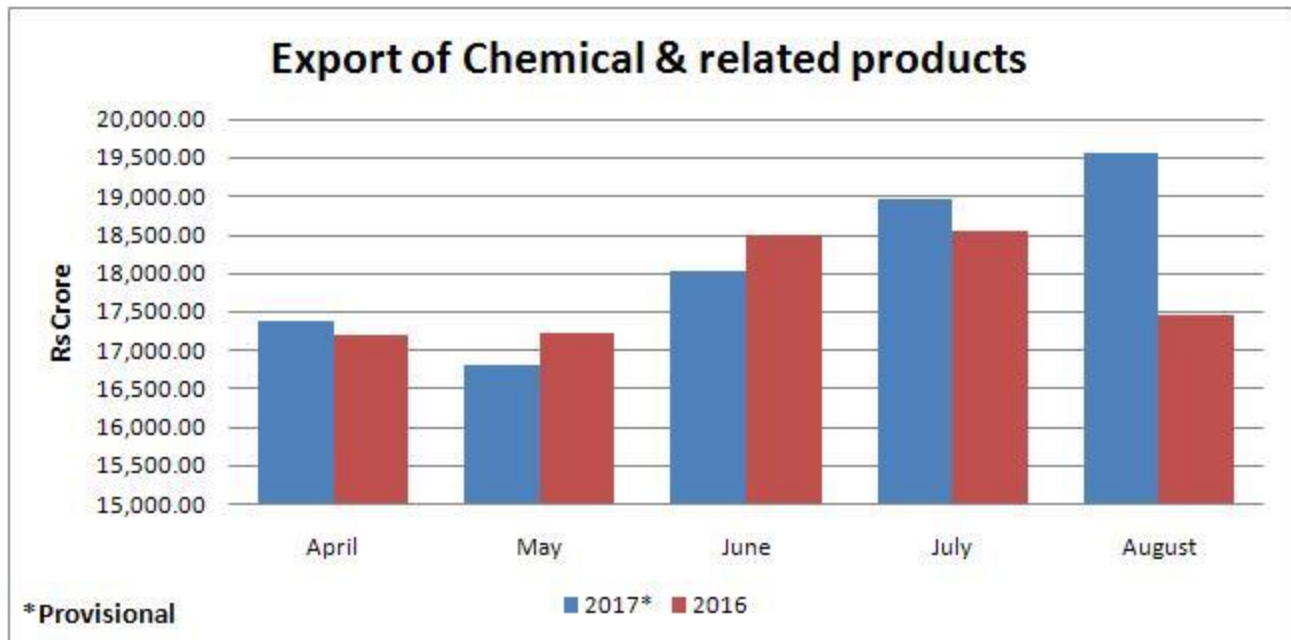


The Indian chemicals industry turned out to be one of the major contributors to the Indian economy sustaining a variety of downstream industries such as textiles and pharmaceuticals. The Indian chemicals industry is the seventh largest producer of chemicals worldwide and the third largest producer by output in Asia after China and Japan. It consists of various segments such as chemicals, petrochemicals, agro-chemicals, specialty chemicals, colourant chemicals, biopharma, bio-agri, and bio-industrial products. Petrochemicals constitute a very important segment of world chemicals market, with a share of nearly 40 percent. 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.

