

## NOCIL Ltd.

### Greenshoots visible on exports, maintain ACCUMULATE

We visited the Dahej facility of NOCIL which manufactures rubber chemicals such as accelerators and anti-oxidants. Dahej plant has a production capacity for intermediates (for captive consumption) and finished products as rubber chemicals. Apart from Dahej, the company has 1 more manufacturing site in Navi Mumbai. Overall in terms of capacity (1,10,000 TPA), Dahej contributes 50% of capacity & remaining 50% capacity is in Navi Mumbai (intermediates plus finished products).

We were accompanied by Mr. S. R. Deo (MD & CEO), Mr. V.S.Anand (Deputy MD) and Mr. P. Srinivasan (CFO) during the plant visit.

#### Plant Visit Highlights:

NOCIL Dahej plant is built on 60 acres of land. The complete structure is built on RCC column which gives it durability and compatibility as compared to steel structure. The company has freehold land available of another 60 acres in Dahej plant which effectively means it can double its capacity at the same site. Although, the company has not yet started excavation, drilling works yet to increase its capacity.

Dahej plant manufactures majorly accelerators like PILCURE TBBS & CBS, sulphonamide, Anti-oxidant PX-13 & Anti-degradant PILNOX TDQ. The intermediate used for manufacturing of PILCURE TBBS & CBS is Sodium Nambt which is installed just adjacent to the accelerator plant. Also, the intermediate used for manufacturing of PX-13 which is 4-ADPA which is installed just adjacent to the anti-oxidant plant.

**Power and fuel cost set to come down going ahead:** Power and fuel cost is one the biggest variable cost in the other expenses. In order to reduce its dependence on other power sources, the company has in house installed 2 boilers and 1 turbine. The boiler has a capacity to produce 35-40 tons per hour of high pressurized steam. Along with the above, the company also has in house installed solar generator of 800KW. As per management this captive suffice ~25% of the total power requirement of the company. As company expands further, the company would be taking up new initiatives of increasing solar power capacity which would reduce its dependence on coal and other fossil fuels.

**Effluent Treatment Plant:** Ten years back, the company has installed Effluent Treatment Plant (ETP). There are separate ETPs installed for accelerator and anti-oxidant. The average cost of installing ETP is around 50 cents/kg. The company maintains strict policy for zero discharge at every site. Management stated that new capacity is fully compliant on zero discharge front.

**Soil Bio-technology:** Soil Biotechnology (SBT) is an environment friendly waste processing technology that offers systems for processing of both solid organic wastes and wastewater treatment using bacteria, earthworms and mineral additives in a garden-like setup. Management said company also uses this technique but in a small scale only.

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	26.4	15.1
FY24E	16,263	2.8	2,681	16.5	1,613	14.7	9.7	10.3	10.3	23.0	13.2
FY25E	16,780	3.2	2,905	17.3	1,771	9.8	10.6	10.6	10.6	21.0	11.7

Source: Company, SMIFS Research Estimates



Rating: **ACCUMULATE** Upside: **6.5%**  
Current Price: **223** Target Price: **237**

#### | Earlier Recommendation

Previous Rating: **ACCUMULATE**  
Previous Target Price: **223**

#### | Market data

Bloomberg: NOCIL: IN  
52-week H/L (Rs): 295/196  
Mcap (Rs bn/USD bn): 37.1/0.45  
Shares outstanding (mn): 166.6  
Free float: 56.1%  
Daily vol. (3M Avg.): 2.2mn  
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
FII	5.3	4.5	2.9	2.5
DII	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	-2.5	-5.9	4.9	66.6
NIFTY 500	-2.2	-7.2	3.5	70.1
NOCIL	-5.3	-6.4	-4.4	155

\*as on 12<sup>th</sup> Mar 2023; Source: AceEquity, SMIFS Research

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**Electric Vehicle tyre are expected to be heavier than normal:** As per management, EV tyres are expected to be 15-25% heavier than normal tyres. This will increase the offtake of rubber chemicals. Since, acceleration rate in normal tyres is 5-7 seconds whereas in EV it is 0.5 seconds, hence an instant and high torque is required to start the vehicle which requires heavier tyres. However, as stated by the management currently there hasn't been any material traction towards EV tyres.

