

Neogen Chemicals (NEOGEN)

Chemicals | Company Update

ACCUMULATE

CMP: Rs1,747 | Target Price (TP): Rs1,800 | Upside: 3%

September 28, 2023

Battery Chemicals execution remains the key

Key Points

- We recently interacted with the management to understand better the synergies derived from BuLi acquisition & update on battery business.
- NEOGEN is aiming for ~30% market share in Electrolyte segment in India by FY28. 'China+1' theme should aid growth in Salts segment.
- If executed well, earnings growth can be ~4x over FY23-FY27, in our view. Implied PE is ~20x FY27E at CMP.
- Near-term weakness in existing Bromine business due to tepid demand in Pharma & Agrochemicals could offer better entry point. Maintain Acc

BuLi acquisition offers multiple synergies: BuLi manufactures organolithium compounds and has one of the very few facilities outside China for this chemistry. This acquisition opens up an opportunity for NEOGEN to offer these products to existing Pharma and Agrochemicals customers in Bromine derivatives & CSM business. Apart from end-products, by-products generated can be recycled in-house and potentially be used as starting raw materials for Battery Chemicals business. Therefore, apart from the direct revenue opportunity of Rs0.5-1bn (function of Li prices) at current capacity, BuLi acquisition offers multiple synergies ranging from capability building to backward integration. Apart from domestic demand, a strong opportunity exists in Japan & Korea markets which are currently being serviced from China & Taiwan. The management is mulling a plan to increase capacity gradually by 5x over medium term.

Eyeing ~30% market share in Electrolyte by FY28: The management indicated that the Electrolyte facility is currently in the design stage and expects commissioning by Sep'25 post trials. Technology tie-up with MUIS offers great advantage in terms of seamless commissioning and relatively faster plant & product qualification by customers. While NEOGEN is in discussion with Indian companies as potential customers, MUIS partnership should help NEOGEN become a preferred partner in case MNCs set up capacity in India in future. Capex for Electrolyte capacity expansion from 10KTPA to 30KTPA should be significantly lower in proportion. 'China+1' theme should drive growth in Electrolyte Salts business and incremental ROCE of 20%+ is targeted. Management has maintained the revenue guidance of ~Rs10bn for the Battery Chemicals for FY27 & is internally aiming for ~30% market share in Electrolyte Formulations by FY28.

Outlook & Valuation: Earnings could potentially grow by ~4x over FY23-FY27 & could also surprise in case of faster ramp-up of Electrolyte business in FY27. However, near-term weakness in existing business amid tepid demand could offer a better entry point. Maintain Accumulate with revised TP of Rs1,800 (earlier Rs1,600), valued at 40x PE on Sept'25E earnings.

Est Change	No change
TP Change	Upward
Rating Change	No change

Company Data and Valuation Summary

Reuters	NEOE.BO
Bloomberg	NEOGEN IN Equity
Market Cap (Rsbn / US\$m)	43.4 / 521.3
52 Wk H / L (Rs)	1,835 / 1,140
ADTV-3M (mn) (Rs / US\$)	76.0 / 0.9
Stock performance (%) 1M/6M/1yr	11.9 / 36.1 / 17.3
Nifty 50 performance (%) 1M/6M/1yr	1.7 / 2.7 / 17.0

Shareholding	3QFY23	4QFY23	1QFY24
Promoters	60.2	60.2	60.2
DII	18.9	20.0	19.9
FII	4.0	4.1	4.3
Others	16.9	15.7	15.6
Pro pledge	0.0	0.0	0.0

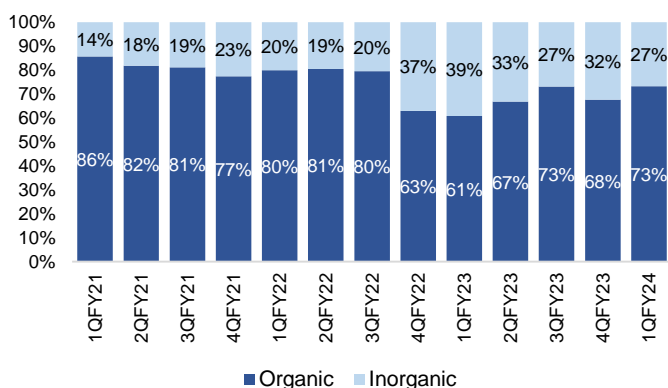
Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
Net Sales	6,862	8,568	10,271	12,874
Growth YoY%	40.8	24.9	19.9	25.3
Gross margin %	43.4	43.0	43.5	43.7
EBITDA	1,116	1,448	1,808	2,330
EBITDA margin %	16.3	16.9	17.6	18.1
Adj PAT	500	598	914	1,347
Growth YoY%	12.0	19.7	52.9	47.3
Adj EPS	20.0	24.0	36.7	54.0
Growth YoY%	12.0	19.7	52.9	47.3
RoCE (pre-tax)	12.6	12.2	12.4	15.6
RoCE	8.9	9.1	9.3	11.7
RoE	10.7	11.8	13.1	17.3
P/E	87.2	72.9	47.7	32.4
EV/EBITDA	39.6	31.0	25.8	19.8
P/BV	8.5	7.6	6.6	5.5

