Navin Fluorine International Ltd.
Specialty Chemicals

Buy
Target Price
3,930

Strong Growth Chemistry

We initiate coverage on Navin Fluorine International Limited (NFIL) with a BUY recommendation and a Target Price of Rs 3,930, implying a 17% upside from the current levels. Navin Fluorine International Ltd., a Padmanabh Mafatlal group company, is one of the largest Indian manufacturer of specialty fluorochemicals. Since inception, the company has built a niche for itself in the fluorine chemistry and is now moving up the value chain and entering the high margin businesses such as Specialty Chemicals, Contract Research and Manufacturing (CRAMS), and multi year long-term High Performance Products (HPP) contracts with global players. Industry tailwainds like increased usage of fluorine based molecules in pharma and agrochemicals business is expected to drive the higher margin business. NFIL has been a preferred choice in the fluorine chain on account of attributes such as 1) Higher R&D investment, 2) Step up in innovation/new launches, 3) Strategic acquitions, 4) Focus on expanding high value business, 5) Superior Pricing, and 6) Long-term relations with clients. Moving forward, the expansion in the high value business having superior margin profile than the legacy business which is expected to augur well for NFIL's operational performance and profitability. We expect NFIL to report 25%/28%/27% CAGR in Revenue/EBITDA/PAT, respectively over FY21-24E. At CMP, the stock trades at 58x/39x/33x of FY22E/FY23E/FY24E, respectively. We initiate coverage with a BUY recommendation and value the stock at 38x of its FY24x EPS with a target price of Rs.3,930/share, implying an upside of 17%.

INVESTMENT THESIS

Rising demand for Fluorochemicals in Agro and Pharma Industries

Rising temperatures coupled with increasing demand for cold storage systems across the globe and climate control systems (a system able to affect and regulate the internal temperature of a vehicle in any weather condition) have stimulated the demand for Heating, Ventilation and Air conditioning (HVAC) and refrigeration systems, which in turn are driving the fluorochemicals market. Apart from air conditioners (ACs) and refrigerators, demand for fluorochemicals have risen significantly in other end-user industries such as Automotive, Construction, Personal Care, Agrochemicals, and Pharmaceuticals. The total number of fluoro-pharmaceuticals (191 drugs) accounted for 18% of the total pharmaceuticals (1,072 drugs) and 22% of small-molecule drugs (839 drugs). Almost ~50% of agrochemical products developed contain fluorine due to its ability to enhance and improve results.

Broadening its capabilities in the fluorine value chain

NFIL has over 5 decades of experience in the fluorine value chain and has transitioned itself from a high volume commodity player to manufacturing specialty chemicals that are margin accretive. Having started with refrigerants, the Company moved up the fluorination value chain through introduction of inorganic fluorides, specialty fluorochemicals and CRAMS. The High Value Business share has increased to 60% in FY21 from 42% in FY15 as its top-line grew at a CAGR of 20% over last 5 years, while the Legacy Business grew by 7% over FY15-20. Notably, EBITDA Margins also have seen an expansion by 1400bps between FY15-21 given the shift to High Value Business that have high entry barriers and also margins.

Focus on increasing share of non-emissive volumes in Refrigerant Gas segment

NFIL has been operating in the refrigerants industry for the past five decades and is a pioneer in this segment. It sells its refrigerants under the brand name 'Mafron' which has become a generic name for refrigerants in India. As the demand for R-22 from the ACs and automobile segment in the domestic market started falling, NFIL started exporting to South-East Asia, Middle East, Africa, and other developing countries where demand was growing. The company created an alternate revenue stream and started selling for non-emissive applications which is a high-margin and low-volume segment. The non-emissive segment contributes about ~15-17% to the refrigeration segment and is expected to increase as the company is looking to add more customers for non-emissive application of refrigerant gases.

Robust long-term growth outlook – Initiate with BUY

The high value businesses consisting of Specialty Chemical, CRAMS and Navin Fluorine Advanced Sciences (NFASL) are expected to be the key growth drivers going forward. We believe NFIL is well placed in the fluorination space given i) Strong industry growth drivers; ii) Sharp focus on R&D and expanding in high-value business and iii) Well-nurtured long-term relationship with customers. At CMP, the stock trades at 33x FY24E EPS. We assign a target multiple of 38x FY24E EPS and initiate coverage with a BUY rating on the stock with a target price of Rs 3,930/share, implying an upside of 17% from CMP.

Key Financials (Consolidated)

(Rs. Cr.)	FY21	FY22E	FY23E	FY24E
Net Sales	1,179	1,405	1,957	2,291
EBITDA	309	374	532	642
Net Profit	247	289	423	509
EPS (Rs)	49.9	58.4	85.5	102.9
PER (x)	67.3	57.5	39.3	32.7
EV/EBITDA (x)	53.3	44.1	31.1	25.5
RoE (%)	15.8%	15.5%	19.3%	19.5%
ROCE (%)	17.1%	16.9%	20.8%	21.3%

Source: Company, Axis Research

(CMP as of June 16, 2021)

CMP (Rs)	3,358
Upside /Downside (%)	17%
High/Low (Rs)	3,659/1,457
Market cap (Cr)	16,570
Avg. daily vol. (6m) Shrs.	78,113
No. of shares (Cr)	4.95

Shareholding (%)

	Sep-20	Dec-20	Mar-21
Promoter	30.5	30.5	30.2
FIIs	21.1	24.5	25.1
MFs / UTI	17.0	14.0	13.4
Banks /FIs	0.0	0.0	0.0
Others	31.3	31.0	31.3

Financial & Valuations

Y/E Mar (Rs. Cr)	FY22E	FY23E	FY24E
Net Sales	1,405	1,957	2,291
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Net Profit	289	423	509
EPS (Rs)	58.4	85.5	102.9
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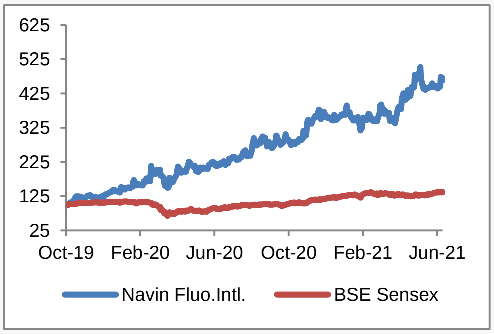
EV/EBITDA (x)	44.1	31.1	25.5
RoE (%)	15.5%	19.3%	19.5%
ROCE (%)	16.9%	20.8%	21.3%

ESG disclosure Score**

Environmental Disclosure	20.16
Social Disclosure Score	43.86
Governance Disclosure Score	48.21
Total ESG Disclosure Score	32.23

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Story in charts

Exhibit 1: Revenue expected to register CAGR of ~25%...

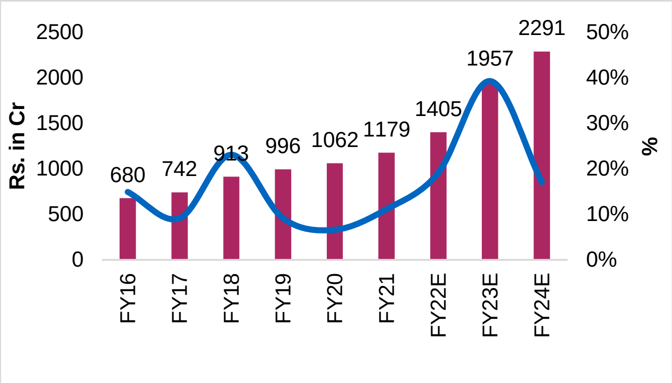
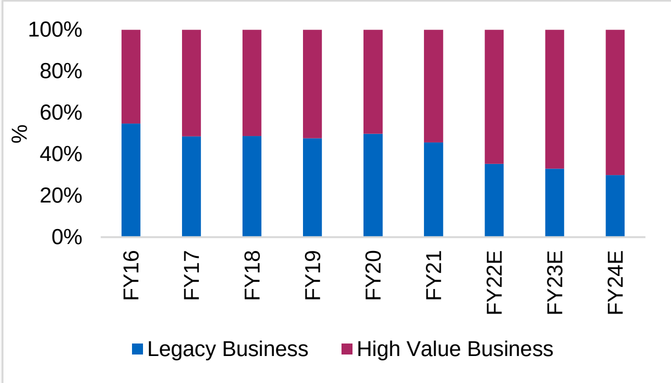


Exhibit 2: … as the contribution of High-Value Business increases…



Source: Company, Axis Securities

Exhibit 3: … as CRAMS is expected to see strong top-line growth…

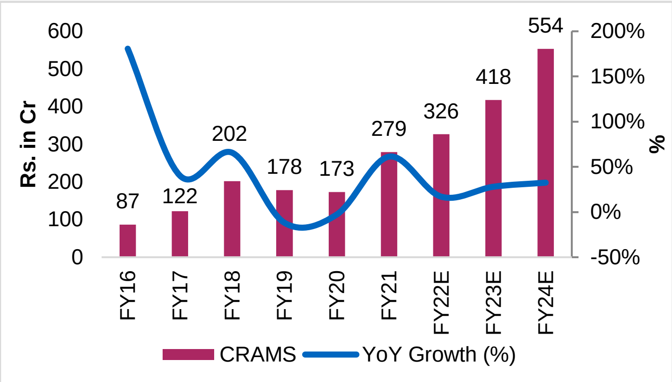
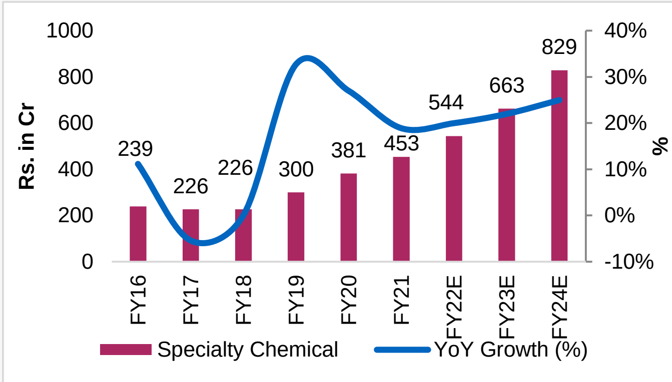


