

BSE SENSEX

39,435

S&P CNX

11,844

CMP: INR133 TP: INR172(+29%)
Buy

Stock Info

M.Cap. (INR b)	22.0
Avg Turnover, INR m	10
Equity Shares (m)	164
Face Value	10
52-Week Range (INR)	203/ 112
1/6/12 m Rel. Per* (%)	-3/ -31/ -46

*Relative to BSE sensex
Data as on 24th May, 2019

Financials Snapshot (INR bn)

Y/E Mar	2019E	2020E	2021E
Net Sales	10.4	11.2	13.6
Growth (%)	7.8	7.8	20.8
EBITDA	2.9	2.8	3.3
PAT	1.8	1.8	2.2
EPS (INR)	11.2	10.7	13.1
Gr. (%)	8.8	-4.4	21.6
BV/sh. (INR)	71.1	78.9	88.7
P/E (x)	11.8	12.4	10.2
P/BV (x)	1.9	1.7	1.5
EV/EBITDA (x)	7.3	7.5	6.3
RoE (%)	16.7	14.4	15.7
RoCE (%)	16.7	14.4	15.7

Shareholding pattern (%)

As On	Sept-18	Dec-18	Mar-19
Promoter	34.1	33.8	33.8
MFs	5.1	5.1	3.5
FPIs	4.7	4.2	4.2
Others	56.1	56.9	58.5

Investors are advised to refer through disclosures made at the end of the Research Report.

Another weak quarter, given auto industry headwinds

Nocil for Q4FY19 reported weak set of numbers; mainly on the back of weak tyre demand. Revenue/PAT declined by 12%/30% YoY, with OPM contraction of 621bps. The slowdown in the auto sector and the uncertainty surrounding anti-dumping duty could act as an overhang for the stock in the near term. However, we believe that with new capacities coming on stream, Nocil is well placed to (i) benefit from any auto sales revival and (ii) capture incremental demand from both global/ Indian tyre companies, given its long standing relationship with them. This, along with its debt free balance sheet, consistent free cash flow generation and healthy return ratios, strengthens the growth narrative. We maintain our Buy rating with revised target price of INR172.

Weak volume and OPM contraction pulled down 4Q performance:

Both lower volume (-8% YoY) and weak realization led to revenue decline of 12% YoY; first decline in the last 12 quarters. EBITDA also fell by 30% YoY as the margins contracted by 621bps to 24.5% on the back of high inventory losses. Thus PAT also de-grew by 30% YoY, as lower depreciation was offset by lower other income and higher tax outgo. Plant utilization in 4Q was also lower at 82% vs 92% for FY19. However, overall for FY2019, revenue/ PAT grew by 8%/ 9% while margins expanded by 64bps to 28.1%, supported by strong 1H performance.

Upcoming new capacities to support growth: Nocil's capex of INR4.25b is on track and is likely to get fully commissioned by CY19 end, post which the total capacity would double. The increased capacities would benefit Nocil significantly, as and when the auto sales revive. Further it would help Nocil in capturing higher market share, given the upcoming tyre investments both domestically/globally and the shift of raw material procurement by MNCs from China to other countries.

Valuation: We have reduced our FY20/FY21 PAT estimates by 15%/13%; thus expecting Revenue/PAT CAGR of 14%/8% over FY19-21E with OPM contraction of 357bps (assuming ADD gets removed). The stock is trading at 12.4x FY20E and 10.2x FY21E EPS. We maintain BUY rating with a revised target price of INR172/share.

