Chemical Sector

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4QFY23 Result Preview

CSM segment likely to lead sector growth

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NBIE AgroChemical coverage stocks are likely to see a mixed trend in 4QFY23 earnings. Revenue/EBITDA growth and margin expansion may bless some while eluding others. India-focused AgroChem stocks may see tempered volume as Rabi sales were not up to expectations in 4QFY23 as per channel checks. In terms of growth in PAT, PI Industries (PI) will lead our coverage universe with 55.8% YoY growth, while small cap CSM peer Anupam Rasayan (ARIL) will be a distant second with 11% YoY growth followed by large cap leader UPL with under 1% YoY growth. The rest of the mid cap pack will show a YoY decline in PAT. Soda ash company Tata Chemicals is likely to be the worst performer in our coverage universe with 9% YoY decline in PAT. Key lead indicators such as 3.3% YoY growth in Rabi crop area, healthy moisture levels/water storage levels and new launches are positive for 4QFY23/2HFY23 prospects for CPC and Nutrients businesses. The carry-over of higher cost inventory may abate compared to 3QFY23 while the sustained decline in input chemical prices and container freight/shipping rates are tailwinds that could reduce costs and support volume/margin growth.

Sector revenue growth of 10.2% YoY and EBITDA margin of 19% to aid EBITDA/PAT growth of 13.8% YoY/3.4% YoY.

Key catalysts for 4QFY23: Lower input costs and reduction in freight rates will support cut in costs/prices – this could support farmers using more fertilizers/pesticides and aid higher margins, especially for leaders; but volume growth may vary across companies and geographies.

UPL: Consolidated 4QFY23 revenue is expected to increase by 8.2% YoY to Rs171.69bn on the back of volume growth across all the regions. LatAm/America/RoW markets will see revenue growth of 15%/5%/10.4% YoY. India and Europe will remain at the same level on YoY basis. LatAm will continue to dominate the total revenue pie at 38.6% contribution. We estimate EBITDA margin to remain same vs year-ago level of 21.2%. EBITDA is likely to increase by 8.1% YoY. PBT will increase by 11% YoY on account of Fx gain of Rs85mn vs Fx loss in 4QFY22. We expect the adjusted consolidated PAT to increase a tad by 0.6% YoY to Rs15.56bn, but rise by 40.5% QoQ. **Positives** include new launches, potential improvement in cashflows and reduction in working capital/net debt. Gross margin could beat our estimate if increase in product prices is adequate to cover the increase in RM costs and opex (management had hinted at this in the 1QFY23 concall). **Negatives** could be potential pressure from elevated input costs, higher-than-expected working capital and adverse currency impact.

PI Industries: We expect consolidated 4QFY23 revenue to grow by 18.2% YoY to Rs16.49bn. Segment revenue - CSM exports growth is expected at 22% YoY while the domestic CPC segment is expected to increase by 3.3% YoY. EBITDA margin is expected to expand by 387bps YoY to 25.7% on the back of higher growth in CSM (enjoys better margins) besides getting support from annual CSM contracts (~30-35% of the CSM pie). We expect earnings to rise by 55.8% YoY to Rs3.19bn vs. 39.1% YoY growth in EBITDA. **Watch out for** new product launches and the roadmap for M&A in the Pharma space. The impact of rising input costs not passed on to customers could be potential risk to our estimates.

Sumitomo Chemicals India: We expect consolidated 4QFY23 revenue to grow by 8.2% YoY to Rs7.19bn on the back of domestic and exports revenue growth of 7.1% YoY and 10.5% YoY, respectively. Exports are estimated to come in at 31.7% of total revenue. EBITDA margin is expected to contract by 160bps to 14.8%. EBITDA is expected to decrease by 2.4% YoY while we estimate PAT to decrease by 2.1% YoY to Rs731mn. Watch out for new launches and specialty products' share.

The latest Indian Rabi sowing data shows that the cropped area has increased 3.3% YoY, with Wheat up 0.4% YoY, Oilseeds up 7.3% YoY and Pulses up 0.3% YoY. Water reservoir levels at 79.18BCM are at 93% of last year's storage levels and 116% of last 10-year average levels.

