INITIATING COVERAGE REPORT

26th July 2021

NOCIL Ltd.

Aditya Khetan
Sector Lead - Chemicals
9004126470
aditya.khetan@smifs.co.in

Awanish Chandra
Senior VP – Institutional Equities
8693822293
awanish.chandra@smifs.com

Table of Contents

Brief Overview

CMP (INR) (As on 26-July-21)	250
Target (INR)	290
Upside(%)	~16%
Recommendation	**BUY**

BSE Code	500730
NSE Code	NOCIL
Reuters Ticker	NOCI:NS
Bloomberg Ticker	NOCIL@IN

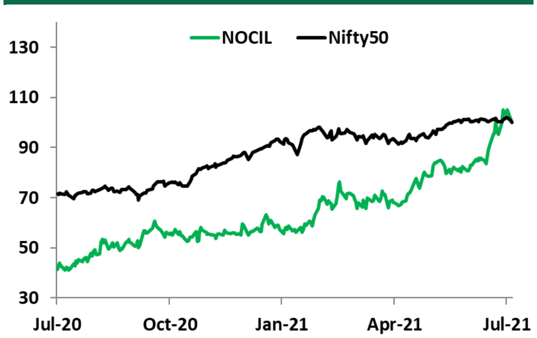
Stock Scan

Market cap (INR Mn)	42234
Outstanding Shares (Mn)	166.2
Face Value (INR)	10
Dividend Yield(%)	1.1%
P/E (x) (Adjusted)	47x
P/B (x)	3.2x
Debt/Equity (x)	0.0x
Beta vs. Nifty	1.06x
52 Week High/ Low (INR)	271/ 98
1Yr-Avg. Daily Volume (NSE)	1,60,327

Shareholding Pattern (%)

	Jun 2020	Mar 2021	Jun 2021
Promoters	33.7%	33.9%	33.9%
Institutions	5.7%	7.3%	6.5%
Non-Institution	60.6%	58.8%	59.6%

Exhibit 1 - **NOCIL vs Nifty (Relative Returns)**



Source: NSE, SMIFS Research

NOCIL Ltd.: A rubber chemical giant

With over 4 decades of experience, NOCIL is the market leader in rubber chemical space, capturing ~40% domestic and ~4-5% global market share in terms of production. The company has established long term relationship with its customers in over 40 countries. We believe NOCIL is on a strong footing of growth majorly led by (a) Recently completed capacity expansion of Rs4.7bn by adding another 55,000 TPA capacity to lead double digit volume growth going ahead (b) Global rubber chemical sourcing strategy is expected to undergo a change to include China+1 (c) Increasing shift towards radial tyres to propel rubber chemical consumption (d) Increased focus towards specialized products to enrich the product mix.

Despite lockdown and virus grappling the economy, the company reported healthy double-digit volume growth in FY21. We believe the company will continue its double-digit volume growth trajectory for the next 2 years, thereby leading to increased visibility and market share globally. The company has developed strong R&D and technical research capabilities and long-lasting relationship with clients that create huge entry barrier for new players.

Despite the recent run up in stock price of the company, the future growth visibility of this cash rich company is significant and therefore we value the stock on 16x on FY23 EBITDA and assign target price of Rs 290 per share.

- **Healthy double-digit volume growth on the cards:** Over the last 5 years from FY16-21, NOCIL volume CAGR growth has been ~7-7.5%. This was owing to consistent rubber and tyre consumption growth, increasing focus on exports, strong client relationship and diversified product profile. Despite industry volumes declining by 7% YoY for CY20, NOCIL volumes grew by 14% YoY in FY21 backed by increasing exports, higher wallet share from existing clients and robust domestic demand. NOCIL has consistently gained market share on the back of strong volume growth and plans to further increase its exports footprint backed by recent capacity expansion and diverse product basket. Recently, the company has doubled its base capacity by adding 55,000 TPA at a capex of Rs4.7bn. We believe the expanded capacity is likely to reach optimum utilization levels by H1FY24. On the back of this, we expect NOCIL to report volume CAGR growth of 13-13.5% from FY21-24E.

- **Exports to be the key driver of growth going ahead:** With the onset of pandemic which led to supply chain disruption globally and business hit suffered by several conglomerates dependent primarily on Chinese companies as sourcing partner are

Exhibit 2 - **Financial Performance at a glance** **In Rs Million**

Particulars	FY19	FY20	FY21	FY22E	FY23E
Net Sales	**10,429**	**8,463**	**9,247**	**11,456**	**13,685**
Growth %	7.8%	-18.9%	9.3%	23.9%	19.5%
EBITDA	**2,927**	**1,782**	**1,308**	**2,035**	**2,785**
EBITDA Margin (%)	28.1%	21.1%	14.1%	17.8%	20.4%
Net Profit	**1,849**	**1,307**	**884**	**1,305**	**1,878**
Net Profit Margin (%)	17.7%	15.4%	9.6%	11.4%	13.7%
EPS (In Rs)	11.2	7.9	5.3	7.9	11.3
BVPS (In Rs)	70.3	71.6	77.3	82.6	90.9
P/E (x)	15.1x	13.4x	46.9x	31.8x	22.1x
P/BV (x)	2.4x	1.5x	3.2x	3.0x	2.7x
ROE (%)	16.7%	11.1%	7.2%	9.8%	13.0%
ROCE (%)	16.7%	11.2%	7.2%	9.8%	13.0%

Source: Company Data, SMIFS Research

Investment Rationale

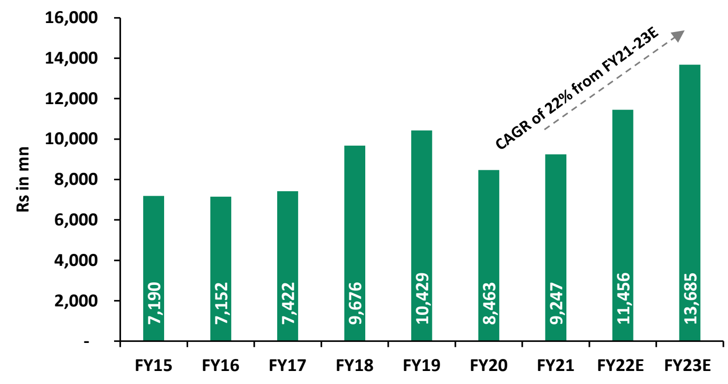
- now looking for alternatives outside China. We believe this would eventually lead to global companies prefer Indian manufacturers like NOCIL which have the scale and expertise to fulfil the needs of any global tyre manufacturer. In the rubber chemicals space, China accounts for lions share roughly 70% of global production of which more than 40% is exported. With the China+1 strategy in place and NOCIL doubling its capacity would eventually lead to market share gains for NOCIL, at the expense of Chinese manufacturers. The company's exports as a % of sales stood at ~33% in FY21 as compared to 25% in FY16. We believe as NOCIL increase its wallet share and visibility in export market the company will eventually touch 40% of export sales in the coming years.

- **Healthy product mix to drive operating margins :** Over the past few years, NOCIL has invested on increasing its product quality and technical capabilities to manufacture high grade specialized products particularly used in the export markets. The company's specialized product portfolio stands at 25% of sales in FY21 up from 15% in FY14. Increased focus on speciality products particularly for the export market was one of the key reasons for improvement in gross as well as operating margins over the last couple of years. The company is focusing significantly on increasing its wallet share and visibility in the export market which should further improve the mix towards specialized grade products and thereby margin profile of the company. The company is focusing on value added or niche product having wider visibility and thereby, commands higher margins. Higher value-added product coupled with cost optimization would lead to improvement in margins in the coming years. Consequently, we expect EBITDA margins to be at 17.8% & 20.4% in FY22E & FY23E respectively.

- **Valuation:** ***A net cash company with strong corporate governance track record recently completed its expansion plan of doubling the capacity. The new capacity will reach peak utilization levels in 2-3 years and would generate an asset turnover of roughly 1.85-2x. Considering strong product portfolio and volume growth, we expect NOCIL to report a CAGR of 22%/46%/46% at Revenue/EBITDA/PAT level over FY21-23E. The stock is trading at P/E of 22x on FY23 EPS and EV/EBITDA of 13.6x on FY23 EBITDA. We assign 16x as the target EV/EBITDA multiple and arrive at target price of INR 290 per share which offers 16% upside from current valuations.***

