

Sales Note

Gujarat Fluorochemicals Ltd.

CMP: Rs. 3,050 | TP: Rs.3,690 (21%)

Company Profile

Gujarat Fluorochemicals started commercial operations in 1989 with India's largest refrigerant manufacturing unit in Gujarat. GFL later expanded to produce fluorospecialty products for agriculture and pharmaceuticals. In 2007, GFL added a facility in Dahej, Gujarat, for fluoropolymer production. At Present GFL have three manufacturing facilities, a Fluorspar mine in Morocco, and global offices and warehouses. GFL is one of the leading player in the fluoropolymer and fluorospecialties markets.

Investment Rationale

Vertical Integration from Bulk Chemical to Value added product: GFL has vertically integrated business model with manufacturing of caustic soda to chloromethane. Around 60% of chloromethane is used for captive consumption for the production of R-22 gas. The company has fluorspar mining for captive use through a joint venture in morocco, Fluorspar is a key raw material for the production of TEF, which is further used for the production of fluoropolymer (PTFE). GFL also has backward integration in R142b gas, which is the key material for VDF. Vertical integration helps to lower the impact of raw material price volatility and provide insulation against potential raw material shortages. Thus, it provides a competitive advantage edge over its peers.

Major Capex Plan to Support Growth: The company has announced a major capital expenditure plan of Rs. 2,500 Cr for FY23 and FY24. The current PTFE capacity stand at 12,000 tons in Q3FY23 and expected to expand towards 18,000 tons, furthermore management has guided to grow by 21,600 tons through debottlenecking by CY23 end. Additionally, GFL has announced a capex of 125 Cr in R32 to expanding capacity by 10,000 tons, which will commence by Q4 FY23 end. GFL has also set up a LiPF6 and initial 700 tons capacity plant in PVDF Sheet, expected to commence by Q1FY24 end. Asset turnover of 1.5x - 2x and top line growth of 25%-26% over FY22-FY25E is guided by management. The current Net block expected to grow at 34% CAGR to Rs. 5,993 Cr in FY25E.

Exit of Global Peers Creates Opportunities for GFL: The fluoropolymer industry in the West (Europe and USA) is currently facing regulatory challenges due to restrictions on use of PFAS based materials in manufacturing of fluoropolymer products. PFAS are harmful due to their small size and ability to accumulated in environment and human tissues, However Non-Fluorinated fluoropolymer are safe as they do not dissolve nor mobile due to their large size. As a result, many large players like 3AM who are producer of Fluoropolymer are exiting the PFAS based fluoropolymer market. However, GFL has an advantage in this scenario, As GFL have already received patent in its non-fluorinated technology and implemented in production of fluoropolymer, which helps to protect it from regulatory risks and create opportunity to capture a large market share in Western region.

New-age businesses holds significant growth opportunities for GFL: GFL has significant growth opportunities in its new fluoropolymer operation due to emerging demand from EV batteries, solar panels, hydrogen fuel cells, electrolyzes, semiconductors and 5G industries. Fluoropolymer such as FKM, PTFE, PVDF, and PFA are widely used in new-age

Company Detail

Industry	Chemical
BSE Code	542812
NSE Code	FLUOROCHEM
Bloomberg Code	FLUOROCHEM IN
Market Cap (INR Cr)	33,449
Promoter Holding (%)	63.80%
52wk Hi/Lo	4172 / 2105
Avg. 20 Daily Volume (NSE)	15,191,000

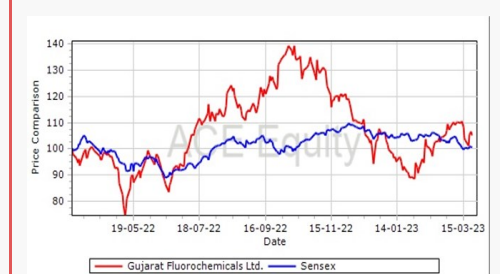
Shareholding Pattern (%)

Category	Sep-2022	Dec-2022
Promoter	66.08	63.80
Public	25.04	26.19

Public Holding More than 1% (Mar-23)

