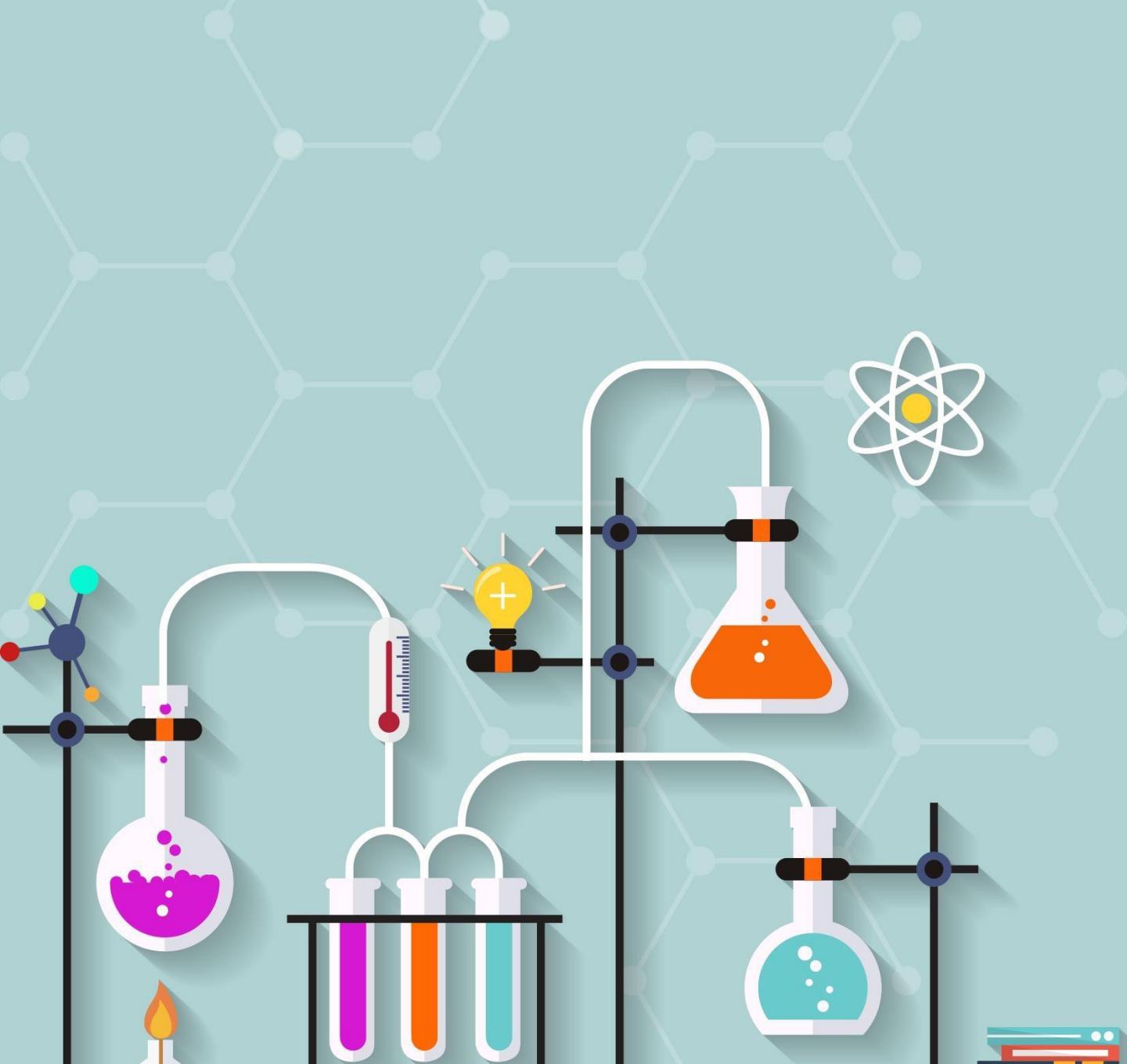


# Q2FY25

## Gujarat Fluorochemicals Ltd.



## Gujarat Fluorochemicals Ltd.

Demand recovery and strengthening prices to drive growth across verticals

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 4,250	INR 4,550	7.1%	INR 4,65,758	ACCUMULATE	Specialty Chemicals

