

November 14, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	275		300	
Sales (Rs. m)	18,189	20,081	19,284	20,364
% Chng.	(5.7)	(1.4)		
EBITDA (Rs. m)	3,231	3,783	3,766	4,133
% Chng.	(14.2)	(8.5)		
EPS (Rs.)	12.9	15.4	15.4	16.6
% Chng.	(16.3)	(7.2)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	15,713	16,333	18,189	20,081
EBITDA (Rs. m)	2,862	2,847	3,231	3,783
Margin (%)	18.2	17.4	17.8	18.8
PAT (Rs. m)	1,761	1,801	2,152	2,572
EPS (Rs.)	10.6	10.8	12.9	15.4
Gr. (%)	98.8	2.3	19.5	19.5
DPS (Rs.)	2.0	2.7	3.2	3.9
Yield (%)	0.9	1.2	1.4	1.7
RoE (%)	12.9	11.9	13.0	14.8
RoCE (%)	17.4	15.5	16.3	18.6
EV/Sales (x)	2.4	2.2	1.9	1.8
EV/EBITDA (x)	13.4	12.7	10.9	9.4
PE (x)	22.0	21.5	18.0	15.1
P/BV (x)	2.7	2.5	2.2	2.2

Key Data

NOCI.BO | NOCIL IN

52-W High / Low	Rs.295 / Rs.191
Sensex / Nifty	61,795 / 18,350
Market Cap	Rs.39bn/ \$ 479m
Shares Outstanding	167m
3M Avg. Daily Value	Rs.195.15m

Shareholding Pattern (%)

Promoter's	33.84
Foreign	4.46
Domestic Institution	5.12
Public & Others	56.57
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(9.3)	(1.2)	(9.5)
Relative	(16.1)	(13.5)	(12.2)

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Global uncertainty weakens near term outlook

Quick Pointers:

- Sharp volume drop of ~13% YoY/ 23% QoQ in Q2FY23 on global recessionary trends. H1FY23 volume growth was 1% YoY vs guidance of ~10% YoY.
- Management suspended its guidance of full capacity utilization by FY24 given the uncertainty due to near-term demand headwinds across geographies.

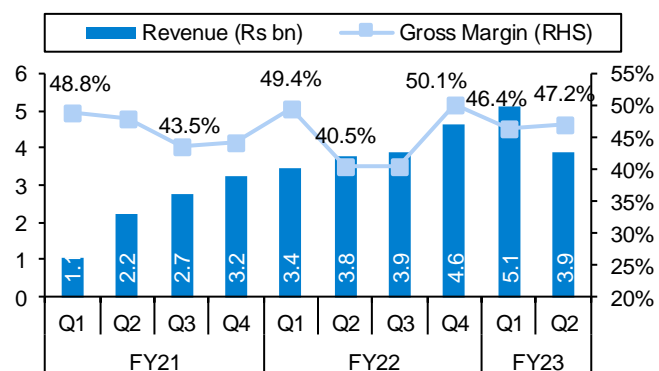
We revise our estimates lower for NOCIL given uncertain global demand environment and the looming risk of increasing competitive intensity from its Chinese rivals in the near term, but maintain 'ACCUMULATE' rating as we roll forward to FY25E and revise our TP to Rs275 (earlier Rs300) based on 18x FY25E EPS of Rs15.4. 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) Europe+1 scenario possibility, given the continued energy challenges (in addition to China+1) 3) sufficient capacity headroom enables capturing demand improvement 4) net cash balance sheet (Rs1.6bn) and healthy FCF generation of Rs.5.9bn over FY23-25E provides comfort, though volatility in RM prices or increase in supplies by Chinese competition (slowdown in China) pose risk to volume and spreads.