Name	% of Shares
Meenu Bhanshali	5%
Hdfc Trustee Company Ltd	4.28%
Aditya Birla Sun Life Trustee Pvt Ltd.	1.47%
Vallabh Bhanshali	1.26%
Blue Diamond Properties Pvt Ltd.	1.14%
Fil Investments (Mauritius) Ltd.	1.13%

Share Price Performance



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Gujarat Fluorochemicals Ltd. (GFL)



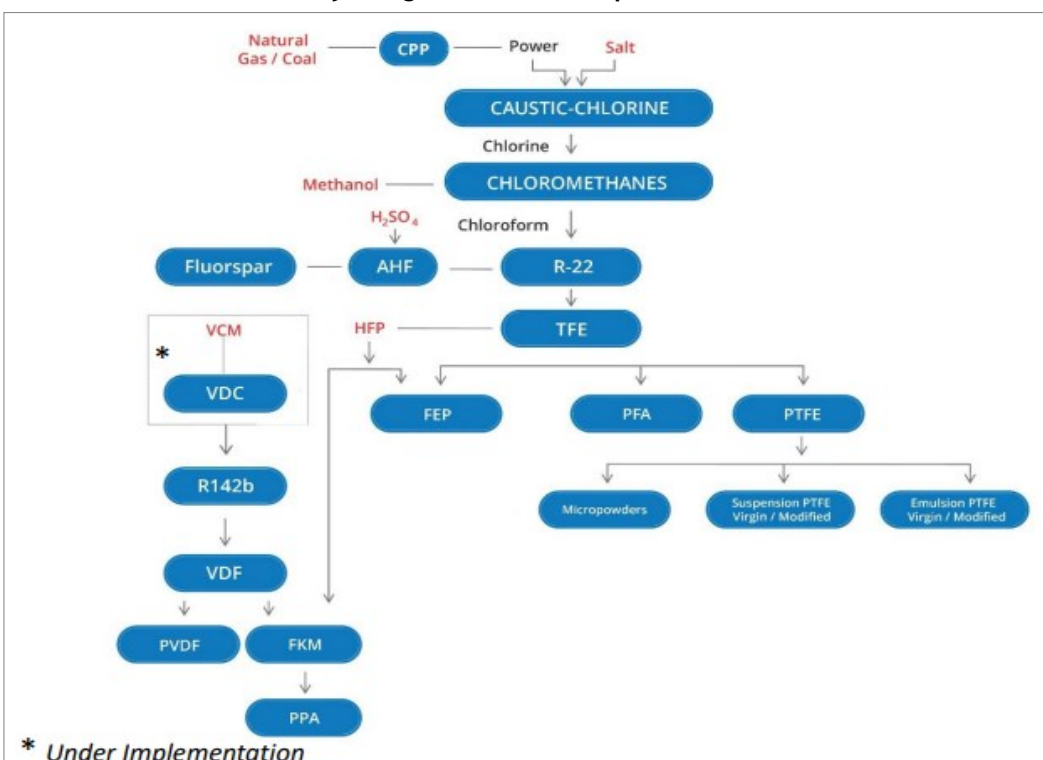
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business. As highlighted by Management, demand for batteries in EVs, energy storage, and consumer electronics is estimated to be 2,633 GWH by 2030, with revenue opportunities of \$300 billion by 2030. GFL has developed its LIPF6 battery chemical and sample are send for customer verification. It expected to commenced by FY23 end as customer validation may take few quarters. Company developing PVDF grades with production capacity of PVDF films by 100 metric tons for cathode binder applications in batteries and the PVDF film, which is used in the back sheet of solar panels expected to commenced by Q1FY24 end. GFL is expanding it PFA capacity by adding more reactors by Q1FY24 end and developing high-purity grades for semiconductor applications. The monomer TEF is readily available and the company is well-positioned to meet the strategic demand of the semiconductor industry. GFL is also developing a Proton Exchange Membrane (PEM) for hydrogen fuel cells and electrolyzers, which is expected to be commence in FY25. We believe that GFL's entry into new-age business has created new opportunities for company and backward integration in most fluoropolymer operation, capex intensive, Technical known, long customer validation, time consuming & painstaking process acts as an entry barrier. We estimate new fluoropolymer revenue to reach at ₹ 2,420 Cr with 53% CAGR over FY22-FY25E.

