

September 9, 2020

Company Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	153		153	
Sales (Rs. m)	8,912	11,696	8,912	11,696
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,827	2,632	1,827	2,632
% Chng.	-	-	-	-
EPS (Rs.)	6.4	9.9	6.4	9.9
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	8,463	6,855	8,912	11,696
EBITDA (Rs. m)	1,765	1,234	1,827	2,632
Margin (%)	20.8	18.0	20.5	22.5
PAT (Rs. m)	1,310	726	1,063	1,642
EPS (Rs.)	7.9	4.4	6.4	9.9
Gr. (%)	(28.9)	(44.6)	46.5	54.4
DPS (Rs.)	1.8	1.0	1.5	2.3
Yield (%)	1.4	0.8	1.2	1.9
RoE (%)	11.2	6.0	8.4	11.9
RoCE (%)	13.2	8.2	11.2	16.0
EV/Sales (x)	2.4	2.9	2.2	1.6
EV/EBITDA (x)	11.4	16.3	10.9	7.3
PE (x)	15.7	28.3	19.3	12.5
P/BV (x)	1.7	1.7	1.6	1.4

Key Data

NOCI.BO | NOCIL IN

52-W High / Low	Rs.140 / Rs.45
Sensex / Nifty	38,194 / 11,278
Market Cap	Rs.21bn/ \$ 279m
Shares Outstanding	166m
3M Avg. Daily Value	Rs.659.21m

Shareholding Pattern (%)

Promoter's	34.03
Foreign	1.84
Domestic Institution	3.90
Public & Others	60.23
Promoter Pledge (Rs bn)	0.81

Stock Performance (%)

	1M	6M	12M
Absolute	8.0	42.1	22.7
Relative	7.5	32.5	19.4

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China Sunsine AR analysis - Industry trends likely to improve.

Quick Pointers:

- Rising environment cost will accelerate industry consolidation benefiting large players like Nocil.
- Nocil profitability matrix outcores global majors without state subsidies.
- Rising preference for non-Chinese supplies augurs well for Nocil.

China Sunsine (CS; Mkt cap- USD260m) is world's leading rubber chemicals player with a production capacity of 172,000tons including 30,000tons of insoluble Sulphur. Alike peers CS faced difficult CY19 led by rising US-China tension, China's declining auto sales (-8%YoY to 25.8mn units) in a slowing economy and increased competition. This reflected in weak CY19 results wherein revenues declined 18%YoY while PAT declined by 39%YoY despite 11% YoY growth in sales volumes as environment protection expenditure jumped 66%YoY at 6.1% of CY19 sales (3% for CY18). Tightening environment norms in China are likely to usher more industry consolidation benefitting large players like Nocil, in our view. Rubber chemicals outlook remains bright over medium term as global Tyre markets are likely to grow at 4% CAGR over CY20-25 to 4.2bn units (Source EMR). Nocil with capacities in place is an operating leverage play on reviving auto sales. Reiterate BUY with a PT of Rs153 based on 15x PER FY23.

China Sunsine CY19 Annual Reports v/s NOCIL

Difficult year for CS: CY19 was a difficult year against a stellar previous year because operating profit and PAT both were down to RMB505m (-34%YoY) and RMB389m (-39%YoY). Meanwhile Nocil's FY20 EBITDA and PAT fell 39% YoY and 29% YoY respectively, as the company maximized volumes in a weak market. CS's EBITDA margins tanked 460bps YoY to 18.8% in CY19, while for Nocil margins were down 700bps YoY to 20.8%. Margin dip was more pronounced due to abolition of Anti-Dumping Duty (ADD) benefits of 3-4%, effective July 19.

Sales momentum weakens: For CY19, CS revenues were down 18% YoY to RMB2.7bn with sales volumes of 167,455 tons (+ 11%YoY). Blended realization was down to RMB15.9/kg (-26%YoY) due to weak demand environment in a slowing economy and lower RM prices. Nocil's sales were down 19%YoY to Rs8.4bn with volumes down 4%YoY, while realization was down 15%.

Industry consolidation remain the norm in China: Industry consolidation is likely to continue in China as strict implementation of environmental norms make it difficult for smaller players to compete. Accordingly, CS plans to increase capacity by 20,000tons.

