Results Review 4QFY20

Standalone Quarterly Revenue Mix



Source: Company, HSIE Research

Quarterly Standalone Business Mix And EBITDA Margin



Source: Company, HSIE Research

Change in estimates (Consolidated)

INR mn	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
Revenues	12,265	12,618	2.9	15,252	15,726	3.1
EBITDA	3,337	3,435	3.0	4,739	4,914	3.7
APAT	2,249	2,319	3.1	3,097	3,212	3.7
AEPS (INR/sh)	45.5	46.9	3.1	62.6	65.0	3.7

Source: Company, HSIE Research

Peer Set Comparison

Company	Mcap (INR bn)	CMP (INR/sh)	Reco	TP	EPS (INR/sh)			P/E (x)			P/BV (x)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Vinati Organics	101.96	992	SELL	825	32.5	29.5	32.1	30.5	33.6	30.9	8.0	7.1	6.3	28.6	22.4	21.6
Navin Fluorine*	78.95	1600	ADD	1,721	82.6	46.9	65.0	19.4	34.1	24.6	5.6	5.0	4.4	32.9	15.5	19.0
Galaxy Surfactants*	48.03	1,355	BUY	1,889	53.6	44.0	85.9	25.3	30.8	15.8	4.6	4.1	3.4	19.9	14.1	23.5
Alkyl Amines	42.91	2102	BUY	2,300	80.6	73.0	104.1	26.1	28.8	20.2	8.8	7.1	5.6	38.5	27.3	31.2
Balaji Amines	14.26	440	BUY	555	47.2	33.2	42.7	9.3	13.3	10.3	1.9	1.7	1.5	20.9	13.0	14.5

Source: Company, HSIE Research | *Consolidated

Financials

Consolidated Income Statement

YE Mar (INR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	7,415	9,127	9,959	10,616	12,618	15,726
<i>Growth (%)</i>	<i>9.1</i>	<i>23.1</i>	<i>9.1</i>	<i>6.6</i>	<i>18.9</i>	<i>24.6</i>
Material Expenses	3,272	4,023	4,766	4,838	5,757	7,076
Employee Expenses	918	1,105	1,155	1,308	1,365	1,538
Other Operating Expenses	1,637	1,849	1,855	1,835	2,061	2,198
EBIDTA	1,588	2,150	2,184	2,635	3,435	4,914
<i>EBIDTA Margin (%)</i>	<i>21.4</i>	<i>23.6</i>	<i>21.9</i>	<i>24.8</i>	<i>27.2</i>	<i>31.2</i>
<i>Growth (%)</i>	<i>35.3</i>	<i>35.4</i>	<i>1.6</i>	<i>20.7</i>	<i>30.4</i>	<i>43.0</i>
Depreciation	299	398	275	370	430	600
EBIT	1,289	1,752	1,908	2,265	3,005	4,314
Other Income	558	925	344	333	395	395
Interest	27	12	8	20	16	16
PBT	1,820	2,665	2,244	2,578	3,384	4,692
Tax	451	840	770	(1,436)	1,137	1,579
PAT	1,370	1,825	1,474	4,014	2,247	3,114
EO items (net of tax)	-	500	-	-	-	-
Share of Profits from JV/Associates	(4)	(27)	17	72	72	98
APAT	1,366	1,298	1,491	4,086	2,319	3,212
<i>Growth (%)</i>	<i>63.1</i>	<i>32.3</i>	<i>(17.2)</i>	<i>174.0</i>	<i>(43.2)</i>	<i>38.5</i>
AEPS	27.7	36.4	30.2	82.6	46.9	65.0
<i>Growth (%)</i>	<i>63.6</i>	<i>31.6</i>	<i>(17.2)</i>	<i>174.0</i>	<i>(43.2)</i>	<i>38.5</i>

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (INR mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital	98	99	99	99	99	99
Reserves	8,254	9,736	10,626	14,023	15,646	17,895
Total Shareholders' Funds	8,352	9,835	10,724	14,122	15,745	17,994
Long-term Debt	111	42	-	-	-	-
Short-term Debt	74	84	41	14	104	109
Total Debt	185	127	41	14	104	109
Deferred Taxes	271	308	348	-	(50)	(100)
Other LT Liabilities	243	257	231	391	391	391
Minority Interest	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	9,051	10,526	11,345	14,527	16,191	18,394
APPLICATION OF FUNDS						
Net Block	4,153	2,826	2,863	3,860	6,051	7,968
CWIP	168	201	393	389	110	100
Good will	878	878	878	878	878	878
LT Investments	1,834	2,928	3,258	3,248	3,398	3,548
LT Loans & Advances	68	73	73	75	75	75
Inventories	1,127	1,138	1,119	1,579	1,418	1,767
Debtors	1,376	1,556	1,727	2,185	2,169	2,702
Cash & Equivalents	1,804	2,450	2,253	3,513	3,060	2,467
Other Current Assets	366	506	508	559	712	792
Total Current Assets	4,673	5,651	5,607	7,836	7,359	7,728
Creditors	778	984	713	981	904	1,126
Other Current Liabilities	1,945	1,046	1,014	777	777	777
Total Current Liabilities	2,723	2,030	1,727	1,758	1,681	1,904
Net Current Assets	1,951	3,621	3,880	6,078	5,678	5,825
TOTAL APPLICATION OF FUNDS	9,051	10,526	11,345	14,527	16,191	18,394

