AXIS SECURITIES

Result Update
12th August 2024

NOCIL Ltd
Specialty Chemicals

HOLD
Target Price
275

Expect Pricing Pressure to Continue; Maintain HOLD!

Est. Vs. Actual for Q1FY25: Revenue – MISS; EBITDA – MISS; PAT – MISS

Change in Estimates post Q1FY25

FY25E/26E: Revenue: -10%/-11%;EBITDA:-10%/-12%; PAT:-9%/-4%

Recommendation Rationale

- **Volumes Jump At The Cost of Margins:** During the quarter, the company achieved a 4% QoQ increase in volume, with continued growth in export volumes. Despite challenges in the domestic market due to Chinese dumping, selling prices remained stable sequentially as the company balanced pricing with volume. Margins were affected by rising raw material costs and increased employee expenses related to salary revisions and retirements. Looking ahead, volume growth is expected to continue, driven by the replacement cycle and increased investments in infrastructure and commercial vehicle replacement. While pricing appears to have stabilized and raw material costs are anticipated to soften, we remain cautious of ongoing pricing pressures.
- **Capacity Expansion and New Long-term Engagements:** The company plans to invest 20% of the base capacity at its Dahej facility with a capital expenditure of Rs. 250 Cr. The management mentioned that the newer capacities will be utilized where the demand is higher (and current capacity utilization is above 90%). Additionally, the company continues to focus on building long-term partnerships and expects a large approval to come through this year. These factors are expected to aid volume growth in the coming years, which may be further boosted by potential demand improvements in China and Europe. With higher utilization levels and economies of scale, steady improvement in margins is expected over the next 2-3 years.

Sector Outlook: Cautiously Optimistic

Company Outlook & Guidance: NOCIL has continued to make efforts to increase export sales and build long-term partnerships with customers to counter the challenges faced by the industry. Despite the ongoing 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 exhibit a positive trend, with increasing infrastructure initiatives resuming post-elections.

Current Valuation: 18x Sep27E (Earlier: 18x FY26E)

Current TP: Rs. 275/share (Earlier TP: Rs 242/share)

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

Outlook: NOCIL is a key player in the Indian rubber chemical market, boasting a significant market share of around 45-50% domestically. While the company faces challenges in terms of realizations due to heavy imports from China, the pricing and demand seem to have bottomed out. NOCIL's focus on expanding its exports and innovating into new product verticals is expected to augur well for long-term growth. Profitability is also expected to improve as volumes build up and pricing pressures ease.

Valuation & Recommendation: We have adjusted our forecasts for FY25/26E and rolled over financials to FY27E. Our estimates reflect the anticipated increase in volume uptake driven by gaining approvals, market penetration in the export market, and the corresponding positive impact on profitability. We maintain our HOLD rating on the stock. **We value the company at 18x Sep27E earnings to arrive at a revised TP of Rs. 275/share, indicating a 9% downside from the current market price.**

Key Financials (Consolidated)

(Rs Cr)	Q1FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	372	-6.2%	4.4%	416	-10.5%
EBITDA	41	-26.0%	-8.0%	56	-26.9%
EBITDA Margin	11.0%	-296bps	-149bps	13.5%	-247bps
Net Profit	27	-21.1%	-34.9%	37	-26.1%
EPS (Rs)	1.6	-21.1%	-34.9%	2.2	-26.1%

Source: Company, Axis Securities Research

(CMP as of 9th August,2024)

CMP (Rs)	302
Upside /Downside (%)	-9%
High/Low (Rs)	336/210
Market cap (Cr)	5,044
Avg. daily vol. (1 Yr) Shrs.	13,49,843
No. of shares (Cr)	16.7

Shareholding (%)

	Dec-23	Mar-24	June-24
Promoter	33.8	33.8	33.8
FIIs	7	8	8
DIIs	2.8	3.5	4.4
Retail	56	55	54

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	1,502	1,851	2,027
EBITDA	224	302	395
Net Profit	141	216	292
EPS (Rs)	8.4	13.0	17.5
PER (x)	32.0	20.8	15.4
P/BV (x)	2.4	2.2	1.9
EV/EBITDA (x)	19.9	14.8	11.0
ROE (%)	7.6%	10.5%	12.4%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-10%	-11%
EBITDA	-10%	-12%
PAT	-9%	-4%

