

Volumes Jump At The Cost of Margins; Maintain HOLD!
Est. Vs. Actual for Q4FY24: Revenue – **INLINE**; EBITDA – **MISS**; PAT – **BEAT**
Change in Estimates post Q4FY24
FY25E/26E:Revenue: -7%/-1%;EBITDA: -18%/-10%; PAT:-22%/-13%
Recommendation Rationale

Volume build-up to happen in upcoming quarters: During the quarter, the company reported a robust volume growth of 12% QoQ, with both domestic and export business contributing to the growth. While this growth was driven by existing as well as new customers, average selling price dropped by 6.5% QoQ. In FY24, the overall volume growth stood at ~2%, as volumes in the domestic market remained flat, while there was 9% growth in exports. Going forward, we expect volumes to grow in the coming quarters as replacement cycle is expected to pick-up, driven by investments in infrastructure and commercial vehicle replacement. Additionally, approvals are expected to accelerate in both the export and domestic markets. The latex market also appears to have bottomed out, and the company expects a marginal recovery in volumes.

Strategic engagement with customers: The management has indicated that the strategic initiatives and engagement with global customers have started gaining traction. We expect a positive trend supported by new businesses and anticipate that the margins which seem to be at lowest levels are likely to see some revival starting FY25. With new approvals and improving export market penetration, the company expects incremental volumes in the coming quarters. The company also foresees strong growth in the non-tyre sector, driven by its established presence in key sub-sectors such as tyre re-treading and auto components.

Sector Outlook: Cautiously Optimistic

Company Outlook & Guidance: NOCIL has continued to make efforts to increase export sales in order to counter the challenges faced by industry. This appears to have started yielding positive traction with optimization of the product mix. Despite the continued challenging conditions, the company remains ambitious about increasing its market share over the long-term and expanding into adjacencies with its strong cash flow. The replacement market in the commercial vehicle sector is also expected to be in a positive trend with increasing infrastructure initiatives resuming post the elections.

Current Valuation: 18x FY26E (Earlier: 18x Sep'26E)

Current TP: Rs. 242/share (Earlier TP: Rs 245/share)

Recommendation: We maintain our **HOLD** rating on the stock.

Outlook: NOCIL is a pure-equity play on the Indian rubber chemical market, boasting a significant market share of around 45-50% domestically. However, the company faces challenges in terms of realizations due to heavy imports from China, which also impact its volumes. To counter these domestic pressures, NOCIL is focusing on expanding its exports and innovating into new product verticals. These strategies are expected to serve as potential growth triggers for the company moving forward.

Valuation & Recommendation: We have adjusted our forecasts for FY25/26E to reflect the anticipated increase in volume uptake, driven by gaining approvals, market penetration in the export market and further supported by the management's guidance on investments into capacity expansion and utilization. The management has previously received board approval for a capex of upto Rs. 250 Cr, expected to be funded largely through internal accruals. The ability to execute these plans will be subject to the company's ability to generate required cash flows through efficiency gains and we will be closely monitoring the developments. **We maintain our HOLD rating on the stock. We value the company at 18x FY26E earnings to arrive at a revised TP of Rs 242/share, indicating a 6.5% downside from the current market price.**

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	357	-9.2%	4.7%	364	-2.2%
EBITDA	45	-10.3%	-8.7%	52	-13.8%
EBITDA Margin	12.5%	-15bps	-183bps	14.2%	-168bps
Net Profit	41.5	46.7%	38.5%	32.2	28.8%
EPS (Rs)	2.5	46.7%	38.5%	1.9	28.8%

Source: Company, Axis Research

(CMP as of 30 th May,2024)	
CMP (Rs)	259
Upside /Downside (%)	-6.5%
High/Low (Rs)	298/204
Market cap (Cr)	4,317
Avg. daily vol. (1 Yr) Shrs.	10,69,649
No. of shares (Cr)	16.7

Shareholding (%)

	Sept-23	Dec-23	Mar-24
Promoter	33.8	33.8	33.8
FIIs	6.4	7	8
DIIIs	3.6	2.8	3.5
Retail	56	56	55

