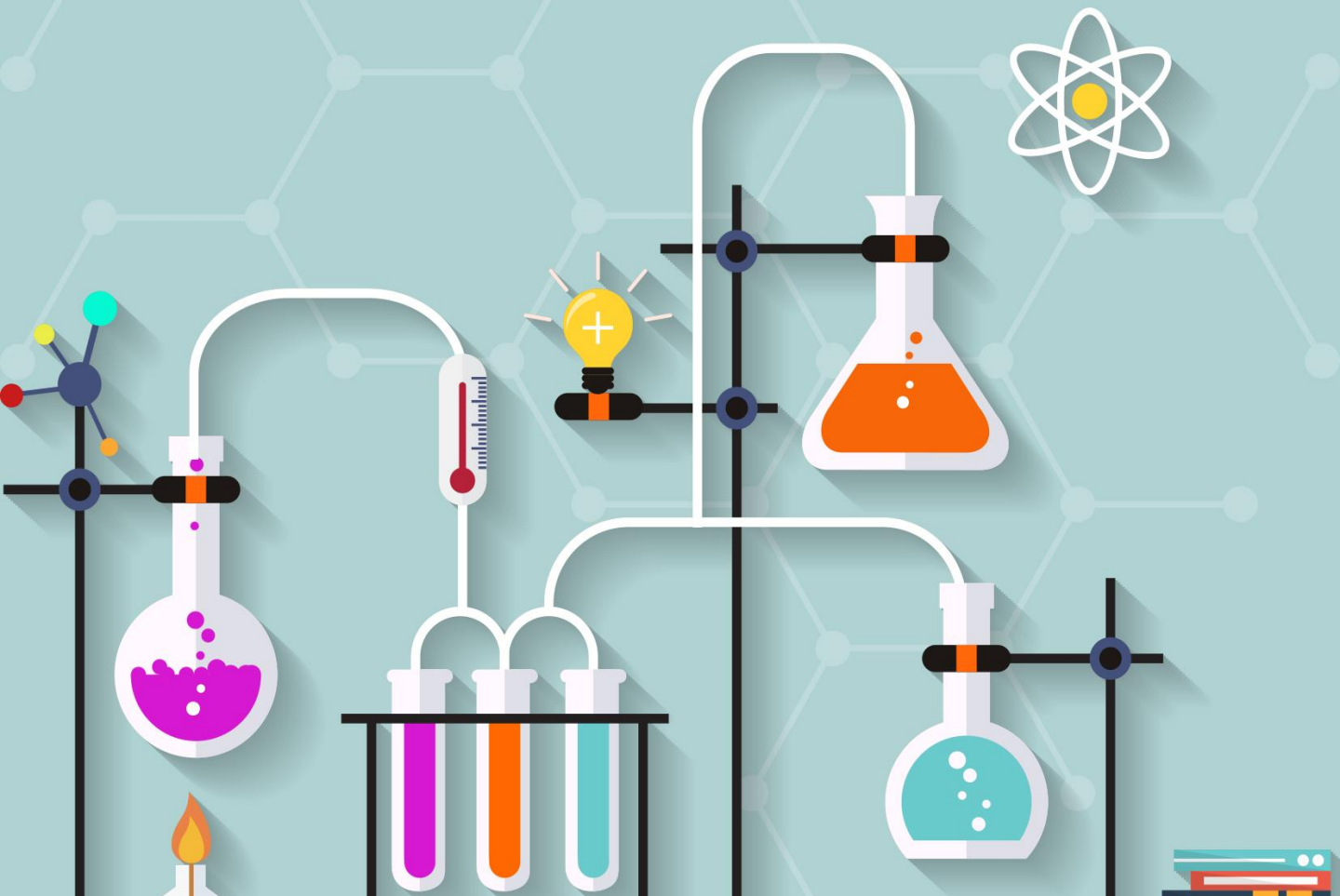


# Q2FY23 Specialty Chemical Preview



# Specialty Chemicals

## Continued higher product prices

### MARKET DATA

	Close	1D (%)	1M (%)	YTD (%)
Nifty	16,984	-1.5	-5.3	-3.6
Sensex	57,147	-1.5	-4.9	-3.4
USD / INR	82.3	0.0	-3.4	-9.7

