

We believe that Q1 witnessed stable-to-muted demand for the specialty chemical players, whereas there were pockets of realization uptick for certain products, owing to normalization of the business environment. The following factors are influencing cautious behavior from customers: a) container unavailability leading to increased freight rates; b) destocking of channel inventory and restocking for past contracts; and c) Chinese influence in the price reduction. Companies in the non-discretionary products business should fare better compared with discretionary spends, as this quarter is seasonally strong for agrochemicals. Export environment has remained relatively stable for most of the companies and demand-led recovery is expected from H2FY25. We prefer ARTO and DN within our sector universe for now. We have a BUY rating on ARTO and EPIGRAL; an ADD on SRF, DN, and ANURAS; a REDUCE on NFIL; and a SELL on GFL.

Q4 results – Key expectations (refer to Exhibits 1 & 2 for detailed numbers)

SRF (SRF IN): SRF's chemicals business (CB) revenue to witness contraction QoQ due to muted export environment, coupled with marginal decline in realizations. Ref gas business saw lower realizations for some gases in US due to preliminary investigation for ADD cut on Chinese companies, which could impact EBIT margin for CB QoQ (domestic realizations are stable). Packaging films business (PFB) continues to face an oversupply overhang with improved realizations, whereas the technical textiles business (TTB) remains the cash cow.

PI Industries (PI IN): PI's CSM business is likely to grow 10% YoY in Q1FY25E on the back of increased exports, largely led by pyroxasulfone. Due to seasonality element in the domestic business, we have built 6% revenue growth YoY. Pharma business is likely to add new molecules building a gradual increase in revenues, though it will remain the cost center in FY25E due to inherent R&D and other fixed costs. EBIT margins are likely to improve QoQ to ~23.6% in Q1FY25E from 20.8% in Q4FY24, due to better product mix.

Gujarat Fluorochemicals (FLUOROCH IN): GFL's Q1FY25E revenue should improve with moderate recovery in exports on a lower base. We believe the fluoropolymer volume recovery in PTFE & PFA (FKM still under pressure) could help GFL clock 9% growth QoQ, along with better realizations in bulk chemicals. Margins are likely to report better QoQ performance (~22.4% vs 21%) on improved pricing and volumes across businesses.

Deepak Nitrite (DN IN): DN is likely to report better YoY performance and relatively stable revenue in Q1FY25E. Phenolic business witnessed higher realizations compared with Q4 last year, although we believe that production offtake will be lower due to the summer season. Advanced intermediates business should grow marginally QoQ. Last quarter, the EBIT margins for phenolics business were ~8.5-9% (ex-exceptional items). We expect that improved spreads in the current quarter shall lead to margins of ~10%.

Aarti Industries (ARTO IN): Aarti is expected to report revenue of Rs18bn vs Rs17.7bn last quarter, with recovery in benzene downstream demand and marginal improvement in export realizations. In our view, Aarti's Q1FY25E EBITDA is expected to improve sequentially due to the better RM pricing environment, thus clocking a fourth quarter of sequential improvement, driven by higher volume growth (with certain pricing benefit).

Rating, Target Price and Valuation

	Rating	CMP (Rs/sh)	TP (Rs/sh)	Upside (%)	P/E (x)		EV/EBITDA (x)	
					FY25E	FY26E	FY25E	FY26E
SRF	ADD	2,392	2,600	9	41.2	29.9	22.9	18.0
PI Industries	REDUCE	3,901	3,500	(10)	35.1	33.3	23.3	21.5
Gujarat Fluorochemicals	SELL	3,262	2,800	(14)	55.3	34.9	28.1	19.5
Deepak Nitrite	ADD	2,765	2,600	(6)	41.8	31.9	28.3	21.9
Aarti Industries	BUY	706	800	13	34.6	26.5	18.8	15.3
Navin Fluorine	REDUCE	3,645	3,000	(18)	48.2	36.5	31.1	24.2
Anupam Rasayan	ADD	753	850	13	49.9	26.7	24.2	15.7
Epigral	BUY	1,457	2,000	37	19.9	15.1	10.6	8.3

Source: Company, Emkay Research

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Navin Fluorine International (NFIL IN): High Performance Products (HPP) are likely to witness a weak quarter due to reduced contribution from the Honeywell contract, although negated by improved R22 volumes. R32 exports remain muted. Specialty Chemicals & CDMO business to contract QoQ with lower exports. We expect improvement in business product mix to aid better margins QoQ; whereas growth in EBITDA is likely to remain a concern.

