

Chemicals | Q4FY24 Result Update

Higher competitive intensity to keep near-term earnings in check

- NOCIL's Q4FY24 operating profit performance was below estimates with low EBITDA margin at 12.5% (-183bps QoQ) as realizations corrected sharply, even as RM prices stayed firm. Continued influx from China due to higher capacity, is impacting realizations. Volumes grew 12% QoQ aided by growth across exports and domestic market.
- Management indicated FY25E to see higher volumes vs FY24, aided by higher sales to new customers. It also believes spreads have bottomed out and may not fall further, though competitive intensity remains elevated.
- Volume growth has been negligible over the last couple of years (2% for FY24); there remains enough capacity headroom to tap into demand recovery/growth. We factor ~13% volume CAGR (FY24-26) and gradual recovery in spreads vs Q4FY4, and arrive at TP of Rs240 (20x FY26); maintain 'SELL' rating.

Q4 operating profit weak despite higher volumes

Revenue at Rs 3.5bn (-9%YoY/ +5%QoQ), wherein volume growth at +1% YoY/ +12% QoQ was partially offset by decline in realizations by 11% YoY/ 8% QoQ. Gross spread was at Rs113/ kg (-7%YoY/ -15%QoQ) as input cost remained firm QoQ while realizations came under pressure, on higher competitive intensity. EBITDA at Rs446mn (-10%YoY/ -9%QoQ), aided somewhat by lower conversion costs, as employee costs were 17% lower QoQ and other expenses were flat despite higher volumes. Reported PAT included a one-time gain on disposal of fixed assets (+Rs180mn), adjusted for which it was -1% YoY/ - 6% QoQ, at Rs281mn. Core working capital days remained stable at 112 days in FY24.

All eyes on volume growth

NOCIL remains well placed for long term given 1) China+1 strategy benefitting global customers seeking supply diversification, despite increasing capacity in China; 2) sufficient capacity headroom (current capacity utilization at ~65%) enabling volume growth as demand improves; 3) domestic tyre industry growth and 4) net cash BS (Rs3.8bn) & healthy FCF of Rs.3.3bn over FY25-26E. Management continues to evaluate entry in adjacencies/new chemistries (at different stages of discussion), while in core business, near term uncertainties/ Chinese aggression persist. Key risk to our rating: Better than expected volume growth.

Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	3,565	3,927	(9.2)	3,406	4.7
Total Expense	3,119	3,430	(9.1)	2,918	6.9
EBITDA	446	497	(10.3)	489	(8.7)
Depreciation	133	139	(4.0)	135	(1.3)
EBIT	313	359	(12.7)	354	(11.5)
Other Income	247	29	740.5	58	323.8
Interest	4	3	55.6	5	(16.0)
EBT	556	385	44.3	407	36.6
Tax	141	102	37.7	107	31.5
RPAT	415	283	46.7	300	38.5
APAT	281	283	(0.8)	300	(6.4)
			(bps)		(bps)
Gross Margin (%)	42.1	40.5	153	46.3	(421)
EBITDA Margin (%)	12.5	12.7	(15)	14.3	(183)
NPM (%)	11.7	7.2	444	8.8	284
Tax Rate (%)	25.3	26.5	(121)	26.3	(98)
EBIT Margin (%)	8.8	9.1	(35)	10.4	(160)

CMP	Rs 259
Target / Downside	Rs 240 / 7%
NIFTY	22,489

Scrip Details

Equity / FV	Rs 1,666mn / Rs 10
Market Cap	Rs 43bn
	USD 521.2mn
52-week High/Low	Rs 298/ 204
Avg. Volume (no)	6,05,115
Bloom Code	NOCIL IN

Price Performance	1M	3M	12M
Absolute (%)	(4)	(1)	21
Rel to NIFTY (%)	(3)	(4)	0

Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	33.8	33.8	33.8
MF/Banks/FIs	3.6	2.9	3.5
FIs	6.4	7.0	7.8
Public / Others	56.2	56.3	54.9

Valuation (x)

