Sector Thematic

Indian Chemical Sector

Evolution to revolution!

Our positive stance on our speciality chemicals universe is premised on (1) domestic availability of raw materials, (2) accelerated capital expenditure (Capex) to build product development capabilities and backward integration resulting in EBITDA and PAT CAGR of 19/23% over FY21-23E, (3) investment in Research & Development (R&D), which would allow these companies to step up their position in the speciality chemical manufacturing value chain to become 'proprietary chemical producers', and (4) import substitution along with export opportunity. Being a B2B business industry, the growth of the industry tends to mimic the growth of its end-user industry. We believe that companies supplying speciality chemicals to pharmaceutical and agrochemical industries are in a sweet spot due to (1) steady growth and (2) stringent regulations that create entry barriers for competitors. We maintain BUY on Alkyl Amines, Balaji Amines, and Galaxy Surfactants; ADD on Navin Fluorine (NFIL), while maintaining SELL on Vinati Organics. We are also initiating coverage on SRF and Aarti Industries (AIL) with a BUY recommendation.




Nilesh Ghuge
Chemicals, Oil & Gas
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar
Chemicals, Oil & Gas
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Divya Singhal
Chemicals, Oil & Gas
divya.singhal@hdfcsec.com
+91-22-6171-7348

Rutvi Chokshi
Chemicals, Oil & Gas
rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

INSTITUTIONAL RESEARCH

Indian Chemical Sector

Evolution to revolution!

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Being a B2B business industry, the growth of the industry tends to mimic the growth of its end-user industry. We believe that companies supplying speciality chemicals to pharmaceutical and agrochemical industries are in a sweet spot due to (1) steady growth and (2) stringent regulations that create entry barriers for competitors. We maintain BUY on Alkyl Amines, Balaji Amines, and Galaxy Surfactants; ADD on Navin Fluorine (NFIL), while maintaining SELL on Vinati Organics. We are also initiating coverage on SRF and Aarti Industries (AIL) with a BUY recommendation.

Domestic availability of petrochemical intermediates to rise
Petrochemical intermediates are the building blocks for downstream speciality chemicals. India depends mainly on imports for petrochemical intermediates. Importing and storing low volumes of raw materials could make speciality chemicals manufacturers uncompetitive. Therefore, availability of petrochemical intermediates domestically is the crucial factor for growth. The increasing demand for petrochemical intermediates from speciality chemical manufacturers is resulting in the diversion of ethylene and propylene to produce petrochemical intermediates. Oil Marketing Companies (OMCs) and other petrochemical manufacturers have realised this opportunity and, to exploit it, have announced projects to manufacture petrochemical intermediates.

Accelerated Capex intensity will pay off
For FY18-20, the aggregate Capex spends of our speciality chemicals universe were 1.5x (INR 78bn) those during FY16-18. The companies had spent Capex for capacity augmentation and/or product development based on their end-user industries. Most (75%) of it was spent for revenue generation, and the remaining for backward integration. We expect growth momentum to continue with revenue, EBITDA and PAT CAGRs of 14/19/23% over FY21-23E owing to (1) increase in the share of value-added products, (2) rising backward integration, and (3) rising utilisations ushering benefits of operating leverage. The EBITDA margin is also expected to expand by ~190bps to 23%.

R&D capabilities to move up companies' positions in speciality chemicals value chain
The aggregate R&D spending by our speciality chemicals (ex-Vinati Organics) universe grew at an 18% CAGR over FY15-19 to INR 2bn. The investment in R&D capabilities has enabled them to secure the confidence of their customers and step up their position in the speciality chemicals manufacturing value chain to become 'custom chemical producers'. AIL and NFIL turn these R&D capabilities into contract manufacturing and research services. Further investment in R&D capabilities will enable speciality chemical manufacturers to step up their position in the value chain to become 'proprietary chemical producers', which will boost their margins.

Company	Reco	TP	Upside (%)
AIL	BUY	1,320	26.0
Alkyl Amines	BUY	4,010	26.8
Balaji Amines	BUY	980	17.1
Galaxy Surfactants	BUY	2,070	21.8
NFIL	ADD	2,210	13.1
SRF	BUY	5,120	24.6
Vinati Organics	SELL	890	(12.1)

FY22E	PER (x)	P/B (x)
AIL	38.0	4.9
Alkyl Amines	25.9	6.9
Balaji Amines	17.3	2.9
Galaxy Surfactants	21.4	4.4
NFIL	32.6	5.4
SRF	32.4	3.9
Vinati Organics	31.5	6.4

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

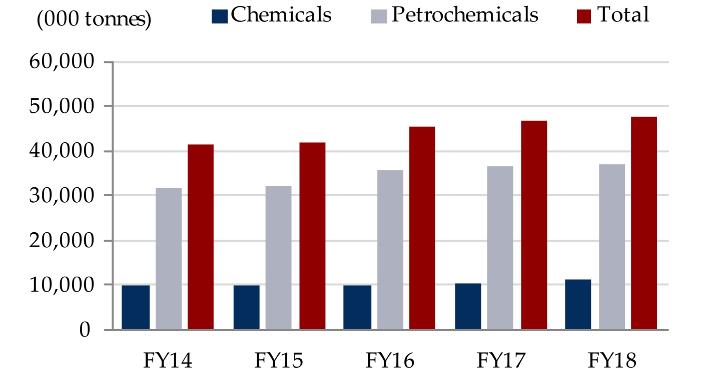
Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Divya Singhal
divya.singhal@hdfcsec.com
+91-22-6171-7348

Rutvi Chokshi
rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

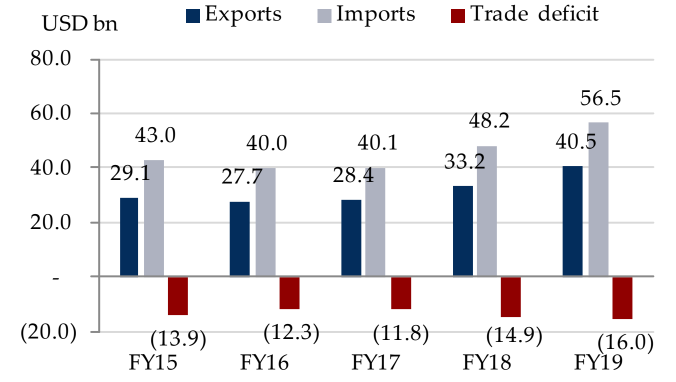
Story in charts

Exhibit 1: India's chemical and petrochemical consumption trend



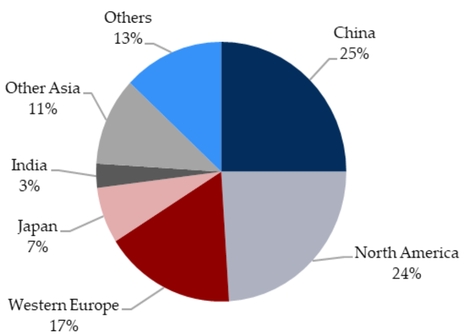
Source: Chemical and petrochemical statistics, HSIE Research

Exhibit 2: India's exports, imports and trade deficit of chemicals and petrochemicals (USD bn)



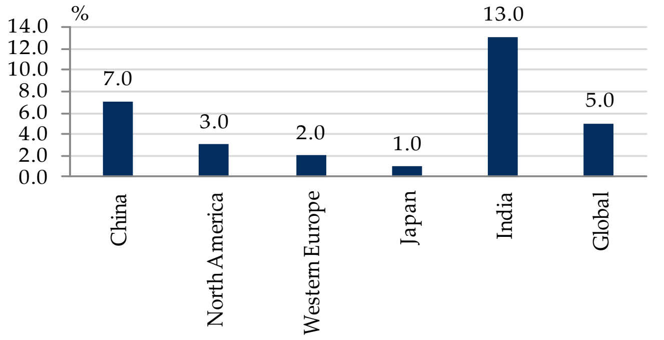
Source: Chemical and petrochemical statistics, HSIE Research

Exhibit 3: Share of region/country in speciality chemicals



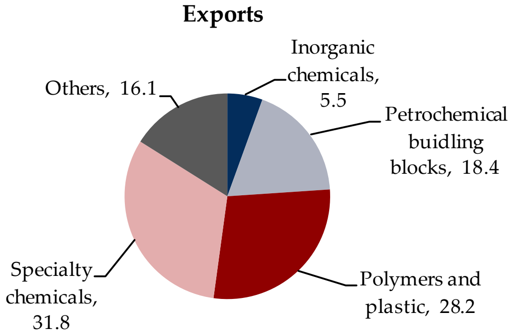
Source: Aarti Industries

Exhibit 4: Expected CAGR over FY18-23E of speciality chemicals region wise



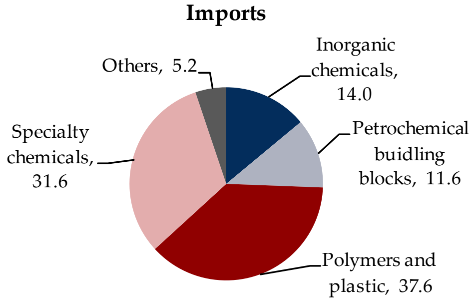
Source: Aarti Industries

Exhibit 5: Speciality chemical is the top export segment of India in FY19



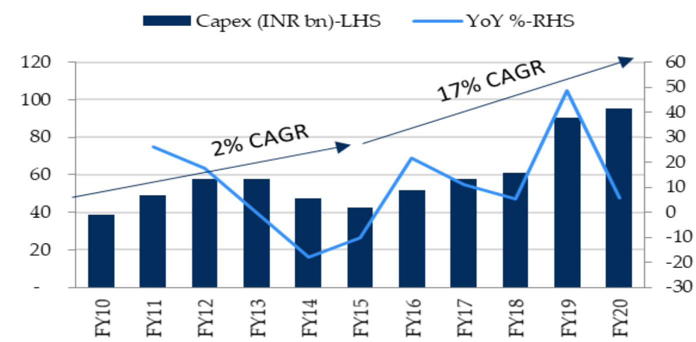
Source: Government of India, Ministry of Commerce & Industry, Chemical and petrochemical statistics* We have compiled data for HS code 28,29,32,38,39,4002

Exhibit 6: Polymer and plastics is the top import segment of India in FY19



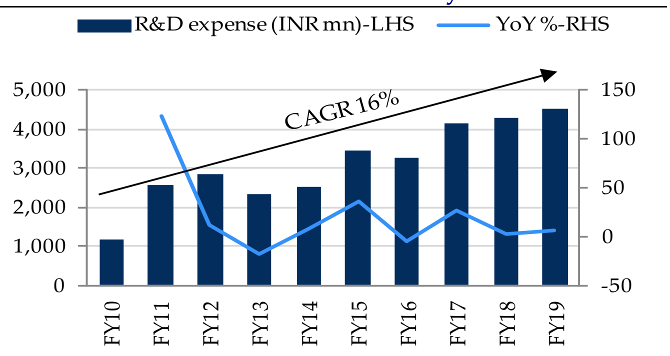
Source: Government of India, Ministry of Commerce & Industry, Chemical and petrochemical statistics* We have compiled data for HS code 28,29,32,38,39,4002

Exhibit 7: Capex spending accelerated to a 17% CAGR over FY15-20 in the domestic chemical industry



Source: Company, HSIE Research

Exhibit 8: R&D spending has grown at a 16% CAGR over FY10-19 in the domestic chemical industry



Source: Company, HSIE Research

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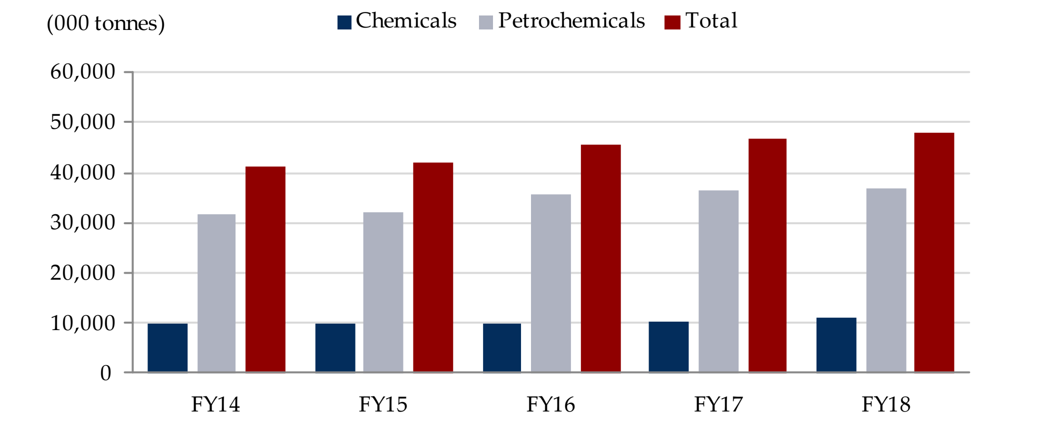
Indian chemical industry

The Indian chemical industry is one of the fastest-growing industries in the world. Currently, it ranks 3rd in Asia and is the 6th largest market in the world with respect to output, after the US, China, Germany, Japan and South Korea. The industry's growth is mainly driven by consumption growth and export opportunity. Chemical and petrochemical consumption grew from 41.3 mn tonne (mmt) in FY14 to 47.8mmt in FY18 at a CAGR of 3.7%. During this time, imports jumped from 13.8mmt to 18.7mmt at an 8% CAGR while exports increased from 7.9mmt to 9.9mmt at a 5.8% CAGR. Thus, net imports grew at a CAGR of 10.8% from 5.9mmt in FY14 to 8.9mmt in FY18.

The chemical industry contributes significantly to India's export-import trade in terms of value. Chemical and petrochemical imports jumped from USD 43bn in FY15 to USD 56.5bn in FY19, while exports increased from USD 29.1bn to USD 40.5bn. India had a chemical trade deficit of USD 15.9bn in FY19. The share of chemical and petrochemical imports was 11% in India's total imports in value terms in FY19, up from 9.6% in FY15. On the other hand, in India's total exports in terms of value, it swelled to 12.3% in FY19 from 9.4% in FY15. Still, India's share in the global chemical and petrochemical trade is merely 3%.

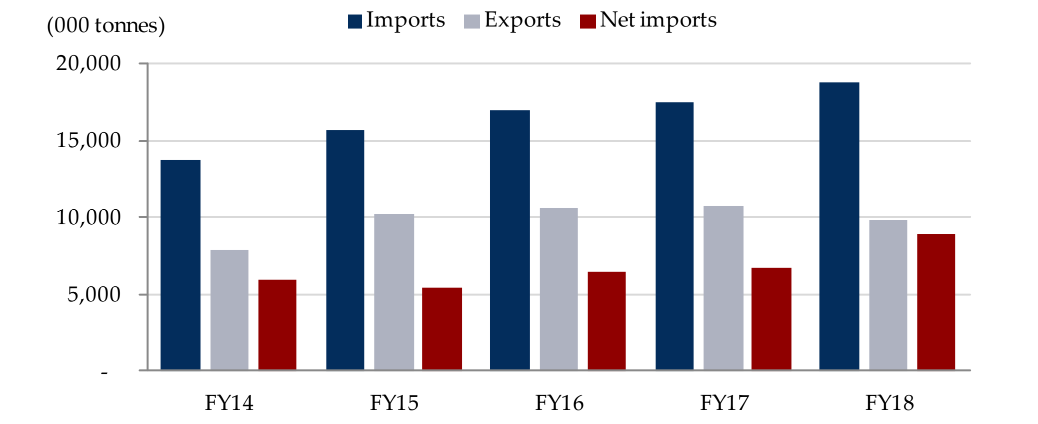
Speciality chemicals segment contributes the highest (31.8%) to exports; while for imports, the top contributor is polymers and plastic segment (37.6%) (Exhibit 11 and 12). The analysis of India's chemical exports and imports opens up doors to two opportunities: (1) building self-sufficiency in chemicals and petrochemicals to plug the domestic supply shortfall and (2) increasing exports in value-added products and speciality chemicals.

Exhibit 9: India's chemical and petrochemical consumption trend



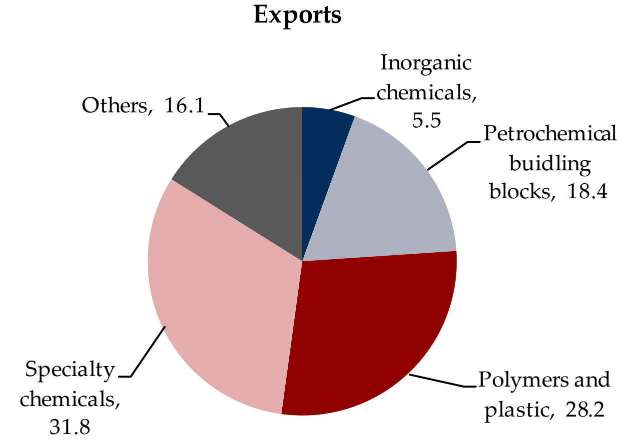
Source: Chemical and petrochemical statistics

Exhibit 10: India's chemical and petrochemical imports-exports volumes



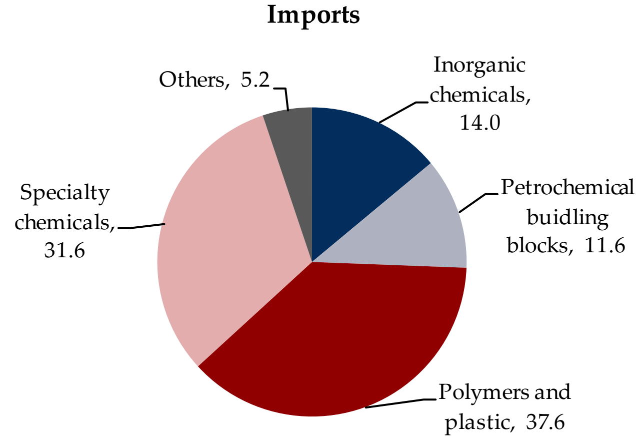
Source: Chemical and petrochemical statistics

Exhibit 11: India's segment-wise exports* in FY19 (%)



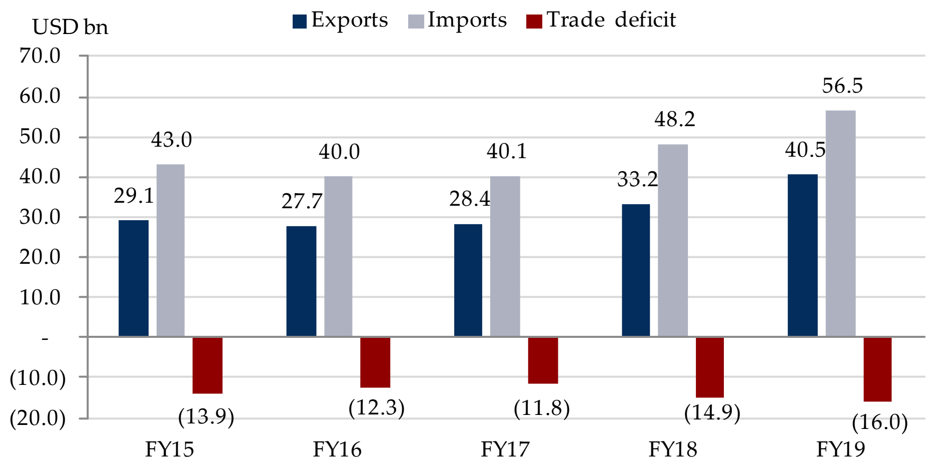
Source: Government of India, Ministry of Commerce & Industry, Chemical and petrochemical statistics
* We have compiled data for HS code 28,29,32,38,39,4002

Exhibit 12: India's segment-wise imports* in FY19 (%)



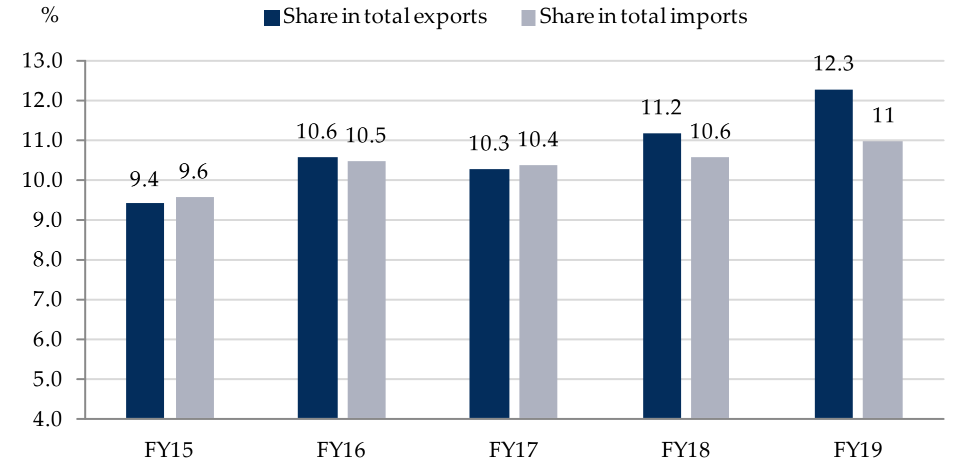
Source: Government of India, Ministry of Commerce & Industry, Chemical and petrochemical statistics
* We have considered data of HS code 28,29,32,38,39,4002

Exhibit 13: India's exports-imports and the trade deficit of chemicals and petrochemicals (USD bn)



Source: Ministry of Chemicals & Fertilizers Department of Chemicals and Petrochemicals

Exhibit 14: Share of chemical and petrochemical exports and imports in total value



Source: Ministry of Chemicals & Fertilizers Department of Chemicals and Petrochemicals

Speciality chemicals

Speciality chemicals are manufactured because of their performance or function. They can be single chemical entities or formulations whose composition influences the performance and processing of the end product. These chemicals can be sub-divided based on end-user industries. These chemicals are driven by extensive research and development, which is a significant differentiator over the commoditised chemical industry. Unlike a commodity chemical which may have dozens of different applications, a speciality chemical has only one or two core applications.

Speciality chemical manufacturers can be organised into three main categories: (1) ‘tollers’ who sell their manufacturing capabilities, (2) ‘custom chemical producers’ who provide support on any scale for chemistry that is designed for an individual customer, and (3) ‘proprietary chemical producers’ who sell molecule/formulated product for which they own the intellectual property.

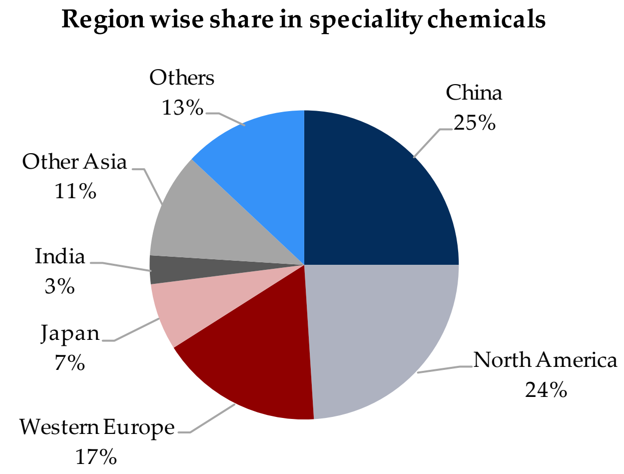
Speciality chemicals industry can be sub-divided based on end-user industry into agrochemicals, dyes and pigments, personal care ingredients, polymer additives, water chemicals, textile chemicals and application-driven segment. These are the largest constituents of the speciality chemicals industry and cumulatively constitute over 80% of the speciality chemicals universe.

The global speciality market grew from USD 577bn in FY12 to USD 745bn in FY17 at a CAGR of 5%. It is expected to grow to USD 1,000bn by FY22E at a CAGR of 6%. China and North America dominate the global speciality market with ~50% market share while India's share is merely 3%. This shows that the speciality chemicals market in India is at a lower level as compared to the US and China, creating a significant scope for growth.

