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The Growth Catalyst



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EQUITY, DERIVATIVES, CURRENCY, COMMODITY, DEPOSITORY, MUTUAL FUNDS, INSURANCE* & NBFC*

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SECTOR REPORT

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Chemicals : Prices of chemical commodities improve

Prices of chemical commodities improved during March 2018. Domestic acetic acid prices jumped 85% over the year but fell 7% over the month in March 2018 to Rs 61 per kg. Domestic caustic soda (flakes) prices rose 31% over the year but fell 1% over the month to Rs 58 per kg. Methanol prices increased 14% over the year and over the month to US\$ 402 per tonne. International price of poly vinyl chloride (PVC) rose 1% over the year and was flat over the month to US\$ 961 per tonne.

Domestic Monthly Production Of Various Chemicals

The production index for chemicals and products rose 3.6% to 120.4 in January 2018 compared with January 2017. It was up 1.2% when compared to December 2017. The index fell 0.4% to 115.5 in April-January 2018 compared with April-January 2017. Among chemicals, production of aniline decreased 1% in January 2018 over January 2017 and 0.7% over the month to 3811 tonne. Production of caustic soda increased 6.9% over the year but fell 2.6% over the month to 237202 tonne. Production of soda ash recorded increase of 13.6% over the year and 4.8% over the month to 266599 tonne. Production of methanol increased 71.8% over the year and 1.6% over the month to 29309 tonne. Production of acetic acid rose 1.7% over the year but fell 0.2% over the month to 14287 tonne. Production of hydrogen peroxide increased 3% over the year but fell 0.2% over the month to 13626 tonne. Production of formaldehyde decreased 11.6% over the year and 21.7% over the month to 19417 tonne.

INDUSTRY SCENARIO

The global chemical industry witnessed steady progress in the last decade reflecting an average annual growth of about 11%. The industry however witnessed a gradual shift to the emerging Asian regions from the developed western world which led to 'easternisation' in production of chemicals. While this was largely led by China where chemicals sales swelled rapidly, other emerging markets also contributed to this growth. While China continues to remain the most important chemical market, the recent

slowdown in that country is viewed as a positive factor for chemical manufacturers in other emerging markets like India

The chemical industry in India is a key constituent of Indian economy, accounting for about 2.11 per cent of the GDP. India accounts for approximately 16 percent of the world production of dyestuff and dye intermediates, particularly for reactive acid and direct dyes. India is currently the world's third largest consumer of polymers and third largest producer of agrochemicals. In terms of value and production volume, Indian chemical industry is the 3rd largest producer in Asia and 6th by output in the world. Indian chemical industry could grow at 11 per cent p.a. to reach size of USD 224 billion by 2017. In 2015, India chemicals industry had a market size of USD 144 billion. Robust demand for chemicals over the past few years has been fuelled by strong economic growth, large population and rise in per-capita income. As a result of strong domestic demand and Asia's increasing contribution to the global chemicals industry, India has emerged as one of the 'focus destinations' of companies worldwide.

Total chemical production in India was 9660 thousand tonne in FY15 and reached to 9884 thousand tonne in FY16 and for April- November 2016 it was 6740 thousand tonne. The growth of 2.3 per cent was registered from FY15 to FY16. 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. The R&D spending of chemical industry is estimated to increase to around USD12 billion by 2017. With 69 percent share in the total production, alkali chemicals accounted for the largest share in Indian chemical industry in FY16. During FY16, production of alkali chemicals in India stood at 6802 thousand tonne.

Chemical exports from India stood at Rs 181361 crore for FY 2016. Exports in the chemical industry grew from Rs

150829 crore in FY13 to Rs 181361 billion in FY16, registering a CAGR of 6.3%. Total exports of chemicals reached to Rs 91321 crore for April '16 – September '16. Total imports of chemicals grew from Rs 209909 crore in FY13 to Rs 261880 crore in FY16, a CAGR of 7.65%. Total imports of chemicals reached to Rs 134903 crore for April '16 – September '16. During April '16 – September '16, organic chemicals accounted for a share of 37.5 percent in India's total chemical imports, followed by plastics which accounted for a share of 29.3%, in overall chemical exports from India. Organic chemicals also dominate exports, with a share of 41%, followed by plastics at 19 per cent in April '16 – September '16.

