Dealmoney
World-Class Financial Services

NOCIL Limited

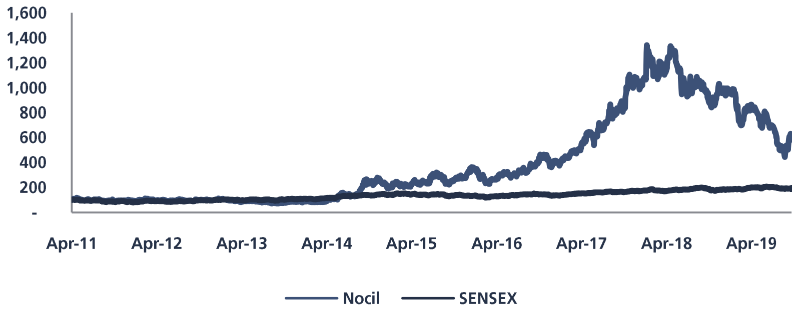
Initiating Coverage - BUY

Analyst
Rohitkumar Rai

25th September, 2019

CMP:113

Key Data	
NSE / BSE Code	NOCIL/ 500730
Sector	SPECIALTY CHEMICALS
Industry	SPECIALTY CHEMICALS
Face value / Book Value (₹ per share)	10 / 69.44
Dividend yield	25%
52 H/L (₹)	183/74
Market Cap. (₹ mn)	19,076.70
Shares Outstanding (mn)	165.5
2W Avg Traded Volume (in Lacs)	2.08



In Mn (Consolidated)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	8,183	9,893	10,429	11,055	11,751
EBITDA (Excl OI)	1,592	2,654	2,927	3,089	3,283
EBITDA Margin	19.5%	26.8%	28.1%	27.9%	27.9%
EPS	5.9	10.3	11.2	13.6	14.6
EV/EBITDA (x)	11.4	6.3	6.1	5.5	4.6
PE (x)	19.9	11.4	10.5	8.6	8.0
Current Ratio	3.1	3.8	3.5	4.3	5.2

(in %)	Jun-19	Dec-19	Mar-19	Jun-19
Promoter and Promoter Group	34.08	33.78	33.78	33.76
Institutions	10.71	11	9.34	8.69
Non-Institutions	55.21	55.23	56.88	57.55
Total of Promoter and Public Shareholding	100	100	100	100

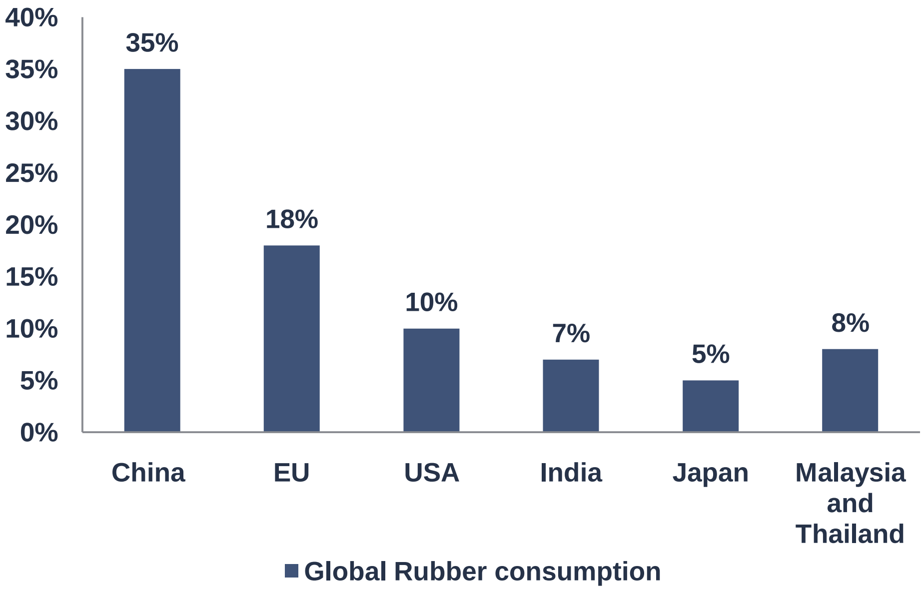
NOCIL is a leader in rubber chemical holding 40-45% domestic share…

- National Organic Chemical Industries is a largest manufacturer of rubber chemicals in India. The company is popularly known as NOCIL a part of Arvind Mafatlal Group and was incorporated in 1976. NOCIL's Product Range includes Accelerators, Antidegradants, Antioxidants, Sulfur Donor, Post Vulcanization Stabilizer and Pre Vulcanization Inhibitor. The company markets these products under the name PILFLex, PILnox, PILcure and PILGarD.
- The products it manufacturers caters majorly to tyre manufacturers and also to industrial rubber products, consumer rubber products and other segments of the rubber industry. The company has its presence in domestic as well as internationally markets with clientele like Michelle, Yokohama and many more. This shows that the company’s products are widely accepted and approved by the all players.
- With geographical presence, the company has 70% of the revenue coming from domestic and the rest from the exports. Around 60% of the rubber chemical is supplied to tyre companies.

