

Chemicals Monthly - January 2023

Green shoots in demand visible, sustainability is the key

Our chemical channel checks suggest that initial pickup of global demand of dyes & pigments is visible and it will take further steam because supply channel inventory is minimum & re-opening of China from covid restrictions & Chinese new year completion. Majority of commodity chemical prices are witnessing a rebound from the bottom on anticipation of strong demand in the coming months. Despite global headwinds, India remains on a strong footing in chemicals led by increasing interest of global companies to source from India to derisk their supply chain, increasing share of speciality chemicals in overall product mix and robust capex aligned by chemical companies to capture future growth. For Indian chemical companies, the quarter gone by i.e Q3FY23 will witness pain in numbers owing to weaker demand and inventory losses, the same is expected to soften or slightly improve in the coming quarter. The full recovery in demand should be visible from Q1FY24. Pharma segment is witnessing rebound in demand & correction of major API prices seems to be over. Agrochemicals demand is steady owing to higher crop prices, though high channel inventory could impact sales in the near term. Even shipping rates and container availability have improved over time. Also, crude oil prices correction provides some support in basic raw material prices which will aid margins in the coming quarters. Valuations of most chemical companies seems reasonable factoring in largely the pain gone by. The cautious approach in chemicals is the impact of the global slowdown amid lingering recession worries which remains a watchful factor.

Chemicals price movement and impact of listed chemical players

Benzene prices declined by ~5.2% MoM – Companies like Aarti Industries, Deepak Nitrite, Hindustan Organic Chemical etc use it as a raw material and RIL, IOCL, BPCL are the manufacturers.

Aniline prices declined by ~10% MoM basis – Companies like NOCIL use Aniline as the major raw material. Also, Aarti use aniline as raw material.

Toluene prices is almost flattish MoM & TDI prices are also flattish – GNFC is the largest manufacturer of TDI and it is produced from Toluene via nitration to Dinitrotoluene. Also, companies like Aarti uses Toluene and Conc. Nitric acid to make Nitro-Toluene.

Styrene Monomer (SM) increased by ~9% MoM – Supreme Petrochem uses SM which is the major raw material of the company to make PS, EPS & XPS.

Phthalic Anhydride (PAN) prices increased by ~3% MoM whereas Ortho-Xylene prices declined ~3% MoM. IG Petro & Thirumalai both manufactures PAN and consumes Ox as the raw material. The spreads are almost flattish on MoM basis.

Mono Ethylene Glycol (MEG) increased by ~0.7% MoM basis – Companies like India Glycols manufactures MEG.

Phenol prices has increased by ~1% MoM. **Acetone** prices increased by ~14.3% MoM. Deepak Nitrite is the largest manufacturer of Phenol & Acetone in India. **Iso Propyl Alcohol (IPA)** prices has increased by ~3% MoM. IPA is majorly used to manufacture sanitizers. Companies like Deepak Nitrite and Deepak Fertilizers manufactures IPA.

Acetonitrile prices has increased by ~3.6% MoM. Companies like Alkyl Amines are into manufacturing of acetonitrile.

Acetic acid prices have declined by ~3% MoM. Companies like Laxmi Organics & Jubilant Ingrevia uses acetic acid as raw material and manufactures Ethyl Acetate.

Caustic soda prices declined by ~2% MoM basis. Companies like DCM Shriram, Gujarat Alkalies, Meghmani Finechem, DCW, TGV SRAAC are the manufacturers.

