Sector – Speciality Chemicals

Navin Fluorine International Ltd.(NFIL)

21st March 2023 | CMP – ₹4202/- | View – **Accumulate**

Company Overview

- Navin Fluorine International (NFIL) is a pure-play fluorochemical manufacturer in India. Established in 1967, it is part of the Padmanabh Mafatlal Group. The company manufactures a large array of fluorine-based chemicals and operates one of the largest integrated fluorochemical complexes in 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.
- **Business Segments & Product profile:** The company has implemented a new organizational structure with three business units led by three operating CEOs.
  1) HPP (High Performance product) business segment consists of Refrigerant Gases, Inorganic Fluorides and HPP.
  2) CDMO business and
  3) Specialty chemical business.

Important Statistics

MCAP (₹ bn)	₹208.68
52 Week H/L (₹)	4,848.35 / 3,432.85
NSE Code	NAVINFLUOR
BSE Code	532504

Shareholding Pattern%	Dec-22
Promoters	29.40
DII	19.19
FII	23.77
Public & Others	27.64

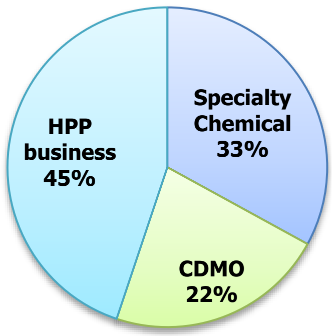
Particulars	FY20	FY21	FY22	FY23E	FY24E
Net Sales	1,062	1,179	1,453	1,956	2,681
EBITDA	263	309	355	489	670
EBITDA Margin	25%	26%	24%	25%	25%
PAT	409	258	263	319	434
EPS (₹)	82.46	51.97	53.09	64.40	87.52
P/E (₹)	50	79	77	64	47
EV/EBITDA	76	64	57	43	31
ROE	29%	16%	14%	15%	17%
ROCE	16%	16%	15%	19%	22%
net D/E	0.00	0.00	0.06	0.28	0.31

Segment	Product profile	Business Description	Industry Applications	Domestic : Export revenue Mix
Refrigerant Gases	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	29% : 71%
Inorganic Fluorides	1. Ammonium Bifluoride 2. Potassium Biflouride 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	29% : 71%
NFASL	-	A new high growth segment set up after winning a multiyear contract to produce High Performance Products	-	-
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	37% : 63%
CRAMS		The segment includes custom chemical synthesis of fluorinated compounds.	1. Pharmaceuticals 2. Agrochemicals	0% : 100%

Source: Company Data, Way2Wealth Research

W2W Lighthouse - A Quick Perspective

Segment Revenue Mix (%)



Source: Company Data, Way2Wealth Research

Investment Thesis

Honeywell HFO project & HFC will drive growth in the HPP segment

- **Honeywell HFO project has commissioned and expected to normalize from Q4FY23 –**
  - The company has entered seven-year contract of US$ 410 million with Honeywell International Inc. for the manufacturing and supply in the high-performance product segment. It is a testament of NFIL's capabilities in the area of new age application of the fluorinated molecules. This contract will propel NFIL to capture new set of opportunities for application of fluorine for completely new verticals along with margin and ROE accretive. It plans to make the intermediate and the final product which will be supplied to the customer.
  - The company has commissioned HFO (hydrofluoroolefins) capacity for Honeywell by the end of Q1FY23. However, the scale up of the capacity was delayed due to availability issue of one of the key RM –Carbon Tetrachloride (CTC). This delay was due to capacity addition at supplier end which resulted in buying of products from spot market at higher rate. The issue was resolved in the second half of Oct'22. Going ahead, the management expects HFO project to be normalized from Q4FY23 onwards and improvement in margin.
  - The management has indicated that it will develop HFO and blends by using a different route, will sell to India and Gulf countries but can't export to USA and Europe markets. Ideally, it intends to work collectively with all trading partners in order to deliver sustainable growth. Even the company is in discussion with Honeywell for supply of HFO blends in India and Middle East market.
  - The company will initiate discussion with Honeywell on doubling its HFO (intermediate) capacity in CY23, the plant should take another 18 months to commercialize. It has provisioned adequate land in Dahej for this purpose.
- **HFC is an exciting opportunity - Investment in R32 plant:**
  - Earlier, the company was evaluating plans to add 30ktpa capacity in R32 using efficient liquid phase technology, the plant will take another 5-6 years to reach break-even due to demand supply imbalance. This plan would involve an investment capex of ₹10bn thereby it put on hold. Recently, it

has announced capex of ₹80Cr for R-32 plant commissioning by Q1FY24 with an initial capacity of 4KTPA. The peak revenue potential is expected ~₹2bn.