## Result Highlights

- GFL Q2FY25 earnings mirrored our projections. Revenue stood at INR 11,880 Mn, up 25.4% YoY (+1.0% QoQ), driven by robust growth in the Fluoropolymers and Fluorochemicals segment partially offset by the weaker Bulk Chemical segment.
- EBITDA of INR 2,950 Mn, up 79.9% YoY (+12.6% QoQ), with EBITDA margin at 24.8% (+751bps YoY/+255bps QoQ).
- PAT stood at INR 1,210 Mn, +128.3% YoY (+12.0% QoQ); PAT margin stood at 10.2%, up 459bps YoY (+100bps QoQ).
- We increase our FY26 P/E multiple to 39.0x (previously: 33.0x) and FY26E EPS to INR 116.7 (previously: INR 111.4), driven by positive expectations regarding improving pricing conditions across key verticals. The company is well-positioned to gain market share in the fluoropolymers segment, supported by a better revenue mix emphasizing high-margin products leading to higher revenue and higher margins. We anticipate a turnaround in the legacy business in Q4FY25E, coinciding with the GFCL EV business starting its commercial operations in the same quarter. Consequently, we increase our target price to INR 4,550 (previously: INR 3,675) and maintain our "ACCUMULATE" rating.**

## MARKET DATA

Shares outs (Mn)	110
Mkt Cap (INR Mn)	4,65,758
52 Wk H/L (INR)	4,881/2,476
Volume Avg (3m K)	308
Face Value (INR)	1
Bloomberg Code	FLUOROCH IN

## KEY FINANCIALS

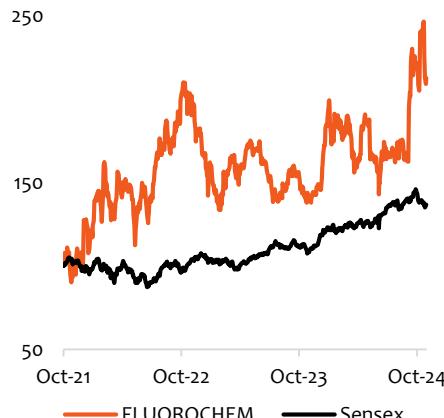
	INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	56,847	42,808	52,654	73,189	98,805	
EBITDA	19,653	9,074	14,324	21,979	29,561	
PAT	13,230	4,349	6,980	12,813	18,026	
EBITDA Margin (%)	34.6%	21.2%	27.2%	30.0%	29.9%	
NPM (%)	23.3%	10.2%	13.3%	17.5%	18.2%	

Source: Company, KRChoksey Research

## Fluoropolymers and Fluorochemicals led the revenue growth; Bulk Chemical lags

- The Fluoropolymers segment revenue stood at INR 7,000 Mn, up 22.0% YoY (+2.2% QoQ), attributed to improved realization driven by the sale of higher value-added grades. The company has changed its product mix, moving from lower value-added segments into higher value-added fluoropolymers.
- GFL anticipates an increase in revenue and margin expansion in this segment, driven by recent approvals of higher-grade fluoropolymers tailored for applications in the automotive, semiconductor, and electric vehicle (EV) industries.
- The company anticipates capturing additional market share in the fluoropolymers segment, as the company is moving up in the value chain and supported by the exit of a legacy competitor. This transition is further supported by the company's strategic shift into higher-value grades previously occupied by the departing player.
- The Fluorochemicals segment revenue for Q2FY25 stood at INR 3,040 Mn, up 64.3% YoY (+2.4% QoQ). The YoY growth is due to the low base in Q2FY24 (revenue INR 1,850), supported by an uptick in refrigerant prices. GFL expects an improvement in demand for fluorochemicals in agrochemicals in Q4FY25E and FY26E.
- The specialty chemicals segment remained subdued this quarter; however, both margins and volumes are expected to improve starting from Q4FY25E.
- During the quarter, the company's bulk chemicals segment operated at near-full capacity, with only minor downtime due to planned maintenance.
- The Bulk Chemical segment revenue stood at INR 1,590 Mn, down 6.5% YoY (-5.9% QoQ), due to lower caustic prices. Caustic prices, previously stagnant at lower levels, have begun to increase, with substantial improvement anticipated by Q4FY25E.
- MDC prices also experienced a slight uptick during the quarter, with further gains expected in the coming period.

