Q1 FY24 PREVIEW: CHEMICALS & MIDCAP (OUTLOOK)

Chemicals

Specialty Chemicals sector stands in puddle facing twin problems of falling demand due to reduction in discretionary spends affecting end-user industries such as dyes pigments and inventory issues in agro-chem, pharma API segment. This situation is further aggravated by over-supply in certain Chemicals from Chinese players leading to severe price freefall of certain chemicals in South-East Asia region. Chemical companies with strong brand history and goodwill & execution track record in CSM/CDMO with good quality order book can withstand the coming storm, although commoditized manufacturers will be strictly punished in coming quarters, alongside certain specialty players with import substitution risk. Such player will also see margin erosion as they try to protect their market share. Most of the companies in our coverage are moving to increase share revenue from Value-added and Specialty Chemical products that enjoy higher realizations leading to margin expansion. Companies with recent large new capex will be the ones most affected as achieving scale will become extremely difficult. We expect Agrochemical companies under our coverage to do well in Q1FY24 on account of 1) Good rainfall expectations post delay leading to normal plantation acreage in coming quarter, 2) Relaxing inventory levels as we move further into Kharif season and seasonality of Favorable agro-dynamics with the recently extended winter will aid in boosting demand, and increased govt spending on agri subsidies. EBITDA margins are likely to sustain and might even show marginal signs of improvement given price hikes and cost rationalization measures undertaken by these companies in past quarters. We are bullish on PI Industries as its strong CSM and diversified Specialty book stands well to brace the coming storm.

Diversified Mid-Cap Opportunities

In Luggage stocks, we have VIP Industries under our coverage. We expect demand to continue from pick up in pace as travel demand remains strong leading all-time high traffic at domestic airports combined with pick up travel and tourism would be key demand drivers for the sector. Operating profitability is also expected to improve due to better absorption of fixed costs (with the capacity utilization expected to improve), reduced dependence on China for manufacturing, and reduction in discounts would support margins.

Praj Industries is expected to continue its growth momentum in Q1FY24 on account of following reasons: 1) High traction in the domestic Gen 1 Ethanol Business to continue in Indian and well US market, 2) Higher crude prices increasing demand for blending (other incentives for blending Ethanol to catalyze demand further for Petrol blending and application in SAF, and 3) Focus on CPS and ZLD business yielding as norms from PCB become more stringent. 4) Companies focus on export market of Brazil, USA 5) Govt to create groundwork for CBG adoption. We expect the company to maintain / improve EBITDA Margins as export revenue picks up and cost control measures undertaken yield results. Focus on reducing the execution gap would translate strong operating cash flow.

Mold-Tek Packaging to report steady numbers for Q1FY24 on the back of client addition in the F&F segment. Also, the intent of Paint players to increase new capacity will aid well for the MPL growth in coming quarters Q2 onwards. Furthermore, the growing contribution from the higher-margin value-added products is likely to drive the operational performance

Currently, we have Welspun India in our coverage from the Textile sector. Textile demand seems to have started gaining momentum again to historical levels and new growth levers such as UK & Australian FTA are in place to start the new leg of growth. We have adopted a wait-and-watch approach for other interesting bets such as KPR Mill and Gokex Ltd. We expect WIL to show signs of demand recovery in Q1FY24onwards. Falling cotton and yarn prices shall help the gross margins and normalizing freight will help in reducing operational expenses.

Key Monitorable in Q1 FY24

We would watch out for management commentaries demand in coming quarters as global growth engine slows and western economies grapple with inflationary pressures. The companies' ability to handle current inflationary pressure and global slowdown would be key thing to monitor as the struggle to maintain their growth trajectories protecting their market share and margins. We would also keenly monitor Capex plans and updates on existing project ramp ups, the market trends in global & domestic consumption.

Our Top Picks:

Camlin Fine Science Ltd, PI Industries, Welspun India

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Specialty Chemicals

Year-end March (Rs Cr)	Q1FY24	Q4FY23	QoQ(%)	Q1FY23	YoY(%)	Result expectations
Aarti Industries						
Revenues	1,535	1,656	-7.3%	1,610	-4.7%	→ We expect top line to decline as demand recovery is still sluggish in dyes segment due and inventory pressure in agro chem business. → The EBITDA is expected to marginally decrease Q-o-Q as we expect top line de growth and margin reduction from selling in nontraditional markets → We expect the margins to decline due to negative operating leverage and weaker gross margins → We expect bottom-line to drop significantly → **Key Monitorable**: Increasing capacity utilisatiion levels, Updates in capex; long term contracts; Demand scenario
EBITDA	192	252	-23.8%	282	-31.8%	
EBITDA margin (%)	12.5%	15.2%		17.5%		
PAT	57	149	-61.5%	136	-57.7%	
EPS (Rs)	1.58	4.10	-61.4%	3.74	-57.7%	
Apcotex Industries						
Revenues	318	256	24.2%	306	3.8%	→ The top-line is expected to grow at a moderate level Y-o-Y on account of increase in volumes from new capacity, although ramp up will be slower than expected → The EBITDA is expected to slightly improve over last quarter as additional capacity kicks in → The EBITDA Margin is expected to slightly improve as Nitrile Rubber prices moderate and improved operational leverage → The PAT is expected to be in line with the overall performance → **Key Monitorable**: Update on ramp up of new project; demand trends across key end-user industries
Gross Profit	51	34	50.5%	49	5.7%	
Gross margin (%)	16.1%	13.3%		15.8%		
EBITDA	31	23	35.3%	34	-6.4%	
PAT	6.06	4.48	35.3%	6.47	-6.4%	

Specialty Chemicals (Cont'd)

Year-end March (Rs Cr)	Q1FY24	Q4FY23	Q-o-Q (%)	Q1FY23	YoY(%)	Result expectations
Camlin Fine Sciences						➔ We expect company to report one of its strongest quarter as Vanillin sales are expected to augment in current quarter ➔ The EBITDA will increase as Vanillin sales to add to topline along with increased utilisatiion level. ➔ We expect a resultant 200 bps increase in EBITDA Margin which was slightly offseted by decline in HQ prices ➔ The PAT is expected to grow in line with the overall performance ➔ Key Monitorable: Update on Vanillin plant performance, Impact on Italian subsidiary & ; demand trends across key end-user industries
Revenues	543.0	426.7	27.3%	384	41.5%	
EBITDA	67.0	43.8	52.9%	47	43.7%	
EBITDA margin (%)	12.3%	10.3%		12.1%		
PAT	27.33	3.48	685.5%	4	659.3%	
EPS (Rs)	1.74	0.22	685.5%	0.37	370.2%	
Navin Fluorine International Ltd.						➔ Revenue growth affected due to maintenance related shutdown and expected slowdown in specialty segment and CRAMS is expected to do well in CY23 ➔ The EBITDA is expected to decline as top line contracts ➔ We expect margins to contract marginally due negative operating leverage ➔ The PAT is expected to fall in line with the overall operational performance. ➔ Key Monitorable: New products in the pipeline, update on CRAMS CGMP 4 & Specialty Chemicals segment
Revenues	611	697	-12.4%	398	53.7%	
EBITDA	166	202	-17.7%	99	67.5%	
EBITDA margin (%)	27.2%	28.9%		24.9%		
PAT	111	136	-18.6%	74	49.1%	
EPS (Rs)	22.41	27.51	-18.6%	15.02	49.1%	

Specialty Chemicals (Cont'd)

Year-end March (Rs Cr)	Q1FY24	Q4FY23	QoQ(%)	Q1FY23	YoY(%)
NOCIL Ltd.					
Revenues	387	393	-1.5%	509	-24.0%
EBITDA	46	50	-7.9%	103	-55.4%
EBITDA margin (%)	11.8%	12.7%		20.2%	
PAT	27	28	-5.3%	66	-59.7%
EPS (Rs)	1.6	1.7	-5.3%	4.0	-59.7%

Result expectations

- Expect further contraction in top line as demand remain muted and import pressure
- Further imports pressure to lead to lower realizations
- As EBITDA Margin struggle due headwinds from both demand and supply
- Would remain largely similar
- Key Monitorable: Effect of global slowdown on rubber prices; Chinese import pressure & competition scenario & share of value added products

Mid-Caps

Year-end March (Rs Cr)	Q1FY24	Q4FY23	QoQ(%)	Q1FY23	YoY(%)	Result expectations
Safari Industries						➔ We expected to see huge YoY increase led by surge in travel tourism and strong wedding season. ➔ EBITDA is also expected to witness a significant growth on YoY basis as operational leverage kicks in ➔ The margins are expected to see an increase due to strong operational performance, and PP strategy. ➔ The PAT is expected to increase in line with the overall operational performance. ➔ Key Monitorable: Outlook on demand recovery; Market Share trends; discounting; impact on China sourcing and RM inflation
Revenues	347	303	14.5%	193	79.8%	
EBITDA	63	55	14.5%	17	270.6%	
EBITDA margin (%)	18.2	18.2		8.8		
PAT	39.0	34.0	14.7%	2	1850.0%	
EPS	16.7	14.5	34.9%	1.07	1727.9%	
VIP Industries						➔ We expect company to deliver strong quarter as it restarts activity with external outsourcing from third party vendors and targets preschool demand ➔ The EBITDA is expected to rise as focus on volume growth ➔ Margins to improve as cost pressure moderate and advantages of integrated business model kicks in by operational leverage ➔ The PAT is expected to increase in line with the overall performance. ➔ Key Monitorable: Demand off-take post economic revival; RM price inflation; and market share protection
Revenues	537	451	19.2%	591	-9.1%	
EBITDA	98	64	52.5%	103	-4.5%	
EBITDA margin (%)	18.2%	14.3%		17.4%		
PAT	54.8	(4.3)	-1386.4%	69.1	-20.7%	
EPS	3.9	(0.3)	-1386.4%	4.9	-20.3%	