Company	CMP (Rs)	TP (Rs)	4QFY23E Revenue (Rsmn)	4QFY23E YoY growth (%)	4QFY23E EBITDA (Rsmn)	4QFY23E YoY growth (%)	EBITDA margin (%) 4QFY22	EBITDA margin (%) 4QFY23E	4QFY23E PAT (Rsmn)	4QFY23E YoY growth (%)
UPL	730	1,158	1,71,693	8.2	36,410	8.1	21.2	21.2	15,555	0.6
Coromandel International	883	1,057	49,995	18.3	4,715	24.2	10.7	9.4	2,809	-3.1
PI Industries	2,976	3,812	16,492	18.2	4,244	39.1	21.9	25.7	3,185	55.8
Tata Chemicals	977	1,018	37,552	7.9	8,375	27.4	18.9	22.3	4,198	-9.3
Sumitomo Chemicals	426	512	7,194	8.2	1,063	-2.4	16.4	14.8	731	-2.1
Anupam Rasayan	844	841	3,767	18.7	1,111	14.2	30.7	29.5	514	11.4

Source: Nirmal Bang Institutional Equities Research

Exhibit 1: UPL segment revenue details

Segment revenue break up – Rsmn	4QFY22	4QFY23E	*Growth YoY (%)*
INDIA	13,810	13,810	0.0
LATAM	57,600	66,240	15.0
NA	35,100	36,855	5.0
EUROPE	26,300	26,300	0.0
ROW	25,800	28,488	10.4
UPL Consolidated revenue	**1,58,610**	**1,71,693**	8.2

Source: Company; Nirmal Bang Institutional Equities Research

Exhibit 2: Crop data: Rabi season final cumulative area data

mn Hectares (Ha)	Area Sown (mn Ha)		Chg YoY (%)	Chg YoY (mn Ha)
Crop	**03-02-2023**	**03-02-2022**		
Wheat	**34.32**	**34.18**	**0.4**	**0.1**
Rice	**4.63**	**3.51**	**32.0**	**1.1**
Total Pulses	**16.79**	**16.73**	**0.3**	**0.1**
Gram	11.20	11.42	-1.9	-0.2
Lentil	1.85	1.77	4.8	0.1
Pea	0.97	1.02	-4.5	0.0
Kulthi	0.41	0.37	9.1	0.0
Urad	0.78	0.82	-5.0	0.0
Moong	0.68	0.51	31.8	0.2
Lathyrus	0.36	0.35	5.5	0.0
Other Pulses	0.54	0.48	12.1	0.1
Total Coarse Cereals	**5.35**	**5.14**	**4.0**	**0.2**
Jowar	2.27	2.45	-7.6	-0.2
Bajra	0.02	0.02	-5.9	0.0
Ragi	0.06	0.05	21.7	0.0
Maize	2.27	1.95	16.4	0.3
Barley	0.75	0.68	9.7	0.1
Total Oilseeds	**10.98**	**10.24**	**7.3**	**0.7**
Rapeseed and Mustard	9.80	9.13	7.4	0.7
Groundnut	0.57	0.52	8.4	0.0
Safflower	**0.09**	**0.08**	**16.0**	0.0
Sesamum	0.05	0.05	-3.8	0.0
Sunflower	0.09	0.12	-22.2	0.0
Linseed	0.33	0.29	12.0	0.0
Other Oilseeds	0.06	0.05	18.0	0.0
Grand Total	**72.07**	**69.80**	**3.3**	**2.3**

Source: agricoop.nic.in, Nirmal Bang Institutional Equities Research

Coromandel International:

- 4QFY23 revenue to increase by 18.3% YoY. **Key factors:** 20.4% YoY growth in Nutrients & Other segment
- EBITDA to increase by 24.2% YoY despite 131bps fall in EBITDA margin
- EBIT margin to contract a tad to 7.8%
- PAT to decrease by 3.1% YoY to Rs2.81bn

Segment outlook:

Nutrient segment

- 5% YoY growth in Manufactured Fertilizer volume
- Revenue to increase by 20.4% YoY
- We expect EBIT margin to decrease slightly by 34bps to 7%. However, the 9.4% YoY growth in EBIT/tonne to Rs5,421 is likely to support 14.8% YoY growth in the Nutrient segment's EBIT to Rs3.09bn.

