

Decent numbers; management reiterates guidance...

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

Q2FY23 Results: Numbers were solid on a like-to-like basis but below our estimates due to lower than expected growth in the inorganic segment.

- Revenue grew 31% YoY to ₹ 148.1 crore, led by higher growth from both organic chemicals (up 9% YoY) and inorganic chemicals (up 123% YoY)
- Gross margins rose 345 bps YoY to ~46.8% while EBITDA margin declined 178 bps YoY to 16.7%. Absolute EBITDA was up 18% YoY to ₹ 24.3 crore
- PAT declined 12% YoY to ₹ 9.9 crore

What should investors do? The stock appreciated at 55.7% CAGR in the last three years.

- We retain **BUY** rating on the back of better growth outlook from both organic and inorganic segments tracking capex and visibility

Target Price and Valuation: We value Neogen Chemicals at 45x P/E FY24E EPS to arrive at a revised target price of ₹ 1680/share (earlier ₹ 1645/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 PI Industries.

- Trigger for PI Industries future revenue growth would be strong order backlog in CSM and proposed foray into pharma CDMO
- BUY with a target price of ₹ 3710



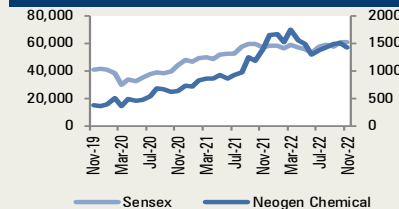
Particulars

Particular	Amount
Market cap (₹ Crore)	3,532
FY22 Total Debt (₹ Crore)	198
FY22 Cash & Inv (₹ Crore)	126
EV (₹ Crore)	3,604
52 Week H/L	1934/1200
Equity Capital (₹ Crore)	24.9
Face Value (₹)	10

Shareholding pattern

in %	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	60.2	60.2	60.2	60.2
DII	18.5	18.6	19.3	19.1
FII	4.4	4.4	4.3	3.7
Others	16.9	16.8	16.2	17.0

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

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	239.1	306.1	336.4	487.3	32.0%	690.0	842.9	31.5%
EBITDA	43.4	58.1	64.4	86.6	34.1%	125.6	164.4	37.8%
EBITDA Margins (%)	18.2%	19.0%	19.1%	17.8%		18.2%	19.5%	
Adj. PAT	21.0	28.6	31.3	44.6	42.2%	68.4	93.0	44.4%
Adj. EPS (₹)	10.4	12.3	13.4	17.9		27.4	37.3	
EV/EBITDA	67.9x	59.0x	54.3x	41.5x		29.8x	22.8x	
P/E	135.4x	115.1x	105.2x	79.0x		51.5x	37.9x	
ROE (%)	29.8	18.3	17.1	10.2		13.7	15.9	
ROCE (%)	22.2	18.4	15.1	12.0		15.1	17.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q2FY23 Results: Decent performance from both organic, inorganic chemical leads topline growth

- **Organic chemicals:** Revenues were up 9% YoY to ₹ 99 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 Chemicals:** Better utilisation of new capacity along with higher realisations have supported strong revenue growth during the quarter. Revenue was up 123% YoY to ₹ 49 crore

Q2FY23 Earnings Conference Call highlights

Seasonal variance factors

- Seasonal variance is driven by strong demand from Europe as orders tend to scale up in October-November and further accelerate from January after the holiday season
- Demand for lithium-based chemicals tends to be strong in Q4 as demand from the HVAC segment, a key usage area, is linked to capex 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 company witnessed some cooling effects in raw material barring lithium, which continued its upward trajectory reaching its highest level and bromine, which continued to remain stable with moderate increase. Neogen was able to pass on lithium prices to customers thereby protecting absolute EBITDA
- Neogen has started production of high level customised products that enjoy better demand visibility. These are complex products that require expertise in key chemistries. Further, the company has strengthened R&D team to accommodate such complex product and have 60 members dedicated team.
- Expansion plan are progressing well across both lithium and battery chemicals and existing business including CSM management. The company is on track to deliver stellar revenue guidance for the next few years. In line with capex trajectory the company is also ramping up teams across business developments, operations, etc
- The company has added five customers in the last quarter in Europe and Japan across agrochemicals flavour, fragrance and engineering segment where projects moved from pilot phase to Phase I with combined revenue potential of more than ₹ 200 crore. The company is working with 15 customers actively
- Pharma and agro have completed their pilots and first commercial ramp up, which have a revenue potential of ₹ 150 crore that will start contributing in H2FY23 and will reach its peak in FY25

Expansion Update

- Lithium Electrolyte salt & additives manufacturing set up in Dahej SEZ. Commissioning is expected to start by Q4 and trial production in Q1FY24
- In the existing business, increased capacity for existing lithium business has been initiated and a new streamlined facility will be ready by Q4 of this year. Additional capacity will be available for the next financial year
- Organic chemical production capacity also continues and is expected to be completed by Q1 and Q2 by the next financial year

- Lithium battery material – Larger capex plan will be dependent on how the final discussion progresses. Declaration will be made in H2FY23 if any

