

Growth momentum maintained; focus on new capex

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

Q3FY23 Results: Numbers were marginally in line with our estimates on the revenue front while EBITDA came in below estimates due to lower GPM.

- Reported revenue growth of 40% YoY to ₹ 186.3 crore, led by higher growth from both organic chemicals ₹ 136 crore (up 29% YoY) and inorganic chemicals ₹ 50.3 crore (up 86% YoY)
- Gross margins fell 91 bps YoY to 43.2% while EBITDA margin declined 177 bps YoY to 16.2%. Absolute EBITDA was up 27% YoY to ₹ 30.1 crore
- PAT increased 41% YoY to ₹ 14.8 crore

What should investors do? The stock appreciated at 48.7% CAGR in the last three years.

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

Target Price and Valuation: We value Neogen Chemicals at 34x P/E FY25E EPS to arrive at a revised target price of ₹ 1535/share (earlier ₹ 1680/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
- Greenfield expansion of electrolyte and specialty lithium salts for dedicated battery materials to aid revenue growth
- 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 SRF.

- Trigger for SRF future revenue growth would be increasing specialty chemical business
- BUY with a target price of ₹ 2550



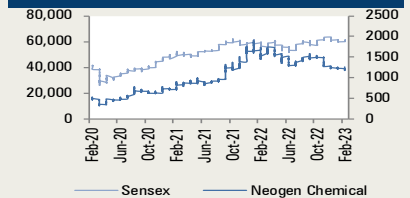
Particulars

Particular	Amount
Market cap (₹ Crore)	3,147
FY22 Total Debt (₹ Crore)	198
FY22 Cash & Inv (₹ Crore)	126
EV (₹ Crore)	3,219
52 Week H/L	1795/1128
Equity Capital (₹ Crore)	24.9
Face Value (₹)	10

Shareholding pattern

in %	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	60.2	60.2	60.2	60.2
DII	18.6	19.3	19.1	18.9
FII	4.4	4.3	3.7	4.0
Others	16.8	16.2	17.0	16.9

Price Chart



Recent event & key risks

- Foray into battery chemical with capex of ₹ 450 crore
- 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 working capital to impact balance sheet

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Revenue	239.1	306.1	336.4	487.3	32.0%	704.4	901.6	1,241.9	36.6%
EBITDA	43.4	58.1	64.4	86.6	34.1%	128.2	166.8	229.7	38.4%
EBITDA Margins (%)	18.2%	19.0%	19.1%	17.8%		18.2%	18.5%	18.5%	
Adj.PAT	21.0	28.6	31.3	44.6	42.2%	70.4	87.8	112.6	36.2%
Adj. EPS (₹)	10.4	12.3	13.4	17.9		28.2	35.2	45.2	
EV/EBITDA	62.5x	54.3x	50.1x	38.1x		26.9x	21.5x	14.1x	
P/E	124.1x	105.5x	96.4x	72.4x		45.9x	36.8x	28.7x	
ROE (%)	29.8	18.3	17.1	10.2		14.0	15.0	16.3	
ROCE (%)	22.2	18.4	15.1	12.0		15.4	14.8	14.1	

Key takeaways of recent quarter & conference call highlight

Q3FY23 Results: Strong performance from both organic, inorganic chemical leads topline growth

- **Organic chemicals:** Revenues were up 29% YoY to ₹ 136 crore. Demand trajectory remains favourable during the quarter and the company is scaling up revenues across both advanced intermediates and custom synthesis manufacturing
- **Inorganic Chemicals:** Better utilisation of capacity along with higher realisations have supported strong revenue growth during the quarter. Revenue was up 86% YoY to ₹ 50.3 crore

Neogen - ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA
Overall ESG Score	NA	NA	NA

*Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures*

Q3FY23 Earnings Conference Call highlights

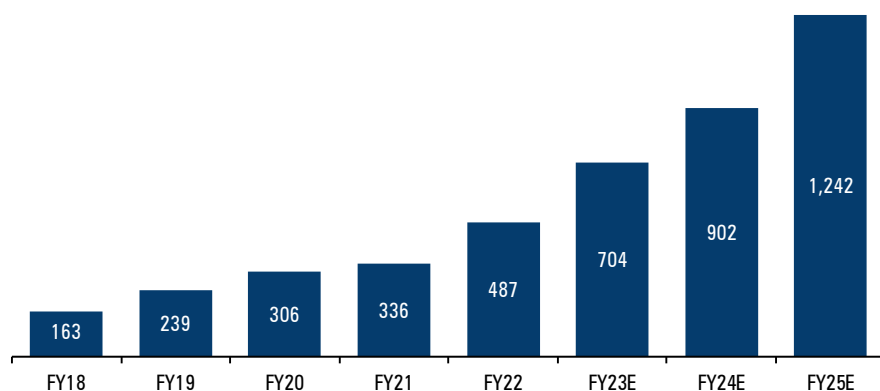
- Seasonal variance is driven by strong demand from Europe as orders tend to scale up in October-November and further accelerate from January after the holiday season
- Demand from the agrochemicals segment is linked to the crop cycle and is stronger during H2
- The company is able to pass on higher cost to customers thereby increasing absolute EBITDA
- Demand trajectory remains favourable. The company is capitalising on incremental opportunities emerging in sector.
- Advanced Intermediate and custom synthesis intermediate is progressing well and the company is taking up more complex assignments, which requires multiple steps
- During 9MFY23, the company added nine new customers across various geographies and industries. With this, the company has 39 customers in the CSM business
- Currently, the company working on 23 products with combined revenue potential of ₹ 2100 crore with further pipeline and new inquiries growing in
- Out of ₹ 450 crore capex – 70-75% funded through bank term loan. Balance will be through internal accrual
- For 10000 MTPA of electrolyte, it will require 1000-1500 MTPA of salts. Hence, the company will manufacture excess salts. Further, few specialty additives may be imported from Japan if required
- Lithium prices currently are running at 6-8x of standard lithium price

Company future targets

- To achieve ₹ 50-100 crore revenue from one molecule
- RoCE – 20%+
- EBITDA margins – 18.5%+
- Working capital cycle -125 days
- To increase new capacity post FY27 in lithium battery chemicals

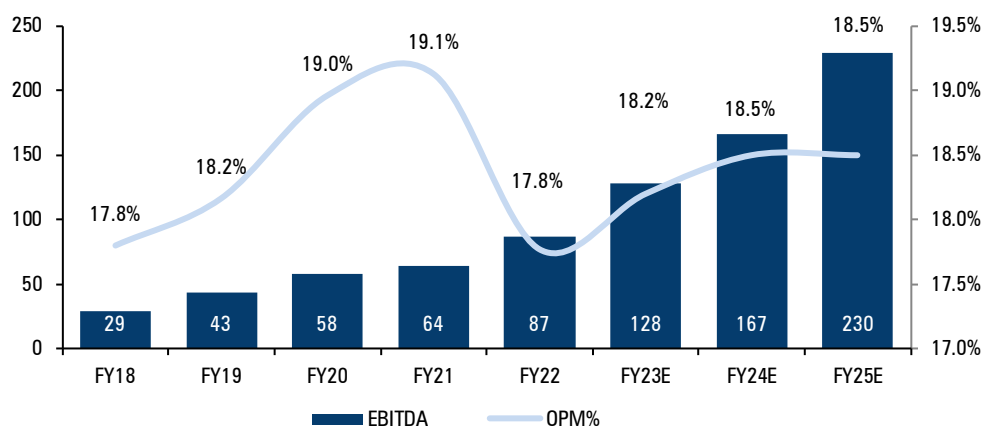
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



