

Weak near-term demand; maintain REDUCE

Specialty Chemicals ▶ Result Update ▶ October 24, 2024

TARGET PRICE (Rs): 3,500

NFIL's Q2 revenue was up 10% YoY at Rs5.2bn (flat QoQ), owing to: i) higher R32 sales and improved R22 realizations in HPP business; ii) lower contribution from the specialty chemical business due to cautious outlook and competitive pressure; and iii) improved contribution from the CDMO business with focus on late/commercial-stage molecules. EBITDA was in line with estimates at Rs1bn (up 9% YoY/7% QoQ) with margin at 20.7% (flat YoY). While growth in HPP business will be driven by the new R32 plant in FY26, the management has order visibility in spec chem from Q3 and maintains CDMO guidance of USD100mn revenue by FY27. We cut our FY25/26/27E EPS by 9%/3%/3% to factor in weak near-term demand and delay in commissioning of dedicated agro specialty plant. We maintain REDUCE with TP of Rs3,500 (35x Dec-26E EPS).

Navin Fluorine: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	20,774	20,650	23,851	30,092	34,321
EBITDA	5,503	3,983	5,199	7,403	8,443
Adj. PAT	3,752	2,184	3,164	4,487	5,151
Adj. EPS (Rs)	75.7	54.6	63.9	90.5	104.0
EBITDA margin (%)	26.5	19.3	21.8	24.6	24.6
EBITDA growth (%)	55.1	(27.6)	30.5	42.4	14.1
Adj. EPS growth (%)	42.5	(27.9)	17.0	41.8	14.8
RoE (%)	18.6	9.6	12.7	16.0	16.0
RoIC (%)	19.6	8.2	10.1	12.0	11.8
P/E (x)	43.7	75.0	51.8	36.5	31.8
EV/EBITDA (x)	31.3	44.4	33.7	23.8	20.9
P/B (x)	7.5	6.9	6.3	5.5	4.8
FCFF yield (%)	(4.4)	0.0	(0.8)	(0.2)	0.6

Source: Company, Emkay Research

High Performance Product (HPP) plants continue running at optimal utilization

The HPP segment generated revenue of Rs2.9bn (+23% YoY; +4% QoQ) on steady utilization in the HFO plant (Honeywell contract) and optimum utilization in the R32 plants with better exports in Q2. R32 volumes witnessed uptick domestically, while the realizations for R22 improved moderately QoQ. The current R32 plant is running optimally, and the focus is on adding 4,500MT capacity, while the progress schedule remains on track for commissioning by Feb-25. The management is evaluating debottlenecking existing capacity for achieving higher quota. However, quota for this new R32 capacity will be around 60% after the baseline period as per our calculations. The AHF capex of Rs4.5bn is scheduled for commissioning by end-FY25/early-FY26.

Specialty Chemicals saw subdued exports on weak global macros

Specialty Chemicals reported revenue of Rs1.6bn (-15% YoY; -2% QoQ) on inventory-level rationalization delaying purchase decisions and stiff competition. NFIL's capex progression for a new molecule at Surat is on track with annual peak revenue potential of Rs400-500mn for 3 years. The company will be launching 2 new molecules in Q3FY25. The agro specialty capex of Rs5.4bn is expected to be commissioned by Nov-24, and the revenue is expected to ramp up from end of Q3FY25. The company witnessed higher growth in share of domestic spec chem due to one-off opportunistic sales in pharma.

CDMO guidance of USD100mn revenue by FY27 stays

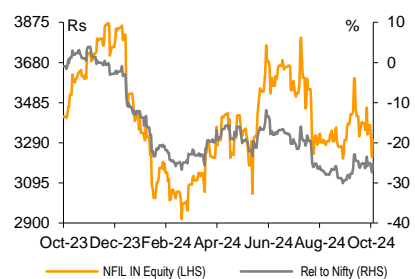
CDMO reported revenue of Rs0.7bn (+42% YoY; -16% QoQ) on higher share from the domestic business. cGMP-4 capex of Rs2.9bn remains on track to be commissioned by end-CY25, with initial outlay of Rs1.6bn. The management has done sampling to an EU major for process performance qualification for a late-stage molecule. The company is in process to supply a commercial-stage molecule for a US major in Q3FY25. NFIL expects to achieve peak revenue potential for the MSA signed with Fermion earlier than projected, with increase in drug application in select therapeutic areas. The management reiterated its strategy to achieve its revenue guidance of USD100mn from this business by FY27.

Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	5.8
CMP (23-Oct-24) (Rs)	3,307.5

Stock Data	Ticker
52-week High (Rs)	3,979
52-week Low (Rs)	2,876
Shares outstanding (mn)	49.6
Market-cap (Rs bn)	164
Market-cap (USD mn)	1,951
Net-debt, FY25E (Rs mn)	11,427
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	761.2
ADTV-3M (USD mn)	9.1
Free float (%)	-
Nifty-50	24,436
INR/USD	84.1
Shareholding, Jun-24	
Promoters (%)	28.8
FPIs/MFs (%)	18.0/27.4

Price Performance				
(%)	1M	3M	12M	
Absolute	(1.8)	(7.0)	(6.2)	
Rel. to Nifty	4.3	(6.9)	(26.0)	

1-Year share price trend (Rs)



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Exhibit 1: Result update

P&L (Rs mn)	Reported					Emkay Est		Full year		
	Q2FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)	Q2FY25E	vs Est (%)	H1FY25	H1FY24	YoY (%)
Net revenue	4,718	5,237	5,186	10	-1	5,477	-5	10,422	9,629	8
Raw Material cost	(2,020)	(2,304)	(2,240)	11	-3	(2,410)	-7	(4,544)	(4,047)	12
Gross Profit	2,698	2,933	2,946	9	0	3,067	-4	5,879	5,582	5
Gross margin (%)	57.2	56.0	56.8	-38 bps	80 bps	56.0	80 bps	56.4	58.0	-157 bps
Employee cost	(609)	(782)	(770)	26	-2	(739)	4	(1,551)	(1,401)	11
Other overheads	(1,106)	(1,148)	(1,103)	0	-4	(1,205)	-8	(2,250)	(2,056)	9
Total expenses	(3,735)	(4,233)	(4,112)	10	-3	(4,354)	(6)	(8,345)	(7,504)	11
EBITDA	983	1,004	1,074	9	7	1,123	-4	2,077	2,126	-2
EBITDA margin (%)	20.8	19.2	20.7	-15 bps	153 bps	20.5	20 bps	19.9	22.1	-215 bps
Other income	231	103	112	-52	9	100	12	214	314	-32
Interest	(200)	(156)	(139)	-31	-11	(164)	-15	(295)	(394)	-25
Depreciation	(243)	(267)	(279)	15	4	(294)	(5)	(546)	(456)	20
EO Items	-	-	-	-	-	-	-	-	-	-
PBT	772	683	768	-1	12	765	0	1,451	1,590	-9
Tax	(166)	(171)	(179)	8	5	(168)	7	(350)	(369)	-5
Adj. PAT	606	512	588	-3	15	597	-1	1,100	1,221	-10
EO Items	-	-	-	-	-	-	-	-	-	-
Reported PAT	606	512	588	-3	15	597	-1	1,100	1,221	-10
EPS (Rs)	12.2	10.3	11.9	-3	15	12.0	-1	22.2	24.6	-10
Costs as a % of sales										
Material cost	42.8	44.0	43.2	37 bps	-81 bps	44.0	-81 bps	43.6	42.0	156 bps
Employee cost	12.9	14.9	14.8	193 bps	-10 bps	13.5	133 bps	14.9	14.5	34 bps
Other overheads	23.4	21.9	21.3	-217 bps	-65 bps	22.0	-74 bps	21.6	21.4	23 bps
Income tax rate (%)	21.5	25.0	23.4	183 bps	-168 bps	22.0	136 bps	24.2	23.2	96 bps

