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SPECIALITY CHEMICAL SECTOR THEMATIC

CATALYSTS FOR GROWTH IN PLACE

Indian Chemical Sector 2.0

The Indian chemical industry continues to be an attractive hub of opportunities, even in an environment of global uncertainty. The uniqueness of the chemical industry is that it requires both the creation of tangible assets and technical manpower. We believe domestic chemical companies have abundant opportunities to partner in technology. Chemical companies may be able to take advantage of a variety of opportunities by strategically investing in research & development (R&D). New opportunities in the form of collaboration with technically advanced global companies could emerge in the industry.

Instead of being sold based on their chemical identity, specialty chemicals are frequently sold based on how well they perform in the intended application. Therefore, the business requires significant application development and R&D investments to stay relevant.

The chemical industry's growth is not hostage to any one economic parameter or any one end-user industry. Rising domestic demand and the need to evolve have forced domestic chemical companies to expand their capacities to remain competitive. Our positive stance on the sector is backed by its strong growth, aided by diversity in terms of chemistries and/or technologies. We maintain BUY on Aether Industries, Neogen Chemicals, Navin Fluorine, Galaxy Surfactants, NOCIL, Aarti Industries, ADD on SRF, Fine Organics, Sudarshan Chemical, while maintain SELL on Deepak Nitrite, Vinati Organics and Alkyl Amines. We are also initiating coverage on Ami Organics Ltd (TP: INR 1,160) with a BUY and Clean Science and Technology Ltd (TP: INR 1,230) with a SELL recommendation.

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INSTITUTIONAL RESEARCH

Indian Chemical Sector 2.0

Catalysts for growth in place

The Indian chemical industry continues to be an attractive hub of opportunities, even in an environment of global uncertainty. The uniqueness of the chemical industry is that it requires both the creation of tangible assets and technical manpower. We believe domestic chemical companies have abundant opportunities to partner in technology. Chemical companies may be able to take advantage of a variety of opportunities by strategically investing in research & development (R&D). New opportunities in the form of collaboration with technically advanced global companies could emerge in the industry.

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Investing in building capabilities and capacities

Indian chemical companies have aggressive future plans for Capex as they are backward integrating and/or moving up value chains, moving towards high-margin products (Refer page 6). The aggregate Capex incurred by 30 leading Indian chemical companies considered by us has grown at a 10% CAGR over FY10-22. For our coverage universe, we expect Capex to grow at a 17% CAGR over FY22-24E. The aggregate Capex to gross profit ratio (capital intensity ratio) for 28 listed Indian chemical companies, which has increased from 13% in FY15 to 20% in FY22. In our coverage universe, we expect a Capex to gross profit ratio of 27% in FY24E. Most of the speciality chemical companies are looking to diversify their portfolio and introduce innovative products that garner better realisations and margins.

Unlocking the value of knowledge

Indian chemical companies have consistently invested in R&D and have reaped the benefits in terms of innovative, more efficient, and value-added products. Owing to their consistent investments in building R&D infrastructure, Indian chemical companies have reaped benefits in terms of value-added products, efficient processes, foray into newer chemistries and global recognition. We believe this trend to continue in the future, which will allow them to grab import substitution and export opportunities and sustain growth.

Company	RECO	TP	Upside (%)
Aarti Industries	BUY	825	22%
Aether Industries	BUY	1,070	18%
Alkyl Amines	SELL	2,470	-13%
Ami Organics	BUY	1,160	17%
Clean Science	SELL	1,230	-18%
Deepak Nitrite	SELL	1,665	-25%
Fine Organics	ADD	6,550	7%
Galaxy Surfactants	BUY	3,690	34%
Navin Fluorine	BUY	5,140	16%
Neogen Chemicals	BUY	1,890	46%
NOCIL	BUY	300	28%
SRF	ADD	2,650	10%
Sudarshan Chemical	ADD	425	8%
Vinati Organics	SELL	1,820	-15%

FY24E	PER (x)	P/B (x)
Aarti Industries	32.1	4.3
Aether Industries	46.1	7.3
Alkyl Amines	42.8	9.8
Ami Organics	32.4	5.2
Clean Science	48.1	12.5
Deepak Nitrite	21.3	5.5
Fine Organics	39.1	10.6
Galaxy Surfactants	25.0	4.5
Navin Fluorine	40.4	8.7
Neogen Chemicals	38.1	5.7
NOCIL	19.0	2.5
SRF	26.4	5.7
Sudarshan Chemical	28.4	3.0
Vinati Organics	39.7	8.1

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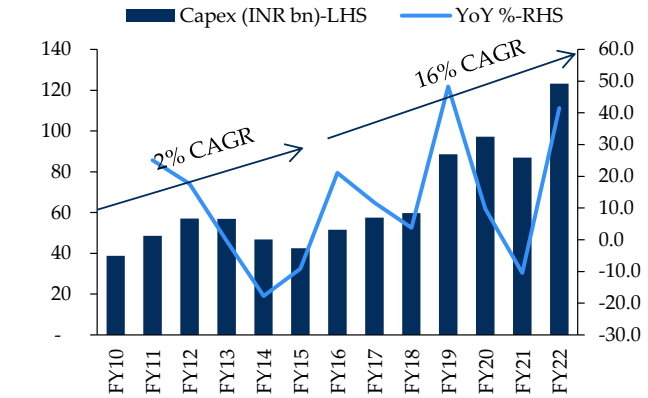
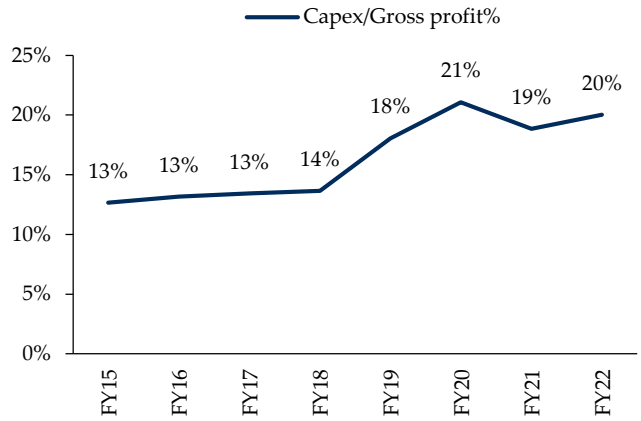
Story in charts

Exhibit 1: Capex has grown at a 16% CAGR over FY15-22 in the domestic chemical industry



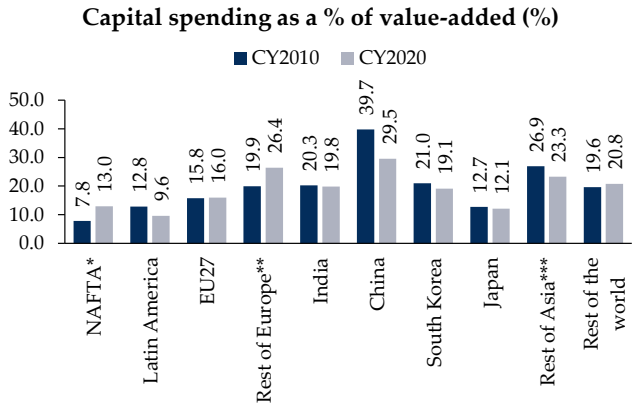
Source: Company, HSIE Research | The Capex here refers to aggregate cap-ex incurred by 30 domestic chemical companies considered by us.

Exhibit 2: Capex intensity of Indian chemical companies over the years



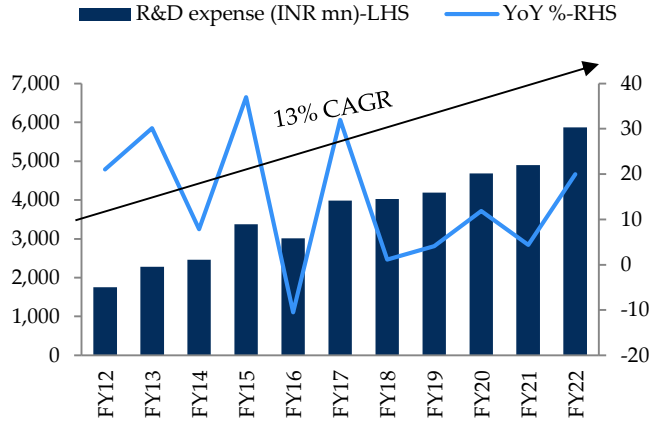
Source: Company, HSIE Research | The Capex here refers to aggregate cap-ex incurred by 28 domestic chemical companies considered by us.

Exhibit 3: Indian chemical industry's capital intensity vs. the globe



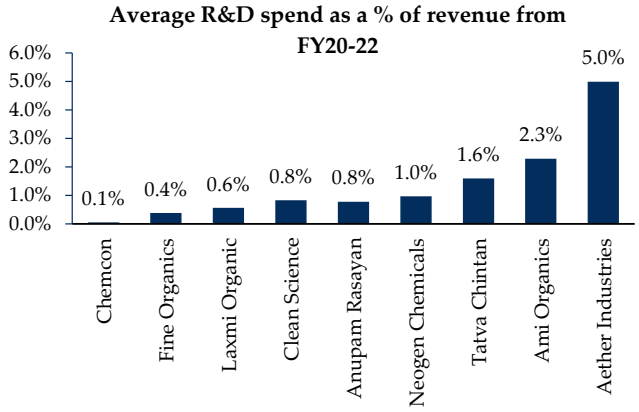
Source: Cefic. Facts and figures 2022 | * North American Free Trade Agreement, ** Rest of Europe covers Switzerland, Norway, Turkey, Russia and Ukraine; *** Asia excluding China, India, Japan and South Korea. | The value added at factor costs is the gross income from operating activities after adjusting for operating subsidies and indirect taxes. Value adjustments (such as depreciation) are not subtracted.

Exhibit 4: Indian chemical companies are focused on developing their R&D infrastructure



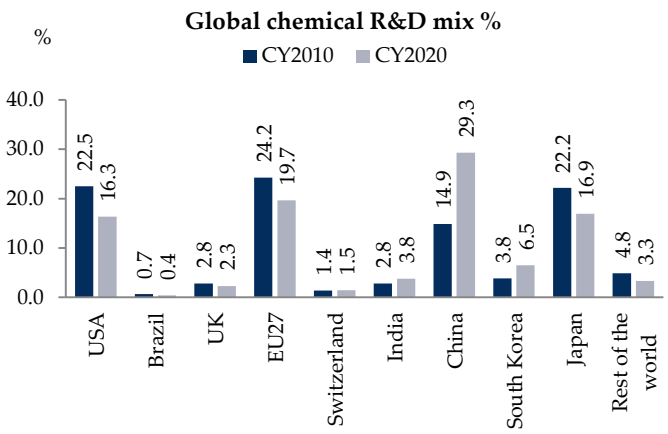
Source: Company, HSIE Research | The R&D expense here refers to aggregate R&D expenses incurred by 21 domestic chemical companies considered by us.

Exhibit 5: R&D spends by recently listed Indian chemical companies



Source: Company, HSIE Research

Exhibit 6: R&D spending in the chemical sector: India vs the globe



Source: Cefic, Facts and figures 2022

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Opportunities for Indian chemical companies

The uniqueness of the chemical industry is that it necessitates both technical manpower and creation of tangible assets. The industry requires human resources with proficiency not only in engineering, but also in technology in order to improve process yield. Improvement in process yield for cost optimisation and finding a better process for sustainable growth are the key success parameters in a highly competitive and regulated industry. Products of the chemical industry are B2B in nature. Therefore, companies are forced to be competitive in pricing their products. Also, the chemical industry is one of the most regulated industries in the world. There are strict regulations aimed at minimising release of chemicals substances during manufacturing and processing.

The chemical industry essentially involves chemical and physical changes of mass of organic and or inorganic raw materials into mass of finish products. Unit processes (e.g. hydrogenation, oxidation, ammonolysis, alkylation, etc.) and unit operations (e.g. distillation, filtration, drying, crystallisation etc.) involved in this mass transformation require physical assets. One cannot deny that rising domestic demand and the need to evolve have forced domestic chemical companies to expand their capacities as well as capabilities.

Speciality chemicals are often customised offerings, based on an in-depth understanding of customer needs and problems. Products are sold based on their functionality in the intended application, rather than on their chemical identity. Therefore, the business requires significant application development and research & development (R&D) investments to stay relevant. Speciality chemicals, in particular, require skilled labour and technology. Companies often take strong intellectual property positions such as patented formulations and registered trade names. Companies transferring contract research & manufacturing services (CRAMS) business and technology transfer for contract manufacturing services (CMS) business to Indian companies expect strong intellectual protection (IP) laws. Here, India has an edge as it has more stringent intellectual property (IP) laws compared to the Chinese IP laws.

Several Indian companies hold leading positions globally in fine and speciality chemicals, at times with 30–80% of the global capacity, although we believe that the Indian speciality chemicals market is still in its infancy. Indian chemical companies have abundant opportunities in technology partnership. Strategic investments in R&D by chemical companies can open up varied opportunities for them. New opportunities in the form of collaboration with technically-advanced global companies can emerge in the industry. It may happen that the R&D work will be outsourced where the Indian partner will perform or support the backend work. This kind of work may come in the sunrise sectors such as electric batteries, renewables, etc.

Conventional wisdom holds that the speciality chemicals business enjoys better margins than commodity chemicals. But it is not always true—the realities in India depend on many factors, including the nature of the speciality, competition, technological complexity, and timing. Therefore, companies have to invest in upgrading themselves. Also, they need to invest in manufacturing either upstream or downstream to improve or maintain margins. For that, you need technology to produce it. Companies are investing in R&D to get those technologies and then investing in developing infrastructure.

The ongoing energy crisis in Europe is a complex situation for Indian chemical companies. European companies are customers, suppliers and competitors of Indian chemical companies. Opportunity emerging out of this crisis could be tactical. In order to derisk their energy supply, there could be supply chain relocation. We believe that transfer of huge capacities for all products to India may not be there. European

companies may transfer manufacturing of low-end products while production of critical products and associate technology will be kept with themselves. Large European chemical companies already have a presence in India; thus, Indian chemical companies will have to demonstrate credibility. Investment in R&D will result in developing competencies in chemistries and technologies. This will give confidence to Indian companies and an ability to grab opportunity that has cropped up due to the supply chain relocation strategy of European companies.

Availability of raw material is not an advantage to India. India lacks the availability of key raw materials like natural gas and crude oil. Besides, it has little access to the inexpensive energy source. However, labour cost in India is significantly lower compared to Europe and even China.

