

April 11, 2022

Realisation growth likely to aid overall performance...

Q4 is a quarter marked by high volatility in crude prices. Crude touched around US\$130/barrel against average of US\$85/barrel during Q3. With the unprecedented rise in crude prices, there was a surge in intermediate prices of most base chemicals. Since most of our coverage universe companies carry inventories for at least a quarter, we expect minimal impact on the GPM during Q4FY22E. We also expect MTM inventory gains for few companies in Q4, which could lead an improvement in gross margins, to some extent. On the other hand, given that crude is still hovering at US\$100/barrel, it is prudent to see, how most chemical companies will be able to pass on input price inflation in Q1FY23E. In terms of topline growth outlook for Q4FY22E, we expect healthier demand environment across end user industries to have led to strong revenue performance for our coverage universe, amid better volumes & realisations growth. We expect our coverage universe companies to report topline growth of 29.3% YoY. We expect OPM for our coverage universe to expand 283 bps YoY to 20.9%, leading to EBITDA growth of 49.6%. Bottomline of our coverage universe is expected to report growth of 75% YoY, led by higher other income and lower tax outgo.

Topline likely to grow 29.3% YoY, led by volumes, realisation

There was a recovery in demand in sectors such as textile, paper, metals, automobiles, pharma, etc. This should support higher volume growth for most companies under our universe, especially from pigments, dyes, soda ash industries. Further, better realisations are expected to aid the overall performance. Companies in specialty chemicals and having large order backlog in place, should sustain similar momentum as witnessed in the last quarter. We anticipate our chemical universe companies will post topline growth of 29.3% YoY for Q4FY22E.

EBITDA to grow 49.6% YoY with bottomline growing 75% YoY

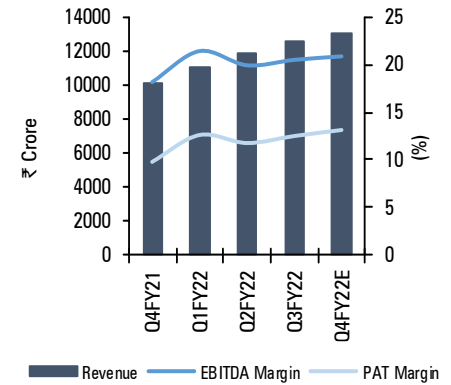
Increase in the value added segment revenue from the basket of specialty chemical companies along with a rise in realisation of select companies can aid the operational performance. We expect our coverage universe companies OPM to expand 283 bps YoY to 20.9%, leading to EBITDA growth of 49.6% YoY. Bottomline growth can be aided by 75% YoY growth, largely on the back of lower tax outgo and higher other income.

Exhibit 1: Estimates for Q4FY22E (₹ crore)

Company	Revenue			EBITDA			PAT		
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ
SRF	3,491.8	33.9	4.4	906.8	41.1	2.9	605.2	58.9	19.7
PI Industries	1,389.3	16.1	2.4	309.8	36.3	4.5	212.5	18.2	-4.6
Aarti Industries	1,803.1	49.1	3.3	391.8	50.5	17.0	230.9	69.7	9.7
Sumitomo Chemical	650.6	21.8	-8.0	114.7	60.8	-9.4	92.8	71.6	4.4
Vinati Organics	385.4	37.8	4.5	106.4	7.4	14.7	82.7	16.8	17.3
Tata Chemical	3,308.4	25.5	5.3	581.9	105.8	6.7	311.4	2,546.1	3.5
Navin Fluorine	413.9	23.0	9.2	110.8	31.5	12.4	77.7	30.4	12.9
Rallis India	540.9	14.8	-13.9	35.4	99.5	-47.5	15.7	126.4	-60.3
Sudarshan Chemical	693.4	20.3	15.2	86.7	-0.9	17.3	45.9	-14.1	26.1
Neogen Chemicals	153.8	65.9	16.0	28.7	54.8	20.4	12.2	30.8	16.5
Astec Life	250.6	45.7	44.5	63.7	66.9	48.7	40.1	67.4	62.0
Total	13,081.1	29.3	4.0	2,736.6	49.6	5.9	1,727.1	75.0	9.4