Revenue Guidance

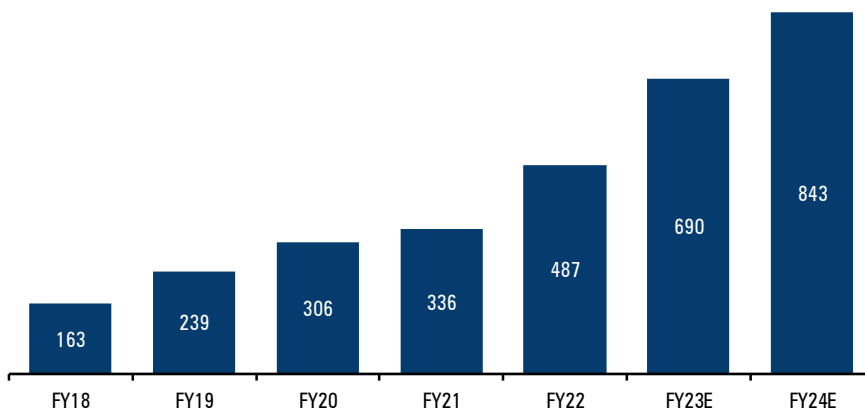
- FY24 revenue guidance is ₹ 700-750 crore
- FY25-26 will add more than ₹ 250-300 crore at full utilisation levels and stable lithium prices
 - Additional lithium capacity will add ~₹ 50 crore
 - 60 KL of additional reactor volume will add ~₹ 100 crore
 - Lithium ion salt batteries will add ~₹ 100 crore
- Further, any capex declared will be in addition to the above

Others

- Capacity utilisation – Mahape and Tarakhadi – 80-85% utilisation and Dahej plant is 60-65% utilisation
- Volume growth in the organic segment was high YoY, QoQ while in inorganic segment it was due to increase in lithium prices by fourfold to fivefold. Some customers resisted from purchasing at current levels while some pre booked in Q1, which resulted in a decline in volumes

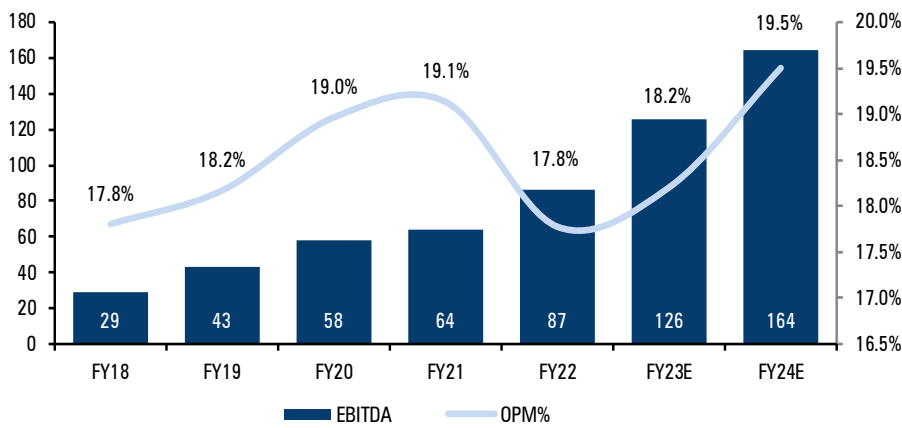
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