**USP of NOCIL:** Management stated that USP of NOCIL is its strong technological experience & ability to innovate new & existing products, strong R&D team, wide presence across product categories, focus on speciality segment, reliable & key supplier to all tyre majors across the globe.

**Exports market to improve in the near term:** Exports market have witnessed huge volatility in the last 6 months led by inventory de-stocking, weaker demand, china covid resurgence, European power crisis etc and NOCIL export volumes were also impacted. However, management has guided that export market has started improving and export volumes to improve going ahead.

#### **Valuation**

We feel that demand weakness in replacement segment could impact domestic tyre market which remains an overhang in the near term, however exports market have started to witness stronger rebound in volumes.

**We value the stock using EV/EBITDA multiple and arrive at target price of 237 per share (assigning ~12.5x EV/EBITDA to FY25E projections) which indicates upside of 6.5% from current level. Hence, we maintain ACCUMULATE rating on the stock.**

## Company Background

### 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).
- The revenue model is divided into Accelerator (45%), Anti-oxidant (45%), Pre/Post vulcanization inhibitor/stabilizer (10%), Zinc based applications etc.

**Fig 1: Manufacturing locations**



**Navi Mumbai Plant**

- Set up in 1976
- Located in Trans-Thane Creek industrial area at Navi Mumbai, Thane - Belapur's industrial zone designated for the chemical industry, about 40 kms away from Mumbai
- State-of-the-art technology for the manufacture of the entire range of Rubber Chemicals for Tyre & other Rubber Products

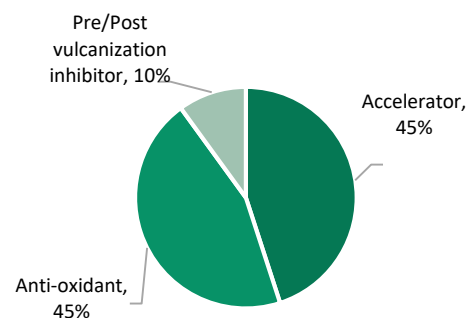


**Dahej Plant**

- Commenced operations in March 2013
- Located about 45 kms from Bharuch, Gujarat
- Location has synergistic Chemicals & Petrochemicals industry and excellent connectivity with Dahej & Hazira Port
- Fully automated continuous process plant developed completely with in-house technology

Source: Company Investor Presentation, EISEC Research

**Fig 2: Revenue breakup in % (FY19)**



Source: Company, EISEC Research

- The company has presence in over 40 countries and enjoys long term standing relationships with the tyre majors and it possess strong technical expertise and a diversified product range.
- The company's 65-70% offtake is consumed by tyre manufacturers and rest by non-tyre sectors like latex, cycle tyres, surgical gloves, footwear etc.
- The key clients are MRF, Bridgestone, JK Tyres, CEAT, Michelin, Apollo Tyres, TVS Tyres and BKT etc.

**Fig 3: Key Clientele**



Source: Company, EISEC Research

## Diversified product portfolio leading to strong visibility in end user market

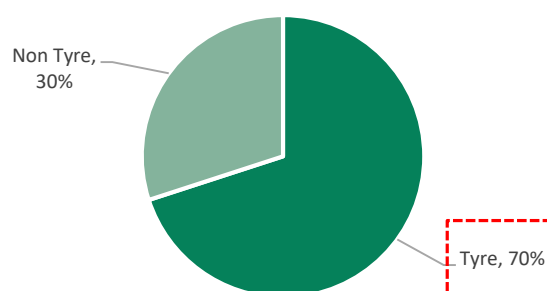
- The company is present in the entire range of rubber chemicals viz. Accelerators, Anti-oxidants, Pre and post vulcanization inhibitor etc.
- The company has an overall basket of 23 products in the portfolio.
- With 23 products, NOCIL manufacturers almost all types of rubber chemical which is used as a raw material for tyre and non tyre applications.
- Tyre manufacturers would love to work with companies like NOCIL which can supply them in time and have wide range of rubber chemicals to suit their needs.

