



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

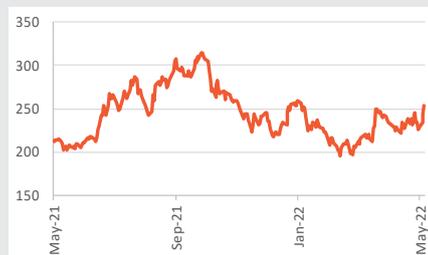
Company details

Market cap:	Rs. 4,235 cr
52-week high/low:	Rs. 321 / 191
NSE volume: (No of shares)	8.9 lakh
BSE code:	500730
NSE code:	NOCIL
Free float: (No of shares)	11.0 cr

Shareholding (%)

Promoters	33.9
FII	2.5
DII	4.3
Others	59.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.3	20.9	2.6	19.6
Relative to Sensex	16.3	27.1	11.7	11.0

Sharekhan Research, Bloomberg

Specialty Chemicals

Sharekhan code: NOCIL

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 254

Price Target: Rs. 348



Downgrade

Summary

- Q4FY22 PAT of Rs. 69 crore, up 85% y-o-y was sharply above our/street estimated led by beat in EBITDA margin, better-than-expected volumes partially offset by higher depreciation cost and tax rate.
- Strong margin performance with 120% q-o-q increase in EBITDA/kg to Rs. 81/kg primarily led by price hike, better product mix (given high share of high value products) and benefit of operating leverage (utilisation rate of 75%).
- The management has maintained its guidance to reach optimum utilisation on expanded capacity by September 2023 and hinted for further capacity expansion through bottlenecking.
- Recent sharp correction in NOCIL's stock price provides an investment opportunity as valuation of 16x FY24E EPS makes risk-reward favourable as market share gain would help PAT rise 1.5x over FY22-24E. Hence, we maintain a Buy on NOCIL with an unchanged PT of Rs. 348.

NOCIL reported strong Q4FY22 results with consolidated Q4FY22 revenue at Rs. 463 crore (up 43.7% y-o-y; up 19% q-o-q), which was sharply above our estimates of Rs. 378 crore on account of a beat of 17% beat in realisation at Rs. 337/kg and better-than-expected volume at 13,736 tonnes (flat q-o-q versus our estimate of 5% q-o-q decline). EBITDA margins improved strongly by 2.2x q-o-q to Rs. 81/kg and were significantly above our estimate of Rs. 37/kg led by higher-than-expected gross margin at Rs. 169/kg (up 1.5x q-o-q and 46% above our estimate) led by better realisations, while raw material cost remained flat q-o-q. PAT at Rs. 69 crore, up 116%/139% y-o-y/q-o-q beat our estimate by 134% led by higher-than-expected margin/volume partially offset by higher depreciation and tax rate.

Key positives

- Strong beat in gross & EBITDA margins at Rs. 169/kg (up 46.7% q-o-q) & Rs. 81/kg (up 119.5% q-o-q) respectively.
- Better than expected volume growth at 13,376 tonne, flat q-o-q versus our estimate of 5% q-o-q decline.

Key negatives

- Negative operating cash flows of Rs. 30 crore for FY22 vs positive operating cash flows of Rs. 94 Crs for FY21.

Management Commentary

- Volume guidance:** The management guided it is on track to achieve full capacity utilisation by Sep 2023 and the same would drive high double-digit volume growth over FY22-24. It guided for the domestic tyre industry to grow at par with the GDP of India at about 7-9% for FY23.
- Margin outlook:** Management believes it is premature to give guidance on EBITDA/kg and they will be in a better position to give the outlook post Q1FY23. The company stated that margin improvement was led by price hike and improved product mix. NOCIL has made request to the government for imposition of anti-dumping duty on three products which contribute a significant portion of its revenue and any positive development on that would result in higher realisations/ margins going forward.
- Domestic vs exports sales:** FY22 revenue mix was 64:36 for domestic and export sales with sequential marginal growth witnessed in domestic sales in the quarter whereas there was a decline in exports due to supply chain disruptions.
- Capex and capacity utilisation outlook:** The company aims to fully utilise its 110,000 tonnes capacity by September 2023 and hinted for de-bottleneck its capacities in certain products. NOCIL is planning long-term capex and would provide details at an appropriate time.

Revision in estimates – We fine-tuned our FY22 earnings to factor in FY22 P&L and balance sheet numbers.

Our Call

Valuation – Maintain Buy on NOCIL with an unchanged PT of Rs. 348: We believe that the strong growth outlook for tyre industry and price hikes would result in volume/margin led earnings growth. NOCIL is a play on import substitution and China Plus One strategy by global customers and the same would drive market share gains with improved financials. Valuation of 18.6x/15.8x FY23E/FY24E EPS is attractive considering our expectation of sharp 1.5x rise in earnings over FY22-24E and improvement in RoE to 16% (versus 12.9% in FY22). Hence, we maintain a Buy on NOCIL with an unchanged PT of Rs. 348.

