

# Specialty Chemicals

India

Sector View: **Neutral**

NIFTY-50: **21,513**

January 08, 2024

## One more quarter of pain

3QFY24 is likely to have been another painful quarter for both chemical intermediate makers and crop-protection chemical companies. We see high risk of earnings downgrades for several companies including NFIL, RALI, SRF and UPLL (versus KIE estimates) and ATLP, DN and TTCH (versus consensus). Given rich valuations and recent strength in stock prices, we remain cautious on the sector and see risks of disappointing returns from most leading stocks.

### Customer destocking, unfavorable Rabi season to hurt crop chemicals sector

3QFY24 was likely a difficult quarter for the crop-protection chemicals industry, with exports likely hurt more than domestic sales amid continued destocking by customers. That said, even the domestic Rabi season was challenging amid low water levels, elevated channel inventories and intense competition. Some companies again cut prices during the quarter; margins likely remained under pressure. UPLL may be the worst-hit amid customer destocking and pricing pressures. RALI is also likely to report sharply lower earnings owing to a collapse in export revenues. GOAGRO will likely report a subdued quarter, with strength in its domestic crop protection business offset by continued agony at Astec. BYRCS' earnings growth may once again be supported by lower employee costs, although revenue growth may be lackluster.

### No signs of recovery yet for chemical intermediate makers

We expect another weak quarter for most chemical companies due to continued destocking, demand weakness across certain important end-use industries, and price erosion amid intense competition from China. In most cases, both revenues and margins are likely to remain under pressure. The best results may again come from PI, which continued to benefit from robust demand for its biggest product, pyroxasulfone. Other companies under our coverage are all likely to post yoy declines in earnings. We think TTCH, SRF, NFIL and ATLP are likely to register the largest declines on a yoy basis, and all of them may also report qoq declines. Given that stock prices of most chemical companies have run up into the results, we think negative surprises on the earnings front could potentially spark corrections.

### Most companies remain at risk of earnings downgrades

Companies for which the highest risk of downgrades to our FY2024E EPS are NFIL, RALI, SRF and UPLL. As Exhibit 2 shows, in all of these cases, the asking rate for earnings in 4QFY24 is likely to be almost impossibly high. Besides, our FY2024E and FY2025E estimates are already significantly below consensus in the cases of NFIL and UPLL, and so downgrade risk versus our estimates implies even greater downgrade risk versus consensus. Separately, other companies for which our FY2025E estimates are significantly below consensus are ATLP, DN and TTCH; we continue to see risks to consensus here. The only company for which our FY2024E EPS seem conservative and likely to be upgraded is CLEAN; however, here our FY2025E EPS is in line with consensus and implies sharp yoy growth, and hence seems unlikely to move up materially.

#### Related Research

- Specialty Chemicals: Crop & Chemical
- Specialty Chemicals: KIE Chemical Forum
- Specialty Chemicals: Crop & Chemical

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**3QFY24 revenue, EBITDA and PAT growth**

**Exhibit 1: Summary of quarterly estimates, March fiscal year-ends (%)**

	yoy (in %)			qoq (in %)		
	Revenues	EBITDA	PAT	Revenues	EBITDA	PAT
<b>Chemicals</b>						
ARTO IN Equity	(4.1)	(7.7)	(24.5)	10.0	13.8	12.1
ATLP IN Equity	(7.0)	(11.9)	(17.1)	(1.2)	(2.2)	(3.6)
BYRCS IN Equity	5.0	42.6	39.8	(32.6)	(60.0)	(61.9)
CLEAN IN Equity	(19.3)	(27.1)	(33.9)	5.7	5.4	5.3
DN IN Equity	(9.0)	(1.3)	(0.1)	1.9	2.7	1.8
GOAGRO IN Equity	3.8	7.0	52.6	(6.1)	(27.6)	(34.0)
NFIL IN Equity	(13.3)	(34.9)	(55.8)	3.6	3.0	(22.2)
PI IN Equity	18.9	18.0	8.4	(9.4)	(11.2)	(20.6)
RALI IN Equity	(17.9)	(43.0)	(82.1)	(37.8)	(77.1)	(95.0)
SRF IN Equity	(13.0)	(31.9)	(49.6)	(5.0)	(9.3)	(14.4)
TTCH IN Equity	(13.7)	(27.7)	(40.3)	(10.5)	(18.7)	(31.2)
UPLL IN Equity	(30.4)	(63.6)	(138.7)	(6.3)	(20.8)	122.7
VO IN Equity	0.6	(26.7)	(28.6)	14.2	8.4	6.3

Source: Companies, Kotak Institutional Equities estimates

**3QFY24 and FY2024-25 EPS estimates: KIE versus consensus**

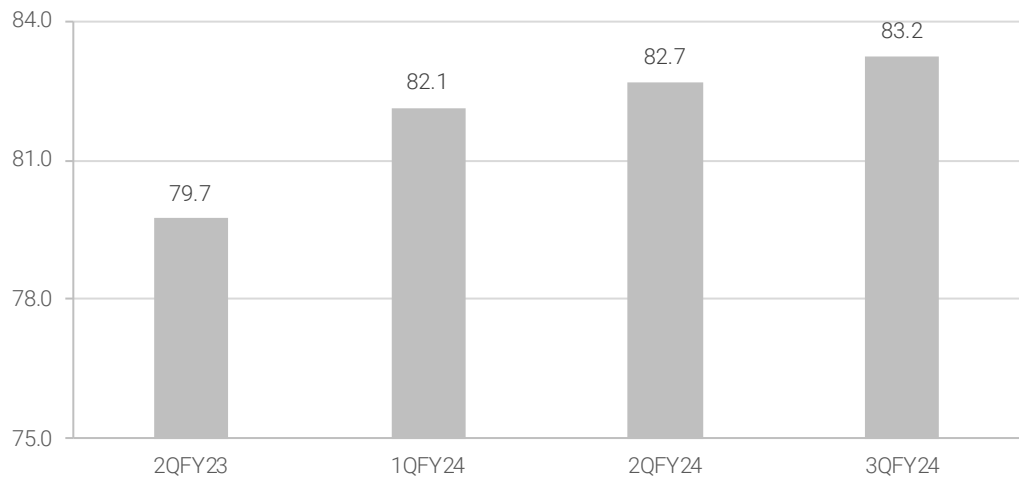
**Exhibit 2: EPS in Rs, March fiscal year-ends**

