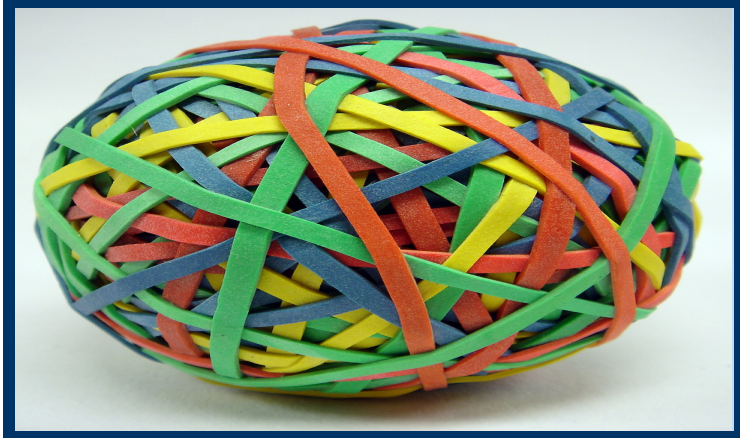


NOCIL Ltd.

- *An Elastic Growth*

- Initiating Coverage

WALLFORT
Financial Services Ltd.

WALLFORT
Financial Services Ltd.

NOCIL Ltd.

Initiating Coverage

22nd January 2016

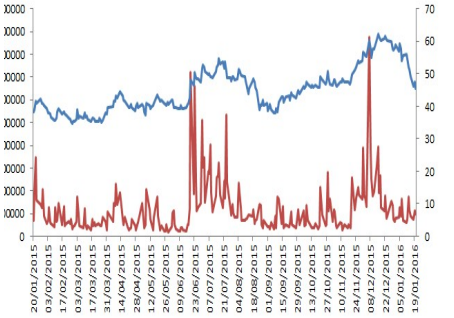
Sector: Specialty Chemicals | **Recommendation: BUY**

CMP: Rs.46 | **Target: Rs.72**

MARKET DATA	
CMP (Rs)	46.00
EPS(TTM - Rs)	4.27
P/E(TTM)	10.77
52 Week High (Rs)	64.50
52 Week Low (Rs)	34.45
Equity (Rs. Mn)	1607.90
Mkt. Cap (Rs. mn)	7565.00

CODES	
BSE	500730
NSE	NOCIL
Bloomberg	NOCIL@IN

Price Volume Graph



SOURCE: BSE

Shareholding pattern

	Sep-15	Jun -15	Mar-15
Promoter	37.55	37.00	37.00
FII	1.80	0.73	0.94
DII	1.67	1.92	1.86
Others	58.98	60.35	60.20

source: BSE

Senior Analyst:
Jigisha Jaini
022-66184010
jigisha.jaini@wallfort.com

A leading player in the rubber chemicals industry

With ~50-55% market share, Nocil is one of the largest players in the rubber chemicals business in India, offering a wide range of products to the end users. ~70% of its revenues come from the tyre industry, which is the largest consumer of rubber chemicals in the world & the remaining from the non-tyre segment.

Domestic tyre industry expected to grow by 4%-8% over the next three years

The domestic tyre industry is estimated to have grown by 10%-12% during 2014-15, supported by 7.0%-7.5% growth in OEM segment and 12%-15% growth in the replacement segment. ICRA expects the tyre industry to report a growth of 4%-8% over the next three years, supported by pick up in auto OE demand across segment.

Stimulating impact on the rubber consumption industry

As per study by an international rubber group, consumption of rubber is expected to increase from 29MMT in FY2015 to 38MMT in FY2022 showcasing tremendous growth opportunity for the rubber chemicals industry.

Nocil expected to reach 100% capacity utilisation by FY17

Production of rubber chemicals was 46266MT in FY15 operating at 84% capacity utilisation. It has an installed capacity of 55000MT. In FY16 we expect it to operate at 90% capacity utilisation & by FY17 it would reach optimum capacity utilisation levels. Prices of chemicals are linked to crude oil prices as raw materials used are crude oil derivatives. We are expecting a PAT growth of ~36% in FY16E & 18% in FY17E.

Capacity expansion plans on the cards

It has a current capacity of 55000MT. Nocil has a total capacity of 40000MT at its Navi Mumbai where it can manufacture finished goods and intermediates. At Dahej its capacity is 15000MT where the company is mainly focused to manufacture intermediates which will then be transferred to its Navi Mumbai plant for converting them into finished products. It had set-up a plant in Dahej with a capacity of 15000MT (intermediates) at a total capex of Rs.2500mn. The management has further guided that the company may go for an additional expansion at Dahej (currently only 30% land is utilised).

Valuation:

Signs of the automotive industry coming out of the last few years of slump are in sight. Expectations for a better GDP growth in 2016 & 2017 and ICRA's forecast for a healthy demand for automobiles auger strong prospects of growth for the rubber chemical industry. Nocil being a dependable & stable player in this segment has earned its repute as a preferred supplier for its clients. **We Initiate Coverage with a BUY rating, with a price target of Rs.72 based on its average PE of 13x FY17E EPS of Rs.5.5 per share.**

Key Highlights

Year end (Rs. Mn)	FY14	FY15	FY16E	FY17E
Net Sales	5936	7160	7571	8294
Growth (%)	22.28%	20.63%	5.74%	9.55%
EBIDTA	624	1133	1334	1508
Margin (%)	10.51%	15.82%	17.61%	18.18%
Net Profit	149	547	744	880
Margin (%)	2.75%	7.64%	9.83%	10.61%
EPS	0.92	3.40	4.63	5.47
PE	17	11	13	7

Source:Company/Wallfort Research

About the Company…

NOCIL a part of Arvind Mafatlal Group of Industries is the largest Rubber Chemicals manufacturer in India with the State of the Art Technology for the manufacture of rubber chemicals. Its brands include PILFLEX® Antidegradants, PILNOX® Antioxidants, PILCURE® Accelerators, Post Vulcanization Stabilizer and PILGARD® Pre Vulcanization Inhibitor which are well recognised in both domestic as well as international markets.

NOCIL's involvement in the Rubber chemicals business spans over 4 decades. It is one of the few players in this business to offer wide range of rubber chemicals to suit the customer needs. Due to its rich experience and offering a one stop shop to customers, it is acknowledged as a dependable supplier of rubber chemicals. Globally it is recognised for its technical capabilities and on this aspect alone, NOCIL enjoys an edge over other players in this business.

Manufacturing Facilities

Rubber Chemicals are specialty organic chemicals and the manufacturing process involves complex chemical reactions and associated unit operations. National and International tyre industry being the main consumer of these products; quality, product consistency and product form are the essential features of these products. Being performance chemicals, approval from customer involves actual performance trial of their finished product and hence NOCIL's continuously updated manufacturing technology ensures performance of products in application areas.

NOCIL has state of the art manufacturing facility at Navi Mumbai and Dahej to deliver quality products to customer. The manufacturing facility is fully automated through PLC/DCS controls not only to ensure quality and consistency of product but also built in safety features to ensure safety of all the operations. A human interaction with the system is through qualified and experienced engineers.

Manufacturing facilities are associated with requisite effluent treatment plants and solid waste incinerator at Navi Mumbai to ensure compliance of all stipulated environment norms. NOCIL has embarked upon research projects to move towards green chemistry strategies.

Products Manufactured

Accelerators

Rubber accelerators are essential chemicals added during the production of rubber and rubber-related products. Its main function is to accelerate the vulcanisation or curing process of rubber. Approximate ~10gm of accelerators is required per kg of rubber.