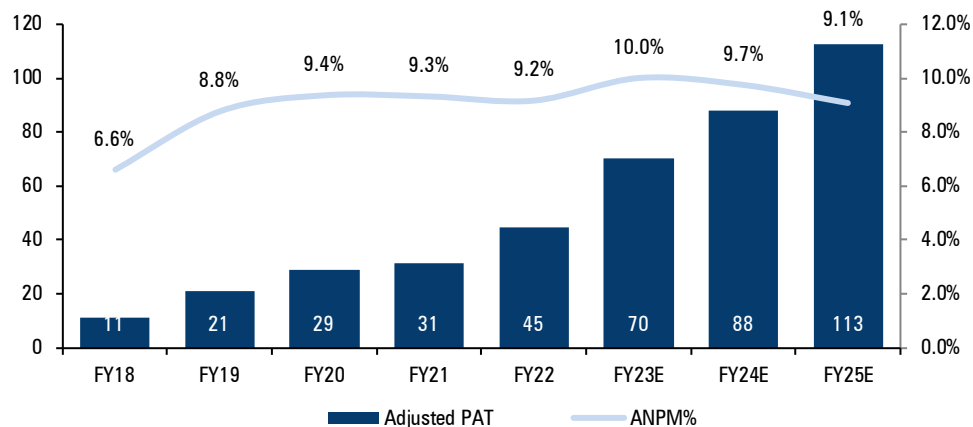
Source: Company, ICICI Direct Research

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	FY25E
Total Operating Income	336.4	487.3	704.4	901.6	1,241.9
Growth (%)	9.9	44.8	44.6	28.0	37.7
Raw Material Expenses	197.6	275.0	391.0	500.4	689.2
Gross Profit	138.8	212.3	313.5	401.2	552.6
Employee Cost	20.1	31.5	40.9	54.1	74.5
Other Operating Expenses	54.4	94.2	144.4	180.3	248.4
EBITDA	64.4	86.6	128.2	166.8	229.7
Growth (%)	10.9	34.5	48.1	30.1	37.7
Other Income	0.5	1.3	1.5	1.7	1.7
EBITDA, including OI	64.9	87.8	129.7	168.5	231.4
Depreciation	6.9	11.7	15.5	19.3	28.3
Net Interest Exp.	13.8	19.1	23.9	36.6	58.8
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	44.2	57.1	90.3	112.6	144.4
Total Tax	12.9	12.4	19.9	24.8	31.8
Tax Rate	29.1%	21.8%	22.0%	22.0%	22.0%
PAT	31.3	44.6	70.4	87.8	112.6
Adj. PAT after Minority interest	31.3	44.6	70.4	87.8	112.6
Adj. EPS (₹)	13.4	17.9	28.2	35.2	45.2
Shares Outstanding	2.3	2.5	2.5	2.5	2.5

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY21	FY22	FY23E	FY24E	FY25E
PBT & Extraordinary	44.2	57.1	90.3	112.6	144.4
Depreciation	6.9	11.7	15.5	19.3	28.3
After other adjustments					
(Inc) / Dec in Working Capital	36.6	-70.1	-76.8	-59.7	-136.4
Taxes	-10.4	-9.8	-19.9	-24.8	-31.8
Others	6.2	12.6	23.9	36.6	58.8
CF from operating activities	83.6	1.4	33.1	84.0	63.3
Purchase of Fixed Assets	-135.0	-66.2	-150.0	-170.0	-325.0
Others	0.4	-79.6	80.8	0.0	0.0
CF from investing activities	-134.6	-145.9	-69.2	-170.0	-325.0
Proceeds from issue of shares	0.0	217.7	0.0	0.0	0.0
Borrowings (Net)	69.6	-4.2	40.0	190.0	320.0
Others	-18.9	-25.1	-30.8	-43.5	-65.6
CF from financing activities	50.7	188.4	9.2	146.5	254.4
Net cash flow	-0.3	44.0	-27.0	60.5	-7.3
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0
Opening Cash	1.5	1.2	45.2	18.2	78.8
Closing Cash	1.2	45.2	18.2	78.8	71.4

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY21	FY22	FY23E	FY24E	FY25E
Liabilities					
Share Capital	23.3	24.9	24.9	24.9	24.9
Reserves	159.7	414.3	477.9	558.8	664.6
Total Shareholders Funds	183.0	439.2	502.8	583.8	689.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	116.1	121.5	151.5	301.5	551.5
Net Deferred Tax liability	8.2	10.6	10.6	10.6	10.6
Other long term liabilities	7.7	5.8	12.6	16.1	22.2
Long term provisions	3.0	4.0	6.9	8.8	12.1
Current Liabilities and Provisions					
Short term borrowings	85.8	76.2	86.2	126.2	196.2
Trade Payables	66.1	98.9	144.7	185.3	255.2
Other Current Liabilities	20.9	41.2	59.5	76.1	104.9
Short Term Provisions	1.1	1.9	2.7	3.5	4.8
Total Current Liabilities	173.9	218.1	293.1	391.1	561.0
Total Liabilities	492.0	799.3	977.5	1,311.9	1,847.0
Assets					
Net Block	126.7	285.1	330.3	481.0	777.7
Capital Work in Progress	114.7	10.6	100.0	100.0	100.0
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	0.8	1.0	1.0	1.0	1.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Long term loans and advances	7.3	8.5	12.4	15.9	21.9
Other Non Current Assets	2.3	1.6	13.8	17.7	24.4
Current Assets, Loans & Advances					
Current Investments	0.0	80.8	0.0	0.0	0.0
Inventories	114.0	194.6	250.9	296.4	408.3
Sundry Debtors	78.6	109.5	154.4	197.6	272.2
Cash and Bank	1.2	45.2	18.2	78.8	71.4
Loans and Advances	0.0	0.0	0.0	0.0	0.0
Other Current assets	46.4	62.4	96.5	123.5	170.1
Current Assets	240.2	492.5	520.0	696.3	922.0
Total Assets	492.0	799.3	977.5	1,311.9	1,847.0