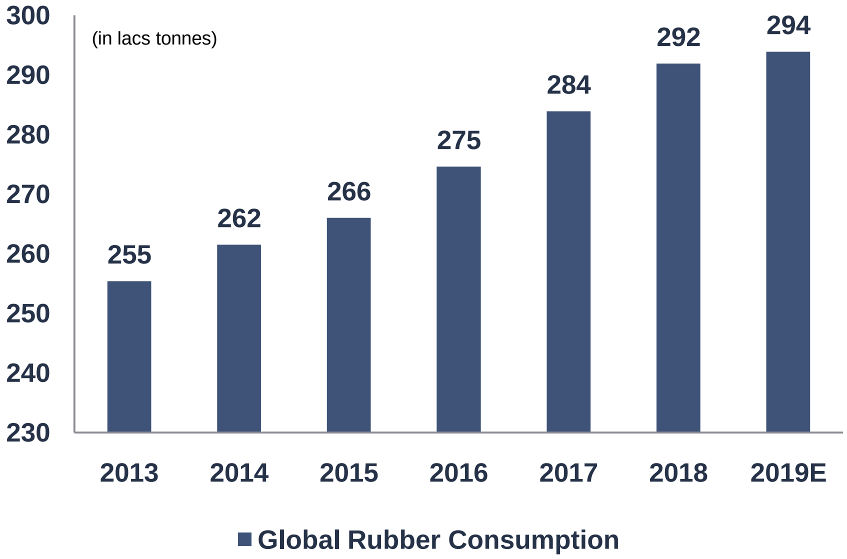
…

- In the past, shut down of facilities in China has disrupted supplies in the industry which created a advantageous playground for NOCIL as the customers who were completely dependent on Chinese suppliers are now looking non-chinese rubber chemical manufacturers as well for supply. This has scaled up demand for the rubber chemical and also on going capex is likely to be at optimum utilization.
- The company has 2 plants of total capacity of 55000 tonnes. It has one plant in Dahej which the capacity of 48000 tonnes and another plant in Navi-Mumbai with capacity of 12000 tonnes. During Q4FY18, the company had announced to double it capacity by 55000 tonnes.
- Since the NOCIL is rubber chemical manufacturer, it is more sensitive towards auto industry. Off-late, the auto industry has been facing the heat which has impacted the demand and falling of major input price has resulted in lower realization. The benezene is now in upward trajectory which will improve realization in coming quarter. ***We believe the current valuation is reasonable and recommend a buy with the target multiple of 12x FY20E with the price target of Rs.163, which leaves the potential upside of ~40%.***

Industry Overview:



Source: Company report



Source: Investor Presentation

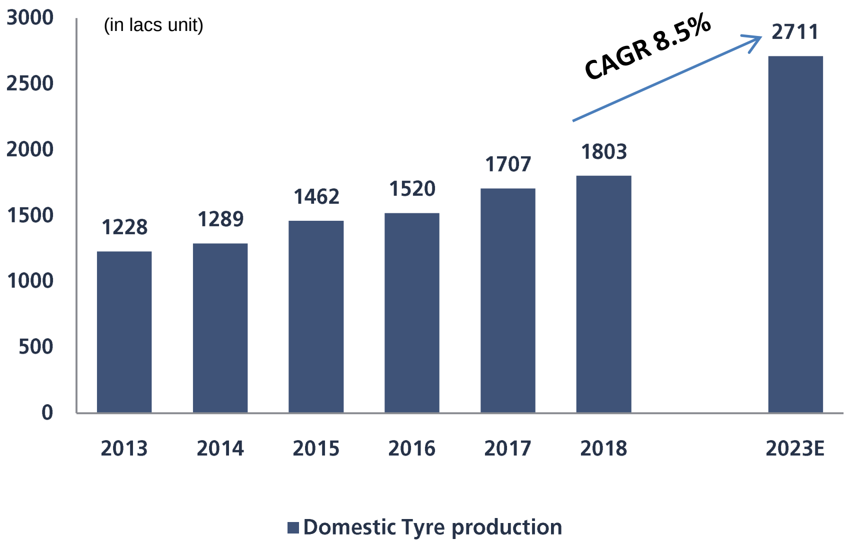
Industry Overview

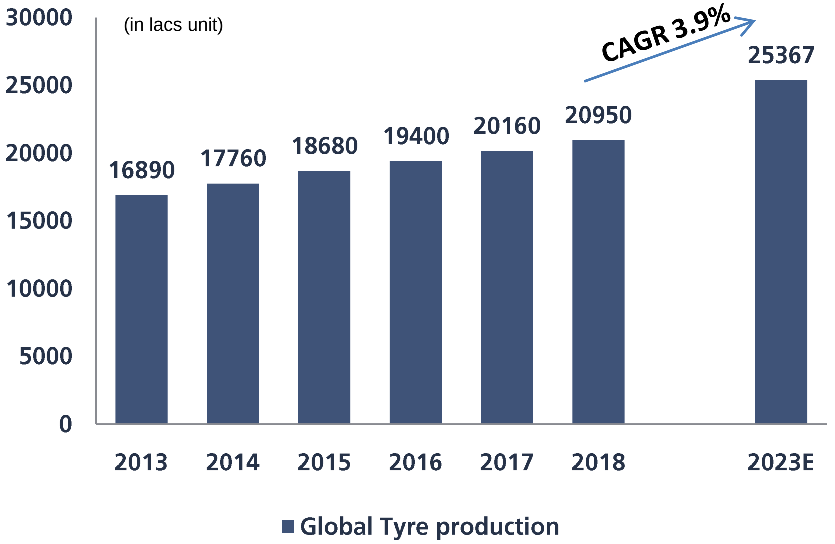
- India ranks 4th globally in the consumption ranking. Overall, we see that the rubber consumption is growing at a 3% CAGR from FY15-FY18

- Rubber Chemical constitutes ~4% of the rubber consumption. Every year ~30000 additional demand for rubber chemical is created.

- Most of the Rubber chemical raw material is crude linked. Aniline, Acetone, MIBK and Nitro benzene constitutes 65% of the raw material. Benzene is one such chemical which moves in tandem with the finished product in terms of pricing.

Tyre Industry dynamics:





Source: Media Report, Company Research, ICRA

Source: Media Report, Company Research, ICRA

Tyre Industry dynamics:

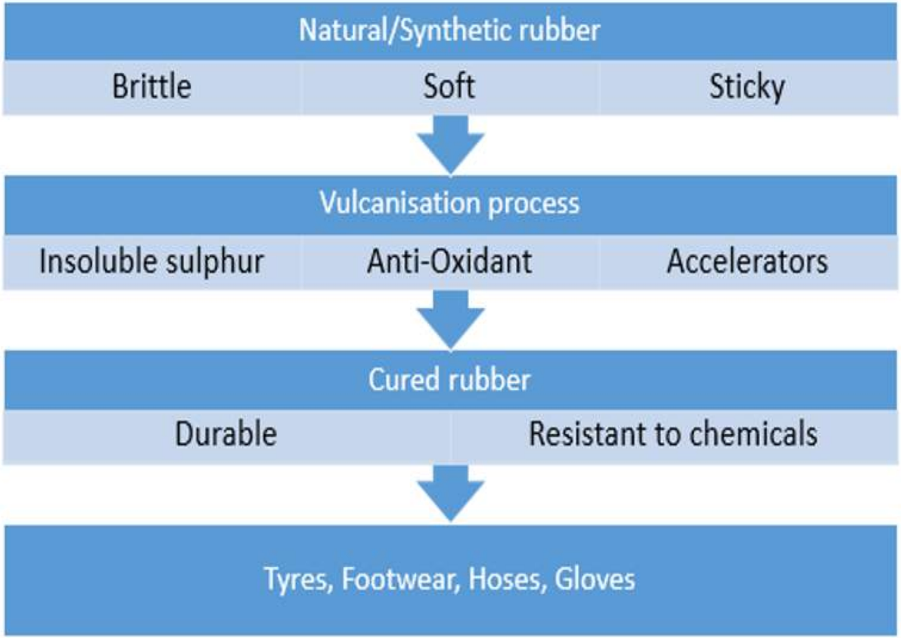
- Out of the total GDP, tyre industry contributes 3% of manufacturing GDP and 0.5% of the total GDP.

- Apart from the slow down in the auto industry, there are capex plans in tyre player for next few year which indicates the long term healthy growth.

- The management also said Indian tyre manufacturers are committed to do a capex of ~Rs150-180 bn over the next few years

Product Information:

Usage of rubber chemical



Source: Moneycontrol

Product Portfolio

Source: Company online images

Strong Clientele:

BKT

BRIDGESTONE

TVS TYRES

MICHELIN
A better way forward

MRF

PIRELLI

apollo TYRES

CEAT

Company background:

- NOCIL's involvement in the Rubber chemicals business spans over 4 decades. It is one of the few players in this business to offer wide range of rubber chemicals to suit the customer needs. Due to rich experience and offering a one stop shop to customers, NOCIL is today acknowledged as a dependable supplier of rubber chemicals. Globally it is recognised for the technical capabilities and on this aspect alone, NOCIL enjoys an edge over other players in this business.

