

Value added businesses offers strong visibility ahead

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.

- The company's products find application in pharmaceutical intermediates, agrochemical intermediates, engineering fluids, polymers additives and water treatment chemicals to name a few
- Neogen has two segments viz. (i) organic chemicals, (ii) inorganic chemicals of which organic chemical constitute ~80% of overall revenue while the rest comes from inorganic chemicals

Issuance of equity shares on preferential basis worth ₹ 225 crore:

- Neogen chemical's board has decided to Issue up to 16.04 lakh equity shares of FV of ₹ 10 each at a price of ₹ 1,402.12 per equity share aggregating up to ₹ 225 crore on preferential basis. The group of investors remain SBI MF, Axis MF, Plutus wealth and White oak
- The company foresees significant opportunities emerging in advance intermediates, custom synthesis and advance chemistry cells for lithium ion batteries. The objective of this fund raise is to support the company's growth and to capture the upcoming high potential opportunities in these segments
- This should inch up return ratios and thereby valuations in medium term.

What should investors do? The stock appreciated at 90% CAGR in last two years.

- We retain **BUY** rating on the back of better growth outlook from custom synthesis business

Target Price and Valuation: We value Neogen Chemicals at 50x P/E FY24E EPS to arrive at a revised target price of ₹ 2160/share (earlier ₹ 1570/share).

Key triggers for future price performance:

- Phase 1 and Phase 2 capex at Dahej bodes well for advance intermediates and custom synthesis revenue growth
- Higher share of value added business portfolio to improve margins profile of the business
- Allocation of incremental FCF towards organic/inorganic growth likely to expand return ratios further

Alternate Stock Idea: Apart from Neogen Chemicals, in our chemical coverage we also like Sumitomo Chemicals.

- Trigger for Sumitomo Chemical's future revenue growth would be increasing CRAMS opportunity from SCC Japan and Nufarm
- BUY with a target price of ₹ 505



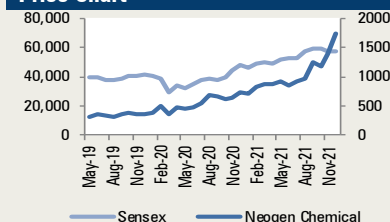
Particulars

Particular	Amount
Market cap (₹ Crore)	4,016
FY21 Total Debt (₹ Crore)	202
FY21 Cash & Inv (₹ Crore)	1
EV (₹ Crore)	4,217
52 Week H/L	1844/665
Equity Capital (₹ Crore)	23.3
Face Value (₹)	10

Shareholding pattern

in %	Dec-20	Mar-21	Jun-21	Sept-21
Promoter	64.3	64.3	64.3	64.3
DII	15.5	14.8	14.1	14.6
FII	4.8	4.8	4.7	4.8
Others	15.4	16.1	16.9	16.4

Price Chart



Recent event & key risks

- Equity issue worth ₹ 225 crore on preferential basis
- Key Risk:** (i) Lower lithium prices could impact inorganic chemical performance (ii) Slowdown in the end user industry and thereby stretched WC could impact balance sheet

