

Chemicals

The dark horse

- Given the B2B nature of their business, the coronavirus outbreak has had a limited impact on the earnings of chemical companies in our coverage universe. However, owing to logistical challenges for man/materials, plant shutdowns, shortage of manpower and plunge in demand in FY21, we have cut our earnings estimates by 10-39%.
- Chemical companies are directly/indirectly cater to essential sectors such as pharma, agrochemicals, foods, edible oils. Despite having obtained the permission to resume manufacturing in Q1FY21, lack of demand and logistics challenges, particularly supply of finished goods (within India and internationally), force these companies to either keep their plants under shut down or operate at lower utilization.
- Most of these chemical companies have piled up inventory over the period of the lockdown that can be used to fulfil demand post the lockdown. This is because management fear that the labor will visit their families as soon as the lockdown is lifted, which would adversely impact operations. They are also of the view that lockdowns in Europe and US will be extended, thus impacting exports in FY21.
- Alkyl Amines (AACL) and Balaji Amines (BLA):** Revenues were affected given (1) Fall in Acetonitrile prices in first half of Q4FY20, (2) Lower sales volumes due to the lockdown. Non-pharma demand declined due to the plant shutdown. Moreover, companies faced logistics issues in product supply.
- Galaxy Surfactants (GSL):** We expect a blended volume de-growth of 10/ 5% YoY/QoQ owing to 15/12.5% lower vols in specialty care segment while the decline was merely 8/1% YoY/QoQ in performance surfactants vols. Non-availability of containers accounted for lower Specialty care vols, despite strong demand. Domestic demand spiked with the outbreak of Covid-19 but restricted movement of trucks capped Performance surfactants sales vols.
- Disruption in supply chain will impact **GSL's** Q1FY21 vols as well. Global outbreak of the virus will spur demand for hygiene products, particularly in Europe and US, triggering higher consumption of personal care products such as hand wash. Hence, we expect a sharp pick up in vols in 2HFY21 and FY22.
- Vinati organics (VO):** Q4 Earnings were impacted as (1) ~70% of revenue are from exports, especially ATBS, (2) Demand of ATBS by the Oil and Gas industry falls as oil prices fall. The industry forms 25-30% of the global ATBS demand. Thus, we cut VO's earnings for FY21/22E by 15/22%. Our TP falls to Rs 825, giving downside of 7% on CMP. Downgrade to SELL from ADD.
- Navin Fluorine (NFIL):** CRAMS revenues are expected to fall YoY/QoQ led by a lower offtake. Inorganic and refrigerant gases segments are expected to remain muted YoY while speciality chemicals should demonstrate strong growth YoY. Exports (particularly to, Europe and US) form ~45% of NFIL's revenue. As both these regions are severely hit by coronavirus, short-term earnings will be muted. Refrigerant gases will continue to be affected by slowdown in the automotive segment. But NFIL is focusing to expand its exposure towards pharma/agrochemicals through high margin, contract manufacturing. This will supports its margins and earnings in near term

COMPANY	RATING	TP (Rs.)
Vinati Organics	SELL	825
Navin Fluorine	ADD	1,628
Galaxy Surfactants	BUY	1,889
Alkyl Amines	BUY	2,300
Balaji Amines	BUY	555

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Financial Summary: 4QFY20E

Y/E March (Rs bn)	Net Sales (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			Adj. PAT (Rs bn)		
	Mar-20	YoY (%)	QoQ (%)	Mar-20	YoY (%)	QoQ (%)	Mar-20	YoY (pp)	QoQ (pp)	Mar-20	YoY (%)	QoQ (%)
VO	2.13	(10.8)	(28.3)	0.69	(17.1)	(42.5)	32.3	(245.0)	(803.3)	0.54	(19.4)	(34.7)
NFIL	2.68	6.5	9.7	0.57	(13.1)	8.4	21.1	(478.4)	(25.4)	0.35	(14.7)	9.9
GSL	5.90	(5.7)	(13.5)	0.78	(4.5)	(17.7)	13.3	16.9	(67.8)	0.45	(6.6)	(21.5)
AACL	2.17	(15.4)	(8.5)	0.44	(39.3)	14.8	20.3	(798.0)	410.6	0.26	(14.2)	50.8
BLA	2.11	(4.7)	(10.0)	0.38	(12.2)	(19.3)	18.1	(154.6)	(208.9)	0.23	(13.4)	(14.2)
Aggregate Chemicals	15.00	(6.0)	(11.5)	2.86	(17.4)	(18.9)	19.1	(264.2)	(174.3)	1.83	(14.1)	(15.1)

