

Next growth phase to emanate from pharma venture

Neogen Chemicals reported topline growth of 13% YoY to ₹ 92.7 crore against our expectation of ₹ 87.1 crore. The growth was driven by higher growth in the inorganic chemical segment (up 31% YoY) largely on account of better volume growth. Revenue from organic chemical was up 7% YoY to ₹ 72 crore. Growth from organic chemical segment remained subdued owing to capacity constraint. OPM for the quarter expanded 80 bps YoY to 20% leading to EBITDA growth of 17% YoY to ₹ 18.5 crore vs. our estimate of ₹ 17.2 crore. Gross margins expanded 386 bps YoY, 196 bps QoQ to 43.5%, largely on account of higher realisation and better product mix. Lower taxes (30% vs. 35% in Q4FY20) boosted bottomline growth, which was up 28% YoY to ₹ 9.3 crore against our estimate of ₹ 8.4 crore.

New capacity to drive incremental growth for organic chemical

Both phase 1, 2 expansion at Dahej would expand organic chemical capacity by 3x with a capex of ₹ 130 crore. This would translate into incremental revenue of ₹ 350-375 crore at peak utilisation against overall revenues of ₹ 306 crore currently. We expect the Dahej facility to largely cater to the custom synthesis opportunity with the Vadodara plant catering to advanced intermediates market. Given both these segments have better gross margins compared to the base business, increase in the share of these segments is likely to expand group gross margins and, thereby, OPM and return ratios.

WC cycle to improve, going forward, thereby FCF

Since Neogen is working on many organic molecules and size of the same is materially lower, it has to keep large WIP inventory to curb manufacturing cycle time. Going forward, with an increase in custom synthesis deliveries and garnering large custom synthesis contracts as witnessed recently, the company can keep dedicated glass lined reactors. Thus, WIP inventories can be restricted significantly. Further, higher bromine consumptions could lead to more bargaining power for Neogen, which can lift the payable cycle. This would improve cash conversion cycle and thereby FCF.

Valuation & Outlook

Since the Dahej capacity would largely cater to the custom synthesis opportunity, we expect gross margins of the business to expand considerably in the years to come given that custom synthesis should have a superior margin profile than the base business. We value the company at 38x PER of FY23E (~0.8x PEG). We arrive at a target price of ₹ 1085 (earlier ₹ 1040). We maintain our **BUY** rating on the stock.



Particulars

Particular	Amount
Market cap (₹ Crore)	2,169
FY21 Total Debt (₹ Crore)	202
FY21 Cash & Inv (₹ Crore)	1
EV (₹ Crore)	2,370
52 Week H/L	1027/446
Equity Capital (₹ Crore)	23.3
Face Value (₹)	10

Key Highlights

- New capacity to drive incremental growth for organic chemical
- WC cycle to improve, going forward, and thereby FCF
- Maintain BUY rating on stock with target price of ₹ 1085

Key Risks

- Lower lithium prices to impact inorganic chemical performance and thereby group topline growth
- Slowdown in end user industry and thereby stretched working capital would stress balance sheet

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Net Revenue	239.1	306.1	336.4	446.3	585.9	32.0
EBITDA	43.4	58.1	64.4	89.3	123.0	38.3
EBITDA Margins (%)	18.2%	19.0%	19.1%	20.0%	21.0%	
Adj. PAT	21.0	28.6	31.3	43.3	66.7	45.9
Adj. EPS (₹)	10.4	12.3	13.4	18.6	28.6	
EV/EBITDA	45.6x	39.6x	36.8x	26.9x	19.6x	
P/E	89.1x	75.7x	69.2x	50.1x	32.5x	
ROE (%)	29.8	18.3	17.1	19.6	23.6	
ROCE (%)	22.2	18.4	15.1	16.7	20.4	

Source: Company, ICICI Direct Research

Exhibit 1: Segmental revenue break up (₹ crore)

Segmental revenue break up	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Organic Chemical	27	41	57	66	48	64	70	67	66	67	69	72
% of total revenue	68%	72%	90%	83%	75%	82%	85%	81%	86%	82%	81%	77%
% YoY	-	-	-	-	81%	54%	23%	2%	38%	6%	-1%	7%
% QoQ	-	56%	38%	16%	-27%	33%	10%	-4%	-1%	2%	3%	4%
Inorganic Chemical	12	16	6	14	16	14	12	16	11	15	16	21
% of total revenue	32%	28%	10%	18%	25%	18%	15%	19%	14%	18%	19%	23%
% YoY	-	-	-	-	31%	-15%	100%	14%	-31%	10%	33%	31%
% QoQ	-	30%	-62%	133%	14%	-16%	-11%	33%	-31%	35%	7%	31%

