Chemicals l Monthly Sector Update – Nov 22 l 2 December 2022

SMIFS LIMITED
LEGACY | TRUST | GROWTH

Chemicals Monthly || November 22

Speciality Chemicals theme is intact despite near disruption in demand, Europe+1 & China+1 acting as growth catalyst

Our chemical channel checks suggest that with slowdown in demand witnessed in dyes, pigments, FMCG, agrochemicals etc and increasing central bank rates across countries to control inflation is already weighing heavily on the prices of commodities chemicals and the impact might not have been yet factored in the prices. India remains on a strong footing in chemicals led by increasing interest of global companies to source from India to derisk their supply chain, increasing share of speciality chemicals in overall product mix and robust capex aligned by chemical companies to capture future growth. Major downstream petrochemicals like Benzene, Ethylene have witnessed decline in prices mirroring the decline in crude oil prices. In our last chemical monthly we discussed the power crisis in Europe, although provides an opportunity for Indian chemical companies to increase wallet share in European market, it still remains under our watch if Russia becomes softer in its stance which can completely reverse the situation and benefits reaped by India as well. China prices are contradicting the global trend wherein decline in prices is quite steeper in various commodity chemicals like benzene, Aniline etc and if demand in China remains subdued it can dump into its neighbouring countries including India.

Chemicals price movement and impact of listed chemical players

Benzene prices declined by ~1.4% MoM – Companies like Aarti Industres, Deepak Nitrite, Hindustan Organic Chemical etc use it as a raw material and RIL, IOCL, BPCL are the manufacturers.

Aniline prices declined by ~4% MoM basis – Companies like NOCIL use Aniline as the major raw material. Also, Aarti use aniline as raw material.

Toluene prices declined by ~4% MoM & TDI prices declined by ~4% MoM – GNFC is the largest manufacturer of TDI and it is produced from Toluene via nitration to Dinitrotoluene. Also, companies like Aarti uses Toluene and Conc. Nitric acid to make Nitro-Toluene.

Styrene Monomer (SM) declined by ~6% MoM – Supreme Petrochem uses SM which is the major raw material of the company.

Phthalic Anhydride (PAN) prices declined by ~5% MoM whereas Ortho-Xylene prices prices also declined ~9% MoM. IG Petro & Thirumalai both manufactures PAN and consumes Ox as the raw material. The spreads have contracted which is negative for both the companies.

Mono Ethylene Glycol (MEG) declined by ~12% MoM basis – Companies like India Glycols manufactures MEG.

Iso Propyl Alcohol (IPA) prices are declined by ~5% MoM. IPA is majorly used to manufacture santizers. Companies like Deepak Nitrite and Deepak Fertilizers manufactures IPA.

Phenol prices are declined by ~2% MoM. **Acetone** prices declined by ~8.4% MoM. Deepak Nitrite is the largest manufacturer of Phenol & Acetone in India.

Acetonitrile prices are declined by ~10% MoM. Companies like Alkyl Amines are into manufacturing of acetonitrile.

Acetic acid prices have declined by ~6% MoM. Companies like Laxmi Organics & Jubilant Ingrevia uses acetic acid as raw material and manufactures Ethyl Acetate.

Caustic soda prices are declined by ~8% MoM basis. Companies like DCM Shriram, Gujarat Alkalies, Meghmani Finechem, DCW, TGV SRAAC are the manufacturers.

Among our coverage companies, we have BUY rating on NOCIL, Bodal Chemicals, Phillips Carbon Black & Supreme Petrochem. We find Aarti Industries, IG Petrochemicals & Apcotex Industries on REDUCE rating.

|Price performance (%)*

	1M	3M	12M	36M
S&P BSE 500	2.9	5.2	8.7	63.9
Aarti Industries	-5.4	-18.1	-28.4	61.2
SRF	-9.0	-10.7	18.0	271.0
Navin Fluorine	-3.6	1.54	17.6	404.0
Rossari Biotech	-11.0	-20.3	-37.8	0.0
NOCIL	-2.65	-13.3	3.1	128.6
IGPL	1.41	-11.6	-24.5	262.7
Oriental Carbon	-7.9	-10.6	-18.9	-18.5
Bodal Chemical	-0.3	-13.0	-26.8	25.0
Valiant Organic	-8.8	7.4	-36.8	-6.6
Deepak Fert.	-12.7	-7.3	113.1	803.1
Deepak Nitrite	-6.4	8.5	1.11	546.1
Thirumalai Chem.	8.0	-11.7	-7.5	230.6
GNFC	-15.3	-19.4	40.5	209.5
India Glycol	-4.0	-12.4	-10.9	268.5
DCM Shriram	-16.1	-16.0	-11.1	157.9

*as on 01st Dec 2022; Source: AceEquity, SMIFS Research

Inside the report:

- ✓ Price trend of various chemicals
- ✓ Key raw material details of major Indian chemical companies
- ✓ List of companies with key chemistries or competencies
- ✓ Q2FY23 results conference call key takeaways of chemical companies
- ✓ Manali Petrochemicals Ltd – Analyst Meet Highlights

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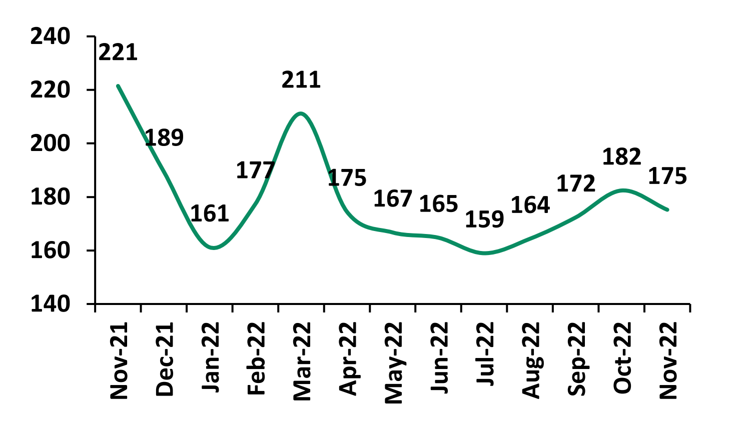
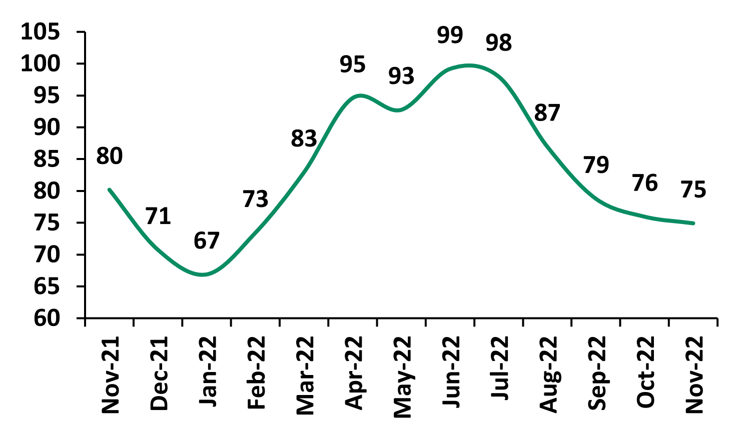
Fig 1: Indian Aniline prices (Rs per kg)



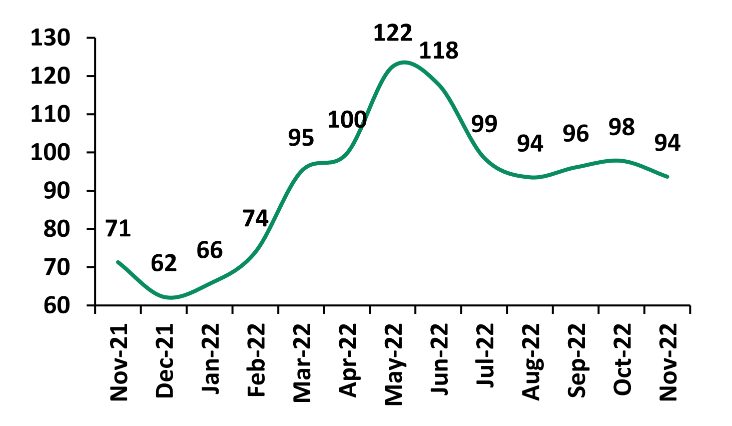
Source: Industry, SMIFS Research

Fig 2: Indian Benzene prices (Rs per kg)



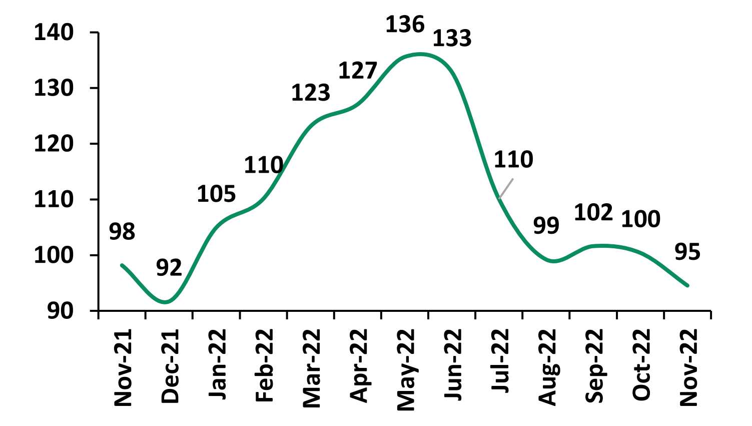
Source: Industry, SMIFS Research

Fig 3: Indian Toluene prices (Rs per kg)



