

1QFY21 Result Update

Gujarat Fluorochemicals

Mix changing towards specialty chemicals...

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Ranjit Cirumalla
Research Analyst
ranjit.cirumalla@bksec.com
+91-22-40317127

Parth Adhiya
Research Analyst
parth.adhiya@bksec.com
+91-22-40317167

Sanket Kabra
Research Analyst
sanket.kabra@bksec.com
+91-22-40317130

CMP (Rs): 402.5

Market cap. (Rs bn): 44.2

Target price (Rs): 550

Upgrade to BUY

First Cut Feel of the Results

- Consolidated Sales/EBITDA/PAT declined by 24.3%/17.7%/11.9% to Rs 5.6 bn/Rs 1.6 bn/Rs 702 mn. Standalone Sales/EBITDA/PAT declined by 24.3%/19.8%/15.6% to Rs 5.6 bn/Rs 1.5 bn/Rs 669 mn.
- While revenues across most segments declined, value-added products viz. Fluoropolymers and Fluorospeciality Chemicals reported strong growth of 36.2% and 37.0% to Rs 640 mn and Rs 630 mn, respectively.
- Revenues from Caustic Soda, Chloromethane, PTFE and Refrigerant declined by 47.9%, 22.0%, 30.4% and 35.4% YoY, respectively.
- Promoter shareholding remained unchanged at 68.4%.

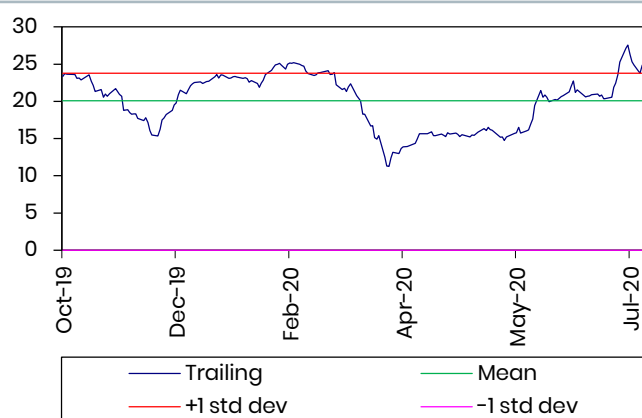
Financial highlights

(Rs mn)	1QFY20	1QFY21	YoY (%)	4QFY20	QoQ (%)
Net sales	7,401	5,600	(24.3)	6,327	(11.5)
EBITDA	1,902	1,565	(17.7)	281	456.4
EBITDA margin (%)	25.7	28.0	-	4.4	-
Other income	29	270	819.4	1,728	(84.4)
Interest	193	335	73.3	330	1.4
Depreciation	471	497	5.5	493	1.0
PBT	1,267	1,003	(20.8)	1,187	(15.4)
Tax	146	302	106.9	931	(67.6)
Tax rate (%)	11.5	30.0	-	78.4	-
PAT	1,121	702	(37.4)	256	174.3
Adjusted PAT	797	702	(11.9)	468	50.0
Adjusted EPS (Rs)	7.3	6.4	(11.9)	4.3	50.0

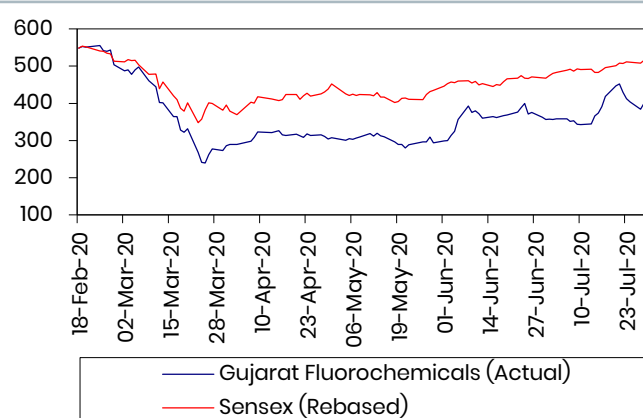
Key variables

	Improvement on (%)		
	B&K est.	Consensus	
Net Sales	(3.7)	-	
EBITDA	7.0	-	
Adjusted PAT	35.2	-	
	FY21E	FY22E	FY23E
Valuations			
PER (x)	18.5	13.5	9.5
PBV (x)	1.1	0.9	0.8
EV/ EBITDA (x)	8.1	6.4	4.9
Key Ratios			
RoE (%)	6.1	7.5	9.1
Liquidity			
Net D/E (x)	0.2	0.1	0.1

Trailing PER



Relative performance



Is it in the Price?

