

BSE SENSEX
58,664

S&P CNX
17,503

CMP: INR244

TP: INR320 (+31%)

Buy



NOCIL LIMITED

Stock Info

Bloomberg	NOCIL IN
Equity Shares (m)	166
M.Cap.(INRb)/(USDb)	40.7 / 0.5
52-Week Range (INR)	321 / 135
1, 6, 12 Rel. Per (%)	-7/-2/42
12M Avg Val (INR M)	398
Free float (%)	66.1

Financials Snapshot (INR b)

Y/E March	FY22E	FY23E	FY24E
Sales	14.1	15.8	18.6
EBITDA	2.1	2.9	3.9
PAT	1.3	1.9	2.6
EPS (INR)	8.0	11.4	15.6
EPS Gr. (%)	54	42	37
BV/Sh.(INR)	81	88	98

Ratios

Net D:E	(0.0)	(0.1)	(0.2)
RoE (%)	10.1	13.4	16.8
RoCE (%)	9.5	12.6	15.9
Payout (%)	40.0	40.0	40.0

Valuations

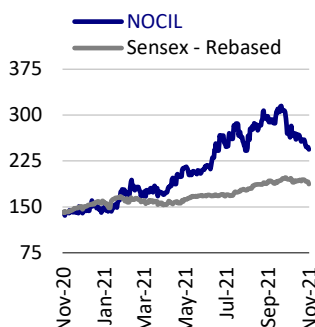
P/E (x)	29.7	20.9	15.3
P/BV (x)	2.9	2.7	2.4
EV/EBITDA (x)	18.1	13.1	9.6
Div. Yield (%)	1.3	1.9	2.6
FCF Yield (%)	0.9	4.2	5.2

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	33.9	33.9	34.0
DII	4.4	4.4	5.1
FII	2.1	2.2	2.1
Others	59.6	59.6	58.8

FII Includes depository receipts

Stock Performance (1-year)



Margin: The issue of the past, a concern of the future!

- The prices of Aniline, a key raw material for NOCIL, have shot up by 20% MoM in Nov'21 (up 44% QoQ and 149% YoY) due to a supply crunch and other reasons mentioned below. This could result in a normalization of margin for NOCIL (recorded a peak margin of INR55/kg in the no Anti-Dumping Duty environment in 1QFY22).
- As the price of Aniline increases, the ability of the company to pass through the entire increase subsides (as highlighted in Exhibit 2), resulting in a margin compression.
- In the current environment, where: 1) the Centre has not accepted the Directorate General of Trade Remedies' (DGTR) recommendation to impose ADD on one of its key products, PX-13; and 2) there exists a risk of increased dumping from China (China Sunshine would complete its expansion over the next 1-2 quarters), the stock may be under pressure in the near term.
- We maintain our Buy rating on the stock, given: a) the management's confidence in achieving the optimal utilization rate of expanded capacity by 1HFY24 (we expect the same by FY24 – translating in a revenue/EPS CAGR of 26%/44% over FY21-24E), and b) relatively cheap valuation (at 15x FY24E EPS) after the recent correction.

Aniline demand and supply – overview and forecast

- Aniline is primarily used as a feedstock for producing Methylene Diphenyl Diisocyanate (MDI). By end-user market, it is primarily used in the Building and Construction space (constitutes 55% of the total consumption), followed by Auto (16%), rubber chemicals (11%), and Consumer Goods (10%).
- MDI prices continue to witness an uptrend in the North American market, backed by consistent demand from the Housing sector, downstream plasticizers, and insulator. The number of houses authorized for construction, but not yet started, [touched a 15-year high](#) in Oct'21 due to a shortage of materials. The pent up demand for Housing is likely to keep MDI demand strong in the medium term.
- Resumption of MDI capacities (by BASF and Covestro – the top two players globally) post shutdowns/force majeure in the last quarter, along with various other capacities in the US due to hurricanes, would keep demand for Aniline high in the near term.