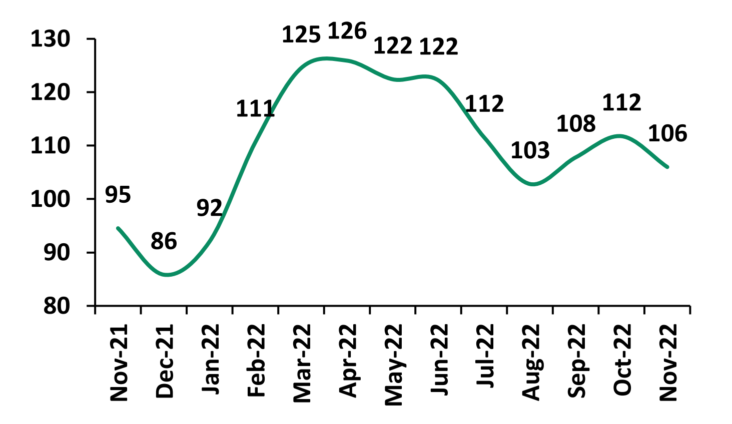
Source: Industry, SMIFS Research

Fig 4: Indian Styrene Monomer prices (Rs per kg)



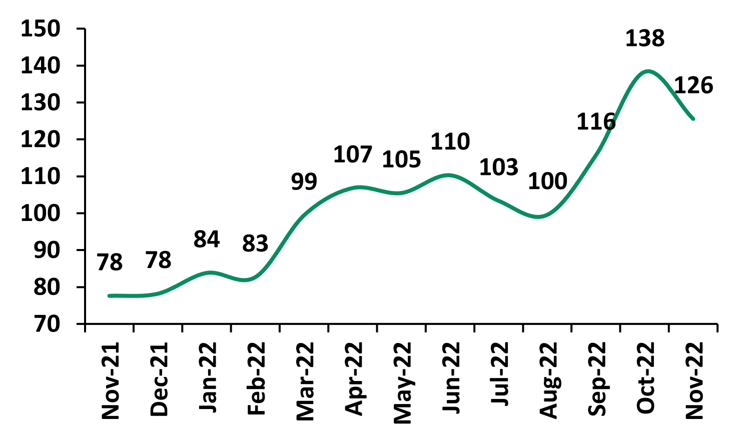
Source: Industry, SMIFS Research

Fig 5: Indian Phthalic Anhydride prices (Rs per kg)



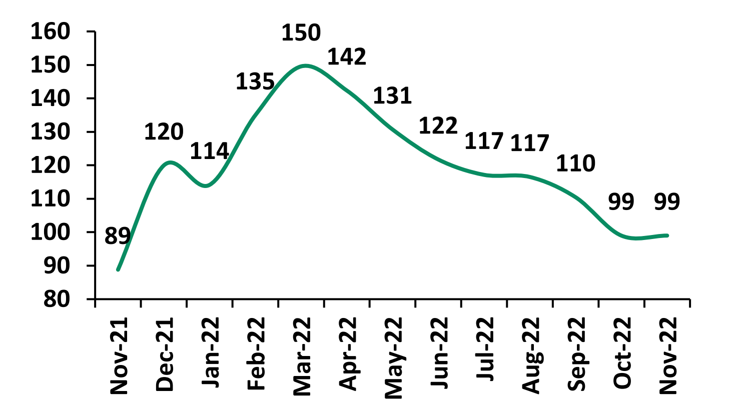
Source: Industry, SMIFS Research

Fig 6: Indian Orthoxylene prices (Rs per kg)



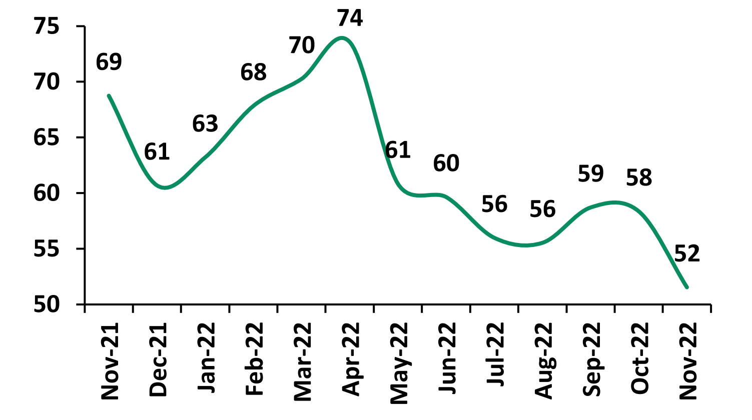
Source: Industry, SMIFS Research

Fig 7: Indian Maleic Anhydride prices (Rs per kg)