- The BOD has approved a capex of ₹450Cr for setting up a 40,000 tonnes per annum hydrofluoric acid capacity at Dahej. The company already has an AHF manufacturing plant with a capacity of approximately 20,000 tonnes per annum at Surat. The new capacity is expected to come on stream in two years.
- Earlier, the legacy business grew at slow pace of 4 % CAGR during FY19-22, now as it shaping up to high performance products, going ahead this will propel growth and we estimate HPP (overall) business will grow by 52% CAGR during FY22-24E.

Multiyear contract will drive growth in High Value business segment

- **Multiyear contract lifts revenue visibility in specialty chemical division:**
  - The company has entered into a multiyear contract to manufacture and supply a key fluoro-specialty chemical. This project will require setting up of new capacity at Dahej with an investment of ₹540Cr to be financed through mix of debt and internal accruals. The project is expected to complete by the end of CY23 and ramp from FY25. The project has revenue potential of ₹600Cr and better gross margins at peak capacity utilization. Also signed ₹800Cr 5 years agreement for supply of key agro chemical fluoro-intermediate, It will be investing ₹125Cr and supply is expected to start by end of FY23.
  - Further, it also invested ₹195Cr to lay foundation for the next phase of growth in Multi-Purpose plant which will focus on new product portfolio in fluorochemical specialty chemical business. Estimated turnover of ₹260-280Cr per annum with asset turnover of 1.35x-1.45x. **Recently, the company started MPP and dedicated plant for agrochemical intermediate plant during Q3FY23 and supplied 1st batches of commercial products. Further, it expects 2 more molecules to be commercialized by Q4FY23.**
- **Focus on project pipeline and new customer acquisition in the CDMO space:**
  - In the CDMO segment, the company mostly caters to the pharmaceutical sector, it is working with global pharma companies in the US and Europe markets which are the key export market. The company has developed 50+scalable products in the last 7 years and also developed cGMP plants. It is working on 25+ projects and the numbers of molecules in phases 2 and phases 3 stages, as the molecules progress 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 volumes sales.
  - The company received a purchase order of US$16 million which will be executed over 2 quarters in CY23. This large PO is for stage 3 and expected to grow multifold post approval stage.
  - The company has also identified 3 opportunities in CDMO space, existing cGMP3 capacity has revenue potential of US$60 million including debottleneck capacity and looking at growing demand and volume, the

management is confident to go for cGMP4 units. **Going ahead, the management is focusing on project pipeline expansion and new customer acquisitions and it also aims to revenue of US$100 million from CDMO by end of FY25.**

- The HVB (High value business) grew by 22% over FY19-22 on the back of constant interaction with clients, increased focus on R&D and introduction of new molecules. Going ahead, these upcoming projects will deliver revenue growth of 29% CAGR during FY22-24E in High value business segment.

Sound fundamental & improvement in return ratio

- The company has reported revenue/ EBITDA/ PAT growth of 13%/ 18%/21% CAGR over FY19-22 respectively. During FY22, the company reported strong revenue growth of 23% yoy to ₹1453Cr, the growth was driven by legacy as well as high value business and better price realization. EBITDA increased by 15% yoy to ₹355Cr v/s ₹309Cr in FY22, EBITDA margin declined to 24% v/s 26% yoy on account of increase of RM cost and employee cost.
- On consolidated basis, the gross debt stands at ₹593Cr in 1HFY23, going ahead, the management said that many projects capex will be funded through internal accrual and debt. Therefore the company intends to take additional debt and targeted ₹1300Cr of Debt in FY24 which will slightly increase liquidity ratio.

Quarterly performance

- The company reported revenue growth of 49% yoy & 34% qoq to ₹564Cr, the growth driven by across all segments (HPP & high value business). EBITDA margins significantly improved by 159 bps yoy& 522 bps qoq on account of capacity ramp up and product mix.
- Revenue from specialty chemicals was up by 22% yoy & 5% qoq to ₹186Cr in Q3FY23. While CDMO segment revenue grew by 74% yoy & 221% qoq to ₹125Cr v/s ₹72Cr in Q3FY22.
- Legacy business (HPP) segment revenue grew by 63% yoy to ₹253Cr v/s ₹155Cr in Q3FY22. The growth was led by commissioning of hydrofluoroolefins (HFO) pant and better realization of refrigerant gas.

Concall highlights

- **HPP segment:** New plant in Dahej achieved close to designed capacity in December 2022. New project in Surat to start production from Q2FY24.
  - Honeywell and agrochemical intermediate are dedicated facilities and the management aims to ramp up at full capacity in Q4FY23.
- **Specialty chemical segment:**
  - The company has achieved highest quarterly revenue in Q3FY23.
  - MPP and dedicated plant for agrochemical intermediate started during Q3FY23 and supplied the first batches of commercial products.
  - Four customers are currently auditing the Navin plant of which two are from performance material side, 3 customers are new customers and one is existing customer.

