Chemical Sector

5 July 2022

1QFY23 Result Preview

Rising costs and weather remain cause for worry

We expect NBIE Chemical stocks to enjoy healthy growth in topline and earnings in 1QFY23, barring large cap global CPC major UPL, which will see 34% YoY growth in PBT getting dented due to higher tax expense vs the tax write-back in 1QFY22. This is despite the sustained increase in aggregate input cost for the sector (37.4% up YoY) and energy costs (Brent/Domestic gas up 62.1%/240.8% YoY). Key pointers: (i) UPL sees a potential hit of 1.1% on revenue due to an adverse impact on its entire Ukraine sales and 50% Russian sales in 1QFY23; we also expect INR depreciation to result in MTM loss in its fx loan (ii) Coromandel International's (CRIN) Phosphatic Fertilizer business is getting government support under 'NBS' pegged to March'22 input prices. CRIN should also benefit from the growth in non-subsidized specialty/organic fertilizers, and the 6 new launches in the CPC segment last year (iii) PI Industries should see improved growth in its domestic CPC business on a beaten down base, aided by new launches – the delay in monsoon could have some impact on 1QFY23 placement of pesticides and may pose some downside risk to our and street estimates (iv) Sumitomo Chemicals (SCIL) should post a steady performance, with an improved outlook on a weak base; (v) Small Cap CSM company Anupam Rasayan (ARIL) has grabbed attention in the last two months - more for its large QIP plan worth Rs8bn; watch out for the trend in new orders and working capital, as well as how it manages supply chain and costs (vi) Tata Chemicals (TTCH) – This is a tough nut to crack on quarterly numbers, with many moving parts across four geographies. Much as the current trend looks healthy, watch out for commentary on future outlook for soda ash demand given the global headwinds of rising interest rates, which could put pressure on growth in end-use sectors such as Auto, Construction for flat glass and Travel/Tourism for container glass.

We see SCIL leading the sector with 30% PAT growth, followed by PI Industries with a PAT growth of 26.7% YoY. TTCH and CRIN are next in line, with 17.1% YoY/14.9% YoY growth in PAT. ARIL will report a 4.5% YoY fall in PAT due to higher interest expense. UPL will be the worst performer, with an 18.1% YoY decline in PAT. The Kharif sowing trend till date has been mixed, with the total area sown down 5% YoY; however, the YoY fall in area sown has abated in July'22. Positives include high water storage levels and expected pick-up in rainfall across key cropping states in the coming days and weeks.

Watchlist for 1QFY23: Impact of rising raw material (RM) prices on gross margins, new product launches, change in working capital and channel inventory. Potential increase in the prices of key CPC products is likely to cushion the above impact. **Key catalysts**: Potential easing of input costs and reduction in freight rates with improving supply of containers (likely to happen once the Russia-Ukraine conflict is over).

UPL: Consolidated 1QFY23 revenue is expected to increase by 9.9% YoY to Rs93.56bn on the back of volume growth across all the regions. LatAm/India/America/EU/RoW markets will see revenue growth of 20%/15%/5%/0%/-0.7% YoY. LatAm will continue to dominate the pie at 32.2% contribution to total revenue. We expect the adjusted consolidated PAT to fall by 18.1% YoY to Rs6.06bn due to reversal of deferred tax credit a year ago to tax expense at 16% effective tax rate. We estimate EBITDA margin to be a tad lower at 20.7% vs year-ago level of 20.8%. EBITDA is likely to increase by 9.3% YoY. The 9.3% YoY fall in interest expense is likely to aid 34% YoY growth in PBT despite fx loss of Rs2bn on UPL's forex loan. **Positives** include new launches, potential improvement in cashflows and reduction in working capital/net debt. Gross margin could beat estimate if increase in product prices is adequate to cover the increase in RM cost and opex (management had hinted at this in the 3QFY22 concall). **Negatives** could be potential pressure from high input costs, higher-than-expected working capital and currency impact. UPL closed buy-back of 134,37,815 shares at Rs813.92/share in 1QFY23 at a cost of Rs10.94bn.