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	1,445	1,664	2,074
EBITDA	195	250	342
Net Profit	133	155	224
EPS (Rs)	8.0	9.3	13.5
PER (x)	33.8	29.0	20.1
P/BV (x)	2.6	2.4	2.2
EV/EBITDA (x)	22.6	17.8	12.9
ROE (%)	11.5%	8.4%	10.8%

Change in Estimates (%)

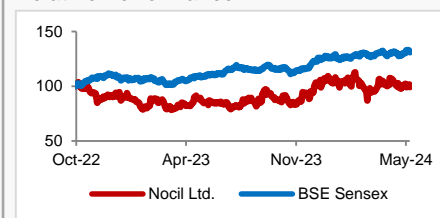
Y/E Mar	FY25E	FY26E
Sales	-7%	-1%
EBITDA	-18%	-10%
PAT	-22%	-13%

ESG disclosure Score**

Environmental Disclosure	0.4
Social Disclosure Score	11.3.
Governance Disclosure Score	78.6.
Total ESG Disclosure Score	30.2.
Sector Average	44.7

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative Performance


Source: AceEquity, Axis Securities

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Financial Performance:

- In the Q4FY24, NOCIL's consolidated revenue stood at Rs 357 Cr, an increase of by 5% QoQ as volumes grew by 12% sequentially, inline with our estimates. Export volumes continue to show a growth trend. EBITDA decreased by 10% YoY and 9% QoQ at Rs.45 Cr, missing our estimate by ~14%. The EBITDA margin came in at 12.5%, compared to 12.7% in Q4FY23 and 14.3% in Q3FY24. The company's PAT stood at Rs 42 Cr, reporting a growth of 47% YoY and 39% QoQ, also beating our estimate by 29%. The Board has recommended a final dividend of Rs 3 per share subject to approval.

Recommendation Rationale & Key Highlights

- While the company managed to increase volumes compared to previous quarter, domestic demand continues to be impacted by adverse market conditions.
- **The company's capacity utilisation stood at ~65%** (overall level) in Q4FY24. Exports contributed to 30-32% of the overall revenues for FY24.
- **Tyre Industry:** The domestic tyre industry is expected to grow in mid-single digits in the current financial year on the back of a stable growth in the replacement segment and growing segments of OEMs in the passenger vehicle and two wheeler segments. Tyre exports have remained subdued since Jun'22 and are expected to witness modest growth in the near term due to muted demand growth in key geographies such as the US and Europe.
- **Capital Expenditure:** The company has announced upto Rs. 250 Cr of investment at Dahej site for further expansion of rubber chemical capacities.
- **Other Income:** The non-operating other income includes profit on sale of fixed assets of Rs. 18 Cr.
- **The company is working on new tie-ups** with upcoming capacities to support growth in the medium term. This could trigger a new leg of growth for the company, as it expects to capture market share from other player.

Key Risks to our Estimates and TP

- Global slowdown further affecting demand in coming quarters
- The threat of import substitutes on margins and volumes, as China re-opens
- Delays in approval from new plants can slow volume ramp-up, while inability to fund Capex internally may either stall the expansion plans or lead to additional financing costs.

Change in Estimates

	New Estimates		Old Estimates		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	1,664	2,074	1,780	2,099	-7%	-1%
EBITDA	250	342	303	382	-18%	-10%
PAT	155	224	198	258	-22%	-13%
EPS	9.3	13.5	11.9	15.5	-22%	-13%

Source: Company, Axis Securities

Q4FY24 Results Review

	Q4FY23	Q3FY24	Q4FY24 Axis Estm	Q4FY24	Y-o-Y (%)	Q-o-Q (%)	Axis Variance (%)
Net Sales	393	341	364	357	-9%	5%	-2%
Expenditure							
Net Raw Material	234	183	197	207	-12%	13%	5%
Gross Profit	159	158	168	150	-6%	-5%	-11%
<i>Gross Margin (%)</i>	40.5%	46.3%	46.0%	42.1%	153bps	-421bps	-394bps
Employee Expenses	21	24	25	20	-5%	-17%	-21%
Other Exp	89	85	91	86	-4%	1%	-6%
EBITDA							
	50	49	52	45	-10%	-9%	-14%
<i>EBITDA Margin (%)</i>	12.7%	14.3%	14.2%	12.5%	-15bps	-183bps	-168bps
Other. Inc	3	6	6	25	740%	324%	292%
Interest	0	1	1	0	56%	-16%	-48%
Depreciation	14	13	15	13	-4%	-1%	-9%
PBT	39	41	43	56	44%	37%	31%
Tax	10	11	10	14	38%	32%	36%
PAT	28	30	32	42	47%	38%	29%
EPS	1.7	1.8	1.9	2.5	47%	38%	29%