Exhibit 4: … along with the Specialty Chemical segment on the back of…



Source: Company, Axis Securities

Exhibit 5: …increasing domestic revenue…

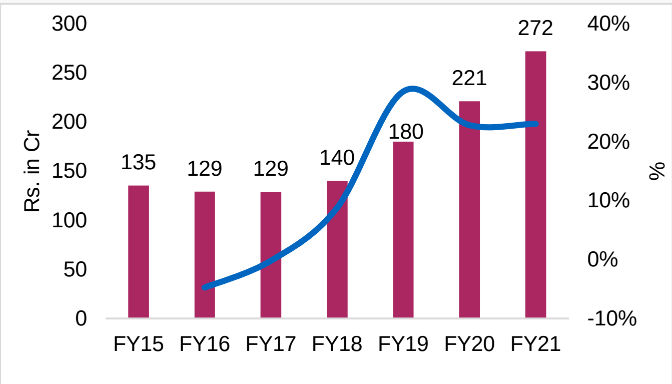
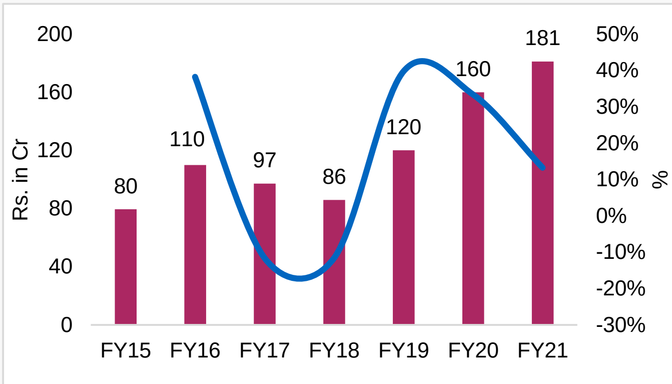


Exhibit 6: …as well as robust growth in export revenue…



Source: Company, Axis Securities

Exhibit 7: …resulting in expansion of overall EBITDA margins…

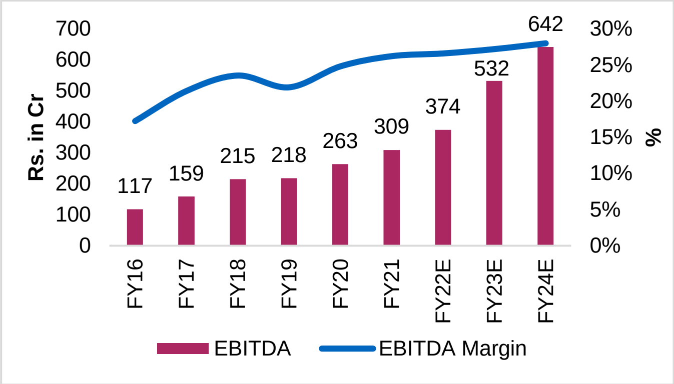
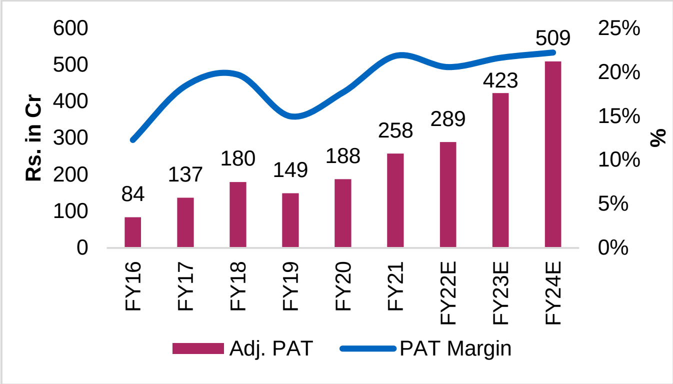


Exhibit 8: …leading to improvement in overall profitability.



Source: Company, Axis Securities

Exhibit 9: Contribution of Specialty Chemicals and CRAMS is expected to rise going forward

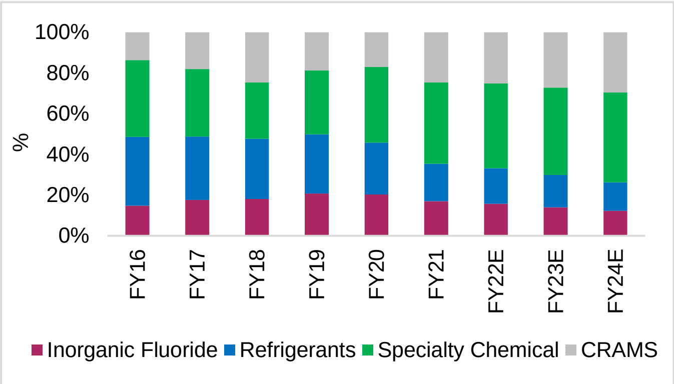
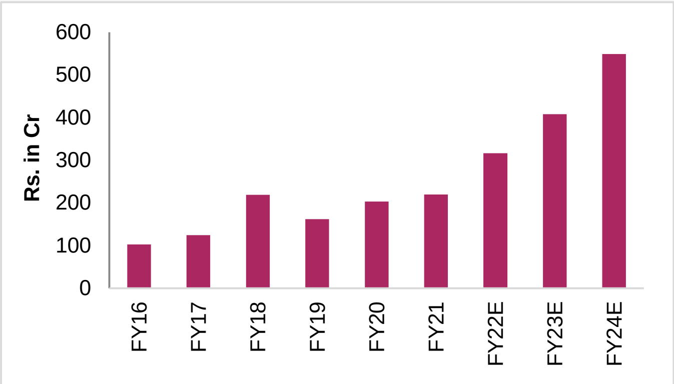


Exhibit 10: CFO to grow at a healthy rate



Source: Company, Axis Securities

Exhibit 11: Healthy Return Ratios to sustain over FY21-24E

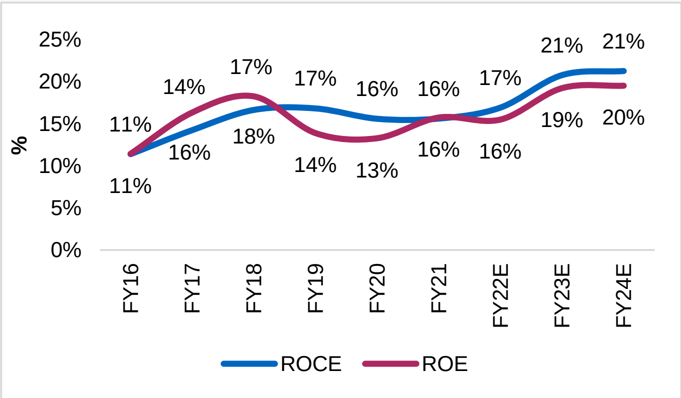
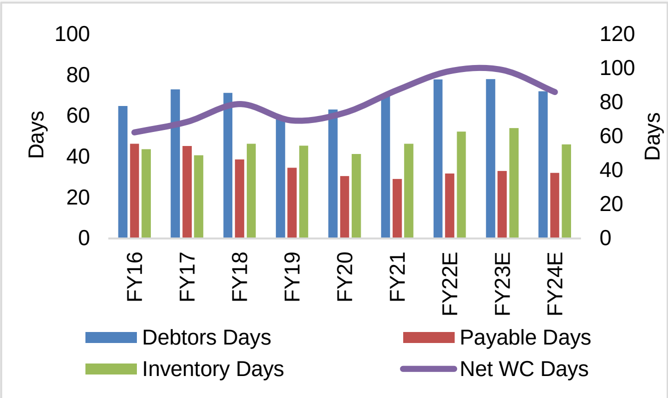


Exhibit 12: Stabilizing Working Capital Cycle



Source: Company, Axis Securities

COMPANY OVERVIEW

Navin Fluorine International Ltd. (NFIL) - a Padmanabh Mafatlal Group Company, is one of the largest Indian manufacturers of specialty flourochemicals, operating integrated flourochemicals complexes with manufacturing units in Surat, Dahej, and Dewas, India and an R&D center 'Navin Research Innovation Centre (NRIC)' at Surat, India.

NFIL was largely present in refrigerant gases and inorganic fluoride business which is primarily driven by high volume growth. With an objective to transition into a growth-based company, NFIL entered into the Specialty Chemical business in 2002. It expanded further into Contract Research And Manufacturing Services (CRAMS) by acquiring Manchester Organics (MOL) in 2011 to offer a custom chemical synthesis of fluorinated compounds. In Feb'20, the company further expanded into a high-growth segment of High-Performance Products (HPP) through a multi-year contract order win of $410 Mn. The Capex, as well as the project, will be executed under its wholly-owned subsidiary Navin Fluorine Advanced Sciences Ltd (NFASL), located at Dahej, India.

Key player in manufacturing products in the fluorine value chain

Exhibit 13: Key Milestones

1967 - 1990

1967:
- Established first Integrated Fluorochemicals Complex in South East Asia (excluding Japan) to produce HF, refrigerant gases and inorganic fluorides at Surat, India.

1969:
- Commencement of commercial production of Refrigerant Gases

1978:
- Facility Set up at Dewas to produce Alkylated Anilines and Toluidine.

1982:
- Capacity Expansion at Surat for Smelter Fluorides and AIF3

1990:
- CFC 113 plant commissioned at Surat

1991 - 2006

1999:
- Production commenced of Organic and Inorganic Specialty Fluoride at Surat

2000:
- Production of Fluorobenzene and Benzotrifluoride commenced at Surat

2001:
- First large scale plant set up to produce Boron Trifluoride Gas at Surat for South East Asia

2003:
- Capacity Expansion of Specialty Organic Fluorides at Surat.

2004:
- Commisioned Trifluoroacetic acid plant at Surat

2005:
- Trifluoroethanol plant commissioned in Surat.

2006:
- Capacity expansion of Boron Trifluoride Gas

2007 - 2013

2007:
- CDM plant commissioned at Surat

2008:
- Inauguration of R&D Centre - Navin Research Innovation Centre (NRIC)

2009:
- Set up of pilot plant to scale up R&D of molecules

2010:
- Established MPP and CRO at Surat

2011:
- Capacity Expansion of BF3 at Surat
- Acquisition of land in Dahej & 51% stake Manchester Organics Ltd., UK
- cGMP1 plant started at Dewas

2013:
- Expansion of MPP in Surat

2015 - 2021

2015:
- Commissioning of CRAMS cGMP2 MPP
- Acquisition of 49% stake Manchester Organics Ltd.

2016:
- Entered into an agreement with Honeywell Automation to manufacture next gen refrigerant gas.

2019:
- Greenfield expansion of Rs. 450 Cr in Dahej
- Commissioning of cGMP-3 plant.

