

## Oct-Dec'23 Earnings Preview

### Subdued demand persists

*After 17/26/37% YoY drop in Rev/EBITDA/PAT in 2QFY24, on an aggregate basis, we expect our universe of specialty chemical companies to register another weak quarter with 18/34/45% YoY drop in Rev/EBITDA/PAT led by lack of demand and margin pressure. As per our channel checks, while destocking appears to be broadly over, demand still remains elusive, raising possibility of sharper earning cuts for the chemical companies going forward, at least for another year. Our [recent note](#) also delved upon China returning to capacity additions in chemicals, which spell trouble for Indian chemical companies.*

*While we remain apprehensive on most names, we still see upside, although limited, in Navin Fluorine and Vinati Organics.*

- **Commodity prices cool off:** While Brent is down 7%/8% YoY/QoQ, spot LNG prices halved with respect to abnormally high prices previous year. Sequentially, Spot LNG prices rose 7% although both Brent and spot LNG prices have cooled off to USD78/bbl and USD11/mmBtu in last few days post Q3FY24.
- **High feedstock prices:** Compared with 8% sequential slide in Brent, benzene and phenol, key raw materials for several chemical companies, have witnessed 3%/1% decline QoQ. Sulfuric acid prices have risen 19% QoQ while acetic acid prices have decline by 19% QoQ. Freight also appears to have risen due to the ongoing Red Sea conflict.
- **Lack of demand poses concerns for further earning cuts:** We have cut PAT estimates for Deepak Nitrite, Fine Org, Guj Fluoro, Navin Fluorine and Vinati by 9%/25%/41%/38%/11% for FY24E as we incorporate delays in projects as well as persistent weakness in demand. While inventory destocking appears to be over, demand concerns have elongated, as per our channel checks. As a result, we expect further cut in earnings of the chemical companies going forward.

### Top picks:

- **Navin Fluorine International Ltd:** We expect Rev/EBITDA/PAT to decline 25%/39%/57% YoY. However, considering the strong growth potential especially in HPP and specialty chemicals and also the possibility of upsides from new contracts in CDMO, we remain bullish on the stock. Despite a sluggish FY24E, we expect 12% CAGR in EPS during FY23-26E. With a target price of Rs4,260, we recommend a Buy rating on the stock.
- **Vinati Organics Ltd:** With OPEC+ proactively managing oil prices, we expect US rig counts to remain steady. This would result in stable demand and realization of ATBS, the main product of Vinati. We expect Rev/EBITDA/PAT to decline by 10%/27%/30% YoY. With a target price of Rs1,885, we recommend an Accumulate rating on the stock.

January 8, 2024

### Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Aarti Industries	Reduce	629	584
Clean Science and Technology	HOLD	1,572	1,368
Deepak Nitrite	Reduce	2,451	1,881
Fine Organic Industries	Hold	4,867	4,920
Gujarat Fluorochemicals	Reduce	3,626	3,342
Jubilant Ingrevia	HOLD	498	433
Laxmi Organic Industries	Reduce	289	267
Navin Fluorine International	Buy	3,823	4,260
NOCIL	Reduce	274	236
SRF	HOLD	2,481	2,155
Vinati Organics	Acc	1,741	1,885

Source: PL Acc=Accumulate

### Top Picks

#### Navin Fluorochemical International

#### Vinati Organics

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Exhibit 2: Sequential Improvement in Basic Chemicals