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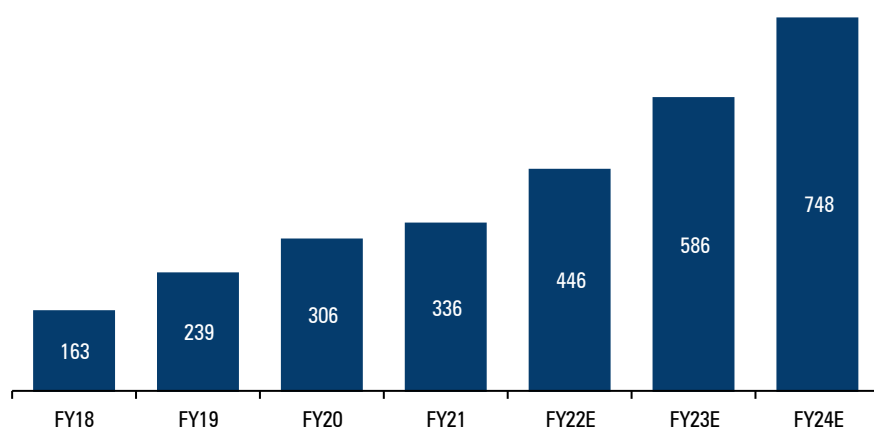
Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Revenue	239.1	306.1	336.4	25.3%	446.3	585.9	748.3	30.5%
EBITDA	43.4	58.1	64.4	35.5%	87.0	120.1	157.1	34.7%
EBITDA Margins (%)	18.2%	19.0%	19.1%		19.5%	20.5%	21.0%	
Adj. PAT	21.0	28.6	31.3	43.3%	44.6	80.5	107.7	50.9%
Adj. EPS (₹)	10.4	12.3	13.4		17.9	32.3	43.2	
EV/EBITDA	82.2x	71.4x	65.5x		49.4x	36.1x	27.4x	
P/E	165.0x	140.2x	128.2x		96.1x	53.3x	39.8x	
ROE (%)	29.8	18.3	17.1		10.0	15.4	17.3	
ROCE (%)	22.2	18.4	15.1		11.3	15.7	18.2	

Source: Company, ICICI Direct Research. *Return ratios are post money infusion of ₹ 225 crore

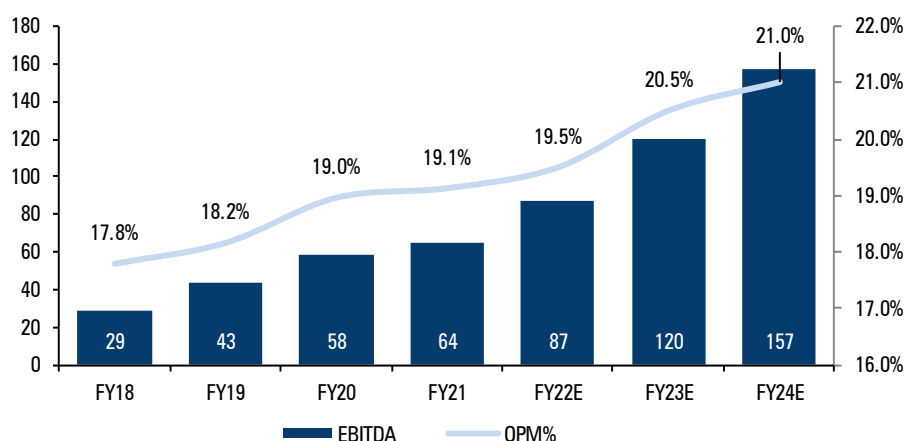
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



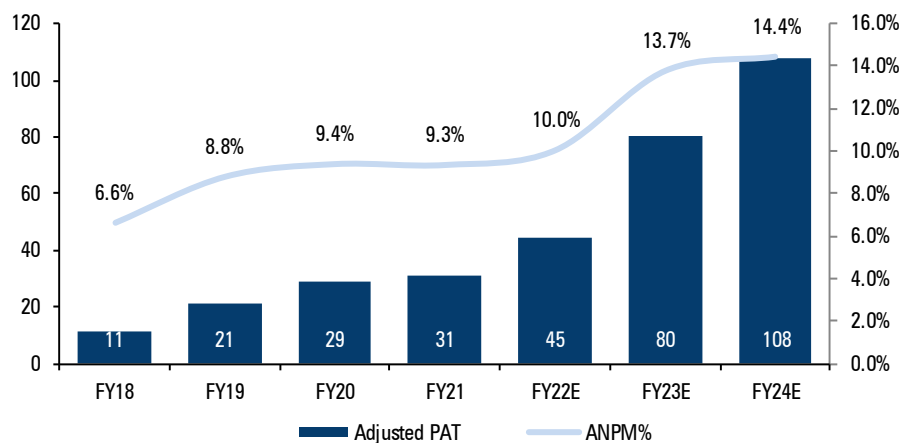
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	306.1	336.4	446.3	585.9	748.3
Growth (%)	28.1	9.9	32.7	31.3	27.7
Raw Material Expenses	184.1	197.6	258.9	336.9	426.5
Gross Profit	122.0	138.8	187.5	249.0	321.8
Employee Cost	17.3	20.1	26.8	35.2	44.9
Other Operating Expenses	46.7	54.4	73.6	93.7	119.7
EBITDA	58.1	64.4	87.0	120.1	157.1
Growth (%)	33.7	10.9	35.2	38.0	30.8
Other Income	0.2	0.5	1.7	19.8	22.5
EBITDA, including OI	58.3	64.9	88.7	139.9	179.7
Depreciation	5.2	6.9	9.7	12.2	14.5
Net Interest Exp.	11.9	13.8	17.0	20.4	21.5
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	41.1	44.2	62.0	107.3	143.6
Total Tax	12.5	12.9	17.4	26.8	35.9
Tax Rate	30.3%	29.1%	28.0%	25.0%	25.0%
PAT	28.6	31.3	44.6	80.5	107.7
Adj. PAT after Minority interest	28.6	31.3	44.6	80.5	107.7
Adj. EPS (₹)	12.3	13.4	17.9	32.3	43.2
Shares Outstanding	2.3	2.3	2.5	2.5	2.5

