Result Preview

ICICI Securities – Retail Equity Research

July 12, 2021

Topline growth likely to be aided by recovery across sectors...

Since the start of Q4FY21, crude oil prices have gone up by ~35%, which percolated to many chemicals prices to reach considerably higher levels. Since there has been a lag impact of passing on higher input cost to end users, we expect our universe companies to have able to pass on meaningful increase during this quarter and thereby assist sustainability/improvement in gross margins. In terms of volume growth, since there has been restoration of demand across construction, auto, textile along with sectors being resistant during pandemic such as pharma, agrochemical, FMCG, it should likely have supported volume growth for most chemical companies during last quarter. We expect double digit volume growth for most companies under our universe. We expect majority of our coverage companies to report inventory gains on the back of higher end product prices, which should support better gross margins this quarter. Further, operating leverage can likely aid OPM for the quarter. In a nutshell, we expect our chemical universe to register topline growth of 26.1% YoY while bottomline is expected to grow 67.1% YoY in last quarter.

Topline growth likely to be 26.1% YoY, led by recovery across end user industries

We witnessed a recovery in demand for sectors such as textile, paper, metals, auto to name a few along with sectors immune to the Covid-19 impact such as agrochemicals, pharma, etc. This should support higher volume growth for most of our coverage companies especially from pigments, dyes, soda ash industries. Further, companies in specialty chemicals and that have large order backlog in place, should likely sustain similar momentum as witnessed in last quarter. We expect companies like PI Industries and Navin Fluorine to report strong revenue growth in CRAMS portfolio. Moreover, better rainfall during June in most parts of the country should have supported higher volume growth for most agri inputs thereby translating into a better performance for our agrochem universe pack last quarter. We expect our chemical universe companies to post topline growth of 26.1% YoY for Q1FY22.

EBITDA to grow at 38.6% YoY with bottomline at 67.1% YoY

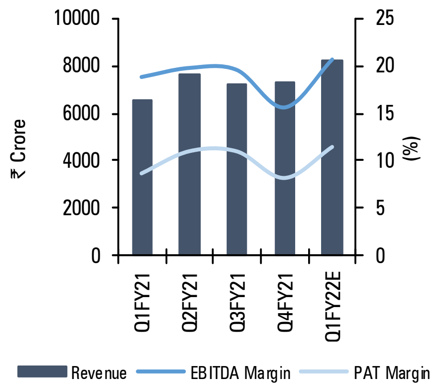
Increase in the value added segment revenue from the basket of specialty chemical companies along with a rise in realisation for select companies can aid operational performance. We expect OPM of our coverage universe companies to expand 187 bps YoY to 20.8%, leading to EBITDA growth of 38.6% YoY. Bottomline growth can be aided by 67.1% YoY growth, largely on the back of lower tax outgo, higher other income along with a better operational performance.

Exhibit 1: Estimates for Q1FY22E (₹ crore)

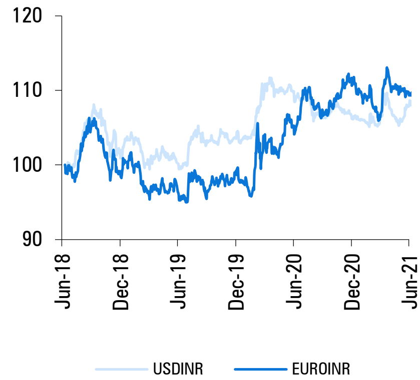
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
Navin Fluorine	338.0	57.2	0.5	88.8	65.0	5.4	70.7	26.2	-5.4
PI Industries	1,323.1	24.8	10.5	289.6	26.3	27.3	221.6	52.3	23.2
Aarti Industries	1,251.7	33.5	3.5	296.2	62.7	13.8	157.1	91.9	15.4
Sudarshan Chemical	479.3	36.0	-16.9	79.1	49.4	-9.5	37.8	107.4	-29.3
Sumitomo Chemical	773.2	19.4	44.7	160.6	35.3	125.1	112.9	42.2	108.6
Tata Chemical	2,868.3	22.2	8.8	499.2	38.8	76.6	134.3	911.3	1,041.0
Rallis India	748.0	12.9	58.7	139.2	8.5	685.3	98.3	7.0	1,110.9
Neogen Chemicals	103.0	34.5	11.1	21.4	57.6	15.4	10.3	68.8	10.6
Vinati Organics	350.0	51.2	25.1	137.8	41.8	39.0	100.4	38.9	41.7
Total	**8,234.6**	**26.1**	**12.3**	**1,711.8**	**38.6**	**49.0**	**943.3**	**67.1**	**57.6**

