

**Chemical Industry stages healthy performance; outlook remains positive**

DEC 2, 2014

Indian chemical industry is a key constituent of economy, accounting for 7% of the country's GDP and 11% of the industrial activity. With Asia's growing contribution to the global chemical industry, India emerges as one of the focus destinations for chemical companies worldwide and has domestic market size of approximately \$118 billion. The industry is highly diversified with more than 80,000 chemicals and currently accounts for 15% of manufacturing GDP which makes it very crucial for the economic development of the country.

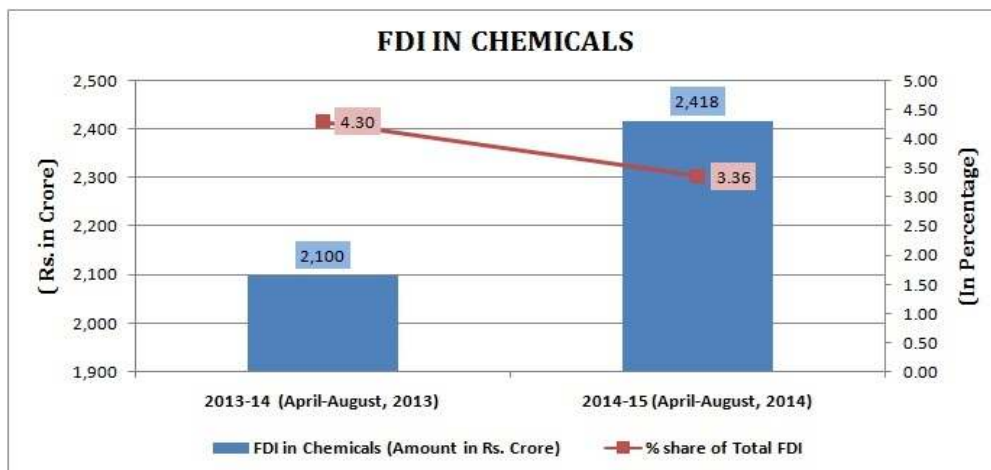
The industry, which is widely divided into many segments like such as organic chemicals, specialty chemicals, chlor-alkali, pesticides, colorants and alcohol based chemicals, in the base case scenario and with current initiatives of industry & government is expected to grow at 11% p.a. to reach size of \$224 billion by 2017 and in highly optimistic scenario, could registered growth rate of 15% p.a, according to Planning Commission report for Twelfth Five-Year Plan (2012-17).

India's low per capita chemical consumption coupled with rising income levels offers significant growth opportunities for the industry. However, for capitalizing on these opportunities, the industry needs to address the challenges of appropriate skilling of the workforce, bridging technology gaps, securing access to raw material, ensuring compliance to global standards and creating industry specific infrastructure.