Exhibit 15: Global speciality chemicals market size to grow at ~6% CAGR over FY17-22E

Source: Aarti Industries

Exhibit 16: Share of region/country in speciality chemicals



Source: Aarti Industries

Indian speciality chemical industry

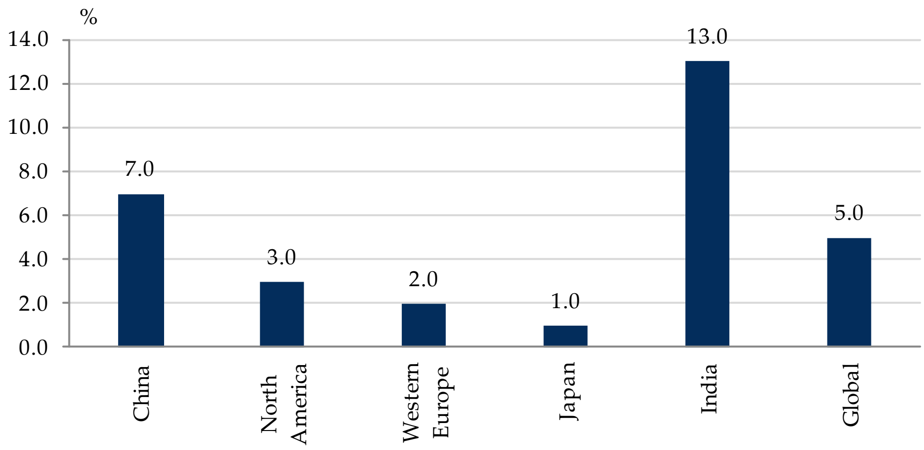
Indian chemical manufacturers have made a wise investment choice of now focusing on speciality and fine chemicals. Initially, Indian speciality chemical manufacturers became 'tollers' for their customers as they provided them with the advantage of being low-cost producers. Gradually, speciality chemical companies started focusing on aspects beyond the traditional cost advantages. Since then, these companies have shown remarkable results in areas of technological proficiency, ability to create brands and distribution network, developing scale and creating operational efficiencies. This shift has enabled them to secure the confidence of their customers and step up their position in the value chain to become 'custom chemical producers'.

The Indian speciality chemicals industry is expected to grow from ~USD 40bn in FY20 to ~USD 60bn in FY23E at a 13% CAGR, outpacing the global average growth of ~5% CAGR. This outperformance is attributable to (1) domestic availability of petrochemical intermediates, (2) increasing capital expenditure incurred for expanding portfolio of value-added/customised products, backward integration and (3) increasing R&D spends to enter into new age products and new chemistry.

AIL, NFIL, Alkyl Amines and Balaji Amines have exhibited noteworthy product development capability and ability to handle critical raw materials or processes. It has enabled them to become reliable suppliers, particularly for pharmaceutical and agrochemical companies. Surfactants, dyes and consumer durable products are areas where scale and operational efficiency are the key success factors. Companies can be seen as increasingly integrating and scaling up their capacities over the past. SRF and Galaxy Surfactants have expanded their capacities commensurate with the growth of the end-user industry market.

AIL and NFIL have signed exclusive contracts with their customers in which the customers are not only sharing their technology but also investing in their projects. We believe that these companies can attract more such contracts in the future. All these companies are backwardly integrated, which helps them protect their margins. The increasing share of customised products in their product mix will further boost margins for these entities.

Exhibit 17: Region-wise expected CAGR of speciality chemicals over FY18-23E



Source: Aarti Industries

Domestic availability of petrochemical intermediates is the key to the success of speciality chemical

Petrochemical intermediates are the building blocks for downstream speciality chemicals. India depends largely on imports for petrochemical intermediates (Exhibit 18). Speciality chemicals are characterised as low volume chemicals. Importing and storing low volumes of raw materials could make them uncompetitive unless they are highly patented. Therefore, availability of petrochemical intermediates domestically is the main factor for the growth of downstream speciality chemicals industry. Majority of petrochemical intermediates are synthesised from derivatives of ethylene and propylene. Historically, ethylene and propylene have been used to build polymers and plastics owing to their strong demand in the domestic market and lack of logistic infrastructure availability, particularly for ethylene and its derivatives. Therefore, the capacity growth of petrochemical intermediates has been constrained by low availability of ethylene and propylene.

The increasing demand for petrochemical intermediates from speciality chemical manufacturers is resulting in the diversion of ethylene and propylene to produce petrochemical intermediates. The upstream petrochemical suppliers like oil refiners and petrochemical producers have announced projects where ethylene, propylene or its derivatives will be used as raw materials to manufacture final products. (Exhibit 19).

BPCL at Kochi, under the Propylene Derivatives Petrochemical Project (PDPP), will produce Oxo Alcohols, Acrylates (used in personal care products and cosmetics) and Polyols (used in paints and coatings). A JV of BASF-Adani-ADNOC has announced to produce acrylic value chain comprising of glacial acrylic acid (GAA), Oxo-C4 (butanols and 2-ethyl hexanol), butyl acrylate (BA) and potentially other downstream products. Propylene will be the key raw material to produce these products.

Ethylene is mainly used to manufacture polymers. The next biggest use of ethylene is to produce ethylene oxide and its derivatives like ethyoxylates (used in shampoo and personal care products), glycol ethers (used as a solvent and fuel) and ethanolamines (used in surfactants and personal care products). Ethyoxylates (EO) is the primary raw material for Galaxy Surfactants and Aarti Surfactants.

Various banks have agreed upon extending lending to sugar mills to increase the capacity of distilleries. This will lead to an expected increase in ethanol capacity by 6bn litres. OMCs will ensure offtake from sugar mills, while the government will bear an interest subvention of INR 40.5bn. This will put pressure on ethanol prices in the domestic market. Ethanol is the key raw material for Alkyl Amines and Balaji Amines, used to produce ethyl amines and value-added derivatives of ethyl amines, which are used as solvents or raw materials by pharmaceutical and agrochemical companies.

Exhibit 18: Net imports of key petrochemical intermediates (in 000kg)

Chemicals	FY14	FY15	FY16	FY17	FY18	FY19
C4-Raffinate	21,439	13,010	15,825	20,050	48,702	44,558
Di-Ethylene Glycol	(17,577)	(12,161)	(10,903)	(10,608)	(9,216)	(9,443)
Ethylene Dichloride (By Product)	439,528	465,271	584,195	503,971	668,473	562,496
Phthalic Anhydride (PAN)	31,752	13,716	39,355	50,025	92,571	118,306
Vinyl Chloride Monomer (VCM) (By Product)	303,041	317,887	358,872	344,424	484,390	457,532
Nylon Industrial Yarn/Tyre Cord	76	295	256	161	240	251
Polypropylene Staple Fibre	(14,728)	(10,381)	(5,719)	(7,816)	(6,295)	(4,619)
Methanol	1,228,521	1,590,166	1,667,862	1,624,833	1,773,826	1,975,718
Acetic Acid	657,459	705,895	784,396	834,895	872,295	919,477
Phenol and its salts	211,954	198,107	241,928	278,174	283,822	227,084
Ethyl Vinyl Acetate	113,548	138,273	163,991	143,261	182,447	178,154
Total synthetic rubber	48,854	50,239	56,254	57,464	62,688	70,047
Mono Ethylene Glycol	753,692	930,324	1,039,343	1,173,533	929,015	342,131
Purified Terephthalic Acid	978,068	1,044,522	523,865	152,713	309,172	407,334
Caprolactum	22,980	32,276	44,577	51,895	58,360	66,420
Dimethyl Terephthalate (DMT)	1,785	2,094	2,215	1,760	2,256	1,454

Source: Department of commerce

Exhibit 19: Upcoming projects which will ease the supply of domestic petrochemicals and petrochemical intermediates

Sr no	Promoters	Products/Project	Place of the project	Date of commissioning
1	ADNOC, Adani, BASF and Borealis	Propane dehydrogenation (PDH) unit	Mundra	2024
2	Indian Oil Corporation Limited	Integrated Para-Xylene (PX) and Purified Terephthalic Acid (PTA) complex	Paradip	2024
3	BASF India Ltd	Double the capacity for polymer dispersions	Dahej	2021
4	Mangalore Refinery and Petrochemicals Ltd	Refinery expansion to 18 MTPA-to focus on petrochemicals such as ethylene, propylene and butane	Mangalore	NA
5	Chennai Petroleum Corporation Limited	Refinery cum petrochemical complex at Cauvery Basin Refinery including a Polypropylene unit	Nagapattinam	NA
6	Brahmaputra Cracker and Polymer Limited	Butene-1 and 2nd Stage Hydrogenation of Pyrolysis Gasoline (HPG) plant	Lepetkata	NA
7	Hindustan Petroleum Corporation Ltd	Greenfield refinery-cum-petrochemical project	Barmer	2022
8	Bharat Petroleum Corporation Ltd	Speciality petrochemicals plant to produce Acrylic Acid, Oxo Alcohols, Polyols and Acrylates	Kochi	2024
9	Deepak Nitrite	Isopropyl alcohol	Dahej	2021
10	Gujarat Narmada Valley Fertilisers and Chemicals	Acetic Acid	Vadodara	NA

Source: Company, HSIE Research

Capital expenditure in the Indian chemical space

Indian chemical industry has been revving up its Capex over the past decade in order to be well equipped and more competitive to grab future opportunities. Aggregate Capex incurred by 31 leading chemical companies considered by us has grown at a 17% CAGR over FY15-20, and a 9% CAGR over FY10-20. INR 95bn was spent in FY20 by these companies on Capex as compared to INR 39bn in FY10. Capex as a percentage of revenue was 9.6% in FY20, the highest ever in the past decade.

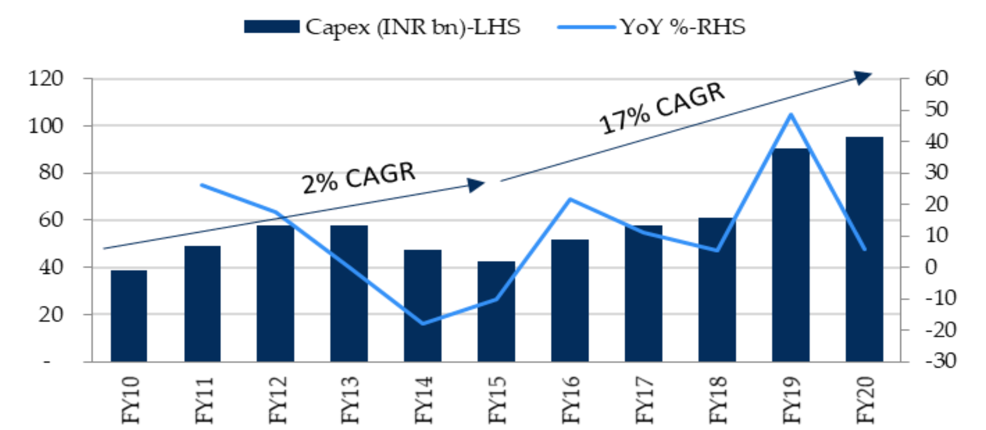
India and China are leading the world in capital spending intensity (Capex as a percentage of profit) in the chemical space. In CY18, India's chemical sector attributed 23.3% of its PAT to Capex, whereas China's chemical sector attributed 32.6 %. All other countries in the world attributed less than one-fifth of its value-added to Capex in CY18.

Rapid investment in capacities over the past five years has provided a boost to the speciality segment. Our speciality chemicals universe predominantly caters to the demand of the pharmaceutical and agrochemical industries (Exhibit 22). Companies are continuing to spend heavily on Capex to meet demand of these industries as they pose great growth opportunities, given the current pandemic situation. Some companies have delayed their Capex investments due to the COVID-19 crisis, but have not abandoned them.

Capex incurred by our speciality chemicals universe during FY16-18 was 1.5x (INR 52bn) that incurred by these companies over FY13-15. This has resulted in an acceleration in revenue, EBITDA, and PAT growth to a 10/23/23% CAGR over FY18-20, vs 13/7/13% CAGR over FY16-18. The growth in EBITDA was higher than revenue growth. Also, average EBITDA margin expanded by ~250bps over FY18-20, which implies that a higher share of value-added products drove the growth.

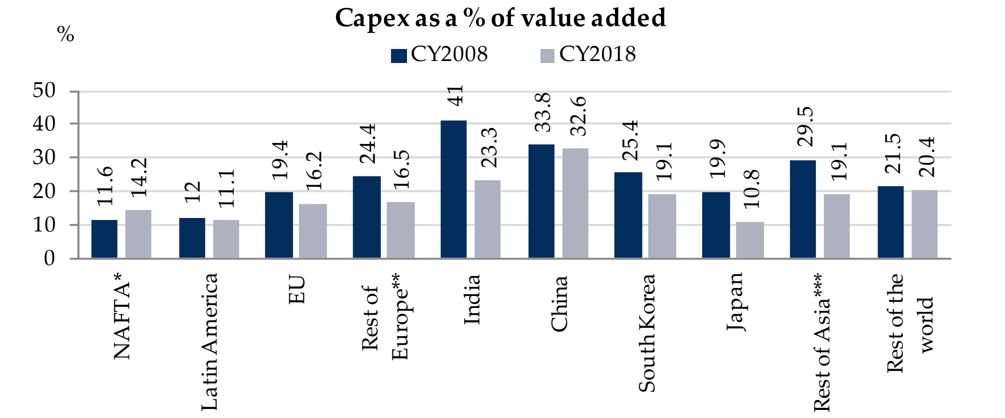
For FY18-20, the aggregate Capex spends of our speciality chemicals universe were 1.5x (INR 78bn) those during FY16-18. The companies had spent Capex for capacity augmentation and/or product development based on their end-user industries. Most (75%) of it was spent for revenue generation, and the remaining for backward integration. We expect growth momentum in earnings to continue with revenue, EBITDA and PAT CAGRs of 14/19/23% over FY21-23E owing to (1) increase in the share of value-added products, (2) rising backward integration, and (3) rising utilisations ushering benefits of operating leverage. The EBITDA margin is also expected to expand by ~190bps to 23%

Exhibit 20: Capex has grown at a 17% CAGR over FY15-20 in the domestic chemical industry



Source: Company, HSIE Research | The Capex here refers to aggregate capex incurred by 31 domestic chemical companies considered by us having a market capitalisation greater or equal to INR 10bn.
Capex = Purchase of fixed assets - sale of fixed assets + investment in subsidiaries + advances for capital expenditure.

Exhibit 21: India and China lead capital intensity in the chemical space globally



Source: Cefic Chemdata International 2019 and Cefic analysis 2019 | * North American Free Trade Agreement, ** Rest of Europe covers Switzerland, Norway, Turkey, Russia and Ukraine; *** Asia excluding China, India, Japan and South Korea.

Exhibit 22: End-user industry-wise share in revenue*

Industry	Alkyl Amines	Balaji Amines	Galaxy Surfactants	NFIL	Aarti Industries	SRF	Vinati
Pharmaceuticals	1	1		1	2	2	1
Agrochemicals	2	2		3	1	2	
Consumer durables/PHC			1	2		1	
Water treatment	3						3
Foundry chemicals	4						
Paints and dyes		3			3		
Oil & Gas				4			2
Automobile						3	
Rubber chemicals		4			4		
Others	5	5		5	5	4	4

Source: Company, * '1' indicates the highest share from the segment and '5' the least.

Research and development spending in the Indian chemical space

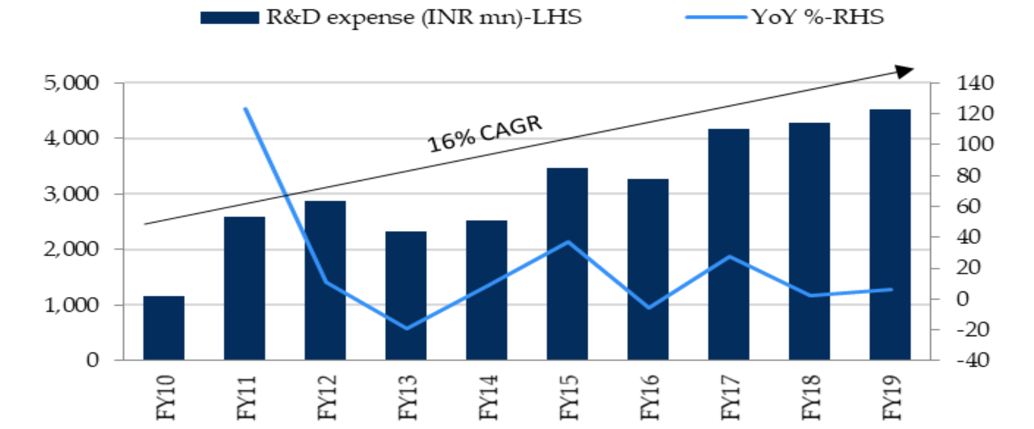
In the speciality chemicals industry, a company's success and growth sustenance depend on its ability to innovate. Also, technology is not available off-the-shelf for speciality chemicals, unlike for commodity chemicals. Thus, to innovate new age molecules and enter into newer chemistries, it is crucial to develop strong R&D capabilities. Our speciality chemicals companies have exhibited noteworthy product development capability either through the development of new products indigenously or in collaboration with R&D teams of customers.

Indian chemical companies have augmented investments in R&D activities over the past decade in hope for a brighter future. Aggregate R&D expenditure incurred by 28 leading chemical companies considered by us has grown at a 16% CAGR over FY10-19, while the revenue has grown at an 11% CAGR over the same period. INR 4.5bn was spent in FY19 by these companies on R&D as compared to INR 1.1bn in FY10. R&D expense as a percentage of revenue has remained in the range of 0.4-0.5% from FY15-19.

India's share in the aggregate R&D spending incurred over the globe by chemical companies has grown from 2.7% in CY08 to 3.3% in CY18. What is worthy of attention is that only India's, China's and South Korea's share has grown during this period.

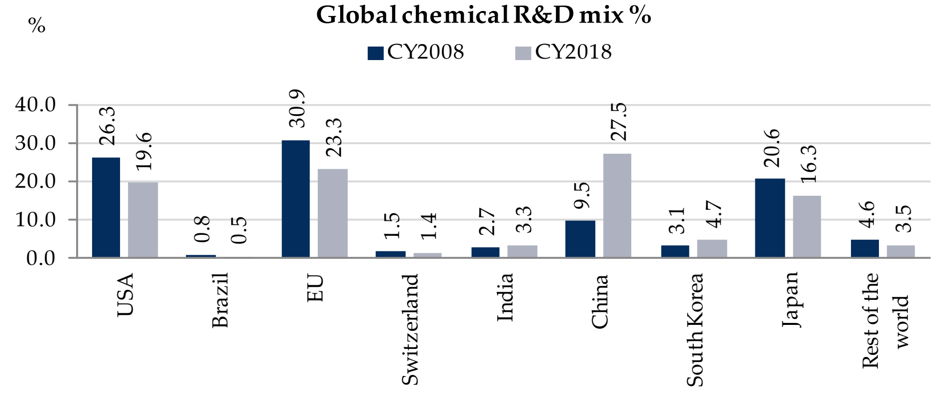
Over last four years, companies which have expanded their product portfolio to supply molecules/chemicals to pharmaceutical and agrochemical industries, have invested heavily in developing R&D capacity (AIL 31%, SRF 17%, NFIL 12% CAGR). R&D spend by AIL has more than tripled in three years from INR 210mn in FY17 to INR 650mn in FY20 with a 44% CAGR. AIL is developing its 5th R&D centre in Navi Mumbai. NFIL and AIL turn these R&D capabilities into contract manufacturing and research services. R&D teams of SRF and Galaxy Surfactants work in close collaboration with customers to develop new molecules.

Exhibit 23: R&D spending has grown at a 16% CAGR over FY10-19 in the domestic chemical industry



Source: Company, HSIE Research | The R&D expense here refers to aggregate R&D expenses incurred by 28 domestic chemical companies considered by us having a market capitalisation greater or equal to INR 10bn.

Exhibit 24: R&D spending in the chemical sector: India vs the globe



Source: Cefic Chemdata International 2019

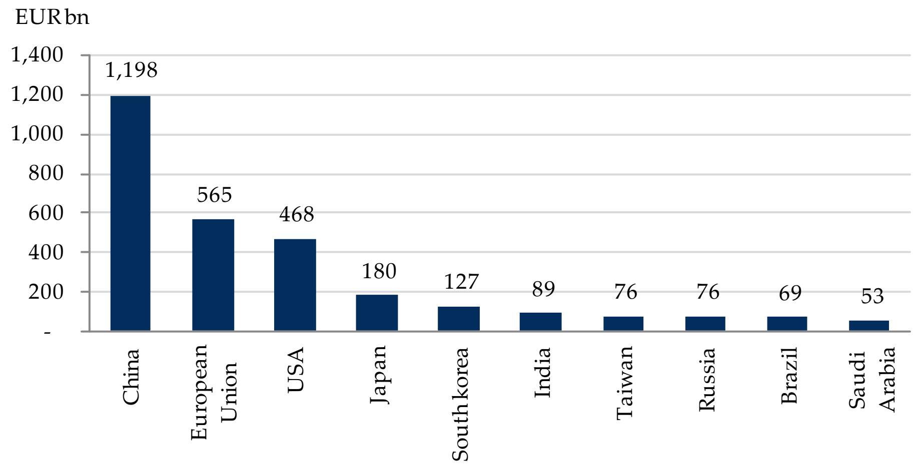
Trade war will create opportunity for Indian players

Trade conflicts have erupted around the world, especially amongst China, the United States and western Europe. These have led to shifts in global supply chains, affecting bilateral trade between China and the US. China is the largest chemicals producer in the world, contributing 35.8% of global chemical sales in 2018 with sales of EUR 1,198bn. India's contribution is merely 3% with total sales of EUR89 bn.

The US has imposed tariffs on Chinese imports, while China has retaliated by imposing tariffs on US goods. Subsequently, many countries in western Europe have imposed tariffs on Chinese goods. Chemicals form a large part of China's exports to the US (EUR 10.9bn in CY2017) and Europe (EUR 16.4bn in CY2017).

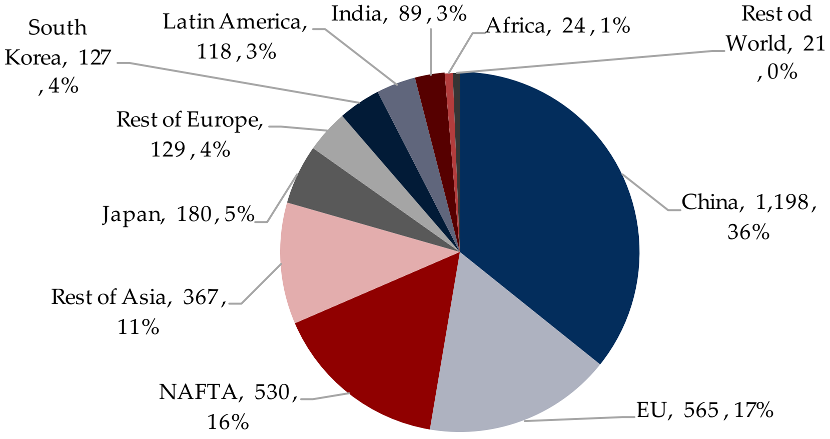
The imposition of tariffs would impact the trade between US/Europe and China adversely. Thus, many downstream multinational companies that imported the bulk of their chemical requirements from China may consider supplementing this supply from elsewhere. Large chemical markets that remain accessible in this scenario could present opportunities for Indian chemical companies.

Exhibit 25: Country-wise chemical sales: top 10 in 2018



Source: Cefic

Exhibit 26: China's share in global chemical sales increased to 36% in 2018



Source: Cefic

Companies

Aarti Industries

(TP INR 1,320, BUY)

We initiate coverage on Aarti Industries Ltd (AIL) with a BUY recommendation. Our DCF-based target price of INR 1,320/share (WACC of 10% and terminal growth rate 3%) implies an upside of 26.0% from the current level. We expect AIL's PAT to grow at a 29% CAGR over FY21-23E, led by a 14% CAGR in revenue. We expect the RoCE to dip in FY21E to 8% owing to significant Capex and the adverse impact of the pandemic on the business, but it is expected to recover to 10% in FY23E. The constant focus on R&D will enable the company to remain competitive and expand its customer base. The toluene segment in India is mainly untapped and catered to through imports; AIL will benefit in the long term by entering this segment.

