

# Nocil

**View: Positive**

Viewpoint

On full Nos

CMP: Rs49

## Key points

- ♦ **Nocil, one of the largest players in rubber chemicals:** Nocil is one of the largest players in the rubber chemicals business, offering a wide range of products to the end users. The company manufactures a variety of products in rubber chemicals. However, a major chunk of the revenue comes from the tyre industry (65% of the total revenue). The tyre industry is the largest consumer of rubber chemicals in the world (roughly 90% of the rubber chemicals is consumed by tyre industry). Nocil is one of the most trusted and world class manufacturers of rubber chemicals across the globe. Rubber chemicals are commodity products which are manufactured across the globe having tough competition with China and Korea. As per study by an international rubber group, consumption of rubber will increase from 27MMT in FY2013 to 38MMT in FY2022 which itself represents the tremendous growth opportunity for rubber chemicals (since there are big entry barriers like long gestation period and difficult to get approval of products from tyre manufactures).
- ♦ **Optimum utilisation of the new plant to further fuel earnings:** The company has set-up a plant in Dahej with a capacity of 15,000MT (intermediates) at a total capex of Rs250 crore. The company can further expand its capacity as per requirement. The management has guided that its Dahej plant can generate revenues of around Rs500 crore (asset turnover of 2X). It also has guided that it will be able to achieve Rs920-crore sales in FY2016E with both Dahej and Navi Mumbai plants operating at their 100% capacity utilisation. The EBITDA margin as per the management guidance will be around 16% for FY2016 which might improve further in the next couple of years. Growth in top line of around 20-25% will largely be supported by an increase in volume and price. The management has further guided that the company may go for an additional expansion at Dahej (currently only 30% land is utilised) at the cost of incremental investment of Rs150 crore.
- ♦ **Valuation and outlook:** Nocil is being one of the well-diversified companies in terms of product portfolio and customer base (major customers contribute 6-7% of the total sales), hence supplying to the leading tyre manufacturers across the world. Being such an integrated player in rubber chemicals we see tremendous opportunity for growth (revenue and earnings) on the back of anti-dumping duty and capacity expansion. Hence, we like the stock from a long-term investment perspective and the stock can appreciate by 18-20% from the current level. We have a positive view on the stock.
- ♦ **Key risk:** Any further dumping by the Chinese and Korean players may affect the profitability of the company and also any delay in setting up of its new plant may affect the growth of the company.

## Valuations

Particulars	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net sales (Rs cr)	488.2	596.1	719.0	874.8	1,081.1
Growth (%)	1.4	22.1	20.6	21.7	23.6
Operating profit (Rs cr)	21.4	60.9	111.9	123.3	158.9
OPM (%)	4.4	10.2	15.6	14.1	14.7
Adj PAT (Rs cr)	21.8	23.6	56.8	63.1	84.9
PAT margin (%)	4.5	4.0	7.9	7.2	7.9
Adj EPS (Rs)	2.8	1.6	3.5	3.9	5.3
PE (x)	18.2	31.4	14.2	12.7	9.5
RoCE (%)	5	6	12	12	14
RoE (%)	6	6	14	14	16
Price/Book value	2.2	2.1	1.9	1.8	1.5

**Anti-dumping duty on finished products, key to company's performance:** The Government of India has imposed an anti-dumping duty on six of the major products being produced by the company starting June 2014 and is valid till June 2019. The anti-dumping duty on products ranges roughly between 20-30%. There is always a threat of cheap Chinese imports into India as there are several local players in China who are into production of rubber chemicals. However, we believe that going ahead the company will be able to improve its performance on the back of anti-dumping duty on key finished products.

**Major chunk of exports revenue is from specialised rubber chemicals:** For FY2015, the company's exports were Rs230 crore out of the total sales of Rs720 crore. Out of the total exports, around 60% of the sales came from specialised rubber chemicals which are having better margins. In the domestic market, out of the total sales roughly 15-20% is specialised rubber chemicals.

### About the company

Nocil is a part of Arvind Mafatlal Group of Industries. It is the largest rubber chemicals manufacturer in India with over four decades of expertise. The company has long-term relationships with customers over 40 countries and has a wide range of rubber chemicals product offerings. Due to its rich experience and offering a one-stop shop to customers, Nocil is today acknowledged as a dependable supplier of rubber chemicals. Globally, it is recognised for its technical capabilities and on this aspect alone, the company enjoys an edge over other players in this business. Nocil today is the largest rubber chemicals manufacturer in India with state-of-the-art technology to manufacture rubber chemicals.

### Manufacturing facilities

**Navi Mumbai:** A plant was set up in 1976 at Trans-Thane Creek industrial area at Navi Mumbai, Thane-Belapur's industrial zone designated for the chemical industry, about 40 kilometre (km) away from Mumbai. The company has used its state-of-the-art technology to manufacture the entire range of rubber chemicals for tyre and other rubber application industries. Nocil has a total capacity of 40,000 million tonne (MT) at Navi Mumbai where it can manufacture finished goods and intermediates.

**Dahej:** Commercialised operation in March 2013, it is about 45km away from the Bharuch district in Gujarat. Fully automated continuous process plant developed

completely with in-house technology. The current capacity of the plant in Dahej is 15,000 tonne where the company has mainly focused to manufacture intermediates which will then be transferred to its Navi Mumbai plant for converting them into finished products. The company has only used one-third of the land to set the plant.

