

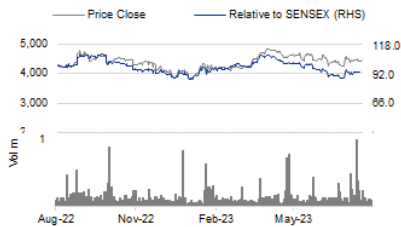
India

HOLD (no change)

Consensus ratings*: Buy 21 Hold 4 Sell 2

Current price:	Rs4,415
Target price: ▲	Rs4,655
Previous target:	Rs3,476
Up/downside:	5.4%
InCred Research / Consensus:	-8.2%
Reuters:	NAFL.NS
Bloomberg:	NFIL IN
Market cap:	US\$2,634m Rs218,874m
Average daily turnover:	US\$9.0m Rs745.4m
Current shares o/s:	49.6m
Free float:	73.7%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.3)	(3.1)	2.8
Relative (%)	1.3	(7.9)	(5.6)

Major shareholders	% held
Promoter & Promoter Group	26.3
Goldman Sachs Group Inc	3.5
Axis Asset Management Co Ltd	3.2

Analyst(s)



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Navin Fluorine International Ltd

Solid business, but growth hiccups in FY24F

- Most competitors of NFIL are the suppliers of agrochemical intermediates. However, NFIL has diversified into pharma & other specialty chemicals.
- While innovation continues at NFIL, near-term headwinds are emerging in R-22 and agrochem intermediates (40% of FY23 exports).
- We like NFIL's business but due to near-term headwinds, we have cut our EPS for FY24F to Rs74.2. Retain HOLD rating with a higher TP of Rs4,655.

Business remains strong - new clients & molecules coming through

Navin Fluorine International (NFIL) has one of the strongest businesses within the Indian chemicals landscape. While most Indian companies are suppliers of agrochemical intermediates, NFIL has successfully diversified itself into pharmaceuticals as well as other specialty chemicals. In the past few years, NFIL has acquired new customers like LEK Pharmaceuticals, Janseen Pharmaceuticals, AMPAC Fine Chemicals, etc. There are multiple new chemicals as well which are being sold by NFIL in reasonable quantities. Some of them are 1) HFO-1234, 2) 3,3-difluorocyclobutylamine hydrochloride, 3) 3-(3,3,3-trifluoro-2,2-dimethylpropoxy), 4) 3-hydroxy-4-methoxypicolinic acid, and 5) fluoro benzamide etc. Most of these chemicals have multiple usage and are actively used in pharmaceutical development as well (we have given the details on these molecules in this report).

Near-term headwinds emerge from R-22 & agrochem intermediates

R-22 sales to distributors and agrochemical intermediate sales to Corteva + Bayer still form a significant portion of NFIL's overall exports (40% of the overall exports in FY23). While a cyclical downturn is hitting R-22 as its prices and spreads are falling from their 4QFY23 peak levels, at the same time, high channel inventory is hitting the sales of agrochemicals. The recent commentary from global majors like Bayer, Corteva, FMC & UPL indicate the same. The exports of agrochemical intermediates are likely to decline YoY in FY24F, and R-22 will also be a drag on the company's profitability.

We value NFIL at 55x FY25F EPS to arrive at a higher TP of Rs4,655

NFIL has consistently traded above 60x its one-year forward EPS in the recent past. While the lack of earnings growth may lead to some derating but given the strength of the business and proven innovation trajectory, we don't feel it can still go below 50x. We have valued the stock at 55x FY25F EPS to arrive at a higher target price of Rs4,655 from Rs3,476 earlier. We have retained our HOLD rating on the stock. Any recovery in the global agrochemicals market poses an upside risk to our EPS estimates but if the slowdown accentuates further, then our EPS estimates may need a downward revision.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	14,587	20,774	22,851	25,822	28,921
Operating EBITDA (Rsm)	3,602	5,503	6,173	7,156	8,042
Net Profit (Rsm)	2,684	3,752	3,675	4,194	4,639
Core EPS (Rs)	54.2	75.7	74.2	84.6	93.6
Core EPS Growth	13.6%	39.8%	(2.1%)	14.1%	10.6%
FD Core P/E (x)	81.49	58.30	59.53	52.16	47.15
DPS (Rs)	7.0	9.7	9.5	10.9	0.0
Dividend Yield	0.16%	0.22%	0.22%	0.25%	0.00%
EV/EBITDA (x)	60.43	41.06	35.51	30.64	27.08
P/FCFE (x)	(338,627.45)	54.87	66.79	281.14	120.07
Net Gearing	(5.2%)	35.8%	2.5%	2.4%	(2.5%)
P/BV (x)	11.86	10.01	8.73	7.62	6.56
ROE	15.4%	18.6%	15.7%	15.6%	15.0%
% Change In Core EPS Estimates			(0.22%)		
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Solid business, but growth hiccups in FY24F