US and EU export share moves up: Exports account for 39% of China Sunstone revenues. Bulk of exports is to Asia-Pacific countries like India, Korea, Japan etc while US accounts for only 3.1% of CY19 sales (2.2% in CY18) still down from ~7% in CY14. The company also increased its exports to EU, which accounted for 11% of CY19 sales vis-à-vis 5% in CY14.

With the ongoing US-China trade dispute, we expect CS to focus more on non-US markets. This opens up opportunities for major player like Nocil, which has multi-decade relationship with global Tyre players. Nocil already initiated talks with US tyre players, given that US is world's second largest market.

Pollution and environment charges on an uptrend: Tightening environment norms in China signifies that CS's pollution related expenses increased by 66% to RMB163m, which account for 6.1% of CY19 revenues. We expect that stringent environment norms and frequent checks will keep pollution expenses high.

Working capital cycle deteriorates: CS's working capital cycle of 84 days (71 days for CY18) scores over Nocil's 108 days (106 days in CY18). While Nocil has better trade receivables and payables terms, it maintains a high inventory cycle of 59 days vs 34 days for CS.

Trade receivable days for Nocil were at 88 days vs 94 days for CS, while trade payable stood at 44 days for CS vs 38 for Nocil.

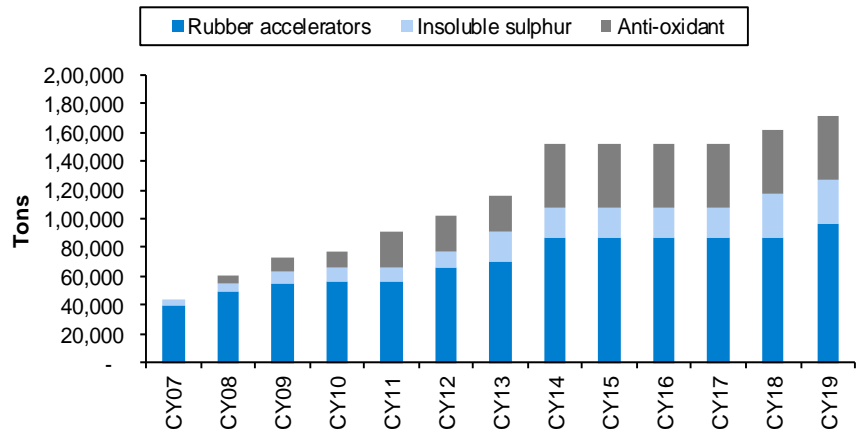
Liquid balance sheet: CS had net cash and equivalents of RMB1.28bn (~USD185m) as on CY19 end and continued to fund their capital investments from internal accruals. Similarly, Nocil also had net cash and liquid investment equivalent of Rs360m (Rs1.35bn for FY19) as on FY20 end due to capex of Rs2bn.

Return ratios remain healthy: Buoyed by smart earnings growth, CS ROEs were at 16% for CY19 against 32% in CY18. Nocil's ROE was also down to 11% for FY20 vs 17% for FY19.

Nocil margins to improve with operating leverage: Sluggish demand outlook coupled with new capacities coming on stream for Nocil will mean that the company focuses on higher volumes. However as volumes recover, we expect operating leverage to kick in thereby helping margins to improve to 23% for FY23E.