USPs of AIL: High backward integration, large scale operations and a diversified customer base

- AIL has more than 200 inhouse developed products, spread across two segments: speciality and pharmaceuticals. The company's operation is highly backwardly integrated, with benzene (India is the largest exporter of benzene) as a raw material. The company has various chains ranging from nitration to halex chemistry (Exhibit 27,28 & 29), through which it manufactures different products. AIL is the only domestic player to have products until the sixth level derivative of benzene chemistry. This helps AIL to offer a wide range of products to the same customer. It is a win-win situation for both—the company and its customers. The company earns more revenue by offering additional products, whereas its customers can source their supplies from one place. Besides, due to having an integrated value chain, AIL is the lowest cost producer of benzene derivatives globally.

- The company is the global market leader in the manufacturing of benzene-based derivatives. It is ranked amongst the top-2 in ammonolysis and hydrogenation processes, while ranked amongst the top-3 in chlorination and nitration of benzene. The company is the only producer of phenylenediamine (PDA) in India with a capacity of 12ktpa. AIL currently has a capacity of 75ktpa for NCB, which it plans to expand to 108ktpa. The company contributes 70% to India's NCB production.

- The company is well-diversified in terms of end-user industries— agrochemical, pharmaceuticals; polymers and additives; and dyes and pigments. Revenue contribution from each of these end-user industries is ~15-25%. It has more than 400 international and 700 domestic customers. Its customer base is well-diversified with top 10 and 20 customers contributing 27% and 38% respectively to revenues, while top customer contributes ~4% only. The dependence on individual products is also low. In the speciality chemicals segment, contribution of top 10 products to segment's revenue was 55% in FY19, while in the pharma segment, top 10 products contributed 69%.

- All of these factors lead to heavy entry barriers and discourage competitors from entering any of the segments in which the company operates. This is also evident in numbers that show 85% of revenue in FY19 was from customers with whom the company has had an engagement for over five years, and 75% of the speciality chemical products that the company offers is in the top-4 position in their respective categories.

Pharma segment will continue to shine

- AIL provides Active Pharmaceutical Ingredients (APIs) and intermediates to pharmaceutical companies. It has products catering to four critical illnesses—diabetes, cancer, cardiovascular and neurological diseases. The long-term growth of the pharma segment is impressive, with a 22% CAGR in revenue over FY11-20. Revenue from this segment grew from INR1.3bn in FY11 to INR 7.6bn in FY20, and it became the company's fastest-growing segment. EBIT for the segment increased to INR 1.3bn in FY20 from a loss of INR 63mn in FY11. Over the past five years, revenue grew by a 20% CAGR, while EBIT jumped by 31%. Thus, EBIT margins increased from 11.8% in FY15 to 18.2% in FY20.

- The company has five manufacturing facilities for the pharma segment, of which two are USFDA approved, while others are WHO GMP-certified. In this segment, the company's focus is on some of the anti-diabetics (newer age drugs), flogene, and also anticoagulants. These are the new products that are a part of a 12-product portfolio, which will get validated in FY21. The company has also taken up a project for an additional block of API manufacturing at its Tarapur facility. These products will be commercialised over the next 3-4 years. In intermediate manufacturing, the company is commercialising one additional block of production at custom synthesis plant which will add ~15-20% capacity for intermediate manufacturing.

- The company is expected to do well in this segment with backwardly integrated intermediates for most APIs, and US FDA approved manufacturing facilities for generic APIs. We expect revenue to increase at a CAGR of 15% to INR 11bn by FY23E, while segmental EBIT to jump by a CAGR of 11% to INR 1.9bn.

Overall EBIT margins to improve from 14% in FY21E to 17% in FY24E

- The polarisation of product mix towards value-added products and high operating leverages have resulted in the growth of operating profits ahead of revenue growth over FY15-20. Revenue grew at an 8% CAGR while operating profit grew by 16% during this period. The contribution of value-added benzene derivatives is more than 75% to revenue. The company has expanded capacities of nitro chlorobenzene (from 57ktpa to 75ktpa) and phenylenediamine (from 5ktpa to 12ktpa) and has set up 30ktpa nitro toluene and 8-10ktpa ethylation plant over FY16-18. Operating leverage created due to ramp-up in capacity utilisation has resulted in margin improvement.

- In the past, overall margins were dragged down by AIL's Home and Personal Care (HPC) segment. The performance of this business has not been impressive, with an average margin of 1%. The HPC segment has been demerged into Aarti Surfactants Ltd to focus more on the better margin segments: speciality and pharma. Margins for speciality segment are in the range of 17-22% over FY15-20, while pharma business enjoys margins in the range of 11-18%. AIL is expanding the capacity of NCB from 75ktpa to 108ktpa to fulfil the increasing demand of NCB from end-user industry (agro, pharma, dyes and pigments) and to diversify further in the benzene value chain.

- The company has already entered into the toluene chemistry space with the commissioning of a nitro toluene plant. It has expanded into ethylene-based derivatives from nitro toluene. It has planned to move further into the toluene chain with chloro toluene stream. This will enable AIL to expand its product portfolio in toluene chemistry further. The toluene segment in India is untapped and catered mainly through imports; hence AIL will benefit immensely by entering this segment.

- Consolidating its position in benzene-based derivatives and expanding its presence in toluene base derivatives, coupled with a focus on speciality and pharma segments will boost operating margins for the company. We expect overall operating margins to increase from 14% in FY21E to 17% in FY24E.

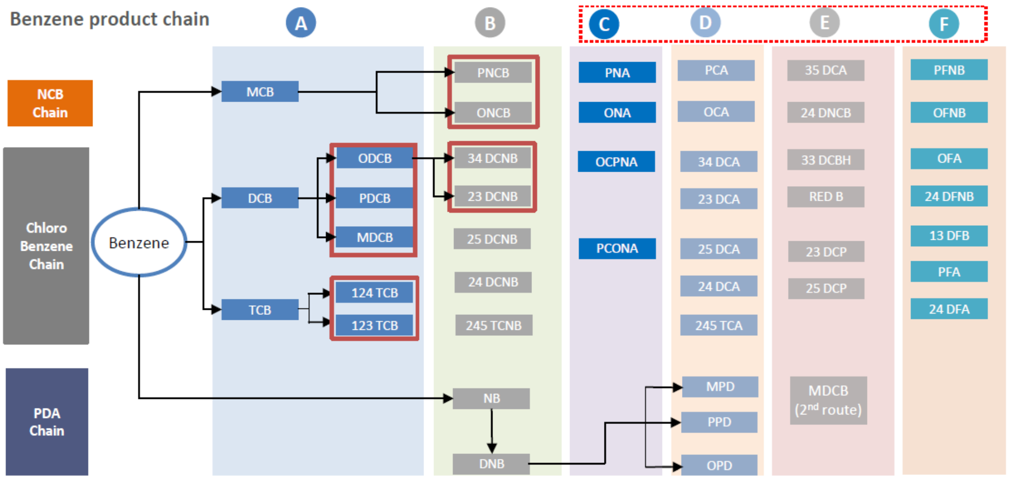
Focus on R&D to ensure long-term sustainability

- The company has set up its fourth R&D complex in Navi Mumbai in 4QFY20, which focuses on speciality chemicals. Currently, the company has two R&D centres (Vapi and Navi Mumbai) for speciality segment and two (Dombivali and Vapi) for pharma segment with more than 400 scientists and engineers. It has always focused on strengthening its technical skillset around niche applications. Strong R&D push helps to innovate specialised products with unique features, generating higher margins. AIL has spent INR 2.4bn on R&D over FY11-20. The company has accelerated its R&D spend in the past four years at 42% CAGR—from INR 160mn in FY16 to INR 654mn in FY20.
- The technical and R&D teams of the company are developing speciality chemicals intermediates, co-jointly with the R&D team of its customers. Through this collaboration, it shall deliver high value and niche products that meet the strict quality requirement norms in a cost-efficient manner.
- The company is planning to deploy its fifth R&D centre where it will add newer chemistries like photo chlorination, etc. The upcoming R&D plant is focused on the manufacture of high-value and niche speciality chemicals. This centre is expected to start operating by FY23, which will enable AIL to enter into newer chemistries and products. The company's success and sustainable growth in the speciality segment depend on the ability to innovate as the off-the-shelf technology is not available for speciality chemicals. The strong focus on R&D will ensure the sustainability of long-term growth of AIL.

Despite INR 22bn Capex, RoIC to improve from 12.3% in FY21E to 15.1% in FY24E

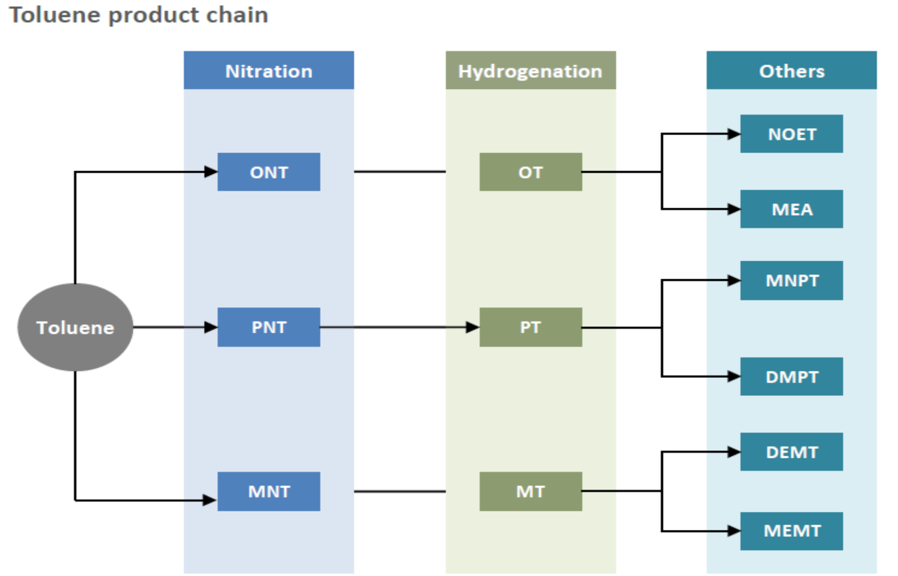
- The company has been able to earn a healthy return on its capital in the midst of the Capex that it has incurred. The RoIC was in the range of 11-17% over FY11-20. We expect it to fall in FY21E to 12.3% due to fall in absolute EBIT and capitalisation of Capex that the company has undertaken, while sales from these investments are yet to take off. Notwithstanding Capex of INR 22bn over FY21-23E, RoIC will recover to 15.1% in FY24E with an increase in EBIT margin from 14% in FY21E to 17% in FY24E.

Exhibit 27: Benzene product chain



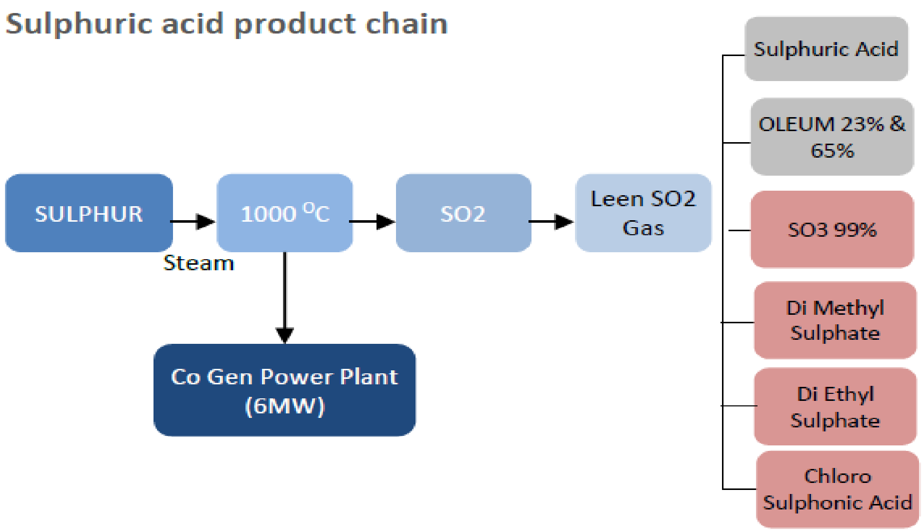
Source: Aarti Industries

Exhibit 28: Toluene product chain



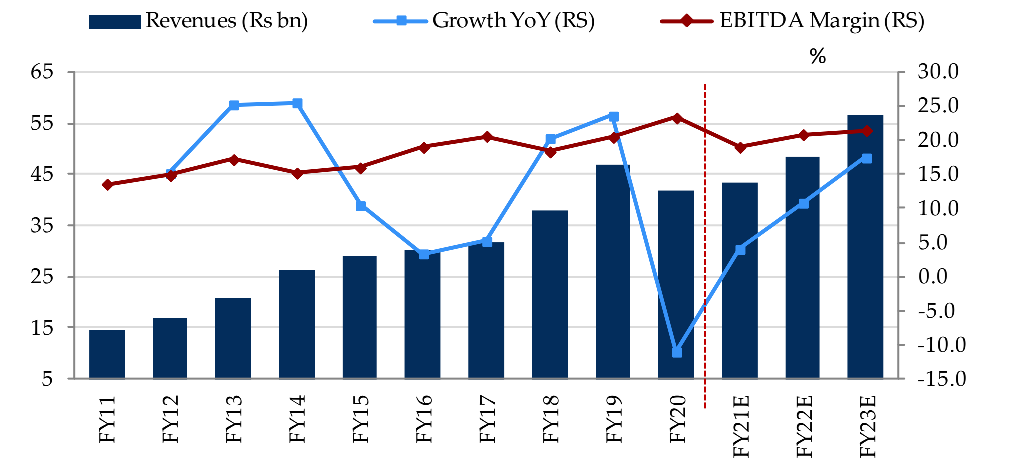
Source: Aarti Industries

Exhibit 29: Sulphuric acid product chain



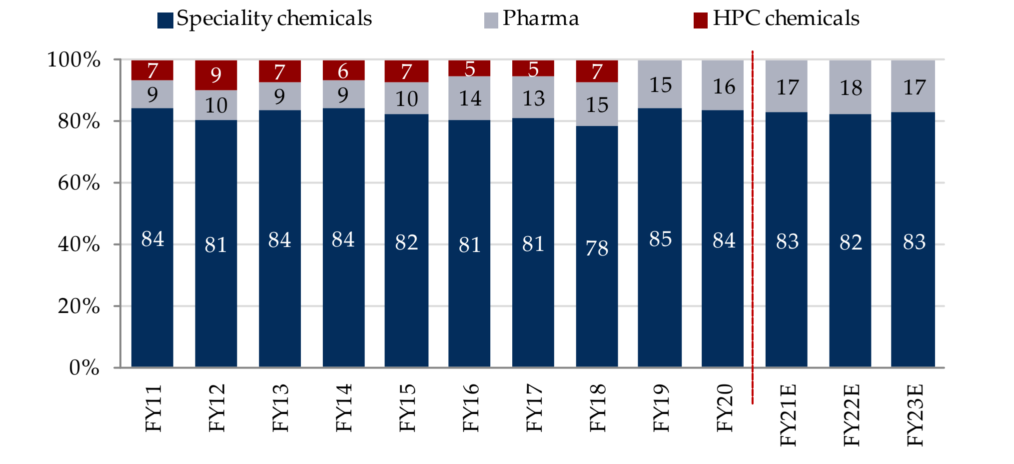
Source: Aarti Industries

Exhibit 30: Revenue, growth, and EBITDA margin



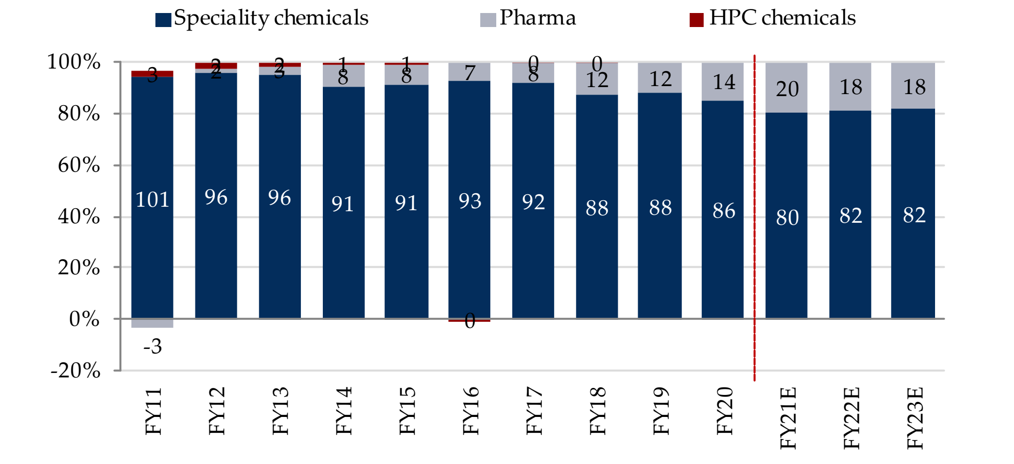
Source: Company, HSIE Research

Exhibit 31: Segmental revenue mix (%)



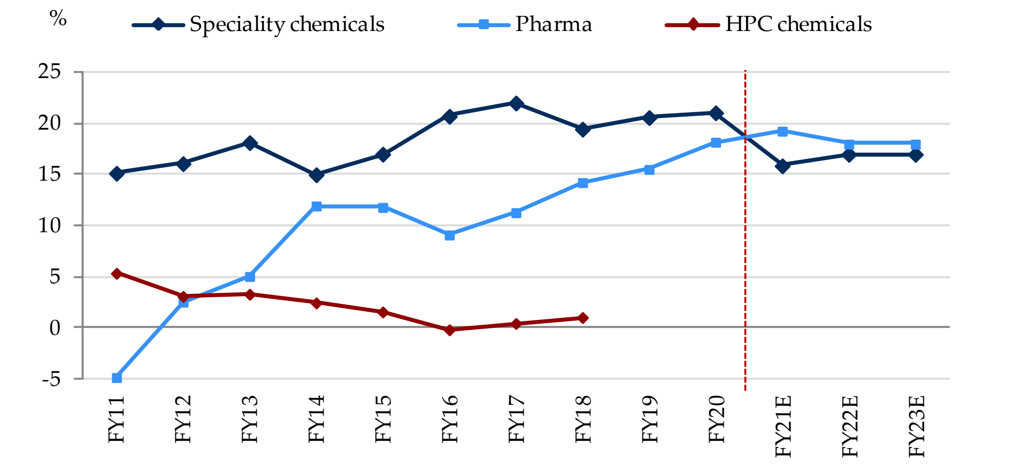
Source: Company, HSIE Research

Exhibit 32: Segmental EBIT mix (%)



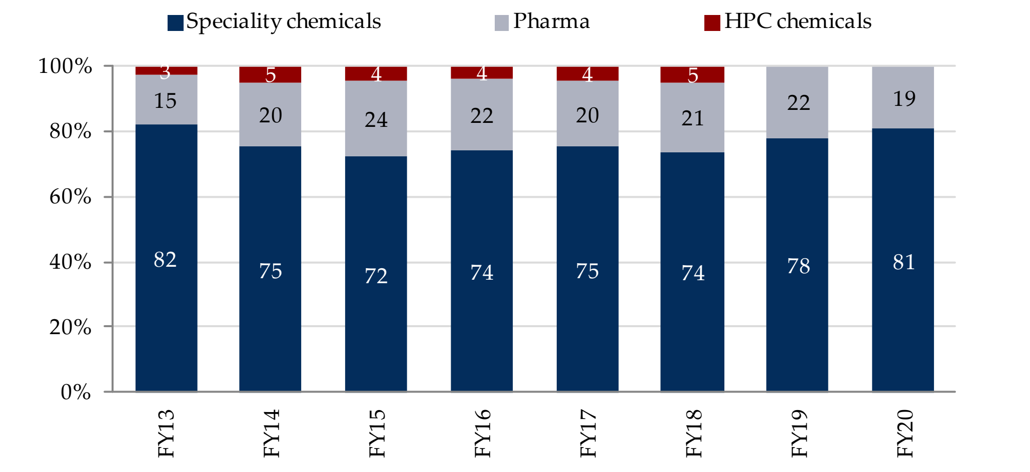
Source: Company, HSIE Research

Exhibit 33: Segmental EBIT margins (%)



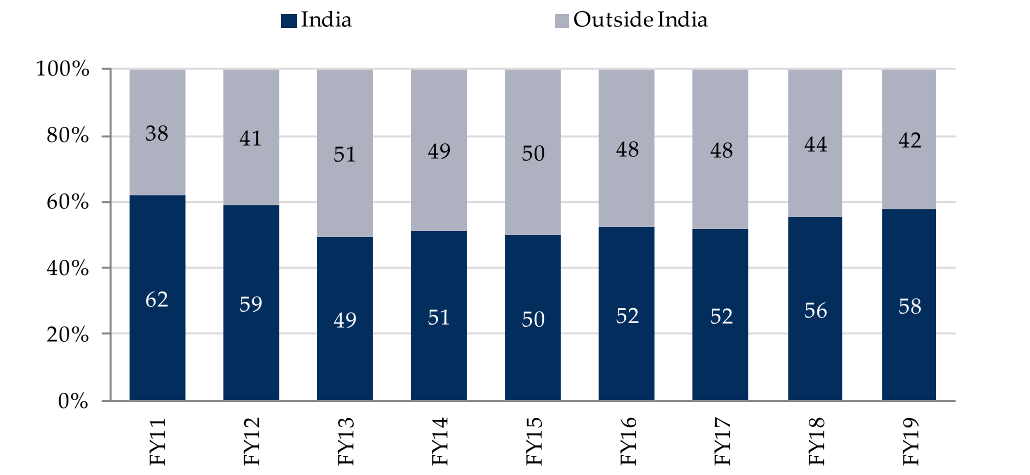
Source: Company, HSIE Research

Exhibit 34: Capital employed mix (%)



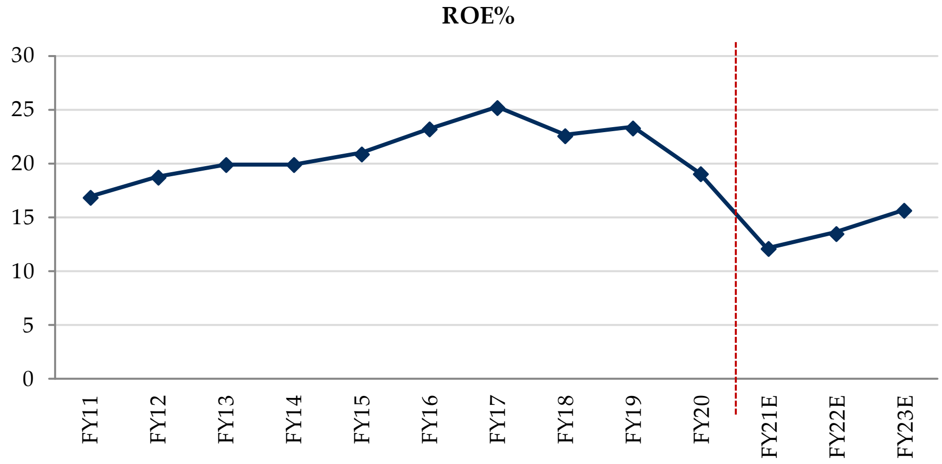
Source: Company, HSIE Research

Exhibit 35: Geographical revenue mix (%)



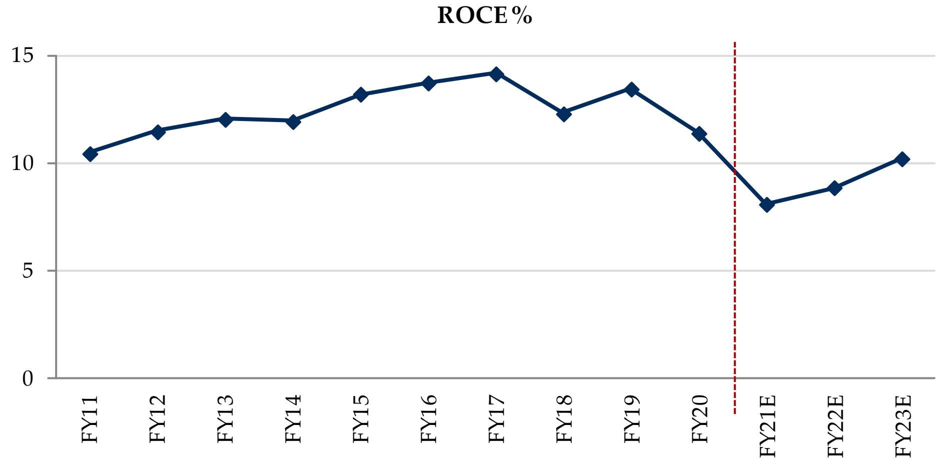
Source: Company, HSIE Research

Exhibit 36: Return on equity ratio (%)



