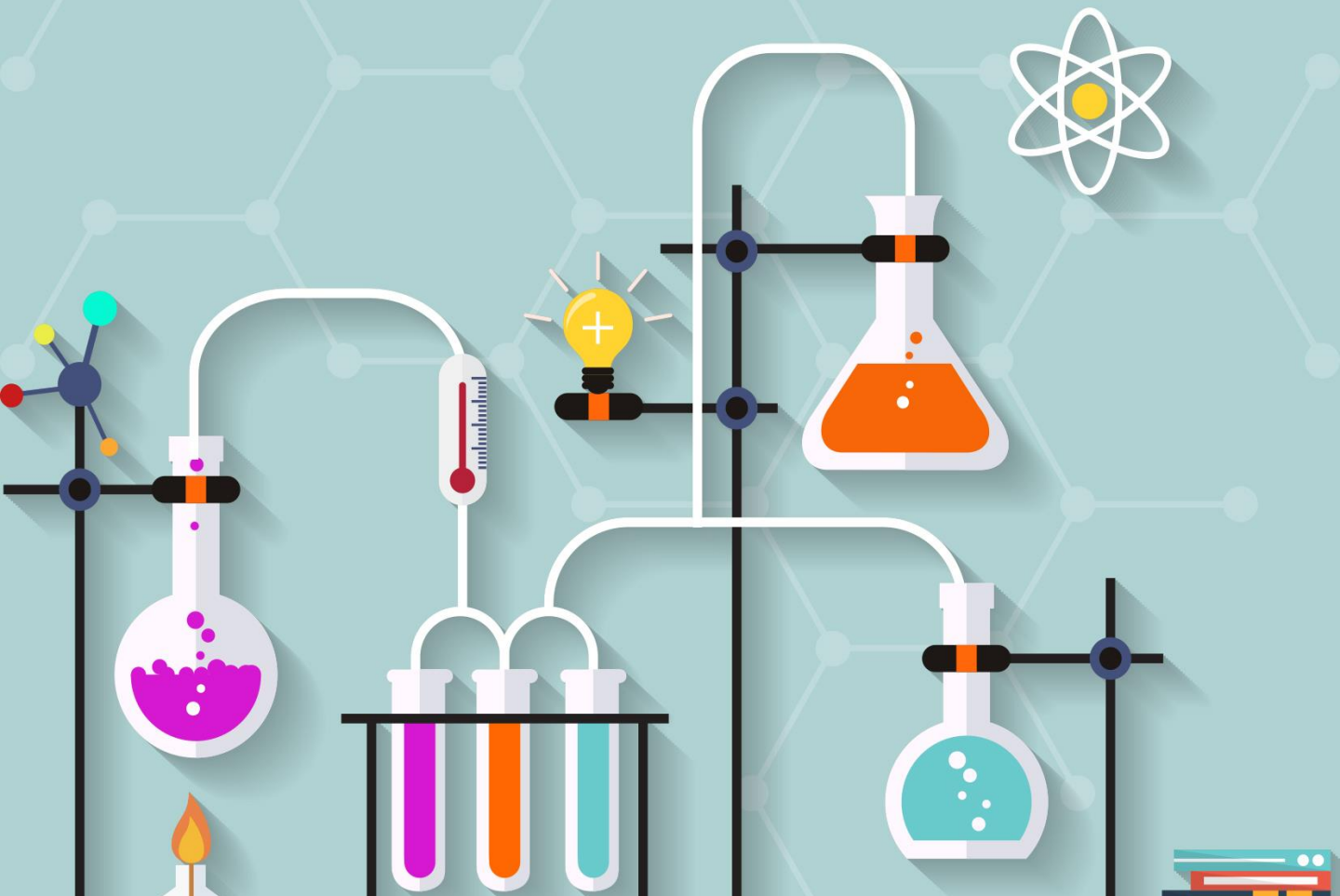


# Q4FY22 Specialty Chemical Preview



# Specialty Chemicals

**Resurgence in demand despite crisis**

## MARKET DATA

	Close	1D (%)	1M (%)	YTD (%)
Nifty	17,675	-0.62	4.76	0.28
Sensex	58,965	-0.81	4.39	-0.37
USD / INR	75.86	0.07	0.86	1.81

