

July 11, 2022

## Realisation growth likely to aid overall performance...

Q1FY23 has seen an increase in crude prices to high single digits over Q4FY22, which, we believe, may have assisted most chemical companies to maintain the momentum of higher realisations growth. On the currency front, imports constitute ~25% of the I-Direct Chemicals Universe's overall RM requirements while exports account for ~35% of overall revenue contribution. Thus, we expect just marginal positive impact of the ~3% rupee depreciation QoQ at the GP level. Furthermore, since we have witnessed a marginal reduction in freight cost, one can expect some relief on the operational front. In terms of topline growth outlook for Q1FY23E, we expect healthier demand environment across end user industries to have led strong revenue growth for our coverage universe, amid better volumes & realisations growth. We expect our coverage universe companies to report topline growth of 25.2% YoY. We expect OPM of our coverage universe at 21.3% (flat YoY) leading to EBITDA growth of 24.3%. The bottomline of our coverage universe is expected to report growth of 26.7% YoY led by higher other income and lower tax outgo.

## Topline likely to grow 25.2% YoY, led by both volume, realisation

We witnessed a recovery in demand for sectors such as textile, paper, metals, automobiles, pharma, etc. This should support higher volume growth for most of our companies under universe especially from pigments, dyes, soda ash industries. Further, better realisations can aid overall performance. Companies in specialty chemicals have large order backlog in place. This is likely to sustain similar momentum as witnessed in the last quarter. We expect our chemical universe companies to post topline growth of 25.2% YoY for Q1FY23E.

## EBITDA to grow at 24.3% YoY while bottomline at 26.7% YoY

Increase in the value added segment revenue from the basket of specialty chemical companies along with rise in the realisation for selected companies can sustain operational performance. We expect our coverage universe companies OPM to remain at 21.3% (-15 bps YoY), leading to EBITDA growth of 24.3% YoY. Bottomline growth may be aided by 26.7% YoY, largely on the back of lower tax outgo and higher other income.

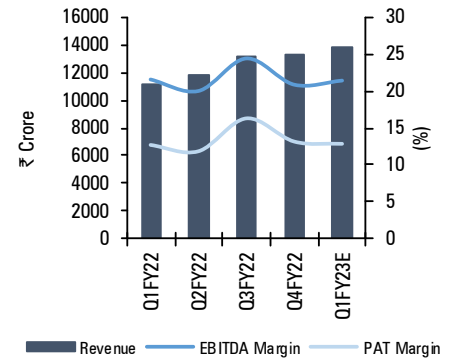
Exhibit 1: Estimates for Q1FY23E

(₹ crore)

Company	Revenue			EBITDA			PAT		
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
SRF	3,583.9	32.8	1.0	945.1	40.7	-0.3	590.1	49.3	-2.6
PI Industries	1,390.9	16.5	-0.3	305.2	22.6	0.1	201.7	7.7	-1.3
Aarti Industries	1,822.9	38.4	3.8	333.6	6.3	-1.6	167.1	1.3	-13.8
Sumitomo Chemical	876.9	12.1	31.8	184.2	23.0	69.1	134.6	27.3	80.3
Vinati Organics	475.8	23.1	-2.1	127.1	25.2	-8.4	97.6	20.7	-3.4
Tata Chemical	3,697.5	24.2	6.2	738.4	22.8	12.3	383.8	33.3	-5.9
Navin Fluorine	424.2	29.9	3.7	101.9	31.0	8.1	76.0	36.0	7.2
Rallis India	816.0	10.2	60.8	121.4	-0.1	-4,376.3	80.8	-1.9	-671.0
Sudarshan Chemical	524.7	10.7	-16.3	60.3	-2.7	-29.9	24.8	-5.2	-44.5
Neogen Chemicals	134.1	58.4	-14.5	24.0	53.6	-9.9	12.0	63.5	-23.0
Astec Life	164.1	27.5	-39.7	28.3	14.8	-56.7	14.4	10.7	-65.4
<b>Total</b>	<b>13,910.9</b>	<b>25.2</b>	<b>4.6</b>	<b>2,969.6</b>	<b>24.3</b>	<b>7.3</b>	<b>1,783.0</b>	<b>26.7</b>	<b>2.1</b>

