

Q1FY2024 Results Preview

Sector: Agri Inputs and Specialty Chemicals

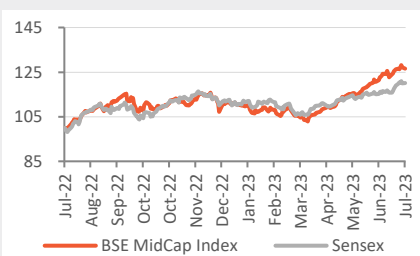
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Agri Inputs			
Coromandel International	961	Buy	1,155
Insecticides (India)	442	Buy	540
PI Industries	3,678	Buy	4,200
UPL	660	Buy	880
Sumitomo Chemical India	431	Buy	465
Specialty Chemicals			
Aarti Industries	454	Hold	570
Atul Limited	6,698	Hold	7,060
NOCIL	205	Buy	260
SRF	2,224	Buy	2,960
Sudarshan Chemical	486	Buy	530
Vinati Organics	1,810	Hold	1,930
Gujarat Fluorochemical	2,790	Positive	4,070
PCBL Limited	163	Positive	187

Source: Sharekhan Research

Price chart



Source: BSE; Sharekhan Research

Summary

- Q1 is expected to be a soft quarter for agri-input companies, as high-channel inventories and efflux of Chinese supplies at lower prices, which would impact growth and margin especially for domestically-focused players. PI Industries is better placed in the space.
- Specialty chemical companies are expected to see a y-o-y decline in revenue amid weakness in pricing & demand slowdown in developed countries, while lower operating leverage and pass through of decline in input cost to result in margin contraction. Sudarshan Chemicals to post strong y-o-y earnings growth.
- Near-term demand concerns persist for specialty chemical players; we expect specialty chemical players to witness subdued demand, given their high exposure to exports/discretionary sectors; however, falling energy costs might provide some respite on the margin front.
- Preferred Picks:** PI Industries, Sumitomo Chemical India, SRF, Coromandel International and PCBL.

Agri-input players would face the challenge of high channel inventory along with increase in competitive intensity due to Chinese players. We thus, expect soft revenue (except for PI Industries, which might see strong CSM export growth) and margin contraction for agri-input companies under our coverage universe. Specialty chemical companies continue to face demand challenges amid tough global macros, a slowdown in construction, electronics, consumer discretionary industry while pass through of lower input (given decline in crude linked derivatives) would keep margin under check for most companies. Overall, we expect agri-input companies under our coverage universe to report a PAT decline of 42% y-o-y while specialty chemical companies to report 30% y-o-y PAT de-growth in Q1FY2024. PI Industries and Sudarshan Chemicals expected to do well.

Agri-inputs – High channel inventory and lower product prices for domestic players; PI Industries better placed: High channel inventories, a decline in government subsidy and moderating price for key products would impact revenue growth for domestic focused agri-input players. Lower product prices would also result in y-o-y margin contraction for most companies in the space. We expect PI industries to perform well driven by continued strength in CSM export business. Overall, we expect our agri-input coverage universe to report revenue de-growth of 8% y-o-y, margin contraction of 369 bps y-o-y and thus earnings decline of 42% y-o-y in Q1FY24.

Specialty chemicals – Macroeconomic headwinds a key concern for demand: Specialty chemical companies would continue to face demand side challenges amid tough global macroeconomic conditions. Overall, we see a revenue decline of 7.5% y-o-y for specialty chemical companies under our coverage in Q1FY24. Any pass-through of lower input cost and weak volume would drag down EBITDA margin. Overall, we expect specialty chemical companies under our coverage to post PAT de-growth of 30% y-o-y. Sudarshan Chemical Industries expected to post robust 337% y-o-y PAT growth.

Near-term demand/margin concern to persists for Indian specialty chemical players; Long-term growth outlook intact given China/Europe Plus One opportunity: Near-term demand concern to persist for specialty chemical players with high exposure to exports/discretionary sectors due to broad-level inventory de-stocking by global customers. Having said that, long term structural tailwinds are still intact for specialty chemical players. Accelerated capex plan of Indian specialty chemical companies along with the government's pro-growth policies will act as a further catalyst for growth and drive sustainable high earnings growth for the sector. Overall, recent recovery in monsoons bode well for agri-input players.

Our Call

Valuation: The Indian specialty chemicals sector is well poised to capitalise on global tailwinds and expand its global market share to 7-8% in the next few years from 4% currently, supported by structural drivers, including the China Plus One strategy, import substitution, and opportunities emerging from the recent supply chain disruption in China. Recent volatility in broader markets provides a good entry opportunity for quality companies (like PI, Sumitomo Chemical, SRF, Gujarat Fluoro) as the long-term earnings growth outlook remains intact.