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
PBT & Extraordinary	41.1	44.2	62.0	107.3	143.6
Depreciation	5.2	6.9	9.7	12.2	14.5
After other adjustments					
(Inc) / Dec in Working Capital	-85.1	36.6	-64.1	-66.9	-77.8
Taxes	-12.7	-10.4	-17.4	-26.8	-35.9
Others	16.9	6.2	17.0	20.4	21.5
CF from operating activities	-34.5	83.6	7.2	46.2	66.0
Purchase of Fixed Assets	-26.5	-135.0	-17.3	-50.0	-20.0
Others	-2.1	0.4	0.0	0.0	0.0
CF from investing activities	-28.6	-134.6	-17.3	-50.0	-20.0
Proceeds from issue of shares	70.0	0.0	225.0	0.0	0.0
Borrowings (Net)	16.5	69.6	50.0	40.0	-10.0
Others	-23.9	-18.9	-22.6	-26.0	-27.1
CF from financing activities	62.6	50.7	252.4	14.0	-37.1
Net cash flow	-0.5	-0.3	242.2	10.2	8.8
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0
Opening Cash	2.0	1.5	1.2	243.4	253.6
Closing Cash	1.5	1.2	243.4	253.6	262.4

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
Liabilities					
Share Capital	23.3	23.3	24.9	24.9	24.9
Reserves	132.9	159.7	422.1	497.0	599.1
Total Shareholders Funds	156.2	183.0	447.1	521.9	624.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	30.4	116.1	156.1	186.1	176.1
Net Deferred Tax liability	5.6	8.2	8.2	8.2	8.2
Other long term liabilities	9.2	7.7	8.0	10.5	13.4
Long term provisions	3.6	3.0	4.3	5.7	7.3
Current Liabilities and Provisions					
Short term borrowings	101.9	85.8	95.8	105.8	105.8
Trade Payables	35.9	66.1	85.6	112.4	143.5
Other Current Liabilities	10.6	20.9	27.8	36.4	46.5
Short Term Provisions	1.5	1.1	1.5	1.9	2.5
Total Current Liabilities	149.9	173.9	210.6	256.5	298.3
Total Liabilities	354.9	492.0	834.3	988.9	1,127.3
Assets					
Net Block	110.6	126.7	204.0	251.8	292.3
Capital Work in Progress	2.7	114.7	45.0	35.0	0.0
Intangible assets under devl.	0.0	0.0	0.0	0.0	0.0
Goodwill on Consolidation	0.0	0.0	0.0	0.0	0.0
Non-current investments	0.6	0.8	0.8	0.8	0.8
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Long term loans and advances	5.9	7.3	7.9	10.3	13.2
Other Non Current Assets	4.1	2.3	8.8	11.5	14.7
Current Assets, Loans & Advances					
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	129.9	114.0	165.1	216.7	276.8
Sundry Debtors	75.2	78.6	97.8	128.4	164.0
Cash and Bank	1.5	1.2	243.4	253.6	262.4
Loans and Advances	0.0	0.0	0.0	0.0	0.0
Other Current assets	24.5	46.4	61.5	80.8	103.1
Current Assets	231.1	240.2	567.8	679.5	806.3
Total Assets	354.9	492.0	834.3	988.9	1,127.3

