

India

Underweight (no change)

Highlighted Companies

SRF Limited

REDUCE, TP Rs1540, Rs2351 close

Two major headwinds are emerging for SRF: 1) global channel destocking in agrochemicals, and 2) regulatory norm changes for refrigerants in the US.

Gujarat Fluorochemicals

REDUCE, TP Rs1946, Rs2775 close

With the collapse in HFC prices and the continued headwinds relating to the demand for fluoropolymers, the near-term as well as long-term earnings of Gujarat Fluorochemicals are at risk. Consensus estimates need a massive cut.

Deepak Nitrite

REDUCE, TP Rs1514, Rs2112 close

We have retained our REDUCE rating on the stock with a lower target price of Rs1,514. Further supply chain disruption because of any reason can lead to extraordinary margins.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
SRF Limited	43.39	37.09	31.8
Gujarat Fluorochemicals	36.36	33.57	26.9
Deepak Nitrite	36.75	37.89	35.62

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
SRF Limited	5.93	5.19	4.52
Gujarat Fluorochemicals	4.79	4.19	3.63
Deepak Nitrite	6.01	5.23	4.59

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
SRF Limited	0.27%	0.27%	0.27%
Gujarat Fluorochemicals	0%	0%	0%
Deepak Nitrite	0.28%	0.28%	0.28%

Chemicals - Overall

EPS has fallen for all, but derating selective

- The chemicals sector is going through a downcycle. While product spreads have fallen from the top, they are still far higher than the long-term mean.
- Most chemical stocks have disappointed in the last 12 months and more disappointment is in store, but the derating has not happened.
- Like other sectors in previous cycles, consensus has a big belief in chemicals now but as always, it will be futile. Retain our underweight stance.

Chemicals sector downturn; no space for optimism

The chemicals sector is currently experiencing a downcycle, with product spreads having decreased. However, they remain higher than the long-term mean. Over the past 12 months, most chemical stocks have disappointed, and we anticipate further disappointment in future. Surprisingly, there has been no big derating in the sector. All the underperformance has been driven primarily by earnings disappointments. The initial post-Covid boom, driven by supply chain scarcity, is now fading, and the worst is yet to come.

Refrigerants cycle comes to an end

The refrigerants upcycle started as the US imposed a 277% dumping duty on certain imports from China, a refrigerant significant exporter. This led to rising costs of imports and increased refrigerant prices, resulting in a supernormal profit cycle for Indian exporters. While India initially gained market share in the US due to China's loss, recent data shows a decline in overall imports of R-134A & R-410A in the US. The fall in imports is a result of demand decline, as the supply chain is destocking. Please note as per the AIM Act, consumption of HFC must come down by 33% YoY in 2024 and hence, supply chain destocking is natural.

Petchem spreads are way below mean but downstream still at +1SD

There is a clear downturn in the petrochemicals sector, marked by falling spreads over naphtha, indicating demand headwinds. Spreads of various petrochemicals like ethylene, propylene, PVC, benzene, polypropylene, and MEG are declining, as are spreads for downstream products like IPA, DASDA, trifluoromethyl acetophenone, and methoxylamine HCL. Other downstream products, including hydroquinone and multiple chemicals, are also experiencing a downturn. Please note that while petrochemical spreads are way below historical means, the chemicals which are made from petrochemicals are enjoying, on an average, at +1SD of product spreads over raw materials. Thus, if demand recovers, first petchem will go up, further exerting the pressure on downstream product spreads.

Underweight - earnings to fall further and P/E derating to begin

Some of the stocks in the Indian chemicals sector appears to have a divine blessing (vis-à-vis valuation) like Deepak Nitrite, SRF, Laxmi Organics, Gujarat Fluorochemicals, etc., These stocks have repeatedly disappointed, but the P/E has remained intact. Such is the beauty of the Indian market that even an ethyl acetate maker like Laxmi Organics trades at a 60 P/E and, despite repeated earnings disappointments, never gets derated.

Research Analyst(s)



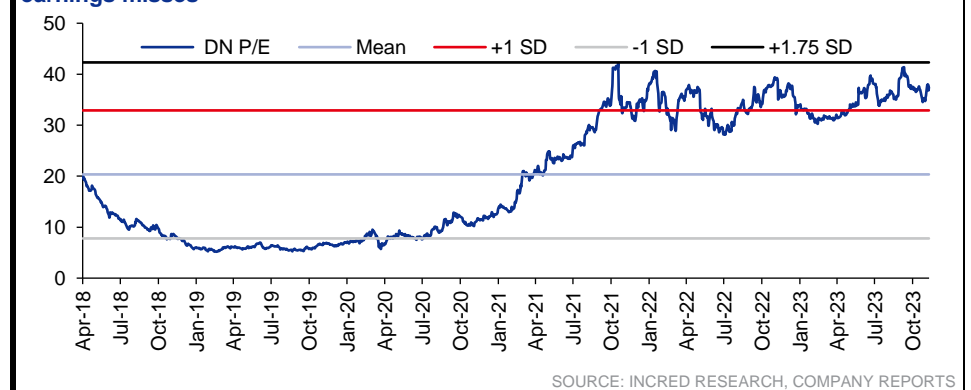
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Figure 1: Deepak Nitrite's valuation has a divine blessing - it doesn't derate despite all earnings misses



SOURCE: INCRED RESEARCH, COMPANY REPORTS

EPS has fallen for all, but derating selective

Chemical companies were looking great, with so-called visionary management and capex giving a guarantee on the revenue front. A section of the street still believes in the latter, but time will only tell how misplaced this assumption is! Like, in the case of steel, capex doesn't guarantee revenue and for chemicals it's the same. Post Covid-19 pandemic, chemicals have a supply chain scarcity-driven run and now the same is fizzling out. The worst of the cycle is still to come. Stocks haven't derated even a bit, it's only an earnings disappointment-driven underperformance. Derating is still left!

The refrigerants cycle

The cycle started when the US, which is the biggest export market for Indian refrigerant makers, imposed a 277% dumping duty on certain class of imports from China. China was one of the biggest exporters and as the cost of imports rose, all refrigerant prices increased, leading to a supernormal profit cycle for all Indian exporters.

US imposed a 277% anti-dumping duty on Chinese refrigerant imports in early 2022 ➤

1. During Mar 2002, in the Federal Register, the Department of Commerce announced the preliminary findings of its investigation into the sales of R-125 at less than fair market value. The department determined that between 1 Jul 2020 and 31 Dec 2020, shipments of R-125 from China were sold for less than the fair market value and future imports of the product are subject to anti-dumping duty of approximately 280%.
2. This decision was in addition to other dumping investigations on refrigerants imported from China, including HFC blends and R-32. The US currently has anti-dumping duties on HFC blends ranging from 102% to 285%, on R-134 anti-dumping duties ranging from 148% to 167%, and on R-32 anti-dumping duties ranging from 160%-221%.

China was the largest exporter of refrigerants to the US and hence, after ADD and they becoming uncompetitive, India captured market share but the same is reversing now ➤

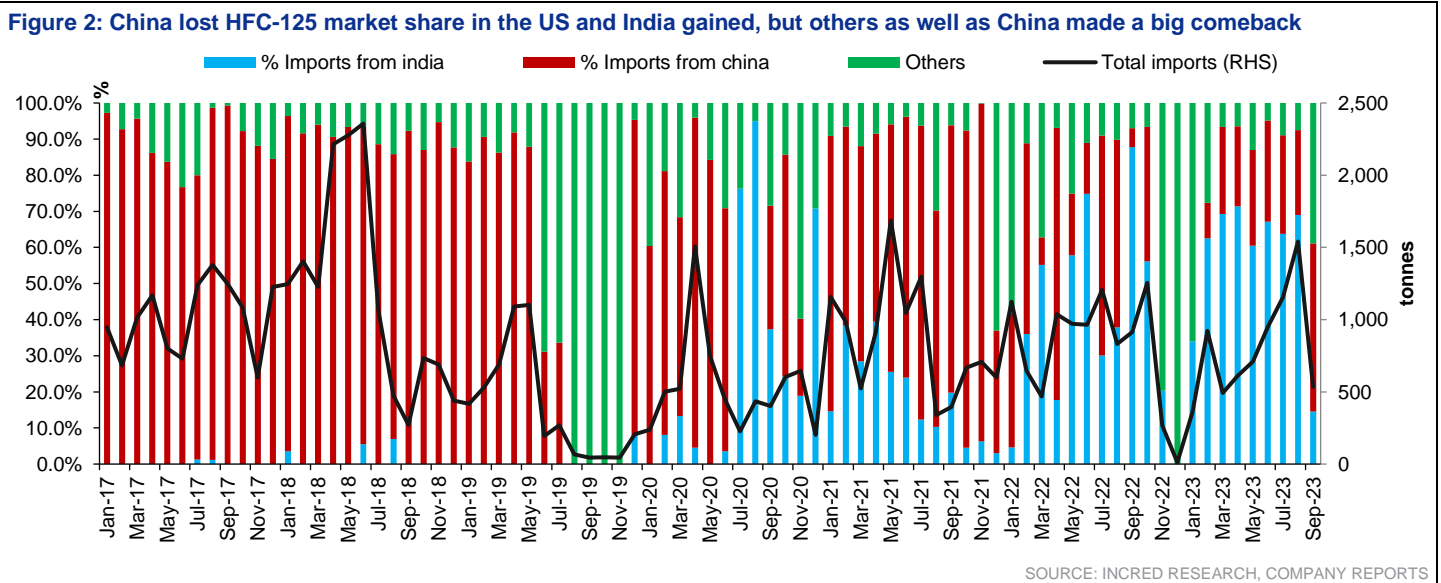


Figure 3: Overall US imports of R-134A are falling as well as the share of India's exports is going down

