

Rating: **ACCUMULATE** | CMP: Rs3,262 | TP: Rs3,727

February 7, 2024

## Q3FY24 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		BUY	
Target Price	3,727		4,260	
Sales (Rs. m)	26,409	31,988	26,409	31,988
% Chng.	-	-	-	-
EBITDA (Rs. m)	6,055	8,098	6,451	8,098
% Chng.	(6.1)	-	-	-
EPS (Rs.)	77.2	106.5	83.2	106.5
% Chng.	(7.2)	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	20,774	19,624	26,409	31,988
EBITDA (Rs. m)	5,503	3,944	6,055	8,098
Margin (%)	26.5	20.1	22.9	25.3
PAT (Rs. m)	3,752	1,957	3,825	5,277
EPS (Rs.)	75.7	39.5	77.2	106.5
Gr. (%)	42.6	(47.8)	95.5	38.0
DPS (Rs.)	12.0	7.9	12.2	16.9
Yield (%)	0.4	0.2	0.4	0.5
RoE (%)	18.6	8.5	15.0	18.0
RoCE (%)	19.6	9.3	14.6	17.5
EV/Sales (x)	8.2	8.7	6.5	5.4
EV/EBITDA (x)	30.8	43.3	28.5	21.3
PE (x)	43.1	82.6	42.3	30.6
P/BV (x)	7.4	6.8	6.0	5.1

### Key Data

NAFL.BO | NFIL IN

52-W High / Low	Rs.4,946 / Rs.3,203
Sensex / Nifty	72,186 / 21,929
Market Cap	Rs.162bn / \$ 1,947m
Shares Outstanding	50m
3M Avg. Daily Value	Rs.665.62m

### Shareholding Pattern (%)

Promoter's	28.81
Foreign	15.92
Domestic Institution	28.92
Public & Others	26.35
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(14.7)	(27.6)	(20.6)
Relative	(14.9)	(34.0)	(33.5)

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## HPP & Specialty business key growth drivers

### Quick Pointers:

- EBITDA margin drops to 15%, 3-4% recovery expected in the upcoming quarters
- Capex of Rs2.9bn on c-GMP 4 and INR840mn for R32 capacity expansion

**Navin Fluorine International (NFIL) reported a revenue of 5bn (-11% YoY/6.4% QoQ), the topline growth was impacted due to postponement of sales for key molecules to next fiscal and channel inventory destocking. CDMO dragged performance for the quarter, however the company has entered into a strategic partnership with a US based CDMO player, which will help in deeper penetration into US market. The stock is trading at 31x FY26E EPS of Rs 106.5, with an expected improvement in RoE to ~20%, despite a huge capex (Rs8bn) over the next two years. We value the company at 35x FY26E EPS (earlier Target P/E at 40x) to arrive at our TP of Rs 3,727 (earlier Rs 4,007). We downgrade our rating to 'Accumulate' from 'BUY'.**

- Consolidated revenue is at Rs5bn (-11% YoY/ 6.4% QoQ).** For 9MFY24, topline improved by 6.1% to Rs14.6bn from Rs13.8bn. **Gross margin was at 53.9%** (vs 57.2% in Q2FY24 and 56.3% in Q3FY23).
- EBITDA came in at Rs757mn** (-51.1% YoY, -23.1% QoQ), and EBITDA margin came at 15.1% (vs 27.6% in Q3FY23 and 22.4% in Q2FY24). Higher opex and feedstock cost led to 3-4% decline in EBITDA margin, which the management guides to recoup in subsequent quarters.
- Reported PAT was at Rs780mn (-26% YoY, 28.8% QoQ, +71.6% PLe) primarily due to higher exceptional items due to sale of surplus unused colony land situated at Surat (Gujarat). During the quarter end, the Company paid an interim dividend of ~5 per share plus a onetime special dividend of ~3 per share, aggregating to~ 396.6mn.
- Concall takeaways: (1) CDMO segment:** cGMP-4 expansion in two phases- 1<sup>st</sup> with 100kl capacity at a cost of INR1.6bn; extended MSA to three molecules for CDMO for European customer; 30-35% of revenues would be from near-commercial molecules; few molecules dropped off from CDMO due to data not meeting requirements; earlier announced CDMO project of USD16mn is expected to come in FY25; cGMP-4 required to take revenues to USD100mn from CDMO in few years; entered into strategic partnership with a US based player for CDMO **(2) HPP:** Rs840mn for R32 capacity doubling aimed at securing market position, R32 is a low GWP product, 1<sup>st</sup> cut would commence in 2032; R22 continues to face pricing pressure; R32 plant has stabilized and is operating at optimal capacity; HFO plant ramp up is taking time; demand of HFO remains sluggish; expected to do INR4.6bn in HFO sales in FY25. **(3) Specialty chemicals:** added one molecule at Dahej and expected to add four new molecules (3 at Surat, one at Dahej) in next quarter; commercial supply from Rs5.4bn agrochem project (half of which is dedicated) expected by Q1FY25; Capex of Rs300mn at Dahej to be commercialized in FY25. **(4) Miscellaneous:** Unpredictable weather conditions, destocking continue to be pain points; long term outlook remains intact; 3-4% impact on EBITDA is recoverable; Gross debt Rs12bn including working capital.

