

INDIAN PETROCHEMICALS INDUSTRY

Margin recovery in commodity
polymer remains elusive amid global
capacity surplus

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1 Industry Outlook



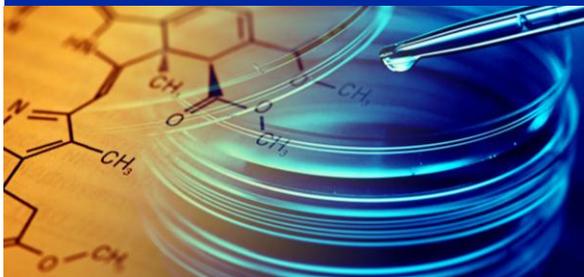
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Global overcapacity amid no major recovery in demand continues to weigh heavily on the operating rates and profitability of petrochemical companies worldwide.

In the domestic market, the commissioning of new capacities coupled with an influx of low-cost imports has compressed margins for petrochemical producers, despite resilient local demand. This challenging landscape is likely to persist in the near to medium term.



- **The global demand** for petrochemicals remain tepid, especially in some of the major chemical-consuming nations, which is likely to keep global volume growth under pressure in the near term.



- **Sizeable capacity expansions globally, especially in Asia**, have exerted pressure on the operating rates of petrochemical companies. The supply overhang is likely to keep the operating rates, spreads and margins subdued in the near to medium term.



- **While domestic demand for petrochemicals is estimated to grow** at an average annual growth rate of 6-8%, influx of low-cost imports into India from global manufacturers, given the weak demand in other markets, is leading to pressure on the profitability and operating rates of domestic players. Recent removal of quality control order (QCO) on several commodity polymers to further weigh down on domestic margins.



- **Naphtha prices have moderated from their peaks.** This has resulted in some uptick in the spreads for commodity polymers, although they remain lower than their 5-year averages. Current spreads continue to be non-remunerative for most polymer manufacturers in the country.



- **ICRA expects the profit generation of its sample set of petrochemical companies** to remain muted in the near to medium term; given the subdued pricing gains and modest growth in revenues in FY2027 being largely volume driven. Moreover, profit generation will remain lower than historical levels, and the industry will likely continue to report weak credit metrics. Thus, the outlook on the Indian petrochemicals industry remains Negative.



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