

## Custom synthesis offers strong visibility ahead...

**About the stock:** Commencing operations in 1991, Neogen Chemicals manufactures specialty organic bromine-based chemical compounds as well as specialty inorganic lithium-based chemicals compounds.

- The company's products find application in pharmaceutical intermediates, agrochemical intermediates, engineering fluids, polymers additives and water treatment chemicals to name a few
- Neogen has two segments viz. (i) organic chemicals, (ii) inorganic chemicals of which organic chemical constitute ~80% of overall revenue while the rest comes from inorganic chemicals

### Phase 1 Dahej plant commissioned:

- The company incurred a capex of ₹ 75 crore for Phase 1 at Dahej while the same for Phase 2 remains at ₹ 55 crore. The phase 1 capacity would largely cater to the custom synthesis business while the same for phase 2 is expected to be for advanced intermediates
- The asset turn is expected to be around ~2.7x, which provides incremental revenue visibility of ~₹ 350 crore. Since both these business verticals are margin accretive thus, incremental revenue share from both segments is expected to aid gross margins and thereby OPM
- This should inch up return ratios and thereby valuations in medium term

**What should investors do?** The stock appreciated at 80% CAGR in last two years.

- We retain **BUY** rating on the back of better growth outlook of the custom synthesis business

**Target Price and Valuation:** We value Neogen Chemicals at 40x P/E FY24E EPS to arrive at a revised target price of ₹ 1515/share (earlier ₹ 1095/share).

### Key triggers for future price performance:

- Phase 1 and Phase 2 capex at Dahej bodes well for advance intermediates and custom synthesis revenue growth
- Higher share of value added business portfolio is expected to improve the margin profile of the business
- Allocation of incremental FCF towards organic/inorganic growth likely to expand return ratios further

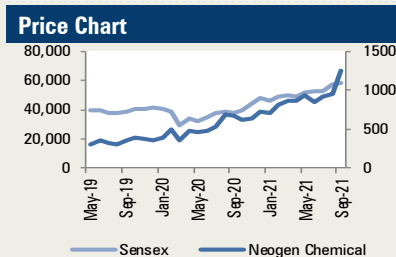
**Alternate Stock Idea:** Apart from Neogen Chemicals, in our chemical coverage we also like Sumitomo Chemicals.

- Trigger for Sumitomo Chemical's future revenue growth would be increasing CRAMS opportunity from SCC Japan and Nufarm
- BUY with a target price of ₹ 505



Particulars	
Particular	Amount
Market cap (₹ Crore)	2,812
FY21 Total Debt (₹ Crore)	202
FY21 Cash & Inv (₹ Crore)	1
EV (₹ Crore)	3,012
52 Week H/L	1298/600
Equity Capital (₹ Crore)	23.3
Face Value (₹)	10

Shareholding pattern				
in %	Sept-20	Dec-20	Mar-21	Jun-21
Promoter	64.3	64.3	64.3	64.3
DII	16.2	15.5	14.8	14.1
FII	4.8	4.8	4.8	4.7
Others	14.7	15.4	16.1	16.9



- ### Recent event & key risks
- Commercial production from phase 1 project at Dahej started
  - Key Risk:** (i) Lower lithium prices to impact inorganic chemical performance, (ii) Slowdown in end user industry and thereby stretched WC to impact balance sheet

