

# MONTHLY SECTOR UPDATE

Issue | June 2020



## Chemicals

*"Chemistry is necessarily an experimental science: its conclusions are drawn from data, and its principles supported by evidence from facts."*

Michael Faraday

Indian Chemical Industry is the **3<sup>rd</sup> largest** in Asia and **6<sup>th</sup> largest** in the world with respect to output

In 2018-19, the Indian chemical industry stood at market size of **USD178 bn**



**3.4%** contribution to the global chemical industry



During 2010-20, the industry grew by a CAGR of **10%**



Employment to over **2 Mn people**



In 2018-19, chemical export stood at **US\$19.09 billion**

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# Our Take

The global pandemic COVID-19 has impacting everyone. To protect itself, its employees, customers, every business has adapted to the current situation. The chemical industry is no exception. The COVID-19 shutdown has created huge imbalances in the chemical industry's operations in upstream as well as downstream.

The global economic impact caused by COVID-19 pandemic is expected to structurally alter the approach of governments, organizations and industry. We feel, a clear and well-thought road map is the need of the hour.

The global pandemic COVID-19 has impacting everyone. To protect itself, its employees, customers, every business has adapted to the current situation. The chemical industry is no exception. The COVID-19 shutdown has created huge imbalances in the chemical industry's operations in upstream as well as downstream.

Companies all over the globe have been hit, with supply chain being disrupted as the COVID-19 pandemic spread. Major firms are looking to de-risk their supply chain teams to reduce dependence on one country. India becomes a natural destination, owing to its English-speaking, skilled workforce, lower cost of labour and its large market of 1.3 billion people whose disposable income is growing.

We believe that many of these Indian suppliers are ready to cater to the needs of developed markets. The proposal of the banning of 27 pesticides has been opposed by the Agro-

Chemical industry to protect farmers interest and save crops from locusts. The Government notification lists alternative formulations which could be used instead. These 27 pesticides constitute 40% of the domestic market and will hurt both the domestic and export market revenues. The industry witnesses five significant accidents in a month with the most severe one reported in Vishakhapatnam, affecting hundreds in the city. While the lockdown is being attributed to having potentially contributed towards these accidents, as companies went into non-standard operations, improper shutdowns and start-ups & partial manpower, it indicated the lax attitude on safety.

The global economic impact caused by COVID-19 pandemic is expected to structurally alter the approach of governments, organizations and industry. To pursue its endeavor of becoming a global manufacturing hub, the Indian chemical industry needs to look for solutions to make itself cost competitive, expand into value added products. We believe a well-thought road map should be implemented in a timely manner to leverage the opportunity in the sector.

Anurag Singh  
Managing Director  
Primus Partners

## Key take-aways

**Shifting of chemical manufacturing facilities to alternate destinations in wake of COVID 19 to reduce dependence on China**

**Proposal of banning of 27 pesticides opposed by Agro Chemical industry body, 'Croplife India' to protect farmers' interest and save crops from locusts**

**Five Significant accidents in a month with the most severe one reported in Vishakhapatnam on 7 May 2020, affecting hundreds in the city**

### Sources:

1. Invest India
2. Department for Promotion of Industry and Internal Trade (DPIIT)

# Report in Review

## The Indian chemical industry: Unleashing the next wave of growth

India's chemicals industry has demonstrated strong performance and growth. A significant contributor to the country's GDP, the chemical industry is a lucrative space of opportunities despite global uncertainties. Global trends impacting the chemical industry also present promising opportunities for chemical companies of India. It is up to the chemical players of India to prioritize and tap this value-creating potential of the future.

### Key Findings

#### **India's chemical industry: A consistent value creator with a positive outlook**

India's chemical industry is an outperformer from global standards, from the perspective of returns to shareholders. The market is an attractive space for players looking out for growth. This outperformance of the industry has led to high expectations for sustained, continual growth of the industry's top line and bottom line. The broad-level perspective on the Indian business environment indicates that while the short-term outlook is challenging, the country's long-term growth story remains positive.

