

March 22, 2019

Visit Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	252		252	
Sales (Rs. m)	13,495	17,004	13,495	17,004
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,374	4,251	3,374	4,251
% Chng.	-	-	-	-
EPS (Rs.)	13.5	16.9	13.5	16.9
% Chng.	-	-	-	-

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	9,676	11,176	13,495	17,004
EBITDA (Rs. m)	2,629	3,018	3,374	4,251
Margin (%)	27.2	27.0	25.0	25.0
PAT (Rs. m)	1,689	1,904	2,228	2,772
EPS (Rs.)	10.3	11.6	13.5	16.9
Gr. (%)	44.1	12.7	17.0	24.4
DPS (Rs.)	2.5	2.8	3.3	4.1
Yield (%)	1.7	2.0	2.3	2.9
RoE (%)	17.4	17.2	17.8	19.4
RoCE (%)	26.1	24.1	23.9	28.1
EV/Sales (x)	2.2	2.0	1.7	1.2
EV/EBITDA (x)	8.0	7.5	6.7	4.9
PE (x)	14.0	12.4	10.6	8.5
P/BV (x)	2.3	2.0	1.8	1.5

Key Data

NOCI.BO | NOCIL IN

52-W High / Low	Rs.233 / Rs.116
Sensex / Nifty	38,387 / 11,521
Market Cap	Rs.24bn/ \$ 345m
Shares Outstanding	165m
3M Avg. Daily Value	Rs.159.76m

Shareholding Pattern (%)

Promoter's	33.78
Foreign	4.24
Domestic Institution	6.76
Public & Others	55.22
Promoter Pledge (Rs bn)	1.41

Stock Performance (%)

	1M	6M	12M
Absolute	19.0	(13.9)	(26.1)
Relative	10.8	(16.8)	(36.5)

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Attractive growth story

Key Takeaways

- High global and domestic Tyre capex to help sustain medium term growth, despite a near term demand dip. Capex timelines remain unchanged for Nocil.
- Introduction of a new accelerator- TBBS, continued traction of zinc based specialized application products and US exports expected to drive sales.
- We expect 18% earnings CAGR over FY18-21E. Nocil remains our preferred pick with attractive valuation of ~11x PER FY20E and ROEs of ~18%.

Our recent plant visit to Nocil at Dahej reinforced our conviction on a strong growth outlook, notwithstanding near term demand dip due to weak auto sales. Company's strong focus on R&D has developed innovative process technologies patented in US, EU and India which has reduced plant operating costs. Demand outlook for rubber chemicals remains strong given ~85% utilization, disruptions in China, and Global and domestic Tyre capex of USD10bn and Rs 250bn over the next few years. Nocil is well placed to capitalize on this demand as completion of Phase 2 expansion will double its capacity (1,10,000 tons by October 2019, ~10% of global capacity) as global Tyre players are eyeing more non-Chinese supplies. Nocil is confident of maintaining 25% EBITDA margins in the medium term despite removal of duty protection. Retain Buy with PT of Rs252 based on 15x FY21E PER.

Key highlights of our plant visit and management interaction are as follows:

- R&D remains the cornerstone:** Nocil's management remains focused over R&D with the development of new process technologies patented in US, EU and India. The process change has not only helped cut production costs but also supported profitability (~700bps EBITDA margin expansion due to process change out of 1,700bps over FY14-18). R&D has also helped Nocil to recover and reuse effluent wastes. As a testimony to prioritize waste treatment, the company volunteered state pollution board (GPCB) to test their software at the Nocil plant. The company remains a preferred player to develop new products and collaborate with global Tyre players.
- Captive power reduces cost:** Nocil produces ~2MW of power from steam and 0.5MW from solar power (~60% of total power requirement) at Dahej, which helps reduce overall cost. For expansion, Nocil plans to add captive power generation to reduce reliance on State utilities.
- Technology remains a closely guarded secret:** Unlike petrochemical plants where process technologies can be licensed, in rubber chemicals industry, technology remains closely guarded. At Nocil, only a few people at the top management and core R&D team remains privy to process the technology. As a result, Nocil is one of the few global players to produce intermediate and finished goods covering entire basket of products.