**Role in Economy**

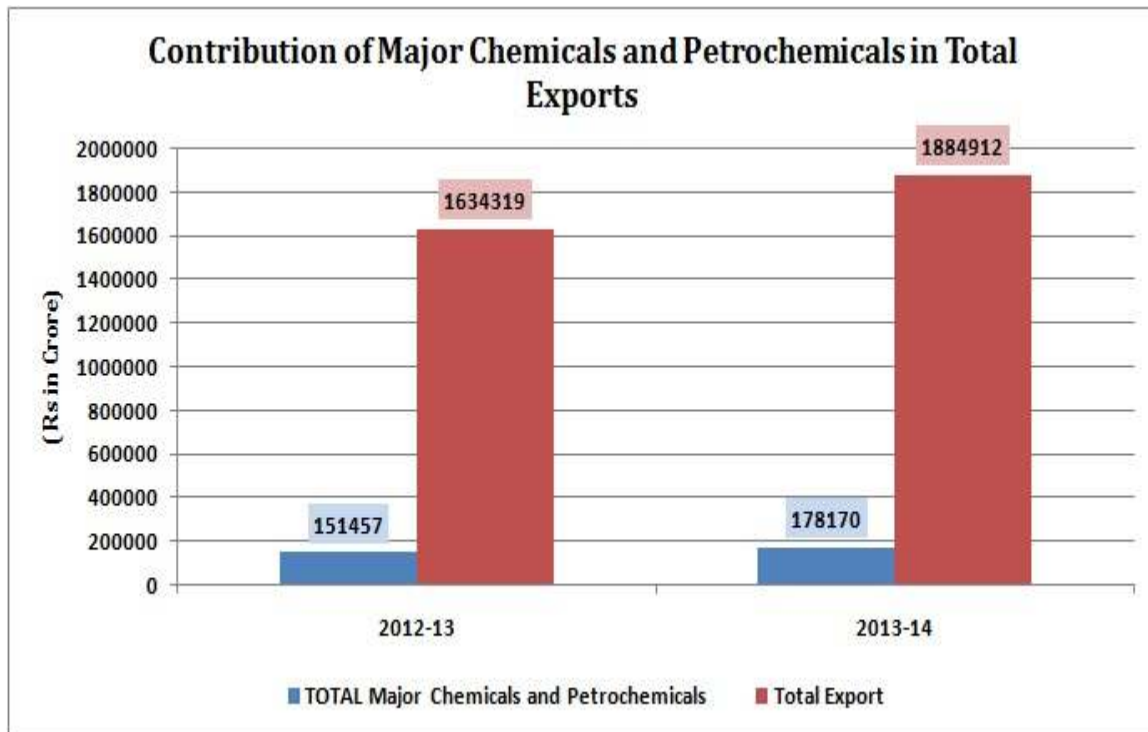
**Contribution in Total FDI:**

Foreign Direct Investment (FDI) in Chemical sector, so far in FY 15, i.e. during the period of April-August, 2014 grew by 3.36% at Rs 2,418 crore as against Rs 2,100 crore during the same period of the previous year. However, this was tad lower than growth rate of 4.30% registered in April-August period of 2013. Cumulatively, the sector's foreign direct inflows from April 2000-March 2014 stood at Rs 47,652 crore, contributing to 4% of the total India's FDI.



**Share in Nation's Overall Exports:**

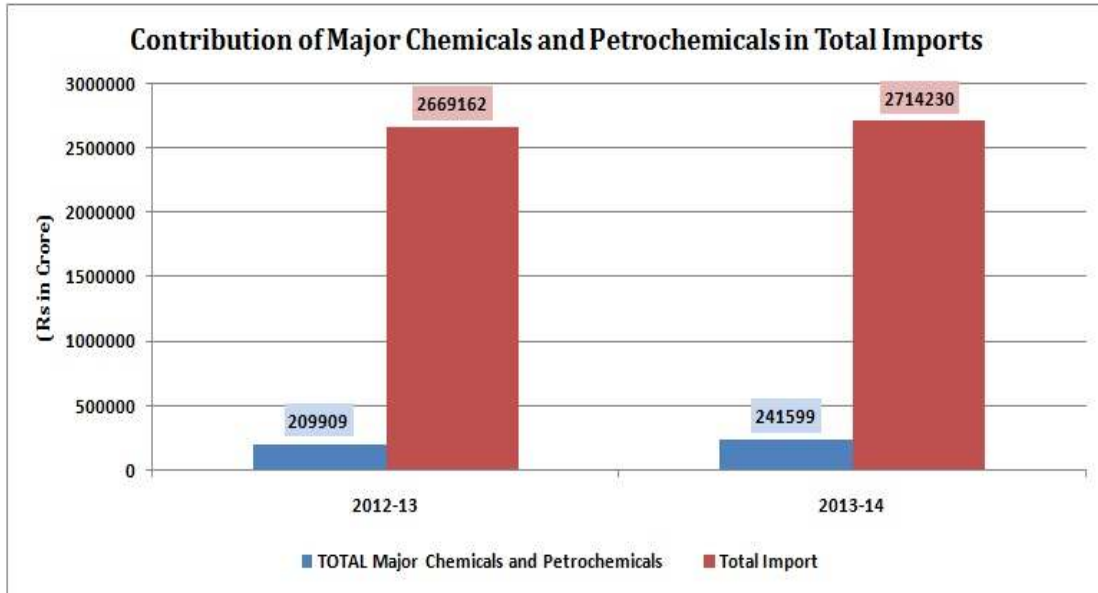
The share of Chemical products in the overall exports in the past two years has almost been constant around 9%, but contributed a little more than that for 2013-14. The country's exports of chemicals and petrochemicals growing by 17.64% in 2013-14 at Rs 178170 crore from the year earlier, contributed to around 9.45% of total exports. While, the same growing by 11.50% in 2012-13 at Rs 151457 crore contributed to around 9.27% of the total exports.