Among our coverage companies, we have BUY rating on NOCIL, Bodal Chemicals, Phillips Carbon Black & Supreme Petrochem. Aarti Industries & IG Petrochemicals given ACCUMULATE rating & Apcotex Industries SELL rating. The ratings are subject to change post Q3FY23 results of above companies.



| Price performance (%)*

	1M	3M	12M	36M
NIFTY 50	-2.5	-1.9	1.9	47.7
NIFTY 500	-3.2	-3.1	0.2	51.6
Aarti Industries	-11.8	-23.0	-45.5	9.2
SRF	-4.7	-14.7	-9.3	188.4
Navin Fluorine	-3.0	-13.3	0.3	244.8
Rossari Biotech	-3.8	-21.5	-41.5	0.0
NOCIL	-10.3	-13.9	-10.3	118.6
IGPL	-5.9	-6.8	-34.6	191.2
Oriental Carbon	-4.7	-14.6	-22.7	-24.8
Bodal Chemical	-9.9	-12.1	-34.4	-2.8
Valiant Organic	-19.9	-28.7	-57.3	0.0
Deepak Fert.	-9.5	-33.0	13.6	516.2
Deepak Nitrite	-5.3	-18.8	-15.8	390.1
Thirumalai Chem.	-11.3	-4.6	-32.2	177.5
GNFC	-1.2	-22.4	17.2	183.9
India Glycol	-11.7	-9.3	-23.7	146.4
DCM Shriram	-4.1	-17.3	-24.1	132.3
Supreme Petroche	-2.3	2.5	10.4	316.4

*as on 31st Jan 2023; Source: AceEquity, SMIFS Research

Inside the report:

- ✓ Price trend of various chemicals
- ✓ Key raw material & finished product details of major Indian chemical companies
- ✓ List of companies with key chemistries or competencies
- ✓ Supreme Petrochem Ltd – Company Update

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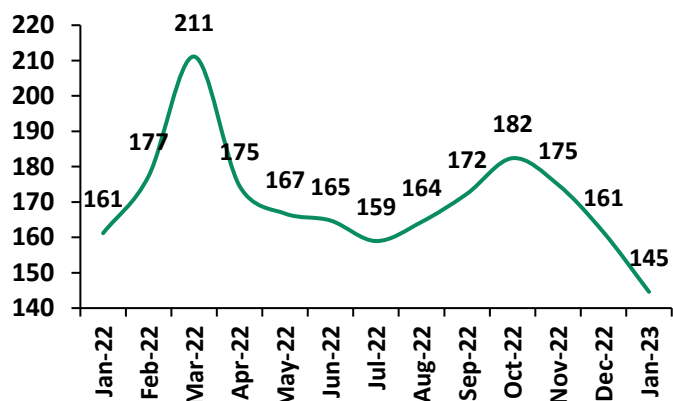
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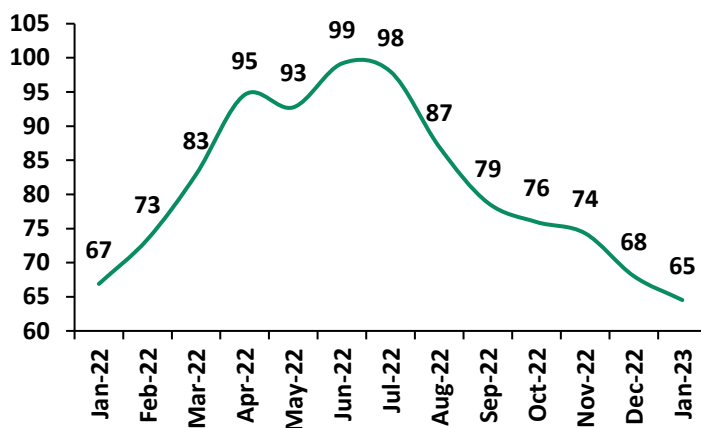
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Fig 1: Indian Aniline prices (Rs per kg)



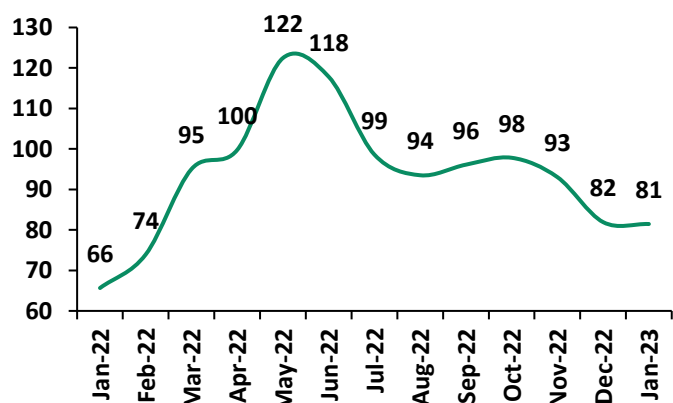
Source: Industry, SMIFS Research

Fig 2: Indian Benzene prices (Rs per kg)



