

March 15, 2023

Visit Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	240		250	
Sales (Rs. m)	17,352	18,851	18,040	19,397
% Chng.	(3.8)	(2.8)		
EBITDA (Rs. m)	2,903	3,342	2,979	3,412
% Chng.	(2.5)	(2.1)		
EPS (Rs.)	11.4	13.5	11.8	13.8
% Chng.	(2.9)	(2.3)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	15,713	16,544	17,352	18,851
EBITDA (Rs. m)	2,862	2,605	2,903	3,342
Margin (%)	18.2	15.7	16.7	17.7
PAT (Rs. m)	1,761	1,620	1,907	2,241
EPS (Rs.)	10.6	9.7	11.4	13.5
Gr. (%)	98.8	(8.0)	17.8	17.5
DPS (Rs.)	2.0	2.4	2.9	3.4
Yield (%)	1.0	1.2	1.4	1.6
RoE (%)	12.9	10.8	11.6	13.1
RoCE (%)	17.4	13.9	14.5	16.4
EV/Sales (x)	2.2	1.9	1.8	1.7
EV/EBITDA (x)	11.9	12.3	10.6	9.3
PE (x)	19.5	21.2	18.0	15.3
P/BV (x)	2.4	2.2	2.0	2.0

Key Data

NOCI.BO | NOCIL IN

52-W High / Low	Rs.295 / Rs.201
Sensex / Nifty	57,900 / 17,043
Market Cap	Rs.34bn/ \$ 417m
Shares Outstanding	167m
3M Avg. Daily Value	Rs.87.89m

Shareholding Pattern (%)

Promoter's	33.84
Foreign	5.29
Domestic Institution	4.76
Public & Others	56.11
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.7)	(25.7)	(2.7)
Relative	(0.6)	(22.5)	(5.1)

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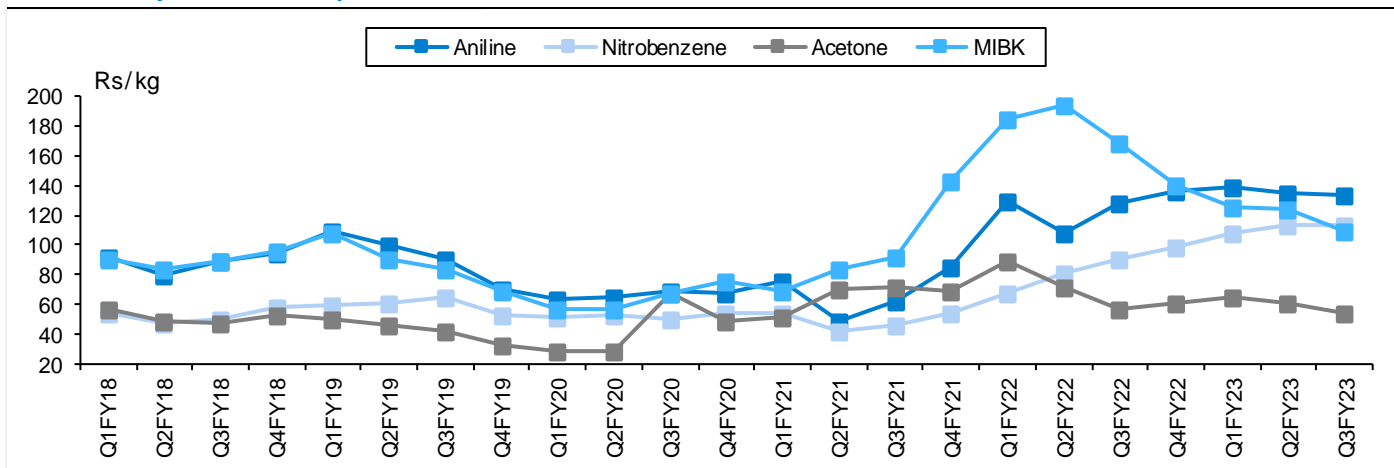
Eying gradual volume recovery

We remain constructive on NOCIL post our visit to its Dahej (Gujarat) site spread over 50 acres, that houses various rubber chemicals manufacturing plants. Management indicated gradual recovery in volume across markets (worst possibly behind in Q3FY23) and improvement in capacity utilization from hereon (currently at ~65%). Debottlenecking is ongoing and will be completed by Sep'23 (to increase capacity by ~5%). While company's capex announcement is awaited (~15 months to commission thereafter), management is also evaluating its entry into adjacencies/ newer chemistries.

