

Navin Fluorine International

12 January 2021

Reuters: NAFL.BO; Bloomberg: NFL IN

Decoding CRAMS opportunity

CRAMS business, which constituted ~20% of Navin Fluorine International's (NFIL) FY20 revenue is the fastest growing segment for the company. The stock has delivered a whopping ~150% returns over the last one year and a large part of the re-rating is attributed to greater visibility in the CRAMS segment. While consensus revenue estimates for CRAMS are more or less similar (~30-35% revenue CAGR over FY20-23E), key variable is the valuation multiple. We are addressing the valuation point wherein we have done detailed comparisons with global CROs/CDMOs in order to justify the valuation. We have come up with some interesting observations (mentioned below), which give us the confidence that CRAMS is a multi-year story & specifically for NFIL we believe that premium multiple is justified on the back of its journey to become ~USD100mn CRAMS business in FY25 (our estimate) & continued growth thereafter. NFIL is our top pick in the specialty chemicals coverage universe with a target price (TP) of Rs3,400, indicating an upside of 27% from the CMP.

Robust financial track record of Asian CRO/CDMOs: While there are select established players in CRAMS in India, companies in other Asian countries like China, Korea etc have delivered robust growth. Our data set of key Asian CROs/CDMOs shows that they have grown their revenue and EBITDA by ~32% and ~42%, respectively on CAGR basis over FY17-20. Expected revenue and EBITDA CAGR over FY20-23E are also healthy at ~34% and ~36%, respectively. EBITDA margin of this data set as on FY20 was 30% vis-à-vis ~19% for USA-based companies. Lonza's CDMO EBITDA margin for FY20 stood at ~28%. USA-based companies are expected to grow at ~6% and 9% CAGR in terms of sales and EBITDA, respectively over FY20-23E. While lower growth factor in their size compared to Asian players, we believe global innovators & even mid-small pharma companies are increasingly moving towards Asian CRAMS players considering cost and time efficiencies.

Engaging with CRAMS players help companies reduce both time and cost: One of the common pushbacks from the investors is regarding sustainability of EBITDA margin for NFIL. We believe that current margin is sustainable. As per industry sources, companies save ~1/3rd of the time across each trial phase by engaging with a CRO. Factors like the rising cost of R&D, profit pressure due to patent expirations and the need for higher flexibility have lowered the ability of big pharma companies to incur large R&D related fixed costs. Outsourcing increases the variable R&D cost component, thereby leading to greater flexibility to shift strategic and development priorities in response to market conditions. R&D IRR of pharma companies has declined significantly over the last decade and hence companies will continue to rely on CRAMS players in order to optimize returns and time.

NFIL can become ~USD100mn CRAMS business by FY25: While NFIL's CRAMS size is very small (~USD28mn as on FY20) compared to Asian peers, we believe that the company is following in their footsteps and could reach ~USD100mn by FY25 (14 years after entry). Hangzhou Tigermed, China's leading CRO took 11 years to cross USD100mn sales. Similarly, Asymchem clocked USD100mn revenue after 16 years. We believe that USD100mn revenue is an important milestone as it certifies the company's ability to provide specialized services at an affordable pricing at a large scale. After clocking USD100mn, Hangzhou Tigermed & Asymchem grew their revenue ~4x in the next 5 years. Other companies like Samsung Biologics, Wuxi Biologics & few others have delivered even better results after clocking USD100mn revenue. NFIL's core competence in fluorination will open various new opportunities for the company to deliver robust growth in the future.

Valuation and outlook: NFIL is our top pick in the specialty chemicals coverage universe with a potential upside of ~27% from the CMP. Our TP is based on FY23E EPS and PE of 37x. NFIL will continue to trade at premium valuation led by outlook on CRAMS. Asian CRAMS companies are trading at ~74x P/E and ~59x EV/EBITDA on FY23E whereas USA-based companies are trading at ~20x PE and ~14x EV/EBITDA on FY23E. Salience of fluorine is on the rise and we like NFIL's strategy to focus on complex end of the fluorination. While CRAMS is a multi-year opportunity in our view, specialty chemicals segment of NFIL is also expected to drive growth in the next 3-5 years.

BUY

Sector: Chemicals

CMP: Rs2,669

Target Price: Rs3,400

Upside: 27%

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Key Data

Current Shares O/S (mn)	49.5
Mkt Cap (Rsbn/US\$bn)	131.9/1.8
52 Wk H / L (Rs)	2,850/977
Daily Vol. (3M NSE Avg.)	146,390

Price Performance (%)

	1 M	6 M	1 Yr
Navin Fluorine	5.1	55.2	149.3
Nifty Index	7.2	34.5	18.2

Source: Bloomberg

Note: CRAMS and CRO/CDMO have been used interchangeably.

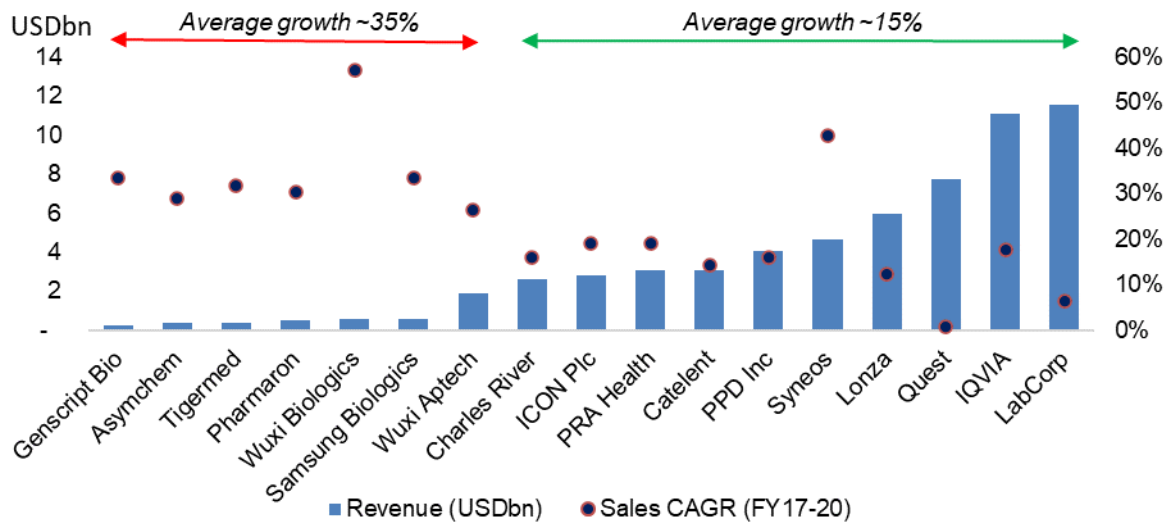
CRAMS- Contract Research and Manufacturing Services

CRO- Contract Research Organisation, CDMO- Contract Development and Manufacturing Organisation