Range of Accelerators		
Name	**Application**	**Current Prices**
PILCURE MBT 	Extensively used in NR,SBR, NR-SBR/BR blends, NBR, IIR,EPDM and other synthetic rubber based compounds used for the manufacture of motor cycle and scooter tyres, butyl tubes, cycle tyres and tubes, beltings, retreading materials, footwear, hot air cured products, hoses, cables and miscellaneous molded and extruded rubber products.	~Rs.184 p.kg.
PILCURE F 	Pilcure F and its combinations with booster accelerators are widely used in NR, SBR, NR-SBR / BR blends, NBR based rubber compounds used for the manufacture of rubber products such as cycle tyres (black coloured), footwear products, hot air cured rubber products, cables, rubber rollers, ebonites etc.	~Rs.224 p.kg.
PILCURE CBS 	Pilcure CBS alone or in combination with small quantities of booster accelerator is widely used in NR, SBR, NR/BR, SBR blend, NBR and other synthetic rubber based compounds used for the manufacture of auto tyres, cycle tyre/tubes, beltings (conveyor, transmission, V and fan belts), tyre retreading and repair materials, footwear, hoses, cables, injection moulded products and various compression / transfer moulded as well as extruded rubber goods.	~Rs.290 p.kg.

Name	Application	Current Prices
PILCURE NS 	Pilcure NS alone or in combination with small quantities of booster accelerators is widely used in NR, SBR, NR/BR/SBR blend, NBR and other synthetic rubber based compounds used for the manufacture of auto tyre treads, sidewalls, casings, cycle tyres & tubes, conveyor & V-belts, tyre retreading & repair materials, footwear, hoses, cables, injection moulded products and various compression / transfer moulded as well as extruded rubber goods.	
PILCURE MOR 	Pilcure MOR alone or in combination with small quantities of booster accelerator is widely used in NR, SBR, NR-BR/SBR blends, NBR and other synthetic rubber based compounds used for the manufacture of auto tyres, tyre retreading materials, conveyor and power transmission beltings, rubber goods with thick cross sections, intricately shaped rubber goods, rubber footwear, injection moulded goods, cables and other miscellaneous moulded and extruded rubber products.	~Rs.319 p.kg.
PILCURE TMT 	Pilcure TMT as a primary accelerator and as a secondary accelerator in combination with sulphonamide / thiazoles, etc. is extensively used in NR, SBR, NR-SBR/BR blends, NBR,IIR, EPDM and other synthetic rubber based compounds for the manufacture of auto tyres and tubes, cycle tyres and tubes, conveyor / transmission beltings, retreading materials, footwear, hot air cured products and miscellaneous moulded and extruded rubber products.	~Rs.185 p.kg.
PILCURE ZDC 	**LATEX COMPOUNDING** Pilcure ZDC is widely used for the manufacture of NR/SR latex based products such as Latex Foam, Coir Foam, Latex Threads, Latex Tubings, Prevulcanized lattices, Surgical Gloves, Household and Industrial gloves, Condoms, Teats, Toy balloons, Rubber bands, Carpet backings, Latex adhesives, etc. **DRY RUBBER COMPOUNDING** Pilcure ZDC alone is used in the manufacture of white / coloured rubber products such as Footwear components, Seals, Gaskets, Bathing caps, Hoses, Beltings, Cut threads, Sponges, Expanded rubbers, Rubberized fabrics, Rubber Sheeting, Stereo rubbers, Food contact applications, etc.	~Rs.242 p.kg.

Antidegradants

An anti-degradant, or deterioration inhibitor is an ingredient in rubber compounds to deter the aging of rubber products. Anti-degradants include antioxidants and antiozonants. Since the aging of rubber is caused largely by oxygen, materials that quickly react with oxygen can be used as anti-degradant depending on the type of rubber, although organic compounds that easily react with oxygen are recommended for use as anti-degradant (chemical antioxidant). Approximate ~10gm of accelerators is required per kg of rubber.

Range of Antidegradants		
Name	**Application**	**Current Prices**
PILFLEX 13 	Pilflex 13 and its combinations with other antioxidants / antiozonants is used in the manufacture of Truck and Bus,OTR, LCV, Passenger Car, Motorcycle, Scooter, Industrial & Farm Tyres and Tubes, Bicycle Tyres & Tubes, Conveyor belts, V & Fan Belts, Power Transmission Belts, Cables, Hoses, Tubings and other miscellaneous Molded and Extruded rubber products based on NR, NR-BR, SBR, SBR-BR, NBR, IR, IIR, CR, EPDM, etc.	~Rs.320 p.kg.

Antioxidants

Anti-oxidant has a good protective effect against heat, oxygen and fatigue aging and stronger inhibitory effect against metal catalytic oxidation, no spray cream phenomenon, widely used in the manufacture of tyres, motorcycles births, bicycles births, rubber, plastic, adhesive tape, wires, cables and other rubber products. Approximate ~15gm of accelerators is required per kg of rubber.

Range of Antioxidants		
Name	**Application**	**Current Prices**
PILNOX TDQ 	Pilnox TDQ is widely used in the manufacture of Truck & Bus, Passenger, OTR tyres, Two-three wheeler auto tyres, Cycle Tyres and Tubes, Retreading and Tyre Repair materials, conveyor beltings, V-belts and fan belts, transmission belts, tyre Flaps, Hoses, Cables, Oil seals, Gaskets, miscellaneous moulded and extruded goods, Latex foam, Rice dehusking rollers, etc.	~Rs.190 p.kg.
PILNOX SP 	Pilnox SP is widely used as non-staining and non-discoloring antioxidant for the manufacture of transparent / white / coloured products at 0.5 – 3.0 per dosage for the manufacture of products such as hot water bottles, cut threads, sponges, latex foam, coir foam latex threads, tubing, surgical gloves, condoms, teats, balloons, rubber bands etc.	

Pre Vulcanization Inhibitor

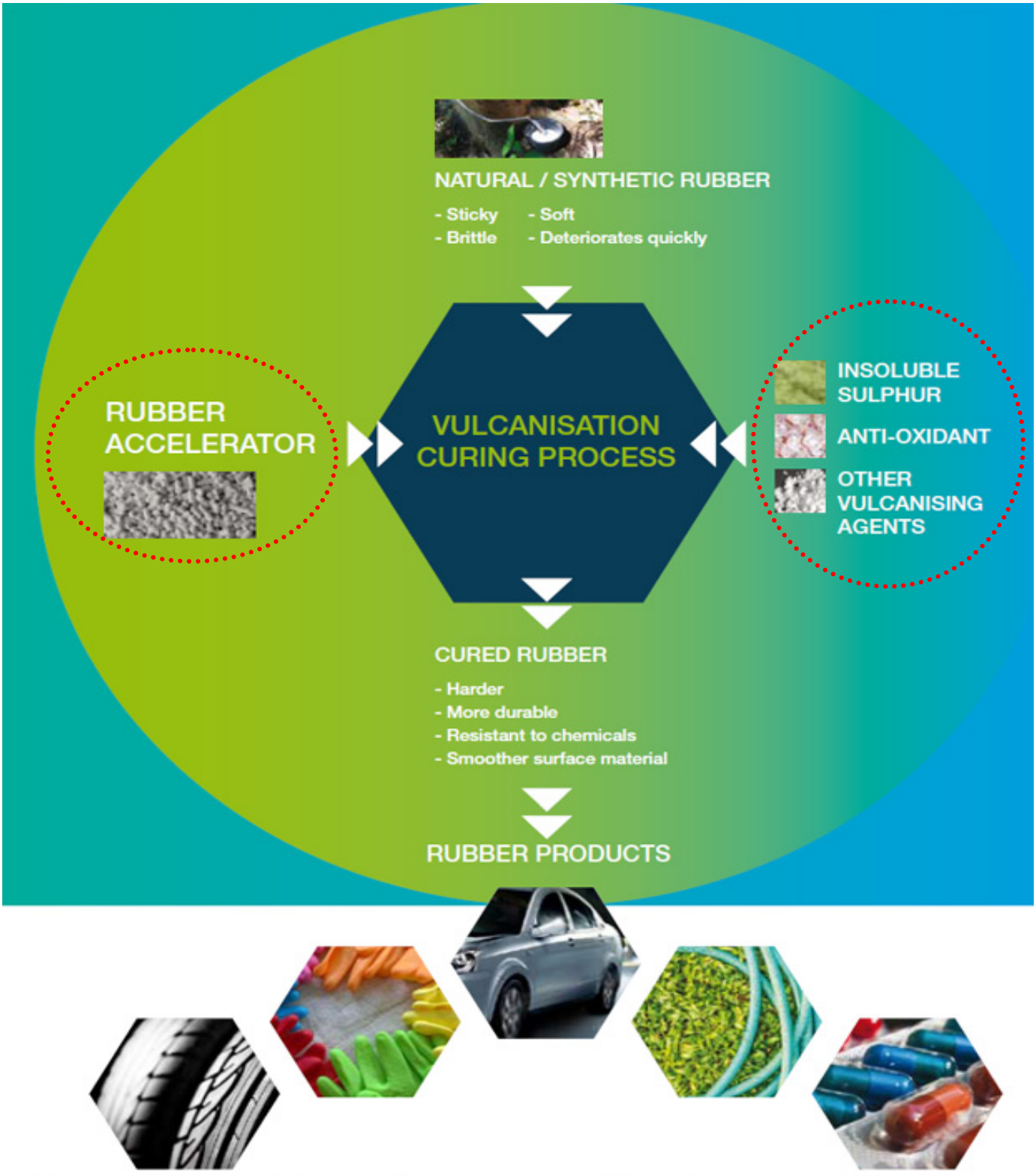
Used in natural rubber and synthetic rubber. It can effectively protect the compound rubber scorching during the process, enabling extrusion to operate at high temperature and high speed. Provides improvement in production, storage stability of the rubber compound and protects the natural vulcanization. It has function recovery for rubber compounds with high heating or dangers of scorching.

