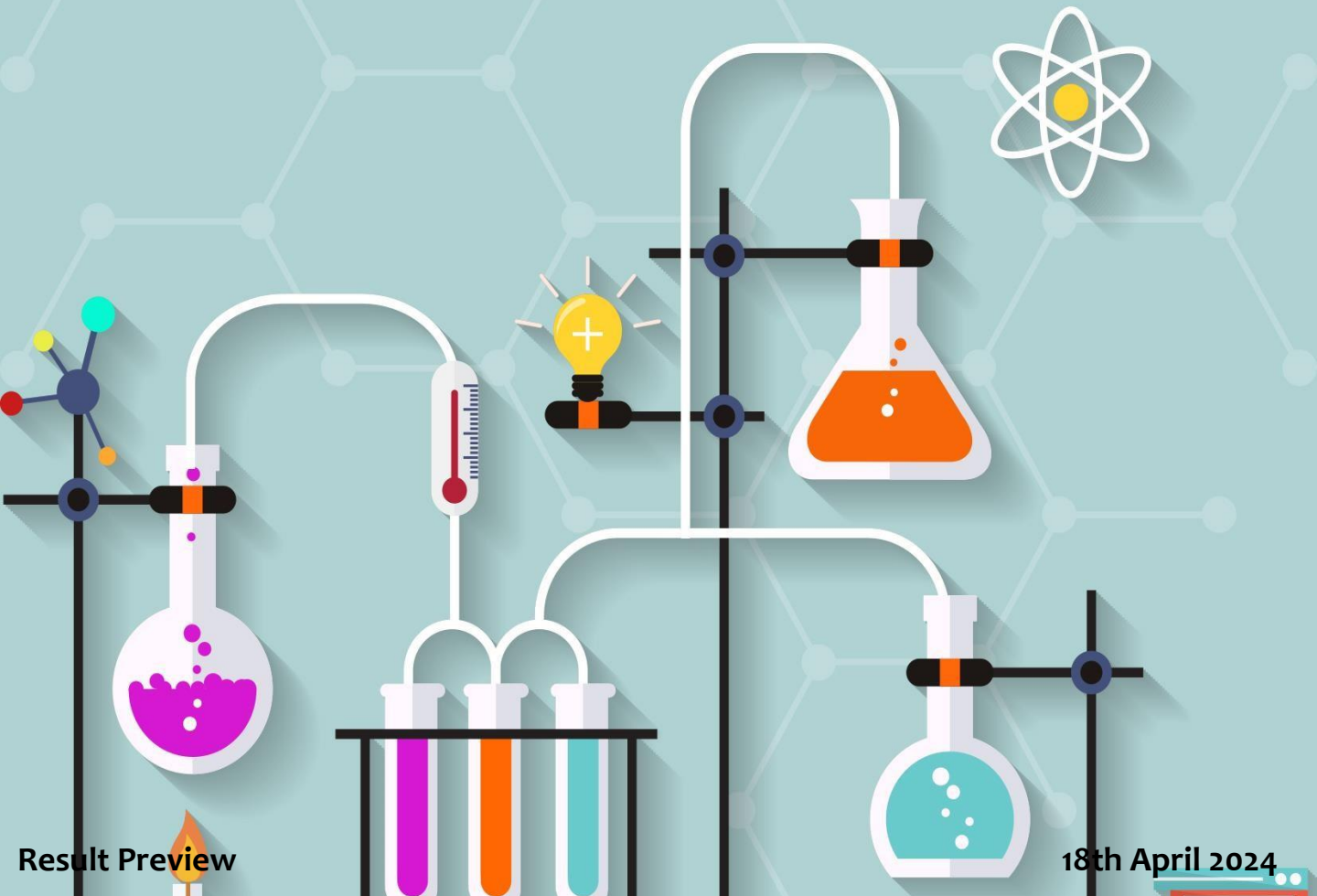


# Q4FY24E Specialty Chemical Preview



## Specialty Chemical Preview

### Subdued performance continues with demand being a key challenge

#### COVERAGE STOCKS

#### MARKET DATA

Company name	CMP	Target	Upside	Recomm
Fineotex Chemical Ltd	376	571	52%	BUY
Balaji Amines Ltd	2229	2,831	27%	BUY
Rossari Biotech Ltd	737	925	26%	BUY
Tatva Chintan Pharma Chem Ltd	1235	1,487	20%	ACCUMULATE
Anupam Rasayan India Ltd	855	1,008	18%	ACCUMULATE
Laxmi Organic Industries Ltd	250	272	9%	HOLD
Gujarat Fluorochemicals Ltd	3525	3,884	10%	ACCUMULATE
Vinati Organics Ltd	1560	1,692	8%	BUY
UPL Limited	485	487	0.5%	HOLD
Ami Organics Ltd	1233	1,200	TA*	ACCUMULATE
Navin Fluorine Ltd	3230	3,123	TA*	HOLD
Supreme Petrochem	640	592	TA*	HOLD