CRAMS Global Comparison - Robust growth by Asian companies

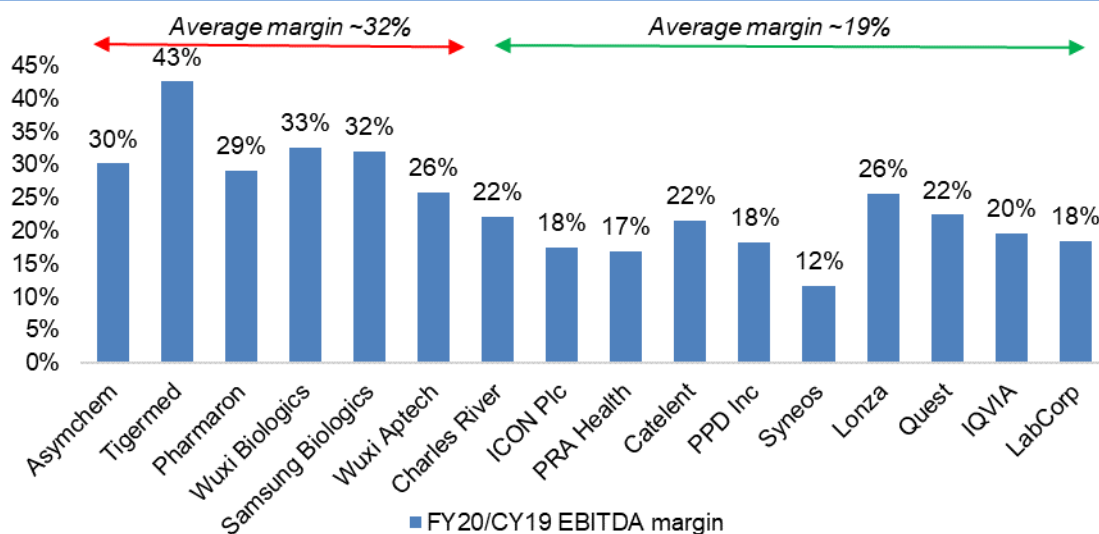
While there are select established players in CRAMS in India, companies in other Asian countries like China, Korea etc. have delivered robust growth in the past. Our data set for some of the key Asian CROs/CDMOs show that they have grown their revenue and EBITDA by ~32% and ~42%, respectively on CAGR basis over FY17-20. Expected revenue and EBITDA CAGR over FY20-23E are also healthy at ~34% and ~36%, respectively. EBITDA margin of this data set as on FY20 was 30% vis-à-vis ~19% for USA-based companies. Lonza's CDMO EBITDA margin for FY20 stood at ~28%. USA-based companies are expected to grow at ~6% and 9% CAGR in terms of sales and EBITDA, respectively over FY20-23E. While lower growth rates factor in their size compared to Asian players, global innovators and even mid-small pharma companies are increasingly moving towards Asian CRAMS players on account of cost and time advantages.

Exhibit 1: Revenue growth trend of global CRAMS players- Asian players have grown at ~35% CAGR over FY17-20



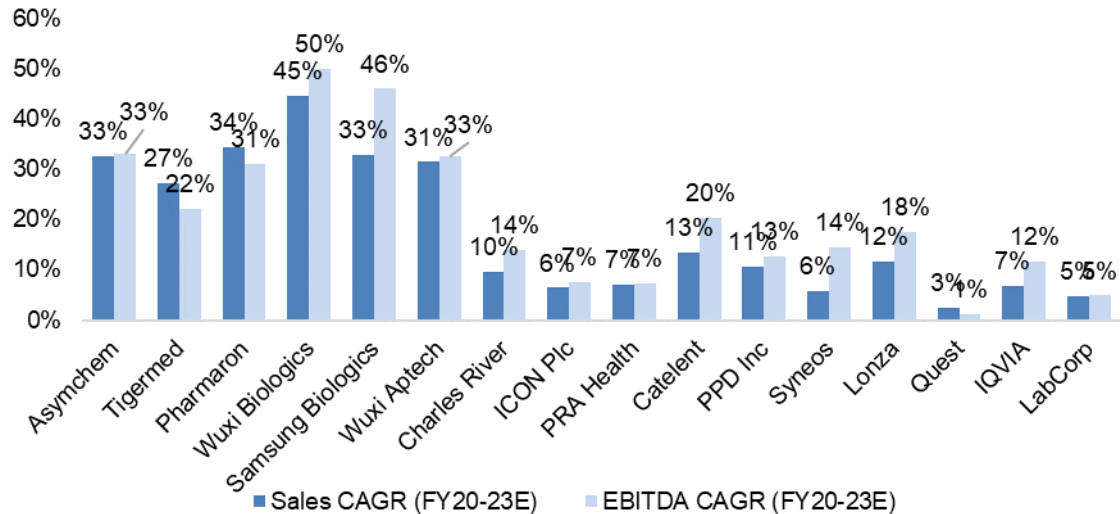
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 2: EBITDA margin of CRAMS players- Asian players' average EBITDA margin ~32% vis-à-vis ~19% for USA based companies



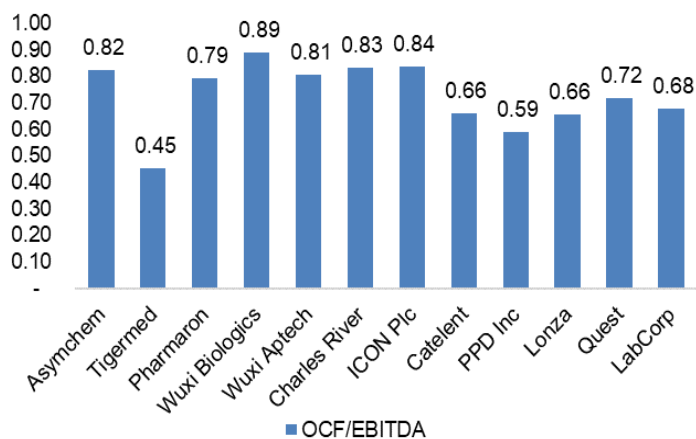
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: Growth expectations of Asian CRAMS players significantly ahead of USA based companies



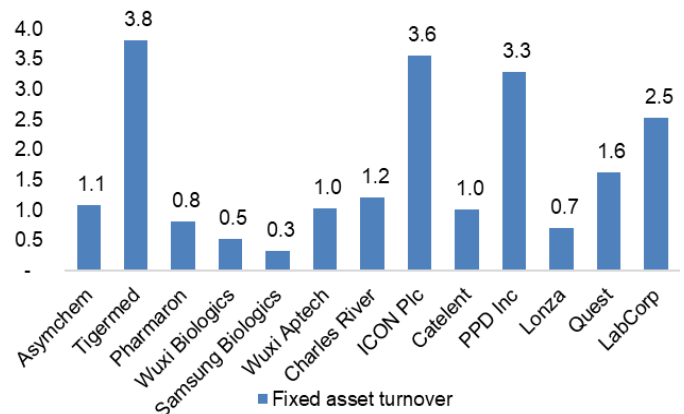
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 4: OCF/EBITDA comparison of global CRAMS companies



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: Fixed asset turnover of global CRAMS companies



Source: Bloomberg, Nirmal Bang Institutional Equities Research

On account of strong track record and future growth expectations, Asian CRAMS players are trading at significant premium to USA-based companies. Europe-based Lonza, one of the largest companies in CRAMS, is trading at a premium to USA-based companies. CRAMS model is sustainable as innovators are increasingly relying on CRAMS players in order to optimize costs and improve time to market. Asian peer set, which we have considered, is trading at weighted average PE multiple of ~74x and EV/EBITDA multiple of ~59x based on FY23 estimates. While we believe that NFIL is also following in their footsteps, considering the current size of the business, assigning similar multiple would be incorrect. However, we believe that premium valuation of NFIL compared to other Indian specialty chemicals company is justified due to greater visibility about the CRAMS business.

