

December 7, 2023

Company Update

■ Change in Estimates | ■ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		HOLD	
Target Price	226		226	
Sales (Rs. m)	17,308	19,905	17,308	19,905
% Chng.	-	-	-	-
EBITDA (Rs. m)	2,605	3,061	2,605	3,061
% Chng.	-	-	-	-
EPS (Rs.)	9.3	11.3	9.3	11.3
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	16,166	14,986	17,308	19,905
EBITDA (Rs. m)	2,528	2,218	2,605	3,061
Margin (%)	15.6	14.8	15.1	15.4
PAT (Rs. m)	1,492	1,242	1,554	1,881
EPS (Rs.)	9.0	7.5	9.3	11.3
Gr. (%)	(15.3)	(16.7)	25.1	21.1
DPS (Rs.)	3.0	3.0	3.0	3.0
Yield (%)	1.2	1.2	1.2	1.2
RoE (%)	10.0	7.8	9.3	10.4
RoCE (%)	13.1	10.3	12.0	13.6
EV/Sales (x)	2.4	2.5	2.1	1.8
EV/EBITDA (x)	15.3	16.9	13.9	11.5
PE (x)	27.4	32.9	26.3	21.8
P/BV (x)	2.6	2.5	2.4	2.2

Key Data

NOCI.BO | NOCIL IN

52-W High / Low	Rs.255 / Rs.199
Sensex / Nifty	69,522 / 20,901
Market Cap	Rs.41bn / \$ 491m
Shares Outstanding	167m
3M Avg. Daily Value	Rs.248.92m

Shareholding Pattern (%)

Promoter's	33.84
Foreign	6.36
Domestic Institution	3.61
Public & Others	56.19
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	12.6	10.9	4.7
Relative	5.2	0.7	(6.0)

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Near term challenges persist

Quick Pointers:

- Michelin and Bridgestone, the two largest tyre manufacturers globally continue with cautious near-term outlook
- Utilization still at ~65% while management speaks of possible further expansion

We expect NOCIL IN (NOCIL) to face near-term headwinds as near term outlook from Michelin and Bridgestone, the two largest global tyre manufacturers remains weak. Michelin has marginally raised its projections for CY23 from -3%/0% for passenger cars and light trucks to -1%/+1%. However, it has cut down its truck tyre outlook from previous -4%/-1% to -6%/-4% respectively. Similarly, Bridgestone expects "challenging conditions to continue throughout 2024 mainly in N. America and Europe". In 9MCY23, global OEM demand for tyres has grown by 6% while demand for replacement tyres has declined by 1%. Reiterate cautious stand on the company with a target price of Rs226 (unchanged) valuing it 20x FY26 EPS of Rs11.3. Downgrade to 'Reduce'

Two largest global tyre manufacturers guide near-term headwinds: As per Michelin, global tyre sales in Oct'23 for passenger cars/light trucks appear towards the upper end of -1/+1% guidance for CY23. However, truck tyre market excluding China appears towards lower end of guidance of -6%/-4% for CY23. Bridgestone also cites challenges to continue throughout CY24 due to economic slowdown, high labor/energy cost, sustainability related costs and geopolitical risks.

A lacklustre CY23: In 9MCY23, global demand of tyres from OEMs increased by 6% YoY while that from replacement market declined by 1%. For truck tyres too, global demand from OEMs rose by 9% YoY while that from the replacement market declined by 2%. For NOCIL, 60-70% of demand comes from tyres and 60-70% of demand within tyres comes from replacement market.

Is China springing back?: China Sunshine, in its update mid-Nov'23, mentioned that for 9MCY23, Chinese auto sales registered 8.2% growth YoY while new energy vehicles also registered 37.5% growth. While the company recorded 16% volume growth YoY, average sales price (ASP) declined 18% YoY on account of both decline in raw materials as well as "flexible pricing strategy". It is also expected to commence commercialization of its 20ktpa MBT (accelerator) expansion early 2024, which may intensify competition.

Rubber prices remain weak: We forecast EPS CAGR of 23% during FY24-26E. However, FY23-26E CAGR stands at meagre 8%. Natural rubber prices, another indicator of demand for rubber chemicals, also appears tepid at 15% below long term prices.

