



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	✓	↔	✓

ESG Disclosure Score NEW

ESG RISK RATING 34.52
Updated Jun 08, 2023

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 3,798 cr
52-week high/low:	Rs. 295/199
NSE volume: (No of shares)	4.3 lakh
BSE code:	500730
NSE code:	NOCIL
Free float: (No of shares)	11.0 cr

Shareholding (%)

Promoters	33.8
FII	5.4
DII	4.7
Others	56.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.2	3.1	10.5	-16.6
Relative to Sensex	0.5	-5.2	-0.4	-30.9

Sharekhan Research, Bloomberg

NOCIL Ltd

Mixed bag; expect gradual volume recovery

Specialty Chemicals

Sharekhan code: NOCIL

Reco/View: Buy



Upgrade



CMP: Rs. 228

Price Target: Rs. 260



Downgrade

Summary

- Q1FY2024 results were decent with a 7% beat in PAT at Rs. 34 crore (up 21% q-o-q), led by better-than-expected EBITDA per kg, while volumes were below our estimates.
- Sales volumes declined by 2% q-o-q to 13,433 tonne, reflecting a decline in the export market; EBITDA margin of Rs. 41/kg (up 14% q-o-q) was above our estimate mainly due to beat in gross margins.
- Q1 volume growth in the domestic market was completely offset by the decline in overseas volume. Higher supply from China is also putting pressure on pricing; however, management expects the pressure to ease once the Chinese economy picks up.
- Near-term demand challenges persist, but same is reflected in the valuation of 16.6x FY2025E EPS. Management's focus on doubling its global market share would drive the company's long-term growth. Hence, we maintain our Buy rating on NOCIL with an unchanged price target (PT) of Rs. 260.

NOCIL's Q1FY2024 performance was a mixed bag, as volume miss was offset by margin beat. Though domestic volumes improved during the quarter, export volume declined due to a decline in latex demand. Though revenue was below our estimate by 10%; however, EBITDA and PAT were 3% and 7%, respectively, above our estimates. Operating margin beat was driven by stronger-than-expected gross margin. Gross margin per kg of Rs. 126/kg (down 18.7% y-o-y; up 8.8% q-o-q) was 11% above our estimate mainly due to support from blended realisation (up 3.3% q-o-q) and lower-than-expected per kg input cost (down 0.5% q-o-q), which led to better-than-expected EBITDA margin of Rs. 41/kg (up 14.1% q-o-q).

Key positives

- Beat of 11% in gross margin which was at Rs116/kg, up 8.8% q-o-q.

Key negatives

- Volume decline of 2.2% q-o-q to 13,433 tonne.

Management Commentary

- Volume: Sequentially, volumes in exports slowed down due to recessionary trends, while domestic volumes improved marginally.
- Exports: The drop in exports was led by a decline in the market share of latex in export. Over the past few years, demand for latex gloves increased due to the pandemic. In the post-pandemic world, demand for latex declined, which led to lower exports of latex in Q1FY2024.
- Import from China: Weak Chinese demand led to rising supply, thus impacting pricing of the company's products. In recent weeks, competition from these Chinese exports has intensified. Management expects pressure to ease once the Chinese economy picks up.
- Capex: No major capex, only expense related to certain debottlenecking and maintenance capex. The company is running at a capacity utilisation rate of 63-65%.
- Others: 1) As the company already has additional capacity and has approval at the new location, the company aspires to double its global market share. 2) Based on current trends, the company expects to repeat the financial performance of FY2023.

Revision in estimates: We have lowered our FY2024 earnings estimate to factor lower volume assumption, given the challenging demand environment. We have fine-tuned our FY2025 earnings estimates.

Our Call

Valuation – Maintain Buy on NOCIL with an unchanged PT of Rs. 260: The long-term structural growth outlook remains intact for NOCIL, supported by growth in the tyre industry and China/Europe plus one opportunity. We believe NOCIL is a play on import substitution and China/Europe Plus One strategy by global customers, and this would drive market share gains going forward. Near-term demand challenges persist, but same is reflected in the valuation of 16.6x FY2025E EPS, which looks attractive post the steep decline in the stock price. Management's focus on doubling its global market share would drive the company's long-term growth; thus, we maintain our Buy rating on NOCIL with an unchanged price target (PT) of Rs. 260.