PI Industries: We expect consolidated 1QFY23 revenue to grow by 21.5% YoY to Rs14.5bn. Segment revenue - CSM exports growth is expected at 23% YoY and domestic CPC segment is expected to increase by 18.3% YoY. EBITDA margin is expected to expand by 115bps YoY to 22% on the back of higher growth in CSM (that enjoys better margins) besides getting support from annual CSM contracts (~30-35% of the CSM pie). We expect earnings to rise by 26.7% YoY to Rs2.37bn vs. 28.2% YoY growth in EBITDA. **Watch out for** new product launches, the status of Isagro Asia's merger and roadmap for M&A in the Pharma space. The impact of rising input costs not passed on to customers could be potential risk to our estimates.

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Company	CMP (Rs)	TP (Rs)	1QFY23E		1QFY23E		EBITDA margin (%)		1QFY23E	
			Revenues (Rsmn)	YoY growth (%)	EBITDA (Rsmn)	YoY growth (%)	1QFY22	1QFY23E	PAT (Rsmn)	YoY growth (%)
UPL	644	1,034	93,558	9.9	19,384	9.3	20.8	20.7	6,060	-18.1
Coromandel International	965	1,058	56,983	55.5	5,468	13.2	13.2	9.6	3,881	14.9
PI Industries	2,581	3,063	14,509	21.5	3,192	28.2	20.8	22.0	2,373	26.7
Tata Chemicals	795	1,146	38,390	28.9	6,616	10.0	20.2	17.2	3,373	17.1
Sumitomo Chemicals	423	493	8,993	15.0	1,932	29.0	19.2	21.5	1,374	30.0
Anupam Rasayan	622	1,142	2,921	25.0	719	18.5	25.9	24.6	307	-4.5

Source: Companies, Nirmal Bang Institutional Equities Research

Sumitomo Chemicals India: We expect consolidated 1QFY23 revenue to grow by 15% YoY to Rs8.99bn based on domestic and exports revenue growing by 15% YoY each. Exports are estimated at 13% of total revenue. EBITDA margin is expected to expand by 233bps to 21.5% due to 188bps expansion in gross margin to 38%, aided by the ability to pass on higher costs to customers. EBITDA is expected to grow by 29% YoY while we estimate PAT growing by 30% YoY to Rs1.37bn. **Watch out for** new launches and specialty products' share.

Exhibit 1: UPL segment revenue details

Segment revenue break up – Rsmn	1QFY22	1QFY23E	Growth YoY (%)
INDIA	19,140	22,011	15.0
LATAM	25,070	30,084	20.0
NA	12,220	12,831	5.0
EUROPE	15,220	15,220	0.0
ROW	13,500	13,412	-0.7
UPL Cons revenue	**85,150**	**93,558**	9.9

Source: Company; Nirmal Bang Institutional Equities Research

The latest Indian kharif sowing trend shows increase in aggregate area under crops in the current Kharif sowing season in the last three weeks. However, it is still down 5% YoY as of last Friday. This compares with a decline of 40% YoY in the week ended 17th June'22.

As per IMD estimates, the progress in the southwest monsoon this week suggests a reversal in the rainfall deficit witnessed in the last few weeks - positive for Fertilizer and CPC sales in the current Kharif season.