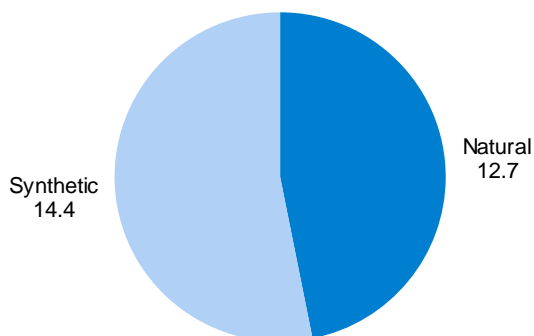
Key risks to our call: Rise in demand of tyres, foray into adjacencies, new capex.

Exhibit 1: Valuation Table

Valuation Basis	FY26E
Target P/E (x)	20
EPS	11.3
Target Price (INR)	226

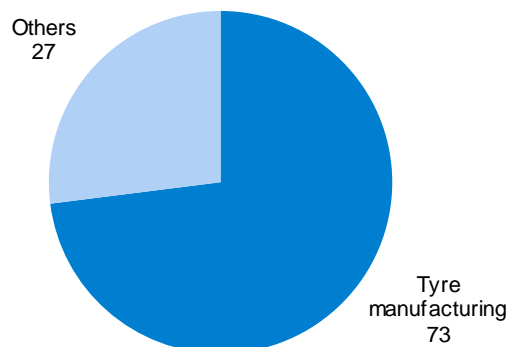
Source: Company, PL

Exhibit 2: Consumption of tyres (mmt, 2020)



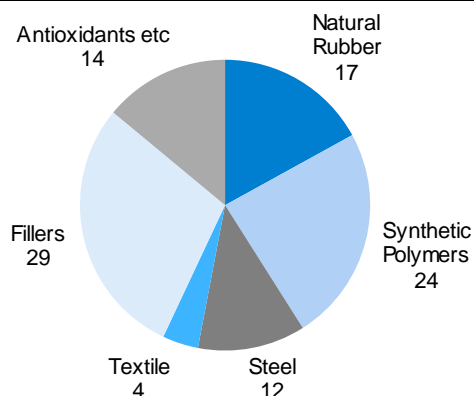
Source: World materials Forum, PL

Exhibit 3: Consumption of rubber by industry (%)



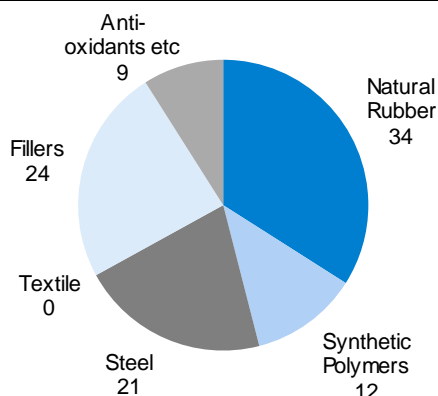
Source: ETRMA, PL

Exhibit 4: Composition in passenger/light truck tyres (%)



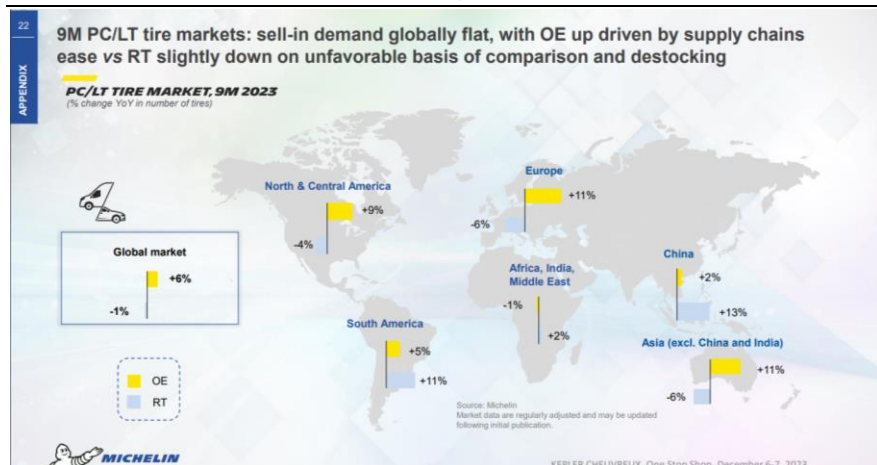
Source: ETRMA, PL

Exhibit 5: Consumption in truck tyres (%)



