

Q4 FY21E Chemical Sector Earnings Preview



Sector Report

19th April 2021

Speedy demand recovery across end-user industries to drive growth

We expect the companies under our chemicals coverage to report strong revenue growth (23.6% YoY) in Q4FY21 with 74% growth in profitability, mainly led by restoration of demand in selective end-user industries such as Plasticizers, Paints, Construction, Auto, FMCG, Pharma and Agrochem. We expect double-digit volume growth for most companies under our universe. Increased freight costs due to severe disruptions on supply routes impacted imports during Q4 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 Q4. We believe most of the chemical companies have ramped up their utilisation levels and reached 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 23.6%/47.4%/74.1% YoY in Q4FY21. We expect the EBITDA margin of our coverage universe to improve by 361bps YoY, owing to favorable product mix and improved spread.

Aarti Industries

Aarti Industries' Q4FY21 revenues are expected to grow by 21.9% YoY basis, led by demand revival in speciality chemical segment and healthy growth in the pharma segment. With improved product mix and additional compensation income from the canceled contract, EBITDA margin likely to improve by 404bps to 24.4% from 20.3% in Q4FY20. The net profit expected to grow by 85% at INR 2042mn from INR 1104mn supported by strong operational performance.

Bodal Chemical

Bodal Chemical's revenue expected to increase by 10.9% YoY, on account of better export growth. The company's EBITDA margin to improve by 44bps at 11.3% (vs 10.8% in Q4FY20) due to a better product mix. Subsequently, net profit to grow by 30.5% to INR 301mn from INR 231mn in Q4FY20.

Fine Organic

We expect Fine organics to report healthy revenue growth (19.6% YoY), supported by the recovery in volume growth plus product price increase in line with a surge in input cost. We expect a 358bps contraction in EBITDA margin from 23.2% to 19.6% in Q4FY21E, impacted by higher input cost. Net profit to grow by 4% YoY to INR 358mn from INR 344mn.

Hikal

We expect Hikal to post strong revenue growth of 28.2% YoY, led by improvement in performance from both the pharmaceutical and crop protection businesses. EBITDA margin to improve by 46bps at 19.1% compared to 18.6% in Q4FY20. Net profit to grow by 70% YoY to INR417mn from INR 245mn on account of better operational performance and lower finance cost.

IG Petrochemicals

We expect IGPL to report strong revenue growth (of 46.2% YoY), on account of higher realizations backed by healthy demand for PAN in the domestic market with limited supply coupled with fast absorption of newly added PAN capacity. We expect EBITDA margin to expand by 24% to 30% from 6% in Q4FY20, driven by a sharp surge in PAN/OX spread (between \$300-\$350). Net profit to grow by 18.8x YoY to INR 783mn from INR 40mn backed by exceptional operating performance.

Performance (%)	1m	3m	1Yr
Aarti Industries	11	10	54
Bodal Chemicals	-8	20	69
Fine organics	8	0	20
Hikal Ltd	17	4	67
IG Petrochemicals	-4	19	217
SH Kelkar	11	5	74
Vinati Organics	13	26	87

Company Name	Reco	CMP	Target price
Aarti Industries	Hold	1,425	1,286
Bodal Chemicals	Buy	90	96
Fine organic	Hold	2,498	2,459
Hikal Ltd	Buy	180	202
IG Petrochemicals	Buy	464	566
SH Kelkar	Buy	134	148
Vinati Organics	Hold	1,605	1,326

Our Top Picks:

- ⇒ IG Petrochemicals
- ⇒ Hikal

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SH Kelkar

We expect SHK to deliver revenue growth of 46.4% YoY, led by healthy demand, new business wins in the fragrance & flavor business, and integration of CFF (revenue contribution INR680mn). EBITDA margin to improve from 11.7% to 17.6% in Q4FY21 compared to the same quarter last year, due to better product mix. Adj Net profit to grow by 217% YoY to INR 402mn from INR127mn.

Vinati Organics

We expect Vinati organic's revenue to decline by 2.7% YoY, despite better volume offtake in ATBS, while slower ramp-up of butyl-phenol impacted overall revenue performance. EBITDA margin expected to contract by 545bps to 36% compared to 41.4% in Q4FY20. PAT expect to fall by 15% to INR 635mn compared to INR 746mn last year the same quarter to subdued operational performance.

Estimates for Q4FY21E

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q4FY21E	Q4FY20	Y-o-Y (%)	Q4FY21E	Q4FY20	Y-o-Y (%)	Q4FY21E	Q4FY20	Q4FY21E	Q4FY20	Y-o-Y (%)	Q4FY21E	Q4FY20
INR in mn													
Aarti Industries	13,115	10,762	21.9%	3,198	2,189	46.1%	24.4%	20.3%	2,042	1,104	85.0%	15.6%	10.3%
Bodal Chemicals	4,088	3,685	10.9%	461	399	15.4%	11.3%	10.8%	301	231	30.5%	7.4%	6.3%
Fine organics	2,958	2,473	19.6%	580	573	1.2%	19.6%	23.2%	358	344	4.1%	12.1%	13.9%
Hikal Ltd	4,859	3,790	28.2%	928	706	31.4%	19.1%	18.6%	417	245	70.2%	8.6%	6.5%
IG Petrochemicals	3,925	2,685	46.2%	1,178	160	635.6%	30.0%	6.0%	783	40	1879.3%	19.9%	1.5%
SH Kelkar	3,970	2,712	46.4%	699	318	120.0%	17.6%	11.7%	402	127	216.8%	10.1%	4.7%
Vinati Organics	2,388	2,453	-2.7%	859	1,017	-15.5%	36.0%	41.4%	635	746	-15.0%	26.6%	30.4%

Source: Company, BP Equities Research

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