

January 11, 2022

Realisation growth likely to aid overall performance...

Year 2021 was characterised by volatility in crude oil prices with oil moving up by 45% during the calendar year, in turn lifting chemical prices. Since the rise was uneven, there was a lag impact of passing on the entire input price inflation. We witnessed major volatility in crude during Q3 with crude falling to US\$65/barrel and then again rebounding to US\$75-80/barrel by the end of quarter. Since whole input inflation of H1FY22 was not passed on entirely to end industries, Q3 can be a key quarter for passing on inflation given that crude had not surpassed this calendar year high. We expect our coverage universe companies to report topline growth of 19.2% YoY, largely driven by realisation growth. The Rabi season has not panned out well with area sown growing a mere 1.5%. Thus, we do not expect major growth in domestic crop protection. However, the same can be negated by growth from export crop care. We expect OPM of our coverage universe to contract by 40 bps YoY to 19.2% leading to EBITDA growth of 16.7%. We expect the bottomline of our coverage universe to grow 23.3% YoY led by higher other income and lower tax outgo.

Topline seen growing 19.2% YoY, led by volume, realisation

We have witnessed a recovery in demand for sectors like textile, paper, metals, automobiles, pharma etc. This should support higher volume growth for most companies under our coverage universe, especially from pigments, dyes, soda ash industries. Further, better realisations can aid overall performance. Companies in specialty chemicals and having large order backlog in place should likely sustain momentum similar to last quarter. We expect our chemical universe companies to post topline growth of 19.2% YoY for Q3FY22.

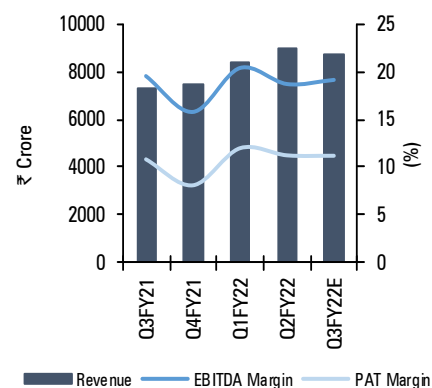
EBITDA to grow 16.7% YoY with bottomline up 23.3% YoY

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 the OPM of our coverage universe companies to contract 40 bps YoY to 19.2%, leading to EBITDA growth of 16.7% YoY. We anticipate bottomline growth of 23.3% YoY, largely on the back of lower tax outgo and higher other income.

Exhibit 1: Estimates for Q3FY22E								(₹ crore)	
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ
PI Industries	1,289.0	10.9	-4.8	287.9	4.5	-1.4	196.9	0.8	-14.2
Aarti Industries	1,567.6	32.1	1.0	340.6	19.5	9.9	181.7	10.0	3.2
Sumitomo Chemical	644.1	14.8	-29.3	108.6	39.2	-49.4	78.1	44.1	-49.4
Vinati Organics	397.5	77.9	6.3	111.9	55.3	10.8	88.3	37.7	8.6
Tata Chemical	3,022.9	16.0	0.0	543.1	15.1	8.4	264.3	64.3	26.3
Navin Fluorine	356.0	15.2	5.0	90.9	14.8	8.0	67.1	14.0	6.2
Rallis India	622.6	9.1	-14.5	62.7	4.2	-28.8	38.4	-6.6	-32.0
Sudarshan Chemical	552.9	9.2	11.0	71.9	-9.7	36.0	34.7	-11.5	52.3
Neogen Chemicals	134.0	57.3	18.4	25.8	53.4	25.9	14.3	68.0	28.0
Astec Life	144.1	24.2	40.5	30.3	94.6	43.9	16.0	125.7	75.9
Total	8,730.7	19.2	-2.9	1,673.7	16.7	-0.7	979.7	23.3	-3.3

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Top Picks

Sumitomo Chemical
Neogen Chemicals
Astec Lifescience

Research Analysts

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Dhavan Shah
dhavan.shah@icicisecurities.com

