

Agrochemical cycle at the cusp of a turnaround!



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India | Equity Research | Sector Thematic

Speciality Chemicals

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Early signs of a turnaround in agrochemicals, particularly supplies for innovators, are visible now which was hurt in FY24. Agrochemical inventory has fallen below normal which provides comfort, and the underlying demand remains steady. US agrochemical companies have been vocal about increasing outsourcing, and being asset-light, which benefits Indian specialty chemical companies with increased addressable market. India chemical companies' estimates have been downgraded significantly in the past 18 months, and are hitting easy base driving EPS growth of over 25% over the next three years (FY24-27E) which makes us believe that the sector is again poised for returns. Our picks among direct beneficiaries are Navin Fluorine (**BUY**), Chemplast (**ADD**) and SRF (**ADD**), and among indirect winners are Archean Chemical (**BUY**) and Tatva Chintan (**BUY**).

Agrochemical is key application for specialty chemicals

For specialty chemical companies, agrochemical application is dominant - **1)** PI Industries has highest dependency at 78% - exports (CSM). **2)** For SRF, agro-chemical mix is 26.5% of total revenue (95% of specialty chemicals); within chemicals segment, it is 55.8%. **3)** NFIL - agrochemical is exports within specialty chemicals which contribute 25.1% of total revenue. **4)** For Atul, crop-protection is 13.4% of revenue; however, unlike others, Atul has large exposure to generics. **5)** Chemplast is emerging agrochemicals intermediate producer with contribution of 7.3% of revenue (custom manufacturing). Indirect beneficiaries are Archean Chemical – sells bromine in domestic market which has exposure to agrochemicals, and Tatva Chintan – PTC has exposure to agrochemicals, and it has three intermediates in pipeline products.

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Where are we in agrochemical cycle?

Agrochemical innovators' volumes have reduced in the past four quarters significantly due to destocking, while innovators have been highlighting steady underlying demand for agrochemicals. In Q1CY24, innovators had highlighted that worst for volumes is behind as they expected volumes to start growing from Q2CY24 with easy base, and inventory falling below normal levels. Each MNC has shared positive volume growth outlook for CY24 as well. However, pricing is likely to remain under pressure for even CY24.

Agrochemicals' underlying demand drivers steady

The key indicators include farmer sentiment, and farmer income; grain prices which directly affect farmer's income, and stock-to-use ratio which indicates stock pile, and has implication of grain pricing. **1)** Farmer sentiment is at median as per the chart shared by ICL group, but it has shown improvement from Q3CY23 levels. Clearly, we do not see much issues with farmer sentiment, however, it is not exuberant either. **2)** Farmer income - US gross cash farm income reduced in CY23, and is expected to drop in CY24E, nonetheless, it is higher than pre-covid levels. **3)** Grain prices have dropped from the peak, and are stabilising, but at higher levels. **4)** Stock-to-use ratio are long-term median, and in some cases have fallen except for soybean.

Rising outsourcing intensity by MNCs to support growth

Agrochemical innovators are likely to increase outsourcing of intermediate, and manufacturing to become asset-light, and focus on product development, marketing and distribution. US companies, particularly, have had largely backward integration for intermediate while Europe had embraced outsourcing long back. FMC and Corteva have been very vocal on increasing outsourcing, and strategic tie-up during current downcycle. We believe outsourcing intensity can rise with turnaround in agrochemicals as these innovators may have reduced manufacturing footprint which increases addressable market for Indian chemical companies.

Our picks – NFIL, Chemplast and SRF; ACI and Tatva are indirect winners

Indian chemical companies' valuations did not reflect downcycle, and have been expensive, while estimates have dropped significantly. However, we believe the normalisation of inventory can help in driving higher volumes for Indian specialty chemical companies, and higher operating leverage can drive faster earnings growth. Our estimate suggests EPS growth of over 25% CAGR in the next three years (FY24-27E) though on a low base. Assuming valuation sustain, or even slightly derate, investors can make decent returns, in our view.

Our stock preference order is NFIL (**BUY**), Chemplast (**ADD**) and SRF (**ADD**) while Atul is least favoured among direct beneficiaries. We like both Archean Chemical (**BUY**) and Tatva Chintan (**BUY**) who are indirect winners.

Our picks for turnaround in agrochemical cycle

We believe chemical sector has bottomed as prices have stabilised, nonetheless at lower levels. The recovery in chemicals may be gradual as China overcapacity still remains a problem; however, destocking which had significantly hurt the performance of Indian chemical companies in FY24 may ease in FY25, and the base / estimates have become favourable. Agrochemicals, particularly supplies to innovators, may see volume growth soon. This can indeed drive volume growth for India specialty chemicals, and operating leverage can driver higher EBITDA growth.

We have covered four companies which directly benefit from volume growth in agrochemicals – SRF, NFIL, Chemplast and Atul; and two companies which benefit indirectly – Archean Chemical (**BUY**) and Tatva Chintan (**BUY**).

Among these companies, our preference order is NFIL, Chemplast and SRF while Atul is least favoured; we like both Archean Chemical and Tatva Chintan.

Navin Fluorine (NFIL) - We have increased our target price for NFIL from INR 3,960 to INR 4,135 [unchanged multiple of 40x FY26E EPS] on slight increase in EPS by 1-4% over FY25-26E. It remains our preferred pick in agrochemicals intermediate segment. Maintain **BUY**.

Chemplast Sanmar (Chemplast) is next in our pecking order, and we have increased our EPS estimates by 2-9% over FY25-26E as we factor in slightly higher spreads for PVC business on rising regulatory aids. Our target price has also increased from INR 555 to INR 665 as we increase our EV/ EBITDA multiple for customer manufacturing to 25x (from 22x) in-line with peers, and standalone (excl CM) EV/EBITDA to 10x (from 9x) and S-PVC EBITDA to 8x (from 7x) with improving outlook. We downgrade Chemplast's rating by a notch to **ADD** (earlier: Buy).

SRF – We have not made any changes to our estimates and target price as we are concerned about the potential downside risks - one large specialty chemical product having pricing pressure from China competition, and lower HFC volumes to US. Our target price remains unchanged at INR 2,580; maintain **ADD**. We assign a multiple of 24x on FY26E EBITDA to chemical business.

Atul - We have been generous in our estimates, and pricing pressure remains unchanged for key products. Therefore, we retain our estimates, but increase our target multiple to 28x (from 25x) on better agrochemical outlook. Our revised target price is INR 5,840 (earlier: INR 5,220). Maintain **REDUCE**.

Archean Chemical (ACI) – Company is well placed to benefit from higher volumes for bromine domestic market as agrochemical cycle normalises. It has significant operating leverage, and higher revenue can drive strong EPS growth. ACI has also commenced production of inorganic bromine derivative, and likely to re-started Oren Hydrocarbon business which will also likely boost earnings. Maintain **BUY**.

Tatva Chintan Pharma Chem (TATVA) – It was most impacted during downcycle as it had significant erosion in pricing and volumes across businesses. The company has commenced a large project (Dahej-2) which has added to cost. As volumes recover, Tatva may have higher revenue growth, and even higher profit growth as fixed cost gets absorbed. Maintain **BUY**.

Exhibit 1: Chemical companies' valuation snapshot

INR mn	CMP (INR)	Mcap	Revenue			CAGR (%) FY24-26E	EPS (INR)			CAGR (%) FY24-26E
			FY24	FY25E	FY26E		FY24	FY25E	FY26E	
SRF	2,422	7,17,989	1,31,385	1,49,413	1,73,645	15%	45.1	55.8	78.6	32%
Navin Fluorine	3,600	1,78,365	20,667	26,873	32,039	25%	54.6	65.9	103.4	38%
Gujarat Fluoro	3,196	3,51,257	42,808	55,880	67,251	25%	39.6	87.2	116.4	72%
Atul Ltd	6,277	1,84,931	47,257	54,366	64,293	17%	109.6	136.9	208.6	38%
Chemplast	593	93,734	39,230	49,068	55,266	19%	(10.0)	20.4	32.2	
Galaxy	2,630	93,244	37,944	40,497	41,503	5%	85.0	104.2	114.7	16%
Rossari	765	42,174	18,306	20,776	24,201	15%	23.7	30.2	35.4	22%
EPL	194	61,824	39,161	43,343	46,905	9%	6.7	10.8	12.5	37%
Sudarshan	832	57,588	25,388	28,600	31,555	11%	15.2	28.9	39.1	60%
Tatva Chintan	1,100	25,738	3,935	5,256	8,123	44%	13.0	37.3	66.0	125%
Clean Science	1,364	1,44,872	7,915	10,801	14,314	34%	23.0	28.7	38.6	30%
BlueJet Healthcare	393	68,206	7,116	9,757	12,388	32%	10.0	13.7	17.1	31%
Archean Chemical	657	81,109	13,301	17,100	21,205	26%	25.9	35.0	48.0	36%
PCBL	253	95,301	64,198	86,301	92,562	20%	13.9	15.4	16.2	8%
Median						19%				36%

Source: Company data, I-Sec research

Exhibit 2: Chemical companies' valuation snapshot

INR mn	PE (x)		EV/EBITDA (x)		ROCE (post-tax)		GB turnover (x)		Capex	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
SRF	43.4	30.8	24.1	18.3	10.6	13.2	0.8	0.8	22,862	27,379
Navin Fluorine	54.6	34.8	31.6	22.8	9.0	12.5	0.9	0.9	4,445	3,000
Gujarat Fluoro	36.7	27.5	21.1	16.5	12.4	14.5	0.8	0.9	6,011	9,174
Atul Ltd	45.8	30.1	22.0	16.0	6.7	9.6	1.0	1.1	3,693	3,000
Chemplast	29.0	18.4	14.7	11.0	11.3	15.0	1.1	1.2	2,815	2,956
Galaxy	25.2	22.9	16.1	14.3	14.6	14.4	2.2	2.1	2,000	1,500
Rossari	25.3	21.6	14.5	12.6	13.6	13.9	2.4	2.5	1,523	800
EPL	18.0	15.5	7.7	6.7	12.8	13.2	1.0	1.0	3,500	3,500
Sudarshan	28.8	21.3	14.0	10.9	12.7	15.5	1.4	1.5	1,000	1,000
Tatva Chintan	29.5	16.7	20.1	12.0	10.2	16.2	0.9	1.1	1,000	1,500
Clean Science	47.5	35.3	33.1	25.0	21.4	24.8	1.2	1.3	1,227	1,350
BlueJet Healthcare	28.7	23.0	19.9	15.9	22.7	24.1	1.9	1.7	1,965	2,000
Archean Chemical	18.8	13.7	12.2	8.6	20.6	23.6	1.0	1.2	1,500	1,000
PCBL	16.4	15.6	10.0	8.6	8.3	8.7	1.8	1.7	6,000	6,000
Median	29.5	22.9	20.1	14.3	12.4	14.4	1.0	1.1		

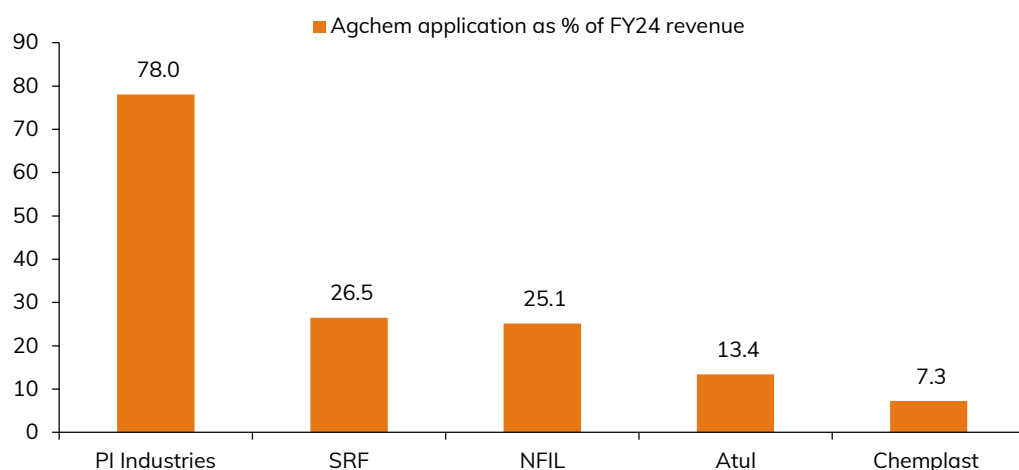
Source: Company data, I-Sec research

Agrochemicals is biggest end use application for Indian specialty chemicals

For Indian-based specialty chemicals companies, agrochemical application/ end-industry is dominant. We have collated a few large chemical companies under our coverage (except PI Industries, which is unrated) where agrochemicals application contributes 7-78% of revenue.

- PI Industries has highest dependency at 78% represented by agrochemicals exports (CSM).
- For SRF, agrochemical contribution is 26.5% of total revenue which indeed comes from 95% of specialty chemicals revenue. However, within chemicals segment, agrochemicals is 55.8% of revenue.
- Navin Fluorine (NFIL) - agrochemicals is largely exports within specialty chemicals which contributes 25.1% of total revenue. NFIL is in the process of commissioning a large plant with investment of INR 5.4bn which has dominant agrochemicals application and can drive higher agrochemicals contribution over the next two years.
- For Atul, agrochemicals (crop-protection sub-segment) is 13.4% of revenue; however, unlike other Indian chemical companies covered in the report, Atul has large exposure to generic.
- Chemplast is an emerging company in agrochemicals intermediate producer for innovators which contributed 7.3% of revenue in FY24 housed under custom manufacturing. However, custom manufacturing is likely to grow exponentially in the next two years supported by the recently signed four LOIs with innovator agrochemical companies.

Exhibit 3: Agrochemicals is largest end use application for India-based chemical companies

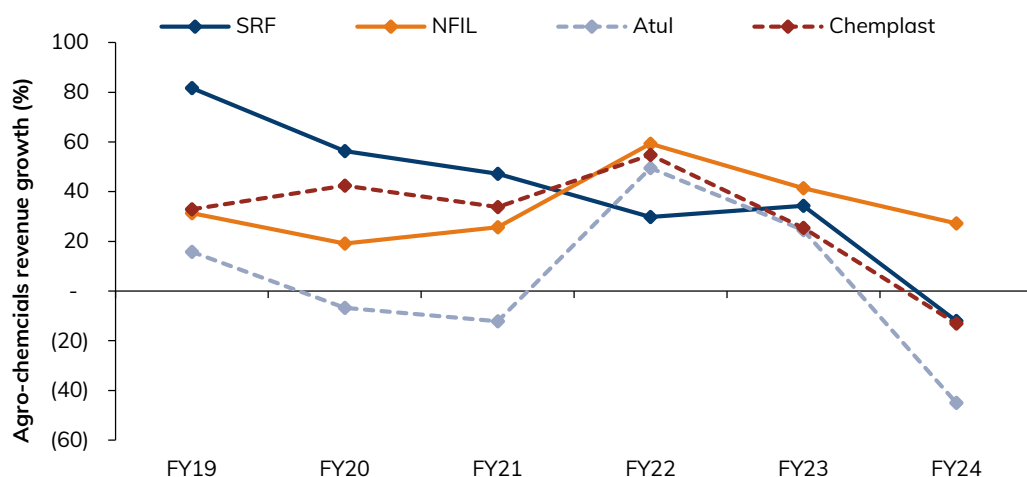


Source: I-Sec research, Company data;

Note: PI Ind – Agrochemicals exports revenue; SRF – 95% of specialty chemicals revenue; NFIL – specialty chemicals exports revenue; Atul (est.) – crop protection revenue and Chemplast – custom manufacturing revenue.

FY24 has been a very tough year for agrochemicals after very strong performance since FY19. SRF, Atul and Chemplast reported revenue decline of 12%, 45% and 13%, respectively, in FY24 while NFIL reported growth of 27%, led by commissioning of large facilities, but much below expectation. Agrochemical sales were hurt from destocking, and rise in competitive intensity from Chinese / generic. This has led to a sharp cut in consensus EPS in the past 12 months, and chemicals stocks have under-performed.

Exhibit 4: Agrochemicals revenues have declined/ under-performed expectation in FY24

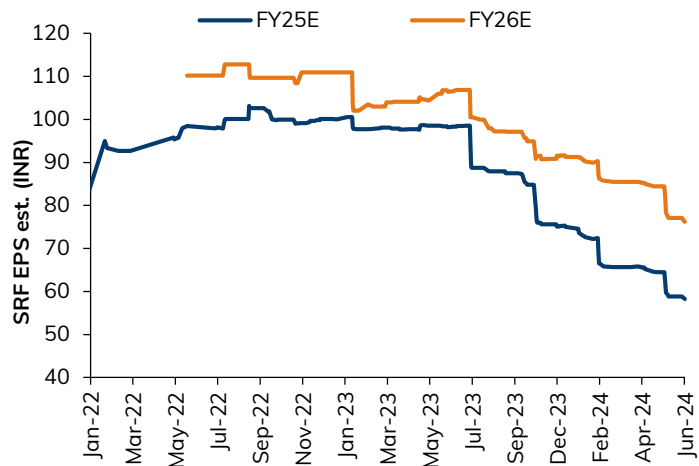


Source: I-Sec research, Company data

Note: SRF –specialty chemicals revenue; NFIL – specialty chemicals exports revenue; Atul (FY24 est.) – crop protection revenue and Chemplast – custom manufacturing revenue.

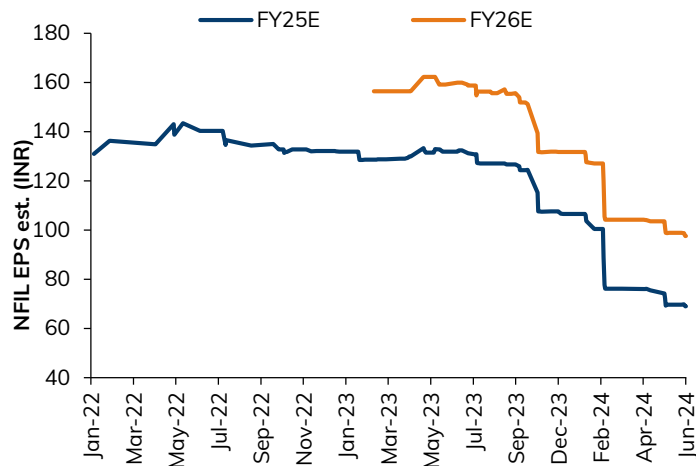
The downcycle in chemicals, particularly in agrochemicals, have hurt consensus EPS estimates which have fallen sharply with each passing quarter. We believe downgrade cycle is largely behind, and in upcoming quarters we may see some upgrades if volumes return stronger than expected, and help improve asset turn for chemical companies.

