

November 4, 2019

Q2FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	174		189	
Sales (Rs. m)	9,386	10,559	10,794	12,143
% Chng.	(13.0)	(13.0)		
EBITDA (Rs. m)	2,159	2,587	2,429	2,854
% Chng.	(11.1)	(9.3)		
EPS (Rs.)	10.1	11.6	10.8	12.6
% Chng.	(6.7)	(8.1)		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	10,429	9,386	10,559	12,671
EBITDA (Rs. m)	2,903	2,159	2,587	2,978
Margin (%)	27.8	23.0	24.5	23.5
PAT (Rs. m)	1,841	1,663	1,903	2,165
EPS (Rs.)	11.2	10.1	11.6	13.2
Gr. (%)	9.0	(9.7)	14.4	13.8
DPS (Rs.)	2.5	2.3	2.6	3.0
Yield (%)	2.1	1.9	2.2	2.5
RoE (%)	16.7	13.5	13.9	14.3
RoCE (%)	25.1	15.9	18.6	19.1
EV/Sales (x)	1.7	1.9	1.5	1.1
EV/EBITDA (x)	6.3	8.3	6.2	4.8
PE (x)	10.6	11.7	10.2	9.0
P/BV (x)	1.7	1.5	1.4	1.2

Key Data

NOCI.BO | NOCIL IN

52-W High / Low	Rs.183 / Rs.74
Sensex / Nifty	40,302 / 11,941
Market Cap	Rs.20bn/ \$ 277m
Shares Outstanding	166m
3M Avg. Daily Value	Rs.179.38m

Shareholding Pattern (%)

Promoter's	33.73
Foreign	3.14
Domestic Institution	4.14
Public & Others	58.99
Promoter Pledge (Rs bn)	1.59

Stock Performance (%)

	1M	6M	12M
Absolute	18.6	(7.0)	(26.6)
Relative	10.9	(10.1)	(36.2)

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Auto slowdown drags performance

Quick Pointers:

- Weak auto sales drag Q2 volumes, but improving domestic auto volumes offer hope for increased utilization going ahead.
- Benign raw material prices, better product mix to help sustain margins even if volumes disappoint.
- Increased US import duty of 25% on Chinese supplies, augur well for Nocil as tyre majors look to diversify supplies.

We tweak our FY20/21E earnings estimates to factor in muted H1 performance. While near term demand slowdown in China and India is a concern, long term opportunities remain impressive given global capex of USD10bn by tyre majors and domestic capex of Rs150-180bn. Nocil with new capacities commissioned is poised to benefit from tight demand-supply situation in global rubber chemicals market. Reiterate BUY with a PT of Rs174 (Rs189 earlier) based on 15x PER FY21E or 8x EV/EBITDA FY21E.

- Weak auto sales, lower utilization drag profits:** Nocil reported Q2FY20 EBITDA and PBT of Rs479mn (-39% YoY; PLe Rs 533mn) and Rs423mn (-45% YoY; PLe Rs479mn), respectively. PAT got a boost from deferred tax write back to Rs552m. During the quarter, revenue fell 23%YoY to Rs2.1bn due to weak auto demand. For H1 while volumes were down 8%YoY, realization was down 15%YoY. EBITDA margins came down to 22.8% (-620bps YoY) as weak auto sales and lower utilization.
- Low raw material price support gross margins:** For Q2, gross margins were at 57.7% vs Q1FY20 levels of 56.4% (FY19 levels of 55.2%). The company has benefitted from better product mix and benign raw material prices especially benzene and aniline for which the company has entered into a long-term agreement. Soft RM prices is likely to help sustain margins; we have assumed EBITDA margins at 23/24.5% for FY20/21E against 27.8% for FY19.
- Opportunities galore:** Nocil is one of the largest rubber chemicals player globally with capacity of 110,000tons including intermediaries. Limited global capacity addition coupled with steady demand growth is likely to help sustain volumes for Nocil.
- Also, duties of 25% on Chinese rubber chemicals exports to China has opened up opportunities for Nocil as tyre majors ramp up non-Chinese supplies. CY18 rubber chemicals exports by China Sunshine (one of the world's largest players) to US were at 2% against 7% in CY14 and 4.7% in CY17.
- We expect Nocil to focus more on volumes going ahead at the cost of value as they look to ramp up sales. Even as near term demand and uncertainty persist given slowing global auto sales, we believe at current prices, Nocil offers value. Reiterate BUY.