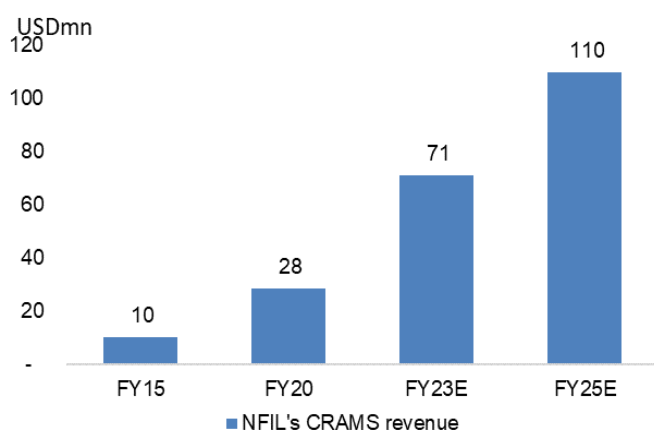
Exhibit 6: Valuation of global CRAMS companies- Asian companies trading at significant premium on account of robust growth expectations

Name	Mkt cap (USDbn)	FY20-23E CAGR			P/E			EV/EBITDA		
		Revenue	EBITDA	PAT	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
APAC (excl India)										
Wuxi Apptec	53	31.5%	32.7%	41.4%	104.2	83.3	64.4	75.0	57.4	45.3
Wuxi Biologics Cayman Inc	52	44.6%	49.9%	48.5%	209.2	140.7	95.9	174.3	113.7	80.9
Hangzhou Tigermed	22	27.2%	22.1%	36.4%	92.0	88.4	70.9	109.2	83.1	64.8
Pharmaron Beijing	15	34.5%	31.1%	49.6%	100.8	77.8	58.1	66.1	51.5	39.5
Asymchem Laboratories	11	32.6%	33.2%	36.0%	97.4	73.3	55.4	74.0	56.4	42.6
Joinn Laboratories China	4	48.4%	44.2%	44.5%	93.7	67.4	47.5	72.0	48.6	36.3
Wtd avg		36.0%	37.0%	43.5%	136	101	74	111	79	59
USA										
IQVIA Holdings Inc	34	6.8%	11.6%	107.9%	28.5	22.8	19.5	19.4	16.5	15.1
Laboratory Corp	20	4.8%	4.9%	19.7%	10.1	10.8	13.8	7.9	8.3	10.4
Catalent Inc	17	13.5%	20.4%	42.9%	41.0	35.0	29.0	21.7	19.2	17.1
Quest Diagnostics Inc	16	2.5%	1.2%	5.9%	11.5	11.5	15.4	8.2	8.3	10.8
Charles River Laboratories	13	9.7%	13.9%	26.3%	32.2	28.6	25.4	20.7	18.5	16.8
PPD Inc	12	10.7%	12.8%	128.6%	30.2	25.4	21.6	17.9	16.4	14.9
Icon Plc	10	6.4%	7.5%	7.9%	30.2	24.7	21.9	21.1	17.8	16.3
PRA Health Sciences Inc	8	7.1%	7.2%	20.9%	26.5	21.4	18.8	18.7	15.3	13.8
Syneos Health Inc	7	5.8%	14.4%	56.8%	20.1	16.4	14.2	14.9	12.4	11.6
Wtd avg		7.4%	10.4%	54.2%	25	22	20	17	15	14
Europe										
Lonza	49	11.6%	17.6%	33.4%	42.6	37.3	33.0	27.0	24.2	21.2

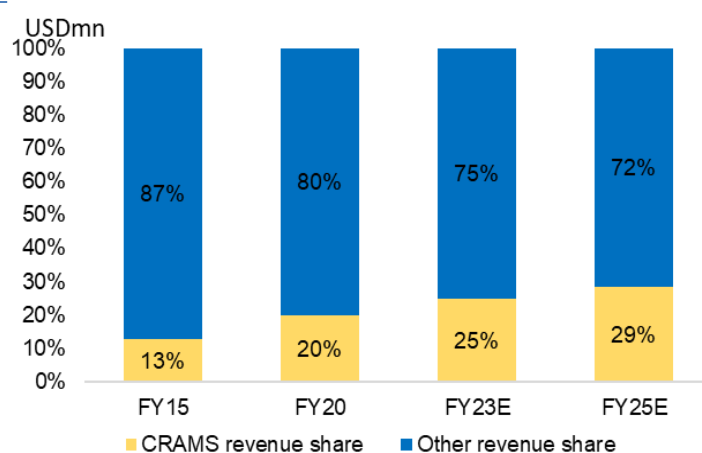
Source: Bloomberg, Nirmal Bang Institutional Equities Research

NFIL can become ~USD100mn CRAMS business by FY25

While NFIL's CRAMS size is very small (~USD28mn as on FY20) compared to Asian peers, we believe that the company is following in their footsteps and could reach ~USD100mn revenue by FY25 (14 years after entry). Hangzhou Tigermed, China's leading CRO took 11 years to cross USD100mn sales. Similarly, Asymchem was founded in 1999 and clocked USD100mn revenue after 16 years. We believe that USD100mn revenue is a significant milestone as it certifies the company's ability to provide specialized services at an affordable price. After clocking USD100mn revenue, Hangzhou Tigermed and Asymchem grew their revenue ~4x in the next 5 years. Other companies like Samsung Biologics, Wuxi Biologics and few others have delivered even better results after clocking USD100mn revenue. NFIL's core competence in fluorination will open various new opportunities for the company to deliver robust growth in the future.

Exhibit 7: NFIL can become USD~100mn CRAMS by FY25....


Source: Company Nirmal Bang Institutional Equities Research

Exhibit 8: ...and would form ~30% of the overall revenue


Source: Deloitte, Nirmal Bang Institutional Equities Research

Financials of key Asian CROs/CDMOs (Source: Bloomberg)

Hangzhou Tigermed Consulting

Particulars (USDm)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY17-20	FY20-23
Revenue	9	18	29	39	54	101	152	177	249	348	406	508	655	836	31.9%	27.2%
Growth YoY %		100.6%	64.7%	34.2%	39.3%	85.5%	50.4%	16.3%	40.9%	39.6%	16.7%	25.2%	29.0%	27.5%		
EBITDA	1	5	9	11	15	27	37	29	78	124	173	187	245	315	80.3%	22.1%
EBITDA margin %	13.5%	30.4%	29.9%	28.5%	27.9%	27.0%	24.6%	16.7%	31.5%	35.7%	42.6%	36.7%	37.4%	37.6%		
Growth YoY %		351.1%	62.3%	27.8%	36.3%	79.5%	37.0%	-21.0%	166.1%	58.1%	39.4%	8.0%	31.4%	28.3%		
PAT	1	5	7	11	15	20	25	21	51	87	122	233	248	309	79.2%	36.4%
Growth YoY %		310.3%	57.8%	45.2%	42.5%	33.1%	22.1%	-14.8%	141.3%	70.8%	39.6%	91.4%	6.2%	24.7%		
Fixed asset turnover	3.2	5.8	5.5	3.8	3.6	2.5	3.0	3.4	4.3	4.8	3.8					