Exhibit 2: Crops data: Weekly Indian area under crops trend

Lakh Hectares (Ha)	Area Sown (Lakh Ha)				Chg YoY (%)			Chg WoW (%)		
Crop	01-07-22	24-06-22	17-06-22	10-06-22	01-07-22	24-06-22	17-06-22	01-07-22	24-06-22	17-06-22
Rice	43.5	19.6	8.7	6.4	-27.1	-45.6	-30.3	121.8	125.2	35.9
Total Pulses	**28.1**	**8.7**	**4.4**	**2.0**	**7.0**	**-36.1**	**-7.4**	**222.5**	**97.7**	**120.0**
Arhar	10.6	2.4	1.1	0.4	-13.8	-54.9	-8.6	349.8	113.6	175.0
Kulthi	0.1	0.0	0.0	0.0	-37.4	0.0	-2.4	400.0	-	-
Urad	3.5	0.9	0.5	0.4	-8.9	-52.1	-28.0	271.0	86.0	25.0
Moong	10.8	3.4	1.9	0.6	31.8	-34.1	-7.3	218.3	77.9	216.7
Other Pulses	3.2	2.0	0.9	0.6	71.5	53.0	13.2	57.4	124.4	50.0
Total Coarse Cereals	**37.1**	**1.9**	**1.7**	**0.7**	**2.1**	**-93.9**	**0.0**	**1882.4**	**10.0**	**142.9**
Jowar	1.8	0.6	0.4	0.3	-35.1	-40.6	0.0	196.7	50.0	33.3
Bajra	15.0	1.3	1.3	0.4	46.7	-68.2	0.0	1081.9	-2.3	225.0
Ragi	0.1	0.0	0.0	0.0	-49.9	-100.0	0.0	-	-	-
Maize*	19.0	-	0.0	0.0	-13.9	-100.0	0.0	-	-	-
Small Millets*	**1.2**	**-**	**0.0**	**0.0**	**6.0**	**-100.0**	**0.0**	**-**	**-**	**-**
Total Oilseeds	**46.3**	**11.8**	**4.7**	**1.3**	**-8.0**	**-47.5**	**-17.9**	**293.7**	**150.4**	**261.5**
Groundnut	13.7	7.6	3.2	0.5	-25.0	-12.6	-19.4	79.9	138.1	540.0
Sunflower	1.1	0.8	0.6	0.3	78.3	59.6	93.1	42.7	25.0	100.0
Sesamum	1.0	0.6	0.3	0.3	-10.4	-12.3	-6.3	70.2	90.0	0.0
Niger	0.0	0.0	0.0	0.0	-78.6	-100.0	-33.3	-	-	-
Castor	0.0	0.0	0.0	0.0	-27.3	-50.0	-21.4	100.0	-	-
Soyabean	30.5	2.8	0.6	0.2	0.8	-77.8	-37.6	997.8	363.3	200.0
Other Oilseeds	**0.0**	**0.0**	**0.0**	**0.0**	**2.2**	**0.0**	**-91.4**	**0.0**	**-**	**-**
Sugarcane	52.9	50.7	49.4	47.1	-0.9	1.2	1.9	4.3	2.7	4.9
Total Jute and Mesta	6.8	6.8	6.5	6.4	-0.3	-0.3	0.0	0.0	4.6	1.6
Cotton	64.1	31.8	19.1	-	3.8	-14.8	0.0	101.3	66.6	-
Grand Total	**278.7**	**131.3**	**94.5**	**63.9**	**-5.3**	**-33.4**	**-40.3**	**112.3**	**38.9**	**47.9**

Source: https://nfsm.gov.in/areacoveragecropsdashboard.aspx, Nirmal Bang Institutional Equities Research

Coromandel International:

- 1QFY23 revenue to increase by 55.5% YoY. **Key factors:** 12% YoY increase in CPC segment and 62.6% YoY growth in Nutrients & Other segment.
- EBITDA to increase by 13.2% YoY despite 359bps fall in EBITDA margin
- EBIT margin to contract by 340bps YoY to 8.6%.
- PAT to increase by 14.9% YoY to Rs3.88bn.

Segment outlook:

Nutrient segment

- Revenue to increase by 62.6% YoY.
- But EBIT margin is expected to dip by 500bps to 8% due to input cost inflation boosting topline vs steady unit margin/te at year ago level. The Nutrient segment EBIT is likely to be flat YoY at Rs3.99bn.

Key drivers:

- 12% YoY growth in Manufactured Fertilizer volume.
- A steep increase in imported Phosphoric Acid contract price - 93% YoY/15% QoQ to US$1,535/te. This could rise further once the 1QFY23 contract price is finalized; as of mid-June,'22, this was still pending.
- Captive production of Phosphoric Acid at the Vizag unit, to the extent of ~50% of its requirement, to offset the steep increase in imported Phosphoric Acid cost to some extent.