Fluoropolymer to be key growth driver: The global fluoropolymer market size is expected to be \$11.7 Bn dollars by 2027 with a CAGR of 6.5% over FY22-FY27. In the initial stage GFL has stated with 2-3 grades in fluoropolymer and has currently scaled over more than 50 grades. 85% of this grades are value-added grades, where it faces less completion from Chinese producer. GFL earns 69% of its PTFE revenue from export and 31% from India. The fluoropolymer product have high demand in various industries due to their high performance and new fluoropolymers such as FKM, PFA, and PVDF has wide usage in new-age businesses such as EV batteries, solar panels, and hydrogen fuel cells, semiconductor which offer high margins. GFL is leading Fluoropolymer player in India and has significant presence in exports. We believe GFL is in favourable position, where Chinese players has limited global presence and western players has not added meaningful capacity. GFL has sizeable capacity to scale production in fluoropolymer.

Company Valuations: GFL is expected to witnessed fast growth in top line due to leading position in fluoropolymer, vertically integrated business model, and investment in product development for future technologies. As it shifts focus towards high-end products with higher margins, GFL is set to compete with global innovators and strengthen position in the market. We estimate Revenue/ PAT CAGR of 25%/27% over FY22-FY25E period. The stocks is trading at a Forward PE of 20.66 (X). We value the Stocks at 25X to FY25E EPS and recommend Buy on GFL with a target price of Rs 3,690 (21%).

Exhibit 1: GFL is vertically integrated across its product chain

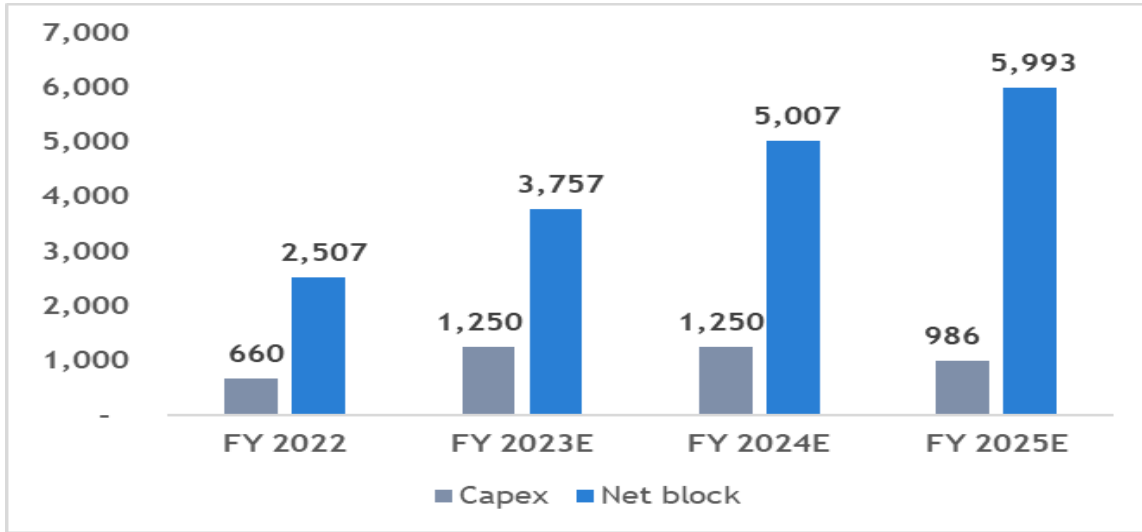


Source: Company Data, GEPL research

Gujarat Fluorochemicals Ltd (GFL)