2020:
- Entered into a new segment, HPP through a multi-year contract
- Rs 195 Cr Capex at Dahej for specialty chemical

Source: Company, Axis Securities

Exhibit 14: Diverse Customer Base

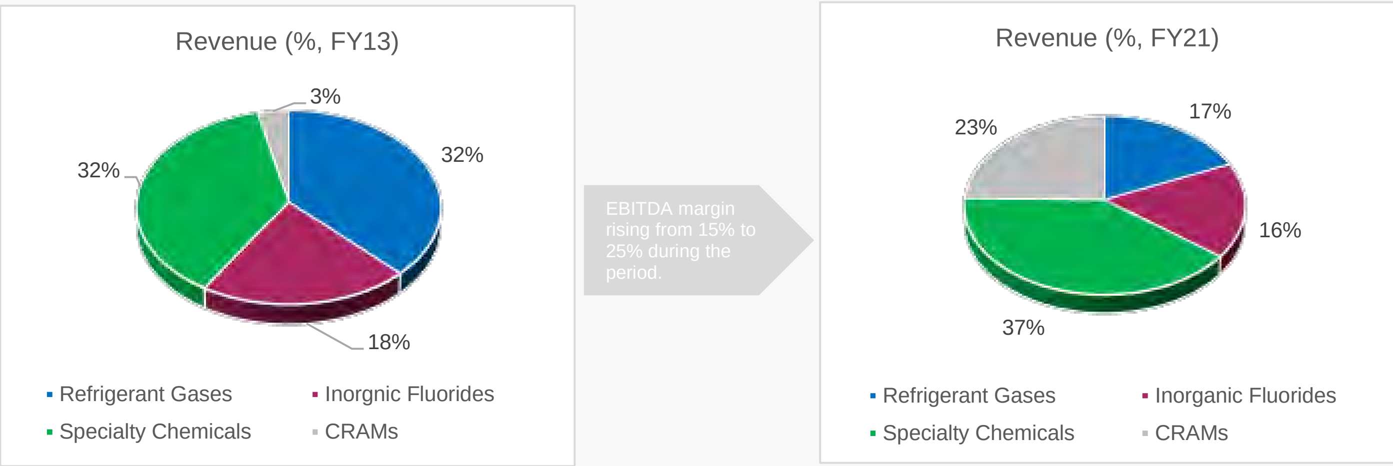
Source: Company, Axis Securities

Exhibit 15: Business Segments and Product Profile

	Particulars	Product Profile	Business Description	Industry Applications	Export/ Domestic Share (FY21, %)
Legacy Business	Refrigerants Gas	1. HCFC 22 2. HCFC 22 PTFE Grade 3. HFC 134a 4. HFC 404a 5. HFC 410a	Manufacturing and selling gases under the brand name Mafron used for refrigeration and air conditioning.	Emissive Use: 1. Air Conditioners 2. Commercial and Industrial Refrigerants Units Non Emissive Use: 1. Intermediate of APIs 2. Fluoropolymer Resins	46/54
	Inorganic Fluorides	1. Ammonium Bifluoride 2. Potassium Bifluoride 3. Sodium Fluoride 4. Potassium Fluorotitanate 5. Potassium Fluoroborate 6. Hexafluorophosphoric Acid 7. HF adducts as HF Pyridine complex and HF Urea complex	The company has an integrated fluorochemicals complex at Surat, with the largest Anhydrous Hydrofluoric (AHF) manufacturing capacities, used for the captive purpose to manufacture various inorganic fluorides.	1. Oil and Gas 2. Stainless Steel 3. Pharmaceuticals and Agrochemicals 4. Abrasives 5. Electronics 6. Solar Energy	12/88
High-Value Business	Specialty Chemicals	Fluorine based intermediates	The segment includes multi step products and intermediates in fluorine value chain. The company is a leading producer of Boron Trifluoride Gas and its adducts.	1. Pharmaceuticals 2. Crop Protection 3. Hydrocarbon 4. Fragrances	40/60
	CRAMs	--	The segment includes custom chemical synthesis of fluorinated compounds.	1. Pharmaceuticals 2. Agrochemicals	100
	NFASL	--	A new high growth segment set up after winning a multi-year contract to produce High Performance Products	--	--

Source: Company, Axis Securities

Exhibit 16: Revenue share shifting significantly from low-margin Legacy Business to high-margin Value Businesses



Source: Company, Axis Securities

Key Competitive Strengths and Growth Drivers

Rising demand for Fluorochemicals in Agro and Pharma to Flair Well for NFIL

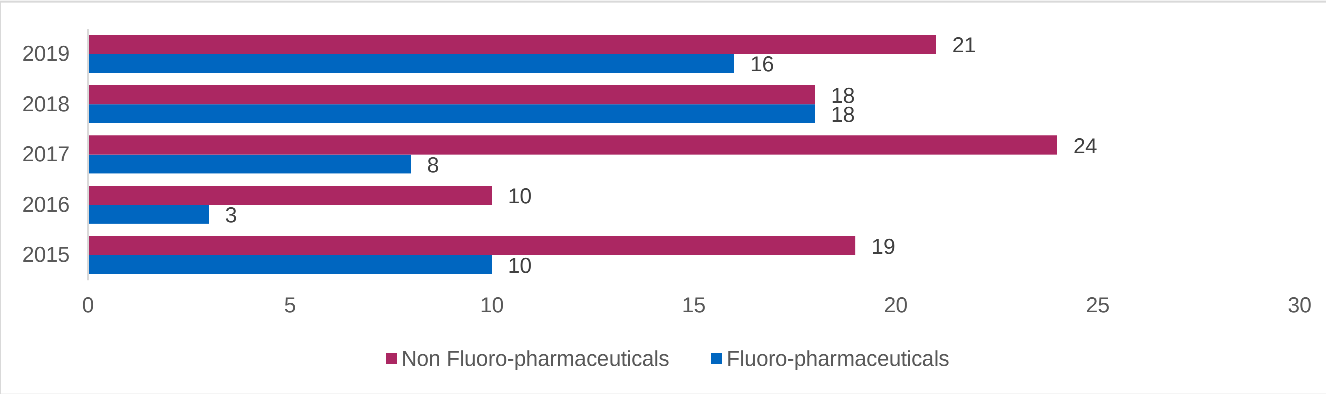
The global fluorochemicals market pegged at $21.4 Bn in 2018, is expected to reach $29.8 Bn by 2026, growing at a 4.2% CAGR. In 2019, 76% of the global fluorochemicals market was occupied by organic products. Rising global temperature coupled with increasing global demand for cold storage systems and climate control systems (a system able to affect and regulate the internal temperature of a vehicle in any weather condition) has stimulated the demand for HVAC and refrigeration systems, which in turn have driven the fluorochemicals market. Apart from AC and refrigerators, demand for fluorochemicals has increased significantly in other end-user industries such as Automotive, Construction, Personal Care, Agrochemicals, and Pharmaceuticals.

The Global Fluorochemicals Market is expected to grow at 4.2% CAGR from 2019 to 2026

Increasing Pharmaceutical Application

The application of fluorochemicals in the pharmaceutical industry due to its incombustible (non-flammable) nature is likely to push the market demand in the upcoming years. It is highly used as an anesthetic agent in dental care, anti-cancer, and anti-HIV, to name a few. Increased R&D expenditure, especially in the pharmaceutical sector to develop novel product range, is anticipated to drive market growth. The total number of fluoro-pharmaceuticals (191 drugs) accounted for 18% of the total pharmaceuticals (1,072 drugs) and 22% of small-molecule drugs (839 drugs).

Exhibit 17: Increasing contribution of fluoro-pharmaceuticals to the total number of registered synthetic drugs

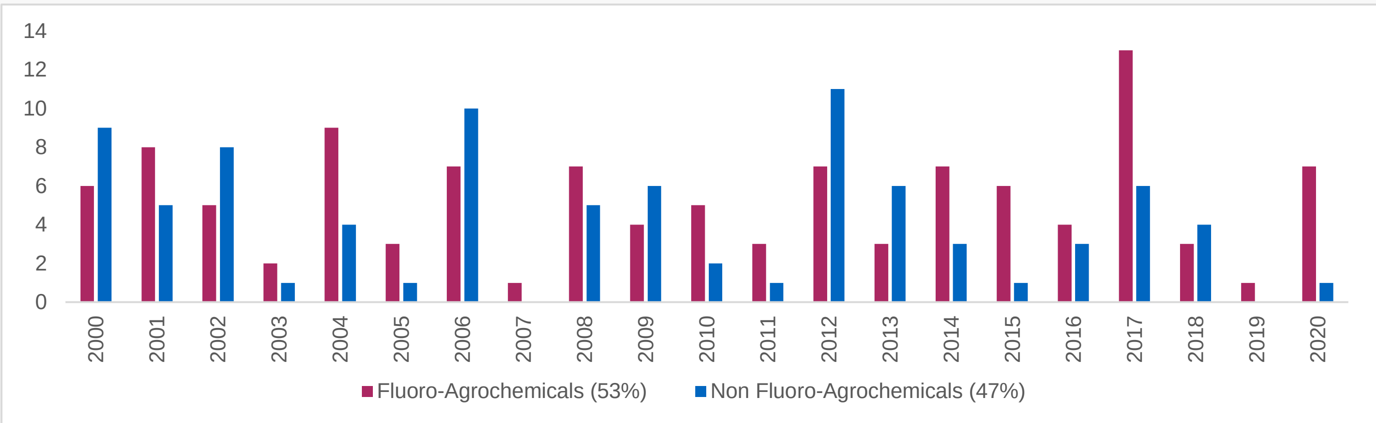


Source: ACS Omega, Axis Securities

Increasing Agrochemical Application:

The fluorochemicals' use in the agricultural sector has been increasing and is considered to be a major growth driver for the global fluorochemicals market. It is used in the production of herbicides and pesticides and for the sterilization of soil. Almost ~50% of agrochemical products developed contain fluorine due to its ability to provide enhanced and improved results in agriculture.

Exhibit 18: Increasing contribution of fluoro-agrochemicals to the agrochemicals industry over the years



Source: ScienceDirect, Axis Securities

Broadening its capabilities in the fluorine value chain

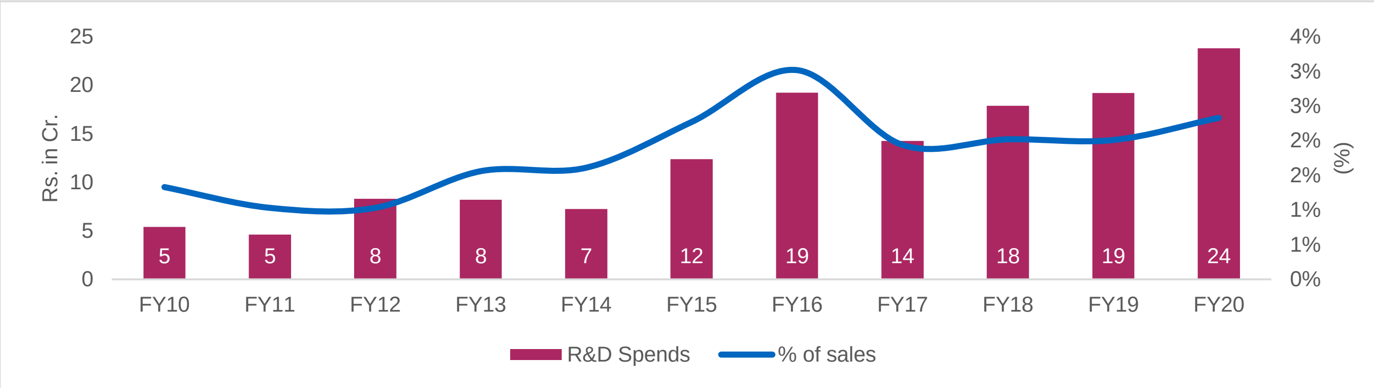
NFIL has over 5 decades of experience in the fluorine value chain and has transitioned itself from a high volume-low margin commodity player to manufacturing margin accretive specialty chemicals. Having started with refrigerants, the Company moved up the fluorination value chain through introduction of inorganic fluorides, specialty fluorochemicals and CRAMS.