**Exhibit 1: Q3FY24 Result Overview (Rs mn) (Consolidated)**

Standalone	Q3FY24	Q3FY23	YoY gr. (%)	Q3FY24E	% Var.	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
<b>Net Sales</b>	<b>5,018</b>	<b>5,636</b>	<b>(11.0)</b>	<b>4,248</b>	<b>18.1</b>	<b>4,718</b>	<b>6.4</b>	<b>14,648</b>	<b>13,803</b>	<b>6.1</b>
Gross Profit	2,704	3,172	(14.7)	2,413	12.1	2,698	0.2	8,287	7,680	7.9
Margin (%)	53.9	56.3		56.8		57.2		56.6	55.6	
<b>EBITDA</b>	<b>757</b>	<b>1,556</b>	<b>(51.4)</b>	<b>950</b>	<b>(20.3)</b>	<b>983</b>	<b>(23.1)</b>	<b>2,882</b>	<b>3,485</b>	<b>(17.3)</b>
Margin (%)	15.1	27.6		22.4		20.8		19.7	25.3	
Other Income	119	99		123		231		433	317	
Depreciation	249	250	(0.5)	246	1.2	243	2.6	705	550	28.0
<b>EBIT</b>	<b>627</b>	<b>1,405</b>	<b>(55.4)</b>	<b>826</b>	<b>(24.1)</b>	<b>972</b>	<b>(35.5)</b>	<b>2,611</b>	<b>3,252</b>	<b>(19.7)</b>
Interest	177	92	92.3	167	5.9	200	(11.6)	571	135	322.8
<b>PBT before expec</b>	<b>450</b>	<b>1,313</b>	<b>(65.7)</b>	<b>659</b>	<b>(31.7)</b>	<b>772</b>	<b>(41.7)</b>	<b>2,040</b>	<b>3,117</b>	<b>(34.6)</b>
Total Tax	191	259	(26.1)	205	(6.5)	166	15.1	557	719	(22.5)
ETR (%)	42.5	19.7		31.0		21.5		27.3	23.1	
<b>Adj. PAT</b>	<b>259</b>	<b>1,054</b>	<b>(75.4)</b>	<b>455</b>	<b>(43.1)</b>	<b>606</b>	<b>(57.3)</b>	<b>1,483</b>	<b>2,398</b>	<b>(38.2)</b>
Exceptional Items	521							521	0	
<b>PAT</b>	<b>780</b>	<b>1,054</b>	<b>(26.0)</b>	<b>455</b>	<b>71.6</b>	<b>606</b>	<b>28.8</b>	<b>2,004</b>	<b>2,398</b>	<b>(16.4)</b>