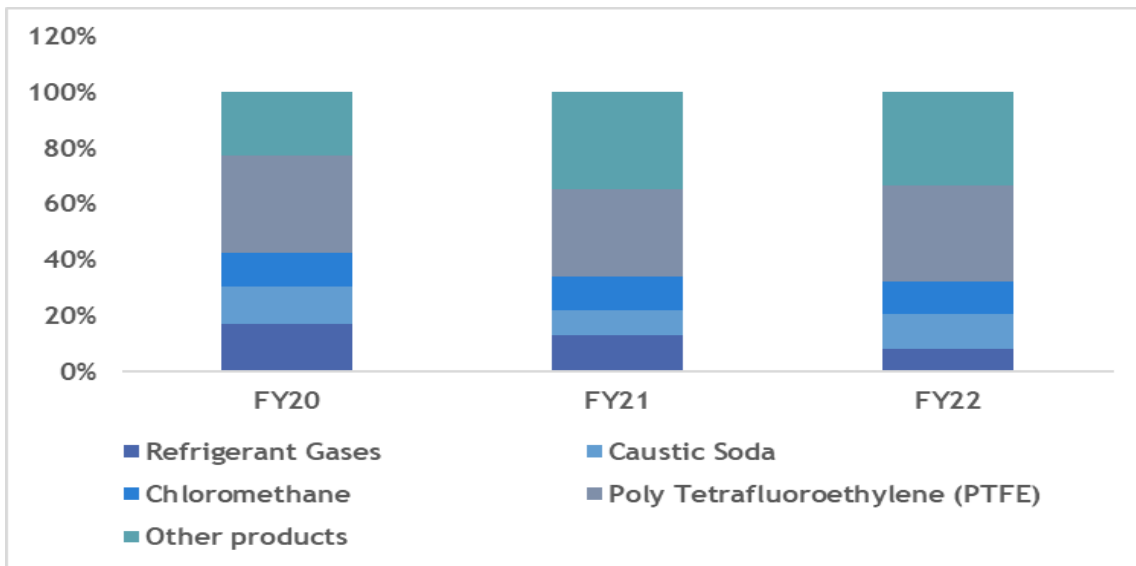
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Exhibit 2: Net block estimated to grow at 34% CAGR over FY22 to FY25E, led by sizeable capex



