

ORIENTAL CARBON AND CHEMICALS LTD (OCCL)

COMMODITY CHEMICAL

BUY

Target Price: Rs 1,179

Q3FY20: A quarter of all round decline, aided by tax credits...

In Q3FY20, OCCL reported another muted set of numbers with standalone revenue of Rs. 80 cr, (down 15% Y-o-Y, down 6% Q-o-Q), reflecting the impact of global automobile slowdown. EBITDA came in at Rs. 25 cr (down 31% Y-o-Y, up 11.7% Q-o-Q) due to higher raw material costs. Std. EBITDA margins came in at 30% down from 38% in Q3FY19. This sharp drop on a YoY basis is due to last year being extremely strong and lower capacity utilization leading to negative operating leverage this quarter. PAT stood at Rs. 16 cr (down 23% Y-o-Y, up 1% Q-o-Q), due to MAT credit of 1.5 cr being used in this quarter.

Domestic demand drivers remain intact with heavy vehicle users demanding more durable tyres which will lead to more radialization and also a new five year countervailing duty on new Chinese pneumatic tyres will help drive domestic tyre sales faster.

CMP	:Rs 995
Potential Upside	:18%
Relative to Sector	:Positive

MARKET DATA

No. of Shares	: 1.00 cr
Market Cap	: Rs 996 cr
52-week High / Low	: Rs 1,219/ Rs 927
Avg. Daily vol. (6 mth)	: 2845 shares
Bloomberg Code	: OTCC:IN
Reuters Code	: ORCRBO
BSE Code	: 506579
NSE Code	: OCCL

Outlook and Valuation

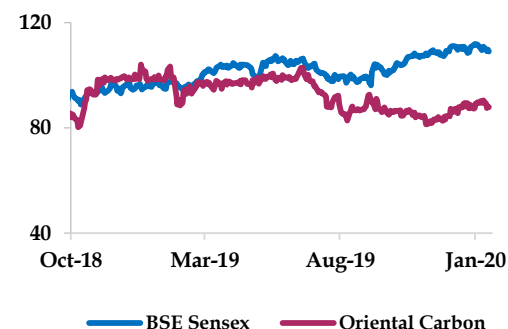
OCCL's revenue de-growth of 15% was higher than expectations (We had built in a 10% decline) and further downward revisions in top line have been accounted for. We expect OCCL to maintain EBITDA margin above 30% levels for FY20. Given the industrywide slowdown and recent capacity expansion being unutilized it is a decent performance. We believe that a global slowdown for another six months, in the middle of a capacity expansion cycle could weigh in on H1FY21 numbers. However, management noted that they have seen good traction from American markets and should be able to reach near 10% market share sometime in FY22. They have also gained market share domestically despite overall decline in industry volumes. Their recent product launch of DIAMIX pre disbursed Insoluble Sulphur has seen a good response and brings in a lot of value for its customers. OCCL is a strong player with great operational control and we like the business fundamentals. We roll over our estimates to FY22 with expectation of a revenue/PAT CAGR growth of 5%/8% resp. over FY19/FY22E and a 7% fall in revenues this year. We value OCCL at 12.5X FY22 EPS (5 year mean P/E is also near 12.5X) to come at a price of 1179 with an 18% upside from current level.

FINANCIAL SUMMARY (Consolidated)

Y/E	Sales	PAT	EPS	Change	P/E	RoE	RoCE	EV/EBITDA	DPS
March	(Rs Cr)	(Rs Cr)	(Rs.)	(YoY %)	(x)	(%)	(%)	(x)	(Rs)
2019	432	75	75.1	36.3	13.8	19.7	22.8	8.0	11.3
2020E	403	82	82.2	9.4	12.6	19.1	18.0	9.1	11.0
2021E	454	86	85.8	4.3	12.1	17.1	17.9	8.0	12.0
2022E	500	94	94.3	10.0	11.0	16.2	17.6	6.4	12.5