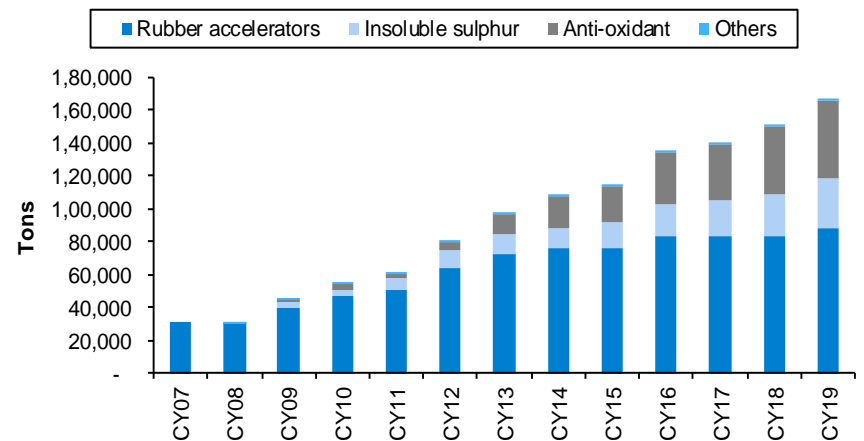
Story in charts

Exhibit 1: CS has steadily expanded capacity to 172,000tons



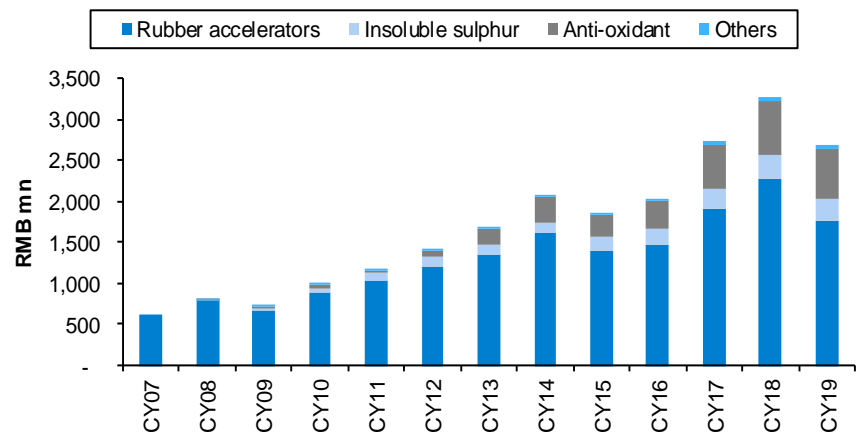
Source: Company, PL

Exhibit 2: CS operated at over 97% utilization for CY19



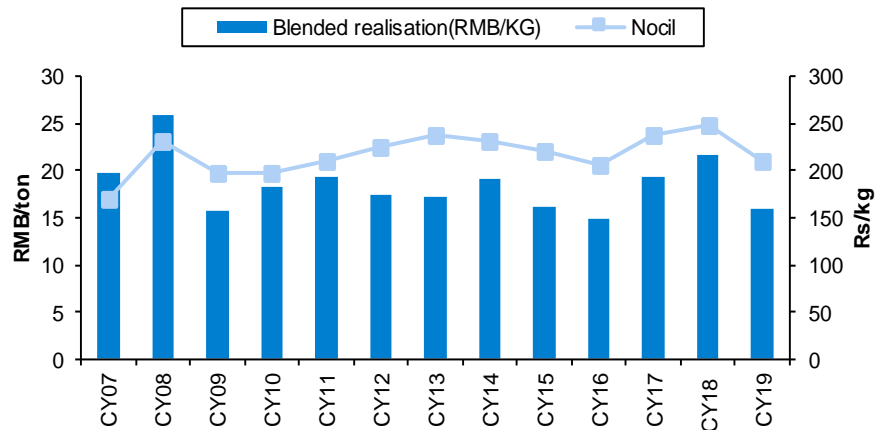
Source: Company, PL

Exhibit 3: CS sales after steady increase fell 18% in CY19



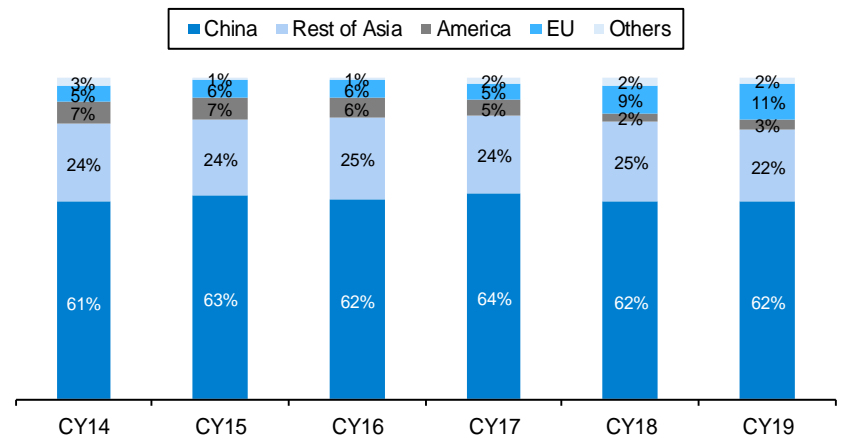
Source: Company, PL

Exhibit 4: Realization trend of CS and Nocil are a mirror image



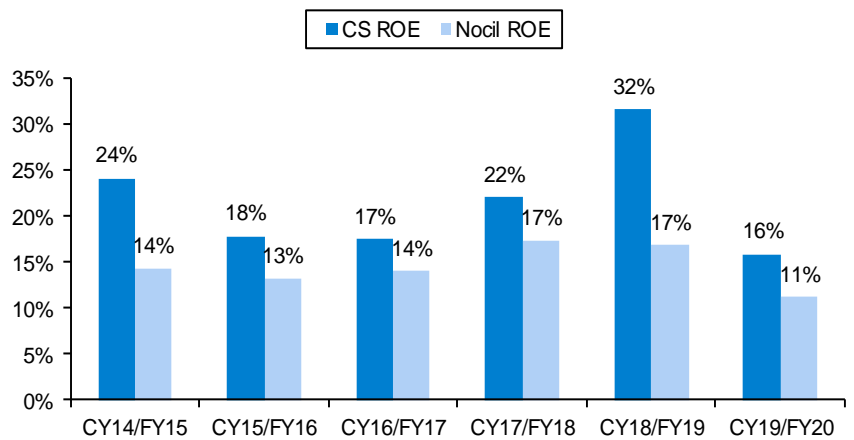
Source: Company, PL

Exhibit 5: CS US export share was at 3% in CY19 vs 7% in CY14



Source: Company, Company, PL

Exhibit 6: ROEs have come off in line with lower profits



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	8,463	6,855	8,912	11,696
YoY gr. (%)	(18.9)	(19.0)	30.0	31.3
Cost of Goods Sold	3,879	3,153	4,188	5,497
Gross Profit	4,585	3,702	4,723	6,199
Margin (%)	54.2	54.0	53.0	53.0
Employee Cost	741	617	802	936
Other Expenses	2,079	1,851	2,094	2,632
EBITDA	1,765	1,234	1,827	2,632
YoY gr. (%)	(39.2)	(30.1)	48.1	44.1
Margin (%)	20.8	18.0	20.5	22.5
Depreciation and Amortization	324	371	450	484
EBIT	1,440	862	1,377	2,148
Margin (%)	17.0	12.6	15.5	18.4
Net Interest	13	12	5	5
Other Income	97	120	50	52
Profit Before Tax	1,524	970	1,421	2,195
Margin (%)	18.0	14.2	16.0	18.8
Total Tax	214	245	358	553
Effective tax rate (%)	14.1	25.2	25.2	25.2
Profit after tax	1,310	726	1,063	1,642
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,310	726	1,063	1,642
