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## Specialty chemicals, CRAMs to drive growth, lower crude to drive EBITDA...

We expect a mixed picture for the I-direct Chemicals sector in Q4FY23E as a result of divergent demand conditions across end user sectors. 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, crude oil prices came off by ~9% QoQ 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 11.5% YoY. We expect absolute EBITDA of our coverage universe to grow YoY to 12.7%. Bottomline for our coverage universe is expected to report growth of 4.2% YoY.

### Topline growth likely at 11.5% YoY, to be led by fluorine, CRAMs, 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 industries. 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, along with agrochemicals witnessing the seasonality trend in domestic market are likely to witness muted demand from end user industries. We expect our chemical universe companies to post topline growth of 11.5% YoY for Q4FY23E.

### EBITDA margins to remain strong at 22%

Softening of crude oil prices during the quarter besides lower logistical and freight costs is expected to grow EBITDA margins of our universe companies. The expected higher growth vis-à-vis revenues is also expected to be driven by higher growth from segments like fluorine and CRAMs, which normally fetch higher margins. Another margin contributor could be better operating leverage as significant capex (especially by fluorine players) undertaken a few quarters back is now coming to the fore. We expect our coverage universe EBITDA margins to grow ~350 bps to 22%, leading to EBITDA growth of 12.7% YoY.

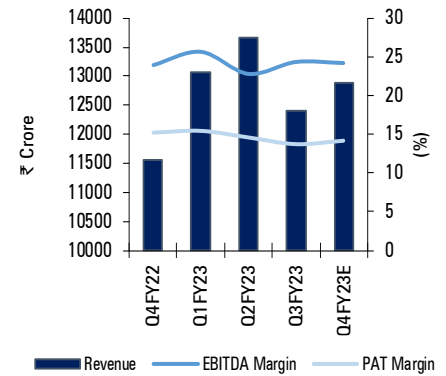
### Adjusted PAT to grow ~4.2% YoY

PAT for the universe is likely to grow ~4% YoY to ₹ 1694.6 crore. Lower growth vis-à-vis EBITDA is attributable to higher depreciation and taxation.

Company	Revenue			EBITDA			PAT		
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
SRF	3,650.6	2.9	8.3	943.7	-0.5	13.2	574.7	-5.1	12.5
PI Industries	1,698.6	21.7	5.3	439.3	44.0	5.8	358.9	75.6	2.0
Sumitomo Chemical	693.6	4.3	-8.0	106.9	-1.9	-11.2	80.0	7.2	-11.6
Vinati Organics	523.9	7.8	3.0	147.9	6.6	-9.7	113.8	12.6	-11.1
Tata Chemical	4,259.0	22.4	2.7	878.5	33.6	-4.7	396.8	-2.7	13.5
Navin Fluorine	607.9	48.7	7.9	172.5	83.0	10.9	117.5	56.3	10.2
Rallis India	541.1	6.6	-14.2	44.6	-1,670.4	-16.3	15.0	-206.0	-33.3
Sudarshan Chemical	587.5	-6.3	12.9	62.9	-26.9	51.2	17.2	-61.5	2,766.7
Neogen Chemicals	194.4	24.0	4.3	32.4	21.7	7.6	16.3	4.4	10.1
Astec Life	123.6	-54.6	5.5	16.3	-75.1	34.7	4.4	-89.4	450.0
<b>Total</b>	<b>12,880.2</b>	<b>11.5</b>	<b>3.8</b>	<b>2,845.0</b>	<b>12.7</b>	<b>3.2</b>	<b>1,694.6</b>	<b>4.2</b>	<b>7.0</b>

Source: Company, ICICI Direct Research

#### Top-line & Profitability (Coverage Universe)



#### Top Picks

Navin Fluorine  
PI Industries  
Tata Chemicals

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**Exhibit 2: Company Specific view**

