

February 3, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	182		169	
Sales (Rs. m)	11,739	15,407	10,232	13,429
% Chng.	14.7	14.7		
EBITDA (Rs. m)	2,113	3,004	1,893	2,820
% Chng.	11.6	6.5		
EPS (Rs.)	7.9	11.8	6.9	10.9
% Chng.	14.5	7.6		

Key Financials - Standalone

Ye Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	8,463	9,030	11,739	15,407
EBITDA (Rs. m)	1,765	1,219	2,113	3,004
Margin (%)	20.8	13.5	18.0	19.5
PAT (Rs. m)	1,310	789	1,300	1,948
EPS (Rs.)	7.9	4.8	7.9	11.8
Gr. (%)	(28.9)	(39.8)	64.9	49.8
DPS (Rs.)	1.8	1.1	1.8	2.7
Yield (%)	1.2	0.7	1.3	1.9
RoE (%)	11.2	6.5	10.1	13.8
RoCE (%)	13.2	8.4	13.6	18.5
EV/Sales (x)	2.8	2.5	1.8	1.2
EV/EBITDA (x)	13.2	18.6	10.0	6.2
PE (x)	18.1	30.0	18.2	12.1
P/BV (x)	2.0	1.9	1.8	1.6

Key Data

NOCI.BO | NOCIL IN

52-W High / Low	Rs.164 / Rs.45
Sensex / Nifty	49,798 / 14,648
Market Cap	Rs.24bn/ \$ 325m
Shares Outstanding	166m
3M Av g. Daily Value	Rs.427.2m

Shareholding Pattern (%)

Promoter's	33.96
Foreign	2.05
Domestic Institution	5.09
Public & Others	58.90
Promoter Pledge (Rs bn)	0.68

Stock Performance (%)

	1M	6M	12M
Absolute	(4.9)	35.9	60.0
Relative	(8.6)	2.6	27.6

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Impressive growth commentary

Quick Pointers:

- Impressive volume growth of 25%QoQ in Q3FY21. Management increased FY21 volume/sales guidance 8-10% vs flat earlier, despite Q1 washout.
- Price hikes taken in Jan-21 in order to pass on high RM prices and improve margins ahead.
- Volume maximization at the cost of margins will be new strategy going forward.

We increase our volume assumptions but lower our margin estimates and accordingly FY21-23E estimates increase by 7-14%. Demand environment improved in domestic and international markets, given strong tyre demand coupled with improving pricing environment augurs well for the space. Nocil, with new capacities commissioned is poised to benefit from recovery in auto demand. Reiterate BUY with a TP of Rs182 (Rs169) based on 15x PER FY23E.

- Volume growth of 25%QoQ is impressive:** Nocil reported Q3FY21 EBITDA and PAT of Rs369mn (+3% YoY; PLe Rs 425mn) and Rs221mn (+7% YoY; PLe -Rs256mn), respectively. Q3 revenues were at Rs2.7bn (+24%QoQ) and included volume growth of 25%QoQ. EBITDA margins came down to 13.4% (20.8% in FY20) as gross margins came down to 43.4% (48.1% in Q2FY21). For FY21, management is confident of 8-10%YoY volume/sales growth (earlier flat volumes) despite Q1 washout, which is impressive in our view.
- Gross margins come off:** For Q3, gross margins were at 43.4% as the company purchased RM (which were at unprecedented levels) to meet incremental demand. Company has since passed on RM prices effective January and expect margins to improve QoQ. Also, management has reiterated GM of 50% over the medium term. We factor in gross margins of 46%/50%/50% for FY21/22/23E vs 54.2% in FY20. Volume maximization strategy is in line with China Sunshine policy which prioritizes volumes. We remain structurally positive on the company as Nocil remains a play on operating leverage in a recovering demand environment.
- Opportunities galore:** Nocil is one of the largest rubber chemicals player globally with capacity of 110,000tons (currently 90,000tons) 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.

Exhibit 1: Q3FY21 Result Overview (Rs mn)