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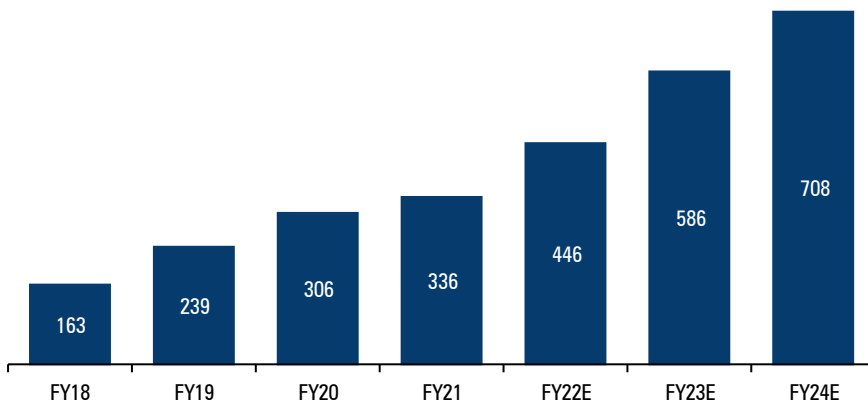
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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Revenue	239.1	306.1	336.4	25.3%	446.3	585.9	708.3	28.2%
EBITDA	43.4	58.1	64.4	35.5%	87.0	120.1	148.7	32.2%
EBITDA Margins (%)	18.2%	19.0%	19.1%		19.5%	20.5%	21.0%	
Adj. PAT	21.0	28.6	31.3	43.3%	43.9	67.2	88.4	41.3%
Adj. EPS (₹)	10.4	12.3	13.4		18.8	28.8	37.9	
EV/EBITDA	58.3x	50.7x	46.8x		35.0x	25.4x	20.4x	
P/E	115.5x	98.2x	89.7x		64.0x	41.8x	31.8x	
ROE (%)	29.8	18.3	17.1		19.8	23.7	24.1	
ROCE (%)	22.2	18.4	15.1		16.5	20.1	22.4	

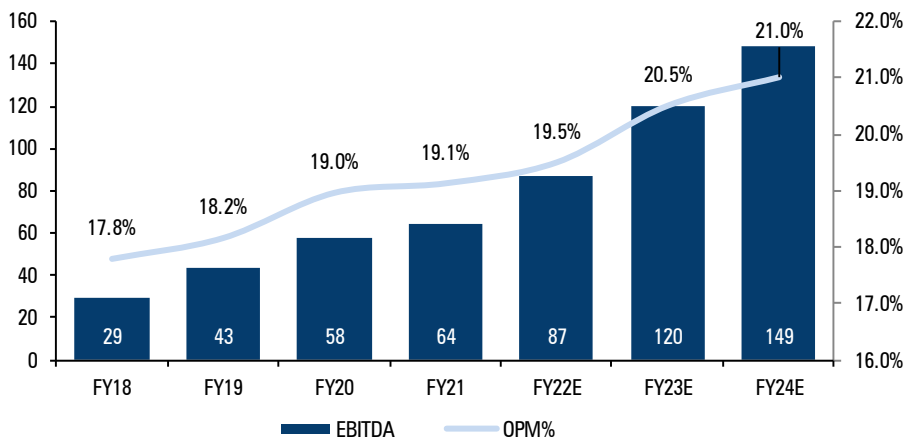
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



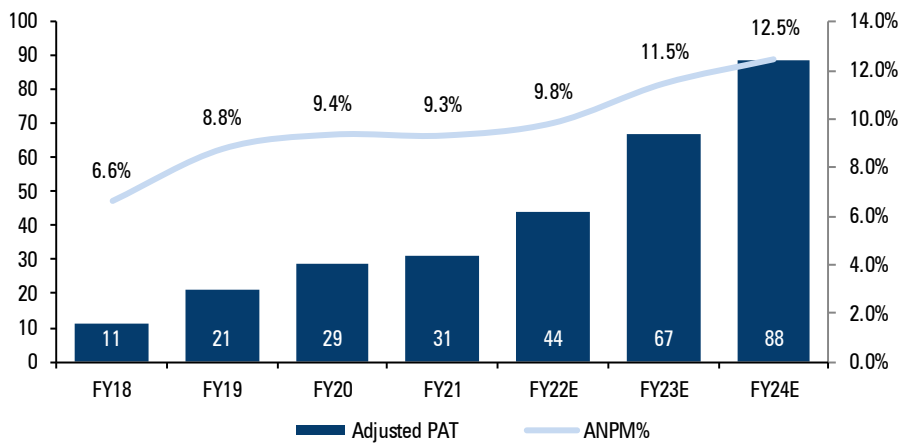
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 4: Profit and loss statement					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Operating Income</b>	<b>306.1</b>	<b>336.4</b>	<b>446.3</b>	<b>585.9</b>	<b>708.3</b>
Growth (%)	28.1	9.9	32.7	31.3	20.9
Raw Material Expenses	184.1	197.6	258.9	336.9	403.7
<b>Gross Profit</b>	<b>122.0</b>	<b>138.8</b>	<b>187.5</b>	<b>249.0</b>	<b>304.6</b>
Employee Cost	17.3	20.1	26.8	35.2	42.5
Other Operating Expenses	46.7	54.4	73.6	93.7	113.3
<b>EBITDA</b>	<b>58.1</b>	<b>64.4</b>	<b>87.0</b>	<b>120.1</b>	<b>148.7</b>
Growth (%)	33.7	10.9	35.2	38.0	23.8
Other Income	0.2	0.5	0.7	0.8	0.9
<b>EBITDA, including OI</b>	<b>58.3</b>	<b>64.9</b>	<b>87.7</b>	<b>120.9</b>	<b>149.6</b>
Depreciation	5.2	6.9	9.7	12.2	13.0
Net Interest Exp.	11.9	13.8	17.0	19.1	18.7
Other exceptional items	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>41.1</b>	<b>44.2</b>	<b>61.0</b>	<b>89.6</b>	<b>117.9</b>
Total Tax	12.5	12.9	17.1	22.4	29.5
Tax Rate	30.3%	29.1%	28.0%	25.0%	25.0%
<b>PAT</b>	<b>28.6</b>	<b>31.3</b>	<b>43.9</b>	<b>67.2</b>	<b>88.4</b>
Adj. PAT after Minority interest	28.6	31.3	43.9	67.2	88.4
Adj. EPS (₹)	12.3	13.4	18.8	28.8	37.9
Shares Outstanding	2.3	2.3	2.3	2.3	2.3