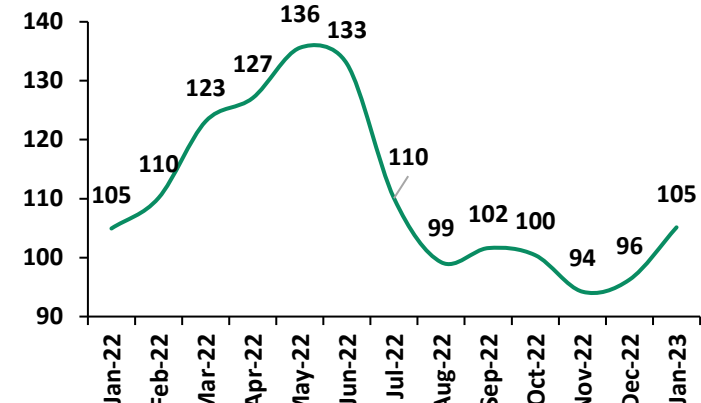
Source: Industry, SMIFS Research

Fig 3: Indian Toluene prices (Rs per kg)



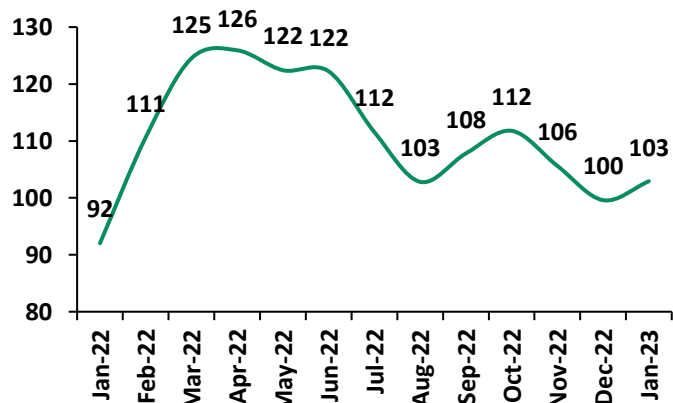
Source: Industry, SMIFS Research

Fig 4: Indian Styrene Monomer prices (Rs per kg)



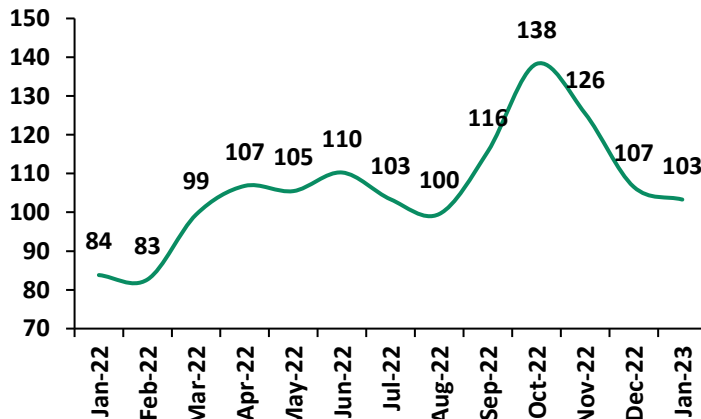
Source: Industry, SMIFS Research

Fig 5: Indian Phthalic Anhydride prices (Rs per kg)



