

Rating matrix	
Rating	: Buy
Target	: ₹ 1300
Target Period	: 12-18 months
Potential Upside	: 26%

What's changed?	
Target	Changed from ₹ 1550 to ₹ 1300
EPS FY19E	Changed from ₹ 68.1 to ₹ 71.2
EPS FY20E	Changed from ₹ 77.5 to 81.1
Rating	Unchanged

Key financials				
₹ crore	FY17	FY18	FY19E	FY20E
Net Sales	297.5	328.2	371.5	398.6
EBITDA	87.3	98.2	115.2	125.6
Net Profit	53.4	56.8	73.4	83.6
EPS	51.8	55.1	71.2	81.1

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	19.9	18.7	14.5	12.7
Target P/E	25.1	23.6	18.3	16.0
EV / EBITDA	12.8	11.3	9.2	7.8
P/BV	3.2	2.7	2.4	2.1
RoNW	15.9	14.6	16.4	16.3
RoCE	15.3	15.5	18.7	22.4
RoIC	17.3	19.9	20.5	22.7

Stock data	
Stock Data	₹ crore
Market Capitalization	1061.9
Total Debt (FY18)	112.0
Cash and Cash Equivalent (FY18)	68.4
Enterprise Value	1105.5
52 week H/L	1589 / 915
Equity Capital	10.3
Face Value	₹ 10
MF Holding (%)	21.1
FII Holding (%)	1.4

Stock data				
	1M	3M	6M	12M
Phillips Carbon Black	-10.9	-3.2	23.1	166.6
Oriental Carbon (OCCL)	-11.7	-11.8	-17.9	13.3

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## Oriental Carbon & Chemicals (ORICAR) ₹ 1030

### Proxy - auto play, steady growth trajectory...

- Oriental Carbon & Chemicals (OCCL) reported a steady Q4FY18 performance. Net sales for the quarter came in at ₹ 89.8 crore, up 9.4% YoY. EBITDA in Q4FY18 was at ₹ 24.1 crore with corresponding EBITDA margins at 26.9% (down 340 bps YoY)
- EBITDA margins in Q4FY18 came in muted primarily tracking MTM on forward forex contracts (~₹ 2 crore), adjusting for which it was in its normal range of 28-30%
- Consequent PAT for Q4FY18 came in at ₹ 14.5 crore, up 56% YoY. Higher PAT for the quarter is supported by a higher tax rate (52%) in the base quarter i.e. Q4FY17
- For full year FY18, net sales were at ₹ 328.2 crore (up 10.3% YoY). EBITDA was at ₹ 98.2 crore (EBITDA margins at 29.9%, up 60 bps YoY) and PAT at ₹ 56.8 crore, up 6.4% YoY
- OCCL supplies key raw material i.e. insoluble sulphur to domestic as well as global tyre companies. Hence, it is a proxy on robust auto and consequent tyre industry growth
- OCCL has already begun trial runs from the Phase-2 of brownfield expansion and expects to commence commercial production soon

#### OCCL - key player in closely guarded insoluble sulphur industry

OCCL is a speciality chemical company manufacturing insoluble sulphur, a critical vulcanisation agent for manufacturing tyres. As per industry estimates, total insoluble sulphur (IS) market globally as of CY15 is at ~264 KT dominated by three major players i.e. oligopolistic in nature. Eastman Chemicals (US) is the market leader with close to ~70% market share followed by Japanese Player Shikoku with ~15% market share. OCCL with total sales volume in the range of ~26 KT is the third credible player with ~10% market share. Its market share in the domestic market is pegged at ~55-60%. Globally, demand for insoluble sulphur is expected to grow at 5.2% CAGR in CY15-20E with demand in India growing at a CAGR of 10%+ due to robust automobile demand & increasing radialisation of tyres particularly in the CV space.

