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Institutional Equities

# Neogen Chemicals (NEOGEN)

Chemicals | 4QFY24 Result Update

**ACCUMULATE**

**CMP: Rs1,585 | Target Price (TP): Rs1,550 | Downside: 2%**

**May 2, 2024**

## Structurally positive on Battery Chemicals opportunity

### Key Points

- NEOGEN's 4QFY24 performance came well ahead of our and consensus estimates on sequential ramp up in volume in the existing business and as a result of operating leverage coupled with cost rationalization measures.
- The commentary on Battery chemicals was optimistic on both salts and electrolyte formulation business. We are building in Battery chemicals revenue of Rs3.3bn in FY26 with stable pricing, higher than prior estimates.
- While we remain structurally positive on the Battery chemicals business, near-term uncertainties related to existing business demand recovery, working capital concerns and stretched B/S could offer a better entry point, in our view. Maintain Acc with a revised TP of Rs1,550 (50x PE FY26E).

**4QFY24 performance update:** NEOGEN's 4QFY24 beat was mainly on account of volume driven growth in the base business (led by new client acquisition) coupled with cost rationalization initiatives. Organic chemicals revenue grew by 22% YoY whereas Inorganic chemicals revenue declined by 53% YoY. Despite the price moderation in both the key raw materials (Bromine and Lithium), overall performance was stable led by volume growth. BuLi ramp up (Rs180mn revenue in 4QFY24) has also supported overall growth. Proposed amalgamation of BuLi with NEOGEN is expected to bring in operational cost synergies as well as product development opportunities. Working capital cycle has elongated further in FY24 wherein elevated inventory was on account of weakness in agrochemicals and higher receivables days as a result of increasing share of domestic revenue. Capacity utilization during FY24 in organic and inorganic business stood at ~60% and ~80% respectively.

**Big plans in battery chemicals to drive earnings from 2HFY26:** NEOGEN's upcoming expansion plan under the new subsidiary Neogen Ionics with a total capex outlay of Rs15bn spread over FY24-26 (Peak revenue potential ranging from Rs25bn to Rs30bn) is on track. The design for Electrolyte plant under MUIS technology is ready. Considering the higher visibility as suggested by the management, we are building in Battery Chemicals revenue of Rs3.3bn at stable prices in FY26 (Electrolyte salts and Formulation sales assumption of 1.5KTPA/1KTPA). NEOGEN has an early mover advantage in electrolyte formulation along with Tech collaboration with MUIS and noco-noco (refer details). Also, globally demand for non-China origin Electrolyte salts and additives is also gaining traction.

**Outlook & Valuation:** While we remain structurally positive on the Battery chemicals business, near-term uncertainties related to existing business demand recovery, working capital concerns and stretched B/S could offer a better entry point, in our view. Based on management guidance and our back of the envelope calculation, NEOGEN with the total asset base can grow its EBITDA by ~6x from FY24 level and ROIC at ~19% (vis-à-vis single digit currently). Maintain Acc (50x PE FY26E).

| | |
|---|---|
| Est Change | Upward |
| TP Change | Upward |
| Rating Change | No change |

**Company Data and Valuation Summary**

| | |
|---|---|
| Reuters | NEOE.BO |
| Bloomberg | NEOGEN IN Equity |
| Market Cap (Rsbn / US$mn) | 41.4 / 496.9 |
| 52 Wk H / L (Rs) | 1,859 / 1,176 |
| ADTV-3M (mn) (Rs / US$) | 76.7 / 0.9 |
| Stock performance (%) 1M/6M/1yr | 25.9 / 1.7 / 1.6 |
| Nifty 50 performance (%) 1M/6M/1yr | 2.9 / 4.2 / 25.2 |

| Shareholding | 2QFY24 | 3QFY24 | 4QFY24 |
|---|---|---|---|
| Promoters | 60.2 | 56.9 | 56.9 |
| DIIs | 20.2 | 22.8 | 22.1 |
| FIIs | 4.3 | 4.5 | 4.6 |
| Others | 15.3 | 15.8 | 16.4 |
| Pro pledge | 0.0 | 0.0 | 0.0 |

