

14 August 2024

India | Equity research | Q1FY25 results review

## Gujarat Fluorochemicals

Speciality Chemicals

### Fluoropolymers business' outlook intact; initial wins in battery materials

Gujarat Fluorochemicals' (GFL) Q1FY25 EBITDA, at INR 2.6bn, improved 10% QoQ and outperformed other fluorine peers. GFL reiterated its EBITDA guidance of INR 18–19bn on rolling four quarters by end-FY25, or early-FY26. It anticipates fluoropolymers business to recover with higher sales in new fluoropolymers in H2FY25, and benefit from industry consolidation along with improved off-take in the new high-value products. GFCL EV had initial wins in its battery chemicals business, and expects commercial supplies to begin by end-FY25 to global customers; and many more under discussion. We cut our FY25E/FY26E EPS by 14%/12%, and target price to INR 3,580 (from INR 4,075) with an unchanged FY26E P/E multiple at 35x. Maintain **ADD**.

### Fluoropolymers' revenue rose 1.6% YoY/ 6.2% QoQ

GFL's revenue was down 2.8% YoY to INR 11.8bn due to a revenue drop in the fluoropolymers segment (down 10.3% YoY) – some recovery in fluoropolymers has helped. Bulk chemicals' revenue was up 1.2%/down 4% QoQ to INR 1.7bn, as caustic soda price rose slightly; chloromethane prices continue to soften. Fluorochemicals' revenue dipped 10.3% YoY/1.7% QoQ to INR 3bn, as ref-gas, particularly R-22, has shown seasonal improvement; but fluorochemicals has been hurt from Chinese competition. Fluoropolymers' revenue increased 1.6% YoY/6.2% QoQ to INR 6.9bn, and recovery was restricted by the Red Sea issue, which has delayed supplies and negatively impacting revenues by ~INR 700mn.

### Outlook for key business segments

1) **Fluoropolymers:** GFL sees fluoropolymers' volume rising progressively in FY25, accelerating significantly in H2FY25. It expects to benefit from the exit of legacy players in the western market – benefits showing up particularly in value-added products of PFA/FKM. In new fluoropolymers, GFL is optimising its product portfolio, which may allow it to ascend into the value chain positions vacated by existing players. GFL plans to complete its new fluoropolymers expansion by FY25. FKM demand in the domestic market shall start rising in H2FY25, as India shifts to blended fuel. 2) **EV:** GFL has started getting approvals for its key products LiPF<sub>6</sub> and electrolyte; customers are engaging for commercial long-term contracts. LFP plant to be commissioned in Q3FY25.

### Financial summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	56,847	42,808	53,198	64,070
EBITDA	19,653	9,548	15,519	20,055
EBITDA Margin (%)	34.6	22.3	29.2	31.3
Net Profit	13,288	4,350	8,214	11,245
EPS (INR)	121.0	39.6	74.7	102.3
EPS % Chg YoY	68.8	(67.3)	88.8	36.9
P/E (x)	27.5	84.2	44.6	32.5
EV/EBITDA (x)	19.3	40.2	24.6	19.1
RoCE (%)	20.1	6.5	10.9	13.1
RoE (%)	27.2	7.6	13.0	15.7

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#### Market Data

Market Cap (INR)	366bn
Market Cap (USD)	4,360mn
Bloomberg Code	FLUOROCH IN
Reuters Code	GUJL BO
52-week Range (INR)	3,920 /2,476
Free Float (%)	36.0
ADTV-3M (mn) (USD)	5.3

Price Performance (%)	3m	6m	12m
Absolute	3.4	(6.8)	14.2
Relative to Sensex	(5.1)	(17.2)	(6.7)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(4.8)	(4.7)
EBITDA	(10.5)	(9.6)
EPS	(14.3)	(12.1)

#### Previous Reports

07-05-2024: [Q4FY24 results review](#)

09-02-2024: [Q3FY24 results review](#)

## EBITDA fell 24.7% YoY (+10.3% QoQ) to INR 2.6bn, margin at 22.3%

Gross profit margin contracted 470bps YoY (+10bp QoQ) to 65.4% hurt by: 1) a significant drop in realisation, particularly in bulk chemicals and commodity grade PTFE; and 2) lower sales of R-125, which has earned GFL high margins in FY24. Power and fuel cost dipped 7.9% YoY (+3% QoQ) to INR 2bn; 'other expenses' were up 7.5% YoY/down 7.7% QoQ to INR 2bn. Other expenses rose due to a rise in operating cost on commercialisation of the battery chemicals plant. EBITDA margin came in at 22.3% (up 130bp QoQ); net profit fell 46.3% YoY to INR 1,080mn. Net profit was impacted further due to lower other income (down 38% YoY); and higher finance cost (+32%).

