

Competitive Pressures Persist; Maintain HOLD!
Est. Vs. Actual for Q2FY25: Revenue: **MISS**; EBITDA: **MISS**; PAT: **BEAT**
Change in Estimates post Q2FY25
FY25E/26E: Revenue: -1%/-1%; EBITDA: -5%/-6%; PAT: -6%/-7%

Recommendation Rationale

- **Competitive pressures limit ability to pass on costs:** During the quarter, the company achieved an 11% YoY increase in volume, with a continued growth trajectory in export volumes. However, revenues were subdued as aggressive pricing by overseas competitors led to lower realizations. Additionally, logistical challenges and rising raw material costs elevated operating expenses, which the company could not fully pass on to customers due to pricing pressures. Looking ahead, management expects volume growth, as domestic demand for rubber chemicals remains strong, driven by stable replacement volumes in the tire industry and a recovery in exports.
- **Capacity expansion on track and focus on long-term engagements:** The 20% increase in base capacity at the Dahej site, with a capital expenditure of Rs 250 Cr, is progressing well and is expected to be commissioned by Q4FY27. Management indicated that the new capacity will be allocated to areas with higher demand, with current capacity utilization around 70%. Additionally, the company plans to leverage adjacencies in its chemistries for applications across various sectors. These factors are expected to support volume growth in the coming years. With improving utilization levels and economies of scale, a steady improvement in margins is anticipated over the next 2-3 years.

Sector Outlook: Cautiously Optimistic

Company Outlook & Guidance: NOCIL continues its efforts to boost export sales and establish long-term customer partnerships to address industry challenges. While management acknowledges uncertainties in the external environment, it remains optimistic about growth opportunities. The replacement market in the commercial vehicle sector is also expected to show a positive trend, supported by increasing infrastructure initiatives resuming post-elections.

Current Valuation: 18x FY27E (Earlier: 18x Sep27E)

Current TP: Rs. 295/share (Earlier TP: Rs 275/share)

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

Financial Performance: The company reported revenue of Rs 363 Cr, up 3% YoY and down 3% QoQ, missing our estimate by 4%. EBITDA stood at Rs 38 Cr, down 17%/8% YoY/QoQ, missing our estimate by 10%. The company's PAT stood at Rs 42 Cr (55%/56% YoY/QoQ) against our estimate of Rs 27 Cr. The PAT was significantly higher due to a change in deferred tax liabilities related to LTCG on certain assets sold, which resulted in a credit of Rs. 14.89 Cr.

Outlook: NOCIL continues to take initiatives aimed at improving product mix, building partnerships and reducing costs. While the pricing pressures due to aggressive competition from overseas players (from China, Europe and the EU) are expected to continue in the near term, the demand seems to be picking up. With a focus on expanding its exports and innovating into new products, NOCIL seems to be taking the right steps for long-term growth and better profitability. However, a clear recovery is still uncertain and we remain cautious about prolonged pricing pressures and logistical challenges.

Valuation & Recommendation: We have revised our forecasts to reflect the anticipated increase in volume uptake, though near-term profitability may remain under pressure. Over the long term, we expect volume growth driven by deeper market penetration in exports and the introduction of new products to positively impact profitability, leading to a steady improvement in operating performance. **We maintain our HOLD rating on the stock, valuing the company at 18x FY27E earnings, which yields a revised target price of Rs 295/share, indicating a 7% upside from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	363	3%	-3%	378	-4%
EBITDA	38	-17%	-8%	42	-10%
EBITDA Margin	10.4%	-249bps	-61bps	11.1%	-68bps
Net Profit	42	55%	56%	27	56%
EPS (Rs)	2.5	55%	56%	1.6	56%

Source: Company, Axis Securities Research

 (CMP as of 29th October 2024)

CMP (Rs)	274
Upside /Downside (%)	7%
High/Low (Rs)	336/211
Market cap (Cr)	4,577
Avg. daily vol. (1 Yr) Shrs.	12,43,198
No. of shares (Cr)	16.7

Shareholding (%)