**Financial and Valuation Summary**

| Particulars (Rsmn) | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| Net Sales | 6,862 | 6,907 | 9,752 | 12,858 |
| *Growth YoY%* | *40.8* | *0.7* | *41.2* | *31.9* |
| *Gross margin %* | *43.4* | *44.6* | *42.6* | *43.5* |
| EBITDA | 1,116 | 1,101 | 1,560 | 2,160 |
| *EBITDA margin %* | *16.3* | *15.9* | *16.0* | *16.8* |
| Adj PAT | 500 | 357 | 589 | 819 |
| *Growth YoY%* | *12.0* | *-28.7* | *65.3* | *39.0* |
| Adj EPS | 20.0 | 13.5 | 22.3 | 31.1 |
| *Growth YoY%* | *12.0* | *-32.6* | *65.3* | *39.0* |
| *RoCE (pre-tax)%* | *12.6* | *8.7* | *8.5* | *8.5* |
| *RoCE%* | *8.9* | *5.9* | *6.5* | *6.0* |
| *RoE%* | *10.7* | *5.2* | *7.2* | *7.5* |
| P/E | 79.1 | 117.3 | 70.9 | 51.0 |
| EV/EBITDA | 36.2 | 37.1 | 26.4 | 22.2 |
| P/BV | 7.7 | 4.9 | 4.6 | 4.2 |

*Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research*

**Key Links –** 4QFY24 Presentation

*Please refer to the disclaimer towards the end of the document.*

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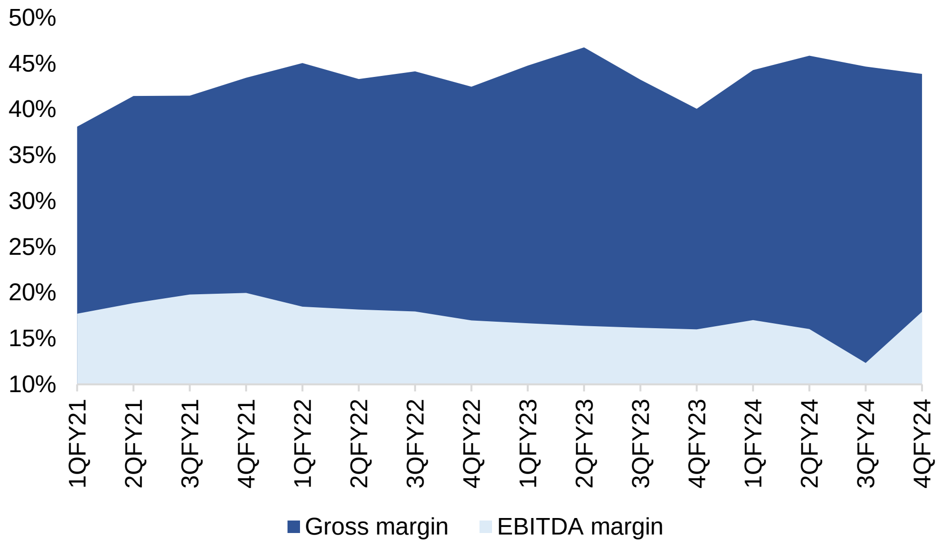
### Exhibit 1: 4QFY24 consolidated performance

