

January 31, 2020

## Q3FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>129</b>		<b>174</b>	
Sales (Rs. m)	10,451	12,541	10,559	12,671
% Chng.	(1.0)	(1.0)		
EBITDA (Rs. m)	2,195	2,634	2,587	2,978
% Chng.	(15.2)	(11.6)		
EPS (Rs.)	8.6	10.4	10.4	12.1
% Chng.	(17.7)	(13.9)		

### Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	10,429	8,801	10,451	12,541
EBITDA (Rs. m)	2,903	1,848	2,195	2,634
Margin (%)	27.8	21.0	21.0	21.0
PAT (Rs. m)	1,841	1,398	1,410	1,718
EPS (Rs.)	11.2	8.5	8.6	10.4
Gr. (%)	9.0	(24.0)	0.9	21.8
DPS (Rs.)	2.5	1.9	1.9	2.4
Yield (%)	2.3	1.8	1.8	2.2
RoE (%)	16.7	11.4	10.6	11.9
RoCE (%)	25.1	13.4	14.2	15.9
EV/Sales (x)	1.6	1.9	1.4	1.1
EV/EBITDA (x)	5.7	8.8	6.9	5.2
PE (x)	9.7	12.8	12.7	10.4
P/BV (x)	1.5	1.4	1.3	1.2

### Key Data

NOCI.BO | NOCIL IN

52-W High / Low	Rs.151 / Rs.74
Sensex / Nifty	40,914 / 12,036
Market Cap	Rs.18bn/ \$ 251m
Shares Outstanding	166m
3M Avg. Daily Value	Rs.268.25m

### Shareholding Pattern (%)

Promoter's	33.73
Foreign	2.32
Domestic Institution	2.90
Public & Others	61.05
Promoter Pledge (Rs bn)	1.08

### Stock Performance (%)

	1M	6M	12M
Absolute	7.1	26.4	(25.9)
Relative	8.7	15.5	(35.5)

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## Auto sector uncertainty drags profits

### Quick Pointers:

- Weak auto sales drag Q3 volumes, but new capacities being capitalized will drive utilization going ahead.
- Management is expected to maximize volumes at the cost of margins in these uncertain times.
- US import duty of 25% on Chinese supplies, augur well for Nocil as tyre majors look to diversify supplies; FY20 export guidance at 1,000MT and company has received enquiries from multiple US tyre manufacturers.

**We lower our FY20-21E earnings estimates by 14-18% to factor in muted 9M performance. While near term demand slowdown in China and India is a concern, long term opportunities remain impressive given global capex of USD10bn by tyre majors and domestic capex of Rs150-180bn. Nocil with new capacities commissioned is poised to benefit from tight demand-supply situation in global rubber chemicals market. Reiterate BUY with a PT of Rs129 (Rs174 earlier) based on 15x PER FY21E.**

- Weak auto sales, pricing pressure and lower utilization drag profits:** Nocil reported Q3FY20 EBITDA and PAT of Rs357mn (-51% YoY; PLe Rs 533mn) and Rs207mn (-54% YoY; PLe Rs357mn), respectively. Q3 revenues were down 26%YoY and 7%QoQ to Rs1.9bn due to weak auto demand. EBITDA margins came down to 18.4% (-940bps YoY) on weak auto sales, pricing pressure and lower utilization.

For 9M, revenues were down 21% YoY (volumes -7%+ Pricing -14%). EBITDA was at Rs1.4bn (-40%Y/Y) and EBITDA margins were at 22.1% vs 28.9% for 9MFY19.

- Gross margins come off:** For Q3, gross margins were at 52.3% vs Q2FY20 levels of 57.7% (FY19 levels of 55.2%). The company consciously taken a strategy of volume maximization at the cost of margins going ahead. This is in line with China Sunshine policy which prioritize volumes. We have accordingly lower our EBITDA margins to 21% for FY21/22E vs 24.5/23.5% earlier.
- Well placed to capitalize on global opportunities:** Nocil is one of the largest rubber chemicals player globally with capacity of 110,000tons including intermediaries. 25% duty on Chinese rubber chemicals exports to US has opened up opportunities for Nocil as tyre majors ramp up non-Chinese supplies. Nocil has doubled its export guidance to US to 1,000tons for FY20 and the company has received multiple enquiries from US tyre manufacturers as they diversify their supply base.

