

Chemicals

Earnings upgrades still seem far away

In 2QFY24, most chemical companies under our coverage are likely to register flattish sequential sales growth; PI Industries, Deepak Nitrite, and Aether Industries will be the outliers. PI will have the advantage of the first full quarter of the pharma acquisition and likely continued momentum in pyroxasulfone. Deepak Nitrite will benefit from recovery in phenolic spreads and improvement in the standalone business. For SRF, both refrigerant gas and fluoro specialty chemicals sales are likely to be weak. Navin's CDMO sales are likely to be subdued while specialty chemicals sales are likely to face the slowdown challenge. These weaknesses will more than offset the recovery in HPP sales. Archean's sales will be impacted by lower bromine demand/pricing environment along with seasonal rains. Clean Science's sales are likely to be flattish sequentially owing to higher volume offsetting end-product price declines. We are still awaiting an improvement in companies exposed to agrochemicals inventory destocking. We expect ~5-10% cuts in earnings estimates for most companies post 2QFY24 results. Top picks – SRF in large caps and Deepak Nitrite in mid-caps.

- **Navin Fluorine's EBITDA likely to grow 2% sequentially while SRF is likely to report 5% QoQ contraction in EBITDA:** Navin Fluorine's 2QFY24 sales is likely to grow 1% QoQ (but go up 16% YoY) on account of a weak show in specialty chemicals and CDMO businesses more than offsetting recovery in HPP sales. On account of higher contribution of HPP sales, we expect Navin's EBITDA margin to come in at 23.9% (vs. 23.3% in 1QFY24). SRF's 2QFY24 EBITDA is likely to fall by 5% QoQ on account of weak demand for specialty chemicals due to on-going inventory destocking issues. This weak specialty chemicals performance will marginally be offset by higher sales of refrigerant blends.
- **Robust growth for PI; dismal one for UPL:** UPL's 2QFY24 revenue is likely to see 13% YoY de-growth. It is likely to see major decline in North America (down 40% YoY), Europe (down 15% YoY), Latin America (down 13% YoY), and India (down 10% YoY). Only RoW (up 2% YoY) is likely to see growth. Further, EBITDA is likely to see 25% YoY de-growth owing to lower gross margin. For PI, CSM revenue is likely to be flattish sequentially (and up 19% YoY) while the domestic business is likely to be flat YoY (and up 42% QoQ). Besides, PI's pharma business integration will fuel rest of the sequential growth. As a result, its 2QFY24 revenue is likely to see 12%/21% QoQ/YoY growth. Moreover, we have assumed slightly lower EBITDA margin to 23.9% (vs. 24.5% in 1QFY24) owing to full integration of pharma business. As a result, its EBITDA is likely to see 9%/19% QoQ/YoY growth (Note: we have not included pharma contribution in 2QFY23).
- **Fine Organics' EBITDA to fall by 27% sequentially; Tatva Chintan's EBITDA likely to grow 3% QoQ:** We estimate Fine's 2QFY24 sales to fall by 20% sequentially. Further, sequential decline in EBITDA margin is likely to result in 27% sequential fall in EBITDA. For Tatva, we estimate sequentially flattish 2QFY24 sales on account of muted demand for its SDA and other specialty chemicals. Further, we expect sequential 28bps EBITDA margin improvement post the consumption of high-cost inventories last quarter. As a result, Tatva's EBITDA is likely to grow 3% QoQ.
- **Anupam Rasayan EBITDA to be flattish sequentially; India pesticides' EBITDA to grow 6% QoQ:** We estimate Anupam Rasayan's 2QFY24 sales to grow by 2% QoQ/YoY while its EBITDA margin could be sequentially lower on account of higher contribution from low-margin products from Tanfac. As a result, its EBITDA is likely to be flattish sequentially (down 3% YoY). For India Pesticides, we expect 2% QoQ sales growth and 6% QoQ EBITDA growth.
- **Clean Science's EBITDA to grow by 4% QoQ; Galaxy's EBITDA to grow by 2% QoQ:** We estimate Clean's 2QFY24 revenue to grow by a marginal 1% QoQ on account of volume growth offsetting end product price decline. Further, on account of sequentially higher gross margin, EBITDA margin is likely to stand at 41.7% (vs. 40.5% in 1QFY24). As a



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result, its EBITDA is likely to grow by 4% QoQ. For Galaxy Surfactants, we have assumed ~1% QoQ rise in sales and rise in EBITDA margin at INR 21,246 per tonne (vs. INR 21,088 per tonne in 1QFY24). This is likely to result in EBITDA rising by 2% QoQ.

- **Sequentially, Deepak's EBITDA to rise 50%, Archeon's EBITDA to decline 5%; Aether's EBITDA to rise 14% QoQ:** During 2QFY24, Deepak's advanced intermediates (AI) sales could rise by 9% sequentially while AI EBIT margin could also improve. Further, benchmark phenol-acetone spreads during the quarter jumped >20% QoQ. This should result in 50% sequential jump in EBITDA for Deepak Nitrite. Archeon's 2QFY24 sales is likely to increase 1% QoQ on account of higher salt sales getting offset by lower demand/pricing of bromine. Moreover, lower contribution of bromine could result in a fall in margin. As a result, its EBITDA is likely to contract 5% sequentially (up 8% YoY). Aether's 2QFY24 revenue could rise 7% QoQ on account of higher sales of large scale manufacturing as well as CRAMS products. Further, on account of sequentially higher gross margin, EBITDA is likely to rise by 14% (up 39% YoY).