Exhibit 3: CRIN segment details

Segment Revenue (Rsmn)	**4QFY22**	**4QFY23E**	***Growth YoY%***
CPC	5,561	5,964	*7.3*
NUTRIENT	36,828	44,335	*20.4*
Inter-segment adjustment	-120	-304	
TOTAL	**42,268**	**49,995**	*18.3*
***SEGMENT EBIT Rsmn (adjusted)**			***GR YoY%***
CPC	651	821	*26.2*
NUTRIENT	2692	3091	*14.8*
CRIN EBIT	**3,343**	**3,912**	*17.0*
SEGMENT EBIT MARGIN %			***Bps***
CPC	11.7	13.8	*207*
NUTRIENT	7.3	7.0	*-34*
CRIN	7.9	7.8	*-8*

Source: Company, Nirmal Bang Institutional Equities Research

** Adjusted EBIT includes corporate expenses adjusted pro rata in each segment. This is not comparable with segment EBIT reported by the company in its filling which excludes corporate expenses.*

CPC segment

- EBIT margin is likely to be higher at 13.8% vs. 11.7% in 4QFY22
- Revenue is likely to be up 7.3% YoY at Rs5.96bn and EBIT is expected to be higher by 26.2% YoY on the back of 207bps expansion in EBIT margin
- **There could be some downside to these estimates if the RM/Sales ratio comes in higher than our estimate of 66.4%.**

The company's total EBIT is expected to increase by 17% YoY, driven by growth in both segments.

Tata Chemicals:

- 4QFY23 consolidated revenue to grow by 7.9% YoY.
- EBITDA margin is estimated at 22.3% vs. 18.9% in 4QFY22 on the back of better pricing power and overall expenses increasing at a lower rate than the increase in revenue; EBITDA is estimated to grow by 27.4% YoY.
- Adjusted PBT is expected to increase by 21.1% YoY to Rs5.92bn.
- However, consolidated adjusted PAT is likely to decline by 9.3% YoY to Rs4.20bn due to loss of Rs455mn in JV share vs a profit of Rs240mn in 4QFY22. Also, the effective tax rate is estimated higher at 20% vs 8.8% in 4QFY22. These are two variables, which lack visibility and could drive a beat vs our estimates.
- If we exclude the impact of Rallis India, TTCH is expected to post consolidated PAT of Rs4.26bn vs a PAT of Rs4.70bn in 4QFY22 and a PAT of Rs3.87bn in 3QFY23.

Key drivers for TTCH:

- **Basic Chemistry** (BC) segment revenue is expected to rise by 10.1% YoY to Rs31.96bn.
- **Specialty segment** revenue, including that of Rallis, is expected to fall by 0.9% YoY to Rs5.59bn.

Segment EBIT:

- BC segment's EBIT is expected to increase by 21.9% YoY to Rs6.29bn.
- Specialty segment's EBIT, including that of Rallis, is expected to fall by 63.76% YoY due to a loss of Rs396mn vs a loss of Rs242mn in 4QFY22.

Consolidated Segment EBIT margin 4QFY23 vs. 4QFY22:

- BC segment EBIT margin is estimated at 19.7% vs.17.8%.
- Specialty segment's (including Rallis) EBIT margin is estimated at (-)7.08% vs. (-)4.28%.

Key pointers: (1) Risk to Soda Ash demand growth/margins due to: (i) demand slowdown in key end-use sectors as a result of a global slowdown/recession in the aftermath of rising global inflation/interest rates and the ongoing Russia-Ukraine conflict and (ii) the adverse impact of steep increase in freight and energy costs. (2) Progress in capex and new projects.

Exhibit 4: **Tata Chemicals 4QFY23E – Indian and Overseas business details**

Rsmn	4QFY22	4QFY23E	4QFY22	4QFY23E	4QFY22	4QFY23E	4QFY22	4QFY23E
	Revenue	Revenue	EBITDA	EBITDA	EBITDA Margin	EBITDA Margin	Soda Ash Volume	Soda Ash Volume
					%	%	000' tonne	000' tonne
India	11150	11,384	2770	3020	27.1	26.5	176	176
US	10920	11,267	2750	2602	23.8	23.1	617	586
UK	5760	7,775	410	2067	35.9	26.6	70	63
Africa	1710	1991	600	697	40.7	35.0	75	71
Rallis	5070.7	5135	0	-28	-0.6	-0.6	-	-
Adjustment	199.3	-	44	17	-	-	-	-
Total	**34,810**	**37,552**	**6574**	**8375**	**18.9**	**22.3**	**938**	**896**

