

Q4FY2024 Results Preview

Sector: Agri Inputs and Specialty Chemicals

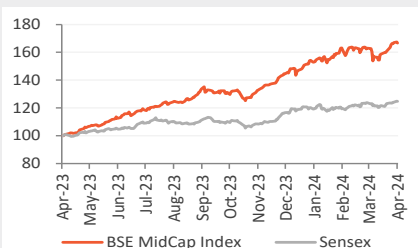
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Agri Inputs			
Coromandel International	1,148	Buy	1,225
Insecticides (India)	523	Buy	680
PI Industries	3,904	Buy	4,000
UPL	490	Hold	580
Sumitomo Chemical India	385	Hold	430
Specialty Chemicals			
Aarti Industries	699	Hold	720
Atul Limited	5,883	Hold	7,300
NOCIL	264	Buy	320
SRF	2,593	Buy	2,745
Sudarshan Chemical	655	Buy	UR
Vinati Organics	1,484	Hold	1,700
Gujarat Fluorochemical	3,251	Positive	4,514
PCBL	279	Positive	333

Source: Sharekhan Research; UR - Under Review

Price chart



Source: BSE; Sharekhan Research

Summary

- Agri-input companies to post yet another weak performance with a steep y-o-y revenue/margin decline mainly due to weak performance in the export market and continued impact of inventory destocking.
- Specialty chemical companies are expected to witness sequential improvement in demand, led by recovery in few end-user industries and stable product prices.
- Though near-term volatility in demand is a concern for specialty chemical players, we believe demand has bottomed out and expect rebound in financial performance from its current level over the next few quarters. Management's commentaries on the demand/pricing outlook would be a key monitorable.
- Preferred Picks:** Vinati Organics, Aarti Industries, PI Industries, and Sudarshan Chemicals.

Ongoing global inventory destocking and excessive capacity in China might result in yet another weak quarter for the agri-input sector. Thus, we expect revenue (except for PI Industries, which might see strong CSM export growth) and margin contraction for agri input companies under our coverage universe. Specialty chemical companies are likely to post a sequential improvement in performance, given demand recovery in some end-user industries and stable product prices due to lower dumping by China. Management's commentary on the recovery path would be keenly watched out for Q4FY2024 results. Overall, we expect agri-input companies under our coverage universe to report a steep PAT decline of 67% y-o-y, while specialty chemical companies are expected to report a 24% y-o-y PAT decline in Q4FY2024. UPL is expected to be worst impacted, while PI Industries is likely to do well in the agri-input space.

- Agri-inputs – Inventory destocking and lower product pricing to severely impact earnings:** We expect most of the companies to report subdued financial performance mainly due to weak performance in the export market, continued impact of inventory destocking, and excessive capacity in China. Lower product prices would also result in y-o-y margin contraction for most companies in the space. We expect PI industries to perform well, driven by continued strength in the CSM export business. Overall, we expect our agri-input coverage universe to report a 22% y-o-y revenue decline and margin contraction of 367bps y-o-y, thus earnings are expected to decline by 67% y-o-y in Q4FY2024.
- Specialty chemicals – Expect recovery in demand:** We anticipate sequential improvement, given demand recovery in some end-user industries and stable product prices due to lower dumping by China. On a y-o-y basis, lower product prices are expected to adversely impact margins. However, PCBL (new capacity ramp-up) would be an exception with PAT growth estimate of 49% y-o-y, given healthy volume growth. Overall, we see a revenue decline of 2% y-o-y for specialty chemical companies under our coverage in Q4FY2024. We expect EBITDA margin to contract by 230bps y-o-y. Overall, we expect specialty chemical companies under our coverage to post a PAT de-growth of 24% y-o-y.
- Long-term growth outlook intact given China/Europe Plus One opportunity for Indian specialty chemical players:** Near-term volatility in demand is a concern for specialty chemical players with high exposure to exports/discretionary sectors. However, we believe global destocking is near its end and the market is expected to rebound from its current level over the next few quarters. Long-term growth story for the Indian specialty sector remains intact as China/Europe plus one strategy by global customers makes Indian specialty chemical players well-positioned to increase their global market share in the chemical space.

Valuation

The Indian specialty chemicals sector is well poised to capitalise on global tailwinds and expand its global market share to 7-8% in the next few years from 4% currently, supported by structural drivers, including the China Plus One strategy, import substitution, and opportunities emerging from the recent supply chain disruption in China. We advise investors to be selective and focus on quality companies as recent volatility in the stock market provides opportunity to gradually accumulate such stocks as their long-term earnings growth outlook remains intact.

