

August 1, 2022

Company Report

■ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		BUY	
Target Price	300		310	
Sales (Rs. m)	18,379	19,408	18,379	19,938
% Chng.	-	(2.7)		
EBITDA (Rs. m)	3,430	3,733	3,430	3,899
% Chng.	-	(4.3)		
EPS (Rs.)	13.5	15.3	13.5	16.0
% Chng.	-	(4.6)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	9,247	15,713	18,379	19,408
EBITDA (Rs. m)	1,308	2,862	3,430	3,733
Margin (%)	14.1	18.2	18.7	19.2
PAT (Rs. m)	884	1,761	2,253	2,547
EPS (Rs.)	5.3	10.6	13.5	15.3
Gr. (%)	(32.6)	98.8	27.9	13.0
DPS (Rs.)	2.0	3.0	3.4	3.8
Yield (%)	0.7	1.1	1.2	1.4
RoE (%)	7.2	12.9	14.7	14.9
RoCE (%)	7.6	17.4	19.2	18.9
EV/Sales (x)	4.8	2.9	2.4	2.1
EV/EBITDA (x)	33.7	15.8	12.7	11.2
PE (x)	51.3	25.8	20.2	17.9
P/BV (x)	3.5	3.1	2.8	2.5

Key Data

NOCIL.BO | NOCIL IN

52-W High / Low	Rs.321 / Rs.191
Sensex / Nifty	58,116 / 17,340
Market Cap	Rs.45bn/ \$ 575m
Shares Outstanding	167m
3M Avg. Daily Value	Rs.308.62m

Shareholding Pattern (%)

Promoter's	33.85
Foreign	2.94
Domestic Institution	4.87
Public & Others	58.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	10.2	19.3	4.4
Relative	0.3	20.8	(5.5)

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NOCIL (NOCIL IN)

Rating: ACCUMULATE | CMP: Rs273 | TP: Rs300

Domestic volume growth drives strong Q1

Quick Pointers:

- Volume jump of ~16% YoY in Q1FY23, led by easing supply chain challenges and healthy demand from tyre companies (OEM and replacement market).
- Management indicated 3-6 months delay in attaining full capacity utilization (vs Sep'23 earlier) led by near-term recessionary trends across geographies.

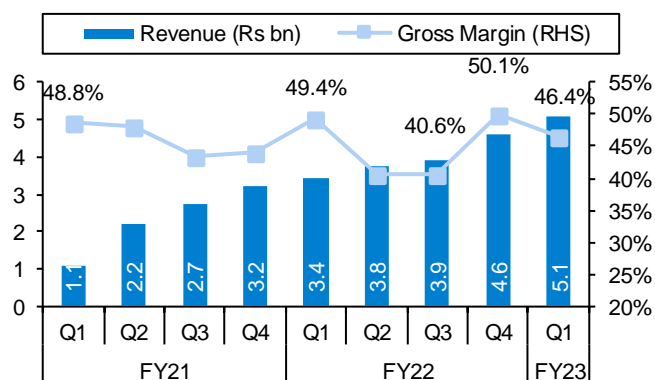
We downgrade NOCIL to 'ACCUMULATE' from BUY, given run up in the stock price over last 2 months and reduction in volume growth estimate driving ~5% EPS reduction for FY24. Despite near term recessionary pressure, NOCIL remains well placed for medium to long term as 1) domestic tyre industry capex is expected to be above Rs.200bn over next 3 years 2) sufficient capacity headroom enables capturing demand improvement 3) moderate competitive intensity with higher environment compliance costs in China leads to better level playing field, plus aligning prices based on changes in RM costs support spreads 4) zero debt balance sheet and healthy FCF generation of Rs.4.4bn over FY23-24E provides comfort, though elevated crude oil (> USD 100/bbl) and increase in supplies by Chinese competition pose risk to volume and spreads in FY23/24. We revise our TP to Rs300 (earlier Rs 310) based on 12x FY24 EV/EBITDA implying 19.5x FY24 EPS of Rs15.3 as we forecast 10% volume CAGR over FY22-24E, tweaking volume estimates slightly to factor delay in full utilization of expanded capacity.

