

NOCIL Ltd.

Nifty	11,940
Sensex	40,470

Key Stock Data

CMP	₹106
Market Cap (₹mn)	17,098
52W High/Low	174/74
Shares o/s (mn)	165.36

Shareholding pattern Sep 2019

Promoters	33.7%
FII	3.1%
DII	4.1%
Public & Others	59.1%

(₹ mn)

Particulars	FY19	FY20E	FY21E
Net Sales	10,429	9,800	11,414
EBITDA	2,907	2,355	2,865
Net Profit	1,841	1,810	1,996
EPS (₹/ share)	11.13	10.93	12.07
RoNW (%)	16.0%	14.1%	14.0%
RoCE (%)	23.2%	16.2%	17.8%
P/E (x)	9.5	9.7	8.8

Source: Company Data, Way2Wealth Inst Equity

Key Result Highlights – Q2FY20

- NOCIL reported a topline de-growth of 22.9% YoY to ₹2,097 mn from ₹2,720 mn on the back of 8% decline in sales volume followed by 15% drop in realisation.
- Company reported EBITDA degrowth of ~39.2% YoY and 14.7% QoQ to ₹479mn while EBITDA margins came in at 22.8% on account of higher other expenses as % sales which came in at 26.1% vs 21.1%/23.4% in Q2FY19/Q1FY20 respectively.
- However, PAT surged on account of tax reversal of ₹239mn which led to PAT growth of 4.5% YoY and 69% QoQ to ₹552 mn. PAT margins stood at 26.3% vs 19.4%/14.2% in Q2FY19/Q1FY20 respectively.
- Management is hopeful of auto-industry revival and expects sales volume to pick up for company in FY21E with commencement of commercial production at Dahej plant. Also, they indicated export share can increase as they are getting enquires from new customers and receiving higher number of orders from existing customers in the USA.

Earnings Highlights & Investment Rationale

- **Weak Auto numbers coupled with lower price realisation dragged NOCIL's performance** – Company recorded sluggish results with net sales coming in at ₹2,097mn (down ~22.9% YoY, down 8.7% QoQ) majorly impacted by pricing pressure in its products. This was further fuelled by slowdown in domestic automotive sector (on account of higher upfront costs to customers due to change in regulatory measures relating to insurance and the recent NBFC liquidity woes) impacting its sales volumes. On the global front, automobile demand scenario was even more grave as the largest auto market China registered ~12% YoY de-growth in H1FY19. However, with commissioning of new phase 2 capacity and expected revival in automobile sector in FY21E we believe company would achieve better growth in FY21E. We estimate sales volume to increase aiding NOCIL to report topline of ₹11,414 mn in FY21E.
- **Better Product Mix (higher share of value-added products) saved GPM margins** – Gross profit margins during Q2FY20 expanded by 211 bps to ~57.7% due to enhanced mix of higher value products and lower input costs. EBITDA margins contracted from 29.0% in Q2FY19 to 22.8% in Q2FY20 owing to lower capacity utilization on the back of subdued demand and increase in fixed overheads. We envisage EBITDA margins to come in at 24.0%/25.1% in FY20E/FY21E respectively on the back of further price reduction as company will have to compete with cheaper imports (No extension of anti-dumping duty) and subdued demand.
- **Tax Reversal lead to bottomline growth** – NOCIL Ltd.'s bottom-line surged to ₹552mn from ₹528mn on account of tax reversal received post new taxation norms. PAT margins stood at 26.3% vs. 19.4%/14.2% in Q2FY19/Q1FY20 respectively.

