

## Custom synthesis 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

**Q4FY22 Results:** The topline broadly stayed in line with our estimates while the bottomline was higher due to lower taxes.

- Reported revenue growth of 69.2% YoY to ₹ 156.8 crore, led by higher growth from both segments such as organic chemical (up 38% YoY) and inorganic chemical segment (up 176% YoY)
- Gross margins declined 100 bps YoY to ~42.5% while EBITDA margin fell 300 bps YoY to 17%, due to higher other operating cost
- EBITDA was up 44% YoY to ₹ 26.6 crore
- PAT increased 68% YoY to ₹ 15.6 crore

**What should investors do?** The stock appreciated at 66% CAGR in last three years.

- We retain **BUY** rating on the stock 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 ₹ 1870/share (earlier ₹ 2160/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 ₹ 520



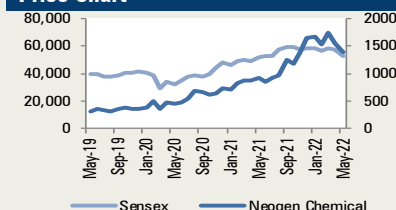
### Particulars

Particular	Amount
Market cap (₹ Crore)	3,434
FY22 Total Debt (₹ Crore)	198
FY22 Cash & Inv (₹ Crore)	126
EV (₹ Crore)	3,506
52 Week H/L	1934/794
Equity Capital (₹ Crore)	24.9
Face Value (₹)	10

### Shareholding pattern

in %	Jun-21	Sept-21	Dec-21	Mar-22
Promoter	64.3	64.3	60.2	60.2
DII	14.1	14.6	18.5	18.6
FII	4.7	4.8	4.4	4.4
Others	16.9	16.4	16.9	16.8

### 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 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	2 year CAGR (FY22-24E)
Net Revenue	239.1	306.1	336.4	487.3	32.0%	688.7	805.6	28.6%
EBITDA	43.4	58.1	64.4	86.6	34.1%	130.8	161.1	36.4%
EBITDA Margins (%)	18.2%	19.0%	19.1%	17.8%		19.0%	20.0%	
Adj. PAT	21.0	28.6	31.3	44.6	42.2%	75.0	93.3	44.6%
Adj. EPS (₹)	10.4	12.3	13.4	17.9		30.1	37.4	
EV/EBITDA	66.3x	57.6x	53.0x	40.5x		28.0x	22.7x	
P/E	132.0x	112.2x	102.6x	76.9x		45.8x	36.8x	
ROE (%)	29.8	18.3	17.1	10.2		14.8	15.7	
ROCE (%)	22.2	18.4	15.1	12.0		15.7	17.1	

## Key takeaways of recent quarter & conference call highlight

### Q4FY22 Results: Better performance from both organic, inorganic chemical leads overall growth

- **Organic chemical:** Revenues were up 38% 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 crore of revenue 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 176% YoY to ₹ 58 crore

### Q4FY22 Earnings Conference Call highlights

#### New Capex

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 1200 MT to 2400 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.

#### *Expected Outcome*

1. Estimated timeline for completing this brownfield capex by June 2023
2. Once commissioned, overall incremental revenues to be ~₹ 250–300 crore per annum. Out of this, revenues from inorganic chemicals are estimated based on stable lithium prices
3. The company expects full utilisation by FY25, FY26

**Financing** – Mix of equity raised through preference issue & debt.

**Organic Revenues** QoQ, especially in Q4, declined due to following reasons:

- Product mix
- It was trying to develop some new molecules and also faced some operational challenges

#### **Raw Material & EBITDA Margins**

- EBITDA margins can be under pressure due to high lithium prices in future
- Cost pressure shall be passed on to the customer
- Absolute number will increase but margin may be affected due to lithium price hike
- There is one-month time lag in logistics from countries like Chile & Argentina
- By FY24, prices shall start to come at moderate levels

#### **New customers**

- Total 20 new customers have been added in Q4
- Total five to six customers had approved Neogen Chemicals' product and started purchasing from global markets
- New customers are based in US, Europe, Korea, etc

**Blended tax Rate for Dahej Project** - ~22%-25%

**Estimated revenue at full utilisation for FY25-26**

- Organic Product – ~₹ 700-750 crore
- Traditional Lithium - ~₹ 150 crore
- Lithium salt & electrolyte - ~₹ 150 crore