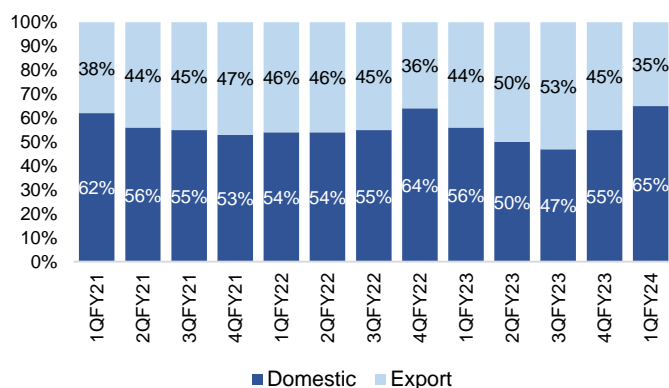
Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links – [Company Presentation](#)

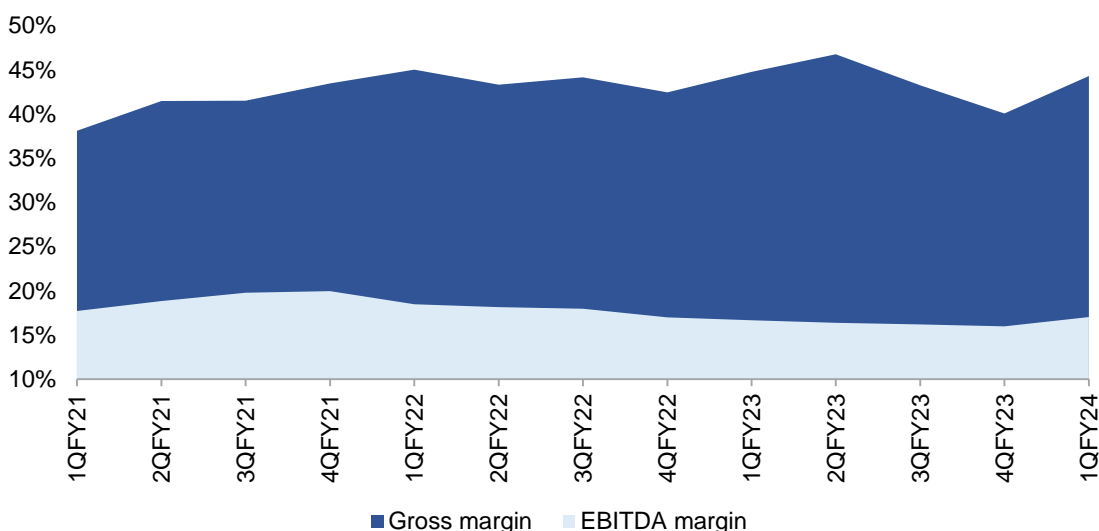
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Exhibit 1: Quarterly segment revenue share


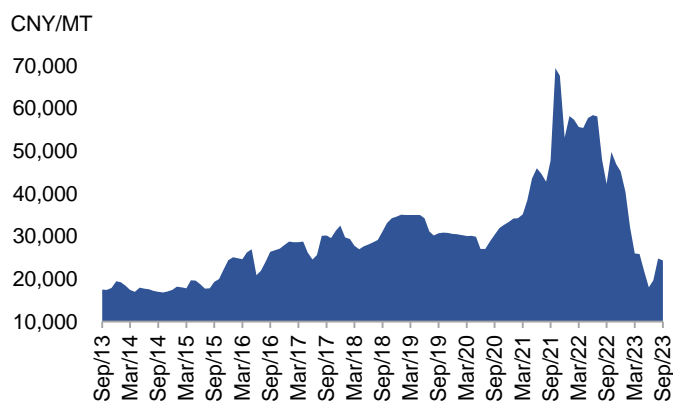
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Quarterly geographical revenue share


