

Q3FY24 REVIEW

SECTOR UPDATE

Early signs of revival

Specialty chemicals players in our coverage suffered a contraction for a third quarter in a row. Their aggregate EBITDA/PAT dipped 24%/29% YoY due to: i) inventory liquidation across regions and end-user industries such as agrochemical and pharma; ii) aggressive pricing and dumping from China; and iii) lack of willingness of end users to purchase due to year-end working capital rationalisation.

In line with the commentary of most managements on expected recovery Q4FY24 onwards, we also believe the demand scenario would improve with stable prices. We opine that speciality chemical players offer entry opportunity. 'BUY' Gujarat Fluoro, Aarti, Jubilant Ingrevia and avoid agrochem players such as Anupam Rasayan.

Mixed bag as some segments see early signs of revival

Even though non-discretionary segments like agrochemicals and pharma continued facing pressure from ongoing inventory destocking, discretionary segments such as dyes, pigments and polymers saw higher demand as seen in Aarti's results. Though fluoropolymers witnessed weak realisations they were stable QoQ with stable volume as GFL showed. Agrochemicals were the worst impacted as global destocking continued and weak pricing with year-end pressure on global players to reduce working capital continue to hit demand. SRF and Anupam faced poor demand in specialty chemicals led by agrochem. PI Industries, however, continued to witness strong growth due its unique product basket of innovative molecules.

Domestic demand firm with signing of newer contracts

Though domestic demand stayed firm (Galaxy Surfactants, Fine Organics, Aarti, Deepak Nitrite) and witnessed volume growth, prices remain soft; hence, aggregate revenue of our universe fell 9% YoY while being flat QoQ. Aggregate EBITDA margin continued to fall (declined 360bp YoY to 18%) led by pricing pressure. Resulting EBITDA/PAT declined 24%/29% also led by negative operating leverage/lower utilisation. FMCG players continue to witness stable margins and growth.

Players optimistic about growth as they win orders and signs MoUs

During the quarter, many companies such as Aarti, Anupam and Deepak Nitrite entered into LoI, MoUs and long-term contracts, which drive growth visibility. GFL unleashed a capex of INR60bn over four-five years in its EV chemical business while Deepak Nitrate indicated capex of INR140bn by FY27.

As we believe speciality chemical players would resume growth from Q4FY24 onward, we upgraded Aarti (from 'HOLD' to 'BUY'). Also, we like players catering to FMCG industry like Galaxy ('BUY') and with ready capex - Jubilant Ingrevia ('BUY') along with PI ('BUY') given sustained growth momentum. However, agrochem-based players like Anupam ('HOLD') face risks of order delays in near term. Current Red Sea crisis too may impact near-term margin and demand of Galaxy and FOIL.

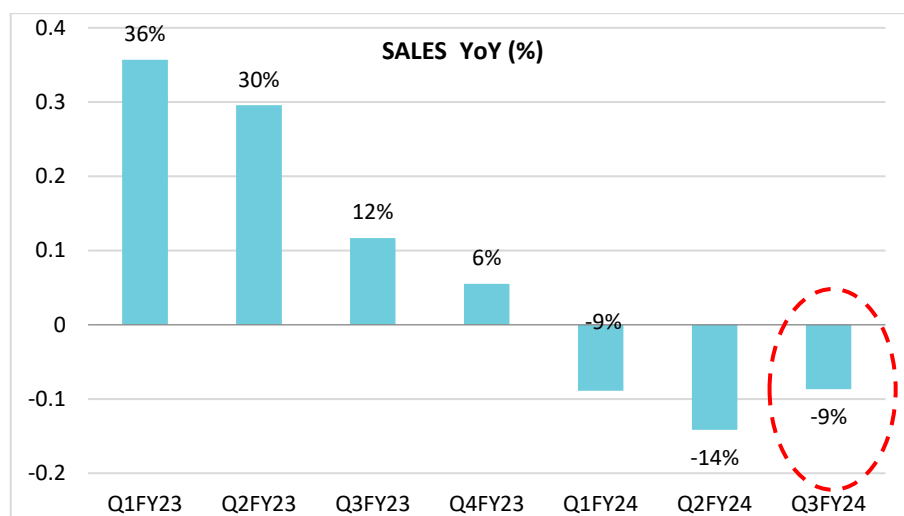
Q3FY24 REVIEW

Exhibit 1: Quarterly financial snapshot (INR mn)

