

Jul-Sep'22 Earnings Preview

October 6, 2022

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Aarti Industries	Acc	774	880
Fine Organic Ind.	HOLD	6,640	6,200
Jubilant Ingrevia	BUY	518	860
Laxmi Organic Ind.	HOLD	343	335
NOCIL	Acc	260	300

Source: PL

Acc=Accumulate

Stable QoQ amidst weak global demand environment

Chemical companies in our coverage universe are expected to deliver strong revenue/ EBITDA/PAT growth of 24%/ 42%/ 50% YoY aided by higher volumes and increase in realizations offsetting cost inflation, though QoQ growth is likely to be muted at 1%/ 1%/ 2%. Global demand environment has weakened, due to central bank actions to curb inflation witnessed over last few quarters, and production slowdown due to sky rocketing gas prices and limited availability in Europe. While prolonged gas crisis is likely to boost outsourcing of specialty chemicals (Europe+1) over the medium to long term, benefitting Indian manufacturers, production disruption can have a negative impact in the near term. Demand outlook is cautious given weak consumer confidence though chemical companies' capex programmes are on track. In Q2FY23 crude oil prices moderated ~12% QoQ, while oleochemical feedstock prices (vegetable oils viz palm, rapeseed, soyabean, sunflower oil etc.) witnessed steep correction of upto 40% QoQ on weak demand and high inventories. INR depreciated against USD by ~3% QoQ. We reiterate 'BUY' on JUBLINGR, maintain 'ACCUMULATE' on ARTO & NOCIL and 'HOLD' on FINEORG & LXCHEM.

- JUBLINGR:** We expect consolidated revenue/EBITDA/PAT growth of 11%/ 19%/19% QoQ aided by improvement in Specialty Chemicals (SPCM) segment performance on pass through of high power & fuel costs and despite continuing headwinds in Nutrition & Health Solutions (NHS) segment (volume impact in US & Europe due to avian influenza). Chemical Intermediates segment profitability is likely to be stable QoQ on firm spreads despite steep correction in acetic acid (key RM) prices (-25% QoQ). On YoY basis, the profitability is likely to be lower (EBITDA/ PAT decline -14%/ -15%) given a strong base quarter (elevated margins across segments). We believe JUBLINGR is well placed to capitalize on long term growth opportunities with capex outlay of Rs20.5bn over FY22-25E (of which Rs9bn is committed). Strong balance sheet (Net Debt/Equity at 0.1x) despite ~Rs18bn cash outflow on capex over FY23-25E and earnings mix improvement led by higher value and structural growth segments (SPCM + NHS) will drive rerating in the stock, in our view. **Reiterate 'BUY' with SoTP based TP at Rs 860 (implied 13x Sep'24 EV/EBITDA and 22x Sep'24 PE).** ([detailed report](#))
- FINEORG:** We expect higher realizations and volumes to drive revenue/ EBITDA/ PAT growth of 81%/ 195%/ 215% YoY, while on QoQ basis we expect largely stable performance with revenue/ EBITDA/ PAT growth of 5%/1%/-2%. Pass through of higher costs to customers continued in Q2, though RM's appear to have peaked out as oleochemical feedstock prices (vegetable oils like rapeseed, palm, palm kernel etc.) witnessed steep decline during Q2 (down 20-30% QoQ). Growth prospects look encouraging given 1) healthy demand in polymer additives and global consolidation benefits 2) capacity headroom for capturing higher volume in FY23, though constraints are visible in FY24 3) likely strong profitability over FY23-24 on optimum product mix and operating leverage playing out 4) net cash balance sheet and healthy OCF of Rs 8.6 bn over FY23-24 to enable self-funded capex. **Maintain HOLD with TP at Rs 6200 (40x FY24E EPS).**

