

Companies covered in the report

Name of the Company	Recommendation
Aarti Industries	ACCUMULATE
Clean Science and Tech.	HOLD
Deepak Nitrite	REDUCE
Fine Organic Industries	HOLD
Gujarat Fluoroc.	REDUCE
Laxmi Organic Ind.	REDUCE
Navin Fluorine Inter.	BUY
NOCL	REDUCE
SRF	HOLD
Jubilant Ingrevia Ltd	HOLD
Vinati Organics	ACCUMULATE

Most Relevant Charts or Tables from the Update which needs to be highlighted

Interesting Read

Specialty Chemicals

Sector Update

China+1? Brace for China 2.0!

Quick Pointers

- Our channel checks suggest that demand continues to remain sluggish
- Contrary to expectations, Chinese companies continue to build large chemical capacities

In 2017, ~40% of Chinese chemical companies were shut due to environmental concerns. China+1 had become a buzzword and Indian companies were expected to rise to the occasion with what appeared a perennial window for expansion and growth. EBITDA of our coverage universe registered ~24% CAGR during FY16-23. However, concerns on global economic recovery post COVID and inventory stocking amidst a weak demand resulted in EBITDA declining 18% YoY in H1FY24 and EBITDAM declining 250bps YoY. Although most listed Indian companies talk about completion of inventory destocking and normalization of demand, our channel checks suggest that we are almost a year away. Further, our research shows that the dragon is amassing capacities across chemicals, resulting in what one may call China 2.0 instead of China+1!

Decline amidst inventory stocking in H1FY24: Our coverage universe of specialty chemical companies (Aarti Industries Ltd, Vinati Organics Ltd, Deepak Nitrite Ltd, NOCIL Ltd, NFIL International Ltd, Jubilant Ingrevia Ltd, Laxmi Organics Ltd, Clean Science Technology Ltd, Fine Organics Ltd, SRF Ltd and Gujarat Fluorochemicals Ltd) registered 18% decline in EBITDA YoY in H1FY24. This was followed with 250bps decline in EBITDAM. Most stark were Gujarat Fluorochemicals Ltd and Nocil Ltd registering sharpest decline of 49% and 39% EBITDA in H1FY24. With respect to decline in EBITDAM, Gujarat Fluorochemicals Ltd and Nocil Ltd were the top two registering ~1000bps and ~500bps decline YoY.

Poor demand outlook by global majors: FMC, in Nov'23, highlights 8% EBITDA growth in 2024, most of which appears to be coming from cost measures. SABIC, one of the largest chemicals player globally, also guides towards a weak 2024. Bridgestone, in its commentary a few days' back guides towards a weak 2024- which does not augur well for rubber chemicals. Our channel checks with unlisted players also suggest similar outlook.

China 2.0: While it is a difficult task to tap capacity announcements across all chemicals, we dug all capacity announcements done by China in 2023 in agrochemicals space. Our study suggests that contrary to the popular belief of China+1, the Chinese players continue to add capacities, at times, comparable to total existing global demand.

Large capacity additions seen: In pyroxasulfone, where Indian players like PI Industries, Crop Science, Best Agro are present, China appears to have announced new capacities of 4,000mtpa in 2023 alone. Global demand itself is of 3,500mtpa. Similarly, for L-glufosinate (UPL, Insecticides India and several others), a total of 30,000mtpa of capacity has been announced in 2023. Additionally, 20,000mtpa is

already under construction. Global demand is ~120,000mtpa. Similar story plays out in other chemicals too.

Concerns for Indian players: As a result of capacity additions amidst sluggish demand, we remain concerned on the prospects of Indian chemical companies. While demand is yet to revive, China ramping up its capacities is likely to spell long term trouble for the Indian players. Out of coverage, we remain bullish only on Navin Fluorine International Ltd and Vinati Organics Ltd.