- While the Sales and EBITDA were largely in line with our expectations, PAT came in higher than expected.
- While the near-term performance is expected to remain subdued on account of soft demand in PTFE, Refrigerant and Caustic Soda segment, the contribution from high value business is expected to rise significantly on the back of strong offtake in new speciality molecules and fluoropolymers. The management indicated that the company would be launching 6 new molecules by October 2020 which would drive the performance in next year. The current price is not reflecting the Fluorospeciality play. We therefore expect the stock to react positively to results.

Connecting the Dots

High value business surprises positively: Though overall consolidated revenue declined by 24.3% YoY on the back of weak performance from caustic soda, chloromethane, refrigerant and PTFE, high value added segments viz. Fluoropolymers and Fluorospeciality chemicals surprised positively. Revenues from Caustic Soda, Chloromethane, PTFE and Refrigerants segments declined by 47.9%, 22.0%, 30.4% and 35.4% YoY, respectively, while Fluoropolymers and Fluorospeciality Chemicals reported growth of 36.2% and 37.0% to Rs 640 mn and Rs 630 mn, respectively. Growth in high value business was largely led by exports. Chloromethane revenues declined by 22.0% YoY to Rs 640 mn; however, it reported sequential improvement on the back of strong demand in MDC (used in pharmaceuticals). PTFE revenues declined by 30.4% YoY to Rs 1.9 bn as slowdown in automobile segment continues to impact. Adverse prices as well as weak demand impacted Caustic Soda's performance.

Higher contribution from value added shields margins: Caustic Soda, Refrigerants and PTFE segment continued to witness correction in the realisations led by weak demand. However, higher contribution from value-added products limited the gross margins contraction to 70 bps YoY (up 380 bps QoQ). Further, improving operating leverage resulted into EBITDA margins expansion of 230 bps YoY to 28.0%.

Higher other income limits PAT decline: Decline in adjusted PAT was limited to 11.9% YoY despite higher interest cost (up 73.3% YoY to Rs 335 mn) and depreciation (up 5.5% YoY to Rs 497 mn) as other income was higher (up 8.2x to Rs 270 mn). Tax rate stood higher at 30.0% against 11.5% in 1QFY20.

4QFY20 performance

The company has also reported its 4QFY20 performance along with 1QFY21 results. Consolidated Sales/EBITDA/Adjusted PAT declined by 10.9%/86.2%/58.6% to Rs 6.3 bn/Rs 281 mn/Rs 468 mn.

Other expenses were higher on the back of loss of Rs 815 mn on fair value changes in investment and one-time expenditure owing to shut down of PTFE plant, resulting into strong decline in EBITDA. Other income was higher (up 8.7x) at Rs 1.7 bn and included interest of Rs 1.2 bn on the income tax refund pertaining to earlier years.

While revenues across most segments declined, value-added products viz. New Fluoropolymers and Fluorospeciality Chemicals reported growth of 5.4% and 56.3% to Rs 390 mn and Rs 500 mn, respectively.

Outlook and Recommendation

The next leg of capex (and growth) is expected from Fluorospeciality chemicals and new polymers business.

Fluorospeciality chemicals

Currently, there are seven products that are commercialised and are operating at 35% capacity utilisation and yielded revenues of Rs 630 mn. Demand for these products remains strong and the company has guided for full capacity utilisation by the end of 2QFY21. Further, it has planning to incur capex for additional six products and has guided for its commissioning by end FY21. The demand is increasing as there is a

strategic need of both domestic and overseas customers to de risk from China. The company is working on several new products which have been developed in-house R&D and is planning to incur additional capex of Rs 3.0–3.5 bn.

New Fluoropolymer

Currently, there is a capacity of about 700 MT set up for 6 new fluoropolymers (PFA, FEP, PVDF, PPA, and micro powders). Various grades under each have been established and are in the process of customer qualifications and commercial ramp-up. There has been delay in getting final customer approvals for a few of the grades as many overseas customers are grappling with start-up issues and limited manpower due to Covid-19. The current capacity utilisation is ~30% and the target is to reach 50% utilisation by end of FY21 and 100% by end of FY22.

