

Focus on electrolyte capex, execution...

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 ~67% of overall revenue while the rest comes from inorganic chemicals

Q4FY23 Results: Revenues were above our estimates while EBITDA came in below estimates due to lower GPM.

- Reported revenue growth of 30.1% YoY to ₹ 203.9 crore, led by higher growth from both organic chemicals ₹ 138 crore (up 39% YoY) and inorganic chemicals ₹ 66 crore (up 14% YoY)
- Gross margins fell 240 bps YoY to 40.1% while EBITDA margin declined 100 bps YoY to 16%. Absolute EBITDA was up 22% YoY to ₹ 32.6 crore
- PAT declined 8% YoY to ₹ 14.3 crore

What should investors do? The stock appreciated at 48.3% CAGR in the last three years.

- We downgrade from BUY to **HOLD** as the current price more or less factors our FY25 estimates. However, electrolyte and new molecules development will be key monitorables for sustained growth from FY26 onwards

Target Price and Valuation: We value Neogen Chemicals at 24x FY25E EV/EBITDA to arrive at a revised target price of ₹ 1410/share (earlier ₹ 1535/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
- The management commitment towards achieving 25-30% growth in revenue and EBITDA levels on the back of volume growth in the legacy business including revenues from recently acquired BuLi chemicals

Alternate Stock Idea: Apart from Neogen Chemicals, in our chemical coverage we also like SRF.

- Trigger for SRF's future revenue growth would be increasing specialty chemical business
- BUY with a target price of ₹ 3000



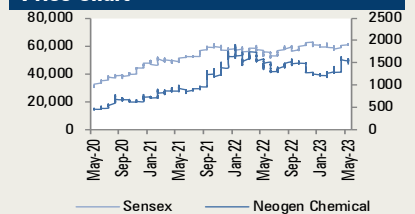
Particulars

Particular	Amount
Market cap (₹ Crore)	3,688
FY23 Total Debt (₹ Crore)	362
FY23 Cash & Inv (₹ Crore)	21
EV (₹ Crore)	4,030
52 Week H/L	1732/1128
Equity Capital (₹ Crore)	24.9
Face Value (₹)	10

Shareholding pattern

in %	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	60.2	60.2	60.2	60.2
DII	19.3	19.1	18.9	20.0
FII	4.3	3.7	4.0	4.1
Others	16.2	17.0	16.9	15.7

Price Chart



Recent event & key risks

- License agreement with MUIS to manufacture electrolyte materials up to 30000 MTPA
- Key Risk:** (i) Higher lithium prices and inability to pass on to impact inorganic chemical performance (ii) Better than expected demand from customers for electrolyte pushing the company to increase capacity

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Revenue	239.1	306.1	336.4	487.3	686.2	33.6%	798.7	957.0	9.5%
EBITDA	43.4	58.1	64.4	86.6	111.6	30.9%	141.4	176.1	11.6%
EBITDA Margins (%)	18.2%	19.0%	19.1%	17.8%	16.3%		17.7%	18.4%	
Adj. PAT	21.0	28.6	31.3	44.6	49.9	35.3%	62.3	71.2	6.8%
Adj. EPS (₹)	10.4	12.3	13.4	17.9	20.0		25.0	28.5	
EV/EBITDA	71.0x	61.7x	56.8x	43.5x	35.4x		28.5x	24.6x	
P/E	141.9x	120.6x	110.2x	82.7x	74.0x		59.2x	51.9x	
ROE (%)	29.8	18.3	17.1	10.2	10.3		11.6	11.8	
ROCE (%)	22.2	18.4	15.1	12.0	11.8		11.7	11.5	

Key takeaways of recent quarter & conference call highlight

Q4FY23 Results: High Lithium prices bolster topline growth

- **Organic chemicals:** Revenues were up 39% YoY to ₹ 138 crore. The demand trajectory remains favourable during the quarter while 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 14% YoY to ₹ 66 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

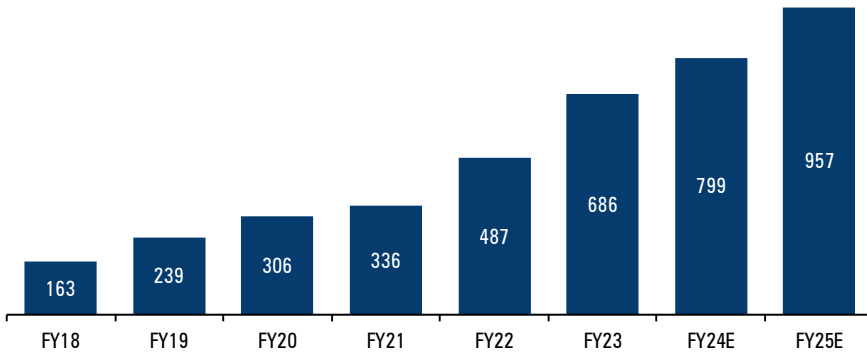
Q4FY23 Earnings Conference Call highlights