Exhibit 5: SRF's consensus EPS estimates for FY25E and FY26E

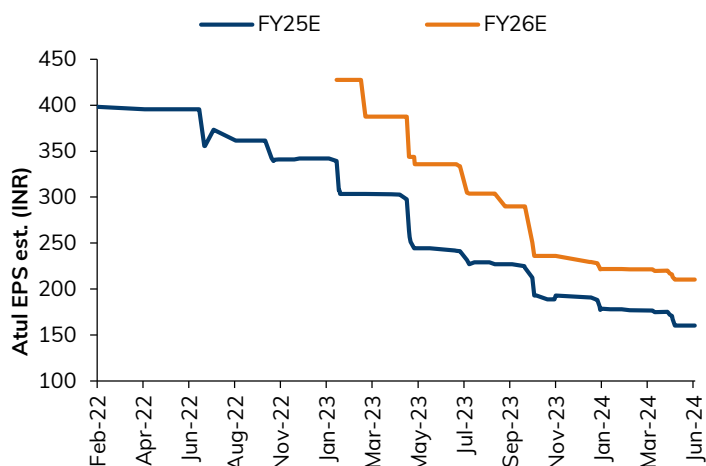


Source: Company data, I-Sec research, Bloomberg

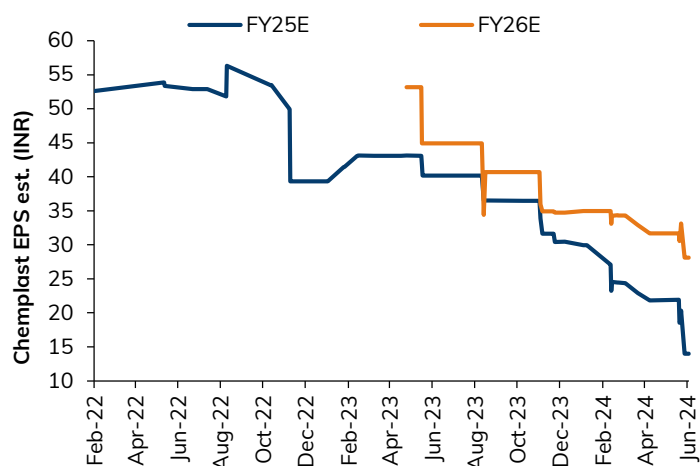
Exhibit 6: NFIL's consensus EPS estimates for FY25E and FY26E



Source: Company data, I-Sec research, Bloomberg

Exhibit 7: Atul's consensus EPS estimates for FY25E and FY26E

Source: Company data, I-Sec research, Bloomberg

Exhibit 8: Chemplast's consensus EPS estimates for FY25E and FY26E

Source: Company data, I-Sec research, Bloomberg

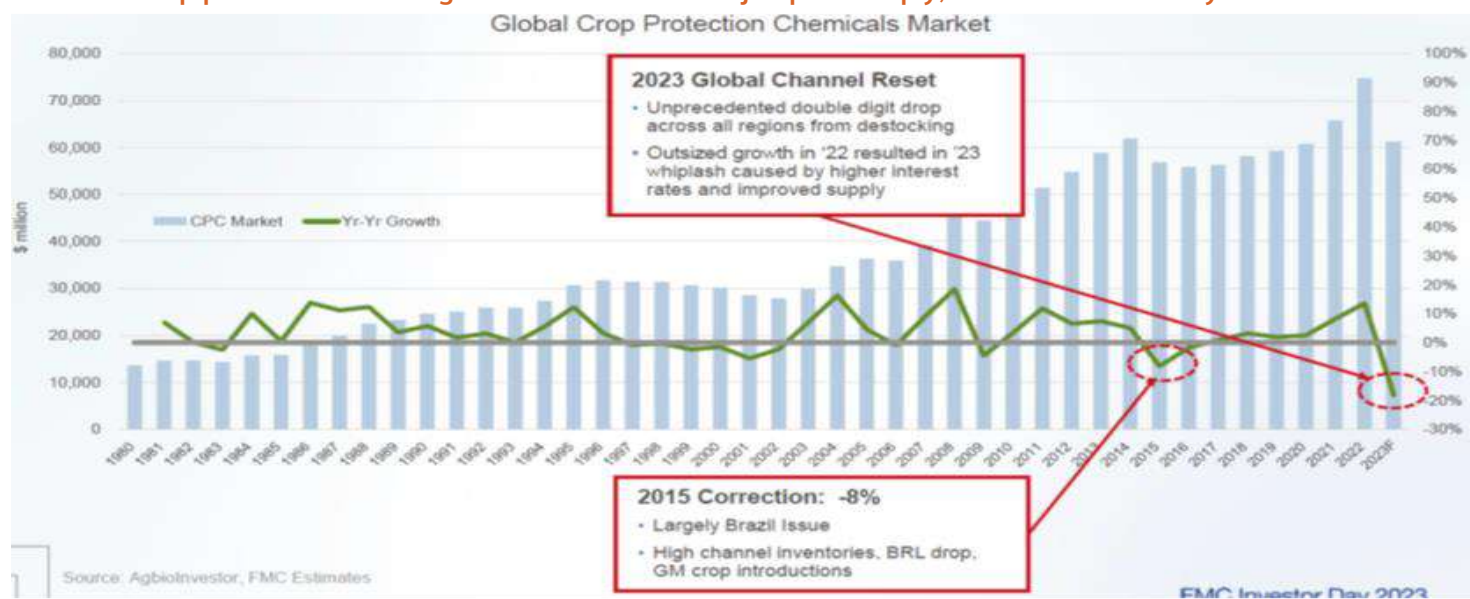
We have other chemical companies that are indirect beneficiaries of a turnaround in agrochemical cycle including:

- Archeon Chemical's key product is bromine, and domestic bromine market has suffered from lower production of agrochemicals. Any turnaround in agrochemicals market, and higher agrochemicals volume can drive higher domestic volumes for Archeon's bromine which can be a big positive for the company.
- Tatva Chintan sells PTC [phase transfer catalyst] where volumes were impacted due to lower agrochemical sales. Revival in agrochemical volumes can drive higher demand for PTCs. Further, Tatva has been working on three agrochemicals intermediate molecules where it has completed validation, and anticipates to start supplies in FY25. Any ramp-up in these molecules can significantly benefit the company.

Where are we in the cycle?

Agrochemicals had challenging past 12 months, and industry revenue has declined sharply. Agrochemical market expanded significantly in CY21 and CY22 led by various factors including – 1) sharp run-up in prices for chemicals; 2) strong grain pricing and farmer income; and 3) supply-chain disruption and higher profitability led to channel inventory stocking. However, CY23 had reversal with sharp drop in prices for chemicals, and supply-chain normalising. This accelerated destocking across channels. Further, China, which was severely hurt from covid, normalised production, and significantly added capacities in agrochemicals. Overcapacities in China have driven some generic agrochemical prices to drop by 70-90% boosting volumes for generic and dragging destocking phenomenon particularly in Latin American market for innovators.

Exhibit 9: Crop protection market growth in CY21-22 had jumped sharply, and reversed entirely in CY23



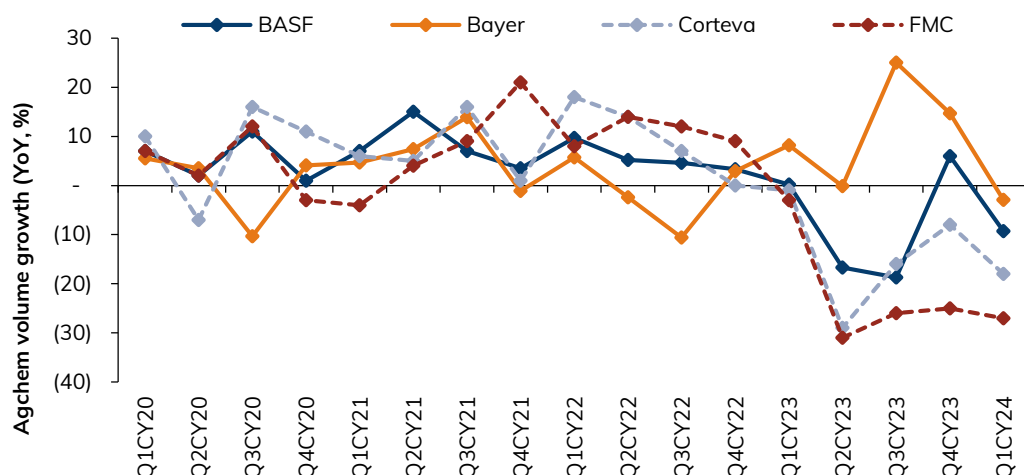
Source: Company data, I-Sec research

India-based specialty chemical companies have derived demand from MNC innovators agrochemical companies, therefore, turnaround in performance for innovators is early signs for better performance for India chemical companies. Notably, Indian chemical companies are behind innovators value chain, the recovery in performance generally lags by a quarter or two, and in many cases need supportive seasonality.

Agrochemical innovators volumes have reduced in the past four quarters significantly due to destocking, while innovators have been highlighting steady underlying demand for agrochemicals. Q1CY24 had been highly challenging for innovators due to multiple reasons – high base, which was among best quarters, cautious buying behaviour, destocking, adverse weather conditions in Europe and Southern Brazil.

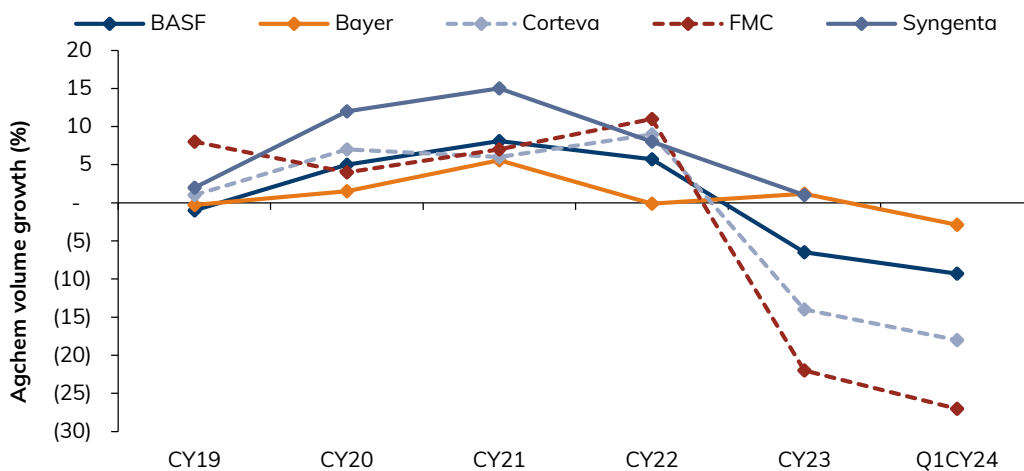
However, innovators have highlighted worst for volumes is behind as MNCs expect volumes to start growing from Q2CY24 with easy base, and inventory falling below normal levels. Each MNC has shared positive volume growth outlook for CY24 as well. Therefore, we ascertain volumes for innovators to start growing again in near term.

Exhibit 10: Innovators volumes have dropped in past four quarters with Q1CY24 being highly challenging



Source: Company data, I-Sec research

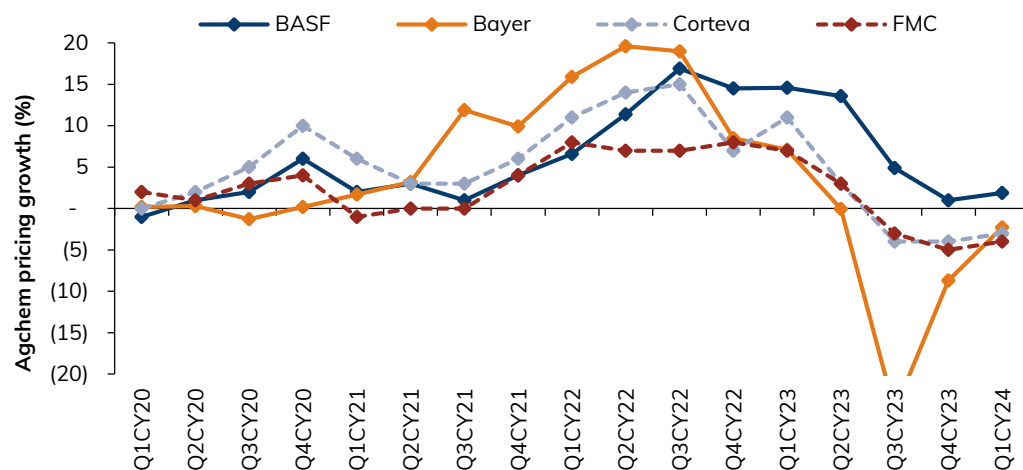
Exhibit 11: CY20-22 had strong volume growth, but it dipped in CY23 and Q1CY24



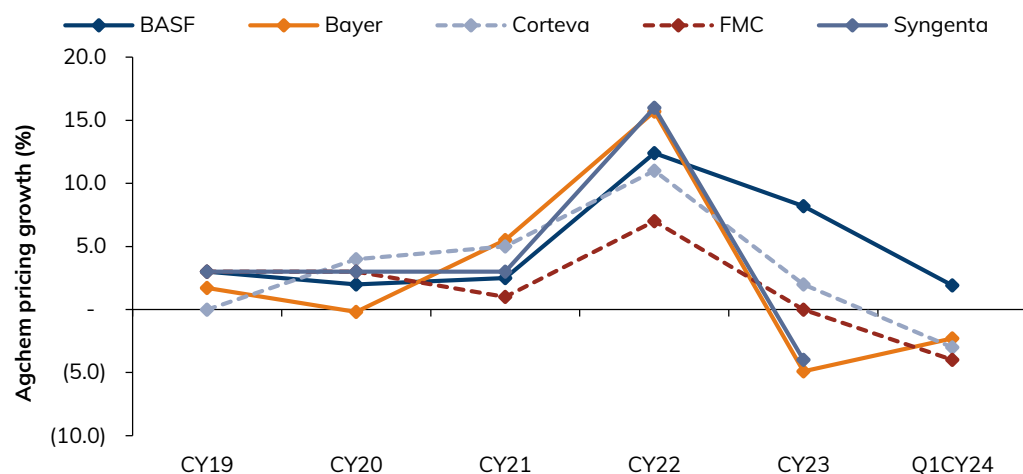
Source: Company data, I-Sec research

Pricing pressure for innovators has been relatively low vs volumes despite prices having a sharp jump in CY22 due to inflation in chemical prices. However, agrochemical companies are now facing pressure on pricing as Chinese are aggressive in generic market, and innovators are fighting in market for their share. Innovators expect pricing to dip in CY24 as well. However, we do not expect much change in pricing formula for Indian specialty chemical companies.

Nonetheless, many patented AIs are also coming for expiry, and Chinese may sell at lower cost to grab market share. This can particularly impact specialty chemical companies in India as they may also face pressure on pricing and margins. Indian chemical companies are investing in process, and thereby, reducing cost of production which can help both innovators and chemical companies to fight effectively against Chinese competition.

Exhibit 12: Unlike volumes, pricing drop for innovators has been gradual

Source: Company data, I-Sec research

Exhibit 13: However, pricing decline for innovators may continue in CY24

Source: Company data, I-Sec research

Exhibit 14: Key comments by innovators in Q1CY24 earnings call

Company	Topic	Comments (Q1CY24 earnings)
BASF Group	Volumes	Volume recovery continued, but slowly. This trend is also visible in a sequential comparison, as volumes increased slightly in Q1CY24 compared with Q4CY23.
	Prices	Prices are also coming more under pressure.
	Inventory	Inventory level was extremely low at the turn of the year.
Bayer AG	Volumes - Q2	We are planning for low single-digit growth in Q2, and we also have growth planned for southern hemisphere for the 2nd half of the year, driven by crop protection volumes.
	Volumes - CY24	We do expect for the full year, not only EMEA, but the rest of the globe as well, we expect higher volumes of our crop protection business.
FMC Corp	Volumes - Q2	Volume growth across all regions except Asia. Improvement in YoY volume since the start of global destocking.
	Price - Q2	Mid-single digit pricing pressure.
	Volumes - CY24	Market conditions may improve as the year progresses.
	Price - CY24	Low-single digit pricing pressure with largest impact in H1.
Corteva	Underlying	Continues to see record setting demand for grain, oilseeds, feed and biofuels.
	Volumes - Q2	All signs point to volume growth in the second half, particularly in Latin America.
	Inventory	Channel inventory imbalance in remaining regions (ex-Latin America) is expected to stabilise.
	Vol & price - CY24	Crop protection volume gains can drive growth in the second half, with pricing likely to remain challenging.

Source: Company data, I-Sec research

Agrochemicals' underlying demand drivers

Agrochemical innovators have been highlighting that underlying demand from farmers has been steady, and the entire downcycle was due to destocking, and rise in Chinese competition.

Exhibit 15: Corteva's presentation under CEO message on global demand scenario

Solid Global Demand

- Record-setting demand for grain, oilseeds, feed, and biofuels continues in 2024
- Healthy on-farm product demand despite normalization of commodity prices
- Global Crop Protection market remains imbalanced, volume growth expected in 2H

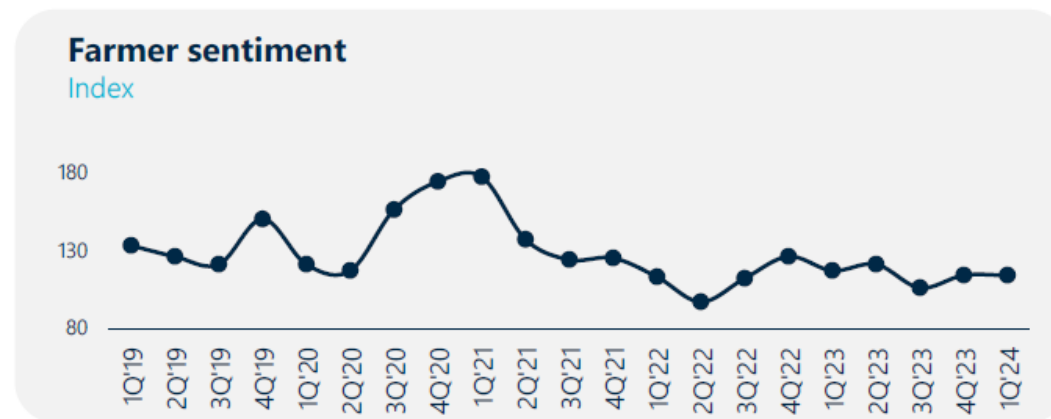
Source: I-Sec research, Company data

As outlined by innovators, we have tested a few key factors impacting the underlying demand sentiment for agrochemicals. These key indicators include farmer sentiment, and farmer income; grain prices which directly affect farmer's income, and stock-to-use ratio which indicates stock pile, and has implication of grain pricing.

1. Farmer sentiment and farmer income

Farmer sentiment is at median as per the chart shared by ICL group, but it has shown improvement from Q3CY23 levels when sentiment was actually low. Clearly, we do not see much issue with farmer sentiment; however, it is not exuberant either.

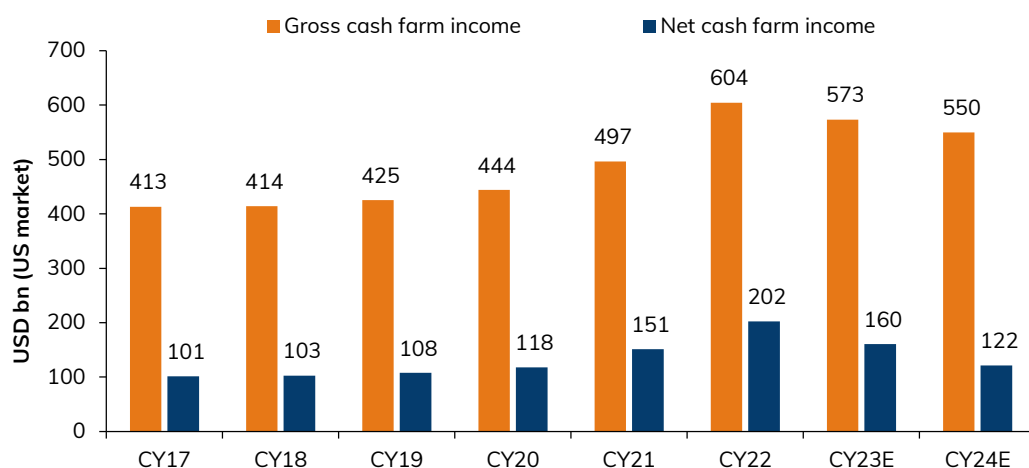
Exhibit 16: Farmer sentiment indicator neither shows deterioration nor exuberance



Source: Company data, I-Sec research

USDA (United States Department of Agriculture) shares gross cash farm income for US market which we are using as a proxy for the globe. US cash farm income had reduced in CY23, and is likely to drop again in CY24, nonetheless, gross cash farm income is higher than pre-covid. Net cash farm income has reduced much sharper probably due to high inflation. Nonetheless, it is also high compared to pre-covid levels, but only marginal. Farmer income is also not painting a very pessimistic scenario. We would rate it as more steady outcome.

Exhibit 17: Farmer gross cash income has been reducing in past two years, but it is still above pre-covid level; high inflation may have dented net cash income

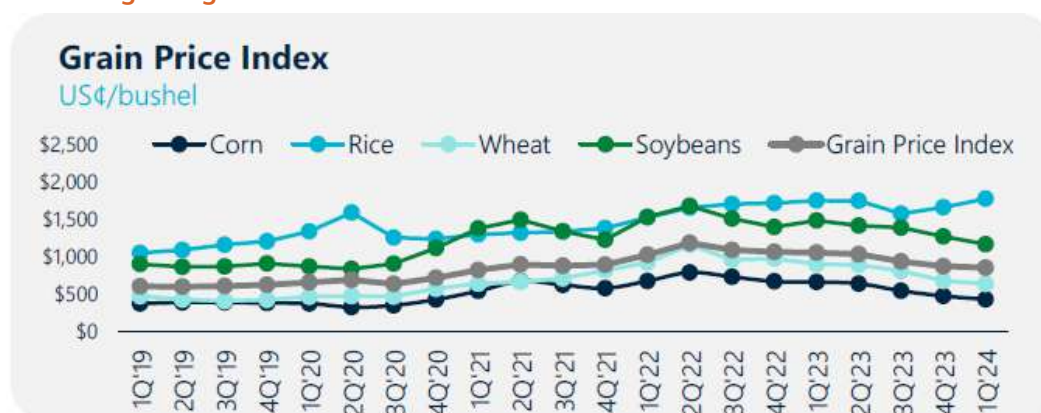


Source: Company data, USDA

2. Grain prices

We have again used data shared by the ICL group, where grain prices have dropped from peak except for rice, however, prices have been stable for the past two quarters at higher levels compared to pre-covid. Low grain prices are also reflecting in drop in farmer income.