- NOCIL today is the Largest Rubber Chemicals Manufacturer in India with the State of the Art Technology for the manufacture of rubber chemicals. Its brands PILFLEX® Antidegradants, PILNOX® Antioxidants, PILCURE® Accelerators, Post Vulcanization Stabilizer and PILGARD® Pre Vulcanization Inhibitor are well recognised in both domestic as well as international markets.

- NOCIL has manufacturing facility at Dahej in Gujarat, with a much improved process technology to strengthen position in the field of Rubber Chemicals. The said facility has started its commercial operations in FY 2012-13

Company background:

- NOCIL has state of the art manufacturing facility at Navi Mumbai and Dahej to deliver quality products to customer. The manufacturing facility is fully automated through PLC/DCS controls not only to ensure quality and consistency of product but also built in safety features to ensure safety of all the operations. A human interaction with the system is through qualified and experienced engineers.
- Manufacturing facilities are associated with requisite effluent treatment plants and solid waste incinerator at Navi Mumbai to ensure compliance of all stipulated environment norms. NOCIL has embarked upon research projects to move towards green chemistry strategies.

Investment Rationale:

- **Market Leadership:** The company enjoys 40-45% of the market share domestic and commands 4-5% share globally. It allows the company to serve larger demand and grab bigger opportunity. The company also has good list of clientele overall. Apparently, auto industry is on the slow lane which has impacted the company's performance but its managed to grow its revenue and PAT by 5.4% and 9% respectively. The company's management also carries positive long term outlook. It is noticed that major tyre manufacturers such as MRF, CEAT and Apollo are expanding capacities which indicates the future growth.

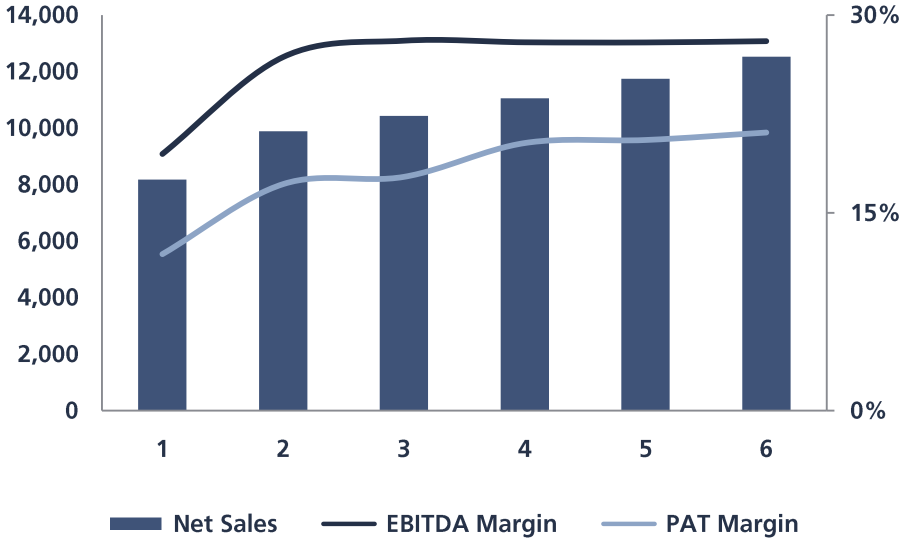
- **Completion of 55000 tonnes in H2FY20:** The company had an installed capacity of 55000 tonnes until capex plans was declared in Q4FY18. The company reached 59000 tonnes capacity in June 2018 and currently it has completed 73000 tonnes out of total 110000 tonnes announced. The expansion is done with its internal accruals. The company is completely debt-free. Total capex outlay is Rs. 425 crs. This capex will turn both the units, i.e, Dahej and Navi-Mumbai to 55000 tonnes each. The utilization level stood at 95% in FY18 and 85% in FY19. This fall is utilization level was mainly due to slowdown in Automobile sector. Phase1(a) is complete on Q1FY19 and phase 1(b) will be completed by Q3FY19E. Phase 2 commercial production will start from H2FY20E and the total capex outlay is Rs.255 crore.

Investment Rationale:

- **Anti-dumping duty (ADD) bolster domestic Rubber chemical industry:** China and Korea produces 70% of the rubber production. To maintain the quality of import from China and protect the domestic manufacturer ADD was put. The ADD deadline is due July 2019 and removal can hit margin by nearly 3-4%. The company has only 6 products affected by ADD of overall product portfolio. On China situation, the tightening of environment and compliance in China, which created some supply chain constraints in tyre industry in FY2018 partially got relaxed on account of US-China trade war tension and slow down in Chinese auto sector. One of the reason for exporting low quality chemical could be higher export incentives.

