

July 7, 2017

Oriental Carbon (ORICAR)

₹ 1150

Quality play, re-rating to continue...

- Oriental Carbon & Chemicals (OCCL) is a speciality chemical company manufacturing insoluble sulphur, a key raw material used in vulcanisation of rubber while manufacturing tyres (automobile)
- The company has a prominent market share in the domestic market (in excess of 50%) whereas its global market share was at ~10%
- OCCL has a capital efficient business model and has been clocking healthy 25%+ EBITDA margins on a consistent basis (FY10-17). The business core RoIC (average) in the aforesaid period was at 23.4%
- On the balance sheet front, the leverage is at comfortable level of 0.3x debt: equity (FY17) with absolute debt at ₹ 105 crore
- The company has also been generating positive cash flow from operations with average CFO yield over FY13-17 at ~5%
- OCCL has commissioned phase 1 (5500 tonne) of its expansion plans ahead of schedule in December 2016 and is ramping up well with management guidance of ~80% utilisation levels for FY18E with Phase 2 (5500 tonne) due for commissioning in Q2FY19E
- Therefore, on the current base of 22000 tonne, the incremental capacity addition (11000 tonne) amounts to ~50%. This coupled with robust product demand and OCCL's successful attempt to penetrate the North American & Chinese markets should result in healthy topline growth in FY17-19E (I-direct estimate 11.0% CAGR)
- This being a brownfield expansion also provides scope for further improvement in EBITDA margins and robust bottomline growth over FY17-19E (I-direct estimate 16.2% CAGR). Therefore, on the back of enhanced visibility of earnings growth, we upgrade our valuation multiple and also roll our valuations to FY19E

Impressive brownfield expansion on track; volume led growth to follow

OCCL had a capacity of 23000 tonne and operated at ~90% utilisation level in FY16. Sensing the same, the company launched an impressive expansion plan where it intends to increase its capacity (brownfield) by 11000 tonne in two phases with first phase of 5500 tonne already commissioned in December 2016 (four months ahead of schedule) taking overall capacity to 28200 tonne in FY17. With a strong customer relationship, second phase due for commissioning in FY19E and focus on further penetration in Chinese & North American markets amid increasing product demand, we expect OCCL to report healthy volume led growth in FY17-19E. We expect it to report insoluble sulphur sales volume CAGR of ~11.9% in FY17-19E to ~28.4 KT in FY19E (~22.7 KT in FY17).

Niche segment; commands better multiple; retain BUY

OCCL is indeed a speciality chemical company in true sense with unique product profile, limited competition in the marketplace and consequent sustainable strong EBITDA margins (28%+) & return ratios (RoIC: ~20%). Going forward, in FY17-19E, the company will generate healthy cash flow from operations with average CFO yield at ~8%. OCCL derives ~two-third of its sales volume from export market and is likely to face marginal realisation pressure on account of recent appreciation of Indian currency. However, ongoing brownfield expansion and other cost savings measure are likely to result in improvement in EBITDA margins to the tune of ~270 bps in FY17-19E. Marginally tweaking our estimates, we now expect sales & PAT to grow at a CAGR of 11.0% & 16.2%, respectively, in FY17-19E. With certainty of operations & commissioning of new facilities, we roll over our valuation to FY19E and value OCCL at ₹ 1400 i.e. 20.0x P/E on FY19E EPS of ₹ 70.0. We retain **BUY** rating on the stock.

Rating matrix		
Rating	:	Buy
Target	:	₹ 1400
Target Period	:	12-18 months
Potential Upside	:	22%

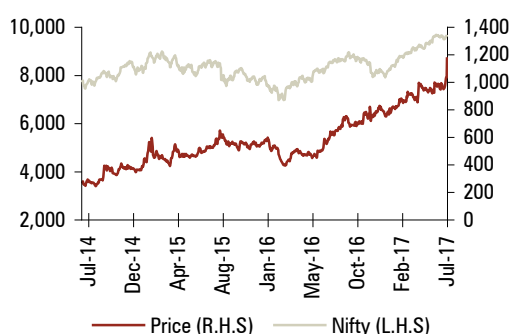
What's changed?	
Target	Changed from ₹ 1125 to ₹ 1400
EPS FY18E	Changed from ₹ 60.8 to ₹ 60.0
EPS FY19E	Changed from ₹ 71.5 to ₹ 70.0
Rating	Unchanged

Key financials				
₹ crore	FY16	FY17	FY18E	FY19E
Net Sales	274.7	297.5	329.6	366.4
EBITDA	81.1	87.3	102.2	117.2
Net Profit	53.0	53.4	61.9	72.2
EPS	51.4	51.8	60.0	70.0

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	22.4	22.2	19.2	16.4
Target P/E	27.3	27.0	23.3	20.0
EV / EBITDA	15.2	14.3	12.5	10.2
P/BV	4.1	3.5	3.2	2.8
RoNW	18.5	15.9	16.5	16.8
RoCE	16.6	14.8	13.8	17.8
ROIC	20.8	17.0	19.1	20.3

Stock data	
Stock Data	₹ crore
Market Capitalization	1185.7
Total Debt (FY17)	105.2
Cash and Cash Equivalent (FY17)	43.4
Enterprise Value	1247.4
52 week H/L	1241 / 553
Equity Capital	10.3
Face Value	₹ 10
MF Holding (%)	18.3
FII Holding (%)	1.0

Price Performance



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Financial summary (Standalone)

