

28 Dec 2015

Initiating Coverage (BUY)

CMP

INR 60

Target Price

INR 103

NOCIL

Stock Details	
Industry	Specialty Chemicals
Bloomberg Code	NOCIL:IN
BSE Code	500730
Face Value (Rs.)	10.00
Market Cap. (Rs. Mn)	9,719.6
52wk. High/Low (Adjusted) ( (Rs.)	64.50 / 33.25

Shareholding Pattern Jun '15	
Promoter (%)	37.55
FII (%)	0.86
DII (%)	1.67
Public - Other (%)	59.96
No. of Share Outstanding (mn)	160.79

Valuation Summary				
	FY 14A	FY 15A	FY 16E	FY 17E
P/E (x)*	10.41	17.16	17.00	16.00
EV/EBITDA (x)*	4.27	8.65	9.30	8.70
P/BV (x)*	0.66	2.34	3.48	3.20

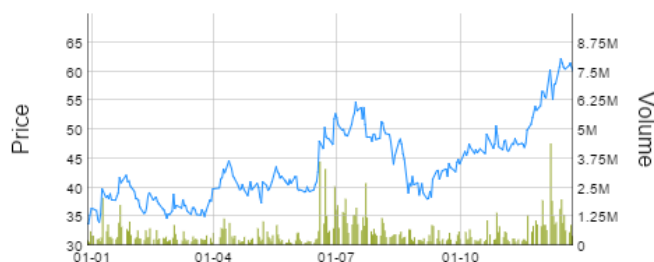
\*Based On CMP on Reco Date for FY 15 and Market Price as on 1<sup>st</sup> Apr is taken for FY14

Key Financial				
Rs. Mn	FY 14A	FY 15A	FY 16E	FY 17E
Net Sales	5,961	7,190	8,084	9,283
EBITDA	712	1,172	1,720	1,863
Net Profit	239	571	950	1,032
EPS (Rs.)*	01.5	03.5	05.9	06.4

\*Adjusted for stock split of 5:1 in FY16

Key Ratios				
	FY 14A	FY 15A	FY 16E	FY 17E
EBITDA Margin (%)	11.9	16.3	21.3	20.0
EBIT Margin (%)	8.8	14.3	19.4	18.4
Net Pro. Margin (%)	4.0	7.9	11.8	11.1
Debt/Equity (x)	0.19	0.12	0.02	0.00
RoNW (%)	6.4	14.4	21.6	21.1
RoCE (%)	4.8	11.2	18.1	18.7

One Year Price / Volume



We recommend 'BUY' on NOCIL for a target of INR 103 - valuing the company at P/E of 16.0x FY17E Earning.

#### INVESTMENT RATIONALE:

- Strong positioning in Rubber Chemical Market in India
- Strong pipeline of New Generation Rubber Chemicals
- Asia Hub for Tyre Industry
- Favorable global scenario
- Capacity expansion could be on the cards
- Operating performances to remain stable at higher levels
- Expected to gain further market share encasing industry opportunity

#### VALUATIONS AND VIEW:

Rubber Chemicals is a critical input for Rubber application Industry. NOCIL, the largest rubber chemical manufacturer in India with its new generation diversified product portfolio and strong R&D capabilities is in the position to take advantage of global consolidation in the rubber chemical space. With major tyre companies consolidating their operation in and around Asia which is the major growth market, NOCIL is expected to benefit.

Environmental Issues and Technological Up gradation are the key hurdles of the Industry. The company has all the environment compliance in place which is the key problem faced by the Chinese counterparts, placing NOCIL at an advantage. Also with the anti-dumping duty protection in place and ramp up in its Dahej plant, financials are set to improve. We value the business at 16x FY17E EPS and recommend a BUY rating on the stock with a target price of INR 103 per share.

## **NOCIL, positioning itself as leader in Rubber Application Industry & to Encash Market Opportunities to Gain Market Share**

**Diversified Product Portfolio:** Rubber Chemicals is a critical input for Rubber application Industry. With large and wide variety of products NOCIL is one stop shop for almost all rubber applicable industries.

**Strong R&D Capabilities:** High Concentration & Continuous R&D initiatives. NOCIL has a strong pipeline of New Generation Rubber Chemicals.

**Asia Hub for Tyre Industry:** Major tyre companies have started consolidating their operations in & around Asia closer to growth markets. With established track record, NOCIL will benefit from this scenario.