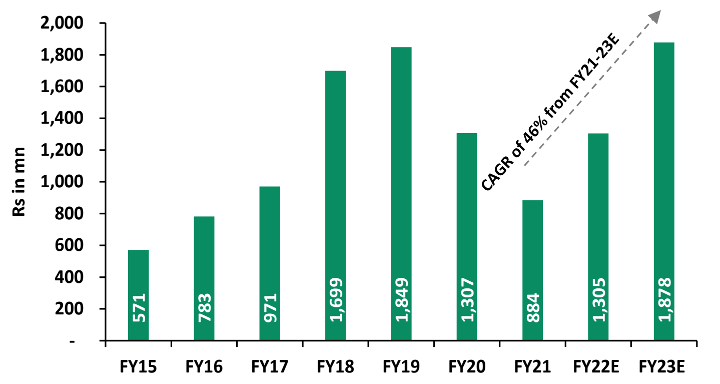
Story in Charts

Exhibit 3: **Revenue expected to grow CAGR at 22% (FY21-23E)**



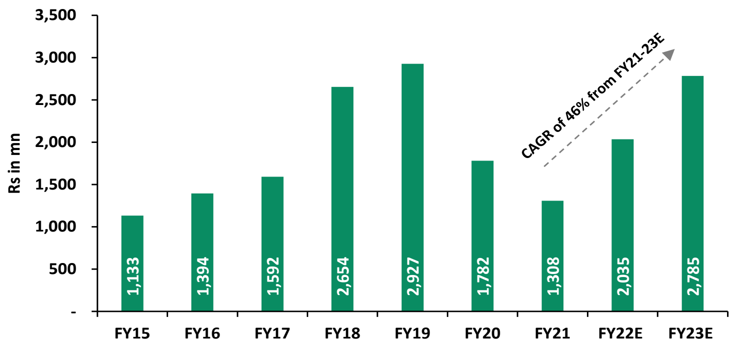
Source: SMIFS Research

Exhibit 4: **PAT expected to grow at ~46% CAGR (FY21-23E)**



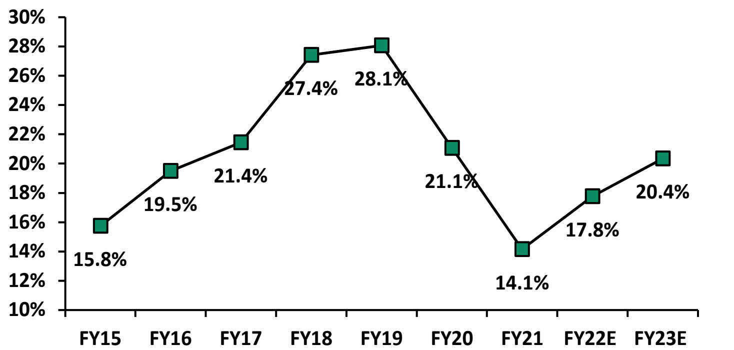
Source: SMIFS Research

Exhibit 5: **EBITDA to grow at 46% CAGR (FY21-23E)**



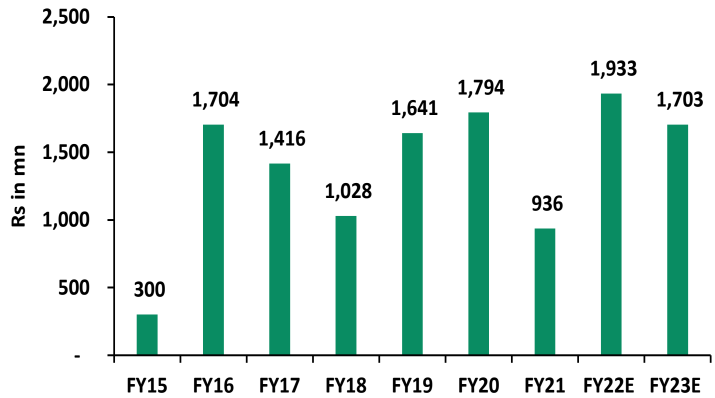
Source: SMIFS Research

Exhibit 6: **EBITDA margin to hover at 20-21% by FY23E**



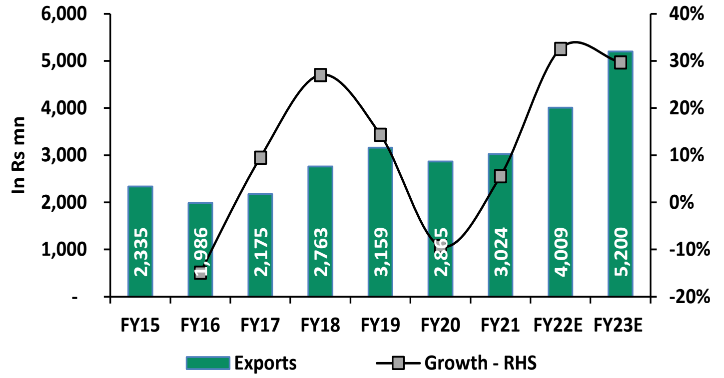
Source: SMIFS Research

Exhibit 7: **Strong OCF generation augurs well**



Source: SMIFS Research

Exhibit 8: **Exports to grow in high double digit in next 2-3 years**



Source: SMIFS Research

Investment Rationale

Timely capacity expansion to support volume growth in the coming years

NOCIL has gained market share and has grown its volume in double digit despite industry witnessing negative growth in FY21

During FY19, the company operated at near optimum utilization levels and the **rubber chemical consumption was growing at robust 7-8% backed by healthy rubber and tyre consumption.**

Sensing a robust demand growth and an increase in tyre capacities, **the company planned to capitalize on the same and initiated capacity expansion plan of adding another 55,000 TPA which would take the total capacity to 1,10,000 TPA with a capex of Rs4.7bn, completely funded through internal accruals.**

As on FY21, the company has nearly completed its capacity expansion and is now well equipped to serve domestic and global customer with increased supply.

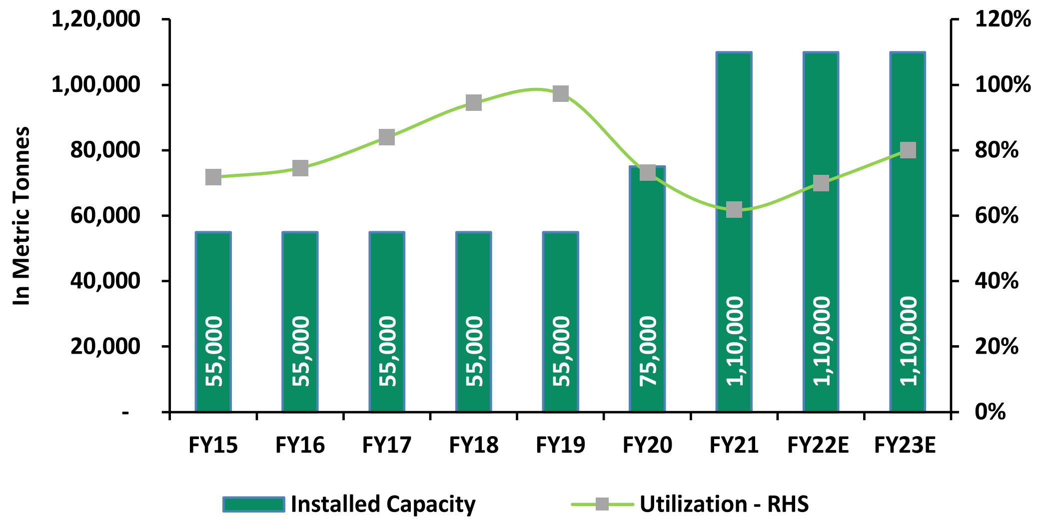
We expect the expansion to reach at peak utilization levels by H1FY24. **At peak utilization levels the said capex is expected to generate an asset turnover of 1.85-2x.**

NOCIL dominates a lion's share in the domestic rubber chemical industry

NOCIL currently dominates a big chunk of domestic market ~40% and another 45-50% is captured by Chinese imports and remaining 5-10% share is with small domestic players like Lanxess, Achmechem, Merchem, Yasho Industries.

In FY21, despite industry volumes de-growth of approx. 7%, NOCIL witnessed 14% volume growth majorly led by increased focus on export market, robust product basket & diversifying client base.

Exhibit 9: **Capacity Utilization to inch up in the coming years**



Source: SMIFS Research

Peak utilization to be achieved by H1FY24.

Over the last 5 years from FY16-21, the company reported volume CAGR growth in the range of ~7-7.5%. This was backed by consistent rubber and tyre consumption growth, increasing focus on exports and diverse product range.

Going ahead with increased capacity, we expect the company to report volume growth CAGR in the range of 13-13.5% from FY21-24E.

Investment Rationale

Specialized grade products share to improve from hereon

Improved technology and increased focus on specialized grade products to improve the product mix and margins going ahead

During March 2013, the company implemented & commenced operations of its state-of-the-art technology at its Dahej plant. The company established fully automated process infrastructure which led to **increase in productivity, minimal human intervention and aided cost rationalization.**

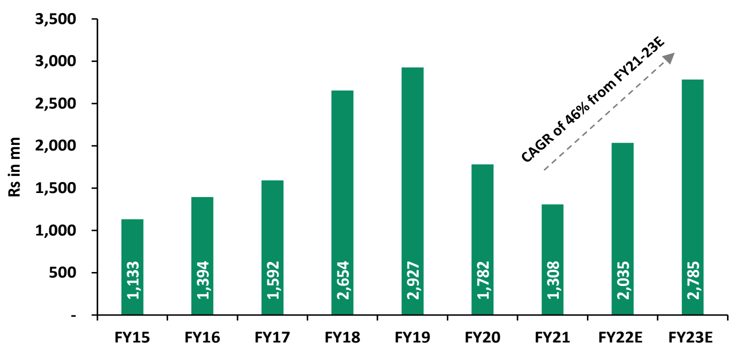
Over the past few years, the company invested on increasing its product quality and technical capabilities to **manufacture high grade specialized products particularly used in the export market.**

The company's specialized product portfolio stands at 25% of sales in FY21 up from 15% in FY14. Increased focus on speciality products particularly for the export market was one of the key reasons for improvement in gross margin over the last couple of years.

The company is focusing significantly on increasing its wallet share and visibility in the export market which should further **improve the mix towards specialized grade products and thereby margin profile of the company.**

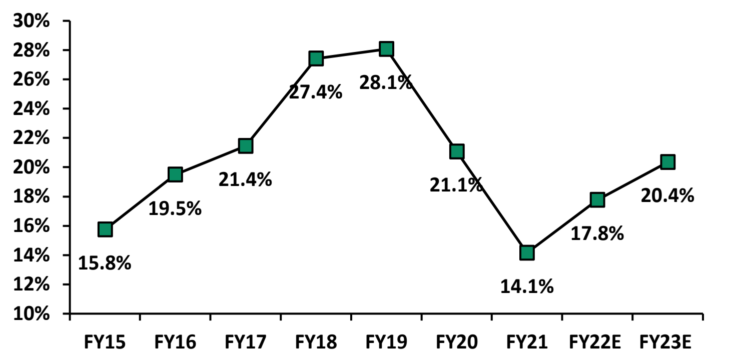
Globally, there is a **huge demand for specialized products having niche applications** and NOCIL being the reliable supplier to major international tyre OEMs is direct beneficiary of the same.

Exhibit 10: **EBITDA to grow at 46% CAGR (FY21-23E)**



Source: SMIFS Research

Exhibit 11: **EBITDA margin to hover at 20-21% by FY23E**



Source: SMIFS Research

Over the 4 years, **backward integration at Dahej plant, superior technology, imposition of ADD in FY14 led to significant improvement in EBITDA margins** from 15.8% in FY15 to 28.1% in FY19.

Removal of ADD coupled with slowdown in demand, operating deleverage led to significant erosion of margins and EBITDA margin stood at 21.1% & 14.1% in FY20 & FY21 respectively. As per management, ADD impact on EBITDA is 4% to the revenue.

Going ahead, the worst is behind the company. The company is focusing on niche product having wider visibility and commands higher margins. **Higher value-added product along with cost optimization would lead to improvement in margins in the coming years.**

Consequently, we expect EBITDA margins to be at 17.8% & 20.4% in FY22E & FY23E respectively.

Investment Rationale

Double digit revenue and profitability growth going ahead

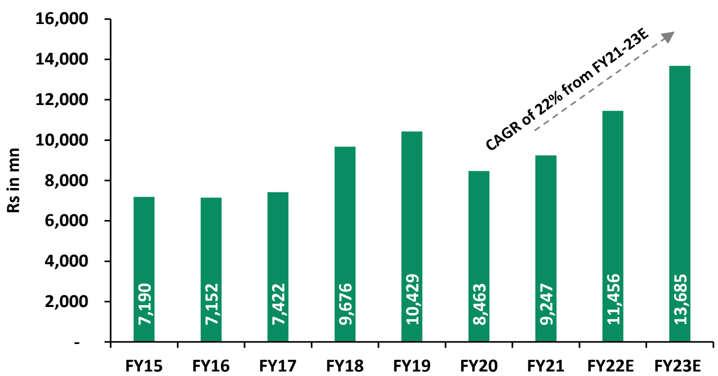
Double digit volume growth expected consistently for the next 3 years

During the last 2 years the auto and rubber chemical industry has faced severe headwinds led by economic slowdown, tapering demand, virus induced lockdown etc which hurt the performance across industry.

NOCIL revenue and profitability declined by 5.8% & 30.8% CAGR from FY19-21 respectively. The major reason for the decline was **sharp fall in realization from FY19-21.** Fiscal FY20 witnessed almost 7-8% decline in rubber chemical demand and the situation became further grim post announcement of ADD removal followed by virus induced lockdown towards the end of FY20 which percolated even in FY21.

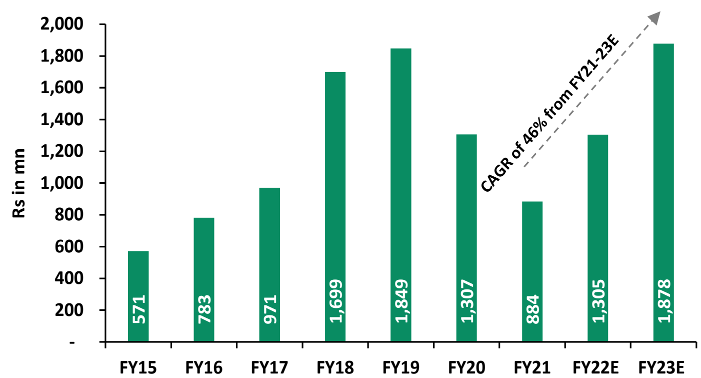
Despite industry volumes declining by almost 7%, NOCIL volume grew by 14% in FY21. This itself indicates the strong positioning of NOCIL amongst its peers which led to market share gains in FY21.