Source: Company, HSIE Research

Valuation Summary

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	EPS (Rs/sh)			P/E (x)			P/BV (x)			ROE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Vinati Organics	98.88	962	SELL	825	28.3	30.2	33.0	34.0	31.8	29.1	7.4	6.1	5.1	24.4	21.1	19.1
Navin Fluorine	79.15	1604	ADD	1,628	36.0	45.5	62.6	44.5	35.3	25.6	6.6	5.9	5.0	15.7	17.6	21.2
Galaxy Surfactants	50.73	1,431	BUY	1,889	53.6	44.0	85.9	26.7	32.6	16.7	4.9	4.3	3.6	19.9	14.1	23.5
Alkyl Amines	38.19	1871	BUY	2,300	80.6	73.0	104.1	23.2	25.6	18.0	7.8	6.3	5.0	38.5	27.3	31.2
Balaji Amines	14.61	451	BUY	555	47.2	33.2	42.7	9.6	13.6	10.6	2.0	1.8	1.5	20.9	13.0	14.5

Source: Company, HSIE Research

4QFY20E: Company wise Result Expectations

COMPANY	4QFY20E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Vinati Organics	AVERAGE	<ul style="list-style-type: none"> We expect 4QFY20 Sales/EBITDA/PAT to fall by 28.3/42.5/34.7% to Rs 2bn/688mn/539mn on the back of lower volume offtake 	<ul style="list-style-type: none"> Traction in ATBS/IBB market
Navin Fluorine	GOOD	<ul style="list-style-type: none"> NFIL is expected to report Sales/EBITDA/PAT of Rs 2.68bn/566mn/351mn, a jump of 9.7/8.4/9.9% YoY led by healthy vols in specialty chemicals We expect EBITDA margin of 21.1%, down 25/478bps YoY/QoQ 	<ul style="list-style-type: none"> Ramp up of new cGMP CRAMS facility in Dewas
Galaxy Surfactants	GOOD	<ul style="list-style-type: none"> The company should report Sales/EBITDA/PAT of Rs 5.90bn/784mn/448mn, -13.5/-17.7/-21.5% YoY, -5.7/-4.5/-6.6% QoQ We expect per thousand ton EBITDA to decline by 8.1% YoY to Rs 15.2 (flat QoQ) 	<ul style="list-style-type: none"> Pick up in blended volume growth in 2HFY21
Alkyl Amines	GOOD	<ul style="list-style-type: none"> AACL's Sales/EBITDA/PAT should come at Rs 2.17bn/Rs 440mn/Rs 265mn, -8.5/+14.8/+50.8% YoY We expect EBITDA margins of 20.3% in Q4, up 411bps YoY owing to lower raw material prices and better pricing power 	<ul style="list-style-type: none"> Acetonitrile prices and volume traction Expansion in Methyl Amines capacity, originally scheduled for 1HFY21
Balaji Amines	GOOD	<ul style="list-style-type: none"> Balaji Amines is expected to witness weak EBITDA margins of 18.1%, down 209/155bps YoY/QoQ BLA is set to report Sales/EBITDA/PAT of Rs 2.1bn/Rs 382mn/Rs 232mn respectively, -10.0/-19.3/-14.2% YoY 	<ul style="list-style-type: none"> Ramp in production of BLA's 55% subsidiary, Balaji Specialty Chemicals Execution of Mega status project which was expected to come on-stream by FY21

Estimates & Target Price revisions

- Vinati Organics:** We trim total vol estimates for FY20/21/22E by ~6/12/13% resp, owing to sharp vol loss during Mar/Apr 2020 and slower ramp-up expected thereafter, particularly for exports. Subsequently, we trim EBITDA estimates by 9/16/23% respectively. We continue to value VO at 25x Mar-22 EPS leading to a TP of Rs 825. Downgrade to SELL from ADD.