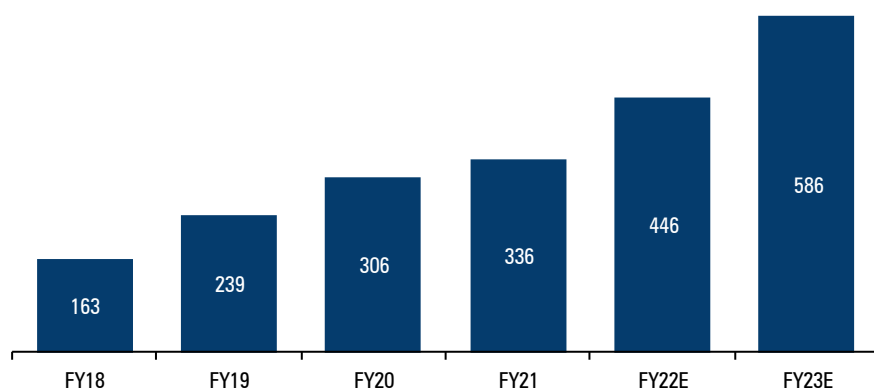
Source: Company, ICICI Direct Research

Conference Call Highlights

- **Phase 1 capex update:** All reactors installed and commenced production of initial commercial batches. It will start contributing to revenues from Q2FY22
- The revenue guidance for the year remained unchanged at ₹ 450 crore
- Two customers under CSM would contribute revenues to the tune of ₹ 60-80 crore this year
- Other expenses QoQ are higher owing to higher manufacturing cost
- The capex for Phase 2 is ₹ 55 crore of which around ₹ 25 crore has been spent till date and the rest would be spent in this fiscal. The phase 2 plant is expected to get commissioned by the end of this fiscal
- Payable days have increased owing to better credit terms. We expect this to continue, going ahead

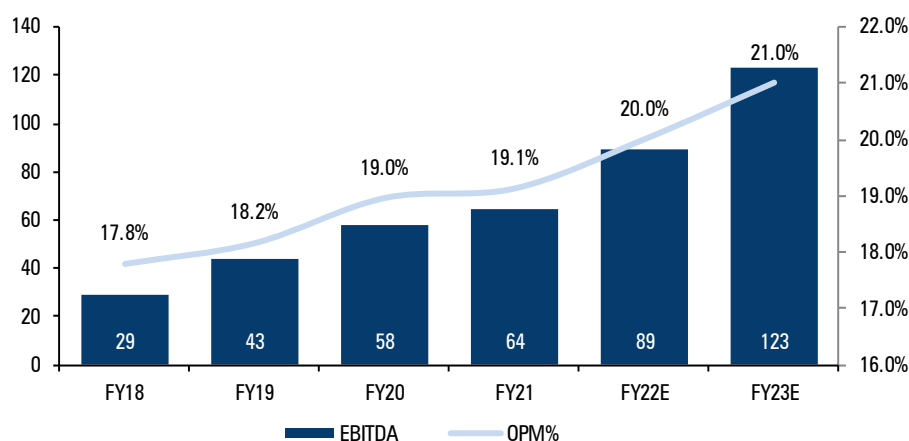
Financial story in charts

Exhibit 2: Revenue trend (₹ crore)