Valuation and view – maintain Buy

- We build in an EBITDA/kg of INR35 for 2HFY22 (in line with the last three-year's average), with an improvement to INR45/INR50 over FY23E/FY24E, as capacity ramp-up and raw material prices normalize from current higher levels.
- For NOCIL, the priority would be to undertake debottlenecking at existing units in the near term, while long-term planning is under evaluation. Specialized products form 25% of total revenue, and any new capex announcement in this category would be both realization and margin accretive.
- NOCIL has an asset turnover of ~0.7x in FY21 (set to increase to 1.1x in FY24E). We expect return ratios to recover to 16-17% over FY23-24E (up from 7% in FY21). Valuing the stock at 22x Dec'23E EPS, we arrive at a TP of INR320. We maintain our Buy rating.

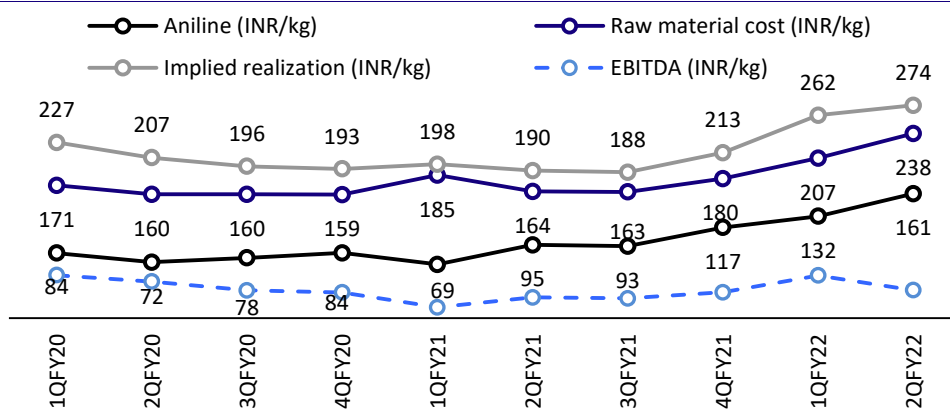
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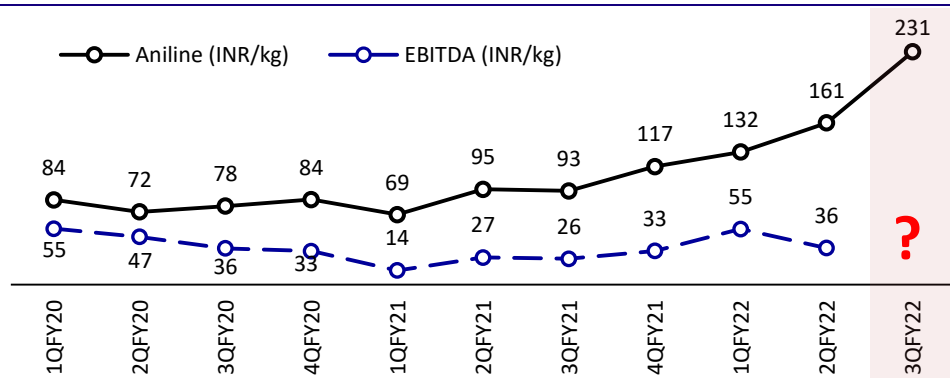
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Exhibit 1: NOCIL has taken price hikes to compensate for an increase in Aniline prices...