MAJOR SEGMENTS OF THE INDIAN CHEMICAL INDUSTRY

Base chemicals: Petrochemicals, man-made fibres, industrial gases, fertilisers, chlor-alkali, and other organic and inorganic chemicals

Specialty chemicals: Dyes and pigments, leather chemicals, construction chemicals, personal care ingredients and other specialty chemicals

Pharmaceuticals: Active Pharmaceutical Ingredients (APIs) and formulations

Agrochemicals: Insecticides, herbicides, fungicides and other crop protection chemicals

Biotechnology: Bio-pharma, bio-agri, bio-services and bio-industrial products

SPECIALTY CHEMICALS

Specialty chemicals market has expanded at a CAGR of about 12 percent over FY07–11. The figure is expected to rise by 9.43 percent from FY14 to reach USD 90 billion by FY23, India is also gaining traction as an outsourcing hub. The Indian middle-class household is expected to grow from 31 million in 2008 to 148 million by 2030, leading to a huge demand for specialty chemicals in automotives, water treatment and construction. Compared to developed markets, current usage of specialty chemicals in India is very low, with an increased focus on improving products and usage intensity of specialty chemicals, the industry is poised for strong growth in future.

CONSTRUCTION CHEMICALS

The size of India's construction chemical market stood at USD 573.2 million in 2014 which grew to USD 649.75 million in 2015. With the construction sector expected to pace ahead due to strong economic growth, the fundamentals for construction chemicals are sound. By 2019, the construction chemicals sector is set to touch USD 1146.4 million. India's construction chemical sector consists of a variety of products ranging from admixtures to sealants. Admixtures form the largest segment with a 42 percent share, followed by adhesives & sealants (18 percent).

KEY GROWTH DRIVERS OF SPECIALTY CHEMICALS

- Water treatment chemicals are widely used in purification of water and also in large power plants, refineries and fertiliser factories
- Construction industry in India has been registering a CAGR of about 17 percent over the last few years and is likely to gather momentum in the near future. Adoption of advanced coating, ceiling and polymer-based reinforcing material in construction will drive the demand for related chemicals
- Automotive sector in India has been expanding at a CAGR of around 12 percent over the last five years. Automotive sector growth will drive demand for automotive components and consequently for plastics, paints and coatings used in their production

POLYMER CHEMICALS

India is currently the world's third largest consumer of polymers, behind China and the US. India's polymer consumption is 6.2 million tonne which constitutes 3 percent of the global consumption. Per capita consumption of polymer in India is 5.2 kg whereas China's per capita polymer consumption is 30 kg. Indian Polymer market has grown at a CAGR of 23.02 percent over 2005-15 to USD 1310 million. The sector is expected to grow at a higher rate due to growth in plastic demand resulting from increased usage in packaging, construction and automotive sectors. Due to increasing environmental concerns and cost, replacement of wood, metal and glass by plastic will also augment demand. Polymer production in India is around 9 million tonne and imports stand at 2.8 million tonne. For April 15 – September 15 polymer production in India is stood at around 3.75 million tonne, witnessing Y-o-Y growth at a rate of 17.9%, over the previous year.

AGROCHEMICALS

India is the fourth largest global producer of agrochemicals after the US, Japan and China. This segment generated a value of USD 4.4 billion in FY16 and is expected to grow at 7.2% per annum to reach USD 6.3 billion by FY20. Approximately 50% of the demand comes from domestic consumers and the rest from exports. During the same period, the domestic demand is expected to grow at 6.8% per annum and exports at 9% per annum.

