

July 7, 2025

Battery chemicals build-up at the fore...

About the stock: Commencing operations in 1991, Neogen Chemicals manufactures specialty organic bromine-based chemical compounds as well as specialty inorganic lithium-based chemicals compounds.

- Neogen has two segments viz. (i) organic chemicals, (ii) inorganic chemicals which find applications in pharmaceutical intermediates, agrochemical intermediates, engineering fluids, polymers additives and water treatment chemicals.
- The company has committed ₹1500 crore to foray in Battery chemicals Business primarily electrolyte, salt and additives.

Investment Rationale:

- Q4FY25- Stable Quarter with Flat Margins – Revenues remained almost flat, growing ~2% YoY to ₹202.8 crore. EBITDA grew 2% YoY to ₹36.4 crore, with EBITDA margins flat YoY at 17.9%, despite a 314-bps improvement in gross profit margin (GPM). PAT declined 86% YoY to ₹2.42 crore due to a loss of ₹14 crore associated with the fire accident at Dahej.
- Stable Base Business; Growth to return by FY27 – Due to Fire Incident in April 2025, there was extensive damage to the warehouse and entire MPP3 structure. Due to which, management has lowered the base business revenue guidance for FY26 to be ~₹775-850 crore (from ~₹ 950-1000 crore earlier).
- Expansion in Battery chemicals with significant capex– Neogen was among the first few players in India which recognised the potential for battery chemicals (electrolyte and its raw material electrolyte salt) to cater to the huge demand for Lithium-ion batteries (see exhibit 3&4 for capacity build-up and potential). The company has allocated a total capital expenditure of ₹1,500 crore for its Electrolyte, Salt, and Additives business, of which approximately ₹470 crore has already been invested. The remaining ₹1,100 crore is expected to be capitalized by FY26. The management projects a potential ATR of ~2x (subject to stable lithium prices) with operating margins in the range of 16–18%. In another a strategic move, Neogen has entered into a joint venture with Japan-based Morita Chemicals, a firm with strong capabilities to compete with Chinese players, to focus primarily on Salts and Additives in India. Earlier, Neogen had partnered with Mitsubishi to secure a technology license for producing lithium-ion battery electrolytes domestically. These collaborations are expected to significantly strengthen Neogen's position in this segment and contribute meaningfully to the company's overall revenues going forward. We expect gradual improvement in leverage situation post FY27.

Rating and Target price

- Our target price is ₹ 1940 based on 22x FY27E EBITDA of ₹ 306.6 crore.

Key Financial Summary

(₹ Crore)	FY23	FY24	FY25	3 year CAGR (FY23-25)	FY26E	FY27E	2 year CAGR (FY25-27E)
Net Revenue	686.2	690.7	777.6	6.5%	1,076.1	1,703.5	48.0%
EBITDA	111.6	110.1	136.3	10.5%	182.9	306.6	50.0%
EBITDA Margins (%)	16.3%	15.9%	17.5%		17.0%	18.0%	
Adj.PAT	49.9	35.6	48.9	-1.0%	35.0	66.5	16.6%
Adj. EPS (₹)	20.0	13.5	18.5		13.3	25.2	
EV/EBITDA	38.6x	42.3x	35.5x		30.6x	19.3x	
RoCE	11.8%	8.2%	8.3%		5.6%	8.3%	

Source: Company, ICICI Direct Research



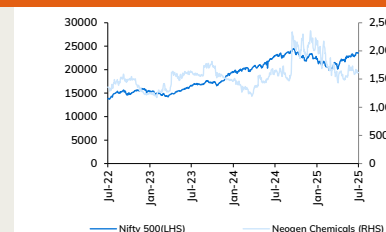
Particulars

Particular	Amount
Market cap (₹ Crore)	4,272
FY25 Total Debt (₹ Crore)	566
FY25 Cash & Inv (₹ Crore)	5
EV (₹ Crore)	4,833
52 Week H/L	2420 /1393
Equity Capital (₹ Crore)	26.4
Face Value (₹)	10