Continued Focus on R&D

Continuous investment in R&D has helped NFIL in developing new products and improving the cost effectiveness of processes and technologies, enabling it to drive sales of its all business units. In 2008, NFIL inaugurated its R&D Centre - Navin Research Innovation Centre (NRIC), at Surat, Gujrat. This was set up as a pilot plant to scale up the R&D of molecules and develop new products in fluorine chemistry. The consistent investment in R&D has aided the company to upgrade its facilities and create downstream and value-added products in the complicated fluorine value chain. This has helped it to procure various long-term contracts with many majors across its key end-user industries all over the world.

Rising revenue contribution of High Value Business to drive Operating Margins going forward

Exhibit 19: Significant investment in R&D to scale up presence in the High Value Business



Source: Company, Axis Securities

High Value Buisness, a future growth driver

The High Value Business, consisting of Specialty Chemicals and CRAMS together contributed 60% of topline in FY21 while the rest 40% comes from the Legacy Business. The High Value Business top-line grew at a 20% CAGR over the last 5 years, while the Legacy Business grew by 7% CAGR during the same period leading to a a shift in the revenue mix. Share ofHigh Value Business increased from 42% in FY15 to 60% in FY21. The shift is also a result of high margins and high entry barriers that the High Value Business has. Within the High Value business (HVB) CRAMS and Specialty Chemicals contribution to revenue has increased by 200bps/1840bps over FY15-21 at 38%/24%.

Exhibit 20: High Entry Barriers in the High-Value Business

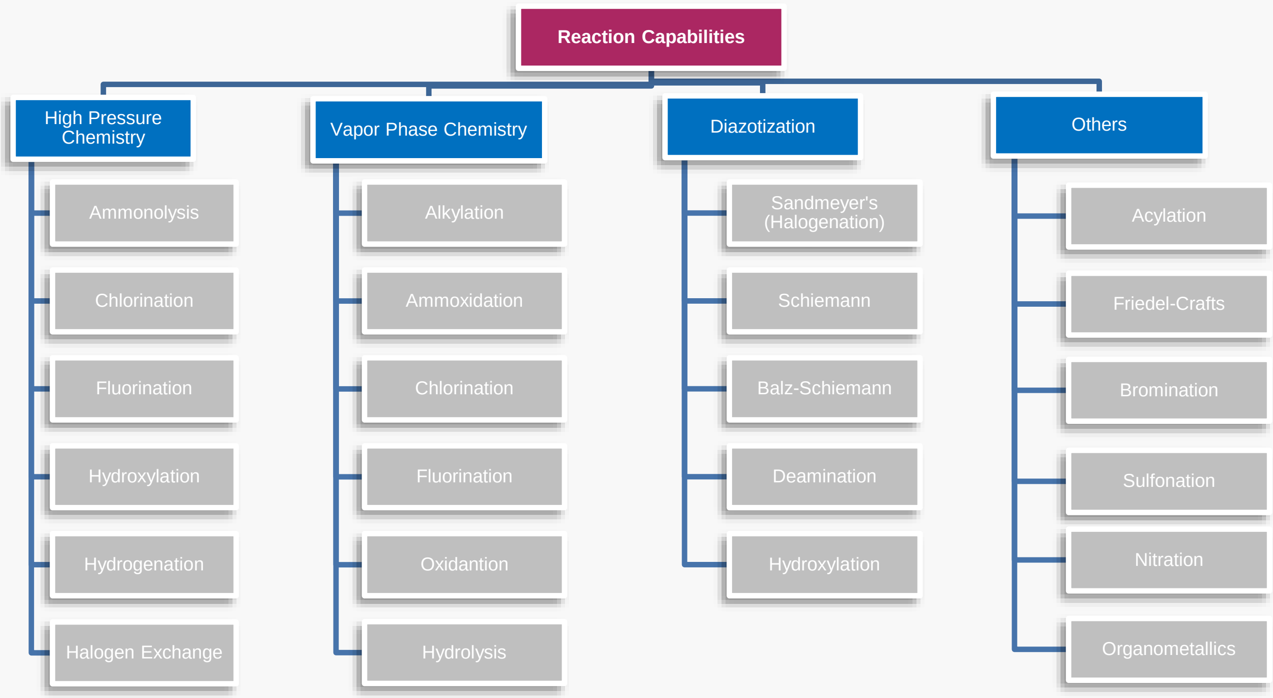
Particulars	Entry Barriers	Reasons
CRAMS	Very High	• Requires detailed technical know-how of the entire value chain, high-end technology, and a good reputation for developing molecules for the end-user customer. • High gestation period and the lower possibility of a contract turning into a long-term contract depending on the end product's demand in the market.
Specialty Chemicals	High	• NFIL has the required expertise, skillset, and technology necessary to develop specialty chemicals that require customization and are complex in nature. • Various approvals are required to be taken from the regulatory authorities by the end-user customers to register the manufacturer as a supplier of intermediate products resulting in customer stickiness. • Any changes in the suppliers may lead customers to expend significant time and resources to register new suppliers. This leads to customers typically selecting manufacturers only after careful scrutiny and thereby developing long-term relationships.
Refrigerant Gases	Moderate	• Planned phase-out of R-22 gases on account of environmental pollution and its global warming potential. • Opportunities for high margin non-emissive use for refrigerant gases have been rising, currently contributing 15% to the refrigerant business.
Inorganic Fluoride	Low	• Existence of surplus capacity as China is the largest producer of inorganic fluoride

Source: Axis Securities

Specialty Chemical Business

NFIL entered the Specialty Chemical Business in the year 2000. Under this segment, NFIL manufactures niche fluorine-based molecules which find downstream application in Life Science, Crop Science, and Other Industrial Applications. In the past 2 decades, the company has emerged as a prominent player in the segment by leveraging its R&D capabilities, deep fluorination expertise, proactively engaging with new clients, superior pricing, and new molecule production. **The segment's contribution to the top-line has increased from 22% in FY12 to 37% in FY21 and the growth momentum is expected to continue given the strong product portfolio of 45+ products. The company aims to launch 5-6 new products every year** which will further bolster its presence in the segment.

Exhibit 21:NFIL's strong reaction capabilities



Source: Company, Axis Securities

Recent Capex Announcement in Specialty Chemical Segment to provide further growth

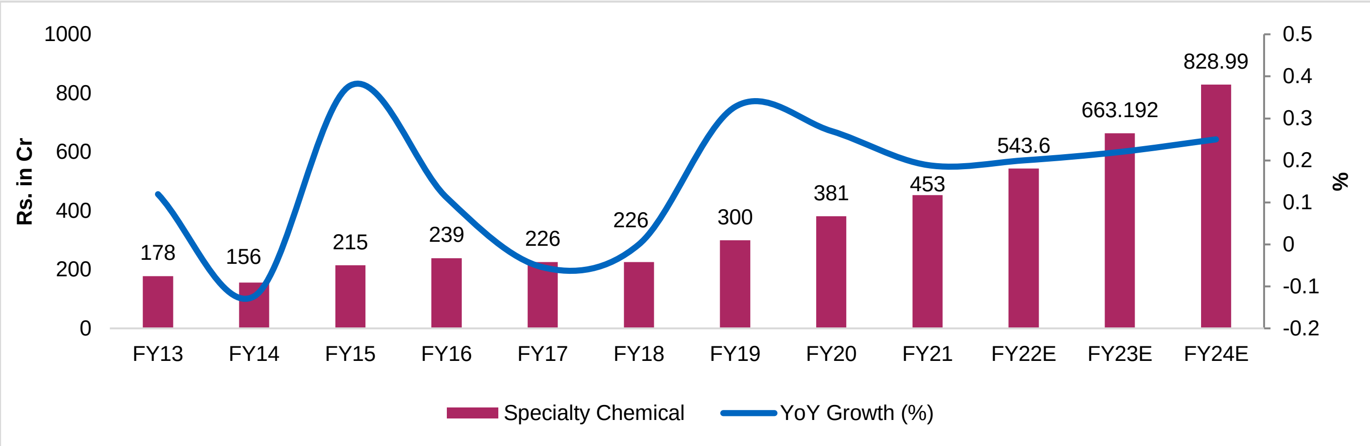
In Dec'20, NFIL announced a Capex plan of Rs 195 Cr in the Specialty Chemical segment to set up a multi-purpose plant (MPP) at Dahej, Gujarat. This is a strategic move to enhance the company's underlying capabilities in the Specialty Chemicals segment. It also remains in line with the management's strategy to capitalize on opportunities in the fluorine space having enough revenue visibility.

- **Product Pipeline:** 12 products are in the pipeline, of which the company will start with 5 agro-intermediates products and the remaining 7 will be a backup to the initial 5 products launched. Of the first 5 products, NFIL will be the most preferred supplier for 2 of them and a second source supplier for the other 3, thereby replacing the Chinese supplier given the complex chemistry involved. It has worked with the customers for 2 of them while independently developing technology for the rest, showcasing its strong R&D capabilities in fluorination chemistry. This will also help Navin Fluorine open up a diverse and completely new portfolio of products that the company has been working on over the last 2 years.
- **Profitability:** EBITDA is expected to be over 25% while ROCE is expected to be at 20%. The payback period is expected to be ~4 years with a peak revenue of Rs 260-280 Cr, resulting in an asset turnover of 1.35x-1.45x. The peak revenue is expected to reach in 2-3 years post-plant commissioning.
- **Revenue Mix:** The product mix for the initial 5 products are 100% crop sciences but within crop sciences, it will have different applications like herbicide, insecticide while for the balance 7 products are split between life and crop sciences. For the 5 products, the customers are a diverse set of American, European, and Japanese companies. 3 of the initial 5 products are for the domestic market and the rest 2 are for the export market.
- **Demand for new launches:** The initial 5 products have already been commercialized and the company has identified customers for the same so demand and technical with piloting are already being completed. A few of the first 5 have bagged an actual material supply agreement while for the rest, NFIL has confirmed Letter of Intent (LOI). For one of the molecules, the company is still assessing the market demand. Nevertheless, each of the 4 products has 300-500 tons of demand visibility over the next 2-3 years and thus may require a dedicated plant. The company has environmental clearances for the initial 5 products. For scaling up and commissioning new plants, NFIL already has land available at Dahej as HPP & MPP both together will occupy 1/3rd of the total plant.

