

2QFY21 Result Update

Gujarat Fluorochemicals

Mix changing towards speciality
chemicals...

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CMP (Rs): 530

Market cap. (Rs bn): 58.2

Target price (Rs): 700

Maintain BUY

First Cut Feel of the Results

- Consolidated sales declined by 6.8% YoY to Rs 6.2 bn while EBITDA and adjusted PAT grew by 32.9% and 106% to Rs 1.6 bn and Rs 791 mn, respectively. Standalone sales declined by 9.9% YoY to Rs 5.9 bn while EBITDA and PAT grew by 30.4% and 84.1% YoY to Rs 1.6 bn and Rs 786 mn, respectively.
- While revenues across most segments declined, value-added products viz. Fluoropolymers and Fluorospeciality Chemicals reported strong growth of 45.4% and 43.1% to Rs 640 mn and Rs 730 mn, respectively.
- Revenues from Caustic Soda, Chloromethane, PTFE and Refrigerant declined by 28.0%, 2.4%, 14.6% and 30.2% YoY, respectively.
- Promoter shareholding remained unchanged at 68.4%.

Financial highlights

(Rs mn)	2QFY20	2QFY21	YoY (%)	1QFY21	QoQ (%)
Net Sales	6,624	6,173	(6.8)	5,588	10.5
EBITDA	1,241	1,649	32.9	1,553	6.2
EBTIDA Margin (%)	18.7	26.7		27.8	
Other Income	40	317	690.8	282	12.4
Interest	248	285	15.2	335	(14.7)
Depreciation	481	508	5.6	497	2.2
PBT	292	1,173	302.1	1,003	16.9
Tax	168	381	127.6	302	26.5
Tax Rate(%)	57.5	32.5		30.0	
PAT	124	792	537.8	702	12.8
APAT	384	791	106.2	702	12.8
Adjusted EPS (Rs)	3.5	7.2	106.2	6.4	12.8

Key variables

	Improvement on (%)	
	B&K est.	Consensus
Net Sales	(2.8)	-
EBITDA	(5.6)	-
Adjusted PAT	2.1	-

	FY21E	FY22E	FY23E
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Valuations

PER (x)	18.9	17.4	11.3
PBV (x)	1.5	1.4	1.3
EV/ EBITDA (x)	9.4	8.2	6.1

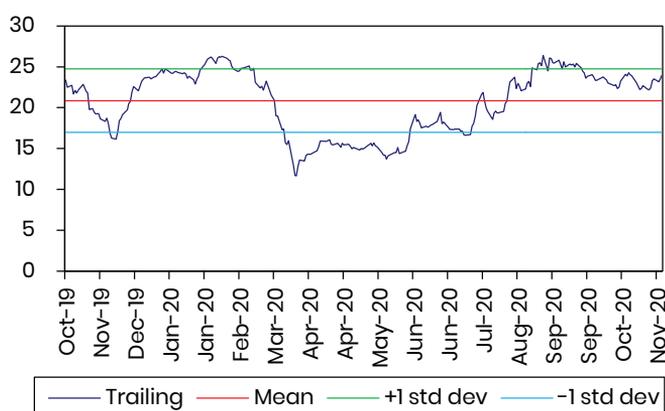
Key Ratios

RoE (%)	8.0	8.2	11.6
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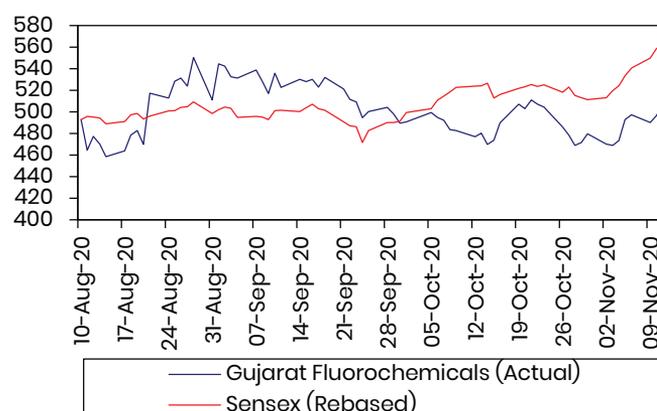
Liquidity

Net D/E (x)	0.1	0.1	0.1
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Trailing PER



Relative performance



Is it in the Price?