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoters	56.9	51.2	51.2	51.2
FII	4.6	8.2	7.7	7.8
DII	22.5	22.5	22.5	22.8
Others	15.9	18.1	18.5	18.2

Price Chart



Key risks

- (i) Significant leverage to fund incremental capex (ii) Failure to maintain the EBITDA margins tempo

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Exhibit 1: Quarterly trend

Q4FY25 Results / Conference call highlights

Base Business-

- During Q4FY25 lower bromine prices impacted organic segment (potential ~₹ 81 crore); lithium price declines impacted inorganic revenues (potential ~₹ 16 crore).
- Neogen targets working capital days to stay between 140-150 days in FY26 and in medium term further reducing to less than 100 days.
- Reduction in Net block is due to fire incidence at MPP3 and replacement plant is under construction at adjacent location which expected to commission by Q4FY26.
- Fire Incidence at MPP3 had estimated loss (Insurance covered) of ₹360 crore (₹160 –180 crore inventory, balance physical assets).

Battery chemicals -

- Neogen Ionics Limited is in advanced discussion with Morita Chemical Industries Company Limited of Japan for formation of a joint venture company in India.
- For salts, 200 metric tonnes per annum capacity have been commissioned with the first approved material already shipped to the customers. Trial production is ongoing for another 200 metric tonnes per annum.
- Further expansion of salts includes 1,100 metric tonnes to be commissioned by September 2025, and another 1,000 metric tonnes by March 2026.
- For electrolyte, 2,000 metric tonnes have been fully commissioned. A major ACC battery manufacturer has commenced trial production and commercial production is expected to begin by Q1 or Q2 FY26, and our initial capacity is well aligned with their requirement.
- From Q3FY26 the commercial shipment should start for Salt.
- As per management one gigafactory is now getting streamlined which will need electrolyte. The second one is likely to start by the end of the year. And one more factory is expected to start before/in the Q4FY26.
- The 3,000 MT Pakhajan salt and additives capacity is expected to be transferred to the Morita JV.

Exhibit 2: Current Manufacturing capabilities

Factory	Existing Capacity	
	Organic Chemicals (Reactor capacity)	Inorganic Chemicals (Tonnage)
Mahape (Since 1991)	69 m3	9 m3
Vadodara (Since 2017)	111 m3	-
Dahej (Since 2020)	Earlier 258 m3	Earlier 30 m3
Total	438 m3	39 m3

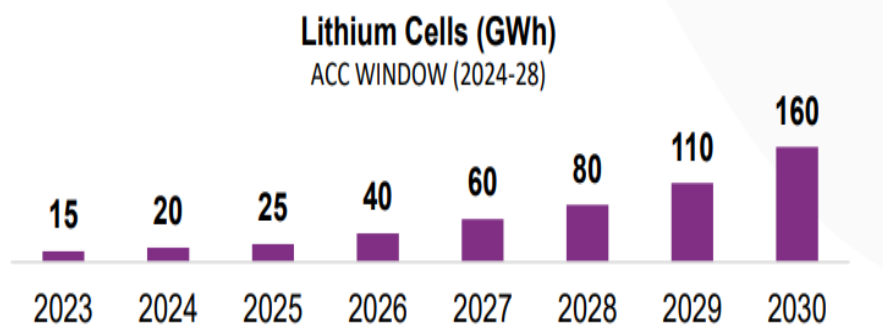
Source: Bloomberg, Company Estimates, ICICI Direct Research

Exhibit 3: Planned Battery chemicals expansion

Manufacturing locations	Year	Planned Capacities	
		Electrolyte	Lithium Electrolyte Salts & Additives
Dahej SEZ	FY25	2,000 MT	400 MT
Pakhajan, Dahej PCPIR (New site)	FY26	-	2,100 MT
Total	FY26	30,000 MT	3,000 MT
		32,000 MT	5,500 MT