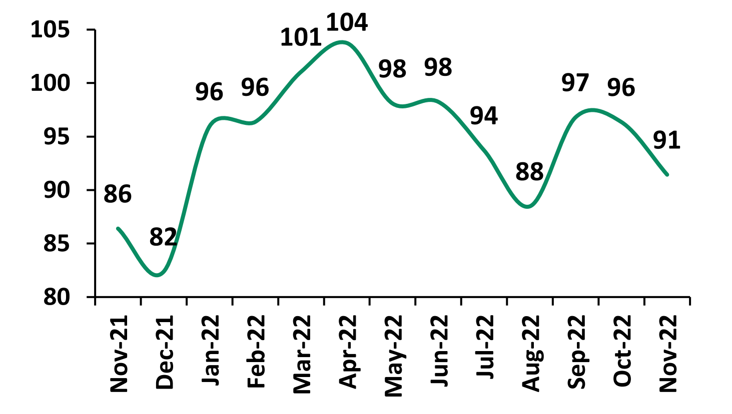
Source: Industry, SMIFS Research

Fig 8: Indian Mono Ethylene Glycol prices (Rs per kg)



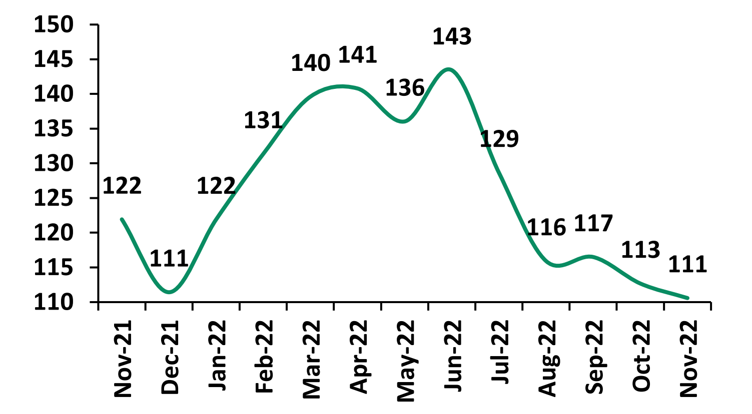
Source: Industry, SMIFS Research

Fig 9: Indian Iso Propyl Alcohol (IPA) prices (Rs per kg)



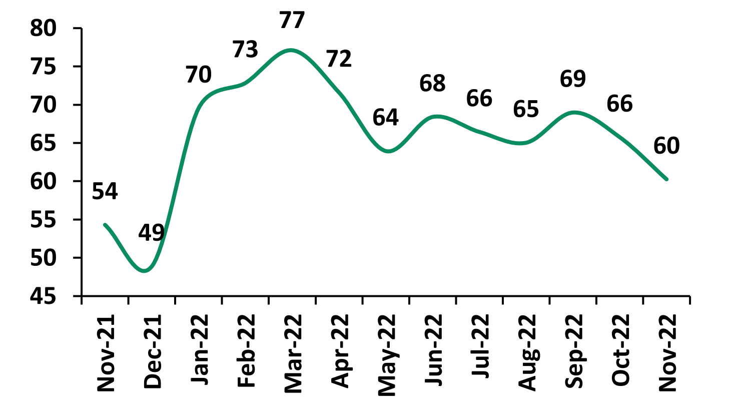
Source: Industry, SMIFS Research

Fig 10: Indian Phenol prices (Rs per kg)



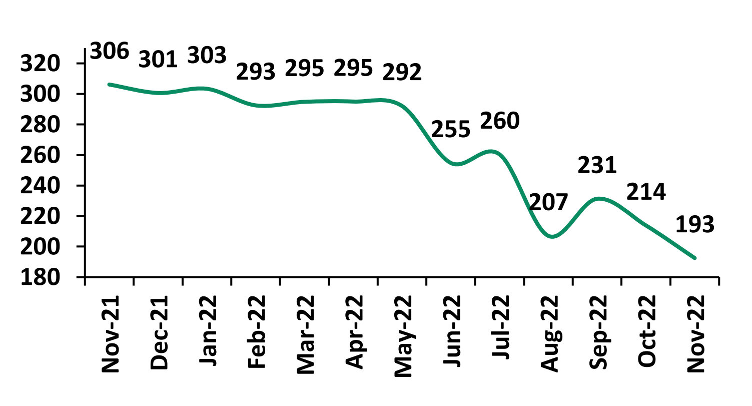
Source: Industry, SMIFS Research

Fig 11: Indian Acetone prices (Rs per kg)