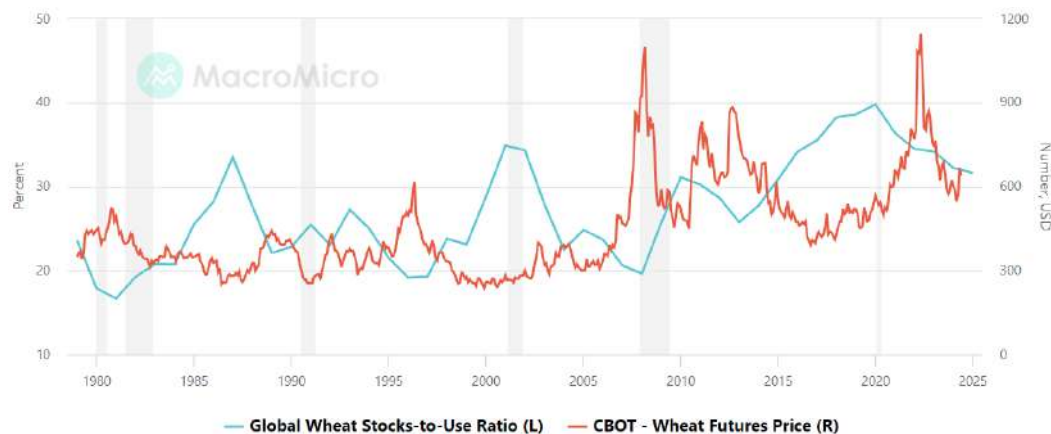
Exhibit 18: Grain prices have dropped in past couple of quarters, but are stabilising at higher levels



Source: USDA, I-Sec research

3. Stock-to-use ratio

We have put out stock-to-use ratio for key crops – corn, soybean and wheat. Previous agrochemical downcycle was majorly caused due to elevated stock-to-use ratio of key crops, and drop in crop prices which triggered destocking during CY15-17, particularly in Latin American market. Unlikely, in previous cycle, stock-to-use ratio was much lower, and has been stable or declining except for soybean. Soybean had higher acreage during the current sowing season.

Exhibit 19: Global corn stock-to-use ratio has been stableSource: Macromicro ([link](#)), I-Sec research**Exhibit 20: Global wheat stock-to-use ratio may dip**Source: Macromicro ([link](#)), I-Sec research

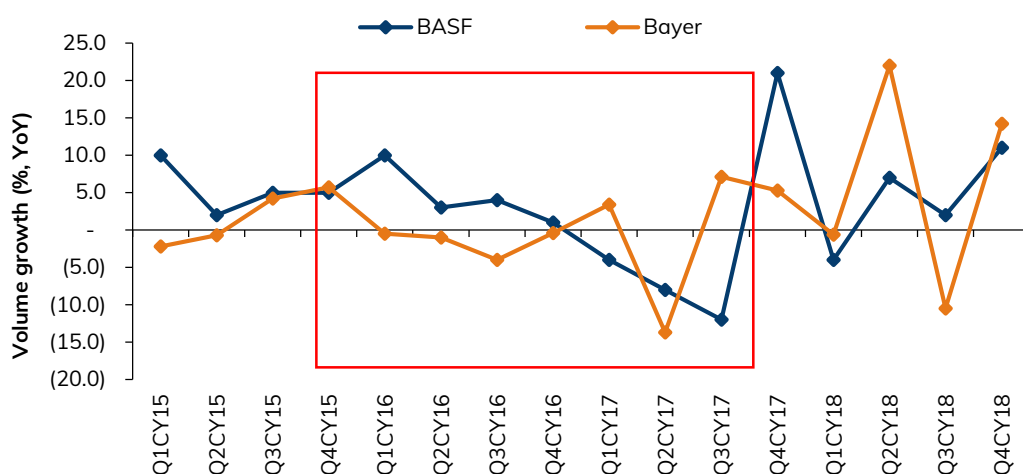
To conclude, we see underlying demand for agrochemicals to be steady for CY24. However, innovators have talked about two other factors that led to lower sales in Q1CY24. 1) Europe had adverse weather conditions, and 2) US customers have changed buying behaviour to closer to sowing times. South Brazil weather conditions also need to be watched closely. Within crops, corn has 3.5% lower acreage for CY24 while soybean has higher. Therefore, agrochemical used for corn may see softness.

Case Study: Previous downcycle in CY15-17

The previous agrochemical downcycle was triggered by various factors including – 1) agro-commodity prices rallied during CY13-15 due to increased demand from biofuel, and crude price surge helped the biofuel industry. Sudden crash in crude prices made biofuel less competitive, and commodity prices dropped sharply. 2) Stock-to-use ratio was at elevated levels across major crops. 3) Three large M&As [Dow-Dupont, Monsanto-Bayer and Syngenta-ChemChina] reduced business intensity, and therefore, lower activity in R&D and new product launches.

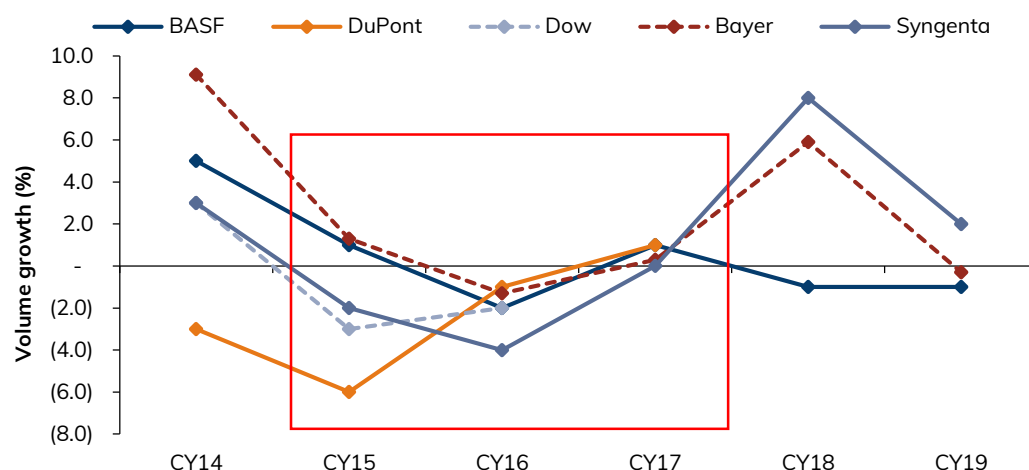
Volume data for the entire period is available only for BASF and Bayer where the downcycle for each company was from Q3CY16 to Q3CY17. However, at low base in Q4CY17, volume growth rebound sharply.

Exhibit 21: Agro-chemical downcycle lasted for four quarters from Q3CY16 to Q3CY17



Source: Company data, I-Sec research

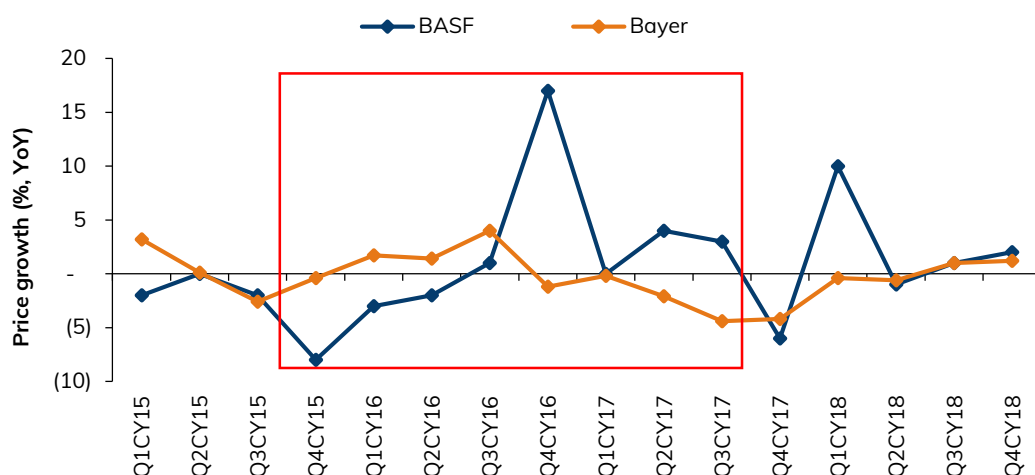
Exhibit 22: CY15 and CY16 were challenging years for agrochemical innovators



Source: Company data, I-Sec research

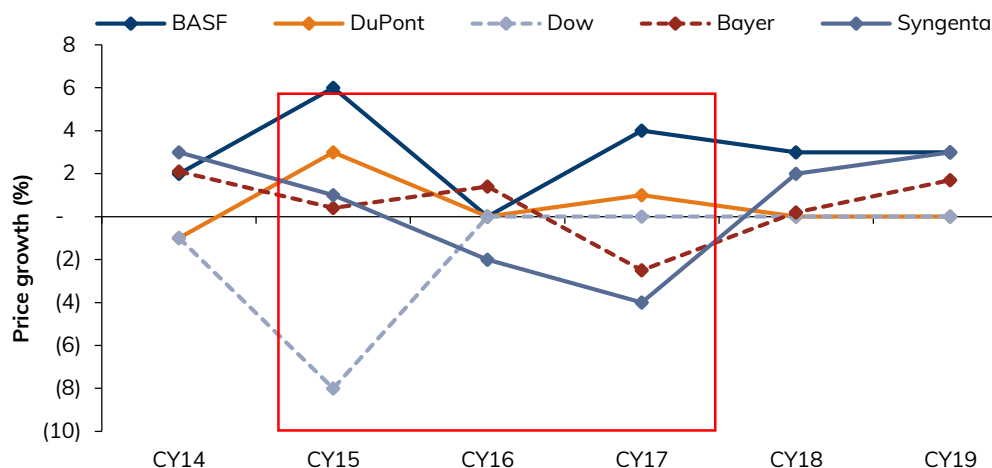
Agrochemical prices have been stable in earlier years [unlike CY23-24 downcycle where prices jump sharply in CY21-22], and competitive intensity was also stable. Consequently, price impact in previous downcycle for agrochemicals was limited. Thus, we conclude that the extent of pain in previous downcycle was lower compared to the ongoing downcycle.

Exhibit 23: In previous downcycle, price impact was limited as prices in earlier years were stable



Source: Company data, I-Sec research

Exhibit 24: Lower price impact made previous downcycle milder than current downcycle

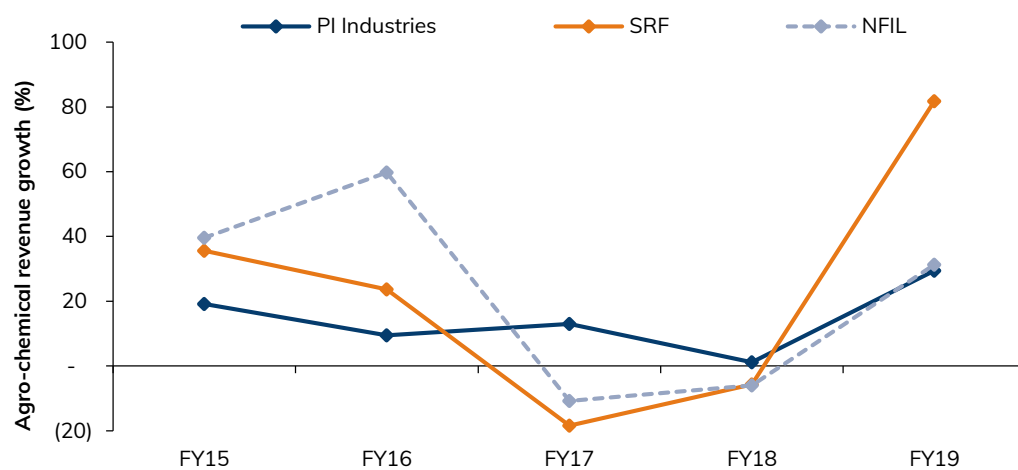


Source: Company data, I-Sec research

Performance of Indian chemical companies during previous downcycle

Indian chemical companies' agrochemical segment performance mimics innovators performance but the intensity was higher. India chemicals companies' revenue was hurt severely in FY17 (SRF and NFIL agrochemicals revenue dipped 18.5% and 10.8%, respectively), and partly in FY18 (SRF and NFIL revenue declined 5.7% and 6%, respectively). However, the recovery was also sharp with FY19 (SRF and NFIL revenue jumped 82% and 31%, respectively) making it a very strong year for India agrochemical intermediate segment.

Exhibit 25: Indian chemical companies' agrochemical segment mimics innovators with a lag and higher intensity



Source: I-Sec research, Company data

Note: PI Ind is exports revenue; SRF is specialty chemical revenue; and NFIL is specialty chemicals exports revenue.

Rising outsourcing intensity by MNCs to support growth for Indian chemical companies

Agrochemical innovators are likely to increase outsourcing of intermediate, and manufacturing to become asset light, and focus on product development, marketing and distribution. Consequently, innovators are reducing manufacturing footprint, and cutting cost by outsourcing production to developing countries, including India and China.

US companies particularly have had largely backward integration for intermediate while Europe has embraced the outsourcing long back. We had FMC and Corteva been very vocal on increasing outsourcing, and strategic tie-up during the current downcycle. We believe outsourcing intensity can rise with a turnaround in agrochemicals as these innovators may have reduced manufacturing footprint which increases addressable market for Indian chemical companies.

Exhibit 26: Corteva has been recalibrating crop protection operations (QE Sep'23)

Execution Plan

- Today announced targeted multi-year actions to optimize global CP asset footprint
- Emphasis on **shifting to low-cost / flexible supply network** to increase competitiveness and flexibility
- **Restructuring charges of \$410 to \$460M** in 2023-2024, including \$90 to \$120M of cash costs
- Expecting **annualized run-rate EBITDA improvement of ~\$100M** by 2025, payback period of just over 2 years

Key Strategy Elements

- 1 Partner with **strategic external manufacturing partners** for key molecules
- 2 Internal manufacturing focus on differentiated products to **protect market / IP position**
- 3 Strategic procurement to ensure **low-cost / flexibility / quality**
- 4 **Redesign operations organization** to maximize plant efficiency and operability
- 5 Invest in **flexible, modular facilities** to increase agility and return on capital

Source: Company data, I-Sec research

Revenue growth for Indian chemical companies in agrochemicals segment over FY24-27E

Agrochemical volume growth may be the key growth driver for Indian chemical companies, which was impacted in FY24, and therefore, the base is easy. However, we do not expect the pricing scenario to improve immediately. We see revenue growth for Indian chemical companies in agrochemical application at 15-25% (CAGR) over FY24-27E. Indian chemical companies have set-up infra/ capex to capitalise on growth, and also have good product pipeline.

1. SRF – Moving up in value chain with focus on AIs within agrochemicals

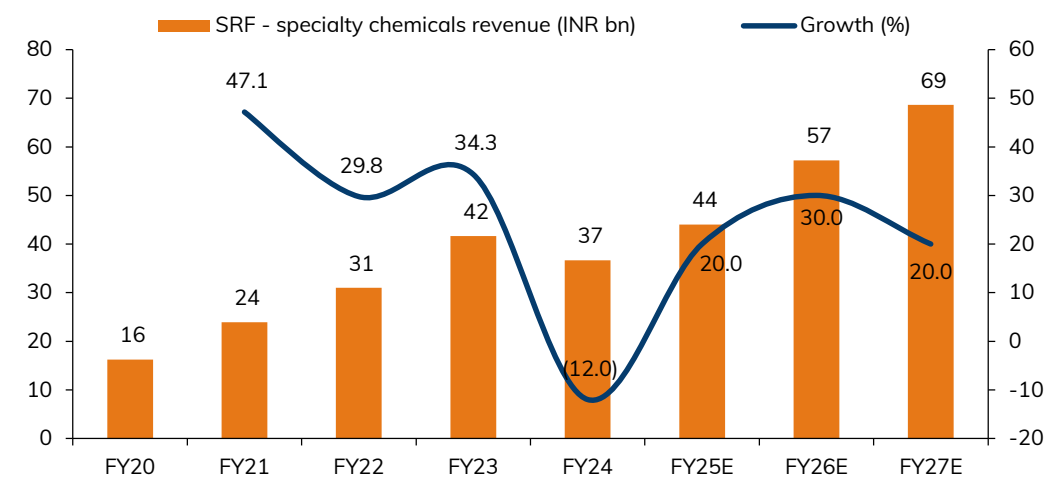
Among listed chemical companies, SRF has widest agrochemicals intermediate portfolio with three large MNCs contributing significant revenue. SRF's revenue has grown at 37% CAGR in specialty chemical business during FY20-23 as the company expanded its capacity and capabilities. It is understood to be working on 6-7 AIs [vs only one in commercial production], and is confident of growing revenue by at least 20% CAGR over the next couple of years.

In FY24, SRF launched 15 new products catering to agrochemical and pharma sectors. SRF's R&D team worked on over 44 molecules and many products were successfully taken up for process development. Additionally, more than 34 molecules were taken up for scale-up studies and 70% were commercially produced in multipurpose and dedicated plants. The pipeline shows preparedness by SRF to drive growth for specialty chemicals as the cycle turn arounds.

Additionally, SRF had commissioned nine dedicated facilities at Dahej in FY24. It has spent capex of over INR 11-15bn in specialty chemicals segment, and anticipates to spend similar amount in FY25 as well. This should support growth for SRF in coming years.

We have factored specialty chemicals revenue CAGR of 23% over FY24-27E

Exhibit 27: SRF's specialty chemicals business revenue to grow at 23.2% CAGR over FY24-27E



Source: Company data, I-Sec research

2. NFIL – Ramping-up of new projects to drive growth

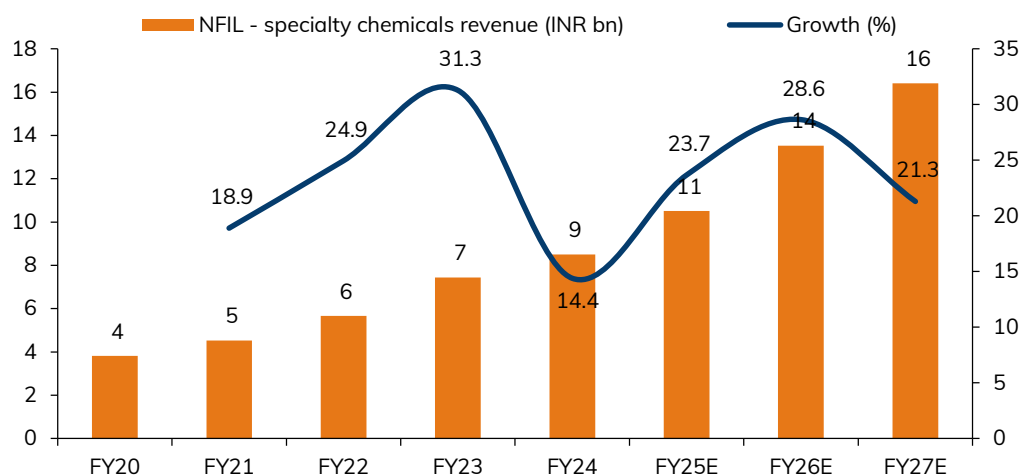
In legacy portfolio, NFIL's largest product was BF3 (Boron trifluoride) where volumes had drop in FY24 due to destocking while price decline was relatively low, we believe. The company is expanding BF3 into new geographies, and has identified new applications.

NFIL has commissioned two projects – 1) MPP-3 which has the potential to generate peak revenue of INR 2.7bn, and had ramped-up plant in FY24. It is introducing more products. 2) Dedicated plant for agrochemical intermediate which had significantly ramped-up in FY24. These plants may add some more revenue in FY25.

NFIL is likely to commission a fluoro-molecule dedicated plant in early-FY25 with capex of INR 5.4bn, and revenue potential of INR 6bn. It has confirmed order for INR 3bn for FY25. In addition, NFIL is incurring smaller capex of INR 300mn in Surat, and INR 150mn in Dahej which may add good revenue. These itself provide enough visibility for revenue growth for NFIL.

We have built revenue CAGR of 24.2% in specialty chemicals for NFIL over FY24-27E.

