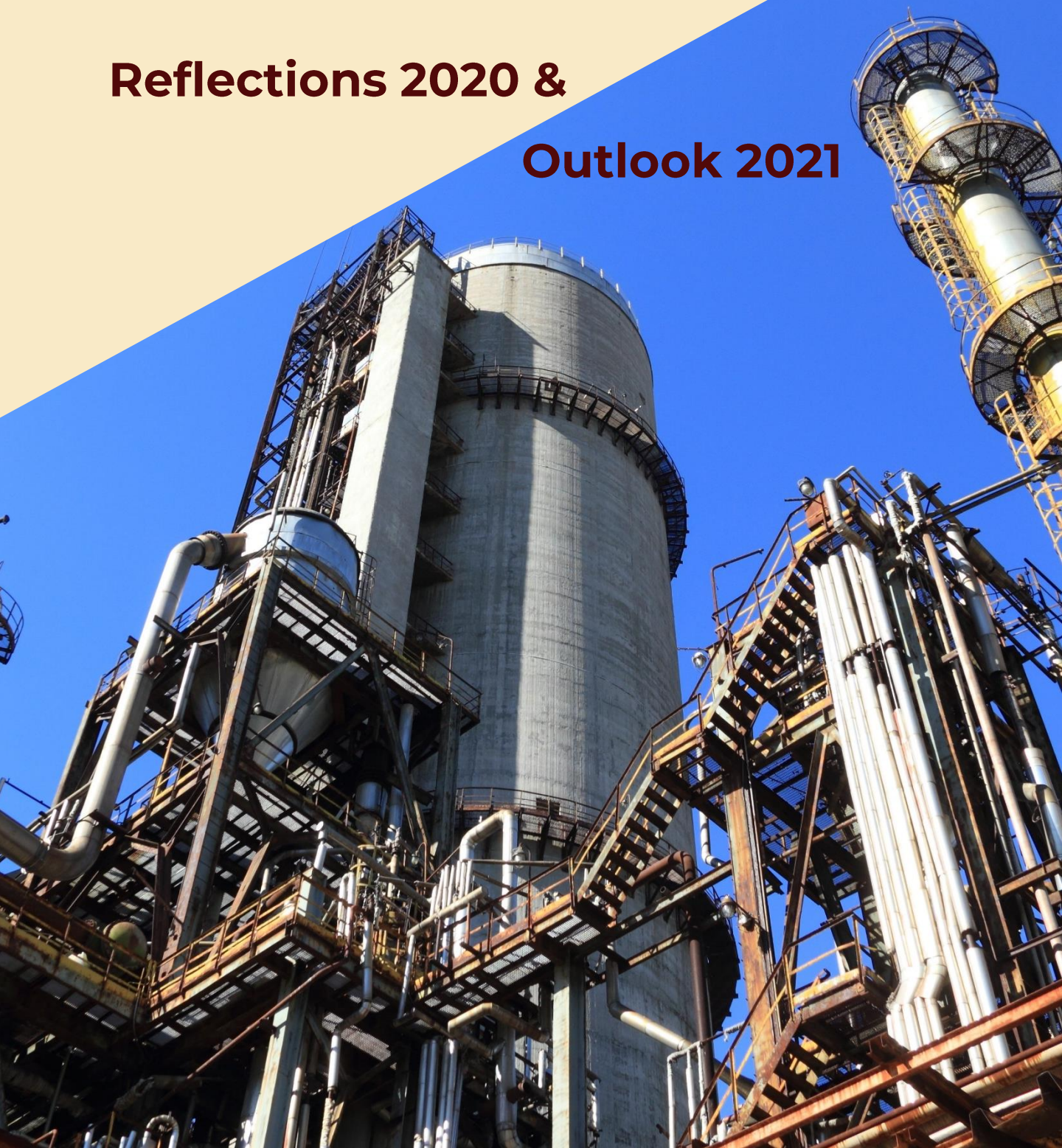


Indian Chemical Sector

Reflections 2020 &

Outlook 2021



In 2020, global chemical supply chains were tested. There were huge swings in prices.