Exhibit 1: Detailed 2QFY24 estimates

	2QFY24E	2QFY23	1QFY24	YoY (%)	QoQ (%)	Comment
SRF						
Sales (INR mn)	32,903	37,278	33,384	-11.7	-1.4	
EBITDA (INR mn)	6,824	8,052	7,200	-15.3	-5.2	Assumed a) overall sales to be down 1% QoQ on account of sequential 7% decline in chemicals segment; and b) EBITDA margins to contract 83bps sequentially
EBITDA margin (%)	20.7	21.6	21.6	-86 bps	-83 bps	
PBT (INR mn)	4,574	6,181	4,858	-26.0	-5.8	Assumed chemicals revenue of INR 15.4bn and EBIT of INR 4.2bn
PAT (INR mn)	3,430	4,810	3,593	-28.7	-4.5	
UPL						
Sales (INR mn)	108,975	125,070	89,630	-12.9	21.6	
EBITDA (INR mn)	18,802	24,440	12,730	-23.1	47.7	
EBITDA margin (%)	17.3	19.5	14.2	-229 bps	305 bps	Assumed: a) revenues to see 13% YoY de-growth led by major contraction in North America and Europe regions; and b) EBITDA margins to see 229bps correction YoY
PBT (INR mn)	6,302	12,700	380	-50.4	1558.3	
PAT (INR mn)	4,937	8,140	1,660	-39.3	197.4	
PI Industries						
Sales (INR mn)	21,405	17,700	19,104	20.9	12.0	
EBITDA (INR mn)	5,119	4,319	4,678	18.5	9.4	Assumed: a) CSM revenue to be flattish sequentially; b) Domestic agri business revenue to remain flat YoY; c) Pharma revenue to be around 1.2bn; and d) EBITDA margins to be down 49bps YoY
EBITDA margin (%)	23.9	24.4	24.5	-49 bps	-57 bps	
PBT (INR mn)	4,931	3,977	4,454	24.0	10.7	
PAT (INR mn)	4,191	3,348	3,829	25.2	9.5	
Deepak Nitrite						
Sales (INR mn)	19,911	19,617	17,683	1.5	12.6	
EBITDA (INR mn)	3,151	2,709	2,098	16.3	50.2	Assumed: a) revenue growth in its Phenolics segment to be up 15% QoQ; b) advanced intermediates revenues to see a 9% QoQ growth; and c) EBITDA margins to be up 396bps sequentially owing to jump in phenolic spreads and recovery in standalone business margins
EBITDA margin (%)	15.8	13.8	11.9	202 bps	396 bps	
PBT (INR mn)	2,881	2,346	2,017	22.8	42.8	
PAT (INR mn)	2,143	1,745	1,499	22.8	43	
Clean Science						
Sales (INR mn)	1,900	2,475	1,881	-23.2	1.0	
EBITDA (INR mn)	792	975	761	-18.8	4.0	
EBITDA margin (%)	41.7	39.4	40.5	230 bps	122 bps	Assumed: a) Revenues to be up 1% QoQ on the back of higher volume of its products offsetting price decline; and b) EBITDA margins to be up 122 bps QoQ
PBT (INR mn)	816	916	787	-10.9	3.7	
PAT (INR mn)	612	679	589	-9.9	3.8	
Navin Fluorine						
Sales (INR mn)	4,850	4,192	4,912	15.7	-1.3	
EBITDA (INR mn)	1,162	938	1,142	23.8	1.7	Assumed: ~1% QoQ decline in sales on account of weakness in CDMO and specialty chemicals segment. EBITDA margins to be higher sequentially owing to higher HPP contribution
EBITDA margin (%)	23.9	22.4	23.3	157 bps	69 bps	
PBT (INR mn)	862	831	818	3.7	5.3	
PAT (INR mn)	638	578	615	10.3	3.6	