- In FY23, organic chemical revenue was largely volume driven while inorganic chemical grew 90%. A part of this was on account of significant increase in prices of lithium raw material while the balance was contributed by new customers that the company added in FY23
- Raw material prices linked to lithium prices has cooled off post Q4FY23 while the impact of this will be visible in FY24
- Acquisition of BuLi Pvt Ltd was completed on May 3, 2023
- Started basic engineering work for expansion project related to electrolyte. However, post announcement with MUIS, some projections around battery chemicals including the capacities and revenues will change and company will inform it in couple of quarters (maximum two quarters) to share further details around that. Neogen will further take 15-18 months to put up plant
- Plans to increase contribution of advance intermediate and CSM is on track. The company is witnessing higher contribution from value added products, which require multiple steps
- The company is focusing on strengthening R&D competencies. During the year, Neogen added 82 new customers, which contributed ~7% to revenues. Total customers for the company were at ~1500-1550
- Currently, the company has 245 products in its portfolio and is also working on 25 new products in R&D, which has potential demand of ~₹ 2000 crore
- On working capital – The management expects it to improve as and when Neogen achieves peak utilisation revenues. From September 2022 – March 2023, the company has improved WC days by 25 days and by FY24 management target inventory days of 120 days on net sales
- FY24 Guidance
 - On FY23, the management guided ₹ 600 crore and actual came in at ₹ 686 crore, mainly driven by high lithium prices
 - Considering pricing to reduce drastically in FY24 along with acquisition of BuLi Chemicals, the management expects ~₹ **800-825 crore** revenue on stable lithium prices. If lithium prices fluctuate then the management expects revenue to be ~₹ 850-875 crore
 - The management is expecting **25-30% growth** in the regular business including BuLi business
 - Similar to EBITDA, the company expects **25-30% growth** in FY24
 - In FY25, on full utilisation levels the management expects revenue to be ₹ **900-1050 crore** on stable lithium prices
 - Gross margins to be ~42% (in normal scenario)
- The management expects lithium prices to remain elevated in the coming year or two

- For other raw materials (such as Hydrofluoric acid and phosphorus for making LiPF₆) – the company can get into contract agreement for long term just like lithium once they receive demand from customers.
- Revenue Breakup – Industry wise
 - Pharma – 50-60%
 - Agrochemicals – 15-25%
 - Flavours and Fragrance – 10-15%
 - Others – 5-10%

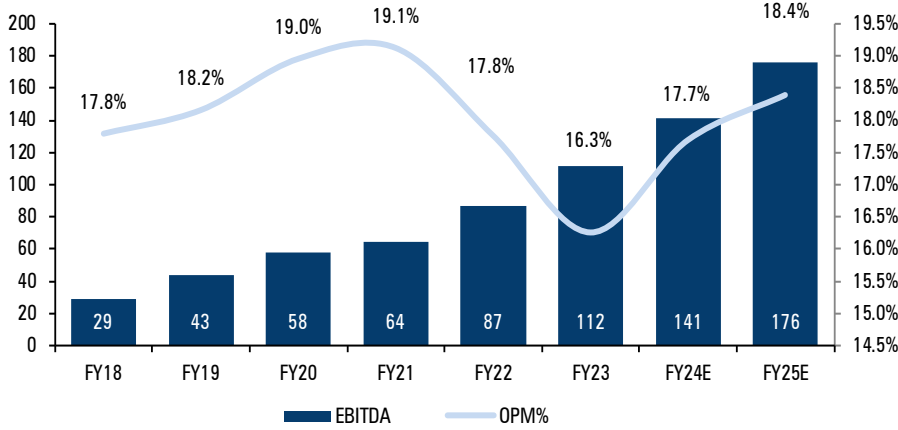
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



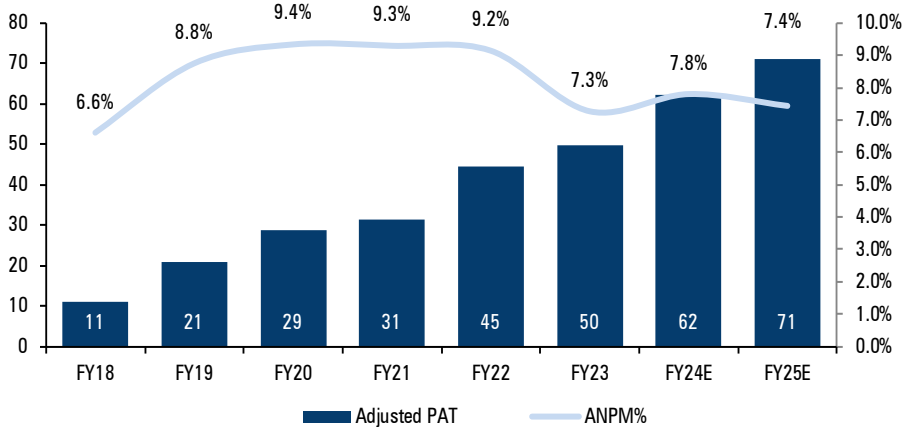
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and EBITDA margins (%) trend