- Specialty chemical business revenue was driven by volume growth. New products from two new projects aided overall growth.
- On MPP Plant front, the company has commercialized one molecule in Q3FY23. Out of the 5 molecules, 4 molecules are in agrochemical and 1 in pharma segment. All agrochemical molecules will cater to international market.
- The management shared revenue contribution of 1/3rd from agrochemical, 1/3rd from performance materials and 1/3rd from pharma and industrial chemicals by FY26. Performance material side is witnessing good traction for fluorine products and the management is identifying few opportunities in this performance materials side.

➢ **CDMO segment:**

- Highest quarterly revenue achieved in Q3FY23
- New project in Surat to commence production from Q2FY24.
- CDMO growth should be seen on an annual basis. Q4FY23 CDMO business will be in line with Q3FY23 business or could be better than Q3FY23.

➢ The management alluded to concern about recession hitting the market in H2CY23. According to the management, the business may see some softening due to longer period of recession which will have an impact on finalization of the annual business plan. HFO business may get affected due to recession while slowdown in agrochemical may be impacted by drought faced in Brazil.

➢ On the capex front, the company is currently implementing capex of ₹17bn-18bn targeted for completion by end-CY23. The management said that they will be investing ₹200Cr in few project in FY25, the details of these projects (debottlenecking, cGMP4 and HFO2.0) will be shared once the board finalized.

Key Risks

➢ **Delay in commencement of capex or long term contract:** Any delay in commencement of capex or new projects can impact financial performance of the company.

➢ **Slowdown in agrochemicals and pharmaceuticals industry:** the major demand coming from agrochemicals and pharmaceuticals is more than 50%, any slowdown in these sectors can impact growth prospects of the company.

Valuation

➢ Going ahead, the company will maintain its growth momentum with revenue of 36% CAGR over FY22-24E, this growth will be driven by the ramp up of HPP & MPP plants, specialty chemical & CDMO will continue to drive robust growth with increasing use of fluorine in the pharma and agro space. We estimate CAGR of 37%/28% in EBITDA/PAT over FY22-24E and sustain EBITDA/ PAT margins at 25%/16% respectively.

➢ **At CMP ₹4202, the stock is trading at PE 48x FY24E EPS of ₹88, 32x EV/EBITDA on FY24E. Hence, we recommend Accumulate rating on stock.**

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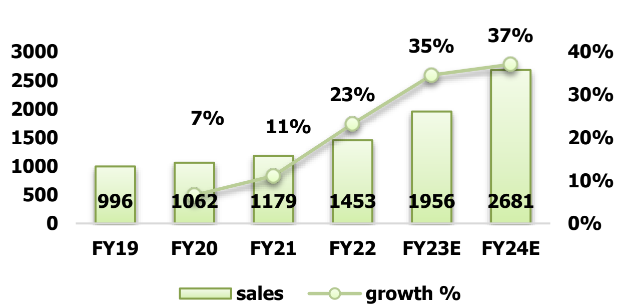
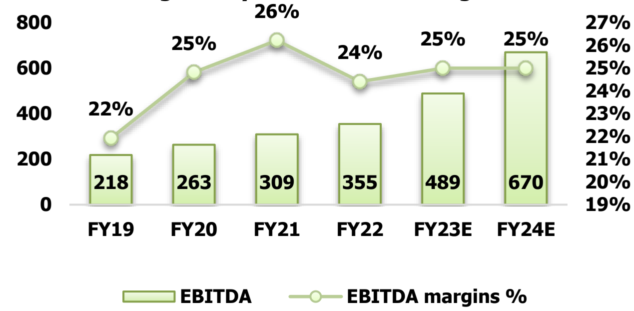
Story in Charts

