

Navin Fluorine International

Growth momentum to continue

Navin Fluorine International Ltd (NFIL) announced that Mr Radhesh Welling has resigned as the managing director (MD) and director on the board of the company for personal reasons. Mr. Welling will be relieved from the services of the company effective from the close of business hours on December 15, 2023. He shall continue to serve the company to facilitate a smooth transition. The board is looking for an external candidate who has the ability to handle large projects and has the requisite execution skills and technical expertise. Meanwhile, executive chairman Mr Vishal Mafatlal will be heading the company's operations. The board has approved the appointment of Mr Sudhir Deo as a non-executive non-independent director of the company to further strengthen the board. Mr Deo has 44 years of experience and has retired as the MD of NOCIL.

We expect NFIL's PAT to grow at a 30% CAGR over FY23-26E, led by a 33% CAGR in EBITDA. We retain our BUY rating on Navin Fluorine, with a target price of INR 5,368 (WACC 11%, terminal growth 5.5%) on the back of (1) earning visibility given long-term contracts in speciality chemicals and HPP segments; (2) a tilt in sales mix towards high margin high-value business; and (3) capacity expansion-led growth.

Growth is priority

In our view, NFIL is well-positioned across three business segments, HPP, speciality chemicals and CDMO, to capture the growth opportunities. The company's operating model with each business vertical headed by respective CEOs, aided by senior management teams from various departments, will help NFIL maintain its growth strategy. The management will continue the ongoing capex intensity and R&D spending. However, future projects that are under evaluation may be delayed by a couple of months, owing to the current challenging global scenario.

Long-term contracts give earning visibility

The company has three multi-year contracts in the speciality chemical segment with a peak revenue potential of INR10.3bn. Commercial production for two contracts has started in H2FY23 while for the third contract, it would kick in from Q4FY24. We expect incremental revenue of INR9.4bn from these contracts by FY27, owing to a ramp-up in production over FY24-27E. The company has a multi-year contract with Honeywell in the HPP segment as well. We expect this contract with Honeywell to generate a steady revenue stream of INR4.2bn per annum from FY24 onwards. These four long-term contracts will contribute more than 30% in revenue from FY25.

Upcoming projects to help sustain growth momentum

NFIL has recently announced a capex of INR300mn at Surat for the development of new capabilities. Besides, the company is setting up a 40,000-tonne-per-annum (TPA) Aqueous Hydro Fluoric acid (AHF) capacity in order to cater to rising demand from pharmaceutical, agrochemical industries, and emerging areas like electric vehicle battery chemicals. The company has signed an agreement with Fermion for patented commercial stage molecules in the CDMO segment. NFIL is also in discussion with Honeywell for a further capacity addition of 25% of the existing plant. This capacity will be available from FY26. In our view, upcoming projects will help maintain the growth momentum.

BUY

CMP (as on 4 Oct 2023)	INR 3,825
Target Price	INR 5,368
NIFTY	19,436

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 5,368	INR 5,368
	FY24E	FY25E
EPS %	-	-

KEY STOCK DATA

Bloomberg code	NFIL IN
No. of Shares (mn)	50
MCap (INR bn) / (\$ mn)	190/2,319
6m avg traded value (INR mn)	893
52 Week high / low	INR 4,950/3,727

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(16.0)	(9.7)	(15.4)
Relative (%)	(15.6)	(20.0)	(27.7)

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	28.81	28.81
FIs & Local MFs	24.84	25.97
FPIs	19.58	18.5
Public & Others	26.77	26.72
Pledged Shares	3.15	3.15

Source: BSE

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Multi-year long-term contract to contribute more than 30% in revenue

INR mn	FY24	FY25	FY26	FY27
HPP segment				
Honeywell contract	4,240	4,240	4,240	4,240
Speciality chemical segment				
For a product in MPP	1,890	2,295	2,700	2,700
With agro chemical fluoro company	960	1,360	1,600	1,600
With MNC for supply of fluoro speciality chemical		3,000	4,500	6,000
Revenue from LT contracts (A)	7,090	10,895	13,040	14,540
Revenue (B)	25,534	32,789	43,255	48,113
(A) as % of (B)	27.8	33.2	30.1	30.2