Asymchem Labs

Particulars (USDm)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY17-20	FY20-23
Revenue			62	67	88	115	130	166	211	278	356	484	637	831	28.9%	32.6%
Growth YoY %				7.3%	30.8%	31.9%	12.8%	27.5%	26.9%	31.7%	28.3%	35.8%	31.7%	30.4%		
EBITDA			16	16	22	28	37	54	81	85	108	146	192	254	26.0%	33.2%
EBITDA margin %			25.5%	24.1%	25.6%	24.2%	28.5%	32.4%	38.4%	30.6%	30.2%	30.3%	30.2%	30.6%		
Growth YoY %				1.7%	38.6%	24.6%	33.0%	44.7%	50.7%	4.9%	26.6%	36.1%	31.3%	32.2%		
PAT			10	10	12	17	24	38	51	65	80	115	153	202	28.2%	36.0%
Growth YoY %					-5.6%	27.3%	35.9%	47.9%	55.7%	32.8%	23.8%	43.1%	33.3%	31.9%		
Fixed asset turnover			0.9	0.8	0.8	1.1	1.1	1.1	1.1	1.1	1.1					

Samsung Biologics

Particulars (USDm)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY17-20	FY20-23
Revenue					40	100	81	254	411	487	602	977	1,193	1,412	33.3%	32.8%
Growth YoY %						150.4%	-19.4%	214.8%	61.8%	18.5%	23.6%	62.3%	22.1%	18.3%		
EBITDA					-123	-75	-143	26	120	134	193	371	488	599	95.8%	46.0%
EBITDA margin %					-307.1%	-74.8%	-177.5%	10.1%	29.3%	27.5%	32.0%	37.9%	40.9%	42.4%		
Growth YoY %					71.9%	-39.0%	91.2%	-117.9%	369.1%	11.2%	43.9%	92.6%	31.5%	22.8%		
PAT					-118	-78	1,698	-152	-86	204	174	212	324	406	NR	32.5%
Growth YoY %					93.8%	-34.0%	-2282.0%	-109.0%	-43.7%	-337.5%	-14.5%	21.5%	52.9%	25.3%		
Fixed asset turnover					0.1	0.1	0.1	0.3	0.3	0.3	0.3					

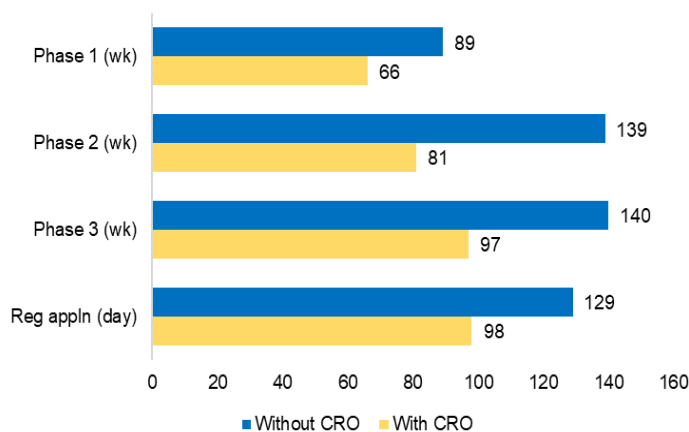
Wuxi Biologics

Particulars (USDm)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY17-20	FY20-23
Revenue						54	89	149	240	383	577	829	1,223	1,744	57.0%	44.6%
Growth YoY %							64.6%	68.0%	61.0%	59.9%	50.4%	43.8%	47.5%	42.6%		
EBITDA						15	19	44	82	106	188	294	451	634	62.5%	49.9%
EBITDA margin %						28.3%	21.3%	29.5%	34.1%	27.7%	32.7%	35.5%	36.9%	36.3%		
Growth YoY %							23.7%	132.8%	86.5%	29.8%	77.4%	56.2%	53.3%	40.5%		
PAT						7	7	21	37	95	147	231	335	480	90.5%	48.5%
Growth YoY %						12.6%	8.0%	14.3%	15.6%	24.9%	25.4%	27.9%	27.3%	27.5%		
Fixed asset turnover							4.0%	200.0%	76.1%	154.9%	53.9%	57.7%	44.6%	43.6%		

Engaging with CRAMS players help companies reduce both time and cost

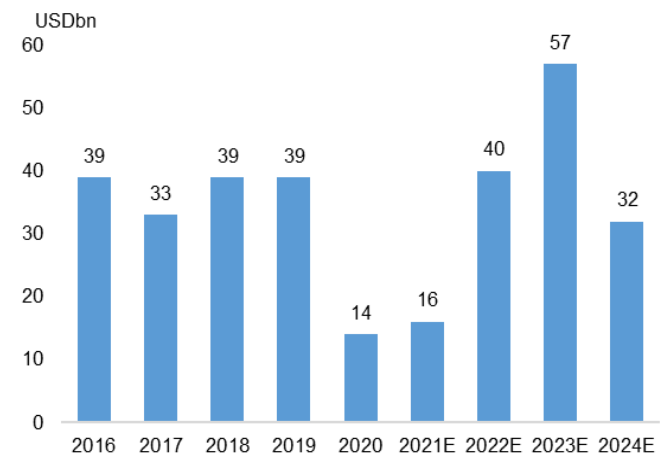
One of the common pushbacks from the investors is regarding sustainability of CRAMS for NFIL. We believe that current EBITDA margin is sustainable as innovators are increasingly dependent on CRAMS companies as it acts as a win-win strategy. Despite CRAMS companies making very high margins (~30% EBITDA margin for select Asian companies), it is beneficial for innovators as they end up saving cost and time. As per industry sources, companies save ~1/3rd of the time across each trial phase by engaging with a CRO. Scientists' salary in India is significantly lower compared to China, USA and Europe. The cost is even higher if the innovator wants to set up in-house R&D. Factors like the rising cost of R&D, profit pressure due to patent expirations and the need for higher flexibility have lowered the ability of big pharma companies to incur large R&D related fixed costs. Outsourcing increases the variable R&D cost component, thereby leading to greater flexibility to shift strategic and development priorities in response to market conditions. R&D IRR of pharma companies has declined significantly over the last decade and hence companies will continue to rely on CRAMS players in order to optimize returns and time.

