



COMPANY NAME	: NOCIL
BSE Code	: 500730
Time Duration	: 1 year
CMP	: ₹173.45 (as on 16 Aug., 2018)
Target Price	: ₹225

The Mid Bridge for the month of August is Nocil Limited, a company from the house of Arvind Mafatlal. It is India's largest rubber chemicals company having capacity of 53,000 tonnes and also producing anti-oxidants and accelerators. Its key global customers are Michelin, Bridgestone and Continental and its domestic customers include MRF, JK Tyres and Birla Tyres. Since 2014, the company has seen improvement in its ROA from 2.9% to 13.6% in FY18. During the same period, ROE improved from 6.38% to 17.42%. This was largely due to improvement in EBITDA margins from 6.32 in FY13 to 28% in FY18.

Capacity expansion plans

The phase-I comprising of two parts was announced in March 2017 for Rs 170 crore. The first part of expansion at Navi Mumbai site has been commissioned and the commercial production has started from Q1FY19. The second part of the expansion at Dahej is expected to commence commercial production in Q3FY19. The phase-II includes expansion of its production facilities for rubber chemicals and intermediates at Dahej and Navi Mumbai. The capex allotted for phase-II expansion is Rs 255 crore. The commercial production of the above expansion is expected to be start by the end of H1FY20. The total capex of Rs 425 crore would be funded through company's internal accruals. This will help the company to double up its asset turnover. This expansion will cater to the growing demand in the domestic and international markets. Also, this is expected to enhance capacities of accelerators and antioxidants.

Impact of anti-dumping duty

The anti-dumping duty on the import of rubber chemicals into India was imposed from 2014 for a period of five years. The anti-dumping duties are applicable till July 2019. However, the government has extended anti-dumping duties on imports of rubber chemicals PX13—a phenylenediamine antioxidant—from the European Union and accelerator MOR (morpholine) from China. It has extended the duties for five years with rates ranging up to \$897 per metric tonne on some European imports of PX13, while anti-dumping duty rate for Chinese-imported MOR will be \$213.82 per tonne.

Global markets to drive demand

The company derived 26% of its revenue from exports with 8% volume growth and 17% growth in revenues. This indicates that

the pricing power of the company has improved. This is largely due to supply restrictions coming due to stricter law in China providing level playing field to Nocil in terms of pricing. The company has been selectively targeting value-added chemicals in the export market to aid growth. Also, in respect of chemicals having high competition, the company limits its exports to maintain capacity utilisation.

Rubber chemical industry

Rubber chemicals are used mainly for the processing or conversion of natural rubber and synthetic rubber into finished products. These are chemical compounds used in production, synthesising and purification of various rubber products. They are largely divided into two main categories, viz. accelerators (chemicals that accelerate speed of vulcanisation) and antioxidants (chemicals that enhance the durability and life of rubber products). They contribute ~4% to the cost of tyre.

The finished products include tyres, hoses, footwear, moulded components for vehicles, industrial belts, gloves, etc. Of these, the tyre segment is the largest consumer (65%) of rubber chemicals. Thus, growth in the automobile sector has a direct impact on the demand for rubber, thereby leading to growing demand for rubber chemicals.

Apart from the tyre industry, rubber processing chemicals are also used in several construction-based activities such as floor coverings, insulating agents, roofing materials and sealants. The demand from such applications is also rising, thereby boosting the global rubber processing chemicals market.

Financial Performance

Over FY16-18, the company's revenue has grown at a CAGR of 16%, while the net profit grew strongly at CAGR of 47%. In FY18, its revenue was up by 30.5% YoY to Rs 968 cr. EBITDA was up by 66.5% YoY to Rs 263 cr from Rs 158 cr. The EBITDA margin rose to 27.2% from 21.3% in FY17. PAT for the year jumped by 74.2% YoY to Rs 169 cr from Rs 97 cr. The PAT margin improved from 13% in FY17 to 17.4% in FY18. By the end of FY18, the company paid off all its debt leading to nil debt-equity ratio. Its inventory turnover ratio has improved from 4.52x in FY15 to 7.35x in FY18. Also, the payable days have declined from 47.46 days in FY14 to 33.12 days in FY18. The company has maintained healthy dividend payout ratio of 26.18% and paid 25% dividend in FY18.