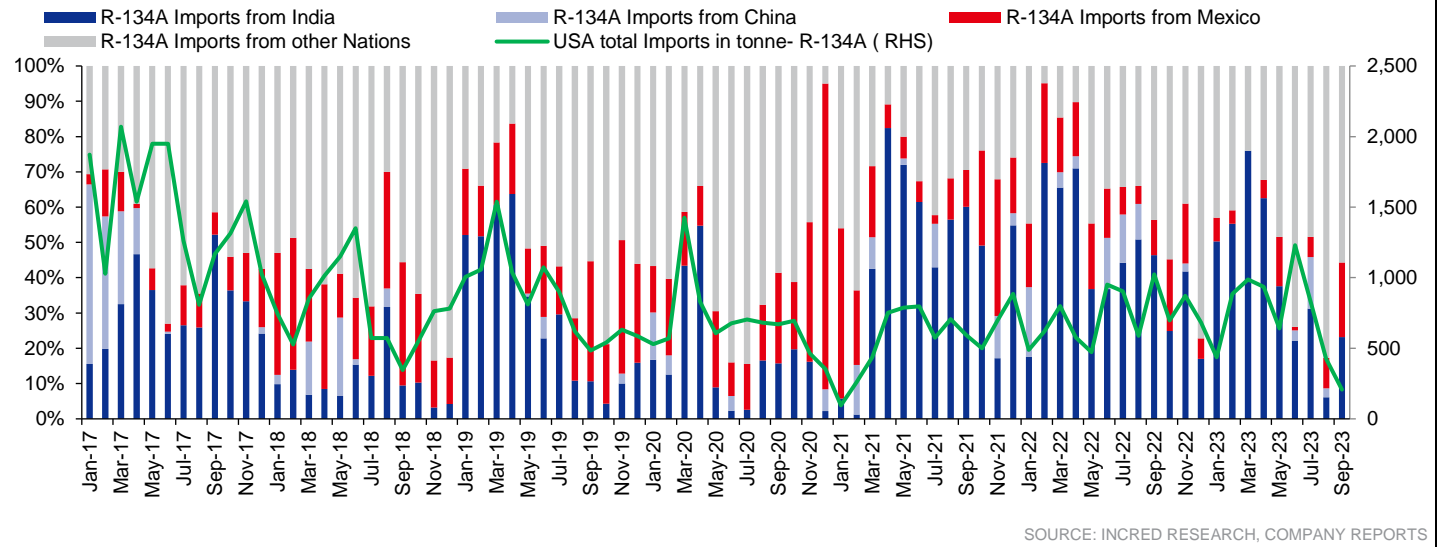
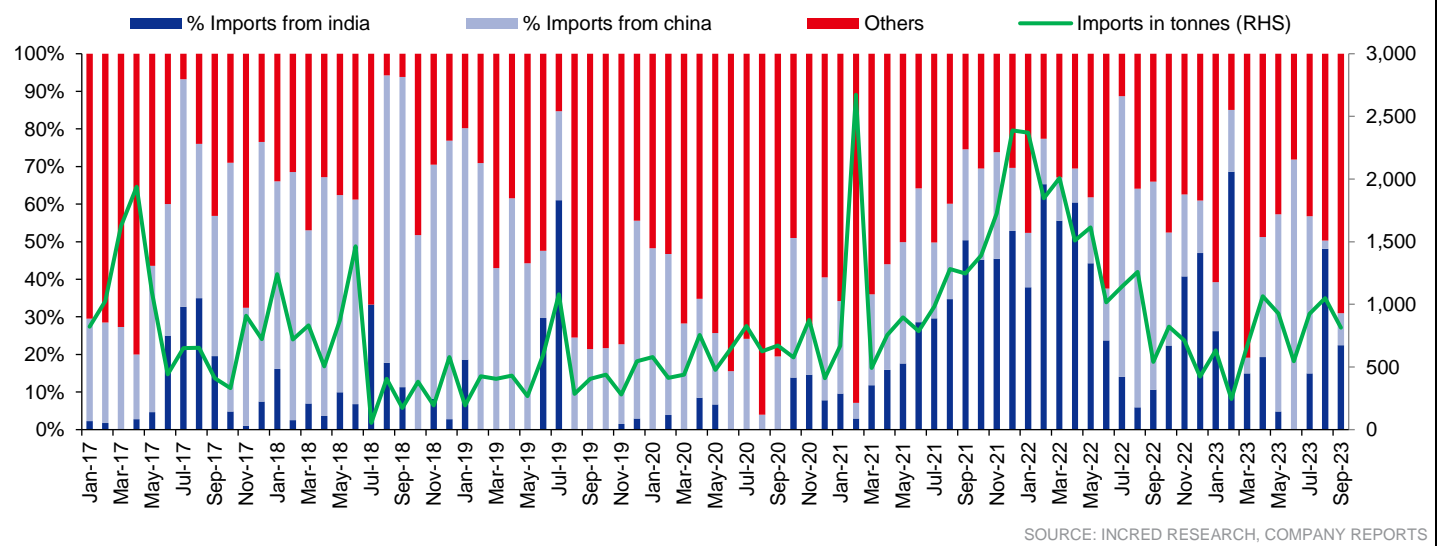


Figure 4: Even R-410A imports are coming down in the US and at the same time, overall market share of India is also falling



US imports of HFC are falling because of reduction in HFC consumption quota from 2024 ➤

The American Innovation and Manufacturing (AIM) Act was enacted by the Congress on 27 Dec 2020. The AIM Act provides new authority for the US Environmental Protection Agency (EPA) to address hydrofluorocarbons (HFCs) in three ways: (1) phasing down production and consumption, (2) maximizing reclamation and minimizing releases from equipment, and (3) facilitating the transition to next-generation technologies through sector-based restrictions. This final rule focuses on the first area – the phasedown of HFC production and consumption.

The AIM Act directs EPA to phase down production and consumption of HFCs (see Table 1) by 85% below baseline levels by 2036 through an allowance allocation and trading program. EPA has established US production and consumption baselines using a formula provided by the AIM Act that considers past HFC, hydrochlorofluorocarbon (HCFC), and chlorofluorocarbon (CFC) amounts. 2) By 1 Oct of each year, EPA must issue production and consumption allowances for the following calendar year, relative to those baselines. The maximum number of allowances that the EPA may allocate per year is shown in Fig.6.

More details on this law can be found here: <https://www.epa.gov/climate-hfcs-reduction/final-rule-phasedown-hydrofluorocarbons-establishing-allowance-allocation>

Figure 5: HFC-125 has one of the highest GWP (global warming potential)

Chemical Name	Common Name	Exchange Value*
CHF ₂ CHF ₂	HFC-134	1,100
CH ₂ FCF ₃	HFC-134a	1,430
CH ₂ FCHF ₂	HFC-143	353
CHF ₂ CH ₂ CF ₃	HFC-245fa	1,030
CF ₃ CH ₂ CF ₂ CH ₃	HFC-365mfc	794
CF ₃ CHFCF ₃	HFC-227ea	3,220
CH ₂ FCF ₂ CF ₃	HFC-236cb	1,340
CHF ₂ CHFCF ₃	HFC-236ea	1,370
CF ₃ CH ₂ CF ₃	HFC-236fa	9,810
CH ₂ FCF ₂ CHF ₂	HFC-245ca	693
CF ₃ CHFCHFCF ₂ CF ₃	HFC-43-10mee	1,640
CH ₂ F ₂	HFC-32	675
CHF ₂ CF ₃	HFC-125	3,500
CH ₃ CF ₃	HFC-143a	4,470
CH ₃ F	HFC-41	92
CH ₂ FCH ₂ F	HFC-152	53
CH ₃ CHF ₂	HFC-152a	124
CHF ₃	HFC-23	14,800

SOURCE: INCRED RESEARCH, COMPANY REPORTS

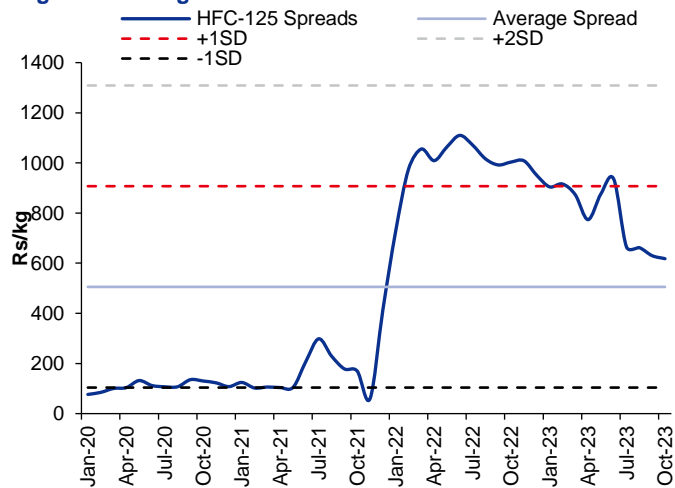
Figure 6: Consumption has to come down by 33%, starting 2024

Year	Consumption & Production Allowance Caps as a Percentage of Baseline	Estimated Consumption and Production Allowance Caps in MMTEVe*
Baseline		Consumption: 303.89 MMTEVe Production: 382.55 MMTEVe
2020-2023	90 percent	Consumption: 273.5 Production: 344.3
2024-2028	60 percent	Consumption: 182.3 Production: 229.5
2029-2033	30 percent	Consumption: 91.2 Production: 114.8
2034-2035	20 percent	Consumption: 60.8 Production: 76.5
2036 & after	15 percent	Consumption: 45.6 Production: 57.4

SOURCE: INCRED RESEARCH, COMPANY REPORTS

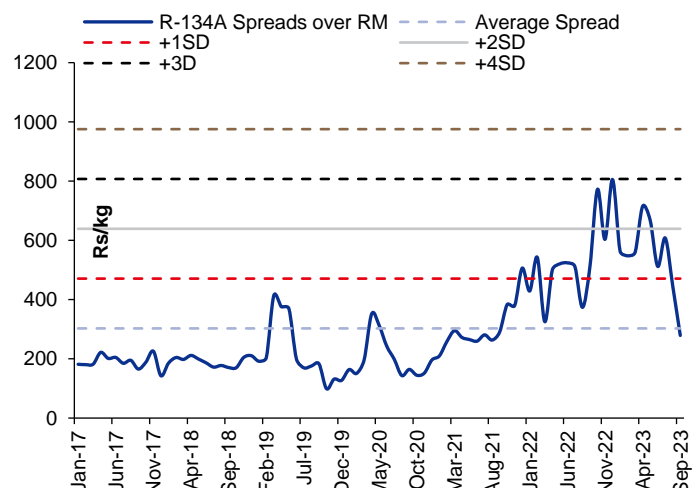
Consequently, prices are falling across the board and spreads over raw material are also falling rapidly ➤

Figure 7: HFC spreads are still high and there is plenty of room to go down - negative for SRF and GFL