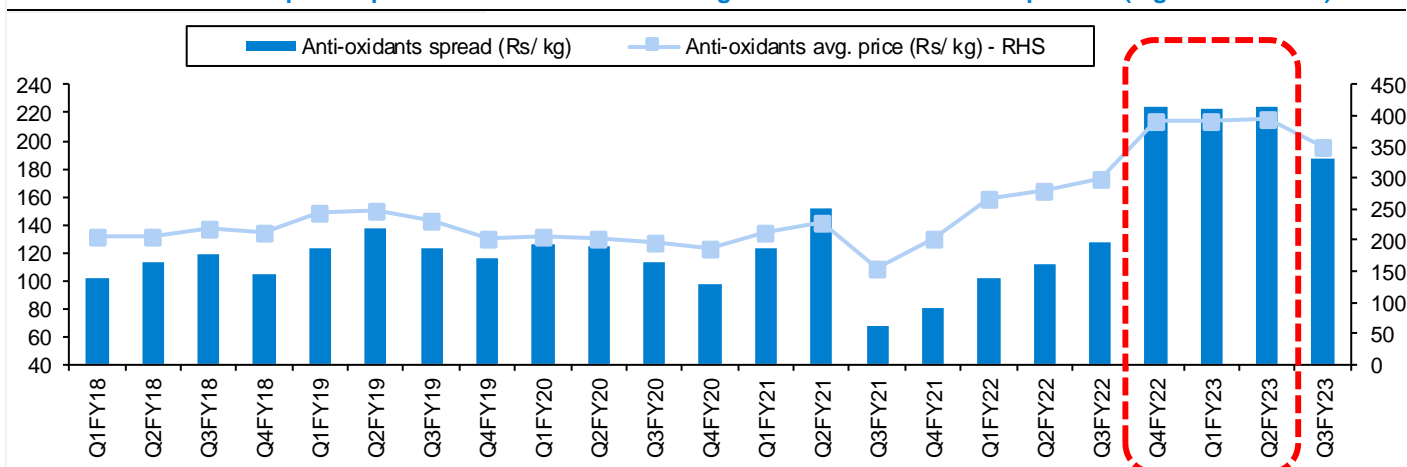
NOCIL remains well placed over medium to long term led by 1) domestic tyre industry capex 2) China+1 strategy (as customers look for security of supplies) 3) sufficient capacity headroom enabling demand improvement and 4) net cash balance sheet (Rs1.6bn) & healthy FCF generation of Rs.5.5bn over FY23-25E, though increase in supplies by Chinese competition pose risk to volume and spreads. We slightly tweak our estimates to factor spreads normalization and maintain 'Accumulate' rating with revised TP of Rs 240 (earlier Rs250) at 18x FY25E EPS of Rs13.5.

Key Highlights:

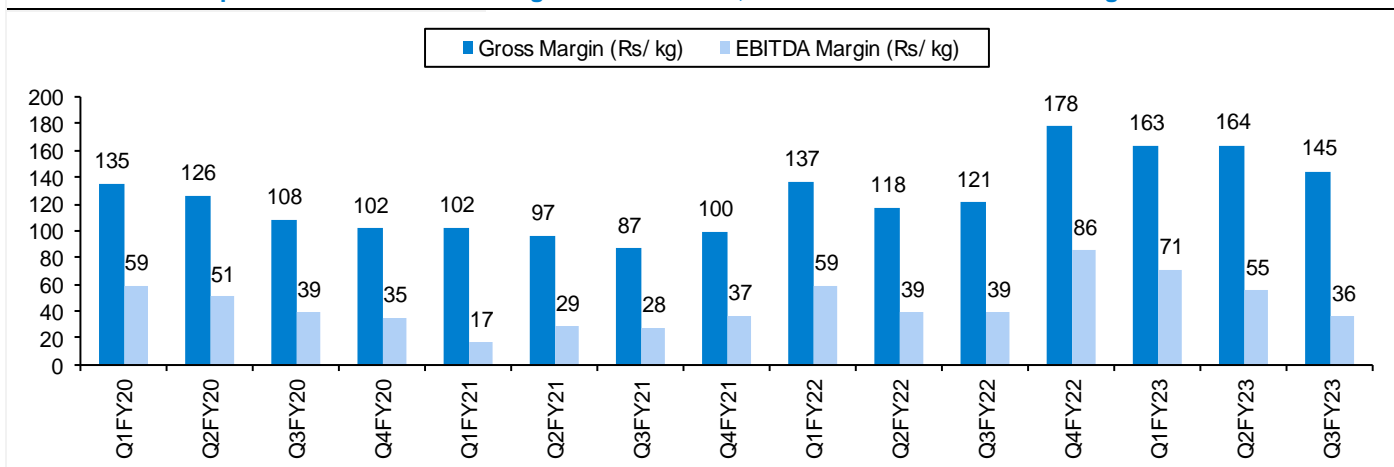
- Volume improvement to aid profit recovery:** Management indicated that volume appears to have bottomed out, with recovery seen across markets (Q3 volume index at 108 was lowest in last 12 quarters, ex-Q1FY21). Operating leverage to aid margin, though peak spreads (Q4FY22-Q1FY23) are unlikely.
- Capacity headroom to enable capturing demand improvement:** NOCIL's capacity (split 50:50 between Dahej and Navi Mumbai) is ~65% utilized currently. While domestic customers were stably supplied over the years, it earlier focused on only strategic export customers. Enhanced confidence of international customers given consistent supplies, despite supply chain disturbances is likely to translate into increase in exports (rising wallet share).
- Entry into adjacencies/ newer chemistries being explored:** Management is also evaluating on entering into adjacencies/ newer chemistries with Anand VS (ex Chemetall, BASF company) on boarded to takeover from Mr.S.R.Deo (current MD). However, rubber chemicals will continue to be the company's mainstay. Dahej plot (~50% unutilized currently) can absorb expansions.
- Comprehensive product portfolio, couple of new products can be added:** NOCIL currently offers 23 products across anti-degradants, anti-oxidants, accelerators, vulcanization stabilizers and pre-vulcanization inhibitors. For new product additions, management indicated possibility of indigenizing a couple of products (at best) which are currently imported (substitution).
- Limited possibility to enhance specialty chemicals revenue contribution:** Currently NOCIL's specialty rubber chemicals revenue contribution is ~25% and is industry leading (industry is ~5%). With limited possibility to increase this significantly, we believe that the scope for higher value addition diminishes.
- Other highlights:** (a) Top 5 customers contribute ~35% to revenues (b) Tyre contribution is ~50% (c) Global capacity mix: Anti-oxidants 52% (higher for NOCIL), Accelerators 43% and Others 5% (d) Key products: Pilflex-13 (anti-oxidants), Pilnox TDQ (oligomers) & Pilcure CBS/DCBS/NS (accelerators) (e) NOCIL has ~40%/ 5% domestic/global market share

Exhibit 1: Key raw materials price trends


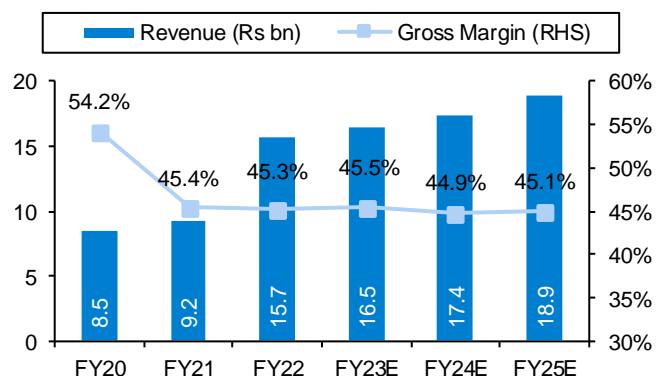
Source: Industry, PL

Exhibit 2: Anti-oxidant spreads peaked out – It forms ~52% of global rubber chemicals capacities (higher for NOCIL)


