

India

**Underweight** (no change)

**Highlighted Companies**

**Deepak Nitrite Ltd**

**REDUCE, TP Rs1680, Rs1958 close**

As acetone is used to manufacture sanitisers, we believe the second wave of COVID subsiding will affect acetone prices and, hence, DNL's gross margin.

**Heranba Industries Ltd**

**REDUCE, TP Rs457, Rs769 close**

The lack of production capacity, a slow growing market, rising raw material prices and intense competition for global chemical leaders are headwinds for Heranba.

**Rallis India Ltd**

**ADD, TP Rs355, Rs334 close**

Rallis is doing well in agrochemical exports, CRAMS and in the seed business. We expect 10.3% revenue growth CAGR over FY21F-23F.

**Summary Valuation Metrics**

P/E (x)	Mar21-F	Mar22-F	Mar23-F
Deepak Nitrite Ltd	34.43	30.72	29.48
Heranba Industries Ltd	24.69	26.21	25.78
Rallis India Ltd	26	24.06	21.57

P/BV (x)	Mar21-F	Mar22-F	Mar23-F
Deepak Nitrite Ltd	11.38	8.63	6.81
Heranba Industries Ltd	6.19	5.05	4.26
Rallis India Ltd	4.08	3.64	3.24

Dividend Yield	Mar21-F	Mar22-F	Mar23-F
Deepak Nitrite Ltd	0.3%	0.3%	0.3%
Heranba Industries Ltd	0.16%	0.15%	0.16%
Rallis India Ltd	1.08%	1.16%	1.3%

**Analyst(s)**



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# Chemicals - Overall

## Commodity chemicals see margin pressure

- Almost all commodity chemical margins are currently under pressure, except for some like epichlorohydrin and chloromethane.
- Astec Lifesciences and India Pesticides' exports declined significantly in 1QFY22 over 1QFY21.
- The sector valuation is high, resulting in risks to earnings. We retain our Underweight rating on the sector. Rallis is our top pick as of now.

### Commodity chemical margins are declining

Commodity chemical margins are on the decline as raw material costs are rising and chemical companies are not able to pass on all cost increases to their users. Phenol spreads in India have declined (as acetone prices corrected by ~25% over the last two months). Similarly, the rising cost of energy is hitting the margins of caustic soda manufacturers. In the whole PVC value chain only ethylene di chloride (EDC) and vinyl chloride monomer (VCM) makers are making money. In our view, even if there is a large PVC shortage in the near future, then VCM manufacturers – rather than last-mile PVC makers – will make money. Chloromethane and epichlorohydrin (ECH) product gross profits are rising, bucking the trend in commodity chemicals. Rising aniline and benzene prices are negative for all user companies like Aarti Industries (Reduce, TP Rs1,087, CMP Rs850). Rising ECH prices are negative for Atul Industries (Reduce, TP Rs6,370, CMP Rs9,262). Polytetrafluoroethylene (PTFE) spreads also increased 4.5% yoy and 1.8% qoq.

### Some exports-driven companies are witnessing declining exports

India Pesticides, Astec Lifesciences (Hold, TP Rs1,073, CMP Rs1,402) and Anupam Rasayan (Reduce, TP Rs379, CMP Rs798) are witnessing declining exports on a qoq basis. Astec Lifesciences' overall exports is down 59% qoq and 32% yoy. India Pesticides' exports declined 30% yoy but was up 4% qoq in 1QFY22. Anupam Rasayan's exports was down 17% qoq, but increased 11% yoy in 1QFY22.

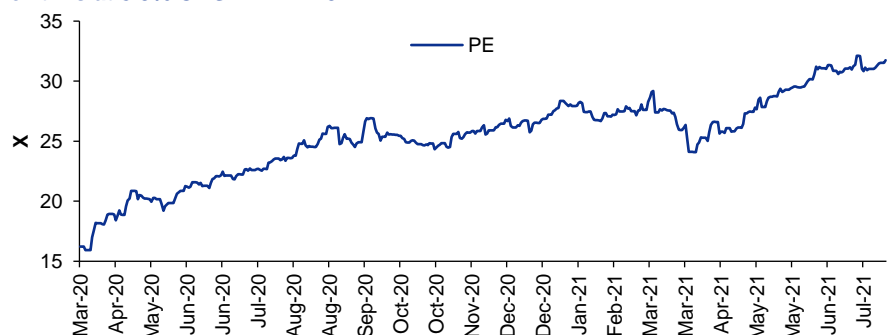
### Vinati, Navin and Atul had strong export sales in 1QFY21

Navin Fluorine's (Hold, TP Rs2,599, CMP Rs3,833) exports rose 39% yoy and 3.2% qoq. Atul Industries exports rose 50% yoy and 58% qoq. Vinati Organics' (Add, TP Rs1,603, CMP Rs1,978) exports grew 54% yoy and 30% qoq in 1QFY22 driven by ATBS (2-acrylamido 2-methylpropane sulfonic acid). While Atul Industries' exports were up in 1QFY22, its gross margin is likely to decline as Lapox spreads dropped 73% yoy and 58% qoq.

### Maintain Underweight on sector; Rallis, Jubilant our top picks

We maintain our Underweight stance on the sector. Our top picks are Rallis (Add, TP Rs355, CMP Rs333) and Jubilant Ingrevia (Add, TP Rs640, CMP Rs563). Our top Sells in the sector are Heranba Industries (Reduce, TP Rs457, CMP Rs769), Anupam Rasayan, Deepak Nitrate (Reduce, TP Rs1,680, CMP Rs1,958) and Aarti Industries.

**Figure 1: Sector currently trades at a high 1-year forward P/E of 31.7x, while PAT growth is at 8.3% CAGR FY21-23F**



SOURCES: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

## Commodity chemicals see margin pressure

Most commodity chemical margins are under pressure as raw material prices are rising. Most of these materials are crude derivatives, hence the rise in crude oil prices is leading to the rise of raw material prices which is adversely impacting product margins.

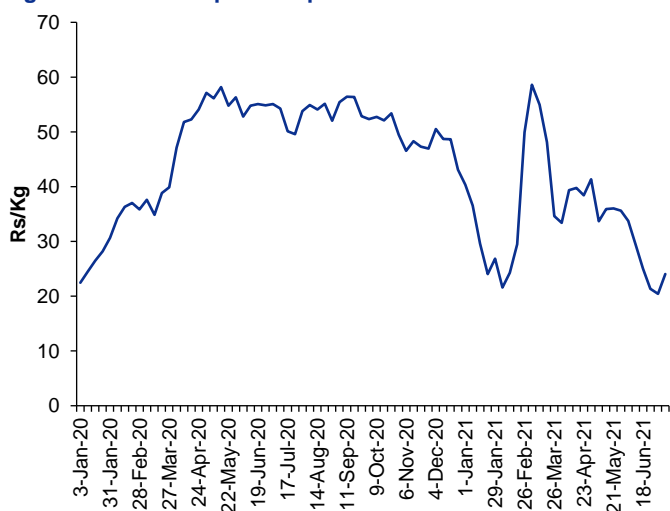
### Phenol and byproduct segments

Phenol is a basic chemical used to manufacture a host of downstream products. We expect phenol margins to decline in 1QFY22 as acetone prices have fallen considerably. Downstream phenol users' gross profits are still at the average of the last 4-5 quarters.

### Phenol spreads over raw materials is falling as acetone prices have fallen ➤

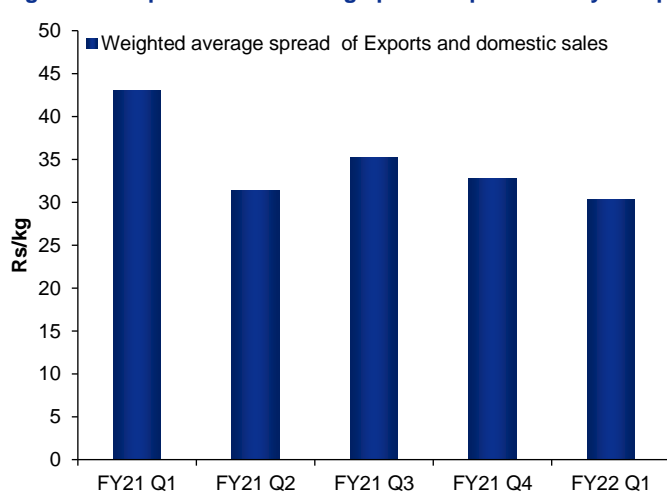
Acetone is a byproduct of phenol manufacturing, hence while calculating product spread we consider acetone credit (each tonne of phenol yields 0.6 tonne of acetone as output). The fall in the price of acetone is leading to the fall in phenol spreads.