Exhibit 12: **Revenue expected to grow at 22% CAGR (FY21-23E)**



Source: SMIFS Research

Exhibit 13: **PAT expected to grow at ~46% CAGR (FY21-23E)**



Source: SMIFS Research

During the last 2 years, NOCIL withstood difficult times is itself a testimony of its strong business model

As indicated by the management, the company is aggressively following an **volume based approach in order to protect and increase its market share** in domestic and exports across geographies which is visible in its production numbers growing at a CAGR of 4.8% from FY19-21 despite industry volumes declining by high single digits for the last 2 years.

We believe **NOCIL has been able to weather tough times and has also increased market share, business visibility & client reach led by solid management backup.** This gives us strong confidence in the company's business model.

Going ahead, NOCIL has doubled its base capacity which will lead to double digit volume growth for the next couple of years.

We expect NOCIL to report revenue growth of ~22% CAGR from FY21-23E, historically grown at 5.3% from FY16-21 and net profit to grow at ~46% CAGR from FY21-23E, as compared to 2.5% CAGR growth during FY16-21.

Investment Rationale

Export led focus to be the key growth driver going ahead

Specialized grade rubber chemicals have higher margins

Over the past 5 years, **exports grew at a CAGR of 11.5% from FY16-21.** This was led by diversification in newer geographies, increasing wallet share from existing overseas clients and consistent demand growth of global rubber chemicals.

Despite facing intense competition from Chinese manufacturers, **the company has established a strong positioning in the global markets** with all major international tyre manufacturers as their clients.

NOCIL is planning to increase wallet sahre from its international clients

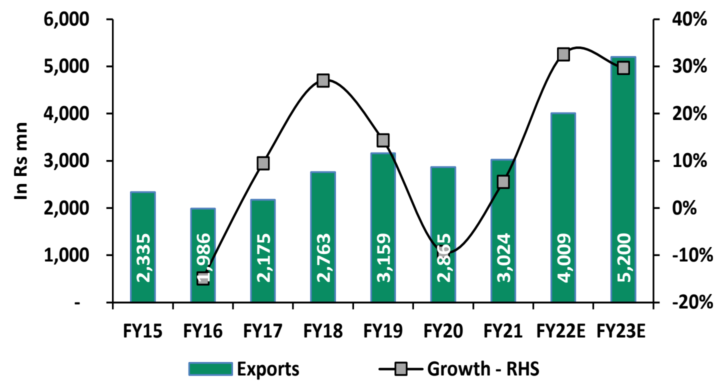
On the global front, the company commands 4.5-5% market share in terms of production and with recent capacity expansion the global market share is set to increase to 7-8% levels over the next couple of years.

Increasing exports footprint is a measure of the company's strong and diversified product visibility around global tyre manufacturers.

The company **focuses on specialized range of products in overseas markets which generate incremental margins** over the base product margin profile.

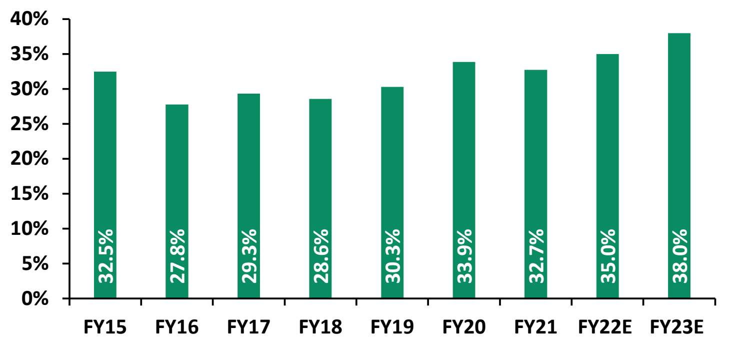
Recent doubling of capacity will lead to a higher focus on export market and hence we expect exports to gain traction in medium to long term.

Exhibit 14: **Export to grow in high double digit in next 2-3 years**



Source: SMIFS Research

Exhibit 15: **Export share to inch up to ~40% in the next 3-4years**



Source: SMIFS Research

NOCIL is the sole biggest supplier from India to over 40 countries

The company currently caters to a diverse export market across 40 countries. However, the focused markets are Japan, Malaysia, United States, Thailand and European countries.

For the last 2 years, the company is increasingly focus on increasing its reach in the US market. The US market business has grown significantly but is presently very small for NOCIL. The company with its diversified product range is set to establish its presence in the US market in coming years.

Exports as a % of sales stood at ~33% in FY21 as compared to 28% in FY16. We believe as NOCIL increase its wallet share and visibility in export markets, the company will eventually touch 40% of export sales in the coming years.

Overall, we expect NOCIL to report export sales CAGR of 11.5% from FY21-23E.

Investment Rationale

R&D is critical to succeed in rubber chemical business

R&D itself is the biggest entry barrier in rubber chemical business

High entry barriers: A significant advantage for NOCIL

Development of rubber chemical **requires significant capital investment** backed by strong R&D, technical expertise and other technological advancements.

Over the last few years, **NOCIL has significantly invested in R&D to create niche branded products** with zero error.

The company has developed **in-house R&D that primarily focusses on development of niche products and patented technologies.**

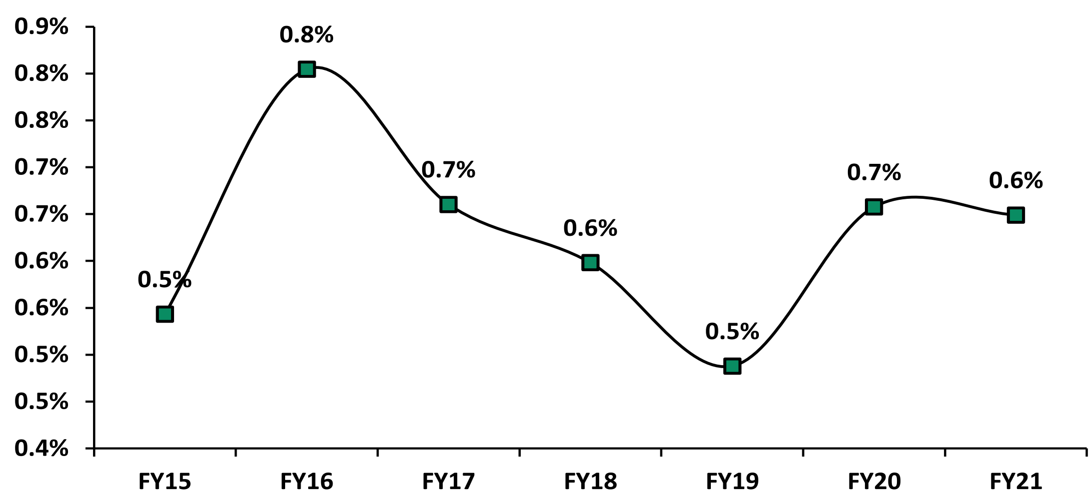
Strong R&D initiatives have led to de-bottlenecking of capacities and cost reduction initiatives led to reduction in raw material consumption.

Any new entrant's association with tyre manufacturers is usually very difficult because it **generally takes at least 2 years for a new manufacturer of rubber chemical to set up a complete intermediates plus finished product plant** successfully as it requires many intermediate steps from plan proposal to final approval along with huge cash burn. All this itself creates a huge entry barrier

Also, gaining approval or doing business with tyre companies is a time-consuming process as they usually take a lot of time to approve a rubber chemical manufacturer as they take into account various technicalities like the product quality, process, efficiency, time etc. wherein only few companies like **NOCIL have been able to gain the trust of tyre manufacturers** and other end user industries.

We believe the strong R&D capabilities which the company has created provides strong visibility

Exhibit 16: **Focus on R&D to be continued (R&D cost as a % of sales)**



Source: SMIFS Research

for its products. This creates huge entry barriers for any other player to replicate the business model. Currently, the company R&D expense is around 0.6%-0.7% of its sales.

Going forward, we believe the company will continue its focus on R&D.

Investment Rationale

ADD protects domestic manufacturers against low cost dumping

Anti-dumping duty (ADD) will be an added support for domestic rubber chemical manufacturers

The rubber chemical industry is highly competitive with global rubber chemical giants from China and Korea dumping their excess production into the Indian market leading to lower realization and profits for companies like NOCIL.

China has roughly 70% of global production of which more than 40% which leads to dumping of excess production into neighboring countries.

In order to protect domestic industry from low-cost imports, the government had imposed an Anti-dumping duty on rubber chemical imports from China in 2014.

NOCIL six products were covered under ADD which constituted almost 50% of the top-line. Imposition of ADD have led to 400bps margin expansion.

The expiry date for the ADD was July 2019 and thereafter the duty has lapsed with no further extension from the government side.

Witnessing significant margin erosion for a couple of quarters post ADD expiration, NOCIL and other **domestic manufacturers have approached the authority for re-considering the duty imposition** and the some outcome might come in August 2021.

ADD re-imposition will add Rs60-80mn per quarter in operating profit

The investigating authority has released an initial draft wherein it is mentioned that price **undercutting by Chinese imports is around 40-45%** and is significantly impacting the Indian manufacturers margins.

However, the final call whether to impose the duty or not, will be taken by the finance ministry.

We believe if duty is re-imposed then it would be a game changer for NOCIL as it will directly add roughly 200-300bps on the operating margin front.

Investment Rationale

OCF to EBITDA averaged at 0.7x from FY15-21.

Strong free cash flow generation augurs well

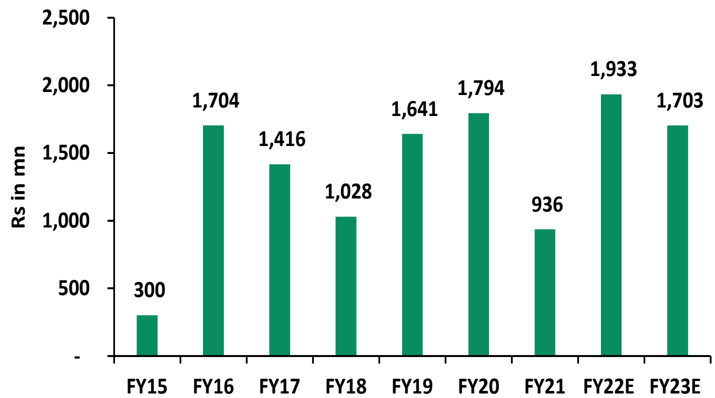
From FY16-21, the company has generated roughly Rs1.8-2.5bn each year as free cash flows on revenues Rs8-10bn which augurs well for the company.

The company operating **cash flow to EBITDA is around 0.7x-1x** over the last couple of years which indicates the company is able to convert its operating profit into cash flows.

The company is debt free and sitting on surplus cash and cash equivalents & current investments on the balance sheet of Rs1240mn as on FY21.