Exhibit 1 : Q2FY20 Result Overview (Rs mn)

Y/e March	Q2FY20	Q2FY19	YoY gr.	Q1FY20	H1FY20	H1FY19	YoY gr.
Net Sales (Net of Excise Duty)	2,097	2,720	-22.9%	2,296	4,393	5,401	-18.7%
Total Expenditure							
Cost of Material Consumed	960	1,440	-33.3%	920	1,880	2,678	-29.8%
Purchase of stock in trade	3	7	-63.8%	12	14	13	9.3%
Change in inventory of FG, WIP and SIT	(76)	(253)	-69.9%	70	(6)	(307)	-98.1%
Total RM Cost	887	1,194	-25.7%	1,002	1,888	2,384	-20.8%
Gross Margin	1,211	1,526	-20.7%	1,294	2,505	3,017	-17.0%
Employee Cost	184	163	13.2%	195	379	345	10.0%
Other Expense	548	574	-4.6%	537	1,085	1,081	0.4%
Total Expenditure	1,618	1,931	-16.2%	1,734	3,353	3,809	-12.0%
EBIDTA	479	789	-39.3%	562	1,040	1,592	-34.6%
Depreciation	77	56	37.7%	77	154	110	39.2%
EBIT	402	733	-45.2%	485	887	1,481	-40.1%
Interest	3	1	153.8%	3	7	4	62.5%
Other Income	25	32	-22.5%	25	50	53	-6.6%
PBT	423	764	-44.6%	507	930	1,530	-39.2%
Tax	(129)	236	-154.8%	180	51	494	-89.8%
<i>Tax rate %</i>	<i>-30.5%</i>	<i>30.8%</i>		<i>35.5%</i>	<i>5.4%</i>	<i>32.3%</i>	
Profit After Tax	552	528	4.5%	327	879	1,037	-15.2%

Source: Company, PL

Conference Call Highlights

- H1FY20 volumes degrew 8% while the realization was down 15%; FY20 volume guidance de-growth of 0-5% for FY20.
- For H1, exports volumes were up 10% and mgt expects volumes to pick up as clients approve new capacity addition at Dahej.
- Anti dumping duty (ADD) protection not applicable post July 2019.
- FY20 tax rate will be ~15% and expect tax rates at 25.2% going forward.
- Chinese prices seems to have bottomed out from Sept end for rubber chemicals prices.
- Mgt expects EBIDTA margins to bottom out at Q2 levels and is likely to improve with higher volumes.
- Mgt expects higher volumes from existing US tyre majors and also for their plants in Russia.
- Domestic tyre demand is likely to ride on higher auto sales.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	10,429	9,386	10,559	12,671
YoY gr. (%)	7.8	(10.0)	12.5	20.0
Cost of Goods Sold	4,668	4,130	4,752	5,829
Gross Profit	5,761	5,256	5,808	6,842
Margin (%)	55.2	56.0	55.0	54.0
Employee Cost	678	751	845	1,014
Other Expenses	2,180	2,347	2,376	2,851
EBITDA	2,903	2,159	2,587	2,978
YoY gr. (%)	10.4	(25.6)	19.8	15.1
Margin (%)	27.8	23.0	24.5	23.5
Depreciation and Amortization	230	301	409	497
EBIT	2,673	1,858	2,178	2,481
Margin (%)	25.6	19.8	20.6	19.6
Net Interest	6	-	-	-
Other Income	100	99	365	414
Profit Before Tax	2,767	1,956	2,544	2,894
Margin (%)	26.5	20.8	24.1	22.8
Total Tax	926	293	641	729
Effective tax rate (%)	33.5	15.0	25.2	25.2
Profit after tax	1,841	1,663	1,903	2,165
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,841	1,663	1,903	2,165
YoY gr. (%)	9.0	(9.7)	14.4	13.8
Margin (%)	17.7	17.7	18.0	17.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,841	1,663	1,903	2,165
YoY gr. (%)	9.0	(9.7)	14.4	13.8
Margin (%)	17.7	17.7	18.0	17.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,841	1,663	1,903	2,165
Equity Shares O/s (m)	164	164	164	164
EPS (Rs)	11.2	10.1	11.6	13.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	6,569	10,819	10,919	11,019
Tangibles	6,569	10,819	10,919	11,019
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,805	2,107	2,515	3,012
Tangibles	1,805	2,107	2,515	3,012
Intangibles	-	-	-	-
Net fixed assets	4,764	8,713	8,404	8,007
Tangibles	4,764	8,713	8,404	8,007
Intangibles	-	-	-	-
Capital Work In Progress	2,892	392	150	150
Goodwill	30	33	37	40
Non-Current Investments	812	812	812	812
Net Deferred tax assets	(1,279)	(1,475)	(1,729)	(2,019)
Other Non-Current Assets	313	341	371	405
Current Assets				
Investments	-	-	-	-
Inventories	1,670	1,503	1,691	2,030
Trade receivables	2,623	2,361	2,656	3,187
Cash & Bank Balance	1,315	1,560	3,385	5,088
Other Current Assets	328	360	396	436
Total Assets	14,749	16,077	17,905	20,157
Equity				
Equity Share Capital	1,645	1,645	1,645	1,645
Other Equity	10,079	11,298	12,692	14,363
Total Network	11,724	12,943	14,337	16,008
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	153	153	153	153
Other non current liabilities	1	1	1	1
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,227	1,105	1,243	1,491
Other current liabilities	365	402	442	486
Total Equity & Liabilities	14,749	16,077	17,905	20,157