Source: Company, Emkay Research

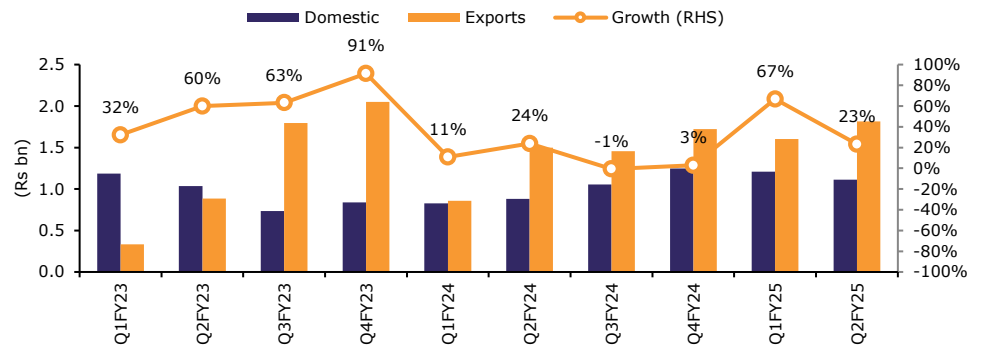
Exhibit 2: Segmental highlights

(Rs mn)	Quarter ended					Full year		
	Q2FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)	H1FY25	H1FY24	YoY (%)
High-Performance Products (HPP)								
Domestic	880	1,208	1,113	27	-8	2,322	1,706	36
Exports	1,498	1,602	1,817	21	13	3,418	2,358	45
Total	2,378	2,810	2,930	23	4	5,740	4,064	41
Specialty Chemicals								
Domestic	967	616	790	-18	28	1,406	1,771	-21
Exports	893	1,004	790	-12	-21	1,794	2,385	-25
Total	1,860	1,620	1,580	-15	-2	3,200	4,156	-23
CDMO								
Domestic	-	130	415		220	544	-	
Exports	480	680	265	-45	-61	946	1,410	-33
Total	480	810	680	42	-16	1,490	1,410	6
Overall Revenue								
Domestic	1,847	1,954	2,318	26	19	4,272	3,477	23
Exports	2,871	3,287	2,872	0	-13	6,158	6,153	0
Total	4,718	5,240	5,190	10	-1	10,430	9,630	8

Source: Company, Emkay Research

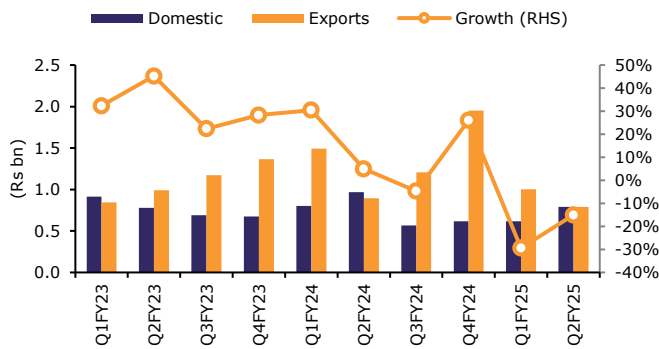
Exhibit 3: HPP revenue was up 23% YoY (+4% QoQ)

All plants running at optimal utilization



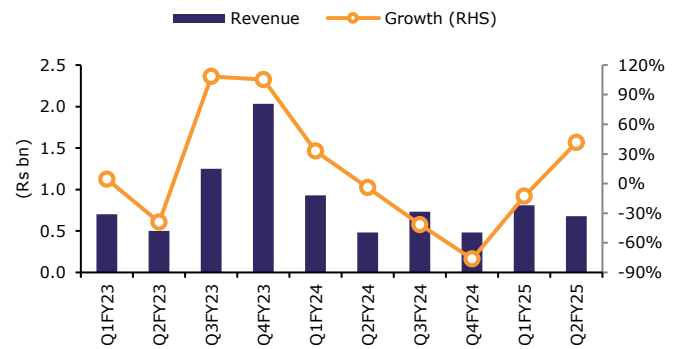
Source: Company, Emkay Research

Exhibit 4: Specialty revenue was down 15% YoY (-2% QoQ)



