

I India
Underweight *(no change)*
Highlighted Companies
SRF Limited
REDUCE, TP Rs1540, Rs2368 close

The much talked about recovery is nowhere to be seen, either in refrigerants or in chemicals. In 1QFY25F, the EPS is likely to be below Rs8. Despite repeated disappointments, the stock doesn't decline at all, but this phenomenon cannot continue in perpetuity. We retain our REDUCE rating on SRF.

Gujarat Fluorochemicals
REDUCE, TP Rs1946, Rs3229 close

PFAS (almost 100% of GFL's product portfolio) is facing global headwinds, thereby resulting in reduced exports and lower prices. Falling demand and prices will hit the margins in FY25F/26F. In this regard, consensus earnings estimates appear to be highly inflated.

Aarti Industries
REDUCE, TP Rs435, Rs708 close

A commodity stock trading at 65x trailing earnings at more than 5x P/BV leaves nothing on the table. MMA has already passed its peak even in volume terms. Rising nitric acid and phthalic anhydride prices, coupled with sluggish end-product demand, are further negative factors for the company. We maintain our REDUCE rating on the stock.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
SRF Limited	52.55	50.9	45.26
Gujarat Fluorochemicals	81.54	66.79	50.06
Aarti Industries	58.62	48.91	40.77

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
SRF Limited	6.12	5.51	4.95
Gujarat Fluorochemicals	5.97	5.48	4.94
Aarti Industries	4.88	4.5	4.11

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
SRF Limited	0.17%	0.17%	0.17%
Gujarat Fluorochemicals	0%	0%	0%
Aarti Industries	0.35%	0.35%	0.35%

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Chemicals - Overall

1Q - Disappointment in FY25F set to begin

- Consensus earnings estimate for FY25F will get a dose of reality in 1QFY25F but don't expect downgrades as perennial 2H recovery narrative will be back.
- Notable disappointment will be from SRF, Gujarat Fluoro and Aarti Industries. But there is a silver lining in bulk chemicals like TAN, PH, nitric acid and IPA.
- We don't see a recovery in the so-called "specialty chemicals". These stocks have done nothing for last 3 years & recovery is unlikely in next 12-18 months.

Atul, SRF, Clean, Aarti and GFL won't show material YoY EPS growth

We have analyzed five companies' quarterly earnings and none of them are going to show material YoY EPS growth. SRF and Gujarat Fluorochemicals or GFL will be lucky to show double-digit EPS. Aarti Industries' MMA is well past its peak. Please see [IN: Chemicals - Overall - Mono methyl aniline – peak is behind us](#) and Atul's export growth in 1QFY25F is only driven by channel filling-led demand for 2,4 D and will fizzle out soon.

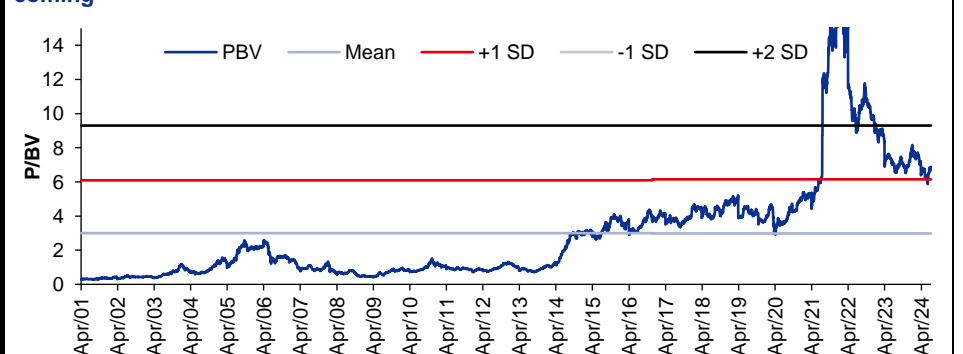
GFL has zero terminal value and Clean's HALS won't go anywhere

We have written multiple reports on how PFAs are facing global headwinds. Please see some of the recent reports on the same: 1) [IN: Chemicals - Others - Are PFAS replaceable? The answer is Yes](#), and 2) [IN: Gujarat Fluorochemicals - 30% margin in FY25F is unlikely - REDUCE \(REDUCE - Maintained\)](#). Against the backdrop of regulatory headwinds, it is natural that the demand for base products will start falling and the same is happening in export markets. We always believe that it's oxymoronic to think that GFL can take away the market share of 3M, etc., who are shutting down their PFAS business because of environmental concerns. For GFL, FY23 was saved via higher HFC exports, which have now dried up. Please see [IN: Gujarat Fluorochemicals Ltd - HFC falling & PFAS face regulatory risk \(REDUCE - Maintained\)](#). Similarly, Clean Science's HALS is all noise. Please see [IN: Clean Science and Technology - HALS - much ado about nothing \(REDUCE -\)](#), [IN: Clean Science and Technology - HALS - much ado about nothing-II \(REDUCE - Maintained\)](#)

70x trailing EPS and 6x book value doesn't leave any cyclical upside

As per our interactions, most of the investors are holding these stocks, despite repeated earnings disappointment, because of the following reasons: 1) Not only the belief in cycle change but also escalation of commitment. 2) Everyone is overweight and so let's go wrong with the mass. It's a good strategy though and we don't disagree with it. 3) There is always a belief that a situation like in CY21 will return when multiple product cycles were at peak. For example, in the case of SRF, HFC was doing great, and BOPET & BOPP spreads were at multi-year highs. 4) The China+1 Theory - However, it will work only in bulk chemicals and not in chemicals like MEHQ or HALS. 5) A misconceived notion, particularly in the case of GFL, is that while western companies will stop production of PFAS, somehow consumption will continue and that GFL will have a field day. At the end, the irrational market can make us look like fools, but irrationality doesn't continue in perpetuity.