**Fig 4: Diversified Product Portfolio**



Source: EISEC Research

**Fig 5: Tyre constitutes major end user of rubber chemicals**



Source: Company, EISEC Research

**Fig 6: Business Mix**

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	<u>An anti-degradant, or deterioration inhibitor is an ingredient in rubber compounds used to deter the aging of rubber products.</u>	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 often used for thermal stability in the rubber compounds	PILCURE DHTS	

Source: Company, EISEC Research

- 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”.

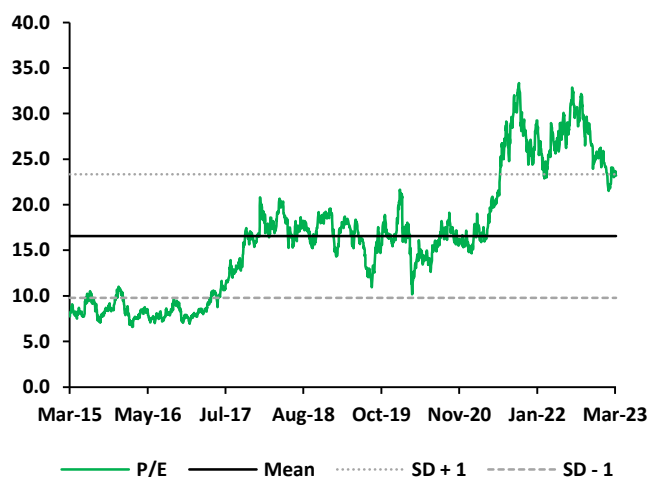
## Valuation and Recommendations

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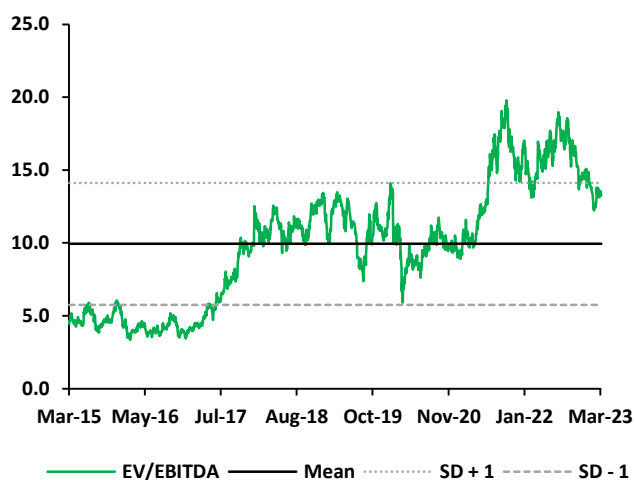
***Hence, we maintain ACCUMULATE rating on the stock.***

**Fig 7: 1-year forward P/E**



Source: AceEquity, SMIFS Research

**Fig 8: 1-year forward EV/EBITDA**



Source: AceEquity, SMIFS Research

## Quarterly financials, operating metrics and key performance indicators

**Fig 9: Quarterly Financials**

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Sales</b>	<b>3220</b>	<b>3445</b>	<b>3752</b>	<b>3889</b>	<b>4627</b>	<b>5089</b>	<b>3892</b>	<b>3257</b>
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
<b>EBITDA</b>	<b>523</b>	<b>734</b>	<b>503</b>	<b>508</b>	<b>1105</b>	<b>1033</b>	<b>620</b>	<b>376</b>
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
<b>PBT</b>	<b>444</b>	<b>638</b>	<b>408</b>	<b>401</b>	<b>952</b>	<b>897</b>	<b>486</b>	<b>253</b>
Tax	71	164	108	104	268	232	128	67
Tax rate (%)	16	26	26	26	28	26	26	26
<b>Reported PAT</b>	<b>373</b>	<b>474</b>	<b>300</b>	<b>298</b>	<b>685</b>	<b>665</b>	<b>357</b>	<b>186</b>
<b>YoY Growth (%)</b>								
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
<b>QoQ Growth (%)</b>								
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
<b>Margin (%)</b>								
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
<b>Operational Metrics</b>								
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 10: Change in Estimates**

	New Estimates			Old Estimates			Change(%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	15825	16263	16780	15825	16263	16780	0%	0%	0%
EBITDA	2394	2681	2905	2394	2681	2905	0%	0%	0%
EBITDA Margin	15.1%	16.5%	17.3%	15.1%	16.5%	17.3%	-	-	-
PAT	1406	1613	1771	1406	1613	1771	0%	0%	0%
EPS (Rs)	8	10	11	8	10	11	0%	0%	0%