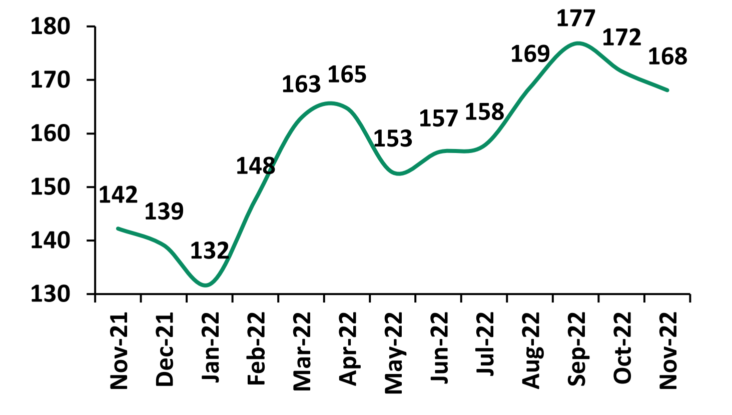
Source: Industry, SMIFS Research

Fig 12: Indian Acetonitrile prices (Rs per kg)



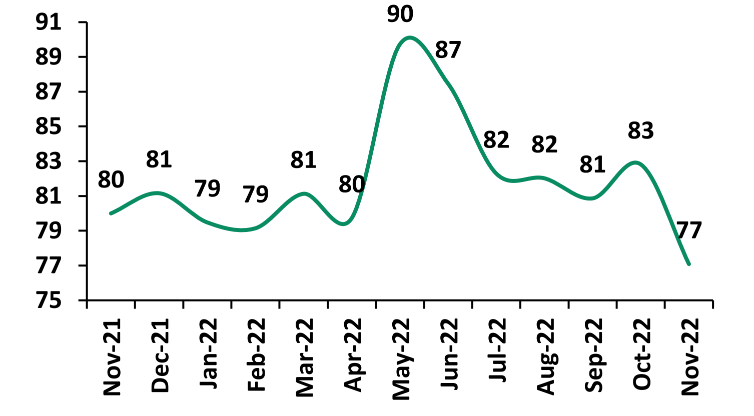
Source: Industry, SMIFS Research

Fig 13: Indian Linear Alkyl Benzene (LAB) prices (Rs per kg)



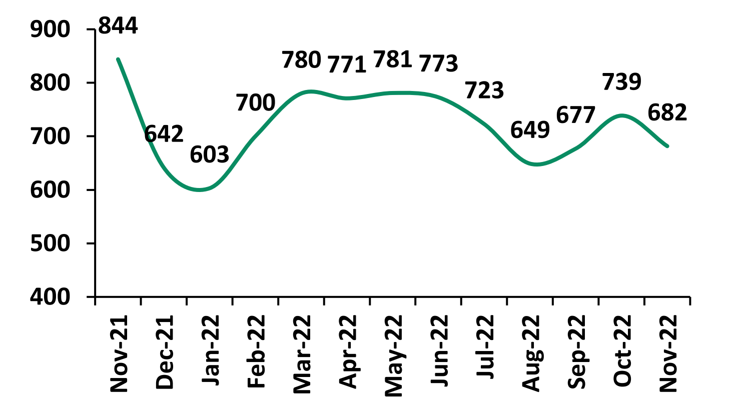
Source: Industry, SMIFS Research

Fig 14: Indian Mono Chloro Benzene (MCB) prices (Rs per kg)



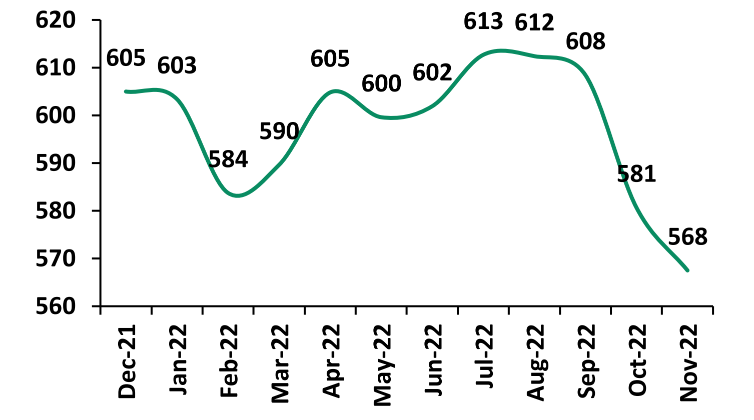
Source: Industry, SMIFS Research

Fig 15: Caustic Soda in USD Per ton



Source: Industry, SMIFS Research

Fig 16: Refrigerant R-22 prices (Rs per kg)



