

## **Digital push to drive growth for chemical sector**

**MAY 09, 2017**

### **Outlook of Chemical sector looks promising backed by government measures**

The chemical industry is the main stay of industrial and agricultural development of the country and provides building blocks for several downstream industries, such as textiles, papers, paints, soaps, detergents, pharmaceuticals, varnish etc. It is one of the most diversified of all industrial sectors covering thousands of commercial products. Petrochemicals constitute a very important segment of world chemicals market, with a share of nearly 40 percent. The industry is important as it has several linkages with other sectors of an economy. Petrochemicals have backward linkages with other industries in petroleum refining, natural gas processing and forward linkages with industries that deal in a variety of downstream products.

Indian chemicals Industry can be broadly divided into the sub-groups of; (i) Basic Chemicals, such as organic and inorganic chemicals, bulk petrochemicals, other chemical intermediates, plastic resins, synthetic rubber, man-made fibers, dyes and pigments, printing inks are basic chemicals. These are also known as commodity chemicals. (ii) Specialty Chemicals, also known as performance chemicals, are low-volume but high-value compounds. These chemicals are derived from basic chemicals and are sold on the basis of their function. For example, paint, adhesives, electronic chemicals, water management chemicals, oilfield chemicals, flavors and fragrances, rubber processing additives, paper additives, industrial cleaners and fine chemical. Sealants, coatings, catalysts also come under this category. Agro Chemicals, which essentially are meant for protecting agriculture crops against insects and pests are covered under this sub-group.

### **Industry overview**

India is the sixth largest producer of chemicals globally and third largest producer in Asia in terms of output. The country ranks fourth globally in the production of agro chemicals and contributes around 15 percent to the global dyestuff and dye intermediates production. Indian chemical industry could grow at 11 percent p.a. to reach size of \$224 billion by 2017. In 2015, India chemicals industry had a market size of \$144 billion. By 2025, the Indian chemical industry is projected to reach \$403 billion

### **Total Capacity**

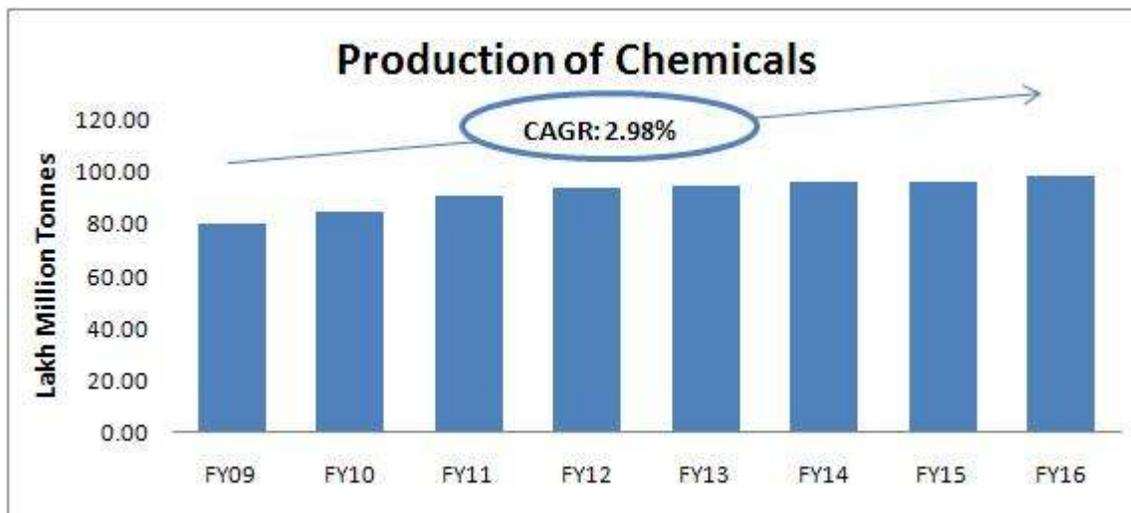
Total capacity of chemicals sector has increased by 2.42 percent to 130.63 lakh million tonnes (MT) in FY16 as compared to 127.54 lakh MT in FY15. Of total, capacity of Alkali Chemicals rose 2.53 percent to 84.22 lakh MT in FY16 from 82.14 lakh MT in FY15, Inorganic Chemicals gained 4.53 percent to 13.16 lakh MT from 12.59 lakh MT last year, while capacity of Pesticides (Tech.) and Organic Chemicals witnessed a growth of 1.39 percent and 1.69 percent respectively. However, capacity of Dyes & Pigments witnessed de-growth of 1.09 percent at 4.52 lakh MT as compared to 4.57 lakh MT in FY16. Total capacity grew with a compound annual growth rate (CAGR) of 1.76% between FY09-16.



