

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

Q3FY22 Results: The topline broadly stayed in line with our estimates while bottomline was lower due to higher than estimated depreciation and finance cost.

- Reported revenue growth of 56% YoY to ₹ 132.6 crore, led by higher growth from both segments such as organic chemical (up 52% YoY) and inorganic chemical segment (up 69% YoY)
- Gross margins expanded 260 bps YoY to ~44.1% while EBITDA margin fell 180 bps YoY to 18%, due to higher other (+ 98% YoY) & employee cost (+ 61% YoY)
- EBITDA was up 41% YoY to ₹ 23.8 crore
- PAT increased 23% YoY to ₹ 10.5 crore owing to higher depreciation and finance cost post commissioning of phase I & II unit at Dahej

What should investors do? The stock appreciated at 90% CAGR in last two years.

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

Target Price and Valuation: We value Neogen Chemicals at 50x P/E FY24E EPS to arrive at a revised target price of ₹ 2160/share (earlier ₹ 2160/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 to improve margins 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



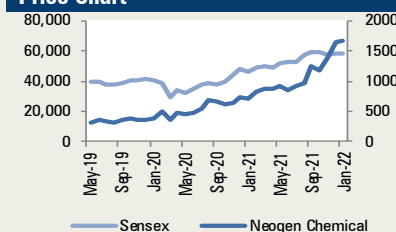
Particulars

Particular	Amount
Market cap (₹ Crore)	4,137
FY21 Total Debt (₹ Crore)	202
FY21 Cash & Inv (₹ Crore)	1
EV (₹ Crore)	4,338
52 Week H/L	1934/690
Equity Capital (₹ Crore)	24.9
Face Value (₹)	10

Shareholding pattern

in %	Mar-21	Jun-21	Sept-21	Dec-21
Promoter	64.3	64.3	64.3	60.2
DII	14.8	14.1	14.6	18.5
FII	4.8	4.7	4.8	4.4
Others	16.1	16.9	16.4	16.9

Price Chart



Recent event & key risks

- Both organic & inorganic chemical segments witnessed strong growth
- Key Risk:** (i) Higher lithium prices and inability to pass on to impact inorganic chemical performance ii) Slowdown in end user industry and thereby stretched WC to impact balance sheet

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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%	484.3	671.6	760.0	31.2%
EBITDA	43.4	58.1	64.4	35.5%	88.6	137.7	164.9	36.8%
EBITDA Margins (%)	18.2%	19.0%	19.1%		18.3%	20.5%	21.7%	
Adj. PAT	21.0	28.6	31.3	43.3%	41.2	83.4	107.7	50.9%
Adj. EPS (₹)	10.4	12.3	13.4		16.5	33.5	43.2	
EV/EBITDA	79.3x	68.9x	63.3x		47.4x	30.6x	25.2x	
P/E	159.0x	135.1x	123.6x		100.5x	49.6x	38.4x	
ROE (%)	29.8	18.3	17.1		9.3	16.0	17.3	
ROCE (%)	22.2	18.4	15.1		11.2	16.9	18.3	

Key takeaways of recent quarter & conference call highlight

Q3FY22 Results: Better performance from both organic, inorganic chemical leads overall growth

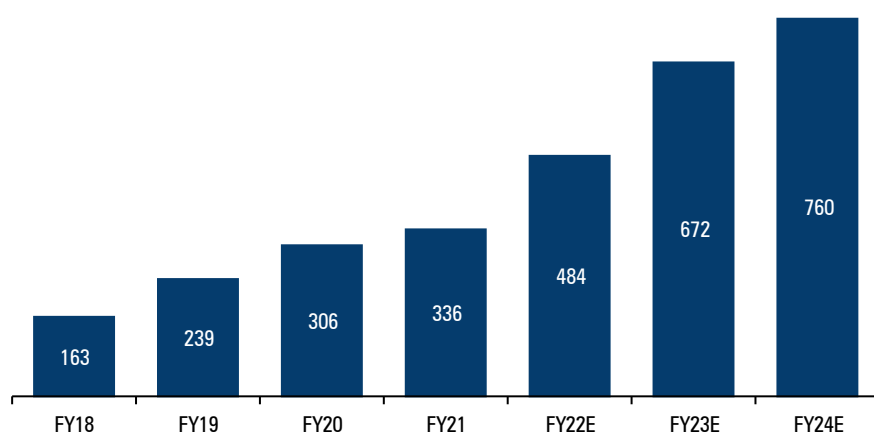
- **Organic chemical:** Revenues were up 52% YoY to ₹ 105 crore. The company had already started production from both phase 1 & 2 at Dahej. Better utilisation at Phase 1 has likely fuelled growth for the quarter. The company is on track to achieve ₹ 60-80 core of revenue this fiscal from the two contracts it won last year
- **Inorganic Chemical:** The company had set up capacity of 1200 MT at Dahej. Thus, better utilisation of new capacity along with higher realisations have supported strong revenue growth during the quarter. Revenue was up 69% YoY to ₹ 27 crore

