# Q1FY25 Result Update
# Neogen Chemicals

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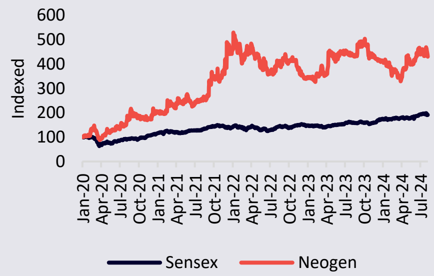
## Positioned to tap opportunities in battery chemicals

- **Neogen Chemicals reported a 9% YoY growth in revenue, flattish EBITDA margin, and 18% YoY growth in PAT in Q1FY25, despite a sluggish demand from the agrochemical industry, steep fall in prices of bromine and lithium raw materials.**
- **The growth in Q1 revenue was mainly driven by an uptick in demand from the non-agrochemical sector, healthy performance of BuLi Chem, and commercial sales of Lithium Salts and trial quantities of Electrolytes from Neogen Ionics.**
- **A better revenue mix and operational efficiency mitigated the impact of higher employee costs and low realization in the core business to retain an EBITDA margin of 17%.**
- **The company has achieved financial closure for most CAPEX in Neogen Ionics and is engaged with prospective customers to fore long-term supply agreements.**
- **The company has commissioned 200MTPA of its 2,000MTPA Electrolytes capacity at Dahej, with a trial supply given to three customers.**
- **The management is confident of achieving a revenue of Rs900-1000cr in FY26 from its core business, while battery chemicals will aid in a gradual ramp-up.**
- **We cut our earnings estimates by 9%/5% for FY25/FY26 to build the depressed pricing in key segments and slower offtake in the agrochem business. Our price target stands revised to INR1,672 (earlier INR1,800) based on 40x FY26E earnings.**

**CMP: INR1,552**
**Rating: BUY**
**Target price: INR1,672**
**Upside: 8%**
Date: August 9, 2024

| Bloomberg: | NEOGEN:IN |
|---|---|
| 52-week range (INR): | 1,233/1,859 |
| M-cap (INR cr): | 3,407 |
| Promoter holding (%) | 56.89 |




### Recovery in demand for non-agrochemical business offset the fall in product prices
Neogen witnessed a 9% YoY growth in revenue to INR180cr, mainly driven by the organic chemical segment which grew by a healthy 17% YoY to INR142cr on the back of a healthy recovery in demand from the non-agrochemical sector. However, inorganic chemicals (lithium salt and additives are part of it) declined 14% YoY to Rs38cr mainly due to a steep fall in lithium prices. Due to cyclicality, the business in H2 is normally better than H1 for the company.

### Expect a ramp-up in BuLi Chemicals
NEOGEN acquired a 100% stake in BuLi Chemicals India Pvt, which owns the technology to manufacture n-butyl Lithium and other organolithium products. It reported a healthy growth from Buli Chemicals in Q1FY25. It is set to leverage the capabilities of BuLi Chemicals India Pvt in custom synthesis and the manufacture of pharma and agrochemical products. It has received approval from local customers, and the same has been received from global customers. The company saw a strong performance by BuLi Chem on the back of demand recovery and we expect this ramp-up to speed up in subsequent quarters.

### Bright Prospects for Neogen Ionics
Neogen Ionics earmarked INR1,500cr for expanding battery chemicals, including lithium electrolyte (LE) and electrolyte salts and additives (LESA). This investment can generate a peak revenue of INR2,500–2,950cr based on lithium prices. The Inflation Reduction Act (IRA) is expected to be implemented in the US by 2025 and will necessitate the shift of critical materials required to manufacture electric vehicles away from China. This will give other non-Chinese manufacturers like NEOGEN an edge. NEOGEN Ionics contributed positively to the revenue during the quarter. This segment is expected to scale up and result in 109% revenue CAGR in the inorganic chemicals business over FY24–26E.

### Valuation and view
Despite the adverse macro conditions impacting the prices of end products and the fall in demand for agrochemicals, Neogen reported a healthy growth in Q1. While the demand from the agrochemical sector is likely to see recovery in H2FY25, the stability in prices of key materials like bromine and lithium will be critical for the growth of the core business. However, we remain positive on its battery chemical business, which is likely to see a significant boost in revenue starting from FY26-27. Optimization of new capacities in organic and inorganic segments is likely to expand EBITDA margins, however, the high CAPEX intensity will keep the balance sheet under pressure in FY25/FY26. We forecast a revenue/PAT CAGR of 35%/76% over FY24–26. Retain 'BUY'.

