

Q2 FY21E Chemical Sector Earnings Preview



Sector Report

16th October 2020

Challenging quarter; Slower demand recovery in domestic market

We expect the companies under our chemicals coverage to report flat revenue growth (0.7%YoY) in Q2FY21 with 19.2% de-growth in profitability, mainly due to slower demand recovery in various industrial chemical segments caused by Covid 19. In addition, crude oil price correction has resulted in softening of key input materials like Benzene, Toluene, Phenol, 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 levels, however yet to achieve normalcy. Current utilisation, demand pick up from end-user industries, and management commentaries on future outlook will be key things to monitor. Overall our Chemical coverage would post a Revenue/EBITDA/PAT decline by 0.7%/-3.1%/19.2% YoY in Q2FY21. We expect the EBITDA margin of our coverage universe to dip by 75bps YoY, owing to change in product mix

Aarti Industries

We expect Aarti Industries to report revenue growth of 7.7% on a YoY basis, mainly due to demand revival in speciality chemical segment and steady growth in the pharma segment. Despite improved product mix EBITDA margin expect to contract by 219bps to 21.4% from 23.6% in Q2FY20 due to a high base last year. The net profit is likely to de-grow by 9.3% at INR 1339mn from INR 1476mn on account of higher depreciation tax expense.

Bodal Chemical

Bodal Chemical's revenue expected to decrease by 23.1% YoY, on account of a slower ramp-up in demand. The company's EBITDA margin remains low at 8.1% though it remains almost flat compared to the same quarter last year (8.4%) due to an adverse pricing environment. Subsequently, net profit to fall by 63% to INR 83mn from INR 224mn in Q2FY20.

Fine Organic

Fine organic's revenue expected to post subdued revenue growth (a decline of 3.3% YoY), led by a slower recovery in the domestic market post commencement of production compared to the export market (~55% of sales). We expect a 190bps decline in EBITDA margin from 23.8% to 21.9% in Q2FY21E, on the back of normalization of margin. Net profit is expected to de-grow by 37.8% YoY to INR 355mn from INR 570mn, on account of weak operational performance.

Hikal

We expect Hikal to post revenue growth of 4.9% YoY, due to improvement in performance from both the pharmaceutical and crop protection businesses. EBITDA margin to witness marginal improve by 28bps to 18.5% driven by a better product mix. Net profit to grow by 203% YoY to INR193mn from INR 64mn due to a low base (one-time custom duty expense of INR 154mn).

IG Petrochemicals

We expect IG petrochemicals revenue to decrease by 1.7% YoY, on account of lower realizations. We expect the EBITDA margin to expand from 5.4% to 9% in Q2FY21, due to improvement in PAN/OX spread (between \$150-\$170). Net profit to grow by 156% YoY to INR 86mn from INR 34mn due to better operational performance.

SH Kelkar

We expect SHK to deliver revenue growth of 11% YoY, led by demand recovery and new business wins in the fragrance and flavor business. EBITDA margin to improve from 13.7% to 15.1% in Q2FY21 compared to the same quarter last year, due to better product mix and stable raw material prices. Net profit to surge by 60.6% YoY to INR 248mn from INR154mn.

Performance (%)	1m	3m	1Yr
Aarti Industries	-10	6	28
Bodal Chemicals	-12	-15	-6
Fine organics	-18	23	36
Hikal Ltd	9	44	26
IG Petrochemicals	22	106	106
SH Kelkar	3	23	-28
Vinati Organics	7	31	20
GMM Pfaudler	-40	-12	142

Company Name	Reco	CMP	Target price
Aarti Industries	Hold	976	874
Bodal Chemicals	Buy	63	76
Fine organic	Hold	2,528	2,022
Hikal Ltd	Buy	172	140
IG Petrochemicals	Buy	298	278
SH Kelkar	Buy	86	102
Vinati Organics	Hold	1,256	1,100
GMM Pfaudler	Sell	3,522	2,657

Our Top Picks:

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

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Vinati Organics

We expect Vinati organic's revenue to decline by 10.2% YoY, despite better volume offtake in IBB and butyl-phenol revenue addition, while ATBS to witness weak demand due to the negative impact of lockdown on the oil and gas industry. EBITDA margin expected to contract by 388bps to 36.9% compared to 40.7% in Q2FY20 due to adverse product mix. PAT expected to be at INR 624mn compared to INR 1100mn last year the same quarter on account of operationally weak performance.

▸ Other sector

GMM Pfaudler

We expect GMM to post revenue growth of 15% YoY, driven by healthy volume growth supported by strong order backlog with better realization in GL and non-GL business. EBITDA margins expected to improve by 133bps on a YoY basis from 19.1% to 20.5% due to increased contribution from high margin segments. Net profit set to grow by 23.4% YoY to INR 250mn from INR 203mn in Q2FY20 led by better operational performance.

Estimates for Q2FY21E

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q2FY21E	Q2FY20	Y-o-Y (%)	Q2FY21E	Q2FY20	Y-o-Y (%)	Q2FY21E	Q2FY20	Q2FY21E	Q2FY20	Y-o-Y (%)	Q2FY21E	Q2FY20
INR in mn													
Aarti Industries	11,598	10,768	7.7%	2,482	2,541	-2.3%	21.4%	23.6%	1,339	1,476	-9.3%	11.5%	13.7%
Bodal Chemicals	2,366	3,077	-23.1%	191	258	-25.9%	8.1%	8.4%	83	224	-63.0%	3.5%	7.3%
Fine organics	2,650	2,740	-3.3%	580	651	-11.0%	21.9%	23.8%	355	570	-37.8%	13.4%	20.8%
Hikal Ltd	3,368	3,211	4.9%	622	584	6.6%	18.5%	18.2%	193	64	202.8%	5.7%	2.0%
IG Petrochemicals	2,621	2,666	-1.7%	235	143	64.1%	9.0%	5.4%	86	34	155.5%	3.3%	1.3%
SH Kelkar	3,100	2,793	11.0%	467	383	22.2%	15.1%	13.7%	248	154	60.6%	8.0%	5.5%
Vinati Organics	2,200	2,451	-10.2%	811	999	-18.8%	36.9%	40.7%	624	1,100	-43.3%	28.4%	44.9%
Other													
GMM Pfaudler	1,780	1,548	15.0%	364	296	23.0%	20.5%	19.1%	250	203	23.4%	14.1%	13.1%

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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