Source: Company, MOFSL

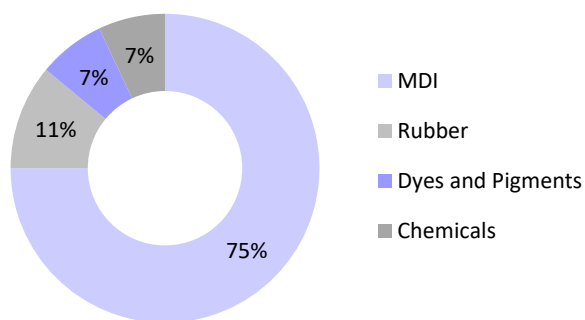
Exhibit 2: ...although its ability to pass through the entire increase subsides as highlighted by the increasing gap between Aniline prices and EBITDA/kg



Source: Company, MOFSL

Exhibit 3: Global Aniline market share by application – primarily used as a feedstock for MDI

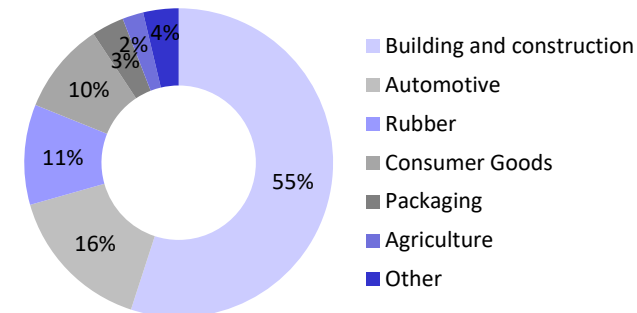
Global Aniline market share by application



Source: Industry, MOFSL

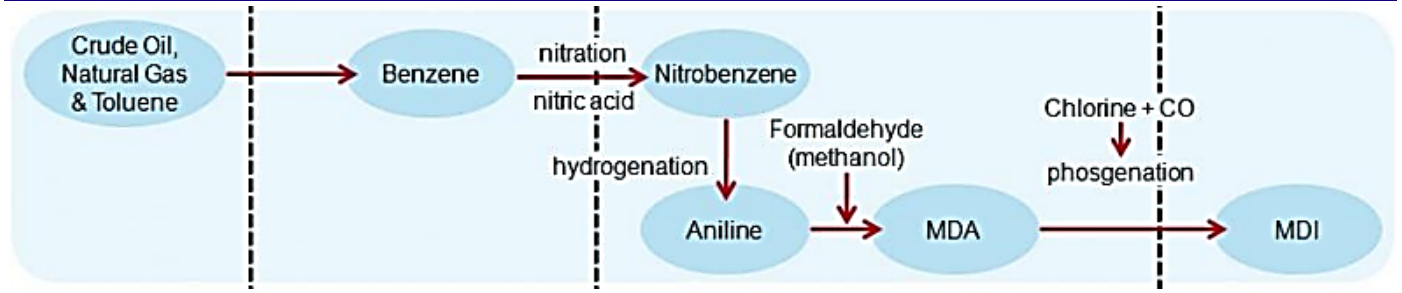
Exhibit 4: Global Aniline market share by end-user is primarily shared by the Building and Construction sector