## COVERAGE STOCKS

Company	Current Price** (INR)	Target* (INR)	Upside (%)	Market Cap. ** (INR mn)	P/E 2024E (x)	Recommendation*
UPL Ltd	820	901	9.88%	6,26,594	11.02	BUY
Aarti Industries Ltd	960	1,094	13.95%	3,47,841	37.02	ACCUMULATE
Supreme Petrochemicals Ltd	921	814 <sup>^</sup>	T.A.	86,668	7.97	BUY
Navin Flourine Int Ltd	4,070	4,494	10.42%	2,01,711	34.92	ACCUMULATE
Vinati Organics Ltd	2,025	2,349	16.00%	2,08,123	32.58	BUY
Gujarat Fluorochem Ltd	2,966	3,167 <sup>^</sup>	T.A.	3,25,848	25.84	BUY
Balaji Amines Ltd	3,355	5,674	69.12%	1,08,708	14.63	BUY
Laxmi Organic Ind Ltd	461	620	34.49%	1,21,483	20.80	BUY
Rossari Biotech Ltd	1,000	1,456	45.60%	55,081	22.00	BUY
Tatva Chintan Pharma Chem Ltd	2,430	2,962	21.89%	53,858	29.40	BUY

\*Note: TP has been retained from previous update reports; we will review it post detailed Q4FY22 results analysis and conference call of the said companies.

<sup>^</sup>T.A. – Target Achieved and we will review it post detailed Q4FY22 results analysis and conference call of the said companies.

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

Source: Bloomberg, NSE.

## SECTOR OVERVIEW:

### Improving demand due to leadership position in select molecules and chemistries:

Many players in the Indian specialty chemicals space have cemented their position over the years by focusing on expanding into niche molecules. During Q4FY22 rebound in the demand for major end user industries will play as an important factor for our chemical universe companies to deliver higher volume growth. Strong R&D & multiple tailwinds have helped them establish a diverse customer base spanning across end-user industries. Ramp up of capacities and availability of containers are an instance of surge in demand for the chemical products in Q4FY22. Improved realisations, backward integrated facilities and ability to pass on inflation in input cost with a lag, will keep the sales growth elevated for the chemical companies in Q4FY22. We expect our coverage chemical basket to post revenue growth of 28.41% YoY led by volume growth due to better product mix and price hike. We expect OPM for our chemical basket companies to deliver +43bps YoY to 23.79%, leading to EBITDA growth of 26.57%. NPAT of our companies is expected to report growth of 20.20% YoY.

### Spike in the product prices:

The impact of geopolitical crisis between Russia-Ukraine has been felt across sectors including chemical space. The conflict has led to multiple disruptions in terms of rising energy cost, supply chain and raw materials. The cost of fuel i.e crude prices have risen by ~22% QoQ and ~60% YoY basis and reached as high as \$139/barrel. Such northward movement in prices will build margin pressure for the chemical companies as oil is an important ingredient for these players. However such worsening of situation is offset by higher realisations derived from certain chemical products during the quarter. There is a clear visibility of raw material prices being impacted and are likely to remain volatile in the near term.

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

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### Sector outlook:

We believe there is enough steam left and continue our bullish stance on the chemical space. Indian players are expected to outperform the global players on the back of its improving capabilities in handling complex chemistries and newer applications driven by surge in demand from end user industries. The industry is also supported by strong tailwinds in international markets which provides huge growth potential for the companies. All these provide enormous scope for the industry. Our companies are well placed to capitalise on these opportunities and we expect our companies to end up by delivering strong topline growth in FY22 on the back of improved volume growth and higher realisations. Our top stock picks are Balaji Amines, Rossari Biotech, Laxmi Organics, Tatva chintan pharma with a BUY recommendation. Stocks have seen steep correction in the prices due to the Russian-Ukraine crisis which provides opportunity to re enter at comparatively lower valuations. We will review our targets & ratings post detailed Q4FY22 results analysis and conference calls.

