

February 1, 2019

Q3FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	252		270	
Sales (Rs. m)	13,495	17,004	14,669	18,483
% Chng.	(8.0)	(8.0)		
EBITDA (Rs. m)	3,374	4,251	3,667	4,621
% Chng.	(8.0)	(8.0)		
EPS (Rs.)	13.5	16.9	14.4	18.0
% Chng.	(6.1)	(6.6)		

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	9,676	11,176	13,495	17,004
EBITDA (Rs. m)	2,629	3,018	3,374	4,251
Margin (%)	27.2	27.0	25.0	25.0
PAT (Rs. m)	1,689	1,904	2,228	2,772
EPS (Rs.)	10.3	11.6	13.5	16.9
Gr. (%)	44.1	12.7	17.0	24.4
DPS (Rs.)	2.5	2.8	3.3	4.1
Yield (%)	1.8	2.0	2.4	2.9
RoE (%)	17.4	17.2	17.8	19.4
RoCE (%)	26.1	24.1	23.9	28.1
EV/Sales (x)	2.1	1.9	1.6	1.2
EV/EBITDA (x)	7.7	7.2	6.5	4.7
PE (x)	13.5	12.0	10.3	8.3
P/BV (x)	2.2	2.0	1.7	1.5

Key Data

NOCI.BO | NOCIL IN

52-W High / Low	Rs.233 / Rs.136
Sensex / Nifty	36,469 / 10,894
Market Cap	Rs.23bn / \$ 322m
Shares Outstanding	165m
3M Avg. Daily Value	Rs.139.63m

Shareholding Pattern (%)

Promoter's	33.78
Foreign	4.24
Domestic Institution	6.76
Public & Others	55.22
Promoter Pledge (Rs bn)	1.41

Stock Performance (%)

	1M	6M	12M
Absolute	(16.6)	(20.0)	(31.2)
Relative	(17.1)	(17.7)	(32.3)

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Steady performance

Quick Pointers:

- High cost inventory dent Q3 gross margins.
- Weakening global and domestic auto sales is a drag, we reduce our volume assumptions for FY20/21E.
- With new capacities coming on stream, Nocil well placed to benefit from any improvement in auto sales.
- Rising US-China trade tension also augurs well for Nocil as tyre majors look to diversify supplies. Nocil already has started exporting to US in a limited way and volumes can increase with capacity expansion.

We cut our FY20/21E earnings estimates by ~6% to factor in weakness in global tyre market as we moderate our volume growth assumptions. However, Nocil with capacities doubling by H2FY20E is well poised to benefit from tight demand-supply situation in global rubber chemicals market. High global tyre capex along with increased domestic capex augurs well for Nocil, even though near term weakness in domestic and global auto sales will be a drag. Nocil has recently started exporting to US in a limited way as tyre players look to diversify supplies on the back of rising US. Reiterate BUY with a revised PT of Rs252 (Rs270 earlier) based on 15x PER FY21E or 8x EV/EBITDA FY21E.

Steady performance in a difficult environment: Nocil reported Q3FY19 EBITDA and PAT of Rs725mn (PLe Rs 699mn; +4% YoY) and Rs447mn (PLe Rs453mn; -1% YoY), respectively. During the quarter, revenue increased 5%YoY to Rs2.6bn. EBITDA margins were flat YoY at 27.8%, but were lower than H1FY19 levels of 29.5%. This is impressive in light of a difficult market environment given anemic auto sales in domestic and global markets.

High cost inventory drags gross margins: For Q3, gross margins were at 55% vs H1FY19 levels of 54%. This is on the back of high cost inventory the company maintained and will continue to be a factor in Q4FY19. We leave our FY19 EBITDA unchanged but lower the FY20/21E operating profits by 8% each as we lower the volume growth levels to 15%/20% respectively against 25%/20% earlier. We maintain our EBITDA margin assumption at 25% for FY20/21E against 28.9% for 9MFY19 given that the Anti-Dumping Duty protection is likely to be reviewed in July 2019 (management expect ADT benefit at 4% of sales).

Opportunities galore: Nocil is on track to be one of the largest rubber chemicals player globally with capacities doubling in H2FY20E to 110,000tons. Limited capacity addition by players coupled with steady demand growth will push global utilization levels to over 90% for CY21E, in our view. Also, rising US-China trade dispute will push rubber chemicals duties exported from China to 25% effective April 2019 from 10% currently. Accordingly, already Nocil has started supplying rubber chemicals to US as tyre players look to diversify supply base. Even as near term demand uncertainty persist given slowing global auto sales, we believe Nocil is well placed to capitalize on any recovery in demand. Reiterate BUY.