Top Picks:

- **Navin Fluorine International Ltd:** Company's topline & bottom-line grew at CAGR of >20% over FY16-FY23, primarily led by robust growth from specialty chemicals and CDMO business segments. Going forward, we remain bullish on the stock led by its strong focus on late entry products with completion of cGMP4 by CY24 coupled with strong growth from segments such as HPP & CDMO.
- The stock trades at 29x P/E & 20x EV/EBITDA on FY26E numbers. We assign P/E of 30x on FY26E EPS of Rs 134 and arrive at TP of Rs 4007. **“Maintain Buy”.**
- **Vinati Organics Ltd:** Company's topline & bottom-line grew at CAGR of ~20% over FY16-FY23. We believe for the company with demand recovery from ATBS, IBB & higher contribution from butyl phenol/antioxidants, robust performance to be seen post FY24. We believe long term story seems to be intact especially with expansion in ATBS and downstream products of butyl phenol. **“Maintain Accumulate”.**
- The stock trades at 34x P/E & 25x EV/EBITDA on FY26E numbers. We assign P/E of 40x on FY26E EPS of Rs 50 and arrive at TP of Rs 1997.

Exhibit 1: Vinati Organics Ltd

Valuation Basis	FY26E
Target P/E (x)	40
EPS	50
Target Price (INR)	1,997

Source: Company, PL

Exhibit 2: Navin Fluorine International Ltd

Valuation Basis	FY26E
Target P/E (x)	30
EPS	134
Target Price (INR)	4,007

Source: Company, PL

Exhibit 3: EBITDA (Rs mn) of coverage companies (FY16-H1FY24)

EBITDA (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	H1FY23	H1FY24
Aarti Industries Ltd.	5,723	6,535	6,991	9,651	9,773	9,816	17,201	10,890	5,485	4,360
Clean Science and Technology Ltd.	478	723	729	1,363	1,853	2,590	2,999	4,021	1,888	1,510
Deepak Nitrite Ltd.	1,668	1,355	1,963	4,139	10,258	12,470	16,036	12,894	6,268	5,120
Fine Organic Industries Ltd.	1,469	1,467	1,640	2,223	2,361	1,921	3,485	7,813	4,194	2,562
Gujarat Fluorochemicals Ltd.	13,093	11,745	7,535	8,171	4,716	6,376	11,976	19,653	9,947	5,110
Laxmi Organic Industries Ltd.	768	1,169	1,514	1,533	1,135	2,167	3,676	2,445	1,290	1,163
Navin Fluorine International Ltd.	1,161	1,499	2,107	2,181	2,607	3,108	3,548	5,503	1,930	2,126
NOCIL Ltd.	1,394	1,592	2,654	2,927	1,782	1,308	2,862	2,528	1,653	1,008
SRF Ltd.	9,625	9,969	9,526	12,970	14,549	21,452	31,759	35,292	17,641	13,225
Jubilant Ingrevia Ltd.	-	-	-	-	-	1,171	8,318	5,471	2,938	2,343
Vinati Organics Ltd.	2,068	2,170	1,973	4,234	4,139	3,525	4,341	5,954	2,793	2,198

Source: Company, PL

Exhibit 4: Poor commentaries for 2024 by global majors

Fitch	American Chemical Council	European Chemical Industry Council	Bridgestone	FMC	SABIC
little to no recovery in 2024	Global industrial output to rise by 1.8% in 2024 vs 0.6% in 2023	1% growth in EU27 chemical output in 2024	expect challenging conditions to continue throughout 2024 mainly in N. America & Europe	8% EBITDA growth in 2024, largely from cost measures	"This was a bad year for the chemical industry. I'm not sure whether 2024 is going to have any pickup. It does not seem to be."

Source: Company, PL

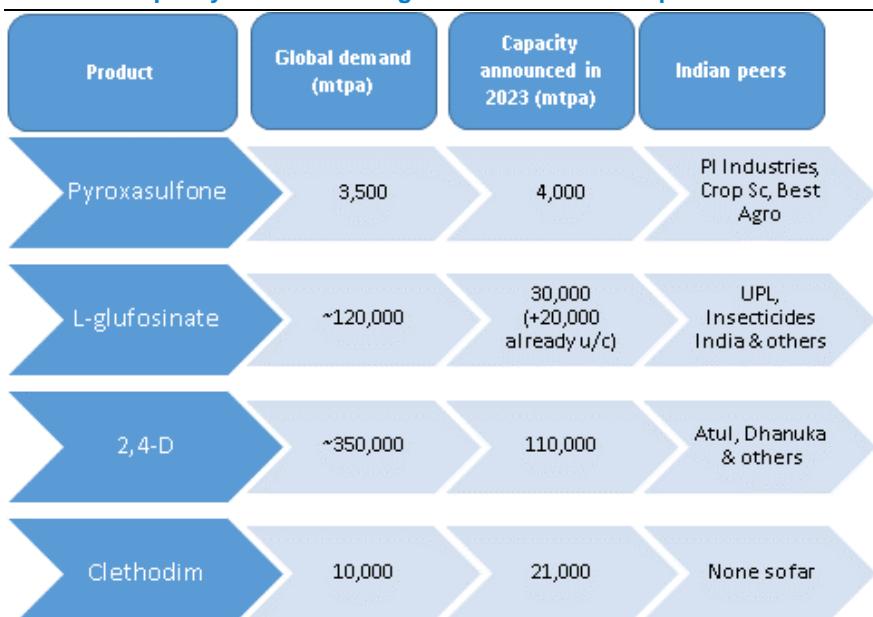
Exhibit 5: List of capacity additions announced in China in 2023