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	79,942
NIFTY	24,341

## SHARE HOLDING PATTERN (%)

Particulars (%)	Sep-24	Jun-24	Mar-24
Promoters	62.6	62.6	63.8
FIIs	4.9	5.2	4.5
DIIs	9.5	9.6	8.8
Others	23.0	22.6	22.9
Total	100	100	100

\*Based on the Today's closing

Note: All the market data is as of Today's closing

30.8%

71.6%

Revenue CAGR between FY24 and FY26E

Adj. PAT CAGR between FY24 and FY26E

## Gujarat Fluorochemicals Ltd.

### Key Concall Highlights:

#### GFCL EV poised for growth: Strategic investments and commercial ramp-up drive positive outlook

- GFCL EV is one of the few major companies outside China with a comprehensive battery materials portfolio, positioned to benefit from the U.S. Inflation Reduction Act (IRA) by enhancing traction in U.S. markets.
- GFCL EV has raised INR 10,000 Mn at a valuation of INR 250,000 Mn. The funds will be utilized for the company's capex requirements as it scales up to capitalize on the large-scale global opportunities in the electric vehicles (EV) / energy storage systems (ESS) space.
- The Salt plant has reached global quality standards and is currently in the ramp-up phase, attracting increased customer visits and audits for product validation. Initial production capacity is prepared for key battery materials, including LiPF6 (Salt), electrolyte, PVDF binder, and additives. The LSP plant is set to come online in Q4FY25E.
- Initial product validations have shown positive results, with several customer discussions moving toward finalizing commercial agreements. The expected commencement of commercial supply is projected for Q4FY25E.
- With anticipated commercial agreements, GFCL EV projects cumulative Capex to reach INR 50,000 Mn by FY27E and INR 60,000 Mn by FY28E, aligning with previously outlined growth objectives.
- The company intends to raise another INR 25,000 Mn and is in advance discussion to raise USD 100 Mn from a sovereign fund.
- GFCL EV guidance remains steady, targeting an asset turnover of 2.0x and an EBITDA margin of 25.0% at optimal utilization levels.
- An initial gradual uptick in revenue is expected over the next 4-6 quarters, followed by an accelerated growth trajectory.

#### Positive momentum expected across key segments

- MDC prices showed a slight increase this quarter and are expected to rise further. Refrigerant prices also saw modest gains, with a stronger outlook due to reduced R-22 quotas starting next year, potentially driving a substantial price hardening.
- Demand for fluorochemicals in agrochemicals is expected to pick up in Q4FY25E, with further improvement projected in FY26E.
- Customers are actively seeking to de-risk their supply chains, reducing dependency on specific countries, which could benefit the company's global footprint.
- Commercial agreements with suppliers are on track to begin in Q4FY25E, and the company is prepared to commence commercial supply upon product qualification completion.
- Caustic prices, previously stagnant, are now rising, with significant improvement anticipated by Q4FY25E, supported by strengthening downstream demand.

#### Strategic expansion into high-value sectors

- The company has developed new fluoropolymer grades for the automotive industry, aligning with government initiatives to increase ethanol blending, and has secured qualifications in this segment.
- New grades for the semiconductor and EV sectors have been developed and are in the final stages of qualification, with commercial-scale operations prepared for these applications.
- Efforts to penetrate new sectors and applications within the semiconductor industry are expected to yield results beginning next quarter.
- Products under evaluation have successfully reached qualification or are in advanced stages, with commercial-scale plans in place to support growth in these new high-value segments.
- Initial production capacity is established for Salt (LiPF6), electrolyte, PVDF binder, and additive in the battery materials segment, while the LSP plant is on track to become operational by Q4FY25E.

#### Valuation and view:

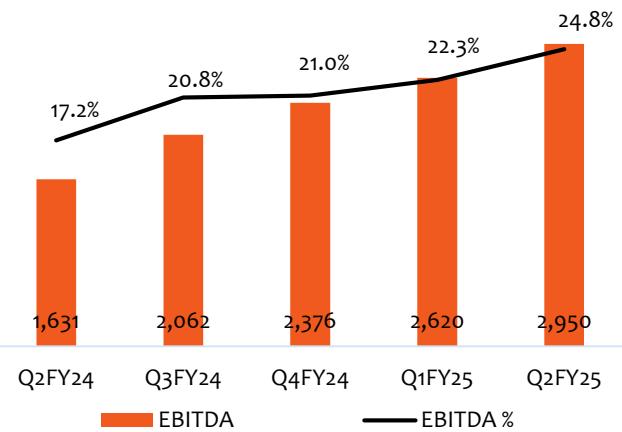
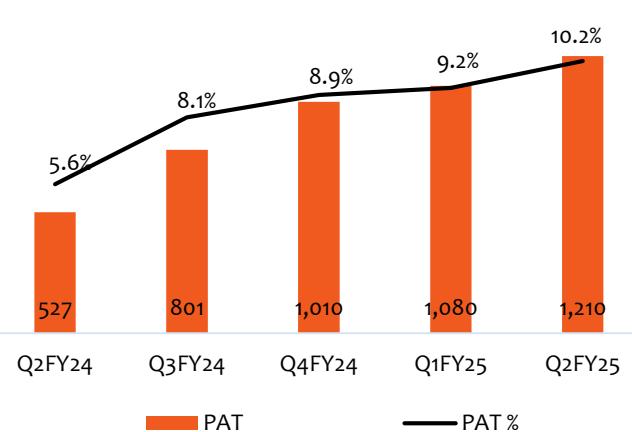
Gujarat Fluorochemicals Ltd's Q2FY25 earnings aligned with our expectations. The Fluoropolymers vertical demonstrated robust growth, driven by a strong performance in high-value-added fluoropolymers. The Fluorochemical segment also experienced significant growth, supported by improved pricing and a lower comparative base from Q2FY24. In contrast, the bulk chemicals segment faced a decline due to weak pricing. Management is optimistic about improved pricing across all verticals, anticipating a rise in volumes in the coming quarters. Additionally, GFCL's EV business is set to commence commercial activities in Q4FY25E.

