

February 08, 2019

NOCIL Ltd.

Q3FY19 Result Update

Management trimmed volume growth guidance for FY19E

The company recorded 10-12% volume growth in H1FY19. Going ahead management expects volume growth to be muted in H2FY19. We believe with sudden fall in finished product prices owing to fall in crude, the company is stuck with high cost inventory which will be sold out once prices recover from their lows. Also, we believe with recovery in prices going ahead the volume growth to be in higher double digits by FY20E. We expect the volume growth to be around 5-7% & 15-16% by FY19E & FY20E respectively.

Focusing on exports to be the growth trigger owing to US China trade war

Exports constitutes nearly 25.8% of consolidated sales in FY18. The company has adopted niche strategy towards export markets by focusing on exporting specialized rubber chemicals. US has decided to impose additional duty of 15% by January 2019 on China, hence the total duty imposed by US on china for rubber chemicals will be 25%. We believe post imposition of this duty there are chances of heavy dumping of Chinese rubber chemicals in India. NOCIL plans to focus on US clients and be the preferred supplier for international majors as well to overcome this situation.

EBITDA margins witnessed pressure in Q3FY19

The company reported EBITDA margin of 27.8% in Q3FY19 as compared to 29.0% in Q2FY19 and 27.9% in Q3FY18. Margin impact on q-o-q basis was owing to fall in finished product prices due to sharp fall in crude prices, however, currently the prices are under control. We expect margins to be around 25.7% in FY20E post factoring the ADD impact.

Plans to double the rubber chemicals capacity gives strong growth outlook

The company has an installed capacity of 55,000 MTPA and is currently operating at ~95% utilization levels. NOCIL plans to double the total capacity to 1,10,000 MTPA by H2FY20E. The expansion is planned in phases viz. phase 1 and phase 2. The total capex outlay is INR 425 crore. Phase 1 is divided into 1(a) and 1(b) and capex outlay for phase 1 is INR 170 crore. Phase 1 is completed in Q3FY19 and Phase 2 commercial production will start from H2FY20E and the total capex outlay is INR 255 crore. We expect the said capex of INR 425 crore to generate incremental revenues of INR 850-900 crore, an asset turnover of 2x by FY23E.

Valuations

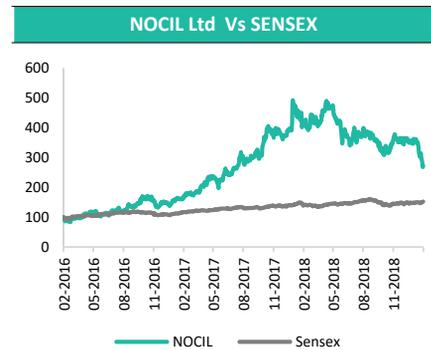
NOCIL Ltd is the market leader in rubber chemicals and with increasing demand from the key end user industries the company is in a expansion mode to cater to their client needs and to be the preferred partner of choice in rubber chemicals. At CMP of INR 127 the stock is trading at 10.7x FY21E EPS of INR 11.8. We value the stock on DCF methodology and arrive at a target price of INR 213 per share, thereby, representing a potential upside of 68.1% from current valuations with a 2-3 years investment horizon. We believe the valuations have corrected and current valuation offers comfort and the stock has favorable risk / reward at current juncture.

STRONG BUY*



| Market Data | |
|-------------------------|----------------------|
| Industry | Speciality chemicals |
| Sensex | 36484 |
| Nifty | 10967 |
| Bloomberg Code | NOCIL:IN |
| Eq. Cap. (INR Crores) | 164.5 |
| Face Value (INR) | 10 |
| 52-w H/L | 236/139 |
| Market Cap (INR Crores) | 2632 |

| Valuation Data | FY19E | FY20E | FY21E |
|----------------|-------|-------|-------|
| P/E (x) | 12.3 | 11.6 | 10.7 |
| P/B (x) | 1.8 | 1.6 | 1.5 |
| EV/EBITDA(x) | 7.1 | 6.5 | 5.4 |



