

Non legacy business to lead show...

Navin Fluorine reported topline growth of 22% YoY to ₹ 336 crore against our expectations of ₹ 319 crore largely led by CRAMS and speciality chemical segments. Revenue from CRAMS was up 41% YoY to ₹ 76 crore, while the same from speciality chemical was up 26% YoY to ₹ 131 crore. The revenue from refrigerant & inorganic fluoride increased 4% YoY, 16% YoY to ₹ 58 crore & ₹ 59 crore, respectively. Gross margins for the quarter declined 230 bps YoY to 52.2%, leading to lower than anticipated EBITDA for the quarter. EBITDA grew 23% YoY to ₹ 84.2 crore vs. our expectations of ₹ 88.2 crore. OPM for the quarter remained at 25% (up 18 bps YoY). Adjusting the exceptional gain to the tune of ₹ 15.5 crore on account of sale of CCPL shares along with other income of ₹ 7.54 crore due to refund of income tax in Q4FY21, adjusted PAT was up 3% YoY to ₹ 59.5 crore against our estimates of ₹ 62.4 crore.

Upcoming capex in value added segment to aid overall performance

The company has been undertaking a capex of ₹ 195 crore for the speciality chemical segment along with HPP plant with a capex of ₹ 436 crore already in construction. The asset turn is expected to be around 1.3-1.5x. This would entail strong growth for high value segment. In turn, this translates into higher gross margins and thereby operational performance. We also expect that since the company is already working on more than 20 molecules for speciality chemical segment, this should support double digit revenue growth for the segment. Further, higher utilisation for CRAMS should support overall topline performance for the upcoming year.

FCF generation likely to be robust, going ahead

With control on working capital along with focus on improving share of value added segments to overall revenue, we expect FCF to improve, to a certain extent, over the coming years. This should assist upcoming capex from internal accruals. Since this capex is for value added segments, we anticipate prudent capital allocation would aid return ratios further.

Valuation & Outlook

We believe post commissioning of speciality chemical and HPP plants, high value added segment revenue mix should inch up to more than 70%, leading to better gross margins and OPM for the group. In turn, this should aid return ratios, FCF and, thereby, assist the company to demand better valuations. We value the company at 45x PER of FY23E (~1.5x PEG). We arrive at a target price of ₹ 3460 (vs. ₹ 2820 earlier). We maintain **HOLD** recommendation on the stock.



Particulars

Particular	Amount
Market cap (₹ Crore)	15,904
FY21 Total Debt (₹ Crore)	3
FY21 Cash & Inv (₹ Crore)	628
EV (₹ Crore)	15,278
52 Week H/L	3659/1390
Equity Capital (₹ Crore)	9.9
Face Value (₹)	2

Key Highlights

- Upcoming capex for value added segment to aid overall performance
- FCF generation likely to be robust, going ahead
- Maintain HOLD rating on stock with target price of ₹ 3460

Key Risks

- Cancellation of any order/slowdown in order booking remains key risk to group performance
- Better than expected margins can pose upside risk to our estimates

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Key Financial Summary

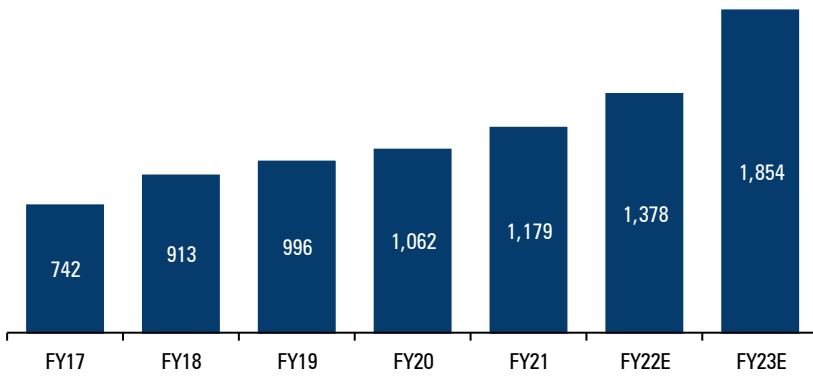
(₹ Crore)	FY18	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Revenue	912.7	995.9	1,061.6	1,179.4	1,377.7	1,853.5	25.4
EBITDA	215.0	218.4	263.5	309.3	378.9	556.1	34.1
EBITDA Margins (%)	23.6%	21.9%	24.8%	26.2%	27.5%	30.0%	
Adj. PAT	179.8	149.1	179.1	222.9	255.8	380.7	30.7
Adj. EPS (₹)	36.4	30.1	36.2	45.0	51.7	76.9	
EV/EBITDA	72.7x	71.8x	59.0x	49.4x	40.8x	27.6x	
P/E	88.2x	106.6x	88.8x	71.3x	62.2x	41.8x	
ROE (%)	18.3	13.9	12.7	13.6	13.9	17.8	
ROCE (%)	25.6	19.9	17.9	20.3	18.3	23.2	