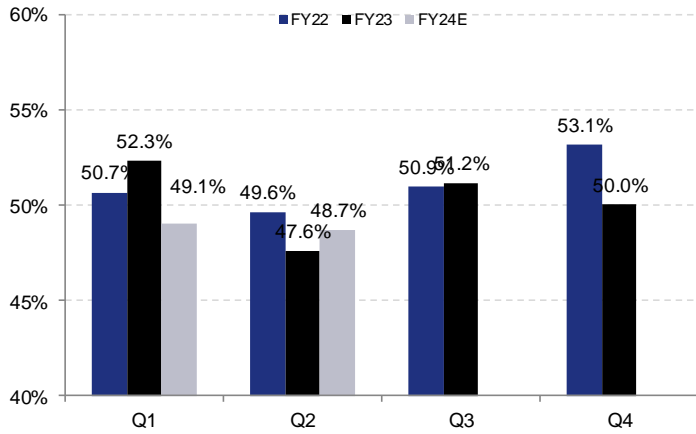
Source: Company, JM Financial

Exhibit 2: Detailed 2QFY24 estimates

	2QFY24E	2QFY23	1QFY24	YoY (%)	QoQ (%)	Comment
Fine Organics						
Sales (INR mn)	4,257	8,281	5,322	-48.6	-20.0	
EBITDA (INR mn)	1,108	2,138	1,519	-48.2	-27.1	
EBITDA margin (%)	26.0	25.8	28.5	21 bps	-252 bps	Assumed: a) sales to decrease 20% QoQ; and b) EBITDA margin to decline by 252bps QoQ
PBT (INR mn)	1,128	2,203	1,540	-48.8	-26.7	
PAT (INR mn)	835	1,640	1,143	-49.1	-26.9	
Aether Industries						
Sales (INR mn)	1,720	1,402	1,611	22.7	6.8	
EBITDA (INR mn)	512	369	447	38.8	14.4	
EBITDA margin (%)	29.7	26.3	27.8	344 bps	199 bps	Assumed: a) sales to show 7% QoQ growth largely on account of higher LSM/CRAMS revenues; and b) EBITDA margin to improve by 199bps QoQ
PBT (INR mn)	430	372	366	15.5	17.5	
PAT (INR mn)	322	272	298	18.5	8.1	
Galaxy Surfactants						
Sales (INR mn)	9,513	12,316	9,418	-22.8	1.0	
EBITDA (INR mn)	1,262	1,317	1,232	-4.2	2.4	
EBITDA margin (%)	13.3	10.7	13.1	257 bps	18 bps	Assumed: a) revenues to grow 1% QoQ and b) Per unit EBITDA margin to be slightly higher at INR 21,246 per tonne (vs. INR 21,088 per tonne in 1QFY24)
PBT (INR mn)	1,032	1,067	962	-3.3	7.3	
PAT (INR mn)	815	839	752	-2.8	8.4	
Anupam Rasayan						
Sales (INR mn)	3,950	3,862	3,864	2.3	2.2	
EBITDA (INR mn)	1,011	1,042	1,014	-3.0	-0.3	
EBITDA margin (%)	25.6	27.0	26.2	-140 bps	-65 bps	Assumed: a) Revenues to grow ~2% QoQ; and b) EBITDA margins to be down 65bps QoQ
PBT (INR mn)	761	674	773	12.9	-1.6	
PAT (INR mn)	533	478	523	11.4	1.9	
Tatva Chintan						
Sales (INR mn)	1,159	901	1,144	28.6	1.3	
EBITDA (INR mn)	220	112	213	96.4	2.8	
EBITDA margin (%)	18.9	12.4	18.7	653 bps	28 bps	Assumed: a) revenues to grow 1% QoQ on back of benign SDA/PTC growth ; and b) EBITDA margin to inch up marginally to 18.9%
PBT (INR mn)	140	91	134	54.0	3.9	
PAT (INR mn)	114	71	95	60.8	20.4	
India Pesticides						
Sales (INR mn)	2,055	2,507	2,014	-18.0	2.0	
EBITDA (INR mn)	244	530	230	-53.9	6.4	
EBITDA margin (%)	11.9	21.1	11.4	-925 bps	49 bps	Assumed: a) Revenues to be up 2% QoQ ; and b) EBITDA margins to improve 49bps QoQ
PBT (INR mn)	223	508	216	-56.1	3.3	
PAT (INR mn)	167	379	159	-55.8	5.3	
Archean Chemicals						
Sales (INR mn)	3,465	2,935	3,431	18.1	1.0	
EBITDA (INR mn)	1,286	1,186	1,346	8.4	-4.5	
EBITDA margin (%)	37.1	40.4	39.2	-329 bps	-213 bps	Assumed: a) Revenues to grow ~1% QoQ on the back of higher salt sales offsetting weak bromine demand/pricing; and b) EBITDA margins to be lower 213bps QoQ due to lower bromine contribution
PBT (INR mn)	1,181	856	1,251	37.9	-5.6	
PAT (INR mn)	886	636	939	39.3	-5.6	

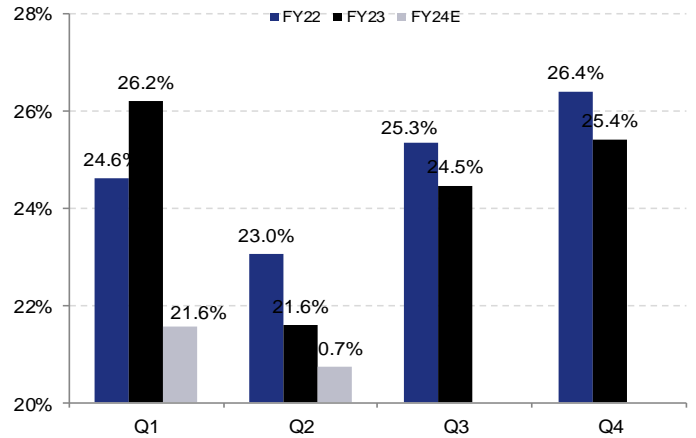
Source: Company, JM Financial

Exhibit 3: SRF quarterly gross margin trend (%)



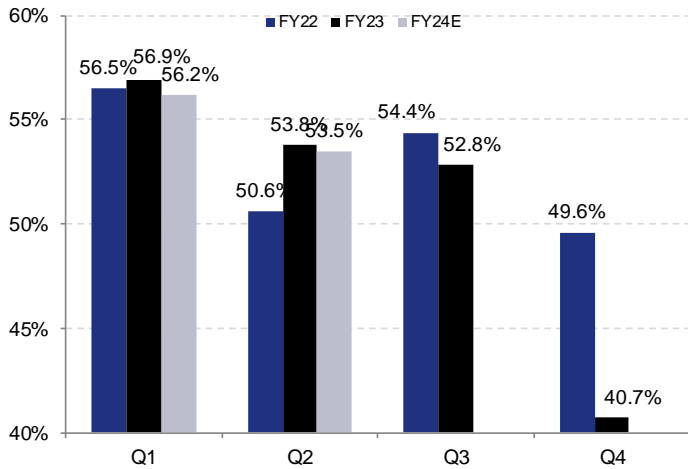
Source: Company, JM Financial

Exhibit 4: SRF quarterly EBITDA margin trend (%)