Anupam Rasayan India (ANURAS IN): We expect Q1FY25E to report low exports revenue due to subdued demand environment and challenge in getting back rescheduled orders. We believe margins would remain stable at ~26-28% annually or get better due to the improved product mix, but the working capital issue on relatively lower sales remains an overhang. We expect revenues to improve when the contracted/MoU volumes kick in.

Epigral (EPIGRAL IN): Chlor-alkali business is likely to report improvement in ECUs compared with the previous quarter. Caustic soda prices have increased ~10% over this quarter with chlorine realization remaining negative. Derivatives & specialty chemical segment revenue is set to increase sequentially with commissioning of plants and higher utilization QoQ. Company has started exporting ECH to European countries in the current quarter. Increasing share of derivatives & specialty chemicals will take EBITDA margin into the range of 25-27%.

Exhibit 1: Specialty Chemicals companies – A comparison of peer valuations

Peer (Domestic)	Ratings	P/E (x)			EV/E (x)			RoE (%)		
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
SRF	ADD	41	30	24	23	18	15	14	17	18
PI Industries	REDUCE	35	33	29	22	21	18	18	16	16
Gujarat Fluorochemicals	SELL	55	35	21	27	19	13	10	15	20
Deepak Nitrite	ADD	42	32	30	25	25	20	17	19	17
Aarti Industries	BUY	34	26	21	19	15	13	13	15	16
Navin Fluorine International	REDUCE	48	36	33	29	22	20	15	17	17
Anupam Rasayan India *	ADD	49	26	20	24	16	12	6	10	13
Epigral	BUY	20	15	14	11	8	7	22	23	21
Tata Chemicals	NR	31	22	21	13	11	1	4	5	5
Atul	NR	43	32	28	24	19	16	9	11	12
Vinati Organics	NR	45	37	N/A	32	26	N/A	16	17	N/A
Clean Science & Technology	NR	50	40	28	36	29	20	24	25	29
Fine Organic Industries	NR	38	35	29	28	25	21	21	19	18
Aether Industries	NR	71	48	36	43	29	24	8	11	13
Jubilant Ingrevia	NR	19	14	12	12	10	8	23	26	24
Archean Chemical Industries	NR	30	23	15	16	13	9	11	13	N/A
Deepak Fertilisers & Petrochem	NR	15	13	11	8	7	6	11	12	13
Laxmi Organic Industries	NR	43	36	26	21	17	14	9	11	13
Sudarshan Chemical Industries	NR	33	25	20	16	13	12	16	18	18
Neogen Chemicals	NR	68	46	40	30	21	15	8	11	13

Source: Bloomberg, Emkay Research; Note: *Standalone

Exhibit 2: Specialty Chemical companies – Earnings snapshot (Q1FY25E)

