Chemicals

January 10, 2023

Some cooling off imminent; growth to be case specific

For Q3FY23E, we anticipate a mixed picture for the I-Direct Chemicals universe on the back of a contrasting demand environment across end user industries. While agrochem, pharma and some specific specialty chemicals players are likely to maintain their growth tempo, we expect a slowdown among packaging, pigments, dyes and polymer players. Moreover, prices of crude oil came off by ~11% over the course of quarter, which, in turn, may soften the cost of chemicals. We expect our coverage universe companies to report topline growth of 9.2% YoY. On the EBITDA front, we expect higher coal prices and a muted business environment in Europe (acting against price hikes) to continue to weigh in the quarter. We expect EBITDA margins of our coverage universe to decline YoY to -4.1%. Bottomline for our coverage universe is expected to report de-growth of 11.8% YoY.

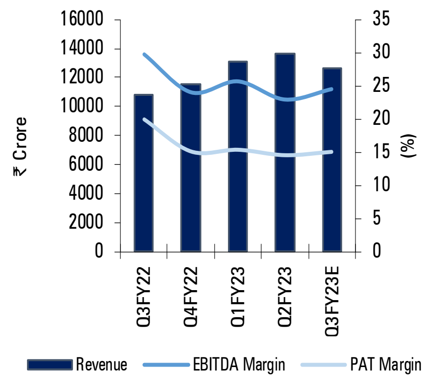
Topline growth likely at 9.2% YoY, to be led by fluorine, agrochem, other specialty players

The growth capex undertaken by most companies over the last few years will be the main lever for growth besides new forays. We expect strong traction to persist in fluorine chemistry, supported by high demand from the pharmaceuticals and agrochemicals industry. Also, a favourable Rabi season and better farmer income prospects is likely to aid the agrochemicals industry's revenue growth in Q3FY23. Companies dealing in specialty chemicals and having significant order backlog, should be able to maintain the momentum from the previous quarter. On the other hand, packaging films and pigments segments, among others, are likely to witness subdued demand from end user industries. We expect our chemical universe companies to post topline growth of 9.2% YoY for Q3FY23E.

EBITDA to de-grow 4.1% YoY with bottomline up 11.8% YoY

Escalation in coal prices is expected to negatively impact EBITDA margins of our universe companies. Additionally, it is challenging for businesses operating in European countries to pass on the increase in coal prices to their customers. On the bottomline front, we expect ~5% YoY de-growth, largely impacted by a muted EBITDA performance.

Topline & Profitability (Coverage Universe)



Top Picks

Neogen Chemicals
PI Industries
Sumitomo Chemicals

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Result Preview

ICICI Securities – Retail Equity Research

Exhibit 1: Estimates for Q2FY23E (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
SRF	3,453.0	3.2	-7.4	881.8	0.0	14.7	521.8	3.2	8.5
PI Industries	1,601.0	18.0	-9.5	377.3	27.3	-12.6	309.3	38.9	-7.6
Sumitomo Chemical	829.2	17.3	-26.1	190.0	50.2	-31.7	139.2	56.5	-30.9
Vinati Organics	530.1	43.7	-6.4	107.0	15.3	-27.9	74.5	-10.5	-35.8
Tata Chemical	4,069.0	29.5	-4.0	939.5	72.3	2.1	574.7	90.9	-0.3
Navin Fluorine	474.0	25.1	13.1	108.9	10.5	16.1	65.8	-4.3	21.6
Rallis India	715.0	13.8	-24.8	80.9	20.0	-31.2	34.3	-13.3	-51.8
Sudarshan Chemical	575.0	-4.4	8.8	60.4	-18.2	40.8	17.0	-53.3	277.8
Neogen Chemicals	179.0	35.0	20.9	31.9	34.0	31.3	17.3	65.4	74.7
Astec Life	194.0	11.9	-2.9	31.7	-26.0	-4.8	16.7	-32.5	-8.7
Total	**12,619.3**	**9.2**	**-7.1**	**2,809.4**	**-4.1**	**-1.4**	**1,770.6**	**-11.8**	**-4.6**