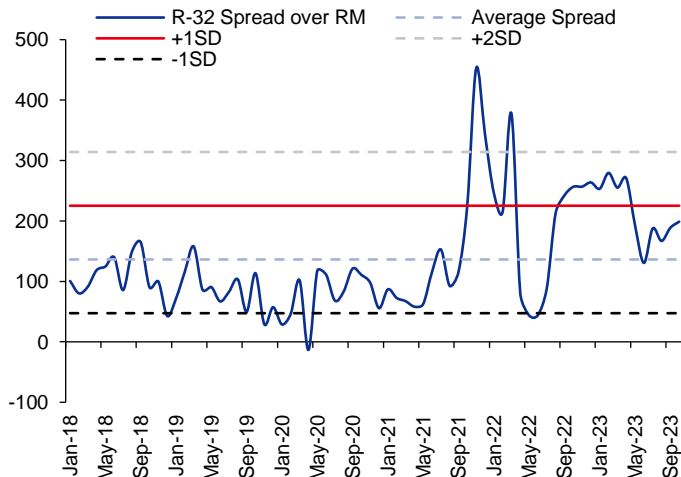
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: R-134A spreads over raw material are collapsing



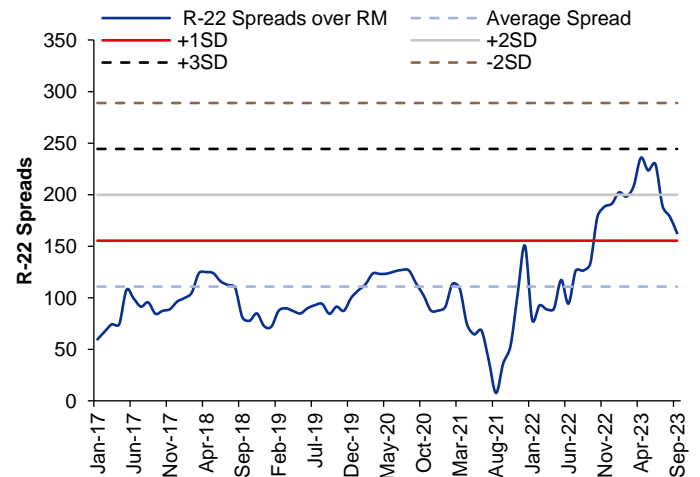
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: R-32 is still doing fine



SOURCE: INCRED RESEARCH, COMPANY REPORTS

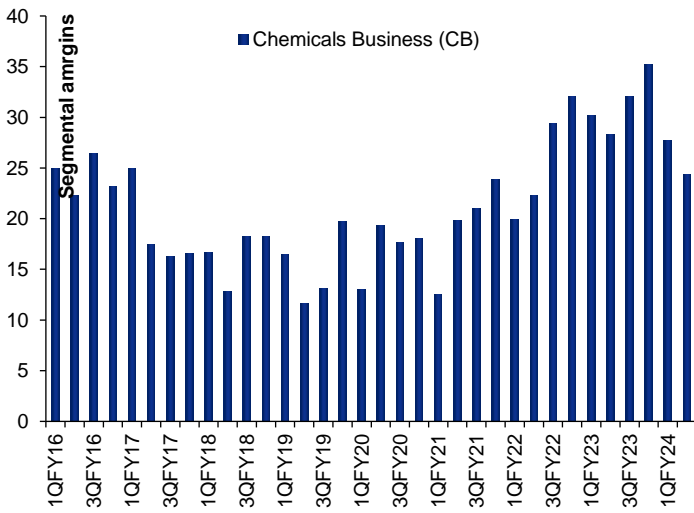
Figure 10: R-22 is also reverting to its long-term mean



SOURCE: INCRED RESEARCH, COMPANY REPORTS

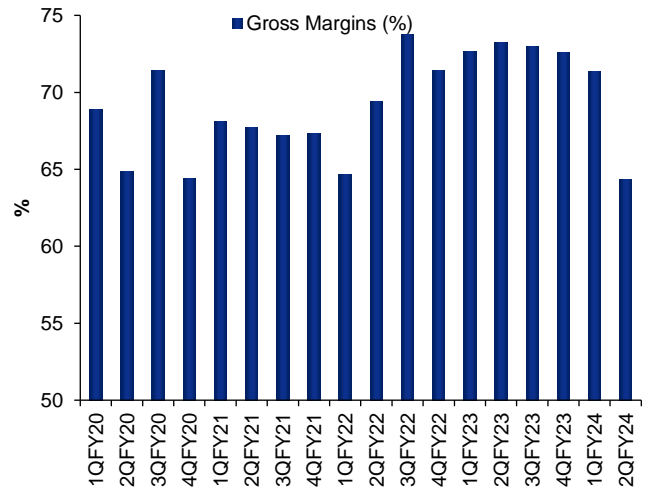
All high margins made by SRF and GFL were due to a flash-in-the-pan kind of rise in HFC prices, which is waning ➤

Figure 11: SRF' chemicals segment's margin exploded to 37% and is back to 24.4%- still has at least 3-4% to go



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Gross margin of GFL should be at the current levels only - it's another matter that fluoropolymer volume will not stage a comeback



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Fluoropolymers - cyclical downturn or end of the road? We believe it's the latter

The issue of PFAS and its likely ban in Europe

This is a hotly debated topic on the street, so much so that it was mentioned in the conference call as well. This case is going on with the European Chemical Agency (ECHA) and its portal is open for public consultation till 25 Sep 2023. Please click the link here: <https://echa.europa.eu/restrictions-under-consideration/-/substance-rev/72301/term> ECHA is providing an opportunity to all people to give their views on the likely ban on the chemical. The portal is open to all and even Indians can go and register their protest on the likely action, or they can support the environmental concerns. Because of the ensuing confusion on ECHA action, we are giving a chronology of the events which have happened till date. This section is, in a sense, a repeat of our earlier notes but it has become critical because of the issues raised in the conference-call transcripts of GFL.

Figure 13: Management claims that fluoropolymers will be carved out from the entire ban structure being discussed in Europe as they are a long chain, not water soluble and not leachable compound

Ketan Gandhi: There are a lot of negativity around PFAS regulation in EU reach and even after one of the Indian progress report are continuously hammering that in the minds of the investor, even after the news report published by The Guardian Newspaper which is a very reputed that because PFAS regulation is the thing of the past. Do you have anything to say on that?

Dr. Bir Kapoor: See Ketan we have always maintained a position that PFAS regulation is more towards molecules, which has mobility, which are mobile and which are bio-accumulative. Fluoropolymers as a set of compounds are a very long chain compound which and while it was proposed, but I don't see that being part of the any restriction that may come into this because right now and again the PFAS regulation was more towards application of fluorochemical compounds as a fact in which is geared towards a large number of consumer applications, but that's related to upholstery or the carpet or the stain repellants, firefighting foam, etc., etc., Fluoropolymers typically are long chain compounds and what we believe is that eventually the regulation comes out although right now they are going through the consultation phase which are interacting through the application and the manufacturers, but fluoropolymers all said and done are solids and these are not soluble in water, these are long chain compounds and they have no leachable water mobile compounds. So, we still hold the same position and we believe that whenever this regulation comes into place, the fluoropolymer would be carved out of this because they really do not pose any problem per se as a product.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

What are PFAS? ➤

Per- and polyfluoroalkyl substances (PFAS) are a large class of thousands of synthetic chemicals that are used throughout society. However, they are increasingly detected as environmental pollutants and some are linked to negative effects on human health.

They all contain carbon-fluorine bonds, which are one of the strongest chemical bonds in organic chemistry. This means they resist degradation when used and also in the environment. Most PFAS are also easily transported in the environment covering long distances away from the source of their release.

PFAS have been frequently observed to contaminate ground water, surface water and soil. Cleaning up polluted sites is technically difficult and costly. If releases continue, they will continue to accumulate in the environment, drinking water and food.

What are they used for? ➤

PFAS have a wide range of different physical and chemical properties. They can be gases, liquids, or solid high-molecular weight polymers. Some PFAS are described as long-chain or short-chain, but this does not cover all the different kinds of structures that are present in the PFAS class, which are very diverse. PFAS can be sorted in many ways based on their structure.

PFAS are widely used as they have unique desirable properties.

1. For instance, they are stable under intense heat. Many of them are also surfactants and are used, for example, as water and grease repellents.
2. Some of the major industry sectors using PFAS include aerospace and defence, automotive, aviation, food contact materials, textiles, leather and apparel, construction and household products, electronics, fire-fighting, food processing, and medical devices.
3. Over the past decades, global manufacturers have started to replace certain PFAS with other PFAS or with fluorine-free substances. This trend has been driven by the fact that scientists and governments around the world first recognised the harmful effects of some PFAS (particularly long-chain PFAS) on human health and the environment. As the focus shifted to other PFAS, these have also been found to have properties of concern.

