

NOCIL Ltd.

Q3 below expectations, Near-term pains are visible

NOCIL reported a weaker show on all fronts during Q3FY23. Revenue de-grew by ~16% both YoY and QoQ because of lower volumes & lower realization. Domestic market volumes were impacted because of higher inventory & weak demand from replacement segment. Export volumes remained flattish on sequential basis. Despite revenue decline of 16% QoQ, EBITDA declined by 39.4% QoQ owing to higher employee and other expenses which impacted the EBITDA spreads in Q3FY23. We anticipate pickup in volumes from the coming quarters but increased competition from imports could be a near term concern which could impact its EBITDA spreads for the near term. Although, the long-term growth story remains positive for NOCIL, owing to tyre players expanding capacity which leads to increased usage of rubber chemicals, still competitive intensity is set to increase with competitors ramping up capacity (For instance, China Sunshine recently completed 30,000 TPA anti-oxidant capacity addition & planning another 20,000 TPA accelerator capacity addition by end of 2023) could spoil the party for NOCIL. Considering the demand pain in the domestic replacement market & poor product mix (generally value-added portfolio is ~25% of overall volumes majorly catering to exports market, current scenario of lower export sales leading to decline of value added portfolio & thereby, leading to poor product mix). Considering near-term pains, we downgrade stock to ACCUMULATE from earlier BUY rating.

Operating margin contracted sequentially, weak demand led to lower performance

- The company's EBITDA or operating margin contracted by 151bps YoY & 439bps QoQ to 11.5% in Q3FY23. This is largely due lower gross margins and increased employee and other expenses.
- EBITDA spreads reported decline of 6.7% YoY & 34% QoQ to Rs 34.3 per kg in Q3FY23, which is lower than the average range of last 10 years, majorly led by lower volumes offtake and poor product mix. Considering the improved mix towards specialized/higher value added products and rising exports share over the last few years, we feel the current spreads (reported in Q3FY23) should improve over the next 2-3 years.
- Accordingly, we model in EBITDA spreads of Rs 48.6 & Rs 48.1 per kg for FY24E & FY25E respectively.
- Since, company works on a competitive pricing model, wherein increase/decrease in input cost would be passed on subject to similar approach adopted by competitors in the market. For the coming quarter, one of the major raw material viz. Aniline prices has witnessed steep decline in prices and will remain volatile due to which the company to adopt similar approach in their product basket.

Sequentially volumes contracted steeply, gloomy demand outlook remains a pain in near term

- In Q3FY23, volume contracted by 20.7% YoY & 7.5% QoQ majorly because of lower volume offtake in the domestic market, though exports market remained flattish sequentially. However, uncertainty of demand in both domestic and exports market led by weakness in replacement segment and higher channel inventory of tyre players remains a big cause of concern. We anticipate demand weakness might continue along with increase in imports could spoil the party for NOCIL in the short term for the coming quarters.
- We expect the company expanded capacity of 55,000 TPA is likely to reach optimum utilization levels by FY24E & debottlenecking to support volume growth beyond FY24 for more than a year. On the back of this, we expect NOCIL to report volume CAGR growth of ~4.2% from FY22-25E.

Valuations

- We feel that demand weakness in replacement segment could impact domestic tyre market along with slowing export market might remain an overhang in the near term.
- Considering pressure on spreads, we have cut down our earnings estimates by 20%-25% for coming years.
- We value the stock using EV/EBITDA multiple and arrive at target price of 223 per share (assigning ~11.5x EV/EBITDA to FY25E projections) which indicates upside of 5.0% from current level. Hence, we downgrade to ACCUMULATE rating from earlier BUY rating on the stock.

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23E	Var(%)
Revenue	3,257	3,889	-16.2%	3,892	-16.3%	3,772	-13.6%
Operating cost	2,881	3,382	-14.8%	3,272	-11.9%		
EBITDA	376	508	-26.0%	620	-39.4%	538	-30.2%
EBITDA margin (%)	11.5%	13.0%	(151) bps	15.9%	(439) bps	14.3%	(273) bps
Depreciation	142	108	31.0%	140	1.6%		
Interest	3	3	10.7%	3	-8.8%		
Other Income	22	5	351.0%	9	157.0%		
Exceptional Items	0	0	NA	0	NA		
PBT	253	401	-36.9%	486	-47.9%		
Taxes paid	67	104	-35.4%	128	-47.9%		
Reported PAT	186	298	-37.5%	357	-47.9%	321	-41.9%