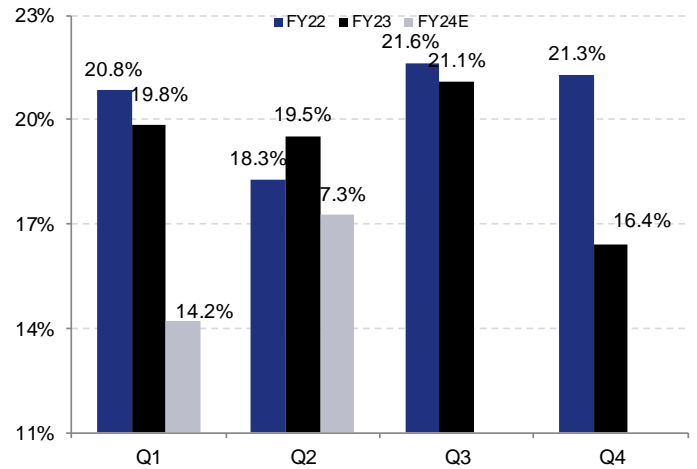
Source: Company, JM Financial

Exhibit 5: UPL quarterly gross margin trend (%)



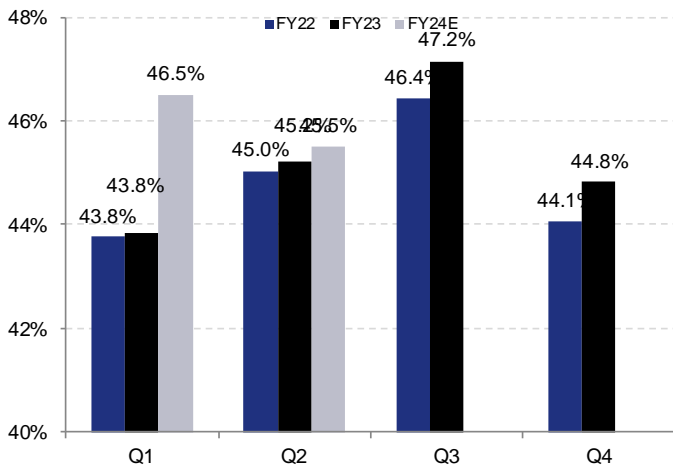
Source: Company, JM Financial

Exhibit 6: UPL quarterly EBITDA margin trend (%)



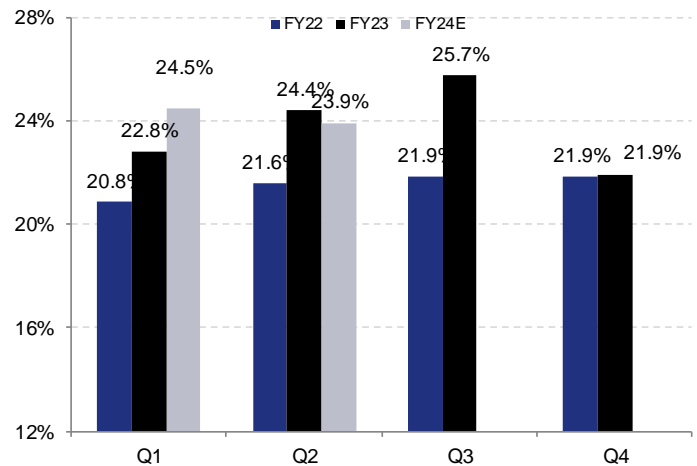
Source: Company, JM Financial

Exhibit 7: PI quarterly gross margin trend (%)



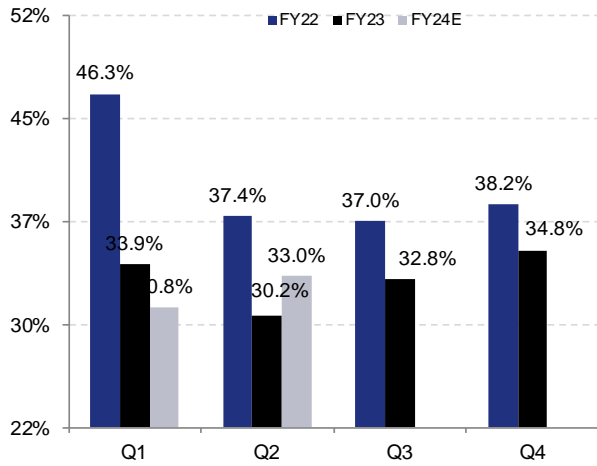
Source: Company, JM Financial

Exhibit 8: PI quarterly EBITDA margin trend (%)



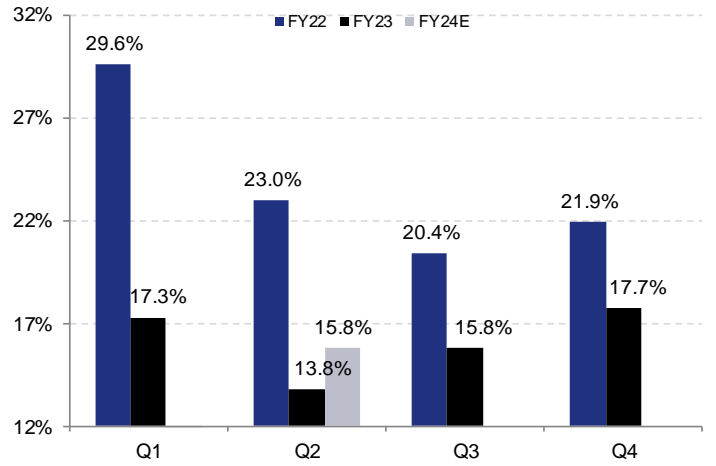
Source: Company, JM Financial

Exhibit 9: Deepak Nitrite quarterly gross margin trend (%)