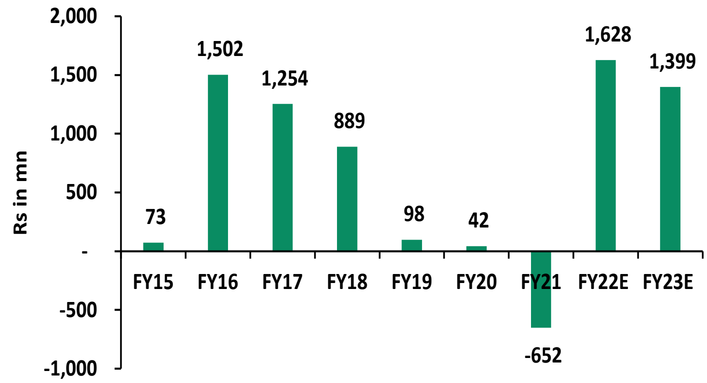
With no capex outlined for the next 2-3 year, we expect significant **free cash flow generation to the tune of Rs4.56bn from FY22-24E.**

Exhibit 17: **Strong OCF generation augurs well**



Source: SMIFS Research

Exhibit 18: **Robust FCF generation going ahead**



Source: SMIFS Research

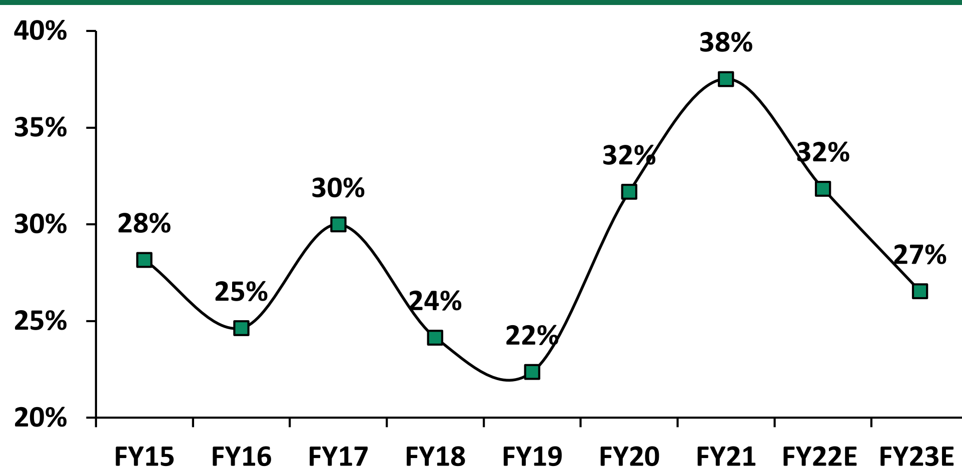
A consistent dividend paying company

The company has consistently paid dividend to minority shareholders, despite lower promoter stake over the past.

Until the next leg of capex is outlined, with strong free cash flow generation, **we expect management may like to reward the shareholders with handsome dividends in coming years.**

Dividend yield averaged 1.6% from FY18-21

Exhibit 19: **Dividend payout to stabilize around 20-25% going ahead**



Source: SMIFS Research

Investment Rationale

Return ratios to remain robust going ahead

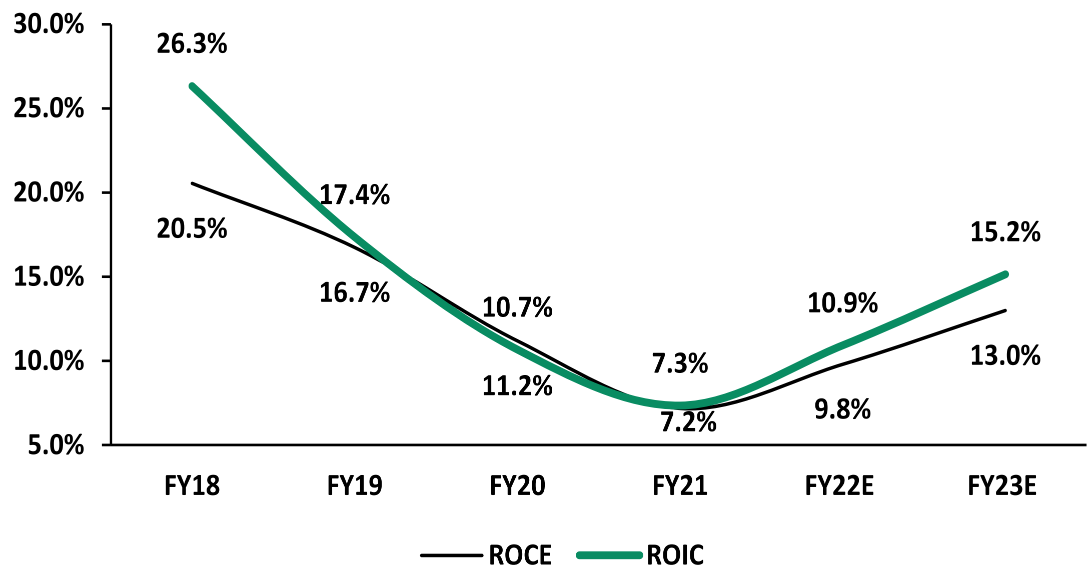
Return ratios remained strong during FY15-19 on the back of **margin improvement, backward integration at Dahej plant, focus on value added segments and improvement in utilization**.

However, the return ratios witnessed significant decline in FY20 & FY21 led by slowdown in demand, virus induced lockdown, removal of ADD & operating deleverage.

We believe the worst is over for the company and with the economic outlook improving, tyre companies undergoing capex, improvement in demand would eventually lead to **robust return ratios going ahead.**

Return ratios bottomed out in FY21, going ahead will witness improvement only from hereon

Exhibit 20: **Return ratios bottomed out in FY21, set to improve from hereon**



Source: SMIFS Research

Industry Overview

Rubber chemicals: A niche business with higher entry barriers

Rubber chemicals constitute small portion of tyre, but still one of the vital raw material to impart the properties of hardness, toughness, rigidity etc

Rubber chemicals are not manufactured in bulk. They are particularly used for providing strength, elasticity, resistance, durability to tyre. Therefore, it is considered as niche chemicals.

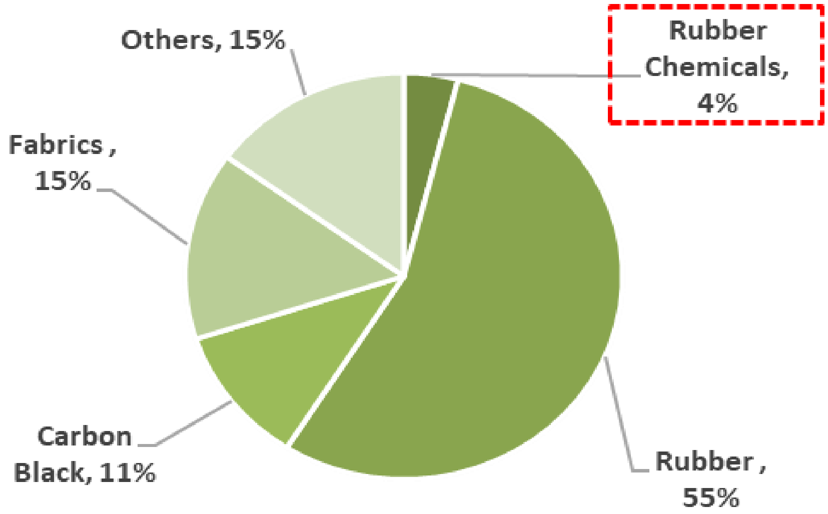
The industry is consolidated into few players controlling **more than 60-70% of the global market.**

Rubber chemicals are majorly divided into accelerators, anti-oxidants and pre & post vulcanization inhibitor/stabilizer.

Out of the above, **Anti-oxidants constitutes a major segment and captures over 50%** of the market size in terms of revenue of rubber chemicals.

Rubber Chemicals are chemicals used in the manufacturing of different rubber products, and help in enhancing strength, durability and elasticity of the rubber. Rubber Chemicals are basically used by manufacturers who convert Natural/Synthetic Rubber into finished products such as Tyres, as well as by non-Tyre industries like Hoses, Footwear, Moulded Components for vehicles, Industrial Belts, Gloves, etc.

Exhibit 21: **Rubber chemicals constitute 3.5-4% of tyre raw material**



Source: SMIFS Research

Rubber chemicals reacts with rubber to manufacture tyre. It imparts properties like elasticity, strength, durability, flexibility, hardness to tyre.

These chemicals are used in auto tyres, cycle tyres, latex, surgical gloves, shoe soles etc. ***Rubber chemicals form ~3.5-4% of raw materials for rubber consumption happens in manufacturing tyre and non-tyre products.***

…………………….Also a highly capital-intensive industry

Rubber chemical demand globally has grown around 7-8% per annum except during the last 2 years. Despite robust demand of rubber chemicals, there are not many producers In India because it requires massive investment and technical expertise to set up manufacturing units.

Industry Overview

Upgradation of technology & innovation by launching new grades of rubber chemical is the need of the hour

India to remain most favoured hub in rubber chemicals after China

The rubber chemical companies have to meet with the stringent environmental pollution standards. This adds up to the cost of setting up rubber chemical unit.

Also, the tyre companies are constantly innovating to latest technology and upgrading their standards in terms of tyre quality to match international standards and due to this tyre companies are becoming extremely stringent on the quality of raw material like rubber chemicals.

In order to stay ahead of the curve, continued investment in R&D is a must. **Also, developing new and high value added rubber chemicals is the need of the hour**. We believe NOCIL is the only Indian player to have developed strong expertise in this area.

We believe diverse range of rubber chemicals gives wider visibility amongst its clients as it gives rubber chemical company first hand advantage to supply entire range of product to varied users.

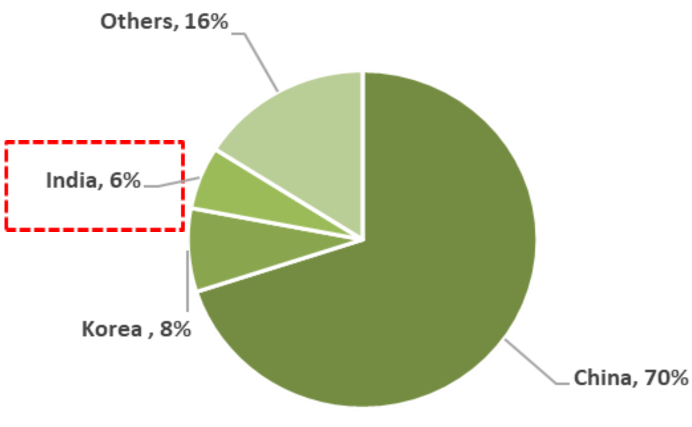
Rubber chemicals demand set on a strong footing

Generally, rubber chemicals demand grows in line with the rubber consumption growth and tyre volume offtake. Despite two years of inherent slowdown, **the global rubber chemical market is expected to witness rapid growth in the coming years on the back of strong expansion by tyre manufacturers both domestically and globally.**

Besides auto and tyre sector, rubber chemicals finds increasing use in construction, medical, aerospace, footwear etc.

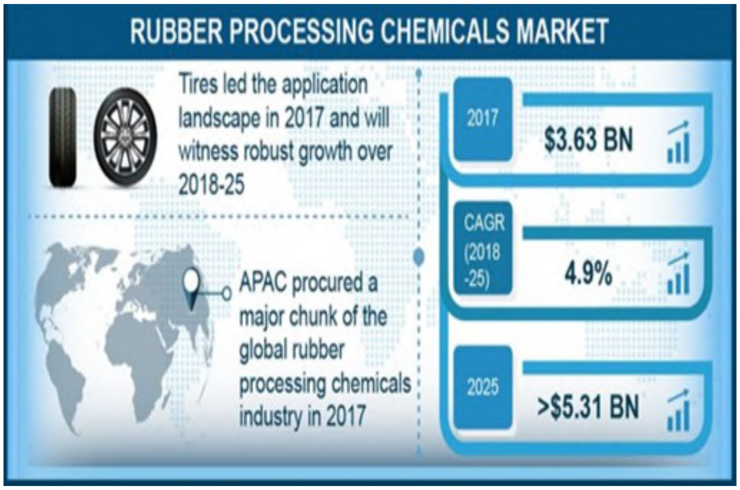
Also, favourable government initiatives of improving infrastructure, construction, increasing per capita income will lead to increasing demand of rubber chemicals demand in the next 2-3 years.