**Share in Country's Overall Imports:**

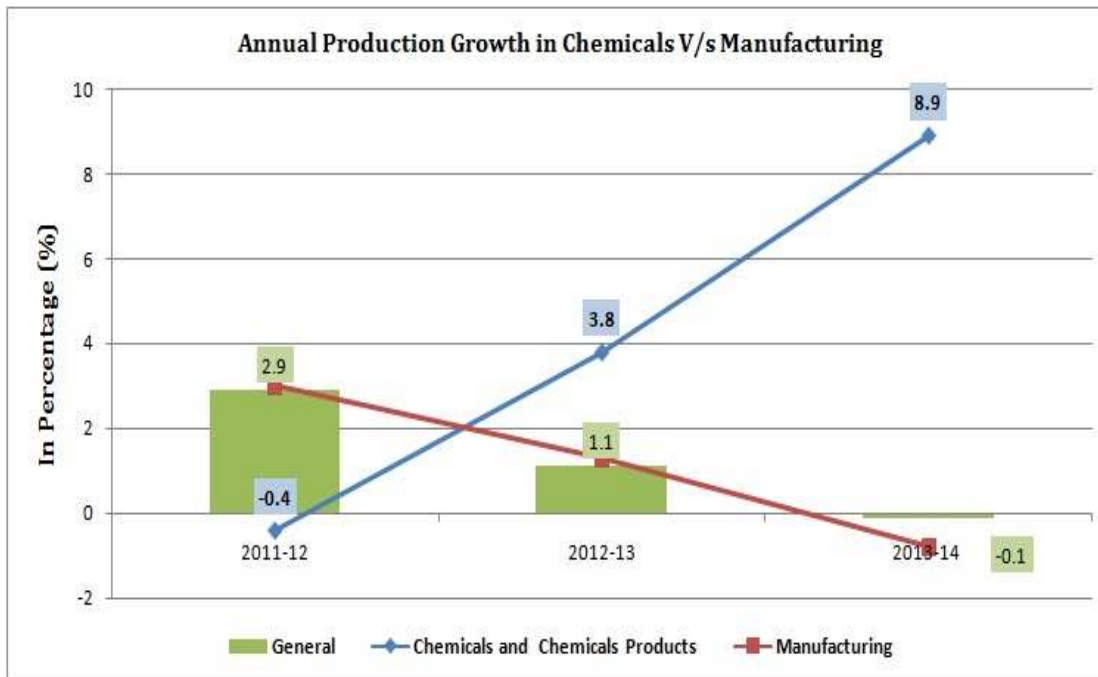
In a bit of concern, where the contribution of chemicals in overall exports has grown by a little margin, the pace at which the import of chemicals and petrochemicals has been faster. The imports of chemicals and petrochemicals registered 18.98% growth in 2012-13 at Rs 209,909 crore, contributing to 7.86% of nation's overall imports, the same had jumped by 15.10% at Rs 241,599 crore in 2013-14 over previous year, contributing to 8.90% growth of country's overall imports.

Note: Major chemicals & petrochemicals include Inorganic Chemicals, Organic Chemicals, Tanning or Dyeing, Miscellaneous Chemical Products, Plastic and Articles thereof, Man-Made Filaments and Man-Made Staple Fibres.



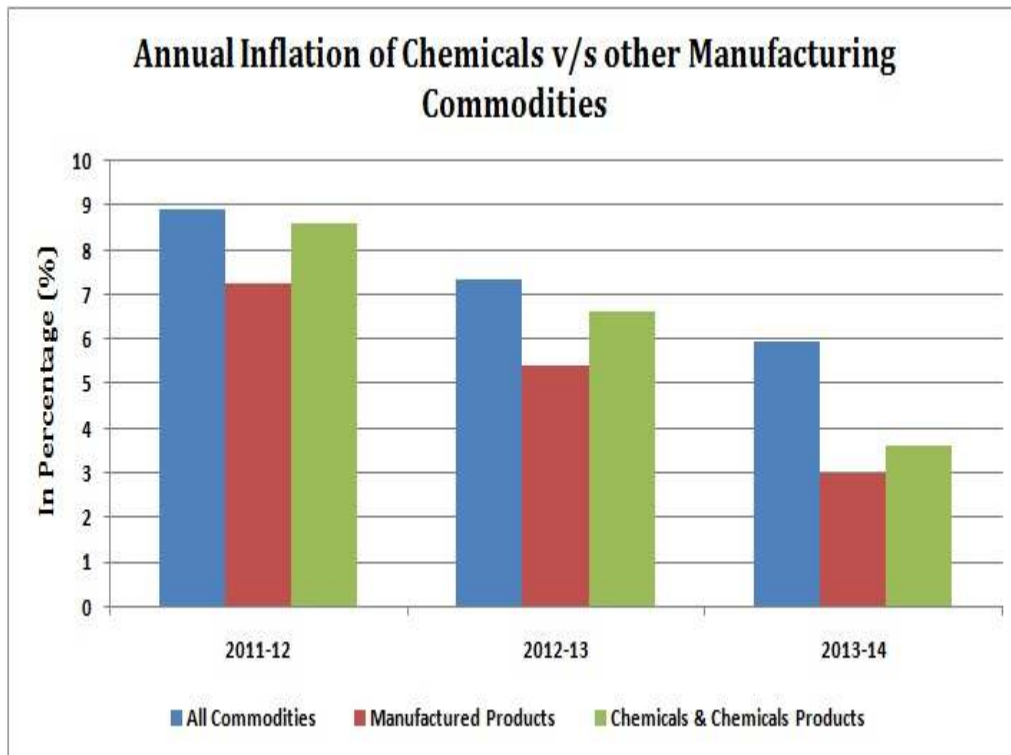
### Contribution in IIP:

The chemicals sector accounts for about 14% in the overall index of industrial production (IIP). In an encouraging sign, the sector's growth contribution in the manufacturing index rose from 3.8% in FY13 to 8.9% in FY14. This is in light of contraction that the factory output has witnessed during the concluded year. IIP for the year 2013-14 contracted by 0.1% as compared to growth of 1.1% in the previous year.