Exhibit 9: Faster development of new drugs with CRO-companies saves ~1/3rd time by engaging with CROs



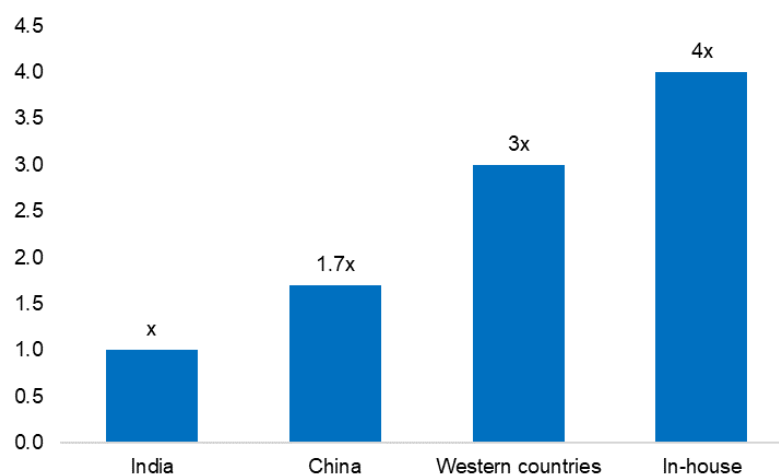
Source: Industry reports, Nirmal Bang Institutional Equities Research

Exhibit 10: Revenue at risk from patent expiration of pharma companies



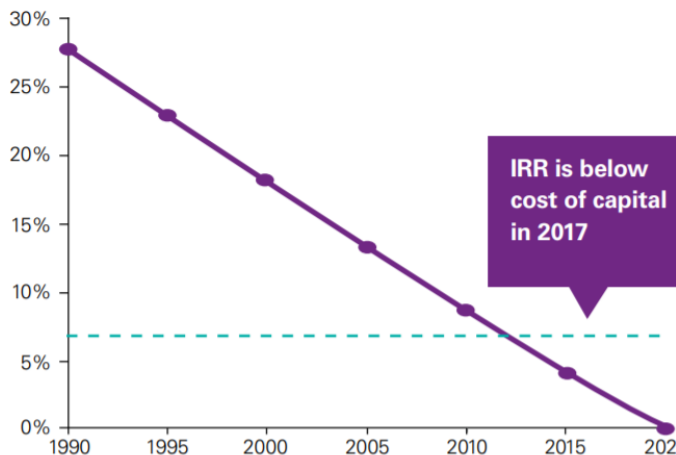
Source: Evaluate Pharma, Nirmal Bang Institutional Equities Research

Exhibit 11: Scientists 'salary- India is the lowest cost destination



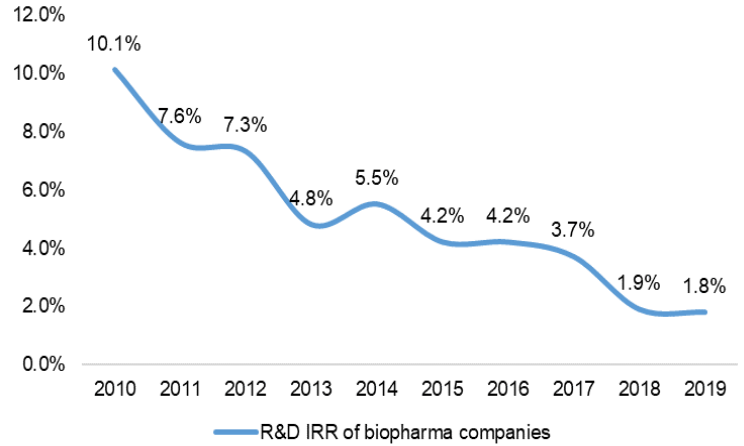
Source: Syngene, Nirmal Bang Institutional Equities Research

Exhibit 12: Significant decline in R&D IR of global pharma companies



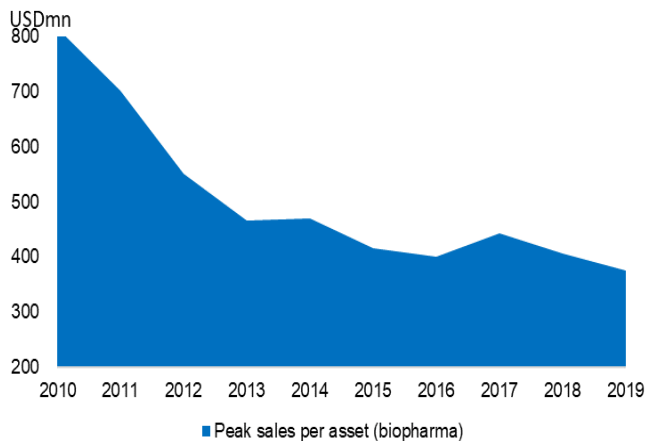
Source: KPMG, Nirmal Bang Institutional Equities Research

Exhibit 13: Significant decline in R&D IR of global bio pharma companies



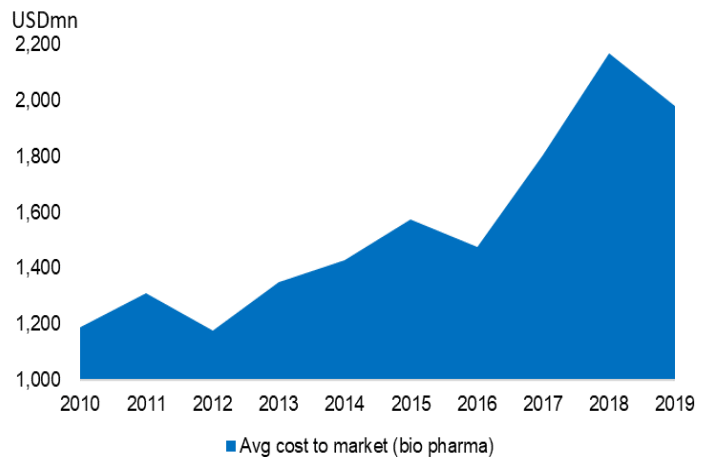
Source: Deloitte, Nirmal Bang Institutional Equities Research

Exhibit 14: Peak sales per asset of biopharma companies have almost halved over the last decade



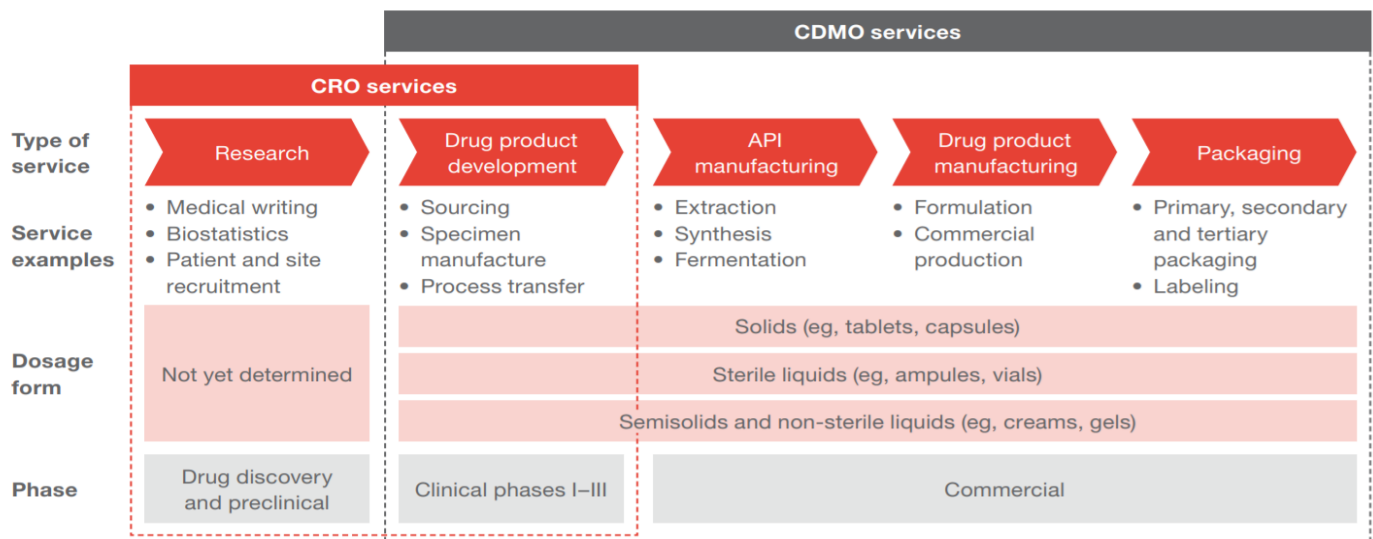
Source: Deloitte, Nirmal Bang Institutional Equities Research