#### Capacity in place, volume led growth to sustain

OCCL has a current capacity of 28500 tonnes and is largely operating at ~90% utilisation level as of FY18. As part of its brownfield expansion OCCL is due to commission its Phase 2 of expansion of 5500 tonnes in FY19E. With the history of commissioning ahead of schedule and capacity already under trial runs, we expect the Phase 2 to commence commercial production by Q1FY19 end. This is likely to lead volume led growth to sustain at OCCL. We expect insoluble sulphur sales volume to grow at a CAGR of 9.7% to ~32 KT by FY20E.

#### Speciality chemical company in true sense, portfolio stock, retain BUY!

OCCL is a speciality chemical company in the true sense with robust amount of value addition being done to procured raw materials as RM to sales is low at ~25% with remaining major expenses being power & fuel (~12%) and other expenses (~22%). OCCL also has a unique product profile, limited competition in the marketplace and consequent sustainable strong EBITDA margins (28%+) and return ratios (RoIC: 20%+). OCCL has a healthy balance sheet with controlled working capital cycle (~75 days) and robust CFO's with average CFO yield in FY18-20E at ~9%. Going forward, with robust demand prospects and incremental capacity in place, we expect sales & PAT to grow at a CAGR of 10.2% and 21.3%, respectively, in FY18-20E. We value OCCL at ₹ 1300 i.e. 16x P/E on FY20E EPS of ₹ 81.1/share and assign **BUY** rating on the stock.

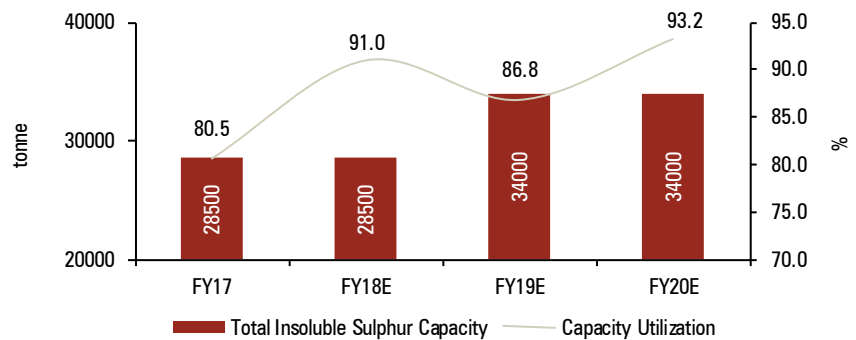
## Company Analysis

OCCL is a JP Goenka Group company manufacturing insoluble sulphur under the brand "Diamond Sulf". The company was established in 1978 while it commenced manufacturing insoluble sulphur in 1994 with installed capacity of 3000 TPA. OCCL has current capacity to manufacture 23000 tonne of insoluble sulphur annually. It has two plants in India viz. Dharuhera, Haryana (12000 tonne capacity) and Mundra SEZ, Gujarat (11000 tonne capacity). In 2015, OCCL further commenced a brownfield expansion of 11000 TPA at the existing Mundra facility of which Phase 1 (5500 tonne) is already commissioned and phase 2 (5500 tonne) due for commissioning by Q2FY19E. The capex is estimated to cost ~₹ 159 crore with expected project IRR of ~25% and payback period of four years.

### Capacity expansion on track; early commissioning bodes well

Capacity utilisations level peaked in FY16 with utilisations level at ~90%. Sensing the constraints, the company executed a brownfield expansion with Phase 1 commissioned by end of FY17 and Phase 2 in FY19E. With robust demand, we expect a fast ramp up of capacity with capacity utilisation inching up to ~93% in FY20E vs. ~91% in FY18E.