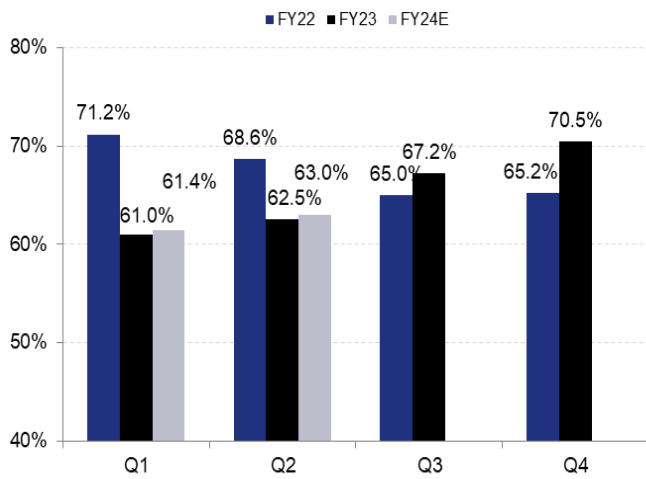
Source: Company, JM Financial

Exhibit 10: Deepak Nitrite quarterly EBITDA margin trend (%)



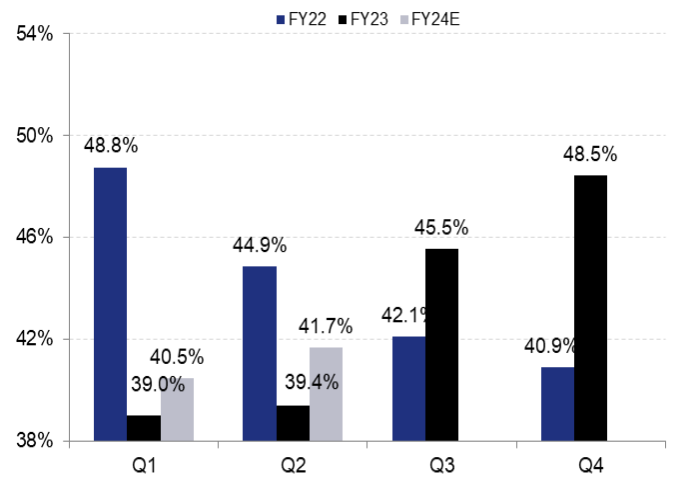
Source: Company, JM Financial

Exhibit 11: Clean quarterly gross margin trend (%)



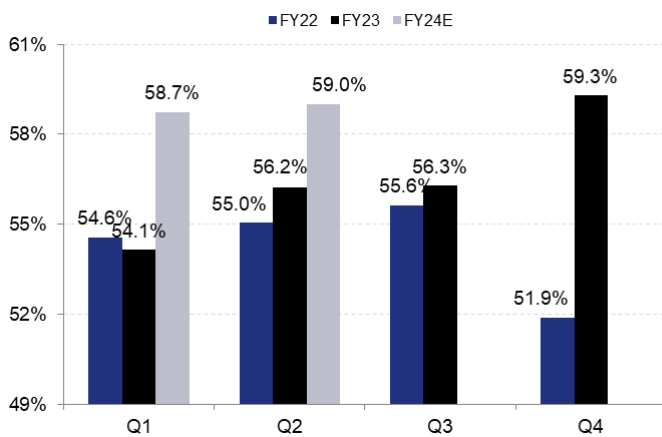
Source: Company, JM Financial

Exhibit 12: Clean quarterly EBITDA margin trend (%)



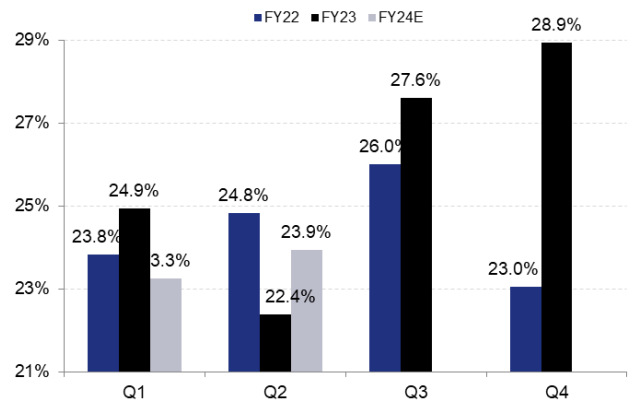
Source: Company, JM Financial

Exhibit 12: NFIL quarterly gross margin trend (%)



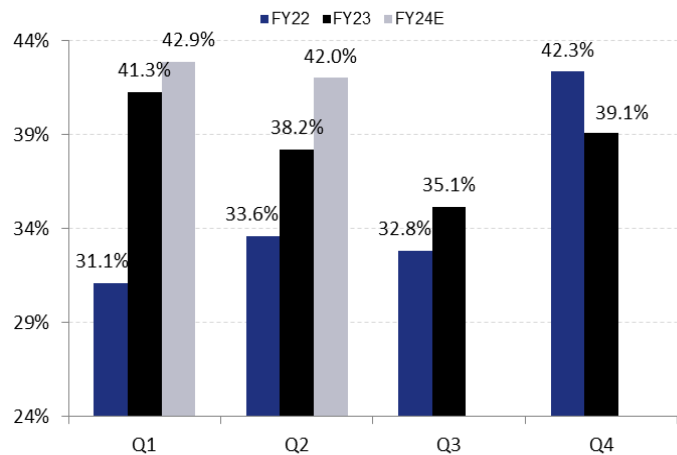
Source: Company, JM Financial

Exhibit 13: NFIL quarterly EBITDA margin trend (%)



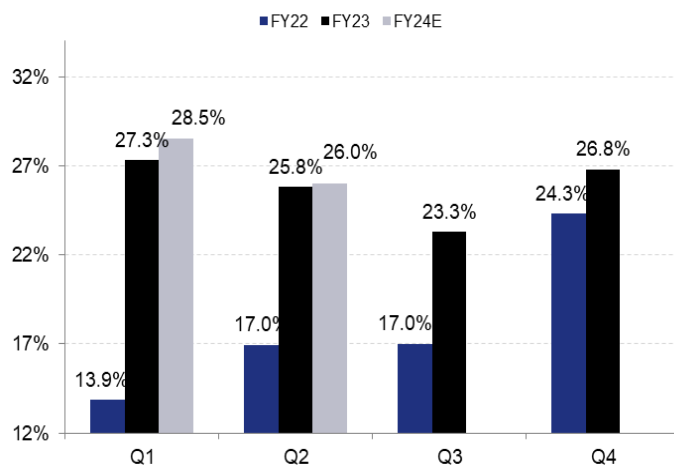
Source: Company, JM Financial

Exhibit 14: FOIL quarterly gross margin trend (%)