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
PBT & Extraordinary	41.1	44.2	61.0	89.6	117.9
Depreciation	5.2	6.9	9.7	12.2	13.0
After other adjustments					
(Inc) / Dec in Working Capital	-85.1	36.6	-64.1	-66.9	-58.6
Taxes	-12.7	-10.4	-17.1	-22.4	-29.5
Others	16.9	6.2	17.0	19.1	18.7
<b>CF from operating activities</b>	<b>-34.5</b>	<b>83.6</b>	<b>6.5</b>	<b>31.6</b>	<b>61.5</b>
Purchase of Fixed Assets	-26.5	-135.0	-17.3	-15.0	-20.0
Others	-2.1	0.4	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-28.6</b>	<b>-134.6</b>	<b>-17.3</b>	<b>-15.0</b>	<b>-20.0</b>
Proceeds from issue of shares	70.0	0.0	0.0	0.0	0.0
Borrowings (Net)	16.5	69.6	50.0	5.0	-15.0
Others	-23.9	-18.9	-22.3	-24.3	-24.0
<b>CF from financing activities</b>	<b>62.6</b>	<b>50.7</b>	<b>27.7</b>	<b>-19.3</b>	<b>-39.0</b>
Net cash flow	-0.5	-0.3	16.8	-2.7	2.6
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0
Opening Cash	2.0	1.5	1.2	18.1	15.3
<b>Closing Cash</b>	<b>1.5</b>	<b>1.2</b>	<b>18.1</b>	<b>15.3</b>	<b>17.9</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>					
Share Capital	23.3	23.3	23.3	23.3	23.3
Reserves	132.9	159.7	198.3	260.3	343.4
<b>Total Shareholders Funds</b>	<b>156.2</b>	<b>183.0</b>	<b>221.7</b>	<b>283.6</b>	<b>366.8</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	30.4	116.1	156.1	166.1	156.1
Net Deferred Tax liability	5.6	8.2	8.2	8.2	8.2
Other long term liabilities	9.2	7.7	8.0	10.5	12.7
Long term provisions	3.6	3.0	4.3	5.7	6.9
<b>Current Liabilities and Provisions</b>					
Short term borrowings	101.9	85.8	95.8	90.8	85.8
Trade Payables	35.9	66.1	85.6	112.4	135.8
Other Current Liabilities	10.6	20.9	27.8	36.4	44.1
Short Term Provisions	1.5	1.1	1.5	1.9	2.4
Total Current Liabilities	149.9	173.9	210.6	241.5	268.0
<b>Total Liabilities</b>	<b>354.9</b>	<b>492.0</b>	<b>608.9</b>	<b>715.6</b>	<b>818.6</b>
<b>Assets</b>					
Net Block	110.6	126.7	204.0	251.8	258.8
Capital Work in Progress	2.7	114.7	45.0	0.0	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	0.6	0.8	0.8	0.8	0.8
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Long term loans and advances	5.9	7.3	7.9	10.3	12.5
Other Non Current Assets	4.1	2.3	8.8	11.5	13.9
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	129.9	114.0	165.1	216.7	262.0
Sundry Debtors	75.2	78.6	97.8	128.4	155.2
Cash and Bank	1.5	1.2	18.1	15.3	17.9
Loans and Advances	0.0	0.0	0.0	0.0	0.0
Other Current assets	24.5	46.4	61.5	80.8	97.6
Current Assets	231.1	240.2	342.5	441.2	532.7
<b>Total Assets</b>	<b>354.9</b>	<b>492.0</b>	<b>608.9</b>	<b>715.6</b>	<b>818.6</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>					
Adj. EPS	12.3	13.4	18.8	28.8	37.9
Adj. Cash EPS	14.5	16.4	23.0	34.0	43.5
BV	67.0	78.4	95.0	121.5	157.2
DPS	1.5	2.3	2.3	2.3	2.3
<b>Operating Ratios (%)</b>					
Gross Margin (%)	39.9	41.3	42.0	42.5	43.0
EBITDA Margin (%)	19.0	19.1	19.5	20.5	21.0
PAT Margin (%)	9.4	9.3	9.8	11.5	12.5
Debtor Days	90	85	80	80	80
Inventory Days	155	124	135	135	135
Creditor Days	43	72	70	70	70
Cash Conversion Cycle	202	137	145	145	145
<b>Return Ratios (%)</b>					
Return on Assets (%)	8.1	6.4	7.2	9.4	10.8
RoCE (%)	18.4	15.1	16.5	20.1	22.4
Core RoIC (%)	18.6	21.4	18.8	20.5	23.0
RoE (%)	18.3	17.1	19.8	23.7	24.1
<b>Solvency Ratios</b>					
Total Debt / Equity	0.8	1.1	1.1	0.9	0.7
Interest Coverage	4.4	4.2	4.6	5.7	7.3
Current Ratio	1.5	1.4	1.6	1.8	2.0
Quick Ratio	0.7	0.7	0.8	0.9	1.0
<b>Valuation Ratios (x)</b>					
EV/EBITDA	50.7	46.8	35.0	25.4	20.4
P/E	98.2	89.7	64.0	41.8	31.8
P/B	18.0	15.4	12.7	9.9	7.7
EV/Sales	9.6	9.0	6.8	5.2	4.3