The impact on EBITDA was higher due to the highly-integrated business model, which means significant revenue loss flows down to PBT and lower absorption of fixed cost gets added to margin compression.

### FY25 guidance

- GFL expects EBITDA to scale back to FY23 levels of INR 18–19bn on rolling four quarter in end-FY25, or early-FY26. EBITDA expansion will be higher in H2FY25 when the company sees higher sales volume from fluoropolymers, and some revenue booking from battery chemicals.
- Fluoropolymers sales will be driven by the entire portfolio, but expects higher mix of higher margin new fluoropolymers.

### Update in GFCL EV

- The company is engaged with over 20 potential customers across the EV ecosystem in US, EU, Japan, Korea and India.
- Few Indian and global customers have audited GFL's LiPF6, electrolyte and PVDF binder manufacturing facility and approved it.
- Product sampling and validation is in progress from commercial plants; over 50 samples shipped globally.
- Contracts for LiPF6, electrolyte and PVDF binders are being finalised with few customers; commercial supplies may commence from Q4FY25. The supplies will be based on long-term contract with formula-based pricing where key raw material prices volatility will be passed-on to customers.
- LFP Plant commissioning expected in Q3FY25.

### Other highlights

- **Fluoropolymers:** 3M plans to exit the fluoropolymers business by Jan'25. Customers have already started qualification process for GFL's products. The company anticipates supplies to gradually scale with these customers over the next 12 months. This will likely drive volumes significantly for GFL's new fluoropolymers business.

Battery grade-PVDF approval is in process, and it has reached advanced stages in multi-stage qualification. The company is in discussion with potential customers for long-term contract along with pricing.

New fluoropolymers continue to witness market pull due to strong growth fundamentals in the semi-con industry and successful product developments in applications related to emission controls in the auto industry.

- Manufacturing plant for making PVDF film for solar application has been commissioned and products are under validation stage.

- GFL anticipates capex of INR 5bn in core business – includes expansion of fluoropolymers capacity, backward integration (VDC plant) and optimisation of process. GFCL-EV capex guided at INR 7bn in FY25 (reduced from INR 8bn earlier).
- The company expects to shift power purchase from more renewal, which can potentially reduce energy cost by over INR 1bn pa.

### **Risks**

- 1) Increase in related-party transactions; and 2) execution in fluoropolymer and battery chemicals businesses.