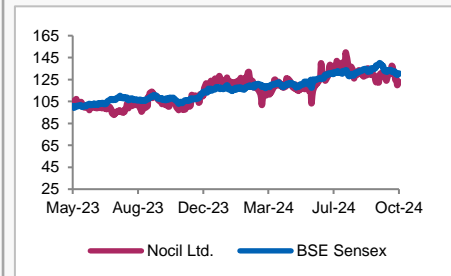
	Mar-24	Jun-24	Sep-24
Promoter	33.8	33.8	33.8
FIIIs	8	8	8
DIIIs	3.5	4.4	6.1
Retail	55	54	52

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	1,473	1,830	2,001
EBITDA	209	286	370
Net Profit	129	203	272
EPS (Rs)	7.8	12.2	16.3
PER (x)	34.8	22.1	16.5
P/BV (x)	2.5	2.2	2.0
EV/EBITDA (x)	21.3	15.7	11.8
ROE (%)	7.1%	10.0%	11.8%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-1%	-1%
EBITDA	-5%	-6%
PAT	-6%	-7%

Relative Performance


Source: Ace Equity, Axis Securities Research

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Key Concall Highlights

- Financial Performance:** The company reported revenue growth of 3% YoY with an 11% increase in volumes YoY. Pricing remained largely stable during the quarter. Aggressive price competition from China and other markets persisted, with the company adopting a balanced approach between pricing and volume. Management anticipates pricing improvement as economic conditions and demand recover, although the timing remains uncertain.
- Margins:** Operating EBITDA margins were impacted due to a 10% sequential rise in production activity, leading to higher operating and freight costs. Raw material prices were marginally higher for the quarter, and the company was unable to fully pass on these costs to customers due to competitive pressures. PAT stood at Rs 42 Cr, up from Rs 27 Cr in Q1 FY25, mainly attributed to a tax credit of Rs 14.89 Cr related to long-term capital gains tax rate adjustments following recent budget announcements.
- Tyre Industry:** The industry experienced a temporary slowdown in compounding production due to elevated natural rubber prices stemming from reduced domestic production and import-related supply chain challenges. Original Equipment (OE) growth for tyres is expected to moderate amid softened demand. Despite short-term challenges, the tyre industry maintains a positive long-term outlook.
- Export Market:** Export volumes continued to rise despite challenges such as geopolitical issues, container shortages, and elevated freight costs, with double-digit YoY export growth. Management expects stronger growth in North America compared to South America.
- Latex Business:** The latex segment showed a gradual recovery, with improved exports of rubber gloves and an uptick in demand compared to the previous year.
- Capacity Utilization:** The company's capacity utilization was approximately 70% for Q2FY25, with steady progress on the Dahej capacity expansion project.

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	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Net Sales	1,830	2,001	1,851	2,027	-1%	-1%
EBITDA	286	370	302	395	-5%	-6%
PAT	203	272	216	292	-6%	-7%
EPS	12.2	16.3	13.0	17.5	-6%	-7%

Source: Company, Axis Securities Research

Q2FY25 Results Review

	Q2FY24	Q1FY25	Q2FY25 Axis Estm	Q2FY25	YoY (%)	QoQ (%)	Axis Variance (%)
Net Sales	351	372	378	363	3%	-3%	-4%
Expenditure							
Net Raw Material	198	217	222	206	4%	-5%	-7%
Gross Profit	153	155	156	157	3%	2%	1%
Gross Margin (%)	43.5%	41.6%	41.3%	43.3%	-19bps	177bps	203bps
Employee Expenses	24	26	21	24	-1%	-10%	13%
Other Exp	84	87	93	96	15%	10%	3%
EBITDA	45	41	42	38	-17%	-8%	-10%
EBITDA Margin (%)	12.9%	11.0%	11.1%	10.4%	-249bps	-61bps	-68bps
Other. Inc	5	9	8	8	82%	-10%	5%
Interest	0	0	0	1	66%	15%	33%
Depreciation	13	13	13	13	2%	1%	1%
PBT	37	37	36	32	-11%	-12%	-11%
Tax	9	10	9	(10)	-205%	-201%	-206%
PAT	27	27	27	42	55%	56%	56%
EPS	1.6	1.6	1.6	2.5	55%	56%	56%