### Production

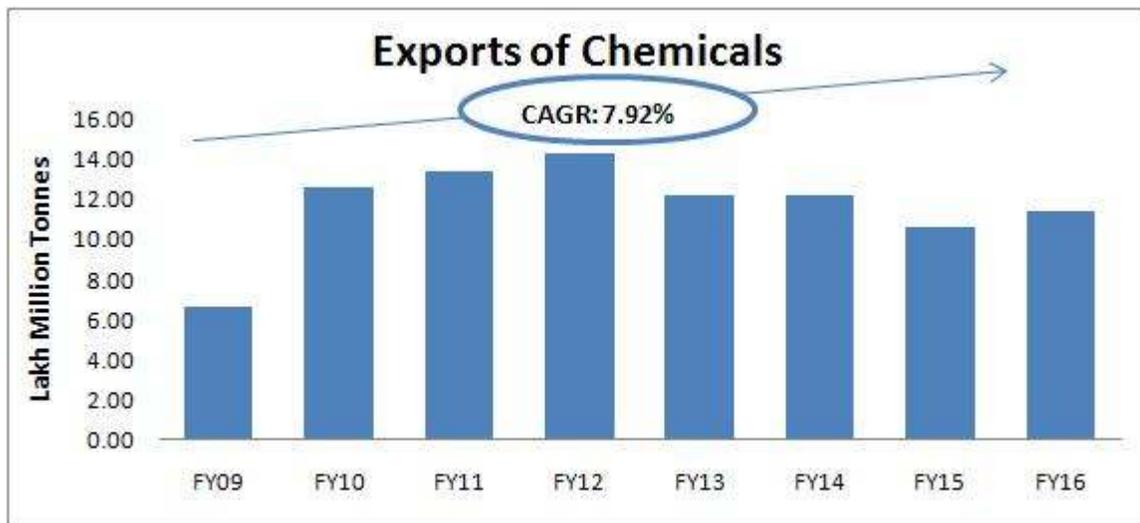
Total chemical production in India has increased 2.32 percent to 98.84 lakh million tonnes (MT) in FY16 as compared to 96.60 lakh MT in FY15. The chemical production grew with a CAGR of 2.98% between FY09-16. Favourable demographics and strong economic growth are driving demand for chemicals External demand and specialty chemicals have also contributed strongly to the growth of the industry India's growing per capita consumption and demand for agriculture-related chemicals offers huge scope of growth for the sector in the future.

Of total, production of Alkali Chemicals increased 2.67 percent to 68.02 lakh MT in FY16 from 66.25 lakh MT in FY15, Production of Inorganic Chemicals rose 6.14 percent to 10.02 lakh MT from 9.44 lakh MT in last year, while Pesticides (Tech.) and Dyes & Pigments witnessed a growth of 1.08 percent and 6.67 percent respectively. However, Organic Chemicals witnessed de-growth of 1.85 percent at 15.89 lakh MT as compared to 16.19 lakh MT in FY16.



