

Chemicals

On a recovery path

Revenue for our coverage universe is likely to improve by 8% QoQ while it could fall by 3.8% YoY in 4Q. Prices of the chemical are showing a mixed bag on a sequential basis. As per management, the domestic inventory destocking is over while global inventory destocking will continue for the next two quarters. EBITDA could improve by 16% on QoQ but could fall by 18% YoY.

- **Aarti Industries:** Revenue could improve by 8.2/3.4% YoY /QoQ. EBITDA margin remains flat while improving QoQ by 5% due to fall in raw material prices.
- **Aether Industries:** Revenue to remain stagnant QoQ basis while decreasing 15.4% YoY due to pricing pressure resulting from dumping by Chinese manufacturers and sluggish demand. EBITDA margin to improve by 442 bps QoQ to 24%. In Q3FY24, the margin was impacted by high-cost inventory.
- **Alkyl Amines:** Revenue shall decrease by 11.3% YoY due to a sharp correction in product prices. EBITDA margin to narrow by 146bps YoY to 17.2% in 4QFY24. This can be attributed to the corrected price of Acetonitrile.
- **Ami Organics:** Revenue shall grow 12% QoQ as we expect volume growth to continue. We expect the revenue to go up 30% QoQ to INR 63mn from Baba Fine Chemicals. EBITDA margin is expected to improve by 202 bps QoQ to 17.9% owing to increased contribution from the high-margin business of Baba Fine Chemicals.
- **Clean Science and Technology:** We expect revenue to improve by 11.7% QoQ owing to 15/10% growth in performance chemicals and FMCG chemicals segments. Also, we expect an increase in exports of HALS sequentially, post-commissioning of Clean Fino-Chem during the quarter. EBITDA margin could remain stagnant at 44.6% QoQ while declining by 386 bps YoY due to a fall in finished product prices.
- **Deepak Nitrite:** Revenue shall increase by 6.2/8.8% QoQ/YoY. Deepak Phenolics could report a revenue increase of 6% to INR 14.27 bn due to increased IPA prices and an increase in volumes post-debottlenecking. We expect EBIT from Deepak Phenolics to increase by 27/29% QoQ/YoY owing to an increase in realisation for IPA while raw material prices remain flat.
- **Fine Organic:** Revenue shall increase by 20% QoQ owing to an increase in exports. EBITDA margin could decrease by 64/1036 bps QoQ/YoY due to an increase in raw material prices.
- **Galaxy Surfactants:** Revenue to remain flattish sequentially owing to improvement in per kg realisation but volumes could fall. The realisation for both performance surfactants and specialty care shall improve. We expect volumes of performance surfactant to jump up 6% QoQ while the volume of specialty care to fall by 14% sequentially. EBITDA margin to increase by 100 bps to 13%.
- **Navin Fluorine:** Revenue to remain stagnant QoQ while decreasing by 28% YoY. EBITDA margin to remain stagnant at 15.3% on account of a better product mix and operating leverage playing out.

Company	OLD RECO	NEW RECO	OLD TP (INR)	NEW TP (INR)
Aarti Industries	ADD	ADD	733	788
Aether Industries	BUY	BUY	1,124	1,153
Alkyl Amines	SELL	SELL	1,836	1,759
Ami Organics	ADD	ADD	1,201	1,305
Clean Science and Technology	SELL	SELL	1,037	1,067
Deepak Nitrite	SELL	SELL	1,448	1,497
Fine Organic	SELL	SELL	3,842	3,768
Galaxy Surfactants	BUY	BUY	3,529	3,576
Navin Fluorine	BUY	BUY	4,014	4,136
Neogen Chemicals	BUY	BUY	2,127	2,088
NOCIL	ADD	ADD	288	295
SRF	ADD	ADD	2,449	2,668
Sudarshan Chemical	REDUCE	REDUCE	487	572
Vinati Organics	SELL	SELL	2,127	1,387

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Prasad Vadnere
prasad.vadnere@hdfcsec.com
+91-22-6171-7356

- **Neogen Chemicals:** Revenue could improve 10.5% QoQ due to rebound in demand in selected pockets of agrochemical business and contribution from Buli Chemicals. EBITDA margin is expected to increase by 292 bps to 15.3% due to fall in raw material prices and operating leverage.
- **NOCIL:** Revenue shall remain flattish YoY and QoQ by 13% in 4Q. EBITDA margin to improve 183bps YoY while remain flattish.
- **SRF:** Revenue shall increase by 12% QoQ on back of growth from chemical business. We expect revenue growth of 11% QoQ and EBITDA margin is expected to increase by 138 bps QoQ basis while decreasing 489 YoY to 20.5%.
- **Sudarshan Chemical:** Revenue could jump up 6% QoQ while decreasing by 13% YoY due to fall in product prices. The EBITDA margin is expected to improve by 259/128 bps QoQ/YoY to 13.5% due to softening of raw material prices and lower operating expenses.
- **Vinati Organics:** Revenue could increase 10% QoQ while remaining flattish YoY. EBITDA margin could increase by 108 bps QoQ while decreasing by 359bps YoY due to increase in raw material prices.

