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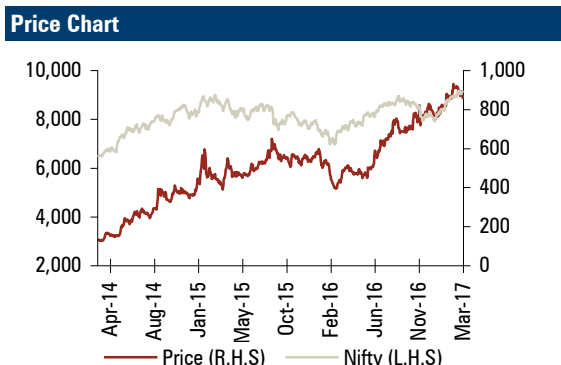
Rating matrix		
Rating	:	Buy
Target	:	₹ 1125
Target Period	:	12-18 months
Potential Upside	:	25%

What's changed?	
Target	Unchanged
EPS FY17E	Changed from ₹ 49.9 to ₹ 52.8
EPS FY18E	Changed from ₹ 57.6 to ₹ 60.6
EPS FY19E	Changed from ₹ 66.4 to ₹ 71.7
Rating	Unchanged

Key financials				
₹ crore	FY16	FY17E	FY18E	FY19E
Net Sales	274.7	292.3	341.2	379.9
EBITDA	81.1	84.7	101.5	114.0
EBITDA Margins (%)	29.5	29.0	29.8	30.0
Net Profit	53.0	54.4	62.5	73.9
EPS	51.4	52.8	60.6	71.7

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	17.5	17.1	14.8	12.6
Target P/E	21.9	21.3	18.6	15.7
EV / EBITDA	12.0	11.8	9.7	8.1
P/BV	3.2	2.8	2.4	2.1
RoNW	18.5	16.5	16.4	16.8
RoCE	16.6	14.1	15.0	18.5
ROIC	20.8	16.9	20.8	20.4

Stock data	
Stock Data	₹ crore
Market Capitalization	928
Total Debt (FY16)	72.4
Cash and Cash Equivalent (FY16)	25.4
Enterprise Value	975.0
52 week H/L	950 / 425
Equity Capital	10.3
Face Value	₹ 10
MF Holding (%)	17.0
FII Holding (%)	1.0



### Research Analyst

Chirag J Shah  
shah.chirag@icicisecurities.com

Shashank Kanodia, CFA  
shashank.kanodia@icicisecurities.com

## Oriental Carbon (ORICAR)

₹ 900

### Earnings at inflection point; quality play...

- Oriental Carbon & Chemicals (OCCL) is a speciality chemical company manufacturing insoluble sulphur, a key raw material used in vulcanisation of rubber while manufacturing tyres
- It is the only Indian company manufacturing this quite essential product and is among the top three in oligopolistic market globally
- The topline growth at OCCL was muted over FY15-17E largely due to capacity constraints with the company operating at 90%+ utilisation levels (capacity at 23000 tonne)
- Sending the robust product demand and expedite capex (brownfield at Mudra facility) execution, OCCL has commissioned the Phase 1 of expansion (5500 tonne) ahead of schedule in Q3FY17. The company is successfully penetrating the North American and Chinese markets for selling the incremental produce
- With phase 2 (5500 tonne) due for commissioning in Q2FY19E, we believe OCCL will witness robust growth in topline & bottomline, going forward. We expect sales to grow at 14.0% CAGR in FY17-19E with PAT growing at a CAGR of 16.6% in FY17-19E
- Hence, with earnings at an inflection point and early commissioning of expansion, we have revised upward our estimates and increased our target multiple to value OCCL at ₹ 1125

### OCCL - Key player in oligopolistic insoluble sulphur market!

As per industry estimates, total insoluble sulphur (IS) market globally as of CY15 is at ~264 KT dominated by three major players i.e. oligopolistic in nature. Eastman Chemicals (US) is the market leader with close to ~70% market share followed by Japanese Player Shikoku with ~15% market share. OCCL with total sales volume in the range of 20-22 KT is the third credible player with ~10% market share. Globally, demand for insoluble sulphur is expected to grow at 3-4% CAGR in the next few years with demand in India growing at 10%+ CAGR due to robust automobile demand & increasing radialisation of tyres in the CV segment (penetration at ~30%).