	FY24A	FY25E	FY26E
P/E	36.1	26.9	21.6
EV/EBITDA	20.2	15.1	12.2
ROE (%)	8.2	9.3	10.9
RoACE (%)	7.6	8.6	10.1

Estimates (Rs bn)

	FY24A	FY25E	FY26E
Revenue	14.4	16.6	18.6
EBITDA	2.0	2.6	3.1
PAT	1.2	1.6	2.0
EPS (Rs.)	7.2	9.6	12.0

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Exhibit 1: Actual vs estimates

Particulars (Rs mn)	Estimates			% Variation		Comment
	Actual	Dolat	Consensus	Dolat	Consensus	
Revenue	3,565	3,677	3,661	(3.0)	(2.6)	Revenue in-line
EBITDA	446	521	517	(14.4)	(13.6)	EBITDA below estimates on lower spreads
EBITDA Margin (%)	12.5	14.2	14.1	(165 bps)	(159 bps)	
PAT	281	330	307	(14.9)	(8.6)	
EPS (Rs)	1.7	2.0	1.8	(14.9)	(8.6)	Earnings below estimates

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY24	FY25E			FY26E		
	Actual	Old	New	Chg. (%)	Old	New	Chg. (%)
Revenue	14447	16881	16614	(1.6)	18529	18607	0.4
Change (%)	(10.6)	16.9	15.0		9.8	12.0	
EBITDA	1950	2756	2611	(5.2)	3183	3148	(1.1)
Change (%)	(22.8)	41.3	33.9		15.5	20.5	
EBIT	1423	2216	2060	(7.0)	2622	2575	(1.8)
Change (%)	(27.8)	55.8	44.8		18.3	25.0	
Adj. PAT	1196	1716	1603	(6.6)	2034	2002	(1.6)
Change (%)	(19.9)	43.6	34.1		18.5	24.9	
EPS (Rs)	7.2	10.3	9.6	(6.6)	12.2	12.0	(1.6)