Exports have become larger and diversified for NFIL

Figure 1: There is seasonality in export growth, but overall exports have only increased over the last few quarters



Export relationship with existing customers seem to be becoming stronger...➤

The above statement indicates NFIL's rising sales to big customers like Bayer, Honeywell and even Lek Pharmaceuticals.

Figure 2: Bayer is an old client of NFIL; sales have remained strong, but FY24 is likely to be soft

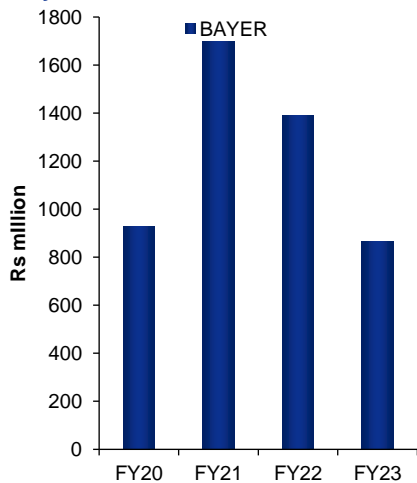


Figure 3: Sales to Honeywell are growing exponentially

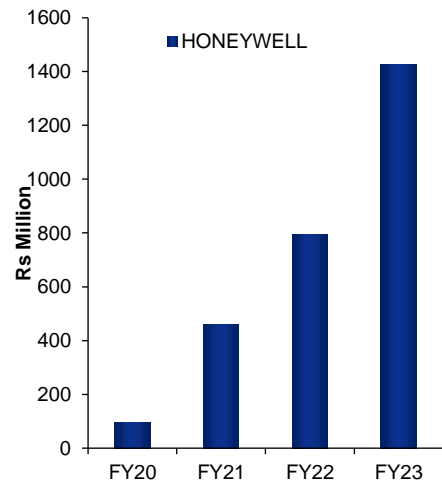
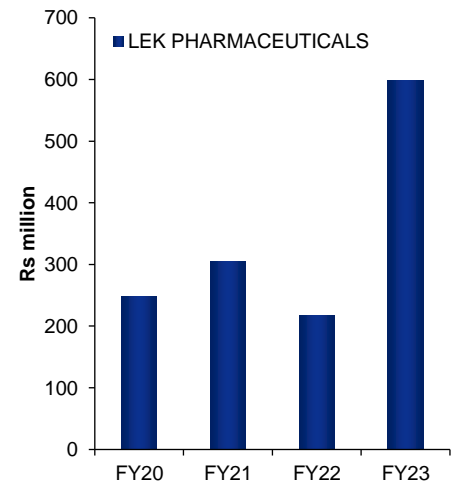
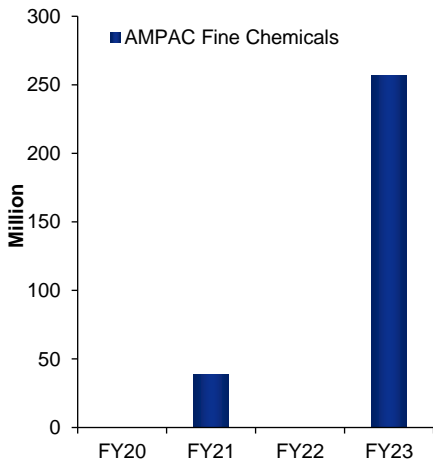


Figure 4: For Lek Pharmaceuticals, NFIL makes cystic fibrosis drug intermediate



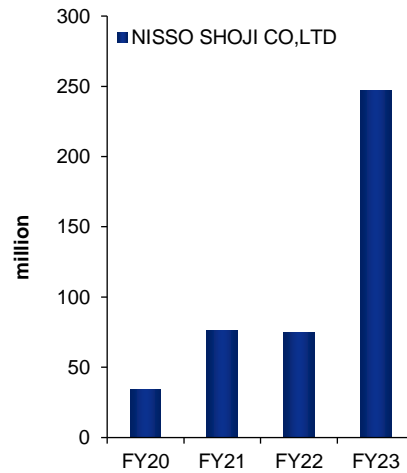
...and it is adding new customers as well...➤

