

# Q4 FY20E Chemical Sector Earnings Preview



Sector Report

15<sup>th</sup> April 2020

## Largely Unaffected Q4; Lockdown likely to impact Q1FY21 earnings

We expect the companies under our chemicals coverage to report revenue growth of ~4.2% in Q4FY20 with 7.3% growth in profitability, driven by the benefit of price increase in few chemicals and reduction in the tax rate. Chemicals being basic building blocks of end-user applications are most likely to feel the slowdown in demand due to nationwide restricted movement. Indian chemical companies' have a raw material dependency on China. Still, most companies have adequate inventory to cater to demand in the near-term (at least for the current quarter). With the gradual resumption of work in Chinese factories, supply issues are expected to resolve. Additionally, crude derivatives as raw material for chemical companies will be positive for the gross margins given the drop in oil prices. Domestic speciality and Agro-chemicals players with strong supply chains and backward integration are likely to benefit. Supply chain restriction and expected labour migration would be the major impediments to pace and timelines of recovery. Once the lockdowns are eased, plants will gradually resume normal production and outflow. We expect that these restrictions will be lifted in late Q1FY21- paving the way for the demand to start recovering in H2FY21. Overall our Chemical coverage would post Revenue/EBITDA/PAT growth of 4.2%/5.3%/7.3% YoY in Q4FY20. We expect the EBITDA margin of our coverage universe to improve by 20bps YoY, owing to favourable product mix

### Aarti Industries

We expect Aarti Industries to post muted revenue growth of 2.1% on YoY basis, mainly due to weak demand scenario globally, decline in realization (in tandem with softening of raw material price) and revenue exclusion of HPC segment on account of demerger. The company's EBITDA margin expects to show marginal improvement at 20.1% from 19.6% in Q4FY19 on the back of favourable product mix (demerger of the loss making HPC segment). The net profit is likely to grow by 15.5% at INR 1438mn from INR 1245mn.

### Bodal Chemical

Bodal Chemical's revenue expected to grow by 15.7% YoY, driven by sudden surge in price of dye intermediates ( Vinyl Sulphone and H Acid) due to lock down in china. The company's EBITDA margin expects to expand from 12.7% to 15.1% due to favourable pricing environment. However, net profit expected to grow at slower pace by 9.1% at INR323mn from INR 296mn due to higher other income in Q4FY19.

### Fine Organic

Fine organic's revenue expected to post subdued revenue growth (decline of 3.8% YoY), led by slower ramp up of newly commissioned capacity and deferment of order by some European clients. We expect 151bps improvement in EBITDA margin from 20.6% to 22.1% in Q4FY20E, on the back of better product mix. Net profit is expected to grow by 31.6% YoY to INR 351mn from INR 266mn, on the back of better operational performance and tax cut benefit.

### Hikal

We expect Hikal to post muted revenue growth (-1.5% YoY), due to subdued performance from both pharmaceutical and crop protection business. EBITDA margin to remain flat at 18.5% compared to Q4FY20E. Net profit to decline by 1.3% YoY to INR 329mn from INR 333mn.

### IG Petrochemicals

We expect IG petrochemicals revenue to grow by 8.2% YoY, due to better volume and stable realization. We expect EBITDA margin to contract from 11.7% to 9.8% in Q4FY20, due to decline in PAN/OX spread. However, we observed current gross margin and EBITDA margins are at multi-year lows. Therefore, we believe the possibility of further contraction in margin is minimal and we could see positive reversal in margin going forward as spreads improve. Net profit to fall by 21.4% YoY to INR 142mn from INR 181mn due to higher finance cost and lower other income.

### SH Kelkar

We expect SHK to deliver revenue growth of 8.6% YoY, due to demand recovery in fragrance and flavor business. EBITDA margin to improve from 9% to 13.7% in Q4FY20 compared to same quarter last year, due to low base and higher utilization of tonalid facility (Mahad). Net profit to increase by 8.1% YoY to INR 212mn from INR196mn.

