

Chemicals and Fertilisers

4QFY17E Results Preview

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4QFY17E: Muted growth

- The sowing of Rabi crops touched a record high, despite demonetisation. The area sowed touched ~65mn hectares (+6% YoY), led by wheat (+7%), pulses (+11%) and oilseeds (+6%). However, the failure of the North-East monsoons in the country in the last two years has resulted in a drought-like situation in parts of Tamil Nadu, Karnataka, AP and Telangana.
- **Agrochemicals:** Despite record sowing during the Rabi season, we expect volume growth to be muted for agrochemical players, led by weak demand in markets in South India, and partly owing to the impact of demonetisation.
- **Fertilisers:** Volumes will remain muted, owing to higher channel inventory and poor North-East monsoons in South India. However, the situation for the fertiliser industry will start improving in FY17-18, owing to a reduction in prior-period subsidy, which will lead to lower working capital debt, hence lower interest outflow.
- **Eye on monsoons:** Early predictions of different weather forecasting agencies suggest an occurrence of El Nino, which may lead to rainfall being below normal from Jun-17 to Sep-17. An adequate monsoon is a key determiner for agriculture, so the Agri-inputs sector will closely monitor it.
- However, we believe that poor monsoons should be looked upon as a buying opportunity in the Agrochemical sector, which has multiple structural drivers. In the long term, better farm income, improved irrigation facilities, new product launches, lower penetration and greater outsourcing will drive growth. Exports/CSM are also likely to pick up, with an improvement in global agri-commodity prices.

Crop Sowing Area (In Mn Hectare As Of Feb 03, 2017)

Crop	Rabi-17	Rabi-16	% change
Wheat	31.8	29.7	6.9
Rice	2.6	2.9	(11.8)
Pulses	16.0	14.4	11.1
Coarse Cereals	5.8	6.1	(5.7)
Oilseeds	8.4	7.9	6.1
Total	64.5	61.0	5.7

Source: Ministry of Agriculture, HDFC sec Inst Research

Specialty chemicals:

- **Navin Fluorine:** The company will witness revenue growth driven by inorganic segment. EBITDA margin is expected to remain strong, owing to a better product mix and higher volumes. We remain positive on Navin Fluorine, however, the stock has run well ahead of fundamentals. **We downgrade the stock to NEUTRAL.**
- **SRF:** The growth in Specialty chemicals is likely to remain muted, while Technical Textiles and Packaging should remain strong.
- **Vinati Organics:** New launches in FY17 should lead to higher revenue growth. Margins will be strong, owing to a better product mix and higher volumes.

4QFY17E: Muted growth

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
AGROCHEMICALS			
UPL	AVERAGE	<ul style="list-style-type: none"> Revenue growth of ~12%, mainly led by LatAm Will benefit from down trading 	<ul style="list-style-type: none"> Outlook on global agri environment Commentary on cross-currency impact Outlook on new product launches
PI Industries	AVERAGE	<ul style="list-style-type: none"> We expect a growth of ~8% in both the domestic and CSM segments EBITDA margin should be strong at 18.3% 	<ul style="list-style-type: none"> Guidance for the custom synthesis business Outlook on new product launches Likely impact on Nominee Gold revenues in FY18
Rallis India	AVERAGE	<ul style="list-style-type: none"> We expect a volume growth of ~8%. There should be a pick up in revenues of the export business APAT will be flat on a YoY basis 	<ul style="list-style-type: none"> Outlook on new product launches Outlook on export revenue Progress on the CSM business
Dhanuka Agritech	AVERAGE	<ul style="list-style-type: none"> Revenue growth should be ~10% EBITDA margins should remain strong at ~18%, led by a better product mix 	<ul style="list-style-type: none"> Outlook on new product launches
Insecticides India	AVERAGE	<ul style="list-style-type: none"> We expect revenues to grow by ~8%, led by volume growth PAT growth will be strong YoY, led by a lower base impact 	<ul style="list-style-type: none"> Outlook on new product launches Progress related to discovery of new technicals

4QFY17E: Muted growth

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
FERTILISERS			
Coromandel International	AVERAGE	<ul style="list-style-type: none"> ▪ We expect a decline in volumes of complex fertilisers by ~10% YoY (~0.72 mnT), owing to a weak North –East monsoon in southern India ▪ Muted performance of domestic agrochemicals 	<ul style="list-style-type: none"> ▪ Manufacturing vs. trading margins trend in complex fertilisers ▪ Outlook on channel inventory ▪ Subsidy receivables situation
Chambal Fertilisers	AVERAGE	<ul style="list-style-type: none"> ▪ We expect urea volumes to decline to 0.47 mnT, owing to a shutdown of the plant ▪ Traded complex volumes ~0.1mnT 	<ul style="list-style-type: none"> ▪ Outlook on channel inventory ▪ Status of hiving off the software and shipping businesses ▪ Subsidy receivables situation
CHEMICALS			
SRF	AVERAGE	<ul style="list-style-type: none"> ▪ We expect muted growth in chemicals' revenues ▪ Technical segment to report strong growth 	<ul style="list-style-type: none"> ▪ Outlook on specialty chemicals growth ▪ Guidance on R134a capacity utilisation ▪ Outlook on packaging margins
Vinati Organics	GOOD	<ul style="list-style-type: none"> ▪ Revenue will grow at ~21% YoY, led by the launch of new products in FY17 ▪ The EBITDA margin should expand, increased contributions from higher margin products 	<ul style="list-style-type: none"> ▪ Update on new capex planned for PAP and Butyl Phenol ▪ Outlook on ATBS and incremental IB capacity
Navin Fluorine	AVERAGE	<ul style="list-style-type: none"> ▪ Strong growth in revenues, driven by inorganic segments ▪ Growth in CSM will be muted on a large base 	<ul style="list-style-type: none"> ▪ Status, capacity utilisation at Dewas facility ▪ Progress of JV with Piramal Enterprise ▪ Outlook on R22 prices

