

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 1st 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.

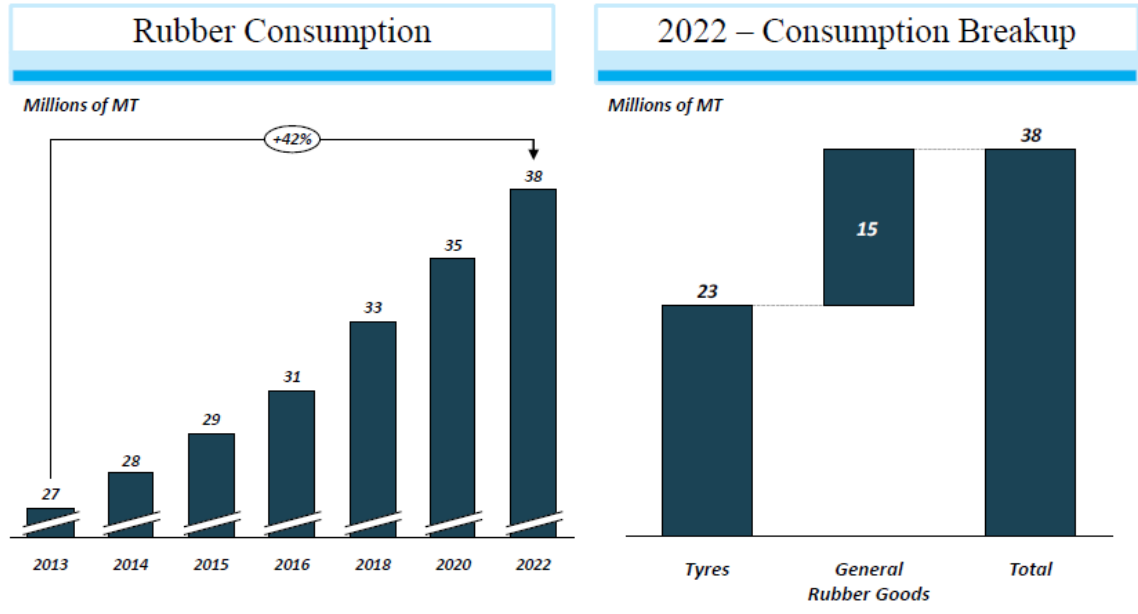
INDUSTRY OVERVIEW:

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.

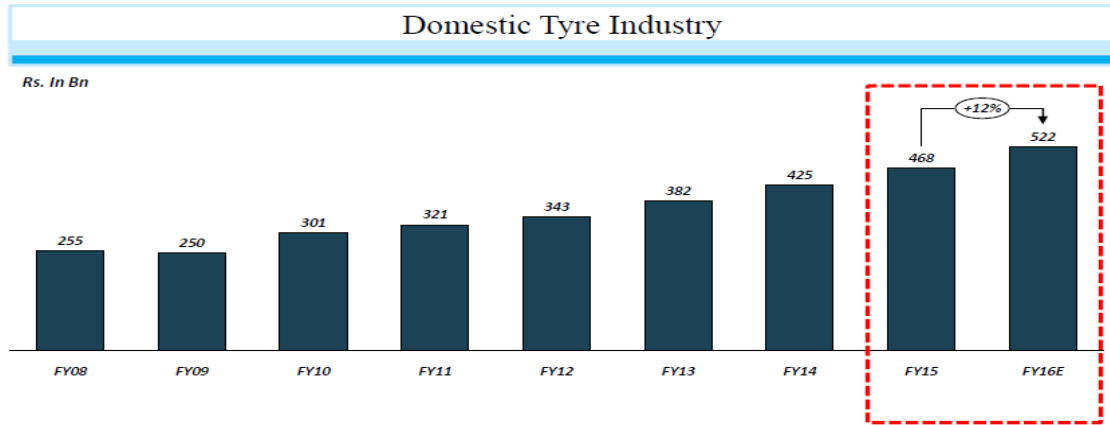
**Rubber Chemicals constitute ~3% of the Rubber Consumption
And has a Huge Global Potential**

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
NOCIL	60	17.2	972	1.66	18	39.79	180	3.25	2.3
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	-	-	-	-	-	-	-
Net worth	3,341	3,650	3,776	4,150	4,637	5,167	5,907
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	750	932	718	505	79	-	-
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
Total Liabilities	4,505	4,982	5,013	5,219	5,297	5,771	6,545
Net block	2,219	3,241	3,233	3,143	3,179	3,525	3,395
Investment, Loan & Adv.	546	756	699	605	576	629	588
Total Current Assets	2,711	2,591	3,391	3,803	4,214	4,689	5,157
Current Liabilities & Provisions	971	1,607	2,310	2,331	2,673	3,074	2,597
Net Current Assets	1,740	984	1,081	1,471	1,541	1,615	2,560
Total Assets	4,505	4,983	5,013	5,219	5,297	5,771	6,545

Cash Flow (Consolidated)

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

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1.Analyst ownership of the stocks mentioned above	No
2.Served as an officer, director or employee	No

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