- **Introduction of a new grade to complete Nocil's product basket:** Nocil has recently introduced TBBS, an accelerator, at Dahej plant which will replace current import requirement of ~8,000tons. Introduction of TBBS has completed Nocil's product offerings making it a one stop shop for all rubber chemicals requirement for Tyre players.
- **Easy access to key raw materials:** Nocil procures key raw materials like aniline, acetone etc. from domestic and international players. While Acetone is procured from Deepak Phenolics next door, aniline is procured from GNFC and imports.
- **Sufficient buffer for expansion at existing plant:** Nocil has created sufficient buffer at their new plant to minimize capex for their next phase of expansion. In addition, Nocil has relied on in-house technologies for ongoing expansion and has outsourced only civil and structural engineering.
- **CY19 demand dip an aberration:** Company expects CY19 weak demand outlook to be an aberration and believes that outlook will revive by H2FY20. Nocil's management expects Q4FY19 performance to reflect full extent of production cuts by OEMs. However, as per the company, production schedule of OEMs have recovered from recent lows and will see full traction by H2FY20 when pre buying for new emission norms-BS6- kicks in. Nocil is confident of healthy demand recovery in the medium term led by high capex of global and domestic Tyre majors, and accordingly, does not plan to defer its current capex timelines.
- **Products for specialized application for exports:** Nocil is one of few big players to produce zinc-based products for specialized application across Tyres and non-Tyre products and accounts for 60% of FY18 exports. They have usage in latex industry which are exported to South East Asian countries like Malaysia and Thailand etc.
- **Environment compliance has increased Chinese cost structure:** Nocil mentioned that high environment protection costs for Chinese players have pushed up their operating costs. China Sunshine CY17 environment protection costs increased 50%YoY and accounted for 3.6% of sales. Accordingly, the competitive intensity from Chinese players has come off significantly and company is confident of maintaining 25% EBITDA margins (9MFY19- 29%) in the medium term despite removal of Anti-Dumping Duty in July 2019.
- **US-China trade dispute-an attractive growth option:** Ongoing trade dispute between US-China has opened another attractive growth opportunity for Nocil. Already 500 tons of rubber chemicals have been exported and the company expects more volumes to be exported to US as they account for over 10% of global market. Medium term export share is to rise to 40% from current ~30%.

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	9,676	11,176	13,495	17,004
YoY gr. (%)	30.4	15.5	20.8	26.0
Cost of Goods Sold	4,406	4,806	6,208	7,822
Gross Profit	5,270	6,370	7,287	9,182
Margin (%)	54.5	57.0	54.0	54.0
Employee Cost	674	894	1,080	1,360
Other Expenses	1,968	2,459	2,834	3,571
EBITDA	2,629	3,018	3,374	4,251
YoY gr. (%)	66.4	14.8	11.8	26.0
Margin (%)	27.2	27.0	25.0	25.0
Depreciation and Amortization	229	228	301	424
EBIT	2,400	2,790	3,073	3,827
Margin (%)	24.8	25.0	22.8	22.5
Net Interest	12	20	100	100
Other Income	143	114	403	472
Profit Before Tax	2,531	2,884	3,375	4,200
Margin (%)	26.2	25.8	25.0	24.7
Total Tax	845	981	1,148	1,428
Effective tax rate (%)	33.4	34.0	34.0	34.0
Profit after tax	1,686	1,904	2,228	2,772
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,689	1,904	2,228	2,772
YoY gr. (%)	44.9	12.7	17.0	24.4
Margin (%)	17.5	17.0	16.5	16.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,689	1,904	2,228	2,772
YoY gr. (%)	44.9	12.7	17.0	24.4
Margin (%)	17.5	17.0	16.5	16.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,689	1,904	2,228	2,772
Equity Shares O/s (m)	164	164	164	164
EPS (Rs)	10.3	11.6	13.5	16.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	6,569	6,569	10,819	10,919
Tangibles	6,569	6,569	10,819	10,919
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,576	1,803	2,105	2,528
Tangibles	1,576	1,803	2,105	2,528
Intangibles	-	-	-	-
Net fixed assets	4,994	4,766	8,715	8,391
Tangibles	4,994	4,766	8,715	8,391
Intangibles	-	-	-	-
Capital Work In Progress	392	2,892	392	150
Goodwill	28	30	33	37
Non-Current Investments	812	812	812	812
Net Deferred tax assets	(1,003)	(1,291)	(1,629)	(2,049)
Other Non-Current Assets	288	313	341	371
Current Assets				
Investments	2,245	2,245	2,245	2,245
Inventories	1,550	1,790	2,162	2,724
Trade receivables	2,434	2,811	3,394	4,277
Cash & Bank Balance	276	860	620	508
Other Current Assets	298	328	360	396
Total Assets	13,317	16,849	19,075	19,914
Equity				
Equity Share Capital	1,645	1,645	1,645	1,645
Other Equity	8,730	10,079	11,659	13,624
Total Networth	10,374	11,724	13,303	15,269
Non-Current Liabilities				
Long Term borrowings	-	2,000	2,000	-
Provisions	153	153	153	153
Other non current liabilities	1	1	1	1
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,139	1,315	1,588	2,001
Other current liabilities	653	365	402	442
Total Equity & Liabilities	13,322	16,849	19,075	19,914