- Weak quarter led by sharp volume drop:** Revenue +4% YoY/ -24% QoQ to Rs3.9bn on sharp volume drop (-13% YoY/ -23% QoQ) led by global demand weakness (also destocking on weak sentiment). Blended ASP (+20% YoY/ -1% QoQ) and gross spread (+39% YoY/ flat QoQ) remained firm sequentially. Export revenue contribution declined to sub 30% in Q2 (vs ~32% in Q1 and 36% in FY22). EBITDA at Rs620mn (+23% YoY/ -40% QoQ) witnessed sharp QoQ decline led by higher energy costs and negative operating leverage, translating into margin of 15.9% (-437bps QoQ/ +253bps YoY). PAT was Rs357mn (+19% YoY/ -46% QoQ) on higher depreciation and lower OI.
- Concall takeaways:** (1) Management highlighted uncertain demand environment in the near term given interest rate led demand weakening in most western economies along with persisting energy crisis in Europe, and repeated lockdowns in China having soured consumer confidence (2) Capacity utilization was ~65-70% in Q2FY23 (vs ~75% in Q1) (3) Debottlenecking projects initiated couple of quarters back are on schedule and company is fully committed to complete the same (to aid volume growth post current capacity reaching full utilization) (4) Longer term capex being evaluated simultaneously and management to take a call at an appropriate time considering the current challenges; scope for brownfield expansion exists at Dahej given land availability (5) Global rubber consumption expected to de-grow by 2% in CY22 due to current slowdown (6) RM prices may be volatile due to supply issues and elevated crude oil prices; difficult to predict given global disturbances (7) Ongoing challenges in Europe present a longer term opportunity (Europe+1), Europe has ~10% global production share, while European companies have~15% global market share.

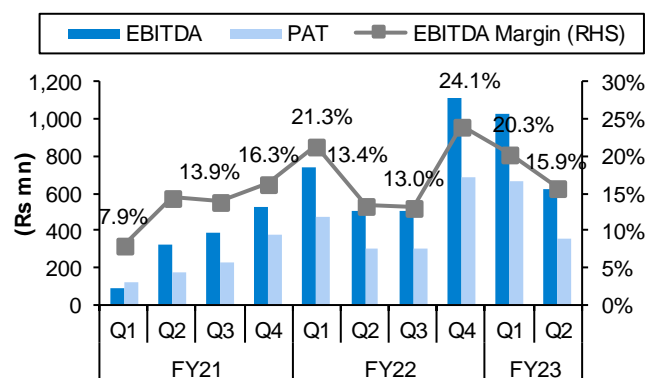
Exhibit 1: Q2FY23 Result Overview - Consolidated (Rs mn)

Y/e March	Q2FY23	Q2FY22	YoY gr.	Q1FY23	QoQ gr.	H1FY23	H1FY22	YoY gr.
Net Revenue	3,892	3,752	3.8%	5,089	-23.5%	8,981	7,197	24.8%
Material Cost	2,057	2,231	-7.8%	2,726	-24.5%	4,782	3,973	20.4%
Gross Profit	1,836	1,521	20.7%	2,363	-22.3%	4,199	3,224	30.2%
<i>Gross Margin (%)</i>	<i>47.2%</i>	<i>40.5%</i>		<i>46.4%</i>		<i>46.8%</i>	<i>44.8%</i>	
Employee expenses	213	195	9.0%	240	-11.6%	453	412	9.9%
Other operating expenses	1,003	823	21.9%	1,090	-8.0%	2,093	1,575	32.9%
EBITDA	620	503	23.3%	1,033	-40.0%	1,653	1,237	33.6%
<i>EBITDA margin (%)</i>	<i>15.9%</i>	<i>13.4%</i>		<i>20.3%</i>		<i>18.4%</i>	<i>17.2%</i>	
Depreciation	140	107	30.6%	137	1.9%	276	212	30.3%
EBIT	481	396	21.3%	896	-46.4%	1,376	1,025	34.3%
Other income	9	14	-37.2%	4	132.4%	12	25	-50.4%
Interest cost	3	2	78.9%	3	21.4%	6	4	47.6%
PBT	486	408	19.1%	897	-45.8%	1,383	1,045	32.2%
Tax	128	108	19.0%	232	-44.7%	360	271	32.8%
Sh of ass. / Minority int	0	0		0		0	0	
PAT	357	300	19.1%	665	-46.3%	1,022	774	32.1%
Extra ordinary income/ (exp.)	0	0		0		0	0	
Adjusted PAT	357	300	19.1%	665	-46.3%	1,022	774	32.1%
<i>Adj. PAT margin (%)</i>	<i>9.2%</i>	<i>8.0%</i>		<i>13.1%</i>		<i>11.4%</i>	<i>10.8%</i>	
No. of shares (mn)	167	166	0.1%	167	0.0%	167	166	0.1%
Adj. EPS (Rs.)	2.1	1.8	19.0%	4.0	-46.3%	6.1	4.7	32.0%