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	2,767	1,956	2,544	2,894
Add. Depreciation	230	301	409	497
Add. Interest	6	-	-	-
Less Financial Other Income	100	99	365	414
Add. Other	251	168	224	256
Op. profit before WC changes	3,254	2,425	3,176	3,647
Net Changes-WC	(538)	310	(341)	(617)
Direct tax	(926)	(293)	(641)	(729)
Net cash from Op. activities	1,790	2,442	2,194	2,301
Capital expenditures	(2,503)	(1,753)	138	(104)
Interest / Dividend Income	-	-	-	-
Others	2,250	-	-	-
Net Cash from Invt. activities	(253)	(1,753)	138	(104)
Issue of share cap. / premium	-	48	(64)	13
Debt changes	-	-	-	-
Dividend paid	(492)	(492)	(444)	(508)
Interest paid	(6)	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(498)	(444)	(508)	(495)
Net change in cash	1,039	245	1,824	1,703
Free Cash Flow	(713)	689	2,332	2,198

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	11.2	10.1	11.6	13.2
CEPS	12.6	11.9	14.1	16.2
BVPS	71.3	78.7	87.2	97.3
FCF	(4.3)	4.2	14.2	13.4
DPS	2.5	2.3	2.6	3.0
Return Ratio(%)				
RoCE	25.1	15.9	18.6	19.1
ROIC	19.7	13.4	14.4	14.8
RoE	16.7	13.5	13.9	14.3
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	107	107	107	107
Valuation(x)				
PER	10.6	11.7	10.2	9.0
P/B	1.7	1.5	1.4	1.2
P/CEPS	9.4	9.9	8.4	7.3
EV/EBITDA	6.3	8.3	6.2	4.8
EV/Sales	1.7	1.9	1.5	1.1
Dividend Yield (%)	2.1	1.9	2.2	2.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	2,612	2,416	2,296	2,097
YoY gr. (%)	4.8	(12.4)	(14.4)	(22.9)
Raw Material Expenses	1,175	1,109	1,002	887
Gross Profit	1,438	1,306	1,294	1,211
Margin (%)	55.0	54.1	56.4	57.7
EBITDA	725	591	562	479
YoY gr. (%)	4.2	(30.2)	(30.0)	(39.3)
Margin (%)	27.8	24.5	24.5	22.8
Depreciation / Depletion	56	63	77	77
EBIT	669	528	485	402
Margin (%)	25.6	21.8	21.1	19.2
Net Interest	1	2	3	3
Other Income	20	23	25	25
Profit before Tax	688	549	507	423
Margin (%)	26.3	22.7	22.1	20.2
Total Tax	242	191	180	(129)
Effective tax rate (%)	35.1	34.8	35.5	(30.5)
Profit after Tax	447	358	327	552
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	447	358	327	552
YoY gr. (%)	(0.7)	(29.8)	(35.7)	4.5
Margin (%)	17.1	14.8	14.2	26.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	447	358	327	552
YoY gr. (%)	(0.7)	(29.8)	(35.7)	4.5
Margin (%)	17.1	14.8	14.2	26.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	447	358	327	552
Av g. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	189	99
2	31-Jul-19	BUY	199	89
3	9-Jul-19	BUY	199	115
4	4-Jul-19	BUY	221	117
5	13-May-19	BUY	221	117
6	5-Apr-19	BUY	252	141
7	22-Mar-19	BUY	252	144
8	1-Feb-19	BUY	252	139
9	7-Jan-19	BUY	270	161
10	29-Nov-18	BUY	270	169

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	990	749
2	Bharat Petroleum Corporation	BUY	502	532
3	GAIL (India)	BUY	207	132
4	Hindustan Petroleum Corporation	BUY	434	323
5	I.G. Petrochemicals	BUY	369	162
6	Indian Oil Corporation	BUY	209	143
7	Indraprastha Gas	BUY	400	352
8	Mahanagar Gas	BUY	1,269	891
9	NOCIL	BUY	189	99
10	Oil & Natural Gas Corporation	BUY	230	128
11	Oil India	Accumulate	236	145
12	Petronet LNG	BUY	352	279
13	Reliance Industries	Accumulate	1,395	1,416

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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