**Contribution in Inflation based on Wholesale Price Index (WPI):**

Chemical & Chemical products have 12.02% weight in Manufactured Products, which occupies a significant 64.97% weightage in the overall Wholesale Price Index (WPI). With the overall inflation in manufactured products halved to 2.99% in 2013-14 from 5.41% in the year 2012-13, the inflation in chemicals and chemicals products too reduced substantially to 3.63% in 2013-14 from 6.62% in the previous year.

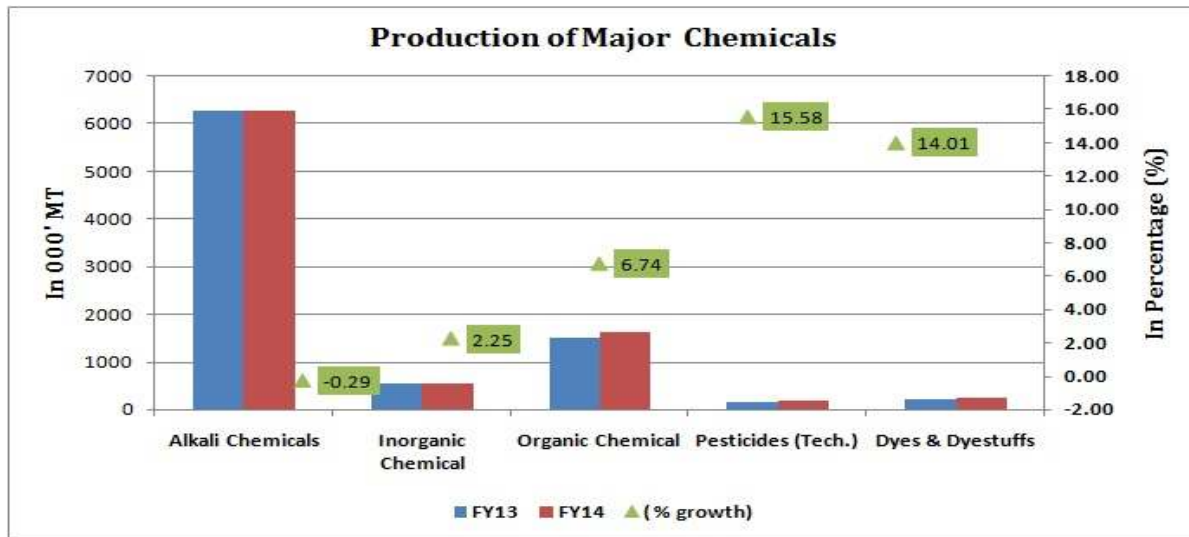


**Performance of Select Major Chemicals**

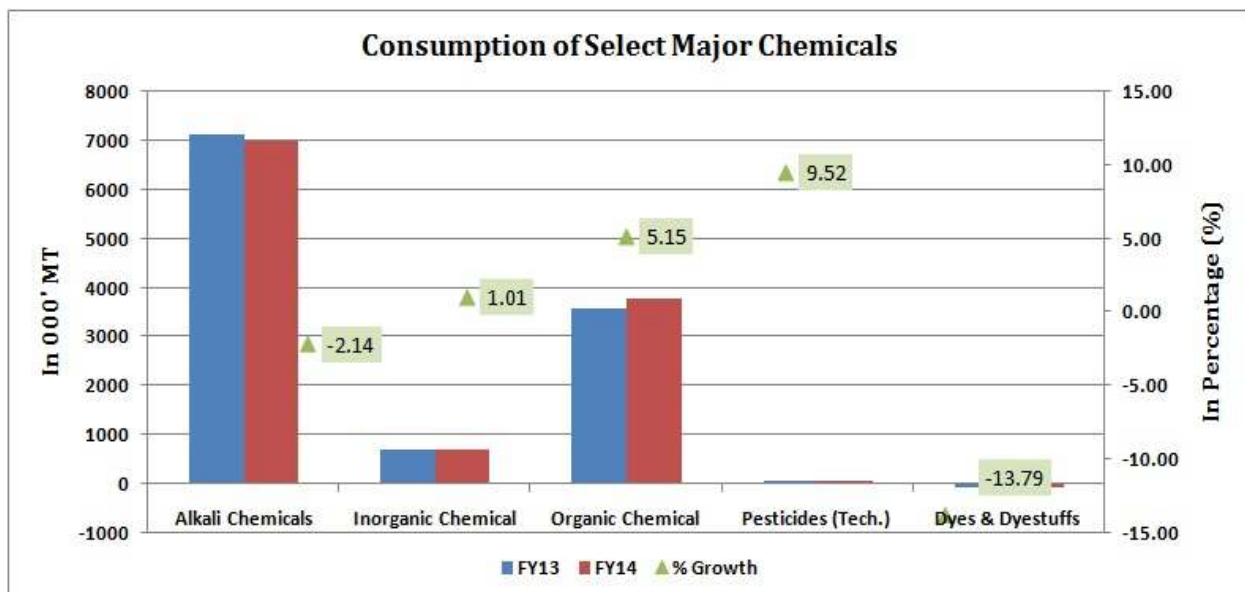
The chemical industry is among the most diversified industrial sectors, including basic chemicals and its products, petrochemicals, fertilizers, paints, gases, pharmaceuticals, dyes, etc. The sector covers over 70,000 commercial products, and provides the building block for many downstream industries, such as finished drugs, dyestuffs, paper, synthetic rubber, plastics, polyester, paints, pesticides, fertilizers and detergents. However, the chemical industry can be broadly divided into three segments, Basic Chemicals, Specialty Chemicals and Agro-Chemicals.

