Chemicals and Midcap Q4FY24 Result Preview

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Q4FY24 CHEMICALS: ON THE CUSP OF TURNAROUND

Chemicals

Chemicals & Agrochemicals: In Q4FY24, we expect chemical companies under our coverage to declare sequential revenue improvement, except for commodity player Archean Chemical, as soft demand from end-user industries has led to a drop in prices. The meaningful recovery for chemical companies will likely take another 2 quarters. Agrochemicals demand continues to be under pressure, but there are green shoots in certain end-user industries such as dyes, pigments, and polymers, which have witnessed growth in demand and minor improvement in prices of final products. Chemical companies with strong brands and a consistent track record are seeing traction in CSM/CDMO business opportunities as China +1 and Euro +1 play out.

The Red Sea issue has extended the timeframe, leading to higher costs. Although the issue of inventory for end users in India has not had a significant impact, Europe continues to face headwinds. We believe Chinese slowdown leading to dumping across the globe has lead to inventory pressure in the chemical & agrochemical sector. Agrochemicals companies are expecting the inventory of agrochemicals to remain a challenge for some time yet, and it will take a few more quarters to normalize completely.

Aarti Industries Ltd: We anticipate that the performance of Aarti Industries Ltd in Q4FY24 will improve sequentially, driven by increased volumes and growing demand for discretionary applications. However, agrochemicals demand remains under pressure. The prices of benzene and toluene have seen some rise, which generally follow crude oil prices. Additionally, progress in the introduction of the chlorotoulene value chain and other initiatives is underway. We expect EBITDA to increase due to top-line growth achieved by optimizing the product mix and driving operational excellence.

Camlin Fine Science Limited: We anticipate a decline in topline due to subdued prices, and the scale-up of Vanillin production is expected to continue being affected by China dumping. However, the focus remains on the growth of downstream products of Diphenol, which is expected to yield higher margins and realization. While the EBITDA is expected to improve marginally, there are expectations for some margin improvement overall.

NOCIL Ltd: With gaining approvals and expanding export market penetration, we anticipate incremental volumes in Q4FY24. The topline is expected to grow due to volume recovery during the quarter, with replacement demand aiding growth driven by investments in infrastructure and commercial vehicle replacement. Additionally, the EBITDA is projected to be better than the last impacted quarters, with positive operating performance.

Navin Fluorine International Ltd: We anticipate revenue to remain similar on a QoQ basis due to CDMO order deferrals from the last quarter. However, the EBITDA is expected to increase in Q4 as the company faced technical issues in the HFO plant in Q3. Sequentially, margins are expected to improve due to an increase in contribution from the Specialty and CDMO businesses.

Apcotex Industries Ltd: The Company is observing an improvement in Nitrile Latex prices due to a global balance in supply and demand, driven by certain capacities shutting down and positive movements in raw material prices. We expect the topline to grow as prices strengthen.

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Archean Chemical Industries Ltd: We expect the topline to degrow due to price correction in Bromine and salt, stemming from lower demand from end-user industries. The EBITDA is expected to decline QoQ in line with the overall topline. We anticipate margins to decline on a YoY basis with a lower contribution from bromine.

PI Industries Ltd: PI's focus on targeting new products in the non-AgChem space and developing its capabilities in non-core chemistries, along with the development of the CRO business model in the Pharma business, will help diversify revenues moving forward. We anticipate challenges in the domestic agrochemical business to persist in Q4FY24. However, supported by strong growth in the CSM business and a decent contribution from the newly acquired pharma business, we expect PI's topline to grow. The CSM business is projected to grow well on the back of volume growth in its key molecule.

Dhanuka Agritech Ltd: We anticipate the topline to grow, driven by a better product mix with a higher contribution from new product launches. For FY24, despite erratic rainfall patterns, we forecast single-digit revenue growth of 6.4%, accompanied by an improvement in gross margin of 260 basis points. Additionally, we expect the company to post an EPS of 11.8 per share.

Diversified Mid-Cap Opportunities

VIP Industries: In the luggage sector, we cover VIP Industries. The company is launching new premium category products across brands and continues to invest in brand building and distribution channel development while strengthening the supply chain. We anticipate Q4FY24 topline growth driven by increased demand and a higher contribution from premium new product development. Additionally, the EBITDA is expected to rise due to deflationary raw material costs and cost optimization measures.

Praj Industries: Praj Industries is anticipated to sustain its growth trajectory in Q4FY24 driven by a robust focus on its Engineering Business, offering solutions across CPES, ZLD, and ETP segments catering to a growing ETCA industry. Praj is also expanding its distribution channel for various service portfolios, including yeast, enzymes, and yield-enhancing services. The company's focus on export markets like Brazil and the USA, along with government initiatives to promote CBG adoption, further bolster its prospects. However, we anticipate a YoY decline in topline due to government caps on sugar diversion in Dec '23. Nonetheless, the EBITDA is expected to improve over the last quarter, with margins projected to remain stable sequentially.