| Shareholding Pattern (in %) | | | |
|-----------------------------|--------------|--------------|--------------|
| | Dec'18 | Sept'18 | Dec'17 |
| Promoter | 33.78 | 34.08 | 36.79 |
| FIIs | 4.24 | 4.71 | 5.73 |
| DIIs | 6.76 | 6.00 | 4.00 |
| Retail | 55.22 | 55.21 | 53.48 |
| Total | 100.0 | 100.0 | 100.0 |

| (INR Crores) | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|----------------|------|------------|------------|------------|------------|------------|------------|
| Net Sales | 719 | 715 | 742 | 968 | 1069 | 1200 | 1401 |
| Growth% | | -1% | 4% | 30% | 10% | 12% | 17% |
| EBITDA | 113 | 139 | 159 | 265 | 285 | 308 | 332 |
| Growth% | | 23% | 14% | 67% | 7% | 8% | 8% |
| PAT | 57 | 78 | 97 | 170 | 171 | 181 | 196 |
| Growth% | | 37% | 24% | 75% | 0% | 6% | 8% |
| EPS (INR) | 3.6 | 4.9 | 6.0 | 10.4 | 10.3 | 10.9 | 11.8 |
| P/E (x) | 10.6 | 9.6 | 15.6 | 18.5 | 12.3 | 11.6 | 10.7 |
| P/B (x) | 1.5 | 1.0 | 1.7 | 3.0 | 1.8 | 1.6 | 1.5 |
| EV/EBITDA(x) | 6.4 | 5.4 | 8.9 | 11.8 | 7.1 | 6.5 | 5.4 |

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

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Q3FY19 Result Analysis

| (INR Crore) | Q3FY19 | Q2FY19 | Q3FY18 | Y-o-Y | Q-o-Q |
|-----------------------|--------------|--------------|--------------|--------------|---------------|
| Revenue | 261.2 | 272.0 | 249.3 | 4.8% | -4.0% |
| COGS | 117.5 | 119.4 | 114.8 | 2.3% | -1.6% |
| Employee Expenses | 15.4 | 16.3 | 15.6 | -1.0% | -5.2% |
| Other Expenses | 55.8 | 57.4 | 49.3 | 13.3% | -2.8% |
| Total Expenses | 188.7 | 193.1 | 179.7 | 5.0% | -2.3% |
| EBITDA | 72.5 | 78.9 | 69.6 | 4.2% | -8.1% |
| Depreciation | 5.6 | 5.6 | 4.0 | 41.0% | 0.9% |
| Other Income | 2.0 | 3.2 | 3.2 | -36.8% | -37.2% |
| EBIT | 68.9 | 76.5 | 68.8 | 0.1% | -10.0% |
| Finance Cost | 0.1 | 0.1 | 0.3 | -75.0% | -46.2% |
| PBT | 68.8 | 76.4 | 68.5 | 0.5% | -9.9% |
| Taxes | 24.2 | 23.6 | 23.5 | 2.7% | 2.6% |
| Net Profit | 44.7 | 52.8 | 45.0 | -0.7% | -15.5% |
| EPS in INR | 2.7 | 3.2 | 2.7 | -1.5% | -15.6% |

Source: Company, NSPL Research

- The company's revenue recorded growth of 4.8% y-o-y & de-growth of 4.0% q-o-q to INR 261.2 crore in Q3FY19.
- EBITDA recorded growth of 4.2% y-o-y & de-growth of 8.1% q-o-q to INR 72.5 crore. EBITDA margins stood at 27.8% in Q3FY19 as compared to 27.9% in Q3FY18 and 29.0% in Q2FY19. Contraction in EBITDA margins on q-o-q was due to higher cost of production.
- COGS recorded growth of 2.3% y-o-y & de-growth of 1.6% q-o-q to INR 117.5 crore.
- Employee expense recorded de-growth of 1.0% y-o-y & 5.2% q-o-q to INR 15.4 crore.
- Other expenses recorded growth of 13.3% y-o-y & de-growth of 2.8% q-o-q to INR 55.8 crore.
- PAT recorded de-growth of 0.7% y-o-y & 15.5% q-o-q to INR 44.7 crore. PAT margins stood at 17.1% in Q3FY19 as compared to 18.0% in Q3FY18 and 19.4% in Q2FY19.