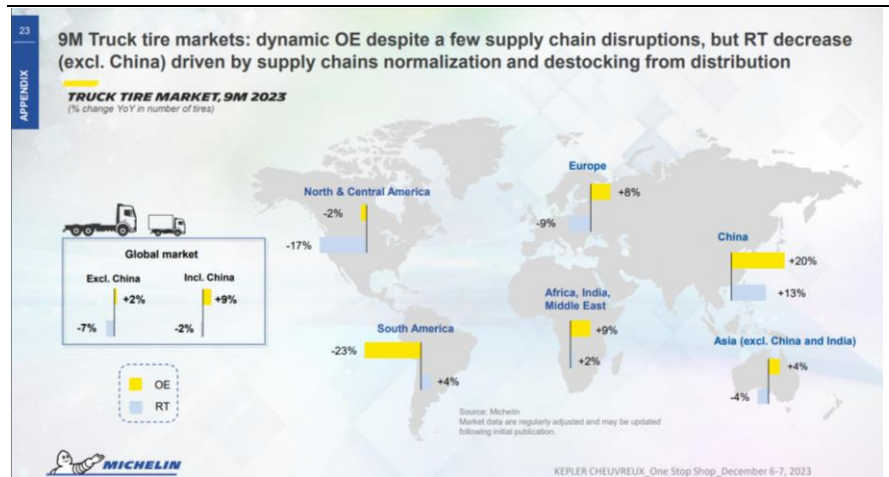
Source: ETRMA, PL

Exhibit 6: Michelin- weak replacement tyre demand for PC/LT



Source: Michelin, PL

Exhibit 7: Michelin- weak replacement tyre demand for trucks



Source: Michelin, PL

Exhibit 8: Bridgestone's 10th Nov'23 presentation

Basic business scenario of Mid Term Business Plan (2024-2026)
Further focus on value creation

■ 24MBP will start in 2024 in the challenging business environment continuing from 2023: Drive management prioritizing reinforcement of business quality first

Mid Term Business Plan (2024-2026)

2024

Business environment	<ul style="list-style-type: none"> Economic slowdown / Significant increase in energy and labor cost / Rise in interest rates / Cost increase related to sustainability / Geopolitical risk becoming apparent
Demand trend	<ul style="list-style-type: none"> Expect challenging conditions to continue throughout 2024 mainly in N. America and Europe
Management direction	<ul style="list-style-type: none"> Prioritize reinforcement of business quality ⇒ Stay attentive and lean in the challenging business environment Execute the 2nd stage of restructuring and rebuilding - especially for the European business - Limit strategic resources to a certain extent, and thoroughly select injection (However, expand & reinforce throughout 24MBP)

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BRIDGESTONE

Source: Bridgestone, PL

Exhibit 9: EVs may raise demand of rubber chemicals in long run

Create good tires
"Ultimate customization" desired for "new premium in EV era" ENLITEN (passenger car tires)

EV

Desired tire performance for conventional ICEs*	Desired value and tire performance in EV era			
Handling stability	Improvement in driving range / Low electricity consumption	Reduce environmental impact/ Long-life	Respond to EV batteries (Increase in vehicle weight, high vehicle height, ensuring battery loading space, etc.)	
Quietness			Increase severity on tires	Increase in wheel and rim diameter
Ride comfort	Light weight	Enhance resource productivity	Increase vehicle space utility	Smaller section width (Especially for compact cars)
Fuel efficiency	Low rolling resistance	High wear resistance		
Wear life		High durability		

* ICE: Internal Combustion Engine

Complication and diversification of desired tire performance by vehicle and customer, such as environmental performance and response to EV batteries, in addition to driving performance