### COVERAGE STOCKS

Company	Current Price** (INR)	Target* (INR)	Upside (%)	Market Cap. ** (INR mn)	P/E 2024E (x)	Recommendation*
UPL Ltd	664	937	41.0	5,08,075	8.3	BUY
Aarti Industries Ltd	763	1,094	43.3	2,76,663	23.4	BUY
Supreme Petrochemicals Ltd	763	1,021	33.8	71,775	7.5	BUY
Navin Flourine Int Ltd	4,587	4,374	T.A <sup>^</sup>	2,27,293	45.62	ACCUMULATE
Vinati Organics Ltd	1,992	2,370	T.A <sup>^</sup>	2,04,777	36.56	ACCUMULATE
Gujarat Fluorochem Ltd	3,996	3,578	T.A <sup>^</sup>	4,38,971	38.53	ACCUMULATE
Balaji Amines Ltd	3,054	4,313	41.2%	98,955	16.64	BUY

\*Note: TP has been retained from previous update reports; we will review it post detailed Q2FY23 results analysis and conference call of the said companies.

<sup>^</sup>T.A. – Target Achieved and we will review it post detailed Q2FY23 results analysis and conference call of the said companies.

\*\*CMP and Market Cap as on 11<sup>th</sup> October 2022.

Source: Bloomberg, NSE.

### SECTOR OVERVIEW:

#### Rise in volume brought on by stronger demand and more realisations:

We anticipate strong revenue growth for the businesses we cover in the speciality chemicals sector, driven by healthy realisations across the board, while excellent volume growth is anticipated for a few names due to a pickup in demand. Stronger exports are benefiting our firms, and orders will probably keep expanding at a quicker rate. Our agrochemical industries are also benefited by the increasing demand for outsourcing and the raised crop prices. Due to the late monsoon and unequal distribution of rainfall on the domestic front, we anticipate reduced volume growth for agrochemical companies with revenue growth being driven by higher realisations.

#### Input costs more of a pass through:

The crude prices have cooled off from its recent high (-10% QoQ). Due to the high cost of inventories, domestic companies margins are expected to be under pressure. With the recent reduction in input costs in tandem with a moderated crude oil price, margin recovery should occur over the period, and a rebound in demand should support sector development over the short term. Additionally, we consider it favourable that product prices have remained stable sequentially despite weakening crude since it shows that the greater cost may be passed on.

**Key monitorable:** (1) Crude prices (2) R&D capabilities (3) Capex plans (4) Product realisation (5) Demand from end user segments.

**Outlook:** We believe that Indian chemical companies will continue to grow and thus retain our positive outlook. This would be on account of healthy order flow and respectable development potential in the upcoming years. Stronger export demand and great potential for the sector as a whole are shown by the spike in demand led by end-user industries. Our chemical basket companies are well-positioned to take advantage of these possibilities, hence we estimate that the companies will end up achieving considerable topline growth in Q2FY23 as a consequence of growing volume growth and improved realisations. Our top stock selections are UPL, Aarti Industries, Balaji Amines with a BUY recommendation. Most of the other companies from our coverage universe have achieved targets for which we will review our targets & ratings post detailed Q2FY23 results analysis and conference calls. Overall, the Specialty Chemicals industry is likely to continue performing well in the medium term. Keeping this in perspective, we recommend an Overweight stance on the sector.