	Close	1M (%)	YTD (%)
Nifty	22,148	0.6%	1.9%
Sensex	72,944	0.4%	0.9%
USD / INR	83.6600	0.9%	0.5%

Note: TP and recommendation have been retained from previous update reports; we will review it post detailed Q4FY24E results analysis and conference call of the said companies.

Source: Bloomberg, NSE; Data as of April 16<sup>th</sup>, 2024; UR stands for Under Review; TA stands for Target Achieved

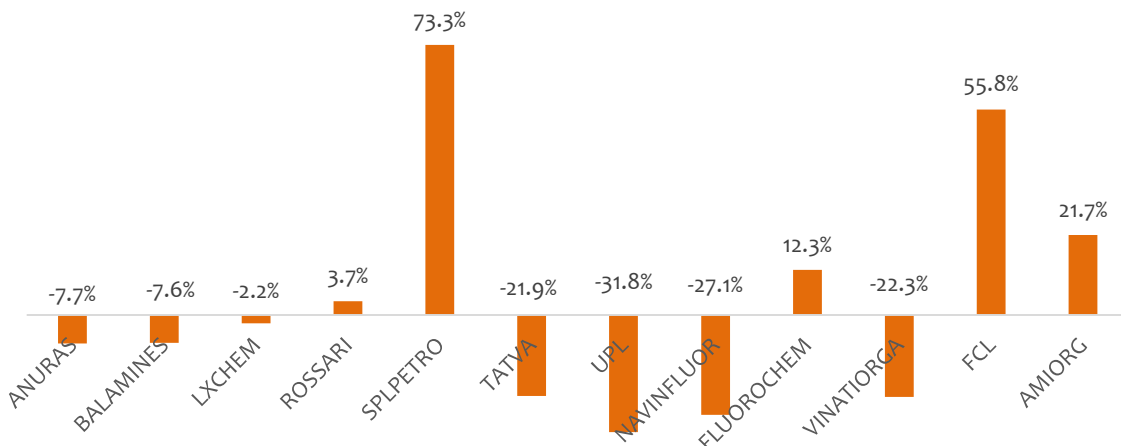
- In Q4FY24E, we expect continued subdued performance from the specialty chemical industry. The revenue is expected to fall by 24.0% YoY and grew 15.9% sequentially for the chemical companies under coverage.
- We expect positive growth for Fineotex Chemical (textile finishing chemicals), Rossari Biotech (focuses on specialty surfactants, the phenoxy series, institutional cleaning, and performance chemicals), Supreme Petrochem (due to demand pick up with Original Equipment Manufactures)
- We expect decline in growth for UPL (due to challenges in pricing in key herbicides and insecticides, and channel destocking), Gujarat Fluorochemicals (due to the volume and pricing pressure across business), Anupam Rasayan (decline in volume and lack of demand from end customers segments).
- Globally the destocking narrative is diminishing, the demand environment is anticipated to pose challenges till Q1FY25E, and then it is expected to pick up from Q2FY25E.
- Most companies are anticipated to experience a continued decline in price realization throughout Q4FY24E.
- The global crop protection industry is currently facing challenges due to prolonged destocking and ongoing pricing pressures. The sector is navigating through a difficult phase as it works to address these issues.
- Agrochemical demand is delayed and expected to rebound by H2FY25E.