**Figure 2: Domestic phenol spreads have declined**



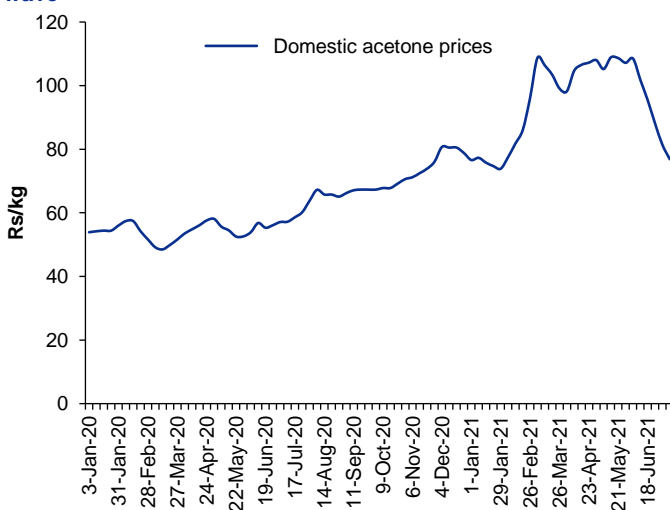
SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

**Figure 3: Deepak Nitrite's average phenol spread fell by 7% qoq**



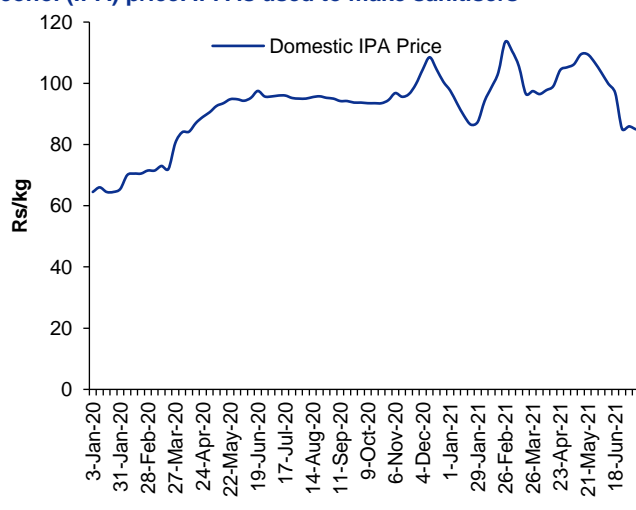
SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

**Figure 4: Acetone prices are falling with subsiding COVID wave**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

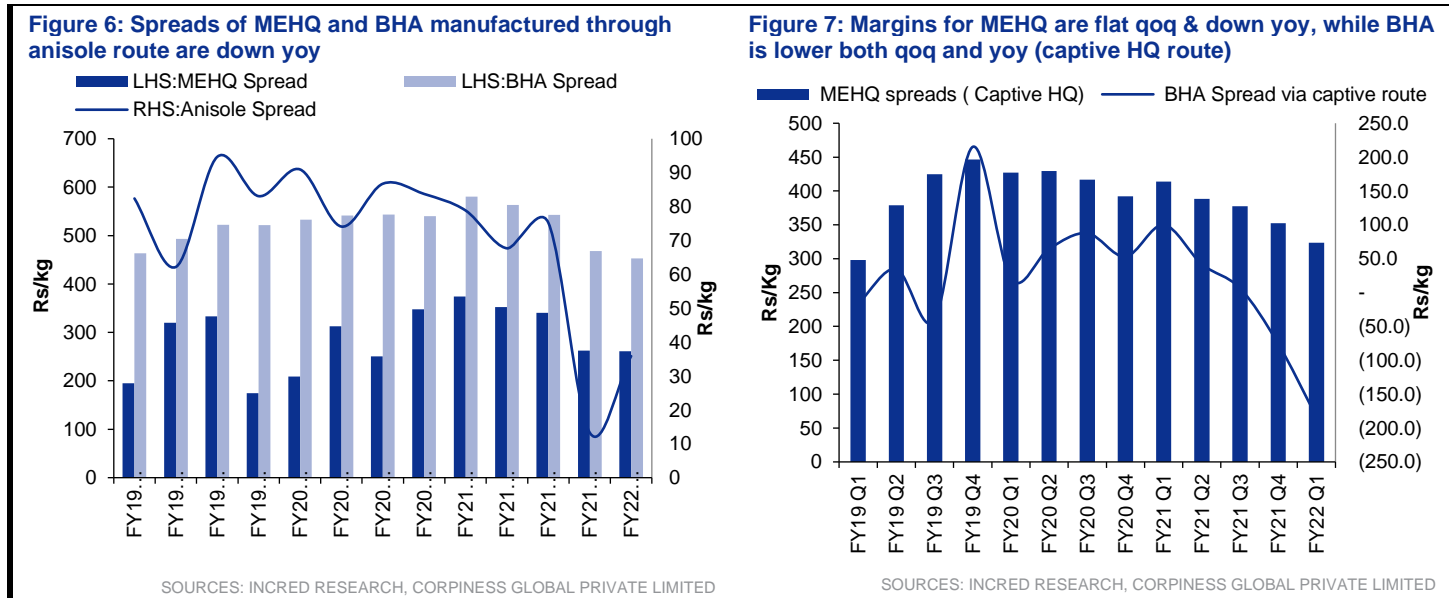
**Figure 5: Fall in acetone price is in sync with fall in iso propyl alcohol (IPA) price. IPA is used to make sanitisers**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

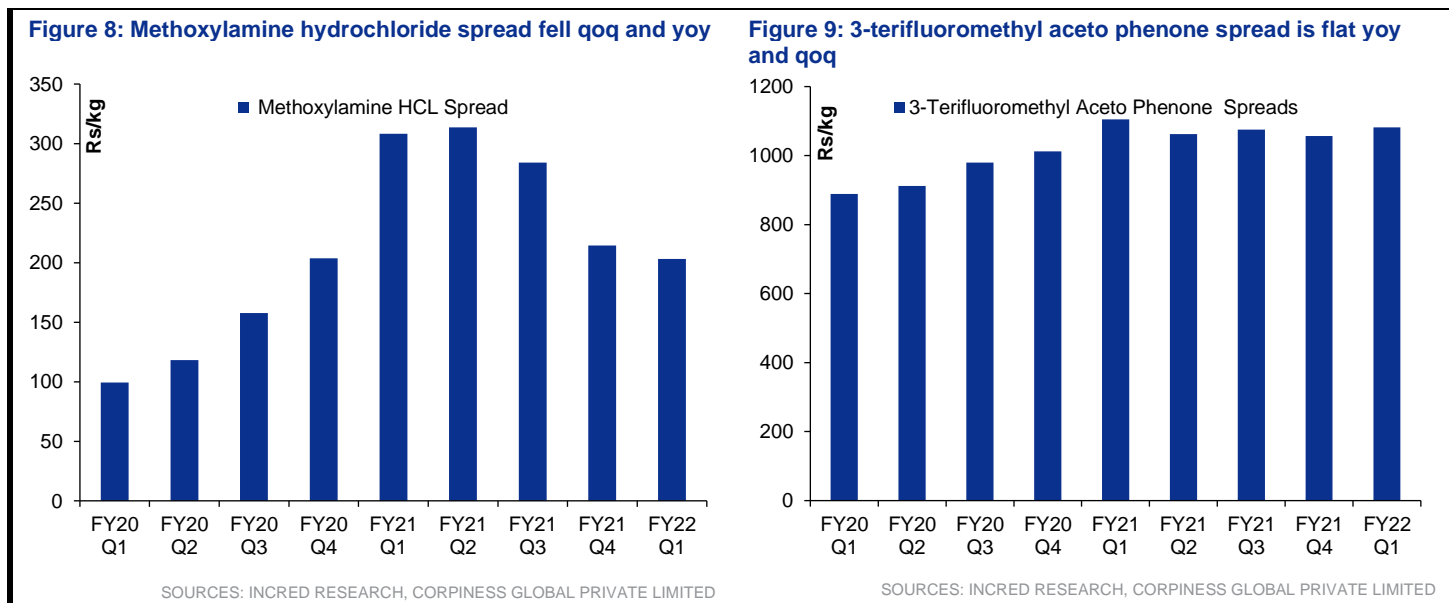
**MEHQ, BHA, anisole, etc, are byproducts of phenol; their spreads were constant qoq but down yoy ➤**

Monomethyl ether hydroquinone (MEHQ) and butylated hydroxy anisole (BHA) can be produced through two processes: the anisole route and the hydroquinone (HQ) route. Margins for the anisole route declined qoq and yoy in 1QFY22, but increased for the HQ route.