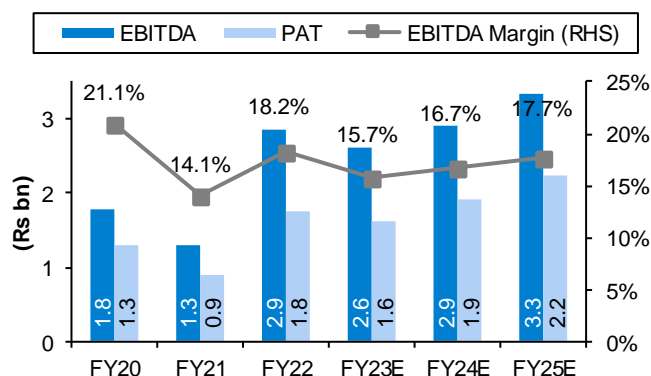
Source: Industry, PL

Exhibit 3: NOCIL spreads were elevated during Q4FY22-Q1FY23, to normalize to historical average


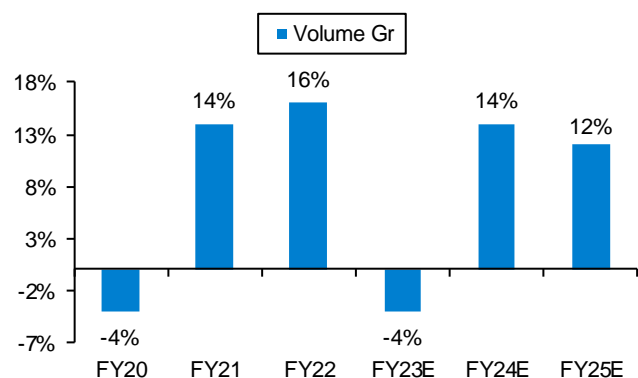
Source: Company, PL

Exhibit 4: Rev to grow at 7% CAGR (FY23-25E) led by vol


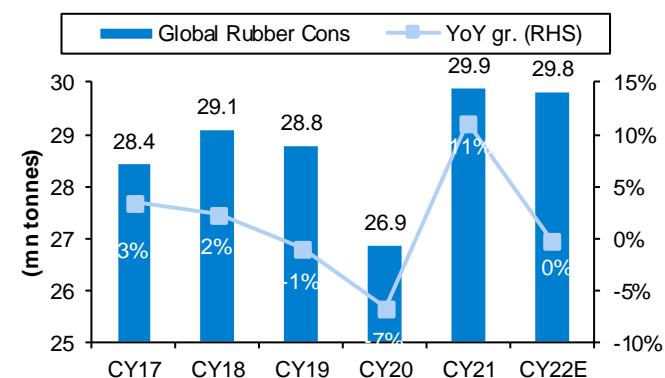
Source: Company, PL

Exhibit 5: Margin improvement on op. leverage benefits


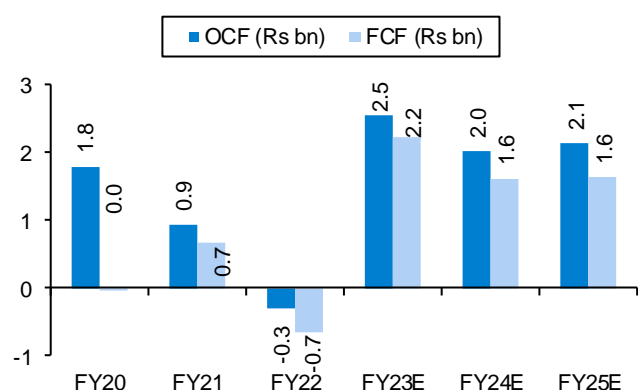
Source: Company, PL