- **Increase in preference from customer**: NOCIL is being considered after the US-China trade issues for avoiding any supply uncertainty in the future. This is has increased demand and recognition of the NOCIL's brand by international players. Ongoing capex would be utilized to cater growing demand. Export business looks more attractive in the current scenario. Management thinks the volume have bottomed out and in coming quarter there would be steady uptrend in terms of volume. The company has a new accelerator from its Dahej plant which would reduce its reliance on imports and give an easy option to domestic players.

Operational Performance:

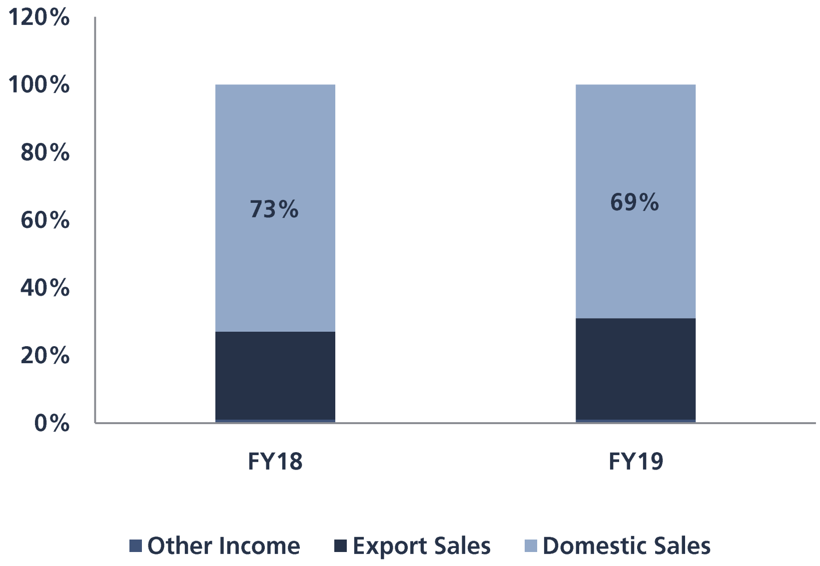


The company has an EBITDA margin of 28.1% in FY19. It has run up from 19.5% to 28.1% in FY19 in 2 years. We believe the margins to be sustainable at higher level and boost further on the continuation of ADD in future.

Source: Destimoney Research, Ace Equty

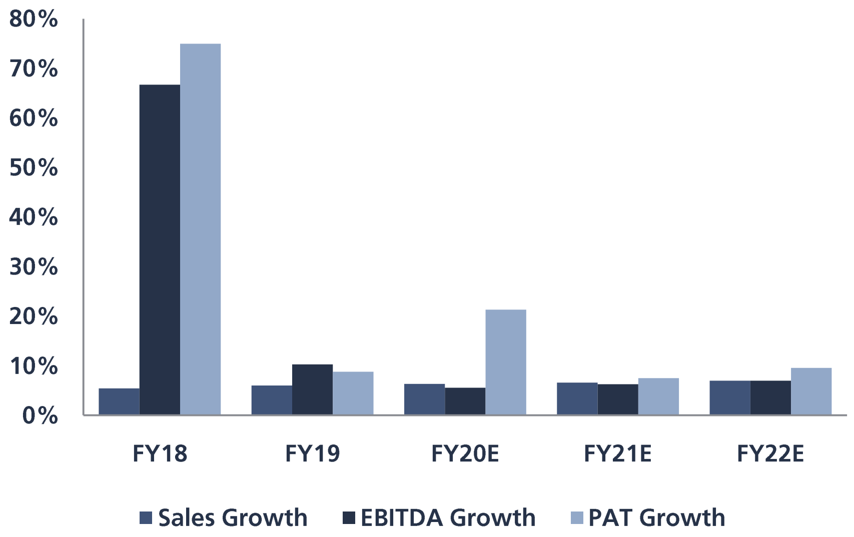
Operational Performance:

NOCIL's revenue comes from Accelerator and Anti-degradants/Anti-Oxidants which contributes ~45% each. The new accelerator from Dahej plant is likely to aid topline growth.