### Key financials

| Year to March | Q1FY25 | Q1FY24 | % YoY | Q4FY24 | % QoQ | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| Revenues (INR Cr) | 180 | 165 | 9 | 200 | -10 | 1,008 | 1,264 |
| EBITDA | 31 | 28 | 10 | 36 | -14 | 187 | 266 |
| *EBITDA Margin* | *17%* | *17%* | *10bp* | *18%* | *-81bp* | *19%* | *21%* |
| Net profit | 11 | 10 | 18 | 17 | -32 | 86 | 110 |
| Diluted EPS | 4 | 4 | 12 | 6 | -32 | 33 | 42 |
| Diluted P/E (x) | | | | | | 48 | 37 |
| EV/EBITDA (x) | | | | | | 25 | 19 |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## Q1FY25 result highlights

| Particulars (INR cr) | Q1FY25 | Q1FY24 | % YoY | Q4FY24 | % QoQ | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| **Income from operations** | **180** | **165** | 9 | **200** | -10 | **1,008** | **1,264** |
| **Cost of goods sold** | 96 | 92 | 5 | 112 | -14 | 560 | 683 |
| **Gross Profit** | **84** | **73** | 14 | **88** | -5 | **449** | **582** |
| **Employee expenses** | 16 | 13 | 24 | 15 | 8 | 71 | 76 |
| **Other expenses** | 37 | 32 | 15 | 37 | -1 | 192 | 240 |
| **Total operating expenses** | 149 | 137 | 9 | 164 | -9 | 822 | 999 |
| **EBITDA** | **31** | **28** | 10 | **36** | -14 | **187** | **266** |
| **Depreciation and amortization** | 7 | 5 | 24 | 6 | 16 | 37 | 53 |
| **EBIT** | **24** | **23** | 6 | **30** | -20 | **150** | **212** |
| **Interest expenses** | 10 | 11 | -9 | 10 | 1 | 38 | 67 |
| **Other income** | 2 | 2 | -12 | 2 | -29 | 8 | 8 |
| **PBT** | **16** | **14** | 16 | **22** | -30 | **119** | **153** |
| **Provision for tax** | 4 | 4 | 11 | 6 | -23 | 33 | 43 |
| **Adjusted net profit** | **11** | **10** | 18 | **17** | -32 | **86** | **110** |
| **Profit/Loss from Associates** | - | - | - | - | - | 0 | 0 |
| **Extraordinary items/Adjustments** | - | - | - | - | - | - | - |
| **Reported net profit** | **11** | **10** | 18 | **17** | -32 | **86** | **110** |
| **Equity capital** | 26 | 25 | 6 | 26 | - | 26 | 26 |
| **No. of shares (Cr)** | 3 | 2 | 6 | 3 | - | 3 | 3 |
| **Reported Diluted EPS (INR)** | **4** | **4** | **12** | **6** | **-32** | **33** | **42** |

| Segment | Q1FY25 | Q1FY24 | % YoY | Q4FY24 | % QoQ | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| Organic | 142 | 121 | 17% | 169 | -16% | 570 | 636 |
| Inorganic | 38 | 44 | -14% | 31 | 23% | 439 | 628 |
| **Total** | **180** | **165** | **9%** | **200** | **-10%** | **1,008** | **1,264** |

### Revised estimates

| (INR Cr) | FY25E | | | FY26E | | |
|---|---|---|---|---|---|---|
| | Previous | Revised | %Change | Previous | Revised | %Change |
| **Sales** | 1,023 | 1,008 | -1% | 1,294 | 1,264 | -2% |
| **EBITDA** | 194 | 187 | -4% | 263 | 266 | 1% |
| **EBITDA margin** | 19.0% | 18.5% | -46bp | 20.3% | 21.0% | 68bp |
| **PAT** | 96 | 86 | -10% | 115 | 110 | -4% |
| **EPS** | 36 | 33 | -9% | 44 | 42 | -5% |

