Chemicals l May 2023 | Monthly Sector Update | 2 June 2023

Chemicals Monthly - May 2023

Robust exports fuelling volume growth, demand stability maintained

Our chemical channel checks suggest that pickup of demand is gathering momentum and expect it to gather further pace because of strong exports pickup in Europe & Asia. United states has also witnessed pickup in momentum and as per American Chemistry Council, the Global CPRI rose by 0.4% in April following a revised 1.5 % increase in March 23. In the United States, April 23 gain reflects improvement across several chemistries, especially those recovering from production outages during Q1 due to bad weather and maintenance to refineries. Going into Q2, inventories have moved into a more balanced position, and despite slowing momentum in manufacturing, several end use markets have improved. Majority of commodity chemical prices are either flattish or improved except for Phenol, Acetonitrile, MAN etc in May 23. Prices are gaining strength 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 de-risk 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 coming quarter i.e Q4FY23 is witnessing improvement in margins sequentially owing to rebound in exports volumes and domestic demand firming up. The full recovery in margins should be visible by the end of H1FY24. Pharma segment demand is flattish with no major uptick, except for the generic space which is the worst hit owing to increased competition. We anticipate correction of major API prices seems to be over. Agrochemicals demand is steady owing to higher crop prices, though high channel inventory & El Nino forecast could impact sales in the near term. Currently, crude oil prices are trading in a narrow band which will provide stability in downstream chemical prices of basic chemicals which will aide margins in the coming quarters. Valuations of most chemical companies seems reasonable factoring in largely the pain gone by & seems ripe for bottom fishing opportunities for those investors who wish to play on the recovery cycle going ahead. 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 increased by ~5% 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 ~7% MoM basis – Companies like NOCIL use Aniline as the major raw material. Also, Aarti use aniline as raw material.

Toluene prices declined by ~4.4% MoM & TDI prices also declined by ~4.2% MoM– 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) declined by ~3% MoM – Supreme Petrochem uses SM which is the major raw material of the company to make PS, EPS & XPS.

Phthalic Anhydride (PAN) prices declined by ~2% MoM whereas **Ortho-Xylene** prices declined by 3.3% 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) declined by ~6% MoM basis – Companies like India Glycols manufactures MEG.

Phenol prices has declined by ~8.4% MoM. **Acetone** prices increased by ~4.5% MoM. Deepak Nitrite is the largest manufacturer of Phenol & Acetone in India. **Iso Propyl Alcohol (IPA)** prices has increased merely by ~0.3% MoM. IPA is majorly used to manufacture sanitizers. Companies like Deepak Nitrite and Deepak Fertilizers manufactures IPA.

Acetonitrile prices has declined by ~21% MoM. Companies like Alkyl Amines are into manufacturing of acetonitrile.

Acetic acid prices have declined by ~2% 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 Phillips Carbon Black, Supreme Petrochem, Bodal Chemicals & IG Petrochemicals. Aarti Industries & NOCIL given ACCUMULATE rating & Apcotex Industries SELL rating. The ratings are given post Q4FY23 results of above companies.

Price performance (%) *

	1M	3M	12M	36M
NIFTY 50	2.0	6.8	11.3	85.5
NIFTY 500	3.3	8.3	11.5	94.1
Aarti Industries	-7.7	-4.9	-30.6	5.5
SRF	-1.5	11.8	5.2	241.4
Navin Fluorine	-4.1	10.1	21.9	186.7
Rossari Biotech	9.3	24.2	-13.1	0.0
NOCIL	3.1	3.4	-10.2	160.1
IGPL	-4.0	9.8	-27.5	250.9
Oriental Carbon	7.0	13.4	1.8	26.8
Bodal Chemical	-8.7	4.5	-33.1	26.2
Valiant Organic	18.6	52.4	-12.1	0.0
Deepak Fert.	-5.9	-12.8	-19.4	468.3
Deepak Nitrite	9.8	13.9	1.8	317.2
Thirumalai Chem.	-8.1	0.7	-30.5	317.0
GNFC	-2.2	7.6	-12.6	321.9
India Glycol	8.2	8.5	-27.4	125.2
DCM Shriram	3.7	0.4	-15.4	183.6
Supreme Petrochem	-5.0	-3.6	0.0	332.5
PCBL	9.9	19.1	29.2	269.1
Apcotex Industries	2.5	11.5	-23.0	358.1
Galaxy Surfactants	-0.02	4.3	-17.0	81.0
Jubilant Ingrevia	-3.8	-9.5	-21.5	0.0
Atul Ltd	2.3	-3.7	-17.0	42.8
Vinati Organics	-6.6	-2.1	-13.4	75.6
Laxmi Organics	-7.2	-0.6	-30.3	0.0
GHCL	-0.7	-6.0	-26.2	316.4
Tata Chemicals	0.1	-1.6	2.4	208.4

* as on 2nd June 2023; Source: AceEquity, SMIFS Research

Inside the report:

- ✓ Price trend of various chemicals
- ✓ Indian Import & Export data of chemicals
- ✓ Key raw material & finished product details of major Indian chemical companies
- ✓ List of companies with key chemistries or competencies
- ✓ Q4FY23 conference call highlights
- ✓ Industry Overview: Indian Surfactants Industry