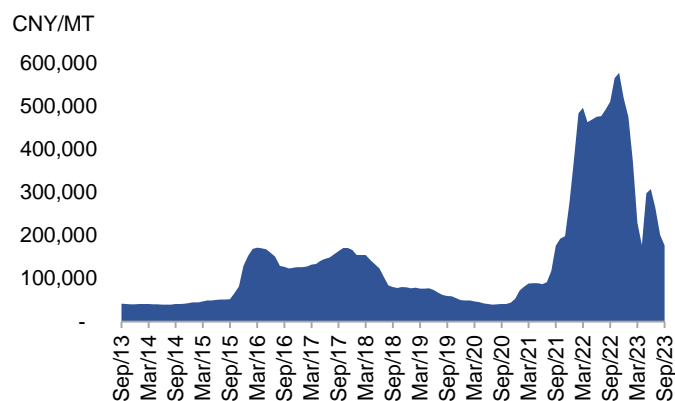
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Consolidated gross margin & EBITDA margin quarterly trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Bromine Price Trend - China


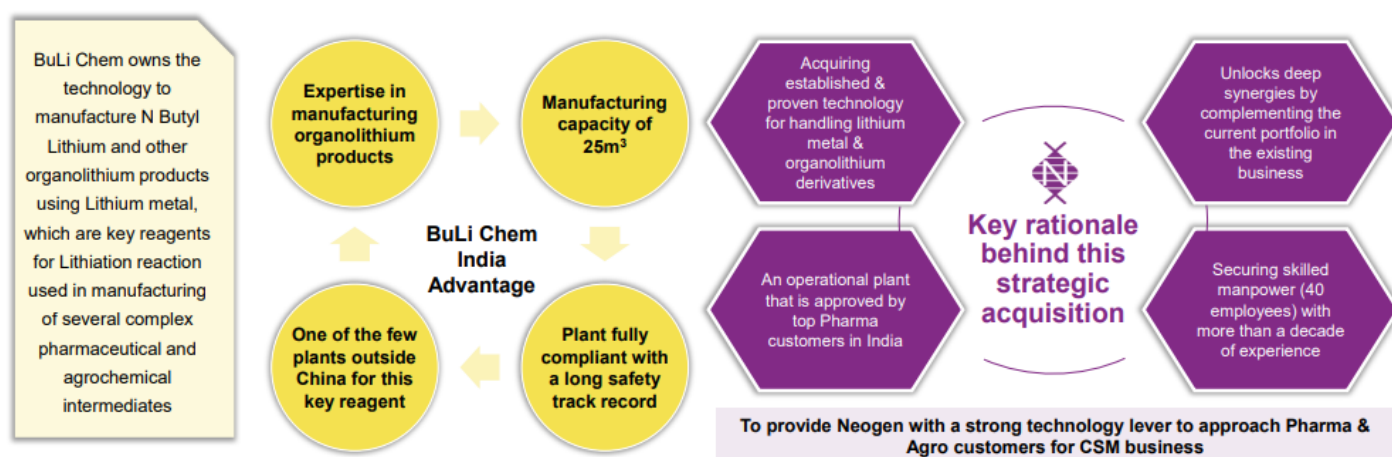
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: Lithium Carbonate Price Trend - China


Source: Bloomberg, Nirmal Bang Institutional Equities Research

BuLi acquisition offers multiple synergies: BuLi manufactures organolithium compounds and has one of the very few facilities outside China for this chemistry. This acquisition opens up an opportunity for NEOGEN to offer these products to its existing Pharma and Agrochemicals customers in Bromine derivatives & CSM business. Apart from the end-products, by-products generated can be recycled in-house and potentially be used as starting raw materials for the Battery Chemicals business. Therefore, apart from the direct revenue opportunity of Rs0.5-1bn (function of Li prices) at current capacity, BuLi acquisition offers multiple synergies ranging from capability building to backward integration. Apart from domestic demand, a strong opportunity exist in Japan and Korea markets which are currently being serviced from China and Taiwan. The management is also mulling a plan to increase the capacity gradually by 5x over the medium term.