Source: Company, HSIE Research

Financial summary (consolidated)

INR mn	1QFY24	4QFY23	QoQ(%)	1QFY23	YoY(%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	4,912	6,971	(29.5)	3,975	23.6	14,534	20,774	25,534	32,789	43,255
EBITDA	1,142	2,018	(43.4)	991	15.2	3,548	5,503	6,597	9,394	12,971
APAT	615	1,364	(54.9)	745	(17.4)	2,606	3,702	4,075	5,677	8,222
AEPS (INR)	12.4	27.5	(54.9)	15.0	(17.4)	52.6	74.7	82.3	114.6	166.0
P/E (x)						72.6	51.1	46.4	33.3	23.0
EV/EBITDA(x)						53.1	35.8	30.6	21.8	15.7
RoE (%)						15.0	18.4	17.4	21.0	25.5

Source: Company, HSIE Research

Financials (Consolidated)

INCOME STATEMENT

(INR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	9,959	10,616	11,794	14,534	20,774	25,534	32,789	43,255
<i>Growth (%)</i>	<i>9.1</i>	<i>6.6</i>	<i>11.1</i>	<i>23.2</i>	<i>42.9</i>	<i>22.9</i>	<i>28.4</i>	<i>31.9</i>
Material Expenses	4,766	4,838	5,374	6,656	8,960	11,524	14,854	20,686
Employee Expenses	1,155	1,308	1,417	1,815	2,494	2,675	3,144	3,608
Other Operating Expenses	1,855	1,835	1,910	2,514	3,817	4,739	5,397	5,990
EBIDTA	2,184	2,635	3,093	3,548	5,503	6,597	9,394	12,971
<i>EBIDTA Margin (%)</i>	<i>21.9</i>	<i>24.8</i>	<i>26.2</i>	<i>24.4</i>	<i>26.5</i>	<i>25.8</i>	<i>28.6</i>	<i>30.0</i>
<i>Growth (%)</i>	<i>1.6</i>	<i>20.7</i>	<i>17.4</i>	<i>14.7</i>	<i>55.1</i>	<i>19.9</i>	<i>42.4</i>	<i>38.1</i>
Depreciation	275	370	442	479	626	836	1,263	1,600
EBIT	1,908	2,265	2,651	3,069	4,877	5,761	8,131	11,371
Other Income (incl EO items)	344	333	946	392	357	382	409	532
Interest	8	20	18	19	275	771	1,155	1,275
PBT	2,244	2,578	3,578	3,442	4,959	5,372	7,385	10,628
Tax	770	(1,436)	1,108	812	1,207	1,297	1,708	2,406
PAT before share of JV	1,474	4,014	2,471	2,631	3,752	4,075	5,677	8,222
Minority Interest	-	-	-	-	-	-	-	-
EO items (net of tax)	119	230	359	24	50	-	-	-
Share of Profits from JV/Associates	17	72	105	(0)	(0)	-	-	-
APAT	1,372	3,855	2,216	2,606	3,702	4,075	5,677	8,222
<i>Growth (%)</i>	<i>(4.1)</i>	<i>181.0</i>	<i>(42.5)</i>	<i>17.6</i>	<i>42.0</i>	<i>10.1</i>	<i>39.3</i>	<i>44.8</i>
AEPS	27.7	77.8	44.7	52.6	74.7	82.3	114.6	166.0
<i>Growth (%)</i>	<i>(4.1)</i>	<i>181.0</i>	<i>(42.5)</i>	<i>17.6</i>	<i>42.0</i>	<i>10.1</i>	<i>39.3</i>	<i>44.8</i>