**Exhibit 1: Capacity utilisation levels trend**



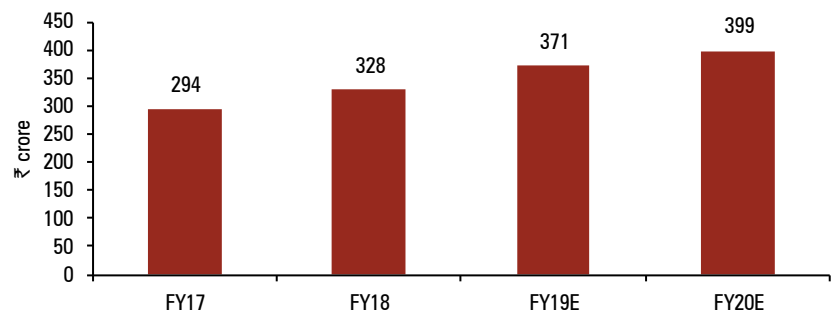
Source: Company, ICICI Direct Research

We expect insoluble sulphur sales volume to grow at a CAGR of 9.7% to ~32 KT by FY20E.

### Net sales to be robust; tracking capacity expansion

With incremental capacity in place and steady realisations, we expect healthy volume led growth to lead to 10.2% CAGR in sales in FY18-20E.

**Exhibit 2: Net sales trend**



Source: Company, ICICI Direct Research

### Healthy EBITDA & PAT growth, going forward

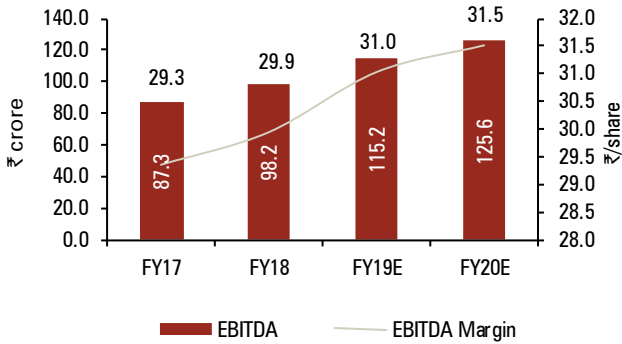
The new capacity is expected to be absorbed quickly as OCCL has a strong relationship with its customers amid healthy product demand

This is largely a volume led growth with pricing expected to be stable amid stabilising crude oil prices and OCCL possessing good bargaining power by virtue of it being a player in the oligopolistic market

Sales volumes are tilted more in favour of exports vs. domestic. Exports share in the total sales volume mix remains largely in the range of 65-70%

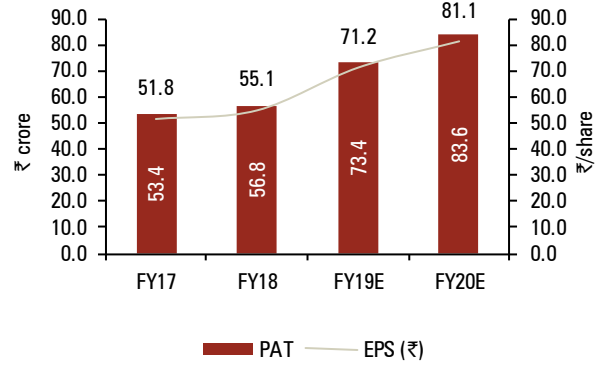
EBITDA is expected to grow at a CAGR of 13.1% in FY18-20E to ₹ 125.6 crore in FY20E. This is largely a result of sales volume growth (10.2% CAGR) coupled with 160 bps expansion in EBITDA margins. EBITDA margins are expected to expand as the capex is brownfield in nature. This will result in sharing of overhead costs on an expanded base.

