

We expect stable Q2 results for specialty chemical companies due to relatively steady demand across discretionary applications and given small greenshoots of recovery in certain non-discretionary spends like agro and pharma. The industry continues to face challenges, such as: a) Chinese dumping leading to pressure on margins, and b) continuous destocking of channel inventory and delayed purchase decisions of customers. The Export environment has been relatively muted for most sector players. We expect further postponement of agchem recovery guidance by most companies (to CY25 vs. H2FY25 earlier) and focus to shift to volume growth, for driving absolute profitability. We prefer SRF and ARTO within our coverage universe for now. We have a BUY on ARTO; an ADD on SRF and ANURAS; a REDUCE on PI, DN, and NFIL; and a SELL on GFL.

**Q2FY25 results – Key expectations** (refer to Exhibits 1 & 2 for detailed numbers)

**SRF (SRF IN):** SRF's chemicals business (CB) revenue is likely to witness slightly better performance on account of sequential improvement in specialty chemicals exports. Ref gas business would see moderate volume growth on account of higher sales of R32 in USA and baseline determination period in the domestic market. CB margins are likely to improve a tad on higher contribution from the specialty chemicals business. Packaging films business (PFB) continues to face an oversupply situation, with some improvement in realization.

**PI Industries (PI IN):** PI's CSM business is likely to grow ~9% YoY in Q2FY25E, on increased exports, largely led by pyroxasulfone. The domestic agchem business would see strong performance owing to better monsoons across India. Growth would be largely led by volumes and not price. EBIT margin is likely to moderate vs 24.2% in Q1, while other income continues to be higher on large cash reserves. Pharma business would remain a cost center in FY25E on acquisition of Plant Health Care, inherent R&D, and fixed costs.

**Gujarat Fluorochemicals (FLUROCH IN):** GFL's Q2FY25 results are expected to be stable vs previous quarter, due to a steady bulk chemicals and fluoropolymer business, while domestic ref gas business could see higher volume YoY on account of the baseline determination period. Volumes for PTFE and PVDF are seeing YoY improvement on account of a lower base. Margins are likely to remain range-bound, at around 22%.

**Deepak Nitrite (DN IN):** DN is likely to report stable QoQ numbers in Q2 on revenue as well as margins. The Phenolic business witnessed improved realizations compared with the previous 2 quarters (plant is operating at optimum capacity). The Advanced intermediates business should grow a marginal 5% YoY. Exports for DN saw muted performance with -15% QoQ decline led by the advanced intermediates business. We expect improved phenol-acetone spreads in the current quarter to lead margins of ~14-15%.

**Aarti Industries (ARTO IN):** Aarti is expected to report EBITDA of Rs2.3-2.5bn vs Rs3.1bn in Q1 due to sharp volume decline in its energy business (led by MMA), while the core portfolio is showing moderate recovery from the agchem cycle. Aarti's discretionary portfolio is performing better compared with its non-discretionary portfolio. In our view, Aarti's Q2FY25E EBITDA will witness decline after four quarters of sequential improvement on account of seasonality brought in by the energy business (gross margins likely to improve, with better product mix and reduced benzene prices).

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### Rating, Target Price and Valuation

	Rating	CMP (Rs)	TP (Rs)	Upside (%)	P/E (x)		EV/EBITDA (x)	
					FY26E	FY27E	FY26E	FY27E
SRF	ADD	2,308	2,600	13	29.3	24.5	17.7	15.0
PI Industries	REDUCE	4,495	3,900	(13)	35.9	31.9	23.8	21.1
Gujarat Fluorochemicals	SELL	3,996	2,800	(30)	45.6	36.2	24.7	20.2
Deepak Nitrite	REDUCE	2,763	2,900	5	34.5	31.4	23.6	20.5
Aarti Industries	BUY	531	675	27	27.0	21.5	14.2	12.1
Navin Fluorine	REDUCE	3,321	3,500	5	35.6	31.1	23.3	20.5
Anupam Rasayan	ADD	733	850	16	26.0	19.3	15.3	11.8

Source: Company, Emkay Research

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**Navin Fluorine International (NFIL IN):** The company's High Performance Products (HPP) vertical is likely to witness a weak quarter due to reduced contribution from the Honeywell contract, though we have built in a stable QoQ performance. The Specialty Chemicals and CDMO business would remain weak QoQ, given lower exports. Improvement in business mix could aid better margins QoQ, whereas growth in EBITDA is likely to remain a concern.