Quarterly Standalone Performance (INR mn)

Y/E December	Q4FY19	Q4FY18	YoY	Q3FY19	QoQ
Revenue	2,416	2,759	-12.4%	2,612	-7.5%
EBITDA	591	846	-30.2%	725	-18.5%
EBITDA Margin %	24.5%	30.7%	-621bps	27.8%	-331bps
PAT	358	510	-29.8%	447	-19.9%
PAT Margin %	14.8	18.5	-366bps	17.1	-228bps

Source: Company, MOSL

Sneha Poddar – Research Analyst (sneha.poddar@motiloswal.com)

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Concall Highlights

- ✓ **Volume guidance:** Volume growth fell by 8% in 4QFY19 on the back of weak auto sales and greater supplies from China. For FY19, overall volume growth stood at +3% YoY. Going forward, management has guided for weakness to continue in 1HFY20, while it expects the volume recovery from 2HFY20. Moreover, post capacity commencement, capacity constraint on few of its products would be removed, which would help Nocil in capturing higher volume.
- ✓ **Rising share of exports:** Exports improved by 24% YoY in FY19, taking its share in revenue to ~30% (26% in FY18); which the management is hopeful of expanding further on the back of huge capex lined up by the global tyre companies. It recently started exporting to US and would benefit greatly with the ongoing US-China trade war and the imposition of Anti-Dumping Duty (ADD) by US on China imports. Nocil is confident of increasing its market share internationally as the global companies are strategically shifting their procurement from China to other countries in order to de-risk themselves.
- ✓ **ADD removal:** Removal of ADD (due for renewal in July'19) by India on Chinese imports would impact EBITDA to the tune of INR400mn (~4% hit on margins) at the present volume level. Currently we have factored that in our estimates. Renewal of the same would be positive for the company.

Exhibit 1: Standalone Quarter Earnings

Y/E March	FY18				FY19			
(INR millions)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net Sales	2,149	2,276	2,493	2,759	2,681	2,720	2,612	2,416
YoY Change (%)	11.5%	25.5%	40.6%	44.6%	24.8%	19.5%	4.8%	-12.4%
QoQ Change (%)	12.6%	5.9%	9.5%	10.7%	-2.8%	1.5%	-4.0%	-7.5%
Total Expenditure	1,602	1,736	1,797	1,913	1,879	1,931	1,887	1,825
EBITDA	547	540	696	846	802	789	725	591
Margins (%)	25.5%	23.7%	27.9%	30.7%	29.9%	29.0%	27.8%	24.5%
Depreciation	36	42	40	112	54	56	56	63
Interest	4	3	3	2	3	1	1	2
Other Income	28	52	32	32	21	32	20	23
PBT	535	547	685	764	766	764	688	549
Tax	189	167	235	255	258	236	242	191
Rate (%)	35.3%	30.5%	34.3%	33.3%	33.7%	30.8%	35.1%	34.8%
Reported PAT	346	380	450	510	508	528	447	358
Adj PAT	346	380	450	510	508	528	447	358
YoY Change (%)	46.0%	39.7%	81.5%	99.8%	46.8%	39.1%	-0.8%	-29.8%
Margins (%)	16.1%	16.7%	18.1%	18.5%	18.9%	19.4%	17.1%	14.8%

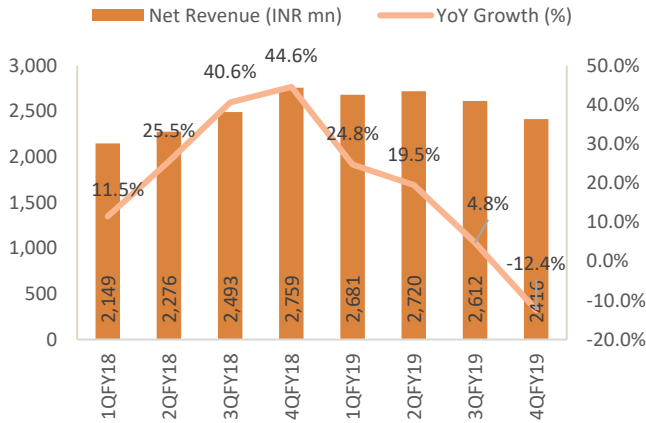
Source: Company, MOSL

Key Risks

- ✓ Any prolonged slowdown in tyre industry than anticipated, which accounts for about two thirds of global rubber consumption can adversely impact demand for rubber chemicals.
- ✓ Although environmental scrutiny in China currently serves as a boon, any relaxation of environmental laws there can lead to increase in global supply impacting realizations.
- ✓ Any delay in new capacity commencement would affect Nocil's volume
- ✓ Sharp movement in crude oil prices could impact prices of key raw materials and hurt margins.