**Exports**

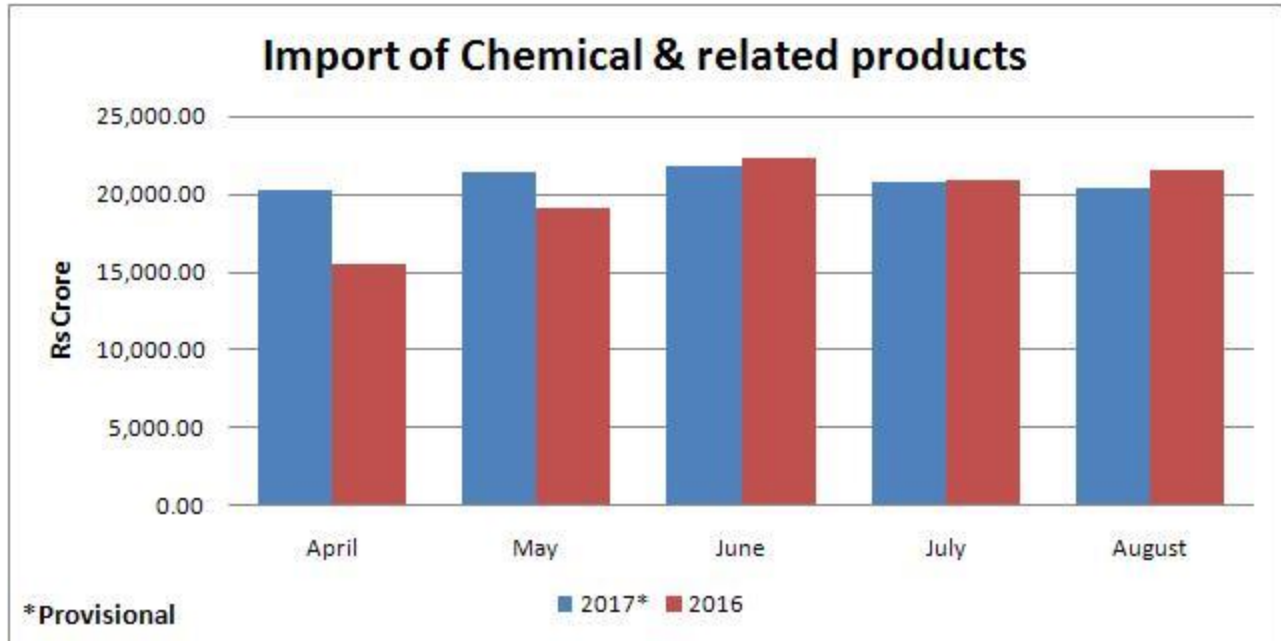
The share of Chemical products in the overall exports for April-August 2017 stood at 11.94%, while export of Chemical products was at Rs 90,687.83 crore (Provisional) up by 2.01%, as compared to Rs 88,896.84 crore in April- August 2016. The country's highest export in value terms was in the month of August 2017 at Rs 19,548.85 crore, followed by Rs 18,949.46 crore and Rs 18,024.35 crore in July and June respectively. Of the total export of chemical and related products in April-September 2017, Drug Formulations and Biological contributed the most (35.76%), followed by Organic Chemicals (17.38%), Residual Chemical and Allied Products (12.17%) and Bulk Drugs, Drug Intermediates (9.52%). Meanwhile, export of chemical and related products surged 12% in the month of August 2017 to Rs 19,548.85 crore (Provisional) as compared to Ts 17,452.94 crore in August 2016.