Commodity	Curr/Unit	Q3FY24 (Avg)	Q2FY24 (Avg)	Q3FY23 (Avg)	% Change (YoY)	% Change (QoQ)	Latest Price
Caustic Soda	USD/MT	430	413	677	-36%	4%	440
Soda Ash	USD/MT	320	326	329	-3%	-2%	374
Acetic Acid	CNY/MT	3083	3,828	3075	0%	-19%	4,850
Ethyl Acetate	CNY/MT	6692	7075	6775	-1%	-5%	7,600
Phenol	USD/MT	1008	1015	1183	-15%	-1%	1,125
PET	CNY/MT	7100	7280	7251	-2%	-2%	7,245
Phthalic Anhydride	CNY/MT	7417	8350	8367	-11%	-11%	8,450
TDI	CNY/MT	16833	18167	19400	-13%	-7%	18,100
Ammonia	USD/MT	616	446	1150	-46%	38%	455
Sulfuric Acid	CNY/MT	287	241	357	-20%	19%	310
Benzene	USD/MT	895	927	837	7%	-3%	960
Toluene	USD/MT	842	965	848	-1%	-13%	1,015
Crude Oil (Brent)	USD/BBL	82	89	89	-7%	-8%	93
Natural Gas	USD/MMBtu	3	3	6	-50%	7%	2.6
Rapeseed Oil	EUR/MT	922	962	1243	-26%	-4%	965
Baltic Dry Index (RHS)	Index	2163	1305	1444	50%	66%	1,593
Freightos Index (China to US East Coast)	Index	2383	2774	4393	-46%	-14%	2,650
USDINR		83	83	82	1%	1%	83.1

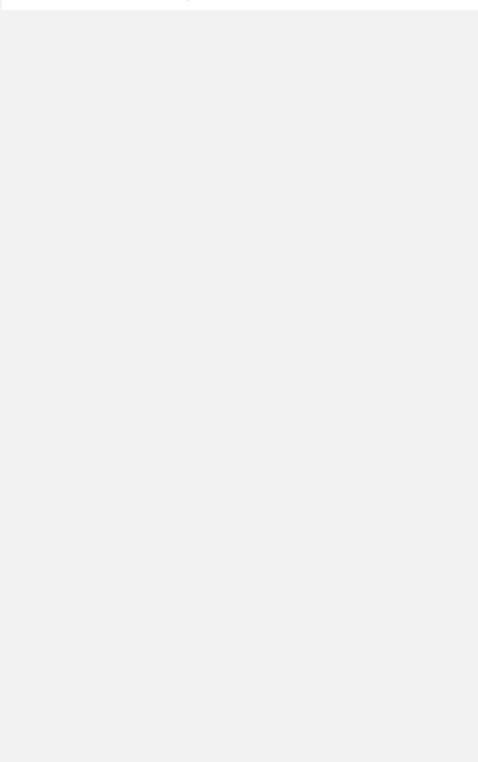
Source: Industry, PL Highlights - Light Green for >5% price increase; Light Red for >5% price decline

Exhibit 3: Q3FY24 Result Preview

Company Name		Q3FY24E	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	Remark
Aarti Industries	Sales	15,955	16,677	(4.3)	14,540	9.7	Export data shows strength on a sequential basis, expect gross margin of 40.1% in Q3FY24 vs 41.3% in Q2FY24 and 41.5% in Q3FY23
	EBITDA	2,520	2,887	(12.7)	2,340	7.7	
	Margin (%)	15.8	17.3	-152 bps	16.1	-30 bps	
	PBT	1,045	1,599	(34.6)	830	26.0	
	Adj. PAT	878	1,365	(35.7)	920	(4.6)	
Clean Science and Technology	Sales	1,908	2,374	(19.6)	1,811	5.4	We expect weakness to continue in performance products including HALS; expect gross margin to decline from 65.9% in Q2FY24 to 63.9% in Q3FY24 as well as EBITDAM to decline from marginally QoQ
	EBITDA	776	1,082	(28.3)	748	3.7	
	Margin (%)	40.7	45.6	-492 bps	41.3	-66 bps	
	PBT	720	1,118	(35.6)	695	3.6	
	Adj. PAT	531	838	(36.6)	522	1.8	
Deepak Nitrite	Sales	17,384	19,911	(12.7)	17,781	(2.2)	YoY, the ramp up in phenol capacity expansion would help, but phenol spreads over benzene/propylene remain subdued ~15% QoQ; expect sequential weakness in phenolics in particular
	EBITDA	2,846	3,146	(9.5)	3,023	(5.8)	
	Margin (%)	16.4	15.8	57 bps	17.0	-63 bps	
	PBT	2,527	2,810	(10.1)	2,772	(8.8)	
	Adj. PAT	1,823	2,090	(12.8)	2,051	(11.1)	
Fine Organic Industries	Sales	4,152	7,499	(44.6)	4,718	(12.0)	polymer spreads remain weak; as a result, we expect erucamide, the largest product of the company to remain weak; expect sequential decline in rev as well as margins
	EBITDA	860	1,747	(50.7)	1,044	(17.6)	
	Margin (%)	20.7	23.3	-257 bps	22.1	-141 bps	
	PBT	876	1,764	(50.4)	1,065	(17.7)	
	Adj. PAT	450	1,313	(65.7)	794	(43.3)	
Gujarat Fluorochemicals	Sales	7,417	14,179	(47.7)	9,468	(21.7)	exports remain weak, refrigerant prices yet to recover; expect sequential decline of 21.7% in sales with marginal improvement in EBITDAM
	EBITDA	1,614	5,232	(69.1)	1,816	(11.1)	
	Margin (%)	21.8	36.9	-1514 bps	19.2	259 bps	
	PBT	763	4,464	(82.9)	933	(18.2)	
	Adj. PAT	574	3,295	(82.6)	712	(19.3)	