Six major chemicals produced in India, Methanol, Aniline, Alkyle Amines and its derivatives like Formaldehyde, Acetic Acid and Phenol, contribute nearly 2/3rd of Indian basic organic chemical industry. The balance 1/3rd of the organic chemical consumption in the country is accounted for by other wide variety of chemicals.

**Production of select Major Chemicals:** As per the latest data available, India's production of major chemicals grew by 1.71% in 2013-14, higher than the previous year's contraction figure of 0.46%. Among all the select major chemicals, the production of organic, in-organic, Pesticides (Tech.) and Dyes & Dyestuffs registered growth, however the production of Alkali Chemicals dipped by 0.29% for 2013-14.



**Consumption of Select Major Chemicals :** The consumption of Indian Chemical Industry de-grew by 4.49% in FY14 against 8% growth registered in 2012-13. Among the select major chemicals, the consumption of Dyes & Dyestuffs segment showed a contraction of 13.79% on Y-o-Y basis, while consumption of Alkali chemicals also de-grew by 2.14%.



### **Positives for Industry**

**Structural advantage:** With a growing market and purchasing power, the domestic industry is likely to growth at over 10-13% in the coming years. Growing disposable incomes and increasing urbanization are fuelling the end consumption demand for paints, textiles, adhesives and construction, which, in turn, leads to substantial growth opportunity for chemicals companies.

**India-Attractive destinations for investments:** The chemicals industry in India is the largest consumer of chemical products, consuming 33% of its output and about 1/10 th of the world's average, indicating high domestic demand potential, thereby making it attractive for global players to strengthen their presence in the country. **Diversified industry:** The Indian chemicals industry has a diversified manufacturing base that produces world-class products. There is a substantial presence of downstream industries in all segments. Further, this large and expanding domestic chemicals market also boasts a large pool of highly-trained scientific manpower.

**Promising export potential:** Chemicals constitute 9% of India's total exports. India already has a strong presence in the export market in the sub-segments of dyes, pharmaceuticals and agro chemicals. India exports dyes to Germany, the UK, the US, Switzerland, Spain, Turkey, Singapore and Japan.

**Growing number of PCPIRs:** In a first of its kind project, about Rs 1 lakh crore will be invested in setting up the nation's first landlocked oil and chemicals investment hub around an expanded Bina refinery in Madhya Pradesh. This Petroleum, Chemicals and Petrochemicals Investment Region (PCPIR), will be set up by the government of India. The government has also announced setting up of a PCPIR Dahej in Gujarat, Paradeep in Odisha, Vishakhapatnam-Kakinada in Andhra Pradesh and Cuddalore-Nagapattinam in Tamil Nadu with an investment of Rs 8 lakh crore.

In March 2007, the Cabinet Committee on Economic Affairs had approved the proposal to set up PCPIRs in four states -- Gujarat, Andhra Pradesh, Odisha and Tamil Nadu. Further, since February 2009, the government has approved setting up of four PCPIRs - Dahej, Paradeep, Vishakhapatnam-Kakinada and Cuddalore-Nagapattinam. Once fully established, they are expected to attract Rs 762,894 crore in investments.

### **Challenges for the Industry**

**Chemical industry raps higher ethanol blending decision:** Fearing an input shortage, the chemical industry has urged the Union government to roll back the decision to raise the level of compulsory blending of ethanol in petrol.

In a letter to the ministries of chemicals, finance, commerce, food and petroleum, the Indian Chemical Council (ICC) cited that this move would lead to reduced supply of industrial alcohol, a valued raw material for a number of downstream industries.