**Product Testing & Validation:** Customer takes from 6-18 months to give approval for a specific location under specific climatic conditions & same is carried out for various location globally. With product pipeline and requisite customer accreditations, NOCIL is a "Supplier of Choice".

**Expandable and Sufficient Manufacturing Capacities:** Sufficient manufacturing capacities at Thane & Dahej. Land & Common Infrastructure available for further expansion at Dahej.

**Exit of Global Giants:** Globally it is a Large Diversified Groups - Rubber Chemicals as only a Small Contributor. Exiting the Non-Core Business as a Cost Cutting Measure.

**Troubles faced by Domestic/International Peers:** Industry peers face the problem of Environmental Issues and Technological Up gradation.

**Vendor Consolidation:** Only few players meet Manufacturing Standards and Quality Requirements. NOCIL is the Preferred Supplier and Long Term Business Relationships with Customers

### **RISK & CONCERNS:**

- Volatility in raw material prices
- Cheap imports poses a major challenge
- Foreign exchange fluctuation, as exports contributed ~30% of revenue
- Dependent on cyclicity of the automobile industry

### **COMPANY BACKGROUND:**

NOCIL was incorporated in 1961 as National Organic Chemical Industries Ltd. NOCIL is into manufacturing and trading basic organic chemicals. The Company offers products, such as accelerators under the name PILCURE; antidegradants, such as PILFLEX 13; antioxidants, under the name PILNOX; pre vulcanization inhibitor, such as PILGARD PVI, and post vulcanization stabilizer, such as PILCURE DHTS. Domestic sales accounted for ~70% of revenue in FY15 and the balance is exports. In FY15, the company manufactured 46,266 tonnes of rubber chemical and their intermediates, against an installed manufacturing capacity of 55,000 tonnes (including Dahej of 15,000 tonnes). The company has manufacturing facilities in Trans-Thane Creek industrial area at Navi Mumbai and recently commercialized plant in March 2013 at Dahej. It is a fully automated continuous process plant developed completely with in-house technology. The products manufactured by the Company are used by the tire industry and other rubber processing industries. The Company operates a subsidiary, PIL Chemicals Limited, which is engaged in processing of rubber chemical products.

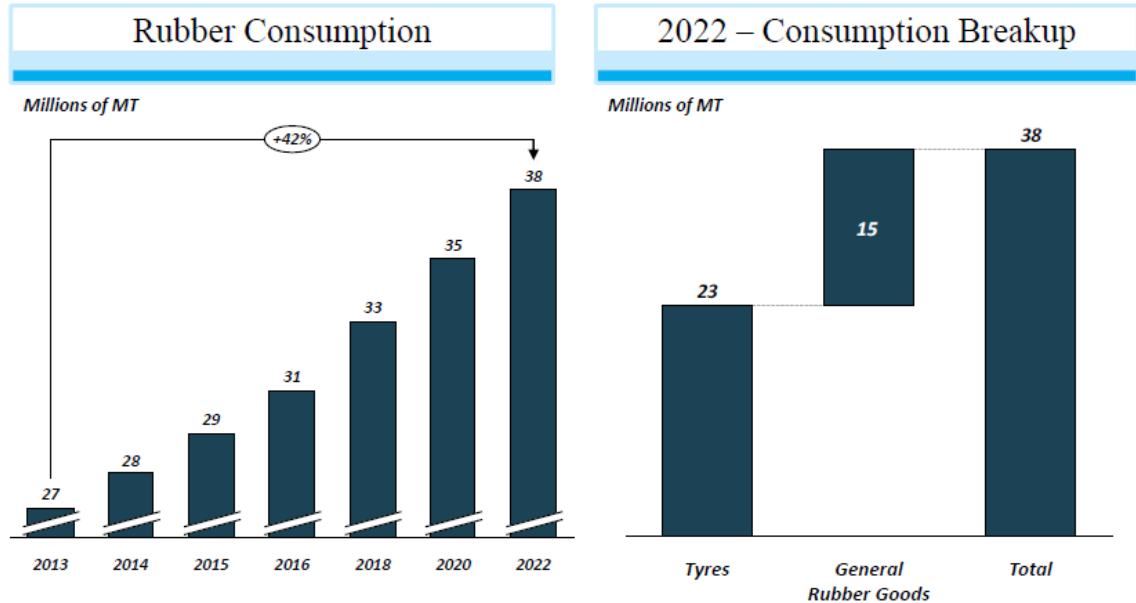
**INDUSTRY OVERVIEW:**

Rubber chemicals find their application in rubber-based industries such as Tyres, Tubes, moulded & extruded components, belting, footwear etc. Rubber chemicals form a very small component (~3%) of rubber consumption, but they are a very critical component from the application angle. The demand for rubber chemicals is primarily dependent on the performance of the overall rubber industry. One of the major rubber based industry viz. the tyre industry, is directly dependent on the Automotive Sector and tyre replacement demand. Performance of the Rubber Chemicals industry is therefore, largely dependent on the performance of the tyre and automobile industry.