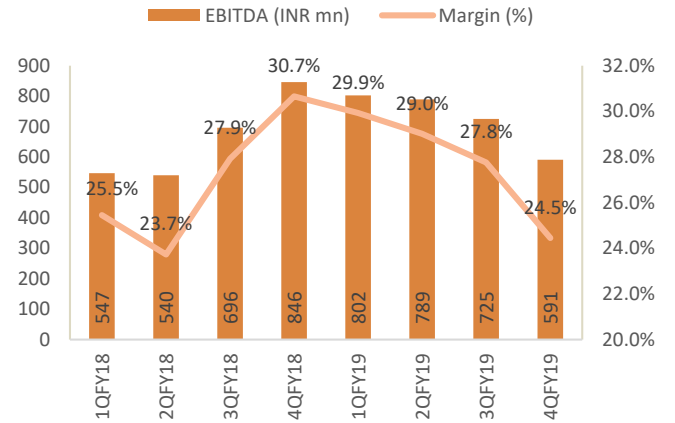
4QFY19 in Charts

Exhibit 4: Q4 revenue slips due to weak volume/realization



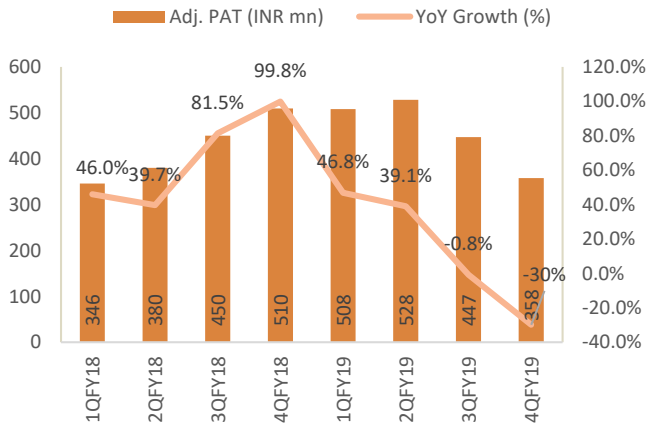
Source: Company, MOSL

Exhibit 5: EBITDA Margins continue its decline



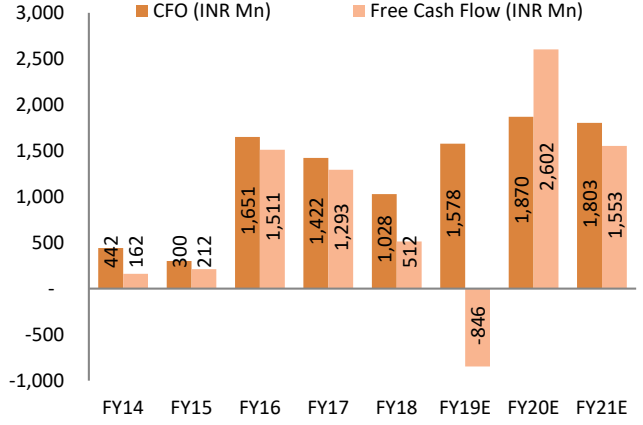
Source: Company, MOSL

Exhibit 6: PAT down 30% YoY



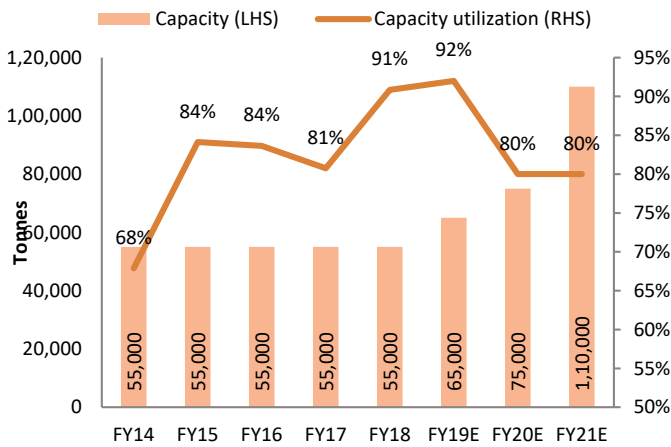
Source: Company, MOSL

Exhibit 7: Strong free cash flow to continue



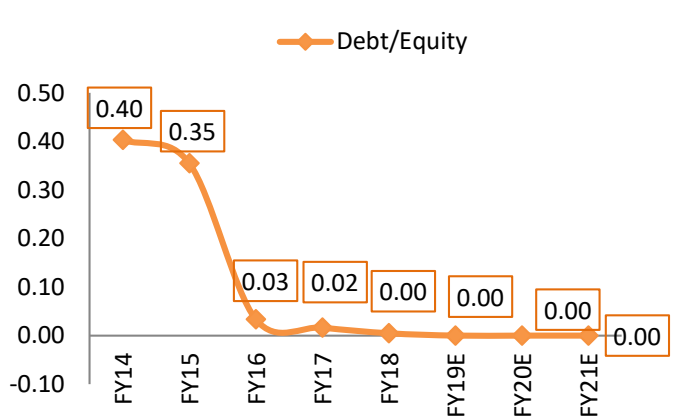
Source: Company, MOSL

Exhibit 8: Doubling capacity over FY18-21E



Source: Company, MOSL

Exhibit 9: Continues to be debt-free despite capex



Source: Company, MOSL

Company Profile

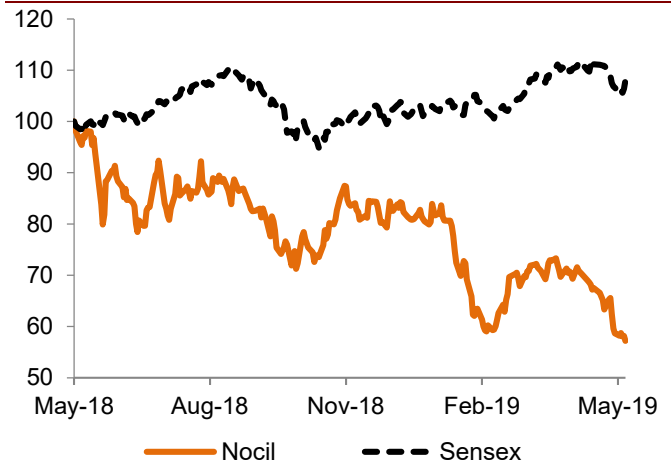
Company description

Nocil, part of Arvind Mafatlal Group, is India’s largest rubber chemicals company offering a range of products such as accelerators (~45% of the portfolio), antidegradants/ antioxidants (~45%), and pre-vulcanization inhibitors/ post-vulcanization stabilizers (~10%) for over four decades now. It has manufacturing facilities in Navi Mumbai and Dahej.

The company’s products are used in both tyre and non-tyre industries. Nocil commands a share of ~45% in the domestic market and 5% in the global market.

Source: Company, MOSL

Exhibit 10: 1-year stock performance rebased to 100



Source: Bloomberg

Exhibit 11: Key shareholding above 1% as on Mar-19

Holder Name	% Holding
Ashish Kacholia	4.3%
Dolly Khanna	2.1%
L&T Emerging Business Fund	1.7%
The New India Assurance Company	1.3%
Principal Dividend Yield Fund	1.2%

Source: Company, MOSL

Exhibit 12: Top management

Name	Designation
Mr Hrishikesh A. Mafatlal	Promoter & Chairman
Mr S. R. Deo	MD
Mr P. Srinivasan	CFO
Mr R. M. Gadgil	President – Marketing
Dr. Chinmoy Nandi	VP – R&D