**Phenol-based specialty product margins are also down yoy ➤**

Deepak Nitrite manufactures methoxylamine hydrochloride and 3-terifluoromethyl aceto phenone.



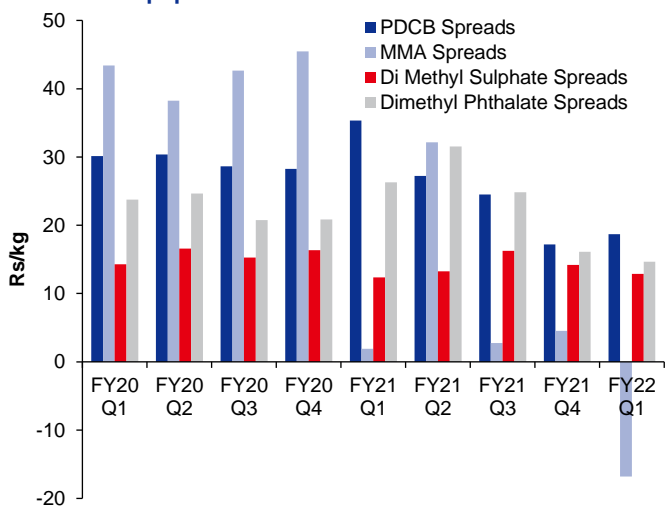
**Margins of products with benzene & aniline as base raw materials fell yoy**

In the last 12 months benzene’s price increased by 259%, and aniline’s by 58%. Users of the raw materials benzene and aniline are not able to pass on the cost increases, particularly in spot sales.

**PDCB, MMA, DMS and DMP gross margins fell yoy ➤**

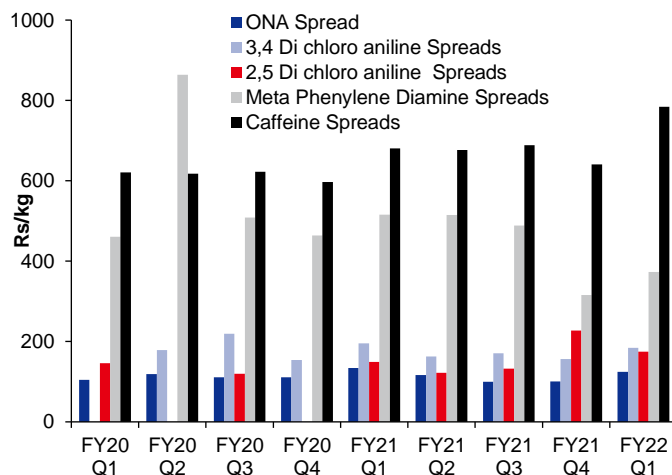
Para dichloro benzene (PDCB), mono methyl aniline (MMA), di methyl sulphate (DMS) and dimethyl phthalate (DMP) spreads declined yoy and qoq. Ortho nitro aniline (ONA), 3 4 di chloro aniline, 2 5 di chloro aniline and caffeine spreads in 1QFY22 were more or less at the same level as in 1QFY21. The above is negative for Aarti Industries.

**Figure 10: PDCB, MMA, DMS and DMP spreads declined yoy but were flat qoq**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

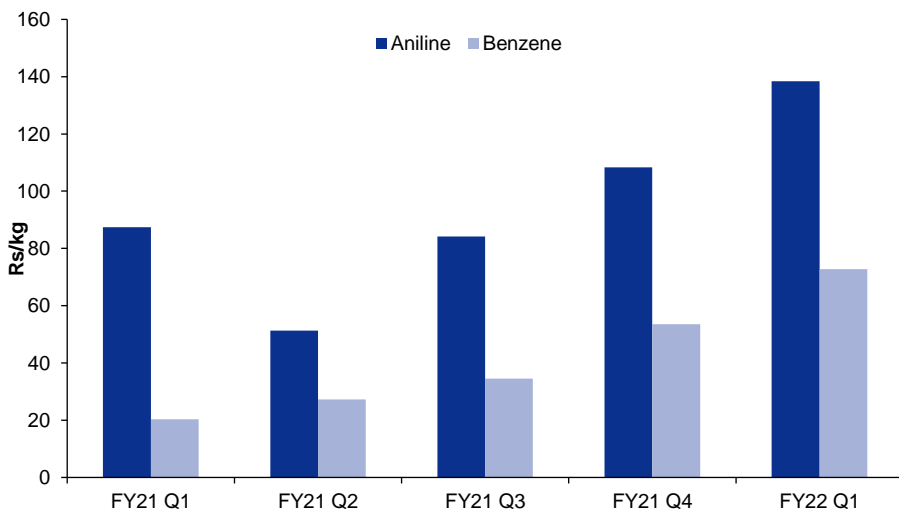
**Figure 11: ONA and other chemicals spreads were flat yoy**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

**Rising benzene and aniline prices led to fall in spreads ➤**

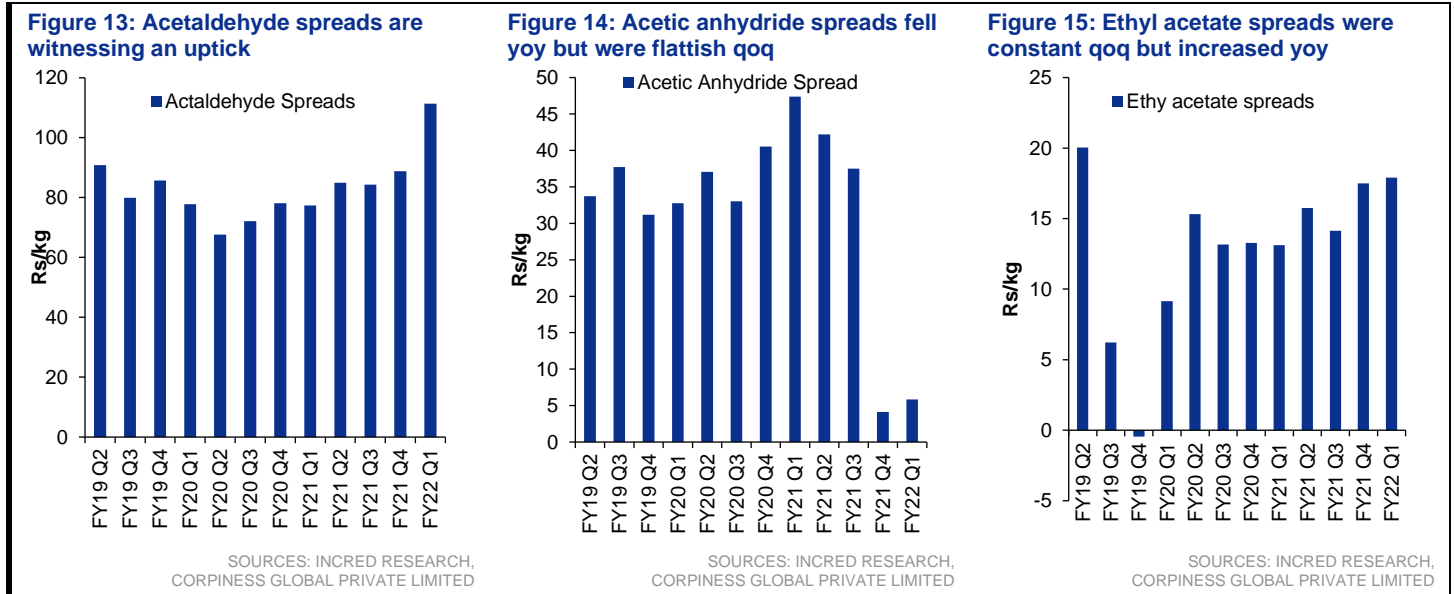
**Figure 12: Aniline's price increased by 58% yoy in 1QFY22 and benzene's by 259% yoy. The qoq price rise was 27.7% for aniline and 35.9% for benzene**



