

India

Underweight (no change)

Highlighted Companies

Aarti Industries

REDUCE, TP Rs435, Rs655 close

Aarti Industries has been heavily dependent on MMA due to its higher gross spreads compared to other molecules. However, the declining spreads of MMA are no longer beneficial. We maintain our REDUCE rating on the stock.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Aarti Industries	54.23	45.24	37.72
P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Aarti Industries	4.51	4.17	3.81
Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Aarti Industries	0.38%	0.38%	0.38%

Chemicals - Overall

Mono methyl aniline – peak is behind us

- Mono methyl aniline (MMA) spreads are declining and are likely to decrease further. MMA exports appear to have peaked, but YoY growth seems unlikely.
- Significant MMA imports by the UAE have aligned with increased gasoline exports from the country (MMA is used as an anti-knocking agent in gasoline).
- Consistently higher diesel spreads vis-à-vis gasoline may force UAE refiners to change their product slate – an additional risk for Indian MMA exporters.

India's MMA bull run has been driven by UAE & Russia

India's MMA exports have risen exponentially in 2023 (rose 145% YoY over a 55% YoY rise in 2022). Most of the growth has been driven by increased imports by the UAE. Please note that increased MMA imports in the UAE are driven higher gasoline exports from the country. In 2022, the UAE exported 1.2bn liters (bnL) of gasoline, which was 8x the level in 2021 (clearly indicating supply chain distortion because of the ban on Russia). While in 2023 they came down to 0.7bnL, they are still higher than the historical average. Please note that the UAE has also started getting a huge quantity (~2.7bnL average between 2021-23) of tolled gasoline from India. Higher gasoline exports are due to excess demand which, in turn, is fueling high MMA demand. Russia's MMA imports from India have also increased from zero in 2021 to 2.7kt in 2022 and to 15.7kt in 2023. As the recent news flow suggests, the sanctions on Russia are having their effect on its petrochemical exports, which is bad news for MMA demand. The growth in Aarti Industries' MMA exports is unlikely in CY24F.

MMA spreads over aniline to decline

Mono methyl aniline (MMA), also known as N-methylaniline, is an organic compound derived from aniline. MMA is widely used in refineries for a variety of usage primary being anti-knocking agent in gasoline. Apart from that it is also used as solvent, agrochemical manufacturing and intermediate for dyes/ solvents. MMA's spreads over aniline are already declining, and the situation may worsen in the coming months due to a number of reasons, including the highest-ever MMA exports, a decline in the UAE's gasoline exports leading to reduced MMA imports, and increased diesel cracks over gasoline which may lead to UAE refiners changing their product slate in favour of diesel, thus lowering MMA demand.

Global crude/gasoline output unlikely to rise, which is -ve for MMA

We believe that crude oil production will continue at the current level due to several factors; the Organization of Petroleum Exporting Countries or OPEC's reluctance to boost production makes it unlikely for crude oil supply to rise significantly. While the world is heavily reliant on OPEC, drilling activities outside the US and Canada remain subdued. Offshore rig availability is scarce, leading to peak daily rental rates. North Sea rig counts are at their lowest level in the past four decades, underscoring OPEC's considerable influence, particularly that of Saudi Arabia, over the global crude oil market. Slowing Chinese economy is another factor which will lead to OPEC cutting its production rather than increasing it. In such a scenario, we don't believe MMA prices can rise.

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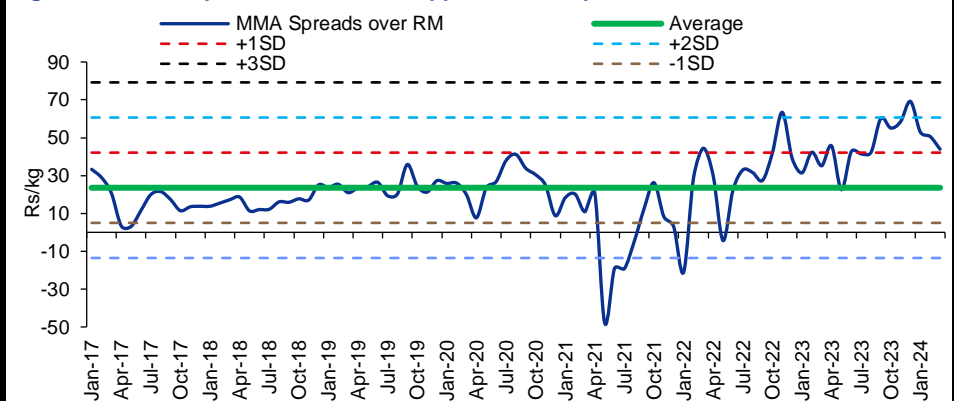
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Figure 1: MMA's spreads over aniline appear to have peaked



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Mono methyl aniline - peak is behind us

What is mono methyl aniline (MMA) >

Mono methyl aniline (MMA), also known as N-methylaniline, is an organic compound derived from aniline.