Figure 5: AMPAC is a new customer – the company specializes in food additives, agriculture materials, and specialty chemicals



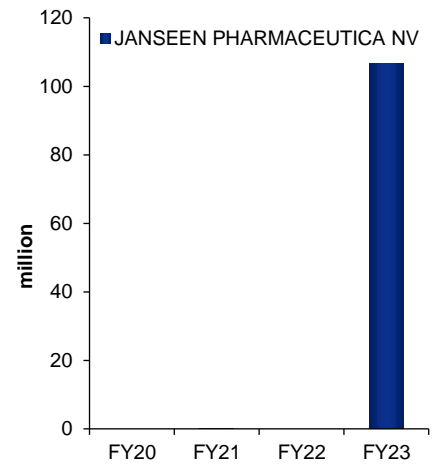
SOURCE: INCRED RESEARCH, [HTTPS://AMPACFINECHEMICALS.COM/](https://ampacfinechemicals.com/)

Figure 6: Nisso Shoji is a chemical trading company; NFIL's growing relationship with this company is good for its growth



SOURCE: INCRED RESEARCH, [HTTPS://WWW.NISSOSHOJI.COM/EN/](https://www.nissoshoji.com/en/)

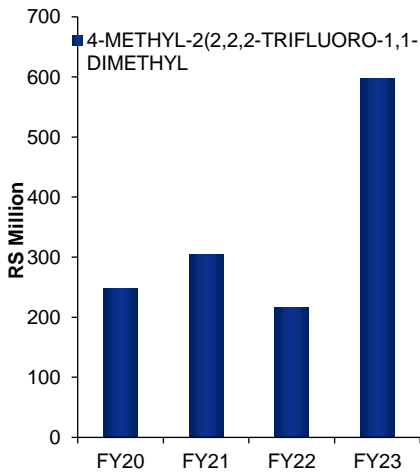
Figure 7: Janssen, a new customer, is pharmaceutical research company



SOURCE: INCRED RESEARCH, [HTTPS://WWW.JANSSSEN.COM/ABOUT](https://www.janssen.com/about)

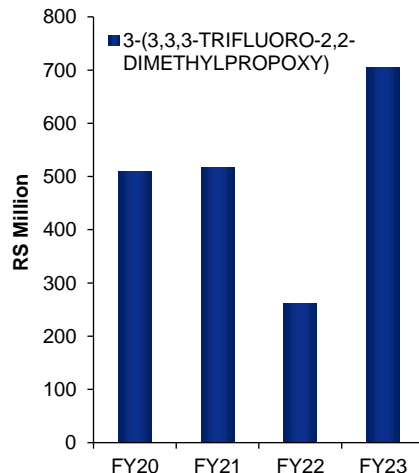
...and new molecules are becoming bigger ➤

Figure 8: 4-methyl-2-(1,1,1-trifluoro-2-methylpropan-2-yl)pyridine is used in oncology and other chemical applications



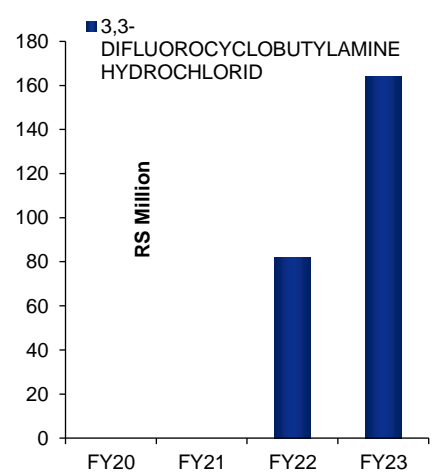
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: 3-(3,3,3-trifluoro-2,2-dimethylprooxy) is used in oncology and other treatments



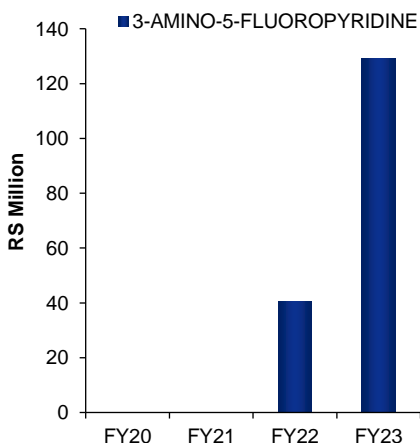
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: 3,3-difluorocyclobutanamine-hcl has various chemical applications



