

# DEEP DIVE

# Neogen Chemicals



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## Battery materials a growth engine

Neogen Chemicals' (NCL's) earnings will grow at a CAGR of 43% over FY24-30E while RoE will improve from 6% in FY24 to 23% in FY30E. New-age chemicals from its battery material business will drive growth. Post commissioning of the Mitsubishi Ionic Solution (MUIS) technology-based electrolyte manufacturing plant in H2FY26, the electrolyte manufacturing capacity of NCL will jump 16x to 32,000MTPA. Domestic electrolyte demand of ~10,600MTPA in FY24 was largely fulfilled through imports of battery packs directly. This demand is expected to grow at a CAGR of a whopping 39% to reach ~77,000MTPA by FY30. NCL has a first-mover advantage in this new-age chemicals industry and will become the largest player in the domestic market. Revenue from battery materials business revenue shall jump up to INR 30bn (72% of total revenue) by FY30E.

High working capital requirements currently putting strain on NCL's balance sheet. The battery chemical material business shall reduce the working capital cycle from 210 days in FY24 to 32 days in FY30. ROCE for NCL is expected to improve from 6% in FY24 to 13% in FY30. We are maintaining BUY on NCL with a TP of INR1,936.

### Investment in battery chemical manufacturing

Anticipating strong volume visibility for electrolytes over the next five years, NCL has decided to set up a 30,000MTPA MUIS technology-based electrolyte manufacturing plant. The company has already commissioned a 2,000MTPA electrolytes plant based on indigenously developed technology. The trial production from this plant has already commenced.

The company will spend ~INR 15bn on an expansion project. This includes 30,000MTPA electrolyte manufacturing capacity, 5,100MTPA of electrolyte salt capacity, land investments, plant & machinery, utilities, non-usable GST and interest cost accrued during the gestation period. The project will be funded through debt and internal accrual.

NCL has strong visibility for sales of electrolytes salts volumes during FY25 and FY26 and thereafter large portion of salts will be captively consumed. To fulfil these commitments, the company has revised salt manufacturing capacity from 1,000MTPA to 2,500MTPA to be operational by the end of FY25 at Dahej, SEZ. Furthermore, the company has planned to set up 3,000MTPA electrolyte salts and additives at Pakhajan, Dehej. A large part of this salt will be used to manufacture electrolytes using MUIS technology. NCL has 200MTPA lithium electrolyte salts and additives capacity already while trial production for another 200MTPA has commenced. Asset turnover of this battery chemical business is between ~2.3-2.7x with peak revenue potential ranging from INR 25bn to INR 29.5bn. Average asset turnover was 2.2x over FY20-24. This new business itself can generate revenue 4x the company's revenue in FY24.

### Domestic electrolyte demand to grow at 39% CAGR to ~77,000MTPA by FY30

The domestic electrolyte required for EV batteries was ~10,600MTPA in FY24. This demand is expected to reach ~26,500MTPA by FY27 and further to ~77,000MTPA by FY30. Generally, Electric Vehicle (EV) batteries for 2-wheelers are packs of small batteries assembled locally according to vehicle design and specifications. In other EV space, companies import designed sets of battery packs as per the specifications which can be directly assembled in EV. In India's 2W EV battery sector, major suppliers like LG Energy Solution, Zhengzhou Bak Battery, and Panasonic, while in 4-wheeler and heavy vehicle EV space CALB Group has seen to be a larger supplier of the battery packs. Battery imports in 2-wheeler space have surged by about 41% in FY24, primarily driven by Chinese players, highlighting the heavy reliance of India's EV supply chain on China.

**BUY**

CMP (as on 31 May 2024)	INR 1,482
Target Price	INR 1,936
NIFTY	22,531

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,808	INR 1,936
EPS %	FY25E -26%	FY26E -54%

### KEY STOCK DATA

Bloomberg code	NEOGEN IN
No. of Shares (mn)	26
MCap (INR bn) / (\$ mn)	39/467
6m avg traded value (INR mn)	67
52 Week high / low	INR 1,859/1,149

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.9	(2.0)	(8.0)
Relative (%)	11.7	(11.6)	(26.2)

### SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	56.89	56.89
FIs & Local MFs	22.84	22.14
FPIs	4.51	4.56
Public & Others	15.75	16.41
Pledged Shares	0.00	0.00

Source: BSE

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### ~125GWh battery manufacturing capacity being set up domestically

Government incentives for domestic battery manufacturing, electric vehicle technology advancements and low operating costs shall boost domestic battery manufacturing. The Government of India (GOI) launched the National Programme on Advance Chemistry Cell (ACC) Battery Storage Production Linked Incentive (PLI) Scheme. The total allocation for the PLI Scheme was INR 180bn. Under the scheme, the production-linked subsidy is based per KWh and the percentage of value addition achieved on actual sales for manufacturers who set up production units with a capacity of at least 5GWh up to a maximum of 20GWh per company. As per NITI Ayog, battery demand is projected to rise to 104-260GWH by FY30. Currently, ~13 Companies have given guideline of setting up battery plant in India with capacity of ~125GWh. Out of this, initial capacity of ~23GWh is expected to complete by FY26.

### Working capital cycle to improve significantly

NCL will have fewer and largely domestic customers with high volumes in the electrolyte business. Thus, the electrolyte business of NCL will reduce overall working capital needs substantially. The working capital cycle is expected to reduce from 210 days in FY24 to 32 days in FY30 and working capital as a percentage of capital employed shall fall from 46% in FY24 to 33% in FY30.

### Financial Summary (consolidated)

Year Ending March (Rs mn)	4Q FY24	3Q FY24	QoQ (%)	4Q FY23	YoY (%)	FY22	FY23	FY24P	FY25E	FY26E
Net Sales	1,997	1,644	21.4	2,039	(2.1)	4,873	6,862	6,907	7,119	7,793
EBITDA	358	203	76.4	326	9.8	866	1,116	1,101	1,276	1,421
APAT	169	11	1,497.2	143	18.6	446	500	356	552	606
Diluted EPS (Rs)	6.8	0.4	1,497.2	5.7	18.6	17.9	20.0	14.3	22.1	24.3
P/E (x)						82.8	74.0	103.9	67.0	60.9
EV / EBITDA (x)						44.8	36.2	37.0	32.2	29.2
RoE (%)						14.3	10.8	5.7	7.0	7.3

Source: Company, HSIE Research

### Change in estimates (consolidated)

Y/E Mar	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	1,580.7	1,276	-19.3%	2,840.7	1,421	-50.0%
Adj. EPS (INR/sh)	30.0	22	-26.3%	52.7	24	-53.9%

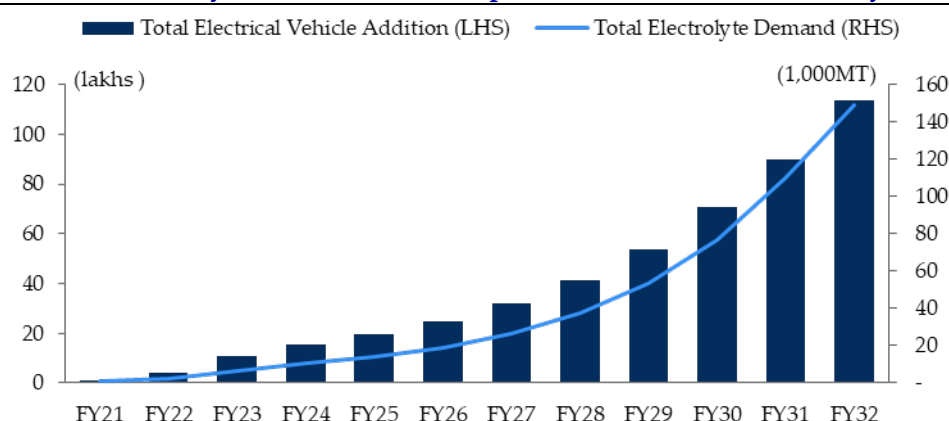
Source: Company, HSIE Research

*The domestic electrolyte required for EV batteries was ~10,600MTPA in FY24. This demand is expected to reach ~26,500MTPA by FY27 and further to 77,000MTPA by FY30*