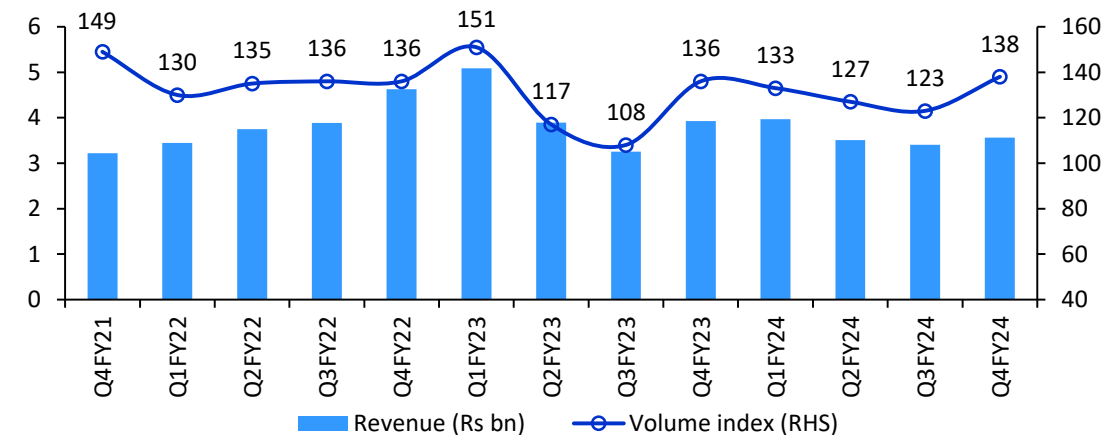
Source: Company, DART

Earnings Call KTA's

- **Ongoing dumping from China:** Surge in Chinese supplies, led by subdued demand in Chinese domestic markets led to dumping, impacting volumes. Nevertheless, NOCIL's supply reliability and customer engagement, is helping minimize the impact.
- **Despite geopolitical issues and RM price volatility, export volumes have grown by 9% in FY24.**
- **Healthy growth in Indian tyre industry over next decade:** Indian tyre industry is likely to grow from USD9bn to USD22bn over next 10 years (industry reports) led by increasing demand for new vehicles and continued govt. investment in infrastructure. Indian tyre industry to grow in mid-single digit for FY25 on stable replacement market and growth in OEM's.
- **Product approvals from additional sites of existing customers:** Management is positive about increasing its global presence, with approvals being received gradually.
- **Capex in Rubber Chemicals:** Rs2.5bn capex at Dahej site, approved by the board. Work has commenced and is expected to commission by end of FY27. Capex is for products where utilizations are optimal, even though overall company utilizations are at ~65%
- **Latex industry appears to have bottomed out:** Latex witnessed sharp degrowth over last couple of years (-40%; indicatively down to 60 from base of 100 in FY22) but has been offset by other products, which have started showing signs of growth. However, management believes, latex market has bottomed out and could witness recovery.
- **RM price volatility:** Prices of key RMs (aniline and MIBK) have increased further in Q1FY25, though there has been some volatility in the last few weeks.
- **Capacity utilization** for FY24 was 65%, **Exports revenue contribution** was ~32%.

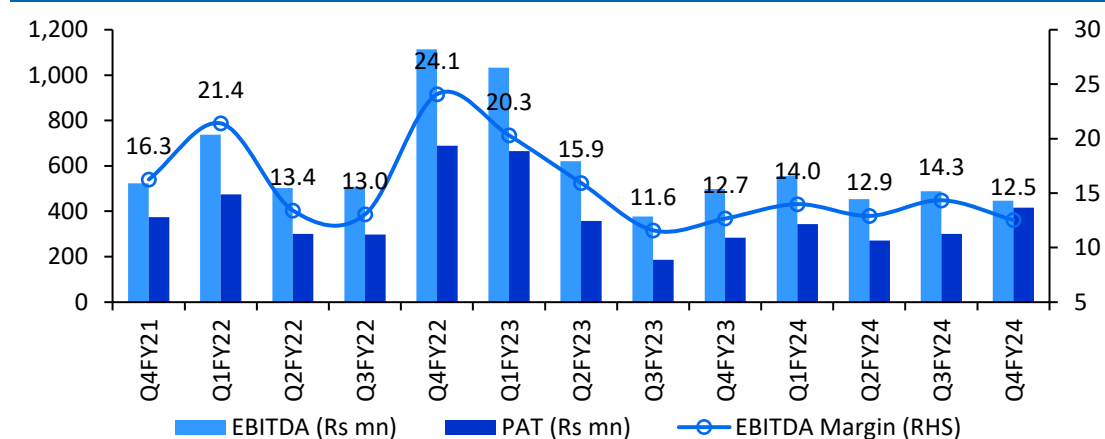
Quarterly trends

Exhibit 3: Revenue at Rs3.6bn(-9% YoY/+5% QoQ); vol increase offset by decline in ASP