Results were in line with our expectations. Though, performance across most segments remained subdued, the outlook remains encouraging as demand recovery has begun and is expected to normalise by FY21 end. High value business segments viz. New Fluoropolymers and Fluorospeciality Intermediates reported strong performance on the back of pick-up in demand and new molecule launches. Led by strong demand visibility from global customer looking to de-risk from China, management has guided for capex of Rs 3.0–3.5 bn for new products in Fluorospeciality Chemicals. Also, the current capacity utilisation is low which leaves enough headroom for growth in these segments. Therefore, the company is well placed to deliver sustainable earnings growth over the next two–three years. Valuations at 17.4x FY22E EPS of Rs 30.5 and 11.3x FY23E EPS of Rs 46.9 is yet to factor in these developments and we therefore expect the stock to trend positively.

Connecting the Dots

High value businesses limits decline in revenues: Consolidated revenue declined by only 6.8% YoY despite weak performance from caustic soda, chloromethane, refrigerant and PTFE as high value-added segments viz. Fluoropolymers and Fluorospeciality chemicals reported strong performance. Revenues from Caustic Soda, Chloromethane, PTFE and Refrigerant declined by 28.0%, 2.4%, 14.6% and 30.2% YoY, respectively, while Fluoropolymers and Fluorospeciality Chemicals reported strong growth of 45.4% and 43.1% to Rs 640 mn and Rs 730 mn, respectively. Growth in high value business was largely led by exports. Chloromethane revenues declined marginally by 2.4% YoY to Rs 830 mn; however, it reported sequential growth of 29.6% on the back of strong demand in MDC (used in pharmaceuticals). PTFE revenues declined by 14.6% YoY to Rs 2.1 bn. The segment witnessed marginal growth on sequential basis led by demand recovery from auto industries. Subdued demand coupled with surplus capacity (new facilities set up) continued to have an adverse impact on Caustic Soda prices which impacted the segment's performance.

Higher contribution from value-added shields margins too: Revenue contribution from value-added products was higher which led to gross margin expansion of 360 bps despite adverse caustic soda realisations. Lower raw material prices (chloroform and fluorspar) too aided gross margins expansion. PTFE prices were shielded by annual contracts and therefore remained stable. Improving operating leverage led to EBITDA margins expansion of 800 bps.

Higher other income and lower tax rate further aids doubling of adjusted PAT: Adjusted PAT more than doubled YoY despite higher interest cost (up 15.2% YoY to Rs 285 mn) and depreciation (up 5.6% YoY to Rs 508 mn) as other income was higher (up 6.9x to Rs 317 mn). Lower tax rate at 32.5% against 57.5% in 2QFY20 further aided adjusted PAT growth.

1HFY21 performance: Consolidated sales declined by 16.1% YoY to Rs 11.7 bn while EBITDA and adjusted PAT grew by 1.9% and 26.5% YoY to Rs 3.2 bn and Rs 1.5 bn, respectively. Standalone sales and EBITDA declined by 17.6% and 0.1% YoY to Rs 11.5 bn and Rs 3.1 bn, respectively, while adjusted PAT grew by 19.3% YoY to Rs 1.5 bn. Revenues from Caustic Soda, Chloromethane, PTFE and Refrigerant declined by 38.9%, 12.0%, 23.2% and 33.3% YoY, respectively, while Fluoropolymers and Fluorospeciality Chemicals reported strong growth of 40.7% and 40.2% to Rs 1.3 bn and Rs 1.4 bn, respectively.

