

ViewCube

Equations of stability

CRISIL Ratings webinar on specialty chemicals sector



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CRISIL
Ratings

CRISIL ViewCube on the specialty chemicals sector

ViewCube is a compilation of sector views expressed during CRISIL's webinars. These include CRISIL's own views, that of stakeholders, and those emanating from a poll done during the webinar.

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Section 1: Our View



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Key messages

Growth to moderate to 3-5% in fiscal 2024 due to looming macro-economic headwinds in key overseas geographies

- Domestic demand to remain steady; correction in realisations to moderate revenue growth
- Global macro-economic headwinds to impact exports, which account for ~42% of sectoral revenue
- Long term growth drivers comprising of supplier diversification strategy by global players (China+1 and Europe+1) remain intact

Operating profitability to further contract to 9-10% after seeing a ~350-basis point (bps) decline in fiscal 2023

- Moderating capacity utilization owing to demand headwinds in key export geographies followed by downward pressure on realisations due to Chinese dumping to result in gross margin contraction; inflationary pressure on fixed costs to also have bearing on operating margins
- Any significant movement in crude prices will bear watching

Capital expenditure (capex) step-up seen in fiscal 2024

- Capex of ~Rs 11,500 crore estimated in fiscal 2024; ~Rs 10,500 crore was spent in fiscal 2023
- Focus also on value-added downstream projects

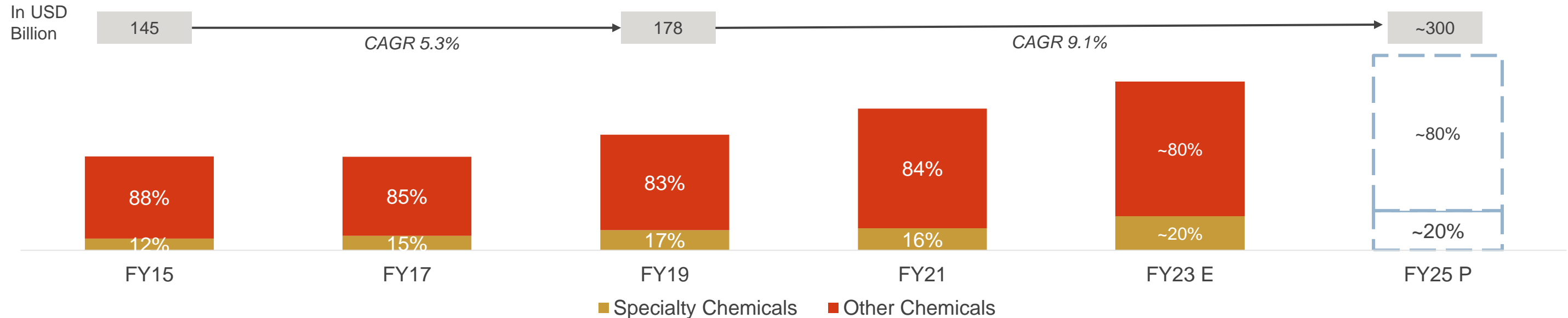
Credit outlook to remain Stable

- Strengthening business risk profiles over time have enhanced ability of players to withstand volatility in end-user segments/input prices
- Steady accrual and prudent funding of capex will keep debt protections metrics healthy

Specialty chemicals sector to grow 3-5% in fiscal 2024

The chemical sector landscape of India

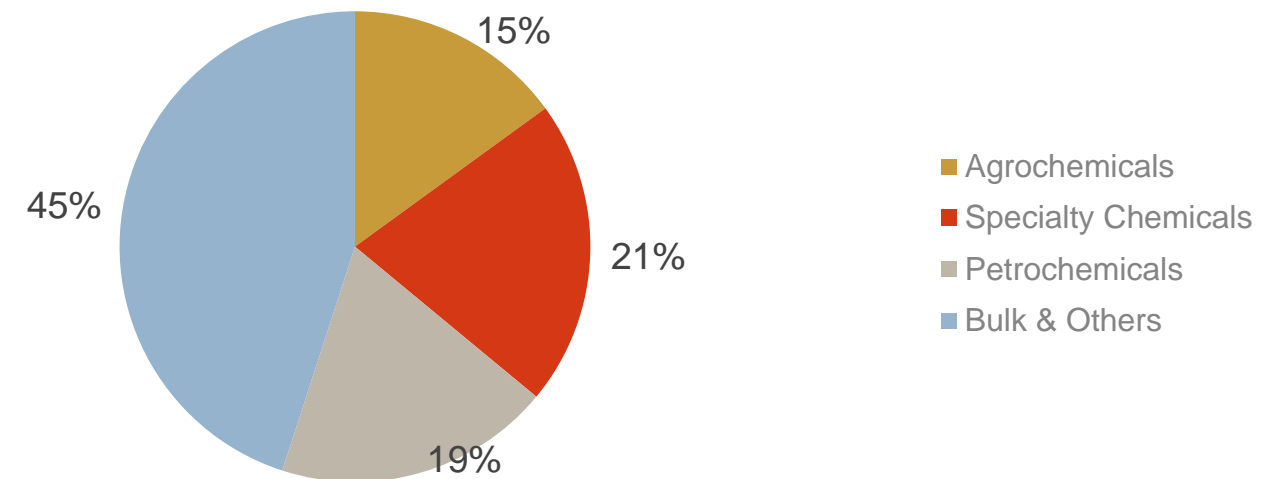
Steady increase in the share of specialty chemicals in the overall chemical sector over the years



Current global market share of 5-6% in specialty chemicals

- India's chemical sector is **sixth-largest in the world and fourth-largest in Asia**.
- The specialty chemicals sector is likely to grow in mid-single digit in fiscal 2024, mirroring the overall chemical sector growth trend; between fiscals 2015 and 2023, the specialty chemicals sector (14% CAGR) outpaced the overall chemical industry growth (9% CAGR)
- Increasing domestic demand and supplier diversification by global players to drive overall growth

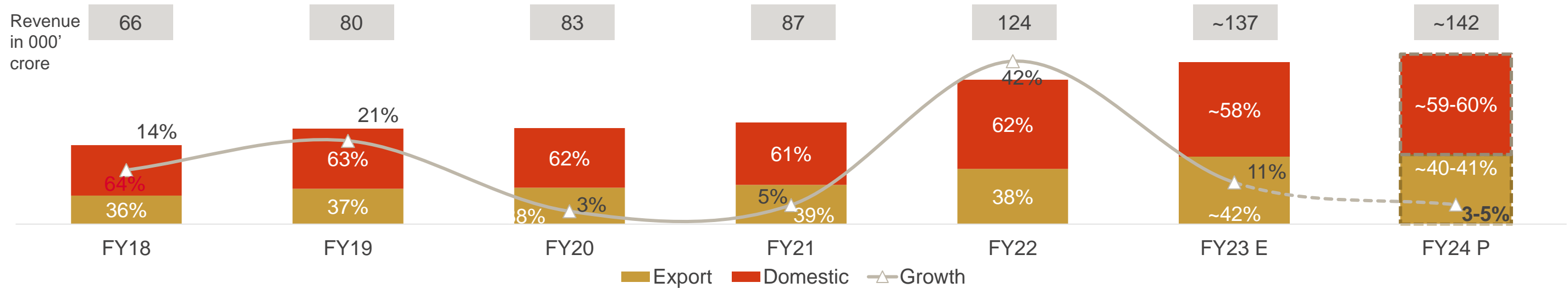
Specialty chemicals to maintain strong share in overall mix



Long-term growth drivers intact despite near-term moderation

Growth to moderate this fiscal after stellar run in the past two fiscals

Correction in realisations, global macro-economic headwinds to moderate overall growth



Source: Analysis of 121 players rated by CRISIL Ratings and 11 non-rated listed players forming ~30% of sectoral revenue; export-domestic analysis based on 31 players rated by CRISIL Ratings and 11 non-rated listed players forming ~75% of overall sample set revenue