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	9,247	9.3	1,308	14.1	884	-32.3	5.3	7.2	7.2	23.8	15.2
FY22	15,713	69.9	2,862	18.2	1,761	99.2	10.6	12.9	12.9	22.5	13.8
FY23E	15,825	0.7	2,394	15.1	1,406	-20.1	8.4	9.5	9.5	27.2	15.6
FY24E	16,263	2.8	2,681	16.5	1,613	14.7	9.7	10.3	10.3	23.8	13.6
FY25E	16,780	3.2	2,905	17.3	1,771	9.8	10.6	10.6	10.6	21.6	12.2

Source: Company, SMIFS Research Estimates



Rating: ACCUMULATE

Upside: 5%

Current Price: 212

Target Price: 223

| Earlier Recommendation

Previous Rating:	BUY
Previous Target Price:	273

| Market data

Bloomberg:	NOCIL: IN
52-week H/L (Rs):	295/191
Mcap (Rs bn/USD bn):	35.5/0.44
Shares outstanding (mn):	166.6
Free float:	56.1%
Daily vol. (3M Avg.):	2.3mn
Face Value (Rs):	10
Group:	NIFTY 500

Source: Bloomberg, SMIFS Research

| Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	33.8	33.8	33.8	33.8
FIIIs	5.3	4.5	2.9	2.5
DIIIs	4.8	5.1	4.9	4.3
Public/others	56.1	56.6	58.4	59.4

Source: BSE

| Price performance (%)*

	1M	3M	12M	36M
NIFTY 50	-1.0	-3.2	2.3	46.0
NIFTY 500	-2.9	-4.8	0.1	48.8
NOCIL	-7.0	-8.3	-3.5	137

*as on 13th Feb 2023; Source: AceEquity, SMIFS Research

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Analyst Call Highlights

- **Demand outlook:** The demand of rubber chemical in the exports market is weak considering the recent headwinds like inflationary pressure, geopolitical tensions & volatile oil prices. Also, domestic demand has started to weaken led by slowing replacement segment & higher inventory with tyre counterparts. Demand of rubber chemicals is expected to increase in the long term with subsequent pick up in auto, tyre sector and other allied sector which consumes rubber.
- **Sales volume:** The company reported volume decline of ~20.7% YoY & 7.5% QoQ in Q3FY23.
- **Realization commentary:** During the quarter realizations has declined by 9.3% QoQ. Decline in rubber chemical prices seems to be a pass on effect since raw material prices are also declining.
- Earlier, the management guided the expanded capacity would reach optimum utilization by September 2023, however citing the uncertain global environment management has dropped its guidance.
- **Tyre sector outlook:** The domestic OEM auto and tyre sector has witnessed robust performance and the long-term growth outlook is intact. Replacement demand which constitutes 60-70% of tyre sector has faced headwinds led by weak pickup in demand. Tyre players globally have lined up Rs550bn-600bn in creating additional capacities which bodes well for companies like NOCIL and other rubber chemical companies.
- **Strategy going ahead:** Management has clearly stated that they are focussing on improving market share on the back of increased volumes from the expanded capacity going ahead.
- Debottlenecking of capacities will be done in Dahej plant only for some product range which portray strong growth momentum. This capacity would be sufficient for another 1-1.5 years time frame to sustain volume growth momentum.

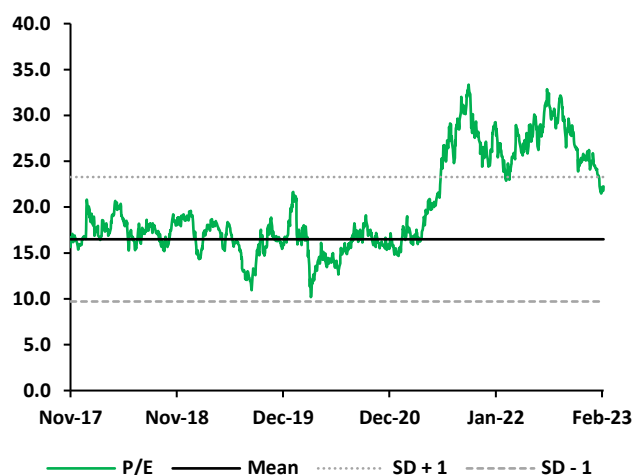
Valuation and Recommendations

We feel that demand weakness in replacement segment could impact domestic tyre market along with slowing export market might remain an overhang in the near term.