### Domestic electrolyte demand to grow at 39% CAGR over FY24-30E

The domestic electrolyte required for EV batteries was ~10,600MTPA in FY24. This demand is expected to reach ~26,500MTPA by FY27 and further to 77,000MTPA by FY30. Generally, Electric Vehicle (EV) batteries for 2-wheelers are packs of small batteries assembled locally according to vehicle design and specifications. In other EV space, companies import designed sets of battery packs as per the specifications which can be directly assembled in EV. In India's 2W EV battery sector, major suppliers like LG Energy Solution, Zhengzhou Bak Battery, and Panasonic contribute to approximately ~44%, ~40%, and ~15% of total battery imports, respectively, while in 4-wheeler and heavy vehicle EV space CALB Group has seen to be a larger supplier of the battery packs. These imports are largely concentrated from China and Korea. Global battery packs are not suitable for Indian riding conditions like tropical conditions, rain etc. Battery imports in 2-wheeler space have surged by about 41% in FY24, primarily driven by Chinese players, highlighting the heavy reliance of India's EV supply chain on China.

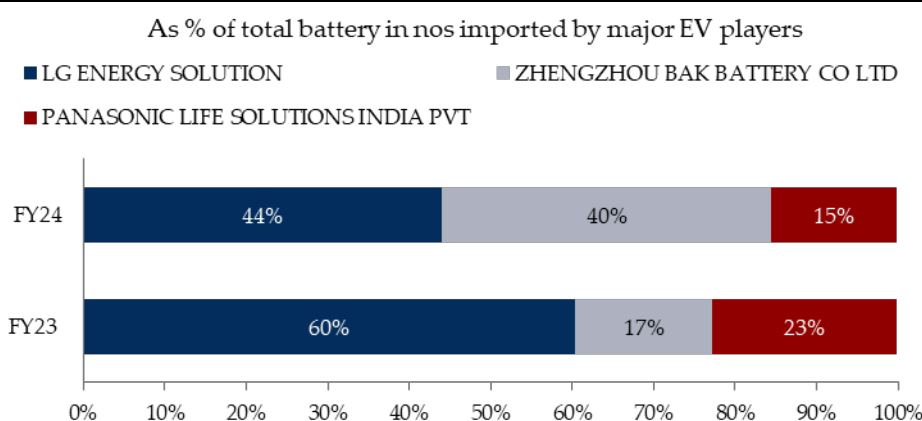
#### Exhibit-1: Electrolyte demand in EV is expected to reach ~77,000MTPA by FY30



Source: Company, HSIE Research

### Import Substitution Opportunity (China+1): -

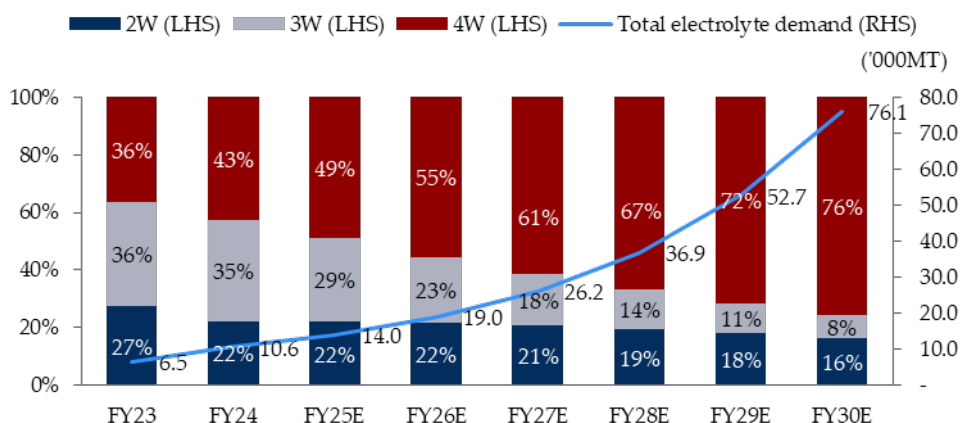
#### Exhibit-2 : Imported battery supplier wise break up in FY23 and FY24



Source: Company, HSIE Research

In FY24, the demand for electrolytes in the 2W EV segment was ~2,300MTPA, currently met through imported batteries. While in 3W and 4W EV Space, total demand was ~8,300MTPA, met through imported battery packs. However, efforts are underway to establish a domestic EV supply chain. With the expected surge in EV demand, electrolyte demand is projected to reach ~26,000MTPA by FY27 and further to ~77,000MTPA by FY30, presenting a significant opportunity for import substitution and growth in the electrolyte business.

**Exhibit-3 : Total Electrolyte Demand in EV space**



Source: Volza.com, HSIE Research

**Exhibit-4: Demand for Electric Vehicles viz a viz total electrolyte demand**

EV type	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
2W Vehicle demand*	7	9	12	16	22	29	38	50
3W Vehicle demand*	3	5	6	6	7	7	8	9
4W Vehicle demand*	0.5	1	1	2	3	5	8	12
Total electrolyte demand ('000MTPA)	6	11	14	19	26	37	53	76

Source: HSIE Research, \*vehicle no's in lacs

*Local manufacturing of EV batteries can significantly reduce production costs due to the elimination or reduction of import duties, transportation costs, and potential delays in shipping and customs*

**Consumer demand and localization(china+1): -**

- Indian customers are looking for indigenous sustainable long-term solutions as battery electrolytes/ additives are small but crucial parts of the battery as they influence the parameters of the battery as well as shell life.
- Global as well as domestic Original Equipment Manufacturers(OEM) want to build the supply chain up to tier 3 level which will have a complete derisk from China due to geopolitical issues. Many players as shown in Exhibit 5 are setting up capacity related to batteries in India. Neogen will also balance this equation with the localization of the electrolyte business.
- As the scale of operation increases, battery manufacturers prefer local suppliers because electrolytes are a low-value but critical component.

*Ola has received major share of 20GWh in PLI scheme and in order to take benefit of same. Ola has to build capacity as below*

Year	Capacity	Total Cumulative capacity
FY24	1GWh	1GWh (Already built)
FY25	4GWh	5GWh
FY26	5GWh	10GWh
FY27	10GWh	20GWh
<b>Total</b>	<b>20GWh</b>	<b>20GWh</b>

*~13 Companies have given guideline of setting up battery plant in India with capacity of ~125GWh. Out of this, Initial capacity of ~23GWh is expected to complete by FY26.*

## ~125GWh battery manufacturing capacity being set up domestically

Battery packs account for ~40% of EV cost while cell forms 80-85% of a battery pack. Thus, cell accounts for 32-35% of EV cost. Thus, companies that seek to be cost-competitive must control battery costs. Local manufacturing of EV batteries can significantly reduce production costs due to the elimination or reduction of import duties, transportation costs, and potential delays in shipping and customs. Lower production costs can directly translate to lower prices for the end consumer.

Government incentives for domestic battery manufacturing, electric vehicle technology advancements and low operating costs shall boost domestic battery manufacturing. In January 2021, the Government of India (GOI) launched the National Programme on Advance Chemistry Cell (ACC) Battery Storage Production Linked Incentive (PLI) Scheme. The total allocation for the PLI Scheme was INR 180bn. Under the scheme, the production-linked subsidy is based per KWh and the percentage of value addition achieved on actual sales for manufacturers who set up production units with a capacity of at least 5GWh up to a maximum of 20GWh per company. As per NITI Ayog, battery demand is projected to rise to 104-260GWH by FY30.