Global Aniline market share by end-use



Source: Industry, MOFSL

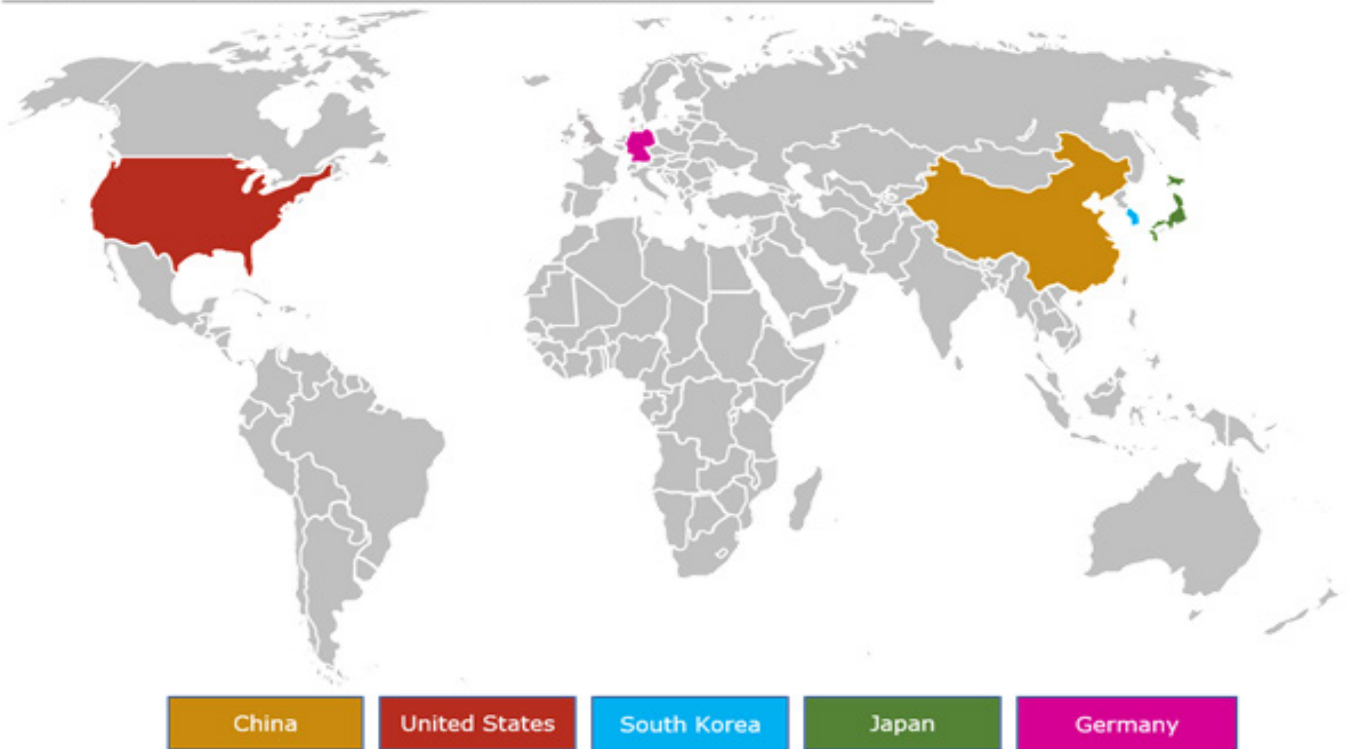
Exhibit 5: Process summary for the production of polyurethane building blocks



Source: BASF, MOFSL

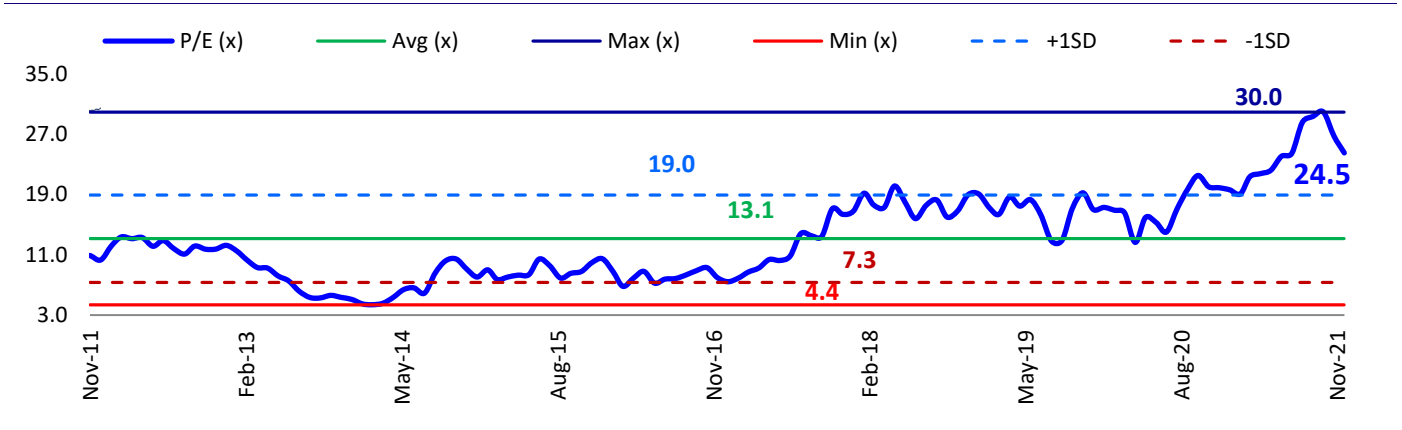
Exhibit 6: The US is the second largest producer of Aniline after China