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- **NOCIL:** We expect higher ASP's and volumes to drive revenue/EBITDA/PAT growth of 36%/ 82%/ 100% YoY though on QoQ basis, we expect flattish revenue as improved realizations get offset by lower volume while EBITDA/PAT decline by 11%/10%. Profitability continues to remain healthy as gross spreads remain largely stable, though EBITDA margin is likely to moderate to 18% vs 20.2% QoQ. NOCIL is well placed given (1) sufficient capacity headroom to capture demand improvement expected from tyre industry capex (2) continuous price realignment to factor cost push (3) net cash balance sheet and robust FCF generation of Rs3.6bn over FY23-24E. **Maintain ACCUMULATE with TP at Rs 300 (12x FY24E EV/EBITDA).**
- **ARTO:** We expect revenue/EBITDA/PAT growth of 20%/ 19%/ 16% YoY led by additional volume from newer capacities and higher realizations while nitric acid (key RM) availability eases and input prices begin to soften sequentially (prices of benzene/ toluene are down ~20%/ 8% QoQ, aided by moderation in crude oil by ~12% QoQ). Demand remains healthy from end user industries like agrochemicals and pharmaceuticals though dyes and pigments (~15-20% of revenue) continue to witness slowdown. EBITDA margin to remain flat YoY / +120 bps QoQ on lag in pass through of softening input prices and gradual ramp up of newer capacities aiding better absorption of fixed overheads. We expect healthy revenue/EBITDA/PAT CAGR of 18%/21%/24% (adj for termination fees) over FY22-24E, on rising capacity utilization (high capex intensity of Rs 45-50 bn over FY22-24E focused on value added derivatives), import substitution, rising domestic demand and China +1 strategy. **Maintain ACCUMULATE with TP at Rs 880 (18x FY24E EV/EBITDA).**
- **LXCHEM:** We expect consolidated revenue/EBITDA/PAT growth of 21%/ 188%/ 275% YoY, though not comparable as base quarter was impacted by flood in Mahad (plant location). On QoQ basis, we expect revenue/ EBITDA/ PAT to decline by 3%/ 12%/ 16% partially due to 21 days production shutdown (scheduled maintenance), despite contribution from long term contract (plant commissioned in Q1FY23). While Specialty Intermediates (SI) business revenue visibility increases through long term contracts from global majors (second long term project to commence in Q3FY23), Fluorochemicals (FI) business faces time and cost overruns and is likely to scale up gradually once commissioned in H2FY23. While we like LXCHEM's stronghold in both AI and SI, we believe that FI scale up will be gradual, while most positives are factored in its valuations. **Maintain 'HOLD' with SoTP based TP at Rs 335 (implied Sep'24E EV/EBITDA of 17x and PE of 25x).** ([detailed report](#))