MMA has various uses>

Mono methyl aniline has several industrial applications. Here's a breakdown of its key uses:

1. Fuel Additive:

Anti-knock Agent: The most prominent use of MMA in refineries is as a fuel additive. It acts as an anti-knock agent, boosting the octane rating of gasoline. This improved octane rating enhances the fuel's resistance to knocking, preventing premature ignition that can damage the engines.

2. Industrial Intermediate:

MMA serves as a building block in the production of various chemicals. It's a crucial intermediate for synthesizing:

Dyes: Used for colouring textiles, plastics, and other materials.

Agrochemicals: Pesticides, herbicides, and fungicides used in agriculture.

Other organic products: A wide range of organic chemicals with diverse applications.

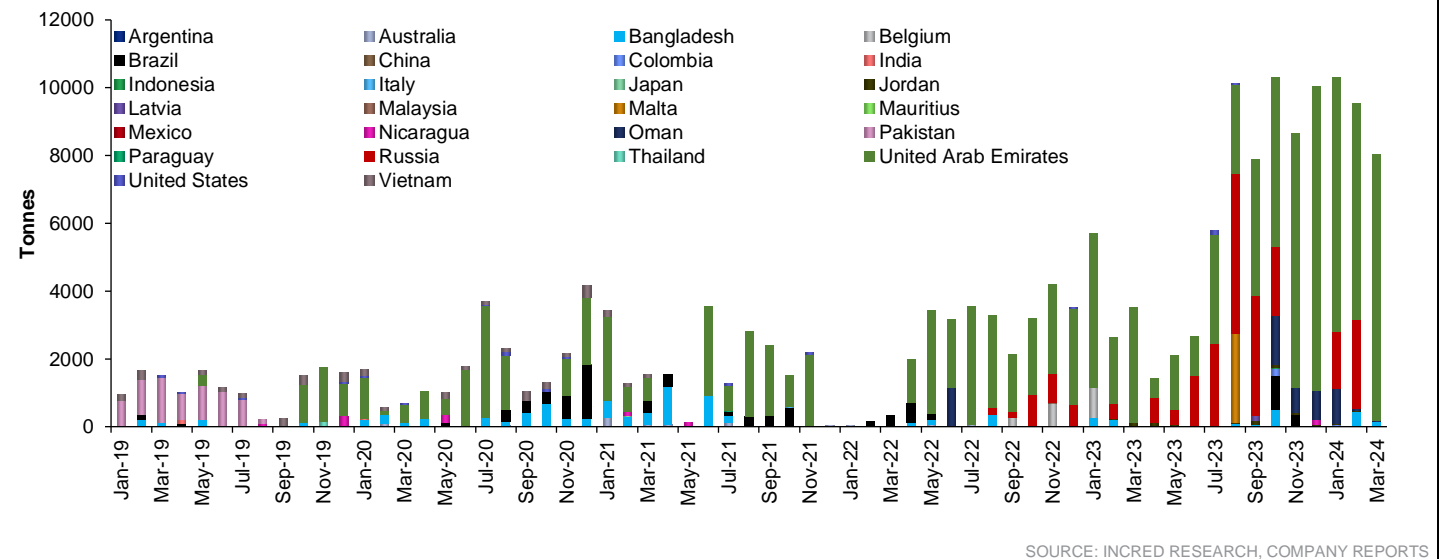
3. Solvent:

MMA finds usage as a latent solvent, dissolving other materials.

It can also act as a coupling solvent, facilitating chemical reactions between different compounds.

UAE is one the biggest importers of MMA>

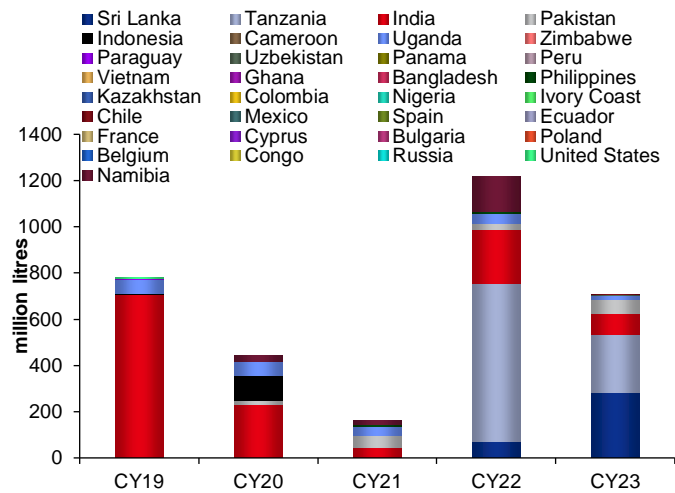
Figure 2: UAE has been one of the biggest importers of MMA in the global market



