We always find a better way

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Specialty chemicals firms set for a robust show in Q4

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Demand for specialty chemicals has continued to be strong since the easing of lockdown restrictions. While pent-up demand helped, global customers looking at reducing dependence on China, also drove volumes for Indian manufacturers. Further, companies have gained from a rise in realizations. All of this has been supporting earnings growth for the sector.

A recent disruption of supplies from the US has further pushed up realizations.

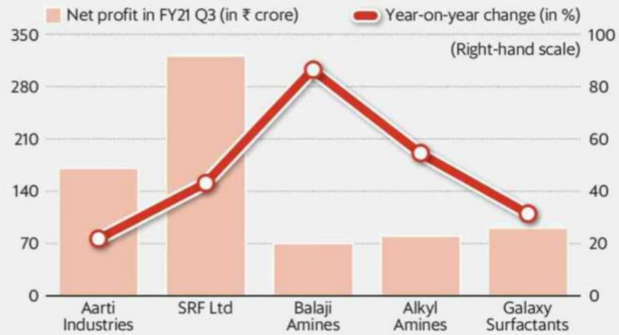
The winter storm in 26 US states, where large chemical units are located, impacted supplies. The prices of key products such as phenol, benzene, acrylonitrile, acetic acid, aniline and styrene continued to rise. The prices rose 25-60% month-on-month in February as per Emkay Global Financial Services data. The northward movement continued in March. Some price increase has been on account of rising crude prices. Phenol prices after averaging $1,150 a tonne (rising 18% month on month) in February, are at $1,350 per MT levels in March, said an analyst. This is benefitting firms such as Deepak Nitrite and Hindustan Organic Chemicals Ltd, which have seen stock prices more than double since October-end. Similarly, acetic acid prices remain in excess of $900 per MT, benefitting firms such as Gujarat Narmada Valley Fertilizer and Chemicals Ltd (GNFC). Also, anti-dumping duties on imports from China as well as on aniline has helped firms. The burgeoning demand for hygiene-based products along with innovators' focus on China-plus-one strategy has been a key driving factor benefiting Galaxy Surfactants Ltd, Aarti Industries Ltd and SRF Ltd, said analysts at Edelweiss. Steady demand and higher realizations are expected to help firms post good performance in Q4 after a robust Q3.

Rising demand for hygiene-based items has benefitted firms like Galaxy Surfactants & Aarti Industries

However, challenges are emerging, too. Inflated shipping costs (on container shortages) is impacting goods movement and adding to logistic costs. The same is expected to take a few quarters for resolution. Further, the input costs are also rising with firm crude and commodity prices. The strong margin expansion in Q2 and Q3 for chemical firms was driven by low-cost inventory benefits, said analysts. This may partially extend to Q4. "For FY22 Q1, we could see margins cooling off as a result of higher raw material costs," said Emkay analysts.

Robust growth

Earning propsects of chemical companies have improved due to firm demand and rising realizations.



Source: HDFC Securities Ltd

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