

Nocil Ltd.

Nifty	11,062
Sensex	36,975

Key Stock Data

CMP	₹125
Market Cap (₹cr)	2,045
52W High/Low	233/124

Shareholding pattern Dec 2018

Promoters	33.8%
Institutions	11.0%
Public & Others	55.2%

Key Result Highlights – Q3FY19

Phase 1 expansion underway; volume led growth to follow:

- *Nocil reported a steady performance amidst challenging demand scenario both domestically and globally. Net Sales came in at ₹261.2 crore, up 4.8% YoY largely realisation led.*
- *EBITDA in Q3FY19 stood at ₹72.5 crore, up 4.2% YoY with corresponding EBITDA margins at 27.8% (down 17 bps YoY and 125 bps QoQ)*
- *Consequently, the company reported a PAT of ₹44.7 crore in Q3FY18, flat of YoY basis largely tracking lower other income and higher tax incidence.*
- *Timely commissioning of the Phase 1 (₹170 crore capex) expansion at both its facilities in January, 2019 augurs well for Nocil. This provides a robust volume led growth visibility for the company.*

Earnings Highlights & Investment Rationale

- **Nocil reported steady Q3FY19 numbers in challenging business environment –** Domestic automobile growth has witnessed muted growth during 9MFY19 largely on account of extreme swings in crude oil prices, higher upfront costs to customers due to change in regulatory measures relating to insurance and the recent NBFC liquidity woes. On the global front, automobile demand scenario was even more grave as the largest auto market China registered ~3% YoY de-growth in 2018 mainly triggered by the increasing trade war tensions with the US. Despite all these challenges Nocil has recorded a steady quarter with net sales coming in at ₹261.2 crore (up 4.2% YoY, down 4.0% QoQ). It was also pleasing to note that the company managed to maintain its EBITDA margins at 27.8% in Q3FY19 amidst sharp fall in key raw material prices which eventually results in lower realisation. Furthermore, with expanded capacities commissioned Nocil is sweetly placed to capture incremental demand arising from auto sector revival as well as market share gains.
- **Mega expansion the driving force; volume led growth visibility over FY18-21E –** Given the 90%+ capacity utilization levels in H1FY19 and robust demand for its product offering the company has embarked upon a massive brownfield expansion plan to double its capacity to ~110,000 MT for a capex of ₹425 crore that will be funded through internal accruals. The said expansion will be executed in a phased manner with Phase 1 (₹170 crore) already commissioned in Q4FY19E and Phase 2 (₹255 crore) to be commissioned in H1FY20E. The said expansion is expected to generate incremental revenues to the tune of ~₹850 crore i.e. ~2x asset turnover at optimal utilization levels, ~25% EBITDA margin levels on a conservative basis thereby implying an impressive RoCE of 30%+. Therefore, the expansion instills confidence by providing visibility for a strong volume led growth of ~16.0% CAGR over FY18-21E that should drive impressive bottom line performance.
- **Rubber chemicals demand on firm footing, Industry leader Nocil to gain market share –** Rubber chemicals can be broadly classified as accelerators, anti degradants and vulcanization agents. They are critical specialty chemicals that helps in improving the resistance of rubber to heat, oxidation, sunlight and other mechanical stress. The rubber chemical industry is a direct proxy play on rubber consumption with global demand pegged at ~1.1 million MT (~4% of global rubber consumption) while domestic demand stood at ~60,000-62,000 MT (~3.5% of domestic rubber consumption) as of FY18. Nocil commands a market share in excess of 40% at the domestic level and ~3.4% on the global front. Over the last few years the company is witnessing robust demand growth for its product offerings due to improved competitiveness (on both price and quality front) against their Chinese counterparts (~70% market share globally) coupled by steady revival of the automotive industry both domestically and globally. Going forward, Nocil is well positioned to benefit with expanded capacities in place as the global rubber chemicals demand is expected to grow at a CAGR of ~4% over (i.e. ~44,000 MTPA) over the FY18-21E.

(₹Cr)

Particulars	FY18	FY19E	FY20E	FY21E
Net Sales	967.6	1083.6	1263.3	1549.3
EBITDA	265.4	309.8	333.3	417.6
Net Profit	169.9	195.1	201.6	256.9
EPS (Rs./share)	10.3	11.9	12.3	15.6
RoNW (%)	16.2	16.4	15.1	16.7
RoCE (%)	22.2	22.5	20.9	23.4
P/E (x)	12.1	10.5	10.2	8.0