	KIE				Consensus				% deviation			
	3QFY24	9MFY24	FY2024	FY2025	3QFY24	9MFY24	FY2024	FY2025	3QFY24	9MFY24	FY2024	FY2025
ARTO IN Equity	2.8	7.2	10.6	16.0	3.4	8.5	10.9	18.0	-18%	-15%	-2%	-12%
ATLP IN Equity	29.5	95.1	134.4	167.0	-	-	153.2	197.2	NA	NA	-12%	-15%
BYRCS IN Equity	18.9	141.6	188.2	209.7	15.2	109.3	178.6	200.7	24%	30%	5%	4%
CLEAN IN Equity	5.2	15.7	18.2	31.7	6.1	18.2	23.7	31.0	-15%	-13%	-23%	2%
DN IN Equity	15.3	41.3	59.8	69.0	18.0	46.7	61.2	83.8	-15%	-11%	-2%	-18%
GOAGRO IN Equity	4.2	14.6	16.8	22.6	4.2	14.8	18.4	23.4	0%	-1%	-9%	-3%
NFIL IN Equity	9.4	33.9	69.4	98.7	19.2	59.7	75.5	108.0	-51%	-43%	-8%	-9%
PI IN Equity	25.1	82.1	103.4	110.1	25.6	74.9	102.0	117.4	-2%	10%	1%	-6%
RALI IN Equity	0.2	7.6	9.1	10.9	1.5	7.9	8.5	11.0	-86%	-3%	7%	-1%
SRF IN Equity	8.7	31.0	50.4	73.0	18.0	45.6	55.8	73.9	-52%	-32%	-10%	-1%
TTCH IN Equity	9.2	42.9	52.6	39.0	16.2	59.3	69.1	67.6	-43%	-28%	-24%	-42%
UPLL IN Equity	(5.5)	(5.8)	27.4	40.0	10.8	20.7	39.2	54.2	-151%	-128%	-30%	-26%
VO IN Equity	8.6	24.9	36.3	48.9	-	-	37.0	50.2	NA	NA	-2%	-3%

Source: Companies, Bloomberg, Kotak Institutional Equities estimates

**The INR modestly depreciated versus the USD on a qoq basis in 3QFY24**

**Exhibit 3: USD-INR, March fiscal year-ends**



Source: Kotak Institutional Equities

**Exhibit 4: Price tracker for key products of leading chemical intermediate manufacturers**

	3QFY24	2QFY24	3QFY23	qoq	yoy	Product of
<b>Chemicals</b>						
ATBS	215	214	269	0.3%	-20.3%	VIN
BHA	841	840	944	0.2%	-10.9%	CLEAN, CFIN
Guaiacol	307	306	381	0.4%	-19.3%	CLEAN, CFIN
MEHQ	615	625	771	-1.5%	-20.2%	CLEAN, CFIN
Meta phenylene diamine	431	487	496	-11.5%	-13.1%	ARTO
Para dichlorobenzene	80	85	102	-6.3%	-21.6%	ARTO
P-Cresol	218	220	301	-0.9%	-27.3%	ATLP
<b>Refrigerants</b>						
HFC 134A	467	627	1,028	-25.6%	-54.6%	SRF
HFC 125	899	937	1,378	-4.1%	-34.7%	SRF
R 22	290	311	340	-6.9%	-14.6%	GFL, NFIL, SRF
<b>Agrochemicals</b>						
Acephate	493	512	659	-3.7%	-25.2%	BYRCS, INST, RALI, UPLL
Glufosinate	748	1,119	1,520	-33.2%	-26.3%	UPLL
Hexaconazole	883	940	1,004	-6.0%	-6.4%	BRSN, RALI
Mancozeb	149	170	240	-12.3%	-29.0%	CRIN, RALI, UPL
2,4-D	153	139	268	10.2%	-42.9%	ATLP