Company	Remarks
SRF	We expect topline to grow 2.9% YoY to ₹ 3650.3 crore to be driven by specialty chemicals, which are expected to grow ~21% on the back of strong demand for fluorochemicals. EBITDA margin is likely to decline 86 bps YoY to 25.9% leading to EBITDA of ₹ 943.7 crore. PAT is expected to remain at ₹ 574.7 crore (-5.1% YoY). <b>Key Monitorable:</b> Growth in speciality chemical segment and increase in prices of refrigerant gases
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-user industries. We expect topline to grow at 21.7% YoY to ₹ 1698.6 crore. EBITDA margin is likely to expand 400 bps YoY to 25.9% resulting in EBITDA growth of 44% YoY to ₹ 439.3 crore. PAT should grow 75.6% YoY to ₹ 358.9 crore. <b>Key Monitorable:</b> Strong CSM order book along with surge in new enquiries
Sumitomo Chemical	We expect growing demand in international market will aid to export growth. However, seasonality factor will turn out in the domestic market. We expect revenues to grow 4.3% YoY to ₹ 693.6 crore. EBITDA margin should remain at 15.4%, leading to EBITDA de-growth of 1.9% YoY to ₹ 106.9 crore. PAT is expected to remain at ₹ 80 crore (+7.2% YoY). <b>Key Monitorable:</b> Gross margins, domestic business growth and inventory situation
Vinati Organics	Decline in crude oil by 18% YoY and 9% QoQ may have negative implications for ATBS pricing. We expect growth to be largely volume driven. Revenues are expected to grow 7.8% YoY to ₹ 523.9 crore. EBITDA margin is likely to remain at 28.2% (-32 bps YoY) translating to EBITDA of ₹ 147.9 crore (+6.6% YoY). PAT is expected to remain at ₹ 113.8 crore (12.6% YoY). <b>Key Monitorables:</b> Progress of Butyl phenol plant utilisation and IBB business performance
Tata Chemical	We expect demand for soda ash to be resilient in Q4FY23. Comparing Q4FY23 to the prior quarter, we anticipate decent sales volumes, especially in India, which faced winter related slowdown. Since there has been a revival in a construction activity across the globe, we expect flat glass demand to also have been improved and thereby the demand for soda ash. Revenues are expected to grow 22.4% YoY to ₹ 4259 crore. EBITDA margin is likely to remain at 20.6% (174 bps YoY) resulting into EBITDA growth of 33.6% YoY to ₹ 878.5 crore. PAT is expected to remain at ₹ 396.8 crore (-2.7% YoY). <b>Key Monitorable:</b> Growth in volume as well as soda ash prices
Navin Fluorine	We anticipate revenues to increase by 48.1% YoY to ₹ 607.9 crore, with growth in HPP and CRAMS taking the lead. The revenue from HPP is likely to up by 78% YoY to ₹ 278.3 crore, while the same from CRAMS to grow by 42% YoY to ₹ 125 crore. EBITDA margin is likely at 28.4% (533bps YoY), in turn, translating into EBITDA growth of 83% YoY to ₹ 172.5 crore. PAT is expected to remain at ₹ 117.5 crore (65.7% YoY). <b>Key Monitorable:</b> Increase in prices of refrigerant gases and HPP to grow significantly while specialty chemical to grow up moderately
Rallis India	We expect new products to aid domestic topline growth, which is expected to increase by 6.6% YoY to ₹ 541.1 crore. EBITDA and PAT are expected to remain at ₹ 44.6 crore & ₹ 15 crore. <b>Key Monitorable:</b> CRAMS portfolio and volume growth in newly launched products
Sudarshan Chemical	Revenues are likely to de-grow 6.3% YoY to ₹ 587.5 crore as the slowdown in pigments, dyes and polymers is expected to persist especially in Europe. EBITDA margins are likely to remain at 10.7% (-302 bps YoY), leading to EBITDA decline of 26.9% YoY to ₹ 62.9 crore. Net profit is expected to decline 61.5% YoY to ₹ 17.2 crore. <b>Key Monitorables:</b> Improvement in end users demand, ramping up of new products and product mix
Neogen Chemicals	Revenues are expected to grow ~24% to ₹ 194 crore to be driven by ~41% growth in organic chemicals. EBITDA margin is likely to remain at 16.7% (-31 bps YoY) leading to EBITDA growth of 21.7% YoY to ₹ 32.4 crore. PAT is expected to increase 4.4% YoY to ₹ 16.3 crore. <b>Key Monitorables:</b> Demand from agrochemical industry to remain strong
Astec Lifescience	We expect revenues to de-grow by 54.6% YoY to ₹ 123.6 crore due to lower Trizole offtake, globally as well as in India. EBITDAM is likely to decline 1088bps YoY to 13.2%, translating into EBITDA degrowth of 75.1% YoY to ₹ 16.3 crore. PAT is expected to remain at ₹ 4.4 crore (-89.4% YoY). <b>Key Monitorables:</b> Ramp up of herbicide plant utilisation and CRAMS performance

Segments	Revenue				
	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23E
Specialty Chemical	1,572.5	1,722.4	1,830.2	1,756.6	1,897.1
Technical Textile	496.7	571.0	466.2	425.9	438.7
Packaging Segments	1,390.2	1,496.0	1,331.0	1,202.7	1,214.7
Others	93.4	105.6	100.4	92.3	100.0

Segments	Revenue				
	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23E
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				
	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23E
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

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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2439	2,550	Buy	72,305	63.5	58.3	73.6	34.4	37.4	29.7	21.3	22.4	17.9	23.8	18.9	21.0	22.1	17.7	19.0
PI Industries	3030	3,615	Buy	45,971	55.5	76.9	91.8	56.1	40.5	33.9	39.7	31.1	25.3	16.3	18.8	19.5	13.8	16.2	16.3
Tata Chemical	1026	1,170	Buy	26,138	93.0	97.3	110.6	10.4	9.9	8.7	6.6	5.5	5.4	11.8	11.3	11.7	11.6	11.0	11.2
Vinati Organics	2027	2,055	Hold	20,829	33.7	41.6	48.0	56.0	45.4	39.4	44.7	35.6	30.3	24.3	23.9	22.4	19.0	19.7	19.2
Sumitomo Chemical	425	525	Buy	21,236	8.5	10.8	12.4	51.6	40.5	35.2	35.7	28.4	24.2	30.2	30.1	28.1	22.0	22.4	20.9
Navin Fluorine	4526	4,285	Hold	22,438	52.3	65.7	86.0	79.6	63.4	48.4	57.9	42.3	31.2	17.8	18.3	19.1	14.0	15.5	17.4
Rallis India	206	223	Hold	4,000	8.4	8.7	11.8	26.5	25.7	18.9	15.2	15.5	11.4	12.7	11.4	14.7	9.7	9.4	11.6
Sudarshan chemical	417	370	Hold	2,885	18.8	4.4	18.1	19.2	81.8	19.9	11.9	16.9	9.7	10.9	4.7	12.3	15.6	3.6	13.2
Neogen Chemicals	1605	1,535	Buy	4,003	17.9	28.2	35.2	72.4	45.9	36.8	38.1	26.9	21.5	12.0	15.4	14.8	10.2	14.0	15.0
Astec Lifesciences	1356	1,307	Reduce	2,659	45.1	27.5	39.9	30.8	50.4	34.8	19.4	26.8	19.7	19.3	10.1	12.6	22.3	12.0	14.8

Source: ICICI Direct Research

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Reduce: -5% to -15%;

Sell: <-15%



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