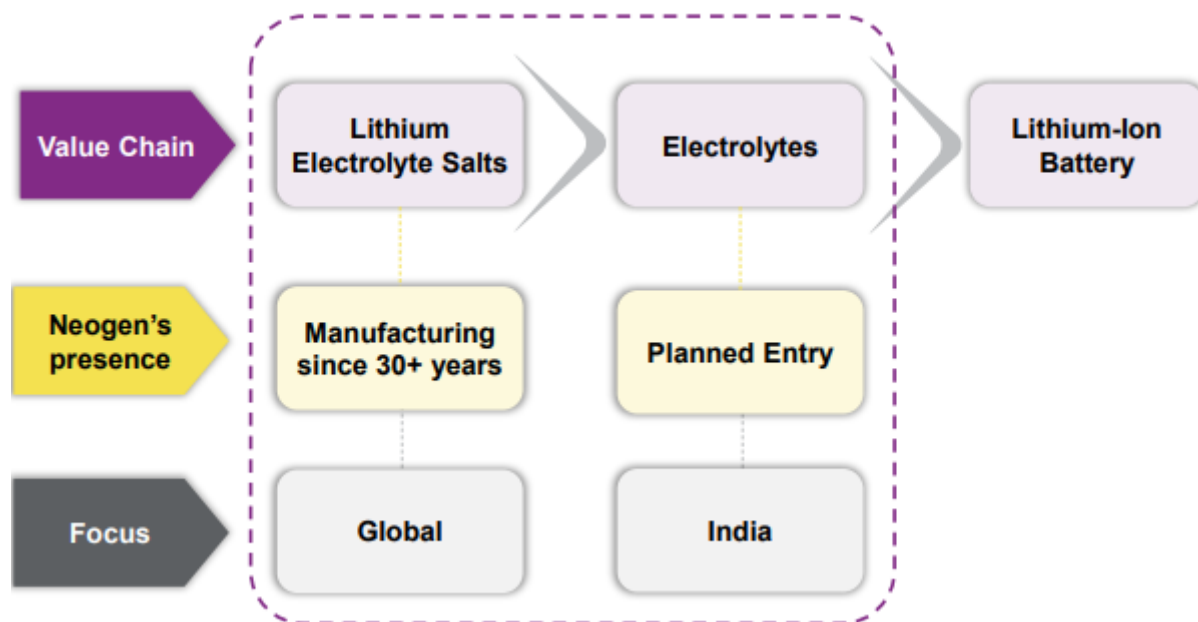
Exhibit 6: BuLi acquisition to strengthen advanced intermediates and CSM manufacturing business



Source: Company, Nirmal Bang Institutional Equities Research

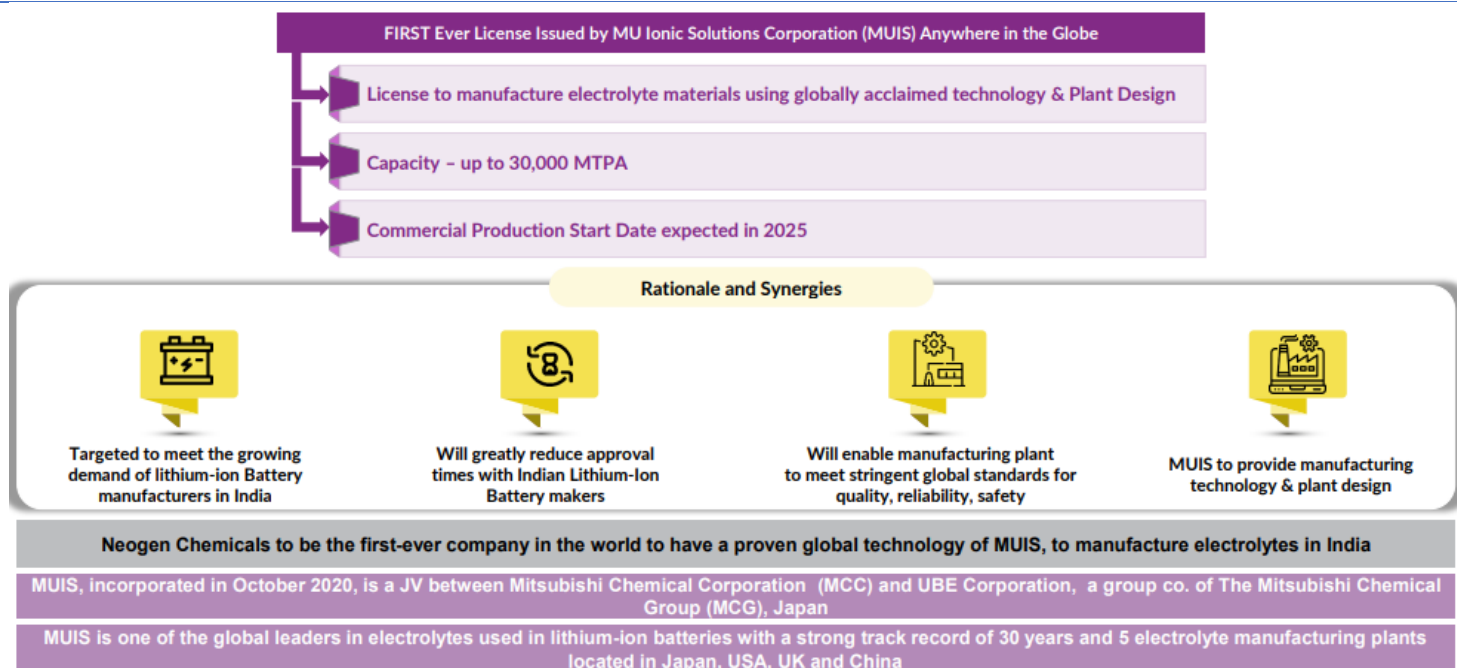
Eyeing ~30% market share in Electrolyte by FY28: The management indicated that the Electrolyte facility is currently in the design stage and expects commissioning by Sep'25 post trials. Technology tie-up with MUIS offers a great advantage in terms of seamless commissioning and relatively faster plant & product qualification by customers. While NEOGEN is currently in discussion with Indian companies as potential customers, MUIS partnership should help NEOGEN become a preferred partner in case MNCs set up capacity in India in future. Capex for Electrolyte capacity expansion from 10KTPA to 30KTPA should be significantly lower in proportion. 'China+1' theme should drive growth in the Electrolyte Salts business. Incremental ROCE of 20%+ is targeted in this business. The management has maintained the revenue guidance of ~Rs10bn in the Battery Chemicals for FY27 and is internally aiming for ~30% market share in Electrolyte Formulations segment by FY28.

