

Specialty Chemicals

Impressive print...

Q4FY21 earnings for specialty chemical companies under our coverage are expected to be impressive on low base of Q4FY20; and recent rise in chemical (particularly crude derivative) prices which may lead to inventory gains. We expect SRF's chemical business EBIT to grow 52% YoY on strong show in fluoro-specialty chemicals and rise in realisation for ref-gas, while its packaging film business continues to enjoy strong spreads. Navin Fluorine's earnings are likely to benefit from strong growth in specialty chemicals and CRAMS segment, and soft fluorspar prices. Galaxy Surfactants' volumes would be steady though its revenues would be optically higher on higher lauryl alcohol prices while margins would be lower as conversion is likely to remain steady. Rossari Biotech's strong revenue growth in HPPC is expected to continue, but margins may slightly shrink on rise in raw material prices. We expect Sudarshan Chemical's EBITDA to benefit from strong exports, rise in realisation, and operating leverage.

- ▶ **Expect SRF's chemical business EBIT to grow 52% YoY to Rs2.4bn.** SRF's chemical business revenues are likely to grow 25% YoY on continued strong momentum in fluoro-specialty chemicals and rise in realisation for ref-gas as indicated by the company. Chemical business' EBIT margin may expand 100bps QoQ to 22%. Packaging film revenues may grow 38% YoY on new capacity addition and higher realisations, while BOPET and BOPP spreads are likely to remain strong. EBITDA is estimated to grow 65% YoY to Rs6bn on strong performance and low base; we expect net profit at Rs3.5bn, up 91% YoY.
- ▶ **Navin Fluorine's EBITDA to rise 39% YoY to Rs932bn.** We estimate revenue growth of 20% YoY led by 30% and 35% growth in specialty chemicals and CRAMS. Ref-gas revenues are likely to dip 4% YoY on lower realisations while inorganic fluoride segment may see 10% jump on strong demand from steel sector. Margins stand to benefit from better mix and soft fluorspar prices. Net profit is expected to decline 74% due to absence of one-off tax benefit that was there in the base quarter.
- ▶ **Galaxy Surfactants' EBITDA may rise 27% YoY to Rs1.3bn.** We expect volume growth at 6.7% YoY led by normalisation of demand in India, steady growth in AMET, and recovery in RoW; thus specialty care products volume growth to be healthy at 8% YoY. Revenue growth would look very high on higher lauryl alcohol prices while margins would be optically lower. Net profit growth is likely at 44% YoY to Rs902mn.
- ▶ **Rossari's net profit expected to grow 30% YoY to Rs195mn.** We expect revenues to grow 30% YoY to Rs2bn on the back of 55% growth in HPPC and 10% in textile chemicals, while animal health and nutrition is expected to dip 10%. Gross profit margins may shrink 360bps YoY on base having the benefit of higher sanitiser sales and rise in raw material prices.
- ▶ **Expect Sudarshan Chemical's net profit to grow 58% YoY.** We expect revenues to be 16% YoY higher led by strong exports and higher realisations. Company has likely commercialised its yellow pigment product, which may be added to sales. We are factoring-in stable gross profit margin owing to rise in raw material prices (crude derivatives). Operating leverage is likely to help drive higher EBITDA margin at 16.1%, up 40bps QoQ. EBITDA growth is likely to be at 55% YoY to Rs835mn.

Quarterly summary

(Rs mn)	Sales			EBITDA			PAT		
	JFM'21*	% chg		JFM'21*	% chg		JFM'21*	% chg	
		(QoQ)	(YoY)		(QoQ)	(YoY)		(QoQ)	(YoY)
SRF	11,947	5.9	27.0	5,964	5.3	65.1	3,543	9.3	90.7
Navin Fluorine	3,180	7.2	20.0	932	13.2	38.6	687	17.1	(74.4)
Galaxy Surfactants	8,082	19.8	23.1	1,300	8.8	26.6	902	5.8	43.6
Rossari Biotech	2,070	(1.4)	29.7	315	(7.4)	31.3	195	(9.7)	29.2
Sudarshan Chemical	5,197	2.6	15.7	835	4.9	54.7	431	10.0	57.8

JFM'21**: Jan-Mar21; Source: Company data, I-Sec research

Research Analysts:

Sanjesh Jain

sanjesh.jain@icicisecurities.com
+91 22 6637 7153

Sameer Pardikar

sameer.pardikar@icicisecurities.com
+91 22 2277 7637

SRF (HOLD, target price: Rs5,644)