What are the concerns regarding PFAS? ➤

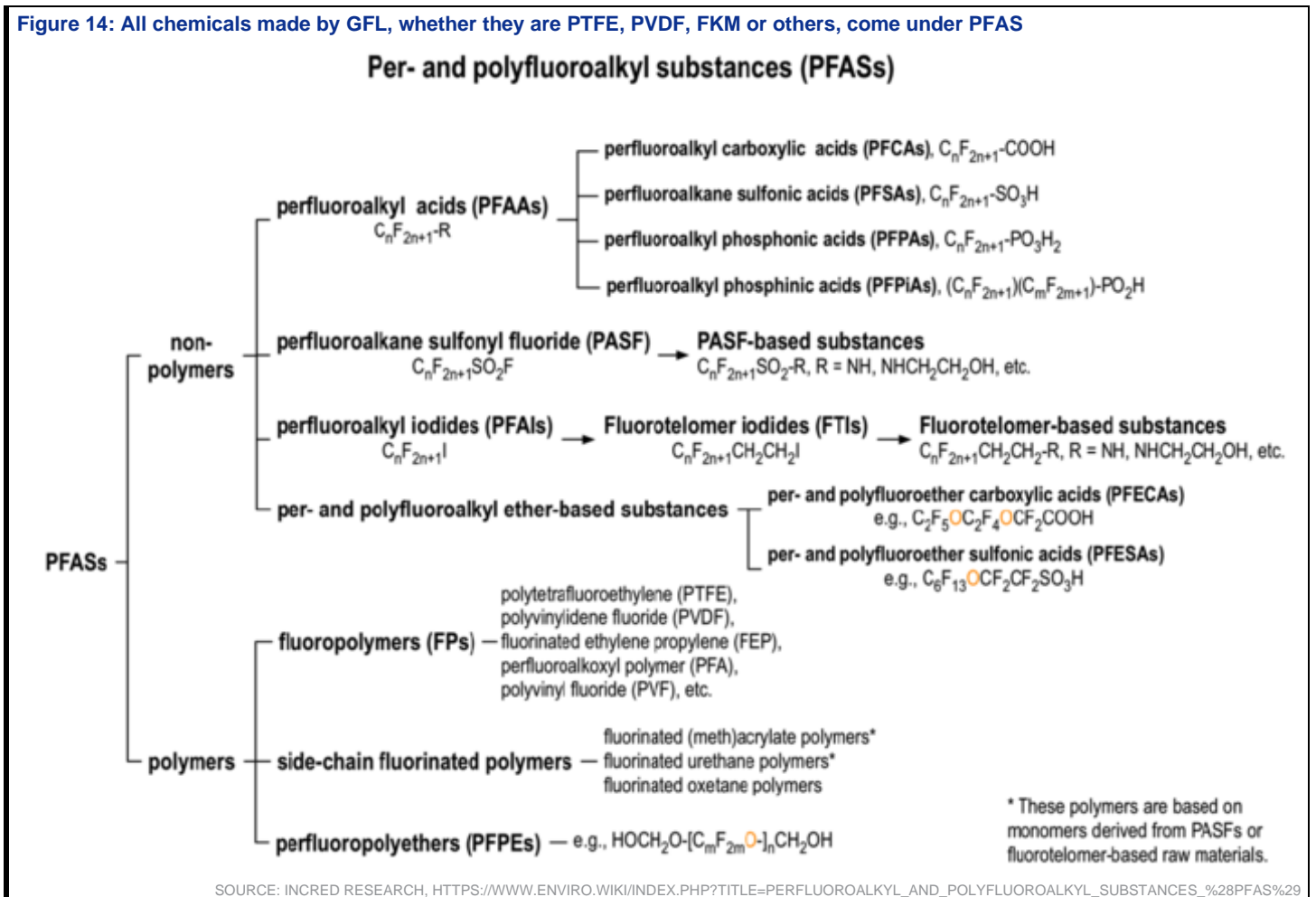
1. Most PFAS are persistent in the environment. Some PFAS are known to persist in the environment longer than any other synthetic substance.
2. As a consequence of this persistence, as long as PFAS continue to be released to the environment, humans and other species will be exposed to ever greater concentrations.
3. Even if all releases of PFAS would cease tomorrow, they would continue to be present in the environment, and in humans, for generations to come. The behaviour of PFAS in the environment means that they tend to pollute ground water and drinking water, which is difficult and costly to remediate.
4. Certain PFAS are known to accumulate in people, animals and plants and cause toxic effects.
5. Certain PFAS are toxic for reproduction and can harm the development of fetuses. Several PFAS may cause cancer in humans. Some PFAS are also suspected of interfering with the human endocrine (hormonal) system.
6. PFAS are released into the environment from direct and indirect sources, for example, from professional and industrial facilities using PFAS, during the use of consumer products (e.g. cosmetics, ski waxes, clothing) and from food-contact materials.
7. Humans can be exposed to them every day at home, at their workplace and through the environment, for example, from the food they eat and drinking water.

Which chemicals come under PFAS? >

Wikipedia gives an excellent and unbiased definition of PFAS. Please click the link:

https://www.enviro.wiki/index.php?title=Perfluoroalkyl_and_Polyfluoroalkyl_Substances_%28PFAS%29

Figure 14: All chemicals made by GFL, whether they are PTFE, PVDF, FKM or others, come under PFAS



Who has initiated the public hearing under ECHA? >

Please click the link to the article here: <https://echa.europa.eu/-/echa-publishes-pfas-restriction-proposal>.

We quote from the above article: “The proposal was prepared by authorities in Denmark, Germany, the Netherlands, Norway and Sweden and submitted to ECHA on 13 January 2023. It aims to reduce PFAS emissions into the environment and make products and processes safer for people.

All PFASs in the scope of the proposal are very persistent in the environment. If their releases are not minimised, people, plants and animals will be increasingly exposed, and without a restriction, such levels will be reached that have negative effects on people’s health and the environment. The authorities estimate that around 4.4 million tonnes of PFASs would end up in the environment over the next 30 years unless action is taken.

Peter van der Zandt, ECHA’s Director for Risk Assessment said: “This landmark proposal by the five authorities supports the ambitions of the EU’s Chemicals Strategy and the Zero Pollution action plan. Now, our scientific committees will start their evaluation and opinion forming. While the evaluation of such a broad proposal with thousands of substances, and many uses, will be challenging, we are ready.”

Attached is the link to the media briefing <https://youtu.be/CXAZ3ath3To> . The timeline of the proposed action plan is given in the chart below.

Figure 15: The timeline for the ECHA committee's action



SOURCE: INCRED RESEARCH, [HTTPS://ECHA.EUROPA.EU/-/ECHA-PUBLISHES-PFAS-RESTRICTION-PROPOSAL](https://echa.europa.eu/-/echa-publishes-pfas-restriction-proposal)

Investors can view the presentation made by ECHA on the scope and status of its inquiry >

1. [First Q&As published from the info session, 3 May 2023](#)
2. [Second batch of Q&As from the info session online, 28 Jun 2023](#)
3. [ECHA publishes PFAS restriction proposal, 7 Feb 2023](#)

How does PFAS enter the human body as many PFAS are not water soluble? >

PFAS can enter the human body through a variety of routes, including:

Inhalation: PFAS can be inhaled from the air that is contaminated with the chemical. This can happen near industrial sites where PFAS are used or released, or in areas where PFAS-contaminated water has evaporated into the air.

Ingestion: PFAS can be ingested through food or water that is contaminated with the chemical. This is a major source of exposure for many people, as PFAS can be found in a wide variety of foods, including meat, fish, dairy products, and vegetables.

Skin contact: PFAS can also enter the body through skin contact with contaminated materials such as carpets, clothing, and cookware.

Breast feeding: PFAS can be passed from the mother to her child through breast milk.

PFAS are not water soluble, but they can bind to other molecules, such as proteins and fats. This allows them to travel through the body in the bloodstream and accumulate in tissues, such as the liver, kidneys, and blood. PFAS can also cross the placenta and enter the bloodstream of a developing foetus.

The health effects of PFAS exposure are still being studied, but some studies have linked the exposure to a number of health problems, including:

1. Cancer
2. Liver damage
3. Thyroid problems
4. Decreased fertility
5. Birth defects
6. Immune system problems
7. Neurological problems

So what about GFL management’s claim that fluoropolymers will be carved out because of being long chain, not soluble in water and not leachable? We don’t find the argument valid ➤

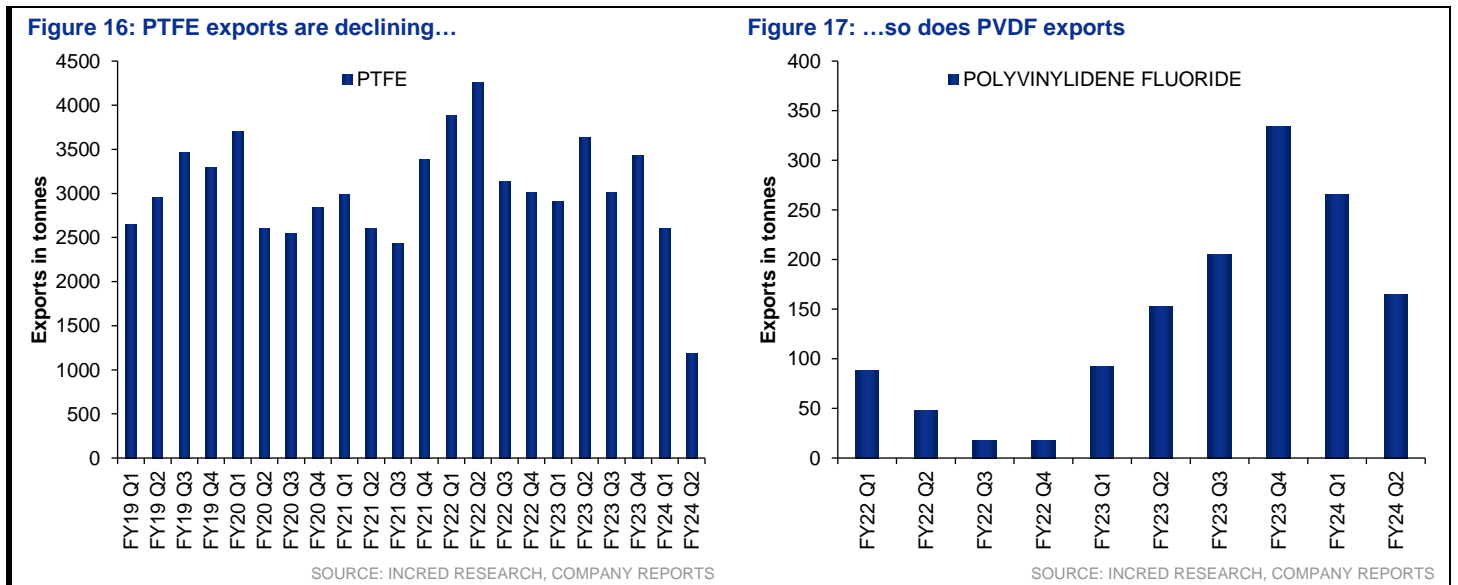
In their wisdom, ECHA may decide not to ban fluoropolymers which are a part of PFAS. However, as shown earlier, being water soluble or insoluble doesn’t make anything more, or less, dangerous. PFAS are not soluble in water, but they bind to other molecules and travel in our bodies. Being immobile also doesn’t come into the picture when a molecule is travelling by binding itself with other molecules.

What else is happening in the world on PFAS? There are multiple negative new items ➤

1. [3M reaches US\\$10.3bn 'forever chemicals' settlement | NYSE:MMM \(proactiveinvestors.com.au\)](#)
2. [Polluters could pay billions in fines for PFAS cleanup under new Biden plan | Water | The Guardian](#)
3. [Per- and Polyfluoroalkyl Substances \(PFAS\) | State Legislation and Federal Action](#)

Slowdown signs are already visible in the use of PFAS, in the Indian context its mainly PTFE and PVDF ➤

Gujarat Fluorochemicals or GFL is the only significant PTFE manufacturer in India. GFL’s exports of PTFE are declining in volume terms, which is bad news vis-à-vis demand. Is this driven by the cyclical demand-supply factors or customers are simply adopting the replacement material for PTFE is not yet fully apparent in data.



