

SECTOR IN FOCUS

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Chemicals



Supply Disruption Double Whammy



Does Going Green add Shareholder Value?

1

Our Take

- Supply disruption double whammy for chemicals
- Does Going Green add to the shareholder value a company creates?

2

India-Specific Dashboard

- PMI
- IIP
- India crude basket
- Chemical stock price indices

3

News and Announcements

- NITI Aayog bats for pricing freedom for natural gas
- Govt decriminalizes proposed law on fertilizers; tones down penalty provisions
- Gujarat announces New Biotechnology Policy 2022-27
- Mylab to open new manufacturing facility in Vishakhapatnam
- Mankind Pharma to invest Rs 200 crore in agri-tech space

1 Our Take



Ukraine war: On 24th February, Russia started special operations in Ukraine, almost immediately impacting oil and gas prices and supply

China Covid lockdown: China witnessed a massive wave in March and the government swiftly imposed lockdown in many cities and provinces

Supply Disruption Double Whammy for Chemicals

The global chemical industry's top 2 dependencies are being disrupted:

1. Oil (a major feedstock for most chemicals) due to the Russia-Ukraine conflict
2. Covid-19-related lockdown in China, the largest chemicals manufacturer and exporter

Just as the world was showing a sharp recovery in demand for chemicals, the industry has been unsettled by the above two events.

The impact of the Ukraine conflict on the oil & gas market has been substantial and immediate. The prices of natural gas and crude have soared to record levels and remain volatile. Sources and supply chains are also getting impacted significantly.

China responded swiftly to the current Covid-19 wave and imposed lockdowns to contain the pandemic. Geographically within China, these were in areas that impact the chemical industry and its logistics. This will result in shortages of many chemicals and intermediates very soon. With this event, there have been more than 5 big disruptions coming from China in the last 7 years: Closures due to the Blue Sky policy, Tianjin explosion, Covid-19 first wave, coal and electricity shortage and now the latest Covid-19 wave.

These disruptions are both an opportunity and threat for India and the Indian chemical industry. Organizations that have de-risked themselves in terms of sources, products, and customers as well as those who are agile and respond to changes proactively are likely to gain from the disruptions. India is favorably placed in the minds of customer as an alternative source. Higher oil and gas prices as well as supply disruptions and order cancellations will impact many organizations negatively in the short run.



"Going green" is not just for corporate image and future generations, it is likely to result in superior shareholder returns. Thus, it makes a lot of sense on the moral, environmental, commercial and value creation counts to invest in going green.

Does going green add to shareholder value in chemicals?

Growing regulations coupled with company-specific initiatives are propelling the chemical industry towards rapid 'greening' by reducing its carbon footprint as well as producing less toxic and harmful chemicals. We try to find evidence whether "Going Green" actually adds to shareholder value.

We looked at 5 companies that had outperformed the market - Atul, Hikal, GNFC, Deepak Fertilizers, & GFL. All of them have strong green initiatives. They have invested in reducing energy / carbon footprint and have improved their product portfolio to include more sustainable chemistries. While there would be other factors in play and success cannot be pin pointed to "Going Green" alone, we do find some evidence.

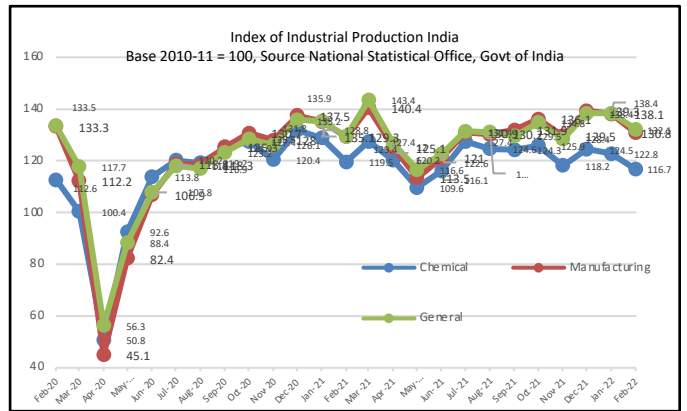
A recent article by McKinsey also suggests that between 2016 and 2021 green leaders outperformed green laggards by a factor of 2-3 times in delivering total shareholder returns.

