

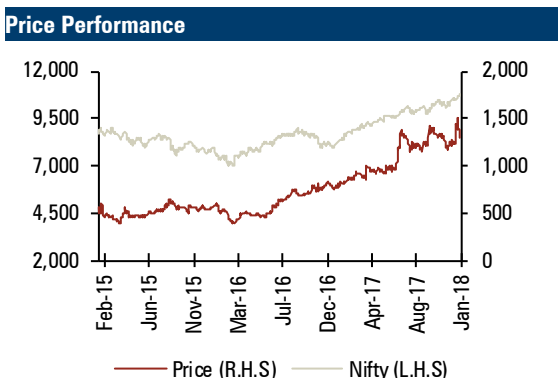
Rating matrix	
Rating	Buy
Target	₹ 1550
Target Period	12-18 months
Potential Upside	20%

What's changed?	
Target	Changed from ₹ 1400 to ₹ 1550
EPS FY18E	Changed from ₹ 60.0 to ₹ 58.4
EPS FY19E	Changed from ₹ 70.0 to ₹ 68.1
EPS FY20E	Introduced at ₹ 77.5
Rating	Unchanged

Key financials				
₹ crore	FY17	FY18E	FY19E	FY20E
Net Sales	297.5	321.0	357.2	380.4
EBITDA	87.3	98.9	112.5	121.7
Net Profit	53.4	60.2	70.2	79.9
EPS	51.8	58.4	68.1	77.5

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	24.9	22.1	19.0	16.6
Target P/E	29.9	26.6	22.8	20.0
EV / EBITDA	15.8	14.4	12.0	10.5
P/BV	4.0	3.6	3.1	2.7
RoNW	15.9	16.1	16.4	16.3
RoCE	15.3	13.7	17.2	20.1
ROIC	17.3	19.1	19.7	21.5

Stock data	
Stock Data	₹ crore
Market Capitalization	1330.0
Total Debt (FY17)	96.5
Cash and Cash Equivalent (FY17)	43.4
Enterprise Value	1383.1
52 week H/L	1589 / 792
Equity Capital	10.3
Face Value	₹ 10
MF Holding (%)	20.2
FII Holding (%)	1.1



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Oriental Carbon & Chemicals (ORICAR) ₹ 1290

Minor hiccups; long term growth story intact

- Oriental Carbon & Chemicals' (OCCL) performance in Q2FY18 was a tad below our expectations primarily driven by slower sales volume offtake and appreciation of the rupee. OCCL reported net sales of ₹ 152.2 crore in H1FY18, up 4.9% YoY, solely driven by volumes
- Operational efficiencies have begun to kick in on the expanded production base with H1FY18 EBITDA coming in healthy at ₹ 48.0 crore (up 11.1% YoY) with corresponding EBITDA margins at 31.5%, expanding 170 bps YoY. PAT in H1FY18 came in at ₹ 27.0 crore
- The management's guidance suggests a softer Q3FY18E with robust growth to rebound from Q4FY18E onwards. Phase 1 (5500 tonne) expansion is on the brink of achieving optimum utilisation levels by Q4FY18E post annual negotiations with tyre companies on allocation of quantities that usually occur in January
- The anti dumping duty imposed on imported Chinese bus & truck radial tyres domestically in September 2017 is expected to further boost the robust domestic insoluble sulphur demand. Phase 1 (5500 tonne) ramping up swiftly and Phase 2 (5500 tonne) expansion to come on stream by Q2FY19E places OCCL in a great position to serve the growing domestic and foreign insoluble sulphur demand

Quality business model; premium valuation to sustain

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). It caters to ~50%+ of the 18,000 tonne domestic insoluble sulphur demand and commands ~10% of the global market share. 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%. Given the healthy business prospects, premium valuations are here to stay for OCCL, going forward.

Impressive brownfield expansion on track; volume led growth to follow

OCCL had a capacity of 23,000 tonne and operated at ~90% utilisation level in FY16. Sensing the same, OCCL is undergoing brownfield expansion to increase its capacity by 11,000 tonne. Post commissioning of Phase 1 (5500 tonne) expansion in December 2017, OCCL successfully acquired new clients in North America & China while gaining wallet share at existing client plants. With a strong customer relationship, the second phase is due to be commissioned by Q2FY19E. With focus on further penetration in the Chinese & North American markets amid increasing product demand, we expect OCCL to report healthy volume led growth in FY17-20E. We expect OCCL to report insoluble sulphur sales volume CAGR of ~9.7% in FY17-20E to ~30.3 KT in FY20E (~22.7 KT in FY17).

Impressive operating cash flow yield; niche segment; retain BUY!

OCCL is expected to generate an average cash flow of ~₹ 93 crore thereby offering an impressive cash flow yield of ~7%. It is indeed a speciality chemical company with unique product profile, limited competition in the marketplace and possesses a sustainable moat. On account of exports constituting ~70% of sales, OCCL is expected to witness muted realisations. However impressive brownfield expansion is likely to result in ~270 bps expansion in EBITDA margins in FY17-20E. We expect sales & PAT to grow at a CAGR of 8.9% & 15.3%, respectively, in FY18E-20E. With certainty of operations & commissioning of new facilities we roll over our valuation to FY20E and value OCCL at ₹ 1550 i.e. 20.0x P/E on FY20E EPS of ₹ 77.5. We maintain our **BUY** rating on the stock.