**Exhibit 1: Gujarat Fluorochemicals financials (consolidated)**

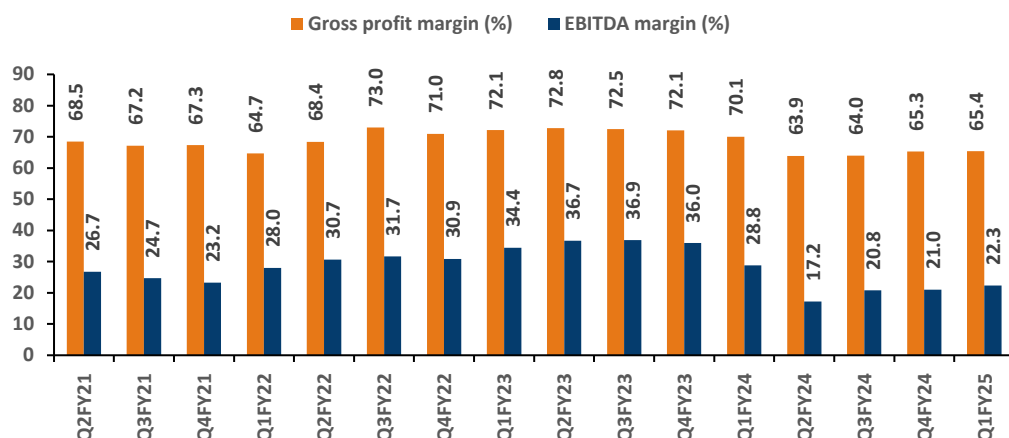
INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	12,093	9,468	9,917	11,330	11,760	3.8	(2.8)
COGS	3,619	3,418	3,569	3,927	4,070	3.6	12.5
<b>Gross profit</b>	<b>8,473</b>	<b>6,050</b>	<b>6,348</b>	<b>7,403</b>	<b>7,690</b>	<b>3.9</b>	<b>(9.2)</b>
GPM (%)	70.1	63.9	64.0	65.3	65.4		
Employee cost	918	874	833	880	1,030	17.1	12.2
% of revenue	7.6	9.2	8.4	7.8	8.8		
Power & fuel	2,215	1,832	1,773	1,980	2,040	3.0	(7.9)
% of revenue	18.3	19.3	17.9	17.5	17.3		
Other expenses	1,861	1,714	1,680	2,168	2,000	(7.7)	7.5
% of revenue	15.4	18.1	16.9	19.1	17.0		
<b>Total expenses</b>	<b>4,994</b>	<b>4,419</b>	<b>4,286</b>	<b>5,028</b>	<b>5,070</b>	<b>0.8</b>	<b>1.5</b>
<b>EBITDA</b>	<b>3,479</b>	<b>1,631</b>	<b>2,062</b>	<b>2,376</b>	<b>2,620</b>	<b>10.3</b>	<b>(24.7)</b>
EBITDA (%)	28.8	17.2	20.8	21.0	22.3		
Depreciation	655	676	719	812	850	4.7	29.7
<b>EBIT</b>	<b>2,824</b>	<b>955</b>	<b>1,343</b>	<b>1,564</b>	<b>1,770</b>	<b>13.2</b>	<b>(37.3)</b>
Other income	146	135	132	183	90	(50.8)	(38.2)
Finance cost	280	342	372	337	370	9.9	32.1
<b>PBT</b>	<b>2,690</b>	<b>749</b>	<b>1,103</b>	<b>1,410</b>	<b>1,490</b>	<b>5.7</b>	<b>(44.6)</b>
Tax	678	221	302	401	410	2.4	(39.5)
ETR (%)	25.2	29.5	27.4	28.4	27.5		
Minority interest /JV	-	(22)	(56)	(65)	-		
Exceptional item	-	-	-	-	-		
<b>Net profit</b>	<b>2,012</b>	<b>527</b>	<b>801</b>	<b>1,010</b>	<b>1,080</b>	<b>7.0</b>	<b>(46.3)</b>
Net profit (%)	16.6	5.6	8.1	8.9	9.2		
EPS (INR)	18.3	4.8	7.3	9.2	9.8		

Source: I-Sec research, Company data

**Exhibit 2: Gujarat Fluorochemicals financials (segmental)**

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
<b>Segment revenue</b>							
Bulk chemicals	1,670	1,700	1,780	1,760	1,690	(4.0)	1.2
Fluorochemicals	3,310	1,850	2,460	3,020	2,970	(1.7)	(10.3)
Fluoropolymers	6,740	5,740	5,450	6,450	6,850	6.2	1.6
Other Products	373	178	227	100	250	149.3	(32.9)
<b>Total</b>	<b>12,093</b>	<b>9,468</b>	<b>9,917</b>	<b>11,330</b>	<b>11,760</b>	<b>3.8</b>	<b>(2.8)</b>
<b>Mix (%)</b>							
Bulk commodities	13.8	18.0	17.9	15.5	14.4		
Fluorochemicals	27.4	19.5	24.8	26.7	25.3		
Fluoropolymers	55.7	60.6	55.0	56.9	58.2		
Other Products	3.1	1.9	2.3	0.9	2.1		