Source: Company, HSIE Research

BALANCE SHEET

(INR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS								
Share Capital	99	99	99	99	99	99	99	99
Reserves	10,626	14,023	16,240	18,343	21,750	24,806	29,064	35,231
Total Shareholders Funds	10,724	14,122	16,339	18,442	21,850	24,905	29,163	35,330
Long-term Debt	-	-	-	1,000	7,531	11,981	14,981	14,981
Short-term Debt	41	14	25	45	955	955	955	955
Total Debt	41	14	25	1,045	8,487	12,937	15,937	15,937
Deferred Taxes	348	(151)	207	201	348	298	248	198
Other LT Liabilities	231	391	409	372	350	350	350	350
Minority Interest	-	-	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	11,345	14,376	16,980	20,060	31,033	38,489	45,697	51,813
APPLICATION OF FUNDS								
Net Block	2,863	3,860	3,985	4,156	15,065	21,721	27,350	28,981
CWIP	393	389	949	7,421	2,786	2,824	1,356	375
Good will	878	878	878	878	878	878	878	878
LT Investments	3,258	3,097	1,136	1,087	1,900	2,199	2,564	3,009
LT Loans & Advances	73	75	81	121	3	3	3	3
Inventories	1,119	1,579	1,804	2,575	4,681	5,247	6,738	8,888
Debtors	1,727	2,185	2,841	3,577	5,615	6,996	8,983	11,851
Cash & Equivalents	2,253	3,513	6,284	2,000	659	159	276	1,738
Other Current Assets	508	559	1,019	2,041	3,706	3,786	3,866	3,946
Total Current Assets	5,607	7,836	11,947	10,193	14,662	16,188	19,863	26,423
Creditors	713	981	1,074	1,465	2,435	3,498	4,492	5,925
Other Current Liabilities	1,014	777	920	2,329	1,825	1,825	1,825	1,930
Total Current Liabilities	1,727	1,758	1,995	3,794	4,260	5,323	6,317	7,855
Net Current Assets	3,880	6,078	9,953	6,398	10,402	10,865	13,546	18,568
TOTAL APPLICATION OF FUNDS	11,345	14,376	16,980	20,060	31,033	38,489	45,697	51,813

Source: Company, HSIE Research

CASH FLOW STATEMENT

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	2,261	2,650	3,683	3,442	4,959	5,372	7,385	10,628
Non-operating & EO items	215	144	(187)	(17)	(250)	(0)	(0)	0
Adjusted PBT	2,045	2,506	3,870	3,459	5,209	5,372	7,385	10,628
Interest expenses	8	20	18	19	275	771	1,155	1,275
Depreciation	275	370	442	479	626	836	1,263	1,600
Working Capital Change	(264)	268	(1,279)	(966)	(4,496)	(963)	(2,565)	(3,559)
Tax Paid	(770)	1,436	(1,108)	(812)	(1,207)	(1,297)	(1,708)	(2,406)
OPERATING CASH FLOW (a)	1,295	4,600	1,943	2,179	407	4,719	5,530	7,538
Capex	(504)	(1,362)	(1,127)	(7,122)	(6,900)	(7,530)	(5,425)	(2,250)
Free cash flow (FCF)	791	3,238	816	(4,943)	(6,493)	(2,811)	105	5,288
Investments	(172)	1,124	1,144	17	24	(64)	(70)	(77)
Others	(120)	(1,446)	1,190	45	(676)	(286)	(344)	(418)
INVESTING CASH FLOW (b)	(796)	(1,685)	1,208	(7,060)	(7,553)	(7,879)	(5,839)	(2,745)
Debt Issuance/(Repaid)	(85)	(27)	11	1,020	7,442	4,450	3,000	-
Interest Expenses	(8)	(20)	(18)	(19)	(275)	(771)	(1,155)	(1,275)
FCFE	697	3,191	809	(3,942)	673	868	1,950	4,013
Dividend	(386)	(545)	(545)	(545)	(594)	(1,019)	(1,419)	(2,056)
Others	(24)	144	2	(55)	(36)	-	-	-
FINANCING CASH FLOW (c)	(504)	(448)	(550)	400	6,536	2,660	426	(3,330)
NET CASH FLOW (a+b+c)	(5)	2,468	2,601	(4,480)	(610)	(500)	117	1,462
EO Items, Others	-	-	-	-	-	-	-	-
Closing Cash & Equivalents	370	2,837	5,439	958	348	(152)	(35)	1,427