Balance sheet and Cash flow statement highlights: Long-term borrowings declined by 1.2 bn to Rs 3.6 bn and short-term borrowings declined by Rs 687 mn to Rs 9.7 bn.

Cash flow from operations stood at Rs 4.4 bn, up Rs 1.2 bn. The company incurred capex of Rs 1.1 bn against Rs 7.3 bn in 1HFY20. Free cash flow stood at Rs 3.4 bn.

Outlook and Recommendation

Performance of most of the segments remained subdued; however, the segments have started witnessing sequential recovery which was encouraging. The performance is expected to normalise by FY21 end. Value-added products continued to report strong performance as the company continues to launch new products. Strong demand from international players looking at de-risking from China is also aiding sales. The increasing enquires and strong visibility has compelled it to go in for a capex of Rs 3.0-3.5 bn for Fluorospeciality Chemicals in FY22E. The expected revenue potential from these capex would be around Rs 3.5-4.0 bn. Further, ~Rs 3.0 bn is currently in CWIP and once commissioned would result into launching of 4 new products. Low capacity utilisation in New Fluoropolymers and Fluorospeciality intermediates gives enough head room for sustainable growth in these segments. With the ramp-up in Fluorospeciality chemicals, new fluoropolymers along with sustained performance of PTFE, the overall product mix would tilt towards speciality chemicals and would call for valuation multiple upgrade, in our view.

We fine-tuned our FY21E, FY22E, FY23E earnings by 28.7%, 2.7% and 10.7% upwards, respectively. 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 maintain Buy with revised target price of Rs 700.

Concall highlights

PTFE

- Domestic demand is back to 85% while exports are back to 75% of pre-Covid levels.
- Domestic demand is expected to reach 90% of the pre-Covid levels by the end of current quarter while exports would reach 80%.
- Prices were stable due to annual contracts. Contracts are up for renewal in current quarter and the company expects prices to be stable going ahead as well.
- PTFE capacity is expected to reach full utilisation levels by 1QFY22.
- The company would not be incurring capex in this segment.

New Fluoropolymers

- Capacity of 700 MT has been set up for 6 new fluoropolymers (FKM, PFA, FEP, PVDF, PPA, and micro powders).
- Capacity utilisation is currently low and expected to ramp up gradually. Utilisations levels are expected to reach 50% by end of FY21 from current 35% levels and 100% by the end of FY22.
- There has been delay in the approval processes from the global customers as they are focusing on ramping up their capacities instead of approving new products.

Fluorospeciality Chemicals

- The company has successfully commercialised 7 products.
- Capacity utilisations are low at 45% due to material unavailability led by Covid-19 situation.
- Demand for most of the products remains strong and the company expects to reach 80% capacity utilisations by end of the quarter.
- Plants for 4 new products are under final stage of implementations (and recorded in CWIP) and would be fully commissioned by the end of FY21.

- Total capex incurred for the capacities was about Rs 6.0 bn and has revenue potential of about Rs 6.5-7.0 bn.
- Led by strong continued demand and strategic need of domestic and overseas customers to de-risk from China, the company has envisaged additional capex of Rs 3.0-3.5 bn which would be carried out in FY22 and would start contributing to revenues by FY23E. Capex would be funded by internal accruals.
- The company would launch about 4-5 new products through the new capex, most of which would be towards agrochemicals (70%) and domestic market focused (75%).
- Currently, about 55% products are used in pharmaceutical industry while rest is towards agrochemicals.

Refrigerants

- Demand is expected to remain subdued in 3QFY21 (seasonally weak quarter) and expected to normalise in 4QFY21. However, production will continue to increase due to the rising feedstock requirements.
- Prices are expected to remain stable.

Caustic Soda

- Capacity utilisation levels reached 90% in 2QFY21 and are currently running at full levels.
- Prices have been adversely affected due to curtailed demand and surplus capacity in the domestic market.
- Prices are expected to remain depressed for the next two-three quarters.