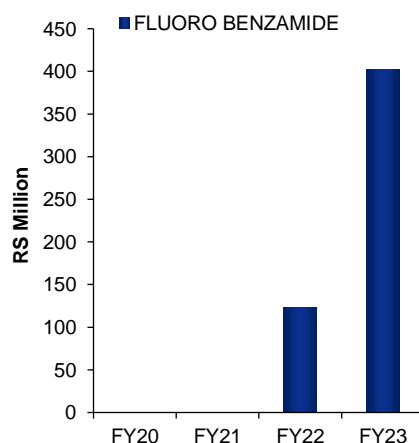
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: 3-amino-5-fluoropyridine is used in multiple applications



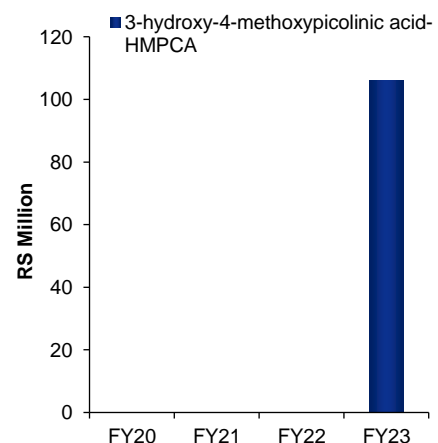
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 12: Fluorobenzamide - principal usage in anticonvulsant drug



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 13: 3-hydroxy-4-methoxypicolinic acid is used in agrochemicals



SOURCE: COMPANY REPORTS, INCRED RESEARCH

The key usage of these molecules is mostly in pharmaceuticals ►

4-methyl-2-(1,1,1-trifluoro-2-methylpropan-2-yl)pyridine - Oncology research

1. The chemical name of the compound 4-methyl-2(2,2,2-Trifluoro-1,1-dimethyl) is 4-methyl-2-(1,1,1-trifluoro-2-methylpropan-2-yl)pyridine. It is a derivative of pyridine, which is a heterocyclic aromatic compound with a nitrogen atom at the centre of the ring. The compound is a colourless liquid with a boiling point of 108-110 °C. It is soluble in water and organic solvents.
2. The compound is used as a starting material for the synthesis of other chemicals, and it has also been shown to have some biological activity.
3. Compound 4-methyl-2-(1,1,1-trifluoro-2-methylpropan-2-yl) pyridine is not currently used as a drug. However, it is being investigated for its potential use as a treatment for cancer and other diseases.

3-(3,3,3-trifluoro-2,2-dimethylpropoxy)- Oncology research

1. The chemical name 3-(3,3,3-trifluoro-2,2-dimethylpropoxy) refers to a functional group that is a combination of a 3-pyrazole ring and a 3,3,3-trifluoro-2,2-dimethylpropoxy group. The pyrazole ring is a heterocyclic aromatic compound with a nitrogen atom at the centre of the ring. The 3,3,3-trifluoro-2,2-dimethylpropoxy group is a branched alkyl group that contains a fluorine atom, three methyl groups, and a propane chain.
2. The compound is a colourless liquid with a boiling point of 110-112 °C. It is soluble in water and organic solvents. The compound is used as a starting material for the synthesis of other chemicals, and it has also been shown to have some biological activity.
3. The compound 3-(3,3,3-trifluoro-2,2-dimethylpropoxy) is not currently used as a drug. However, it is being investigated for its potential use as a treatment for cancer and other diseases.

3,3-Difluorocyclobutanamine hydrochloride

1. 3,3-Difluorocyclobutanamine hydrochloride is an organic compound with the formula C₄H₄ClF₂N. It is a colourless, hygroscopic solid with a strong ammoniacal odour. It is an intermediate in organic synthesis and a pharmaceutical intermediate.
2. Here are some of the uses of 3,3-difluorocyclobutanamine hydrochloride:
 - a. As an intermediate in the synthesis of other chemicals, such as pharmaceuticals and pesticides.
 - b. As a precursor to the synthesis of polymers.
 - c. As a reagent in organic chemistry.

3-amino-5-fluoropyridine

1. 3-amino-5-fluoropyridine is a versatile compound with a variety of applications. It is used as an intermediate in the synthesis of other chemicals, such as pharmaceuticals and pesticides. It is also used as a reagent in organic chemistry.
2. Here are some of the specific uses of 3-amino-5-fluoropyridine:
 - a. As an intermediate in the synthesis of the anticonvulsant drug, felbamate.
 - b. As an intermediate in the synthesis of the herbicide, glyphosate.
 - c. As a reagent in the synthesis of new materials, such as polymers and semiconductors.
 - d. As a catalyst in chemical reactions.