Exhibit 22: **Rubber chemicals global market share split**



Source: SMIFS Research

Exhibit 23: **Rubber processing chemicals**



Source: Global Market Insights, SMIFS Research

According to Global Market Insights, the global rubber chemicals market is expected to grow at 4.9% to $5.31 billion by 2025. We believe Asia Pacific to emerge as the leader in consumption of rubber chemicals owing to big automotive base, strong demand and wide population. **China, India and flourishing automotive and construction industry of Japan provides immense opportunities for rubber chemicals manufacturers.**

Industry Overview

India's market share in global rubber chemical space will increase in the coming years

The major rubber chemicals markets are China, India, South Korea, Japan, Thailand, US, Malaysia etc. The global rubber chemicals demand is at 1.0-1.1 million tonnes annually and Indian demand is around 70,000-75,000 TPA.

China and Korea constitute ~75% of the market of rubber chemicals. India market share is around 5-6%.

Over the last few years, India has been able to inch up its market share in the globe owing to shutdown of capacity in China on the back of environmental concerns, good quality chemicals and NIL export duty.

According to RubberAsia, **demand supply position of rubber chemicals has been in a tight spot in the past due to sudden imbalance created in the market by closure of many rubber chemicals units in China.** We believe this will directly benefit Indian rubber chemical manufacturers like NOCIL.

Exhibit 24: **Rubber chemicals growth to remain strong**

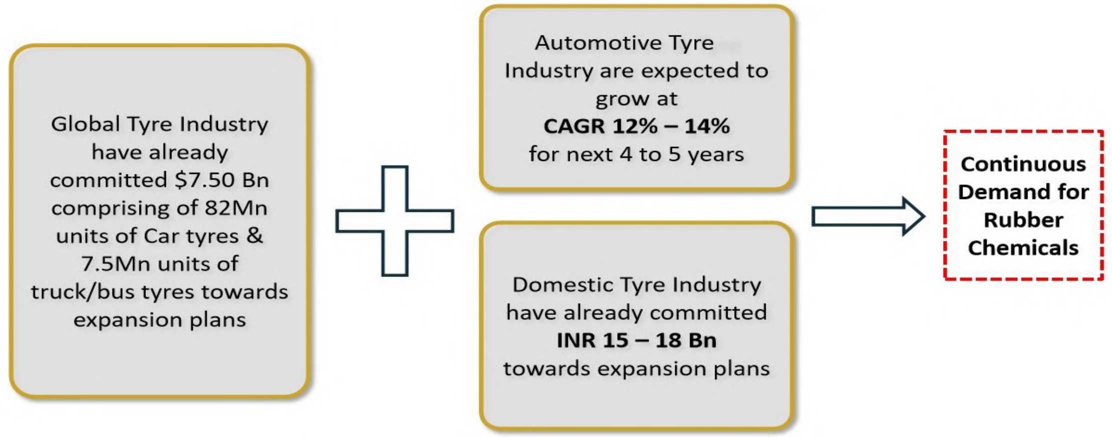
Source: Company Presentation, SMIFS Research

Tyre consumption critical to drive rubber chemical demand

We believe ***robust demand growth of tyre consumption would lead to sustained demand of rubber chemicals.***

Considering the expansion by tyre players to cater to increasing demand, NOCIL is also expanding its capacity as this will increase the wallet share from its clients.

Exhibit 25: **Tyre consumption to propel rubber chemical demand**



Source: Company Presentation, SMIFS Research

Industry Overview

Global rubber chemical demand is 1-1.1mn tonnes and 3-5% growth over the next 10 years would give annual incremental demand of ~40k tonnes

Rubber chemicals volume growth is dependent on rubber consumption

The demand of rubber chemicals is majorly dependent on the rubber consumption growth. **Global rubber consumption has grown at 2.3% CAGR over 2011-19, followed by 6.5% decline in 2020 led by virus induced lockdown, demand disruption etc.** The rubber consumption growth is directly linked to world GDP growth and tyre demand.

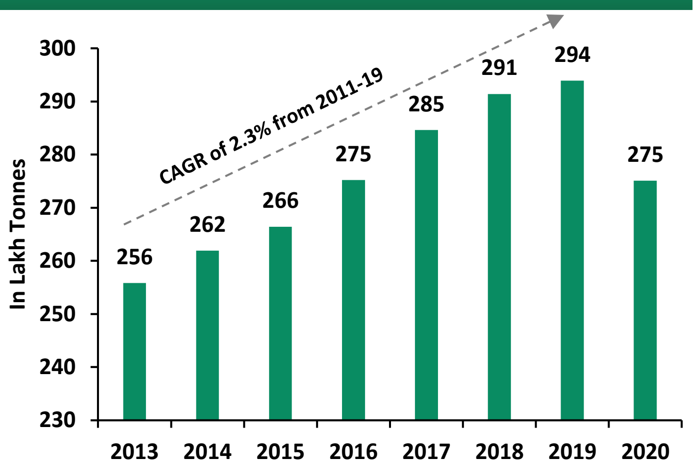
Roughly 60-65% of the rubber production is used in tyre manufacturing, hence, tyre production becomes the critical driver for rubber consumption.

According to ExpertMarketResearch report, the global tyre demand is forecasted to grow 4% from 2021-26E and this should lead to healthy growth of rubber consumption going ahead.

Robust tyre consumption would lead to healthy demand for rubber chemicals and we believe that 38,000-40,000 MT additional demand of rubber chemicals would be created annually which bodes well for players like NOCIL.

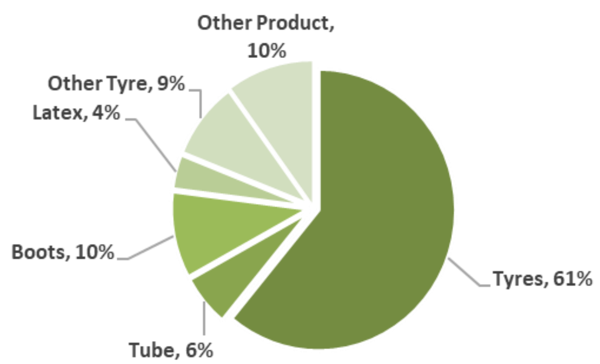
Approx. 61% of the rubber consumption goes in tyres, 6% for tubes, 10% for Boots, and remaining other tyres. Therefore, car tyre demand is critical to the growth in rubber consumption.

Exhibit 26: **Rubber consumption grew at 2.3% CAGR (2013-19)**



Source: SMIFS Research

Exhibit 27: **Tyres constitutes a major pie for consuming rubber**



Source: SMIFS Research

India is the second largest consumer of natural rubber in the world, with per capita consumption of rubber as a whole is just around 1.2 kg as compared to 6.5 kg in China and the global average rubber consumption of 3.6 kg indicating huge scope of rubber consumption growth going ahead.

Higher prices of natural rubber have bolstered the production in India during 2020-21 amid a rampaging COVID crisis that has crippled demand.

The consumption of natural rubber has slumped by nearly 4% in 2020 led by virus induced lockdown, lower plantation and decline in demand. However, the progress in vaccination and normal monsoon would be the key to revive the demand in the coming years.

We remain confident of revival in rubber production in the near term as we expect the cycle is to near bottom out which bodes well for tyre manufacturers.

Industry Overview

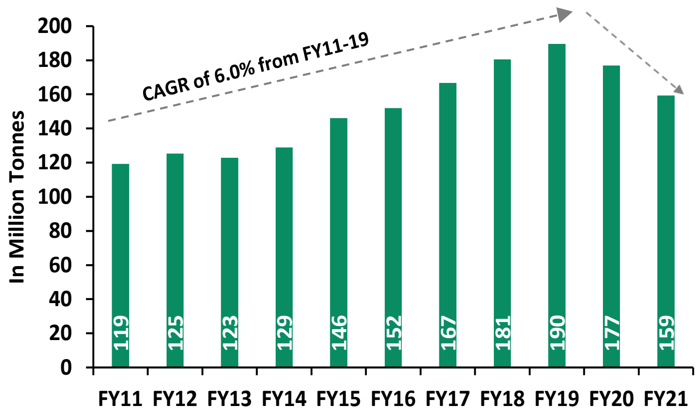
Tyre industry – A snapshot

Over the last 5 years, the domestic tyre industry has witnessed significant capacity expansion. The **Indian domestic tyre industry capacity has increased at a CAGR of 14.5% over FY16-20 as compared to 5.8% from FY11-15.**

In tonnage terms, MH&CV segment is the largest segment constituting ~47% of overall production and has registered 10-year CAGR of 3%.

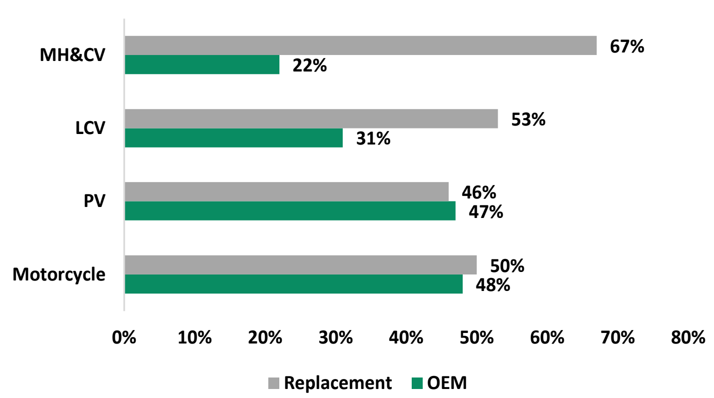
The PV segment is the second largest contributor with a tonnage share of 24% and it has registered a 10-year CAGR of 8.9%. Similarly, the 2W & 3W tyre segment witnessed a 10-year CAGR of 9.3%.

Exhibit 28: **Tyre production declined in single digits in FY20 & 21**



Source: SMIFS Research

Exhibit 29: **Split of OEM vs Replacement Tyre Industry**



Source: SMIFS Research

Generally, the tyre market is more skewed towards the replacement segment. The Indian Automotive Tyre Manufacturers Association (ATMA) states that Indian aftermarket or replacement accounts for 50% of motorcycle tyre segment, 46% of PV, 53% of LCV's and 67% of T&B. Overall replacement market accounts for more than 60% of the total tyre sales.

Tyre industry: Strong growth years ahead

Vehicle production for the last 2 years has fell by 13-15% on account of subdued economic and weak consumer sentiments while the domestic tyre production decline by 8%.

After 2 years of contraction, **the Indian tyre industry is expected to rebound strongly led by strong pickup at OEMs, lower base effect of FY21, normal monsoon, robust replacement demand and healthy exports.** The domestic and exports demand has seen strong comeback in H2FY21 after reporting a decline in H1FY21, and we believe this should continue for the coming years.

We expect from FY22-25E, the domestic tyre demand is expected to grow 7-9% YoY led by better penetration in rural areas, shift towards personal mobility and easy availability of auto financing.

Strong demand has diverted the attention of tyre major's towards capex execution to tap the increasing demand. Domestic tyre companies has lined up more than Rs200bn capex between FY22 and FY25 and this will cater to increasing demand in the coming years.

Industry Overview

Radialization - A big trigger for growth in rubber chemicals demand

Radial tyre have much better prospects than conventional bias tyres

The Indian tyre industry is embracing newer technology or trends in the changing industry scenario. Increased focus on enhancing fuel efficiency and lowering emission levels has led radialization as an important theme which is growing rapidly.