Key Risks

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

Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,571	1,617	1,785	2,169
OPM (%)	18.2	15.6	15.0	16.5
Adjusted PAT	176	149	161	229
% YoY growth	99.2	-15.3	8.2	41.7
Adjusted EPS (Rs.)	10.6	9.0	9.7	13.7
P/E (x)	21.6	25.5	23.5	16.6
EV/EBITDA (x)	13.2	14.9	13.6	10.5
RoNW (%)	12.9	10.0	10.1	13.3
RoCE (%)	16.0	12.1	11.9	15.8

Source: Company; Sharekhan estimates

Margin beat offsets subdued revenue

Consolidated revenue of Rs. 397 crore (down 22% y-o-y; up 1% q-o-q) was 10% below our estimate of Rs. 440 crore. OPM improved by 132 bps q-o-q to 14% and was 170 bps above our estimate of 12.3%, led by better-than-expected gross margin of 42.7% (up 215 bps q-o-q) and lower-than-expected other expenses (up just 0.8% q-o-q). Strong margin performance more than offset the miss in revenue and, thus, operating profit of Rs. 55 crore (up 11.6% q-o-q) was marginally above our estimate of Rs. 54 crore. PAT of Rs. 34 crore (21% q-o-q) was 7% above our estimate of Rs. 32 crore, primarily led by marginally higher operating profit, substantially higher-than-expected other income (up 375%/70% y-o-y/q-o-q), and lower depreciation partially offset by higher tax rate of 27.3% (versus assumption of 25%).

Results (Consolidated)

	Rs cr				
Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	397	509	-22.1	393	1.0
Total Expenditure	341	406	-16.0	343	-0.5
Operating profit	55	103	-45.9	50	11.6
Other Income	5	1	375.2	3	69.7
EBITDA	60	104	-41.7	53	14.8
Interest	0	0	35.7	0	40.7
Depreciation	13	14	-5.6	14	-6.8
PBT	47	90	-47.4	39	22.4
Tax	13	23	-44.6	10	26.0
Adjusted PAT	34	66	-48.4	28	21.1
Equity Cap (cr)	17	17		17	
Reported EPS (Rs)	2.1	4.0	-48.4	1.7	21.1
Margins (%)			BPS		BPS
Adjusted OPM	14.0	20.2	-617.5	12.7	132.3
Adjusted NPM	8.6	13.1	-441.6	7.2	143.6
Tax rate	27.3	25.9	139.9	26.5	77.0

Source: Company, Sharekhan Research

Key operating metrics

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Volume (tonnes)	13,433	15,251	-11.9%	13,736	-2.2%
Realisation (Rs./kg)	295	334	-11.5%	286	3.3%
RM cost (Rs./kg)	169	179	-5.3%	170	-0.5%
Gross margin (Rs./kg)	126	155	-18.7%	116	8.8%
EBITDA margin (Rs/kg)	41	67	-38.6%	36	14.1%

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 tonne 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 such as NOCIL. Additionally, domestic demand for rubber chemicals is expected to remain strong, supported by restriction on tyre imports, improvement in tyre demand from both OEM and replacement markets, 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.