We expect Nocil to focus more on volumes going ahead at the cost of value as they look to ramp up sales. Even as near term demand uncertainty persist given slowing global auto sales, we believe at current prices, Nocil offers value. Reiterate BUY

**Exhibit 1: Q3FY20 Result Overview (Rs mn)**

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
<b>Income From Operations</b>	<b>1,943</b>	<b>2,612</b>	<b>(25.6)</b>	<b>2,097</b>	<b>6,336</b>	<b>8,013</b>	<b>(20.9)</b>
<b>Total Expenditure</b>							
Cost of Material Consumed	809	1,240	(34.8)	960	2,689	3,917	(31.4)
Purchase of stock in trade	6	7	(10.3)	3	20	20	2.5
Change in inventory of FG, WIP and SIT	113	(72)	(257.3)	(76)	107	(378)	(128.2)
Total RM Cost	927	1,175	(21.1)	887	2,816	3,559	(20.9)
Gross Margin	1,016	1,438	(29.3)	1,211	3,521	4,455	(21.0)
<i>Margin (%)</i>	<i>52.3</i>	<i>55.0</i>		<i>57.7</i>	<i>55.6</i>	<i>55.6</i>	
Employee Cost	187	154	21.6	184	567	499	13.6
Other Expense	472	558	(15.5)	548	1,557	1,639	(5.0)
<i>Other Expense (%)</i>	<i>24.3</i>	<i>21.4</i>		<i>26.1</i>	<i>24.6</i>	<i>20.5</i>	
Excise	-	-		-	-	-	
Total Expenditure	1,586	1,887	(15.9)	1,618	4,939	5,697	(13.3)
<b>EBIDTA</b>	<b>357</b>	<b>725</b>	<b>(50.8)</b>	<b>479</b>	<b>1,397</b>	<b>2,317</b>	<b>(39.7)</b>
<i>% of NS</i>	<i>18.4</i>	<i>27.8</i>		<i>22.8</i>	<i>22.1</i>	<i>28.9</i>	
Depreciation	79	56	40.4	77	233	167	39.6
<b>EBIT</b>	<b>278</b>	<b>669</b>	<b>(58.5)</b>	<b>402</b>	<b>1,165</b>	<b>2,150</b>	<b>(45.8)</b>
Interest	3	1	357.1	3	10	5	106.4
Other Income	13	20	(36.3)	25	62	73	(14.8)
Exceptional Items	-	-		-	-	-	
<b>PBT</b>	<b>287</b>	<b>688</b>	<b>(58.3)</b>	<b>423</b>	<b>1,217</b>	<b>2,218</b>	<b>(45.1)</b>
Tax	81	242	(66.7)	(129)	131	735	(82.2)
<i>Tax rate %</i>	<i>28.1</i>	<i>35.1</i>		<i>-30.5</i>	<i>10.8</i>	<i>33.2</i>	
<b>Profit After Tax</b>	<b>207</b>	<b>447</b>	<b>(53.7)</b>	<b>552</b>	<b>1,086</b>	<b>1,483</b>	<b>(26.8)</b>