YoY gr. (%)	(28.9)	(44.6)	46.5	54.4
Margin (%)	15.5	10.6	11.9	14.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,310	726	1,063	1,642
YoY gr. (%)	(28.9)	(44.6)	46.5	54.4
Margin (%)	15.5	10.6	11.9	14.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,310	726	1,063	1,642
Equity Shares O/s (m)	166	166	166	166
EPS (Rs)	7.9	4.4	6.4	9.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	9,812	12,812	13,512	14,212
Tangibles	9,812	12,812	13,512	14,212
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,130	2,501	2,951	3,435
Tangibles	2,130	2,501	2,951	3,435
Intangibles	-	-	-	-
Net fixed assets	7,683	10,311	10,561	10,777
Tangibles	7,683	10,311	10,561	10,777
Intangibles	-	-	-	-
Capital Work In Progress	1,563	150	150	150
Goodwill	12	13	15	16
Non-Current Investments	551	551	551	551
Net Deferred tax assets	(887)	(984)	(1,126)	(1,345)
Other Non-Current Assets	301	315	330	347
Current Assets				
Investments	232	232	232	232
Inventories	1,361	1,127	1,465	1,923
Trade receivables	2,032	1,502	1,953	2,564
Cash & Bank Balance	128	171	412	1,035
Other Current Assets	405	445	490	539
Total Assets	14,279	14,830	16,172	18,147
Equity				
Equity Share Capital	1,656	1,656	1,656	1,656
Other Equity	10,104	10,635	11,452	12,714
Total Networkth	11,760	12,291	13,108	14,370
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	163	163	196	235
Other non current liabilities	1	1	1	1
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	892	723	940	1,233
Other current liabilities	507	669	802	963
Total Equity & Liabilities	14,279	14,830	16,172	18,147