Vinati Organics Standalone	FY20E			FY21E			FY22E		
	Old	Revised	% Chg	Old	Revised	% Chg	Old	Revised	% Chg
ATBS vol sold (MT)	28,646	26,042	(9.1)	32,943	27,344	(17.0)	36,896	30,078	(18.5)
IB vol sold (MT)	15,900	15,197	(4.4)	17,142	15,630	(8.8)	18,292	16,451	(10.1)
IBB vol sold (MT)	15,768	15,392	(2.4)	16,398	15,700	(4.3)	17,054	16,014	(6.1)
Revenues (Rs mn)	11,045	9,870	(10.6)	13,287	10,423	(21.6)	15,543	12,430	(20.0)
EBITDA (Rs mn)	4,069	3,718	(8.6)	4,797	4,052	(15.5)	5,690	4,400	(22.7)
Core PAT (Rs mn)	3,178	2,908	(8.5)	3,674	3,108	(15.4)	4,368	3,393	(22.3)
EPS (Rs/sh)	31	28	(8.5)	36	30	(15.4)	42	33	(22.3)
Target price (Rs/sh)	1,062	825	(22.3)						

- Navin Fluorine:** We lower our revenue growth estimates by 1-13% across segments in FY20/21/22E, owing to sharp decline in demand during Mar/Apr 2020 and slower ramp-up expected thereafter. Subsequently, we change EBITDA estimates by -6/-3/+6% respectively. We value NFIL on 26x Mar-22 EPS leading to a TP of Rs 1,628. Maintain ADD.

Navin Fluorine Consolidated	FY20E			FY21E			FY22E		
	Old	Revised	% Chg	Old	Revised	% Chg	Old	Revised	% Chg
Revenue: Refrigerant gas (Rs mn)	2786	2758	(1.0)	2,744	2,717	(1.0)	2,703	2,689	(0.5)
Growth (%)	-0.5	(1.5)		(1.5)			(1.5)	(1.0)	
Revenue: Inorganic Fluorides (Rs mn)	2,088	2,088	-	2,339	2,297	(1.8)	2,760	2,756	(0.1)
Growth (%)	6.0	6.0		12.0	10.0		18.0	20.0	
Revenue: Specialty Chemicals (Rs mn)	3720	3840	3.2	4,390	4,416	0.6	5,268	5,608	6.5
Growth (%)	24.0	28.0		18.0	15.0		20.0	27.0	
Revenue: CRAMS (Rs mn)	1,798	1,566	(12.9)	2,517	2,271	(9.8)	3,524	3,520	(0.1)
Growth (%)	1.0	(12.0)		40.0	45.0		40.0	55.0	
Net Sales (Rs mn)	10,862	10,723	(1.3)	12,554	12,265	(2.3)	14,931	15,252	2.1
EBITDA (Rs mn)	2,688	2,539	(5.6)	3,439	3,337	(3.0)	4,479	4,739	5.8
Net PAT (Rs mn)	1,845	1,781	(3.5)	2,316	2,249	(2.9)	2,925	3,097	5.9
EPS (Rs/sh)	37.3	36.0	(3.5)	46.8	45.5	(2.9)	59.1	62.6	5.9
Target price (Rs/sh)	1,479	1,628	10.1						

- Galaxy Surfactants:** We reduce vol estimates for FY20/21/22E by 4/13/7% resp, owing to sharp vol loss during Mar/Apr 2020. Subsequently, we trim EBITDA estimates by 12/31/1% respectively. We value GSL at 22x Mar-22E EPS, leading to revised TP of Rs 1,425. Maintain BUY.