### Impressive brownfield expansion on track; volume led growth to follow

OCCL has current capacity of 23000 tonne and is largely operating at ~90% utilisation level in FY16. Sensing the same, OCCL had launched an impressive expansion plan where it intends to increase its capacity (brownfield) by 11000 tonne in two phases. The first phase of 5500 tonne has already been commissioned in December 2016 (four months ahead of schedule). With a strong customer relationship, focus on further penetration in the Chinese & North American markets and increasing product demand, we expect OCCL to report healthy volume led growth in FY17E-19E. We expect OCCL to report insoluble sulphur sales volume CAGR of ~12.0% in FY17E-19E to ~28.4 KT in FY19E (22.7 KT in FY17E).

### Quality portfolio play, robust margins and return ratios, retain BUY!

OCCL is a speciality chemical company with a unique product profile, limited competition in the marketplace and consequent sustainable strong EBITDA margins (28%+) and return ratios (RoIC: 20%+). OCCL has a healthy balance sheet profile with FY16 debt: equity at 0.3x & average CFO in FY14-16 at ~₹ 60 crore (yield ~6.5%). With early commissioning of brownfield capacity and robust product demand, we expect sales & PAT to grow at a CAGR of 14.0% & 16.6%, respectively, in FY17E-19E. We value OCCL at ₹ 1125 i.e. 17.0x P/E (1.0x PEG) on FY18E & FY19E average EPS of ₹ 66.2. We maintain **BUY** recommendation on OCCL.

## Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Net Sales	274.7	288.3	337.2	375.7	
Other Operating Income	0.0	4.0	4.1	4.2	
<b>Total Operating Income</b>	<b>274.7</b>	<b>292.3</b>	<b>341.2</b>	<b>379.9</b>	
Growth (%)	-2.8	6.4	16.8	11.3	
Raw Material Expenses	69.2	73.6	85.3	95.0	
Employee Expenses	32.8	36.7	41.8	45.6	
Power & Fuel Expenses	34.2	34.3	40.9	45.6	
Other Operating Expense	57.4	62.9	71.7	79.8	
Total Operating Expenditure	193.6	207.6	239.7	265.9	
<b>EBITDA</b>	<b>81.1</b>	<b>84.7</b>	<b>101.5</b>	<b>114.0</b>	
Growth (%)	14.1	4.5	19.9	12.3	
Depreciation	15.7	15.2	20.9	23.1	
Interest	6.4	7.0	9.1	8.6	
Other Income	5.7	4.4	6.6	10.0	
<b>PBT</b>	<b>64.8</b>	<b>66.9</b>	<b>78.1</b>	<b>92.4</b>	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	11.8	12.5	15.6	18.5	
<b>PAT</b>	<b>53.0</b>	<b>54.4</b>	<b>62.5</b>	<b>73.9</b>	
Growth (%)	3.3	2.7	14.9	18.3	
EPS (₹)	51.4	52.8	60.6	71.7	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
<b>Liabilities</b>					
Equity Capital	10.3	10.3	10.3	10.3	
Reserve and Surplus	276.3	320.3	370.4	429.5	
<b>Total Shareholders funds</b>	<b>286.6</b>	<b>330.6</b>	<b>380.7</b>	<b>439.8</b>	
Total Debt	72.4	102.4	124.4	89.4	
Deferred Tax Liability	21.1	21.1	21.1	21.1	
<b>Total Liabilities</b>	<b>380.1</b>	<b>454.1</b>	<b>526.2</b>	<b>550.3</b>	
<b>Assets</b>					
Gross Block	285.5	390.0	400.0	470.0	
Less: Acc Depreciation	102.6	117.8	138.7	161.8	
Net Block	182.9	272.2	261.2	308.2	
Capital WIP	39.5	10.0	70.0	10.0	
<b>Total Fixed Assets</b>	<b>222.4</b>	<b>282.2</b>	<b>331.2</b>	<b>318.2</b>	
Liquid Investments	15.5	25.5	55.5	80.5	
Other Investments	14.7	14.7	14.7	14.7	
Inventory	38.7	39.5	46.2	51.5	
Debtors	48.0	51.3	60.0	66.9	
Loans and Advances	62.9	63.4	40.5	43.2	
Other Current Assets	5.2	5.8	6.7	7.5	
Cash	9.9	7.6	13.4	14.7	
<b>Total Current Assets</b>	<b>164.7</b>	<b>167.7</b>	<b>166.8</b>	<b>183.8</b>	
Creditors	28.5	27.6	32.3	36.0	
Provisions	8.6	8.3	9.7	10.8	
<b>Current Liabilities &amp; Prov</b>	<b>37.1</b>	<b>35.9</b>	<b>42.0</b>	<b>46.8</b>	
Net Current Assets	127.5	131.7	124.8	136.9	
<b>Application of Funds</b>	<b>380.1</b>	<b>454.1</b>	<b>526.2</b>	<b>550.3</b>	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Profit after Tax	53.0	54.4	62.5	73.9	
Add: Depreciation	15.7	15.2	20.9	23.1	
(Inc)/dec in Current Assets	-14.6	-5.2	6.6	-15.7	
Inc/(dec) in CL and Provisions	0.6	-1.2	6.1	4.8	
Others	6.4	7.0	9.1	8.6	
<b>CF from operating activities</b>	<b>61.0</b>	<b>70.2</b>	<b>105.2</b>	<b>94.7</b>	
(Inc)/dec in Investments	11.1	-10.0	-30.0	-25.0	
(Inc)/dec in Fixed Assets	-46.2	-75.0	-70.0	-10.0	
Others	0.0	0.0	0.0	0.0	
<b>CF from investing activities</b>	<b>-35.1</b>	<b>-85.0</b>	<b>-100.0</b>	<b>-35.0</b>	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-16.8	30.0	22.0	-35.0	
Dividend paid & dividend tax	-10.6	-10.5	-12.4	-14.8	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-6.4	-6.9	-9.1	-8.6	
<b>CF from financing activities</b>	<b>-33.7</b>	<b>12.6</b>	<b>0.6</b>	<b>-58.4</b>	
Net Cash flow	-7.8	-2.2	5.8	1.3	
Opening Cash	17.7	9.9	7.6	13.4	
<b>Closing Cash</b>	<b>9.9</b>	<b>7.6</b>	<b>13.4</b>	<b>14.7</b>	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY16	FY17E	FY18E	FY19E	
<b>Per share data (₹)</b>					
EPS	51.4	52.8	60.6	71.7	
Cash EPS	66.5	67.5	80.9	94.1	
BV	278.0	320.6	369.3	426.6	
DPS	8.5	8.5	10.0	12.0	
Cash Per Share (Incl Invst)	24.6	32.1	66.8	92.3	
<b>Operating Ratios (%)</b>					
EBITDA Margin	29.5	29.0	29.8	30.0	
PBT / Total Op. income	23.6	22.9	22.9	24.3	
PAT Margin	19.3	18.6	18.3	19.5	
Inventory days	51.4	50.0	50.0	50.0	
Debtor days	63.8	65.0	65.0	65.0	
Creditor days	37.9	35.0	35.0	35.0	
<b>Return Ratios (%)</b>					
RoE	18.5	16.5	16.4	16.8	
RoCE	16.6	14.1	15.0	18.5	
RoIC	20.8	16.9	20.8	20.4	
<b>Valuation Ratios (x)</b>					
P/E	17.5	17.1	14.8	12.6	
EV / EBITDA	12.0	11.8	9.7	8.1	
EV / Net Sales	3.5	3.5	2.9	2.5	
Market Cap / Sales	3.4	3.2	2.8	2.5	
Price to Book Value	3.2	2.8	2.4	2.1	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.9	1.2	1.2	0.8	
Debt / Equity	0.3	0.3	0.3	0.2	
Current Ratio	4.2	4.5	3.7	3.6	
Quick Ratio	3.1	3.4	2.6	2.5	

Source: Company, ICICIdirect.com Research

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**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

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

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