Growth Momentum to pick up in the Specialty Chemical segment

While NFIL'S specialty chemical segment grew slowly at a 6% CAGR over FY13-17, it delivered a strong revenue CAGR of 26% over FY18-21 backed by its constant interaction with clients, superior pricing, improving technology, increased focus on R&D for the segment, and introduction of new molecules. We expect the revenue growth to pick up further from FY23E onwards as Capex is commercialized in FY22E and expect the segment to grow at a 22% CAGR over FY21-24E on account of 1) Introduction of molecules where NFIL is the first or second supplier, 2) Benefits of the debottlenecking kicking in, 3) Increase in capacity utilization, 4) Contribution from FY23E onwards of the Rs 195 cr Capex that has been done at Dahej

Exhibit 22: Specialty Chemical segment is expected to grow at 22% between FY21-FY24E



Source: Company, Axis Securities

Contract Research & Manufacturing Services (CRAMS)

The CRAMS business is the youngest business segment within the Company with operations running since 2012. The company offers developing compounds on the back of critical fluorination processes, supplied to major global life science innovators. NFIL entered the CRAMS business by acquiring a 51% stake in Manchester Organics Ltd. (MOL) based out of the UK. The company mostly caters to the pharmaceutical sector in the segment with 100% of revenue being exported. NFIL is currently working with global pharma companies in the AUS and Europe which are the key export markets for NFIL. The company has developed cGMP plants and has commissioned a cGMP-3 plant in Q3FY20. With a constant focus on R&D, NFIL and MOL have been able to develop 50+ scalable products in the last 7 years. Currently, NFIL has been working on 25+ projects and the number of molecules in phases 2 and 3 has increased significantly. As the molecule progresses on its development journey from pre-clinical stage to stage 1 to stage 2 and finally commercialization, the production volumes will increase from grams to metric tonnes leading to higher volume sales.

NFIL's CRAMS plant at Dewas is the world's largest and India's only high-pressure Sulphur tetrafluoride (SF4) plant. At this plant, the company also has a proprietary hexa-fluoro chemistry platform, which gives it a competitive edge to develop new molecules in the future. NFIL's customers in this segment are global innovators catering to highly regulated markets such as Europe and the US. Thus having a cGMP facility gives it a niche advantage over competitors in the industry.

Exhibit 23: Key Investments in the CRAMS segment

Year	Milestone	Investment
2011	Entered CRAMS business by acquiring 51% stake in Manchester Organics Ltd. (MOL)	Rs. 32 crore
2011	Commissioning of cGMP-1 at Dewas, Madhya Pradesh	Rs. 30 crore
2015	Commissioning of cGMP-2 MPP at Dewas, Madhya Pradesh	Rs. 60 crore
2015	Acquired remaining 49% stake in MOL	Rs. 62 crore
2020	Commissioning of the cGMP-3 plant at Dewas, Madhya Pradesh	Rs. 115 crore

Source: Company, Axis Securities

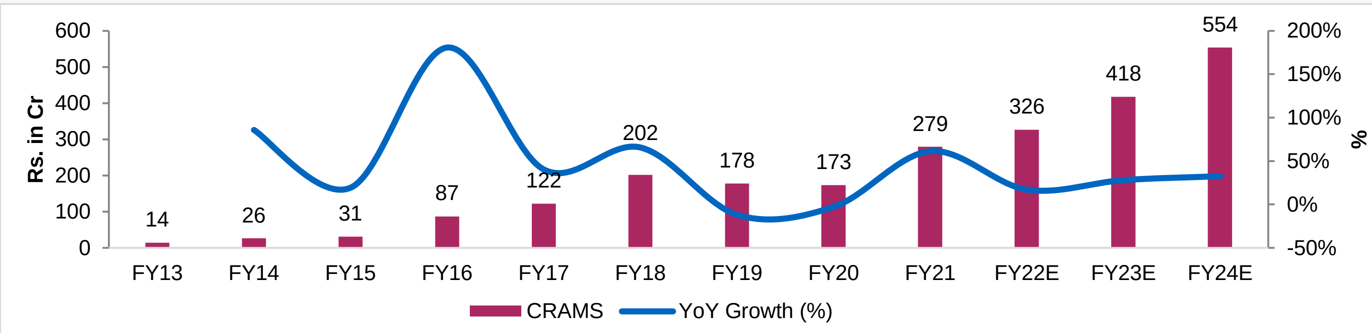
Acquistion of MOL gave a head start to NFIL in CRAMS

In 2011, NFIL's strategic MOL acquisition gave it a head start in the margin-accretive CRAMS segment. Established in 1996, MOL is a leader in fluorination and high-pressure chemistry as well as research and manufacturing. It has a manufacturing plant in the UK and caters to companies across industries from pharmaceutical to electronics. The company offers an extensive range of fine chemicals through its specialty in fluorination technology and provides a diverse range of custom synthesis, development, and scale-up projects. Currently, it has a catalog containing over 50,000 compounds many of which are manufactured in its own lab and exclusive to MOL. The company also offers a wide range of non-fluorine-containing compounds showcasing its capabilities in custom synthesis. Thereafter, in 2015, NFIL acquired the remaining 49% stake in MOL, aiding MOL to scale up production of successful products through NFIL's cGMP capacity at Dewas.

Increasing contributing of CRAMS to the top-line

CRAMS is the highest margin-generating segment for NFIL. The segment's contribution to the top-line has increased from 5% in FY14 to 23% in FY21. Inline this growth, the blended EBITDA margin has also increased from 14% to 26% over the same period, demonstrating higher capacity utilization of cGMP-1 and cGMP-2 plants on the back of strong demand from its customers. Over FY21-24, the management has guided to clock asset turnover of 2x-2.5x for its cGMP-3 plant, thereby adding incremental Rs 260 Cr to total revenues at peak utilization levels. This will further drive the division's revenue share while sustaining the company level margins at 26%+ levels.

Exhibit 24: CRAMS segment to grow at a CAGR of 26% between FY21-24E



Source: Company, Axis Securities

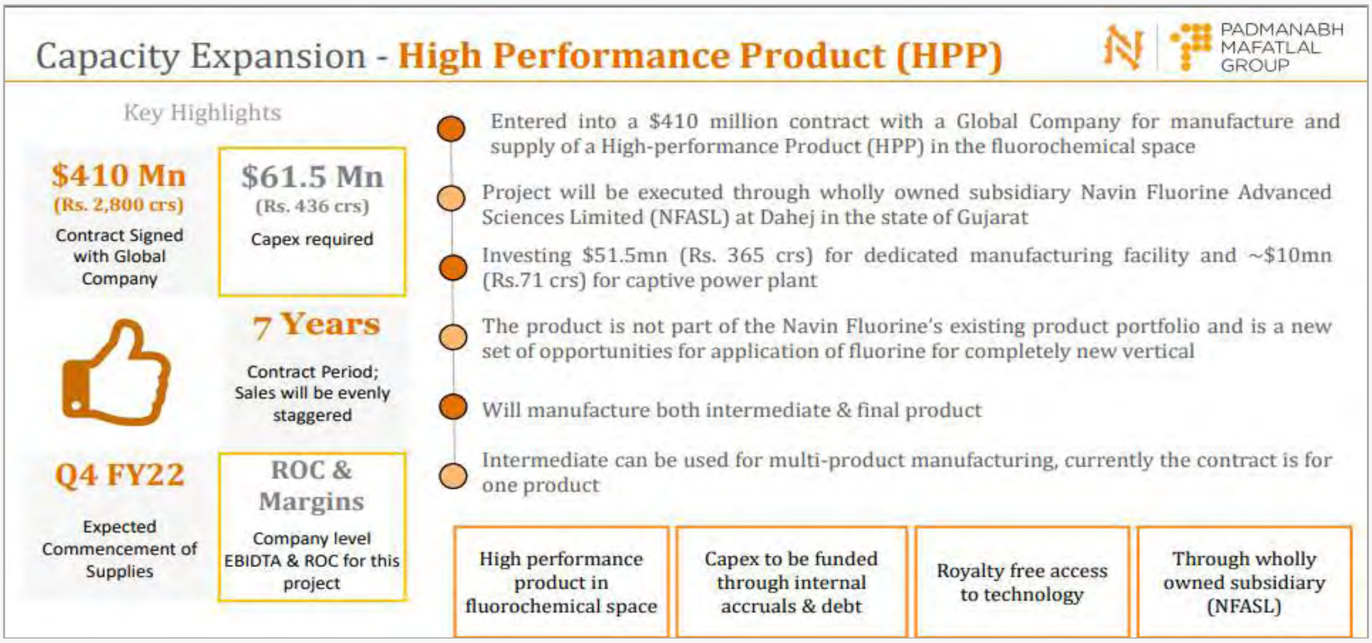
High-Performance Products (HPP)

NFIL entered into the multi-year deal of Rs 2,800 Cr in 2020 with a Global Company to manufacture and supply the high-performance product (HPP) in the fluorochemicals space. The project will be executed through its wholly-owned subsidiary Navin Fluorine Advanced Science Ltd. (NFASL) having a plant at Dahej, Gujarat. This plant is likely to get commissioned by Q4FY22. The company has strategically carved this as a different business vertical to explore other fast-growing opportunities for the application of fluorine in this high-margin segment.

- **Capex**: The company will invest Rs 365 Cr for a dedicated manufacturing facility and Rs 71 Cr for a captive power plant. The Capex will be done through internal accruals and debt.
- **Product Portfolio**: NFIL plans to make the intermediate and the final product which will be supplied to the customer. Currently, the manufacturing of the intermediate and final product is done by the customer itself. But, due to high demand for the final product, the customer has allied with NFIL for catering to their incremental manufacturing capacity requirements. . NFIL indicated that the intermediate could see various opportunities to make additional downstream products. However, in the initial phase, the management has highlighted its plans to completely rely on the client for the patented technology.
- **Profitability:** On an annual basis, NFIL will generate Rs 400 Cr revenue for the next 7 years with an expected EBITDA margin of ~25% making the deal ROE accretive.

We believe the deal opened up a large opportunity to further garner several such large-scale products with global players as NFIL further develops and goes down the complex fluorine chemistry.

