

October 12, 2021

Recovery across sectors likely to aid topline growth...

We expect a positive impact of higher crude oil prices (10% increase QoQ) on realisations of most chemical players, which should mitigate margin pressure (raw materials tracking crude prices). This, in a way, could provide better spread and, thus, a better operational performance for most players. Prices are also tracking the recent power curbs in China (aggravated in September). This could provide additional impetus for better realisation growth for a majority of the players.

We also expect volume growth on the back of restoration of demand from sectors such as construction, auto, textile etc. together with resilience from sectors such as pharma and agrochemicals which should provide better growth momentum as compared to previous quarters. We expect double digit volume growth for most of our companies under our universe. We expect majority of our companies under universe likely 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 to aid OPM for the quarter. In a nutshell, we expect our chemical universe should register topline growth of 18.8% YoY, while bottom-line is expected to grow at 41.2% YoY for last quarter.

Topline growth likely to be 18.8% YoY, led by recovery across end user industries

We have witnessed a recovery in demand in sectors such as textile, paper, metals, automobiles, agrochemicals, pharma, etc. This should support higher volume growth for most of our coverage companies, especially from pigments, dyes, soda ash industries. Further, companies present in specialty chemicals and having large order backlog in place, should likely sustain similar momentum as witnessed in the last quarter. We expect power curbs in China last month to have driven better volume and realisation growth for commodity chemical players. We expect our chemical universe companies to post topline growth of 18.8% YoY for Q2FY22.

EBITDA to grow 29.5% YoY with bottomline up 41.2% YoY

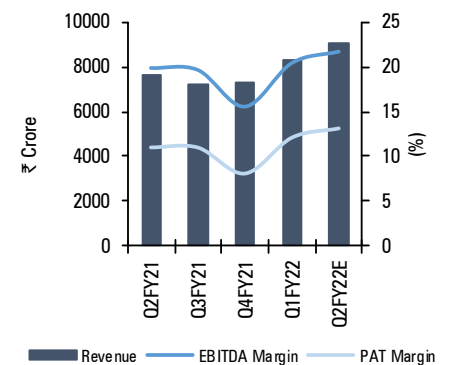
Increase in the value added segment revenue from the basket of specialty chemical companies along with a rise in realisation of select companies can aid operational performance. We expect our coverage universe companies OPM to expand 180 bps YoY to 21.7%, leading to EBITDA growth of 29.5% YoY. Bottomline can grow 41.2% YoY, largely on the back of lower tax outgo and higher other income.

Exhibit 1: Estimates for Q2FY22E

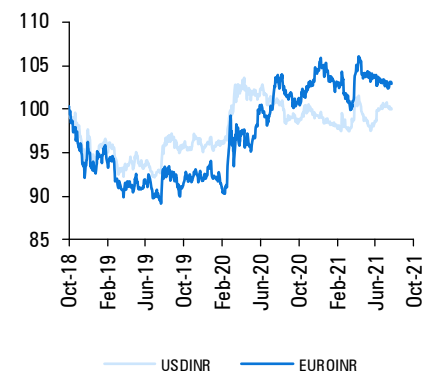
Company	₹ crore									
	Revenue		Change (%)		EBITDA		Change (%)		PAT	
	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	
PI Industries	1,348.4	16.5	13.0	306.0	9.2	22.9	233.5	7.3	24.7	
Aarti Industries	1,440.2	22.8	9.4	327.8	28.9	4.5	178.7	25.4	8.4	
Sumitomo Chemical	1,016.6	12.7	30.0	245.9	12.4	64.2	178.0	12.8	68.4	
Vinati Organics	347.7	58.4	-10.0	120.6	43.4	18.8	88.9	43.3	9.9	
Tata Chemical	3,137.2	20.2	5.4	656.7	70.0	9.2	307.8	336.8	6.9	
Navin Fluorine	340.9	6.9	4.4	85.8	-5.4	10.3	66.2	-2.4	18.4	
Rallis India	807.4	11.4	9.0	126.0	7.9	3.7	84.7	4.2	2.9	
Sudarshan Chemical	513.6	19.7	8.2	74.4	9.9	20.0	35.0	15.4	33.6	
Neogen Chemicals	97.0	18.4	14.7	18.5	19.7	18.6	9.2	24.5	24.3	
Total	9,049.0	18.8	9.3	1,961.7	29.5	15.9	1,182.0	41.2	18.4	