Source: Company, SMIFS Research Estimates



## Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenues</b>	<b>9,247</b>	<b>15,713</b>	<b>15,825</b>	<b>16,263</b>	<b>16,780</b>
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
<b>EBITDA</b>	<b>1,308</b>	<b>2,862</b>	<b>2,394</b>	<b>2,681</b>	<b>2,905</b>
Other Income	147	39	43	48	52
Depreciation & Amortization	374	483	538	554	570
<b>EBIT</b>	<b>1,081</b>	<b>2,417</b>	<b>1,899</b>	<b>2,175</b>	<b>2,387</b>
Finance cost	10	11	11	9	9
<b>Core PBT</b>	<b>924</b>	<b>2,367</b>	<b>1,845</b>	<b>2,118</b>	<b>2,326</b>
<b>PBT</b>	<b>1,071</b>	<b>2,406</b>	<b>1,888</b>	<b>2,166</b>	<b>2,378</b>
Tax-Total	187	645	482	553	607
Tax Rate (%) - Total	17.5	26.8	25.5	25.5	25.5
<b>PAT</b>	<b>884</b>	<b>1,761</b>	<b>1,406</b>	<b>1,613</b>	<b>1,771</b>

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth Ratio (%)</b>					
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
<b>Margin Ratios (%)</b>					
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
<b>Return Ratios (%)</b>					
ROE	7.2	12.9	9.5	10.3	10.6
ROCE	7.2	12.9	9.5	10.3	10.6
<b>Turnover Ratios (days)</b>					
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
<b>Solvency Ratio (x)</b>					
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
<b>Dividend</b>					
DPS	2.0	3.0	3.6	4.0	4.4
Dividend yield (%)	1.6	1.3	1.6	1.8	2.0
Dividend payout (%)	37.7	28.4	42.6	40.9	41.0
<b>Per share (Rs)</b>					
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
<b>Valuation (x)</b>					
Adj P/E	23.8	22.5	26.4	23.0	21.0
P/BV	1.6	2.7	2.4	2.3	2.2
EV/EBITDA	15.2	13.8	15.1	13.2	11.7
EV / Sales	2.1	2.5	2.3	2.2	2.0
Adj Mcap / Core PBT	21.4	16.6	19.6	16.6	14.7
Adj Mcap / Adj OCF	21.4	-125.5	14.0	18.2	15.2

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Source of funds</b>					
Capital	1,662	1,666	1,666	1,666	1,666
Reserves & Surplus	11,185	12,786	13,593	14,546	15,592
<b>Shareholders' Fund</b>	<b>12,847</b>	<b>14,452</b>	<b>15,259</b>	<b>16,212</b>	<b>17,258</b>
Total Debt	56	55	47	41	37
Other Liabilities	1,156	1,232	1,255	1,306	1,357
<b>Total Liabilities</b>	<b>14,060</b>	<b>15,739</b>	<b>16,561</b>	<b>17,559</b>	<b>18,652</b>
<b>Application of funds</b>					
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
<b>Other Non-Current Assets</b>	<b>352</b>	<b>329</b>	<b>334</b>	<b>351</b>	<b>369</b>
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
<b>Total Current Assets</b>	<b>5,792</b>	<b>8,263</b>	<b>8,374</b>	<b>9,522</b>	<b>10,828</b>
Sundry Creditors	1,701	2,151	2,124	2,090	2,115
Other current liabilities	385	415	449	484	511
<b>Total Current Liabilities</b>	<b>2,086</b>	<b>2,566</b>	<b>2,573</b>	<b>2,573</b>	<b>2,626</b>
<b>Net Current Assets</b>	<b>3,706</b>	<b>5,697</b>	<b>5,801</b>	<b>6,949</b>	<b>8,202</b>
<b>Total Assets</b>	<b>14,060</b>	<b>15,739</b>	<b>16,561</b>	<b>17,559</b>	<b>18,652</b>

Source: Company, SMIFS Research Estimates

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

Source: Company, SMIFS Research Estimates

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