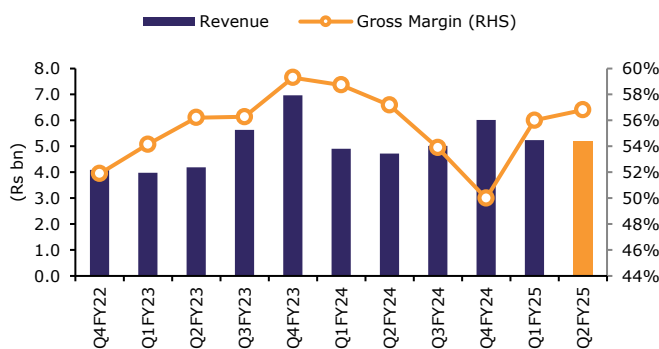
Source: Company, Emkay Research

Exhibit 5: CDMO revenue improved 42% YoY (-16% QoQ)



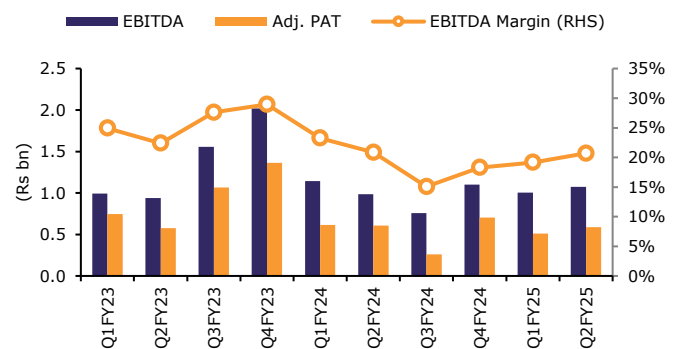
Source: Company, Emkay Research

Exhibit 6: Gross margin declined by 38bps YoY (+80bps QoQ)



Source: Company, Emkay Research

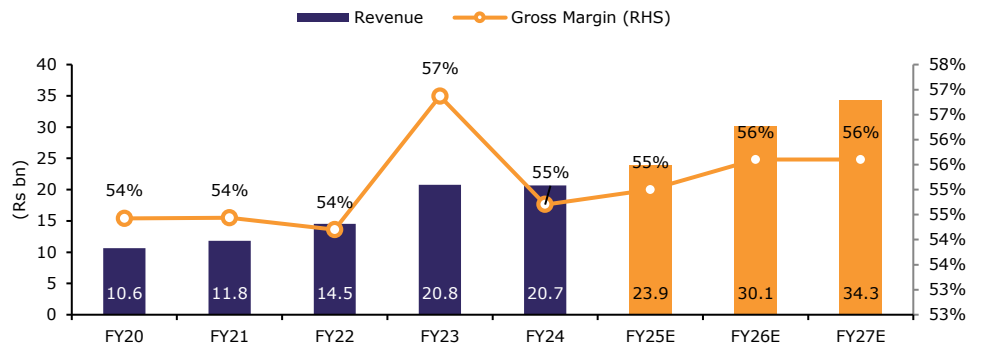
Exhibit 7: EBITDA margin stood at 20.7% (vs 20.8% YoY)



Source: Company, Emkay Research

Exhibit 8: Specialty and CDMO ramp-up to drive 18.5% revenue CAGR over FY24-27E

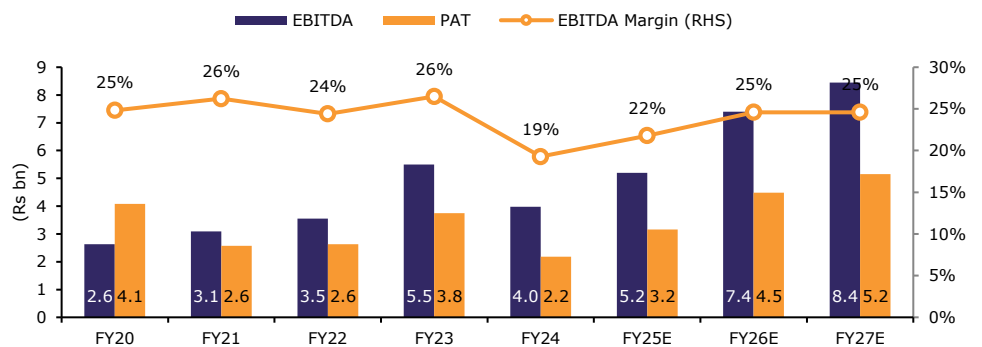
Healthy growth in the specialty chemicals and CDMO businesses, coupled with steady ramp-up in the HPP business to drive incremental revenue (lower base in FY24)