Chloromethane

- Plants are currently operating at full capacity led by strong demand for MDC which is used in Pharmaceutical industry.
- The prices are expected to remain stable led by increased demand.
- Certain new capacities are coming up for Chloromethanes as demand remains strong

Debt and other highlights

- Gross debt stood at Rs 15 bn and net debt stood at Rs 11.0 bn. The company intends to reduce debt further by 3.5 bn by FY21 end and intends to become debt free by the end of FY22.
- The company would receive interest of ~Rs 750 mn on income tax refunds by the end of current quarter.
- 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. Benefits would start accruing from FY23 onwards. About 35-40 MW would come up by 1QFY22 while rest would come up by the end of FY22.
- The 3rd site at Dahej would be used completely for Specialty Chemicals and New polymers as the first two sites are completely utilised.
- Domestic to export split is 50:50.

Revenue assumptions

(Rs mn)	FY20	FY21E	FY22E	FY23E
Segment Revenue				
Caustic Soda	3,860	3,020	3,322	3,488
YoY (%)	(21.9)	(21.8)	10.0	5.0
Chloromethanes	3,050	3,200	3,520	3,802
YoY (%)	(13.2)	4.9	10.0	8.0
Refrigerants	4,690	3,510	4,000	4,400
YoY (%)	(8.4)	(25.2)	14.0	10.0
PTFE	9,420	8,540	9,394	10,333
YoY (%)	(17.5)	(9.3)	10.0	10.0
New Fluoropolymers	1,740	2,940	3,285	7,600
YoY (%)	26.1	69.0	11.7	131.4
Fluorospecialty Chemicals	1,770	4,060	6,000	9,700
YoY (%)	118.5	129.4	47.8	61.7
Other Products	430	400	420	441
YoY (%)	258.3	(7.0)	5.0	5.0
Total Revenue	26,060	26,020	30,291	40,114

Revenue mix

(%)	FY20	FY21E	FY22E	FY23E
Caustic Soda	14.8	11.6	11.0	8.7
Chloromethanes	11.7	12.3	11.6	9.5
Refrigerants	18.0	13.5	13.2	11.0
PTFE	36.1	32.8	31.0	25.8
New Fluoropolymers	6.7	11.3	10.8	18.9
Fluorospecialty Chemicals	6.8	15.6	19.8	24.2
Other Products	1.7	1.5	1.4	1.1

2QFY21 result – Standalone

(Rs mn)	2QFY20	2QFY21	YoY (%)	1QFY21	QoQ (%)	1HFY20	1HFY21	YoY (%)
Net sales	6,570	5,917	(9.9)	5,554	6.5	13,922	11,471	(17.6)
EBITDA	1,219	1,590	30.4	1,462	8.8	3,056	3,052	(0.1)
EBITDA margin (%)	18.6	26.9	–	26.3	–	22.0	26.6	–
Other income	39	318	720.6	284	12.3	69	602	767.3
Interest	236	275	16.9	327	(15.8)	419	602	43.7
Depreciation	442	464	5.0	455	1.9	874	919	5.1
PBT	320	1,169	265.3	963	21.4	1,572	2,133	35.7
Tax	153	383	149.8	294	30.1	288	677	135.4
Tax rate (%)	47.9	32.8	–	30.5	–	18.3	31.8	–
PAT	167	786	371.5	669	17.5	1,284	1,456	13.4
Adjusted PAT	427	786	84.1	669	17.5	1,220	1,456	19.3
Adjusted EPS (Rs)	3.9	7.2	84.1	6.1	17.5	11.1	13.2	19.3