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Currency Movement



Source: Bloomberg

Top Picks

Navin Fluorine
PI Industries
Sumitomo Chemical
Neogen Chemicals

Research Analysts

Mitesh Shah
mitesh.sha@icicisecurities.com

Dhavan Shah
dhavan.shah@icicisecurities.com

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Exhibit 2: Company Specific view

Company	Remarks
Navin Fluorine	We expect revenues to grow 57% YoY to ₹ 338 crore, largely led by growth in the CRAMS and speciality chemical segments. We expect CRAMS business to report growth to the tune of 141% YoY on the back of improvement in capacity utilisation post cGMP3 came into stream. The speciality chemical segment should likely post growth of 39% YoY to ₹ 135 crore while other segments such as inorganic fluoride should post decent growth due to better demand from steel sector for the quarter. We expect OPM to expand 130 bps to 26.3% on the back of better gross margins due to change in the product mix and operating leverage, leading to EBITDA growth of 65% YoY to ₹ 88.8 crore. PAT is expected to grow at 17% YoY to ₹ 65.4 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 as well on the back of strong order backlog and decent demand from the end industries. We expect topline to grow 25% YoY to ₹ 1323 crore. OPM is likely to expand 30 bps YoY to 21.9% resulting into EBITDA growth of 26% YoY to ₹ 290 crore. PAT should grow at 52% YoY to ₹ 222 crore. **Key Monitorable**: Timelines for utilising QIP proceeds and venturing into pharma CDMO
Sumitomo Chemical	Last year, revenue growth was hampered due to lower inventories on the books and then supply related challenges due to Covid-19 impacted value chain of the business. However, the company has built enough inventories during Q4FY21, which we believe should have helped during Q1 given that monsoon in various parts of the country remained decent. Thus, better offtake by farmers should have supported volume growth. Further, increase in realisation due to higher technical prices bodes well for topline performance. We expect revenues to grow 19% YoY to ₹ 773 crore. OPM should expand 250 bps YoY to 20.8% largely due to higher gross margins, leading to EBITDA growth of 35% YoY to ₹ 161 crore. PAT is expected to remain at ₹ 112.9 crore (up 42% YoY), largely due to better operational performance. **Key Monitorable**: Exports business growth
Tata Chemical	Since there has been a revival in a construction activity across the globe, we expect flat glass demand to also have improved along with demand for soda ash. We expect export business for North America unit to have performed well. Thus, it should have provided a respite to the overall performance. Apart from this, better demand from container glass should also have aided overall growth for the quarter along with base segment such as detergent should have performed at normalcy as expected. This, in turn, should lead overall topline growth of 22% YoY to ₹ 2868 crore. OPM can likely to expand by 208 bps YoY to 17.4% resulting in EBITDA growth of 38.8% YoY to ₹ 499.2 crore. PAT is expected to remain at ₹ 134 crore. **Key monitorable**: Growth in North America and Magadi along with EBITDA/tonne across geographies for basis chemical business. Progress in the HDS and neutraceuticals business will be key to watch
Rallis India	We expect better monsoon across different parts of Maharashtra and other parts of the country to have supported seeds growth for the quarter. We expect 15% YoY growth for seed business. Apart from this, some improvement in the inventory situation for key molecules in the international market should have supported international business growth. We expect topline to increase 12.9% YoY to ₹ 748 crore. EBITDA & PAT is expected to grow 8.5% & 7% YoY to ₹ 139 crore & ₹ 98 crore, respectively. **Key Monitorable**: Growth in the international business, inventory situation of metribuzin and offtake of PEKK under CRAMS portfolio
Neogen Chemicals	Revival in industrial activity should have helped inorganic chemical segment volume growth. For organic chemical, the company started trial production at Dahej in the beginning of the quarter. Ramp up in the activity should have assisted growth in the organic chemical segment. Topline is expected to remain at ₹ 103 crore (up 34.5% YoY). OPM is likely to expand 304 bps YoY to 20.7% leading to EBITDA growth of 57.6% YoY to ₹ 21.4 crore. PAT is expected to increase by 68.8% YoY to ₹ 10.3 crore. **Key Monitorables**: Commissioning of Dahej organic chemical capacity and outcome on the negotiation with three to four new players for incremental custom synthesis opportunity