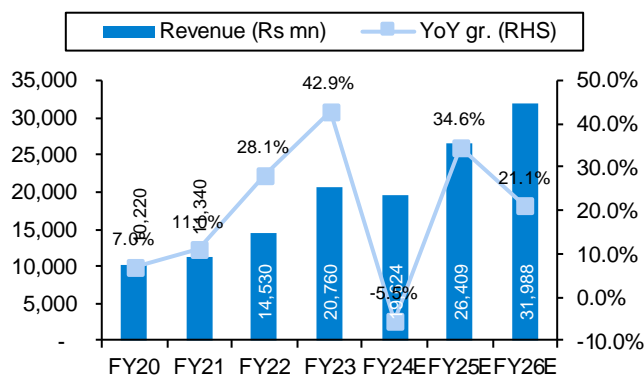
Source: Company, PL

**Exhibit 2: Segment Details (Rs mn) (Consolidated)**

Segment Details	Q3FY24	Q3FY23	YoY gr.	Q2FY24	QoQ gr.	9MFY24	9MFY23	YoY gr.
HPP	2,510	2,530	-0.8%	2,380	5.5%	4,070	3,440	18.3%
CDMO	730	1,250	-41.6%	480	52.1%	1,410	1,200	17.5%
Specialty Chemicals	1,770	1,860	-4.8%	1,860	-4.8%	4,160	3,530	17.8%
<b>Total Sales</b>	<b>5,010</b>	<b>5,640</b>	<b>-11.2%</b>	<b>4,720</b>	<b>6.1%</b>	<b>9,640</b>	<b>8,170</b>	<b>18.0%</b>

