

Robust Product Pipeline and Customer Addition to Drive Growth

Navin Fluorine International Ltd. (NFLI) posted a weak set of numbers in Q1FY22 compared to our estimate. Consolidated Revenues stood at Rs 327 Cr (Our estimate: Rs 369 Cr), up 52% on a YoY basis on account of the low base in Q1FY21. However, on a sequential basis, the top-line fell by 3% due to the imposed lockdowns and restrictions in response to the second wave of the COVID-19. The High-Value Business, consisting of CRAMS and Specialty Chemicals, contributed 64% to the top-line during the quarter and recorded a growth of 53% on a YoY basis. However, it registered de-growth of 3% sequentially. The Legacy Business (consisting of Inorganic Fluoride Business and Refrigerant Gas Business) grew by 54% YoY but de-grew by 2.5% on a sequential basis. The EBITDA came in at Rs 78 Cr (Our estimate: Rs 97 Cr) was up 45% YoY but dropped 8% QoQ, resulting in the EBITDA margin contraction of 122 bps sequentially due to a 19% increase in employee expenses. Higher employee expenses were on account of employee addition during the quarter which the company undertook in order to augment its technology and strengthen its R&D. Recurring PAT (Consol basis) was at Rs 56 Cr (Our estimate: Rs 68 Cr) up 6% on YoY but down by 24% QoQ due to overall weak operational and top-line performance. Although Q1FY22 numbers were a tad weak, we believe attributes such as the healthy order book and new customer addition across segments in the quarters to come, higher contribution from High Value Business, strong product pipeline, and revival in overall economy shall aid growth momentum. Hence, we maintain our HOLD recommendation with the target price of Rs 3,930/share, valuing the stock at a multiple of 38x FY24E EPS. Key risks- a) Slower-than-expected ramp-up in commissioning of Capex projects, b) Volatility in RM prices and Forex, c) COVID-led uncertainties.

Our Take on Q1FY22 Results Concall:

- **Segmental Performance:** NFLI's contribution of High-Value Business to the top-line has been on a rising trend, which now constitutes ~64% of the total revenue.
- The **Specialty Chemical business** recorded a growth of 1% QoQ despite tough times on account of increased market share, new product addition, and good demand from the International and Domestic Markets. The commissioning of the MPP is expected in H1FY23, which is expected to fuel near term revenue growth of the segment.
- **CRAMS** de-grew by 12% QoQ as one of the orders was moved from Jun'21 to Jul'21 due to execution delays from NFLI's end. However, the growth momentum is expected to continue on the back of 1) gradual ramp up of exiting products with existing customers, 2) Addition of new clients - The company added new mid-sized bio-pharma customers based out of the US and 3) rise in new inquiries from its long-lasting customers in Europe. The company aims to consistently focus on expanding its project pipeline and further diversifying its customer base.
- The **Inorganic Fluoride Business** recorded growth of 5% QoQ. With 90% of the segment revenue coming from the domestic market, the lockdown restrictions impacted the revival of the segment. However, there has been good demand traction from the key end-user industries of stainless steel and glass as well as the addition of new international customers.
- The **Refrigerant Gas Business** grew by 2% on a QoQ basis as trade and service sectors showed demand uptick despite COVID-induced restrictions. The demand traction from the international market has been strong though prices were subdued during the quarter.
- **Gross Margin Performance:** The Gross Margin witnessed a decline of 311bps on a YoY basis on account of 1) Reduced contribution of domestic sales to the refrigerant gases business, 2) Significant price escalation for one of the raw materials in the Specialty Chemical Business. It is expected to sustain for one more quarter and customers are expected to absorb this price increase post Q3FY22, 3) Sudden decline in the demand for one of the products for pharma application due to inventory built up in the end market, though demand is expected to revive post Q3FY22.

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	285	417	503
EPS (Rs.)	49.9	57.6	84.3	101.7
PER (x)	77.8	67.4	46.1	38.2
EV/EBITDA (x)	61.7	51.1	35.9	29.5
P/BV (x)	11.8	10.3	8.8	7.4
ROE (%)	15.8%	15.3%	19.1%	19.4%

Source: Company, Axis Research

(CMP as of July 27, 2021)

CMP (Rs)	3678
Upside/Downside (%)	7%
High/Low (Rs)	4000/1675
Market cap (Cr)	18,213
Avg. daily vol. (6m) Shrs.	76,938
No. of shares (Cr)	4.95

Shareholding (%)

	Dec-20	Mar-20	Jun-20
Promoter	30.5	30.2	30.2
FII's	24.5	25.1	26.6
MFs / UTI	13.9	13.4	12.4
Banks / FIs	0.0	0.0	0.0
Others	31.0	31.3	30.7