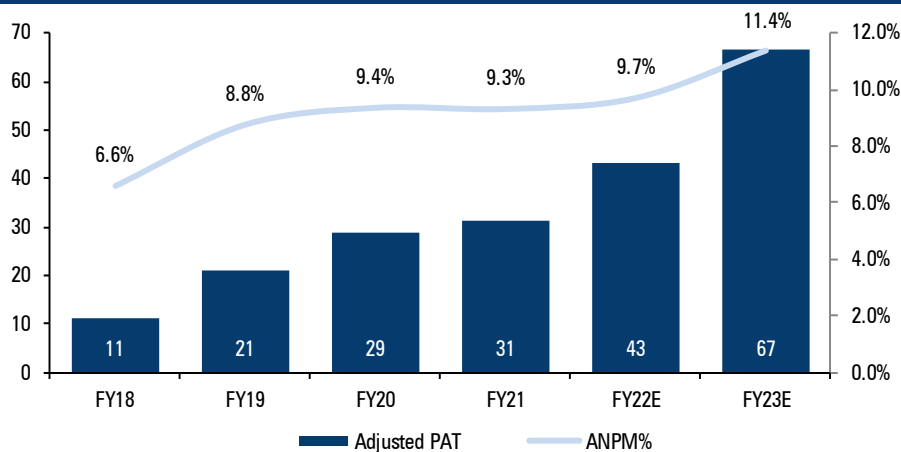
Source: Company, ICICI Direct Research

Exhibit 3: OPM likely to improve ahead



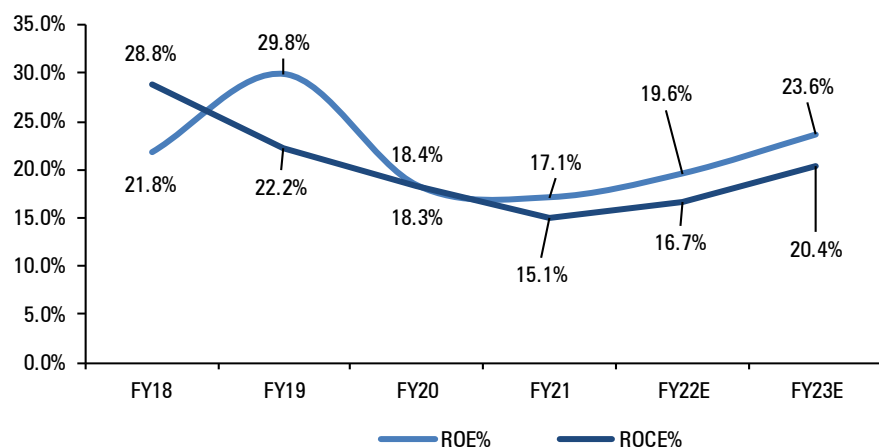
Source: Company, ICICI Direct Research

Exhibit 4: PAT trend



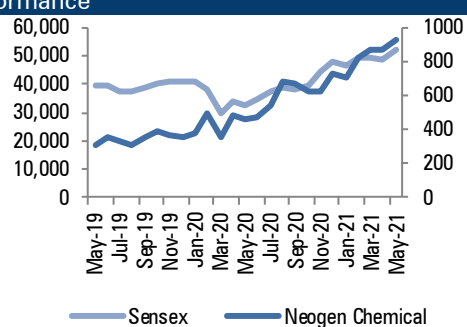
Source: Company, ICICI Direct Research

Exhibit 5: RoNW & RoCE trend (%)



Source: Company, ICICI Direct Research

Exhibit 6: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement						₹ crore
Year end March	FY19	FY20	FY21	FY22E	FY23E	
Total Operating Income	239.1	306.1	336.4	446.3	585.9	
Growth (%)	48.3	28.1	9.9	32.7	31.3	
Raw Material Expenses	140.7	184.1	197.6	261.1	339.8	
Gross Profit	98.4	122.0	138.8	185.2	246.1	
Employee Cost	11.2	17.3	20.1	26.8	35.2	
Other Operating Expenses	43.8	46.7	54.4	69.2	87.9	
EBITDA	43.4	58.1	64.4	89.3	123.0	
Growth (%)	49.8	33.7	10.9	38.7	37.8	
Other Income	0.6	0.2	0.5	0.7	0.8	
EBITDA, including OI	44.0	58.3	64.9	89.9	123.8	
Depreciation	2.8	5.2	6.9	11.1	14.0	
Net Interest Exp.	11.9	11.9	13.8	18.7	21.0	
Other exceptional items	0.0	0.0	0.0	0.0	0.0	
PBT	29.3	41.1	44.2	60.1	88.9	
Total Tax	8.3	12.5	12.9	16.8	22.2	
Tax Rate	28.4%	30.3%	29.1%	28.0%	25.0%	
PAT	21.0	28.6	31.3	43.3	66.7	
Adj. PAT after Minority interest	21.0	28.6	31.3	43.3	66.7	
Adj. EPS (₹)	10.4	12.3	13.4	18.6	28.6	
Shares Outstanding	2.0	2.3	2.3	2.3	2.3	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement						₹ crore
Year end March	FY19	FY20	FY21	FY22E	FY23E	
PBT & Extraordinary	29.3	41.1	44.2	60.1	88.9	
Depreciation	2.8	5.2	6.9	11.1	14.0	
After other adjustments						
(Inc) / Dec in Working Capital	-42.4	-85.1	36.6	-64.1	-66.9	
Taxes	-5.5	-12.7	-10.4	-16.8	-22.2	
Others	12.1	16.9	6.2	18.7	21.0	
CF from operating activities	-3.7	-34.5	83.6	8.9	34.7	
Purchase of Fixed Assets	-18.4	-26.5	-135.0	-17.3	-15.0	
Others	-1.7	-2.1	0.4	0.0	0.0	
CF from investing activities	-20.1	-28.6	-134.6	-17.3	-15.0	
Proceeds from issue of shares	0.0	70.0	0.0	0.0	0.0	
Borrowings (Net)	38.2	16.5	69.6	50.0	5.0	
Others	-14.3	-23.9	-18.9	-23.9	-26.2	
CF from financing activities	24.0	62.6	50.7	26.1	-21.2	
Net cash flow	0.2	-0.5	-0.3	17.6	-1.5	
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0	
Opening Cash	1.8	2.0	1.5	1.2	18.9	
Closing Cash	2.0	1.5	1.2	18.9	17.3	