Exhibit 6: Healthy long term demand outlook


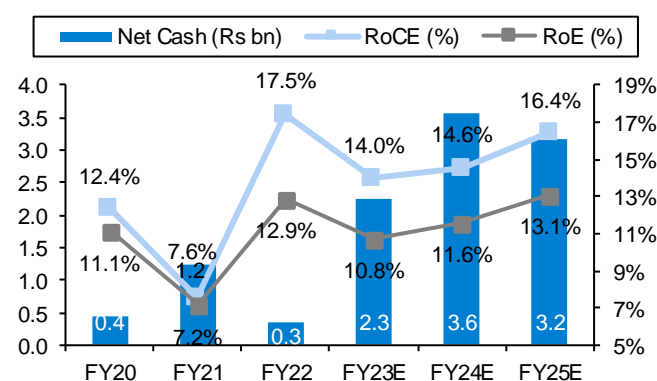
Source: Company, PL

Exhibit 7: Slower global rubber consumption in CY22


Source: Company, PL

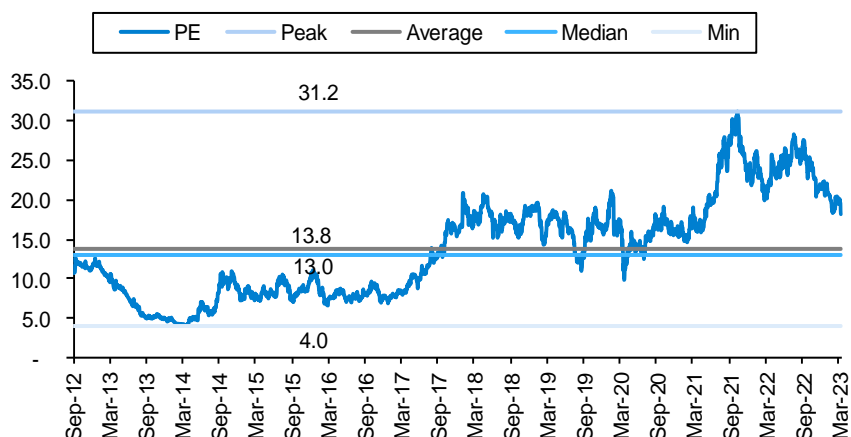
Exhibit 8: Steady profits with negligible capex to boost FCF


Source: Company, PL

Exhibit 9: Net cash BS with improving return ratios


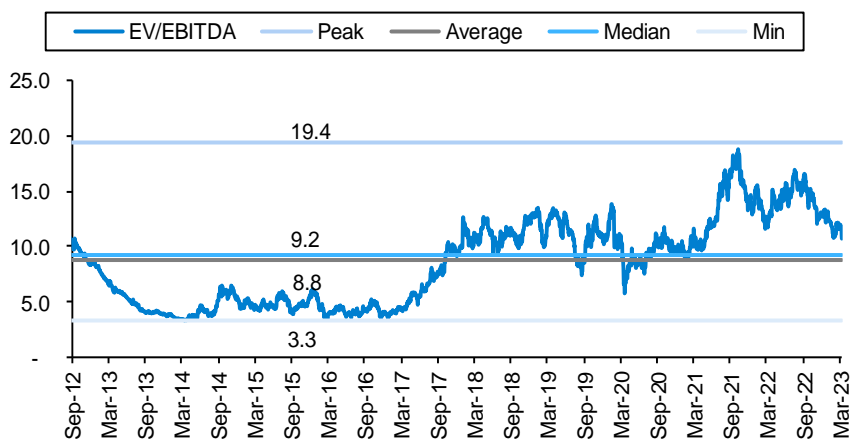
Source: Company, PL

Exhibit 10: P/E Band (1 year forward)