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Income From Operations	2,746	1,943	41.3	2,216	6,027	6,336	(4.9)
Total Expenditure							
Cost of Material Consumed	1,339	809	65.6	1,206	2,942	2,689	9.4
Purchase of stock in trade	7	6	19.7	3	26	20	28.7
Change in inventory of FG, WIP and SIT	207	113	84.2	(60)	297	107	178.3
Total RM Cost	1,554	927	67.6	1,150	3,265	2,816	16.0
Gross Margin	1,192	1,016	17.3	1,066	2,762	3,521	(21.5)
<i>Margin (%)</i>	<i>43.4</i>	<i>52.3</i>		<i>48.1</i>	<i>45.8</i>	<i>55.6</i>	
Employee Cost	175	187	(6.4)	173	507	567	(10.5)
Other Expense	648	472	37.4	581	2,085	1,557	33.9
<i>Other Expense (%)</i>	<i>0</i>	<i>0</i>		<i>0</i>	<i>1</i>	<i>1</i>	
Excise	-	-	-	-	-	-	-
Total Expenditure	2,377	1,586	49.8	1,904	6,698	4,939	35.6
EBIDTA	369	357	3.4	312	756	1,397	(45.9)
<i>% of NS</i>	<i>13.4</i>	<i>18.4</i>		<i>14.1</i>	<i>12.5</i>	<i>22.1</i>	
Depreciation	88	79	10.6	88	324	233	39.3
EBIT	281	278	1.3	224	493	1,165	(57.7)
Interest	2	3	(25.0)	3	8	10	(22.7)
Other Income	16	13	23.4	9	97	62	55.7
Exceptional Items	-	-	-	-	-	-	-
PBT	295	287	2.6	231	616	1,217	(49.4)
Tax	74	81	(8.3)	64	214	131	63.3
<i>Tax rate %</i>	<i>25.1</i>	<i>28.1</i>		<i>27.8</i>	<i>34.8</i>	<i>10.8</i>	
Profit After Tax	221	207	6.8	167	505	1,086	(53.5)

Source: Company, PL

Conference Call Highlights: Strong volume guidance along with price hikes to drive earnings

- Management expects sales & volume growth of 8-10% for FY21 vs earlier expectation of flat growth.
- Q3 volume growth of 25%QoQ and expects strong volumes for Q4.
- Gross margins contraction in Q3 because of requirement to buy spot volumes for meeting incremental demand.
- There has been unprecedented rise in RM prices in Q3 and company has started taking price hikes from January to partly correct this; mgt expect GM to improve in Q4. Also company expects RM to correct.
- Company remains confident of achieving GM of 50% in medium term.
- Company expects full utilization of new capacity by Sept 23 vs earlier est. of Mar 24.
- Interim duty protection under ADD was not approved by govt but investigations are on and final decision is expected by May21.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	8,463	9,030	11,739	15,407
YoY gr. (%)	(18.9)	6.7	30.0	31.3
Cost of Goods Sold	3,879	4,876	5,870	7,704
Gross Profit	4,585	4,154	5,870	7,704
Margin (%)	54.2	46.0	50.0	50.0
Employee Cost	741	813	1,057	1,233
Other Expenses	2,079	2,122	2,700	3,467
EBITDA	1,765	1,219	2,113	3,004
YoY gr. (%)	(39.2)	(30.9)	73.3	42.2
Margin (%)	20.8	13.5	18.0	19.5
Depreciation and Amortization	324	354	450	484
EBIT	1,440	865	1,663	2,520
Margin (%)	17.0	9.6	14.2	16.4
Net Interest	13	12	5	5
Other Income	97	145	81	89
Profit Before Tax	1,524	998	1,739	2,604
Margin (%)	18.0	11.1	14.8	16.9
Total Tax	214	210	438	656
Effective tax rate (%)	14.1	21.0	25.2	25.2
Profit after tax	1,310	789	1,300	1,948
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,310	789	1,300	1,948
YoY gr. (%)	(28.9)	(39.8)	64.9	49.8
Margin (%)	15.5	8.7	11.1	12.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,310	789	1,300	1,948
YoY gr. (%)	(28.9)	(39.8)	64.9	49.8
Margin (%)	15.5	8.7	11.1	12.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,310	789	1,300	1,948
Equity Shares O/s (m)	166	166	166	166
EPS (Rs)	7.9	4.8	7.9	11.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	9,812	10,013	11,713	12,413
Tangibles	9,812	10,013	11,713	12,413
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,130	2,483	2,933	3,417
Tangibles	2,130	2,483	2,933	3,417
Intangibles	-	-	-	-
Net fixed assets	7,683	7,530	8,780	8,996
Tangibles	7,683	7,530	8,780	8,996
Intangibles	-	-	-	-
Capital Work In Progress	1,563	1,576	150	150
Goodwill	12	13	15	16
Non-Current Investments	551	590	590	590
Net Deferred tax assets	(887)	(913)	(1,087)	(1,347)
Other Non-Current Assets	301	224	236	250
Current Assets				
Investments	232	280	280	280
Inventories	1,361	1,335	1,736	2,279
Trade receivables	2,032	2,133	2,772	3,639
Cash & Bank Balance	128	644	2,346	4,610
Other Current Assets	405	261	287	316
Total Assets	14,279	14,597	17,205	21,139
Equity				
Equity Share Capital	1,656	1,656	1,656	1,656
Other Equity	10,104	10,681	11,680	13,178
Total Networkth	11,760	12,337	13,337	14,834
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	163	156	187	225
Other non current liabilities	1	1	1	1
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	892	997	1,296	1,700
Other current liabilities	507	375	446	533
Total Equity & Liabilities	14,279	14,835	16,353	18,639