SOURCE: INCRED RESEARCH, COMPANY REPORTS

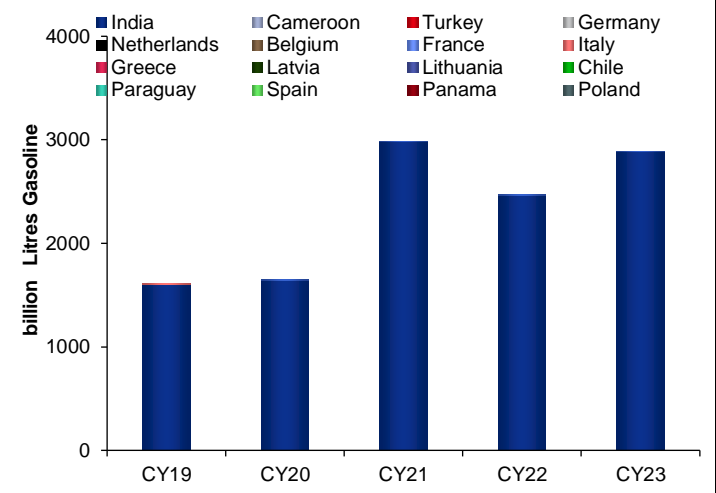
UAE's imports have coincided with higher gasoline exports from the country ➤

Figure 3: Gasoline exports from the UAE have touched the highest-ever level in 2022 at 1.2bnL



SOURCE: INCRED RESEARCH, COMPANY REPORTS

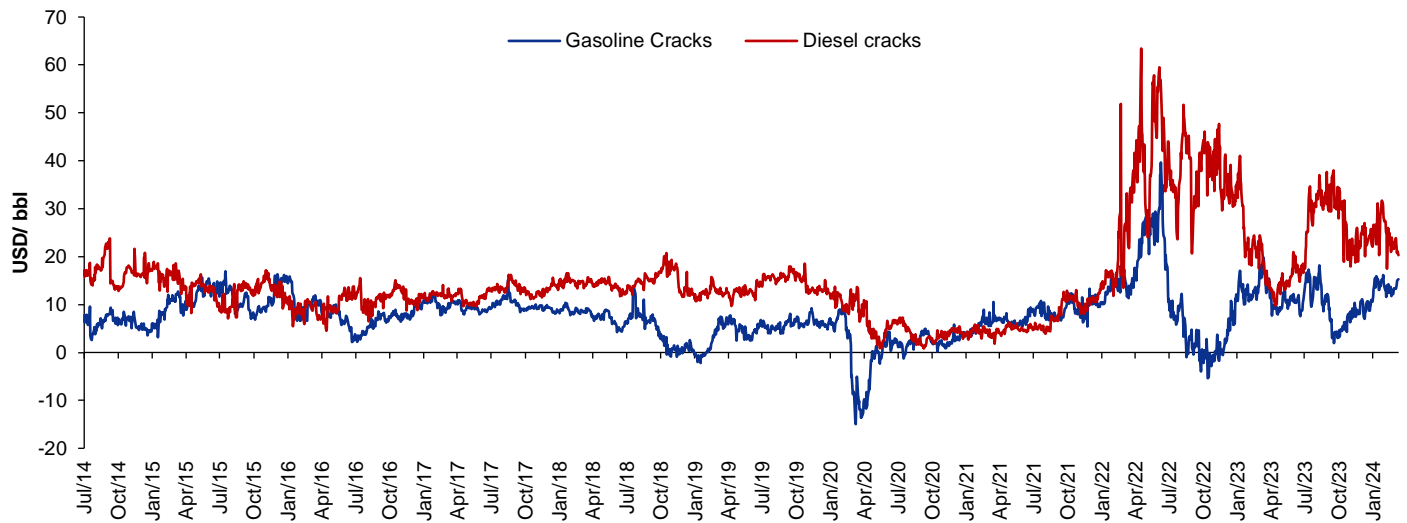
Figure 4: UAE's imports have also risen, as it is giving crude oil to Indian refiners for tolling and making gasoline



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Gasoline was profitable in 2022, but since then its spreads have collapsed ➤