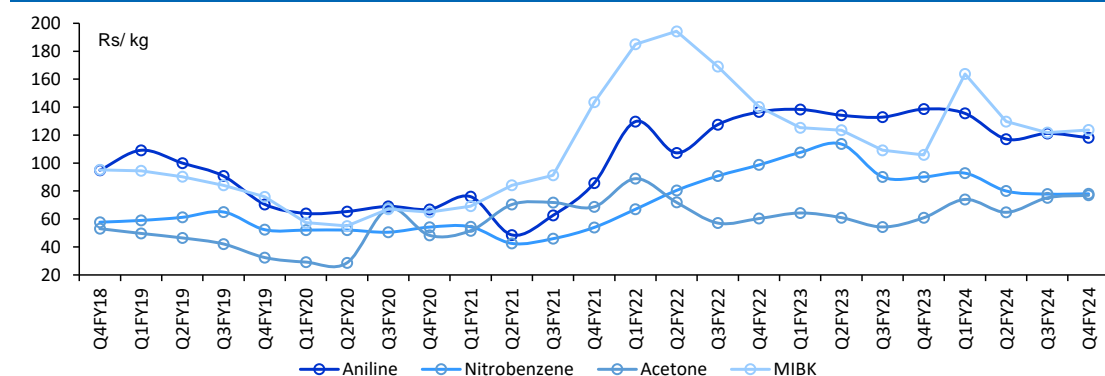
Source: Company, DART

Exhibit 4: QoQ EBITDA decline on lower spreads



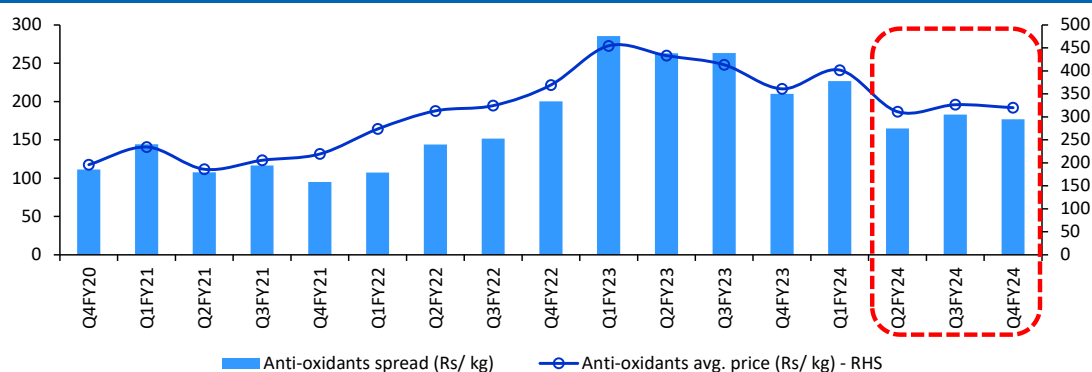
Source: Company, DART

Exhibit 5: Key raw material price trends



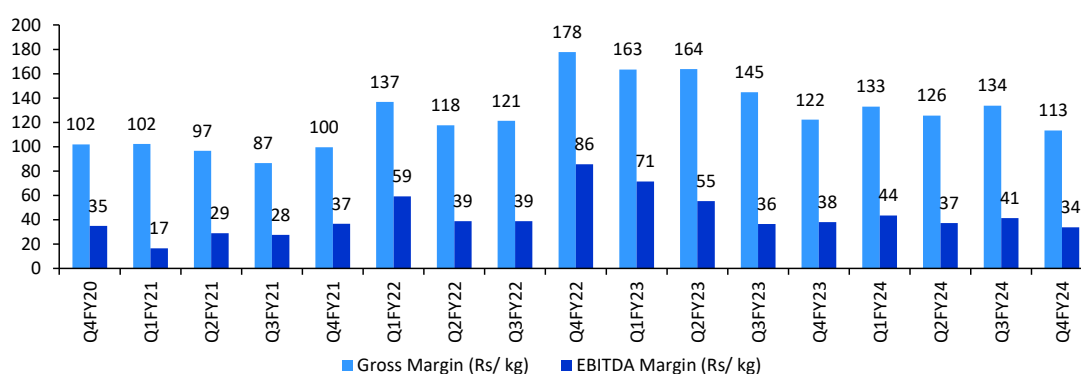
Source: Industry, DART

Exhibit 6: Anti-oxidant prices and spreads – It forms 52% of global rubber chemicals capacities (higher for NOCIL)



Source: Industry, DART

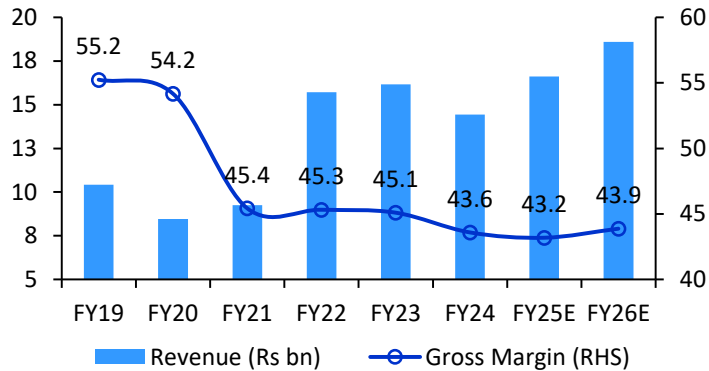
Exhibit 7: NOCIL spreads under pressure; elevated competitive intensity persists