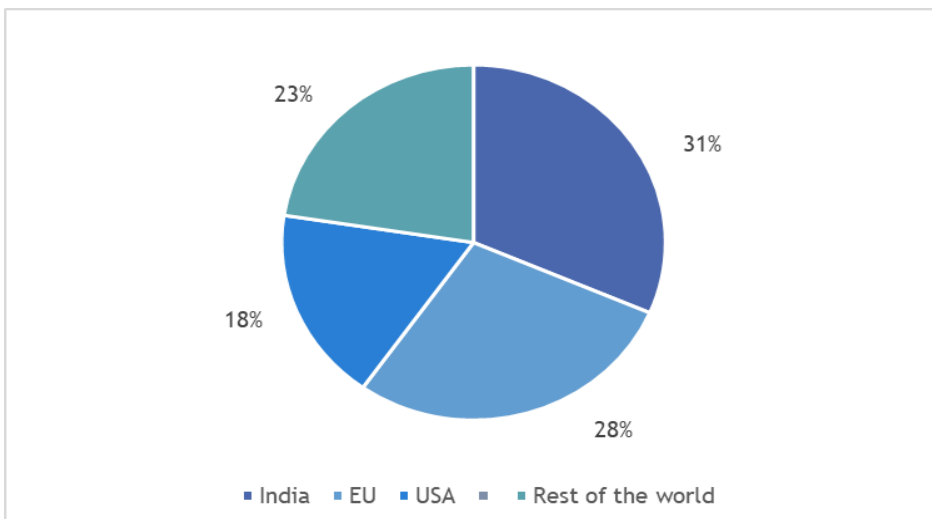
Source: Company Data, GEPL research

Exhibit 3: PTFE Remain Major Contributor to Revenue



Source: Company Data, GEPL research

Exhibit 4: 69% of PTFE revenue come from export



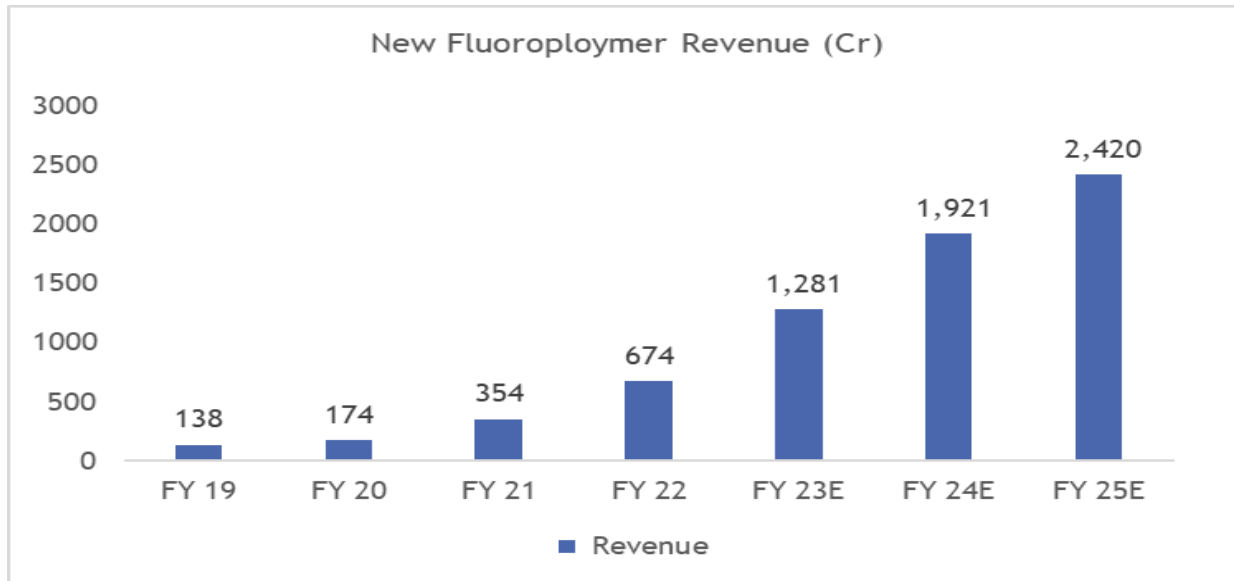
Source: Company Data, GEPL research

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Exhibit 5: New Fluoropolymer revenue estimated to grow at 53% CAGR over FY22-FY25E



Source: Company Data, GEPL research

Exhibit 6: GFL down stream product application.

PRODUCTS	PTFE	MICRO POWDERS	PFA	PVDF	FEP	FKM	PPA
APPLICATIONS	<ul style="list-style-type: none"> • Oil & Gas • Pharma & CPI • Food • Automotive • Aero-space & Defense • Electricals • Electronics & Semi-conductors • Cookware • Construction & Mechanical Parts 	<ul style="list-style-type: none"> • Printing Inks • Engineering plastics • Coatings • Industrial Finishes • Paints • Elastomers • Oils & Greases 	<ul style="list-style-type: none"> • Semi-conductors • Aero-space • Chemical Processing • Corrosion Resistant Fluid Transfer • Wire & Cables • Telecom 	<ul style="list-style-type: none"> • Chemical Processing • Electronics • Architecture • Pharma • EV Batteries • Solar Panels • Water Treatment Membranes • Oil & Gas 	<ul style="list-style-type: none"> • Wire & Cable • Defense • Aerospace • Telecom • Chemical Processing 	<ul style="list-style-type: none"> • Automotive • Chemicals • Refineries • Semiconductors • Aviation • Food & Pharma 	<ul style="list-style-type: none"> • Improve Surface Finish & Gloss for LLDPE • HDPE & PP Films • Partitioning Agent

Source: Company Data

Exhibit 7: New age product

APPLICATIONS	ELECTRIC VEHICLES	SOLAR PANELS	HYDROGEN FUEL CELLS / ELECTROLYZERS
PRODUCTS	<ul style="list-style-type: none"> • PVDF Electrode Binders • Battery Chemicals • LiPF6 • Additives • Electrolyte Formulations 	<ul style="list-style-type: none"> • PVDF Film • Back-sheet 	<ul style="list-style-type: none"> • Fluoropolymers(FKM, PTFE, FEP) • Membranes • Charging Accessories

Source: Company Data

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Exhibit 8: PE trading at median level of 28.2(x).

