

**Price:** 4,023

**Recommendation:** Buy

**Industry:** Specialty Chemicals

**Sector:** Commodities

**Report Date:** 31-Mar-2025

Gujarat Fluorochemicals Limited (GFL) is enhancing its market position with strategic initiatives and a 16% revenue increase in Q3 FY '25. The company focuses on high capex in Battery Materials, aiming to boost revenue and profitability. GFL is diversifying into automotive, semiconductor, and EV sectors, expanding salt production, and reducing power costs. With plans to utilize fluoropolymer capacities by FY '26, GFL is exploring U.S. market opportunities and raising INR1,000 crores for growth.

| Sales              |         | Profit & Loss             |          | Profitability Matrix    |          |
|--------------------|---------|---------------------------|----------|-------------------------|----------|
| Current Year       | 4450 Cr | Operating Profit(Year)    | 1051 Cr  | Operating Profit Margin | 23.6 %   |
| Previous Year      | 5622 Cr | Operating Profit(Quarter) | 307 Cr   | EBITDA Margin           | 21.12 %  |
| Current Quarter    | 1123 Cr | PAT (Year)                | 414 Cr   | Net Profit Margin       | 10.3 %   |
| Previous Quarter   | 1199 Cr | PAT (Quarter)             | 153 Cr   | EPS                     | 45.0     |
| Revenue (QYoY)     | 908 Cr  |                           |          |                         |          |
| Valuation Matrix   |         | Growth(YoY)               |          | Growth(QoQ)             |          |
| Trailing P/E       | 89.5    | Sales Growth              | 0.01 %   | Sales Growth            | -6.34 %  |
| PEG Ratio          | -4.51   | PAT Growth                | -69.42 % | Sales Growth QYoY       | 23.68 %  |
| EV/EBITDA          | 41.6    | EPS Growth                | 18.11 %  | PAT Growth              | 6.25 %   |
| P/B                | 7.19    | Dividend Yield            | 0.07     | PAT Growth QYoY         | 173.21 % |
| Capital Allocation |         | Holdings                  |          | Leverage                |          |
| RoE                | 7.23 %  | Promoter                  | 62.6 %   | Debt/Equity             | 0.34     |
| RoA                | 4.76 %  | FII                       | 4.61 %   | Debt                    | 2081 Cr  |
| RoCE               | 9.14 %  | DII                       | 10.0 %   | Market Cap              | 44191 Cr |
| RoIC               | 8.31 %  | Public                    | 22.8 %   | Enterprise value        | 46062 Cr |
|                    |         | No of Shares              | 11.0 Cr  | Cash Equivalents        | 210 Cr   |

source : Company filings

## Company's Overview Based on Recent Concall and Performance:

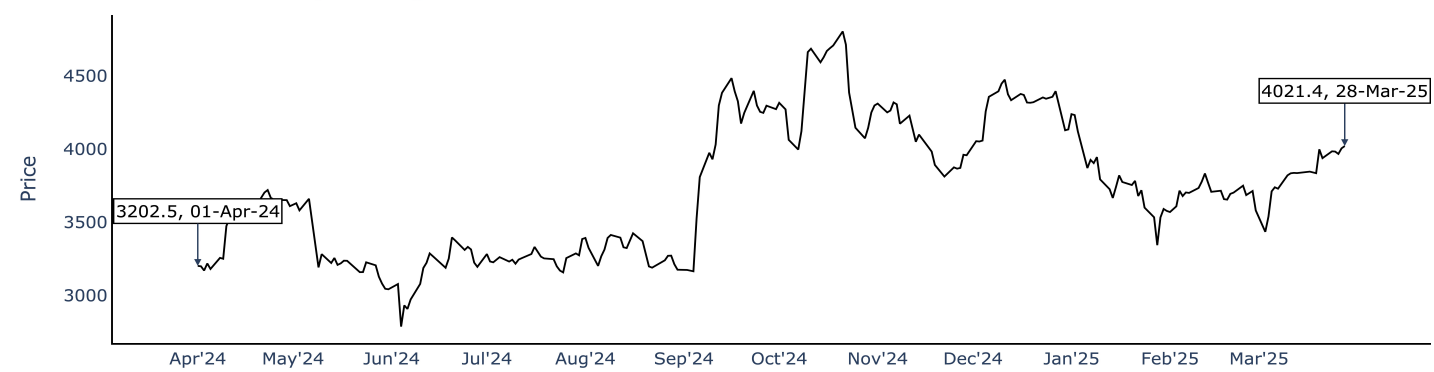
In the recent earnings call, Gujarat Fluorochemicals Limited (GFL) highlighted several strategic initiatives and business strategies aimed at enhancing its market position and financial performance. The company reported a 16% year-on-year increase in revenue for Q3 FY '25, reaching INR1,148 crores, with an EBITDA margin improvement to 26%. This growth was primarily driven by a sustained improvement in the fluoropolymers vertical and a better product mix. The company is focusing on high capex deployment in its Battery Materials business, which is expected to reverse the current impact of higher depreciation and interest charges once revenue contributions from this segment commence. The exit of a legacy player and GFL's successful development of higher-grade fluoropolymers are anticipated to drive significant revenue and profitability increases in the coming quarters.