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

INR Mn	Q4FY22E	Q4FY21A	YoY	Q3FY22A	QoQ	Remarks
<b>UPL Ltd</b>						
Sales	1,21,046	1,27,960	-5.4%	1,12,970	7.2%	We expect UPL's sales to grow at 7.2% QoQ on the back of strong volume growth across geographies. EBITDA to grow by 20.1% QoQ and margin will expand by 258 bps QoQ to 24.0%. PAT to grow by 40.9% QoQ with margins expanding by 261 bps QoQ. Recent pricing actions coupled with strong demand should drive growth in coming quarters. Management expects upcoming product launches to do well.  <b>Key Parameter:</b> 1) Strategy to capitalize on high-growth markets, given its extensive global presence, diversified portfolio & and superior digital capabilities 2) Focus on driving margins in the medium term and driving share of bio-solution 3) Debt reduction plan going ahead.
EBITDA	29,048	26,010	11.7%	24,190	20.1%	
Net Profit	13,185	10,630	24.1%	9,360	40.9%	
EBITDA (%)	24.0%	20.3%	367bps	21.4%	258bps	
NPM (%)	10.9%	8.3%	259bps	8.3%	261bps	
<b>Aarti Industries Ltd</b>						
Sales	13,796	12,094	14.1%	23,759	-41.9%	We expect strong revenue growth of 14.1% YoY driven by volume off-take and improved realisations. Going ahead, contribution from new projects, company remains focused on addressing the larger opportunity arising from import substitution and supply chain diversification from global peers. As demand in the discretionary category rebounds, EBITDA will expand by 34.8% YoY. Furthermore, margins are expected to expand by 392 bps YoY We anticipate a 10.9% YoY decline in PAT owing to strong operating performance.  <b>Key Parameter:</b> 1) Expanding portfolio of value-added products, strong clientele and custom manufacturing opportunities 2) Capex deployment strategy towards expanding its product portfolio in both specialty and pharma segments.
EBITDA	3,510	2,603	34.8%	9,661	-63.7%	
Net Profit	1,212	1,361	-10.9%	7,724	-84.3%	
EBITDA (%)	25.4%	21.5%	392bps	40.7%	-1522bps	
NPM (%)	8.8%	11.2%	-247bps	32.5%	-2372bps	

# Specialty Chemicals

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

INR Mn	Q4FY22E	Q4FY21A	YoY	Q3FY22A	QoQ	Remarks
<b>Supreme Petrochemicals Ltd</b>						
Sales	11,659	12,691	-8.1%	12,960	-10.0%	<p>We anticipate a decline of 8.1% YoY in revenues to INR 11,659 mn. The company's operating performance in Q4FY22 is expected to remain robust, with EBITDA increasing by 11.6% YoY to INR 3,529 mn and EBITDA margin expanding by 535 bps YoY on the back of a better product mix. We anticipate PAT to increase by 7.2% YoY to INR 2,483 mn while net profit margin is likely to improve by 304 bps on YoY basis.</p> <p><b>Key Parameter</b> – 1) Cues on demand-supply dynamics in the industry and the company's CAPEX plan. 2) Management's plan to increase the share of the value-added product.</p>
EBITDA	3,529	3,163	11.6%	2,242	57.4%	
Net Profit	2,483	2,317	7.2%	1,645	50.9%	
EBITDA (%)	30.3%	24.9%	535bps	17.3%	1297bps	
NPM (%)	21.3%	18.3%	304bps	12.7%	860bps	
<b>Navin Fluorine International Ltd</b>						
Sales	4,358	3,240	34%	3789	15%	<p>NFIL in Q4FY22 can show revenue growth of 34.51% YoY and 15% on QoQ basis. Growth will be led by specialty chemical segment followed by CRAMs biz. Better realisation and improving product mix to support margins. On operational front we expect 51% jump on YoY basis and 30.5% on QoQ basis in EBITDA whereas PAT to deliver grow by 55% on QoQ and degrowth of 12.34% on YoY basis mainly due to higher profits because of exceptional item in Q4FY21.</p> <p><b>Key Parameters:</b> (1) High performance in fluorochemical space (2) Better product realisation (3) Customer addition</p>
EBITDA	1,273	842	51%	975	31%	
Net Profit	1,066	1,216	-12%	688	55%	
EBITDA (%)	29.21%	25.98%	322bps	25.73%	348bps	
NPM (%)	24.46%	37.53%	-1307bps	18.16%	630bps	
<b>Vinati Organics Ltd</b>						
Sales	3,800	2,797	36%	3,689	3%	<p>Uptick in ATBS volumes will be supported by growth in Butyl Phenol business majorly contributing to the topline in Q4FY22. We expect 21% jump on YoY basis on account of higher prices. On QoQ basis sales will be up by 3%. On operational front margins to correct by 9% on YoY basis and will be flat on QoQ basis due to higher input costs like acrylonitrile in Q4FY22.</p> <p><b>Key Parameters:</b> (1) Antioxidants (2) Continued demand from ATBS segment (3) Ramp up of new BP &amp; IB derivatives</p>
EBITDA	1,005	990	2%	927	8%	
Net Profit	856	708	21%	732	17%	
EBITDA (%)	26.45%	35.39%	-900bps	25.13%	130bps	
NPM (%)	22.53%	25.31%	-300bps	19.84%	270bps	
<b>Gujarat Fluorochemical Ltd</b>						
Sales	8,538	8,403	1.6%	10,075	-15%	<p>We estimate growth of 1.6% on YoY basis in Q4FY22. On EBITDA and NPAT front there will be a jump of 32% YoY and 52% on YoY. We expect it to deliver 30.26% Ebitda margins and 19.64% Net profit margins in Q4FY22. Higher realisations from PTFE (+36% YoY) and R-22 (+28% YoY) to support.</p> <p><b>Key Parameters:</b> (1) Rise in demand for PTFE (2) Commercialisation of new products (3) Ramp up of new fluoropolymer capacity utilization</p>
EBITDA	2,584	1,960	32%	3,191	-19%	
Net Profit	1,677	1,102	52.2%	2,013	-17%	
EBITDA (%)	30.26%	23.32%	690bps	31.67%	-141bps	
NPM (%)	19.64%	13.11%	650bps	19.98%	-34bps	