- Strong quarter led by volume jump:** Revenue growth of 48% YoY/ 10% QoQ on healthy volume growth of 16% YoY/ 11% QoQ, with improved realisations up 27%YoY (flat QoQ). Volume growth was driven by domestic market on healthy lifting from tyre companies with improvement in OEM and replacement market demand. Export revenue contribution stood at ~32% in Q1 (vs 36% in FY22). Gross margin declined to 46.4% (-300bps YoY) despite expansion in spreads, due to higher ASP's (denominator effect). EBITDA stood at Rs1.0bn (+40% YoY/ -8% QoQ) on strong volume growth while EBTDA margin was 20.2% (-110bps YoY/ -390bps QoQ) on lower gross margins and higher overheads/ utility costs (+46% YoY). PAT +40% YoY/-3.5% QoQ to Rs.665mn.
- Concall takeaways:** (1) Management highlighted that interactions with customers suggest slower demand across geographies in coming months (2) H1FY23 volume growth guidance at ~10% YoY (3) Capacity utilization in Q1 was ~75% in Q1FY23 (inventory build-up in Q4FY22 aided vol growth in Q1). (4) Company to undertake debottlenecking for select products over next year to meet demand growth post current capacity reaching full utilization, while longer term capex to be evaluated simultaneously (5) Land at Dahej is utilized at ~50-60% and there is scope for brownfield expansion (6) Global rubber consumption increased 10.6% in CY21 on lower base of -6.7% in CY20. (7) Exports contributed 32% to company's revenue in Q1FY23 and it targets ~40% contribution for the long term (growth from existing and new customers) (8) NOCIL's domestic market share is at ~42% and likely to be maintained (9) RM prices were largely flattish in Q1 with some exceptions in domestic market. It is difficult to predict RM prices given global disturbances.

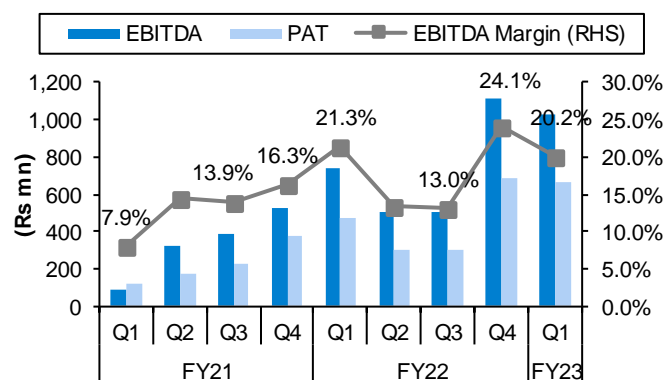
Exhibit 1: Q1FY23 Result Overview - Consolidated (Rs mn)

Y/e March	Q1FY23	Q1FY22	YoY gr.	Q4FY22	QoQ gr.
Net Revenue	5,089	3,445	47.7%	4,627	10.0%
Material Cost	2,726	1,742	56.5%	2,311	18.0%
Gross Profit	2,363	1,703	38.8%	2,317	2.0%
<i>Gross Margin (%)</i>	46.4%	49.4%		50.1%	
Employee expenses	240	217	10.7%	202	19.0%
Other operating expenses	1,097	752	45.9%	1,001	9.7%
EBITDA	1,026	734	39.7%	1,114	-7.9%
<i>EBITDA margin (%)</i>	20.2%	21.3%		24.1%	
Depreciation	137	105	29.9%	163	-16.0%
EBIT	889	629	41.4%	951	-6.5%
Other income	11	11	-5.4%	12	-13.2%
Interest cost	3	2	21.7%	4	-28.2%
PBT	897	638	40.7%	959	-6.5%
Tax	232	164	41.9%	270	-14.1%
Sh of ass. / Minority int	0	0		0	
PAT	665	474	40.2%	689	-3.5%
Extra ordinary income/ (exp.)	0	0		0	
Adjusted PAT	665	474	40.2%	689	-3.5%
<i>Adj. PAT margin (%)</i>	13.1%	13.8%		14.9%	
No. of shares (mn)	167	166	0.1%	167	0.0%
Adj. EPS (Rs.)	4.0	2.8	40.1%	4.1	-3.5%