We value the stock using EV/EBITDA multiple and arrive at target price of 223 per share (assigning ~11.5x EV/EBITDA to FY25E projections) which indicates upside of 5% from current level.

Hence, we downgrade to ACCUMULATE rating from earlier BUY rating on the stock.

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS Research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS Research

Quarterly financials, operating metrics and key performance indicators

Fig 3: Quarterly Financials

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	3220	3445	3752	3889	4627	5089	3892	3257
Raw Materials	1798	1742	2231	2310	2312	2726	2057	1759
Employee Costs	172	217	195	194	194	240	213	214
Other Expenditure	727	752	823	878	1015	1090	1003	908
EBITDA	523	734	503	508	1105	1033	620	376
Depreciation	101	105	107	108	160	137	140	142
Interest	2	2	2	3	4	3	3	3
Other Income	23	11	14	5	11	4	9	22
PBT	444	638	408	401	952	897	486	253
Tax	71	164	108	104	268	232	128	67
Tax rate (%)	16	26	26	26	28	26	26	26
Reported PAT	373	474	300	298	685	665	357	186
YoY Growth (%)								
Revenue	51.4	223.4	69.3	41.6	43.7	47.7	3.8	-16.2
EBITDA	43.0	820.1	58.8	33.2	111.2	40.7	23.3	-26.0
PAT	70.7	296.7	78.3	33.5	83.4	40.2	19.1	-37.5
QoQ Growth (%)								
Revenue	17.3	7.0	8.9	3.7	19.0	10.0	-23.5	-16.3
EBITDA	37.4	40.3	-31.5	0.9	117.8	-6.6	-40.0	-39.4
Adj. PAT	67.3	27.0	-36.7	-0.7	129.8	-2.9	-46.3	-47.9
Margin (%)								
EBITDA	16.3	21.3	13.4	13.0	23.9	20.3	15.9	11.5
PAT	11.6	13.8	8.0	7.7	14.8	13.1	9.2	5.7
Gross	44.2	49.4	40.5	40.6	50.0	46.4	47.2	46.0
Employee cost as % of sales	5.3	6.3	5.2	5.0	4.2	4.7	5.5	6.6
Other expenses as % of sales	22.6	21.8	21.9	22.6	21.9	21.4	25.8	27.9
Operational Metrics								
Volumes (In KMT)	15.1	13.2	13.7	13.8	13.8	15.3	11.9	10.9
Realization per kg	213	261	274	282	335	333	328	298
Gross spreads per kg	94.2	129.0	111.0	114.4	167.8	154.5	154.8	136.9
EBITDA spreads per kg	34.7	55.6	36.7	36.8	80.1	67.5	52.3	34.3

Source: Company, SMIFS Research Estimates

Fig 4: Change in Estimates

	New Estimates			Old Estimates			Change(%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	15825	16263	16780	17099	17764	18632	-7%	-8%	-10%
EBITDA	2394	2681	2905	3085	3340	3654	-22%	-20%	-21%
EBITDA Margin	15.1%	16.5%	17.3%	18.0%	18.8%	19.6%	(291) bps	(232) bps	(230) bps
PAT	1406	1613	1771	1921	2104	2329	-27%	-23%	-24%
EPS (Rs)	8	10	11	12	13	14	-27%	-23%	-24%

Source: Company, SMIFS Research Estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenues	9,247	15,713	15,825	16,263	16,780
Raw Materials	5,046	8,593	8,616	8,973	9,082
% of sales	54.6	54.7	54.4	55.2	54.1
Employee	701	808	887	993	1,072
% of sales	7.6	5.1	5.6	6.1	6.4
Other Expenses	2,192	3,450	3,928	3,616	3,721
% of sales	23.7	22.0	24.8	22.2	22.2
EBITDA	1,308	2,862	2,394	2,681	2,905
Other Income	147	39	43	48	52
Depreciation & Amortization	374	483	538	554	570
EBIT	1,081	2,417	1,899	2,175	2,387
Finance cost	10	11	11	9	9
Core PBT	924	2,367	1,845	2,118	2,326
PBT	1,071	2,406	1,888	2,166	2,378
Tax-Total	187	645	482	553	607
Tax Rate (%) - Total	17.5	26.8	25.5	25.5	25.5
PAT	884	1,761	1,406	1,613	1,771