Range of Pre Vulcanization Inhibitor		
Name	**Application**	**Average Current Prices**
PILGARD PVI 	Pilgard PVI is widely used in the manufacture of almost all rubber products based on sulphur curable rubbers. Pilgard PVI is not used in latex compounding and the rubber products intended for contact with food/drugs.	~Rs.495 p.kg.

Post Vulcanization Stabilizer

Range of Post Vulcanization Stabilizer		
Name	**Application**	**Average Current Prices**
PILCURE DHTS 	DHTS is used at 1.0–3.0 dosage with Conventional or Semi EV sulphur cure systems to generate thermally stable hybrid cross links which provide excellent dynamic flexibility in NR, IR, SBR, BR and blends of these polymers.	~Rs.708 p.kg.

The Rubber Chemical Industry



The Rubber Chemical Industry

Rubber chemicals find their application in rubber-based industries such as Tyres, Tubes, moulded & extruded components, belting, footwear etc. Although these chemicals form a very small component of the consuming industries' inputs, they are very critical from quality and productivity angles. The demand for rubber chemicals is directly linked to the overall rubber consumption (Natural & Synthetic Rubber) which in turn is linked to the level of economic activity. The single largest rubber-based industry viz. the tyre industry, is directly dependant on the transportation & automotive sector. Performance of the rubber chemicals industry is therefore, largely dependent on the performance of the tyre and automobile industry.

The global economic slowdown had affected the Indian economy, particularly the manufacturing sector. During 2014-15 period, Indian economy grew by 7.3%, as against 4.7% in the previous fiscal. The growth of manufacturing sector was fairly aligned with the overall growth of industry and as a dominant sector; it chartered the growth of overall industry. India's manufacturing sector growth during the year stood at 7.1% against 5.3% growth in 2013-14.

The Automotive production data for 2014-15 showed an uptrend in production growth at 8.68% over previous year. The industry produced 2,33,66,246 vehicles against 2,15,00,165 vehicles produced in 2013-14. The growth continued on account of growth in two wheelers production. While auto sales during 2014-15 grew by 7.22% and auto exports grew by 14.89%.

Indian tyre industry is an integral part of the auto sector and its fortunes are interdependent on those of the automotive sector. With the ongoing slowdown of the automotive sector, the tyre industry too faced a slow growth in the current fiscal. The consumption of natural rubber in tyre sector grew at 4.4%, while in non-tyre sector there was growth of 3.3%.

World Rubber Scenario

According to the International Rubber Study Group (IRSG), the world natural rubber production decreased by 1.5% to 12.07 million tonnes in 2014, compared to growth in 2013. Global natural rubber consumption increased by 6.8% to 12.16 million tonnes in 2014. India slipped to 5th position in Natural Rubber production in 2014.

Global synthetic rubber supply during 2014 registered a growth of 7.8% to 16.68 million tonnes, while demand increased by 8.3% to 16.76 million tonnes. World NR and SR consumption ratio during 2011 was 42:58.

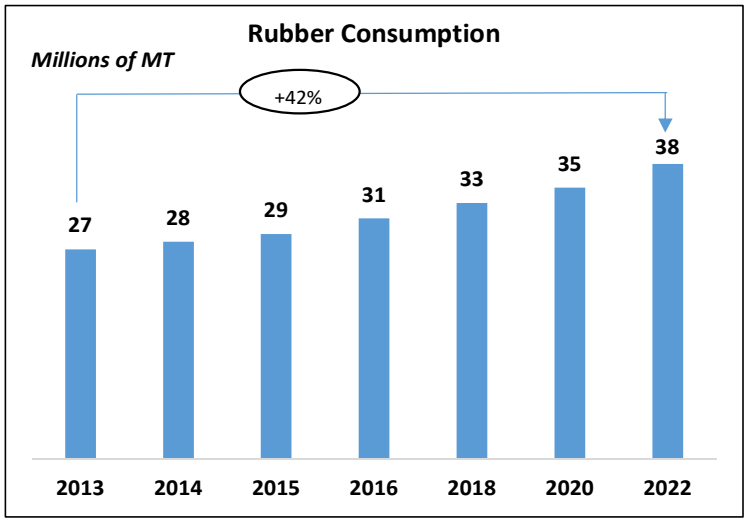
Global Rubber production – Statistics

(In '000 tonnes)

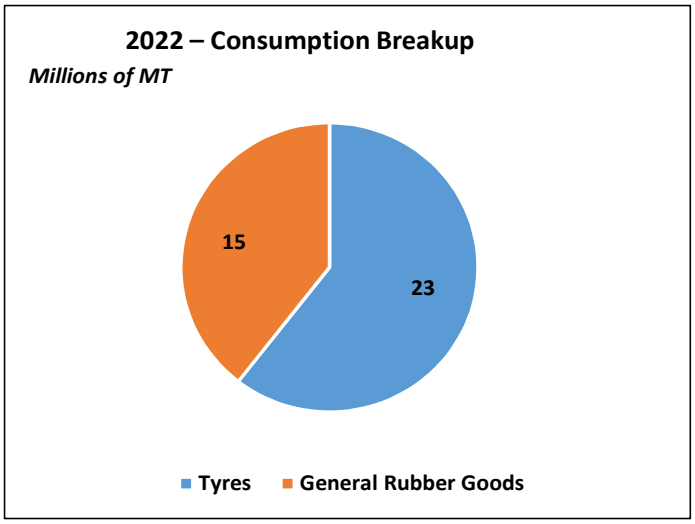
Country	2013	2014	Rank
Thailand	4170	4323	1
Indonesia	3237	3153	2
Vietnam	949	954	3
China	865	857	4
India	796	705	5
Malaysia	826	669	6

Source: rubber4u.in

Global Rubber & Rubber Chemical Consumption



Source : International Rubber Study Group (March 2015)