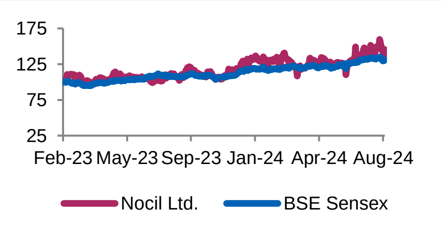
ESG disclosure Score**

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 Research

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Financial Performance:

- NOCIL's performance in Q1FY25 fell short of expectations across all key metrics. NOCIL's consolidated revenue stood at Rs. 372 Cr, down by 6% YoY and up by 4% QoQ, missing the estimate of Rs. 416 Cr. EBITDA decreased by 26% YoY and 8% QoQ to Rs. 41 Cr, missing the estimate of Rs. 56 Cr. The EBITDA margin was 11%, compared to 14% in Q1FY24 and 12.5% in Q4FY24. The company's PAT stood at Rs. 27 Cr, reporting a degrowth of 21% YoY and 35% QoQ, also missing the estimate of Rs. 37 Cr.

Key Concall Highlights

- **Financial Performance:** Revenue growth of 4% sequentially and similar growth in volumes YoY. An increase in the prices of key raw materials and the offloading of annual increases in employee expenses impacted margins. Aggressive dumping by China and other markets continued, with the company taking a balancing approach between pricing and volumes.
- **Higher Employee Cost:** During the quarter, employee cost increased by 6.6% YoY and 32% QoQ basis due to annual wage revision. However, the management stated that a large part of it is frontloaded in Q1 and it should come down in the coming quarters.
- **Export Market:** Volumes in the Export business continue to show an upward trend despite facing significant challenges such as geopolitical issues, container shortages and rising freight costs. The company is witnessing growth in Asia and a slight improvement in the European market.
- **Domestic Market:** While the company managed to increase volumes compared to the previous quarter, domestic demand continues to be impacted by adverse market conditions.
- **The company's capacity utilization stood at ~70% (overall level) in Q1FY25.** Exports contributed 32-34% of the overall revenues for Q1FY25. The company is making good progress on the capacity expansion project at Dahej.
- **Tyre Industry:** The domestic tyre industry is expected to grow in the mid-single digits in the current financial year, supported by stable growth in the replacement segment and expanding OEM segments in passenger vehicles and two-wheelers. Currently, the tyre industry faces challenges due to high natural rubber prices, which have surged significantly because of reduced domestic production and supply chain challenges in imports. Despite these issues, the long-term outlook for the tyre industry remains positive.
- **The company continues to work on long-term tie-ups** and expects a large approval to come through this year.
- **Sustainability:** The company is undertaking initiatives aimed at reducing its environmental footprint, enhancing energy efficiency, and promoting circular economy practices. It is enhancing green energy sources at both the Dahej and Navi Mumbai sites. Various initiatives have been initiated to reduce Scope 1, 2, and 3 carbon emissions and the company is committed to several sustainability frameworks, including the Carbon Disclosure Project (CDP), Science-Based Targets Initiative (SBTi), and the UN Global Compact Network.

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 the 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	1,502	1,851	1,664	2,074	-10%	-11%
EBITDA	224	302	250	342	-10%	-12%
PAT	141	216	155	224	-9%	-4%
EPS	8.4	13.0	9.3	13.5	-9%	-4%

Source: Company, Axis Securities Research

Q1FY25 Results Review

	Q1FY24	Q4FY24	Q1FY25 Axis Estm	Q1FY25	YoY (%)	QoQ (%)	Axis Variance (%)
Net Sales	397	357	416	372	-6%	4%	-11%
Expenditure							
Net Raw Material	227	207	235	217	-4%	5%	-7%
Gross Profit	169	150	181	155	-9%	3%	-15%
Gross Margin (%)	*42.7%*	*42.1%*	*43.5%*	*41.6%*	-112bps	-50bps	-194bps
Employee Expenses	25	20	27	26	7%	32%	-3%
Other Exp	89	86	98	87	-2%	2%	-10%
EBITDA	55	45	56	41	-26%	-8%	-27%
EBITDA Margin (%)	*14.0%*	*12.5%*	*13.5%*	*11.0%*	-296bps	-149bps	-247bps
Other. Inc	5	25	8	9	87%	-62%	18%
Interest	0	0	0	0	21%	10%	14%
Depreciation	13	13	15	13	2%	-1%	-9%
PBT	47	56	49	37	-22%	-34%	-25%
Tax	13	14	13	10	-25%	-31%	-23%
PAT	34	42	37	27	-21%	-35%	-26%
EPS	2.1	2.5	2.2	1.6	-21%	-35%	-26%