Strong pipeline in Indian speciality chemical sector

Company	Major Projects	Chemistries/Products	Technology	End-user industries	Opportunity
Alkyl Amines	# Ethylamines plant in Kurkumbh	# Ethylamines and its derivatives expansion # Three to four new speciality chemicals in the pipeline	# Continuous flow # Fixed bed catalytic # Ammonolysis # Hydrogenation	# Pharmaceutical # Agrochemical # Dye-stuff # Rubber chemicals	# Global demand for Ethylamines is ~125-130 KTPA. Domestic demand is ~25-30KTPA. # Revenue potential of the 3 new products at peak utilisation is INR 2-3bn.
Deepak Nitrite	# Value added downstream products of phenol and acetone in Deepak Phenolics # Upstream and downstream integration projects # Brownfield expansion of key products	# High value solvents, forward integration project # Methyl iso butyl ketone (MIBK), # Methyl iso butyl carbinol (MIBC) # Polycarbonate	# New chemistry platforms or products based on existing platforms # Acid catalysed condensation # Dehydration # Hydrogenation # Chlorination # Photochlorination # Fluorination # Polymerization	# Life science # Paints and coatings	# India imports ~8,000 tons of MIBC and ~40,000 tons of MIBK. # India imports 2,00,000 tonnes of polycarbonate. INR 50-70bn of investment can be easily absorbed in these downstream derivatives.
Galaxy Surfactants	# Mild surfactants # Non-toxic preservatives platforms	# Amino acid based surfactants # Isethionates # Sulfosuccinates # Alkyl polyglucosides	# Continuous flow	# Home and personal care	# Domestic market is growing faster than developed nations
SRF	# Will invest ~INR 150bn over the next 5 years in the fluorospeciality and packaging films businesses # Evaluating the value chain in electronic and battery chemicals # Working on 8 molecules which are agrochemical intermediates (AI) which are expected to be commercialised soon # Working with innovators on new age, non-fluorine molecules # Polyvinylidene fluoride (PVDF) manufacturing and other fluoropolymers # Hydrofluoroolefins (HFOs) to come on stream in the next 5-6 years # Aluminium foil	# Fluorination # Polymerisation # Chlorination # Dehydrochlorination in gas phase	# Cracking	# Pharmaceutical # Agrochemical # Packaging for pharma	# Fluoropolymers: USD ~200mn incremental revenue over the next 5 years.
Aarti Industries	# Chlorotoluene value chain # Capacity expansion for USFDA approved API facility # Project linked to the 3rd long term contract at Jhagadia # Nitro chloro benzene (NCB) capacity expansion at Vapi # Acid unit revamp and expansion at Vapi # New range of pharma APIs and intermediates # Customer specific projects	# Photochlorination # Ammoxidation # Specialty fluorination # Diazotization	# Vapour phase technology # Flow chemistry technology	# Flavours and fragrance # Pharmaceutical # Dyes	# Will drive growth FY25 onwards
Neogen Chemicals	# Expansion of inorganic chemicals capacity # Speciality lithium salts and additives for electrolyte manufacturing # Organic chemicals capacity augmentation	# Lithium based chemistry # Bromination # Grignard		# Battery manufacturing # Pharmaceutical # Agrochemical	

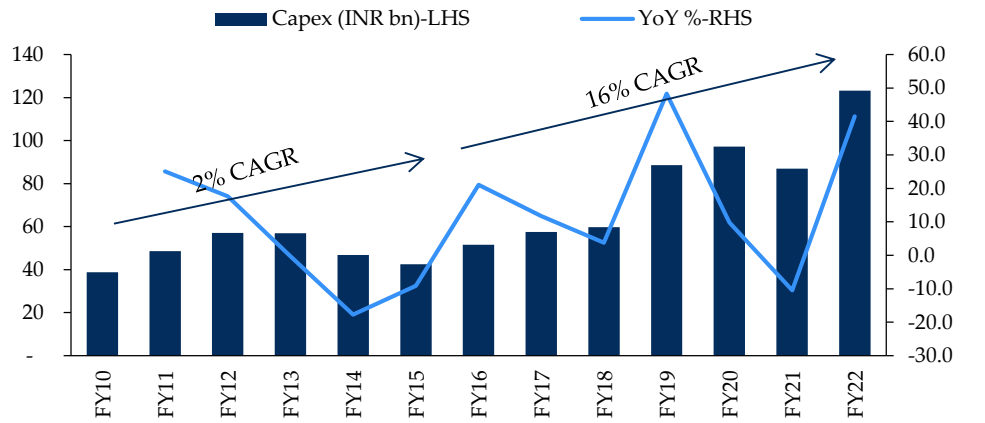
Company	Major Projects	Chemistries/Products	Technology	End-user industries	Opportunity
Aether Industries	# Advanced intermediates for the following APIs: Dolutegravir,Carbamazepine,Oxcarbazepine,Memantine and Ambroxol # CRAMS contract with Polaroid in the areas of R&D and manufacturing services for Polaroid Film (instant photography chemistry) as well as Polaroid Sciences (new chemistry in fields of sustainability and medical use)	# Metallic fluorination # Grignard's and Organolithiations # Ethylene Oxide Chemistry # Isobutylene Chemistry # Hydrogenation # Heterogeneous Catalysis # Exothermic Chemistry # Cross Coupling Chemistry # Olefin Metathesis / Polymerisation	# Continuous Reaction # Batch Reaction # High Pressure Reaction # Fixed Bed Reaction # Cryogenic Reaction # High Vacuum # Distillation # Wiped Film Distillation # Process Automation	# Pharmaceutical # Instant photography # Life Science	# Revenue potential of INR 2bn for each product at maturity # For the CRAMS contract signed with Polaroid, the company expects an overall revenue of USD 15mn (approximately INR 1,215mn) over the partnership period of minimum 3 years
Navin Fluorine	# Plans to set up a new Electronic Materials business unit with focus on energy storage, solar energy and semiconductor areas, which will start growing post FY25 # In the Speciality Chemicals business unit, the company plans to add performance chemicals in its portfolio # In the CDMO business unit, the company plans to commercially sell reagents and catalysts # In the refrigerant gases space, the company plans to get into hydrofluorocarbons and hydrofluoroolefins seeing to it doesn't compete with Honeywell and industrial gases # Fluoropolymers such as PVDF, etc	# Energy storage additives, solar formulations # Performance speciality chemicals # Reagents and catalysts # Hydrofluorocarbons (R32), hydrofluoroolefins and industrial gases # PVDF # Fluorination		# Electronics # Pharmaceutical # Agrochemical # Industrials # Refrigeration # Packaging	
Vinati Organics	# MEHQ, Guaiacol, Iso Amylene and 2 other products in Veeral Organics # Anti-oxidants in Veeral Additives (AO1010, AO 1076, AO168) # ATBS expansion by 20kTPA	# Alkylation in the presence of alkali catalyst # Phenol methylation # Hydroxylation		# Polymer # Agrochemical # Pharmaceutical # Flavours and fragrance	# For Veeral Organics, revenue potential at peak utilisation is INR 2.5bn. # For Veeral Additives, revenue potential at peak utilisation is INR 7bn, which shall accrue from FY25.
Ami Organics	# Plans to launch 1 agrochemical import substitute product and 1 pharmaceutical import substitute product in H2FY23, and 1 agrochemical import substitute product in early FY24 # Electrolyte additives- Vinylene carbonate and fluoroethylene carbonate # Advanced pharma intermediates' expasion in Ankleshwar	# Etherification # Diazotization & hydrolysis # Acylation # Hydrogenation # Amination # Nitration # Alkylation # Fluorination # Esterification # Chlorination # Bromination	# Plug flow # Catalytic fixed bed flow # Tubular flow # Continuous flow # High vacuum and high temperature distillation # Enzymatic Reaction	# Electronics and battery # Pharmaceutical # Agrochemical	# The global market opportunity of the electrolyte additives business is expected to reach USD 2bn in CY28, and Ami Organics plans to capture 10% of this market
Clean Science	# Setting up a 4th facility in Kurkumbh # R&D expansion	# Hindered Amine Light Stabilizer (HALS) series # 4 to 5 pharma and agro intermediates # Chlorination # Fluorination	# Catalytical reaction # Ammonolysis	# Paint, plastics and coatings # Water treatment # Pharmaceutical # Agrochemical # Performance	# For HALS, the global market opportunity is USD 1bn which is growing at a 10% CAGR. Clean Science is targeting USD 100mn per annum in 3 years' time # For the new intermediates, the revenue potential is INR 1bn for each product

Source: Company, HSIE

Investing in capabilities and capacities; Capex

Indian chemical companies have been investing heavily into Capex in order to capture the growing market opportunities and to expand their product mix. Companies are currently targeting both import substitution opportunity and export opportunity. Indian chemical companies have aggressive future Capex plans as they are moving up and/or down in their value chain, moving towards value-added and high-margin products. Most of the speciality chemical companies are looking to diversify their portfolio and introduce innovative products that garner better realisations and margins.

Exhibit 7: Capex grew at 16% CAGR over FY15-22 in the domestic chemical industry



Source: Company, HSIE Research | The Capex here refers to aggregate capex incurred by 30 domestic chemical companies considered by us. Capex = Purchase of fixed assets - sale of fixed assets + investment in subsidiaries + advances for capital expenditure.

Aggregate Capex incurred by 30 leading Indian chemical companies considered by us has grown at a 16% CAGR over FY15-22, and a 10% CAGR over FY10-22. Capex spends grew over 3x in FY10-22 from INR 39bn in FY10 to INR 123bn in FY22. For our coverage universe, we expect Capex to grow at a 17% CAGR over FY22-24E.

SRF plans to spend INR 150bn over the next five years, dedicating ~80% of the Capex to its chemicals business.

Aarti Industries plans to incur Capex of INR 30bn over FY23-24 in order to launch value-added products in the chlorotoluene chain (over 40 products in the pipeline), concentrated nitric acid from weak nitric acid, etc.

Galaxy Surfactants plans to invest INR 3bn over FY23-24, employ it towards speciality and green surfactants and increase its speciality surfactants' revenue contribution from 35% to 45% in the next five years. The company is also extensively expanding its mild surfactants category.

Deepak Nitrite plans to spend INR 15bn over FY23-24 to introduce new upstream and downstream phenol products, expand its existing product lines, and enter new chemistries like fluorination and photo-chlorination.

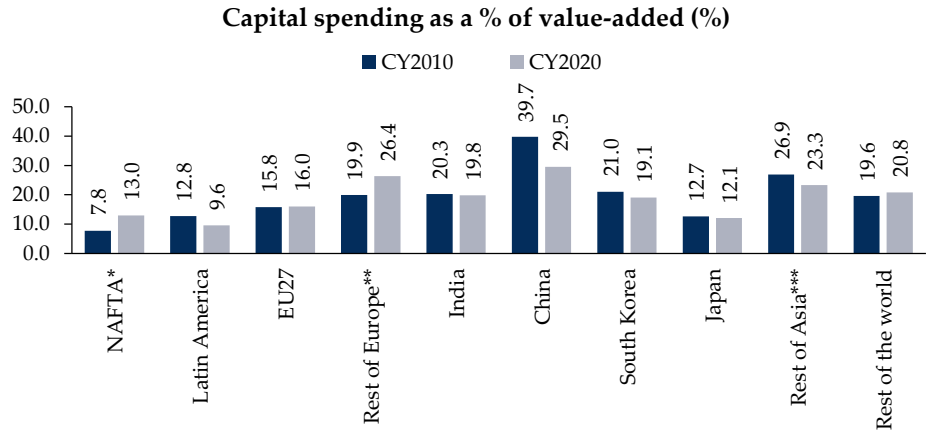
Aether Industries plans to incur INR 5.5bn over FY23-24, investing INR 1.9/2.5bn to establish site-3 and site-4 respectively, and introducing 5 new advanced pharma intermediates at site- 3.

Ami Organics plans to spend INR 1.9bn in order to establish a new facility in Ankleshwar and produce advanced pharma intermediates targeting an asset turnover of 3x.

Clean Science plans to incur over INR 3bn over FY23-24, which shall be used to manufacture pharma and agrochem intermediates and hindered amine light stabilizers (HALS).

India continues to be one of the leading countries in the world in capital spending intensity (Capex as a percentage of value added, which is gross income from operating activities after adjusting for operating subsidies and indirect taxes) in the chemical space. As per Cefic, In CY20, India's chemical sector attributed 19.8% of its PAT to Capex, whereas China's chemical sector attributed 29.5%.

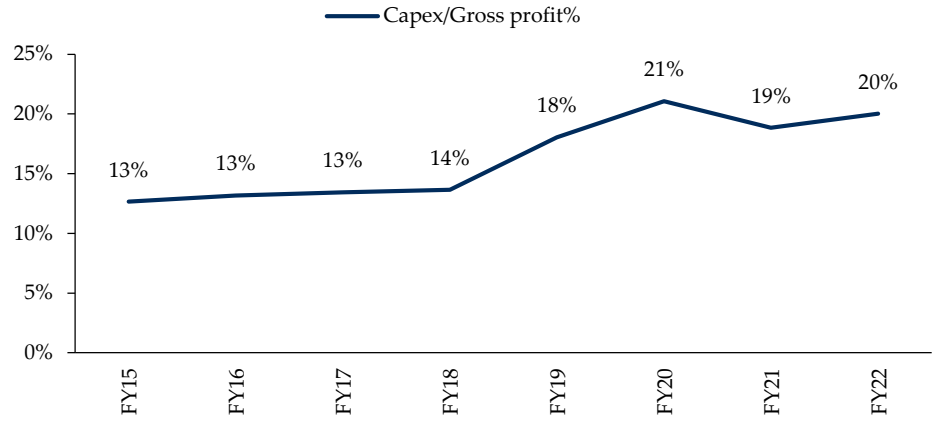
Exhibit 8: India has maintained its capital intensity over the past decade



Source: Cefic. Facts and figures 2022 | * North American Free Trade Agreement, ** Rest of Europe covers Switzerland, Norway, Turkey, Russia and Ukraine; *** Asia excluding China, India, Japan and South Korea. | The value added at factor costs is the gross income from operating activities after adjusting for operating subsidies and indirect taxes. Value adjustments (such as depreciation) are not subtracted.

We have also calculated the aggregate Capex to gross profit ratio (capital intensity ratio) for 28 listed Indian chemical companies, which has risen from 13% in FY15 to 20% in FY22. This increase in the ratio indicates that companies are positive about their future opportunities, and in order to tap them, they are increasing their capacities. In our coverage universe, we expect a Capex to gross profit ratio of 27% in FY24E.

Exhibit 9: Capex intensity of Indian chemical companies grew from 13% in FY15 to 20% in FY22

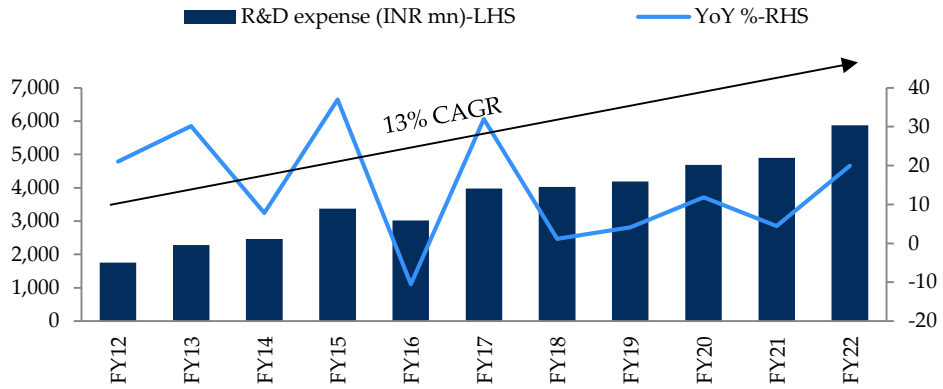


Source: Company, HSIE Research | The Capex here refers to aggregate cap-ex incurred by 28 domestic chemical companies considered by us. Cap-ex = Purchase of fixed assets - sale of fixed assets + investment in subsidiaries + advances for capital expenditure.

Unlocking the value of knowledge; R&D

In the recent past, Indian chemical companies have realised the importance of research and development (R&D), have consistently invested in R&D, and have reaped benefits in terms of innovative, more efficient, and value-added products.

Exhibit 10: R&D spend grew at 13% CAGR over FY12-22 in domestic chemical sector

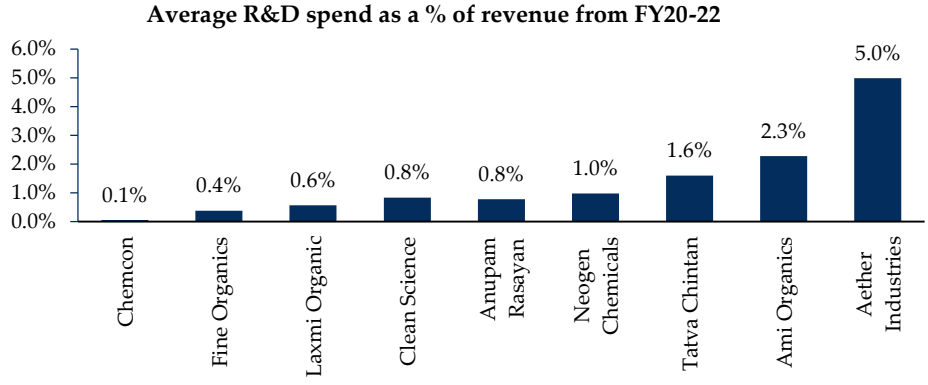


Source: Company, HSIE Research | The R&D expense here refers to aggregate R&D expenses incurred by 21 domestic chemical companies considered by us.

The average R&D expenditure as a % of revenue for the 21 leading Indian chemical companies considered by us (excluding the recently-listed companies, which are Tatva Chintan, Laxmi Organic, Chemcon, Aether Industries, Neogen Chemicals, Fine Organics, Clean Science, Ami Organics and Anupam Rasayan) has remained ~0.6% p.a. from FY15-22. The aggregate R&D expenditure incurred by these companies (excluding the recently-listed companies) has grown by a 13% CAGR over FY12-22, ahead of their revenue CAGR of 9% over the same period. INR 5.9bn was spent in FY22 by these companies on R&D as compared to INR 1.8bn in FY12.