Date	Company	Product	Capacity (mtpa)	Capex (RMBmn)	Start by	Indian peers in particular product
13-Dec-23	Zhanhua Guochang Fine Chemical	pyroxasulfone	2,000			PI Industries, Crop Science, Best Agro
13-Dec-23	Haili Guixi New Material Technology	pirimiphos-methyl	3,000	173	2023	None
12-Dec-23	Rainbow Agro	pyroxasulfone	2,000	300		PI Industries, Crop Science, Best Agro
08-Dec-23	Zhongshan Chemical	propanil	7,000		2023	UPL, Best Crop Sc, Meghmani, Ichiban, Insecticides India
27-Nov-23	Yonon	L-glufosinate, picloram, diquat, spirodiclofen	10,000 / 6,800 / 15,000 / 2,000	800		UPL, Best Crop Sc, Insecticides India, Ichiban, Crop Life, Hetban, Bharat Rasayan, Canary Agro, Peptech, NACL, Coromandel, Agrow
27-Nov-23	Rainbow Agro	clethodim, 2,4-D & 2,4-D isoctyl ester, cloypralid, flumioxazin	8,000 / 60,000 / 1,000 / 1,000	2,680		2,4-D (Atul, Artee Minerals, Dhanuka, Meghmani, Heranba)
02-Nov-23	Shandong United Pesticide Industry	cyflumetofen	700	582		
31-Oct-23	Hubei Xingchen Technology	2,4-D	50,000			Atul, Artee Minerals, Dhanuka, Meghmani, Heranba
26-Oct-23	UPL Jiangsu Lanzhou	pesticide formulation	50,000	USD50mn		
19-Oct-23	Xinlongtai Biotechnology	glyphosate	30,000	120		Atul & several others
17-Oct-23	Xinji Alpha Biotechnology	bentazone	5,500	100	2023	
22-Sep-23	Inner Mongolia Yongtai Chemical Co	difluorobenzene, prothioconazole, chlorantraniliprole	200 / 500 / 500	20	2025	chlorantraniliprole (Natco, Best Crop, Insecticides India & others)
20-Sep-23	Hubei Shengkang Chemical Co	chlorantraniliprole intermediates	25,458	500	2025/26	
20-Sep-23	Anhui Red Sun	L-glufosinate	10,000	108		UPL, Best Crop Sc, Insecticides India, Ichiban, Crop Life, Hetban, Bharat Rasayan, Canary Agro, Peptech, NACL, Coromandel, Agrow
05-Sep-23	Limin Co	tembotrione intermediate	600	60		Insecticide India, Best Crop
05-Sep-23	Liaoning Youchuang	cyhalothrin, tetrachlorantraniliprole, imazethapyr and anilofos, SYP-Z048 and pydiflumetofen	15,650			cyhalothrin (Sumitomo, Crystal Crop, imazethapyr (several)
23-Aug-23	Qingdao Hengning Biotechnology Co	5-methyl-2-nitrobenzoic acid and annual 263.1-ton 3-Methyl-4-nitrobenzoic acid (by-product), 20,000-ton Bis(trichloromethyl)carbonate, 3,000-ton trifloxystrobin, 4,000-ton 2,3-dichloropyridine, 3,000-ton 3-Methyl-2-nitrobenzoic acid (technical material), 2500-ton oxime ether, 2,000-ton (trifluoromethyl)acetophenone, 7,500-ton 2,6-dichloropyridine and 7,200-ton 2,3,6-trichloropyridine		685		
21-Aug-23	Hebei Veyong Biochemical	L-glufosinate	10,000	330		UPL, Best Crop Sc, Insecticides India, Ichiban, Crop Life, Hetban, Bharat Rasayan, Canary Agro, Peptech, NACL, Coromandel, Agrow
21-Aug-23	Changqing Agrochemical	s-metoachlor	10,000		2,023	Best Crop, Ichiban, Agro Life
11-Aug-23	Nanjing Red Sun	chlorantraniliprole	2,000		2,023	chlorantraniliprole (Natco, Best Crop,