Source: Company, PL

Exhibit 11: EV/EBITDA Band (1 year forward)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	15,713	16,544	17,352	18,851
YoY gr. (%)	69.9	5.3	4.9	8.6
Cost of Goods Sold	8,593	9,022	9,566	10,353
Gross Profit	7,120	7,522	7,785	8,499
Margin (%)	45.3	45.5	44.9	45.1
Employee Cost	808	913	995	1,085
Other Expenses	3,450	4,004	3,887	4,072
EBITDA	2,862	2,605	2,903	3,342
YoY gr. (%)	118.8	(9.0)	11.4	15.1
Margin (%)	18.2	15.7	16.7	17.7
Depreciation and Amortization	483	507	521	539
EBIT	2,378	2,099	2,382	2,802
Margin (%)	15.1	12.7	13.7	14.9
Net Interest	11	11	11	11
Other Income	39	78	178	205
Profit Before Tax	2,406	2,165	2,550	2,997
Margin (%)	15.3	13.1	14.7	15.9
Total Tax	645	546	643	755
Effective tax rate (%)	26.8	25.2	25.2	25.2
Profit after tax	1,761	1,620	1,907	2,241
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,761	1,620	1,907	2,241
YoY gr. (%)	99.2	(8.0)	17.8	17.5
Margin (%)	11.2	9.8	11.0	11.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,761	1,620	1,907	2,241
YoY gr. (%)	99.2	(8.0)	17.8	17.5
Margin (%)	11.2	9.8	11.0	11.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,761	1,620	1,907	2,241
Equity Shares O/s (m)	167	167	167	167
EPS (Rs)	10.6	9.7	11.4	13.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	12,209	12,509	12,909	13,409
Tangibles	12,092	12,392	12,792	13,292
Intangibles	117	117	117	117
Acc: Dep / Amortization	3,119	3,648	4,169	4,709
Tangibles	3,038	3,567	4,088	4,628
Intangibles	81	81	81	81
Net fixed assets	9,090	8,860	8,739	8,700
Tangibles	9,054	8,825	8,704	8,664
Intangibles	36	36	36	36
Capital Work In Progress	84	84	84	84
Goodwill	-	-	-	-
Non-Current Investments	599	599	599	599
Net Deferred tax assets	(1,068)	(1,068)	(1,068)	(1,068)
Other Non-Current Assets	94	94	94	94
Current Assets				
Investments	176	176	176	176
Inventories	3,327	3,612	3,788	4,115
Trade receivables	4,498	3,626	3,803	4,132
Cash & Bank Balance	160	2,089	3,395	2,980
Other Current Assets	249	262	275	299
Total Assets	18,305	19,432	20,984	21,211
Equity				
Equity Share Capital	1,666	1,666	1,666	1,666
Other Equity	12,786	14,001	15,431	15,431
Total Network	14,452	15,667	17,097	17,097
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	164	164	164	164
Other non current liabilities	29	29	29	29
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,151	2,040	2,139	2,324
Other current liabilities	442	465	488	530
Total Equity & Liabilities	18,305	19,432	20,984	21,211

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	2,406	2,165	2,550	2,997
Add. Depreciation	483	507	521	539
Add. Interest	11	11	11	11
Less Financial Other Income	39	78	178	205
Add. Other	(46)	(78)	(178)	(205)
Op. profit before WC changes	2,855	2,605	2,903	3,342
Net Changes-WC	(2,560)	483	(248)	(460)
Direct tax	(597)	(543)	(640)	(750)
Net cash from Op. activities	(302)	2,545	2,016	2,131
Capital expenditures	(362)	(300)	(400)	(500)
Interest / Dividend Income	17	78	178	205
Others	657	-	-	-
Net Cash from Invt. activities	312	(222)	(222)	(295)
Issue of share cap. / premium	29	-	-	-
Debt changes	-	-	-	-
Dividend paid	(332)	(405)	(477)	(560)
Interest paid	(11)	(11)	(11)	(11)
Others	(23)	-	-	-
Net cash from Fin. activities	(336)	(416)	(488)	(571)
Net change in cash	(327)	1,907	1,306	1,265
Free Cash Flow	(664)	2,245	1,616	1,631