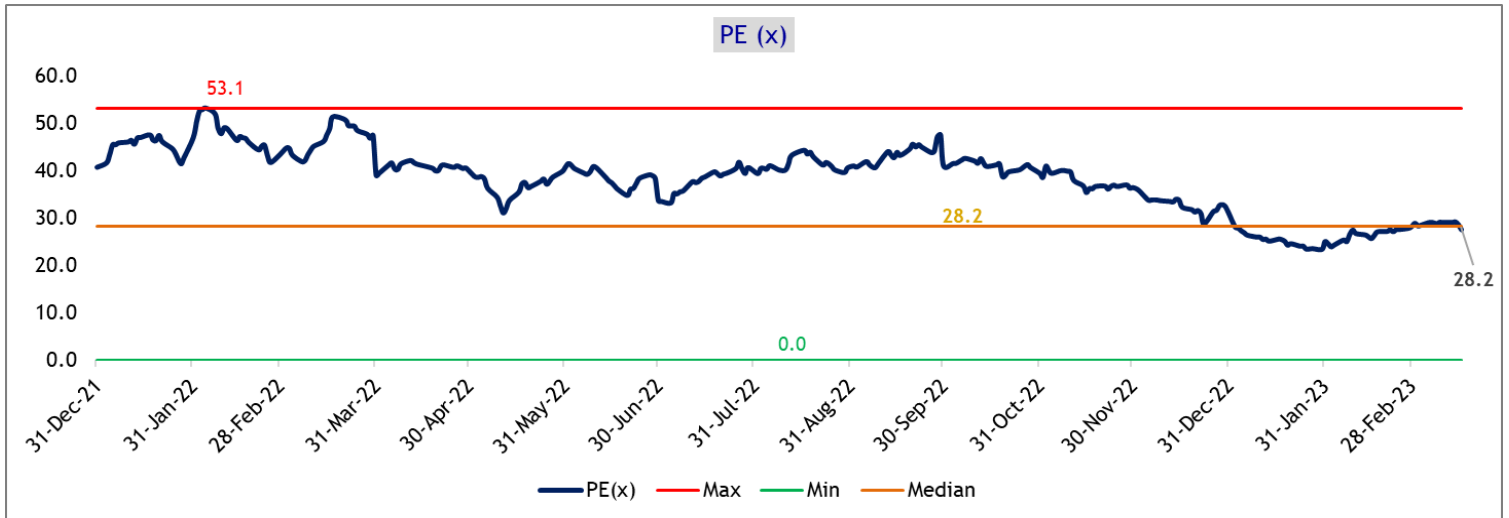


Exhibit 9: EV/ EBITDA trading at a deep discount of median