Conference call highlights

- The phase 1 expansion at dahej and navi mumbai plant with an capex outlay of INR 175 crore has been completed.
- Management guided that rubber chemicals are witnessing change in demand scenario and is expected to be strong going ahead on the back of strong capex lined by tyre manufacturers.
- Long term outlook of auto industry is positive. Recent auto slowdown has impacted the replacement market sentiment but company managed to report flattish growth.
- Management expects upward prices of most auto components from March 2019 which would revive the sector from slowdown impact.
- Global rubber consumption growth stood at 4% and we believe this would eventually lead to rubber chemicals demand growth at 9-10% from FY18-21E.
- Due to sudden volatility in prices of crude, most of the products in the product basket witnessed pricing pressure due to which company reported muted q-o-q growth in Q3FY19.
- H1FY19 recorded volume growth of 10%. Management expect H2FY19 to witness muted growth.
- Management anticipates higher double digit volume growth in FY20E.
- The company witnessed 2-3% dip in rubber chemical realization in Q3FY19. Management expects pricing scenario to be subdued going ahead.
- Management stated one of the big suppliers of rubber chemicals in china is shut and there could be supply constraints in the market going ahead.
- Management is very confident of the long term sustainability of the business on the back of higher contribution from auto sector and increased demand from non automotive sectors.
- The business has strong entry barriers as it take 6-18 months for any rubber chemical supplier to be the preferred supplier.

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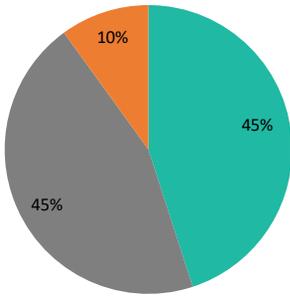
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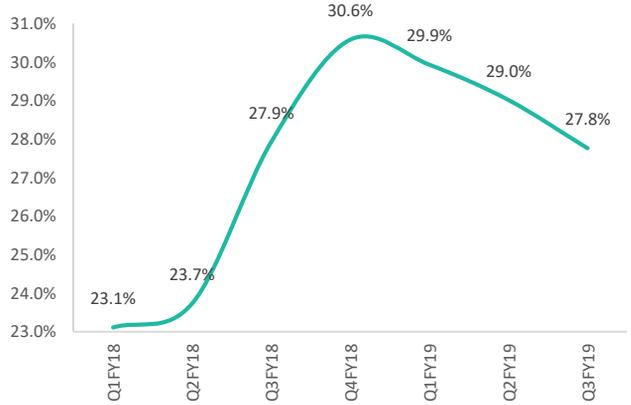