Fluorobenzamide

Fluorobenzamide is used as an intermediate in the synthesis of other chemicals, such as pharmaceuticals and pesticides. It is also used as a reagent in organic chemistry. Here are some of the specific uses of fluorobenzamide:

- a. As an intermediate in the synthesis of the anticonvulsant drug, felbamate.
- b. As an intermediate in the synthesis of the herbicide, glyphosate.
- c. As a reagent in the synthesis of new materials, such as polymers and semiconductors.
- d. As a catalyst in chemical reactions.

3-hydroxy-4-methoxypicolinic acid-HMCPA

3-hydroxy-4-methoxypicolinic acid, also known as HMPCA, is an organic compound with the formula $C_7H_7NO_3$. It is a derivative of picolinic acid, with a hydroxyl group and a methoxy group attached to the benzene ring.

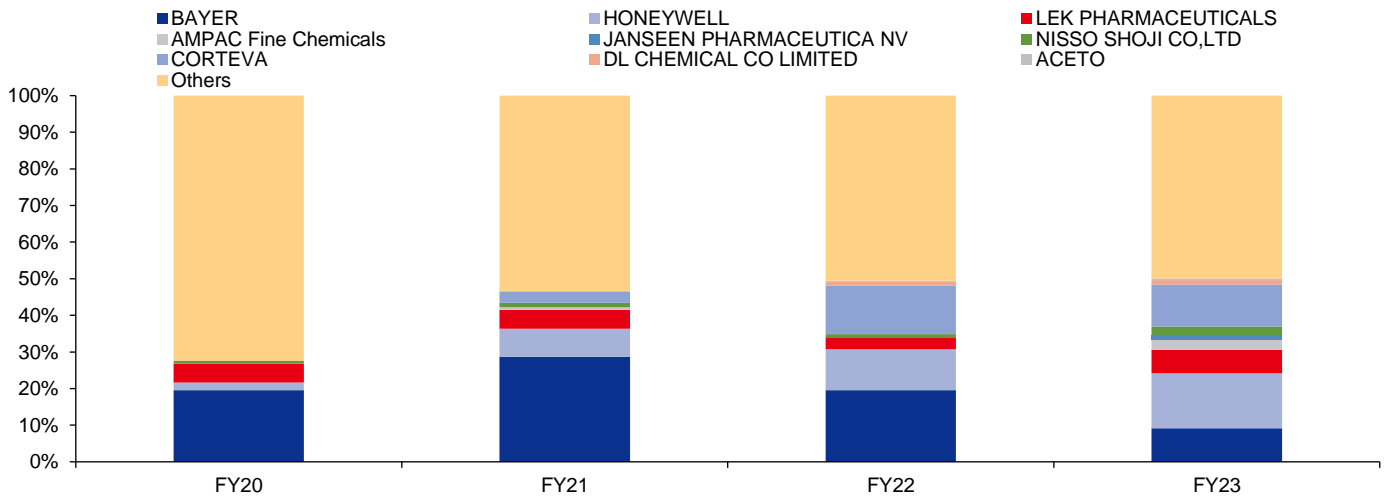
HMPCA is a versatile compound with a variety of applications. It is used as an intermediate in the synthesis of other chemicals, such as pharmaceuticals and pesticides. It is also used as a reagent in organic chemistry.

FY24F to face growth challenges

FY24F is likely to face growth challenges as Bayer and other agrochemical makers face inventory headwinds in the supply chain. Channel destocking will lead to lower production and hence, demand for agrochemical intermediates is likely to come down. We expect exports to Bayer as well as domestic business to see a decline in FY24F. Weakness in R-22 prices is another headwind for the company.

Bayer and Corteva are still the major customers of NFIL... ➤

Figure 14: Bayer and Corteva accounted for more than 20% of NFIL's export sales in FY23



SOURCE: INCRED RESEARCH, COMPANY REPORTS

...and both these companies have given guidance of muted growth in 2023F ➤

Figure 15: Bayer has given guidance of slower growth

Core Business Growth Still Strong in Revised FY23 Outlook; Glyphosate Sales to Normalize to 2020 Levels (updated Aug 2023)



	Sales Growth ¹ (cpa)	EBITDA Margin ¹ (before special items)
Crop Science FY 2023 Outlook (revised Aug 2023)	~ -5%	~ 21%

Key Assumptions

Sales

- **Core Business** expected to grow **5-to-7%**, or more than €1.0bn. Corn is expected to be the leading contributor with double-digit sales growth mainly driven by price, while insecticides and fungicides are expected to accelerate in LATAM in HY2, recovering from unusually low volumes in prior year due to drought conditions.
- **Glyphosate-based herbicide** sales expected to decline by roughly half, or more than €2.3bn, normalizing back to 2020 levels.