Source: Company, ICICI Direct Research

**Exhibit 8: ICICI Direct coverage universe (Chemicals)**

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
PI Industries	3197	3,855	Buy	48,508	48.6	59.2	77.1	68.3	56.0	43.0	47.8	39.2	30.1	17.2	18.6	20.4	13.8	14.6	16.1
Aarti Industries	883	1,085	Buy	32,016	14.5	32.8	31.1	63.7	28.1	29.7	36.8	28.2	19.5	10.7	12.2	16.8	15.0	14.9	20.1
Sumitomo Chemical	395	505	Buy	19,694	6.9	8.5	10.1	62.3	50.6	42.6	43.1	35.1	29.0	29.8	29.3	28.1	22.4	22.1	21.2
Vinati Organics	1784	2,300	Buy	18,336	26.2	40.2	44.3	74.6	48.6	44.1	56.4	36.2	32.3	21.7	29.4	27.1	17.4	22.1	20.4
Tata Chemical	788	925	Hold	20,102	10.1	39.1	42.6	81.9	21.1	19.3	15.8	10.0	8.3	4.1	7.1	7.7	1.8	6.6	6.9
Navin Fluorine	3720	3,712	Hold	18,413	45.0	53.0	73.1	82.6	70.2	50.9	57.5	49.7	33.9	21.0	19.0	22.6	13.6	14.2	17.0
Rallis India	283	400	Buy	5,495	11.4	12.7	16.0	28.1	25.1	20.0	18.4	16.8	13.0	18.0	17.7	20.0	13.9	13.9	15.3
Sudarshan chemical	635	825	Buy	4,398	20.4	26.5	33.0	34.7	26.7	21.4	18.8	14.9	12.1	15.2	18.4	20.3	19.0	20.8	21.8
Neogen Chemicals	1205	1,515	Buy	2,812	13.4	18.8	28.8	89.7	64.0	41.8	46.8	35.0	25.4	15.1	16.5	20.1	17.1	19.8	23.7

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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