With the ramp-up in Fluorospeciality chemicals, new fluoropolymers along with sustained performance of PTFE, the overall product mix would tilt towards speciality chemicals. We believe this augurs wells and calls for re-rating of multiples.

We fine-tuned our FY21 and FY22 estimates and introduce FY23 earnings estimates. We expect investor to start recognising the company's R&D capabilities which have helped it to develop a wide range of Fluorospeciality chemicals for Agro and Pharma applications. The company also intends to capture the emerging new high growth applications like E-mobility, high purity water, 5G data transmission, lithium batteries, high temperature auto wires and fuel cells and is working towards introducing new molecule. Given the attractive valuation, we upgrade it to Buy with a revised target price of Rs 550.

Concall highlights

PTFE

- Demand in the domestic as well as international markets was impacted due to Covid-19.
- About 25% of the segment revenues are derived from automobile industry.
- In June, the domestic demand came back to ~80% of the pre Covid-19 levels and the overseas demand was at 75% of the pre Covid-19 levels.
- The domestic demand is expected to reach 100% of the pre-Covid-19 levels by the end of 2QFY21 while international demand is expected to reach 90% of the pre Covid-19 levels.
- Prices are expected to remain stable going ahead.
- The facilities are operating at 75% utilisation levels and would reach full levels by early FY22.
- The average realisations for PTFE (value-added grade and commodity grade combined) were ~Rs 671,000/MT in 1QFY21, down ~5.0% YoY.
- The company exports ~15% to US and competes with China.

New Fluoropolymers

- Capacity of ~700MT has been set up for 6 new fluoropolymers (FKM, PFA, FEP, PVDF, PPA and micropowders); various grades under each have been established and are in the process of customer qualifications and commercial ramp-up.
- There has been delay of about five–six months in getting final customer approvals for a few of the grades as many overseas customers are facing start up issues and labour issues due to Covid-19. Approvals are expected within a month.
- Sales of established products were also impacted because of Covid-19 related demand erosion.
- The products under these categories are largely export oriented.

Fluorospeciality Chemicals

- 7 products have been commercialised and would further launch 6 new products by October 2020 end. The current capacity utilisation is ~35%.
- The low capacity utilisation was on account of inadequate raw material and manpower availability due to lockdown.
- Demand for the products remains strong and the company expects to reach full utilisation levels by the end of 2QFY21.
- R&D team has developed new products in-house and ~Rs 3.0-3.5 bn would be spent towards implementation of these projects.
- The demand for these products has been increasing led by strategic need of both domestic and overseas customers to de-risk from China; the demand for new molecules for agro and pharma industry has been increasing
- About 60% of the intermediates are used in pharma industry while rest are used in agro industry

Refrigerants

- The demand for R22 was significantly impacted led by slowdown in the PTFE demand as well as lower demand for refrigerants
- The demand is expected to reach pre covid19 levels soon. The prices continue to remain stable
- Currently there are no plans to launch new products in Refrigerants segment; the company does not intend to enter into R32 manufacturing as it is a commodity products and would not add value to the company
- The company manufactures R225 gas which is used as an intermediate to manufacture R1234YF, a substitute for R134a. Going ahead, depending on the demand, the company would forward integrate into R1234YF.

Caustic Soda

- Caustic soda prices were impacted because of curtailed demand led by Covid-19 as well as surplus capacity which has come up recently.
- Prices are expected to remain subdued for the next two-three quarters.
- Plants are currently running at 80% capacity.

Chloromethanes

- Production was impacted in in 1QFY21 due to lockdown.
- The plants are currently operating at full capacity led by strong demand for MDC which is used in Pharmaceutical industry.
- The prices for the segment are expected to remain stable led by increased demand.
- Certain new capacities are coming up for Chloromethanes as demand remains strong.

Capex

- The company has incurred most of the growth capex.
- About Rs 3.0-3.5 bn would be spent further on Fluorospeciality chemicals.
- Rs 8.0 bn is being spent towards setting up 125 MW wind mill which is expected to bring energy savings of ~Rs 2.0 bn per year.

Debt

- With additional income from Income tax refunds and strong cash flows, the company intends to reduce debt on books, by ~Rs 8.0-9.0 bn from current Rs 10.0 bn levels by the end of FY21. The company intends to become a debt free company by the end of FY22.