Source: Company, PL

### Conference Call Highlights

- Nocil is confident of record volumes in Q4.
- Utilization level for Q3 stood at 65% for Nocil.
- For Q3, revenue decline of Rs154m was due to –no ADD Rs30m, volume degrowth Rs40m and lower pricing Rs90m.
- For 9M, volumes and pricing was down by 7%/14% respectively.
- Company expects some disruption in supplies because of lower profitability
- Globally no new capacities have come on stream in Q3
- Company expects EBIDTA margins to increase to 25% at peak utilisation levels when market stabilizes.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>10,429</b>	<b>8,801</b>	<b>10,451</b>	<b>12,541</b>
YoY gr. (%)	7.8	(15.6)	18.8	20.0
Cost of Goods Sold	4,668	4,092	4,912	5,894
Gross Profit	5,761	4,709	5,539	6,647
Margin (%)	55.2	53.5	53.0	53.0
Employee Cost	678	704	836	1,003
Other Expenses	2,180	2,156	2,508	3,010
<b>EBITDA</b>	<b>2,903</b>	<b>1,848</b>	<b>2,195</b>	<b>2,634</b>
YoY gr. (%)	10.4	(36.3)	18.8	20.0
Margin (%)	27.8	21.0	21.0	21.0
Depreciation and Amortization	230	301	409	497
<b>EBIT</b>	<b>2,673</b>	<b>1,547</b>	<b>1,786</b>	<b>2,137</b>
Margin (%)	25.6	17.6	17.1	17.0
Net Interest	6	-	-	-
Other Income	100	98	99	160
<b>Profit Before Tax</b>	<b>2,767</b>	<b>1,645</b>	<b>1,885</b>	<b>2,297</b>
Margin (%)	26.5	18.7	18.0	18.3
Total Tax	926	247	475	579
Effective tax rate (%)	33.5	15.0	25.2	25.2
<b>Profit after tax</b>	<b>1,841</b>	<b>1,398</b>	<b>1,410</b>	<b>1,718</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,841</b>	<b>1,398</b>	<b>1,410</b>	<b>1,718</b>
YoY gr. (%)	9.0	(24.0)	0.9	21.8
Margin (%)	17.7	15.9	13.5	13.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,841</b>	<b>1,398</b>	<b>1,410</b>	<b>1,718</b>
YoY gr. (%)	9.0	(24.0)	0.9	21.8
Margin (%)	17.7	15.9	13.5	13.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,841	1,398	1,410	1,718
<b>Equity Shares O/s (m)</b>	<b>164</b>	<b>164</b>	<b>164</b>	<b>164</b>
<b>EPS (Rs)</b>	<b>11.2</b>	<b>8.5</b>	<b>8.6</b>	<b>10.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>6,569</b>	<b>10,819</b>	<b>10,919</b>	<b>11,019</b>
Tangibles	6,569	10,819	10,919	11,019
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>1,805</b>	<b>2,107</b>	<b>2,515</b>	<b>3,012</b>
Tangibles	1,805	2,107	2,515	3,012
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>4,764</b>	<b>8,713</b>	<b>8,404</b>	<b>8,007</b>
Tangibles	4,764	8,713	8,404	8,007
Intangibles	-	-	-	-
Capital Work In Progress	2,892	392	150	150
Goodwill	30	33	37	40
Non-Current Investments	812	812	812	812
Net Deferred tax assets	(1,279)	(1,444)	(1,632)	(1,862)
Other Non-Current Assets	313	341	371	405
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	1,670	1,410	1,674	2,009
Trade receivables	2,623	2,213	2,628	3,154
Cash & Bank Balance	1,315	1,507	2,765	4,069
Other Current Assets	328	360	396	436
<b>Total Assets</b>	<b>14,749</b>	<b>15,783</b>	<b>17,240</b>	<b>19,085</b>
<b>Equity</b>				
Equity Share Capital	1,645	1,645	1,645	1,645
Other Equity	10,079	11,104	12,138	13,463
<b>Total Network</b>	<b>11,724</b>	<b>12,749</b>	<b>13,782</b>	<b>15,108</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	153	153	153	153
Other non current liabilities	1	1	1	1
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,227	1,036	1,230	1,476
Other current liabilities	365	402	442	486
<b>Total Equity &amp; Liabilities</b>	<b>14,749</b>	<b>15,783</b>	<b>17,240</b>	<b>19,085</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	2,767	1,645	1,885	2,297
Add. Depreciation	230	301	409	497
Add. Interest	6	-	-	-
Less Financial Other Income	100	98	99	160
Add. Other	251	137	158	196
Op. profit before WC changes	3,254	2,083	2,452	2,990
Net Changes-WC	(538)	482	(481)	(610)
Direct tax	(926)	(247)	(475)	(579)
<b>Net cash from Op. activities</b>	<b>1,790</b>	<b>2,319</b>	<b>1,496</b>	<b>1,801</b>
Capital expenditures	(2,503)	(1,753)	138	(104)
Interest / Dividend Income	-	-	-	-
Others	2,250	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(253)</b>	<b>(1,753)</b>	<b>138</b>	<b>(104)</b>
Issue of share cap. / premium	-	118	(3)	(16)
Debt changes	-	-	-	-
Dividend paid	(492)	(492)	(373)	(377)
Interest paid	(6)	-	-	-
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(498)</b>	<b>(373)</b>	<b>(377)</b>	<b>(393)</b>
<b>Net change in cash</b>	<b>1,039</b>	<b>192</b>	<b>1,257</b>	<b>1,305</b>
Free Cash Flow	(713)	566	1,634	1,697