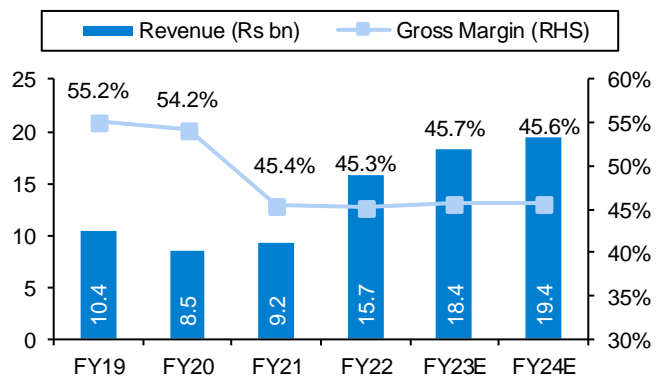
Source: Company, PL

Exhibit 2: Strong quarter led by domestic volume growth


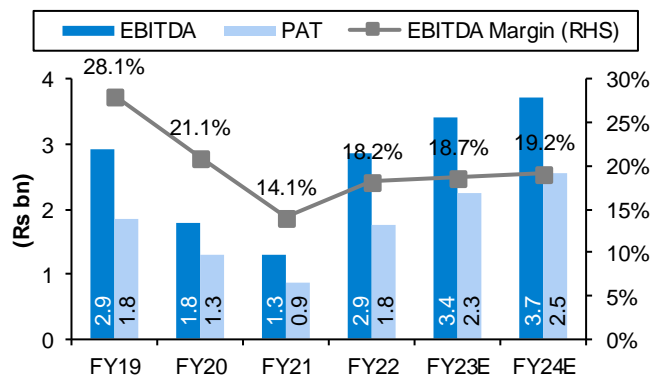
Source: Company, PL

Exhibit 3: Healthy margins on pass through of higher costs


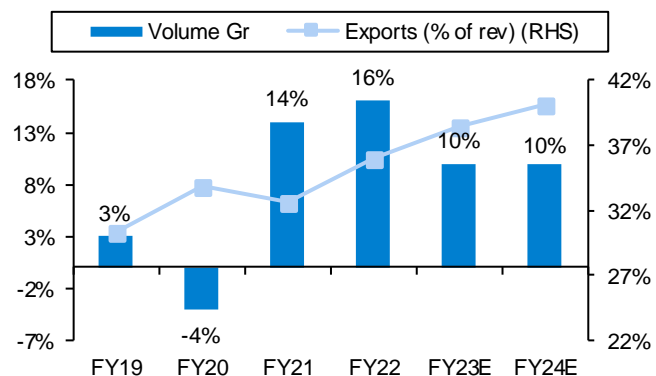
Source: Company, PL

Exhibit 4: Rev to grow at 11% CAGR (FY22-24E) led by vol


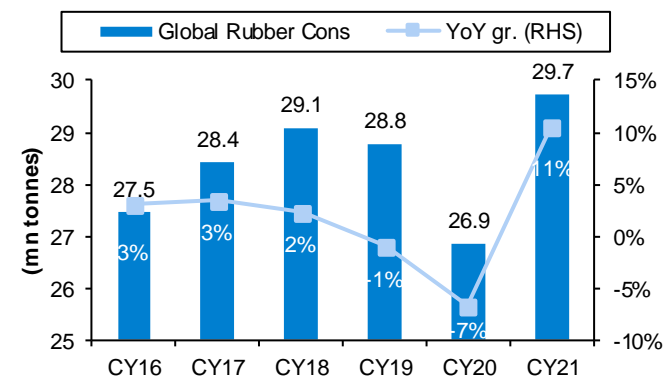
Source: Company, PL

Exhibit 5: Margin improvement on op. leverage benefits


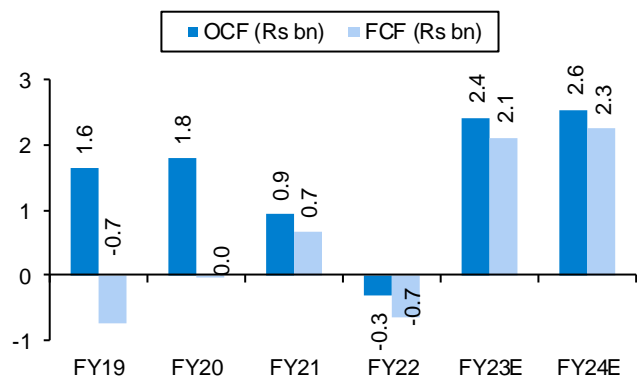
Source: Company, PL

Exhibit 6: Vol growth aided by demand traction


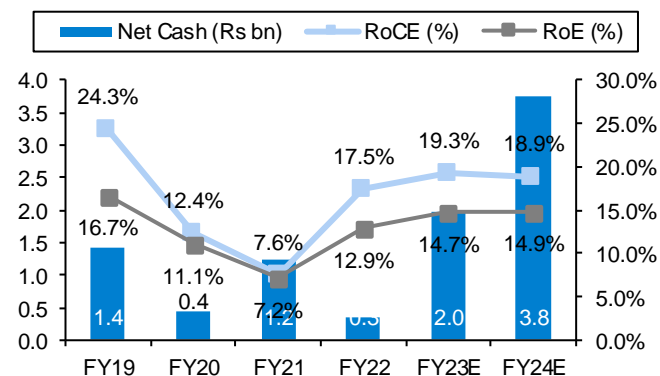
Source: Company, PL

Exhibit 7: Healthy recovery in global rubber consumption


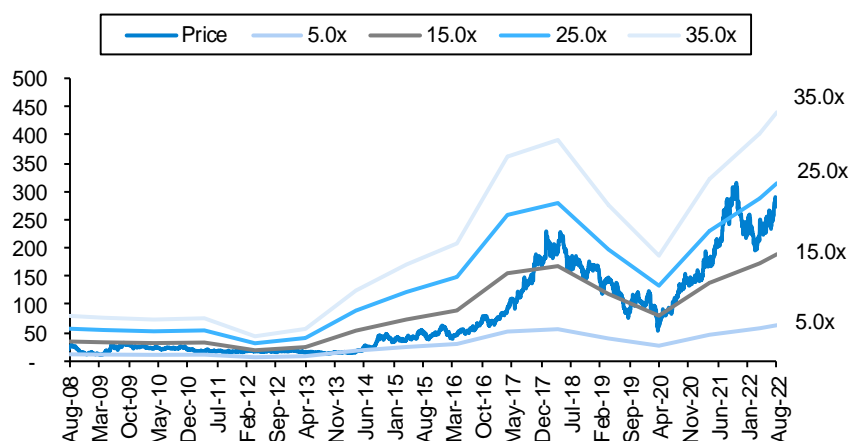
Source: Company, PL

Exhibit 8: Steady profits with negligible capex to boost FCF


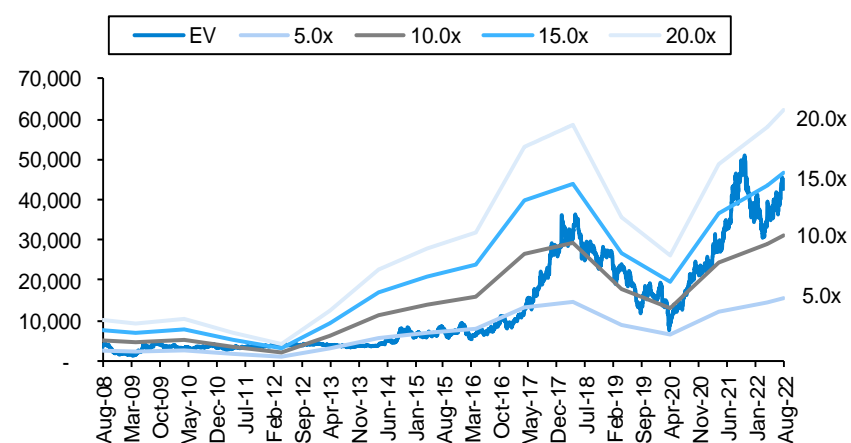
Source: Company, PL

Exhibit 9: Net cash BS with improving return ratios


Source: Company, PL

Exhibit 10: P/E Band (1 year forward)


Source: Company, PL

Exhibit 11: EV/EBITDA Band (1 year forward)


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	9,247	15,713	18,379	19,408