We believe **low-cost imports of radial MH&CV tyres from China and other economies have acted as a catalyst for faster shift to radialization.**

Benefits of Radial tyre:

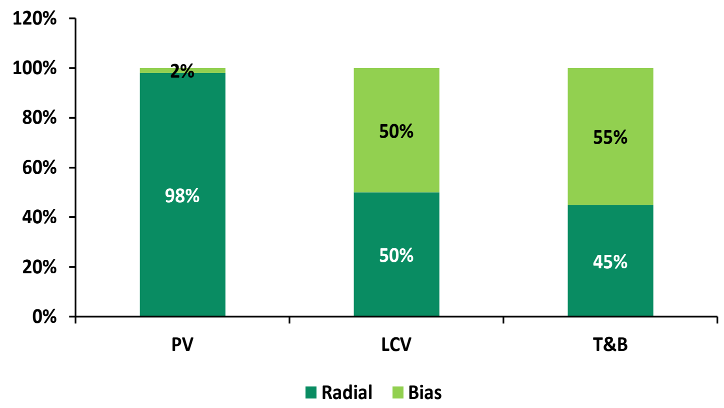
(A). Longer tyre life due to less generation of heat.

(B). High speed performance.

(C). Reduced fuel consumption due to less rolling resistance.

(D). Lesser vibration.

Exhibit 30: **Radialization is underpenetrated in LCV & T&B**



Source: SMIFS Research

Exhibit 31: **Higher efficiency in radial tyres**

	Bias	Radial
Initial cost per Tyre (Rs)	15,000	20,000
New tyre life (Km)	60,000	1,10,000
Times Retreaded	1	2
Cost of retreading (Rs)	7,000	9,000
Total cost of retreading (Rs)	7,000	18,000
Km travel per retread	50,000	80,000
Total km under retread	50,000	1,60,000
Total cost (Rs)	22,000	38,000
Total Kms	1,10,000	2,70,000
Cost/km (Rs)	0.20	0.14

Source: SMIFS Research

Increased use of LCV & T&B radial tyre will drive rubber chemical consumption

The PV segment has adopted radialization to its complete capacity but the LCV and T&B remains underpenetrated, although improved in the last two years but still not up to the desired mark considering the immense benefits of radial tyre over bias tyre.

In M&HCV, we expect the radialization level to reach around 60-65% and in LCV radialization level is expected to reach 50-55% by FY23.

Considering various advantages over bias tyres consumer preference is shifting towards radial tyres. ***Radial tyres weigh 20-30% more than conventional tyres, hence it requires more rubber chemicals than conventional bias tyres.***

Therefore, we believe as Indian tyres move towards more radialization, rubber chemicals volumes would increase by 1.2-1.3x. This augurs well for rubber chemicals players like NOCIL to gain from the shift towards radialization.

Industry Overview

Last 2 year tyre makers faced headwinds, the worst is behind now, expect demand to accelerate in coming years

Growth momentum in rubber chemicals is dependent on tyre sector capex

Growth in the tyre industry is generally dependent on pickup in consumer spending majorly on non-discretionary items, thereby leading to higher demand.

Over the last 12-18 months, increase in capacity coupled with demand slowdown has led to decline in industry's operating utilization level.

Tyre demand has witnessed a slowdown majorly from the OEM segment. Moreover, the Covid-19 pandemic has further hit demand for automobiles in FY21.

Radial tyre offering superior advantages compared to bias tyres led to shift towards radial tyres in the MHCV segment. This was also one of the reasons that drove higher capex.

We anticipate that the worst for auto and tyre sector is behind now. **The industry is recovering swiftly from the pandemic and increased economic activity in H2FY21 has set the industry on a growth path for FY22 and FY23.**

Exhibit 32: **Capex outlined by domestic tyre manufacturers** **(Fig in billion)**

Company	Capex	Comments
Apollo tyres	38	Greenfield capacity at Andhra plant with capacity to manufcature 15,000 passenger car tyre & 3,000 truck bus radial tyre per day
CEAT	18	Greenfield plant at Chennai, Further ramp up of Nagpur, Halol
MRF	45	The company announced to set up new facility in Gujarat of capex spend roughly around Rs45bn
TVS Srichakra	10	Upgradation and expansion Madurai & Pantnagar manufacturing plant of 2-3 wheeler tyres capacity by 25-30%.
Maxxis	30	Announced phase 1 expansion of Sanand plant to increase capacity by 40,000 units of 2 wheeler tyres per day
Continental	NA	Plans to raise truck tyre production capacity at the Modipuram plant in Uttar Pradesh over the next 12 months

Source: SMIFS Research

Capex aligned by tyre companies offers growth visibility for rubber chemical manufacturers

The combined capex of domestic tyre companies like MRF, Apollo, Ceat, JK Tyre, Goodyear and TVS Srichakra was ~Rs291bn over FY16-FY20. ***Going ahead, domestic tyre manufacturers have lined up capital expenditures of Rs150-200bn and global tyre manufacturers have lined up Rs500-550bn over the next 2-3 years.*** Tyre companies are not shying away from initiating capex considering increased demand, pickup in consumer spending, shift towards personal mobility & increase in per capita income.

A major chunk of this new investments is coming in faster-growing segments such as T&B and specialized tyres.

We believe the successful implementation of the scrappage policy would immensely benefit the tyre sector, particularly the T&B segment. Also, given the shorter replacement cycle for T&B tyres, fleet owners could scrap older vehicles. This will lead to the subsequent purchases of new vehicles which could potentially increase demand.

The other major growth driver is the new capex aligned by tyre companies and Anti-Dumping Duty on Chinese imports on T&B radial tyres.

Peer Comparison

Recent capacity expanion has led NOCIL to grab 3rd spot globally in terms of capacity

Global giant China Sunshine is in expansion mode for rubber anti-oxidants

Way ahead of its peers

NOCIL commands 40-45% of the domestic market share while imports capture another 45-50% and remaining demand is catered by other domestic players relatively small in size.

Other domestic players in rubber chemicals are Merchem, Lanxess, PMC Rubber, Yasho industries etc. However, these players are relatively very small in capacity and many are also involved in repacking the imports from China to domestic tyre players.

We believe NOCIL direct peer would be China Sunshine Chemical Holdings (CSCH) Ltd which is the largest player globally for rubber accelerator and second largest for anti-oxidants.

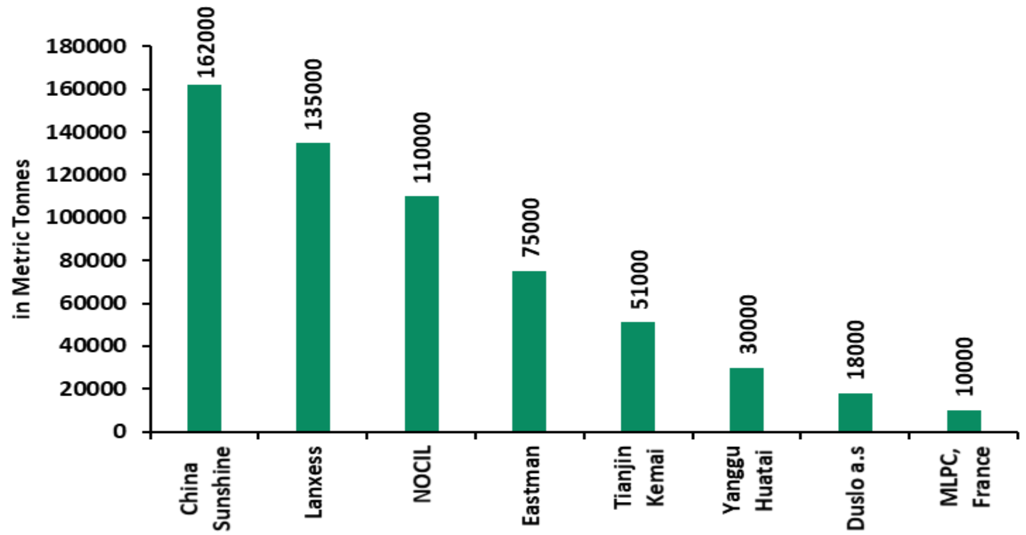
CSCH has 1,17,000 MTPA capacity for accelerator and 45,000 MTPA for anti-oxidants. China sunshine holdings plans to further strengthen in anti-oxidant segment and is undergoing an expansion of 30,000 TPA for anti-oxidant TMQ.

NOCIL EBITDA and PAT growth has outperformed CSCH over FY16-20. This indicates NOCIL's cost effectiveness in terms of backward integration at Dahej, focus on R&D, reduction in cost overheads etc. leading to outperformance in margins as compared to the global giant.

With global tyre majors looking to reduce their exposure towards China along with recently doubling of capacity by NOCIL we expect stronger visibility and market share gains.

NOCIL stands 3rd in the globe in terms of capacity of rubber chemicals. CSCH is the largest in rubber accelerators.

Exhibit 33: **NOCIL is 3rd largest player globally in rubber chemicals**



Source: SMIFS Research

Despite having large capacity of rubber chemicals by CSCH, value addition and margin profile related comparison with NOCIL indicates that NOCIL's operating cost is by far less, margins are at premium and growth has outperformed CSCH.

Key Risks

General economy slowdown

The company's **business performance is linked with performance of the GDP**. A slowdown in GDP might impact the company's revenues and profitability.

Aggressive pricing by Chinese competitors

In order to push volumes in the Indian market, **Chinese players may go for aggressive pricing and might offer heavy discounts to end user industries.**

This can disrupt the Indian rubber chemicals market and might force companies like NOCIL to lower their selling prices thereby impacting revenue, margins and profits.

Slow growth in tyre industry to impact rubber chemical manufacturers

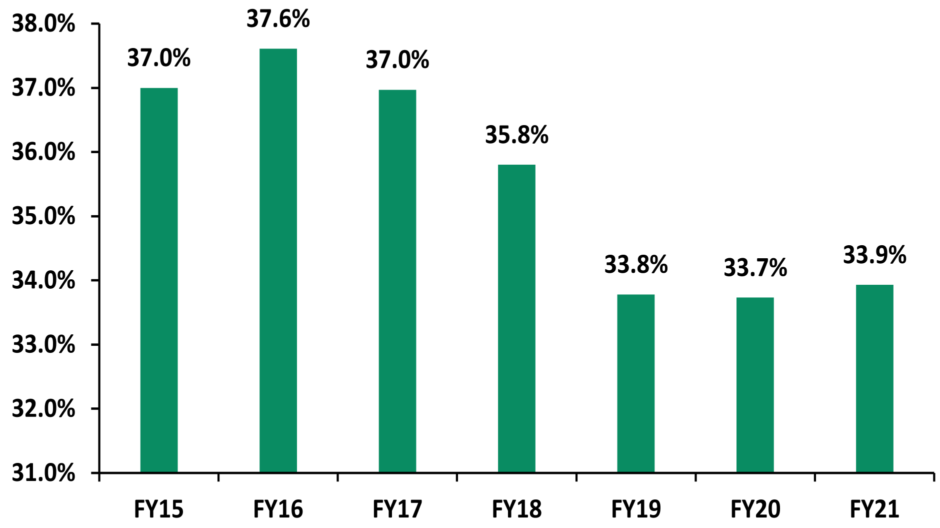
The rubber chemical industry is directly dependent on tyre and consumption. Any decline or **demand impact on tyre and rubber industry will lead to slow pick up in utilization**, thereby, hurting the revenues and profitability of the rubber chemical manufacturers.

