April 10, 2017

Nocil Ltd (NOCIL)

₹ 95

Industry leader well poised for growth...

We recently met P Srinivasan, the Chief Financial Officer (CFO) of Nocil Ltd (Nocil) to get an insight into the global rubber chemicals industry and the company's role in the value chain. Nocil, an Arvind Mafatlal Group enterprise, is India's largest rubber chemicals manufacturer with a rich heritage spanning over four decades. It is an approved vendor at most domestic and global tyre manufacturers. Its wide product range, global presence and technical know-how make it the most strategic alternative to its Chinese counterparts. It follows an integrated approach wherein it manufactures intermediates as well as a wide range of final products across two manufacturing facilities in Navi Mumbai and Dahej with an installed capacity of 53000 tonne. As of FY15, it commands a market share of ~5.6% of the global and ~42% of the domestic rubber chemical industry, pegged at ~9.45 lakh tonne and ~65000 tonne, respectively. Citing capacity constraints (operating in 90%+ capacity utilisation levels) and robust demand for its product offerings, Nocil is undertaking a major expansion with an estimated capital expenditure of ₹ 170 crore (funded through internal accruals) and expected commissioning by H2FY19E. In FY16, sales were at ₹ 715.2 crore, EBITDA at ₹ 139.4 crore (EBITDA margins 19.5%) and PAT at ₹ 78.3 crore. However, the company is susceptible to realisation risk amid volatile crude prices.

Impressive growth, envisaged capex lift prospects for FY16-19E

Nocil has delivered an impressive turnaround post the commissioning of the Dahej facility in FY13. During FY12-16, sales, EBITDA and PAT have grown at a CAGR of 10.3%, 39.4% and 22.7%, respectively. Improved process efficiencies, change in product mix and continuous R&D efforts at its Dahej facility have been a game changer. Sensing capacity constraints with utilisation levels in excess of 90%, the management has proactively embarked upon an impressive ~₹ 170 crore capex programme. It is expected to be commissioned by H2FY19E with a revenue potential of ~₹ 300 crore at peak utilisation and intended RoCE of 20%+ thereby strengthening the prospects for FY17-22E.

Healthy balance sheet, robust cash flows, return ratios!

Robust growth in EBITDA margins from 7.6% in FY12 to 19.5% in FY16 and improved working capital cycle have led to strong return ratios with FY16 RoE and RoIC at 16.7% and 28.4%, respectively. The improved performance has helped the company to generate a CFO of ₹ 170 crore in FY16 (₹ 44 crore in FY14). This has largely resulted in a substantial debt reduction with debt declining from ₹ 152 crore as of FY14 to ₹ 25 crore in FY16 with consequent debt-equity at 0.1x (FY16). At the CMP of ₹ 95, Nocil trades at 13.0x P/E (TTM basis) and 10.0x EV/EBITDA (TTM basis).

Exhibit 1: Financial Performance

(₹ Crore)	FY12	FY13	FY14	FY15	FY16
Net Sales (₹ crore)	483.4	488.2	596.1	719.0	715.2
EBITDA (₹ crore)	36.9	20.9	60.3	113.3	139.4
Net Profit (₹ crore)	34.6	42.1	23.9	57.1	78.3
EPS Adj (₹)	2.1	2.6	1.5	3.6	4.9
P/E (x)	44.2	36.3	64.0	26.8	19.5
Price / Book (x)	4.6	4.2	4.0	3.7	3.2
EV/EBITDA (x)	41.6	73.5	25.5	13.6	11.0
RoIC (%)	19.7	10.0	10.7	19.4	28.4
RoE (%)	10.3	11.5	6.3	13.8	16.7

Source: Company, ICICIdirect.com Research

Rating Matrix

Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

Key Financials

(₹ Crore)	FY13	FY14	FY15	FY16
Net Sales	488.2	596.1	719.0	715.2
EBITDA	20.9	60.3	113.3	139.4
Net Profit	42.1	23.9	57.1	78.3
EPS Adj (₹)	2.6	1.5	3.6	4.9

Valuation Summary

(x)	FY13	FY14	FY15	FY16
P/E	36.3	64.0	26.8	19.5
EV / EBITDA	73.5	25.5	13.6	11.0
P/BV	4.2	4.0	3.7	3.2
RoNW (%)	11.5	6.3	13.8	16.7
RoIC (%)	10.0	10.7	19.4	28.4