**Exhibit 3: EBITDA & EBITDA margins trend**



Source: Company, ICICI Direct Research

**Exhibit 4: PAT & EPS trend**



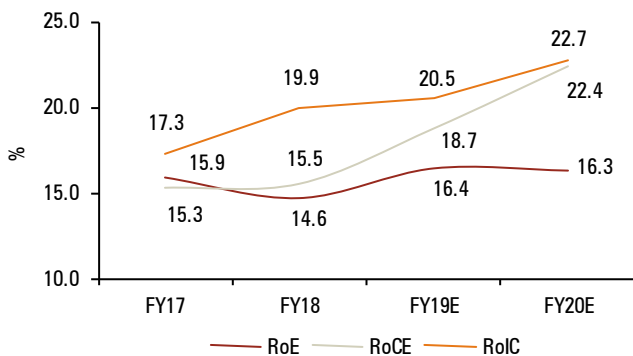
Source: Company, ICICI Direct Research

In FY18-20E, on account of sales volume growth (9.7% CAGR), expansion in EBITDA margins (160 bps) and a decline in interest costs (due to repayment of debt), we expect PAT to grow at a CAGR of 21.3% in FY18-20E to ₹ 83.6 core in FY20E. Corresponding EPS is expected at ₹ 71.2 in FY19E & ₹ 81.1 in FY20E.

**Increasing profitability to result in improved return ratios profile**

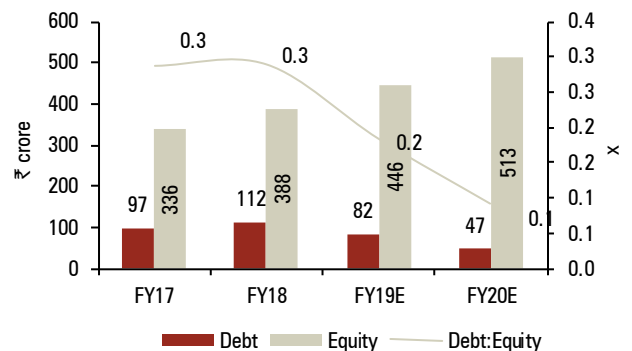
Post the blip in FY17E, return ratios are expected to improve with RoE & RoCE expected to perk up to ~16% & ~22%, respectively, by FY20E. Return ratios are also suppressed due to surplus cash with the company, which it intends to spend on unrelated business activity, which is not capital intensive and generates healthy returns for its shareholders.

**Exhibit 5: Return ratios profile**



Source: Company, ICICI Direct Research

**Exhibit 6: Debt: equity trend**



Source: Company, ICICI Direct Research

**Low planned capex, healthy cash flows improve debt gearing!**

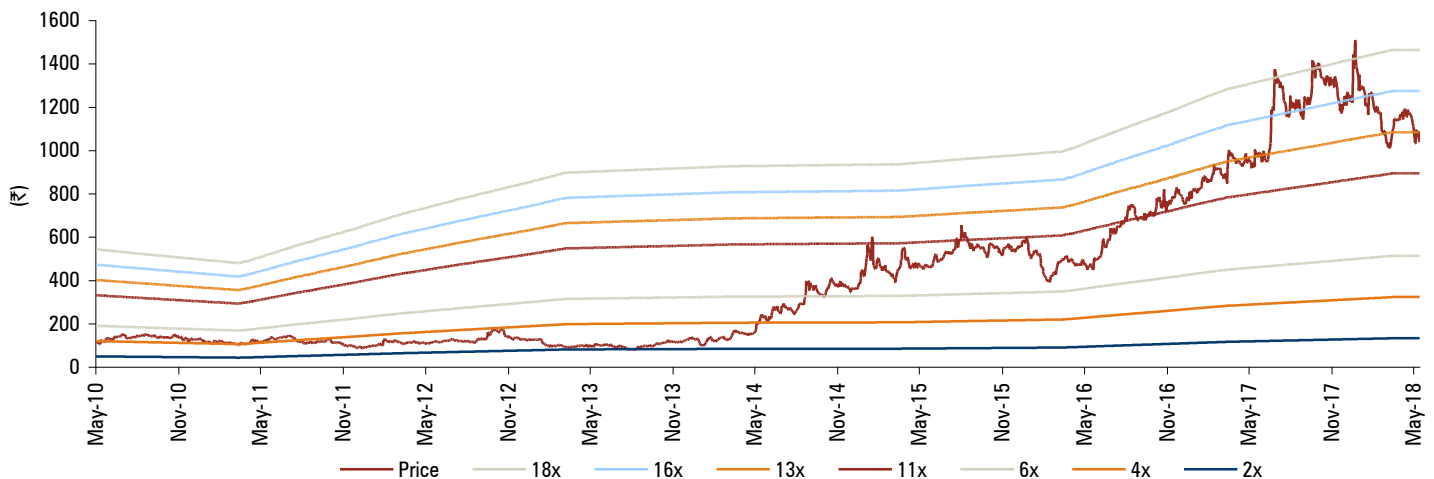
OCCL has a healthy balance sheet with gross debt of ₹ 112 crore as of FY18 with consequent debt: equity at 0.3x. We expect the debt gearing to be controlled due to healthy generation of cash from operations. OCCL is expected to generate average CFO of ~₹ 99 crore/year in FY18E-20E with debt: equity expected to reduce further to ~0.1x in the aforesaid period. The company has also a controlled working capital cycle with net working capital days of ~73 days in FY18.