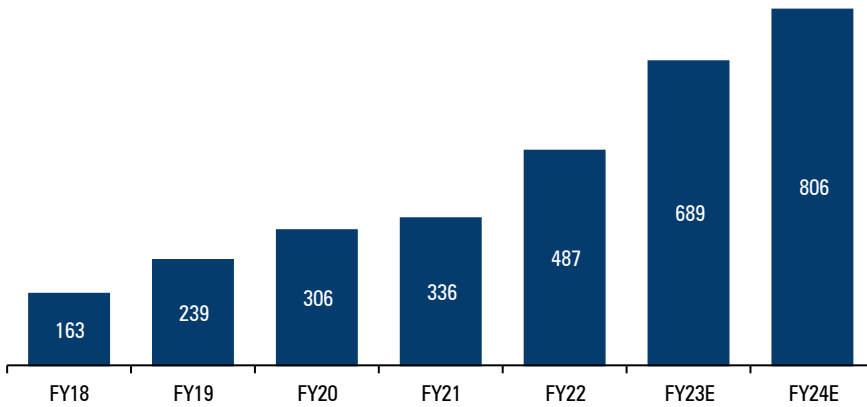
**Asset turnover** to be predicted around 2x due to special equipment for lithium & electrolyte.

**Others**

- Last year, two contracts of ₹ 60-80 crore have been commissioned
- Lithium electrolyte conversion rate to lithium salt is roughly ~15-25%

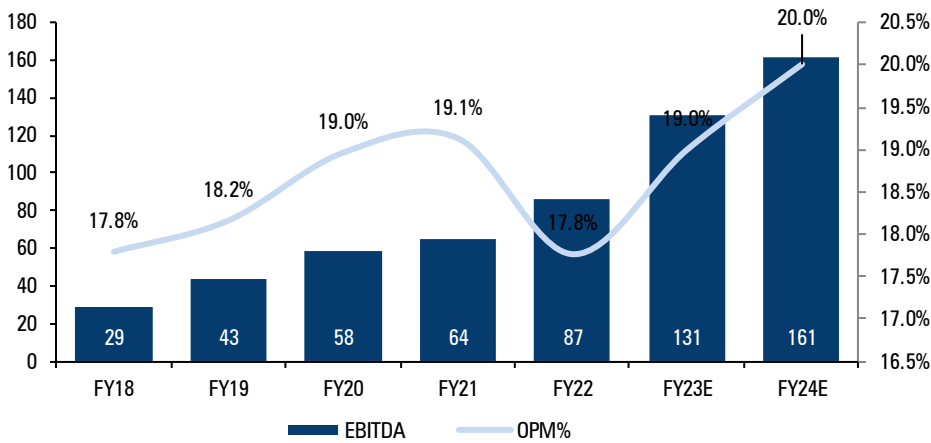
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



