NOCIL

Estimate changes	↓
TP change	⟷
Rating change	⟷

Bloomberg	NOCIL IN
Equity Shares (m)	167
M.Cap.(INRb)/(USDb)	38 / 0.5
52-Week Range (INR)	295 / 199
1, 6, 12 Rel. Per (%)	0/0/-30
12M Avg Val (INR M)	128

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	16.2	17.1	20.5
EBITDA	2.5	2.6	3.4
PAT	1.5	1.6	2.2
EPS (INR)	8.9	9.8	13.2
EPS Gr. (%)	-15.5	10.4	34.4
BV/Sh.(INR)	92	99	108
Ratios			
Net D:E	-0.0	-0.1	-0.1
RoE (%)	10.0	10.3	12.8
RoCE (%)	9.4	9.7	12.1
Payout (%)	33.6	33.6	33.6
Valuations			
P/E (x)	25.5	23.1	17.2
P/BV (x)	2.5	2.3	2.1
EV/EBITDA (x)	15.0	13.7	10.4
Div. Yield (%)	1.3	1.5	2.0
FCF Yield (%)	6.6	4.5	4.1

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	33.8	33.8	33.9
DII	4.7	5.5	4.9
FII	5.4	5.4	2.9
Others	56.0	55.3	58.3

FII Includes depository receipts

CMP: INR228 TP: INR265 (+16%) Buy

Export volume concerns persist amid Chinese dumping

- NOCIL's EBITDA/kg stood at INR40.4 in 1QFY24, up 13% QoQ, in line with our estimate. However, sales volumes declined 2% QoQ to 13.5tmt due to lower export volumes caused by inventory destocking and recessionary pressures. Realization was up 3% QoQ at INR295/kg but down 12% YoY.
- A decline in latex volumes was partly offset by increased offtake from tyre companies. Latex, which constitutes 10-15% of NOCIL's total export volumes, fell 56% YoY in 1QFY24. European tyre manufacturers are also experiencing demand challenges. The management anticipates 2Q volumes to be comparable to those in 1QFY24.
- Chinese players are selling rubber chemicals at lower prices due to weak domestic demand, creating tough competition for NOCIL. However, the management foresees pricing normalization in 2HFY24 when China's domestic demand is expected to recover.
- **Optimal capacity utilization for the expanded capacity is uncertain and may extend beyond FY24 due to an uncertain global macro environment**, delaying full utilization, as expected, by Sep'23. As a result, **we reduce our revenue, EBITDA, and EPS estimates for FY24 by 7%, 6%, and 5% respectively**. However, our FY25 estimates remain largely unchanged, with EBITDA/kg at INR45.5 for FY24E and INR49 for FY25E.
- The stock is valued at 17x FY25E EPS (INR13.2) and 10x FY25E EV/EBITDA. Return ratios are expected to remain stable at 10-13% in FY24-25. We maintain our BUY rating with a TP of INR265.

In-line performance; margin expands sequentially

- Revenue came in lower than our est. at INR4b (-22% YoY, +1% QoQ), missing consensus by 4%.
  - Gross margin stood at 42.7% (vs. 40.6% in 4QFY23).
- EBITDA came in at INR544m (est. of INR564m, -47% YoY, +11% QoQ), beating consensus by 5%.
  - Led by lower-than-expected RM and other expenses, EBITDAM was at 13.7% (vs. 12.5% in 4QFY23).
- PAT stood at INR336m (est. of INR332m, -49% YoY, +18% QoQ), consensus beat by 14%.

Operational details

- Volumes stood at ~13.5ktpa in 1QFY24 (-12% YoY, -2% QoQ), with export volumes slowing down due to recessionary trends.
  - Domestic volumes improved marginally QoQ.
- Implied realization declined to INR295/kg (-12% QoQ), while EBITDA/kg stood at INR40.4 in 1QFY24 (+13% QoQ).
- According to Rubber Statistical Bulletin, global rubber consumption declined 3% QoQ in 1QCY23.