Global Top 5 Aniline Producing Countries, By Volume, 2019



Source: Industry, MOFSL

Exhibit 7: On a one-year forward P/E, NOCIL trades at 24.5x



Source: Company, MOFSL

Story in charts

Exhibit 8: Expect optimal capacity utilization by FY24E...

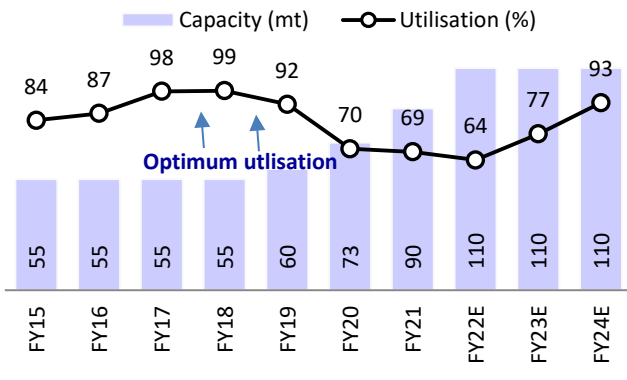


Exhibit 9: ...with ~18% YoY volume CAGR over FY21-24E

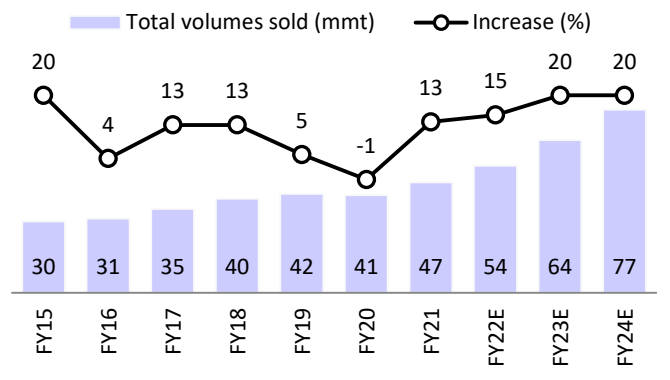


Exhibit 10: Exports constitute ~40% of total revenue

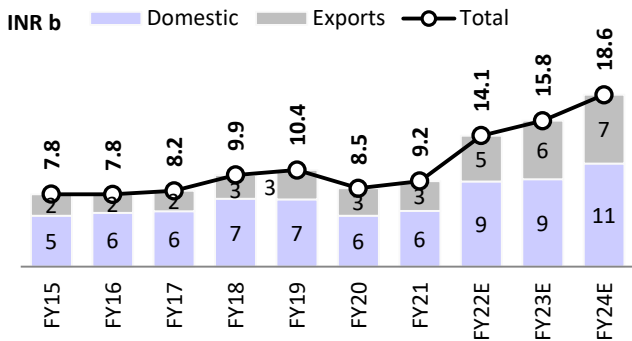


