

INDIAN CHEMICALS SECTOR: SPECIALTY CHEMICALS

Healthy demand to continue in H2
FY2022; margins witness some pressure
due to higher raw material costs

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The specialty chemical sector has witnessed healthy demand in the current fiscal from both domestic as well as the export market. The segment has also benefited from the 'China+1' diversification strategy adopted by global companies in sourcing of chemicals.

Credit profile to remain stable supported by healthy revenue growth and profit margin, although profit margin to witness some moderation due to higher raw material costs



- The credit outlook for the specialty chemical industry remains Stable. In the current fiscal, the sector has witnessed healthy revenue growth across major sub segments during H1 FY2022, although profit margins have witnessed some moderation due to high raw material costs. For full year FY22, the revenue growth trend is expected to continue, although high raw material costs and impact of the Chinese energy crisis, will put some pressure on margins, though they will remain healthy.

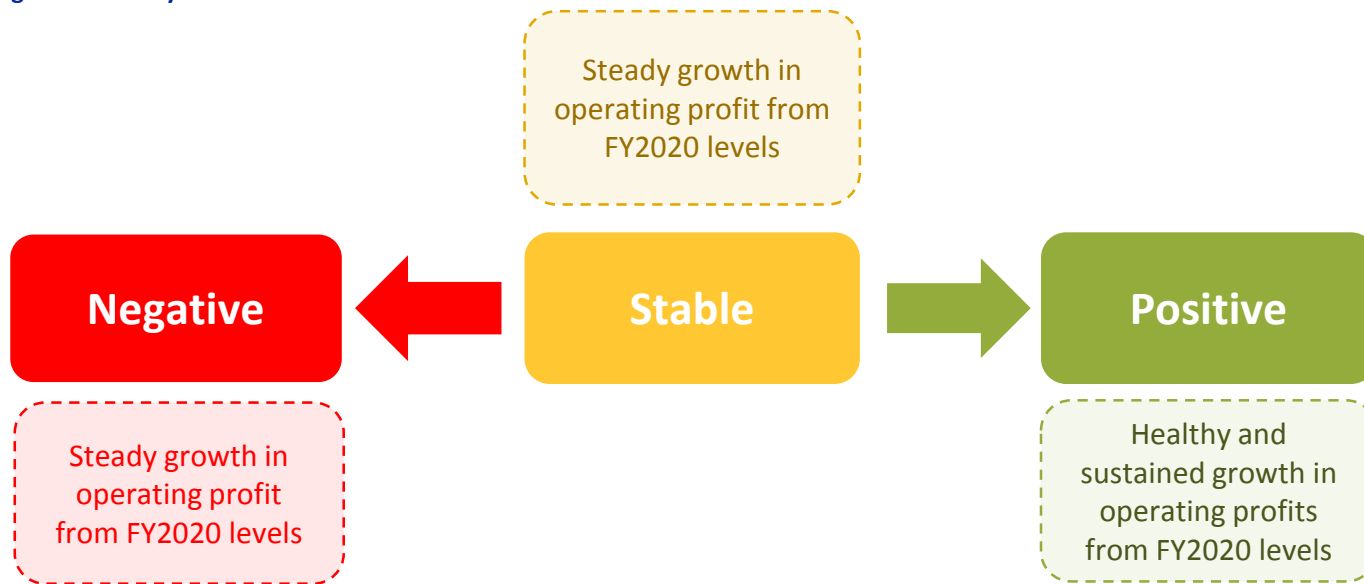


- In the medium term, the sector is expected to benefit from continued diversification in the global supply chain with global chemical majors looking at diversifying their dependence on China and the Indian companies are well placed to get a healthy share of the opportunity. The credit outlook is also supported by a relatively robust balance sheet of the players with moderate gearing and comfortable coverage indicators, despite some of the major players incurring debt-funded capex in the recent years.



- The medium to long-term outlook remains favourable for the specialty chemical segment, aided by growth prospects in the domestic market as well as robust demand from the export segment. Further, the segment will also benefit from increased domestic feedstock availability in the medium term, supported by trade protection measures from the Government

What could change the industry outlook



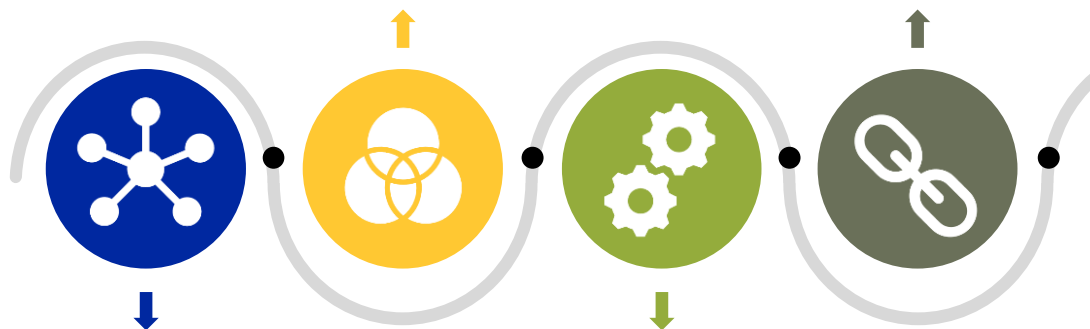
Outlook pertains to the expected aggregate performance of the sector. However, performance of sub-segments may vary.

Dyes and Pigments

The demand for dyes & pigments was impacted in FY2021 due to Covid-19, however there was some recovery in H2 FY2021. The demand recovery trend is expected to continue in FY2022

Flavours and Fragrances

The outlook remains stable, owing to its use in FMCG, pharma and food and beverage industries, which have been less impacted by the pandemic.



Agro-chemicals

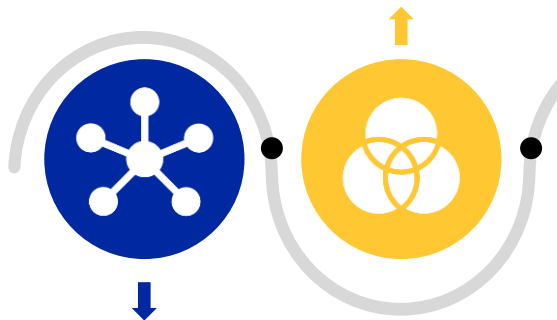
Outlook stable for the segment driven by robust domestic as well as export demand. The issue of ban on 27 pesticides in India for domestic use remains work in progress

Surfactants

The surfactant segment benefited in FY2021 from heightened demand for cleaning products. In the medium to long term, the demand outlook remains favourable aided by growth in demand for the personal and home care segment as well for the use of surfactants in niche sectors and export market.

Fluoro-chemicals

The performance of refrigerant segment was adversely impacted in FY2021 due to impact of Covid-19 on white goods and refrigeration segment, however, demand from other fluorochemical segments remained healthy. The domestic demand was subdued in Q1 FY2022, but good export demand supported domestic manufacturers. For full year FY2022, demand is expected to witness recovery



Construction Chemicals

The demand had weakened on account of impact of Covid-19 pandemic on construction and infra sector during H1 FY2021, however, there was healthy recovery in H2 FY2021. The demand witnessed modest impact in Q1 FY2022, but subsequently there is good demand recovery and full-year demand is expected to be robust. The medium to long-term outlook remains favourable, driven by expected infrastructure growth, increasing urbanisation, low consumption of construction chemicals in construction at present and increasing adoption of global standards.



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