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Agrochem, pharma likely to aid topline growth…

With rise in crude oil prices, we expect majority of the companies in our universe to witness an increase in prices of major raw materials. This is expected to lead companies to pass on that increase to end users albeit partly since we expect part of the RMAT cost increase to be passed on during this quarter due to lag impact. In terms of volume growth, due to restoration of demand across construction, auto, textile sectors along with sectors that were resistant during pandemic such as pharma, agrochemical, FMCG, this is likely to support volume growth for most chemical companies in the last quarter. We expect double digit volume growth for most of our coverage universe companies, which should be largely on the back of inventory built up into the system along with some demand revival at the consumer stage that is likely to have fuelled further growth. Apart from this, since majority of the companies had low cost inventory on books, primarily due to spillover demand, we expect them to report inventory gains post a rise in RMAT cost and, thereby, realisation. This should support the operational performance, to some extent. However, operating leverage can likely aid OPM for the quarter. In a nutshell, we expect our chemical universe to register topline growth of 10.6% YoY while bottomline is expected to grow 15.3% YoY in the last quarter.

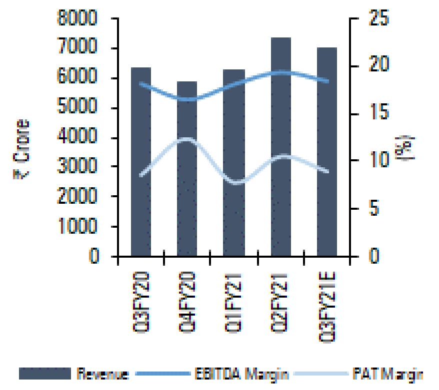
Topline likely to grow 10.6% YoY, led by agrochem, pharma

Since a major pie of our universe companies are B2B and exposed to demand in pharma and agrochemical sectors, we expect them to aid the overall performance of the group topline given both have been sectors resistant to the pandemic and witnessing decent demand in recent times. On the other hand, since soda ash prices are almost firm against cost increase due to rise in crude prices, we expect volume growth in soda ash on account of rise in demand from flat glass to provide respite to Tata Chemical's performance for the quarter. We expect our chemical universe companies to post topline growth of 10.6% YoY in Q3FY21.

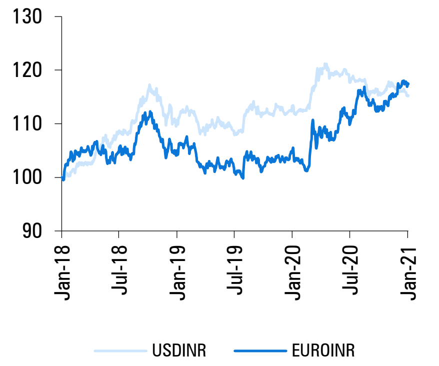
EBITDA to grow 12.4% YoY with bottomline up 15.3% YoY

Increase in the value added segment revenue from the basket of specialty chemical companies along with a rise in realisation for selected companies can aid the operational performance. We expect our coverage universe companies OPM to expand 30 bps YoY to 18.4%, leading to EBITDA growth of 12.4% YoY. Bottomline is expected to grow 15.3% YoY, largely on the back of lower tax outgo and higher other income.

Topline & Profitability (Coverage Universe)



Currency Movement



Source: Bloomberg

Top Picks

Navin Fluorine
PI Industries
Sumitomo Chemical

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Exhibit 1: Estimates for Q3FY21E (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ
Navin Fluorine	305.0	17.1	-4.4	90.5	38.2	-0.3	66.8	47.0	-1.6
PI Industries	1,113.2	31.0	-3.8	259.2	39.6	-7.5	175.7	45.9	-19.3
Aarti Industries	1,250.4	15.4	6.6	276.1	8.6	8.6	150.9	7.9	5.9
Sudarshan chemical	464.3	9.6	8.3	72.9	20.0	7.7	34.5	21.9	13.7
Sumitomo Chemical	633.4	21.1	-29.8	116.0	153.7	-47.0	58.7	2,570.8	-62.8
Tata Chemical	2,618.2	-0.2	0.3	407.0	-14.0	5.4	99.9	-40.2	41.8
Rallis India	579.8	8.7	-20.0	60.9	9.2	-47.9	37.7	-0.9	-53.6
Total	**6,964.4**	**10.6**	**-4.8**	**1,282.5**	**12.4**	**-9.3**	**624.1**	**15.3**	**-18.7**

