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..... Limited

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Which brand of car do you drive?

Which brand of tyre does your car have?

About 2/3rd car owners globally don't know the answer to that question.

I didn't notice my car tyres till I started reading upon this company.

What goes into making a tyre?

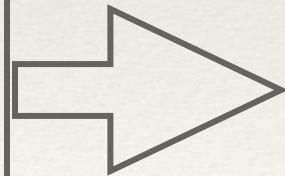
Rubber - Natural/
Synthetic

Nylon Cords



Picture: Istock photos

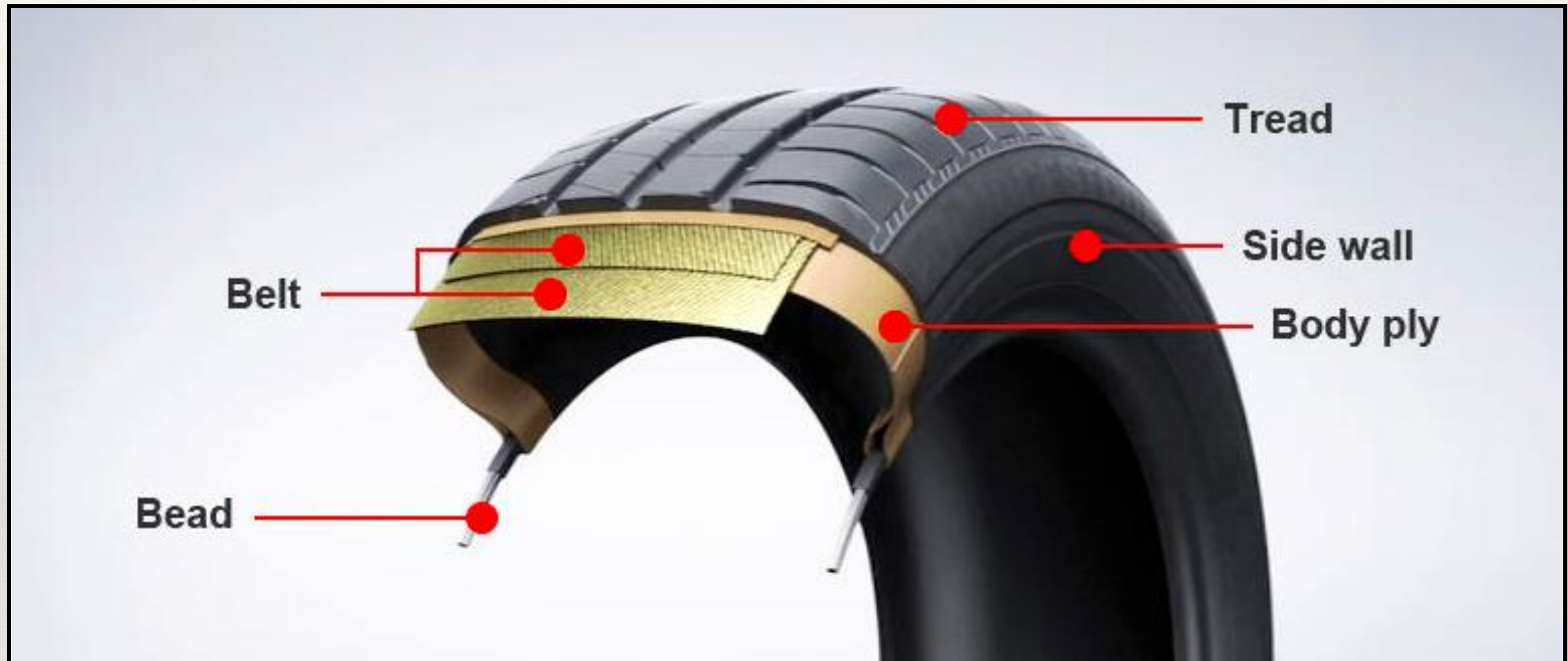
Other 25+ chemicals



Collectively
known as
rubber
chemicals

Insoluble
sulphur &
Carbon black