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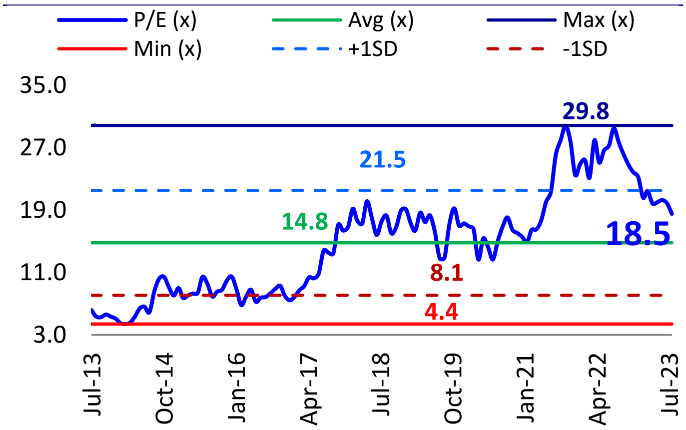
Valuation and view

- The management plans to debottleneck existing units by FY24, potentially increasing the capacity by 5-10%. However, no new capacity is planned for the next few years. The remaining capex will be allocated to maintenance activities. No specific timeline was given for achieving optimal capacity utilization of the expanded capacity of 110ktpa.
- The rubber chemicals industry typically tracks global rubber consumption trends. Despite the global market slowdown, NOCIL has achieved remarkable growth, five times the global market growth (three times the domestic market growth). Furthermore, the management believes that the 'Europe+1' strategy could yield positive results over the medium term.
- The stock is valued at 17x FY25E EPS (INR13.2) and 10x FY25E EV/EBITDA. Return ratios are expected to remain stable at 10-13% in FY24-25. We maintain our **BUY** rating with a TP of INR265.

Standalone - Quarterly Earning Model **(INR m)**

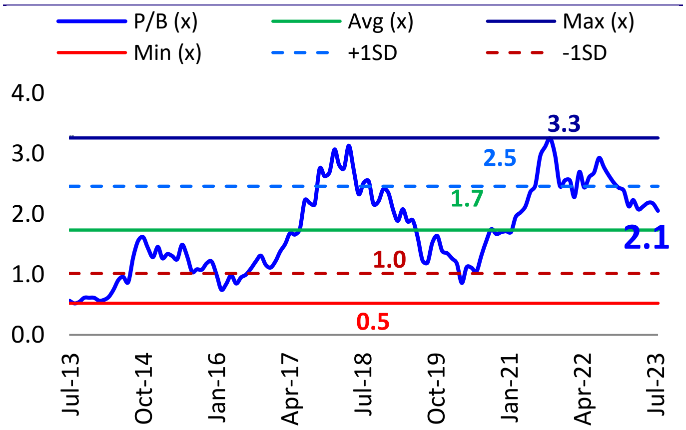
Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Gross Sales	**5,089**	**3,892**	**3,257**	**3,927**	**3,967**	**4,235**	**4,384**	**4,524**	**16,166**	**17,110**	**4,514**	**-12**
YoY Change (%)	47.7	3.8	-16.2	-15.1	-22.1	8.8	34.6	15.2	2.9	5.8	-11.3	
Gross Margin (%)	46.4	47.1	46.1	40.6	42.7	44.7	46.1	47.3	45.1	45.3	41.8	0.9
EBITDA	**1,019**	**615**	**367**	**490**	**544**	**634**	**692**	**772**	**2,490**	**2,642**	**564**	**-4**
Margin (%)	20.0	15.8	11.3	12.5	13.7	15.0	15.8	17.1	15.4	15.4	12.5	1.2
Depreciation	134	136	138	136	126	136	139	148	544	550	134	
Interest	3	3	3	3	4	3	3	2	12	12	4	
Other Income	3	12	26	32	48	27	25	13	73	113	18	
PBT before EO expense	**885**	**487**	**251**	**384**	**461**	**522**	**575**	**635**	**2,007**	**2,193**	**444**	**4**
PBT	**885**	**487**	**251**	**384**	**461**	**522**	**575**	**635**	**2,007**	**2,193**	**444**	**4**
Tax	229	128	64	100	125	131	145	151	520	552	112	
Rate (%)	25.8	26.2	25.4	26.1	27.2	25.2	25.2	23.7	25.9	25.2	25.2	
Reported PAT	**656**	**359**	**188**	**284**	**336**	**391**	**430**	**484**	**1,487**	**1,641**	**332**	**1**
YoY Change (%)	39.4	17.7	-37.2	-58.6	-48.8	8.8	129.4	70.7	-15.5	10.4	-49.4	
Margin (%)	12.9	9.2	5.8	7.2	8.5	9.2	9.8	10.7	9.2	9.6	7.4	1.1
Operational parameters												
Total Volume Sold (mt)	15,289	11,846	10,935	13,770	13,466	13,935	14,806	15,855	51,840	58,061	14,386	**-6**
Implied Realization (INR/kg)	333	329	298	285	295	304	296	285	312	295	314	**-6**
EBITDA (INR/kg)	66.6	51.9	33.6	35.6	40.4	45.5	46.8	48.7	48.0	45.5	39.2	**3**