### Update on various expansion initiatives

| Segment | Expansion Plans | Current Status |
|---|---|---|
| Organic Chemicals | Expansion of specialty organic chemicals capacity by 60 m3 | 29 m3 will be commissioned by FY25; 31 m3 already commissioned in Q4 FY23 |
| Inorganic Chemicals (Existing MPP) | Expansion of inorganic chemicals capacity from 1,200 MT (15 m3) to 2,400 (30 m3) | Capacity increased to 30 m3 till March 23 |
| Inorganic Chemicals (Battery Chemicals) | New capacity of 400 MTPA | 200 MTPA commissioned; first approval material shipped to the customers; for remaining 200 MTPA, trial production has commenced |
| Inorganic Chemicals (Battery Chemicals) | Plant for manufacturing 2,000 MT of Electrolyte at Dahej facility | 200MT commissioned; trial supply from commercial plant given to three customers |

## Key takeaways from the management interaction

- Bromine and Lithium prices saw a significant fall during the quarter which impacted revenue growth. Prices of lithium-based compounds have hit their bottom.
- The company shifted focus towards non-agrochemical application due to weak global agrochemical demand. The management expects a recovery in the global agrochemical demand in the second half of the year.
- The company targets CSM business to contribute to 20% of revenue.
- EBITDA margin is expected to be ~16-17% depending on lithium prices.
- The company is developing specialty gas products and liquid products required for semiconductor applications.
- The company expects to electrolyte capacities online in the second half of FY26.
- Depreciation and interest expenses are likely to increase due to an accelerated CAPEX in battery chemicals.
- No significant oraganic CAPEX is expected in FY25-26, however management is likely to consider organic CAPEX in FY27 which would benefit the growth in FY28-29.