Key Risks

A slowdown in auto/tyre industry and delay in ramp-up of new capacity could impact volume growth. Competition from Chinese players could affect pricing and margins.

Valuation (Consolidated)

Particulars	Rs cr			
	FY21	FY22	FY23E	FY24E
Revenue	925	1,571	1,760	1,967
OPM (%)	14.1	18.2	19.5	20.0
Adjusted PAT	88	176	228	267
% YoY growth	-32.3	99.2	29.2	17.6
Adjusted EPS (Rs.)	5.3	10.6	13.7	16.1
P/E (x)	47.8	24.0	18.6	15.8
EV/EBITDA (x)	32.0	14.8	11.7	10.4
RoNW (%)	7.2	12.9	15.0	16.0
RoCE (%)	6.9	16.0	17.2	18.3

Source: Company; Sharekhan estimates

Stellar performance with beat on all fronts led by price hikes

Consolidated Q4FY22 revenue at Rs. 463 crore (up 43.7% y-o-y; up 19% q-o-q) was sharply above our estimates of Rs. 378 crore on account of a beat of 17% beat in realisation at Rs. 337/kg and a better-than-expected volume at 13,736 tonnes (flat q-o-q versus our estimate of 5% q-o-q decline). EBITDA margins improved strongly by 2.2x q-o-q to Rs. 81/kg and were significantly above our estimate of Rs. 37/kg led by higher-than-expected gross margin at Rs. 169/kg (up 1.5x q-o-q and 46% above our estimate) led by better realisations, while raw material cost remained flat q-o-q. PAT at Rs. 69 crore, up 116%/139% y-o-y/q-o-q beat our estimate by 134% led by higher-than-expected margin/volume partially offset by higher depreciation.

Results (Consolidated)

Particulars	Rs cr				
	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Revenue	463	322	43.7	389	19.0
Total Expenditure	351	270	30.3	338	3.9
Operating profit	111	52	112.9	51	119.5
Other Income	1	2	-48.3	0	146.9
Interest	0	0	77.3	0	39.3
Depreciation	16	10	62.0	11	50.6
PBT	96	44	116.1	40	139.0
Tax	27	7	282.2	10	161.1
Reported PAT	69	37	84.6	30	131.4
Equity Cap (cr)	17	17		17	
Reported EPS (Rs.)	4.1	2.2	84.2	1.8	131.2
Margins (%)			BPS		BPS
OPM	24.1	16.3	782.3	13.0	1,102.9
NPM	14.9	11.6	330.0	7.7	723.4
Tax rate	28.2	15.9	1224.0	25.8	237.9

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Volume (tonnes)	13,736	15,049	-8.7%	13,736	0.0%
Realisation (Rs. /kg)	337	214	57.4%	283	19.0%
RM cost (Rs. /kg)	168	119	40.8%	168	0.0%
Gross margin (Rs. /kg)	169	95	78.5%	115	46.7%
EBITDA margin (Rs. /kg)	81	35	133.2%	37	119.5%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Import substitution and export opportunities bode well for domestic rubber chemical players

Global rubber consumption stands at ~30 million tonnes annually and of this, rubber chemical has a ~3.5% share and is dominated by China, which accounts for ~75% of global rubber chemical production. Global customers are shifting sourcing of rubber chemicals from China to India and the same provides strong export growth opportunities for domestic players like NOCIL. Additionally, domestic demand for rubber chemicals is also expected to remain strong supported by restriction on tyre imports, improvement tyre demand from both OEM and replacement market and capex by tyre companies to expand capacity. Moreover, a potential anti-dumping duty on major rubber chemicals would result in import substitution and drive up domestic players' volumes.