We believe that investing in "going green" is just not for corporate brand building but also for creating and delivering real value. Organizations that innovate towards less toxic chemistries, lower carbon footprint and higher recycling are likely to be rewarded.

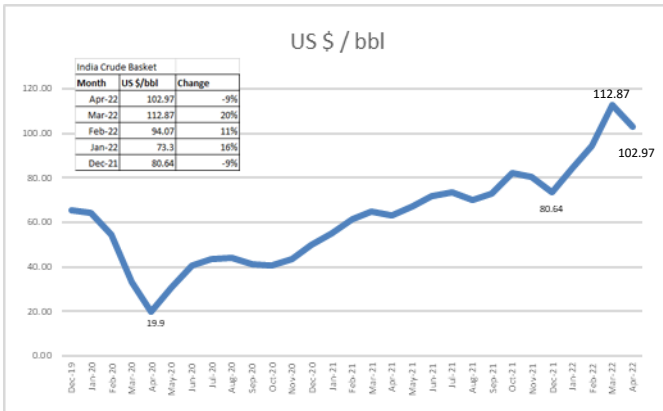
2. India-specific dashboard



PMI greater than 50 signifies an expansion of business activity. After a slight dip in March, India's Manufacturing PMI bounced back to 54.7 in April. Due to ongoing lockdown, China's PMI shrunk to 46 after many months of expansion. The EU showed considerable expansion (56.5) while the US (59.2) showed a big increase in business activity.



The IIP figures released in February 2022 show a flat trend since June 2021. The declines compared to the previous month are Manufacturing General (-5%), Manufacturing (-5%), Chemical (-5%). The IIP figures are higher compared to May 2021 lows.

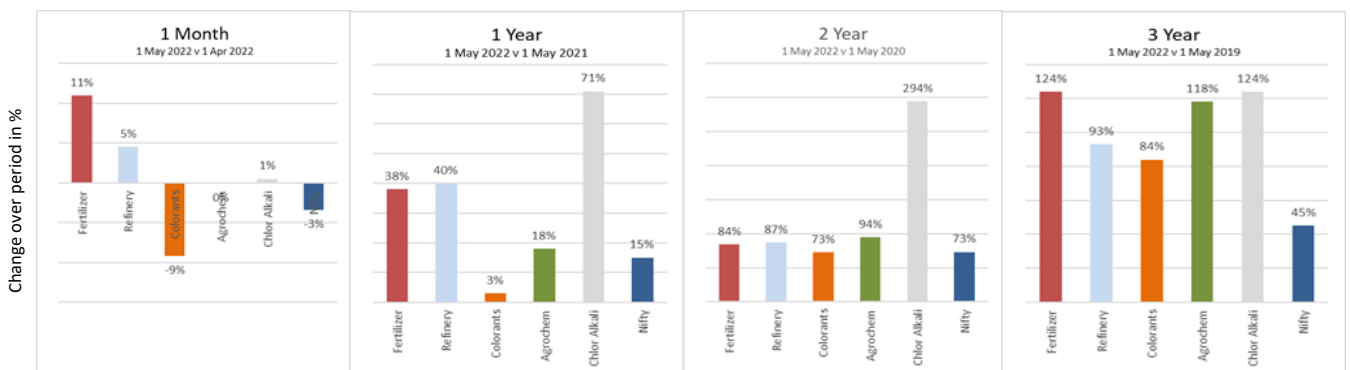


The Indian basket of crude oil has been rising since April 2020 and has further risen exorbitantly since the breakout of the Russia-Ukraine war. The month-on-month increase was 20% in March 2022. In April, there is a 9% fall in crude basket rates in over three months. Fuel prices at petrol stations are currently at an all-time high with petrol selling for more than Rs 105 per litre in most locations.