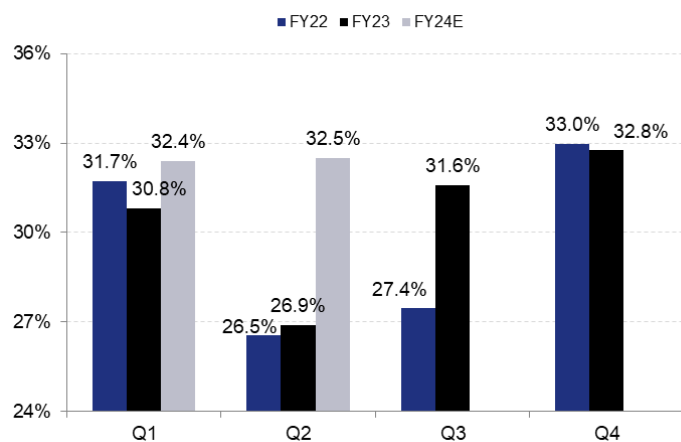
Source: Company, JM Financial

Exhibit 15: FOIL quarterly EBITDA margin trend (%)



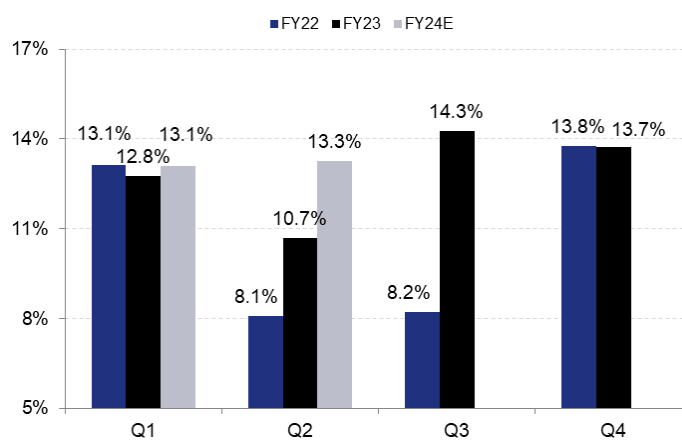
Source: Company, JM Financial

Exhibit 16: Galaxy quarterly gross margin trend (%)



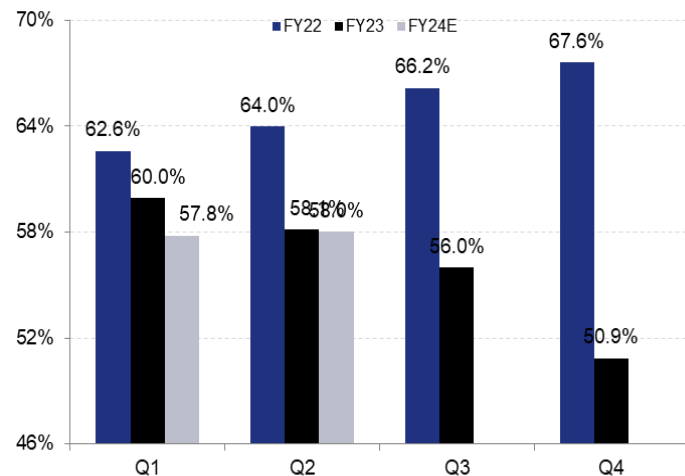
Source: Company, JM Financial

Exhibit 17: Galaxy quarterly EBITDA margin trend (%)



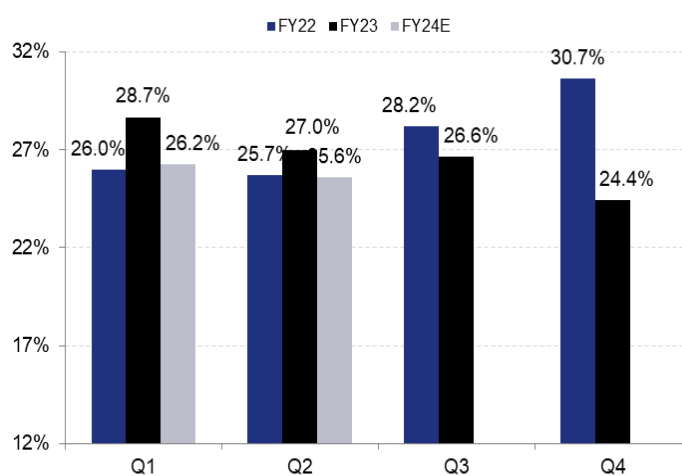
Source: Company, JM Financial

Exhibit 18: Anupam Rasayan quarterly gross margin trend (%)



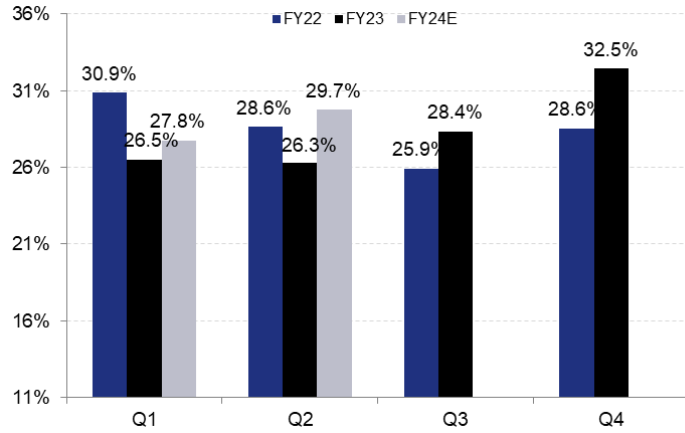
Source: Company, JM Financial

Exhibit 19: Anupam Rasayan quarterly EBITDA margin trend (%)