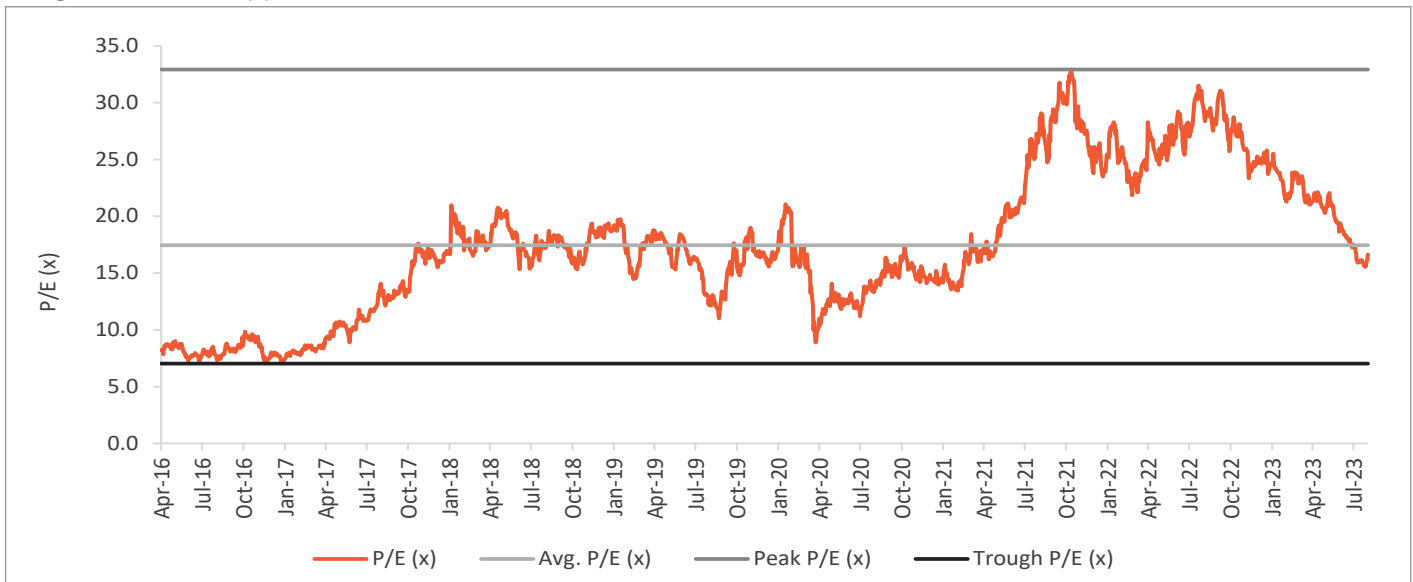
■ Company outlook - Near-term volume to remain subdued, structural growth drivers intact

NOCIL has recently doubled its production capacity to 110,000 tonne to capture growth from a potential recovery for rubber chemical demand in domestic as well as export markets. We expect volumes of NOCIL to witness an 20% volume CAGR over FY2023-FY2025E. Resilient margin of Rs. 44-48/kg and a likely volume recovery would drive 24% PAT over FY2023-FY2025E.

■ Valuation - Maintain Buy on NOCIL with an unchanged PT of Rs. 260

The long-term structural growth outlook remains intact for NOCIL, supported by growth in the tyre industry and China/Europe plus one opportunity. We believe NOCIL is a play on import substitution and China/Europe Plus One strategy by global customers, and this would drive market share gains going forward. Near-term demand challenges persist, but same is reflected in the valuation of 16.6x FY2025E EPS, which looks attractive post the steep decline in the stock price. Management's focus on doubling its global market share would drive the company's long-term growth; thus, we maintain our Buy rating on NOCIL with an unchanged price target (PT) of Rs. 260.

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 ~42%/5% in domestic/global markets. The company is present in over 40 countries with exports accounting for 36% of FY2022 revenue. The company's business segments include accelerator, anti-oxidant, pre/post-vulcanisation inhibitor/stabiliser, and zinc-based applications.

Investment theme

NOCIL is the key beneficiary of China plus one strategy and import substitution in the niche market of rubber chemicals. Recent doubling of capacity has made it the third largest rubber chemical manufacturer in terms of capacity and ramp-up of utilisation, which would drive sustainable double-digit volume growth and help expand its global market share to ~8% over the next 2-3 years as compared to 5% currently. Although near-term volume growth outlook is subdued, the long-term structural growth outlook remains intact supported by growth in the tyre industry and Europe plus one opportunity. A potential volume recovery and resilient margin would drive earnings recovery over FY2024-FY2025. NOCIL has a strong balance sheet with net cash position and is available at an attractive valuation.

Key Risks

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

Additional Data

Key management personnel

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

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Vanguard Group Inc/The	1.97
2	Trivedi Tejas Bhalchandra	1.82
3	Trivedi Shivani Tejas	1.33
4	Canara Robeco Asset Management Co	1.31
5	Dimensional Fund Advisors LP	1.24
6	AAGAM AGENCIES PVT LTD	1.16
7	Mafatlal Hrishikesh Arvind	0.47
8	Edelweiss Asset Management Ltd	0.46
9	IDFC Mutual Fund/India	0.38
10	WisdomTree Inc	0.18

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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