Company Name		Q3FY24E	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	Remark
Jubilant Ingrevia	Sales	9,038	11,583	(22.0)	10,199	(11.4)	
	EBITDA	959	1,512	(36.5)	1,177	(18.5)	acetic anhydride prices have declined significantly on a sequential basis, expect weakness across segments to continue; rev and EBITDA to decline by 11% and 19% QoQ
	Margin (%)	10.6	13.1	-244 bps	11.5	-92 bps	
	PBT	651	1,215	(46.4)	798	(18.3)	
	Adj. PAT	468	914	(48.8)	574	(18.5)	
Laxmi Organic Industries	Sales	6,523	6,546	(0.4)	6,523	-	
	EBITDA	636	548	16.1	685	(7.1)	Expect broadly flat rev QoQ; EBITDA to decline 7% QoQ and marginal decline in EBITDAM on a sequential basis
	Margin (%)	9.8	8.4	138 bps	10.5	-74 bps	
	PBT	422	335	25.9	471	(10.3)	
	Adj. PAT	361	273	32.6	403	(10.3)	
Navin Fluorine International	Sales	4,248	5,636	(24.6)	4,718	(10.0)	
	EBITDA	950	1,556	(39.0)	983	(3.4)	exports remain weak; expect specialty chemicals which is primarily agrochem to continue showing weakness while refrigerant prices are yet to recover
	Margin (%)	22.4	27.6	-525 bps	20.8	151 bps	
	PBT	659	1,313	(49.8)	772	(14.6)	
	Adj. PAT	455	1,066	(57.3)	606	(24.9)	
NOCIL	Sales	3,384	3,257	3.9	3,509	(3.5)	
	EBITDA	385	377	2.1	453	(15.0)	expect weakness in demand to continue, primarily from non-tyre segment; expect marginal contraction in EBITDAM sequentially
	Margin (%)	11.4	11.6	-20 bps	12.9	-153 bps	
	PBT	298	253	17.8	365	(18.4)	
	Adj. PAT	221	186	18.5	272	(18.8)	
SRF	Sales	29,634	34,697	(14.6)	31,774	(6.7)	
	EBITDA	5,662	8,335	(32.1)	6,262	(9.6)	refrigerant prices are yet to recover while agrochem continues to show weakness; as a result, we expect 6.7% sequential decline in sales and 9.6% decline in EBITDA
	Margin (%)	19.1	24.0	-492 bps	19.7	-60 bps	
	PBT	4,432	6,309	(29.8)	4,148	6.8	
	Adj. PAT	3,191	5,109	(37.5)	3,008	6.1	
Vinati Organics	Sales	4,562	5,087	(10.3)	4,481	1.8	
	EBITDA	1,190	1,638	(27.3)	1,108	7.4	oil prices have remained steady and ATBS demand is expected to remain steady in Q3FY24; expect 1.8% Rev growth and margin improvement with decline in feedstock prices
	Margin (%)	26.1	32.2	-611 bps	24.7	136 bps	
	PBT	1,177	1,675	(29.7)	1,130	4.2	
	Adj. PAT	880	1,254	(29.8)	842	4.6	