Source: Industry, SMIFS Research

Fig 17: Key raw material details of major Indian chemical companies

Sr no	Company	Key Raw Material
1	Navin Fluorine	Fluorspar, Chloromethanes, Sulphur & Boric acid
2	Clean Science	Methanol, Phenol & Methanol
3	Rossari Biotech	Acrylic acid, Silicone oil, acetic acid
4	NOCIL	Aniline, MIBK, carbon disulphide, hydrohgen peroxide
5	Aarti industries	Benzene, Toluene, Phthalic Anhydride, Sulphur, Nitric acid, Aniline
6	SRF	Fluorspar, Chlorine, Hydrofluoric acid (HF), chloroform etc
7	IG Petrochemicals	Orthoxylene
8	Phillips Carbon Black	Carbon Black Feedstock (CBFS)
9	Deepak Nitrite	Benzene, propylene, toluene, caustic soda
10	Valiant Organics	Phenol, PNCB, chlorine, sulphuric acid
11	Camlin Fine Sciences	Hydroquinone (HQ), Catechol (CT), phenol & methanol
12	Vinati Organics	Benzene, propylene, toluene, acrylonitrile, MTBE
13	Alkyl Amines	Methanol, ethanol, acetic acid & ammonia
14	Supreme Petrochem	Styrene Monomer
15	Apcotex Industries	Acrylonitrile, Butadiene, Styrene
16	Oriental Carbon & Chemicals	Sulphur & Sulphuric acid

Source: Industry, SMIFS Research

Fig 18: List of companies with key chemistries or competencies

Sr no	Company	Key Raw Material
1	Fluorine Chemistry	Gujarat Fluorochemicals
		Navin Fluorine
		SRF
2	Benzene Chemistry	Aarti Industries
3	Diversified	Atul
		DCM Shriram
		Deepak Nitrite
4	Amines	Alkyl Amines
		Balaji Amines
5	Food additives	Camlin Fine
		Clean Science and Technology
		Fine Organic
8	PVC	Chemplast Sanmar
9	Surfactants	Galaxy Surfactants
		Aarti Surfactants
		Rossari Biotech
10	Acetyls & Intermediates	Jubilant Ingrevia
		Laxmi Organic Industries
11	Rubber Chemicals or Tyre chemicals	NOCIL
		Oriental Carbon & Chemicals
		PCBL (Phillips Carbon Black Ltd)
		Himadri Speciality Chemicals
12	Pigments	Meghmani Organics
		Sudarshan Chemicals
13	Textile Chemicals	Rossari Biotech
		Fineotex Chemical
14	Soda Ash	GHCL
		Tata Chemicals
15	Caustic Soda	Gujarat Alkalies
		DCM Shriram
		Meghmani Finechem

Source: Industry, SMIFS Research

PCBL (Phillips Carbon Black Ltd) (Rating : BUY, Target Price: 176, Upside: 24%)

Key Takeaways of Q2FY23 Earnings Call Highlights:

- **Demand outlook:** The company's major end user industries in the domestic market like tyres, plastics, printing inks, tones, paper etc are witnessing strong demand. The demand for tyres OEMs has improved across but the replacement demand has seen a mixed response. While it is holding up well for passenger cars and two-wheelers, it is relatively weak for trucks, buses and tractors. Our a nalysis suggest that truck and bus segment demand should see a recovery from the next quarter. Export demand, which was seeing a strong momentum for the last few quarters, has turned sluggish since Q1FY23 due to several disruptions seen in global markets.
- **Capex plans:** The company's carbon black capacity of 1.5 lakh tonnes at Chennai is scheduled to start by end of December 2022. Also, the phase 1 speciality carbon black capacity of 20,000 tonnes is expected to commission by Q4FY23 and remaining phase 2 capacity of 20,000 tonnes is expected to be commissioned by Q4FY24. On power business, increemetal capacity addition of 7MW in Kochi alongwith 24MW in Chennai will be added by the end of FY23. The capex for complete expansion outlined is Rs11bn.
- Increemental capacity of 5 lakh tonnes is being added by the company and its competitors which will probably increase the competitive intensity and put downward pressure on the realizations.
- **Production volume:** The company reported volume decline of 1.5% YoY & growth of ~4% to 1,13,859 tonnes in Q2FY23.
- In speciality carbon black, exports constituted 70% of the sales volume.
- The company's export mix is 75-80% in Asia, 15-16% in Europe, 3-4% in North America & remaining in RoW.
- Export freight rates have corrected by nearly 40-50% from the highs and this has benefitted the company in Q2FY23 with other expenses witnessed declining by ~6.5% QoQ.