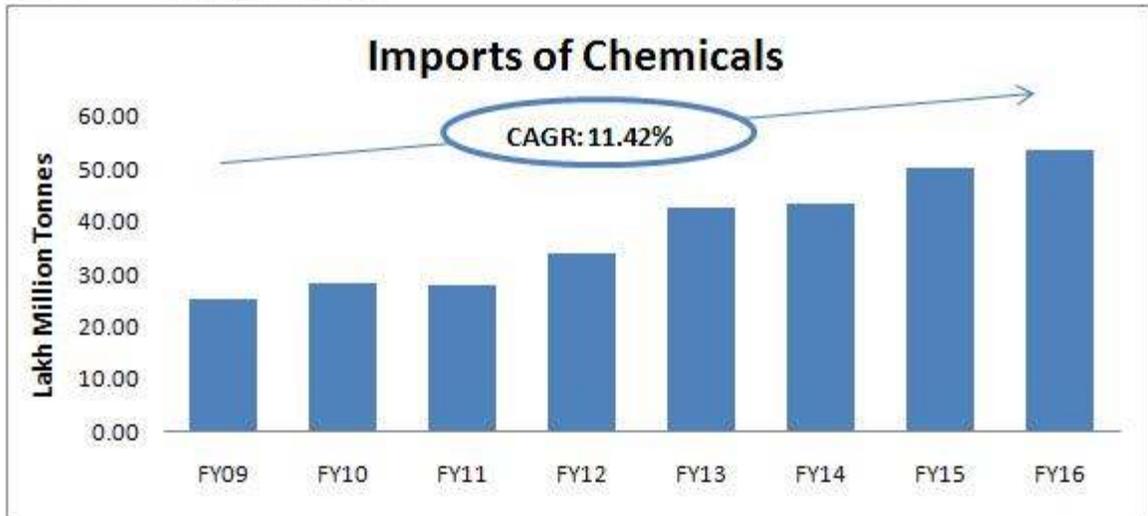
**Exports**

Chemical exports from India stood at 11.38 lakh MT for FY16, up by 7.26 percent as compared to the exports of 10.61 lakh MT in FY15. Of total, exports of Alkali Chemicals surged 44.59 percent to 1.07 lakh MT in FY16 as compared to 0.74 lakh MT in FY15, Pesticides (Tech.) gained 16.09% to 2.67 lakh MT in FY16 from 2.30 lakh MT in FY15. Exports of Dyes & Pigments witnessed a growth of 6.52 percent to 3.76 lakh MT as compared to 3.53 lakh MT in previous year. However, exports of Organic Chemical declined 3.73 percent to 2.32 lakh MT in FY16 as compared to 2.41 lakh MT in FY15 and exports of Inorganic Chemicals was down by 1.27% to 1.57 lakh MT as compared to 1.64 lakh MT in previous year. Total exports grew with a CAGR of 7.92% between FY09-16.