Multiple alternatives are available for PTFE, which doesn’t come under forever chemicals classification ➤

Alternative materials to PTFE (polytetrafluoroethylene) are sought for various applications, particularly when there is a need for non-fluorinated options. Here are some noteworthy alternatives:

Polyether ether ketone (PEEK): A high-performance engineering thermoplastic offering excellent mechanical and chemical resistance properties, PEEK is used in applications where a combination of durability, strength, and heat resistance is needed.

Polyethylene (PE): A versatile and widely-used plastic, PE is known for its chemical resistance and is used in numerous applications ranging from plastic bags to bulletproof vests.

Polypropylene (PP): Similar to PE but slightly harder and more heat resistant, PP is commonly used in containers, automobile parts, and textiles.

Silicone rubbers: Known for their flexibility and heat resistance, silicone rubbers are used in cookware, bakeware, and various industrial applications.

Ceramic coatings: Often used as non-stick coatings in cookware, ceramics are PTFE- and PFOA-free, offering a safe and effective non-stick surface.

UHMWPE (ultra high molecular weight polyethylene): This material is known for its high abrasion resistance, making it suitable for applications with high wear and tear.

Polyphenylene sulphide (PPS): Offers good chemical resistance and can withstand high temperatures, making it suitable for various industrial applications.

Each of these alternatives has its unique set of properties, advantages, and limitations, and the choice depends on the specific requirements of the application, such as temperature resistance, chemical compatibility, mechanical properties, and environmental impact.

Even PVDF has multiple non-fluorinated alternatives ►

Polyvinylidene fluoride (PVDF) is a highly non-reactive and pure thermoplastic fluoropolymer. It is used in applications requiring the highest purity, strength, and resistance to solvents, acids, bases, and heat. However, there are several non-fluorinated alternatives to PVDF, each with its own set of properties and applications. Here are a few examples:

Polyethylene (PE): It is widely used in various applications due to its excellent chemical resistance and electrical properties. PE is less expensive than PVDF but does not offer the same level of heat resistance.

Polypropylene (PP): This is a thermoplastic polymer that is often used as an alternative to PVDF in applications where chemical resistance is important but high-temperature performance is not critical. PP is also less costly than PVDF.

Poly ether ether ketone (PEEK): This is a semi-crystalline thermoplastic with excellent mechanical and chemical resistance properties. While it is more expensive than PVDF, PEEK can operate at higher temperatures and has better mechanical properties.

Polysulfone (PSU): This is a type of thermoplastic polymer known for its toughness and stability at high temperatures. It is often used in medical and food industry applications due to its high heat resistance and excellent chemical compatibility.

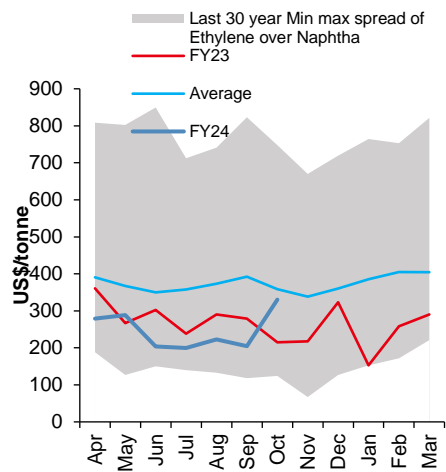
High-density polyethylene (HDPE): HDPE is known for its high strength-to-density ratio and is used in the production of plastic bottles, corrosion-resistant piping, and plastic lumber.

Petrochemicals and its downstream products -the downturn is visible

It's a clear downturn or shall we say return to the mean?. But will it lead to massive earnings disappointment for multiple Indian companies?

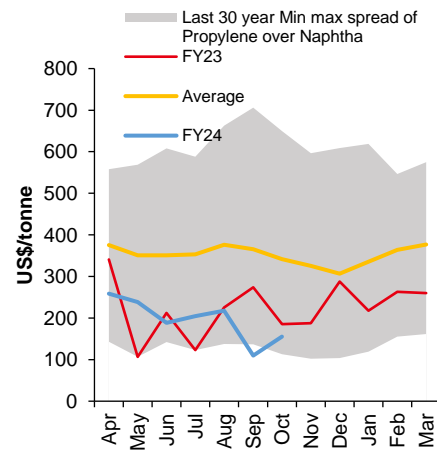
Most petchem spreads over naphtha are falling, indicating demand headwinds

Figure 18: Ethylene's spreads over naphtha are well below their historical mean



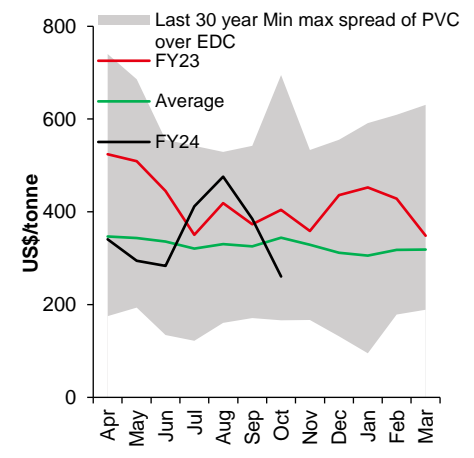
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: Propylene is very close to the bottom



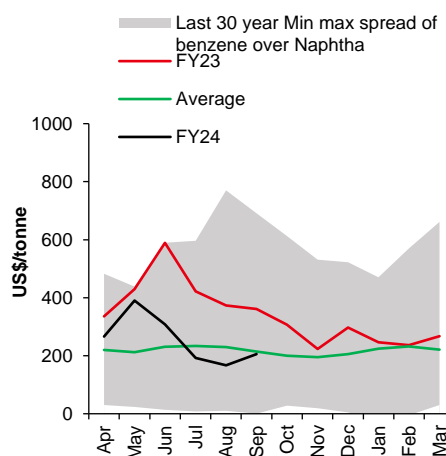
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 20: PVC is also trending down



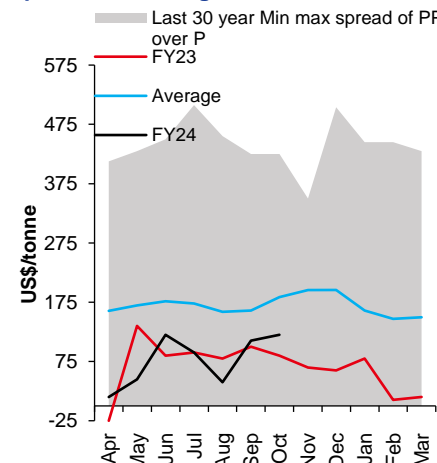
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 21: Benzene's spreads over naphtha are near their all-time low, and still Aarti Organics is bleeding



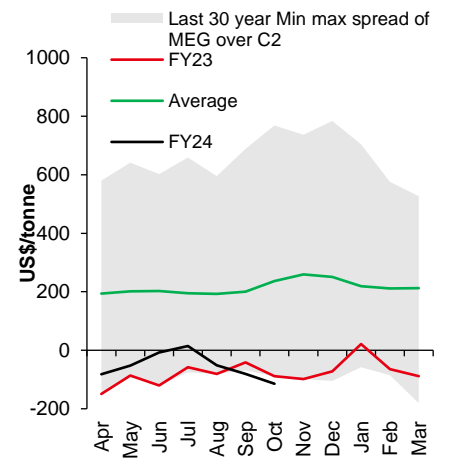
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 22: PP(polypropylene) is a good barometer of the global economy and its spreads are falling



SOURCE: INCRED RESEARCH, COMPANY REPORTS

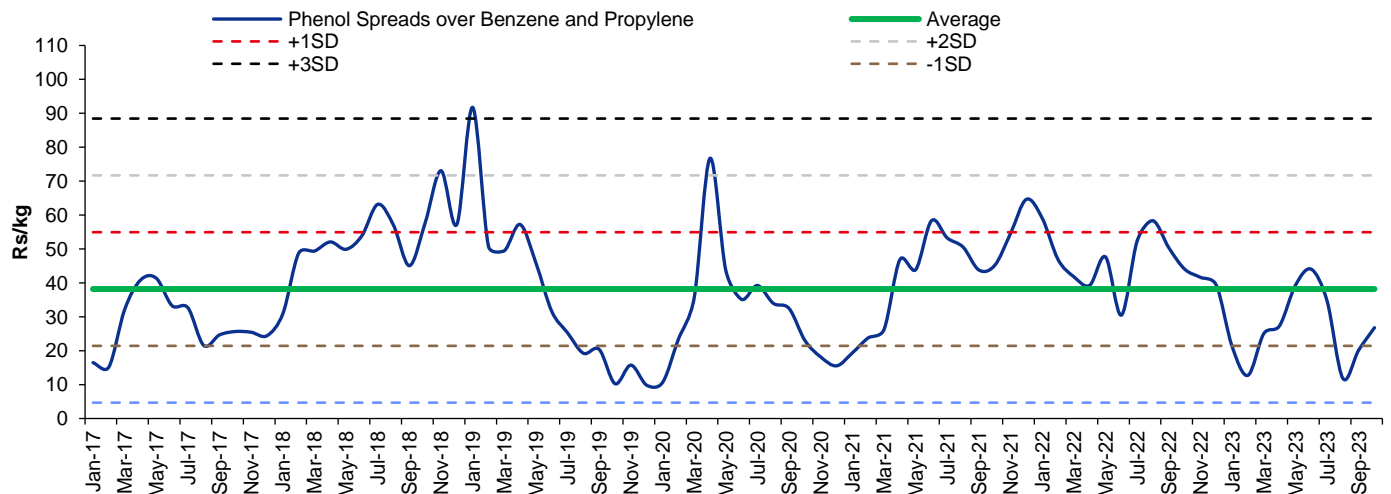
Figure 23: MEG is struggling as its spreads over ethylene are spiraling downwards



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Phenol's spreads are falling