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In Q1FY19, the revenue was up by 24.7% YoY from Rs 215 cr to Rs 268 cr. Its EBITDA increased by 46.8% YoY to Rs 80 cr from Rs 55 cr. The EBITDA margin improved from 25.4% to 29.9% on a YoY basis. The PAT for the quarter jumped 46.7% YoY from Rs 35 cr to Rs 51 cr., while the PAT margin expanded to 19% from 16.1% on YoY basis.

Valuation

The company is trading at TTM P/E of 15.45x with TTM EPS of Rs

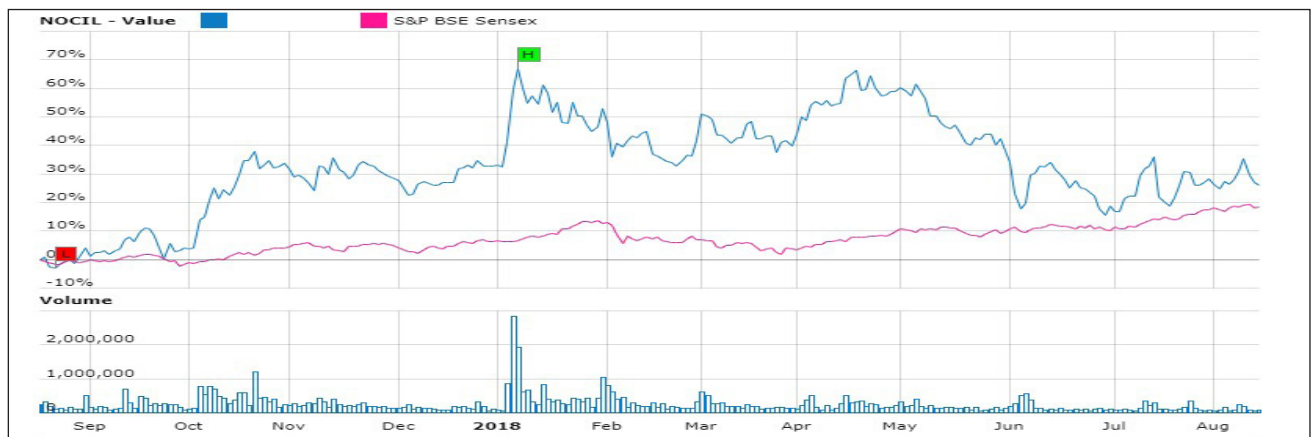
11.18. It delivered ROE and ROCE of 17.4% and 25.8% in FY18. We see that rubber chemicals have a basic input benzene, which is derived from crude, hence the margins might be range-bound and largely driven by volumes. Hence, we urge investors to average their investment as the share prices are expected to remain volatile for the first half of the year with crude and raw material prices rising sharply by 20-50%. We see a potential upside of 30% with target price of Rs 225 over a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	967.64	742.21	715.21	719.00	596.14
Total Income	981.97	751.33	718.25	722.89	606.90
Total Expenditure	704.77	584.24	577.06	607.13	535.22
PBIDT	277.20	167.09	141.19	115.76	71.68
PAT	168.61	96.83	77.74	56.75	23.62
Dividend %	25.00	18.00	12.00	10.00	6.00
Adj. EPS(Rs)	10.25	5.92	4.84	3.53	1.47

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	268.09	275.87	-2.82	236.54	13.34
Total Expenditure	187.86	191.29	-1.79	181.87	3.29
PBIDT (Excl OI)	80.23	84.58	-5.14	54.67	46.75
PAT	50.80	50.95	-0.29	34.62	46.74
PBIDTM% (Excl OI)	29.93	30.66	-2.38	23.11	29.51
PBIDTM%	30.71	31.82	-3.49	24.29	26.43
PATM%	18.95	18.47	2.60	14.64	29.44
Adj. EPS(Rs)	3.07	3.10	-0.97	2.11	45.50



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