Source: Destimoney Research, Ace Equty

Operational Performance:

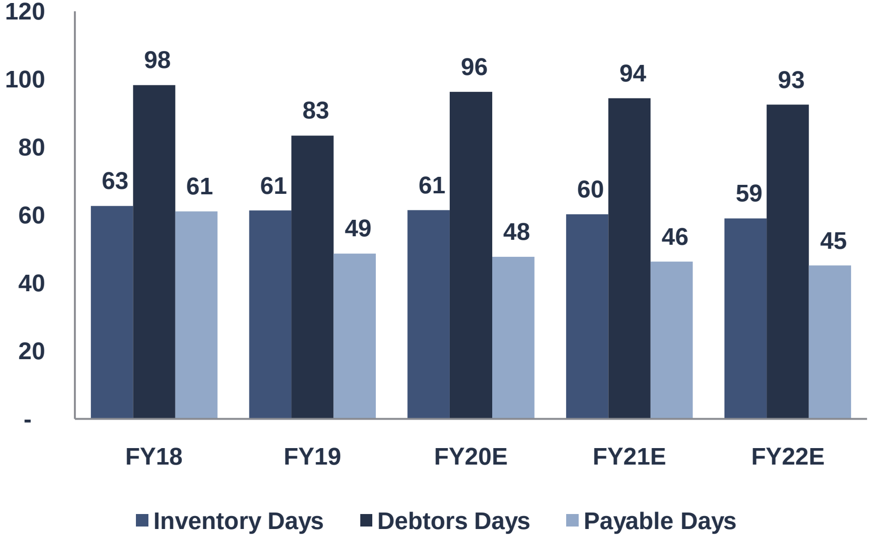


The sales growth had hit brakes due to auto slowdown. The company has managed to post single digit positive growth in that situation on the back of inventory management and product mix. We believe the growth to boost up due to recent corporate tax cute, benign demand situation and export business.

Source: Destimoney Research, Ace Equty

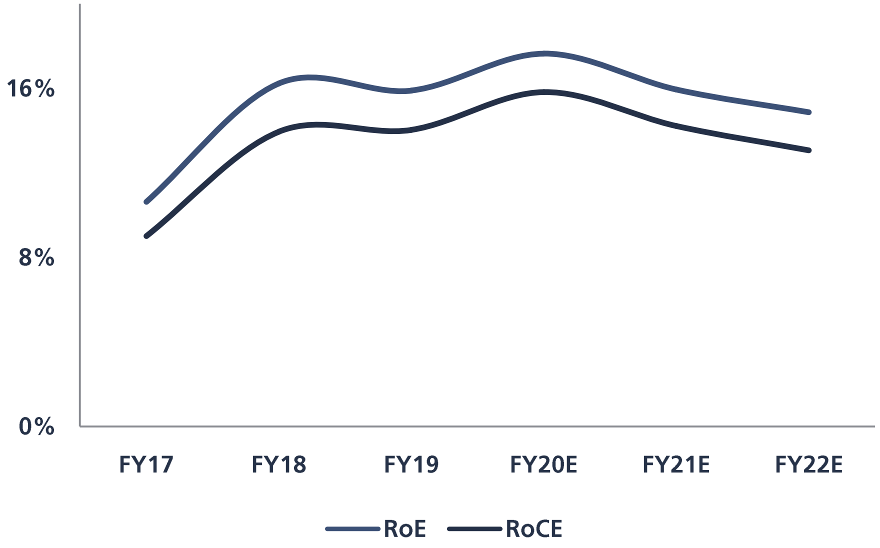
Operational Performance:

Also, we expect the working capital cycle to slide down steadily in the course of 2 years.



Source: Destimoney Research, Ace Equty

Operational Performance:

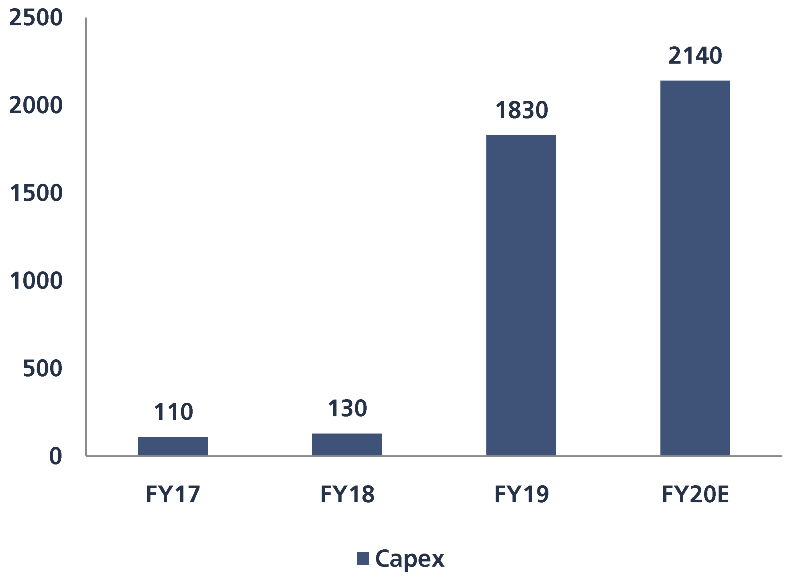


NOCIL has strong return ratio. RoE and RoCE stands 16% and 14%, we believe it to reach 18% and 16% respectively in FY20e