Global Supply Chains Disrupted

China is a major player in the Global Chemicals value chain with over 35% of global share. China was the first to have severe lockdowns in early 2020 and it hit the chemical producing provinces of Hubei, Tianjin, Jiangsu and Shandong. This hit a lot of chemical value chains, especially in Pharma API, Crop protection chemicals, colorants & fluorochemicals. This was the largest of series of supply chemical disruptions from China – 2015 Tianjin explosion, 2017-18 Government led closures of chemical factories for environmental reasons, & 2019 Jiangsu explosion. The China disruptions came first.

Then there were lockdowns everywhere else causing further disruptions.

Many customers, especially from the western countries started looking for alternative sources to China for chemicals. This created an opportunity for Indian companies, however there were limited success stories. The opportunity has not completely gone away, but it is a limited time window.



Chemical supply disruptions started from China in early 2020 and its impact was deep as it has over 35% global share.

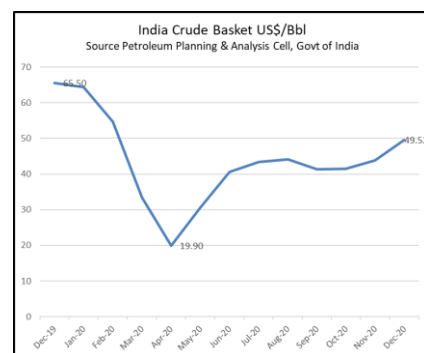
Fall and Rise of Prices

2020 was very volatile on the price and supply front. India oil basket fell almost 70% from \$64.31 in Jan to \$19.90 in Apr. Oil price steadily grew to \$49.52 in Dec, almost 2.5x of Apr low. Similar trend was seen in many oil-based chemicals.

With supply as well as demand disruptions for most chemicals, the whole year was very volatile on price front.

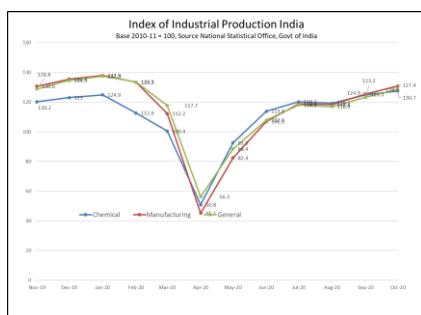
Fertilizers notably had a good season, with 2020 Apr-Jun sale at 112 lac ton, an 83% increase over 2019.

The business environment was uncertain for most part of the year and most companies employed defensive strategies for their business. Only a few new investments were announced in 2020.

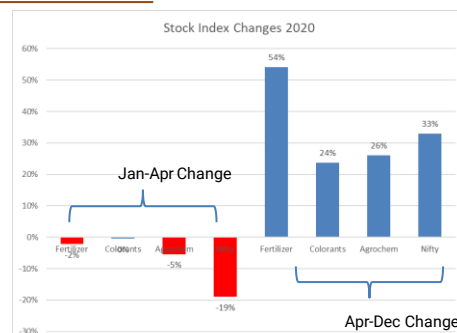


Volatility led most companies to adopt defensive strategies and postpone investments

Chemicals show Resilience



Between Jan and Apr Index for Chemical production fell 59% compared to 67% fall of manufacturing index.



Chemical (1) stocks fell less sharply compared to Nifty in Jan-Apr time frame and bounced back stronger in Apr-Dec time frame

...we did fine, but could have captured more opportunities...

- There were limited gains on new customers and exports for the Indian chemical industry.
- Other countries have taken more advantage from the China disruptions – e.g. Vietnam had more successes in crop protection chemicals compared to India (2).