Exhibit 7: Battery Chemicals Value Chain



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: First mover advantage in catering Indian Electrolyte demand

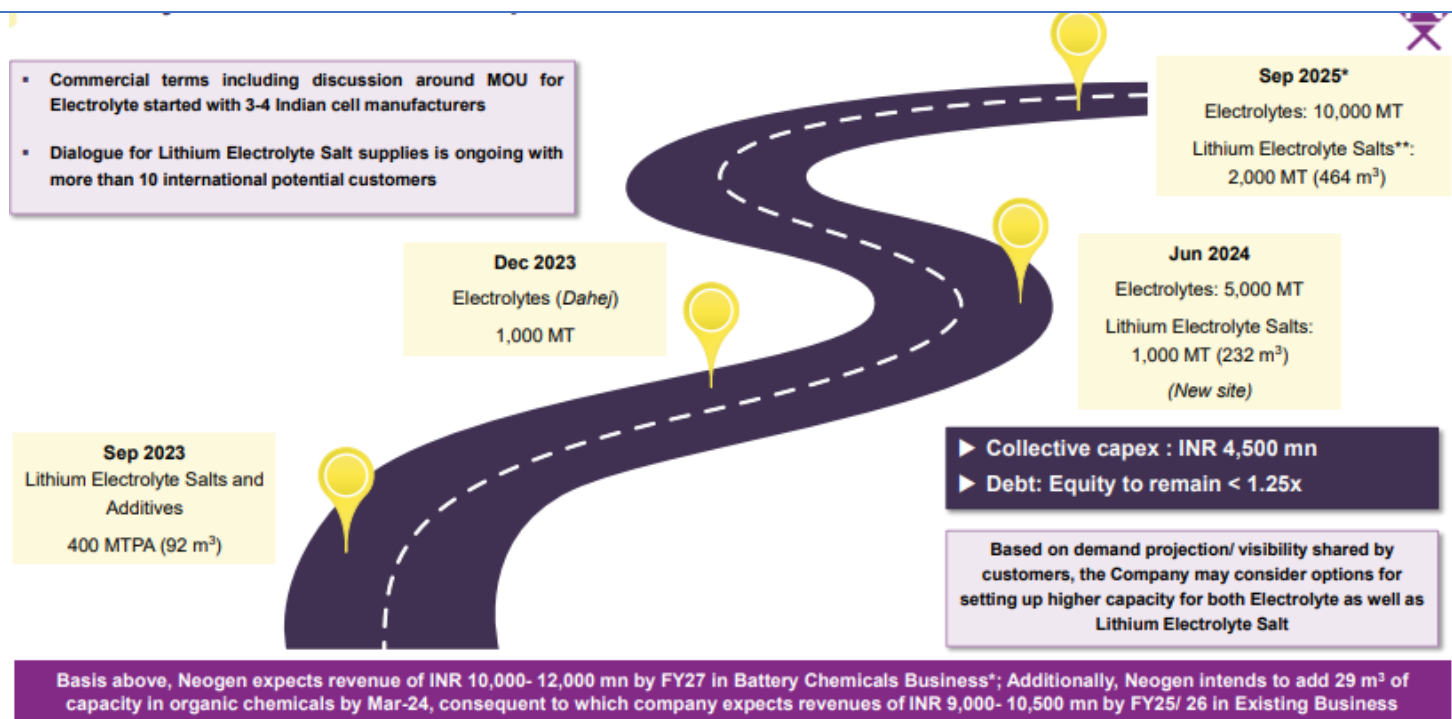


Source: Company, Nirmal Bang Institutional Equities Research

Fund raise approval indicates better order visibility in Battery Chemicals business:

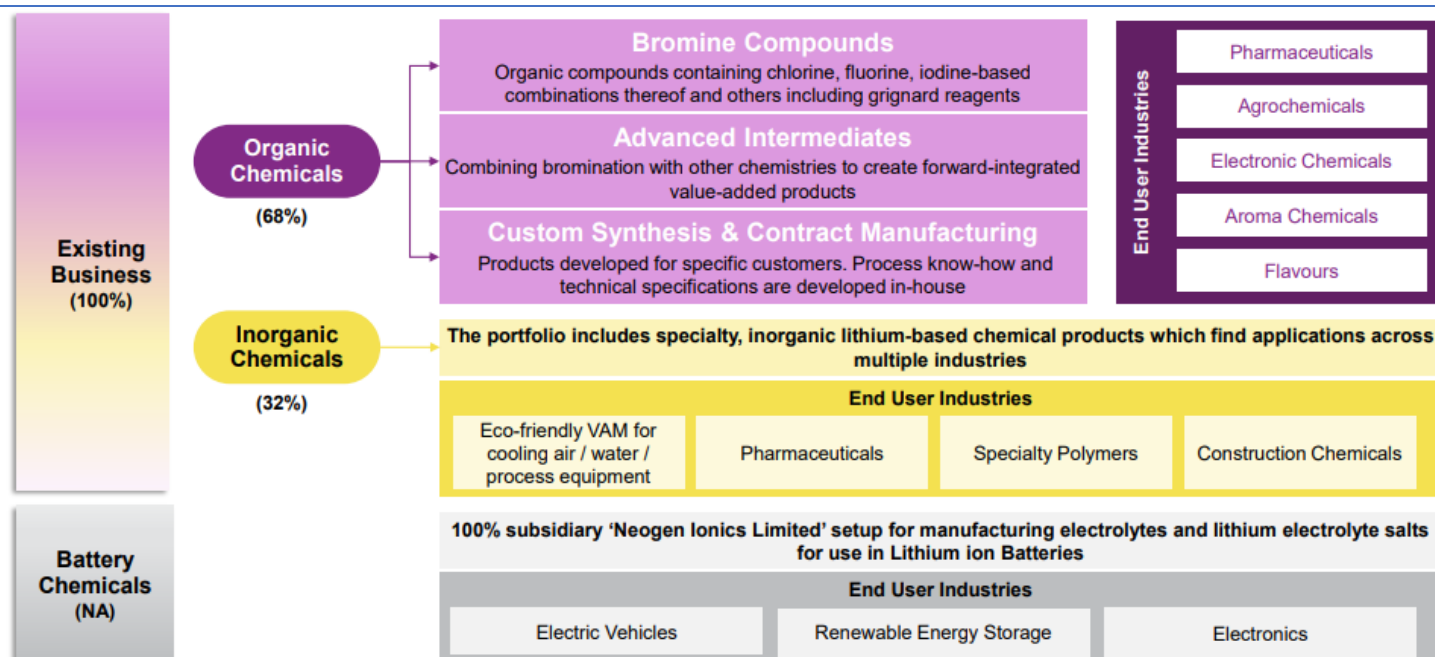
The management indicated that for both Electrolyte Formulations (domestic focussed) and Electrolyte Salts (mainly exports focussed), the company is in dialogue with potential customers. We expect MOU signing to follow. MUIS partnership will further boost customer confidence, in our view. A recent fund raise approval of up to Rs5bn indicates increased visibility from customers, both domestic as well as global.

Exhibit 9: Update on Battery Chemicals Expansion Plans



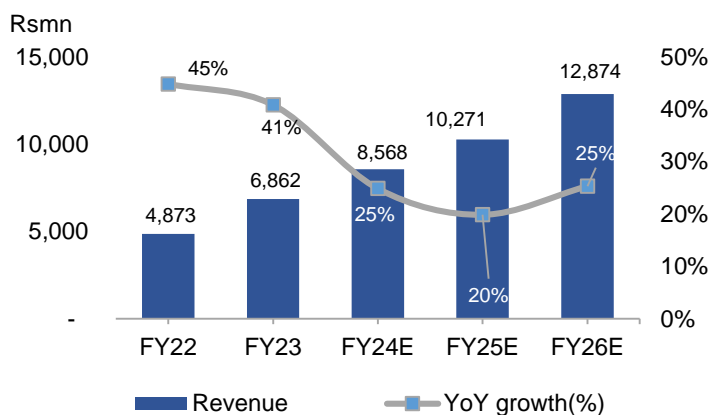
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Neogen's business overview



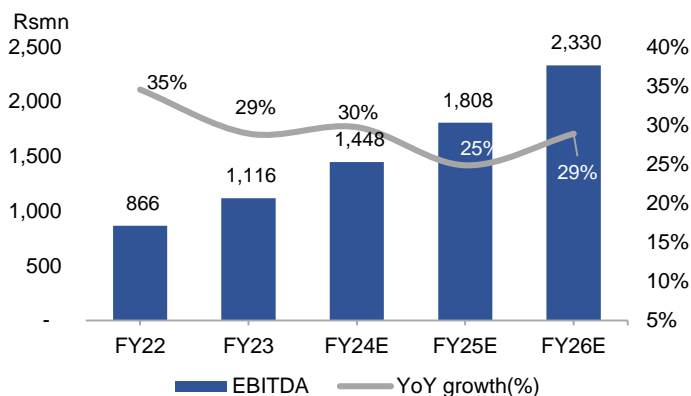
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Revenue growth - We are building in ~23% CAGR over FY23-FY26E