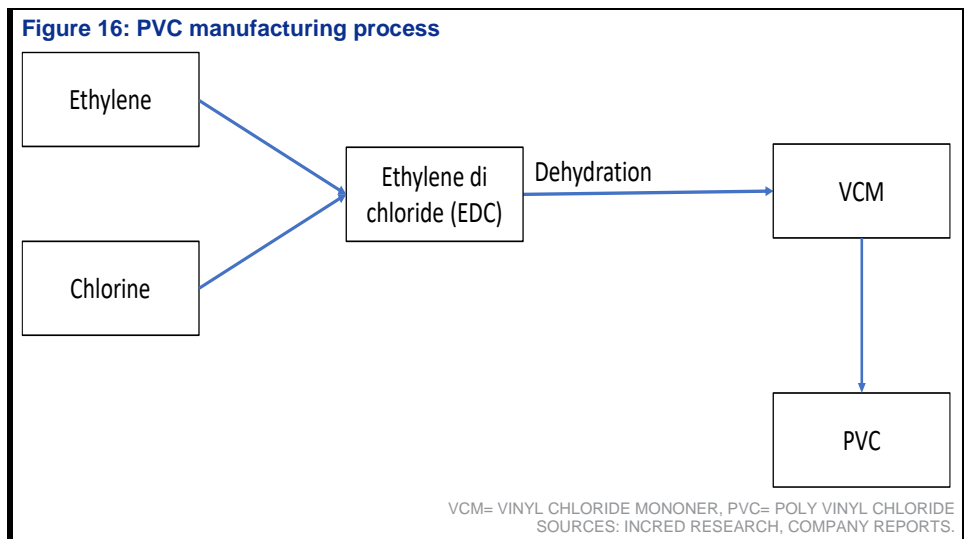
SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

## Ethyl acetate and ketenes spreads dropped qoq & yoy

Ethyl acetate spread was flat yoy and qoq. However, we saw acetic anhydride spreads fall in 1QFY22. On the other hand, we saw an uptick in acetaldehyde spreads in 1QFY22. The overall scenario remains neutral for Laxmi Organics, which will likely maintain its gross margin at 4QFY21 levels.

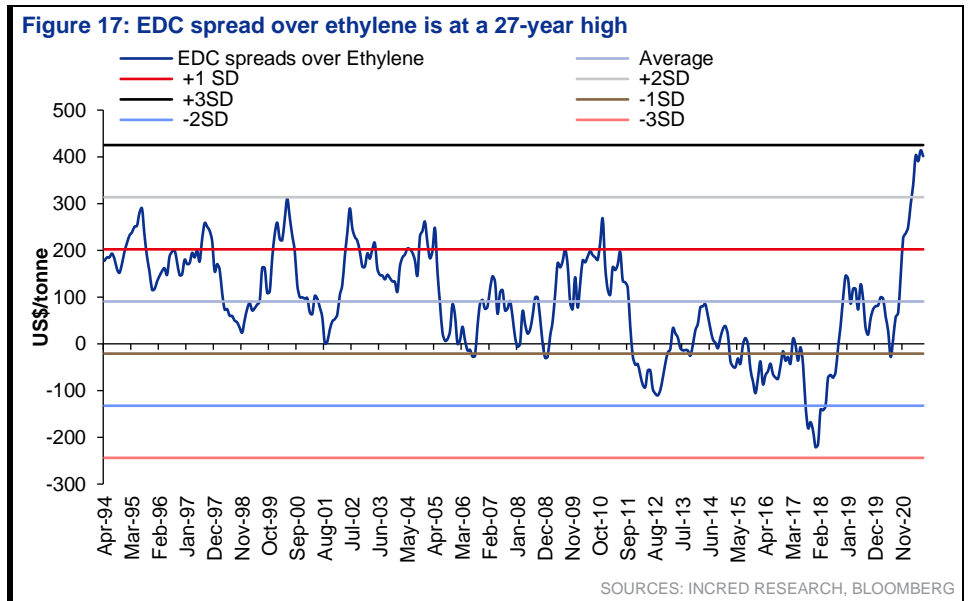


## Unintegrated PVC manufacturers are not doing well



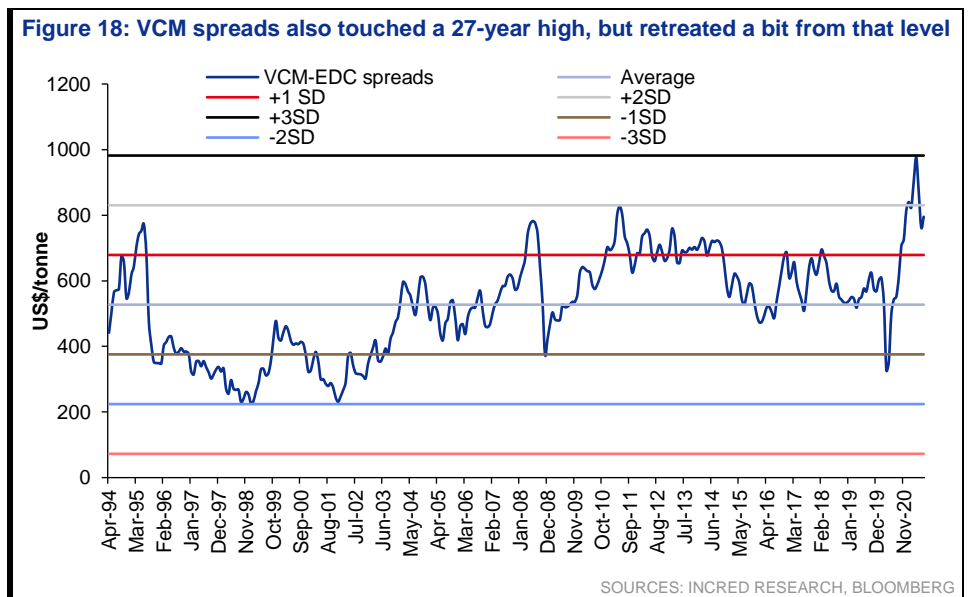
The most important part of PVC's overall supply chain is integration and demand-supply at each point, i.e., demand-supply balance of ethylene, EDC and VCM.