Financial & Valuations

Y/E Mar (Rs. Cr)	FY22E	FY23E	FY24E
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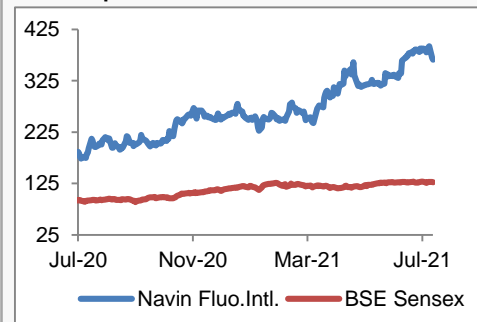
ESG disclosure Score**

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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Other Key Concall Takeaways

- 1) **Capex Details:** The Multi-Purpose Plant (MPP) Capex is for existing applications while the High-Performance Product (HPP) Capex is for new applications. For new opportunities in other segments, the company is trying to get a better understanding of the functionality and application and may turn into Capex mode over the next 18 months.
- 2) **Employee Expenses:** The 26% YoY increase in employee expenses was due to one-time bonuses, generous variable payouts, double increments, and significant employee addition. During FY21, the company hired aggressively for technology and design and now has been looking to hire for R&D and has plans of developing an application lab. Out of the 9 Cr increase, 60% is a one-time expense.
- 3) **Manchester Organics Ltd. (MOL):** The operations at MOL have been impacted due to COVID-19 led strict restrictions in the UK. The company is planning to include Specialty Chemicals - Pharma, along with CRAMS at MOL, for which work is underway.
- 4) **CRAMS:** The Company is working on de-bottlenecking its cGMP-3 facility in the next 6 months which will give an additional 15-20% capacity. The cGMP-4 commercialization will be considered post debottlenecking of cGMP-3, which is expected to happen in the next 12-15 months.
- 5) **Specialty Chemical Business:** The revenue is led by (a) Pharma – 40% revenue contribution; largely on short term revenue contracts basis, (b) Agro-chemicals – 40% revenue contribution; almost equally split between long term and short term contracts and (c) Industrials – 20% revenue contribution; long term contracts. RM price inflation had the highest impact on Industrial segment given delays in pass through (fixed pricing).
- 6) **Supply chain/ logistics issues:** The issues are expected to continue to sustain as the raw material procurement of one of its key RM have been facing problems due to mining and supply chain led issues. While container availability has improved, cost of overall logistics has increased; to be passed on to the customers with a lag given long term revenue arrangements; shorter term contracts to see quicker pass-through.

Q1FY22 Financials (Consolidated)

(Rs.Cr.)	Quarterly Performance						
	Q1FY22	Axis Sec Estm (Rs. Cr)	Variance (%)	Q1FY21	% Change (YoY)	Q4FY21	% Change (QoQ)
Net Operating Revenue	327	369	(12)	215	52	336	(3)
Expenditure							
Net Raw Material	148			91	63	161	(8)
Gross Profit	178	199	(10)	124	44	176	1
Gross Margin (%)	54.6%	53.7%	82bps	57.7%	311bps	52.2%	231bps
Employee Expenses	44	43		35	26	27	19
Other Exp	57			35	59	55	4
EBIDTA	78	97	(19)	54	45	84	(8)
EBITDA Margin (%)	23.8%	26.1%	-231bps	25.0%	-122bps	25.0%	-122bps
Interest	0			0	52	1	(4)
Depreciation	12			11	12	12	4
PBT	74			79	(6)	111	(33)
Tax	18			26	(30)	37	(51)
PAT	56	68	(18)	53	6	73	(24)
EPS (Rs.)	11.3	13.8	(18)	10.7	6	14.8	(24)

Source: Company; Axis Securities

Valuation & Outlook

We believe NFIL's sharp focus on expanding in high-value and scalable business along with the high entry barriers makes NIFL a unique player in the industry. Attributes such as a strategic focus on expansion and increasing share of the high-value business, backward integration in the refrigerant business, long-term and sticky relationship with the global players, and a healthy margin profile are likely to support growth, moving forward.

We thus maintain our HOLD recommendation with the target price of Rs 3,930/share, valuing the stock at multiple of 38x on its FY24E EPS. Key risks- a) Slower-than-expected ramp-up in commissioning of Capex projects, b) Volatility in RM prices and forex, c) COVID led uncertainties.

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	44.2	51.9	66.8	76.2
EBIT	265	322	465	565
% Change	17.1%	21.4%	44.7%	21.5%
EBIT Margin %	22.5%	22.9%	3.8%	24.7%
Interest	2	2	2	2
Other Income	79	70	98	115
(as % of PBT)	22%	18%	17%	17%
PBT	358	391	561	677
Tax	111	105	144	174
Tax Rate %	31.0%	27.0%	25.7%	25.7%
APAT	247	285	417	503
% Change	36.9%	15.4%	46.3%	20.7%