Source: Kotak Institutional Equities, Trade data

Exhibit 5: Quarterly earnings preview for specialty chemical companies

	Dec-22	Sep-23	Dec-23E	Change (%)		Comments
				yoy	qoq	
<b>Specialty Chemicals</b>						
<b>Aarti Industries</b>						
Net sales	16,680	14,540	15,994	(4.1)	10.0	
EBITDA	2,884	2,340	2,663	(7.7)	13.8	For Aarti, we expect a 10% qoq pickup in revenues on a sequential basis versus what is a fairly easy base. On a yoy basis, though, we see revenues declining 4%. A more substantial recovery in demand may have to wait until 4QFY24 at the earliest.
EBIT	2,064	1,410	1,713	(17.0)	21.5	
PBT	1,596	830	1,213	(24.0)	46.1	
Tax	230	(90)	182	(20.9)	NM	
Reported PAT	1,366	920	1,031	(24.5)	12.1	
Extraordinaries	—	—	—	NM	NM	On the margin front, we estimate a 50 bps qoq improvement driven by operating leverage, even as gross margins remain stable. While EBITDA rises 14% qoq in our estimates, it remains lower by 8% yoy. We see PAT rising 12% qoq but falling 25% yoy.
Adjusted PAT	1,366	920	1,031	(24.5)	12.1	
EPS (Rs/share)	3.8	2.5	2.8	(25.7)	12.1	
EBITDA margin (%)	17.3	16.1	16.6	-65 bps	55 bps	
<b>Atul</b>						
Net sales	12,683	11,937	11,788	(7.0)	(1.2)	
EBITDA	1,723	1,552	1,518	(11.9)	(2.2)	We expect another weak quarter for Atul, without any qoq improvement. Demand remains soft for now across the company's business divisions. Prices of 2,4-D herbicide have picked up modestly of late, but these may be largely offset by pressure on prices of para-cresol.
EBIT	1,219	1,012	968	(20.5)	(4.3)	
PBT	1,275	1,215	1,171	(8.2)	(3.6)	
Tax	394	325	313	(20.5)	(3.5)	
Reported PAT	1,051	903	871	(17.1)	(3.6)	Competition from low-priced imports remains heavy, especially in the Colors division, while the recent commissioning of Grasim's epoxy resin capacity expansion may further intensify competition in the Indian epoxies market as well. Overall, we expect revenues tick down 1% qoq (7% yoy). We expect margins to remain under pressure, leading to a 2% qoq and 12% yoy dip in EBITDA.
Adjusted PAT	1,051	903	871	(17.1)	(3.6)	
EPS (Rs/share)	35.6	30.6	29.5	(17.1)	(3.6)	
EBITDA margin (%)	13.6	13.0	12.9	-71 bps	-13 bps	
<b>Revenue breakdown</b>						
Life Science chemicals	4,917	3,620	3,439	(30.1)	(5.0)	
Performance chemicals	8,280	8,684	8,684	4.9	0.0	
Others	159	165	165	3.8	0.0	
Inter segmental revenue	(674)	(532)	(500)	(25.8)	(6.1)	
<b>EBIT breakdown</b>						
Life Science chemicals	1,107	417	431	(61.1)	3.2	
Performance chemicals	213	722	722	239.5	0.0	
Others	26	41	41	62.4	0.0	
Unallocable expenses	102	52	52	(48.6)	0.0	
<b>Clean Science &amp; Technology</b>						
Net sales	2,374	1,811	1,915	(19.3)	5.7	
EBITDA	1,082	748	789	(27.1)	5.4	At Clean Science, we expect only a modest qoq improvement in performance. Export demand for the company's key products remains subdued and a recovery may need to wait until the new calendar year. We also do not expect a significant ramp up in revenues yet from the HALS product category.
EBIT	993	637	674	(32.1)	5.9	
PBT	1,119	700	737	(34.2)	5.4	
Tax	280	173	182	(35.0)	5.4	
Reported PAT	839	527	555	(33.9)	5.3	
Adjusted PAT	839	527	555	(33.9)	5.3	However, we expect EBITDA margins to remain healthy at around 41% as price weakness in the company's most important product, MEHQ is offset by operating leverage.
EPS (Rs/share)	7.9	5.0	5.2	(33.9)	5.3	
EBITDA margin (%)	45.6	41.3	41.2	-440 bps	-13 bps	
<b>Deepak Nitrite</b>						
Net sales	19,910	17,781	18,117	(9.0)	1.9	
EBITDA	3,145	3,023	3,103	(1.3)	2.7	For Deepak Nitrite, we expect this quarter to be stable on a sequential basis, with Phenolics spreads largely around the levels of 2QFY24, although sales volumes are expected to be higher. The Advanced Intermediates segment is likely to remain under pressure amid continued demand softness.
EBIT	2,734	2,628	2,703	(1.1)	2.8	
PBT	2,810	2,772	2,823	0.5	1.8	
Tax	720	721	735	2.1	1.8	
Reported PAT	2,090	2,051	2,089	(0.1)	1.8	
Extraordinaries	—	—	—	—	—	Margins should remain stable on a qoq basis across both segments. Overall, we expect consolidated revenues and EBITDA to fall 9% and 1%, respectively, on a yoy basis but rise 2% and 3%, respectively, on a qoq basis.
Adjusted PAT	2,090	2,051	2,089	(0.1)	1.8	
EPS (Rs/share)	15.3	15.0	15.3	(0.1)	1.8	
EBITDA margin (%)	15.8	17.0	17.1	133 bps	12 bps	
<b>Revenue breakdown</b>						
Advanced Intermediates	8,178	6,702	6,702	(18.0)	0.0	
Phenolics	11,816	11,201	11,537	(2.4)	3.0	
Others unallocable	—	—	—	—	—	
Intersegment revenue	(83)	(123)	(123)	(47.8)	0.0	
<b>EBIT breakdown</b>						
Advanced Intermediates	1,475	1,034	1,034	(29.9)	0.0	
Phenolics	1,270	1,704	1,755	38.2	3.0	
Others unallocable	124	61	61	(50.6)	0.0	