**Within the PVC complex, EDC profits the most and its spreads over ethylene are at a 27-year high ➤**



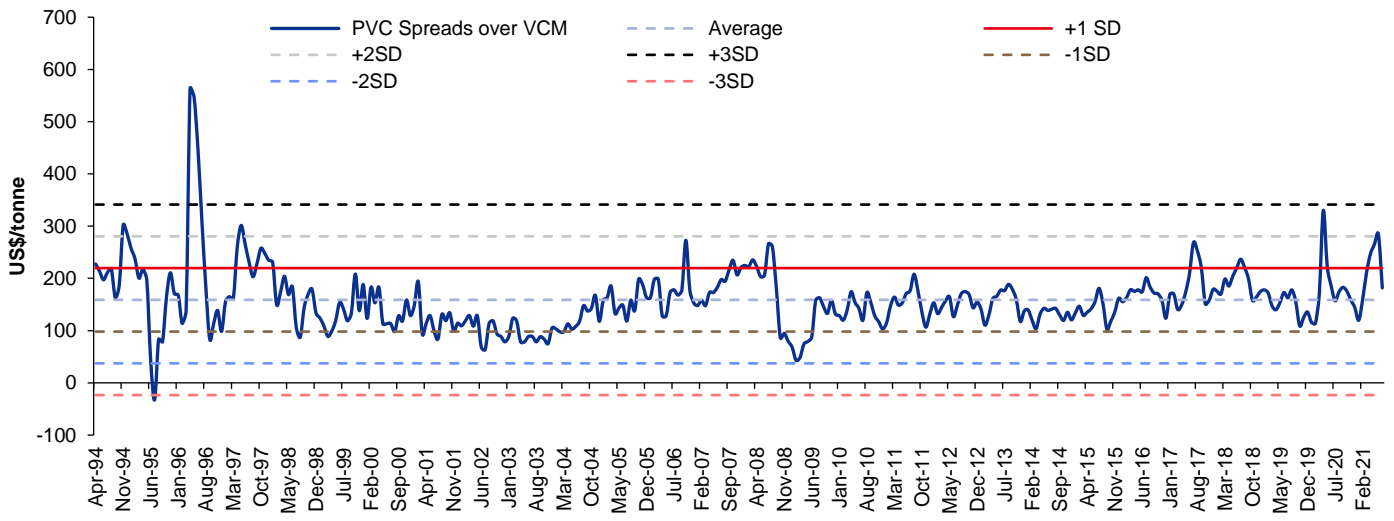
**Standalone VCM manufacturers are not profiting as much ➤**

We believe standalone VCM manufacturers are not making as much money as integrated PVC manufacturers as EDC appears to be a bottleneck.



**Manufacturers buying VCM to make PVC are not making high profits ➤**

**Figure 19: PVC spreads over VCM is near the 27-year average**

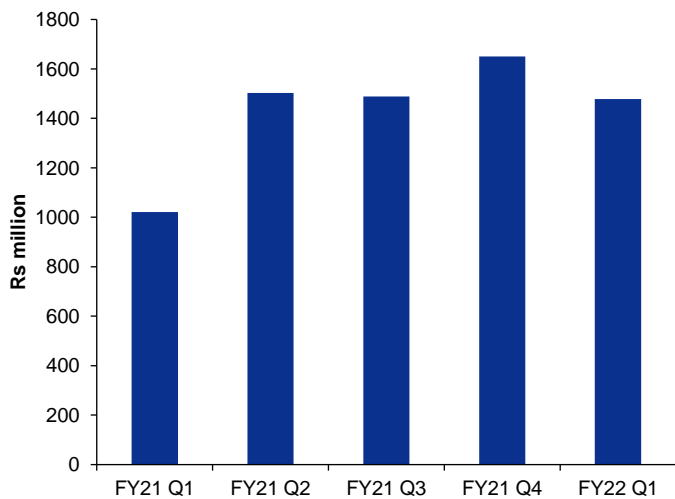


SOURCES: INCRED RESEARCH, BLOOMBERG

**Indian chemical makers' exports were a mixed bag in 1QFY22**

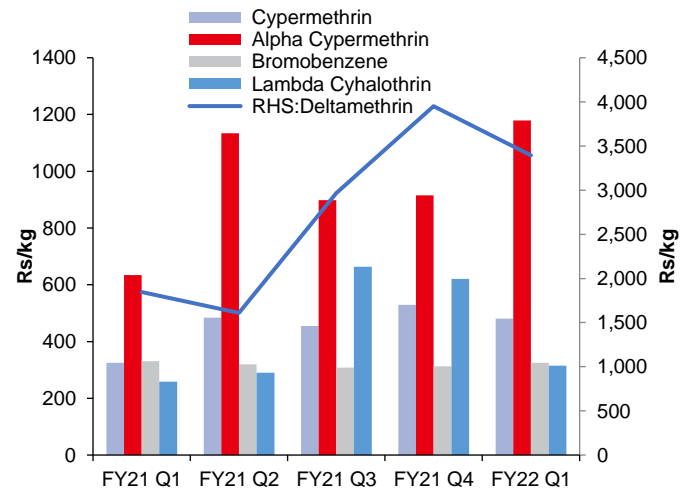
**Heranba's exports declined qoq, but was up yoy; realisations were down qoq ➤**

**Figure 20: Heranba's exports fell 10% qoq, but rose 40% yoy**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

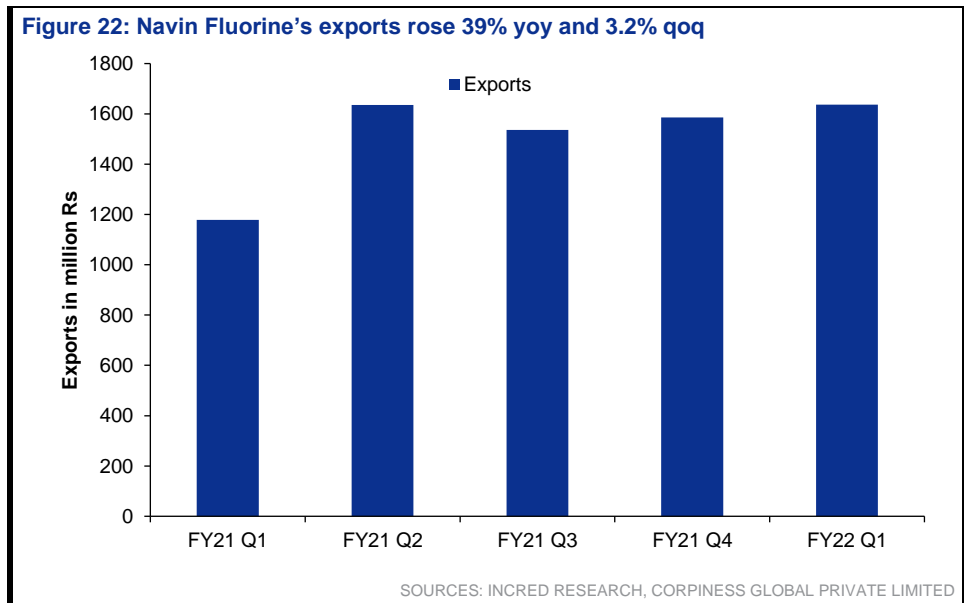
**Figure 21: Realisations of key export molecules fell, for e.g. deltamethrin**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

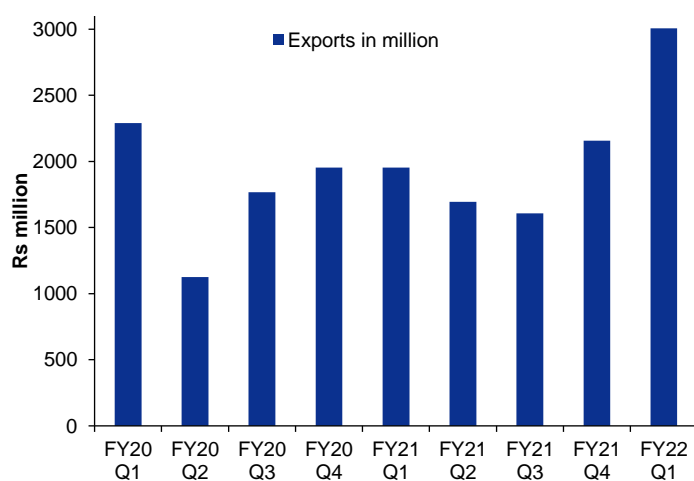
**Navin Fluorine’s exports were up yoy and qoq ➤**