Company	Reported		Emkay Est.	QoQ (%)	YoY (%)	Key Highlights
	Q1FY24	Q4FY24	Q1FY25E			
SRF (C)						
Sales (Rs bn)	33.4	35.7	34.5	-3	3	Q1 exports remained weak both QoQ/YoY, denting revenue growth. Chemical & ref gas business impacted with reduced volumes. PFB and TTB to remain stable with positive bias. Chemicals business margin to face minor correction with higher share of ref gas. PFB margins to improve due to slight realization uptick, whereas TTB to remain stable.
EBITDA (Rs bn)	7.0	7.0	6.5	-6	-6	
EBITDA margin (%)	20.9	19.5	18.9	-55 bps	-191 bps	
Adj PAT (Rs bn)	3.6	4.2	3.0	-30	-18	
PI Industries (C)						
Sales (Rs bn)	19.1	17.4	21.4	23	12	Agro CSM to contribute extensively due to higher pyroxasulfone exports QoQ. Domestic Agchem to be seasonally healthy. Higher share of pyroxasulfone to elevate overall margins QoQ. Pharma business likely to continue incurring losses. Tax benefits from Jambusar to reduce with tax rate at 24%.
EBITDA (Rs bn)	4.7	4.4	5.8	32	25	
EBITDA margin (%)	24.5	25.4	27.3	196 bps	284 bps	
Adj PAT (Rs bn)	3.8	3.7	4.2	13	9	
Gujarat Fluorochemicals (C)						
Sales (Rs bn)	12.1	11.3	12.4	9	2	Revenue to grow QoQ on higher volumes in both fluoropolymers (PFA) and ref gas (especially R22). Margins to improve QoQ due to higher share of fluoropolymer business compared with ref gas. Marginally higher realizations for caustic soda and fluoropolymers along with operating leverage likely to increase margins by ~140bps QoQ.
EBITDA (Rs bn)	3.5	2.4	2.8	16	-21	
EBITDA margin (%)	28.8	21.0	22.4	139 bps	-641 bps	
Adj PAT (Rs bn)	2.0	1.0	1.3	30	-35	
Deepak Nitrite (C)						
Sales (Rs bn)	17.7	21.3	21.9	3	24	Stable QoQ performance in the standalone business. Phenolics business likely to perform better due to increased phenol prices, aiding lower production offtake due to the summer season. Phenol-acetone spreads improved marginally QoQ, reflecting the relatively stable PAT growth QoQ (excluding exceptional items in the previous quarter).
EBITDA (Rs bn)	2.1	3.0	3.1	3	48	
EBITDA margin (%)	11.9	14.2	14.2	6 bps	236 bps	
Adj PAT (Rs bn)	1.5	2.0	2.1	4	40	
Aarti Industries (C)						
Sales (Rs bn)	14.1	17.7	18.1	2	28	Revenues to grow QoQ on improvement in domestic business and export realizations. Volume offtake in PDCB is likely to boost topline. EBITDA margins to sustain and likely improve on better benzene pricing compared with the previous quarter.
EBITDA (Rs bn)	2.0	2.8	3.1	10	54	
EBITDA margin (%)	14.3	16.0	17.2	122 bps	290 bps	
Adj PAT (Rs bn)	0.7	1.3	1.4	6	97	
Navin Fluorine (C)						
Sales (Rs bn)	4.9	6.0	5.7	-6	16	HPP to improve QoQ with higher contribution from R22. Honeywell contract volumes expected to be lower than last quarter. Specialty Chemicals & CDMO to log lumpy growth. EBITDA margin to witness uptick YoY on favorable product mix and operating leverage.
EBITDA (Rs bn)	1.1	1.1	1.1	3	0	
EBITDA margin (%)	23.3	18.3	20.0	172 bps	-326 bps	
Adj PAT (Rs bn)	0.6	0.7	0.6	-9	4	
Anupam Rasayan (S)						
Sales (Rs bn)	2.9	3.1	1.7	-45	-42	Exports have fallen ~33% QoQ, impacting overall revenue growth. Domestic business is also facing demand pressure. EBITDA margin to improve based on better product mix.
EBITDA (Rs bn)	0.8	0.7	0.4	-40	-43	
EBITDA margin (%)	27.1	23.9	26.3	236 bps	-83 bps	
Adj PAT (Rs bn)	0.3	0.3	0.0	-84	-87	
Epigral (C)						
Sales (Rs bn)	4.5	5.2	6.1	17	35	Caustic soda ECUs to improve with higher chlorine utilization in downstream products. ECH exports have spiked in the current quarter. CPVC resin demand remains relatively stable as compared with other products. EBITDA to improve sequentially with improvement in capacity utilization. Higher share of new products will take EBITDA down to 25-27%, as guided.
EBITDA (Rs bn)	1.0	1.6	1.7	9	78	
EBITDA margin (%)	20.9	29.6	27.7	-192 bps	677 bps	
Adj PAT (Rs bn)	0.3	0.8	0.8	7	163	