*calculated, Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet						₹ crore
Year end March	FY19	FY20	FY21	FY22E	FY23E	
Liabilities						
Share Capital	20.1	23.3	23.3	23.3	23.3	
Reserves	50.1	132.9	159.7	197.7	259.1	
Total Shareholders Funds	70.2	156.2	183.0	221.1	282.5	
Minority Interest	0.0	0.0	0.0	0.0	0.0	
Long Term Borrowings	50.6	30.4	116.1	156.1	166.1	
Net Deferred Tax liability	4.9	5.6	8.2	8.2	8.2	
Other long term liabilities	2.0	9.2	7.7	8.0	10.5	
Long term provisions	2.0	3.6	3.0	4.3	5.7	
Current Liabilities and Provisions						
Short term borrowings	65.2	101.9	85.8	95.8	90.8	
Trade Payables	42.8	35.9	66.1	85.6	112.4	
Other Current Liabilities	7.7	10.6	20.9	27.8	36.4	
Short Term Provisions	1.1	1.5	1.1	1.5	1.9	
Total Current Liabilities	116.8	149.9	173.9	210.6	241.5	
Total Liabilities	246.4	354.9	492.0	608.3	714.5	
Assets						
Net Block	82.8	110.6	126.7	202.6	248.7	
Capital Work in Progress	0.4	2.7	114.7	45.0	0.0	
Intangible assets under devl.	0.0	0.0	0.0	0.0	0.0	
Goodwill on Consolidation	0.0	0.0	0.0	0.0	0.0	
Non-current investments	0.5	0.6	0.8	0.8	0.8	
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	
Long term loans and advances	2.5	5.9	7.3	7.9	10.3	
Other Non Current Assets	0.4	4.1	2.3	8.8	11.5	
Current Assets, Loans & Advances						
Current Investments	0.0	0.0	0.0	0.0	0.0	
Inventories	72.4	129.9	114.0	165.1	216.7	
Sundry Debtors	60.7	75.2	78.6	97.8	128.4	
Cash and Bank	2.0	1.5	1.2	18.9	17.3	
Loans and Advances	0.0	0.0	0.0	0.0	0.0	
Other Current assets	24.7	24.5	46.4	61.5	80.8	
Current Assets	159.8	231.1	240.2	343.3	443.2	
Total Assets	246.5	354.9	492.0	608.3	714.5	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios						
Year end March	FY19	FY20	FY21	FY22E	FY23E	
Per share data (₹)						
Adj. EPS	10.4	12.3	13.4	18.6	28.6	
Adj. Cash EPS	11.8	14.5	16.4	23.3	34.6	
BV	35.0	67.0	78.4	94.7	121.1	
DPS	0.0	1.5	2.3	2.3	2.3	
Operating Ratios (%)						
Gross Margin (%)	41.1	39.9	41.3	41.5	42.0	
EBITDA Margin (%)	18.2	19.0	19.1	20.0	21.0	
PAT Margin (%)	8.8	9.4	9.3	9.7	11.4	
Debtor Days	93	90	85	80	80	
Inventory Days	111	155	124	135	135	
Creditor Days	65	43	72	70	70	
Cash Conversion Cycle	138	202	137	145	145	
Return Ratios (%)						
Return on Assets (%)	8.5	8.1	6.4	7.1	9.3	
RoCE (%)	22.2	18.4	15.1	16.7	20.4	
Core RoIC (%)	22.1	18.4	15.0	17.2	20.9	
RoE (%)	29.8	18.3	17.1	19.6	23.6	
Solvency Ratios						
Total Debt / Equity	1.6	0.8	1.1	1.1	0.9	
Interest Coverage	3.5	4.4	4.2	4.2	5.2	
Current Ratio	1.4	1.5	1.4	1.6	1.8	
Quick Ratio	0.7	0.7	0.7	0.8	0.9	
Valuation Ratios (x)						
EV/EBITDA	45.6	39.6	36.8	26.9	19.6	
P/E	89.1	75.7	69.2	50.1	32.5	
P/B	26.6	13.9	11.9	9.8	7.7	
EV/Sales	8.3	7.5	7.0	5.4	4.1	

Source: Company, ICICI Direct Research

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Sell: <-15%



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