Figure 1: One doesn't make money in a cycle change and if one is buying cyclicals (capital-intensive), then one buys at 6x P/BV and the earnings disappointment keeps coming

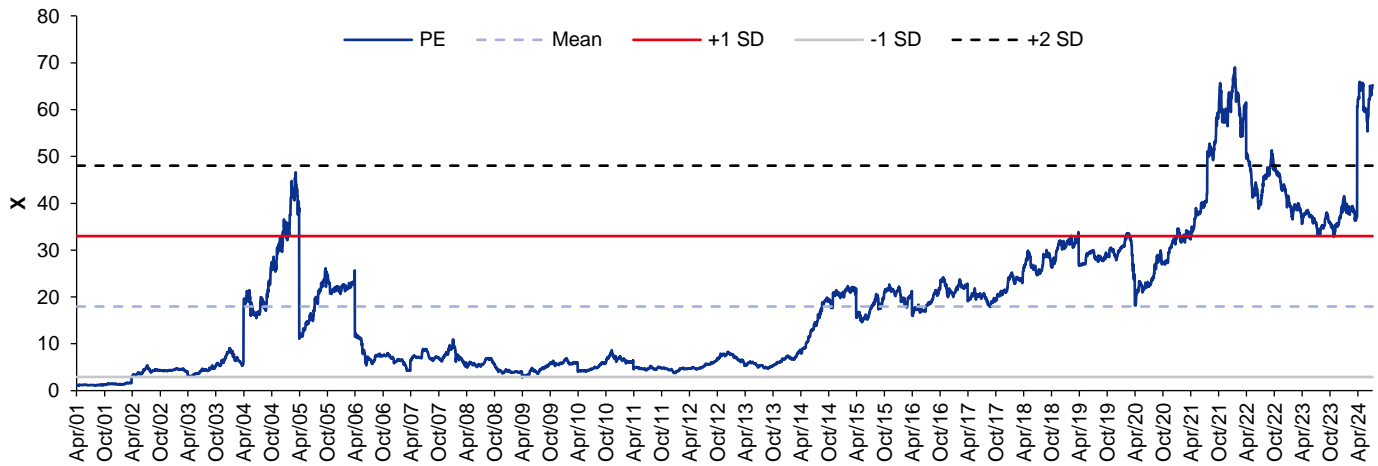


SOURCE: INCRED RESEARCH, COMPANY REPORTS

1Q - Disappointment in FY25F set to begin

The deadly combo of higher valuations and earnings disappointment is present in multiple chemical stocks. In the graph below, we have plotted equally weighted average P/E for a group of stocks (SRF, GFL, Clean Science, Aarti Industries and Atul).

Figure 2: The equal weight average P/E of five stocks (SRF, GFL, Clean Science, Aarti Industries and Atul) trades at 70x and P/BV of 6; one doesn't make money in cyclicals from 6x P/BV



SOURCE: INCRED RESEARCH, COMPANY REPORTS

SRF is unlikely to post more than Rs9 EPS in 1QFY25F

The slowdown in refrigerant exports as well as continued reduced purchases by key customers like Syngenta doesn't bode well for the company.

Yearly EPS run rate as per 1QFY25F earnings is barely Rs40 ▶

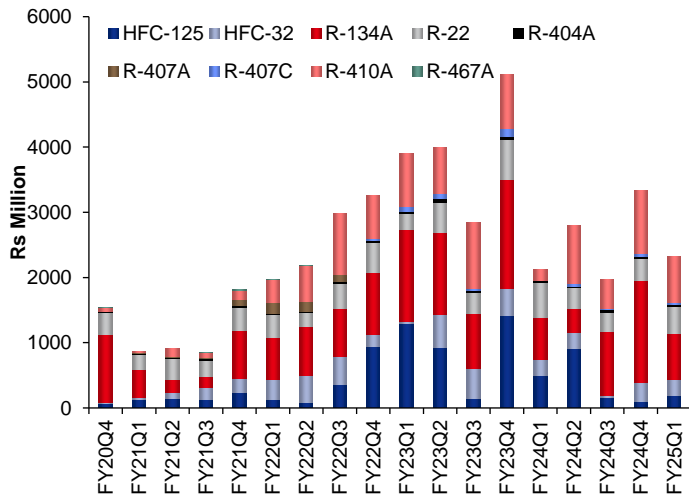
Figure 3: 1QFY25F EPS is likely to remain at ~Rs9; please note that consensus EPS estimate for FY25F is ~Rs65; the second-half recovery theory will again be back in vogue but like in the last three years, it will again be futile (Rs m)

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25F
Net Revenue	38,947	37,278	34,697	37,781	33,384	31,774	30,530	35,697	33,985
Expenses									
Total Cost of Goods Sold	18,578	19,529	16,944	18,884	17,005	16,201	15,547	18,335	17,672
Employee Benefit Expenses	1,942	1,953	2,102	2,142	2,180	2,266	2,438	2,466	2,466
Power & Fuel Expenses	4,103	3,737	3,443	3,440	3,528	3,438	3,194	3,288	3,288
Other Expenses	4,126	4,007	3,723	3,719	3,471	3,416	3,512	4,492	4,492
Total Expenses	28,749	29,226	26,211	28,185	26,184	25,320	24,691	28,581	27,918
EBITDA	10,198	8,052	8,486	9,596	7,200	6,453	5,839	7,116	6,067
Depreciation	1,307	1,393	1,507	1,546	1,566	1,612	1,689	1,859	1,859
EBIT	8,891	6,659	6,979	8,050	5,634	4,841	4,150	5,257	4,208
Other Income	99	327	100	223	118	291	188	234	234
Forex (Gain) /Loss	249	361	150	280	237	191	181	158	0
Interest Expense	325	445	620	659	656	793	674	900	900
Exceptional Items									
Profit Before Tax	8,416	6,181	6,309	7,334	4,858	4,148	3,483	4,433	3,542
Total Tax Expenses	2,336	1,371	1,200	1,709	1,265	1,140	949	211	892
Profit After Tax	6,080	4,810	5,109	5,625	3,593	3,008	2,534	4,222	2,649
Fully Diluted	20.5	16.2	17.2	19.0	12.1	10.2	8.6	14.3	8.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS

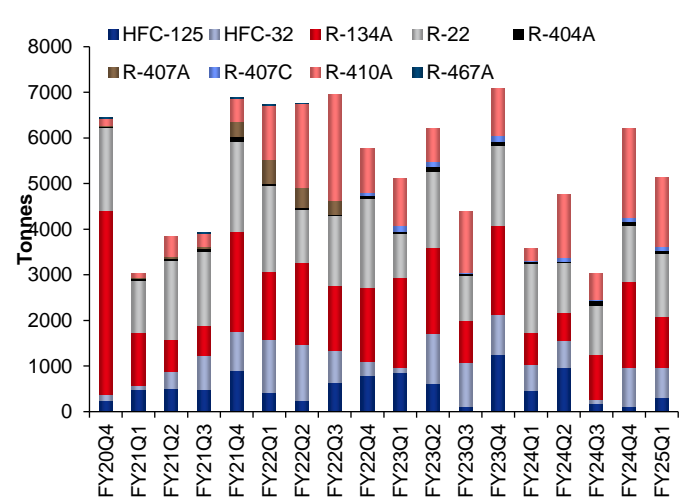
Recovery in agrochemicals still remains elusive and refrigerant gases are witnessing a decline ➤