(QoQ chg: 4.9%; YoY chg: 10.7.8%)

Q4FY21 estimates

(Rs mn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21E	QoQ (%)	YoY (%)
Revenue							
Technical textiles	3,168	1,404	3,321	3,670	3,801	3.6	20.0
Chemical business	8,819	7,052	8,812	9,059	11,007	21.5	24.8
Packaging films	6,015	6,774	8,329	8,020	8,296	3.4	37.9
EBIT							
Technical textiles	372	(140)	502	679	608	(10.5)	63.5
Chemical business	1,589	886	1,744	1,899	2,421	27.5	52.4
Packaging films	1,307	2,207	2,462	2,124	1,997	(6.0)	52.8
EBIT %							
Technical textiles	11.7	(10.0)	15.1	18.5	16.0		
Chemical business	18.0	12.6	19.8	21.0	22.0		
Packaging films	21.7	32.6	29.6	26.5	24.1		
Consolidated							
Revenue	18,578	15,452	21,008	21,464	23,894	11.3	28.6
Gross profit	9,404	8,036	11,458	11,278	11,947	5.9	27.0
GPM %	50.6	52.0	54.5	52.5	50.0		
EBITDA	3,613	3,633	5,725	5,661	5,964	5.3	65.1
EBITDA %	19.4	23.5	27.3	26.4	25.0		
PAT	1,858	1,769	3,157	3,243	3,543	9.3	90.7

Source: Company data, I-Sec research

Price chart

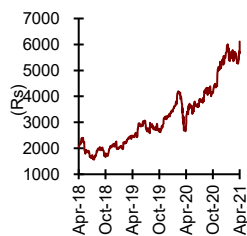
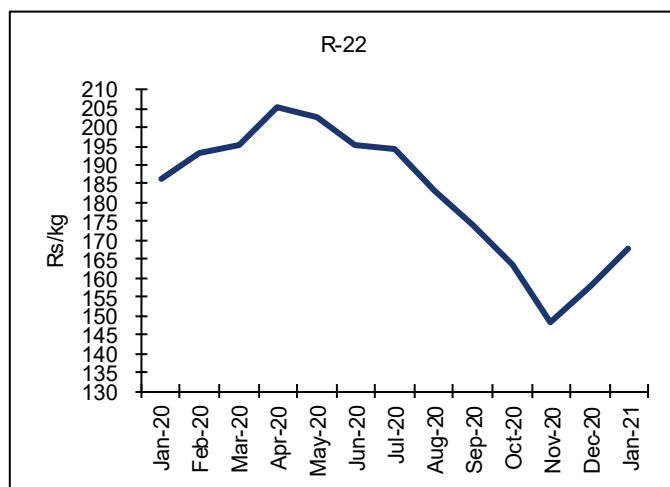