Exhibit 25: HPP segment capacity expansion details



Source: Company, Axis Securities

Focus on increasing share of non-emissive volumes in Refrigerant Gas segment

The refrigerant segment belongs to the legacy business of the company. NFIL has been operating in the segment for the past 5 decades and is a pioneer in the refrigerants industry. The segment was introduced in 1967 after commissioning the plant at Surat, Gujarat and was later backward integrated to produce critical intermediaries like Sulphuric acid and Hydrofluoric acid which has ensured uninterrupted production of the refrigerant gas. NFIL sells its refrigerant under the brand name of Mafron, which has become a generic name for refrigerant in India over the years. The refrigerant gas HCFC(R-22), which is a flagship product of NFIL, is majorly used in domestic and industrial air conditioners and automobiles segment.

NFIL to expand in the non-emissive segment for refrigerant gas, a 5 decades old business of the company.

Phasing out of HCFC under Montreal Protocol

The Montreal Protocol on substances that deplete the Ozone Layer (the Montreal Protocol) is an international agreement made in 1987. It was designed to stop the production and import of ozone-depleting substances and reduce their concentration in the atmosphere to help protect the earth's ozone layer**.** Due to Ozone Depleting Potential (OPD) and Global Warming Potential (GWP) a systematic phase-out of ozone-depleting substances, of which a few refrigerants gases are a part as well, was seen, under the Montreal Protocol. Keeping this in line, the company has reduced the segment's contribution to 17% of the top-line in FY21 from 55% in FY11 as a systematic phase-out of HCFC and HFC was announced due to environmental concerns. Considering this is a low-margin segment, its declining share will reduce its drag on the higher margins moving forward.

Exhibit 26: Systematic phase out of few refigerant gases under the Montreal Protocol

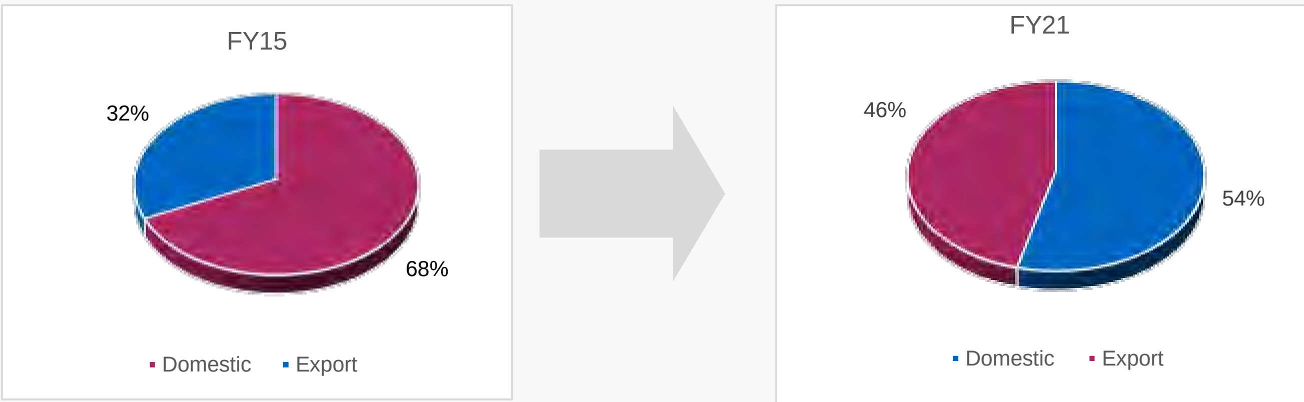
Ozone Depleting Substances	Developed Countries	Developing Countries	ODP	GWP
Hydrochlorofluorocarbons (HCFCs)	Freeze from beginning of 1996 • 35% reduction by 2004 • 75% reduction by 2010 • 90% reduction by 2015 • Total phase out by 2020	Freeze in 2013 at a base level calculated as the average of 2009 and 2010 consumption levels • 10% reduction by 2015 • 35% reduction by 2020 • 67.5% reduction by 2025 • Total phase out by 2030	Low	High
Hydrofluorocarbons (HFCs)	• 10% reduction by 2019 • 30% reduction by 2024 • 70% reduction by 2029 • 80% reduction by 2034 • 85% reduction by 2036	Freeze in 2024 • 10% reduction by 2029 • 30% reduction by 2035 • 50% reduction by 2040 • 80% reduction by 2045	Zero	High

Source: http://www.environment.gov.au, Axis Securities

Increasing export share and selling for non-emissive application to help cushion fall in volumes

NFIL witnessed increasing demand from the export market and thus decided to diversify from domestic original equipment manufacturers (OEMs), and focused on expanding its presence in the export market. Currently, NFIL exports to South-East Asia, Middle East, Africa and other developing countries. Additionally, with the next phase down for R-22 gases in developing countries to happen by 2025, the current demand for refrigerant gases is expected to sustain, aiding NFIL to expand its export market even further.

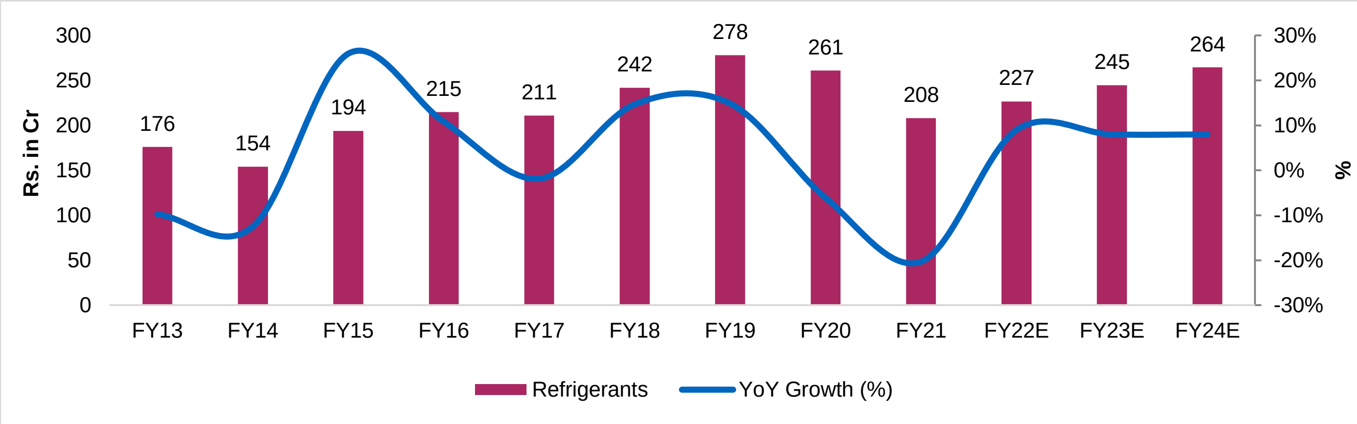
Exhibit 27: Increase in export share of Refrigerant Gases segment helping in maintaining volumes



Source: Company, Axis Securities

While R-22 is being phased out for refrigeration and automobile, there is no restriction on its use in the pharma and agrochemical sector as a feedstock. Thus, the company shifted its focus to the non-emissive segment. This segment currently contributes ~15-17% to the refrigeration segment and it is expected to increase, moving forward. We expect the revenue from refrigerant gases to grow at 8% over FY21-24E on account of prices expected to revive in the domestic and international market, the lower base of FY21, and increasing contribution from the non-emissive application.

Exhibit 28: Refrigerants Gases segment to grow at a CAGR of 8% between FY21-24E



Source: Company, Axis Securities

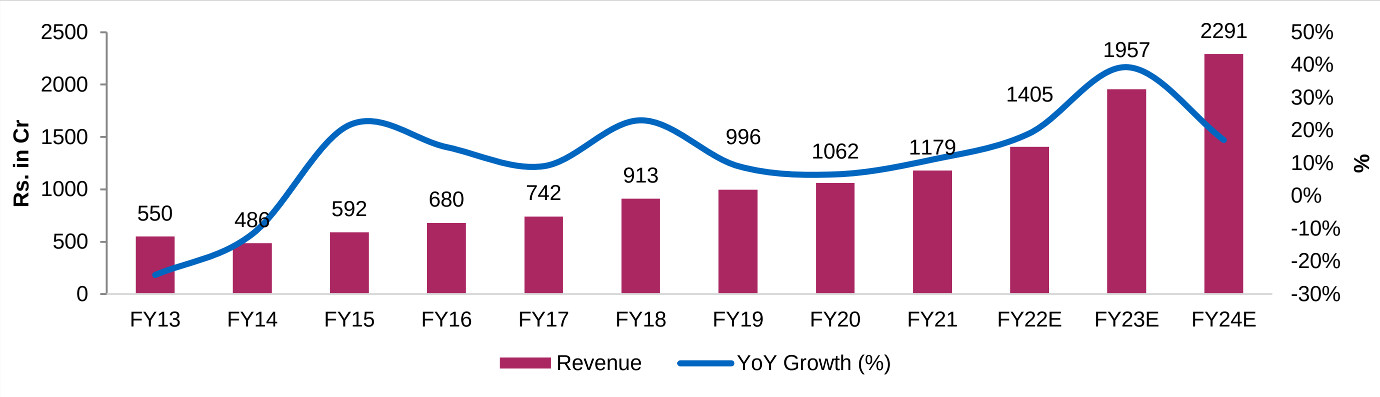
Financial Commentary

Revenues expected to post a strong ~25% CAGR over FY21-24E

NFIL has registered a healthy revenue CAGR of ~12% over FY16-21 largely driven by entry into high value businesses consisting of Specialty Chemical and CRAMS. The historical revenue growth was supported by timely capex undertaken by the company in the form of commissioning of cGMP plant at Dewas for CRAMS. The current growth momentum is expected to continue as the benefits of the recent capexes for MPP and HPP, starts to flow in. We expect the revenue to grow at a CAGR of 25% over FY21-FY24E on the back of increase in revenue contribution from the high value business – Specialty Chemicals and CRAMS which we believe will witness robust growth going forward as NFIL introduces new high margin businesses and also adds more clients under its fold.

Healthy growth in revenue from FY22E as benefits of recent capex reaps in.