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 at 10.9% YoY to ₹ 1289 crore. OPM is likely to contract 137 bps YoY to 22.3% resulting in EBITDA growth of 4.5% YoY to ₹ 287.9 crore. PAT is expected to grow 0.8% YoY to ₹ 196.9 crore. Key Monitorable: Development of key molecules in pharma intermediates
Aarti Industries	Aarti Industries' Q3FY22 revenues are expected to grow 32.1% YoY to ₹ 1567.6 crore amid better growth from speciality chemical segment. Further, improvement in realisation should also support revenue growth during the quarter. The gross revenue from speciality chemical segment is expected to grow 40% YoY to ₹ 1513 crore while pharma segment revenues are expected to grow 15% YoY to ₹ 267 crore. OPM is likely to contract 229 bps YoY to 19.5%, leading to EBITDA growth of 19.5% YoY to ₹ 340.6 crore. PAT is expected to grow 10% YoY to ₹ 181.7 crore. Key Monitorables: EBITDA margins in both speciality chemical and pharma segment
Sumitomo Chemical	Since glyphosate prices are hovering at higher levels, better realisation growth can support the herbicide segmental performance. Apart from this, metal phosphate and AND, EHD are expected to lead to a better performance. We expect revenues to grow 14.8% YoY to ₹ 644.1 crore. OPM should remain at 16.9%, leading to EBITDA growth of 39.2% YoY to ₹ 108.6 crore. PAT is expected to remain at ₹ 78.1 crore (+44.1% YoY). Key Monitorable: Exports business growth
Vinati Organics	Higher oil prices and thereby better demand outlook from ATBS is expected to have led growth for the last quarter. Further, better growth from butyl phenols can likely aid the performance further. The revenue is expected to grow 77.9% YoY to ₹ 397.5 crore. OPM is likely to remain at 28.2% (-409bps YoY) translating into EBITDA of ₹ 111.9 crore (+55.3% YoY). PAT is expected to remain at ₹ 88.3 crore (+37.7% YoY). Key Monitorables: Progress of Butyl phenol plant utilisation
Tata Chemical	Since there has been revival in a construction activity across the globe, we expect flat glass demand to also have improved and, hence, demand for soda ash. We anticipate the export business for North America unit will 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 16% YoY to ₹ 3022.9 crore. OPM can likely remain at 18% (-14 bps YoY) resulting in EBITDA growth of 15.1% YoY to ₹ 543.1 crore. PAT is expected at ₹ 264.3 crore. Key Monitorable: Growth in the basic chemical across key geographies along with EBITDA/tonne
Navin Fluorine	We expect revenues to grow 15% YoY to ₹ 356 crore, largely led by growth in the CRAMS, refrigerants and inorganic fluoride. Revenue from CRAMS is likely to be up 24% YoY to ₹ 88 crore while the same from refrigerant and inorganic fluoride is expected to remain higher by 23% YoY & 19% YoY, respectively. The revenue from speciality chemical is likely to grow 7% YoY to ₹ 130 crore. OPM is likely at 25.5% (-8 bps YoY), in turn, translating into EBITDA growth of 14.8% YoY to ₹ 90.9 crore. PAT is expected to remain at ₹ 67.1 crore (+14% YoY). Key Monitorable: Growth in the CRAMS, speciality chemical business and gross margins
Rallis India	We expect better growth from international crop care to have supported topline growth for the quarter. We expect topline to increase 9.1% YoY to ₹ 622.6 crore. EBITDA & PAT are expected to remain at ₹ 62.7 crore (+4.2% YoY) & ₹ 38.4 crore (-6.6% YoY), respectively. Key Monitorable: Growth in the international business, inventory situation of Metribuzin and offtake of PEKK under CRAMS portfolio
Sudarshan chemical	Sudarshan Chemical's Q3FY22 revenues are likely to grow 9.2% YoY to ₹ 552.9 crore, mainly due to realisation growth. EBITDA margins are likely to remain at 13% (-273 bps YoY), leading to EBITDA fall of 9.7% YoY to ₹ 71.9 crore. The subdued operational performance is on account of higher other cost. Net profit is expected to decline 11.5% YoY to ₹ 34.7 crore. Key Monitorables: Improvement in end users demand and product mix
Neogen Chemicals	Revival in the 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 the activity should have assisted growth in the organic chemical segment. The topline is expected to remain at ₹ 134 crore (+57.3% YoY). OPM is likely to remain at 19.3% (-50 bps YoY) leading to EBITDA growth of 53.4% YoY to ₹ 25.8 crore. PAT is expected to increase 68% YoY to ₹ 14.3 crore. Key Monitorables: Ramp up of Dahej organic chemical capacity and development of client addition in the CRAMS portfolio
Astec Lifescience	There was a sales deferral of ₹ 30 crore last quarter, which we believe can lead to strong growth in Q3. Further, better utilisation of herbicide plant should also lead to higher growth for the quarter. We expect revenues to grow 24.2% YoY to ₹ 144.1 crore. OPM can likely expand by 761 bps YoY to 21%, translating into EBITDA growth of 94.6% YoY to ₹ 30.3 crore. PAT is expected to remain at ₹ 16 crore (+125.7% YoY). Key Monitorables: Ramp up of herbicide plant utilisation and CRAMS performance