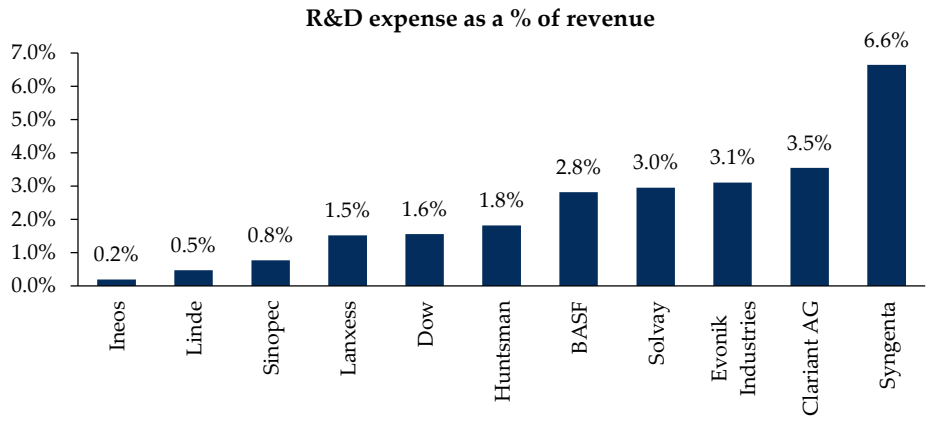
Navin Fluorine spent ~2.4% of its revenue on R&D activities in FY22. The company expanded its research capacities in Dewas by adding an analytical validation laboratory facility along with the increase in its team of scientists. Capex of INR 0.7bn is approved for further augmenting R&D and establishing a pilot facility at Surat. Aarti Industries spent ~1.7% of its revenue on R&D in FY22. The company is focusing on improving its product mix toward higher value-added segments, which shall increase its presence in the key regulated markets and improve the growth curve. The key contributors to these will be R&D and innovation driven initiatives, where the company has more than 40 products for speciality chemicals and more than 50 products for pharma segments in its pipeline.

Exhibit 11: R&D spends by recently listed Indian chemical companies



Source: Company, HSIE Research

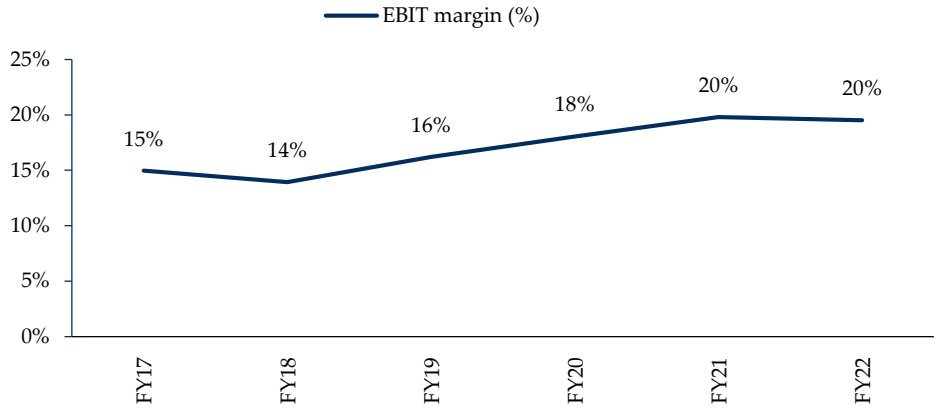
Exhibit 12: Global chemical companies' R&D spending in CY21



Source: Company, HSIE Research

We have also calculated average R&D expenditure as a % of revenue for the recently-listed companies, which has remained ~1.4% p.a. in the last three years. Companies are augmenting their research capabilities in order to be ahead of the curve and create their own niche in the industry. Aether Industries spent ~6.7% of its revenue on R&D in FY22. The company's technical prowess and advanced R&D capabilities have led to significant innovation, which creates significant barriers for new entrants. Ami Organics spent ~1.4% of its revenue on R&D in FY22. The company focuses on consistent research-driven innovation and keeps a pipeline of products ready that are expected to be launched in 10-15 years. This gives the company a first mover advantage and secures its place in the drug master files (DMFs) of its customers. Clean Science's backbone is its R&D infrastructure, which has led to its success. The company is one of the few companies in India that manufactures its own catalysts for its manufacturing processes and also targets clean and green chemistries.

Exhibit 13: R&D investments, one of the key contributors to margin expansion



Source: Company, HSIE Research | Note: These are the EBIT margins of the following companies of our coverage: Alkyl Amines, Navin Fluorine, Galaxy Surfactants, Vinati Organics, SRF, Aarti Industries, Sudarshan Chemical, NOCIL, Fine Organics, Deepak Nitrite and Neogen Chemicals

Indian chemical companies are also expanding their R&D teams to ensure that they have the right talent to lead the company towards innovative products, chemistries and technologies. India has a big advantage compared to the other countries as it has a skilled talent pool that is available at a lower cost than in other countries.

Exhibit 14: R&D team strength

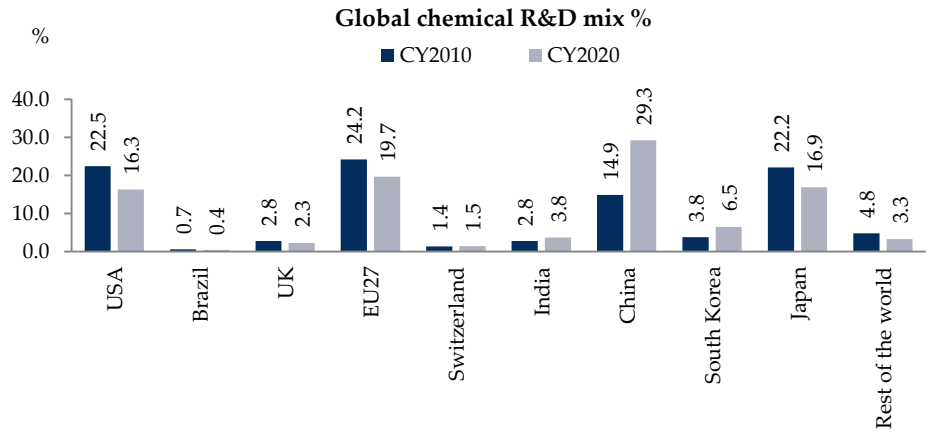
Company	Number
SRF	400+
Aarti Industries	250+
Aether Industries	193
Navin Fluorine	108*
Deepak Nitrite	103
Jubilant Ingrevia	92
Ami Organics	89
Anupam Rasayan	85
Alkyl Amines	75
Galaxy Surfactants	74
Clean Science	70
Laxmi Organic	65
Neogen Chemicals	60
Tatva Chintan	40
Fine Organics	20+
Chemplast Sanmar	15
Chemcon	7

Source: Company, HSIE Research | *Note: Navin Fluorine's 108 number of people doesn't include supporting R&D staff

India's share in the aggregate R&D spending incurred over the globe by chemical companies has grown from 2.8% in CY10 to 3.8% in CY20. What is worthy of attention is that only India's, China's and South Korea's shares have grown during this period. Indian chemical companies are trying to match their R&D capabilities with their global peers', which will help them move up in their value chain.

The global chemical industry is also taking note of the value leadership demonstrated by the Indian chemical manufacturers by focusing on R&D, process engineering, developing capabilities of handling complex chemistries, etc. These enablers have changed the perception of the Indian chemicals manufacturers, which has led to higher business enquires and demand from global players.

Exhibit 15: R&D spending in the chemical sector: India vs the globe



Source: Cefic, Facts and figures 2022

Land parcel availability—a key growth factor

Indian chemical companies have started to purchase big land parcels, way ahead of planning any Capex on them. Companies are investing in land in order to expand their capacities so they are not limited by land unavailability in the future. Land unavailability has been a hindrance in the past for companies planning to expand their product portfolios and increase their capacities. Acquisition of land is a long and tedious process and, hence, companies have started keeping spare land that can be used instantly for their expansion projects. We believe that companies buy land much ahead of planning a project on it, although they have some visibility of new projects or products that might be launched in the years to come. This also reflects the management's vision and plans for future growth.

Exhibit 16: Unutilised land available with companies for future expansion

Company	Does the company have unutilised land available for further expansion?
Vinati Organics	Yes
Clean Science	Yes
Navin Fluorine	Yes, it has unutilised land to support current and near term projects, and is planning to acquire a land parcel to support growth post FY24
Fine Organics	No, the company is in the final stages of buying a big land parcel in Gujarat
Ami Organics	Yes
Tatva Chintan	Yes
Laxmi Organic	Yes
Anupam Rasayan	Yes
SRF	Yes
Aarti Industries	Yes
Chemcon	Yes
Neogen Chemicals	Yes
Aether Industries	Yes
Galaxy Surfactants	Yes
Chemplast Sanmar	Yes
NOCIL	Yes
Camlin Fine Sciences	Yes
Jubilant Ingrevia	Yes
Deepak Nitrite	Yes
Alkyl Amines	No, the company is looking at buying a land parcel in Gujarat

Source: Company, HSIE Research

Ami Organics Ltd

Ahead of its time

TP INR 1,160, BUY

Early identification of the key intermediates of active pharmaceutical intermediates (API) and the key starting materials (KSM) of agrochemical intermediates and fine chemicals, development of the molecules with the company's clients and securing a place in their drug master files (DMF) first, is the business model of Ami Organics. The key success factors in such a business model are (1) the acumen of early identification of key intermediates, (2) credibility with customers by demonstrating competencies to develop products in a cost efficient and timely manner. This needs to be backed by a strong R&D infrastructure and technical superiority over the company's competitors.

Ami Organics' focus since inception has been on building its technical and R&D capabilities. The company works very closely with its clients while developing its molecules. This limits competition and nurtures relationships in turn building a loyal customer base. The company has around 380 new products in its pipeline for its advanced pharmaceutical intermediates business, that provides it growth visibility till FY35.

The company's near-term growth shall be fueled by its consistent investments in R&D, expansion of its speciality chemicals' portfolio and rising utilisation of the acquired Gujarat Organics facility. The company has launched two core electrolyte additives for cells used in energy storage devices. The company's foray into electrolyte additive manufacturing could act as a trigger for its sustainable growth.

We initiate coverage on Ami Organics Ltd (AOL), with a BUY recommendation. Our DCF-based target price of INR 1,160/share (WACC of 11% and terminal growth rate 6%) implies an upside of 17% from the current level. The stock is currently trading at 32.4x FY24E EPS. We expect AOL's PAT to grow at a 26% CAGR over FY22-25E, led by a 26% CAGR in EBITDA.

Early mover advantage in the advanced pharmaceutical intermediates business:

- Ami Organics focuses on development of pharma intermediates either for molecules that are under clinical trials or for molecules that have been launched in the patented and generic space.
- The company develops its products sometimes even when they have not been launched by the originator, and gives their samples to API manufacturers worldwide. The API manufacturers, after studying the company's molecules, develop their API and file their DMF with Ami Organics' product as a key raw material. Early engagement with its customers leads to Ami Organics becoming a preferred supplier by them.
- DMF being a regulatory document, creates an entry barrier for the company's competition. The company has nurtured enduring relationships with domestic clients as well as multinational corporations (MNCs) across large and fast growing markets globally. The company's supply contracts with key customers span long periods of time. 13 out of over 160 of the company's customers have been customers since the past ten years and 50 of its customers have been customers since the past five years. The company's key products have captured 50-90% of the global market share, owing to the company's early mover advantage.

Exhibit 17: Market leading positions in advanced pharma intermediates

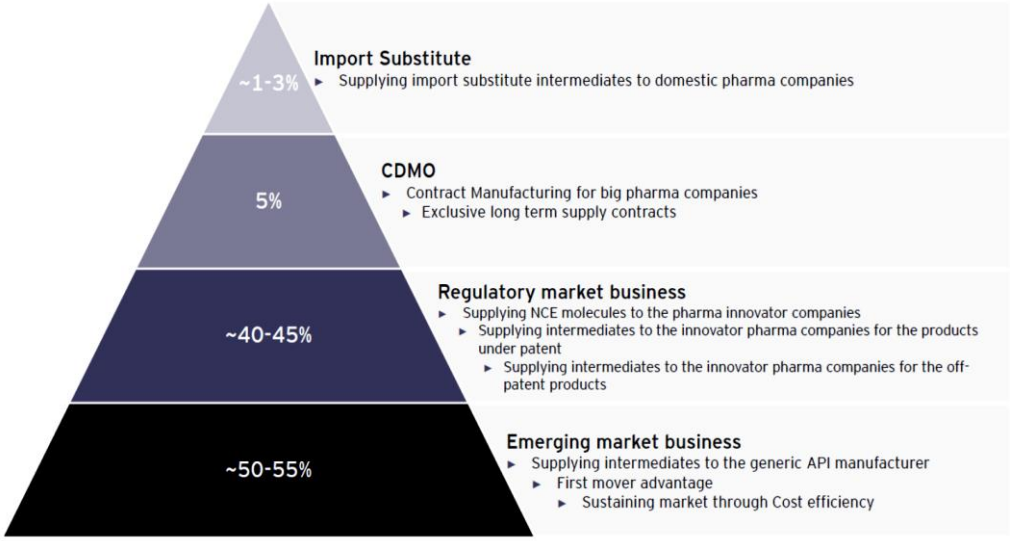
API	Pharma Intermediates	Ami Organics' market share as per F&S Report
Trazodone	1-(3-Chloro Phenyl) 4-(3-Chloro Propyl) Piperazine H, 2H-[1,2,4] Triazolo [4,3-A] Pyridin-3-One, 1-(3-Chloro Phenyl) Piperazine	The company is a key supplier of these intermediates with a market share of 80-90% in FY21. It also is a major manufacturer of key intermediates for the APIs belonging to atypical antidepressants drug class.
Dolutegravir	Amino Acetaldehyde Dimethyl Acetal, N-N Dimethyl Formamide Dimethyl Acetal, Methyl-4-Methoxy Acetoacetate, 1-(2,2-Dimethoxy Ethyl)-5-Methoxy-6-(Methoxy Carbonyl)-4-Oxo-1, Diacetal-3-Carboxylic Acid	For Amino Acetaldehyde Dimethyl Acetal intermediate, the company had a global market share of 70-75% in FY21.
Entacapone	3,4-Di Hydroxy 5-Nitro Benzyl Dehyde	The company is a key supplier of 3,4-Di Hydroxy 5-Nitro Benzyl Dehyde with a market share of ~80% in FY21.
Apixaban	5,6-Dihydro-3-(4-Morpholinyl)-1-4 (2-Oxo-1-Piperidin), Ethyl Chloro [(4-Methoxyphenyl) Hydrazono] Acetate, 3-Morpholino-1-(4-Nitrophenyl)5, 6-Dihydropyridin-2, 1-(4-Amino Phenyl)-5, 6-Dihydro-3-(4-Monopholinyl)-2, 2-Piperidone, 1-(4-Aminophenyl)Piperidin-2-One, 1-(4-Iodophenyl) Piperidine-2-One, 3-Morpholine-4-Iodophenyl-5,6-Dihydro-2-Piperidone, 1-4 Iodophenyl-3-Morpholino 5-6 Dihydro Pyrdine, 1-(4-Aminophenyl)-3-(Morpholin-4-Yl)-5-6-Dihydropyr, 5,6-Dihydro-3-(4-Morpholinyl)-1-(4-Nitrophenyl)-2	The company held ~50% market share in FY21 of 1-(4-Amino Phenyl)-5,6-Dihydro-3-(4-Monopholinyl)-2 and ~40% of Ethyl Chloro [(4-Methoxyphenyl) Hydrazono] Acetate.
Rivaroxaban	(S)-(+)-Glycidyl Phthalimide, 4-(4-Aminophenyl) Morpholin-3-One	The company is one of India's largest producers of Glycidyl Phthalimide and 4-(4-Aminophenyl) Morpholin-3-One.
Nintedanib	Triethyl Ortho Benzoate, 6-Methoxy Carbonyl-2-Oxindole, 4-Chloro-3-Nitro Benzoic Acid, N-Methyl-4-Nitroaniline, N-(Methyl-2-(4-Methyl Piperazine-1-Yl)-N-(4-Aminoph), N-Methyl Piperazine	Ami Organics is a supplier to the originator for key intermediates for producing Nintedanib
Pazopanib	2,4-Dichloropyrimidine, 5-Amino-2-Methyl Benzene Sulphonamide	The company holds 86–88% in the global market of 2,4-Dichloropyrimidine.
Quetiapine	1-(2-(2-Hydroxy Ethoxy)Ethyl Piperazine, Dibenzo-(1,4)- Thazepine-11-(10H)-One	Ami Organics is a major manufacturer of the key intermediates for this API.
Aripiprazole	1-(2,3-Dichloro Phenyl) Piperzine	Ami Organics is a major manufacturer of the key intermediates for Aripiprazole API and has customers across the world.
Darulutamide	Methyl-5-Acetal-1H-Pyrazole-3-Carboxylate	Ami Organics is a major manufacturer of one of the key intermediates for this API.
Ziprasidone/ Lurasidone	3-(1-Piperazinyl)1,2-Benzisothiazole Hcl	Ami Organics is a major manufacturer of the key intermediates for these API.
Mirtazapine/Vortioxetine/Vilazodone	1-Boc Piperazine,2,4 Dimethyl Thiophenol, 1(3-Carboxypyridyl-2)2-Phenyl 4-Methyl Piperazine, 1-Methyl-3-Phenyl Piperazine, 1-(3-Hydroxymethyl-Pyridin-2-Yl)-4-Methyl-2-Pp, 1-(3-Corboxypyrdyl-2)2-Phenyl 4-Methyl Piperazine, Ethyl-5-Amino-1-Benzofuran-2-Carboxylate, 1-(2-Aminocarbonyl Benzofuran-5-Yl)Piperzi	These are atypical antidepressant medicines and Ami Organics is a major manufacturer of key intermediates for the APIs belonging to atypical antidepressants drug class.