**Imports**

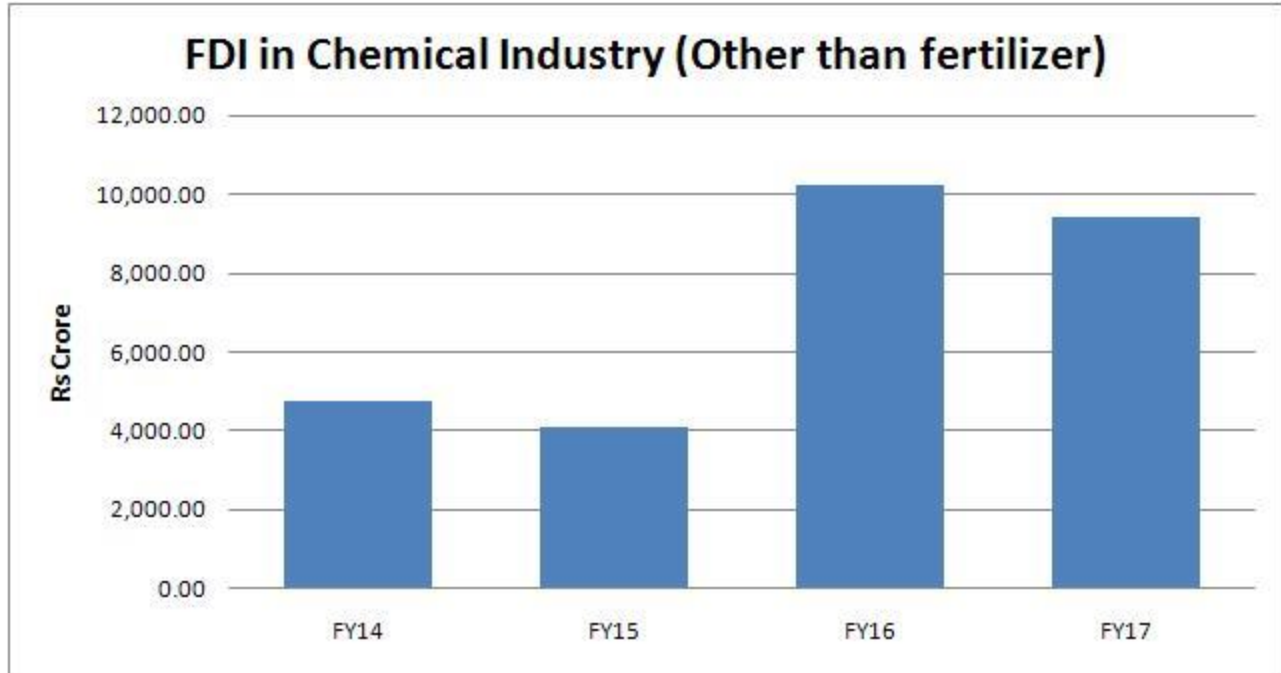
The share of Chemical products in the overall import in April-August 2017 stood at 8.89%, while import of Chemical products for the same period stood at Rs 104,648.88 crore

(Provisional), up by 5.30% as compared to Rs 99,385.05 crore in April- August 2016. The country imported highest in the month of June 2017 at Rs 21,839.32 crore, however imports in April 2017 remained the lowest at Rs 20,196.45 crore. Of total import of chemical and related products in April-September 2016, Organic Chemicals contributed the most (30.02%), followed by Residual Chemical and Allied Products (15.74%), Fertilizers Manufactured (12.81%) and Inorganic Chemicals (11.45%). However, import of chemical and related products declined 5.62% to Rs 20,352.41 crore (Provisional) in August 2017 as compared to Rs 21,563.22 crore in August 2016.



**Investments in Chemical Industry (Other than fertilizers)**

The Government of India has approved 100 per cent foreign direct investment (FDI) in the chemicals sector. The Chemical Industry (Other than fertilizer) has attracted 4% of total inflows in terms of US Dollar. The sector has attracted FDI worth Rs 9,396.59 crore or \$11,392.80million in FY17, as compared to Rs 10,244.95 crore or \$1,563.31 million in FY16.



### **Agrochemicals market to grow significantly in future**

Agrochemicals are specially engineered chemical products for use in agriculture in order to enhance crop productivity and protect the crops from pests, insects, weeds, fungi, and others. Agrochemicals can be produced in both, chemical as well as biological methods. Synthetic agrochemicals are a threat for the environment and are gradually being replaced by bio-based pesticides and fertilizers. Agrochemicals segment plays an important role in ensuring food and nutrition security of the nation. The sector is expected to grow at 7.5 percent annually to reach \$6.3 billion by FY20, with domestic demand increasing at 6.5 percent per annum and export demand at 9 percent per annum.

