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Chemicals

Apr-Jun'22 Earnings Preview

July 6, 2022

Stable quarter QoQ but demand outlook cautious

Chemical companies are expected to deliver strong revenue/EBITDA performance YoY led by continued price rise to offset surge in raw material, energy and logistics costs. In Q1FY23 crude oil prices were up ~15% QoQ due to geopolitical issues, while oleochemical feedstock prices (vegetable oils viz palm, rapeseed, soyabean, sunflower oil etc.) were up 5-20% QoQ given Indonesia's ban on palm oil exports. While commodity prices are now moderating (ex-crude oil), demand environment has weakened particularly in discretionary end user industries due to extreme inflation witnessed over last few quarters. Demand outlook is cautious given weak consumer confidence, though chemical companies' capex programmes are on track. For our coverage stocks in Q1FY23, we expect Revenue/ EBITDA/PAT growth of 52%/86%/94% YoY and 3%/-2%/-3% QoQ. Gross/EBITDA margin decline of ~210 bps/ 140bps QoQ factors higher ASP's. We maintain 'BUY' on FINEORG (preferred pick) and NOCIL and 'ACCUMULATE' on ARTO.

- **FINEORG:** Pass through of higher costs to customers continued in Q1FY23, led by further increase in vegetable oil prices (5-20% QoQ), fueled by Indonesia's ban on palm oil exports and Russia-Ukraine crisis. We expect revenue/EBITDA/PAT to increase 86%/ 214%/ 227% YoY and 8%/ 2%/ -4% QoQ. From H2FY22 FINEORG navigated cost headwinds extremely well with EBITDA margin recovering from lows of 14.5% in Q1FY22 to 25.9% in Q4FY22 and likely at 24.5% in Q1FY23. Its medium term growth prospects look encouraging given 1) healthy demand traction in polymer additives and global consolidation benefits 2) capacity headroom to enable higher volume in FY23, though constraints visible in FY24 3) peak profitability likely in FY24 on optimum product mix and operating leverage playing out and 4) net cash balance sheet and healthy OCF of Rs 7.6bn over FY23-24 to enable self-funded capex. **Maintain 'BUY' at TP of Rs 5600 (40x FY24 EPS).**

- **NOCIL:** We expect higher average realizations YoY to drive revenue/ EBITDA/ PAT growth of 28%/ 31%/ 34% YoY, though on QoQ basis we expect decline of 5%/ 14%/ 8% on account of moderation in realization from peak witnessed in Q4 on softer key raw material prices (particularly MIBK and Acetone, while Aniline remained stable). While EBITDA margin is likely to moderate sequentially to 21.8% vs 24.1% (narrowing of spreads), absolute profitability continues to remain strong. NOCIL is well-placed given (1) sufficient capacity headroom to capture demand improvement expected from tyre industry capex (2) prices realigned to factor in cost inflation (3) net cash balance sheet and robust FCF generation of Rs 3.5 bn over FY22-24E. **Maintain 'BUY' at TP of Rs 310 (12x FY24E EV/EBITDA).**

- **ARTO:** We expect healthy growth in revenue (+43% YoY/ 6% QoQ) led by pass through of higher input prices in both chemicals and pharmaceutical segments, while volume growth to be restricted on availability of nitric acid (key RM). EBITDA to increase by 13% YoY/ 5% QoQ while margins are expected to contract 500 bps YoY/50 bps QoQ on lag in pass-through (~3 months) given continued RM price rise during the quarter. **Maintain 'ACCUMULATE' at TP of Rs 880 (19x FY24E EV/EBITDA).**

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Aarti Industries	Acc	685	880
Fine Organic Inds.	BUY	4,950	5,600
NOCIL	BUY	252	310