Source: Company, PL

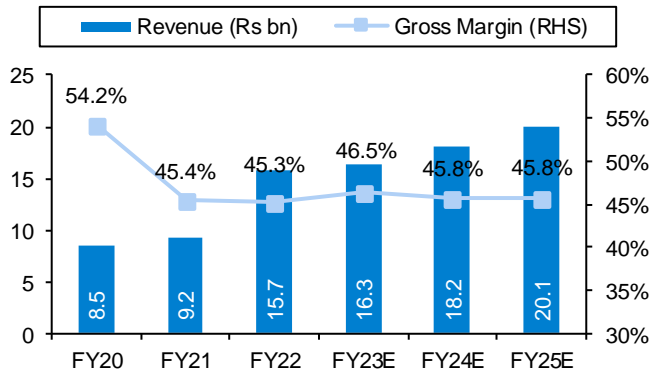
Exhibit 2: Weak quarter led by sharp volume drop


Source: Company, PL

Exhibit 3: Margin dip QoQ on adverse operating leverage


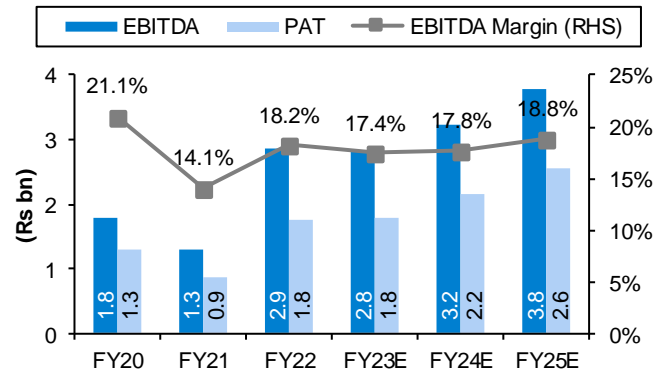
Source: Company, PL

Exhibit 4: Rev to grow at 9% CAGR (FY22-25E) led by vol



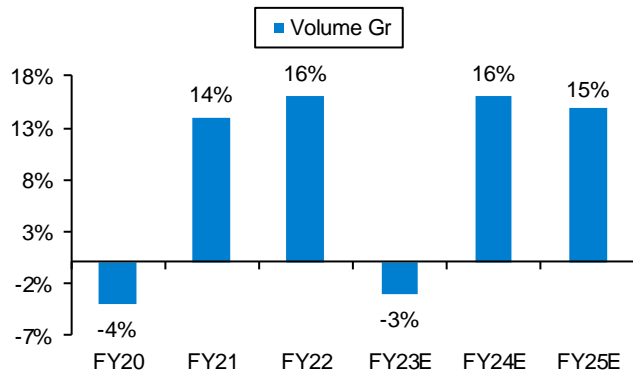
Source: Company, PL

Exhibit 5: Margin improvement on op. leverage benefits