Revenue assumptions

(Rs mn)	FY20	FY21E	FY22E	FY23E
Segment Revenue				
Caustic Soda	3,860	3,020	3,473	3,647
YoY%	(21.9)	(21.8)	15.0	5.0
Chloromethanes	3,050	2,850	3,100	3,348
YoY%	(13.2)	(6.6)	8.8	8.0
Refrigerants	4,690	3,790	4,400	4,800
YoY%	(8.4)	(19.2)	16.1	9.1
PTFE	9,420	8,590	9,449	10,394
YoY%	(17.5)	(8.8)	10.0	10.0
New Fluoropolymers	1,740	3,140	4,000	7,000
YoY%	26.1	80.5	27.4	75.0
Fluorospecialty Chemicals	1,770	4,830	6,000	8,000
YoY%	118.5	172.9	24.2	33.3
Other Products	430	400	420	441
YoY%	258.3	(7.0)	5.0	5.0
Total Revenue	26,060	26,740	30,962	37,750

Revenue mix

(%)	FY20	FY21E	FY22E	FY23E
Caustic Soda	14.8	11.3	11.2	9.7
Chloromethanes	11.7	10.7	10.0	8.9
Refrigerants	18.0	14.2	14.2	12.7
PTFE	36.1	32.1	30.5	27.5
New Fluoropolymers	6.7	11.7	12.9	18.5
Fluorospecialty Chemicals	6.8	18.1	19.4	21.2
Other Products	1.7	1.5	1.4	1.2

1QFY21 result – Standalone

(Rs mn)	1QFY20	1QFY21	YoY (%)	4QFY20	QoQ (%)	FY19	FY20	YoY (%)
Net sales	7,351	5,566	(24.3)	5,621	(1.0)	27,306	24,964	(8.6)
EBITDA	1,837	1,474	(19.8)	220	571.1	8,161	4,429	(45.7)
EBITDA margin (%)	25.0	26.5	-	3.9	-	29.9	17.7	-
Other income	31	272	787.6	1,735	(84.3)	510	1,836	260.0
Interest	183	327	78.2	326	0.2	557	1,014	82.0
Depreciation	432	455	5.3	450	1.2	1,616	1,761	8.9
PBT	1,252	963	(23.0)	1,178	(18.2)	6,415	3,230	(49.6)
Tax	134	294	119.0	892	(67.0)	2,251	1,331	(40.9)
Tax rate (%)	10.7	30.5	-	75.8	-	35.1	41.2	-
PAT	1,117	669	(40.1)	286	134.3	4,164	1,900	(54.4)
Adjusted PAT	793	669	(15.6)	498	34.5	4,246	2,113	(50.2)
Adjusted EPS (Rs)	7.2	6.1	(15.6)	4.5	34.5	38.6	19.2	(50.2)