Source: PL Acc=Accumulate

Nitesh Dhoot
niteshdhoot@plindia.com | 91-22-66322260

Exhibit 2: Global Chemical Prices

Commodity	Curr/Unit	Q1FY22 (Avg)	Q4FY22 (Avg)	Q1FY23 (Avg)	% Change (QoQ)	% Change (YoY)	Latest Price	Key Domestic Manufacturers
Chlor-Alkali and chlorine derivatives								
Caustic Soda	USD/MT	329	693	777	12%	136%	755	Grasim, GACL, DCM Shriram, Reliance, TGV Sraac
Soda Ash	USD/MT	276	339	369	9%	34%	386	Tata Chemicals, GHCL, DCW, Nirma
Ethylene Dichloride	USD/MT	671	970	842	-13%	25%	805	Chemplast, Finolex Inds, DCW, DCM Shriram, Reliance
Vinyl Chloride Monomer	USD/MT	1,225	1,205	1,182	-2%	-4%	985	
Epichlorohydrin	CNY/MT	13,843	18,390	18,228	-1%	32%	13,200	Atul, Grasim
PVC	USD/MT	1,494	1,395	1,392	0%	-7%	1,200	Chemplast, Finolex Inds, DCW, DCM Shriram, Reliance
PVC Suspension	USD/MT	1,602	1,590	1,508	-5%	-6%	1,250	Chemplast, Finolex Inds, DCW, DCM Shriram, Reliance
Methanol and derivatives								
Methanol	USD/MT	376	421	379	-10%	1%	310	GNFC, GSFC, Deepak Fert, Assam Petrochem, RCF, NFL
Acetic Acid	CNY/MT	7,452	5,063	4,540	-10%	-39%	3,950	GNFC
Ethyl Acetate	CNY/MT	9,755	8,343	8,183	-2%	-16%	7,275	GNFC, Jubilant Ingrevia, Laxmi Organics, IOL
Formaldehyde	INR/KG	38	30	39	29%	4%	42	Jubilant, Kanoria Chemicals, Assam Petrochem
Formic Acid	INR/KG	84	127	131	3%	56%	140	GNFC
Vinyl Acetate	CNY/MT	12,486	13,399	15,540	16%	24%	15,750	Jubilant
MTBE	USd/Gal	219	304	431	42%	97%	460	Reliance, IOCL, BPCL
Cumene derivatives								
Phenol	USD/MT	1,242	1,423	1,504	6%	21%	1,540	Deepak Phenolics, HOCL, SI Group
Acetone	CNY/MT	7,013	5,824	5,902	1%	-16%	5,450	Deepak Phenolics, HOCL, SI Group
Acrylonitrile Butadiene Styrene (ABS)								
Acrylonitrile	USD/MT	2,353	1,957	2,070	6%	-12%	1,790	Reliance
Butadiene	USD/MT	1,004	976	1,397	43%	39%	1,355	Reliance, IOCL, Haldia Petro, ONGC Petro Additions
Styrene	USD/MT	1,263	1,330	1,497	13%	19%	1,440	Reliance
ABS	USD/MT	2,540	1,985	1,975	-1%	-22%	1,840	BEPL, INEOS Styrolution
Polypropylene (PP) and Polyethylene Terephthalate (PET)								
PP	USD/MT	1,317	1,308	1,328	2%	1%	1,230	Reliance
PET	CNY/MT	6,930	8,153	8,908	9%	29%	9,320	Dhunseri Petrochem
PTA	USD/MT	701	850	986	16%	41%	965	Reliance, Indian Oil, JBF
MEG	USD/MT	646	689	641	-7%	-1%	560	India Glycols, Indian Oil
Polyethylene (PE) and Polystyrene (PS)								
HDPE	USD/MT	1,184	1,292	1,332	3%	12%	1,230	Reliance, ONGC Petro Additions and GAIL
LDPE	USD/MT	1,526	1,611	1,668	4%	9%	1,510	Reliance
LLDPE	USD/MT	1,191	1,316	1,363	4%	14%	1,280	Reliance
