Neogen Chemicals (NEOCHE)

CMP: ₹ 787 | Target: ₹ 1040 (32%) | Target Period: 12 months | **BUY**

March 31, 2021

CRAMS business to drive organic growth ahead…

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, 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. Going ahead, with the recent increase in the organic chemical capacity at Dahej, the company is poised to witness compounded growth over the medium to long run. The upcoming capacity would largely cater to the Custom Synthesis (CRAMS) opportunity given that two of the customers have expressed long term interest. Since the company is more focused on the advanced bromine intermediates market, hence, such a custom synthesis opportunity is expected to arise in the years to come. Thus, we expect another capacity expansion in Dahej to take place post FY23/FY24E (**it has already taken EC approval for around 18000 MT of organic chemicals at Dahej of which only 25% would get commissioned in the next two years**).

New capacity to drive incremental growth for organic chemical

Both phase 1, 2 expansion at Dahej would expand organic chemical capacity by 3x with a capex of ₹ 130 crore. This would translate into incremental revenue of ₹ 350-375 crore at peak utilisation against overall revenues of ₹ 306 crore currently. We expect the Dahej facility to largely cater to the custom synthesis opportunity with the Vadodara plant catering to advanced intermediates market. Given both these segments have better gross margins compared to the base business, increase in the share of these segments is likely to expand group gross margins and, thereby, OPM and return ratios.

WC cycle to improve, going forward, and thereby FCF

Since Neogen is working on many organic molecules and size of the same is materially lower, it has to keep large WIP inventory to curb manufacturing cycle time. Going forward, with an increase in custom synthesis deliveries and garnering large custom synthesis contracts as witnessed recently, the company can keep dedicated glass lined reactors. Thus, WIP inventories can be restricted significantly. Further, higher bromine consumptions could lead to more bargaining power for Neogen, which can lift payable cycle. This would improve cash conversion cycle and thereby FCF.

Valuation and outlook

We value the company at 38x FY23E PER (~1.25x on two year forward PEG) and arrive at a target price of ₹ 1040. We initiate coverage on Neogen Chemicals with a BUY recommendation on the stock.

Key Financial Summary

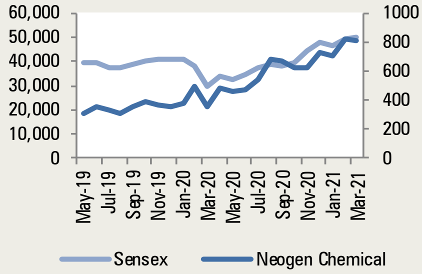
(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Revenue	239.1	306.1	329.4	437.2	575.1	23.4
EBITDA	43.4	58.1	61.9	83.1	119.0	27.0
EBITDA Margins (%)	18.2%	19.0%	18.8%	19.0%	20.7%	
Adj.PAT	21.0	28.6	29.3	39.1	63.8	30.6
Adj. EPS (₹)	10.4	12.3	12.6	16.8	27.4	
EV/EBITDA	39.0x	33.9x	32.6x	24.8x	17.3x	
P/E	75.4x	64.1x	62.7x	46.9x	28.8x	
ROE (%)	29.8	18.3	16.2	18.2	23.3	
ROCE (%)	22.2	18.4	15.1	16.0	20.5	

Source: Company, ICICI Direct Research

Particulars

Particular	Amount
Market cap (₹ Crore)	1,836
FY20 Total Debt (₹ Crore)	142
FY20 Cash & Inv (₹ Crore)	1
EV (₹ Crore)	1,977
52 Week H/L	935/310
Equity Capital (₹ Crore)	23.3
Face Value (₹)	10

Price Performance



Key Risks

- Lower lithium prices to impact inorganic chemical performance and thereby group topline growth
- Slowdown in end user industry and thereby stretched working capital would stress balance sheet

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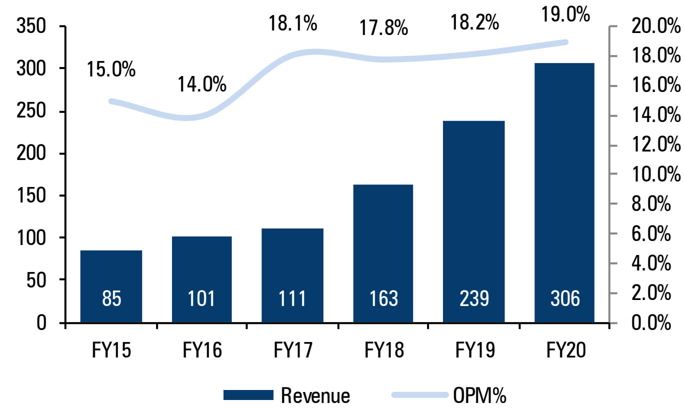
Company background

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, electronic chemicals, polymers additives, water treatment chemicals, construction chemicals and flavours & fragrances. With the help of a strong R&D team, Neogen managed to develop multiple molecules across organic as well as inorganic chemical segments over the past few years. This enabled it to register revenue growth of 29% CAGR over FY15-20. In terms of overall industry wise revenue concentration, pharmaceutical constitutes ~80% of overall revenue followed by agrochemical (~5-10%) while the rest is dispersed among engineering, speciality polymer, aromatics, construction chemical, to name a few. The revenue contribution from exports remained at 36% in FY20 while the rest was from the domestic market.