Agrochemicals, dyes and pigments constitute over 50% share

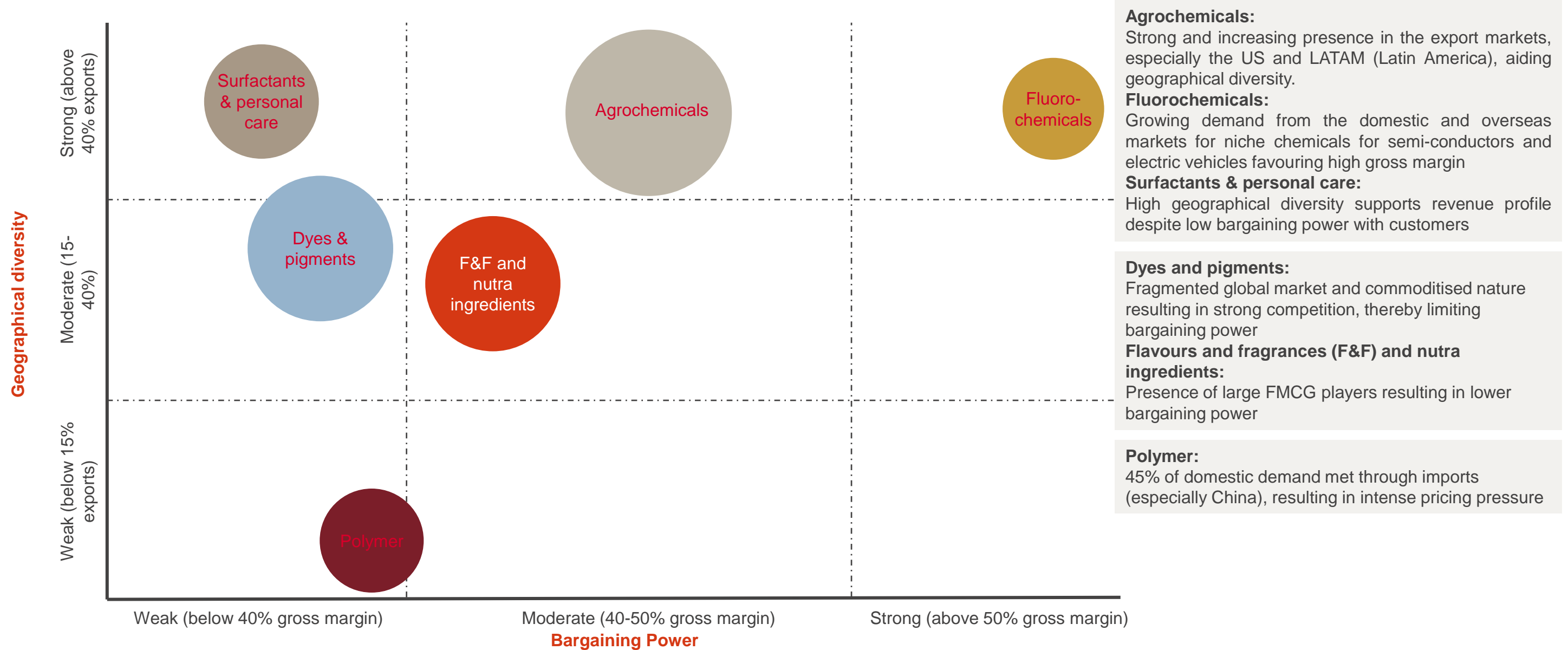


Source: Company annual reports

- **Fiscal 2022:** Pent-up demand after easing of lockdown restrictions coupled with surge in realisations (following rise in crude prices) resulted in sharp revenue growth
- **Fiscal 2023:** Higher exports benefitted revenue growth, which also gained from currency depreciation
- **Fiscal 2024:** Moderation in capacity utilizations due to demand headwinds in key international geographies followed by downward pressure on realisations due to Chinese dumping to result in low single-digit growth

Geographical diversity, higher bargaining power the differentiators

Segments with diversified end-user base also better positioned



Source: Analysis of 31 players rated by CRISIL Ratings and 11 non-rated listed players

Size of bubble indicates % share in organised industry revenue

Global players to continue focusing on supplier diversification

Europe+1, China+1 diversification to raise India's share in the medium to long term

Changing global dynamics, imposition of stringent environmental norms to support Indian specialty chemical industry

China+1:

- Higher taxes and stricter environmental laws after blasts in 2015 and 2018
- Increased cost of production because of taxes and higher cost of compliance with environmental laws; closure of several units
- Covid-related disruptions impacting supply chains of global players
- Power issues in 2021
- Increasing labour costs impacting cost competitiveness

Europe +1:

- Slowdown in the EU resulting in smaller players going out of business
- Pace of capacity addition slow because of:
 - High interest rate environment
 - High environmental cost compliances
 - Lower cost competitiveness vis-à-vis Asian peers
- Higher power costs in Europe resulting in escalation in expenditure

Cost competitiveness vis-à-vis global peers, robust safety standards to benefit Indian players

As % of sales	Raw material cost	Employee cost	Other cost	Operating margin
China	68-70%	9-10%	10-12%	10-11%
Europe	52-54%	16-18%	17-19%	11-13%
Japan	65-68%	8-10%	13-14%	10-12%
India	59-61%	8-10%	14-16%	14-17%

Better than peers
 Comparable with peers
 Lower than peers

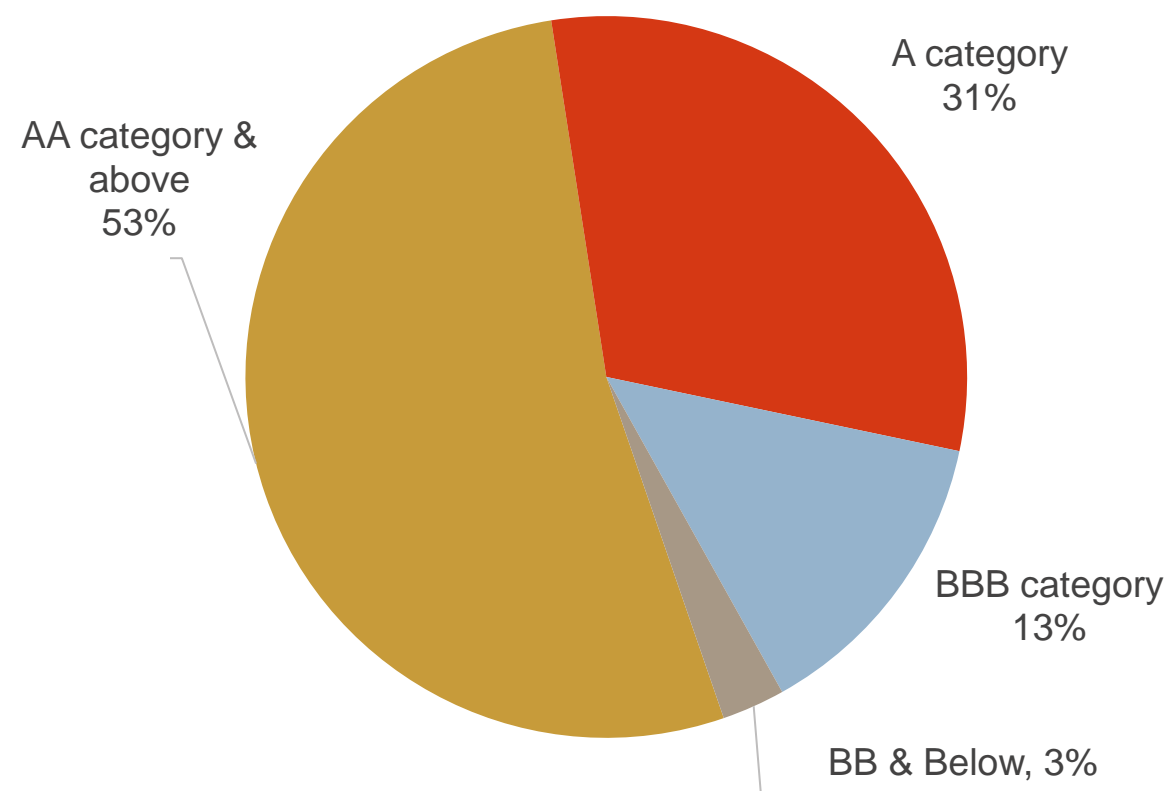
Source: Analysis of 121 players rated by CRISIL Ratings, annual reports of listed global specialty players; average of fiscals 2019-2022 considered for global players; average of fiscals 2019-2023 considered for the 121 rated players