Source: Company and Axis Securities

PRICE PERFORMANCE

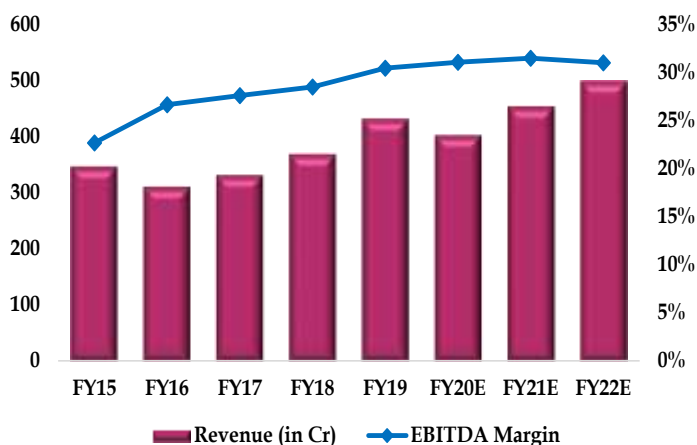


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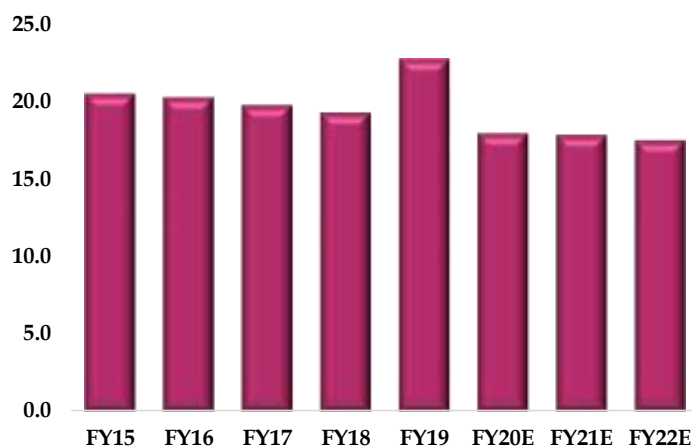
Key and Con call Highlights

- **Industry View:** Management commented that the last global slowdown was witnessed in FY08 after the financial crisis and that lasted about 2 years and the current slowdown has started from mid-2018. They expect this subdued global environment to continue for another 6 months to a year. Management also noted that China's coronavirus will have an impact on global sales further.
- **Demand Drivers:** OCCL was hopeful that domestic demand levers like a preference by users of heavy vehicles for more durable tyres will lead to more radialization in commercial vehicle tyres; new product launches after BS-6 launch will also drive tyre sales and in turn their sales. Another important development of a new countervailing duty for 5 years has been imposed on new pneumatic tyres from China will drive domestic tyre sales.
- **Capacity expansion update:** Capacity expansion plan for both IS and Sulphuric Acid scheduled for FY21 is going as plan and Rs 25 cr has already been raised as debt in this year. The full capacity at the end of December will be around ~40000 tons. Management noted that this is not an ideal time for capacity expansion and they have gone ahead because of committed plans. It has been an industry wide phenomenon where all three major players in IS (i.e. Eastman, Shikoku chemicals and OCCL) have all increased capacity and are facing challenges of underutilization.
- **Newer regions growth update:** Plans for increasing presence in China and North America is slightly changed in the wake of the corona virus scare. Management said that they have made good in-roads in American market and expect market share to reach ~10% levels sometime in FY22. They also said that they could not make a significant traction in Chinese markets and have recently slowed down plans to make inroads in China in the wake of corona virus.
- **Duncan continues healthy performance:** In Q3FY20, Duncan maintained its revenue on a YoY basis. It has reported a top line of ~ 10 cr and a PAT of ~ 0.8 cr in Q3FY20. Management expects Duncan to keep performing well and start contributing significantly to OCCL's bottom line.
- **New Product Update:** OCCL last quarter launch of DIAMIX Pre-disbursed Insoluble Sulphur has gained good traction among its customers as it provides great value to them. Commercial sales will only start after a 1-1.5 years of testing and validation, however, initial traction is encouraging. This is a different form of sulphur with better performance at an attractive value proposition. As per OCCL, "Insoluble Sulphur being Insoluble in rubber, can offer dispersion challenges in rubber compounds and components. Diamix IS-65 is a perfect solution for all such challenges. It offers a dust-free, eco-friendly and safe alternative over powder insoluble sulphur. It is a superior product on account of better dispersion in rubber matrices, easier handling and higher productivity. By using Diamix IS-65, tyre and rubber goods manufacturers can reduce the mixing cycle time, reduce scrap rates, avoid spillage and save power consumption."