Exhibit 1: One-year forward P/E



Source: Company, MOFSL

Exhibit 2: One-year forward P/B



Source: Company, MOFSL

1QFY24 - story in charts

Exhibit 3: Sales volumes down 2% QoQ and 12% YoY

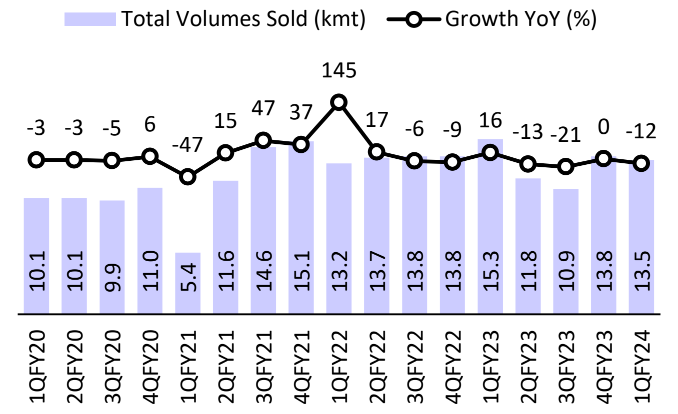


Exhibit 4: EBITDA/kg was at INR40.4 for 1QFY24

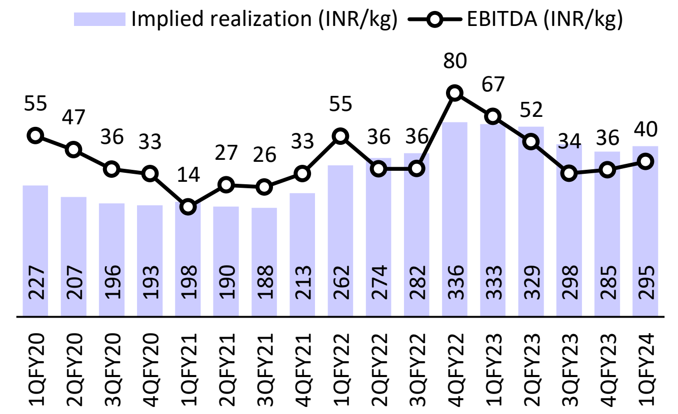


Exhibit 5: Sales up 1% QoQ, with realization at INR295/kg

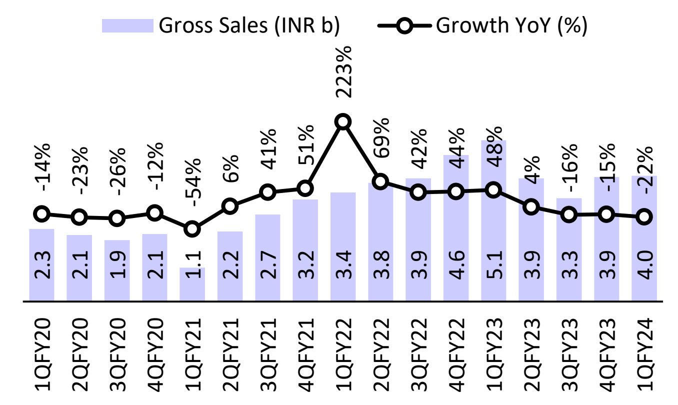


Exhibit 6: Gross margin up 218bp, EBITDAM up 122bp QoQ

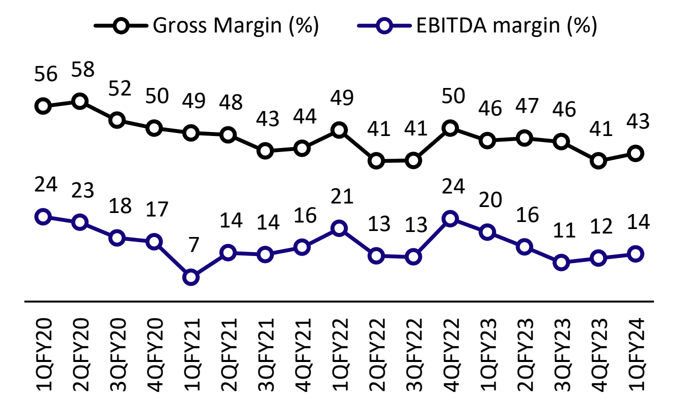
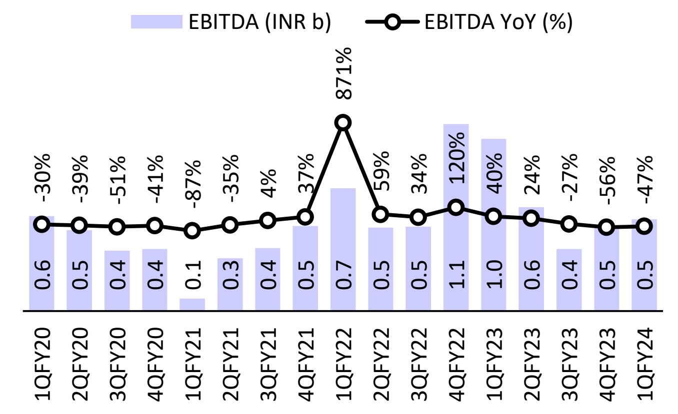
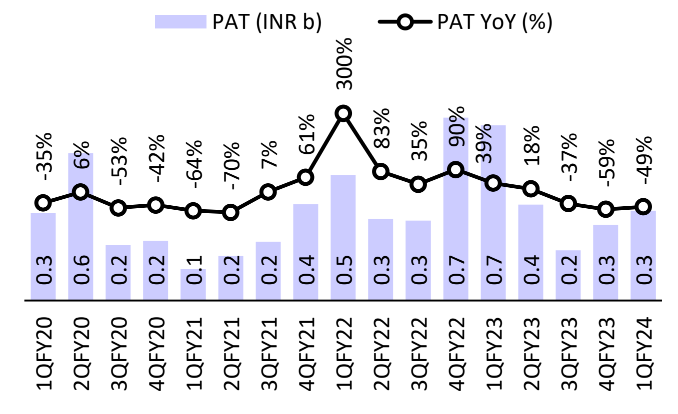


Exhibit 7: EBIDTA up 11% QoQ (EBITDA margin at 13.7%)



Source: Company, MOFSL

Exhibit 8: PAT up 18% QoQ (PAT margin at 8.5%)



Source: Company, MOFSL

Highlights from the management commentary

- Decline in export volumes because of inventory unwinding and recessionary trends
- Ongoing discussions with the customers to provide opportunities once global macro headwinds subside
- Latex volumes have declined but offset by offtake from tyre companies
- Chinese producers are dumping at cheaper prices due to muted demand in the domestic market
  - Pricing may normalize in 2HFY24 as China's domestic demand rebounds
- Increasing demand for new vehicles and continued government investments to support the rubber industry
- 20-25% of NOCIL's products are specialty
  - Having specialized applications
  - Having incremental value to customers and margin accretive than other products, which are not specialized
- Utilization at 63%-65%
- Exports : domestic sales — 31%: 69%
- Volumes expected to be around 1QFY24 levels in 2Q
- 55% imports from China into India currently
- Peak utilization timeline still uncertain for the company
  - Latex forms 10-15% of export volumes of the company; declined 56% YoY in 1Q
- European tyre manufacturers are facing demand headwinds
- 50% of expenses are variable for the company
- China accounts for 30-40% of total tyre chemicals demand but 70% of global supply