EBITDA

- Strong pricing in the core business and cost savings more than offset by glyphosate pricing declines and incremental inflation

¹ Reflects our 2023 plan at the average actual currencies for 2022; not incl. portfolio effect of ~ -€0.4bn in net sales; Sales growth rates in Key Assumptions cpa = currency and portfolio adjusted. Core business refers to Crop Science business excl. glyphosate-based herbicides.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Corteva is also projecting a bleak supply chain scenario

Crop Protection Market Environment

- Change in channel order timing in second quarter given industry-wide destocking trends
- Farmer demand continues to be healthy overall, with Latin America orders shifting back to pre-2022 pattern
- Corteva well-positioned in addressable⁽¹⁾ CP market expected to grow low-single digits at the farm gate

Market Dynamic

- **Elevated inventory levels** at channel and farm to start the season given accelerated demand in prior season due to supply concerns and drought conditions in LATAM
- **Higher interest rates** / increased carrying costs and **improved product availability** led to pullback in orders across the industry during Q2 (U.S.) and closer to historical 1H / 2H split in Brazil
- Healthy grower income levels favor investment in current crop where on-farm value drives product decisions with **just-in-time approach**

Corteva Position

- In North America, market data indicates **Corteva performing above the market** despite slower start to on-farm applications relative to 2022
- In Latin America, based on market data **Corteva gained market share during 2022 / 2023 season in Brazil**
- Latin America **order progression** through June is **closer to pre-2022 averages**
- **Immaterial impacts from glyphosate market declines** due to strong execution on strategic exit in 2022/2023

Current Environment Factored into Revised FY23 Guidance

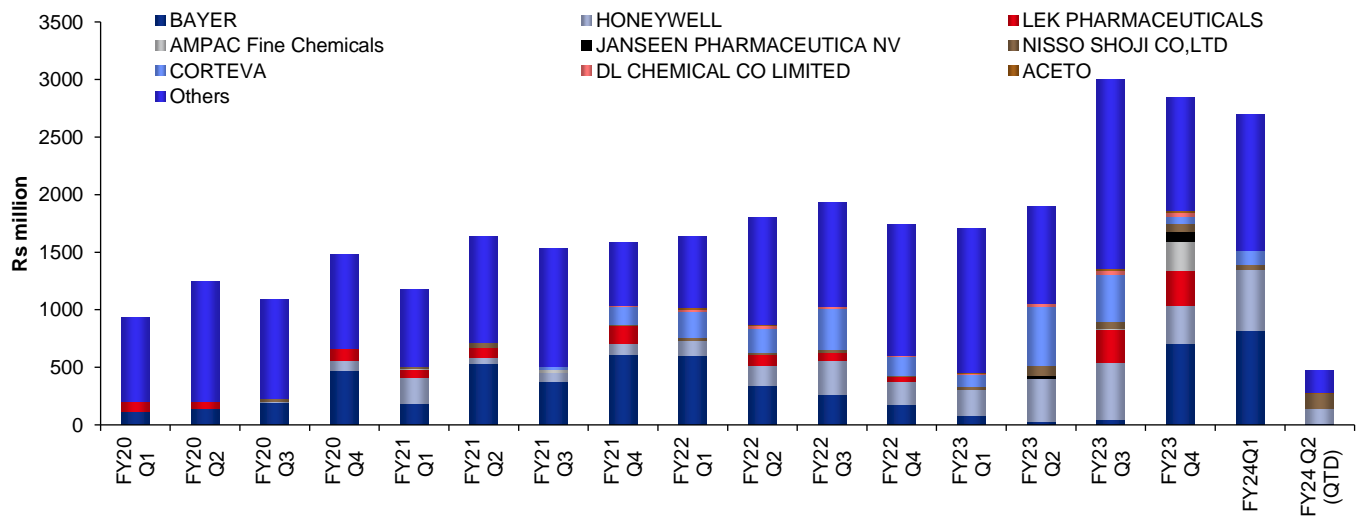


(1) Corteva addressable market excludes glyphosate, Russia, and Belarus.