Companies	Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Nuvama Estimate	Deviation (%)	Bloom Estimates	Deviation (%)
Aarti Industries	Sales	17,240	16,677	3	14,500	19	14,676	17	16,899	2
	EBITDA	2,590	2,887	-10	2,330	11	2,385	9	2,758	-6
	PAT	1,240	1,365	-9	910	36	685	81	1,081	15
	EBITDA%	15.0	17.3		16.1		16.3	-123.1	16.3	-1.3
Anupam Rasayan	Sales	2,955	3,827	-23	3,921	-25	3,253	-9	2,888	2
	EBITDA	791	1,019	-22	1,075	-26	905	-13	786	1
	PAT	260	429	-39	407	-36	307	-15	339	-23
	EBITDA%	27%	27%		27.4		27.8		27.2	
Deepak Nitrite	Sales	20,092	19,911	1	17,781	13	18,644	8	18,760	7
	EBITDA	3,047	3,146	-3	3,023	1	3,209	-5	3,356	-9
	PAT	2,021	2,091	-3	2,051	-1	2,219	-9	2,271	-11
	EBITDA%	15%	16%		17%		17%		18%	
Fine Organics	Sales	4,884	7,595	-36	5,405	-10	5,675	-14	5,091	-4
	EBITDA	1,183	1,601	-26	1,311	-10	1,384	-15	1,201	-2
	PAT	952	1,070	-12	1,034	-9	1,142	-17	914	4
	EBITDA%	24	21		24		24		24	
Galaxy Surfactant	Sales	9,405	10,803	-13	9,831	-4	9,721	-3	9,721	-3
	EBITDA	1,125	1,541	-27	1,249	-10	1,263	-11	1,263	-11
	PAT	714	1,062	-33	774	-8	788	-9	788	-9
	EBITDA%	12%	14%		13%		13%		13%	
Gujarat Fluorochemicals	Sales	9,917	14,179	-30	9,468	5	9,812	1	9,663	3
	EBITDA	1,922	4,922	-61	1,494	29	1,972	-3	1,891	2
	PAT	801	3,295	-76	527	52	892	-10	774	3
	EBITDA%	19.4	34.7		15.8		20.1		19.6	
Jubilant Ingrevia	Sales	9,664	11,583	-17	10,199	-5	9,396	3	9,573	1
	EBITDA	956	1,513	-37	1,177	-19	1,034	-8	1,016	-6
	PAT	385	915	-58	574	-33	429	-10	436	-12
	EBITDA%	9.9	13.1		11.5		11.0		10.6	
PI Industries	Sales	18,975	16,132	18	21,169	-10	20,957	-9	19,261	-1
	EBITDA	4,836	4,151	17	5,514	-12	5,196	-7	4,806	1
	PAT	4,486	3,513	28	4,805	-7	3,923	14	3,716	21
	EBITDA%	25.5	25.7		26.0		24.8		25.0	
SRF	Sales	30,530	34,697	-12	31,774	-4	31,918	-4	32,792	-7
	EBITDA	5,839	8,486	-31	6,453	-10	6,563	-11	6,657	-12
	PAT	2,534	5,109	-50	3,008	-16	3,334	-24	3,414	-26
	EBITDA%	19.1	24.5		20.3		20.6		20.3	
Sector	Sales	1,23,663	1,35,404	-9%	1,24,048	-0.3%				
	EBITDA	22,288	29,265	-24%	23,624	-5.7%				
	PAT	13,393	18,849	-29%	14,089	-4.9%				
	EBITDA%	18.0%	21.6%	-359.0	19.0%	-102.1				