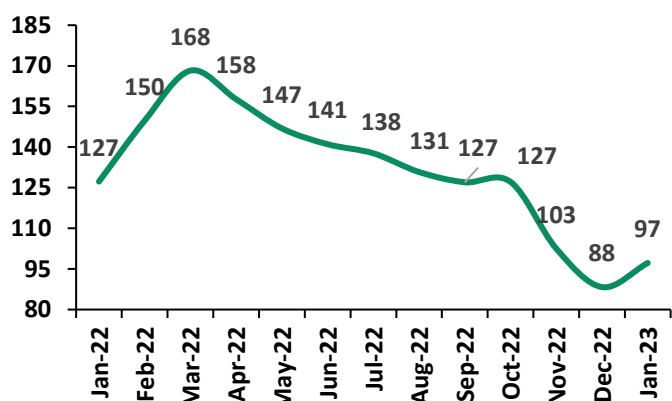
Source: Industry, SMIFS Research

Fig 6: Indian Orthoxylene prices (Rs per kg)



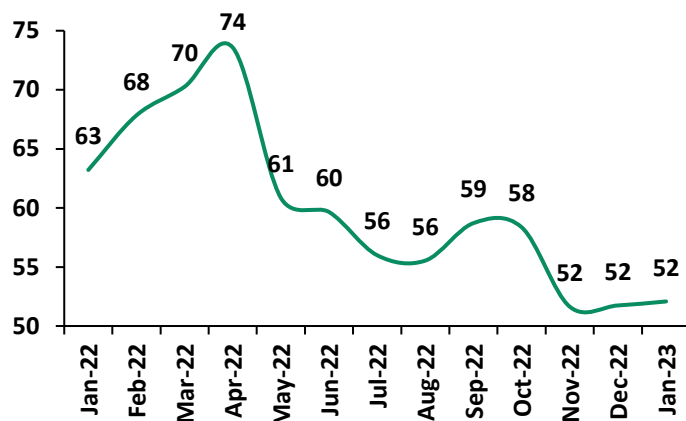
Source: Industry, SMIFS Research

Fig 7: Indian Maleic Anhydride prices (Rs per kg)



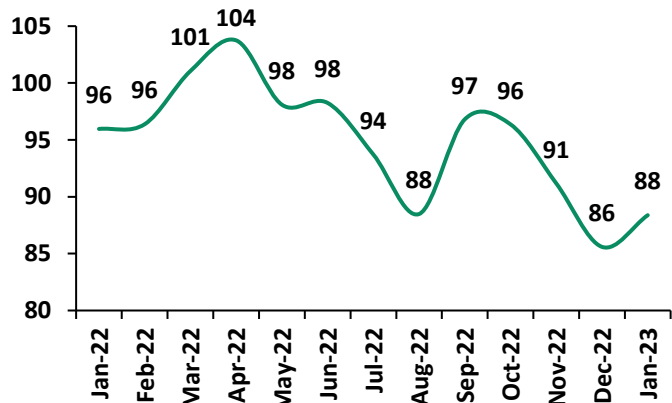
Source: Industry, SMIFS Research

Fig 8: Indian Mono Ethylene Glycol prices (Rs per kg)



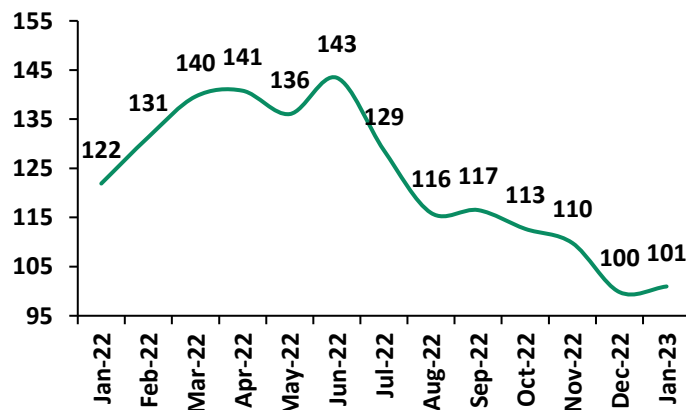
Source: Industry, SMIFS Research

Fig 9: Indian Iso Propyl Alcohol (IPA) prices (Rs per kg)