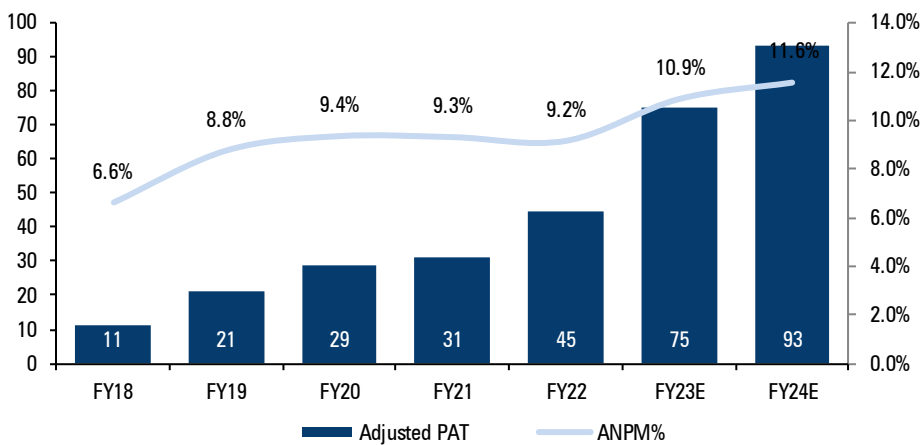
Source: Company, ICICI Direct Research

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	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>306.1</b>	<b>336.4</b>	<b>487.3</b>	<b>688.7</b>	<b>805.6</b>
Growth (%)	28.1	9.9	44.8	41.3	17.0
Raw Material Expenses	184.1	197.6	275.0	385.7	447.1
<b>Gross Profit</b>	<b>122.0</b>	<b>138.8</b>	<b>212.3</b>	<b>303.0</b>	<b>358.5</b>
Employee Cost	17.3	20.1	31.5	37.9	44.3
Other Operating Expenses	46.7	54.4	94.2	134.3	153.1
<b>EBITDA</b>	<b>58.1</b>	<b>64.4</b>	<b>86.6</b>	<b>130.8</b>	<b>161.1</b>
Growth (%)	33.7	10.9	34.5	51.1	23.1
Other Income	0.2	0.5	1.3	1.5	1.7
<b>EBITDA, including OI</b>	<b>58.3</b>	<b>64.9</b>	<b>87.8</b>	<b>132.4</b>	<b>162.8</b>
Depreciation	5.2	6.9	11.7	15.5	20.7
Net Interest Exp.	11.9	13.8	19.1	20.7	22.6
Other exceptional items	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>41.1</b>	<b>44.2</b>	<b>57.1</b>	<b>96.2</b>	<b>119.6</b>
Total Tax	12.5	12.9	12.4	21.2	26.3
Tax Rate	30.3%	29.1%	21.8%	22.0%	22.0%
<b>PAT</b>	<b>28.6</b>	<b>31.3</b>	<b>44.6</b>	<b>75.0</b>	<b>93.3</b>
Adj. PAT after Minority interest	28.6	31.3	44.6	75.0	93.3
Adj. EPS (₹)	12.3	13.4	17.9	30.1	37.4
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	FY22	FY23E	FY24E
PBT & Extraordinary	41.1	44.2	57.1	96.2	119.6
Depreciation	5.2	6.9	11.7	15.5	20.7
After other adjustments					
(Inc) / Dec in Working Capital	-85.1	36.6	-70.1	-86.5	-37.4
Taxes	-12.7	-10.4	-9.8	-21.2	-26.3
Others	16.9	6.2	12.6	20.7	22.6
<b>CF from operating activities</b>	<b>-34.5</b>	<b>83.6</b>	<b>1.4</b>	<b>24.7</b>	<b>99.1</b>
Purchase of Fixed Assets	-26.5	-135.0	-66.2	-150.0	-70.0
Others	-2.1	0.4	-79.6	80.8	0.0
<b>CF from investing activities</b>	<b>-28.6</b>	<b>-134.6</b>	<b>-145.9</b>	<b>-69.2</b>	<b>-70.0</b>
Proceeds from issue of shares	70.0	0.0	217.7	0.0	0.0
Borrowings (Net)	16.5	69.6	-4.2	40.0	0.0
Others	-23.9	-18.9	-25.1	-27.5	-29.4
<b>CF from financing activities</b>	<b>62.6</b>	<b>50.7</b>	<b>188.4</b>	<b>12.5</b>	<b>-29.4</b>
Net cash flow	-0.5	-0.3	44.0	-32.1	-0.3
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0
Opening Cash	2.0	1.5	1.2	45.2	13.1
<b>Closing Cash</b>	<b>1.5</b>	<b>1.2</b>	<b>45.2</b>	<b>13.1</b>	<b>12.8</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>					
Share Capital	23.3	23.3	24.9	24.9	24.9
Reserves	132.9	159.7	414.3	482.5	568.9
<b>Total Shareholders Funds</b>	<b>156.2</b>	<b>183.0</b>	<b>439.2</b>	<b>507.4</b>	<b>593.9</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	30.4	116.1	121.5	151.5	151.5
Net Deferred Tax liability	5.6	8.2	10.6	10.6	10.6
Other long term liabilities	9.2	7.7	5.8	12.3	14.4
Long term provisions	3.6	3.0	4.0	6.7	7.8
<b>Current Liabilities and Provisions</b>					
Short term borrowings	101.9	85.8	76.2	86.2	86.2
Trade Payables	35.9	66.1	98.9	141.5	165.5
Other Current Liabilities	10.6	20.9	41.2	58.2	68.0
Short Term Provisions	1.5	1.1	1.9	2.6	3.1
Total Current Liabilities	149.9	173.9	218.1	288.5	322.9
<b>Total Liabilities</b>	<b>354.9</b>	<b>492.0</b>	<b>799.3</b>	<b>977.1</b>	<b>1,101.1</b>
<b>Assets</b>					
Net Block	110.6	126.7	285.1	330.3	479.6
Capital Work in Progress	2.7	114.7	10.6	100.0	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	1.0	1.0	1.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Long term loans and advances	5.9	7.3	8.5	12.1	14.2
Other Non Current Assets	4.1	2.3	1.6	13.5	15.8
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	0.0	0.0	80.8	0.0	0.0
Inventories	129.9	114.0	194.6	264.1	298.0
Sundry Debtors	75.2	78.6	109.5	154.7	176.6
Cash and Bank	1.5	1.2	45.2	13.1	12.8
Loans and Advances	0.0	0.0	0.0	0.0	0.0
Other Current assets	24.5	46.4	62.4	88.2	103.2
Current Assets	231.1	240.2	492.5	520.2	590.5
<b>Total Assets</b>	<b>354.9</b>	<b>492.0</b>	<b>799.3</b>	<b>977.1</b>	<b>1,101.1</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
Adj. EPS	12.3	13.4	17.9	30.1	37.4
Adj. Cash EPS	14.5	16.4	22.6	36.3	45.7
BV	67.0	78.4	176.1	203.5	238.1
DPS	1.5	2.3	2.8	2.8	2.8
<b>Operating Ratios (%)</b>					
Gross Margin (%)	39.9	41.3	43.6	44.0	44.5
EBITDA Margin (%)	19.0	19.1	17.8	19.0	20.0
PAT Margin (%)	9.4	9.3	9.2	10.9	11.6
Debtor Days	90	85	82	82	80
Inventory Days	155	124	146	140	135
Creditor Days	43	72	74	75	75
Cash Conversion Cycle	202	137	154	147	140
<b>Return Ratios (%)</b>					
Return on Assets (%)	8.1	6.4	5.6	7.7	8.5
RoCE (%)	18.4	15.1	12.0	15.7	17.1
Core RoIC (%)	18.6	21.4	15.0	18.3	17.2
RoE (%)	18.3	17.1	10.2	14.8	15.7
<b>Solvency Ratios</b>					
Total Debt / Equity	0.8	1.1	0.5	0.5	0.4
Interest Coverage	4.4	4.2	4.0	5.7	6.3
Current Ratio	1.5	1.4	2.3	1.8	1.8
Quick Ratio	0.7	0.7	1.4	0.9	0.9
<b>Valuation Ratios (x)</b>					
EV/EBITDA	57.6	53.0	40.5	28.0	22.7
P/E	112.2	102.6	76.9	45.8	36.8
P/B	20.6	17.6	7.8	6.8	5.8
EV/Sales	10.9	10.1	7.2	5.3	4.5