Segments	Revenue				
	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22E
CSM	902.0	1,006.0	807.0	993.0	1,072.4
Domestic agri input	260.0	191.0	387.0	361.0	216.6

Segments	Revenue				
	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22E
Specialty Chemical	122.0	131.0	133.0	122.0	130.0
CRAMS	71.0	76.0	67.0	82.0	88.0
Refrigerant	47.0	58.0	59.0	55.0	58.0
Inorganic Fluoride	57.0	59.0	56.0	65.0	68.0

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	2887	3,340	Buy	43,797	48.6	53.8	66.8	56.4	50.9	41.0	39.1	34.5	28.6	17.2	17.2	18.3	13.8	13.4	14.5
Aarti Industries	1085	1,120	Buy	38,396	14.5	18.8	32.0	66.5	51.3	30.1	38.3	29.0	19.2	10.7	11.0	16.1	15.0	12.8	18.3
Tata Chemical	939	1,035	Buy	23,940	10.1	39.9	49.3	88.5	22.3	18.0	16.9	11.2	8.9	4.1	6.6	7.7	1.8	6.8	7.9
Vinati Organics	2100	2,270	Buy	21,619	26.2	33.0	45.4	75.5	60.0	43.6	57.2	46.6	33.0	21.7	24.9	28.4	17.4	18.7	21.3
Sumitomo Chemical	395	505	Buy	19,681	6.9	8.5	10.1	54.6	44.4	37.4	37.7	30.6	25.3	29.8	29.3	28.1	22.4	22.1	21.2
Navin Fluorine	4053	3,710	Hold	20,075	45.0	53.0	73.1	77.8	66.0	47.9	54.0	46.7	31.9	21.0	19.0	22.6	13.6	14.2	17.0
Rallis India	279	305	Hold	5,427	11.4	9.7	14.0	24.8	29.0	20.2	16.2	18.7	12.9	18.0	14.0	18.4	13.9	11.0	14.0
Sudarshan chemical	579	735	Buy	4,009	20.4	19.4	29.4	27.9	29.2	19.3	15.4	16.2	11.2	15.2	12.8	17.3	19.0	16.0	20.4
Neogen Chemicals	1862	2,160	Buy	4,641	13.4	17.9	32.3	128.2	96.1	53.3	65.5	49.4	36.1	15.1	11.3	15.7	17.1	10.0	15.4
Astec Lifesciences	1630	1,575	Buy	3,196	33.2	39.6	51.3	36.1	30.3	23.4	22.7	19.0	14.9	18.9	19.7	21.0	21.0	20.3	21.0

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, Siddhant Khandekar, Inter CA, Dhavan Shah, MS (Finance), 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.