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,524	970	1,421	2,195
Add. Depreciation	324	371	450	484
Add. Interest	13	12	5	5
Less Financial Other Income	97	120	50	52
Add. Other	(65)	83	160	242
Op. profit before WC changes	1,796	1,437	2,036	2,926
Net Changes-WC	407	714	(485)	(663)
Direct tax	(214)	(245)	(358)	(553)
Net cash from Op. activities	1,989	1,907	1,193	1,709
Capital expenditures	(1,986)	(1,588)	(701)	(701)
Interest / Dividend Income	-	-	-	-
Others	761	-	-	-
Net Cash from Inv. activities	(1,225)	(1,588)	(701)	(701)
Issue of share cap. / premium	2	155	(51)	(134)
Debt changes	-	-	-	-
Dividend paid	(494)	(350)	(195)	(246)
Interest paid	(13)	(12)	(5)	(5)
Others	-	-	-	-
Net cash from Fin. activities	(506)	(207)	(251)	(385)
Net change in cash	258	112	241	623
Free Cash Flow	3	319	492	1,008

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.9	4.4	6.4	9.9
CEPS	9.9	6.6	9.1	12.8
BVPS	71.0	74.2	79.2	86.8
FCF	0.0	1.9	3.0	6.1
DPS	1.8	1.0	1.5	2.3
Return Ratio(%)				
RoCE	13.2	8.2	11.2	16.0
ROIC	12.4	8.3	11.3	14.5
RoE	11.2	6.0	8.4	11.9
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.0	(0.1)
Net Working Capital (Days)	108	102	102	102
Valuation(x)				
PER	15.7	28.3	19.3	12.5
P/B	1.7	1.7	1.6	1.4
P/CEPS	12.6	18.7	13.6	9.7
EV/EBITDA	11.4	16.3	10.9	7.3
EV/Sales	2.4	2.9	2.2	1.6
Dividend Yield (%)	1.4	0.8	1.2	1.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	2,097	1,943	2,127	1,065
YoY gr. (%)	(22.9)	(25.6)	(12.0)	(53.6)
Raw Material Expenses	887	927	1,063	547
Gross Profit	1,211	1,016	1,064	518
Margin (%)	57.7	52.3	50.0	48.6
EBITDA	479	357	367	75
YoY gr. (%)	(39.3)	(50.8)	(37.8)	(86.7)
Margin (%)	22.8	18.4	17.3	7.0
Depreciation / Depletion	77	79	92	88
EBIT	402	278	276	(13)
Margin (%)	19.2	14.3	13.0	(1.2)
Net Interest	3	3	4	3
Other Income	25	13	35	106
Profit before Tax	423	287	307	91
Margin (%)	20.2	14.8	14.4	8.5
Total Tax	(129)	81	83	(27)
Effective tax rate (%)	(30.5)	28.1	27.0	(29.7)
Profit after Tax	552	207	224	118
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	552	207	224	118
YoY gr. (%)	4.5	(53.7)	(37.4)	(64.0)
Margin (%)	26.3	10.6	10.5	11.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	552	207	224	118
YoY gr. (%)	4.5	(53.7)	(37.4)	(64.0)
Margin (%)	26.3	10.6	10.5	11.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	552	207	224	118
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	25-Aug-20	BUY	153	132
2	07-Jul-20	BUY	96	98
3	30-Jun-20	BUY	96	83
4	08-Apr-20	BUY	96	72
5	31-Jan-20	BUY	129	109
6	03-Jan-20	BUY	174	111
7	04-Nov-19	BUY	174	118
8	03-Oct-19	BUY	189	99

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,024	1,000
2	Bharat Petroleum Corporation	BUY	515	413
3	GAIL (India)	Accumulate	107	97
4	Hindustan Petroleum Corporation	BUY	280	214
5	Indian Oil Corporation	BUY	114	87
6	Indraprastha Gas	BUY	590	413
7	Mahanagar Gas	BUY	1,226	968
8	Manappuram Finance	BUY	1,279	994
9	NOCIL	BUY	153	132
10	Oil & Natural Gas Corporation	BUY	96	79
11	Oil India	Accumulate	117	99
12	Petronet LNG	BUY	384	254
13	Reliance Industries	BUY	2,234	2,116

PL's Recommendation Nomenclature (Absolute Performance)

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

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