

# Pick of the Week

## Pick of the Week

- In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.
  - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
  - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
NOCIL Ltd	1,612	97	112	15%	BUY

\* Note: Investment horizon Approx. 6-9 months., CMP as on 6<sup>th</sup> Dec, 2019.

# NOCIL Ltd

CMP (Rs)	Target (Rs)
97	112

## MARKET DATA

No. of Shares	: 16.56 cr
Market Cap	: Rs 1,612 Cr
52-week High / Low	: Rs 173/74
BSE Code	: 500730
NSE Code	: NOCIL

## Investment Rationale

- Gross Margins supported by benign RM prices:** Although, the topline for NOCIL reported de-growth, company reported Gross Margin expansion of 160bps/130bps YoY/QoQ at 57.7% in Q2FY20. GM expansion was on account of soft RM prices especially benzene and aniline for which NOCIL has entered into long term agreements. Further, a relatively better product mix also supported the expansion in GMs. Management expects RM prices to remain benign and thus support margins. However, EBITDA Margins were under pressure due to lower absorption of fixed costs, however with Dahej plant commencing operations management remains hopeful of recovery in EBITDA Margins going forward.
- Dahej plant commissioning to support growth:** With new Dahej plant commissioning, NOCIL would stand to benefit from this in terms of its global positioning in the rubber chemicals market as a leading supplier of choice for tyre companies globally as well as domestically. NOCIL has already commenced operations at this plant and is expecting to secure approvals for new products from this plant. With exports reporting decent growth, the company is looking to further explore opportunities in the US and Russian markets.
- Outlook:** Management indicated recovery in volumes to happen only from Q4FY20 onwards once Dahej plant begins commercial operations. While, near term growth challenges remain we continue to believe in the long term growth opportunities for the company given capex commitment of USD 10bn by global tyre companies and Rs. 150-180bn by domestic tyre companies. Further, with US consuming ~10% of rubber chemicals globally, the ongoing tariff war between US-China has only opened up opportunities for NOCIL.
- We recommend a **BUY** on this stock with a TP of Rs 112.

## Financial Summary

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (YoY %)	RoE (%)	RoCE (%)	EV/EBITDA (x)
FY19	1,043	293	185	11.2	8.8	13.6	20.8	11.8
FY20E	939	233	156	9.5	(15.4)	10.2	14.3	7.2
FY21E	1,051	282	189	11.4	20.7	11.5	16.1	6.0

Source: Axis Securities Estimates.

# Performance

## No of Stocks Matrix

<i>No of Stocks</i>	9m	15m
Met Target	20	34
Not Met Target	19	31

## Performance Matrix

<i>% Return</i>	9m	15m
Met Target	12.78	12.27
Not Met Target	(7.02)	(15.74)

## Benchmark Performance Matrix

<i>% Return</i>	9m	15m
Met Target	0.89	2.76
Not Met Target	3.88	6.42

Note : Performance of the pick of the week is calculated for stocks recommended from Mar-19 to Sep-19 for 9 Months and from Sep-18 to Oct-19 for 15 Months.

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