Q3FY22 Earnings Conference Call highlights

- Neogen has been witnessing favourable demand trends across its key segments
- Mahape and Baroda units are operating at peak utilisation
- Dahej Phase 1 unit has been operating at around 50-60% utilisation level, while phase 2 has been ramping up. The company has been manufacturing pharma intermediates. Thus, customer approval, going forward, would help Neogen to achieve peak utilisation ahead. The management sounds confident on achieving peak utilisation from both phase 1 & 2 by Q2FY23
- Advance intermediates currently comprise ~25-30% of overall revenue. It is expected to inch up to 40%, going ahead
- The company plans to undertake capex in three projects, going ahead. (i) Electrolyte (ii) Organic chemical MPP (iii) Lithium electrolyte salt. The capex would be around ₹ 50-100 crore for each project
- Electrolyte capex is expected to happen at Karakhadi (Vadodara). It can take at least 15-18 months to commission from the date of commencement.
- Organic MPP plant capex is expected to happen at Dahej and be commissioned within 12-15 months
- Lithium salt capex is expected to happen during FY23
- All of the above capex are expected to bode well for FY25 growth
- The asset turn on electrolyte is expected to be higher while margins are anticipated to be lower than organic chemical. Return ratios for electrolyte project are expected to be similar to organic chemical
- Lithium salt manufacturing capacity at Vadodara is expected to support internal demand for commercial scale electrolyte production

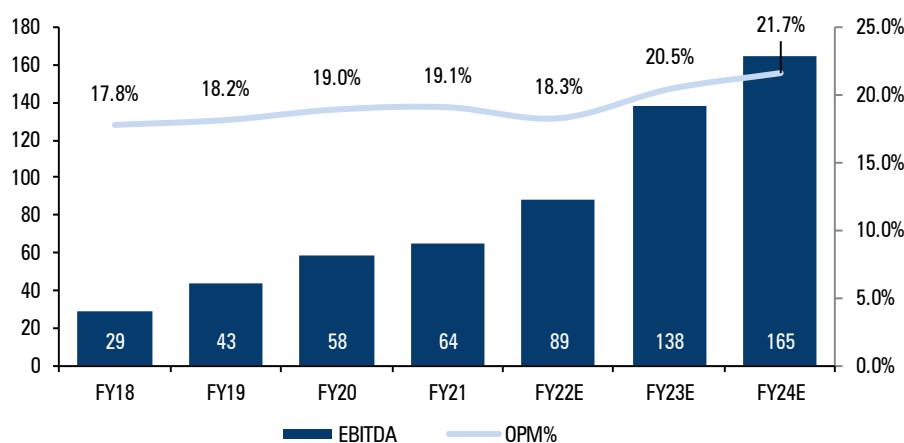
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