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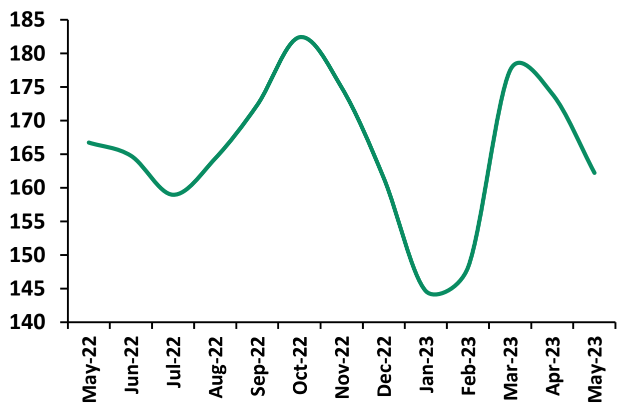
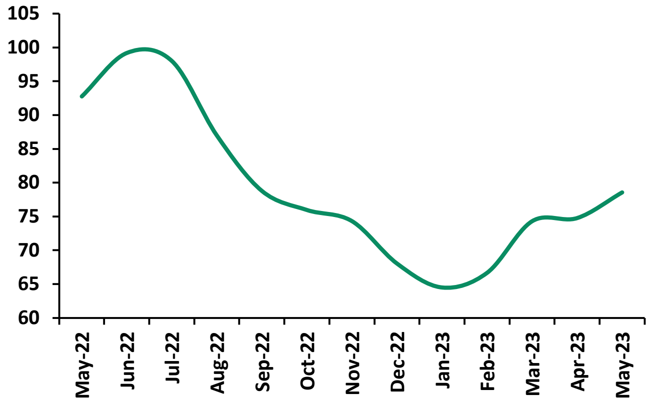
Fig 1: Indian Aniline Prices (Rs Per Kg)



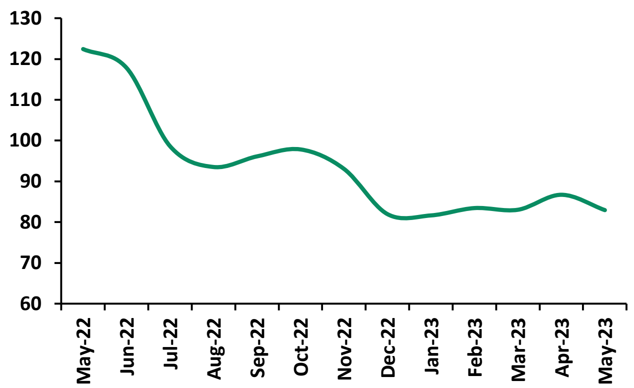
Source: Industry, SMIFS Research

Fig 2: Indian Benzene Prices (Rs Per Kg)



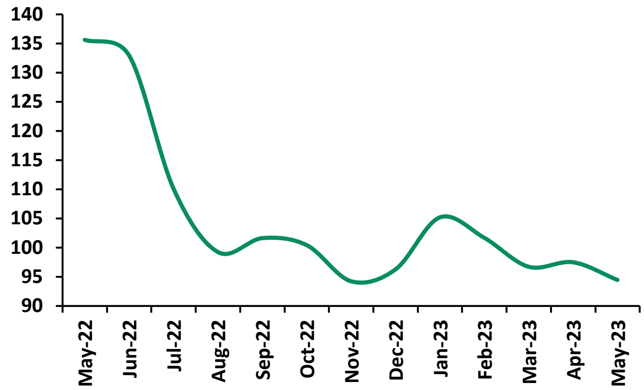
Source: Industry, SMIFS Research

Fig 3: Indian Toulene Prices (Rs Per Kg)



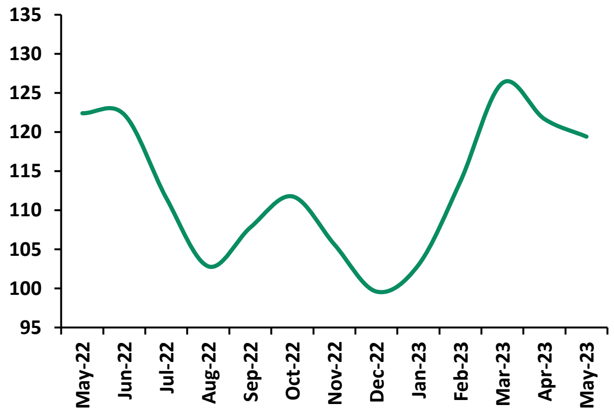
Source: Industry, SMIFS Research

Fig 4: Indian Styrene Monomer Prices (Rs Per Kg)



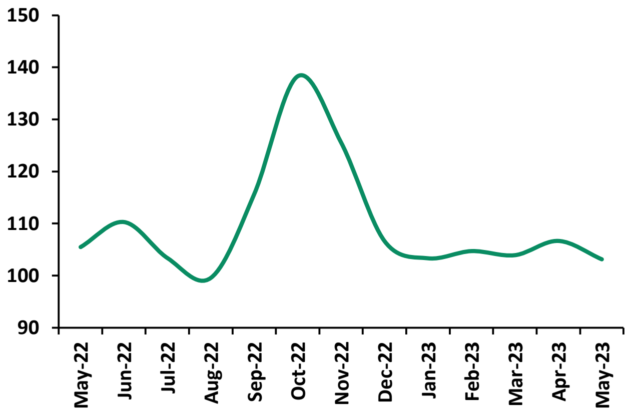
Source: Industry, SMIFS Research

Fig 5: Indian Phthalic Anhydride Prices (Rs Per Kg)



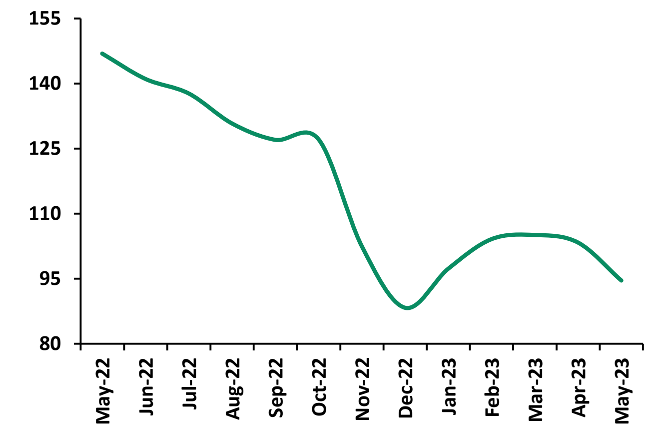
Source: Industry, SMIFS Research

Fig 6: Indian Orthoxylene Prices (Rs Per Kg)