Chart 1: R-22 prices rose 7.0% QoQ



Source: I-Sec research, Commerce Ministry

Chart 2: Fluorspar prices were down 5.7% QoQ

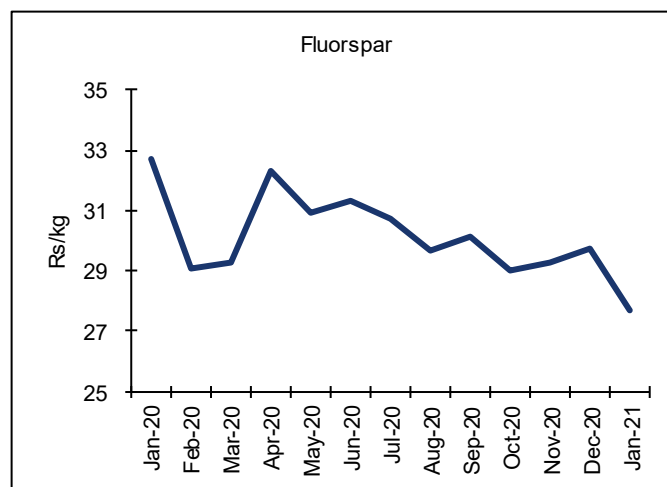


Chart 3: Chloroform prices dipped 9.2% QoQ

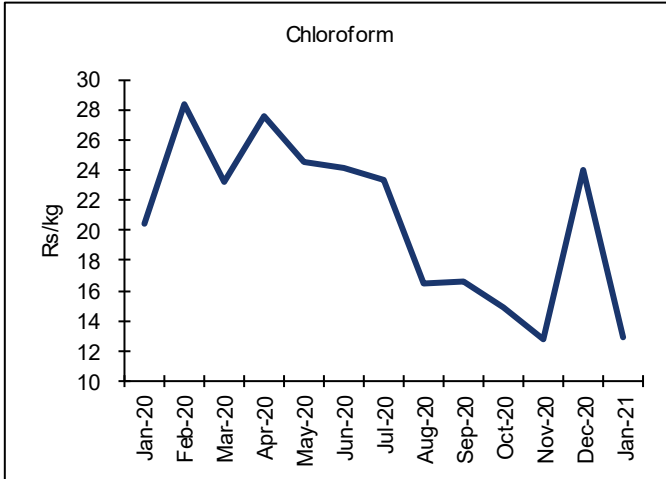
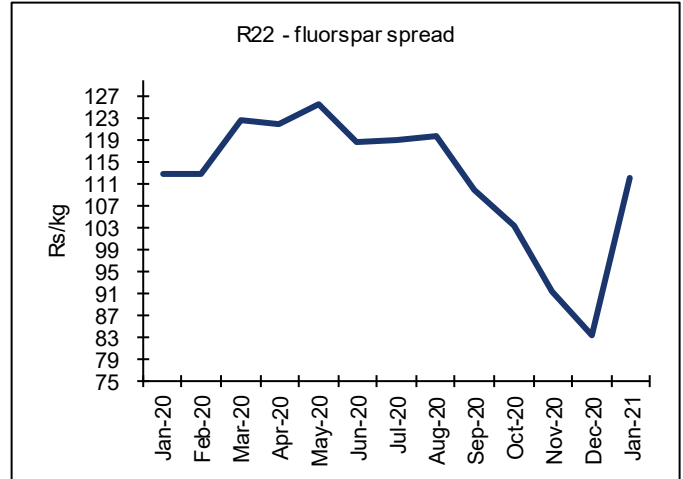
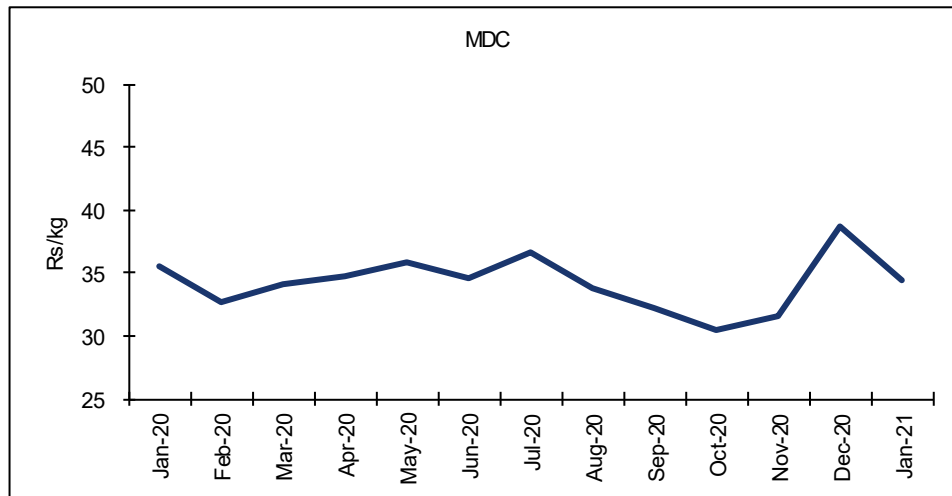


Chart 4: R-22 spread rose 15.5% QoQ



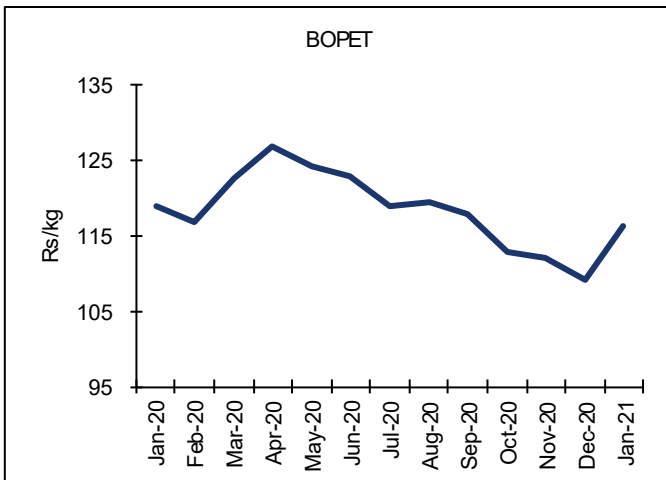
Source: I-Sec research, Commerce Ministry; Note: For calculating spread, we have assumed 1.3kg of fluorspar; and 1.5kg chloroform prices for 1kg of R-22