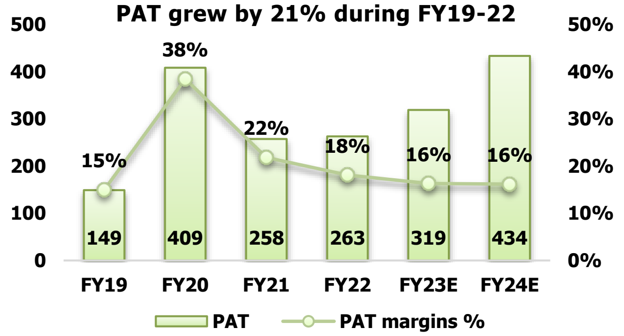
Sales grew by 13% CAGR during FY19-22



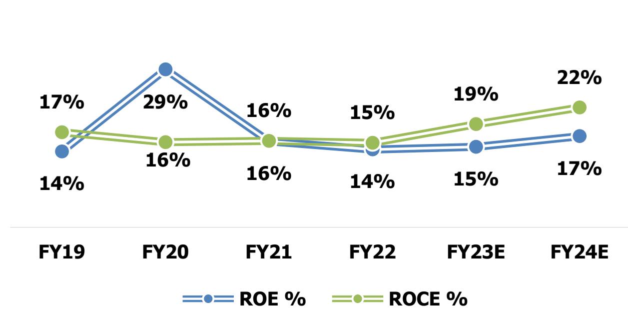
EBITDA grew by 18% CAGR during FY19-22



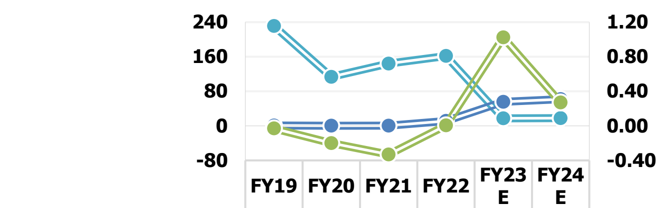
PAT grew by 21% during FY19-22



IMPROVEMENT IN RETURN RATIO

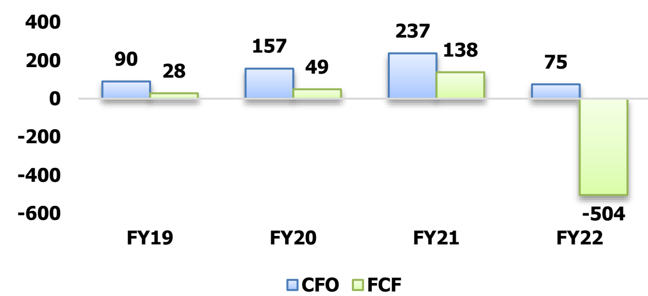


LIQUIDITY RATIO



	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest coverage	231	113	144	162	17	18
Debt/Equity	0.00	0.00	0.00	0.06	0.28	0.31
Net Debt/EBITDA	-0.03	-0.20	-0.33	0.00	1.02	0.27

CFO & FCF



Source: *Company Data, Way2Wealth Research*

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Financials

(₹ Cr)

Particulars	FY19	FY20	FY21	FY22	FY23	FY24
Net sales	996	1062	1179	1453	1956	2681
Consump of raw material	477	484	537	666	900	1233
Employees cost	115	131	142	182	254	349
Administrative & other Expense	186	183	191	251	313	429
Total Expenditure	778	798	870	1099	1467	2011
EBITDA	218	263	309	355	489	670
EBITDA margins %	22%	25%	26%	24%	25%	25%
Depreciation	28	37	44	48	80	100
EBIT/ Operating Profit	191	226	265	307	409	570
Interest	1	2	2	2	24	32
Other income	34	33	79	39	40	40
PBT	224	258	342	344	425	578
Exceptional			16			
PBT after exceptional	224	258	358	344	425	578
Provision for current tax	73	-58	119	82	106	145
Provision for Deferred Tax	4	-85	-9	-1		
PAT	147	401	247	263	319	434
Reported PAT	149	409	258	263	319	434
PAT margins %	15%	38%	22%	18%	16%	16%
EPS (Basic & diluted)	30.09	82.46	51.97	53.09	64.40	87.52

Source: Company, Way2Wealth Research

(₹ Cr)

Quarterly performance	Q3FY23	Q3FY22	YoY % change	Q2FY22	QoQ % change	9MFY23	9MFY22	YoY % change
Net sales	564	379	49%	419	34%	1380	1044	32%
COGS	246	168	46%	184	34%	612	469	31%
Employees cost	69	47	46%	57	20%	176	134	31%
Administrative & other Expense	93	65	42%	85	10%	243	181	34%
Total Expenditure	408	280	46%	325	25%	1032	784	32%
EBITDA	156	99	58%	94	66%	349	261	34%
EBITDA margins %	28%	26%		22%		25%	25%	
Depreciation	25	12	106%	18	42%	55	36	53%
EBIT/ Operating Profit	131	86	51%	76	71%	294	225	31%
Interest	9	0	2386%	4	129%	14	1	972%
Other income	10	7	33%	11	-9%	32	27	18%
PBT	131	94	40%	83	58%	312	250	25%
Provision for current tax	26	26	0%	22	18%	72	65	10%
Provision for Deferred Tax	-1	-1	6%	3	-134%	1	-3	-132%
PAT	107	69	55%	58	84%	239	188	27%
Reported PAT	107	69	55%	58	84%	239	188	27%
PAT margins %	19%	18%		14%		17%	18%	
EPS (Basic &diluted)	21.51	13.88	55%	11.67	84%	48.20	37.93	27%

Source: Company, Way2Wealth Research

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Name of the Security	Navin Fluorine International Ltd.(NFIL)
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained Financial Interest Analyst: Analyst's Relative: Yes / No Analyst's Associate/Firm: Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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