Source: Company, HSIE Research

Consolidated Cash Flow

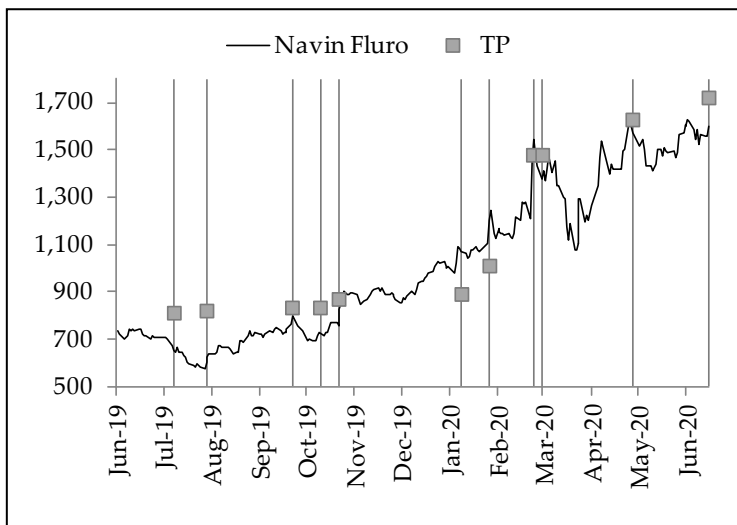
YE Mar (INR mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
Reported PBT	1,817	2,638	2,261	2,650	3,456	4,791
Non-operating & EO items	(25)	(35)	163	144	(0)	(0)
Adjusted PBT	1,841	2,673	2,097	2,506	3,456	4,791
Interest expenses	27	12	8	20	16	16
Depreciation	299	398	275	370	430	600
Working Capital Change	235	(1,720)	(264)	268	(53)	(740)
Tax Paid	(451)	(840)	(770)	1,436	(1,137)	(1,579)
OPERATING CASH FLOW (a)	1,952	523	1,347	4,600	2,712	3,088
Capex	(1,750)	897	(504)	(1,362)	(2,343)	(2,507)
Free cash flow (FCF)	202	1,419	843	3,237	370	581
Investments	661	(1,193)	(172)	1,124	(100)	(100)
Others	(33)	150	(120)	(1,446)	(100)	(100)
INVESTING CASH FLOW (b)	(1,122)	(146)	(796)	(1,685)	(2,543)	(2,707)
Debt Issuance/(Repaid)	(332)	(59)	(85)	(27)	90	5
Interest Expenses	(27)	(12)	(8)	(20)	(16)	(16)
FCFE	(157)	1,349	750	3,190	443	570
Dividend	(343)	(350)	(438)	(544)	(696)	(964)
Others	2	(0)	(24)	144	-	-
FINANCING CASH FLOW (c)	(700)	(420)	(556)	(447)	(622)	(974)
NET CASH FLOW (a+b+c)	131	(44)	(5)	2,468	(452)	(594)
EO Items, Others	-	-	-	-	-	-
Closing Cash & Equivalents	418	374	370	2,837	2,385	1,791

Consolidated Key Ratios

	FY17	FY18	FY19	FY20P	FY21E	FY22E
PROFITABILITY %						
Gross Margin	55.9	55.9	52.1	54.4	54.4	55.0
EBITDA Margin	21.4	23.6	21.9	24.8	27.2	31.2
EBIT Margin	17.4	19.2	19.2	21.3	23.8	27.4
APAT Margin	18.4	19.7	15.0	38.5	18.4	20.4
RoE	17.4	19.8	14.5	32.9	15.5	19.0
Core RoCE	17.1	27.0	22.1	47.1	20.0	23.0
RoCE	15.9	18.5	13.7	31.8	15.2	18.6
EFFICIENCY						
Tax rate %	24.8	31.5	34.3	NA	33.6	33.6
Fixed Asset Turnover (x)	2.2	2.6	3.5	3.2	2.6	2.2
Inventory (days)	55	46	41	54	41	41
Debtor (days)	68	62	63	75	63	63
Other Current Assets (days)	18	20	19	19	21	18
Payables (days)	38	39	26	34	26	26
Other Current Liab & Provns (days)	89	28	37	27	22	18
Cash Conversion Cycle (days)	14	61	60	88	76	78
Net Debt/EBITDA (x)	0.1	0.1	0.0	0.0	0.0	0.0
Net D/E	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)
Interest Coverage	68.5	182.5	272.4	129.6	211.2	292.2
PER SHARE DATA (Rs/sh)						
EPS	27.7	36.4	30.2	82.6	46.9	65.0
CEPS	33.6	44.5	35.7	90.1	55.6	77.1
DPS	6.9	7.1	7.4	11.0	11.7	16.2
BV	169.2	199.2	216.9	285.6	318.4	363.9
VALUATION						
P/E (x)	57.8	43.9	53.1	19.4	34.1	24.6
P/Cash EPS (x)	47.6	35.9	44.8	17.8	28.8	20.8
P/BV (x)	9.5	8.0	7.4	5.6	5.0	4.4
EV/EBITDA (x)	48.7	35.7	35.2	28.7	22.2	15.6
EV/Revenue (x)	10.4	8.4	7.7	7.1	6.0	4.9
OCF/EV (%)	1.4	3.1	1.4	4.6	3.1	3.6
FCFF/EV (%)	(0.9)	2.5	(0.1)	3.2	0.5	0.3
Dividend Yield (%)	0.4	0.4	0.5	0.7	0.7	1.0

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Jul-19	716	BUY	812
30-Jul-19	598	BUY	821
22-Sep-19	670	BUY	834
11-Oct-19	670	BUY	834
24-Oct-19	761	BUY	870
10-Jan-20	1,088	SELL	891
29-Jan-20	1,206	SELL	1,011
26-Feb-20	1,455	NEU	1,479
2-Mar-20	1,430	ADD	1,479
29-Apr-20	1,604	ADD	1,628
17-Jun-20	1,600	ADD	1,721

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

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