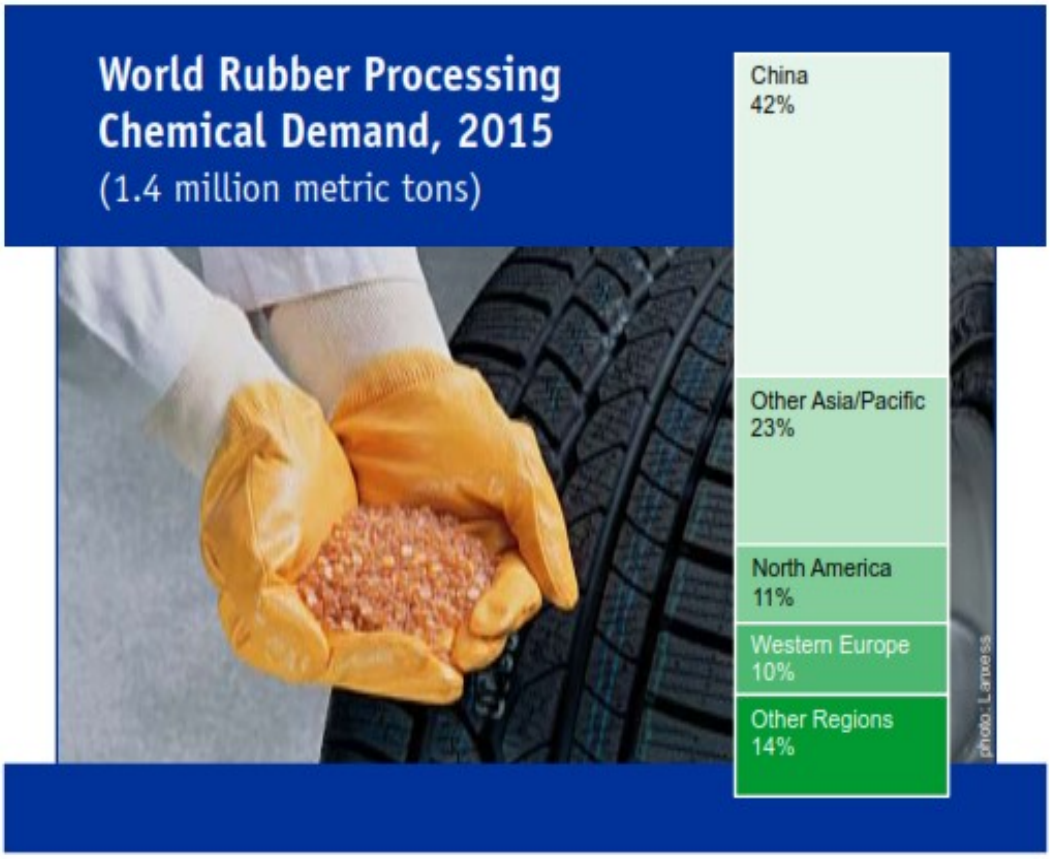


Source : International Rubber Study Group (March 2015)

Rubber Chemicals constitute ~3% of the Rubber Consumption

The global market of rubber processing chemicals is projected to reach $4.8 billion by 2020, witnessing a CAGR of 5.4% between 2015 and 2020. Rubber processing chemicals will witness a steady growth between 2015 and 2020 driven by increasing demand for efficient and high quality chemicals for processing rubber. Tyre application will hold the largest market size among all the applications and is estimated to account for market share of 56.6% in 2020. The demand for rubber processing chemicals from the tyre segment is expected witness high growth due to growing automobile industry and increasing purchasing power of consumers. Asia-Pacific is expected to continue to be dominant region by 2020. Owing to the increasing demand from automotive industry coupled with industries demanding high quality rubber processing chemicals for tyre and non-tyre industry in China and India.

World Rubber Processing Chemical Demand



Source: www.freedoniagroup.com

Growth will be driven by continuing robust gains in the Asia/Pacific region (especially China), and recovery in demand in the US, Western Europe and Japan following their recent declines.

World demand to rise 4.7% annually through 2015

Global demand for rubber processing chemicals is forecast to increase 4.7% per year through 2015 to 1.4 million metric tons. Growth will be driven by continuing robust gains in the Asia/Pacific region (especially China), and recovery in demand in the US, Western Europe and Japan following declines in all three areas between 2005 and 2010. Rubber chemical demand in China is projected to grow 8.1% per year through 2015 to more than 575,000 metric tons. Gains will benefit from healthy growth in both tyre and non-tyre rubber demand, with the latter rising especially strongly. The US, Japan and Western Europe are all expected to see a reversal from the declines experienced between 2005 and 2010. However, growth in all three is projected to be less than 1% per year through 2015, reflecting market maturity in rubber consuming sectors.

Antidegradants demand to grow 4.6% annually

Demand for antidegradants (which improve rubber's resistance to the effects of oxidation, ozone, heat, sunlight and mechanical stress) is projected to grow 4.6% per year through 2015 to nearly 825,000 metric tons. Antidegradant demand will be fueled by both expansion in its major applications (tyres and industrial rubber products) and continuing efforts to improve performance and lengthen service lives of rubber goods. One factor that will counter increasing antidegradant usage is the faster growth in demand for natural rubber versus synthetic rubber. Natural rubber has inherent antioxidative properties and requires lower antioxidant loadings than synthetic rubber to achieve similar properties.

Accelerator demand will exceed 415,000 metric tons in 2015. These chemicals, which control the vulcanization process, are required in all vulcanized rubber products. As such, demand tends to track overall rubber consumption. However, accelerator demand growth will outpace rubber consumption gains due to the above-average gains forecast for secondary or ultra-accelerators, which offer rapid cure rates, are used with ethylene propylene diene monomer (EPDM) and latex compounds, and are believed to be less toxic than primary accelerators.

Indian Rubber Chemical Market

The Indian consumption of rubber chemicals is 65,000MT. There are four major players in the domestic market, mainly Nocil commands a lion's share ~50-55%. Other players are Lanxess India, Merchem and PMC Rubber Chemicals. Out of the total consumption of 50000MT, roughly 35000MT is from Nocil, 7000-8000MT from other players and others from imports.

Indian Scenario

Natural Rubber Production

The natural rubber production in India fell during 2014-15 by 16.7% to 645000 tonnes compared to 774000 tonnes during 2013-14. The productivity during 2014-15 decreased to 1443 kg/ha from 1629 kg/ha during 2013-14. The factors attributed to the decrease in production were unfavourable prices, interruption in tapping due to high wages & dearth of skilled labour and loss in yield was due to abnormal severe summer.

Synthetic Rubber Production

The synthetic rubber production in India increased 34.6% to 151891 tonnes during 2014-15 compared to 112886 tonnes during 2013-14.

Natural rubber Consumption

The consumption of natural rubber in 2014-15 was 1020910 tonnes with a growth of 4% as against 981520 tonnes during 2013-14.

Synthetic rubber Consumption

The consumption of synthetic rubber in 2014-15 was 536130 tonnes with a growth of 10.9% as against 483575 tonnes during 2013-14.

Consumption of Natural Rubber			
(Qty in Tonnes)	2013-14	2014-15	Gr %
Tyres & Tubes	652434	680849	4.4
General Goods	329086	340061	2.2
Total NR	**981520**	**1020910**	**4.0**

Consumption of Synthetic Rubber			
(Qty in Tonnes)	2013-14	2014-15	Gr %
Tyres & Tubes	349001	367798	5.4
General Goods	134574	168332	2.5
Total NR	**483575**	**536130**	**10.9**