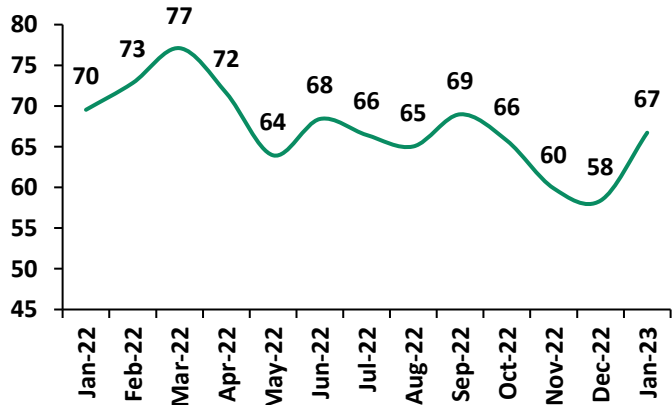
Source: Industry, SMIFS Research

Fig 10: Indian Phenol prices (Rs per kg)



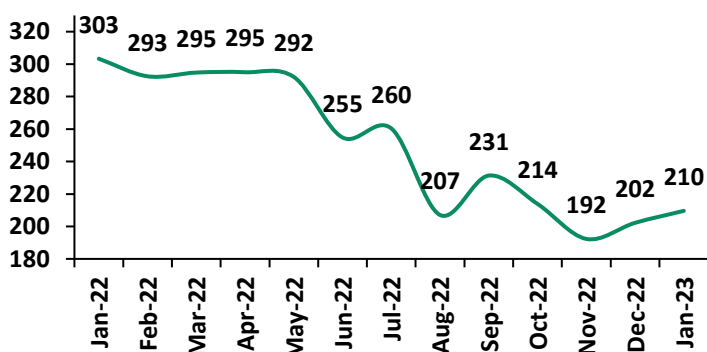
Source: Industry, SMIFS Research

Fig 11: Indian Acetone prices (Rs per kg)



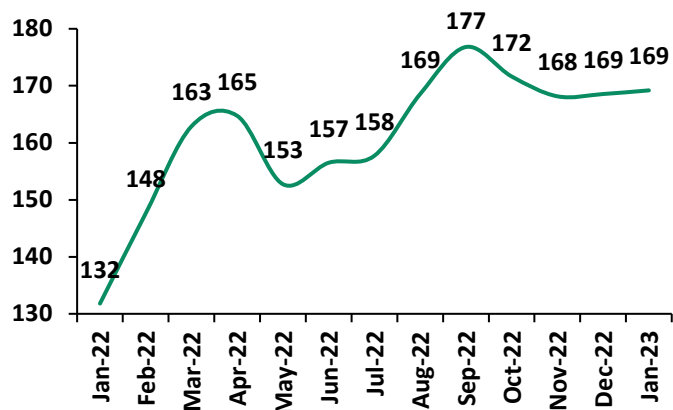
Source: Industry, SMIFS Research

Fig 12: Indian Acetonitrile prices (Rs per kg)



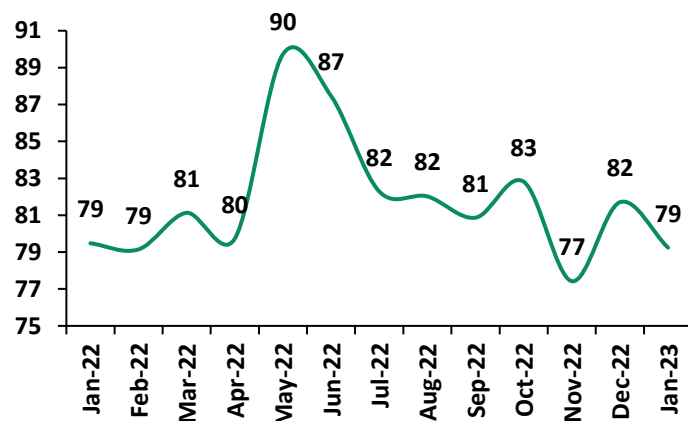
Source: Industry, SMIFS Research

Fig 13: Indian Linear Alkyl Benzene (LAB) prices (Rs per kg)