**Anupam Rasayan India (ANURAS IN):** We expect Anupam to report its lowest ever quarterly export revenue in Q2FY25 due to a subdued demand environment and push back of orders to October by some key customers. We expect margin guidance to be cut 1-2% owing to operating deleverage in FY25, while the working capital issue on relatively lower sales is still an overhang. We expect revenues to improve when the contracted/MoU volumes kick in by H2FY25, as guided by the management previously.

**Exhibit 1: Specialty Chemicals companies – A comparison of peer valuations**

Peer (Domestic)	Ratings	P/E (x)			EV/E (x)			RoE (%)		
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
SRF	ADD	40	29	25	24	19	17	14	17	17
PI Industries	REDUCE	41	36	32	28	24	21	18	17	16
Gujarat Fluorochemicals	SELL	68	46	36	29	21	17	10	14	15
Deepak Nitrite	ADD	44	34	31	33	33	26	16	18	17
Aarti Industries	BUY	41	27	22	20	15	13	9	12	13
Navin Fluorine International	REDUCE	47	36	31	32	24	21	14	16	16
Anupam Rasayan India *	ADD	49	26	19	25	16	13	6	10	13
Tata Chemicals	NR	34	24	23	13	11	11	4	5	5
Atul	NR	45	34	28	24	20	17	9	11	12
Vinati Organics	NR	50	38	37	33	26	23	16	19	18
Clean Science & Technology	NR	53	41	29	37	30	21	22	24	27
Fine Organic Industries	NR	35	33	29	25	23	21	21	19	19
Aether Industries	NR	81	55	35	51	35	22	7	10	13
Jubilant Ingrevia	NR	43	31	24	22	17	13	9	12	14
Archean Chemical Industries	NR	22	15	11	15	10	8	20	24	24
Deepak Fertilisers & Petrochem	NR	18	14	10	10	8	6	9	9	17
Laxmi Organic Industries	NR	47	38	26	22	17	13	8	10	13
Sudarshan Chemical Industries	NR	36	26	23	17	14	13	15	18	18
Neogen Chemicals	NR	85	56	39	37	25	15	8	11	15