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	2,531	2,884	3,375	4,200
Add. Depreciation	229	228	301	424
Add. Interest	12	20	100	100
Less Financial Other Income	143	114	403	472
Add. Other	985	263	310	389
Op. profit before WC changes	3,757	3,395	4,086	5,113
Net Changes-WC	(743)	(758)	(678)	(1,028)
Direct tax	(845)	(981)	(1,148)	(1,428)
Net cash from Op. activities	2,169	1,656	2,261	2,657
Capital expenditures	(432)	(2,503)	(1,753)	138
Interest / Dividend Income	-	-	-	-
Others	(2,245)	5	-	-
Net Cash from Invst. activities	(2,677)	(2,498)	(1,753)	138
Issue of share cap. / premium	62	(62)	(94)	(158)
Debt changes	(50)	2,000	-	(2,000)
Dividend paid	(352)	(492)	(554)	(648)
Interest paid	(12)	(20)	(100)	(100)
Others	-	-	-	-
Net cash from Fin. activities	(352)	1,426	(748)	(2,907)
Net change in cash	(859)	584	(241)	(111)
Free Cash Flow	1,738	(847)	508	2,795

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	10.3	11.6	13.5	16.9
CEPS	11.7	13.0	15.4	19.4
BVPS	63.1	71.3	80.9	92.8
FCF	10.6	(5.1)	3.1	17.0
DPS	2.5	2.8	3.3	4.1
Return Ratio(%)				
RoCE	26.1	24.1	23.9	28.1
ROIC	19.7	17.9	17.7	21.3
RoE	17.4	17.2	17.8	19.4
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	107	107	107	107
Valuation(x)				
PER	14.0	12.4	10.6	8.5
P/B	2.3	2.0	1.8	1.5
P/CEPS	12.3	11.1	9.3	7.4
EV/EBITDA	8.0	7.5	6.7	4.9
EV/Sales	2.2	2.0	1.7	1.2
Dividend Yield (%)	1.7	2.0	2.3	2.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	2,759	2,681	2,720	2,612
YoY gr. (%)	44.6	13.4	19.5	4.8
Raw Material Expenses	1,220	1,190	1,194	1,175
Gross Profit	1,539	1,491	1,526	1,438
Margin (%)	55.8	55.6	56.1	55.0
EBITDA	846	802	789	725
YoY gr. (%)	21.5	(5.1)	(1.7)	(8.1)
Margin (%)	30.7	29.9	29.0	27.8
Depreciation / Depletion	112	54	56	56
EBIT	734	748	733	669
Margin (%)	26.6	27.9	27.0	25.6
Net Interest	2	3	1	1
Other Income	32	21	32	20
Profit before Tax	764	766	764	688
Margin (%)	27.7	28.6	28.1	26.3
Total Tax	255	258	236	242
Effective tax rate (%)	33.3	33.7	30.8	35.1
Profit after Tax	510	508	528	447
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	510	508	528	447
YoY gr. (%)	100.1	(9.7)	38.8	(0.7)
Margin (%)	18.5	19.0	19.4	17.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	510	508	528	447
YoY gr. (%)	100.1	(9.7)	38.8	(0.7)
Margin (%)	18.5	19.0	19.4	17.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	510	508	528	447
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	29-Nov-18	BUY	270	169
2	07-Jan-19	BUY	270	161
3	01-Feb-19	BUY	252	139

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	Accumulate	326	337
2	GAIL (India)	BUY	482	332
3	Hindustan Petroleum Corporation	Hold	219	225
4	I.G. Petrochemicals	BUY	530	248
5	Indian Oil Corporation	Accumulate	142	135
6	Indraprastha Gas	BUY	360	300
7	Mahanagar Gas	BUY	1,179	912
8	NOCIL	BUY	252	139
9	Oil & Natural Gas Corporation	BUY	223	132
10	Oil India	Accumulate	236	170
11	Petronet LNG	BUY	306	211
12	Reliance Industries	Accumulate	1,238	1,134

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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