Performance trends and credit quality of companies rated by CRISIL Ratings

CRISIL Ratings coverage of the specialty chemicals sector

- Ratings on over 120 companies with total rated debt of ~Rs 27,868 crore
- Revenue of rated players aggregating ~Rs 1200 billion (fiscal 2023); represents ~30% of segmental revenue
- About 80% of the rated specialty chemical players have investment grade ratings
- Around 97% of debt rated is investment grade with median rating of 'CRISIL A-'

Rating distribution



Source: CRISIL Ratings

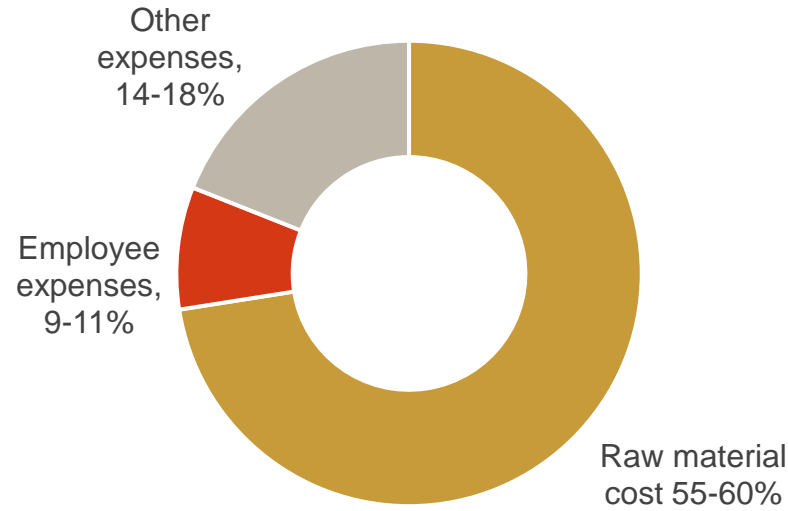
Top rated players

Company name	Long-term rating	Short-term rating	Outlook
Pidilite Industries Limited	CRISIL AAA	CRISIL A1+	Stable
SRF Limited	CRISIL AA+	CRISIL A1+	Stable
Aarti Industries Limited	CRISIL AA	CRISIL A1+	Stable
NOCIL Limited	CRISIL AA	CRISIL A1+	Stable
Sud-Chemie India Private Limited	CRISIL AA	CRISIL A1+	Stable
Gujarat Fluorochemicals Limited	CRISIL AA	CRISIL A1+	Positive
Solvay Specialities India Private Limited	CRISIL AA	-	Stable
Savita Polymers Limited	CRISIL AA	CRISIL A1+	Stable
Silox Industry Private Limited	CRISIL AA	CRISIL A1+	Stable
Dorf-Ketal Chemicals India Private Limited	CRISIL AA	CRISIL A1+	Stable
Alkyl Amines Chemicals Limited	CRISIL AA-	CRISIL A1+	Stable
Clean Science and Technology Private Limited	CRISIL AA-	CRISIL A1+	Stable
Meghmani Finechem Limited	CRISIL AA-	-	Stable
S H Kelkar And Company Limited	CRISIL AA-	-	Stable
Galaxy Surfactants Limited	CRISIL AA-	CRISIL A1+	Stable
Chemplast Sanmar Limited	CRISIL AA-	CRISIL A1+	Stable
Meghmani Organics Ltd	CRISIL AA-	CRISIL A1+	Stable

Operating profitability to witness further contraction

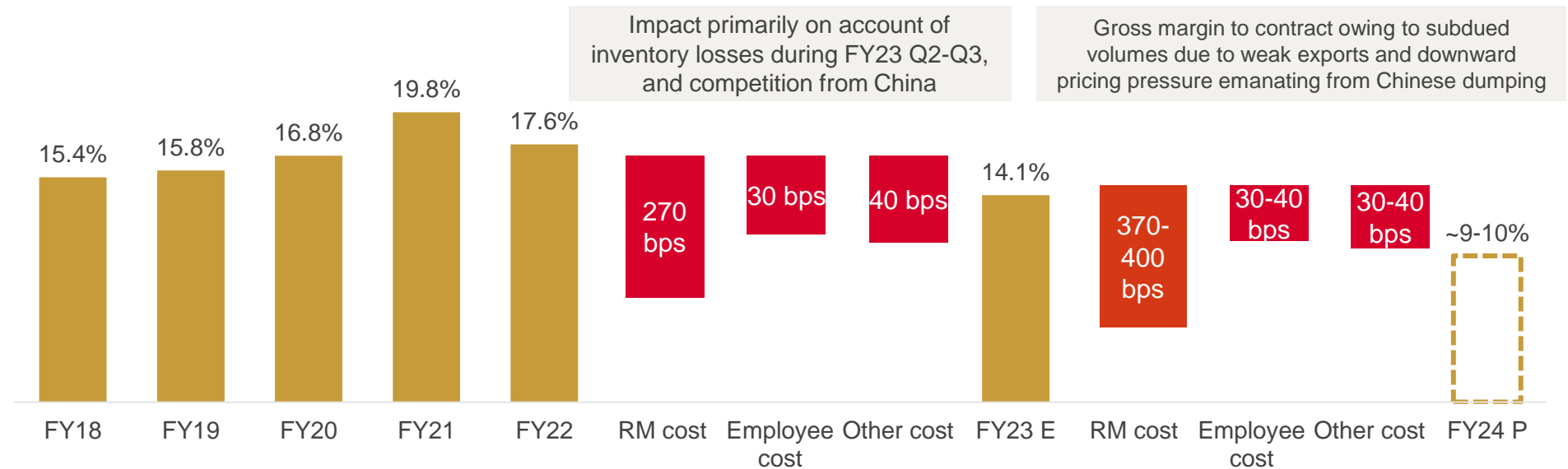
Weak demand condition and lower realizations to impact margins

Cost structure

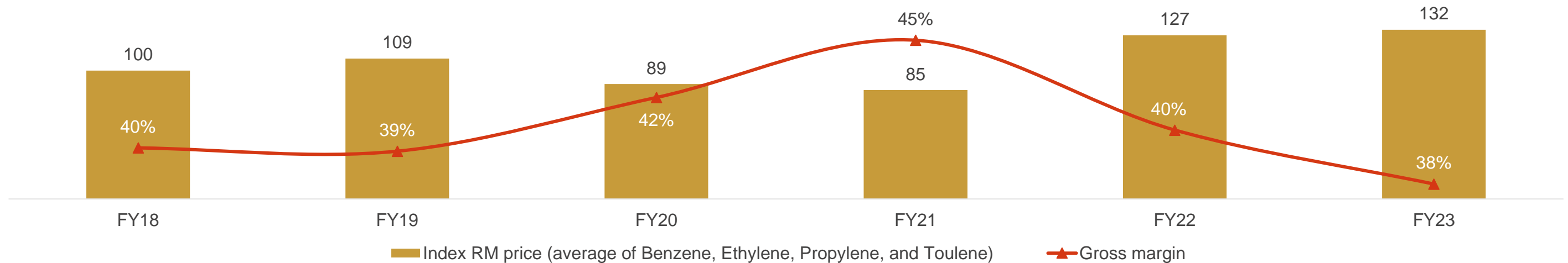


Source: Analysis of 121 players rated by CRISIL Ratings

Operating margin to further correct to 9-10% owing to weak overseas demand and downward pricing pressure