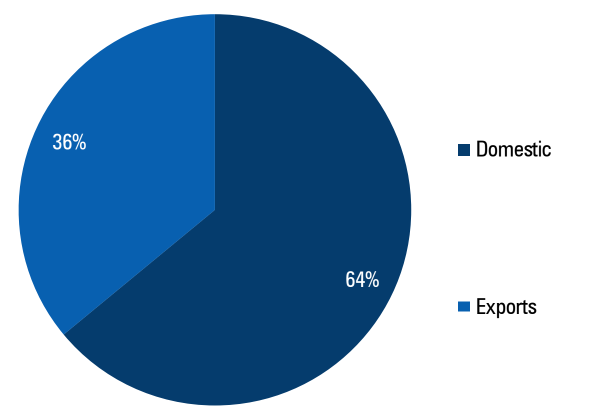
Business snapshot

Exhibit 1: Consolidated revenue (₹ crore) & OPM trend



Source: Company, ICICI Direct Research

Exhibit 2: Revenue break up among geographies in FY20

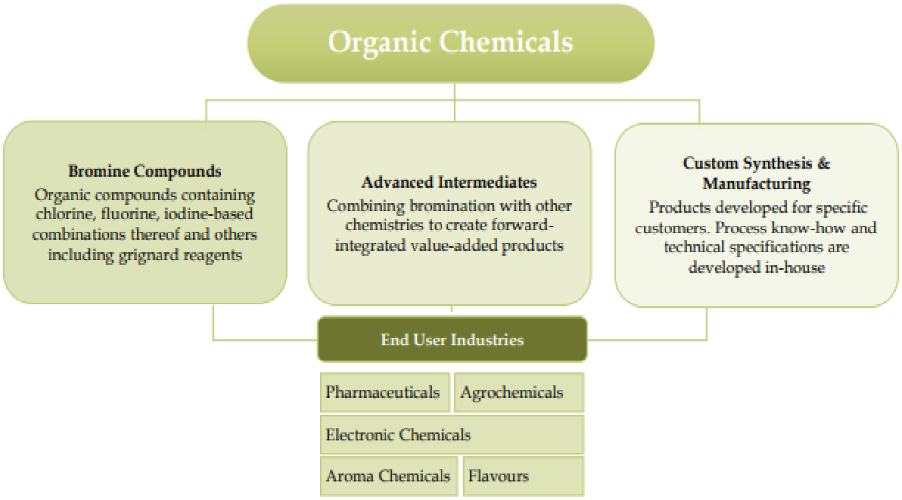


Source: Company, ICICI Direct Research

Organic chemical

Neogen caters to three sub segments under organic chemical viz. bromine derivatives, advanced intermediates and custom synthesis. Under bromine derivatives, the company manufactures bromine compounds while other organic compounds contain chlorine, fluorine and iodine or combinations thereof. In addition, Neogen also manufactures niche products like grignard reagents (a chemical formed by reaction of magnesium with an organic halide). In advanced intermediates, it combines bromination with other chemistries to create forward integrated value-added products to be used as intermediates for manufacturing active pharmaceutical ingredients (API), agrochemical active ingredients (AI) and other specialty chemicals like aroma chemicals polymer additives, etc. While in custom synthesis, the product is developed and customised primarily for a specific customer, process knowhow and technical specifications are developed in-house. The company caters to different industries like pharmaceutical, agrochemical, flavour & fragrance and electronic chemical, etc. under this segment.

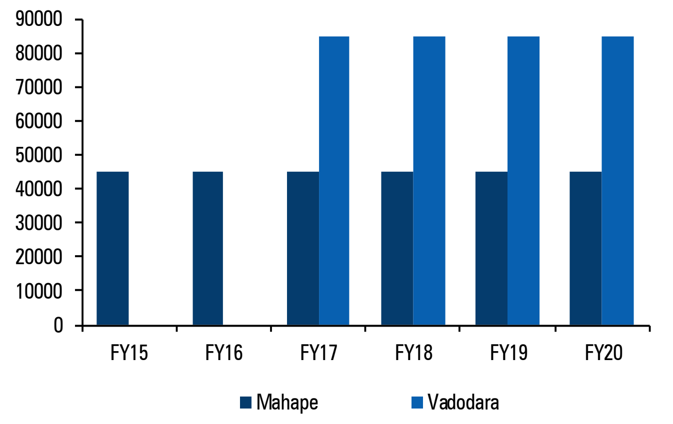
Exhibit 3: Business segments of organic chemicals



Source: Company, ICICI Direct Research

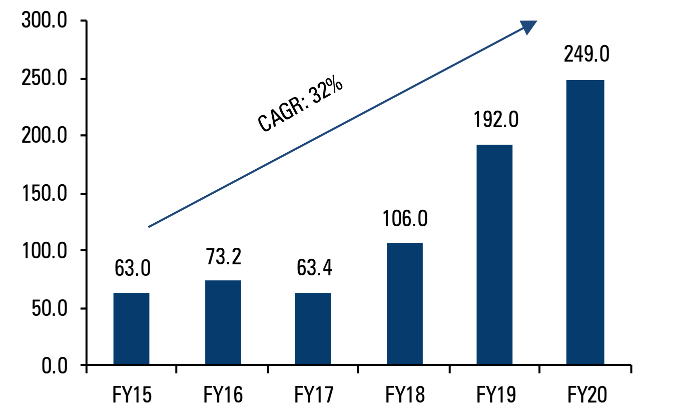
The organic chemical segment forms ~80% of overall revenue of which ~50% comes from organic compounds, ~20% from advanced intermediates and ~10% from custom synthesis. The company has two organic chemical plants at Mahape, Maharashtra and Vadodara, Gujarat while it is setting up another organic chemical capacity at Dahej, Gujarat. The revenue from organic chemical grew at 32% CAGR in FY15-20 on the back of capacity addition at Vadodara.

Exhibit 4: Organic plant capacity trend (in litre of reactor)...



Source: Company, ICICI Direct Research

Exhibit 5: Organic chemical revenue grows at 32% CAGR



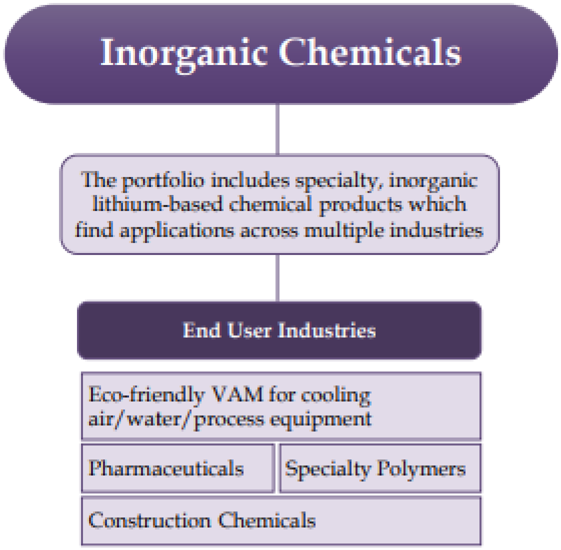
Source: Company, ICICI Direct Research

Inorganic chemical

Neogen manufactures lithium compounds, which are used in eco-friendly vapour absorption machines (VAM) for cooling air/water/process equipment. This finds application in industries like heating ventilation and air-conditioning (HVAC) and refrigeration, construction chemicals, pharmaceutical and specialty polymer. The company sells lithium compounds in the domestic market along with exports to the US, Europe and Japan.

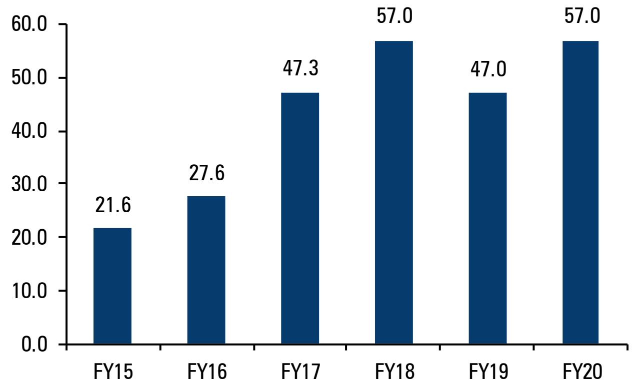
Neogen has two plants for inorganic chemical in: (i) Mahape and (ii) Dahej. The combined capacity of inorganic chemical is 2400 MTPA, distributed equally across two plants. The revenue of inorganic chemical grew at 21% CAGR in FY15-20.