GFL is actively pursuing new initiatives and diversification schemes, particularly in the automotive, semiconductor, and EV sectors, which present large-scale opportunities for value-added fluoropolymers. The company is also expanding its salt production capacity to meet the growing demand in the EV ecosystem, with plans to ramp up production in the next financial year. Additionally, GFL is aggregating its wind assets to reduce power costs by 10% to 12%, translating to savings of around INR100 crores. The company is also focusing on the R-32 refrigerant market, leveraging its quota availability to enhance production capacity and reduce reliance on external chloromethane sales.

Looking ahead, GFL is well-positioned for future growth and scaling, with plans to fully utilize its fluoropolymer capacities by the end of FY '26. The company is also exploring opportunities in the U.S. market, driven by the IRA regulations, which create a favorable environment for GFL as an alternative supply chain to China. The company has raised INR1,000 crores for capex over the next 12 months and is in advanced discussions with international sovereign funds to further support its growth initiatives. GFL's strategic focus on value-added products and new polymers is expected to continue driving margin improvements.

On the positive side, GFL's strategic initiatives and diversification efforts are expected to yield significant revenue and profitability growth. The company's focus on high-value products and expansion into new markets positions it well for future success. However, there are areas for improvement, such as the need to accelerate capacity utilization and address potential challenges in the EV market due to changing regulatory landscapes. Specific data points of interest include the company's capex plans of INR6,000 crores by FY '28 and the anticipated savings of INR150 crores per year from renewable energy initiatives.

FLUOROCHEM Daily Closing One Year Price Chart



| Name             | Mar Cap (Rs. Cr.) | P/E    | ROE    | Sales(G) QoQ | Sales(G) QYoY | PAT(G) QoQ | PAT(G) QYoY |
|------------------|-------------------|--------|--------|--------------|---------------|------------|-------------|
| SRF              | 87123.70          | 75.96  | 12.22% | 1.96%        | 14.36%        | 34.58%     | 6.96%       |
| Linde India      | 53363.11          | 122.89 | 12.88% | -4.50%       | -14.21%       | 9.20%      | -2.70%      |
| Gujarat Fluoroch | 44191.01          | 89.46  | 7.23%  | -6.34%       | 23.68%        | 6.25%      | 173.21%     |
| Godrej Industrie | 38192.74          | 49.41  | 0.65%  | 0.41%        | 34.39%        | -34.57%    | 76.86%      |
| Deepak Nitrite   | 27054.92          | 39.17  | 16.38% | -6.33%       | -5.27%        | -49.49%    | -51.45%     |