Exhibit 1: Q3FY19 Result Overview (Rs m)

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Income From Operations	2,612	2,493	4.8	2,720	8,013	7,133	12.3
<u>Total Expenditure</u>	-	-		-	-	-	
Cost of Material Consumed	1,240	1,090	13.7	1,440	3,917	3,239	20.9
Purchase of stock in trade	7	7	(8.1)	7	20	23	(14.3)
Change in inventory of FG, WIP and SIT	(72)	51	NA	(253)	(378)	(77)	NA
Total RM Cost	1,175	1,148	2.3	1,194	3,559	3,186	11.7
Gross Margin	1,438	1,344	6.9	1,526	4,455	3,947	12.8
<i>Margin (%)</i>	<i>46.0</i>	<i>46.0</i>		<i>46.0</i>	<i>46.0</i>	<i>46.0</i>	
Employee Cost	154	156	(1.0)	163	499	504	(1.1)
Other Expense	558	493	13.3	574	1,639	1,444	13.5
<i>Other Expense (%)</i>	<i>21.4</i>	<i>19.8</i>		<i>21.1</i>	<i>20.5</i>	<i>20.2</i>	
Excise	-	-		-	-	216	NA
Total Expenditure	1,887	1,797	5.0	1,931	5,697	5,350	6.5
EBIDTA	725	696	4.2	789	2,317	1,783	29.9
<i>% of NS</i>	<i>27.8</i>	<i>27.9</i>		<i>29.0</i>	<i>28.9</i>	<i>25.0</i>	
Depreciation	56	40	41.0	56	167	118	41.9
EBIT	669	656	2.0	733	2,150	1,665	29.1
Interest	1	3	(75.0)	1	5	10	(52.5)
Other Income	20	32	(36.8)	32	73	111	(34.3)
Exceptional Items	-	-		-	-	-	
PBT	688	685	0.5	764	2,218	1,767	25.6
Tax	242	235	2.7	236	735	590	24.6
<i>Tax rate (%)</i>	<i>35.1</i>	<i>34.4</i>		<i>30.8</i>	<i>33.2</i>	<i>33.4</i>	
Profit After Tax	447	450	(0.7)	528	1,483	1,177	26.1

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	9,676	11,176	13,495	17,004
YoY gr. (%)	30.4	15.5	20.8	26.0
Cost of Goods Sold	4,406	4,806	6,208	7,822
Gross Profit	5,270	6,370	7,287	9,182
Margin (%)	54.5	57.0	54.0	54.0
Employee Cost	674	894	1,080	1,360
Other Expenses	1,968	2,459	2,834	3,571
EBITDA	2,629	3,018	3,374	4,251
YoY gr. (%)	66.4	14.8	11.8	26.0
Margin (%)	27.2	27.0	25.0	25.0
Depreciation and Amortization	229	228	301	424
EBIT	2,400	2,790	3,073	3,827
Margin (%)	24.8	25.0	22.8	22.5
Net Interest	12	20	100	100
Other Income	143	114	403	472
Profit Before Tax	2,531	2,884	3,375	4,200
Margin (%)	26.2	25.8	25.0	24.7
Total Tax	845	981	1,148	1,428
Effective tax rate (%)	33.4	34.0	34.0	34.0
Profit after tax	1,686	1,904	2,228	2,772
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,689	1,904	2,228	2,772
YoY gr. (%)	44.9	12.7	17.0	24.4
Margin (%)	17.5	17.0	16.5	16.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,689	1,904	2,228	2,772
YoY gr. (%)	44.9	12.7	17.0	24.4
Margin (%)	17.5	17.0	16.5	16.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,689	1,904	2,228	2,772
Equity Shares O/s (m)	164	164	164	164
EPS (Rs)	10.3	11.6	13.5	16.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	6,569	6,569	10,819	10,919
Tangibles	6,569	6,569	10,819	10,919
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,576	1,803	2,105	2,528
Tangibles	1,576	1,803	2,105	2,528
Intangibles	-	-	-	-
Net fixed assets	4,994	4,766	8,715	8,391
Tangibles	4,994	4,766	8,715	8,391
Intangibles	-	-	-	-
Capital Work In Progress	392	2,892	392	150
Goodwill	28	30	33	37
Non-Current Investments	812	812	812	812
Net Deferred tax assets	(1,003)	(1,291)	(1,629)	(2,049)
Other Non-Current Assets	288	313	341	371
Current Assets				
Investments	2,245	2,245	2,245	2,245
Inventories	1,550	1,790	2,162	2,724
Trade receivables	2,434	2,811	3,394	4,277
Cash & Bank Balance	276	860	620	508
Other Current Assets	298	328	360	396
Total Assets	13,317	16,849	19,075	19,914
Equity				
Equity Share Capital	1,645	1,645	1,645	1,645
Other Equity	8,730	10,079	11,659	13,624
Total Network	10,374	11,724	13,303	15,269
Non-Current Liabilities				
Long Term borrowings	-	2,000	2,000	-
Provisions	153	153	153	153
Other non current liabilities	1	1	1	1
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,139	1,315	1,588	2,001
Other current liabilities	653	365	402	442
Total Equity & Liabilities	13,322	16,849	19,075	19,914