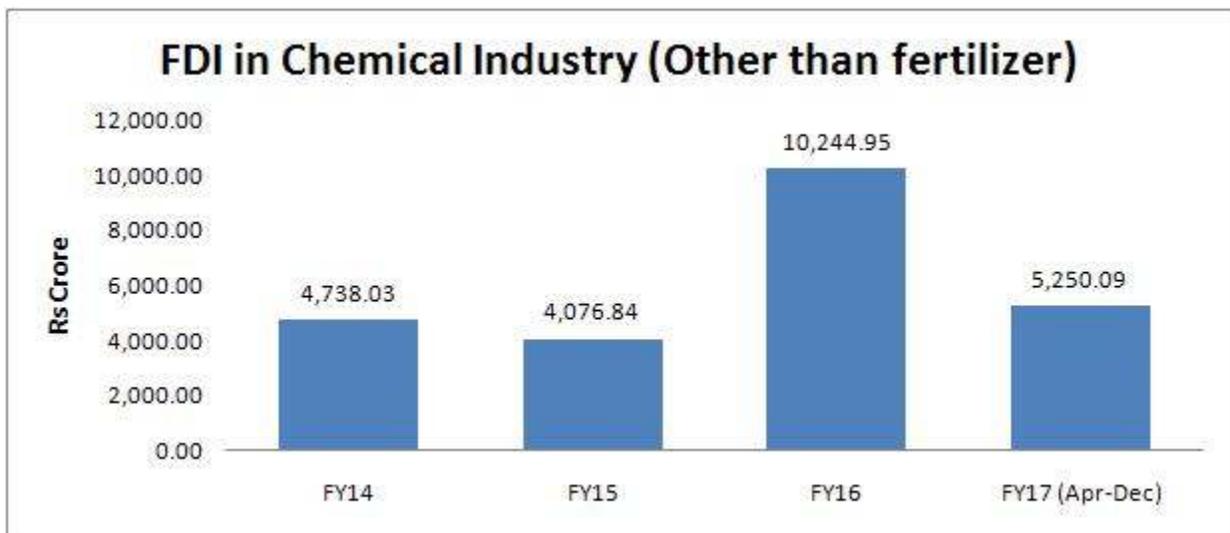
**Imports**

Total imports of chemicals grew 6.67 percent at 53.60 lakh MT in FY16 as compared to the exports of 50.25 lakh MT in FY15. Of total, imports of Organic Chemical surged 8.91 percent to 31.43 lakh MT in FY16 as compared to 28.86 lakh MT in FY15, Inorganic Chemicals gained 10.75% to 10.10 lakh MT in FY16 from 9.12 lakh MT in FY15. Imports of Dyes & Pigments witnessed a growth of 5.77 percent to 0.55 lakh MT as compared to 0.52 lakh MT in previous year. However, imports of Alkali Chemicals declined 1.41 percent to 11.18 lakh MT in FY16 as compared to 11.34 lakh MT in FY15 and imports of Pesticides (Tech.) was down by 17.07% to 0.34 lakh MT as compared to 0.41 lakh MT in previous year. Total imports grew with a CAGR of 11.42% between FY09-16.



**FDI in Chemical Industry (Other than fertilizer)**

The Government of India has approved 100 percent foreign direct investment (FDI) in the chemicals sector. The Chemical Industry (Other than fertilizer) has attracted 4.12% of total inflows in terms of US Dollar. The sector has attracted Foreign Direct Investment (FDI) worth Rs 5,250.09 crore or \$782.95 million during April- December 2016. The sector has attracted FDI worth Rs 10,244.95 crore or \$1,563.31 million in FY16, as compared to Rs 4,076.84 crore and \$669.40 million in FY15.



### **India initiates probe against dumping of Chinese chemical**

India has initiated a probe against dumping of a chemical used in glass and other industries from China to ring-fence local manufacturers from cheap in-bound shipments. Sandhya Dyes and Chemicals filed the application before the Directorate General of Anti-Dumping and Allied Duties (DGAD) for initiation of the investigation and imposition of the duty on the imports of 'Phosphorus Pentoxide'. The period of investigation will be July 2015 to September 2016 (15 months), including data from 2013 onwards. Countries initiate anti-dumping probes to determine if the domestic industry has been hurt by a surge in below-cost imports. As a counter-measure, they impose duties under the multi-lateral WTO regime. Anti-dumping measures are taken to ensure fair trade and provide a level-playing field to the domestic industry. They are not a measure to restrict imports or cause an unjustified increase in cost of products.

### **Impact of budget on Chemical sector**

The Finance Minister Arun Jaitley in his Union Budget 2017-18 proposed to reduce basic custom duties on Medium Quality Terephthalic Acid (MTA) & Qualified Terephthalic Acid (QTA) to 5% from 7.5%. This will provide boost to domestic manufacturer. Similarly, the proposed reduction in the basic customs duty on LNG from 5% to 2.5% will provide a respite to the petrochemicals sector.

Moreover, Basic custom duty on Vinyl Polyethylene Glycol (VPEG) for use in manufacture of Poly Carboxylate Ether, subject to actual user condition, reduced to 7.5% from 10%. Basic custom duty on 2-Ethyl Anthraquinone for use in manufacture of hydrogen peroxide, subject to actual user condition has also been reduced to 2.5% from 7.5%.

The announcements relating to agriculture, like easing the credit availability and the Krishi Vigyan labs should add an impetus to the agrochemicals sector. This will aid farmers with access to products and technology on improving their yields and towards more sustainable practices.

### **Outlook**

Indian chemical sector, which employs around two million people, is a key constituent of the Indian economy and has exhibited a tremendous growth in past several years. Reduction in corporate tax for MSMEs by 5 percent in the Budget 2017-18 and launch of new Trade Infrastructure Export Scheme will help exporters reduce transaction costs and become globally competitive. Incentivizing direct investment by optimizing duty structures will further improve ease of doing business and create a level playing field in the chemical industry. Also, initiatives such as CBEC's Single Window Interface for Facilitating Trade (SWIFT), Make in India and relaxation of environmental norms for the chemical industry will provide some support to the chemical sector.



### Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Polson Ltd.	13965.00	167.58	5481.40	0.00	1195.00	11.69
Navin Fluorine International Ltd.	2931.30	2870.12	763.99	1.45	136.87	21.42
Atul Ltd.	2528.65	7500.41	647.57	0.40	96.18	26.29
National Peroxide Ltd.	1258.55	723.29	425.14	NA	83.26	15.12

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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