Valuation & Recommendation

We remain positive on the stock as we believe long term opportunities remain impressive given capacity expansion by tyre players in global and domestic markets. However, we envisage near term pain led by demand slowdown in India as well as China. We believe with automotive sector revival, phase 2 commissioning by the company coupled with improving capacity utilization in existing facilities, growth to come in FY21E. We expect NOCIL's topline to grow at 4.6% CAGR over FY19-FY21E (~₹10,429mn to ~₹11,414mn) with operating margins expected to remain at 24.0-25.0%. Post new taxation norms, we have factored tax rate at 16.7%/25.5% respectively leading to profit growth of 8.5% over FY19-FY21E to ₹1,996mn. **At CMP of ₹106 company is trading at ~8.8x FY21P/E. We maintain our HOLD Rating for the stock with target price of ₹121 (10x P/E on FY21E EPS).**

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Quarterly Financials (Standalone)

(₹ mn)

Particulars	Q2FY20	Q2FY19	Y-o-Y	Q1FY20	Q-o-Q
Sales	2,097	2,720	-22.9%	2,296	-8.7%
Raw Material Expenses	887	1,194	-25.7%	1,002	-11.5%
Employee Cost	184	163	12.9%	195	-5.7%
Other operating expense	548	574	-4.2%	537	1.7%
Total Expenditure	1,618	1,931	-16.2%	1,734	-6.7%
EBITDA	479	789	-39.2%	562	-14.7%
EBITDA Margin (%)	22.8%	29.0%	-618 bps	24.5%	-162 bps
Depreciation	77	56	37.7%	77	0.7%
EBIT	402	733	-45.2%	485	-17.1%
EBIT Margin (%)	19.2%	27.0%	-780bps	21.1%	-196bps
Interest	3.3	1.3	153.8%	3.2	3.1%
Other Income	24.8	32.0	-22.5%	24.7	0.4%
PBT	423	764	-44.6%	507	-16.4%
Taxes	-129	236	-14.7%	180	-171.8%
PAT	552	528	4.5%	327	69%
PAT Margins%	26.3%	19.4%	691bps	14.2%	1210bps
EPS	3.34	3.20	4.5%	1.98	69%

Concall Highlights

- Topline de-grew by 22.9% YoY to ₹2,097mn on the back of 8% decline in sales volumes and 15% price corrections during Q2FY20.
- EBITDA margins came in at 22.8% on account of higher other cost as % sales which came in at 26.1% vs 21.1%/23.4% in Q2FY19/Q1FY20 respectively.
- PAT surged on account of tax reversal of ₹239mn which led to PAT growth of 4.5% YoY and 69% sequentially to ₹552mn. PAT margins stood at 26.3% vs 19.4%/14.2% in Q2FY19/Q1FY20 respectively.
- Exports share to topline rose to 34% in H1FY20 and is further expected to gain traction post approval for products from Dahej plant.
- With anti-dumping duty getting discontinued, Chinese players have commenced low cost duping in India which led to shift in market share, impacting volume as well as realizations.
- Company has opted for new taxation of 22.12% + surcharge which resulted into some remeasurement of deferred tax liabilities.
- The capex of ₹4250 mn has been completed in Q2FY20 however commercial production would start from January 2020 subject to approvals for its products from its customers. NOCIL will incur no new capex for FY21E except for regular maintenance capex which will be ~2% of capex.
- Management stated they will end FY20E with -5% to 0% volume growth.
- While the volumes in domestic markets have degrown, NOCIL Ltd witnessed up-tick in export markets (export market grew 10% YoY in H1FY19). In USA volumes crossed ~500 MT during H1FY20.

Financials

(₹ mn)

Income Statement (Standalone)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	7,422	9,676	10,429	9,800	11,414
YoY Growth	3.8%	30.4%	7.8%	-6.0%	16.5%
EBITDA	1,579	2,629	2,907	2,355	2,865
EBITDA Margin	21.3%	27.2%	27.9%	24.0%	25.1%
Depreciation	187	229	229	284	318
EBIT	1,393	2,400	2,678	2,071	2,546
EBIT Margins	18.8%	24.8%	25.7%	21.1%	22.3%
Interest	22	12	6	10	9
Other income	91	143	96	109	142
PBT	1,462	2,531	2,768	2,170	2,679
Tax	494	845	926	360	683
PAT	968	1,686	1,841	1,810	1,996
PAT Margin	13.0%	17.4%	17.7%	18.5%	17.5%
EPS (₹)	5.92	10.25	11.13	10.93	12.07

(₹ mn)