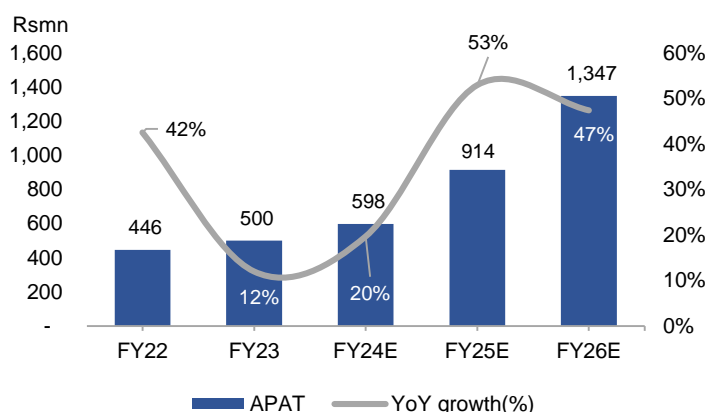
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: EBITDA growth - We are building in ~28% CAGR over FY23-FY26E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Earnings growth - We are building in ~39% CAGR over FY23-FY26E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Change in earnings estimates

Consolidated (Rsmn)	Old Estimates			New Estimates			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	8,568	10,271	-	8,568	10,271	12,874	0.0%	0.0%	-
EBITDA	1,448	1,808	-	1,448	1,808	2,330	0.0%	0.0%	-
EBITDA margin	16.9%	17.6%	-	16.9%	17.6%	18.1%	-	-	-
APAT	598	914	-	598	914	1,347	0.0%	0.0%	-

Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 15: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	4,873	6,862	8,568	10,271	12,874
Growth YoY%	44.8	40.8	24.9	19.9	25.3
COGS	2,750	3,885	4,884	5,803	7,248
Gross margin %	43.6	43.4	43.0	43.5	43.7
Staff costs	315	468	565	668	837
Other expenses	942	1,392	1,671	1,993	2,459
EBITDA	866	1,116	1,448	1,808	2,330
Growth YoY%	34.5	28.9	29.7	24.8	28.9
EBITDA margin %	17.8	16.3	16.9	17.6	18.1
Depreciation	117	162	242	318	335
EBIT	749	954	1,206	1,490	1,995
Interest	191	289	457	480	420
Other income	11	45	48	209	221
PBT (bei)	571	710	797	1,219	1,796
PBT	571	710	797	1,219	1,796
ETR	21.8	29.6	25.0	25.0	25.0
PAT	446	500	598	914	1,347
Adj PAT	446	500	598	914	1,347
Growth YoY%	42.5	12.0	19.7	52.9	47.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	571	710	797	1,219	1,796
Depreciation	117	162	242	318	335
Interest	191	289	457	480	420
Other adjustments	-66	9	-48	-209	-221
Change in Working capital	-701	-1,359	1,183	-194	-596
Tax paid	-98	-115	-199	-305	-449
Operating cash flow	14	-304	2,432	1,309	1,285
Capex	-1,701	-785	-3,342	-2,900	-1,250
Free cash flow	-1,687	-1,089	-910	-1,591	35
Other investing activities	243	-159	581	254	221
Investing cash flow	-1,458	-945	-2,761	-2,646	-1,029
Issuance of share capital	2,250	-	-	-	-
Movement of Debt	-42	1,361	2,378	500	-1,000
Dividend paid (incl DDT)	-53	-69	101	156	463
Other financing activities	-272	-289	-457	-480	-420
Financing cash flow	1,884	1,003	2,021	176	-957
Net change in cash flow	440	-245	1,692	-1,160	-701
Opening C&CE	12	452	207	1,899	738
Closing C&CE	452	207	1,899	738	37