Exhibit 28: NFIL's specialty chemicals revenue to grow at 24.2% CAGR over FY24-27E



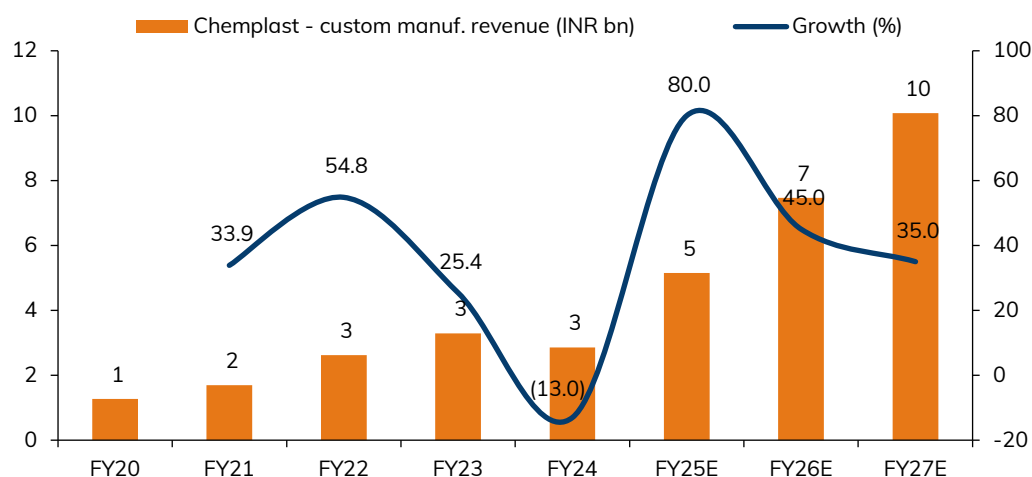
Source: Company data, I-Sec research

3. Chemplast – Four LOIs signed provide visibility for strong growth, and low base

Chemplast had custom manufacturing revenue of INR 3.3bn in FY23 which dipped to INR 2.9bn in FY24 due to agrochemical downcycle. Chemplast has invested INR 6.8bn on MPP-3 plant which has the potential to generate revenue of INR 9-10bn. In the past couple of quarters, Chemplast had announced four new LOIs with MNC innovators – **1)** Nov'22: signed LOI with a global innovator company for supplying an advanced intermediate for a new AI; **2)** May'23: signed LOI with a global agrochemical innovator to manufacture an advanced intermediate. **3)** Oct'23: signed LOI with a global agrochemical innovator to manufacture a new pipeline AI. **4)** May'24: signed LOI with a global agrochemical innovator to manufacture an advanced intermediate for a new pipeline AI.

In the previous earnings call, the company had mentioned that these four LOIs can have peak annual revenue of INR 7bn, and the cumulative revenue potential over the next four-five years is INR 12bn. This implies products can gradually ramp-up to peak potential in may be third or fourth year. Further, the company has another 15 products in the pipeline in various stages of development wherein it expects to commercialise 2-3 products each year.

Chemplast's customer manufacturing revenue CAGR of 52% over FY24-27E appears most appealing on low base.

Exhibit 29: Chemplast's custom manufacturing revenue to grow at 52% CAGR over FY24-27E


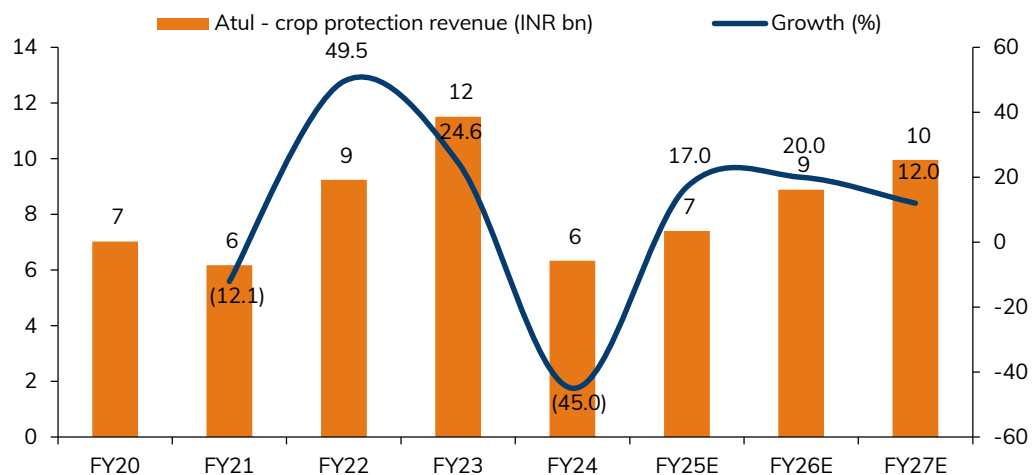
Source: Company data, I-Sec research

4. Atul – Chinese competitive intensity to cap recovery for Atul

Atul's largest product in crop protection is 2,4-D which is a widely used herbicide. 2,4-D is found in many commercial lawn herbicide mixtures, and weedkillers; over 1,500 products contain 2,4-D as an active ingredient. Atul is among the top-3 producers of 2,4-D, globally, and is backward integrated to produce critical intermediate MCA (monochloroacetic acid). In FY22 and FY23, 2,4-D prices sharply surged, and we understand that the shortage of MCA in China has added significantly to the surge in prices. Atul was comfortably placed with backward integration for MCA. The price has significantly cooled off, and China has added more capacities which has dragged prices to below long-term median.

We prefer player with exposure to MNC innovators who have strong global distribution, and a combination of branded generic, and patented products. Atul's exposure is largely to generic agrochemicals where competition from Chinese may remain intense for foreseeable future. Thus, Atul is our least favoured pick in agrochemical intermediate space.

We are factoring Atul's crop protection revenue to rise at 16% CAGR over FY24-27E as we factor volume and part price recovery in 2,4-D.

Exhibit 30: Atul's crop protection revenue to grow at 16% CAGR over FY24-27E


Source: Company data, I-Sec research Note FY24 is estimated.

19 June 2024

India | Equity Research | Company Update

SRF

Speciality Chemicals

Best play, except some hiccups in agrochemicals and ref-gas

SRF had best execution in the past in agrochemicals intermediate, and the aggression on product development has been intact despite downcycle, which is impressive. It is also likely to resume capex intensity in H2FY25. However, SRF has headwinds in one key product from Chinese competition, which is 20-21% of specialty chemicals revenue. Ref-gas has been its key profit growth driver in the past, but US phase-down of HFCs may be a key drag. Even post FY25, segment growth may largely depend on price increases. Fluoropolymers are likely to have good cycle ahead, and can add to revenue growth. Packaging films downcycle may drag for some more quarters, but spreads have stabilised for a couple of months now on low levels. We maintain **ADD** and target price of INR 2,580.

Best performer in agrochemicals space, but has headwinds in key product

SRF has been the best performer in previous agrochemical bull cycle, and its specialty chemicals revenue grew at 41.5% CAGR over FY19-23. It has aggressively invested in building capabilities and capacity over the past decade which has aided growth. Further, it enjoys strong relationship with innovators, and it supplies agrochemicals intermediates to major Western MNCs. The company has not reduced product development intensity, and has been working to move up in value chain with multiple AIs under-development [vs only one AI in commercial production]. SRF has added nine dedicated facilities in FY24 alone despite weak market. Although the company expects slowdown in capex for H1FY25, it will begin reinvesting again from H2FY25 onwards.

SRF's R&D efforts have been steady, and this has played out well for the company in the past few years. Further, It has also been making efforts to penetrate in pharma intermediate segment; however, commercial success has been limited till date. In its FY24 annual report, SRF mentioned that it has been making inroads into pharma space as well, which if executed can further push growth.

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Market Data

Market Cap (INR)	718bn
Market Cap (USD)	8,607mn
Bloomberg Code	SRF IN
Reuters Code	SRFL.BO
52-week Range (INR)	2,697 /2,040
Free Float (%)	49.0
ADTV-3M (mn) (USD)	18.0

Price Performance (%)	3m	6m	12m
Absolute	(1.9)	(0.6)	1.0
Relative to Sensex	(8.3)	(8.8)	(20.9)

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,45,918	1,29,104	1,49,413	1,73,645
EBITDA	35,292	25,841	31,771	42,065
EBITDA Margin (%)	23.7	19.7	21.3	24.2
Net Profit	21,623	13,357	16,544	23,295
EPS (INR)	72.9	45.1	55.8	78.6
EPS % Chg YoY	14.5	(38.2)	23.9	40.8
P/E (x)	33.2	53.8	43.4	30.8
EV/EBITDA (x)	21.1	29.1	23.9	18.2
RoCE (%)	16.9	9.7	10.6	13.2
RoE (%)	22.9	12.3	13.6	16.9

Previous Reports

11-06-2024: [Company Update](#)10-05-2024: [Q4FY24 results review](#)

Exhibit 1: SRF's R&D efforts have not slowed down

# of products	Product development	Scale-up	Commercial campaign
FY17	47	34	18
FY18	46	29	13
FY19	50	20	
FY20	69	34	16
FY21	50	40	15
FY22	57	20	14
FY23	50	20	14
FY24	44	34	24

Source: Company data, I-Sec research

Nonetheless, SRF faces some headwinds in agrochemicals immediately as one of its large molecule's end product is facing growth challenge and pricing pressure due to Chinese competition. The product contributed 20-21% of total specialty chemicals revenue in FY24. We still see this headwind impacting growth in the near term despite the company working on new technology, and planning to grab more volume market share.

Company in its Q4FY24 result stated – 'There have been some concerns voiced about our competitiveness in one of our key products. Let me state upfront that this is nothing new in our lives. We have seen this in many other cases in the past. As far as this product is concerned, we have done some major process breakthroughs that will bring our cost structures down significantly. In addition, this will allow us to take an even higher volume share and most importantly, as the market recovers, help us grow the absolute profit pool from this product'.

Despite headwinds, we have factored specialty chemical revenue CAGR of 23% to INR 68.6bn over FY24-27E, and kept margins intact.

Ref-gas mix change from US to other geographies is margin dilutive

Ref-gas revenue has grown at 26.7% CAGR over FY19-23 led by strong HFC volumes to US. US anti-dumping duty on Chinese has really helped SRF grow its HFC-blended pricing. SRF's total HFC capacity is with three gases – 1) R-134a of 20ktpa; 2) R-125 of 7ktpa and 3) R-32 of 29ktpa where the company added 15ktpa in FY24. US market had its second GWP phase-down of 30% from base-line wef Jan'24 which has started hurting US volumes for SRF. Further, US has eased regulatory (anti-dumping duty) policy for Chinese suppliers in one of the HFCs (R-125) recently.

SRF plans to sell more volumes in India, Gulf and other Asian markets; however, Chinese competition is higher and pricing may be much below US levels. As all major markets shift to regulatory phase-down, HFC prices should start moving up again.

Immediately, we see two major growth drivers – 1) HFC prices in India [largest ref-gas market by revenue for SRF] have started improving; and 2) higher volumes in R-32 where capacity came in H2FY24. We are factoring revenue CAGR of 9% for ref-gas sub-segment to INR 26.6bn over FY24-27E.

SRF added 5ktpa PTFE capacity in FY24, and the company has been ramping-up utilisation and adding product pipeline. It is also working on adding a new fluoropolymer plant in FY25. We expect fluoropolymers revenue to grow to INR 8.4bn in FY27E from negligible in FY24.

Packaging films- unfavourable cycle

Packaging films downcycle may continue even in FY25 with depress margin. However, spreads have been stable for past few months (which indicates spreads stabilising), and lower power cost in Hungary may help in improving EBITDA margin. Nonetheless, over the next three years, cycle should normalise to mid-cycle levels, in our view. We

are estimating packaging films EBITDA CAGR of 35.6% to INR 10bn over FY24-27E, on low base.

Risks

Upside: 1) Higher than expected revenue growth in specialty chemicals business, and 2) EBIT margin of >27% in chemical business.

Downside: 1) Sharp drop in HFC prices, particularly in the US; and 2) continued slump in specialty chemicals business with higher Chinese competition.

Exhibit 2: Chemical segment to grow at 22% CAGR over FY24-27E

INR mn	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY24	FY25E	FY26E	FY27E	CAGR (%)
Ref-gas	9,915	9,391	8,860	16,955	25,570	26.7	20,634	23,729	26,102	26,624	8.9
Fluoropolymers	-	-	-	-	-	-	94	2,083	5,817	8,413	347.3
Specialty chemicals	10,391	16,238	23,894	31,003	41,650	41.5	36,661	43,993	57,191	68,629	23.2
Others	4,148	4,121	3,696	4,449	6,889	13.5	5,581	5,687	5,963	6,031	2.6
Total revenue	24,454	29,750	36,449	52,408	74,109	31.9	62,970	75,491	95,073	1,09,697	20.3
EBITDA	6,059	7,568	10,012	17,005	26,755	45.0	20,311	24,339	32,682	37,005	22.1
EBITDA (%)	24.8	25.4	27.5	32.4	36.1		32.3	32.2	34.4	33.7	
EBIT	3,843	5,115	7,281	13,969	23,407	57.1	16,274	19,274	26,488	29,891	22.5
EBIT (%)	15.7	17.2	20.0	26.7	31.6		25.8	25.5	27.9	27.2	
Capex	8,415	5,033	6,187	12,966	21,461		16,504	19,504	22,000	20,000	
FCF (EBITDA-Capex)	(2,356)	2,535	3,826	4,039	5,294		3,807	4,835	10,682	17,005	
Asset turnover (x; on capital employed)	0.55	0.63	0.72	0.84	0.88		0.65	0.65	0.69	0.69	
post-tax ROCE (%)	7.1	11.3	10.5	17.3	32.0		18.0	18.0	20.8	20.1	

Source: Company data, I-Sec research

Exhibit 3: Packaging films segment to grow at 35% CAGR over FY24-27E, on low base

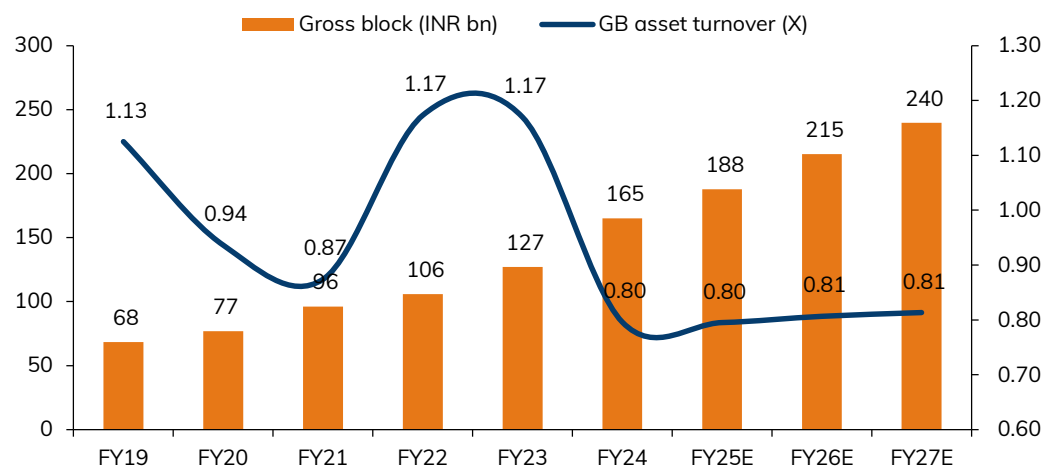
INR mn	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY24	FY25E	FY26E	FY27E	CAGR (%)
Packaging films segment											
Revenue	26,533	26,040	32,917	47,792	51,828	18.2	44,893	49,478	53,839	60,214	10.3
EBITDA	4,945	6,419	10,215	10,996	7,340	10.4	4,076	5,854	7,751	10,165	35.6
EBITDA (%)	18.6	24.6	31.0	23.0	14.2		9.1	11.8	14.4	16.9	
EBIT	4,115	5,556	8,979	9,463	5,562	7.8	2,065	3,778	5,479	7,779	55.6
EBIT (%)	15.5	21.3	27.3	19.8	10.7		4.6	7.6	10.2	12.9	
Technical textiles segment											
Revenue	20,742	13,576	12,401	20,852	18,939	(2.2)	18,980	19,678	19,746	19,838	1.5
EBITDA	3,390	1,862	2,123	5,114	3,028	(2.8)	3,189	3,527	3,642	3,567	3.8
EBITDA (%)	16.3	13.7	17.1	24.5	16.0		16.8	17.9	18.4	18.0	
EBIT	2,982	1,515	1,769	4,708	2,612	(3.3)	2,737	3,086	3,211	3,145	4.7
EBITDA (%)	14.4	11.2	14.3	22.6	13.8		14.4	15.7	16.3	15.9	

Source: Company data, I-Sec research

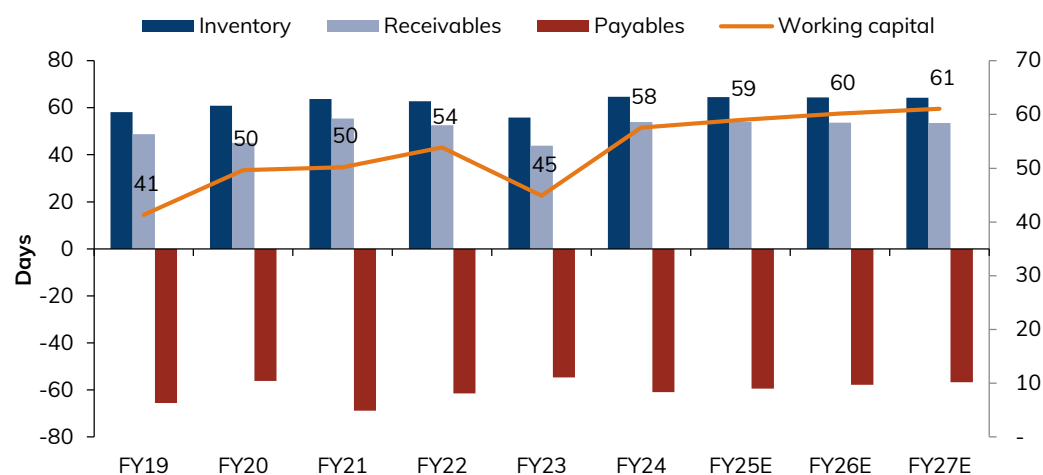
Exhibit 4: SRF's EPS to grow at 27% CAGR over FY24-27E

INR mn	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY24	FY25E	FY26E	FY27E	CAGR (%)
Revenue	76,927	72,094	84,000	1,24,337	1,48,703	17.9	1,31,385	1,49,413	1,73,645	1,94,973	14.1
Gross profit	33,331	35,224	43,811	63,667	74,767	22.4	64,297	72,868	86,565	97,552	14.9
GPM (%)	43.3	48.9	52.2	51.2	50.3		48.9	48.8	49.9	50.0	
EBITDA	13,552	14,549	21,333	31,032	35,292	27.0	25,841	31,771	42,065	48,669	23.5
EBITDA (%)	17.6	20.2	25.4	25.0	23.7		19.7	21.3	24.2	25.0	
Growth (%)		7.4	46.6	45.5	13.7		(26.8)	22.9	32.4	15.7	
Depreciation	3,669	3,886	4,531	5,172	5,753	11.9	6,726	7,494	8,775	9,774	13.3
EBIT	9,884	10,663	16,803	25,860	29,539	31.5	19,115	24,277	33,290	38,895	26.7
Other income	401	491	664	1,155	749		830	890	953	1,018	7.0
Finance cost	2,016	2,007	1,340	1,159	2,048		3,023	3,111	3,276	3,374	3.7
PBT	8,269	9,147	16,127	25,856	28,240	35.9	16,922	22,056	30,967	36,539	29.3
Tax	1,853	(12)	4,144	6,966	6,617	37.5	3,565	5,512	7,671	9,021	36.3
ETR (%)	22.4	(0.1)	25.7	26.9	23.4		21.1	25.0	24.8	24.7	
Net profit	6,416	10,191	11,983	18,889	21,623	35.5	13,357	16,544	23,295	27,518	27.2
PAT (%)	8.3	14.1	14.3	15.2	14.5		10.2	11.1	13.4	14.1	
EPS (INR)	22	35	40	64	73	34.5	45	56	79	93	27.2