Source: Company, ICICI Direct Research

### Topline & Profitability (Coverage Universe)



### Top Picks

Neogen Chemicals  
Sumitomo Chemicals  
SRF

### Research Analysts

Siddhant Khandekar  
siddhant.khandekar@icicisecurities.com

Dhavan Shah  
dhavan.shah@icicisecurities.com

Exhibit 2: Company Specific view

Company	Remarks
SRF	Higher ref gas prices along with better growth from speciality chemical led to overall growth. We expect topline to grow at 32.8% YoY to ₹ 3583.9 crore. OPM likely to expand 149 bps YoY to 26.4% leading to EBITDA growth of 40.7% YoY to ₹ 945.1 crore. PAT is expected to remain at ₹ 590.1 crore (+49.3% YoY). <b>Key Monitorable:</b> Growth in speciality chemical segment
PI Industries	We expect better growth from CSM to continue for this quarter as well on the back of strong order backlog and decent demand from the end industries. We expect topline to grow at 16.1% YoY to ₹ 1389.3 crore. OPM can likely to expand by 331bps YoY to 22.3% resulting in EBITDA growth of 36.3% YoY to ₹ 309.8 crore. PAT is expected to grow 18.2% YoY to ₹ 212.5 crore. <b>Key Monitorable:</b> Development of key molecules in pharma intermediates
Aarti Industries	Aarti Industries Q1FY23 revenues is expected to grow 38.4% YoY to ₹ 1822.9 crore amid better growth from speciality chemical segment. Further, improvement in realisation should also support revenue growth during the quarter. The gross revenue from speciality chemical segment is expected to grow 46% YoY to ₹ 1736.8 crore and pharma segment revenues expected to grow 30% YoY to ₹ 358.3 crore. OPM is likely to fall 553 bps YoY to 18.3% leading to EBITDA growth of 6.3% YoY to ₹ 333.6 crore. Net profit is expected at ₹ 167.1 crore (+1.3% YoY). <b>Key Monitorables:</b> EBITDA margins in both speciality chemical and Pharma segment
Sumitomo Chemical	We expect strong traction towards key molecules in the domestic market to drive topline growth for Sumitomo. We expect revenues to grow at 12.1% YoY to ₹ 650.6 crore. OPM should remain at 21%, leading to EBITDA growth of 23% YoY to ₹ 1184.2 crore. PAT is expected to remain at ₹ 134.6 crore (+27.3% YoY). <b>Key Monitorable:</b> Gross margins, domestic business growth and inventory situation
Vinati Organics	Higher oil prices and thereby better demand outlook from ATBS is expected to have led growth for the last quarter. Further, better growth from butyl phenols can likely to aid performance further. The revenue is expected to grow 23.1% YoY to ₹ 475.8 crore. OPM is likely to remain at 26.7% (+44 bps YoY) translating into EBITDA of ₹ 127.1 crore (+25.2% YoY). PAT is expected to remain at ₹ 97.6 crore (+20.7% YoY). <b>Key Monitorables:</b> Progress of Butyl phenol plant utilisation and IBB business performance
Tata Chemical	Since there has been a revival in a construction activity across the globe, we expect flat glass demand to also have improved and thereby the demand for soda ash. We expect export business for North America unit to have performed well and thus, should have given respite to the overall performance. Apart from this, better realisation should also have aided overall growth for the quarter. The revenue is expected to grow 24.2% YoY to ₹ 3697.5 crore. OPM is likely to remain at 20% (-22 bps YoY) resulting in EBITDA growth of 22.8% YoY to ₹ 738.4 crore. PAT is expected to remain at ₹ 383.8 crore (+33.3% YoY). <b>Key Monitorable:</b> Growth in the basic chemical across key geographies along with EBITDA/tonne
Navin Fluorine	We expect revenues to grow at 29.9% YoY to ₹ 424.2 crore, largely led by the growth in the CRAMS and refrigerants. The revenue from CRAMS is likely to grow 44% YoY to ₹ 96.8 crore while the same from refrigerant to remain higher by 45% YoY to ₹ 85.6 crore. OPM is expected at 24% (+19 bps YoY), in turn translating into EBITDA growth of 31% YoY to ₹ 101.9 crore. PAT is expected remain at ₹ 76 crore (+36% YoY). <b>Key Monitorable:</b> Growth in the CRAMS, Speciality chemical business and gross margins
Rallis India	We expect better pricing in the domestic market along with decent growth from international business to have supported growth for Rallis during last quarter. We expect topline to increase 10.2% YoY to ₹ 816 crore. EBITDA & PAT is expected to remain at ₹ 121.4 crore (-0.1% YoY) & ₹ 80.8 crore (-1.9% YoY), respectively. <b>Key Monitorable:</b> Growth in the International business, inventory situation of crop care in the domestic market and cotton seed inventory situation
Sudarshan Chemical	Sudarshan Chemical's Q1FY23 revenues likely grew 10.7% YoY to ₹ 524.7 crore mainly due to realisation growth. EBITDA margins likely to remain at 11.5% (-158bps YoY), leading to EBITDA fall 2.7% YoY to ₹ 60.3 crore. The subdued operational performance was on account of higher RMAT & other cost. Net profit is expected to decline 5.2% YoY to ₹ 24.8 crore. <b>Key Monitorables:</b> Improvement in end users demand and product mix
Neogen Chemicals	Ramp up in utilisation should have assisted growth in the organic chemical segment. Topline is expected to remain at ₹ 134.1 crore (+58.4% YoY). OPM likely to remain at 17.9% (-56bps YoY) leading to EBITDA growth of 53.6% YoY to ₹ 24 crore. PAT is expected to increase 63.5% YoY to ₹ 12 crore. <b>Key Monitorables:</b> Ramp up of Dahej organic chemical capacity and development of client addition in the CRAMS portfolio
Astec Lifescience	Better utilisation of herbicide plant should lead higher growth for the quarter. We expect revenues to grow 27.5% YoY to ₹ 164.1 crore. OPM is likely to decline 192 bps YoY to 17.3%, translating into EBITDA growth of 14.8% YoY to ₹ 28.3 crore. PAT is expected to remain at ₹ 14.4 crore (+10.7% YoY). <b>Key Monitorables:</b> Ramp up of herbicide plant utilisation and CRAMS performance