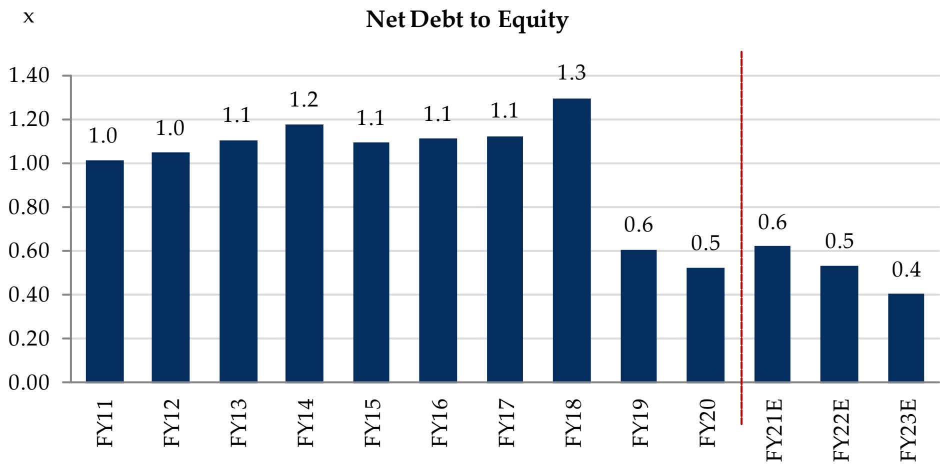
Source: Company, HSIE Research

Exhibit 37: Return on the capital employed ratio (%)



Source: Company, HSIE Research

Exhibit 38: Net debt to equity ratio (x)



Source: Company, HSIE Research

Financials (Consolidated)

INCOME STATEMENT

INR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**38,061**	**47,055**	**41,863**	**43,560**	**48,285**	**56,721**
Growth %	***20.3***	***23.6***	***(11.0)***	***4.1***	***10.8***	***17.5***
Raw Material	21,815	26,946	20,563	23,376	25,672	30,173
Employee Cost	1,901	2,428	3,052	3,546	3,830	4,136
Other Expenses	7,353	8,030	8,474	8,340	8,691	10,210
EBITDA	**6,991**	**9,651**	**9,773**	**8,297**	**10,092**	**12,202**
EBIDTA Margin (%)	*18.4*	*20.5*	*23.3*	*19.0*	*20.9*	*21.5*
EBITDA Growth %	*7.0*	*38.0*	*1.3*	*(15.1)*	*21.6*	*20.9*
Depreciation	1,462	1,627	1,852	2,180	2,731	3,243
EBIT	**5,529**	**8,024**	**7,921**	**6,117**	**7,361**	**8,959**
Other Income (Including EO Items)	78	21	88	9	9	9
Interest	1,317	1,825	1,248	1,266	1,386	1,086
PBT	**4,290**	**6,220**	**6,762**	**4,859**	**5,984**	**7,882**
Tax	829	1,178	1,294	918	1,077	1,419
RPAT	**3,462**	**5,042**	**5,468**	**3,942**	**4,907**	**6,463**
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-
APAT	**3,462**	**5,042**	**5,468**	**3,942**	**4,907**	**6,463**
Share from associates	(132)	(124)	(107)	(107)	(107)	(107)
Minority Interest	-	-	-	-	-	-
Consolidated APAT	**3,330**	**4,917**	**5,361**	**3,835**	**4,800**	**6,356**
Consolidated APAT Growth (%)	***5.5***	***47.7***	***9.0***	***(28.5)***	***25.2***	***32.4***
AEPS	**19.1**	**28.2**	**30.8**	**22.0**	**27.5**	**36.5**
AEPS Growth %	***5.5***	***47.7***	***9.0***	***(28.5)***	***25.2***	***32.4***

Source: Company, HSIE Research

BALANCE SHEET

INR mn	FY18	FY19	FY20P	FY21E	FY22E	FY23E
SOURCES OF FUNDS						
Share Capital	407	433	871	871	871	871
Reserves And Surplus	15,378	25,874	28,917	32,398	36,729	42,429
Total Equity	**15,784**	**26,308**	**29,788**	**33,269**	**37,600**	**43,300**
Minority Interest	770	840	946	946	946	946
Long-term Debt	9,083	8,148	5,808	8,808	10,808	5,808
Short-term Debt	11,748	15,863	12,297	12,297	12,297	12,297
Total Debt	**20,830**	**24,011**	**18,105**	**21,105**	**23,105**	**18,105**
Deferred Tax Liability	1,774	1,930	2,110	2,274	2,454	2,690
Long-term Provision and others	640	2,032	5,509	5,784	6,074	6,377
TOTAL SOURCES OF FUNDS	**39,799**	**55,121**	**56,458**	**63,379**	**70,179**	**71,419**
APPLICATION OF FUNDS						
Net Block	19,979	21,467	24,685	32,343	41,781	46,873
Capital WIP	4,362	7,946	14,176	15,338	9,169	5,835
LT Loans And Advances	2,252	3,064	4,045	4,126	4,208	4,292
Total Non-current Investments	472	332	370	370	370	370
Total Non-current assets	**27,065**	**32,808**	**43,276**	**52,177**	**55,529**	**57,370**
Inventories	7,473	7,718	8,357	8,522	9,446	11,096
Debtors	6,548	7,760	7,534	7,840	8,368	9,773
Cash and Cash Equivalents	321	8,042	2,473	488	3,043	657
Other Current Assets	2,508	2,251	1,685	1,701	1,718	1,736
Total Current Assets	**16,849**	**25,771**	**20,049**	**18,551**	**22,576**	**23,262**
Creditors	3,575	2,793	3,452	3,591	3,981	4,677
Other Current Liabilities & Provns	541	666	3,415	3,757	3,945	4,537
Total Current Liabilities	**4,116**	**3,459**	**6,867**	**7,348**	**7,926**	**9,213**
Net Current Assets	**12,734**	**22,312**	**13,182**	**11,202**	**14,650**	**14,049**
TOTAL APPLICATION OF FUNDS	**39,799**	**55,121**	**56,458**	**63,379**	**70,179**	**71,419**

Source: Company, HSIE Research

CASH FLOW STATEMENT

(INR mn)	FY18	FY19	FY20P	FY21E	FY22E	FY23E
Reported PBT	4,290	6,220	6,762	4,859	5,984	7,882
Non-operating & EO Items	(209)	(145)	(195)	(116)	(116)	(116)
Interest Expenses	1,317	1,825	1,248	1,266	1,386	1,086
Depreciation	1,462	1,627	1,852	2,180	2,731	3,243
Working Capital Change	(3,056)	(1,858)	3,561	(6)	(892)	(1,786)
Tax Paid	(609)	(1,022)	(1,114)	(753)	(898)	(1,182)
OPERATING CASH FLOW (a)	**3,195**	**6,647**	**12,114**	**7,431**	**8,195**	**9,128**
Capex	(6,138)	(6,698)	(11,301)	(11,000)	(6,000)	(5,000)
Free Cash Flow (FCF)	(2,943)	(51)	813	(3,569)	2,195	4,128
Investments	(3)	141	(39)	-	-	-
Non-operating Income	78	21	88	9	9	9
Others	(568)	(813)	(981)	(81)	(83)	(84)
INVESTING CASH FLOW (b)	**(6,631)**	**(7,349)**	**(12,232)**	**(11,072)**	**(6,074)**	**(5,075)**
Debt Issuance/(Repaid)	5,193	3,181	(5,906)	3,000	2,000	(5,000)
Interest Expenses	(1,317)	(1,825)	(1,248)	(1,266)	(1,386)	(1,086)
FCFE	933	1,304	(6,340)	(1,835)	2,809	(1,959)
Share Capital Issuance	(4)	27	438	-	-	-
Dividend	(100)	(440)	(1,064)	(460)	(576)	(763)
Others	(299)	7,481	2,328	382	396	410
FINANCING CASH FLOW (c)	**3,473**	**8,423**	**(5,451)**	**1,656**	**434**	**(6,439)**
NET CASH FLOW (a+b+c)	**37**	**7,721**	**(5,569)**	**(1,985)**	**2,555**	**(2,386)**
EO Items, Others						
Closing Cash & Equivalents	**322**	**8,042**	**2,473**	**488**	**3,043**	**657**

Source: Company, HSIE Research

KEY RATIOS

Ratios	FY18	FY19	FY20P	FY21E	FY22E	FY23E
PROFITABILITY %						
EBITDA Margin	18.4	20.5	23.3	19.0	20.9	21.5
EBIT Margin	14.5	17.1	18.9	14.0	15.2	15.8
APAT Margin	8.7	10.5	12.8	8.8	9.9	11.2
RoE	22.6	23.4	19.1	12.2	13.5	15.7
RoIC	13.9	17.4	16.2	12.3	12.2	12.7
RoCE	12.3	13.5	11.4	8.1	8.9	10.2
EFFICIENCY						
Tax Rate %	19.3	18.9	19.1	18.9	18.0	18.0
Fixed Asset Turnover (x)	1.3	1.5	1.2	1.0	0.9	0.9
Inventory (days)	72	60	73	71	71	71
Debtors (days)	63	60	66	66	63	63
Other Current Assets (days)	24	17	15	14	13	11
Payables (days)	60	38	61	56	57	57
Other Current Liab & Provns (days)	5	5	30	31	30	29
Cash Conversion Cycle (days)	94	95	62	64	61	60
Net Debt/EBITDA (x)	2.9	1.7	1.6	2.5	2.0	1.4
Net D/E	1.3	0.6	0.5	0.6	0.5	0.4
Interest Coverage	4.2	4.4	6.3	4.8	5.3	8.2
PER SHARE DATA (Rs)						
EPS	19.1	28.2	30.8	22.0	27.5	36.5
CEPS	27.5	37.6	41.4	34.5	43.2	55.1
Dividend	0.5	5.5	9.5	2.2	2.8	3.6
Book Value	90.6	151.0	171.0	190.9	215.8	248.5
VALUATION						
P/E (x)	54.8	37.1	34.1	47.6	38.0	28.7
P/Cash EPS (x)	38.1	27.9	25.3	30.4	24.2	19.0
P/BV (x)	11.6	6.9	6.1	5.5	4.9	4.2
EV/EBITDA (x)	29.1	20.6	20.3	24.5	20.1	16.4
EV/Revenue (x)	5.3	4.2	4.7	4.7	4.2	3.5
Dividend Yield (%)	0.0	0.5	0.9	0.2	0.3	0.3
OCF/EV (%)	1.6	3.3	6.1	3.7	4.0	4.6
FCFF/EV (%)	(1.4)	(0.0)	0.4	(1.8)	1.1	2.1
FCFE/M Cap (%)	0.5	0.7	(3.5)	(1.0)	1.5	(1.1)

Source: Company, HSIE Research

SRF

(TP INR 5,120, BUY)

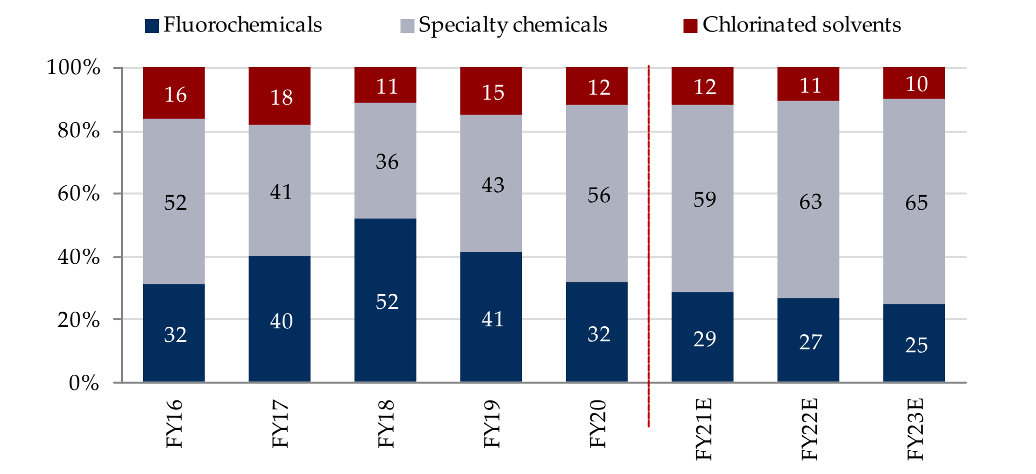
We initiate coverage on SRF Ltd with a BUY recommendation. Our DCF-based target price of INR 5,120/share (WACC of 10% and terminal growth rate 3%) implies an upside of 24.6% from the current level. We expect SRF's PAT to grow at a 23% CAGR over FY21-23E, led by an 11% CAGR in revenue. Revenue growth is expected to be driven primarily by a 17% revenue CAGR in chemicals segment and a 7% revenue CAGR in packaging films segment, while technical textiles revenue is expected to grow by a mere 2%.

We expect the RoCE to dip to 8.5% in FY21E, owing to significant Capex spend, but it could recover to 10.5% by FY23E. Capacity expansion and the plan to launch 3-4 new products every year will sustain growth momentum. Robust demand for BOPET and ramp-up in capacity utilisation of the recently-commissioned plants should drive earnings growth for packaging business.

- **Chemical business' momentum to continue to stay strong:** SRF's chemicals business has delivered a robust performance with a 16.6% revenue CAGR over FY11-20. Revenue contribution from the segment grew steadily from 21% in FY11 to 41% in FY20. The segment comprises of two sub-segments namely, fluorochemicals and speciality chemicals. The fluorochemicals sub-segment derives its revenue from (1) refrigerants gases, and (2) chlorinated solvents and industrial chemicals. Speciality chemicals cater to agrochemical (80%) and pharmaceutical industries (20%). Revenue of fluorochemicals grew at a CAGR of 11.6% from INR 4.7bn in FY11 to INR 12.8bn in FY20. Revenue of speciality chemicals grew at a CAGR of 37% from INR 0.9bn in FY11 to INR 16.2bn in FY20 which resulted in a jump in its contribution to the segmental revenue from 13% in FY11 to 55% in FY20.

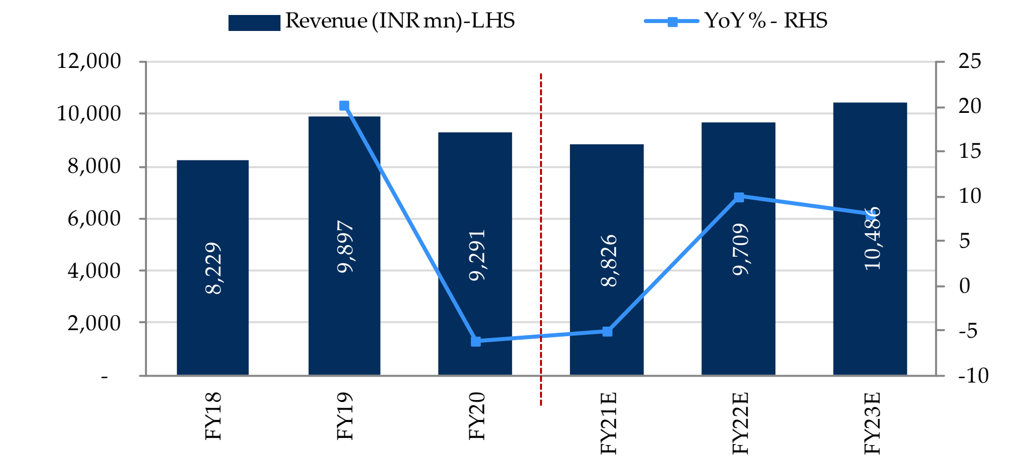
- **Speciality chemicals business— a growth lever:** Under the speciality chemicals business, the company develops and supplies complex intermediates for new molecule innovations for pharmaceutical and agrochemical industries. Fluorine substitution in a drug molecule can influence not only the pharmacokinetic properties such as absorption, tissue distribution, secretion, and the route and rate of biotransformation but also its pharmacodynamics and toxicology. Thus, the role of fluorine in drug design and development is expanding rapidly. The introduction of fluorine into a molecule productively influences its membrane permeability, metabolic pathways, and pharmacokinetic properties. The wide-ranging applications of fluorine in drug design are providing a strong stimulus for the development of new synthetic methodologies that allow more simplistic access to a wide range of fluorinated compounds. SRF has developed an expertise in fluorination chemistry and is in the sweet spot to grab this opportunity. SRF has already developed and supplied fluorospeciality intermediates for various customers in pharmaceutical and agrochemical industries. In FY20, the company has launched six new agro intermediates and three pharmaceutical intermediates. Besides, it has increased the production capacity of its products to bolster the efforts to improve sustainability. The company continues to focus on R&D and has plans to launch 3-4 new products every year from which the company will be able to deploy dedicated facilities for some of them. Steady capacity expansion, increasing R&D spend, and an expanding customer base will result in to sustain its healthy growth momentum at a 22.5% CAGR over FY21-23E.

Exhibit 39: Revenue mix of chemical business (%)



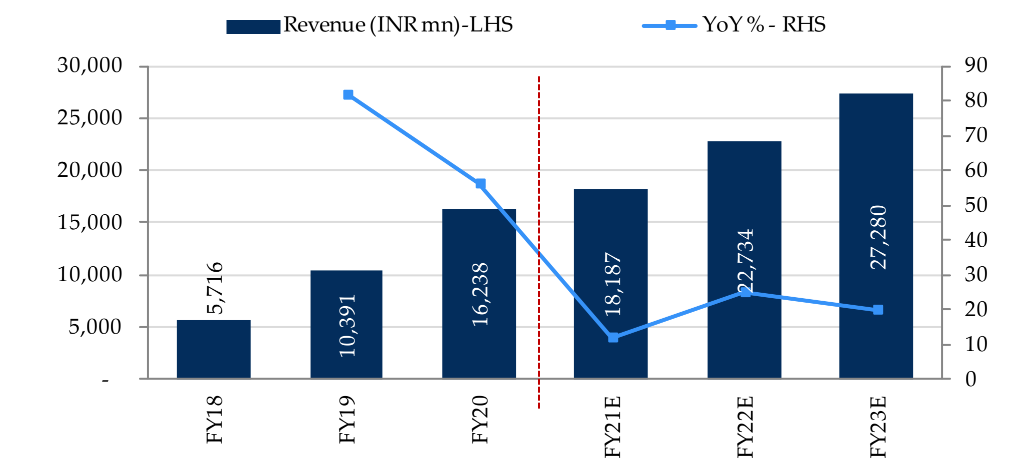
Source: Company, HSIE Research

Exhibit 40: Revenue of Fluorochemicals business over FY18-23E



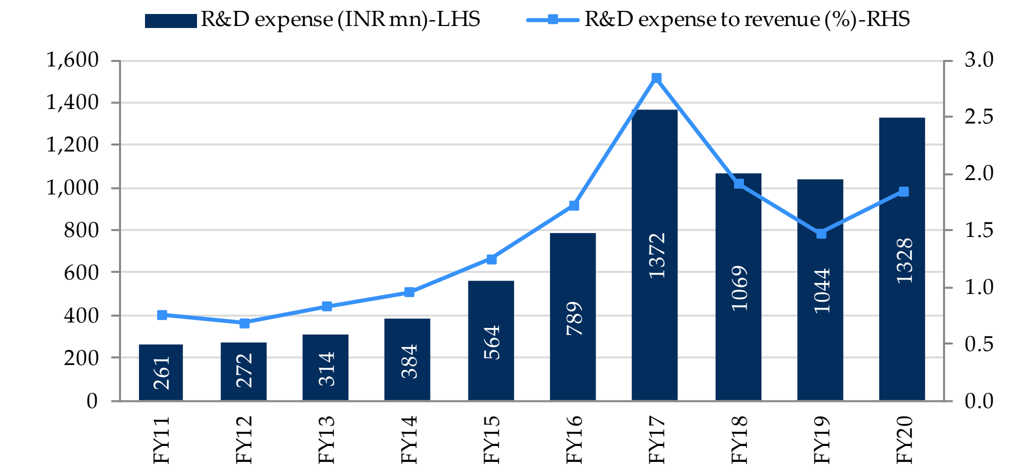
Source: Company, HSIE Research

Exhibit 41: Revenue of Specialty chemicals business over FY18-23E



Source: Company, HSIE Research

Exhibit 42: Research and development spend over FY11-20



Source: Company, HSIE Research

Capacity expansion for fluorochemicals to drive its growth

- SRF is the leader of refrigeration gases in India. It produces HCFC (R22), HFC (R32, R125, R134a) and HFC blends (R404a, R407c and R410z). R22 is being phased out from developing countries with an expected 67.5% reduction in supplies by 2025 and a total ban on the refrigerant gas is expected by 2030 as per international regulations. The company is deploying two ways to tackle this challenge: (1) developing drop-in substitutes for R-22, and (2) use of R-22 as a raw material. The company already has HFC blend R407c as a substitute for R22 and another refrigerant gas R467a has received certification by the American Society of Heating, Refrigeration and Air-Conditioning Engineers (ASHRAE). SRF is in the process of setting up a 5ktpa Poly Tetra Fluoro Ethylene (PTFE) manufacturing facility by Nov 2020 with an investment of INR 4.3bn where R-22 will be used as raw material. With the commencement of the PTFE plant, the company will enter into fluoropolymer business.

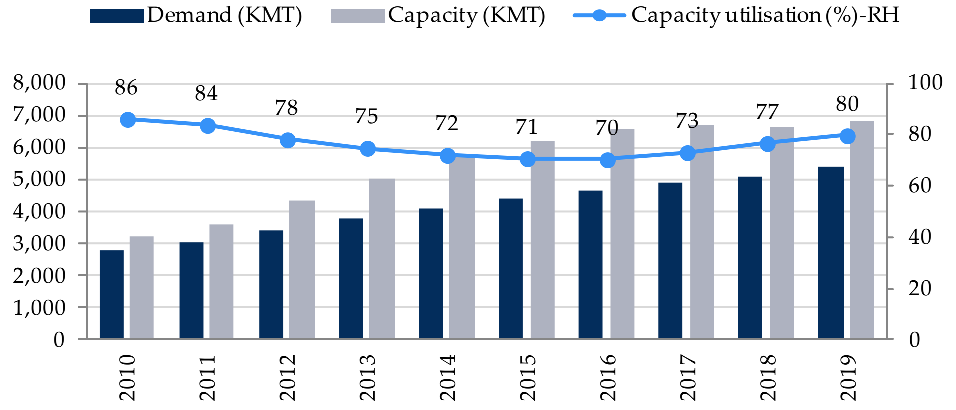
- SRF commissioned a 17ktpa HFC capacity in 2QFY20. The demand for HFC blends is rising, owing to an increase in demand from the AC manufacturing segment. Overall HFC utilisation stood at 70-75% in FY20. Management has indicated that it will reach 100% over the next 2-3 years as a transition from R-22 to HFCs accelerates. To strengthen its position in the fluorochemicals business further, the board has approved a 100ktpa chloromethane facility at a cost of INR 3.15bn. The plant is expected to be commissioned by Jan 2022. It will take the total capacity of chloromethane of SRF to 195ktpa.

- The chemical business of SRF to grow at a 17% CAGR over FY21-23E, which is attributable to (1) strong pipeline of new fluorine molecules, (2) ramping up of HFC capacity and (3) robust demand from the agrochemical and pharmaceutical industry. Sub-segments fluorochemicals and speciality chemicals will grow at 9.0% and 22.5% CAGRs over FY21-23E. The management has indicated a 20-25%YoY growth of speciality chemicals in FY21 despite near-term headwinds. The ramp-up in the capacity utilisation of the HFC plant will drive growth for fluorochemicals sub-segment in the near term.