Source: Destimoney Research, Ace Equty

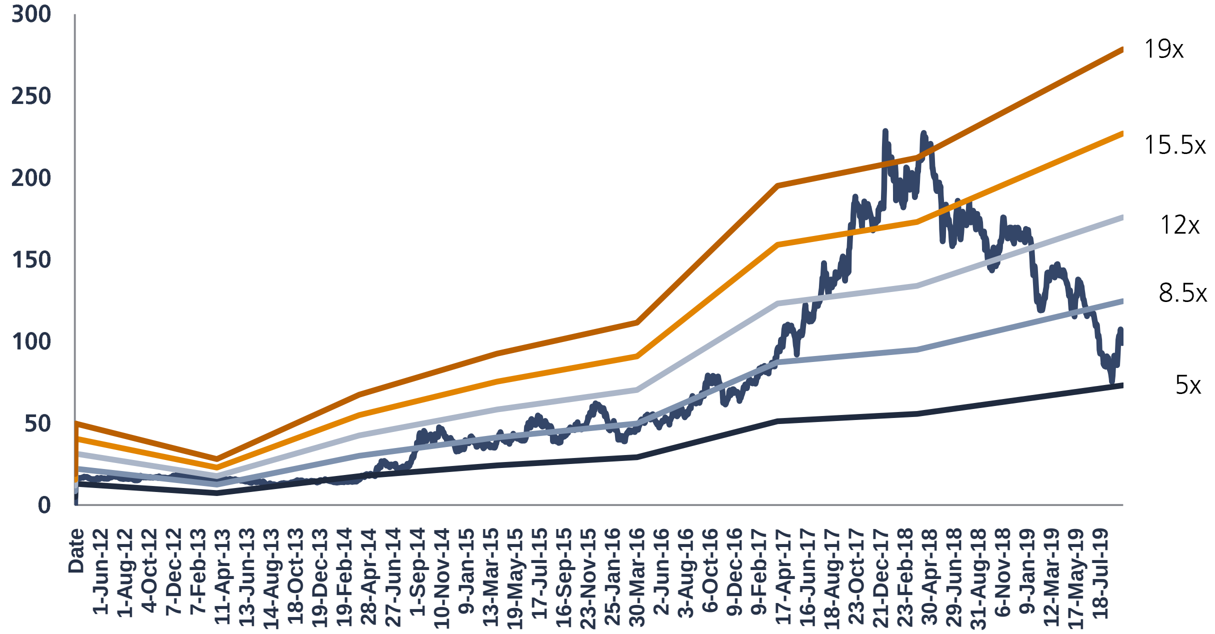
Operational Performance:

The company's capex is expected to completed in H2FY20. Commissioning of the capex will aid volume growth and profitability.



Source: Destimoney Research, Ace Equty

PE valuation band



The stock has seen good correction since last almost one year. It has now bounced from lower band of 5x and trading at the current PE multiple of 10x FY19 which is at attractive valuation.

Source: Destimoney Research

Financial Statements:

Profit and loss	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	9,893	10,429	11,055	11,751	12,529
Raw Material Consumed	4,406	4,668	4,902	5,147	5,404
Gross profit	**5,487**	**5,761**	**6,153**	**6,604**	**7,125**
Gross Profit Margin (%)	*55%*	*55%*	*56%*	*56%*	*57%*
Total Expenditure	7,239	7,502	7,965	8,469	9,016
EBITDA (Excl OI)	**2,654**	**2,927**	**3,089**	**3,283**	**3,512**
EBITDA Margin	*26.8%*	*28.1%*	*27.9%*	*27.9%*	*28.0%*
Depreciation	240.3	243.2	272.9	307.2	327.8
EBIT	**2,414**	**2,684**	**2,825**	**2,983**	**3,192**
EBIT Margin	*24.4%*	*25.7%*	*25.6%*	*25.4%*	*25.5%*
Other Income	146	100	88	148	238
Interest	12	6	0	0	0
PBT	**2,547**	**2,777**	**2,913**	**3,131**	**3,430**
Provision for Tax	848	929	670	720	789
PAT	**1,699**	**1,848**	**2,243**	**2,411**	**2,641**
PAT Margin	*17.2%*	*17.7%*	*20.3%*	*20.5%*	*21.1%*