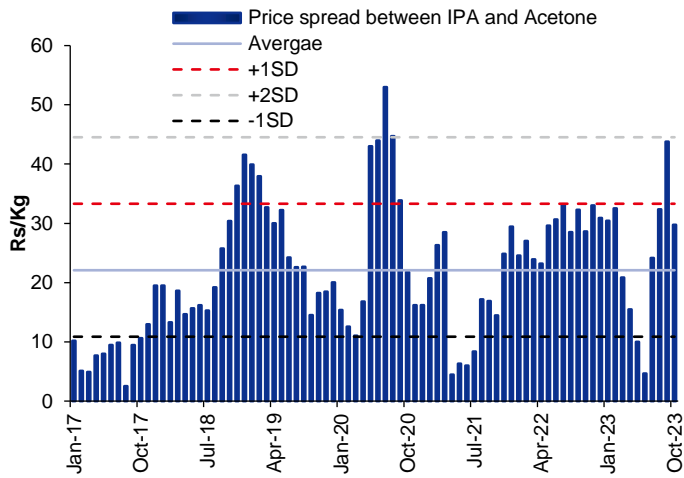
Figure 24: Phenol's spreads are declining



SOURCES: INCRED RESEARCH, COMPANY REPORTS

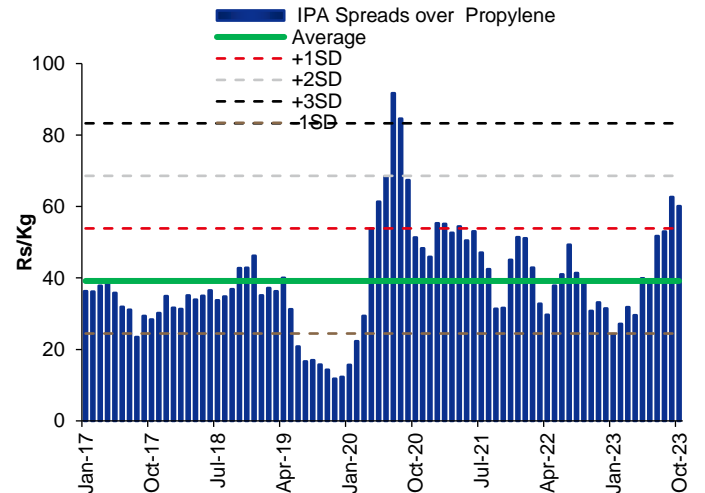
As does IPA, DASDA, 3-trifluoromethyl acetophenone and methoxylamine HCL spreads over raw materials ➤

Figure 25: IPA's spreads over acetone went up because of seasonal factors and capacity shutdown, but they are reversing now



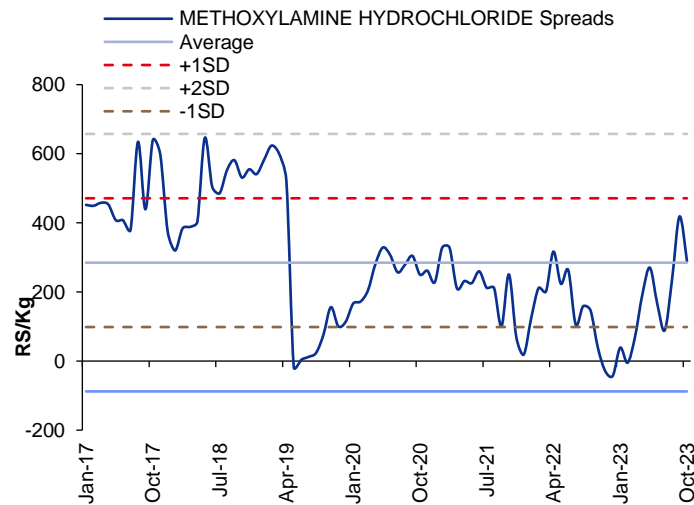
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 26: IPA's spreads over propylene will face a double whammy- demand decline as well as a rise in propylene prices



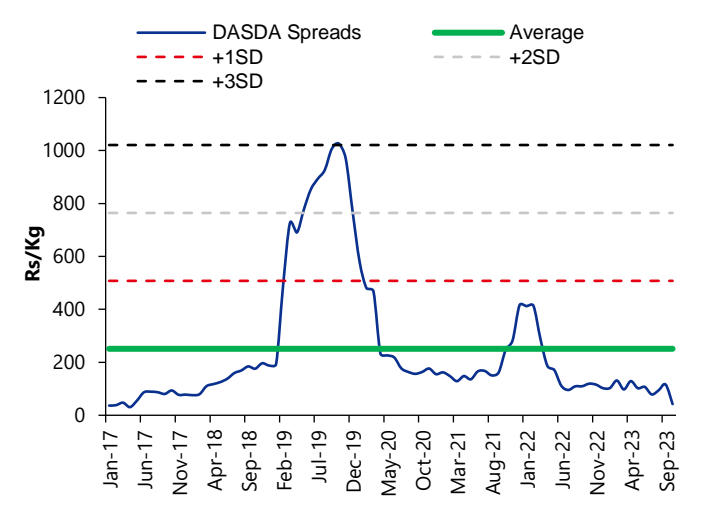
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 27: Methoxylamine HCl's spreads over raw material are reverting to their long-term average



SOURCE: COMPANY REPORTS, INCRED RESEARCH

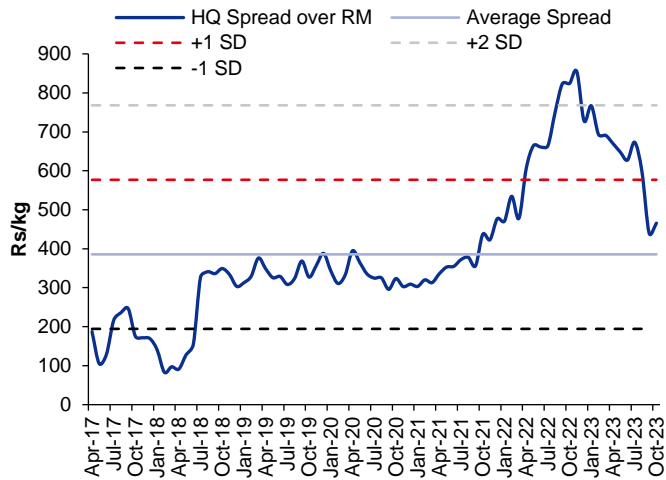
Figure 28: DASDA's spreads are way below their historical mean and are unlikely to recover



SOURCE: COMPANY REPORTS, INCRED RESEARCH

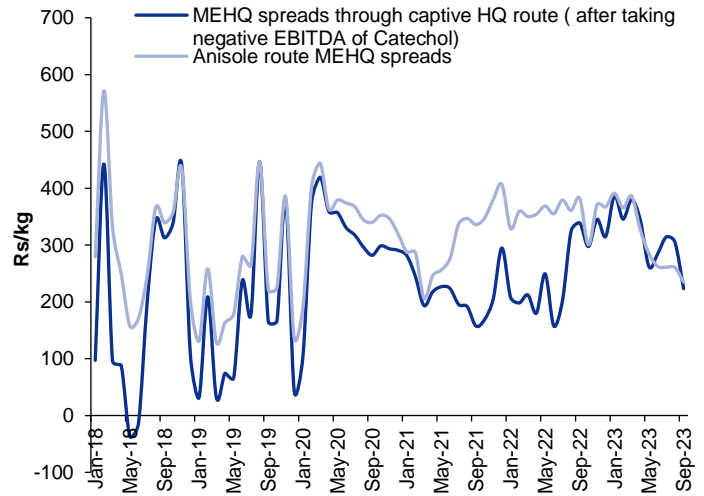
Other downstream products of phenol i.e., hydroquinone and multiple other chemicals are no different - its downturn everywhere

Figure 29: HQ demand appears to be falling as its spreads have been falling consistently - negative for Camlin Fine Sciences



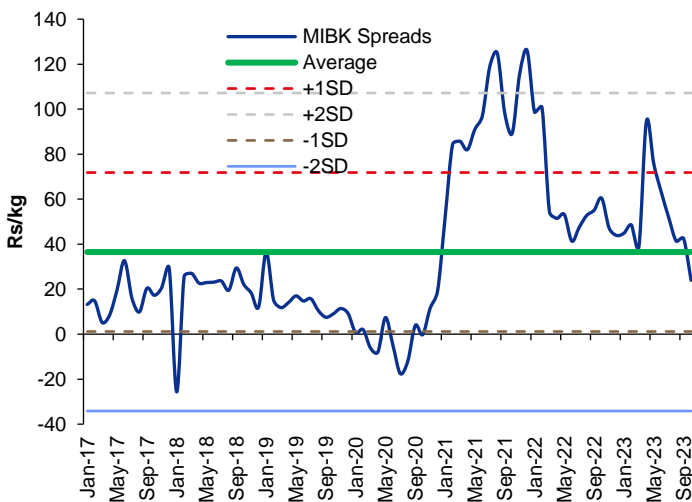
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 30: MEHQ's spreads are also falling



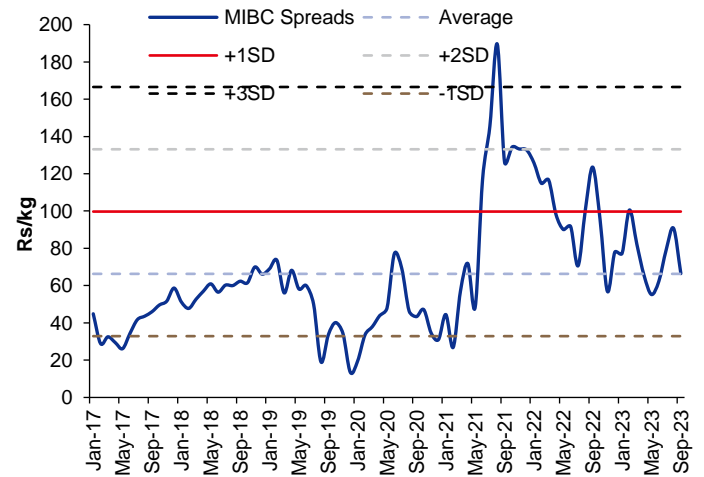
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 31: MIBK's spreads have reverted to their mean