Source: Company Data, Way2Wealth Inst Equity

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Valuation & Recommendation

Nocil is the industry leader in rubber chemicals domestically and a credible supplier globally. The aggressive expansion plan has bolstered the company prospects over the FY18-21E with sales, EBITDA and PAT envisaged to grow at a CAGR of 17.0%, 16.3% and 14.8% respectively. On the balance sheet front, Nocil is a debt free company with net cash surplus of ~₹260 crore. Nocil has an efficient business model with net working capital days of 108 days and strong EBITDA margins of 27.4% as of FY18 resulting in a RoCE of 22.2%. Going forward, given the strong financial performance we expect the company to deliver an average CFO of ~₹211 crore over FY19-21E, implying a cash flow yield of ~10%. **Therefore, we value Nocil at ₹195 i.e. 14x P/E on average of FY20E & FY21E EPS of 13.9 and maintain a BUY rating on the stock.**

Quarterly Results

(₹ Cr)

Particulars	Q3FY19	Q3FY19E	Q3FY18	YoY(%)	Q2FY19	QoQ(%)	Comments
Sales	261.2	275.1	249.3	4.8	272.0	-4.0	Topline came in lower than expected largely due to lower than anticipated sales volume growth
Other Operating Income	0.0	6.5	0.0		0.0		
Total Operating Income	261.2	281.6	249.3	4.8	272.0	-4.0	
Total Raw Material Expenses	117.5	129.6	114.8	2.3	119.4	-1.6	Raw material as a percentage of sales came in at 45% vs. our expectation of 46%
Employee Cost	15.4	19.7	15.6	-1.0	16.3	-5.2	Employee costs came in lower at 5.9% against our expectation of ~7% as incremental costs of new line will be accounted in Q4FY19
Other operating expense	55.8	53.5	49.3	13.3	57.4	-2.8	Operating expenses came in higher at 21.4% of sales vs. our expectation of 19% of sales mainly on account of lower sales
Total Expenditure	188.7	202.8	179.7	5.0	193.1	-2.3	
EBITDA	72.5	78.9	69.6	4.2	78.9	-8.1	
EBITDA Margin (%)	27.8	28.0	27.9	-17 bps	29.0	-125 bps	Margins were largely in line with expectations
Depreciation	5.6	9.0	4.0	41.0	5.6	0.9	Depreciation came lower than expected because expanded capacities were commissioned in Q4FY19
Interest	0.1	0.1	0.3		0.1		
Non Operating Expenses							
Other Income	2.0	6.7	3.2	-36.8	3.2	-37.2	Other income came in lower than expected
PBT	68.8	76.4	68.5	0.5	76.4	-9.9	
Taxes	24.2	25.2	23.5	2.7	23.6	2.6	Tax rate came in a tad higher at 35%
PAT	44.7	51.2	45.0	-0.7	52.8	-15.5	

Q3FY19 Conference Call Highlights

- Timely commissioning of Phase 1 expansion at both Navi Mumbai and Dahej. Expect capacities to ramp up to optimum levels over next couple of years. Phase 2 expansion to begin trial runs by Q3FY20E and to begin commercial production by Q1FY21E.
- Product realisations have witnessed a 2-3% price correction in Q3FY19 and expected to fall further around the same quantum in Q4FY19 on the back of lower input prices and temporary slowdown in end user industry.
- Despite weakening realizations Nocil has held on to EBITDA margins at impressive ~28% levels and is confident to maintain it at these levels in coming quarters.
- Anti dumping duty on some of the company's key products (account for ~50% of FY18 revenues) is applicable till July 2019. This protection provides ~400 bps benefit to the company at the EBITDA level. However, any revocation of the same post July 2019 would be partly cushioned by higher product cost situation in China and operating leverage benefits that will accrue to Nocil given the brownfield nature of expansion.
- Rubber chemical manufacturers in China continue to face the higher costs of environmental compliance, rising labour and power costs that have led to heightened realization trend over the last 3 years. As a result global rubber chemical product realisations to remain stable at higher levels going forward.
- Export sales at the company stood at ~29% of revenues in 9MFY19 from ~27% in FY18 and plans to increase it to ~40% by FY21E. The management is confident of achieving this as global tire majors consider Nocil a credible supplier with a wide product basket while allowing them to reduce their dependence on Chinese supply
- Nocil has made modest inroads into the US market by supplying ~500 MT/ annum of rubber chemicals. Management is confident of increasing its market share in US by gaining customer satisfaction through timely and quality supplies.
- Currently, rubber chemical industry is witnessing the pressure of reduced demand from end use industries both domestically and globally given the automobile industry slowdown. However, with trade war issues easing out, crude prices stabilizing and economy picking up they are expected to bounce back over the next couple of quarters.
- Given the expanded capacities in place Nocil is on target to achieve a high double digit sale volume growth over the FY19-21E period. However, sales volume growth in FY19E is expected to be muted at ~5% given the temporary demand glut in H2FY19E.

