Q1 FY21E Chemical Sector Earnings Preview

BP WEALTH

Sector Report 15th July 2020

Operationally challenging quarter; Lockdown impact clearly visible

We expect the companies under our chemicals coverage to report revenue decline of ~13.6% in Q1FY21 with 22.7% de-growth in profitability, mainly impacted by operational challenges such as lower utilisation, logistic and labour related issues. Besides, sharp crude oil price correction has resulted in softening of key input materials like Benzene, Toluene, Phenol, Xylene etc. Although price correction in derivative products has been lower, resulting in higher spreads. We believe most of the chemical companies have ramped up their utilisation in June after initial lockdown challenges. Current utilisation, demand picks up from end-user industries and management commentaries on future outlook will be key things to monitor. Overall our Chemical coverage would post Revenue/EBITDA/PAT decline of 13.6%/15.8%/22.7% YoY respectively. We expect the EBITDA margin of our coverage universe to dip by 52bps YoY, owing to change in product mix

Aarti Industries

We expect Aarti Industries to report revenue decline of 13.5% on YoY basis, mainly due to decline in volume impacted by nationwide lockdown along with the decline in realisation (in tandem with softening of raw material price). The company's EBITDA margin expects to show 103bps improvement at 23% from 22% in Q1FY20 on the back of favourable product mix and lower input cost. The net profit is likely to de-grow by17.3% at INR 1168mn from INR 1413mn.

Bodal Chemical

Bodal Chemical's revenue expected to decrease by 27.7% YoY, on account of 40 days' production loss, slower ramp up and decline in demand. The company's EBITDA margin expects to contract from 13.1% to 12.3% due to an adverse pricing environment. Subsequently, net profit to fall by 39.3% at INR167mn from INR 275mn in Q1FY20.

Fine Organic

Fine organic's revenue is expected to post subdued revenue growth (a decline of 3.7% YoY), led by a slower recovery in domestic market post commencement of production compared to the export market (~55% of sales). We expect 158bps decline in EBITDA margin from 23.8% to 22.2% in Q1FY21E, on the back of normalisation of margin. Net profit is expected to de-grow by 14.6% YoY to INR 320mn from INR 374mn, on account of weak operational performance.

Hikal

We expect Hikal to post muted revenue growth (-0.8% YoY), due to subdued performance from both pharmaceutical and crop protection businesses. EBITDA margin to improve by 97bps to 18% compared to Q1FY21E driven by better product mix. Net profit to decline by 10.2% YoY to INR227mn from INR 252mn.

IG Petrochemicals

We expect IG petrochemicals revenue to decrease by 23.4% YoY, on account of both the volume (impacted by lockdown) as well as value (affected by a correction in PAN prices). We expect EBITDA margin to contract from 9.8% to 8.2% in Q1FY21 due to volatility in PAN/OX spread. However, we observed current gross margin and EBITDA margins are at multi-year lows. Therefore, we believe the possibility of further contraction in the margin is minimal, and we could see a positive reversal in margin going forward as spreads improve. Net profit to fall by 57.9% YoY to INR 38mn from INR 91mn due to operationally weak performance.

SH Kelkar

We expect SHK to deliver revenue de-growth of 6.9% YoY, due to slower demand in fragrance and flavour business due to nationwide lockdown. EBITDA margin to correct from 16.9% to 14.7% in Q1FY21 compared to the same quarter last year due to a high base and lower utilisation of tonalid facility (Mahad). Net profit to decrease by 17.4% YoY to INR 152mn from INR185mn.

Performance (%)	1m	3m	1Yr
Aarti Industries	1	3	11
Bodal Chemicals	26	42	-26
Fine organics	2	-3	43
Hikal Ltd	5	24	-26
IG Petrochemicals	14	23	-32
SH Kelkar	-5	-11	-46
Vinati Organics	-3	18	-3
GMM Pfaudler	-6	52	227

Company Name	Reco	CMP	Target price
Aarti Industries	Hold	918	874
Bodal Chemicals	Buy	80	92
Fine organic	Hold	2,137	2,022
Hikal Ltd	Buy	123	140
IG Petrochemicals	Buy	160	238
SH Kelkar	Buy	73	108
Vinati Organics	Hold	977	1,055
GMM Pfaudler	Hold	4,115	2,639

Our Top Picks:

⇒ **IG Petrochemicals**

⇒ **Hikal**

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Vinati Organics

We expect Vinati organic's revenue to decline by 20.2% YoY despite better volume offtake in IBB and butyl phenol revenue addition, while ATBS to witness weak demand due to negative impact of lockdown on oil and gas industry. EBITDA margin expected to contract by 586bps to 34.9% compared to 40.8% in Q1FY20 due to adverse product mix and operational challenges. PAT expected to be at INR 639mn compared to INR 917mn last year in the same quarter.

Þ **Other sector**

GMM Pfaudler

We expect GMM to post revenue growth of 14.5% YoY, driven by healthy volume growth supported by a strong order backlog with better realisation in GL and non-GL business. EBITDA margins expected to improve by 151bps on YoY basis from 18.4% to 19.9% due to increased contribution from high margin segments. Net profit set to grow by 24.2% YoY to INR 220mn from INR 177mn in Q1FY20 led by better operational performance.

Estimates for Q1FY21E

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q1FY21E	Q1FY20	Y-o-Y (%)	Q1FY21E	Q1FY20	Y-o-Y (%)	Q1FY21E	Q1FY20	Q1FY21E	Q1FY20	Y-o-Y (%)	Q1FY21E	Q1FY20
INR in mn													
Aarti Industries	9,817	11,355	-13.5%	2,258	2,495	-9.5%	23.0%	22.0%	1,168	1,413	-17.3%	11.9%	12.4%
Bodal Chemicals	2,692	3,723	-27.7%	331	489	-32.3%	12.3%	13.1%	167	275	-39.3%	6.2%	7.4%
Fine organics	2,345	2,435	-3.7%	521	580	-10.1%	22.2%	23.8%	320	374	-14.6%	13.6%	15.4%
Hikal Ltd	4,001	4,032	-0.8%	719	685	4.9%	18.0%	17.0%	227	252	-10.2%	5.7%	6.3%
IG Petrochemicals	1,898	2,479	-23.4%	155	243	-36.2%	8.2%	9.8%	38	91	-57.9%	2.0%	3.7%
SH Kelkar	2,555	2,744	-6.9%	376	464	-18.8%	14.7%	16.9%	152	185	-17.4%	6.0%	6.7%
Vinati Organics	2,321	2,907	-20.2%	810	1,185	-31.7%	34.9%	40.8%	639	917	-30.3%	27.5%	31.5%
Other													
GMM Pfaudler	1,721	1,503	14.5%	342	276	24.0%	19.9%	18.4%	220	177	24.2%	12.8%	11.8%

Source: Company, BP Equities Research

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Disclaimer Appendix

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