Exhibit 6: Application of inorganic chemicals



Source: Company, ICICI Direct Research

Exhibit 7: Inorganic chemical revenue trend (₹ crore)



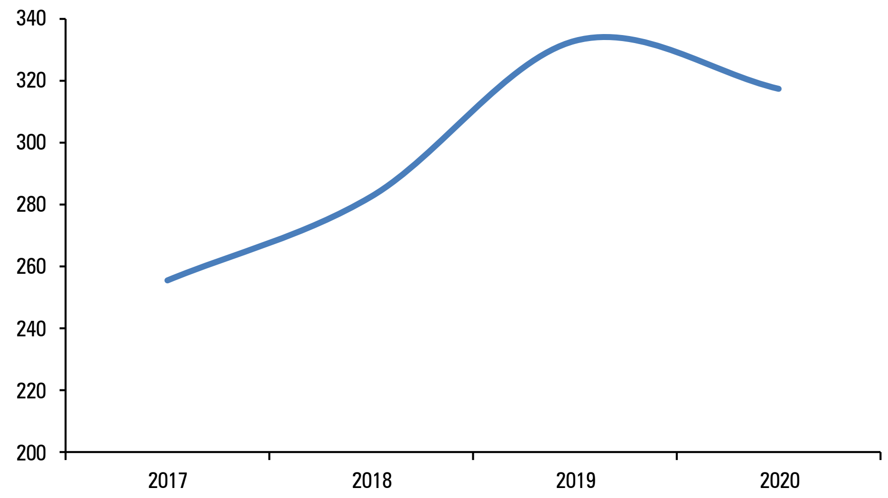
Source: Company, ICICI Direct Research

Investment Rationale

Industry growth to support performance, going ahead

Bromine is found principally in seawater, evaporitic (salt) lakes, and underground brines associated with petroleum deposits. The Dead Sea, in the Middle East, is estimated to contain 1 billion tonnes of bromine. Moreover, bromine is also recovered from seawater as a coproduct during evaporation to produce salt. The leading global applications of bromine are for the production of brominated flame retardants, intermediates and industrial uses. Bromine compounds are widely used in agricultural, chemical and pharmaceutical industries. Applications include dyes, perfumes and photographic chemicals. Further, calcium bromide, sodium bromide and zinc bromide, collectively referred to as clear brine fluids, are used in the oil & gas well drilling industries for high-density, solids-free completion, packer and workover fluids to reduce the likelihood of damage to the well bore and productive zone. Apart from this, brominated compounds are also used for water treatment in hot tubs and swimming pools to control algae and bacterial growth in industrial processes.

Exhibit 8: Bromine price trend (in ₹/kg)



Source: Bloomberg, ICICI Direct Research

Since the company is present in bromine derivatives, understanding the opportunity size of the bromine industry plays a pivotal role in envisaging the imminent growth opportunity for the company. Global bromine consumption is estimated at around 5 lakh tonnes of which 10% is used for speciality bromine derivatives while the rest is for bulk bromine consumption. Neogen caters to the speciality bromine market with annual consumption of ~3000 tonnes, depicting a market share of ~6%. In terms of absolute market size, the addressable bromine derivatives market for Neogen is estimated at ~₹ 10,000 crore against the company's present organic chemical revenue size of ~₹ 250 crore, having a market share of ~3%. As the market opportunity is large, we expect positive development towards new product launches along with penetration towards newer customer/geographies to inch up market share further.

Exhibit 9: Neogen's market share in global speciality bromine industry

Global bromine consumtion	~500,000 tonnes
of which speciality bromine share	~10%
Speciality bromine market	~50,000 tonnes
Bulk bromine market	~450,000 tonnes
Neogen annual bromine consumption	~3000 tonnes
Neogen market share in global speciality bromine market	**6%**

Source: Company, ICICI Direct Research

In terms of end user industry demand, demand for fire retardants is expected to remain strong, largely on the back of domestic and international fire safety standards regulating the flammability of construction, home furnishing and electronic products. Further, offshore natural gas and oil drilling is expected to grow, going ahead, hence, auguring well for clear brine fluids demand. Apart from this, we analysed the import and export data of bromine derivatives in India and found import of brominated derivatives to be still higher in the country. As per the Commerce Ministry databank, the import of brominated derivatives into India was ₹ 102 crore in FY20 against export of ₹ 25 crore. Major portion of imports is coming from the US, China and Singapore. We believe Neogen is one of the most cost efficient player in the bromine industry. Also, given that it has been expanding its bromine derivative capacity, one can expect the company to garner import market share in the years to come, leading to better topline growth in the medium to long run.

Exhibit 10: Brominated derivatives imports in India still higher, leading to net deficit (₹ crore)

Product detail	Exports					Imports					Net surplus/(deficit)				
	FY17	FY18	FY19	FY20	9MFY21	FY17	FY18	FY19	FY20	9MFY21	FY17	FY18	FY19	FY20	9MFY21
Bromides of sodium	33.2	41.4	57.6	87.8	35.2	1.7	3.9	3.8	4.3	10.4	31.5	37.5	53.8	83.5	24.9
Ethylene dibromide (ISO) (1,2-dibromoethane)	5.3	16.0	21.0	8.7	5.5	3.4	1.4	3.8	1.5	5.8	1.9	14.6	17.2	7.2	-0.2
Brominated derivatives	22.0	49.4	41.7	25.4	28.4	71.9	62.7	66.1	102.2	72.1	-49.8	-13.2	-24.4	-76.8	-43.8
Bromotrifluoromethane	2.0	6.0	8.5	20.2	14.6	0.0	0.0	0.3	0.2	1.5	2.0	6.0	8.1	20.0	13.1
Methyl bromide	60.9	68.6	84.1	65.2	79.6	0.7	1.1	0.1	1.4	0.6	60.2	67.6	84.0	63.8	79.0

Source: Ministry of commerce, ICICI Direct Research

New capacity to drive incremental growth for organic chemical

Neogen Chemicals is setting up organic chemical capacity in two phases in Dahej. In the first phase, capacity would be expanded by 126,000 litre with a capex of ₹ 75 crore. The plant is expected to get commissioned by Q4FY21E or Q1FY22E. The asset turn is expected to be ~2.5-3x. Phase two capex will increase organic chemical capacity by 110,000 litre with a capex of ₹ 55 crore. Both this capex at optimum utilisation could aid incremental revenues of ₹ 350-375 crore vs. overall revenue of ₹ 306 crore in FY20. The Dahej facility would largely cater to custom synthesis opportunity, which constitutes ~₹ 30 crore to overall revenue. The company can set up four to six manufacturing blocks at the Dahej site, which is spread across 12 acres of land. Given that, inorganic and organic blocks are already in place, it can set up another two to four blocks depending upon the size of the plant, going ahead.

