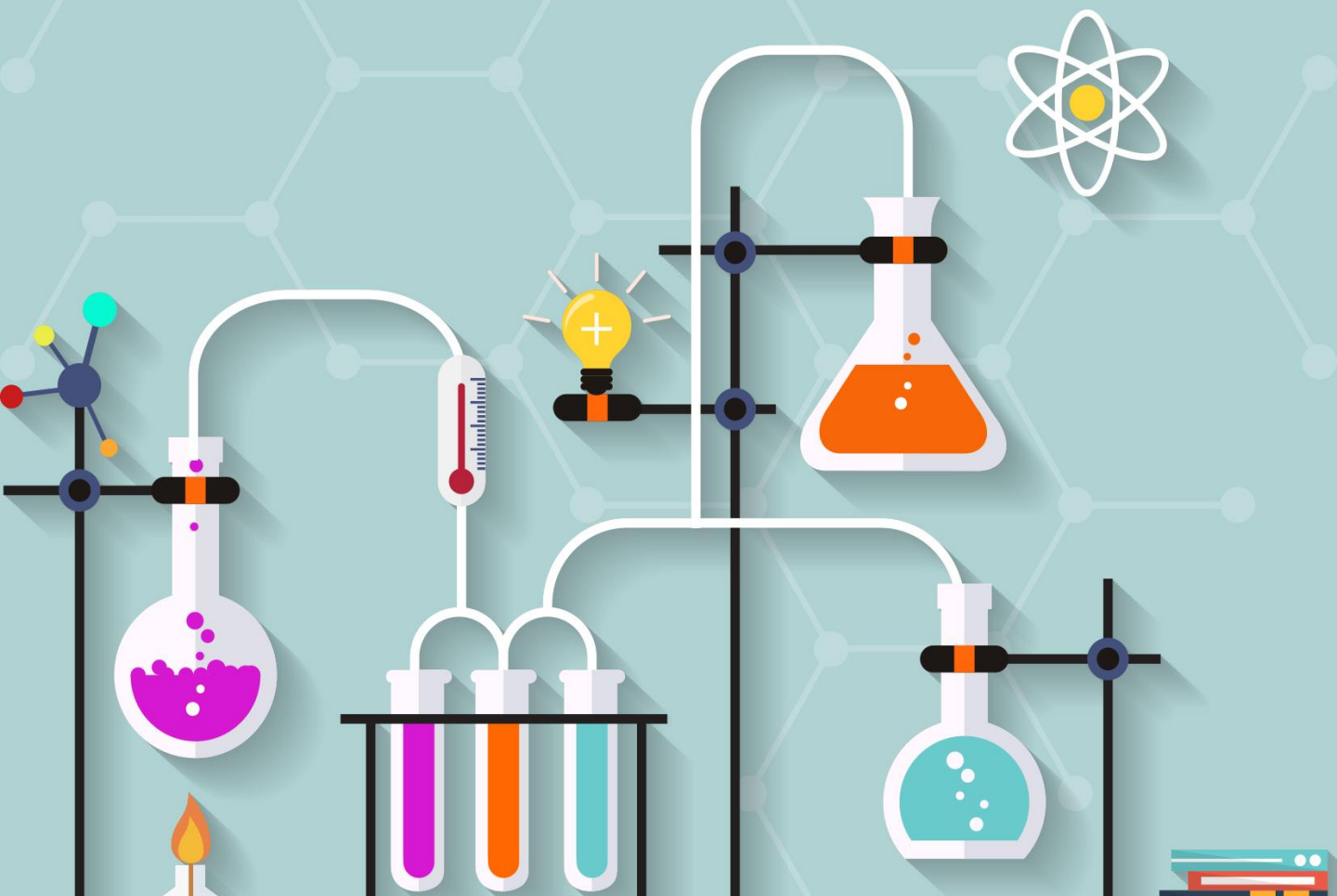


Q1FY23 Specialty Chemical Preview



Specialty Chemicals

Input cost to weigh on margins

MARKET DATA

	Close	1D (%)	1M (%)	YTD (%)
Nifty	15,966	-0.6	2.1	-8.6
Sensex	53,514	-0.7	2.1	-8.8
USD / INR	79.64	0.2	2.0	6.8