Galaxy Surfactants Consolidated	FY20E			FY21E			FY22E		
	Old	Revised	% Chg	Old	Revised	% Chg	Old	Revised	% Chg
Volume ('000 MT)	228	219	(4.3)	249	218	(12.5)	272	254	(6.7)
Revenue per tonne (Rs/'000 ton)	116	116	(0.4)	122	118	(3.0)	136	137	0.6
Revenues	26.54	25.30	(4.7)	30.34	25.74	(15.2)	36.99	34.69	(6.2)
EBITDA	3.77	3.31	(12.1)	4.26	2.92	(31.4)	4.92	4.98	1.1
APAT	2.26	1.90	(16.0)	2.58	1.56	(39.7)	3.03	3.04	0.5
AEPS (Rs)	63.8	53.6	(16.0)	72.9	44.0	(39.7)	85.5	85.9	0.5
Target price (Rs/sh)	1,880	1,425	(24.2)						

- **Alkyl Amines:** We reduce vol estimates for FY20/21/22E, owing to sharp vol loss during Mar/Apr 2020 and slower ramp-up expected thereafter. Subsequently, we trim EBITDA estimates by 3/13/7% respectively. We value it at 22x Mar-22E EPS, leading to a revised TP of Rs 2,300. Maintain BUY.

AACL Standalone	FY20E			FY21E			FY22E		
	Old	Revised	% Chg	Old	Revised	% Chg	Old	Revised	% Chg
Revenue (Rs mn)									
Methyl Chain	2,453	2,318	(5.5)	2,953	2,004	(32.1)	3,432	2,847	(17.0)
Ethyl Chain	2,387	2,235	(6.4)	2,630	2,279	(13.3)	2,934	2,934	-
Acetonitrile	2,977	2,977	-	2,872	3,674	27.9	2,705	3,306	22.2
Net Sales (Rs mn)	10,148	9,754	(3.9)	11,150	10,426	(6.5)	12,240	12,144	(0.8)
EBIDTA (Rs mn)	2,551	2,464	(3.4)	2,715	2,354	(13.3)	3,040	3,244	6.7
APAT (Rs mn)	1,642	1,643	0.1	1,759	1,489	(15.3)	1,970	2,123	7.8
EPS (Rs/sh)	80	80.6	0.1	86	73.0	(15.3)	97	104.1	7.8
Target price (Rs/sh)	2,130	2,300	8.0						

- **Balaji Amines:** We trim our volume estimates for FY20/21/22E, owing to sharp vol loss during Mar/Apr 2020 and slower ramp-up expected thereafter across industries. Subsequently, we trim EBITDA estimates by +31/-9/+10% respectively. We value BLA at 13x Mar-22 EPS, leading to a TP of Rs 555. Maintain BUY.

BLA Consolidated	FY20E			FY21E			FY22E		
	Old	Revised	% Chg	Old	Revised	% Chg	Old	Revised	% Chg
Revenue (Rs mn)									
Methyl Amines	2,853	2,853	-	2,890	2,464	(14.7)	2,948	2,807	(4.8)
Ethyl Amines	697	697	-	704	704	-	704	704	-
Morpholine	780	780	-	1,008	1,008	-	1,008	1,008	-
Acetonitrile	754	754	-	900	1,875	108.3	900	1,875	108.3
DMF	377	377	-	377	302	(20.0)	377	302	(20.0)
DMAC	624	624	-	660	624	(5.5)	660	660	-
NMP/NEP/2-P	1,863	1,863	-	1,863	1,035	(44.4)	1,863	1,656	(11.1)
Net Sales (Rs mn)	9,224	9,224	-	10,230	9,769	(4.5)	10,724	11,277	5.1
EBIDTA (Rs mn)	1,771	2,325	31.2	1,941	1,767	(9.0)	2,031	2,239	10.3
APAT (Rs mn)	1,115	1,529	37.1	1,205	1,075	(10.8)	1,228	1,383	12.7
EPS (Rs/sh)	34.4	47.2	37.1	37.2	33.2	(10.8)	37.9	42.7	12.7
Target price (Rs/sh)	493	555	(12.6)						

Disclosure:

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