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,524	998	1,739	2,604
Add. Depreciation	324	354	450	484
Add. Interest	13	12	5	5
Less Financial Other Income	97	145	81	89
Add. Other	(65)	97	193	284
Op. profit before WC changes	1,796	1,462	2,386	3,377
Net Changes-WC	407	40	(698)	(947)
Direct tax	(214)	(210)	(438)	(656)
Net cash from Op. activities	1,989	1,292	1,250	1,774
Capital expenditures	(1,986)	(215)	(275)	(701)
Interest / Dividend Income	-	-	-	-
Others	761	(87)	-	-
Net Cash from Invt. activities	(1,225)	(302)	(275)	(701)
Issue of share cap. / premium	2	10,917	(89)	(150)
Debt changes	-	-	-	-
Dividend paid	(494)	(350)	(212)	(301)
Interest paid	(13)	(12)	(5)	(5)
Others	-	-	-	-
Net cash from Fin. activities	(506)	10,555	(306)	(456)
Net change in cash	258	11,544	669	616
Free Cash Flow	3	1,076	975	1,072

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	2,127	1,065	2,216	2,746
YoY gr. (%)	(12.0)	(53.6)	5.7	41.3
Raw Material Expenses	1,063	547	1,150	1,554
Gross Profit	1,064	518	1,066	1,192
Margin (%)	50.0	48.6	48.1	43.4
EBITDA	367	75	312	369
YoY gr. (%)	(37.8)	(86.7)	(34.8)	3.4
Margin (%)	17.3	7.0	14.1	13.4
Depreciation / Depletion	92	88	88	88
EBIT	276	(13)	224	281
Margin (%)	13.0	(1.2)	10.1	10.2
Net Interest	4	3	3	2
Other Income	35	106	9	16
Profit before Tax	307	91	231	295
Margin (%)	14.4	8.5	10.4	10.7
Total Tax	83	(27)	64	74
Effective tax rate (%)	27.0	(29.7)	27.8	25.1
Profit after Tax	224	118	167	221
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	224	118	167	221
YoY gr. (%)	(37.4)	(64.0)	(69.8)	6.8
Margin (%)	10.5	11.0	7.5	8.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	224	118	167	221
YoY gr. (%)	(37.4)	(64.0)	(69.8)	6.8
Margin (%)	10.5	11.0	7.5	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	224	118	-	-
Av g. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.9	4.8	7.9	11.8
CEPS	9.9	6.9	10.6	14.7
BVPS	71.0	74.5	80.5	89.6
FCF	0.0	6.5	5.9	6.5
DPS	1.8	1.1	1.8	2.7
Return Ratio(%)				
RoCE	13.2	8.4	13.6	18.5
ROIC	12.4	8.4	12.3	14.2
RoE	11.2	6.5	10.1	13.8
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	108	100	100	100
Valuation(x)				
PER	18.1	30.0	18.2	12.1
P/B	2.0	1.9	1.8	1.6
P/CEPS	14.5	20.7	13.5	9.7
EV/EBITDA	13.2	18.6	10.0	6.2
EV/Sales	2.8	2.5	1.8	1.2
Dividend Yield (%)	1.2	0.7	1.3	1.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-21	BUY	169	253
2	10-Nov-20	BUY	169	143
3	07-Oct-20	BUY	153	154
4	09-Sep-20	BUY	153	124
5	25-Aug-20	BUY	153	132
6	07-Jul-20	BUY	96	98
7	30-Jun-20	BUY	96	83
8	08-Apr-20	BUY	96	72

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	1,314	1,159
2	Bharat Petroleum Corporation	BUY	479	392
3	GAIL (India)	UR	-	133
4	Gujarat Gas	BUY	403	387
5	Hindustan Petroleum Corporation	BUY	280	223
6	Indian Oil Corporation	BUY	124	96
7	Indraprastha Gas	BUY	603	540
8	Mahanagar Gas	BUY	1,275	1,117
9	NOCIL	BUY	169	253
10	Oil & Natural Gas Corporation	BUY	114	98
11	Oil India	Accumulate	117	113
12	Petronet LNG	BUY	399	260
13	Reliance Industries	BUY	2,232	2,050

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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