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Execution and ramp-up remain key for GFCL EV's battery chemicals business

Gujarat Fluorochemicals

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capital 360 ONE

Maintain BUY

Current Price (Rs)	: 4,124
Target Price (Rs)	: 4,802
Potential Upside (%)	: 16.4

Source: Bloomberg, 360 ONE CM Research

Market Data

No. of Shares (mn)	: 110
Free Float (%)	: 38.6
Market Cap (Rs bn)	: 453
52-week High/Low (Rs)	: 4,150/2,917
Avg. Daily Volume (6M)	: 0.1 mn
Avg. Daily Value (6M; US$)	: 4.5 mn
Bloomberg Code	: FLUOROCH IN
Promoters Holding (%)	: 61.4
FII/DII (%)	: 4.3/13.5

Source: Bloomberg, 360 ONE CM Research

Price Performance

(%)	1M	3M	12M
Absolute	12.3	20.8	20.5
Relative	11.8	28.4	27.1

Source: Bloomberg, 360 ONE CM Research

We visited Gujarat Fluorochemicals' (GFL) EV subsidiary – GFCL EV's greenfield plant in Jolva, Gujarat. GFCL EV is positioning itself as a battery-agnostic materials player, catering to both LFP and NMC chemistries through a fully integrated battery materials complex. Its current product portfolio includes electrolyte salt (LiPF6), additives (FEC, VC), electrolyte formulations, cathode active material (LFP), binders (PTFE, PVDF) and anode active material (Natural Graphite). Together, this product portfolio caters to ~70% of the value of an LFP cell, making GFCL EV the only global company to offer this full basket under one roof.

We believe GFL's battery chemicals segment has reached an inflection point, with the long drawn qualification process for electrolyte now complete, while qualifications for the other components are currently underway, with commercialisation visibility in 2HFY27E. Management had earlier indicated that the battery chemicals segment will reach sizeable triple-digit revenues by 4QFY27E and reinstated this guidance during the interaction. With the entire basket of battery chemicals available under one roof, GFCL EV stands to gain a significant advantage in catering to demand from global and domestic customers.

We continue to remain optimistic on the overall growth story and maintain our positive view on the stock. Near to medium-term catalysts include: a) scale-up in the battery chemicals segment over the next few quarters and b) further traction in the Fluoropolymers business from 3M's exit and a probable exit of AGC's business in Europe (Gujarat Fluorochemicals - Flash Note - 15 Jul 26). A battery chemicals valuation premium should emerge as revenue scales up, coupled with margin sustenance. At the current market price, the stock is trading at 47.1x/30.1x FY27/28E EPS of Rs 87.6/137.1. We maintain our Buy rating on the stock, with an unchanged P/E multiple of 35x for the consolidated business and target price of Rs 4,802.

Financial summary (Consolidated)

Y/E Mar (Rs mn)	FY24	FY25	FY26	FY27E	FY28E
Net sales	42,808	47,370	49,960	68,057	92,263
EBITDA margin (%)	*22.3*	*24.4*	*25.8*	*28.2*	*30.4*
EBIT margin (%)	*17.0*	*18.2*	*19.3*	*21.8*	*24.0*
Adjusted net profit	4,350	5,460	5,990	9,631	15,078
EPS growth (%)	*(67.3)*	*25.5*	*9.6*	*60.8*	*56.5*
Cash flow from operations	8,614	4,975	10,796	10,001	16,451
RoE (%)	7.6	8.3	8.0	11.6	16.0
RoCE (%)	9.3	9.5	9.4	12.6	16.3
Net debt/equity (x)	0.3	0.2	0.3	0.4	0.4

Source: Company, 360 ONE CM Research

Battery chemicals – Value chain and integration

- Cathode Active Material (CAM) – Lithium Carbonate, Phosphoric Acid and Iron Sulphate feed into Carbon Precursor and Phosphates of Lithium and Iron, converted into CAM.
- Electrolyte/LiPF6 – LiF, Phosphorous Pentachloride, HF converted into LiPF6.
- Electrolyte formulations – Electrolyte salt, combined with Additives and Solvents.
- Binders (PVDF/PTFE) – HF, Chloromethanes converted to monomer intermediates and then polymerised into Fluoropolymers.
- Anode Active Material – Natural Flake Graphite undergoes grinding, shaping, chemical purification and coating into Natural Graphite Anode Active Material (NGAAM).