Source: I-Sec research, Company data

**Exhibit 3: Gross and EBITDA margin trends**


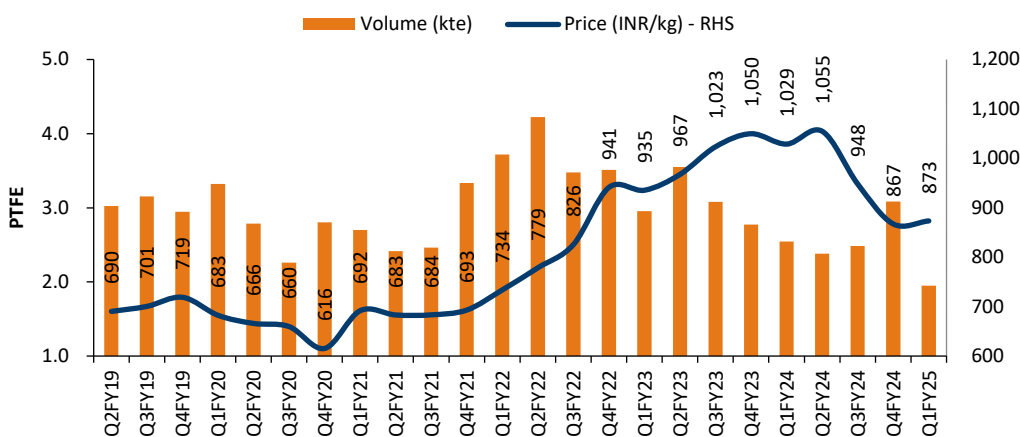
Source: I-Sec research, Company data

### Exhibit 4: Earnings revision

INR mn	Revised		Earlier		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	53,198	64,070	55,880	67,251	(4.8)	(4.7)
Gross profit	36,201	42,959	38,026	45,092	(4.8)	(4.7)
GPM (%)	68.0	67.0	68.0	67.0		
<b>EBITDA</b>	<b>15,519</b>	<b>20,055</b>	<b>17,344</b>	<b>22,188</b>	<b>(10.5)</b>	<b>(9.6)</b>
EBITDA (%)	29.2	31.3	31.0	33.0		
PAT	8,214	11,245	9,579	12,796	(14.3)	(12.1)
<b>EPS (INR)</b>	<b>74.7</b>	<b>102.3</b>	<b>87.2</b>	<b>116.4</b>	<b>(14.3)</b>	<b>(12.1)</b>

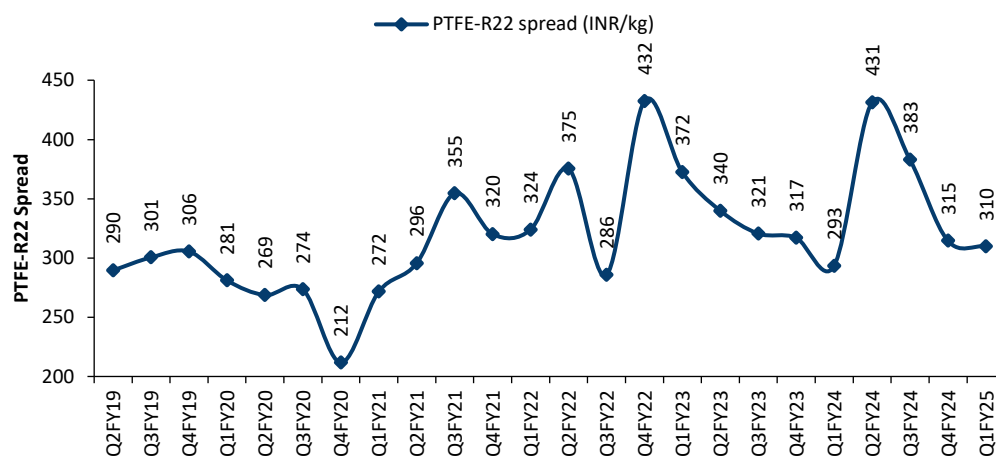
Source: I-Sec research

### Exhibit 5: PTFE prices down 15.1% YoY



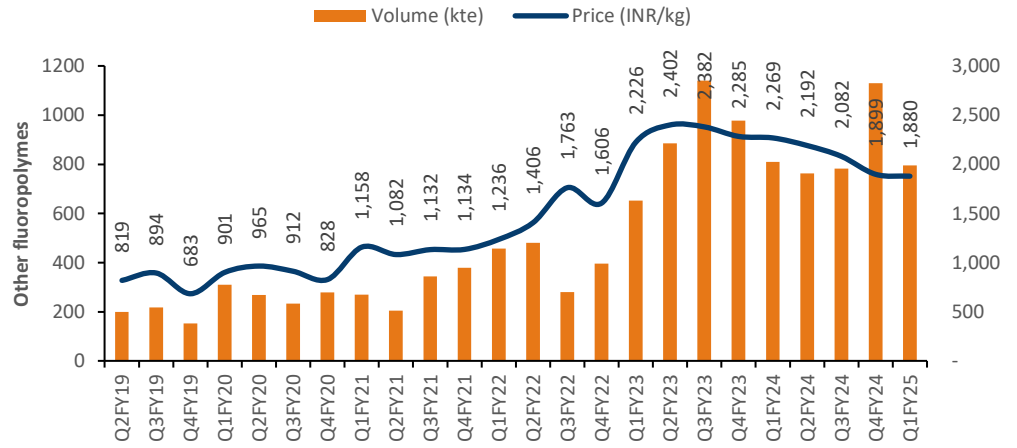
Source: I-Sec research, Commerce Ministry; Note Q1FY25-TD is only for Apr & May'24