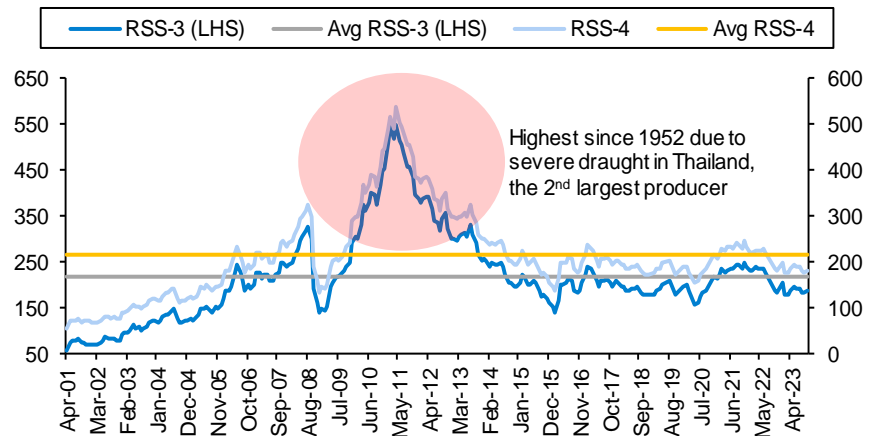
Support the adoption of EVs from the ground up through "ultimate customization"

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BRIDGESTONE

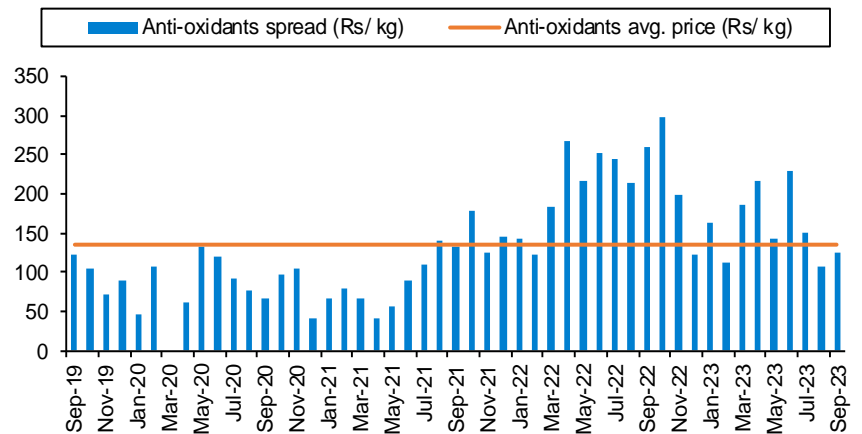
Source: Bridgestone, PL

Exhibit 10: Weak tyre grade rubber prices (USD/100kg)



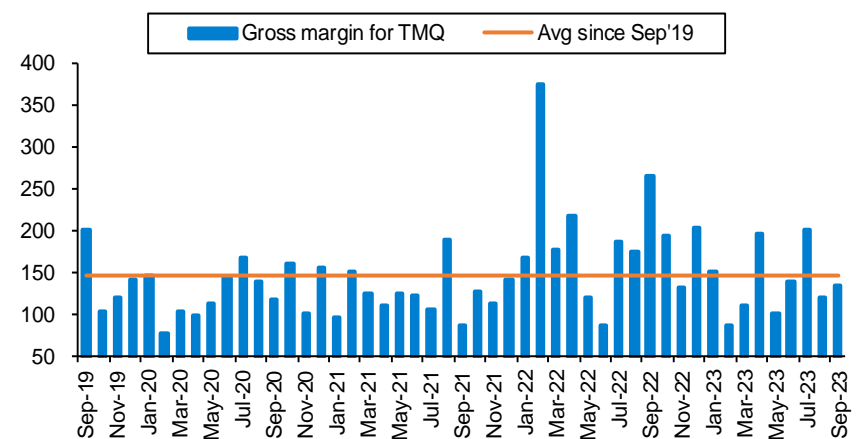
Source: Indian Natural Rubber, PL

Exhibit 11: Gross margin trend for P13



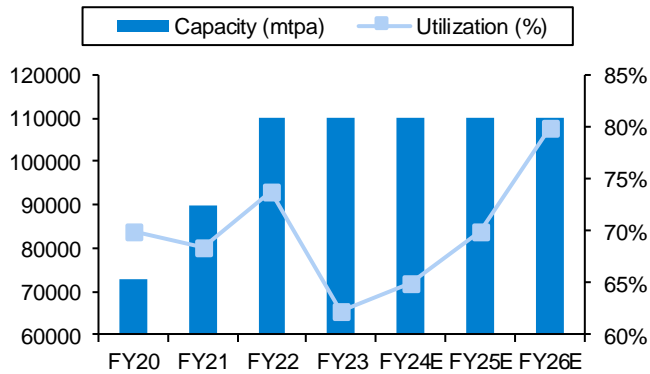
Source: Ministry of Commerce, PL

Exhibit 12: Gross margin trend for TMQ (Rs/kg)