## Financial story in charts

**Exhibit 1: Revenue is expected to see strong growth**

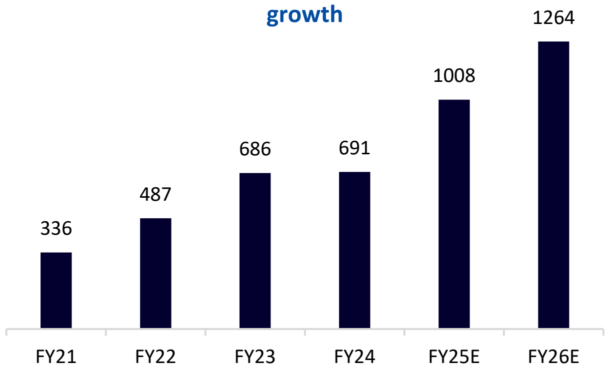



**Exhibit 2: Organic chemicals will be the key growth driver**

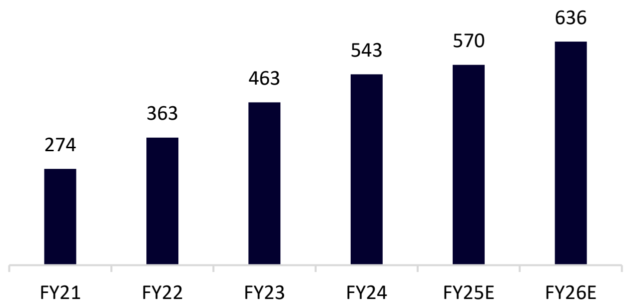



**Exhibit 3: Inorganic chemicals will continue maintained its sustained growth**

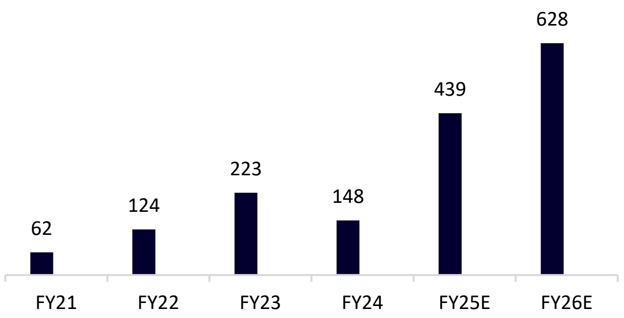



**Exhibit 4: EBITDA growth will be driven by improving product mix**

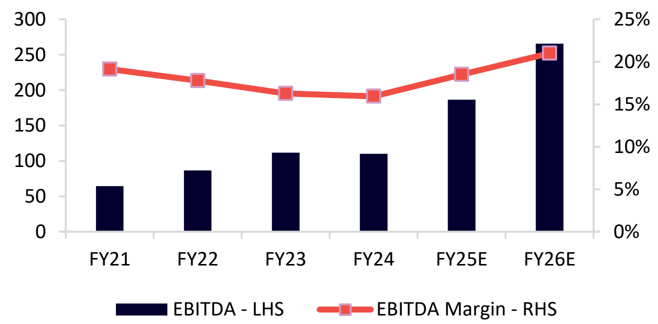



**Exhibit 5: PAT is expected to see strong growth FY24-26E**

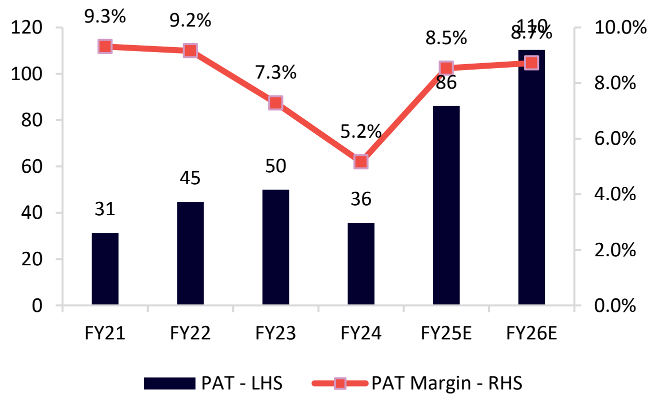
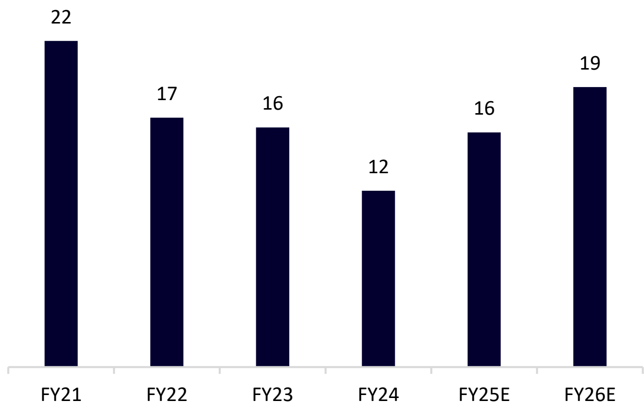



**Exhibit 6: ROACE (%) to improve over FY24-26E**




Source: Nuvama Wealth Research

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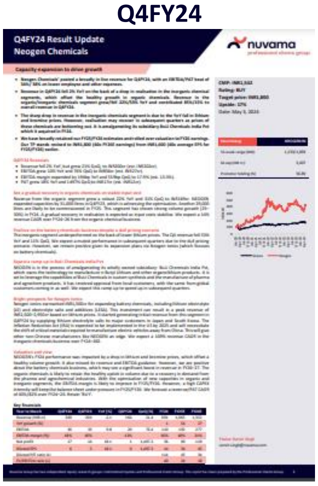
## Previous outlook

**Q4FY24:** NEOGEN's FY24 performance was impacted by a drop in lithium and bromine prices, which offset a healthy volume growth. It also missed its revenue and EBITDA guidance. However, we are positive about the battery chemicals business, which may see a significant boost in revenue in FY26–27. The organic chemicals is likely to retain the healthy uptick in volume due to a recovery in demand from the pharma and agrochemical industries. With the optmisation of new capacities in organic and inorganic segments, the EBITDA margin is likely to improve in FY25/FY26. However, a high CAPEX intensity will keep the balance sheet under pressure in FY25/FY26. We forecast a revenue/PAT CAGR of 40%/82% over FY24–26. Retain 'BUY'.

**Q3FY24:** NEOGEN's Q3FY24 performance has been impacted by the sharp fall in prices across the organic and inorganic segments. While we expect a better QoQ performance in Q4 due to seasonal factors, PAT may fall by over 30% YoY in FY24. We remain positive about the company's prospects emanating from the battery chemical business, which is seeing a significant capex. These investments will fructify over FY25– 27 and drive revenue by 4–5x from FY24 levels. As the front running of certain costs related to battery chemicals are impacting its profit margin, the ramp-up in Neogen Ionics will drive the profitability as well. We forecast a revenue/PAT CAGR of 24%/32% over FY23–26. Retain 'BUY'.