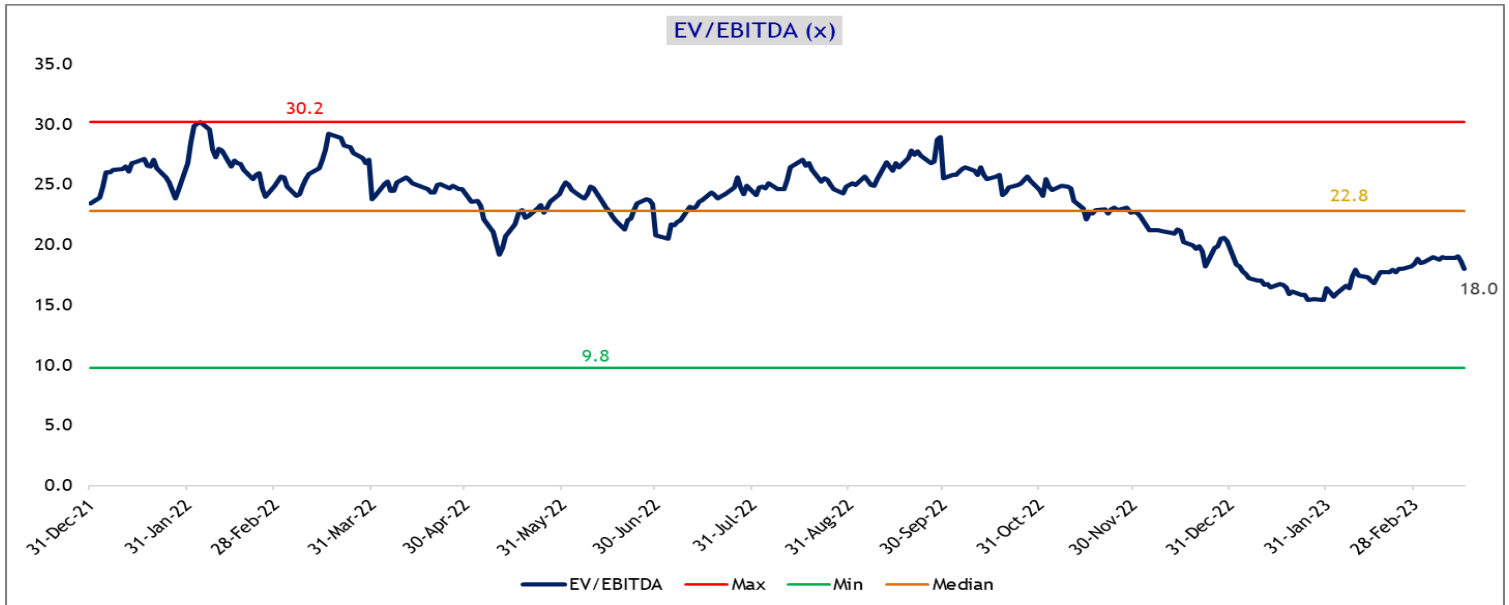
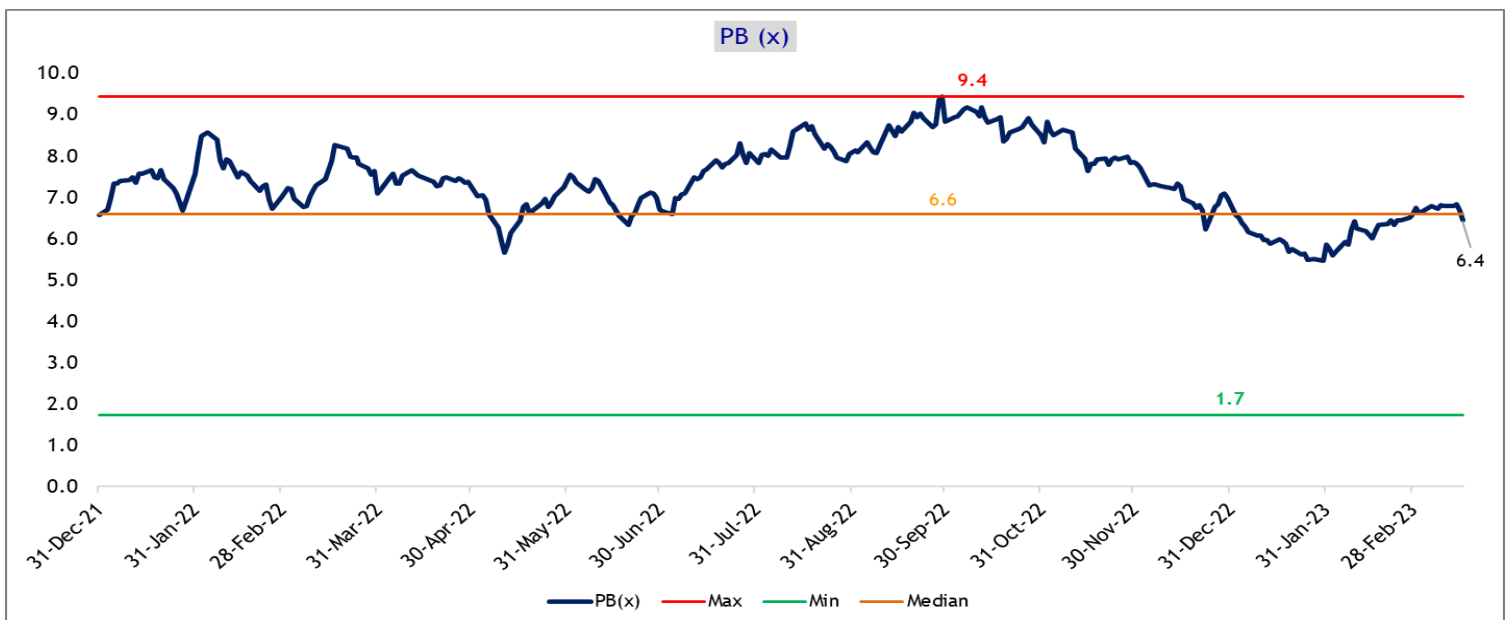


