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Specialty Chemicals

13 April 2023

4QFY23 RESULT PREVIEW

Industry	Chemicals
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Sector rating

Company	CMP (Rs)	TP (Rs)	Reco.
Chemicals			
Aarti Inds.	546	566	HOLD
Atul	7,064	8,200	HOLD
Deepak Nitrite	1,871	2,073	HOLD
Navin Fluorine	4,514	4,723	HOLD
SRF	2,440	2,778	BUY
Vinati Organics	2,026	2,586	HOLD

Source: Systematix Institutional Research

Earnings to be a mixed bag

Chemical companies within our coverage are likely to report another quarter of muted results on slower demand and microeconomic headwinds. We expect 3%/3% YoY/QoQ sales growth for our chemical coverage universe. Companies like Navin Fluorine (NFIL) (ramp up in CDMO) and Vinati Organics (VO) (healthy growth in volumes and realisations in key products) are likely to report double-digit YoY growth. Demand within the agrochemical and pharmaceutical segments for this remains high. However, companies that continue to witness demand pressure in key business verticals (packaging films for SRF and performance chemicals for Atul) could post weak results. Cumulative EBITDA margins are likely to expand 32bps QoQ but contract 182bps YoY to 20.8% vs. 20.5% in 3QFY23 and 22.7% in 4QFY22, as prices have softened QoQ. We estimate 4% QoQ EBITDA growth but a 5% YoY fall. EBITDA growth would be supported by NFIL (8% QoQ), SRF (9% QoQ) and VO (3% QoQ). We estimate 4QFY23E PAT growth of muted 1% QoQ but a fall of 12% YoY in our chemical coverage universe. Opening of the Chinese economy post COVID-related lockdown should boost exports, which along with lower prices of key raw materials should enhance margins of chemical companies. Our long-term outlook on the sector remains positive, as we expect the overall ecosystem in the industry to improve, internal consumption of chemical intermediates to rise and volumes to shift from China to India. Also, we expect volume growth to recover in the coming quarters. We have a BUY rating on SRF, and HOLD ratings on NFIL, ATLP, ARTO, VO and DN. Key monitorable: trend in price-spread of key products and global demand outlook.

NFIL, VO, and SRF's chemical & ref gas segment to report strong performance

We expect NFIL, VO and SRF's chemical and ref gas segment to surpass industry growth in 4QFY23. NFIL could report 78%/8% jump in EBITDA and 517bps/62bps margin expansion on the back of ramp up in CDMO and specialty chemical segment. SRF's specialty chemicals and ref gas segment could continue to register strong growth. We expect SRF's 4QFY23 EBITDA to increase 9% QoQ on firm ref gas demand and pricing, as well as continued healthy demand uptick in specialty chemicals. VO is estimated to register 10% YoY and 5% QoQ revenue growth on strong demand for ATBS and isobutyl benzene (IBB) demand. Price of IBB increased QoQ to Rs 201/kg (up 18% YoY) due to higher demand for ibuprofen. We expect VO's EBITDA to increase by 28%/3% YoY/QoQ, respectively.

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Exhibit 1: Valuation snapshot

Company	CMP (Rs)	TP (Rs)	Reco.	PE (x)		EV/ EBITDA (x)		RoE (%)		ROCE (%)	
				FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Aarti Inds.	546	566	HOLD	31.8	23.1	18.3	14.7	11.3	14.0	9.6	11.2
Atul	7,064	8,200	HOLD	34.3	28.0	22.7	18.3	15.2	16.3	19.3	20.8
Deepak Nitrite	1,871	2,073	HOLD	22.8	19.6	15.1	12.8	24.0	22.6	29.8	29.0
Navin Fluorine	4,514	4,723	HOLD	51.0	39.6	34.7	27.3	19.9	21.6	22.5	25.1
SRF	2,440	2,778	BUY	29.1	24.6	18.2	15.3	21.7	21.3	21.4	22.5
Vinati Organics	2,026	2,586	HOLD	34.3	26.8	26.4	20.4	24.6	25.8	32.5	34.0

Source: Company, Systematix Institutional Research

Exhibit 2: Chemical coverage companies – 4QFY23E result estimates & highlights (Rs mn)