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Net Sales	274.7	294.5	326.6	363.3	
Other Operating Income	0.0	3.0	3.1	3.1	
Total Operating Income	274.7	297.5	329.6	366.4	
Growth (%)	-2.8	8.3	10.8	11.2	
Raw Material Expenses	69.2	70.7	79.1	89.8	
Employee Expenses	32.8	38.2	41.2	44.0	
Power & Fuel Expenses	34.2	35.4	39.6	42.1	
Other Operating Expense	57.4	65.8	67.6	73.4	
Total Operating Expenditure	193.6	210.2	227.5	249.3	
EBITDA	81.1	87.3	102.2	117.2	
Growth (%)	14.1	7.7	17.1	14.7	
Depreciation	15.7	15.2	20.2	23.3	
Interest	6.4	5.1	10.2	10.2	
Other Income	5.7	6.6	7.4	8.9	
PBT	64.8	73.6	79.2	92.5	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	11.8	20.2	17.3	20.4	
PAT	53.0	53.4	61.9	72.2	
Growth (%)	3.3	0.9	15.8	16.6	
EPS (₹)	51.4	51.8	60.0	70.0	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Profit after Tax	53.0	53.4	61.9	72.2	
Add: Depreciation	15.7	15.2	20.2	23.3	
(Inc)/dec in Current Assets	-14.6	9.7	-14.5	8.8	
Inc/(dec) in CL and Provisions	0.6	3.5	-1.2	4.4	
Others	6.4	5.1	10.2	10.2	
CF from operating activities	61.0	86.9	76.5	118.9	
(Inc)/dec in Investments	11.1	-14.6	-10.0	-30.0	
(Inc)/dec in Fixed Assets	-46.2	-101.4	-75.0	-10.0	
Others	0.0	8.5	-0.6	0.0	
CF from investing activities	-35.1	-107.5	-85.6	-40.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-16.8	32.8	45.0	-45.0	
Dividend paid & dividend tax	-10.6	-12.4	-14.8	-17.3	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-6.4	3.6	-18.8	-10.2	
CF from financing activities	-33.7	24.0	11.3	-72.5	
Net Cash flow	-7.8	3.5	2.3	6.4	
Opening Cash	17.7	9.9	13.3	15.6	
Closing Cash	9.9	13.3	15.6	22.1	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Liabilities					
Equity Capital	10.3	10.3	10.3	10.3	
Reserve and Surplus	276.3	326.0	364.5	419.3	
Total Shareholders funds	286.6	336.3	374.8	429.6	
Total Debt	72.4	105.2	150.2	105.2	
Deferred Tax Liability & Others	21.1	29.6	29.1	29.1	
Total Liabilities	380.1	471.1	554.0	563.9	
Assets					
Gross Block	285.5	423.9	431.3	501.3	
Less: Acc Depreciation	102.6	117.8	137.9	161.3	
Net Block	182.9	306.1	293.4	340.1	
Capital WIP	39.5	2.4	70.0	10.0	
Total Fixed Assets	222.4	308.6	363.4	350.1	
Liquid Investments	15.5	30.1	40.1	70.1	
Other Investments	14.7	14.7	14.7	14.7	
Inventory	38.7	32.2	40.3	44.8	
Debtors	48.0	72.6	67.1	69.7	
Loans and Advances	62.9	34.3	45.7	29.1	
Other Current Assets	5.2	6.0	6.5	7.3	
Cash	9.9	13.3	15.6	22.1	
Total Current Assets	164.7	158.4	175.3	172.8	
Creditors	28.5	38.2	35.8	39.8	
Provisions	8.6	2.4	3.6	4.0	
Current Liabilities & Prov	37.1	40.6	39.4	43.8	
Net Current Assets	127.5	117.8	135.9	129.1	
Application of Funds	380.1	471.1	554.0	563.9	

Source: Company, ICICIdirect.com Research

Key ratios		FY16 FY17 FY18E FY19E			
(Year-end March)					
Per share data (₹)					
EPS	51.4	51.8	60.0	70.0	
Cash EPS	66.5	66.5	79.6	92.6	
BV	278.0	326.2	363.5	416.7	
DPS	8.5	10.0	12.0	14.0	
Cash Per Share (Incl Invst)	24.6	42.1	54.0	89.4	
Operating Ratios (%)					
EBITDA Margin	29.5	29.3	31.0	32.0	
PBT / Total Op. income	23.6	24.7	24.0	25.2	
PAT Margin	19.3	18.0	18.8	19.7	
Inventory days	51.4	39.9	45.0	45.0	
Debtor days	63.8	89.9	75.0	70.0	
Creditor days	37.9	47.3	40.0	40.0	
Return Ratios (%)					
RoE	18.5	15.9	16.5	16.8	
RoCE	16.6	14.8	13.8	17.8	
RoIC	20.8	17.0	19.1	20.3	
Valuation Ratios (x)					
P/E	22.4	22.2	19.2	16.4	
EV / EBITDA	15.2	14.3	12.5	10.2	
EV / Net Sales	4.5	4.2	3.9	3.3	
Market Cap / Sales	4.3	4.0	3.6	3.3	
Price to Book Value	4.1	3.5	3.2	2.8	
Solvency Ratios					
Debt/EBITDA	0.9	1.2	1.5	0.9	
Debt / Equity	0.3	0.3	0.4	0.2	
Current Ratio	4.2	3.6	4.1	3.4	
Quick Ratio	3.1	2.8	3.0	2.4	

Source: Company, ICICIdirect.com Research

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Hold: Up to +/-10%;

Sell: -10% or more;



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