### Products

**Accelerators:** It increases the speed of vulcanisation and to permit vulcanisation to proceed at lower temperature and with greater efficiency. Accelerators are generally used for speeding up the production process of tyres. MBTS is a rubber chemical used in manufacturing rubber products, namely accelerators. Such accelerators are mainly used in the automotive tyre and tube industry and also in conveyor belting and footwear industry, among others.

**Antioxidants:** It is a chemical compound that inhibits oxidation and can be used as a stabiliser in rubbers etc. Antioxidants (PX-13, Nocil's main product also known as PILFLEX-13) is extensively used in treating natural rubber, synthetic rubber (SBR, butadiene rubber, nitrile rubber and carboxylated rubber) and other synthetic rubber-based compounds used to manufacture various rubber products.

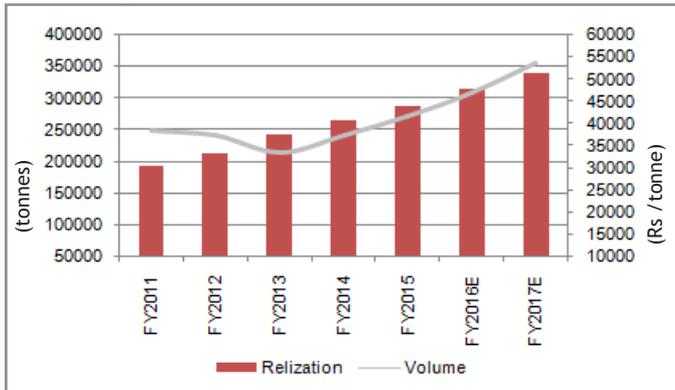
**Anti-degradants:** An anti-degradant or deterioration inhibitor is an ingredient in rubber compounds to deter the aging of rubber products.

### About the industry

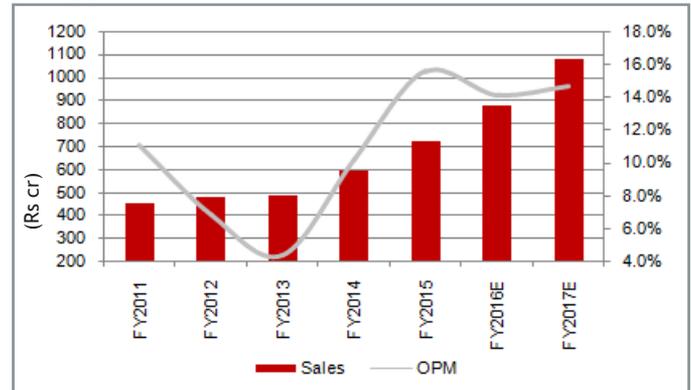
The world consumption of natural and synthetic rubber is 28MMT, out of which rubber chemicals form 3% of the total consumption of natural and synthetic rubber which translates into a market size of 850,000MT. Out of the total capacity of 850,000MT, roughly 250,000MT is in Europe, 500,000MT is in China, Korea is 70,000 and India is 65,000MT. Taking an average realisation of \$3.5-4.0 per kilogram, the total market size is around \$3.4 billion (Rs21,500 crore).

The Indian consumption of rubber chemicals is 50,000MT. There are four major players in the domestic market, mainly Nocil having a 75% market share. Other players are Lanxess India, Merchem and PMC Rubber Chemicals. Out of the total consumption of 50,000MT, roughly 35,000MT is from Nocil, 7,000-8,000MT from other players and 8,000-10,000MT from imports.

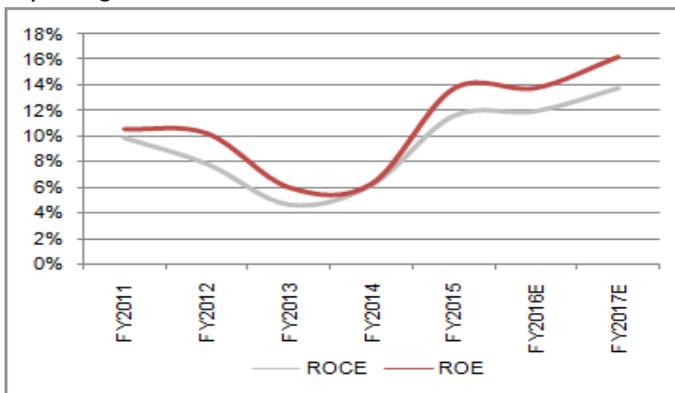
Consistent growth in volumes



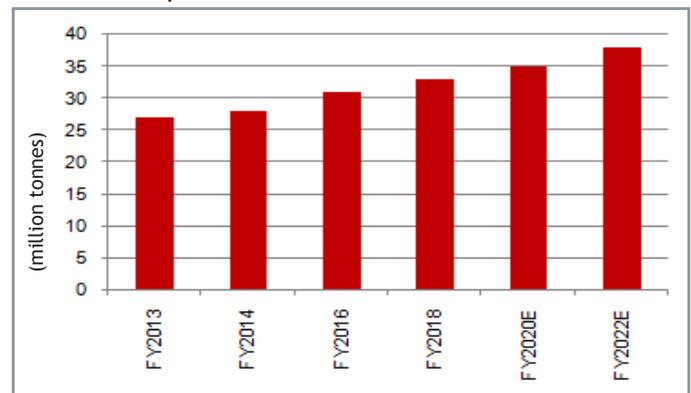
Strong growth in revenue



Improving return ratios



Global consumption of rubber



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