



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

NGL FINE CHEM LTD

WHAT WE LIKE

STRONG MARKET POSITIONING & STRONG GROWTH PROSPECTS

- NGL is one of the leading Animal API players in the country where its top 5 products have a market share of around **50%** with the next 4 APIs having a **15% share**. The company supplies to 5 out of the top 10 global animal healthcare companies showcasing the quality of the products. Another interesting thing to note is that despite having a poor demand scenario in FY23, the company has maintained its market share leadership & plans to add 3-4 new products every year (existing at 26 APIs).
- Further, the company incurred a capex of 26 Crs in its subsidiary for manufacturing of intermediates & plans on doing a 140 Crs capex which will augment its capacity by 50%, thus highlighting the good reinvestment prospects in the near future.

STRONG BUSINESS MODEL

The company's past track record is a testament to its strong business model.

Compounded Sales Growth		Compounded Profit Growth		Stock Price CAGR		Return on Equity	
10 Years:	17%	10 Years:	21%	10 Years:	59%	10 Years:	23%
5 Years:	19%	5 Years:	10%	5 Years:	31%	5 Years:	23%
3 Years:	22%	3 Years:	19%	3 Years:	32%	3 Years:	24%
TTM:	-8%	TTM:	-18%	1 Year:	33%	Last Year:	8%

High ROE despite lower D/E is because of competitive advantages

- The company has had zero rejections in the past 15 years despite outsourcing 15% of the production
- A team of 25- R&D Specialists makes it a research-heavy- organization with an annual expense of 1% of total sales
- Backward integration leading to cost competitiveness
- Diversified geographical contribution which directs business profile

PARTICULARS	Q1FY23	Q4FY23	Q1FY24
Asia	35%	31%	29%
Europe	24%	38%	25%
India	26%	18%	28%
ROW	15%	12%	17%
USA	0%	0%	1%

EXCELLENT MANAGEMENT TEAM

The promoter has an industry experience of more than 3 decades + high skin in the game (with 73% shareholding & high flexibility in their strategies like-

- Replacing its top 5 products in the EU market with a different set to snatch market share from its competitors
- Slowing down its Tarapur capex of 140 Crs due to enough room in the current capacity + poor demand scenario & making a deliberate decision of meeting the requirements through internal accruals Vs debt.

BUYING THE PESSIMISM?

The company has seen strong moderation in OPM% with the margins dropping to a decadal low of 10% in FY23 owing to poor demand scenario coupled with high volatility in raw material prices. Management has been candid regarding stagnant revenue growth in FY24, however, it has guided OPM% of 13-17% & we believe that once demand improves, the margins are bound to rebound sharply while revenue growth will ensure a strong impact on its financials & stock price (which has decreased by more than 50% from its All time high).

WHAT WE DON'T LIKE

POOR DEMAND SCENARIO & VOLATILE MARGINS

Management has explained that owing to high inventory positions coupled with lower demand, especially in regions where inventory problems have been sorted, revenue growth is expected to be weak in FY24 as well. Volatile forex rates, higher inflations, increased competitive intensity & recessionary conditions in the key market of Europe (whose contribution has reduced from 38% to 25% of revenues QoQ) have further elevated the problems.

The business also lacks pricing power on the sales side & faces high volatility in the raw material side owing to the shorter term of contracts.

HIGH WORKING CAPITAL INTENSITY

The company's cash conversion cycle stands at 100 days primarily due to higher inventory days wherein it is required to maintain a sizeable WIP inventory due to the variation in the production cycle for basic chemicals. However, we at SSS believe that given its improving trend of debtor days (which signifies improving competitive positioning) & higher inventory days (which can act as a barrier to entry for new entrants), the risk has reduced substantially in the past 5 years. However, regular checks on this metric are required as it can give early signals of deteriorating marketplace positioning as well as poor returns on capital.

	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023
Debtor Days	115	100	110	110	107	123	110	80	79	63	55	74
Inventory Days	113	126	77	106	90	114	134	106	154	132	133	69
Days Payable	156	148	105	150	122	139	187	92	114	94	84	59
Cash Conversion Cycle	72	78	82	63	91	85	35	93	103	91	124	97
Working Capital Days	81	88	88	77	96	85	54	107	98	78	116	104
ROCE %	11%	19%	24%	29%	37%	34%	22%	28%	15%	32%	35%	12%

HIGH CLIENT & CONCENTRATION RISKS

The top 10 products have >70% revenue concentration which can be a major risk in case there are some regulatory issues or demand-supply mismatch in those products. Now, although the company is trying to tackle this by regular additions of new products, it remains a major risk.

Similarly, the top 10 customers contribute more than 50% of overall revenues which is another major risk.

CUSTOMER CONCENTRATION			
PARTICULARS	Q1FY23	Q4FY23	Q1FY24
TOP 3 PRODUCTS	34%	41%	34%
TOP 5 PRODUCTS	57%	58%	50%
TOP 10 PRODUCTS	75%	78%	73%

CUSTOMER CONCENTRATION			
PARTICULARS	Q1FY23	Q4FY23	Q1FY24
TOP 3 CUSTOMERS	18%	26%	26%
TOP 5 CUSTOMERS	25%	33%	38%
TOP 10 CUSTOMERS	39%	40%	53%

ENVIRONMENT, REGULATORY & FOREX RISKS

- This is a risk for all chemical-related companies, however, this risk is more prominent here as the company's Tarapur plant was temporarily shut down due to suspected violations in the past. However, the company has been very proactive by converting its flagship & Macrotech facility into zero liquid discharge, & collaborating with an external agency that treats the waste to ensure compliance with the Maharashtra Pollution Control Board (MPCB).
- Further, owing to exports contributing 75% of overall sales while imports are only 25%, there is not a major natural hedge exposing it to forex currency fluctuations risk, which, is partly mitigated by the terms of its forward contracts.