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Top Picks

Neogen Chemicals
Astec Lifescience
SRF

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Exhibit 2: Company Specific view

Company	Remarks
SRF	Higher ref gas prices along with better growth from speciality chemical to lead overall growth. We expect topline to grow 33.9% YoY to ₹ 3491.8 crore. OPM is likely to expand 132 bps YoY to 26% leading to EBITDA growth of 41.1% YoY to ₹ 906.8 crore. PAT is expected to remain at ₹ 605.2 crore (+58.9% YoY). Key Monitorable: Growth in speciality chemical segment
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-user industries. We expect topline to grow 16.1% YoY to ₹ 1389.3 crore. OPM can likely expand by 331 bps YoY to 22.3% resulting in EBITDA growth of 36.3% YoY to ₹ 309.8 crore. PAT should grow 18.2% YoY to ₹ 212.5 crore. Key Monitorable: Development of key molecules in the pharma intermediates
Aarti Industries	Aarti Industries' Q4FY22 revenues are expected to grow 49.1% YoY to ₹ 1803.1 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 49% YoY to ₹ 1676 crore while pharma segment revenues are expected to grow 45% YoY to ₹ 325 crore. OPM is likely to expand marginally by 21bps YoY to 21.7% leading to EBITDA growth of 50.5% YoY to ₹ 391.8 crore. Net profit is expected to grow 69.7% YoY to ₹ 230.9 crore. Key Monitorables EBITDA margins in both speciality chemical and pharma segment
Sumitomo Chemical	Since the company is witnessing strong demand from export market such as Japan & LatAm, we expect the same to continue momentum this quarter and support overall growth. We expect revenues to grow 21.8% YoY to ₹ 650.6 crore. OPM should remain at 17.6%, leading to EBITDA growth of 60.8% YoY to ₹ 114.7 crore. PAT is expected to remain at ₹ 92.8 crore (+71.6% 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 37.8% YoY to ₹ 385.4 crore. OPM is likely to remain at 27.6% (-782bps YoY) translating to EBITDA of ₹ 106.4 crore (+7.4% YoY). PAT is expected to remain at ₹ 82.7 crore (+16.8% YoY). Key Monitorables: Progress of Butyl phenol plant utilisation
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 the demand for soda ash. We expect the 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 realisation should also have aided overall growth for the quarter. The revenue is expected to grow 25.5% YoY to ₹ 3308.4 crore. OPM can likely remain at 17.6% (up 686bps YoY) resulting in EBITDA growth of 105.8% YoY to ₹ 581.9 crore. PAT is expected to remain at ₹ 311.4 crore. Key Monitorable: Growth in the basic chemical across key geographies along with EBITDA/tonne
Navin Fluorine	We expect revenues to grow 23% YoY to ₹ 413.9 crore, largely led by growth in the CRAMS, refrigerants and inorganic fluoride. The revenue from CRAMS is likely to up by 18% YoY to ₹ 89.5 crore while the same from refrigerant and inorganic fluoride is expected to remain higher by 30% YoY & 39% YoY, respectively. OPM is likely at 26.8% (+173bps YoY), in turn translating into EBITDA growth of 31.5% YoY to ₹ 110.8 crore. PAT is expected remain at ₹ 77.7 crore (+30.4% YoY). Key Monitorable: Growth in 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 14.8% YoY to ₹ 540.9 crore. EBITDA & PAT are expected to remain at ₹ 35.4 crore (+99.5% YoY) & ₹ 15.7 crore (+126.4% YoY), respectively. Key Monitorable: Growth in the international business, inventory situation of Metribuzin and offtake of PEKK under CRAMS portfolio

Segments	Revenue				
	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22E
CSM	1,006.0	807.0	993.0	1,076.0	1,162.1
Domestic agri input	191.0	387.0	361.0	280.0	227.3