Source: Company, Emkay Research

Exhibit 9: Operating leverage to kick in by FY26/27 on commissioning of newer capacities

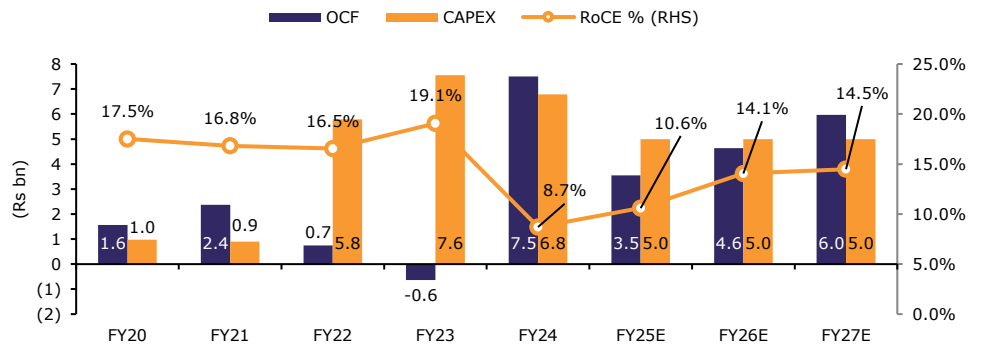
Margin trajectory to improve, considering the higher share of the specialty/CDMO business, as guided by the management



Source: Company, Emkay Research

Exhibit 10: Sustainable operating cash flows to keep RoCE in control post-capex

Healthy OCF generation to be sufficient for funding capex plans



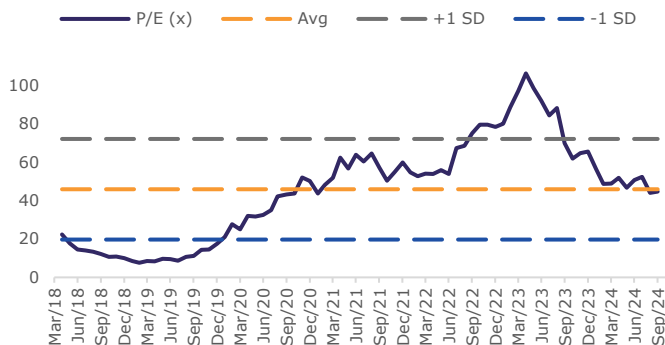
Source: Company, Emkay Research

Exhibit 11: We cut our FY25/26/27E EPS by 9%/3%/3% to factor in weak near-term demand and delay in dedicated plant commissioning

Particulars (Rs mn)	FY25E			FY26E			FY27E		
	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)
Revenue	23,851	25,062	-5	30,092	30,828	-2	34,321	35,058	-2
EBITDA	5,199	5,714	-9	7,403	7,584	-2	8,443	8,624	-2
EBITDA margin (%)	21.8	22.8	-101 bps	24.6	24.6	-1 bps	24.6	24.6	0 bps
PAT	3,164	3,488	-9	4,487	4,625	-3	5,151	5,290	-3
EPS (Rs)	63.9	70.4	-9	90.5	93.3	-3	104.0	106.8	-3