NOCIL business model breakup

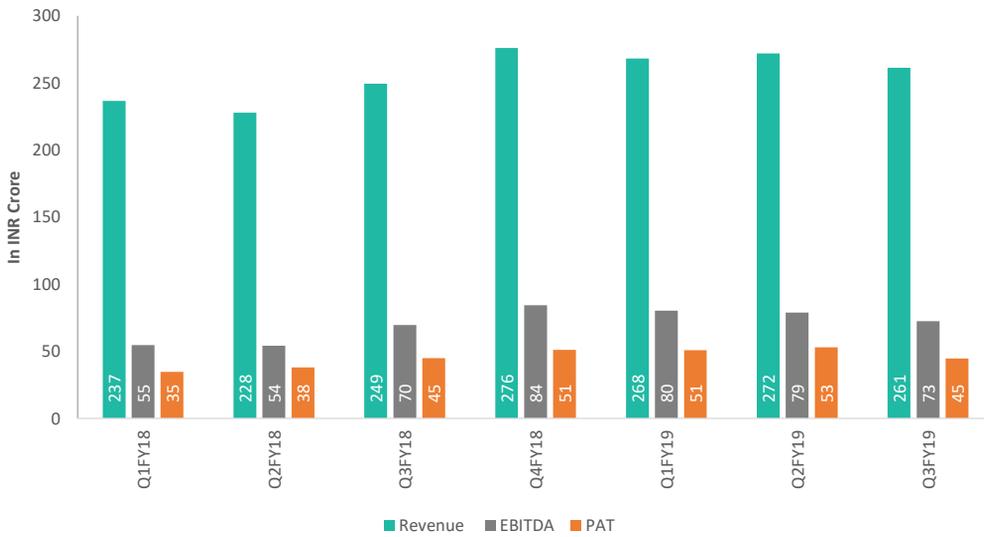


■ Accelerators ■ Antioxidants/Anti-degradents ■ Pre & Post vulcanization

EBITDA margins in Q3FY19 witnessed pressure owing to high input cost



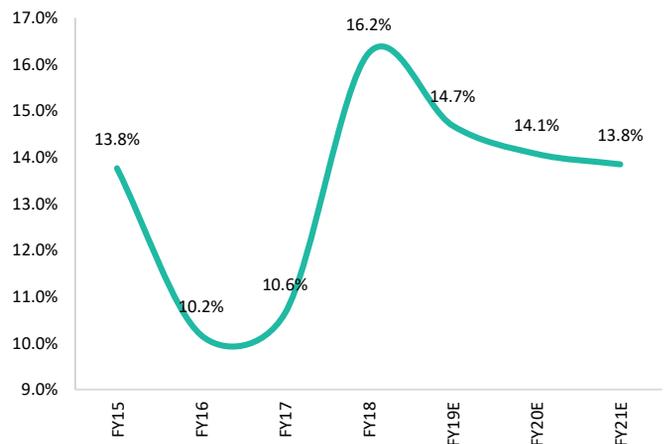
Quarterly financial performance



EPS to inch upwards from FY21E



Return on equity to normalize going ahead



Source: NSPL Research

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| Profit & Loss (INR Crores) | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|----------------------------|------------|------------|------------|-------------|-------------|-------------|-------------|
| Net sales | 719 | 715 | 742 | 968 | 1069 | 1200 | 1401 |
| COGS | 389 | 360 | 360 | 441 | 494 | 562 | 683 |
| Employee Expenses | 50 | 61 | 64 | 71 | 68 | 79 | 94 |
| Other Expenses | 167 | 156 | 159 | 190 | 222 | 250 | 291 |
| EBITDA | 113 | 139 | 159 | 265 | 285 | 308 | 332 |
| D&A | 14 | 15 | 20 | 24 | 32 | 41 | 43 |
| Other income | 4 | 4 | 10 | 15 | 9 | 9 | 10 |
| EBIT | 103 | 128 | 149 | 256 | 261 | 276 | 299 |
| Interest Expense | 17 | 9 | 2 | 1 | 0 | 0 | 0 |
| PBT | 86 | 119 | 147 | 255 | 261 | 276 | 299 |
| Tax | 29 | 41 | 50 | 85 | 90 | 95 | 103 |
| PAT | 57 | 78 | 97 | 170 | 171 | 181 | 196 |
| EPS in INR | 3.6 | 4.9 | 6.0 | 10.4 | 10.3 | 10.9 | 11.8 |

| Balance Sheet (INR Crores) | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|--------------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Share Capital | 161 | 161 | 164 | 164 | 165 | 165 | 165 |
| Reserves & Surplus | 254 | 608 | 750 | 882 | 998 | 1118 | 1248 |
| Shareholder's Funds | 415 | 769 | 913 | 1047 | 1163 | 1284 | 1413 |
| Long term borrowings | 51 | 15 | 5 | 0 | 0 | 0 | 0 |
| Long term provisions | 14 | 18 | 17 | 16 | 15 | 18 | 22 |
| Deferred tax liabilities(Net) | 43 | 104 | 106 | 104 | 112 | 121 | 140 |
| Other non current liabilities | 0 | 1 | 0 | 0 | 0 | 0 | 0 |
| Total Non-current liabilities | 107 | 138 | 128 | 120 | 128 | 139 | 162 |
| Short term borrowings | 75 | 1 | 0 | 0 | 0 | 0 | 0 |
| Trade payables | 84 | 69 | 81 | 116 | 271 | 307 | 458 |
| Other financial liabilities | 0 | 26 | 26 | 37 | 18 | 20 | 23 |
| Other current liabilities | 52 | 10 | 8 | 21 | 11 | 12 | 13 |
| Short-term provisions | 22 | 2 | 4 | 4 | 5 | 7 | 8 |
| Current Tax Liabilities(Net) | 0 | 0 | 0 | 3 | 5 | 6 | 7 |
| Total Current liabilities | 233 | 107 | 119 | 181 | 310 | 352 | 510 |
| Total Equity and Liabilities | 755 | 1014 | 1161 | 1348 | 1601 | 1775 | 2086 |