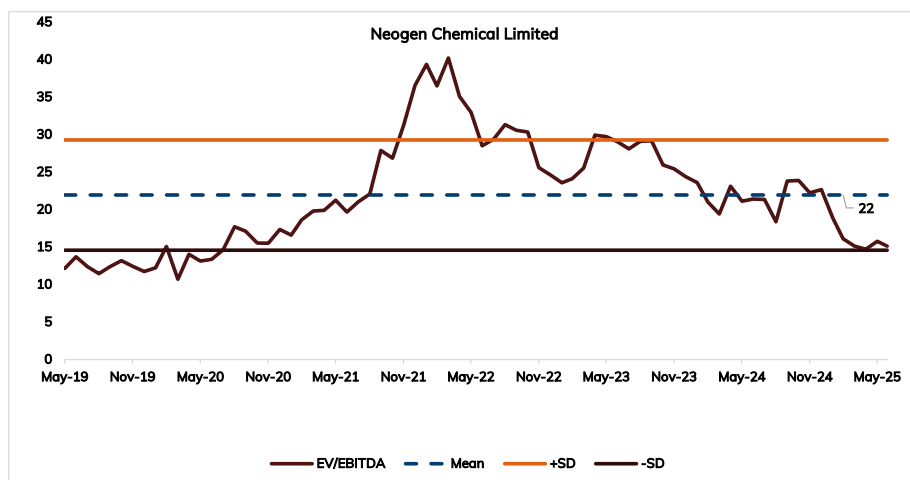
Source: Bloomberg, Company Estimates, ICICI Direct Research

Exhibit 4: Indian Market Demand Estimates for the Lithium Cells



Source Neogen Chemicals Company Presentation, ICICI Direct Research

Exhibit 5: 2-year forward EV/EBITDA band



Source: Bloomberg, Company Estimates, ICICI Direct Research

Financial Tables

Exhibit 6: Profit and loss statement

₹ crore

Year end March	FY24	FY25	FY26E	FY27E
Total Operating Income	690.7	777.6	1,076.1	1,703.5
Growth (%)	0.7	12.6	38.4	58.3
Raw Material Expenses	382.5	423.1	591.8	919.9
Gross Profit	308.2	354.5	484.2	783.6
Employee Cost	62.0	64.8	75.3	119.2
Other Operating Expenses	136.1	153.3	226.0	357.7
EBITDA	110.1	136.3	182.9	306.6
Growth (%)	-1.4	23.9	34.2	67.6
Other Income	7.5	4.0	3.0	3.0
EBITDA, including OI	117.5	140.3	185.9	309.6
Depreciation	22.9	27.8	60.0	97.7
Net Interest Exp.	42.1	48.5	79.3	123.3
Other exceptional items	0.0	-14.1	0.0	0.0
PBT	52.6	50.0	46.7	88.6
Total Tax	17.1	15.3	11.7	22.2
Tax Rate	32.6%	30.7%	25.0%	25.0%
PAT	35.5	34.6	35.0	66.5
Adj.PAT after Minority interest	35.6	48.9	35.0	66.5
Adj. EPS (₹)	13.5	18.5	13.3	25.2
Shares Outstanding	2.6	2.6	2.6	2.6

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement

₹ crore

Year end March	FY23	FY24	FY25	FY26E	FY27E
PBT & Extraordinary	71.0	52.8	50.2	46.7	88.6
Depreciation	16.2	22.9	27.8	60.0	97.7
After other adjustments					
(Inc) / Dec in Working Capital	-135.9	-128.8	64.7	248.2	-260.5
Taxes	-11.5	-9.8	-12.3	-11.7	-22.2
Others	29.8	33.7	65.6	79.3	123.3
CF from operating activities	-30.4	-29.2	196.0	422.5	27.0
Purchase of Fixed Assets	-103.7	-302.8	-317.7	-1,100.0	-200.0
Others	9.3	87.2	1.1	0.0	0.0
CF from investing activities	-94.5	-215.6	-316.6	-1,100.0	-200.0
Proceeds from issue of shares	0.0	246.7	0.0	0.0	0.0
Borrowings (Net)	136.1	39.4	166.2	850.0	250.0
Others	-35.8	-49.5	-53.1	-87.2	-131.2
CF from financing activities	100.3	236.5	113.1	762.8	118.8
Net cash flow	-24.5	-8.2	-7.5	85.3	-54.2
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0
Opening Cash	45.2	20.7	12.5	5.0	90.3
Closing Cash	20.7	12.5	5.0	90.3	36.0