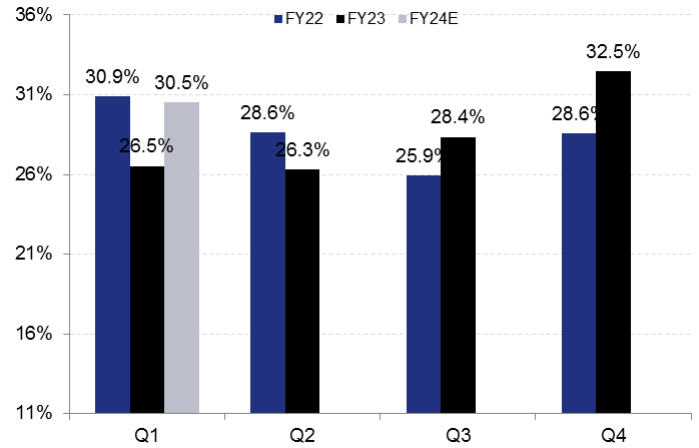
Source: Company, JM Financial

Exhibit 20: Aether Industries quarterly gross margin trend (%)



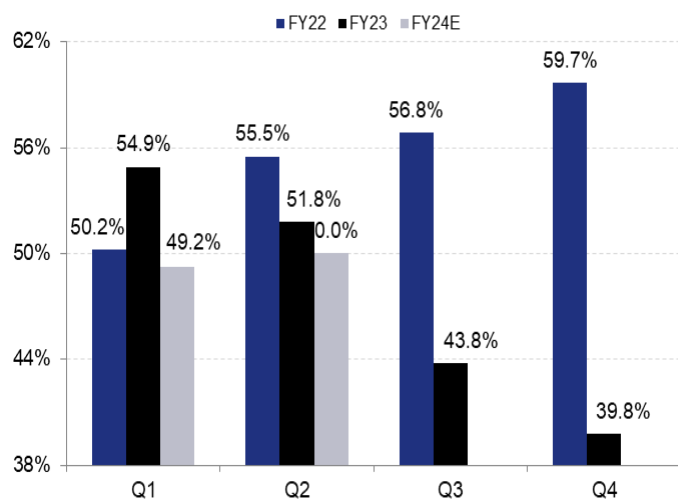
Source: Company, JM Financial

Exhibit 21: Aether Industries quarterly EBITDA margin trend (%)



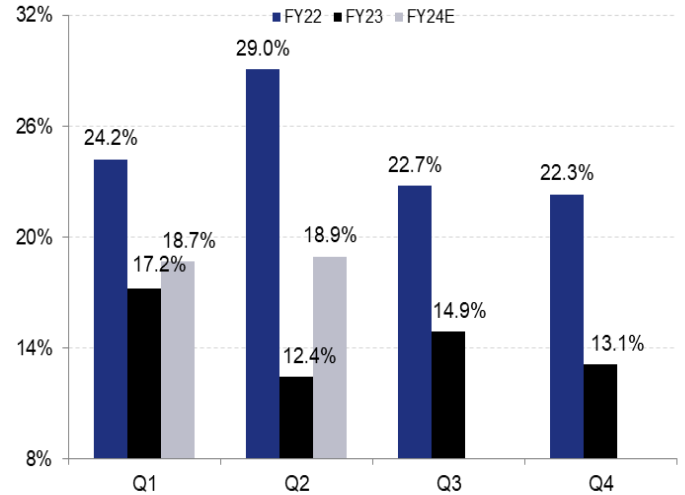
Source: Company, JM Financial

Exhibit 22: Tatva Chintan quarterly gross margin trend (%)



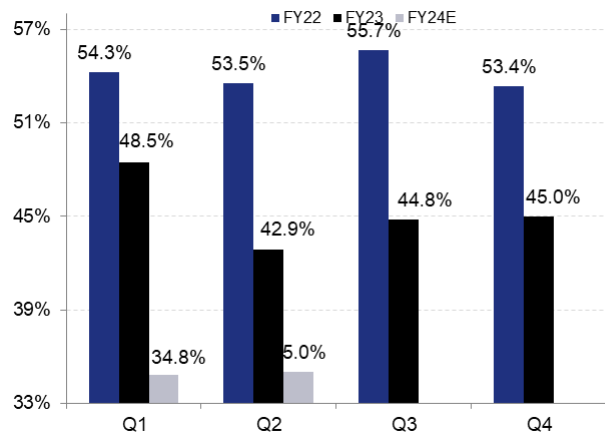
Source: Company, JM Financial

Exhibit 23: Tatva Chintan quarterly EBITDA margin trend (%)



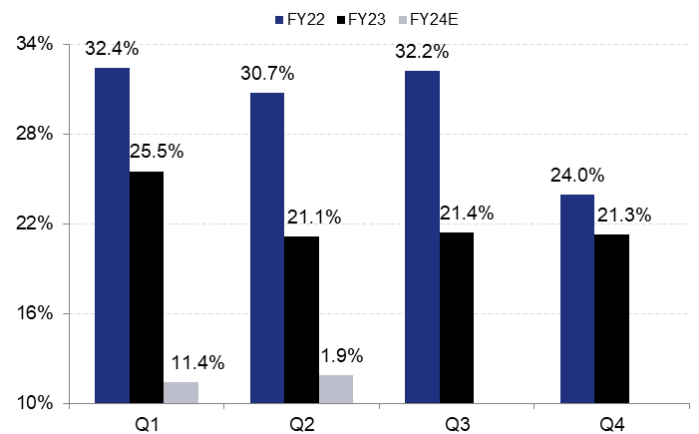
Source: Company, JM Financial

Exhibit 24: India Pesticides quarterly gross margin trend (%)