Exhibit 15: Average cost to market has gone up in excess of ~60% from 2010 base



Source: Deloitte, Nirmal Bang Institutional Equities Research

Exhibit 16: CROs and CDMOs overview



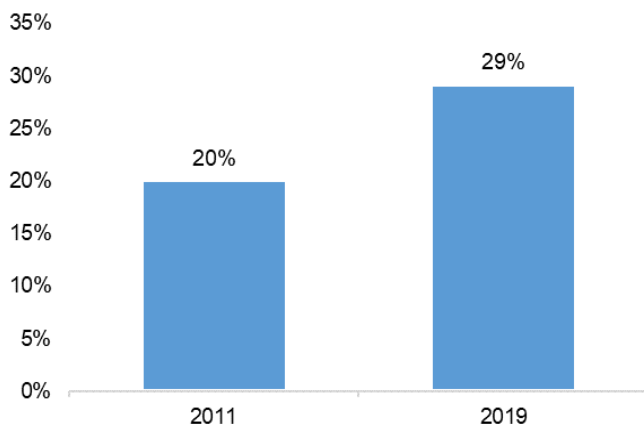
Source: PWC, Nirmal Bang Institutional Equities Research

Fluorine – an element of magic

Since Moissan isolated elemental fluorine in 1886, fluorine has always been an element of magic. Fluorine is the most reactive chemical element and the lightest member of the halogen elements. Decades of chemical research has shown that fluorine atom and fluorine containing reaction profoundly impact the structure, reactivity and function of organic and inorganic molecules. It fits for multiple applications like Pharmaceuticals, Agrochemicals, Automobiles, Electronics, Semiconductors etc. Presently, Pharmaceuticals and Agrochemicals are the key end users of fluorine chemistry, which is the result of persistent R&D efforts over the decades. As per industry reports, global fluorochemicals market was valued at US\$21bn in 2018 and is expected to reach US\$30bn by 2026. In the field of Pharmaceuticals, introducing a fluorine atom or fluorinated group into drugs is often accompanied with higher binding affinity, enhanced metabolic stability, improved bioavailability etc. Over the last 2 decades, fluorine substitution has become one of the essential structural traits in modern pharmaceuticals. Fluorine containing drugs are used for the treatment of various diseases, including cancer, HIV, malaria and smallpox infections. This is the field of ongoing research and we expect the same to drive demand for fluorine chemistry in the Pharmaceuticals space.

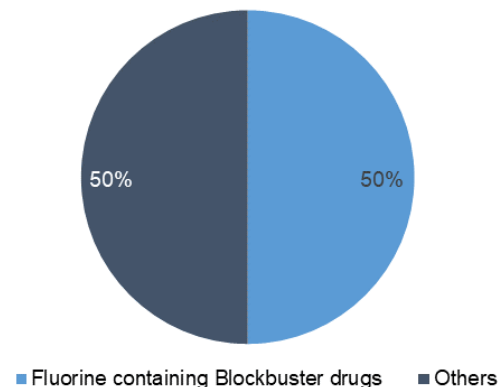
In 2019, 29% of the novel drugs approved by the USFDA contained at least one atom of fluorine (up from ~20% in 2010). 50% of the blockbuster drugs (most successful drugs) have at least one fluorine item. Fluorine finds application in oncology as well, which is the key focus area for global pharma R&D. ~40% of the fluorine containing drugs approved by the USFDA over the last 2 years were related to oncology. Top 3 Global R&D projects with expected revenue potential of ~US\$9bn by 2024 have at least one fluorine atom.

Exhibit 17: Fluorine containing drugs as % of total novel drugs approved by USFDA



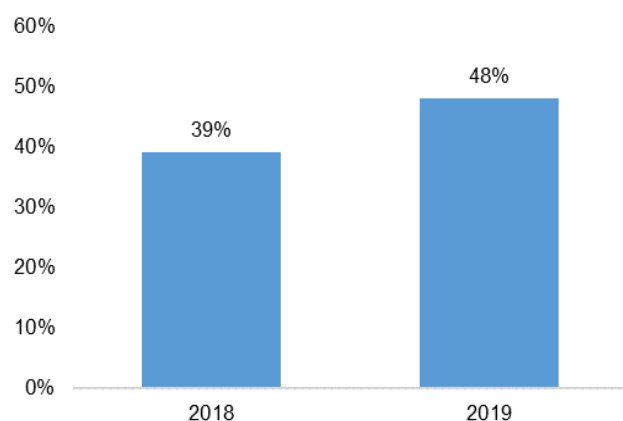
Source: Press reports, Nirmal Bang Institutional Equities Research

Exhibit 18: ~50% of blockbuster drugs contain at least one atom of fluorine



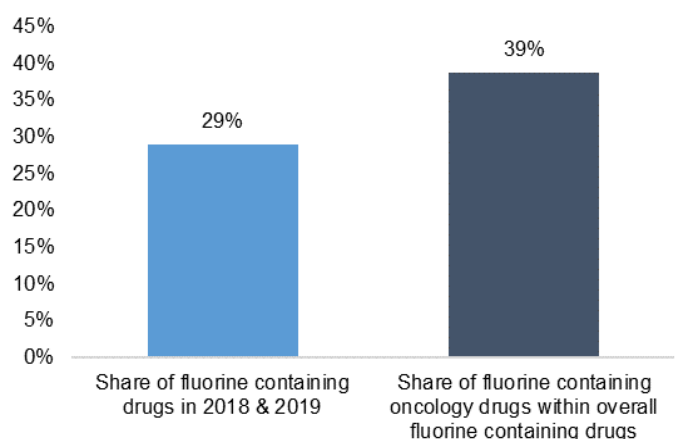
Source: Press reports, Nirmal Bang Institutional Equities Research

Exhibit 19: Share of oncology drugs in overall USFDA approvals



Source: Industry reports, Nirmal Bang Institutional Equities Research

Exhibit 20: Higher share of fluorine containing oncology drugs



Source: Industry reports, Nirmal Bang Institutional Equities Research

Exhibit 21: Top 10 valuable R&D projects (ranked by NAV) - Top 3 contain fluorine with 2024 revenue potential of US\$8bn