YoY gr. (%)	9.3	69.9	17.0	5.6
Cost of Goods Sold	5,046	8,593	9,987	10,551
Gross Profit	4,200	7,120	8,392	8,857
Margin (%)	45.4	45.3	45.7	45.6
Employee Cost	701	808	882	951
Other Expenses	2,192	3,450	4,080	4,173
EBITDA	1,308	2,862	3,430	3,733
YoY gr. (%)	(26.6)	118.8	19.9	8.8
Margin (%)	14.1	18.2	18.7	19.2
Depreciation and Amortization	374	483	495	507
EBIT	934	2,378	2,935	3,226
Margin (%)	10.1	15.1	16.0	16.6
Net Interest	10	11	-	-
Other Income	147	39	78	178
Profit Before Tax	1,071	2,406	3,012	3,405
Margin (%)	11.6	15.3	16.4	17.5
Total Tax	187	645	759	858
Effective tax rate (%)	17.5	26.8	25.2	25.2
Profit after tax	884	1,761	2,253	2,547
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	884	1,761	2,253	2,547
YoY gr. (%)	(32.3)	99.2	27.9	13.0
Margin (%)	9.6	11.2	12.3	13.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	884	1,761	2,253	2,547
YoY gr. (%)	(32.3)	99.2	27.9	13.0
Margin (%)	9.6	11.2	12.3	13.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	884	1,761	2,253	2,547
Equity Shares O/s (m)	166	167	167	167
EPS (Rs)	5.3	10.6	13.5	15.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	11,830	12,231	12,531	12,831