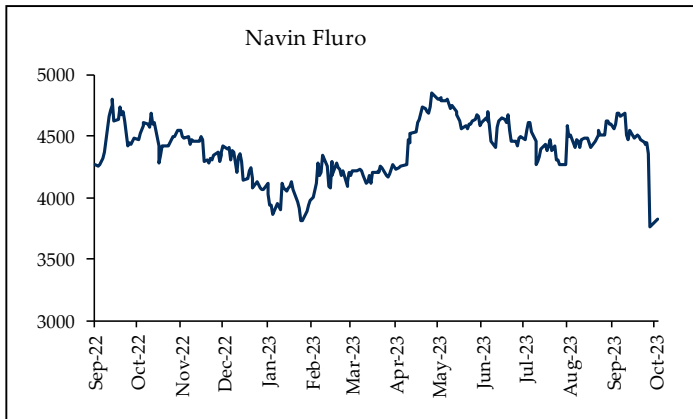
Source: Company, HSIE Research

KEY RATIOS

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY %								
Gross Margin	52.1	54.4	54.4	54.2	56.9	54.9	54.7	52.2
EBITDA Margin	21.9	24.8	26.2	24.4	26.5	25.8	28.6	30.0
EBIT Margin	19.2	21.3	22.5	21.1	23.5	22.6	24.8	26.3
APAT Margin	13.8	36.3	18.8	17.9	17.8	16.0	17.3	19.0
RoE	13.3	31.0	14.6	15.0	18.4	17.4	21.0	25.5
Core RoCE	20.0	44.5	18.6	24.4	19.7	14.2	16.0	19.1
RoCE	12.6	30.2	14.2	14.2	15.3	13.4	15.6	18.9
EFFICIENCY								
Tax rate %	34.3	(55.7)	31.0	23.6	24.3	24.2	23.1	22.6
Fixed Asset Turnover (x)	3.5	3.2	3.0	3.6	2.2	1.4	1.3	1.5
Inventory (days)	41	54	56	65	82	75	75	75
Debtor (days)	63	75	88	90	99	100	100	100
Other Current Assets (days)	19	19	32	51	65	54	43	33
Payables (days)	26	34	33	37	43	50	50	50
Other Current Liab & Provns (days)	24	27	26	58	32	26	20	16
Cash Conversion Cycle (days)	73	88	116	110	171	153	148	142
Net Debt/EBITDA (x)	0.0	0.0	0.0	0.3	1.5	2.0	1.7	1.2
Net D/E (x)	(0.2)	(0.2)	(0.4)	(0.1)	0.4	0.5	0.5	0.4
Interest Coverage (x)	272.4	129.6	187.2	182.2	19.0	8.0	7.4	9.3
PER SHARE DATA (INR /sh)								
EPS	27.7	77.8	44.7	52.6	74.7	82.3	114.6	166.0
CEPS	33.3	85.3	53.7	62.3	87.4	99.2	140.1	198.3
DPS	7.8	11.0	11.0	11.0	12.0	20.6	28.7	41.5
BV	216.5	285.1	329.9	372.4	441.2	502.9	588.8	713.4
VALUATION								
P/E (x)	137.9	49.1	85.4	72.6	51.1	46.4	33.3	23.0
P/Cash EPS (x)	114.9	44.8	71.2	61.3	43.7	38.5	27.3	19.3
P/BV (x)	17.6	13.4	11.6	10.3	8.7	7.6	6.5	5.4
EV/EBITDA (x)	85.7	70.5	59.2	53.1	35.8	30.6	21.8	15.7
EV/Revenue (x)	18.8	17.5	15.5	13.0	9.5	7.9	6.2	4.7
OCF/EV (%)	0.7	2.5	1.1	1.2	0.2	2.3	2.7	3.7
FCFF/EV (%)	0.4	1.7	0.4	(2.6)	(3.3)	(1.4)	0.1	2.6
FCFE/M CAP (%)	0.4	1.7	0.4	(2.1)	0.4	0.5	1.0	2.1
Dividend Yield (%)	0.2	0.3	0.3	0.3	0.3	0.5	0.7	1.1

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

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

Disclosure:

We, **Nilesh Ghuge, MMS, Harshad Katkar, MBA, & Akshay Mane, PGDM, authors** and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

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