In FY23 GoI allocated PLI support for the 30GWh battery manufacturing. The successful bidders who received incentives include Reliance New Energy Solar Limited, Ola Electric Mobility Private Limited, and Rajesh Exports Limited. Ola cell technology had a major share of 20GWh. Although some of the bidders like Exide and Amara Raja etc. were not benefited from the PLI scheme. However, they have given guidance for setting battery capacity of 12GWh and 16GWh respectively in a phased manner.

Under same scheme in Q1FY25 Government of India (GoI) received 7 bidders with total cumulative capacity of 70GWh for PLI benefit of 10GWh. It includes ACME Cleantech Solutions Private Limited, Amara Raja Advanced Cell Technologies Private Limited, Anvi Power Industries Private Limited, JSW Neo Energy Limited, Reliance Industries Limited, Lucas TVS Limited, and Waaree Energies Limited. They will set up dedicated battery plant under PLI scheme.

Currently, ~13 Companies have given guideline of setting up battery plant in India with capacity of ~125GWh. Out of this, Initial capacity of ~23GWh is expected to complete by FY26.

### Exhibit-5: List of companies setting up Giga factories in India

PLI scheme	Company	Total battery plant capacity	Initial capacity	Current status
Beneficial from previous PLI Scheme	Ola Electric Mobility Private Limited	20GWh	1GWh	1GWh by FY24 and further 4GWh addition by H2FY25. Further expansion up to 20GWh
	Reliance Industries /Reliance New Energy Solar Limited	20GWh	5GWh	5GWh and will expand the capacity upto 50GWh by 2027.
	Rajesh Exports Limited	5GWh	5GWh	5GWh in Phased Manner commenced construction of plant
Bidder of the new PLI scheme	ACME Cleantech Solutions Private Limited	10GWh	1.5GWh	10GWh under construction
	Lucas TVS& 24M Technologies (JV)	10GWh	In phases	Construction started in August 2023. Project will commence in 2 phases.
	Amar Raja	16GWh	2GWh	The company will be finishing construction of 16GWh capacity by FY26
Others	Exide	12GWh	6GWh	First phase of its 6GWh lithium-ion battery plant in Karnataka will be ready by FYE26
	Godi India	12.5GWh	2.5GWh	Addition of 12.5GWh battery cell manufacturing unit by FY29 in two phases. phase 1 will add capacity of 2.5GWh and phase 2 will add 10GWh capacity.
	Tata Power/Tata Chemicals	20GWh	In phases	In discussion with group companies

Source: HSIE Research

- NCL is in discussion with India's major battery manufacturers while some have approached NCL for the initial sample, some have approved lab samples and moved to the next phase of the larger trial. Additionally, from 6 (of which 3 are associated with PLI) the battery manufacturers plan to set up a 1GWh battery plant in mid-2025 and 50GWh by FY27
- Electrolyte is a critical component in batteries and a peculiar characteristic of batteries is a function of precise, stable electrolyte formulation. The plant is designed by MUIS which will ensure a reliable product. The cost of electrolytes is merely 7% to 9% of the battery pack. It is rational to have a local supplier for a critical but low-value component.

**Exide Industries:** - Exide industry signed MoU with Hyundai Motors and Kia for an EV project to localize EV production. This will include the total end-to-end supply of EV batteries. Exide has already collaborated with SVolt for lithium-ion technology. They will set up a plant of capacity 12GWh with a capex of INR 6bn in a phased manner.

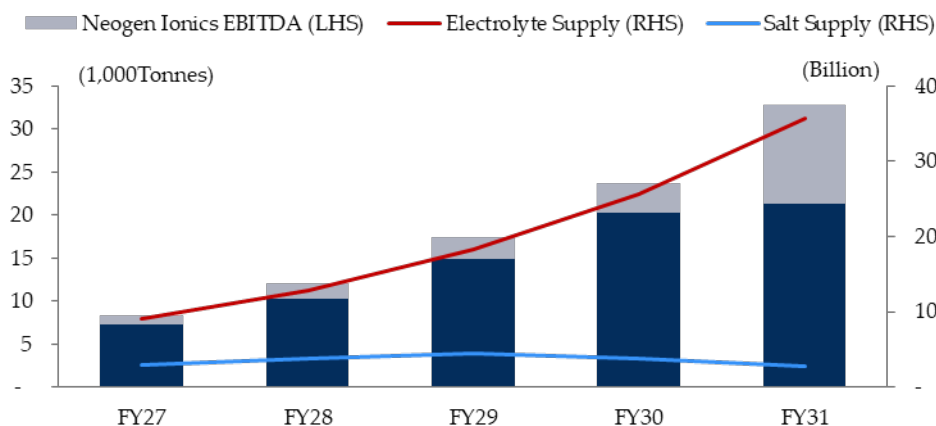
**Amara Raja Energy and Mobility Ltd:** The company has signed an MoU with Govt. of Telangana for setting up a plant for Lithium-ion battery manufacturing. It will have a capacity of 16GWh with a capex outlay of ~INR 9.5bn over the next 10 years. Initially, it will set up a plant of 2GWh capacity by FY26.

### Electrolyte business revenue to grow at CAGR of 42% from FY27-30

Revenue from Neogen’s electrolyte business is expected to grow at CAGR ~42% from FY27-30. We expect the company will supply of ~8,000 MTPA of electrolyte in FY27. With the ramp-up of the Neogen Ionics from FY27 to FY30 the supply of electrolyte is expected to reach ~22,500MTPA by FY30. We estimate that the company to generate revenue of ~INR 9.5bn in FY27 with EBIDTA of ~INR 1bn. The revenue is expected to reach ~INR 27bn in FY30 with an EBITDA of ~INR 4bn.

#### Exhibit-6 : Neogen Electrolyte Business Revenue

*Neogen’s Electrolyte business to grow at ~42% CAGR over FY27-30. The company is expected to generate venue of ~INR 9.5bn in FY27 to reach ~INR 27bn by FY30*



Source: HSIE Research

The company has commissioned electrolyte salts and an additive plant capacity of 200MTPA. The trials have started from this plant. Further 200MTPA will be added in FY25. The company will ramp up the electrolyte additive plant to 2,500 MTPA by FY25. The company has built a 2,000MTPA electrolyte capacity based on indigenously developed technology. The trial production of this plant is already started. The initial electrolyte capacity and ramp up electrolyte salt is (a) expected to reduce the time gap for customer’s integration for new electrolyte MUIS based plant (b) to mitigate the initial demand of the customer. Once the MUIS based plant becomes operational by FY26 end, the company will shift these customers from existing plant to cater additional demand.

During Q1FY24 Neogen signed the agreement with MUIS, Japan. MUIS will act as proprietary technology partner which will help in manufacturing plant and will also provide formulation recipe.

- Mitsubishi will help in building the plant by building the modules in-house & transferring back to India.
- As company wanted to save the logistic cost and had strong volume visibility for next 5-year Neogen decided to set up 30,000MTPA for electrolyte and 3,000 MTPA for electrolyte salt.
- During Q4FY24, Company completed land acquisition totaling approximately 2,64,285 m2 in Pakhajan, Dahej PCPIR, Gujarat and it is in the final phase of the design of the plant. The plant is expected to commissioned by H2FY26. Additionally, company will increase its in house electrolyte capacity to 2,000 MTPA and salt capacity to 2,500MTPA which will be based on Neogen's indigenous technology. This will increase total electrolyte capacity to 32,000 MTPA and salt to 5,500MTPA which makes it India’s largest electrolyte business plant
- The ramp up of 2,500MTPA of electrolyte salt will happen at existing Dahej facility for which company will be using existing land. The ramp up will happen in phased manner ramping up maximum to 2,500MTPA by Q4FY25.

