

INDIAN PETROCHEMICALS INDUSTRY

**Steady performance aided by stable
demand and persistent spreads**

SEPTEMBER 2021



After a fairly eventful FY2021 which saw industry fortunes swing like a pendulum, FY2022 is expected to be more stable, as already demonstrated by the steady performance in Q1 FY2022 despite some disruptions owing to the second wave. Demand for petrochemicals is expected to remain stable in the current fiscal, supporting the industry growth, albeit with some moderation in margins as spreads settle down.



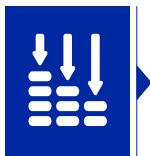
- Demand for petrochemicals in FY2021 swung like a pendulum, contracting sharply in Q1 followed by significant uptick over the remaining quarters (especially Q4) with easing of Covid-19 induced disruptions/restrictions. Notwithstanding some minor impact in Q1 FY2022 owing to the second wave, demand for petrochemicals is expected to remain stable in the current fiscal.



- There was sizeable margin expansion in FY2021, partly due to temporary demand-supply gaps created due to the disruptions created by the pandemic. However these gaps have been addressed and hence prices and spreads are expected to settle down over the next few quarters. While ICRA expects the industry growth momentum to sustain, some moderation in margins is likely going forward; albeit they will continue to remain healthy.



- Despite some capex towards capacity expansion being undertaken by some industry participants, overall the industry debt levels are not expected to increase materially going forward. Moreover the net debt levels of most companies in the sector remain moderate owing to healthy margins and cash accruals in the past few years.



- The debt metrics of petrochemical players are also expected to remain healthy, with total debt/OPBDITA for ICRA sample set at 1.4-1.5x and interest cover at 10.0-11.0x during FY2022-24 period.



- ICRA expects the credit profile of the Indian petrochemical industry to remain steady in the near term. Players with a diversified business profile and conservatively-funded balance sheets were able to withstand the downturn with less impact on their credit profile.

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2 Industry Performance/Peer Comparison/Key ICRA Rating Actions



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