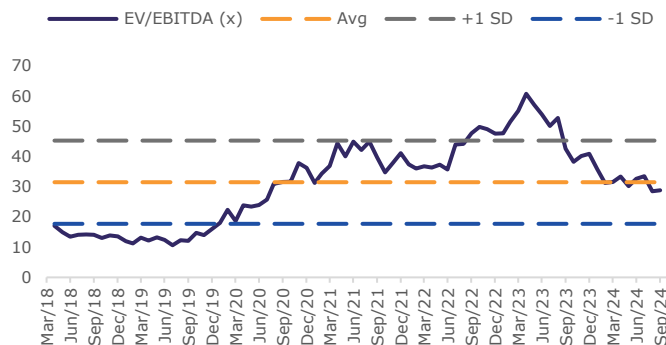
Source: Emkay Research

Exhibit 12: One-year forward P/E



Source: Bloomberg, Emkay Research

Exhibit 13: One-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Navin Fluorine: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	20,774	20,650	23,851	30,092	34,321
Revenue growth (%)	42.9	(0.6)	15.5	26.2	14.1
EBITDA	5,503	3,983	5,199	7,403	8,443
EBITDA growth (%)	55.1	(27.6)	30.5	42.4	14.1
Depreciation & Amortization	626	962	1,105	1,608	1,849
EBIT	4,877	3,021	4,095	5,795	6,594
EBIT growth (%)	58.9	(38.0)	35.5	41.5	13.8
Other operating income	0	0	0	0	0
Other income	357	559	614	676	743
Financial expense	275	746	653	718	734
PBT	4,959	2,834	4,056	5,752	6,604
Extraordinary items	0	0	0	0	0
Taxes	1,207	650	892	1,265	1,453
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	3,752	2,705	3,164	4,487	5,151
PAT growth (%)	42.6	(27.9)	17.0	41.8	14.8
Adjusted PAT	3,752	2,184	3,164	4,487	5,151
Diluted EPS (Rs)	75.7	54.6	63.9	90.5	104.0
Diluted EPS growth (%)	42.5	(27.9)	17.0	41.8	14.8
DPS (Rs)	11.0	15.0	16.4	12.8	18.1
Dividend payout (%)	14.5	27.5	25.6	14.1	17.4
EBITDA margin (%)	26.5	19.3	21.8	24.6	24.6
EBIT margin (%)	23.5	14.6	17.2	19.3	19.2
Effective tax rate (%)	24.3	22.9	22.0	22.0	22.0
NOPLAT (pre-IndAS)	3,690	2,328	3,194	4,520	5,143
Shares outstanding (mn)	49.6	49.6	49.6	49.6	49.6

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	4,959	2,834	4,056	5,752	6,604
Others (non-cash items)	0	0	0	0	0
Taxes paid	(1,098)	(343)	(874)	(1,229)	(1,428)
Change in NWC	(5,057)	(379)	3,240	(1,504)	(1,019)
Operating cash flow	(636)	7,499	3,547	4,633	5,971
Capital expenditure	(6,900)	(7,585)	(5,000)	(5,000)	(5,000)
Acquisition of business	34	40	0	0	0
Interest & dividend income	79	100	120	0	0
Investing cash flow	(6,556)	(10,935)	(386)	(4,324)	(4,257)
Equity raised/(repaid)	17	0	0	0	0
Debt raised/(repaid)	7,279	4,913	(1,782)	714	(205)
Payment of lease liabilities	14	14	14	0	0
Interest paid	(275)	(746)	(653)	(718)	(734)
Dividend paid (incl tax)	(543)	(745)	(812)	(633)	(897)
Others	101	(65)	0	0	0
Financing cash flow	6,579	3,357	(3,246)	(637)	(1,835)
Net chg in Cash	(613)	(78)	(85)	(329)	(121)
OCF	(636)	7,499	3,547	4,633	5,971
Adj. OCF (w/o NWC chg.)	(5,692)	7,120	6,787	3,129	4,952
FCFF	(7,536)	(86)	(1,453)	(367)	971
FCFE	(7,732)	(732)	(1,985)	(1,085)	0
OCF/EBITDA (%)	(11.6)	188.3	68.2	62.6	70.7
FCFE/PAT (%)	(206.1)	(27.1)	(62.7)	(24.2)	0.0
FCFF/NOPLAT (%)	(204.2)	(3.7)	(45.5)	(8.1)	18.9