						Insecticides India & others)
11-Aug-23	Hebei Lansheng Biotechnology Co	clethodim, boscalid	25,005	25		boscalid (UPL, Coromandel)
10-Aug-23	Anhui Ningyitai Technology Co	topramezone	500			BASF, SRF
03-Aug-23	Shandong Huayang Pesticide Chemical Group	acephate	5,000	307		Heranba, UPL, Meghmani, Sudarshan & several others
03-Aug-23	Hubei Taisheng Chemical Co	L-glufosinate ammonium	50,000	5,000		UPL, Best Agro, Coromandel & others
10-Jul-23	Zhejiang Udragon Bioscience Co	600 t/a of prothioconazole, 50 t/a of ipconazole, 200 t/a of metconazole, 200 t/a of cyproconazole, 200 t/a of tiorantraniliprole, 200 t/a of zoxamide, 50 t/a of famoxadone, 50 t/a of spirobudifen, 200 t/a of MPPZ, 50 t/a of benzothiazolinone, and 250 t/a of fludioxonil		450		
03-Jul-23	Hebang	PMIDA	5,00,000	4,600		
12-May-23	Jingzhou Sancaitang Chemical Technology Co	thiabendazole	2,000	200		
28-Apr-23	Cynda	clethodim	5,000	66		
17-Apr-23	Liaoning Youchuang Crop Protection Co	imazethapyr, pyrisoxazole, cyhalothrin, pydiflumetofen, anilofos and tetrachlorantraniliprole	22,650	4,238	2025/26	imazethapyr (Astec, UPL & several others), cyhalothrin (Rallis, Nagarjuna, Atul, UPL & others), anilofos (Bayer, Gharda, Hyd Chemicals)
17-Mar-23	Gansu Beida Biotechnology Co	difenoconazole, prothioconazole, zoxamide, tiorantraniliprole, flufenacet and fludioxonil	22,000			difenoconazole (Astec & others)
11-Jan-23	Gansu Yinglong Biotechnology Co	800-ton amicarbazone, 150-ton penoxsulam and 1,000-ton dinotefuran				penoxsulam (Meghmani, Deccan, Coromandel & several others), dinotefuran (Insecticides India, Heranba & others)
04-Jan-23	Cynda	200-ton imazapic, 1,200-ton imazethapyr and 100-ton imazaquin technicals, 2,000-ton butyronitrile and 1,500-ton butyryl amide intermediates				Astec, UPL & several others

Source: agropages.com, PL

Exhibit 6: Capacity announced vs global demand for few products



Source: Industry, PL

Exhibit 7: EBITDA Margins of Coverage Universe (FY16-H1FY24)

EBITDA Margins (%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	H1FY23	H1FY24
Aarti Industries Ltd.	19.0	20.7	18.4	23.2	23.3	21.8	28.3	16.5	16.6	15.2
Clean Science and Technology Ltd.	33.0	37.9	30.3	34.7	44.2	50.5	43.8	43.0	40.9	39.2
Deepak Nitrite Ltd.	11.4	9.3	11.7	15.3	24.3	28.6	23.6	16.2	15.7	14.9
Fine Organic Industries Ltd.	21.2	18.0	19.0	21.3	23.0	17.1	18.8	25.8	26.5	25.5
Gujarat Fluorochemicals Ltd.	18.7	18.7	19.4	29.9	18.1	24.1	30.3	34.6	35.6	23.7
Laxmi Organic Industries Ltd.	7.3	10.9	11.0	9.8	7.4	12.3	11.9	8.7	9.2	8.4
Navin Fluorine International Ltd.	17.1	20.3	23.8	22.8	25.5	27.4	24.4	26.5	24.0	22.0
NOCIL Ltd.	19.5	21.5	27.4	28.1	21.1	14.1	18.2	15.6	18.4	13.5
SRF Ltd.	21.0	20.7	17.0	18.3	20.2	25.5	25.5	23.7	23.1	20.3
Jubilant Ingrevia Ltd.	-	-	-	-	-	17.1	16.8	11.5	11.2	11.9
Vinati Organics Ltd.	32.8	31.8	26.6	37.5	40.2	36.9	26.9	28.6	26.0	25.0