Source: Company, PL





## Exhibit 4: Valuation Summary

Company Names	S/C Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
					FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Aarti Industries	C Reduce	629	584	228.1	66.2	70.0	76.8	84.1	10.9	11.9	14.2	16.2	5.5	5.6	6.7	7.6	15.0	15.5	18.4	20.8	11.6	11.0	12.0	12.5	41.8	40.6	34.2	30.2
Clean Science and Technology	C HOLD	1,572	1,368	167.0	9.4	7.8	8.9	10.0	4.0	3.2	3.7	4.2	3.0	2.3	2.7	3.0	27.8	21.3	25.0	28.5	33.2	20.5	20.3	19.7	56.6	73.8	62.9	55.1
Deepak Nitrite	C Reduce	2,451	1,881	334.3	79.7	69.1	78.7	87.3	12.9	11.3	14.3	16.1	8.5	7.6	9.2	10.3	62.5	55.8	67.2	75.2	22.9	17.2	17.8	17.1	39.2	43.9	36.5	32.6
Fine Organic Industries	S Hold	4,867	4,920	149.2	30.3	18.2	19.1	20.1	7.8	4.3	4.0	4.2	5.9	3.2	3.1	3.4	192.6	105.7	100.0	109.3	47.6	19.8	16.5	16.1	25.3	46.0	48.7	44.5
Gujarat Fluorochemicals	C Reduce	3,626	3,342	398.3	56.8	34.4	47.4	62.2	19.7	8.3	13.1	19.0	12.5	3.8	6.8	10.5	113.5	34.6	61.7	95.5	25.5	6.7	10.9	14.9	31.9	104.7	58.7	38.0
Jubilant Ingrevia	C HOLD	498	433	79.2	47.7	47.2	54.3	60.5	5.5	5.4	6.6	7.2	3.1	2.8	3.6	4.0	19.3	17.6	22.6	25.4	12.1	10.0	11.8	12.0	25.8	28.4	22.0	19.6
Laxmi Organic Industries	C Reduce	289	267	76.2	28.0	25.7	31.5	35.8	2.4	3.1	4.1	4.8	1.2	1.5	2.2	2.8	4.7	5.8	8.3	10.6	9.2	10.3	13.3	14.9	61.5	49.8	34.9	27.3
Navin Fluorine International	C Buy	3,823	4,260	189.4	20.8	19.6	26.4	32.0	5.5	4.4	6.5	8.1	3.8	2.5	4.1	5.3	75.7	49.5	83.2	106.5	18.6	10.7	16.1	17.8	50.5	77.2	46.0	35.9
NOCIL	S Reduce	274	236	45.7	16.2	14.3	16.6	19.1	2.5	2.3	2.7	3.2	1.5	1.3	1.6	2.0	9.0	7.8	9.8	11.8	10.0	8.2	9.6	10.8	30.6	35.0	28.1	23.3
SRF	C HOLD	2,481	2,155	735.3	148.7	139.8	161.3	179.0	35.3	31.0	36.0	41.7	21.6	16.7	19.4	22.6	72.9	56.3	65.3	76.2	22.9	15.1	15.3	15.6	34.0	44.0	38.0	32.5
Vinati Organics	S Acc	1,741	1,885	178.9	20.8	18.3	21.9	25.6	6.0	4.8	5.5	6.5	4.6	3.5	4.1	4.8	44.6	34.4	39.7	47.1	22.6	14.9	15.2	15.8	39.1	50.7	43.8	36.9