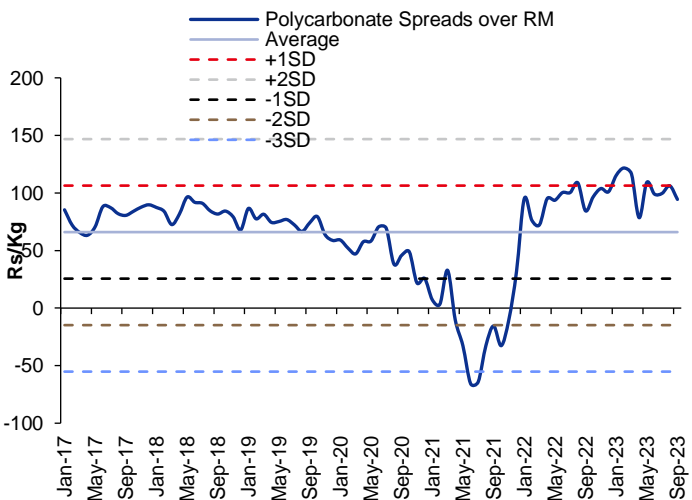
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 32: MIBC's spreads are hovering near their historical average



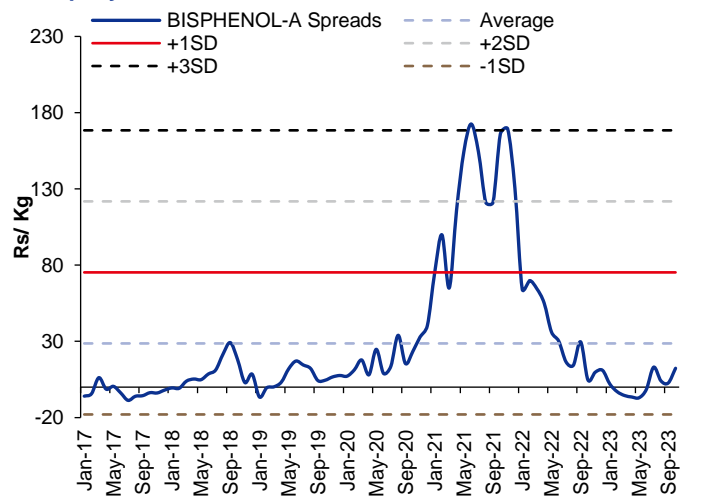
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 33: Polycarbonate spreads are still high...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 34: ...but bisphenol-A is languishing - a clear sign on bad epoxy demand and hence, bad for Atul



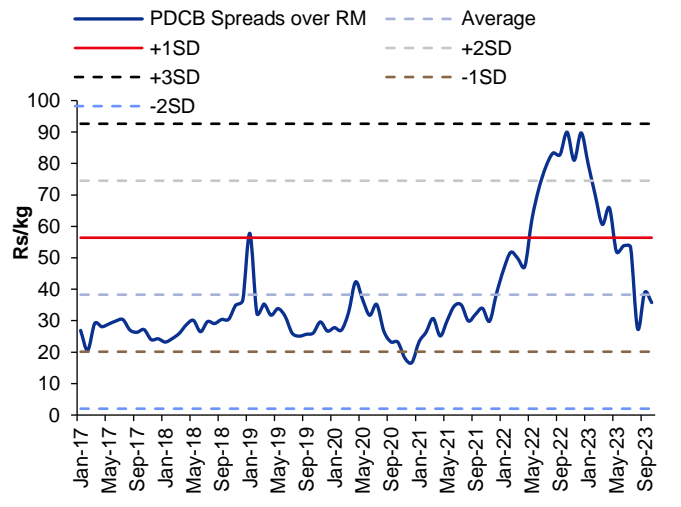
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 35: Soda ash is falling to its historical mean - negative for Tata Chemicals



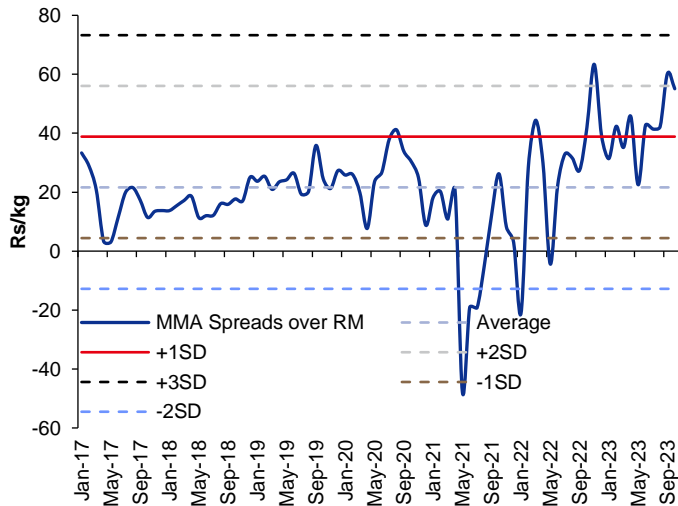
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 36: PDCB's spreads over benzene are falling - negative for Aarti Organics



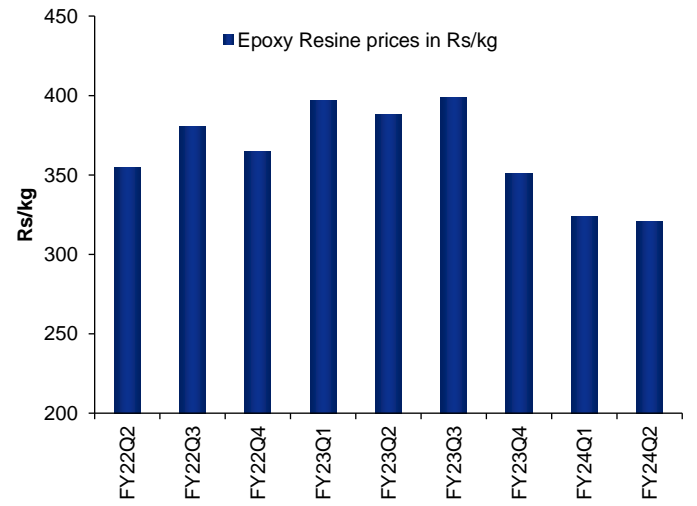
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 37: So is the case with MMA's spreads over aniline- negative for Aarti Organics



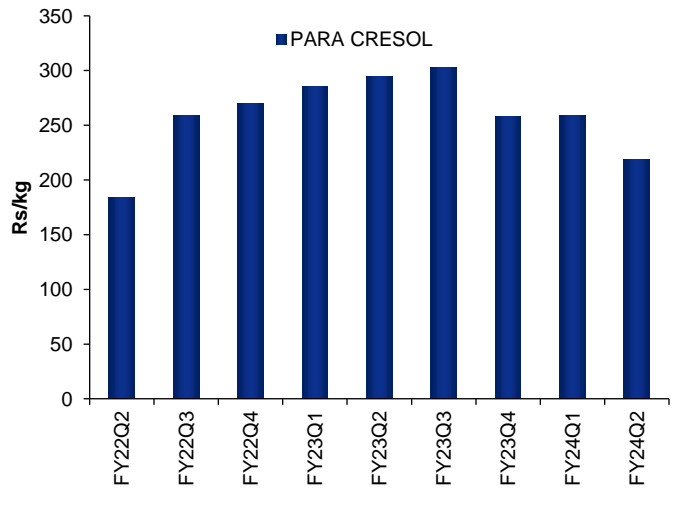
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 38: Epoxy resins prices are falling



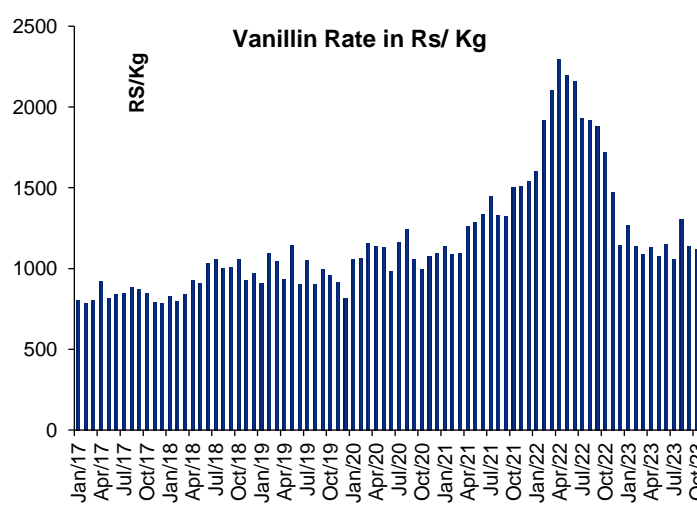
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 39: Prices of consumer-use chemicals like cresols are also collapsing



SOURCE: INCRED RESEARCH, COMPANY REPORTS

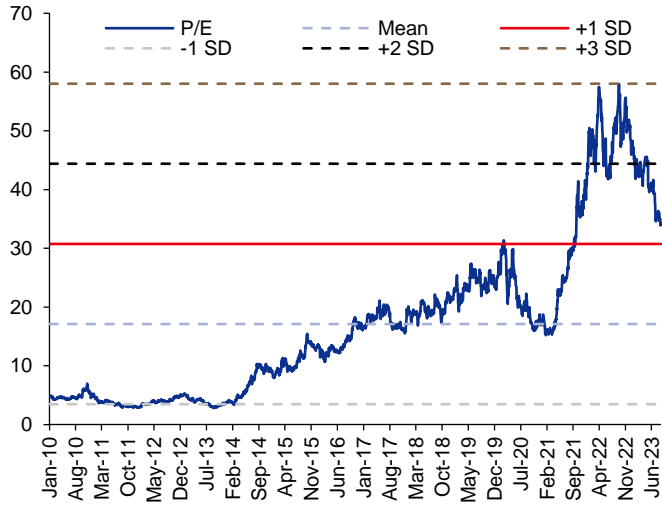
Figure 40: However, prices of chemicals used in food items like vanillin are relatively steady



SOURCE: INCRED RESEARCH, COMPANY REPORTS

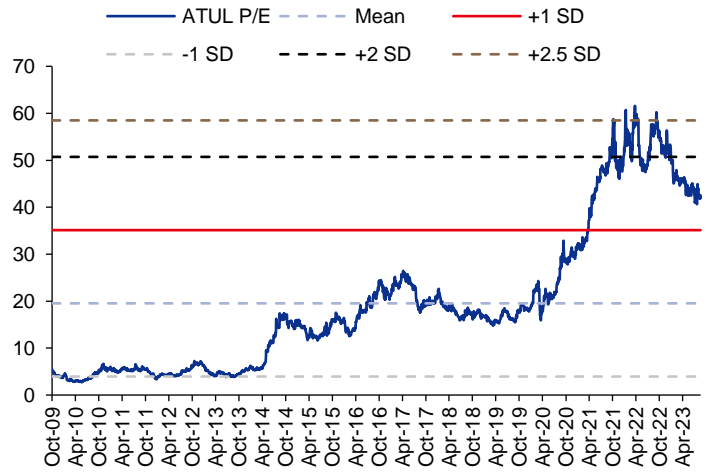
Has there been any derating? None, as we see underperformance is only driven by EPS misses