Polystyrene	USD/MT	1,964	1,720	1,766	3%	-10%	1,750	Supreme Petro, INEOS Styrolution
Others								
Caprolactam	CNY/MT	13,455	13,955	14,326	3%	6%	13,700	GSFC, FACT
Nylon 6	INR/KG	240	183	183	0%	-24%	180	SRF, Century Enka
Acrylic Acid	USD/MT	1,420	2,094	1,930	-8%	36%	1,840	BPCL
Maleic Anhydride	USD/MT	1,458	1,746	1,475	-16%	1%	1,374	Thirumalai Chem, IG Petro
Phthalic Anhydride	CNY/MT	6,246	8,064	8,105	1%	30%	8,000	Thirumalai Chem, IG Petro
Titanium Dioxide	USD/MT	3,230	3,287	3,157	-4%	-2%	3,045	Kilburn Chem, Travancore Cochin Chem
Linear Alkylbenzene	USD/MT	1,698	1,711	1,794	5%	6%	1,715	Reliance, TN Petro, Nirma
TDI	CNY/MT	14,271	18,728	17,473	-7%	22%	17,450	GNFC, BASF
Ethanol	USD/Gallon	2.19	2.26	2.61	16%	19%	2.65	
Rock Phosphate	USD/ST	90	129	249	94%	178%	300	Imported; India is deficient in rock phosphate
Phosphoric Acid	USD/MT	949	1,408	1,530	9%	61%	1,530	GSFC, Coromandel
Ammonia	USD/MT	527	1,296	1,419	10%	169%	1,200	
Sulfuric Acid	CNY/MT	568	784	1,127	44%	99%	1,028	Hindustan Zinc, Hindalco, Trident, Bodal
Building Blocks								
Benzene	USD/MT	950	1,084	1,252	16%	32%	1,270	Reliance, IOCL, Haldia Petro, BPCL
Toluene	USD/MT	753	916	1,085	18%	44%	1,125	Reliance, IOCL, BPCL, GNFC, Deepak Nitrite
Ethylene	USD/MT	996	1,150	1,241	8%	25%	1,055	Reliance, IOCL, Gail, ONCG Petro Additions
Propylene	USD/MT	1,072	1,126	1,092	-3%	2%	970	Reliance, IOCL, HMEL, Haldia Petro
Feedstocks								
Crude Oil (Brent)	USD/BBL	69	98	112	15%	62%	113	ONGC
Naphtha	USD/MT	607	879	884	1%	46%	824	Reliance, IOCL, BPCL, HPCL, ONGC, GAIL
Natural Gas	USD/MMBtu	3	4.5	7.5	64%	152%	5.75	ONGC, OIL
LPGs/NGLs Propane	USd/Gal	88	131	126	-4%	44%	121	IOCL
Oleochemical Feedstocks								
Crude Palm Oil	MYR/MT	4,215	6,120	6,537	7%	55%	4,768	
Palm Kernel Oil	MYR/MT	5,367	9,665	7,129	-26%	33%	4,746	
Rapeseed Oil	EUR/MT	1,227	1,715	2,062	20%	68%	1,790	
Canola Oil	BRL/MT	9,236	10,172	10,649	5%	15%	12,900	
Olive Oil	EUR/MT	3,221	3,342	3,376	1%	5%	3,403	
Mustard Oil	INT/Tin	2,340	2,516	2,438	-3%	4%	2,300	
Castor Oil	USD/MT	1,639	2,013	2,172	8%	32%	2,095	
Sunflower Oil	USD/MT	1,518	1,573	2,085	33%	37%	1,775	
Soyabean Oil	BRL/MT	6,465	7,824	8,300	6%	28%	7,850	
Freight								
Baltic Dry Index (RHS)	Index	2,765	2,043	2,524	24%	-9%	2,159	
Freightos Index (China to US East Coast)	Index	8,587	17,341	15,348	-11%	79%	10,072	
Currencies								
USDINR		74	75.2	77.2	3%	5%	79.1	
USDCNY		6	6.3	6.6	4%	2%	6.7	
CNYINR		11	11.8	11.7	-1%	2%	11.8	

