

Q3 FY21E Chemical Sector Earnings Preview



Sector Report

15th January 2021

Mixed quarter; Speedy demand recovery in the domestic market, muted export performance

We expect the companies under our chemicals coverage to report higher single-digit revenue growth (9.6%YoY) in Q3FY21 with 19.9% growth in profitability, mainly led by speedy demand recovery in selective end-user industries such as Plasticizers, Paints, Auto, FMCG Pharma, and Agrochem. Increased freight costs due to severe disruptions on supply routes impacted imports during Q3 leading to a temporary surge in selective chemical prices in the domestic market. On the export front, the trade challenge, weak demand, and travel-related restrictions due to steady rising Covid19 would adversely impact the overall performance of selective players in Q3. We believe most chemical companies have ramped up their utilization levels and reached the pre covid level. 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 growth of 9.6%/20.6%/19.9% YoY in Q3FY21. We expect the EBITDA margin of our coverage universe to improve by 186bps YoY, owing to favourable product mix and improved spreads.

Aarti Industries

We expect Aarti Industries to report revenue growth of 9% 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 expects to contract by 114bps to 20.3% from 21.5% in Q3FY20 due to lower utilization in speciality chem capacity. The net profit is likely to grow by 4.7% at INR 1480mn from INR 1413mn because of higher depreciation due to multiple expansion.

Bodal Chemical

Bodal Chemical's revenue expected to decrease by 11.1% YoY, on account of a slower ramp-up in demand. The company's EBITDA margin remains low at 8.3% (vs 7.1% in Q3FY20) due to an adverse pricing environment. Subsequently, net profit to fall by 16.6% to INR 122mn from INR 146mn in Q3FY20.

Fine Organic

We expect Fine organics to report muted revenue growth (4.3% YoY), due to slower pickup in domestic demand and deferment of orders in European markets (28% of export) due to lockdown across key regions. We expect a 195bps contraction in EBITDA margin from 21.6% to 19.6% in Q3FY21E, impacted by input cost price increase. Net profit is expected to de-grow by 6.5% YoY to INR 335mn from INR 358mn, on account of weak operational performance.

Hikal

We expect Hikal to post strong revenue growth of 17.3% YoY, led by improvement in performance from both the pharmaceutical and crop protection businesses. EBITDA margin to remain flat at 18.8% compared to 18.7% in Q3FY20. Net profit to grow by 38.9% YoY to INR 394mn from INR 284mn on account of better operational performance and lower finance cost.

IG Petrochemicals

We expect IG petrochemicals revenue to surge by 25.9% YoY, based on higher realizations backed by healthy demand for PAN in the domestic market with limited supply. We expect a sharp enhancement in the EBITDA margin to 27.7% from 6.2% in Q3FY20, driven by improvement in PAN/OX spread (between \$250-\$300). Net profit to grow by 14x YoY to INR 637mn from INR 45mn due to superior operational performance.

Performance (%)	1m	3m	1Yr
Aarti Industries	3	29	48
Bodal Chemicals	-1	19	1
Fine organics	0	-2	21
Hikal Ltd	1	0	32
IG Petrochemicals	-15	31	119
SH Kelkar	10	49	6
Vinati Organics	13	2	29

Company Name	Reco	CMP	Target price
Aarti Industries	Hold	1257	1153
Bodal Chemicals	Buy	75	85
Fine organic	Hold	2,490	2,459
Hikal Ltd	Buy	172	202
IG Petrochemicals	Buy	391	405
SH Kelkar	Buy	127	148
Vinati Organics	Hold	1278	1,112

Our Top Picks:

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

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SH Kelkar

We expect SHK to deliver revenue growth of 29.1% YoY, led by demand recovery, new business wins in the fragrance & flavour business and integration of CFF (revenue contribution INR690mn). EBITDA margin to improve from 15% to 16.2% in Q3FY21 compared to the same quarter last year, due to better product mix. Adj Net profit to grow by 17.7% YoY to INR 301mn from INR256mn.

Vinati Organics

We expect Vinati organic's revenue to decline by 8% YoY, despite better volume offtake in IBB, slower ramp-up of butyl-phenol and weak demand for ATBS impacted overall revenue performance. EBITDA margin expected to improve by 145bps to 36.3% compared to 34.8% in Q3FY20. PAT expected to decline by 20.2% to INR 533mn compared to INR 688mn last year the same quarter on account of higher capital cost and underutilized assets.

Estimates for Q3FY21E

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q3FY21E	Q3FY20	Y-o-Y (%)	Q3FY21E	Q3FY20	Y-o-Y (%)	Q3FY21E	Q3FY20	Q3FY21E	Q3FY20	Y-o-Y (%)	Q3FY21E	Q3FY20
INR in mn													
Aarti Industries	12,429	11,401	9.0%	2,529	2,450	3.2%	20.3%	21.5%	1,480	1,413	4.7%	11.9%	12.4%
Bodal Chemicals	2,883	3,264	-11.7%	239	230	4.0%	8.3%	7.1%	122	146	-16.6%	4.2%	4.5%
Fine organics	2,776	2,662	4.3%	544	574	-5.2%	19.6%	21.6%	335	358	-6.5%	12.1%	13.5%
Hikal Ltd	4,738	4,041	17.3%	893	757	18.1%	18.8%	18.7%	394	284	38.9%	8.3%	7.0%
IG Petrochemicals	3,469	2,756	25.9%	962	172	460.1%	27.7%	6.2%	637	45	1324.0%	18.4%	1.6%
SH Kelkar	3,713	2,876	29.1%	602	431	39.5%	16.2%	15.0%	301	256	17.7%	8.1%	8.9%
Vinati Organics	2,193	2,385	-8.0%	795	830	-4.2%	36.3%	34.8%	533	668	-20.2%	24.3%	28.0%

Source: Company, BP Equities Research

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