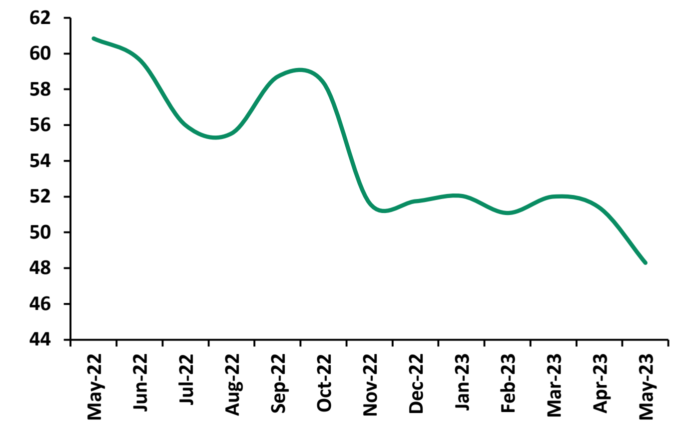
Source: Industry, SMIFS Research

Fig 7: Indian Maleic Anhydride Prices (Rs Per Kg)



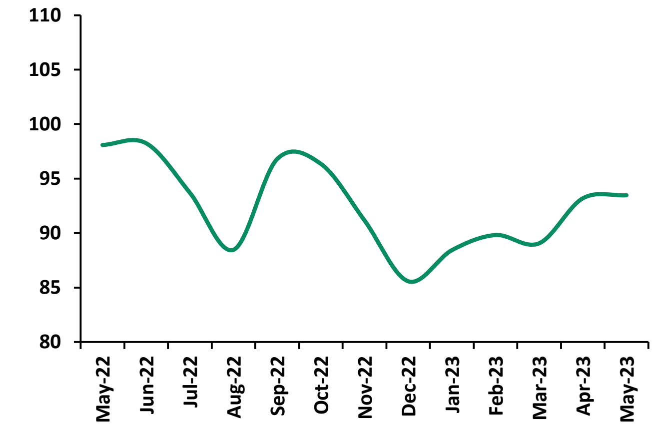
Source: Industry, SMIFS Research

Fig 8: Indian Mono Ethylene Glycol Prices (Rs Per Kg)



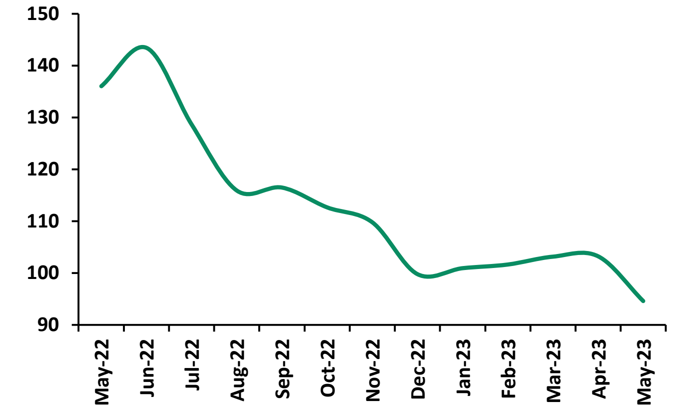
Source: Industry, SMIFS Research

Fig 9: Indian Iso Propyl Alcohol (IPA) Prices (Rs Per Kg)



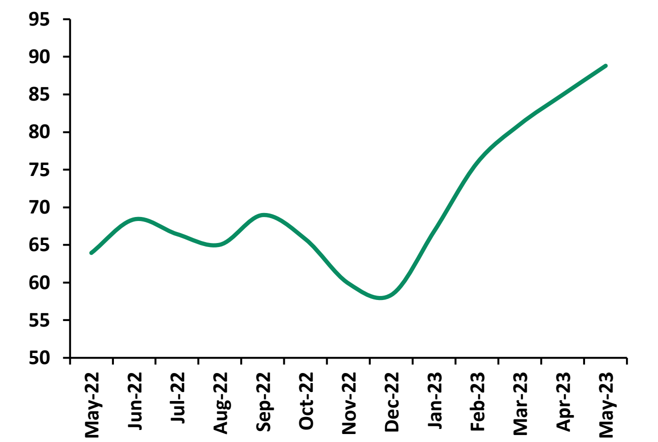
Source: Industry, SMIFS Research

Fig 10: Indian Phenol Prices (Rs Per Kg)



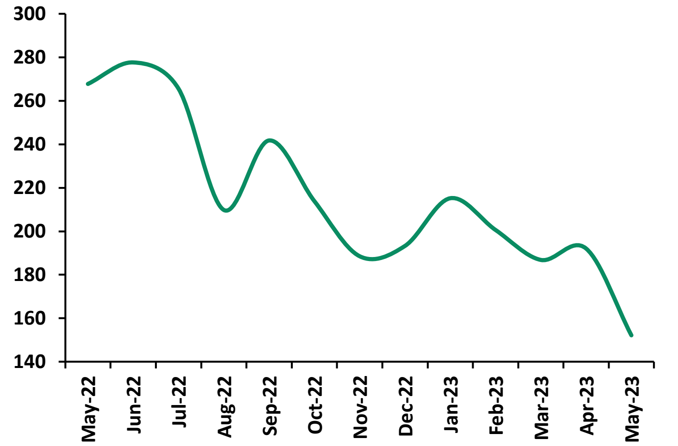
Source: Industry, SMIFS Research

Fig 11: Indian Acetone Prices (Rs Per Kg)