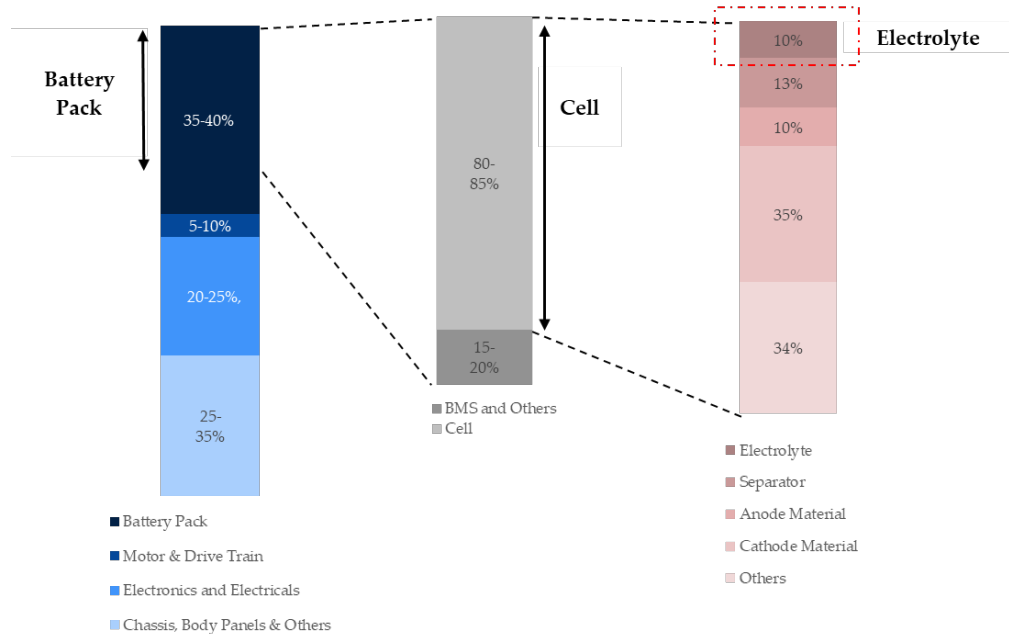


- For the total capacity addition, Company will incur capex of INR 15bn funded through the project finance debt mode and internal accrual.

**Transport constrain which makes electrolyte industry fragmented: -**

- Electrolyte requires very low moisture content, very low acidity, very low impurities, and some of them have additives which require temperature below 100Celsius. It requires specialized ISO containers which makes electrolyte a very cumbersome to transport globally.
- Salts are easier to transport but it also requires specialized packaging. Although salts are easier to transport but formulation of electrolyte from salt requires precision for which Neogen has expertise of MUIS where it can either offer formulation which is compatible to client, or it can provide formulation as per client requirement although clients currently are hesitant to share technology.
- Additionally, the cost of electrolyte is merely 7% to 9% of battery pack hence It is rational to have local supplier for a critical but low value component

**Exhibit-7: Electrolyte is 10% of the total battery cost**



*The cost of electrolyte is merely 7% to 9% of battery pack hence It is rational to have local supplier for a critical but low value*

Source: Company, HSIE Research

**Favorable EV policy: -**

- Recently GOI reduced the import duty on electrical vehicle to 15% having minimum CIF (Cost, Insurance, and Freight) value of USD 35,000 or above for a total period of 5 years.
- While allowing the reduction the policy has a. capped total number of import of Electrical Vehicle to 8000 per year b. Manufactures has to invest minimum of INR 4.1bn and has to set up plant in the span of 3 years.
- The policy is expected to support the seeding of international players in India and will help India to get connected with missing part of supply chain in international market and will support EV adoption.

## MUIS business' financials

### Assumptions

Particulars	Unit	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E
Investment in the MUIS business	INR mn	15,000	500	525	551	7,500	750	12,981	750	803	843
Electrolyte plant capacity	MTPA	32,000	32,000	32,000	32,000	52,000	52,000	82,000	82,000	82,000	82,000
Utilisation of electrolyte plant	%	25%	35%	50%	70%	60%	85%	70%	80%	83%	86%
Electrolyte production volume	MTPA	8,000	11,200	16,000	22,400	31,200	44,200	57,400	65,600	68,060	70,520
Lithium salts capacity	MTPA	5,500	5,500	5,500	5,500	5,500	5,500	8,000	8,000	8,000	8,000

### Income Statement

INR mn	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E
<b>Revenues</b>	9,444	13,749	19,949	27,158	37,521	53,415	74,302	88,148	96,136	104,740
<i>Growth %</i>		46%	45%	36%	38%	42%	39%	19%	9%	9%
Raw Material	6,138	8,937	12,967	17,652	24,389	34,720	48,296	57,296	62,488	68,081
Other Expenses	2,172	2,750	3,990	5,432	7,504	10,683	14,860	17,630	19,227	20,948
<b>EBITDA</b>	<b>1,133</b>	<b>2,062</b>	<b>2,992</b>	<b>4,074</b>	<b>5,628</b>	<b>8,012</b>	<b>11,145</b>	<b>13,222</b>	<b>14,420</b>	<b>15,711</b>
<i>EBITDA Margin %</i>	12%	15%	15%	15%	15%	15%	15%	15%	15%	15%
<i>EBITDA Growth %</i>		82%	45%	36%	38%	42%	39%	19%	9%	9%
Depreciation	338	704	762	796	963	1,156	1,471	1,821	1,918	1,973
<b>EBIT</b>	<b>796</b>	<b>1,359</b>	<b>2,230</b>	<b>3,278</b>	<b>4,665</b>	<b>6,856</b>	<b>9,675</b>	<b>11,401</b>	<b>12,502</b>	<b>13,738</b>
Interest	0	1,318	1,253	1,163	1,198	1,007	1,037	346	356	367
<b>PBT</b>	<b>795</b>	<b>41</b>	<b>977</b>	<b>2,115</b>	<b>3,468</b>	<b>5,850</b>	<b>8,638</b>	<b>11,056</b>	<b>12,146</b>	<b>13,371</b>
Tax	137	7	168	364	596	1,006	1,486	1,902	2,089	2,300
<b>RPAT</b>	<b>659</b>	<b>34</b>	<b>809</b>	<b>1,751</b>	<b>2,871</b>	<b>4,843</b>	<b>7,152</b>	<b>9,154</b>	<b>10,057</b>	<b>11,071</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-	-	-	-	-
<b>APAT</b>	<b>659</b>	<b>34</b>	<b>809</b>	<b>1,751</b>	<b>2,871</b>	<b>4,843</b>	<b>7,152</b>	<b>9,154</b>	<b>10,057</b>	<b>11,071</b>
Share from associates	-	-	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-	-	-
<b>Consolidated APAT</b>	<b>659</b>	<b>34</b>	<b>809</b>	<b>1,751</b>	<b>2,871</b>	<b>4,843</b>	<b>7,152</b>	<b>9,154</b>	<b>10,057</b>	<b>11,071</b>
<i>Consolidated APAT Growth (%)</i>		-95%	2283%	117%	64%	69%	48%	28%	10%	10%

## Update on existing Business

Neogen has expertise in complex reaction as each molecule goes through minimum 4 to 8 stages which involves separation, distillation, drying etc.

The company has strong revenue visibility driven by several factors. These include a. the return of agrochemical purchases in FY25 b. expansion into non-pharma and non-agro CSM for specialty chemicals and flavour fragrances c. collaboration with a major Japanese agro innovator d. emerging opportunities in Europe.