Exhibit 11: Realization/mt and EBITDA/mt snapshot

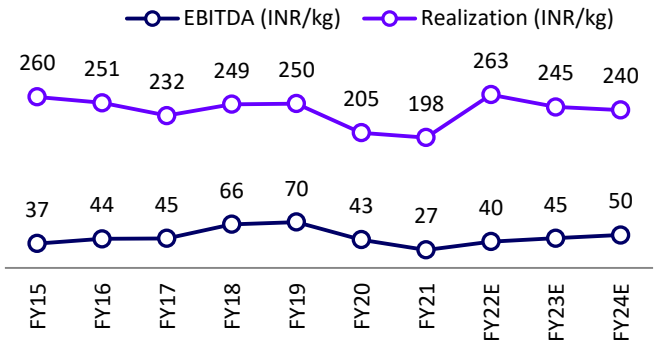


Exhibit 12: Expect EBITDA margin to improve to 21% in FY24E

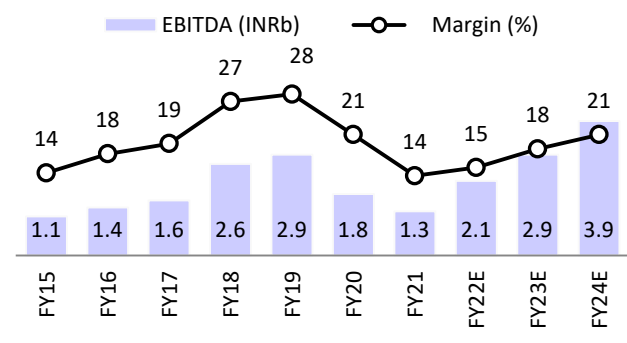


Exhibit 13: Expect PAT to grow 3x by FY24 (on a FY21 base)

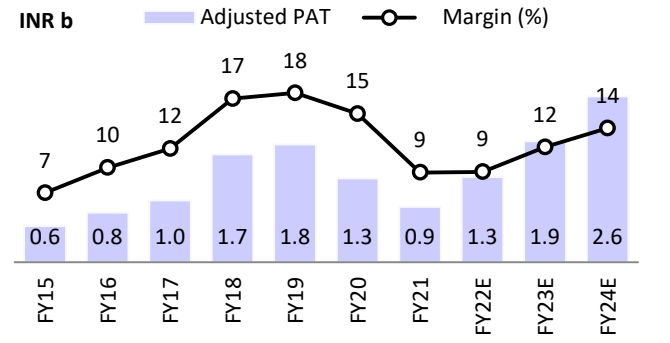


Exhibit 14: Expect return ratios to improve to ~16 in FY24E from 7% in FY21

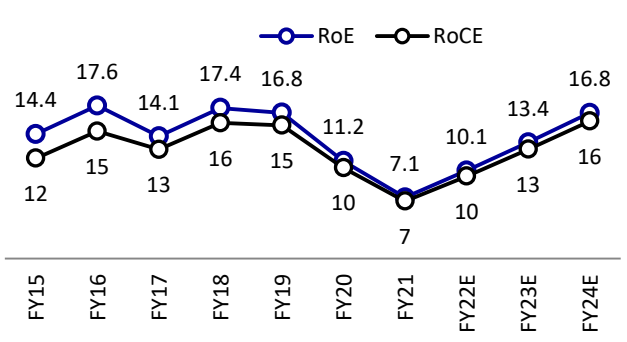
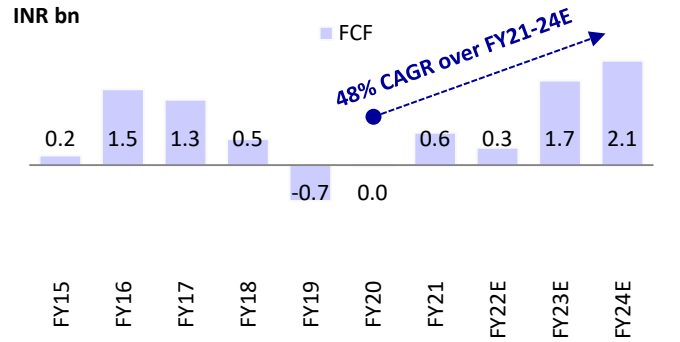