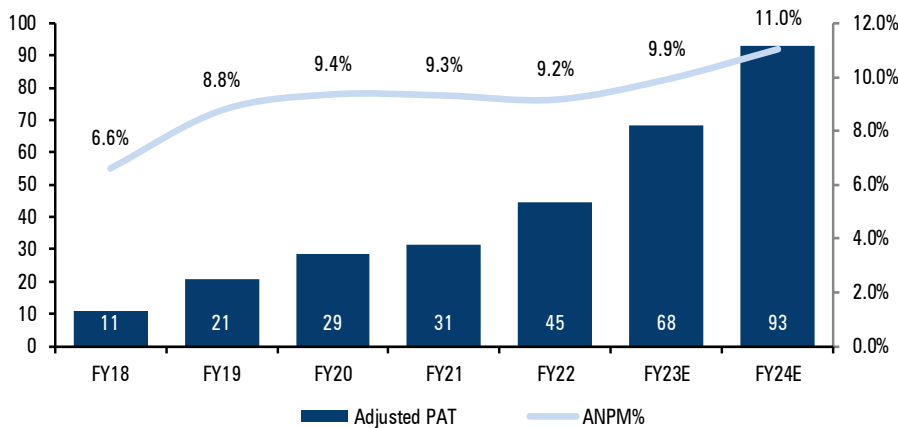
Source: Company, ICICI Direct Research

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	690.0	842.9	
Growth (%)	9.9	44.8	41.6	22.2	
Raw Material Expenses	197.6	275.0	383.0	467.8	
Gross Profit	138.8	212.3	307.1	375.1	
Employee Cost	20.1	31.5	40.0	50.6	
Other Operating Expenses	54.4	94.2	141.5	160.1	
EBITDA	64.4	86.6	125.6	164.4	
Growth (%)	10.9	34.5	45.0	30.9	
Other Income	0.5	1.3	1.5	1.7	
EBITDA, including OI	64.9	87.8	127.1	166.1	
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	87.7	119.3	
Total Tax	12.9	12.4	19.3	26.2	
Tax Rate	29.1%	21.8%	22.0%	22.0%	
PAT	31.3	44.6	68.4	93.0	
Adj.PAT after Minority interest	31.3	44.6	68.4	93.0	
Adj. EPS (₹)	13.4	17.9	27.4	37.3	
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	87.7	119.3	
Depreciation	6.9	11.7	15.5	20.7	
After other adjustments					
(Inc) / Dec in Working Capital	36.6	-70.1	-70.6	-42.4	
Taxes	-10.4	-9.8	-19.3	-26.2	
Others	6.2	12.6	23.9	26.1	
CF from operating activities	83.6	1.4	37.2	97.5	
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	-22.8	-5.5	
Effects of foreign currency translation	0.0	0.0	0.0	0.0	
Opening Cash	1.5	1.2	45.2	22.4	
Closing Cash	1.2	45.2	22.4	16.9	

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	475.8	562.0	
Total Shareholders Funds	183.0	439.2	500.8	586.9	
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	12.3	15.1	
Long term provisions	3.0	4.0	6.7	8.2	
Current Liabilities and Provisions					
Short term borrowings	85.8	76.2	86.2	86.2	
Trade Payables	66.1	98.9	141.8	173.2	
Other Current Liabilities	20.9	41.2	58.3	71.2	
Short Term Provisions	1.1	1.9	2.6	3.2	
Total Current Liabilities	173.9	218.1	288.9	333.8	
Total Liabilities	492.0	799.3	970.9	1,106.2	
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 devel.	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	12.2	14.9	
Other Non Current Assets	2.3	1.6	13.6	16.6	
Current Assets, Loans & Advances					
Current Investments	0.0	80.8	0.0	0.0	
Inventories	114.0	194.6	245.8	277.1	
Sundry Debtors	78.6	109.5	151.2	184.7	
Cash and Bank	1.2	45.2	22.4	16.9	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current assets	46.4	62.4	94.5	115.5	
Current Assets	240.2	492.5	513.9	594.2	
Total Assets	492.0	799.3	970.9	1,106.2	

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	27.4	37.3
Adj. Cash EPS	16.4	22.6	33.6	45.6
BV	78.4	176.1	200.8	235.3
DPS	2.3	2.8	2.8	2.8
Operating Ratios (%)				
Gross Margin (%)	41.3	43.6	44.5	44.5
EBITDA Margin (%)	19.1	17.8	18.2	19.5
PAT Margin (%)	9.3	9.2	9.9	11.0
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	8.4
RoCE (%)	15.1	12.0	15.1	17.6
Core RoC (%)	21.4	15.0	17.9	17.8
RoE (%)	17.1	10.2	13.7	15.9
Solvency Ratios				
Total Debt / Equity	1.1	0.5	0.5	0.4
Interest Coverage	4.2	4.0	4.7	5.6
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	54.3	41.5	29.8	22.8
P/E	105.2	79.0	51.5	37.9
P/B	18.0	8.0	7.0	6.0
EV/Sales	10.4	7.4	5.4	4.4

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	2482	2,900	Buy	73,579	63.5	61.1	81.3	39.1	40.6	30.5	24.2	24.5	18.7	23.8	19.6	22.6	22.1	18.4	20.5
PI Industries	2987	3,710	Buy	45,324	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	768	885	Hold	27,822	36.1	25.1	31.6	22.7	32.7	25.9	24.0	19.6	16.0	12.0	13.0	13.9	13.3	13.5	14.8
Tata Chemical	1134	1,345	Buy	28,832	47.5	61.2	70.7	23.9	18.5	16.0	14.4	11.1	8.5	6.6	8.1	8.8	6.6	8.0	8.6
Vinati Organics	2016	2,320	Hold	20,717	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	493	570	Buy	24,735	8.5	11.2	12.9	58.1	44.1	38.3	40.3	31.0	26.6	30.2	30.9	28.7	22.0	23.0	21.4
Navin Fluorine	4400	4,570	Hold	21,738	52.3	64.4	91.4	84.2	68.3	48.1	61.2	45.5	31.3	17.8	18.0	20.1	14.0	15.2	18.4
Rallis India	227	250	Hold	4,420	8.4	8.9	12.4	26.9	25.6	18.3	15.5	15.6	11.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	416	515	Hold	2,882	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	1413	1,680	Buy	3,523	17.9	27.4	37.3	79.0	51.5	37.9	41.5	29.8	22.8	12.0	15.1	17.6	10.2	13.7	15.9
Astec Lifesciences	2134	2,186	Hold	4,184	45.1	53.0	66.3	47.3	40.2	32.2	28.9	24.9	19.8	19.3	17.2	18.8	22.3	20.8	20.6

Source: Bloomberg, ICICI Direct Research

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Sell: <-15%



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