# Specialty Chemicals

## Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q2FY23E	Q2FY22A	YoY	Q1FY23A	QoQ	Remarks
<b>UPL Ltd</b>						
Sales	1,21,521	1,05,670	15.0%	1,08,210	12.3%	UPL is expected to report 15% YoY/12.3% QoQ sales growth on the back of healthy volume growth, improved realization and exchange benefits. We expect volume growth to remain strong across geographies (North America/LatAm/India/RoW) except Europe. EBITDA is likely to grow by 20.1% YoY/11.3% QoQ while EBITDA margin will expand by 83 bps YoY, though on QoQ basis margin will see a slight contraction of 18 bps. PAT will see a robust growth of 31.4% YoY/0.7% QoQ on the back of lower tax rate compared to Q2FY22. PAT margin to expand by 99 bps YoY, while on QoQ basis it will fall by 91 bps.  Key Parameters – 1) Update on debt reduction plan, 2) Outlook on key geographical markets especially Europe, 3) Status of new product launches, 4) Working capital position and possible currency impact.
EBITDA	23,884	19,890	20.1%	21,460	11.3%	
Net Profit	9,620	7,320	31.4%	9,550	0.7%	
EBITDA (%)	19.7%	18.8%	83 bps	19.8%	-18 bps	
NPM (%)	7.9%	6.9%	99 bps	8.8%	-91 bps	
<b>Aarti Industries Ltd</b>						
Sales	20,171	15,516	30.0%	19,720	2.3%	We expect Aarti Industries to report strong revenue growth of 30% YoY/2.3% QoQ driven by higher volume offtake coupled with improved realisations from value-added products. EBITDA is likely to grow by 24.8% YoY/4.7% QoQ, though EBITDA margin will contract by 79 bps YoY due to time lag in pass through of higher raw material costs. However, on QoQ basis EBITDA margin will see an expansion of 44 bps. In line with strong EBITDA growth, PAT is expected to grow by 19.7% YoY/11.4% QoQ. PAT margin will expand by 86 bps QoQ. Though on YoY basis PAT margin is likely to see a contraction of 90 bps.  Key Parameters – 1) Update on ramp up of utilization level of recently commissioned plants. 2) Capex plan and its deployment strategy towards expanding its product portfolio in both specialty and pharma segments. 3) Status of progress of the backwardly integrated Nitric Acid plant.
EBITDA	3,867	3,098	24.8%	3,693	4.7%	
Net Profit	2,107	1,761	19.7%	1,891	11.4%	
EBITDA (%)	19.2%	20.0%	-79 bps	18.7%	44 bps	
NPM (%)	10.4%	11.3%	-90 bps	9.6%	86 bps	
<b>Balaji Amines Ltd</b>						
Sales	6,782	5,257	29.01%	6,702	1.19%	We expect the topline to grow 29.01% YoY and flattish 1.19% growth QoQ. Overall the growth would be supported by DMF and few other products which saw demand in the September month. Sequential growth is mainly on account of slower API/Pharma market. On operational front EBITDA growth to come at 37.75% YoY. Methanol prices remained less volatile during the quarter. Margins are expected to remain at 26.69% and PAT margins at 18.25%.  Key Parameters: (1) Contribution from DMC plant (2) Improving utilisation levels (3) BSCPL subsidiary
EBITDA	1,810	1,314	37.75%	2,149	-15.77%	
Net Profit	1,238	881	40.52%	1,482	-16.46%	
EBITDA (%)	26.69%	25%	1.69%	32.07%	26.69%	
NPM (%)	18.25%	16.76%	1.50%	22.11%	18.25%	