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	249	249	249	249	249
Reserves & Surplus	4,143	4,576	5,099	5,941	7,178
Net worth	4,392	4,825	5,348	6,191	7,428
Long term debt	1,215	1,291	2,500	2,500	2,000
Short term debt	1,032	2,331	3,500	4,000	3,500
Total debt	2,247	3,622	6,000	6,500	5,500
Other non-current liabilities	204	325	500	728	1,300
Total Equity & Liabilities	6,844	8,772	11,848	13,418	14,228
Gross block	3,134	3,897	4,897	9,947	11,747
Accumulated depreciation	283	422	664	982	1,317
Net Block	2,851	3,475	4,233	8,965	10,430
CWIP	106	358	2,700	550	-
Intangible and others	-	-	-	-	-
Other non-current assets	103	139	139	139	139
Investments	817	768	236	190	190
Trade receivables	1,095	1,774	1,791	2,111	2,645
Inventories	1,946	2,930	2,817	3,433	4,303
Cash & Cash equivalents	452	207	1,899	738	37
Other current assets	624	887	429	344	254
Total current assets	4,925	6,558	7,164	6,808	7,422
Trade payables	989	1,566	1,595	1,912	2,396
Other current liabilities	162	201	800	1,140	1,374
Total current liabilities	1,151	1,766	2,395	3,052	3,770
Total Assets	6,844	8,772	11,848	13,418	14,228

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Key ratios

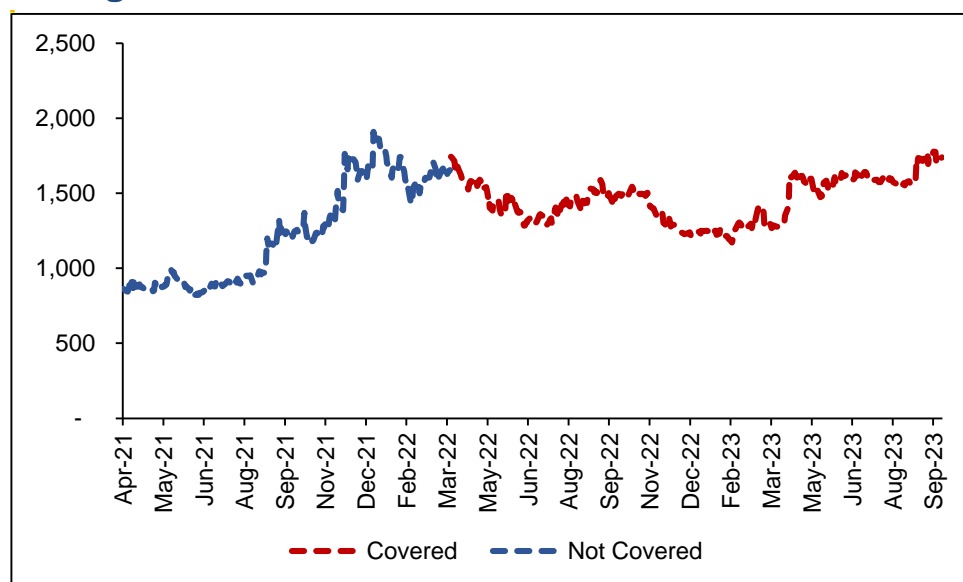
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
Adj EPS	17.9	20.0	24.0	36.7	54.0
Book value	188.2	206.8	229.2	265.3	318.3
DPS	2.1	3.0	2.9	4.4	6.5
Valuation (x)					
P/Sales	8.4	5.9	4.8	4.0	3.2
EV/sales	8.7	6.4	5.2	4.5	3.6
EV/EBITDA	49.2	39.6	31.0	25.8	19.8
P/E	97.7	87.2	72.9	47.7	32.4
P/BV	9.3	8.5	7.6	6.6	5.5
Return ratios (%)					
RoCE	11.2	8.9	9.1	9.3	11.7
RoCE (pre-tax)	14.3	12.6	12.2	12.4	15.6
RoE	15.3	10.7	11.8	13.1	17.3
Profitability ratios (%)					
Gross margin	43.6	43.4	43.0	43.5	43.7
EBITDA margin	17.8	16.3	16.9	17.6	18.1
PAT margin	9.1	7.2	6.9	8.7	10.3
Liquidity ratios (%)					
Current ratio	2.3	1.6	1.2	1.0	1.0
Quick ratio	1.4	0.9	0.7	0.5	0.4
Solvency ratio (%)					
Debt to Equity ratio	0.5	0.8	1.1	1.0	0.7
Net Debt to Equity ratio	0.2	0.6	0.7	0.9	0.7
Turnover ratios					
Fixed asset turnover ratio (x)	2.1	2.0	1.9	1.4	1.2
Debtor days	70	76	76	70	70
Inventory days	116	130	120	122	122
Creditor days	62	68	68	68	68
Net Working capital days	124	138	128	124	124

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
31 March 2022	Buy	1,655	2,000
16 May 2022	Buy	1,385	1,600
9 August 2022	Buy	1,427	1,640
19 September 2022	Accumulate	1,510	1,600
8 November 2022	Accumulate	1,412	1,570
13 February 2023	Buy	1,299	1,500
22 March 2023	Accumulate	1,301	1,300
15 May 2023	Accumulate	1,473	1,400
07 August 2023	Accumulate	1,566	1,600
28 September 2023	Accumulate	1,747	1,800

Rating Chart



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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