Source: Company, DART

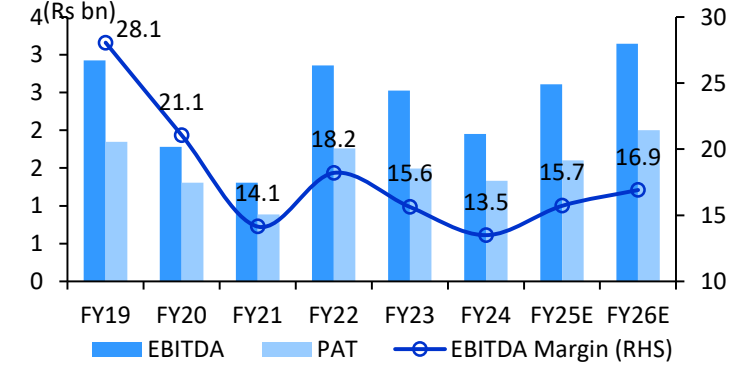
Story in charts

Exhibit 8: Rev to grow at 13% CAGR (FY24-26E)



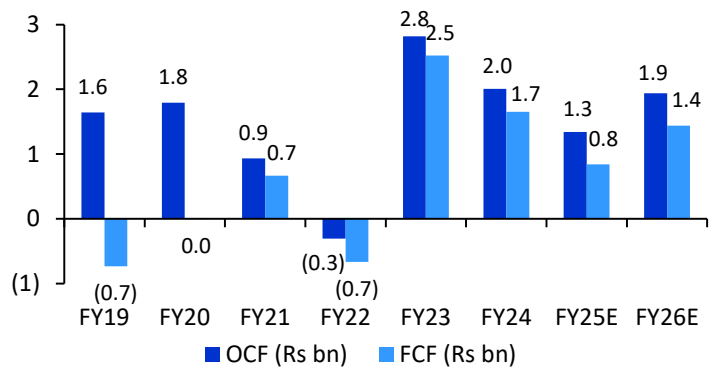
Source: Company, DART

Exhibit 9: Operating leverage to play out as volume grows



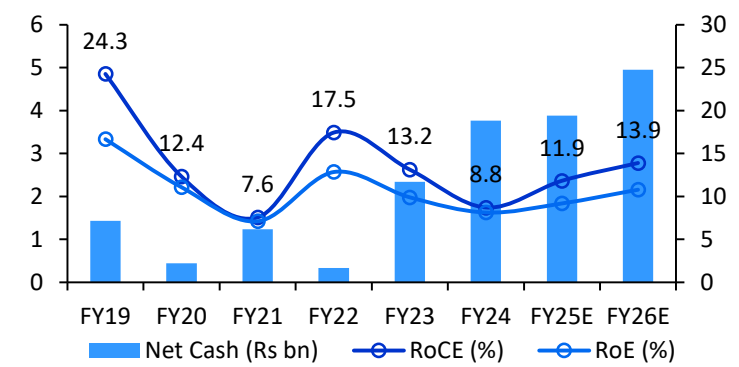
Source: Company, DART

Exhibit 10: Healthy cash flow



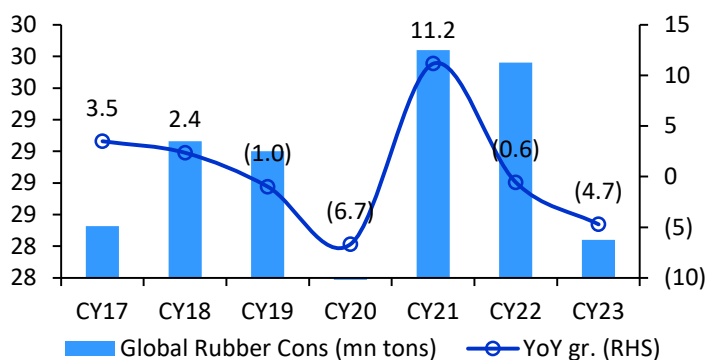
Source: Company, DART

Exhibit 11: Net cash BS with stable return ratios



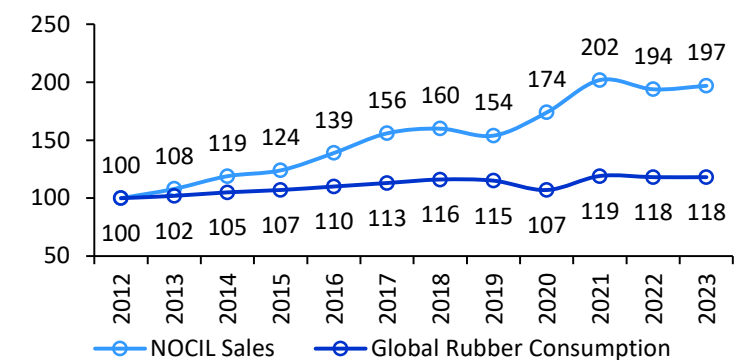
Source: Company, DART

Exhibit 12: Slower global rubber chemicals consumption



Source: Company, DART

Exhibit 13: Grown faster than global rubber consumption



Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
Revenue	16,166	14,447	16,614	18,607
Total Expense	13,638	12,496	14,002	15,460
COGS	8,877	8,151	9,441	10,445
Employees Cost	875	921	1,004	1,094
Other expenses	3,887	3,425	3,558	3,921
EBIDTA	2,527	1,950	2,611	3,148
Depreciation	557	528	552	573
EBIT	1,971	1,423	2,060	2,575
Interest	12	16	11	11
Other Income	62	394	118	142
Exc. / E.O. items	0	0	0	0
EBT	2,021	1,800	2,167	2,706