With estimated 355 MMTPA (million metric tonne per annum) food grain requirements by 2030 from around 253 MMTPA currently, efficient usage of crop protection products and solutions for Indian agriculture are very important at this stage. Agro-Chemicals could play a significant role in helping ailing agriculture sector to overcome their constraint like reduction in arable land, decreasing farm size, increasing pest attacks, low per hectare yield and a shift towards animal products consumption. Moreover, industry, government and regulatory bodies need to work in tandem to realise the true potential of the sector.

### **Speciality Chemicals expected to witness double digit growth**

Specialty chemicals are produced by a complex, interlinked industry. In the strictest sense, specialty chemicals are chemical products that are sold on the basis of their performance or function, rather than their composition. They can be single-chemical entities or formulations whose composition sharply influences the performance and processing of the customer's product. The specialty chemicals market has witnessed a growth of 14 percent in the last five years; the market size is expected to reach \$470 Billion by 2020 on the back of huge demand for specialty chemicals such as construction chemicals, pesticides, oilfield chemicals, mining chemicals and others. This demand will largely be coming from Asia-Pacific region, and growth in end-user

industries such as construction, automotive, and electronics. Growth is expected to be partly driven by turnaround in these key markets and the increasing need for specialty chemicals for these functions.

### **Petrochemical sector to reach \$100 billion by 2020**

Petrochemicals sector is highly organized and involves only a handful of companies. The segment is highly technology-intensive and demands a great deal of capital investment. The distribution is done either through distributors or is given to a company directly in large volumes. The petrochemicals industry includes a broad range of products like olefins, ethane, propane, aromatic compounds such as benzene, toluene, intermediate petrochemicals, end products, polymers, synthetic fibres, and synthetic rubber. Petrochemicals sector is one of the fastest growing segments with a growth rate of 13 percent, which is more than twice of growth of India's gross domestic product (GDP), and also the global growth rate in petrochemical space which is stagnant at 6 percent.

Currently, the petrochemicals segment in the country is growing at a compounded annual growth rate (CAGR) of around 14 percent and is estimated to reach \$100 billion by the end of this decade. Moreover, India consumes around 6.2 million tonnes of polymers, which represents approximately 3 percent of global consumption of 200 million tonnes and to meet the surging demand, the domestic petrochemical industry is preparing to spend more than \$25 billion.

### **Recent developments**

#### **Govt extends anti-dumping duty on import of Chinese chemical by 5 years**

In order to save the domestic industry from surge in below-cost imports, the government has extended anti-dumping duty on import of chemical compound polytetrafluoroethylene (PTFE) from China by a further period of five years. This chemical is used as a non-stick coating for pans and other cookware. The revenue department has issued a notification imposing an anti-dumping duty of \$2,637 per tonne on imports of PTFE from China. The duty was initially imposed for a period of five years in August 2011 and extended by one year last August. In its review of the anti-dumping duty, the department has concluded that there is continued dumping of the product concerned from China, both in absolute terms and in relation to production and consumption in India causing injury to the domestic industry. It noted that PTFE imports were also suppressing domestic prices of similar products. As per its notification, the review found that the performance of the domestic industry has deteriorated in terms of profits and return on investments and the dumped imports from China continue to cause injury to the domestic industry despite imposition of the anti-dumping duty. It added that the anti-dumping duty imposed shall be effective for a period of five years (unless revoked, superseded or amended earlier). Anti-dumping duty is in force on 93 products concerning imports from China. These products belong to a broad group of chemicals and petrochemicals, products of steel and other metals, fibres and yarn, machinery items, rubber or plastic products, electric and electronic items and consumer goods, among others. Meanwhile, India's imports from China in 2016-17 have marginally dipped to \$61.28 billion as compared to \$61.7 billion in 2015-16.

#### **Govt in talks to revise policy on petroleum industrial regions**

Government of India is in discussions of revising the Petroleum, Chemicals and Petrochemicals Industrial Region (PCPIR) policy, as some of the petrochemical industrial regions such as Paradip and Tamil Nadu not generating expected results unlike Dahej in Gujarat. In this regards, the government has urged the petrochemicals industry to focus on effective recycling and management of plastic waste for building a positive perception on the use of plastics. Currently, the petrochemicals value chain is spread across various regions which could be brought together into clusters to boost consumption and marketing. Already, with increase in the per capita income and discretionary spending, there has been a steady change in spending patterns, from products made of metals to those made of fibres and plastics, which are both economical and long-lasting.

