

# ORIENTAL CARBON AND CHEMICALS LTD

 28<sup>th</sup> March 2019

Initiating Coverage (BUY)

CMP

INR 1114

Target Price

INR 1242

## Stock Details

Industry	Commodity Chemicals
Bloomberg Code	OTCC:IN
BSE Code	506579
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	11381.4
52wk. Low/High (Adjusted) (Rs.)	901.00/1255.00

## Shareholding Pattern Dec '18

Promoter (%)	50.68
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	49.32
No. of Share Outstanding (mn)	10.16

## Valuation Summary

	FY 17A	FY 18A	FY 19P	FY 20P
P/E (x)*	18.25	20.30	20.00	18.00
EV/EBITDA (x)	1.67	11.22	11.14	9.76
P/BV (x)	0.29	2.92	2.72	2.43

\*TTM for Current Year

 Based on Market Price as on 1<sup>st</sup> Apr is taken for Each FY

## Key Financial

Rs. Mn	FY 17A	FY 18A	FY 19P	FY 20P
Net Sales	3,316	3,688	3,984	4,382
EBITDA	936	1,067	1,125	1,255
Net Profit	505	569	612	701
EPS (Rs.)*	50.1	55.2	60.2	69.0

\*Un adjusted

## Key Ratios

	FY 17A	FY 18A	FY 19P	FY 20P
EBITDA Margin (%)	27.6	28.5	28.0	28.2
EBIT Margin (%)	22.6	23.7	23.3	24.0
Net Pro. Margin (%)	14.9	15.2	15.2	15.8
Debt/Equity (x)	0.19	0.18	0.15	0.13
RoNW (%)	16.5	15.8	14.6	14.5
RoCE (%)	13.1	12.4	11.7	11.8

One Year Price / Volume



We recommend 'BUY' on ORIENTAL CARBON AND CHEMICALS LTD (OCCL) for a target of INR 1242 - valuing the company at P/E 18x of FY20E Earning.

## INVESTMENT RATIONALE:

- OCCL, is one of the market leaders in the production of Insoluble Sulphur for the Tyre and Rubber industry around the world both in terms of quality as well as quantity.
- The company is oriented towards growth in a socially and environmentally sustainable manner.
- It has state of the art manufacturing facilities in India at Dharuhera (Haryana) and at Mundra (Gujarat).
- OCCL strong belief in quality at each production stage has helped it to be widely accepted around the world as a preferred vendor by leading tyre companies.
- The company today offers the widest range of Insoluble Sulphur in the world.
- With well-equipped lab in place, it's research and development team is constantly experimenting, evolving and innovating to make products better performing and more stable.
- Widely appreciated by leading tyre manufactures for experience and innovation in it's product range OCCL is now looking at a brighter and sustainable future.

## VALUATIONS AND VIEW:

OCCL is among the top three players globally and the market leader domestically in the production of Insoluble Sulphur (IS). It is well positioned in an oligopolistic market with marquee customer base, robust margins, strong balance sheet and cash surplus. With reduced tyre imports and growing radialization, the domestic tyre industry is expected to grow which would lead to increased demand for Insoluble Sulphur. **We value the business at 18x FY20E EPS and recommend a BUY rating on the stock with a target price of INR 1242 per share.**

## RISK & CONCERNS:

- **Demand and Sales Realisation:** The Demand of Insoluble Sulphur Market is linked with total tyre production globally. The growth is coming in from production of more Radial Tyres, high performance and safety tyres and capacity addition by Tyre companies. Therefore, the threat of reduction in demand shall be significant only if global tyre demand falls significantly.
- **Quality:** Company always strives to meet the international quality parameters. With increasing usage of Insoluble Sulphur per tyre, dispersion as a property has become crucial.
- **Production and Input Material Related Risks:** Raw material supplies are ensured through maintaining multiple vendors and adequate stocks. Sufficient back up of utilities are maintained to ensure continuous supply. Due emphasis is laid on safety and preventive maintenance to avoid unnecessary interruptions.
- **Competition:** Competition is a risk as well as opportunity. The Risk of competition from new manufacturers, mainly from China, is met through continuous product and process improvement to maintain quality and cost advantage over them and through collaborative efforts with tyre companies to see that their requirements are met. Further, high technology barrier coupled with exhaustive approval processes of tyre manufacturers acts as a deterrent for entry of new manufacturers.