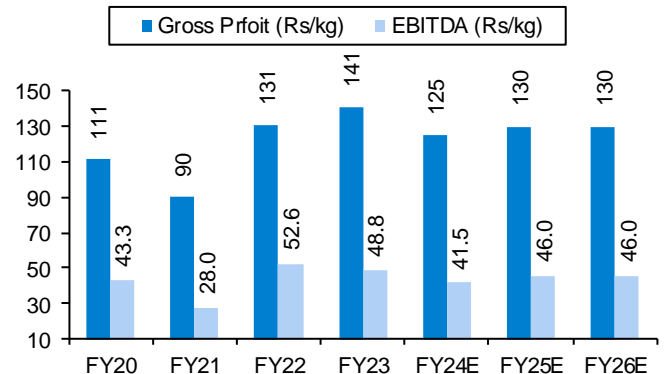
Source: Ministry of Commerce, PL

Exhibit 13: Expect utilizations to rise



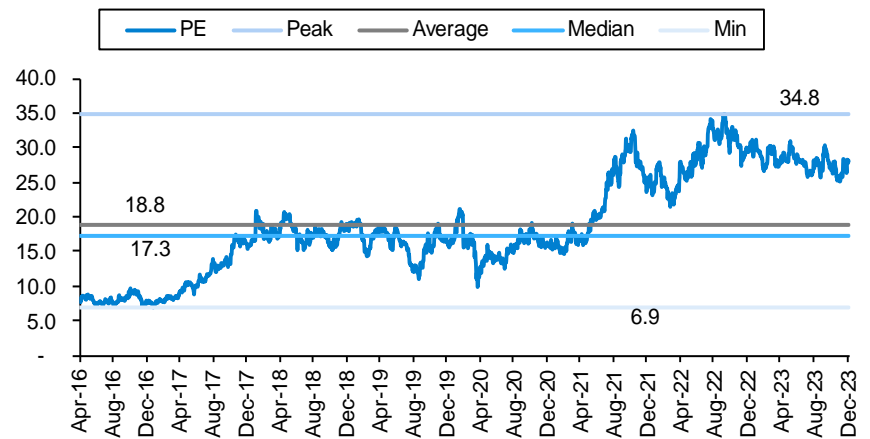
Source: Bridgestone, PL

Exhibit 14: We build in hike in EBITDA/kg



Source: Bridgestone, PL

Exhibit 15: P/E Chart



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	16,166	14,986	17,308	19,905
YoY gr. (%)	2.9	(7.3)	15.5	15.0
Cost of Goods Sold	8,877	8,311	9,673	11,124
Gross Profit	7,289	6,674	7,636	8,781
Margin (%)	45.1	44.5	44.1	44.1
Employee Cost	875	965	1,050	1,142
Other Expenses	3,887	3,492	3,981	4,578
EBITDA	2,528	2,218	2,605	3,061
YoY gr. (%)	(11.7)	(12.2)	17.4	17.5
Margin (%)	15.6	14.8	15.1	15.4
Depreciation and Amortization	557	578	594	608
EBIT	1,971	1,639	2,011	2,453
Margin (%)	12.2	10.9	11.6	12.3
Net Interest	12	11	11	11
Other Income	62	50	100	100
Profit Before Tax	2,021	1,678	2,100	2,542
Margin (%)	12.5	11.2	12.1	12.8
Total Tax	529	436	546	661
Effective tax rate (%)	26.2	26.0	26.0	26.0
Profit after tax	1,492	1,242	1,554	1,881
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,492	1,242	1,554	1,881
YoY gr. (%)	(15.3)	(16.7)	25.1	21.1
Margin (%)	9.2	8.3	9.0	9.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,492	1,242	1,554	1,881
YoY gr. (%)	(15.3)	(16.7)	25.1	21.1
Margin (%)	9.2	8.3	9.0	9.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,492	1,242	1,554	1,881
Equity Shares O/s (m)	167	167	167	167
EPS (Rs)	9.0	7.5	9.3	11.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	12,527	12,927	13,227	13,527
Tangibles	12,408	12,808	13,108	13,408
Intangibles	120	120	120	120
Acc: Dep / Amortization	3,653	4,231	4,825	5,433
Tangibles	3,565	4,143	4,738	5,346
Intangibles	88	88	88	88
Net fixed assets	8,875	8,696	8,402	8,094
Tangibles	8,843	8,664	8,370	8,062
Intangibles	32	32	32	32
Capital Work In Progress	86	86	86	86
Goodwill	-	-	-	-
Non-Current Investments	692	692	692	692
Net Deferred tax assets	(1,109)	(1,109)	(1,109)	(1,109)
Other Non-Current Assets	107	107	107	107
Current Assets				
Investments	1,763	1,763	1,763	1,763
Inventories	2,849	2,662	3,075	3,536
Trade receivables	3,460	3,285	3,794	4,363
Cash & Bank Balance	574	1,590	2,926	3,913
Other Current Assets	154	143	165	190
Total Assets	18,572	19,035	21,022	22,758
Equity				
Equity Share Capital	1,666	1,666	1,666	1,666