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY21	FY22	FY23E	FY24E	FY25E
Per share data (₹)					
Adj. EPS	13.4	17.9	28.2	35.2	45.2
Adj. Cash EPS	16.4	22.6	34.4	43.0	56.5
BV	78.4	176.1	201.6	234.1	276.5
DPS	2.3	2.8	2.8	2.8	2.8
Operating Ratios (%)					
Gross Margin (%)	41.3	43.6	44.5	44.5	44.5
EBITDA Margin (%)	19.1	17.8	18.2	18.5	18.5
PAT Margin (%)	9.3	9.2	10.0	9.7	9.1
Debtor Days	85	82	80	80	80
Inventory Days	124	146	130	120	120
Creditor Days	72	74	75	75	75
Cash Conversion Cycle	137	154	135	125	125
Return Ratios (%)					
Return on Assets (%)	6.4	5.6	7.2	6.7	6.1
RoCE (%)	15.1	12.0	15.4	14.8	14.1
Core RoIC (%)	21.4	15.0	18.1	17.7	15.9
RoE (%)	17.1	10.2	14.0	15.0	16.3
Solvency Ratios					
Total Debt / Equity	1.1	0.5	0.5	0.7	1.1
Interest Coverage	4.2	4.0	4.8	4.1	3.5
Current Ratio	1.4	2.3	1.8	1.8	1.6
Quick Ratio	0.7	1.4	0.9	1.0	0.9
Valuation Ratios (x)					
EV/EBITDA	50.1	38.1	26.9	21.5	14.1
P/E	96.4	72.4	45.9	36.8	28.7
P/B	16.5	7.4	6.4	5.5	4.7
EV/Sales	9.6	6.8	4.9	4.0	2.6

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	2182	2,550	Buy	64,894	63.5	58.3	73.6	34.4	37.4	29.7	21.3	22.4	17.9	23.8	18.9	21.0	22.1	17.7	19.0
PI Industries	3620	3,930	Hold	50,572	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
Tata Chemical	965	1,170	Buy	24,642	93.0	97.3	110.6	10.4	9.9	8.7	6.6	5.5	5.4	11.8	11.3	11.7	11.6	11.0	11.2
Vinati Organics	1888	2,055	Hold	19,405	33.7	41.6	48.0	56.0	45.4	39.4	44.7	35.6	30.3	24.3	23.9	22.4	19.0	19.7	19.2
Sumitomo Chemical	438	525	Buy	21,860	8.5	10.8	12.4	51.6	40.5	35.2	35.7	28.4	24.2	30.2	30.1	28.1	22.0	22.4	20.9
Navin Fluorine	4162	4,285	Hold	20,668	52.3	65.7	86.0	79.6	63.4	48.4	57.9	42.3	31.2	17.8	18.3	19.1	14.0	15.5	17.4
Rallis India	224	223	Hold	4,353	8.4	8.7	11.8	26.5	25.7	18.9	15.2	15.5	11.4	12.7	11.4	14.7	9.7	9.4	11.6
Sudarshan chemical	360	370	Hold	2,458	18.8	4.4	18.1	19.2	81.8	19.9	11.9	16.9	9.7	10.9	4.7	12.3	15.6	3.6	13.2
Neogen Chemicals	1295	1,535	Buy	3,147	17.9	28.2	35.2	72.4	45.9	36.8	38.1	26.9	21.5	12.0	15.4	14.8	10.2	14.0	15.0
Astec Lifesciences	1387	1,307	Reduce	2,718	45.1	27.5	39.9	30.8	50.4	34.8	19.4	26.8	19.7	19.3	10.1	12.6	22.3	12.0	14.8

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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