Source: Ami Organics' Red Herring Prospectus

- The company works closely with innovators on various new chemical entity (NCE) molecules. An NCE molecule is a compound, without any precedent among the regulated and approved drug products.
- Advanced pharmaceutical intermediates business contributed 77% to its total revenue in FY22. Ami Organics has developed and commercialised over 480 pharma intermediates for active pharmaceutical ingredient (APIs) across 17 therapeutic areas. All these molecules are developed in house. 91% of these intermediates target the chronic diseases market which has a robust demand for

regular doses. The company's top 5 product lines come from antidepressant, anticoagulant, anti-parkinson, anti-retroviral and anti-diabetic therapeutic areas.

Exhibit 18: Business model of the advanced pharma intermediates business



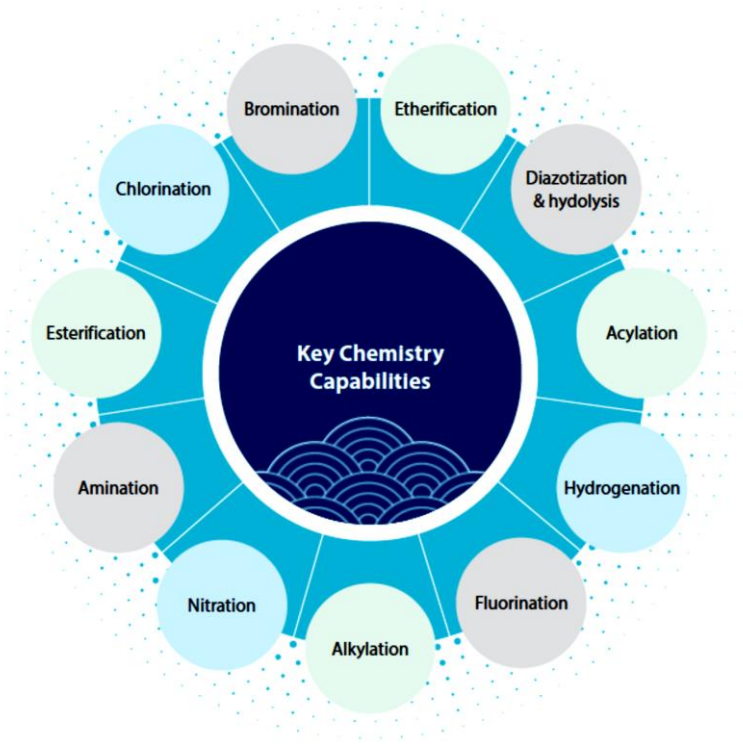
Source: Company, HSIE Research

- Ami Organics is a cost-focused and efficiency-driven company and reviews its expenses on a regular basis. It also passes on the cost benefits to its customers so even after getting into the product early, it maintains its market share because of timely supply of products and cost-efficient production.
- The company's customer mix in this business segment includes some marquee names such as Boehringer Ingelheim, Bayer, Organike, Sun Pharma, Zydus, Laurus Labs, Cipla, Dr. Reddy's, Lupin, etc.

Technical prowess and R&D-led company, a key success enabler

- Since inception, Ami Organics' main focus has been on its technical and R&D capabilities. It has a research team of 89 people, including 16 PhDs and 50 post graduates. The company spent ~1.4% of its revenue on R&D activities in FY22. The company has indigenously developed capabilities in plug flow, catalytic fixed-bed flow as well as tubular flow reactors. The company is also shifting its products under continuous flow technology in order to increase the efficiency and effectiveness of its products and processes. The company has one process patent granted, eight process patents published, while five process patents are under review.
- The company's R&D team is spearheaded by Dr. Sanjay Vasoya who holds a doctorate and master's degree in organic chemistry. He was previously associated with Teva Pharmaceuticals, Alembic Pharmaceuticals and Rubamin Pharmaceuticals. Dr. Ajit Choubey holds an advisory role in the company and has previously worked with Ipca Laboratories. Ami Organics' R&D team is led by distinguished people in the chemical industry who ensure that the company is constantly working towards innovative practices and products.

Exhibit 19: Ami Organics has competencies over various chemistries



Source: Company, HSIE Research

- Ami Organics is present in multiple chemistries and it typically manufactures products ranging from the n-1 to the n-8 stage via several synthesis pathways for a single intermediate, against the backdrop of its robust innovative culture and R&D team.
- Ami Organics is capable of executing complex reactions and has expertise in flow reaction, enzymatic reaction, high temperature catalytic reaction, high vacuum and high temperature distillation, etc. The company is 90% backwardly integrated over all its products.
- The company has 380 new products in its pipeline for its advanced pharmaceutical intermediates business that provides it growth visibility till FY35. This impressive product pipeline is a fruit of the company's R&D capabilities that creates a huge competitive edge for it. We believe that Ami Organics has an edge over its peers for its consistent research-driven innovation that allows it to keep a pipeline of products ready which will be launched 10-15 years down the line.

Exhibit 20: Lab equipment at the company's R&D center

Equipment	No. of equipment installed
Fume hoods with temperature sensor	26
Gas chromatographer (GC)	05
Gas chromatographer-HS	01
Gas chromatographer-MS	01
Liquid chromatographer (LC)-MS	01
High performance liquid chromatographer (HPLC)	09
Continuous Flow Vapor Phase Catalytic Fixed Bed Reactor	04
Continuous Flow Micro Channel Reactor	01
Continuous Flow 3D Mix Tube Reactor	01
Continuous Plug Flow Reactor, Tube in tube & Coil Type	01

Source: Company, HSIE Research

Acquisition of Gujarat Organics and focus on speciality chemicals business

- Ami Organics acquired two facilities of Gujarat Organics for INR 930mn in March 2021, situated in Ankleshwar and Jhagadia, Gujarat. This acquisition offered the company significant diversification in the existing product portfolio, which furthers the company's objective of achieving inorganic expansion. It also gave the company access to speciality chemicals business, which caters to petrochemicals, electronic chemicals, and cosmetic industries. This acquisition opened 600+ doors (customers) for the company. Both plants acquired from Gujarat Organics are fungible. The company has announced a Capex of INR 1,900mn at Ankleshwar for the advanced pharma intermediate business. Jhagadia site is used to manufacture speciality chemicals for the company. It has shifted the existing machinery at Ankleshwar to Jhagdia.

- In its speciality chemicals business, the company manufactures parabens and paraben formulations, salicylic acid, and other speciality chemicals that are used in cosmetics, dyes, polymers and agrochemical industries, animal meals, and personal care products. Ami Organics is increasing the efficiency of its plant acquired from Gujarat Organics by conducting cost optimisation activities. The company is shifting a few major products of this business to newer technologies such as continuous flow reaction, which will help it ramp up its volume as well as improve the margin. The company plans to increase its current 40% capacity utilisation to 85% in the next two years.

- Ami Organics has launched two pharmaceutical import substitute products in FY22 and plans to launch one agrochemical import substitute product and one pharmaceutical import substitute product in H2FY23, and one agrochemical import substitute product in early FY24. These new products will bolster future growth by allowing it to exploit the import substitute opportunity.

- The company has some marquee customers in its speciality chemicals business such as Sun Pharma, Reliance Industries, Bayer, Huntsman, Himalaya, Transmare Chemie, etc.

- It wants the speciality chemicals business to contribute ~35% to its total revenues in the next two to three years. Ami Organics is taking all the steps required to grow its speciality chemicals business by increasing efficiencies, launch of new products, adoption of new technology and increasing the wallet share of its customers.

Exhibit 21: Manufacturing facilities of Ami Organics

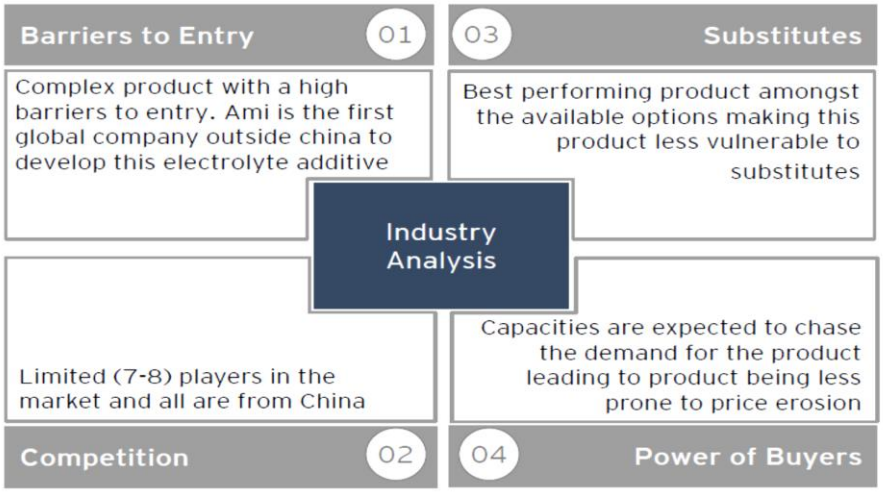
Facility	Area (sq mtrs)	Capacity (MTPA)
Sachin Unit	8,250	2,460
Ankleshwar Unit*	10,644	N/A
Jhagadia Unit	56,998	3,600
Warehouse - Sachin	2,812	1,050

Source: Company, HSIE Research | *Note: Currently, the Ankhleshwar site has been demolished. The new plant will be set up at Ankhleshwar site to cater to the growing demand of advance pharmaceutical intermediates

Foray into the electrolyte additives business

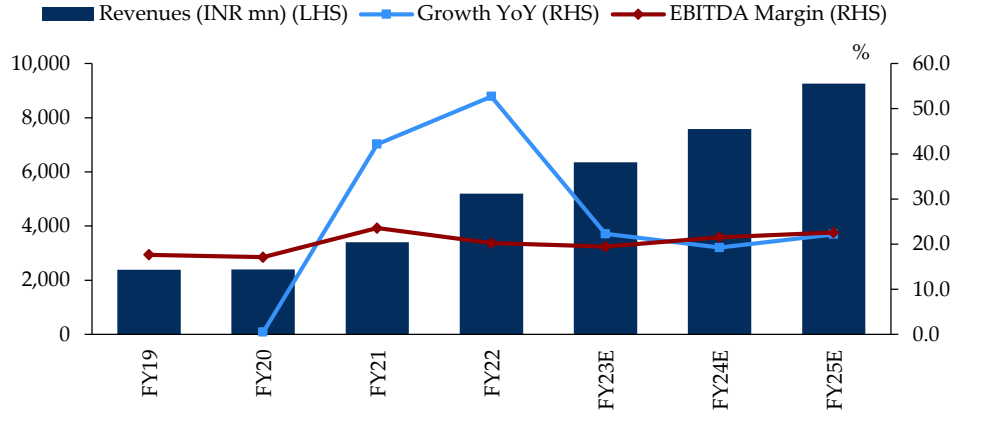
- Ami Organics forayed into the electrolyte additive manufacturing business in FY22, and became the first Indian and global company outside of China to successfully develop core electrolyte additives for cells used in energy storage devices. This electrolyte additives business shall form a part of the company's speciality chemicals business.
- The company has developed electrolyte additives, which are mainly used as a solid electrolyte interface (SEI), which is an integral ingredient in an electrolyte solution. The two products that the company has developed are vinylene carbonate and fluoroethylene carbonate.
- Currently, the company's products are with various customers in China, Korea, India and Europe for approval, with some of the customers in an advanced stage of qualification, and the company expects revenue to flow from this business in H1CY23. It has already acquired a land parcel in Sachin, Surat for the future expansion of the electrolyte business. As of now, the company's capacity in its Jhagadia unit is enough to cater to the initial demand for these products and if it sees good traction from its customers, it will establish a dedicated plant for this business.
- The global market opportunity of this business is expected to reach USD 2bn in CY28, and Ami Organics plans to capture 10% of this market.

Exhibit 22: Industry analysis of the electrolyte additives business



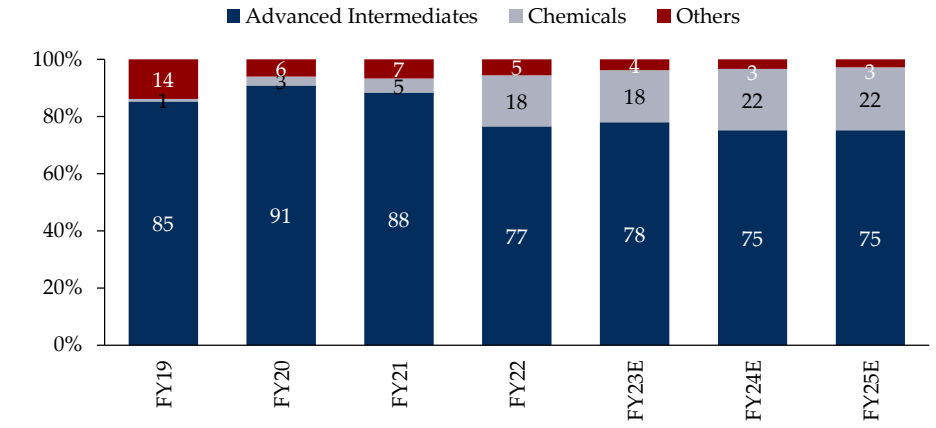
Source: Company, HSIE Research

Exhibit 23: Revenue, growth, and EBITDA margin



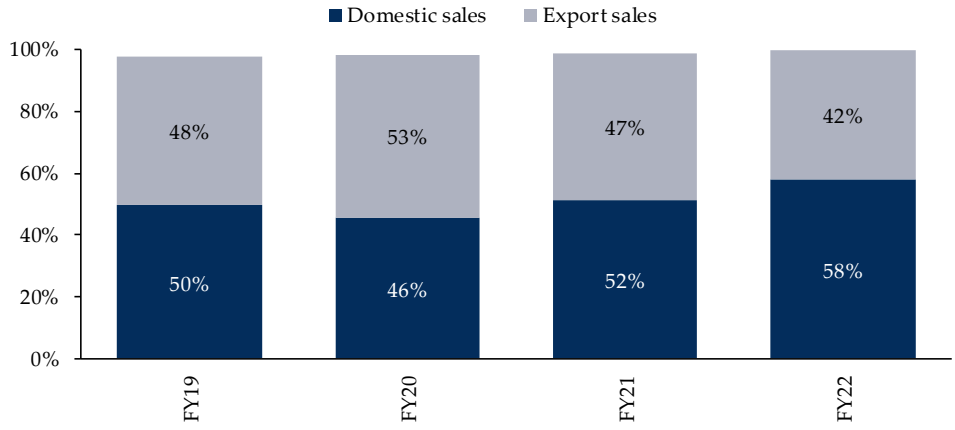
Source: Company, HSIE Research

Exhibit 24: Segmental revenue mix (%)