Source: rubber4u.in

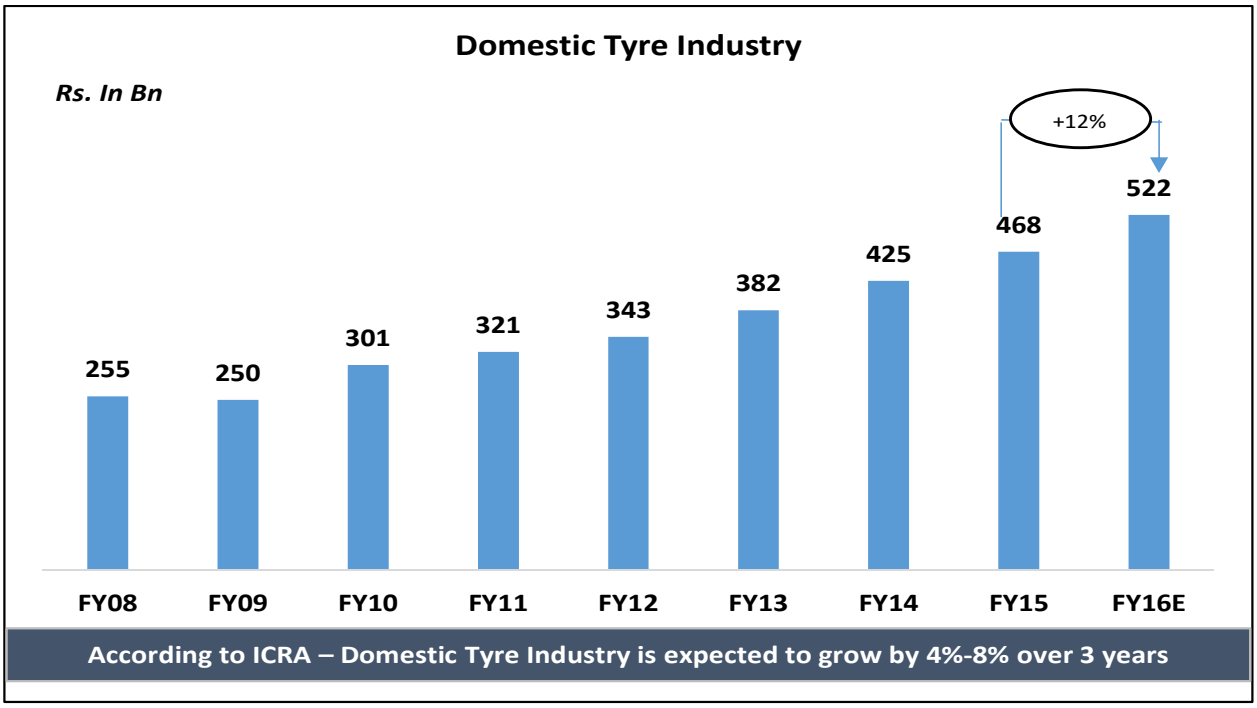
Price of Natural Rubber

During 2014-15, natural rubber prices in the domestic and international markets have been ruling low. Concerns about domestic availability of natural rubber against the backdrop of downward trend in prices, the domestic market sharply fell from Rs.166 a kg at the beginning of April 2014 to touch average low of Rs.132.57 a kg and finally closed at Rs.131.95 a kg in FY15. The average international price for RSS3 grade was Rs.112.71 a kg, while average domestic price for RSS-4 was Rs.132.57 a kg for the year 2014-15. Spot price for RSS-3 is INR 86.72 per kg & RSS-4 is at INR 86.17 per kg.

Forecast

According to Rubber Board estimate, the production of natural rubber for the year 2015-16 is projected at 7.50 lakh tonnes with a growth rate of 16.28% and the projected consumption for the year 2015-16 is 10.56 lakh tonnes with a growth of 3.44%.

The Domestic Tyre Industry



Source : ATMA

Domestically, some signs of the Auto industry coming out of the last two years of poor demand are visible. With mining, coal related issues being gradually sorted out, vehicle movement and tyre demand should also pick up. Lower fuel prices and reducing interest rates should help improve demand for new vehicles. Nocil being the largest player in the domestic market would witness strong growth prospects emanating out of this.

The Indian tyre industry is expected to remain strong with revenues estimated to grow by 7- 8% during fiscal year 2015-2016, up from 5.8% during last financial, rating agency ICRA said in its latest research update.

The domestic tyre demand grew by 10- 12% during 2014- 15 supported by 7- 7.5% growth in the Original Equipment Manufacturer (OEM) segment and 12-15% growth in the replacement segment.

With the recovery in Medium and Heavy Commercial Vehicles segment, expected stability in the passenger vehicle segment and strong prospects for the scooter segments, ICRA expects the domestic tyre demand to grow by 4- 8% over the next three years.

Nocil – Sales Volumes

Volume Details (Rs. Mln)	*2009-10E*	*2010-11*	*2011-12E*	*2012-13E*	*2013-14E*	*2014-15E*	*2015-16E*	*2016-17E*
Rubber Chemicals								
Prod. in MT	36,697	38,264	37,169	33,341	37,333	46,266	50,000	54,800
% Growth		*4%*	*-3%*	*-10%*	*12%*	*24%*	*8%*	*10%*
Installed Capacity in MT	38,950	38,950	45,000	45,000	55,000	55,000	55,000	55,000
Capacity Utilisation - %	94.2	98.2	82.6	74.1	67.9	84.1	90.9	99.6
Sales Qty in MT	**23,413**	**24,171**	**24,413**	**23,436**	**24,960**	**29,951**	**32,369**	**35,476**
% of production	**64%**	**63%**	**66%**	**70%**	**67%**	**65%**	**65%**	**65%**
% Growth		*3%*	*1%*	*-4%*	*7%*	*20%*	*8%*	*10%*
Total Sales in Rs.mn.	**4,545**	**4,739**	**5,047**	**5,163**	**6,327**	**7,683**	**8,054**	**8,827**
% Growth		*4%*	*6%*	*2%*	*23%*	*21%*	*5%*	*10%*
Sales R./U in Rs. p/MT	1,94,123	1,96,072	2,06,740	2,20,289	2,53,479	2,56,513	2,48,818	2,48,818

Source: Company/ Wallfort Research

In the domestic market, supplies from some of the domestic competitors were interrupted leading to some erratic availability. With the result, Nocil recorded a growth of about 20% in its sales volumes. During FY 2014-15, some downward price corrections had to be taken to neutralise the impact on account of irrational reduction in prices offered by competitors from China, Korea and Europe in the Indian market, consistent with their approach of resorting to dumping whenever the demand slackens or supply increases.

The prices of practically all the major raw material inputs of Nocil remained at higher levels during the first half, softened during the second half of FY15. At the same time, due to tightening of supply for reasons explained earlier, along with the levy of anti-dumping duties, the selling prices of majority of its products remained at better levels partially for FY15.

Key Demand Drivers

Strong Automobile Growth forecast

The production of rubber chemicals and their intermediates for 2015 was 46266 MT as against 37333 MT in FY14. The management expects 100% capacity utilisation by FY17. Expectation for a better GDP growth in 2015-16 and ICRA's forecast for a healthy demand for automobiles enables improved business in the domestic market. The major threat remains that of the continued dumping at unrealistic prices by producers mainly from China, Korea and the European Union.

Consolidation in Rubber Chemical Industry to benefit Indian Players

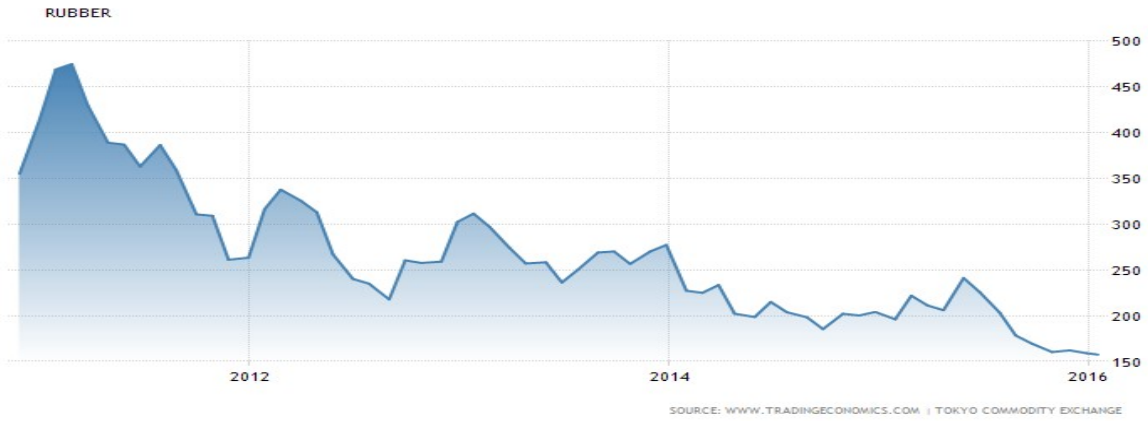
The broad trend in the Rubber Chemicals Industry over the last decade has been one of proliferation of producers in China and consequent exit of major erstwhile producers from the developed regions (like Europe, Japan and US etc.). Roughly 70-75% of global capacity is now concentrated in China and shared by a large number of producers. While a few of these are large (some are government owned) many are provincial players with an inadequate level of Enviornmental and Quality standards. Of late, with environmental concerns being taken serious note of, by China, some exits have already happened. Some more consolidation of smaller players cannot be ruled out. It is very likely however, that China with its large capacity and large number of direct, indirect and hidden export subsidies, along with currency management, will continue to be the major supplier of Rubber Chemicals to the world. The HSE (Health, Safety & Environment) related improvements and rising wage costs have diminished the price differentials that they could offer.