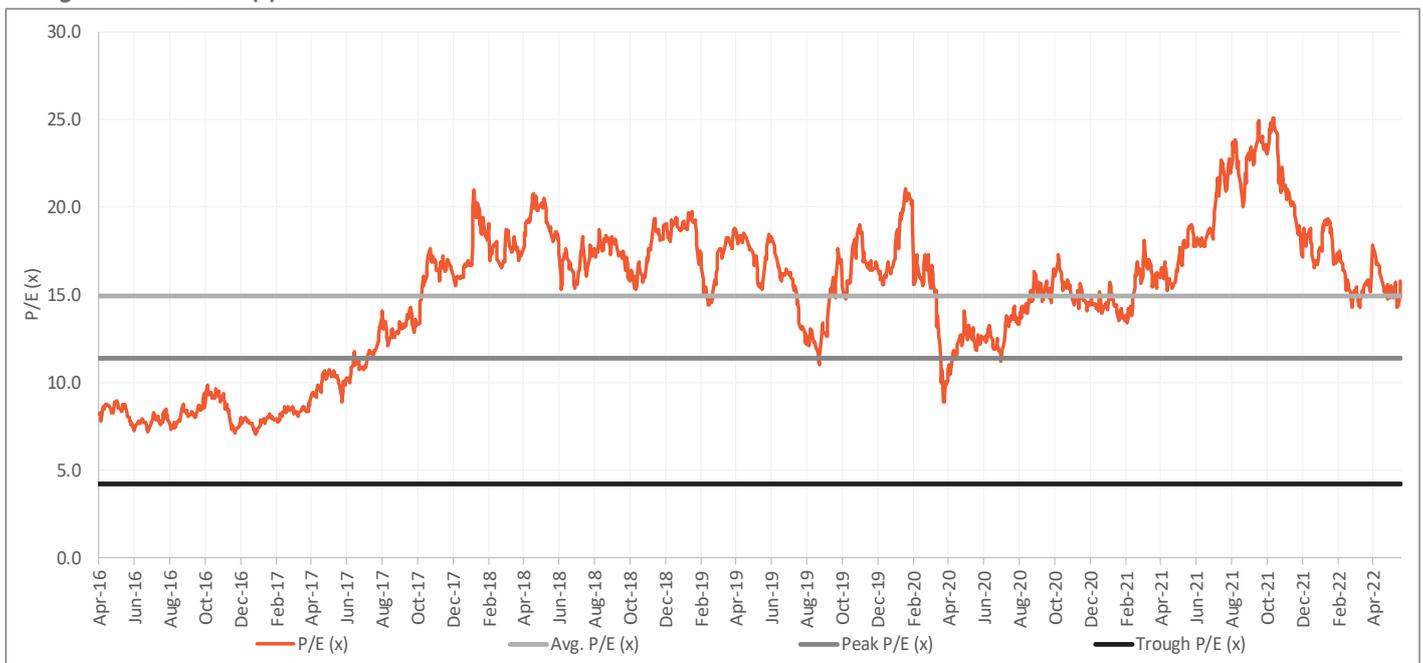
■ Company Outlook – Volume and margin growth to drive 23% PAT CAGR over FY22-24E

NOCIL has recently doubled its production capacity to 110,000 tonnes in time for a rubber chemical demand recovery cycle both in domestic and export markets. We thus expect a 22% volume CAGR over FY2022-FY2024E. Ramp-up in utilisation rates and improvement in pricing environment would drive up margins to 20% by FY2024E from 18.2% in FY2022. Thus, we expect NOCIL's PAT to register a 23% CAGR over FY2022-FY2024E.

■ Valuation – Maintain Buy on NOCIL with an unchanged PT of Rs. 348

We believe that the strong growth outlook for tyre industry and price hikes would result in volume/margin led earnings growth. NOCIL is a play on import substitution and China Plus One strategy by global customers and the same would drive market share gains with improved financials. Valuation of 18.6x/15.8x FY23E/FY24E EPS is attractive considering our expectation of sharp 1.5x rise in earnings over FY22-24E and improvement in RoE to 16% (versus 12.9% in FY22). Hence, we maintain a Buy on NOCIL with an unchanged PT of Rs. 348.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

NOCIL, incorporated in 1975, is part of Arvind Mafatlal Group and is the largest rubber chemical manufacturer in India with production capacity of 110 ktpa and market share of ~40%/5% in domestic/global markets. The company has presence in over 40 countries with exports accounting for 40% of FY2021 revenues. The business segments include Accelerator, Anti-oxidant, Pre/Post vulcanization inhibitor/stabilizer and Zinc based applications.

Investment theme

NOCIL is the key beneficiary of China plus one strategy and import substitution in niche market of rubber chemicals. Recent doubling of capacity has made in third largest rubber chemical manufacturers in term of capacity and ramp-up of utilisation would drive sustainable double digit volume growth and help expand global market share to ~8% over next 2-3 years as compared to 5% currently. Volume growth coupled with margin expansion would drive strong earnings growth and consistent FCF generation. Balance sheet remains strong with net cash position.

Key Risks

- ◆ Slowdown in auto/tyre industry and delay in ramp-up of new capacity could impact volume growth.
- ◆ Competition from Chinese players could impact pricing and margin.

Additional Data

Key management personnel

Mr. Hrishikesh Arvind Mafatlal	Chairman
Mr. S.R. Deo	Managing Director
P Srinivasan	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Tejas Trivedi	1.73
2	Canara Robeco Asset Management Co Ltd	1.29
3	Trivedi Shivani Tejas	1.29
4	Aagam Agencies Pvt Ltd	1.16
5	HN Safal Infra Space Pvt Ltd	1.10
6	IDFC Mutual Fund	1.04
7	Trivedi Minaxi Balchandra	0.99
8	Trivedi Khushi Tejas	0.99
9	Dimensional Fund Advisors LP	0.88
10	Deo Sudhir Ramchandra	0.48

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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