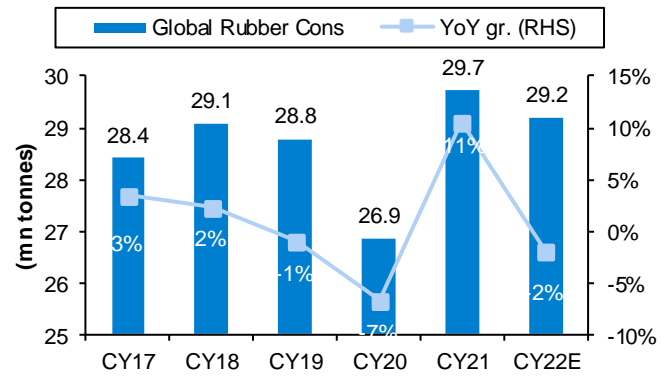
Source: Company, PL

Exhibit 6: Healthy long term demand outlook



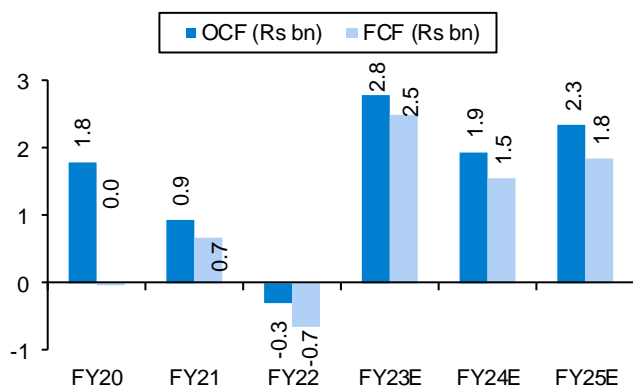
Source: Company, PL

Exhibit 7: Slower global rubber consumption in CY22



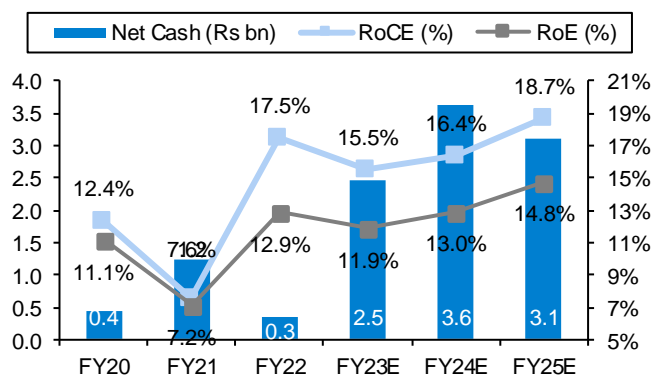
Source: Company, PL

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

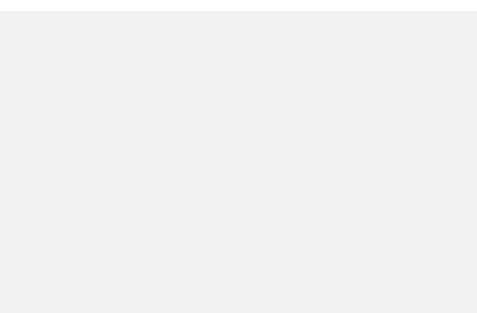
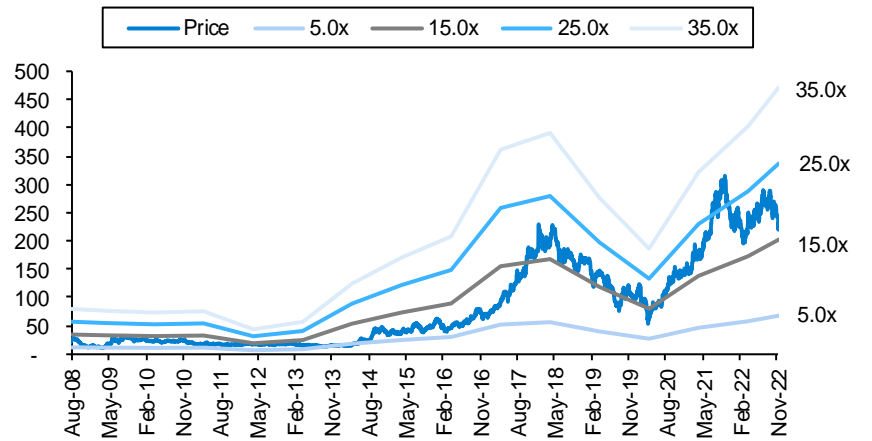
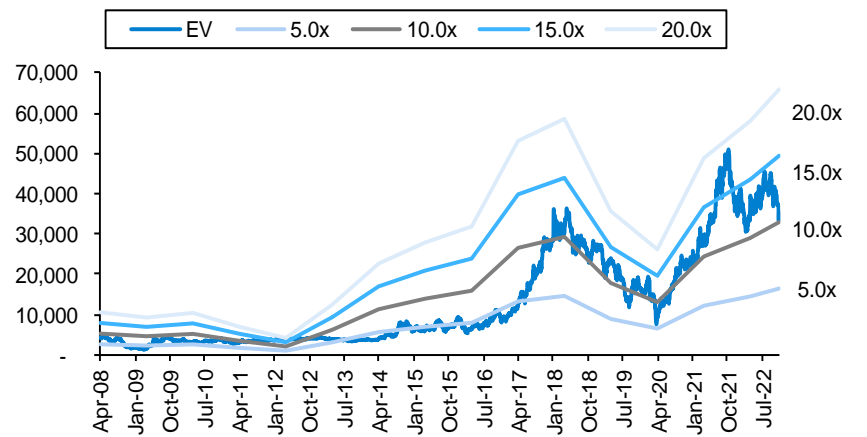