Source: Company, Emkay Research; Note: C = Consolidated, S = Standalone

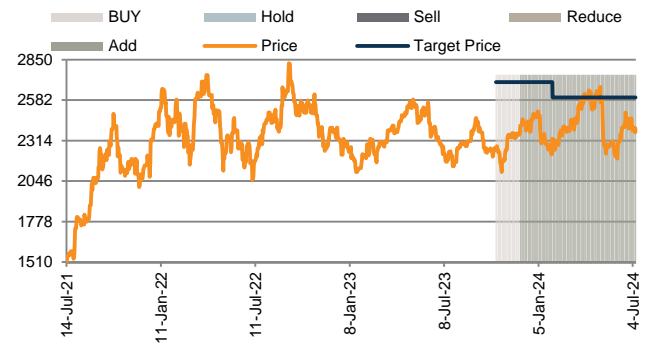
SRF

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jun-24	2,312	2,600	Add	Meet Vora
10-May-24	2,278	2,600	Add	Meet Vora
07-Apr-24	2,587	2,600	Add	Meet Vora
26-Feb-24	2,401	2,600	Add	Meet Vora
01-Feb-24	2,308	2,600	Add	Meet Vora
30-Nov-23	2,367	2,700	Add	Meet Vora
22-Nov-23	2,333	2,700	Buy	Meet Vora
30-Oct-23	2,181	2,700	Buy	Meet Vora
15-Oct-23	2,255	2,700	Buy	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

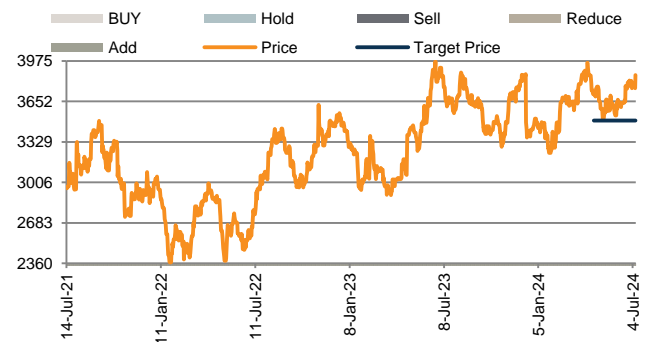
PI INDUSTRIES

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jun-24	3,643	3,500	Reduce	Meet Vora
23-May-24	3,660	3,500	Reduce	Meet Vora
20-Apr-24	3,709	3,500	Reduce	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

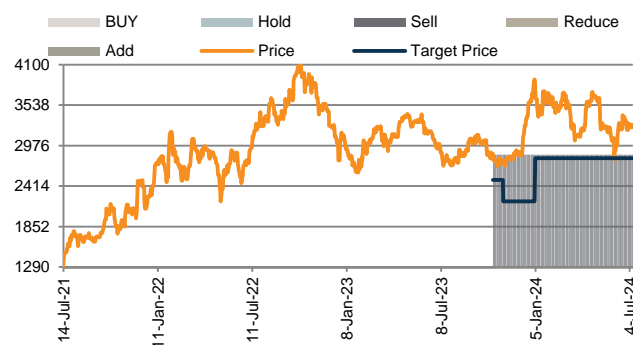
GUJARAT FLUOROCHEMICALS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jun-24	2,973	2,800	Sell	Meet Vora
07-May-24	3,509	2,800	Sell	Meet Vora
07-Apr-24	3,186	2,800	Sell	Meet Vora
26-Feb-24	3,698	2,800	Sell	Meet Vora
08-Feb-24	3,508	2,800	Sell	Meet Vora
04-Jan-24	3,825	2,800	Sell	Meet Vora
30-Nov-23	2,851	2,200	Sell	Meet Vora
22-Nov-23	2,785	2,200	Sell	Meet Vora
04-Nov-23	2,765	2,200	Sell	Meet Vora
15-Oct-23	2,861	2,500	Sell	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

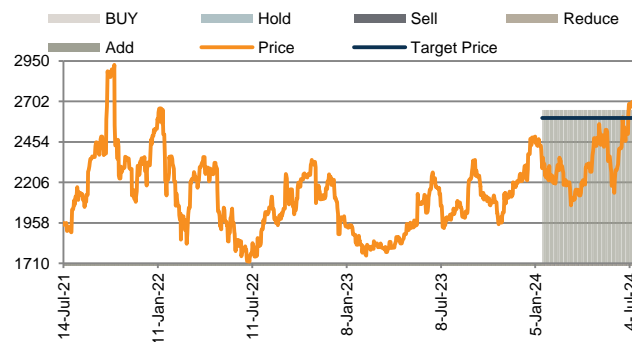
DEEPAK NITRITE

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jun-24	2,282	2,600	Add	Meet Vora
22-May-24	2,464	2,600	Add	Meet Vora
07-Apr-24	2,220	2,600	Add	Meet Vora
26-Feb-24	2,284	2,600	Add	Meet Vora
15-Feb-24	2,283	2,600	Add	Meet Vora
18-Jan-24	2,293	2,600	Add	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

