

INDIAN CHEMICALS SECTOR: BASIC CHEMICALS

**Demand headwinds due to
resurgence of Covid-19 to ease
supported by recent relaxation of
containment measures**

JUNE 2021



Demand headwinds with the resurgence of Covid-19 likely to be eased by easing of lockdown restrictions

Credit profiles of most players to be supported by diversification, manageable leveraging



- The global chemicals industry is continuing its recovery after having dealt with a series of blows from closures related to Covid-19, decline in demand and logistical challenges.



- Monthly production of several players returned to pre-Covid levels by February/March 2021. However, the second wave of Covid-19 has led to moderation in demand. Nevertheless, easing of lockdown restrictions as the number of cases decline is expected to drive demand recovery.



- The recovery, however, is likely to be gradual given the lingering impact of the pandemic and will be based on the uptick in performance of the end-user segments, particularly in case of products such as Caustic Soda, Phenol, Pthalic Anhydride, Maleic Anhydride etc.



- Players with a diverse range of end-user industries will be better equipped to soften the impact of severe slowdown in any one industry on consumption.



- Credit profiles of most ICRA-rated basic chemical players are expected to remain resilient in 2022, supported by a diversified portfolio of products, wide applications of these chemicals and manageable leveraging levels.



- In the long term, the demand -supply balance of the industry is expected to remain healthy given the well-spaced out capacity additions which are expected to be absorbed driven by demand growth.

The Covid-19 pandemic has impacted demand for basic chemicals though the severity varies across the industry. Food packaging, pharma, sanitary and medical applications, are witnessing a surge, primarily due to stockpiling, an increase in delivery services, and the high healthcare-focused activities. Other major consuming sectors, such as automotive sector have been severely impacted. Most basic chemicals have a diverse range of end-user industries thereby softening the impact of severe slowdown in any one industry on consumption. The basic chemicals segment can be further divided into various sub sections and ICRA's outlook on the individual sub segment is given below.

Exhibit : Basic chemicals sub segment outlook

| Chemical | Key end user segments | Credit Outlook |
|--|--|----------------|
| Caustic Soda | Paper, alumina, soaps, detergents, chemicals, water treatment, mining, glass | Stable |
| Soda Ash | Construction, Automobile, FMCG | Stable |
| Carbon black | Tires, plastics, rubber goods, inks and toners | Stable |
| Methanol | Chemicals, Construction | Stable |
| Acetic Acid | Textiles, Paints, Adhesives, Pharma, Agrochemicals | Stable |
| Phenol | Electronics, Automobiles, Construction, Agrochemicals, Pharma | Stable |
| Acetone | Cosmetics, Paints, Construction, Automobiles, Pharma | Stable |
| Phthalic Anhydride and Maleic Anhydride | Construction, Automobile | Stable |

- **Caustic Soda** - After reaching a nearly five-year low, caustic soda prices are now staging a recovery backed by improved demand and energy prices. While the performance in FY2021 remained weak due to significant decline in realisations and lower production levels, the performance in FY2022 is expected to improve backed by improvement in realisations and firm chlorine prices along with increase in production levels. The overall profitability, however, is likely to remain lower than past periods. While the second wave of Covid-19 has led to the weakening of the demand due to lockdown restrictions, demand is expected to revive given the recent easing of containment measures. The near term financial outlook on this sub-segment has been revised to Stable from Negative.
- **Soda Ash** - The outlook for the soda ash players remains stable as the long-term prospects remain intact with no major capacity additions in near term and expected capacity closures in China. Soda ash demand has witnessed healthy recovery in the aftermath of the Covid-19 pandemic and has likely recovered to pre-pandemic levels by the end of FY2021. Demand has been supported by the detergent segment as offtake remains stable while flat glass segment witnessed a revival in demand driven by the auto sector. However, demand from flat glass segment remains a laggard.

- **Carbon Black** – After a subdued performance in H1 FY2021 due to the impact of the Covid-19 pandemic which resulted in muted demand and moderation in production levels, the segment witnessed a recovery in H2 FY2021 supported by the tyre industry which is a key demand driver for carbon black. However, there could be some deceleration in demand in the near term given the second wave of the pandemic. Nevertheless, the overall demand outlook is favourable for next two years driven by the expected recovery in the tyre segment.
- **Methanol** - In FY2021, the production was expected to increase by ~20-25% compared to previous year due to lower cost of gas prices. However, imports are likely to have declined by ~15% with overall lower demand due to the pandemic situation. Going forward, the demand is expected to improve while the profitability would depend on trend in gas prices. The outlook for methanol manufacturers in India is expected to remain firm with significant dependence on imports. With rise in Methanol prices in global market, due to supply related constrains, the domestic production is expected to remain profitable in FY2022 despite higher gas prices.
- **Acetic Acid** - The outlook for acetic acid demand is anticipated to remain firm over the near term and continue to improve as economic recovery continues. This is due to the increasing use of acetic acid derivatives in a variety of applications like packaging, pharmaceuticals, and textiles. The technology for manufacturing acetic acid is also concentrated with limited players and should ensure a good price environment for players having access to competitive manufacturing processes.
- **Phenol** - The demand outlook for phenol remained muted in FY2021 and will continue to remain subdued in H1 FY2022 due to the adverse impact of Covid-19 on the end-user industries. Phenol finds wide applications in construction and automobile industries which have experienced considerable slowdown due to the pandemic.
- **Acetone** - The long term outlook for acetone is driven by the growing demand for it as a solvent and its downstream products in various end-user industries such as cosmetics and personal care, electronics, construction, automotive, pharmaceutical, paints and coatings, etc. Even during the Covid-19 pandemic, acetone demand was up due to its application in production of IPA/sanitizer. Realisations of acetone have also been supported by the lower supply due to production constraints in the USA. Going forward, the realisations should moderate in FY2022 as the demand-supply gap improves.
- **Phthalic Anhydride and Maleic Anhydride** - The outlook for phthalic anhydride and maleic anhydride was adversely impacted in Q1FY2021 due to the impact of Covid-19 on construction and the auto sector. However, product spreads have recovered significantly in Q2-Q4FY2021. Domestic players have also been supported by the favourable duty protection measures. The medium to long term growth prospects however remain favourable given the recovery in Chinese demand and the expected recovery in the domestic end-user industries.

1

Detailed Trend Analysis –
Sub-Segments wise



2

Aggregate Industry Financials



3

Financial Forecasts



4

Peer Comparison



5

ICRA Ratings on Indian Basic
Chemicals Industry



6

Company Section





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