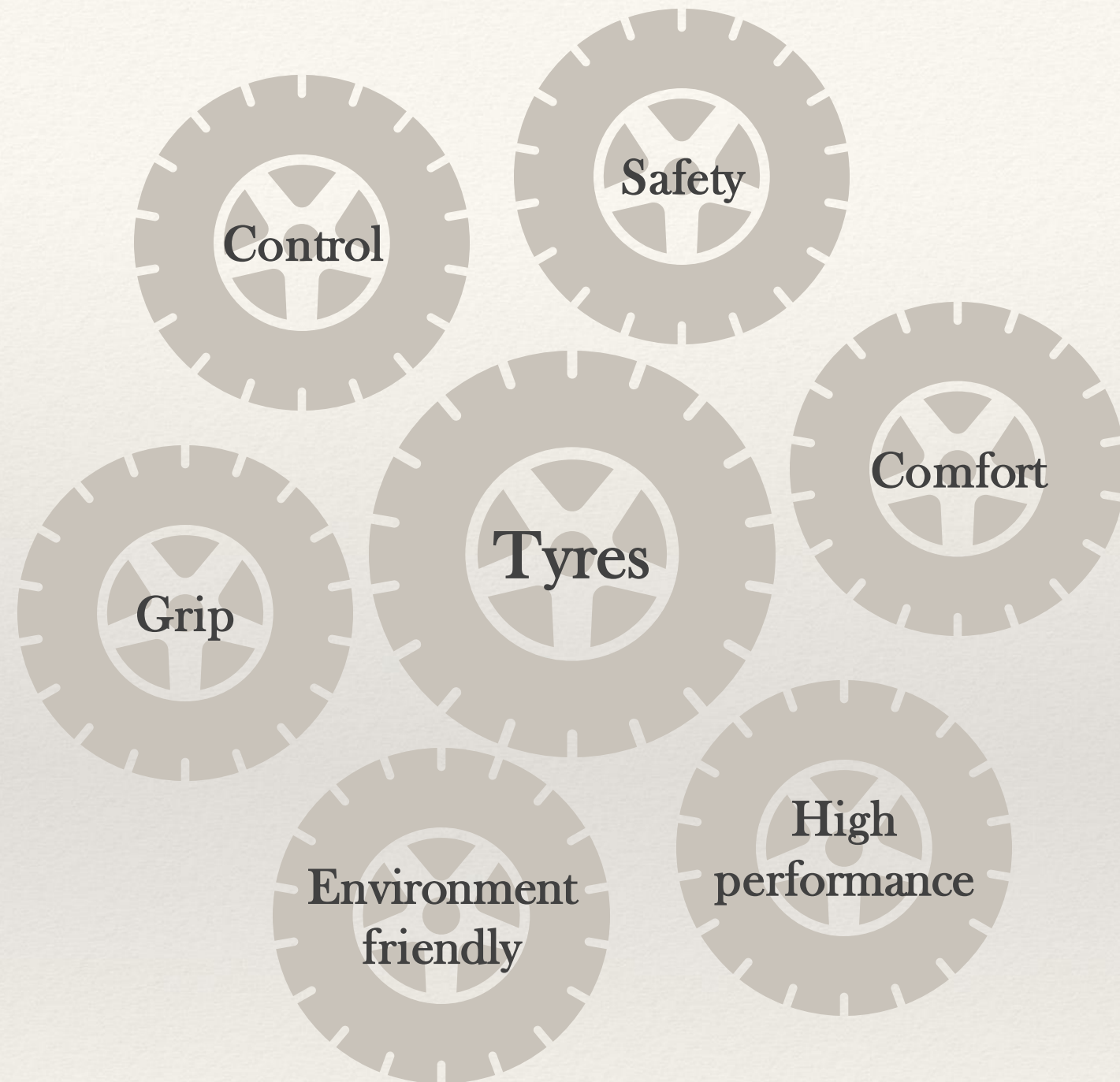
Anatomy of a tyre



Source: www.bridgestone.com/products/basic_knowledge/structure/

What holds them together?
Rubber *chemicals*

Goals of a tyre



Case of ‘Assassin Tyres’

Bridgestone, world’s largest tyre manufacturing company went through a major crisis in the early 2000s.

Tyres made by Bridgestone started to explode in the US & Venezuela leading to hundreds of accidents and close to 500 deaths.



Picture: Istock photos

Local media dubbed them as “*Assassin Tyres*”

Reason: Tread of the tyres would unexpectedly come off at high speeds leading to fatal crashes.