Source: Company, MOSL

Exhibit 13: Directors

Name	Name
Hrishikesh A. Mafatlal	C. L. Jain
Rohit Arora	D.N. Mungale
Vilas R. Gupte	P.V. Bhide
N. Sankar	(Ms.) D.N. Raval
S.R. Deo	Priyavrata H. Mafatlal

Source: Company, MOSL

Exhibit 14: Auditors

Name	Type
M/s. Kalyaniwalla & Mistry LLP	Statutory Auditors
M/s. Makarand M. Joshi & Co.	Secretarial Auditor
M/s Kishore Bhatia & Associates	Cost Auditor

Source: Company, MOSL

Financials and Valuations

Consolidated Income Statement							(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Net Sales	5,961	7,190	7,152	7,422	9,676	10,429	11,242	13,575
Change (%)	22.1	20.6	-0.5	3.8	30.4	7.8	7.8	20.8
Total Expenditure	5,338	6,057	5,758	5,830	7,022	7,502	8,432	10,249
% of Sales	89.5	84.2	80.5	78.5	72.6	71.9	75.0	75.5
EBITDA	624	1,133	1,394	1,592	2,654	2,927	2,811	3,326
Margin (%)	10.5	15.8	19.5	21.5	27.4	28.1	25.0	24.5
Depreciation	187	145	146	197	240	243	270	282
EBIT	436	988	1,247	1,395	2,414	2,684	2,540	3,044
Int. and Finance Charges	174	165	93	22	12	6	0	0
Other Income	108	40	35	95	146	100	110	180
PBT bef. EO Exp.	371	862	1,189	1,468	2,547	2,777	2,650	3,224
Extraordinary Items	-20	0	0	0	0	0	0	0
PBT	350	862	1,189	1,468	2,547	2,777	2,650	3,224
Tax	112	291	407	497	848	929	883	1,074
Tax Rate (%)	31.9	33.8	34.2	33.8	33.3	33.4	33.3	33.3
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	239	571	783	971	1,699	1,849	1,768	2,150
Adjusted PAT	252	571	783	971	1,699	1,849	1,768	2,150
Change (%)	21.7	126.2	37.1	24.1	75.0	8.8	-4.4	21.6
Margin (%)	4.2	7.9	10.9	13.1	17.6	17.7	15.7	15.8

Consolidated Balance Sheet							(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	1,608	1,608	1,608	1,636	1,645	1,654	1,654	1,654
Reserves	2,168	2,542	6,084	7,496	8,822	9,976	11,247	12,852
Net Worth	3,776	4,150	7,692	9,131	10,467	11,630	12,902	14,506
Debt	1,522	1,473	259	150	50	0	0	0
Deferred Tax (Net)	403	429	1,039	1,063	1,041	1,094	1,094	1,095
Total Capital Employed	5,700	6,052	8,990	10,345	11,558	12,724	13,995	15,600
Gross Fixed Assets	4,484	4,507	7,009	7,084	7,022	8,558	9,088	9,338
Less: Accumulated Depreciation	1,280	1,398	1,519	1,658	1,744	1,987	2,258	2,540
Net Fixed Assets	3,204	3,109	5,489	5,426	5,277	6,570	6,830	6,798
Capital WIP	29	34	61	45	425	1,313	50	50
Investments	224	224	1,120	1,764	2,812	1,272	3,272	4,272
Current Assets	3,866	4,184	3,467	4,376	4,797	5,267	5,692	6,742
Inventory	1,601	1,877	1,326	1,146	1,553	1,707	1,879	2,194
Debtors	1,477	1,672	1,508	1,665	2,434	2,322	2,618	2,975
Cash and Bank Balance	153	75	157	1,222	320	424	641	828
Loans and Advances & OCA	635	559	476	342	490	814	554	744
Current Liability & Provisions	1,623	1,499	1,148	1,265	1,754	1,699	1,849	2,262
Account Payables	1,173	839	693	812	1,157	983	1,294	1,488
Current Liabilities	196	304	251	242	362	499	339	558
Oth. Long Term Liab. & Prov.	255	357	203	211	235	217	217	217
Net Current Assets	2,243	2,685	2,320	3,111	3,044	3,568	3,843	4,479
Appl. of Funds	5,700	6,052	8,990	10,345	11,558	12,724	13,995	15,600