#### **Global trends: Uncertainty for the world, possibilities for India**

- Several global oil and gas majors are turning their sights on downstream chemical opportunities. This may increase the focus on petrochemicals in India, and higher investment in the sector could ease feedstock challenges and boost self-sufficiency.
- The structure of China's chemical industry is changing due to stricter environment norms, tighter financing and consolidation. While these shifts may benefit select large players in the long run, they could cause uncertainty for international players that source chemicals from China. That could create opportunities for Indian chemical companies in certain value chains and segments, especially in the short term.

- Trade conflicts have erupted around the world, especially among China, the United States and Western Europe. These have led to shifts in global supply chains, affecting bilateral trade between China and the United States, with possible repercussions for other economies. Large chemical markets that remain accessible in this scenario could present opportunities for Indian chemical companies.
- Industrywide, there seems to be a move toward prioritization of core businesses and consolidation for greater scale, often through big-ticket mergers and acquisitions. For Indian players, the scale will matter even more, as it could help to fortify their competitive advantage.
- Digital technology has established itself as a lever to enhance efficiency and productivity. Indian companies could also tap into this opportunity to expand their profit margins.
- Chemical companies could prioritize environmental sustainability to protect long-term shareholder value while continuing to comply with local regulations.

#### **Investible opportunities in India**

Today, India has a chemical trade deficit of US\$15 billion. Analysis of India's chemical exports and imports, coupled with a review of opportunities emerging from global trends, suggests two investible themes:

- Building self-sufficiency in petrochemicals to plug the domestic supply shortfall of 52 per cent (by volume) in petrochemical intermediates: Six value chains make up around 77 per cent of this shortfall, creating an opportunity worth about USD 11 bn.
- Ramping up exports in select areas, such as speciality chemicals, to obtain a larger share of global value.

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# News & Announcements

## Key Sector Developments

- **Agro chemical industry body opposes draft proposal to ban 27 pesticides, May 21, 2020:** CropLife India, an industry body for agro chemical firms, on Thursday opposed a draft proposal to ban 27 pesticides that have a 15 per cent market share, saying it will hurt the farmers' interests. [Read more](#)
- **India's pharma and chemicals groups jostle to take business from China May 17, 2020:** Indian chemical and pharmaceutical groups are positioning themselves as an alternative to China as the coronavirus crisis prompts companies to diversify their supply chains. [Read more](#)
- **Petrochem, Chemical imports likely to face 15% Covid tax, May 20, 2020:** India is considering a proposal to levy Covid-19 tax on chemical and petrochemical imports from May 1, 2020-Mar 31, 2021 to protect domestic industry. [Read more](#)
- **India's chemical plant disaster: another case of history repeating itself, May 07, 2020:** Hundreds of people admitted to hospital and several dead after gas leak at southern Indian chemical plant. [Read more](#)
- **India delays overarching chemical law, notification likely required by January 2022, May 19, 2020:** The Indian government will delay the implementation of the Chemical (Management & Safety) Rules amid the ongoing coronavirus Covid-19 pandemic, according to consultancy Sustainability Support Services (SSS). [Read more](#)
- **COVID-19 Shifts the Balance: India Could Become Global Specialty Chemical Export Hub, May 04, 2020:** The key growth accelerator would be our readiness in responding to the strong demand of key global markets to de-risk their supply chain by diversifying their base beyond China. [Read more](#)