COVERAGE STOCKS

Company	Current Price** (INR)	Target* (INR)	Upside (%)	Market Cap. ** (INR mn)	P/E 2024E (x)	Recommendation*
UPL Ltd	679	918	32.9	5,18,977	8.8	BUY
Aarti Industries Ltd	735	1,094	47.0	2,66,549	22.8	BUY
Supreme Petrochemicals Ltd	933	NA	-	87,754	8.9	NA
Navin Flourine Int Ltd	3,700	4,223	14.13%	1,83,356	36.80	ACCUMULATE
Vinati Organics Ltd	2,047	2,349	14.75%	2,10,395	37.57	BUY
Gujarat Fluorochem Ltd	3,107	3,215	3.47%	3,41,271	29.95	BUY
Balaji Amines Ltd	3,080	4,313	40.00%	99,795	16.78	BUY
Rossari Biotech Ltd	854	1,252	46.60%	47,045	20.50	BUY
Tatva Chintan Pharma Chem Ltd	2,377	2,791	17.41%	52,680	34.70	ACCUMULATE
Anupam Rasayan India Ltd	706	780	10.48%	70,824	26.30	BUY

*Note: TP has been retained from previous update reports; we will review it post detailed Q1FY23 results analysis and conference call of the said companies.

^T.A. – Target Achieved and we will review it post detailed Q1FY23 results analysis and conference call of the said companies.

**CMP and Market Cap as on 13th July 2022.

Source: Bloomberg, NSE.

SECTOR OVERVIEW:

Volume growth due to improving demand and higher realisations:

We anticipate some resurgence in end user industry demand, which should result in volume growth for most of our companies in terms of topline growth outlook for Q1FY23E. While revenue growth would be largely driven by hike in prices, with rise in the realisation for the companies it could sustain operational performance.

Margin pressure to persist:

Crude oil prices have risen sharply in the last few months with average Brent crude at \$111/bbl in Q1FY23, on the back of fall in exports from Russia and lower global oil inventory levels. Such volatility has impacted the operational performance for most of the companies. Specialty chemical companies are expected to face margin pressure, with surge in input cost and comparatively lower volume growth than expected. Thus, we believe the current quarter to be a challenging one from margin perspective. The companies are now able to pass on the inflation cost and with recent correction of input cost in line with moderation in crude oil price should drive margin recovery in the coming period and demand recovery which should aid growth for the sector in the near term.

Specialty Chemicals

Outlook and valuation:

The prospect for major expansion in the chemical industry in India exists with efforts of global players to de-risk their China-reliant supply chains. This provides strong order pipeline and decent growth potential over coming years. Thus specialty chemical producers in India are increasing their production capacity to meet the increased domestic and international demand. We anticipate that our coverage universe companies will end up generating significant topline growth in Q1FY23 as a result of rising volume growth and increased realisations because they are well-positioned to take advantage of these opportunities. Our top stock picks are UPL, Aarti Industries, Balaji Amines, Gujarat Fluorochemical, and Anupam Rasayan with a BUY recommendation. Stocks have seen steep correction in the prices due to global crisis which provides opportunity to re-enter at comparatively lower valuations. We will review our targets & ratings post detailed Q1FY23 results analysis and conference calls.

Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q1FY23E	Q1FY22A	YoY	Q4FY22A	QoQ	Remarks
UPL Ltd						
Sales	95,368	85,150	12.0%	1,58,610	-39.9%	UPL is expected to report 12% YoY/-39.9% QoQ sales growth on the back of healthy volume growth across geographies. Price hikes taken in FY22 will help to improve realisations. EBITDA is likely to grow by 12.6% YoY/-42% QoQ while EBITDA margin will expand by 10 bps YoY as price hikes taken would likely to offset high input costs. PAT will see a decline of 5.9% YoY/53.8% QoQ mainly due to presence of deferred tax credit in the corresponding quarter of previous year. PAT margin to fall by 127 bps YoY/202 bps QoQ. Key Parameter – 1) Outlook on key geographical markets especially on Europe in light of ongoing Russia-Ukraine conflict, 2) Pipeline of new product launches, 3) Working capital position and possible currency impact, 4) Update on debt reduction plan.
EBITDA	19,550	17,370	12.6%	33,690	-42.0%	
Net Profit	6,369	6,770	-5.9%	13,790	-53.8%	
EBITDA (%)	20.5%	20.4%	10 bps	21.2%	-74 bps	
NPM (%)	6.7%	8.0%	-127 bps	8.7%	-202 bps	
Aarti Industries Ltd						
Sales	18,040	13,168	37.0%	17,556	2.8%	We expect Aarti Industries to report strong revenue growth of 37% YoY/2.8% QoQ driven by higher volume and improved realisations. EBITDA is likely to grow by 9.2% YoY/1.1% QoQ, though EBITDA margin will contract by 483 bps YoY/32 bps QoQ due to time lag in pass through of higher raw material costs. Nitric Acid supply shortage will also put pressure on operating performance. PAT is expected to grow by 4.9% YoY, though on QoQ basis PAT will suffer a decline of 10.7%. PAT margin will contract by 293 bps YoY/145 bps QoQ. Key Parameter – 1) Capex plan and its deployment strategy towards expanding its product portfolio in both specialty and pharma segments. 2) Supply challenges of Nitric Acid and company's strategy to counter it.
EBITDA	3,428	3,138	9.2%	3,391	1.1%	
Net Profit	1,729	1,649	4.9%	1,937	-10.7%	
EBITDA (%)	19.0%	23.8%	-483 bps	19.3%	-32 bps	
NPM (%)	9.6%	12.5%	-293 bps	11.0%	-145 bps	

