

Specialty Chemicals

Demand check – Market pulse still weak

Sector Report

SECTOR UPDATE

December 10, 2023

NIFTY 50: 20,969

We met with a few industry experts, to gauge the pulse of demand in the chemicals market; we understand that, broadly, demand stays muted, even in Q3. Geography-wise, Europe, China and some parts of Asian markets remain weak, whereas US & domestic demand is relatively stable. Discretionary spends like pigments and polymers have started seeing some improvement, whereas textiles and dyes remain weak. Non-discretionary spends like agrochemicals will have a relatively shorter cycle, but every molecule is likely to have its own lifecycle and channel inventory build-up. The sentiment is expected to improve from H1FY25, when a large part of the destocking would have been completed; individual molecules will see demand recovery depending on the different levels of channel inventory. We expect bulk chemical companies, which have a relatively diversified end-user market, to see faster recovery once demand improves, followed by gradual recovery in agrochemicals and pharma.

Domestic demand in China remains muted

The industry experts who visited China this month see no optimism in demand with Chinese players. Slowdown in China's real-estate sector remains the key drag for its domestic demand. Despite a series of government stimulus measures, China's property market continues to show little sign of revival, hence leaving investors and homebuyers in a state of uncertainty. The property sector plays a crucial role in China's economic output, accounting for a quarter of it. Homebuyers, wary of the uncertain economic outlook, remain cautious, which is resulting in stagnant sales even in major cities like Beijing and Shenzhen. Such conditions have put downward pressure on Chinese demand and, as a result, Chinese players are dumping chemicals in other parts of the world (except USA) at significantly lower prices, in an effort to utilize their capacities. Unless Chinese domestic demand recovers, the pressure on pricing is here to stay.

Indian companies seeing benefit of Europe+1

Post the onset of the Russia-Ukraine war, the European chemical industry is facing significant headwinds and losing competitiveness in global chemical markets, due to high energy & feedstock costs. The European chemical industry started 2023 on a considerably weak note, with both domestic and export demand remaining frail and H1CY23 production declined sharply, by ~12% YoY. Overall in CY23, export and import volumes are materially deteriorating. This clearly points to increasing pressure on the European chemical sector amid intense competition in global chemical markets, in times of weak universal demand and low-capacity utilization. Given this backdrop, Indian players present in certain value-chains are seeing market-share gains from European players.

Bulk chemical companies to recover faster, followed by agro companies

Discretionary spends like pigments and polymers are seeing green shoots in demand recovery, whereas other discretionary spends like textiles and dyes remain relatively muted in geographies like Turkey and Bangladesh, which are larger markets for these segments. Overall, demand in the US & domestic markets remains comparatively stable. Non-discretionary spends like agro will have a somewhat shorter cycle, but the recovery for different molecules will be fairly dependent on the level of channel inventory that has been built for each molecule. Largely, demand optimism is expected to recover, starting H1FY25, but the pricing environment will follow recovery in Chinese demand.

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Rating, Target Price and Valuation

	Rating	CMP (Rs)	TP (Rs)	Upside (%)	P/E (x)		EV/EBITDA (x)	
					FY25E	FY26E	FY25E	FY26E
SRF	ADD	2,418	2,700	12	33.3	25.4	19.1	15.6
Anupam Rasayan	ADD	1,034	1,070	4	36.2	24.7	21.3	15.6
Navin Fluorine	REDUCE	3,792	3,850	2	31.1	28.3	21.7	18.8
Gujarat Fluorochemicals	SELL	2,830	2,200	(22)	34.8	30.1	22.8	19.7

Source: Company, Emkay Research

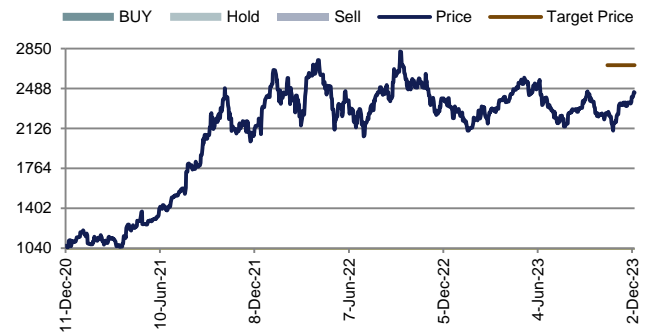
SRF

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	2,367	2,700	Add	Meet Vora
22-Nov-23	2,333	2,700	Buy	Meet Vora
30-Oct-23	2,181	2,700	Buy	Meet Vora
15-Oct-23	2,255	2,700	Buy	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

ANUPAM RASAYAN

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	987	1,070	Add	Meet Vora
22-Nov-23	938	1,070	Buy	Meet Vora
07-Nov-23	923	1,070	Buy	Meet Vora
15-Oct-23	884	1,050	Buy	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

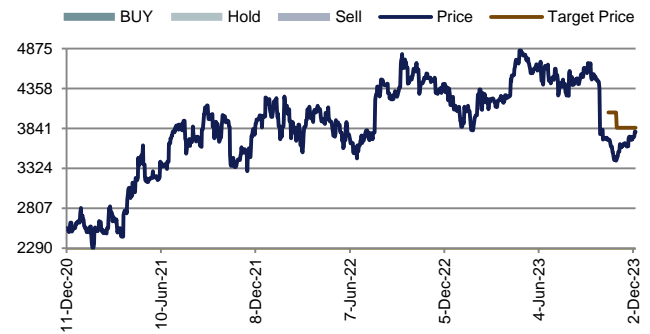
NAVIN FLUORINE

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	3,701	3,850	Reduce	Meet Vora
22-Nov-23	3,610	3,850	Hold	Meet Vora
31-Oct-23	3,438	3,850	Hold	Meet Vora
15-Oct-23	3,692	4,050	Hold	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

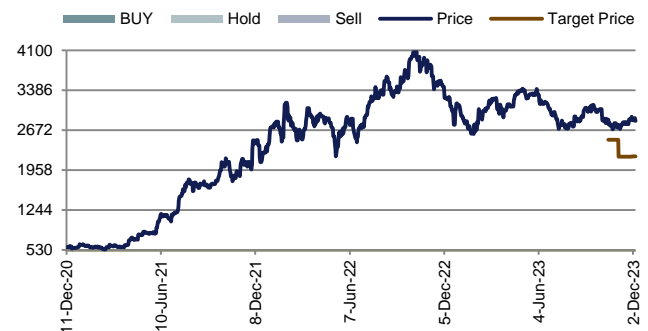
GUJARAT FLUOROCHEMICALS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	2,851	2,200	Sell	Meet Vora
22-Nov-23	2,785	2,200	Sell	Meet Vora
04-Nov-23	2,765	2,200	Sell	Meet Vora
15-Oct-23	2,861	2,500	Sell	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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