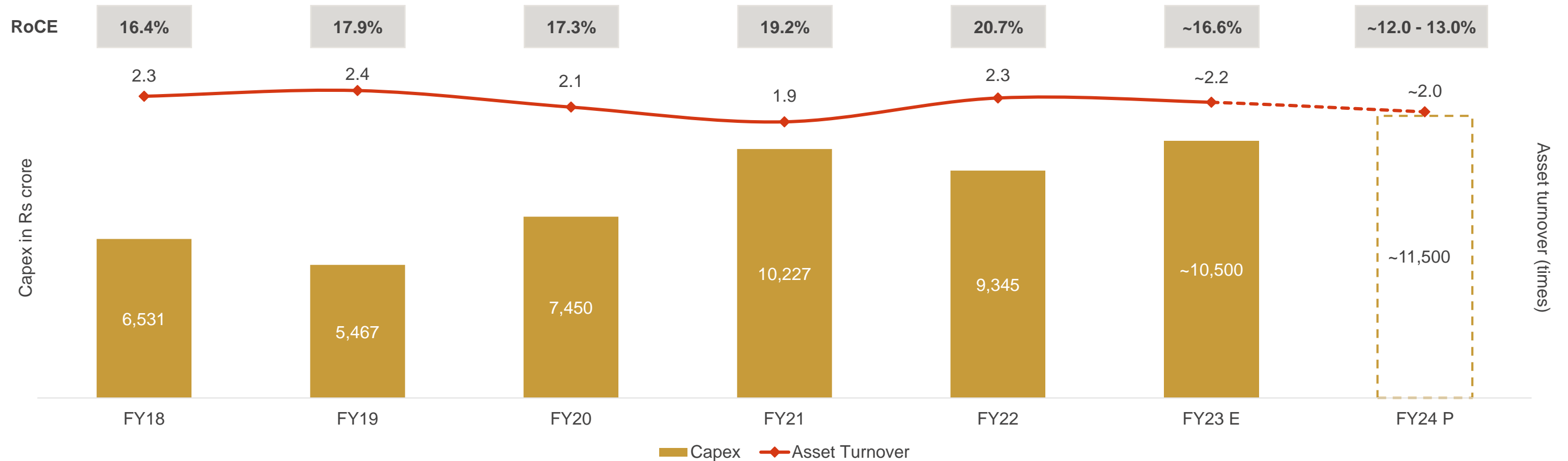
Cost-plus model lends stability to gross margin against sharp volatility in raw material prices



Source: CRISIL Research and analysis of 121 players rated by CRISIL Ratings

Capex largely for downstream projects and de-bottlenecking

RoCE to moderate this fiscal owing to falling margins

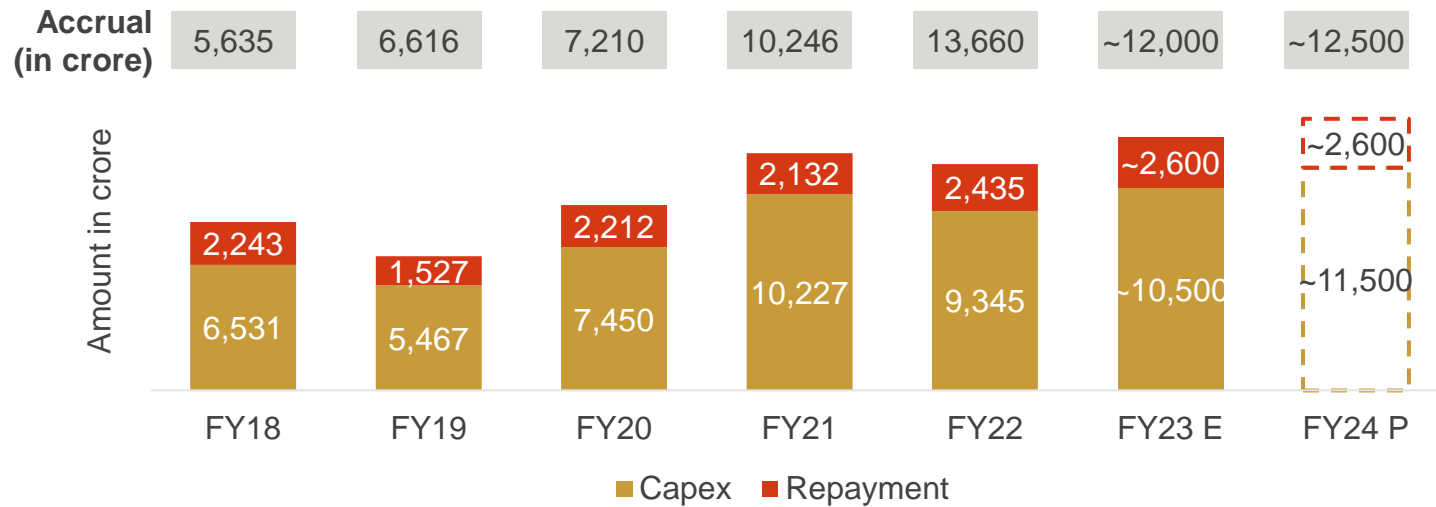


- Manufacturers focusing on developing **downstream product value chains and de-bottlenecking activities resulting in capacity enhancement:**
 - Benzene, toluene and sulphur downstream projects**
 - Phenol and acetone downstream projects**
- Capex investments have been remunerative with **healthy asset turnover. However, RoCE has declined on account of margin contraction**

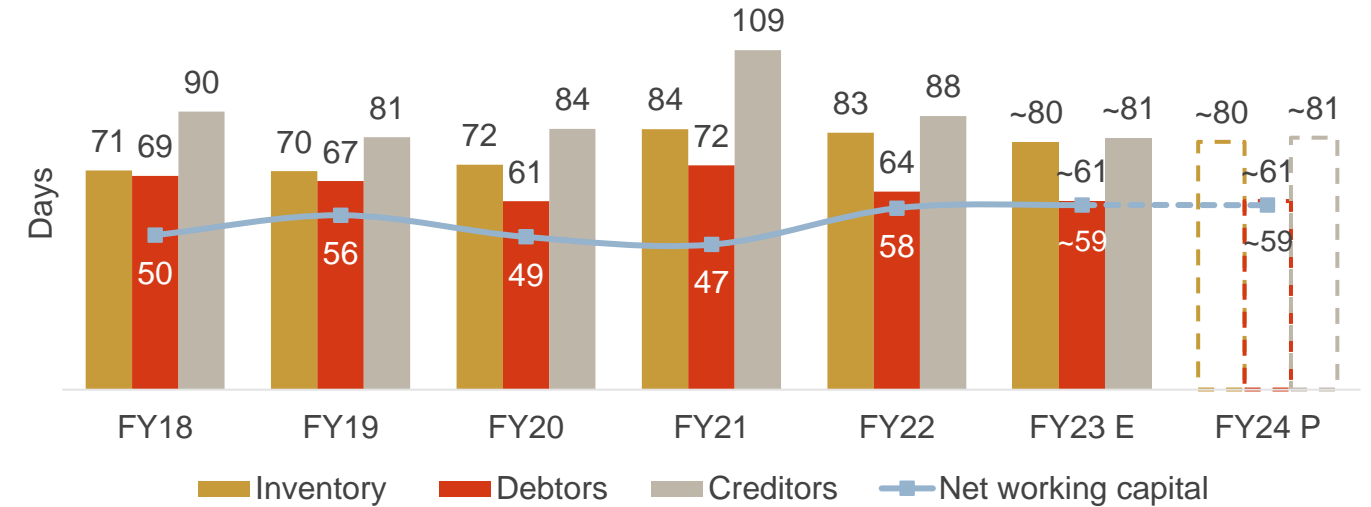
Source: Analysis of 121 players rated by CRISIL Ratings