Specialty Chemicals

Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q1FY23E	Q1FY22A	YoY	Q4FY22A	QoQ	Remarks
Supreme Petrochemicals Ltd						
Sales	13,089	10,478	24.9%	14,977	-12.6%	We expect Supreme Petrochem to report 24.9% YoY/-12.6% QoQ growth in revenue on account of healthy demand and improved realisations on the back of higher crude prices. EBITDA is likely to see strong growth of 34.6% YoY/-13.7% QoQ. EBITDA margin will expand by 146 bps YoY/-25 bps QoQ on the back of better product mix with larger share of value-added products. PAT is expected to grow by 31.7% YoY/-14.6% QoQ, while PAT margin is likely to see an expansion of 75 bps YoY/-34 bps QoQ. Key Parameter – 1) Status of project completion for the 4th line of Polystyrene and expansion of Expandable Polystyrene, 2) Update on the demand-supply dynamics in the industry for the subsequent quarters, 3) Company's strategy to increase share of value-added products in the product portfolio.
EBITDA	2,657	1,974	34.6%	3,078	-13.7%	
Net Profit	1,926	1,463	31.7%	2,254	-14.6%	
EBITDA (%)	20.3%	18.8%	146 bps	20.6%	-25 bps	
NPM (%)	14.7%	14.0%	75 bps	15.0%	-34 bps	
Navin Fluorine International Ltd						
Sales	4,550	3,270	39.3%	4,090	11.2%	NFIL in Q1FY23 is likely deliver revenue growth of 39.36% YoY and 11.25% on QoQ basis. Such performance will be backed by growth from Ref gas, specialty chemical segment followed by CRAMs biz. Ramp up of capacities and improving product mix to improve margins marginally. On operational front we expect 42.04% jump on YoY basis and 17.22% on QoQ basis in EBITDA whereas PAT to deliver grow by 47% on YoY and 10.11% on QoQ basis mainly due to higher profits because of exceptional item in Q4FY21. Key Parameters: (1) HPP (2) Client acquisition (3) Expansion of CRAMs business
EBITDA	1,110	780	42.0%	951	17.2%	
Net Profit	831	560	47.5%	750	10.1%	
EBITDA (%)	24.35%	23.89%	46bps	23.11%	124bps	
NPM (%)	18.15%	17.15%	100bps	18.34%	-19bps	
Vinati Organics Ltd						
Sales	4,911	3,862	27.2%	4,861	1.0%	We anticipate increasing contribution from ATBS segment to aid growth with spike in oil prices. Butyl phenol business is likely to be another key factor for improving performance during the period. Revenue is expected to jump 27.20% YoY/1.03% QoQ with Operating profits are expected to be up by 34.70% YoY/ -2.16% QoQ. Input costs like Acrylonitrile prices to impact margins marginally. Key Parameters: (1) Improving ATBS demand (2) Contribution from Antioxidants (3) Butyl Phenol & IB derivatives.
EBITDA	1,362	1,011	34.7%	1,393	-2.1%	
Net Profit	1,072	813	32.1%	1,016	5.9%	
EBITDA (%)	27.70%	26.17%	153bps	28.60%	-90bps	
NPM (%)	21.79%	20.98%	81bps	20.78%	100bps	
Gujarat Fluorochemical Ltd						
Sales	11,060	9,122	21.2%	10,741	2.9%	We estimate growth of 21.27% on YoY basis in Q1FY23. The enhanced availability of R-142B will likely result in larger volumes of PTFE supported by higher capacity utilisation of PVDF (new fluoropolymer). On EBITDA and NPAT front there will be a jump of 34.51% YoY and 50.33% on YoY. We expect it to deliver 31.01% EBITDA margins and 20.52% net profit margins in Q1FY23. Key Parameters: (1) Improving demand for PTFE (2) Increase in the use of new fluoropolymer capacity (3) New product commercialization
EBITDA	3,433	2,550	34.5%	3,322	3.3%	
Net Profit	2,270	1,513	50.3%	2,180	4.1%	
EBITDA (%)	31.01%	27.96%	300bps	30.91%	10bps	
NPM (%)	20.52%	16.56%	390bps	20.30%	23bps	