Exhibit 10: PB is trading at median level



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Exhibit 11: Consolidated Profit and Loss statement

In Rs Cr.	FY 20	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Net Operating Revenue	2,606	2,650	3,954	5,614	6,568	7,685
%growth		2%	49%	42%	17%	17%
COGS	1,695	1,667	2,308	3,032	3,646	4,304
Gross Profit	911	983	1,645	2,582	2,923	3,381
Operating Expense	472	394	478	595	650	769
EBITDA	439	590	1,167	1,987	2,273	2,613
EBITDAM%	16.8%	22.2%	29.5%	35.4%	34.6%	34.0%
Other Income	216	207	162	165	168	172
Depreciation & Amr.	192	202	205	313	419	503
EBIT	463	595	1,124	1,839	2,022	2,281
Interest	105	113	78	106	112	119
Exceptional items	-26	-	-	-	-	-
Pre-Tax Profit	332	482	1,045	1,733	1,909	2,162
Tax Rate%	43.0%	145.9%	25.8%	25.0%	25.0%	25.0%
Tax Provision	143	704	269	433	477	541
Profit After Tax	196	-219	787	1,300	1,432	1,622
PATM%	7.5%	-8.3%	19.9%	23.2%	21.8%	21.1%

Exhibit 12: Consolidated Balance Sheet

In Rs Cr.	FY 20	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Shareholder's Fund	3,716	3,493	4,255	5,555	6,944	8,517
Equity Share Capital	11	11	11	11	11	11
Reserves and Surplus	3,705	3,482	4,244	5,544	6,933	8,506
Non-Current Liabilities	270	687	716	810	936	1,069
Long Term Borrowings	479	392	435	518	601	685
Other Long Term Liabilities	(209)	295	281	292	335	384
Current Liabilities	1,843	1,789	1,906	1,962	2,070	2,263
Short Term Borrowings	1,042	1,020	970	1,019	1,029	1,039
Trade Payables	367	432	513	500	581	686
Other Current Liabilities	434	337	423	444	460	538
Total Equity & Liabilities	5,828	5,969	6,878	8,328	9,950	11,850
Non-Current Assets	3,901	4,045	4,440	5,087	6,391	7,180
Net Fixed Assets	2,404	2,357	2,507	3,682	4,932	5,919
Capital Work In Progress	318	400	680	-	-	-
Non-Current Investments	201	20	1	1	1	1
Other Non-Current Assets	978	1,269	1,252	1,404	1,458	1,260
Current Assets	1,927	1,904	2,438	3,241	3,559	4,670
Inventories	813	864	947	1,146	1,378	1,627
Trade Receivables	565	667	778	980	1,080	1,263
Cash And Cash Equivalents	17	22	153	22	323	1,071
Other Current Assets	533	351	560	1,093	778	709
Total Assets	5,828	5,949	6,878	8,328	9,950	11,850

Exhibit 13: Consolidated Cash Flow Statement.

In Rs Cr.	FY 20	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Reported PBT	332	482	1,045	1,733	1,909	2,162
Non-operating & EO items	(80)	(159)	(101)	(101)	(118)	(131)
Interest expense	105	113	78	106	112	119
Depriciation	192	202	205	313	419	503
Working capital changes	49	(162)	(254)	(414)	(251)	(328)
Taxes Paid	(52)	141	(232)	(433)	(477)	(541)
Operating Cash Flow (a)	546	616	741	1,204	1,595	1,785
Capex	(1,196)	(274)	(674)	(1,250)	(1,250)	(986)
Free Cash Flow	(650)	343	67	(46)	344	799
Others	4	(100)	90	17	19	22
Investing Cash Flow (b)	(1,192)	(373)	(584)	(1,233)	(1,231)	(965)
Interest expense	(101)	(113)	(87)	(106)	(112)	(119)
Dividend	-	-	(22)	-	(43)	(49)
Others	722	(135)	(35)	131	93	94
Financing Cash Flow (c)	622	(248)	(144)	25	(62)	(73)
Net Cash Flow (a+b+c)	17	(5)	14	(4)	301	747
Closing Cash Balance	17	12	26	22	323	1,071

Notes

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for stock and our recommendation.

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