Aarti Inds.	4QFY23E	3QFY23	4QFY22	YoY	QoQ	Comments
Net Revenue	16,445	16,677	17,556	-6%	-1%	Expect subdued 4Q due to tepid demand from discretionary sectors like dyes, pigments, and textiles, which constitute approximately 50% of ARTO's portfolio. However, we remain optimistic on the non-discretionary sectors such as pharmaceuticals and agrochemicals, which exhibit resilience in the face of macroeconomic challenges. Prices of key products like calcium chloride, 2,6 DCNB, ONCB, and para nitro aniline have increased QoQ. High interest rate will likely have a negative impact on PAT due to increased interest expenses.
EBITDA	2,898	2,887	3,391	-15%	0%	
PAT	1,285	1,365	1,937	-34%	-6%	
OPM	17.6%	17.3%	19.3%	-170 bps	31 bps	
NPM	7.8%	8.2%	11.0%	-322 bps	-37 bps	
EPS (Rs)	3.5	3.8	5.3	-34%	-6%	
Atul	4QFY23E	3QFY23	4QFY22	YoY	QoQ	Comments
Net Revenue	12,334	12,683	13,704	-10%	-3%	Expect revenue degrowth due to the fall in prices of most of its essential products. (24D, P-cresol, epoxy resins, sulphur black). Margins in the life science segment could soften, as prices of key products have been falling, while margins in the performance chemicals segment are expected to revive QoQ on a lower base. We expect OPM to contract due to reduction in spreads of epoxy resin-BPA, 2,4D, cresol and resorcinol.
EBITDA	1,661	1,723	2,052	-19%	-4%	
PAT	961	1,051	1,363	-29%	-9%	
OPM	13.5%	13.6%	15.0%	-150 bps	-11 bps	
NPM	7.8%	8.3%	9.9%	-215 bps	-50 bps	
EPS (Rs)	32.5	35.5	46.0	-29%	-9%	
Deepak Nitrite	4QFY23E	3QFY23	4QFY22	YoY	QoQ	Comments
Net Revenue	20,418	19,911	18,724	9%	3%	We expect performance in the phenolic segments to improve sequentially and drive revenue growth, with the advanced intermediate segment likely recording stable performance. We expect higher margins in the phenolics segment due to sequential improvement in benzene/propylene-phenol/acetone spreads.
EBITDA	3,279	3,283	4,139	-21%	0%	
PAT	2,095	2,091	2,672	-22%	0%	
OPM	16.1%	16.5%	22.1%	-605 bps	-43 bps	
NPM	10.3%	10.5%	14.3%	-401 bps	-24 bps	
EPS (Rs)	15.4	15.3	19.6	-22%	0%	
Navin Fluorine	4QFY23E	3QFY23	4QFY22	YoY	QoQ	Comments
Net Revenue	5,930	5,636	4,089	45%	5%	We estimate 5% sequential revenue growth, driven by higher capacity utilisation in the CRAMS division and Honeywell's HFO contract, resulting in improved performance of the specialty chemicals and CDMO segments. The increase in OPM (62bps QoQ and 517bps YoY) can be attributed to operating leverage in CRAMS and HFO.
EBITDA	1,674	1,556	943	78%	8%	
PAT	1,219	1,066	752	62%	14%	
OPM	28.2%	27.6%	23.0%	517 bps	62 bps	
NPM	20.6%	18.9%	18.4%	218 bps	165 bps	
EPS (Rs)	24.6	21.5	15.2	62%	14%	
SRF	4QFY23E	3QFY23	4QFY22	YoY	QoQ	Comments
Net Revenue	36,805	34,697	35,494	4%	6%	We expect the chemicals segment to exhibit strong performance for SRF. The current softening of BOPP and BOPET prices could significantly impact margins in the packaging segment. The technical textiles segment is expected to report muted performance on weak demand. Pricing of refrigerants such as R134A has softened QoQ.
EBITDA	9,066	8,335	9,480	-4%	9%	
PAT	5,225	5,109	6,057	-14%	2%	
OPM	24.6%	24.0%	26.7%	-208 bps	61 bps	
NPM	14.2%	14.7%	17.1%	-287 bps	-53 bps	
EPS (Rs)	17.6	17.2	20.4	-14%	2%	
Vinati Organics	4QFY23E	3QFY23	4QFY22	YoY	QoQ	Comments
Net Revenue	5,347	5,087	4,861	10%	5%	We expect a healthy YoY increase in revenue, backed by strong demand from ATBS and IBB. Increased demand for ibuprofen has caused the demand for IBB to surge. OPM is expected to decline sequentially as prices of key raw materials such as acrylonitrile have hardened.
EBITDA	1,690	1,638	1,388	22%	3%	
PAT	1,296	1,254	1,011	28%	3%	
OPM	31.6%	32.2%	28.6%	305 bps	-59 bps	
NPM	24.2%	24.7%	20.8%	345 bps	-41 bps	
EPS (Rs)	12.6	12.2	9.8	28%	3%	

Source: Company, Systematix Institutional Research

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