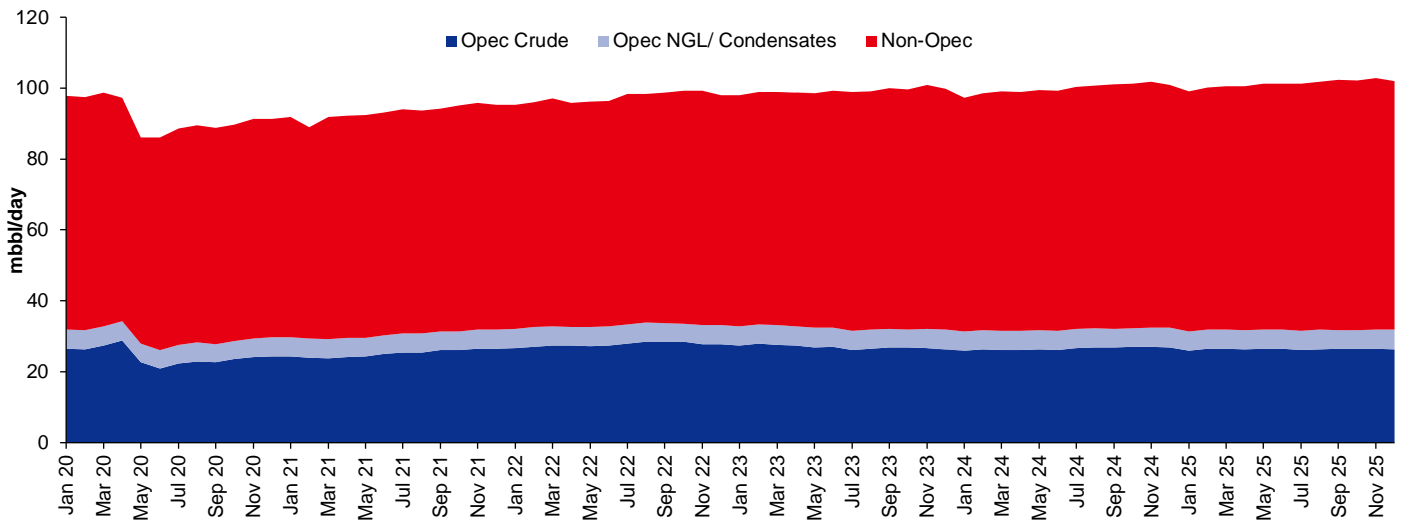
Figure 5: Diesel cracks have remained higher on an average over the last few quarters and, therefore, it's likely that UAE refineries may change their product slate



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Please note that it's very unlikely that the UAE will raise crude oil production in the near future, which means MMA demand cannot rise ➤

Figure 6: It's very unlikely that OPEC and hence, UAE will raise crude oil production levels



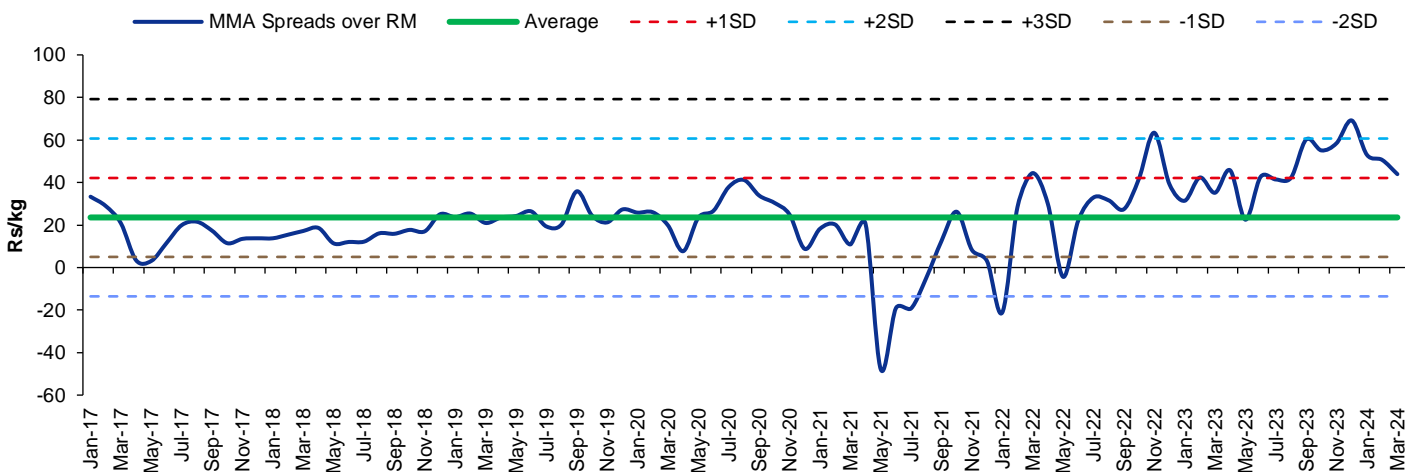
SOURCE: INCRED RESEARCH, COMPANY REPORTS

This means that MMA consumption in the UAE is touching its peak ➤

While we don't claim that MMA exports from India will decline in the coming months, the extraordinary growth will taper off.

MMA's spreads over aniline are already coming down and the situation may turn grimmer in the coming months ➤

Figure 7: MMA spreads of Aarti Industries are still way above their historical average



SOURCE: COMPANY REPORTS, INCRED RESEARCH

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