Financial story in charts

Exhibit 9: Capacity and utilization snapshot for NOCIL

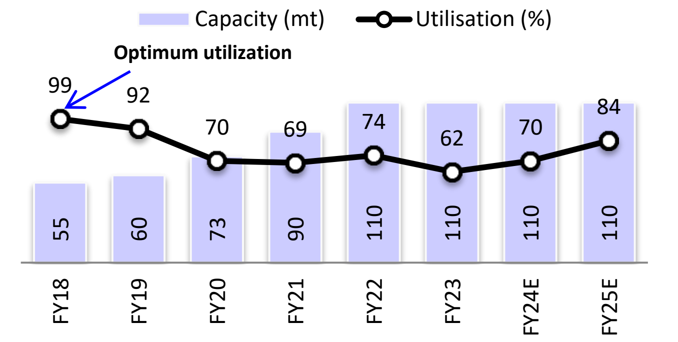


Exhibit 10: Expect 9% YoY volume CAGR over FY23-25

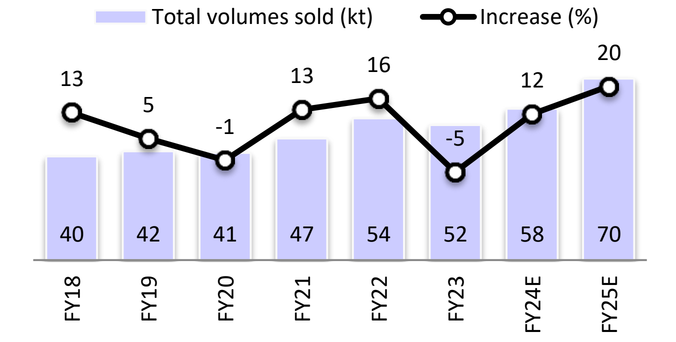


Exhibit 11: Exports to constitute ~30% of total revenue

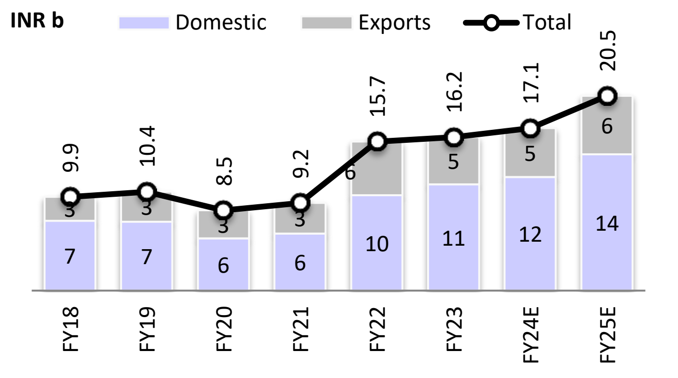