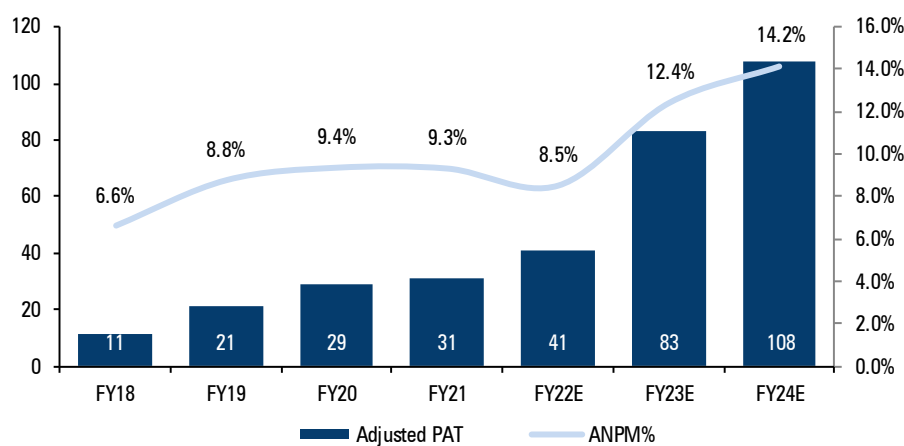
Source: Company, ICICI Direct Research

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
Total Operating Income	306.1	336.4	484.3	671.6	760.0
Growth (%)	28.1	9.9	43.9	38.7	13.2
Raw Material Expenses	184.1	197.6	271.2	376.1	418.0
Gross Profit	122.0	138.8	213.1	295.5	342.0
Employee Cost	17.3	20.1	31.5	36.9	41.8
Other Operating Expenses	46.7	54.4	93.0	120.9	135.3
EBITDA	58.1	64.4	88.6	137.7	164.9
Growth (%)	33.7	10.9	37.7	55.4	19.8
Other Income	0.2	0.5	0.8	13.2	15.8
EBITDA, including OI	58.3	64.9	89.5	150.8	180.7
Depreciation	5.2	6.9	11.6	13.8	14.6
Net Interest Exp.	11.9	13.8	20.6	25.8	27.3
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	41.1	44.2	57.2	111.3	138.9
Total Tax	12.5	12.9	16.0	27.8	31.2
Tax Rate	30.3%	29.1%	28.0%	25.0%	22.5%
PAT	28.6	31.3	41.2	83.4	107.7
Adj. PAT after Minority interest	28.6	31.3	41.2	83.4	107.7
Adj. EPS (₹)	12.3	13.4	16.5	33.5	43.2
Shares Outstanding	2.3	2.3	2.5	2.5	2.5

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	57.2	111.3	138.9
Depreciation	5.2	6.9	11.6	13.8	14.6
After other adjustments					
(Inc) / Dec in Working Capital	-85.1	36.6	-82.3	-89.8	-42.4
Taxes	-12.7	-10.4	-16.0	-27.8	-31.2
Others	16.9	6.2	20.6	25.8	27.3
CF from operating activities	-34.5	83.6	-8.9	33.3	107.2
Purchase of Fixed Assets	-26.5	-135.0	-50.3	-15.0	-20.0
Others	-2.1	0.4	0.0	0.0	0.0
CF from investing activities	-28.6	-134.6	-50.3	-15.0	-20.0
Proceeds from issue of shares	70.0	0.0	225.0	0.0	0.0
Borrowings (Net)	16.5	69.6	50.0	40.0	-10.0
Others	-23.9	-18.9	-26.3	-31.4	-32.9
CF from financing activities	62.6	50.7	248.7	8.6	-42.9
Net cash flow	-0.5	-0.3	189.5	26.8	44.3
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0
Opening Cash	2.0	1.5	1.2	190.7	217.5
Closing Cash	1.5	1.2	190.7	217.5	261.9

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
Liabilities					
Share Capital	23.3	23.3	24.9	24.9	24.9
Reserves	132.9	159.7	418.6	496.5	598.6
Total Shareholders Funds	156.2	183.0	443.6	521.4	623.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	30.4	116.1	156.1	186.1	176.1
Net Deferred Tax liability	5.6	8.2	8.2	8.2	8.2
Other long term liabilities	9.2	7.7	8.7	12.0	13.6
Long term provisions	3.6	3.0	4.7	6.5	7.4
Current Liabilities and Provisions					
Short term borrowings	101.9	85.8	95.8	105.8	105.8
Trade Payables	35.9	66.1	92.9	128.8	145.7
Other Current Liabilities	10.6	20.9	30.1	41.8	47.3
Short Term Provisions	1.5	1.1	1.6	2.2	2.5
Total Current Liabilities	149.9	173.9	220.4	278.6	301.3
Total Liabilities	354.9	492.0	841.6	1,012.8	1,130.1
Assets					
Net Block	110.6	126.7	245.1	281.3	286.7
Capital Work in Progress	2.7	114.7	35.0	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	8.5	11.8	13.4
Other Non Current Assets	4.1	2.3	9.5	13.2	14.9
Current Assets, Loans & Advances					
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	129.9	114.0	179.1	248.4	281.1
Sundry Debtors	75.2	78.6	106.1	147.2	166.6
Cash and Bank	1.5	1.2	190.7	217.5	261.9
Loans and Advances	0.0	0.0	0.0	0.0	0.0
Other Current assets	24.5	46.4	66.7	92.6	104.7
Current Assets	231.1	240.2	542.7	705.7	814.3
Total Assets	354.9	492.0	841.6	1,012.8	1,130.1