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Currency Movement



Top Picks

PI Industries
Sumitomo Chemical
Neogen Chemicals
Aarti Industries

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Exhibit 2: Company Specific view

Company	Remarks
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 industries. We expect topline to grow 16.5% YoY to ₹ 1348.4 crore. OPM can likely contract by 150 bps YoY to 22.7%, resulting in EBITDA growth of 9.2% YoY to ₹ 306 crore. PAT is expected to grow 7.3% YoY to ₹ 233.5 crore. Key Monitorable : Development of key molecules in pharma intermediates
Aarti Industries	Aarti Industries' Q2FY22 revenue is expected to grow 22.8% YoY to ₹ 1440.2 crore amid better growth from the speciality chemical segment. Further, improvement in realisation should also support revenue growth during the quarter. Gross revenue from the speciality segment is expected to grow 25% YoY to ₹ 1389 crore while pharma segment revenues are expected to grow 15% YoY to ₹ 254.8 crore. OPM is likely to expand 107 bps YoY to 22.8%, leading to EBITDA growth of 28.9% YoY to ₹ 327.8 crore. Net profit is expected to grow 25.4% YoY to ₹ 178.7 crore, mainly due to a strong operational performance and decline in financial cost. Key Monitorables : EBITDA margins in both speciality chemical and pharma segment
Sumitomo Chemical	Higher glyphosate prices should have supported topline growth in Q2FY22 given that it constitutes ~12% of overall revenue. Further, increase in realisation due to higher technical prices bodes well for the topline performance. We expect revenues to grow 12.7% YoY to ₹ 1016.6 crore. OPM should remain at 24.2%, leading to EBITDA growth of 12.4% YoY to ₹ 245.9 crore. PAT is expected to remain at ₹ 178 crore (up 12.8% YoY). Key Monitorable : Exports business growth
Vinati Organics	The IBB plant remained shut for around a month due to flood at Mahad, which can impact performance, to some extent. However, higher oil prices and thereby better demand outlook from ATBS are expected to have led growth in Q2FY22. Revenue is expected to grow 58.4% YoY to ₹ 347.7 crore. OPM is likely to remain at 34.7% (down 365bps YoY) translating into EBITDA of ₹ 120.6 crore (up 43.4% YoY). PAT is expected to remain at ₹ 88.9 crore (up 43.3% YoY). Key Monitorables : Progress of Butyl phenol plant utilisation
Tata Chemical	Since there has been 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 the North America unit to have performed well. Thus, it should have given a respite to the overall performance. Apart from this, better realisation should also have aided overall growth for the quarter. Revenue is expected to grow 20.2% YoY to ₹ 3137.2 crore. OPM can likely expand 613 bps YoY to 20.9% resulting into EBITDA growth of 70% YoY to ₹ 656.7 crore. PAT is expected to remain at ₹ 307.8 crore. Key Monitorable : Growth in North America and Magadi along with EBITDA/tonne across geographies for basis chemical business. Progress in the HDS and nutraceuticals business will be key to watch
Navin Fluorine	We expect revenues to grow at 6.9% YoY to ₹ 340.9 crore, largely led by growth in the speciality chemical segment. Since there was a big order dispatch in Q2FY21, thus, high base can result in lower growth for the CRAMS business. The speciality chemical segment should likely post growth of 34% YoY to ₹ 137 crore while the other segments such as inorganic fluoride should post decent growth due to better demand from steel sector for the quarter. We expect OPM to contract 328 bps to 25.2%, leading to EBITDA decline of 5.4% YoY to ₹ 85.8 crore. PAT is expected remain at ₹ 66.2 crore (-2.4% YoY). Key Monitorable : Growth in the CRAMS, speciality chemical business and gross margins
Rallis India	We expect better growth from domestic crop care to have supported topline growth during the quarter. 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 11.4% YoY to ₹ 807.4 crore. EBITDA & PAT are expected to grow 7.9% & 4.2% YoY to ₹ 126 crore & ₹ 84.7 crore, respectively. Key Monitorable : Growth in the international business, inventory situation of Metribuzin and offtake of PEKK under CRAMS portfolio
Sudarshan Chemical	Sudarshan Chemical's Q2FY22 revenues are likely to grow 19.7% YoY to ₹ 513.6 crore, mainly due to improvement in demand from end user industries. EBITDA margins are likely to stay at 14.5%, leading to EBITDA growth of 9.9% YoY to ₹ 74.4 crore. PAT is expected to grow ~15.4% YoY to ₹ 35 crore. Key Monitorables : Improvement in end users demand and product mix
Neogen Chemicals	Revival in industrial activity should have helped inorganic chemical segment volume growth. For organic chemical, the company started production at Dahej during the quarter. Ramp up in activity should have aided growth in the organic chemical segment. Topline is expected to remain at ₹ 97 crore (up 18.4% YoY). OPM is likely to expand 22 bps YoY to 19.1% leading to EBITDA growth of 19.7% YoY to ₹ 18.5 crore. PAT is expected to increase 24.5% YoY to ₹ 9.2 crore. Key Monitorables : Ramp up of Dahej organic chemical capacity and development of client addition in the CRAMS portfolio