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific view

Company	Remarks
SRF	We expect revenue growth to be negatively impacted by the packaging segment. The textile segment is expected to remain muted while the specialty chemical segment is expected to perform well, similar to the previous quarter. Strong demand from agrochemical and pharmaceutical companies is likely to drive growth for specialty chemical business. We expect topline to grow at 3.2% YoY to ₹ 3453 crore. OPM is likely to decline 81 bps YoY to 25.5% leading to EBITDA of ₹ 881.8 crore. PAT is expected to remain at ₹ 521.8 crore (+3.2% YoY). **Key Monitorable**: Growth in speciality chemical segment
PI Industries	We expect PI industries to keep up the rapid development pace in H2FY23. Better growth from CSM should likely continue in this quarter as well on the back of a strong order backlog and decent demand from end industries. We expect topline to grow at 18% YoY to ₹ 1601crore. OPM is likely to expand 171 bps YoY to 23.6% resulting in EBITDA growth of 27.3% YoY to ₹ 377.3 crore. PAT is expected to grow 38.9% YoY to ₹ 309 crore. **Key Monitorable**: Strong CSM order book along with surge in new inquiries
Sumitomo Chemical	We expect decent Rabi season to provide impetus to topline growth, which is likely to overcome suspense over glyphosate usage (the government's restrictive order was set aside by the court). We expect revenues to grow 17.3% YoY to ₹ 829.2 crore. OPM should remain at 22.9%, leading to EBITDA growth of 50.2% YoY to ₹ 190 crore. PAT is expected to remain at ₹ 139.2 crore (+56.5% YoY). **Key Monitorable**: Gross margins, domestic business growth and inventory situation
Vinati Organics	Higher oil prices and thereby better demand outlook from ATBS is likely to drive growth. Further, better growth from butyl phenols can likely to aid performance further. The revenue is expected to grow at 43.7% YoY to ₹ 530.1 crore. OPM is likely to remain at 20.4% (-496 bps YoY) translating into EBITDA of ₹ 107 crore (+15.3% YoY). PAT is expected to remain at ₹ 74.5 crore (-10.5% YoY). **Key Monitorable** Progress of Butyl phenol plant utilisation and IBB business performance
Tata Chemical	Tighter global supply situation in soda ash and better volume and realisation growth is expected to keep the growth momentum intact for Tata Chemicals. Revenues are expected to grow 29.5% YoY to ₹ 4069crore. EBITDA margins are likely to improve 574 bps YoY to 23.1% resulting in EBITDA growth of 72.3% YoY to ₹ 939.5 crore. PAT is expected to remain at ₹ 574.7 crore (+90.9% YoY). **Key Monitorable**: Growth in the basic chemical and soda ash in particular across key geographies along with EBITDA/tonne
Navin Fluorine	We anticipate revenues will increase 25.1% YoY to ₹ 474 crore, with the growth in the HPP and CRAMS taking the lead. The revenue from HPP is likely to be up 42% YoY to ₹ 220 crore while the same from CRAMS is expected to be up 42% YoY to ₹ 85 crore. OPM is likely at 23% (-304 bps YoY), in turn, translating into EBITDA growth of 10.5% YoY to ₹ 108.9 crore. PAT is expected remain at ₹ 65.8 crore (-4.3% YoY). **Key Monitorable**: Sales of CRAMS and HPP to grow significantly while specialty chemical to grow higher moderately
Rallis India	Revenue growth is likely to be led by a decent Rabi season, new launches in the domestic market and decent growth in exports. We expect topline to increase 13.8% YoY to ₹ 715 crore. EBITDA & PAT are expected to remain at ₹ 80.9 crore (20% YoY) & ₹ 34.3 crore (-13.3% YoY). **Key Monitorable**: CRAMS portfolio, good Rabi season and focus on non-subsidised fertilisers and crop nutrients
Sudarshan Chemical	Subdued demand across geographies especially in Europe and pricing pressure in pigments is likely to weigh on performance. Revenues likely to de-grow 4.4% YoY to ₹ 575 crore. EBITDA margins are likely to remain at 10.5% (-177 bps YoY), leading to EBITDA fall 18.2% YoY to ₹ 60.4 crore. Net profit is expected to decline 53.3% YoY to ₹ 17 crore. **Key Monitorables**: Improvement in end users demand, ramping up of new products and product mix
Neogen Chemicals	Increase in customer base, expansion across lithium and battery chemicals and traction from agrochem and pharma is likely to drive revenue growth of 35% YoY to ₹ 179 crore. OPM is likely to remain at 17.8% (-13bps YoY) leading to EBITDA growth of 34% YoY to ₹ 31.9 crore. PAT is expected to increase 65.4% YoY to ₹ 17.3 crore. **Key Monitorables**: Ramp up of Dahej organic chemical capacity and development of client addition in the CRAMS portfolio
Astec Lifescience	We expect new products launches (CMO segment) to drive revenue growth. We expect revenues to grow 11.9% YoY to ₹ 194 crore. OPM, however, is likely to remain under pressure and expected to decline 838 bps YoY to 16.3%, translating into EBITDA de-growth of 26% YoY to ₹ 31.7 crore. PAT is expected to remain at ₹ 16.7 crore (-32.5% YoY). **Key Monitorables**: Ramp up of herbicide plant utilisation and CRAMS performance

Source: Company, ICICI Direct Research

Segments	Revenue				
	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23E
CSM	1,076.0	1,114.2	1,142.1	1,278.3	1,291.0
Domestic agri input	280.0	281.0	401.1	491.7	310.0

Segments	Revenue				
	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23E
Specialty Chemical	152.0	159.0	176.0	177.0	169.0
CRAMS	60.0	88.0	59.0	39.0	85.0
HPP	155.0	151.0	152.0	211.0	220.0

Exhibit 3: ICICI Direct Coverage Universe (Chemicals)

Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
SRF	2237	2,735	Buy	66,324	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	3333	3,710	Buy	50,572	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
Tata Chemical	960	1,370	Buy	24,451	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	2032	2,320	Hold	20,890	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	485	565	Buy	24,216	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	3963	4,450	Hold	19,635	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	242	200	Hold	4,708	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	379	515	Hold	2,621	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	1245	1,645	Buy	3,109	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	1710	2,215	Buy	3,356	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

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Sell: <-15%

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