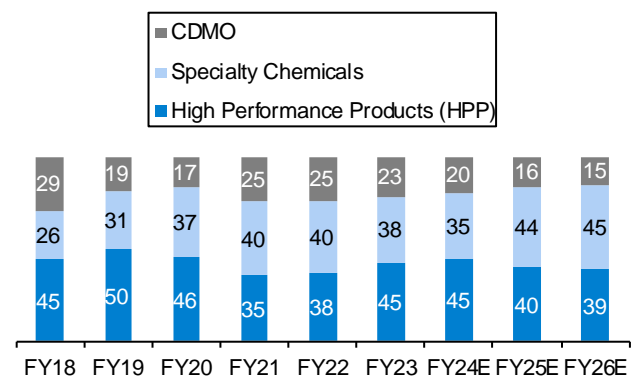
Source: Company, PL

**Exhibit 3: Revenue to grow at 12% CAGR over FY23-FY26E**



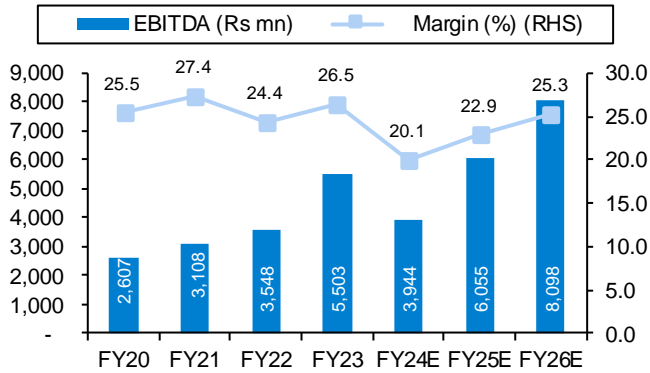
Source: Company, PL

**Exhibit 4: Revenue mix profile (%)**



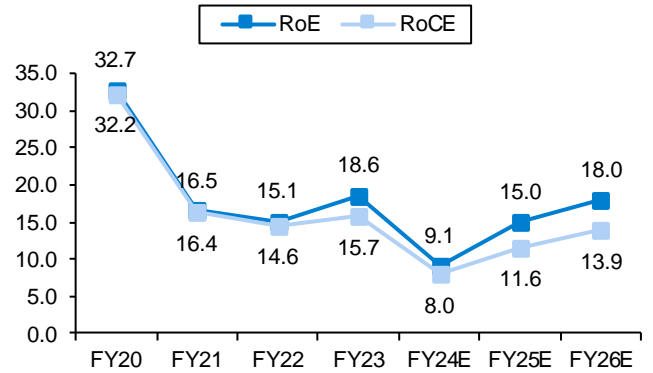
Source: Company, PL

**Exhibit 5: Margins to rise with high value added mix**



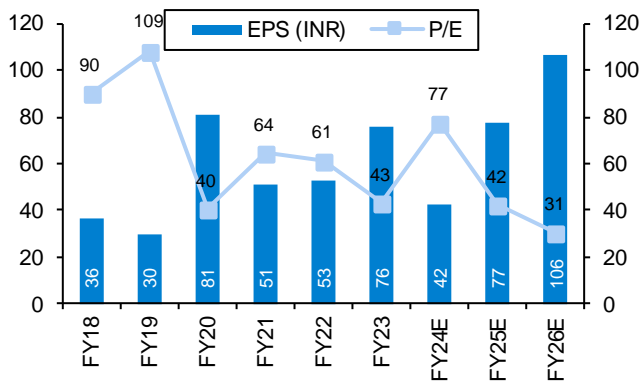
Source: Company, PL

**Exhibit 6: Despite huge capex, return ratios expected to rise**



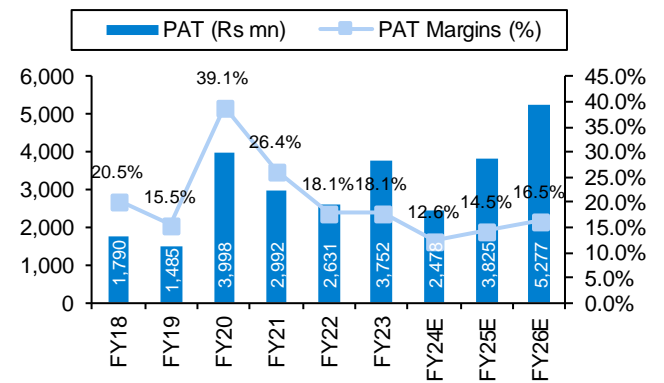
Source: Company, PL

**Exhibit 7: Trading at 31x FY25**

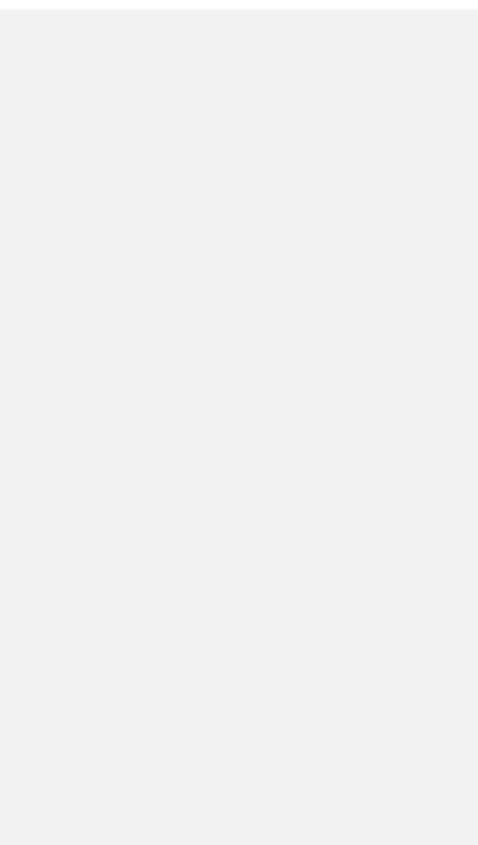


Source: Company, PL

**Exhibit 8: PAT to grow at 15% CAGR over FY23-FY26E**



Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>20,774</b>	<b>19,624</b>	<b>26,409</b>	<b>31,988</b>
YoY gr. (%)	42.9	(5.5)	34.6	21.1
Cost of Goods Sold	8,960	8,634	11,620	13,435
Gross Profit	11,814	10,989	14,789	18,553
Margin (%)	56.9	56.0	56.0	58.0
Employee Cost	2,494	3,317	3,981	4,697
Other Expenses	3,817	3,729	4,754	5,758
<b>EBITDA</b>	<b>5,503</b>	<b>3,944</b>	<b>6,055</b>	<b>8,098</b>
YoY gr. (%)	55.1	(28.3)	53.5	33.7
Margin (%)	26.5	20.1	22.9	25.3
Depreciation and Amortization	626	983	838	982
<b>EBIT</b>	<b>4,877</b>	<b>2,960</b>	<b>5,217</b>	<b>7,116</b>
Margin (%)	23.5	15.1	19.8	22.2
Net Interest	275	668	513	560
Other Income	357	491	396	480
<b>Profit Before Tax</b>	<b>4,959</b>	<b>2,783</b>	<b>5,099</b>	<b>7,035</b>
Margin (%)	23.9	14.2	19.3	22.0
Total Tax	1,207	826	1,275	1,759
Effective tax rate (%)	24.3	29.7	25.0	25.0
<b>Profit after tax</b>	<b>3,752</b>	<b>1,957</b>	<b>3,825</b>	<b>5,277</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>3,752</b>	<b>1,957</b>	<b>3,825</b>	<b>5,277</b>
YoY gr. (%)	42.6	(47.8)	95.5	38.0
Margin (%)	18.1	10.0	14.5	16.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,752</b>	<b>1,957</b>	<b>3,825</b>	<b>5,277</b>
YoY gr. (%)	42.6	(47.8)	95.5	38.0
Margin (%)	18.1	10.0	14.5	16.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,752	1,957	3,825	5,277
<b>Equity Shares O/s (m)</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>
<b>EPS (Rs)</b>	<b>75.7</b>	<b>39.5</b>	<b>77.2</b>	<b>106.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>17,283</b>	<b>21,283</b>	<b>25,283</b>	<b>29,283</b>
Tangibles	17,283	21,283	25,283	29,283
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>2,565</b>	<b>3,548</b>	<b>4,386</b>	<b>5,369</b>
Tangibles	2,565	3,548	4,386	5,369
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>14,718</b>	<b>17,735</b>	<b>20,897</b>	<b>23,914</b>
Tangibles	14,718	17,735	20,897	23,914