Other Equity	13,855	14,597	15,651	17,032
Total Network	15,521	16,263	17,317	18,698
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	162	162	162	162
Other non current liabilities	68	68	68	68
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,273	1,026	1,897	2,181
Other current liabilities	439	407	470	540
Total Equity & Liabilities	18,572	19,035	21,022	22,758

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	2,021	1,678	2,100	2,542
Add. Depreciation	557	578	594	608
Add. Interest	12	11	11	11
Less Financial Other Income	62	50	100	100
Add. Other	(61)	(50)	(100)	(100)
Op. profit before WC changes	2,529	2,218	2,605	3,061
Net Changes-WC	796	100	(19)	(710)
Direct tax	(505)	(440)	(539)	(653)
Net cash from Op. activities	2,820	1,877	2,047	1,698
Capital expenditures	(294)	(400)	(300)	(300)
Interest / Dividend Income	25	50	100	100
Others	(1,899)	-	-	-
Net Cash from Invt. activities	(2,168)	(350)	(200)	(200)
Issue of share cap. / premium	12	(1)	-	-
Debt changes	-	-	-	-
Dividend paid	(500)	(500)	(500)	(500)
Interest paid	(12)	(11)	(11)	(11)
Others	(37)	-	-	-
Net cash from Fin. activities	(538)	(512)	(511)	(511)
Net change in cash	114	1,016	1,336	987
Free Cash Flow	2,523	1,477	1,747	1,398

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	3,257	3,927	3,967	3,509
YoY gr. (%)	(16.2)	(15.1)	(22.1)	(9.9)
Raw Material Expenses	1,759	2,335	2,274	1,982
Gross Profit	1,498	1,592	1,693	1,527
Margin (%)	46.0	40.5	42.7	43.5
EBITDA	377	497	555	453
YoY gr. (%)	(25.7)	(55.4)	(46.3)	(27.0)
Margin (%)	11.6	12.7	14.0	12.9
Depreciation / Depletion	142	139	129	131
EBIT	236	359	426	322
Margin (%)	7.2	9.1	10.7	9.2
Net Interest	3	3	4	3
Other Income	21	29	50	46
Profit before Tax	253	385	472	365
Margin (%)	7.8	9.8	11.9	10.4
Total Tax	67	102	129	94
Effective tax rate (%)	26.4	26.5	27.3	25.7
Profit after Tax	186	283	343	272
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	186	283	343	272
YoY gr. (%)	(37.5)	(58.9)	(48.4)	(24.0)
Margin (%)	5.7	7.2	8.6	7.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	186	283	343	272
YoY gr. (%)	(37.5)	(58.9)	(48.4)	(24.0)
Margin (%)	5.7	7.2	8.6	7.7
Other Comprehensive Income	(65)	(188)	170	697
Total Comprehensive Income	121	95	513	969
Avg. Shares O/s (m)	167	167	167	167
EPS (Rs)	1.1	1.7	2.1	1.6