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22E	FY23E	FY24E
Per share data (₹)					
Adj. EPS	12.3	13.4	17.9	32.3	43.2
Adj. Cash EPS	14.5	16.4	21.8	37.2	49.0
BV	67.0	78.4	179.3	209.3	250.2
DPS	1.5	2.3	2.3	2.3	2.3
Operating Ratios (%)					
Gross Margin (%)	39.9	41.3	42.0	42.5	43.0
EBITDA Margin (%)	19.0	19.1	19.5	20.5	21.0
PAT Margin (%)	9.4	9.3	10.0	13.7	14.4
Debtor Days	90	85	80	80	80
Inventory Days	155	124	135	135	135
Creditor Days	43	72	70	70	70
Cash Conversion Cycle	202	137	145	145	145
Return Ratios (%)					
Return on Assets (%)	8.1	6.4	5.4	8.1	9.6
RoCE (%)	18.4	15.1	11.3	15.7	18.2
Core RoIC (%)	18.6	21.4	18.8	20.5	22.2
RoE (%)	18.3	17.1	10.0	15.4	17.3
Solvency Ratios					
Total Debt / Equity	0.8	1.1	0.6	0.6	0.5
Interest Coverage	4.4	4.2	4.6	6.3	7.7
Current Ratio	1.5	1.4	2.7	2.6	2.7
Quick Ratio	0.7	0.7	1.9	1.8	1.8
Valuation Ratios (x)					
EV/EBITDA	71.4	65.5	49.4	36.1	27.4
P/E	140.2	128.2	96.1	53.3	39.8
P/B	25.7	21.9	9.6	8.2	6.9
EV/Sales	13.5	12.5	9.6	7.4	5.8

Source: Company, ICICI Direct Research

* Return ratios are post money infusion of ₹ 225 crore

Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
PI Industries	2738	3,340	Buy	41,615	48.6	53.8	66.8	56.4	50.9	41.0	39.1	34.5	28.6	17.2	17.2	18.3	13.8	13.4	14.5
Aarti Industries	964	1,120	Buy	34,775	14.5	18.8	32.0	66.5	51.3	30.1	38.3	29.0	19.2	10.7	11.0	16.1	15.0	12.8	18.3
Tata Chemical	890	1,035	Buy	22,679	10.1	39.9	49.3	88.5	22.3	18.0	16.9	11.2	8.9	4.1	6.6	7.7	1.8	6.8	7.9
Vinati Organics	1979	2,270	Buy	20,339	26.2	33.0	45.4	75.5	60.0	43.6	57.2	46.6	33.0	21.7	24.9	28.4	17.4	18.7	21.3
Sumitomo Chemical	378	505	Buy	18,868	6.9	8.5	10.1	54.6	44.4	37.4	37.7	30.6	25.3	29.8	29.3	28.1	22.4	22.1	21.2
Navin Fluorine	3397	3,710	Hold	16,829	45.0	53.0	73.1	77.8	66.0	47.9	54.0	46.7	31.9	21.0	19.0	22.6	13.6	14.2	17.0
Rallis India	265	305	Hold	5,161	11.4	9.7	14.0	24.8	29.0	20.2	16.2	18.7	12.9	18.0	14.0	18.4	13.9	11.0	14.0
Sudarshan chemical	568	735	Buy	3,935	20.4	19.4	29.4	27.9	29.2	19.3	15.4	16.2	11.2	15.2	12.8	17.3	19.0	16.0	20.4
Neogen Chemicals	1721	2,160	Buy	4,016	13.4	17.9	32.3	128.2	96.1	53.3	65.5	49.4	36.1	15.1	11.3	15.7	17.1	10.0	15.4
Astec Lifesciences	1200	1,575	Buy	2,351	33.2	39.6	51.3	36.1	30.3	23.4	22.7	19.0	14.9	18.9	19.7	21.0	21.0	20.3	21.0

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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