

Q1 FY22E Chemical Sector Earnings Preview



BP WEALTH

Sector Report

17th July 2021

Solid Q1=Low base coupled with Healthy demand momentum in domestic/export market

We expect the companies under our chemicals coverage to report solid revenue growth (65.1%YoY) in Q1FY22 with 141.8% growth in profitability, mainly led by restoration of demand in end-user industries and low base (covid-19 had posed challenges in Q1FY21). We expect higher double-digit volume growth for most companies under our universe. Increased freight costs due to severe disruptions on supply routes impacted imports (since the last few quarters), leading to a surge in selective chemical prices in the domestic market. The growth trajectory from the export market looks promising with the commissioning of new capacity for selective players. We believe most of the chemical companies have ramped up their utilisation levels and reached the pre-Covid level, resulting in margin normalization. Overall our Chemical coverage would post a Revenue/EBITDA/PAT growth of 65.1%/94.8%/141.8% YoY in Q1FY22. We expect the EBITDA margin of our coverage universe to improve by 328bps YoY, owing to a favourable product mix and improved spread.

Aarti Industries

Aarti Industries' Q4FY21 revenues are expected to grow by 40.4% YoY basis, led by a low base, demand revival in the speciality chemical segment and healthy growth in the pharma segment. With improved product mix and pick up in capacity utilization, EBITDA margin is likely to improve by 261bps to 22% from 19.4% in Q1FY21. The net profit is expected to grow by 89.9% at INR 1580mn from INR 832 mn supported by strong operational performance.

Bodal Chemical

Bodal Chemical's revenue is expected to increase by 261% YoY, on account of low base and better traction in the export market. We expect the EBITDA margin to reach 10.9% compared to -17.8% in Q1FY21. PAT is expected at INR 262mn (compared to a loss of INR 200mn in Q1FY21) on the back of improved operational performance.

Fine Organic

We expect Fine organic to report healthy revenue growth (41.1% YoY), supported by the recovery in volume growth plus product price increase in line with a surge in input cost. We expect a 465bps contraction in EBITDA margin from 21.9% to 17.2% in Q1FY22, impacted by higher input cost. Net profit to grow by 27.9% YoY to INR 366mn from INR 286 mn.

Hikal

We expect Hikal to post strong revenue growth of 31.1% YoY, led by improvement in performance from both the pharmaceutical and crop protection businesses. EBITDA margin to improve by 332bps at 18.2% compared to 14.9% in Q1FY21. Net profit to grow by 140.7% YoY to INR361mn from INR 150mn on account of better operational performance and lower finance cost.

IG Petrochemicals

We expect IGPL to report strong revenue growth (of 190.8% YoY), on account of higher realizations backed by healthy demand for PAN in the domestic market with fast absorption of newly added PAN capacity. We expect EBITDA margin to expand by 19% to 30% from 11% in Q1FY21, driven by a sharp surge in PAN/OX spread. Net profit to grow by 37.3x YoY to INR 853mn from INR 22mn backed by exceptional operating performance.

Performance (%)	1m	3m	1Yr
Aarti Industries	-6	20	91
Bodal Chemicals	8	30	57
Fine organics	5	20	41
Hikal Ltd	12	189	323
IG Petrochemicals	11	49	353
SH Kelkar	4	26	145
Transpek Industry	13	41	32
Vinati Organics	9	19	95

Company Name	Reco	CMP	Target price
Aarti Industries	Hold	857	926
Bodal Chemicals	Buy	117	123
Fine organic	Hold	2,996	2,964
Hikal Ltd	UR	519	UR
IG Petrochemicals	Buy	690	712
SH Kelkar	Hold	168	159
Transpek Industry	Buy	1,906	2,167
Vinati Organics	Hold	1,910	1,890

Our Top Picks:

- ⇒ **IG Petrochemicals**
- ⇒ **Transpek Industry**

Research Analyst

Nikhil Shetty

nikhilshetty@bpwealth.com

Q1 FY22 Chemical Earnings Preview

SH Kelkar

We expect SHK to deliver revenue growth of 86.1% YoY, led by healthy demand, new business wins in the fragrance & flavor business and integration of CFF / Nova Fragranze (revenue contribution INR 780mn). Despite moderate inflation in raw materials, the EBITDA margin to witness marginal improvement from 16.7% to 16.2% in Q1FY22 compared to the same quarter last year, due to a better product mix. Adj Net profit to grow by 130% YoY to INR 341mn from INR148mn.

Transpek Industry

Transpek's revenue is expected to increase by 56.4% YoY, aided by volume recovery in the long-term supply contract (Polymer segment). The company's EBITDA margin to improve by 649bps at 18.4% (vs 11.9% in Q1FY21) due to a better product mix and positive operating leverage. Subsequently, net profit to grow by 223% to INR 122mn from INR 38mn in Q1FY21.

Vinati Organics

We expect Vinati organic's revenue to grow by 50.7% YoY because of higher demand for ATBS and scale-up of Butyl Phenol. EBITDA margin expected to contract by 440bps to 37.6% compared to 42% in Q1FY21 due change in product mix. PAT expect to increase by 31.6% to INR 952mn compared to INR 723mn backed by strong operational performance.

Estimates for Q1FY22E

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q1FY22E	Q1FY21	Y-o-Y (%)	Q1FY22E	Q1FY21	Y-o-Y (%)	Q1FY22E	Q1FY21	Q1FY22E	Q1FY21	Y-o-Y (%)	Q1FY22E	Q1FY21
INR in mn													
Aarti Industries	13,163	9,373	40.4%	2,900	1,820	59.3%	22.0%	19.4%	1,580	832	89.9%	12.0%	8.9%
Bodal Chemicals	4,254	1,178	261.1%	462	-209	320.3%	10.9%	-17.8%	262	-200	231.5%	6.2%	-16.9%
Fine organics	3,386	2,400	41.1%	583	525	11.1%	17.2%	21.9%	366	286	27.9%	10.8%	11.9%
Hikal Ltd	4,627	3,528	31.1%	842	525	60.4%	18.2%	14.9%	361	150	140.7%	7.8%	4.3%
IG Petrochemicals	4,132	1,421	190.8%	1,248	157	694.8%	30.2%	11.0%	853	22	3732.1%	20.6%	1.6%
SH Kelkar	3,560	1,913	86.1%	596	310	92.4%	16.7%	16.2%	341	148	129.9%	9.6%	7.7%
Transpek Industry	1,167	747	56.4%	215	89	141.6%	18.4%	11.9%	122	38	222.7%	10.4%	5.1%
Vinati Organics	3,489	2,316	50.7%	1,311	972	34.9%	37.6%	42.0%	952	723	31.6%	27.3%	31.2%

Source: Company, BP Equities Research

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

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP Equities or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP Wealth and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP Equities or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Equities Pvt. Ltd.

CIN No: U67120MH1997PTC107392