| Aspect               | Commentary   |
|----------------------|--|
| Revenue              | The company's revenue shows a decline from the previous year, indicating potential challenges in maintaining sales momentum. However, the quarterly revenue suggests a slight recovery, which could be attributed to seasonal factors or strategic initiatives aimed at boosting sales in specific segments. |
| Profit & Loss        | Operating profit remains robust, reflecting efficient cost management despite revenue challenges. The PAT indicates a significant drop, suggesting increased expenses or lower income from other sources. This calls for a strategic review to enhance profitability and shareholder value.                  |
| Profitability Matrix | The operating profit margin is strong, indicating effective cost control and pricing strategies. However, the net profit margin is lower, suggesting potential inefficiencies or higher non-operating expenses. Focus on optimizing these areas could improve overall profitability.                         |
| Valuation Matrix     | The high P/E ratio suggests market optimism about future growth, but the negative PEG ratio indicates potential overvaluation or growth concerns. The EV/EBITDA ratio is elevated, reflecting high enterprise value relative to earnings, which may deter value investors.                                   |
| Growth (YoY)         | Minimal sales growth year-on-year highlights stagnation, while the significant drop in PAT growth suggests operational or market challenges. The positive EPS growth indicates potential for future earnings improvement, warranting strategic focus on sustaining this trend.                               |
| Growth (QoQ)         | Quarterly sales growth decline suggests short-term challenges, but the substantial PAT growth indicates improved operational efficiency or cost management. The positive QYoY sales growth reflects recovery efforts, signaling potential for sustained future growth.                                       |
| Capital Allocation   | The company's return metrics indicate moderate efficiency in capital utilization. RoE and RoA suggest room for improvement in generating shareholder returns. Strategic focus on optimizing capital allocation could enhance these metrics and drive long-term value.  |
| Holdings             | Promoter holding is strong, indicating confidence in the company's prospects. Institutional holdings are moderate, suggesting potential for increased interest. Public holding is significant, reflecting broad market participation and potential for enhanced market perception.                           |
| Leverage             | The debt/equity ratio is low, indicating prudent financial management and low leverage risk. The company's debt level is manageable, supporting future growth initiatives. Maintaining this balance is crucial for sustaining financial stability and funding strategic expansions.                          |

**Analyst viewpoint:** Gujarat Fluorochemicals Limited (GFL) demonstrates strong growth potential in the short to mid-term, driven by its strategic initiatives and market expansion efforts. In the recent quarter, the company reported a remarkable 23.68% growth in sales compared to the previous year, bolstered by a robust improvement in its fluoropolymers segment and a better product mix. Valuation metrics indicate a proactive approach with a trailing P/E of 89.5, reflecting positive market sentiment. The company's focus on capital allocation is evident with a RoE of 7.23% and manageable leverage ratios, underpinning its growth strategy. GFL's strategic investments in the automotive, semiconductor, and EV sectors, alongside a substantial capex deployment in Battery Materials, signal significant upcoming revenue streams. The company is well-equipped to leverage emerging opportunities in the U.S. market, positioning itself as an alternative supply chain to China and targeting a high capex of INR6,000 crores by FY '28.

In peer-to-peer competition, GFL stands out with its innovative drive and market adaptability, maintaining strong market presence in the specialty chemicals sector. Its recent performance highlights impressive profitability, with PAT growth soaring by 173.21% on a year-over-year basis. Additionally, by expanding salt production to cater to the growing EV ecosystem and implementing initiatives to reduce power costs, the company is poised to achieve efficiency gains and bolster shareholder value. Nonetheless, while GFL's strategic direction is optimistic, there remains a need to accelerate capacity utilization to address potential market challenges and changing regulatory landscapes in the EV sector. Overall, GFL's trajectory is promising, with ample room for growth and innovation in the near future.

Please read detailed disclosure on next page.

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|-----------------------------------|--|
| Investment Rating                 | Expected Return (over 12-month)  |
| BUY                               | >=15%  |
| SELL                              | <-10%  |
| NEUTRAL                           | >-10% to 15%   |
| UNDER REVIEW                      | Rating may undergo a change  |
| NOT RATED                         | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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