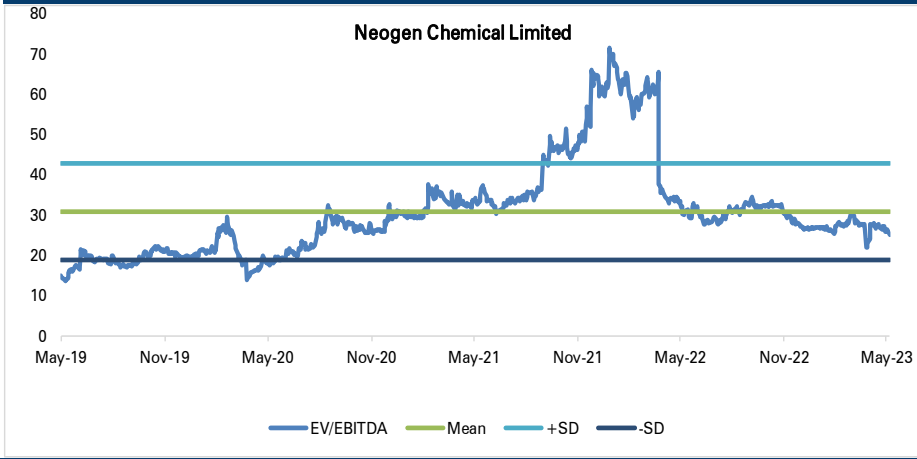
Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 4: EV/EBITDA Band



Source – ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement ₹ crore

Year end March	FY22	FY23E	FY24E	FY25E
Total Operating Income	487.3	686.2	798.7	957.0
Growth (%)	44.8	40.8	16.4	19.8
Raw Material Expenses	275.0	388.5	451.3	534.0
Gross Profit	212.3	297.7	347.4	423.0
Employee Cost	31.5	46.8	47.9	57.4
Other Operating Expenses	94.2	139.2	158.1	189.5
EBITDA	86.6	111.6	141.4	176.1
Growth (%)	34.5	28.9	26.6	24.6
Other Income	1.3	4.5	4.0	3.0
EBITDA, including OI	87.8	116.1	145.4	179.1
Depreciation	11.7	16.2	18.7	26.4
Net Interest Exp.	19.1	28.9	46.7	63.7
Other exceptional items	0.0	0.0	0.0	0.0
PBT	57.1	70.9	79.9	89.0
Total Tax	12.4	21.1	17.6	17.8
Tax Rate	21.8%	29.7%	22.0%	20.0%
PAT	44.6	49.9	62.3	71.2
Adj.PAT after Minority interest	44.6	49.9	62.3	71.2
Adj. EPS (₹)	17.9	20.0	25.0	28.5
Shares Outstanding	2.5	2.5	2.5	2.5

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement ₹ crore

Year end March	FY22	FY23E	FY24E	FY25E
PBT & Extraordinary	57.1	71.0	79.9	89.0
Depreciation	11.7	16.2	18.7	26.4
After other adjustments				
(Inc) / Dec in Working Capital	-70.1	-135.9	21.9	-71.5
Taxes	-9.8	11.5	-17.6	-17.8
Others	12.6	6.9	46.7	63.7
CF from operating activities	1.4	-30.3	149.6	89.8
Purchase of Fixed Assets	-66.2	-103.7	-170.0	-325.0
Others	-79.6	9.3	0.0	0.0
CF from investing activities	-145.9	-94.5	-170.0	-325.0
Proceeds from issue of shares	217.7	0.0	0.0	0.0
Borrowings (Net)	-4.2	136.1	180.0	190.0
Others	-25.1	-35.8	-54.2	-71.2
CF from financing activities	188.4	100.3	125.8	118.8
Net cash flow	44.0	-24.4	105.4	-116.4
Effects of foreign currency translation	0.0	0.0	0.0	0.0
Opening Cash	1.2	45.2	20.7	126.1
Closing Cash	45.2	20.7	126.1	9.7