## Outlook and valuation

Oriental Carbon & Chemicals (OCCL) is a speciality chemical company manufacturing insoluble sulphur, a critical vulcanisation agent for manufacturing tyres. With limited competition and a unique product profile, OCCL has a strong presence in the domestic (~50% market share) as well as export markets. With the robust auto sector outlook, increasing share of radialisation in India's CV segment and operational efficiencies, OCCL is on a strong footing with robust prospects, going forward.

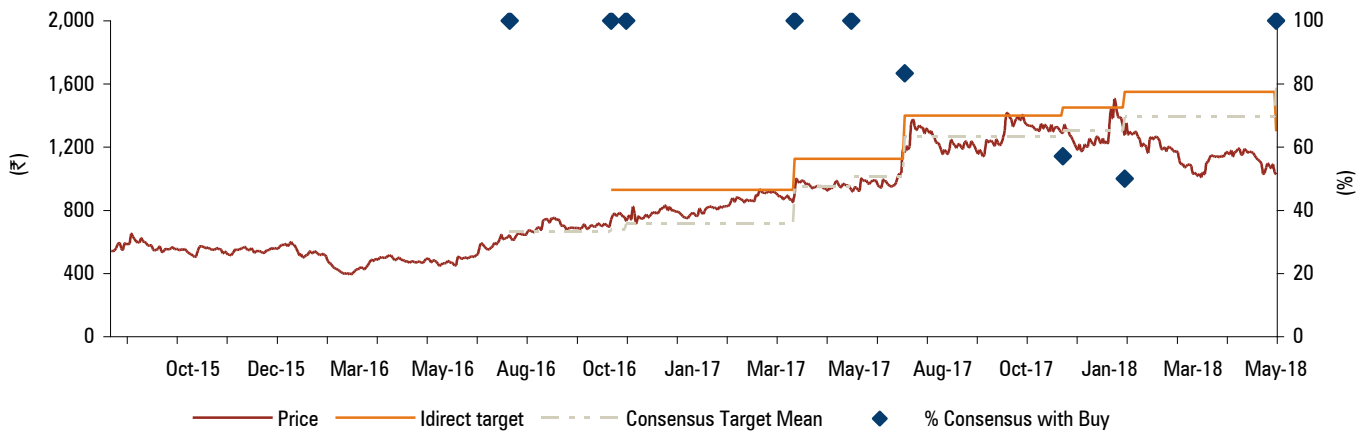
OCCL is a speciality chemical company in the true sense with robust amount of value addition being done to procure raw materials as RM to sales is low at ~25% with remaining major expenses being power & fuel (~12%) and other expenses (~22%). OCCL also has a unique product profile, limited competition in the marketplace and consequent sustainable strong EBITDA margins (28%+) and return ratios (RoIC: 20%+). OCCL has a healthy balance sheet with controlled working capital cycle (~75 days) and robust CFO's with average CFO yield over FY18-20E at ~9%. Going forward, with robust demand prospects and incremental capacities in place, we expect sales & PAT to grow at a CAGR of 10.2% and 21.3%, respectively, in FY18-20E. We value OCCL at ₹ 1300 i.e. 16x P/E on FY20E EPS of ₹ 81.1/share and assign **BUY** rating to the stock.