This development came right after Food Minister Ram Vilas Paswan announced a doubling of the mandatory blending of ethanol with petrol to 10% from the earlier 5%. Industrial alcohol, a byproduct of sugarcane crushing is an important raw material for paint and ink, agrochemicals, pharmaceuticals, textiles and polyethylene terephthalate (PET) bottles.

According to Indian Chemical Council (ICC), with 10% mandatory ethanol blending, the supply deficit will go up to 920 mn litres, assuming sugar products at around 24 mn tonnes. In the past few tenders, sugar mills have not been able to supply the quantity tendered by oil marketing companies. Hence, increasing the blending percentage will only widen the supply deficit, which would add to the adjusting challenges of the industry.

**Lack of cheaper raw material availability:** Feedstock (naphtha and natural gas) and power are critical inputs for organic chemicals industry. Costs of these raw materials are high in India compared to countries like China, Middle East and other South East Asian countries such as Thailand and Indonesia.

**Lack of world class infrastructure:** Given the poor infrastructure with lack of adequate facilities at ports and railway terminals and poor pipeline connectivity, domestic manufacturers continue to face difficulty in procuring raw materials at competitive costs.

**Regulations governing the global chemical industry:** The regulations governing the global chemical industry will increasingly impact the Indian industry. Global regulations such as REACH, Oeko-Tex Standard 100, ETAD, Restricted Substance Lists (RSL's), and Global Organic Textile Standard (GOTS), which are related to export of chemicals and supply to export-oriented domestic industry, would have significant impact on the operating and financial performance of the Indian chemical industry.

### Outlook:

The outlook for Indian chemical industry remains to be positive on account of growing disposable incomes and increasing urbanization which continues to fuel consumption demand for paints, textiles, adhesives and construction that in turn, leads to substantial growth opportunity for chemicals companies. Additionally, the country's growing share of exports in overall country's export presents a very rosy picture of the industry. Further, demand from the domestic consumption is also expected to continue and grow substantially.

However, the industry is weighed down by issues related to quality of infrastructure, business facilitation and related transaction costs. World Economic Forum ranked India at '87' among 144 countries for quality of infrastructure in 2012-13 rankings. In World Bank rankings 2013 for ease of doing business, India is ranked at 132, faring poorly in terms of starting a business (rank 173), dealing with construction permits (rank 182), and enforcing contracts (rank 184) amongst 185 countries.

In addition, the industry also needs to address several other challenges like availability of raw materials and active ingredients for value added products to remain competitive in the global scenario. Besides, the industry also has been dreading implementation of mandatory ethanol blending decision to 10% from existing 5%, which in turn could lead the shortage of an crucial raw material, ethanol.

Nevertheless, on the industry specific infrastructure front, Government of India has made certain policy interventions including allowing 100% FDI and setting up of PCPIRs, which aims to promote investment in the chemical industry. However, the progress on this front has been very slow and projects are either delayed or yet to take off.

### Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Polson Ltd.	7395.00	88.74	3473.85	0.00	341.50	21.65
Keltech Energies Ltd.	859.55	85.96	358.46	0.29	64.13	13.40
Solar Industries (India) Ltd.	2579.35	4668.11	281.81	0.47	52.77	48.88
Polychem Ltd.	578.50	23.37	411.14	0.00	52.69	10.98
Oriental Carbon & Chemicals Ltd.	377.10	388.26	215.37	1.86	48.26	7.81
Navin Fluorine International Ltd.	576.45	563.18	563.28	2.78	44.58	12.93
National Peroxide Ltd.	586.65	337.15	373.06	2.56	40.82	14.37
Camphor & Allied Products Ltd.	335.70	172.34	237.61	0.60	39.26	8.55
Elantas Beck India Ltd.	882.15	699.34	165.34	6.23	37.28	23.66
Indo Borax & Chemicals Ltd.	252.40	81.00	225.04	0.59	35.91	7.03
Foseco India Ltd.	1080.50	690.06	165.98	2.27	31.21	34.62
Gulshan Polyols Ltd.	225.65	200.45	213.21	1.11	29.28	7.71
Gujarat Alkalies & Chemicals Ltd.	190.75	1400.81	278.67	2.10	27.99	6.81
Sukhjit Starch & Chemicals Ltd.	284.30	209.81	261.61	1.23	27.25	10.43
Narmada Gelatines Ltd.	199.00	120.39	163.79	1.68	25.77	7.72
Alkyl Amines Chemicals Ltd.	364.50	743.45	79.48	1.10	22.59	16.14
Jayant Agro-Organics Ltd.	141.05	211.58	116.65	2.13	21.13	6.67
Vinati Organics Ltd.	421.20	2173.01	76.08	0.71	20.04	21.02
Aarti Industries Ltd.	278.10	2463.73	95.58	1.62	19.86	14.00
Riddhi Siddhi Gluco Biols Ltd.	378.05	269.79	1281.52	0.79	18.72	20.19
Dai-Ichi Karkaria Ltd.	145.20	108.19	113.13	1.72	18.63	7.79
Aditya Birla Chemicals (India) Ltd.	239.70	560.57	191.61	0.63	18.14	13.21
GHCL Ltd.	83.40	834.16	83.44	2.40	15.72	5.31
Ashok Alco-Chem Ltd.	59.80	24.82	58.91	0.00	15.54	3.85
Adi Finechem Ltd.	304.65	420.23	39.85	0.45	14.23	21.42
Chemfab Alkalies Ltd.	92.45	84.79	137.25	1.35	13.32	6.94
Vishnu Chemicals Ltd.	167.10	199.62	65.59	0.00	13.15	12.71
Jocil Ltd.	128.00	113.68	164.04	3.91	12.51	10.23
Mysore Petro Chemicals Ltd.	59.65	39.27	43.72	2.51	12.34	4.83
Amines & Plasticizers Ltd.	96.10	52.87	62.91	1.04	10.33	9.30
Balaji Amines Ltd.	71.30	231.02	68.40	1.40	10.17	7.01