Key risks

- High raw material cost for agri and specialty chemical companies might affect margins if they are unable to pass it on to customers.
- Intense competition from Chinese products could impact revenue/earnings growth.
- Lower demand offtake for products of specialty chemicals players owing to slowdown in economic activity may also affect earnings.

Leaders for Q1FY2024: PI Industries and Sudarshan Chemicals.

Laggards for Q1FY2024: UPL, Atul Ltd, Aarti Industries, SRF, Vinati Organics.

Preferred Picks: PI Industries, Sumitomo Chemical India, SRF, Coromandel International and PCBL.

Q1FY2024 results estimates

Company	Sales (Rs cr)				OPM (%)				PAT (Rs cr)			
	Q1 FY24E	Q1 FY23	YoY (%)	QoQ (%)	Q1 FY24E	Q1 FY23	YoY (bps)	QoQ (bps)	Q1 FY24E	Q1 FY23	YoY (%)	QoQ (%)
Agri Inputs												
Coromandel International	5,157	5,729	-10.0	-5.8	11.6	12.0	-34	426	431	499	-13.7	75.1
Insecticides (India)	611	561	9.0	102.4	5.0	10.4	-539	1440	15	38	-60.7	-151.4
PI Industries	1,792	1,543	16.1	14.4	23.0	22.8	17	109	316	262	20.4	12.6
UPL	9,606	10,821	-11.2	-42.0	15.9	22.0	-612	-230	221	955	-76.9	-73.1
Sumitomo Chemical India	966	986	-2.0	48.1	15.1	19.0	-397	263	107	138	-22.2	49.2
Agri Inputs Total	18,132	19,640	-7.7	-26.2	15.0	18.7	-369	-55	1,090	1,893	-42.4	-21.6
Speciality Chemicals												
Aarti Industries	1,490	1,610	-7.4	-10.0	13.8	17.5	-368	-142	70	136	-48.3	-52.9
Atul Limited	1,226	1,477	-17.0	2.6	12.6	15.8	-324	9	92	163	-43.8	14.6
NOCIL	440	509	-13.5	12.1	12.3	20.2	-788	-44	32	66	-51.6	14.9
SRF	3,505	3,895	-10.0	-7.2	21.8	25.5	-370	-282	415	608	-31.7	-26.1
Sudarshan Chemical Industries	665	554	19.9	-3.8	12.4	7.5	496	14	31	7	337.0	-6.3
Vinati Organics*	440	506	-13.0	-12.4	27.5	25.8	160	-277	92	101	-8.6	-19.6
Gujarat Fluorochemical	1,321	1,334	-1.0	-10.2	27.5	34.4	-691	-751	209	303	-31.0	-37.0
PCBL Limited	1,357	1,409	-3.7	-1.2	13.9	13.8	10	55	114	126	-9.6	11.9
Speciality Chemicals Total	10,444	11,294	-7.5	-5.6	18.5	21.8	-325	-244	1,056	1,510	-30.1	-24.6

Source: Company; Sharekhan Research, * Standalone

Valuations

Company	CMP (Rs)	EPS (Rs)			CAGR over FY22-25E (%)	PE (x)			Reco	Price Target (Rs)
		FY23	FY24E	FY25E		FY23	FY24E	FY25E		
Agri Inputs										
Coromandel International	961	68.5	75.7	85.5	11.7	14.0	12.7	11.2	Buy	1,155
Insecticides (India)	442	21.4	33.8	49.2	51.8	20.7	13.1	9.0	Buy	540
PI Industries	3,678	80.0	97.2	112.6	18.6	46.0	37.8	32.7	Buy	4,200
UPL	660	49.9	63.0	80.2	26.8	13.2	10.5	8.2	Buy	880
Sumitomo Chemical India	431	10.1	12.2	14.1	18.3	42.8	35.4	30.6	Buy	465
Speciality Chemicals										
Aarti Industries	454	15.1	15.1	21.9	20.5	30.1	30.0	20.7	Hold	570
Atul Limited	6,698	175.1	194.6	243.4	17.9	38.3	34.4	27.5	Hold	7,060
NOCIL	205	9.0	10.9	13.0	20.6	22.9	18.8	15.7	Buy	260
SRF	2,224	71.3	95.4	102.7	20.0	31.2	23.3	21.7	Buy	2,960
Sudarshan Chemical Industries	486	6.5	18.2	24.2	93.2	75.1	26.6	20.1	Buy	530
Vinati Organics*	1,810	44.6	48.2	65.4	21.1	40.6	37.6	27.7	Hold	1,930
Gujarat Fluorochemicals	2,790	121.0	140.6	163.2	16.1	23.1	19.8	17.1	Positive	4,070
PCBL Limited	163	11.8	13.3	15.9	16.2	13.9	12.3	10.3	Positive	187

Source: Company; Sharekhan Estimates, * Standalone

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