Source: Companies, Kotak Institutional Equities estimates

**Exhibit 6: Quarterly earnings preview for specialty chemical companies**

	Dec-22	Sep-23	Dec-23E	Change (%)		Comments
				yoy	qoq	
<b>Navin Fluorine</b>						
Net sales	5,636	4,718	4,887	(13.3)	3.6	For Navin Fluorine, we expect a 13% yoy decline in revenues driven by a high base, continued technical challenges in ramping up capacity utilization in the Honeywell project, and sluggish ordering by customers in the CDMO business, although the company should benefit from deferred orders worth Rs180 mn from the previous quarter.
EBITDA	1,556	983	1,013	(34.9)	3.0	
EBIT	1,306	741	761	(41.8)	2.7	
PBT	1,313	772	629	(52.1)	(18.6)	
Tax	(247)	(166)	(157)	(36.4)	(5.4)	
Reported PAT	1,066	606	472	(55.8)	(22.2)	We expect EBITDA to fall 35% yoy due to operating leverage. In addition, higher depreciation and interest expenses on the back of recent capacity commissioning is likely to exert further pressure on PAT, which we see falling 56% yoy.
Adjusted PAT	1,066	606	472	(55.8)	(22.2)	
EPS (Rs/share)	21.5	12.1	9.4	(56.1)	(22.2)	
EBITDA margin (%)	27.6	20.8	20.7	-688 bps	-12 bps	
Revenue breakdown						
HPP	2,530	2,380	2,261	(10.6)	(5.0)	
Specialty Chemicals	1,860	1,860	1,860	0.0	0.0	
CDMO	1,250	480	768	(38.6)	60.0	
Others	(4)	(2)	(2)	NM	NM	
<b>PI Industries</b>						
Net sales	16,132	21,169	19,184	18.9	(9.4)	We expect agrochemical CSM revenues to grow by 11% yoy (down 6% qoq) whereas the domestic business may grow only a modest 5% yoy amid a challenging Rabi season. We estimate that Pharma business revenues return to normal levels of Rs1.5 bn versus the depressed levels of 1HFY24, when PI booked IndAS adjustments of Rs471 mn.
EBITDA	4,151	5,514	4,896	18.0	(11.2)	
EBIT	3,584	4,711	4,073	13.7	(13.5)	
PBT	3,997	5,102	4,464	11.7	(12.5)	
Tax	484	317	670	38.4	111.2	
Reported PAT	3,518	4,805	3,815	8.4	(20.6)	We expect EBITDA margins to remain healthy at ~25%, although down 50 bps qoq due to sequential decline in CSM revenues. Overall EBITDA growth is expected to be 18% yoy and PAT growth to be 8% yoy.
Adjusted PAT	3,518	4,805	3,815	8.4	(20.6)	
EPS (Rs/share)	23.2	31.7	25.1	8.3	(20.7)	
EBITDA margin (%)	25.7	26.0	25.5	-21 bps	-53 bps	
Revenue breakdown						
CSM	13,286	16,329	16,196	21.9	(0.8)	
Domestic	2,846	4,840	2,988	5.0	(38.3)	
<b>SRF</b>						
Net sales	34,697	31,774	30,200	(13.0)	(5.0)	For SRF, we expect a weak quarter amid deferrals of specialty chemical orders from customers and softness in the refrigerants business as well. We also do not expect any meaningful pickup in the packaging films segment, which continues to grapple with industry overcapacity.
EBITDA	8,335	6,262	5,680	(31.9)	(9.3)	
EBIT	6,829	4,650	4,028	(41.0)	(13.4)	
PBT	6,309	4,148	3,478	(44.9)	(16.2)	
Tax	1,200	1,140	904	(24.7)	(20.7)	
Reported PAT	5,109	3,008	2,574	(49.6)	(14.4)	On the margin front, Chemicals segment margins may remain under pressure owing to operating leverage created by revenue weakness. Overall, we expect EBITDA/PAT to fall 9%/14% on a qoq basis and 32%/50% on a yoy basis.
Adjusted PAT	5,109	3,008	2,574	(49.6)	(14.4)	
EPS (Rs/share)	17.2	10.2	8.7	(49.6)	(14.5)	
EBITDA margin (%)	24.0	19.7	18.8	-522 bps	-90 bps	
Revenue breakdown						
Technical textiles	4,259	5,062	5,062	18.8	0.0	
Chemicals	17,566	14,263	12,124	(31.0)	(15.0)	
Packaging films	12,027	11,215	11,776	(2.1)	5.0	
Others	923	1,269	1,269	37.4	0.0	
<b>EBIT breakdown</b>						
Technical textiles	342	750	750	119.2	(0.0)	
Chemicals	5,639	3,478	2,835	(49.7)	(18.5)	
Packaging films	1,186	773	752	(36.6)	(2.6)	
Others	91	331	331	262.0	(0.0)	
Other unallocable expenses	(330)	(390)	(390)	18.1	0.0	
<b>Vinati Organics</b>						
Net sales	5,087	4,481	5,116	0.6	14.2	We expect additional revenues of Rs500 mn from the newly-amalgamated Veeral Additives (effective from October 1, 2023) in the quarter. Aside from this, we expect core business revenues to grow a modest 3% qoq amid subdued demand for its key product, ATBS.
EBITDA	1,638	1,108	1,201	(26.7)	8.4	
EBIT	1,507	971	1,034	(31.4)	6.5	
PBT	1,675	1,130	1,193	(28.8)	5.6	
Tax	(421)	(289)	(298)	(29.1)	3.3	
Reported PAT	1,254	842	895	(28.6)	6.3	We expect gross and EBITDA margins to decline 60 bps and 120 bps qoq, respectively, due to slightly lower ATBS prices qoq and shift in product mix toward the lower margin business of Veeral Additives.
Adjusted PAT	1,254	842	895	(28.6)	6.3	
EPS (Rs/share)	12.2	8.2	8.6	(29.2)	5.4	
EBITDA margin (%)	32.2	24.7	23.5	-872 bps	-126 bps	

Source: Companies, Kotak Institutional Equities estimates

**Exhibit 7: Quarterly earnings preview for Tata Chemicals**

	Dec-22	Sep-23	Dec-23E	Change (%)		Comments
				yoy	qoq	
<b>Tata Chemicals</b>						
Net sales	41,480	39,980	35,786	(13.7)	(10.5)	We expect a weak quarter for Tata Chemicals, with consolidated revenues falling 14% yoy due to price erosion in soda ash as well as volume weakness amid demand softness. In addition, Rallis will experience its usual seasonal slowdown and besides faces sharp declines in exports due to destocking in the agrochemical industry.  We see EBITDA plunging 28% yoy on the back of softness across all businesses except the UK. Meanwhile, interest expense has risen sharply yoy, contributing to an even sharper 40% yoy drop in consolidated PAT.
EBITDA	9,220	8,190	6,662	(27.7)	(18.7)	
EBIT	6,950	5,850	4,322	(37.8)	(26.1)	
PBT	6,250	5,250	3,372	(46.0)	(35.8)	
Tax	1,020	1,200	776	(24.0)	(35.4)	
Reported PAT	3,980	4,280	2,376	(40.3)	(44.5)	
Adjusted PAT	3,980	3,455	2,376	(40.3)	(31.2)	
EPS (Rs/share)	16	13	9	(41.0)	(31.5)	
EBITDA margin (%)	22.2	20.5	18.6	-362 bps	-187 bps	
<b>Revenue breakdown</b>						
India	12,180	10,660	10,541	(13.5)	(1.1)	
US	13,230	13,260	12,597	(4.8)	(5.0)	
UK	7,390	6,080	6,144	(16.9)	1.1	
Kenya	2,410	1,560	1,326	(45.0)	(15.0)	
Rallis	6,300	8,330	5,178	(17.8)	(37.8)	
<b>EBITDA breakdown</b>						
India	2,840	1,880	2,070	(27.1)	10.1	
US	3,260	3,190	2,905	(10.9)	(8.9)	
UK	1,500	1,140	1,152	(23.2)	1.1	
Kenya	1,240	510	332	(73.3)	(35.0)	
Rallis	530	1,350	304	(42.6)	(77.5)	