Rubber chemicals: Importance

Although they form only 3 - 4% of the total cost of a tyre, rubber chemicals are

extremely critical

Rubber chemicals brings us to.....

Nocil Limited

Chemical businesses ?

It is an often heard concern that chemical businesses are

1. Commodity businesses
2. Environmentally harmful

My view

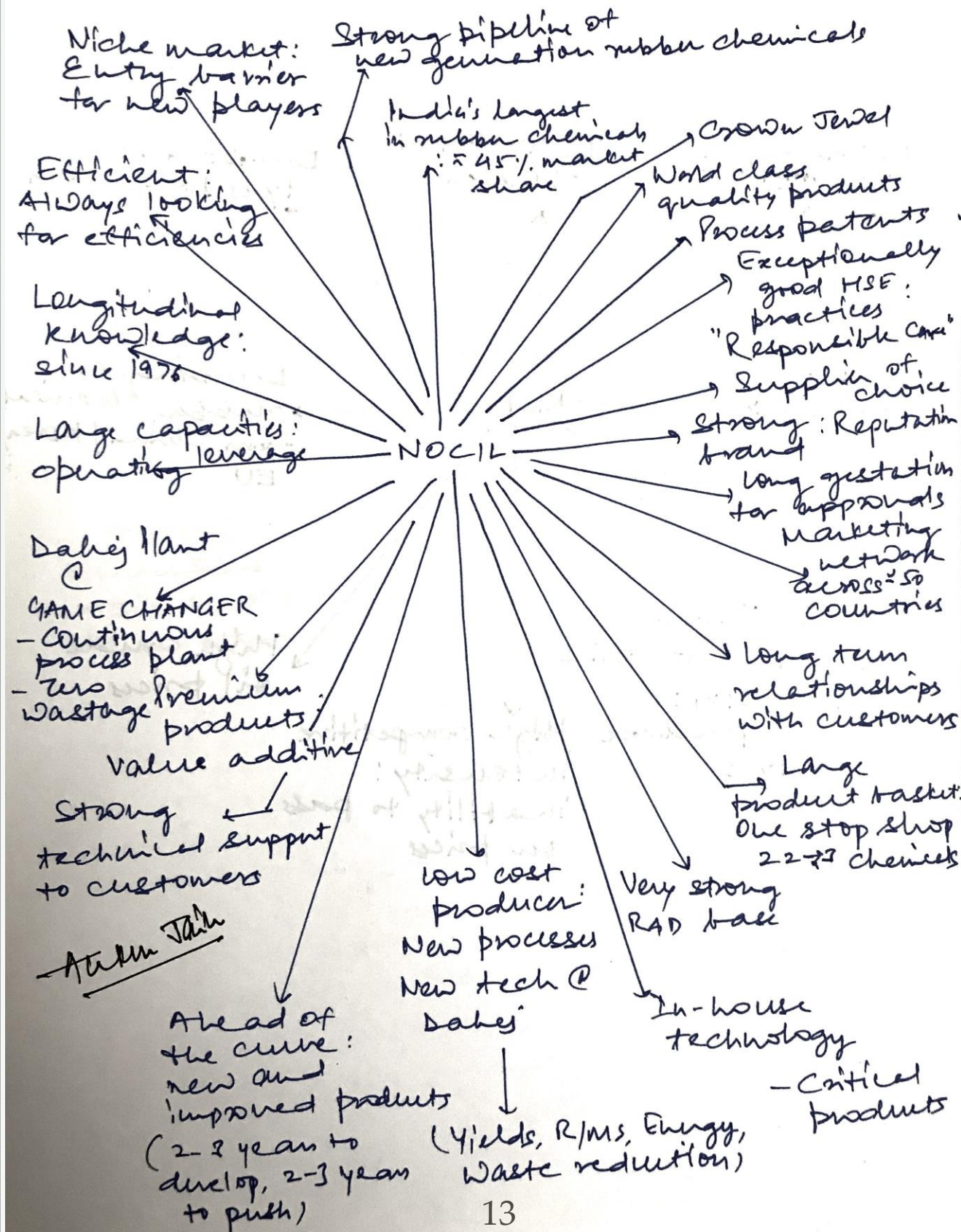
Just like no two fingers in our hand are of the same size, no two chemical companies are alike

Depends on *what* they do and *how* they do it!