Figure 4: Refrigerant gas exports are not recovering and unlikely to recover; please see our report: [IN: Chemicals - Overall - R-125 & R-134A bull run is closer to its end](#)



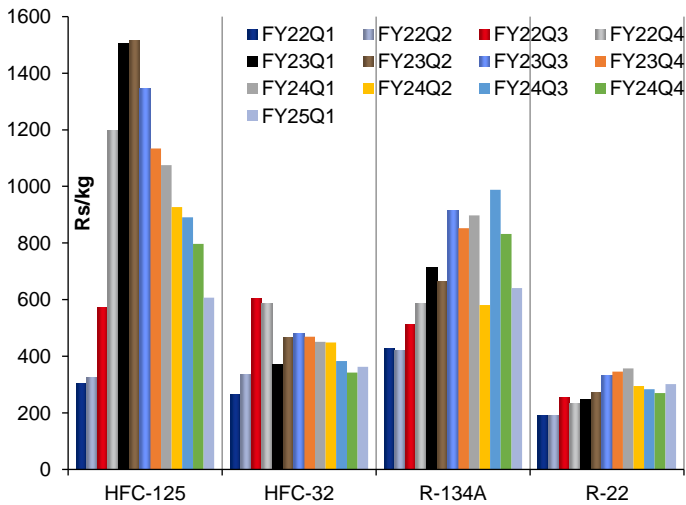
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: The volume is also collapsing



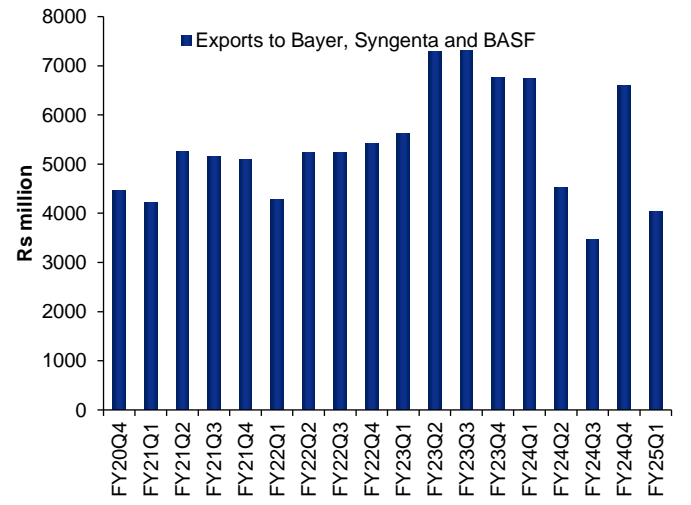
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: A flash-in-the-pan kind of increase in realization of HFC-125 is waning and does increase R-134A price



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Exports to agrochemical customers are also not recovering



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Gujarat Fluorochemicals - zero terminal value and EPS disappointment but investors are hoping against hope

We have written multiple reports on why the terminal value of PFAS (account for a major portion of GFL's revenue) is zero. Please see some of our reports below:

1. [IN: Gujarat Fluorochemicals - 30% margin in FY25F is unlikely - REDUCE \(REDUCE - Maintained\)](#)
2. [IN: Gujarat Fluorochemicals - HFC falling & PFAS face regulatory risk \(REDUCE - Maintained\)](#)
3. [IN: Chemicals - Others - PFAS - end of the road likely, capex is futile](#)
4. [IN: Chemicals - Others - Are PFAS replaceable? The answer is Yes](#)

In the near term, higher earnings expectation will result in a massive disappointment.

Yearly EPS run rate as per 1QFY25F earnings is ~Rs45 ▶

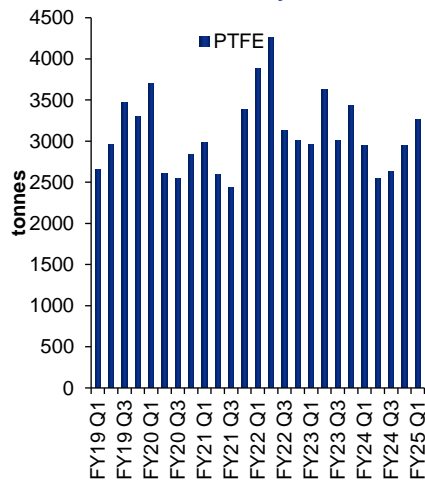
Figure 8: GFL will be very lucky if it is able to touch double-digit EPS in 1QFY25F; the EPS run rate indicates a yearly EPS of Rs45 (Rs m)

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25F
Net Revenue	13,340	14,613	14,179	14,714	12,093	9,468	9,917	11,330	11,969
Expenses									
Total Cost of Goods Sold	3,646	3,913	3,829	4,038	3,461	3,379	3,521	3,846	4,309
Employee Benefit Expenses	779	800	795	847	918	874	833	880	900
Power & Fuel	2,344	2,465	2,380	2,365	2,215	1,832	1,773	1,980	2,000
Material extraction and processing cost	70	69	71	71	158	39	49	82	82
Other Expenses	1,912	2,009	1,873	2,101	1,861	1,714	1,680	2,168	2,100
Total Expenses	8,751	9,256	8,947	9,422	8,614	7,837	7,855	8,955	9,390
EBITDA	4,589	5,358	5,232	5,293	3,479	1,631	2,062	2,376	2,578
Depreciation	550	572	601	638	655	676	719	812	812
EBIT	4,039	4,786	4,631	4,655	2,824	955	1,343	1,564	1,767
Other Income	262	243	214	186	146	135	132	183	140
Interest Expense	209	230	381	348	280	342	372	337	337
Profit Before Tax	4,092	4,799	4,464	4,493	2,690	749	1,103	1,410	1,570
Total Tax Expenses	1,058	1,226	1,159	1,173	678	221	302	401	396
Profit After Tax	3,034	3,572	3,305	3,319	2,012	527	801	1,010	1,174
Core EPS	27.6	32.5	30.1	30.2	18.3	4.8	7.3	9.2	10.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

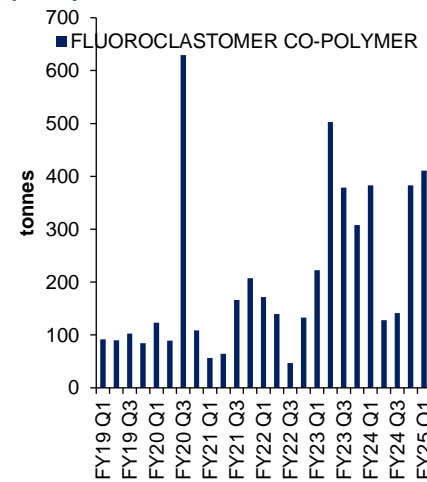
Export volume as well as pricing of PFAS products like PTFE and PVDF are stagnant/falling ▶