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Particulars	FY23	FY24	FY25E	FY26E
Total Net Sales	1,617	1,445	1,664	2,074
Revenue Growth (%)	2.9%	-10.6%	15.2%	24.7%
Total Raw Material Consumption	888	815	932	1,141
Staff costs	87	92	100	114
Other Expenditure	389	342	383	477
Total Expenditure	1,364	1,250	1,414	1,732
EBITDA	253	195	250	342
EBITDA Margin %	15.6%	13.5%	15.0%	16.5%
Depreciation	55.7	52.8	64.7	70.8
EBIT	197	142	185	271
EBIT Margin %	12.2%	9.8%	11.1%	13.1%
Interest	1	2	2	2
Other Income	6	39	25	31
PBT	202	180	208	301
Tax	53	47	53	77
PAT	149	133	155	224
EPS growth	-15.3%	-10.8%	16.6%	44.5%

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Particulars	FY23	FY24	FY25E	FY26E
<i>Equity</i>				
Share Capital	167	167	167	167
Reserves & Surplus	1,385	1,532	1,687	1,911
Total Share Holders Funds	1,552	1,699	1,854	2,078
<i>Non-Current Liabilities</i>				
Long Term Borrowings	-	-	-	-
Lease Liability	7	11	11	11
Deferred Tax Liability (Net)	111	125	125	125
Long Term Provisions	16	15	17	21
Total Non-Current Liabilities	134	151	153	157
<i>Current Liabilities</i>				
Short Term Borrowings	-	-	-	-
Trade Payables	127	118	187	250
Lease Liability	3	2	2	2
Other Financial Liability	26	28	28	28
Total Current Liability	171	166	235	298
Total Liabilities	305	317	388	455
Total Equity & Liabilities	1,857	2,015	2,241	2,532
<i>Non-Current Assets</i>				
Property Plant & Equipment	884	866	1,101	1,180
Financial Assets: Investments	42	119	42	52
Financial Assets: Others	10	10	10	10
Non-Current Tax Assets (net)	17	17	17	17
Other Non-Current Assets	11	8	8	10
Total Non-Current Assets	976	1,039	1,182	1,274
<i>Current Assets:</i>				
Inventories	285	223	287	358
Trade Receivable	346	340	383	477
Investments	176	281	281	281
Cash and Cash Equivalents	24	92	64	90
Other Current Assets	12	28	32	39
Total Current Assets	881	976	1,059	1,259
Total Assets	1,857	2,015	2,241	2,532

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Particulars	FY23	FY24	FY25E	FY26E
PBT	202	180	208	301
Depreciation & Amortization	56	53	65	71
Chg in Working cap	159	48	-41	-108
Direct tax paid	-51	-40	-53	-77
Cash flow from operations	282	201	180	189
Chg in Gross Block	-348	-811	-284	-150
Chg in Investments	0	0	0	0
Proceeds on redemption of Fin. Assets	129	703	77	-10
Cash flow from investing	-217	-77	-207	-160
Cash flow from financing	-54	-55	-2	-2
Chg in cash	11	68	-28	27
Cash at start	12	24	92	64
Cash at end	24	92	64	90