This gradual realignment of supply and demand in rubber chemicals business due to restructuring / exits by certain prominent players from the developed world, has ensured the need for dependable, stable and quality suppliers. The excessive dependence on one supplying country and its attendant risks has made customers conscious of the need to encourage other competent suppliers like Nocil.

Low Rubber prices

The continued low natural and synthetic rubber prices will create an opportunity for the entire rubber industry to forge forward aggressively and to improve upon their presence in various markets.

International Rubber Prices – Currency (JPY/kg)



Rubber Forecast 2016-2020

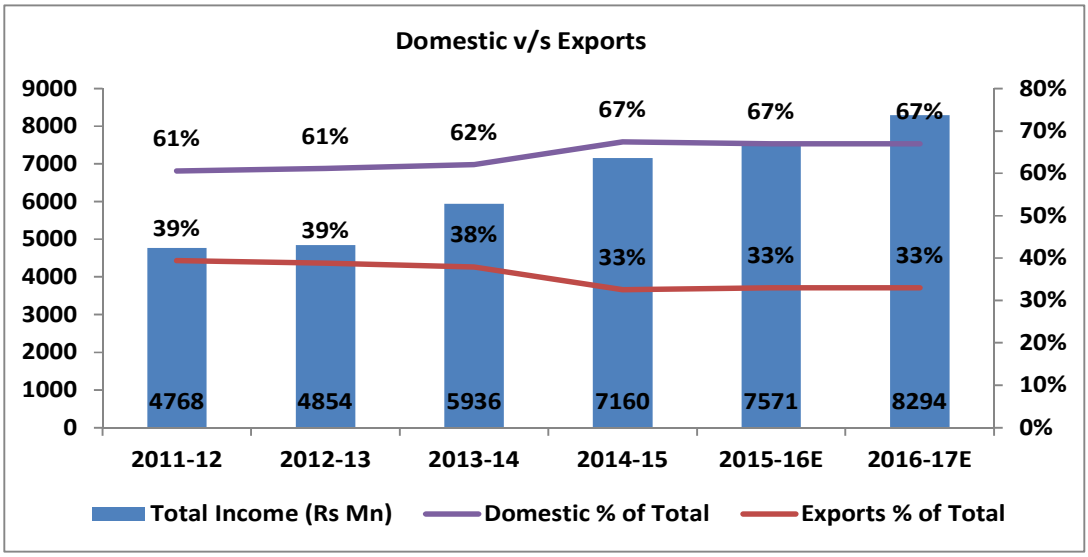
Rubber is expected to trade at 144.00 JPY/kg by the end of this quarter, according to Trading Economics global macro models and analysts expectations. Looking forward, it is estimated to trade at 133.00 in 12 months time.

Anti-Dumping Duty Imposed

The Government has imposed Anti-Dumping Duties on some Rubber Chemicals from China & Korea in July FY15. This has given some respite to the domestic producers. This will also help in improving the capacity utilization of Nocil's Dahej Plant, which in turn will help in further optimising the cost of production there. However, the quantum of anti-dumping duty is low at present.

Exports

On account of the tough competition in the rubber chemicals business and the weak demand globally and more particularly in China, export volumes have remained subdued and the pricing too remained soft for FY15. Fortunately, with a significant proportion of specialty products in its export basket, Nocil achieved an export turnover of Rs.2340mns in FY15 as compared to Rs.2250mns in FY14. It has successfully developed and markets a few specialty products, specifically tailored for some of its major international customers, which enable it to enjoy a niche position in these products. As far as the other generic products are concerned, it participates in the export segment, only out of a compulsion to optimally utilise its own capacities in the absence of sufficient orders from the domestic customers and not out of choice, since the pricing in the exports markets is also vitiated by the aggressive dumping resorted to by the Chinese, Korean and other competitors.

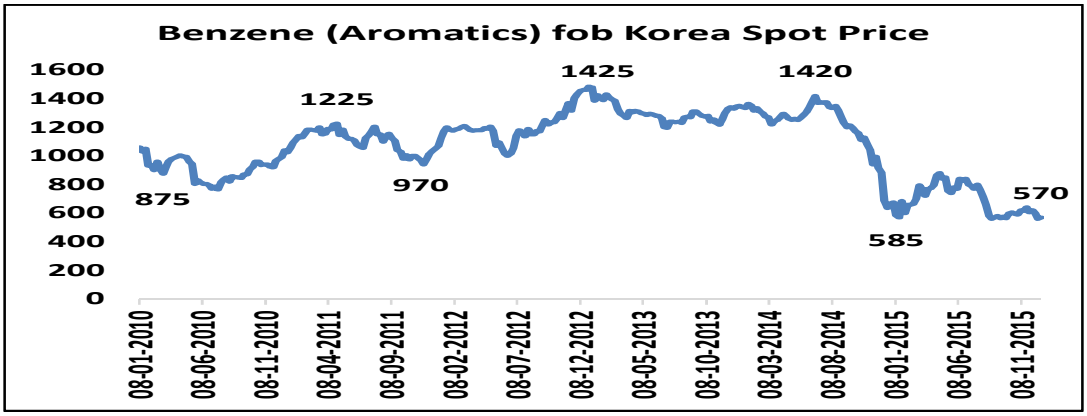


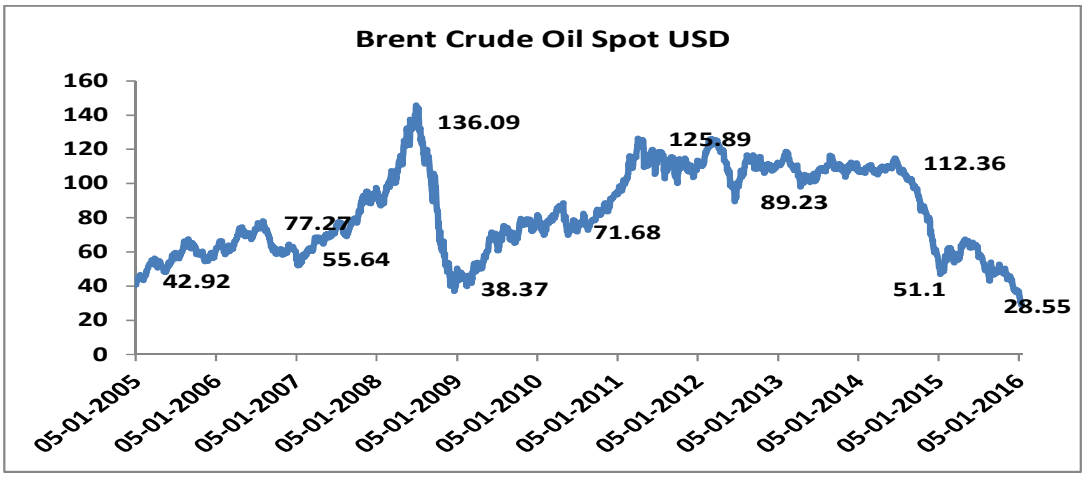
Source: Company/ Wallfort Research

Raw Material prices

Raw material price levels ruled high in the first half of FY15, but with crude oil prices easing subsequently, input prices started softening, albeit with the customary lag. The situation however continues to be volatile and some hardening trends in the input prices were visible in the last quarter of FY15.

Presently, most of the company's selling prices are in line with the lower input cost regime. Any sudden rise in input costs, cannot be automatically passed on to the customers and it generally takes 3-6 months to pass on these increases, depending on how the foreign suppliers respond to such cost increases.