Intangibles	-	-	-	-
Capital Work In Progress	2,786	2,786	2,786	2,786
Goodwill	-	-	-	-
Non-Current Investments	438	438	438	438
Net Deferred tax assets	(348)	(348)	(348)	(348)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	4,681	4,807	6,240	7,323
Trade receivables	5,615	5,323	7,163	8,676
Cash & Bank Balance	348	223	376	428
Other Current Assets	6,706	6,706	6,706	6,706
<b>Total Assets</b>	<b>35,293</b>	<b>38,018</b>	<b>44,605</b>	<b>50,272</b>
<b>Equity</b>				
Equity Share Capital	99	99	99	99
Other Equity	21,750	23,836	27,055	31,497
<b>Total Networkth</b>	<b>21,850</b>	<b>23,935</b>	<b>27,154</b>	<b>31,596</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	8,487	9,335	11,202	11,202
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	406	430	558	655
Other current liabilities	4,203	3,970	5,343	6,472
<b>Total Equity &amp; Liabilities</b>	<b>35,293</b>	<b>38,018</b>	<b>44,605</b>	<b>50,272</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	4,959	3,304	5,099	7,035
Add. Depreciation	626	983	838	982
Add. Interest	275	668	513	560
Less Financial Other Income	357	491	396	480
Add. Other	(91)	-	-	-
Op. profit before WC changes	5,769	4,955	6,451	8,578
Net Changes-WC	(5,307)	(42)	(1,772)	(1,371)
Direct tax	(1,098)	(826)	(1,275)	(1,759)
<b>Net cash from Op. activities</b>	<b>(636)</b>	<b>4,087</b>	<b>3,404</b>	<b>5,448</b>
Capital expenditures	(7,555)	(4,000)	(4,000)	(4,000)
Interest / Dividend Income	30	-	-	-
Others	969	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(6,556)</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>(4,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	7,442	849	1,867	-
Dividend paid	(543)	(392)	(605)	(835)
Interest paid	(275)	(668)	(513)	(560)
Others	(45)	-	-	-
<b>Net cash from Fin. activities</b>	<b>6,579</b>	<b>(212)</b>	<b>748</b>	<b>(1,395)</b>
<b>Net change in cash</b>	<b>(613)</b>	<b>(125)</b>	<b>152</b>	<b>53</b>
Free Cash Flow	(8,191)	87	(596)	1,448

Source: Company Data, PL Research

**Key Financial Metrics**

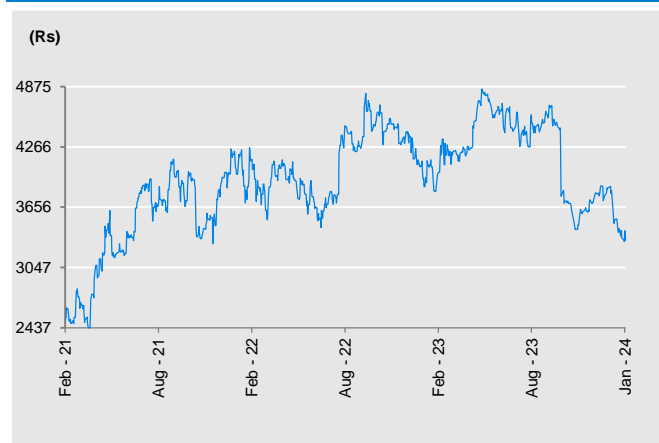
Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	75.7	39.5	77.2	106.5
CEPS	88.4	59.3	94.1	126.3
BVPS	441.0	483.0	548.0	637.7
FCF	(165.3)	1.8	(12.0)	29.2
DPS	12.0	7.9	12.2	16.9
<b>Return Ratio(%)</b>				
RoCE	19.6	9.3	14.6	17.5
ROIC	15.2	6.6	11.0	13.3
RoE	18.6	8.5	15.0	18.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.4	0.4	0.4	0.3
Net Working Capital (Days)	174	180	178	175
<b>Valuation(x)</b>				
PER	43.1	82.6	42.3	30.6
P/B	7.4	6.8	6.0	5.1
P/CEPS	36.9	55.0	34.7	25.8
EV/EBITDA	30.8	43.3	28.5	21.3
EV/Sales	8.2	8.7	6.5	5.4
Dividend Yield (%)	0.4	0.2	0.4	0.5