Specifically, Japanese innovators are shifting away from Chinese players in Agro. Neogen Chemicals is focusing on agro targets in its CSM business, with ongoing projects. The company is also partnering with Japanese chemical manufacturers and agro companies, particularly focusing on agro scaling alongside electrolyte. Also, the company has received mixed demand in flavours and fragrances from the Europe region in the pharma segment.

Neogen has expertise in its core business of bromination and with the acquisition of Buli Chemicals company has added lithiation into its portfolio.

Neogen Chemicals acquired a 100% stake in BuLi Chemicals India Private Limited in FY23 and it has started to contribute to revenue from Q1FY24. BuLi Chemicals is engaged in carrying out the manufacture and sale of n butyl lithium (nBuLi) and other organo lithium products. Using N butyl lithium, currently company is increasing its focus on advanced intermediate. This will help to target the new customers who presently have huge reliance on China. Additionally, the company wants to provide advanced intermediate to existing clients who are using n butyl lithium.

The growth in existing business is likely driven by the return of agro purchases in FY25, collaboration with a major Japanese agro innovator, and emerging opportunities in Europe in flavours and fragrance. Additionally, the company has acquired Buli Chemical which has started contributing to the topline. The efforts in existing business along with growth in Buli Chemicals projected to contribute significantly to revenue growth.

## Financials

### Working capital cycle to improve significantly

The legacy business of NCL required higher working capital owing to its wide range of ~240 product portfolios and diversified customers spread across different geographies. This creates the necessity of maintaining an inventory of raw materials and semi-finished products. During FY24 Working capital as a percentage of capital employed was more than 50% and the working capital cycle is of 210 days.

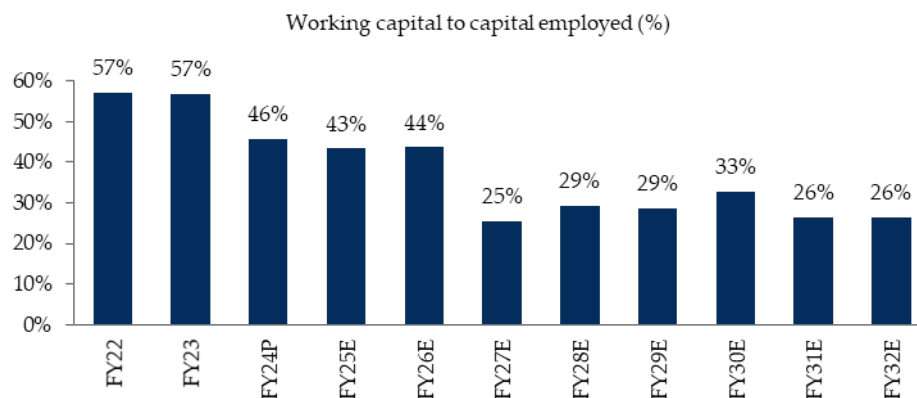
Usually, auto manufacturers share production plans with auto component suppliers. NCL will have fewer and largely domestic customers with high volumes in the electrolyte business. Thus, the electrolyte business of NCL will reduce overall working capital needs substantially. The working capital cycle is expected to reduce from 210 days in FY24 to 32 days in FY30 and working capital as a percentage of capital employed shall fall from 46% in FY24 to 33% in FY30.

### Return ratios to improve despite heavy capex by 800bps over FY24 to FY30

In the last 10 years, the company has deployed ~INR 11bn of the capital of which INR 5bn in working capital. For every rupee of capital investment, the company must make provision of a rupee for working capital requirement. Thus, return ratios are inferior, despite decent asset turnover owing to poor financial leverage.

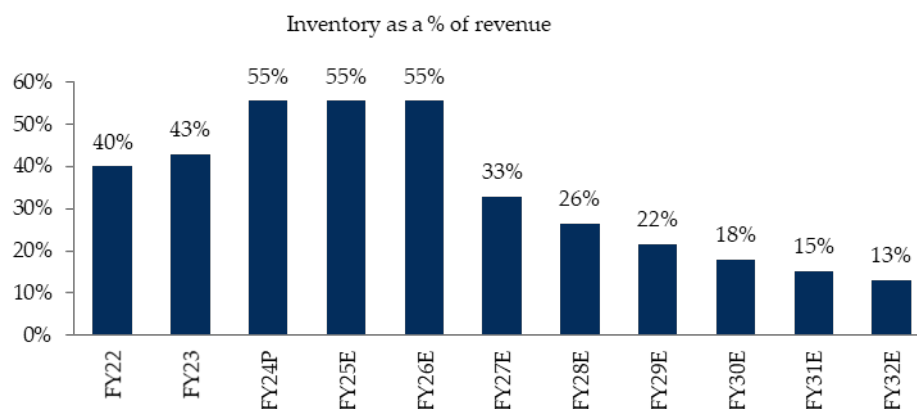
However, the working capital cycle in the electrolyte material business is much lower compared to the working capital cycle in the legacy business. Thus, return ratios in the electrolyte business are ~18-20% compared to 6% for legacy business. Thus, ROCE for NCL is expected to improve from 6% in FY24 to 13% in FY30.