Tangibles	11,742	12,119	12,419	12,719
Intangibles	88	112	112	112
Acc: Dep / Amortization	2,658	3,142	3,637	4,144
Tangibles	2,582	3,065	3,560	4,068
Intangibles	77	77	77	77
Net fixed assets	9,172	9,090	8,894	8,687
Tangibles	9,160	9,054	8,859	8,651
Intangibles	12	36	36	36
Capital Work In Progress	141	84	84	84
Goodwill	-	-	-	-
Non-Current Investments	494	599	599	599
Net Deferred tax assets	(995)	(1,068)	(1,068)	(1,068)
Other Non-Current Assets	113	94	94	94
Current Assets				
Investments	435	176	176	176
Inventories	1,657	3,327	3,684	3,890
Trade receivables	3,086	4,498	5,035	5,317
Cash & Bank Balance	804	160	1,797	3,592
Other Current Assets	161	133	155	164
Total Assets	16,146	18,305	20,688	22,782
Equity				
Equity Share Capital	1,662	1,666	1,666	1,666
Other Equity	11,185	12,786	14,476	16,386
Total Network	12,847	14,452	16,142	18,052
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	161	164	164	164
Other non current liabilities	39	29	29	29
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,703	2,151	2,769	2,925
Other current liabilities	401	442	517	545
Total Equity & Liabilities	16,146	18,305	20,688	22,782