## Specialty Chemical Preview

### SECTOR OVERVIEW

- The ongoing Red Sea crisis, which has persisted for six months, is forecasted to affect revenue in the upcoming quarters due to increased shipping costs, as well as delays caused by rerouting.
- These factors are expected to continue disrupting global value chains and narrowing margins.
- Although the moderation of raw material prices has offered some relief, the majority of chemical companies will need to transfer the benefits of this decrease in input costs to their customers.
- The chemical demand recovery in China post-lockdown has been weaker than anticipated, contributing to global price decline in chemical prices and margins, especially with the ongoing construction of significant new capacity in the region.
- Overall, the Q4FY24E is expected to remain subdued due to ongoing global macroeconomic challenges, slower consumption growth, and competition from Chinese players engaging in dumping practices.
- The key monitorables are demand outlook in end-user segments, push in the volumes at reduced prices and sequentially recovery in the performance.
- Our top picks are Rossari Biotech (double digit YoY revenue growth), Ami Organics (volume growth across segments), Supreme Petrochem (demand pick up in the OEM segment). Overall, we remain cautious on the sector.

Coverage stock returns 1 Yr (%)



Source: NSE

## Specialty Chemical Preview

### Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn

Q4FY24E	Outperform	Base	Underperform	View
<b>ANURAS</b>				
Sales	4,080	3,744	3,456	<ul style="list-style-type: none"> <li>We expect revenue to decline YoY by 22.1% in base case as subdued demand is expected to continue for Q4FY24E due to difficult conditions prevailing in the industry.</li> <li>EBITDA margin is expected to expand by 176 bps YoY in the base case, due to stabilization in raw material cost and not much impact in price realization.</li> <li>We expect net profit to decline YoY by 35.8% in base case scenario and contract 269 bps YoY in underperformance scenario.</li> </ul>
EBITDA	1,121	981	862	
PAT	573	364	315	
EBITDA (%)	27.5%	26.2%	24.9%	
NPM (%)	14.0%	9.7%	9.1%	
<b>BLA</b>				
Sales	4,148	3,960	3,771	<ul style="list-style-type: none"> <li>We expect revenue to decline YoY by 16.0% in base case due to volume decline in specialty chemical segment and lack of demand in agro chemical segment.</li> <li>EBITDA margin is expected to expand by 254 bps YoY in the base case, due to stable raw material cost.</li> <li>We expect net profit to grow YoY by 63.4% and expand 951 bps YoY in base scenario.</li> </ul>
EBITDA	961	883	585	
PAT	933	775	348	
EBITDA (%)	23.2%	22.3%	15.5%	
NPM (%)	22.5%	19.6%	9.2%	
<b>LXCHEM</b>				
Sales	7,772	7,391	7,039	<ul style="list-style-type: none"> <li>We expect revenue to grow YoY by 0.8% in base case due to weak demand in packaging segment and agrochemical space.</li> <li>EBITDA margin is expected to expand by 101 bps YoY in the base case, due to stabilization in key raw materials such as acetic acid and ethanol.</li> <li>We expect net profit to grow YoY by 3.7% in base case scenario and contract 130 bps in underperformance scenario.</li> </ul>
EBITDA	779	687	434	
PAT	549	252	141	
EBITDA (%)	10.0%	9.3%	6.2%	
NPM (%)	7.1%	3.4%	2.0%	

## Specialty Chemical Preview

### Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn

Q4FY24E	Outperform	Base	Underperform	View
<b>ROSSARI</b>				
Sales	5,283	5,007	4,470	<ul style="list-style-type: none"> <li>We expect revenue to grow YoY by 23.2% in base case as the Company focuses on specialty surfactants, the phenoxy series, institutional cleaning, and performance chemicals.</li> <li>EBITDA margin is expected to expand by 26 bps YoY in the base case, due to stable raw material cost.</li> <li>We expect net profit to grow YoY by 20.4% in base case scenario and contract 46 bps YoY in underperformance scenario.</li> </ul>
EBITDA	744	685	589	
PAT	383	348	297	
EBITDA(%)	14.1%	13.7%	13.2%	
NPM (%)	7.3%	7.0%	6.7%	
<b>SPPT</b>				
Sales	15,949	15,049	14,007	<ul style="list-style-type: none"> <li>We expect revenue to grow YoY by 8.5% in base case due to demand pick up with Original Equipement Manufactures (OEM).</li> <li>EBITDA margin is expected to contract by 433 bps YoY in the base case, due to increase in operating costs.</li> <li>We expect net profit to decline YoY by 27.8% and contract 385 bps in base case scenario.</li> </ul>
EBITDA	2,120	1,616	852	
PAT	1,612	1,154	614	
EBITDA(%)	13.3%	10.7%	6.1%	
NPM (%)	10.1%	7.7%	4.4%	
<b>TATVA</b>				
Sales	1,058	996	934	<ul style="list-style-type: none"> <li>We expect revenue to decline YoY by 20.0% in base case due to decline in price realisation and weak demand in Struture Directing Agents (SDA) segment</li> <li>EBITDA margin is expected to contract by 76 bps YoY in the base case, due to increase in employee costs.</li> <li>We expect net profit to decline YoY by 79.4% and contract 1,226 bps in base case scenario.</li> </ul>
EBITDA	146	123	101	
PAT	61	42	26	
EBITDA (%)	13.8%	12.3%	10.8%	
NPM (%)	5.7%	4.2%	2.7%	