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)								
EPS	1.5	3.5	4.8	5.9	10.3	11.2	10.7	13.1
Cash EPS	2.7	4.4	5.7	7.1	11.9	12.8	12.5	14.9
BV/Share	23.1	25.4	47.0	55.8	64.0	71.1	78.9	88.7
DPS	0.6	1.0	1.2	1.8	2.5	2.5	2.5	2.8
Payout (%)	47.3	33.9	29.7	36.2	29.0	26.8	28.1	25.4
Valuation (x)								
P/E	86.2	38.1	27.8	22.4	12.9	11.8	12.4	10.2
Cash P/E	49.5	30.4	23.4	18.6	11.2	10.4	10.7	8.9
P/BV	5.8	5.2	2.8	2.4	2.1	1.9	1.7	1.5
EV/Sales	3.9	3.2	3.1	2.8	2.2	2.0	1.9	1.5
EV/EBITDA	37.1	20.4	15.7	13.0	8.1	7.3	7.5	6.3
Dividend Yield (%)	0.4	0.7	0.9	1.4	1.9	1.9	1.9	2.1
FCF per share	1.0	1.3	9.2	7.9	3.1	-5.2	15.9	9.5
Return Ratios (%)								
RoE	6.8	14.4	13.2	11.5	17.3	16.7	14.4	15.7
RoCE	7.1	12.5	12.4	11.4	17.2	16.7	14.4	15.7
Working Capital Ratios								
Asset Turnover (x)	1.0	1.2	0.8	0.7	0.8	0.8	0.8	0.9
Inventory (Days)	98	95	68	56	59	60	61	59
Debtor (Days)	90	85	77	82	92	81	85	80
Creditor (Days)	72	43	35	40	44	34	42	40
Leverage Ratio (x)								
Net Debt/Equity	0.3	0.3	-0.1	-0.3	-0.3	-0.1	-0.3	-0.4

Consolidated Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	350	862	1,181	1,468	2,547	2,777	2,650	3,224
Depreciation	187	145	137	197	240	243	270	282
Interest & Finance Charges	174	165	93	22	12	6	0	0
Direct Taxes Paid	-36	-188	-306	-455	-806	-929	-883	-1,074
(Inc.)/Dec in WC	-136	-659	576	278	-876	-421	-58	-449
CF from Operations	540	325	1,682	1,511	1,118	1,677	1,980	1,983
Others	-98	-24	-31	-89	-90	-100	-110	-180
CF from Operating incl. EO	442	300	1,651	1,422	1,028	1,578	1,870	1,803
(Inc.)/Dec in FA	-280	-88	-140	-129	-516	-2,424	733	-250
Free Cash Flow	162	212	1,511	1,293	512	-846	2,602	1,553
(Pur.)/Sale of Investments	0	0	0	-47	-943	1,562	-2,000	-1,000
Others	102	35	16	81	35	100	110	180
CF from Investments	-178	-53	-124	-96	-1,423	-762	-1,157	-1,070
Issue of Shares	0	0	0	57	41	-136	0	0
Inc.)/(Dec) in Debt	54	-49	-1,214	-109	-100	-50	0	0
Interest Paid	-174	-165	-101	-23	-13	-6	0	0
Dividend Paid	-112	-112	-192	-231	-351	-496	-496	-546
CF from Fin. Activity	-232	-326	-1,508	-306	-422	-689	-496	-546
Inc./Dec of Cash	32	-79	20	1,020	-817	127	216	187
Unrealized Forex fluctuation	-1	0	3	-9	2	0	0	0
Opening Balance	109	140	26	49	1,060	244	371	587
Other Bank Balance	13	14	109	163	77	54	54	54
Closing Balance	153	75	157	1,222	321	425	641	828

This report is intended for distribution to Retail Investors.

Explanation of Investment Rating	Expected return (over 12-month)
Investment Rating	
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

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