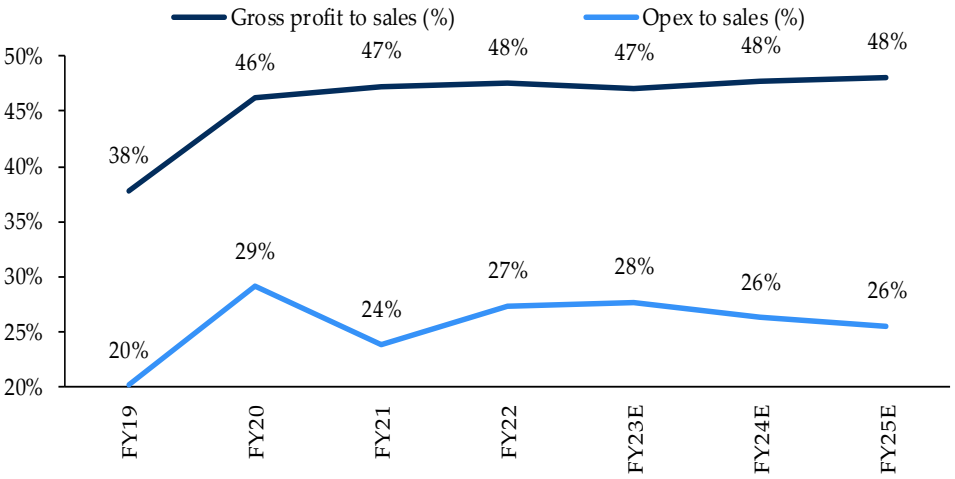
Source: Company, HSIE Research

Exhibit 25: Geographical revenue mix (%)



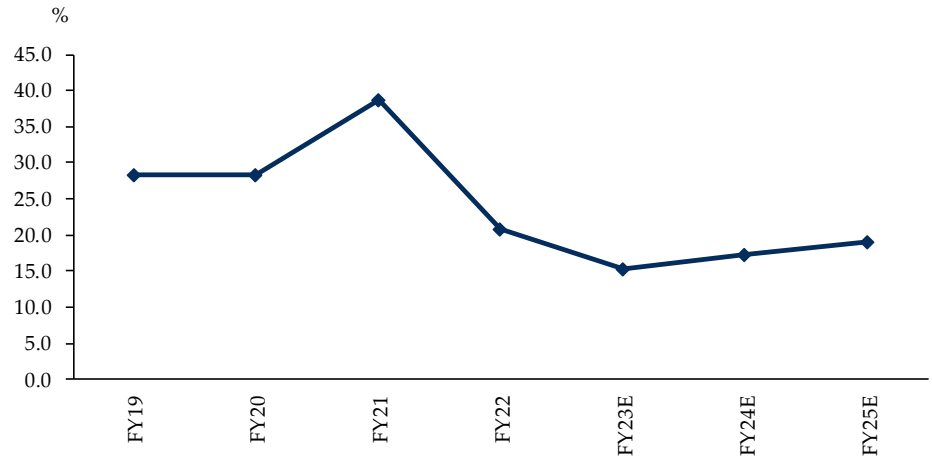
Source: Company, HSIE Research

Exhibit 26: Continued focus on improving operating leverage



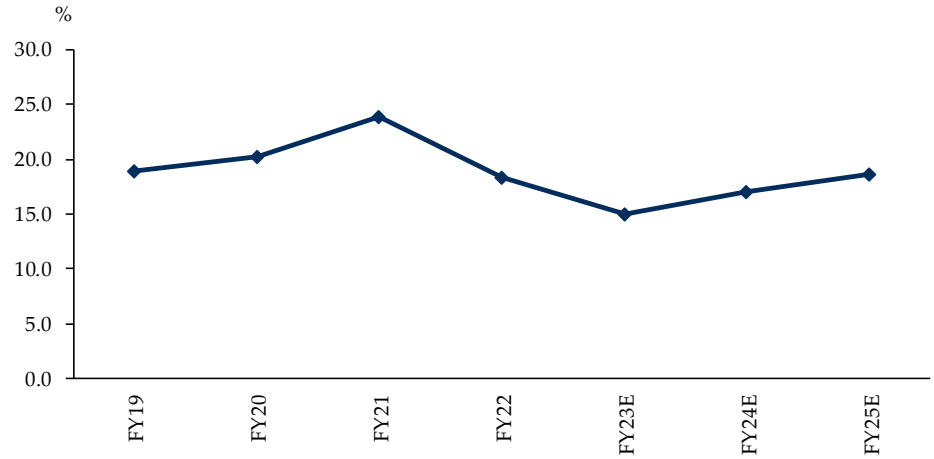
Source: Company, HSIE Research

Exhibit 27: Return on equity ratio (%)



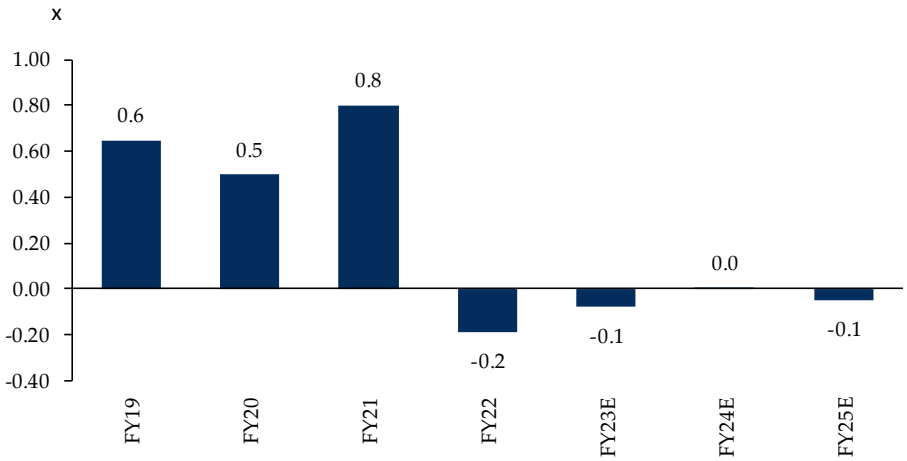
Source: Company, HSIE Research

Exhibit 28: Return on the capital employed ratio (%)



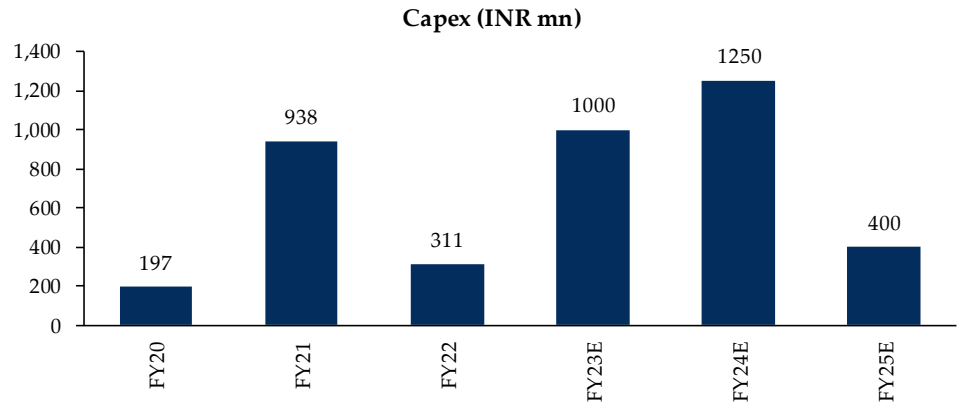
Source: Company, HSIE Research

Exhibit 29: Net debt to equity ratio (x)



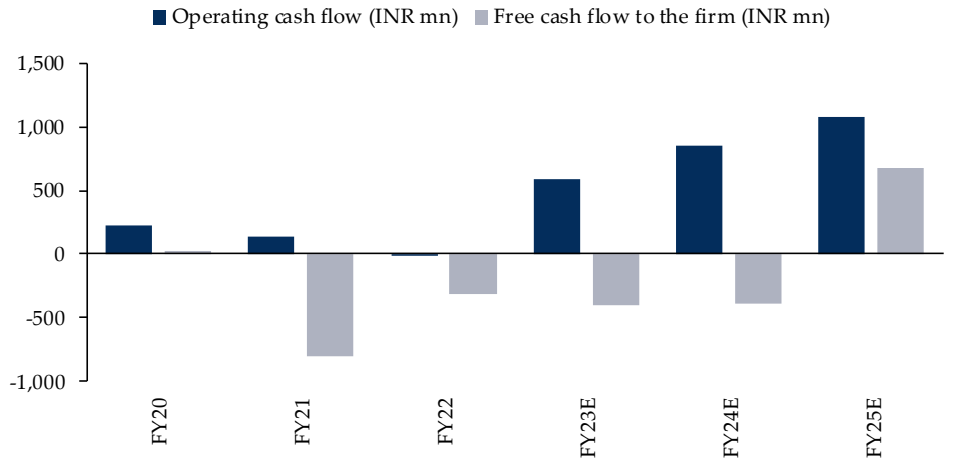
Source: Company, HSIE Research

Exhibit 30: Capex investments over the years



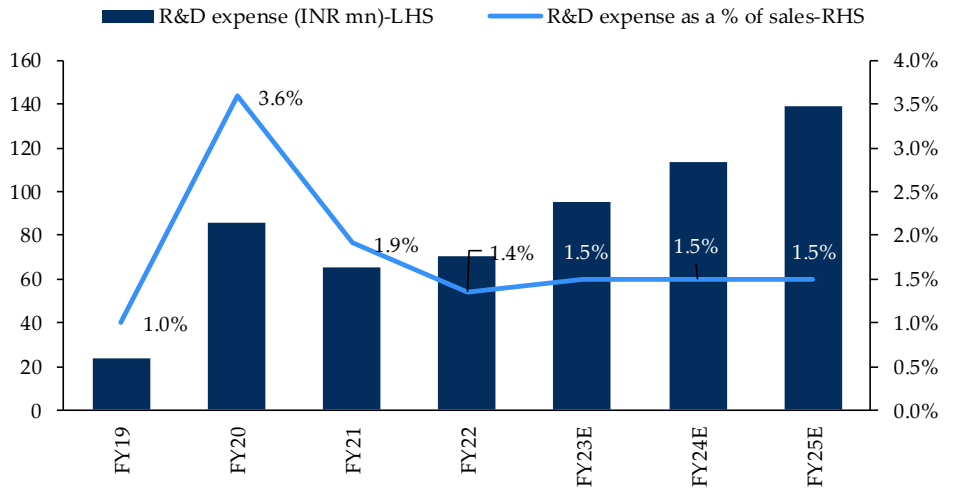
Source: Company, HSIE Research

Exhibit 31: Free cash flow to the firm (FCFF) positive from FY25



Source: Company, HSIE Research

Exhibit 32: Continued focus on building a strong R&D infrastructure



Source: Company, HSIE Research

Financials (Consolidated)

INCOME STATEMENT

INR mn	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	**2,385**	**2,396**	**3,406**	**5,201**	**6,360**	**7,581**	**9,261**
Growth %		***0.5***	***42.1***	***52.7***	***22.3***	***19.2***	***22.2***
Raw Material	1,484	1,289	1,795	2,728	3,365	3,960	4,810
Employee Cost	117	178	210	414	490	548	603
Other Expenses	363	519	599	1,008	1,270	1,440	1,760
EBITDA	**421**	**410**	**802**	**1,052**	**1,236**	**1,633**	**2,089**
EBIDTA Margin (%)	*17.6*	*17.1*	*23.5*	*20.2*	*19.4*	*21.5*	*22.6*
EBITDA Growth %		*(2.5)*	*95.4*	*31.2*	*17.5*	*32.1*	*27.9*
Depreciation	26	35	42	101	126	171	210
EBIT	**395**	**375**	**760**	**951**	**1,109**	**1,462**	**1,879**
Other Income	4	28	14	28	31	32	33
Interest	48	56	56	64	1	4	7
PBT (before EO item)	**351**	**348**	**717**	**915**	**1,140**	**1,490**	**1,904**
Exceptional Income / Expenses	-	-	-	-	-	-	-
PBT	**351**	**348**	**717**	**915**	**1,140**	**1,490**	**1,904**
Tax	118	73	177	195	292	375	479
RPAT	**233**	**275**	**540**	**719**	**848**	**1,115**	**1,425**
APAT	**233**	**275**	**540**	**719**	**848**	**1,115**	**1,425**
APAT Growth (%)		***17.9***	***96.6***	***33.2***	***17.8***	***31.5***	***27.8***
AEPS	**6.4**	**7.5**	**14.8**	**19.7**	**23.3**	**30.6**	**39.1**
AEPS Growth %		***17.9***	***96.6***	***33.2***	***17.8***	***31.5***	***27.8***

Source: Company, HSIE Research

BALANCE SHEET

INR mn	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS							
Share Capital	105	105	315	364	364	364	364
Reserves And Surplus	717	1,013	1,354	4,858	5,579	6,526	7,738
Total Equity	**822**	**1,118**	**1,669**	**5,223**	**5,943**	**6,891**	**8,102**
Minority Interest	-	-	-	-	-	-	-
Long-term Debt	221	199	726	6	6	106	106
Short-term Debt	261	339	445	-	-	-	-
Current maturities of LT debt	57	56	195	3	3	3	3
Total Debt	**539**	**594**	**1,366**	**8**	**8**	**108**	**108**
Deferred Tax Liability	21	31	33	63	64	65	66
Long-term Provision and others	11	24	44	4	4	5	5
TOTAL SOURCES OF FUNDS	**1,394**	**1,768**	**3,112**	**5,298**	**6,020**	**7,069**	**8,282**
APPLICATION OF FUNDS							
Net Block	788	852	1,863	2,045	2,741	3,663	4,027
Capital WIP	20	117	2	30	207	364	191
LT Loans And Advances	67	122	91	205	209	214	218
Total Non-current Investments	16	17	14	17	17	18	18
Total Non-current assets	**891**	**1,109**	**1,970**	**2,297**	**3,175**	**4,259**	**4,454**
Inventories	387	523	604	1,122	1,372	1,635	1,997
Debtors	761	564	1,207	1,637	2,002	2,386	2,915
Cash and Cash Equivalents	5	38	27	996	488	50	531
Other Current Assets	88	85	325	537	553	570	587
Total Current Assets	**1,241**	**1,210**	**2,162**	**4,291**	**4,414**	**4,641**	**6,030**
Creditors	684	514	844	1,184	1,460	1,719	2,088
Other Current Liabilities & Provns	54	37	176	106	109	112	115
Total Current Liabilities	**738**	**551**	**1,020**	**1,291**	**1,569**	**1,830**	**2,202**
Net Current Assets	**503**	**659**	**1,142**	**3,001**	**2,845**	**2,810**	**3,828**
TOTAL APPLICATION OF FUNDS	**1,394**	**1,768**	**3,112**	**5,298**	**6,020**	**7,069**	**8,282**

Source: Company, HSIE Research

CASH FLOW STATEMENT

(INR mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	348	717	915	1,140	1,490	1,904
Non-operating & EO Items	(28)	(14)	(28)	(31)	(32)	(33)
Interest Expenses	56	56	64	1	4	7
Depreciation	35	42	101	126	171	210
Working Capital Change	(123)	(494)	(890)	(352)	(403)	(536)
Tax Paid	(63)	(176)	(165)	(291)	(374)	(478)
OPERATING CASH FLOW (a)	**225**	**132**	**(3)**	**594**	**856**	**1,074**
Capex	(197)	(938)	(311)	(1,000)	(1,250)	(400)
Free Cash Flow (FCF)	*28*	*(806)*	*(314)*	*(406)*	*(394)*	*674*
Investments	(1)	3	(3)	(0)	(0)	(0)
Non-operating Income	28	14	28	31	32	33
Others	(56)	31	(114)	(4)	(4)	(4)
INVESTING CASH FLOW (b)	**(225)**	**(890)**	**(400)**	**(974)**	**(1,223)**	**(372)**
Debt Issuance/(Repaid)	55	772	(1,358)	-	100	-
Interest Expenses	(56)	(56)	(64)	(1)	(4)	(7)
FCFE	*27*	*(90)*	*(1,736)*	*(407)*	*(298)*	*667*
Share Capital Issuance	-	210	49	-	-	-
Dividend	-	-	(109)	(127)	(167)	(214)
Others	34	(180)	2,855	0	0	0
FINANCING CASH FLOW (c)	**34**	**746**	**1,373**	**(128)**	**(71)**	**(221)**
NET CASH FLOW (a+b+c)	**33**	**(12)**	**969**	**(508)**	**(438)**	**482**
EO Items, Others						
Closing Cash & Equivalents	**38**	**27**	**996**	**488**	**50**	**531**

