

October 12, 2022

Healthy performance expected to sustain...

In terms of topline growth outlook for Q2FY23E, we expect a healthier demand environment across end user industries to have led strong revenue growth for our coverage universe, amid better volumes and realisations growth. We expect our coverage universe companies to report topline growth of 31.6% YoY. Our coverage universe imports around ~25% of their overall RM requirements while exporting around ~35% to the overall revenue contribution. Since the rupee depreciated around 7% against US\$ in the first half of FY23, we expect most of the impact to be neutralised at the gross profit level. On the EBITDA front, we expect incremental cost absorption mainly on account of better realisation at most of the companies' front. We expect EBITDA margins of our coverage universe to increase by 321 bps YoY to 22%. Bottomline of our coverage universe may report growth of 49.5% YoY led by higher other income and lower tax outgo.

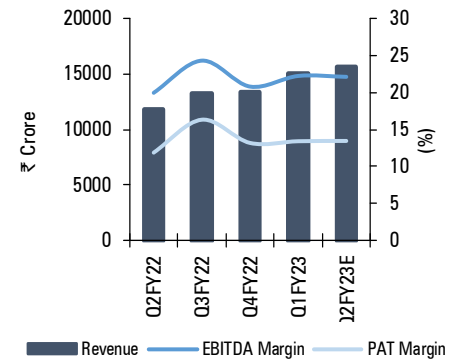
Topline likely to grow 31.6% YoY, led by both volumes, realisation

We have witnessed recovery in the 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 being into specialty chemicals and have large order backlog in place, should likely to sustain similar momentum as witnessed in last quarter. Another growth lever could be the impact of growth capex undertaken by most the players in the last few quarters. We expect our chemical universe companies could post topline growth of 31.6% YoY for Q2FY23E.

EBITDA to grow 46% YoY, with bottom-line at 49.5% YoY

Increase in the value added segment revenue from the basket of specialty chemical companies along with rise in the realization for selected companies can sustain operational performance. We expect our coverage universe companies to maintain healthy trend. Similarly, favourable operating leverage should also support margins. On the bottom-line front we expect 49.5% YoY growth to be driven largely by healthy EBITDA performance besides lower tax outgo and higher other income.

Topline & Profitability (Coverage Universe)



Top Picks

Sumitomo Chemicals
Neogen Chemicals
Astec Lifesciences

Research Analysts

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Dhavan Shah
Dhavan.shah@icicisecurities.com

Karan Khona
karan.khona@icicisecurities.com

Exhibit 1: Estimates for Q2FY23E

(₹ crore)

| Company | Revenue | | Change (%) | | EBITDA | | Change (%) | | PAT | | Change (%) | |
|--------------------|-----------------|-------------|------------|----------------|-------------|------------|----------------|-------------|------------|---------|------------|-----|
| | Q2FY23E | YoY | QoQ | Q2FY23E | YoY | QoQ | Q2FY23E | YoY | QoQ | Q2FY23E | YoY | QoQ |
| SRF | 3,858.2 | 35.9 | -0.9 | 1,006.9 | 49.2 | 1.2 | 628.6 | 64.4 | 3.4 | | | |
| PI Industries | 1,597.5 | 18.0 | 3.5 | 354.9 | 21.5 | 2.7 | 271.7 | 18.3 | 3.5 | | | |
| Aarti Industries | 1,856.1 | 19.6 | -5.9 | 361.9 | 16.8 | -2.0 | 183.1 | 4.0 | -3.1 | | | |
| Sumitomo Chemical | 1,186.6 | 30.3 | 20.4 | 270.9 | 26.2 | 44.4 | 196.6 | 27.5 | 42.4 | | | |
| Vinati Organics | 520.0 | 39.0 | 2.7 | 142.4 | 41.0 | 8.8 | 107.9 | 32.7 | 6.6 | | | |
| Tata Chemical | 4,133.0 | 36.7 | 3.5 | 948.0 | 89.3 | -6.6 | 483.0 | 130.8 | -11.3 | | | |
| Navin Fluorine | 472.0 | 39.3 | 18.7 | 123.9 | 47.2 | 25.0 | 92.1 | 45.7 | 30.8 | | | |
| Rallis India | 923.2 | 26.8 | 7.0 | 118.6 | 34.8 | 5.2 | 73.0 | 29.2 | 8.1 | | | |
| Sudarshan Chemical | 609.0 | 22.3 | 9.9 | 47.6 | -9.9 | 15.0 | 13.8 | -39.4 | 94.4 | | | |
| Neogen Chemicals | 167.0 | 47.6 | 12.9 | 30.1 | 46.6 | 21.9 | 15.3 | 37.0 | 37.8 | | | |
| Astec Life | 250.0 | 143.7 | 35.6 | 40.0 | 89.7 | 57.5 | 21.0 | 131.5 | 112.1 | | | |
| Total | 15,572.6 | 31.6 | 3.5 | 3,445.2 | 46.0 | 2.9 | 2,086.1 | 49.5 | 3.8 | | | |