**Figure 22: Navin Fluorine’s exports rose 39% yoy and 3.2% qoq**

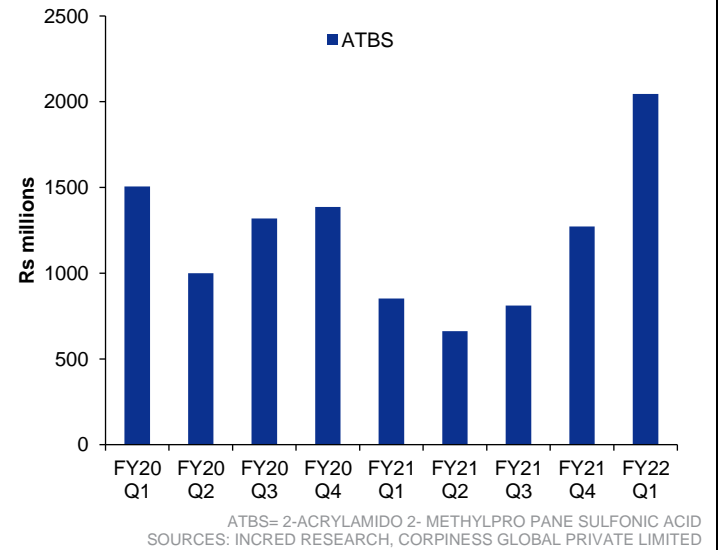


**Driven by ATBS (2-acrylamido 2-methylpropane sulfonic acid), Vinati’s exports have grown significantly ➤**

**Figure 23: Vinati Organics’ exports increased 54% yoy and 30% qoq in 1QFY22**



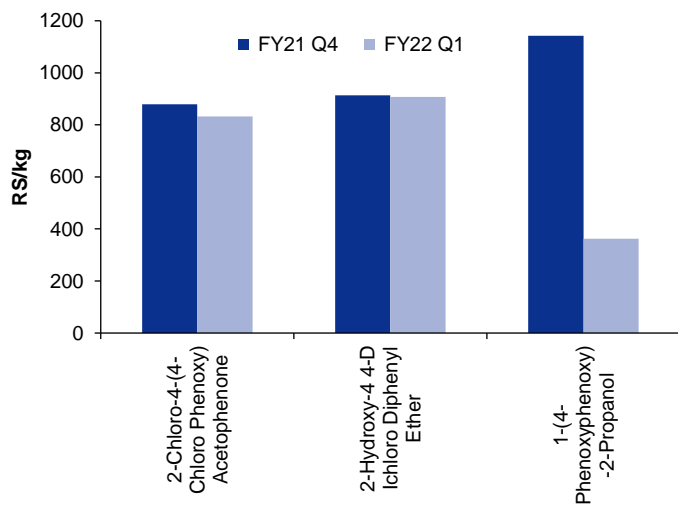
**Figure 24: Vinati Organics’ exports of ATBS increased 240% yoy and 60% qoq in 1QFY22**





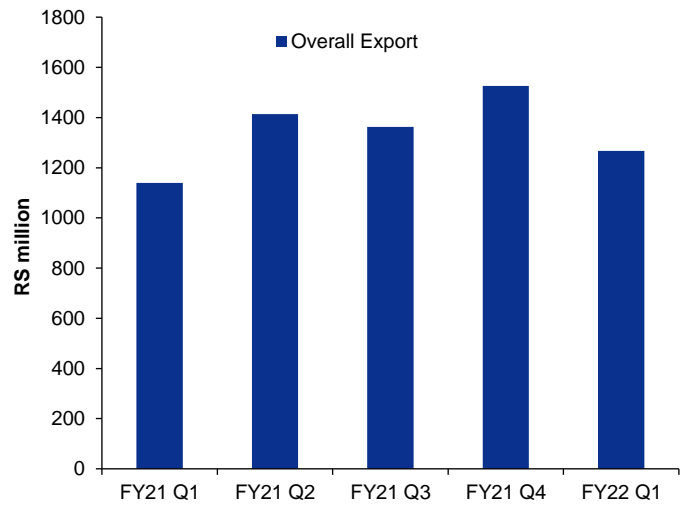
### Anupam Rasayan's value of exports and key molecule realisations declined qoq ➤

**Figure 25: Realisations of key molecules fell qoq in 1QFY22**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

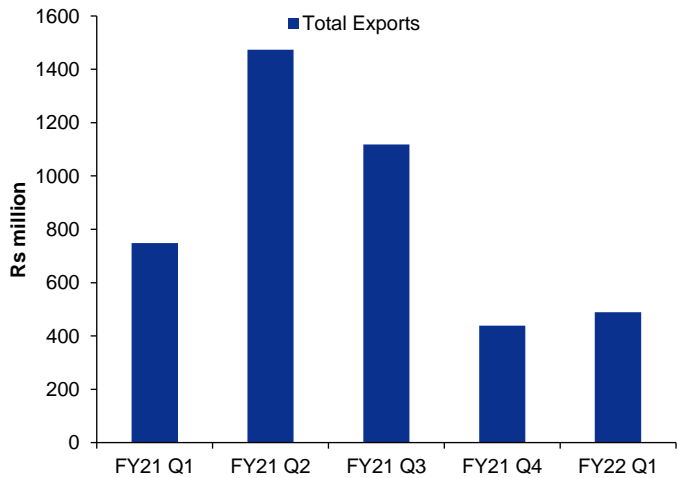
**Figure 26: Exports declined 17% qoq but rose 11% yoy in 1QFY22**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

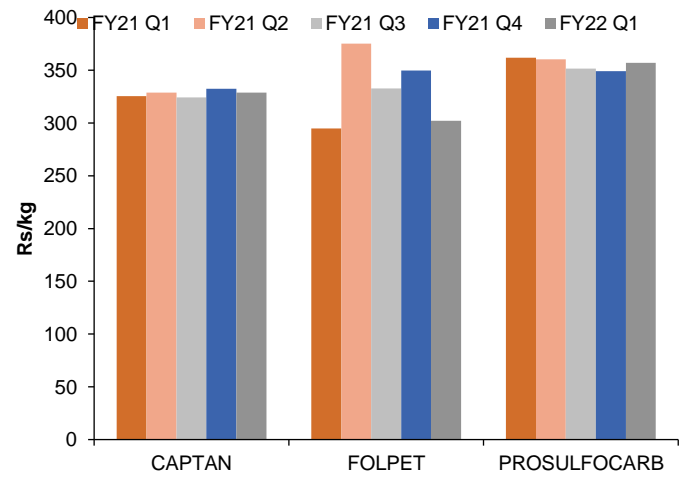
### India Pesticides exports fell yoy, but increased slightly qoq during 1QFY22 ➤

**Figure 27: India Pesticides' total exports declined 30% yoy; rose 4% qoq in 1QFY22**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

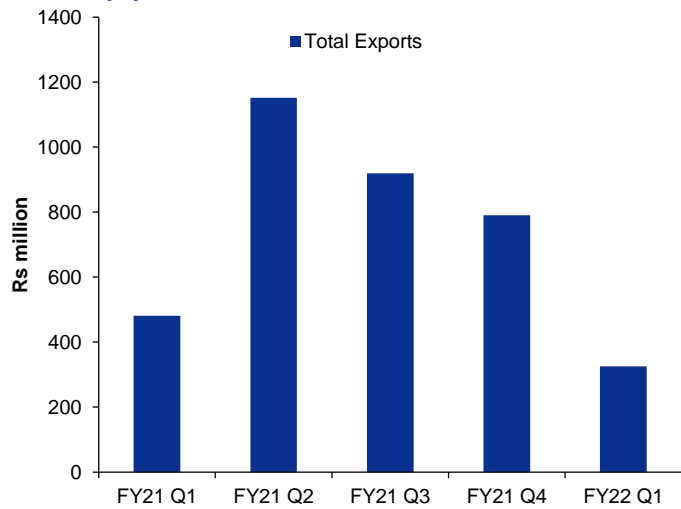
**Figure 28: India Pesticides' realisations of Fopet dipped qoq, but other key molecules had flat realisations qoq**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