## Key Players Updates

- **Reliance estimates USD 200-400 million liability in KG-D6 cost recovery dispute, May 25, 2020:** Reliance Industries has estimated a maximum liability of USD 400 million (Rs 3,000 crore) in its nine-year old dispute with the government over alleged under-utilisation of capacity at the KG-D6 field due to failure to comply with an approved investment plan. [Read more](#)
- **Deepak Phenolics starts IPA production, May 24, 2020:** The company has commenced production of IPA at its manufacturing facility located at Dahej with an installed capacity of 30,000 TPA. The plant will make IPA from Acetone that it manufactures in the same facility thus mitigating the supply side risks. [Read more](#)
- **Credit rating of HIL (India) upgraded to BBB, May 24, 2020 -** The credit rating of HIL (India), a PSU under the Department of Chemicals and Petrochemicals, Ministry of Chemicals and Fertilizers has been upgraded to BBB-. [Read more](#)
- **Indo Amines partners with a Thailand based company for manufacturing blended emulsifiers, May 24, 2020:** Indo Amines Limited (IAL) has entered into a Joint Venture cum Collaboration Agreement with a Thailand based Company, Optimal Tech Co. Ltd for manufacturing various specialities like Blended Emulsifiers for Agro, Fertiliser Additives, BKC, etc. [Read more](#)
- **Cabinet approves interest waiver of HOCL, May 21, 2020:** It was earlier approved by the Cabinet Committee on Economic Affairs in March 2006 under the rehabilitation package for HOCL. [Read more](#)

# Looking Forward

Before the COVID-19 struck the Indian Economy, The chemical sector in India was expected to double to US\$ 300 billion by 2025, clocking an annual growth rate of 15-20 per cent. Chemical industry was expected to follow an accelerated growth path and was expected to double up its global share in the next decade.

- The petrochemical demand was on track to grow at 7.5% CAGR from FY 2019-23, with polymer demand growing at 8%
- The agrochemicals market in India was expected to grow at 8% CAGR reaching \$3.7 bn by FY22 and \$4.7 bn by FY25.
- The specialty chemicals constitute 22% of total chemicals and petrochemicals market in India. As of FY18, the total market size is around \$35 bn. The demand for specialty chemicals was expected to grow at 12% CAGR from FY19-22.

Today everything has changed. Due to the dependency on the Chinese supply-chain, real manufacturing GVA is expected to decline by 5% in FY21. It is expected that this would result in an approximate loss of about \$31 billion in value-added for the manufacturing sector during the coming year. India needs to fast-track its plans to become a self-sufficient nation with regard to chemicals, as it is important to bridge the gap to cut down foreign dependence for essential raw materials. This, naturally, would also bring a wide range of opportunities for domestic manufacturers to explore.

Considering such scenarios, diversification of supply chain is an important step to mitigate risks in the future. A well thought Foreign Trade Policy (FTP) will help enhance India's trade

share globally. There is no better time than now for the government to start creating concrete domestic and foreign policy to facilitate industry to invest in India's chemical self-reliance.

The chemical industry will overcome the current health and economic crisis with some scars, but with some learnings and positives. Industry will refer to pre-COVID & post-COVID era. It is important that we use this crisis as an opportunity. We believe that the Indian chemical industry has the prerequisites to emerge stronger in the medium-term. The situation we are in is challenging, however, looking ahead it might also give us some opportunities.

Even if we get past this pandemic by Q2 2020, given the above situation, the effect on the economy would potentially last for further three-six months as supply chain challenges will persist in the near term.

Indian chemical industry also needs to look for solutions to make itself cost competitive, expand into value added products. If done right, India could benefit as a manufacturing hub in the mid-term. We have to increase the speed of reforms implementation and consider the chemical industry as an integral part of India's industrial ecosystem. However, implementing additional import taxes or additional duties will be very counterproductive.

## Sources:

1. Invest India
2. COVID-19: Imbalances in chemical industry: Opinion piece by Mr. Kumar Swamy, Managing Director, Fintressenter India Pvt. Ltd.
3. COVID-19: Roadmap for Indian chemical industry: Opinion piece by Mr. Sanjeev Taneja, President and Managing Director, Evonik, India Region
4. COVID-19: Change, Challenge & Healing Solutions for the Indian Chemical Industry: Opinion piece by Mr Anand Srinivasan, Managing Director, Covestro India

## 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 organisations.

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