| Performance (%)   | 1m  | 3m  | 1Yr |
|-------------------|-----|-----|-----|
| Aarti Industries  | 15  | 8   | 11  |
| Bodal Chemicals   | 6   | -29 | -58 |
| Fine organics     | -6  | 1   | 59  |
| Hikal Ltd         | 20  | -21 | -44 |
| IG Petrochemicals | 22  | -26 | -56 |
| SH Kelkar         | -14 | -34 | -52 |
| Vinati Organics   | 1   | -14 | 0   |
| GMM Pfadler       | -2  | 38  | 127 |

| Company Name      | Reco | CMP  | Target price |
|-------------------|------|------|--------------|
| Aarti Industries  | Hold | 901  | 874          |
| Bodal Chemicals   | Buy  | 52   | 92           |
| Fine organic      | Hold | 2070 | 2141         |
| Hikal Ltd         | Buy  | 103  | 164          |
| IG Petrochemicals | Buy  | 139  | 223          |
| SH Kelkar         | Buy  | 78   | 164          |
| Vinati Organics   | Hold | 879  | 1055         |
| GMM Pfadler       | Hold | 2730 | 2201         |

#### Our Top Picks:

- ⇒ **IG Petrochemicals**
- ⇒ **Hikal**

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## Q4 FY20 Chemical Earnings Preview

### Vinati Organics

We expect Vinati organic's revenue to grow by 7.4% YoY, even though butyl phenol revenue addition and moderate growth in ATBS volume due to nationwide lockdown. EBITDA margin expected to remain stable at 34.6% level. PAT expected to be at INR 792mn compared to INR 825mn last year same quarter.

### Other sector

### GMM Pfaudler

We expect GMM to post revenue growth of 14.5% YoY, driven by healthy volume growth and better realization in GL and non-GL business and supported by strong order backlog. EBITDA margins expected to improve by 567bps on YoY basis from 14.6% to 20.3% due to increasing contribution from high margin segments. Net profit set to grow by 64% YoY to INR 218mn from INR 133mn in Q4FY19.

### Estimates for Q4FY20

| Company           | Revenues |        |           | EBITDA  |        |           | EBITDA Margin (%) |        | PAT     |        |           | PAT Margin (%) |        |
|-------------------|----------|--------|-----------|---------|--------|-----------|-------------------|--------|---------|--------|-----------|----------------|--------|
|                   | Q4FY20E  | Q4FY19 | Y-o-Y (%) | Q4FY20E | Q4FY19 | Y-o-Y (%) | Q4FY20E           | Q4FY19 | Q4FY20E | Q4FY19 | Y-o-Y (%) | Q4FY20E        | Q4FY19 |
| INR in mn         |          |        |           |         |        |           |                   |        |         |        |           |                |        |
| Aarti Industries  | 12,374   | 12,114 | 2.1%      | 2,484   | 2,369  | 4.9%      | 20.1%             | 19.6%  | 1,438   | 1,245  | 15.5%     | 11.6%          | 10.3%  |
| Bodal Chemicals   | 3,982    | 3,443  | 15.7%     | 601     | 438    | 37.2%     | 15.1%             | 12.7%  | 323     | 296    | 9.1%      | 8.1%           | 8.6%   |
| Fine organics     | 2,734    | 2,843  | -3.8%     | 605     | 586    | 3.2%      | 22.1%             | 20.6%  | 351     | 266    | 31.6%     | 12.8%          | 9.4%   |
| Hikal Ltd         | 4,507    | 4,575  | -1.5%     | 832     | 840    | -0.9%     | 18.5%             | 18.4%  | 329     | 333    | -1.3%     | 7.3%           | 7.3%   |
| IG Petrochemicals | 3,388    | 3,131  | 8.2%      | 332     | 365    | -9.1%     | 9.8%              | 11.7%  | 142     | 181    | -21.4%    | 4.2%           | 5.8%   |
| SH Kelkar         | 2,916    | 2,686  | 8.6%      | 399     | 241    | 66.0%     | 13.7%             | 9.0%   | 212     | 196    | 8.1%      | 7.3%           | 7.3%   |
| Vinati Organics   | 3,185    | 2,966  | 7.4%      | 1,102   | 1,198  | -8.0%     | 34.6%             | 40.4%  | 792     | 825    | -4.0%     | 24.9%          | 27.8%  |
| Other             |          |        |           |         |        |           |                   |        |         |        |           |                |        |
| GMM Pfaudler      | 1,593    | 1,417  | 12.4%     | 323     | 207    | 56.0%     | 20.3%             | 14.6%  | 218     | 133    | 63.9%     | 13.7%          | 9.4%   |

Source: Company, BP Equities Research



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