KEY RATIOS

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY %							
Gross profit margin	37.8	46.2	47.3	47.5	47.1	47.8	48.1
EBITDA Margin	17.6	17.1	23.5	20.2	19.4	21.5	22.6
EBIT Margin	16.6	15.6	22.3	18.3	17.4	19.3	20.3
APAT Margin	9.8	11.5	15.9	13.8	13.3	14.7	15.4
RoE	28.3	28.3	38.7	20.9	15.2	17.4	19.0
RoIC	N/A	20.1	24.5	20.4	17.3	18.3	19.8
RoCE	19.0	20.2	23.9	18.3	15.0	17.1	18.6
EFFICIENCY							
Tax Rate %	33.7	21.0	24.7	21.3	25.6	25.2	25.2
Fixed Asset Turnover (x)	2.6	2.5	2.3	2.4	2.3	2.1	2.1
Inventory (days)	59	80	65	79	79	79	79
Debtors (days)	116	86	129	115	115	115	115
Other Current Assets (days)	14	13	35	38	32	27	23
Payables (days)	168	146	172	158	158	158	158
Other Current Liab & Provns (days)	8	6	19	7	6	5	5
Cash Conversion Cycle (days)	13	27	38	65	61	57	54
Net Debt/EBITDA (x)	1.3	1.4	1.7	(0.9)	(0.4)	0.0	(0.2)
Net D/E	0.6	0.5	0.8	(0.2)	(0.1)	0.0	(0.1)
Interest Coverage	8.3	6.7	13.5	14.8	1,877.7	384.8	266.6
PER SHARE DATA (INR)							
EPS	6.4	7.5	14.8	19.7	23.3	30.6	39.1
CEPS	7.1	8.5	16.0	22.5	26.7	35.3	44.9
Dividend	N/A	N/A	N/A	3.0	3.5	4.6	5.9
Book Value	22.6	30.7	45.8	143.3	163.1	189.1	222.4
VALUATION							
P/E (x)	155.2	131.6	66.9	50.2	42.6	32.4	25.4
P/Cash EPS (x)	139.6	116.6	62.1	44.1	37.1	28.1	22.1
P/BV (x)	44.0	32.3	21.7	6.9	6.1	5.2	4.5
EV/EBITDA (x)	87.2	89.5	46.8	33.4	28.9	22.2	17.1
EV/Revenue (x)	15.4	15.3	11.0	6.8	5.6	4.8	3.9
Dividend Yield (%)	N/A	N/A	N/A	0.3	0.4	0.5	0.6
OCF/EV (%)	N/A	0.6	0.4	(0.0)	1.7	2.4	3.0
FCFF/EV (%)	N/A	0.1	(2.2)	(0.9)	(1.1)	(1.1)	1.9
FCFE/M Cap (%)	N/A	0.1	(0.2)	(4.8)	(1.1)	(0.8)	1.8
Inventory/revenue %	16	22	18	22	22	22	22

Source: Company, HSIE Research

Clean Science and Technology Ltd

'Clean' along with 'science'

TP INR 1,230, SELL

Process innovation and sustainable chemistry are the pillars of Clean Science and Technology Ltd (CSTL)'s business. The aim of the company is to produce chemicals that find application in high-growth industries and there is limited competition. The company uses its deep understanding of complex chemistries to create an alternate supply chain for their customers using technologies that are cleaner and cost effective. The company's focus is to maximise atom economy and backward integrate all its processes. This enables the company to produce maximum desired product with minimal by-products and effluents, and increase yields of its processes.

Offering value proposition to its customers enables the company to gain market share. CSTL registers robust growth and gains market share in the introductory phase of the product life cycle. Post the acquisition of significant market share globally in a product, its growth matures and softens. In order to sustain the high growth rate momentum, the company has to launch new products regularly. Thus, innovating environment friendly and cost optimal new processes on a regular basis is essential for CSTL's business to deliver strong growth, going ahead.

We believe EBITDA and PAT will grow of 24/21% over FY22-25, while RoE to decline from 34.9% in FY22 to 27.6% in FY25 owing to reduction in margin. The stock is trading at 48.1x FY24E EPS, which we believe is contextually high. We initiate coverage on CSTL with a SELL recommendation. Our DCF-based target price of INR 1,230/share (WACC of 11% and terminal growth rate 6%) implies a downside of 18% from the current level.

Foraying into hindered amine light stabilizers (HALS) series

- CSTL on the back of its R&D infrastructure and innovative catalytic processes has announced its foray into the HALS series, which shall drive the company's growth, going ahead. CSTL has already commercialised two lines from its HALS series (701 and 770) in its unit-3 facility on 17 November 2022. The company is fully backwardly integrated in HALS.
- HALS 701 and 770 have a similar chemistry but different applications. HALS 701 is used for water purification and as a stabilizer in the monomer industry. HALS 770 is used by all master batches in India and is imported ~3,000-4,000 tons per annum to India, and the company's first set of capacity is 2,000 tons. Hence, even after being a part of the HALS series, different HALS have different applications, customers and target varied geographies.
- CSTL would be the first Indian company to manufacture HALS in the domestic market. The company plans to become a key player in this segment within 3-4 years of its launch. Initially, the company wants to cater to the domestic market and grab the import substitution opportunity.
- CSTL has also incorporated a new subsidiary, Clean Fino-Chem Limited (unit-4 facility), where it plans to introduce other lines of HALS series in the coming years. The company has allocated a Capex of INR 3bn for HALS in unit-4 and expects the commercial production to commence next year.
- The global market size for HALS is estimated to be USD ~1bn, and is growing at a ~10% CAGR. BASF is the biggest player globally in the HALS series. Owing to the high energy prices in Europe, BASF has announced price hikes a few times already

in their entire HALS segment. While energy prices have gone up for CSTL too, they haven't gone up as much as for a European producer or an American producer. This delta shall increase CSTL's price competitiveness and in turn garner new customer interest. Furthermore, the inhouse developed catalyst that CSTL uses to produce HALS series is less costly than the catalyst used by BASF.

(Refer to Annexure for more information on HALS).

Process innovation at the company's core

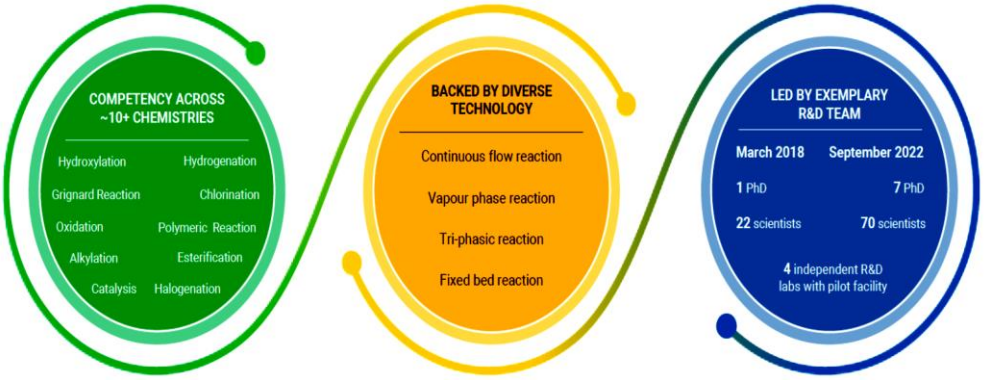
- CSTL is a process innovator and not a product innovator company. It launches products that are already being manufactured by its competition and focuses on developing innovative chemical catalytic processes that allow it to manufacture these products in the most cost efficient and sustainable way. This helps the company garner better margins than its competitor. The company works extensively in this niche space, supported by value engineering and inhouse R&D. CSTL is one of the very few companies that develops its own catalyst and then uses it for commercial production.
- The company's unique and innovative chemistries and strong plant engineering capabilities have enabled it to maximise atom economy and avoid usage of hazardous raw materials and, hence, increase efficiencies and yields in its processes.
- CSTL uses a novel catalyst to manufacture anisole from phenol using the vapour phase technology. It further conducts hydroxylation of anisole to produce monomethyl ether of hydroquinone (MEHQ) and guaiacol. This unique manufacturing route has led to CSTL becoming one of the largest manufacturers of anisole, MEHQ and guaiacol in the world.
- The company has emerged as the global market leader in five products and second-largest global player in four products out of its portfolio of nine products (Refer Exhibit-33). CSTL's processes ensure high levels of backward as well as forward integration.
- R&D forms the backbone of CSTL as it bolsters process innovation. CSTL has a R&D team of 70 people. The company focuses its R&D efforts on three core areas: (1) new product development largely in the performance chemicals segment where India does not have a large global presence, (2) continuously improving yields and efficiencies of existing processes, and (3) developing new intermediates that can address import substitution.
- We believe that the company's constant focus on process innovation shall lead to a robust product pipeline as well as improve yield of its existing products. However, the company will have to run fast on the so called innovation treadmill to come up with newer catalytic processes to ensure success, which is a key monitorable, going ahead.

Exhibit 33: CSTL emerged a global leader, owing to process innovation

Product	Application	Growth Prospects	Global position	Domestic position
MEHQ (Monomethyl ether of Hydroquinone)	Polymerization inhibitor in acrylic acids, acrylic esters, super absorbent polymers (diapers and sanitary pads) Pre-cursor for the agrochemical industry	Rising population, increasing awareness with regards to basic sanitation and hygiene have augmented the growth of the diaper and sanitary pads market.	Largest manufacturer	Largest manufacturer
BHA (Butylated Hydroxy Anisole)	Anti-oxidant in food and animal feed industry	The animal feed industry is poised to reach the value of USD 460bn by 2026 from USD 345bn in 2020.	Largest manufacturer	Largest manufacturer
AP (L-Ascorbyl Palmitate)	Infant food formulations, breakfast cereals and cosmetics	The global Ascorbyl Palmitate market is anticipated to register a CAGR of 5.8% over 2020-2025 and projected to reach USD 13 mn by 2025. The global personal care market is expected to reach USD 720bn by 2030 at a CAGR of 3.6% over 2020-2030.	Largest manufacturer	Largest manufacturer
TBHQ (Tertiary Hydroquinone)	Stabilizer in oil industry	The global edible oils market is expected to register a CAGR of 5.1% to reach an estimated value of USD 130 billion by the end of 2024	Second largest manufacturer	Second largest manufacturer
Guaiacol	Precursor to manufacturing APIs for cough syrup	The global cough syrup market is expected to grow at a CAGR of approximately 3.5 % to reach USD 4.9bn by 2025.	Second largest manufacturer	Largest manufacturer
DCC (Dicyclohexyl Carbodiimide)	Reagent in anti-retroviral	Anti-retro viral drugs are essential in treating HIV infections. The HIV drugs market is likely to reach USD 34bn by 2030.	Second largest manufacturer	Largest manufacturer
p-BQ (para Benzoquinone)	Intermediate in agrochemical industry	An increased requirement for agrochemicals is triggered by the rising population and higher food demand. Agrochemicals are extensively used to generate higher yields and reduce the gap between food supply and demand. The market for agrochemicals is expected to grow to USD 246bn by 2025 from USD 209bn in 2020.	Second largest manufacturer	Largest manufacturer
4-MAP (4-Methoxy Acetophenone)	Used in UV blockers in sunscreens (cosmetics industry)	The global sunscreen market is expected to record a CAGR of 2.6% over 2021-26, reaching a market size of USD 787mn.	Largest manufacturer	Largest manufacturer
Anisole	Precursor to perfumes, insect pheromones, pharmaceuticals	The market size of Anisole is estimated to reach USD 127mn by 2027. The global market for perfume is projected to reach a market size of USD 33bn in 2020, registering a CAGR of 6% over 2021-26.	Largest manufacturer	Largest manufacturer

Source: Company, HSIE Research

Exhibit 34: CSTL's R&D infrastructure



Source: Company, HSIE Research

Technocrat promoters at the helm

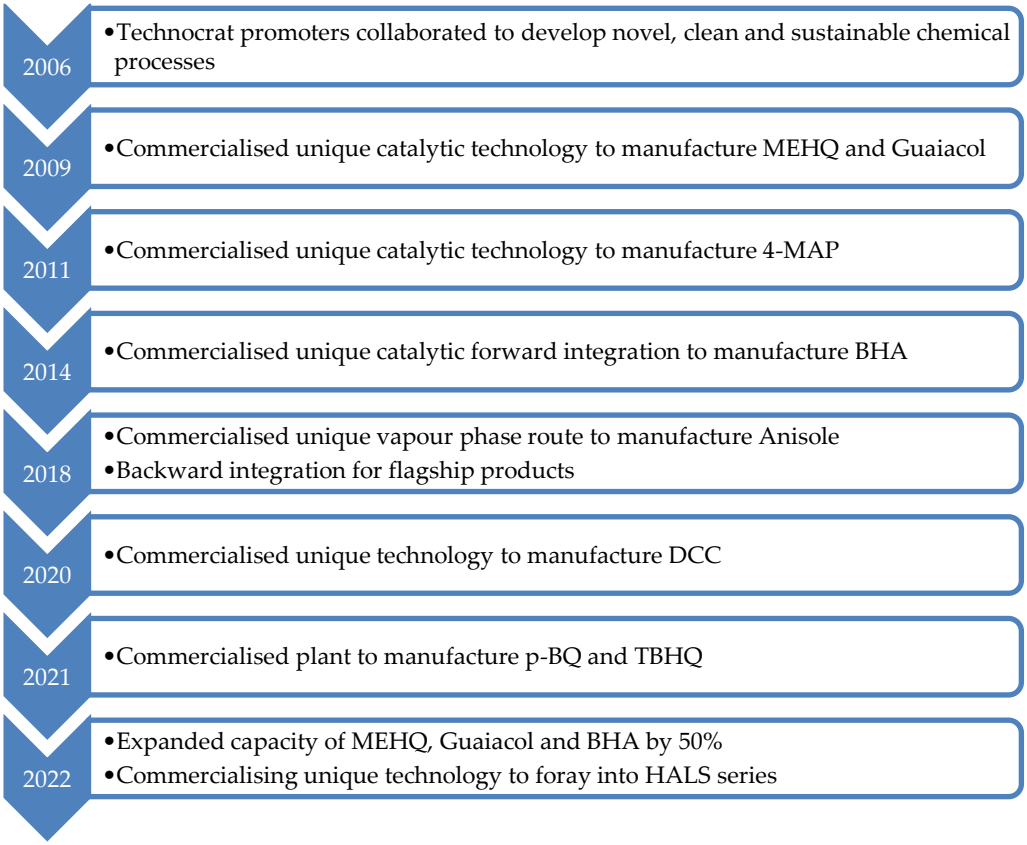
- CSTL is led by a team of technocrat promoters, each individual bringing in a great skillset. They are highly driven individuals who understand the industry, given their experience and knowledge, and steer the company towards R&D, innovation, and better practices.
- Ashok Boob, the company's managing director, holds a bachelor's degree in chemical engineering from the Institute of Chemical Technology, Mumbai. He has over 25 years of experience in the chemical industry. He overlooks projects and manufacturing operations of the company.
- Siddharth Sikchi, executive director, holds a master's degree in science from the University of Manitoba in Canada and a bachelor's degree in technology from the Institute of Chemical Technology, Mumbai. He has over fifteen years of experience in the chemical industry. He looks after the R&D and marketing operations of the company.
- Krishna Boob, executive director, has over two decades of experience in the chemical industry and looks after purchase and public relations for CSTL.
- Parth Maheshwari, vice president, has over six years of experience in the chemical industry and looks after some of the business operations.
- CSTL also has some distinguished people on its board, including Prof. G D Yadav and Pradeep Rathi. Prof. G D Yadav is a chemical engineer, inventor and academic, known for his research on nanomaterials, gas absorption with chemical reaction and phase transfer catalysis. Pradeep Rathi, chairman, holds a bachelor's degree in science from University of Poona and a master's degree of science in chemical engineering practice from Massachusetts Institute of Technology, US. He is also the promoter of Sudarshan Chemicals.
- CSTL benefits from the guidance of its leaders and this has led to venturing into better products, processes and garnered confidence of customers as well as of investors.