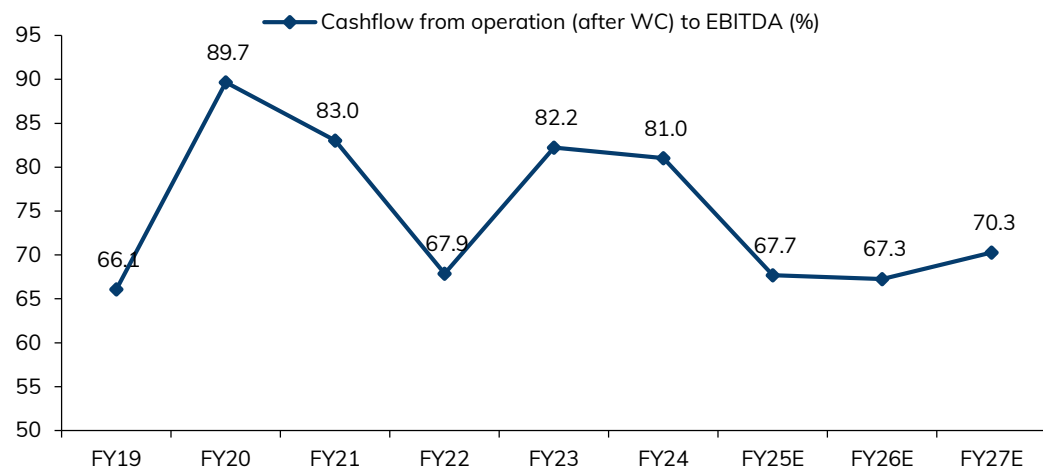
Source: Company data, I-Sec research

Exhibit 5: Gross block asset turnover to be stable on lower prices


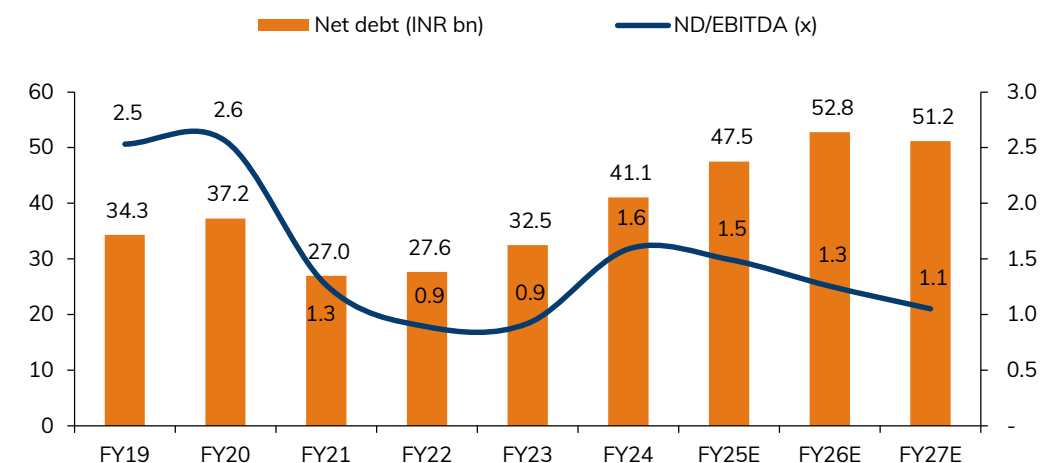
Source: Company data, I-Sec research

Exhibit 6: Chemicals segment revenue mix stable, may keep working capital days steady


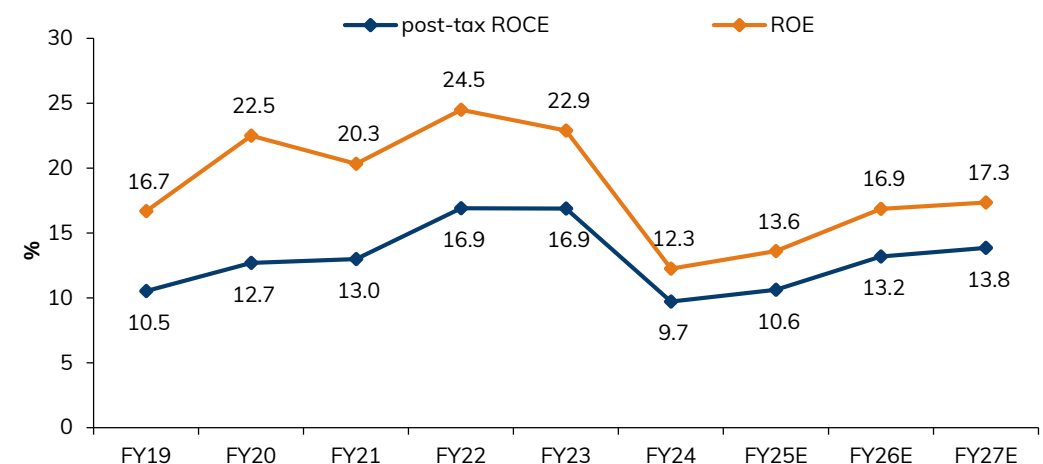
Source: Company data, I-Sec research

Exhibit 7: SRF has strong cash conversion

Source: Company data, I-Sec research

Exhibit 8: Cyclically low EBITDA made leverage ratio appear high

Source: Company data, I-Sec research

Exhibit 9: Return ratio to gradually improve as company hits mid-cycle again

Source: Company data, I-Sec research

Exhibit 10: SRF's SoTP-based valuation

Business units (INR mn)	Methodology	Multiple (x)	FY26E
Technical Textiles	EV/EBITDA	6.0	27,023
Chemical & Polymers	EV/EBITDA	24.0	7,84,375
Packaging films	EV/EBITDA	8.0	62,005
Less: Unallocated	Weighted avg EV/EBITDA	19.4	55,821
Enterprise value			8,17,582
Net debt			52,801
Equity value			7,64,781
No of outstanding shares (mn)			296
Equity value (INR/sh)			2,580

Source: Company data, I-Sec research

Exhibit 11: SRF's implied valuation

	FY25E	FY26E
Target price (INR)	2,580	2,580
EPS	56	79
Implied PE (x)	46.2	32.8
Enterprise Value (INR bn)	818	818
EBITDA (INR bn)	32	42
Implied EV/EBITDA (x)	25.7	19.4

Source: Company data, I-Sec research

Exhibit 12: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	50.5	50.5	50.3
Institutional investors	34.0	34.1	35.1
MFs and others	7.4	7.8	8.4
Banks / Insurance	5.4	5.4	6.3
FIIIs	21.2	20.9	20.4
Others	15.5	15.3	14.6

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,45,918	1,29,104	1,49,413	1,73,645
Operating Expenses	1,13,411	1,05,544	1,17,642	1,31,581
EBITDA	35,292	25,841	31,771	42,065
EBITDA Margin (%)	23.7	19.7	21.3	24.2
Depreciation & Amortization	5,753	6,726	7,494	8,775
EBIT	29,539	19,115	24,277	33,290
Interest expenditure	2,048	3,023	3,111	3,276
Other Non-operating Income	749	830	890	953
Recurring PBT	28,240	16,922	22,056	30,967
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	6,617	3,565	5,512	7,671
PAT	21,623	13,357	16,544	23,295
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	21,623	13,357	16,544	23,295
Net Income (Adjusted)	21,623	13,357	16,544	23,295

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	52,849	52,437	58,902	65,828
of which cash & cash eqv.	6,165	4,075	3,111	282
Total Current Liabilities & Provisions	28,741	28,117	31,417	35,824
Net Current Assets	24,108	24,320	27,485	30,004
Investments	4,942	5,267	1,211	1,211
Net Fixed Assets	1,24,553	1,40,470	1,55,837	1,74,442
ROU Assets	2,872	2,766	2,766	2,766
Capital Work-in-Progress	24,055	8,053	8,053	8,053
Total Intangible Assets	1,147	1,195	-	-
Other assets	3,884	3,894	4,031	4,176
Deferred Tax Assets	187	276	276	276
Total Assets	1,87,545	2,04,819	2,23,549	2,50,264
Liabilities				
Borrowings	43,541	49,202	50,613	53,083
Deferred Tax Liability	8,092	9,387	9,387	9,387
Provisions	608	714	714	714
Other Liabilities	3,293	2,609	2,937	3,371
Equity Share Capital	2,964	2,964	2,964	2,964
Reserves & Surplus	1,00,296	1,11,816	1,25,506	1,44,910
Total Net Worth	1,03,271	1,14,790	1,28,480	1,47,884
Minority Interest	-	-	-	-
Total Liabilities	1,87,545	2,04,819	2,23,549	2,50,264

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	33,384	31,774	30,530	35,697
% growth (YOY)	(14.3)	(14.8)	(12)	(5.5)
EBITDA	6,963	6,262	5,658	6,958
Margin %	20.9	19.7	18.5	19.5
Other Income	118	291	188	234
Extraordinaries	-	-	-	0
Adjusted Net Profit	3,593	3,008	2,534	4,222

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	29,621	22,066	26,259	34,394
Working Capital Changes	(604)	(1,128)	(4,754)	(6,098)
Capital Commitments	(28,382)	(22,169)	(22,862)	(27,379)
Free Cashflow	635	(1,231)	(1,357)	916
Other investing cashflow	(1,232)	(104)	4,946	953
Cashflow from Investing Activities	(1,232)	(104)	4,946	953
Issue of Share Capital	-	-	-	-
Interest Cost	(1,945)	(3,612)	(3,111)	(3,276)
Inc (Dec) in Borrowings	6,599	5,404	1,411	2,470
Dividend paid	(2,133)	(2,137)	(2,854)	(3,891)
Others	(325)	(372)	-	-
Cash flow from Financing Activities	2,196	(717)	(4,554)	(4,697)
Chg. in Cash & Bank balance	1,599	(2,052)	(965)	(2,828)
Closing cash & balance	6,080	3,994	3,111	282

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	72.9	45.1	55.8	78.6
Adjusted EPS (Diluted)	72.9	45.1	55.8	78.6
Cash EPS	92.4	67.8	81.1	108.2
Dividend per share (DPS)	7.2	3.6	9.6	13.1
Book Value per share (BV)	348.4	387.3	433.4	498.9
Dividend Payout (%)	9.9	8.0	17.3	16.7
Growth (%)				
Net Sales	18.5	(11.5)	15.7	16.2
EBITDA	13.7	(26.8)	22.9	32.4
EPS (INR)	14.5	(38.2)	23.9	40.8
Valuation Ratios (x)				
P/E	33.2	53.8	43.4	30.8
P/CEPS	26.2	35.8	29.9	22.4
P/BV	7.0	6.3	5.6	4.9
EV / EBITDA	21.1	29.1	23.9	18.2
EV/SALES	5.0	5.7	5.1	4.4
Dividend Yield (%)	0.3	0.1	0.4	0.5
Operating Ratios				
Gross Profit Margins (%)	50.3	48.9	48.8	49.9
EBITDA Margins (%)	23.7	19.7	21.3	24.2
Effective Tax Rate (%)	23.4	21.1	25.0	24.8
Net Profit Margins (%)	14.5	10.2	11.1	13.4
NWC / Total Assets (%)	12.3	13.4	14.9	16.2
Net Debt / Equity (x)	0.3	0.4	0.4	0.4
Net Debt / EBITDA (x)	0.9	1.6	1.5	1.3
Profitability Ratios				
RoCE (%)	16.9	9.7	10.6	13.2
RoE (%)	22.9	12.3	13.6	16.9
RoIC (%)	18.2	10.3	11.0	13.3
Fixed Asset Turnover (x)	1.2	0.8	0.8	0.8
Inventory Turnover Days	55.8	64.6	64.5	64.4
Receivables Days	43.8	54.0	54.0	53.7
Payables Days	54.8	61.1	59.5	57.9

Source Company data, I-Sec research

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19 June 2024

India | Equity Research | Company Update

Navin Fluorine International

Specialty Chemicals

Ramp-up in projects to drive revenue and margins

Navin Fluorine International (NFIL) had challenging FY24 with large project commercialisation, and initial issues with production particularly in HFO. It also had significant drop in CDMO revenue, and volume decline in BF3. However, we are impressed with corrective measures in working capital, and restricting leverage ratio at 2x. Company has resolved productions issues, and Nectar project coming live may help drive strong volume growth in FY25. A revival in underlying agrochemicals market could speed up the process, and help in getting operating leverage. We believe NFIL's print should significantly improve from H2FY25. Company has also filled leadership vacancy with the appointment of Mr Nitin G. Kulkarni as MD [\[link\]](#). We tweak our estimates by 1-4% over FY25-26E, and raise target price to INR 4,135 (from INR 3,960). Maintain **BUY**.

Specialty chemicals have ongoing projects; upcycle to help drive faster utilisation

NFIL's revenue grew at 20% CAGR over FY19-23 supported by growth in each of its three segments. The company had highest growth coming from specialty chemical segment which grew at 25.3% CAGR during the same period led by strong growth in key product BF3 (boron trifluoride), and agrochemical upcycles. However, pharma intermediate had limited growth within specialty chemicals. NFIL faced challenges in volume for BF3 in FY24 due to downcycle, and Chinese competition. It has reduced its presence in pharma intermediate which dented revenues. However, for BF3, the company is expanding its geographical reach in Europe, and adding application in high purity grade for new-age industries, and anticipates volumes to grow again soon.

NFIL commenced two projects at end-FY23 – MPP-3 with capex of INR 1.95bn [revenue potential of INR 2.7bn] and dedicated agrochemical facility with capex of INR 1.25bn [revenue potential of INR 1.6bn]. These projects ramped-up well in FY24 despite slowdown. NFIL has one large project, Nectar, where it plans to produce new fluoro-molecule and is likely to commence production in H1FY25. It has a confirmed order to supply product worth INR 3bn in FY25 while we have conservatively estimated revenue of only INR 1.5bn in FY25. The company is also adding small plants with capex of INR 300mn, and INR 150mn in Surat and Dahej, respectively, for scaling-up products which should also add to revenue. This has not been factored in our forecasts. A cyclical recovery may significantly boost revenue for NFIL from H2FY25, and we factor in specialty chemicals revenue to grow at 24.2% CAGR to INR 16.3bn over FY24-27E.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	20,774	20,667	26,873	32,039
EBITDA	5,503	3,983	5,979	8,225
EBITDA Margin (%)	26.5	19.3	22.2	25.7
Net Profit	3,752	1,663	3,264	5,121
EPS (INR)	75.7	54.6	65.9	103.4
EPS % Chg YoY	42.6	(27.9)	20.7	56.9
P/E (x)	47.5	65.9	54.6	34.8
EV/EBITDA (x)	33.3	46.2	31.1	22.5
RoCE (%)	14.8	6.9	9.0	12.5
RoE (%)	18.6	11.8	13.0	17.9

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Market Data

Market Cap (INR)	179bn
Market Cap (USD)	2,140mn
Bloomberg Code	NFIL IN
Reuters Code	NAFL.BO
52-week Range (INR)	4,721 / 2,876
Free Float (%)	70.0
ADTV-3M (mn) (USD)	11.0

Price Performance (%)	3m	6m	12m
Absolute	19.5	(7.3)	(22.6)
Relative to Sensex	13.1	(15.4)	(44.5)

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.3	1.3
EBITDA	0.3	1.1
EPS	0.5	4.3

Previous Reports

30-05-2024: [Company Update](#)

08-05-2024: [Q4FY24 results review](#)

CDMO likely to benefit from Fermion and other contracts

NFIL's CDMO segment is focused on pharma innovators, but it also had revenue decline of 38.5% in FY24 on high base [one large project execution in FY23], otherwise, segment revenue was struck under INR 3bn pa over FY21-24. The company has changed its strategy to long-tail early phase products, to late-stage molecules but had limited success. NFIL has increased focus on commercialised products, and had three molecules from Fermion, and one molecule each from US and UK-based innovators. On the back of these wins, the company is investing in cGMP-4, and expects to hit revenue base of INR 8bn [USD 100mn] by FY27; however, we have conservatively estimated revenue of INR 6bn in FY27E.

Operating leverage to drive margin improvement

Unlike SRF, where we see downside risks to margins, NFIL's margins may have an upside risk largely driven by two factors – 1) contribution of high margin specialty chemicals and CDMO mix to consistently rise in line with capital investments; and 2) operating leverage as NFIL has added significant projects where ramp-up has been slower. Further, smart debottlenecking and adding more molecules could help drive better economics. We expect NFIL's EBITDA margin to grow from 19.3% in FY24 to over 25% in FY27E. NFIL's employee cost stands at 13.8%, and it should settle ~10% in the next two years, which alone explains significant margin expansion assumption.

Risks

Upside risks: 1) Faster-than-expected ramp-up in projects at Dahej; and 2) CDMO revenue growing at higher-than-expected pace.

Downside risks: 1) Continued issues with plant at Dahej impacting revenue recovery and margins; and 2) slower-than-expected recovery in specialty chemicals business.

Exhibit 1: Expect revenue growth across segments

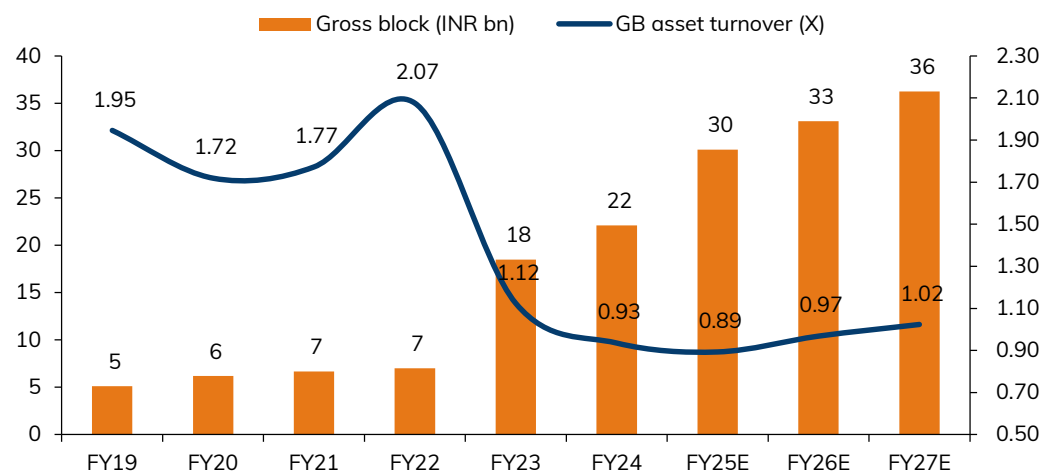
INR mn	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY24	FY25E	FY26E	FY27E	CAGR (%)
HPP	4,770	4,680	4,020	5,410	9,080	17.5	9,550	12,490	13,508	14,685	15.4
HFO (Honeywell)					3,738		3,551	4,616	4,847	5,331	14.5
R-32					-		750	1,575	2,993	3,232	62.7
Others	4,770	4,680	4,020	5,410	5,342	2.9	5,249	6,299	5,669	6,122	5.3
Specialty Chemicals	3,010	3,810	4,530	5,660	7,430	25.3	8,500	10,512	13,522	16,402	24.5
MPP-3					812		2,174	2,524	3,274	3,929	21.8
Dedicated agro-chemical					675		1,500	1,600	1,840	2,024	10.5
Fluoro-molecule					-		-	1,500	2,700	3,780	
Others	3,010	3,810	4,530	5,660	5,943	18.5	4,826	4,888	5,708	6,669	11.4
CDMO	1,780	1,730	2,790	2,970	4,260	24.4	2,620	3,871	5,009	6,010	31.9
Total revenue	9,959	10,616	11,794	14,534	20,774	20.2	20,667	26,873	32,039	37,098	21.5
Revenue mix (%)											
HPP	48	44	34	37	44		46	46	42	40	
Specialty Chemicals	30	36	38	39	36		41	39	42	44	
CDMO	18	16	24	20	21		13	14	16	16	

Source: Company data, I-Sec research

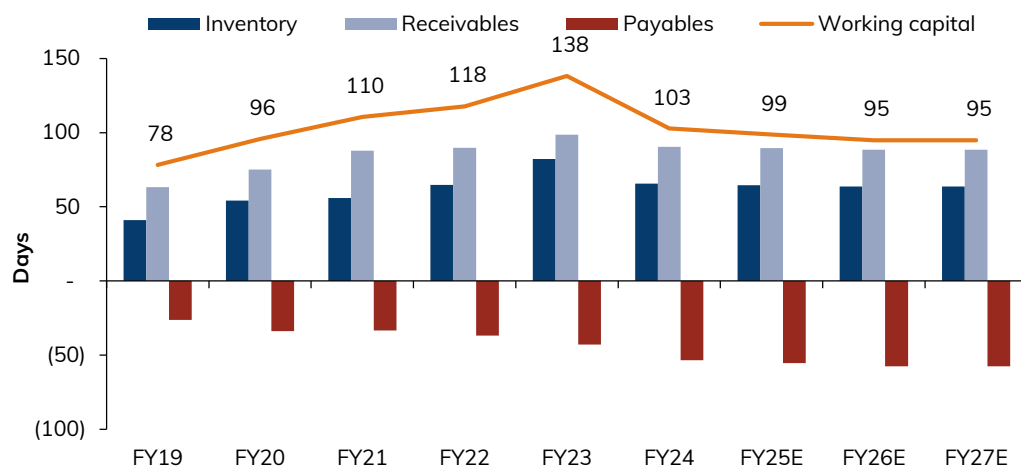
Exhibit 2: NFIL's EPS to grow at 32% CAGR over FY24-27E