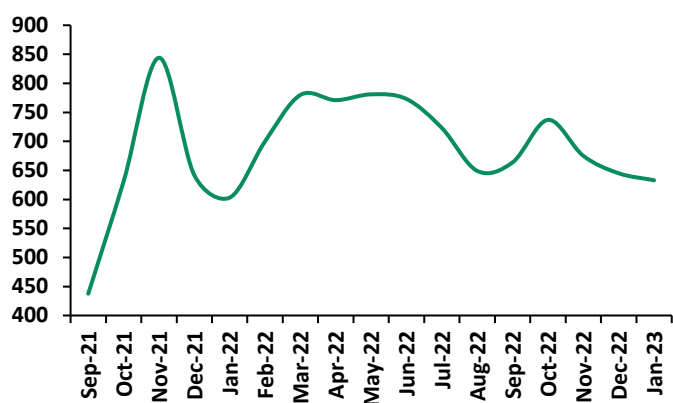
Source: Industry, SMIFS Research

Fig 14: Indian Mono Chloro Benzene (MCB) prices (Rs per kg)



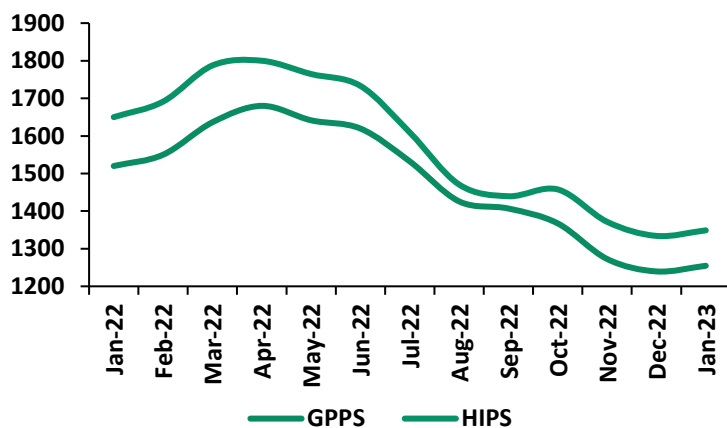
Source: Industry, SMIFS Research

Fig 15: SE Asia Caustic Soda in USD Per ton (USD per MT)



Source: Industry, SMIFS Research

Fig 16: SE Asia Polystyrene (PS) prices (USD per MT)



Source: Industry, SMIFS Research

Fig 17: Key raw material details of major Indian chemical companies

Sr no	Companies	Key Raw Material	Finished Product
1	Navin Fluorine	Fluorspar, Chloromethanes, Sulphur & Boric acid	HCHC22, HCFC 22PTEF grade, HFC 134a, HFC 404a and HFC 410a, Anhydrous Hydrofluoric Acid (AIF)
2	Clean Science	Methanol, Phenol & Methanol	MEHQ, Gluaicol, BHA, 4-MAP, DCC, Ascorbyl Palmitate, Anisole
3	Rossari Biotech	Acrylic acid, Silicone oil, acetic acid	Textile chemicals, Personal Care & Animla Health
4	NOCIL	Aniline, MIBK, carbon disulphide, hydrohgen peroxide	Accelerator & Anti-oxidants
5	Aarti industries	Benzene, Toluene, Phthalic Anhydride, Sulphur, Nitric acid, Aniline	Nitrochlorobenzene (NCB), Phenylene Diamine (PDA), Dichlorobenzene (DCB), Nitro-toluene(NT), Ethylation, Calcium Chloride
6	SRF	Fluorspar, Chlorine, Hydrofluoric acid (HF), chloroform etc	R-22, PTFE, Nylon tyre cord, BOPP-BOPET
7	IG Petrochemicals	Orthoxylene	Phthalic Anhydride (PAN). Maleic Anhydride (MAN), Advanced plasticizers
8	Phillips Carbon Black	Carbon Black Feedstock (CBFS)	Carbon Black, Speciality carbon black
9	Deepak Nitrite	Benzene, propylene, toluene, caustic soda	Sodium Nitrite, Sodium nitrate, Xylidines, Cumidines, DASDA, Phenol, Acetoone, Iso-Propyl Alcohol (IPA)
10	Valiant Organics	Phenol, PNCB, chlorine, sulphuric acid	Chlorophenol, Para Nitro Aniline (PNA), Para Amino Phneol (PAP),
11	Camlin Fine Sciences	Phenol & Methanol	Hydroquinone (HQ), Catechol (CT), MEHQ & HQ
12	Vinati Organics	Benzene, propylene, toluene, acrylonitrile, MTBE	ATBS, Iso Butyl Benzene (IBB)
13	Alkyl Amines	Methanol, ethanol, acetic acid & ammonia	Methylamines, Ehtylemaines, Triethylamines, Acetonitrile
14	Supreme Petrochem	Styrene Monomer	Polystyrene, Expanded Polystyrene (EPS), Extruded Polystyrene (XPS)
15	Apcotex Industries	Acrylonitrile, Butadiene, Styrene	Nitrile Butadiene Rubber (NBR), SBR latex, Nitrile rubber, High Styrene Rubber
16	Oriental Carbon & Chemicals	Sulphur & Sulphuric acid	Insoluble Sulphur

