

Neogen Chemicals

Volume-driven growth

Our BUY recommendation on Neogen Chemicals (NCL) with a target price of INR 2,076/share is premised on (1) entry into the new-age electrolyte manufacturing business; (2) increasing contribution of the high-margin CSM business to revenue; (3) volume driven growth in legacy business; and (4) improving return ratios, going forward. NCL's EBITDA/APAT will grow at a CAGR of 32/41% over FY24-30E while RoE will improve from 5.7% in FY24 to 22% in FY30E. Q2 EBITDA was 8% above estimates owing to lower than expected raw material cost while APAT was 13% below our estimates owing to higher than expected interest expenses.

- Financial performance:** Revenue came at INR 1,934mn (19.6/7.5 % YOY/QOQ). The performance was driven by volume gains in core business. We estimate that volume growth in core business was ~50% YoY. It was driven by all business segments- Lithium derivatives, Bromine derivative, advanced intermediates and CSM. End user industries like pharma, polymer, flavours and fragrance, fine chemicals and specialty material has shown robust volume uptake. Non-agro CSM has shown strong traction. The management is confident to achieve CSM contribution of 20% in revenue by FY26. EBITDA changed to INR 345mn (+33/12% YoY/QoQ) due to better planned through put and operational efficiencies. EBTIDA margin increased to 17.8%(182/73 bps YoY/QoQ) due to sharp correction in product prices.
- Segmental information:** Organic chemicals (85% of the revenue) increased 32% YoY to INR 1,640mn. Organic business grew due to increased contribution Buli Chemicals and Neogen Ionics. Buli chemical plant is currently running at full capacity. Non Agro CSM and bromine derivatives contributed to organic chemical. Inorganic chemicals (15% of the revenue) decreased by 25% YoY to INR 2,90mn. Revenue was impacted in both segments due to a fall in bromine and lithium prices. Adjusting for the same, revenue in organic chemicals and inorganic chemicals could have increased to INR 1860mn and INR 550mn respectively.
- Key con call takeaways:** (1) Revenue contribution from Export business was 26%. (2) Company has commissioned 200 MPTA capacity of electrolyte additive previously and it has shared samples with customers. Another 200 MTPA trial production is ongoing (3) For MUIS business company has initiated the structure with secured financial closure. MUIS has also started plant construction on their end. (4) Currently customers are conducting audit of the facility. Once the audit is done. They will start Purchase orders. (5) Agro CSM has not picked demand. It is expected to ramp up in 2HFY26E. (6) Company has applied for the environmental clearance to double capacity of Buli Chemicals plant. (7) Company is targeting for decrease in working capital days to 140 days in its core business.
- Change in estimates:** We cut our FY25/26 EPS estimates by 1.9/0.8% to INR 19/23 to factor in Q2FY25 performance.
- DCF-based valuation:** Our target price is INR 2,076(WACC 11%, terminal growth 5.5%). The stock is currently trading at 85x FY26E EPS.

Financial summary (consolidated)

INR mn	2QFY25	1QFY25	QoQ (%)	2QFY24	YoY (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	1,934	1,800	7.5	1,617	19.6	4,873	6,862	6,907	7,372	8,057
EBITDA	345	308	12.0	259	33.1	866	1,116	1,101	1,282	1,440
APAT	110	115	(4.4)	79	38.4	446	500	356	483	572
AEPS (INR)	4.4	4.6	(4.4)	3.2	38.4	17.9	20.0	14.3	19.4	22.9
P/E (x)						109.0	97.4	136.8	100.7	85.1
EV/EBITDA(x)						58.3	46.7	47.7	41.4	37.2
RoE (%)						14.3	10.8	5.7	6.2	6.9

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	1,233.3	1,282	3.9%	1,415.6	1,440	1.7%
Adj. EPS (INR/sh)	19.0	19	1.9%	22.7	23	0.8%

Source: Company, HSIE Research

BUY

CMP (as on 13 Nov 2024)	INR 1,951
Target Price	INR 2,076
NIFTY	23,559

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,975	INR 2,076
EPS %	FY24E 1.9%	FY25E 0.8%

KEY STOCK DATA

Bloomberg code	NEOGEN IN
No. of Shares (mn)	26
MCap (INR bn) / (\$ mn)	51/610
6m avg traded value (INR mn)	205
52 Week high / low	INR 2,390/1,149

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.1	34.7	23.2
Relative (%)	16.7	27.9	3.6

SHAREHOLDING PATTERN (%)

	June-24	Sept-24
Promoters	56.89	51.23
FIs & Local MFs	22.54	22.48
FPIs	4.65	8.17
Public & Others	15.92	18.12
Pledged Shares	0.00	0.00

Source: BSE

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