Chart 5: MDC prices up 4.7% QoQ



Source: I-Sec research, Commerce Ministry

Chart 6: BOPET prices increased by 4.5% QoQ



Source: I-Sec research, Commerce Ministry

Chart 7: BOPET/PET spread shrunk 0.9% QoQ

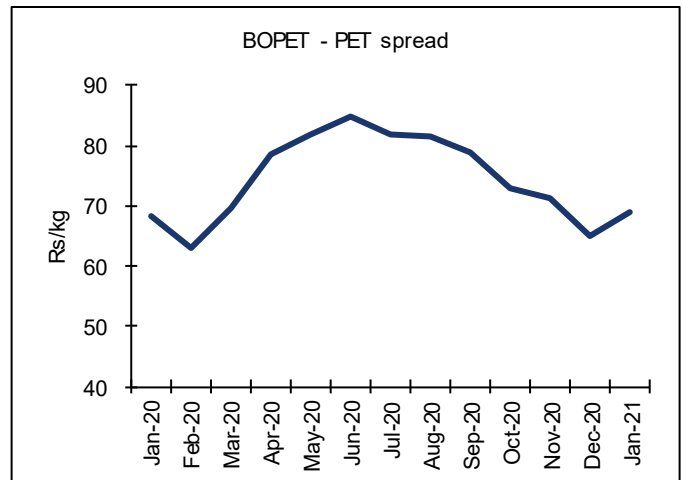


Chart 8: BOPP prices higher by 4.6% QoQ

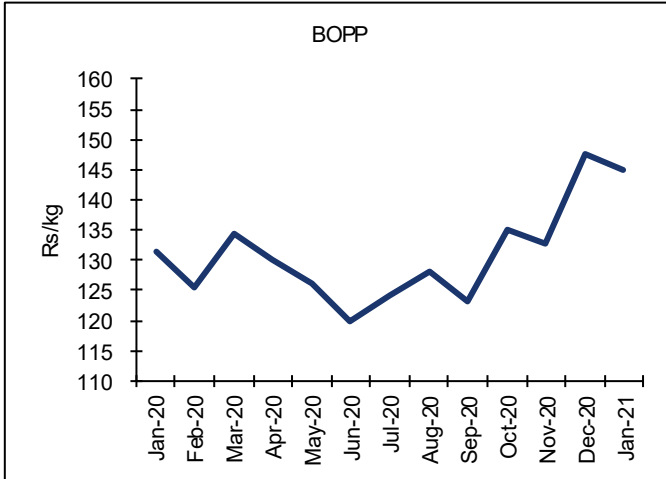
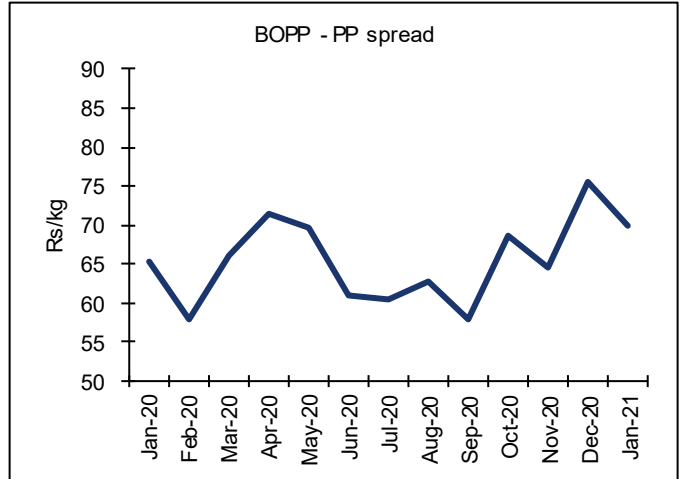


Chart 9: BOPP/PP spread flattish QoQ



Source: I-Sec research, Commerce Ministry; Note: For calculating spread, we have assumed 1kg of PP for 1kg of BOPP