Source: Company, PL

Exhibit 8: Valuation table

	Revenue Rs mn			EBITDA Rs mn			ROE (%)			PE (x)			EV/EBITDA (x)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
ARTO IN	70,008	76,819	84,072	11,941	14,220	16,191	11.0	12.0	12.5	39.3	33.1	29.2	21.4	18.3	16.1
CLEAN IN	8,114	8,878	9,984	3,383	3,684	4,243	21.5	20.2	19.6	67.7	60.6	53.1	47.3	43.3	37.4
DN IN	84,976	94,272	1,04,933	13,615	17,517	19,740	18.8	20.1	19.1	37.3	29.3	26.0	23.2	18.1	16.0
FINEORG IN	24,246	25,458	26,731	5,734	5,544	5,577	25.9	21.3	19.1	32.9	34.1	32.9	23.3	23.6	22.9
FLUOROCH IN	44,211	48,972	62,183	11,872	13,638	18,980	11.0	11.1	14.5	57.3	51.1	34.8	32.0	27.9	20.1
JUBLINGR IN	47,223	54,255	60,506	5,352	6,628	7,233	10.0	11.8	12.0	27.4	21.3	19.0	15.0	12.3	11.3
LXCHEM IN	25,683	31,521	35,765	3,073	4,095	4,820	10.3	13.3	14.9	49.7	34.8	27.3	25.3	18.7	15.4
NFIL IN	24,303	31,152	36,218	6,282	8,325	9,790	16.8	20.2	20.3	48.3	34.4	28.9	31.9	24.1	20.4
NOCIL IN	14,986	17,308	19,905	2,218	2,605	3,061	7.8	9.3	10.4	36.7	29.3	24.2	19.0	15.7	13.0
SRF IN	1,39,847	1,61,298	1,79,041	30,983	36,024	41,694	15.1	15.3	15.6	43.1	37.1	31.9	24.5	21.1	18.2
VO IN	19,881	23,435	26,788	5,290	6,021	6,862	16.6	16.3	16.3	44.5	39.4	34.4	33.1	28.8	24.9

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	584	510
2	Bayer Cropscience	Accumulate	5,920	5,193
3	Bharat Petroleum Corporation	Reduce	365	429
4	Bharti Airtel	Accumulate	993	924
5	Clean Science and Technology	Hold	1,368	1,374
6	Deepak Nitrite	Reduce	1,935	2,076
7	Dhanuka Agritech	BUY	1,060	883
8	Fine Organic Industries	Hold	4,252	4,250
9	GAIL (India)	BUY	151	124
10	Godrej Agrovet	Hold	420	515
11	Gujarat Fluorochemicals	Reduce	2,413	2,780
12	Gujarat Gas	Accumulate	477	419
13	Gujarat State Petronet	BUY	328	273
14	Hindustan Petroleum Corporation	Sell	272	342
15	Indian Oil Corporation	Reduce	94	109
16	Indraprastha Gas	Hold	406	390
17	Insecticides India	Accumulate	600	519
18	Jubilant Ingrevia	Hold	433	412
19	Laxmi Organic Industries	Reduce	220	254
20	Mahanagar Gas	Hold	1,065	1,015
21	Mangalore Refinery & Petrochemicals	Hold	94	96
22	Navin Fluorine International	BUY	4,007	3,430
23	NOCIL	Reduce	226	246
24	Oil & Natural Gas Corporation	BUY	237	196
25	Oil India	BUY	368	302
26	P.I. Industries	BUY	4,600	3,648
27	Petronet LNG	Hold	208	196
28	Rallis India	Reduce	190	217
29	Reliance Industries	Accumulate	2,618	2,388

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Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
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