Exhibit 12: Realization and EBITDA per kg snapshot

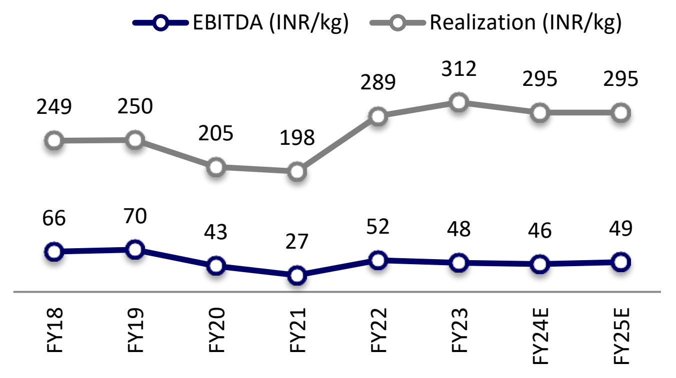


Exhibit 13: Margin profile of NOCIL

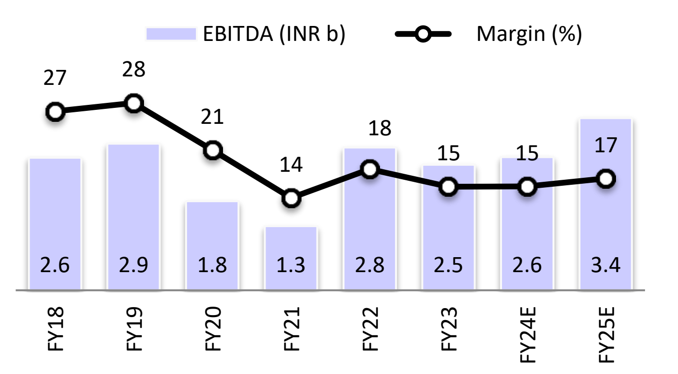


Exhibit 14: Expect PAT to grow by ~1.5x by FY25 (from FY23)

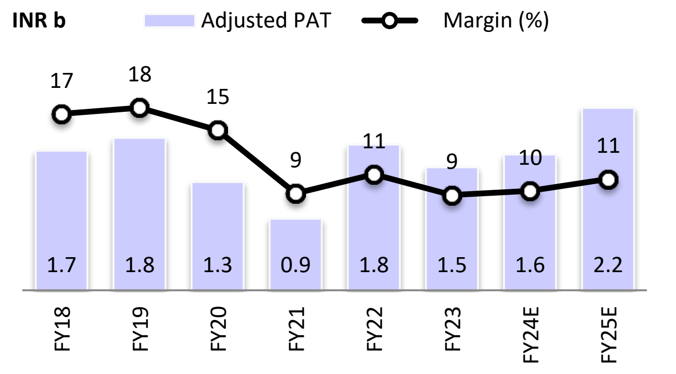
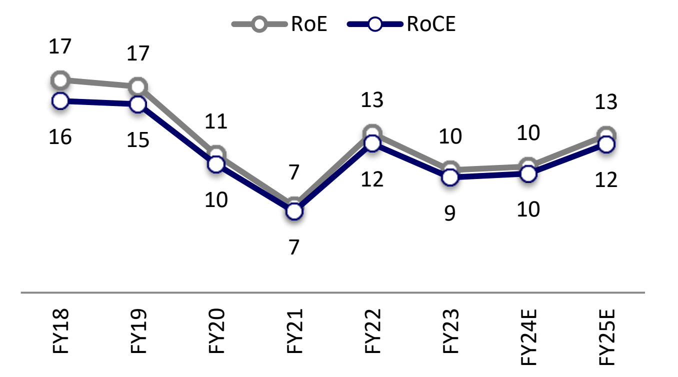
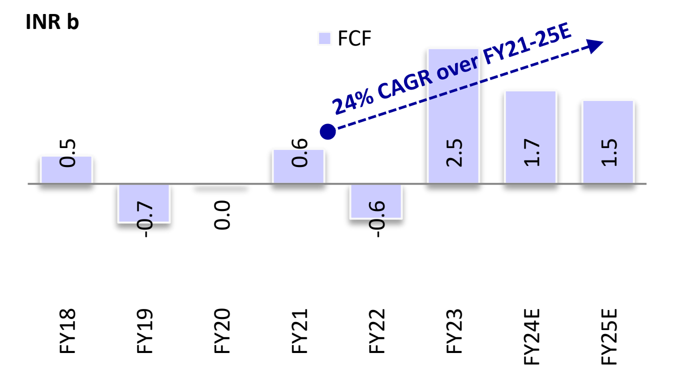