Chart 10: NTCF prices declined 18.5% QoQ

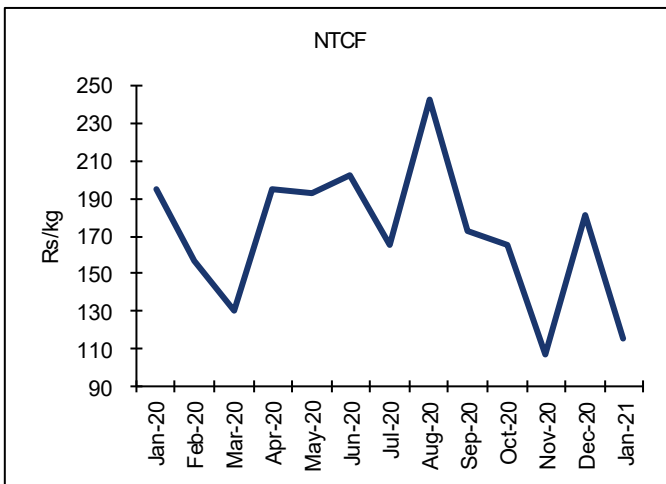
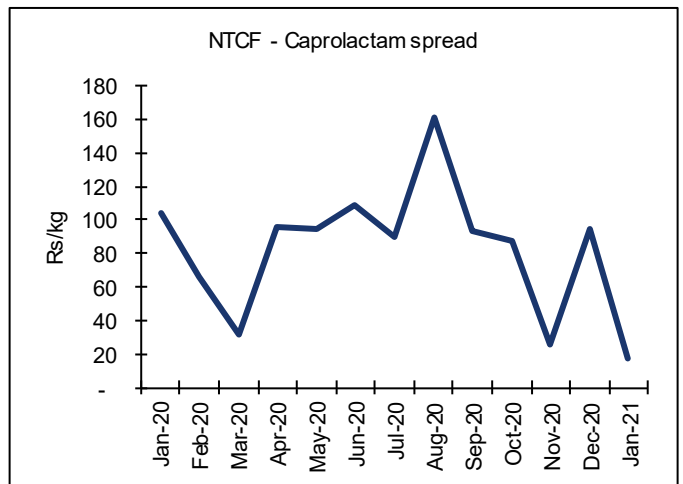


Chart 11: NTCF/caprolactam spread contracted 71.7% QoQ



Source: I-Sec research, Commerce Ministry; Note: For calculating spread, we have assumed 1kg of caprolactam for 1kg of NTCF

Navin Fluorine (REDUCE, target price: Rs2,338)

(QoQ chg: 12.5%; YoY chg: 108.1%)

Q4FY21 estimates

(Rs mn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21E	QoQ (%)	YoY (%)
Revenue							
Refrigerants	560	460	580	470	538	14.4	(4.0)
Inorganic Fluorides	510	280	490	570	561	(1.6)	10.0
Specialty Chemicals	1,040	970	1,020	1,220	1,352	10.8	30.0
CRAMS	540	340	990	710	729	2.7	35.0
Revenue	2,650	2,047	3,077	2,966	3,180	7.2	20.0
Gross profit	1,441	1,196	1,710	1,607	1,749	8.8	21.3
GPM %	54.4	58.4	55.6	54.2	55.0	1.5	1.1
EBITDA	672	521	935	823	932	13.2	38.6
EBITDA %	25.4	25.4	30.4	27.8	29.3		
PAT	2,687	516	673	587	687	17.1	(74.4)

Source: Company data, I-Sec research.

Price chart

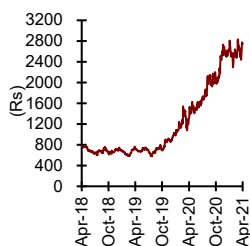
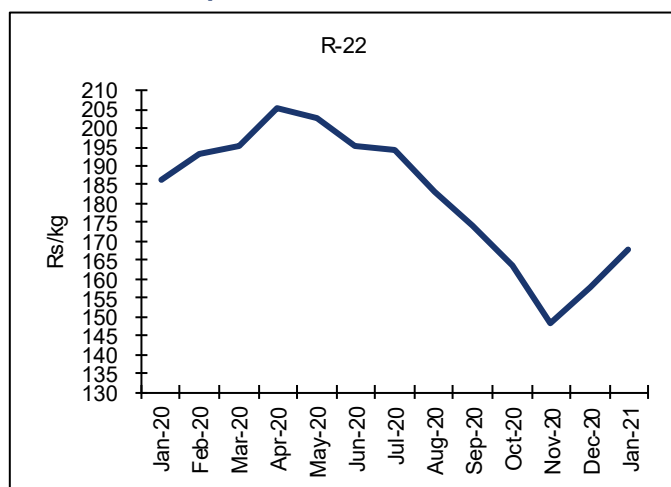