Conference Call Highlights

- Lower gross margin was on account of subdued demand of R22 for non-emissive side in the domestic market, which normally generates higher margins. Further, changes in the product mix for speciality chemical also drove margins down to some extent
- Debottlenecking capex in speciality chemical - Four projects are going on in Surat. One large capex of ₹ 10 crore is going on. Most of the capex is small in nature. Dahej will commence next year, which will drive speciality chemical business growth
- Speciality chemical - Slightly higher than 20-22 molecules were there in agrochem and pharma for pipeline development. Quality of the projects has significantly improved
- Specialty chemical - Dip in exports is primarily due to lower sales to the industrial segment. Overall, on the agro and pharma side, they are seeing strong momentum
- Got one new customer from Korea for industrial side in speciality chemical
- CRAMS - Two sets of opportunity, 1) phase 1, 2, 3 developing well while in the pipeline another opportunity is beginning. Today, opportunity in phase 2, 3 numbers has gone up significantly. This is with the same kind of customers. Hence, this opportunity is expected to grow. The company is getting a lot of new projects from the same kind of customers, which can fuel order book growth. Currently, it is working on 25+ new projects in the CRAMS segment
- Raw material basket - Three kinds of material. Fluorspar (long term contracts, not seeing inflation that side), basket of intermediates (buying for speciality chemical and CRAMS side, not seeing inflation but if there is inflation, it is clearly pass through), have problem on the bulk chemical side (solvents, bulk chemical like bromine, significant inflation there). Even if there is 25-50% inflation in bulk chemical, impact on cost structure will not be significant
- Inorganic fluoride – We expect this business to register growth of around 10% this fiscal while the same can be at low teens in the next fiscal. Sectors like stainless steel and glass are showing signs of recovery. It is focusing more on acquiring new customers

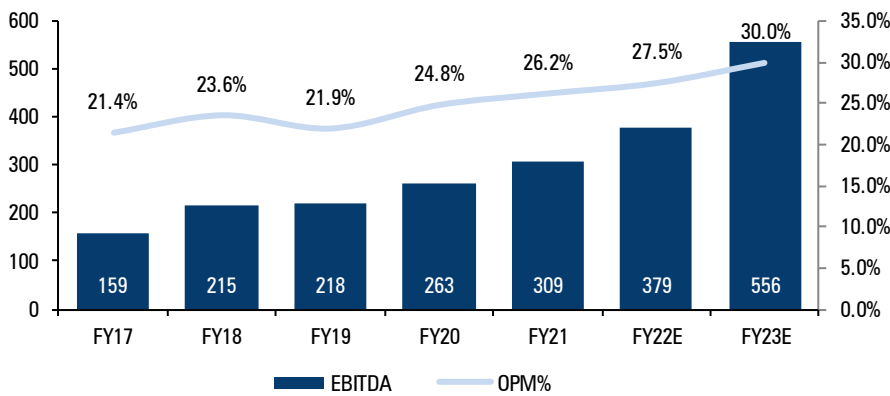
Financial story in charts

Exhibit 1: Revenue trend (₹ crore)