Segmental performance – Consolidated

	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	1HFY20	1HFY21
Caustic Soda	1,210	1,000	770	800	630	720	2,210	1,350
YoY (%)	6.1	(13.0)	(36.4)	(33.3)	(47.9)	(28.0)	(3.5)	(38.9)
Chloromethanes	820	850	750	630	640	830	1,670	1,470
YoY (%)	17.1	(7.6)	(29.2)	(25.0)	(22.0)	(2.4)	3.1	(12.0)
Refrigerants	1,440	1,260	840	1,000	930	880	2,700	1,810
YoY (%)	(15.3)	12.5	(13.4)	(24.8)	(35.4)	(30.2)	(4.3)	(33.0)
PTFE	2,860	2,400	1,920	2,210	1,990	2,050	5,260	4,040
YoY (%)	2.1	(18.4)	(30.2)	(19.3)	(30.4)	(14.6)	(8.4)	(23.2)
New Fluoropolymers	470	440	440	390	640	640	910	1,280
YoY (%)	51.6	22.2	29.4	5.4	36.2	45.5	35.8	40.7
Fluorospecialty Chemicals	460	510	190	500	630	730	970	1,360
YoY (%)	1,433.3	750.0	90.0	56.3	37.0	43.1	977.8	40.2
Other Products	90	120	360	90	100	70	210	170
YoY (%)	(67.9)	(50.0)	20.0	800.0	11.1	(41.7)	(59.6)	(19.0)
Contra on Consolidation	50	50	290	710	30	260	100	290
Total Segment Revenue	7,400	6,620	5,710	6,330	5,590	5,590	14,020	11,180

Quarterly revenue mix

(%)	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	1HFY20	1HFY21
Caustic Soda	16.4	15.1	13.5	12.6	11.3	12.9	15.8	12.1
Chloromethanes	11.1	12.8	13.1	10.0	11.4	14.8	11.9	13.1
Refrigerants	19.5	19.0	14.7	15.8	16.6	15.7	19.3	16.2
PTFE	38.6	36.3	33.6	34.9	35.6	36.7	37.5	36.1
New Fluoropolymers	6.4	6.6	7.7	6.2	11.4	11.4	6.5	11.4
Fluorospecialty Chemicals	6.2	7.7	3.3	7.9	11.3	13.1	6.9	12.2
Other Products	1.2	1.8	6.3	1.4	1.8	1.3	1.5	1.5

Cash Flow statement highlights

(Rs mn)	1HFY20	1HFY21	Remarks
Net cash flow from operating activities	3,231	4,431	Cash Flow from operations stood at Rs 4.4 bn, up Rs 1.2 bn.
Capital Expenditure	(7,253)	(1,076)	The company incurred capex of Rs 1.1 bn against Rs 7.3 bn in 1HFY20.
Free Cash Flow	NA	3,354	
Net cash used in investing activities	(7,226)	(2,137)	
Net cash generated/(used) in financing activities	3,786	(2,274)	
Net increase/(decrease) in cash and cash equivalents	(209)	20	