# Specialty Chemicals

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

INR Mn	Q4FY22E	Q4FY21A	YoY	Q3FY22A	QoQ	Remarks
<b>Balaji Amines Ltd</b>						
Sales	5,648	4,140	36%	5,649	-0.02%	During Q4FY22 we expect jump of 36% in sales on YoY basis and flattish on QoQ basis. EBITDA will deliver growth of 23% YoY, driven by low base of Q4FY21. Margins are expected to remain at 28% with a dip of 3% YoY on account of higher raw material cost (Ammonia and Methanol). PAT margin is likely to come at 18.99%.  <b>Key Parameters:</b> (1) Commissioning of DMC plant (2) Addition of downstream products (3) Contribution from BSCPL (4) Newer applications
EBITDA	1,584	1,289	23%	1,587	-0.21%	
Net Profit	1,073	888	21%	1,016	5.61%	
EBITDA (%)	28.04%	31.11%	-300bps	28.10%	-6bps	
NPM (%)	18.99%	21.45%	-200bps	17.89%	110bps	
<b>Laxmi Organic Industries Ltd</b>						
Sales	9,216	5,195	77.4%	8,599	7.2%	Revenue is expected to grow at 77% YoY basis on account of rise in demand for company's specialty intermediates. EBITDA is expected to grow by 60.5% YoY basis with an EBITDA margin of 11.1% (-117bps YoY / -271bps QoQ) for the quarter due to raw material pricing pressure. PAT is expected to grow by 82.1% YoY with a PAT margin at 7.2% (18bps YoY / -236bps).  <b>Key Parameters:</b> (1) Update on Specialty Intermediate plants (2) Update on segment wise Volume and realisations
EBITDA	1,022	637	60.5%	1,187	-13.9%	
Net Profit	662	364	82.1%	821	-19.3%	
EBITDA (%)	11.1%	12.3%	-117bps	13.8%	-271bps	
NPM (%)	7.2%	7.0%	18bps	9.5%	-236bps	
<b>Rossari Biotech Ltd</b>						
Sales	4,331	2,182	98.46%	4,284	1.09%	We expect revenue to grow at 98% YoY on account of strong demand for its products across segments and higher realizations for the period. We expect EBITDA margin of ~11% (-458bps YoY / 64bps QoQ) with 42% YoY growth in absolute EBITDA. PAT is expected to grow at 11% YoY with a PAT margin at ~6% (-451bps YoY / 51bps QoQ).  <b>Key Parameters:</b> (1) Impact of Raw material price inflation on margins (2) Update on export business (3) Update on new products and customers
EBITDA	500	352	42.10%	467	7.05%	
Net Profit	250	224	11.35%	225	10.90%	
EBITDA (%)	11.6%	16.1%	-458bps	10.9%	64bps	
NPM (%)	5.8%	10.3%	-451bps	5.3%	51bps	
<b>Tatva Chintan Pharma Chemical Ltd</b>						
Sales	1,099	1,087	1%	1,047	5.0%	Topline performance is expected to experience flat growth on account of prolonged semiconductor shortage. Operating margins are expected to be weaker as compared with previous quarter due to raw material price inflation. PAT margins to be reported at 20.4% (-136bps QoQ / +99bps YoY) for the quarter.  <b>Key Parameters:</b> (1) Segment wise topline performance, (2) Margin performance
EBITDA	236	245	-3%	238	-0.8%	
Net Profit	224	211	6%	228	-1.6%	
EBITDA (%)	21.5%	22.5%	-102bps	22.7%	-125bps	
NPM (%)	20.4%	19.4%	99bps	21.8%	-136bps	

# 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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