We increase our FY26E P/E multiple to 39.0x (previously: 33.0x) and FY26E EPS of INR 116.7 (previously: INR 111.4), on improved macroeconomic conditions. We anticipate an uptick in prices for MDC, Caustic prices, and refrigerant prices in the coming quarters, driven by a recovery in demand. Additionally, we remain optimistic about the company's potential to capture market share in fluoropolymers, especially as it ascends the value chain, bolstered by the exit of a legacy player. Given these factors, we foresee favorable conditions across key verticals in the upcoming quarters. Furthermore, initial product validations from GFCL EV have yielded positive results, with several customers now finalizing commercial agreements. Consequently, we arrive at an increased TP of INR 4,550 (previously: INR 3,675) and maintain our "ACCUMULATE" rating on the shares of Gujarat Fluorochemical Ltd.

**Gujarat Fluorochemicals Ltd.****RESULT SNAPSHOT**

Particulars (INR Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
<b>Net Sales</b>	<b>11,880</b>	<b>11,760</b>	<b>9,470</b>	<b>1.0%</b>	<b>25.4%</b>
Total Expenditure	8,930	9,140	7,830		
Cost of materials consumed	3,940	3,970	3,600		
(Increase)/Decr in Stock	(270)	0	(220)		
Cost of raw ore, material	70	100	40		
Power and fuel	2,090	2,040	1,830		
Employees cost	1,100	1,030	870		
Other Expenses	2,000	2,000	1,710		
<b>EBITDA</b>	<b>2,950</b>	<b>2,620</b>	<b>1,640</b>	<b>12.6%</b>	<b>79.9%</b>
<b>EBITDA Margin (%)</b>	<b>24.8%</b>	<b>22.3%</b>	<b>17.3%</b>	<b>255bps</b>	<b>751bps</b>
Depreciation	900	850	680		
EBIT	2,050	1,770	960		
Other income	90	90	130		
Interest	420	370	340		
Share of loss of joint venture	0	0	0		
EBT	1,720	1,490	750		
Tax	510	410	220		
Minority Interest	0	0	0		
<b>Net income</b>	<b>1,210</b>	<b>1,080</b>	<b>530</b>	<b>12.0%</b>	<b>128.3%</b>
<b>Net Margin (%)</b>	<b>10.2%</b>	<b>9.2%</b>	<b>5.6%</b>	<b>100bps</b>	<b>459bps</b>
EPS	11.0	9.8	4.8		

Source: Company, KRChoksey Research

**QUARTERLY SNAPSHOT****EBITDA and EBITDA margin witnessed sequential growth****PAT and PAT margin continued to show positive momentum**

Source: Company, KRChoksey Research

## Gujarat Fluorochemicals Ltd.

## KEY FINANCIALS

## Exhibit 1: Profit &amp; Loss Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenues	56,847	42,808	52,654	73,189	98,805
COGS	18,493	15,474	20,798	27,007	35,570
Gross profit	41,422	28,602	36,123	50,450	67,503
Employee cost	3,221	3,504	4,739	6,221	7,904
Other expenses	8,714	7,897	7,582	9,075	12,252
Power & fuel	9,554	7,800	8,951	12,442	16,797
Material extraction	281	327	527	732	988
EBITDA	19,653	9,074	14,324	21,979	29,561
EBITDA Margin	34.6%	21.2%	27.2%	30.0%	29.9%
Depreciation	2,361	2,861	3,731	3,770	3,915
EBIT	17,292	6,212	10,593	18,209	25,646
Interest expense	1,168	1,331	1,597	1,725	2,242
Other income	1,723	1,069	500	600	630
PBT	17,847	5,951	9,496	17,084	24,034
Tax	4,617	1,601	2,516	4,271	6,009
PAT	0	0	0	0	0
Adj. PAT	13,230	4,349	6,980	12,813	18,026
EPS (INR)	13,230	4,349	6,980	12,813	18,026
Adj. EPS (INR)	120.4	39.6	63.5	116.7	164.1