The common infrastructure has already been created at the Dahej site. Thus, new capacity addition would take a mere 12 months. The company has already taken product approvals *(refer this EC document for product details)* for around 18000 MT of organic chemicals of which ~25% would get commissioned over the next two years. We expect major capacity announcement in Dahej to happen for the custom synthesis opportunity, going ahead. This can be ascertained from the fact that two of the customers have already expressed long term interest recently. The company would cater to both these customers from the upcoming Dahej facility. Together, these clients would provide revenue visibility of ₹ 60-100 crore annually, going ahead. We expect addition of more clients in the custom synthesis portfolio, going ahead. Hence, we expect another expansion of the Dahej capacity to take place post FY23E. This bodes well for growth visibility in the long run.

Exhibit 11: Dahej capacity expansion to drive organic chemical revenue growth ahead

Planned Capacity Expansions in Organic Chemicals

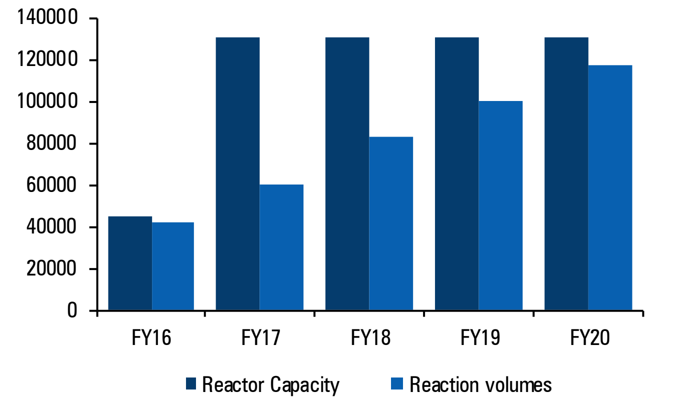
Rs. 450 cr.* Expected revenue in FY22	Current capacity in Organic Chemicals Glass Lined 130,000 Litres Non-Glass 24,000 Litres	Rs. 150-175 cr. Incremental revenue capacity
Phase I		**Phase II**
Dahej SEZ (Commissioning: FY21)	Facility	Dahej SEZ - (Commissioning: FY22)
Rs. 75 crore	CAPEX	Rs. 55 crore
Glass Lined 126,000 Litres	Reactor Capacity to be added	Glass Lined 78,000 Litres Non-Glass 32,000 Litres
Glass Lined 256,000 Litres Non-Glass 24,000 Litres	Total installed reactor capacity post expansion	Glass Lined 334,000 Litres Non-Glass 56,000 Litres

*Capacity addition in phase 1 will increase the revenue potential to Rs. 500 crore, out of which the Company will achieve Rs. 450 crore by FY22

Source: Company, ICICI Direct Research

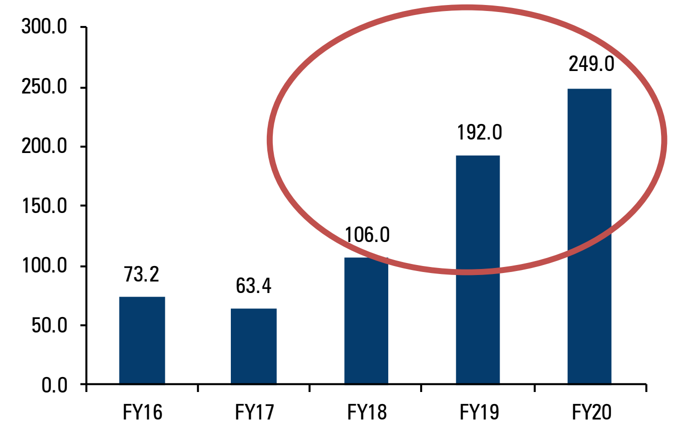
Apart from this, around 10% of the company's overall workforce are estimated to be in R&D. This led Neogen to develop around 185-190 molecules for the organic chemical segment by FY20 against less than 100 molecules prior to FY10. Historically, the company has developed around 10 molecules every year of which majority are from the organic chemical segment. Further, with the help of a strong R&D team, Neogen managed to develop 25-35 advanced intermediates molecules in the overall portfolio. Realisation of advanced intermediates bromine molecule is expected to be at $25-300/kg against bromine derivative realisation of $5-25/kg. Going ahead, we expect new product developments to be largely in advanced intermediates. Out of the two organic chemical facilities currently, the Vadodara facility largely caters to the demand for advanced intermediates. The company has a total capacity of 85,400 litre at Vadodara. The management envisages that out of the overall land bank of around 40 acres at the Vadodara plant, the company can set up eight to ten manufacturing blocks of similar size. Neogen spent around ₹ 55-60 crore on Vadodara capacity (including upgradation and acquisition cost from Solaris), which led organic chemical revenue to grow to ₹ 250 crore in FY20 against ₹ 63 crore in FY17 (58% CAGR over FY17-20). This was partly led by improvement in realisation owing to higher share of value added molecules. We expect asset turn of advanced intermediates to be ~3x. Thus, potential increase in the advanced intermediate molecules could translate into better group performance in the medium to long run.

Exhibit 12: Overall reactor capacity and volumes in litre



Source: Company, ICICI Direct Research

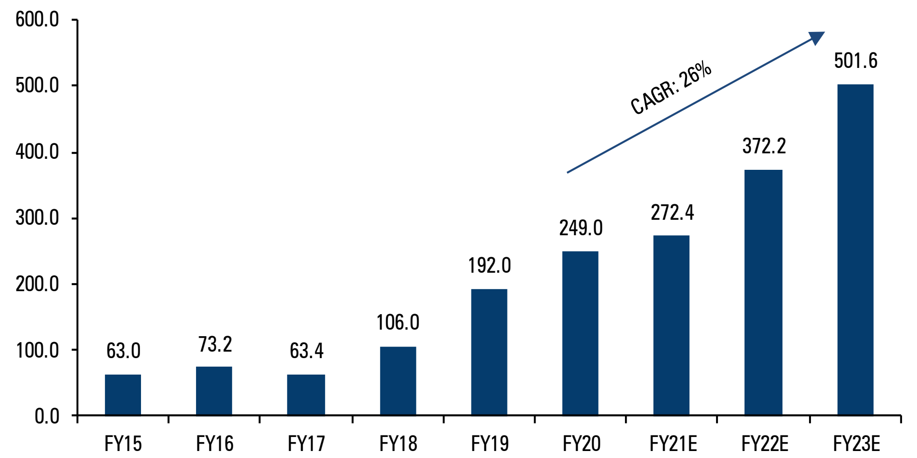
Exhibit 13: Organic chemical revenue grows at 58% CAGR over FY17-20 (₹ crore)



Source: Company, ICICI Direct Research

We expect both custom synthesis and advanced intermediates together to contribute ₹ 280 crore to overall revenue in the next three to four years. This would expand advanced intermediates and custom synthesis share to overall revenue to ~40% against ~30% currently. In terms of gross margins, both advanced intermediates and custom synthesis are expected to have gross margins of 35-55% against base business gross margins of 30-50%. Thus, higher share of the former would improve gross margins and, thereby operational performance, going ahead. We expect at least ~150 bps improvement in gross margins and OPM over FY20-23E largely on the back of changes in the product mix.