Chart 12: R-22 prices rose 7.0% QoQ



Source: I-Sec research, Commerce Ministry

Chart 13: Fluorspar prices were down 5.7% QoQ

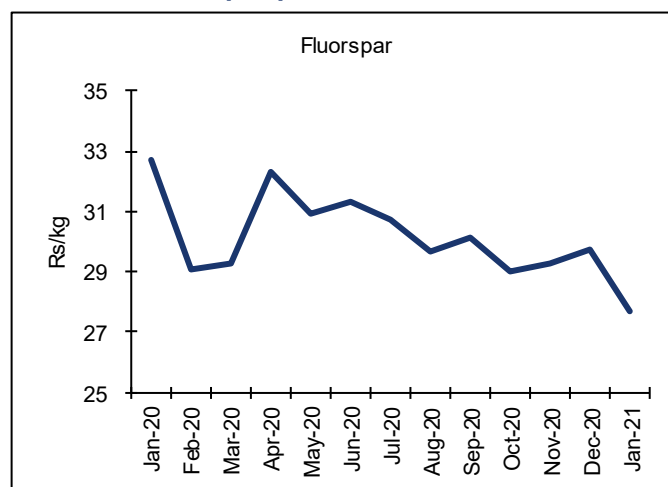
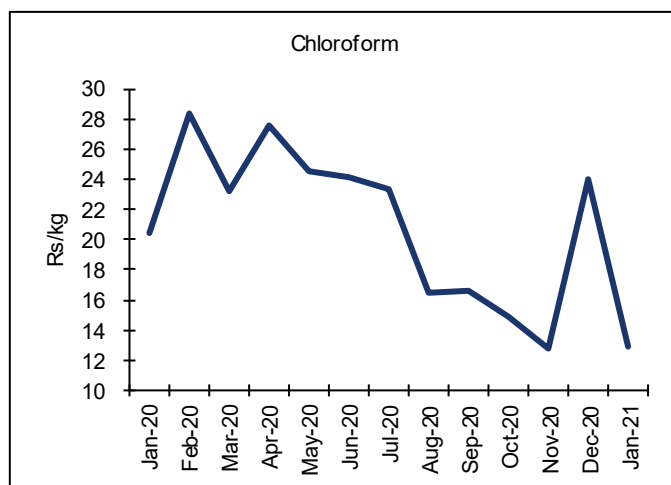
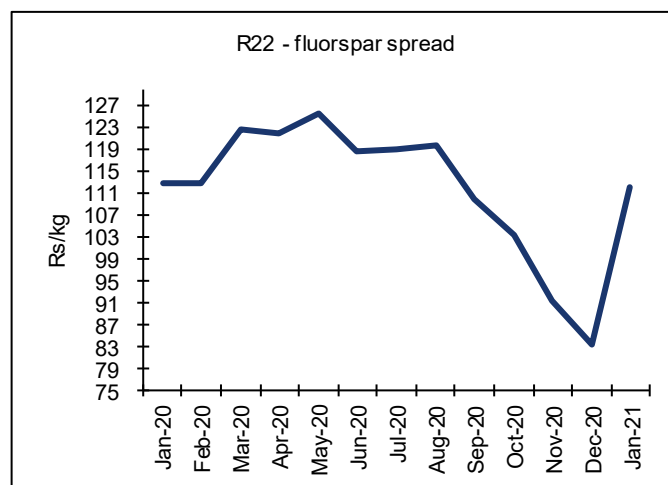


Chart 14: Chloroform prices dipped 9.2% QoQ



Source: I-Sec research, Commerce Ministry; Note: For calculating spread, we have assumed 1.3kg of fluorspar; and 1.5kg chloroform prices for 1kg of R-22

Chart 15: R-22 spread expanded 15.5% QoQ



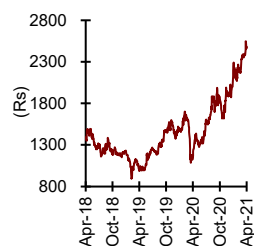
Galaxy Surfactants (BUY, target price: Rs2,583)

(QoQ chg: 12.3%; YoY chg: 110.9%)

Q4FY21 estimates

(Rs mn, year ending March 31)