| Particulars (Rsmn) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY23 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net Sales** | **1,479** | **1,481** | **1,863** | **2,039** | **1,649** | **1,617** | **1,644** | **1,997** | **6,862** | **6,907** |
| *YoY Change (%)* | *74.7* | *30.9* | *40.4* | *30.1* | *11.5* | *9.2* | *-11.7* | *-2.1* | *40.8* | *0.7* |
| **Gross Profit** | **662** | **693** | **805** | **817** | **730** | **741** | **735** | **876** | **2,977** | **3,082** |
| *Margin (%)* | *44.8* | *46.8* | *43.2* | *40.1* | *44.3* | *45.8* | *44.7* | *43.9* | *43.4* | *44.6* |
| **EBITDA** | **247** | **243** | **301** | **326** | **281** | **259** | **203** | **358** | **1,116** | **1,101** |
| *YoY Change (%)* | *57.8* | *18.2* | *26.6* | *22.4* | *13.8* | *6.8* | *-32.7* | *9.8* | *28.9* | *-1.4* |
| *Margin (%)* | *16.7* | *16.4* | *16.2* | *16.0* | *17.0* | *16.0* | *12.3* | *17.9* | *16.3* | *15.9* |
| Depreciation | 39 | 39 | 41 | 43 | 55 | 58 | 57 | 59 | 162 | 229 |
| Interest | 61 | 69 | 67 | 93 | 108 | 111 | 105 | 97 | 289 | 421 |
| Other income | 9 | 4 | 14 | 17 | 18 | 19 | 16 | 22 | 45 | 75 |
| Extraordinary Items | - | - | - | - | - | - | - | - | - | - |
| **PBT (bei)** | **156** | **139** | **207** | **207** | **136** | **109** | **56** | **225** | **710** | **528** |
| **PBT** | **156** | **139** | **207** | **207** | **136** | **109** | **56** | **225** | **710** | **528** |
| Tax | 45 | 41 | 60 | 64 | 39 | 31 | 46 | 55 | 211 | 171 |
| *ETR (%)* | *29.0* | *29.6* | *29.1* | *30.9* | *28.5* | *28.0* | *82.7* | *24.7* | *29.6* | *32.4* |
| Reported PAT | 111 | 99 | 147 | 143 | 98 | 79 | 11 | 169 | 500 | 357 |
| **Adj. PAT** | **111** | **99** | **147** | **143** | **98** | **79** | **11** | **169** | **500** | **357** |
| *YoY Change (%)* | *50.4* | *-11.5* | *40.4* | *-8.0* | *-11.8* | *-19.8* | *-92.8* | *18.3* | *12.0* | *-28.7* |
| **Adj. EPS** | **4.4** | **4.0** | **5.9** | **5.7** | **3.9** | **3.2** | **0.4** | **6.4** | **20.0** | **13.5** |

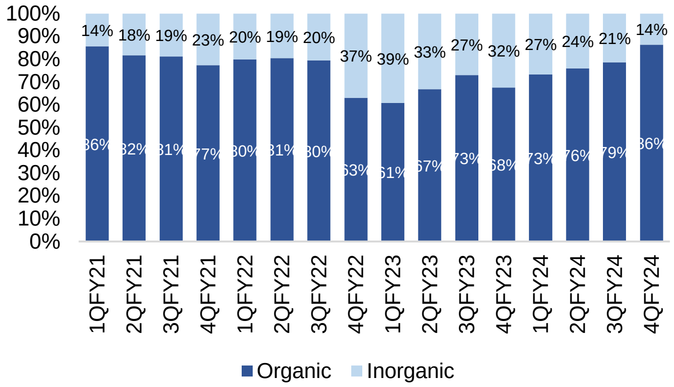
*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 2: Consolidated Gross margin & EBITDA margin quarterly trend