Source: Bloomberg/ Wallfort Research

Aniline Price chart – Key Raw Material for Rubber Chemicals
China Aniline Prices (RMB) – c5500RMB

Source: www.tradingeconomics.com

Concerns

- The overall state of the global economy remains fragile and volatile. The continued slow-down in the automobile sector is also a cause of concern.
- The continued dumping of low priced Rubber chemicals from China, Korea and Europe, despite Anti-Dumping duties being in place are the major concern areas for the business.
- The recent litigation strategies adopted by the exporters of Rubber Chemicals to India in case of anti-dumping duties, with quite a few petitions pending in Delhi High Court as well as the Supreme Court, are a matter of concern.
- Volatility in raw material prices as well as fluctuations in foreign exchange rates also are risks, which need close attention.

China – Rubber Chemical Industry

The broad trend in the Rubber Chemicals Industry over the last decade has been one of proliferation of producers in China and consequent exit of major erstwhile producers from the developed regions (like Europe, Japan and US etc.). Roughly 70-75% of global capacity is now concentrated in China and shared by a large number of producers. While a few of these are large (some are government owned) many are provincial players with an inadequate level of Enviornmental and Quality standards. Of late, with environmental concerns being taken serious note of, by China, some exits have already happened. Some more consolidation of smaller players cannot be ruled out. It is very likely however, that China with its large capacity and large number of direct, indirect and hidden export subsidies, along with currency management, will continue to be the major supplier of Rubber Chemicals to the world. The HSE related improvements and rising wage costs may to some extent diminish the price differentials that they could offer.

China Sunsine Ltd.

China Sunsine Chemical Holdings Ltd. ("China Sunsine") is a leading specialty chemical producer selling accelerators, anti-oxidant, vulcanising agent and anti-scorching agent. It is the largest producer of rubber accelerators in PRC and one of the largest in the world and has become the largest producer of insoluble sulphur in the PRC serving more than 65% of Global Top 75 tyre manufacturers, such as - Bridgestone, Michelin, Goodyear, Pirelli, Sumitomo, Yokohama, Hankook, Cooper, Kumho Tyre as well as PRC Tyre giants such as Hangzhou Zhongce, GITI Tyre and Shanghai Double Coin Tyre. China Sunsine distributes its products under its own "Sunsine" brand, a brand which has been accredited as a "Shandong Province Famous Brand".

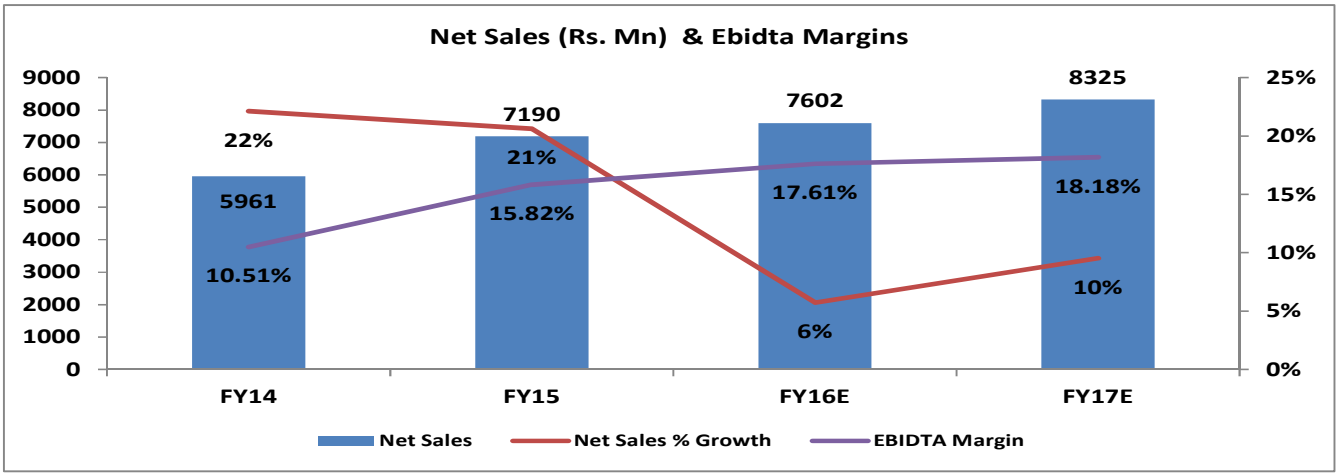
Analysis of Sales and Volume									
	Sales Volume (Tons)			Sales (RMB' million)			Realisations per ton (RMB)		
	FY2014	FY2013	Change	FY2014	FY2013	Change	FY2014	FY2013	Change
Accelerators	76,089	72,710	5%	1,614.5	1,343.5	20%	21,219	18,478	15%
Insoluble sulphur	12,102	11,948	1%	134.4	137.7	-2%	11,106	11,525	-4%
Anti-oxidant	19,903	12,281	62%	310.8	189.2	64%	15,616	15,406	1%
Others	879	1,406	-37%	17.6	25.5	-31%	20,023	18,137	10%
Total	**1,08,973**	**98,345**	**11%**	**2,077.3**	**1,695.9**	**22%**	**19,063**	**17,244**	**11%**
Domestic Sales	71,459	67,391	6%	1,273.0	1,090.70	17%	17,814	16,185	10%
International Sales	37,514	30,954	21%	804.3	605.2	33%	21,440	19,552	10%