Financial risk profile to remain healthy despite continuing capex

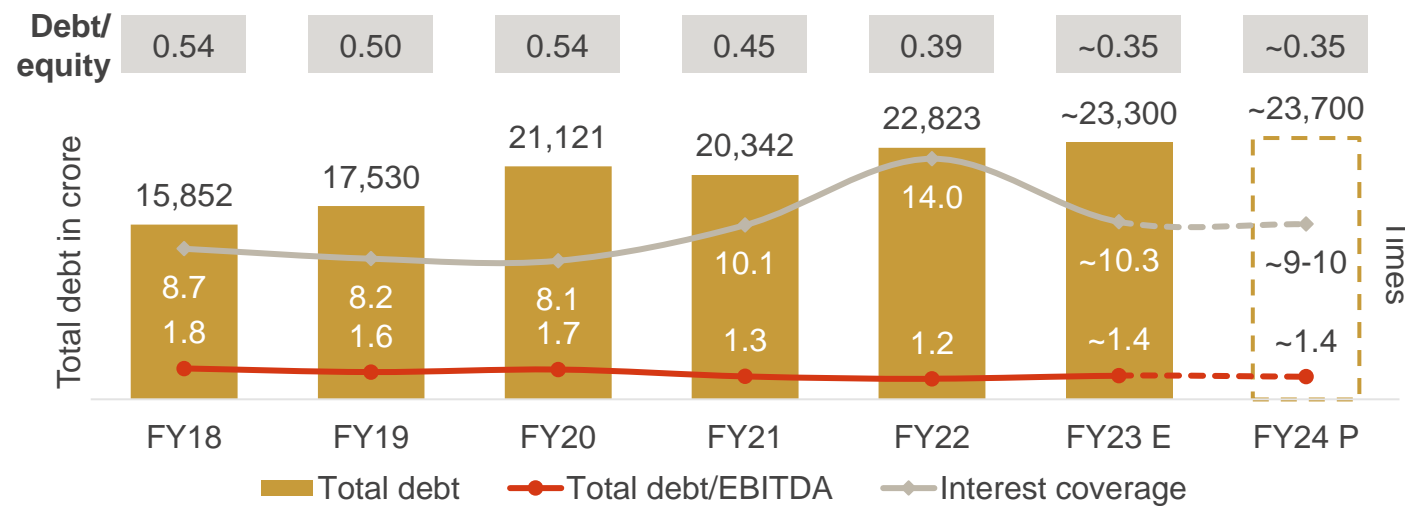
Accrual sufficient to meet repayment, capex part-funding



Receivables and inventory levels to rationalise



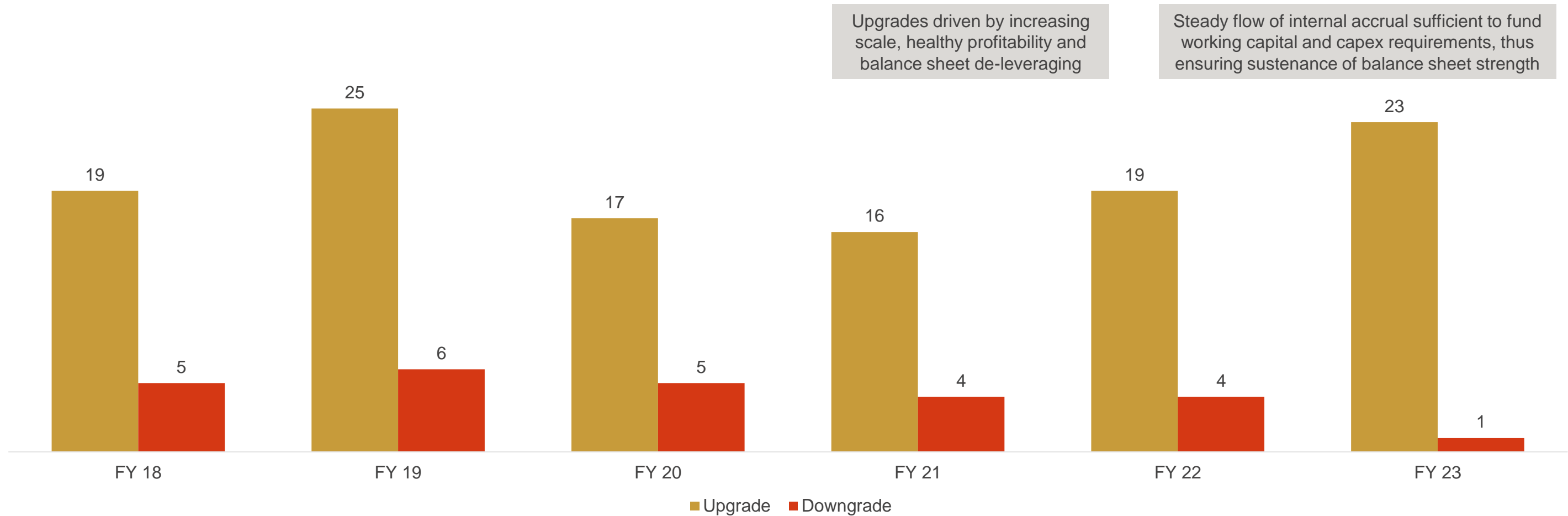
Key debt protection metrics to remain healthy



- Capex to be largely funded through internal accrual with minimal dependance on external funding
- This, along with efficient working capital management, will keep overall debt at a comfortable level; hence, capital structure will remain robust
- Debt protection metrics to moderate slightly due to reduction in profitability, but remain adequate

Source: Analysis of 121 players rated by CRISIL Ratings

Strengthened balance sheets helping companies manage volatility



- Credit ratio (ratio of upgrades to downgrades) has remained above 1 time, reflecting strong performance of players
- Sustenance of business risk profile subject to:
 - Future growth prospects in respective segments
 - Impact of volatility in raw material prices on operating efficiency

Source: CRISIL Ratings

To summarise

- Revenue growth seen at low single-digit of 3-5% in fiscals 2024 owing to subdued volume growth due to macro-economic headwinds and downward pricing pressure emanating from Chinese dumping
- Operating margins to further contract to 9-10% due to moderate capacity utilizations, pricing pressure, and lower operating leverage.
- Capex intensity to continue despite weak demand environment, as players continue to focus on debottlenecking and enhancing capacities in downstream products, and be investment ready when demand cycle resume
- Healthy cash generation to support capex spend, thereby keeping debt metrics healthy
- Risk monitorables
 - Demand slowdown in key end-user segments
 - Competition from China and global macro-economic headwinds impacting exports
 - Inventory philosophy adopted by players amid sharp volatility in crude-linked raw material prices impacting margin

Section 2: Their View



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Views excerpted from a panel discussion held during the webinar

Eminent panellists



Krishna Rangachari
Executive Director
Chemplast Sanmar Ltd



Vijay Malpani
Group CFO
Dorf-Ketal Chemicals India Pvt
Ltd



Surya Prakas MP
Executive Director
Pon Pure Chemicals India
Pvt Ltd



Anuj Sethi
Senior Director
CRISIL Ratings Ltd

Perspective on specialty chemical demand outlook:

- Domestic demand to remain intact, however, near term challenges being witnessed in overseas markets owing to slowdown in key geographies, for instance, USA and Europe.
- Global demand trend to mirror trend of central bank policy. If rate cuts are delayed, then recovery shall also be delayed, and vice-versa. Inflation cooling in United States, but the pace of rate cuts, will remain key monitoring.
- Structurally, India is well poised to gain more share in overseas markets over the long-run due to:
 - China +1 – Major demand comes from global companies, and these companies are taking a long-term view on India. These companies are not just looking at India as a supply chain alternative, but also a consumption market. Demand for specialty chemicals in India is expected to grow at a faster pace, given its GDP growth versus other economies.
 - Europe +1 also shaping out well for India, on account of high energy costs in Europe. Europe and China together account for nearly 50% of global sales and hence there is sufficient headroom for India to grow.
- United States and Europe put together are the largest consumers of specialty chemicals. The 3rd market is Asia-Pacific (China, India, Malaysia, Indonesia). Middle-eastern countries are new upcoming geographies for specialty chemicals consumption.