Source: Company, Kotak Institutional Equities estimates

**Exhibit 8: Quarterly earnings preview for agrochemical companies**

	Dec-22	Sep-23	Dec-23E	Change (%)		Comments	
				yoy	qoq		
<b>Fertilizers &amp; Agricultural Chemicals</b>							
<b>Bayer Cropscience</b>							
Net sales	10,379	16,172	10,898	5.0	(32.6)	We anticipate a modest 5% yoy increase in revenues due to high inventory levels in the channel and unfavorable weather conditions in the Rabi season, such as low water levels in reservoirs and damage to horticultural crops in Maharashtra: horticulture is Bayer's biggest segment. Corn cultivation has remained stable in the Rabi season, whereas glyphosate prices are significantly lower than last year.	
EBITDA	854	3,049	1,218	42.6	(60.0)		
EBIT	711	2,933	1,068	50.2	(63.6)		
PBT	829	3,057	1,163	40.3	(62.0)		
Tax	491	828	314	(36.0)	(62.1)		
Reported PAT	1,345	2,229	849	(36.9)	(61.9)	Gross margins are expected to decline yoy as a result of lower glyphosate prices. On the other hand, employee cost may remain significantly lower yoy due to the reduction of employee incentives by the global parent. This should lead to a higher adjusted PAT yoy.	
Adjusted PAT	607	2,229	849	39.8	(61.9)		
EPS (Rs/share)	13.5	49.6	18.9	39.8	(61.9)		
EBITDA margin (%)	8.2	18.9	11.2	294 bps	-768 bps		
<b>Godrej Agrovet</b>							
Net sales	23,235	25,709	24,129	3.8	(6.1)	We expect GAVL to report a subdued quarter with mid-single-digit revenue growth and flattish PBT yoy. Animal feed volume growth may remain in the single-digits but margins may be under pressure amid losses in aqua feed. The palm oil business should remain fairly steady. In crop protection, the standalone business should continue to perform well amid good demand for in-licensed products but Astec will remain under pressure due to subdued demand. The Dairy segment should perform fairly well, while Poultry may come under pressure amid weakness in the live bird business.	
EBITDA	1,363	2,014	1,459	7.0	(27.6)		
EBIT	893	1,485	928	3.9	(37.5)		
PBT	720	1,317	728	1.1	(44.8)		
Tax	334	368	183	(45.2)	(50.3)		
Reported PAT	1,163	1,053	695	(40.3)	(34.0)	While animal feed margins may dip qoq, oil palm margins should remain steady and dairy segment margins may improve amid cost optimization initiatives. The standalone crop protection business should continue to report strong margins, whereas Astec will probably report another loss. Poultry segment margins are expected to drop sequentially due to oversupply of live birds.	
Extraordinaries	708	-	-	NM	NM		
Adjusted PAT	456	1,054	696	52.6	(34.0)		
EPS (Rs/share)	2.4	5.5	3.6	52.4	(34.0)		
EBITDA margin (%)	5.9	7.8	6.0	18 bps	-179 bps		
<b>Revenue breakdown</b>							
Animal feeds	12,724	12,420	13,343	4.9	7.4		
Vegetable oil	3,625	4,474	3,806	5.0	(14.9)		
Crop protection	2,157	3,790	2,308	7.0	(39.1)		
Dairy	3,478	3,901	3,721	7.0	(4.6)		
Others	2,923	2,459	2,251	(23.0)	(8.5)		
Elimination	(1,672)	(1,335)	(1,300)	(22.2)	(2.6)		
<b>EBIT breakdown</b>							
Animal feeds	578	571	575	(0.6)	0.7		
Vegetable oil	794	687	647	(18.6)	(5.9)		
Crop protection	86	649	398	363.8	(38.6)		
Dairy	(136)	29	59	NM	100.0		
Others	105	63	-	(100.0)	(100.0)		
Unallocable expenses	2	(681)	(650)	NM	(4.6)		
<b>Rallis India</b>							
Net sales	6,304	8,320	5,178	(17.9)	(37.8)	We expect an 18% yoy decline in overall revenues for Rallis, primarily due to continued weakness in export revenues, which we estimate will fall 40% yoy amid continued channel destocking in the global agrochemical industry. We expect domestic revenues to also drop 5% yoy given a challenging Rabi season. For the seeds business, 3Q is seasonally a slow quarter.	
EBITDA	533	1,330	304	(43.0)	(77.1)		
EBIT	313	1,070	44	(85.9)	(95.9)		
PBT	300	1,090	54	(82.0)	(95.0)		
Tax	74	280	13	(81.8)	(95.2)		
Reported PAT	225	820	40	(82.1)	(95.1)	We expect Rallis to maintain gross margins around the levels of 2QFY24 (as well as 1HFY24). However, the expected yoy decline in revenues should weigh on EBITDA margins. Consequently, we expect EBITDA and PAT to decline 43% and 82% yoy, respectively.	
Adjusted PAT	225	813	40	(82.1)	(95.0)		
EPS (Rs/share)	1.2	4.2	0.2	(82.1)	(95.0)		
EBITDA margin (%)	8.5	16.0	5.9	-259 bps	-1012 bps		
<b>Revenue breakdown</b>							
Crop care	6,060	7,384	4,926	(18.7)	(33.3)	Domestic	
	3,685	5,809	3,501	(5.0)	(39.7)		
	2,375	1,575	1,425	(40.0)	(9.5)	International	
Seeds	240	944	252	5.0	(73.3)		
<b>EBITDA breakdown</b>							
Crop care	710	1,265	454	(36.1)	(64.1)		
Seeds	(180)	60	(150)	(16.7)	(350.0)		