Exhibit 14: Organic chemical revenues to grow at 26% CAGR over FY20-23E (₹ crore)



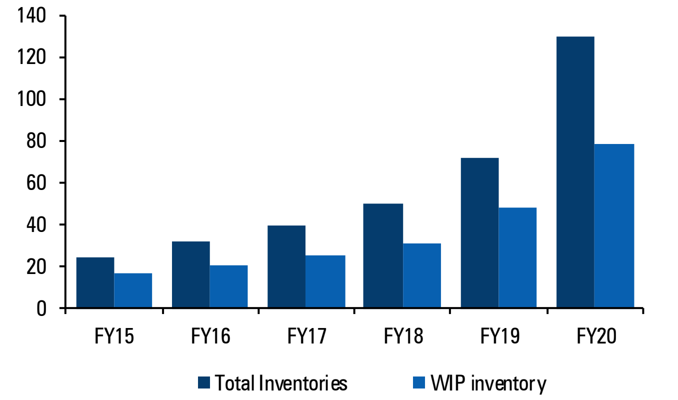
Source: Company, ICICI Direct Research

Working capital cycle to improve, going forward, thereby FCF

The company has two major key raw materials (i) bromine and (ii) lithium. Bromine is largely domestically sourced while lithium is imported. Since Neogen is working on many organic molecules and size of the same is materially lower, it has to keep large WIP inventory to curb manufacturing cycle time. As on FY20, out of overall inventories of around ₹ 130 crore, WIP inventories were at ₹ 78 crore.

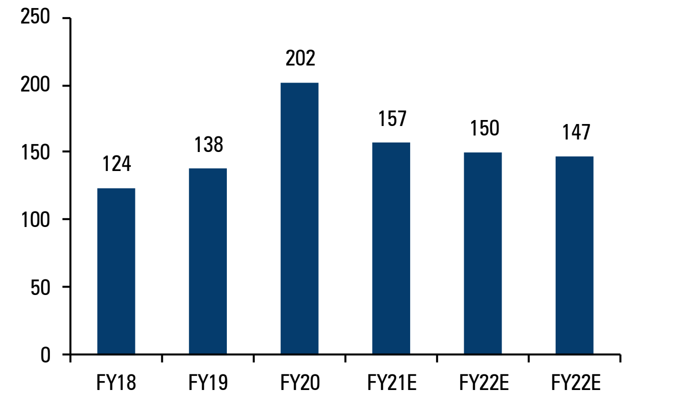
Going forward, with an increase in custom synthesis deliveries and garnering large custom synthesis contracts as witnessed recently, the company can keep dedicated glass lined reactors. Thus, WIP inventories can be restricted significantly. Further, with a rise in organic chemical capacity, bromine consumption is also expected increase, thus increasing the bargaining power of Neogen Chemicals. This can either help raw material procurement cost or higher payable days. Further, higher CUSTOM SYNTHESIS/advanced intermediates sales should also the lower receivable cycle. Hence, these, in turn, should improve the cash conversion cycle. We expect the same to come down to 147 days by FY23E against 202 days in FY20. At 35-40% WC/sales ratio, Neogen is expected to witness ~7% of sales as operating cash flow (OCF). Going forward, with an increase in operating leverage along with changes in the product mix towards value added portfolio, OPM is expected to improve meaningfully. Further, we also expect asset turn of incremental capacity, going forward, to be higher than 3x. This can improve the financial profile of the company in the medium to long run.

Exhibit 15: WIP remains higher in overall inventories (₹ crore)



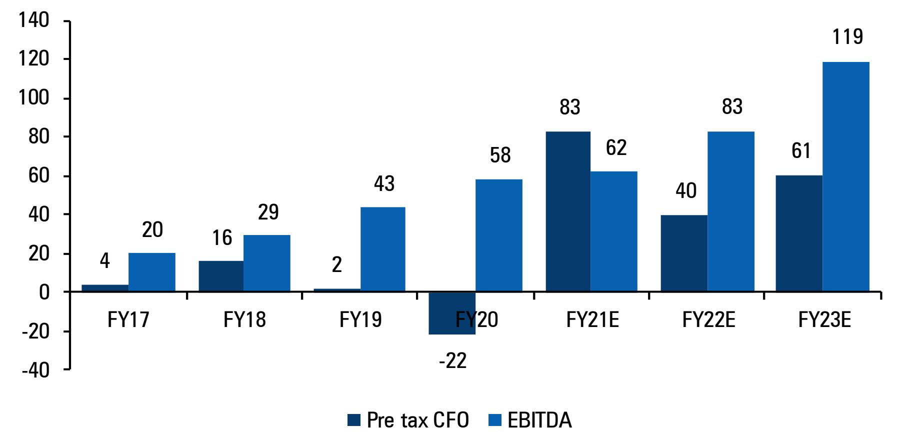
Source: Company, ICICI Direct Research

Exhibit 16: Cash conversion cycle to improve ahead (in days)



Source: Company, ICICI Direct Research

Exhibit 17: Pre-tax CFO to EBITDA likely to improve, going ahead (₹ crore)

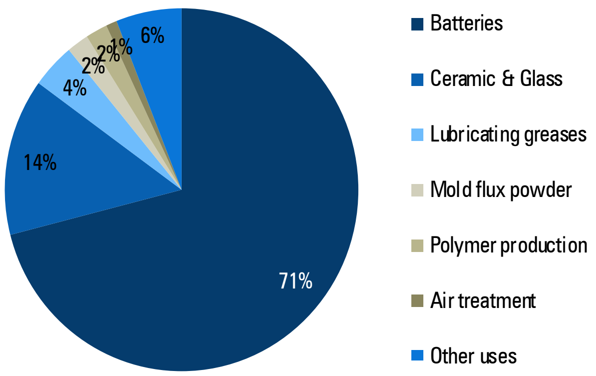


Source: Company, ICICI Direct Research

Higher volume growth to drive inorganic chemical performance

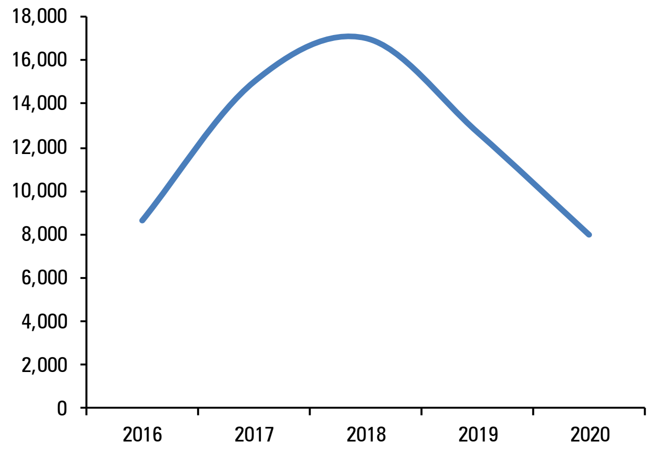
Although lithium markets vary by location, batteries are the largest consumer of lithium with a share of 71% followed by ceramics & glass at 14%, lubricating greases at 4%, continuous casting mould flux powders at 2%; polymer production at 2%, air treatment at 1% and other uses, 6%. Lithium consumption for batteries has increased significantly in recent years as rechargeable lithium batteries are used extensively in the growing market for portable electronic devices, electric tools, electric vehicles and grid storage applications. Lithium minerals were used directly as ore concentrates in ceramics and glass applications. In terms of production, excluding US production, worldwide lithium production in 2020 declined 5% to 82,000 tonnes of lithium content from 86,000 tonnes of lithium content in 2019 against global consumption of lithium to ~56,000 tonnes in 2020, almost similar to 2019. This resulted in supressed lithium carbonate prices. Spot lithium carbonate prices in China declined from ~$7,100 per tonne at the beginning of the year to about $6,200 per tonne in November 2020. For large fixed contracts, the annual average US lithium carbonate price was $8,000 per metric tonne (-37% YoY) in 2020.