INR mn	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY24	FY25E	FY26E	FY27E	CAGR (%)
Revenue	9,959	10,616	11,794	14,534	20,774	20.2	20,667	26,873	32,039	37,098	21.5
Gross profit	5,194	5,777	6,420	7,877	11,814	22.8	11,296	14,015	17,383	20,198	21.4
GPM (%)	52.1	54.4	54.4	54.2	56.9		54.7	52.2	54.3	54.4	
EBITDA	2,184	2,635	3,093	3,548	5,503	26.0	3,983	5,979	8,225	9,711	34.6
EBITDA (%)	21.9	24.8	26.2	24.4	26.5		19.3	22.2	25.7	26.2	
Growth (%)		20.7	17.4	14.7	55.1		(27.6)	50.1	37.6	18.1	
Depreciation	275	370	442	479	626	22.8	962	1,431	1,535	1,643	19.6
EBIT	1,908	2,265	2,651	3,069	4,877	26.4	3,021	4,548	6,690	8,068	38.7
Other income	344	333	790	392	357		559	642	674	708	8.2
Finance cost	8	20	18	19	275		746	981	845	640	-4.9
PBT	2,244	2,578	3,423	3,442	4,959	21.9	2,834	4,209	6,519	8,136	42.1
Tax	770	(1,436)	1,108	812	1,207	11.9	650	945	1,398	1,745	39.0
ETR (%)	34.3	(55.7)	32.4	23.6	24.3		22.9	22.4	21.4	21.4	
Net profit	1,491	4,086	2,575	2,631	3,752	25.9	2,705	3,264	5,121	6,391	33.2
PAT (%)	15.0	38.5	21.8	18.1	18.1		13.1	12.1	16.0	17.2	
EPS (INR)	30	83	52	53	76	25.9	55	66	103	129	33.2

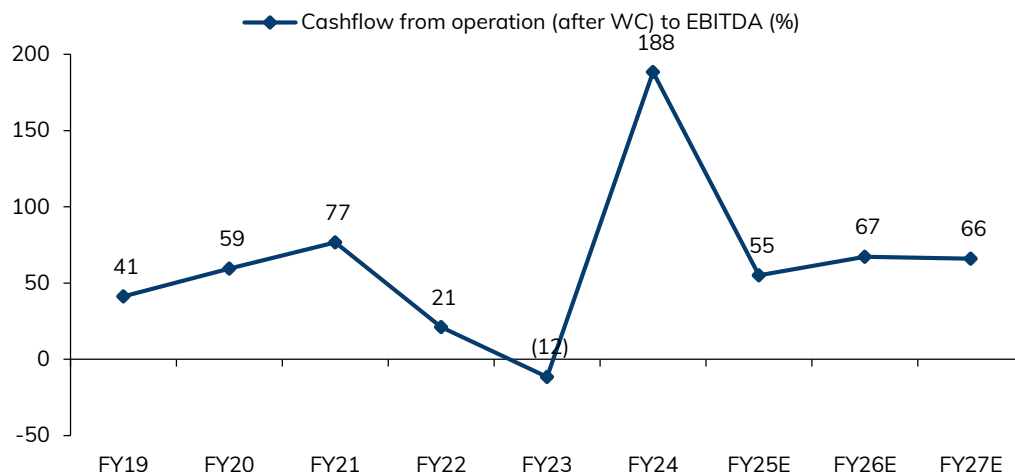
Source: Company data, I-Sec research

Exhibit 3: Gross block asset turnover to improve to over 1x by FY27E

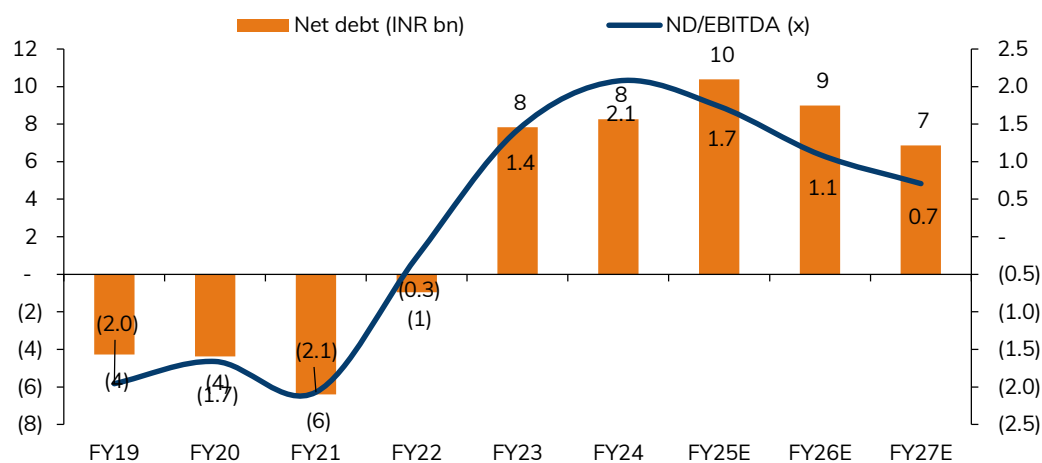
Source: Company data, I-Sec research

Exhibit 4: Company expects working capital days to improve to 90days, which we have not factored in our estimates

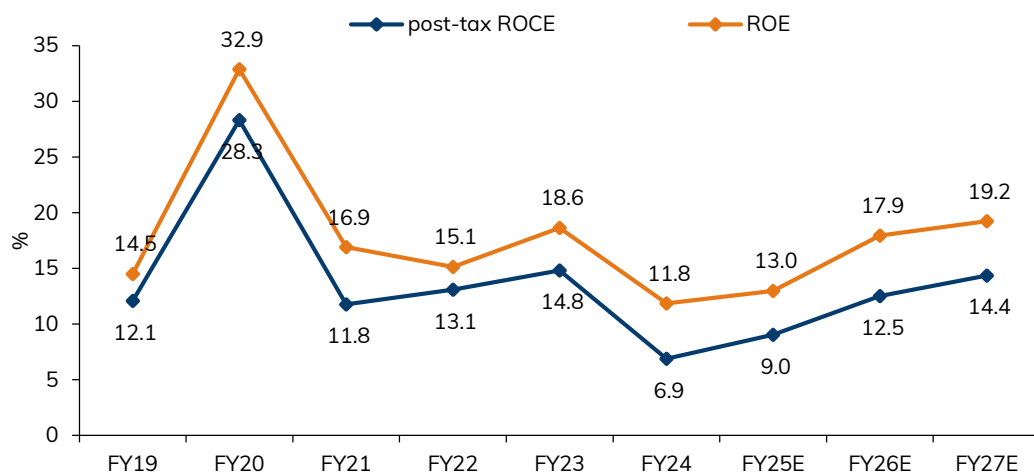
Source: Company data, I-Sec research

Exhibit 5: NFIL has strong cash conversion


Source: Company data, I-Sec research

Exhibit 6: NFIL has controlled leverage in FY24, which is likely to reduce from FY26E onwards


Source: Company data, I-Sec research

Exhibit 7: Return ratio to gradually improve as company scales new projects


Source: Company data, I-Sec research

Exhibit 8: Earnings revision

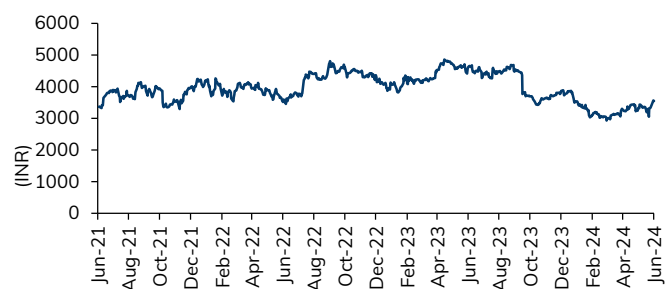
INR mn	Revised		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	26,873	32,039	26,797	31,633	0.3	1.3
EBITDA	5,979	8,225	5,960	8,133	0.3	1.1
EBITDA margin (%)	22.2	25.7	22.2	25.7		
PAT	3,264	5,121	3,250	4,911	0.5	4.3
EPS (INR)	66	103	66	99	0.5	4.3

Source: Company data, I-Sec research

Exhibit 9: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	28.8	28.8	28.8
Institutional investors	45.2	44.8	44.2
MFs and other	19.8	19.5	15.6
Fls/ Banks	0.0	0.0	0.0
Insurance Cos.	4.5	7.7	11.3
FII's	20.9	17.6	17.3
Others	26.0	26.4	27.0

Source: Bloomberg, I-Sec research

Exhibit 10: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	20,774	20,667	26,873	32,039
Operating Expenses	15,271	16,684	20,894	23,814
EBITDA	5,503	3,983	5,979	8,225
EBITDA Margin (%)	26.5	19.3	22.2	25.7
Depreciation & Amortization	626	962	1,431	1,535
EBIT	4,877	3,021	4,548	6,690
Interest expenditure	275	746	981	845
Other Non-operating Income	357	559	642	674
Recurring PBT	4,959	2,834	4,209	6,519
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,207	650	945	1,398
PAT	3,752	2,705	3,264	5,121
Less: Minority Interest	0	-	-	-
Extraordinaries (Net)	-	521	-	-
Net Income (Reported)	3,752	2,705	3,264	5,121
Net Income (Adjusted)	3,752	1,663	3,264	5,121

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	14,662	15,532	17,468	19,221
of which cash & cash eqv.	348	275	2,161	1,554
Total Current Liabilities & Provisions	5,215	8,579	11,109	10,468
Net Current Assets	9,447	6,953	6,358	8,754
Investments	955	4,948	1,948	1,948
Net Fixed Assets	17,520	24,495	27,509	28,973
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,786	7,111	3,555	3,555
Total Intangible Assets	878	878	878	878
Other assets	946	2,291	2,634	3,029
Deferred Tax Assets	-	-	-	-
Total Assets	35,293	43,770	49,064	52,677
Liabilities				
Borrowings	8,487	13,399	14,399	12,399
Deferred Tax Liability	348	643	643	643
Provisions	151	185	213	245
Other Liabilities	199	308	400	477
Equity Share Capital	99	99	99	99
Reserves & Surplus	21,750	23,728	26,371	30,518
Total Net Worth	21,850	23,827	26,470	30,617
Minority Interest	-	-	-	-
Total Liabilities	35,293	43,770	49,064	52,677

Source Company data, I-Sec research

Exhibit 13: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	6,971	4,912	4,718	5,018
% Growth (YOY)				
EBITDA	2,018	1,142	983	757
Margin %	28.9	23.3	20.8	15.1
Other Income	40	83	231	119
Extraordinaries	-	-	-	521.3
Adjusted Net Profit	1,364	615	606	259

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	4,672	3,889	5,034	6,827
Working Capital Changes	(5,307)	3,610	(1,744)	(1,289)
Capital Commitments	(7,577)	(7,324)	(4,445)	(3,000)
Free Cashflow	(8,213)	176	(1,155)	2,538
Other investing cashflow	999	(4,153)	3,642	674
Cashflow from Investing Activities	1,021	(3,612)	3,642	674
Issue of Share Capital	12	1	-	-
Interest Cost	(275)	(746)	(981)	(845)
Inc (Dec) in Borrowings	7,442	4,913	1,000	(2,000)
Dividend paid	(543)	(745)	(621)	(974)
Others	(57)	(65)	-	-
Cash flow from Financing Activities	6,579	3,358	(602)	(3,819)
Chg. in Cash & Bank balance	(613)	(78)	1,886	(607)
Closing cash & balance	145	66	2,161	1,554

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	75.7	54.6	65.9	103.4
Adjusted EPS (Diluted)	75.7	54.6	65.9	103.4
Cash EPS	88.4	74.0	94.8	134.3
Dividend per share (DPS)	12.0	10.4	12.5	19.7
Book Value per share (BV)	441.0	480.9	534.2	617.9
Dividend Payout (%)	15.8	19.0	19.0	19.0
Growth (%)				
Net Sales	42.9	(0.5)	30.0	19.2
EBITDA	55.1	(27.6)	50.1	37.6
EPS (INR)	42.6	(27.9)	20.7	56.9
Valuation Ratios (x)				
P/E	47.5	65.9	54.6	34.8
P/CEPS	40.7	48.6	38.0	26.8
P/BV	8.2	7.5	6.7	5.8
EV / EBITDA	33.3	46.2	31.1	22.5
EV/SALES	8.8	8.9	6.9	5.8
Dividend Yield (%)	0.3	0.3	0.3	0.5
Operating Ratios				
Gross Profit Margins (%)	56.9	54.7	52.2	54.3
EBITDA Margins (%)	26.5	19.3	22.2	25.7
Effective Tax Rate (%)	24.3	28.1	22.4	21.4
Net Profit Margins (%)	18.1	8.0	12.1	16.0
NWC / Total Assets (%)	(15.0)	8.2	(3.6)	(2.4)
Net Debt / Equity (x)	0.4	0.3	0.4	0.3
Net Debt / EBITDA (x)	1.4	2.1	1.7	1.1
Profitability Ratios				
RoCE (%)	14.8	6.9	9.0	12.5
RoE (%)	18.6	11.8	13.0	17.9
RoC (%)	15.6	7.5	10.2	13.7
Fixed Asset Turnover (x)	1.2	0.8	1.0	1.1
Inventory Turnover Days	82.2	65.6	64.6	63.6
Receivables Days	98.7	90.5	89.5	88.5
Payables Days	42.8	53.4	55.4	57.4

Source Company data, I-Sec research

19 June 2024

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Chemplast Sanmar

Speciality Chemicals

Both agrochemical and PVC cycles are turning

Chemplast Sanmar's (Chemplast) future earnings may show strong growth as both its businesses are at the cusp of a turnaround. PVC spreads have improved in the past couple of weeks, and government measures of introducing BIS standards, and implementing anti-dumping duty on paste-PVC and investigation proceedings in S-PVC should add to improvement. The protective measure should help PVC business in sustaining base spreads unlike past one year's where the company reported losses at EBITDA level. Chemplast is close to completing the commissioning of entire MPP-3. It already has four LOIs which provide good visibility for agrochemicals revenue growth, and in case the cycle turns favourable, the ramp-up could be faster.

PVC cycle turning with spread normalising, and regulatory aids

Chemplast had worst FY24 with EBITDA barely breaking even, and loss of INR 1.6bn at net levels. A significant drop in EBITDA can be explained by drop in spreads for PVC business, lower bulk chemicals prices and start-up cost in custom manufacturing as it steps-up the scale. PVC margins were impacted by 1) significant oversupplies from China and other geographies, as real estate market was weak with rise in interest rates. China has large carbide-based PVC capacities backward integrated with coal mines; Chinese supplies have grown sharply to India denting spreads; and 2) continued fall in PVC prices has resulted in inventory losses (defined as raw material in transit prices being higher vs spot).

Government is taking tariff and non-tariff measures to protect local PVC industry, and has put a level-playing field. Government had notified BIS standards for PVC on Feb 27, '24 which will make low grade PVC (defined as high residual VCM impurity) difficult to import into India, and restrict disruptive dumping from non-strategic vendors who only come to India for surplus capacities. Government has already implemented provisional anti-dumping duty on paste-PVC for six months of USD 150-600/te as on Jun 13, '24 for producers across globe except Koreans. Anti-dumping duty on S-PVC is also under investigation, and any positive outcome for India-based suppliers may help repair the business.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	49,411	39,230	49,068	55,266
EBITDA	4,681	258	6,943	9,237
EBITDA Margin (%)	9.5	0.7	14.1	16.7
Net Profit	1,524	(1,584)	3,227	5,085
EPS (INR)	13.5	(10.0)	20.4	32.2
EPS % Chg YoY	(67.2)	(174.5)	(303.7)	57.6
P/E (x)	61.5	(59.2)	29.0	18.4
EV/EBITDA (x)	19.6	391.4	14.7	11.0
RoCE (%)	11.1	(2.9)	11.3	15.0
RoE (%)	8.6	(8.9)	17.4	22.7

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Market Data

Market Cap (INR)	94bn
Market Cap (USD)	1,124mn
Bloomberg Code	CHEMPLAS IN
Reuters Code	CHPA BO
52-week Range (INR)	634 /403
Free Float (%)	45.0
ADTV-3M (mn) (USD)	2.3

Price Performance (%)	3m	6m	12m
Absolute	39.6	23.5	30.5
Relative to Sensex	33.2	15.3	8.5

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.9	1.0
EBITDA	1.1	6.4
EPS	1.6	8.8

Previous Reports

22-05-2024: [Q4FY24 results review](#)

22-03-2024: [Company Update](#)

In addition, PVC-VCM spreads for SEA (south east Asia) have started to improve from lows of USD 110/te to now USD 135-140/te. Increase in freight cost with Red Sea issue is also slowly adding to spreads for PVC. Chemplast had commenced paste-PVC capacity of 41ktpa in H2FY24 which should help drive higher volumes for FY25.

Strong traction from LOIs for custom manufacturing

Chemplast had custom manufacturing revenue of INR 3.3bn in FY23 which dipped to INR 2.9bn in FY24 due to agrochemical downcycle. It invested INR 6.8bn on MPP-3 plant which has the potential to generate revenue of INR 9-10bn. In the past couple of quarters, Chemplast has announced four new LOIs with MNC innovators – **1)** Nov'22: signed LOI with a global innovator company for supplying an advanced intermediate for a new AI; **2)** May'23: signed LOI with a global agrochemical innovator to manufacture an advanced intermediate. **3)** Oct'23: signed LOI with a global agrochemical innovator to manufacture a new pipeline AI. **4)** May'24: signed LOI with a global agrochemical innovator to manufacture an advanced intermediate for a new pipeline AI.

In its previous call, the company had mentioned that these four LOIs can have peak annual revenue of INR 7bn, and the cumulative revenue potential over the next four-five years is INR 12bn. This implies products may gradually ramp-up to peak potential in may be third or fourth year. Further, the company has 15 more products in the pipeline in various stages of development wherein it expects to commercialise 2-3 products each year.

Chemplast's customer manufacturing revenue growth estimated to grow CAGR of 52% over FY24-27E appears most appealing on low base.

Raise target price to INR 665 (earlier: INR 555)

We have increased our EPS estimates by 2-9% over FY25-26E as we factor slightly higher spreads for PVC business on rising regulatory aids. Our target price has also increased from INR 555 to INR 665 as we increase our EV/ EBITDA multiple for customer manufacturing to 25x (from 22x) in-line with peers, and standalone (excl CM) EV/EBITDA to 10x (from 9x) and S-PVC EBITDA to 8x (from 7x) with improving outlook. We downgrade Chemplast's rating by a notch to **ADD** (from Buy).

Risks

Downside risks: 1) Lower-than-expected execution in custom manufacturing business; and 2) lower PVC spreads.