How does Nocil differentiate itself from others

Key differentiators

key differentiators / USP's / Entry Barriers (5)



Why Nocil is an exceptional business



Picture: Istock photos

Like several fibres weave together and result in a strong rope, several competitive advantages mesh together and give rise to a strong business.

Why is it difficult for new players to enter

- ❖ Specialised products with long gestation period

- 2-3 years to develop
- 2-3 years for products to gain acceptance by customers

- ❖ Economies of scale

- ❖ DNA of the company is *innovation* - next-gen products

Regulators across the world are pushing for environmentally cleaner and safer products

- ❖ Strong technical support to customers

Transformation from vendors to partners

Product testing & validation

Tyres are tested for different combinations of weather and road conditions, so are rubber chemicals. Tough and stringent testing standards - difficult for new players to match.

Tough tyres demand even tougher testing.

We test for your safety around the world.

Throughout the year, we show time and time again that there are no limits to our tyre testing at our test sites in the USA, New Zealand, Sweden, Spain and, last but not least, on our in-house track near Hanover, the Contidrom which is also a sought-after reference track for independent experts. Each one of our winter and summer tyres from all over the world is thus tested under all kinds of weather and road surface conditions. It goes without saying that this all takes place using the most modern testing methods and measuring technology.



Figures that speak for themselves.
And for our testing expertise.

- › 67,000 tests each year
- › 713 testers
- › 140,000 tyres
- › 40 million test kilometres during passenger car tests
- › 160 million kilometres during durability and high-speed tests

State-of-the-art testing methods



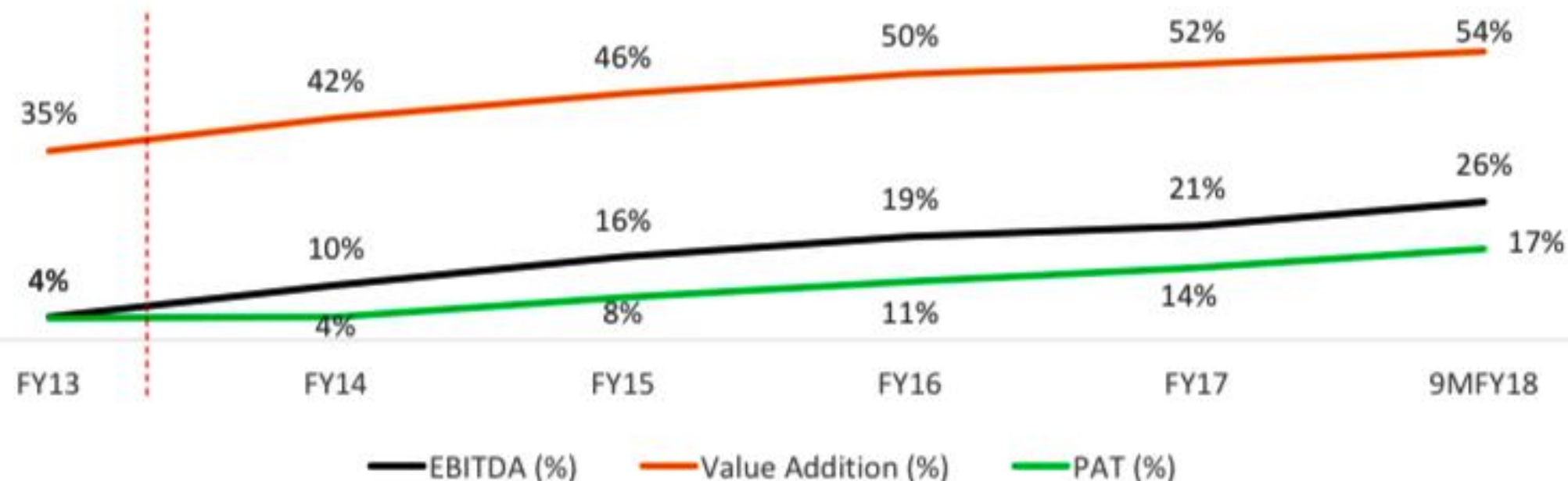
Up to five driving lanes can be integrated for simulation purposes in the new 300-metre-long, 30-metre-wide testing building.