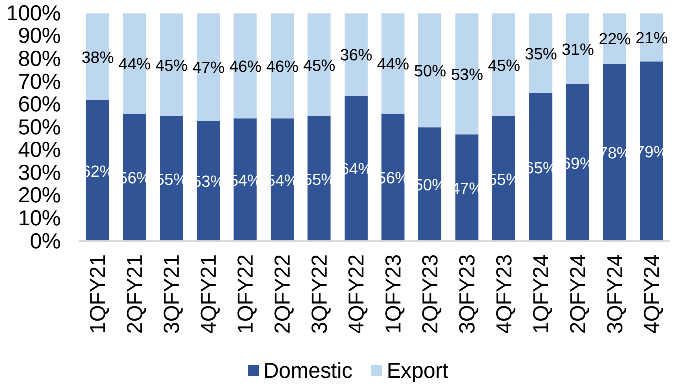

*Source: Company, Nirmal Bang Institutional EquitiesResearch*

**Exhibit 3: Quarterly segment revenue share**



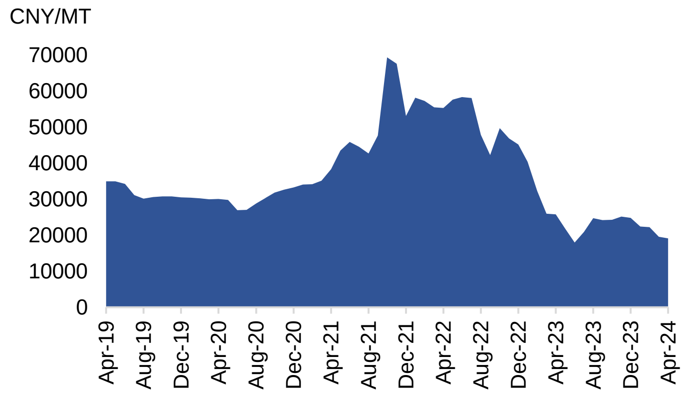

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 4: Quarterly geographical revenue share**



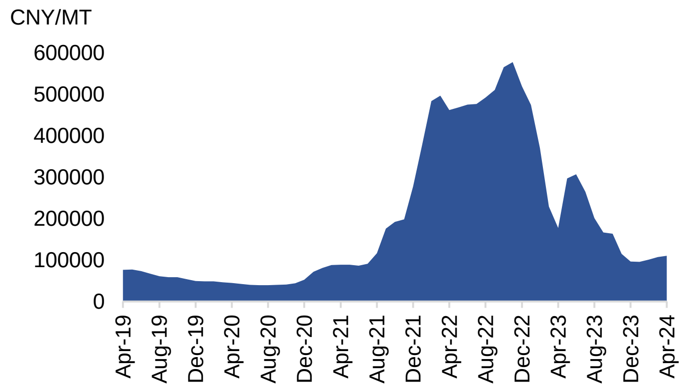

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 5: Bromine Price Trend - China**




*Source: Bloomberg, Nirmal Bang Institutional Equities Research*

**Exhibit 6: Lithium Carbonate Price Trend - China**




*Source: Bloomberg, Nirmal Bang Institutional Equities Research*

**Exhibit 7: Actual performance v/s NBIE and Consensus estimates**

| Consolidated (Rsmn) | 4QFY24 | 4QFY24e (NBIE) | *Variance* | 4QFY24e (Consensus) | *Variance* |
|---|---|---|---|---|---|
| Revenue | 1,997 | 1,733 | *15%* | 1,843 | *8%* |
| EBITDA | 358 | 225 | *59%* | 268 | *33%* |
| *EBITDA margin %* | *17.9%* | *13.0%* | 493bps | *14.6%* | 337bps |
| PAT | 169 | 58 | *193%* | 85 | *100%* |

*Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research*

**Exhibit 8: Change in earnings estimates**

| Consolidated (Rsmn) | Old Estimates | | New estimates | | *Change (%)* | |
|---|---|---|---|---|---|---|
| | FY25E | FY26E | FY25E | FY26E | *FY25E* | *FY26E* |
| Revenue | 9,458 | 11,867 | 9,752 | 12,858 | 3.1% | 8.3% |
| EBITDA | 1,608 | 2,112 | 1,560 | 2,160 | -3.0% | 2.3% |
| *EBITDA %* | 17.0% | 17.8% | 16.0% | 16.8% | *-100bps* | *-100bps* |
| APAT | 566 | 710 | 589 | 819 | 4.1% | 15.4% |

*Source: Nirmal Bang Institutional Equities Research*

**Exhibit 9: Update on various expansion initiatives**

**Details of expansion projects announced:** | **Current project updates:**

*Existing Business*

- Expansion of specialty organic chemicals capacity by 60 m³ → 29 m³ will be commissioned by FY25; 31 m³ already commissioned in Q4 FY23
- Expansion of inorganic chemicals capacity from 1,200 MT (15 m³) to 2,400 (30 m³) in existing Inorganic MPP → Capacity increased to 30 m³ till March 23

*Battery Chemicals Business*

- New capacity of 400 MTPA for manufacturing Lithium Electrolyte Salts and additives →
  - 200 MTPA commissioned; first approval material shipped to the customers
  - For remaining 200 MTPA, trial production has commenced
- Plant for manufacturing 2,000 MT of Electrolyte at Dahej facility →
  - Mechanical completion has been achieved
  - Trial production has already commenced

Several domestic and international customers have visited and approved the facility of Battery Materials, and are now awaiting approval of commercial products manufactured from the site