Exhibit 3: CRIN segment details

SEGMENT REV Rsmn	1QFY22	1QFY23E	GR YoY%
CPC	6,315	7,072	12.0
NUTRIENT	30,705	49,911	62.6
Inter segment adjustment	-380	0	-100.0
TOTAL	**36,639**	**56,983**	55.5
SEGMENT EBIT Rsmn			**GR YoY%**
CPC	823	887	7.8
NUTRIENT	3987	3987	0.0
CRIN EBIT	**4,810**	**4,874**	1.3
SEGMENT EBIT MARGIN %			**Bps**
CPC	13.0	12.5	-49
NUTRIENT	13.0	8.0	-500
CRIN	13.1	8.6	-457

Source: Company, Nirmal Bang Institutional Equities Research

CPC segment

- EBIT margin is likely to be lower at 12.5% vs. 13% a year ago.
- Revenue will grow by 12% YoY and EBIT will grow by 7.8% YoY.
- **There could be some downside to these estimates, if the RM/Sales comes in higher than our estimate of 78%.**

Overall EBIT is expected to increase by just 1.3% YoY due to lack of growth in EBIT of the Nutrient segment.

Tata Chemicals:

- 1QFY23 consolidated revenue to grow by 28.9% YoY.
- EBITDA margin is estimated at 17.2% vs. 20.2% YoY due to fall in gross margin by 530bps and the higher YoY increase in opex estimate - energy cost estimates up 44% YoY; EBITDA is estimated to grow by 10% YoY.
- Adjusted PBT is expected to increase by 15% YoY to Rs4.35bn.
- Consolidated adjusted PAT to increase by 17.1% YoY to Rs3.37bn.
- If we exclude the impact of Rallis, TTCH is expected to post consolidated PAT of Rs3.05bn vs a PAT of Rs2.47bn in 1QFY22 and a PAT of Rs4.7bn in 4QFY22.

Key drivers for TTCH:

- **Basic Chemistry** (BC) segment revenue to rise by 35.6% YoY to Rs29.46bn.
- **Specialty segment** revenue, including Rallis, to rise by 11.98% YoY to Rs8.93bn.

Segment EBIT:

- BC segment's EBIT to increase by 8.6% YoY to Rs3.75bn.
- Specialty segment's EBIT loss is expected to marginally dip from Rs116mn in 1QFY22 to Rs58mn in 1QFY23 on a standalone basis (excluding Rallis).

Consolidated Segment EBIT margin 1QFY23 vs. 1QFY22:

- BC segment EBIT margin estimated at 12.74% vs. 15.9% YoY.
- Specialty segment (including Rallis) EBIT margin estimated at 8.25% vs. 11.7% YoY.

Key pointers: (1) Risk to Soda Ash demand growth/margins due to: (i) demand slowdown in key end-use sectors as a result of a global slowdown/recession in the aftermath of rising global inflation/interest rates and the ongoing Russia-Ukraine conflict and (ii) the adverse impact of steep increase in freight and energy costs. (2) Progress in capex and new projects.