Source: Company, Nirmal Bang Institutional Equities Research

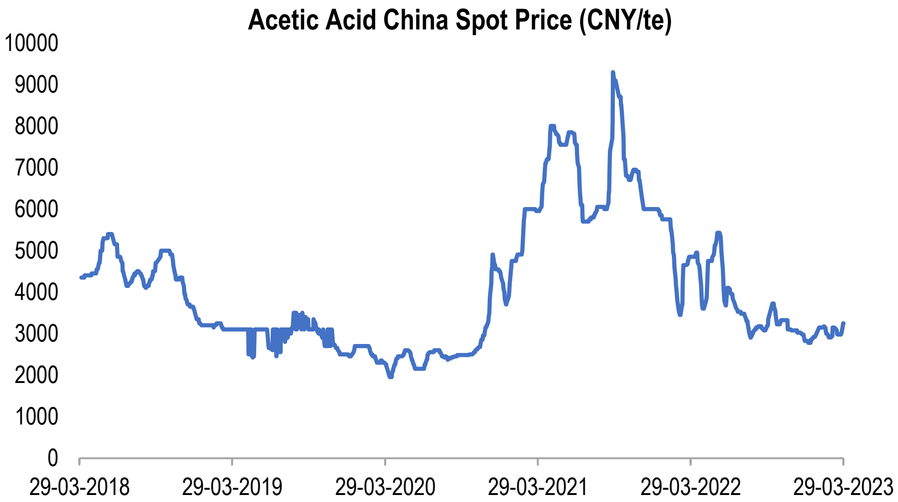
Anupam Rasayan: We expect revenue growth of 18.7% YoY. EBITDA margin is likely to decrease by 118bps to 29.5% due to gross margin decreasing by 607bps to 61.5% and increase in employee cost by 49.5% YoY. Other expenses are likely to decline by 2.6% YoY. We expect PAT to increase by 11.4% YoY vs EBITDA growth of 14.2% YoY.

Chemical price trends

Exhibit 5: Methanol

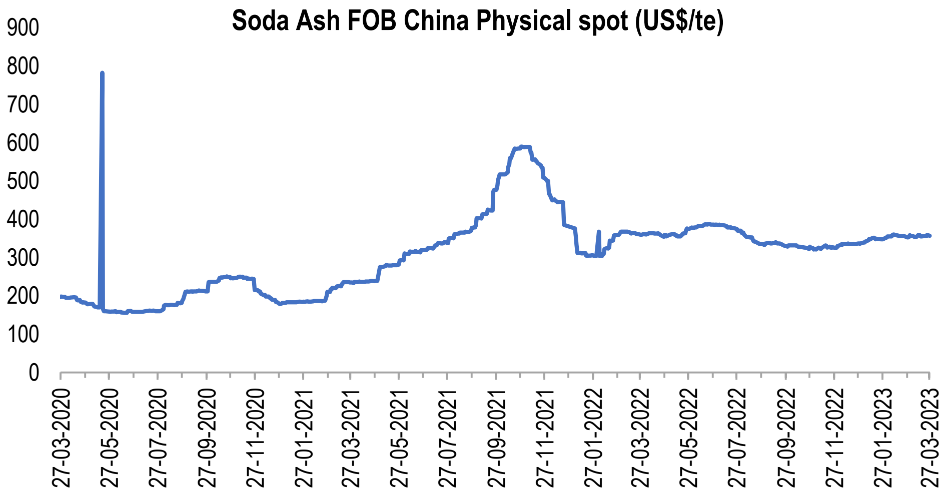
Source: Bloomberg; Nirmal Bang Institutional Equities Research