Source: Industry, SMIFS Research

Fig 18: List of companies with key chemistries or competencies

Sr no	Key Chemistry	List of companies
1	Fluorine Chemistry	Gujarat Fluorochemicals
		Navin Fluorine
		SRF
2	Benzene Chemistry	Aarti Industries
3	Diversified	Atul
		DCM Shriram
		Deepak Nitrite
4	Amines	Alkyl Amines
		Balaji Amines
5	Food additives	Camlin Fine
		Clean Science and Technology
		Fine Organic
8	PVC	Chemplast Sanmar
9	Surfactants	Galaxy Surfactants
		Aarti Surfactants
		Rossari Biotech
10	Acetyls & Intermediates	Jubilant Ingrevia
		Laxmi Organic Industries
11	Rubber Chemicals or Tyre chemicals	NOCIL
		Oriental Carbon & Chemicals
		PCBL (Phillips Carbon Black Ltd)
		Himadri Speciality Chemicals
12	Pigments	Meghmani Organics
		Sudarshan Chemicals
13	Textile Chemicals	Rossari Biotech
		Fineotex Chemical
14	Soda Ash	GHCL
		Tata Chemicals
15	Caustic Soda	Gujarat Alkalies
		DCM Shriram
		Meghmani Finechem

Source: Industry, SMIFS Research

Supreme Petrochem Ltd - Capacity expansion & downstream focus to create value

CMP: Rs 346 | Target Price: Rs 465 | Upside: 35% | Rating: BUY

We recently released Initiating coverage on Supreme Petrochem Ltd and find it very interesting in Polystyrene & its downstream derivatives space, its strong balance sheet, robust return ratios and attractive valuations.

Attached is the link for detailed report:

https://www.smifs.com/files/reports/638107770594134165_Supreme%20Petrochem%20Ltd%20-%20Initiating%20Coverage%20-%20SMIFS%20Institutional%20Research.pdf

Supreme Petrochem (SPL) has very strong business model in Polystyrene (PS) & Expandable Polystyrene (EPS) along with its downstream derivatives like XPS & SPC. The company is expanding its capacity in all business segments viewing the growth opportunities available post closure of business of its nearest competitor in India, increasing demand growth & strong balance sheet to fund capital expenditure. The company is dynamically shifting its focus from lesser margin PS products to margin accretive businesses like EPS, XPS, SPC & ABS. Also, exports is a huge opportunity & with SPL expanding capacity export share will increase in the long term. With expansion in existing capacity, the company is well poised to grow its presence further & getting greater visibility in international market. The business also has a strong moat because it requires handling of volatile raw materials like styrene & setting up a polystyrene business requires huge capital investment, government approvals are very difficult to crack & getting required customer approvals are lengthy & difficult which makes it impossible to dislocate any existing player in PS business. The company has very strong balance sheet, huge cash pile which will be deployed in expansion & stronger ROCE (25% average from FY15-22) & robust FCF yield (9% average from FY15-22). Considering the positives, we value the stock on 16x FY25 EPS of Rs 29.1 arriving at Rs 465 per share, upside of 35%.

