

INDIAN CHEMICALS SECTOR: SPECIALTY CHEMICALS

**Domestic demand remains stable;
capex cycle continues as specialty
players explore newer segments**

June 2023



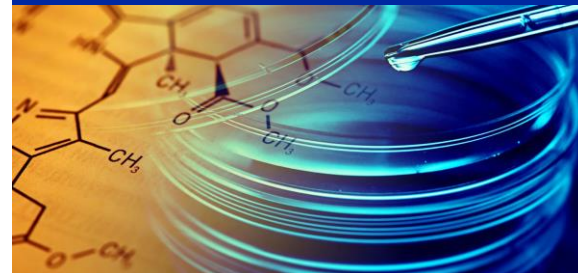
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5 Comparison of Key Specialty Chemical Companies



While raw material and freight cost pressures have eased after significant volatility in FY2023, demand and pricing pressures from export market will keep the margins in check in FY2024.

Domestic demand is expected to remain stable for some segments driven by continued healthy consumption trends.

While short-term headwinds develop, the capex cycle continues with favorable long-term demand trends.



- The ability to serve specific chemistries, a proven track record and in few cases long-term supply contracts along with the China+1 strategy adopted by global chemical industry, are factors supporting the performance of the Indian specialty chemical companies in India. The credit profile of the industry is expected to remain healthy driven by the demonstrated ability to pass on the input price impact albeit with some lag.

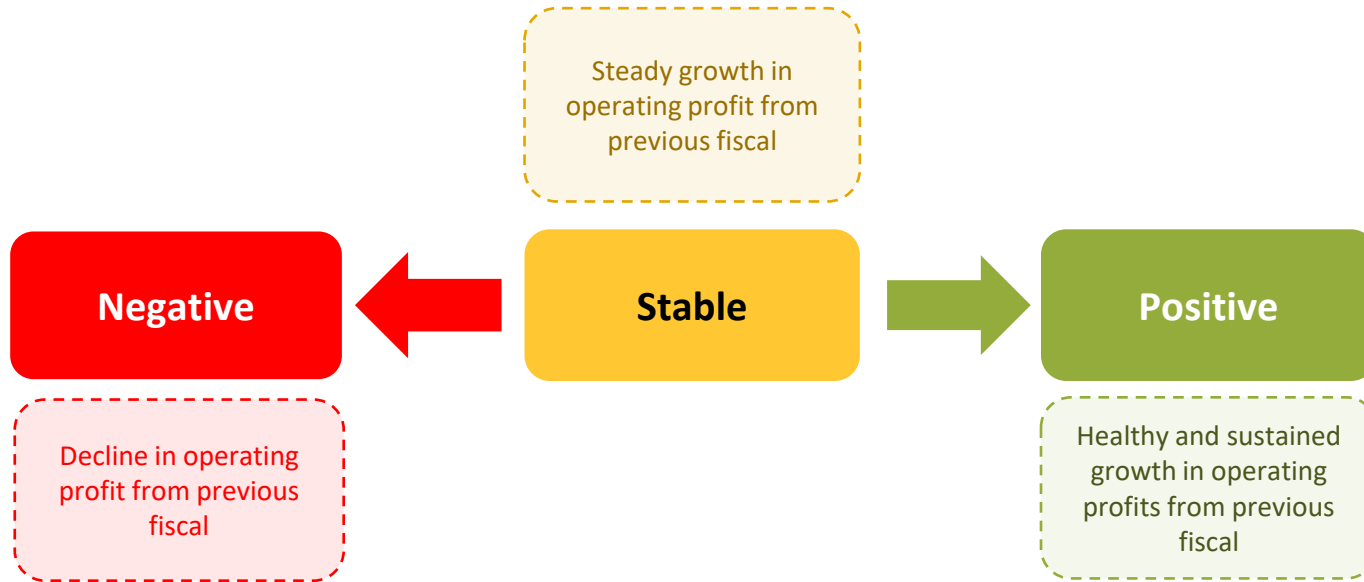
- In FY2023, the operating margins witnessed moderation due to elevated freight and input price pressures, although the same remained healthy at around 19.3% for ICRA's dataset. In FY2024, the operating margins are expected to moderate marginally owing to the pressure on the export demand even as domestic demand is expected to remain healthy.

- The capex cycle continues as Indian specialty players continue to expand their presence in existing chemistries exploring new segments like battery chemicals etc. Industry players are also focusing on developing Green Chemicals due to increasing demand from domestic and developed markets.



Key Trends and Outlook

What could change the industry outlook



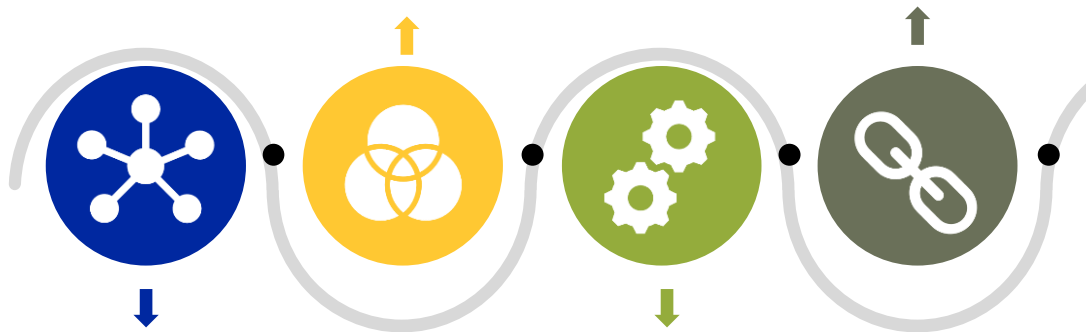
Outlook pertains to the expected aggregate performance of the sector. However, performance of sub-segments may vary.

Dyes and Pigments

Demand headwinds to persist from the export markets; Chinese supplies to keep pressure on export pricing in H1 FY2024

Flavours and Fragrances

F&F segment has been facing pressure owing to pricing pressure from Chinese capacities and slowdown in demand from the EU owing to recessionary outlook. Near-term headwinds to persist with moderation in the margins



Agro-chemicals

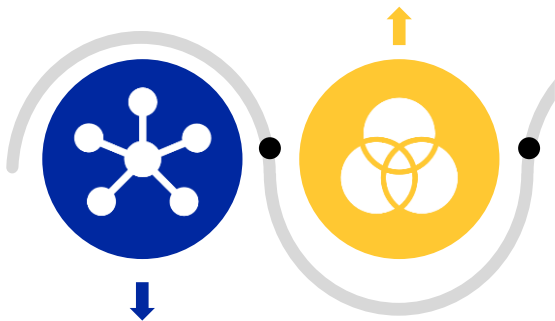
While near-term headwinds expected to moderate the performance in H1 FY2024, credit profile of the industry is likely to remain Stable as cash generation is expected to remain healthy

Surfactants

While domestic demand remains stable, export demand could witness some pressure in the near term, especially in Europe

Fluoro-chemicals

Diversified applications including refrigerants, agrochemicals and upcoming applications in PV cells, battery chemicals to support fluorination chemistry industry. Lack of growth in Chinese industry since FY2018 bodes well for Indian players as Chinese capacities have closed down on environmental concerns.



Construction Chemicals

Demand for construction chemicals expected to remain healthy with increasing urbanisation, infrastructure growth and incremental adoption of modern construction practices in India.



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