## Exhibit 3: Cash Flow Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
CFFO	7,389	6,263	13,483	13,924	20,445
CFI	(4,764)	(9,665)	(14,437)	(16,622)	(11,265)
CCFF	(2,641)	3,476	4,014	(227)	(5,920)
Net Inc/Dec	(16)	75	3,060	(2,925)	3,260
Opening Balance	256	240	315	3,375	450
Closing Balance	240	315	3,375	450	3,710

## Exhibit 4: Key Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margins (%)	34.6%	21.2%	27.2%	30.0%	29.9%
Net Profit Margin (%)	23.3%	10.2%	13.3%	17.5%	18.2%
RoE (%)	24.0%	7.3%	9.8%	15.2%	17.6%
RoCE (%)	23.2%	6.9%	9.2%	14.3%	16.9%
RoA (%)	15.8%	4.7%	6.5%	10.2%	12.3%
Debt/Equity	0.03	0.06	0.06	0.06	0.04
P/E(x)	34.4	104.7	65.2	35.5	25.3

Source: Company, KRChoksey Research

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	110	110	110	110	110
Other Equity	55,097	59,254	71,233	84,046	102,072
Non controlling interest	0	0	0	0	0
<b>Total Equity</b>	<b>55,207</b>	<b>59,363</b>	<b>71,343</b>	<b>84,156</b>	<b>102,182</b>
Non-Current Liabilities					
Borrowings	1,832	3,731	4,477	5,372	4,566
Deferred Tax Liability	2,413	2,665	3,198	3,837	4,604
Other Liability	873	1,554	693	982	1,363
<b>Total Non-Current Liabilities</b>	<b>5,118</b>	<b>7,949</b>	<b>8,368</b>	<b>10,191</b>	<b>10,534</b>
Current Liabilities					
Borrowings	12,950	16,227	16,727	17,227	14,227
Trade Payables	6,910	5,189	7,213	10,026	13,535
Other financial liabilities	2,250	2,691	2,106	2,928	3,952
Other current liabilities	1,279	921	981	1,233	1,540
<b>Total Current Liabilities</b>	<b>23,389</b>	<b>25,028</b>	<b>27,027</b>	<b>31,413</b>	<b>33,254</b>
<b>Total Liabilities</b>	<b>83,714</b>	<b>92,341</b>	<b>106,738</b>	<b>125,760</b>	<b>145,969</b>
Non-Current Assets					
Property Plants and Equipments	29,627	40,545	49,814	59,544	63,129
CWIP	11,424	10,913	12,004	13,204	14,525
Right of use assets	1,291	1,924	2,117	2,328	2,561
Other current assets	6,393	4,923	5,077	6,787	8,999
<b>Total Non-Current Assets</b>	<b>48,735</b>	<b>58,305</b>	<b>69,011</b>	<b>81,863</b>	<b>89,213</b>
Current Assets					
Inventories	14,854	15,713	13,560	18,849	23,822
Trade Receivables	11,068	8,446	12,262	15,039	20,302
Cash and Bank	240	315	3,375	450	3,710
Bank Balance	1,370	1,670	1,670	1,670	1,670
Other current assets	7,447	7,892	6,860	7,889	7,252
<b>Total Current Assets</b>	<b>34,979</b>	<b>34,036</b>	<b>37,726</b>	<b>43,897</b>	<b>56,756</b>
<b>Total Assets</b>	<b>83,714</b>	<b>92,341</b>	<b>106,738</b>	<b>125,760</b>	<b>145,969</b>

## Gujarat Fluorochemicals Ltd.

Gujarat Fluorochemicals Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
30-Oct-24	4,250	4,550	ACCUMULATE
17-Aug-24	3,427	3,675	ACCUMULATE
09-May-24	3,307	3,530	ACCUMULATE
14-Feb-24	3,575	3,884	ACCUMULATE
13-Nov-23	2,789	2,988	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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