**Exhibit 7: Two year forward P/E (OCCL currently trading at 12.8x)**



Source: Reuters, ICICI Direct Research

### Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct Research; \*I-direct coverage on Phillips Carbon Black was initiated on July 2016

### Key events

Date/Year	Event
2004	OCCL sets up second line of insoluble sulphur increasing its capacity in Dharuera by 4000 metric tonne (MT)
2010	The company increases insoluble sulphur capacity to 12000 MT through debottlenecking
2011	OCCL reports net sales of ₹ 158.2 cr (up 25.9% YoY) and net profit of ₹ 37.4 cr (up 27.2% YoY) on the back of robust global demand and capacity expansion through debottlenecking. Major tyre manufacturers identify OCCL as a strategic supplier
2012	The company commissions Phase I at the Mundra SEZ Plant (5500 MT) in August 2011 taking the total capacity to 17500 MT. Robust demand and product validation and approvals by major tyre manufacturers augurs well for the company thereby fastracking the capacity utilisation levels at OCCL
2013	OCCL fully commissions Phase II at the Mundra SEZ Plant (5500 MT) in May 2012 taking the total insoluble sulphur capacity to 23000 MT. OCCL was impacted by the global slowdown of insoluble sulphur demand as tyre companies took production cuts. OCCL acquires 50% stake in Schrader Duncan Ltd
2014	Domestic sales of insoluble sulphur grow 12% while export sales grow 14%. With existing land availability at Mundra facility and tyre industry steadily getting out of recession OCCL plans another expansion of 11000 MT over two phases
2015	In FY15, OCCL's gross revenue from insoluble sulphur increased 5% YoY. Export sales quantity increases 10% YoY on account of increased off take by existing customers and addition of some new customers. The growth rate in domestic volumes is only 6% as the tyre industry in India is in the grip of a slowdown and demand picks up late in the second half of the year
2016	OCCL executing brownfield expansion (11000 tonne in two phases with each phase of 5500 tonne) in Mundra. The first phase of capacity expansion is expected to be commissioned ahead of schedule by the end of FY17E against the initial guidance of April 2017
2017	OCCL successfully commissions Phase 1 (5500 tonne) facility in December 2017 at Mundra. The company expects to fully ramp up the facility within a year. OCCL is confident of tying up additional quantities in American and Chinese market, where it has begun to establish its presence
2018	OCCL commences trial runs from Phase 2 (5500 tonne) of brownfield expansion and expects it to commission soon. For full year FY18, net sales were at ₹ 328.2 crore (up 10.3% YoY), EBITDA was at ₹ 98.2 crore (EBITDA margins at 29.9%, up 60 bps YoY) and PAT at ₹ 56.8 crore, up 6.4% YoY

Source: Company, ICICIdirect.com Research

### Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Cosmopolitan Investments, Ltd.	31-Mar-18	18	1.9	0.0
2	New India Investment Corporation, Ltd.	31-Mar-18	12	1.2	0.0
3	Duncan International (India) Ltd.	31-Mar-18	10	1.0	0.0
4	HDFC Asset Management Co., Ltd.	31-Mar-18	9	0.9	0.0
5	Haldia Investment Co., Ltd.	31-Mar-18	6	0.6	0.0
6	L&T Investment Management Limited	31-Mar-18	5	0.5	0.0
7	Life Insurance Corporation of India	31-Mar-18	4	0.4	0.0
8	Morgan Stanley Investment Management (Ind	30-Sep-16	3	0.3	0.0
9	General Insurance Corporation of India	31-Mar-18	3	0.3	(0.0)
10	Winnow Investments & Securities Pvt Ltd	31-Mar-18	2	0.3	0.0