Source: Companies, Kotak Institutional Equities estimates

**Exhibit 9: Quarterly earnings preview for agrochemical companies**

	Dec-22	Sep-23	Dec-23E	Change (%)		Comments
				yoy	qoq	
<b>UPL</b>						
Net sales	136,790	101,700	95,248	(30.4)	(6.3)	We expect UPL to report yet another weak quarter due to continued destocking of channel inventories across world markets and pricing pressure emanating from China. We see consolidated revenues falling 30% yoy, driven by particularly sharp declines across North America, Brazil, Europe and India. LatAm ex-Brazil and RoW may perform relatively better, with flattish-to-slightly lower revenues on a yoy basis.
EBITDA	28,840	13,250	10,489	(63.6)	(20.8)	
EBIT	22,600	6,680	3,739	(83.5)	(44.0)	
PBT	14,810	(980)	(4,232)	(128.6)	331.9	
Tax	1,350	(960)	(695)	(151.5)	(27.6)	
Reported PAT	10,870	(1,890)	(4,209)	(138.7)	122.7	We expect EBITDA margins to remain under severe pressure, driven by both gross margin declines (amid increased rebates) as well as operating leverage. SG&A expenses should be lower yoy due to lower A&P spends versus the high base of 3QFY23, when UPL was a sponsor for the FIFA World Cup (December 2022). Finance cost is likely to stay elevated amid the higher interest rate regime. The company is likely to report a large net loss for the quarter.
Extraordinaries	(200)	(870)	(400)	100.0	(54.0)	
Adjusted PAT	10,870	(1,890)	(4,209)	(138.7)	122.7	
EPS (Rs/share)	14.2	(2.5)	(5.5)	(138.7)	122.7	
EBITDA margin (%)	21.1	13.0	11.0	-1008 bps	-202 bps	
<b>Revenue breakdown</b>						
India	10,750	13,870	8,063	(25.0)	(41.9)	
North America	27,450	5,070	13,176	(52.0)	159.9	
Europe	14,440	12,630	7,942	(45.0)	(37.1)	
Rest of the world	24,410	19,800	22,457	(8.0)	13.4	
LATAM	59,740	50,330	43,610	(27.0)	(13.4)	

Source: Company, Kotak Institutional Equities estimates



**Exhibit 10: Price tracker for leading basic chemicals**

Product name	Unit	Region	Latest	% change				Relevant for
			Price	1W	1M	3M	12M	
<b>Basic Chemicals</b>								
Acetic acid, local	Rs/kg	India	52	-2%	-20%	-26%	-20%	LXCHEM, JUBLINGR (RM)
Acetone	US\$/ton	China	1,053	-6%	-9%	1%	-26%	DN (FG)
Acrylonitrile	US\$/ton	SE Asia	1,240	0%	-3%	0%	-16%	VO (RM)
Bromine, int'l	US\$/ton	China	3,489	-1%	-1%	5%	-46%	NEOGEN (RM)
Benzene	US\$/ton	India	895	1%	-2%	9%	5%	ARTO (RM)
BOPP film	Rs/kg	India	124	-1%	-1%	-5%	-26%	SRF (FG)
Caprolactam	US\$/ton	Taiwan, S Korea	1,710	0%	-6%	-11%	2%	CENK, SRF (RM), GSFC (FG)
Chloroform	US\$/kg	India	11	0%	-6%	-49%	-77%	NFIL (RM)
Ethyl acetate	US\$/ton	China	902	-4%	-5%	-12%	-8%	GNFC, JUBILINGR, LXCHEM (FG)
Ethylene dichloride	US\$/kg	India	0.3	0%	6%	20%	-7%	CHEMPLAS, FINOLEX, RIL (RM)
Fluorospar	USD/tonne	China	461	-5%	-7%	-5%	-7%	NFIL (RM)
Isopropyl alcohol	US\$/ton	China	982	-3%	-2%	-13%	16%	DN, DFCPL (FG)
Phenol	US\$/ton	China	1,028	-5%	-7%	-18%	-6%	VO, CLEAN (RM), DN (FG)
PVC	Rs/kg	India	79	0%	-4%	-7%	-17%	CHEMPLAS, DCM, DCW, FINOLEX, RIL (FG)
Soda ash (China FOB)	US\$/ton	China	347	0%	9%	-7%	3%	TTCH (FG)
Sodium nitrite	US\$/kg	India	0.5	0%	-25%	-7%	-33%	DN (FG)
Toluene	US\$/ton	China	930	0%	0%	-13%	1%	ARTO (RM)
Vinyl acetate monomer	US\$/ton	China	1,021	0%	24%	4%	-6%	PIDI (RM)
<b>Fertilizers</b>								
Ammonia, local	US\$/ton	India	500	0%	-12%	-2%	-42%	
Ammonia, int'l	US\$/ton	US	525	0%	-16%	-9%	-49%	DFPC, CRIN (RM)
Phosphoric acid, local	US\$/ton	India	985	0%	0%	0%	-14%	CRIN (RM)
Rock phosphate	Index	Index	348	0%	0%	0%	16%	CRIN (RM)
DAP	US\$/ton	Morocco	578	1%	-2%	3%	-25%	
DAP	US\$/ton	Global	575	1%	6%	9%	-7%	
Urea, local	US\$/ton	India	402	0%	0%	0%	-30%	CHMB (FG)
Urea, int'l	US\$/ton	US	300	-1%	1%	-24%	-35%	
Muriate of Potash	CNY/ton	China	2,960	0%	0%	6%	-21%	
<b>Agrochemicals</b>								
Glyphosate	US\$/ton	China	3,697	0%	-5%	-12%	-48%	BYRCS (FG)
<b>Chemical spreads</b>								
Phenol	USD/tonne	China	451	-3%	-16%	-38%	20%	DN (FG)
PVC - VCM	Rs/kg	India	264	-7%	-18%	-37%	-37%	CHEMPLAS (FG)
<b>Energy prices</b>								
Brent crude	US\$/bbl		79	1%	2%	-6%	-5%	
Coal	US\$/ton	Indonesia	117	-16%	-39%	-39%	-58%	
Natural Gas	US\$/mn BTU	US	3	16%	7%	-9%	-48%	
Natural Gas	GBP/ mn BTU	UK	11	-4%	-7%	2%	-73%	

