

Neogen Chemicals (NEOCHE)

CMP: ₹ 1422

Target: ₹ 1645 (16%)

Target Period: 12 months

August 9, 2022

BUY

Strong numbers; outlook upbeat...

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

Q1FY23 Results: The topline was better than our estimates but margins came in below our estimates.

- Reported revenue growth of 74.7% YoY to ₹ 147.9 crore, led by higher growth from both organic chemicals (up 32% YoY) and inorganic chemicals (up 241% YoY)
- Gross margins declined 20 bps YoY to ~44.8% while EBITDA margin fell 180 bps YoY to 16.7%
- EBITDA was up 58% YoY to ₹ 24.7 crore
- PAT increased 50% YoY to ₹ 11.1 crore

What should investors do? Stock appreciated at 60.5% CAGR in last three years.

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

Target Price and Valuation: We value Neogen Chemicals at 50x P/E FY24E EPS to arrive at a revised target price of ₹ 1645/share (earlier ₹ 1870/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 margin 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 ₹ 520



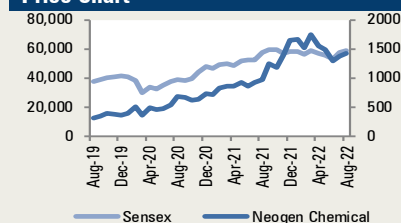
Particulars

Particular	Amount
Market cap (₹ Crore)	3,545
FY22 Total Debt (₹ Crore)	198
FY22 Cash & Inv (₹ Crore)	126
EV (₹ Crore)	3,617
52 Week H/L	1934/880
Equity Capital (₹ Crore)	24.9
Face Value (₹)	10

Shareholding pattern

in %	Sept-21	Dec-21	Mar-22	Jun-22
Promoter	64.3	60.2	60.2	60.2
DII	14.6	18.5	18.6	19.3
FII	4.8	4.4	4.4	4.3
Others	16.4	16.9	16.8	16.2

Price Chart



Recent event & key risks

- New capex announced worth ₹ 150 crore at Dahej
- Key Risk:** (i) Higher lithium prices and inability to pass on to impact inorganic chemical performance (ii) Slowdown in end user industry and thereby stretched WC to impact balance sheet

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Dhavan Shah
dhavan.shah@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year (FY22-23)
Net Revenue	239.1	306.1	336.4	487.3	32.0%	706.2	812.9	29.2
EBITDA	43.4	58.1	64.4	86.6	34.1%	125.0	150.4	31.8
EBITDA Margins (%)	18.2%	19.0%	19.1%	17.8%		17.7%	18.5%	
Adj. PAT	21.0	28.6	31.3	44.6	42.2%	67.9	82.1	35.6
Adj. EPS (₹)	10.4	12.3	13.4	17.9		27.2	32.9	
EV/EBITDA	68.4x	59.4x	54.7x	41.8x		30.2x	25.0x	
P/E	136.3x	115.8x	105.9x	79.5x		52.2x	43.2x	
ROE (%)	29.8	18.3	17.1	10.2		13.6	14.3	
ROCE (%)	22.2	18.4	15.1	12.0		15.0	16.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q1FY23 Results: Decent performance from both organic, inorganic chemical leads topline growth

- **Organic chemical:** Revenues were up 32% YoY to ₹ 90 crore. The company had already started production from both phase 1 & 2 at Dahej. Better utilisation at Phase 1 has likely fuelled growth for the quarter. The company has achieved ₹ 60-80 core of revenues this fiscal from the two contracts it won last year
- **Inorganic Chemical:** Better utilisation of new capacity along with higher realisations have supported strong revenue growth during the quarter. Revenue was up 241% YoY to ₹ 58 crore

Q1FY23 Earnings Conference Call highlights

Seasonal variance factors

- Demand for lithium-based chemicals tends to be strong in Q4 as demand from the HVAC segment, a key usage area, is linked to capital expenditure that enjoys 100% depreciation benefits for air conditioning /cooling machines
- Demand from the agrochemicals segment is linked to the crop cycle and is stronger during H2

Key developments

The board of directors have approved an estimated capital expenditure of up to ₹ 150 crore, to be deployed in FY23 at Dahej SEZ plant for