Exhibit 15: Expect a strong FCF yield of ~10% over FY22-24E



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Standalone Income Statement (INR m)									
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	7,886	8,183	9,893	10,429	8,463	9,247	14,143	15,759	18,551
Change (%)	0.4	3.8	20.9	5.4	-18.9	9.3	53.0	11.4	17.7
Gross Margin (%)	54.4	56.1	55.5	55.2	54.2	45.4	39.9	45.0	47.9
EBITDA	1,381	1,580	2,629	2,903	1,765	1,269	2,147	2,899	3,865
Margin (%)	17.5	19.3	26.6	27.8	20.8	13.7	15.2	18.4	20.8
Depreciation	137	187	229	230	324	361	436	467	511
EBIT	1,244	1,393	2,400	2,673	1,440	909	1,711	2,432	3,354
Int. and Finance Charges	93	22	12	6	13	10	10	10	10
Other Income	30	91	143	100	97	143	84	105	121
PBT bef. EO Exp.	1,181	1,462	2,531	2,767	1,524	1,042	1,785	2,527	3,466
PBT after EO Exp.	1,181	1,462	2,531	2,767	1,524	1,042	1,785	2,527	3,466
Total Tax	404	494	845	926	214	177	452	636	872
Tax Rate (%)	34.2	33.8	33.4	33.5	14.1	17.0	25.3	25.2	25.2
Reported PAT	777	968	1,686	1,841	1,310	865	1,333	1,891	2,594
Adjusted PAT	777	968	1,686	1,841	1,310	865	1,333	1,891	2,594
Change (%)	37.0	24.6	74.1	9.2	-28.9	-34.0	54.1	41.9	37.1
Margin (%)	9.9	11.8	17.0	17.7	15.5	9.4	9.4	12.0	14.0

Standalone Balance Sheet (INR m)									
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	1,608	1,636	1,645	1,654	1,656	1,662	1,662	1,662	1,662
Total Reserves	3,072	7,415	8,730	9,876	10,104	11,073	11,873	13,007	14,564
Net Worth	4,679	9,050	10,374	11,531	11,760	12,735	13,535	14,670	16,226
Total Loans	259	150	50	0	0	0	0	0	0
Deferred Tax Liabilities	462	1,025	1,003	1,054	887	956	956	956	956
Capital Employed	5,400	10,226	11,427	12,584	12,647	13,691	14,491	15,626	17,182
Gross Block	4,327	6,653	6,569	8,050	9,789	11,374	11,574	11,774	11,974
Less: Accum. Deprn.	1,430	1,509	1,576	1,787	2,111	2,472	2,908	3,375	3,886
Net Fixed Assets	2,898	5,144	4,994	6,263	7,678	8,902	8,666	8,399	8,088
Capital WIP	60	31	392	1,305	1,563	140	140	140	140
Total Investments	473	2,014	3,020	1,487	726	826	826	826	826
Curr. Assets, Loans, and Adv.	3,354	4,291	4,750	5,223	4,312	6,122	7,588	9,302	11,707
Inventory	1,324	1,143	1,550	1,704	1,361	1,653	2,275	2,535	2,984
Account Receivables	1,511	1,665	2,434	2,322	2,032	3,086	3,396	3,784	4,454
Cash and Bank Balance	70	1,135	276	389	128	797	596	1,510	2,535
Cash	47	1,055	240	360	84	441	240	1,154	2,179
Bank Balance	24	81	36	29	44	356	356	356	356
Loans and Advances	449	347	491	808	791	587	1,322	1,473	1,734
Curr. Liability and Prov.	1,385	1,255	1,729	1,694	1,633	2,297	2,728	3,040	3,579
Account Payables	620	810	1,139	988	892	1,710	1,491	1,662	1,956
Other Current Liabilities	335	243	397	502	511	378	853	951	1,119
Provisions	430	202	193	204	230	210	384	427	503
Net Current Assets	1,968	3,036	3,022	3,529	2,680	3,824	4,860	6,262	8,128
Appl. of Funds	5,399	10,225	11,427	12,584	12,647	13,691	14,491	15,626	17,182