Notes: RM = Raw material, FG = Finished Good

Source: Bloomberg, Kotak Institutional Equities

Exhibit 11: Chemicals valuation summary, March fiscal year-ends

	MCap (US\$ mn)	Rating	FV (Rs)	Upside (%)	P/E (X)			EV/EBITDA (X)			RoE (%)			CAGR 2023-25E (%)			Share price performance (%)				
					2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025E	Revenue	EBITDA	EPS	1W	1M	3M	1Y	
<b>Basics</b>																					
Chemplast Sanmar	953	NR	NA	NA	36.6	385.3	16.7	14.9	49.2	9.5	13.1	(0.6)	20.9	4.3	25.1	47.9	2.6	4.5	1.1	NA	
DCM Shriram	1,996	NR	NA	NA													3.4	12.1	(2.3)	20.1	
Deepak Fertilisers	1,017	NR	NA	NA	7.2	13.9	10.7	5.3	8.8	6.8	26.2	10.1	12.5	(4.9)	(11.4)	(17.9)	(2.6)	3.9	4.1	(4.0)	
GNFC	1,385	NR	NA	NA													(6.7)	3.1	20.2	26.1	
GACL	685	NR	NA	NA														(4.4)	4.1	6.8	3.3
GHCL	686	NR	NA	NA	5.1	6.6	6.0	3.4	4.5	4.1	27.7	21.9	19.8	(9.2)	(8.9)	(7.3)	(1.6)	4.1	(3.9)	16.3	
Tata Chemicals	3,386	SELL	790	(28.1)	12.1	21.0	28.3	7.1	8.3	9.5	12.3	6.6	4.7	(3.2)	(14.9)	(34.7)	(1.7)	10.3	8.5	15.9	
<b>Non-Basics/Specialties/Diversified</b>																					
Aarti	2,745	SELL	540	(9.8)	41.9	59.2	39.4	23.5	26.1	20.6	11.6	7.6	10.5	9.8	8.7	3.0	(8.1)	5.2	22.5	(0.1)	
Aether Industries	1,428	NR	NA	NA	84.3	70.0	47.0	61.8	58.1	33.6	17.2	10.0	11.1	30.7	35.7	33.9	1.5	13.5	(6.9)	6.4	
Alkyl Amines	1,565	NR	NA	NA	57.9	69.9	46.3	40.2	46.1	30.8	25.0	15.5	19.5	12.8	14.3	11.8	(5.8)	10.3	10.2	(6.4)	
Archean chemicals	945	NR	NA	NA	18.4	19.0	22.0	14.7	8.6	7.1							(1.7)	2.3	8.3		
Atul	2,496	SELL	4,070	(40.6)	40.0	52.3	42.1	24.6	29.3	24.0	11.4	8.2	9.5	1.2	0.7	(2.5)	(4.4)	1.6	(2.4)	(12.4)	
Balaji Amines	1,003	NR	NA	NA	20.9			12.6	23.4	17.0	23.3			(5.6)	(14.1)		(4.6)	12.0	16.0	0.9	
BASF India	1,589	NR	NA	NA	28.0	24.9	22.5				18.4	17.6		6.0		21.3	(0.7)	1.2	21.7	11.2	
Clean Science	2,009	ADD	1,480	(3.2)	56.6	86.5	49.5	41.5	61.9	36.0	33.2	17.7	25.8	12.4	7.3	6.8	(3.9)	7.9	8.4	NA	
Deepak Nitrite	3,988	REDUCE	2,120	(12.8)	39.1	40.9	35.5	25.9	27.6	24.9	22.9	18.4	18.0	(3.0)	5.1	5.0	(1.7)	9.7	15.3	25.5	
Gujarat Fluorochem	4,646	NR	NA	NA	28.8	58.0	36.7	19.9	35.4	23.5	28.9	11.4	15.9	0.9	(8.0)	(11.3)	(7.8)	23.7	23.6	20.0	
Himadri specialty chemical	2,056	NR	NA	NA	97.0			64.6			8.0							17.0	30.5	56.9	304.4
Jubilant Ingrevia	922	NR	NA	NA	20.9	30.6	22.1	12.2	16.4	12.5	14.5	8.9	11.0	4.0	(1.2)	(2.8)	(5.6)	5.5	(0.6)	(9.4)	
Laxmi Organics	942	NR	NA	NA	33.3	54.7	39.3	26.8	27.2	20.3	12.4	9.9	12.3	5.4	14.8	(8.0)	(2.6)	2.0	1.5	(2.7)	
Meghmani organics	1,428	NR	NA	NA																	
NFIL	2,280	ADD	3,620	0.3	50.5	55.1	38.7	35.9	33.9	23.7	18.6	14.7	18.0	20.9	24.6	14.2	(6.4)	(5.1)	(2.8)	(6.5)	
Neogen	466	NR	NA	NA	62.1	63.1	41.0	37.8	33.7	23.7	12.3	9.8	12.6	27.3	26.4	23.0	(0.2)	(1.2)	(16.7)	17.7	
Nocil	538	NR	NA	NA	30.3	32.4	24.5	17.5	19.3	15.3	9.9	8.5	10.4	6.2	7.0	11.2	(2.1)	3.9	18.8	16.1	
Sudarshan	447	NR	NA	NA	108.1	35.3	22.9	22.8	13.9	11.3	3.6	10.5	13.9	13.1	42.2	117.3	(3.4)	10.1	11.8	42.1	
Supreme Petro	1,252	NR	NA	NA																	
Tanfac Industries ltd	286	NR	NA	NA																	
Vinati	2,153	SELL	1,530	(11.4)	39.1	48.0	35.6	29.7	35.0	25.1	22.6	15.4	17.6	10.1	7.8	11.5	(1.6)	(0.4)	(7.1)	(14.3)	
Vishnu chemicals	266	NR	NA	NA																	
SRF	8,847	BUY	2,660	11.0	34.0	49.2	34.0	21.8	26.3	19.5	22.9	13.7	17.4	6.8	6.1	0.1	(2.9)	(1.1)	6.7	7.0	
<b>HPC</b>																					
Fine Organics	1,773	NR	NA	NA	25.6	36.6	36.4	18.0	26.3	26.1	47.1	23.7	19.9	(13.3)	(16.9)	(16.2)	(3.1)	7.9	(2.3)	(13.8)	
Galaxy surfactants	1,177	NR	NA	NA	26.0	29.8	25.7	17.1	18.8	16.5	21.7	16.6	17.0	(0.7)	1.8	0.7	(0.5)	0.2	3.2	13.3	
<b>Agrochemicals</b>																					
Anupam Rasayan	1,360	NR	NA	NA	58.2	54.7	37.6	30.3	26.3	20.1	9.2	8.1	10.5	23.0	22.8	24.4	(2.1)	1.4	17.9	52.4	
Astec LifeScience	253	NR	NA	NA	35.5	(86.0)	91.8	21.0	176.1	36.3	11.8	2.5	9.8	0.1	(23.9)	(37.8)	(0.3)	(9.5)	(21.4)	(36.8)	
Bayer CropSc	3,024	REDUCE	5,080	(9.5)	37.0	29.7	26.7	26.3	20.5	18.4	25.9	30.4	32.4	9.4	10.9	17.8	2.1	3.5	6.2	18.6	
Bharat Rasayan	460	NR	NA	NA														1.8	(1.7)	(1.2)	(3.4)
Best Agro	233	NR	NA	NA														(2.5)	(7.6)	(26.0)	(43.6)
Chambal Fertilizers	1,895	NR	NA	NA	13.5	11.8	11.2	6.2	6.2	5.6	17.7	16.7	16.7	(15.4)	5.2	9.8	(0.4)	10.7	37.9	20.8	
Coromandel Intl	4,251	NR	NA	NA	16.8	18.3	16.0	10.7	11.8	10.6	28.9	21.9	20.4	(9.0)	0.4	2.5	(3.8)	(2.0)	2.5	33.1	
Godrej Agrovet	1,306	ADD	530	(4.2)	47.0	33.6	25.0	23.2	19.3	14.8	8.5	11.4	14.1	9.0	26.2	37.1	(0.7)	6.4	7.4	18.6	
PI Industries	6,317	ADD	3,630	6.6	42.6	33.5	31.4	32.6	26.0	22.6	18.5	19.9	17.9	16.1	18.9	16.5	(2.1)	(11.4)	(0.5)	3.6	
Rallis	614	REDUCE	210	(19.2)	55.2	29.0	24.0	23.7	15.3	13.3	5.4	9.9	11.1	3.4	31.4	51.5	2.8	2.6	20.9	9.1	
Sharda Cropchem	476	NR	NA	NA	11.5	25.4	13.3	5.2	8.0	5.2	16.8	7.1	12.2	2.6	(0.4)	(6.8)	(2.9)	2.9	2.7	(11.1)	
Sumitomo Chemicals	2,521	NR	NA	NA	40.8	53.8	39.2	28.5	39.5	28.9	23.1	15.7	18.7	0.7	(0.7)	2.1	2.4	0.6	(4.2)	(14.8)	
UPL	5,250	REDUCE	550	(1.9)	12.7	21.2	14.5	6.2	6.9	5.9	14.2	7.4	10.1	1.0	(0.1)	(6.5)	(5.4)	(4.2)	(8.4)	(21.9)	