Segments	Revenue				
	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23E
CSM	807.0	993.0	1,076.0	1,114.2	969.4
Domestic agri input	387.0	361.0	280.0	281.0	421.5

Segments	Revenue				
	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23E
Specialty Chemical	133.0	122.0	152.0	159.0	167.0
CRAMS	67.0	82.0	60.0	88.0	96.8
Refrigerant	59.0	55.0	72.0	80.0	85.6
Inorganic Fluoride	56.0	65.0	83.0	71.0	63.9

Source: Company, ICICI Direct Research

**Exhibit 3: ICICI Direct Coverage Universe (Chemicals)**

Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2066	2,755	Buy	61,233	63.5	69.2	83.7	32.5	29.8	24.7	24.0	21.9	18.1	23.8	22.7	23.6	22.1	20.3	20.6
PI Industries	2729	3,155	Buy	41,403	55.5	64.4	78.9	49.2	42.4	34.6	35.0	29.4	23.8	16.3	17.2	18.4	13.8	13.9	14.7
Aarti Industries	712	860	Hold	25,812	21.7	24.4	30.7	32.8	29.2	23.2	22.6	18.9	15.4	12.0	12.6	13.6	13.3	13.2	14.4
Tata Chemical	825	1,155	Buy	21,009	47.5	63.6	73.0	17.4	13.0	11.3	12.4	9.1	6.8	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2018	2,320	Buy	20,745	33.7	40.1	51.5	59.8	50.3	39.2	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	474	520	Buy	23,679	8.5	10.2	11.5	55.9	46.7	41.1	35.9	30.1	26.0	30.2	28.6	26.7	22.0	21.3	19.9
Navin Fluorine	3763	4,040	Hold	18,648	52.3	67.4	89.8	72.0	55.8	41.9	54.4	38.9	28.4	17.8	19.4	20.3	14.0	15.8	18.0
Rallis India	196	235	Reduce	3,817	8.4	8.9	12.4	23.2	22.1	15.9	13.5	13.8	9.8	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	425	565	Buy	2,939	18.8	23.7	31.5	22.6	18.0	13.5	14.2	11.5	8.9	10.9	13.3	16.6	15.6	17.2	19.5
Neogen Chemicals	1348	1,870	Buy	3,362	17.9	30.1	37.4	75.3	44.8	36.0	43.5	30.0	24.3	12.0	15.7	17.1	10.2	14.8	15.7
Astec Lifesciences	1959	2,215	Buy	3,840	45.1	54.8	69.3	43.4	35.7	28.3	25.0	21.0	16.7	19.3	17.7	19.4	22.3	21.3	21.2

Source: ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)



## ANALYST CERTIFICATION

I/We, Siddhant Khandekar, Inter CA, Dhavan Shah, MS (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.