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet ₹ crore

Year end March	FY22	FY23E	FY24E	FY25E
Liabilities				
Share Capital	24.9	24.9	24.9	24.9
Reserves	414.3	457.6	512.4	576.1
Total Shareholders Funds	439.2	482.5	537.4	601.1
Minority Interest	0.0	0.0	0.0	0.0
Long Term Borrowings	121.5	129.1	269.1	419.1
Net Deferred Tax liability	10.6	19.0	19.0	19.0
Other long term liabilities	5.8	8.8	14.3	17.1
Long term provisions	4.0	4.7	7.8	9.3
Current Liabilities and Provisions				
Short term borrowings	76.2	233.1	273.1	313.1
Trade Payables	98.9	156.6	164.1	196.6
Other Current Liabilities	41.2	16.2	18.9	22.6
Short Term Provisions	1.9	3.8	4.5	5.4
Total Current Liabilities	218.1	409.7	460.6	537.8
Total Liabilities	799.3	1,053.8	1,308.1	1,603.3
Assets				
Net Block	285.1	347.5	434.6	733.2
Capital Work in Progress	10.6	35.8	100.0	100.0
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	1.0	0.8	0.8	0.8
Deferred tax assets	0.0	0.0	0.0	0.0
Long term loans and advances	8.5	7.5	14.1	16.9
Other Non Current Assets	1.6	6.5	15.7	18.8
Current Assets, Loans & Advances				
Current Investments	80.8	76.1	76.1	76.1
Inventories	194.6	293.0	262.6	314.6
Sundry Debtors	109.5	177.4	175.1	209.8
Cash and Bank	45.2	20.7	126.1	9.7
Loans and Advances	0.0	0.4	0.4	0.4
Other Current assets	62.4	88.4	102.8	123.2
Current Assets	492.5	655.8	743.0	733.7
Total Assets	799.3	1,053.8	1,308.1	1,603.3

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios

Year end March	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Adj. EPS	17.9	20.0	25.0	28.5
Adj. Cash EPS	22.6	26.5	32.5	39.1
BV	176.1	193.5	215.5	241.0
DPS	2.8	3.0	3.0	3.0
Operating Ratios (%)				
Gross Margin (%)	43.6	43.4	43.5	44.2
EBITDA Margin (%)	17.8	16.3	17.7	18.4
PAT Margin (%)	9.2	7.3	7.8	7.4
Asset Turnover	1.6	1.7	1.6	1.2
Debtor Days	82	94	80	80
Inventory Days	146	156	120	120
Creditor Days	74	83	75	75
Cash Conversion Cycle	154	167	125	125
Return Ratios (%)				
Return on Assets (%)	5.6	4.7	4.8	4.4
RoCE (%)	12.0	11.8	11.7	11.5
Core RoIC (%)	15.0	13.4	15.8	13.0
RoE (%)	10.2	10.3	11.6	11.8
Solvency Ratios				
Total Debt / Equity	0.5	0.8	1.0	1.2
Interest Coverage	4.0	3.5	2.7	2.4
Current Ratio	2.3	1.6	1.6	1.4
Quick Ratio	1.4	0.9	1.0	0.8
Valuation Ratios (x)				
EV/EBITDA	43.5	35.4	28.5	24.6
P/E	82.7	74.0	59.2	51.9
P/B	8.4	7.6	6.9	6.1
EV/Sales	7.7	5.8	5.0	4.5

Source: Company, ICICI Direct Research

Exhibit 9: 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	2570	3,000	Buy	76,218	63.5	72.7	79.4	34.4	30.0	27.5	21.3	19.3	17.8	23.8	21.9	20.6	22.1	20.9	19.4
PI Industries	3030	3,615	Buy	45,971	55.5	76.9	91.8	56.1	40.5	33.9	39.7	31.1	25.3	16.3	18.8	19.5	13.8	16.2	16.3
Aarti Industries	502	515	Hold	18,373	32.7	15.0	18.0	25.1	54.4	45.4	28.9	29.7	24.6	11.8	9.7	10.4	14.6	11.1	11.9
Tata Chemical	978	1,130	Buy	24,807	47.5	89.5	109.3	20.6	10.9	8.9	12.7	7.7	5.2	6.6	10.4	10.8	6.6	11.6	12.5
Vinati Organics	2027	2,055	Hold	20,829	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	425	525	Buy	21,236	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	4748	5,160	Hold	23,539	52.3	75.7	91.1	90.8	62.7	52.1	66.0	44.2	35.4	17.8	17.2	17.5	14.0	17.2	17.7
Rallis India	206	223	Hold	4,000	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	417	370	Hold	2,885	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	1480	1,424	Hold	3,688	17.9	20.0	24.8	82.7	74.0	59.6	43.5	35.4	28.5	12.0	11.8	11.6	10.2	10.3	11.5
Astec Lifesciences	1356	1,307	Reduce	2,659	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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Reduce: -15% to -5%;

Sell: <-15%



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