# Specialty Chemicals

## Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q2FY23E	Q2FY22A	YoY	Q1FY23A	QoQ	Remarks
<b>Supreme Petrochemicals Ltd</b>						
Sales	14,037	11,908	17.9%	14,854	-5.5%	We expect Supreme Petrochem to report 17.9% YoY/-5.5% QoQ growth in revenue on account of healthy demand and improved realisations on the back of higher crude prices. EBITDA is likely to see a decent growth of 15.6% YoY/-19.1% QoQ. EBITDA margin is likely to contract by 244 bps QoQ on the back of correction in crude prices on QoQ basis. Though on YoY basis EBITDA margin will mostly remain flat (28 bps decline) on account of better product mix with larger share of value-added products compared to last year. PAT is expected to grow by 21.5% YoY/-18.3% QoQ, while PAT margin is likely to see an expansion of 33 bps YoY/-173 bps QoQ.
EBITDA	2,035	1,760	15.6%	2,517	-19.1%	
Net Profit	1,544	1,271	21.5%	1,891	-18.3%	
EBITDA (%)	14.5%	14.8%	-28 bps	16.9%	-244 bps	
NPM (%)	11.0%	10.7%	33 bps	12.7%	-173 bps	Key Parameters – 1) Pipeline of new value-added product launches, 2) Progress report on the agreement with Versalis, 3) Status of project completion for the 4th line of Polystyrene and expansion of Expandable Polystyrene, 4) Update on the demand-supply dynamics in the industry in the light of correction in crude prices for the subsequent quarters.
<b>Navin Fluorine International Ltd</b>						
Sales	4,650	3,389	37.21%	3,975	16.98%	NFIL in Q2FY23 can show revenue growth of 37.21% YoY and 16.98% on QoQ basis. The company's overall growth will be led by HPP segment and specialty chemical segment. On operational front we expect 43.71% jump on YoY basis and 21.98% on QoQ basis in EBITDA whereas PAT to deliver grow by 36.65% on YoY and 16.11% on QoQ basis mainly due to continuous price hikes.  Key Parameters: (1) HPP (2) Better product realisation (3) Customer addition (4) Expansion of CRAMS business.
EBITDA	1,210	842	43.71%	992	21.98%	
Net Profit	865	633	36.65%	745	16.11%	
EBITDA (%)	26.02%	24.85%	1.18%	24.96%	1.07%	
NPM (%)	18.60%	18.68%	-0.08%	18.74%	-0.14%	
<b>Vinati Organics Ltd</b>						
Sales	5,275	3,864	36.52%	5,063	4.19%	We expect revenue growth to be at 36.52% YoY and 4.19% QoQ. This will be majorly driven by ATBS segment, and higher performance from butyl phenol/new products. Operating profits are expected to be up by 38.88% YoY/ 7.9% QoQ. Better realisation and softening of Acrylonitrile prices to drive profitability growth which will offset higher energy costs. PAT to deliver 34.57% YoY and 7.18% QoQ at INR 1,090 Mn in Q2FY23.  Key Parameters: (1) Pick up in ATBS demand (2) Contribution from Antioxidants (3) Ramp up of new BP & IB derivatives
EBITDA	1,411	1,016	38.88%	1,309	7.79%	
Net Profit	1,090	810	34.57%	1,017	7.18%	
EBITDA (%)	26.75%	26.29%	0.45%	25.85%	0.89%	
NPM (%)	20.66%	20.96%	-0.30%	20.09%	0.58%	
<b>Gujarat Fluorochemical Ltd</b>						
Sales	13,800	9,640	43.15%	13,334	3.49%	We estimate growth of 43.15% on YoY basis in Q2FY23. Strong demand from PTFE will likely increase the volumes followed by new fluoropolymers. We expect it to deliver 30.62% Ebitda margins and 21.27% Net profit margins in Q2FY23. Strong exports and stable input costs will all contribute to such healthy performance.  Key Parameters: (1) Higher PTFE volumes (2) Usage of new fluoropolymer capability to increase.
EBITDA	4,225	2,957	42.88%	4,441	-4.86%	
Net Profit	2,935	2,051	43.10%	3,029	-3.10%	
EBITDA (%)	30.62%	30.67%	-0.05%	33.31%	-2.69%	
NPM (%)	21.27%	21.28%	-0.01%	22.72%	-1.45%	

# 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%

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