Financials

(₹ Cr)

Profit & Loss Statement	FY18	FY19E	FY20E	FY21E
Net Sales	955	1071	1250	1535
Other Operating Income	12	13	14	14
Total Operating Income	968	1084	1263	1549
Growth (%)	34.6	12.0	16.6	22.6
Raw Material Expenses	441	486	606	736
Employee Expenses	71	69	84	101
Other Operating Expense	190	219	240	294
Total Operating Expenditure	702	774	930	1132
EBITDA	265.4	309.8	333.3	417.6
Growth (%)	48.2	16.7	7.6	25.3
Depreciation	24.0	26.7	44.1	50.1
Interest	1.2	0.6	0.3	0.0
Other Income	14.6	9.2	12.0	15.9
PBT	254.7	291.8	300.9	383.5
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	84.8	96.6	99.3	126.5
PAT	169.9	195.1	201.6	256.9
Growth (%)	38.3	14.8	3.3	27.5
EPS ()	10.3	11.9	12.3	15.6

Cash Flow Statement	FY18	FY19E	FY20E	FY21E
Profit after Tax	169.9	195.1	201.6	256.9
Add: Depreciation	24.0	26.7	44.1	50.1
(Inc)/dec in Current Assets	-151.8	-50.0	-84.3	-103.7
Inc/(dec) in CL and Provisions	65.5	16.0	22.3	43.0
Others	1.2	0.6	0.3	0.0
CF from operating activities	108.8	188.5	184.0	246.3
(Inc)/dec in Investments	-104.9	58.8	115.0	-195.0
(Inc)/dec in Fixed Assets	-47.2	-200.0	-240.0	0.0
Others	-0.2	0.0	0.0	0.0
CF from investing activities	-152.4	-141.2	-125.0	-195.0
Issue/(Buy back) of Equity	0.9	0.0	0.0	0.0
Inc/(dec) in loan funds	-10.0	0.0	-5.0	0.0
Interest & Dividend paid	-36.7	-49.9	-55.5	-59.2
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-1.8	0.0	0.0	0.0
CF from financing activities	-47.6	-49.9	-60.5	-59.2
Net Cash flow	-91.2	-2.6	-1.6	-7.9
Opening Cash	123.5	32.3	29.7	28.1
Closing Cash	32.3	29.7	28.1	20.2

Balance Sheet	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	164.5	164.5	164.5	164.5
Reserve and Surplus	882.2	1,028.0	1,174.3	1,372.0
Total Shareholders funds	1,046.7	1,192.5	1,338.8	1,536.5
Total Debt	5.0	5.0	0.0	0.0
Deferred Tax Liability	98.9	98.9	98.9	98.9
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	1,150.5	1,296.3	1,437.6	1,635.3
Assets				
Gross Block	693.5	879.2	1,164.2	1,164.2
Less: Acc Depreciation	169.0	195.8	239.9	290.0
Net Block	524.5	683.5	924.3	874.3
Capital WIP	45.7	60.0	15.0	15.0
Total Fixed Assets	570.2	743.5	939.3	889.3
Investments	285.8	227.0	112.0	307.0
Inventory	155.3	176.0	205.4	252.3
Debtors	243.4	264.0	308.1	378.5
Loans and Advances	55.6	64.2	75.0	61.4
Other Current Assets	0.0	0.0	0.0	0.0
Cash	32.3	29.7	28.1	20.2
Total Current Assets	486.5	533.9	616.6	712.4
Current Liabilities	171.9	185.5	204.0	243.0
Provisions	20.0	22.4	26.2	30.3
Current Liabilities & Prov	191.9	207.9	230.2	273.2
Net Current Assets	294.6	325.9	386.4	439.1
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	1,150.5	1,296.3	1,437.6	1,635.3

Ratio Analysis	FY18	FY19E	FY20E	FY21E
Per share data ()				
EPS	10.3	11.9	12.3	15.6
Cash EPS	11.8	13.5	14.9	18.7
BV	63.6	72.5	81.4	93.4
DPS	2.2	3.0	3.4	3.6
Cash Per Share (InclInvst)	19.3	15.6	8.5	19.9
Operating Ratios (%)				
EBITDA Margin	27.4	28.6	26.4	27.0
PAT Margin	17.6	18.0	16.0	16.6
Inventory days	59.3	60.0	60.0	60.0
Debtor days	93.0	90.0	90.0	90.0
Creditor days	44.2	45.0	45.0	45.0
Return Ratios (%)				
RoE	16.2	16.4	15.1	16.7
RoCE	22.2	22.5	20.9	23.4
RoIC	26.8	26.0	20.8	26.2
Valuation Ratios (x)				
P/E	12.1	10.5	10.2	8.0
EV / EBITDA	6.7	6.0	5.9	4.2
EV / Net Sales	1.9	1.7	1.6	1.2
Market Cap / Sales	2.1	1.9	1.6	1.3
Price to Book Value	2.0	1.7	1.5	1.3
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.3	3.3	3.3	3.2
Quick Ratio	2.2	2.1	2.1	2.0

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Disclosure of Interest Statement in Nocil Ltd. as on February 07, 2019

Name of the Security	Nocil Ltd.
Name of the analyst	Srinath Sridhar, CFA
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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