Source: Company, Axis Securities Research

Financials (Consolidated)
Profit & Loss
(Rs Cr)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Total Net Sales	1,617	1,445	1,473	1,830	2,001
Revenue Growth (%)	2.9%	-10.6%	2.0%	24.2%	9.3%
Total Raw Material Consumption	888	815	832	1,029	1,111
Staff costs	87	92	90	104	100
Other Expenditure	389	342	342	412	420
Total Expenditure	1,364	1,250	1,264	1,545	1,631
EBITDA	253	195	209	286	370
EBITDA Margin %	15.6%	13.5%	14.2%	15.6%	18.5%
Depreciation	55.7	52.8	63.3	67.4	69.5
EBIT	197	142	146	218	301
EBIT Margin %	12.2%	9.8%	9.9%	11.9%	15.0%
Interest	1	2	2	2	2
Other Income	6	39	29	55	64
PBT	202	180	174	271	363
Tax	53	47	44	68	91
PAT	149	133	129	203	272
EPS growth	-15.3%	-10.8%	-2.7%	57.1%	33.9%

Source: Company, Axis Securities Research

Balance Sheet
(Rs Cr)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
<i>Equity</i>					
Share Capital	167	167	167	167	167
Reserves & Surplus	1,385	1,532	1,661	1,865	2,137
Total Share Holders Funds	1,552	1,699	1,828	2,031	2,304
<i>Non-Current Liabilities</i>					
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	21
Total Non-Current Liabilities	134	151	151	155	156
<i>Current Liabilities</i>					
Short Term Borrowings	-	-	-	-	-
Trade Payables	127	118	141	176	192
Lease Liability	3	2	2	2	2
Other Financial Liability	26	28	28	28	28
Total Current Liability	171	166	189	223	240
Total Liabilities	305	317	340	378	396
Total Equity & Liabilities	1,857	2,015	2,168	2,409	2,699
<i>Non-Current Assets</i>					
Property Plant & Equipment	884	866	1,102	1,185	1,266
Financial Assets: Investments	42	119	52	73	90
Financial Assets: Others	10	10	10	10	10
Non-Current Tax Assets (net)	17	17	17	17	17
Other Non-Current Assets	11	8	7	9	10
Total Non-Current Assets	976	1,039	1,193	1,299	1,397
<i>Current Assets:</i>					
Inventories	285	223	262	336	378
Trade Receivable	346	340	339	421	461
Investments	176	281	281	281	281
Cash and Cash Equivalents	24	92	52	25	132
Other Current Assets	12	28	28	35	38
Total Current Assets	881	976	976	1,111	1,303
Total Assets	1,857	2,015	2,168	2,409	2,700

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
PBT	202	180	174	271	363
Depreciation & Amortization	56	53	63	67	69
Chg in Working cap	159	48	-15	-126	-68
Direct tax paid	-51	-40	-44	-68	-91
Cash flow from operations	282	201	179	146	276
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	67	-22	-17
Cash flow from investing	-217	-77	-217	-172	-167
Cash flow from financing	-54	-55	-2	-2	-2
Chg in cash	11	68	-39	-27	107
Cash at start	12	24	92	52	25
Cash at end	24	92	52	25	132