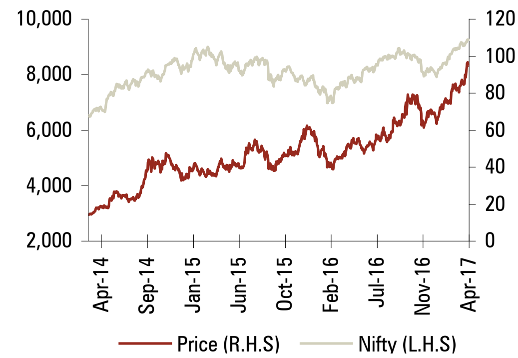
Stock Data

Particular	Amount
Market Capitalization	₹ 1528 crore
Total Debt (FY16)	₹ 26 crore
Cash (FY16)	₹ 15 crore
EV	₹ 1538 crore
52 week H/L (₹)	96 / 48
Equity capital	₹ 161 crore
Face value	₹ 10
FII Holding (%)	3.6
DII Holding (%)	1.8

Price Performance

Return (%)	1M	3M	6M	12M
Nocil Ltd	16.0	33.1	24.1	95.7
Oriental Carbon & Chemicals	8.4	20.3	40.0	90.3
Phillips Carbon Black Ltd	21.3	55.7	33.0	246.6

Price Movement



Research Analysts

Chirag J Shah
shah.chirag@icicisecurities.com

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Other management meet highlights

- Rubber chemicals are chemical compounds used in production, synthesising and purification of various rubber products. They are largely divided into two main categories viz. accelerators (chemicals that accelerate speed of vulcanisation) and anti oxidants (chemicals that enhance the durability and life of rubber products)
- Rubber chemicals constitute ~3.5% of overall rubber consumption. With global rubber consumption estimated at ~27 million tonnes (MT) as of FY16, the rubber chemicals market is at ~1 million tonne. This market is controlled by China with a market share of ~75% on the back of higher subsidies and incentives. The Indian rubber chemical demand constitutes ~7% i.e. 60000-65000 tonne of the global industry
- With average realisation of ~US$3.5/kg, total industry size in value terms was at US$3.5 billion at the global level and ~₹ 1500 crore domestically
- For a tyre manufacturer, rubber chemicals, though critical in volume terms, form less than 4% of its total cost (in value)
- All manufacturing facilities of Nocil are customer approved. This usually acts as a key entry barrier in the rubber chemical industry given its long gestation period of ~12-18 months
- Its key global customers are Michelin, Bridgestone and Continental, among others. Its key customers domestically are MRF, JK Tyres and Birla Tyres, among others
- Benzene is the key raw material for manufacturing rubber chemicals, which is indeed a crude derivative

Exhibit 2: Product profile

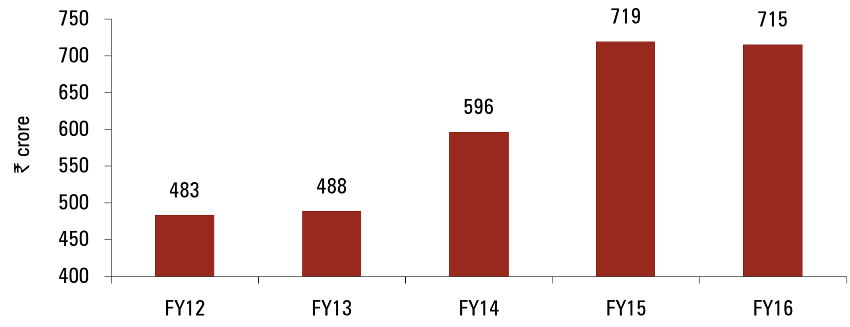
Source: Company, ICICIdirect.com Research

Rubber chemical sales volumes were at ~48117 MT in FY16 vs. ~37173 in FY12 registering a CAGR of 6.7%