Q4FY24



Q3FY24

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## Financials

**Income statement** (INRcr)

| Year to March | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| Income from operations | 336 | 487 | 686 | 691 | 1,008 | 1,264 |
| Direct costs | 198 | 275 | 389 | 382 | 560 | 683 |
| Employee costs | 20 | 32 | 47 | 62 | 71 | 76 |
| Other expenses | 54 | 94 | 139 | 136 | 192 | 240 |
| Total operating expenses | 272 | 401 | 575 | 581 | 822 | 999 |
| EBITDA | 64 | 87 | 112 | 110 | 187 | 266 |
| Depreciation and amortisation | 7 | 12 | 16 | 23 | 37 | 53 |
| EBIT | 57 | 75 | 95 | 87 | 150 | 212 |
| Interest expenses | 14 | 19 | 29 | 42 | 38 | 67 |
| Profit before tax | 44 | 57 | 71 | 53 | 119 | 153 |
| Provision for tax | 13 | 12 | 21 | 17 | 33 | 43 |
| Extraordinary items | - | - | - | - | - | - |
| Profit After Tax | 31 | 44 | 50 | 35 | 86 | 110 |
| Share from associates | 0 | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 31 | 45 | 50 | 36 | 86 | 110 |
| Equity shares outstanding (cr) | 2 | 2 | 2 | 3 | 3 | 3 |
| EPS (INR) basic | 13 | 19 | 19 | 14 | 33 | 42 |
| Diluted shares (Cr) | 2 | 2 | 2 | 3 | 3 | 3 |
| EPS (INR) fully diluted | 13 | 19 | 19 | 14 | 33 | 42 |

**Common size metrics- as % of net revenues**

| Year to March | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| Operating expenses | 80.9 | 82.2 | 83.7 | 84.1 | 81.5 | 79.0 |
| Depreciation | 2.1 | 2.4 | 2.4 | 3.3 | 3.7 | 4.2 |
| Interest expenditure | 4.1 | 3.9 | 4.2 | 6.1 | 3.8 | 5.3 |
| EBITDA margins | 19.1 | 17.8 | 16.3 | 15.9 | 18.5 | 21.0 |
| Net profit margins | 9.3 | 9.2 | 7.3 | 5.2 | 8.5 | 8.7 |

**Growth metrics (%)**

| Year to March | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| Revenues | 9.9 | 44.8 | 40.8 | 0.7 | 46.0 | 25.4 |
| EBITDA | 10.8 | 34.5 | 28.9 | (1.4) | 69.5 | 42.3 |
| PBT | 6.9 | 29.8 | 24.7 | (25.9) | 126.8 | 28.2 |
| Net profit | 8.4 | 43.7 | 12.2 | (28.9) | 142.1 | 28.2 |
| EPS | 9.6 | 39.5 | 1.3 | (28.7) | 141.4 | 28.1 |

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Balance sheet (INR cr)