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific view

| Company | Remarks |
|--------------------|--|
| SRF | Increase in delta of R-22 gas and better growth from speciality chemical is expected to lead overall growth. We expect topline to grow 37.1% YoY to ₹ 3858.2 crore. OPM likely to expand 232 bps YoY to 26.1% leading to EBITDA growth of 49.2% YoY to ₹ 1006.9 crore. PAT is expected to remain at ₹ 628.6 crore (+64.4% YoY). Key monitorable: Growth in speciality chemical segment and Technical Textile |
| 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 end industries. We expect topline to grow at 18% YoY to ₹ 1597.5 crore. OPM can likely expand 65 bps YoY to 22.2% resulting in EBITDA growth of 21.5% YoY to ₹ 354.9 crore. PAT is expected to grow 18.3% YoY to ₹ 271.7 crore. Key monitorable: Development of key molecules in pharma intermediates |
| Aarti Industries | Aarti Industries' Q2FY23 revenues are expected to grow 19.6% YoY to ₹ 1856.9 crore amid better growth from speciality chemical segment. Further, improvement in realisation should also support revenue growth during the quarter. OPM is likely to fall 47 bps YoY to 19.5% leading to EBITDA growth of 16.8% YoY to ₹ 361.9 crore. Net profit is expected at ₹ 183.1 crore (+4% YoY). Key Monitorables: 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 chemical. We expect revenues to grow at 30.3% YoY to ₹ 1186.6 crore. OPM should remain at 22.8%, leading to EBITDA growth of 26.2% YoY to ₹ 270.9 crore. PAT is expected to remain at ₹ 196.6 crore (+27.5% YoY). Key Monitorable: Gross margins, domestic business growth and inventory situation |
| Vinati Organics | Higher oil prices and thereby better demand outlook from ATBS are expected to have led growth for the last quarter. Further, better growth from butyl phenols can likely aid performance further. The revenue is expected to grow 39% YoY to ₹ 520 crore. OPM is likely to remain at 27.4% (+38 bps YoY) translating into EBITDA at ₹ 142.4 crore (up 41% YoY). PAT is expected to remain at ₹ 107.9 crore (up 32.7% YoY). Key Monitorables: Progress of Butyl phenol plant utilisation and IBB business performance |
| Tata Chemical | Since there has been a revival in construction activity across the globe, we expect flat glass demand to also have improved and thereby the demand for soda ash. We expect the 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 36.7% YoY to ₹ 4133 crore. OPM can likely remain at 22.9% (637 bps YoY) resulting in EBITDA growth of 89.3% YoY to ₹ 948 crore. PAT is expected to remain at ₹ 483 crore (up 130.8% YoY). Key Monitorable: Growth in the basic chemical across key geographies along with EBITDA/tonne |
| Navin Fluorine | We expect revenues to grow 39.3% YoY to ₹ 472 crore, largely led by growth in the HPP and refrigerants. Revenue from HPP is likely to be up 60% YoY to ₹ 192 crore while the same from refrigerant is expected to be up 48% YoY to ₹ 180 crore. OPM is likely at 26.3% (up 141 bps YoY), in turn, translating into EBITDA growth of 47.2% YoY to ₹ 123.9 crore. PAT is expected remain at ₹ 92.1 crore (up 45.7% YoY). Key Monitorable: Commission of Dahej plant & growth in HPP, 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 26.8% YoY to ₹ 923.2 crore. EBITDA & PAT are expected to remain at ₹ 118.6 crore (34.8% YoY) & ₹ 73 crore (29.2% YoY). Key Monitorable: Growth in the international business, inventory situation of Metribuzin and offtake of PEKK under CRAMS portfolio |
| Sudarshan chemical | Sudarshan Chemical's Q2FY23 revenues are likely to grow 22.3% YoY to ₹ 609 crore mainly due to volume and realisation growth. EBITDA margins likely to remain at 7.8% (-280bps YoY), leading to EBITDA fall 9.9% YoY to ₹ 47.6 crore. The subdued operational performance is on account of higher RMAT & other cost. Net profit is expected to decline 39.4% YoY to ₹ 13.8 crore. Key Monitorables 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 ₹ 167 crore (up 47.6% YoY). OPM is likely to remain at 18% (-12 bps YoY) leading to EBITDA growth of 46.6% YoY to ₹ 30.1 crore. PAT is expected to increase 37% YoY to ₹ 15.3 crore. Key Monitorables: Ramp up of Dahej organic chemical capacity and development of client addition in the CRAMS portfolio |
| Astec Lifescience | Better utilisation of herbicide plant should also lead higher growth for the quarter. We expect revenues to grow 143.7% YoY to ₹ 250 crore. OPM can likely decline 455 bps YoY to 16%, translating into EBITDA growth of 89.7% YoY to ₹ 40 crore. PAT is expected to remain at ₹ 21 crore (up 131.5% YoY). Key Monitorables: Ramp up of herbicide plant utilisation and CRAMS performance |