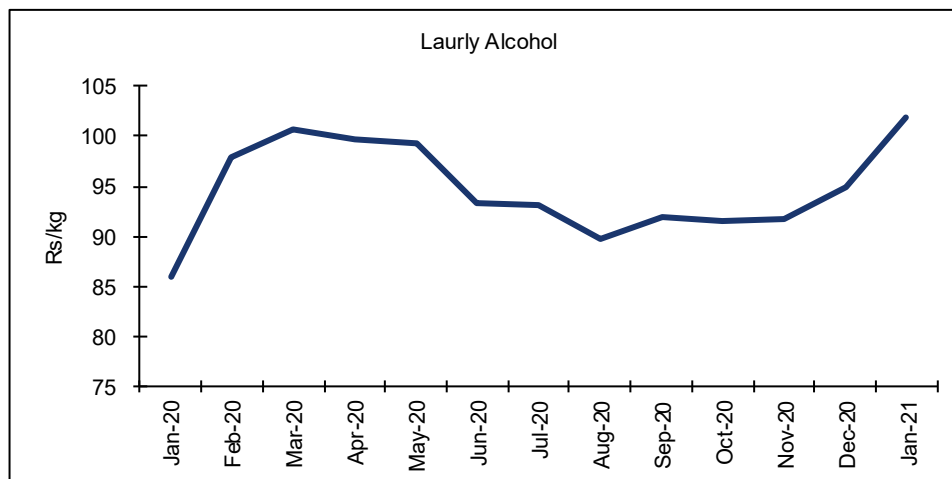
Price chart



	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21E	QoQ (%)	YoY (%)
Volumes (mt)							
Performance surfactants	38,853	36,397	41,426	36,618	41,184	12.5	6.0
Spl. care products	19,277	15,496	21,600	21,620	20,819	(3.7)	8.0
Total	58,130	51,893	63,026	58,238	62,003	6.5	6.7
Realisation (Rs/kg)							
Performance surfactants	98	123	107	110	127	16.4	30.0
Spl. care products	143	105	129	128	136	6.2	(5.0)
Total	113	117	115	116	130	12.0	15.3
Revenue							
Performance surfactants	3,810	4,460	4,450	4,010	5,250	30.9	37.8
Spl. care products	2,760	1,620	2,790	2,770	2,832	2.2	2.6
Total	6,570	6,080	7,240	6,780	8,082	19.2	23.0
Consolidated							
Revenue	6,567	6,072	7,187	6,747	8,082	19.8	23.1
Gross profit	2,388	2,076	2,609	2,547	2,707	6.3	13.4
GPM %	36.4	34.2	36.3	37.7	33.5		
EBITDA	1,026	905	1,215	1,195	1,300	8.8	26.6
EBITDA %	15.6	14.9	16.9	17.7	16.1		
PAT	628	565	817	852	902	5.8	43.6

Source: Company data, I-Sec research

Chart 16: Lauryl alcohol prices up 10.0% QoQ



Source: I-Sec research, Commerce Ministry

Rossari Biotech (HOLD, target price: Rs1,020)

(QoQ chg: 25.1%; YoY chg: NA)

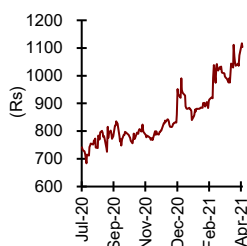
Q4FY21 estimates

(Rs mn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21E	QoQ (%)	YoY (%)
Revenue							
HPCC	767	835	877	1,196	1,189	(0.6)	55.0
Textile chemicals	674	173	683	782	741	(5.2)	10.0
Animal health & nutrition	155	87	156	122	140	14.4	(10.0)
Revenue	1,595	1,095	1,717	2,100	2,070	(1.4)	29.7
Gross profit	607	457	636	702	713	1.5	17.5
GPM %	38.0	41.8	37.1	33.4	34.4		
EBITDA	240	237	301	340	315	(7.4)	31.3
EBITDA %	15.0	21.7	17.5	16.2	15.2		
PAT	151	155	207	216	195	(9.7)	29.2

Source: Company data, I-Sec research

Price chart



Sudarshan Chemical (BUY, target price: Rs595)

(QoQ chg: 9.5%; YoY chg: 41.3%)

Q4FY21 estimates

(Rs mn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21E	QoQ (%)	YoY (%)
Revenue	4,491	3,523	4,289	5,064	5,197	2.6	15.7
Gross profit	1,980	1,551	1,895	2,166	2,223	2.6	12.3
GPM %	44.1	44.0	44.2	42.8	42.8		
EBITDA	540	530	677	796	835	4.9	54.7
EBITDA %	12.0	15.0	15.8	15.7	16.1		
PAT	273	182	303	392	431	10.0	57.8