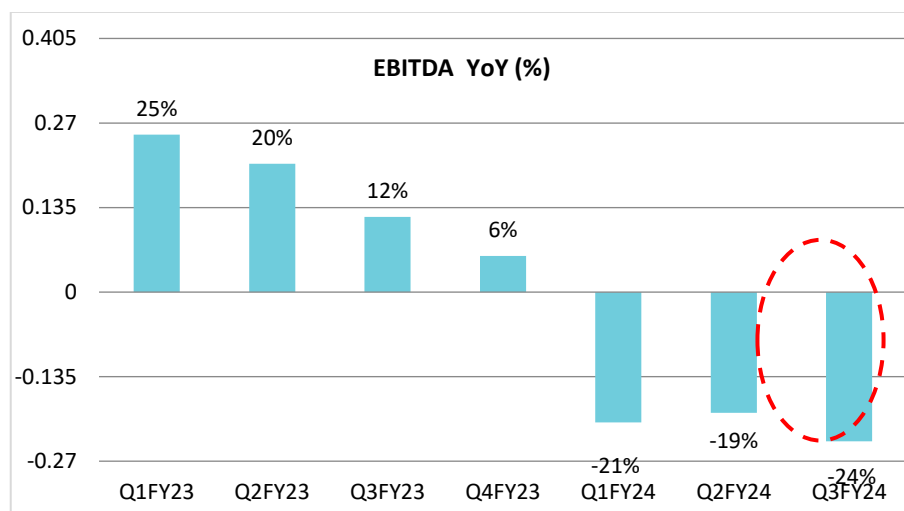
Source: Company, Nuvama Research

Exhibit 2: Sales growth – Continues to decline



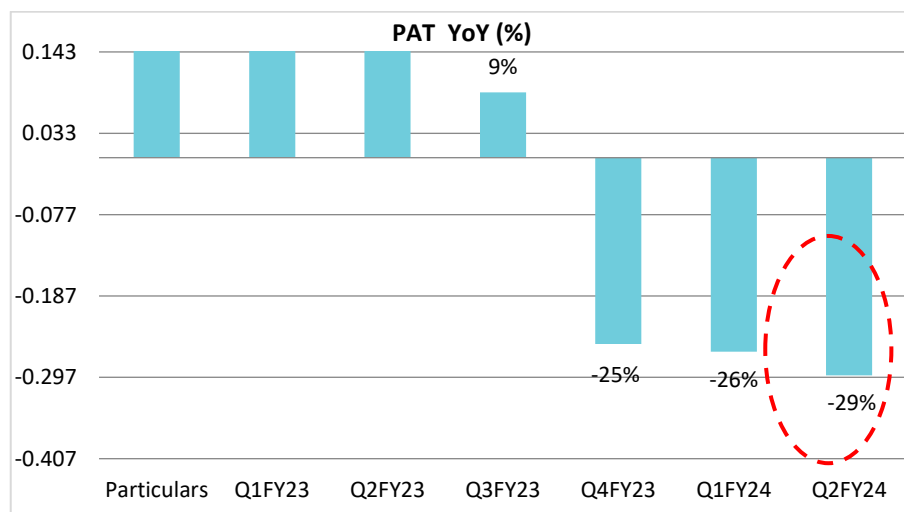
Source: Company, Nuvama Research

Exhibit 3: Margin contraction further hits EBITDA growth



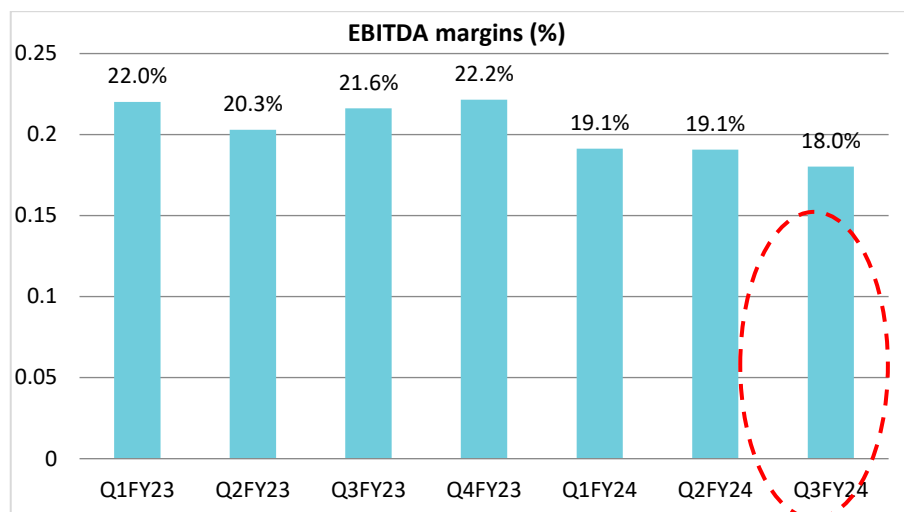
Source: Company, Nuvama Research

Exhibit 4: PAT growth hurt by negative operating leverage



Source: Company, Nuvama Research

Exhibit 5: EBITDA margins continue to decline



Source: Company, Nuvama Research

Exhibit 6: Valuation snapshot

	Rating	CMP (INR)	Target	Upside / downside	Target Multiple	Mcap (INR bn)	EPS			P/E			EV/EBITDA			RoE (%)	
			Price				FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY24E	FY25E
Specialty Chemicals																	
Aarti Industries	Buy	695	790	14%	Q3FY26E EPS	252	15.4	11.3	21.6	45.3	45.1	61.6	21.3	21	27.5	23.4	19.1
Anupam Rasayan	Hold	906	812	-10%	Q3FY26E EPS	99.4	16.7	14	25.8	59.7	54.3	64.9	119.8	87.4	40.1	10.2	9.7
Deepak Nitite	Hold	2312	2404	4%	Q3FY26E EPS	315.4	62.5	60.3	85	29.6	37	38.3	74.6	30.1	24.3	17.4	47.5
Fine Organics	Hold	4316	4542	5%	Q3FY26E EPS	132.3	202.2	133.2	146	50.7	21.3	32.4	43.3	41.4	49.6	31.2	30.4
Galaxy Surfactants	Buy	2545	3864	52%	Q3FY26E EPS	90.2	107.5	108.9	126.6	34.3	23.7	23.4	15.4	14.9	19.5	23.9	23.7
Gujarat Fluorochemicals Limited	Buy	3456	4588	33%	SOTP Based	379.6	120.3	50.8	104.6	48.4	28.7	68	43.8	78.1	61	33	4.2
Jubilant Ingrevia	Buy	476	575	21%	SOTP Based	75.8	19.3	13.9	23	15.9	24.7	34.1	30.7	24.8	13.9	6.4	9
PI Industries	Buy	3645	4342	19%	Q3FY26E EPS	553.1	80.9	98.9	111.9	65.7	45.1	36.9	47.3	38.2	52	19.5	18.6
SRF	Buy	2380	2680	13%	SOTP Based	705.5	73	43.3	68.9	37.3	32.6	54.9	2.6	2	36.4	16	20.3
Mean										43	34.7	46.1	44.3	37.5	36	20.1	20.3
Median										45.3	32.6	38.3	43.3	30.1	36.4	19.5	19.1

Source: Company, Nuvama Research

Coverage highlights

Aarti Industries- Demand revival takes root

Aarti Industries (AIL) posted strong Q3FY24 results with a volume pickup driving up sales 3% YoY/19% QoQ. GM, however, remains under pressure. The discretionary segment witnessed demand revival while non-discretionary (agri, pharma) faced challenges. EBITDA dipped 10.4% YoY while PAT overshoot estimate due to a MAT credit.