Key financial

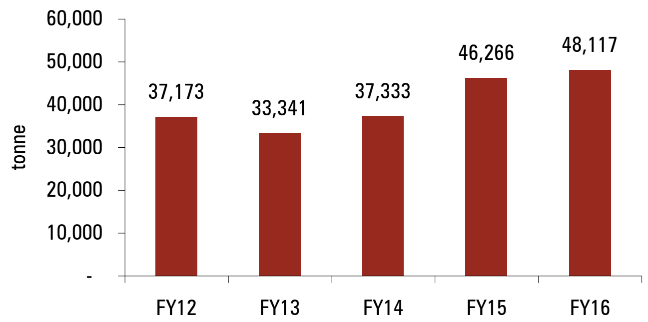
Revenues have grown at 10.3% CAGR in FY12-16 to ₹ 715 crore in FY16. This has been largely driven by 6.7% volume improvement and 3.4% price improvement. The price improvement has mainly been due to the management's conscious effort to increase its share of value added offerings (~35% of sales in FY16). Revenues remained flattish in FY16 over FY15 in value terms due to a drop in realisations, which is largely crude linked. However, in volume terms, sales have grown ~4%.

Exhibit 3: Revenue trend; witness CAGR of 10.3% in FY12-16



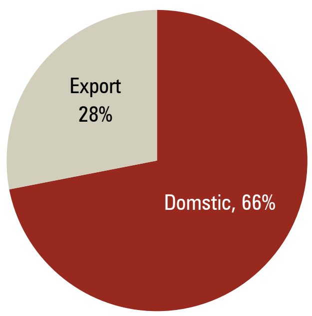
Source: Company, ICICIdirect.com Research

Exhibit 4: Sales volume in FY12-16



Source: Company, ICICIdirect.com, Research

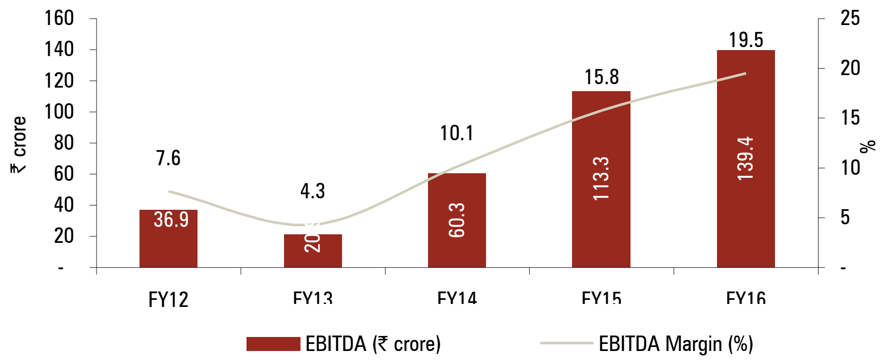
Exhibit 5: Sales mix: domestic vs. export



Source: Company, ICICIdirect.com, Research

EBITDA margins have improved to the tune of 1185 bps in FY12-16. Margins improved to 19.5% in FY16 vs. 7.6% in FY12.

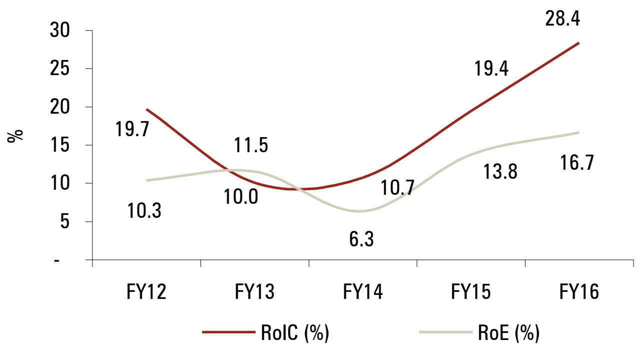
Exhibit 6: EBITDA & EBITDA margins trend



Source: Company, ICICIdirect.com Research

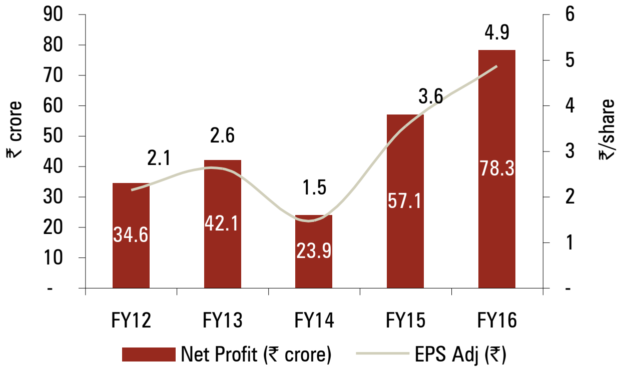
Robust growth in EBITDA margins from 7.6% in FY12 to 19.5% in FY16 and a stable working capital cycle have led to strong return ratios with FY16 RoE and RoIC at 16.7% and 28.4%, respectively. The improved performance has helped the company generate a CFO of ₹ 170 crore in FY16 (₹ 44 crore in FY14). This has largely resulted in a substantial debt reduction with debt declining from ₹ 152 crore as of FY14 to ₹ 25 crore in FY16 with consequent debt-equity at 0.1x (FY16).