## Specialty Chemical Preview

### Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn

Q4FY24E	Outperform	Base	Underperform	View
<b>UPLL</b>				
Sales	119,297	115,823	112,669	<ul style="list-style-type: none"> <li>We expect revenue to decline YoY by 30.1% in base case due to challenges in pricing in key herbicides and insecticides, and channel destocking.</li> <li>EBITDA margin is expected to contract by 715 bps YoY in the base case due to high-cost inventory liquidation.</li> <li>We expect the Company to post net loss of INR 3,049 Mn in base case scenario as against net profit of INR 8,530 Mn in Q4FY23 and net loss of INR 11,860 Mn in Q3FY24.</li> </ul>
EBITDA	15,202	13,022	10,977	
PAT	-2,318	-3,049	-3,929	
EBITDA(%)	12.7%	11.2%	9.7%	
NPM (%)	-1.9%	-2.6%	-3.5%	
<b>FLUROCH</b>				
Sales	11,095	10,567	10,038	<ul style="list-style-type: none"> <li>We expect an increase 6.5% QoQ and a decline of 28.2% YoY in revenue in base case, due to the volume and pricing pressure across business.</li> <li>In the base case, we anticipate the EBITDA margin to stay at 21.4%, representing a YoY decrease of 1,358 basis points.</li> <li>In the outperformance scenario, we expect NPM to reach 10.7%</li> </ul>
EBITDA	2,768	2,261	1,792	
PAT	1,184	940	716	
EBITDA(%)	24.9%	21.4%	17.9%	
NPM (%)	10.7%	8.9%	7.1%	
<b>NFIL</b>				
Sales	5,561	5,296	5,031	<ul style="list-style-type: none"> <li>In the base case, we anticipate a YoY decline of 24.0% in revenue, coupled with a QoQ increase of 5.5%, attributed to the expected boost in CDMO sales following the deferral from the previous quarter.</li> <li>In the base scenario, we forecast a sequential margin recovery of approximately 19.5%, attributed to the anticipated deferred revenue.</li> <li>In the outperform scenario, we expect the NPM to achieve 11.7%.</li> </ul>
EBITDA	1,312	1,034	777	
PAT	650	518	396	
EBITDA (%)	23.6%	19.5%	15.4%	
NPM (%)	11.7%	9.8%	7.9%	

## Specialty Chemical Preview

### Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn

Q4FY24E	Outperform	Base	Underperform	View
<b>VO</b>				
Sales	5,282	5,030	4,779	<ul style="list-style-type: none"> <li>In the base scenario, we anticipate a 12.3% QoQ rise in revenue as the effect of inventory impacts diminishes and volumes grow.</li> <li>In the base scenario, we foresee the EBITDA margin staying constant at 25.8%, representing a 16 bps increase in QoQ.</li> <li>In the outperform scenario, we anticipate the NPM to reach 18.9%.</li> </ul>
EBITDA	1,471	1,295	1,131	
PAT	996	894	798	
EBITDA(%)	27.8%	25.8%	23.7%	
NPM (%)	18.9%	17.8%	16.7%	
<b>AMIORG</b>				
Sales	2,124	2,198	2,273	<ul style="list-style-type: none"> <li>We expect revenue to grow YoY by 18.0% in base case due to volume growth in specilaty chemical segment and advanced intermediates segment.</li> <li>EBITDA margin is expected to contract YoY by 706 bps due to decline in price realization.</li> <li>We expect net profit to decline YoY by 21.1% and contract 482 bps in in base case scenario.</li> </ul>
EBITDA	338	326	311	
PAT	224	214	199	
EBITDA(%)	15.9%	14.8%	13.7%	
NPM (%)	10.5%	9.8%	8.7%	
<b>FCL</b>				
Sales	1,790	1,725	1,583	<ul style="list-style-type: none"> <li>We expect revenue to grow by 25% in the base scenario.</li> <li>From the 29% margins seen in Q3FY24, we expect margins to normalize to 22% in our base case.</li> <li>In the outperform scenario we expect a 20% Net Profit Margin, which can be achieved due to one time factors like higher prices on one-time deliveries.</li> </ul>
EBITDA	447	393	285	
PAT	358	303	238	
EBITDA (%)	25.0%	22.0%	18.0%	
NPM (%)	20.0%	17.5%	15.0%	