Source: Company, Axis Securities

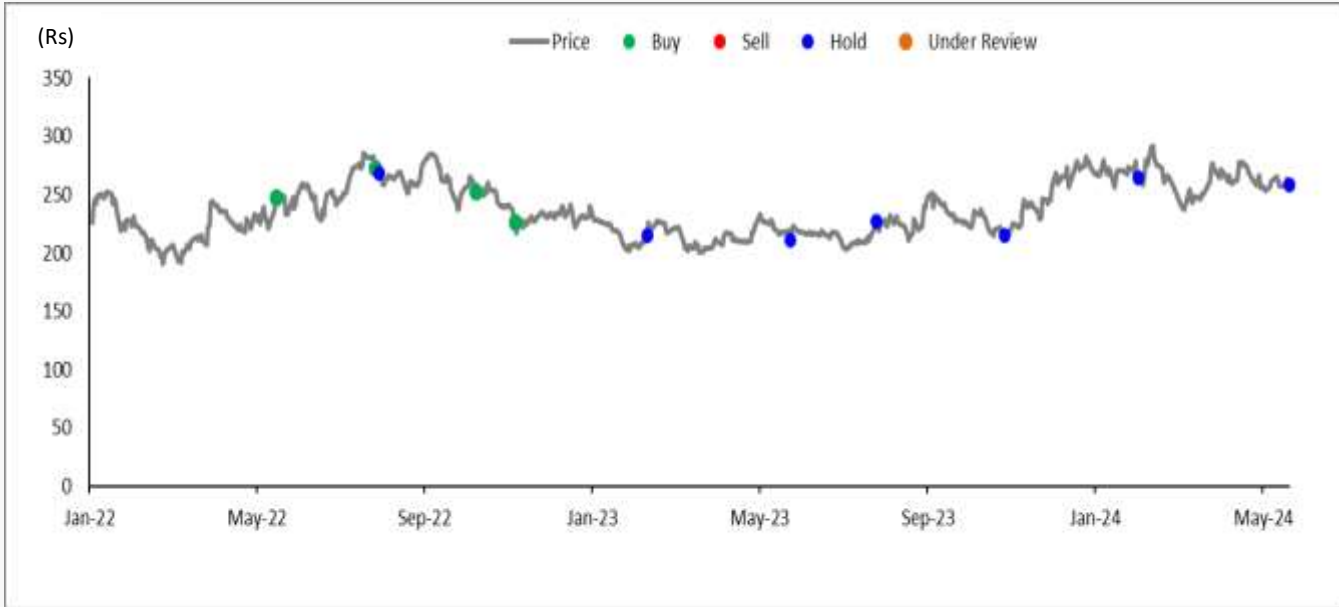
Ratio Analysis

(%)

Key Ratios	FY23	FY24	FY25E	FY26E
Growth (%)				
Net Sales	2.9%	-10.6%	15.2%	24.7%
EBITDA	-11.7%	-22.8%	28.0%	37.1%
APAT	-15.3%	-10.8%	16.6%	44.5%
Per Share Data (Rs)				
Adj. EPS	9.0	8.0	9.3	13.5
BVPS	93.1	101.9	111.2	124.7
Profitability (%)				
EBITDA Margin	15.6%	13.5%	15.0%	16.5%
Adj. PAT Margin	9.5%	13.5%	9.3%	10.8%
ROCE	11.7%	7.7%	9.2%	12.1%
ROE	9.9%	11.5%	8.4%	10.8%
ROIC	12.2%	8.7%	9.8%	13.0%
Valuations (X)				
PER	30.2	33.8	29.0	20.1
P/BV	2.9	2.6	2.4	2.2
EV / EBITDA	17.7	22.6	17.8	12.9
EV / Net Sales	2.8	3.1	2.7	2.1
Turnover Days				
Asset Turnover	1.3	1.1	1.2	1.3
Inventory days	69.7	64.1	63.0	63.0
Debtors days	89.8	86.7	84.0	84.0
Creditors days	38.7	31.0	41.0	44.0
Working Capital Days	120.9	119.8	106.0	103.0

Source: Company, Axis Securities

Nocil Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
18-May-22	BUY	327	Result Update
29-Jul-22	BUY	327	Result Update
01-Aug-22	HOLD	327	Result Update
12-Oct-22	BUY	300	Diwali Picks
10-Nov-22	BUY	300	Result Update
15-Feb-23	HOLD	240	Result Update
31-May-23	HOLD	240	Result Update
02-Aug-23	HOLD	210	Result Update
06-Nov-23	HOLD	198	Result Update
10-Feb-24	HOLD	245	Result Update
31-May-24	HOLD	242	Result Update

Source: Axis Securities

About the analyst

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