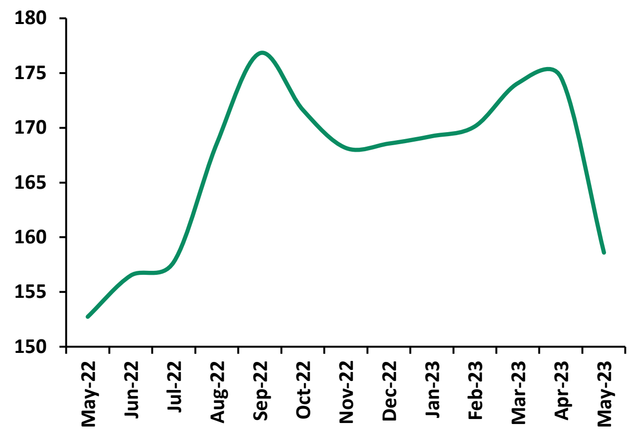
Source: Industry, SMIFS Research

Fig 12: Indian Acetonitrile Prices (Rs Per Kg)



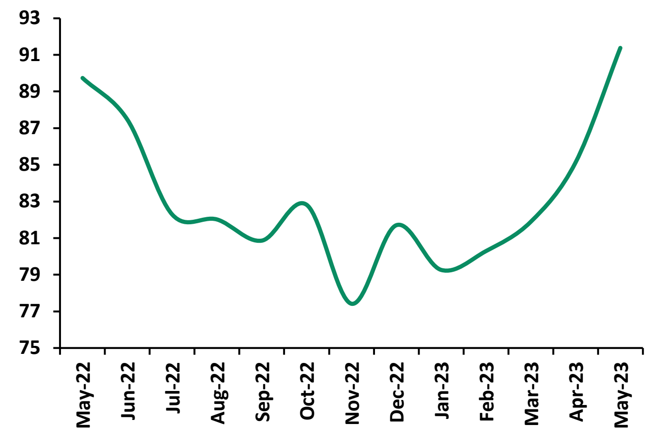
Source: Industry, SMIFS Research

Fig 13: Indian Linear Alkyl Benzene (LAB) Prices (Rs Per Kg)



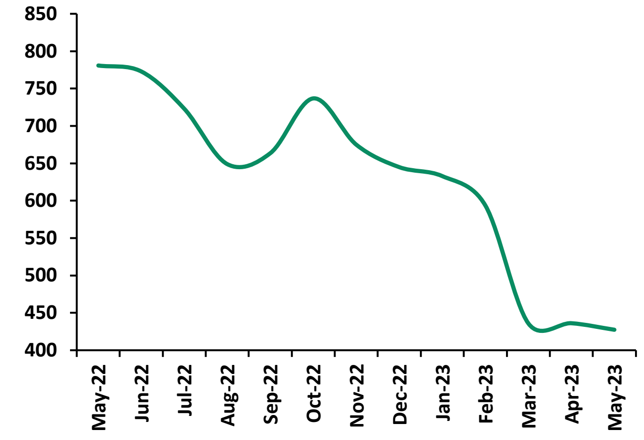
Source: Industry, SMIFS Research

Fig 14: Indian Mono Chloro Benzene Prices (Rs Per Kg)