An improved demand environment and AIL's ability to convert some spot contracts into long-term drive growth visibility; accordingly, we are raising the target PE to 30x (from 25x). Furthermore, factoring in operating leverage and lower tax, we are raising FY24E/25E/26E EPS by 4%/15%/17%.

This along with a rollover to Q3FY26E yields a revised TP of INR790 (INR534 earlier); upgrade to 'BUY' (from 'HOLD').

Exhibit 7: Financials

Year to March	Q3Y24	Q3FY23	% Change	Q2Y24
Net Revenue	17,240	16,677	3.4	14,500
EBITDA	2,590	2,887	-10.3	2,330
Adjusted Profit	1,240	1,365	-9.2	910
Diluted EPS (INR)	3.4	3.8	-9.2	2.5

Source: Company, Nuvama Research

Conference call highlights

- Higher demand was seen from discretionary segment like dyes, pigments, polymers etc while non-discretionary segment like agro chemicals and pharma saw weak operating environment.

Contracts

- 1st contract is a long-term supply contract with a global agrochemical major for a niche agrochemical intermediate with a cumulative revenue potential of over INR30bn which is to be executed in the next nine years.
- This project should ramp up in FY24 and FY25 and should contribute around INR3bn in FY25 and INR3.5bn going ahead from FY26.
- Second contract is a four-year supply contract worth over INR60bn with a multinational conglomerate for a niche specialty chemical. This is to be executed from CY24 to CY27. This is a linear contract and should do INR15bn in first year.
- This product is an existing part of their product basket, they are supplying this product of the said customer, while the volumes should double in CY24. FY24 estimated sales from this product is ~INR8bn with FY25 revenue run rate hitting INR15bn.

Guidance

- EBITDA guidance raised for FY24/25-** The agrochemicals and pharmaceutical segments are still facing challenges, compounded by the ongoing issues related to the Red Sea. Despite this, management raised its EBITDA guidance to INR10bn in FY24 (from earlier 9.5bn – 10bn) and INR 14.5- 17bn in FY25 (from earlier 14-16bn).

- **Gross debt guidance-** Gross debt for FY25 at current raw material prices should be around INR35-37bn as management is expecting some relief from working capital.
- **Volume growth guidance-** FY25 volume growth of 20-25% range is expected.

Anupam Rasayan- Agrochem-driven model takes hit

Anupam's overall results were weak as sales/EBITDA/PAT declined 23%/22%/52% YoY, below our estimate. Results were hurt by weak industry dynamics while its significant presence in agrochem led to poor revenues; higher interest and mounting working capital led to a sharp drop in profitability.

We believe as Anupam's agrochem-dependent business model has taken the maximum hit compared to other specialty chemical players, negative operating leverage, and high working capital pose near term risks. Though Lols lend revenue growth visibility, we are cutting FY24E/25E/26E EPS by 27%/12%/7%.

Retain 'HOLD' with a revised TP of INR812 (earlier INR884), based on 26x Q3FY26 EPS.

Exhibit 8: Financials

Year to March	Q3FY24	Q3FY23	% Change	Q2FY24	% Change
Net Revenue	2,955	3,827	(22.8)	3,921	(24.6)
EBITDA	791	1,019	(22.4)	1,075	(26.4)
Adjusted Profit	260	429	(39.4)	407	(36.0)
Diluted EPS (INR)	2.4	4.0	(39.4)	3.8	(36.0)

Source: Company, Nuvama Research

Conference call highlights

- **LOI-** During the quarter the company signed a Letter of Intent worth INR5,070mn for next nine years with one of the leading Japanese Chemical companies to supply new age polymer intermediate.
- **Short term demand-** Short-term demand in the market has been subdued, and the following quarter is also expected to remain subdued. However, from H1FY25 onwards, revenue should begin to recover.
- **New molecules-** In Q3FY24 the company commercialised six new molecules taking the total to 11 new molecules during the nine months of FY24.
- **Debt-** It repaid INR2bn of debt as of today, with the funds received at the end of the quarter. The company's long-term debt is expected to be around INR4bn, and once the remaining amount is received, it will be debt-free in terms of long-term debt.
- Revenue from the pharmaceutical and polymer sectors is expected to make a meaningful contribution from FY25 and FY26, while historical products will provide stability. Additionally, the pharmaceutical and polymer sectors should drive growth.

Deepak Nitrite- Lower volumes drag margins

Deepak Nitrite (DN) posted a weak Q2FY24, as weakness in the global agrochemical industry affected its advanced intermediates business (EBIT down 36% YoY/9% QoQ); phenolic business (-9% YoY/5% QoQ) remained stable. Overall sales remained flat with EBITDA and PAT (down 3% each) marginally undershooting our estimates.