Robust demand for BOPET to drive earnings for packaging films business

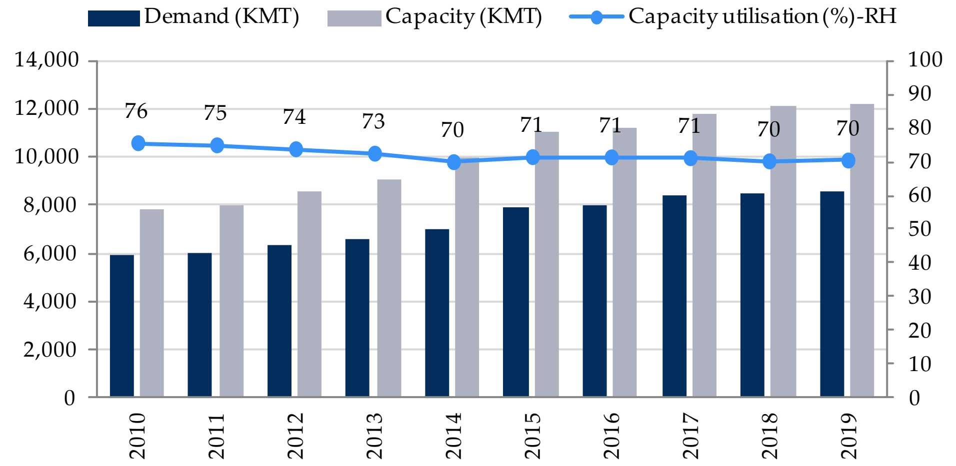
- Packaging films business (PFB) grew from INR 8.7bn in FY11 to INR 26bn in FY20 at a CAGR of 13%. Revenue contribution from this segment has increased from 25% in FY11 to 36% in FY20. SRF has commissioned a 40ktpa BOPET plant each in Thailand and Hungary in 1QFY21 and 2QFY21 respectively. SRF has an installed capacity of 163,500MTPA (93.5k in India, 70k in Thailand) for BOPET and 64,000MTPA for BOPP (34k in India, 30k in South Africa).
- A slowdown in capacity addition for BOPET has helped demand-supply become more balanced with a consequent uptick in utilisation globally. The demand outlook for BOPET is healthy and is likely to outstrip supply growth. The current pandemic will result in a surge in demand for hygienic packaging in the post-COVID-19 world. Global packaging films' volumes should grow at 6-7% while domestic market to grow at 8-10%. Over the last 13 quarters, an increasing share of value-added products in the product mix and strong traction in global BOPET market enable SRF to maintain EBIT margin for the segment above 10%.
- The overall segmental growth will be driven by a favourable situation in global BOPET market and recently added capacities by the company, while the performance of BOPP will be muted. Revenue for PFB will grow from INR 25.4bn in FY21E to INR29.3bn in FY23E at a CAGR of 7.3% supported by robust volume growth, offset by benign raw material (polypropylene) prices.

Exhibit 43: Global demand and supply for BOPET films



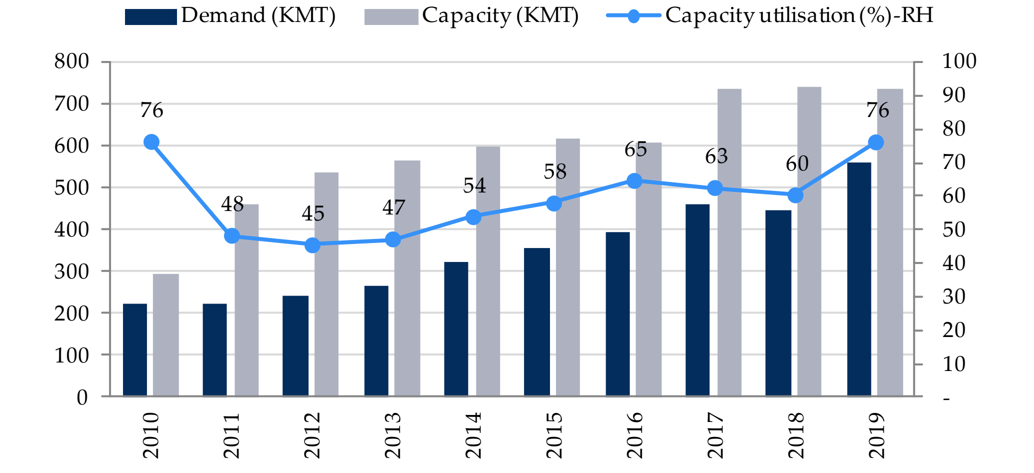
Source: Polyplex Corporation Ltd.'s Annual Report FY20

Exhibit 44: Global demand and supply for BOPP films



Source: Polyplex Corporation Ltd.'s Annual Report FY20

Exhibit 45: Demand and supply for BOPET films in India



Source: Polyplex Corporation Ltd.'s Annual Report FY20

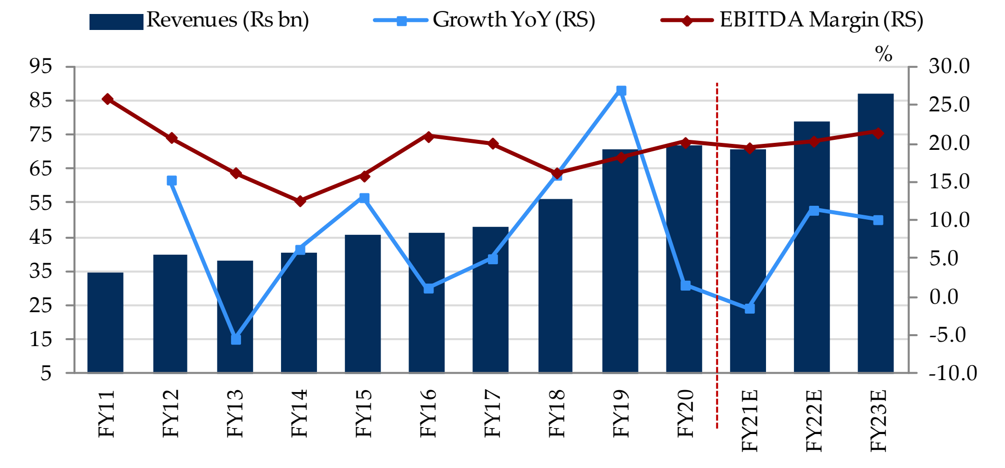
Expect gradual recovery in the technical textiles business

- SRF is the largest manufacturer of nylon tyre cord fabrics (NTCF) in India and the second-largest manufacturer in the world. It is the second-largest manufacturer of conveyor belting fabrics in the world. This business segment has significant exposure to the tyre industry. The tyre cord fabric, which is extensively used in automobile tyres, contributes majorly to the segmental revenue. Revenue of this segment grew by a 1.3% CAGR over FY11-17. However, the slowdown in the automobile industry led to a de-growth of a 12.3% CAGR over FY17-20. Thus, the segmental contribution to the overall revenue has declined from 53% in FY11 to 19% in FY20. EBIT margins for the segment improved from 22% in FY11 to 33% in FY17 but dropped to 12% in FY20. We expect this business to get impacted in FY21 owing to COVID-19 pandemic. Backed by steady growth and upcoming festival season, car manufacturers are likely to see significant growth in the months to come. Besides, the government's focus on agricultural reforms would support demand. Thus, we expect the situation to improve from 2HFY21 with a revival in the automobile industry. We expect revenue to increase from INR 10.8bn in FY21E to INR 11.2bn in FY23E, growing at a CAGR of 2% over FY21-23E.

Strong operating cash flows enough to fund Capex

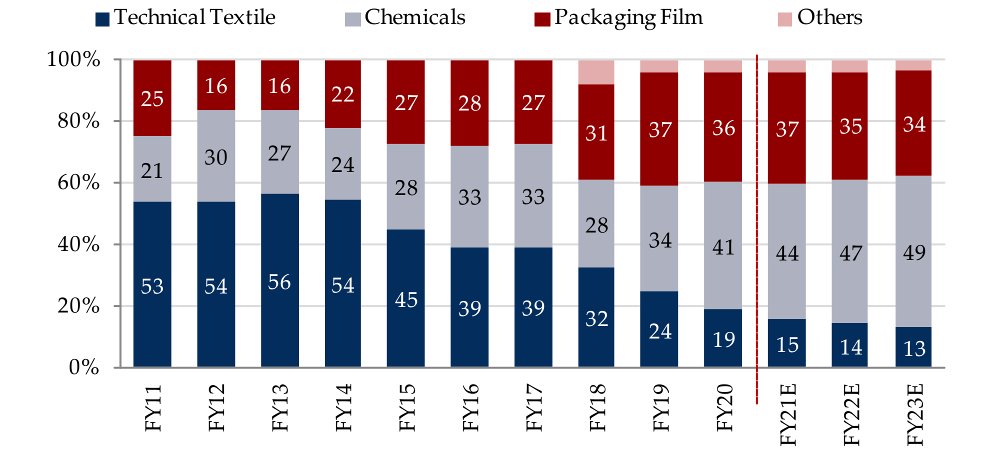
- In FY21, the company has planned to incur a Capex of INR 12bn, out of which INR 7-8bn will be spent on expanding packaging film lines in Thailand and Hungary and INR 4bn on adding new products and utilities. Over FY21-23E, the company will incur Capex of INR ~25bn. The company is expected to generate aggregate operating cash flows of ~INR 36.5bn during FY21-23E, which is sufficient to fund its Capex plans. We expect a strong FCF generation of INR 2.0/3.8/7.9bn over FY21E/FY22E/FY23E and improved RoCE (from 8.5% in FY21E to 10.5% in FY23E) and RoE (from 11.4% in FY21E to 13.8% in FY23E).

Exhibit 46: Revenue, growth, and EBITDA margin



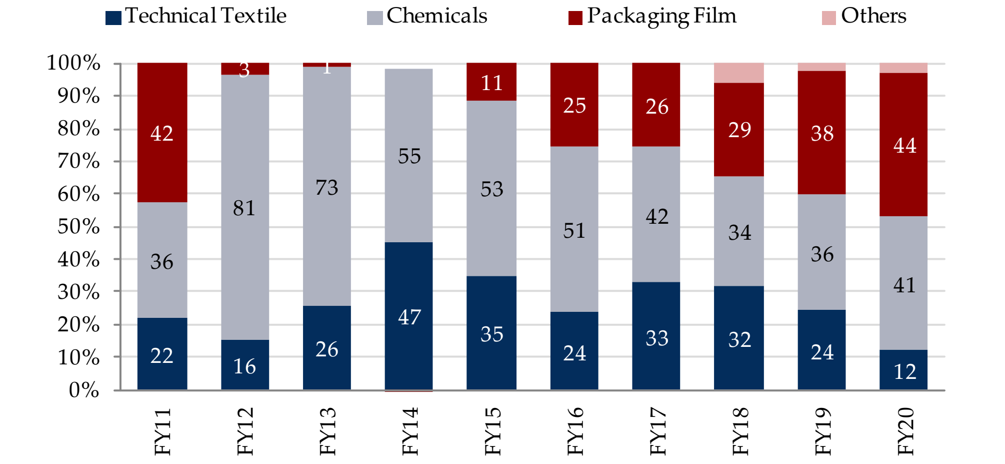
Source: Company, HSIE Research

Exhibit 47: Segmental revenue mix (%)



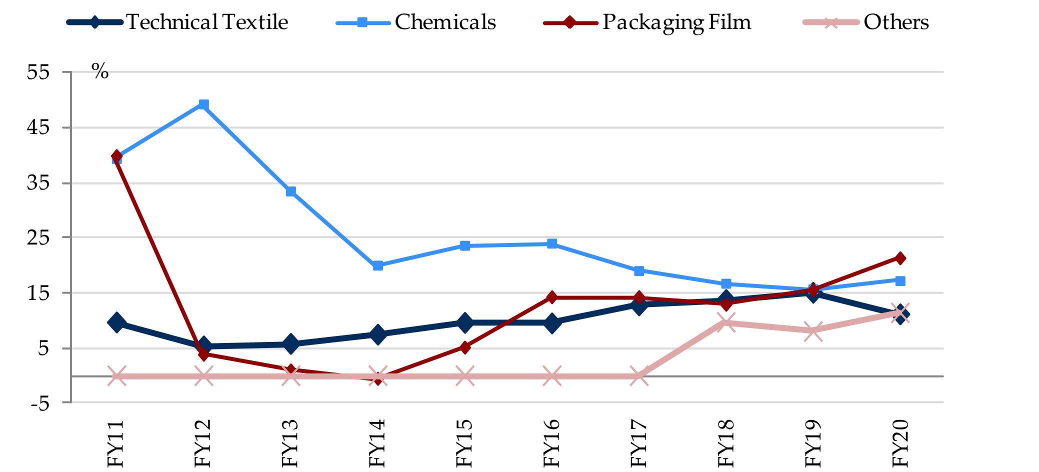
Source: Company, HSIE Research

Exhibit 48: Segmental EBIT mix (%)



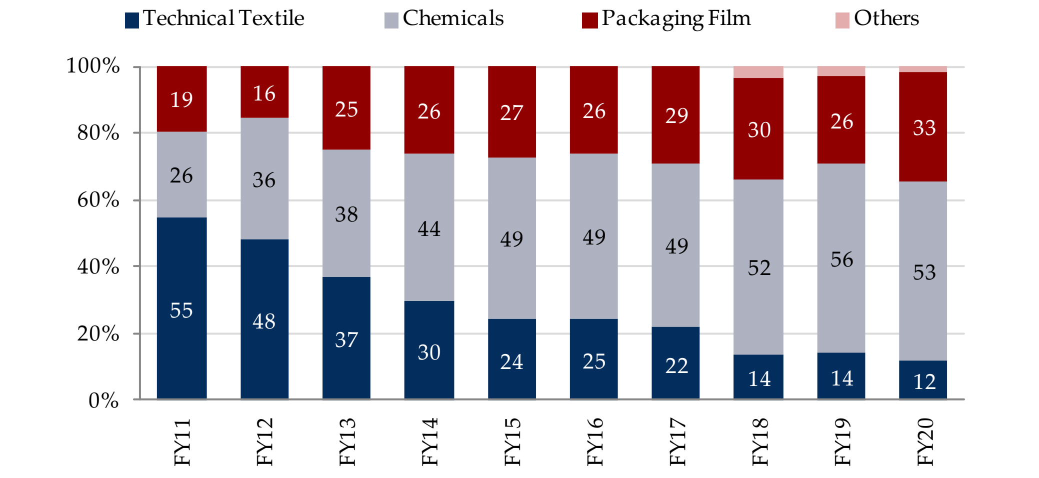
Source: Company, HSIE Research

Exhibit 49: Segmental EBIT margins (%)



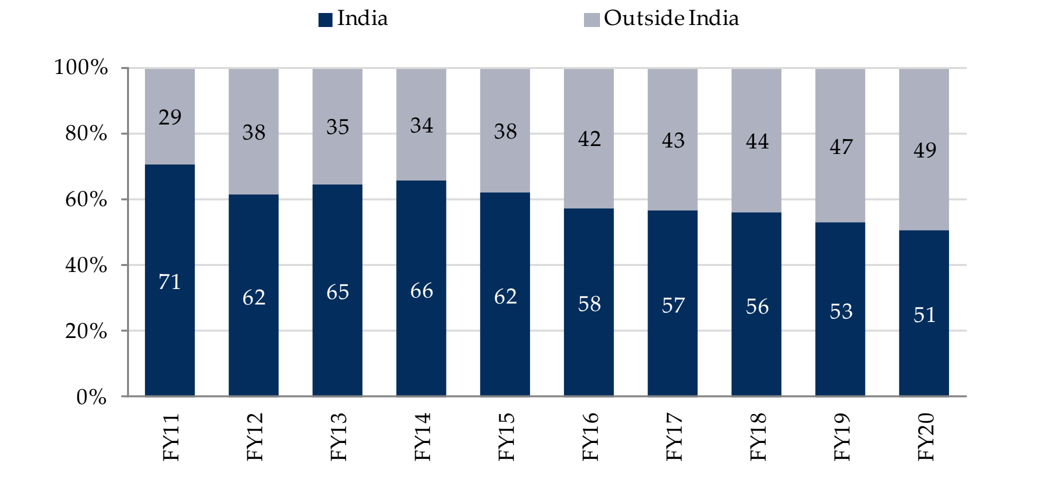
Source: Company, HSIE Research

Exhibit 50: Capital employed mix (%)



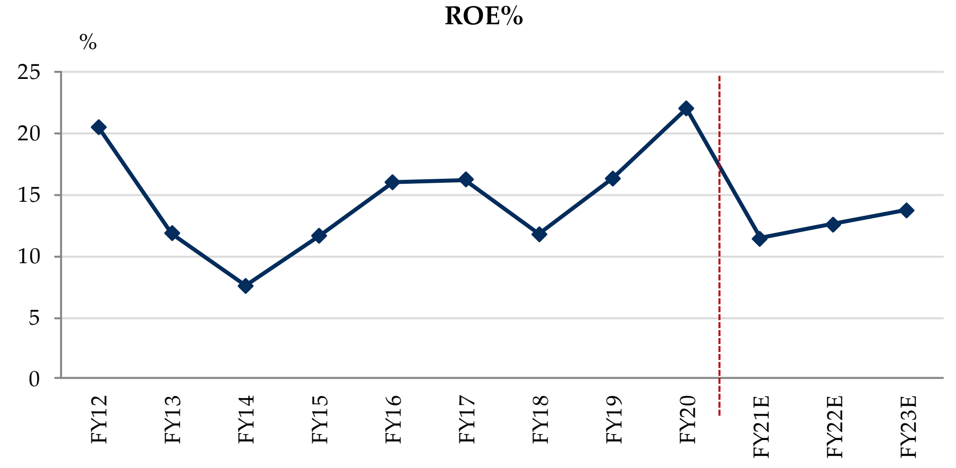
Source: Company, HSIE Research

Exhibit 51: Geographical revenue mix (%)



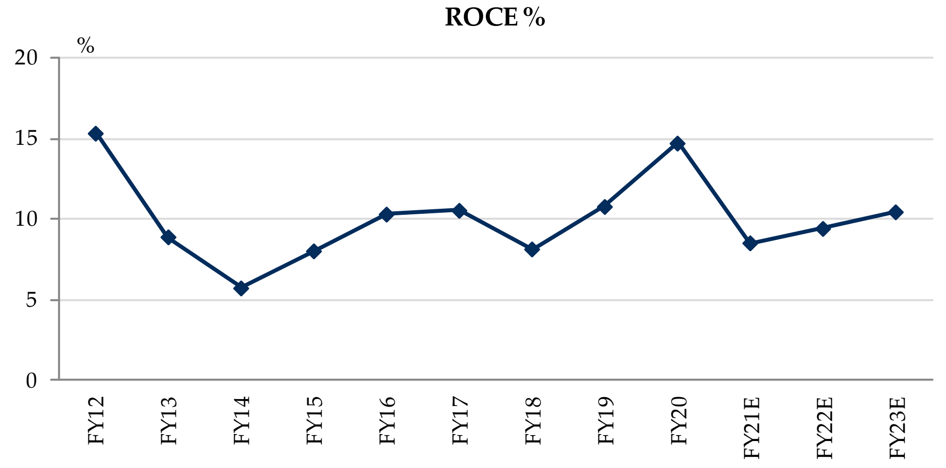
Source: Company, HSIE Research

Exhibit 52: Return on equity ratio (%)



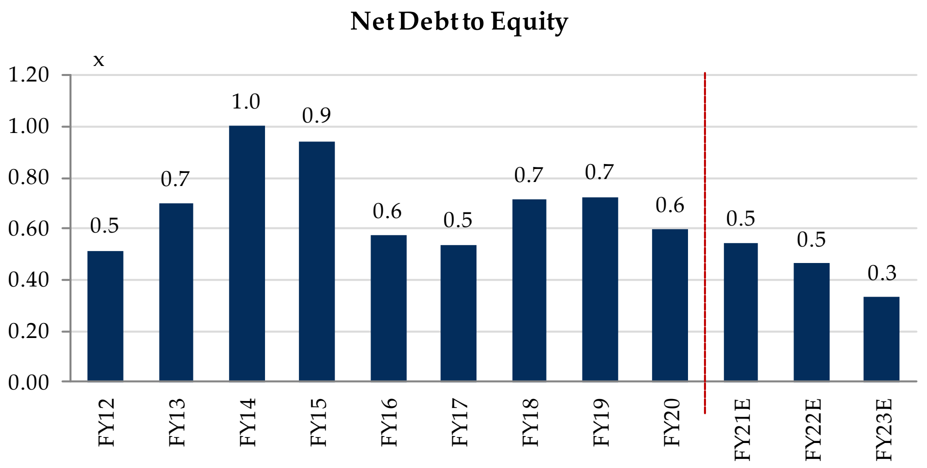
Source: Company, HSIE Research

Exhibit 53: Return on the capital employed ratio (%)



Source: Company, HSIE Research

Exhibit 54: Net debt to equity ratio (x)



Source: Company, HSIE Research

Financials (Consolidated)

INCOME STATEMENT

INR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**55,108**	**69,499**	**70,621**	**69,521**	**77,495**	**85,409**
Growth (%)	*16.3*	*26.1*	*1.6*	*(1.6)*	*11.5*	*10.2*
Material Expenses	30,320	39,671	36,870	36,849	41,135	44,927
Employee Expenses	4,740	4,608	5,419	5,853	6,204	6,576
Other Operating Expenses	11,768	13,747	15,256	14,493	15,652	16,905
Operating Profits	**8,280**	**11,473**	**13,077**	**12,326**	**14,504**	**17,001**
Operating Profit Margin (%)	*15.0*	*16.5*	*18.5*	*17.7*	*18.7*	*19.9*
Other Operating Income	782	1,497	1,473	1,517	1,593	1,673
EBIDTA	**9,062**	**12,970**	**14,549**	**13,843**	**16,097**	**18,673**
EBIDTA Margin (%)	*16.2*	*18.3*	*20.2*	*19.5*	*20.4*	*21.4*
EBITDA Growth (%)	*(6.5)*	*43.1*	*12.2*	*(4.9)*	*16.3*	*16.0*
Depreciation	3,158	3,582	3,886	4,631	5,173	5,683
Other Income (Including EO Items)	1,151	280	491	510	531	552
EBIT	**7,056**	**9,668**	**11,154**	**9,722**	**11,454**	**13,542**
Interest	1,239	1,984	2,007	2,000	2,000	1,939
PBT	**5,817**	**7,684**	**9,147**	**7,722**	**9,454**	**11,603**
Tax	1,200	1,769	(12)	1,776	2,174	2,669
Net Profit from Discontinued Operations	-	501	1,032	-	-	-
RPAT	**4,617**	**6,416**	**10,191**	**5,946**	**7,280**	**8,934**
EO (Loss) / Profit (Net Of Tax)	631	119	176	-	-	-
APAT	**3,986**	**6,297**	**10,015**	**5,946**	**7,280**	**8,934**
APAT Growth (%)	*(17.8)*	*58.0*	*59.0*	*(40.6)*	*22.4*	*22.7*
Adjusted EPS (Rs)	**69.3**	**109.5**	**174.2**	**103.4**	**126.6**	**155.4**
EPS Growth (%)	*(17.8)*	*58.0*	*59.0*	*(40.6)*	*22.4*	*22.7*