Exhibit 2: Global Chemical Prices

Commodity	Curr/Unit	Q2FY23 (Avg)	Q1FY23 (Avg)	Q2FY22 (Avg)	% Change (QoQ)	% Change (YoY)	Latest Price	Key Domestic Manufacturers
Chlor-Alkali and chlorine derivatives								
Caustic Soda	USD/MT	680	777	410	-13%	66%	730	Grasim, GACL, DCM Shriram, Reliance, TGV Sraac
Soda Ash	USD/MT	355	369	376	-4%	-6%	332	Tata Chemicals, GHCL, DCW, Nirma
Ethylene Dichloride	USD/MT	506	842	694	-40%	-27%	305	Chemplast, Finolex Inds, DCW, DCM Shriram, Reliance
Vinyl Chloride Monomer	USD/MT	787	1,182	1,104	-33%	-29%	730	
Epichlorohydrin	CNY/MT	11,287	18,228	15,563	-38%	-27%	10,300	Atul, Grasim
PVC	USD/MT	1,002	1,392	1,334	-28%	-25%	870	Chemplast, Finolex Inds, DCW, DCM Shriram, Reliance
PVC Suspension	USD/MT	1,058	1,508	1,551	-30%	-32%	900	Chemplast, Finolex Inds, DCW, DCM Shriram, Reliance
Methanol and derivatives								
Methanol	USD/MT	301	379	419	-21%	-28%	330	GNFC, GSFC, Deepak Fert, Assam Petrochem, RCF, NFL
Acetic Acid	CNY/MT	3,333	4,540	6,384	-27%	-48%	3,350	GNFC
Ethyl Acetate	CNY/MT	6,987	8,183	9,026	-15%	-23%	6,925	GNFC, Jubilant Ingrevia, Laxmi Organics, IOL
Formaldehyde	INR/KG	41	39	34	4%	21%	37	Jubilant, Kanoria Chemicals, Assam Petrochem
Formic Acid	INR/KG	136	131	89	4%	53%	125	GNFC
Vinyl Acetate	CNY/MT	11,689	15,540	11,675	-25%	0%	8,050	Jubilant
MTBE	USD/Gal	342	431	220	-21%	55%	285	Reliance, IOCL, BPCL
Cumene derivatives								
Phenol	USD/MT	1,367	1,504	1,279	-9%	7%	1,315	Deepak Phenolics, HOCL, SI Group
Acetone	CNY/MT	5,138	5,902	5,866	-13%	-12%	5,850	Deepak Phenolics, HOCL, SI Group
Acrylonitrile Butadiene Styrene (ABS)								
Acrylonitrile	USD/MT	1,567	2,070	2,210	-24%	-29%	1,395	Reliance
Butadiene	USD/MT	1,017	1,397	1,322	-27%	-23%	755	Reliance, IOCL, Haldia Petro, ONGC Petro Additions
Styrene	USD/MT	1,264	1,497	1,239	-16%	2%	1,105	Reliance
ABS	USD/MT	1,602	1,975	2,389	-19%	-33%	1,530	BEPL, INEOS Styrolution
Polypropylene (PP) and Polyethylene Terephthalate (PET)								
PP	USD/MT	1,077	1,328	1,234	-19%	-13%	1,070	Reliance
PET	CNY/MT	8,912	8,908	7,139	0%	25%	8,310	Dhunseri Petrochem
PTA	USD/MT	881	986	743	-11%	19%	875	Reliance, Indian Oil, JBF
MEG	USD/MT	530	641	689	-17%	-23%	510	India Glycols, Indian Oil
Polyethylene (PE) and Polystyrene (PS)								
HDPE	USD/MT	1,084	1,332	1,138	-19%	-5%	1,050	Reliance, ONGC Petro Additions and GAIL
LDPE	USD/MT	1,320	1,668	1,415	-21%	-7%	1,220	Reliance
LLDPE	USD/MT	1,106	1,363	1,186	-19%	-7%	1,060	Reliance
Polystyrene	USD/MT	1,509	1,766	1,761	-15%	-14%	1,470	Supreme Petro, INEOS Styrolution
Others								
Caprolactam	CNY/MT	12,549	14,326	14,962	-12%	-16%	11,650	GSFC, FACT
Nylon 6	INR/KG	139	183	228	-24%	-39%	105	SRF, Century Enka
Acrylic Acid	USD/MT	1,217	1,930	1,972	-37%	-38%	1,057	BPCL
Maleic Anhydride	USD/MT	1,135	1,475	1,611	-23%	-30%	1,045	Thirumalai Chem, IG Petro
Phthalic Anhydride	CNY/MT	8,386	8,105	6,595	3%	27%	10,300	Thirumalai Chem, IG Petro
Titanium Dioxide	USD/MT	2,639	3,157	3,274	-16%	-19%	2,298	Kilburn Chem, Travancore Cochin Chem
Linear Alkylbenzene	USD/MT	1,738	1,794	1,692	-3%	3%	1,745	Reliance, TN Petro, Nirma
TDI	CNY/MT	17,430	17,473	14,173	0%	23%	20,500	GNFC, BASF
Ethanol	USD/Gallon	2.54	2.57	2.19	-1%	16%	2.42	
Rock Phosphate	USD/ST	300	249	100	20%	199%	300	Imported; India is deficient in rock phosphate
Phosphoric Acid	USD/MT	1,701	1,530	1,146	11%	48%	1,715	GSFC, Coromandel
Ammonia	USD/MT	1,246	1,419	657	-12%	90%	1,310	
Sulfuric Acid	CNY/MT	597	1,127	735	-47%	-19%	296	Hindustan Zinc, Hindalco, Trident, Bodal
Building Blocks								
Benzene	USD/MT	1,007	1,252	1,015	-20%	-1%	900	Reliance, IOCL, Haldia Petro, BPCL
Toluene	USD/MT	994	1,085	773	-8%	29%	945	Reliance, IOCL, BPCL, GNFC, Deepak Nitrite
Ethylene	USD/MT	984	1,241	985	-21%	0%	905	Reliance, IOCL, Gail, ONGC Petro Additions
Propylene	USD/MT	909	1,092	1,007	-17%	-10%	990	Reliance, IOCL, HMEL, Haldia Petro
Feedstocks								
Crude Oil (Brent)	USD/BBL	98	112	73	-12%	34%	89	ONGC
Naphtha	USD/MT	713	884	677	-19%	5%	665	Reliance, IOCL, BPCL, HPCL, ONGC, GAIL
Natural Gas	USD/MMBtu	7.9	7.5	4	6%	84%	6.5	ONGC, OIL
LPGs/NGLs Propane	USD/Gal	108	126	117	-14%	-7%	86	IOCL
Oleochemical Feedstocks								
Crude Palm Oil	MYR/MT	3,994	6,537	4,446	-39%	-10%	3,373	
Palm Kernel Oil	MYR/MT	4,858	7,129	5,140	-32%	-5%	4,845	
Rapeseed Oil	EUR/MT	1,608	2,062	1,302	-22%	24%	1,465	
Canola Oil	BRL/MT	11,496	10,649	8,296	8%	39%	10,800	
Olive Oil	EUR/MT	3,691	3,376	3,239	9%	14%	3,910	
Mustard Oil	INT/Tin	2,206	2,438	2,658	-10%	-17%	2,060	
Castor Oil	USD/MT	2,062	2,172	1,667	-5%	24%	2,038	
Sunflower Oil	USD/MT	1,513	2,085	1,335	-27%	13%	1,290	
Soyabean Oil	BRL/MT	6,740	8,300	6,215	-19%	8%	5,550	
Freight								
Baltic Dry Index (RHS)	Index	1,648	2,524	3,729	-35%	-56%	1,788	
Freightos Index (China to US East Coast)	Index	9,360	15,348	18,235	-39%	-49%	6,940	
Currencies								
USDINR		79.8	77.2	74	3%	8%	81.5	
USDCNY		6.8	6.6	6	4%	6%	7.1	
CNYINR		11.7	11.7	11	0%	2%	11.5	