FY17 has been a challenging year for crop protection chemicals market in India as well as throughout the world. Weak rainfall/ droughts, severe decline in the commodity prices, and demonetization affected the growth of crop protection chemicals market. The impact of these factors is likely to weigh on the sector for few more years. Indian agrochemicals market will be driven by growth in herbicides and fungicides, increasing awareness towards judicious use of agrochemicals, contract manufacturing and export opportunities.

At present, per hectare consumption of pesticides in India is amongst the lowest in the world and stands at 0.6 kg/ha against 5-7 kg/ha in the UK and 13 kg/ha in China. With the increase in awareness and market penetration, consumption is likely to improve in the near future. Still there are challenges like non genuine products, low focus on R&D by domestic manufacturers, inefficiencies in the supply chain etc. which need to be addressed on priority.

The Indian crop protection market is dominated by Insecticides, which form almost 60% of domestic crop protection chemicals market. The major applications are found in rice and cotton crops. Fungicides and Herbicides are the largest growing segments accounting for 18% and 16% respectively of total crop protection chemicals market respectively. As the weeds grow in damp and warm weather and die in cold seasons, the sale of herbicides is seasonal. Rice and wheat crops are the major application areas for herbicides. Increasing labor costs and labor shortage are key growth drivers for herbicides.

The fungicides find application in fruits, vegetables and rice. The key growth drivers for fungicides include a shift in agriculture from cash crops to fruits and vegetables and government support for exports of fruits and vegetables. Biopesticides include all biological materials organisms, which can be used to control pests. Currently bio- pesticides constitute only 3% of Indian crop protection market; however there are significant growth opportunities for this product segment due to increasing concerns of safety and toxicity of pesticides, stringent regulations and government support.

PIGMENT INDUSTRY

The Pigment Industry is critical for the economic development of any country, providing products and enabling technical solutions in virtually all sectors of the economy. The industry has changed over time to meet the dynamic needs of the emerging economy. Strong economic growth and rise in per-capita income has caused steady increase in demand for Pigments. The industry has moved from a low-growth and regulated environment to an increasingly mature core industry.

The Pigment Industry worldwide is one of the dominant industries with collective revenues of over USD 5.5 billion. The growth of the Pigment Industry has more or less moved in tandem with the growth of global economy. Growth in per capita income leading to growth in per capita spending fuels demand for Pigments ranging from paints to plastics to polymer, ink to cosmetics and more is encompassing every sphere of life.

There is an excess capacity for the manufacture of commodity pigments worldwide. This results in intense price competition in the commodity segments market. The China factor also continues to affect the Pigment Industry.

Although small in size, the Indian Pigment industry is a

dominant player in the Indian Economy. Per capita consumption in each of its industry segment is very low compared to other countries.

The growing domestic housing needs hold promise for varied Pigment applications. Automotive paints and personal care segment on the back of increasing disposable income of a growing middle class provides opportunity for growth. Inks and plastics market also holds lot of promise as the paper and printing industry is poised to record growth.

China at a feverish pace has put up massive Pigment based chemical projects and complexes that not only meet their own demand but also global demand that will be emerging for the next several years. Because of this, China not only controls the market but also the pricing policy. Indian Pigment industry has threats of dumping at rock bottom prices by developed economies like China due to meltdown in their countries and their ability to sustain due to large capacities.

Due to global recessionary conditions the Pigment Industry world over is passing through difficult times. The sharp fall in crude oil prices during 2015-16 triggered a massive correction in petrochemicals and intermediate prices. In view of very large capacities, countries like China may resort to dumping of products in Indian markets to the detriment of the Indian Pigment Industry. The positive factor for Indian Pigment Industry is the demand for its products that is largely driven by domestic market and considering very low per capita consumption ratio. Despite the difficult time, the Pigment Industry holds a lot of promise for India. The industry is a potential powerhouse benefitting from comparative low labour costs, excellent army of technical manpower, capabilities to research and development facilities, huge but undeveloped domestic market and potential to increase its share in global markets. Diversified product range, proactive preparedness in adjusting to demand and supply levels and aggressive marketing strategies has provided a cushion to the Company to withstand the pressure of downturn in the global Pigment Industry.