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Total Net Sales	**1,617**	**1,445**	**1,502**	**1,851**	**2,027**
Revenue Growth (%)	2.9%	-10.6%	3.9%	23.2%	9.5%
Total Raw Material Consumption	888	815	838	1,027	1,094
Staff costs	87	92	92	105	101
Other Expenditure	389	342	348	416	436
Total Expenditure	1,364	1,250	1,278	1,549	1,631
EBITDA	**253**	**195**	**224**	**302**	**395**
EBITDA Margin %	**15.6%**	**13.5%**	**14.9%**	**16.3%**	**19.5%**
Depreciation	55.7	52.8	63.3	67.4	69.5
EBIT	197	142	160	234	326
EBIT Margin %	12.2%	9.8%	10.7%	12.7%	16.1%
Interest	1	2	2	2	2
Other Income	6	39	30	56	65
PBT	202	180	189	288	389
Tax	53	47	48	72	97
PAT	**149**	**133**	**141**	**216**	**292**
EPS growth	-15.3%	-10.8%	5.7%	53.5%	35.0%

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Share Capital	167	167	167	167	167
Reserves & Surplus	1,385	1,532	1,673	1,888	2,180
Total Share Holders Funds	***1,552***	***1,699***	***1,839***	***2,055***	***2,347***
Non-Current Liabilities					
Long Term Borrowings	-	-	-	-	-
Lease Liability	7	11	11	11	11
Deferred Tax Liability (Net)	111	125	125	125	125
Long Term Provisions	16	15	16	19	20
Total Non-Current Liabilities	***134***	***151***	***151***	***155***	***156***
Current Liabilities	-	-	-	-	-
Short Term Borrowings	-	-	-	-	-
Trade Payables	127	118	144	177	194
Lease Liability	3	2	2	2	2
Other Financial Liability	26	28	28	28	28
Total Current Liability	***171***	***166***	***192***	***225***	***242***
Total Liabilities	***305***	***317***	***343***	***380***	***398***
Total Equity & Liabilities	**1,857**	**2,015**	**2,182**	**2,435**	**2,745**
Non-Current Assets					
Property Plant & Equipment	884	866	1,102	1,185	1,266
Financial Assets: Investments	42	119	53	74	91
Financial Assets: Others	10	10	10	10	10
Non-Current Tax Assets (net)	17	17	17	17	17
Other Non-Current Assets	11	8	8	9	10
Total Non-Current Assets	***976***	***1,039***	***1,194***	***1,300***	***1,398***
Current Assets:					
Inventories	285	223	267	340	383
Trade Receivable	346	340	346	426	466
Investments	176	281	281	281	281
Cash and Cash Equivalents	24	92	53	41	165
Other Current Assets	12	28	29	35	39
Total Current Assets	***881***	***976***	***988***	***1,136***	***1,347***
Total Assets	**1,857**	**2,015**	**2,182**	**2,435**	**2,745**

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
PBT	202	180	189	288	389
Depreciation & Amortization	56	53	63	67	69
Chg in Working cap	159	48	-25	-124	-70
Direct tax paid	-51	-40	-48	-72	-97
Cash flow from operations	**282**	**201**	**181**	**161**	**293**
Chg in Gross Block	-348	-811	-284	-150	-150
Chg in Investments	0	0	0	0	0
Proceeds on redemption of Fin. Assets	129	703	66	-21	-17
Cash flow from investing	**-217**	**-77**	**-218**	**-171**	**-167**
Cash flow from financing	**-54**	**-55**	**-2**	**-2**	**-2**
Chg in cash	**11**	**68**	**-39**	**-12**	**124**
Cash at start	12	24	92	53	41
Cash at end	24	92	53	41	165

