

Q3FY2022 Results Preview

Sector: Agri Inputs and Specialty Chemicals

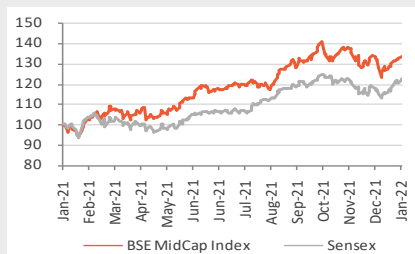
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco/View	PT (Rs)
Agri Inputs			
Coromandel International	774	Buy	1,070
Insecticides (India)	711	Buy	900
PI Industries	2,867	Buy	3,900
UPL	819	Buy	930
Sumitomo Chemical India	390	Buy	500
Specialty Chemicals			
Aarti Industries	1,100	Buy	1,155
Atul Limited	9,694	Buy	10,600
NOCIL	254	Buy	348
SRF	2,533	Buy	UR
Sudarshan Chemical	582	Buy	760
Vinati Organics	2,069	Buy	2,350

Source: Sharekhan Research

Price chart



Source: BSE; Sharekhan Research

Agri Inputs and Specialty Chemicals

Strong revenue growth; Margin concern continues

Summary

- ◆ Agrochemical players are expected to see decent volume growth driven by favourable agronomics. However, higher input costs will continue to pressurise margin and thus we expect aggregate earnings growth of mid-single digit for our coverage universe.
- ◆ Specialty chemical companies are expected to post strong earnings growth led by sustained robust demand while price hike to help improve margin sequentially although likely to decline on y-o-y basis.
- ◆ Decent outlook for agri-input players given positive rabi sentiments but margin pressure a near term concern. Rising domestic demand and potential global market share gain provide massive growth opportunity for specialty chemical players.
- ◆ **Preferred Picks:** Coromandel International, PI Industries, Sumitomo Chemical India, SRF, Aarti Industries and NOCIL.

We expect stable demand for agri-input companies in our coverage owing to favourable agronomic conditions. However, high raw material prices would continue to pressurise margins in Q3FY22. Fertilizer companies like Coromandel International would also see stressed margins as costs of key raw materials like ammonia, potash and phosphoric acid have surged although higher subsidy would support topline. Specialty chemical companies are expected to post strong earnings growth supported by sustained strong demand recovery and price hikes which would improve margin on q-o-q basis. We expect SRF and Vinati Organics to outperform the sector.

- ◆ **Agri inputs:** Owing to a better rabi plantation, domestic demand for agri-input players are expected to report stable numbers in 3QFY22. Strong demand in export markets would also benefit companies like UPL, PI Industries or Sumitomo Chemicals. However, a sharp rise in raw material prices would continue to affect the margins of the agri-input players, except for companies like UPL (which may benefit from backward integration). Fertiliser companies like Coromandel would also see muted margins due to a surge in raw material prices. We expect the EBITDA margin for our coverage universe to fall by 320bps yoy due to higher raw material costs. Overall, we expect our agri-input coverage universe to deliver 20% y-o-y revenue growth but earnings to increase by only 6.1% y-o-y on margin contraction and expect UPL to outperform the space.
- ◆ **Specialty Chemicals:** Strong demand in specialty chemical is expected to sustain from previous quarters due to a recovery in demand. Realisations are likely to improve as most companies could pass on higher input cost to customers. Although, margins would be under pressure due to higher RM cost, sequentially they are expected to recover. Companies like Vinati Organics is expected to post strong numbers on the back of robust demand for ATBS which would be partly offset by weak IBB volumes. SRF is likely to witness strong growth and price uptick in fluorochemicals and technical textiles. For Aarti Industries, commercialisation of new capacities would aid volume growth. Thus, overall we expect the revenues growth to be strong in this quarter but margins to remain compressed for most companies on the back of surging raw material prices. Overall, we expect specialty chemical companies under our coverage universe to report 29.5% y-o-y PAT growth led by sustained strong demand recovery.

Valuation:

The Indian specialty chemicals sector is well poised to capitalise on global tailwinds and expand its global market share to 7-8% in next few years from 4% currently supported by structural drivers including the China Plus One strategy, import substitution and opportunities emerging from recent supply chain disruption in China. The above factors provide longevity to revenue and earnings growth and are expected to support premium valuations for quality specialty chemical companies (like SRF, Aarti Industries, Vinati Organics). Hence, we stay positive on Indian the specialty chemical sector.

Key Risks:

Higher raw material cost for specialty chemical business might impact margins if they are not able to pass it on to customers. Lower demand offtake for products as a result of slowdown in economic activity for specialty chemicals may also affect earnings.

