

Navin Fluorine International

BUY
INDUSTRY CHEMICALS
CMP (as on 29 Oct 2015) Rs 1,579
Target Price Rs 1,800

Nifty 8,112

Sensex 26,838

KEY STOCK DATA

Bloomberg NFIL IN

No. of Shares (mn) 10

MCap (Rs bn) / (\$ mn) 15/237

6m avg traded value (Rs mn) 21

STOCK PERFORMANCE (%)
52 Week high / low Rs 1,661/501

	3M	6M	12M
Absolute (%)	35.7	87.2	164.1
Relative (%)	38.4	88.6	165.1

SHAREHOLDING PATTERN (%)

Promoters 38.76

FIs & Local MFs 16.96

FIIs 7.64

Public & Others 36.64

Source : BSE

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The game is yet to begin

Navin Fluorine (NFIL) reported stellar results with EBITDA growing at 129% YoY to Rs 317mn and PAT at Rs 232mn (+131% YoY). This was mainly because of higher realisation for R22 and better product mix in specialty chemicals.

Pickup in R22 prices is led by (1) The government banning the import of pre-filled cylinders, which pushed up demand from OEMs, and (2) 10% cut in domestic output of R22 in 2015 under the Montreal Protocol.

However, the big story for NFIL is yet to play out. The second round of capex for adding CRAMS capacity and a JV with Piramal Enterprises is near completion. We expect the share of specialty to rise to ~70% by FY18E vs. 50% in FY15. NFIL remains a net cash company even at the peak of its capex cycle and we expect FCF to turn positive from FY17E.

Robust growth, improving return ratios and a strong B/S will drive re-rating. Maintain BUY with a TP of Rs 1,800/sh (16x 12 months rolling forward EPS).

Financial Summary (Consolidated)

(Rs mn)	2QFY16*	2QFY15*	YoY (%)	1QFY15*	QoQ (%)	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	1,511	1,242	21.7	1,504	0.5	4,862	5,915	6,826	8,478	10,305
EBITDA	317	139	128.6	256	23.9	660	722	967	1,340	1,787
APAT	232	101	130.5	181	28.0	568	546	733	945	1,252
Diluted EPS (Rs)	23.8	10.3	130.5	18.6	27.9	58.2	55.9	75.0	96.8	128.2
P/E (x)						27.1	28.3	21.0	16.3	12.3
EV / EBITDA (x)						21.7	21.1	16.1	11.6	8.4
RoE (%)						10.7	9.5	12.0	14.1	16.8

Source: Company, HDFC sec Inst Research, * standalone

Highlights of the quarter

- Growth in revenues:** Revenues grew across all segments, except inorganic fluorides; refrigerant (+44% YoY), specialty chemicals (+20%), CRAMS (+150%) and inorganic fluorides (-21%).
- Robust growth:** Jump in profits will be led by (1) Additional specialty capacity at Dewas, MP, which will start production from 2HFY16, and (2) JV with Piramal Enterprise to begin output from 4QFY16.
- Revenues are likely to grow 20% over FY15-18E, whereas EBITDA and PAT will register a CAGR of 35% and 32%, respectively.
- Improving financials:** Core RoCE and RoE are likely to increase to 15.5% and 16.8% by FY18E from 7.5/9.5% in FY15.
- Risks:** (1) Execution risk for new molecules, (2) Volatility in currency, and (3) Margin pressure in commodity business because of China weakness.

Growth in revenues was led by higher R22 prices and robust growth in specialty/CRAMS

NFIL maintained the higher margins led by improvement in gross margins

Quarterly Financials Snapshot (Standalone)

(Rs mn)	2QFY16	2QFY15	YoY (%)	1QFY16	QoQ (%)
Net Sales	1,511	1,242	21.7	1,504	0.5
Material Expenses	620	565	9.6	702	-11.7
Traded Goods	13	21	-40.0	9	35.6
Employee Expenses	154	139	11.3	161	-4.0
Other Operating Expenses	408	378	7.8	376	8.4
EBITDA	317	139	128.6	256	23.9
Depreciation	46	44	4.8	45	2.0
Other Income	89	57	55.6	41	117.6
PBIT	360	152	137.0	251	43.0
Interest Cost	8	9	-7.7	5	59.8
PBT	352	143	145.7	246	42.7
Tax	119	42	182.1	65	83.4
RPAT	232	101	130.5	181	28.0
APAT	232	101	130.5	181	28.0
AEPS (Rs/sh)	23.8	10.3	130.5	18.6	27.9