LiPF6 (Electrolyte Salt)

- Constitutes 10-15% by weight of electrolyte formulation but 50-60% of electrolyte cost.
- Purity requirements exceed pharma-grade in certain respects – Impurities less than 1ppm, with qualification as stringent as, or more stringent than, pharma.
- Approved/audited by all major global electrolyte players in Japan and Korea, with supply also going into the US.
- Commercial sales scale-up on track, orders in place for FY27E and beyond.
- Same product specification supplied across customers (unlike CAM/binders, which are customer-tailored).
- New entrants would need two-three years to qualify; any change in Man, Material, Machine or Method triggers full requalification – Key entry barrier.
- Backward integration into HF – Cost/availability advantage.

LFP CAM

- Samples from the LFP (CAM) plant have received initial customer approvals; commercial sales expected to start in 2HFY27E.
- Product is customer-tailored (unlike LiPF6 which is a generic Electrolyte Salt).

PVDF/PTFE binders

- Qualification process is complete; commercial business expected to commence in 1HFY27E.
- Both Anode and Cathode are affixed to the current-collector foil using binders.

Anode – Natural Graphite (NGAAM)

- Natural Graphite requires extensive purification using HF, which is either disposed of or recycled/reused.
- ~90% of Natural Graphite anode material manufacturing is currently based in China.
- Setting up own NGAAM facility.

Cost structure of an LFP cell

- Cathode – 42% of cost.
- Anode – 20%.
- Separator – 12%.
- Electrolyte – 10%.
- Others (Al foil, Cu foil, etc.) – 16%.

Competitive/geographic positioning

- Setting up HF capacity is difficult in the US, Europe, Korea and Japan, reinforcing GFCL EV's backward-integrated HF cost advantage.
- Electrolyte Salt manufacturers – Korea 4, Japan 2 and Europe 2.
- US policy read-through – The "One Big Beautiful Bill" (OBBB) mandates that batteries contain ~60% non-Chinese-origin components, with this requirement increasing to 85% over the next few years. This represents a structural tailwind for non-Chinese suppliers such as GFCL EV.

Demand outlook

- Ex-China Li-ion battery cell demand is expected to grow from ~500 GWh in CY26 to ~1.8 TWh by CY30E, translating directly into GFCL EV's addressable product demand.
- **Demand drivers**
  - Global shift towards LFP chemistry, driven by its cost advantage across the mass-market EV and ESS segments.
  - Pick-up in Battery Energy Storage System (BESS) demand, driven by AI-led power/storage-server growth and BESS-plus-renewables grid stabilisation.
  - Global push to de-risk battery supply chains away from China.

Capex and financials

- Total capex of Rs 60.0 bn planned by FY28E, targeting 2x asset turnover and 25%+ EBITDA margin, with full potential expected to be realised only post FY29/30E.
- FY27E capex of Rs 23.0 bn is planned across the battery materials portfolio, lwith the majority earmarked for growth capex, including NGAAM.

- FY26 funding – Total funds raised/tied up ~Rs 37.3-10.0 bn from Indian investors, Rs 4.3 bn from IFC, ~Rs 12.0 bn from Middle Eastern sovereign funds (OIA and others); additionally, Rs 11.0 bn infused/committed by the parent.
- Current capacity across products is fully/completely contracted.

Guidance/Outlook

- Management indicated the business has crossed the hurdle of plant stabilisation, product validation and customer audits for most products.
- LiPF6 commercial scale-up to continue as planned into FY27E and beyond; LFP CAM commercial sales from 2HFY27E; PVDF binder commercial business from 1HFY27E.
- All Phase I capacity is commissioned and contracted with anchor clients; NGAAM (Anode) facility is the next key capacity addition being set up.

Financial Summary (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E
Net sales	**47,370**	**49,960**	**68,057**	**92,263**
Growth (%)	*10.7*	*5.5*	*36.2*	*35.6*
Raw material	(14,800)	(16,420)	(22,504)	(30,323)
Gross profit	**32,570**	**33,540**	**45,553**	**61,940**
Employee cost	(4,330)	(4,860)	(5,589)	(6,427)
Other expenditure	(16,670)	(15,770)	(20,802)	(27,462)
Other operating income	–	–	–	–
EBITDA	**11,570**	**12,910**	**19,162**	**28,050**
Growth (%)	*21.2*	*11.6*	*48.4*	*46.4*
Depreciation	(3,550)	(3,670)	(4,755)	(6,381)
Other income	580	420	462	508
EBIT	**8,600**	**9,660**	**14,869**	**22,177**
Finance cost	(1,470)	(1,380)	(1,614)	(1,709)
Exceptional income/(expense)	–	–	–	–
Profit before tax	**7,130**	**8,280**	**13,255**	**20,469**
Tax (current + deferred)	(1,670)	(2,330)	(3,623)	(5,391)
Profit/(loss) for the year	**5,460**	**5,950**	**9,631**	**15,078**
P/L of JV/A, minority interest	–	40	–	–
Reported profit/(loss)	**5,460**	**5,990**	**9,631**	**15,078**
Adjusted net profit/(loss)	**5,460**	**5,990**	**9,631**	**15,078**