Exhibit 1: Agrochemicals to show strong growth, and paste-PVC to add

INR mn	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY24	FY25E	FY26E	FY27E	CAGR (%)
Paste PVC											
Volume ('000 te)	62,131	64,082	62,592	64,838	68,382	2.4	70,240	95,382	1,07,382	1,07,382	15.2
Price (INR/kg)	89	98	119	156	110	5.5	97	111	117	118	6.8
Revenue	5,542	6,297	7,467	10,140	7,543	8.0	6,800	10,620	12,554	12,679	23.1
Gross profit	1,706	2,608	4,151	4,300	1,385	(5.1)	1,107	3,275	3,872	3,737	50.0
GP/kg (INR)	27	41	66	66	20	(7.3)	16	34	36	35	30.2
Custom manufacturing											
Revenue	887	1,264	1,693	2,620	3,287	38.7	2,860	5,147	7,463	10,076	52.2
Gross profit	496	792	880	1,258	1,643	34.9	1,001	2,316	3,881	5,239	73.6
GPM (%)	55.9	62.6	52.0	48.0	50.0		35.0	45.0	52.0	52.0	
Others											
Chloromethanes	1,708	1,456	1,428	1,854	1,536	(2.6)	1,244	1,506	1,536	1,567	8.0
Caustic Soda	3,594	2,414	1,269	4,715	5,923	13.3	2,887	3,984	4,427	4,471	15.7
Others	796	1,162	1,027	793	3,678	46.6	2,764	2,620	2,837	2,932	2.0
Revenue	6,098	5,032	3,724	7,361	11,137	16.3	6,896	8,110	8,799	8,969	9.2

Source: Company data, I-Sec research

Exhibit 2: S-PVC to also grow at least to mid-cycle margins

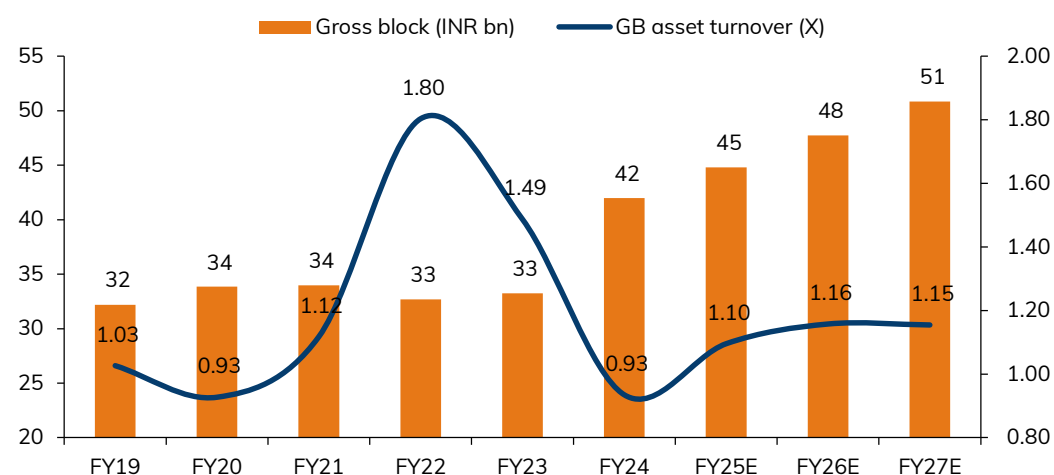
INR mn	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY24	FY25E	FY26E	FY27E	CAGR (%)
Suspension PVC											
Volume ('000 te)	2,79,462	2,71,300	2,73,296	2,98,792	3,25,007	3.8	3,25,641	3,28,897	3,28,897	3,28,897	0.3
Price (INR/kg)	73	69	91	130	92	5.9	70	77	80	82	5.6
Revenue	20,523	18,790	24,939	38,828	30,002	10.0	22,674	25,191	26,450	26,979	6.0
Gross profit	4,398	3,569	8,150	8,666	5,099	3.8	4,076	6,249	6,874	7,011	19.8
GP/kg (INR)	16	13	30	29	16	(0.1)	13	19	21	21	19.4

Source: Company data, I-Sec research

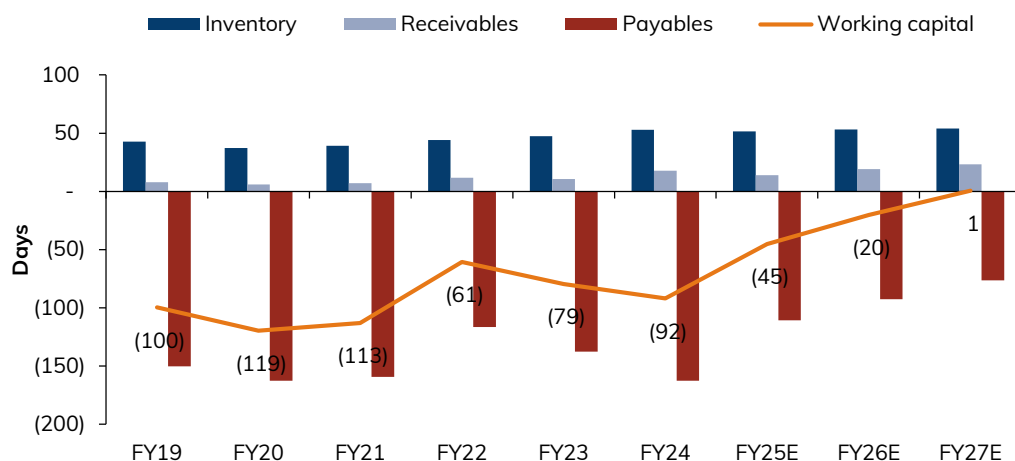
Exhibit 3: Chemplast's EPS to turn positive again in FY25E

INR mn	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY24	FY25E	FY26E	FY27E	CAGR (%)
Revenue	33,050	31,383	37,987	58,920	49,411	10.6	39,230	49,068	55,266	58,703	14.4
Gross profit	12,923	11,948	16,756	21,784	17,294	7.6	12,148	19,441	22,836	24,343	26.1
GPM (%)	39.1	38.1	44.1	37.0	35.0		31.0	39.6	41.3	41.5	
EBITDA	5,187	4,004	9,615	11,968	4,681	(2.5)	258	6,943	9,237	10,432	243.0
EBITDA (%)	15.7	12.8	25.3	20.3	9.5		0.7	14.1	16.7	17.8	
Growth (%)		(22.8)	140.1	24.5	(60.9)		(94.5)	2,586.8	33.0	12.9	
Depreciation	793	1,291	1,310	1,371	1,420	15.7	1,514	1,835	1,950	2,027	10.2
EBIT	4,394	2,713	8,305	10,597	3,261	(7.2)	(1,255)	5,108	7,287	8,405	
Other income	248	192	164	575	799		805	748	708	681	(5.4)
Finance cost	1,108	2,119	4,334	3,216	1,540		1,805	1,542	1,196	988	(18.2)
PBT	3,534	787	4,135	7,955	2,520	(8.1)	(2,256)	4,314	6,798	8,098	
Exceptional	151	1,069	(157)	-	805		-	-	-	-	
Tax	869	(293)	(1,369)	1,469	192	(31.5)	(671)	1,087	1,713	2,041	
ETR (%)	24.6	(37.3)	(33.1)	18.5	7.6		29.8	25.2	25.2	25.2	
Adj. net profit	2,665	1,080	2,766	6,486	2,127	(5.5)	(1,584)	3,227	5,085	6,057	
PAT (%)	8.1	3.4	7.3	11.0	4.3		(4.0)	6.6	9.2	10.3	
EPS (INR)	20	8	21	41	13	(9.3)	(10)	20	32	38	

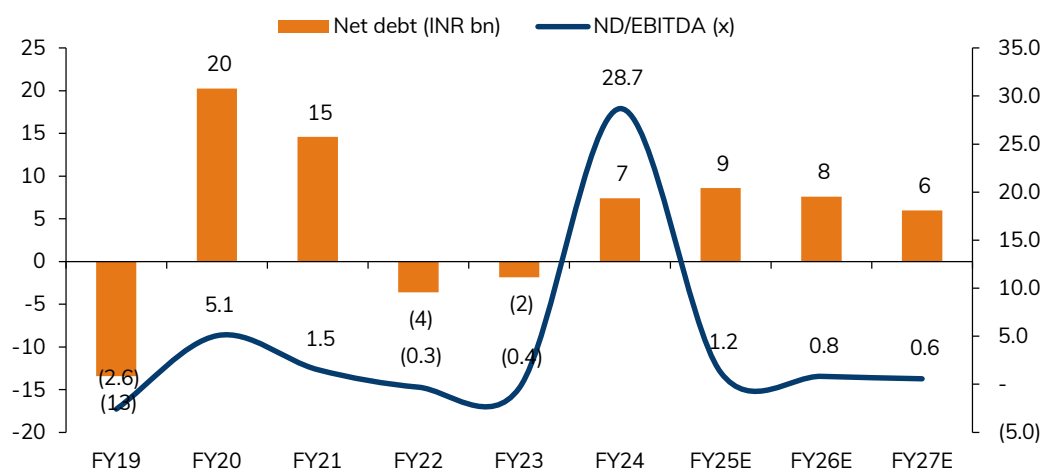
Source: Company data, I-Sec research

Exhibit 4: Gross block asset turnover to improve as custom manufacturing plant utilisation rises


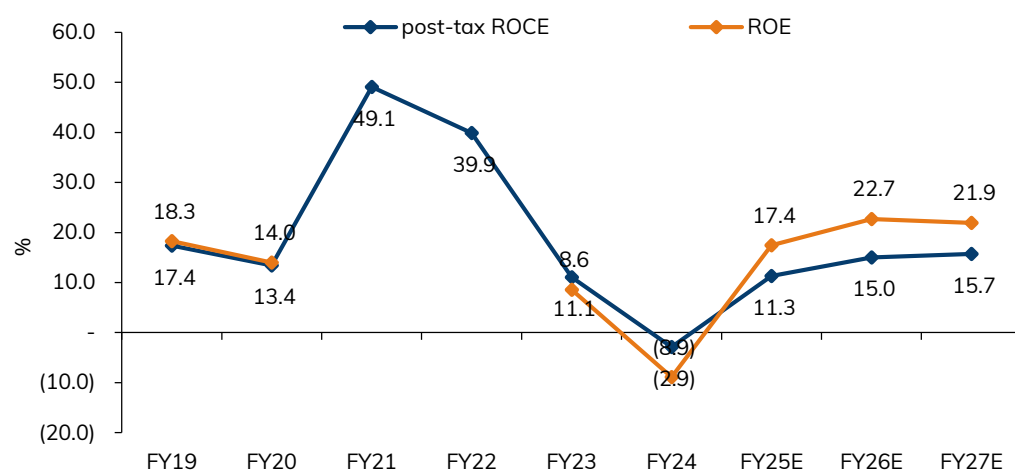
Source: Company data, I-Sec research

Exhibit 5: Payable days to normalise as company has excess cashflow

Source: Company data, I-Sec research

Exhibit 6: Chemplast's net debt to be stable

Source: Company data, I-Sec research

Exhibit 7: Return ratio to improve as company scales custom manufacturing

Source: Company data, I-Sec research

Exhibit 8: Earnings revision

INR mn	Revised		Earlier		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	49,068	55,266	48,606	54,721	0.9	1.0
Gross profit	19,441	22,836	19,366	22,278	0.4	2.5
GPM (%)	39.6	41.3	39.8	40.7		
EBITDA	6,943	9,237	6,868	8,679	1.1	6.4
EBITDA (%)	14.1	16.7	14.1	15.9		
PAT	3,227	5,085	3,175	4,672	1.6	8.8
EPS (INR)	20.4	32.2	20.1	29.5	1.6	8.8

Source: Company data, I-Sec research

Exhibit 9: Chemplast's SoTP-based valuations

Business units (INR mn)	Methodology	Multiple (x)	FY26E
Custom manufacturing	EV/EBITDA	25.0	46,646
Other standalone biz	EV/EBITDA	10.0	39,028
S-PVC	EV/EBITDA	8.0	27,748
Enterprise value			1,13,422
Net debt			8,597
Equity value			1,04,825
No of outstanding shares (mn)			158
Equity value (INR /sh)			665

Source: Company data, I-Sec research

Exhibit 10: Chemplast's implied valuations

	FY25E	FY26E
Target price (INR)	665	665
EPS	20	32
Implied PE (x)	32.6	20.7
Enterprise Value (INR bn)	1,13,738	1,12,748
EBITDA (INR bn)	6,943	9,237
Implied EV/EBITDA (x)	16.4	12.2

Source: Company data, I-Sec research

Exhibit 11: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	55.0	55.0	55.0
Institutional investors	38.5	38.6	39.0
MFs and others	24.8	25.4	26.2
FIs/Banks	0.0	0.0	0.0
Insurance	2.0	2.0	1.8
FIIIs	11.7	11.2	11.0
Others	6.5	6.4	6.0

Source: Bloomberg

Exhibit 12: Price chart

Source: Bloomberg

Financial Summary

Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	49,411	39,230	49,068	55,266
Operating Expenses	44,729	38,971	42,125	46,029
EBITDA	4,681	258	6,943	9,237
EBITDA Margin (%)	9.5	0.7	14.1	16.7
Depreciation & Amortization	1,420	1,514	1,835	1,950
EBIT	3,261	(1,255)	5,108	7,287
Interest expenditure	1,540	1,805	1,542	1,196
Other Non-operating Income	799	805	748	708
Recurring PBT	2,520	(2,256)	4,314	6,798
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	192	(671)	1,087	1,713
PAT	1,524	(1,584)	3,227	5,085
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	805	-	-	-
Net Income (Reported)	2,127	(1,584)	3,227	5,085
Net Income (Adjusted)	1,524	(1,584)	3,227	5,085

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	21,457	18,410	18,048	19,475
of which cash & cash eqv.	11,919	8,012	6,325	5,315
Total Current Liabilities & Provisions	21,558	20,434	18,076	17,631
Net Current Assets	(101)	(2,024)	(28)	1,844
Investments	0	0	0	0
Net Fixed Assets	35,256	40,361	41,341	42,346
ROU Assets	622	604	604	604
Capital Work-in-Progress	4,018	1,897	1,897	1,897
Total Intangible Assets	-	-	-	-
Other assets	1,033	928	744	781
Deferred Tax Assets	-	-	-	-
Total Assets	58,368	60,303	60,737	63,207
Liabilities				
Borrowings	10,080	15,423	14,923	12,923
Deferred Tax Liability	7,167	6,515	6,515	6,515
Provisions	-	-	-	-
Other Liabilities	979	926	1,199	1,359
Equity Share Capital	791	791	791	791
Reserves & Surplus	17,451	15,872	18,890	23,644
Total Net Worth	18,585	17,006	20,024	24,778
Minority Interest	-	-	-	-
Total Liabilities	58,368	60,303	60,736	63,205

Source Company data, I-Sec research

Exhibit 15: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	9,964	9,878	8,881	10,507
% Growth (YOY)	(29.4)	(17.3)	(25.3)	(8.4)
EBITDA	(345)	460	(66)	210
Margin %	(3.5)	4.7	(0.7)	2.0
Other Income	180	372	127	126
Extraordinaries	0	0	0	0
Adjusted Net Profit	(640)	261	(894)	(311)

Source Company data, I-Sec research

Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	3,677	17	5,856	7,524
Working Capital Changes	(123)	(2,467)	(3,226)	(2,759)
Capital Commitments	(4,196)	(6,189)	(2,815)	(2,956)
Free Cashflow	(642)	(8,639)	(185)	1,810
Other investing cashflow	2,024	638	748	708
Cashflow from Investing Activities	2,024	949	748	708
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,517	5,744	(500)	(2,000)
Dividend paid	-	-	(207)	(331)
Others	(1,741)	(1,874)	(1,542)	(1,196)
Cash flow from Financing Activities	(270)	3,824	(2,249)	(3,528)
Chg. in Cash & Bank balance	1,112	(3,865)	(1,687)	(1,010)
Closing cash & balance	11,110	7,244	6,325	5,315

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	9.6	(10.0)	20.4	32.2
Adjusted EPS (Diluted)	13.5	(10.0)	20.4	32.2
Cash EPS	22.4	(0.4)	32.0	44.5
Dividend per share (DPS)	-	-	1.3	2.1
Book Value per share (BV)	117.5	107.5	126.6	156.7
Dividend Payout (%)	-	-	6.4	6.5
Growth (%)				
Net Sales	(16.1)	(20.6)	25.1	12.6
EBITDA	(60.9)	(94.5)	2,586.8	33.0
EPS (INR)	(67.2)	(174.5)	(303.7)	57.6
Valuation Ratios (x)				
P/E	61.5	(59.2)	29.0	18.4
P/CEPS	26.4	(1,325.8)	18.5	13.3
P/BV	5.0	5.5	4.7	3.8
EV / EBITDA	19.6	391.4	14.7	11.0
EV/SALES	1.9	2.6	2.1	1.8
Dividend Yield (%)	-	-	0.2	0.4
Operating Ratios				
Gross Profit Margins (%)	35.0	31.0	39.6	41.3
EBITDA Margins (%)	9.5	0.7	14.1	16.7
Effective Tax Rate (%)	7.6	29.8	25.2	25.2
Net Profit Margins (%)	3.1	(4.0)	6.6	9.2
NWC / Total Assets (%)	(33.4)	(25.8)	(16.4)	(9.2)
Net Debt / Equity (x)	(0.1)	0.4	0.4	0.3
Net Debt / EBITDA (x)	(0.4)	28.7	1.2	0.8
Profitability Ratios				
RoCE (%)	11.1	(2.9)	11.3	15.0
RoE (%)	8.6	(8.9)	17.4	22.7
RoC (%)	21.6	(6.1)	19.3	23.9
Fixed Asset Turnover (x)	1.4	1.0	1.2	1.3
Inventory Turnover Days	47.5	52.9	51.5	53.1
Receivables Days	10.5	17.7	13.9	19.1
Payables Days	137.5	162.4	110.8	92.5

Source Company data, I-Sec research

19 June 2024

India | Equity Research | Company Update

Atul

Speciality Chemicals

Competition likely to be intense for key products

Atul's past execution, long-track record and high-quality management have been its key investment thesis, which remain unchanged. Nonetheless, its key products are facing intense competition from China, and large capacity addition in India which make us believe that recovery for the company could be slower than consensus [including ours] estimates. Agrochemical recovery cycle is more volume led, but innovators have hinted prices may remain depressed for a while. Atul has large exposure to generic 2,4-D, where China has added large capacity, and therefore, its crop protection segment may not show immediate turnaround, in our view. Its other key capex is for capacity addition in epoxy where India is now in overcapacity zone, thus, complicating recovery. We retain our estimates, but raise target price to INR 5,840 (earlier: INR 5,220) as we increase multiple to 28x FY26E EPS (earlier: 25x). Maintain **REDUCE**.

Crop protection product still not completely out of woods

Atul's largest product in crop protection is 2,4-D which is a widely used herbicide. 2,4-D is found in many commercial lawn herbicide mixtures, and weed-killers; over 1,500 products contain 2,4-D as an active ingredient. Atul is among the top-3 producers of 2,4-D, globally, and is backward integrated to produce critical intermediate MCA (monochloroacetic acid). In FY22 and FY23, 2,4-D prices sharply surged, and we understand that the shortage of MCA in China has added significantly to the surge in prices. Atul was comfortably placed with backward integration for MCA. The price has significantly cooled off, and Chinese have added more capacities which has dragged prices to below long-term median.

We prefer player with exposure to MNC innovators who have strong global distribution, and a combination of branded generic, and patented products. Atul's exposure is largely to generic agro-chemicals where competition from China may remain intense for foreseeable future. Thus, Atul is our least favoured pick in agrochemical intermediate space.

We are factoring Atul's crop protection revenue to rise at a CAGR of 16% to INR 10bn over FY24-27E as we factor in volume and part price recovery in 2,4-D.

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Market Data

Market Cap (INR)	185bn
Market Cap (USD)	2,216mn
Bloomberg Code	ATLP IN
Reuters Code	ATLP.BO
52-week Range (INR)	7,590 /5,175
Free Float (%)	54.0
ADTV-3M (mn) (USD)	5.2

Price Performance (%)	3m	6m	12m
Absolute	4.4	(10.7)	(11.1)
Relative to Sensex	(2.0)	(18.8)	(33.1)

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	47,257	54,366	64,293	72,698
EBITDA	6,367	8,221	11,077	12,709
EBITDA Margin (%)	13.5	15.1	17.2	17.5
Net Profit	3,230	4,034	6,146	7,341
EPS (INR)	109.6	136.9	208.6	249.2
EPS % Chg YoY	(37.0)	24.9	52.4	19.4
P/E (x)	57.3	45.8	30.1	25.2
EV/EBITDA (x)	28.6	21.9	16.0	13.6
RoCE (%)	5.5	6.7	9.6	10.6
RoE (%)	6.6	7.6	10.7	11.7

Previous Reports03-05-2024: [Q4FY24 results review](#)20-01-2024: [Q3FY24 results review](#)

Polymers' (epoxy) overcapacity remains a drag on recovery

Atul is in the process of adding 50ktpa epoxy capacity in Q2FY25, which may add INR 8bn in revenue over the next two–three years. Despite significant capacity addition in liquid epoxy in India (124ktpa capacity was commissioned by Garsim in FY24), Atul remains confident of selling the entire capacity, as it sees 20ktpa import substitution opportunity and another 20ktpa from windmill blade, where its presence is insignificant. The company also expects to expand sales in newer geographies.

Nonetheless, the spread for exported epoxy has been declining for each quarter now to INR 72 in Apr'24. This compared to long-term mean of INR 72 [Q1FY19 to Q1FY25-TD], this also includes very low spread during covid period drag mean down. While other chemicals' prices have stabilised in our data base, epoxy prices and spreads continue to dip which shows overcapacity situation in India, and rush to sell in exports market from Indian producers.