Source: Bloomberg, Emkay Research; Note: \*Standalone

## Exhibit 2: Specialty Chemical companies – Earnings snapshot (Q2FY25E)

Company	Reported		Emkay Est.	QoQ (%)	YoY (%)	Key Highlights
	Q2FY24	Q1FY25	Q2FY25E			
<b>SRF (C)</b>						
Sales (Rs bn)	31.8	34.6	35.6	3	12	Q2 exports were relatively better vs QoQ, on the back of better volumes in the company's chemicals business, while the packaging films and technical textiles business remained stable, with minor uptick in realizations. Margins are expected to remain stable with the slight uptick from packaging films negated by a realization downtick in the chemicals business.
EBITDA (Rs bn)	6.3	6.0	6.2	3	-1	
EBITDA margin (%)	19.7	17.4	17.5	8 bps	-221 bps	
Adj PAT (Rs bn)	3.0	2.5	2.6	4	-13	
<b>PI Industries (C)</b>						
Sales (Rs bn)	21.2	20.7	22.7	10	7	Agro CSM is likely to contribute extensively due to higher pyroxasulfone exports QoQ. Domestic Agchem would be seasonally healthy, in our view. We believe reduced share of pyroxasulfone and higher share of domestic agchem would put pressure on overall margins QoQ. Pharma business is likely to continue incurring losses on account of the latest acquisition. Tax benefits from Jambusar would reduce, with tax rate at 22-23% vs 24% earlier.
EBITDA (Rs bn)	5.5	5.8	6.0	3	9	
EBITDA margin (%)	26.0	28.2	26.5	-169 bps	45 bps	
Adj PAT (Rs bn)	4.8	4.5	4.6	3	-4	
<b>Gujarat Fluorochemicals (C)</b>						
Sales (Rs bn)	9.5	11.8	11.6	-1	23	Revenue is likely to remain stable for bulk chemicals and fluoropolymers, while there would be some gaps in the fluorochemicals segment owing to muted ref gas exports. Margins are likely to improve QoQ due to higher share of the fluoropolymer business vs the ref gas business. We expect some reversal in the employee cost adding up to an improved EBITDA margin, along with operating leverage.
EBITDA (Rs bn)	1.6	2.6	2.7	3	66	
EBITDA margin (%)	17.2	22.3	23.2	95 bps	600 bps	
Adj PAT (Rs bn)	0.5	1.1	1.2	8	122	
<b>Deepak Nitrite (C)</b>						
Sales (Rs bn)	17.8	21.7	21.9	1	23	Stable QoQ performance expected in both businesses. The Phenolics business is likely to perform slightly better due to uptick in phenol/acetone prices. Phenol-acetone spreads improved marginally QoQ, reflecting the relatively stable PAT growth QoQ.
EBITDA (Rs bn)	3.0	3.1	3.3	6	8	
EBITDA margin (%)	17.0	14.3	14.9	63 bps	-210 bps	
Adj PAT (Rs bn)	2.1	2.0	2.1	6	5	
<b>Aarti Industries (C)</b>						
Sales (Rs bn)	14.5	18.6	14.8	-20	2	Revenues to de-grow QoQ due to volatility in key product MMA (shortfall of Rs30mn over the quarter). Volume offtake for company's core portfolio still a quarter away. EBITDA margin is likely to decline due to operating deleverage on account of de-growth in its core product, while gross margin will improve due to better product mix and crude-led pricing decline in benzene.
EBITDA (Rs bn)	2.3	3.1	2.3	-24	0	
EBITDA margin (%)	16.1	16.4	15.7	-72 bps	-37 bps	
Adj PAT (Rs bn)	0.9	1.4	0.6	-58	-37	
<b>Navin Fluorine (C)</b>						
Sales (Rs bn)	4.7	5.2	5.5	5	16	Revenue to marginally improve QoQ, with improvement in the specialty chemical business. Honeywell contract volumes expected to be lower than last quarter's. CDMO domestic business likely to improve 3x vs previous quarter. EBITDA margin would witness uptick YoY on a favorable product mix and operating leverage, in our view.
EBITDA (Rs bn)	1.0	1.0	1.1	12	14	
EBITDA margin (%)	20.8	19.2	20.5	134 bps	-34 bps	
Adj PAT (Rs bn)	0.6	0.5	0.6	17	-1	
<b>Anupam Rasayan (S)</b>						
Sales (Rs bn)	3.2	1.6	1.5	-9	-53	Exports have fallen substantially QoQ, impacting the overall revenue growth. Domestic business is also facing demand pressure. EBITDA margin is likely to improve, based on better product mix.
EBITDA (Rs bn)	0.9	0.4	0.3	-6	-62	
EBITDA margin (%)	28.8	22.5	23.2	71 bps	-555 bps	
Adj PAT (Rs bn)	0.4	0.0	0.0	58	-94	

Source: Company, Emkay Research

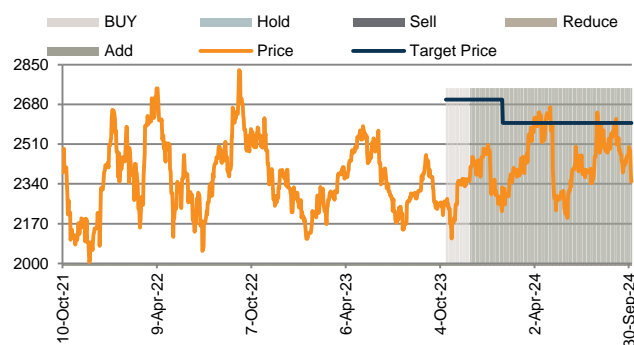
SRF

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Aug-24	2,556	2,600	Add	Meet Vora
24-Jul-24	2,368	2,600	Add	Meet Vora
14-Jul-24	2,390	2,600	Add	Meet Vora
07-Jun-24	2,312	2,600	Add	Meet Vora
10-May-24	2,278	2,600	Add	Meet Vora
07-Apr-24	2,587	2,600	Add	Meet Vora
26-Feb-24	2,401	2,600	Add	Meet Vora
01-Feb-24	2,308	2,600	Add	Meet Vora
30-Nov-23	2,367	2,700	Add	Meet Vora
22-Nov-23	2,333	2,700	Buy	Meet Vora
30-Oct-23	2,181	2,700	Buy	Meet Vora
15-Oct-23	2,255	2,700	Buy	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