Source: Company, ICICI Direct Research

Segments	Revenue				
	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22E
Specialty Chemical	97.0	102.0	122.0	131.0	135.0
CRAMS	34.0	99.0	71.0	76.0	82.0
Refrigerant	46.0	58.0	47.0	58.0	62.0
Inorganic Fluoride	28.0	49.0	57.0	59.0	59.0

Segments	Revenue				
	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22E
CSM	614.0	799.0	902.0	1,006.0	855.1
Domestic agri input	446.0	359.0	260.0	191.0	468.0

Exhibit 3: Company Specific view (Continued)

Company	Remarks
Aarti Industries	Aarti Industries' Q1FY22 revenues is expected to grow 33.5% YoY to ₹ 1252 crore amid lower base, improvement in realisation and end user demand in speciality chemicals segments and continuously strong growth in pharma segments. Speciality segment is expected to grow 38% YoY to ₹ 1161 crore while pharma segment revenues are expected to grow 20% YoY to ₹ 233 crore. OPM is likely to expand 425 bps YoY to 23.7% leading to EBITDA growth of 62.7% YoY to ₹ 296 crore. Net profit expected to grow 91.9% YoY to ₹ 157 crore mainly due to strong operational performance and decline in financial cost. **Key Monitorables**: EBITDA margins in both speciality chemical and pharma segment
Sudarshan Chemical	Q1FY22 revenues are expected to to grow 36% YoY to ₹ 479 crore mainly due to improvement in demand from end user industries. EBITDA margins are likely to improve 148 bps YoY to 16.5% mainly due to operational leverage. Subsequently, EBITDA is expected to grow 49% YoY to ₹ 79 crore. Net Profit is expected to grow ~107% YoY to ₹ 38 crore largely on account of lower taxes and a better operational performance, **Key Monitorables**: Improvement in end user demand and product mix
Vinati Organics	Better demand outlook of ATBS and IBB are likely to augur well for overall revenue growth, which is expected to grow 51.2% YoY to ₹ 350 crore. OPM is likely to remain at 39.4% (down 260 bps YoY) translating into EBITDA of ₹ 138 crore (up 42% YoY). PAT is expected to remain at ₹ 100 crore (up 38.9% YoY). **Key Monitorables**: Timeline for Veeral Additives consolidation and progress of Butyl phenol plant utilisation

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)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
PI Industries	2992	3,010	Buy	45,396	48.6	63.3	75.3	61.6	47.3	39.8	42.9	32.8	27.5	17.2	20.2	20.4	13.8	15.4	15.7
Aarti Industries	853	960	Buy	30,927	30.2	72.8	60.0	55.2	22.9	27.8	32.2	23.5	18.0	10.7	12.7	15.3	15.0	16.3	18.7
Sumitomo Chemical	423	400	Buy	21,129	6.9	8.3	9.9	61.1	50.8	42.5	42.3	35.2	28.9	29.8	28.8	27.9	22.4	21.7	21.0
Vinati Organics	1954	2,220	Buy	20,086	26.2	40.2	44.3	74.6	48.6	44.1	56.4	36.2	32.3	21.7	29.4	27.1	17.4	22.1	20.4
Tata Chemical	765	750	Hold	19,487	10.1	23.1	30.8	76.0	33.1	24.9	14.8	11.4	9.4	4.1	6.2	7.2	1.8	4.0	5.2
Navin Fluorine	3878	3,460	Hold	19,200	45.0	51.7	76.9	86.1	75.0	50.4	60.0	49.5	33.5	20.3	18.3	23.2	13.6	13.9	17.8
Rallis India	315	350	Buy	6,126	11.8	13.4	15.8	26.8	23.4	19.9	18.0	15.4	12.8	17.9	18.8	19.3	13.9	14.6	15.1
Sudarshan chemical	752	775	Buy	5,204	20.4	24.4	29.9	36.9	30.8	25.1	19.9	16.5	14.2	15.2	16.3	17.9	19.0	19.5	20.2
Neogen Chemicals	883	1,085	Buy	2,060	13.4	18.6	28.6	65.8	47.6	30.9	35.1	25.7	18.7	15.1	16.7	20.4	17.1	19.6	23.6

Source: ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%

Pankaj Pandey | **Head – Research** | **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Mitesh Shah, (cleared all 3 levels of CFA), Dhavan Shah, MS (Finance), Siddhant Khandekar, Inter CA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.