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

Exhibit 3: Q2FY23 Result Preview

Company Name		Q2FY23E	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	Remark
Aarti Industries	Sales	18,590	15,516	19.8	19,720	(5.7)	We expect healthy YoY growth in revenue aided by additional volume from newer capacities and higher realizations. EBITDA margin to remain flat YoY / +120 bps QoQ on lag in pass through of softening input prices (benzene/ toluene are down ~20%/ 8% QoQ, aided by moderation in crude oil by ~12% QoQ).
	EBITDA	3,692	3,098	19.2	3,693	(0.0)	
	Margin (%)	19.9	20.0		18.7		
	PBT	2,516	2,208	14.0	2,334	7.8	
	Adj. PAT	2,038	1,761	15.7	1,891	7.8	
Fine Organic Industries	Sales	7,913	4,384	80.5	7,477	5.8	We expect higher realizations and volumes to drive strong revenue/ EBITDA/ PAT growth YoY while on QoQ basis we expect largely stable performance. RM cost appears to have peaked out as vegetable oils like rapeseed, palm, palm kernel etc.) witnessed steep decline during Q2 (down 20-30% QoQ).
	EBITDA	2,158	731	195.4	2,146	0.5	
	Margin (%)	27.3	16.7		28.7		
	PBT	2,097	683	207.2	2,190	(4.2)	
	Adj. PAT	1,571	499	215.1	1,598	(1.7)	
Jubilant Ingrevia	Sales	12,912	12,226	5.6	11,658	10.8	We expect sequential improvement in consolidated profitability aided by SPCM segment on pass through of higher power & fuel costs, despite continuing headwinds in NHS segment. On YoY basis, the profitability is likely to be lower given a strong base quarter (elevated margins across segments)
	EBITDA	1,676	1,953	(14.2)	1,409	19.0	
	Margin (%)	13.0	16.0		12.1		
	PBT	1,376	1,645	(16.4)	1,155	19.1	
	Adj. PAT	945	1,108	(14.7)	794	19.1	
Laxmi Organic Industries	Sales	7,377	6,081	21.3	7,566	(2.5)	We expect revenue/ EBITDA/ PAT to decline sequentially, partially due to 21 days production shutdown (scheduled maintenance), despite contribution from first long term contract (plant commissioned in Q1FY23). YoY performance is not comparable as base quarter was impacted by flood in Mahad (plant location).
	EBITDA	891	309	188.4	1,015	(12.3)	
	Margin (%)	12.1	5.1		13.4		
	PBT	732	252	190.3	869	(15.8)	
	Adj. PAT	546	146	274.9	649	(15.8)	
NOCIL	Sales	5,087	3,752	35.6	5,089	(0.0)	We expect higher realizations and volumes to drive YoY performance while revenue to be flattish on QoQ basis, as improved realizations get offset by lower volume. Gross spreads are expected to remain largely stable, while EBITDA margin is likely to moderate to 18% vs 20.2% (QoQ) on higher conversion costs/ unit.
	EBITDA	916	503	82.1	1,026	(10.7)	
	Margin (%)	18.0	13.4		20.2		
	PBT	802	408	96.6	897	(10.6)	
	Adj. PAT	600	300	100.0	665	(9.8)	