NOCIL (Rating : BUY, Target Price: 273, Upside: 16%)

Key Takeaways of Q2FY23 Earnings Call Highlights:

- **Demand outlook:** The demand of rubber chemical in the exports market is bleak considering the recent headwinds like inflationary pressure, geopolitical tensions & volatile oil prices. However, domestic demand has remained largely insulated from the headwinds. Demand of rubber chemicals is expected to increase in the long term with subsequent pick up in auto, tyre sector and other allied sector which consumes rubber.
- **Sales volume:** The company reported volume decline of ~23% QoQ in Q2FY23. The current capacity utilization levels is ~70-75%.
- **Price hike:** During the quarter realizations has been almost flattish sequentially.
- Earlier, the management guided the expanded capacity would reach optimum utilization by September 2023, however citing the uncertain global enviournment management has dropped its guidance.
- **Tyre sector outlook:** The domestic auto and tyre sector has witnessed robust performance and the long-term growth outlook is intact. Replacement demand which constitutes 60-70% of tyre sector has witnessed robust pick up. Further looking at the strong demand and robust GDP growth in the coming years, major tyre players are looking to increase their capex spend to gain additional volumes in the tyre market. Tyre players globally have lined up Rs550bn-600bn in creating additional capacities which bodes well for companies like NOCIL and other rubber chemical companies.
- **Strategy going ahead:** Management has clearly stated that they are focussing on improving market share on the back of increased volumes from the expanded capacity going ahead.
- Debottlenecking of capacities will be done in Dahej plant only for some product range which portray strong growth momentum. This capacity would be sufficient for another 1-1.5 years time frame to sustain volume growth momentum.

Apcotex Industries (Rating : REDUCE, Target Price: 488, Upside: 0%)

Key Takeaways of Q2FY23 Earnings Call Highlights:

- **Demand outlook:** The company's major end user industries are automotive, footwear, tyres, paper & paper board, carpet, gloves, tyre cord, construction etc. Majority of the segments are witnessing strong demand except for gloves.
- **Capex plans:** The company's both new projects (i.e nitrile latex and SBR latex) is expected to commission by Q4FY23. The total capex incurred on both the projects would be around Rs1.8-1.9bn. Expected turnover at peak utilization levels would be Rs4.5-5bn.
- **Sales mix for Q2FY23:** Synthetic latex 55% & Synthetic rubber 45%
- **Production volume:** The company reported volume growth of 5% YoY in Q2FY23 and 16% YoY in H1FY23
- **Future bottlenecks in existing capacity to provide room for growth:** The recent expansion of nitrile latex plant with capacity of 50,000 tonnes can be expanded to 80,000 tonnes with minimal capex investment.
- **The company continues to focus on market share gains and designing quality products which would strengthen its position in the domestic market. In nearly 40-45% of its product segments there is no competition which is a clear competitive edge and very difficult to replicate by its competitors.**
- **Medical Gloves concern point:** The company expansion of Nitrile latex (50,000 tonnes) and SBR latex (10,000 tonnes) is set to commission by Q4FY23 with expected revenue contribution majorly from FY24 onwards. However, nitrile latex expansion will now will be taken with a pinch of salt as demand has slowed down considerably and large inventories are being built up in the supply channel. Also, apart from this many international companies have aligned large capacities which are expected to come on stream in near future, thereby, creating further uncertainties on the nitrile latex. Nitrile latex is majorly used to manufacture medical and industrial gloves.Despite uncertainties management seems confident that demand will revive in the coming 5-6 months.

IG Petrochemicals (Rating : REDUCE, Target Price: 551, Upside: 4%)

Key Takeaways of Q2FY23 Earnings Call Highlights:

- **Demand outlook:** Despite such sharp decline in crude prices from the peak, the demand of Phthalic Anhydride has remained healthy led by strong demand from major end user industries like plasticizers, paints, agrochemicals, UPR etc. One of the end user industries viz. dyes & pigments demand is impacted however, the company can effectively change its product mix every quarter towards end user industries which are showing robust demand momentum. This helps the company to mitigate the slowdown in some end user industries. The demand in domestic market is ~4.5-5 lakh tonnes and is expected to grow around 6-8% in the coming years.
- **Advance plasticizers (DEP) business update:** The advanced plasticizer capacity of 8,400 TPA has reached around 55-60% utilization for the quarter. This business would generate revenues of Rs600-800mn at peak utilization levels. However, during the quarter the business generated Rs170-180mn and management expects substantial pickup in the coming quarters as the utilization ramps up.
- **PAN-Ox Spread:** The company continues to make much higher-than-normal spreads because of cost efficiencies and extra operating efficiency benefit of conversion from Ox to PAN. Due to volatile nature, management hasn't provided any guidance on the future PAN-Ox spreads, however they assume sustainable spreads to be around $150-250/ton.
- **New brownfield PAN capacity expansion:** The company is commissioning a new brownfield expansion of Phthalic Anhydride capacity by 53,000 TPA which would be named as PA5 unit. The total project cost is Rs3.5bn and and is expected to be completed by March 2024 assuming no delay. The rationale for capacity expansion is to be the leading producer of PAN and with this expansion the company could then plan to further expand into downstream chemistries which would use in-house PAN as a raw material.
- **Non-Phthalic business revenue to inch up:** The company from the non phthalic business contributed Rs450mn for Q2FY23 (8% of revenues in Q2FY23) & Rs940mn in H1FY23 (7.5% of revenues in H1FY23) majorly led by increased contribution from Diethyl Phthalate.
- **Focus on downstream business is a positive sign:** The company has approved Rs1-1.5bn capex in downstream chemistries, however, they are yet to apply for envioursnmental clearances. Management would like to comment further once the company gets complete clearances from the authorities.