Source: Company, HSIE Research

BALANCE SHEET

INR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS						
Share Capital	584	585	585	585	585	585
Reserves	35,061	40,708	48,748	53,977	60,379	68,237
Total Shareholders Funds	**35,645**	**41,293**	**49,333**	**54,562**	**60,964**	**68,822**
Long-term Debt	19,073	21,613	23,116	23,116	23,116	21,116
Short-term Debt	8,508	11,274	9,554	9,554	9,554	9,554
Total Debt	**27,580**	**32,887**	**32,671**	**32,671**	**32,671**	**30,671**
Net Deferred Taxes	2,914	3,420	1,612	1,612	1,612	1,612
Long Term Provisions & Others	676	566	1,484	1,484	1,484	1,484
TOTAL SOURCES OF FUNDS	**66,816**	**78,166**	**85,100**	**90,329**	**96,731**	**1,02,588**
APPLICATION OF FUNDS						
Net Block	51,175	56,053	63,670	66,253	70,337	73,045
CWIP	5,588	7,536	13,933	14,466	13,233	11,867
Good will	41	41	6	6	6	6
Investments	1	1	42	42	42	42
LT Loans & Advances	2,324	3,335	1,562	1,562	1,562	1,562
Inventories	9,582	12,247	12,012	11,836	13,178	14,509
Debtors	6,807	10,288	8,911	8,780	9,775	10,763
Cash & Equivalents	2,184	2,994	3,240	3,027	4,496	7,925
Other Current Assets	5,929	6,384	5,250	5,250	5,250	5,250
Total Current Assets	**24,501**	**31,913**	**29,412**	**28,893**	**32,699**	**38,447**
Creditors	10,442	13,824	11,117	10,954	12,195	13,428
Other Current Liabilities	6,372	6,889	12,408	9,940	8,952	8,952
Total Current Liabilities	**16,814**	**20,713**	**23,525**	**20,894**	**21,148**	**22,380**
Net Current Assets	**7,687**	**11,200**	**5,887**	**8,000**	**11,551**	**16,067**
TOTAL APPLICATION OF FUNDS	**66,816**	**78,166**	**85,100**	**90,329**	**96,731**	**1,02,588**

Source: Company, HSIE Research

CASH FLOW STATEMENT

(INR Mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	5,817	8,185	10,179	7,722	9,454	11,603
Non-operating & EO Items	(1,151)	(280)	(491)	(510)	(531)	(552)
Interest Expenses	1,239	1,984	2,007	2,000	2,000	1,939
Depreciation	3,158	3,582	3,886	4,631	5,173	5,683
Working Capital Change	(2,023)	(2,704)	5,559	(2,325)	(2,082)	(1,087)
Tax Paid	(1,126)	(1,263)	(1,795)	(1,776)	(2,174)	(2,669)
OPERATING CASH FLOW (a)	**5,913**	**9,504**	**19,345**	**9,742**	**11,840**	**14,918**
Capex	(13,327)	(10,408)	(17,865)	(7,747)	(8,024)	(7,024)
Free Cash Flow (FCF)	(7,414)	(903)	1,480	1,994	3,816	7,893
Investments	250	0	(41)	-	-	-
Non-operating Income	1,151	280	491	510	531	552
Others	(321)	(1,012)	1,773	-	-	-
INVESTING CASH FLOW (b)	**(12,247)**	**(11,139)**	**(15,642)**	**(7,237)**	**(7,493)**	**(6,472)**
Debt Issuance/(Repaid)	7,806	5,307	(217)	-	-	(2,000)
Interest Expenses	(1,239)	(1,984)	(2,007)	(2,000)	(2,000)	(1,939)
FCFE	(847)	2,420	(744)	(6)	1,816	3,954
Share Capital Issuance	-	1	-	-	-	-
Dividend	(829)	(836)	(969)	-	-	-
FINANCING CASH FLOW (c)	**5,738**	**2,488**	**(3,192)**	**(2,000)**	**(2,000)**	**(3,939)**
NET CASH FLOW (a+b+c)	**(595)**	**853**	**510**	**504**	**2,347**	**4,506**
EO Items, Others	111	(43)	(264)	(717)	(878)	(1,077)
Closing Cash & Equivalents	**2,184**	**2,994**	**3,240**	**3,027**	**4,496**	**7,925**

Source: Company, HSIE Research

KEY RATIOS

	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY %						
Gross Margin	45.8	44.1	48.9	48.1	48.0	48.4
EBITDA Margin	16.2	18.3	20.2	19.5	20.4	21.4
EBIT Margin	12.6	13.6	15.5	13.7	14.5	15.6
APAT Margin	7.1	8.9	13.9	8.4	9.2	10.3
RoE	11.8	16.4	22.1	11.4	12.6	13.8
Core RoCE	7.6	12.5	17.6	10.3	11.3	12.6
RoCE	8.2	10.8	14.7	8.5	9.4	10.5
EFFICIENCY						
Tax Rate %	20.6	23.0	(0.1)	23.0	23.0	23.0
Asset Turnover (x)	0.9	1.0	0.9	0.8	0.8	0.9
Inventory (days)	63	63	61	61	61	61
Debtor (days)	44	53	45	45	45	45
Other Current Assets (days)	39	33	27	27	24	22
Payables (days)	68	71	56	56	56	56
Other Current Liab & Provns (days)	42	35	63	51	41	38
Cash Conversion Cycle (days)	36	42	13	26	33	34
Net Debt/EBITDA (x)	2.8	2.3	2.0	2.1	1.8	1.2
Net D/E	0.7	0.7	0.6	0.5	0.5	0.3
Interest Coverage	5.7	4.9	5.6	4.9	5.7	7.0
PER SHARE DATA (Rs)						
EPS	69.3	109.5	174.2	103.4	126.6	155.4
CEPS	124.3	171.8	241.8	184.0	216.6	254.3
DPS	12.0	12.0	14.0	10.3	12.7	15.5
BV	620.1	718.3	858.2	949.2	1,060.5	1,197.2
VALUATION						
P/E (x)	59.3	37.5	23.6	39.7	32.4	26.4
P/Cash EPS (x)	33.1	23.9	17.0	22.3	19.0	16.2
P/BV (x)	6.6	5.7	4.8	4.3	3.9	3.4
EV/EBITDA (x)	28.9	20.5	18.3	19.2	16.4	13.9
EV/Revenue (x)	4.7	3.7	3.7	3.7	3.3	3.0
OCF/EV (%)	2.3	3.6	7.3	3.7	4.5	5.8
FCFF/EV (%)	(2.8)	(0.3)	0.6	0.8	1.4	3.0
FCFE/M CAP (%)	(0.4)	1.0	(0.3)	(0.0)	0.8	1.7
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3	0.4

Source: Company, HSIE Research

Alkyl Amines (AACL)

(TP INR 4,010, BUY)

- **Volume growth is pegged to the growth in pharma and agrochemical sectors**: Since the company is in the business of manufacturing and supplying pharmaceutical intermediates, its volume growth is directly proportional to that of the global pharma and agrochemical industries (pharma and agrochemical customers comprise 50-55% and 15-20% of AACL's customer mix respectively). This fact is evident from the unidirectional rise in AACL's revenues to INR 10bn in FY20 (CAGR of 15.5% over FY11-20) whereas EBITDA/PAT have grown by a spectacular 24/35% to INR 2.6/2.1bn over the past 10 years. As per Aurobindo Pharma, AACL's customer, the global spending on pharmaceuticals is set to grow at a 3-6% CAGR over CY19-24 to USD 1.5-1.6 trillion, driven by increased usage and changes in the speciality and innovative product composition of new brands. As per IQVIA, India would be among the leading nations in terms of pharma spending by CY24. Consequently, with growth in the Indian and global pharma industry, we expect AACL's EBITDA/PAT to grow by a 17/18% CAGR over FY20-23E to INR 4.2/2.9bn.

- **Exponential rise in the margin in FY20 and 1QFY21**: Gross margin (GM) was range-bound between 45-48% over FY11-19; however, in FY20, AACL reported GM of 51% in FY20 (10-year standard deviation of 1.8), backed by a better product mix and higher product realisation. However, EBITDA margin fluctuated between 13-19% over nine years ending FY19 but grew by 667bps YoY in FY20 to 26.1% (also driven by operating leverage). In 1QFY21, despite the pandemic woes, both gross and EBITDA margins inched up by 1115bps/935bps to 55.9/31.6%. Three products were clear outliers in terms of revenue and margin drivers, viz., Acetonitrile, DMA-HCL and Isopropyl amine. While the current pharma demand should remain robust, we expect the product prices to cool off in the near to mid-term. Hence, gross and EBITDA margins should correct from the current elevated levels of 1Q to 51.0/28.0% in FY22E and 50.9/29.3% in FY23E.

- **Impact of COVID-19 limited to the month of April**: The lockdown has had a limited impact on AACL's plant utilisations in April-2020. This is because the company caters to essential sectors such as pharma and agrochemicals, among others. Despite facing some workforce and demand issues, optimum utilisation levels were restored in May 2020, empirically evident from the flat volume growth QoQ in 1QFY21. As per the management, demand across products bounced back to pre-COVID levels from Jul 2020.

- **Future capacity augmentation plans**: The company plans to spend a total of INR 3bn over FY20-22E to expand its (1) Methyl Amines (and its derivatives) capacity by 15ktpa to 45 (timeline 3QFY21) and (2) Acetonitrile capacity by 15ktpa to 27 (timeline 2QFY22). At peak utilisation, both plants put together should contribute INR 4-5bn to the topline at current prices. The export mix stood at 18-20% of the total product portfolio or 17% of the revenue mix for FY20. The company would explore export opportunities in the near future, particularly for Acetonitrile post the impending capacity expansion.

- **Financial performance and outlook**: Over FY11-20, earning per share has grown by a 33% CAGR to INR 88/sh, driven by growth in both volume and realisation. The stock has rallied 2.7x from its Mar-20 lows until August and is now trading at an all-time high. The stock has re-rated based on its customer and product mix as well as the current product realisations and margins. Our expectation of a stock outperformance is premised on (1) unabated growth in demand from its pharmaceutical and agrochemical customers that form ~70% of AACL's revenue mix, (2) rising domestic market share in Methyl Amines, (3) impending capacity expansion for (high-margin) Acetonitrile, (4) production linked incentive scheme that provides the right tailwinds for long-term volume growth, (5) strong return ratios (RoE/RoIC of 30/34% in FY22E and 28/37% in FY23E), and (6) OCF and FCF yield of 4.9/3.1% in FY22E and 3.1/4.4% in FY23E.

- **Discounted cash-flow-based valuation**: We maintain BUY with a price target of INR 4,010, (WACC 10%, terminal growth 3%). The stock is trading at 25.9/21.9x on FY22/23E EPS.

Financials (Standalone)

INCOME STATEMENT

(INR mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**6,162**	**8,464**	**9,929**	**10,825**	**12,743**	**14,317**
Growth (%)	*23.1*	*37.4*	*17.3*	*9.0*	*17.7*	*12.4*
Material Expenses	3,342	4,605	4,845	5,244	6,244	7,030
Employee Expenses	420	528	696	766	843	910
Other Operating Expenses	1,235	1,688	1,797	1,935	2,085	2,182
EBITDA	**1,164**	**1,644**	**2,590**	**2,880**	**3,571**	**4,195**
EBITDA Margin (%)	*18.9*	*19.4*	*26.1*	*26.6*	*28.0*	*29.3*
EBITDA Growth (%)	*22.4*	*41.1*	*57.6*	*11.2*	*24.0*	*17.5*
Depreciation	157	233	269	341	397	441
EBIT	**1,008**	**1,410**	**2,321**	**2,539**	**3,175**	**3,754**
Other Income (Including EO Items)	32	39	379	73	76	79
Interest	**81**	**148**	**103**	**58**	**55**	**54**
PBT	958	1,302	2,597	2,554	3,195	3,779
Tax	315	465	444	562	703	831
RPAT	**643**	**837**	**2,153**	**1,992**	**2,492**	**2,948**
Minority Interest						
EO (Loss) / Profit (Net Of Tax)			**355**			
APAT	**643**	**837**	**1,798**	**1,992**	**2,492**	**2,948**
PAT Growth (%)	*27.7*	*30.3*	*157.1*	*(7.5)*	*25.1*	*18.3*
AEPS	**31.5**	**41.1**	**88.2**	**97.7**	**122.2**	**144.5**
AEPS Growth (%)	*27.7*	*30.4*	*114.7*	*10.8*	*25.1*	*18.3*

Source: Company, HSIE Research

BALANCE SHEET

(INR mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS						
Share Capital	102	102	102	102	102	102
Reserves	2,869	3,548	5,264	7,030	9,271	11,968
Total Shareholders Funds	**2,972**	**3,650**	**5,366**	**7,132**	**9,373**	**12,070**
Long-term Debt	1,082	790	479	404	329	329
Short-term Debt	717	852	0	50	100	100
Total Debt	**1,799**	**1,642**	**480**	**455**	**430**	**430**
Minority Interest						
Long-term Provisions & Others	117	61	47	61	61	61
Net Deferred Tax Liability	405	507	404	424	445	467
TOTAL SOURCES OF FUNDS	**5,292**	**5,859**	**6,296**	**8,071**	**10,309**	**13,028**
APPLICATION OF FUNDS						
Net Block	**3,552**	**3,764**	**4,235**	**5,259**	**5,842**	**6,180**
CWIP	184	432	449	503	523	544
Goodwill						
Investments	14	14	-	-	-	-
LT Loans & Advances	174	90	139	139	139	139
Other Non Current Assets	62	75	70	73	77	81
Total Non-current Assets	**3,987**	**4,376**	**4,892**	**5,974**	**6,580**	**6,943**
Inventories	852	1,057	837	912	1,074	1,206
Debtors	1,238	1,526	1,642	1,928	2,269	2,550
Cash & Equivalents	32	202	323	917	2,343	4,595
ST Loans & Advances	1	2	2	4	4	4
Other Current Assets	260	322	138	151	166	183
Total Current Assets	**2,384**	**3,109**	**2,941**	**3,912**	**5,857**	**8,538**
Creditors	672	1,240	708	772	908	1,021
Other Current Liabilities	406	386	830	1,042	1,220	1,433
Total Current Liabilities	**1,078**	**1,626**	**1,538**	**1,814**	**2,128**	**2,454**
Net Current Assets	**1,306**	**1,484**	**1,404**	**2,098**	**3,728**	**6,085**
TOTAL APPLICATION OF FUNDS	**5,292**	**5,859**	**6,296**	**8,071**	**10,309**	**13,028**

Source: Company, HSIE Research

CASH FLOW STATEMENT

(INR mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	958	1,302	2,597	2,554	3,195	3,779
EO items			(355)			
Interest Expenses	81	148	103	58	55	54
Depreciation	157	233	269	341	397	441
Working Capital Change	(136)	(9)	201	(100)	(204)	(104)
Tax Paid	(237)	(363)	(547)	(542)	(682)	(809)
OPERATING CASH FLOW (a)	**823**	**1,312**	**2,267**	**2,311**	**2,761**	**3,360**
Capex	(1,344)	(693)	(757)	(1,419)	(1,000)	(800)
Free Cash Flow (FCF)	(521)	618	1,510	893	1,761	2,560
Investments	-	-	14	-	-	-
INVESTING CASH FLOW (b)	**(1,344)**	**(693)**	**(742)**	**(1,419)**	**(1,000)**	**(800)**
Debt Issuance/(Repaid)	615	(157)	(1,162)	(25)	(25)	-
Interest Expenses	(81)	(148)	(103)	(58)	(55)	(54)
FCFE	12	314	245	809	1,681	2,507
Share Capital Issuance	-	-	-	-	-	-
Dividend	(123)	(201)	(502)	(226)	(251)	(251)
Others	114	57	363	10	(4)	(4)
FINANCING CASH FLOW (c)	**524**	**(449)**	**(1,404)**	**(299)**	**(335)**	**(308)**
NET CASH FLOW (a+b+c)	**3**	**169**	**121**	**594**	**1,427**	**2,252**
EO Items, Others						
Closing Cash & Equivalents	32	202	323	917	2,343	4,595

Source: Company, HSIE Research

KEY RATIOS

KEY RATIOS	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY (%)						
GPM	45.8	45.6	51.2	51.6	51.0	50.9
EBITDA Margin	18.9	19.4	26.1	26.6	28.0	29.3
EBIT Margin	16.9	17.1	24.1	24.1	25.5	26.8
APAT Margin	10.4	9.9	21.7	18.4	19.6	20.6
RoE	23.7	25.3	47.8	31.9	30.2	27.5
RoIC	15.9	18.2	32.6	31.0	33.5	36.5
RoCE	15.7	17.7	37.8	28.4	27.6	25.6
EFFICIENCY						
Tax Rate (%)	32.9	35.7	23.2	22.0	22.0	22.0
Asset Turnover (x)	1.2	1.5	1.6	1.3	1.2	1.1
Inventory (days)	50	46	31	31	31	31
Debtors (days)	73	66	60	65	65	65
Other Current Assets (days)	15	14	5	5	5	5
Payables (days)	40	53	26	26	26	26
Other Current Liab & Prov (days)	32	21	3	5	4	4
Cash Conversion Cycle (days)	68	51	67	70	70	70
Net Debt/EBITDA (x)	1.5	0.9	0.1	(0.2)	(0.5)	(1.0)
Net D/E	0.6	0.4	0.0	(0.1)	(0.2)	(0.3)
Interest Coverage	12.8	9.8	23.3	44.7	58.8	71.4
PER SHARE DATA						
EPS (Rs/sh)	31.5	41.1	88.2	97.7	122.2	144.5
CEPS (Rs/sh)	39.2	52.5	118.7	114.4	141.6	166.1
DPS (Rs/sh)	7.0	8.0	20.0	9.0	10.0	10.0
BV (Rs/sh)	145.6	178.9	263.1	349.7	459.6	591.8
VALUATION						
P/E	100.4	77.0	35.9	32.4	25.9	21.9
P/BV	21.7	17.7	12.0	9.0	6.9	5.3
EV/EBITDA	56.9	40.1	25.0	22.2	17.5	14.4
OCF/EV (%)	1.2	1.9	4.2	3.5	4.4	5.5
FCF/EV (%)	(0.8)	0.9	3.1	1.3	2.8	4.2
FCFE/MCAP (%)	0.0	0.4	1.1	1.1	2.6	3.8
Dividend Yield (%)	0.2	0.3	0.6	0.3	0.3	0.3

Source: Company, HSIE Research

Balaji Amines (BLA)

(TP INR 980, BUY)

- **Total amine volumes grew by 6% YoY in FY20**: As per Netscribes, the Indian speciality chemicals market is set to grow by an 11.9% CAGR over FY19-24 to INR 4,527bn, backed by the rising demand from end-user industries and competitive advantage that Indian companies enjoy over their global counterparts. BLA's aliphatic amines volumes grew by 6% YoY in FY20 to 65kT, led by growth in demand by the pharma and agrochemical customers that together make 75-80% of the customer mix for BLA.

- **Investment in loss-making businesses has weighed on margins**: Consolidated gross margin (GM) has fluctuated between 38-53% over FY11-20, 45% in FY20, (10-year standard deviation of 4.4). Similarly, EBITDA margin was volatile between 15-22% over 10 years ended FY20 at 19%. Balaji Amines has burnt capital in unrelated and low margin businesses such as its hotel business (started in FY14; investment INR 1.1bn) and Compact Fluorescent Lamp (acquired via amalgamation in FY18). BLA invested INR 660mn (plus a loan of INR 500mn) in FY18 for a 55% stake in Balaji Speciality Chemicals Limited (BSCL) that despite commencing operations in 2QFY20, operated at low utilisation levels through FY20. The subsidiary is in the business of producing Ethylenediamine (EDA), Piperazine (PIP) and Diethylenetriamine (DETA) that cater to the demand of the agrochemical industry. BSCL should contribute INR 2.5bn to BLA's topline at full utilisation and result in higher consolidated margins. The management expects utilisation levels to touch 30-40% by Mar-21. With ramp-up in BSCL's production and the sustained pharma demand for BLA's products, consol. EBITDA margins should rise from 19.3% in FY20 to 21.4% in FY22E and 23.0% in FY23E.

- **COVID-19 has had but a limited impact**: Plant utilisation had fallen marginally to ~70-80% in April and May 2020 given the lockdown. The hotel business, however, remained inoperative in 1QFY21. Yet, EBITDA grew 38% YoY to INR 511mn (volume dip 9% YoY), led by higher realisations, better product mix and op-lev. As per the management, BSCL's 1Q sales were unaffected, courtesy higher inventory of 4QFY20.

- **Future capacity augmentation plans**: (1) BLA is presently undertaking a greenfield expansion on a 90-acre land in Solapur. In phase-I of the project, BLA will produce Dimethyl Carbonate (10ktpa) and Ethyl Amines (+17ktpa) with an investment of INR 1.5bn; expected commissioning Mar-21. Capex of INR 1.5bn is split between FY20 and FY21 as INR 720mn spent in FY20 (INR 507mn funded through internal accruals), INR 80mn in 1QFY21 and the balance would be spent in FY21. (2) Production of Acetonitrile will double from the current 9 ton/day to 18, post a de-bottlenecking drill from Nov-2020.

- **Financial outlook**: We expect that stock would outperform based on (1) unabated growth in demand from its pharmaceutical and agrochemical customers that formed ~77% of BLA's 1QFY21 revenue mix, leading to an EPS CAGR of 25% over FY20-23E to INR 59.0/sh (2) ramp up in BSCL's production, (3) production linked incentive scheme that provides the right tailwinds for long-term volume growth, (4) rising return ratios (RoIC should improve to 23/27/29% in FY21/22/23E from 21% in FY20), and (5) improving OCF and FCF yield of 5.7/2.0% in FY22E and 7.6/4.4% in FY23E.

- **Discounted cash flow-based valuation**: We maintain BUY with a price target of INR 980 (WACC 10%, terminal growth 3%). The stock is trading at 17.3/14.2x on FY22/23E EPS.