Tax	529	470	563	703
RPAT	1,492	1,330	1,603	2,002
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,492	1,196	1,603	2,002

Balance Sheet

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
Sources of Funds				
Equity Capital	1,666	1,667	1,666	1,666
Minority Interest	0	0	0	0
Reserves & Surplus	13,855	15,319	15,920	17,422
Net Worth	15,521	16,986	17,586	19,088
Total Debt	0	0	0	0
Net Deferred Tax Liability	1,339	1,510	1,510	1,510
Total Capital Employed	16,861	18,496	19,096	20,597

Applications of Funds

Net Block	8,875	8,694	8,642	8,570
CWIP	86	162	162	162
Investments	425	1,191	1,191	1,191
Current Assets, Loans & Advances	9,186	10,106	11,105	12,920
Inventories	2,849	2,228	2,985	3,242
Receivables	3,460	3,402	3,641	4,078
Cash and Bank Balances	574	955	938	2,009
Loans and Advances	386	438	416	429
Other Current Assets	154	275	316	354
Less: Current Liabilities & Provisions	1,710	1,657	2,004	2,245
Payables	1,272	1,181	1,457	1,631
Other Current Liabilities	438	476	548	613
<i>sub total</i>				
Net Current Assets	7,475	8,449	9,101	10,675
Total Assets	16,861	18,496	19,096	20,597