**Exhibit-8 : Working capital as a % of capital employed shall reduce from 46% in FY24 to 26% in FY32E**



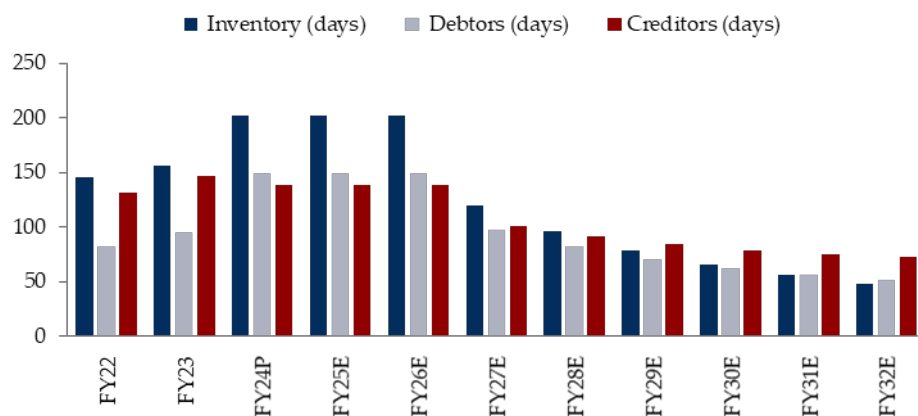
Source: Company, HSIE Research

**Exhibit-9: Inventory as a % of revenue to fall from 55% in FY24 to 13% in FY32E**



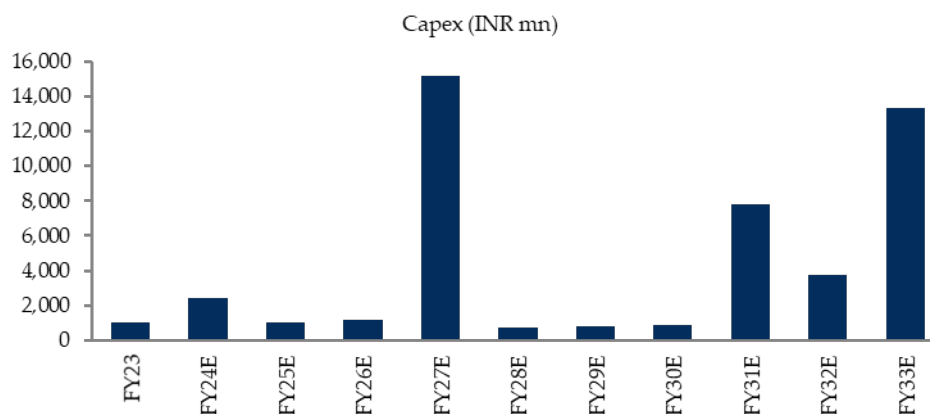
Source: Company, HSIE Research

**Exhibit-10 : Working capital cycle to improve going ahead**



Source: Company, HSIE Research

**Exhibit-11: Heavy Capex in the electrolyte business, debt shall increase**



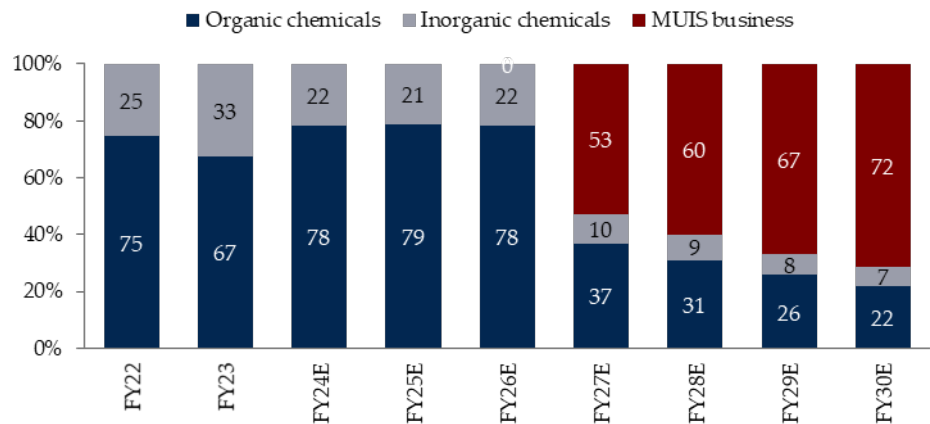
Source: Company, HSIE Research

The company will incur a capex of INR 15bn which will be funded through debt and internal accruals. From the total capex company will have an external debt of INR 11.50bn which will support General service tax (GST) and another working capital requirement for the initial stages of the project. The term loan will have 12 years with 2 years of moratorium on interest and then 1 year on principal. The company will repay the term loan gradually in a 9-year period. The remaining part of capex will be funded in the form of compulsory convertible debenture (CCD). In Q4FY24 company received board approval for an INR 5bn infusion of the CCD. This will help with the remaining infusion and additional working capital requirement in the electrolyte business. Additionally, the company raised INR 2.50bn from Qualified Institutional Placement (QIP) which was partly used to reduce the existing debt in the current business and INR 0.75bn was infused in the subsidiary Neogen Ionic Limited for electrolyte business.

**Earnings growth at a 43% CAGR over FY24-30E**

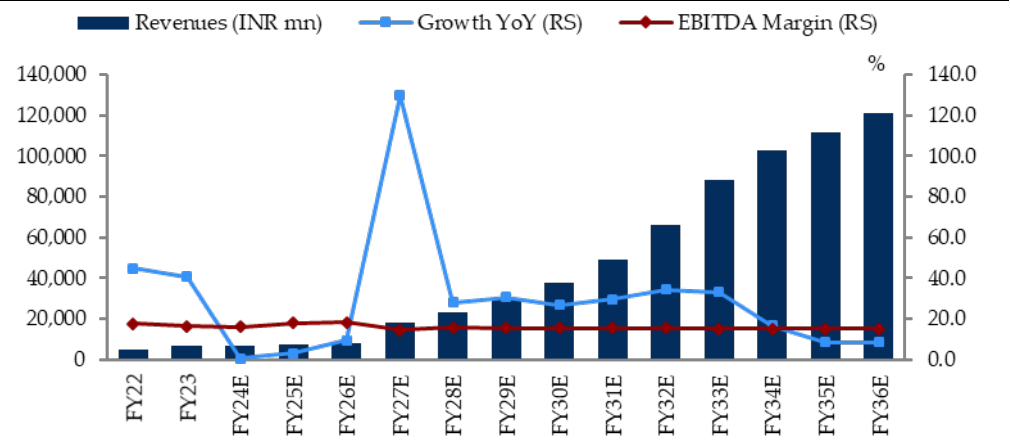
NCL’s EBITDA/APAT will grow at a CAGR of 32/43% over FY24-30E. While ROE will improve from 6% to 23% in FY30E. The electrolyte business will start contributing to the revenue from FY27E and will account for almost 72% of the total revenue by FY30E. This business shall contribute 70% to the total EBITDA of NCL in FY30E.