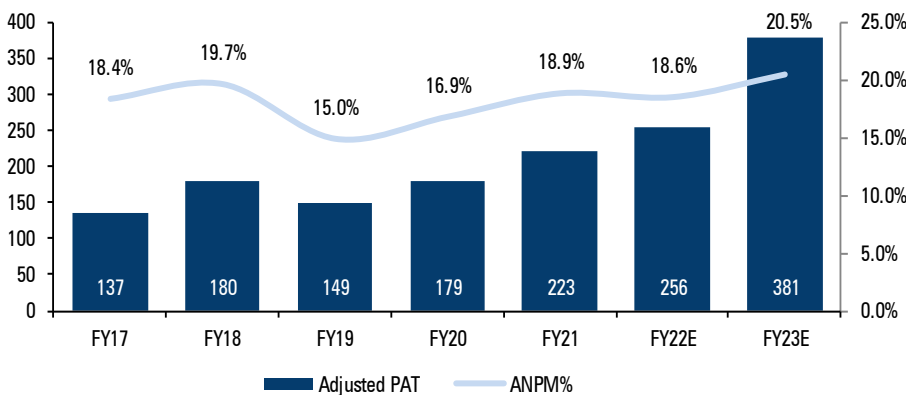
Source: Company, ICICI Direct Research

Exhibit 2: OPM likely to improve due to high value added segment revenue share



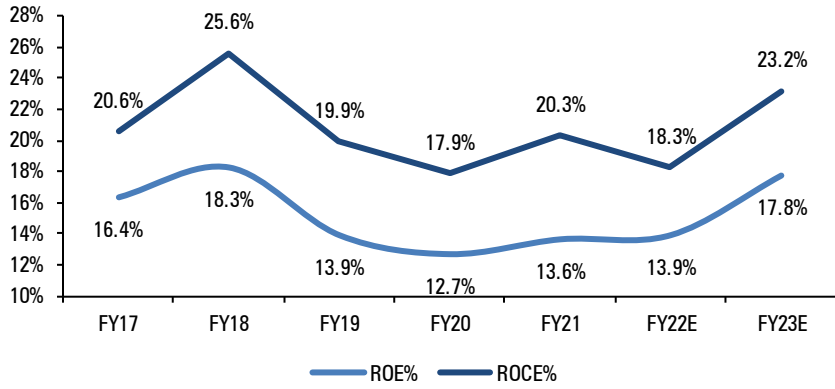
Source: Company, ICICI Direct Research

Exhibit 3: PAT trend



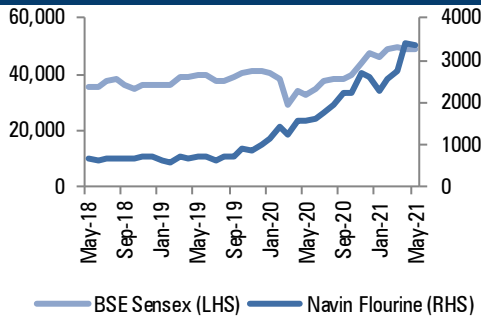
Source: Company, ICICI Direct Research

Exhibit 4: RoNW & RoCE trend (%)



Source: Company, ICICI Direct Research

Exhibit 5: Price performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement					
	₹ crore				
Year end March	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	995.9	1,061.6	1,179.4	1,377.7	1,853.5
Growth (%)	9.1	6.6	11.1	16.8	34.5
Raw Material Expenses	476.6	483.8	537.4	606.2	806.3
Employee Cost	115.5	130.8	141.7	165.3	203.9
Other Expenses	185.5	183.5	191.0	227.3	287.3
Total Operating Expenditure	777.6	798.1	870.1	998.8	1,297.5
EBITDA	218.4	263.5	309.3	378.9	556.1
Growth (%)	1.6	20.7	17.4	22.5	46.8
Other Income	34.4	33.3	79.0	49.4	58.7
Depreciation	27.5	37.0	44.2	80.2	98.0
Net Interest Exp.	0.8	2.0	1.8	2.4	2.4
Other exceptional items	0.0	0.0	15.5	0.0	0.0
PBT	224.4	257.8	357.8	345.7	514.4
Total Tax	77.0	-143.6	110.8	89.9	133.7
PAT	147.4	401.4	247.1	255.8	380.7
Adjusted PAT	149.1	179.1	222.9	255.8	380.7
Growth (%)	-17.1	20.1	24.5	14.8	48.8
Adjusted EPS (₹)	30.1	36.2	45.0	51.7	76.9

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement					
	₹ crore				
Year end March	FY19	FY20	FY21	FY22E	FY23E
PBT & Extraordinary	224.4	257.8	357.8	345.7	514.4
Add: Depreciation	27.5	37.0	44.2	80.2	98.0
After other adjustments					
(Inc) / Dec in Working Capital	-61.5	-70.6	-125.5	-19.9	-142.0
Taxes	-71.9	-46.2	17.3	-89.9	-133.7
Others	-28.4	-21.3	-56.6	2.4	2.4
CF from operating activities	90.2	156.7	237.3	318.5	339.0
Purchase of Fixed Assets	-61.6	-107.7	-98.7	-450.0	-120.0
Others	37.3	192.9	-138.4	0.0	0.0
CF from investing activities	-24.3	85.1	-237.1	-450.0	-120.0
Issue/(Buy back) of Equity	2.1	1.2	1.4	0.0	0.0
Inc/(dec) in loan funds	-8.5	-8.7	1.1	0.0	0.0
Dividend paid & dividend tax	-61.1	-71.4	-39.4	-51.2	-76.1
Others	-0.8	-2.0	-8.2	-2.4	-2.4
CF from financing activities	-68.4	-80.9	-45.1	-53.5	-78.5
Net cash flow	-2.5	160.9	-44.9	-185.0	140.5
Opening cash	37.4	37.0	283.8	543.9	358.8
Closing cash	37.0	283.8	543.9	358.8	499.3