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	1,071	2,406	3,012	3,405
Add. Depreciation	374	483	495	507
Add. Interest	10	11	-	-
Less Financial Other Income	147	39	78	178
Add. Other	(134)	(46)	(78)	(178)
Op. profit before WC changes	1,321	2,855	3,430	3,733
Net Changes-WC	(382)	(2,560)	(256)	(326)
Direct tax	(4)	(597)	(751)	(855)
Net cash from Op. activities	936	(302)	2,423	2,553
Capital expenditures	(265)	(362)	(300)	(300)
Interest / Dividend Income	16	17	78	178
Others	(371)	657	-	-
Net Cash from Invt. activities	(621)	312	(222)	(122)
Issue of share cap. / premium	37	29	-	-
Debt changes	-	-	-	-
Dividend paid	(7)	(332)	(563)	(637)
Interest paid	(10)	(11)	-	-
Others	20	(23)	-	-
Net cash from Fin. activities	40	(336)	(563)	(637)
Net change in cash	355	(327)	1,638	1,795
Free Cash Flow	666	(664)	2,123	2,253

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	3,752	3,889	4,627	5,089
YoY gr. (%)	69.3	41.6	43.7	47.7
Raw Material Expenses	2,231	2,310	2,311	2,726
Gross Profit	1,521	1,579	2,317	2,363
Margin (%)	40.5	40.6	50.1	46.4
EBITDA	503	508	1,114	1,026
YoY gr. (%)	57.4	33.2	112.9	39.7
Margin (%)	13.4	13.0	24.1	20.2
Depreciation / Depletion	107	108	163	137
EBIT	396	399	951	889
Margin (%)	10.6	10.3	20.6	17.5
Net Interest	2	3	4	3
Other Income	14	5	12	11
Profit before Tax	408	401	959	897
Margin (%)	10.9	10.3	20.7	17.6
Total Tax	108	104	270	232
Effective tax rate (%)	26.5	25.8	28.2	25.9
Profit after Tax	300	298	689	665
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	300	298	689	665
YoY gr. (%)	78.3	33.5	84.6	40.2
Margin (%)	8.0	7.7	14.9	13.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	300	298	689	665
YoY gr. (%)	78.3	33.5	84.6	40.2
Margin (%)	8.0	7.7	14.9	13.1
Other Comprehensive Income	76	-	(18)	23
Total Comprehensive Income	376	298	672	688
Avg. Shares O/s (m)	166	167	167	167
EPS (Rs)	1.8	1.8	4.1	4.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	5.3	10.6	13.5	15.3
CEPS	7.6	13.5	16.5	18.3
BVPS	77.3	86.8	96.9	108.4
FCF	4.0	(4.0)	12.7	13.5
DPS	2.0	3.0	3.4	3.8
Return Ratio(%)				
RoCE	7.6	17.4	19.2	18.9
ROIC	6.7	13.5	15.5	17.0
RoE	7.2	12.9	14.7	14.9
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	(0.1)	(0.2)
Net Working Capital (Days)	120	132	118	118
Valuation(x)				
PER	51.3	25.8	20.2	17.9
P/B	3.5	3.1	2.8	2.5
P/CEPS	36.1	20.3	16.5	14.9
EV/EBITDA	33.7	15.8	12.7	11.2
EV/Sales	4.8	2.9	2.4	2.1
Dividend Yield (%)	0.7	1.1	1.2	1.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales Volume Growth (%)	14.0	16.0	10.0	10.0
Avg Realisations Growth (%)	(4.4)	48.4	5.0	(4.0)
Exports Contribution (%)	32.7	36.0	38.5	40.1
Capex (Rs bn)	0.3	0.4	0.3	0.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-22	BUY	310	252
2	19-May-22	BUY	310	255
3	08-Apr-22	BUY	285	242
4	07-Feb-22	BUY	270	229

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	880	685
2	Fine Organic Industries	BUY	5,600	4,950
3	NOCIL	BUY	310	252

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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