Rank	Product	Company	Phase (current)	Mechanism of Action	WW Product Sales (\$m) 2024	Today's NPV (\$m)
1.	VX-659/VX-445 + Tezacaftor + Ivacaftor	Vertex Pharmaceuticals	Phase III	Cystic fibrosis transmembrane regulator (CFTR) corrector; Cystic fibrosis transmembrane regulator (CFTR) potentiator	4,274	19,984
2.	Upadacitinib	AbbVie	Filed	Janus kinase 1 (JAK1) inhibitor	2,509	10,246
3.	DS-8201	Daiichi Sankyo	Phase III	Epidermal growth factor receptor ErbB-2 (HER2) antibody	1,790	New Entry 9,111
4.	Liso-cel	Celgene	Phase III	B-lymphocyte antigen CD19 CAR-T cell therapy	1,378	8,986
5.	Zolgensma	Novartis	Filed*	Survival of motor neuron 1 (SMN1) gene therapy	1,635	New Entry 8,011
6.	LY3298176	Eli Lilly	Phase III	Gastric inhibitory polypeptide (GIP) agonist; Glucagon-like peptide 1 (GLP-1) receptor agonist	1,012	New Entry 7,460
7.	Sacituzumab Govitecan	Immunomedics	Filed	Tumour-associated calcium signal transducer 2 (TROP2) antibody	1,589	New Entry 6,092
8.	Ozanimod	Celgene	Filed	Sphingosine 1-phosphate (S1P) receptor 1 regulator; Sphingosine 1-phosphate (S1P) receptor 5 regulator	1,516	New Entry 5,957
9.	Brolucizumab	Novartis	Filed	Vascular endothelial growth factor (VEGF) antibody fragment (Fab)	1,322	5,907
10.	Voxelotor	Global Blood Therapeutics	Phase III	Sickle haemoglobin (HbS) polymerisation inhibitor	1,711	New Entry 5,871
Top 10					18,737	87,625
Other					175,045	503,317
Total					193,782	590,943
NPV of R&D Pipeline MAY 2018:						576,990

Source: Evaluate Pharma Report, Nirmal Bang Institutional Equities Research

Exhibit 22: Presence of fluorine in potential top 10 selling drugs

Rank	Product	Generic Name	Company	Mechanism of Action	WW Product Sales (\$m)			Market Status
					2018	2024	CAGR	
1.	Keytruda	pembrolizumab	Merck & Co + Otsuka Holdings	Programmed cell death protein 1 (PD1) antibody	7,198	17,009	+15.4%	Marketed
2.	Humira	adalimumab	AbbVie + Eisai	Tumour necrosis factor alpha (TNFa) antibody	20,485	12,403	-8.0%	Marketed
3.	Eliquis	apixaban	Bristol-Myers Squibb	Coagulation factor Xa inhibitor	6,438	12,021	+11.0%	Marketed
4.	Opdivo	nivolumab	Bristol-Myers Squibb + Ono Pharmaceutical	Programmed cell death protein 1 (PD1) antibody	7,574	11,323	+6.9%	Marketed
5.	Imbruvica	ibrutinib	AbbVie + Johnson & Johnson	Bruton's tyrosine kinase (BTK) inhibitor	4,454	9,514	+13.5%	Marketed
6.	Ibrance	palbociclib	Pfizer	Cyclin-dependent kinase 4 (CDK4) inhibitor; Cyclin-dependent kinase 6 (CDK6) inhibitor	4,118	9,128	+14.2%	Marketed
7.	Revlimid	lenalidomide	Celgene	Interleukin-6 (IL-6) antagonist; Natural killer (NK) cell stimulant; Natural killer T-cell (NKT) stimulant; Tumour necrosis factor alpha (TNFa) inhibitor; Vascular endothelial growth factor (VEGF) inhibitor	9,816	8,057	-3.2%	Marketed
8.	Stelara	ustekinumab	Johnson & Johnson + Mitsubishi Tanabe Pharma	Interleukin-12 (IL-12) antibody; Interleukin-23 (IL-23) receptor antibody	5,293	7,791	+6.7%	Marketed
9.	Eylea	aflibercept	Regeneron Pharmaceuticals + Bayer + Santen Pharmaceutical	Vascular endothelial growth factor receptor (VEGFR) antagonist	7,159	7,313	+0.4%	Marketed
10.	Biktarvy	bictegravir sodium; emtricitabine; tenofovir alafenamide fumarate	Gilead Sciences	HIV-1 integrase inhibitor; HIV-1 nucleoside reverse transcriptase inhibitor (NRTI)	1,184	6,977	+34.4%	Marketed
Total					73,719	101,536	+5.5%	
Total WW Individual Products Forecast In EvaluatePharma®					676,147	989,099	+6.5%	

Source: Evaluate Pharma Report, Nirmal Bang Institutional Equities Research

Exhibit 23: Financial summary- we are building in ~36% earnings CAGR over FY20-23E

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	9,959	10,616	11,668	13,757	21,343
Growth YoY%	9.1%	6.6%	9.9%	17.9%	55.1%
Gross margin %	52.1%	54.4%	54.7%	54.9%	56.3%
EBITDA	2,184	2,635	2,949	3,600	5,910
EBITDA margin %	21.9%	24.8%	25.3%	26.2%	27.7%
Adj PAT	1,491	1,819	2,358	2,924	4,537
Growth YoY%	-17%	22%	30%	24%	55%
Adj. EPS	30.2	36.8	47.7	59.1	91.7
Growth YoY%	-17%	22%	30%	24%	55%
RoCE	18.4%	18.2%	16.8%	18.2%	25.3%
RoE	14.5%	14.6%	15.8%	17.5%	23.3%
P/E	88.5	72.5	55.9	45.1	29.1
EV/EBITDA	59.4	48.7	43.2	35.7	21.8
P/BV	12.3	9.3	8.4	7.4	6.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Change in earnings estimates

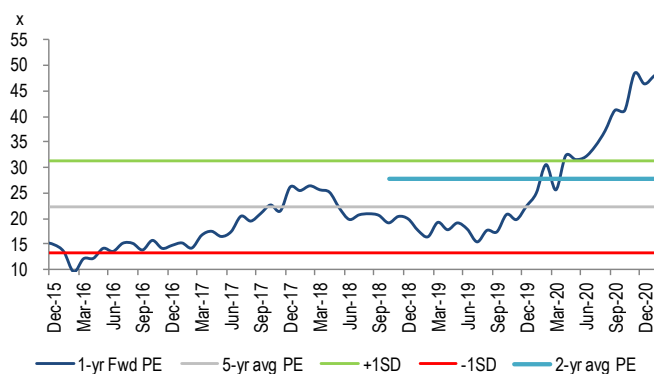
Consolidated (Rsmn)	Old Estimates			New estimates			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	11,668	13,757	21,343	11,668	13,757	21,343	-	-	-
EBITDA	2,949	3,600	5,910	2,949	3,600	5,910	-	-	-
APAT	2,358	2,924	4,537	2,358	2,924	4,537	-	-	-

Source: Nirmal Bang Institutional Equities Research

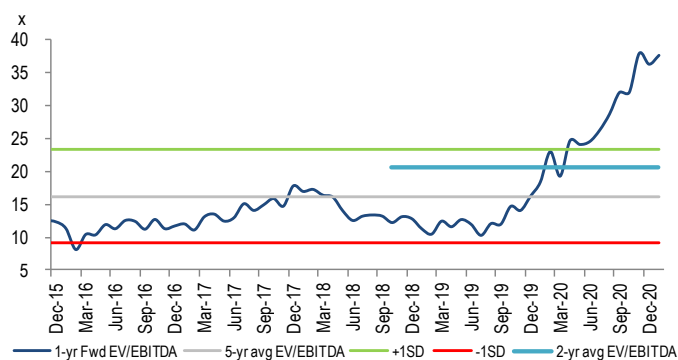
Exhibit 25: We have a Buy rating on NFIL with an upside of ~27% from CMP