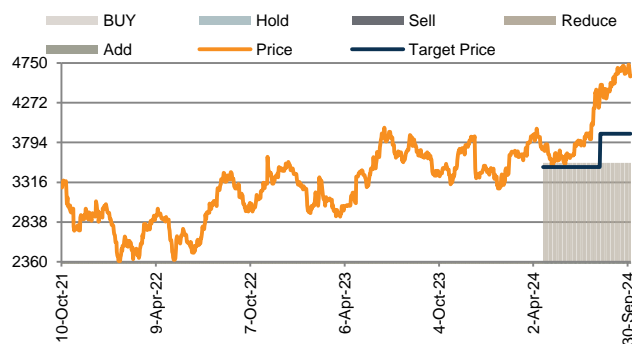
PI INDUSTRIES

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Aug-24	4,459	3,900	Reduce	Meet Vora
08-Aug-24	4,457	3,900	Reduce	Meet Vora
14-Jul-24	3,901	3,500	Reduce	Meet Vora
07-Jun-24	3,643	3,500	Reduce	Meet Vora
23-May-24	3,660	3,500	Reduce	Meet Vora
20-Apr-24	3,709	3,500	Reduce	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

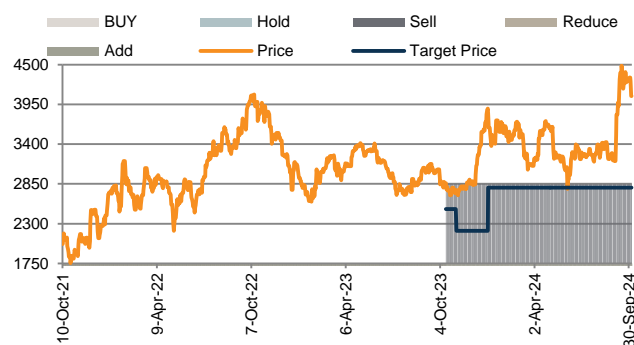
**GUJARAT FLUOROCHEMICALS**

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Aug-24	3,270	2,800	Sell	Meet Vora
13-Aug-24	3,330	2,800	Sell	Meet Vora
14-Jul-24	3,255	2,800	Sell	Meet Vora
07-Jun-24	2,973	2,800	Sell	Meet Vora
07-May-24	3,509	2,800	Sell	Meet Vora
07-Apr-24	3,186	2,800	Sell	Meet Vora
26-Feb-24	3,698	2,800	Sell	Meet Vora
08-Feb-24	3,508	2,800	Sell	Meet Vora
04-Jan-24	3,825	2,800	Sell	Meet Vora
30-Nov-23	2,851	2,200	Sell	Meet Vora
22-Nov-23	2,785	2,200	Sell	Meet Vora
04-Nov-23	2,765	2,200	Sell	Meet Vora
15-Oct-23	2,861	2,500	Sell	Meet Vora

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Bloomberg, Company, Emkay Research

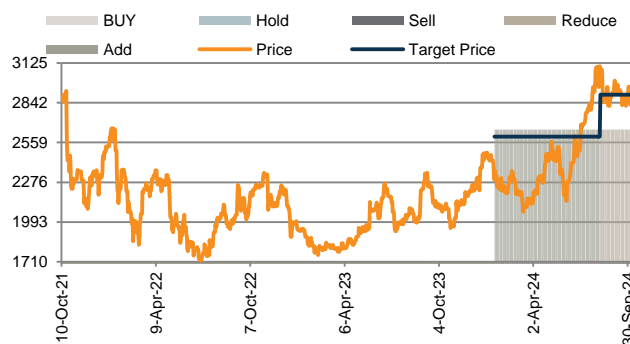
**DEEPAK NITRITE**

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Aug-24	2,870	2,900	Reduce	Meet Vora
08-Aug-24	3,055	2,900	Reduce	Meet Vora
14-Jul-24	2,775	2,600	Add	Meet Vora
07-Jun-24	2,282	2,600	Add	Meet Vora
22-May-24	2,464	2,600	Add	Meet Vora
07-Apr-24	2,220	2,600	Add	Meet Vora
26-Feb-24	2,284	2,600	Add	Meet Vora
15-Feb-24	2,283	2,600	Add	Meet Vora
18-Jan-24	2,293	2,600	Add	Meet Vora

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Bloomberg, Company, Emkay Research