## COMPANY BACKGROUND:

Oriental Carbon and Chemicals Limited (OCCL) was established in 1978, belonging to the Duncan JP Goenka group of companies manufacturing insoluble sulphur under the brand "Diamond Sulf". In 1994 OCCL set up a unit for manufacturing of Insoluble sulfur which later emerged as the star product of the group. Oriental Carbon & Chemicals Limited is as much a people driven company as it is a technology driven one. It is on these cornerstones that OCCL has been able to build its standing and reputation in the Industry.

Today OCCL, belonging to JP Goenka Group of companies, is one of the market leaders in the production of Insoluble Sulphur for the Tyre and Rubber industry around the world both in terms of quality as well as quantity. The company is oriented towards growth in a socially and environmentally sustainable manner. It has state of the art manufacturing facilities in India at Dharuhera (Haryana) and at Mundra (Gujarat). Apart from Insoluble Sulfur OCCL also manufactures Sulphuric Acid and Oleums in our chemical complex at Dharuhera. Starting in 1994 with modest capacities of 3000 mt per annum capacity, the production capacity of Insoluble Sulphur now stands at 28,500 Mt per annum with new capacities slated to be added in near future.

With well equipped lab in place, its research and development team is constantly experimenting, evolving and innovating to make products better performing and more stable. It takes pride in consistently working on enhancing the performance of its products and setting a new paradigm in product's performance. Widely appreciated by leading tyre manufacturers for experience and innovation in its product range OCCL is now looking at a brighter and sustainable future.

## Products

- Diamond Sulf – Insoluble Sulfur
- Sulfuric Acid

## PEER COMPARISON

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.	1,180	64.2	59,918.6	0.51	219.5	(8.49)	1,848.3	19.79	37.64
Guj Fluorochem	1,059	14.8	11,632.9	0.33	138.2	96.85	1,490.0	53.77	7.94
Castrol India	161	22.4	15,880.4	4.36	211.9	7.73	1,033.4	6.50	105.28
Godrej Inds.	534	41.3	17,946.1	0.33	77.4	91.56	2,473.2	17.76	9.33
Aarti Inds.	1,452	27.5	11,802.3	0.07	132.7	47.08	1,268.2	28.07	16.30
Solar Inds.	1,040	36.8	9,412.3	0.58	68.6	26.59	653.0	40.23	24.72
Tata Chemicals	575	7.6	14,641.1	3.83	219.5	(65.94)	2,831.9	10.02	11.38
<b>Oriental Carbon</b>	<b>1,114.0</b>	<b>20.0</b>	<b>1,132.0</b>	<b>0.90</b>	<b>20.7</b>	<b>35.21</b>	<b>94.5</b>	<b>9.54</b>	<b>2.90</b>

