

August 25, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	153		96	
Sales (Rs. m)	8,912	11,696	8,912	11,139
% Chng.	-	5.0		
EBITDA (Rs. m)	1,827	2,632	1,871	2,339
% Chng.	(2.4)	12.5		
EPS (Rs.)	6.4	9.9	6.5	8.5
% Chng.	(0.8)	16.1		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	8,463	6,855	8,912	11,696
EBITDA (Rs. m)	1,765	1,234	1,827	2,632
Margin (%)	20.8	18.0	20.5	22.5
PAT (Rs. m)	1,310	726	1,063	1,642
EPS (Rs.)	7.9	4.4	6.4	9.9
Gr. (%)	(28.9)	(44.6)	46.5	54.4
DPS (Rs.)	1.8	1.0	1.5	2.3
Yield (%)	1.3	0.7	1.1	1.7
RoE (%)	11.2	6.0	8.4	11.9
RoCE (%)	13.2	8.2	11.2	16.0
EV/Sales (x)	2.5	3.1	2.4	1.8
EV/EBITDA (x)	12.2	17.5	11.7	7.9
PE (x)	16.7	30.2	20.6	13.4
P/BV (x)	1.9	1.8	1.7	1.5

Key Data

NOCI.BO | NOCIL IN

52-W High / Low	Rs.134 / Rs.45
Sensex / Nifty	38,844 / 11,472
Market Cap	Rs.22bn/ \$ 295m
Shares Outstanding	166m
3M Avg. Daily Value	Rs.577.59m

Shareholding Pattern (%)

Promoter's	34.03
Foreign	1.84
Domestic Institution	3.90
Public & Others	60.23
Promoter Pledge (Rs bn)	0.81

Stock Performance (%)

	1M	6M	12M
Absolute	21.7	38.0	67.8
Relative	19.5	43.1	58.5

Avishek Datta

avishekdatta@plindia.com | 91-22-66322254

Volume recovery in an uncertain environment is positive

Quick Pointers:

- Q1 volumes hit due to lockdown, pricing environment remains stable.
- Management confident of exceeding Q2FY20 volumes in the current quarter.
- Volume maximization at the cost of margins will be new strategy, going ahead.
- Likely imposition of Anti-Dumping Duty to aid profitability.

We increase our FY21/FY23E estimates by 13%/16% to factor in higher other income (tax refund) and increase our FY23 margin assumption to 22.5% (21% earlier) to include operating leverage. While near term demand slowdown in China and India is a concern, long term opportunities remain impressive. Nocil, with new capacities commissioned is poised to benefit from any recovery in auto demand. Reiterate BUY with a PT of Rs153 (Rs96) based on 15x PER FY23E (15x FY21 earlier).

- Decent performance in a tough environment:** Nocil reported Q1FY21 EBITDA and PBT of Rs75mn (-87% YoY; PLe Rs 33mn) and Rs91mn (-82% YoY; PLe -Rs32mn), respectively. PAT came in at Rs118m and included tax write back. Q1 revenues were at Rs10.7bn (-50%QoQ) due to restrictions caused by Covid pandemic. EBITDA margins came down to 7.0% (17.3% in Q4) as other expenses came down to Rs285m (-47%YoY). Other income at Rs106m includes tax write back of Rs75m.
- Gross margins come off:** For Q1, gross margins were at 48.6% vs Q4FY20 levels of 50% (FY20 levels of 54.2%). The company has consciously taken a strategy of volume maximization at the cost of margins, going ahead. This is in line with China Sunshine policy which prioritizes volumes. While near term demand uncertainty remains, we remain structurally positive on the company as Nocil remains a play on operating leverage.
- Opportunities galore:** Nocil is one of the largest rubber chemicals player globally with capacity of 110,000tons including intermediaries. Rising clamor to diversify supplies away from China can open many opportunities for Nocil. Also, limited capacity addition by global players, ex Chinese, will mean Nocil is well placed to capitalize on any demand recovery.
- While FY21E demand environment is likely to remain muted, we expect smart recovery in replacement demand to drive earnings growth. We leave our FY21/22 estimates unchanged but increase our FY23E margins to 22.5% from 21% earlier to factor in benefits from likely duty protection and operating leverage. Even as near term demand uncertainty persist given slowing global auto sales, we believe at current prices Nocil offers value. Reiterate BUY.