Exhibit 35: CSTL's manufacturing facilities

Facility	Number of plants	Area
Unit-1	7	30,000 sq. mtr.
Unit-2	4	23,337 sq. mtr.
Unit-3	5	40,343 sq. mtr.
Unit-4	First phase of facility to come on stream in H2FY24 with HALS series	34 acres

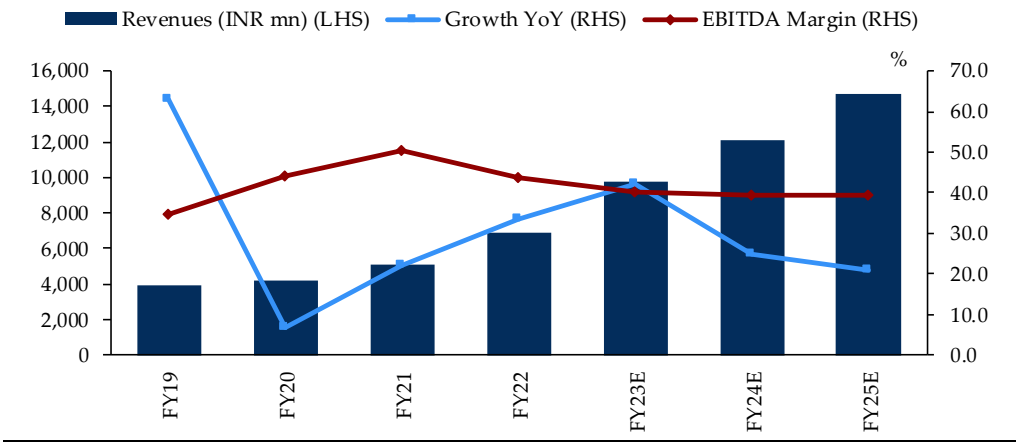
Source: Company, HSIE Research

Exhibit 36: Milestones achieved by the company



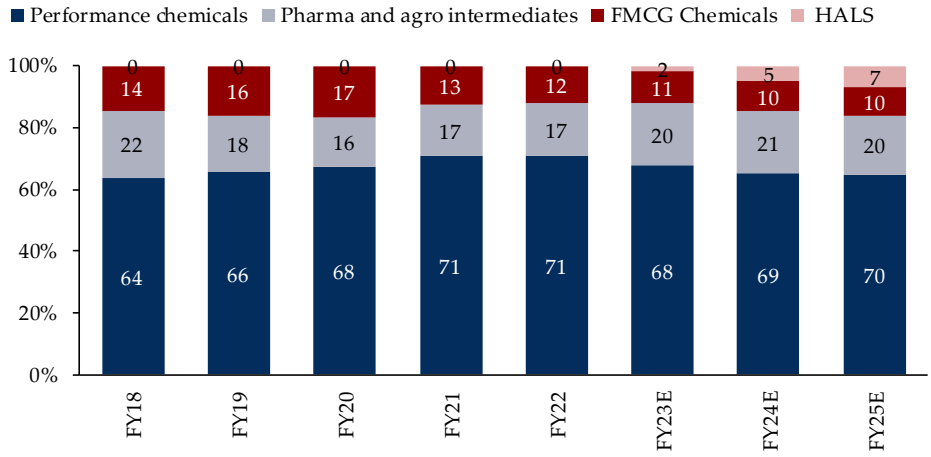
Source: Company, HSIE Research

Exhibit 37: Revenue, growth, and EBITDA margin



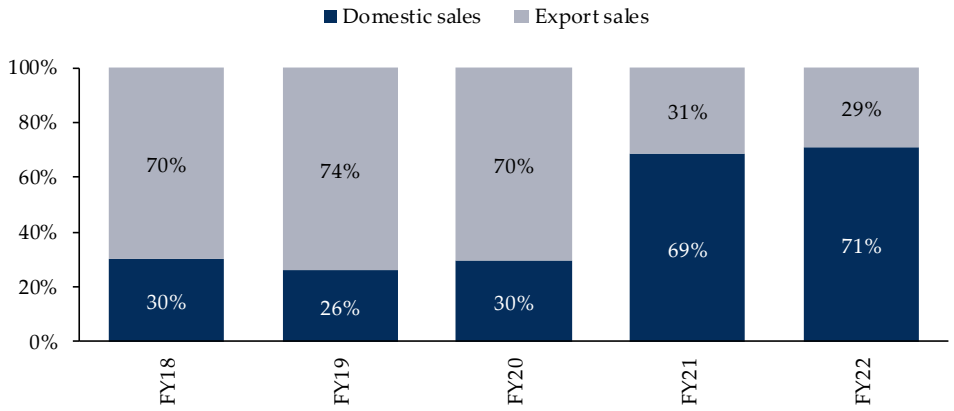
Source: Company, HSIE Research

Exhibit 38: Segmental revenue mix (%)



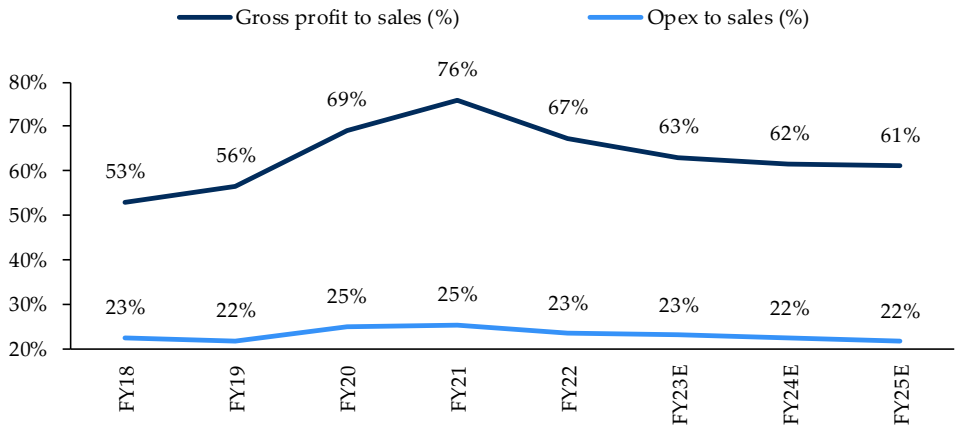
Source: Company, HSIE Research

Exhibit 39: Geographical revenue mix (%)



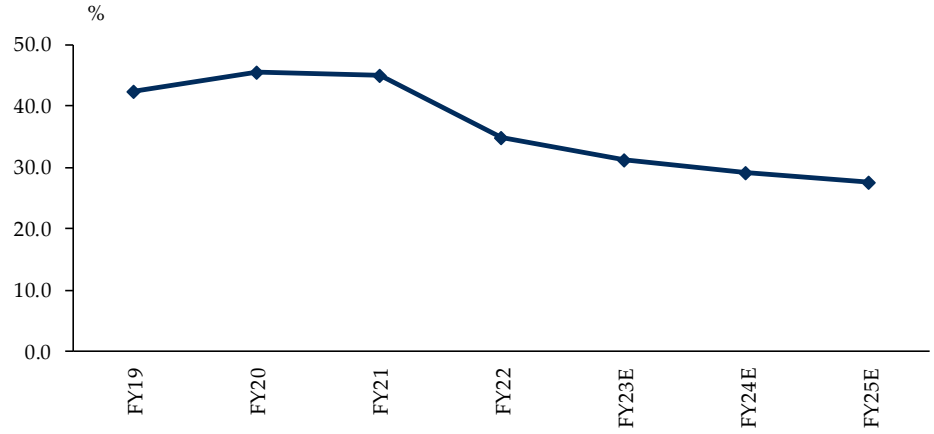
Source: Company, HSIE Research

Exhibit 40: Healthy margins owing to cost efficient processes



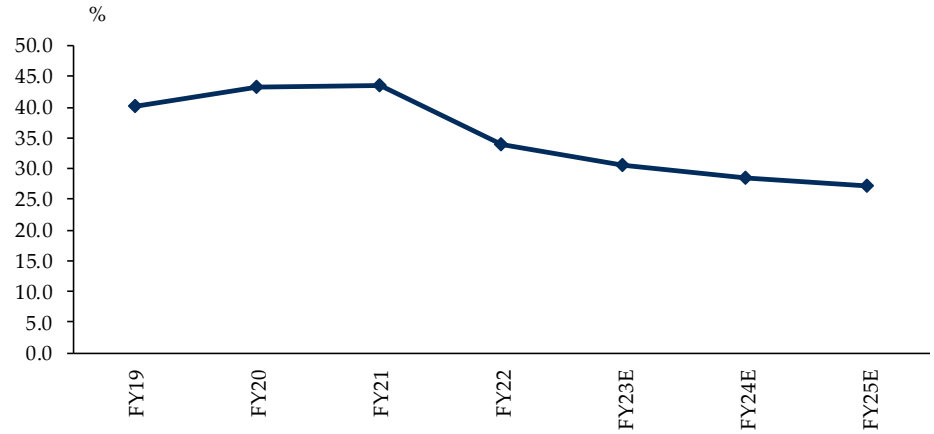
Source: Company, HSIE Research

Exhibit 41: Return on equity ratio (%)



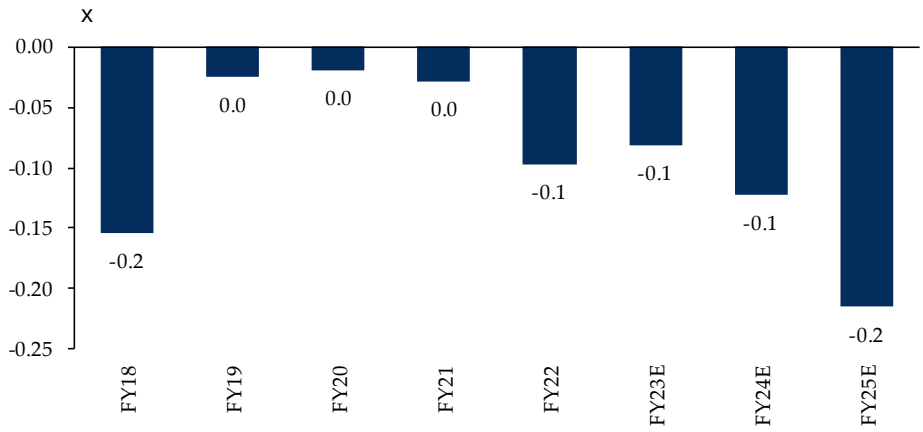
Source: Company, HSIE Research

Exhibit 42: Return on the capital employed ratio (%)



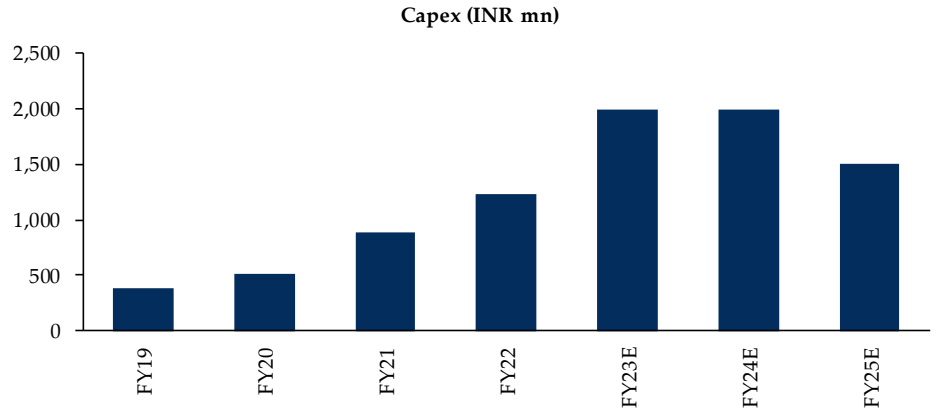
Source: Company, HSIE Research

Exhibit 43: Net debt to equity ratio (x)



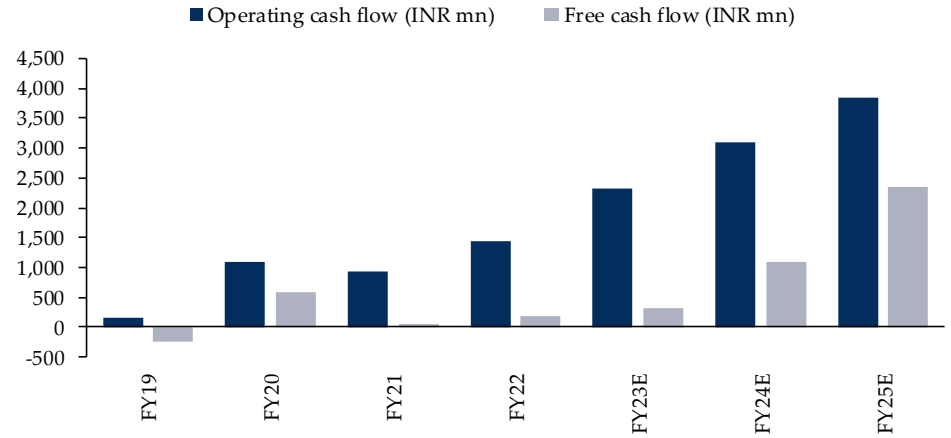
Source: Company, HSIE Research

Exhibit 44: Capex investments over the years



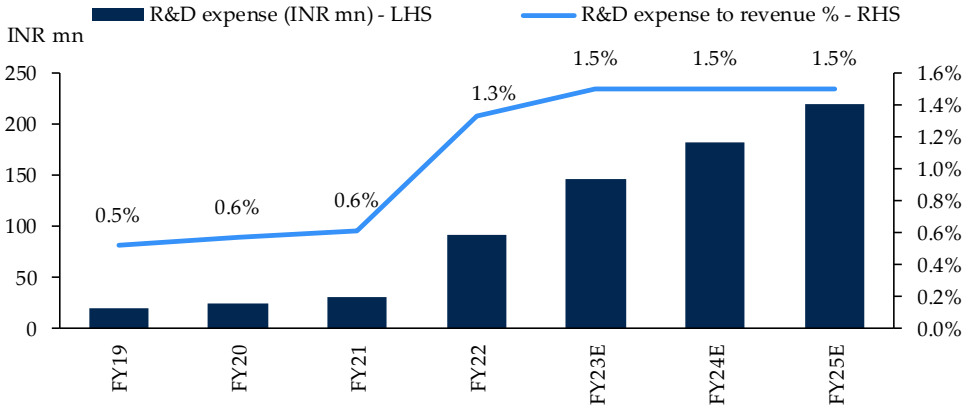
Source: Company, HSIE Research

Exhibit 45: Operating cash flow and free cash flow



Source: Company, HSIE Research

Exhibit 46: Continuous investment in R&D to come up with innovative processes



Source: Company, HSIE Research

Annexure: What are hindered amine light stabilizers (HALS)?

- Polymeric materials when exposed to sunlight undergo degradation which decreases their use value and shortens their service life, mainly due to photoxidation. The inherent characteristics and appearance of polymer materials may be weakened as a result of photodegradation.
- HALS are a type of thermal/light stabilising agents of polymeric materials. They are 2-4 times better stabilising agents than ultraviolet stabilisers. In general, HALS are applied with other antioxidants and ultraviolet absorbers. HALS inhibit the processes of autoxidation (is the spontaneous oxidation of a compound in air. In the presence of oxygen, ethers slowly autoxidise to form hydroperoxides and dialkyl peroxides) by transformation of the parent amines to nitroxide radicals either by reaction with peroxy radicals or occasionally by reaction with singlet oxygen. The nitroxide radicals stop oxidative degradation by coupling of alkyl radicals.
- HALS are transparent to visible light and are assumed to dissipate the absorbed energy in a harmless manner, that is, by converting the absorbed photon energy into heat without being chemically affected.
- HALS series finds application in diverse industries including water treatment, paints and coatings, plastics, master batches, polymerization inhibitor, etc.
- HALS are effective in poly olefins, polyethylene and polyurethane but they are ineffective in PVC.