Exhibit 15: Expect return ratios to improve to 12-13x in FY25



Source: Company, MOFSL

Exhibit 16: ...with strong FCF CAGR of 24% over FY21-25



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Total Income from Operations	**9,893**	**10,429**	**8,463**	**9,247**	**15,713**	**16,166**	**17,110**	**20,532**
Change (%)	*20.9*	*5.4*	*-18.9*	*9.3*	*69.9*	*2.9*	*5.8*	*20.0*
Gross Margin (%)	*55.5*	*55.2*	*54.2*	*45.4*	*45.3*	*45.1*	*45.3*	*45.5*
EBITDA	**2,629**	**2,903**	**1,765**	**1,269**	**2,829**	**2,490**	**2,642**	**3,414**
Margin (%)	*26.6*	*27.8*	*20.8*	*13.7*	*18.0*	*15.4*	*15.4*	*16.6*
Depreciation	229	230	324	361	471	544	550	559
EBIT	**2,400**	**2,673**	**1,440**	**909**	**2,358**	**1,946**	**2,092**	**2,855**
Int. and Finance Charges	12	6	13	10	11	12	12	12
Other Income	143	100	97	143	48	73	113	105
PBT bef. EO Exp.	**2,531**	**2,767**	**1,524**	**1,042**	**2,396**	**2,007**	**2,193**	**2,948**
PBT after EO Exp.	**2,531**	**2,767**	**1,524**	**1,042**	**2,396**	**2,007**	**2,193**	**2,948**
Total Tax	845	926	214	177	636	520	552	742
Tax Rate (%)	*33.4*	*33.5*	*14.1*	*17.0*	*26.6*	*25.9*	*25.2*	*25.2*
Reported PAT	**1,686**	**1,841**	**1,310**	**865**	**1,760**	**1,487**	**1,641**	**2,206**
Adjusted PAT	**1,686**	**1,841**	**1,310**	**865**	**1,760**	**1,487**	**1,641**	**2,206**
Change (%)	*74.1*	*9.2*	*-28.9*	*-34.0*	*103.4*	*-15.5*	*10.4*	*34.4*
Margin (%)	*17.0*	*17.7*	*15.5*	*9.4*	*11.2*	*9.2*	*9.6*	*10.7*

Standalone - Balance Sheet								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Equity Share Capital	1,645	1,654	1,656	1,662	1,666	1,666	1,666	1,666
Total Reserves	8,730	9,876	10,104	11,073	12,673	13,736	14,825	16,290
Net Worth	**10,374**	**11,531**	**11,760**	**12,735**	**14,339**	**15,403**	**16,492**	**17,956**
Total Loans	50	0	0	0	0	0	0	0
Deferred Tax Liabilities	1,003	1,054	887	956	1,028	1,069	1,069	1,069
Capital Employed	**11,427**	**12,584**	**12,647**	**13,691**	**15,367**	**16,471**	**17,560**	**19,025**
Gross Block	6,569	8,050	9,789	11,374	11,783	12,114	12,314	12,514
Less: Accum. Deprn.	1,576	1,787	2,111	2,472	2,943	3,487	4,036	4,595
Net Fixed Assets	**4,994**	**6,263**	**7,678**	**8,902**	**8,840**	**8,627**	**8,277**	**7,919**
Capital WIP	392	1,305	1,563	140	82	85	85	85
Total Investments	**3,020**	**1,487**	**726**	**826**	**674**	**2,314**	**2,314**	**2,314**
Curr. Assets, Loans, and Adv.	**4,750**	**5,223**	**4,312**	**6,122**	**8,567**	**7,386**	**8,938**	**11,172**
Inventory	1,550	1,704	1,361	1,653	3,326	2,847	3,013	3,616
Account Receivables	2,434	2,322	2,032	3,086	4,498	3,460	3,662	4,394
Cash and Bank Balance	276	389	128	797	154	551	1,704	2,491
Cash	240	360	84	441	116	213	1,366	2,153
Bank Balance	36	29	44	356	38	338	338	338
Loans and Advances	491	808	791	587	589	528	558	670
Curr. Liability and Prov.	**1,729**	**1,694**	**1,633**	**2,297**	**2,795**	**1,940**	**2,054**	**2,464**
Account Payables	1,139	988	892	1,710	2,174	1,283	1,358	1,630
Other Current Liabilities	397	502	511	378	414	453	479	575
Provisions	193	204	230	210	207	204	216	259
Net Current Assets	**3,022**	**3,529**	**2,680**	**3,824**	**5,772**	**5,445**	**6,884**	**8,707**
Appl. of Funds	**11,427**	**12,584**	**12,647**	**13,691**	**15,367**	**16,471**	**17,560**	**19,025**