Atul confident of achieving revenue target of INR 85bn in FY26–27

In its annual analyst meet (on 2nd May'24), Atul has reiterated its guidance/potential to achieve revenue target of INR 85bn over the next two–three years. The company has executed capex of ~INR 20bn since FY22 with potential revenue of INR 23bn. This should help Atul achieve its target along with some of the unrealised potential from existing capacities. Separately, the company has shared sub-segment-wise unrealised potential revenue which amounts to INR 11.7bn, and epoxy may add another INR 8bn. This provides visibility of INR 20bn of additional revenue.

Post completion of ~INR 20bn capex by H1FY25, the company's focus can shift towards stabilising capacities, and improving utilisation. The company has no immediate plans for starting any new large project(s).

Risks

Upside risks: 1) Sharp jump in 2,4-D and epoxy spreads; and 2) growth in pharmaceuticals.

Exhibit 1: 2,4-D backward integration may help win volumes

INR mn	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY24E	FY25E	FY26E	FY27E	CAGR (%)
Crop Protection	7,540	7,030	6,180	9,240	11,510	11.2	6,331	7,407	8,888	9,955	16.3
Pharmaceuticals	5,260	4,620	4,980	5,090	5,590		6,540	7,325	8,277	9,188	12.0
Total revenue	13,520	12,516	12,161	14,647	19,589	9.7	14,264	16,195	18,702	20,755	13.3
EBITDA	2,616	2,626	2,595	2,248	4,703	15.8	2,555	3,548	4,191	4,693	22.5
EBITDA (%)	19.3	21.0	21.3	15.4	24.0		17.9	21.9	22.4	22.6	
EBIT	2,292	2,232	2,196	1,789	4,227	16.5	2,031	2,972	3,586	4,057	26.0
EBIT (%)	16.9	17.8	18.1	12.2	21.6		14.2	18.3	19.2	19.5	

Source: Company data, I-Sec research

Exhibit 2: Epoxy growth forecast hinges on competitive intensity

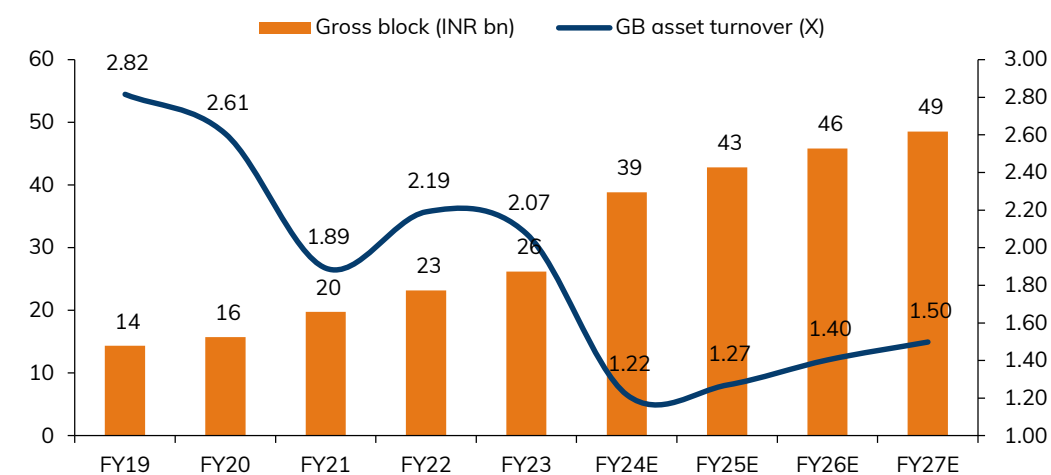
INR mn	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY24E	FY25E	FY26E	FY27E	CAGR (%)
Aromatics	7,110	6,940	5,620	7,860	7,660	1.9	6,894	7,928	8,959	10,123	13.7
Bulk Chemicals	2,490	2,860	2,860	3,120	3,150	6.1	2,520	3,402	4,253	4,975	25.5
Colors	5,470	6,260	5,910	8,020	6,240	3.3	5,242	5,923	6,397	6,909	9.6
Polymers	10,480	10,410	8,780	15,460	15,130	9.6	16,643	19,139	24,116	27,974	18.9
Total revenue	26,558	28,046	24,669	35,463	34,190	6.5	32,360	37,507	44,894	51,210	16.5
EBITDA	5,438	6,899	6,838	6,989	3,822	(8.4)	4,192	5,046	7,252	8,375	25.9
EBITDA (%)	20.5	24.6	27.7	19.7	11.2		13.0	13.5	16.2	16.4	
EBIT	4,621	6,040	5,942	5,759	2,403	(15.1)	2,398	2,445	4,599	5,669	33.2
EBIT (%)	17.4	21.5	24.1	16.2	7.0		7.4	6.5	10.2	11.1	

Source: Company data, I-Sec research

Exhibit 3: EPS to grow at a CAGR of 32% over FY24-27E on generous estimates

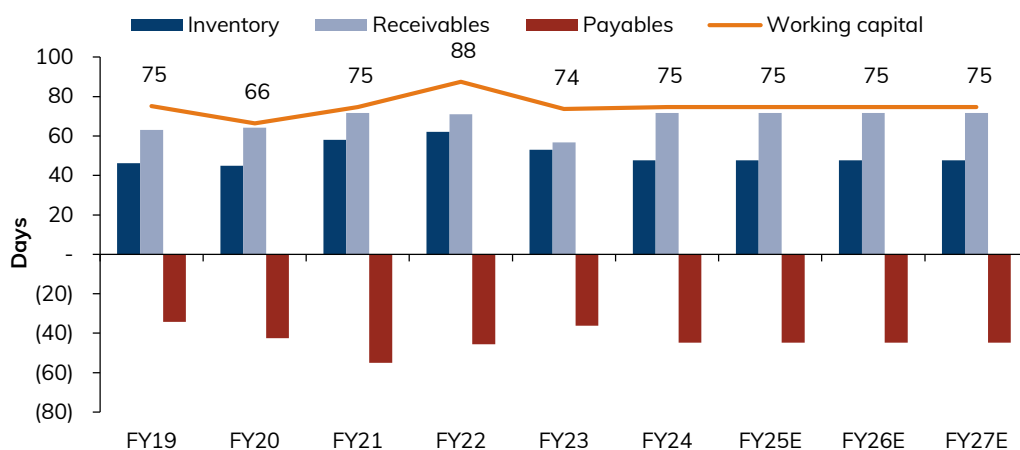
INR mn	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY24	FY25E	FY26E	FY27E	CAGR (%)
Revenue	40,378	40,931	37,315	50,809	54,275	7.7	47,257	54,366	64,293	72,698	15.4
Gross profit	19,317	21,230	20,363	24,923	25,635	7.3	22,151	27,659	32,387	36,767	18.4
GPM (%)	47.8	51.9	54.6	49.1	47.2		46.9	50.9	50.4	50.6	
EBITDA	7,668	9,020	9,171	9,114	7,749	0.3	6,367	8,221	11,077	12,709	25.9
EBITDA (%)	19.0	22.0	24.6	17.9	14.3		13.5	15.1	17.2	17.5	
Growth (%)		17.6	1.7	(0.6)	(15.0)		(17.8)	29.1	34.7	14.7	
Depreciation	1,189	1,302	1,363	1,767	1,978	13.6	2,429	3,251	3,338	3,426	12.1
EBIT	6,479	7,718	7,808	7,348	5,770	(2.9)	3,938	4,970	7,739	9,283	33.1
Other income	349	780	1,030	760	1,149		582	524	550	577	(0.3)
Finance cost	74	94	94	92	79		111	222	199	179	17.4
PBT	6,753	8,404	8,744	8,016	6,840	0.3	4,409	5,272	8,090	9,681	30.0
Tax	2,443	1,745	2,217	2,050	1,812	(7.2)	1,265	1,329	2,039	2,440	24.5
ETR (%)	36.2	20.8	25.3	25.6	26.5		28.7	25.2	25.2	25.2	
Net profit	4,322	6,665	6,558	6,043	5,141	4.4	3,230	4,034	6,146	7,341	31.5
PAT (%)	10.7	16.3	17.6	11.9	9.5		6.8	7.4	9.6	10.1	
EPS (INR)	146	225	221	204	174	4.6	110	137	209	249	31.5

Source: Company data, I-Sec research

Exhibit 4: Gross block asset turnover depends on ramp-up of new projects


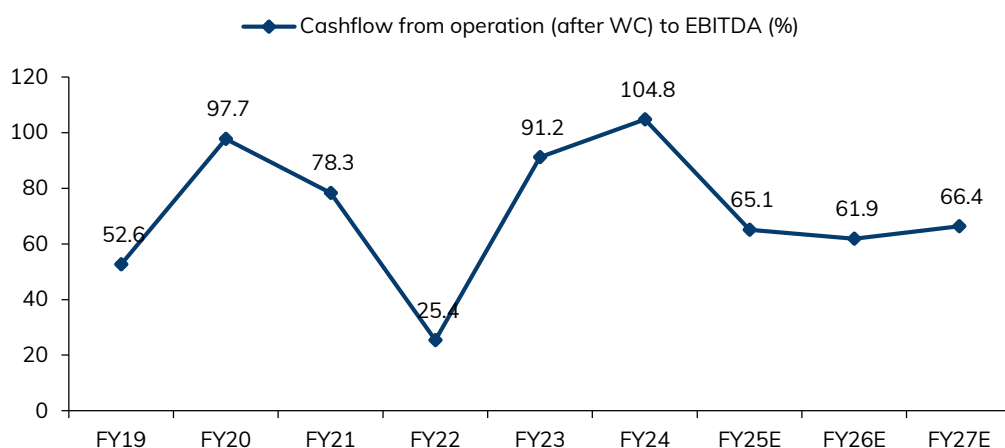
Source: Company data, I-Sec research

Exhibit 5: Strong grip on working capital days



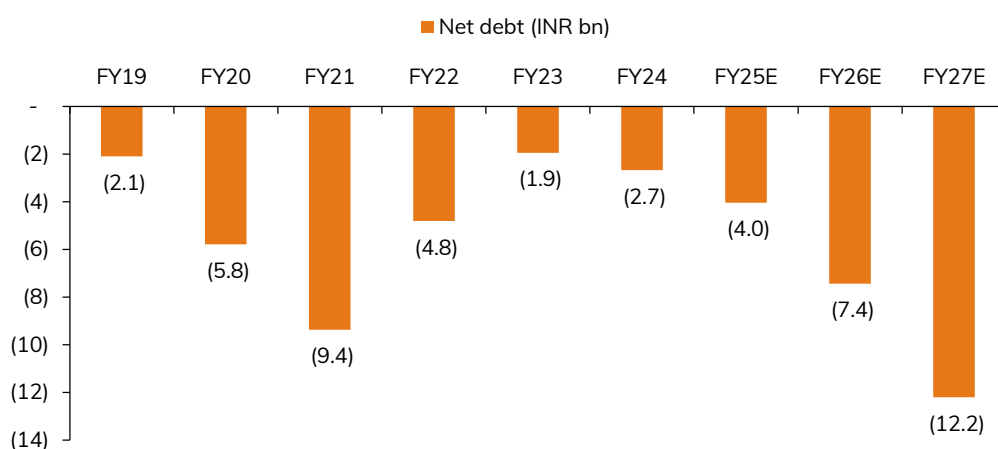
Source: Company data, I-Sec research

Exhibit 6: Strong cashflow conversion

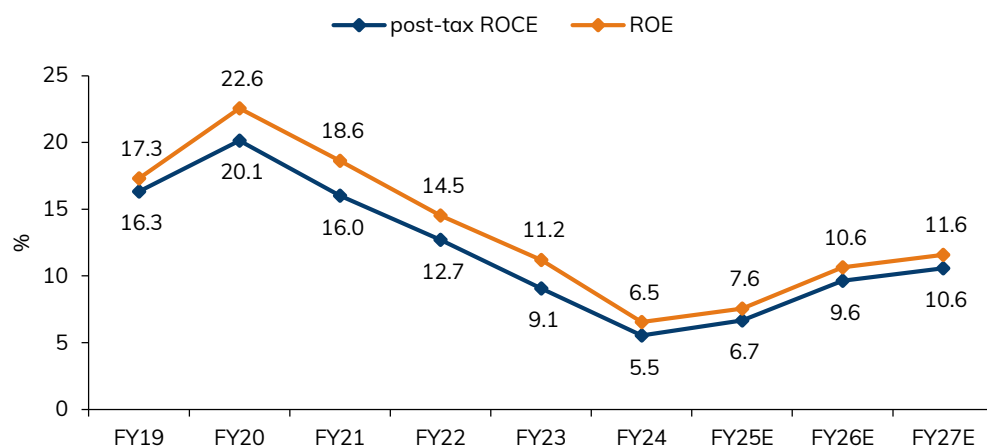


Source: Company data, I-Sec research

Exhibit 7: Atul to remain net cash company



Source: Company data, I-Sec research

Exhibit 8: Return ratios to be subdued

Source: Company data, I-Sec research

Exhibit 9: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	45.1	45.1	45.2
Institutional investors	34.3	34.2	34.1
MFs and others	19.3	17.1	16.7
FIs/Banks, Insurance	0.1	0.1	0.2
Insurance	6.8	8.7	8.7
FIIIs	8.1	8.3	8.5
Others	20.6	20.7	20.7

Source: Bloomberg, I-Sec research

Exhibit 10: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	47,257	54,366	64,293	72,698
Operating Expenses	40,890	46,145	53,216	59,990
EBITDA	6,367	8,221	11,077	12,709
EBITDA Margin (%)	13.5	15.1	17.2	17.5
Depreciation & Amortization	2,429	3,251	3,338	3,426
EBIT	3,938	4,970	7,739	9,283
Interest expenditure	111	222	199	179
Other Non-operating Income	582	524	550	577
Recurring PBT	4,409	5,272	8,090	9,681
Profit / (Loss) from Associates	97	102	107	112
Less: Taxes	1,265	1,329	2,039	2,440
PAT	3,144	3,944	6,051	7,241
Less: Minority Interest	11	12	12	13
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	3,230	4,034	6,146	7,341
Net Income (Adjusted)	3,230	4,034	6,146	7,341

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	22,756	26,568	33,325	40,971
of which cash & cash eqv.	723	2,095	5,483	10,254
Total Current Liabilities & Provisions	8,884	10,115	11,822	13,274
Net Current Assets	13,872	16,453	21,503	27,697
Investments	13,425	13,425	13,425	13,425
Net Fixed Assets	30,196	30,637	30,299	29,574
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,808	2,500	2,500	2,500
Total Intangible Assets	291	291	291	291
Other assets	2,144	2,699	3,514	4,180
Deferred Tax Assets	213	213	213	213
Total Assets	64,763	69,572	76,807	84,394
Liabilities				
Borrowings	2,319	2,319	2,319	2,319
Deferred Tax Liability	1,742	1,742	1,742	1,742
Provisions	311	430	607	750
Other Liabilities	99	114	135	152
Equity Share Capital	295	295	295	295
Reserves & Surplus	50,849	54,282	59,599	65,561
Total Net Worth	51,143	54,577	59,894	65,855
Minority Interest	491	502	514	527
Total Liabilities	64,763	69,572	76,807	84,394

Source Company data, I-Sec research

Exhibit 13: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	11,820	11,937	11,378	12,122
% growth (YOY)	(20.0)	(19.7)	(10.3)	1.4
EBITDA	1,823	1,552	1,517	1,476
Margin %	15.4	13.0	13.3	12.2
Other Income	82	221	150	129
Extraordinaries	-	-	-	-
Adjusted Net Profit	1,034	903	709	584

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	5,565	6,983	9,133	10,369
Working Capital Changes	1,110	(1,632)	(2,279)	(1,929)
Capital Commitments	(5,039)	(3,693)	(3,000)	(2,700)
Free Cashflow	1,636	1,659	3,855	5,739
Other investing cashflow	(1,793)	524	550	577
Cashflow from Investing Activities	(1,793)	524	550	577
Issue of Share Capital	-	-	-	-
Interest Cost	(121)	(222)	(199)	(179)
Inc (Dec) in Borrowings	1,231	-	-	-
Dividend paid	(618)	(589)	(816)	(1,367)
Others	(116)	-	-	-
Cash flow from Financing Activities	375	(811)	(1,016)	(1,546)
Chg. in Cash & Bank balance	218	1,372	3,389	4,770
Closing cash & balance	603	2,095	5,483	10,254

Source Company data, I-Sec research

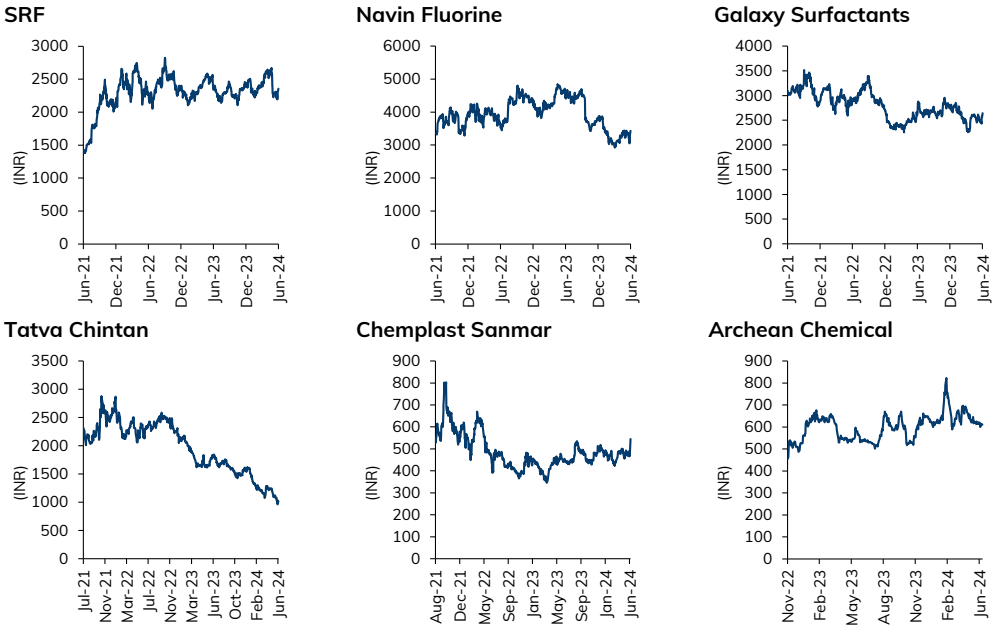
Exhibit 15: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	109.6	136.9	208.6	249.2
Adjusted EPS (Diluted)	109.6	136.9	208.6	249.2
Cash EPS	60.4	74.6	321.9	365.5
Dividend per share (DPS)	20.0	27.7	46.4	60.4
Book Value per share (BV)	1,752.7	1,869.6	2,050.5	2,253.3
Dividend Payout (%)	18.2	20.2	22.2	24.2
Growth (%)				
Net Sales	(12.9)	15.0	18.3	13.1
EBITDA	(17.8)	29.1	34.7	14.7
EPS (INR)	(37.0)	24.9	52.4	19.4
Valuation Ratios (x)				
P/E	57.3	45.8	30.1	25.2
P/CEPS	103.9	84.1	19.5	17.2
P/BV	3.6	3.4	3.1	2.8
EV / EBITDA	28.6	21.9	16.0	13.6
EV/SALES	3.8	3.3	2.8	2.4
Dividend Yield (%)	0.3	0.4	0.7	1.0
Operating Ratios				
Gross Profit Margins (%)	46.9	50.9	50.4	50.6
EBITDA Margins (%)	13.5	15.1	17.2	17.5
Effective Tax Rate (%)	28.7	25.2	25.2	25.2
Net Profit Margins (%)	6.8	7.4	9.6	10.1
NWC / Total Assets (%)	21.4	23.6	(3.0)	(2.3)
Net Debt / Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Debt / EBITDA (x)	(0.4)	(0.5)	(0.7)	(1.0)
Profitability Ratios				
RoCE (%)	5.5	6.7	9.6	10.6
RoE (%)	6.6	7.6	10.7	11.7
RoC (%)	6.0	7.4	11.1	13.0
Fixed Asset Turnover (x)	1.2	1.3	1.4	1.5
Inventory Turnover Days	47.8	47.8	47.8	47.8
Receivables Days	71.6	71.6	71.6	71.6
Payables Days	44.7	44.7	44.7	44.7

Source Company data, I-Sec research

Price charts



Source: Bloomberg

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