Dahej Plant – A Game Changer

- ✓ Strong R&D Capabilities
 - **Process R&D** : Significant reduction in cost of production
 - **Product R&D** : Strong pipeline of new products
- ✓ It is a zero wastage plant, resulting in significant cost reduction
- ✓ Strong position in High-value added products
- ✓ Operating Leverage playing out
- ✓ Further scope of multiple expansion possible at Dahej

Overall Improvement in Margin Profile of the Company

Dahej plant established



Risks & Mitigants

Risk # 1 - Dumping of rubber chemicals from China & Korea

Mitigant 1

Structural changes in China:

1. Stringent environmental standards
 2. Closure of capacities
 3. Rise in wages
- ❖ Anti-dumping duties imposed on Chinese/Korean products till July, 2019.

All these have led to higher costs for Chinese/Korean players

Risk # 1 - Dumping of rubber chemicals from China & Korea

Mitigant 2

International tyre majors wish to reduce their over-dependence on one source country - China

- Supplies - both quality and quantity are becoming unpredictable



The screenshot shows the LiveMint website header with the logo on the left and 'live**mint**' on the right. Below the header, the breadcrumb 'Home » Industry' is visible. The main headline is 'Chinese solar module firms reneging on India contracts' in bold black text. A sub-headline reads: 'Chinese suppliers are demanding an increase of around 6 cents per watt in prices of solar modules already contracted for'. At the bottom, the publication date is 'Last Published: Thu, Aug 24 2017. 04 59 AM IST'.

Risk # 1 - Dumping of rubber chemicals from China & Korea

Mitigant 3

Developed in-house technology which is highly cost-effective -
Dahej Plant

Risk # 1 - Dumping of rubber chemicals from China & Korea

Mitigant 4

Product basket

- ❖ Addition of next generation value-added chemicals
- ❖ ~ 50% of the revenues from value added chemicals where competition is low and margins high
- ❖ In some products, competition is non-existent

Risk # 2 - Anti-dumping duties on some products till July, 2019

Questions we need to ask ourselves:

1. What percentage of sales enjoy anti dumping duties?

Ans: 50%

2. What percentage of intrinsic value of the business comes from such products?

Ans: ~ 30%

In a scenario where the anti-dumping duties were to be removed, the business would continue to fare well because:

1. Nocil has differentiated technology that will continue to provide the edge.
2. Chinese costs have structurally risen to a large extent.
3. Nocil will have economies of scale and therefore, lower costs.

Risk # 3 - Fluctuations in Crude / Currency

- ❖ Fluctuations in crude derivatives / currency

Mitigants

- ❖ Contracts with tyre-majors are quarterly. Any fluctuation in raw materials /currency is passed through with a lag of one quarter.