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
Growth Ratio (%)					
Revenue	9.3	69.9	0.7	2.8	3.2
EBITDA	-26.6	118.8	-16.3	12.0	8.4
PAT	-32.3	99.2	-20.1	14.7	9.8
Margin Ratios (%)					
Gross Profit	45.4	45.3	45.6	44.8	45.9
EBITDA	14.1	18.2	15.1	16.5	17.3
EBIT	11.7	15.4	12.0	13.4	14.2
Core PBT	10.0	15.1	11.7	13.0	13.9
PAT	9.6	11.2	8.9	9.9	10.6
Return Ratios (%)					
ROE	7.2	12.9	9.5	10.3	10.6
ROCE	7.2	12.9	9.5	10.3	10.6
Turnover Ratios (days)					
Gross block turn ratio (x)	0.8	1.3	1.2	1.2	1.8
Adj OCF / PAT (%)	104.7	-17.8	183.0	120.1	126.3
Inventory	120	141	140	140	140
Debtors	122	104	90	90	90
Creditors	123	91	90	85	85
Cash conversion cycle	119	154	140	145	145
Solvency Ratio (x)					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Net debt/equity	-0.1	0.0	-0.1	-0.1	-0.2
Gross debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Current Ratio	16.2	20.3	19.0	20.0	21.6
Interest coverage ratio	111	222	173	242	265
Dividend					
DPS	2.0	3.0	3.6	4.0	4.4
Dividend yield (%)	1.6	1.3	1.6	1.7	1.9
Dividend payout (%)	37.7	28.4	42.6	40.9	41.0
Per share (Rs)					
Basic EPS (reported)	5.3	10.6	8.4	9.7	10.6
Adjusted EPS	5.3	10.6	8.4	9.7	10.6
CEPS	7.6	13.5	11.7	13.0	14.1
BVPS	77.1	86.8	91.6	97.3	103.6
Valuation (x)					
Adj P/E	23.8	22.5	27.2	23.8	21.6
P/BV	1.6	2.7	2.5	2.4	2.2
EV/EBITDA	15.2	13.8	15.6	13.6	12.2
EV / Sales	2.1	2.5	2.4	2.2	2.1
Adj Mcap / Core PBT	21.4	16.6	20.2	17.2	15.2
Adj Mcap / Adj OCF	21.4	-125.5	14.5	18.8	15.8

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Source of funds					
Capital	1,662	1,666	1,666	1,666	1,666
Reserves & Surplus	11,185	12,786	13,593	14,546	15,592
Shareholders' Fund	12,847	14,452	15,259	16,212	17,258
Total Debt	56	55	47	41	37
Other Liabilities	1,156	1,232	1,255	1,306	1,357
Total Liabilities	14,060	15,739	16,561	17,559	18,652
Application of funds					
Gross Block	11,830	12,209	13,567	13,975	14,385
Net Block	9,172	9,090	9,902	9,748	9,578
Capital WIP	141	84	138	114	102
Investments	689	539	386	398	400
Other Non-Current Assets	352	329	334	351	369
Inventories	1,657	3,327	3,305	3,442	3,484
Sundry Debtors	3,086	4,498	3,902	4,010	4,138
Cash and bank balances	804	160	874	1,758	2,874
Other current assets	246	278	293	312	332
Total Current Assets	5,792	8,263	8,374	9,522	10,828
Sundry Creditors	1,701	2,151	2,124	2,090	2,115
Other current liabilities	385	415	449	484	511
Total Current Liabilities	2,086	2,566	2,573	2,573	2,626
Net Current Assets	3,706	5,697	5,801	6,949	8,202
Total Assets	14,060	15,739	16,561	17,559	18,652

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Operating profit before WC changes	1,321	2,855	2,437	2,728	2,957
Changes in working capital	-382	-2,560	630	-230	-104
Tax Paid	-4	-597	-482	-553	-607
Cash flow from operating activities	936	-302	2,585	1,946	2,246
Adj. OCF	926	-313	2,574	1,937	2,237
Capital expenditure	-1,363	-1,792	-1,405	-376	-389
Adj. FCF	-437	-2,105	1,169	1,561	1,848
Cash flow from investing activities	-621	312	-1,252	-387	-391
Debt	0	0	-8	-6	-4
Dividend	-7	-332	-600	-660	-726
Interest and lease	-4	-6	-11	-9	-9
Cash flow from financing activities	3	-336	-619	-675	-739
Net change in cash	317	-327	714	883	1,116

Source: Company, SMIFS Research Estimates

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