Views excerpted from a panel discussion held during the webinar

Perspective on Margin Profile:

- Volume shrinkage due to global macro-economic conditions has been limited for Indian players due to sufficient demand within domestic markets.
- Volumes for export focused players shall be impacted more due to demand headwinds in major global economies.
- Operating margin might be impacted due to realization de-growth on account of cooling raw material prices.
- Businesses focused on domestic markets to witness limited impact on operating margins. However, for export driven players, there could be demand issues resulting in higher volume shrinkage and margin contraction.
- Impact on operating margins due to lower realizations to be offset to a great degree by correction in feedstock prices.
- Positive initiatives from Government of India towards inverse duty structure, shall help to reduce costs which shall support operating margins.

Perspective on capex and working capital:

- Capex being undertaken to cater to growing domestic demand, as well as new opportunities emanating in overseas markets due to China +1 and Europe +1.
- Key monitorable shall be the ramp-up of capex investments or cost over-runs. Strong balance sheet strength to support raising of funds for capex if required.
- Previous fiscal, working capital challenges transpired due to steep increase in raw material prices and demand issues following Chinese dumping (more pronounced in certain sectors such as Polymers, Agrochemicals, etc.) resulting in finished good stock pile-up. However, the working capital intensity expected to ease with raw material prices softening.



Views excerpted from a panel discussion held during the webinar

Perspective on environmental compliances and its impact on cost competitiveness:

- Environmental aspects in India have been looked at in a more vigilant way as compared to Chinese counterparts. Impact of environmental costs already factored in by Indian players. For Chinese companies, the environmental costs have become additional costs, and now being covered under costing.
- China earlier were highly cost competitive in terms of labor and were non-compliant with environmental measures and thereby not factored in costing. But over the years, labor costs have started increasing in China, and environmental costs are become additional costs. Hence, India is becoming more cost competitive compared to Chinese counter-parts.
- Investment costs in India is also a lot lower compared to Europe, United States, and China.
- Specialty chemical players, have moved from erstwhile batch processing (higher generation of hazards) to usage of micro-flow reactors, which has resulted in lower generation of hazards. Cost optimization also witnessed with usage of novel catalysts. India is ahead of Chinese counterparts in terms of ESG initiatives, and innovative tech employed has reduced emissions, thereby auguring de-carbonization efforts.