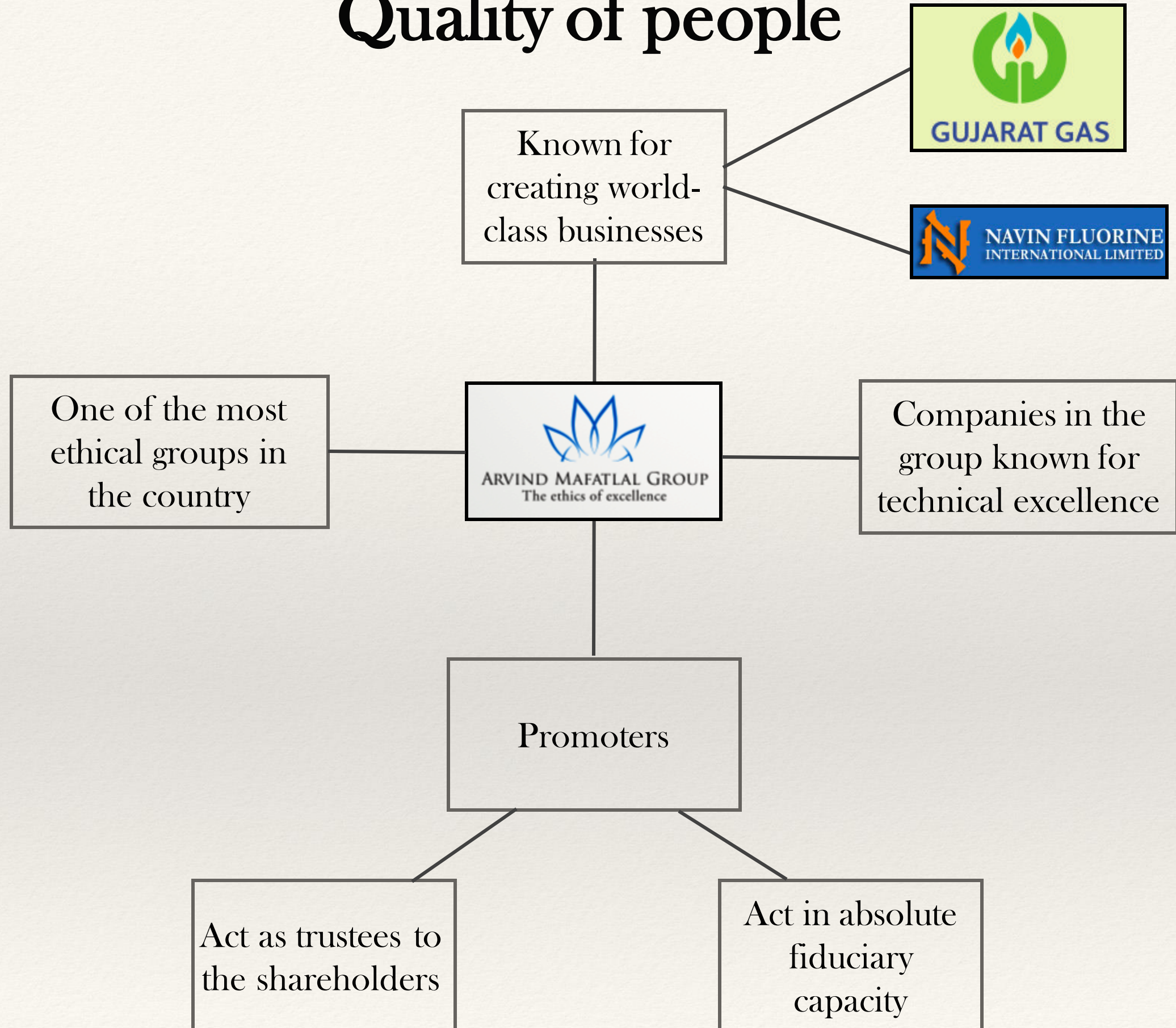
Risk # 4 - Dependency on automotive industry

- ❖ Electric vehicles and autonomous driving can cause a major disruption in the automotive industry.
- ❖ Nocil largely dependent on automotive tyre industry.

Mitigants

- ❖ Increasing ownership of 2-wheelers/ 4-wheelers, especially in emerging economies.
- ❖ *Thankfully*, no matter what fuel the cars use and how they are driven, cars will (still) continue to run on *tyres!*

Quality of people



‘The sounds of silence’

- Classic hit delivered by Simon & Garfunkel in 1964

Maximum value is created by companies that create the atmosphere of least friction - at all levels.

Silence generated by smooth processes tends to drive companies towards excellence.

One such process is succession planning.



By Source, Fair use,
<https://en.wikipedia.org/w/index.php?curid=6359436>

Succession Planning

Nocil has displayed immaculate sense of succession planning; both at the level of promoter shareholder and at the level of senior management.

- ❖ The company had two families as promoter groups. Both groups reached an amicable settlement to distribute the family businesses between them. The businesses continued to operate the same way a day after the settlement, as they operated a day before the settlement.

Succession Planning

- ❖ In the second transition, Mr S R Deo, a veteran in the Company with 37 years of service, was appointed as the new MD of the company. Mr Deo replaced Mr C R Gupte, who retired after serving the Company for 40 years. Nocil has been the *first and only job* for both the gentlemen!

Strong bench of professionals.

Delegation of authority - once identified, a free hand and long runway to operate.

Tailwinds / Opportunities

- ❖ Increase in demand of tyres
- ❖ Higher chemical loadings for premium tyres
- ❖ Thus, a long runway ahead for rubber chemicals and Nocil is in a sweet spot to capture that growth

Valuations

CMP	INR 196 (March 8th, 2018)
No. Of shares	166.90 million
Market Cap	\$ 502.49 million
Borrowings	NIL
Surplus cash & investments	\$ 46 million
Enterprise Value	\$ 456 million
PAT	\$ 23.50 million
EV/PAT	19.4x

\$ 1 = INR 65.10

Thank you

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