Financial summary: 4QFY24E

COMPANY	NET SALES (INR mn)			EBITDA (INR mn)			EBITDA Margin (%)			APAT (INR mn)			Adj. EPS		
	4Q FY24E	QoQ (%)	YoY (%)	4Q FY24E	QoQ (%)	YoY (%)	4Q FY24E	QoQ (bps)	YoY (bps)	4Q FY24E	QoQ (%)	YoY (%)	4Q FY24E	3Q FY24	4Q FY23
Aarti Industries	17,914	3.4	8.2	2,734	5.1	8.9	15.3	24.8	9.3	1,274	2.7	(14.5)	3.5	3.4	4.1
Aether Industries	1,555	0.1	(15.4)	382	22.0	(35.9)	24.6	442.2	(786.1)	262	22.3	(30.1)	2.0	1.6	2.8
Alkyl Amines	3,651	13.4	(11.3)	629	5.6	(18.2)	17.2	(126.5)	(145.6)	339	1.4	(30.4)	6.6	6.5	9.5
Ami Organics	1,860	11.7	(0.2)	334	25.9	(18.3)	17.9	201.8	(397.6)	251	40.7	(7.9)	6.9	4.9	7.5
Clean Science and Technology	2,174	11.7	0.3	970	12.0	(7.7)	44.6	11.7	(386.3)	659	5.2	(18.2)	6.2	4.9	7.6
Deepak Nitrite	21,333	6.2	8.8	3,690	21.1	6.0	17.3	213.4	(44.4)	2,541	25.8	8.6	18.6	14.8	17.1
Fine Organic	5,866	20.1	(1.7)	1,383	16.9	(31.7)	23.6	(63.7)	(1,035.7)	1,095	16.3	(26.7)	35.7	30.7	48.7
Galaxy Surfactants	9,530	1.3	(2.2)	1,244	10.6	(7.5)	13.1	109.0	(75.3)	841	17.8	(7.2)	23.7	20.1	25.5
Navin Fluorine	5,000	(0.4)	(28.3)	763	0.8	(62.2)	15.3	17.6	(1,368.9)	437	(44.0)	(67.9)	8.8	15.8	27.5
Neogen Chemicals	1,817	10.5	(2.4)	277	36.7	(8.0)	15.3	292.0	(92.4)	103	874.4	(29.7)	4.1	0.4	5.9
NOCIL	3,849	13.0	(2.0)	550	12.7	12.3	14.3	(3.8)	182.6	342	13.9	20.4	2.1	1.8	1.7
SRF	34,185	12.0	(9.5)	7,010	20.1	(27.0)	20.5	138.1	(489.3)	3,776	30.4	(32.9)	12.7	9.8	19.0
Sudarshan Chemical	5,992	5.9	(13.3)	811	31.0	(4.3)	13.5	259.1	127.9	298	104.0	(8.6)	4.3	2.1	4.7
Vinati Organics	4,933	10.1	(2.0)	1,316	14.8	(13.6)	26.7	108.1	(358.7)	931	21.0	(19.3)	9.1	7.5	11.2
Aggregate Chemicals	1,19,659	8.0	(3.8)	22,092	16.0	(18.1)	18.5	127.6	(321.8)	13,149	17.7	(23.0)			