Balance Sheet (Standalone)	FY17	FY18	FY19	FY20E	FY21E
Share capital	1,636	1,645	1,654	1,654	1,654
Reserves & Surplus	7,415	8,730	9,876	11,188	12,633
Shareholder Funds	9,050	10,374	11,531	12,842	14,287
Long term debt	50	-	-	-	-
Short term debt	-	-	-	-	-
Current liabilities & Provisions	1,191	1,626	1,547	1,451	1,697
Others	1,191	1,156	1,201	1,200	1,220
Total Equities & Liabilities	11,482	13,156	14,278	15,493	17,204
Net Block (incl CWIP)	5,215	5,418	7,591	8,807	8,989
Non- current investments	2,009	770	519	519	519
Cash & Equivalent & Bank Balances (incl current investment)	1,135	2,521	1,357	1,452	2,306
Inventories	1,143	1,550	1,704	1,665	1,939
Debtors	1,665	2,434	2,322	2,269	2,627
Other current assets	119	134	337	333	377
Short term loans & advances	12	-	-	-	-
Current assets	4,074	6,639	5,720	5,719	7,248
Others	183	329	448	448	448
Total Assets	11,481	13,156	14,278	15,493	17,204

(₹ mn)

Cash Flow Statement (Standalone)	FY17	FY18	FY19	FY20E	FY21E
EBT	1,462	2,531	2,767	2,170	2,679
Depreciation	187	229	229	284	318
Inc/Dec in working capital	270	-902	-400	0	-410
Others	-517	-874	-958	-350	-674
CF from Operating activity	1,402	984	1,638	2,104	1,914
Inc/Dec in Fixed assets & CWIP	-49	-940	1280	0	0
Others	-30	-438	-2,297	-1,500	-500
CF from Investment activity	-79	-1,379	-1,018	-1,500	-500
Inc/Dec in debt	-52	-59	1	0	0
Dividends paid	-230	-350	-490	-499	-551
Others	-23	-13	-7	-10	-9
CF from Financing activity	-305	-422	-496	-509	-560
Inc/Dec in cash	1,017	-816	124	96	854
Opening balance	47	1,055	240	360	455
Other Bank balances	(9)	2	(5)	-	-
Closing balance	1,055	240	360	456	1,309

Ratio Analysis	FY17	FY18	FY19	FY20E	FY21E
Profitability Ratios(%)					
Gross Profit Margins	51.5	54.5	55.2	56.2	56.0
EBITDA Margins	21.3	27.2	27.9	24.0	25.1
EBIT Margins	18.8	24.8	25.7	21.2	22.3
PAT Margins	13.0	17.4	17.6	18.5	17.5
Return Ratios (%)					
ROCE	15.3	23.1	23.2	16.1	17.8
ROE	10.7	16.3	16.0	14.1	14.0
ROA	8.4	12.8	12.9	11.7	11.6
Solvency & Liquidity Ratios					
Net Debt/Equity	0.01	0.00	0.00	0.00	0.00
Current Ratio	3.42	4.08	3.70	3.94	4.27
Quick Ratio	2.46	3.13	2.60	2.79	3.13
Turnover Ratios					
Debtor Days	81.9	91.8	81.3	84.0	84.0
Inventory Days	56.2	58.5	59.6	62.0	62.0
Payable Days	39.8	43.0	34.6	35.0	35.0
Asset Turnover	0.65	0.74	0.73	0.63	0.66
Valuation Ratios					
P/E	17.9	10.3	9.5	9.7	8.8
P/BV	1.92	1.68	1.52	1.36	1.23
EV/EBITDA	5.04	3.85	3.84	5.26	4.53
EV/Sales	1.07	1.05	1.07	1.26	1.14
Shareholder Ratios					
EPS (₹)	5.92	10.25	11.13	10.93	12.07
BVPS	55	63	70	78	86
DPS (₹)	1.2	1.8	2.5	2.5	2.8
Dividend Pay-out Ratio(%)	20.3	17.6	22.5	23.0	23.0

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Disclosure of Interest Statement in Nocil Ltd. as on November 20, 2019

Name of the Security	Nocil Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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Broking relationship with company covered	NIL
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