Financials (Consolidated)

INCOME STATEMENT

INR mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	**2,411**	**3,933**	**4,193**	**5,124**	**6,849**	**9,735**	**12,146**	**14,666**
Growth %		***63.1***	***6.6***	***22.2***	***33.7***	***42.1***	***24.8***	***20.7***
Raw Material	1,134	1,712	1,292	1,236	2,247	3,602	4,676	5,720
Employee Cost	160	249	310	436	345	432	518	596
Other Expenses	382	609	738	863	1,258	1,801	2,186	2,566
EBITDA	**734**	**1,363**	**1,853**	**2,590**	**2,999**	**3,900**	**4,766**	**5,784**
EBIDTA Margin (%)	*30.5*	*34.7*	*44.2*	*50.5*	*43.8*	*40.1*	*39.2*	*39.4*
EBITDA Growth %		*85.7*	*35.9*	*39.8*	*15.8*	*30.1*	*22.2*	*21.4*
Depreciation	76	110	137	172	249	365	488	590
EBIT	**658**	**1,253**	**1,716**	**2,417**	**2,750**	**3,536**	**4,277**	**5,194**
Other Income (Including EO Items)	45	113	109	256	300	170	173	177
Interest	1	0	1	1	1	0	0	0
PBT	**703**	**1,365**	**1,823**	**2,673**	**3,048**	**3,705**	**4,450**	**5,370**
Tax	214	389	427	689	763	928	1,114	1,344
PAT	**489**	**977**	**1,396**	**1,984**	**2,285**	**2,778**	**3,336**	**4,026**
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-	-	-
APAT	**489**	**977**	**1,396**	**1,984**	**2,285**	**2,778**	**3,336**	**4,026**
Share from associates	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Consolidated APAT	**489**	**977**	**1,396**	**1,984**	**2,285**	**2,778**	**3,336**	**4,026**
Consolidated APAT Growth (%)		***99.7***	***43.0***	***42.1***	***15.2***	***21.6***	***20.1***	***20.7***
AEPS	**4.6**	**9.2**	**13.1**	**18.7**	**21.5**	**26.1**	**31.4**	**37.9**
AEPS Growth %		***99.7***	***43.0***	***42.1***	***15.2***	***21.6***	***20.1***	***20.7***

Source: Company, HSIE Research

BALANCE SHEET

INR mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS								
Share Capital	14	14	13	106	106	106	106	106
Reserves And Surplus	1,864	2,706	3,408	5,290	7,578	9,936	12,768	16,186
Total Equity	**1,879**	**2,721**	**3,421**	**5,397**	**7,684**	**10,043**	**12,875**	**16,292**
Minority Interest	-	-	-	-	-	-	-	-
Long-term Debt	1	1	3	3	3	-	-	-
Short-term Debt	5	25	24	-	1	1	1	1
Total Debt	**6**	**26**	**27**	**3**	**3**	**1**	**1**	**1**
Deferred Tax Liability	102	139	102	176	209	209	209	209
Long-term Provision and others	2	3	3	4	1	1	1	1
TOTAL SOURCES OF FUNDS	**1,988**	**2,888**	**3,553**	**5,579**	**7,898**	**10,254**	**13,086**	**16,503**
APPLICATION OF FUNDS								
Net Block	1,024	1,270	1,656	1,858	2,957	4,424	5,893	6,918
Capital WIP	15	39	34	550	441	610	653	538
Other non-current assets	73	40	39	239	145	145	145	145
Non-current Investments	-	-	-	-	-	-	-	-
Total Non-current assets	**1,111**	**1,349**	**1,729**	**2,648**	**3,544**	**5,179**	**6,691**	**7,601**
Inventories	290	370	346	529	881	1,253	1,563	1,887
Debtors	397	598	698	742	1,535	2,183	2,723	3,288
Cash and Cash Equivalents	295	94	93	157	747	812	1,573	3,497
Other Current Assets	268	863	1,433	2,523	2,540	2,616	2,694	2,775
Total Current Assets	**1,250**	**1,926**	**2,570**	**3,951**	**5,703**	**6,863**	**8,553**	**11,447**
Creditors	264	223	357	610	1,021	1,451	1,811	2,187
Other Current Liabilities & Provns	109	163	389	410	327	337	347	358
Total Current Liabilities	**373**	**386**	**746**	**1,020**	**1,348**	**1,789**	**2,158**	**2,544**
Net Current Assets	**877**	**1,539**	**1,825**	**2,932**	**4,355**	**5,075**	**6,395**	**8,903**
TOTAL APPLICATION OF FUNDS	**1,988**	**2,888**	**3,553**	**5,579**	**7,898**	**10,254**	**13,086**	**16,503**

Source: Company, HSIE Research

CASH FLOW STATEMENT

INR mn	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	1,365	1,823	2,673	3,048	3,705	4,450	5,370
Non-operating & EO Items	(113)	(109)	(256)	(300)	(170)	(173)	(177)
Interest Expenses	0	1	1	1	0	0	0
Depreciation	110	137	172	249	365	488	590
Working Capital Change	(863)	(287)	(1,043)	(833)	(655)	(560)	(584)
Tax Paid	(352)	(464)	(616)	(729)	(928)	(1,114)	(1,344)
OPERATING CASH FLOW (a)	**148**	**1,102**	**931**	**1,436**	**2,318**	**3,092**	**3,856**
Capex	(381)	(518)	(891)	(1,239)	(2,000)	(2,000)	(1,500)
Free Cash Flow (FCF)	*(233)*	*584*	*40*	*197*	*318*	*1,092*	*2,356*
Investments	-	-	-	-	-	-	-
Non-operating Income	113	109	256	300	170	173	177
Others	33	1	(201)	95	-	-	-
INVESTING CASH FLOW (b)	**(235)**	**(408)**	**(835)**	**(845)**	**(1,830)**	**(1,827)**	**(1,323)**
Debt Issuance/(Repaid)	20	1	(24)	-	(3)	-	-
Interest Expenses	(0)	(1)	(1)	(1)	(0)	(0)	(0)
FCFE	*(212)*	*584*	*16*	*195*	*315*	*1,091*	*2,355*
Share Capital Issuance	-	(1)	93	-	-	-	-
Dividend	(128)	(153)	(33)	-	(420)	(504)	(608)
Others	(6)	(541)	(67)	0	0	0	(0)
FINANCING CASH FLOW (c)	**(114)**	**(696)**	**(32)**	**(1)**	**(423)**	**(504)**	**(609)**
NET CASH FLOW (a+b+c)	**(201)**	**(2)**	**64**	**590**	**66**	**761**	**1,924**
Closing Cash & Equivalents	**95**	**93**	**157**	**747**	**812**	**1,573**	**3,497**

Source: Company, HSIE Research

KEY RATIOS

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY %								
Gross Margin	53.0	56.5	69.2	75.9	67.2	63.0	61.5	61.0
EBITDA Margin	30.5	34.7	44.2	50.5	43.8	40.1	39.2	39.4
EBIT Margin	27.3	31.9	40.9	47.2	40.1	36.3	35.2	35.4
APAT Margin	20.3	24.8	33.3	38.7	33.4	28.5	27.5	27.5
RoE	N/A	42.5	45.5	45.0	34.9	31.3	29.1	27.6
RoIC	N/A	40.4	42.5	43.2	35.6	34.1	32.6	33.4
RoCE	N/A	40.1	43.4	43.5	33.9	30.6	28.6	27.2
EFFICIENCY								
Tax Rate %	30.4	28.5	23.4	25.8	25.0	25.0	25.0	25.0
Fixed Asset Turnover (x)	1.8	2.5	2.1	2.1	2.1	2.0	1.8	1.7
Inventory (days)	44	34	30	38	47	47	47	47
Debtors (days)	60	55	61	53	82	82	82	82
Other Current Assets (days)	41	80	125	180	135	98	81	69
Payables (days)	85	48	101	180	166	147	141	140
Other Current Liab & Provns (days)	17	15	34	29	17	13	10	9
Cash Conversion Cycle (days)	43	107	81	61	81	67	58	49
Net Debt/EBITDA (x)	(0.4)	(0.1)	(0.0)	(0.1)	(0.2)	(0.2)	(0.3)	(0.6)
Net D/E	(0.2)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.2)
Interest Coverage	626.8	3,796.2	1,418.0	2,656.6	1,870.5	N/A	N/A	N/A
PER SHARE DATA (INR)								
EPS	4.6	9.2	13.1	18.7	21.5	26.1	31.4	37.9
CEPS	5.3	10.2	14.4	20.3	23.9	29.6	36.0	43.4
Dividend	N/A	N/A	N/A	N/A	3.3	4.0	4.7	5.7
Book Value	17.7	25.6	32.2	50.8	72.3	94.5	121.2	153.4
VALUATION								
P/E (x)	328.1	164.3	114.9	80.9	70.2	57.8	48.1	39.8
P/Cash EPS (x)	284.0	147.6	104.6	74.4	63.3	51.0	41.9	34.8
P/BV (x)	85.4	59.0	46.9	29.7	20.9	16.0	12.5	9.8
EV/EBITDA (x)	218.1	117.6	86.5	61.9	53.2	40.9	33.3	27.1
EV/Revenue (x)	66.4	40.8	38.2	31.3	23.3	16.4	13.1	10.7
Dividend Yield (%)	N/A	N/A	N/A	N/A	0.2	0.3	0.3	0.4
OCF/EV (%)	N/A	0.1	0.7	0.6	0.9	1.5	1.9	2.5
FCFF/EV (%)	N/A	(0.1)	0.4	0.0	0.1	0.2	0.7	1.5
FCFE/M Cap (%)	N/A	(0.1)	0.4	0.0	0.1	0.2	0.7	1.5

Source: Company, HSIE Research

Exhibit 47: Peer valuation

Company	CMP (INR)	RECO	TP (INR)	EBITDA margin %				EPS (INR/sh)					RoE %				P/E (x)			
				FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	CAGR %	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Alkyl Amines	2,829	SELL	2,470	21.2	22.3	25.0	26.1	44.0	52.7	66.0	80.5	22%	25.2	24.5	25.2	25.1	64.3	53.7	42.8	35.2
Navin Fluorine	4,419	BUY	5,140	24.4	25.0	30.1	32.6	52.6	67.6	109.5	155.3	43%	15.0	17.0	23.6	27.6	84.0	65.4	40.4	28.5
Galaxy Surfactants	2,759	BUY	3,690	10.9	11.4	10.8	11.8	74.1	106.7	110.2	137.5	23%	18.3	22.0	19.4	20.8	37.2	25.9	25.0	20.1
Vinati Organics	2,144	SELL	1,820	26.9	26.9	28.1	29.8	33.7	43.3	54.1	74.0	30%	20.6	22.1	22.7	24.9	63.6	49.5	39.7	29.0
SRF	2,399	ADD	2,650	25.2	24.9	25.5	26.3	61.7	77.6	90.7	106.1	20%	23.7	24.3	23.4	22.7	38.9	30.9	26.4	22.6
Aarti Industries	674	BUY	825	27.6	16.5	18.9	21.9	36.1	14.1	21.0	26.6	N/A	27.8	9.4	14.3	15.8	18.7	47.9	32.1	25.4
Sudarshan Chemical	392	ADD	425	12.5	8.0	11.2	12.8	18.8	3.9	13.8	24.8	10%	16.5	3.2	10.9	18.0	20.9	100.8	28.4	15.8
NOCIL	234	BUY	300	18.0	17.6	18.4	18.6	10.6	11.3	12.3	14.6	11%	13.0	12.8	13.3	15.0	22.2	20.7	19.0	16.0
Fine Organics	6,106	ADD	6,550	19.4	26.4	22.7	22.4	84.7	197.6	156.3	185.6	30%	30.7	51.1	30.1	28.6	72.1	30.9	39.1	32.9
Deepak Nitrite	2,210	SELL	1,665	23.6	17.6	22.4	23.5	78.2	68.3	103.8	122.7	16%	37.5	24.9	29.3	26.8	28.3	32.4	21.3	18.0
Neogen Chemicals	1,291	BUY	1,890	17.8	18.0	21.6	22.9	17.9	20.7	33.9	56.8	47%	14.3	11.2	16.2	22.7	72.1	62.4	38.1	22.7
Aether Industries	908	BUY	1,070	28.5	29.2	31.4	32.0	8.8	12.4	19.7	26.9	45%	38.8	18.3	17.3	19.6	103.8	73.2	46.1	33.8
Ami Organics	992	BUY	1,160	20.2	19.4	21.5	22.6	19.7	23.3	30.6	39.1	26%	20.9	15.2	17.4	19.0	50.2	42.6	32.4	25.4
Clean Science	1,510	SELL	1,230	43.8	40.1	39.2	39.4	21.5	26.1	31.4	37.9	21%	34.9	31.3	29.1	27.6	70.2	57.8	48.1	39.8

Source: Company, HSIE Research

Thematic reports by HSIE

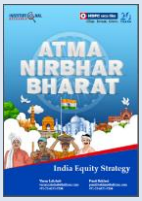
Cement: WHRS – A key cog in the flywheel

Autos: Where are we on "S" curve?

FMCG: Defensive businesses but not valuations

Autos: A changed landscape

Banks: Double whammy for some



India Equity Strategy: Atma Nirbhar Bharat

Indian IT: Demand recovery in sight

Life Insurance: Recovery may be swift with protection driving margins

Retail: Whole flywheel is broken?

Appliances: Looing beyond near-term disruption

Pharma: Chronic therapy – A portfolio prescription

Indian Gas: Looking beyond the pandemic

India Equity Strategy: Quarterly flipbook

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Infrastructure: On the road to rerating

Cement: Spotting the sweet spot

Pharma: Cardiac: the heartbeat of domestic market

Life Insurance: Comparative annual report analysis

Indian microfinance: Should you look micro as macros disappoint?

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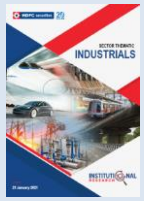
Logistics: Indian Railways - getting aggressive



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Indian IT: raising the bar

India Equity Strategy: Quarterly flipbook

FinTech Playbook: P2M Payments | Surging pool, dwindling yields

India Hospitals: capital discipline improving, sustenance is key

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Cement: Riding High

Power: Reforms essential for rennaissance

Fashion & Lifestyle: From a disruptor's lens II

India Equity Strategy: Quarterly flipbook

Indian Gas Sector: Resilience in the eye of the storm

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Quarterly flipbook: Q2FY22– Demand environment improves but input cost inflation dents profitability

FinTech Playbook: Discount Brokers

Footwear: No bargains here!

Holdcos for portfolio diversification

Cement: A concrete road for net-zero emissions

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IT sector: Decoding signal from noise

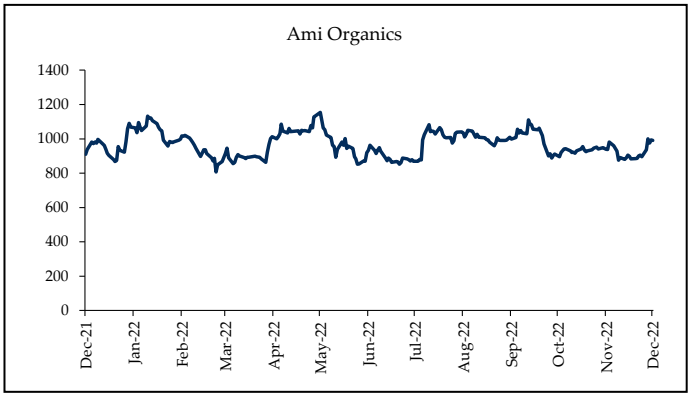
Vehicle Financing: Secular opportunity meets cyclical tailwinds

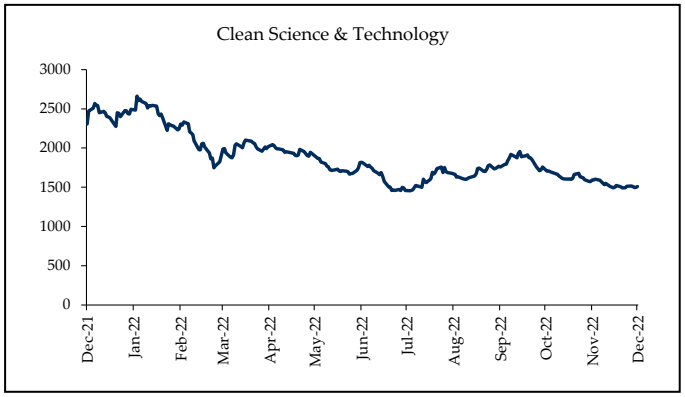
Health Insurance 1.0: Advantage SAHIs

India Equity Strategy - Capex: on a sustainable upswing

India City Gas Sector: Weathering the 'Perfect Storm'

1Yr Price History





Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

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