Source: Company, HSIE Research

Change in estimates

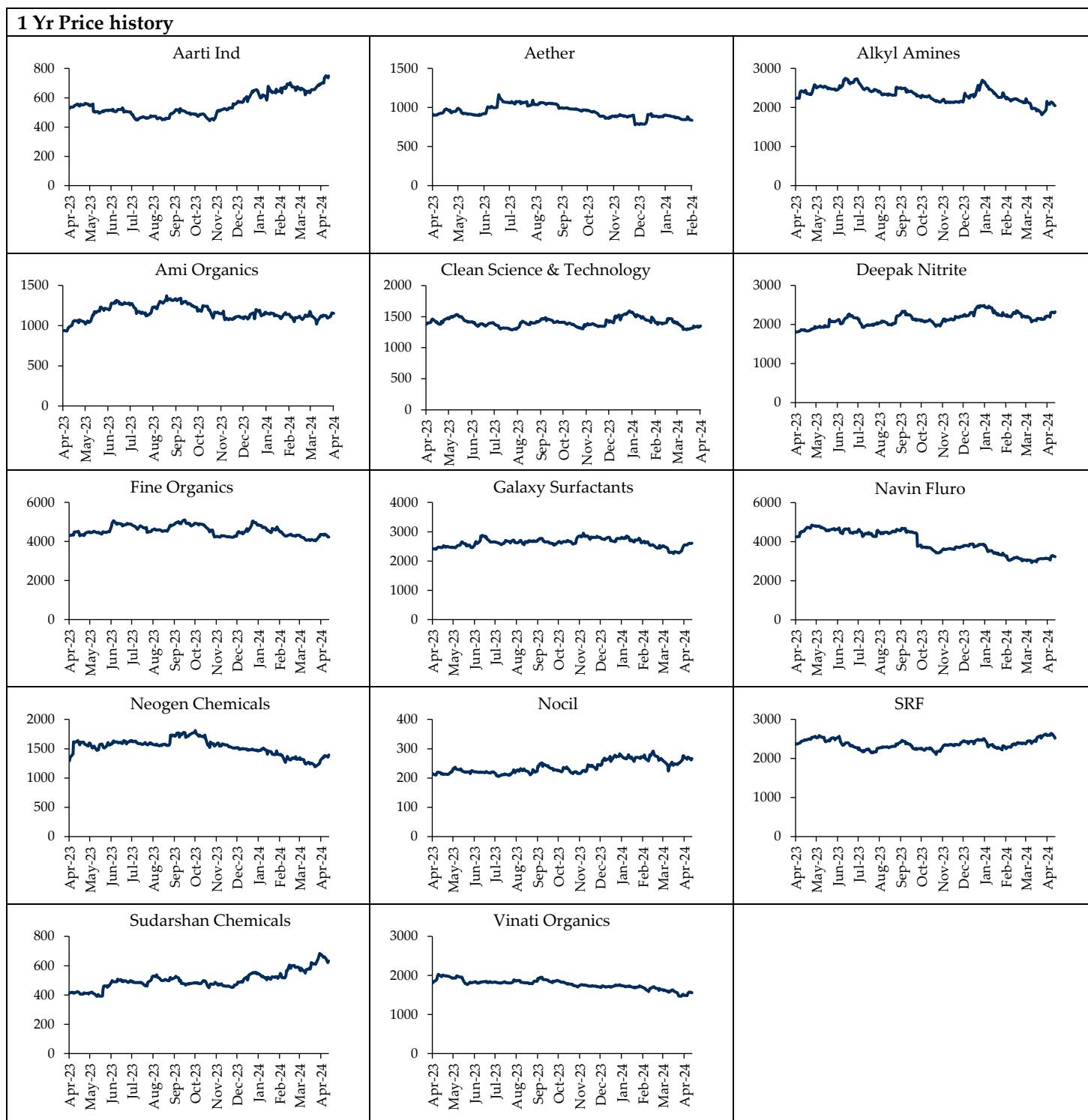
Company	EBITDA OLD			EBITDA NEW			CHANGE %			EPS OLD			EPS NEW			CHANGE %		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Aarti Industries	61,905	73,239	84,957	63,914	75,570	87,661	3.2	3.2	3.2	9	17	28	10	19	29	8.9	10.0	4.1
Aether Industries	1,495	2,602	4,004	1,495	2,602	4,004	-	-	-	8.7	12.8	19.1	8.7	12.8	19.1	-	-	-
Alkyl Amines	2,744	3,649	5,061	2,326	3,250	4,172	(15.2)	(10.9)	(17.6)	33.3	45.2	65.0	27.1	39.4	52.0	(18.4)	(12.9)	(20.0)
Ami Organics	1,208	1,771	2,285	1,187	1,760	2,294	(1.7)	(0.6)	0.4	20.4	31.6	41.7	20.0	31.4	41.9	(2.3)	(0.7)	0.4
Deepak Nitrite	11,541	17,580	21,766	11,857	17,083	21,392	2.7	(2.8)	(1.7)	57.7	86.9	108.8	59.5	84.2	106.7	3.0	(3.1)	(1.9)
Fine Organic	5,184	5,104	6,234	5,288	5,208	6,176	2.0	2.0	(0.9)	130.2	132.3	158.9	132.7	134.8	157.5	1.9	1.9	(0.9)
Galaxy Surfactants	4,849	5,671	6,791	4,849	5,671	6,791	-	-	-	86	104	128	87	105	129	1.1	0.9	0.7
Sudarshan Chemical	2,790	3,555	3,887	2,790	3,567	3,899	-	0.3	0.3	14.0	23.8	28.9	14.0	23.9	29.0	-	0.6	0.5
Clean Science And Technology	3,345	4,686	5,771	3,345	4,686	5,771	-	-	-	23	31	38	23	31	38	-	-	-
Navin Fluorine International Ltd.	4,213	7,036	10,017	4,213	7,036	10,017	-	-	-	47	79	122	47	79	122	-	-	-
Neogen Chemicals	1,075	1,581	2,841	1,020	1,556	2,804	(5.1)	(1.6)	(1.3)	18	30	53	12	29	51	(31.0)	(2.5)	(2.5)
SRF Ltd	26,502	33,341	46,063	26,502	33,341	46,063	-	-	-	47	62	91	47	64	91	-	3.9	0.0
Vinati Organics	4,648	6,241	8,218	4,599	5,767	7,468	(1.0)	(7.6)	(9.1)	34	45	59	32	39	51	(8.5)	(12.9)	(13.7)