Revenue to decline in FY20, but margins remain in 30% range

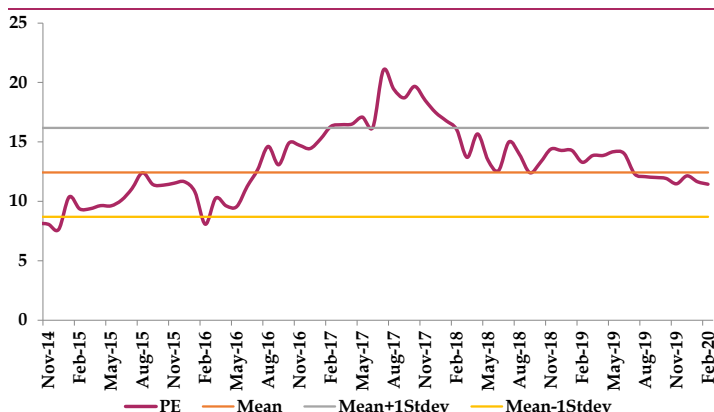


ROCE to take a slight hit due to capacity expansion in down cycle



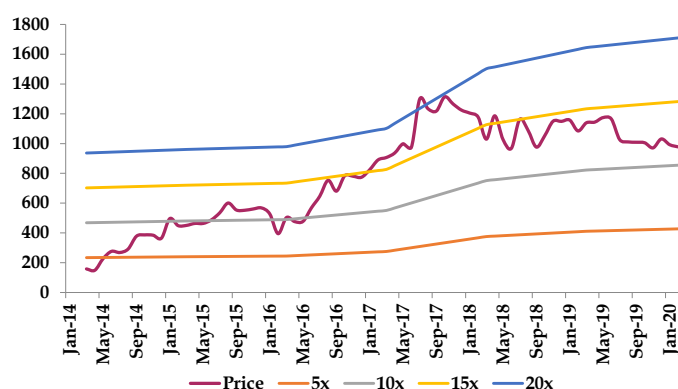
Source: Company, Axis Direct Research

Oriental Carbon Fwd PE Band



Source: Company, Axis Direct Research

Oriental Carbon 12M Fwd PE Band



Source: Company, Axis Direct Research

Results Update (STD.)

(Rs.Cr.)	Quarterly Performance					Financial Year Ending			
	Q3FY20	Q3FY19	% Change (YoY)	Q2FY20	% Change (QoQ)	FY19	FY20E	FY21E	FY22E
Sales	80	94	(15)	84.9	(6)	432	403	454	500
Other Op. Inc	1.8	1.6	12	2.6	(28)	10	6	7	8
Total Revenue	82	96	(15)	87.5	(6)	442	409	461	507
Expenditure									
Net Raw Material	23	24	(1)	22.1	6	130	123	134	150
Personnel	11	11	(4)	10.2	8	54	54	61	67
Other Exp	23	25	(9)	27.1	(16)	124	105	121	133
Total Expenditure	57	60	(5)	59.3	(4)	307	282	316	350
EBIDTA	25	36	(31)	28.1	(11.7)	135	127	145	157
Oth. Inc.	0.0	0.0		0.0		0.0	0.0	0	0
Interest	2.3	2.0	16	2.3	(1)	9	9	8	8
Depreciation	5.0	4.9	4	5.1	(1)	20	27	32	33
PBT	17	29	(40)	21	(15)	106	91	105	116
Tax	1.5	8.6	(83)	4.9	(70)	29	7	17	19
PAT	16.0	20.7	(23)	15.8	1	77	84	88	97
Oth. Comprehensive Income (net of taxes)	0.2	1.1		(0.6)		0	0	0	0
Minority Interest						1.35	1.81	2.24	2.68
Total Comprehensive Income	16.2	21.8	(26)	15.1	7	75	82	86	94
EPS (Rs.)	16.0	20.2	(21)	15.8	1	75.1	82.2	86	94

Source: Company and Axis Securities

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