Financials (Consolidated)

INCOME STATEMENT

(INR mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**8,612**	**9,431**	**9,358**	**10,481**	**12,168**	**13,509**
Growth (%)	**17.9**	**9.5**	**(0.8)**	**12.0**	**16.1**	**11.0**
Material Expenses	4,610	5,410	4,980	5,974	6,936	7,633
Change In Inventories	31	(257)	267	-	-	-
Employee Expenses	269	295	341	375	394	414
Other Operating Expenses	1,808	2,048	2,071	2,076	2,232	2,359
EBITDA	**1,895**	**1,934**	**1,807**	**2,055**	**2,606**	**3,104**
EBITDA Margin (%)	**22.0**	**20.5**	**19.3**	**19.6**	**21.4**	**23.0**
EBIDTA Growth (%)	**24.1**	**2.1**	**(6.5)**	**13.7**	**26.8**	**19.1**
Depreciation	193	196	316	325	359	392
EBIT	**1,702**	**1,739**	**1,491**	**1,730**	**2,248**	**2,712**
Other Income (Including EO Items)	41	42	50	34	36	38
Interest	90	130	230	178	191	193
PBT	**1,658**	**1,651**	**1,311**	**1,587**	**2,093**	**2,557**
Tax	527	480	336	400	527	644
RPAT	**1,132**	**1,171**	**975**	**1,187**	**1,566**	**1,913**
Mionority Interest						
EO (Loss) / Profit (Net Of Tax)	6	-	-	-	-	-
APAT	**1,128**	**1,171**	**975**	**1,187**	**1,566**	**1,913**
APAT Growth (%)	**41.4**	**3.8**	**(16.8)**	**21.8**	**31.9**	**22.2**
AEPS	**34.8**	**36.1**	**30.1**	**36.6**	**48.3**	**59.0**
EPS Growth (%)	**41.4**	**3.8**	**(16.8)**	**21.8**	**31.9**	**22.2**

Source: Company, HSIE Research

BALANCE SHEET

(INR mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS						
Share Capital	64.8	64.8	64.8	64.8	64.8	64.8
Reserves	4,786	5,855	6,619	7,781	9,315	11,195
Total Shareholders Funds	**4,851**	**5,920**	**6,684**	**7,846**	**9,379**	**11,260**
Long-term Debt	425	833	1,199	1,274	1,424	1,424
Short-term Debt	1,094	1,441	1,215	1,400	1,356	1,317
Total Debt	**1,518**	**2,274**	**2,414**	**2,674**	**2,780**	**2,741**
Minority Interest	-	-	-	-	-	-
Long-term Provisions & Others	133.4	163.7	167.6	152.6	155.8	158.9
Net Deferred Tax Liability	502	458	437	437	437	437
TOTAL SOURCES OF FUNDS	**7,005**	**8,815**	**9,702**	**11,110**	**12,752**	**14,597**
APPLICATION OF FUNDS						
Net Block	3,161	3,197	5,730	5,983	6,502	6,987
CWIP	1,231	2,695	446	700	840	840
Investments	-	-	-	0	0	0
LT Loans & Advances	501	33	283	-	-	-
Other Non Current Assets	38	40	49	47	47	47
Total Non-current Assets	4,931	5,965	6,509	6,730	7,389	7,874
Inventories	891	1,632	1,104	1,228	1,426	1,583
Debtors	1,727	1,672	2,074	2,101	2,440	2,709
Cash & Equivalents	242	204	563	1,499	1,986	2,938
ST Loans & Advances	688	986	881	751	872	968
Total Current Assets	**3,547**	**4,494**	**4,622**	**5,579**	**6,723**	**8,197**
Creditors	718	854	629	990	1,150	1,265
Other Current Liabilities	755	789	800	209	209	209
Total Current Liabilities	**1,474**	**1,644**	**1,429**	**1,199**	**1,359**	**1,474**
Net Current Assets	**2,074**	**2,851**	**3,194**	**4,380**	**5,364**	**6,722**
TOTAL APPLICATION OF FUNDS	**7,005**	**8,815**	**9,702**	**11,110**	**12,752**	**14,597**

Source: Company, HSIE Research

CASH FLOW STATEMENT

(INR mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	1,658	1,651	1,311	1,587	2,093	2,557
Non-operating & EO Items	(47)	(42)	(50)	(34)	(36)	(38)
Interest Expenses	90	130	230	178	191	193
Depreciation	193	196	316	325	359	392
Working Capital Change	249	(815)	16	(250)	(497)	(406)
Tax Paid	(533)	(524)	(357)	(400)	(527)	(644)
OPERATING CASH FLOW (a)	**1,611**	**595**	**1,467**	**1,405**	**1,581**	**2,053**
Capex	(1,079)	(1,696)	(600)	(832)	(1,017)	(877)
Free Cash Flow (FCF)	532	(1,101)	866	574	564	1,176
Investments	24	-	-	(0)	-	-
Non-operating Income						
Others	(473)	509	(209)	320	36	38
INVESTING CASH FLOW (b)	**(1,529)**	**(1,187)**	**(810)**	**(512)**	**(981)**	**(839)**
Debt Issuance/(Repaid)	39	756	140	260	106	(39)
Interest Expenses	(90)	(130)	(230)	(178)	(191)	(193)
FCFE	481	(475)	776	655	479	943
Share Capital Issuance	-	-	-	-	-	-
Dividend	(71)	(84)	(175)	(19)	(26)	(26)
Other long term liabilities	75	30	4	(15)	3	3
Others	171	(17)	(36)	(5)	(6)	(6)
FINANCING CASH FLOW (c)	**124**	**554**	**(298)**	**42**	**(114)**	**(262)**
NET CASH FLOW (a+b+c)	**207**	**(38)**	**359**	**936**	**486**	**952**
EO Items, Others						
Closing Cash & Equivalents	242	204	563	1,499	1,986	2,938

Source: Company, HSIE Research

KEY RATIOS

	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY (%)						
GPM	46.1	45.4	45.1	43.0	43.0	43.5
EBITDA Margin	22.0	20.5	19.3	19.6	21.4	23.0
EBIT Margin	19.8	18.4	15.9	16.5	18.5	20.1
APAT Margin	13.1	12.4	10.4	11.3	12.9	14.2
RoE	23.2	19.8	14.6	15.1	16.7	17.0
RoIC	35.5	28.9	21.4	22.5	27.2	29.0
RoCE	29.7	24.3	17.9	18.1	20.0	20.6
EFFICIENCY						
Tax Rate (%)	31.8	29.1	25.7	25.2	25.2	25.2
Asset Turnover (x)	2.7	2.9	1.6	1.8	1.9	1.9
Inventory (days)	38	43	43	43	43	43
Debtors (days)	73	73	73	73	73	73
Other Current Assets (days)	-	-	-	-	-	-
Payables (days)	57	61	61	61	61	61
Other Current Liab & Prov (days)						
Cash Conversion Cycle (days)	54	55	55	55	55	55
Net Debt/EBITDA (x)	0.7	1.1	1.4	0.6	0.3	(0.1)
Net D/E	0.3	0.4	0.4	0.1	0.1	(0.0)
Interest Coverage	0.1	0.1	0.2	0.1	0.1	0.1
PER SHARE DATA						
EPS (Rs/sh)	34.8	36.1	30.1	36.6	48.3	59.0
CEPS (Rs/sh)	40.8	42.2	39.8	46.7	59.4	71.1
DPS (Rs/sh)	2.2	2.6	5.4	0.6	0.8	0.8
BV (Rs/sh)	149.7	182.7	206.3	242.2	289.5	347.5
VALUATION						
P/E	16.1	23.2	27.8	22.9	17.3	14.2
P/BV	5.6	4.6	4.1	3.5	2.9	2.4
EV/EBITDA	10.3	15.1	16.4	13.8	10.7	8.7
OCF/EV (%)	8.3	2.0	4.9	5.0	5.7	7.6
FCF/EV (%)	2.7	(3.8)	2.9	2.0	2.0	4.4
FCFE/MCAP (%)	1.8	(1.8)	2.9	2.4	1.8	3.5
Dividend Yield (%)	0.3	0.3	0.6	0.1	0.1	0.1

Source: Company, HSIE Research

Galaxy Surfactants (GSL)

(TP INR 2,070, BUY)

- **Stickiness of business and margins ensured by supplying to MNCs with global presence**: GSL's customer base of 1,750+ (includes marquee names such as Colgate-Palmolive India, Dabur India, L'ORÉAL, Procter & Gamble, Reckitt Benckiser and Unilever) is not only spread across 80+ countries but also various customer categories. The company is a preferred raw material supplier to MNCs that make 42% of the global home and personal care (HPC) market and supplies to them across the globe (exports comprise 65% of volume mix). As HPC brand owners impose strict quality standards on suppliers, the former's procurement chain is primarily fixed. Thus, GSL's margins are more or less insulated against any fluctuation in raw material prices since they are a semi-direct pass on (the volatile fatty alcohol prices that comprise 50% of the performance surfactants' RMC are directly passed on). This is empirically evident from the range-bound gross margin between 31-37% over the past five years (10-year standard deviation of GM is merely 2.5) and an EBITDA margin between 12-14% over FY16-20 (10-year deviation 2.2).

- **GSL's volume growth is pegged to the growth of the global HPC market**: The global home care market grew by 1.3% YoY in value terms (driven by laundry and dishwashing segments) to USD 160bn in CY19 whereas the global personal care market stood at USD 365bn (led by skincare products). The rising (1) e-commerce, (2) female workforce, and (3) middle income class should drive the recession-proof beauty care industry further. The global primary surfactant demand, on the other hand, jumped by 1.8% YoY in CY19 to 10.5mn tons. GSL's total volumes have grown by an 8% CAGR over FY15-20 (4.4% YoY in FY20 to 224kT). This was primarily led by performance surfactants volumes (64% of average volume mix over the past five years), which have grown by an 8% CAGR (6% YoY in FY20) on the back of (1) growth in the Egypt market, (2) migration from bar soaps/cheaper detergents to premium fabric care and liquid detergents, and (3) new customer addition and launch of new projects with strategic customers. Specialty Care volumes (36% of volume mix) grew by 8% CAGR (2% YoY in FY20) as well, driven by emerging trends in developed markets towards mild surfactants and non-toxic preservatives, among others.

- **Per thousand-ton EBITDA shows a rising trend**: The resilience of GSL's business model is demonstrated in its per thousand-ton EBITDA margin of INR 16.4, which has grown by 13% from FY18 to FY20. In fact, in 1Q, the per thousand-ton EBITDA remained intact YoY/QoQ at INR 17.4 despite a dip in speciality care products' volumes by 26/20% YoY/QoQ. As we expect a pick-up in the consumers' discretionary spending by 2HFY21, per thousand-ton EBITDA should rise by 3% YoY to INR 16.9 in FY21E. Subsequently, it should recover to INR 17.9 in FY22E (6% YoY) as (1) the affordability quotient rises globally, and (2) premium products, such as liquid detergents and premium beauty and personal care products, which are presently trending in developed markets, start gaining traction in the developing markets. As premiumisation and growing awareness for milder, paraben-free products pick up in the emerging markets, going ahead, GSL's margins should grow with it.

- **Impact of the COVID-19 and volume growth beyond**: Despite the COVID-19 pandemic causing supply-side disruptions (in the form of labour unavailability and movement constraints), and curtailment in discretionary spending in 1QFY21, blended volumes fell merely by 5% YoY (dragged by speciality care products -26% YoY), while performance surfactants volumes (70% of 1Q volume mix) grew by 8% YoY. As per the Annual Report for FY20, "demand for

Performance Surfactants in FY21 should remain fairly stable; however, cut-down on discretionary spending along with hoarding of cash may impact new launches and sales of existing premium products, adversely impacting our Specialty Care business". Hence, we expect blended volume to grow by 3% YoY to 232kT in FY21E, led by 12%YoY growth in performance surfactants (69% of FY21 volume mix) to 161kT and dragged by 12%YoY dip in speciality care products' volumes to 71kT. Thereafter, total volumes should rise at a 12% CAGR over FY21-23E, driven by (1) premiumisation of products, (2) increased spending on Home, Beauty and Personal Care products, (3) rising consumer consciousness on the adoption of products which incorporate safer, greener, and milder ingredients.

- **Capacity add is a consistent exercise considering the changing global market trends**: GSL incurred INR 1bn to expand its Performance Surfactants' capacity at Jhagadia by ~48kT in FY19, taking it to 131kT in Q1FY20. Further, GSL spent (1) INR 0.6- 0.7bn to expand the Specialty Care products' production at Jhagadia, which will be commissioned in 2HFY21. INR 0.8bn is being incurred to build a multipurpose plant at Tarapur, which will also come on stream in 2HFY21. GSL's R&D facility is currently undergoing expansion involving an outlay of INR 80mn.

- **Financial performance and outlook**: Over FY18-20, GSL's EPS has grown by 46% to INR 65/sh compared to a mere 2.6% CAGR rise in its share price since Feb-2018 to Aug-2020. This is post considering the 73% stock rally from its Mar-20 lows until August. Our expectation of a stock outperformance is premised on (1) stickiness of business as 55% of the revenue mix comes from MNCs, (2) EPS growth of 22% over FY20-22E, led by 18% growth in volume to 265kT and 9% growth in per-thousand ton EBITDA to INR 18, (3) stable EBITDA margins at >12% since fluctuations in raw material costs (RMC) are easily passed on to customers, (4) strong return ratios (RoE/RoIC of 22/18% in FY22E), and (5) dividend and FCF yield of 1.9/0.8% in FY22E.

- **Discounted cash-flow-based valuation**: We maintain BUY with a price target of INR 2,070, (WACC 10%, terminal growth 3%). The stock is trading at 21.4x FY22E EPS.

Financials (Consolidated)

INCOME STATEMENT

INR bn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**24.34**	**27.63**	**25.96**	**27.42**	**34.09**	**37.79**
Growth %	*12.6*	*13.5*	*(6.0)*	*5.6*	*24.3*	*10.8*
Raw Material	16.86	18.87	17.15	18.00	23.44	26.13
Employee Cost	1.46	1.65	1.78	1.93	2.08	2.20
Other Expenses	3.14	3.65	3.34	3.57	3.82	4.09
EBITDA	**2.88**	**3.47**	**3.69**	**3.92**	**4.75**	**5.36**
EBIDTA Margin (%)	*11.8*	*12.6*	*14.2*	*14.3*	*13.9*	*14.2*
EBITDA Growth %	*6.0*	*20.7*	*6.2*	*6.3*	*21.2*	*12.8*
Depreciation	0.49	0.51	0.62	0.72	0.77	0.84
EBIT	**2.39**	**2.96**	**3.07**	**3.20**	**3.98**	**4.52**
Other Income (Including EO Items)	0.10	0.11	0.06	0.06	0.07	0.07
Interest	0.31	0.30	0.24	0.28	0.28	0.30
PBT	**2.19**	**2.77**	**2.89**	**2.98**	**3.76**	**4.29**
Tax	0.61	0.86	0.58	0.75	0.95	1.08
RPAT	**1.58**	**1.91**	**2.30**	**2.23**	**2.81**	**3.21**
EO (Loss) / Profit (Net Of Tax)	-	-	0.06	-	-	-
APAT	**1.58**	**1.91**	**2.24**	**2.23**	**2.81**	**3.21**
APAT Growth (%)	*7.1*	*20.9*	*17.5*	*(0.6)*	*26.2*	*14.0*
AEPS (Rs)	**44.6**	**53.9**	**65.0**	**62.9**	**79.4**	**88.0**
AEPS Growth %	*7.1*	*20.9*	*20.6*	*(3.2)*	*26.2*	*10.9*

Source: Company, HSIE Research

BALANCE SHEET (INR bn)

INR bn	FY18	FY19	FY20P	FY21E	FY22E	FY23E
SOURCES OF FUNDS						
Share Capital	0.35	0.35	0.35	0.35	0.35	0.35
Reserves And Surplus	6.83	8.41	10.32	11.64	13.31	15.21
Total Equity	**7.19**	**8.77**	**10.68**	**12.00**	**13.67**	**15.57**
Long-term Debt	0.72	0.89	1.17	0.52	0.44	0.44
Short-term Debt	2.76	2.09	2.03	2.99	2.96	2.96
Total Debt	**3.48**	**2.98**	**3.20**	**3.51**	**3.40**	**3.40**
Deferred Tax Liability	0.28	0.32	0.24	0.27	0.29	0.32
Long-term Provision and others	0.07	0.11	0.34	0.39	0.45	0.52
TOTAL SOURCES OF FUNDS	**11.02**	**12.18**	**14.46**	**16.17**	**17.81**	**19.81**
APPLICATION OF FUNDS						
Net Block	4.47	5.19	7.48	7.41	7.78	8.38
Capital WIP	**0.25**	**0.83**	**0.66**	**1.13**	**1.43**	**1.43**
LT Loans And Advances and others	0.65	0.69	0.63	0.66	0.76	0.83
Total Non-current Investments	**0.0**	**-**	**-**	**-**	**-**	**-**
Inventories	3.46	3.51	3.25	3.48	4.53	5.05
Debtors	4.18	4.27	4.39	4.73	6.00	6.79
Cash and Cash Equivalent	0.28	0.26	0.60	1.27	0.22	0.33
Other Current Assets	1.27	0.94	1.11	1.22	1.59	1.85
Total Current Assets	**9.19**	**8.97**	**9.35**	**10.70**	**12.34**	**14.01**
Creditors	**3.28**	**3.06**	**2.73**	**2.83**	**3.51**	**3.90**
Other Current Liabilities & Provns	0.26	0.45	0.93	0.90	0.99	0.94
Total Current Liabilities	**3.54**	**3.50**	**3.66**	**3.73**	**4.50**	**4.84**
Net Current Assets	**5.65**	**5.47**	**5.69**	**6.98**	**7.84**	**9.18**
TOTAL APPLICATION OF FUNDS	**11.02**	**12.18**	**14.46**	**16.17**	**17.81**	**19.81**

Source: Company, HSIE Research

CASH FLOW STATEMENT

INR bn	FY18	FY19	FY20P	FY21E	FY22E	FY23E
Reported PBT	2.19	2.77	2.89	2.98	3.76	4.29
Non-operating & EO Items	(0.10)	(0.11)	(0.06)	(0.06)	(0.07)	(0.07)
Interest Expenses	0.31	0.30	0.24	0.28	0.28	0.30
Depreciation	0.49	0.51	0.62	0.72	0.77	0.84
Working Capital Change	(0.92)	0.16	0.13	(0.62)	(1.91)	(1.22)
Tax Paid	(0.61)	(0.86)	(0.58)	(0.75)	(0.95)	(1.08)
OPERATING CASH FLOW (a)	**1.35**	**2.78**	**3.23**	**2.55**	**1.89**	**3.06**
Capex	(0.54)	(1.81)	(2.75)	(1.11)	(1.44)	(1.44)
Free Cash Flow (FCF)	0.81	0.97	0.48	1.43	0.45	1.61
Investments	0.00	0.00	-	-	-	-
Non-operating Income	0.10	0.11	0.06	0.06	0.07	0.07
Others	0.00	0.08	0.15	0.08	0.09	0.10
INVESTING CASH FLOW (b)	**(0.44)**	**(1.62)**	**(2.53)**	**(0.98)**	**(1.29)**	**(1.28)**
Debt Issuance/(Repaid)	(0.45)	(0.50)	0.22	0.31	(0.11)	-
Interest Expenses	(0.31)	(0.30)	(0.24)	(0.28)	(0.28)	(0.30)
FCFE	0.05	0.17	0.46	1.47	0.05	1.31
Share Capital Issuance	-	-	-	-	-	-
Dividend	(0.13)	(0.30)	(0.94)	(0.91)	(1.15)	(1.31)
Others	(0.02)	(0.08)	0.61	(0.03)	(0.11)	(0.06)
FINANCING CASH FLOW (c)	**(0.90)**	**(1.18)**	**(0.35)**	**(0.90)**	**(1.65)**	**(1.67)**
NET CASH FLOW (a+b+c)	0.01	(0.02)	0.35	0.67	(1.05)	0.11
EO Items, Others	**-**	**-**	**-**	**-**	**-**	**1.00**
Closing Cash & Equivalents	**0.28**	**0.26**	**0.60**	**1.27**	**0.22**	**0.33**

Source: Company, HSIE Research

KEY RATIOS

Ratios	FY18	FY19	FY20P	FY21E	FY22E	FY23E
PROFITABILITY %						
EBITDA Margin	11.8	12.6	14.2	14.3	13.9	14.2
EBIT Margin	9.8	10.7	11.8	11.7	11.7	12.0
APAT Margin	6.5	6.9	8.6	8.1	8.3	8.5
RoE	24.4	23.9	23.1	19.7	21.9	22.0
RoIC	16.9	18.0	19.0	16.7	18.3	18.2
RoCE	17.1	18.3	18.3	15.9	17.8	18.3
EFFICIENCY						
Tax Rate %	27.8	31.0	20.2	25.2	25.2	25.2
Fixed Asset Turnover (x)	2.8	2.8	2.1	2.1	2.4	2.4
Inventory (days)	52	46	46	46	49	49
Debtor (days)	63	56	62	63	64	66
Other Current Assets (days)	19	12	16	16	17	18
Payables (days)	49	40	38	38	38	38
Other Current Liab & Provns (days)	4	6	13	12	11	9
Cash Conversion Cycle (days)	81	69	72	76	82	85
Net Debt/EBITDA (x)	1.1	0.8	0.7	0.6	0.7	0.6
Net D/E	0.4	0.3	0.2	0.2	0.2	0.2
Interest Coverage	7.8	9.9	12.9	11.4	14.0	15.1
PER SHARE DATA (Rs)						
EPS	44.6	53.9	65.0	62.9	79.4	88.0
CEPS	58.3	68.3	80.8	83.3	101.1	114.2
Dividend	3.6	8.4	26.5	25.7	32.4	35.9
Book Value	202.8	247.3	301.2	338.5	385.5	439.1
VALUATION						
P/E (x)	38.1	31.5	26.1	27.0	21.4	19.3
P/Cash EPS (x)	29.2	24.9	21.0	20.4	16.8	14.9
P/BV (x)	8.4	6.9	5.6	5.0	4.4	3.9
EV/EBITDA (x)	19.8	16.6	15.6	14.8	12.0	10.7
EV/Revenue (x)	2.3	2.1	2.2	2.1	1.7	1.5
Dividend Yield (%)	0.2	0.5	1.6	1.5	1.9	2.1
OCF/EV (%)	2.4	4.8	5.6	4.4	3.3	5.3
FCFF/EV (%)	1.4	1.7	0.8	2.5	0.8	2.8
FCFE/M Cap (%)	1.3	1.6	0.8	2.4	0.7	2.7

Source: Company, HSIE Research

Navin Fluorine (NFIL)

(TP INR 2,210, ADD)

- **The high-value business will continue leading the way**: The company is a manufacturer of speciality fluorochemicals, and its business is divided into four business units (BU) viz., (1) speciality chemicals, 37% of FY20 revenue mix (2) Contract Research and Manufacturing Services (CRAMS), 17% of the mix, (3) refrigerants 26%, and (4) inorganic fluorides 20%.

- **Pharma and agrochemical industries lead EBITDA margins**: Over FY17-20, EBITDA margins have remained over the 20% mark, led by robust demand from pharma and agrochemical customers for speciality chemicals as well as higher traction in the CRAMS BU. We expect a similar trend to continue in FY21, expecting the high-value business units (54/50% of revenue mix in FY20/19)—speciality chemicals and CRAMS BU—to be the growth drivers in FY21/22E. EBITDA should grow by 23.2/40.2% to INR 3/5bn, led by unabated demand from pharma/agrochemical customers. EBITDA margin should expand to 26.3/29.5% in FY21/22E vs. 24.8% in FY20 with a tilt in product mix towards high-margin high-value business.

- **The COVID-19 impact:** Due to the nationwide lockdown, NFIL had temporarily suspended manufacturing operations at its facilities in April and May 2020. This adversely affected the revenue in 1QFY21 (-15/23% YoY/QoQ to INR 2,047mn), which had a trickle-down effect on the EBITDA (-14/23% YoY/QoQ to INR 521mn). Despite the adversities, the EBITDA margin remained intact at 25.4%. (+31/8 bps YoY/QoQ). Of the four segments, revenue for the speciality chemicals (47% of revenue mix) and CRAMS (17%) business units (BU) grew 13/36% YoY to INR 970mn/340mn. The growth in speciality chemicals' revenue was backed by product portfolio expansion, deeper penetration into existing users and robust project pipeline in life/crop science. Ramp-up in the Certified Good Manufacturing-3 (cGMP-3) plant boosted revenues for the CRAMS BU.

- **Dedicated Greenfield facility coming up at Dahej**: NFIL will be investing USD 51.5mn (~INR 3.7bn) in setting up the manufacturing facility and ~USD 10mn (INR 0.7bn) for a captive power plant. The augmented capacity will come onstream from 4QFY22. The funding will initially be from internal accruals, and debt may subsequently be raised. The plant will be built on the technology provided by the customer without royalty payment. NFIL will execute this Capex and the project through its 100% subsidiary, Navin Fluorine Advanced Sciences, to avail tax benefits u/s 115BAA.

- **Financial performance and outlook**: Over FY11-20, the earning per share has grown by a 21% CAGR to INR 77.9/sh, driven by growth in both volume and realisation while the stock price has grown by an exponential 41% CAGR over Mar-11 to Aug-20. Our ADD recommendation on NFIL is driven by (1) earnings visibility given long-term contracts and (2) a tilt in sales mix towards customised products.

- **Discounted cash flow-based valuation**: We maintain ADD with a price target of INR 2,210 (WACC 10%, terminal growth 3%). The stock is trading at 32.6/26.5x on FY22/23E EPS.