Source: Company data, I-Sec research

Price chart

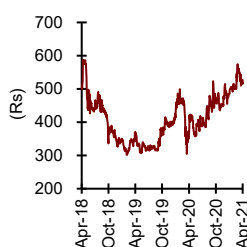
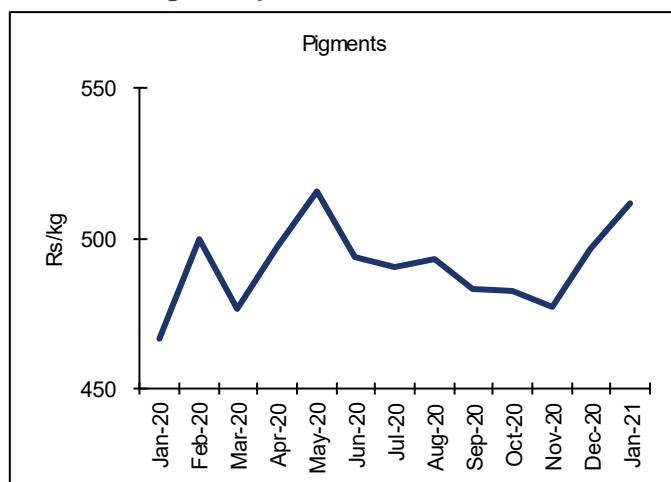


Chart 17: Pigment prices rose 5.4% QoQ



Source: I-Sec research, Commerce Ministry

Chart 18: Azo pigment mixture prices up 4.0% QoQ

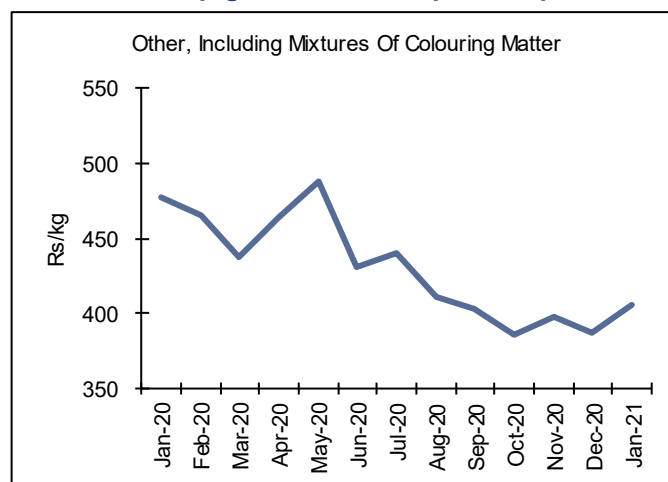
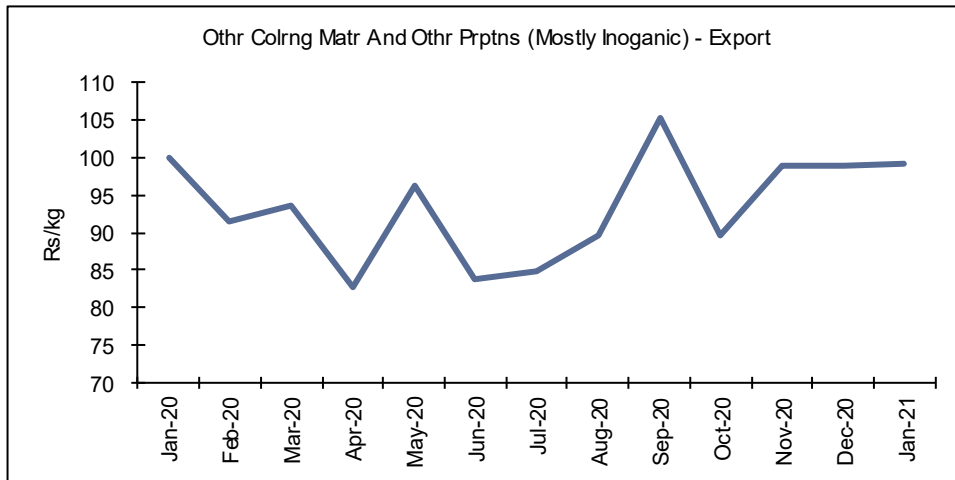


Chart 19: Inorganic pigment prices rose 4.0% QoQ



Source: I-Sec research, Commerce Ministry

In case of industry/sector reports or a report containing multiple stocks, the rating/recommendation for a particular stock may be based on the last released stock specific report for that company.

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40.92, Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, Sanjesh Jain, PGDM; Sameer Pardikar, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

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

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

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.