### Exhibit 6: PTFE-R22 spread up 5.6% YoY



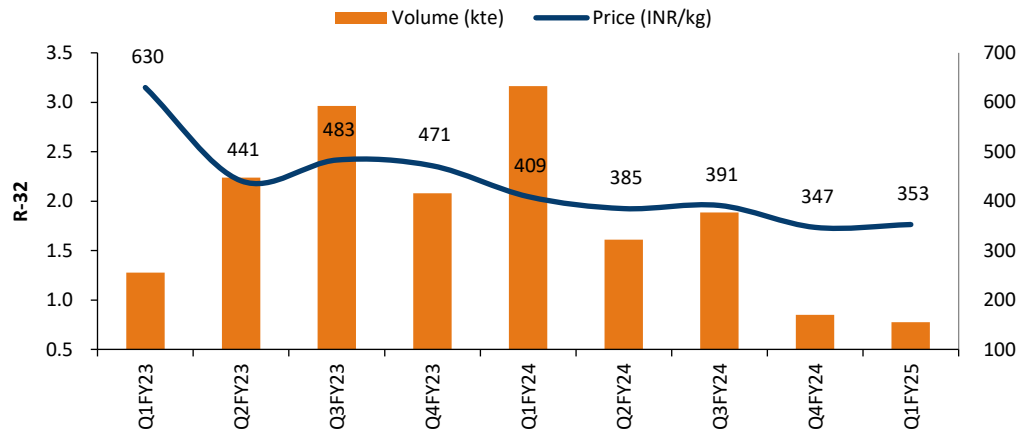
Source: I-Sec research, Commerce Ministry; Note Q1FY25-TD is only for Apr & May'24

**Exhibit 7: Other fluoropolymers prices down 17.2% YoY**



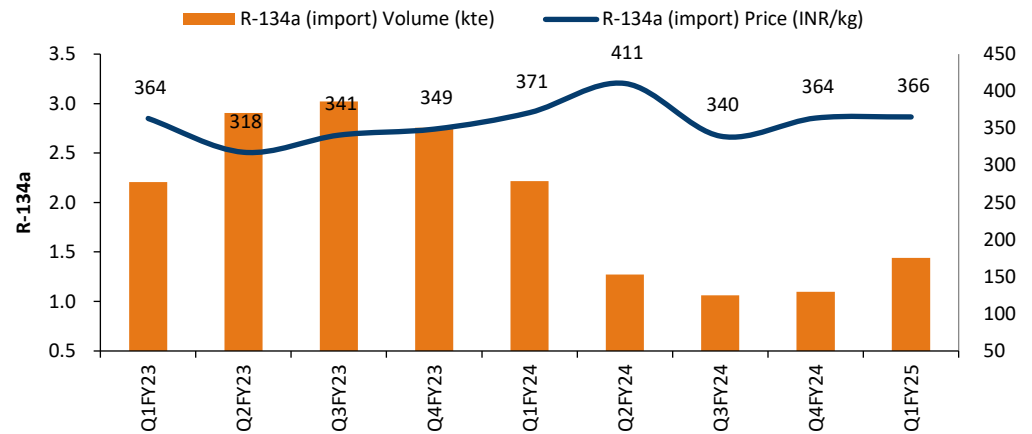
Source: I-Sec research, Commerce Ministry; Note Q1FY25-TD is only for Apr & May'24

**Exhibit 8: R-32 prices down 13.8% YoY**



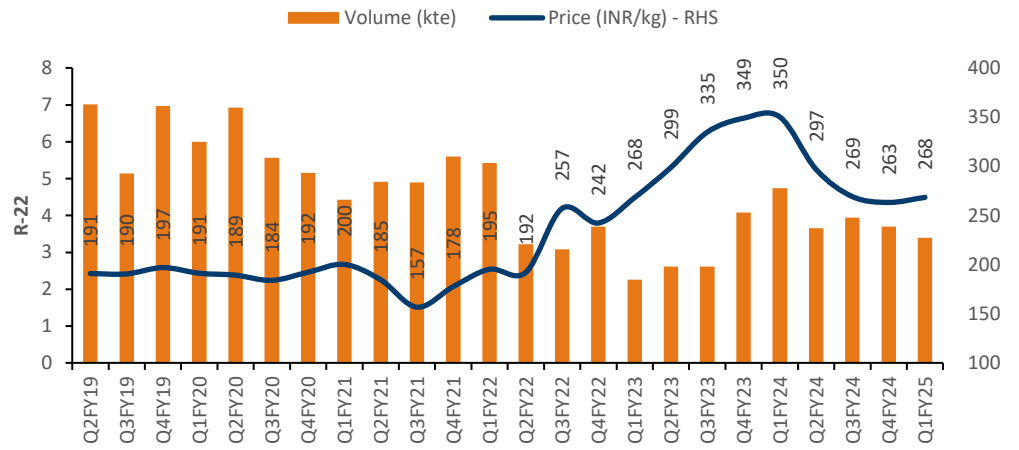
Source: I-Sec research, Commerce Ministry; Note Q1FY25-TD is only for Apr & May'24