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	1,849	2,179	2,581
Net Worth	1,634	1,859	2,189	2,591
Total Loan funds	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	1,930	2,272	2,681
Net Block	376	587	755	829
Investments	72	84	116	134
Sundry Debtors	284	300	386	452
Cash & Bank Bal	544	542	535	721
Loans & Advances	3	8	8	8
Inventory	180	208	247	276
Other Current Assets	95	95	95	95
Total Current Assets	1,195	1,270	1,421	1,739
Current Liab & Prov	199	219	264	293
Net Current Assets	995	1,051	1,158	1,446
Capital Deployed	1,698	1,930	2,272	2,681

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
PBT	358	391	561	677
Depreciation & Amortization	44	52	67	76
Chg in Working cap	-125	-57	-124	-93
Direct Tax Paid	17	-105	-144	-174
Cash flow from operations	237	211	264	375
Chg in Gross Block	-99	-256	-296	-194
Interest Received	18	70	98	115
Cash flow from investing	-237	-158	-204	-83
Proceeds/(Repayment) of ST Borrowing (Net)	0	0	1	1
Finance Cost paid	-2	-2	-2	-2
Dividends paid	-39	-60	-88	-101
Cash flow from financing	-45	-55	-77	-96
Net Increase/Decrease in Cash and Cash Equivalents	-45	-2	-17	196
Cash at start	177	132	130	113
Cash at end	132	130	113	309

Source: Company, Axis Securities

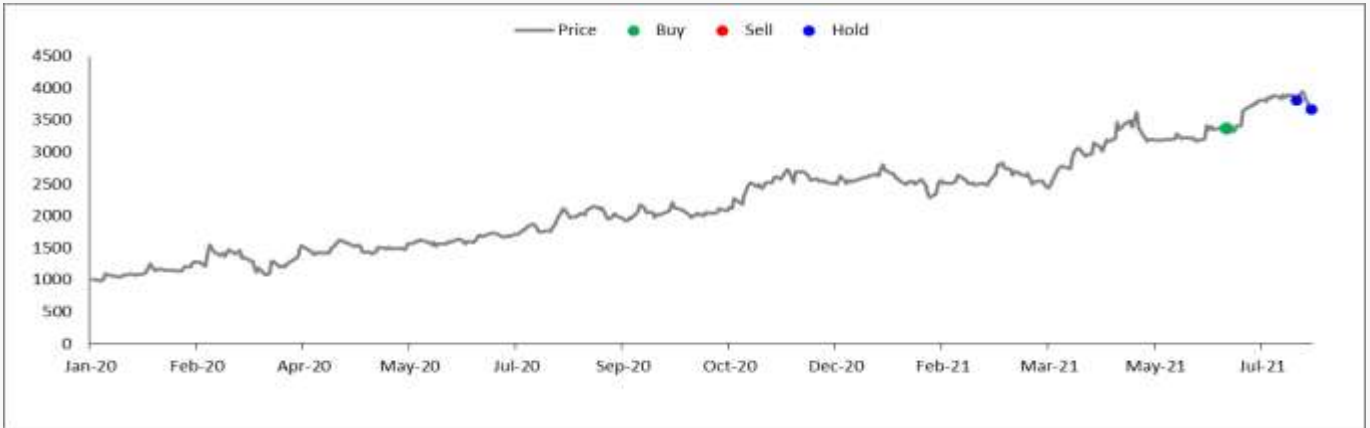
Ratio Analysis

(%)

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%	15.4%	46.3%	20.7%
Per Share Data (Rs.)				
Adj. EPS	49.9	57.6	84.3	101.7
BVPS	330.2	375.8	442.3	523.7
Profitability (%)				
EBITDA Margin	26.2%	26.6%	27.2%	28.0%
Adj. PAT Margin	21.8%	20.3%	21.3%	22.0%
ROCE	15.6%	16.7%	20.5%	21.1%
ROE	15.8%	15.3%	19.1%	19.4%
ROIC	17.1%	18.1%	21.8%	24.1%
Valuations (X)				
PER	77.8	67.4	46.1	38.2
P/BV	11.8	10.3	8.8	7.4
EV / EBITDA	61.7	51.1	35.9	29.5
EV / Net Sales	16.2	13.6	9.8	8.3
Turnover Days				
Inventory days	52	54	46	44
Debtors days	78	78	72	72
Creditors days	32	33	32	32
Working Capital Days	98	99	86	84
Gearing Ratio				
Net Debt to Equity (x)	0.1	0.0	0.0	0.0

Source: Company, Axis Securities

Navin Fluorine Price Chart and Recommendation History



Date	Reco	TP	Research
17-Jun-21	BUY	3,930	Initiating Coverage
20-Jul-21	HOLD	3,930	AAA
28-Jul-21	HOLD	3,930	Result Update

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.**About the analyst****Analyst:** Suvarna Joshi**Contact Details:** suvarna.joshi@axissecures.in**Sector:** FMCG, Consumption sector, Sp. Chemicals, Mid-Caps**Analyst Bio:** Suvarna Joshi is MBA (Finance) from Mumbai University with about 10years of experience in Equity market and research.**Disclosures:**

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SELL	Less than -10%
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