Corporate Governance

Shareholding Pattern

The promoters currently hold ~33.45% of the equity capital. Hrishikesh Mafatlal holds the highest equity capital (18.25%) in the company. The details of the shareholding and its movement are indicated in the following table and chart:

Exhibit 34: **Shareholding Pattern trend**



Source: SMIFS Research

The decline in promoter shareholding during 2019 is due to selling of shares by Navin Fluorine International and subsequent re-classification and effective 18th September 2018 & due to ESOP grants. Navin Fluorine International has been re-classified from Promoter to Non-Promoter public category

Navin Fluorine International had 2.4% stake in promoter group on March 2017 and currently it is Nil.

Key Management Personnel

Name	Designation	Profile
Mr Hrishikesh Mafatlal	Executive Chairman	Mr. Hrishikesh Mafatlal has completed its B.Com (Hons) and has attended the Advanced Mangement Programme at the Harvard Business School, USA. He is a past President and now a Managing Committee Member of The Millowners' Association, Mumbai (MOA). He was a Member on the Board of Governors of IIM Ahmedabad for 12 years (1995 – 2007) and was Vice Chairman of The Cotton Textiles Export Promotion Council (TEXPROCIL).
Mr. S. R. Deo	Managing Director	Mr. S R Deo has been appointed on the Board as Managing Director w.e.f. 1st August, 2017. Mr. Deo is M. Tech. in Chemical Engineering from IIT Kanpur and is associated with NOCIL for nearly 40 years in various technical capacities and has made a significant contribution in these areas.
Mr. P Srinivasan	Chief Financial Officer	Mr. P Srinivasan is Chief Financial Officer and is associated with the company since 2005. By qualification he is a Chartered Accountant with over 31 years of experience.
Mr. Milind Shevte	Vice President - Marketing	Mr. Milind Shevte is associated with the company for obver 16 years. By qualification he has done B.E Chemical Engineering.
Dr. Chinmoy Nandi	Vice President (Research & Development)	Dr. Chinmoy Nandi is associated with the company for nearly 35 years in various R&D capacities. By qualification he has done Post Graduate & Ph.D. in Science.
Dr. Narendra Nangwal	Vice President (QA, Analytical and Outsourced Research)	Dr. Narendra Nangwal is associated with the company since 2007. By qualification he has done his Ph.D. in Analytical Chemistry. He has cumulative 27 years of experience.

Source: Company Presentation, SMIFS Research

What is NOCIL all about?

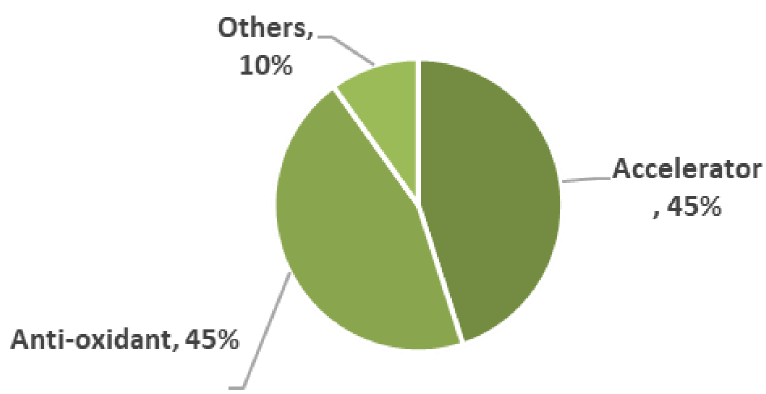
Incorporated in 1975, NOCIL is part of Arvind Mafatlal Group and is the largest manufacturer of rubber chemicals in India. The company has expertise in rubber chemical over 4 decades.

The manufacturing facilities are located in Navi Mumbai and Dahej with a cumulative capacity of 1,10,000 MTPA (including intermediates) post recent expansion.

As per our estimates, the revenue model is divided into Accelerator(45%), Anti-oxidant(45%), Pre/ Post vulcanization inhibitor/stabilizer(10%), Zinc based applications etc.

The company has presence in over 40 countries and enjoys long term standing relationships with the tyre majors. It possess strong technical expertise and a diversified product range.

Exhibit 35: **Revenue breakup (FY21)**



Source: SMIFS Research

The company's 65-70% off take is consumed by tyre manufacturers and rest by non-tyre sectors like latex, cycle tyres, surgical gloves, footwear etc.

The key clientele are MRF, Bridgstone, JK Tyres, CEAT, Michelin, Apollo Tyres, TVS Tyres and BKT etc.

Exhibit 36: **Key clientele**

Source: SMIFS Research

Diversified product portfolio leading to strong visibility in end user market

The company is present in the entire range of rubber chemicals viz. Accelerators, Anti-oxidants, Pre and post vulcanization inhibitor etc.

The company has an overall basket of 23 products in the portfolio.

With 23 products, NOCIL manufacturers almost all types of rubber chemical which is used as a raw material for tyre and non tyre players.

Exhibit 37: **Segment wise , brand wise product application details**

Product	Applications	Brands	% of Revenues
Accelerator	It is used to increase the speed of vulcanization. With accelerators, the vulcanization of rubber can be easily done in 1-2 hour as compared to normal 5-6 hour process.	PILCURE MBTS, PILCURE ZMBT, PILCURE F, PILCURE CBS, PILCURE MOR, PILCURE MBT, PILCURE TMT, PILCURE NS, PILCURE ZDBC, PILCURE SDBC, PILCURE ZDC, PILCURE ZBZDC	45-50%
Anti-degradants	An anti-degradant, or deterioration inhibitor is an ingredient in rubber compounds used to deter the aging of rubber products.	PILFLEX 13	45-50%
Antioxidant	Anti-oxidants inhibits the oxidation process and also used as a stabilizer	PILNOX TDQ, PILNOX SP etc	
Pre Vulcanization Inhibitor	Retarders or pre-vulcanization inhibitors are often compounds that readily react with the accelerators and only slowly release them.	PILGARD PVI	10%
Post Vulcanization Stabilizer	Post vulcanization inhibitors is oftenly used for thermal stability in the rubber compounds	PILCURE DHTS	

Source: SMIFS Research

Tyre manufacturers work with companies like NOCIL which can supply them in time and have wide range of rubber chemicals to suit their needs.

The company has good range in **Accelerator** with different types of **PILCURE brand** whereas in **anti-degradants** the company has only one brand **PILFLEX 13** and in **anti-degradants** the company has **PILNOX**.

In Pre/Post vulcanization inhibitor/stabilizer the company has PILGARD PVI and PILCURE DHTS brand.

The company has a diversified product range in rubber chemicals which makes it a ***"one shop stop".***

Valuation & Recommendation

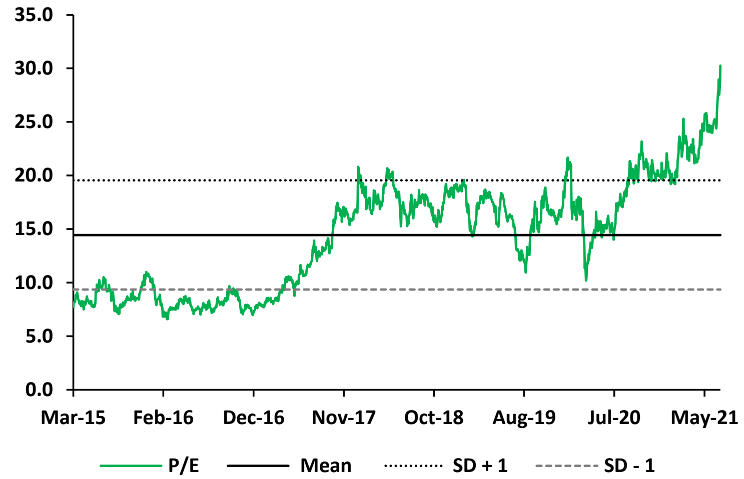
Valuation and Recommendations

Considering the market leadership in rubber chemicals, backward integrated, focus on specialized products and doubling of capacity, we believe NOCIL will gain strong foothold in the global rubber chemical space going ahead.

The stock is currently trading at 22 P/E and 13.6x EV/EBITDA.

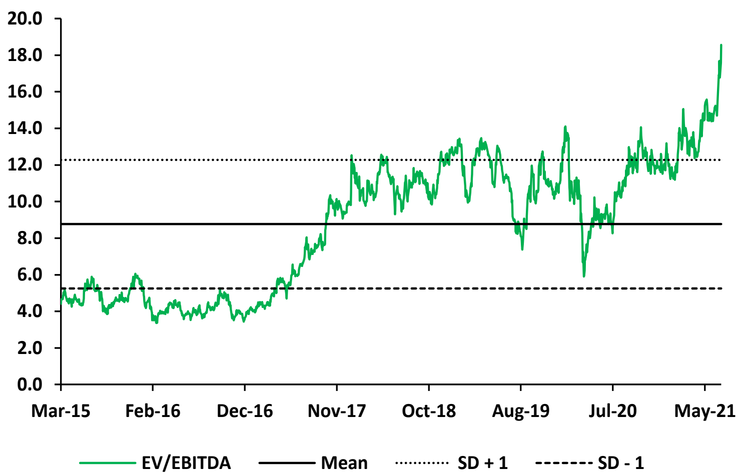
We value the stock based on EV/EBITDA methodology and assign multiple of 16x on FY23E EBITDA of Rs2785mn and arrive at a target price of Rs 290 per share, which is an upside of 16% from current market price and recommend "BUY" on the stock

Exhibit 38: **1 Year forward P/E**



Source: SMIFS Research

Exhibit 39: **1 Year Forward EV/EBITDA**



Source: SMIFS Research

Quarterly Financials, Operating Metrics & Key Performance Indicators

Quarterly Financials								
Y/E March (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Net Sales	**2296**	**2097**	**1943**	**2127**	**1065**	**2216**	**2746**	**3220**
Raw Materials	1002	887	927	1063	546	1151	1552	1798
Employee Costs	205	184	194	175	165	182	182	172
Other Expenditure	523	548	457	523	275	567	630	727
EBITDA	**566**	**485**	**366**	**366**	**80**	**317**	**381**	**523**
Depreciation	80	80	83	95	92	91	91	101
Interest	3	3	3	4	3	3	2	2
Other Income	26	21	14	31	107	10	14	23
PBT	**509**	**422**	**294**	**299**	**93**	**233**	**301**	**444**
Tax	180	-128	84	80	-26	65	78	71
Tax rate (%)	35	-	29	27	-	28	26	16
Reported PAT	**329**	**549**	**210**	**219**	**120**	**168**	**223**	**373**
Y-o-Y Growth (%)								
Revenue	-14.4	-22.9	-25.6	-12.0	-53.6	5.7	41.3	51.4
EBITDA	-29.6	-38.6	-49.9	-38.9	-85.9	-34.7	4.1	43.0
PAT	-35.6	3.9	-53.3	-39.6	-63.7	-69.4	6.3	70.7
Q-o-Q Growth (%)								
Revenue	-5.0	-8.7	-7.4	9.4	-49.9	108.0	23.9	17.3
EBITDA	-4.9	-14.3	-24.5	0.1	-78.2	296.9	20.3	37.4
PAT	-8.6	66.9	-61.8	4.2	-45.4	40.8	32.6	67.3
Margin (%)								
EBITDA	24.7	23.1	18.8	17.2	7.5	14.3	13.9	16.3
PAT	14.3	26.2	10.8	10.3	11.2	7.6	8.1	11.6