Exhibit 29: Top-line expected to grow at 25% CAGR between FY21-24E



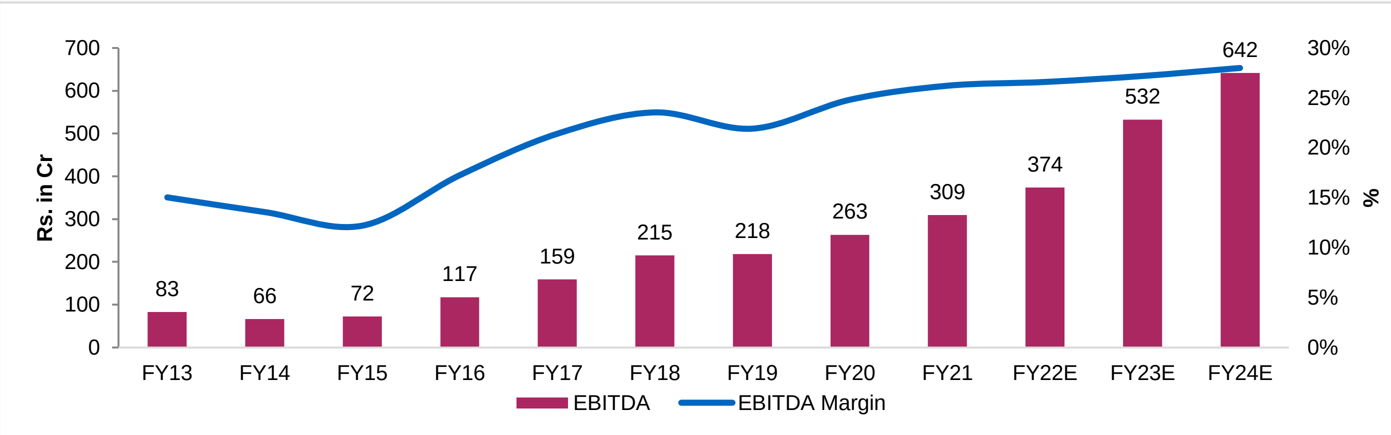
Source: Company, Axis Securities

EBITDA to report ~28% CAGR over FY21-24E driving improvement in Margins

The Gross Margins are expected to see an improving trend from the current 55% level to 58-60% levels due to the RM price pass-through clause in specialty chemical business. On the other hand, the pass-through in legacy business happens with a 3-4 months lag. Revenue mix is expected to change in the favor of high-margin, low-volume Specialty Chemicals and CRAMS businesses which are likely to outpace Legacy Businesses, moving forward. Additionally, cost optimization measures and benefits of operating leverage are likely to kick in and we expect EBITDA to grow at 28% CAGR over FY21-24E. Consequently, EBITDA Margins are also expected to expand by 200bps over FY21-24E to 28% in FY24 from 26% in FY21.

Margin profiles to improve going ahead with increase in High Value Business

Exhibit 30: Growth in EBITDA to result in EBITDA margin expansion of 200 bps in FY24E from FY21



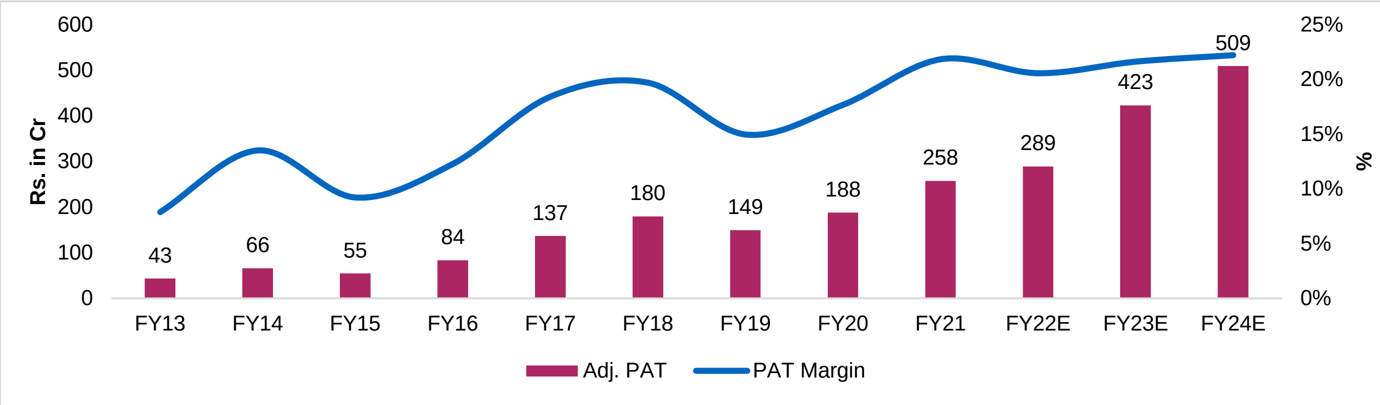
Source: Company, Axis Securities

PAT to post ~27% CAGR over FY21-24E

Over FY16-21, NFIL has delivered a 24% CAGR at the bottomline aided by strong operating performance. Having a track record of delivering consistent and profitable growth and new focus on driving growth in newer chemistries, healthy operating performance and better leverage, we expect the PAT to grow at a 27% CAGR from FY21-FY24E. Improved profoitability will also be driven by rising margin accretive High Value Business contribution as compared to the low margin Legacy Business.

Healthy growth in PAT over FY21-24E given growth in revenue and EBITDA

Exhibit 31: Improvement in operational performance will result in healthy growth in PAT



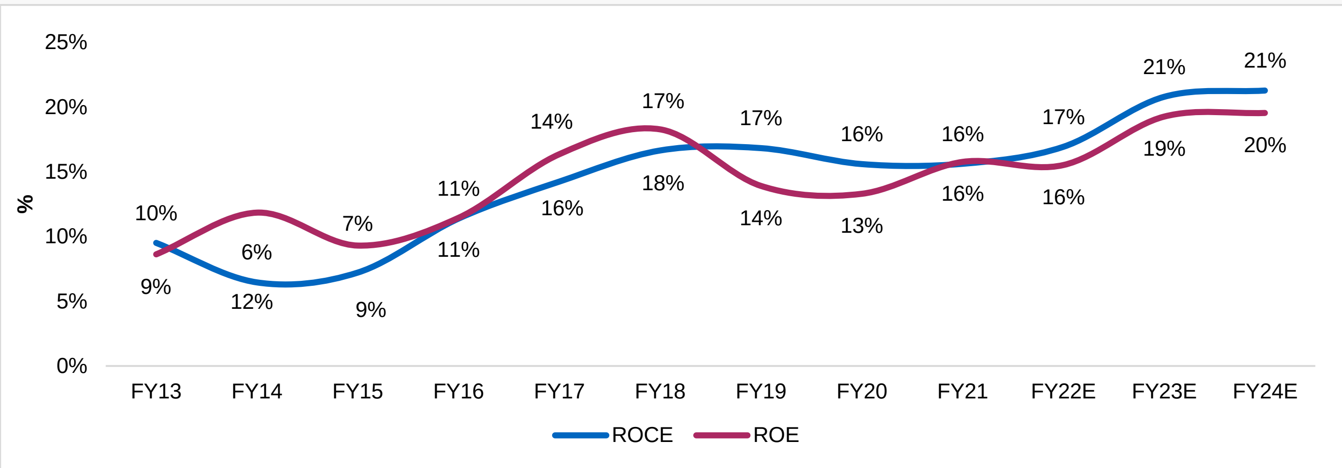
Source: Company, Axis Securities

Return Ratios (ROE & ROCE) to improve gradually as the benefits reap in

The consistent scaling up high in the flourine value chain from the high volume commodity business i.e. NFIL's Legacy Business to margin accretive-low volume High Value Business has resulted in significant improvement in the operating margins and profitability leading to high return ratios. We expect the ROE/ROCE to reach 17.8%/19.3% by FY24E as the contribution from CRAMS and Specialty Business rise. Currently, the company is net debt free and we expect the trend to continue.

ROE/ROCE to further improve to 17.8/19.3% in FY24E

Exhibit 32: Return Ratios to see a continued uptrend on PAT increases gradually



Source: Company, Axis Securities

VALUATIONS AND OUTLOOK

NFIL is a pure-play fluorochemical company in India, with a strong focus on research & development. We believe NFIL's focus on expanding in high value, scalable business with high entry barriers makes it a unique player in the industry. Attributes like strategic focus on expansion, consistently increasing share of high value business, backward integration in the refrigerant business, step up in innovation and new product launches, long term and sticky relationship with global players and a healthy margin profile are likely to support growth and stregthen the business. **At CMP, the stock trades at 58x/39x/33x of FY22E/FY23E/FY24E, respectively. We initiate coverage with a BUY recommendation and value the stock at 38x of its FY24x EPS with a target price of Rs.3,930/share, implying an upside of 17%.**

We initiate coverage on the stock with a BUY rating and a target price of Rs. 3,930/share.

Exhibit 33: 12M FWD PECHART (x)

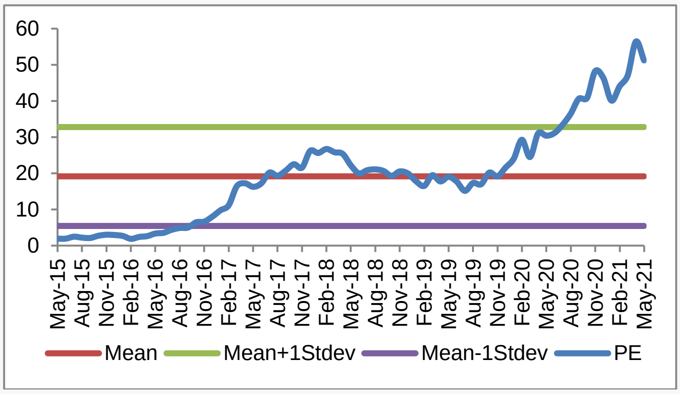
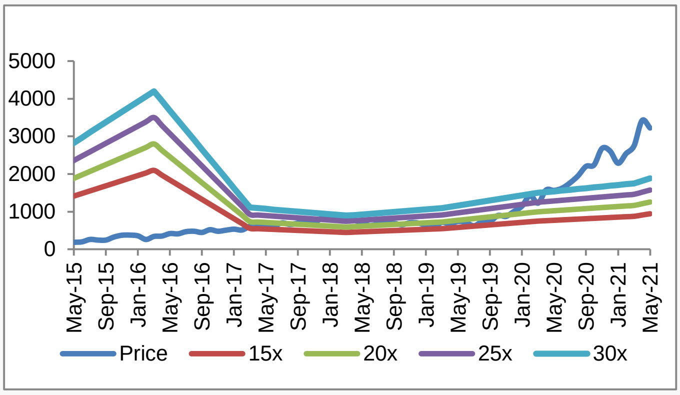


Exhibit 34: 12M FWD PE BAND CHART



Source: Company, Axis Securities

Exhibit 35: 12MFWD EV/EBITDA CHART (x)