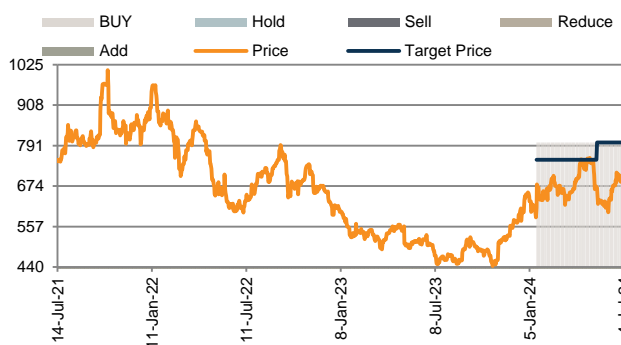
AARTI INDUSTRIES

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jun-24	635	800	Buy	Meet Vora
13-May-24	669	800	Buy	Meet Vora
07-Apr-24	696	750	Buy	Meet Vora
26-Feb-24	672	750	Buy	Meet Vora
09-Feb-24	663	750	Buy	Meet Vora
18-Jan-24	612	750	Buy	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

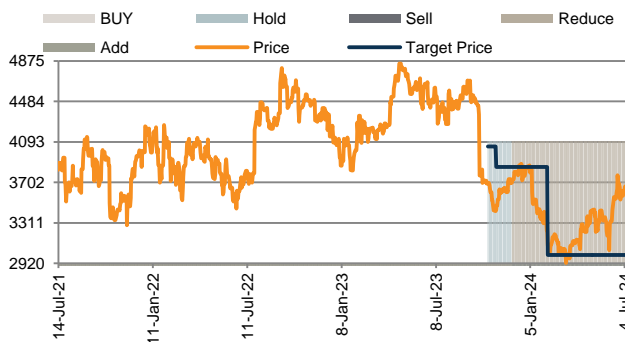
NAVIN FLUORINE

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jun-24	3,329	3,000	Reduce	Meet Vora
08-May-24	3,411	3,000	Reduce	Meet Vora
07-Apr-24	3,148	3,000	Reduce	Meet Vora
26-Feb-24	3,109	3,000	Reduce	Meet Vora
07-Feb-24	3,093	3,000	Reduce	Meet Vora
30-Nov-23	3,701	3,850	Reduce	Meet Vora
22-Nov-23	3,610	3,850	Hold	Meet Vora
31-Oct-23	3,438	3,850	Hold	Meet Vora
15-Oct-23	3,692	4,050	Hold	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

ANUPAM RASAYAN

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jun-24	770	850	Add	Meet Vora
21-May-24	785	850	Add	Meet Vora
07-Apr-24	893	925	Add	Meet Vora
26-Feb-24	942	925	Add	Meet Vora
12-Feb-24	830	925	Add	Meet Vora
30-Nov-23	987	1,070	Add	Meet Vora
22-Nov-23	938	1,070	Buy	Meet Vora
07-Nov-23	923	1,070	Buy	Meet Vora
15-Oct-23	884	1,050	Buy	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

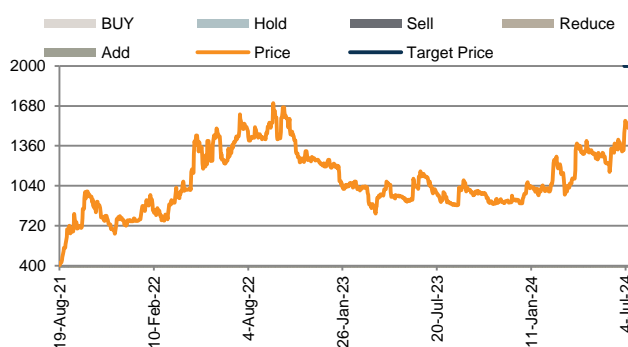
EPIGRAL

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-24	1,463	2,000	Buy	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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