DN has chalked out aggressive capex of INR140bn through FY28 for multiple projects. Capex of INR20bn shall be completed by the end of this year and drive growth in FY26-27E. However, given near-term weakness in agrochem and capex commissioning likely to lead to a gradual pickup in utilisation,

We retain 'HOLD' with a revised TP of INR2,340 (INR2,283 earlier) based on a rollover to Q3FY26E.

Exhibit 9: Financials

Year to March	Q3FY24	Q3FY23	% Change	Q2FY24	% Change
Net Revenue	20,092	19,911	0.9	17,781	13.0
EBITDA	3,047	3,146	(3.1)	3,023	0.8
Adjusted Profit	2,021	2,091	(3.3)	2,051	(1.5)
Diluted EPS (INR)	14.8	15.3	(3.3)	15.0	(1.5)

Source: Company, Nuvama Research

Exhibit 10: Segmental information

Segmental Revenue	Q3FY24	Q3FY23	% Change	Q2FY24	% QoQ
Advance Intermediates	6,743	8,178	-18%	6,700	1%
Phenolics	13,493	11,816	14%	11,201	20%
Total revenue from operations	20,092	19,617	2%	17,683	14%
EBIT Margin (%)	Q3FY24	Q3FY23	Bps change	Q2FY24	Bps change
Advance Intermediates	15%	17%	-158.80	17%	-182.08
Phenolics	13%	9%	394.06	8%	480.65

Source: Company, Nuvama Research

Conference call highlights

- End user industries like agrochemicals, textiles, dyes and pigments remained under pressure while other end industries are witnessing volume led sequential improvement.
- **Ongoing projects-** Polycarbonate compounding project is taking concrete shape and is under implementation. While construction work of photo halogenation and fluorination has made significant progress and is expected to be commissioned by end FY24.
- Other projects like MIBK, MIBC, and hydrogenation are on track to be commissioned as planned. These all projects should ramp up FY26.
- **MoU-** During the quarter, Deepak Chem Tech signed a memorandum of understanding (MoU) worth INR90bn with the Gujarat government to manufacture three new products.
- It aims to complete these projects by 2027, with the products to be manufactured being Polycarbonate, Methyl Methacrylate (MMA)/Poly Methyl Methacrylate (PMMA) Resins & Compounds, and Aniline.
- It has signed a term sheet with Petronet LNG for assured supply of key raw materials like propylene and hydrogen.

Fine Organics- Lower exports hurt revenues

Fine Organics (FOIL) posted weak results as revenue declined (36% YoY) due to weak demand in US/Europe and spillover of sales affected exports volume while domestic demand stayed firm. Though EBITDA margins improved 310bp to 24.2% on low base, overall EBITDA/PAT declined 26%/12% YoY, below our estimates.

As FOIL ramps up for capacity expansion post land acquisition in Maharashtra, commissioning shall take 18–24 months resulting in tepid sales growth over FY24–

26. Though the company focuses on new product development with high margins and plans to enter new end-user industries post expansion,

We retain 'HOLD' with TP of INR4,542 (earlier INR4,410) rolling over to Q3FY26 based on 30x PE.

Exhibit 11: Financials

Year to March	Q3FY24	Q3Y23	% Change	Q2FY24	% Change
Net Revenue	4,884	7,595	(35.7)	5,405	(9.6)
EBITDA	1,183	1,601	(26.1)	1,311	(9.8)
Adjusted Profit	952	1,070	(11.0)	1,042	(8.6)
Diluted EPS (INR)	31.1	34.9	(11.0)	34.0	(8.6)

Source: Company, Nuvama Research

Conference call highlights

- There is currently slowdown in the USA and Europe markets, expected to persist until Mar-24.
- Domestic demand remains strong. Once the slowdown in the US and Europe markets ends, the company may encounter challenges in meeting the increased demand.
- Awaiting final approvals for the land at the JNPA SEZ, Maharashtra and they expect to get it by March-end. After it gets the land allotment and environmental clearance, it is likely to take 18-24 months for the plant commissioning.
- Thailand plant is awaiting two more approvals and should start trial production after that. They are planning 3 expansions in the same site.

Galaxy Surfactants- Strong volume, margins contract

Galaxy Surfactant's (GSL) revenues declined 13% YoY (led by input price fall) but volume growth remained firm at 8.5%. India continues to post double-digit growth along with improvement in RoW while AMET region lags. Led by EBITDA margin contraction due to Red Sea logistic issues, EBITDA/PAT declined 27%/33% YoY, below estimate.

We expect volume growth to pick up led by a recovery in US/Europe and AMET markets while domestic demand remains firm. However, escalation of the Red Sea crisis poses a near-term risk to volume and margins.

We raise TP to INR3,864 (INR3,715 earlier) as we roll forward to Q3FY26 while keeping the earnings and target multiple unchanged at 27x; reiterate 'BUY'.