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	99	99	99	99	99
Reserves & Surplus	21,750	23,728	26,080	29,934	34,188
Net worth	21,850	23,827	26,179	30,033	34,287
Minority interests	0	0	0	0	0
Deferred tax liability (net)	348	643	643	643	643
Total debt	8,487	13,399	11,617	12,331	12,126
Total liabilities & equity	30,684	37,869	38,440	43,007	47,057
Net tangible fixed assets	6,291	6,539	6,748	322	0
Net intangible assets	15	31	31	5	0
Net ROU assets	40	12	12	0	0
Capital WIP	2,786	7,111	4,000	1,000	1,000
Goodwill	878	878	878	878	878
Investments [JV/Associates]	633	593	593	593	593
Cash & equivalents	348	275	191	(138)	(259)
Current assets (ex-cash)	15,584	17,550	13,616	16,353	18,209
Current Liab. & Prov.	4,609	5,901	5,207	6,440	7,276
NWC (ex-cash)	10,974	11,649	8,409	9,913	10,932
Total assets	30,683	37,869	38,440	43,007	47,057
Net debt	8,138	13,124	11,427	12,469	12,385
Capital employed	30,684	37,869	38,440	43,007	47,057
Invested capital	26,917	29,890	33,656	41,552	45,723
BVPS (Rs)	441.0	480.9	528.3	606.1	692.0
Net Debt/Equity (x)	0.4	0.6	0.4	0.4	0.4
Net Debt/EBITDA (x)	1.5	3.3	2.2	1.7	1.5
Interest coverage (x)	0.1	0.2	0.1	0.1	0.1
RoCE (%)	20.7	10.4	12.3	15.9	16.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	43.7	75.0	51.8	36.5	31.8
P/CE(x)	37.4	52.1	38.4	26.9	23.4
P/B (x)	7.5	6.9	6.3	5.5	4.8
EV/Sales (x)	8.3	8.6	7.4	5.9	5.1
EV/EBITDA (x)	31.3	44.4	33.7	23.8	20.9
EV/EBIT(x)	35.3	58.6	42.8	30.4	26.7
EV/IC (x)	6.4	5.9	5.2	4.2	3.9
FCFF yield (%)	(4.4)	0.0	(0.8)	(0.2)	0.6
FCFE yield (%)	(4.7)	(0.4)	(1.2)	(0.7)	0.0
Dividend yield (%)	0.3	0.5	0.5	0.4	0.5
DuPont-RoE split					
Net profit margin (%)	18.1	10.6	13.3	14.9	15.0
Total asset turnover (x)	0.8	0.6	0.6	0.7	0.8
Assets/Equity (x)	1.3	1.5	1.5	1.4	1.4
RoE (%)	18.6	9.6	12.7	16.0	16.0
DuPont-RoIC					
NOPLAT margin (%)	17.8	11.3	13.4	15.0	15.0
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	19.6	8.2	10.1	12.0	11.8
Operating metrics					
Core NWC days	192.8	205.9	128.7	120.2	116.3
Total NWC days	192.8	205.9	128.7	120.2	116.3
Fixed asset turnover	1.7	1.0	0.9	0.9	0.9
Opex-to-revenue (%)	30.4	35.4	33.2	31.0	31.0

Source: Company, Emkay Research

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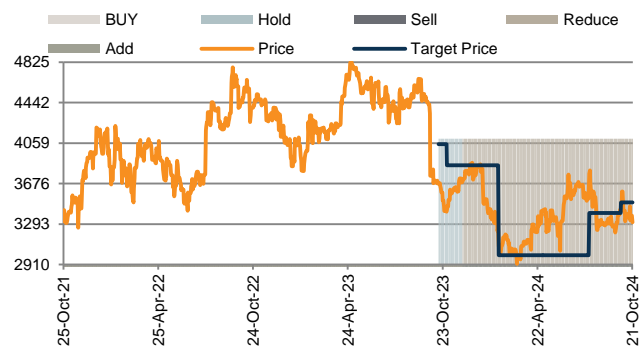
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
29-Sep-24	3,429	3,500	Reduce	Meet Vora
27-Aug-24	3,290	3,400	Reduce	Meet Vora
30-Jul-24	3,771	3,400	Reduce	Meet Vora
14-Jul-24	3,657	3,000	Reduce	Meet Vora
07-Jun-24	3,323	3,000	Reduce	Meet Vora
08-May-24	3,405	3,000	Reduce	Meet Vora
07-Apr-24	3,142	3,000	Reduce	Meet Vora
26-Feb-24	3,103	3,000	Reduce	Meet Vora
07-Feb-24	3,087	3,000	Reduce	Meet Vora
30-Nov-23	3,694	3,850	Reduce	Meet Vora
22-Nov-23	3,604	3,850	Hold	Meet Vora
31-Oct-23	3,424	3,850	Hold	Meet Vora
15-Oct-23	3,676	4,050	Hold	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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