**Expansion plans in FY25 and FY26**

- Lithium Electrolyte Salts & Additives capacity will increase to 2,500 MT in phases – to be operational by Q4 FY25
- Greenfield expansion of Electrolyte and Lithium Electrolyte Salts & Additives at Pakhajan, Dahej PCPIR for dedicated battery materials
- This includes additional 30,000 MT of Electrolyte capacity using MUIS, Japan Technology License, and additional 3,000 MT of Lithium Electrolyte Salts & Additives based on Neogen's in-house technology – to be operational by H2 FY26

*Source: Company, Nirmal Bang Institutional Equities Research*

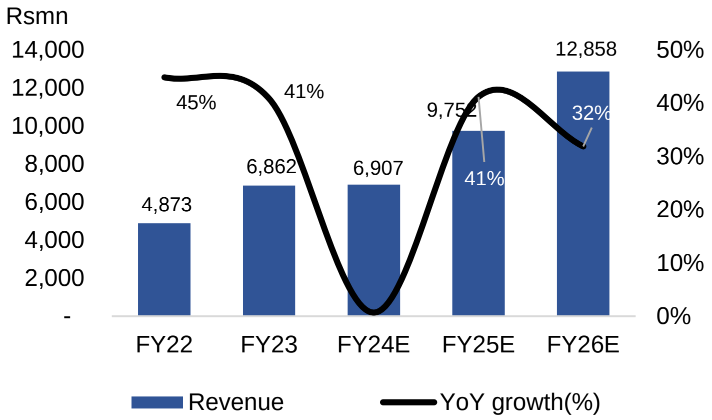
**Exhibit 10: Proposed expansion plan under Neogen Ionics (Rs15bn capex over FY24-26 with peak revenue potential in the range of Rs25bn-Rs30bn**

**Proposed Manufacturing Setup**

| Manufacturing locations | Land Area | Year | Capacities: Electrolyte | Capacities: Lithium Electrolyte Salts & Additives |
|---|---|---|---|---|
| Dahej SEZ (transferred from Neogen Chemicals) | 6,455 m² | FY24 | - | 400 MT |
| | | FY25 | 2,000 MT | To be increased to 2,500 MT |
| Pakhajan, Dahej PCPIR (New site) | 264,285 m² | FY26 | 30,000 MT | 3,000 MT |
| **Total** | **270,240 m²** | | **32,000 MT** | **5,500 MT** |

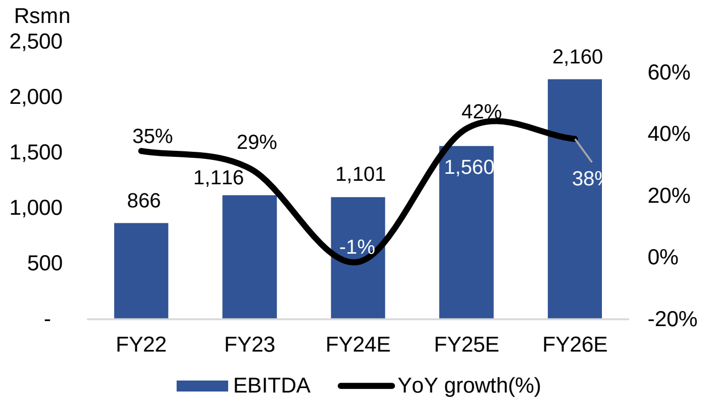
*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 11: Revenue growth - We are building in ~36% CAGR over FY24-26E**