Exhibit 10: P/E Band (1 year forward)



Source: Company, PL

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



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	15,713	16,333	18,189	20,081
YoY gr. (%)	69.9	3.9	11.4	10.4
Cost of Goods Sold	8,593	8,733	9,865	10,875
Gross Profit	7,120	7,601	8,324	9,205
Margin (%)	45.3	46.5	45.8	45.8
Employee Cost	808	931	1,000	1,104
Other Expenses	3,450	3,822	4,092	4,317
EBITDA	2,862	2,847	3,231	3,783
YoY gr. (%)	118.8	(0.5)	13.5	17.1
Margin (%)	18.2	17.4	17.8	18.8
Depreciation and Amortization	483	507	521	539
EBIT	2,378	2,341	2,710	3,244
Margin (%)	15.1	14.3	14.9	16.2
Net Interest	11	11	11	11
Other Income	39	78	178	205
Profit Before Tax	2,406	2,407	2,877	3,438
Margin (%)	15.3	14.7	15.8	17.1
Total Tax	645	607	725	866
Effective tax rate (%)	26.8	25.2	25.2	25.2
Profit after tax	1,761	1,801	2,152	2,572
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,761	1,801	2,152	2,572
YoY gr. (%)	99.2	2.3	19.5	19.5
Margin (%)	11.2	11.0	11.8	12.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,761	1,801	2,152	2,572
YoY gr. (%)	99.2	2.3	19.5	19.5
Margin (%)	11.2	11.0	11.8	12.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,761	1,801	2,152	2,572
Equity Shares O/s (m)	167	167	167	167
EPS (Rs)	10.6	10.8	12.9	15.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	12,209	12,509	12,909	13,409
Tangibles	12,092	12,392	12,792	13,292
Intangibles	117	117	117	117
Acc: Dep / Amortization	3,119	3,648	4,169	4,709
Tangibles	3,038	3,567	4,088	4,628
Intangibles	81	81	81	81
Net fixed assets	9,090	8,860	8,739	8,700
Tangibles	9,054	8,825	8,704	8,664
Intangibles	36	36	36	36
Capital Work In Progress	84	84	84	84
Goodwill	-	-	-	-
Non-Current Investments	599	599	599	599
Net Deferred tax assets	(1,068)	(1,068)	(1,068)	(1,068)
Other Non-Current Assets	94	94	94	94
Current Assets				
Investments	176	176	176	176
Inventories	3,327	3,565	3,970	4,383
Trade receivables	4,498	3,580	3,987	4,401
Cash & Bank Balance	160	2,289	3,461	2,926
Other Current Assets	249	259	288	318
Total Assets	18,305	19,535	21,430	21,717
Equity				
Equity Share Capital	1,666	1,666	1,666	1,666
Other Equity	12,786	14,137	15,751	15,751
Total Network	14,452	15,803	17,417	17,417
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	164	164	164	164
Other non current liabilities	29	29	29	29
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,151	2,014	2,242	2,476
Other current liabilities	442	459	511	564
Total Equity & Liabilities	18,305	19,535	21,430	21,717

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	2,406	2,407	2,877	3,438
Add. Depreciation	483	507	521	539
Add. Interest	11	11	11	11
Less Financial Other Income	39	78	178	205
Add. Other	(46)	(78)	(178)	(205)
Op. profit before WC changes	2,855	2,847	3,231	3,783
Net Changes-WC	(2,560)	547	(570)	(581)
Direct tax	(597)	(605)	(719)	(860)
Net cash from Op. activities	(302)	2,790	1,942	2,342
Capital expenditures	(362)	(300)	(400)	(500)
Interest / Dividend Income	17	78	178	205
Others	657	-	-	-
Net Cash from Inv. activities	312	(222)	(222)	(295)
Issue of share cap. / premium	29	-	-	-
Debt changes	-	-	-	-
Dividend paid	(332)	(450)	(538)	(643)
Interest paid	(11)	(11)	(11)	(11)
Others	(23)	23	-	-
Net cash from Fin. activities	(336)	(438)	(549)	(654)
Net change in cash	(327)	2,129	1,172	1,394
Free Cash Flow	(664)	2,490	1,542	1,842