Figure 9: PTFE export volume is stagnant, at best, over the last five years



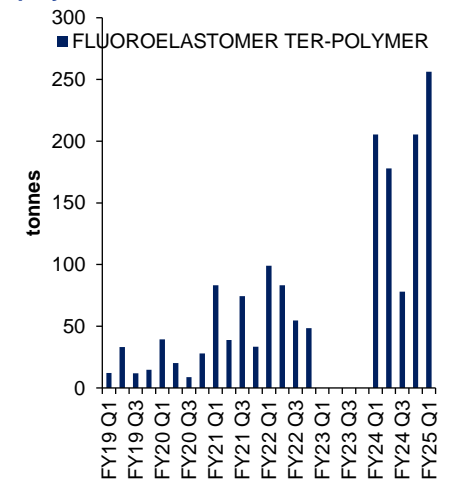
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Copolymer exports have been patchy...



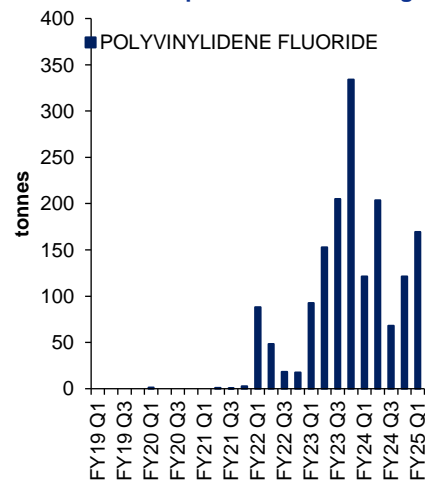
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: ...and so is the case with ter-polymer



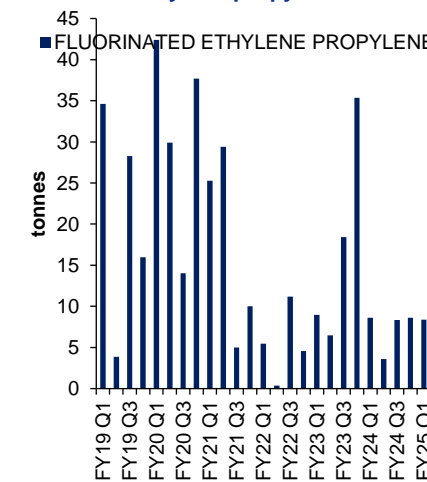
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: PVDF - the much-touted wonder PFAS export volume is falling...



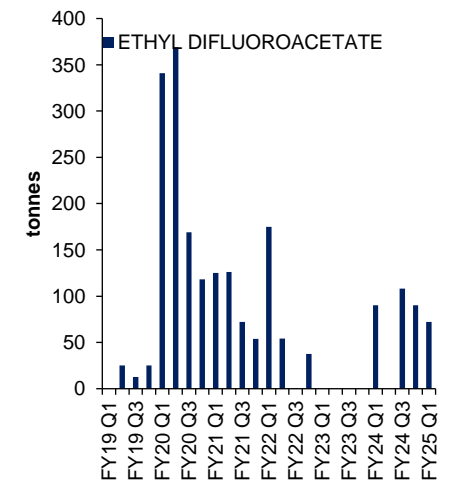
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: ...and same is the case with fluorinated ethylene propylene...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: ...as well as with ethyl difluoro acetate

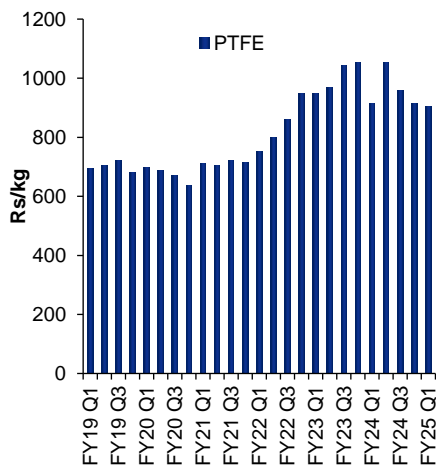


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Realizations of the products are also falling ➤

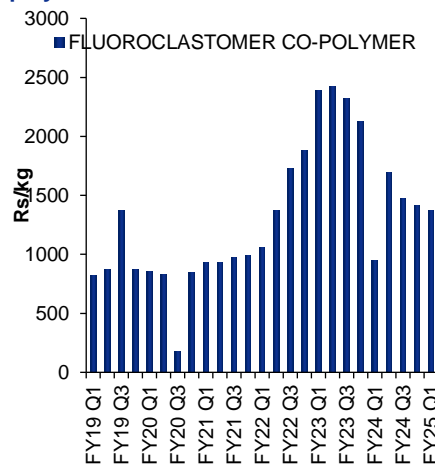
The extraordinary earnings in FY23 were not because of any of comparative advantage but simply because of extraordinary HFC-125 prices and volume.

Figure 15: PTFE prices are falling...



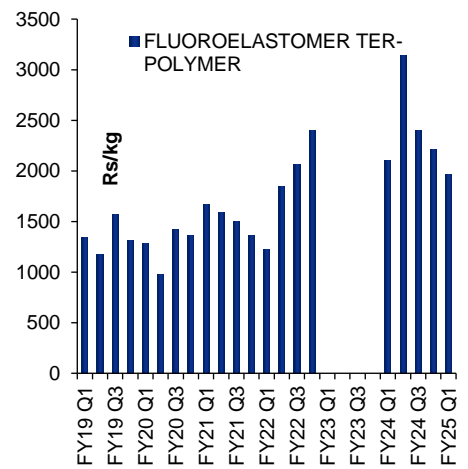
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: ...and so is the case with co-polymer...