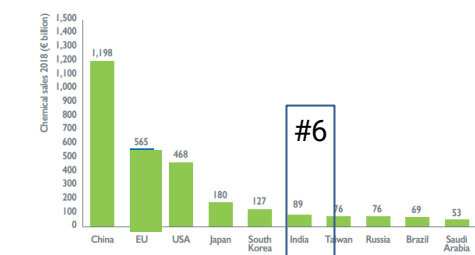
(1) Primus partners has grouped chemical stocks & measured their change based on market cap
(2) Primus partners analysis based on interview

Unlocking India's true potential in the chemicals' sector is based on the segment's inherent advantages

1 India as an alternative Chemicals' destination

India has inherent advantages in production of chemicals. There are many success stories in the specialty chemicals space with companies like Aarti, SRF, GFL, Galaxy, Meghmani, etc. developing both domestic & international markets. The Indian Specialty chemical need to be encouraged and be provided with a lower risk environment & this can result in substantial increase in business.

Chemical sales by country: top 10

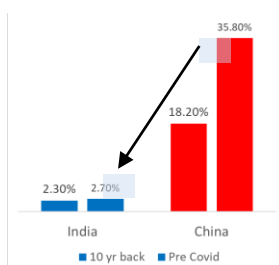


Source: Cefic Chemdata International 2019

Unless specified chemical industry excludes pharmaceuticals
Unless specified, EU refers to EU28

According to Cefic, the European Chemical Industry Council the global chemical industry sale was ~Euro 3347 billion (approx. INR261 lac crore). India was at #6 at Euro 89 billion (approx. INR7 lac crore).

Global Share of Chemicals



In past 10 years India did well by increasing its share but China's growth story is far more successful.

With the globe trying to find alternative sources of production as well as China focusing on environment, we have unique opportunity.

By taking 2-3% global market share away from China, we have opportunity of doubling our chemical industry. The same can be achieved by a) encouraging investment through incentives & ease of doing business b) lowering the risk of investors

2 Production Linked Incentive (PLI) Scheme of Govt

The typical set-up costs of making a new chemical production unit are high as well as the gestation period is long. This makes economics to start new chemical production adverse, even when it makes sense in the long term. If a scheme like PLI can really help the chemical industry go through the difficult initial period. PLI is a good measure, as it incentivises the industry to quickly put-up investment and starts commercial sales.

For make in India to be successful, base industries like Chemicals need to be incentivised. India has some inherent advantages that can make it the preferred manufacturing hub of Chemicals in the world.

The timing is right for this push as a) world is looking at alternative source other than China b) Sustainable chemistry requires change and renewal of technologies.

Two PLI schemes for mobile phones and specified electronic products & medical devices have been announced. PLI schemes worth Rs 1.46 lac crore are under consideration for the following sectors – advanced batteries, electronics, automobiles, pharma, telecom, textile, food, solar PV, white goods & specialty steels. The Government is still considering PLI on Chemicals & some industry consultations have happened. We believe that PLI in the Chemical sector will help drive significant growth.

**PLI
Required
for
Chemical
Industry**

Enhanced environmental management & monitoring will determine the next phase of growth for the Chemicals industry

3 Sustainable chemistry and circular economy

Sustainability is a critical trend in the Chemical Industry. The industry players, as well as the Government, must make an effort to benefit from the trend.

The European Commission adopted 'EU Chemicals Strategy for Sustainability', described as the first step towards a "zero pollution ambition for a toxic-free environment. It is referred to as "Green Deal". The EU will also provide financial support and technical assistance to help those that are most affected by the move towards the green economy and will help mobilize at least Euro 100 billion over 2021-27 for it.

In the USA, Joe Biden has already formed his climate scheme and has announced his focus on the environment. This is likely to accelerate the USA's regulation and incentives for sustainable chemistry.

China has adopted 'Blue Skies' in 2018 policy that targets to reduce air and water pollution. Many new regulations in China are forcing the industry to modernize and/or relocate.

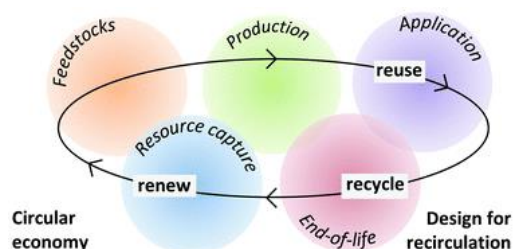
One of the key elements of Sustainable chemistry is a circular economy. The Indian chemical companies that are exporting will have to align themselves with the goals. It also gives the Indian industry an opportunity to adopt global best practices.