**Exhibit-12 : Electrolyte business will contribute ~53% by FY27E in total revenue**



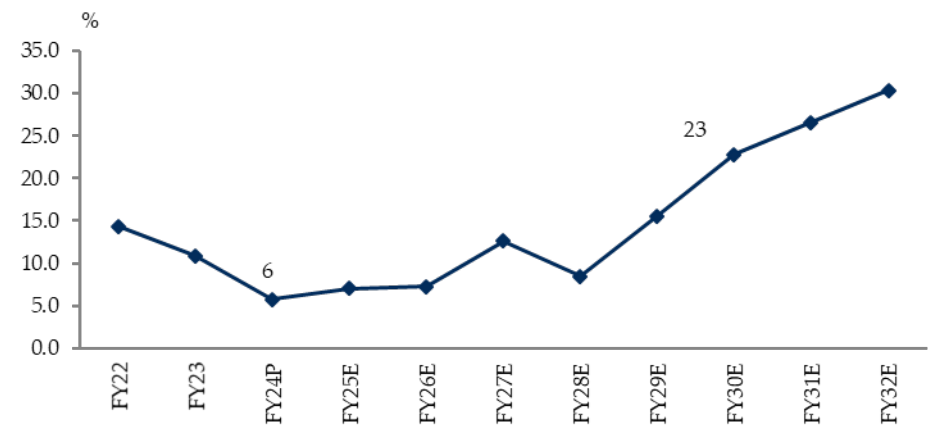
Source: Company, HSIE Research

**Exhibit-13 : Revenue shall grow steeply from FY27E**



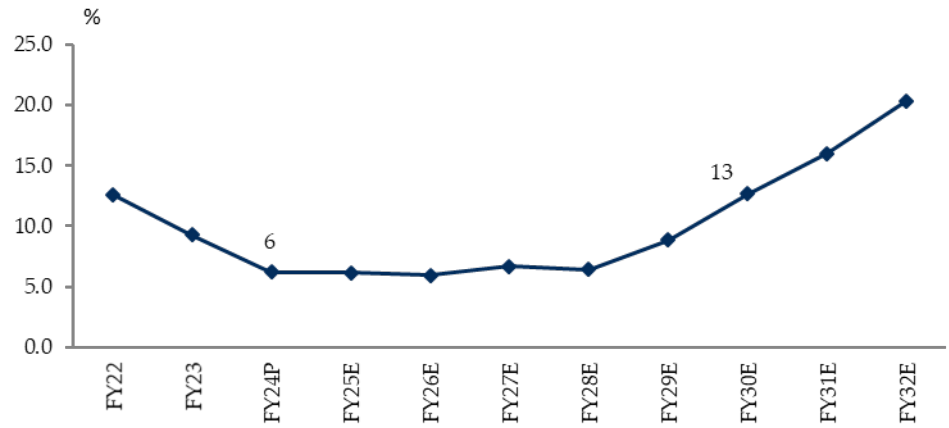
Source: Company, HSIE Research

**Exhibit-14: Return on equity ratio(%) to improve from 6 % to 23% by FY30E**



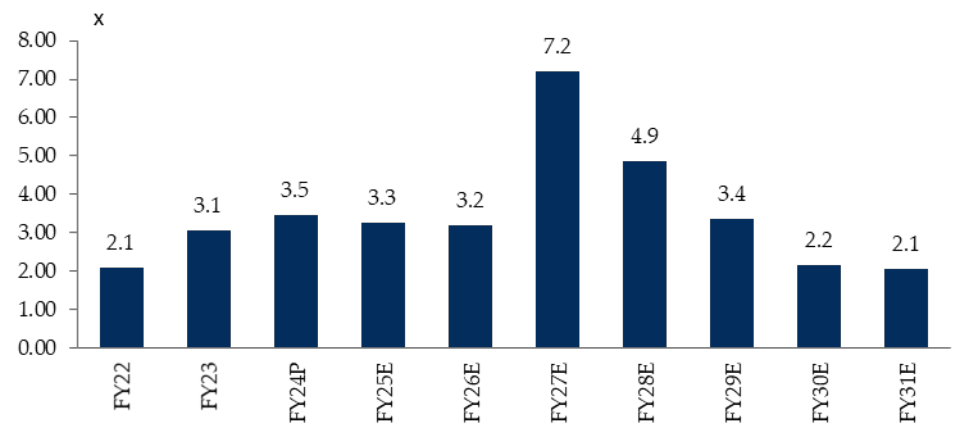
Source: Company, HSIE Research

**Exhibit-15: Return on invested capital (%) to improve from 6% to 13% by FY30E**



Source: Company, HSIE Research

**Exhibit-16: Net debt to EBITDA to increase from 3.5 in FY24P to 7.2 by FY30E**



Source: Company, HSIE Research

## NCL's Financials (consolidated)

### INCOME STATEMENT

INR mn	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>3,061</b>	<b>3,364</b>	<b>4,873</b>	<b>6,862</b>	<b>6,907</b>	<b>7,119</b>	<b>7,793</b>	<b>17,894</b>
<i>Growth %</i>	<i>28.1</i>	<i>9.9</i>	<i>44.8</i>	<i>40.8</i>	<i>0.7</i>	<i>3.1</i>	<i>9.5</i>	<i>129.6</i>
Raw Material	1,841	1,976	2,750	3,885	3,825	3,963	4,136	10,716
Employee Cost	172	201	315	468	620	706	755	831
Other Expenses	467	544	942	1,392	1,361	1,174	1,481	3,778
<b>EBITDA</b>	<b>581</b>	<b>644</b>	<b>866</b>	<b>1,116</b>	<b>1,101</b>	<b>1,276</b>	<b>1,421</b>	<b>2,570</b>
<i>EBITDA Margin (%)</i>	<i>19.0</i>	<i>19.1</i>	<i>17.8</i>	<i>16.3</i>	<i>15.9</i>	<i>17.9</i>	<i>18.2</i>	<i>14.4</i>
<i>EBITDA Growth %</i>	<i>33.7</i>	<i>10.9</i>	<i>34.5</i>	<i>28.9</i>	<i>(1.4)</i>	<i>15.9</i>	<i>11.4</i>	<i>80.8</i>
Depreciation	52	69	117	162	229	332	408	746
<b>EBIT</b>	<b>528</b>	<b>575</b>	<b>749</b>	<b>954</b>	<b>872</b>	<b>944</b>	<b>1,013</b>	<b>1,824</b>
Other Income (Including EO Items)	1	1	11	45	75	97	146	219
Interest	119	138	191	289	421	305	350	385
<b>PBT</b>	<b>410</b>	<b>438</b>	<b>569</b>	<b>709</b>	<b>526</b>	<b>736</b>	<b>809</b>	<b>1,658</b>
Tax	124	129	124	211	171	186	204	506
Share of Profit/(Loss) of investments accounted for using equity method	1	4	2	1	1	1	1	1
<b>RPAT</b>	<b>287</b>	<b>313</b>	<b>446</b>	<b>500</b>	<b>356</b>	<b>552</b>	<b>606</b>	<b>1,153</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-	-	-
<b>APAT</b>	<b>287</b>	<b>313</b>	<b>446</b>	<b>500</b>	<b>356</b>	<b>552</b>	<b>606</b>	<b>1,153</b>
Share from associates	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
<b>Consolidated APAT</b>	<b>287</b>	<b>313</b>	<b>446</b>	<b>500</b>	<b>356</b>	<b>552</b>	<b>606</b>	<b>1,153</b>
<i>Consolidated APAT Growth (%)</i>	<i>36.8</i>	<i>9.3</i>	<i>42.4</i>	<i>12.0</i>	<i>(28.8)</i>	<i>55.1</i>	<i>9.9</i>	<i>90.1</i>
<b>AEPS</b>	<b>11.5</b>	<b>12.6</b>	<b>17.9</b>	<b>20.0</b>	<b>14.3</b>	<b>22.1</b>	<b>24.3</b>	<b>46.2</b>
<i>AEPS Growth %</i>	<i>36.8</i>	<i>9.3</i>	<i>42.4</i>	<i>12.0</i>	<i>(28.8)</i>	<i>55.1</i>	<i>9.9</i>	<i>90.1</i>

Source: Company, HSIE Research

### BALANCE SHEET

INR mn	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E	FY27E
<b>SOURCES OF FUNDS</b>								
Share Capital	233	233	249	249	264	264	264	264
Reserves And Surplus	1,329	1,597	4,143	4,576	7,339	7,825	8,358	9,373
<b>Total Equity</b>	<b>1,562</b>	<b>1,830</b>	<b>4,392</b>	<b>4,825</b>	<b>7,603</b>	<b>8,089</b>	<b>8,622</b>	<b>9,637</b>
Minority Interest	-	-	-	-	-	-	-	-
Long-term Debt	304	1,161	1,215	1,291	1,242	1,242	2,042	16,947
Short-term Debt	1,068	999	1,053	2,331	2,693	2,943	3,093	3,093
<b>Total Debt</b>	<b>1,371</b>	<b>2,160</b>	<b>2,268</b>	<b>3,622</b>	<b>3,935</b>	<b>4,185</b>	<b>5,135</b>	<b>20,040</b>
Deferred Tax Liability	56	82	106	190	237	242	247	252
Long-term Provision and others	128	108	98	134	262	267	272	278
<b>TOTAL SOURCES OF FUNDS</b>	<b>3,117</b>	<b>4,179</b>	<b>6,864</b>	<b>8,772</b>	<b>12,037</b>	<b>12,783</b>	<b>14,277</b>	<b>30,207</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	1,105	1,267	2,851	3,475	4,956	6,191	7,127	18,027
Capital WIP	27	1,147	106	358	1,089	522	378	3,882
LT Loans And Advances	100	97	101	139	728	742	757	772
Total Non-current Investments	6	8	10	8	5	8	8	8
<b>Total Non-current assets</b>	<b>1,238</b>	<b>2,518</b>	<b>3,068</b>	<b>3,980</b>	<b>6,777</b>	<b>7,463</b>	<b>8,270</b>	<b>22,689</b>
Inventories	1,299	1,140	1,946	2,930	3,824	3,942	4,315	5,884
Debtors	752	786	1,095	1,774	2,817	2,904	3,178	4,742
Cash and Cash Equivalents	15	12	452	207	125	34	598	1,510
Other Current Assets	245	464	1,432	1,648	1,070	1,092	655	668
<b>Total Current Assets</b>	<b>2,311</b>	<b>2,402</b>	<b>4,925</b>	<b>6,558</b>	<b>7,837</b>	<b>7,971</b>	<b>8,747</b>	<b>12,805</b>
Creditors	359	661	989	1,566	1,446	1,498	1,564	2,947
Other Current Liabilities & Provns	72	79	139	201	1,131	1,153	1,176	2,341
<b>Total Current Liabilities</b>	<b>431</b>	<b>740</b>	<b>1,128</b>	<b>1,766</b>	<b>2,577</b>	<b>2,652</b>	<b>2,740</b>	<b>5,288</b>
<b>Net Current Assets</b>	<b>1,880</b>	<b>1,661</b>	<b>3,796</b>	<b>4,792</b>	<b>5,260</b>	<b>5,320</b>	<b>6,007</b>	<b>7,517</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>3,117</b>	<b>4,179</b>	<b>6,865</b>	<b>8,772</b>	<b>12,037</b>	<b>12,783</b>	<b>14,277</b>	<b>30,207</b>