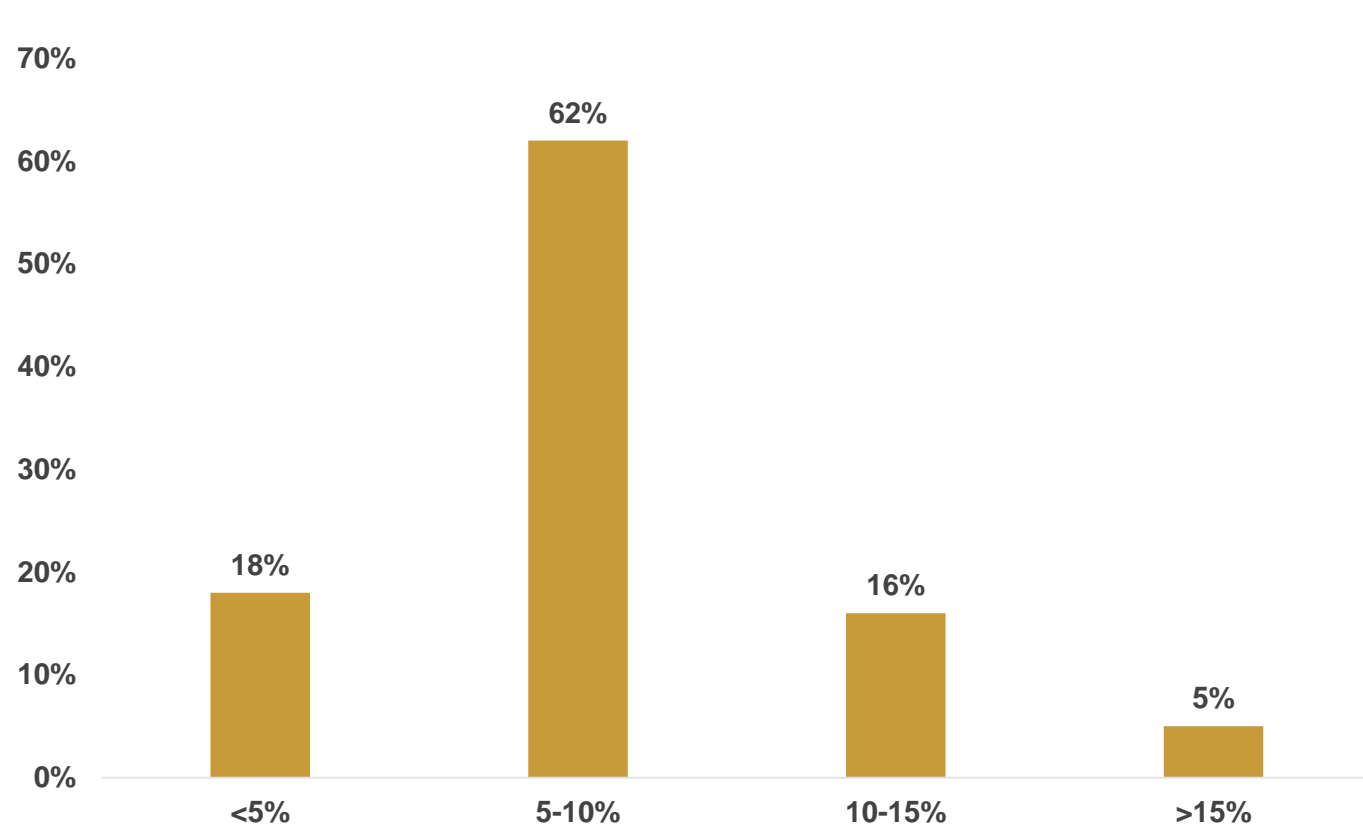
Section 3: Poll View



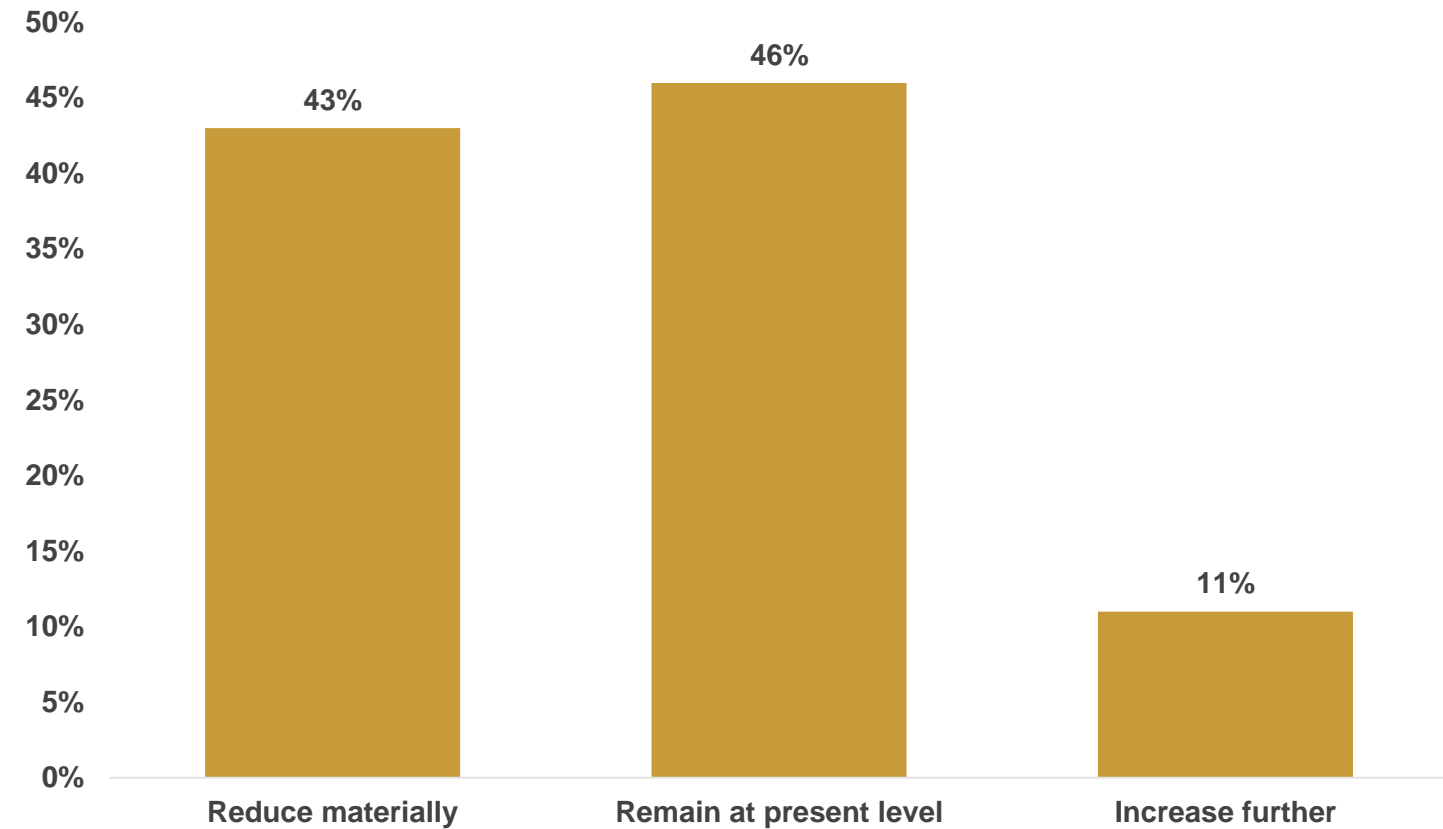
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Results of a survey of more than 300 webinar participants (1/3)

Q1. What is your expectation for the specialty chemical sector's growth for fiscal 2024?



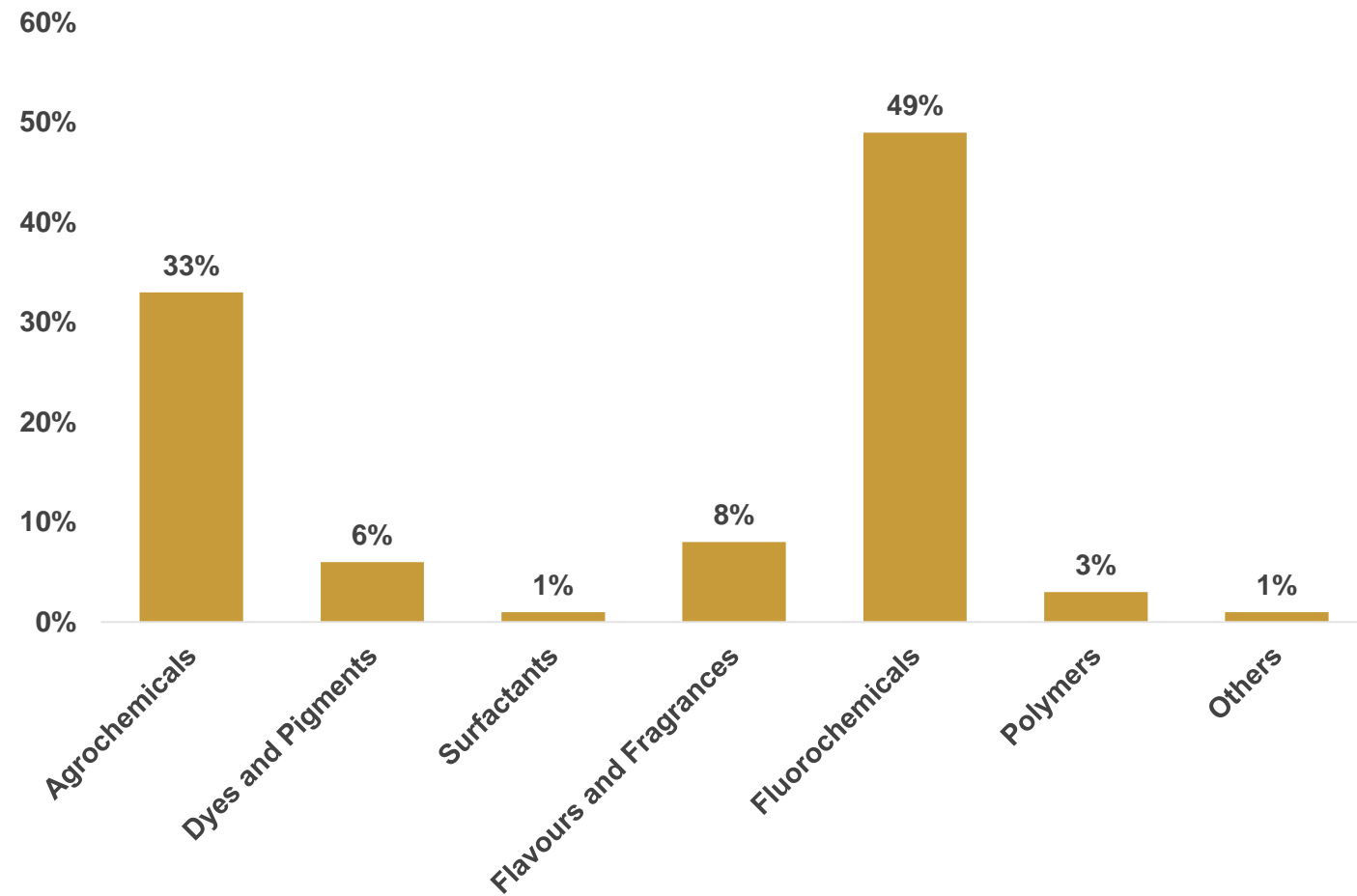
Q2. In the next 2-3 years, what do you expect on India's import dependence for raw material inputs?



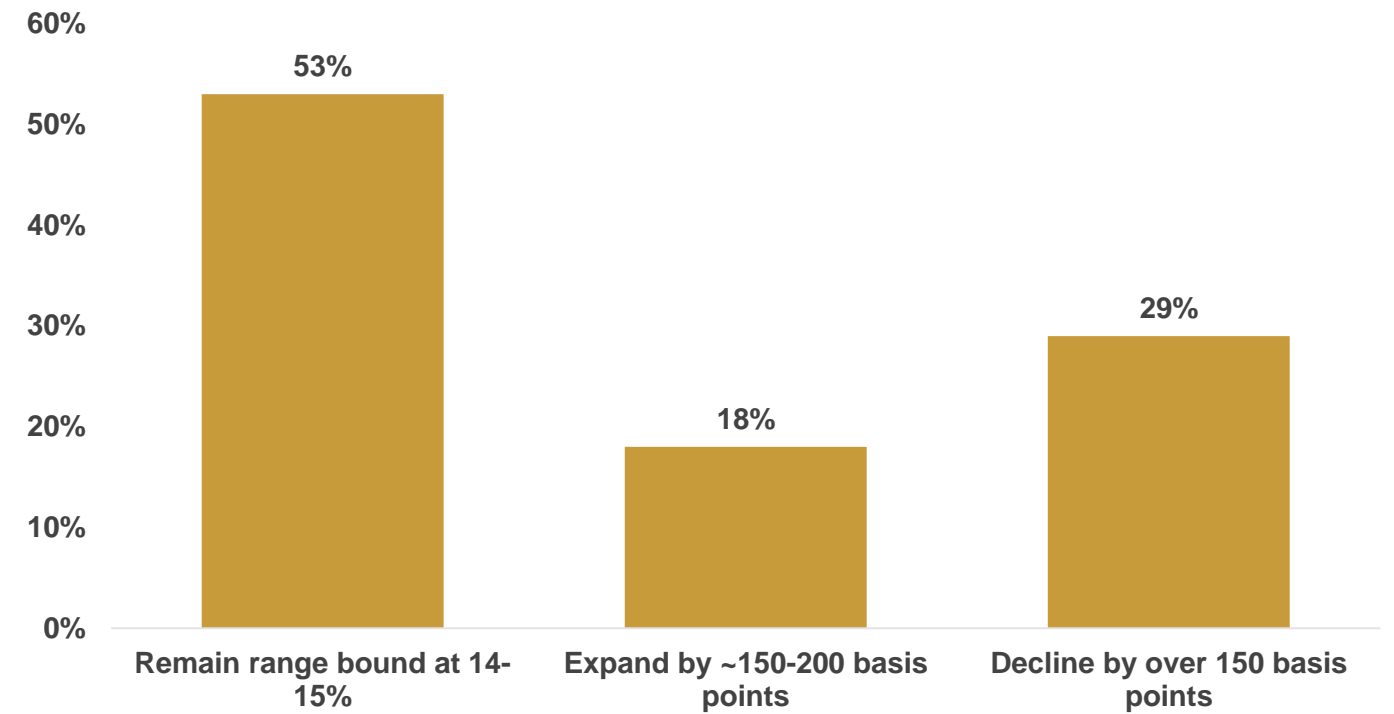
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Results of a survey of more than 300 webinar participants (2/3)