| | | | | | | | |
|---------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Fixed Assets | 306 | 544 | 539 | 524 | 676 | 850 | 855 |
| Capital work in progress | 3 | 6 | 4 | 42 | 200 | 28 | 19 |
| Investment property | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| Intangible assets | 5 | 4 | 4 | 3 | 2 | 2 | 2 |
| Other Investments | 22 | 112 | 176 | 52 | 54 | 56 | 59 |
| Other financial assets | 0 | 5 | 5 | 5 | 5 | 5 | 5 |
| Non current tax assets | 0 | 20 | 7 | 5 | 5 | 12 | 14 |
| Other non current assets | 38 | 9 | 9 | 26 | 26 | 28 | 25 |
| Total Non-current Assets | 375 | 700 | 744 | 658 | 969 | 981 | 979 |
| Inventories | 188 | 133 | 115 | 155 | 143 | 212 | 256 |
| Current investment | 0 | 0 | 0 | 229 | 54 | 5 | 5 |
| Trade receivables | 167 | 151 | 167 | 243 | 337 | 456 | 521 |
| Cash and cash equivalents | 8 | 5 | 106 | 24 | 62 | 82 | 282 |
| Other bank balance | 0 | 11 | 16 | 8 | 8 | 8 | 8 |
| Other financial assets | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| Other current assets | 18 | 14 | 13 | 30 | 29 | 32 | 34 |
| Total Current Assets | 380 | 314 | 417 | 690 | 633 | 795 | 1107 |
| Total Assets | 755 | 1014 | 1161 | 1348 | 1601 | 1775 | 2086 |

Source: NSPL Research

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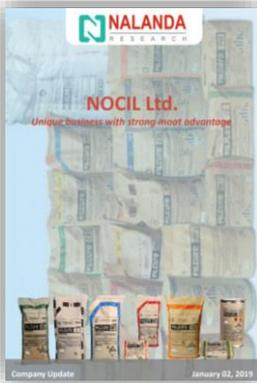


| Cash Flow (INR Crores) | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|------------|-------------|------------|-------------|-------------|------------|------------|
| PBT | 86 | 119 | 147 | 255 | 261 | 276 | 299 |
| Operating profit before working capital changes | 115 | 141 | 160 | 271 | 302 | 327 | 352 |
| Cash generated from operations | 49 | 201 | 187 | 183 | 359 | 181 | 421 |
| Less income tax paid | -19 | -31 | -46 | -81 | -90 | -95 | -103 |
| Cash Flow from Operating | 30 | 170 | 142 | 103 | 269 | 86 | 318 |
| Cash Flow from Investing | -5 | -12 | -10 | -142 | -167 | 3 | -42 |
| Cash Flow from Financing | -33 | -151 | -31 | -42 | -64 | -69 | -76 |
| Incr/(Decr) in Balance Sheet Cash | -8 | 7 | 101 | -82 | 37 | 20 | 200 |
| Cash at the Start of the Year | 14 | 6 | 5 | 106 | 24 | 62 | 82 |
| Other bank balance | 0 | 0 | -1 | 0 | 1 | 0 | 0 |
| Cash at the End of the Year | 6 | 14 | 105 | 24 | 62 | 82 | 282 |