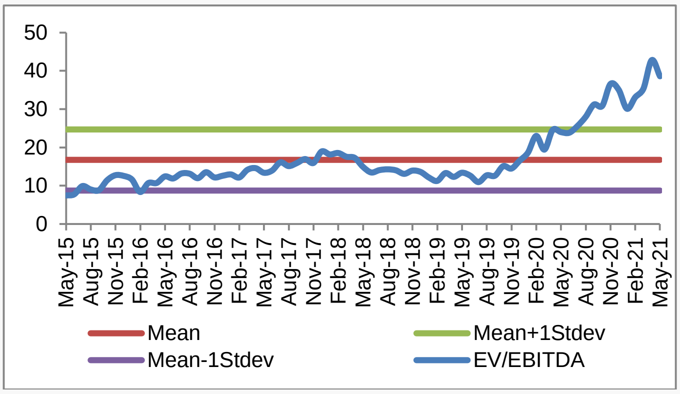
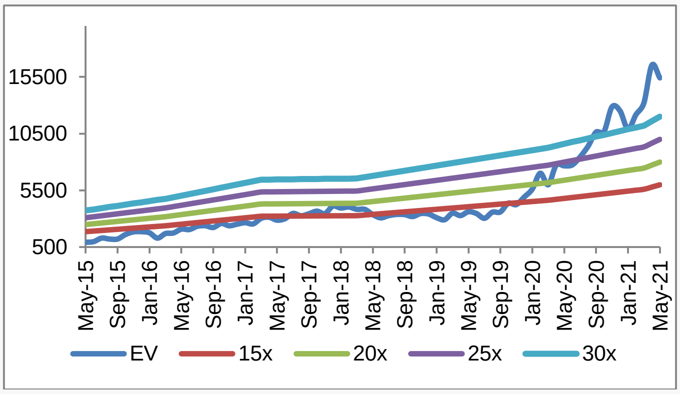


Exhibit 36: 12MFWD EV/EBITDA BAND CHART



Source: Company, Axis Securities

Peer Comparison

Particulars	NFIL	Deepak Nitrite	Aarti Industries	PI Industries	Atul	SRF	Alkyl Amines
5 yr avg revenue growth	12%	26%	8%	17%	8%	13%	21%
5 yr avg EBITDA growth	21%	49%	11%	18%	15%	17%	36%
5 yr avg PAT growth	24%	65%	15%	19%	19%	23%	43%
5 yr avg EBITDA Margin	24%	18%	21%	22%	20%	20%	24%
5 yr avg ROCE	16%	26%	16%	25%	25%	15%	38%
5 yr avg ROE	16%	30%	20%	18%	19%	19%	44%
1 YR FWD PE	58.3	24.9	46.7	48.4	35.7	30.9	59.7

Key Risks

- **Delay in execution of Capex projects:** Owing to the impact of COVID on overall economic activity, Capex announced by NFILs has been delayed. It now expects commissioning of HPP project by Q4FY22 end and specialty chemicals capacity addition to the commission by FY23. Any delay in the commissioning would adversely impact the growth prospects of the company.
- **Cancellation of long-term contract:** Any cancellation of a long-term contract from the end customer due to a change in strategy of the customer or a sharp decline in demand for the end product could impact the overall revenue and profitability of the business.
- **Slowdown in the global agrochemical industry:** NFIL caters to the pharma and agrochemical segment under the specialty chemical segment. The increasing use of fluorine in the agrochemical industry is considered to be a tailwind for NFIL. However, the agrochemical industry is cyclical in nature and thus instances of drought causing a slowdown may have an adverse impact on the growth prospects of the industry, thereby resulting in a slowdown of NFIL's business. The company looks to mitigate this risk by diversifying into other more non-cyclical industries like pharma thereby de-risking its business model.
- **Volatility in Raw Material Prices:** The major RMs for NFIL are Fluorspar, Bromine, Chloroform, and Sulphur. Any increase in the raw material prices could have an impact on NFILs Gross Margins, thereby impacting its profitability. However, with NFIL operating with the RM pass-through mechanism, volatility in RM prices is unlikely to have a significant impact on its long-term business and revenue performance.
- **Currency Fluctuation:** Since 45% of NFIL's revenue comes from exports, any sharp fluctuations in the currency could have a bearing on the overall business. However, to minimize the impact of currency fluctuation the company has a well-designed and adequate hedging policy in place.

Delay in capex would adversely affect the future growth of the company.

Board of Directors

Person	Designation
Mr. Vishad P Mafatlal	Chairman
Mr. Radhesh R. Welling	Managing Director
Mr. Sujal A Shah	Director
Mr. A.K. Srivastava	Director
Mr. Pradip N Kapadia	Director
Mr. S.S. Lalbhai	Director
Mr. T.M.M Nambiar	Director
Mr. S.G. Mankad	Director
Mr. H.H. Engineer	Director
Mr. Radhika Haribhakti	Director
Mr. Ashok Sinha	Director

Management Team

Name	Years of Experience	Experience
Mr. Radhesh Welling *Managing Director*	22 years	• With 22 years of work experience, Mr. Welling has worked in the company and handled diverse functions ranging from Innovation to Sales & Marketing to Corporate Strategy to Manufacturing, across multiple geographies. • In his previous role, he was CEO and Executive Director of Laxmi Organic Industries Ltd., where he was responsible for leading a Rs.1,400 Cr specialty chemicals company. • Earlier, he worked with J.M. Huber Corporation for 8 years and was based out of their head office in Atlanta, USA for most of this period.
Ms. Jeyamalini Natesan *President & Chief Human Resources Officer*	--	• Ms. Natesan holds a Bachelors degree in Commerce from Madras Christian College and an MBA from Loyola Institute of Business Administration. She also holds a PG in HRM from XLRI. She brings with her rich experience spanning across industries such as Consulting, Automotive, Banking & Financial Services, Real Estate & Infrastructure, Chemicals and Pharmaceuticals. • Prior to joining Navin Fluorine, she was employed with Astra Zeneca Pharma India Ltd, as Director & Head of HR for India Operations. Prior assignments include leadership positions at PI Industries, S&P, Citigroup, Siemens etc.
Mr. Gyanchand Jain *President-Operations*	34 years	• Mr. Jain with a total work experience of 34 years is a Chemical Engineer and has done Adv. Diploma Management and is responsible for managing the overall operations of the company. • He has been with the company since 2011.
Mr. Ketan Sablok *Chief Financial Officer & Head of IT*	22 years	• Mr. Sablok is a Chartered Accountant and a Cost Accountant, having an experience of more than 22 years. • He has been with the Company since 1997.
Mr. Niraj Mankad *President- Legal and Company Secretary*	21 years	• Mr. Mankad is a graduate in Commerce with degree in Law and also member of the Institute of Company Secretaries of India with a total work experience of more than 21 years. • He has been with the company since 1992.
Mr. P.S Haridas *Supply Chain Management*	37 years	• Mr. Haridas is a graduate in commerce and has completed his MBA in Material Management with a total work experience of 37 years. • He has been with the company since 2008.

Financials (consolidated)

Profit & Loss (Rs cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Total Net Sales	**1,179**	**1,405**	**1,957**	**2,291**
% Change	11,1%	19.1%	39.3%	17.1%
Total Raw material Consumption	537	638	885	1,031
Staff costs	142	166	231	263
Other Expenditure	191	228	309	355
Total Expenditure	870	1,031	1,425	1,650
EBITDA	**309**	**374**	**532**	**642**
% Change	17.4%	20.8%	42.4%	20.5%
EBITDA Margin %	**26.2%**	**26.6%**	**27.2%**	**28.0%**
Depreciation	44	47	59	69
EBIT	265	327	474	573
% Change	17.1%	23.3%	44.9%	20.9%
EBIT Margin %	22.5%	23.3%	24.2%	25.0%
Interest	2	2	2	2
Other Income	79	70	98	115
PBT	358	396	569	685
Tax	111	107	146	176
Tax Rate %	*31.0%*	*27.0%*	*25.7%*	*25.7%*
APAT	**247**	**289**	**423**	**509**
% Change	36.9%	16.9%	46.5%	20.3%

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Share Capital	10	10	10	10
Reserves & Surplus	1,624	1,852	2,186	2,594
Net Worth	**1,634**	**1,862**	**2,196**	**2,604**
Total Borrowings	3	3	4	5
Deferred Tax Liability	21	21	21	21
Long Term Provisions	12	13	19	22
Other Long-Term Liability	14	18	24	27
Capital Employed	**1,698**	**1,933**	**2,279**	**2,694**
Net Block	376	530	706	787
Investments	72	84	116	134
Sundry Debtors	284	300	386	452
Cash & Bank Bal	544	563	504	655
Loans & Advances	3	8	8	8
Inventory	180	208	247	276
Other Current Assets	95	95	95	95
Total Current Assets	**1,195**	**1,291**	**1,400**	**1,673**
Current Liabilities & Provision	199	219	264	293
Net Current Assets	995	1,072	1,136	1,380
Capital Deployed	**1,698**	**1,933**	**2,279**	**2,694**

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
PBT	358	396	569	685
Depreciation & Amortization	44	47	59	69
Chg in Working cap	-125	-57	-124	-93
Direct tax paid	17	-107	-146	-176
Cash flow from operations	**237**	**210**	**262**	**373**
Chg in Gross Block	-99	-232	-335	-235
Chg in Investments	0	0	0	0
Interest Received	18	70	98	115
Cash flow from investing	**-237**	**-134**	**-243**	**-124**
Proceeds / (Repayment) of ST Borrowings (Net)	0	0	1	1
Finance Cost paid	-2	-2	-2	-2
Dividends paid	-39	-61	-89	-102
Cash flow from financing	**-45**	**-56**	**-78**	**-97**
Chg in cash	**-45**	**20**	**-60**	**151**

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY21	FY22E	FY23E	FY24E
Growth (%)				
Net Sales	11.1%	19.1%	39.3%	17.1%
EBITDA	17.4%	20.8%	42.4%	20.5%
APAT	36.9%	16.9%	46.5%	20.3%
Per Share Data (Rs.)				
Adj. EPS	49.9	58.4	85.5	102.9
BVPS	330.2	376.4	443.9	526.2
DPS	11.0	12.3	18.0	20.6
Profitability (%)				
EBITDA Margin	26.2%	26.6%	27.2%	28.0%
Adj. PAT Margin	21.8%	20.6%	21.6%	22.2%
ROCE	15.6%	16.9%	20.8%	21.3%
ROE	15.8%	15.5%	19.3%	19.5%
Valuations (X)				
PER	67.3	57.5	39.3	32.7
P/BV	10.2	8.9	7.6	6.4
EV / EBITDA	53.3	44.1	31.1	25.5
EV / Net Sales	14.0	11.7	8.5	7.2
Turnover Days				
Asset Turnover	3.1	2.4	2.8	2.6
Inventory days	52	54	46	44
Debtors days	78	78	72	72
Creditors days	32	33	32	32

Source: Company, Axis Securities

About the analyst

About the analyst

Analyst: Darshita Shah

Contact Details: darshita.shah@axissecurities.in

Sector: Specialty Chemicals, Mid-Caps

Analyst Bio: Darshita Shah is CFA Level III candidate and has over a year experience in Equity Market and Research.

Analyst: Suvarna Joshi

Contact Details: suvarna.joshi@axissecurites.in

Sector: FMCG, Consumption sector, Mid-Caps, Agrochemical

Analyst Bio: Suvarna Joshi is MBA (Finance) from Mumbai University with about 10 years of experience in Equity market and research

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