Exhibit 18: Lithium usage globally based on application (%)



Source: USGS, ICICI Direct Research

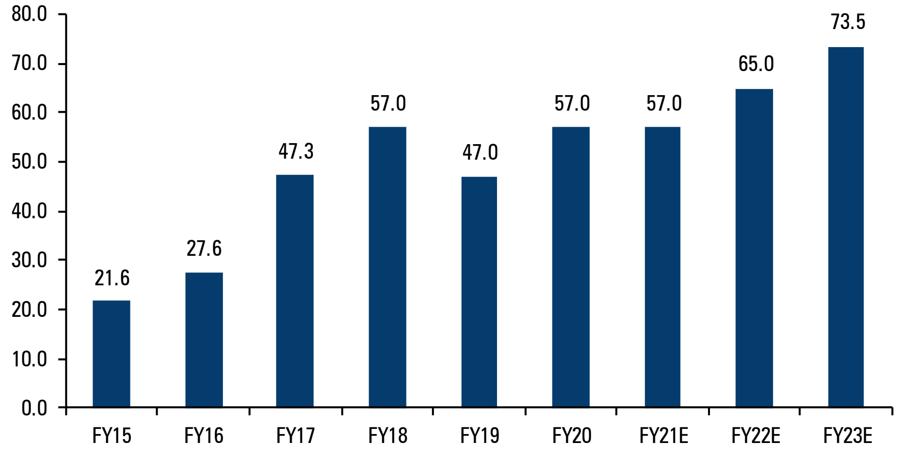
Exhibit 19: Lithium carbonate price trend (US$/tonne)



Source: USGS, ICICI Direct Research

Lithium compound products of Neogen are largely used in eco-friendly vapour absorption machines (VAM) for cooling air/water/process equipment and find application in industries like heating ventilation and air-conditioning (HVAC) and refrigeration. Moreover, it also caters to construction chemicals, pharmaceutical and specialty polymer. We expect HVAC & refrigeration segment to constitute higher proportion of inorganic chemical revenues for Neogen Chemicals currently. However, the same should essentially narrow, going ahead, on the back of our expectations of recently expanded capacity catering to incremental demand from industries like construction chemical, pharmaceutical and speciality polymer. These industries being value added segments can protect the company's realisation, to some extent, from the variability of lithium carbonate prices, going ahead. However, major fluctuation in prices like in the past has to be passed on to end users. This can affect the realisations of the company's product basket. Since lithium inventories in the system have been higher along with the coming year's production levels remaining almost similar to last year, any progressive improvement in demand from end user industries can only keep lithium carbonate prices stable. However, this seems less probable at the moment. Thus, lower lithium carbonate prices can affect realisations of the inorganic chemical segment in the coming year. Hence, we expect large growth from the inorganic chemical segment to be driven by higher volume growth owing to improvement in utilisation of new capacity. We expect inorganic chemical segment revenue to continue to grow at 9% CAGR in FY20-23E.

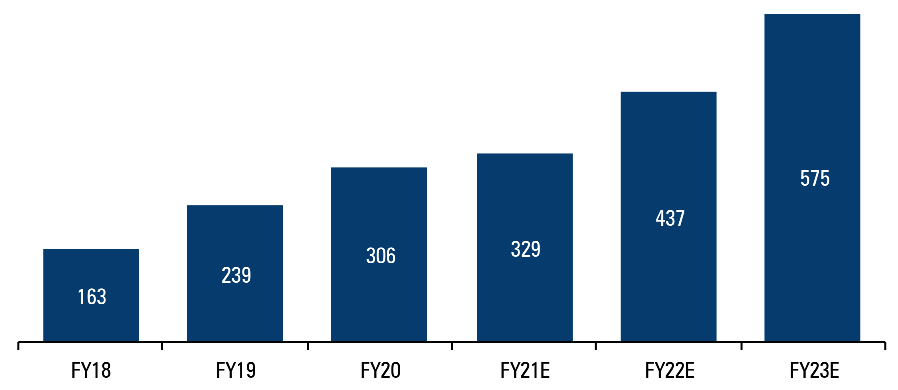
Exhibit 20: Inorganic chemical revenues to grow at 9% CAGR over FY20-23E



Source: Company, ICICI Direct Research

Financial story in charts

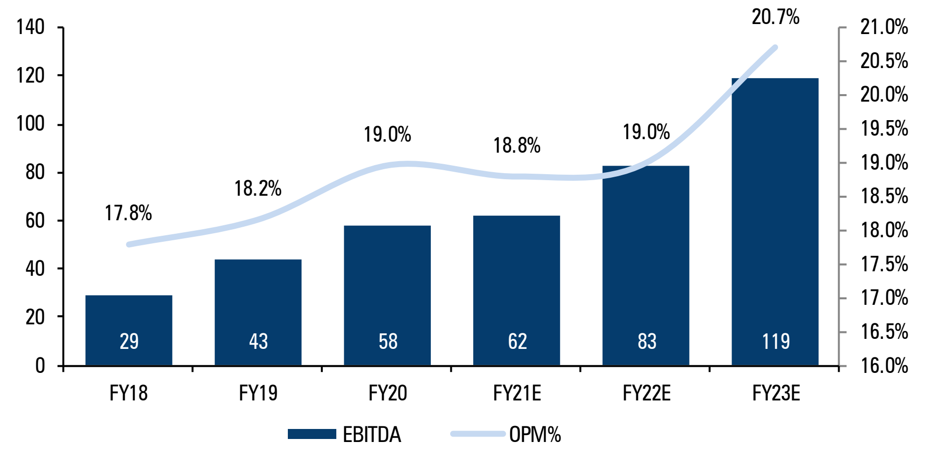
Exhibit 21: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Revenues to grow at ~23% CAGR over FY20-23E on the back of organic chemical capacity expansion at Dahej