Exhibit 12: Financials

Year to March	Q3FY24	Q3FY23	% Change	Q2FY24	% Change
Net Revenue	9,405	10,803	(12.9)	9,831	(4.3)
EBITDA	1,125	1,541	(27.0)	1,249	(9.9)
Adjusted Profit	714	1,062	(32.8)	774	(7.8)
Diluted EPS (INR)	20.1	30.0	(32.8)	21.8	(7.8)

Source: Company, Nuvama Research

Conference call highlights

- Volume momentum remained strong across markets except for North America. The quarter began strong, but the red sea escalation did affect volumes for the quarter in the second half.
- **Developed markets-** Developed markets like North America and Europe heavily contribute to Specialty products but have faced disruptions over the past four quarters. A revival in demand is expected in these regions.
- **Price reductions by HPC Manufacturers:** Home and Personal Care (HPC) manufacturers in North America have taken price reduction decisions, which could aid in stimulating demand and growth in the region.
- **Inflation and volume growth:** Inflation remains a concern, particularly in Africa-Middle East-Turkey (AMET) and North America. However, commodity prices have started coming down, which could mitigate some of the inflationary pressures.
- **Guidance-** Management guided for a volume growth of 8-9% for FY25. EBITDA/ton should persist in 19,500-20,500 for FY25.
- **Capex-** Management has guided for a capex of INR1.3-1.5bn.

Gujarat Fluorochemicals- EV battery business to unlock value

GFL posted weak results, though in line, as revenues/EBITDA/PAT declined 30%/61%/76% led by weak industry demand, inventory destocking across the regions and weak realisation putting margins under pressure. Continued weakness in fluoropolymer demand and weak pricing in ref gases impacted the results.

As GFL shared its growth plans for its EV battery chemicals, under 100% subsidiary – GFCL EV, with capex of INR60bn over the next four-five years, we see value unlocking potential. *Valuing GFCL EV at INR913/- share (based on 15x EV/EBITDA - FY27 and discounting at 12%).*

We raise TP to INR4,588 (earlier INR3,565) while keeping the valuations and earnings for base business unchanged, reiterate 'BUY'.

Exhibit 13: Financials

Year to March	Q3FY24	Q3FY23	% Change	Q2FY24	% Change
Net Revenue	9,917	14,179	(30.1)	9,468	4.7
EBITDA	1,922	4,922	(60.9)	1,494	28.7
Adjusted Profit	801	3,316	(75.8)	527	51.9
Diluted EPS (INR)	7.3	30.2	(75.8)	4.8	51.9

Source: Company, Nuvama Research

Exhibit 14: Breakdown by segment

Revenue	Q3FY24	Q3FY23	% Change YoY	Q2FY24	% QoQ
Bulk chemicals	1780	2850	-38%	1700	5%
Fluoropolymers	5450	7630	-29%	5740	-5%
Fluorochemicals	2460	3490	-30%	1850	33%

Source: Company, Nuvama Research

Conference call highlights

- **Bulk Chemicals-** Though revenue for this segment declined by 37% YoY, have improved marginally over the previous quarter. Pricing scenario however remains weak in caustic soda.

- **Fluorochemicals**- Revenue for this segment declined by 30% YoY to INR2.4bn as realisation remained at same levels as previous quarter even though as volumes have picked up during the quarter.
- **Fluoropolymers**- Prices remained stable; however, volumes were marginally impacted during the quarter due to the holiday season in the US and Europe.
- Recently established fluoropolymer capacities and positive impact of the exit of legacy players are expected to lead to a continued increase in sales over the subsequent quarters.
- Also, higher demand across sectors such as EV, green hydrogen, semiconductors and solar should augur well to further increase demand in FY25.

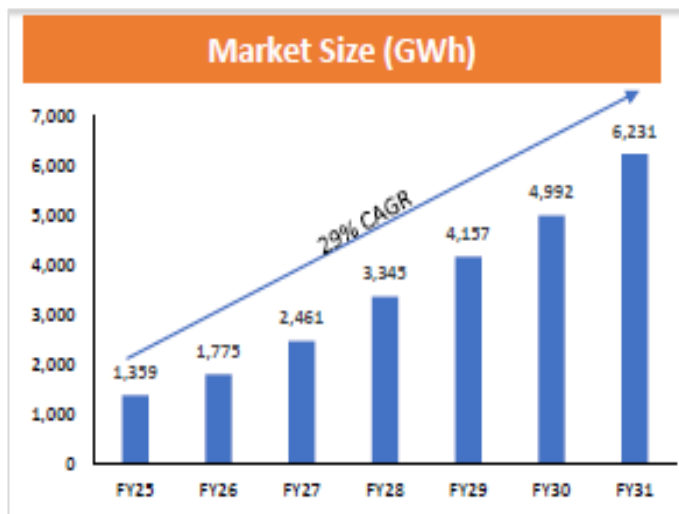
GFCL- EV – Unlocking value

Aggressive capex plan over next four–five years to drive growth

GFCL-EV has outlined a capital expenditure (capex) plan of INR32bn by FY26, of which INR6.5bn has already been spent. Overall it has total capex plan of INR60bn over the next four–five years. The planned cumulative capex for FY24/FY25/FY26 is INR8/17/32bn, respectively. These investments are expected to yield an asset turnover ratio of approximately 2x at full capacity utilisation. EBITDA margins are expected to be upwards of 25%. This segment should start contributing from H2FY25 marginally however we expect FY26/27 to witness significant ramp up.