- Expanding manufacturing capacity of specialty organic chemicals by 60,000 litre to support new molecules developed in-house and enhancing ability to do multiple chemistries
- Increasing the capacity for manufacturing inorganic salts from 1,200 MT to 2,400 MT in existing Inorganic MPP – this is to cater to demand from new approvals received from international customers for regular lithium based products recently and expected growth in their demand in domestic market
- Setting up new capacity in existing Inorganic MPP for 400 MTPA for manufacturing specialty lithium salts and additives for electrolyte used in lithium-Ion batteries advance chemistry cells – targeted for trial approvals in international markets and captive consumption for manufacturing of electrolyte
- Dahej site development – such as admin block, warehouse expansion, infrastructure, etc.

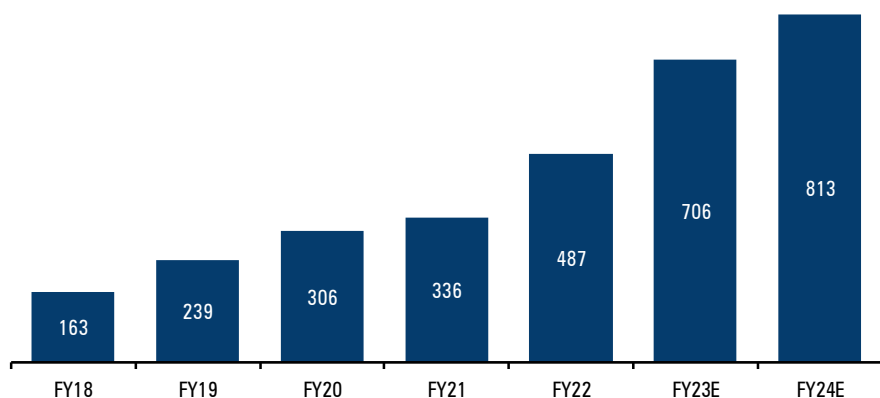
Others

- Soft demand for pharma molecules led lower growth in organic chemicals. Also seasonally led lower growth
- The company was able to pass on lithium price inflation (till Q1) to customers
- Total 25% of overall revenues coming from new customers in last two quarters
- Guided ₹ 600 crore revenue with 18.5% OPM. Can overshoot lithium prices but on relative basis there could be margin pressure. However, it can maintain absolute EBITDA. The company can achieve ₹ 650-700 crore revenue
- There has been an increase in global inquiries for both organic and inorganic chemicals
- Neogen buys 60-70% of lithium that is imported by India
- The management expects 120-130 days cash conversion cycle this fiscal with next year to be around 110 days

- No major price hikes in organic chemicals. Growth came from higher utilisation
- In Q1, Q2, generally higher inventories are built up for organic chemical while for Q3, Q4, there is more inventory liquidation
- CRAMS – Besides Agro and Pharma the company is also targeting other industries

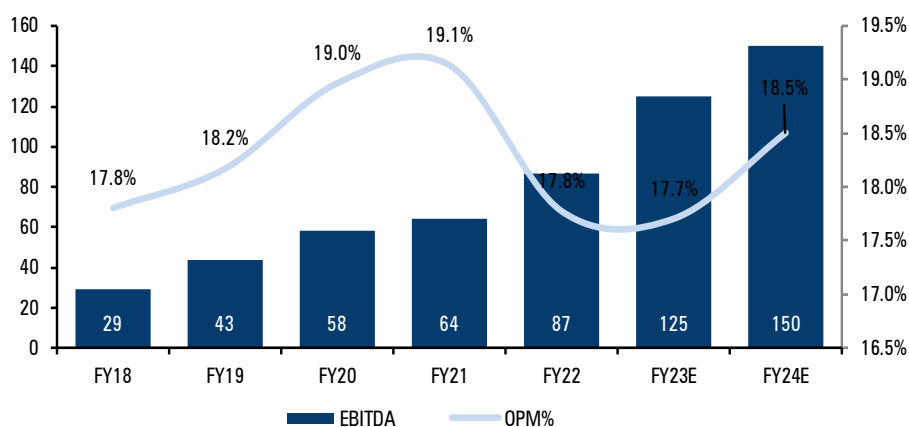
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