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		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
SRF	2250	2,755	Buy	66,924	40.3	63.5	69.2	55.9	35.4	32.5	32.5	22.0	20.1	18.7	23.8	22.7	17.5	22.1	20.3
PI Industries	2848	3,375	Buy	44,358	48.6	55.4	70.1	58.6	51.4	40.7	39.3	34.4	27.6	17.2	17.2	18.8	13.8	13.8	15.0
Aarti Industries	888	1,175	Buy	35,154	14.5	37.1	35.1	61.2	23.9	25.3	39.6	19.3	18.8	10.7	17.7	16.0	15.0	22.8	18.0
Tata Chemical	960	1,155	Buy	24,463	10.1	47.5	63.6	95.4	20.2	15.1	18.9	12.5	9.2	1.8	6.6	8.3	4.1	6.6	8.4
Vinati Organics	1932	2,320	Buy	19,856	26.2	33.7	39.4	73.7	57.3	49.1	55.8	45.8	37.7	21.7	24.3	23.6	17.4	19.0	18.8
Sumitomo Chemical	429	520	Buy	21,254	6.9	8.7	10.3	62.0	49.1	41.7	41.8	33.4	28.0	29.8	30.0	28.5	22.4	22.6	21.4
Navin Fluorine	3722	4,040	Hold	18,443	45.0	52.3	67.4	82.6	71.2	55.2	57.5	51.7	36.9	21.0	17.8	19.4	13.6	14.0	15.8
Rallis India	235	235	Reduce	4,937	11.4	8.4	8.9	20.6	27.8	26.5	14.5	17.4	17.3	18.0	12.7	11.6	13.9	9.7	9.5
Sudarshan chemical	523	695	Buy	3,723	20.4	19.7	25.7	25.7	26.6	20.4	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1377	1,870	Buy	3,434	13.4	17.9	30.1	102.6	76.9	45.8	53.0	40.5	28.0	15.1	12.0	15.7	17.1	10.2	14.8
Astec Lifesciences	1875	2,215	Buy	3,675	33.2	45.1	54.8	56.5	41.6	34.2	34.6	25.6	21.6	18.9	19.3	17.7	21.0	22.3	21.3

Source: Bloomberg, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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