Mid-Caps (Cont'd)

Year-end March (Rs Cr)	Q1FY24	Q4FY23	QoQ(%)	Q1FY23	YoY(%)	Result expectations
Mold-Tek Packaging						→ Top line is expected to grow as lubes & paint off take increases & demand revival in the F&F → The EBITDA is expected to rise as the contribution of F&F is expected to increase, which is a high margin segment for the company. → We expect the margins to improve over last few quarters → The PAT is expected to increase in line with the overall operational performance. → Key Monitorable: Demand off-take from key end user industries; RM price inflation; New Product foray/Capex Update
Revenues	197	155	27.2%	178	10.7%	
EBITDA	41	28	43.9%	32	28.7%	
EBITDA margin (%)	20.8%	18.4%		17.9%		
PAT	25.3	16.3	55.0%	17.3	46.0%	
EPS	7.6	4.9	55.0%	5.4	42.4%	
Praj Industries						→ We expect top line to maintain momentum as company executes its highest ever order book backlog → The EBITDA is expected to marginally grow over last quarter → We expect the margins to slightly improve given the reduced pressure from raw material prices and other expenses → The PAT would be in affected due to increase depreciation → We expect the company to post an EPS of 4.65
Revenues	994	1,004	-1.0%	730	36.2%	
EBITDA	107	105	2.6%	53	103.9%	
EBITDA margin (%)	10.8%	10.4%		7.2%		
PAT	85	88	-3.1%	41	107.0%	
EPS	4.65	4.80	-3.1%	2.25	107.0%	

Agri Chemical

Year-end March (Rs Cr)	Q1FY24	Q4FY23	QoQ(%)	Q1FY23	YoY(%)	Result expectations
PI Industries						→ Healthy CSM segment growth supported by Pyroxasulfone coupled with modest degrowth in domestic formulation business would shape up topline. CSM growth in non-agro space to boost demand → Gross margin to inline with last quarter Raw material prices are hovering in same region → EBITDA margins to remain flattish Q-o-Q with moderated input prices and cost rationalization measures → Earnings to grow inline because of strong CSM growth & new formulations and with overall operational performance → We expect the company to post an EPS of 23.6
Revenues	1,801	1,566	15.0%	1,543	16.7%	
EBITDA	411	343	19.9%	346	18.9%	
EBITDA margin (%)	22.8	21.9		22.4		
PAT	330	281	17.5%	262	25.7%	
EPS	22	18	17.5%	17	25.7%	
Dhanuka Agritech						→ Revenues to grow on the back of favourable agri dynamics and good expected monsoon → Gross margin to moderate as raw material prices inflation is expected to moderate → EBITDA margins to sustain on account of rationalisation of cost {employee and other expenses} → Earnings to improve given overall favourable agri dynamics and healthy operating profit growth → We expect the company to post an EPS of 12.3
Revenues	439	371	18.3%	393	11.8%	
EBITDA	95	78	21.7%	51	84.1%	
EBITDA margin (%)	21.6%	21.0%		13.1		
PAT	79	65	21.5%	49	61.5%	
EPS	17.4	14.2	22.2%	10.5	65.1%	

Textile

Year-end March (Rs Cr)	Q1FY24	Q4FY23	QoQ(%)	Q1FY23	YoY(%)	Result expectations
Welspun India Ltd						→ We expect slight recovery back ended recover in US HT market post normalization in the inventory level and resurgence of demand through shorter inventory cycles from customers → The EBITDA would be better than the last impacted quarters also scale returns → We expect the margins to slightly improve due to operational leverage → The PAT is expected to improve in line with the overall growth → We expect the company to post an EPS of 1.6
Revenues	2,240	2,154	4.0%	1,957	14.4%	
EBITDA	311	279	11.5%	152	104.6%	
EBITDA margin (%)	13.9%	12.9%		7.8%		
PAT	159	129	23.1%	21	643.3%	
EPS	1.61	1.28	25.5%	0.23	609.2%	

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