Source: Bloomberg, PL   Highlights – Light Green for >5% price increase; Light Red for >5% price decline

Exhibit 3: Q1FY23 Result Preview

Company Name		Q1FY23E	Q1FY22	*YoY gr. (%)*	Q4FY22	*QoQ gr. (%)*	Remark
Aarti Industries	Sales	18,892	13,168	*43.5*	17,556	*7.6*	We expect healthy growth in revenue led by pass through of higher input prices in both chemicals and pharmaceutical segments, while volume growth to be restricted on availability of nitric acid (key RM). EBITDA margins are expected to contract 500 bps YoY / 50 bps QoQ on lag in pass through (~3 months), given continued RM price rise.
	EBITDA	3,550	3,138	*13.1*	3,391	*4.7*	
	Margin (%)	*18.8*	*23.8*		*19.3*		
	PBT	2,473	2,070	*19.5*	2,314	*6.9*	
	Adj. PAT	2,003	1,649	*21.5*	1,938	*3.4*	
Fine Organic Industries	Sales	6,648	3,576	*85.9*	6,169	*7.8*	Pass through of higher costs to customers continued in Q1FY23, led by further increase in vegetable oil prices (feedstock). FINEORG has navigated cost headwinds extremely well and we expect growth momentum to continue. Margins to remain strong at 24.5% (vs. 25.9%), though QoQ moderation is mainly on higher ASP's.
	EBITDA	1,631	520	*213.6*	1,597	*2.1*	
	Margin (%)	*24.5*	*14.5*		*25.9*		
	PBT	1,564	471	*231.8*	1,621	*(3.6)*	
	Adj. PAT	1,175	359	*227.0*	1,219	*(3.7)*	
NOCIL	Sales	4,413	3,445	*28.1*	4,627	*(4.6)*	We expect Rev/ EBITDA/ PAT decline of 5%/ 14%/ 8% QoQ on moderation in realization from Q4FY22 peak, on softer key raw material prices (particularly MIBK and Acetone, while Aniline remained stable). While EBITDA margin is will likely moderate QoQ (narrowing of spreads), absolute profitability continues to remain strong.
	EBITDA	962	734	*31.0*	1,114	*(13.7)*	
	Margin (%)	*21.8*	*21.3*		*24.1*		
	PBT	848	638	*33.0*	959	*(11.6)*	
	Adj. PAT	634	474	*33.8*	689	*(8.0)*	

Source: Company, PL

Exhibit 4: Valuation Summary

Company Names	S/C	Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
						FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Aarti Industries	C	Acc	685	880	248.2	45,061	70,000	76,035	87,951	9,815	19,288	15,645	19,172	5,235	6,962	8,699	10,760	30.0	19.2	24.0	29.7	16.2	14.8	13.8	15.1	22.8	35.6	28.5	23.1
Fine Organic Industries	C	BUY	4,950	5,600	151.8	11,332	18,763	23,099	24,139	1,992	3,645	5,089	5,589	1,203	2,597	3,686	4,298	39.2	84.7	120.2	140.2	17.8	30.7	32.6	29.1	126.2	58.4	41.2	35.3
NOCIL	C	BUY	252	310	42.0	9,247	15,713	18,379	19,938	1,308	2,862	3,430	3,899	884	1,761	2,253	2,671	5.3	10.6	13.5	16.0	7.2	12.9	14.7	15.6	47.4	23.9	18.7	15.7

Source: Company, PL Acc=Accumulate / S=Standalone / C=Consolidated

Exhibit 5: Change in Estimates

	Rating		Target Price			Sales						PAT						EPS					
						FY23E			FY24E			FY23E			FY24E			FY23E			FY24E		
	C	P	C	P	*% Chng.*	C	P	*% Chng.*	C	P	*% Chng.*	C	P	*% Chng.*	C	P	*% Chng.*	C	P	*% Chng.*	C	P	*% Chng.*
Aarti Industries	Acc	Acc	880	880	*0.0%*	76,035	76,035	*0.0%*	87,951	87,951	*0.0%*	8,699	8,699	*0.0%*	10,760	10,760	*0.0%*	24.0	24.0	*0.0%*	29.7	29.7	*0.0%*
Fine Organic Industries	BUY	BUY	5,600	5,600	*0.0%*	23,099	23,099	*0.0%*	24,139	24,139	*0.0%*	3,686	3,686	*0.0%*	4,298	4,298	*0.0%*	120.2	120.2	*0.0%*	140.2	140.2	*0.0%*
NOCIL	BUY	BUY	310	310	*0.0%*	18,379	18,379	*0.0%*	19,938	19,938	*0.0%*	2,253	2,253	*0.0%*	2,671	2,671	*0.0%*	13.5	13.5	*0.0%*	16.0	16.0	*0.0%*

Source: Company, PL Acc=Accumulate / C=Current / P=Previous

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	880	721
2	Fine Organic Industries	BUY	5,600	4,969
3	NOCIL	BUY	310	255

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Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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