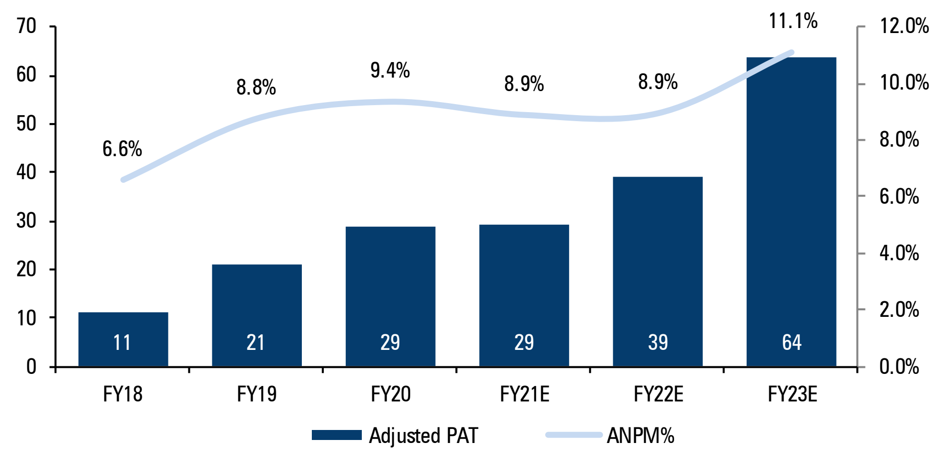
Exhibit 22: OPM likely to improve due to better gross margins, operating leverage



Source: Company, ICICI Direct Research

OPM to improve on the back of higher share of advanced intermediates & custom synthesis. Further operating leverage likely to expand margins further

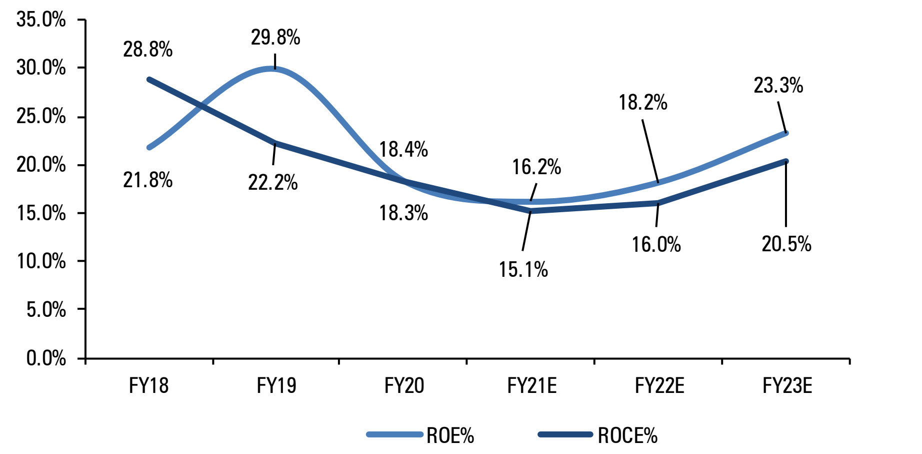
Exhibit 23: PAT trend



Source: Company, ICICI Direct Research

PAT is expected to grow at ~31% CAGR over FY20-23E on the back of better operational growth and lower tax outgo owing to Dahej SEZ plant

Exhibit 24: RoE & RoCE trend (%)



Source: Company, ICICI Direct Research

Key risks and concerns

Slowdown in end user industries to hurt performance

The company is expanding its operation at Dahej, which will largely cater to the organic chemical market. Any slowdown in the end user industry can affect the consumption of bromine molecules. Hence, this can impede the asset turn of the business.

Lithium price fluctuation to impact inorganic chemical growth

Revenue of the inorganic chemical segment is largely affected by fluctuation in lithium prices. In the last few years, lithium prices have softened significantly largely on the back of lower offtake of lithium for EV vehicles. This has impacted the realisation of the inorganic chemical segment as the company has to pass on benefits to end users. Any such fluctuation in the future can impact the financial performance of the company.

Stretched working capital to affect balance sheet profile

The cash conversion cycle as on FY20 was 202 days, which is ~55% of sales. The same was impacted by higher inventory days owing to a rise in WIP inventories. Although we expect the same to normalise, going ahead, owing to a rise in custom synthesis/advanced intermediate sales, a slowdown in demand for bromine molecules can affect the working capital cycle and, thereby, impact the balance sheet profile.

Valuation and outlook

Neogen Chemicals is one of the leaders in the bromine industry. Over the years, constant emphasis on enhancing the product mix led growth in the overall portfolio of organobromide molecules and advanced bromine intermediates. This led the company to enlarge its organic chemical capacity in the past. For future growth, it has been setting up capacity at Dahej, which would grow overall organic chemical capacity by 3x. Since the Dahej capacity would largely cater to the custom synthesis opportunity, we expect the gross margins of the business to expand considerably in the years to come given that custom synthesis should have a superior margin profile than the base business. The company anticipates incremental revenues to be around ₹ 350-375 crore at peak utilisation against capex of ₹ 130 crore, representing an asset turn of around 3x. Further, Neogen has already taken product approvals for around 18000 MT of organic chemicals of which ~25% would get commissioned in the next two years. Given that the addressable global market for Neogen is around ₹ 10,000 crore and it has been expanding its organic portfolio by around 10 molecules every year, we expect another capacity expansion at Dahej post FY23E. Moreover, we expect more customer addition in the custom synthesis business in the medium to long run. This can translate into the revenue mix of the value added portfolio inching up to 50% in the long run, thereby improving return ratios further.

At the CMP of ₹ 787/share, the stock is trading at 28.8x FY23E on our earnings estimates. We expect the company to post topline growth of ~23% CAGR over FY20-23E. The bottomline is expected to grow at ~31% CAGR over the same period largely owing to a better operational performance and lower taxes on account of the Dahej SEZ plant. Historically, we have seen that speciality chemical companies normally trade between 1x and 1.5x of two year's forward PEG. Thus, we assign 1.25x of PEG, which translates into PER of 38x on FY23E. We arrive at a target price of ₹ 1040, offering a potential upside of 32%. We initiate coverage on Neogen Chemicals with a **BUY** recommendation.

Exhibit 25: Valuation metric (₹ crore)

Company	MCAP	Revenue				EBITDA				Adj. PAT				ROE				EV/EBITDA				P/E			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Neogen Chemicals	1,836	306	329	437	575	58	62	83	119	29	29	39	64	18.3%	16.2%	18.2%	23.3%	33.9x	32.6x	24.8x	17.3x	64.1x	62.7x	46.9x	28.8x
PI Industries	34,900	3,367	4,493	5,495	6,665	718	1,042	1,346	1,720	457	739	949	1,233	17.4%	14.1%	15.7%	17.4%	44.6x	31.7x	24.2x	18.6x	69.6x	47.2x	36.8x	28.3x
Navin Fluorine	12,316	1,062	1,152	1,354	1,825	263	305	372	548	179	228	249	377	12.7%	13.9%	13.6%	17.6%	45.4x	39.1x	32.5x	21.9x	68.8x	45.2x	49.4x	32.6x
Aarti Industries	22,964	4,186	4,507	5,417	6,959	977	1,019	1,345	1,751	536	565	776	1,063	18.0%	16.3%	16.8%	19.1%	25.4x	24.7x	18.6x	14.4x	42.8x	40.6x	17.9x	21.6x