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	2,531	2,884	3,375	4,200
Add. Depreciation	229	228	301	424
Add. Interest	12	20	100	100
Less Financial Other Income	143	114	403	472
Add. Other	985	263	310	389
Op. profit before WC changes	3,757	3,395	4,086	5,113
Net Changes-WC	(743)	(758)	(678)	(1,028)
Direct tax	(845)	(981)	(1,148)	(1,428)
Net cash from Op. activities	2,169	1,656	2,261	2,657
Capital expenditures	(432)	(2,503)	(1,753)	138
Interest / Dividend Income	-	-	-	-
Others	(2,245)	5	-	-
Net Cash from Invst. activities	(2,677)	(2,498)	(1,753)	138
Issue of share cap. / premium	62	(62)	(94)	(158)
Debt changes	(50)	2,000	-	(2,000)
Dividend paid	(352)	(492)	(554)	(648)
Interest paid	(12)	(20)	(100)	(100)
Others	-	-	-	-
Net cash from Fin. activities	(352)	1,426	(748)	(2,907)
Net change in cash	(859)	584	(241)	(111)
Free Cash Flow	1,738	(847)	508	2,795

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	10.3	11.6	13.5	16.9
CEPS	11.7	13.0	15.4	19.4
BVPS	63.1	71.3	80.9	92.8
FCF	10.6	(5.1)	3.1	17.0
DPS	2.5	2.8	3.3	4.1
Return Ratio(%)				
RoCE	26.1	24.1	23.9	28.1
ROIC	19.7	17.9	17.7	21.3
RoE	17.4	17.2	17.8	19.4
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	107	107	107	107
Valuation(x)				
PER	13.5	12.0	10.3	8.3
P/B	2.2	2.0	1.7	1.5
P/CEPS	11.9	10.7	9.0	7.2
EV/EBITDA	7.7	7.2	6.5	4.7
EV/Sales	2.1	1.9	1.6	1.2
Dividend Yield (%)	1.8	2.0	2.4	2.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	2,759	2,681	2,720	2,612
YoY gr. (%)	44.6	13.4	19.5	4.8
Raw Material Expenses	1,220	1,190	1,194	1,175
Gross Profit	1,539	1,491	1,526	1,438
Margin (%)	55.8	55.6	56.1	55.0
EBITDA	846	802	789	725
YoY gr. (%)	21.5	(5.1)	(1.7)	(8.1)
Margin (%)	30.7	29.9	29.0	27.8
Depreciation / Depletion	112	54	56	56
EBIT	734	748	733	669
Margin (%)	26.6	27.9	27.0	25.6
Net Interest	2	3	1	1
Other Income	32	21	32	20
Profit before Tax	764	766	764	688
Margin (%)	27.7	28.6	28.1	26.3
Total Tax	255	258	236	242
Effective tax rate (%)	33.3	33.7	30.8	35.1
Profit after Tax	510	508	528	447
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	510	508	528	447
YoY gr. (%)	100.1	(9.7)	38.8	(0.7)
Margin (%)	18.5	19.0	19.4	17.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	510	508	528	447
YoY gr. (%)	100.1	(9.7)	38.8	(0.7)
Margin (%)	18.5	19.0	19.4	17.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	510	508	528	447
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	29-Nov-18	BUY	270	169
2	07-Jan-19	BUY	270	161

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	Accumulate	326	356
2	GAIL (India)	BUY	475	357
3	Hindustan Petroleum Corporation	Hold	219	250
4	I.G. Petrochemicals	BUY	700	398
5	Indian Oil Corporation	Accumulate	142	135
6	Indraprastha Gas	BUY	360	274
7	Mahanagar Gas	BUY	1,179	912
8	NOCIL	BUY	270	161
9	Oil & Natural Gas Corporation	BUY	223	148
10	Oil India	Accumulate	236	175
11	Petronet LNG	BUY	300	217
12	Reliance Industries	Accumulate	1,238	1,134

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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