**Exhibit 9: R-134a prices down 1.6% YoY**



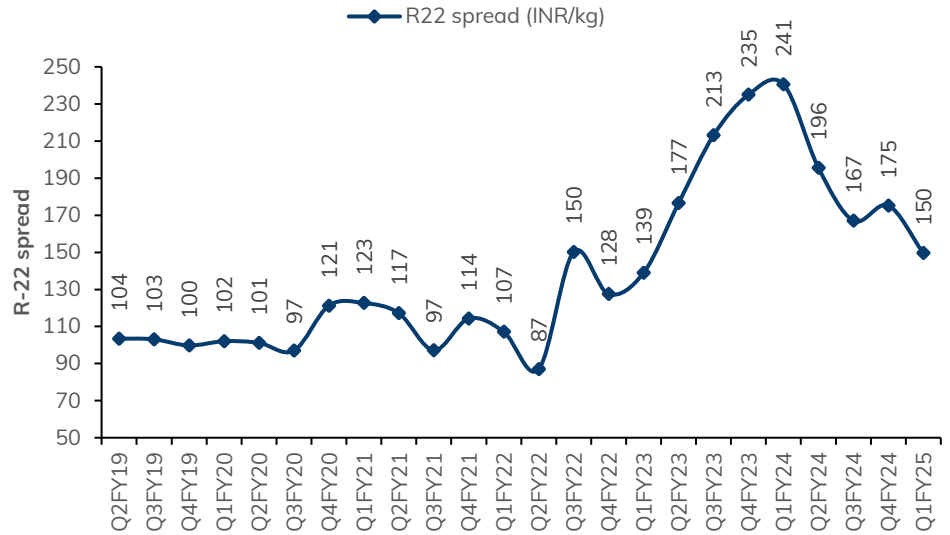
Source: I-Sec research, Commerce Ministry; Note Q1FY25-TD is only for Apr & May'24

**Exhibit 10: R22 prices dip 23.4% YoY**



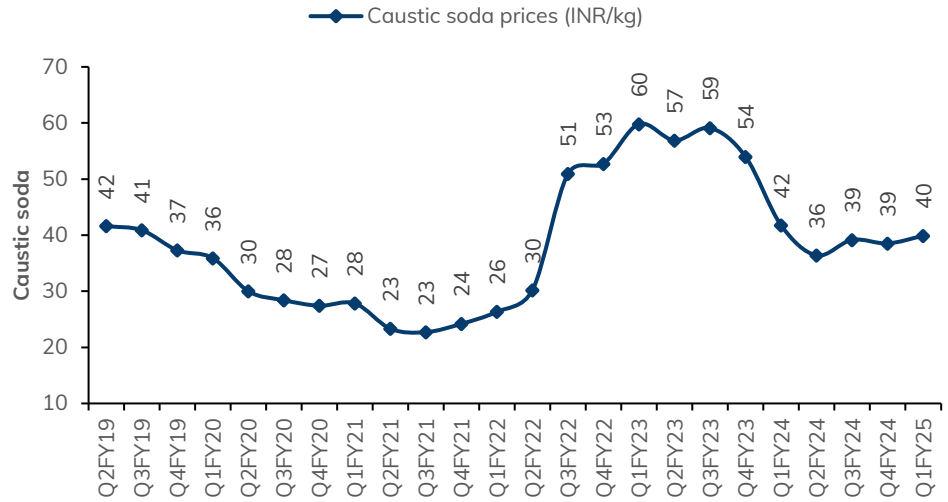
Source: I-Sec research, Commerce Ministry; Note Q1FY25-TD is only for Apr & May'24