Exhibit 4: **Tata Chemicals 1QFY23E – Indian and Overseas details**

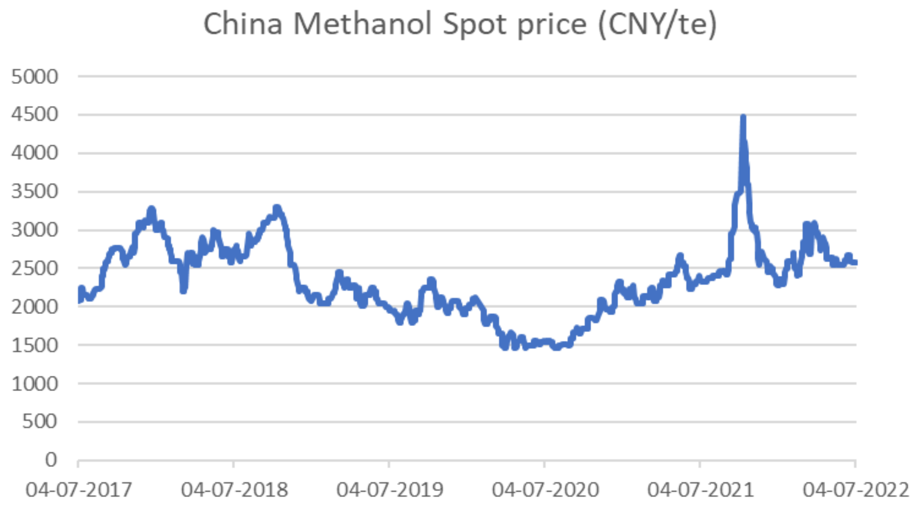
Rsmn	1QFY22	1QFY23E	1QFY22	1QFY23E	1QFY22	1QFY23E	1QFY22	1QFY23E
	Revenue	Revenue	EBITDA	EBITDA	EBITDA Margin	EBITDA Margin	Soda ash Volume	Soda ash Volume
					%	%	000' tonne	000' tonne
India	8280	11,865	2390	3032	36.6	25.6	167	175
US	8370	10,723	1730	1577	18.8	14.7	580	580
UK	4070	5,740	290	481	11.8	8.4	68	61
Africa	1340	1703	250	521	38.9	30.6	83	83
Rallis	7410	8358	1220	1004	13.6	12.0	-	-
Adjustment	300		130					
Total	29,770	38,390	6010	6616	20.2	17.2	898	900

Source: Company, Nirmal Bang Institutional Equities Research

Anupam Rasayan: We expect revenue growth of 25% YoY. EBITDA margin is likely to dip by 136bps to 24.6% with steady gross margin and increase in employee/other expenses by 34.5%/28.9% YoY. We expect PAT to decline by 4.5% YoY due to higher interest expense (up 133% YoY to Rs122mn) and tax provision (due to higher tax rate). This will offset the healthy EBITDA growth of 18.5% YoY. The increase in interest expense is due to increase in debt to finance the Tanfac acquisition and the higher working capital requirement.