Particulars	Rs/share
FY23E Consolidated EPS	92
Target PE multiple (x)	37
Target Price	3,400

Source: Nirmal Bang Institutional Equities Research

Exhibit 26: 1-year forward PE trend


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 27: 1-year forward EV/EBITDA trend


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 28: Income statement

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	9,959	10,616	11,668	13,757	21,343
Growth YoY%	9.1	6.6	9.9	17.9	55.1
COGS	4,766	4,838	5,286	6,201	9,336
Gross margin %	52.1	54.4	54.7	54.9	56.3
Staff costs	1,155	1,308	1,430	1,618	2,526
Other expenses	1,855	1,835	2,003	2,339	3,570
EBITDA	2,184	2,635	2,949	3,600	5,910
Growth YoY%	1.6	20.7	11.9	22.1	64.2
EBITDA margin %	21.9	24.8	25.3	26.2	27.7
Depreciation	275	370	432	549	986
EBIT	1,908	2,265	2,517	3,051	4,924
Interest	8	20	20	15	17
Other income	344	333	550	761	914
PBT (bei)	2,244	2,578	3,047	3,797	5,822
PBT	2,244	2,578	3,047	3,797	5,822
ETR	34.3	32.3	25.0	24.9	23.3
PAT	1,491	4,086	2,358	2,924	4,537
Adj PAT	1,491	1,819	2,358	2,924	4,537
Growth YoY%	-17.1	22.0	29.7	24.0	55.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: Balance sheet

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	99	99	99	99	99
Reserves	10,626	14,023	15,630	17,639	21,048
Net worth	10,724	14,122	15,729	17,738	21,147
Long term debt	-	-	-	-	-
Short term debt	41	14	14	14	14
Total debt	41	14	14	14	14
Other non-current liabilities	579	391	391	391	391
Total Equity & Liabilities	11,345	14,527	16,134	18,144	21,552
Gross block	4,197	5,556	6,256	8,756	10,756
Accumulated	785	1,155	1,588	2,137	3,122
Net Block	3,411	4,400	4,668	6,619	7,634
CWIP	393	389	389	389	389
Intangible and others	891	887	887	887	887
Other non-current assets	379	1,495	1,495	1,794	2,152
Investments	2,391	1,279	1,279	1,279	1,279
Trade receivables	1,727	2,185	2,150	2,535	3,933
Inventories	1,119	1,579	1,483	1,748	2,712
Cash & Cash equivalents	2,253	3,513	4,424	3,494	3,284
Other current assets	508	559	559	671	805
Total current assets	5,607	7,836	8,616	8,448	10,734
Trade payables	713	981	422	495	745
Other current liabilities	1,014	777	777	777	777
Total current liabilities	1,727	1,758	1,199	1,272	1,522
Total Assets	11,345	14,527	16,134	18,144	21,552

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: Cash flow

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
PBT	2,244	2,578	3,047	3,797	5,822
Depreciation	275	370	432	549	986
Interest	8	20	20	15	17
Other adjustments	(292)	(233)	(550)	(761)	(914)
Change in Working capital	(615)	(706)	(428)	(689)	(2,246)
Tax paid	(719)	(462)	(761)	(945)	(1,357)
Operating cash flow	902	1,566	1,759	1,966	2,307
Capex	(616)	(1,077)	(700)	(2,500)	(2,000)
Free cash flow	286	489	1,059	(534)	307
Other investing activities	373	1,929	1,486	300	361
Investing cash flow	(243)	851	786	(2,200)	(1,639)
Issuance of share capital	21	12	-	-	-
Movement of Debt	(85)	(87)	-	-	-
Dividend paid (incl DDT)	(611)	(714)	(679)	(843)	(1,056)
Other financing activities	(8)	(20)	(20)	(15)	(17)
Financing cash flow	(683)	(809)	(699)	(858)	(1,073)
Net change in cash flow	(25)	1,609	1,846	(1,092)	(405)
Opening C&CE	184	159	1,767	3,613	2,521
Closing C&CE	159	1,767	3,613	2,521	2,117

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 31: Key ratios

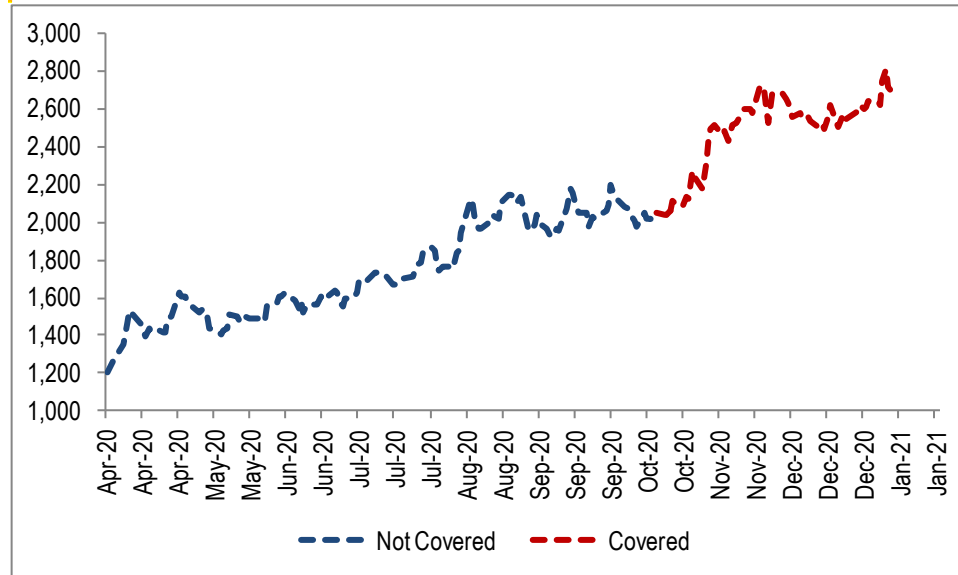
Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
Adj EPS	30.2	36.8	47.7	59.1	91.7
Book value	216.9	285.6	318.1	358.7	427.6
Valuation (x)					
EV/EBITDA	59.4	48.7	43.2	35.7	21.8
P/E	88.5	72.5	55.9	45.1	29.1
P/BV	12.3	9.3	8.4	7.4	6.2
Return ratios (%)					
RoCE	18.4	18.2	16.8	18.2	25.3
RoE	14.5	14.6	15.8	17.5	23.3
Profitability ratios (%)					
Gross margin	52.1	54.4	54.7	54.9	56.3
EBITDA margin	21.9	24.8	25.3	26.2	27.7
PAT margin	14.5	16.6	19.3	20.1	20.4
Liquidity ratios (%)					
Current ratio	3.2	4.4	7.1	6.6	7.0
Quick ratio	2.5	3.5	5.9	5.2	5.2
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Fixed asset turnover ratio (x)	2.4	1.9	1.9	1.6	2.0
Debtor days	60	67	67	67	67
Inventory days	41	46	46	46	46
Creditor days	31	29	29	29	29
Net Working capital days	71	85	85	85	85

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
16 October 2020	ACCUMULATE	1,999	2,200
29 October 2020	ACCUMULATE	2,278	2,200
7 January 2021	BUY	2,750	3,400
12 January 2021	BUY	2,669	3,400

Rating Chart



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