Financial summary (Standalone)

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Net Sales	294.5	321.0	357.2	380.4	
Other Operating Income	3.0	0.0	0.0	0.0	
Total Operating Income	297.5	321.0	357.2	380.4	
Growth (%)	8.3	7.9	11.3	6.5	
Raw Material Expenses	70.7	69.9	87.5	93.2	
Employee Expenses	38.2	40.7	42.9	45.6	
Power & Fuel Expenses	36.1	38.5	41.1	43.7	
Other Operating Expense	65.1	73.0	73.2	76.1	
Total Operating Expenditure	210.2	222.1	244.7	258.7	
EBITDA	87.3	98.9	112.5	121.7	
Growth (%)	7.7	13.4	13.7	8.2	
Depreciation	15.2	17.0	20.9	22.7	
Interest	5.1	7.9	10.3	7.3	
Other Income	6.6	6.9	8.6	10.8	
PBT	73.6	80.9	90.0	102.5	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	20.2	20.8	19.8	22.5	
PAT	53.4	60.2	70.2	79.9	
Growth (%)	0.9	12.6	16.6	13.9	
EPS (₹)	51.8	58.4	68.1	77.5	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Liabilities					
Equity Capital	10.3	10.3	10.3	10.3	
Reserve and Surplus	326.0	364.0	418.1	480.7	
Total Shareholders funds	336.3	374.3	428.4	491.0	
Total Debt	96.5	151.5	106.5	76.5	
Deferred Tax Liability & Others	29.6	29.1	29.1	29.1	
Total Liabilities	462.4	554.8	563.9	596.5	
Assets					
Gross Block	421.3	428.7	498.7	508.7	
Less: Acc Depreciation	115.2	132.2	153.1	175.7	
Net Block	306.1	296.5	345.7	333.0	
Capital WIP	2.4	70.0	10.0	10.0	
Total Fixed Assets	308.5	366.5	355.7	343.0	
Liquid Investments	30.1	40.1	70.1	105.1	
Other Investments	14.7	14.7	14.7	14.7	
Inventory	32.2	39.6	44.0	46.9	
Debtors	72.6	66.0	68.5	73.0	
Loans and Advances	34.3	44.9	28.6	30.4	
Other Current Assets	6.0	6.4	7.1	7.6	
Cash	13.4	15.4	18.3	21.8	
Total Current Assets	158.4	172.2	166.6	179.7	
Creditors	46.9	35.2	39.1	41.7	
Provisions	2.4	3.5	3.9	4.2	
Current Liabilities & Prov	49.3	38.7	43.1	45.9	
Net Current Assets	109.1	133.6	123.5	133.8	
Application of Funds	462.4	554.8	563.9	596.5	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Profit after Tax	53.4	60.2	70.2	79.9	
Add: Depreciation	15.2	17.0	20.9	22.7	
(Inc)/dec in Current Assets	9.7	-11.8	8.6	-9.6	
Inc/(dec) in CL and Provisions	12.2	-10.6	4.4	2.8	
Others	5.1	7.9	10.3	7.3	
CF from operating activities	95.6	62.7	114.4	103.1	
(Inc)/dec in Investments	-14.6	-10.0	-30.0	-35.0	
(Inc)/dec in Fixed Assets	-101.3	-75.0	-10.0	-10.0	
Others	8.5	-0.6	0.0	0.0	
CF from investing activities	-107.4	-85.6	-40.0	-45.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	24.1	55.0	-45.0	-30.0	
Dividend paid & dividend tax	-12.4	-13.6	-16.1	-17.3	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	3.6	-16.5	-10.3	-7.3	
CF from financing activities	15.3	24.9	-71.4	-54.6	
Net Cash flow	3.5	2.0	2.9	3.5	
Opening Cash	9.9	13.4	15.4	18.3	
Closing Cash	13.4	15.4	18.3	21.8	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Per share data (₹)					
EPS	51.8	58.4	68.1	77.5	
Cash EPS	66.5	74.8	88.3	99.5	
BV	326.2	363.0	415.5	476.2	
DPS	10.0	11.0	13.0	14.0	
Cash Per Share (Incl Invst)	42.1	53.8	85.7	123.0	
Operating Ratios (%)					
EBITDA Margin	29.3	30.8	31.5	32.0	
PBT / Total Op. income	24.7	25.2	25.2	26.9	
PAT Margin	18.0	18.7	19.6	21.0	
Inventory days	39.9	45.0	45.0	45.0	
Debtor days	89.9	75.0	70.0	70.0	
Creditor days	58.1	40.0	40.0	40.0	
Return Ratios (%)					
RoE	15.9	16.1	16.4	16.3	
RoCE	15.3	13.7	17.2	20.1	
RoIC	17.3	19.1	19.7	21.5	
Valuation Ratios (x)					
P/E	24.9	22.1	19.0	16.6	
EV / EBITDA	15.8	14.4	12.0	10.5	
EV / Net Sales	4.7	4.4	3.8	3.4	
Market Cap / Sales	4.5	4.1	3.7	3.5	
Price to Book Value	4.0	3.6	3.1	2.7	
Solvency Ratios					
Debt/EBITDA	1.1	1.5	0.9	0.6	
Debt / Equity	0.3	0.4	0.2	0.2	
Current Ratio	2.9	4.1	3.4	3.4	
Quick Ratio	2.3	3.0	2.4	2.4	

Source: Company, ICICIdirect.com Research

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