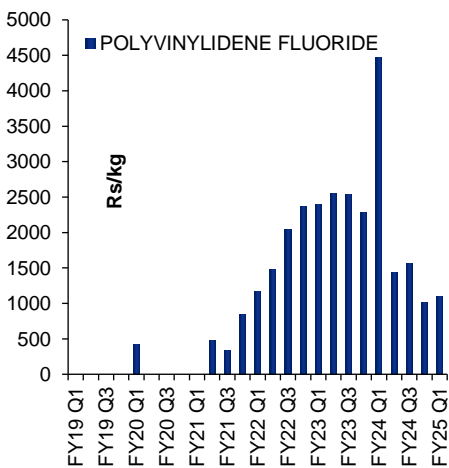
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 17: ... as well as ter-polymer prices



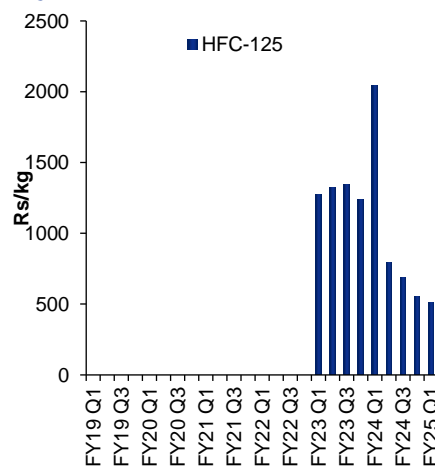
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 18: PVDF prices are tracking back to FY21 levels



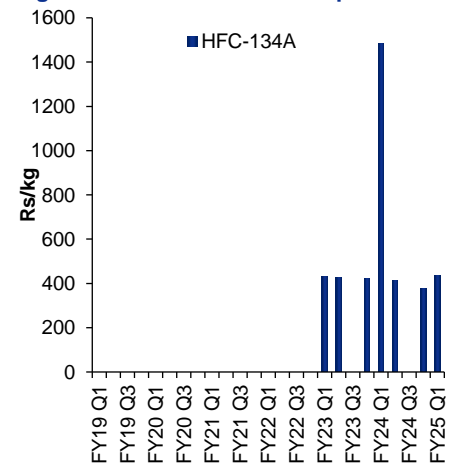
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: All earnings gains in FY23 were because of extra high prices of HFC-125...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

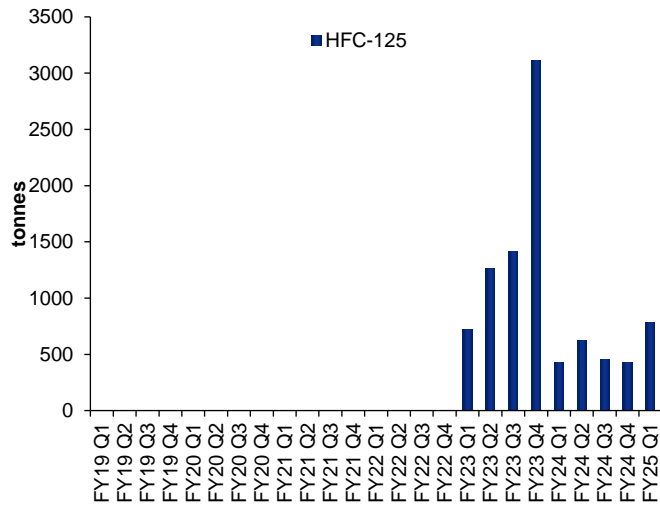
Figure 20: ...and also R-134A prices



SOURCE: INCRED RESEARCH, COMPANY REPORTS

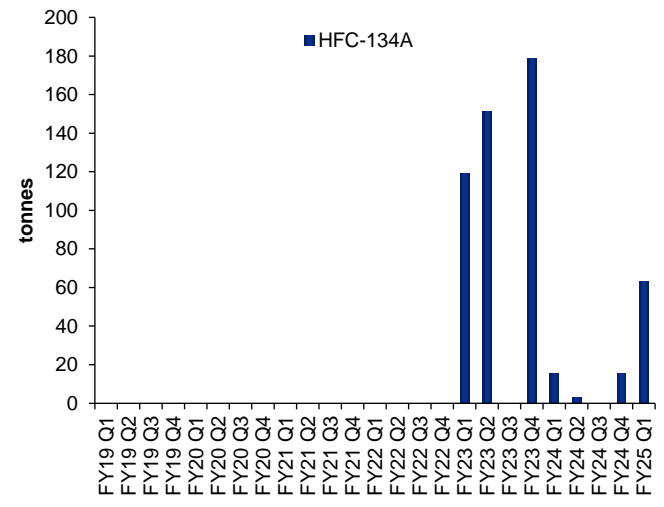
Opportunistic sales of HFC-125 drove the profits in FY23, but the same are waning now ➤

Figure 21: GFL didn't sell any HFC-125 before FY23 i.e. before the imposition of anti-dumping by the US on Chinese imports



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 22: Even HFC-134A exports started in FY23



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Clean Science and Technology - HALS is not a Noble Prize winning product; earnings will dissappoint

The EPS growth in 1QFY25F is likely to be single digits. HALS is projected as a wonder product by the street, but it is as good as PET chips. Tread with caution as a 75x P/E for single-digit growth is a recipe for disaster.

1QFY25F is likely to see single-digit EPS growth ➤

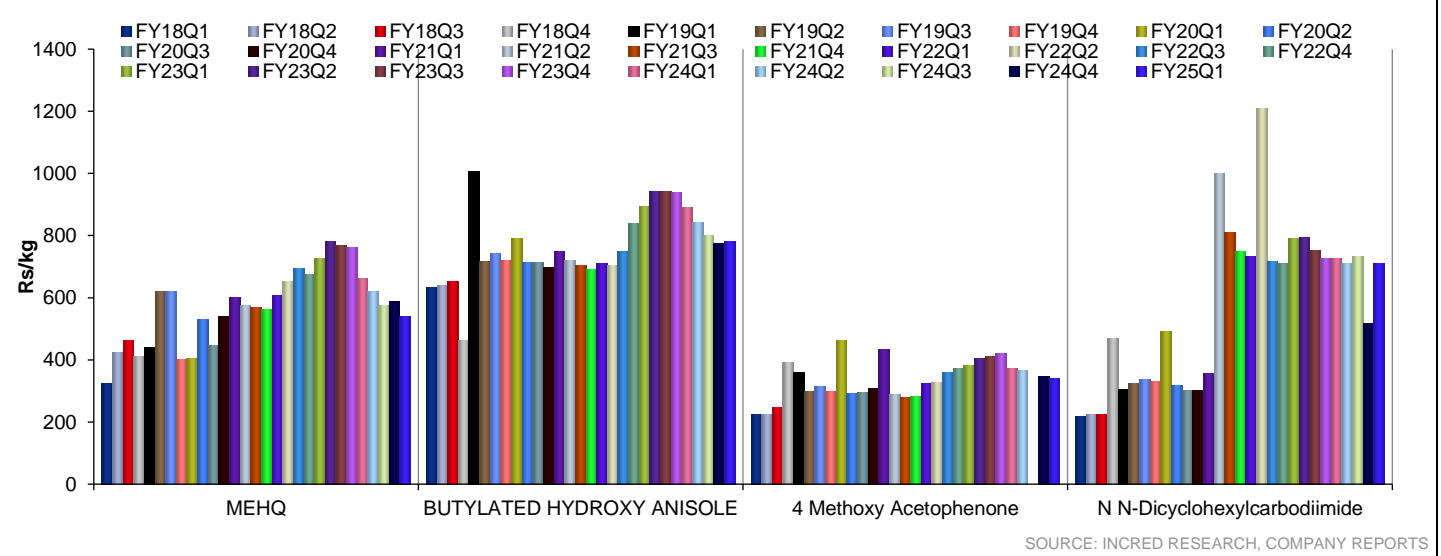
Figure 23: EPS growth is likely to be in single digits