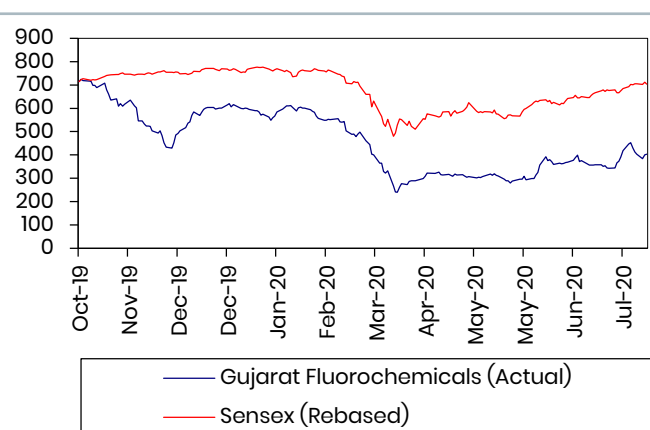
Segmental performance – Consolidated

	June 18	Sep 18	Dec 18	Mar 19	June 19	Sep 19	Dec 19	Mar 20	June 20
Segment revenue									
Caustic Soda	1,140	1,150	1,210	1,200	1,210	920	770	800	630
YoY (%)	27.9	4.7	(5.8)	(9.7)	6.1	(20.0)	(36.4)	(33.3)	(47.9)
% of total	16.6	17.2	18.2	16.9	16.4	13.9	13.5	12.6	11.3
Chloromethanes	700	920	1,060	840	820	850	750	630	640
YoY (%)	37.5	47.4	39.8	11.1	17.1	(7.6)	(29.2)	(25.0)	(22.0)
% of total	10.2	13.8	16.0	11.8	11.1	12.8	13.1	10.0	11.4
Refrigerants	1,700	1,120	970	1,330	1,440	1,260	980	1,000	930
YoY (%)	23.6	30.9	9.5	38.1	(15.3)	12.5	1.0	(24.8)	(35.4)
% of total	24.7	16.8	14.6	18.8	19.5	19.0	17.2	15.8	16.6
PTFE	2,800	2,940	2,750	2,740	2,860	2,380	1,920	2,210	1,990
YoY (%)	54.7	75.8	48.4	45.0	2.1	(19.0)	(30.2)	(19.3)	(30.4)
% of total	40.8	44.0	41.4	38.6	38.6	36.0	33.6	34.9	35.6
New Fluoropolymers	310	360	340	370	470	440	440	390	640
YoY (%)	79.2	110.5	102.4	19.4	51.6	22.2	29.4	5.4	36.2
% of total	4.5	5.4	5.1	5.2	6.4	6.6	7.7	6.2	11.4
Fluorospeciality Chemicals	30	60	100	320	460	410	190	500	630
YoY (%)	–	–	–	–	1,433.3	583.3	90.0	56.3	37.0
% of total	0.4	0.9	1.5	4.5	6.2	6.2	3.3	7.9	11.3
Other Products	280	240	300	10	90	310	360	90	100
YoY (%)	69.7	15.4	33.9	(96.6)	(67.9)	29.2	20.0	800.0	11.1
% of total	4.1	3.6	4.5	0.1	1.2	4.7	6.3	1.4	1.8
Contra On Consolidation	(90)	(120)	(90)	280	50	60	290	710	30
Total Segment Revenue	6,870	6,680	6,640	7,090	7,400	6,620	5,710	6,330	5,590

Major shareholders (%)

	Mar 20	Jun 20	Change
Promoters	68.4	68.4	–
GOI	–	–	–
FII's	4.5	4.0	(0.5)
MF's	5.8	5.8	(0.0)
BFSI's	1.2	1.3	0.1
Public & Others	20.1	20.6	0.5
Pledge	–	–	–

Relative to Sensex 3 Years



Income Statement (Consolidated)

Period end (Rs mn)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Net sales	26,064	26,740	30,962	37,750
Growth (%)	(4.5)	2.6	15.8	21.9
Operating expenses	(21,348)	(20,406)	(23,299)	(28,031)
Operating profit	4,715	6,334	7,663	9,719
EBITDA	4,715	6,334	7,663	9,719
Growth (%)	(42.3)	34.3	21.0	26.8
Depreciation	(1,924)	(2,163)	(2,313)	(2,463)
Other income	1,838	174	200	230
EBIT	4,629	4,345	5,550	7,486
Finance cost	(1,048)	(931)	(884)	(840)
Exceptional & extraordinary	(260)	0	0	0
Profit before tax	3,321	3,414	4,665	6,645
Tax (current + deferred)	(1,428)	(1,024)	(1,400)	(1,994)
Profit/(Loss) for the period	1,893	2,390	3,266	4,652
Reported Profit / (Loss)	1,893	2,390	3,266	4,652
Adjusted net profit	2,041	2,390	3,266	4,652
Growth (%)	(52.1)	17.1	36.6	42.4

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 20P	Mar 21E	Mar 22E	Mar 23E
Share capital	110	110	110	110
Reserves & surplus	37,046	40,512	46,472	56,056
Shareholders' funds	37,156	40,622	46,582	56,166
Minority interest and others	(107)	(59)	(59)	(59)
Non-current liabilities	5,185	4,185	3,985	3,485
Long-term borrowings	4,784	3,784	3,584	3,084
Other non-current liabilities	401	401	401	401
Current liabilities	18,433	13,897	11,041	8,453
ST borrowings, Curr maturity	10,417	7,617	4,617	1,617
Other current liabilities	8,016	6,281	6,424	6,837
Total (Equity and Liab.)	60,667	58,645	61,549	68,045
Non-current assets	41,399	42,067	44,254	49,791
Fixed assets (Net block)	26,711	27,400	27,087	26,624
Non-current Investments	2,524	2,503	3,003	7,003
Long-term loans and advances	82	82	82	82
Other non-current assets	12,082	12,082	14,082	16,082
Current assets	19,267	16,578	17,295	18,254
Cash & current investment	1,520	4,165	3,600	1,557
Other current assets	17,748	12,413	13,695	16,697
Total (Assets)	60,667	58,645	61,549	68,045
Total debt	15,201	11,401	8,201	4,701
Capital employed	52,651	52,365	55,125	61,208