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	11.2	8.5	8.6	10.4
CEPS	12.6	10.3	11.1	13.5
BVPS	71.3	77.5	83.8	91.9
FCF	(4.3)	3.4	9.9	10.3
DPS	2.5	1.9	1.9	2.4
<b>Return Ratio(%)</b>				
RoCE	25.1	13.4	14.2	15.9
ROIC	19.7	11.7	12.7	13.8
RoE	16.7	11.4	10.6	11.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	107	107	107	107
<b>Valuation(x)</b>				
PER	9.7	12.8	12.7	10.4
P/B	1.5	1.4	1.3	1.2
P/CEPS	8.6	10.5	9.8	8.1
EV/EBITDA	5.7	8.8	6.9	5.2
EV/Sales	1.6	1.9	1.4	1.1
Dividend Yield (%)	2.3	1.8	1.8	2.2

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
<b>Net Revenue</b>	<b>2,416</b>	<b>2,296</b>	<b>2,097</b>	<b>1,943</b>
YoY gr. (%)	(12.4)	(14.4)	(22.9)	(25.6)
Raw Material Expenses	1,109	1,002	887	927
Gross Profit	1,306	1,294	1,211	1,016
Margin (%)	54.1	56.4	57.7	52.3
<b>EBITDA</b>	<b>591</b>	<b>562</b>	<b>479</b>	<b>357</b>
YoY gr. (%)	(30.2)	(30.0)	(39.3)	(50.8)
Margin (%)	24.5	24.5	22.8	18.4
Depreciation / Depletion	63	77	77	79
<b>EBIT</b>	<b>528</b>	<b>485</b>	<b>402</b>	<b>278</b>
Margin (%)	21.8	21.1	19.2	14.3
Net Interest	2	3	3	3
Other Income	23	25	25	13
<b>Profit before Tax</b>	<b>549</b>	<b>507</b>	<b>423</b>	<b>287</b>
Margin (%)	22.7	22.1	20.2	14.8
Total Tax	191	180	(129)	81
Effective tax rate (%)	34.8	35.5	(30.5)	28.1
<b>Profit after Tax</b>	<b>358</b>	<b>327</b>	<b>552</b>	<b>207</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>358</b>	<b>327</b>	<b>552</b>	<b>207</b>
YoY gr. (%)	(29.8)	(35.7)	4.5	(53.7)
Margin (%)	14.8	14.2	26.3	10.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>358</b>	<b>327</b>	<b>552</b>	<b>207</b>
YoY gr. (%)	(29.8)	(35.7)	4.5	(53.7)
Margin (%)	14.8	14.2	26.3	10.6
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>358</b>	<b>327</b>	<b>552</b>	<b>207</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Jan-20	BUY	174	111
2	04-Nov-19	BUY	174	118
3	03-Oct-19	BUY	189	99
4	31-Jul-19	BUY	199	89
5	09-Jul-19	BUY	199	115
6	04-Jul-19	BUY	221	117
7	13-May-19	BUY	221	117
8	05-Apr-19	BUY	252	141
9	22-Mar-19	BUY	252	144
10	01-Feb-19	BUY	252	139

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	988	841
2	Bharat Petroleum Corporation	BUY	600	484
3	GAIL (India)	BUY	188	126
4	Hindustan Petroleum Corporation	BUY	354	264
5	I.G. Petrochemicals	BUY	175	171
6	Indian Oil Corporation	BUY	190	127
7	Indraprastha Gas	BUY	468	417
8	Mahanagar Gas	BUY	1,339	1,060
9	NOCIL	BUY	174	111
10	Oil & Natural Gas Corporation	BUY	184	128
11	Oil India	Accumulate	231	156
12	Petronet LNG	BUY	352	269
13	Reliance Industries	BUY	1,705	1,581

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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