

The coronavirus has a silver-lining for Indian specialty chemicals after all

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India's chemicals industry is warily watching the disruption to global supply chains due to the coronavirus outbreak, like the rest of the world.

But unlike others, the domestic specialty chemicals sector, notably custom producers, are seeing an opportunity in deepening relations with global companies and expanding supply contracts.

"The world is looking at de-risking their supply chains, which are fairly dependent on China. The chemicals sector in India has the opportunity for significant growth," said Ashish

Bharat Ram, managing director at SRF Ltd.

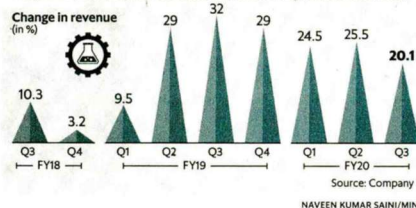
PI Industries Ltd, which generates a large chunk of its revenue from custom manufacturing, said it was seeing rising demand for existing products, and enquiries. It is raising ₹2,000 crore through a qualified institutional placement (QIP) to fund expansions.

"The size of the QIP clearly highlights the management's high level of confidence about growth, fuelled by new initiatives," Investec Capital Services (India) Pvt. Ltd said in a note.

PI Industries' capital expenditure thrust may as well be a part of the larger theme of supply-chain evolution outside China,

Growth chemistry

PI Industries is expecting to clock 20% annual growth for the next couple of years, thanks to traction in custom synthesis business.



which is presently under way. Environmental challenges and a clampdown on polluting industries in China and the disruption to supplies is forcing global com-

panies to diversify their supplier base, benefiting India. This is reflected in acceleration in revenue at the top 10 specialty chemicals companies in recent years,

according to a study by Avendus Capital Pvt. Ltd.

Koushik Bhattacharyya, director and head (industrials) at Avendus Capital, and lead author of the study, expects the acceleration to continue. However, he doubts if one-off events, such as the coronavirus epidemic, will trigger a major supplier realignment immediately.

Even so, Bhattacharyya sees custom manufacturing evolving beyond agrochemicals, where Indian firms co-develop and invest in niche chemistries. These molecules may be too small for global companies to focus on, but have a wider end-user market with high profit margins.

"Part of this trend may be driven by China," he said.

The challenge is to keep up with the environment and regulatory compliances. Accidents at manufacturing plants are on the rise. As Ram of SRF pointed out, much will also depend on the pace of regulatory approvals.

That said, such contracts usually take many years and time to yield results. Meanwhile, a price rise due to the prolonged shutdown at factories in China can have mixed results for the domestic industry. While it can benefit some, such as Aarti Industries Ltd, it can hurt firms that depend on China for raw materials, notably agrochemical sellers.

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