Segments	Revenue				
	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22E
CSM	799.0	902.0	1,006.0	807.0	928.1
Domestic agri input	359.0	260.0	191.0	387.0	420.3

Segments	Revenue				
	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22E
Specialty Chemical	102.0	122.0	131.0	133.0	137.0
CRAMS	99.0	71.0	76.0	67.0	80.4
Refrigerant	58.0	47.0	58.0	59.0	62.0
Inorganic Fluoride	49.0	57.0	59.0	56.0	61.6

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		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
PI Industries	3318	3,855	Buy	49,400	48.6	59.2	77.1	68.3	56.0	43.0	47.8	39.2	30.1	17.2	18.6	20.4	13.8	14.6	16.1
Aarti Industries	1102	1,085	Buy	40,272	14.5	32.8	31.1	63.7	28.1	29.7	36.8	28.2	19.5	10.7	12.2	16.8	15.0	14.9	20.1
Sumitomo Chemical	419	505	Buy	20,647	6.9	8.5	10.1	62.3	50.6	42.6	43.1	35.1	29.0	29.8	29.3	28.1	22.4	22.1	21.2
Vinati Organics	2034	2,300	Buy	21,356	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	957	925	Hold	24,622	10.1	39.1	42.6	81.9	21.1	19.3	15.8	10.0	8.3	4.1	7.1	7.7	1.8	6.6	6.9
Navin Fluorine	3897	3,712	Hold	19,470	45.0	53.0	73.1	82.6	70.2	50.9	57.5	49.7	33.9	21.0	19.0	22.6	13.6	14.2	17.0
Rallis India	305	400	Buy	5,962	11.4	12.7	16.0	28.1	25.1	20.0	18.4	16.8	13.0	18.0	17.7	20.0	13.9	13.9	15.3
Sudarshan chemical	662	825	Buy	4,636	20.4	26.5	33.0	34.7	26.7	21.4	18.8	14.9	12.1	15.2	18.4	20.3	19.0	20.8	21.8
Neogen Chemicals	1240	1,515	Buy	2,932	13.4	18.8	28.8	89.7	64.0	41.8	46.8	35.0	25.4	15.1	16.5	20.1	17.1	19.8	23.7

Source: ICICI Direct Research

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Reduce: -5% to -15%;

Sell: <-15%



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