Q3. Within the specialty chemical sector, which sub-segment do you expect to grow the fastest in fiscal 2024?



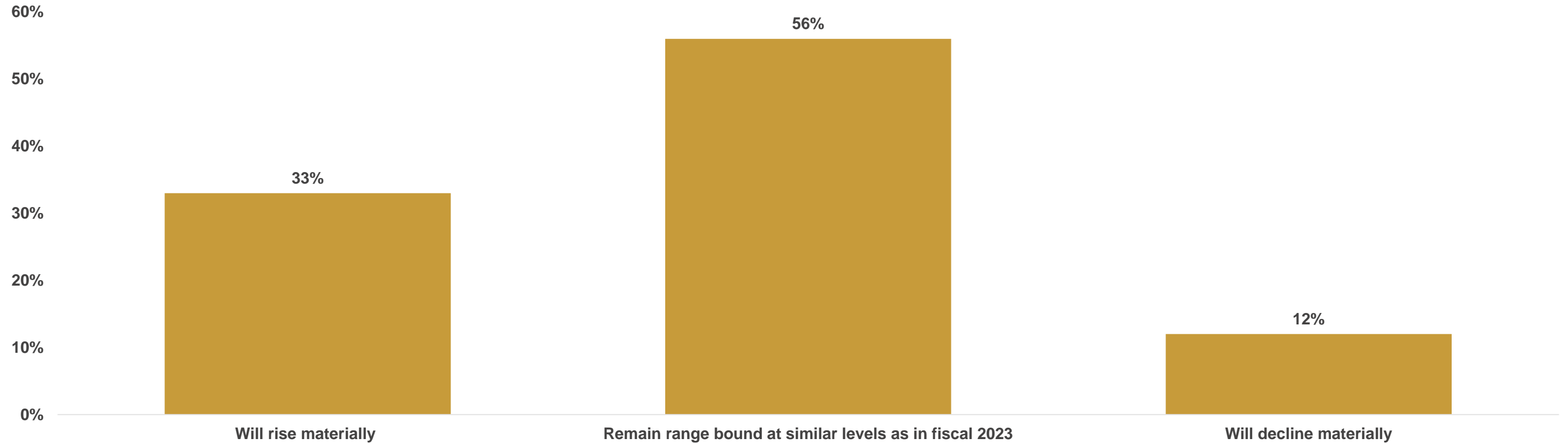
Q4. What is your expectation of operating margin for the sector in fiscal 2024?



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Results of a survey of more than 300 webinar participants (3/3)

Q5. What is your view on capex spends by specialty players over the next 2 year?



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Annexure

CRISIL Ratings – rated specialty chemical companies (1/2)

Company Names			
Pidilite Industries Ltd	SRF Ltd	Aarti Industries Ltd	Hubergroup India
NOCIL Ltd	Gujarat Fluorochemicals Ltd	Dorf-Ketal Chemicals India Pvt Ltd	Prvi Life Sciences Pvt Ltd
Alkyl Amines Chemicals Ltd	Galaxy Surfactants Ltd	Clean Science & Technology Ltd	Indian Peroxide Ltd
S H Kelkar and Company Ltd	Chemplast Sanmar Ltd	Meghmani Organics Ltd	Meghmani Industries Ltd
Sudarshan Chemical Industries Ltd	Prvi Specialty Chemicals Ltd	Anupam Rasayan India Ltd	Dai-Ichi Karkaria Ltd
Solvay Specialties India Pvt Ltd	Savita Polymers Ltd	Meghmani Finechem Ltd	India Toners and Developers Ltd
Valiant Organics Ltd	Heubach Colour Pvt Ltd	Nikhil Adhesives Ltd	Jubilant Ingrevia Ltd
Indo Amines Ltd	Plastiblends India Ltd	Croda India Company Pvt Ltd	Ddev Plastiks Industries Ltd
Prous Laboratories Pvt Ltd	Aether Industries Ltd	Benzo Chem Industries Pvt Ltd	Jesons Industries Ltd
Vidhi Specialty Food Ingredients Ltd	Black Rose Industries Ltd	Neogen Chemicals Ltd	Sud-Chemie India Pvt Ltd
Nitta Gelatin India Ltd	Witmans Industries Pvt Ltd	Kumar Organic Products Ltd	Aquapharm Chemicals Pvt Ltd
Tatva Chintan Pharma Chem Ltd	Solenis Chemicals India Pvt Ltd	Goldstab Organics Pvt Ltd	Transpek – Silox Industry Pvt Ltd
Deepak Novochem Technologies Ltd	Fineotx Chemical Ltd	Chembond Chemicals Ltd	Prime Polychem Pvt Ltd
Delta Finochem Pvt Ltd	Supreet Chemical Pvt Ltd	Navratan Specialty Chemicals LLP	HPL Additives Ltd
Britacel Silicones Ltd	Sunshield Chemicals Ltd	Kalpaka Chemicals Pvt Ltd	Resonance Specialties Ltd
Astra Chemtech Pvt Ltd	Multi Orgaincs Pvt Ltd	MYK Arment Pvt Ltd	MYK Laticrete India Pvt Ltd
Alps Chemicals Pvt Ltd	SHK Chemtech Industries LLP	DIC India Ltd	MPM Pvt Ltd

CRISIL Ratings – rated specialty chemical companies (2/2)

Company Names			
Travancore Titanium Products Ltd	Visen Industries Ltd	Gulbrandsen Chemicals Pvt Ltd	Eternis Fine Chemicals Ltd
C&E Ltd	Deva Drill Tech India Ltd	Enkay Polymers	Suparna Chemicals Ltd
Coatings and Coatings India Pvt Ltd	Anshul Innovative Chemistry Pvt Ltd	Veritas Polychem Pvt Ltd	The Flavours India Pvt Ltd
Automark Industries (India) Pvt Ltd	Eence Aromatics Pvt Ltd	Addica Industries LLP	Lux Flavours
Paushak Ltd	Proec Energy Ltd	Palvi Industries Ltd	Anshul Specialty Molecules Pvt Ltd
Dodhia Chem-Tex Pvt Ltd	Hema Dyechem Pvt Ltd	Spectrochem Pvt Ltd	Abhitech Energycon Ltd
TP Buildtech Pvt Ltd	Meghmani LLP – Pigment	Witsman Industries Pvt Ltd	Porus Laboratories Pvt Ltd
Associated Plasmatron Pvt Ltd	Chemshel Enterprises Pvt Ltd	Speciality Industrial Polymers And Coatings Pvt Ltd	Sisco Research Laboratories Pvt Ltd

Thank you

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