Exhibit 6: Acetic Acid



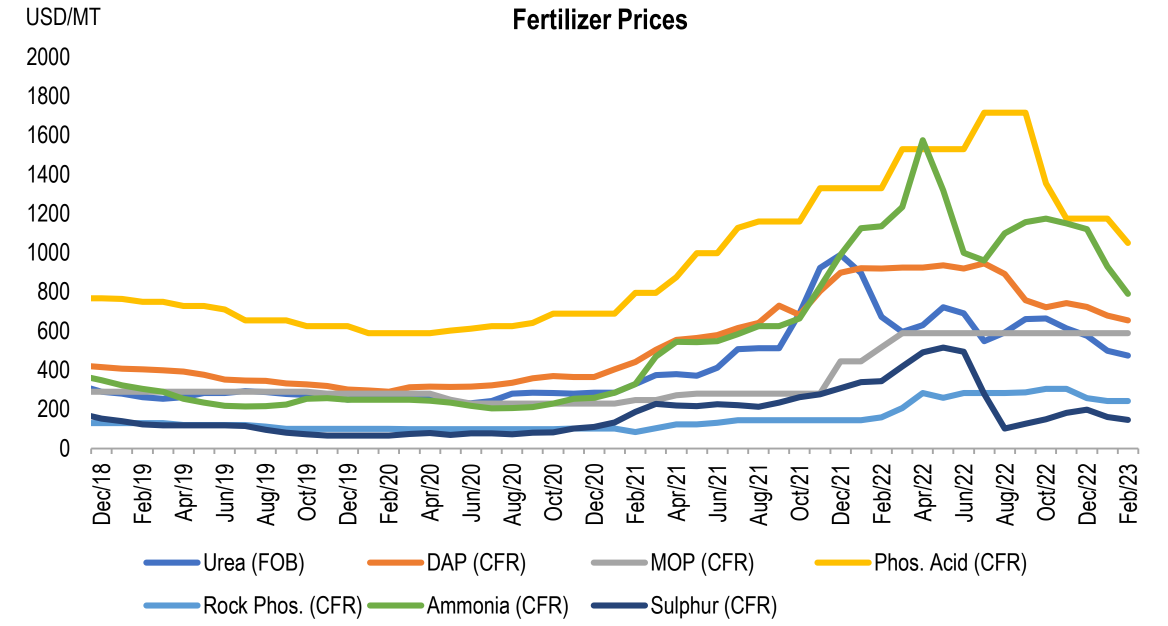
Source: Bloomberg; Nirmal Bang Institutional Equities Research

Exhibit 7: Soda Ash



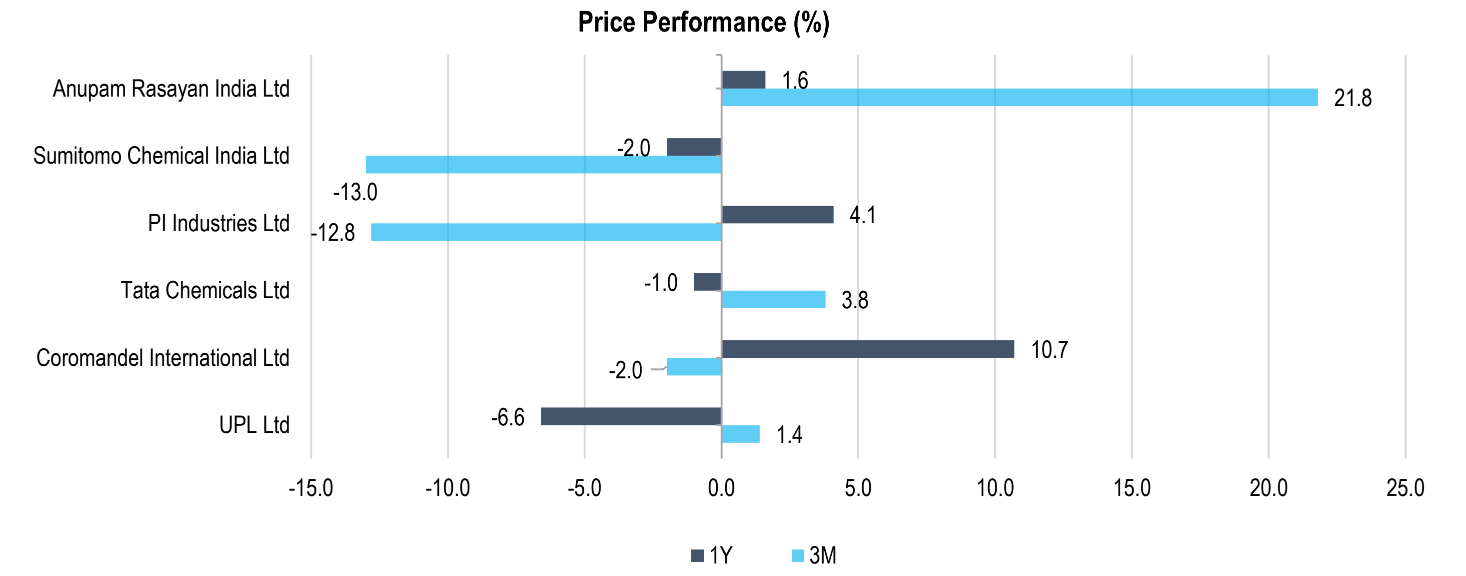
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 8: Input and product price trends in Indian Phosphatic Fertilizer sector



Source: Department of Fertilizers; Nirmal Bang Institutional Equities Research

Exhibit 9: Price performance



Source: Nirmal Bang Institutional Equities Research

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