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific view

Company	Remarks
Navin Fluorine	We expect revenues to grow 17% YoY to ₹ 305 crore, largely led by growth in the CRAMS business. We expect CRAMS business to report growth to the tune of 50% YoY on the back of improvement in capacity utilisation post cGMP3 coming on stream. The speciality chemical segment should likely post growth of 13% YoY while other segments like inorganic fluoride should post decent growth due to better demand from steel sector for the quarter. We expect OPM to expand 450 bps to 29.7% on the back of better gross margins due to a change in product mix and operating leverage, leading to EBITDA growth of 38.2% YoY to ₹ 90.5 crore. PAT is expected to grow 47% YoY to ₹ 66.8 crore. **Key Monitorable**: Growth in CRAMS, speciality chemical business and gross margins
PI Industries	We expect better growth from CSM to continue for this quarter also on the back of strong order backlog and decent demand from end industries. Along with this, decent performance from Isagro should also aid overall topline growth. We expect the topline to grow 31% YoY to ₹ 1113 crore. OPM should likely expand 150 bps YoY to 23.3% resulting in EBITDA growth of 40% YoY to ₹ 259 crore. PAT is expected to grow 46% YoY to ₹ 176 crore. **Key Monitorable**: Growth in the CSM and Isagro business
Sumitomo Chemical	We expect price hike for glyphosate in the last quarter due to higher demand to likely aid topline growth for Sumitomo India given the former constitutes ~12% of the group revenue. Apart from this, we also expect a price increase for other intermediates, which should have helped the company to get better realisation for the quarter. All these are expected to translate into better topline growth. We expect revenues to grow 21% YoY to ₹ 633 crore. OPM should expand 960 bps YoY to 18.3% largely due to higher gross margins, leading to EBITDA growth of 154% YoY to ₹ 116 crore. PAT is expected to remain at ₹ 58.7 crore (up 2570% YoY), largely due to a better operational performance and lower tax outgo compared to Q3FY20. **Key Monitorable**: Sustainability in gross margins and operating margins
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, demand for soda ash. We expect the export business for North America unit to have performed well and. Thus, it should have given respite to the overall performance. Apart from this, better demand from container glass should also aid overall growth for the quarter along with base segment such as detergent that is expected to have performed normally. This, in turn, should lead overall topline growth to remain almost flat at ₹ 2618 crore. OPM may likely contract 250 bps YoY to 15.5% on the back of higher freight and power cost post increase in crude price while soda ash prices remained firmed against RMAT, resulting in an EBITDA decline of 14% YoY to ₹ 407 crore. PAT is expected to fall 40% YoY to ₹ 99.9 crore on the back of higher depreciation and taxes. **Key Monitorable**: Growth in the North America and Magadi along with EBITDA/tonne across geographies for basic chemical business. Progress in HDS and Neutraceutical business will be key to watch
Rallis India	Since the international business performance was impacted for the last few quarters on the back of lower offtake of PEKK and price erosion for metribuzin should have got normalised in Q3, we expect this to have supported topline growth, to a certain extent. We also expect price increase for acephate and other molecules to have aided realisation for the quarter. We expect topline to increase 8.7% YoY to ₹ 580 crore. OPM can remain more stable at 10.5% against 10.4% in Q3FY20, leading to EBITDA growth of 9.2% YoY to ₹ 60.9 crore. PAT is expected to remain at ₹ 37.7 crore (down 0.9% YoY) on the back of higher tax outgo compared to Q3FY20. **Key Monitorable**: Growth in the international business, inventory situation of metribuzin and offtake of PEKK under CRAMS portfolio

Source: Company, ICICI Direct Research

Exhibit 3: Company Specific view (Continued)

Aarti Industries	Aarti Industries' Q3FY21 revenue is expected to grow 15.4% YoY to ₹ 1250.4 crore amid improvement in realisation and end user demand in speciality chemicals segments, continuous strong growth in pharma segment. Speciality segment is expected to grow 11.5% YoY to ₹ 1162 crore while pharma segment revenues are expected to grow 20% YoY to ₹ 211 crore. EBITDA margins are likely to contract 138 bps to 22.1% mainly due to commercialisation of chlorination unit at Jhagadia. EBITDA is expected to grow 8.6% YoY to ₹ 276 crore. Subsequently, net profit is expected to grow 7.9% YoY to ₹ 151 crore. **Key Monitorables**: Growth and margins improvement in speciality chemicals segment
Sudarshan Chemical	Sudarshan Chemical's Q3FY21 revenues are likely to grow 9.6% YoY to ₹ 464 crore mainly due to improvement in demand from end user industries. EBITDA margins are likely to improve 135 bps to 15.7% YoY mainly due to improvement in product mix. Subsequently, EBITDA is expected to grow 20% YoY to ₹ 72.9 crore. PAT is expected to grow 21.9% YoY to ₹ 34.5 crore, in line with operational performance. **Key Monitorables**: Improvement in end users demand and product mix

Source: Company, ICICI Direct Research

Exhibit 4: ICICI Direct Coverage Universe (Chemicals)

Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Navin Fluorine	2712	3,040	BUY	13,424	36.2	53.9	49.0	74.9	50.4	55.4	49.6	44.8	36.6	17.9	18.7	17.2	12.7	13.6	13.3
PI Industries	2340	2,540	BUY	35,476	33.1	42.8	56.4	70.7	54.7	41.5	45.3	35.0	26.9	20.2	16.0	19.0	17.4	12.5	14.5
Aarti Industries	1298	1,235	BUY	22,616	30.8	30.4	68.4	42.2	42.6	19.0	25.0	25.2	19.5	13.5	11.5	12.2	18.0	15.5	15.1
Sudarshan chemical	501	550	Buy	3,465	21.0	16.4	20.6	23.9	30.5	24.3	16.0	15.7	13.2	15.2	12.3	13.9	21.3	16.6	18.0
Sumitomo Chemical	323	335	Buy	16,122	4.1	6.5	7.5	78.8	49.8	43.4	47.9	35.3	30.4	23.8	28.7	28.2	16.8	22.6	22.2
Tata Chemical	500	490	Hold	12,741	31.7	20.2	30.8	15.8	24.8	16.2	7.4	9.2	7.6	7.7	6.0	7.1	6.3	3.9	5.8
Rallis India	303	305	BUY	5,937	8.9	10.4	12.8	33.5	29.1	23.7	21.6	18.3	15.9	15.7	17.0	18.4	12.4	13.0	14.2

Source: ICICI Direct Research

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