Source: Company, HSIE Research



**CASH FLOW STATEMENT**

(INR mn)	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E	FY27E
Reported PBT	411	442	571	710	527	737	810	1,659
Non-operating & EO Items	(1)	(1)	(11)	(45)	(75)	(97)	(146)	(219)
Interest Expenses	119	138	191	289	421	305	350	385
Depreciation	52	69	117	162	229	332	408	746
Working Capital Change	(761)	215	(1,695)	(1,241)	(550)	(151)	(123)	(598)
Tax Paid	(117)	(103)	(100)	(127)	(124)	(181)	(199)	(501)
<b>OPERATING CASH FLOW ( a )</b>	<b>(296)</b>	<b>759</b>	<b>(927)</b>	<b>(250)</b>	<b>428</b>	<b>945</b>	<b>1,100</b>	<b>1,471</b>
Capex	(353)	(1,350)	(661)	(1,037)	(2,441)	(1,000)	(1,200)	(15,150)
Free Cash Flow (FCF)	(649)	(591)	(1,588)	(1,288)	(2,013)	(55)	(100)	(13,679)
Investments	(1)	(2)	(2)	2	3	(4)	-	-
Non-operating Income	1	1	11	45	75	97	146	219
Others	(70)	3	(4)	(39)	(588)	(15)	(15)	(15)
<b>INVESTING CASH FLOW ( b )</b>	<b>(423)</b>	<b>(1,348)</b>	<b>(656)</b>	<b>(1,029)</b>	<b>(2,952)</b>	<b>(921)</b>	<b>(1,069)</b>	<b>(14,946)</b>
Debt Issuance/(Repaid)	171	789	108	1,354	313	250	950	14,905
Interest Expenses	(119)	(138)	(191)	(289)	(421)	(305)	(350)	(385)
FCFE	(597)	60	(1,671)	(223)	(2,121)	(109)	501	841
Share Capital Issuance	33	-	16	-	14	-	-	-
Dividend	(43)	(47)	(69)	(75)	(43)	(66)	(73)	(138)
Others	672	(19)	2,159	44	2,577	5	5	5
<b>FINANCING CASH FLOW ( c )</b>	<b>713</b>	<b>586</b>	<b>2,023</b>	<b>1,034</b>	<b>2,442</b>	<b>(116)</b>	<b>533</b>	<b>14,387</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(5)</b>	<b>(3)</b>	<b>440</b>	<b>(245)</b>	<b>(82)</b>	<b>(91)</b>	<b>564</b>	<b>912</b>
EO Items, Others								
<b>Closing Cash &amp; Equivalents</b>	<b>15</b>	<b>12</b>	<b>452</b>	<b>207</b>	<b>125</b>	<b>34</b>	<b>598</b>	<b>1,510</b>

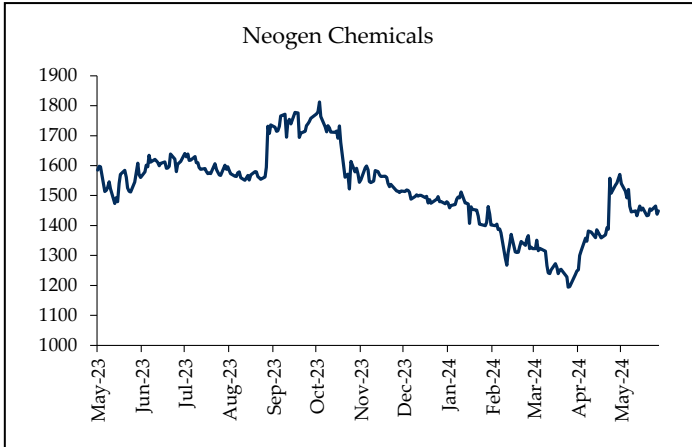
Source: Company, HSIE Research

**KEY RATIOS**

	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E	FY27E
<b>PROFITABILITY %</b>								
Gross profit margin	39.9	41.3	43.6	43.4	44.6	44.3	46.9	40.1
EBITDA Margin	19.0	19.1	17.8	16.3	15.9	17.9	18.2	14.4
EBIT Margin	17.3	17.1	15.4	13.9	12.6	13.3	13.0	10.2
APAT Margin	9.4	9.3	9.2	7.3	5.2	7.8	7.8	6.4
RoE	25.3	18.5	14.3	10.8	5.7	7.0	7.3	12.6
RoIC	14.7	13.4	12.6	9.3	6.2	6.1	5.9	6.7
RoCE	14.5	11.3	10.8	9.0	6.1	6.3	6.4	6.4
<b>EFFICIENCY</b>								
Tax Rate %	30.4	29.4	21.9	29.7	32.5	25.2	25.2	30.5
Fixed Asset Turnover (x)	2.9	2.5	2.1	2.0	1.5	1.1	1.0	1.2
Inventory (days)	155	124	146	156	202	202	202	120
Debtors (days)	90	85	82	94	149	149	149	97
Other Current Assets (days)	29	50	107	88	57	56	31	14
Payables (days)	71	122	131	147	138	138	138	100
Other Current Liab & Provns (days)	9	9	10	11	60	59	55	48
Cash Conversion Cycle (days)	194	129	193	180	210	210	189	82
Net Debt/EBITDA (x)	2.3	3.3	2.1	3.1	3.5	3.3	3.2	7.2
Net D/E (x)	0.9	1.2	0.4	0.7	0.5	0.5	0.5	1.9
Interest Coverage (x)	4.4	4.2	3.9	3.3	2.1	3.1	2.9	4.7
<b>PER SHARE DATA (INR)</b>								
EPS	11.5	12.6	17.9	20.0	14.3	22.1	24.3	46.2
CEPS	13.6	15.3	22.6	26.5	23.4	35.5	40.7	76.1
Dividend	2.0	2.3	2.8	3.0	1.7	2.7	2.9	5.5
Book Value	62.6	73.4	176.1	193.5	304.8	324.3	345.7	386.4
<b>VALUATION</b>								
P/E (x)	129.0	118.0	82.8	74.0	103.9	67.0	60.9	32.1
P/Cash EPS (x)	109.0	96.7	65.6	55.9	63.2	41.8	36.4	19.5
P/BV (x)	23.7	20.2	8.4	7.7	4.9	4.6	4.3	3.8
EV/EBITDA (x)	66.0	60.8	44.8	36.2	37.0	32.2	29.2	21.6
EV/Revenue (x)	12.5	11.6	8.0	5.9	5.9	5.8	5.3	3.1
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.1	0.2	0.2	0.4
OCF/EV (%)	(0.8)	1.9	(2.4)	(0.6)	1.0	2.3	2.7	2.7
FCFF/EV (%)	(1.7)	(1.5)	(4.1)	(3.2)	(4.9)	(0.1)	(0.2)	(24.7)
FCFE/M Cap (%)	(1.6)	0.2	(4.5)	(0.6)	(5.7)	(0.3)	1.4	2.3

Source: Company, HSIE Research

## 1 Yr Price Movement



### Rating Criteria

BUY:  $\geq$ +15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL:  $>$  10% Downside return potential

**Disclosure:**

We, **Nilesh Ghuge, MMS, Harshad Katkar, MBA, Prasad Vadnere, MSc & Akshay Mane, PGDM** 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. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. 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.

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