Source: Reuters, ICICIdirect.com Research

### Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	50.1	50.1	49.8	49.8	49.8
FII	1.0	1.0	1.1	1.2	1.4
DII	18.3	18.9	20.2	21.0	21.1
Others	30.6	30.0	28.9	28.0	27.8

### Recent Activity

Buys			Sells		
Investor name	Value (US\$M)	Shares(M)	Investor name	Value (US\$M)	Shares(M)
HDFC Asset Management Co., Ltd.	0.5	0.0	General Insurance Corporation of India	-0.5	0.0
Dimensional Fund Advisors, L.P.	0.1	0.0	Subramanian (P)	-0.1	0.0
L&T Investment Management Limited	0.0	0.0			

Source: Reuters, ICICIdirect.com Research

## Financial summary (Standalone)

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Net Sales	294.5	328.2	371.5	398.6	
Other Operating Income	3.0	0.0	0.0	0.0	
<b>Total Operating Income</b>	<b>297.5</b>	<b>328.2</b>	<b>371.5</b>	<b>398.6</b>	
Growth (%)	8.3	10.3	13.2	7.3	
Raw Material Expenses	70.7	76.1	88.2	93.7	
Employee Expenses	38.2	39.4	42.7	45.8	
Power & Fuel Expenses	36.1	39.4	42.7	45.8	
Other Operating Expense	65.1	75.2	82.6	87.7	
<b>Total Operating Expenditure</b>	<b>210.2</b>	<b>230.0</b>	<b>256.3</b>	<b>273.0</b>	
<b>EBITDA</b>	<b>87.3</b>	<b>98.2</b>	<b>115.2</b>	<b>125.6</b>	
Growth (%)	7.7	12.6	17.3	9.0	
Depreciation	15.2	16.3	21.2	22.8	
Interest	5.1	7.9	7.8	5.2	
Other Income	6.6	5.5	7.8	9.6	
<b>PBT</b>	<b>73.6</b>	<b>79.6</b>	<b>94.1</b>	<b>107.1</b>	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	20.2	22.8	20.7	23.6	
<b>PAT</b>	<b>53.4</b>	<b>56.8</b>	<b>73.4</b>	<b>83.6</b>	
Growth (%)	0.9	6.2	29.2	13.9	
EPS (₹)	51.8	55.1	71.2	81.1	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
<b>Liabilities</b>					
Equity Capital	10.3	10.3	10.3	10.3	
Reserve and Surplus	326.0	377.5	436.0	502.3	
<b>Total Shareholders funds</b>	<b>336.3</b>	<b>387.8</b>	<b>446.3</b>	<b>512.6</b>	
Total Debt	96.5	112.0	82.0	47.0	
Deferred Tax Liability & Others	29.6	20.6	20.6	20.6	
<b>Total Liabilities</b>	<b>462.4</b>	<b>520.4</b>	<b>548.9</b>	<b>580.2</b>	
<b>Assets</b>					
Gross Block	421.3	439.6	502.4	512.4	
Less: Acc Depreciation	115.2	131.6	152.7	175.6	
Net Block	306.1	308.0	349.7	336.9	
Capital WIP	2.4	40.4	2.5	2.5	
<b>Total Fixed Assets</b>	<b>308.5</b>	<b>348.4</b>	<b>352.2</b>	<b>339.4</b>	
Liquid Investments	30.1	52.8	67.8	102.8	
Other Investments	14.7	23.0	23.0	23.0	
Inventory	32.2	38.6	45.8	49.1	
Debtors	72.6	75.6	86.5	92.8	
Loans and Advances	34.3	17.8	14.9	15.9	
Other Current Assets	6.0	0.7	0.7	0.8	
Cash	13.4	15.6	19.6	22.4	
<b>Total Current Assets</b>	<b>158.4</b>	<b>148.3</b>	<b>167.5</b>	<b>181.1</b>	
Creditors	46.9	49.0	56.0	60.1	
Provisions	2.4	3.1	5.6	6.0	
<b>Current Liabilities &amp; Prov</b>	<b>49.3</b>	<b>52.1</b>	<b>61.6</b>	<b>66.1</b>	
Net Current Assets	109.1	96.2	105.9	115.0	
<b>Application of Funds</b>	<b>462.4</b>	<b>520.4</b>	<b>548.9</b>	<b>580.2</b>	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	53.4	56.8	73.4	83.6	
Add: Depreciation	15.2	16.3	21.2	22.8	
(Inc)/dec in Current Assets	9.7	12.4	-15.2	-10.8	
Inc/(dec) in CL and Provisions	12.2	2.8	9.5	4.5	
Others	5.1	7.9	7.8	5.2	
<b>CF from operating activities</b>	<b>95.6</b>	<b>96.1</b>	<b>96.6</b>	<b>105.3</b>	
(Inc)/dec in Investments	-14.6	-22.7	-15.0	-35.0	
(Inc)/dec in Fixed Assets	-101.3	-56.2	-25.0	-10.0	
Others	8.5	-17.4	0.0	0.0	
<b>CF from investing activities</b>	<b>-107.4</b>	<b>-96.3</b>	<b>-40.0</b>	<b>-45.0</b>	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	24.1	15.5	-30.0	-35.0	
Dividend paid & dividend tax	-12.4	-12.4	-14.8	-17.3	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	3.6	-0.8	-7.8	-5.2	
<b>CF from financing activities</b>	<b>15.3</b>	<b>2.4</b>	<b>-52.6</b>	<b>-57.5</b>	
<b>Net Cash flow</b>	<b>3.5</b>	<b>2.3</b>	<b>4.0</b>	<b>2.8</b>	
Opening Cash	9.9	13.4	15.6	19.6	
<b>Closing Cash</b>	<b>13.4</b>	<b>15.6</b>	<b>19.6</b>	<b>22.4</b>	