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25F
Net Revenue	2,341	2,475	2,374	2,169	1,881	1,811	1,947	2,275	2,163
Total Cost of Goods Sold	913	927	778	641	726	618	646	780	757
Employee Benefit Expenses	100	106	118	128	117	119	116	135	135
Other Expenses	414	467	396	349	277	326	319	415	415
Total Expenses	1,427	1,500	1,292	1,118	1,120	1,063	1,081	1,330	1,307
EBITDA	913	975	1,082	1,051	761	748	866	945	856
Depreciation	85	87	89	101	108	111	113	127	127
EBIT	829	888	993	950	653	637	753	818	729
Other Income	18	28	126	126	134	60	78	141	141
Interest Expense	0	0	1	1	1	3	1	6	6
Exceptional Items	0	0	0	0	0	0	0	0	0
Profit Before Tax	847	916	1,118	1,075	787	695	830	953	864
Total Tax Expenses	218	237	280	270	198	173	204	250	219
Profit After Tax	629	679	838	805	589	522	626	703	645
EPS	5.9	6.4	7.9	7.6	5.5	4.9	5.9	6.6	6.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

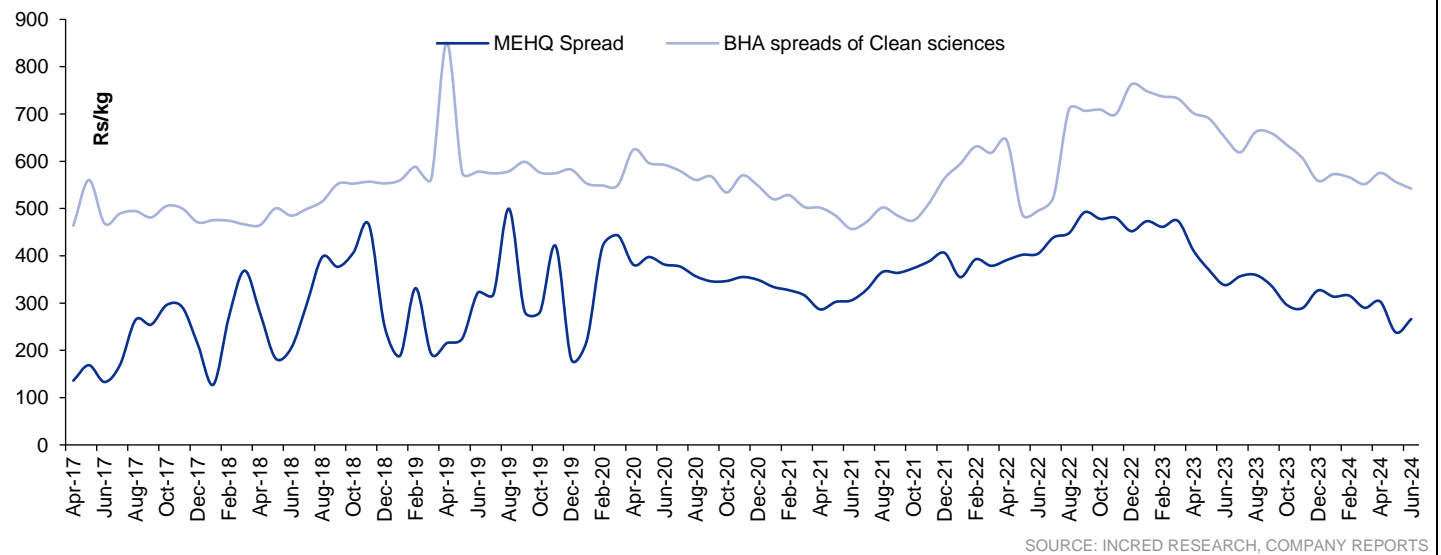
None of the company's products have any pricing power ➤

Figure 24: All products are of commodity nature and Clean Science doesn't have any pricing power



Product spreads are falling over the last few months ➤

Figure 25: Product spreads of Clean Science have been consistently falling



We have written multiple reports on the futility of assuming HALS to be the saviour of Clean Science ➤

Here are the links to those reports:

1. [IN: Clean Science and Technology - HALS - much ado about nothing \(REDUCE - \)](#)
2. [IN: Clean Science and Technology - HALS - much ado about nothing-II \(REDUCE - Maintained\)](#)

Aarti Industries – will be lucky if it meets the lower end of its EBITDA guidance; MMA peak is well behind us

We are surprised at the bullish guidance of Rs14.5bn to Rs17bn of EBITDA guidance by Aarti Industries. We reckon that the company will be lucky to achieve even the lower end of its EBITDA guidance.

1QFY25F is unlikely to post more than Rs3.1bn in EBITDA ▶

Figure 26: With the likely run rate in 1QFY25F, Aarti Industries will be lucky if it achieves the lower end of its EBITDA guidance for FY25F (Rs m)