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	10.6	9.7	11.4	13.5
CEPS	13.5	12.8	14.6	16.7
BVPS	86.8	94.1	102.6	102.6
FCF	(4.0)	13.5	9.7	9.8
DPS	2.0	2.4	2.9	3.4
Return Ratio(%)				
RoCE	17.4	13.9	14.5	16.4
ROIC	13.5	11.4	13.2	15.3
RoE	12.9	10.8	11.6	13.1
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	132	115	115	115
Valuation(x)				
PER	19.5	21.2	18.0	15.3
P/B	2.4	2.2	2.0	2.0
P/CEPS	15.3	16.2	14.1	12.4
EV/EBITDA	11.9	12.3	10.6	9.3
EV/Sales	2.2	1.9	1.8	1.7
Dividend Yield (%)	1.0	1.2	1.4	1.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

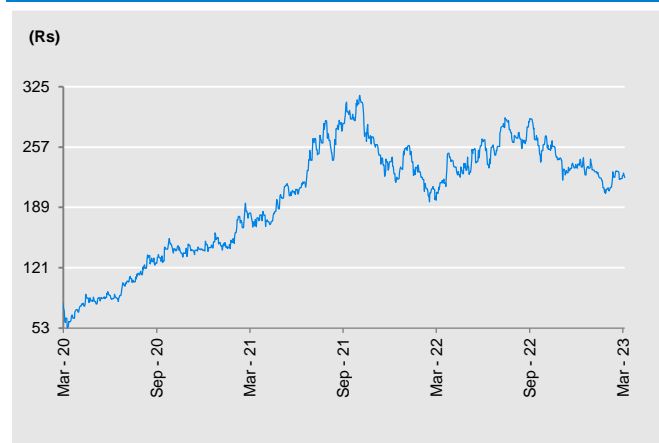
Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	4,627	5,089	3,892	3,257
YoY gr. (%)	43.7	47.7	3.8	(16.2)
Raw Material Expenses	2,311	2,726	2,057	1,759
Gross Profit	2,317	2,363	1,836	1,498
Margin (%)	50.1	46.4	47.2	46.0
EBITDA	1,114	1,033	620	376
YoY gr. (%)	112.9	40.1	23.3	(26.0)
Margin (%)	24.1	20.3	15.9	11.5
Depreciation / Depletion	163	137	140	142
EBIT	951	896	481	234
Margin (%)	20.6	17.6	12.3	7.2
Net Interest	4	3	3	3
Other Income	12	4	9	22
Profit before Tax	959	897	486	253
Margin (%)	20.7	17.6	12.5	7.8
Total Tax	270	232	128	67
Effective tax rate (%)	28.2	25.9	26.4	26.4
Profit after Tax	689	665	357	186
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	689	665	357	186
YoY gr. (%)	84.6	40.2	19.1	(37.5)
Margin (%)	14.9	13.1	9.2	5.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	689	665	357	186
YoY gr. (%)	84.6	40.2	19.1	(37.5)
Margin (%)	14.9	13.1	9.2	5.7
Other Comprehensive Income	(18)	23	282	(65)
Total Comprehensive Income	672	688	639	121
Avg. Shares O/s (m)	167	167	167	167
EPS (Rs)	4.1	4.0	2.1	1.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales Volume Growth (%)	16.0	(4.0)	14.0	12.0
Avg Realisations Growth (%)	47.4	9.0	(8.0)	(3.0)
Exports Contribution (%)	34.7	29.6	32.2	33.2
Capex (Rs bn)	0.4	0.3	0.4	0.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	15-Feb-23	Accumulate	250	218
2	05-Jan-23	Accumulate	275	239
3	14-Nov-22	Accumulate	275	232
4	06-Oct-22	Accumulate	300	260
5	01-Aug-22	Accumulate	300	273
6	06-Jul-22	BUY	310	252
7	19-May-22	BUY	310	255
8	08-Apr-22	BUY	285	242

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	660	565
2	Fine Organic Industries	BUY	7,000	4,613
3	Jubilant Ingrevia	BUY	900	485
4	Laxmi Organic Industries	Hold	300	280
5	NOCIL	Accumulate	250	218

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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