Exhibit 1: Q1FY21 Result Overview (Rs mn)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Income From Operations	1,065	2,296	(53.6)	2,097	6,855	8,463	23.5
Total Expenditure							
Cost of Material Consumed	397	920	(56.9)	983	3,153	3,672	(14.1)
Purchase of stock in trade	1	12	(89.7)	6	-	26	NA
Change in inventory of FG, WIP and SIT	150	70	113.0	74	-	181	NA
Total RM Cost	547	1,002	(45.4)	1,063	3,153	3,879	(18.7)
Gross Margin	518	1,294	(60.0)	1,064	3,702	4,584	(19.3)
<i>Margin (%)</i>	<i>48.6</i>	<i>56.4</i>		<i>50.7</i>	<i>54.0</i>	<i>54.2</i>	
Employee Cost	159	195	(18.8)	168	617	741	(16.8)
Other Expense	285	537	(47.1)	528	1,851	2,079	(11.0)
<i>Other Expense (%)</i>	<i>26.7</i>	<i>23.4</i>		<i>25.2</i>	<i>27.0</i>	<i>24.6</i>	
Excise	-	-		-	-	-	
Total Expenditure	990	1,734	(42.9)	1,759	5,621	6,699	(16.1)
EBIDTA	75	562	(86.7)	367	1,234	1,764	(30.1)
<i>% of NS</i>	<i>7.0</i>	<i>24.5</i>		<i>17.5</i>	<i>18.0</i>	<i>20.8</i>	
Depreciation	88	77	14.8	92	371	324	14.6
EBIT	(13)	485	(102.7)	276	862	1,440	(40.1)
Interest	3	3	(21.9)	4	12	13	(9.1)
Other Income	106	25	330.0	35	120	97	23.7
Exceptional Items	-	-		-	-	-	
PBT	91	507	(82.1)	307	970	1,524	(36.3)
Tax	(27)	180	(115.0)	83	245	214	14.1
<i>Tax rate %</i>	<i>NA</i>	<i>35.5</i>		<i>27.0</i>	<i>25.2</i>	<i>14.1</i>	
Profit After Tax	118	327	(64.0)	224	726	1,310	(44.6)

Source: Company, PL

Conference Call Highlights:

- Q1 volumes were at 50% of Q4 levels. Plants started operating from 8th May.
- Utilization level continue to improve post June.
- Nocil remains confident of exceeding Q2FY20 volumes in the current quarter.
- Company followed an aggressive market gain strategy even in a weak demand environment.
- RM prices remain stable but impacted Q1 gross margin as the company had to use expensive RM.
- CY20 global rubber demand is likely to be hit due to the pandemic, however, management expects demand recovery to mirror CY08-10 demand.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	8,463	6,855	8,912	11,696
YoY gr. (%)	(18.9)	(19.0)	30.0	31.3
Cost of Goods Sold	3,879	3,153	4,188	5,497
Gross Profit	4,585	3,702	4,723	6,199
Margin (%)	54.2	54.0	53.0	53.0
Employee Cost	741	617	802	936
Other Expenses	2,079	1,851	2,094	2,632
EBITDA	1,765	1,234	1,827	2,632
YoY gr. (%)	(39.2)	(30.1)	48.1	44.1
Margin (%)	20.8	18.0	20.5	22.5
Depreciation and Amortization	324	371	450	484
EBIT	1,440	862	1,377	2,148
Margin (%)	17.0	12.6	15.5	18.4
Net Interest	13	12	5	5
Other Income	97	120	50	52
Profit Before Tax	1,524	970	1,421	2,195
Margin (%)	18.0	14.2	16.0	18.8
Total Tax	214	245	358	553
Effective tax rate (%)	14.1	25.2	25.2	25.2
Profit after tax	1,310	726	1,063	1,642
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,310	726	1,063	1,642
YoY gr. (%)	(28.9)	(44.6)	46.5	54.4
Margin (%)	15.5	10.6	11.9	14.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,310	726	1,063	1,642
YoY gr. (%)	(28.9)	(44.6)	46.5	54.4
Margin (%)	15.5	10.6	11.9	14.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,310	726	1,063	1,642
Equity Shares O/s (m)	166	166	166	166
EPS (Rs)	7.9	4.4	6.4	9.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	9,812	12,812	13,512	14,212
Tangibles	9,812	12,812	13,512	14,212
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,130	2,501	2,951	3,435
Tangibles	2,130	2,501	2,951	3,435
Intangibles	-	-	-	-
Net fixed assets	7,683	10,311	10,561	10,777
Tangibles	7,683	10,311	10,561	10,777
Intangibles	-	-	-	-
Capital Work In Progress	1,563	150	150	150
Goodwill	12	13	15	16
Non-Current Investments	551	551	551	551
Net Deferred tax assets	(887)	(984)	(1,126)	(1,345)
Other Non-Current Assets	301	315	330	347
Current Assets				
Investments	232	232	232	232
Inventories	1,361	1,127	1,465	1,923
Trade receivables	2,032	1,502	1,953	2,564
Cash & Bank Balance	128	171	412	1,035
Other Current Assets	405	445	490	539
Total Assets	14,279	14,830	16,172	18,147
Equity				
Equity Share Capital	1,656	1,656	1,656	1,656
Other Equity	10,104	10,635	11,452	12,714
Total Networkth	11,760	12,291	13,108	14,370
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	163	163	196	235
Other non current liabilities	1	1	1	1
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	892	723	940	1,233
Other current liabilities	507	669	802	963
Total Equity & Liabilities	14,279	14,830	16,172	18,147