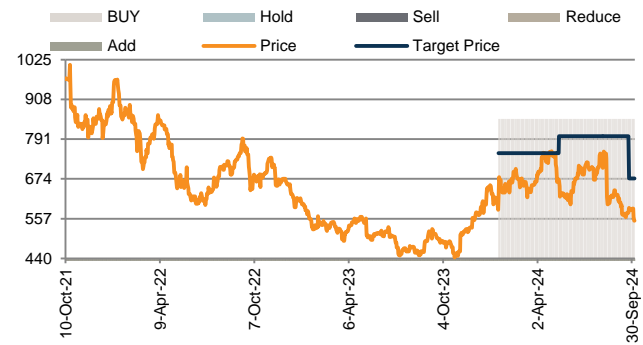
## AARTI INDUSTRIES

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
24-Sep-24	589	675	Buy	Meet Vora
27-Aug-24	640	800	Buy	Meet Vora
13-Aug-24	621	800	Buy	Meet Vora
14-Jul-24	706	800	Buy	Meet Vora
07-Jun-24	635	800	Buy	Meet Vora
13-May-24	669	800	Buy	Meet Vora
07-Apr-24	696	750	Buy	Meet Vora
26-Feb-24	672	750	Buy	Meet Vora
09-Feb-24	663	750	Buy	Meet Vora
18-Jan-24	612	750	Buy	Meet Vora

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

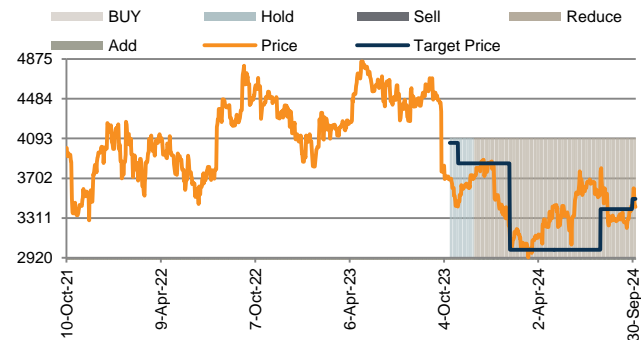
## NAVIN FLUORINE

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
29-Sep-24	3,429	3,500	Reduce	Meet Vora
27-Aug-24	3,290	3,400	Reduce	Meet Vora
30-Jul-24	3,771	3,400	Reduce	Meet Vora
14-Jul-24	3,657	3,000	Reduce	Meet Vora
07-Jun-24	3,329	3,000	Reduce	Meet Vora
08-May-24	3,411	3,000	Reduce	Meet Vora
07-Apr-24	3,148	3,000	Reduce	Meet Vora
26-Feb-24	3,109	3,000	Reduce	Meet Vora
07-Feb-24	3,093	3,000	Reduce	Meet Vora
30-Nov-23	3,701	3,850	Reduce	Meet Vora
22-Nov-23	3,610	3,850	Hold	Meet Vora
31-Oct-23	3,438	3,850	Hold	Meet Vora
15-Oct-23	3,692	4,050	Hold	Meet Vora

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND

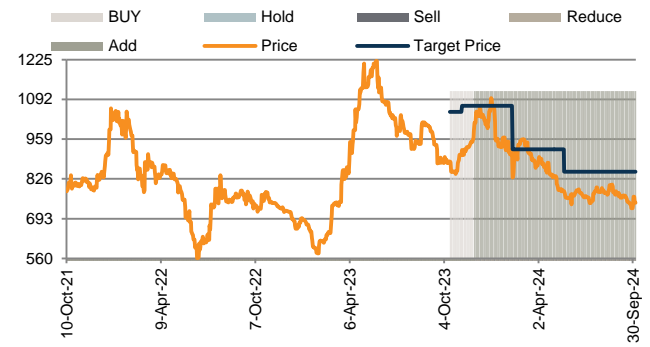


Source: Bloomberg, Company, Emkay Research

**ANUPAM RASAYAN****RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Aug-24	773	850	Add	Meet Vora
14-Jul-24	751	850	Add	Meet Vora
07-Jun-24	770	850	Add	Meet Vora
21-May-24	785	850	Add	Meet Vora
07-Apr-24	893	925	Add	Meet Vora
26-Feb-24	942	925	Add	Meet Vora
12-Feb-24	830	925	Add	Meet Vora
30-Nov-23	987	1,070	Add	Meet Vora
22-Nov-23	938	1,070	Buy	Meet Vora
07-Nov-23	923	1,070	Buy	Meet Vora
15-Oct-23	884	1,050	Buy	Meet Vora

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**

Source: Bloomberg, Company, Emkay Research

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