\*TTM

## FINANCIAL OVERVIEW

### Q3 FY18 Performance Highlight

(in Million)	Dec FY17	Mar FY18	June FY18	Sept FY18	Dec FY18	YoY (%)	QoQ (%)
Revenue	862.54	898.20	920.32	984.69	944.80	9.54%	-4.05%
Other Income	13.74	16.58	15.3	12.25	16.41		
Total Income	876.27	914.78	935.62	996.94	961.21	9.69%	-3.58%
Expenditure	-622.30	-675.51	-667.31	-702.19	-619.94		
As a % of Sales	72.15%	75.21%	72.51%	71.31%	65.62%		
Interest	-20.62	-18.56	-17.63	-20.75	-19.99	-3.06%	-3.66%
PBDT	253.97	239.27	268.31	294.75	341.27		
As a % of Sales	29.44%	26.64%	29.15%	29.93%	36.12%		
Depreciation	-40.64	-40.67	-41.88	-47.38	-48.6		
PBT	213.33	198.6	226.43	247.37	292.67	37.19%	18.31%
As a % of Sales	24.73%	22.11%	24.60%	25.12%	30.98%		
Tax	-60.54	-53.7	-62.45	-70.83	-86.02	42.09%	21.45%
Net Profit	152.79	144.9	163.98	176.54	206.64	35.24%	17.05%
As a % of Sales	17.71%	16.13%	17.82%	17.93%	21.87%		
Equity	103.11	103.11	103.11	103.11	101.78	-1.29%	-1.29%
EPS (Rs)	14.84	14.07	15.93	17.15	20.15	35.78%	17.49%
CEPS (Rs)	18.76	18	19.97	21.72	25.08		
OPM %	29.45	26.64	29.15	29.93	36.12		
NPM %	17.71	16.13	17.82	17.93	21.87		

### Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17A	FY 18A	FY 19E	FY 20P	FY 21P
<b>Net Sales</b>	3,468	3,381	3,316	3,688	3,984	4,382	4,732
Other Operating Income	136	57	69	53	40	66	71
<b>Expenditure</b>	2,786	2,564	2,449	2,674	2,899	3,193	3,457
<b>EBITDA</b>	818	874	936	1,067	1,125	1,255	1,346
Depreciation	104	203	169	182	186	189	190
<b>EBIT</b>	715	671	766	885	939	1,066	1,156
Interest Expenses	164	84	67	88	87	100	106
<b>PBT</b>	551	587	700	797	852	966	1,050
Tax	98	126	201	229	240	265	282
Extraordinary Items	-	-	(23)	-	-	-	-
<b>Net Income Before Adjustment</b>	453	461	475	569	612	701	768
Minority Int./Income from Assoc.	(30)	(35)	(29)	(0)	-	-	-
<b>Adjusted PAT</b>	483	495	505	569	612	701	768

### Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17A	FY 18A	FY 19E	FY 20P	FY 21P
Equity share capita	103	103	103	103	103	103	103
Reserves & surplus	2,339	2,729	3,197	3,795	4,313	5,014	5,782
Misc Expenditure	-	-	-	-	-	-	-
<b>Net worth</b>	2,442	2,832	3,300	3,898	4,416	5,117	5,885
Minority Interest	146	111	82	-	165	145	146
Share Application Money	-	-	-	-	-	-	-
<b>Loan Funds</b>	441	214	637	687	689	687	685
Net deferred tax liability	211	211	291	205	205	205	205
Other Long-term Liabilities	4	4	7	4	4	5	5
Long-term Provisions	13	20	25	26	29	31	34
<b>Total Liabilities</b>	3,257	3,394	4,342	4,823	5,509	6,193	6,962
<b>Net block</b>	2,191	2,463	3,296	3,681	3,604	3,486	3,362
Investment, Loan & Adv.	433	488	241	114	31	30	34
<b>Total Current Assets</b>	1,769	1,563	1,780	2,094	2,462	3,341	4,277
<b>Current Liabilities &amp; Provisions</b>	1,136	1,121	976	1,068	589	667	712
<b>Net Current Assets</b>	633	441	804	1,026	1,873	2,674	3,565
<b>Total Assets</b>	3,257	3,394	4,342	4,823	5,509	6,193	6,962

### Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 18A	FY 19E	FY 20P	FY 21P
<b>Operating Cash Flow</b>	936	457	810	899
<b>Cash Flow from Investments</b>	(739)	(30)	(72)	(72)
<b>Cash Flow from Financing</b>	(121)	(136)	(66)	(76)
<b>Net Changes in Cash</b>	76	291	671	751
Opening Cash	20	96	388	1,059
<b>Closing Cash Balance</b>	96	388	1,059	1,810

## Research Analyst Details

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