The sector needs support through regulations as well as incentives.



Regulations & incentives for green chemistry will gain momentum

Circular Economy in Chemical Industry

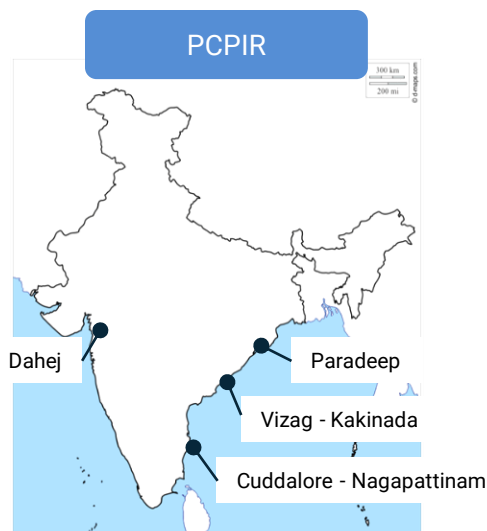


4 Energizing PCPIR

Petroleum, Chemicals and Petrochemicals Investment Regions (PCPIR) policy was implemented in 2007, and it created 4 PCPIRs in Dahej in Gujarat, Paradeep in Orissa, Vizag-Kakinada in Andhra Pradesh & Cuddalore-Nagapattinam in Tamil Nadu. The main aim was to have 'cluster approach' for Chemical production that would yield efficiency in production and supply chain. The policy has been a limited success, and the degree of success has been different for the 4 PCPIRs.

The Government is working on overhauling the policy and is working on the 2020-2035 vision. Some of the key recommendations are to have denser concentration, specific cluster integration, better environmental management & monitoring etc.

There is an urgent need to upgrade the infrastructure of PCPIRs, have better master planning and incentivize investment in the regions.



The **market** size of **chemical** and petrochemical **sector** is expected to **grow** to \$300 billion by 2025 from the existing \$150 billion. This will require investment of about \$75-100 billion (1)

Few key questions that will need executable answers



How does India compete with other Global locations for investment in Chemicals



Would initiatives like PLI and Atmanirbhar Bharat be successful in making India a global chemical manufacturing hub?



How to manage regulations for sustainable chemistry. On one hand it may disrupt existing businesses, on other it provides for a long term more sustainable future

...and what policy / budget clauses can enable implementing the above...

1. Reducing the risk for Investment in Chemicals

Lower risk for the investors by providing loans, faster clearances, common infrastructure, power availability etc. Reducing gestation period and reducing investment utilities can substantially improve investor confidence.

2. PLI for Chemicals

We believe that PLI for Chemicals will be very successful and will propel the chemical industry in a high growth trajectory.

3. Energizing PCPIR and Investment Promotion

The Government must upgrade the infrastructure of PCPIRs, have better master planning and incentivize investment in the regions. Centre should play a larger role in their development.

(1) [Indian chemical industry plans to double turnover to \\$300 billion by 2025 \(businesstoday.in\)](#)

About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'.

'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

India is and will continue to be a complex opportunity. Private and Public sector need trusted advisory partners in order to tap into this opportunity. Primus Partners is your go-to trusted Advisory for both public and private sector organizations involved intricately with nation building, and the creation and growth of robust corporations as engines of progress.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc), and with varied specialization (engineers, lawyers, tax professionals, management, etc).

Primus Partners brings experience of working in more than 30 countries with private and public sector, including working with Government of India, building and leading large consulting teams at the leadership level, and creating one of the largest public sector consulting practice in India. They also represent 200 person years of experience in leading global and Indian consulting firms and the public sector.

The founding team is supported by a distinguished advisory board that includes experts with leadership experience across government, large corporate and notable civil society organizations.

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