Mold-Tek Packaging: Mold-Tek Packaging is projected to report double-digit growth in topline in Q4FY24 sequentially, driven by increased paint volumes from the ABG plant, a boost in pharma volume, and the scaling up of Q-pack demand. Additionally, client additions in the F&F segment, a robust new product development pipeline, customer additions in new segments, and improvements in profitability/margin profile, along with broader economic prospects, are expected to impact demand in the coming quarters. Moreover, EBITDA margins are forecasted to improve due to stable PP prices, a strong product pipeline, and better margins from ABG. The Profit after Tax (PAT) is anticipated to increase marginally in line with the overall operational performance.

Welspun India: Currently, Welspun India is part of our coverage within the Textile sector. Textile demand appears to be regaining momentum, reaching historical levels, and new growth opportunities such as the UK & Australian Free Trade Agreements are poised to initiate a new phase of growth. We anticipate a surge in demand for Welspun India starting from Q4FY24 onwards. The growth is expected to be driven by the expansion of emerging businesses including flooring, advanced textiles, domestic operations, and the global branded business. Furthermore, we foresee an improvement in EBITDA as the company's emerging businesses grow, supply chain normalization takes place, and capacity utilization improves.

Key Monitorable in Q4 FY24

We will closely monitor management commentaries on demand in the upcoming quarters, especially as the global growth engine slows and Western economies face inflationary pressures. The companies' ability to manage current inflationary pressures and navigate a global slowdown will be crucial as they strive to maintain their growth trajectories while safeguarding market share and margins. Additionally, we will keenly observe Capex plans and updates on existing project ramp-ups, as well as market trends in global and domestic consumption.

Our Top Picks:

Aarti Industries Ltd; Praj Industries Ltd; Mold-tek Packaging

Specialty Chemicals

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
Aarti Industries						
Revenues	1,756	1,732	1.4%	1,656	6.0%	
EBITDA	296	260	13.8%	252	17.4%	
EBITDA margin (%)	17%	15%		15%		
PAT	122	124	-2.0%	149	-18.5%	
EPS (Rs)	4.1	3.4	19.9%	4.1	0.0%	
Apcotex Industries						
Revenues	269	257	4.7%	256	5.1%	
Gross Profit	32	25	24.6%	34	-6.8%	
Gross margin (%)	12%	10%		13%		
EBITDA	13	11	16.4%	23	-44.2%	
PAT	2.5	2.1	16.4%	4.5	-44.2%	

Aarti Industries – Result expectations

- We expect top line to grow with improvement in volumes and increase in demand for discretionary application.
- The EBITDA is expected to increase as we expect top line growth by optimizing product mix and driving operational excellence
- The margin is expected to marginally improve over last quarter
- The PAT would be in affected due to increase depreciation
- Key Monitorables: Increasing capacity utilisation levels, Updates in capex; long term contracts; Demand scenario

Apcotex Industries – Result expectations

- We expect Topline to grow as Prices strengthening.
- EBITDA is also expected to witness a significant growth on QoQ basis as operational leverage kicks in
- With a benign improvement in the EBITDA Margin profile sequentially
- The PAT is expected to be in line with the overall performance
- Key Monitorable: Update on ramp up of new project; demand trends across key end-user industries

Specialty Chemicals (Cont'd)

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
Camlin Fine Sciences						→ Topline to de-grow due to subdued prices and Vanillin scale up to continue remain affected on account of China dumping → The EBITDA is expected to improve marginally with some margin improvement → The EBITDA margin is expected to grow sequentially as growth of downstream products of Diphenol which is expecting to yield higher margins → The loss is expected to reduce marginally → Key Monitorable: Update on Vanillin plant performance, Impact on Italian subsidiary & ; demand trends across key end-user industries
Revenues	369	386	-4.5%	427	-13.6%	
EBITDA	26	23	10.6%	44	-41.1%	
EBITDA margin (%)	7%	6%		10%		
PAT	(14)	(14)	-3.2%	3	-497.4%	
EPS (Rs)	(0.9)	(0.8)	3.5%	0.2	-497.4%	
Navin Fluorine International Ltd.						→ We expect topline to remain similar on sequential basis due to CDMO order deferrals from last quarter. → The EBITDA is Expected to increase in Q4 as company faced technical issues in HFO plant in Q3 → The margins are expected to see an increase due to positive operational performance → We expect the company to post a EPS of 9.18 per share → Key Monitorables: New products in the pipeline, update on R32 ramp-up, CRAMS CGMP 4 & Specialty Chemicals segment
Revenues	497	502	-1.0%	697	-28.7%	
EBITDA	93	76	22.8%	202	-54.0%	
EBITDA margin (%)	19%	15%		29%		
PAT	45	78	-41.7%	136	-66.6%	
EPS (Rs)	9.2	15.7	-41.7%	27.5	-66.6%	

Specialty Chemicals (Cont'd)