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 20P	Mar 21E	Mar 22E	Mar 23E
Profit before tax	3,321	3,414	4,665	6,645
Depreciation	1,924	2,163	2,313	2,463
Change in working capital	(2,175)	3,599	(1,138)	(2,589)
Total tax paid	(489)	(1,024)	(1,400)	(1,994)
Others	(790)	757	685	611
Cash flow from oper. (a)	1,791	8,909	5,125	5,136
Capital expenditure	(3,397)	(2,852)	(2,000)	(2,000)
Change in investments	713	21	(500)	(4,000)
Others	(4,816)	174	(1,800)	(1,770)
Cash flow from inv. (b)	(7,499)	(2,657)	(4,300)	(7,770)
Free cash flow (a+b)	(5,709)	6,252	825	(2,634)
Debt raised/(repaid)	6,298	(3,800)	(3,200)	(3,500)
Dividend (incl. tax)	(450)	(514)	(771)	(1,029)
Others	(380)	707	2,582	5,120
Cash flow from fin. (c)	5,468	(3,607)	(1,390)	591
Net chg in cash (a+b+c)	(241)	2,645	(565)	(2,043)

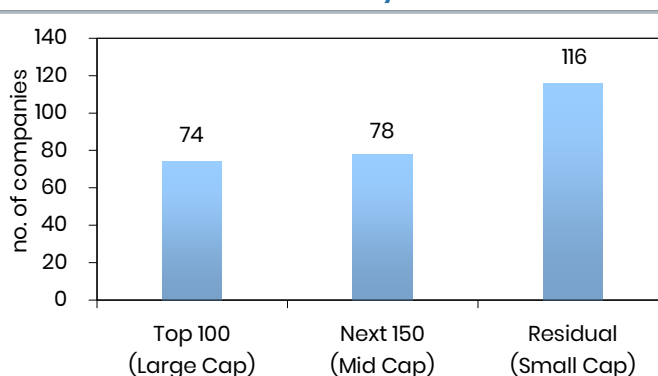
Key Ratios (Consolidated)

Period end (%)	Mar 20P	Mar 21E	Mar 22E	Mar 23E
Adjusted EPS (Rs)	18.6	21.7	29.7	42.3
Growth	(52.1)	17.1	36.6	42.4
CEPS (Rs)	36.1	41.4	50.8	64.7
Book NAV/share (Rs)	338.1	369.6	423.9	511.1
Dividend/share (Rs)	3.5	4.0	6.0	8.0
Dividend payout ratio	23.8	21.5	23.6	22.1
EBITDA margin	18.1	23.7	24.7	25.7
EBIT margin	17.8	16.2	17.9	19.8
Tax rate	41.2	30.0	30.0	30.0
RoCE	9.6	8.3	10.3	12.9
Total debt/Equity (x)	0.4	0.3	0.2	0.1
Net debt/Equity (x)	0.4	0.2	0.1	0.1
Du Pont Analysis – RoE				
Net margin	7.8	8.9	10.5	12.3
Asset turnover (x)	0.5	0.4	0.5	0.6
Leverage factor (x)	1.5	1.5	1.4	1.3
Return on equity	5.6	6.1	7.5	9.1

Valuations (Consolidated)

Period end (x)	Mar 20P	Mar 21E	Mar 22E	Mar 23E
PER	21.7	18.5	13.5	9.5
PCE	11.2	9.7	7.9	6.2
Price/Book	1.2	1.1	0.9	0.8
Yield (%)	0.9	1.0	1.5	2.0
EV/EBITDA	12.3	8.1	6.4	4.9

B&K Universe Profile – by AMFI Definition



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B & K Securities India Private Ltd.

Equity Research Division: Unit No. 1101, 1103, 1104, 11th Floor, Hallmark Business Plaza, Sant Dnyaneshwar Marg, Near Guru Nanak Hospital, Bandra East, Mumbai - 400 051, India.

Tel: +91-22-4007 6000, Fax: +91-22-2651 0024 / +91-22-2640 1520.

Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: +91-33-2243 7902.

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