Balance Sheet

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E
Share Capital	110	110	110	110
Reserves & surplus	71,916	78,050	87,200	101,524
Shareholders' funds	**72,026**	**78,160**	**87,310**	**101,634**
Minority interest	457	470	470	470
Long-term borrowings	3,968	9,960	14,960	18,960
Other non-current liabilities	3,907	4,140	4,140	4,140
Total non-current liab.	**7,874**	**14,100**	**19,100**	**23,100**
Short-term borrowings	15,911	16,330	18,330	20,330
Trade payables	6,053	5,520	7,898	10,707
Other current liabilities	3,261	3,750	3,750	3,750
Total current liabilities	**25,225**	**25,600**	**29,978**	**34,787**
Total (Equity & Liab.)	**106,082**	**118,830**	**137,358**	**160,491**
Fixed assets (net block)	58,534	67,210	82,555	96,274
Non-current investments	105	360	360	360
Other non-current assets	4,616	7,180	7,180	7,180
Non-current assets	**63,255**	**74,750**	**90,095**	**103,814**
Cash and cash equivalents	2,219	3,500	305	193
Inventories	18,203	19,330	24,442	30,572
Trade receivables	11,974	12,820	17,086	21,881
Other current assets	10,432	8,430	5,430	4,030
Current assets	**42,828**	**44,080**	**47,263**	**56,676**
Total (Assets)	**106,082**	**118,830**	**137,358**	**160,491**

Cash Flow

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E
Profit before tax	7,130	8,280	13,255	20,469
Depreciation	3,550	3,670	4,755	6,381
Change in working capital	(5,279)	(186)	(6,000)	(6,717)
Total tax paid	(1,896)	(2,348)	(3,623)	(5,391)
Others	1,470	1,380	1,614	1,709
CF from operations (a)	**4,975**	**10,796**	**10,001**	**16,451**
Capital expenditure	(8,149)	(12,347)	(20,100)	(20,100)
Change in investments	(2,785)	365	2,000	–
Others	(303)	(2,637)	–	–
CF from investing (b)	**(11,237)**	**(14,619)**	**(18,100)**	**(20,100)**
Free cash flow	**(3,174)**	**(1,551)**	**(10,099)**	**(3,649)**
Equity raised/(repaid)	7,912	0	–	–
Debt raised/(repaid)	(79)	6,411	7,000	6,000
Dividend (excl. tax)	(330)	(330)	(482)	(754)
Others	(1,006)	(978)	(1,614)	(1,709)
CF from financing (c)	**6,497**	**5,103**	**4,904**	**3,537**
Net change in cash (a+b+c)	**235**	**1,281**	**(3,195)**	**(112)**

Key Ratios

Y/E Mar (%)	FY25	FY26	FY27E	FY28E
Adjusted EPS (Rs)	49.7	54.5	87.6	137.1
Growth	*25.5*	*9.6*	*60.8*	*56.5*
Book NAV/share (Rs)	655.4	710.5	793.7	923.9
Dividend payout ratio	6.0	5.5	5.0	5.0
Gross margin	68.8	67.1	66.9	67.1
EBITDA margin	24.4	25.8	28.2	30.4
EBIT margin	18.2	19.3	21.8	24.0
Tax rate	23.4	28.1	27.3	26.3
RoCE	9.5	9.4	12.6	16.3
RoE	8.3	8.0	11.6	16.0
RoIC (post-tax)	7.6	7.1	9.5	12.1
Net debt/equity (x)	0.2	0.3	0.4	0.4
Net debt/EBITDA (x)	1.3	1.6	1.7	1.4
Fixed asset turnover (x)	0.5	0.4	0.5	0.6
Net working capital days	135.6	135.0	92.7	86.6

Valuations

Y/E (x)	FY25	FY26	FY27E	FY28E
P/E	83.0	75.7	47.1	30.1
P/B	6.3	5.8	5.2	4.5
Dividend yield (%)	0.1	0.1	0.1	0.2
OCF yield (%)	1.1	2.4	2.2	3.6
EV/EBITDA	39.5	36.7	25.4	17.6
EV/Sales	9.6	9.5	7.1	5.3

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