Figure 41: Aarti Organics has seen some derating but that too at extremely obnoxious level of +3SD of the long-term mean; plenty to go from here- please remember there is no structural change



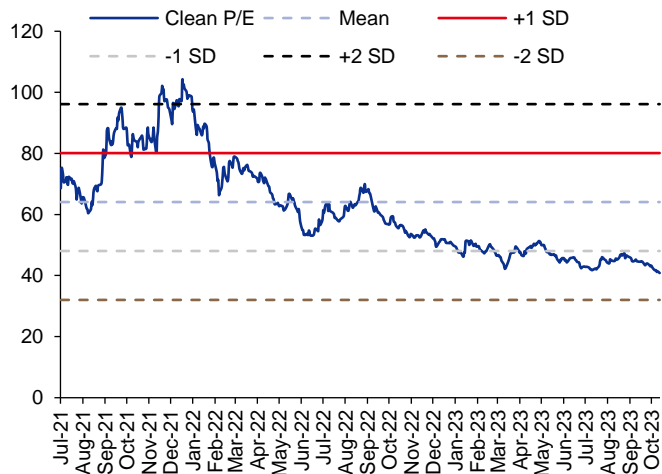
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 42: For Atul, it's the same case as P/E has fallen from extremely obnoxious levels, but nowhere near the historical mean



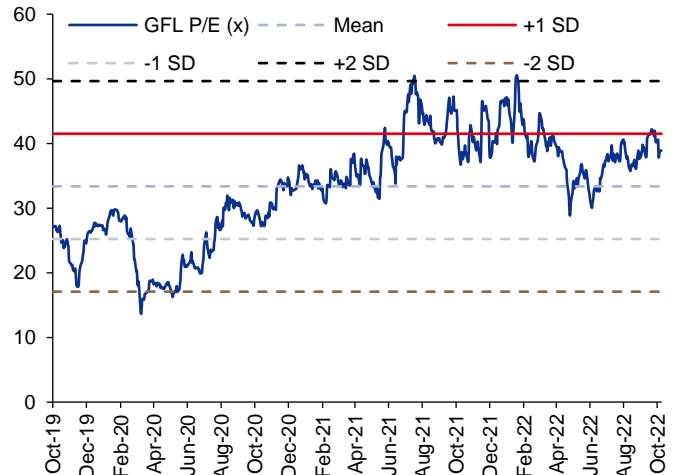
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 43: Clean Science and Technology used to trade as if it is getting a Nobel prize for chemistry - it is at some sane level but again plenty to go



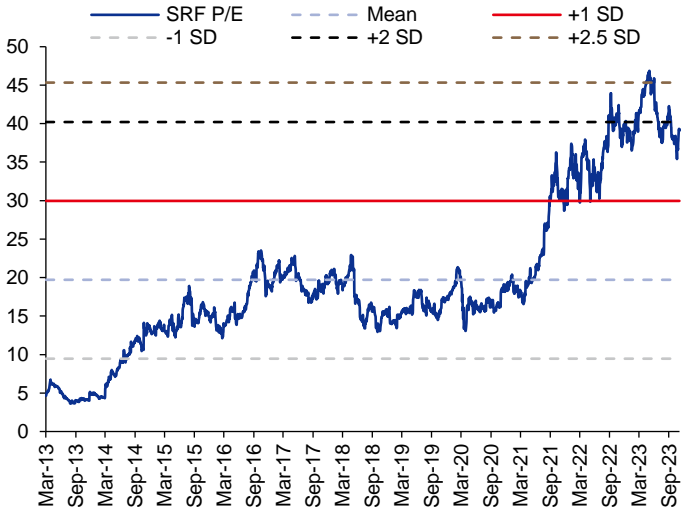
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 44: GFL- awesome belief for a business whose terminal value is zero; P/E must fall a lot from here on



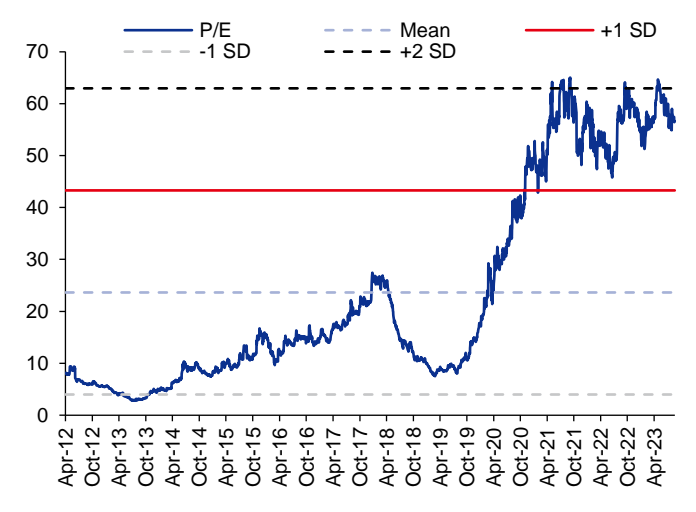
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 45: No big P/E correction seen in SRF- stock remains at the same place and earnings miss keeps happening; awesome belief in a commodity stock



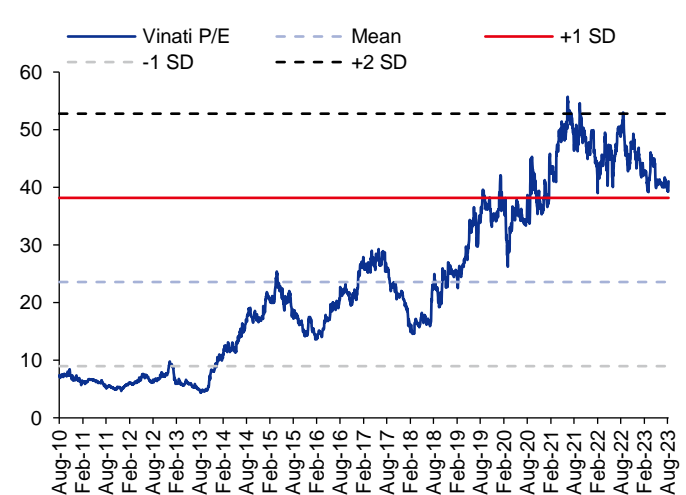
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 46: We like Navin Fluorine's business, but its priced obnoxiously; making money from these kinds of valuations is never possible



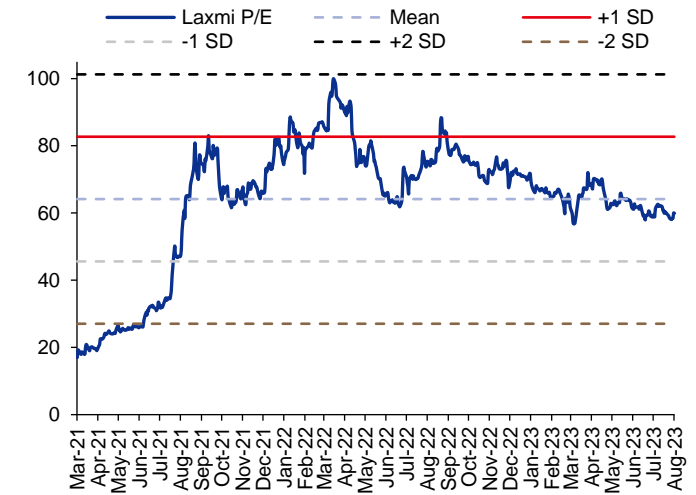
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 47: Vinati Organics has traded costly in the past five years, but its way above the historical mean



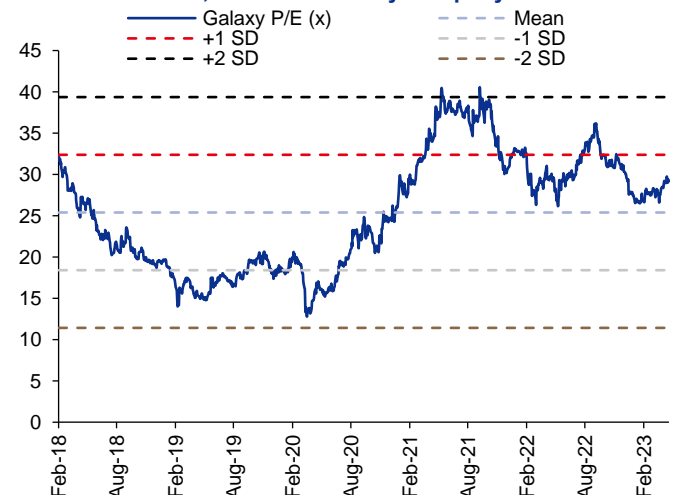
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 48: Laxmi Organics' valuation has divine blessings - it never falls despite a series of disappointments



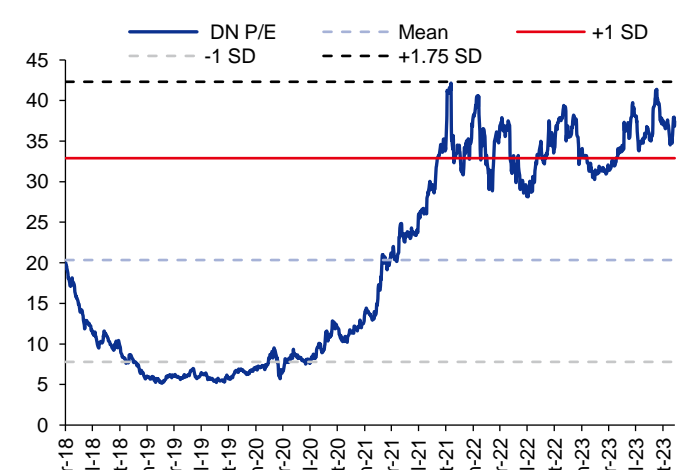
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 49: Galaxy Surfactants' P/E has fallen a bit, but it trades like a FMCG stock; it's a commodity company



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 50: There has been hardly any derating for Deepak Nitrite; the belief in the stock belies the reality of commodity business



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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