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
Archean Chemical Industries Ltd						➔ We expect topline to degrow on account on price correction in Bromine and salt due to lower demand from end user industry ➔ The EBITDA is expected to decline QoQ with the overall topline ➔ We expect the margins to decline on YoY basis with lower contribution from bromine ➔ The PAT would go inline with EBITDA ➔ We expect the company to post a EPS of 7.96 per share
Revenues	380	413	-7.8%	382	-0.5%	
EBITDA	140	145	-3.7%	194	-28.0%	
EBITDA margin (%)	37%	35%		51%		
PAT	98	102	-3.6%	137	-28.3%	
EPS (Rs)	8.0	8.3	-3.6%	11.1	-28.3%	
NOCIL Ltd.						➔ Expect topline to grow due to volume recovery during the quarter and replacement demand to aid growth ➔ The EBITDA would be better than the last impacted quarters also scale returns ➔ The EBITDA is expected to grow over last quarter ➔ The PAT is expected to be in line with the overall performance ➔ Key Monitorables: Effect of global slowdown on rubber prices; Chinese import pressure & competition scenario & share of value added products
Revenues	364	341	7.0%	393	-7.2%	
EBITDA	52	49	5.9%	50	4.1%	
EBITDA margin (%)	14%	14%		13%		
PAT	32	30	7.5%	28	13.9%	
EPS (Rs)	1.9	1.8	7.5%	1.7	13.9%	

Agri Chemical

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
PI Industries						➔ Revenue growth supported by strong growth in CSM business and decent contribution from newly acquired pharma business. ➔ We expect lower EBITDA over last quarter ➔ EBITDA margins are expected slightly lower due to negative operating leverage ➔ PAT to be in line with overall performance ➔ We expect an EPS of 26.4
Revenues	1,921	1,898	1.2%	1,566	22.7%	
EBITDA	488	554	-11.9%	343	42.3%	
EBITDA margin (%)	25%	29%		22%		
PAT	381	449	-15.1%	281	35.7%	
EPS	25.0	29.5	-15.1%	18.5	35.7%	
Dhanuka Agritech						➔ We Expect Topline to grow on account of introduction of new specialty molecules ➔ EBITDA is also expected to witness a significant growth sequentially as operational leverage kicks in ➔ We expect the margins to improve over last few quarters ➔ The PAT is expected to be in line with the overall performance ➔ With company reporting EPS of 11.8 per share
Revenues	433	403	7.5%	371	16.8%	
EBITDA	79	62	27.6%	78	1.9%	
EBITDA margin (%)	18%	15%		21%		
PAT	54	45	18.7%	65	-17.5%	
EPS	11.8	10.0	18.7%	14.2	-17.0%	

Mid-Caps

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
VIP Industries						➔ Topline to see growth on account of increase in demand and higher contribution form premium NPD. ➔ The EBITDA is expected to rise due to deflationary RM Cost and cost optimisation measures ➔ Margins to improve on account of Improved Supply chain, better product mix and operational efficiency ➔ The PAT is expected to increase in line with the overall performance. ➔ Key Monitorable: Demand off-take post economic revival; Inventory management; RM price inflation; and market share protection
Revenues	572	546	4.7%	451	27.0%	
EBITDA	68	52	30.3%	64	5.9%	
EBITDA margin (%)	12%	10%		14%		
PAT	23	7	226.6%	(4)	-648.2%	
EPS	1.7	0.5	226.6%	(0.3)	-648.2%	
Mold-Tek Packaging						➔ Top line is expected to grow as boost in pharma volume and scaling up of Q-pack demand ➔ The EBITDA to grow with stabilization of Satara plant and capacity expansion in F&F segment ➔ EBITDA margins to improve due to stable PP prices, strong product pipeline and better margin from ABG ➔ The PAT is expected to increase in line marginally with the overall operational performance. ➔ Key Monitorable: Demand off-take from key end user industries; RM price inflation; New Product foray/Capex Update
Revenues	189	165	14.5%	185	2.6%	
EBITDA	35	30	15.7%	36	-1.6%	
EBITDA margin (%)	19%	18%		19%		
PAT	18	14	26.2%	23	-22.1%	
EPS	5.4	4.3	26.2%	6.9	-22.1%	

Mid-Caps (Cont'd)

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
Praj Industries						→ We expect top line to degrow on YoY basis due to government cap on diversion of sugar in Dec23. → The EBITDA to improve over last quarter → We expect the margins to remain stable sequentially → The PAT would go in line with EBITDA growth → We expect the company to post a EPS of 3.96 per share
Revenues	936	829	13.0%	1,004	-6.8%	
EBITDA	99	96	2.3%	105	-5.6%	
EBITDA margin (%)	11%	12%		10%		
PAT	73	70	3.4%	88	-17.4%	
EPS	4.0	3.8	3.4%	4.8	-17.4%	
Welspun India Ltd						→ We expect topline growth to be driven by recovery in export demand, growth in an emerging businesses along with growth in global branded business → The EBITDA to improve as company's emerging business is growing with supply chain normalisation and improved capacity utilisation. → We expect the margins to improve due to operational leverage → The PAT is expected to improve in line with the overall growth → Expect an EPS of Rs 2.01 per share
Revenues	2,465	2,411	2.3%	2,154	14.5%	
EBITDA	350	339	3.2%	279	25.5%	
EBITDA margin (%)	14%	14%		13%		
PAT	196	179	9.3%	129	51.7%	
EPS	2.0	1.8	9.3%	1.3	57.3%	

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