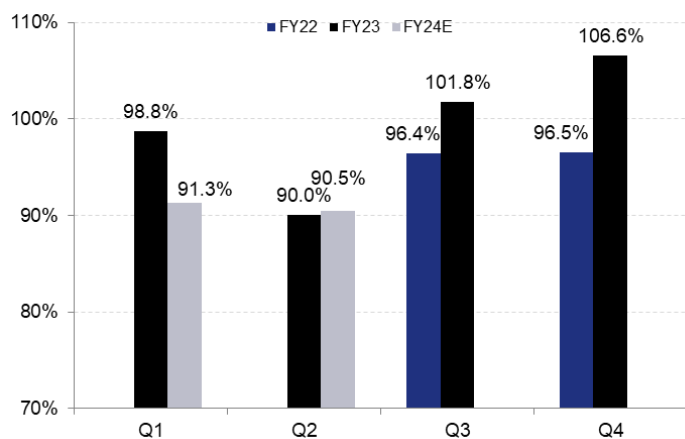
Source: Company, JM Financial

Exhibit 25: India Pesticides quarterly EBITDA margin trend (%)



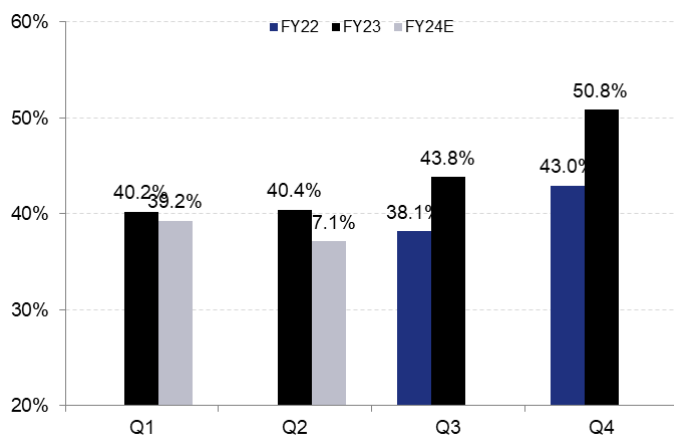
Source: Company, JM Financial

Exhibit 26: Archeon Chemicals quarterly gross margin trend (%)



Source: Company, JM Financial

Exhibit 27: Archeon Chemicals quarterly EBITDA margin trend (%)



Source: Company, JM Financial

Exhibit 28: Valuation snapshot

Company	Rating	CMP (INR)	TP (INR)	P/E (x)				P/B (x)				EV/EBITDA (x)				ROE (%)			
				FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
SRF	BUY	2,261	3,245	29.8	28.8	24.3	20.0	6.2	5.2	4.4	3.7	19.2	17.3	14.3	11.8	22.9	19.8	19.6	20.0
UPL	BUY	604	880	12.8	12.7	10.6	9.3	1.6	1.5	1.3	1.2	6.8	6.5	6.0	5.6	13.6	12.0	13.1	13.4
PI Industries	BUY	3,386	4,250	46.0	38.3	32.1	26.7	7.8	6.5	5.4	4.5	34.4	26.8	22.2	18.4	18.4	18.5	18.4	18.3
Deepak Nitrite	BUY	2,104	2,535	34.2	34.4	24.8	20.5	7.1	5.9	4.8	3.9	22.3	22.0	15.9	13.1	22.9	18.8	21.3	20.9
Clean Science	BUY	1,409	1,995	50.8	48.2	36.8	28.0	14.9	11.4	8.8	6.7	36.5	34.8	25.4	19.6	33.2	26.8	27.0	27.2
Navin Fluorine	BUY	3,696	5,665	60.1	42.7	33.1	25.7	10.3	8.7	7.2	5.9	42.1	32.2	25.5	20.8	18.6	22.1	23.8	25.1
Fine Organics	SELL	4,943	3,135	26.4	42.9	49.9	47.7	10.3	8.6	7.6	6.8	19.4	28.1	31.5	29.5	47.6	21.9	16.2	15.0
Galaxy Surfactants	HOLD	2,651	2,685	24.2	26.4	25.8	24.6	4.9	4.1	3.6	3.1	16.3	16.9	15.9	14.7	22.0	17.0	14.8	13.5
Aether Industries	BUY	965	1,110	86.6	68.5	48.0	35.5	9.1	5.6	5.0	4.4	60.1	43.7	30.8	23.2	16.0	10.3	10.9	13.1
Anupam Rasayan	HOLD	899	1,080	52.3	37.2	27.7	21.2	4.0	3.6	3.1	2.7	21.3	18.3	14.5	11.5	8.8	10.1	12.0	13.8
Archeon Chemicals	BUY	599	735	16.8	14.8	10.5	8.6	4.5	3.7	2.8	2.1	10.9	9.5	6.3	4.6	45.2	28.9	30.2	27.5
Tatva Chintan Pharma Chem	HOLD	1,597	1,530	73.1	55.8	38.0	28.8	7.0	6.3	5.4	4.7	61.3	33.7	24.0	19.1	9.9	11.8	15.3	17.4
India Pesticides	HOLD	281	200	23.2	27.4	24.5	21.2	4.3	3.7	3.3	2.8	16.6	18.3	16.1	13.8	20.3	14.6	14.2	14.3

Source: JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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