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Net Revenue</b>	<b>6,971</b>	<b>4,912</b>	<b>4,718</b>	<b>5,018</b>
YoY gr. (%)	70.5	23.6	12.5	(11.0)
Raw Material Expenses	2,837	2,027	2,020	2,314
Gross Profit	4,134	2,885	2,698	2,704
Margin (%)	59.3	58.7	57.2	53.9
<b>EBITDA</b>	<b>2,018</b>	<b>1,142</b>	<b>983</b>	<b>757</b>
YoY gr. (%)	114.1	15.2	4.8	(51.4)
Margin (%)	28.9	23.3	20.8	15.1
Depreciation / Depletion	76	213	243	249
<b>EBIT</b>	<b>1,942</b>	<b>929</b>	<b>741</b>	<b>508</b>
Margin (%)	27.9	18.9	15.7	10.1
Net Interest	140	194	200	177
Other Income	40	83	231	119
<b>Profit before Tax</b>	<b>1,842</b>	<b>818</b>	<b>772</b>	<b>450</b>
Margin (%)	26.4	16.6	16.4	9.0
Total Tax	478	202	166	191
Effective tax rate (%)	26.0	24.8	21.5	42.5
<b>Profit after Tax</b>	<b>1,364</b>	<b>615</b>	<b>606</b>	<b>259</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,364</b>	<b>615</b>	<b>606</b>	<b>259</b>
YoY gr. (%)	81.4	(17.4)	4.8	(75.7)
Margin (%)	19.6	12.5	12.8	5.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,364</b>	<b>615</b>	<b>606</b>	<b>259</b>
YoY gr. (%)	81.4	(17.4)	4.8	(75.7)
Margin (%)	19.6	12.5	12.8	5.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,364</b>	-	-	-
Avg. Shares O/s (m)	50	50	50	50
<b>EPS (Rs)</b>	<b>27.3</b>	<b>12.3</b>	<b>12.1</b>	<b>5.2</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	BUY	4,260	3,823
2	01-Nov-23	BUY	4,007	3,430
3	09-Oct-23	Accumulate	4,128	3,719
4	15-Sep-23	Accumulate	5,064	4,544

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	584	629
2	Bharat Petroleum Corporation	Sell	381	504
3	Bharti Airtel	Accumulate	1,088	1,047
4	Clean Science and Technology	Hold	1,425	1,461
5	Deepak Nitrite	Reduce	1,881	2,451
6	Fine Organic Industries	Hold	4,920	4,867
7	GAIL (India)	Reduce	157	172
8	Gujarat Fluorochemicals	Reduce	3,342	3,626
9	Gujarat Gas	Hold	473	505
10	Gujarat State Petronet	Accumulate	374	334
11	Hindustan Petroleum Corporation	Sell	284	432
12	Indian Oil Corporation	Sell	100	143
13	Indraprastha Gas	Hold	382	405
14	Jubilant Ingrevia	Hold	433	439
15	Laxmi Organic Industries	Sell	221	271
16	Mahanagar Gas	Reduce	1,124	1,345
17	Mangalore Refinery & Petrochemicals	Sell	106	134
18	Navin Fluorine International	BUY	4,260	3,823
19	NOCIL	Reduce	236	274
20	Oil & Natural Gas Corporation	BUY	259	216
21	Oil India	Hold	379	380
22	Petronet LNG	Sell	212	268
23	Reliance Industries	Accumulate	2,912	2,735
24	SRF	Reduce	2,127	2,320
25	Vinati Organics	Accumulate	1,885	1,741

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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