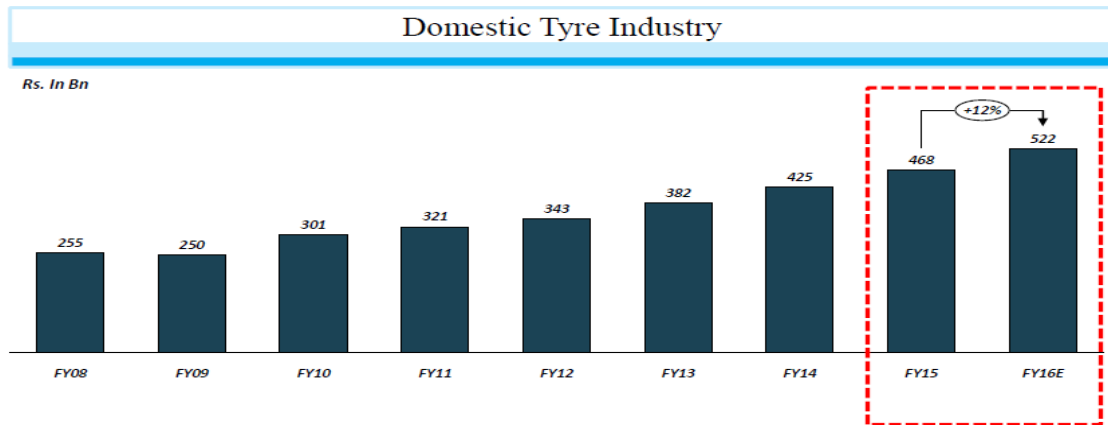
**Rubber Chemicals constitute ~3% of the Rubber Consumption  
And has a Huge Global Potential**

The growth prospects for Rubber Chemicals are likely to be centered in the Asia – Pacific Region. There are huge investments done by the tyre companies around Asia and Large Global Players are consolidating their businesses.

Over the last 3-4 years, the global rubber chemical industry has seen many large manufacturers restructuring their businesses and has strategically exited their rubber chemical operations. Many small players had to shut down their operations. This is due to high competition from China and Korean players as they offered artificially low prices to customers. The gradual realignment of supply and demand due to restructuring / exits from rubber chemicals business have ensured that there is a greater awareness amongst customers of the need for stable and quality supplier like NOCIL. Also, major MNCs are trying to de-risk their supply chain by diversifying raw material procurement away from China. As risk associated with Chinese exports increase, MNCs are increasing preferring India amongst the developing countries for raw material supply.



Source: Company; International Rubber Study Group (March 2015)



**According to ICRA – Domestic Tyre Industry is expected to grow by 4%-8% over 3 years**

Source: Company; ATMA

## PEER COMPARISON (Top 7 companies in the same business)

Company	CMP (Rs)	P/E	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/ BV
Pidilite Inds.	553	45.6	28,373	0.52	192	38.01	1,313	5.20	10.6
Solar Inds.	3,403	39.4	6,160	0.50	35	3.69	333	13.14	7.2
Vinati Organics	468	19.3	2,415	0.75	31	9.29	144	(25.30)	4.9
<b>NOCIL</b>	<b>60</b>	<b>17.2</b>	<b>972</b>	<b>1.66</b>	<b>18</b>	<b>39.79</b>	<b>180</b>	<b>3.25</b>	<b>2.3</b>
Anil	318	5.9	311	0.63	14	9.83	258	18.05	1.0
Sudarshan Chem.	113	15.3	781	1.55	18	11.56	321	6.53	2.5
Camlin Fine	103	19.8	985	0.44	5	(39.33)	114	(19.59)	6.4