Source: Company, ICICI Direct Research

Key ratios		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
<b>Per share data (₹)</b>					
EPS	51.8	55.1	71.2	81.1	
Cash EPS	66.5	70.9	91.7	103.2	
BV	326.2	376.2	432.9	497.2	
DPS	10.0	10.0	12.0	14.0	
Cash Per Share (Incl Invest)	42.1	66.4	84.8	121.4	
<b>Operating Ratios (%)</b>					
EBITDA Margin	29.3	29.9	31.0	31.5	
PBT / Total Op. income	24.7	24.2	25.3	26.9	
PAT Margin	18.0	17.3	19.7	21.0	
Inventory days	39.9	42.9	45.0	45.0	
Debtor days	89.9	84.1	85.0	85.0	
Creditor days	58.1	54.5	55.0	55.0	
<b>Return Ratios (%)</b>					
RoE	15.9	14.6	16.4	16.3	
RoCE	15.3	15.5	18.7	22.4	
RoIC	17.3	19.9	20.5	22.7	
<b>Valuation Ratios (x)</b>					
P/E	19.9	18.7	14.5	12.7	
EV / EBITDA	12.8	11.3	9.2	7.8	
EV / Net Sales	3.8	3.4	2.8	2.5	
Market Cap / Sales	3.6	3.2	2.9	2.7	
Price to Book Value	3.2	2.7	2.4	2.1	
<b>Solvency Ratios</b>					
Debt/EBITDA	1.1	1.1	0.7	0.4	
Debt / Equity	0.3	0.3	0.2	0.1	
Current Ratio	2.9	2.5	2.4	2.4	
Quick Ratio	2.3	1.8	1.7	1.7	

Source: Company, ICICI Direct Research

## **RATING RATIONALE**

ICICIdirect endeavours to provide objective opinions and recommendations. ICICI direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;  
Buy: > 10%/15% for large caps/midcaps, respectively;  
Hold: Up to +/-10%;  
Sell: -10% or more;



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## ANALYST CERTIFICATION

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