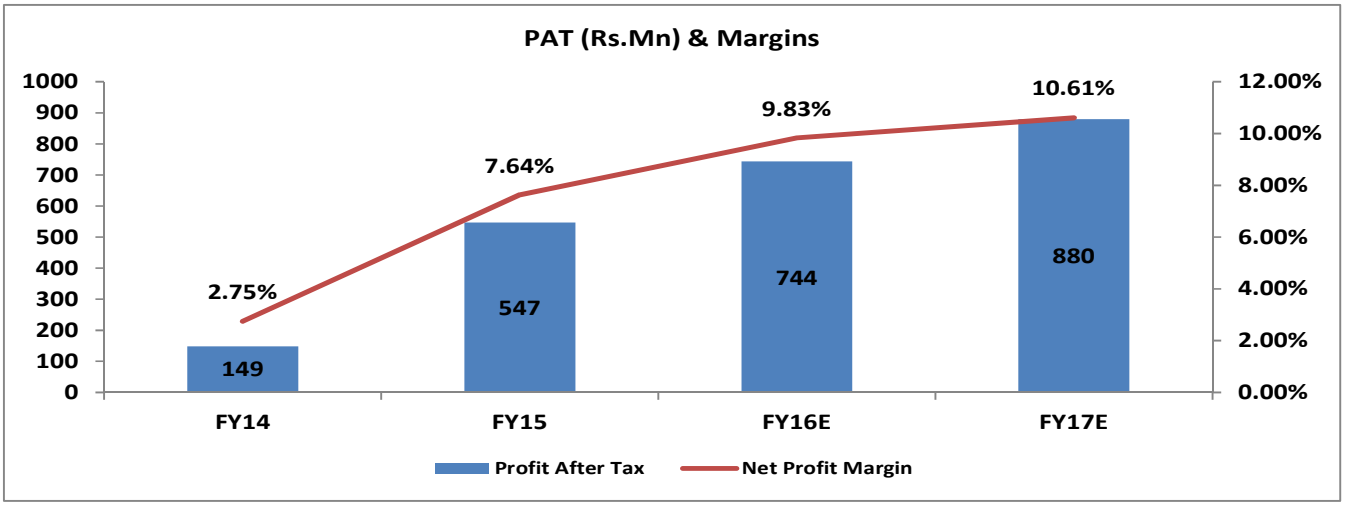
Source : http://www.chinasunsine.com

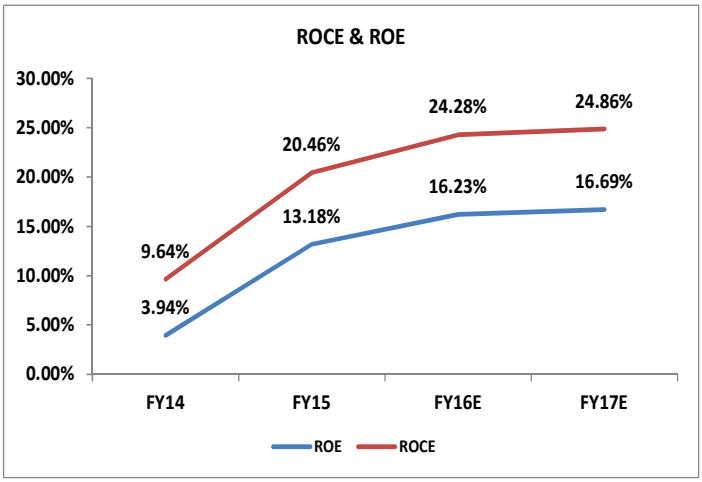
Estimated Annual Capacity at the end of each financial year						
Tons	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015e
Accelerators	56,500	56,500	66,500	70,500	87,000	87,000
Insoluble Sulphur	10,000	10,000	10,000	20,000	20,000	20,000
Anti-oxidant	10,000	25,000	25,000	25,000	45,000	45,000
Total	**76,500**	**91,500**	**1,01,500**	**1,15,500**	**1,52,000**	**1,52,000**

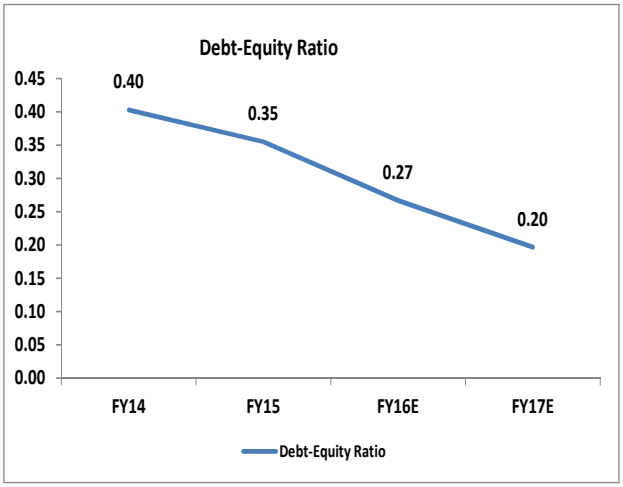
Source : http://www.chinasunsine.com

Financial Charts









Source: Company/ Wallfort Research

Valuation:

At the expected EPS of Rs.4.63 for FY16E and Rs.5.47 for FY17E, the stock trades at attractive valuations with a P/E of 10x and 7x for FY16E and FY17E, respectively. We assign an average PE multiple of 13x on FY17E EPS of Rs.5.47 and arrive at a target price of Rs.72 per share**, an upside of 49%.**

Valuation	
EPS FY17E	5.47
Target PE multiple	13
Target Price (Rs)	**72**
Current Stock Price (Rs.)	48
Upside/(Downside)	**49%**

Income Statement (Consolidated) Rs. Mn

Date End	FY14	FY15	FY16E	FY17E
Net Sales	**5961**	**7190**	**7602**	**8325**
Net Sales % Growth	22%	21%	6%	10%
Expenditure	5338	6057	6268	6818
EBIDTA	**624**	**1133**	**1334**	**1508**
Depreciation & amortisation	187	145	146	148
EBIT	**436**	**988**	**1187**	**1360**
Other Income	19	16	17	18
Interest	174	165	135	114
PBT before Excep. Item	**281**	**838**	**1069**	**1264**
Exceptional Items	-20	0	0	0
PBT after Excep. Item	**261**	**838**	**1069**	**1264**
Tax	112	291	325	384
Profit After Tax	**149**	**547**	**744**	**880**
No of Equity Shares (in mn.)	160.79	160.79	160.79	160.79
Adj. EPS	0.92	3.40	4.63	5.47

Balance Sheet

as at 31st March	FY14	FY15	FY16E	FY17E
Share Capital	1608	1608	1608	1608
Reserves	2168	2542	2978	3665
Networth	**3776**	**4150**	**4586**	**5273**
Long Term debt	932	718	354	247
Short Term debt	591	755	871	788
Total Loan	**1522**	**1473**	**1224**	**1035**
Deferred Grant	0	0	0	0
Total Liab.	**5298**	**5623**	**5810**	**6308**
Gross Block	4485	4507	4557	4609
Depreciation	(1,280)	(1,398)	(1,545)	(1,693)
Net Block	3204	3109	3013	2916
Capital work-in-progress	29	34	36	40
Total Fixed Assets	**3233**	**3143**	**3049**	**2956**
Investment	**224**	**224**	**224**	**224**
Inventory	1601	1877	1893	1949
Sundry Debtors	1477	1672	1741	1825
Cash & Bank Bal	153	75	26	559
Other Current assets	2	3	3	3
Loan and Advances	633	556	575	589
Total Current Assets	**3866**	**4184**	**4239**	**4924**
Trade Payables	1173	839	652	708
Other Current Liability	598	733	558	562
Provision	255	357	492	526
Current Liabilities & Provisions	**2026**	**1928**	**1702**	**1796**
Net Current Assets	**1840**	**2256**	**2537**	**3128**
Mis. expenses not written off	0	0	0	0
Total Net Assets	**5298**	**5623**	**5810**	**6308**

Ratio Analysis

Category	FY14	FY15	FY16E	FY17E
Margin Ratio				
EBIDTA Margin	10.51%	15.82%	17.61%	18.18%
Net Profit Margin	2.75%	7.64%	9.83%	10.61%
Profitability Ratios				
ROCE	9.64%	20.46%	24.28%	24.86%
ROE	3.94%	13.18%	16.23%	16.69%
DuPont Analysis				
PAT / PBT	0.57	0.65	0.70	0.70
PBT / EBIT	0.60	0.85	0.90	0.93
EBIT / Net Sales	0.07	0.14	0.16	0.16
Net Sales / Total Assets	0.81	0.95	1.01	1.02
Total Assets / Equity	1.94	1.82	1.64	1.54
ROE	3.94%	13.18%	16.23%	16.69%
Valuation Ratios				
EV/EBIDTA	5.80	3.22	2.83	4.37
EV/ Net Sales	0.61	0.51	0.50	0.79
PE	17.30	11.17	9.94	6.94
Leverage Ratios				
Debt-Equity Ratio	0.40	0.35	0.27	0.20
Turnover Ratios				
Fixed Assts	1.32	1.59	1.66	1.80
Working Capital	3.43	3.03	2.82	3.02
Inventory	3.71	3.81	4.00	4.26
Total Assets	0.81	0.95	1.01	1.02
Liquidity Ratios				
Current Ratio	1.62	1.80	1.92	2.25
Interest Coverage	2.51	5.98	8.79	11.90
Other Ratios				
EPS	0.92	3.40	4.63	5.47
Book Value per share	23.48	25.81	28.52	32.79
DPS	0.60	1.00	1.00	1.00

Cash Flow (Rs mn.)

Year	FY14	FY15	FY16E	FY17E
Profit before Work. Cap.	614	1148	1334	1508
Change in working capital	(136)	(659)	(461)	(90)
Less: Taxes	(36)	(188)	(325)	(384)
Cash flow from op.	**442**	**300**	**548**	**1034**
Change in fixed assets	(280)	(88)	(52)	(55)
Change in investments	0	0	0	0
Other income	102	35	47	50
Cash flow from inv.	**(178)**	**(53)**	**(5)**	**(5)**
Change in debt	54	(49)	(249)	(189)
Dividend & dividend tax	(112)	(112)	(194)	(194)
Interest paid	(174)	(165)	(135)	(114)
Cash flow from fin.	**(232)**	**(326)**	**(578)**	**(497)**
Change in cash & cash eq.	**31**	**(79)**	**(35)**	**532**
Opening cash and cash eq.	122	153	61	26
Cl. cash and cash eq.	**154**	**74**	**26**	**559**

Wallfort Research is also available on Bloomberg <Code WFSR>