Leaders for Q3FY2022: UPL, SRF, Vinati Organics and Insecticides (India)

Laggards for Q3FY2022: Coromandel International, Atul Limited and NOCIL

Preferred Picks: Coromandel International, PI Industries, Sumitomo Chemical India, SRF, Aarti Industries and NOCIL

Q3FY2022 results estimates

Companies	Sales (Rs cr)				OPM (%)				PAT (Rs cr)			
	Q3 FY22E	Q3 FY21	YoY (%)	QoQ (%)	Q3 FY22E	Q3 FY21	YoY (bps)	QoQ (bps)	Q3 FY22E	Q3 FY21	YoY (%)	QoQ (%)
Agri Inputs												
Coromandel International	4,916	3,533	39.2	-20.0	9.5	14.1	-466	-262	303	334	-9.2	-41.6
Insecticides (India)	314	299	5.0	-29.2	10.5	5.0	546	-395	22	6	256.2	-47.7
PI Industries	1,260	1,162	8.4	-7.0	22.0	23.7	-171	44	202	195	3.3	-12.3
UPL	10,495	9,126	15.0	-0.7	21.6	24.2	-259	225	883	794	11.2	39.3
Sumitomo Chemicals	624	561	11.2	-31.5	13.4	13.9	-48	-1015	57	54	5.9	-62.8
Agri Inputs Total	17,609	14,681	19.9	-9.3	17.8	21.0	-320	-45	1,467	1,383	6.1	-7.1
Speciality Chemicals												
Aarti Industries	1,822	1,187	53.5	17.4	19.5	24.0	-451	-46	185	169	9.4	5.2
Atul	1,307	990	32.0	4.6	20.5	25.5	-500	301	175	188	-7.0	21.0
NOCIL	384	275	39.9	2.4	11.5	13.9	-238	-191	26	22	17.6	-12.5
SRF	3,080	2,146	43.5	8.5	26.1	26.4	-26	234	505	303	66.6	32.1
Sudarshan Chemicals	570	506	12.6	15.6	13.4	15.7	-237	274	36	34	6.5	70.9
Vinati Organics*	346	223	55.0	-7.4	30.7	32.3	-156	370	84	64	30.7	3.1
Speciality Chemicals Total	7,510	5,328	41.0	9.1	22.0	24.3	-225	332	1,011	780	29.5	21.0

Source: Company; Sharekhan Research, * Standalone

Valuations

Companies	CMP (Rs)	EPS (Rs)			CAGR over FY21-23E (%)	P/E (x)			Reco	Price Target (Rs)
		FY21	FY22E	FY23E		FY21	FY22E	FY23E		
Agri Inputs										
Coromandel International	774	45.3	53.6	60.4	15.4	17.1	14.4	12.8	Buy	1,070
Insecticides (India)	711	52.5	69.5	88.8	30.0	13.5	10.2	8.0	Buy	900
PI Industries	2867	48.0	57.3	74.5	24.6	59.7	50.0	38.5	Buy	3,900
UPL	819	40.6	54.4	63.0	24.5	20.2	15.0	13.0	Buy	930
Sumitomo Chemicals	390.2	4.7	6.9	8.3	32.5	82.7	56.4	47.1	Buy	500
Speciality Chemicals										
Aarti Industries	1100	30.0	14.4	20.3	27.6	36.6	76.2	54.2	Buy	1,155
Atul	9694	221.5	217.3	295.3	15.5	43.8	44.6	32.8	Buy	10,600
NOCIL	254	5.3	9.2	14.1	63.0	47.7	27.4	18.0	Buy	348
SRF	2533	40.4	48.6	60.1	21.9	62.7	52.2	42.2	Buy	UR
Sudarshan Chemicals	582	20.4	16.4	25.9	12.7	28.6	35.5	22.5	Buy	760
Vinati Organics*	2069	26.2	37.5	48.6	36.2	78.9	55.1	42.6	Buy	2,350

Source: Company; Sharekhan Research, * Standalone

Q3FY2022E results: Company-wise key comments

Company	Comments
Agri-inputs	
Coromandel International	We expect higher subsidy and better realisation to drive revenue growth of 39% y-o-y, while earnings is expected to fall marginally due to higher raw material cost.
PI Industries	We expect decent growth in CSM business and moderate domestic business (due to high base of last year) to drive revenue growth of 8.4% y-o-y. Margins to remain under pressure due to high cost of raw materials.
UPL	We expect healthy 15% growth in revenue led by volumes and price hikes especially in LATAM. Higher RM cost and higher base of last year to impact margins in spite of better pricing.
Insecticides (India)	We expect revenue to grow 5% y-o-y on the back of higher institutional sales. EBITDA margin to improve significantly by 706bps y-o-y due to low base of last year.
Sumitomo Chemical India	We expect topline to grow 11.2% y-o-y due to strong volume. OPM to decline marginally due to higher raw material cost.
Specialty Chemicals	
Aarti Industries	We expect strong sale growth of 17.4% y-o-y led by strong volumes and better realisation of speciality chemicals. OPM to contract by 451bps y-o-y due to higher input prices.
Atul Industries	We expect sale growth of 32% y-o-y due to volume recovery from export markets and better realisation. Margins to contract by 500 bps y-o-y however expected to improve by 301 bps sequentially. Higher capital cost led PAT to decline by 7% y-o-y.
NOCIL Limited	We expect sales growth of 2.4% sequentially due to higher demand from the domestic tyre industry. Margins to decline due to higher input prices.
SRF Limited	Growth in all the three major segments to drive revenue growth of 43.5% y-o-y. Chemical business margins to remain strong.
Sudarshan Chemical	We expect revenue to witness 12.6% y-o-y growth due to good performance of pigment segment. Margins to remain under pressure on account of higher input cost.
Vinati Organics	Healthy growth in ATBS demand and realization and low base of last year to drive revenue growth of 55% y-o-y. EBITDA margin to contract y-o-y due to higher cost of key raw materials and product mix.

Source: Sharekhan Research

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