Financials and valuations

Ratios								
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Basic (INR)								
EPS	**10.1**	**11.1**	**7.9**	**5.2**	**10.6**	**8.9**	**9.8**	**13.2**
EPS Growth (%)	**74.1**	**9.2**	**-28.9**	**-34.0**	**103.0**	**-15.5**	**10.4**	**34.4**
Cash EPS	11.5	12.5	9.8	7.4	13.4	12.2	13.1	16.6
BV/Share	62.4	69.4	70.8	76.6	86.1	92.4	99.0	107.8
DPS	1.8	2.5	4.5	2.0	3.0	3.0	3.3	4.5
Payout (%)	21.0	27.0	76.0	38.5	28.4	33.6	33.6	33.6
Valuation (x)								
P/E	22.4	20.5	28.9	43.7	21.5	25.5	23.1	17.2
Cash P/E	19.7	18.3	23.1	30.9	17.0	18.7	17.3	13.7
P/BV	3.6	3.3	3.2	3.0	2.6	2.5	2.3	2.1
EV/Sales	3.8	3.6	4.5	4.0	2.4	2.3	2.1	1.7
EV/EBITDA	14.3	12.9	21.4	29.2	13.3	15.0	13.7	10.4
Dividend Yield (%)	0.8	1.1	2.0	0.9	1.3	1.3	1.5	2.0
FCF per share	3.1	-4.3	-0.1	3.9	-3.9	15.0	10.3	9.2
Return Ratios (%)								
RoE	17.4	16.8	11.2	7.1	13.0	10.0	10.3	12.8
RoCE	15.6	15.4	10.5	6.6	12.2	9.4	9.7	12.1
RoIC	21.6	20.7	12.6	6.8	13.1	10.3	11.6	15.5
Working Capital Ratios								
Fixed Asset Turnover (x)	2.0	1.9	1.2	1.1	1.8	1.9	2.0	2.5
Asset Turnover (x)	0.9	0.8	0.7	0.7	1.0	1.0	1.0	1.1
Inventory (Days)	57	60	59	65	77	64	64	64
Debtor (Days)	90	81	88	122	104	78	78	78
Creditor (Days)	42	35	38	67	50	29	29	29
Leverage Ratio (x)								
Current Ratio	2.7	3.1	2.6	2.7	3.1	3.8	4.4	4.5
Interest Coverage Ratio	196.7	424.3	109.1	94.6	220.4	163.6	175.8	239.9
Net Debt/Equity ratio	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	-0.1

Standalone - Cash Flow Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
OP/(Loss) before Tax	2,531	2,767	1,524	1,042	2,396	2,007	2,193	2,948
Depreciation	229	230	324	361	471	544	550	559
Direct Taxes Paid	-802	-878	-510	-1	-591	-500	-552	-742
(Inc.)/Dec. in WC	-901	-400	515	-372	-2,549	783	-286	-1,036
CF from Operations	**984**	**1,638**	**1,772**	**904**	**-318**	**2,776**	**1,917**	**1,741**
(Inc.)/Dec. in FA	-470	-2,351	-1,790	-262	-330	-282	-200	-200
Free Cash Flow	**514**	**-713**	**-18**	**642**	**-647**	**2,494**	**1,717**	**1,541**
Other investing activity	**-908**	**1,334**	**746**	**-325**	**658**	**-1,859**	**0**	**0**
CF from Investments	**-1,379**	**-1,017**	**-1,044**	**-586**	**328**	**-2,140**	**-200**	**-200**
Inc./(Dec.) in Debt	-100	-50	0	0	0	0	0	0
Interest Paid	-13	-7	-9	-4	-6	-5	-12	-12
Dividend Paid	-350	-490	-980	-7	-332	-500	-552	-742
Others	2	41	-15	51	-27	-44	0	0
CF from Fin. Activity	**-420**	**-501**	**-1,004**	**40**	**-336**	**-538**	**-564**	**-754**
Inc./Dec. in Cash	**-814**	**120**	**-276**	**358**	**-325**	**98**	**1,153**	**787**
Opening Balance	1,055	240	360	84	441	116	213	1,366
Closing Balance	**240**	**360**	**84**	**441**	**116**	**213**	**1,366**	**2,153**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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