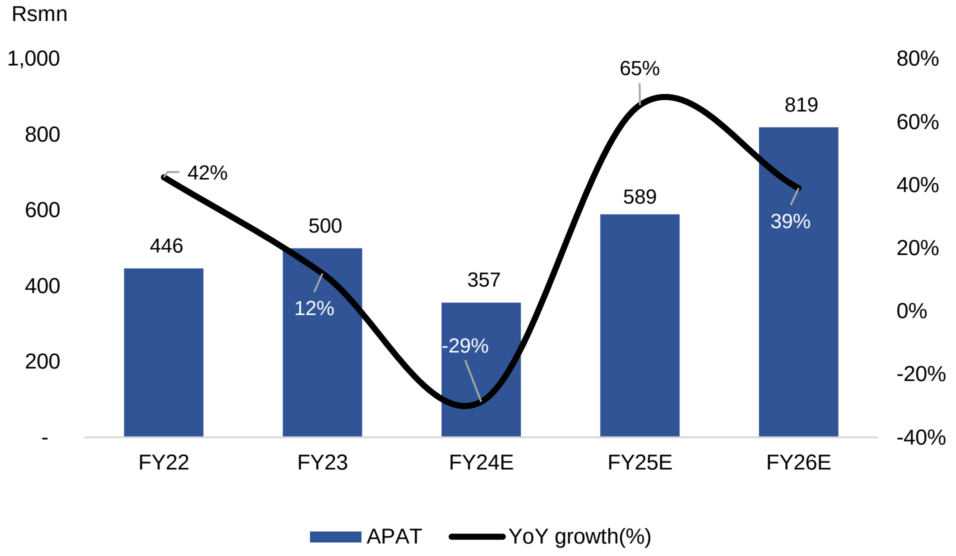

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 12: EBITDA growth - We are building in ~40% CAGR over FY24-26E**




*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 13: Earnings growth - We are building in ~52% CAGR over FY24-26E**




*Source: Company, Nirmal Bang Institutional EquitiesResearch*

## Financials

### Exhibit 14: Income statement

| Y/E March (Rsmn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| **Net Sales** | **4,873** | **6,862** | **6,907** | **9,752** | **12,858** |
| *Growth YoY%* | *44.8* | *40.8* | *0.7* | *41.2* | *31.9* |
| COGS | 2,750 | 3,885 | 3,825 | 5,595 | 7,265 |
| ***Gross margin %*** | ***43.6*** | ***43.4*** | ***44.6*** | ***42.6*** | ***43.5*** |
| Staff costs | 315 | 468 | 620 | 726 | 926 |
| Other expenses | 942 | 1,392 | 1,361 | 1,870 | 2,507 |
| **EBITDA** | **866** | **1,116** | **1,101** | **1,560** | **2,160** |
| *Growth YoY%* | *34.5* | *28.9* | *-1.4* | *41.8* | *38.4* |
| ***EBITDA margin %*** | ***17.8*** | ***16.3*** | ***15.9*** | ***16.0*** | ***16.8*** |
| Depreciation | 117 | 162 | 229 | 326 | 510 |
| EBIT | 749 | 954 | 872 | 1,234 | 1,650 |
| Interest | 191 | 289 | 421 | 542 | 720 |
| Other income | 11 | 45 | 75 | 70 | 234 |
| PBT (bei) | 571 | 710 | 528 | 762 | 1,164 |
| PBT | 571 | 710 | 528 | 762 | 1,164 |
| ETR | 21.8 | 29.6 | 32.4 | 22.7 | 29.6 |
| PAT | 446 | 500 | 357 | 589 | 819 |
| **Adj PAT** | **446** | **500** | **357** | **589** | **819** |
| ***Growth YoY%*** | ***42.5*** | ***12.0*** | ***-28.7*** | ***65.3*** | ***39.0*** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 15: Cash flow

| Y/E March (Rsmn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| **PBT** | **571** | **710** | **528** | **762** | **1,164** |
| Depreciation | 117 | 162 | 229 | 326 | 510 |
| Interest | 191 | 289 | 421 | 542 | 720 |
| Other adjustments | -66 | 9 | -84 | -70 | -234 |
| Change in Working capital | -701 | -1,359 | -1,288 | 2,216 | -167 |
| Tax paid | -98 | -115 | -98 | -173 | -345 |
| **Operating cash flow** | **14** | **-304** | **-292** | **3,603** | **1,648** |
| Capex | -1,701 | -785 | -3,028 | -3,675 | -8,450 |
| **Free cash flow** | **-1,687** | **-1,089** | **-3,319** | **-72** | **-6,802** |
| Other investing activities | 243 | -159 | 872 | 70 | 234 |
| **Investing cash flow** | **-1,458** | **-945** | **-2,156** | **-3,605** | **-8,216** |
| Issuance of share capital | 2,250 | - | 2,467 | - | - |
| Movement of Debt | -42 | 1,361 | 313 | 5,565 | 3,000 |
| Dividend paid (incl DDT) | -53 | -69 | -75 | 151 | 514 |
| Other financing activities | -272 | -289 | -340 | -542 | -720 |
| **Financing cash flow** | **1,884** | **1,003** | **2,365** | **5,174** | **2,794** |
| **Net change in cash flow** | **440** | **-245** | **-82** | **5,172** | **-3,774** |
| Opening C&CE | 12 | 452 | 207 | 125 | 5,297 |
| Closing C&CE | 452 | 207 | 125 | 5,297 | 1,523 |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 16: Balance sheet