*calculated, Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet					
	₹ crore				
Year end March	FY19	FY20	FY21	FY22E	FY23E
Liabilities					
Equity Capital	9.9	9.9	9.9	9.9	9.9
Reserves & Surplus	1,062.6	1,402.3	1,624.0	1,828.7	2,133.2
Total Shareholders Funds	1,072.5	1,412.2	1,633.9	1,838.6	2,143.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	0.0	0.0	0.0	0.0	0.0
Net Deferred Tax liability	34.8	0.0	20.7	20.7	20.7
Other long term liabilities	14.5	28.9	29.1	34.0	45.7
Long term provisions	8.6	10.3	11.8	13.8	18.5
Current Liabilities and Provisions					
Short term borrowings	4.1	1.4	2.5	2.5	2.5
Trade Payables	71.3	98.1	107.4	132.1	177.7
Other Current Liabilities	99.0	74.9	89.0	103.9	139.8
Short Term Provisions	2.4	2.8	3.1	3.6	4.9
Total Current Liabilities	176.9	177.2	202.0	242.1	324.9
Total Liabilities	1,307.2	1,628.5	1,897.5	2,149.2	2,553.0
Assets					
Net Block	286.3	386.0	398.5	763.1	885.1
Capital Work in Progress	39.3	38.9	94.9	100.0	0.0
Intangible assets under devl.	0.0	0.0	0.0	0.0	0.0
Goodwill on Consolidation	87.8	87.8	87.8	87.8	87.8
Non-current investments	239.1	127.9	14.5	14.5	14.5
Deferred tax assets	0.0	15.1	0.0	0.0	0.0
Long term loans and advances	7.5	9.9	4.3	5.0	6.7
Other Non Current Assets	86.5	179.5	102.8	111.1	130.8
Current Assets, Loans & Advances					
Current Investments	188.4	67.5	84.5	84.5	84.5
Inventories	111.9	157.9	180.4	215.1	294.5
Sundry Debtors	172.7	218.5	284.1	290.6	391.0
Cash and Bank	37.0	283.8	543.9	358.8	499.3
Loans and Advances	4.8	4.5	2.7	2.7	2.7
Other Current assets	46.0	51.4	99.2	115.9	155.9
Current Assets	560.8	783.6	1,194.7	1,067.7	1,428.0
Total Assets	1,307.2	1,628.5	1,897.5	2,149.2	2,553.0

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios					
Year end March	FY19	FY20	FY21	FY22E	FY23E
Per share data (₹)					
Adj. EPS	30.1	36.2	45.0	51.7	76.9
Adj. Cash EPS	35.7	43.7	54.0	67.9	96.7
BV	216.9	285.3	330.1	371.5	433.0
DPS	0.0	7.0	0.0	10.3	15.4
Operating Ratios (%)					
Gross Margin (%)	52.1	54.4	54.4	56.0	56.5
EBITDA Margin (%)	21.9	24.8	26.2	27.5	30.0
PAT Margin (%)	15.0	16.9	18.9	18.6	20.5
Debtor Days	63	75	88	77	77
Inventory Days	41	54	56	57	58
Creditor Days	26	34	33	35	35
Cash Conversion Cycle	78	96	110	99	100
Return Ratios (%)					
Return on Assets (%)	11.4	11.0	11.7	11.9	14.9
RoCE (%)	19.9	17.9	20.3	18.3	23.2
RoE (%)	13.9	12.7	13.6	13.9	17.8
Solvency					
Total Debt / Equity	0.0	0.0	0.0	0.0	0.0
Interest Coverage	271.4	129.9	NM	NM	NM
Current Ratio	3.2	4.4	5.9	4.4	4.4
Quick Ratio	2.5	3.5	5.0	3.5	3.5
Valuation Ratios (x)					
EV/EBITDA	71.8	59.0	49.4	40.8	27.6
P/E	106.6	88.8	71.3	62.2	41.8
P/B	14.8	11.3	9.7	8.6	7.4
EV/Sales	15.7	14.7	13.0	11.2	8.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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