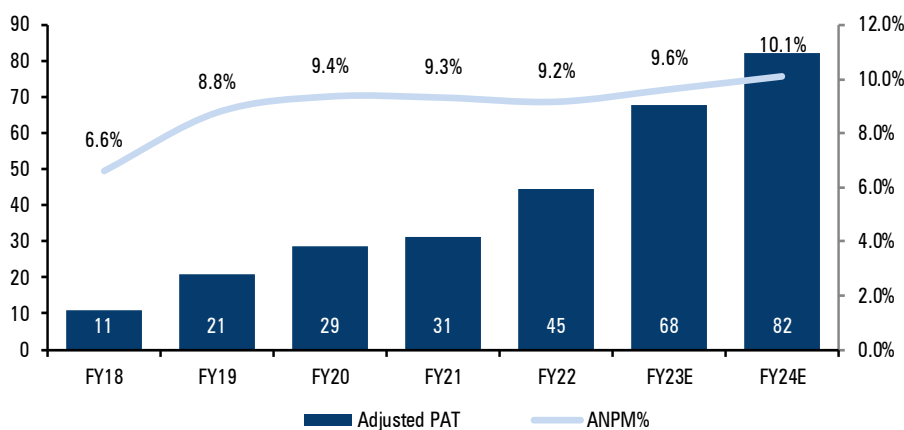
Source: Company, ICICI Direct Research

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	FY21	FY22	FY23E	FY24E
Total Operating Income	336.4	487.3	706.2	812.9
Growth (%)	9.9	44.8	44.9	15.1
Raw Material Expenses	197.6	275.0	395.5	451.2
Gross Profit	138.8	212.3	310.7	361.7
Employee Cost	20.1	31.5	41.0	48.8
Other Operating Expenses	54.4	94.2	144.8	162.6
EBITDA	64.4	86.6	125.0	150.4
Growth (%)	10.9	34.5	44.4	20.3
Other Income	0.5	1.3	1.5	1.7
EBITDA, including OI	64.9	87.8	126.5	152.1
Depreciation	6.9	11.7	15.5	20.7
Net Interest Exp.	13.8	19.1	23.9	26.1
Other exceptional items	0.0	0.0	0.0	0.0
PBT	44.2	57.1	87.1	105.3
Total Tax	12.9	12.4	19.2	23.2
Tax Rate	29.1%	21.8%	22.0%	22.0%
PAT	31.3	44.6	67.9	82.1
Adj.PAT after Minority interest	31.3	44.6	67.9	82.1
Adj. EPS (₹)	13.4	17.9	27.2	32.9
Shares Outstanding	2.3	2.5	2.5	2.5

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
PBT & Extraordinary	44.2	57.1	87.1	105.3
Depreciation	6.9	11.7	15.5	20.7
After other adjustments				
(Inc) / Dec in Working Capital	36.6	-70.1	-77.5	-23.4
Taxes	-10.4	-9.8	-19.2	-23.2
Others	6.2	12.6	23.9	26.1
CF from operating activities	83.6	1.4	29.8	105.5
Purchase of Fixed Assets	-135.0	-66.2	-150.0	-70.0
Others	0.4	-79.6	80.8	0.0
CF from investing activities	-134.6	-145.9	-69.2	-70.0
Proceeds from issue of shares	0.0	217.7	0.0	0.0
Borrowings (Net)	69.6	-4.2	40.0	0.0
Others	-18.9	-25.1	-30.8	-33.0
CF from financing activities	50.7	188.4	9.2	-33.0
Net cash flow	-0.3	44.0	-30.2	2.5
Effects of foreign currency translation	0.0	0.0	0.0	0.0
Opening Cash	1.5	1.2	45.2	15.0
Closing Cash	1.2	45.2	15.0	17.5