India Gelatine & Chemicals Ltd.	107.60	101.14	126.88	1.67	9.94	10.83
IG Petrochemicals Ltd.	59.50	183.23	80.06	0.00	9.81	6.07
Transpek Industry Ltd.	275.35	161.69	114.94	0.91	9.81	28.07
Sree Rayalaseema Hi-Strength Hypo Ltd.	47.00	69.17	108.86	0.00	9.75	4.82
Pidilite Industries Ltd.	477.45	24477.09	45.40	0.57	9.51	50.19
Sharda Cropchem Ltd.	266.80	2407.08	63.18	0.00	9.37	28.49
Lime Chemicals Ltd.	5.65	1.86	-123.62	0.00	9.36	0.60
BASF India Ltd.	1275.15	5519.57	265.18	0.31	9.16	139.17
Premier Explosives Ltd.	246.90	218.72	68.87	1.09	7.62	32.38
Omkar Speciality Chemicals Ltd.	159.70	328.63	76.20	0.94	7.57	21.09
Vikram Thermo (India) Ltd.	99.10	55.32	51.27	1.51	7.44	13.31
Gujarat Fluorochemicals Ltd.	740.20	8131.10	234.50	0.47	7.29	101.50
Vinyl Chemicals India Ltd.	64.10	117.54	17.92	1.56	7.11	9.02
Fineotex Chemical Ltd.	212.70	238.86	57.74	0.24	6.70	31.76
Mangalam Organics Ltd.	28.65	25.94	59.50	0.00	6.43	4.46
Kesar Petroproducts Ltd.	50.25	36.52	18.08	0.00	6.24	8.05
Chembond Chemicals Ltd.	270.70	180.30	75.79	1.11	6.07	44.57
Thirumalai Chemicals Ltd.	99.55	101.93	145.32	0.00	5.25	18.95
Kanoria Chemicals & Industries Ltd.	39.05	170.62	111.22	3.84	5.06	7.71
Deepak Nitrite Ltd.	86.75	906.87	31.58	1.15	5.04	17.21
Pondy Oxides And Chemicals Ltd.	47.95	53.47	38.28	2.09	4.54	10.57
Godrej Industries Ltd.	285.30	9570.54	45.81	0.61	4.12	69.28
Dujodwala Paper Chemicals Ltd.	10.00	6.17	54.79	0.00	3.99	2.51
Haryana Leather Chemicals Ltd.	24.70	12.12	49.64	2.83	3.47	7.13
IVP Ltd.	55.00	56.79	49.56	1.82	3.17	17.37
Tirupati Starch & Chemicals Ltd.	10.29	6.27	22.89	0.00	2.88	3.57
Beardsell Ltd.	57.90	27.12	71.01	1.73	2.76	21.00
Alufluoride Ltd.	14.00	9.80	22.56	0.00	2.69	5.21
AVI Photochem Ltd.	16.50	5.74	3.95	0.00	2.64	6.26
Vivid Global Industries Ltd.	20.20	8.96	7.78	2.48	2.59	7.81
Nocil Ltd.	38.25	615.01	24.82	1.57	2.58	14.82
GeeCee Ventures Ltd.	46.05	87.62	148.19	3.26	2.29	20.14
DIL Ltd.	665.00	152.50	406.49	1.50	2.25	295.54
Titan Bio-Tech Ltd.	40.00	30.95	26.29	1.88	2.01	19.91
Camlin Fine Sciences Ltd.	59.00	562.76	9.14	0.59	1.97	30.00
Gayatri Bio Organics Ltd.	10.42	53.06	1.62	0.00	1.87	5.58
Vikas WSP Ltd.	19.55	268.69	103.28	0.00	1.80	10.88
Sree Rayalaseema Alkalies & Allied Chemicals Ltd.	12.15	95.65	34.44	0.00	1.56	7.77
Gujarat Metallic Coal & Coke Ltd.	42.00	8.32	106.48	0.00	1.56	26.92
Indo Amines Ltd.	21.90	72.09	12.81	2.28	1.35	16.20
Grauer & Weil (India) Ltd.	16.70	378.60	9.26	0.96	1.34	12.42
DCW Ltd.	21.80	465.42	26.65	1.65	1.32	16.51
Punjab Alkalies & Chemicals Ltd.	45.20	92.82	-1.98	0.00	1.13	39.84
Diamines & Chemicals Ltd.	34.35	33.61	32.54	0.00	0.78	43.93
Tyche Industries Ltd.	21.10	21.63	41.61	2.37	0.75	28.01
Swarnajyothi Agrotech & Power Ltd.	2.35	5.98	24.76	0.00	0.72	3.28
Resonance Specialties Ltd.	16.80	19.39	13.70	2.98	0.70	24.15