Exhibit 7: RoIC & RoE trend



Source: Company, ICICIdirect.com, Research

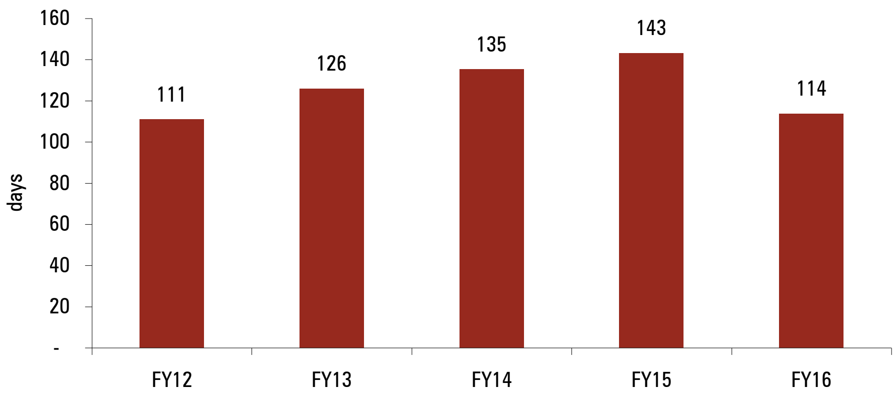
Exhibit 8: PAT trend over FY12-16



Source: Company, ICICIdirect.com, Research

The net working capital cycle has witnessed a significant improvement with net working capital days at ~114 days in FY15-16 compared to ~143 days in FY14-15. It largely benefited from lower inventory and debtor days. The management has indicated at limited room for a further reduction in NWC days

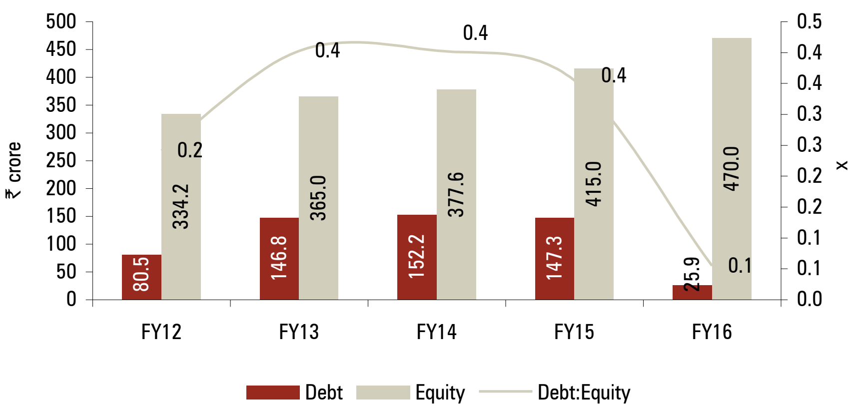
Exhibit 9: Net working capital days trend



Source: Company, ICICIdirect.com Research

Debt: equity is on the decline with debt: equity declining from 0.2x as of FY12 to 0.1x as of FY16

Exhibit 10: Debt: equity profile trend



Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093

research@icicidirect.com

Disclaimer

ANALYST CERTIFICATION

We /I, *Chirag Shah PGDBM, Shashank Kanodia, CFA MBA (Capital Markets),* Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia,* engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that *Chirag Shah PGDBM*, *Shashank Kanodia, CFA MBA (Capital Markets),* Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report. ,

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.
It is confirmed that *Chirag Shah PGDBM*, *Shashank Kanodia, CFA MBA (Capital Markets)*. Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.
report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that *Chirag Shah PGDBM*, *Shashank Kanodia, CFA MBA (Capital Markets)*, Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.