Source: Destimoney Research, Ace Equty

Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E
EQUITY AND LIABILITIES					
Share Capital	1,645	1,654	1,645	1,645	1,645
Total Reserves	8,822	9,976	11,065	13,476	16,117
Shareholder's Funds	**10,467**	**11,630**	**12,709**	**15,120**	**17,762**
Debt/borrowings	1	1	1	1	1
Tax payable	34.7	7.4	7.4	7.4	7.4
Deferred Tax Assets / Liabilities	1,041	1,094	1,041	1,041	1,041
Total Liabilities	**11,543**	**12,732**	**13,751**	**16,162**	**18,804**
ASSETS					
Net Block	5,245	6,542	6,778	7,278	7,959
Net Intangible	28	23	20	17	14
Investment property	4.8	4.7	4.7	4.7	4.7
Capital Work in Progress	425	1,313	425	425	425
Total Tangibles and intangibles	**5,702**	**7,883**	**7,202**	**7,703**	**8,383**
Long term Investments	570	295	570	570	570
Non Current Tax Asset	52	65	65	65	65
Loans & Advances	255	341	301	335	364
Inventories	5	5	5	5	5
Debtors	2,434	2,322	2,760	2,949	3,077
Cash and Cash Equivalent	2,609	1,469	2,526	4,177	5,965
Other Current Assets	137	340	343	366	382
Trade Payables	1,157	983	990	1,042	1,081
Other Current Liabilities	412	499	507	545	574
Provision	199.80	208.70	214.82	231.87	244.39
Total Assets	**11,543**	**12,732**	**13,751**	**16,162**	**18,804**

Source: Destimoney Research, Ace Equty

Opportunity comes with certain risks:

- Higher dependent on automobile industry and late recovery in the auto sector would put pressure on the companies growth and margins
- Higher volatility in raw material prices
- Lower quality imports would threat domestic players and impact margins and domestic business
- The company need to manage currency fluctuation as 30% of the revenue is from export

DISCLAIMER

For private circulation only | Website: www.dealmoneyonline.com

SEBI Research Analyst Registration No: INH000002319

Dealmoney Securities Private Limited (hereinafter referred to as "Dealmoney") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, and MCX Stock Exchange Limited. Dealmoney is also registered as a Depository Participant with CDSL. Dealmoney is in the process of making an application with SEBI for registering it as a Research Entity in terms of SEBI (Research Analyst) Regulations, 2014. Dealmoney or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market and no material disciplinary action has been taken by SEBI/other regulatory authorities impacting Dealmoney's Equity Research Analysis. Dealmoney or its associates/analyst including its relatives do not hold any actual/beneficial ownership of more than 1% in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analyst including its relatives may hold a financial interest in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analysts or his/her relative does not receive any compensation or other benefits from the subject company/ies mentioned in this research report (hereinafter referred to as "Report") or from a third party in connection with the preparation of the report. Accordingly, Dealmoney or its associates/analyst or his/her relative does not have any other material conflict of interest at the time of publication of the Report.

Research analyst/s engaged in preparation of the Report, has not received any compensation / managed or co-managed public offering of securities of the subject company/ies / has not received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation or other benefits from the subject company/ies or third party in connection with the Report of the subject company/ies during the past twelve months / has not served as an officer, director or employee of subject Company/ies and is not engaged in market making activity of the subject Company/ies.

Dealmoney group companies provide finance-related product services like distribution of financial products and as such is a provider of many services like loans, mutual funds, tax & trust planning, etc. mentioned in this brochure. And hence, Dealmoney does not warranty/ guarantee about the performance of any products and customer servicing w.r.t third party products per se.

Third-party products are subject to code of conduct to be adhered to by the representatives of Dealmoney and Dealmoney is not responsible for the losses, whether actual or notional incurred by any investor. Services assured and expected may vary from actual service and Dealmoney does not guarantee about the quality of services. Investments in securities and commodities are subject to market and other risks and there is no assurance or guarantee that the objectives of any of the Investments/Schemes/product would be achieved. Past performances are only indicative and returns are not assured and guaranteed by Dealmoney group companies. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

Reports on technical and derivative analysis are based on studying charts of a stock's price movement, outstanding positions and trading volume as opposed to focussing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. The opinions expressed in the Report are our current opinions as of the date of this report and may be subject to change from time to time without notice. Dealmoney or any persons connected with it do not accept any liability arising from the use of this material/document/Report.

Information/ opinion conveyed through this material/document/Report are strictly meant for the registered Clients of Dealmoney group of Companies of the respective segments. This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Dealmoney or its affiliates to any registration requirement within such jurisdiction or country. This information does not constitute an offer to sell or a solicitation of an offer to buy any financial products to any person in any jurisdiction where it is unlawful to make such an offer or solicitation. No part of this material may be duplicated in whole or in part in any form and / or redistributed without the prior written consent of Dealmoney. This material/document/Report is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on directly or indirectly.

Recipients of the Report shall always independently verify the reliability and suitability of the Report and opinions before investing.
For Company details, please visit our website www. dealmoneyonline.com
For research-related query, write to us at research@dealmoney.in