| Segments | Revenue | | | | |
|---------------------|---------|--------|---------|---------|---------|
| | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23E |
| CSM | 807.0 | 993.0 | 1,076.0 | 1,142.1 | 1,182.0 |
| Domestic agri input | 387.0 | 361.0 | 280.0 | 401.1 | 415.0 |

| Segments | Revenue | | | | |
|--------------------|---------|--------|--------|--------|---------|
| | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23E |
| Specialty Chemical | 122.0 | 152.0 | 159.0 | 176.0 | 180.0 |
| CRAMS | 82.0 | 60.0 | 88.0 | 59.0 | 100.0 |
| HPP | 120.0 | 155.0 | 151.0 | 152.0 | 192.0 |

Source: Company, ICICI Direct Research

Exhibit 3: ICICI Direct Coverage Universe (Chemicals)

| Company | CMP | | | M Cap (₹ Cr) | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | | RoE (%) | | |
|--------------------|------|-------|--------|-----------------|---------|-------|-------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|---------|-------|-------|
| | (₹) | TP(₹) | Rating | | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E |
| SRF | 2520 | 2,735 | Buy | 74,699 | 63.5 | 68.9 | 82.7 | 36.1 | 33.2 | 27.7 | 22.4 | 20.6 | 17.0 | 23.8 | 21.6 | 22.5 | 22.1 | 20.3 | 20.4 |
| PI Industries | 2987 | 3,710 | Buy | 45,324 | 55.5 | 67.2 | 82.4 | 57.6 | 47.6 | 38.8 | 40.8 | 34.2 | 27.8 | 16.3 | 17.1 | 18.2 | 13.8 | 14.5 | 15.2 |
| Aarti Industries | 768 | 885 | Hold | 27,822 | 36.1 | 25.1 | 31.6 | 22.7 | 32.7 | 25.9 | 24.0 | 19.6 | 16.0 | 12.0 | 13.0 | 13.9 | 13.3 | 13.5 | 14.8 |
| Tata Chemical | 1185 | 1,370 | Buy | 30,186 | 47.5 | 63.6 | 73.0 | 24.3 | 18.2 | 15.8 | 14.7 | 10.9 | 8.5 | 6.6 | 8.4 | 9.0 | 6.6 | 8.3 | 8.8 |
| Vinati Organics | 2016 | 2,320 | Hold | 20,717 | 33.7 | 40.1 | 51.5 | 56.0 | 47.1 | 36.7 | 44.7 | 37.0 | 28.3 | 24.3 | 23.2 | 23.9 | 19.0 | 19.1 | 20.5 |
| Sumitomo Chemical | 505 | 565 | Buy | 25,214 | 8.5 | 10.9 | 12.5 | 56.1 | 43.5 | 38.0 | 38.9 | 30.4 | 26.1 | 30.2 | 30.4 | 28.2 | 22.0 | 22.6 | 21.0 |
| Navin Fluorine | 4665 | 4,450 | Hold | 23,117 | 52.3 | 67.4 | 89.0 | 80.3 | 62.3 | 47.2 | 58.4 | 41.8 | 30.6 | 17.8 | 18.7 | 19.6 | 14.0 | 15.8 | 17.9 |
| Rallis India | 214 | 200 | Hold | 4,161 | 8.4 | 8.9 | 12.4 | 24.3 | 23.1 | 16.6 | 13.9 | 14.1 | 10.1 | 12.7 | 11.6 | 15.3 | 9.7 | 9.5 | 12.1 |
| Sudarshan chemical | 416 | 515 | Hold | 2,882 | 18.8 | 19.3 | 28.5 | 24.0 | 23.3 | 15.8 | 14.2 | 12.8 | 9.6 | 10.9 | 11.3 | 15.4 | 15.6 | 14.3 | 18.3 |
| Neogen Chemicals | 1513 | 1,645 | Buy | 3,773 | 17.9 | 27.2 | 32.9 | 79.5 | 52.2 | 43.2 | 41.8 | 30.2 | 25.0 | 12.0 | 15.0 | 16.2 | 10.2 | 13.6 | 14.3 |
| Astec Lifesciences | 1867 | 2,215 | Buy | 3,660 | 45.1 | 54.8 | 69.3 | 39.7 | 32.7 | 25.9 | 24.6 | 20.7 | 16.5 | 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

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

ANALYST CERTIFICATION

I/We, Siddhant Khandekar, Inter CA, Dhavan Shah, MS (Finance), Karan Khona, CA, 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.

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 icidirect.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.