4QFY17E: Financial Summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	4Q FY 17E	QoQ (%)	YoY (%)	4Q FY 17E	QoQ (%)	YoY (%)	4Q FY 17E	QoQ (bps)	YoY (bps)	4Q FY 17E	QoQ (%)	YoY (%)	4Q FY 17E	3Q FY 17	4Q FY 16
AGROCHEMICALS															
UPL	48.6	24.0	12.0	11.1	48.4	13.5	22.9	377	30	6.6	44.7	15.0	13.1	9.0	11.4
PI Industries	6.3	28.3	7.0	1.2	15.2	12.1	19.0	(216)	86	1.0	2.4	2.2	7.0	6.9	6.9
Rallis India	3.8	13.5	8.0	0.5	14.6	15.9	12.9	13	88	0.3	26.0	(0.6)	1.6	1.3	1.7
Dhanuka Agritech	1.9	(8.6)	9.6	0.3	(10.0)	16.0	18.3	(28)	101	0.3	5.0	10.6	5.7	5.4	5.2
Insecticides India	1.9	20.9	8.0	0.1	(43.3)	12.1	4.7	(537)	17	0.01	(77.7)	149.8	0.6	2.6	0.2
FERTILISERS															
Coromandel Int	27.7	24.0	(8.0)	2.1	(13.1)	3.1	7.4	(317)	80	1.0	(9.4)	9.7	3.5	3.8	3.2
Chambal Fertilisers	14.4	(40.9)	(10.0)	1.2	(50.9)	(2.9)	8.4	(168)	61	0.5	(63.5)	4.2	1.1	3.1	1.1
CHEMICALS															
SRF	11.3	0.0	1.7	2.3	(2.8)	0.9	19.9	(57)	(15)	1.1	2.4	(1.5)	18.7	18.2	18.9
Vinati Organics	1.9	13.6	21.0	0.6	18.6	24.0	33.7	141	83	0.4	35.2	12.1	8.5	6.3	7.6
Navin Fluorine	2.0	30.5	5.9	0.4	44.1	22.1	21.8	206	289	0.3	69.8	11.0	35.7	21.0	32.2
Aggregate Chem	119.7	6.7	2.4	19.8	13.5	10.1	16.6	100	116	11.5	14.5	10.4			

Source : Company, HDFC sec Inst Research

Peer Valuation

COMPANY	Mcap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)			P/E (x)			P/BV (x)			RoE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
AGROCHEMICALS																
UPL	373.1	736	NEU	747	30.0	37.6	43.7	24.5	19.6	16.9	4.6	3.9	3.3	20.6	21.7	21.2
PI Industries	114.8	837	BUY	951	31.6	32.1	37.9	26.5	26.1	22.1	7.5	6.1	5.0	32.1	25.8	24.7
Rallis India	49.2	253	BUY	282	9.6	11.7	14.1	26.2	21.7	17.9	4.4	3.9	3.4	18.5	19.0	20.4
Dhanuka Agritech	40.0	816	BUY	881	25.3	31.9	40.1	32.2	25.6	20.4	8.2	6.7	5.5	25.7	29.0	29.8
Insecticides India	11.4	550	BUY	670	26.5	33.2	41.9	20.7	16.6	13.1	2.5	2.2	1.9	12.6	14.0	15.4
FERTILISERS																
Coromandel Int	100.4	345	BUY	385	14.8	20.3	25.7	23.3	16.9	13.4	3.7	3.3	2.8	16.8	20.6	22.6
Chambal Fertilisers	35.5	85	BUY	100	9.7	9.8	10.0	8.8	8.7	8.5	1.3	1.2	1.1	15.9	14.4	13.2
CHEMICALS																
SRF Ltd	94.6	1,647	NEU	1,663	85.0	93.8	110.9	19.4	17.5	14.9	3.1	2.7	2.4	17.1	16.5	17.1
Vinati Organics	51.6	740	BUY	848	26.1	33.9	38.6	28.4	21.8	19.2	5.9	4.9	4.0	22.7	24.5	23.0
Navin Fluorine	30.7	3,136	NEU	3,319	118.0	142.1	165.9	26.6	22.1	18.9	4.1	3.6	3.2	16.6	17.5	18.0

Source : Company, HDFC sec Inst Research

INSTITUTIONAL RESEARCH

Rating Definitions

BUY	: Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL	: Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
SELL	: Where the stock is expected to deliver less than (-) 10% returns over the next 12 month period

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