Key risks

- High raw-material cost for agri and specialty chemical companies might affect margins if they are unable to pass it on to customers.
- Intense competition from Chinese products could impact revenue/earnings growth.
- Lower demand/offtake for products of specialty chemicals players owing to slowdown in economic activity may also affect earnings.

Leaders for Q4FY2024: PI Industries, Sumitomo Chemical India, and PCBL.

Laggards for Q4FY2024: UPL and Coromandel International

Preferred Picks: Vinati Organics, Aarti Industries, PI Industries, and Sudarshan Chemicals

Q4FY2024 results estimates

Company	Sales (Rs cr)				OPM (%)				PAT (Rs cr)			
	Q4 FY24	Q3 FY23	YoY (%)	QoQ (%)	Q4 FY24	Q3 FY23	YoY (bps)	QoQ (bps)	Q4 FY24	Q3 FY23	YoY (%)	QoQ (%)
Agri Inputs												
Coromandel International	4,288	5,476	-21.7	-21.5	6.9	7.4	-41	40	192	246	-21.8	-18.1
Insecticides (India)	309	302	2.3	-13.8	11.5	-9.4	2087	424	25	-29	-187.0	112.4
PI Industries	2,107	1,566	34.6	11.0	24.2	21.9	231	-497	398	281	41.7	-11.5
UPL	11,896	16,569	-28.2	20.3	11.2	18.2	-698	701	-242	821	-129.5	-84.9
Sumitomo Chemical India	667	652	2.3	23.1	16.1	12.4	370	395	82	72	13.4	48.5
Agri Inputs Total	19,267	24,564	-21.6	6.2	11.86	15.5	-367	404	455	1,390	-67.3	-153.2
Speciality Chemicals												
Aarti Industries	1,812	1,656	9.4	4.1	16.1	15.2	89	70	135	149	-9.2	9.1
Atul Limited	1,188	1,195	-0.6	4.4	13.9	12.5	141	52	84	80	4.7	16.3
NOCIL	343	393	-12.8	0.5	13.5	12.7	79	-86	30	28	7.5	0.3
SRF	3,688	3,778	-2.4	20.8	21.1	24.7	-357	256	420	562	-25.3	65.9
Sudarshan Chemical Industries	628	691	-9.1	10.9	11.8	12.3	-54	81	24	33	-26.2	52.1
Vinati Organics	511	503	1.5	14.0	26.5	30.2	-376	86	92	115	-20.4	18.9
Gujarat Fluorochemical	1,118	1,471	-24.0	12.7	23.4	35.0	-1160	406	126	332	-62.1	57.4
PCBL Limited	1,559	1,374	13.5	5.0	17.5	13.4	411	33	151	102	48.5	5.0
Speciality Chemicals Total	10,847	11,061	-1.9	11.1	18.7	21.0	-230	168	1,062	1,401	-24.2	33.4

Source: Company; Sharekhan Research

Valuations

Company	CMP (Rs)	EPS (Rs)			CAGR over FY2023- FY2025E (%)	PE (x)			Reco	Price Target (Rs)
		FY24E	FY25E	FY26E		FY24E	FY25E	FY26E		
Agri Inputs										
Coromandel International	1,148	57.6	72.2	81.7	19.1	19.9	15.9	14.0	Buy	1,225
Insecticides (India)	523	34.6	50.3	67.3	39.5	15.1	10.4	7.8	Buy	680
PI Industries	3,904	103.1	122.0	141.8	17.3	37.9	32.0	27.5	Buy	4,000
UPL	490	-18.2	10.5	36.3	NA	-26.9	46.6	13.5	Hold	580
Sumitomo Chemical India	385	7.1	9.3	11.8	28.9	54.3	41.4	32.7	Hold	430
Speciality Chemicals										
Aarti Industries	699	11.4	19.5	29.8	61.7	61.3	35.9	23.5	Hold	720
Atul Limited	5,883	150.2	189.8	236.2	25.4	39.2	31.0	24.9	Hold	7,300
NOCIL	264	7.5	11.1	14.6	39.5	35.2	23.8	18.1	Buy	320
SRF	2,593	47.9	73.8	96.4	41.9	54.1	35.1	26.9	Buy	2,745
Sudarshan Chemical Industries	655	12.3	19.8	27.0	48.2	53.2	33.1	24.3	Buy	UR
Vinati Organics	1,484	30.1	39.0	48.2	26.5	49.3	38.1	30.8	Hold	1,700
Gujarat Fluorochemicals	3,251	41.2	105.3	124.5	73.8	78.9	30.9	26.1	Positive	4,514
PCBL Limited	279	15.5	17.3	19.6	12.5	18.0	16.2	14.3	Positive	333

Source: Company; Sharekhan Estimates, UR - Under Review

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