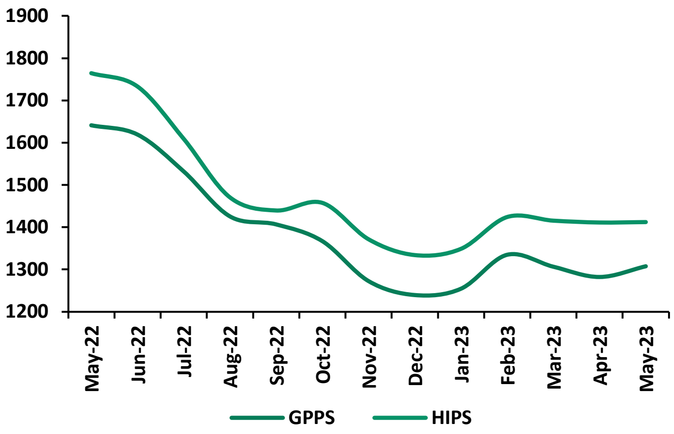
Source: Industry, SMIFS Research

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



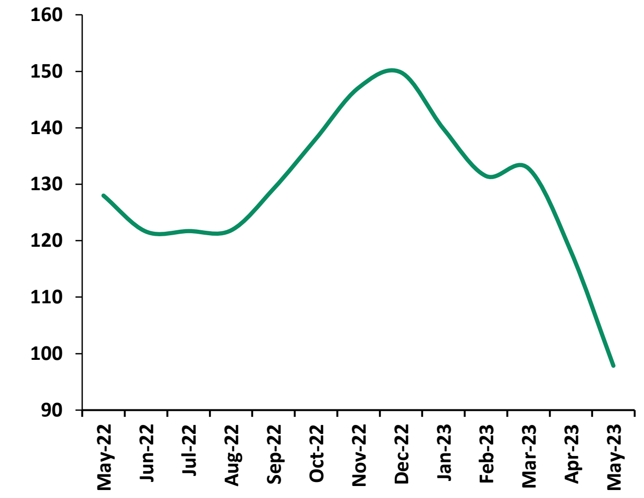
Source: Industry, SMIFS Research

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



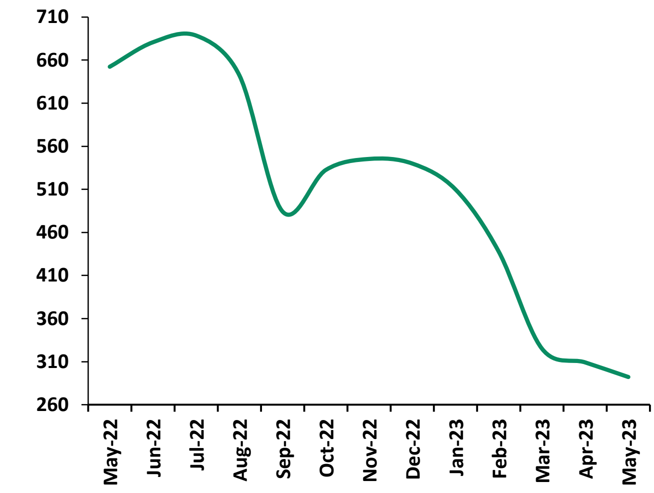
Source: Industry, SMIFS Research

Fig 17: Carbon Black Prices (Rs Per Kg)



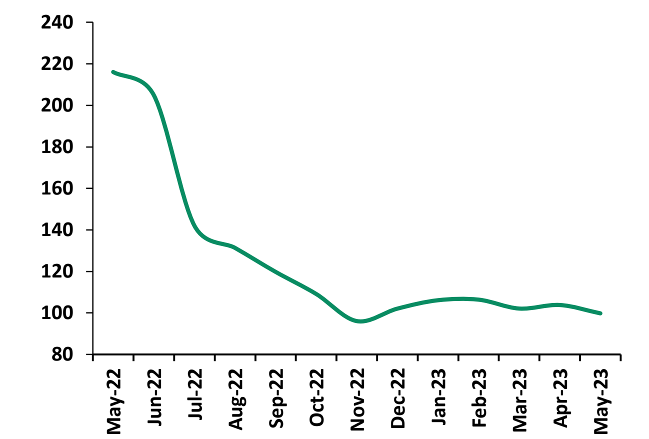
Source: Industry, SMIFS Research

Fig 18: Bromine Prices (Rs Per Kg)



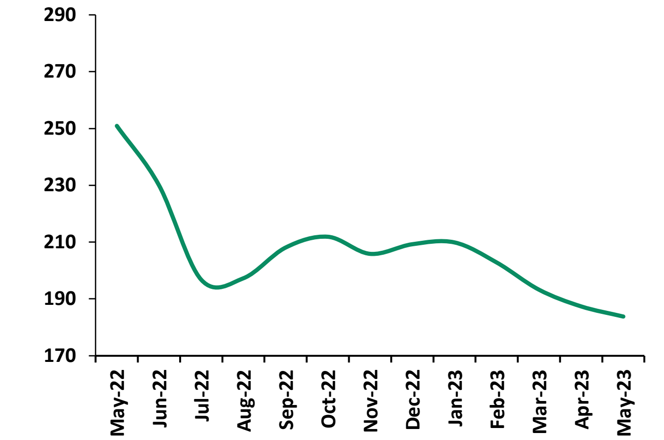
Source: Industry, SMIFS Research

Fig 19: Epichlorohydrin Prices (Rs Per Kg)



Source: Industry, SMIFS Research

Fig 20: Polycarbonate Prices (Rs Per Kg)



Source: Industry, SMIFS Research

Fig 21: Import Data of commodity chemicals *(in Tonnes)*

	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Acetic Acid	99506	130809	102299	61280	79967	84603	106304	49900	105891	120847	72280	95722	124605
PNCB	2025	566	830	1749	2179	2816	1247	1241	2781	3039	3389	3386	6214
Linear Alkyl Benzene	16578	24042	35232	31473	30772	29600	20718	25184	30098	26130	18745	24633	40880
Toulene	30664	35962	32652	71664	69170	34953	34636	42681	45692	82069	53611	44953	36481
Para Nitro Toulene	545	1212	999	441	396	638	543	240	60	320	740	580	240
Carbon Blacks	6321	6182	6101	8093	8527	9699	12071	13527	13251	6393	7975	10384	11641
ABR Latex	192	150	169	95	20	63	103	86	90	137	63	79	401
PAN	6022	7222	7071	18297	7992	7224	8399	7894	7339	3725	1746	4851	12490
MAN	9126	9520	7333	7231	11948	4189	3264	6357	3622	2452	6456	8916	11125
Para Amino Phenol	1762	1441	1745	1840	3476	1320	2039	1079	2560	3523	2383	3131	3165

Source: Industry, SMIFS Research

Fig 22: Export Data of commodity chemicals *(in Tonnes)*

	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Acetic Acid	1923	12701	2504	2925	7330	1438	3105	1737	2076	2327	1529	4274	3060
Toulene	475	288	315	1818	1980	821	620	1097	1336	1711	785	1449	2495
Carbon Blacks	15014	18769	18827	18078	15948	18033	16515	14758	13832	19609	17417	21679	25353
ABR Latex	345	299	299	529	460	299	532	782	760	897	989	530	687
PAN	978	1346	1032	665	2332	2113	2008	2845	2863	1533	1545	877	1583
Para Amino Phenol	18	0	0	41	66	10	1	2	2	49	23	14	49

Source: Industry, SMIFS Research

Fig 23: 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, Anhydrious 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 24: Key raw material details of major Indian chemical companies

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

PCBL (Phillips Carbon Black Ltd) (Rating : BUY, Target Price: 185, Upside: 42%)

Q4FY23 Results Call Highlights:

- **Demand outlook:** The company's major end user industries in the domestic market like tyres, plastics, printing inks, tones, paper etc are witnessing good demand. Exports market also rebounded quite sharply with volumes increasing by 10.6% YoY & ~35% QoQ in Q4FY24. Major economies witnessed pickup in demand particularly Europe & SE Asia. Inventory re-stocking & robust replacement demand aided the growth and is expected to continue in coming quarters. Domestic demand is strong and management forsee this to continue going ahead led by tyre growth in high single digits.
- **Newly commissioned chennai plant:** The company has commissioned 1st phase of its Chennai plant with capacity of 40-45% or 63,000 tonnes of overall capacity of 1.47 lakh tonnes and remaining 2 units will commercialize in the coming quarter. Full commercialization of volumes will start to witness in Q1FY24 & in subsequent quarters. Management expects Chennai pant to fully utilize in about 2.5-3 years timeframe.
- Management expects the Chennai plant capacity expansion to clock volumes of 50,000-60,000 tonnes in FY24E (35-40% utilization).
- Post completion of current capex programme of ~Rs12bn, management expects to further expand in carbon black in mundra plant wherein the company has excess land available. However, the call will be taken by FY24 end.
- **No new major capacity expansion globally augurs well:** Management expects demand supply situation to remain tight with no new capacity expansion coming up globally and demand is set to increase. Also, Europe has set a timeline to ban imports of carbon black by Russia starting July 2024. This banning of Russia's imports would definitely impact the level of inventories of carbon black and synthetic rubber in the European nations, causing their reduced availability in the market.
- **Speciality black expansion timeline:** The phase 1 speciality carbon black capacity at Mundra of 20,000 tonnes is expected to commission by mid of Q1FY24 and remaining phase 2 capacity of 20,000 tonnes is expected to be commissioned by Q4FY24 or early Q1FY25.
- Demand of speciality black is robust and is expected to grow by 7-8% CAGR for the next few years. Battery chemicals is an important application of speciality black and company is progressing towards developing new grades in order to cater to increasing customer needs.
- **Power business expansion timeline:** On power business, incremental capacity addition of 7MW in Kochi is completed in FY23 & 24MW power capacity in Chennai will be commercialized in Q1FY24. Post commissioning, the green power generation capacity would increase to 122 MW.
- **Production volume:** The company reported volume growth of 6% YoY & 17.5% QoQ to 1,19,238 tonnes in Q4FY23. The domestic volumes stood at 80,045 tonnes & exports volumes stood at 39,193 tonnes. The speciality volumes grew by 22.9% YoY & 27.8% QoQ to 11495 tonnes.
- **Flattish gross spreads per ton for the next 2 years:** Management expects gross spreads per ton to remain flattish for the next 2 years as compared with FY23 levels.
- **Capex guidance for FY24E & FY25E:** Management expects capex of Rs2.5bn for FY24E. For FY25E, appropriate call for expansion will be taken by end of this fiscal and accordingly guidance will be shared by the management.
- In speciality carbon black, exports constituted 70-75% of the sales volume.
- The company's export mix is 75-80% in SE Asia, 15-16% in Europe, 3-4% in North America & remaining in RoW.
- **Dividend:** The company has declared interim dividend of Rs 5.5 per share (4.5% dividend yield)

NOCIL (Rating : ACCUMULATE, Target Price: 229, Upside: 7%)

Q4FY23 Results Call Highlights

- **Demand outlook:** The demand of rubber chemical in the exports market swift revival however concerns like geopolitical tensions, increasing import & volatile oil prices still linger around. Also, domestic demand has witnessed good demand but sustainability depends on pickup in replacement segment. Demand of rubber chemicals is expected to increase in the long term with subsequent pick up in auto, tyre sector and other allied sector which consumes rubber.
- **Sales volume:** The company reported volume growth of ~26% QoQ & flattish on YoY basis in Q4FY23.
- **Realizations:** During the quarter realizations has declined by ~6% QoQ.
- Earlier, the management guided the expanded capacity would reach optimum utilization by March 24, however citing the uncertain global enviournment management has dropped its guidance.
- **Tyre sector outlook:** The domestic OEM auto and tyre sector has witnessed robust performance and the long-term growth outlook is intact. Replacement demand which constitutes 60-70% of tyre sector has faced headwinds led by weak pickup in demand. Tyre players globally have lined up Rs550bn-600bn in creating additional capacities which bodes well for companies like NOCIL and other rubber chemical companies.
- **Strategy going ahead:** Management has clearly stated that they are focussing on improving market share on the back of increased volumes from the expanded capacity going ahead.
- Debottlenecking of capacities will be done in Dahej plant only for some product range which portray strong growth momentum. This capacity would be sufficient for another 1-1.5 years time frame to sustain volume growth momentum.
- **Europe market outlook:** In Europe, the company is trying to expand its product portfolio to existing customers which will help to further penetrate. In non-tyre segment, management expects additions of new customers in the future. Overall, Europe market contributes around 25% of total exports.
- **Capex Guidance:** The company will likely incure maintenance capex and de-bottlenecking will be done. With the help of de-bottlenecking, the additions to capacity will be around 5-10% as it will depend form product to product range.
- For new products, the management is working on it for domestic as well as for export markets.