Source: Bloomberg, Kotak Institutional Equities estimates

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**BUY.** We expect this stock to deliver more than 15% returns over the next 12 months.

**ADD.** We expect this stock to deliver 5-15% returns over the next 12 months.

**REDUCE.** We expect this stock to deliver -5+5% returns over the next 12 months.

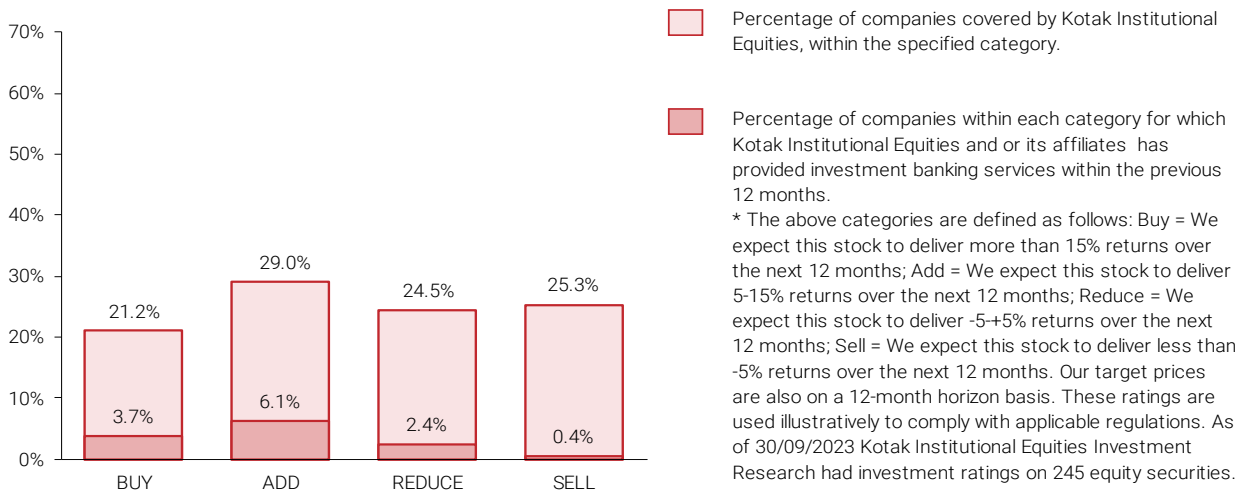
**SELL.** We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

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