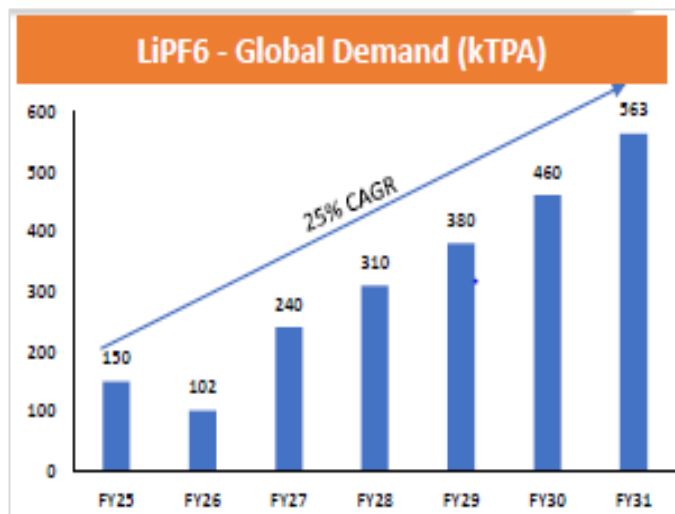
To finance this capex, GFCL – EV is also contemplating fund raising opportunity from private equity or climate focused fund.

Exhibit 15: Market size (GWh)



Source: Company, Nuvama Research

Exhibit 16: LiPF6- Global demand



Source: Company, Nuvama Research

Jubilant Ingrevia- Weak performance continues...

Jubilant Ingrevia (JIL) continue to disappoint with revenues/EBITDA/PAT down 17%/37%/58%, led by poor performance across all the segments. As aggressive pricing from China and weak demand in agrochemicals hits revenues in speciality chemicals, life sciences and nutrition suffered from unfavourable pricing environment.

We believe that sector dynamics is set to improve led by demand recovery in agrochemicals. We believe that JIL's specialty chemical would witness strong growth and drive profit. However there are undercurrents of weakness.

We cut FY24/25/26 estimate by 18%/11%/4% and downgrade our SOTP base TP to INR575 (from INR617), retain 'BUY'.

Exhibit 17: Financial

Year to March	Q3FY24	Q3FY23	% Change	Q2FY24	% Change
Net Revenue	9,664	11,583	(16.6)	10,199	(5.2)
EBITDA	956	1,513	(36.8)	1,177	(18.8)
Adjusted Profit	384	915	(58.0)	573	(32.9)
Diluted EPS (INR)	2.4	5.7	(57.7)	3.6	(32.9)

Source: Company, Nuvama Research

Exhibit 18: Segmental Information

Segmental revenue	Q3FY24	Q3FY23	% YoY	Q2FY24	% QoQ
Specialty segment	4043	4675	-13.5	4731	-14.5
Nutrition and Health solution	1512	1321	14.5	1620	-6.7
Life science chemicals	4683	5587	-16.2	4771	-1.8
Total	10238	11583	-11.6	11121	-7.9
Segmental EBIT	Q3FY24	Q3FY23	% YoY	Q2FY24	% QoQ
Specialty segment	349	700	-50.2	495	-29.5
Nutrition and Health solution	141	53	163.9	153	-8.0
Life science chemicals	377	620	-39.1	396	-4.7
Total	866.9	1373.2	-36.9	1043.8	-16.9
Segment EBIT margins (%)	Q3FY24	Q3FY23	% YoY	Q2FY24	% QoQ
Specialty segment	8.6	15.0	-635	10.5	-183
Nutrition and Health solution	9.3	4.0	527	9.5	-13
Life science chemicals	8.1	11.1	-304	8.3	-24
Total	8.5	11.9		9.4	

Source: Company, Nuvama Research

Conference call highlights

- **Specialty segment**- Revenue from this segment declined by 14% YoY to INR4bn because Agrochemicals sector continued to witness sluggish volume pick up globally.
- While the inventory destocking phase is nearing completion, the agricultural sector continues to face overarching challenges. Global prices have been adversely impacted by an excess supply from China, leading to significant pressure on prices.
- **Nutrition and health solution**- Revenue for this segment increased by 15% YoY to INR1.5bn aided by improved demand from Food segment end use and demand traction in premixes especially in Mineral premixes, Emulsifiers, and Chromium Herbal formulations.
- **Capex update**- Towards the end of the Q3FY24, a multi-purpose Agro Intermediate plant was commissioned. Additionally, another Agro Active/Intermediate plant is set to be commissioned in Q4FY24. The Diketene plant is operating at optimum capacity, and the planned expansion of Diketene derivatives to introduce two more products is progressing as scheduled, with commissioning expected by Q4FY24.