SOURCE: INCRED RESEARCH, CORTEVA INVESTOR PRESENTATION

YTD FY24 has not been good for NFIL vis-à-vis exports to Corteva and Bayer ➤

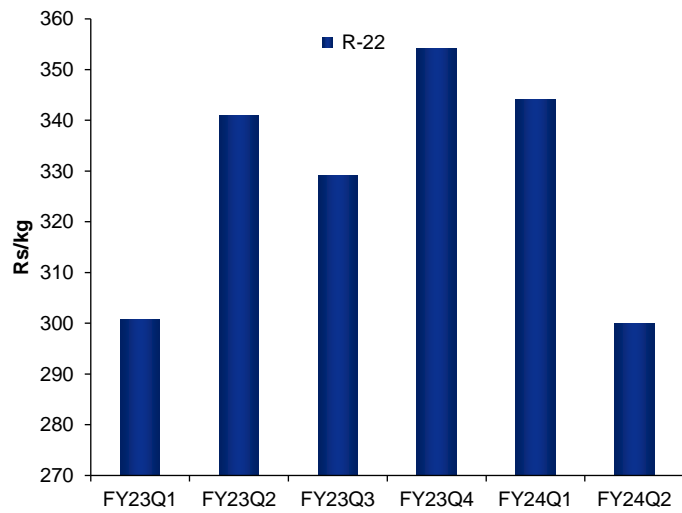
Figure 17: Exports to Bayer and Corteva are trending downwards YoY



SOURCE: INCRED RESEARCH, COMPANY REPORTS

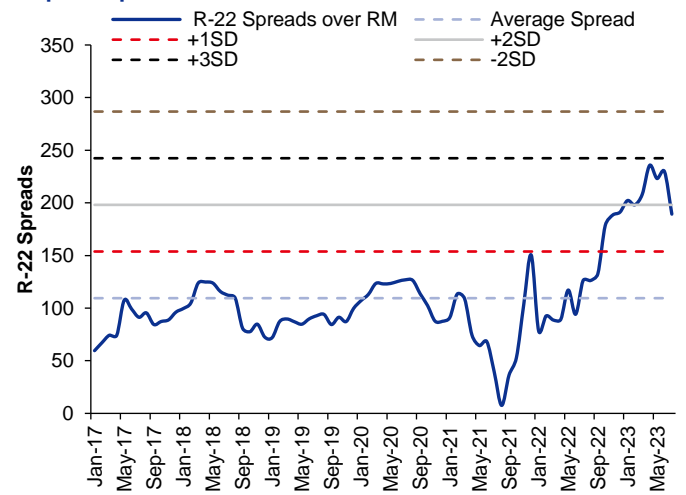
R-22, another major export item, is also witnessing a decline in pricing as well as spreads

Figure 18: R-22 prices are down QoQ...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: ...and the fall in raw material prices, if any, will not help the spreads



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Stock may underperform in the near term

The near-term earnings disappointment may keep stock performance in check. Our EPS estimates are lower than consensus estimates but we believe that given the strong business fundamentals, NFIL can keep trading at a higher P/E.

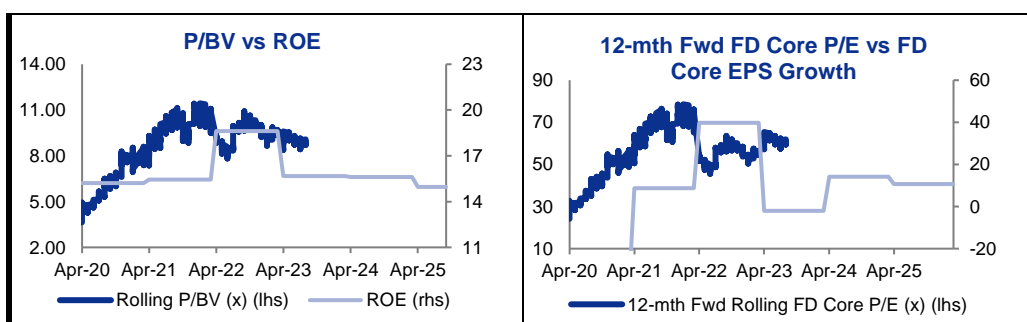
We value the stock at 55x FY25F EPS to arrive at our higher target price of Rs4,655

Figure 20: We value the stock at 55x FY25F EPS to arrive at our higher target price of Rs4,655