Source: Company, PL S=Standalone / C=Consolidated / Acc = Accumulate



## Exhibit 5: Change in Estimates

	Rating		Target Price			Sales						PAT						EPS					
						FY24E			FY25E			FY24E			FY25E			FY24E			FY25E		
	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	Reduce	Acc	584	584	0.0%	70,008	70,008	0.0%	76,819	76,819	0.0%	5,620	5,620	0.0%	6,672	6,672	0.0%	15.5	15.5	0.0%	18.4	18.4	0.0%
Clean Science and Technology	HOLD	HOLD	1,368	1,368	0.0%	7,769	8,114	-4.2%	8,877	8,878	0.0%	2,261	2,377	-4.9%	2,654	2,654	0.0%	21.3	22.4	-4.9%	25.0	25.0	0.0%
Deepak Nitrite	Reduce	Reduce	1,881	1,935	-2.8%	69,148	84,976	-18.6%	78,693	94,272	-16.5%	7,610	8,366	-9.0%	9,168	10,645	-13.9%	55.8	61.3	-9.0%	67.2	78.0	-13.9%
Fine Organic Industries	Hold	Hold	4,920	4,252	15.7%	18,213	24,246	-24.9%	19,124	25,458	-24.9%	3,242	4,338	-25.3%	3,066	4,196	-26.9%	105.7	141.5	-25.3%	100.0	136.9	-26.9%
Gujarat Fluorochemicals	Reduce	Reduce	3,342	2,413	38.5%	34,442	44,211	-22.1%	47,426	48,972	-3.2%	3,804	6,436	-40.9%	6,780	7,213	-6.0%	34.6	58.6	-40.9%	61.7	65.7	-6.0%
Jubilant Ingrevia	HOLD	HOLD	433	433	0.0%	47,223	47,223	0.0%	54,255	54,255	0.0%	2,791	2,791	0.0%	3,600	3,600	0.0%	17.6	17.6	0.0%	22.6	22.6	0.0%
Laxmi Organic Industries	Reduce	Reduce	267	220	21.3%	25,683	25,683	0.0%	31,521	31,521	0.0%	1,529	1,529	0.0%	2,185	2,185	0.0%	5.8	5.8	0.0%	8.3	8.3	0.0%
Navin Fluorine International	Buy	Buy	4,260	4,007	6.3%	19,624	24,303	-19.3%	26,409	31,152	-15.2%	2,455	3,960	-38.0%	4,122	5,564	-25.9%	49.5	79.9	-38.0%	83.2	112.3	-25.9%
NOCIL	Reduce	Reduce	236	226	4.3%	14,345	14,986	-4.3%	16,569	17,308	-4.3%	1,305	1,242	5.0%	1,625	1,554	4.6%	7.8	7.5	5.0%	9.8	9.3	4.6%
SRF	HOLD	HOLD	2,155	2,156	0.0%	1,39,847	1,39,847	0.0%	1,61,298	1,61,298	0.0%	16,700	16,700	0.0%	19,352	19,396	-0.2%	56.3	56.3	0.0%	65.3	65.4	-0.2%
Vinati Organics	Acc	Acc	1,885	1,997	-5.6%	18,255	19,881	-8.2%	21,872	23,435	-6.7%	3,531	3,958	-10.8%	4,083	4,473	-8.7%	34.4	38.5	-10.8%	39.7	43.5	-8.7%

Source: Company, PL C=Current / P=Previous / Acc=Accumulate / UR=Under Review

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	584	510
2	Bayer Cropscience	Accumulate	5,920	5,193
3	Bharat Petroleum Corporation	Reduce	365	429
4	Bharti Airtel	Accumulate	993	924
5	Clean Science and Technology	Hold	1,368	1,374
6	Deepak Nitrite	Reduce	1,935	2,076
7	Dhanuka Agritech	BUY	1,060	883
8	Fine Organic Industries	Hold	4,252	4,250
9	GAIL (India)	BUY	151	124
10	Godrej Agrovet	Hold	420	515
11	Gujarat Fluorochemicals	Reduce	2,413	2,780
12	Gujarat Gas	Accumulate	477	419
13	Gujarat State Petronet	BUY	328	273
14	Hindustan Petroleum Corporation	Sell	272	342
15	Indian Oil Corporation	Reduce	94	109
16	Indraprastha Gas	Hold	406	390
17	Insecticides India	Accumulate	600	519
18	Jubilant Ingrevia	Hold	433	412
19	Laxmi Organic Industries	Reduce	220	254
20	Mahanagar Gas	Hold	1,065	1,015
21	Mangalore Refinery & Petrochemicals	Hold	94	96
22	Navin Fluorine International	BUY	4,007	3,430
23	NOCIL	Reduce	226	246
24	Oil & Natural Gas Corporation	BUY	237	196
25	Oil India	BUY	368	302
26	P.I. Industries	BUY	4,600	3,648
27	Petronet LNG	Hold	208	196
28	Rallis India	Reduce	190	217
29	Reliance Industries	Accumulate	2,618	2,388

**PL's Recommendation Nomenclature**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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