Source: SMIFS Research

Financial Details

Income Statement (Consolidated)					INR Mn
Particulars (Y/E December)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Net Revenue	**10,429**	**8,463**	**9,247**	**11,456**	**13,685**
Growth% YoY	*7.8%*	*-18.9%*	*9.3%*	*23.9%*	*19.5%*
COGS	4,668	3,878	5,046	5,795	6,741
Gross Profit	**5,761**	**4,585**	**4,200**	**5,661**	**6,944**
Gross Profit Margin%	*55.2%*	*54.2%*	*45.4%*	*49.4%*	*50.7%*
SG&A	2,834	2,802	2,892	3,626	4,159
EBITDA	**2,927**	**1,782**	**1,308**	**2,035**	**2,785**
Growth% YoY	*10.3%*	*-39.1%*	*-26.6%*	*55.6%*	*36.9%*
EBITDA Margin%	*28.1%*	*21.1%*	*14.1%*	*17.8%*	*20.4%*
Depreciation & Amortisation	243	337	374	483	495
Other Income	100	92	147	159	170
EBIT	**2,784**	**1,537**	**1,081**	**1,711**	**2,460**
Interest Cost	6	13	10	5	5
PBT	**2,777**	**1,523**	**1,071**	**1,706**	**2,455**
PBT Margin%	*26.6%*	*18.0%*	*11.6%*	*14.9%*	*17.9%*
Tax Expenses	929	217	187	401	577
Tax Rate%	*33.4%*	*14.2%*	*17.5%*	*23.5%*	*23.5%*
Net Profit	**1,849**	**1,307**	**884**	**1,305**	**1,878**
Growth% YoY	*8.8%*	*-29.3%*	*-32.3%*	*47.6%*	*43.9%*
Margin%	*17.7%*	*15.4%*	*9.6%*	*11.4%*	*13.7%*

Balance Sheet (Consolidated)					INR Mn
Particulars (Y/E December)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Share Capital	1,654	1,656	1,662	1,662	1,662
Reserves & Surplus	9,976	10,196	11,185	12,075	13,454
Networth	**11,630**	**11,852**	**12,847**	**13,737**	**15,116**
Total Borrowings	**-**	**69**	**39**	**57**	**52**
Other non-current liabilities	1,244	1,095	1,156	1,417	1,671
Trade payables	983	896	1,703	1,826	1,847
Other Current Liabilities	565	510	401	371	354
Total Equity & Liabilities	**14,423**	**14,422**	**16,146**	**17,407**	**19,041**
Net Block+CWIP	**7,855**	**9,520**	**9,301**	**9,076**	**8,846**
Intangible assets	28	17	16	16	16
Other non-current assets	701	629	602	703	767
Investments	1,045	304	435	1,054	1,054
Inventories	1,707	1,364	1,657	1,985	2,309
Trade Receivables	2,322	2,032	3,086	2,668	3,187
Cash and Cash Equivalents	424	138	804	1,440	2,360
Other Current assets	340	417	246	466	503
Total Current Assets	**4,793**	**3,952**	**5,792**	**6,558**	**8,358**
Total Assets	**14,423**	**14,422**	**16,146**	**17,407**	**19,041**

Source: SMIFS Research

Financial Details

Cash Flow Statement (Consolidated)					INR Mn
Particulars (Y/E December)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
PBT	**2,777**	**1,523**	**1,071**	**1,706**	**2,455**
Depreciation & Amortisation	243	337	374	483	495
Interest expense	6	13	10	5	5
Operating profit before working capital changes	2,941	1,785	1,321	2,194	2,955
Changes in working capital	-420	523	-382	140	-674
Taxes Paid	-881	-513	-4	-401	-577
Others	-	-	-	-	-
Cash Flow from Operating Activities	**1,641**	**1,794**	**936**	**1,933**	**1,703**
Capital Expenditure	-3,336	-2,383	-1,363	-258	-264
Other Investments	2,272	1,275	726	-637	-11
Interest & Dividend Received	57	43	16	-	-
Cash Flow from Investing Activities	**-1,007**	**-1,065**	**-621**	**-895**	**-276**
Net issuance of equity	51	-21	14	-	-
Net borrowings	-50	-	-	19	-5
Dividend paid (including tax)	-496	-982	-7	-416	-499
Interest expense	-7	-4	-4	-5	-5
Cash Flow from Financing Activities	**-502**	**-1,008**	**3**	**-402**	**-508**
Net change in cash	**131**	**-278**	**317**	**636**	**919**
Opening cash balance	239	372	131	449	1,085
Cash of acquired subsidiary	-	-	-	-	-
Closing Cash Balance	**370**	**94**	**449**	**1,085**	**2,004**

Source: SMIFS Research

Financial Details

Key Ratios (Consolidated)					
Particulars (Y/E December)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Per Share Data (In Rs)					
EPS	11.2	7.9	5.3	7.9	11.3
BVPS	70.3	71.6	77.3	82.6	90.9
CFS	9.9	10.8	5.6	11.6	10.2
DPS	2.5	2.5	2.0	2.5	3.0
Valuation Ratios (x)					
P/E	15.1	13.4	46.9	31.8	22.1
P/BV	2.4	1.5	3.2	3.0	2.7
EV/ EBITDA	9.0	9.5	30.7	19.1	13.6
P/CFS	17.0	9.8	44.4	21.5	24.4
Profitability Ratios (%)					
RoE	16.7%	11.1%	7.2%	9.8%	13.0%
RoCE	16.7%	11.2%	7.2%	9.8%	13.0%
RoA	12.8%	9.1%	5.5%	7.5%	9.9%
Liquidity Ratios					
Current Ratio	3.8	3.0	3.0	3.5	4.3
Quick Ratio	2.7	2.1	2.2	2.6	3.2
Solvency Ratio (x)					
Debt/Equity	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	0.0	0.0	-0.1	-0.1	-0.2
Interest Coverage Ratio	442	116	111	343	541
Working Capital Days					
Inventory Days	133	128	120	125	125
Debtors days	81	88	122	85	85
Creditors Days	77	84	123	115	100
Cash Conversion period	138	132	118	95	110
Turnover Ratios (x)					
Inventory Turnover	2.7	2.8	3.0	2.9	2.9
Debtors Turnover	4.5	4.2	3.0	4.3	4.3
Creditors Turnover	4.7	4.3	3.0	3.2	3.7
Working Capital Turnover	2.5	2.7	3.1	4.0	3.6
Asset Turnover	0.8	0.6	0.6	0.7	0.8
Fixed Asset Turnover	1.8	1.2	1.1	1.3	1.5

Source: SMIFS Research

Analyst Certification:

We /I, the above-mentioned, Research Analyst(s) of SMIFS Limited (in short "SMIFS / the Company"), authors and the names subscribed to this Research Report, hereby certify that all of the views expressed in this Research Report accurately reflect our views about the subject issuer(s) or securities and distributed as per SEBI (Research Analysts) Regulations 2014. 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 Research Report. It is also confirmed that We/I, the above mentioned Research Analyst(s) of this Research Report have not received any compensation from the subject companies mentioned in the Research Report in the preceding twelve months and do not serve as an officer, director or employee of the subject companies mentioned in the Research Report.

Terms & Conditions and Other Disclosures:

SMIFS Limited is engaged in the business of Stock Broking, Depository Services, Portfolio Management and Distribution of Financial Products. SMIFS Limited is registered as Research Analyst Entity with Securities & Exchange Board of India (SEBI) with Registration Number – INH300001474.

SMIFS and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Research Analysts. SMIFS 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 Research Report have been prepared by SMIFS and are subject to change without any notice. The Research 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 SMIFS Limited. While we would endeavor to update the information herein on a reasonable basis, SMIFS is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent SMIFS 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 policies of SMIFS, in circumstances where SMIFS might be acting in an advisory capacity to this company, or in certain other circumstances.

This Research 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 Research 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. Securities as defined in clause (h) of section 2 of the Securities Contract Act, 1956, includes Financial Instruments, Currency and Commodity Derivatives. Though disseminated to all the customers simultaneously, not all customers may receive this Research Report at the same time. SMIFS will not treat recipients as customers by virtue of their receiving this Research Report. Nothing in this Research 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 Research 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. SMIFS accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this Research 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. The information given in this report is as of date of this report and there can be no assurance that future results or events will be consistent with this information. The information provided in this report remains, unless otherwise stated, the copyright of SMIFS. All layout, design, original artwork, concepts and intellectual Properties remains the property and copyright of SMIFS and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the SMIFS.

SMIFS shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, breakdown of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of SMIFS to present the data. In no event shall SMIFS be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the SMIFS through this report.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (a) Exchange Rates can be volatile and are subject to large fluctuations; (b) the value of currencies may be affected by numerous market factors, including world and notional economic, political and regulatory events, events in Equity & Debt Markets and changes in interest rates; and (c) Currencies may be subject to devaluation or government imposed Exchange Controls which could affect the value of the Currency. Investors in securities such as Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Since associates of SMIFS 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 Research Report.

SMIFS and its Associates, Officers, Directors, Employees, Research Analysts including their relatives worldwide may: (i) from time to may have long or short positions in, and buy or sell the Securities, mentioned herein or (ii) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the Financial Instruments of the Subject Company/ companies mentioned herein or act as an Advisor or Lender/Borrower to such Companies or have other potential/material Conflict of Interest with respect to any recommendation and related information and opinions at the time of the publication of the Research Report. Or at the time of Public Appearance. SMIFS does not have proprietary trades but mat at a future date, may opt for the same with prior intimation to Clients/ Investors and extant Authorities where it may have proprietary long/short position in the above Scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider Risk Appetite or Investment Objective of any particular Investor; Clients/ Readers/ Subscribers of this Research Report are requested to take independent professional advice before investing. The information provided herein should not be construed as invitation or solicitation to do business with SMIFS.

SMIFS 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 Research Report as of the last day of the month preceding the publication of the Research Report.

SMIFS encourages independence in Research Report preparation and strives to minimize conflict in preparation of Research Report. Accordingly, neither SMIFS and their Associates nor the Research Analysts and their relatives have any material conflict of interest at the time of publication of this Research Report or at the time of the Public Appearance, if any.

SMIFS 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.

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

SMIFS or its associates might have received any compensation for products or services other than investment banking or brokerage services from the subject companies mentioned in the Research Report in the past twelve months.

SMIFS or its associates or its Research Analysts did not receive any compensation or other benefits whatsoever from the subject companies mentioned in the Research Report or third party in connection with preparation of the Research Report.

Compensation of Research Analysts is not based on any specific Investment Banking or Brokerage Service Transactions.

The Research Analysts might have served as an officer, director or employee of the subject company.

Neither the Research Analysts nor SMIFS have been engaged in market making activity for the companies mentioned in the Research Report.

SMIFS may have issued other Research Reports that are inconsistent with and reach different conclusion from the information presented in this Research Report.

A graph of daily closing prices of the securities/commodities is also available at www.nseindia.com and/or www.bseindia.com, www.mcxindia.com and/or www.icex.com.

SMIFS submit' s that no material disciplinary action has been taken on the Company by any Regulatory Authority impacting Equity Research Analysis activities in last 3 years.

This Research 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 SMIFS 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.

Analyst holding in stock: **NO**

Key to SMIFS Investment Rankings

Strong Buy: Upside by >20%, Buy: Upside by >12 to 20%, Accumulate: Upside by >6% to 12%, Hold: Upside by >0% to 6%, Sell: Any Downside

Contact us:

SMIFS Limited. (https://www.smifs.com/)

Compliance Officer: Sudipto Datta

5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: (D) +91 33 4011 5414, (D) +91 33 6634 5414

Email Id.: compliance@smifs.com

Mumbai Office: 5G Court Chambers, 35 New Marine Lines, Mumbai 400 021, India

Contact No: (D) +91 22 4200 5508, (B) +91 22 4200 5500

Email Id: corporate@smifs.com

Kolkata Office: 5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No: (B) +91 33 6634 5408, (D) +91 33 4011 5400

Email Id: smifs.institutional@smifs.com