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	14,587	20,774	22,851	25,822	28,921
Gross Profit	7,931	11,814	12,431	14,047	15,733
Operating EBITDA	3,602	5,503	6,173	7,156	8,042
Depreciation And Amortisation	(479)	(626)	(1,220)	(1,535)	(1,851)
Operating EBIT	3,123	4,877	4,953	5,621	6,192
Financial Income/(Expense)	(19)	(275)	(301)	(301)	(310)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	392	357	205	223	250
Profit Before Tax (pre-EI)	3,496	4,959	4,857	5,543	6,132
Exceptional Items					
Pre-tax Profit	3,496	4,959	4,857	5,543	6,132
Taxation	(812)	(1,207)	(1,182)	(1,349)	(1,492)
Exceptional Income - post-tax					
Profit After Tax	2,684	3,752	3,675	4,194	4,639
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,684	3,752	3,675	4,194	4,639
Recurring Net Profit	2,684	3,752	3,675	4,194	4,639
Fully Diluted Recurring Net Profit	2,684	3,752	3,675	4,194	4,639

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	3,602	5,503	6,173	7,156	8,042
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,104)	(4,970)	2,686	(1,273)	(993)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(308)	(610)	834	21	15
Other Operating Cashflow	358	633	507	524	560
Net Interest (Paid)/Received	(19)	(275)	(301)	(301)	(310)
Tax Paid	(781)	(1,207)	(1,182)	(1,349)	(1,492)
Cashflow From Operations	748	(927)	8,716	4,778	5,822
Capex	(5,789)	(2,755)	(5,214)	(4,000)	(4,000)
Disposals Of FAs/subsidiaries	31				
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	4,035	227	(227)		
Cash Flow From Investing	(1,724)	(2,529)	(5,441)	(4,000)	(4,000)
Debt Raised/(repaid)	975	7,442			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(542)	(482)	(472)	(538)	
Preferred Dividends					
Other Financing Cashflow	(19)	(275)	(301)	(301)	(310)
Cash Flow From Financing	415	6,685	(773)	(840)	(310)
Total Cash Generated	(561)	3,230	2,502	(62)	1,512
Free Cashflow To Equity	(1)	3,987	3,275	778	1,822
Free Cashflow To Firm	(957)	(3,180)	3,577	1,080	2,132

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	2,000	659	7,869	7,807	9,319
Total Debtors	3,577	5,615	5,603	6,331	7,091
Inventories	2,575	4,681	3,381	3,820	4,279
Total Other Current Assets	2,416	3,706	2,816	2,960	3,110
Total Current Assets	10,568	14,662	19,669	20,919	23,799
Fixed Assets	11,729	13,858	17,852	20,316	22,466
Total Investments	139	644	139	139	139
Intangible Assets	878	878	878	878	878
Total Other Non-Current Assets	541	1,275	528	521	521
Total Non-current Assets	13,287	16,654	19,396	21,854	24,003
Short-term Debt	45	955	955	955	955
Current Portion of Long-Term Debt					
Total Creditors	1,465	2,435	2,379	2,688	3,011
Other Current Liabilities	2,329	1,825	2,363	2,092	2,145
Total Current Liabilities	3,839	5,215	5,698	5,736	6,111
Total Long-term Debt	1,000	7,531	7,531	7,531	7,531
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	235	199	235	235	235
Total Non-current Liabilities	1,235	7,730	7,767	7,767	7,767
Total Provisions	338	498	549	563	578
Total Liabilities	5,413	13,443	14,013	14,065	14,455
Shareholders Equity	18,442	21,850	25,052	28,708	33,347
Minority Interests					
Total Equity	18,442	21,850	25,052	28,708	33,347

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	23.7%	42.4%	10.0%	13.0%	12.0%
Operating EBITDA Growth	16.5%	52.8%	12.2%	15.9%	12.4%
Operating EBITDA Margin	24.7%	26.5%	27.0%	27.7%	27.8%
Net Cash Per Share (Rs)	19.28	(157.97)	(12.46)	(13.71)	16.81
BVPS (Rs)	372.19	440.96	505.60	579.37	673.00
Gross Interest Cover	164.35	17.72	16.43	18.65	19.97
Effective Tax Rate	23.2%	24.3%	24.3%	24.3%	24.3%
Net Dividend Payout Ratio	12.8%	12.8%	12.8%	12.8%	
Accounts Receivables Days	80.29	80.75	89.59	84.35	84.70
Inventory Days	120.06	147.80	141.20	111.61	112.08
Accounts Payables Days	69.63	79.44	84.31	78.54	78.87
ROIC (%)	22.7%	20.6%	14.6%	16.2%	15.6%
ROCE (%)	17.2%	19.4%	15.3%	15.7%	15.5%
Return On Average Assets	12.6%	14.4%	11.1%	10.8%	10.8%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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