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	3,889	4,627	5,089	3,892
YoY gr. (%)	41.6	43.7	47.7	3.8
Raw Material Expenses	2,310	2,311	2,726	2,057
Gross Profit	1,579	2,317	2,363	1,836
Margin (%)	40.6	50.1	46.4	47.2
EBITDA	508	1,114	1,033	620
YoY gr. (%)	33.2	112.9	40.7	23.3
Margin (%)	13.0	24.1	20.3	15.9
Depreciation / Depletion	108	163	137	140
EBIT	399	951	896	481
Margin (%)	10.3	20.6	17.6	12.3
Net Interest	3	4	3	3
Other Income	5	12	4	9
Profit before Tax	401	959	897	486
Margin (%)	10.3	20.7	17.6	12.5
Total Tax	104	270	232	128
Effective tax rate (%)	25.8	28.2	25.9	26.4
Profit after Tax	298	689	665	357
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	298	689	665	357
YoY gr. (%)	33.5	84.6	40.2	19.1
Margin (%)	7.7	14.9	13.1	9.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	298	689	665	357
YoY gr. (%)	33.5	84.6	40.2	19.1
Margin (%)	7.7	14.9	13.1	9.2
Other Comprehensive Income	-	(18)	23	282
Total Comprehensive Income	298	672	688	639
Avg. Shares O/s (m)	167	167	167	167
EPS (Rs)	1.8	4.1	4.0	2.1

Source: Company Data, PL Research

Key Financial Metrics

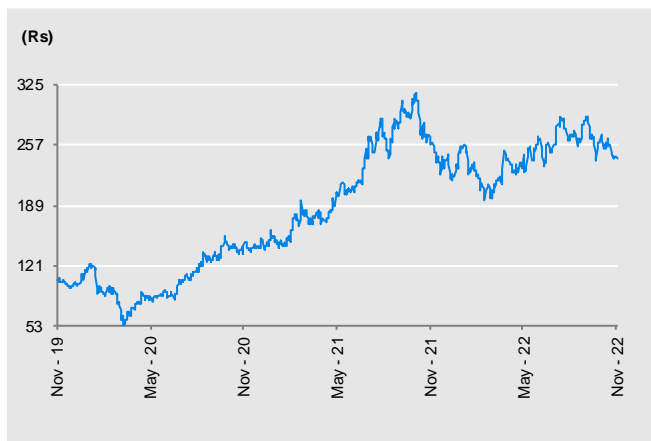
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	10.6	10.8	12.9	15.4
CEPS	13.5	13.9	16.0	18.7
BVPS	86.8	94.9	104.6	104.6
FCF	(4.0)	15.0	9.3	11.1
DPS	2.0	2.7	3.2	3.9
Return Ratio(%)				
RoCE	17.4	15.5	16.3	18.6
ROIC	13.5	12.8	14.9	17.3
RoE	12.9	11.9	13.0	14.8
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	132	115	115	115
Valuation(x)				
PER	22.0	21.5	18.0	15.1
P/B	2.7	2.5	2.2	2.2
P/CEPS	17.3	16.8	14.5	12.4
EV/EBITDA	13.4	12.7	10.9	9.4
EV/Sales	2.4	2.2	1.9	1.8
Dividend Yield (%)	0.9	1.2	1.4	1.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales Volume Growth (%)	16.0	(3.0)	16.0	15.0
Avg Realisations Growth (%)	47.4	6.5	(4.0)	(4.0)
Exports Contribution (%)	34.7	28.3	29.0	29.4
Capex (Rs bn)	0.4	0.3	0.4	0.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	Accumulate	300	260
2	01-Aug-22	Accumulate	300	273
3	06-Jul-22	BUY	310	252
4	19-May-22	BUY	310	255
5	08-Apr-22	BUY	285	242
6	07-Feb-22	BUY	270	229

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	880	774
2	Fine Organic Industries	Hold	6,200	6,640
3	Jubilant Ingrevia	BUY	860	534
4	Laxmi Organic Industries	Hold	335	343
5	NOCIL	Accumulate	300	260

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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