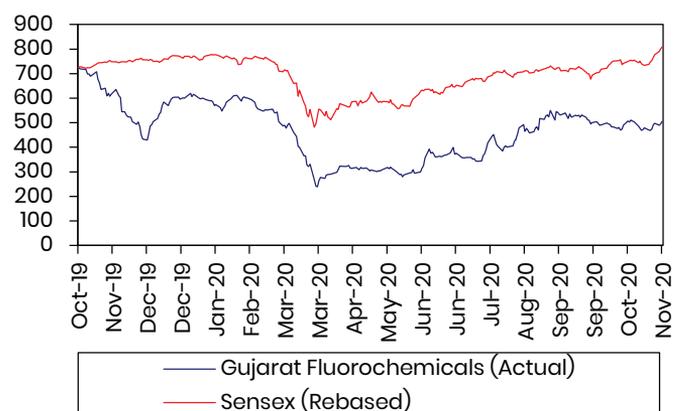
Balance Sheet highlights

(Rs mn)	FY20	1HFY21	Remarks
Non-current Assets			
Fixed Asset	23,270	23,371	
Capital WIP	3,184	3,306	
Total Non-current Assets	41,399	42,550	
Current Assets			
Inventories	8,128	8,330	
Trade Receivables	5,647	4,977	
Cash and Bank Balances	166	286	
Investments	674	365	
Total Current Assets	19,271	16,849	
Total Assets	60,670	59,399	
Equity & Liabilities			
Equity			
Equity share capital	110	110	
Reserves and Surplus	37,046	38,508	
Minority Interest	(107)	(105)	
Total Equity	37,049	38,513	
Non-Current Liabilities			
Borrowings	4,787	3,606	Long-term borrowings declined by Rs 1.2 bn to Rs 3.6 bn.
Total Non-Current Liabilities	5,188	3,993	
Current Liabilities			
Borrowings	10,417	9,730	Short term borrowings declined by Rs 687 mn to Rs 9.7 bn
Trade Payables	3,671	2,441	
Total Current liabilities	18,433	16,894	
Total Equity and Liabilities	60,670	59,399	

Major shareholders (%)

	Jun 20	Sep 20	Change
Promoters	68.4	68.4	0.0
GOI	0.0	0.0	0.0
FII's	4.0	2.3	(1.7)
MFs	5.8	5.8	0.0
BFSI's	1.3	1.0	(0.3)
Public & Others	20.6	22.6	2.0
Pledge	0.0	0.0	0.0

Relative to Sensex 3 Years



Income Statement (Consolidated)

Period end (Rs mn)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Net sales	26,064	26,020	30,291	40,114
Growth (%)	(4.5)	(0.2)	16.4	32.4
Operating expenses	(21,673)	(19,277)	(22,509)	(29,744)
Operating profit	4,391	6,743	7,782	10,370
EBITDA	4,391	6,743	7,782	10,370
Growth (%)	(44.3)	53.6	15.4	33.2
Depreciation	(1,924)	(2,102)	(2,492)	(2,711)
Other income	2,163	1,000	500	600
EBIT	4,629	5,641	5,791	8,259
Finance cost	(1,048)	(1,150)	(1,000)	(900)
Exceptional & extraordinary	(260)	0	0	0
Profit before tax	3,321	4,491	4,791	7,359
Tax (current + deferred)	(1,428)	(1,415)	(1,437)	(2,208)
P/(L) for the period	1,893	3,076	3,354	5,151
P/L of Associates, Min Int, Pref Div	70	0	0	0
Reported Profit / (Loss)	1,963	3,076	3,354	5,151
Adjusted net profit	2,224	3,076	3,354	5,151
Growth (%)	(48.1)	38.3	9.0	53.6

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Share capital	110	110	110	110
Reserves & surplus	37,046	39,608	42,191	46,314
Shareholders' funds	37,156	39,718	42,300	46,423
Minority Interests and others	(107)	(107)	(107)	(107)
Non-current liabilities	5,188	4,188	3,988	3,788
Long-term borrowings	4,787	3,787	3,587	3,387
Other non-current liabilities	401	401	401	401
Current liabilities	18,433	13,730	11,384	10,623
ST borrowings, Curr maturity	10,417	7,617	5,117	3,617
Other current liabilities	8,016	6,113	6,267	7,006
Total (Equity and Liab.)	60,670	57,529	57,565	60,727
Non-current assets	41,399	41,809	44,423	46,123
Fixed assets (Net block)	26,711	27,142	27,756	27,456
Non-current Investments	2,524	2,503	2,503	2,503
Long-term loans and adv.	82	82	82	82
Other non-current assets	12,082	12,082	14,082	16,082
Current assets	19,271	15,720	13,142	14,604
Cash & current investment	1,523	6,386	2,940	2,193
Other current assets	17,748	9,334	10,202	12,411
Total (Assets)	60,670	57,529	57,565	60,727
Total debt	15,204	11,404	8,704	7,004
Capital employed	52,654	51,416	51,298	53,721