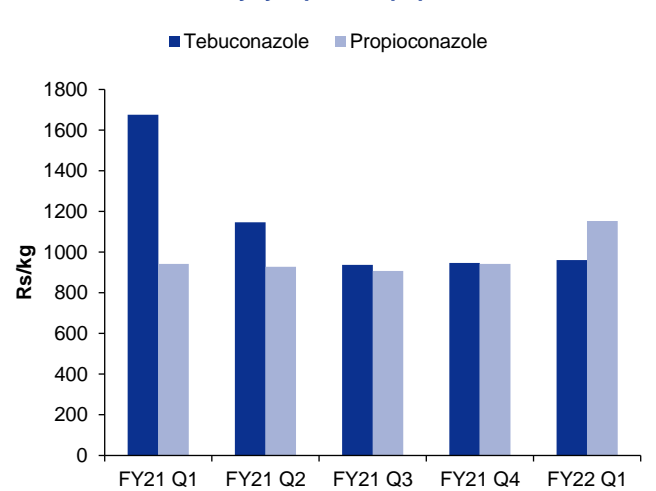
**Astec Lifesciences faced margin and volume growth issues in 1QFY22 ➤**

**Figure 29: Astec Lifesciences overall exports declined 59% qoq and 32% yoy**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

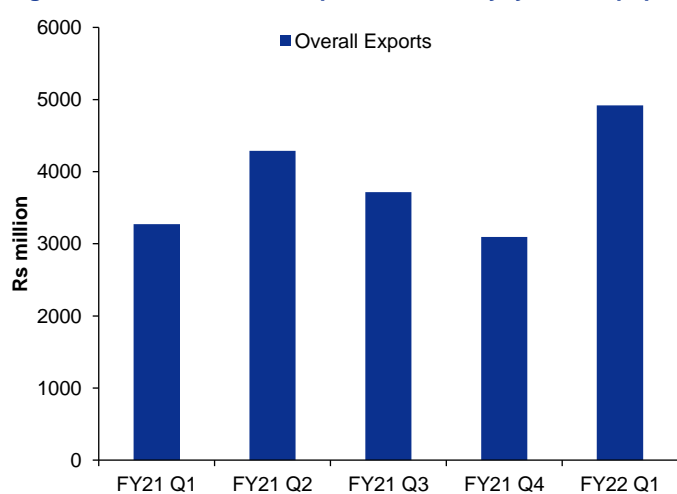
**Figure 30: Tebuconazole formed 67% of exports in 1QFY22 and its realisations fell 42% yoy, up 1.5% qoq**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

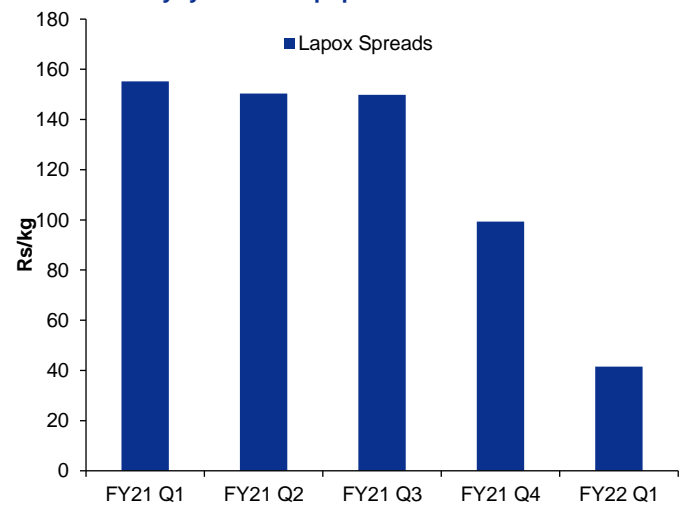
**Atul Industries' raw material cost pressures are intensifying ➤**

**Figure 31: Atul Industries' exports rose 50% yoy & 58% qoq**



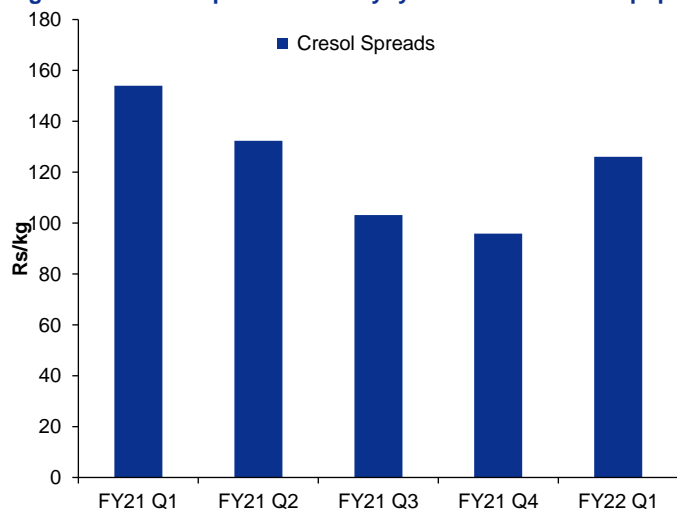
SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

**Figure 32: Its Lapox spreads, which form 15-16% of sales, declined 73% yoy and 58% qoq**



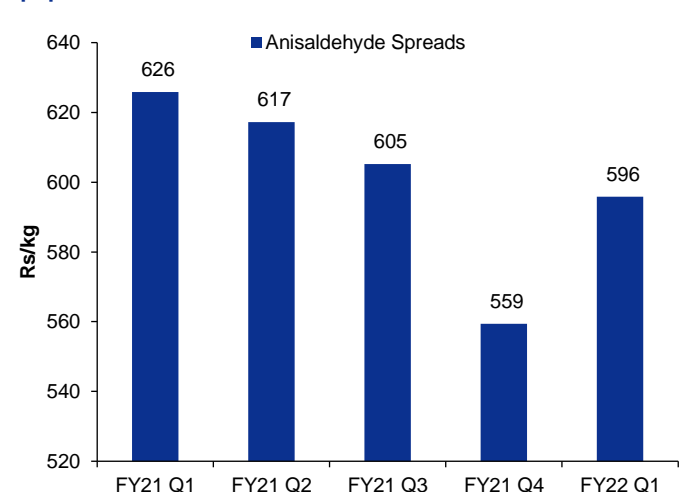
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 33: Cresol spreads fell 8% yoy but increased 19% qoq**



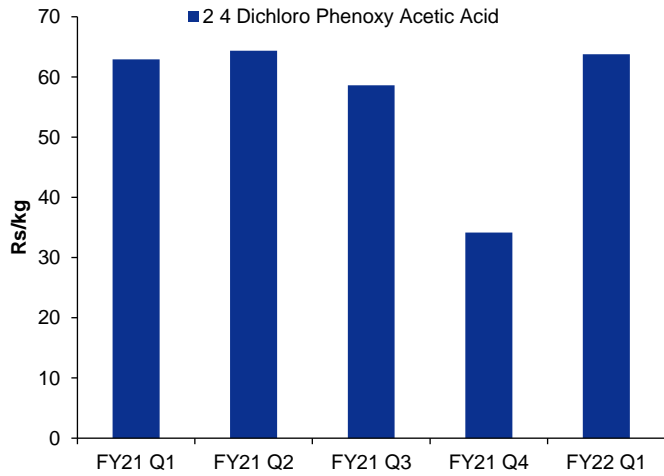
SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

**Figure 34: Anisaldehyde spreads dipped 4.5% yoy, but rose 5% qoq**



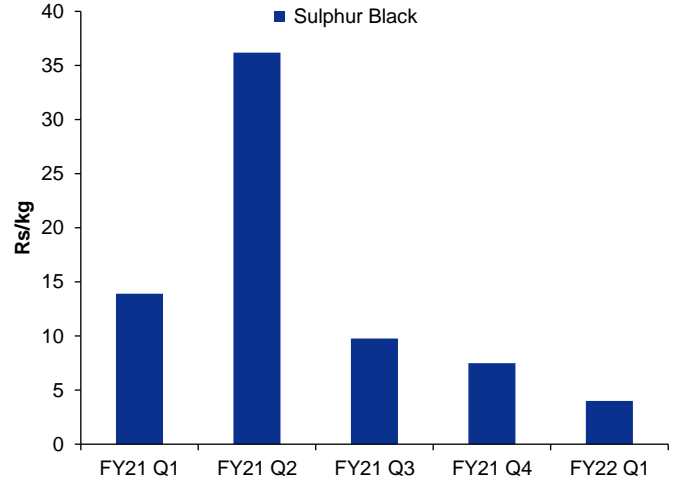
SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