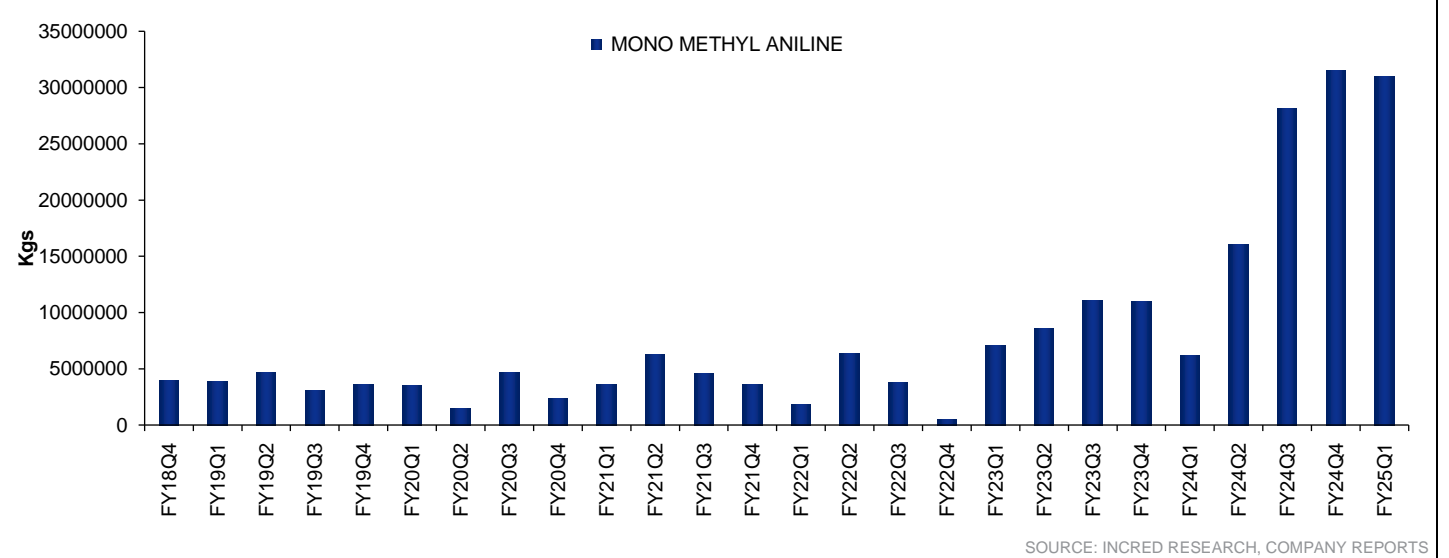
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	FY25Q1F
Net Revenue	16,103	16,850	16,677	16,560	14,140	14,540	17,320	17,730	18,453
Total Cost of Goods Sold	9,262	9,781	9,757	9,620	8,530	8,540	11,010	10,710	11,145
Employee Benefit Expenses	910	928	927	1,090	1,010	990	1,030	1,000	1,000
Other Expenses	3,116	3,471	3,107	3,330	2,580	2,670	2,680	3,190	3,190
Total Expenses	13,288	14,180	13,790	14,040	12,120	12,200	14,720	14,900	15,335
EBITDA	2,815	2,670	2,887	2,520	2,020	2,340	2,600	2,830	3,117
Depreciation	718	729	821	840	890	930	970	980	980
EBIT	2,098	1,941	2,066	1,680	1,130	1,410	1,630	1,850	2,137
Other Income	4	0	3	0	0	0	80	0	80
Interest Expense	445	437	470	330	400	580	540	590	590
Exceptional Items									
Profit Before Tax	1,656	1,504	1,599	1,350	730	830	1,170	1,260	1,627
Total Tax Expenses	301	259	234	-140	40	-90	-70	-60	410
Profit After Tax	1,355	1,245	1,365	1,490	690	920	1,240	1,320	1,217
Fully Diluted EPS	3.7	3.4	3.8	4.1	1.9	2.5	3.4	3.6	3.4

SOURCE: COMPANY REPORTS, INCRED RESEARCH

MMA exports have peaked▶

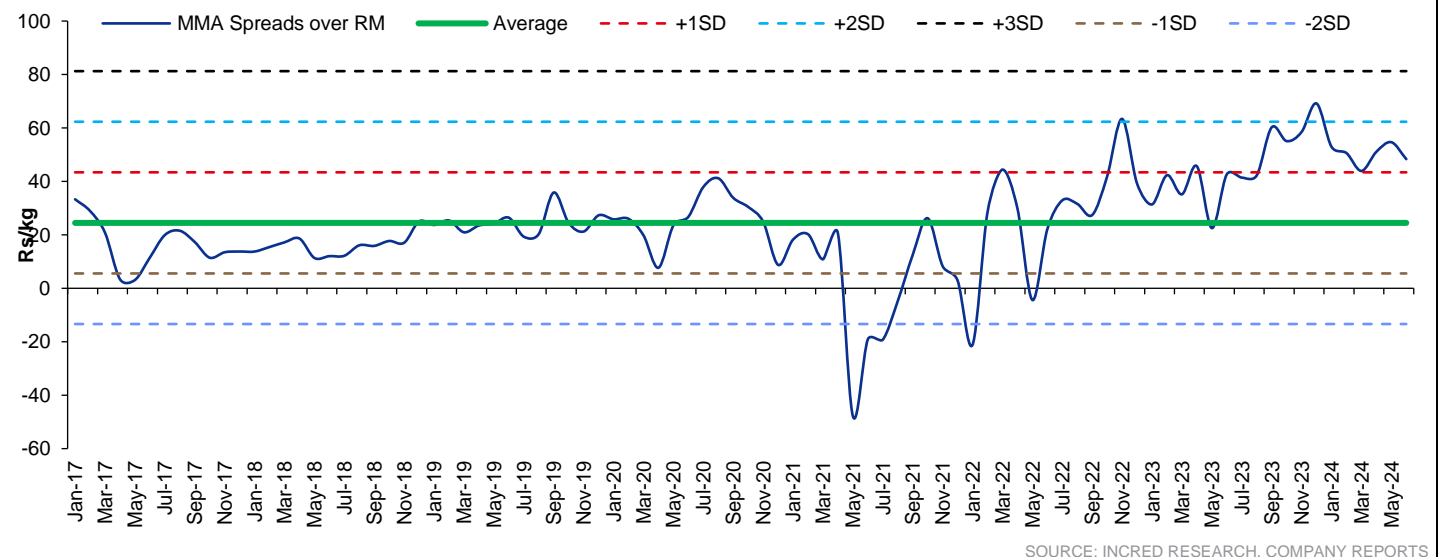
As we had written in our earlier report [IN: Chemicals - Overall - Mono methyl aniline – peak is behind us](#), MMA peak is behind us. This is apparent in the export sales of MMA which are not growing QoQ or MoM.