Financials (Consolidated)

INCOME STATEMENT

(INR mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**9,127**	**9,959**	**10,616**	**12,326**	**15,428**	**17,999**
Growth (%)	*23.1*	*9.1*	*6.6*	*16.1*	*25.2*	*16.7*
Material Expenses	4,023	4,766	4,838	5,601	7,024	8,088
Employee Expenses	1,105	1,155	1,308	1,399	1,614	1,843
Other Operating Expenses	1,849	1,855	1,835	2,079	2,238	2,392
EBIDTA	**2,150**	**2,184**	**2,635**	**3,247**	**4,552**	**5,676**
EBIDTA Margin (%)	*23.6*	*21.9*	*24.8*	*26.3*	*29.5*	*31.5*
Growth (%)	*35.4*	*1.6*	*20.7*	*23.2*	*40.2*	*24.7*
Depreciation	398	275	370	438	608	714
EBIT	**1,752**	**1,908**	**2,265**	**2,809**	**3,944**	**4,962**
Other Income	925	344	333	398	395	403
Interest	12	8	20	16	16	16
PBT	**2,665**	**2,244**	**2,578**	**3,191**	**4,323**	**5,349**
Tax	840	770	(1,436)	1,077	1,459	1,807
PAT before share of JV	**1,825**	**1,474**	**4,014**	**2,114**	**2,864**	**3,542**
EO items (net of tax)	367	119	230	195	-	-
Share of Profits from JV/Associates	(27)	17	72	72	98	111
APAT	**1,431**	**1,372**	**3,855**	**1,991**	**2,962**	**3,653**
Growth (%)	*4.7*	*(4.1)*	*181.0*	*(48.3)*	*48.7*	*23.3*
AEPS	**36.4**	**27.7**	**77.9**	**40.3**	**59.9**	**73.8**
Growth (%)	*31.6*	*(23.8)*	*181.0*	*(48.3)*	*48.7*	*23.3*

Source: Company, HSIE Research

BALANCE SHEET

(INR mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS						
Share Capital	99	99	99	99	99	99
Reserves	9,736	10,626	14,023	15,612	17,685	20,242
Total Shareholders Funds	**9,835**	**10,724**	**14,122**	**15,711**	**17,784**	**20,341**
Long-term Debt	42	-	-	-	-	-
Short-term Debt	84	41	14	15	15	16
Total Debt	**127**	**41**	**14**	**15**	**15**	**16**
Deferred Taxes	308	348	(151)	(201)	(251)	(301)
Other LT Liabilities	257	231	391	391	391	391
Minority Interest	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	**10,526**	**11,345**	**14,376**	**15,915**	**17,940**	**20,447**
APPLICATION OF FUNDS						
Net Block	**2,826**	**2,863**	**3,860**	**6,079**	**7,988**	**7,782**
CWIP	**201**	**393**	**389**	**110**	**100**	**100**
Good will	878	878	878	878	878	878
LT Investments	2,928	3,258	3,097	3,247	3,397	3,547
LT Loans & Advances	73	73	75	75	75	75
Inventories	1,138	1,119	1,579	1,833	2,295	2,677
Debtors	1,556	1,727	2,185	2,530	3,167	3,176
Cash & Equivalents	2,450	2,253	3,513	2,440	1,523	3,853
Other Current Assets	506	508	559	639	719	799
Total Current Assets	**5,651**	**5,607**	**7,836**	**7,443**	**7,704**	**10,506**
Creditors	984	713	981	1,139	1,426	1,663
Other Current Liabilities	1,046	1,014	777	777	777	777
Total Current Liabilities	**2,030**	**1,727**	**1,758**	**1,916**	**2,203**	**2,440**
Net Current Assets	**3,621**	**3,880**	**6,078**	**5,527**	**5,501**	**8,065**
TOTAL APPLICATION OF FUNDS	**10,526**	**11,345**	**14,376**	**15,915**	**17,940**	**20,447**

Source: Company, HSIE Research

CASH FLOW STATEMENT

(INR mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	2,638	2,261	2,650	3,263	4,421	5,460
Non-operating & EO items	(35)	216	144	(0)	-	0
Adjusted PBT	2,673	2,045	2,506	3,263	4,421	5,460
Interest expenses	12	8	20	16	16	16
Depreciation	398	275	370	438	608	714
Working Capital Change	(1,720)	(264)	268	(522)	(891)	(235)
Tax Paid	(840)	(770)	1,436	(1,077)	(1,459)	(1,807)
OPERATING CASH FLOW (a)	**523**	**1,295**	**4,600**	**2,119**	**2,695**	**4,148**
Capex	897	(504)	(1,362)	(2,379)	(2,507)	(507)
Free cash flow (FCF)	1,419	790	3,237	(260)	188	3,641
Investments	(1,193)	(172)	1,124	(100)	(100)	(100)
Others	150	(120)	(1,446)	(100)	(100)	(100)
INVESTING CASH FLOW (b)	**(146)**	**(796)**	**(1,685)**	**(2,579)**	**(2,707)**	**(707)**
Debt Issuance/(Repaid)	(59)	(85)	(27)	1	1	1
Interest Expenses	(12)	(8)	(20)	(16)	(16)	(16)
FCFE	1,349	697	3,190	(275)	172	3,625
Dividend	(350)	(386)	(544)	(597)	(889)	(1,096)
Others	(0)	(24)	144	-	-	-
FINANCING CASH FLOW (c)	**(420)**	**(503)**	**(447)**	**(613)**	**(904)**	**(1,111)**
NET CASH FLOW (a+b+c)	**(44)**	**(5)**	**2,468**	**(1,073)**	**(917)**	**2,330**
EO Items, Others	-	-	-	-	-	-
Closing Cash & Equivalents	**374**	**370**	**2,837**	**1,765**	**848**	**3,178**

Source: Company, HSIE Research

KEY RATIOS

KEY RATIOS	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY %						
Gross Margin	55.9	52.1	54.4	54.6	54.5	55.1
EBITDA Margin	23.6	21.9	24.8	26.3	29.5	31.5
EBIT Margin	19.2	19.2	21.3	22.8	25.6	27.6
APAT Margin	15.7	13.8	36.3	16.2	19.2	20.3
RoE	15.7	13.3	31.0	13.4	17.7	19.2
Core RoCE	20.4	20.0	44.5	16.6	20.4	23.1
RoCE	14.7	12.6	30.2	13.2	17.6	19.1
EFFICIENCY						
Tax rate %	31.5	34.3	(55.7)	33.7	33.7	33.8
Fixed Asset Turnover (x)	2.6	3.5	3.2	2.5	2.2	2.3
Inventory (days)	46	41	54	54	54	54
Debtor (days)	62	63	75	75	75	64
Other Current Assets (days)	20	19	19	19	17	16
Payables (days)	39	26	34	34	34	34
Other Current Liab & Provns (days)	28	24	27	23	18	16
Cash Conversion Cycle (days)	61	73	88	91	94	85
Net Debt/EBITDA (x)	0.1	0.0	0.0	0.0	0.0	0.0
Net D/E	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)	(0.2)
Interest Coverage	182.5	272.4	129.6	199.2	269.3	332.9
PER SHARE DATA (Rs/sh)						
EPS	36.4	27.7	77.9	40.3	59.9	73.8
CEPS	37.0	33.3	85.4	49.1	72.2	88.3
DPS	7.1	7.8	11.0	10.1	15.0	18.5
BV	199.2	216.8	285.4	317.5	359.4	411.1
VALUATION						
P/E (x)	53.7	70.5	25.1	48.5	32.6	26.5
P/Cash EPS (x)	52.8	58.7	22.9	39.8	27.1	22.1
P/BV (x)	9.8	9.0	6.8	6.2	5.4	4.8
EV/EBITDA (x)	43.8	43.3	35.4	29.0	20.9	16.4
EV/Revenue (x)	10.3	9.5	8.8	7.6	6.2	5.2
OCF/EV (%)	0.6	1.4	4.9	2.2	2.8	4.5
FCFF/EV (%)	1.5	0.8	3.5	(0.3)	0.2	3.9
FCFE/M CAP (%)	1.4	0.7	3.3	(0.3)	0.2	3.7
Dividend Yield (%)	0.4	0.4	0.6	0.5	0.8	0.9

Source: Company, HSIE Research

Vinati Organics (VO)

(TP INR 890, SELL)

- **Can IBB make up for the lost oil and gas demand for ATBS in FY21?**: VO is the world's largest manufacturer of Iso Butyl Benzene (IBB) and 2-Acrylamido 2-Methylapropane Sulphonic Acid (ATBS) and holds 65% of the global market share for both the products (FY19). 76% of the revenue mix in FY19 was derived from these two products alone. IBB is a basic raw material of the Ibuprofen bulk drug, while ATBS finds application in water treatment, construction, personal care, among others; the oil and gas industry forms 25-30% of the customer mix for ATBS. With the fall in crude prices in CY20, the demand for ATBS by the oil customers took a hit as well, which was amply evident from the fall in contribution of the product in the 1QFY21 revenue mix to 40% from 57% in FY20. On the other hand, the demand of IBB has risen in tandem with the 25% rise in the global Ibuprofen demand over FY16-20 (evident from capacity expansion by 20/33% for Ibuprofen/IBB by an Indian competitor in FY19); the contribution of IBB in the revenue mix shot up to 32% in 1QFY21 from 16% in FY20. The current demand scenario for both ATBS and IBB is likely to continue for FY21, considering which, the management has delayed its capacity augmentation plans for the former to FY22. Since ATBS is a higher margin product, we expect the EBITDA and PAT for FY21E to dip by 8 and 11% YoY respectively. However, as demand for ATBS recovers and the added capacity of 14ktpa (54% of current capacity) comes on stream, we expect EBITDA and PAT to rise by 13% and 11% YoY in FY22E.

- **Exponential rise in the margin in FY20**: Gross margin (GM) has expanded from 43% in FY11 to 58% in FY20, driven by increased global market share in ATBS, IBB, and new launches. Similarly, EBITDA margin has grown from 21% to 40% over FY11-20 (also driven by operating leverage). In 1QFY21, however, GM jumped to 63%, and EBITDA margin climbed to 42%, led by a customised product. Given a slowdown in demand for ATBS and addition of the lower margin Butyl Phenol, we expect the gross and EBITDA margins to correct from the current elevated levels to 57/40% in FY21E and 54/37% in FY22E.

- **Plant utilisations remained high (70%+) in 1QFY21 since VOL caters to essential sectors**: Demand for IBB and IB was unaffected by the outbreak of COVID-19 as these products find application in the pharma. The offtake of ATBS was intact, except the sluggish oil and gas demand, as the product has a wide application. Butyl Phenol volumes, however, took a hit because of the limited availability of labour and lower demand. In 1QFY21, EBITDA was down merely 4/19% QoQ/YoY, driven by robust traction for IBB. The management has revised its growth estimate down from 25% to 15% YoY for FY21. The current demand trends for IBB, ATBS, Butyl Phenols is likely to continue for the current fiscal.

- **Future capacity augmentation plans**: (1) The Butyl Phenol plant (capacity 35ktpa) had started operating from Sep-19, but its ramp-up has been slow in FY20. The business would primarily be driven by domestic sales (60-70% of installed capacity) as it substitutes for the more expensive imports, while the export market would take 2-3 years to pick up. (2) The brownfield expansion of the ATBS capacity by 14ktpa to 40, costing INR 1.1bn, is likely to come on stream by 4QFY21 as the demand for the product should improve.

- **Financial performance and outlook**: Over FY11-20, the earning per share has grown by a 23% CAGR to INR 32.5/sh, driven by growth in both volume and realisation while the stock price has grown by a 44% CAGR over Mar-11 to Aug-20. Our SELL recommendation on Vinati Organics is driven by (1) demand slowdown for the high margin 2-Acrylamido 2-Methylapropane Sulphonic Acid (ATBS) that contributed ~60% to its revenue mix in FY20, (2) shift in revenue mix towards lower margin Iso Butyl Benzene (IBB), which formed ~32% of the mix in 1Q versus 16% in FY20, (3) slow ramp-up in the recently-commissioned Butyl Phenol product line. In the absence of new product pipeline, we believe current valuations are high at 31.5x Mar-22E EPS.

- **Discounted-cash-flow-based valuation**: We maintain SELL with a price target of INR 890, (WACC 10%, terminal growth 3%). The stock is trading at 31.5/28.6x on FY22/23E EPS.

Financials (Standalone)

INCOME STATEMENT

Year ending March (INR mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**7,297**	**11,081**	**10,289**	**9,600**	**11,473**	**13,045**
Growth (%)	*13.9*	*51.9*	*(7.2)*	*(6.7)*	*19.5*	*13.7*
Material Expenses	3,776	5,251	4,287	4,131	5,284	6,160
Employee Expenses	490	542	643	688	736	787
Other Expenses	1,059	1,252	1,220	982	1,162	1,322
EBITDA	**1,973**	**4,036**	**4,139**	**3,800**	**4,291**	**4,775**
EBITDA Margin (%)	*27.0*	*36.4*	*40.2*	*39.6*	*37.4*	*36.6*
EBITDA Growth (%)	*(9.1)*	*104.6*	*2.6*	*(8.2)*	*12.9*	*11.3*
Depreciation	234	274	332	346	429	462
EBIT	**1,739**	**3,762**	**3,808**	**3,454**	**3,862**	**4,314**
Other Income (Incl. EO Items)	307	500	450	504	544	544
Interest	12	9	11	4	8	12
PBT	**2,034**	**4,252**	**4,247**	**3,954**	**4,398**	**4,846**
Exceptional Items						
PBT After Exceptional Items	2,034	4,252	4,247	3,954	4,398	4,846
Tax (Incl Deferred)	595	1,428	908	988	1,099	1,211
RPAT	**1,439**	**2,825**	**3,338**	**2,965**	**3,298**	**3,634**
APAT	**1,439**	**2,825**	**3,338**	**2,965**	**3,298**	**3,634**
APAT Growth (%)	*2.6*	*96.3*	*18.2*	*(11.2)*	*11.2*	*10.2*
Adjusted EPS (Rs)	**14.0**	**27.5**	**32.5**	**28.9**	**32.1**	**35.4**
AEPS Growth (%)	*2.6*	*96.3*	*18.2*	*(11.2)*	*11.2*	*10.2*

Source: Company, HSIE Research

BALANCE SHEET

Year ending March (INR mn)	FY18	FY19	FY20P	FY21E	FY22E	FY23E
SOURCES OF FUNDS						
Share Capital - Equity	103	103	103	103	103	103
Reserves	7,864	10,410	12,691	14,115	16,111	18,382
Total Shareholders' Funds	**7,967**	**10,513**	**12,794**	**14,218**	**16,214**	**18,485**
Long Term Debt	3	3	2	2	2	2
Short Term Debt	152	37	3	21	39	57
Total Debt	**155**	**39**	**6**	**24**	**42**	**60**
Long-Term Provisions & Others	837	872	743	602	489	399
TOTAL SOURCES OF FUNDS	**8,959**	**11,425**	**13,543**	**14,844**	**16,745**	**18,944**
APPLICATION OF FUNDS						
Net Block	4,568	4,745	7,508	7,471	7,707	7,963
CWIP	349	1,912	310	665	718	740
LT Loans & Advances	253	308	187	187	187	187
Total Non-current Assets	**5,171**	**6,965**	**8,004**	**8,323**	**8,612**	**8,890**
Inventories	822	924	932	888	1,136	1,325
Debtors	1,771	2,440	2,018	2,080	2,485	2,826
Other Current Assets	650	943	640	817	976	1,110
Cash & Equivalents	1,370	1,003	2,811	3,424	4,349	5,706
Short Term Loans & Advances	15	2	26	20	23	27
Total Current Assets	**4,629**	**5,311**	**6,426**	**7,228**	**8,971**	**10,993**
Creditors	634	531	557	513	635	731
Other Current Liabilities & Provns	206	320	330	194	202	208
Total Current Liabilities	**841**	**851**	**887**	**707**	**837**	**939**
Net Current Assets	3,788	4,460	5,539	6,521	8,134	10,054
TOTAL APPLICATION OF FUNDS	**8,959**	**11,425**	**13,543**	**14,844**	**16,745**	**18,944**

Source: Company, HSIE Research

CASH FLOW STATEMENT

(INR mn)	FY18	FY19	FY20P	FY21E	FY22E	FY23E
Reported PBT	2,034	4,252	4,247	3,954	4,398	4,846
Non-operating & EO Items	240	(155)	(228)	1,542	1,302	1,364
Interest Expenses	12	9	11	4	8	12
Depreciation	234	274	332	346	429	462
Working Capital Change	(1,021)	(685)	(580)	(369)	(687)	(564)
Tax Paid	(595)	(1,428)	(908)	(988)	(1,099)	(1,211)
OPERATING CASH FLOW (a)	**423**	**2,578**	**3,328**	**1,404**	**1,746**	**2,181**
Capex	(401)	(2,013)	(1,492)	(665)	(718)	(740)
Free Cash Flow (FCF)	22	564	1,836	739	1,028	1,441
Others	(62)	(55)	121	-	-	-
INVESTING CASH FLOW (b)	**(463)**	**(2,068)**	**(1,371)**	**(665)**	**(718)**	**(740)**
Debt Issuance/(Repaid)	(16)	(115)	(33)	18	18	18
Interest Expenses	(12)	(9)	(11)	(4)	(8)	(12)
FCFE	(6)	439	1,792	754	1,038	1,447
Dividend	(32)	(434)	(1,285)	-	-	-
Others	108	35	(129)	(141)	(113)	(90)
FINANCING CASH FLOW (c)	**48**	**(523)**	**(1,458)**	**(127)**	**(103)**	**(84)**
NET CASH FLOW (a+b+c)	**7**	**(14)**	**499**	**613**	**925**	**1,357**
Closing Cash & Equivalents	52	38	537	1,150	2,075	3,432

Source: Company, HSIE Research

KEY RATIOS

KEY RATIOS	FY18	FY19	FY20P	FY21E	FY22E	FY23E
PROFITABILITY (%)						
GPM	48.3	52.6	58.3	57.0	53.9	52.8
EBITDA Margin	27.0	36.4	40.2	39.6	37.4	36.6
APAT Margin	19.7	25.5	32.4	30.9	28.7	27.9
RoE	19.5	30.6	28.6	22.0	21.7	20.9
RoIC (or Core RoCE)	16.8	27.8	28.3	23.4	24.3	25.2
RoCE	17.4	27.8	26.8	20.9	20.9	20.4
EFFICIENCY						
Tax Rate (%)	29.3	33.6	21.4	25.0	25.0	25.0
Fixed Asset Turnover (x)	1.5	2.1	1.5	1.1	1.2	1.3
Inventory (days)	44	37	32	33	39	39
Debtors (days)	94	97	69	76	86	84
Other Current Assets (days)	35	37	22	30	34	33
Payables (days)	34	21	19	19	22	22
Other Current Liab & Provns (days)	11	13	11	7	7	6
Cash Conversion Cycle (days)	128	137	92	113	130	129
Debt/EBITDA (x)	0.1	0.0	0.0	0.0	0.0	0.0
Net D/E (x)	(0.2)	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)
Interest Coverage (x)	143.6	398.5	348.6	963.9	488.8	353.1
PER SHARE DATA (Rs)						
EPS	14.0	27.5	32.5	28.9	32.1	35.4
CEPS	16.3	30.1	35.7	32.2	36.3	39.9
Dividend	4.5	3.5	12.5	12.5	12.5	13.0
Book Value	77.5	102.3	124.5	138.3	157.8	179.8
VALUATION						
P/E (x)	72.3	36.8	31.2	35.1	31.5	28.6
P/BV (x)	13.1	9.9	8.1	7.3	6.4	5.6
EV/EBITDA (x)	52.1	25.5	24.5	26.5	23.2	20.6
EV/Revenues (x)	14.1	9.3	9.8	10.5	8.7	7.5
OCF/EV (%)	0.4	2.5	3.3	1.4	1.8	2.2
FCF/EV (%)	(0.4)	(2.0)	(1.5)	(0.7)	(0.7)	(0.8)
FCFE/Mkt Cap (%)	(0.0)	0.4	1.7	0.7	1.0	1.4
Dividend Yield (%)	0.4	0.3	1.2	1.2	1.2	1.3

Source: Company, HSIE Research

Consolidated peer set comparison

Consolidated	CMP (INR)	RECO	TP (INR)	P/E (x)			RoE (%)			EV/EBITDA (x)			Dividend yield (%)			FCFF yield (%)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
AIL	1,048	BUY	1,320	34.1	47.6	38.0	19.1	12.2	13.5	20.3	24.5	20.1	0.9	0.2	0.3	0.4	-1.8	1.1
Alkyl Amines	3,161	BUY	4,010	35.9	32.4	25.9	47.8	31.9	30.2	25.0	22.2	17.5	0.6	0.3	0.3	3.1	1.3	2.8
Balaji Amines	837	BUY	980	27.8	22.9	17.3	14.6	15.1	16.7	16.4	13.8	10.7	0.6	0.1	0.1	2.9	2.0	2.0
Galaxy Surfactants	1,699	BUY	2,070	26.1	27.0	21.4	23.1	19.7	21.9	15.6	14.8	12.0	1.6	1.5	1.9	0.8	2.5	0.8
NFIL	1,954	ADD	2,210	25.1	48.5	32.6	31.0	13.4	17.7	35.4	29.0	20.9	0.6	0.5	0.8	3.5	-0.3	0.2
SRF	4,109	BUY	5,120	23.6	39.7	32.4	22.1	11.4	12.6	18.3	19.2	16.4	0.3	0.3	0.3	0.6	0.8	1.4
Vinati Organics	1,012	SELL	890	31.2	35.1	31.5	28.6	22.0	21.7	24.5	26.5	23.2	1.2	1.2	1.2	-1.5	-0.7	-0.7

Source: BSE, Company, HSIE Research

Change in estimates (Consolidated)

(INR mn)	FY21E			FY22E		
	Old	New	Variance (%)	Old	New	Variance (%)
Alkyl Amines						
Net Sales	10,825	10,825	-	12,743	12,743	-
EBIDTA	3,097	2,880	*(7.0)*	3,571	3,571	-
APAT	2,184	1,992	*(8.8)*	2,520	2,492	*(1.1)*
AEPS (INR/sh)	107.1	97.7	*(8.8)*	123.5	122.2	*(1.1)*
TP (INR/sh)	3,355	4,010	*19.5*			
Balaji Amines						
Net Sales	10,481	10,481	-	12,120	12,168	*0.4*
EBIDTA	2,055	2,055	-	2,586	2,606	*0.8*
APAT	1,187	1,187	-	1,550	1,566	*1.0*
AEPS (INR/sh)	36.6	36.6	-	47.8	48.3	*1.0*
TP (INR/sh)	785	980	*24.8*			
Galaxy Surfactants						
Net Sales	27,424	27,424	-	34,094	34,094	-
EBIDTA	3,921	3,921	-	4,752	4,752	-
APAT	2,231	2,231	-	2,815	2,815	-
AEPS (INR/sh)	62.9	62.9	-	79.4	79.4	-
TP (INR/sh)	2,100	2,070	*(1.4)*			
NFIL						
Net Sales	12,326	12,326	-	15,428	15,428	-
EBIDTA	3,299	3,247	*(1.6)*	4,777	4,552	*(4.7)*
APAT	2,026	1,991	*(1.7)*	3,110	2,962	*(4.8)*
AEPS (INR/sh)	40.9	40.3	*(1.7)*	62.9	59.9	*(4.8)*
TP (INR/sh)	1,840	2,210	*20.1*			
Vinati Organics						
Net Sales	9,600	9,600	-	11,473	11,473	-
EBIDTA	3,800	3,800	-	4,291	4,291	-
APAT	2,965	2,965	-	3,298	3,298	-
AEPS (INR/sh)	28.9	28.9	-	32.1	32.1	-
TP (INR/sh)	820	890	*8.5*			

Thematic reports by HSIE

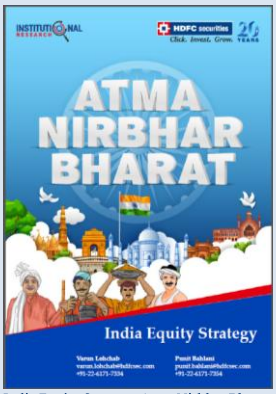
Cement: WHRS – A key cog in the flywheel

Autos: Where are we on "S" curve?

FMCG: Defensive businesses but not valuations

Autos: A changed landscape

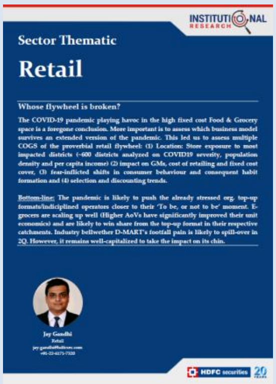
Banks: Double whammy for some



India Equity Strategy: Atma Nirbhar Bharat

Indian IT: Demand recovery in sight

Life Insurance: Recovery may be swift with protection driving margins



Retail: Whole flywheel is broken?

Appliances: Looing beyond near-term disruption

Pharma: Chronic therapy – A portfolio prescription

Indian Gas: Looking beyond the pandemic

India Equity Strategy: Quarterly flipbook

Real Estate: Ripe for consumption

Indian IT: expanding centre of gravity

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com