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
Liabilities				
Share Capital	23.3	24.9	24.9	24.9
Reserves	159.7	414.3	475.4	550.6
Total Shareholders Funds	183.0	439.2	500.3	575.6
Minority Interest	0.0	0.0	0.0	0.0
Long Term Borrowings	116.1	121.5	151.5	151.5
Net Deferred Tax liability	8.2	10.6	10.6	10.6
Other long term liabilities	7.7	5.8	12.6	14.5
Long term provisions	3.0	4.0	6.9	7.9
Current Liabilities and Provisions				
Short term borrowings	85.8	76.2	86.2	86.2
Trade Payables	66.1	98.9	145.1	167.0
Other Current Liabilities	20.9	41.2	59.6	68.7
Short Term Provisions	1.1	1.9	2.7	3.1
Total Current Liabilities	173.9	218.1	293.7	325.0
Total Liabilities	492.0	799.3	975.6	1,085.1
Assets				
Net Block	126.7	285.1	330.3	479.6
Capital Work in Progress	114.7	10.6	100.0	0.0
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	0.8	1.0	1.0	1.0
Deferred tax assets	0.0	0.0	0.0	0.0
Long term loans and advances	7.3	8.5	12.5	14.3
Other Non Current Assets	2.3	1.6	13.9	16.0
Current Assets, Loans & Advances				
Current Investments	0.0	80.8	0.0	0.0
Inventories	114.0	194.6	251.5	267.3
Sundry Debtors	78.6	109.5	154.8	178.2
Cash and Bank	1.2	45.2	15.0	17.5
Loans and Advances	0.0	0.0	0.0	0.0
Other Current assets	46.4	62.4	96.7	111.4
Current Assets	240.2	492.5	518.0	574.3
Total Assets	492.0	799.3	975.6	1,085.1

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
Year end March	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Adj. EPS	13.4	17.9	27.2	32.9
Adj. Cash EPS	16.4	22.6	33.4	41.2
BV	78.4	176.1	200.6	230.8
DPS	2.3	2.8	2.8	2.8
Operating Ratios (%)				
Gross Margin (%)	41.3	43.6	44.0	44.5
EBITDA Margin (%)	19.1	17.8	17.7	18.5
PAT Margin (%)	9.3	9.2	9.6	10.1
Debtor Days	85	82	80	80
Inventory Days	124	146	130	120
Creditor Days	72	74	75	75
Cash Conversion Cycle	137	154	135	125
Return Ratios (%)				
Return on Assets (%)	6.4	5.6	7.0	7.6
RoCE (%)	15.1	12.0	15.0	16.2
Core RoIC (%)	21.4	15.0	17.6	16.3
RoE (%)	17.1	10.2	13.6	14.3
Solvency Ratios				
Total Debt / Equity	1.1	0.5	0.5	0.4
Interest Coverage	4.2	4.0	4.6	5.0
Current Ratio	1.4	2.3	1.8	1.8
Quick Ratio	0.7	1.4	0.9	0.9
Valuation Ratios (x)				
EV/EBITDA	54.7	41.8	30.2	25.0
P/E	105.9	79.5	52.2	43.2
P/B	18.1	8.1	7.1	6.2
EV/Sales	10.5	7.4	5.3	4.6

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2340	2,735	Buy	69,466	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	3200	3,710	Buy	48,550	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Aarti Industries	712	860	Hold	25,812	21.7	24.4	30.7	32.8	29.2	23.2	22.6	18.9	15.4	12.0	12.6	13.6	13.3	13.2	14.4
Tata Chemical	825	1,155	Buy	21,009	47.5	63.6	73.0	17.4	13.0	11.3	12.4	9.1	6.8	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2238	2,320	Hold	23,000	33.7	40.1	51.5	56.0	47.1	36.7	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	474	520	Buy	23,679	8.5	10.2	11.5	55.9	46.7	41.1	35.9	30.1	26.0	30.2	28.6	26.7	22.0	21.3	19.9
Navin Fluorine	4200	4,450	Hold	20,812	52.3	67.4	89.0	80.3	62.3	47.2	58.4	41.8	30.6	17.8	18.7	19.6	14.0	15.8	17.9
Rallis India	208	200	Hold	3,987	8.4	8.9	12.4	24.3	23.1	16.6	13.9	14.1	10.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	455	515	Hold	3,153	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1422	1,645	Buy	3,545	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	1791	2,215	Buy	3,509	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Siddhant Khandekar, Inter CA, Dhavan Shah, MS (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.