Source: Company, Axis Securities Research

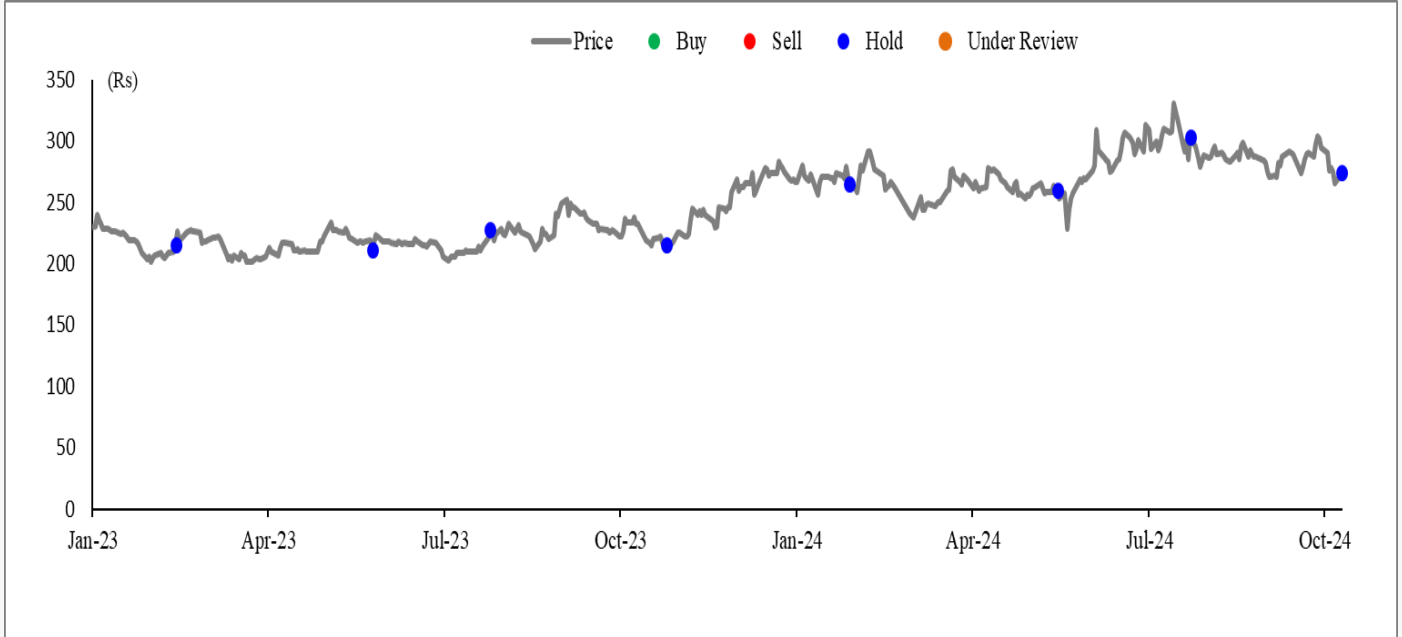
Ratio Analysis

(%)

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth (%)					
Net Sales	2.9%	-10.6%	2.0%	24.2%	9.3%
EBITDA	-11.7%	-22.8%	7.3%	36.5%	29.7%
APAT	-15.3%	-10.8%	-2.7%	57.1%	33.9%
Per Share Data (Rs)					
Adj. EPS	9.0	8.0	7.8	12.2	16.3
BVPS	93.1	101.9	109.7	121.9	138.2
Profitability (%)					
EBITDA Margin	15.6%	13.5%	14.2%	15.6%	18.5%
Adj. PAT Margin	9.5%	13.5%	8.8%	11.1%	13.6%
ROCE	11.7%	7.7%	7.4%	10.0%	12.2%
ROE	9.9%	11.5%	7.1%	10.0%	11.8%
ROIC	12.2%	8.7%	7.8%	10.5%	13.5%
Valuations (X)					
PER	30.2	33.8	34.8	22.1	16.5
P/BV	2.9	2.6	2.5	2.2	2.0
EV / EBITDA	17.7	22.6	21.3	15.7	11.8
EV / Net Sales	2.8	3.1	3.0	2.4	2.2
Turnover Days					
Asset Turnover	1.3	1.1	1.0	1.1	1.1
Inventory days	69.7	64.1	65.0	67.0	69.0
Debtors days	89.8	86.7	84.0	84.0	84.0
Creditors days	38.7	31.0	35.0	35.0	35.0
Working Capital Days	120.9	119.8	114.0	116.0	118.0

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
30-Oct-24	HOLD	295	Result Update

Source: Axis Securities Research

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SELL	Less than -10%
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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.