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,524	970	1,421	2,195
Add. Depreciation	324	371	450	484
Add. Interest	13	12	5	5
Less Financial Other Income	97	120	50	52
Add. Other	(65)	83	160	242
Op. profit before WC changes	1,796	1,437	2,036	2,926
Net Changes-WC	407	714	(485)	(663)
Direct tax	(214)	(245)	(358)	(553)
Net cash from Op. activities	1,989	1,907	1,193	1,709
Capital expenditures	(1,986)	(1,588)	(701)	(701)
Interest / Dividend Income	-	-	-	-
Others	761	-	-	-
Net Cash from Inv. activities	(1,225)	(1,588)	(701)	(701)
Issue of share cap. / premium	2	155	(51)	(134)
Debt changes	-	-	-	-
Dividend paid	(494)	(350)	(195)	(246)
Interest paid	(13)	(12)	(5)	(5)
Others	-	-	-	-
Net cash from Fin. activities	(506)	(207)	(251)	(385)
Net change in cash	258	112	241	623
Free Cash Flow	3	319	492	1,008

Source: Company Data, PL Research

Key Financial Metrics

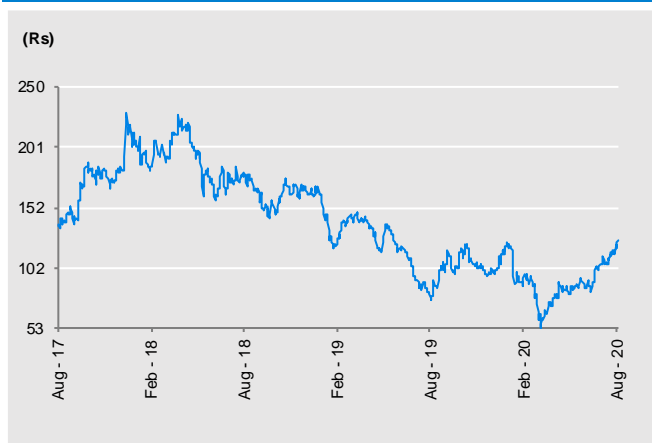
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.9	4.4	6.4	9.9
CEPS	9.9	6.6	9.1	12.8
BVPS	71.0	74.2	79.2	86.8
FCF	0.0	1.9	3.0	6.1
DPS	1.8	1.0	1.5	2.3
Return Ratio(%)				
RoCE	13.2	8.2	11.2	16.0
ROIC	12.4	8.3	11.3	14.5
RoE	11.2	6.0	8.4	11.9
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.0	(0.1)
Net Working Capital (Days)	108	102	102	102
Valuation(x)				
PER	16.7	30.2	20.6	13.4
P/B	1.9	1.8	1.7	1.5
P/CEPS	13.4	20.0	14.5	10.3
EV/EBITDA	12.2	17.5	11.7	7.9
EV/Sales	2.5	3.1	2.4	1.8
Dividend Yield (%)	1.3	0.7	1.1	1.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	2,097	1,943	2,127	1,065
YoY gr. (%)	(22.9)	(25.6)	(12.0)	(53.6)
Raw Material Expenses	887	927	1,063	547
Gross Profit	1,211	1,016	1,064	518
Margin (%)	57.7	52.3	50.0	48.6
EBITDA	479	357	367	75
YoY gr. (%)	(39.3)	(50.8)	(37.8)	(86.7)
Margin (%)	22.8	18.4	17.3	7.0
Depreciation / Depletion	77	79	92	88
EBIT	402	278	276	(13)
Margin (%)	19.2	14.3	13.0	(1.2)
Net Interest	3	3	4	3
Other Income	25	13	35	106
Profit before Tax	423	287	307	91
Margin (%)	20.2	14.8	14.4	8.5
Total Tax	(129)	81	83	(27)
Effective tax rate (%)	(30.5)	28.1	27.0	(29.7)
Profit after Tax	552	207	224	118
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	552	207	224	118
YoY gr. (%)	4.5	(53.7)	(37.4)	(64.0)
Margin (%)	26.3	10.6	10.5	11.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	552	207	224	118
YoY gr. (%)	4.5	(53.7)	(37.4)	(64.0)
Margin (%)	26.3	10.6	10.5	11.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	552	207	224	118
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	07-Jul-20	BUY	96	98
2	30-Jun-20	BUY	96	83
3	08-Apr-20	BUY	96	72
4	31-Jan-20	BUY	129	109
5	03-Jan-20	BUY	174	111
6	04-Nov-19	BUY	174	118
7	03-Oct-19	BUY	189	99

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,024	1,000
2	Bharat Petroleum Corporation	BUY	515	413
3	GAIL (India)	Accumulate	107	97
4	Hindustan Petroleum Corporation	BUY	280	214
5	Indian Oil Corporation	BUY	114	87
6	Indraprastha Gas	BUY	597	412
7	Mahanagar Gas	BUY	1,226	968
8	Manappuram Finance	BUY	1,279	994
9	NOCIL	BUY	96	98
10	Oil & Natural Gas Corporation	BUY	96	82
11	Oil India	Accumulate	117	99
12	Petronet LNG	BUY	384	254
13	Reliance Industries	BUY	2,170	2,102

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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