Figure 27: Peak MMA exports are well behind us...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 28: ...and so do MMA spreads over aniline; please remember Aarti Industries doesn't manufacture aniline



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Atul – Again a very big expectation which won't be met 1QFY25F EPS likely to witness QoQ growth but remain flattish YoY ➤

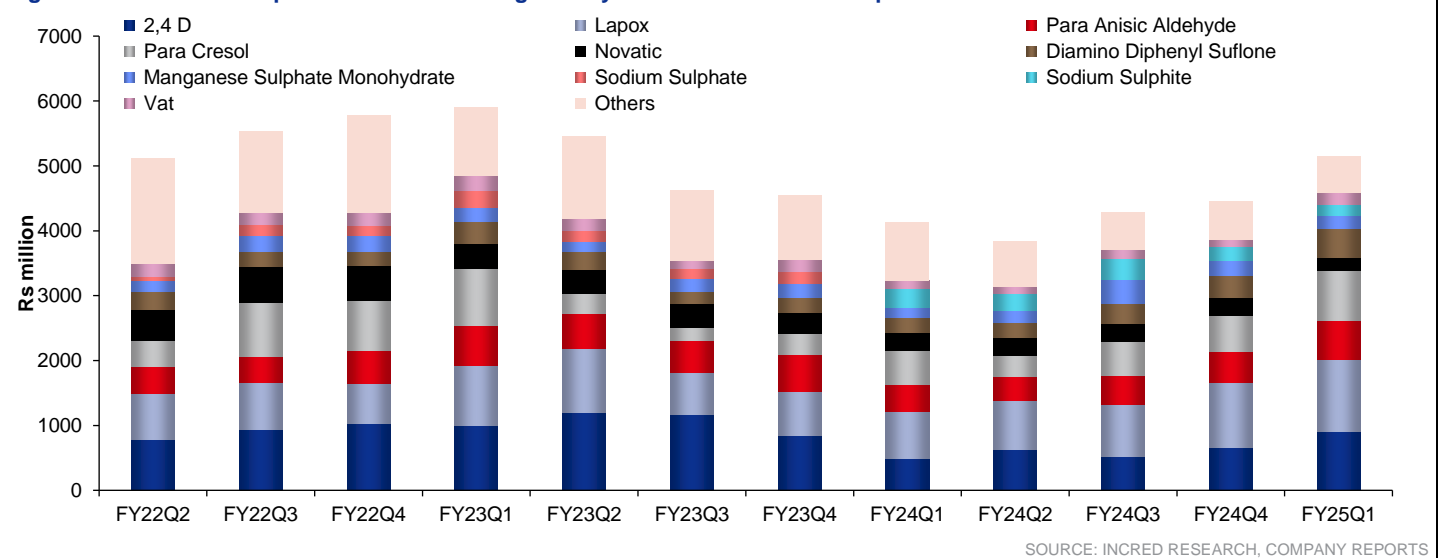
Figure 29: Exports have witnessed a mild recovery in 1QFY25F, which have been primarily driven by 2,4 D exports due to channel-filling and are unlikely to continue (Rs m)

Consolidated Quarterly	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25F
Net Revenue	11,820	11,937	11,378	12,122	13,080
Expenditure	9,998	10,385	9,861	10,646	10,996
Raw Material Consumed	4,973	5,256	5,683	6,114	6,671
Purchases of Finished, Semi-Finished Steel	444	546	399	197	
(Increase)/Decrease in Stock in Trade	907	873	(68)	(220)	
Employee Cost	963	978	1,016	1,025	1,025
Other Expenditure	2,711	2,732	2,831	3,530	3,300
EBITDA	1,823	1,552	1,517	1,476	2,085
Other Income	82	221	150	129	100
Operating Profit	1,905	1,773	1,667	1,604	2,185
Depreciation	519	540	612	758	758
EBIT	1,385	1,233	1,055	847	1,427
Interest	20	19	21	51	51
Profit Before Tax & Exceptional Items	1,365	1,215	1,034	796	1,377
Exceptional Items					
Profit Before Tax	1,365	1,215	1,034	796	1,377
Tax Expense	364	325	334	242	347
Net Profit After Tax	1,001	890	700	554	1,030
Total Comprehensive Income	1,021	912	721	588	1,030
EPS	33.83	30.08	23.71	18.77	34.90
Exports	4,242.40	3,957.03	4,530.47	4,627.75	5,351.05
Domestic sales	7,577.80	7,980.07	6,847.53	7,493.75	7,729.36

SOURCE: INCRED RESEARCH, COMPANY REPORTS

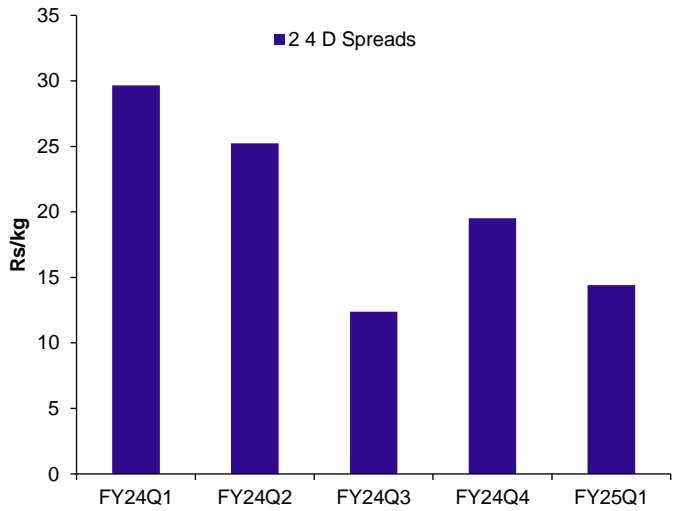
2,4 D has grown but will not continue – it's channel filling-driven demand which will fizzle out ➤

Figure 30: The overall exports of Atul have not gone anywhere since the last 13 quarters



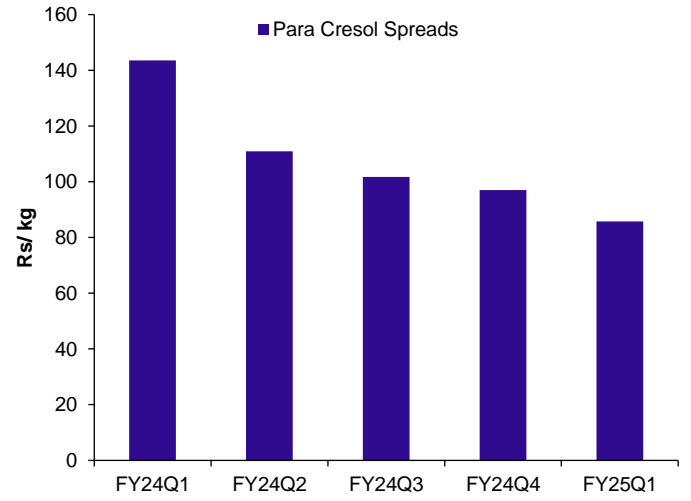
At the same time, 2,4 D and cresol spreads are falling ➤

Figure 31: While we have seen some increase in 2,4D sales, it has come at lower spreads



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 32: Cresol spreads have also fallen



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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