Apcotex Industries (Rating : SELL, Target Price: 458, Downside: 10%)

Q4FY23 Results Call Highlights

- **Demand outlook:** The company's major end user industries are automotive, footwear, tyres, paper & paper board, carpet, gloves, tyre cord, construction etc. Majority of the segments have started to witness demand strength from current quarter. Exports markets which were reeling under the pain of higher inventory being stocked up has now started to normalize gradually. Nitrile latex demand improvement is still few quarters away.
- **Visible pain in numbers:** Uncertainty in supply chain & decline in raw material prices impacted the margins in the quarter and is expected to continue in the next couple of quarters. Until demand bounce back sharply, recovery in sight is very dismal atleast for the next six months.
- **Capex plans:** The company's both new projects (i.e nitrile latex and SBR latex) has commissioned in Q4FY23 but the volume contribution will majorly start from Q1FY23. The total capex incurred on both the projects is around Rs2-2.1bn for 85,000 tonnes capacity. Expected turnover at peak utilization levels would be Rs6-6.5bn.
- **Sales mix for Q4FY23:** Synthetic latex 55% & Synthetic rubber 45%
- **Production volume:** The company reported flattish volume growth on sequential basis.
- **Nitrile Latex:** Despite demand slump, management seems confident about nitrile latex business as the market size is quite large and the company's current expansion is very small which should not pose a big challenge.
- Almost 25% of the business is on formula pricing and remaining 75% on spot basis.
- **The company continues to focus on market share gains and designing quality products which would strengthen its position in the domestic market. In nearly 40-45% of its product segments there is no competition which is a clear competitive edge and very difficult to replicate by its competitors. Also, the company is focussing on increasing or diversifying its customer base which can give higher margins & better business prospects.**

IG Petrochemicals (Rating : BUY, Target Price: 576, Upside: 21.5%)

Q4FY23 Results Call Highlights

- **Demand outlook:** The demand has witnessed hiccups led by decline in pigments & UPR business at the global level. However, currently demand is pacing at a robust rate. The demand in domestic market is ~4.5-5 lakh tonnes and is expected to grow around 6-8% in the coming years.
- **Advance plasticizers (DEP) business update:** The advanced plasticizer capacity of 8,400 TPA has reached around 85-90% utilization for the quarter. The company has plans to further augment the capacity and plans to incur capex of around Rs 1.5-1.6bn (Still under review). This would add significant contribution to the topline.
- **PAN-Ox Spread:** The spreads of PAN-Ox took a beating in Q3FY23 owing to global demand challenges & inventory destocking. The spreads witnessed were $100/ton in Q3FY23. Thereafter, spreads rebounded factoring in improvement in global demand and increased offtake of volumes in China after re-opening from covid restrictions. Current spreads are $150-180/ton. The company continues to make much higher-than-normal spreads because of cost efficiencies and extra operating efficiency benefit of conversion from Ox to PAN. Due to volatile nature, management hasn't provided any guidance on the future PAN-Ox spreads, however they assume sustainable spreads to be around $150-250/ton.
- **New brownfield PAN capacity expansion:** The company is commissioning a new brownfield expansion of Phthalic Anhydride capacity by 53,000 TPA which would be named as PA5 unit. The total project cost is Rs3.5bn of which 75-80% of construction work is complete to the tune of Rs2.7-2.8bn and is expected to be completed by March 2024 assuming no delay. The rationale for capacity expansion is to be the leading producer of PAN and with this expansion the company could then plan to further expand into downstream chemistries which would use in-house PAN as a raw material.
- **Non-Phthalic business revenue to inch up:** The company from the non phthalic business contributed Rs400-450mn for Q4FY23 (7% of revenues in Q4FY23) & Rs1.7bn in FY23 (7.2% of revenues in FY23).
- **Maleic Anhydride (MAN) business overview:** MAN prices has significantly corrected by 40-50% from the top in 2022. This was majorly because of Chinese imports of MAN which is also one of the largest producers & relative oversupply in Chinese market has led to increase imports of MAN in India. With upcoming PAN expansion in March 24, MAN capacity will also augment by 1,500 TPA.

Aarti industries (Rating : REDUCE, Target Price: 532, Downside: 4.5%)

Q4FY23 Results Call Highlights:

- **Demand outlook:** Despite sharp decline in crude prices, the demand of speciality chemicals is expected to remain robust in the coming quarters. Demand from pharma, agrochemicals etc segment has remained good, however agrochemicals demand might witness some pressure owing to El Nino & higher inventory levels globally. Another set of end user industries like textiles, FMCG, dyes & pigments are witnessing slow pace of pickup in demand.
- **Capex plans:** The overall capex from FY23-25E is assumed to be around Rs30bn. The major capex is in the downstream chemistries of benzene, chlorotoluene value chain, Acid division, multipurpose plants, nitro-toluene debottlenecking.
- **Signed long term agreement of nitric acid with DPFCL:** The company has signed a long-term binding contract with Aarti Industries for offtake and supply of Nitric Acid, valued at over Rs80bn. The deal is for 20 year period with specific volume commitments.
- **Strong volume guidance for next 2 years:** Management guidance for volume CAGR is around 25% for the next 2 years.
- **Volume numbers for Q4FY23:** NCB – 18840 tonnes, Nitro-toluene – 6130 TPM, Hydrogenation – 3315 TPM, PDA – 348 TPM
- **Commercialization of 3rd long term contract has been done. All 3 long term contracts are operational now.**
- **Foray in newer business:** The company is looking for opportunities in Chlorotoluene and other chemistries going ahead to diversify itself further into the value chain, expanding ethylation capacity at a capex of Rs2bn.