**Specialty Chemical Preview**

Anupam Rasayan 3-Yr PE (x)



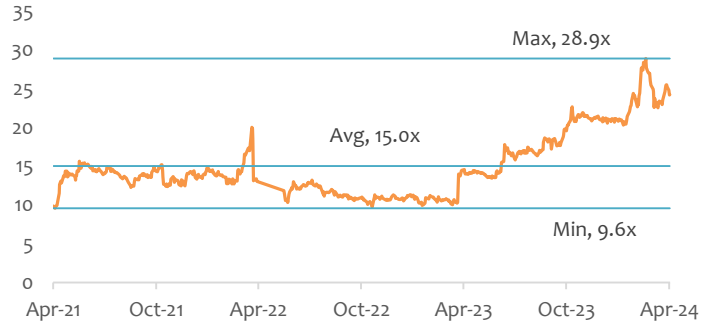
Balaji Amines Bank 3-Yr PE (x)



Rossari Biotech 3-Yr PE (x)



Supreme Petrochem 3-Yr PE(x)



Tatva Chintan Pharma Chem 3-Yr PE(x)



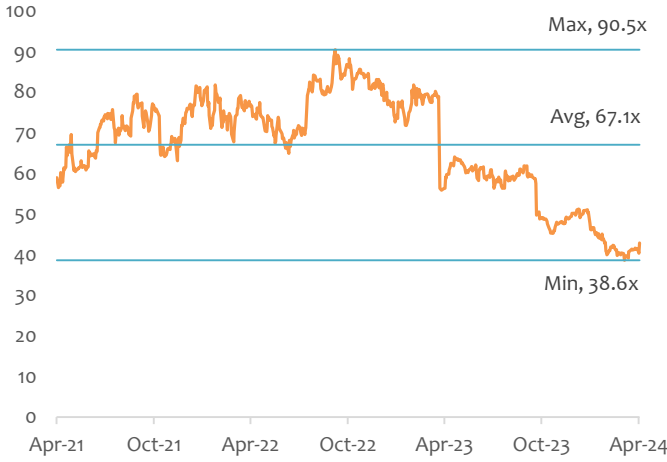
UPL 3-Yr PE (x)



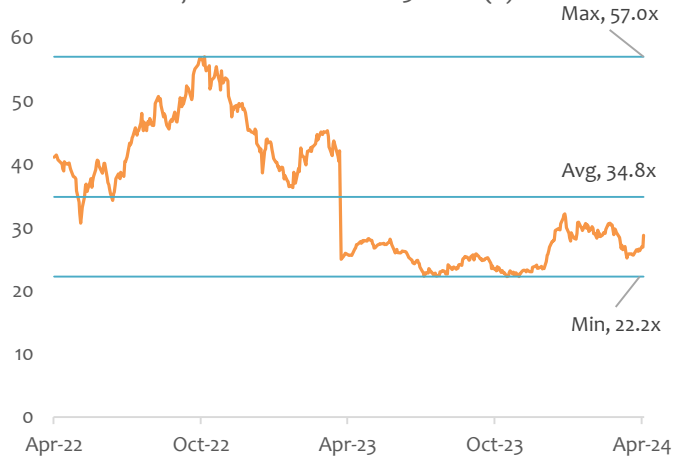


Specialty Chemical Preview

Navin Fluorine 3-Yr PE (x)



Gujarat Flurochemicals 3-Yr PE (x)



Vinati Organics 3-Yr PE (x)



Fineotex Chemicals 3-Yr PE (x)



Laxmi Organic Industries 3-Yr PE (x)



Ami Organics PE (x) since listed



## Specialty Chemical Preview

### Rating Legend (Expected over a 12-month period)

Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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