Soda Ash

Global soda ash demand in 2016 is estimated to have grown by 1.9% to reach 56.6 million tonne. Going ahead, global demand is expected to grow at 2.1% p.a. through 2021. Emerging economies, especially China, have been the primary growth driver for soda ash over the past decade with increasing glass and detergent usage. However, 2016 witnessed demand slowdown in China with an estimated growth rate of less than 1%. Several other regions including the developed markets of North America and Europe however, showed relatively healthy growth during the year.

The Indian market demand growth increased by 7% in FY 2016-17 after almost flat volumes in the previous year. North American volumes are expected to be flat with the exception

of incremental demand from Mexico's container glass industry. US exports are likely to face stiff competition from new production from Turkey and Russia. The UK market remained reasonably flat for the year with Tata Chemicals Europe retaining its market leadership leveraging production based out of both the UK and US manufacturing facilities. Demand growth in key markets of the Company's African operation remained mixed.

Global soda ash capacity is estimated to have grown marginally by 0.5 million tonnes during the year. Regional over-capacity and tightening governmental policies resulted in continued consolidation in China leading to capacity remaining almost flat in FY 2016-17. However, capacity addition occurred in other regions including Indian subcontinent, the Middle East and Central Europe. Global capacity is expected to grow at 2.1% p.a. through 2021, with Turkey leading this capacity addition.

India continues to be a significant importer of soda ash with 0.75 million tonne of imports in FY 2016-17.

NEWS UPDATES

Exports of chemicals and related products rose 17% in February 2018

Exports of chemicals and related products rose 17% in February 2018 to Rs 20606 crore compared to February 2017 comprising 12.4% of the total exports from India while imports of chemicals and related products rose 19% in February 2018 to Rs 19871 crore compared to February 2017 comprising 8% of the total imports from India.

For April-February 2018 exports of chemicals and related products rose 9% to Rs 216238 crore compared to April-February 2017 comprising 12% of the total exports from India while imports of chemicals and related products rose 14% Rs 230605 crore comprising 9% of the total imports from India.

Himadri Speciality Chemical to Invest Rs 1000 crore in Carbon Black Business

Himadri Speciality Chemical will be investing Rs 1000 crore to expand its Carbon Black business. The company will be setting up new carbon black lines in its existing integrated plant in Mahistikry, West Bengal for producing Specialty Carbon Black. Himadri Speciality is the only company to have a fully integrated specialty carbon complex, one of its kind in the world, specialising in developing coal tar by-products and derivatives including advanced carbon material, coal tar pitch, carbon black, corrosion protection and naphthalene. India's consumption of carbon black is growing by about 6.3% per year.

Outlook

The growth for specialty chemicals is driven by both domestic consumption and exports. Specialty chemicals finding applications across consumer (eg. personal care chemicals), industrial (eg. water chemicals) and infrastructure (eg. construction chemicals) segments are driven by the overall growth of the Indian economy. Agrochemical growth has a strong linkage to the growth of the rural economy. In certain segments (such as agrochemicals, dyes and pigments, flavours and fragrances), a significant proportion of production in India is exported. Exports are growing rapidly as India is becoming an important manufacturing hub for such chemical.

Low cost labour and raw material availability have been the advantages enjoyed by Indian manufacturing companies traditionally. Increasingly, though, specialty chemicals companies are focusing beyond these traditional cost advantages. In agrochemicals, for instance, the focus is largely on branding and distribution. Despite the demand side growth drivers, several challenges still remain. Most players operating in India are still small in scale. Several mature products in the sector have already been commoditized or are at risk of the same. Specialty chemical manufacturers need to strengthen their focus on niche applications and product innovation in order to protect their margins. And cost of compliance might make operations increasingly economically unviable for small players.

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