Source: Company Data, PL Research

Key Financial Metrics

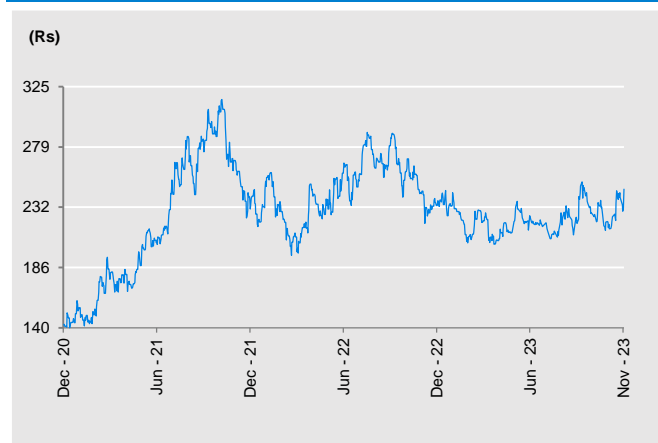
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	9.0	7.5	9.3	11.3
CEPS	12.3	10.9	12.9	14.9
BVPS	93.1	97.6	104.0	112.3
FCF	15.1	8.9	10.5	8.4
DPS	3.0	3.0	3.0	3.0
Return Ratio(%)				
RoCE	13.1	10.3	12.0	13.6
ROIC	10.7	9.3	11.7	14.2
RoE	10.0	7.8	9.3	10.4
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	114	120	105	105
Valuation(x)				
PER	27.4	32.9	26.3	21.8
P/B	2.6	2.5	2.4	2.2
P/CEPS	20.0	22.5	19.0	16.4
EV/EBITDA	15.3	16.9	13.9	11.5
EV/Sales	2.4	2.5	2.1	1.8
Dividend Yield (%)	1.2	1.2	1.2	1.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales Volume Growth (%)	(4.7)	3.0	10.0	15.0
Avg Realisations Growth (%)	7.9	(10.0)	5.0	
EBITDA (Rs/kg)	48.8	41.5	46.0	46.0
Capex (Rs bn)	0.3	0.4	0.3	0.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Nov-23	Hold	226	216
2	09-Oct-23	Hold	228	226
3	02-Aug-23	Hold	230	228
4	30-May-23	Hold	210	215
5	13-Apr-23	Accumulate	240	220
6	15-Mar-23	Accumulate	240	206
7	15-Feb-23	Accumulate	250	218
8	05-Jan-23	Accumulate	275	239

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	584	510
2	Bayer Cropscience	Accumulate	5,920	5,193
3	Bharat Petroleum Corporation	Reduce	365	429
4	Bharti Airtel	Accumulate	993	924
5	Clean Science and Technology	Hold	1,368	1,374
6	Deepak Nitrite	Reduce	1,935	2,076
7	Dhanuka Agritech	BUY	1,060	883
8	Fine Organic Industries	Hold	4,252	4,250
9	GAIL (India)	BUY	151	124
10	Godrej Agrovet	Hold	420	515
11	Gujarat Fluorochemicals	Reduce	2,413	2,780
12	Gujarat Gas	Accumulate	477	419
13	Gujarat State Petronet	BUY	328	273
14	Hindustan Petroleum Corporation	Sell	272	342
15	Indian Oil Corporation	Reduce	94	109
16	Indraprastha Gas	Hold	406	390
17	Insecticides India	Accumulate	600	519
18	Jubilant Ingrevia	Hold	433	412
19	Laxmi Organic Industries	Reduce	220	254
20	Mahanagar Gas	Hold	1,065	1,015
21	Mangalore Refinery & Petrochemicals	Hold	94	96
22	Navin Fluorine International	BUY	4,007	3,430
23	NOCIL	Hold	226	216
24	Oil & Natural Gas Corporation	BUY	237	196
25	Oil India	BUY	368	302
26	P.I. Industries	BUY	4,600	3,648
27	Petronet LNG	Hold	208	196
28	Rallis India	Reduce	190	217
29	Reliance Industries	Accumulate	2,618	2,388

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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