Segments	Revenue				
	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22E
Specialty Chemical	131.0	133.0	122.0	152.0	154.7
CRAMS	76.0	67.0	82.0	60.0	89.5
Refrigerant	58.0	59.0	55.0	72.0	75.6
Inorganic Fluoride	59.0	56.0	65.0	83.0	82.0

Source: Company, ICICI Direct Research

Exhibit 3: Company Specific view (Continued)

Sudarshan Chemical Q4FY22 revenues are likely to grow 20.3% YoY to ₹ 693.4 crore, mainly due to realisation growth. EBITDA margins are likely to remain at 12.5% (-267bps YoY), leading to EBITDA fall of 0.9% YoY to ₹ 86.7 crore. The subdued operational performance is on account of higher RMAT & other cost. Net profit is expected to decline 14.1% YoY to ₹ 45.9 crore. **Key monitorables:** Improvement in end-users demand and product mix

Neogen Chemicals 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. Topline is expected to remain at ₹ 153.8 crore (+65.9% YoY). OPM is likely to remain at 18.6% (-134 bps YoY) leading to EBITDA growth of 54.8% YoY to ₹ 28.7 crore. PAT is expected to increase 30.8% YoY to ₹ 12.2 crore. **Key Monitorables:** Ramp up of Dahej organic chemical capacity and development of client addition in the CRAMS portfolio

Astec Lifescience Better utilisation of herbicide plant should also lead to higher growth for the quarter. We expect revenues to grow 45.7% YoY to ₹ 250.6 crore. OPM can likely expand 322 bps YoY to 25.4%, translating into EBITDA growth of 66.9% YoY to ₹ 63.7 crore. PAT is expected to remain at ₹ 40.1 crore (+67.4% YoY). **Key Monitorables:** Ramp up of herbicide plant utilisation and CRAMS performance

Source: Company, ICICI Direct Research

Exhibit 4: 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
SRF	2748	3,065	Buy	81,517	40.4	63.7	73.4	68.0	43.1	37.5	37.2	25.9	22.5	18.7	24.3	24.0	17.5	23.5	22.9
PI Industries	2920	3,375	Buy	44,358	48.6	55.4	70.1	60.1	52.7	41.7	39.3	34.4	27.6	17.2	17.2	18.8	13.8	13.8	15.0
Aarti Industries	970	1,175	Buy	35,154	14.5	37.1	35.1	66.9	26.2	27.7	39.6	19.3	18.8	10.7	17.7	16.0	15.0	22.8	18.0
Tata Chemical	1000	1,035	Hold	25,466	10.1	42.0	54.9	99.4	23.8	18.2	17.3	11.4	9.0	4.1	6.5	8.1	1.8	7.1	8.6
Vinati Organics	1987	2,320	Buy	20,493	26.2	31.5	41.8	75.8	63.1	47.5	56.3	49.4	35.2	21.7	23.3	26.0	17.4	18.0	20.0
Sumitomo Chemical	426	520	Buy	21,254	6.9	8.7	10.3	61.6	48.8	41.4	41.8	33.4	28.0	29.8	30.0	28.5	22.4	22.6	21.4
Navin Fluorine	4095	4,520	Hold	20,306	45.0	53.6	76.8	90.9	76.4	53.4	60.8	51.6	34.4	21.0	19.2	23.6	13.6	14.4	17.7
Rallis India	267	305	Hold	5,191	11.4	9.7	13.8	23.4	27.6	19.3	15.9	18.5	12.8	18.0	13.9	18.2	13.9	10.9	13.9
Sudarshan chemical	539	695	Buy	3,723	20.4	19.7	25.7	26.4	27.4	21.0	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1664	2,160	Buy	4,142	13.4	16.5	33.5	123.9	100.8	49.7	63.3	47.4	30.6	15.1	11.2	16.9	17.1	9.3	16.0
Astec Lifesciences	1810	2,120	Buy	3,544	33.2	43.1	55.0	54.5	42.0	32.9	32.0	23.9	19.3	18.9	21.6	22.4	21.0	21.6	21.9

Source: ICICI Direct Research

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