**Figure 35: 2,4-Dichloro phenoxy acetic acid spreads increased 1.4% yoy and 87% qoq**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

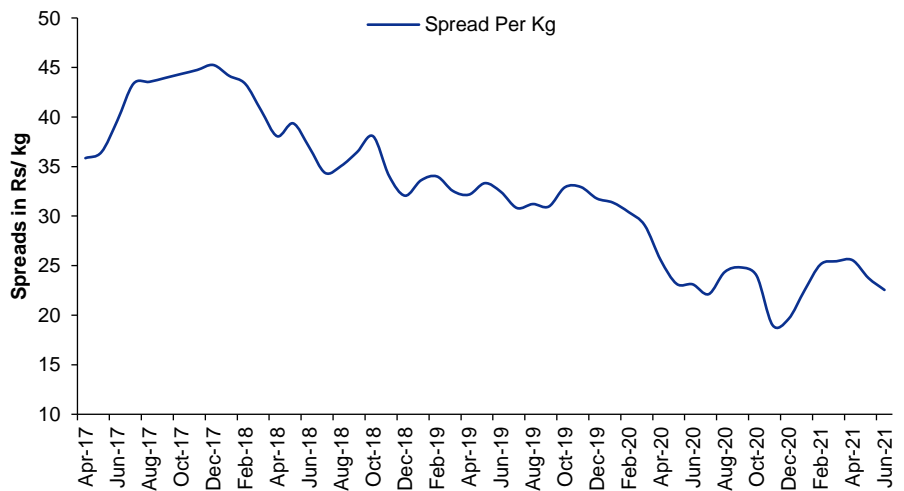
**Figure 36: Sulphur black spreads declined 71% qoq and 47% yoy**



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

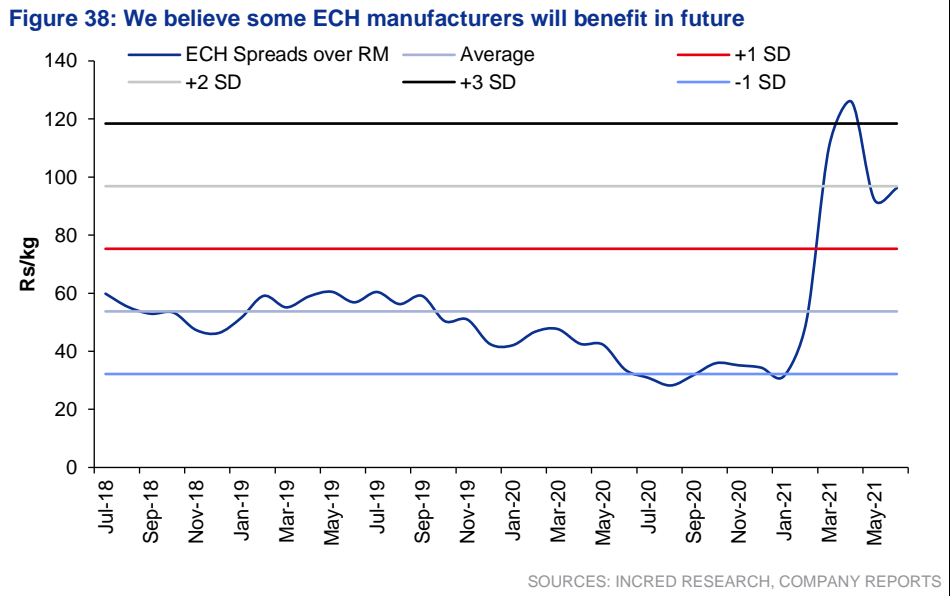
**Caustic soda spreads over power declined ➤**

**Figure 37: Rise in coal cost lowered caustic soda spreads over power**

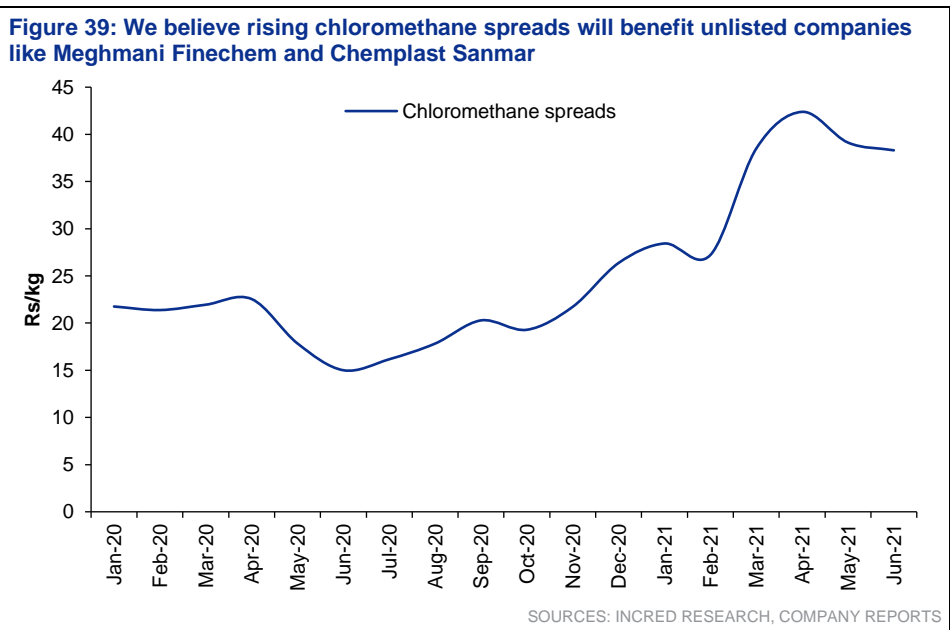


SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

**Epichlorohydrin spread over raw materials is near multi-year high ➤**



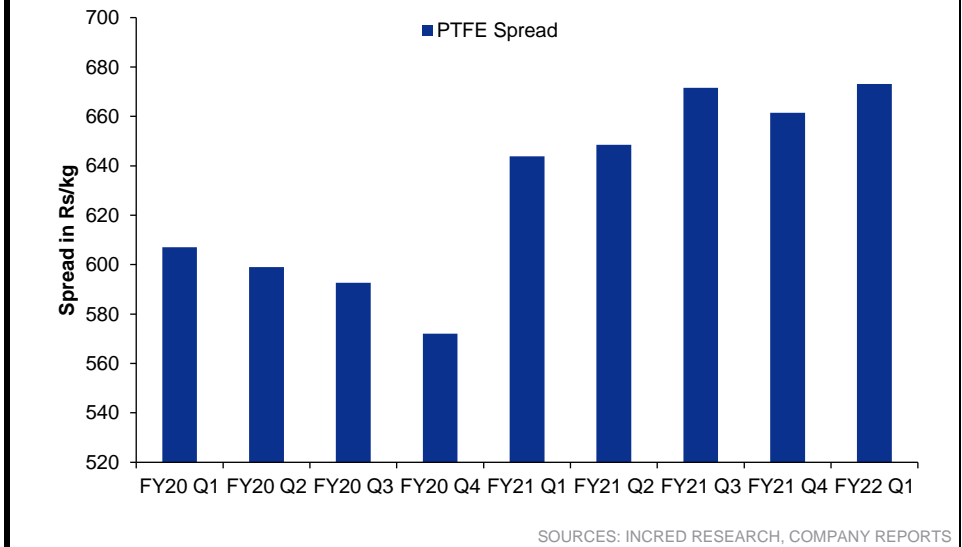
**Chloromethane spread over raw materials is near multi-quarter high ➤**



**PTFE spreads increased yoy and qoq ➤**

The increase in PTFE spreads is good for Gujarat Fluorochemicals Limited, in our view.

**Figure 40: PTFE spread increased 4.5% yoy and 1.8% qoq**



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## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – n/a, n/a, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RBF** – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** – Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, n/a, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2020 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of January 30, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

### Recommendation Framework

#### Stock Ratings

Definition:

<b>Add</b>	The stock's total return is expected to exceed 10% over the next 12 months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.