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 26: Profit & Loss statement (₹ crore)

Year end March	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	**239.1**	**306.1**	**329.4**	**437.2**	**575.1**
Growth (%)	48.3	28.1	7.6	32.8	31.5
Raw Material Expenses	140.7	184.1	195.6	258.0	336.4
Gross Profit	**98.4**	**122.0**	**133.7**	**179.3**	**238.7**
Employee Cost	11.2	17.3	20.7	28.4	37.4
Other Operating Expenses	43.8	46.7	51.0	67.8	82.2
EBITDA	**43.4**	**58.1**	**61.9**	**83.1**	**119.0**
Growth (%)	49.8	33.7	6.7	34.2	43.3
Other Income	0.6	0.2	0.5	0.7	0.8
EBITDA, including OI	**44.0**	**58.3**	**62.5**	**83.7**	**119.8**
Depreciation	2.8	5.2	6.9	11.1	14.1
Net Interest Exp.	11.9	11.9	13.7	18.3	20.6
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	**29.3**	**41.1**	**41.8**	**54.3**	**85.1**
Total Tax	8.3	12.5	12.5	15.2	21.3
Tax Rate	28.4%	30.3%	30.0%	28.0%	25.0%
PAT	**21.0**	**28.6**	**29.3**	**39.1**	**63.8**
Adj.PAT after Minority interest	21.0	28.6	29.3	39.1	63.8
Adj. EPS (₹)	10.4	12.3	12.6	16.8	27.4
Shares Outstanding	2.0	2.3	2.3	2.3	2.3

Source: Company, ICICI Direct Research

Exhibit 27: Cash flow statement (₹ crore)

Year end March	FY19	FY20	FY21E	FY22E	FY23E
PBT & Extraordinary	29.3	41.1	41.8	54.3	85.1
Depreciation	2.8	5.2	6.9	11.1	14.1
After other adjustments					
(Inc) / Dec in Working Capital	-42.4	-85.1	20.6	-43.4	-58.9
Taxes	-5.5	-12.7	-12.5	-15.2	-21.3
Others	12.1	16.9	13.7	18.3	20.6
CF from operating activities	**-3.7**	**-34.5**	**70.5**	**25.1**	**39.7**
Purchase of Fixed Assets	-18.4	-26.5	-102.3	-47.0	-15.0
Others	-1.7	-2.1	0.0	0.0	0.0
CF from investing activities	**-20.1**	**-28.6**	**-102.3**	**-47.0**	**-15.0**
Proceeds from issue of shares	0.0	70.0	0.0	0.0	0.0
Borrowings (Net)	38.2	16.5	55.0	50.0	5.0
Others	-14.3	-23.9	-18.4	-22.9	-25.3
CF from financing activities	**24.0**	**62.6**	**36.6**	**27.1**	**-20.3**
Net cash flow	0.2	-0.5	4.8	5.2	4.4
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0
Opening Cash	1.8	2.0	1.5	6.3	11.5
Closing Cash	2.0	1.5	6.3	11.5	15.9

Source: Company, ICICI Direct Research

Exhibit 28: Balance Sheet Statement (₹ crore)

Year end March	FY19	FY20	FY21E	FY22E	FY23E
Liabilities					
Share Capital	20.1	23.3	23.3	23.3	23.3
Reserves	50.1	132.9	157.5	192.0	251.2
Total Shareholders Funds	**70.2**	**156.2**	**180.9**	**215.3**	**274.5**
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	50.6	30.4	95.4	135.4	145.4
Net Deferred Tax liability	4.9	5.6	5.6	5.6	5.6
Other long term liabilities	2.0	9.2	5.9	7.8	10.3
Long term provisions	2.0	3.6	3.2	4.3	5.6
Current Liabilities and Provisions					
Short term borrowings	65.2	101.9	91.9	101.9	96.9
Trade Payables	42.8	35.9	52.3	71.9	94.5
Other Current Liabilities	7.7	10.6	11.4	15.2	20.0
Short Term Provisions	1.1	1.5	1.6	2.1	2.7
Total Current Liabilities	116.8	149.9	157.3	191.1	214.2
Total Liabilities	**246.4**	**354.9**	**448.2**	**559.4**	**655.5**
Assets					
Net Block	82.8	110.6	123.7	199.5	245.4
Capital Work in Progress	0.4	2.7	85.0	45.0	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	0.5	0.6	0.6	0.6	0.6
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Long term loans and advances	2.5	5.9	5.8	7.7	10.1
Other Non Current Assets	0.4	4.1	6.5	8.6	11.3
Current Assets, Loans & Advances					
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	72.4	129.9	129.0	167.7	215.9
Sundry Debtors	60.7	75.2	65.0	83.9	110.3
Cash and Bank	2.0	1.5	6.3	11.5	15.9
Loans and Advances	0.0	0.0	0.0	0.0	0.0
Other Current assets	24.7	24.5	26.3	35.0	46.0
Current Assets	159.8	231.1	226.6	298.0	388.0
Total Assets	**246.5**	**354.9**	**448.2**	**559.4**	**655.5**

Source: Company, ICICI Direct Research

Exhibit 29: Key Ratios

Year end March	FY19	FY20	FY21E	FY22E	FY23E
Per share data (₹)					
Adj. EPS	10.4	12.3	12.6	16.8	27.4
Adj. Cash EPS	11.8	14.5	15.5	21.5	33.4
BV	35.0	67.0	77.5	92.3	117.7
DPS	0.0	1.5	2.0	2.0	2.0
Operating Ratios (%)					
Gross Margin (%)	41.1	39.9	40.6	41.0	41.5
EBITDA Margin (%)	18.2	19.0	18.8	19.0	20.7
PAT Margin (%)	8.8	9.4	8.9	8.9	11.1
Debtor Days	93	90	72	70	70
Inventory Days	111	155	143	140	137
Creditor Days	65	43	58	60	60
Cash Conversion Cycle	138	202	157	150	147
Return Ratios (%)					
Return on Assets (%)	8.5	8.1	6.5	7.0	9.7
RoCE (%)	22.2	18.4	15.1	16.0	20.5
Core RoIC (%)	22.1	18.4	15.2	16.3	21.0
RoE (%)	29.8	18.3	16.2	18.2	23.3
Solvency Ratios					
Total Debt / Equity	1.6	0.8	1.0	1.1	0.9
Interest Coverage	3.5	4.4	4.0	4.0	5.1
Current Ratio	1.4	1.5	1.4	1.6	1.8
Quick Ratio	0.7	0.7	0.6	0.7	0.8
Valuation Ratios (x)					
EV/EBITDA	39.0	33.9	32.6	24.8	17.3
P/E	75.4	64.1	62.7	46.9	28.8
P/B	22.5	11.8	10.2	8.5	6.7
EV/Sales	7.1	6.4	6.1	4.7	3.6

Source: Company, ICICI Direct Research

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