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Profit before tax	3,321	4,491	4,791	7,359
Depreciation	1,924	2,102	2,492	2,711
Change in working capital	(2,175)	6,511	(715)	(1,470)
Total tax paid	(489)	(1,415)	(1,437)	(2,208)
Others	(1,115)	150	500	300
Cash flow from oper. (a)	1,466	11,840	5,630	6,693
Capital expenditure	(3,397)	(2,534)	(3,105)	(2,411)
Change in investments	1,036	21	0	0
Others	(4,816)	1,000	(1,500)	(1,400)
Cash flow from inv. (b)	(7,177)	(1,513)	(4,605)	(3,811)
Free cash flow (a+b)	(5,712)	10,327	1,025	2,881
Debt raised/(repaid)	6,301	(3,800)	(2,700)	(1,700)
Dividend (incl. tax)	(450)	(514)	(771)	(1,028)
Others	(380)	(1,150)	(1,000)	(900)
Cash flow from fin. (c)	5,471	(5,464)	(4,471)	(3,628)
Net chg in cash (a+b+c)	(241)	4,863	(3,446)	(747)

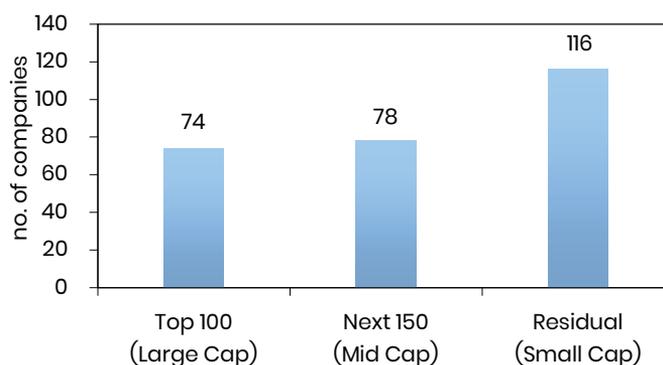
Key ratios (Consolidated)

Period end (%)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Adjusted EPS (Rs)	20.2	28.0	30.5	46.9
Growth	(48.1)	38.3	9.0	53.6
CEPS (Rs)	37.7	47.1	53.2	71.5
Book NAV/share (Rs)	338.1	361.4	384.9	422.4
Dividend/share (Rs)	3.5	4.0	6.0	8.0
Dividend payout ratio	22.9	16.7	23.0	20.0
EBITDA margin	16.8	25.9	25.7	25.9
EBIT margin	17.8	21.7	19.1	20.6
Tax rate	39.9	31.5	30.0	30.0
RoCE	9.6	10.8	11.3	15.7
Total debt/Equity (x)	0.4	0.3	0.2	0.2
Net debt/Equity (x)	0.4	0.1	0.1	0.1
Du Pont Analysis - RoE				
Net margin	8.5	11.8	11.1	12.8
Asset turnover (x)	0.5	0.4	0.5	0.7
Leverage factor (x)	1.5	1.5	1.4	1.3
Return on equity	6.2	8.0	8.2	11.6

Valuations (Consolidated)

Period end (x)	Mar 20	Mar 21E	Mar 22E	Mar 23E
PER	26.2	18.9	17.4	11.3
PCE	14.0	11.2	10.0	7.4
Price/Book	1.6	1.5	1.4	1.3
Yield (%)	0.7	0.8	1.1	1.5
EV/EBITDA	16.4	9.4	8.2	6.1

B&K Universe Profile – by AMFI Definition



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B&K Investment Ratings

	LARGE CAP (Market Cap > USD 2 bn)	MID CAP (Market Cap of USD 200 mn to USD 2 bn)	SMALL CAP (Market Cap < USD 200 mn)
BUY	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
SELL	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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