| As on 31st March | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| Equity share capital | 23 | 25 | 25 | 26 | 26 | 26 |
| Preference Share Capital | - | - | - | - | - | - |
| Reserves & surplus | 160 | 414 | 458 | 734 | 820 | 930 |
| Shareholders funds | 183 | 439 | 483 | 760 | 846 | 957 |
| Secured loans | 116 | 122 | 129 | 124 | 154 | 279 |
| Unsecured loans | 86 | 76 | 233 | 269 | 433 | 633 |
| Total Debt | 202 | 198 | 362 | 394 | 587 | 912 |
| Other Long Term Liabilities | 8 | 8 | 11 | 19 | 8 | 8 |
| Deferred Tax Liabilities | 8 | 11 | 19 | 24 | 24 | 24 |
| Minority Interest | - | - | - | - | - | - |
| **Sources of funds** | **401** | **655** | **875** | **1,197** | **1,465** | **1,900** |
| Gross block | 137 | 309 | 377 | 541 | 850 | 1,200 |
| Depreciation | 15 | 27 | 37 | 60 | 95 | 146 |
| Net block | 122 | 282 | 339 | 480 | 755 | 1,053 |
| Capital work in progress | 115 | 11 | 36 | 109 | 100 | 100 |
| Total fixed assets | 251 | 306 | 397 | 677 | 940 | 1,237 |
| Unrealised profit | - | - | - | - | - | - |
| Other Non Current Assets | 15 | 13 | 22 | 88 | 86 | 84 |
| Investments | 1 | 1 | 1 | 0 | 0 | 0 |
| Inventories | 114 | 195 | 293 | 382 | 332 | 416 |
| Sundry debtors | 79 | 110 | 177 | 282 | 387 | 485 |
| Cash and equivalents | 1 | 45 | 21 | 12 | 31 | 41 |
| Loans and advances | - | - | - | 1 | - | - |
| Other current assets | 46 | 143 | 164 | 106 | 106 | 106 |
| Total current assets | 241 | 493 | 656 | 784 | 856 | 1,048 |
| Sundry creditors and others | 87 | 138 | 171 | 251 | 317 | 371 |
| Provisions | 4 | 6 | 8 | 14 | 14 | 14 |
| Total CL & provisions | 91 | 144 | 179 | 265 | 331 | 385 |
| Net current assets | 150 | 350 | 477 | 519 | 525 | 663 |
| Misc expenditure | - | - | - | - | - | - |
| **Uses of funds** | **401** | **655** | **875** | **1,197** | **1,465** | **1,900** |
| Book value per share (INR) | 78 | 184 | 193 | 288 | 321 | 363 |

Cash flow statement

| Year to March | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| Net profit | 34 | 47 | 60 | 43 | 86 | 110 |
| Add: Depreciation | 7 | 12 | 16 | 23 | 37 | 53 |
| Add: Misc expenses written off | 6 | 13 | 30 | 34 | -104 | 67 |
| Add: Deferred tax liability | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross cash flow | 47 | 71 | 106 | 100 | 19 | 231 |
| Less: Changes in W.C. | -40 | 70 | 136 | 155 | -12 | 129 |
| Operating cash flow | 87 | 1 | -30 | -56 | 31 | 102 |
| Less: Capex | 23 | 170 | 77 | 303 | 300 | 350 |
| **Free cash flow** | **63** | **-169** | **-108** | **-359** | **-269** | **-248** |

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**Ratios**

| Year to March | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| ROAE (%) | 18.5 | 14.3 | 10.8 | 5.7 | 10.7 | 12.2 |
| ROACE (%) | 22.2 | 17.0 | 16.3 | 12.0 | 16.0 | 19.1 |
| Debtors (days) | 85 | 82 | 94 | 149 | 140 | 140 |
| Current ratio | 1.3 | 2.3 | 1.6 | 1.5 | 1.1 | 1.0 |
| Inventory (days) | 124 | 146 | 156 | 202 | 120 | 120 |
| Payable (days) | 72 | 74 | 83 | 76 | 76 | 76 |
| Cash conversion cycle (days) | 137 | 154 | 167 | 275 | 184 | 184 |
| Net Debt/EBITDA ratio | 3.1 | 1.8 | 3.1 | 3.5 | 3.0 | 3.3 |
| Adjusted debt/Equity ratio | 1.1 | 0.3 | 0.7 | 0.5 | 0.7 | 0.9 |

**Valuation parameters**

| Year to March | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|
| Diluted EPS (INR) | 13.4 | 18.7 | 18.9 | 13.5 | 32.6 | 41.8 |
| *Y-o-Y growth (%)* | *9.6* | *39.5* | *1.3* | *(28.7)* | *141.4* | *28.1* |
| Diluted P/E ratio (x) | 119.3 | 85.5 | 84.4 | 118.3 | 49.0 | 38.2 |
| Price/BV ratio (x) | 20.4 | 8.7 | 8.3 | 5.5 | 5.0 | 4.4 |
| EV/Sales ratio (x) | 11.7 | 8.1 | 6.3 | 6.7 | 4.7 | 4.0 |
| EV/EBITDA ratio (x) | 61.2 | 45.8 | 38.8 | 41.8 | 25.6 | 19.2 |
| Basic EPS | 13.4 | 18.7 | 18.9 | 13.5 | 32.6 | 41.8 |
| Basic PE ratio (x) | 119.3 | 85.5 | 84.4 | 118.3 | 49.0 | 38.2 |

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