Specialty Chemicals

Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q1FY22E	Q1FY21A	YoY	Q4FY22A	QoQ	Remarks
Balaji Amines Ltd						
Sales	7,200	4,515	59.6%	7,792	-7.6%	Revenue is expected to grow 59% YoY and can expected dip of 7.5% on QoQ basis. The growth would be led by DMF and strong demand from its subsidiary, BSCPL. EBITDA will deliver growth of 28% YoY, driven by low base of Q1FY22. Margins are expected to remain flattish at 25.69% with a dip of 6% YoY on account of higher raw material cost (Ammonia and Methanol). PAT to touch INR 1,220 Mn and margin likely to come at 17%.
EBITDA	1,850	1,442	28.5%	1,972	-6.1%	
Net Profit	1,221	972	25.8%	1,312	-6.9%	
EBITDA (%)	25.69%	31.93%	-623bps	25.29%	41bps	Key Parameters: (1) Ramp up of DMF capacity (2) Capacity addition of DMC and propylene glycol (3) Contribution from BSCPL
NPM (%)	16.94%	21.51%	-456bps	16.82%	13bps	
Rossari Biotech Ltd						
Sales	4,588	2,311	98.53%	4,389	4.53%	We expect revenue to grow at 4.5% on a sequential basis, as YoY comparison is not viable due to its merger with Unitop and Tristar in FY22. We expect positive demand for textiles and HPPC products leading to higher volume growth, and higher realisations are expected on account of rise in raw material prices. EBITDA margin is expected at 12% (+8bps QoQ). PAT is expected to grow at 14% QoQ with a PAT margin at 6% (+49bps QoQ).
EBITDA	551	371	48.33%	523	5.25%	
Net Profit	274	245	11.64%	241	13.78%	
EBITDA (%)	12.0%	16.1%	-406bps	11.9%	8bps	Key Parameters: (1) Revenue segment performance (2) Share of exports (3) New client acquisition
NPM (%)	6.0%	10.6%	-464bps	5.5%	49bps	
Tatva Chintan Pharma Chemical Ltd						
Sales	1,083	1,068	1%	985	9.9%	We expect muted topline growth on account of continued semiconductor shortage. We estimate operating margins at 22.5% (-168bps yoy / +22bps qoq) and PAT margins to be reported at 17.6% (-410bps yoy / -21bps qoq) for the quarter.
EBITDA	244	258	-6%	220	11.0%	
Net Profit	190	231	-18%	175	8.6%	
EBITDA (%)	22.5%	24.2%	-168bps	22.3%	22bps	Key Parameters: (1) Capacity utilisation levels; (2) Topline growth driver
NPM (%)	17.6%	21.7%	-410bps	17.8%	-21bps	
Anupam Rasayan India Ltd						
Sales	3,201	2,337	37.0%	3,172	0.9%	We expect flat revenue growth on sequential basis on a consolidated basis while EBITDA margin is expected at 28.4% (-213bps qoq) and PAT margin is expected at 13.6% (-57bps qoq). The performance is not comparable on yoy basis as it includes the merger effect of Tanfac industries.
EBITDA	910	607	49.9%	969	-6.1%	
Net Profit	437	321	35.9%	451	-3.1%	
EBITDA (%)	28.4%	26.0%	245bps	30.5%	-213bps	Key Parameters: (1) Segment wise performance (2) shift in pricing contracts
NPM (%)	13.6%	13.7%	-11bps	14.2%	-57bps	

Specialty Chemicals

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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