Valuation summary

Company	MCap (INR bn)	CMP (INR)	RECO	TP (INR)	Adj EPS (INR/sh)				P/E (x)				P/BV (x)				ROE (%)			
					FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Aarti Industries	271.46	749	ADD	788	15.0	9.6	19.1	28.9	49.8	77.9	39.3	25.9	5.5	5.2	4.7	4.1	11.6	6.9	12.6	16.8
Aether Industries	111.01	838	BUY	1,153	9.8	8.7	12.8	19.1	85.1	96.8	65.5	43.9	8.9	5.3	4.9	4.4	16.0	6.8	7.7	10.5
Alkyl Amines	104.83	2,051	SELL	1,759	44.7	27.1	39.4	52.0	45.8	75.5	52.1	39.4	9.0	8.2	7.3	6.3	21.2	11.3	14.8	17.2
Ami Organics	44.92	1,233	ADD	1,305	22.9	20.0	31.4	41.9	53.9	61.7	39.3	29.4	47.0	50.6	32.5	25.1	13.5	10.7	13.7	14.8
Clean Science and Technology	141.85	1,335	SELL	1,067	27.8	22.6	31.3	38.5	48.1	59.2	42.6	34.7	14.0	11.8	9.6	7.8	33.2	21.6	24.8	24.8
Deepak Nitrite	316.69	2,322	SELL	1,497	62.5	59.5	84.2	106.7	37.2	39.0	27.6	21.8	7.7	6.6	5.4	4.5	22.9	18.2	21.6	22.6
Fine Organic	129.58	4,227	SELL	3,755	201.6	132.7	134.8	157.5	21.0	31.8	31.4	26.8	8.4	6.7	5.6	5.6	49.4	23.4	19.4	20.8
Galaxy Surfactants	92.39	2,606	BUY	3,576	107.5	86.9	105.1	128.9	24.3	30.0	24.8	20.2	4.9	4.3	3.8	3.3	22.0	15.4	16.4	17.5
Navin Fluorine	159.94	3,230	BUY	4,136	74.7	46.8	79.4	122.1	43.2	69.0	40.7	26.5	7.3	6.7	5.9	5.1	18.4	10.1	15.4	20.7
Neogen Chemicals	34.57	1,386	BUY	2,088	20.0	12.1	29.3	51.4	69.2	114.2	47.3	27.0	7.2	6.8	6.0	5.0	10.8	6.1	13.5	20.4
NOCIL	44.45	267	ADD	295	8.9	7.4	11.2	13.9	29.9	36.1	23.7	19.3	2.9	2.8	2.6	2.4	10.0	7.8	11.2	12.9
SRF	746.46	2,518	ADD	2,668	72.6	47.4	64.3	90.7	34.7	53.2	39.1	27.8	7.2	6.4	5.7	4.8	22.8	12.8	15.4	18.8
Sudarshan Chemical	43.86	634	REDUCE	572	6.5	14.0	23.9	29.0	98.0	45.3	26.5	21.8	27.6	18.5	14.3	13.2	1.9	4.1	6.2	6.8
Vinati Organics	160.36	1,560	SELL	1,387	40.8	31.5	39.1	51.1	47.4	61.3	49.4	37.8	8.9	8.1	7.1	6.1	20.7	13.8	15.2	17.3

Note: CMP is as on 16 April 2024

Source: Company, HSIE Research



Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	> 10% Downside return potential

Disclosure:

We, **Nilesh Ghuge, MMS, Harshad Katkar, MBA & Prasad Vadnere, MSc** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. 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.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

Any holding in stock – NO

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities

from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing. Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

HDFC Securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com