| Y/E March (Rsmn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| Share Capital | 249 | 249 | 264 | 264 | 264 |
| Reserves & Surplus | 4,143 | 4,576 | 7,339 | 7,849 | 8,598 |
| **Net worth** | **4,392** | **4,825** | **7,603** | **8,113** | **8,862** |
| Long term debt | 1,215 | 1,291 | 1,242 | 5,000 | 7,000 |
| Short term debt | 1,032 | 2,331 | 2,693 | 4,500 | 5,500 |
| **Total debt** | **2,247** | **3,622** | **3,935** | **9,500** | **12,500** |
| Other non-current liabilities | 204 | 325 | 499 | 729 | 1,313 |
| **Total Equity & Liabilities** | **6,844** | **8,772** | **12,037** | **18,342** | **22,675** |
| Gross block | 3,134 | 3,897 | 5,607 | 9,821 | 18,821 |
| Accumulated depreciation | 283 | 422 | 651 | 977 | 1,487 |
| **Net Block** | **2,851** | **3,475** | **4,956** | **8,844** | **17,334** |
| CWIP | 106 | 358 | 1,089 | 550 | - |
| Intangible and others | - | - | - | - | - |
| Other non-current assets | 103 | 139 | 728 | 728 | 728 |
| Investments | 817 | 768 | 5 | 5 | 5 |
| Trade receivables | 1,095 | 1,774 | 2,817 | 2,404 | 3,984 |
| Inventories | 1,946 | 2,930 | 3,824 | 3,124 | 5,111 |
| Cash & Cash equivalents | 452 | 207 | 125 | 5,297 | 1,523 |
| Other current assets | 624 | 887 | 1,070 | 858 | 257 |
| **Total current assets** | **4,925** | **6,558** | **7,837** | **11,683** | **10,875** |
| Trade payables | 989 | 1,566 | 1,446 | 1,990 | 3,627 |
| Other current liabilities | 162 | 201 | 1,131 | 1,476 | 2,639 |
| **Total current liabilities** | **1,151** | **1,766** | **2,577** | **3,466** | **6,266** |
| **Total Assets** | **6,844** | **8,772** | **12,037** | **18,342** | **22,675** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 17: Key ratios