| RATIOS | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|
| Profitability | | | | | | | |
| Return on Capital (%) | 18.3% | 16.1% | 16.1% | 24.3% | 22.4% | 21.5% | 21.2% |
| Return on Equity (%) | 13.8% | 10.2% | 10.6% | 16.2% | 14.7% | 14.1% | 13.8% |
| Margin Trend | | | | | | | |
| EBITDA Margin (%) | 15.8% | 19.5% | 21.4% | 27.4% | 26.6% | 25.7% | 23.7% |
| PBT Margin (%) | 12.0% | 16.6% | 19.8% | 26.3% | 24.4% | 23.0% | 21.3% |
| Net profit Margin (%) | 7.9% | 10.9% | 13.1% | 17.6% | 16.0% | 15.1% | 14.0% |
| Gross Margin (%) | 46.0% | 49.7% | 51.6% | 54.5% | 53.8% | 53.2% | 51.2% |
| Solvency | | | | | | | |
| Debt / Equity | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt / Assets | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Valuation Ratios | | | | | | | |
| P/E | 10.6 | 9.6 | 15.6 | 18.5 | 12.3 | 11.6 | 10.7 |
| P/B | 1.5 | 1.0 | 1.7 | 3.0 | 1.8 | 1.6 | 1.5 |
| EV/EBITDA | 6.4 | 5.4 | 8.9 | 11.8 | 7.1 | 6.5 | 5.4 |

Source: NSPL Research

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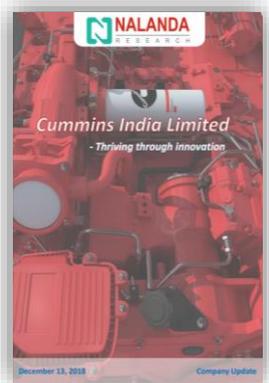
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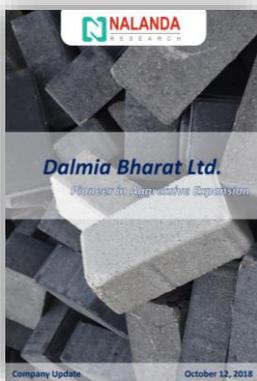
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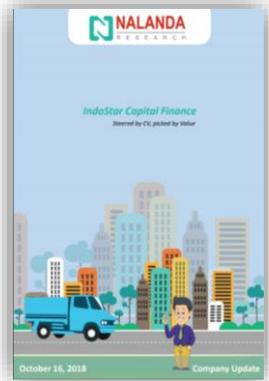
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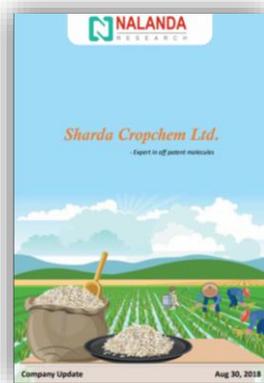
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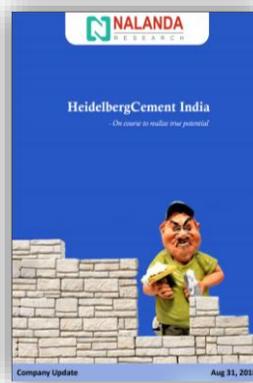
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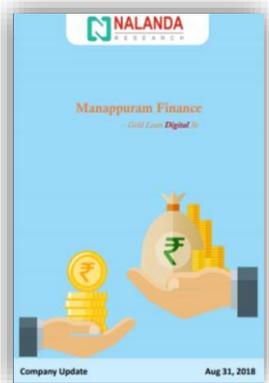
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| Date | NOCIL Ltd | | | Rating Legend | |
|-----------------------------------|-----------|--------------------|----------------|---------------|---------------|
| | CMP (INR) | Target Price (INR) | Recommendation | Strong Buy | More than 15% |
| February 08, 2019 | 127 | 213 | Strong Buy | Buy | 5% - 15% |
| January 02, 2019 (Company Update) | 166 | 214 | Strong Buy | Hold | 0 – 5% |
| | | | | Reduce | -5% - 0 |
| | | | | Sell | Less than -5% |

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

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|--|--|
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| Details of Disciplinary History of NSPL | No disciplinary action is / was running / initiated against NSPL |
| Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest | No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates') |
| Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company | NO |
| Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document | NO |
| Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document | NO |
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| Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months | NO |
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| Has research analyst or NSPL engaged in market making activity for the subject company | NO |
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