**Exhibit 11: R22 spread dips 37.8% YoY**



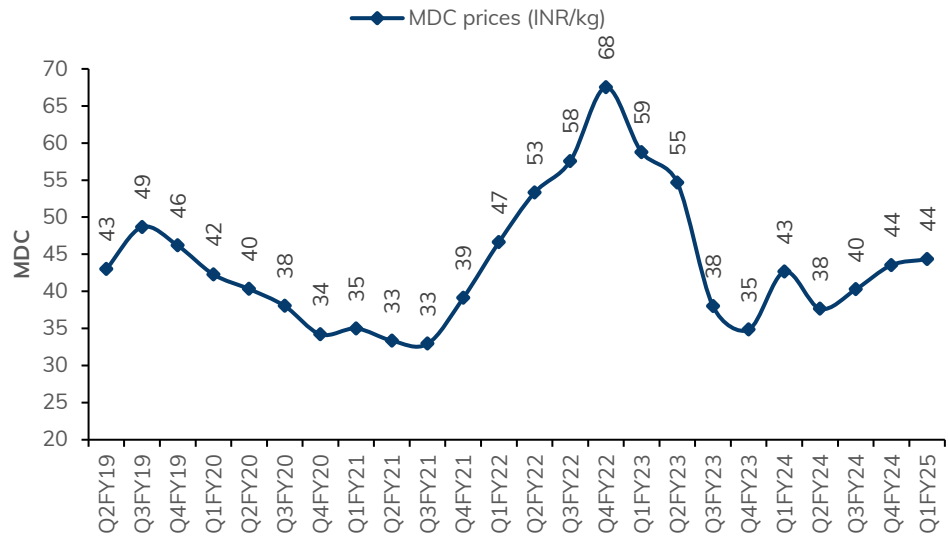
Source: I-Sec research, Commerce Ministry; Note Q1FY25-TD is only for Apr & May'24

**Exhibit 12: Caustic soda prices dip 4.5% YoY**



Source: I-Sec research, Commerce Ministry; Note Q1FY25-TD is only for Apr & May'24

**Exhibit 13: MDC (chloromethane) prices up 3.9% YoY**



Source: I-Sec research, Commerce Ministry; Note Q1FY25-TD is only for Apr & May'24

**Exhibit 14: Shareholding pattern**

%	Dec'23	Mar'24	Jun'24
Promoters	63.8	63.8	62.6
Institutional investors	13.2	13.3	14.7
MFs and others	7.0	7.0	7.9
FIs/Banks	0.0	0.0	0.0
Insurance	1.2	1.2	1.2
FIIIs	5.0	5.1	5.6
Others	23.0	22.9	22.7

Source: Bloomberg

**Exhibit 15: Price chart**



Source: Bloomberg



## Financial Summary

### Exhibit 16: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	56,847	42,808	53,198	64,070
<b>Operating Expenses</b>	<b>37,194</b>	<b>33,261</b>	<b>37,679</b>	<b>44,015</b>
EBITDA	19,653	9,548	15,519	20,055
<b>EBITDA Margin (%)</b>	<b>34.6</b>	<b>22.3</b>	<b>29.2</b>	<b>31.3</b>
Depreciation & Amortization	2,361	2,861	3,435	4,009
EBIT	17,292	6,687	12,084	16,046
Interest expenditure	1,168	1,331	1,729	1,669
Other Non-operating Income	1,723	595	625	656
Recurring PBT	17,847	5,951	10,981	15,033
<b>Profit / (Loss) from Associates</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Less: Taxes</b>	<b>4,617</b>	<b>1,601</b>	<b>2,767</b>	<b>3,788</b>
PAT	13,230	4,350	8,214	11,245
Less: Minority Interest	(58)	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	13,288	4,350	8,214	11,245
<b>Net Income (Adjusted)</b>	<b>13,288</b>	<b>4,350</b>	<b>8,214</b>	<b>11,245</b>