E – Estimates

Important Ratios

Particulars	FY23A	FY24A	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	45.1	43.6	43.2	43.9
EBIDTA Margin	15.6	13.5	15.7	16.9
EBIT Margin	12.2	9.8	12.4	13.8
Tax rate	26.2	26.1	26.0	26.0
Net Profit Margin	9.2	9.2	9.7	10.8
(B) As Percentage of Net Sales (%)				
COGS	54.9	56.4	56.8	56.1
Employee	5.4	6.4	6.0	5.9
Other	24.0	23.7	21.4	21.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	164.2	87.8	187.2	234.1
Inventory days	64	56	66	64
Debtors days	78	86	80	80
Average Cost of Debt				
Payable days	29	30	32	32
Working Capital days	169	213	200	209
FA T/O	1.8	1.7	1.9	2.2
(D) Measures of Investment				
AEPS (Rs)	9.0	7.2	9.6	12.0
CEPS (Rs)	12.3	10.3	12.9	15.5
DPS (Rs)	3.0	3.0	2.4	3.0
Dividend Payout (%)	33.5	41.9	25.0	25.0
BVPS (Rs)	93.2	102.0	105.6	114.6
RoANW (%)	10.0	8.2	9.3	10.9
RoACE (%)	9.2	7.6	8.6	10.1
RoAIC (%)	12.4	8.4	11.5	14.0
(E) Valuation Ratios				
CMP (Rs)	259	259	259	259
P/E	28.9	36.1	26.9	21.6
Mcap (Rs Mn)	43,183	43,183	43,183	43,183
MCap/ Sales	2.7	3.0	2.6	2.3
EV	40,846	39,420	39,437	38,366
EV/Sales	2.5	2.7	2.4	2.1
EV/EBITDA	16.2	20.2	15.1	12.2
P/BV	2.8	2.5	2.5	2.3
Dividend Yield (%)	1.2	1.2	0.9	1.2
(F) Growth Rate (%)				
Revenue	2.9	(10.6)	15.0	12.0
EBITDA	(11.7)	(22.8)	33.9	20.5
EBIT	(17.1)	(27.8)	44.8	25.0
PBT	(16.0)	(10.9)	20.4	24.9
APAT	(15.3)	(19.9)	34.1	24.9
EPS	(15.3)	(19.9)	34.1	24.9

E – Estimates

Cash Flow

Particulars	FY23A	FY24A	FY25E	FY26E
Profit before tax	2,021	1,800	2,167	2,706
Depreciation & w.o.	557	528	552	573
Net Interest Exp	(32)	(151)	(107)	(131)
Direct taxes paid	(505)	(402)	(557)	(697)
Change in Working Capital	796	481	(711)	(509)
Non Cash	(17)	(247)	0	0
(A) CF from Operating Activities	2,820	2,009	1,343	1,941
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(294)	(169)	(500)	(500)
Free Cash Flow	2,526	1,840	843	1,441
(Inc.)/ Dec. in Investments	(1,899)	(727)	0	0
Other	25	122	154	142
(B) CF from Investing Activities	(2,168)	(774)	(346)	(358)
Issue of Equity/ Preference	12	1	(1)	0
Inc./(Dec.) in Debt	0	0	0	0
Interest exp net	(12)	(16)	(11)	(11)
Dividend Paid (Incl. Tax)	(500)	(501)	(401)	(501)
Other	(37)	(37)	0	0
(C) CF from Financing	(538)	(553)	(413)	(512)
Net Change in Cash	114	682	584	1,071
Opening Cash balances	122	236	918	1,503
Closing Cash balances	236	918	1,503	2,574

E – Estimates

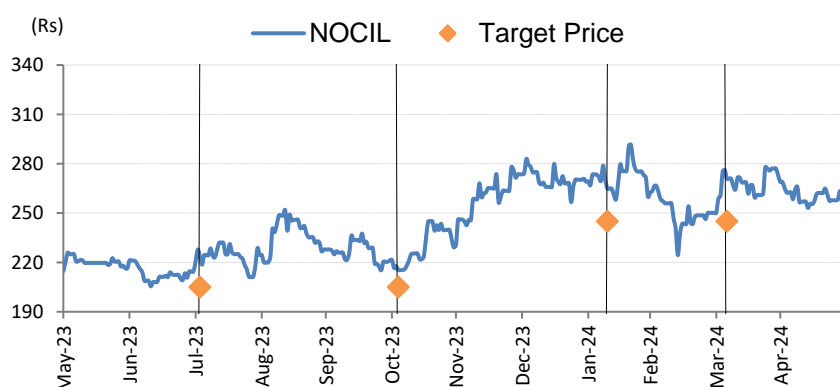
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-23	Sell	205	224
Nov-23	Sell	205	215
Feb-24	Sell	245	265
Apr-24	Sell	245	271

*Price as on recommendation date

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