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet

₹ crore

Year end March	FY24	FY25	FY26E	FY27E
Liabilities				
Share Capital	26.4	26.4	26.4	26.4
Reserves	733.9	763.0	790.1	848.7
Total Shareholders Funds	760.3	789.4	816.5	875.0
Minority Interest	0.0	0.0	0.0	0.0
Long Term Borrowings	124.2	170.1	720.1	970.1
Net Deferred Tax liability	23.7	17.4	17.8	18.1
Other long term liabilities	17.1	25.9	35.9	56.8
Long term provisions	9.1	11.1	15.4	24.3
Current Liabilities and Provisions				
Short term borrowings	269.3	395.9	695.9	695.9
Trade Payables	144.6	263.2	353.8	560.1
Other Current Liabilities	108.3	62.9	87.0	137.7
Short Term Provisions	4.8	11.4	15.8	25.0
Total Current Liabilities	527.0	733.4	1,152.5	1,418.7
Total Liabilities	1,461.4	1,747.3	2,758.1	3,363.1
Assets				
Net Block	495.6	403.9	1,500.1	1,602.4
Capital Work in Progress	108.9	156.2	100.0	100.0
Intangible assets under devl.	0.0	0.0	0.0	0.0
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Non-current investments	0.5	0.5	0.5	0.5
Deferred tax assets	0.0	0.0	0.0	0.0
Long term loans and advances	10.8	13.8	19.2	30.3
Other Non Current Assets	62.0	173.2	239.6	379.3
Current Assets, Loans & Advances				
Current Investments	0.0	0.0	0.0	0.0
Inventories	382.4	309.1	383.3	560.1
Sundry Debtors	281.7	200.2	277.1	420.0
Cash and Bank	12.5	5.0	90.3	36.0
Loans and Advances	0.7	0.4	0.4	0.4
Other Current assets	106.4	485.1	147.4	233.4
Current Assets	783.7	999.8	898.4	1,249.9
Total Assets	1,461.4	1,747.3	2,757.7	3,362.3

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios

Year end March	FY23	FY24	FY25	FY26E	FY27E
Per share data (₹)					
Adj. EPS	20.0	13.5	13.2	13.3	25.2
Adj. Cash EPS	26.5	22.2	23.7	36.0	62.2
BV	193.5	288.2	299.2	309.5	331.7
DPS	3.0	3.0	3.0	3.0	3.0
Operating Ratios (%)					
Gross Margin (%)	43.4	44.6	45.6	45.0	46.0
EBITDA Margin (%)	16.3	15.9	17.5	17.0	18.0
PAT Margin (%)	7.3	5.2	6.3	3.3	3.9
Asset Turnover	1.7	1.2	1.6	0.7	0.9
Debtor Days	94	149	94	94	90
Inventory Days	156	202	145	130	120
Creditor Days	83	76	124	120	120
Cash Conversion Cycle	167	275	116	104	90
Return Ratios (%)					
Return on Assets (%)	4.7	2.4	2.8	1.3	2.0
RoCE (%)	11.8	8.2	8.3	5.6	8.3
Core RoIC (%)	13.4	8.4	9.1	6.0	8.7
RoE (%)	10.3	4.7	6.2	4.3	7.6
Solvency Ratios					
Total Debt / Equity	0.8	0.5	0.7	1.7	1.9
Debt / EBITDA	0.1	3.6	4.2	7.7	5.4
Interest Coverage	3.5	2.3	2.3	1.6	1.7
Current Ratio	1.6	1.5	1.4	0.8	0.9
Quick Ratio	0.9	0.8	0.9	0.4	0.5
Valuation Ratios (x)					
EV/EBITDA	38.6	42.3	35.5	30.6	19.3
P/E	81.0	119.9	122.7	122.1	64.3
P/B	8.4	5.6	5.4	5.2	4.9
EV/Sales	6.3	6.7	6.2	5.2	3.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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