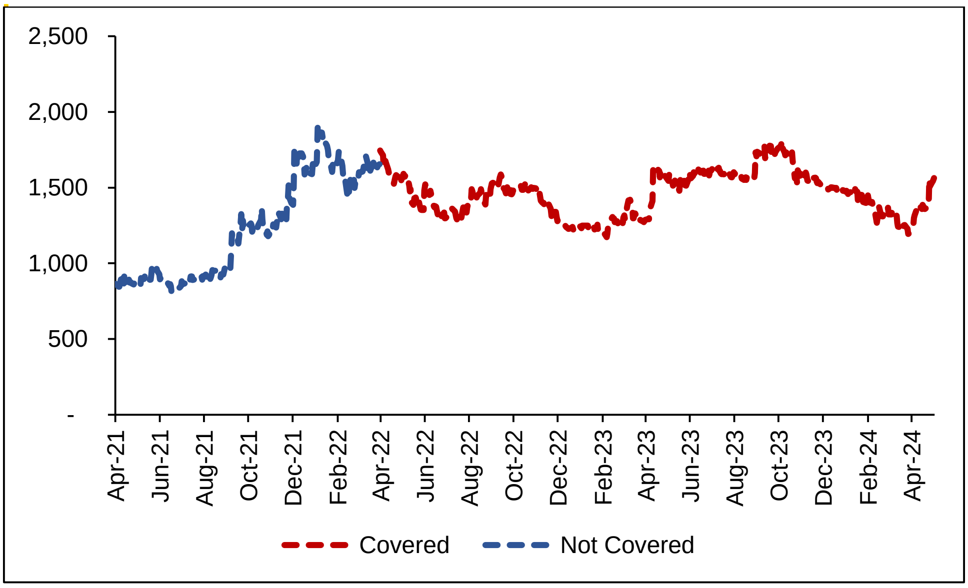
| Y/E March | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| **Per share (Rs)** | | | | | |
| Adj EPS | 17.9 | 20.0 | 13.5 | 22.3 | 31.1 |
| Book value | 188.2 | 206.8 | 325.8 | 347.7 | 379.8 |
| DPS | 2.1 | 3.0 | 3.0 | 2.7 | 3.7 |
| **Valuation (x)** | | | | | |
| P/Sales | 7.6 | 5.4 | 5.4 | 3.8 | 2.9 |
| EV/sales | 8.0 | 5.9 | 5.9 | 4.2 | 3.7 |
| EV/EBITDA | 44.8 | 36.2 | 37.1 | 26.4 | 22.2 |
| P/E | 88.6 | 79.1 | 117.3 | 70.9 | 51.0 |
| P/BV | 8.4 | 7.7 | 4.9 | 4.6 | 4.2 |
| **Return ratios (%)** | | | | | |
| RoCE | 11.2 | 8.9 | 5.9 | 6.5 | 6.0 |
| RoCE (pre-tax) | 14.3 | 12.6 | 8.7 | 8.5 | 8.5 |
| RoE | 15.3 | 10.7 | 5.2 | 7.2 | 7.5 |
| **Profitability ratios (%)** | | | | | |
| Gross margin | 43.6 | 43.4 | 44.6 | 42.6 | 43.5 |
| EBITDA margin | 17.8 | 16.3 | 15.9 | 16.0 | 16.8 |
| PAT margin | 9.1 | 7.2 | 5.1 | 6.0 | 6.3 |
| **Liquidity ratios (%)** | | | | | |
| Current ratio | 2.3 | 1.6 | 1.5 | 1.5 | 0.9 |
| Quick ratio | 1.4 | 0.9 | 0.8 | 1.1 | 0.5 |
| **Solvency ratio (%)** | | | | | |
| Debt to Equity ratio | 0.5 | 0.8 | 0.5 | 1.2 | 1.4 |
| Net Debt to Equity ratio | 0.2 | 0.6 | 0.5 | 0.5 | 1.2 |
| **Turnover ratios** | | | | | |
| Fixed asset turnover ratio (x) | 2.1 | 2.0 | 1.5 | 1.3 | 0.9 |
| Debtor days | 70 | 76 | 121 | 98 | 91 |
| Inventory days | 116 | 130 | 178 | 130 | 117 |
| Creditor days | 62 | 68 | 80 | 64 | 80 |
| Net Working capital days | 124 | 138 | 220 | 163 | 128 |

*Source: Company, Nirmal Bang Institutional Equities Research*

## Rating track

| Date | Rating | Market price (Rs) | Target price (Rs) |
|---|---|---|---|
| 31 March 2022 | Buy | 1,655 | 2,000 |
| 16May 2022 | Buy | 1,385 | 1,600 |
| 9 August 2022 | Buy | 1,427 | 1,640 |
| 19September 2022 | Accumulate | 1,510 | 1,600 |
| 8 November 2022 | Accumulate | 1,412 | 1,570 |
| 13 February 2023 | Buy | 1,299 | 1,500 |
| 22 March 2023 | Accumulate | 1,301 | 1,300 |
| 15 May 2023 | Accumulate | 1,473 | 1,400 |
| 07 August 2023 | Accumulate | 1,566 | 1,600 |
| 28 September 2023 | Accumulate | 1,747 | 1,800 |
| 09 November 2023 | Accumulate | 1,546 | 1,600 |
| 12 February 2024 | Accumulate | 1,280 | 1,300 |
| 2 May 2024 | Accumulate | 1,585 | 1,550 |

## Rating Chart



## DISCLOSURES

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SELL < -5%

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