Source Company data, I-Sec research

### Exhibit 17: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	34,977	34,036	40,981	47,892
of which cash & cash eqv.	1,610	1,985	4,784	3,714
Total Current Liabilities & Provisions	10,439	8,801	10,740	12,710
<b>Net Current Assets</b>	<b>24,538</b>	<b>25,234</b>	<b>30,241</b>	<b>35,181</b>
Investments	44	42	42	42
Net Fixed Assets	41,204	51,458	54,034	59,199
ROU Assets	1,291	1,924	1,924	1,924
Capital Work-in-Progress	11,577	10,913	5,456	5,456
Total Intangible Assets	161	140	140	140
Other assets	3,492	4,388	4,608	4,838
Deferred Tax Assets	3	191	191	191
<b>Total Assets</b>	<b>83,714</b>	<b>92,341</b>	<b>1,02,121</b>	<b>1,14,469</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>14,782</b>	<b>19,958</b>	<b>19,958</b>	<b>19,958</b>
<b>Deferred Tax Liability</b>	<b>2,413</b>	<b>2,665</b>	<b>2,665</b>	<b>2,665</b>
Provisions	395	545	715	893
Other Liabilities	477	1,009	1,254	1,510
Equity Share Capital	110	110	110	110
Reserves & Surplus	55,097	59,254	66,680	76,623
<b>Total Net Worth</b>	<b>55,207</b>	<b>59,363</b>	<b>66,790</b>	<b>76,733</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>83,714</b>	<b>92,341</b>	<b>1,02,121</b>	<b>1,14,469</b>

Source Company data, I-Sec research

### Exhibit 18: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	9,468	9,917	11,330	11,760
% growth (YoY)	(35.2)	(30.1)	(23.0)	(2.8)
EBITDA	1,631	2,062	2,376	2,620
Margin %	17.2	20.8	21.0	22.3
Other Income	135	132	183	90
Extraordinaries	-	-	-	-
Adjusted Net Profit	527	801	1,010	1,080

Source Company data, I-Sec research

### Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>16,216</b>	<b>7,703</b>	<b>12,752</b>	<b>16,266</b>
Working Capital Changes	(8,827)	(1,440)	(2,051)	(5,847)
Capital Commitments	(6,750)	(9,556)	(6,011)	(9,174)
<b>Free Cashflow</b>	<b>639</b>	<b>(3,293)</b>	<b>4,690</b>	<b>1,245</b>
<b>Other investing cashflow</b>	<b>1,937</b>	<b>(254)</b>	<b>625</b>	<b>656</b>
Cashflow from Investing Activities	1,986	(109)	625	656
Issue of Share Capital	-	-	-	-
Interest Cost	(1,336)	(1,406)	(1,729)	(1,669)
Inc (Dec) in Borrowings	(796)	5,191	-	-
Dividend paid	(439)	(220)	(787)	(1,302)
Others	(37)	-	-	-
Cash flow from Financing Activities	(2,641)	3,476	(2,516)	(2,971)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(16)</b>	<b>75</b>	<b>2,800</b>	<b>(1,070)</b>
Closing cash & balance	240	315	4,784	3,714

Source Company data, I-Sec research

### Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	121.0	39.6	74.7	102.3
Adjusted EPS (Diluted)	121.0	39.6	74.7	102.3
Cash EPS	142.5	65.6	106.0	138.8
Dividend per share (DPS)	4.0	3.0	7.2	11.8
Book Value per share (BV)	502.6	540.2	607.7	698.2
Dividend Payout (%)	3.3	7.6	9.6	11.6
<b>Growth (%)</b>				
Net Sales	43.8	(24.7)	24.3	20.4
EBITDA	68.2	(51.4)	62.5	29.2
EPS (INR)	68.8	(67.3)	88.8	36.9
<b>Valuation Ratios (x)</b>				
P/E	27.5	84.2	44.6	32.5
P/CEPS	23.4	50.8	31.4	24.0
P/BV	6.6	6.2	5.5	4.8
EV / EBITDA	19.3	40.2	24.6	19.1
EV/SALES	6.7	9.0	7.2	6.0
Dividend Yield (%)	0.1	0.1	0.2	0.4
<b>Operating Ratios</b>				
Gross Profit Margins (%)	72.4	66.0	68.0	67.0
EBITDA Margins (%)	34.6	22.3	29.2	31.3
Effective Tax Rate (%)	25.9	26.9	25.2	25.2
Net Profit Margins (%)	23.4	10.2	15.4	17.6
NWC / Total Assets (%)	29.3	27.3	29.6	30.7
Net Debt / Equity (x)	0.2	0.3	0.2	0.2
Net Debt / EBITDA (x)	0.7	1.9	1.0	0.8
<b>Profitability Ratios</b>				
RoCE (%)	20.1	6.5	10.9	13.1
RoE (%)	27.2	7.6	13.0	15.7
RoC (%)	21.0	6.7	11.3	13.7
Fixed Asset Turnover (x)	1.3	0.8	0.8	0.8
Inventory Turnover Days	95.4	134.0	104.0	104.0
Receivables Days	71.1	72.0	72.0	72.0
Payables Days	44.4	44.2	44.2	44.2

Source Company data, I-Sec research

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