Legacy business capacity expansion of PS will increase its foothold in domestic & exports market

- Historically, the company's volume growth in the PS business has been ~3% CAGR from from FY15-20 which suddenly grew by ~22% CAGR from FY20-22 because of shutdown of LG polymers capacity of 1,50,000 TPA. Shutdown of LG Polymers led to shift in volumes towards Supreme Petrochem and its capacity started operating at peak utilization levels. Earlier, the company had nameplate capacity of 2,72,000 TPA (Effective capacity of ~2,20,000 TPA).
- In order to capitalize on the opportunity, the company has completed its capacity expansion of 80,000 TPA which will support volume growth going ahead. With this expansion, the nameplate capacity has been expanded to 3,52,000 TPA (effective capacity 3,00,000 TPA).
- Post capacity expansion & improvement in spreads from H1FY23 levels, we expect PS business to grow at 7.2% CAGR from FY23E-25E.

Focus on downstream brownfield expansion to unlock business opportunities

- The company is expanding into EPS (Expandable Polystyrene) & downstream derivatives like XPS (Extruded Polystyrene) & SPC (Special Polymer Compounds) to enter into value added products & derisk itself from mere polystyrene manufacturer & also diversifying its end use applications.
- In EPS business, the company has expanded its phase 1 capacity by 35,000 TPA post which its capacity is ~107,100 TPA. Post phase 2 capacity expansion which is scheduled to be completed by Sept 24, the capacity will be expanded to 1,30,000 TPA. Considering the niche applications of EPS in packaging & insulation, capacity expansion & strong demand, we expect EPS business to grow at ~14.3% CAGR from FY22-25E.
- The company is setting up second line of Extruded Polystyrene Board with annual capacity of 1,00,000 cubic meter. This line will have the facility to produce boards with width of 1200 MM which are now being imported. Currently the company is manufacturing less than 1200 MM boards from its existing capacity in XPS. The said expansion plan is expected to be completed by March 2024. We expect post expansion, XPS business to grow at 25% CAGR from FY22-25E.
- In SPC business, the company is expanding its capacity from 25,000 TPA to 75,000 TPA in phases by FY25E at capex of Rs600-700mn. Post capacity expansion, increase in utilization would lead to strong volume growth & hence we expect SPC business to report revenue CAGR of 33% from FY22-25E.

Greenfield expansion in mass ABS will drive the growth going ahead

- The company is setting up a mass ABS Project of 1,40,000 TPA at their Amdoshi plant in two phases of 70,000 TPA each. Phase I is scheduled to go on stream by June 2024 and second Phase by March 2025. Mass ABS process is clean and environmentally friendly compared to conventional emulsion process, due to elimination of water pollution. The company has entered into an agreement for License and Basic Engineering Design with M/S Versailles - Eni Chemicals Group. The total project cost is estimated at Rs8.5bn for both phases.
- The company's focus is on import substitution because roughly 1.1-1.2 lakh of ABS is imported and the market is consolidated with only 2 players in India. Entry of SPL will likely increase the competitive intensity in the ABS space.
- ABS is the preferred engineering plastic when it comes with automotive applications as it is extensively used in manufacturing automotive parts. Consumer durables including small appliances, household goods, toys are the major applications of ABS.

Valuation

- Currently, the stock is trading at FY25E P/E of ~12x. We value the stock on forward P/E multiple of 16x owing to increasing share of speciality business, robust volume growth & strong exports growth and, thereby, arrive at target price of Rs 465 per share which offers upside of 35% from current valuations.
- Therefore, we assign **BUY** rating on the stock.

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