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY16	2QFY15	YoY (bps)	1QFY16	QoQ (bps)
Material Expenses as % of Net Sales	41.8	47.2	(538)	47.3	(544)
Employee Expenses as % of Net Sales	10.2	11.2	(95)	10.7	(47)
Other Expenses as % of Net Sales	27.0	30.5	(348)	25.0	196
EBITDA Margin (%)	21.0	11.2	981	17.0	396
EBIT Margin (%)	23.8	12.2	1,158	16.7	707
Net Profit Margin (%)	15.4	8.1	726	12.1	331
Tax Rate (%)	33.9	29.5	438	26.4	754

Segmental Revenues Analysis

(Rs mn)	2QFY16	2QFY15	YoY (%)	1QFY16	QoQ (%)
Refrigerants	520	360	44.4	610	(14.8)
Inorganic Fluorides	220	280	(21.4)	240	(8.3)
Specialty Chemicals	660	550	20.0	550	20.0
CRAMS	100	40	150.0	100	-

Source: Company, HDFC sec Inst Research

Growth in CRAMS will remain strong

Change in estimates led by factoring in higher gross margins and benefits from operating leverage

Assumptions

	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Revenue Growth (%)							
Refrigerants (ex CER)	21.6	(9.7)	(12.0)	25.3	15.0	-	-
Specialty Chemicals	35.3	11.9	(12.4)	37.8	12.0	10.0	10.0
Bulk Fluorides	27.2	1.0	14.0	(7.0)	(12.0)	-	-
CRAMS	-	-	85.7	19.2	126.8	101.0	92.8
MOL			60.2	16.1	15.0	15.0	15.0
CCPL							25.0
Revenues from Dewas new facility (Rs mn)					300	990	2,280
Gross Margins (%)							
Refrigerants (%)					50.0	50.0	50.0
Specialty Chemicals (%)					56.0	56.0	56.0
Bulk fluorides (%)					35.0	35.0	35.0
CRAMS (%)					65.0	65.0	65.0
Standalone Gross Margin (%)	64.9	51.6	52.7	50.2	51.8	53.2	55.1
MOL EBITDA Margin (%)	-	10.8	13.4	19.3	18.0	18.0	18.0
CCPL EBITDA Margin (%)	-	-	-	-	-	17.0	17.0

Source : Company, HDFC sec Inst Research

Change In Estimates

(Rs mn)	FY17E Old	FY17E New	YoY Gr (%)	FY18E Old	FY18E New	YoY Gr (%)
Revenue	8,909	8,478	(4.8)	10,507	10,305	(1.9)
EBITDA	1,334	1,340	0.4	1,660	1,787	7.7
PAT	921	945	2.6	1,139	1,252	10.0
EPS (Rs/sh)	94.3	96.8	2.6	116.6	128.2	10.0

Peer Valuations

	CMP (Rs/sh)	Mcap (Rs bn)	Rating	TP (Rs/sh)	EPS (Rs/sh)			P/E (x)			P/BV (x)			ROE (%)		
					FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Chambal Fert	58	24.1	BUY	74	7.1	8.7	9.2	8.1	6.6	6.3	1.1	0.9	0.9	13.7	15.1	14.3
Coromandel Int	187	53.1	BUY	250	14.2	17.4	22.9	13.2	10.7	8.2	2.5	2.1	1.8	17.9	20.8	23.6
PI Industries	647	88.4	BUY	750	17.1	21.5	26.6	37.9	30.1	24.3	9.9	7.8	6.1	29.3	28.9	28.2
Rallis India	206	40.1	BUY	240	8.1	7.6	10.0	25.5	27.2	20.6	4.9	4.4	3.9	20.5	17.1	20.1
UPL Ltd	476	203.9	BUY	560	26.7	30.1	35.4	17.8	15.8	13.5	3.5	3.0	2.5	20.6	20.3	20.3
Navin Fluorine	1,579	15.4	BUY	1,800	55.9	75.0	96.8	28.3	21.0	16.3	2.6	2.4	2.2	9.5	12.0	14.1
SRF Ltd	1,359	78.0	BUY	1,425	52.7	75.9	89.1	25.8	17.9	15.3	3.4	3.0	2.6	13.9	17.7	18.1