Bodal Chemicals (Rating : BUY, Target Price: 78, Upside: 20%)

Q4FY23 Results Call Highlights:

- **Demand outlook:** Demand during the quarter improved sequentially because of re-stocking of inventories & revival of demand in international market like Europe & Asia. Major end user industries of the company like textiles, dyes, pigments etc demand which has slowed down in the last 2-4 quarters has now witnessing greenshoots revival, however we still feel the recovery will be slow paced because of weak global cues like recessionary trends & geopolitical issues. The recent issue of earthquake in Turkey has caused damage to the infrastructure and logistics network in the port of Iskenderun in turkey wherein majority of Indian merchandise, textile dyes used to be exported. We feel this will slow the recovery in textile dyes if any which was visible in the coming quarters.
- **Dyestuff & Dye-intermediates business update:** The Dyestuff business has shown weak performance declining by 9% QoQ owing to slow exports of textiles, leather & paper. Dye intermediates production grew by 16% QoQ. International markets are witnessing rebound in dye-intermediates demand.
- **Diversification in benzene derivatives:** The company is undergoing a greenfield expansion into benzene downstream products having capacity of 63,000 TPA. Management believes this business will open new growth areas for the company. The company expect to complete the project by H1FY24. Trial runs to start by Q2FY24. Total cost of the project including one-time infrastructure cost will be around Rs4bn. In the business, the company would be producing PNCB & ONCB. The major end users of these products are primarily in pharmaceuticals and agrochemicals. As a part of the project review, further downstream derivatives of PNCB & ONCB like MPDSA, PNA, 2,4 DNCB is currently kept on hold.
- **Chlor Alkali business update:** The chlor alkali business reported strong performance despite normalization of realization, with growth of 33% QoQ to Rs836mn in Q4FY23. The company has completed the upgradation of the plant replacing old electrolysers, infrastructure & have increased the chlor alkali complex capacity by another 16,500 TPA and this will support volume growth going ahead. In FY23, the chlor alkali business operated at 90% utilization levels.
- **Raw Material:** In the overall raw materials mix, the company procures 4-5% from China. Thus, company is immune to any disruption in supply chain from China and will not have impact on the company raw material sourcing. Major raw material required by the company is Napthalene, Aniline, J-Acid, Tobias Acid, Cyanuric Acid etc.

Supreme Petrochem (Rating : BUY, Target Price: 538, Upside: 41%)

Q4FY23 Results Call Highlights:

- **Demand outlook:** The demand has witnessed robust uptick since YTDFY23 and is expected to continue momentum. The demand of PS in India is ~2.5-2.7 lakh tonnes and is expected to grow around 6-8% in the coming years. Also, revival in exports market, the company is looking its exports footprint alongwith focussing on increase its wallet share from its existing clients.
- **Production volume trend:** The company reported flattish volume on YoY basis & 18% QoQ growth to 81,828 tonnes in Q4FY23.
- **Value added grades has inched up:** The company value added grades is at 37-40% in FY23 as compared with 25% last 2-3 years back, comparing its overall product portfolio. Generally value added grades are 25-30% premium than normal grades.
- **Mass ABS expansion is on track:** 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 Versailis - Eni Chemicals Group. The total project cost is estimated at Rs8.5bn for both phases.
- **Raw material sourcing & pricing overview:** The company sources styrene monomer from Korea, Singapore & gulf countries. Prices of styrene monomer have remained flattish over the last 4-5 months. China is expanding its styrene monomer capacity but as of now the imports of styrene monomer are very limited from this region.
- **Capex:** The company has completed its PS & EPS (phase 1) capacity expansion of ~Rs2.5bn. The total capex outlined is ~Rs12.4bn. Remaining capex of Rs9.9bn will be executed over the next 2-3 years. The complete capex will be through internal accruals since the company has strong investments & cash balance to the tune of ~Rs9.7bn.

Domestic surfactants industry – A snapshot

- The Indian surfactants market was a $1.35 bn market in 2015 which is expected to grow at a CAGR of 6% to touch USD 2.28 Billion by 2024. In terms of volumes, it is a 778 KT market growing at a CAGR of 5.8 percent and the same is expected to touch 1221 KT by 2024.
- In terms of application, household cleaning and personal care together made up for 49% of the total surfactants market. Also in line with the application market, personal care surfactants market is expected to be the fastest growing market growing at a CAGR of 7.6 percent till 2024.

Fig 25: Indian Surfactants Market *(In USD Billion)*

Particulars	2015	2018	2024	CAGR (%)
Household Cleaning	0.4	0.5	0.7	5.1
I & I Cleaning	0.1	0.1	0.2	5.4
Personal Care	2.4	0.3	0.5	7.6
Industrial Application	0.5	0.5	0.8	6.2
Others	0.1	0.2	0.2	5.8
Total	**1.4**	**1.6**	**2.3**	**6.0**

Source: Industry, SMIFS Research

Fig 26: Indian Surfactants Market for Anionic & Non-Ionics *(In USD Billion)*

Particulars	2015	2018	2024	CAGR (%)
Anionic	0.4	0.4	0.6	5.6
Non Ionics	0.3	0.6	0.5	6.0
Total	**0.7**	**0.8**	**1.1**	**5.5**

Source: Industry, SMIFS Research Estimates

- India's surfactants market is growing enormously due to increasing demand from various end-use industries such as home care, personal care, and industrial cleaning. The growing population and disposable income of individuals are also driving the market. However, the strict government regulations for the use of surfactants in certain applications and the availability of cheaper alternatives from other countries are some of the challenges faced by the market. Additionally, the market is also affected by fluctuating raw material prices and competition from domestic and international players. The surfactants market in India is also growing due to increasing demand for surfactants as well as the growth of various end-use industries such as textiles, agriculture, and construction. Additionally, the increasing use of bio-based surfactants and rising environmental concerns are also fuelling the market.

Fig 27: Home care market of India, Africa & Middle East *(In USD Billion)*

Particulars	2015	2018	2024	CAGR (%)
India	2.3	2.9	4.3	7.2
Africa	1.9	2.1	2.7	4.0
Middle East	2.1	2.5	3.2	4.7
Total	**6.3**	**7.4**	**10.2**	**5.4**

Source: Industry, SMIFS Research Estimates

- The home care market of India is expected to clock higher growth rate as compared with Africa & Middle East. Dishwashing detergents is the largest segment in home care followed by laundry detergents, which include laundry power and laundry liquid. Dishwashing detergents make up around 32% of the total household cleaning agents market.

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