## FINANCIAL OVERVIEW

Q2 FY16 Performance Highlight (Standalone Basis)							
(in Million)	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	YoY (%)	QoQ (%)
Revenue	175.15	177.11	190.06	186.01	181.37	3.55%	-2.49%
Other Income	2.12	0.63	0.13	1.6	0.4		
Total Income	177.27	177.74	190.19	187.61	181.77	2.54%	-3.11%
Expenditure	-148.61	-145.68	-157.93	-155.11	-147.46		
As a % of Sales	84.85%	82.25%	83.09%	83.39%	81.30%		
Interest	-4.34	-4.22	-3.78	-3.11	-2.61	-39.86%	-16.08%
PBDT	24.32	27.84	28.48	29.39	31.7		
As a % of Sales	13.89%	15.72%	14.98%	15.80%	17.48%		
Depreciation	-3.38	-3.4	-3.38	-3.38	-3.44		
PBT	20.94	24.44	25.1	26.01	28.26	34.96%	8.65%
As a % of Sales	11.96%	13.80%	13.21%	13.98%	15.58%		
Tax	-7.87	-7.96	-7.99	-9.27	-9.99	26.94%	7.77%
Net Profit	13.07	16.48	17.11	16.74	18.27	39.79%	9.14%
As a % of Sales	7.46%	9.30%	9.00%	9.00%	10.07%		
Equity	160.79	160.79	160.79	160.79	160.79	0.00%	0.00%
EPS (Rs)	0.81	1.03	1.06	1.04	1.14	40.74%	9.62%
CEPS (Rs)	1.02	1.24	1.27	1.25	1.35		
OPM %	16.36	18.1	16.97	17.47	18.92		
NPM %	7.46	9.3	9	9	10.07		

## Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Net Sales	4,768	4,854	5,961	7,190	8,053	9,261	11,113
Other Operating Income	47	27	-	-	32	22	18
Expenditure	4,466	4,672	5,338	6,057	6,445	7,486	8,718
EBITDA	349	209	624	1,133	1,639	1,797	2,413
Depreciation	101	90	187	145	148	159	159
EBIT	248	119	436	988	1,491	1,638	2,253
Interest Expenses	4	38	174	165	211	228	282
PBT	244	82	262	823	1,280	1,410	1,972
Tax	133	17	112	291	410	445	616
Other Income	235	134	108	40	80	66	85
Extraordinary Items	-	223	(20)	-	-	-	-
Net Income Before Adjustment	345	421	239	571	950	1,032	1,441
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	345	421	239	571	950	1,032	1,441

## Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Equity share capita	1,608	1,608	1,608	1,608	1,608	1,608	1,608
Reserves & surplus	1,734	2,042	2,168	2,542	3,029	3,559	4,299
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
<b>Net worth</b>	<b>3,341</b>	<b>3,650</b>	<b>3,776</b>	<b>4,150</b>	<b>4,637</b>	<b>5,167</b>	<b>5,907</b>
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
<b>Loan Funds</b>	<b>750</b>	<b>932</b>	<b>718</b>	<b>505</b>	<b>79</b>	-	-
Net deferred tax liability	230	281	403	429	429	429	429
Other Long-term Liabilities	-	-	-	-	-	-	-
Long-term Provisions	183	119	116	136	152	175	209
<b>Total Liabilities</b>	<b>4,505</b>	<b>4,982</b>	<b>5,013</b>	<b>5,219</b>	<b>5,297</b>	<b>5,771</b>	<b>6,545</b>
<b>Net block</b>	<b>2,219</b>	<b>3,241</b>	<b>3,233</b>	<b>3,143</b>	<b>3,179</b>	<b>3,525</b>	<b>3,395</b>
<b>Investment, Loan &amp; Adv.</b>	<b>546</b>	<b>756</b>	<b>699</b>	<b>605</b>	<b>576</b>	<b>629</b>	<b>588</b>
<b>Total Current Assets</b>	<b>2,711</b>	<b>2,591</b>	<b>3,391</b>	<b>3,803</b>	<b>4,214</b>	<b>4,689</b>	<b>5,157</b>
<b>Current Liabilities &amp; Provisions</b>	<b>971</b>	<b>1,607</b>	<b>2,310</b>	<b>2,331</b>	<b>2,673</b>	<b>3,074</b>	<b>2,597</b>
<b>Net Current Assets</b>	<b>1,740</b>	<b>984</b>	<b>1,081</b>	<b>1,471</b>	<b>1,541</b>	<b>1,615</b>	<b>2,560</b>
<b>Total Assets</b>	<b>4,505</b>	<b>4,983</b>	<b>5,013</b>	<b>5,219</b>	<b>5,297</b>	<b>5,771</b>	<b>6,545</b>

## Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17E	FY 18E
<b>Operating Cash Flow</b>	<b>300</b>	<b>1,141</b>	<b>1,322</b>	<b>1,873</b>
<b>Cash Flow from Investments</b>	<b>(53)</b>	<b>(232)</b>	<b>(619)</b>	<b>(66)</b>
<b>Cash Flow from Financing</b>	<b>(326)</b>	<b>(740)</b>	<b>(642)</b>	<b>(1,756)</b>
<b>Net Changes in Cash</b>	<b>(79)</b>	<b>170</b>	<b>61</b>	<b>51</b>
Opening Cash	141	75	245	306
<b>Closing Cash Balance</b>	<b>61</b>	<b>245</b>	<b>306</b>	<b>356</b>

## Research Disclosures and Disclaimer as required under SEBI (Research Analyst) Regulations, 2014

Wealth Discovery Securities Private Limited is also engaged in the business of Stock Broking and Depository Participants.

**Disclaimer:** This document has been prepared by Wealth Discovery Securities Private Limited (hereinafter referred to as WD) to provide information about the company (ies) and/sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company (ies). This report is for personal information of the selected recipient/s and does not construe to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and WD is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

WD generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, WD generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. WD and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of WD even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition WD has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc., and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt WD or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold WD or any of its affiliates or employees responsible for any such misuse and further agrees to hold WD or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent WD's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation has not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, WD and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent WD and/or its affiliates from doing so. WD or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. WD or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and no infringement. The recipients of this report should rely on their own investigations.

WD and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been a client of WD or its associates during twelve months preceding the date of distribution of the research report WD and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, WD has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of WD research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

**List of Associates of Wealth Discovery Securities Private Limited:**

1. Wealth Discovery Commodities Private Limited.
2. Vasishtha Financial Consultants Private limited.

**Disciplinary History:** No disciplinary action has been initiated by SEBI against M/s Wealth Discovery Securities Private Limited or its associates.

**Statements on ownership and material conflicts of interest, compensation (Rule 19, Chapter-III, SEBI (Research Analyst) Regulations, 2014):**

Serial No.	Disclosures	Remarks
1	Has WD or any of its associates has any financial interest in the NOCIL Ltd? Nature of Interest (if applicable), is given against the company's name?	NO
2	Has WD or any of its associates, have actual/beneficial ownership of <b>one per cent or more securities</b> of the NOCIL Ltd, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?	NO
3	Has WD or any of its associates, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?	NO
4	Has WD or any of its associates has received any compensation from the NOCIL Ltd in the past 12 months?	NO
5	Has WD or any of its associates has managed or co-managed public offering of securities for the NOCIL Ltd in the past twelve months?	NO
6	Has WD or any of its associates has received any compensation for brokerage services, investment banking or merchant banking from the NOCIL Ltd in the past twelve months?	NO
7	Has WD or any of its associates has received any compensation for products or services other than merchant banking, investment banking or brokerage services from the NOCIL Ltd in the past twelve months?	NO
8	Has WD or any of its associates has received any compensation or other benefits from the NOCIL Ltd or third party in connection with the research report?	NO
9	Has WD or any of its associates have received any compensation from the NOCIL Ltd in the past twelve months?	NO
10	Has the NOCIL Ltd is or was a client during twelve months preceding the date of distribution of the research report and the type of services provided.	NO
11	Has WD or any employee or associate has served as an officer, director or employee of the NOCIL Ltd?	NO
12	Has WD or been engaged in market making activity for the NOCIL Ltd?	NO

## Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject WD & its group companies to registration or licensing requirements within such jurisdictions.

# Wealth Discovery

Transforming Knowledge into Wealth.

COMPLETE WEALTH MANAGEMENT SOLUTIONS !



Understanding financial needs.  
Optimising returns...

## Head Office

**Wealth Discovery Securities Pvt. Ltd.**

1206, 12th Floor,  
Kailash Building K.G. Marg.  
Connaught Place  
New Delhi-110001

Telephone:  
91 +11-43444-666  
91 +11-43444-623

Email:  
[info@wealthdiscovery.in](mailto:info@wealthdiscovery.in)

Website:  
<http://www.wealthdiscovery.in>