Source : Company, HDFC sec Inst Research

Income Statement (Consolidated)

(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Revenues	4,862	5,915	6,826	8,478	10,305
Growth (%)	(11.6)	21.7	15.4	24.2	21.5
Material Expenses	2,283	2,890	3,274	3,993	4,694
Employee Expenses	591	741	882	1,113	1,382
Other Operating Expenses	1,329	1,562	1,703	2,032	2,442
EBIDTA	660	722	967	1,340	1,787
EBIDTA Margin (%)	13.6	12.2	14.2	15.8	17.3
Growth (%)	(20.2)	9.4	34.0	38.5	33.4
Other Income	308	295	310	325	342
Depreciation	218	201	217	268	289
EBIT	750	816	1,060	1,397	1,840
Interest	55	33	36	77	85
PBT	827	783	1,024	1,320	1,755
Tax	148	200	292	375	503
PAT	680	582	733	945	1,252
Exceptional items	133	-	-	-	-
Minority Interest	(23)	(37)	-	-	-
APAT	568	546	733	945	1,252
Growth (%)	30.9	(3.9)	34.3	29.0	32.5
AEPS	58.2	55.9	75.0	96.8	128.2

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
SOURCES OF FUNDS					
Share Capital	98	98	98	98	98
Reserves	5,456	5,779	6,283	6,931	7,795
Total Shareholders' Funds	5,553	5,877	6,381	7,029	7,893
Long Term Debt	2	275	275	275	275
Short Term Debt	574	338	638	738	238
Total Debt	576	613	913	1,013	513
Deferred Taxes	334	323	323	323	323
Other LT Liabilities	38	53	53	53	53
LT Provisions	243	223	223	223	223
Minority Interest	92	129	129	129	129
TOTAL SOURCES OF FUNDS	6,838	7,217	8,021	8,769	9,133
APPLICATION OF FUNDS					
Net Block	2,475	2,329	3,401	3,260	3,649
CWIP	57	604	100	600	100
Good will	410	410	410	410	410
LT Investments	1,018	1,160	1,160	1,160	1,160
LT Loans & Advances	318	906	906	906	906
Inventories	656	761	1,239	1,519	1,844
Debtors	905	1,199	1,239	1,519	1,844
Cash & Equivalents	1,663	834	768	869	928
ST Loans & Advances	260	278	309	292	355
Other Current Assets	33	40	46	57	69
Total Current Assets	3,516	3,111	3,600	4,257	5,041
Creditors	609	892	1,147	1,414	1,723
Other Current Liabilities	216	249	249	249	249
Provisions	131	161	161	161	161
Total Current Liabilities	956	1,303	1,557	1,824	2,133
Net Current Assets	2,560	1,808	2,044	2,433	2,907
TOTAL APPLICATION OF FUNDS	6,838	7,217	8,021	8,769	9,133

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Reported PAT	588	587	733	945	1,252
Non-operating & EO items	206	198	208	218	229
PAT from Operations	381	389	525	727	1,024
Depreciation	218	201	217	268	289
Interest expenses	55	33	36	77	85
Working Capital Change	(30)	(687)	(301)	(288)	(416)
OPERATING CASH FLOW (a)	625	(64)	477	785	981
Capex	(186)	(623)	(786)	(627)	(178)
Free cash flow (FCF)	438	(686)	(309)	157	803
Investments	174	(142)	-	-	-
Other Income	206	198	208	218	229
INVESTING CASH FLOW (b)	194	(567)	(578)	(409)	51
Debt Issuance	(261)	36	300	100	(500)
Interest expenses	(55)	(33)	(36)	(77)	(85)
FCFE	122	(683)	(44)	180	218
Share capital Issuance	-	0	-	-	-
Dividend	(183)	(188)	(229)	(297)	(389)
FINANCING CASH FLOW (c)	(499)	(185)	36	(274)	(973)
NET CASH FLOW (a+b+c)	319	(815)	(65)	101	59
Closing Cash & Equivalents	379	281	215	316	375