Chemical price trends

Exhibit 5: Methanol

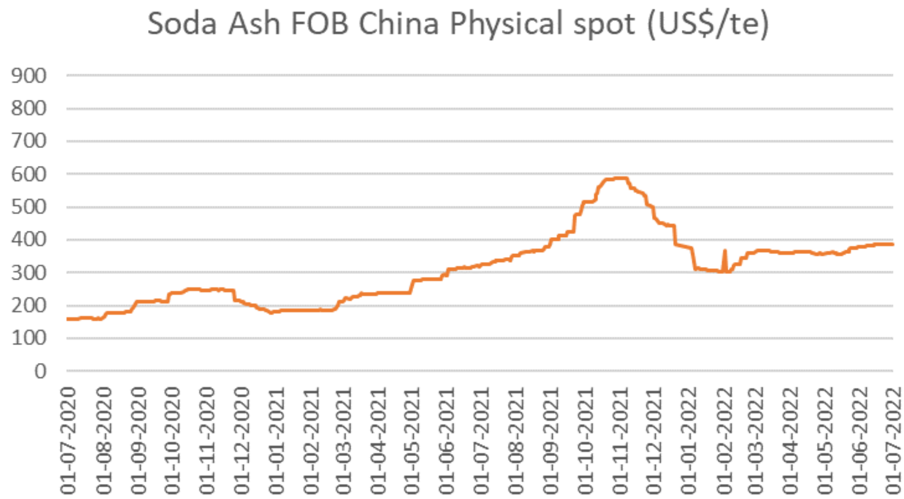


Source: Bloomberg; Nirmal Bang Institutional Equities Research

Exhibit 6: Acetic Acid

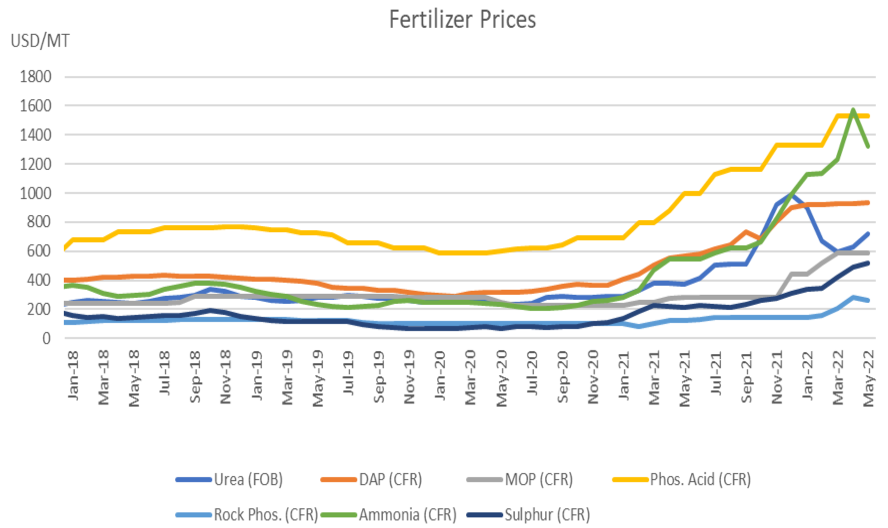
Source: Bloomberg; Nirmal Bang Institutional Equities Research

Exhibit 7: Soda Ash



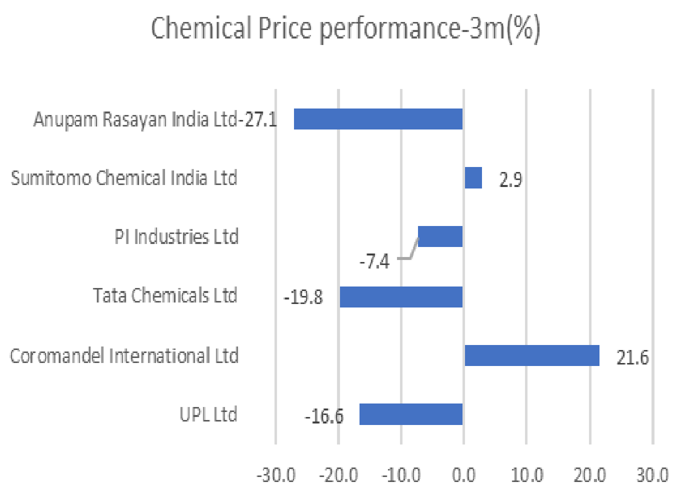
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 8: Input and product price trends in Indian Phosphatic Fertilizer sector



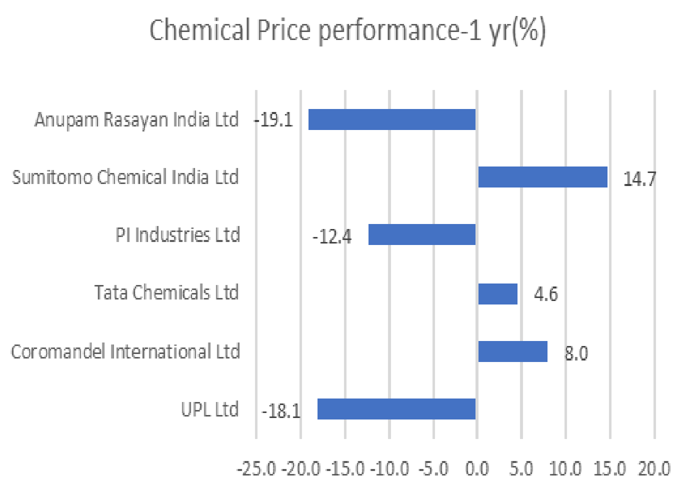
Source: Department of Fertilizers; Nirmal Bang Institutional Equities Research

Exhibit 9: Three-month price performance trend



Source: Nirmal Bang Institutional Equities Research

Exhibit 10: One-year price performance trend



Source: Nirmal Bang Institutional Equities Research

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