Chemical Stock Indexes:

Chemical indices have outperformed the Nifty across all time frames listed below. This is despite the many disruptions that the industry has witnessed over the past 3 years.

Primus Partners took a basket of stocks from different parts of the chemical industry and created chemical stock indexes. Many of the companies are not pure play players, and they have been weighted according to the portfolio.



3. News and Announcements

Policy News

Dabur becomes first 'plastic waste neutral' FMCG company in India

Feb 14, 2022

Dabur India, the country's largest Ayurveda company said it has become a complete plastic waste-neutral firm after collecting, processing and recycling 27,000 metric tonnes of post-consumer plastic waste during FY21-22. [Read more](#)

NITI Aayog bats for natural gas pricing freedom

Apr 27, 2022

The planning body is battling for selling all natural gas through the Indian Gas Exchange (IGX), the country's first natural gas exchange, where the buyer and seller can decide on prices in a transparent manner, sources aware of the development told *Business Standard*. [Read more](#)

Govt decriminalizes proposed law on fertilizers; tones down penalty provisions

Mar 17, 2022

Following public criticism of 'jail term' in the proposed Plant Nutrition Management Bill, the Centre is expected to decriminalize the violations specified. [Read more](#)

NITI Aayog suggests production of vanadium

Feb 19, 2022

To support import substitution, India must begin production of vanadium domestically for steel production, a senior NITI Aayog official said recently. [Read more](#)

Gujarat announces New Biotechnology Policy 2022-27

Feb 18, 2022

This policy is a step towards Aatmanirbhar Bharat, the vision of Prime Minister Narendra Modi. Under this policy, strategic projects and mega and large projects are eligible for special packages. [Read more](#)

Govt considering setting export target for Green Hydrogen

Mar 16, 2022

The government is exploring ways to scale up the production and availability of green hydrogen and is considering to set an export target towards that end, which would imply an abundant domestic supply of green hydrogen, Niti Aayog Vice Chairman Rajiv Kumar said. [Read more](#)

Industry News

Mylab to open new manufacturing facility in Vishakhapatnam

March 21, 2022

Mylab Discovery Solutions, India's leading biotech company, announced the opening of a new manufacturing facility at Andhra Pradesh MedTech Zone in Visakhapatnam. [Read more](#)

Adani, Ballard Power to explore investments in hydrogen fuel cells

Sep 27, 2021

Under the MoU, both parties will examine various options to cooperate, including potential collaboration for fuel cell manufacturing in India, Adani Group said in a statement. [Read more](#)

India's chemical industry has outperformed overall markets consistently

Mar 22, 2022

India is an attractive hub for chemical companies. The chemical industry is a global outperformer regarding total returns to shareholders (TRS) and this has resulted in high expectations for sustained, continual growth. [Read more](#)

Encouraging Q4 results of Chemical industry majors – Tata Chemicals

Apr 20, 2022

The chemical industry is likely to have many companies showing strong performance. Tata Chemicals posted 32% increase in revenue and multi fold jump in consolidated profit after tax. [Read more](#)

6 killed in blast at chemical factory in Andhra Pradesh

Apr 15, 2022

Safety is a key concern for the chemical industry. A blast occurred in Porus Laboratories' pharma intermediary factory in Eluru district of Andhra Pradesh. [Read more](#)

Mankind Pharma to invest Rs 200 crore in agri-tech space

Apr 04, 2022

Mankind Pharma plans to invest upto Rs 200 crore over the next 2-3 years in agri-tech and will offer variety of crop care solutions including weedicides, insecticides, fungicides, plant growth regulators and biologicals. [Read more](#)

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.

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).



PASSION

for providing solutions to help clients achieve their goals

RESPECT

For all and alternate viewpoints

INTEGRITY

of thoughts and actions

MASTERY

of our chosen subject to drive innovative and insightful solutions

US

Representing the Primus collective, where each individual matters

STEWARDSHIP

for building a better tomorrow

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