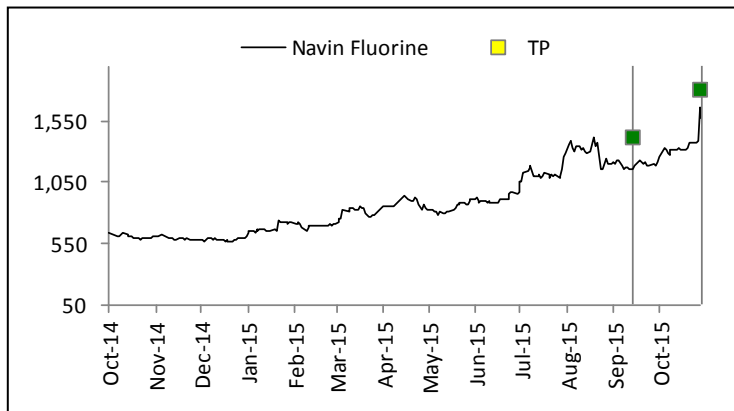
Source: Company, HDFC sec Inst Research

Key Ratios

	FY14	FY15	FY16E	FY17E	FY18E
PROFITABILITY %					
Gross margin	53.0	51.1	52.0	52.9	54.5
EBITDA margin	13.6	12.2	14.2	15.8	17.3
EBIT margin	15.4	13.8	15.5	16.5	17.9
APAT margin	11.7	9.2	10.7	11.1	12.2
RoE	10.7	9.5	12.0	14.1	16.8
Core RoCE	8.8	7.5	9.5	12.0	15.5
RoCE	9.2	8.1	10.0	11.9	14.7
EFFICIENCY					
Tax rate %	21.2	25.6	28.5	28.4	28.7
Total Asset turnover (x)	0.7	0.8	0.9	1.0	1.2
Inventory (days)	49.2	46.9	66.2	65.4	65.3
Debtor (days)	67.9	74.0	66.2	65.4	65.3
Payables (days)	45.7	55.1	61.3	60.9	61.0
Cash conversion cycle (days)	71.4	65.8	71.2	70.0	69.6
Net Debt/EBITDA (x)	0.9	0.8	0.9	0.8	0.3
Net D/E	(0.2)	(0.0)	0.0	0.0	(0.1)
Interest coverage	13.6	24.5	29.8	18.1	21.7
PER SHARE DATA					
EPS (Rs)	58.2	55.9	75.0	96.8	128.2
CEPS (Rs)	80.6	76.5	97.3	124.3	157.8
DPS (Rs)	16.0	16.0	20.0	26.0	34.0
BV (Rs)	569.2	601.6	653.2	719.6	808.0
VALUATION					
P/E (x)	27.1	28.3	21.0	16.3	12.3
P/Cash EPS (x)	19.6	20.6	16.2	12.7	10.0
P/BV (x)	2.8	2.6	2.4	2.2	2.0
EV/EBITDA (x)	21.7	21.1	16.1	11.6	8.4
EV/Revenue (x)	2.9	2.6	2.3	1.8	1.5
OCF/EV (%)	4.4	(0.4)	3.1	5.0	6.5
FCFF/EV (%)	3.1	(4.5)	(2.0)	1.0	5.4
FCFE/M CAP (%)	2.5	(4.7)	(2.2)	0.5	4.7
Dividend Yield (%)	1.0	1.0	1.3	1.6	2.2

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
15-Sep-15	1153	BUY	1,415
29-Oct-15	1579	BUY	1,800

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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