E: MOSL estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	4.7	5.8	10.1	11.1	7.9	5.2	8.0	11.4	15.6
EPS Growth (%)	37.0	24.6	74.1	9.2	-28.9	-34.0	54.1	41.9	37.1
Cash EPS	5.5	6.9	11.5	12.5	9.8	7.4	10.6	14.2	18.7
BV/Share	28.2	54.4	62.4	69.4	70.8	76.6	81.4	88.3	97.6
DPS	1.2	1.2	1.8	2.5	4.5	2.5	3.2	4.6	6.2
Payout (%)	29.9	24.0	21.0	27.0	76.0	48.0	40.0	40.0	40.0
Valuation (x)									
P/E	50.9	40.9	23.5	21.5	30.2	45.7	29.7	20.9	15.3
Cash P/E	43.3	34.2	20.7	19.1	24.2	32.3	22.4	16.8	12.7
P/BV	8.5	4.4	3.8	3.4	3.4	3.1	2.9	2.7	2.4
EV/Sales	5.0	4.7	4.0	3.8	4.7	4.2	2.8	2.4	2.0
EV/EBITDA	28.8	24.4	15.0	13.5	22.3	30.5	18.1	13.1	9.6
Dividend Yield (%)	0.5	0.5	0.8	1.1	1.9	1.1	1.3	1.9	2.6
FCF per share	9.1	7.8	3.1	-4.3	-0.1	3.9	2.1	10.1	12.5
Return Ratios (%)									
RoE	17.6	14.1	17.4	16.8	11.2	7.1	10.1	13.4	16.8
RoCE	14.7	12.6	15.6	15.4	10.5	6.6	9.5	12.6	15.9
RoIC	16.0	15.6	21.6	20.7	12.6	6.8	10.3	14.0	18.7
Working Capital Ratios									
Fixed Asset Turnover (x)	2.7	2.0	2.0	1.9	1.2	1.1	1.6	1.8	2.3
Asset Turnover (x)	1.5	0.8	0.9	0.8	0.7	0.7	1.0	1.0	1.1
Inventory (Days)	61	51	57	60	59	65	59	59	59
Debtor (Days)	70	74	90	81	88	122	88	88	88
Creditor (Days)	29	36	42	35	38	67	38	38	38
Leverage Ratio (x)									
Current Ratio	2.4	3.4	2.7	3.1	2.6	2.7	2.8	3.1	3.3
Interest Coverage Ratio	13.3	62.7	196.7	424.3	109.1	94.6	178.2	253.3	349.4
Net Debt/Equity	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.2

Standalone Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,181	1,462	2,531	2,767	1,524	1,042	1,785	2,527	3,466
Depreciation	137	187	229	230	324	361	436	467	511
Direct Taxes Paid	-306	-454	-802	-878	-510	-1	-452	-636	-872
(Inc.)/Dec. in WC	574	269	-901	-400	515	-372	-1,237	-487	-842
CF from Operations	1,649	1,402	984	1,638	1,772	904	542	1,880	2,272
(Inc.)/Dec. in FA	-140	-106	-470	-2,351	-1,790	-262	-200	-200	-200
Free Cash Flow	1,509	1,296	514	-713	-18	642	342	1,680	2,072
Other investing activity	16	27	-908	1,334	746	-325	0	0	0
CF from Investments	-124	-79	-1,379	-1,017	-1,044	-586	-200	-200	-200
Inc./(Dec.) in Debt	-1,214	-109	-100	-50	0	0	0	0	0
Interest Paid	-101	-23	-13	-7	-9	-4	-10	-10	-10
Dividend Paid	-192	-230	-350	-490	-980	-7	-533	-756	-1,037
Others	4	-9	2	41	-15	51	0	0	0
CF from Fin. Activity	-1,504	-315	-420	-501	-1,004	40	-543	-766	-1,047
Inc./Dec. in Cash	21	1,008	-814	120	-276	358	-201	914	1,025
Opening Balance	26	47	1,055	240	360	84	441	240	1,154
Closing Balance	47	1,055	240	360	84	441	240	1,154	2,179

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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