Vikas Granaries Ltd.	12.17	22.05	52.81	0.00	0.54	22.50
Roselabs Ltd.	15.75	15.75	10.63	0.00	0.43	36.81
Square Four Projects India Ltd.	61.50	60.32	5.25	0.00	0.09	701.45
Kilburn Chemicals Ltd.	18.20	14.91	82.16	0.00	0.07	257.00
Maharashtra Polybutenes Ltd.	4.27	66.57	1.71	0.00	0.02	209.34
ICVL Chemicals Ltd.	191.25	813.00	5.47	0.00	0.01	0.00
Standard Shoe Sole & Mould (India) Ltd.	5.96	3.08	17.70	0.00	0.01	0.00
Jagran Production Ltd.	0.99	70.58	1.02	0.00	0.00	219.86
Nilchem Industries Ltd.	7.30	3.34	8.33	0.00	-0.02	0.00
Sairaj Commercial Ltd.	12.35	14.03	40.90	0.00	-0.02	0.00
Syschem (India) Ltd.	0.73	11.61	0.63	0.00	-0.23	0.00
Noble Explochem Ltd.	4.77	9.17	-15.96	0.00	-0.35	0.00
CJ Gelatine Products Ltd.	11.52	5.54	9.64	0.00	-0.36	0.00
Emmessar Biotech & Nutrition Ltd.	9.10	4.55	2.89	0.00	-0.63	0.00
Ritesh International Ltd.	5.24	4.48	17.01	0.00	-1.08	0.00
Ganesh Benzoplast Ltd.	6.00	31.07	-16.50	0.00	-1.18	0.00
Insilco Ltd.	20.90	131.07	13.97	0.00	-1.20	0.00
Standard Industries Ltd.	17.80	114.51	18.15	4.21	-1.44	0.00
IOL Chemicals & Pharmaceuticals Ltd.	48.65	203.17	50.29	0.00	-1.70	0.00
Alkali Metals Ltd.	22.25	22.66	48.34	0.00	-1.77	0.00
Sunshield Chemicals Ltd.	220.25	161.95	28.01	0.00	-2.08	0.00
Nitta Gelatin India Ltd.	201.95	183.35	131.07	0.00	-2.19	0.00
Lords Chloro Alkali Ltd.	15.12	38.03	12.35	0.00	-2.22	0.00
Link Pharma Chem Ltd.	9.45	4.20	20.55	0.00	-3.18	0.00
Jyoti Resins & Adhesives Ltd.	12.31	4.92	10.10	0.00	-3.53	0.00
Laffans Petrochemicals Ltd.	8.41	6.73	68.63	0.00	-3.58	0.00
Refinol Resins & Chemicals Ltd.	7.04	2.18	-9.22	0.00	-4.14	0.00
Pentokey Organy (India) Ltd.	14.00	8.78	12.48	0.00	-7.65	0.00
Jayshree Chemicals Ltd.	10.57	31.00	8.23	0.00	-8.46	0.00
Tanfac Industries Ltd.	17.85	17.81	0.19	0.00	-9.41	0.00
Cochin Minerals & Rutile Ltd.	95.35	74.66	128.94	1.05	-10.27	0.00
Avon Organics Ltd.	11.18	25.16	12.33	0.00	-14.94	0.00
Shri Aster Silicates Ltd.	7.45	17.53	18.31	0.00	-15.16	0.00
Borax Morarji Ltd.	22.85	10.33	-4.55	0.00	-20.13	0.00
Hindustan Organic Chemicals Ltd.	20.50	137.70	-95.91	0.00	-26.27	0.00
India Glycols Ltd.	114.85	355.59	157.44	0.87	-27.42	0.00
Kemrock Industries & Exports Ltd.	30.20	61.40	133.16	0.00	-57.13	0.00

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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