Source: Company, Axis Securities Research

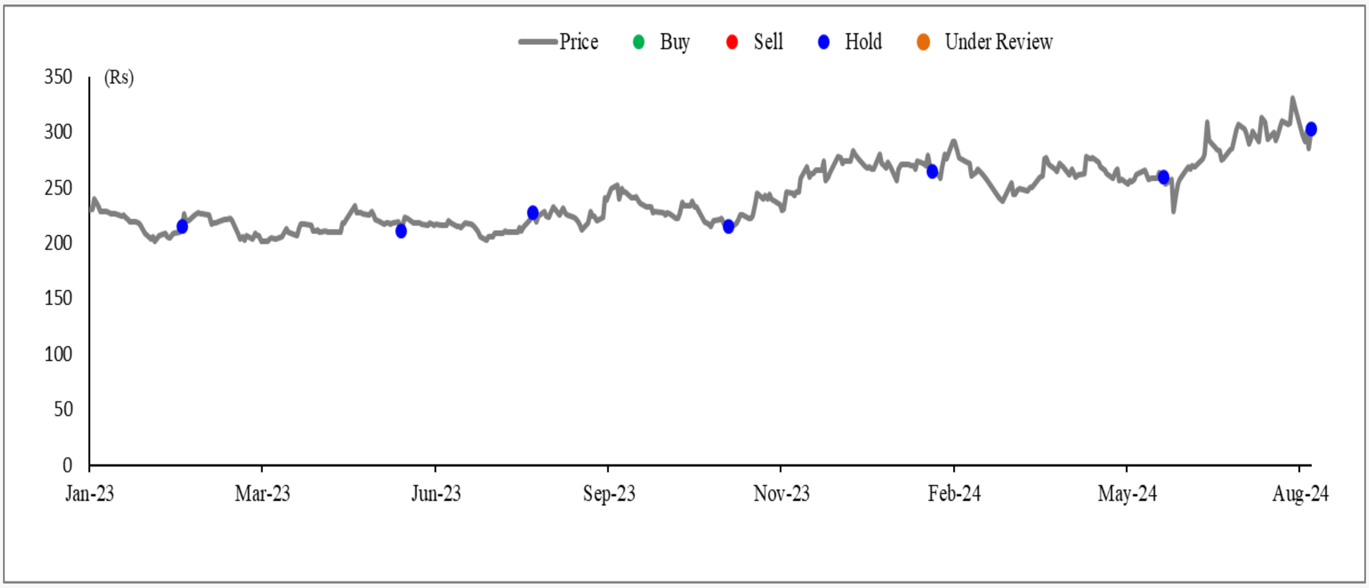
Ratio Analysis

(%)

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth (%)					
Net Sales	2.9%	-10.6%	3.9%	23.2%	9.5%
EBITDA	-11.7%	-22.8%	14.7%	34.8%	31.0%
APAT	-15.3%	-10.8%	5.7%	53.5%	35.0%
Per Share Data (Rs)					
Adj. EPS	9.0	8.0	8.4	13.0	17.5
BVPS	93.1	101.9	110.4	123.3	140.8
Profitability (%)			0.0	0.0	0.0
EBITDA Margin	15.6%	13.5%			
Adj. PAT Margin	9.5%	13.5%	14.9%	16.3%	19.5%
ROCE	11.7%	7.7%	9.4%	11.7%	14.4%
ROE	9.9%	11.5%	8.1%	10.6%	13.0%
ROIC	12.2%	8.7%	7.6%	10.5%	12.4%
Valuations (X)			8.5%	11.2%	14.6%
PER	30.2	33.8			
P/BV	2.9	2.6	32.0	20.8	15.4
EV / EBITDA	17.7	22.6	2.4	2.2	1.9
EV / Net Sales	2.8	3.1	19.9	14.8	11.0
Turnover Days			3.0	2.4	2.1
Asset Turnover	1.3	1.1			
Inventory days	69.7	64.1	1.1	1.1	1.1
Debtors days	89.8	86.7	65.0	67.0	69.0
Creditors days	38.7	31.0	84.0	84.0	84.0
Working Capital Days	120.9	119.8	35.0	35.0	35.0

Source: Company, Axis Securities Research

Nocil Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
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
12-Aug-24	HOLD	275	Result Update

Source: Axis Securities Research

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In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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