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22E	FY23E	FY24E
Per share data (₹)					
Adj. EPS	12.3	13.4	16.5	33.5	43.2
Adj. Cash EPS	14.5	16.4	21.2	39.0	49.0
BV	67.0	78.4	177.9	209.1	250.0
DPS	1.5	2.3	2.3	2.3	2.3
Operating Ratios (%)					
Gross Margin (%)	39.9	41.3	44.0	44.0	45.0
EBITDA Margin (%)	19.0	19.1	18.3	20.5	21.7
PAT Margin (%)	9.4	9.3	8.5	12.4	14.2
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
Return Ratios (%)					
Return on Assets (%)	8.1	6.4	4.9	8.2	9.5
RoCE (%)	18.4	15.1	11.2	16.9	18.3
Core RoIC (%)	18.6	21.4	16.4	20.8	23.4
RoE (%)	18.3	17.1	9.3	16.0	17.3
Solvency Ratios					
Total Debt / Equity	0.8	1.1	0.6	0.6	0.5
Interest Coverage	4.4	4.2	3.8	5.3	6.1
Current Ratio	1.5	1.4	2.5	2.5	2.7
Quick Ratio	0.7	0.7	1.6	1.6	1.8
Valuation Ratios (x)					
EV/EBITDA	68.9	63.3	47.4	30.6	25.2
P/E	135.1	123.6	100.5	49.6	38.4
P/B	24.8	21.2	9.3	7.9	6.6
EV/Sales	13.1	12.1	8.7	6.3	5.5

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	2428	3,340	Buy	36,836	48.6	53.8	66.8	56.4	50.9	41.0	39.1	34.5	28.6	17.2	17.2	18.3	13.8	13.4	14.5
Aarti Industries	982	1,120	Buy	35,591	14.5	18.8	32.0	66.5	51.3	30.1	38.3	29.0	19.2	10.7	11.0	16.1	15.0	12.8	18.3
Tata Chemical	919	1,035	Buy	23,419	10.1	39.9	49.3	88.5	22.3	18.0	16.9	11.2	8.9	4.1	6.6	7.7	1.8	6.8	7.9
Vinati Organics	1964	2,270	Buy	20,188	26.2	33.0	45.4	75.5	60.0	43.6	57.2	46.6	33.0	21.7	24.9	28.4	17.4	18.7	21.3
Sumitomo Chemical	376	505	Buy	18,793	6.9	8.5	10.1	54.6	44.4	37.4	37.7	30.6	25.3	29.8	29.3	28.1	22.4	22.1	21.2
Navin Fluorine	3824	3,710	Hold	18,946	45.0	53.0	73.1	77.8	66.0	47.9	54.0	46.7	31.9	21.0	19.0	22.6	13.6	14.2	17.0
Rallis India	277	305	Hold	5,388	11.4	9.7	13.8	24.3	28.7	20.1	15.9	18.5	12.8	18.0	13.9	18.2	13.9	10.9	13.9
Sudarshan chemical	579	695	Buy	4,011	20.4	19.7	25.7	28.4	29.4	22.6	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1659	2,160	Buy	4,137	13.4	16.5	33.5	123.6	100.5	49.6	63.3	47.4	30.6	15.1	11.2	16.9	17.1	9.3	16.0
Astec Lifesciences	1730	2,120	Buy	3,389	33.2	43.1	55.0	52.1	40.2	31.5	32.0	23.9	19.3	18.9	21.6	22.4	21.0	21.6	21.9

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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