### **Government plans to set up petrochem hubs around 22 oil refineries**

The government is planning to set up petrochemical complexes around all 22 refineries across the country which would help generate 1 crore jobs and boost the sector's growth. The proposed petrochemical complexes would not just be confined to Gujarat, Maharashtra, Andhra Pradesh, Odisha and parts of Tamil Nadu, but would be set up in other states as well. Petrochemical companies and other downstream manufacturers catering pharma and plastics, need to be set up around refineries as this will help bring down the cost of logistics. The proposed plan, which is expected to attract huge investment and generate one crore jobs, will soon be discussed. The industry should focus on 'cluster approach' for establishing both greenfield and brownfield petrochemical projects, and promised to provide common facilities for brownfield clusters to bring down the cost.

### **Outlook**

Indian chemical industry in India is a diversified industry and is the mainstay of industrial and agricultural development of the country. The sector provides building blocks for several downstream industries such as textiles, papers, paints, soaps, detergents, pharmaceuticals, varnish etc. Government initiatives like CBEC's Single Window Interface for Facilitating Trade (SWIFT), Make in India, relaxation of environmental norms for the chemical industry would likely to encourage the growth of chemical sector. Extension of anti-dumping duty on import of Chinese chemical by 5 years too will save the domestic industry from surge in below-cost imports. However, the industry faces some serious issues like availability of key feedstock, infrastructure status, scale of operations, energy security and ease of doing business etc. These issues have hampered industry growth and it needs government interventions to achieve its true potential. Though, the industry may overcome these challenges through adoption of alternate feedstock, increasing investment in R&D and achieving scale through collaboration. Despite these challenges, the sector is likely to perform well in coming time on the back of higher demand from Agrochemicals and Speciality Chemicals segments. Significant growth in Petrochemicals segment too will provide the Chemical sector the much needed fillip.

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### Companies Financial Data In Industry

| Company Name                      | CMP     | MCAP    | BOOK VALUE | DIV. YIELD % | TTM EPS | TTM PE |
|-----------------------------------|---------|---------|------------|--------------|---------|--------|
| Thirumalai Chemicals Ltd.         | 1856.15 | 1900.48 | 321.45     | 1.01         | 81.44   | 22.79  |
| Mysore Petro Chemicals Ltd.       | 142.30  | 93.68   | 125.02     | 0.70         | 77.97   | 1.83   |
| Atul Ltd.                         | 2425.20 | 7193.56 | 666.77     | 0.41         | 76.51   | 31.70  |
| Keltech Energies Ltd.             | 1249.75 | 124.98  | 479.78     | 0.20         | 73.27   | 17.06  |
| Elantas Beck India Ltd.           | 1974.60 | 1565.40 | 314.27     | 0.23         | 68.37   | 28.88  |
| Oriental Carbon & Chemicals Ltd.  | 1404.15 | 1445.72 | 340.18     | 0.71         | 51.88   | 27.07  |
| Camphor & Allied Products Ltd.    | 827.20  | 424.66  | 360.22     | 0.18         | 46.92   | 17.63  |
| Transpek Industry Ltd.            | 998.30  | 557.61  | 197.75     | 0.90         | 46.73   | 21.36  |
| Foseco India Ltd.                 | 1369.45 | 874.59  | 218.25     | 1.68         | 46.71   | 29.32  |
| GHCL Ltd.                         | 261.00  | 2528.13 | 149.87     | 1.92         | 45.61   | 5.72   |
| Gujarat Alkalies & Chemicals Ltd. | 648.15  | 4759.81 | 470.08     | 0.77         | 43.19   | 15.01  |

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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