PI Industries- Exports growth remains firm

PI Industries' Q3FY24 results are a tad below our estimates as domestic revenue (down 6% YoY) dragged overall growth to 18% despite exports growing at a healthy 13% YoY. EBITDA (adjusted for EO gain of INR700mn) grew 16% YoY with overall PAT growth of 27% YoY. Pharma witnessed a pickup with positive EBITDA.

Though PI management remains confident of strong exports growth, including its single-largest product Pyroxasulfone gaining volume, Street is perturbed about the risk to profit driven by this single large molecule.

We maintain 'BUY' with a revised TP of INR4,342 (earlier INR4,200) based on a rollover to Q3FY26E while keeping the target PE at 35x and earnings unchanged.

Exhibit 19: Financials

Year to March	Q3FY24	Q3FY23	% Change	Q2FY24	% Change
Net Revenue	18,975	16,132	17.6	21,169	(10.4)
EBITDA	4,836	4,151	16.5	5,514	(12.3)
Adjusted Profit	4,486	3,518	27.5	4,805	(6.6)
Diluted EPS (INR)	29.5	23.1	27.5	34.8	(15.2)

Source: Company, Nuvama Research

Conference call highlights

- Contribution from agrochemicals exports increased by 13% driven by growth and newly commercialised products while from domestic there was a decline of 6% YoY.
- Domestic revenues were lower due to the delayed and unpredictable monsoon patterns. However, a favourable product mix and improved management of working capital mitigated the financial impact.
- Monsoon deficit in south and low reservoir levels elevated inventory levels in the industry for row crop agrochem products and price pressure from generics to continue.
- **CSM Export-** Current order book stands at INR142bn with a strong pipeline of products in agrochemicals, electronic, imaging and other specialty chemicals. 4-5 products to be commercialized every year.
- They are also planning to commission two new plants in the next one year.

SRF- Earnings hit bottom, expect recovery

SRF's overall results were weak as expected led by chemical and packaging business. Sharp drop in EBIT margins in chemicals (down 900bp YoY) and packaging (575 bp) affected overall profitability, revenues were also down by due to sustained inventory destocking and order delays in speciality chemicals. This led to sales/EBITDA / PAT decline of 12%/31%/50%.

Corroborating management's view, we believe that speciality chemicals has hit the bottom and expect sequential growth hereon. Furthermore, ongoing capex in speciality chem and commissioning of PTFE to drive profitability.

We maintain 'BUY' with SOTP based TP of INR2,680 (earlier INR2,669).

Exhibit 20: Financials

Year to March	Q3FY24	Q3FY23	% Change	Q2FY24	% Change
Net Revenue	30,530	34,697	(12.0)	31,774	(3.9)
EBITDA	5,839	8,486	(31.2)	6,453	(9.5)
Adjusted Profit	2,666	5,231	(49.0)	3,146	(15.3)
Diluted EPS (INR)	9.0	17.6	(49.0)	10.6	(15.3)

Source: Company, Nuvama Research

Exhibit 21: Segmental break up

Segment wise break-up	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenues					
Technical Textiles	4,584	4,259	8	5,062	(9)
Chemicals	13,941	17,566	(21)	14,263	(2)
Packaging Film	10,907	12,027	(9)	11,215	(3)
Others	1,136	923	23	1,269	(10)
Total revenues	30,567	34,776	(12)	31,808	(4)
EBIT					
Technical Textiles	688	342	101	750	(8)
Chemicals	3,219	5,639	(43)	3,478	(7)
Packaging Film	449	1,186	(62)	773	(42)
Others	212	91	132	331	(36)
Total EBIT	4,567	7,259	(37)	5,331	(14)
EBIT Margins					
Technical Textiles	15.0	8.0	698	14.8	20.2
Chemicals	23.1	32.1	(902)	24.4	(129.7)
Packaging Film	4.1	9.9	(575)	6.9	(277.5)
Others	18.7	9.9	878	26.1	(740.8)
Total EBIT Margins	14.9	20.9	(593)	16.8	(181.7)

Source: Company, Nuvama Research

Conference call highlights

- **Specialty Chemicals-** Chemicals business was adversely affected because of the performance of the Fluorochemicals business being adversely impacted owing to seasonally low demand for refrigerants.
- During the quarter, the company launched three new products in the agrochemical division and plans to launch two more products in the coming quarter.
- The outlook for the domestic passenger vehicle and room air conditioner (AC) market appears promising in CY24. Additionally, the freeze on hydrofluorocarbon (HFC) production in China, effective from January 2024, is anticipated to contribute to growth.
- Conversely, the chloromethanes market is expected to face continued challenges and remain under pressure.
- **Packaging films-** The packaging films business encountered challenges during the quarter due to significant supply addition in both BOPET and BOPP film segments.

- With commencement of the aluminium foil facility, it will be among the very few players globally that offer a wide range of packaging products under one roof.
- **Technical textiles-** Despite the impact on Manali operations, business delivered a healthy performance in Q3 driven by improved domestic demand for NTCF. Adequate insurance cover in place on a reinstatement value basis.

All price charts cannot be included given the large of number of companies in our coverage. Specific charts may be available upon request

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Q3FY24 REVIEW

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