Source: Company, PL

Exhibit 4: Valuation Summary

Company Names	S/C Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	Sales (Rs m)				EBITDA (Rs m)				PAT (Rs m)				EPS (Rs)				RoE (%)				PE (x)			
					FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Aarti Industries	C Acc	774	880	280.4	70,000	76,109	88,035	1,00,863	19,288	15,658	19,188	22,683	6,962	8,705	10,769	12,657	19.2	24.0	29.7	34.9	14.8	13.9	15.3	15.9	40.3	32.2	26.0	22.2
Fine Organic Industries	C HOLD	6,640	6,200	203.6	18,763	27,674	26,209	29,415	3,645	6,393	6,191	7,194	2,596	4,663	4,753	5,341	84.7	152.1	155.0	174.2	30.7	39.6	29.5	26.1	78.4	43.7	42.8	38.1
Jubilant Ingrevia	C BUY	518	860	82.4	49,494	52,468	59,457	69,581	8,318	7,275	9,635	12,212	4,767	4,107	5,521	7,125	30.0	25.8	34.7	44.8	21.9	15.8	18.4	20.2	17.3	20.1	14.9	11.6
Laxmi Organic Industries	C HOLD	343	335	90.4	30,842	32,353	36,003	39,822	3,677	3,720	4,691	5,613	2,564	2,397	3,084	3,848	9.7	9.1	11.7	14.6	22.0	17.0	18.6	19.6	35.2	37.7	29.3	23.5
NOCIL	C Acc	260	300	43.2	15,713	18,262	19,284	20,364	2,862	3,462	3,766	4,133	1,761	2,278	2,572	2,771	10.6	13.7	15.4	16.6	12.9	14.9	15.0	15.3	24.6	19.0	16.8	15.6

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%	76,109	76,035	0.1%	88,035	87,951	0.1%	8,705	8,699	0.1%	10,769	10,760	0.1%	24.0	24.0	0.1%	29.7	29.7	0.1%
Fine Organic Industries	HOLD	HOLD	6,200	6,200	0.0%	27,674	27,674	0.0%	26,209	26,209	0.0%	4,663	4,663	0.0%	4,753	4,753	0.0%	152.1	152.1	0.0%	155.0	155.0	0.0%
Jubilant Ingrevia	BUY	BUY	860	860	0.0%	52,468	52,468	0.0%	59,457	59,457	0.0%	4,107	4,107	0.0%	5,521	5,521	0.0%	25.8	25.8	0.0%	34.7	34.7	0.0%
Laxmi Organic Industries	HOLD	HOLD	335	335	0.0%	32,353	32,353	0.0%	36,003	36,003	0.0%	2,397	2,397	0.0%	3,084	3,084	0.0%	9.1	9.1	0.0%	11.7	11.7	0.0%
NOCIL	Acc	Acc	300	300	0.0%	18,262	18,379	-0.6%	19,284	19,408	-0.6%	2,278	2,253	1.1%	2,572	2,547	1.0%	13.7	13.5	1.1%	15.4	15.3	1.0%

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	832
2	Fine Organic Industries	Hold	6,200	6,515
3	Jubilant Ingrevia	BUY	860	463
4	Laxmi Organic Industries	Hold	335	329
5	NOCIL	Accumulate	300	273

PL's Recommendation Nomenclature

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
Under Review (UR)	: Rating likely to change shortly

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