Aarti Industries (Rating : REDUCE, Target Price: 662, Downside: 2%)

Key Takeaways of Q2FY23 Earnings Call Highlights:

- **Demand outlook:** The demand for dyes and pigments is weak, given challenges in the textile sector. Management said that demand for dyes is however recovering in Q3FY23 and will take atleast 2-3 quarters to return to normalcy, but demand for pigments is still weak and the company is hopeful of recovery in demand in FY24. The demand for agrochemicals and additives has been strong.
- **Inflationary headwinds put margins under pressure:** The quarter margins were under pressure due to increase in prices of raw materials and freight costs. Although, the company has pass on clause built in contracts but with a time lag which has led to a drop in margins in the current quarter. Management expects raw material and other cost are expected to decline in the coming quarters.
- **Project updates:** NCB capacity expansion is expected to be completed by Q1FY24. Chloro-toluene project is expected to be commissioned by H2FY25. The third long-term project is expected to be commissioned by this fiscal end. Other projects should meaningfully contribute to FY24 revenue.
- **Capex guidance:** Capex for the quarter stood at Rs5.77bn in H1FY23 and management has guided for a capex of Rs1.1-1.2bn in FY23. Overall capex for FY24 and FY25 would be Rs30bn. Capex will be incurred despite slowdown because management said that long-term demand visibility is intact. Some announcements for the long term capex include ~Rs2bn project to triple its ethylation capacity from 7,000-10,000 TPA and expects it to be commissioned in H1FY25. The company is also debottlenecking its nitrotoluene capacity from current 30,000 to 45,000 TPA.
- **EBITDA and tax guidance:** Management has given an EBITDA guidance of Rs1.1bn for FY23, which indicates flattish guidance because of muted demand. We believe its quite conservative considering demand pick up from dyes sector I nthe coming quarter. Management expects EBITDA CAGR of 25% in FY24 & FY25. The company expects tax rate to be 18-21% going forward.
- **Production updates:** Production of nitro-chlorobenzene stood at 20,276 MT in Q2FY23 vs 20,515 MT in Q1FY23. Nitrotoluene production stood at 4,950 MT in Q2FY23 vs 5,252 MT in Q1FY23. Production of PDA was at 242/month in Q2FY23 versus 370 MT/month in Q1FY23. The drop in production was due to 3 week maintenance shutdown in Jhagadia planto on which the company incurred an one time cost of Rs150mn during the quarter.

Bodal Chemicals (Rating : BUY, Target Price: 95, Upside: 20%)

Key Takeaways of Q2FY23 Earnings Call Highlights:

- **Demand outlook:** Demand during the quarter was weak because of de-stocking of inventories. Major end user industries of the company like textiles, dyes, pigments etc demand has moderated, however most of the pain is factored in and expect improvement going ahead. Also, cotton prices have corrected which should fundamentally be positive for textiles business in the coming quarters.
- **Dyestuff & Dye-intermediates business update:** The Dyestuff business has shown a flattish performance over the last few quarters. Zero Covid policy in China has decayed overall consumption of dye-intermediates, which has led to lower prices and excess supply across the globe.
- **Diversification in benzene derivatives:** The company is undergoing a greenfield expansion into benzene downstream products having capacity of 63,000 TPA and expansion of sulphuric acid & derivatives having capacity of 3,40,000 TPA at Saykha GIDC, Bharuch, Gujarat. Management believes these products will open new growth areas for the company. The company expect to complete the project by Q4FY24. Total cost of the project including one-time infrastructure cost will be around Rs4bn. In the business, the company would be producing PNCB & ONCB. The major end users of these products are primarily in pharmaceuticals and agrochemicals. As a part of the project review, further downstream derivatives of PNCB & ONCB like MPDSA, PNA, 2,4 DNCB is currently kept on hold.
- **Chlor Alkali business update:** The chlor alkali business reported a robust performance in H1FY23, with revenue of Rs1.66bn majorly driven by a healthy volume and higher realization of caustic soda. The capacity operated at nearly 70-75% utilization levels in H1FY23. Management is confident that the end user industries like textiles, FMCG, paper, detergents demand would be sustainable going ahead. The company has completed the upgradation of the plant replacing old electrolysers, infrastructure & have increased the chlor alkali complex capacity by another 16,500 TPA.
- **Raw Material:** In the overall raw materials mix, the company procures 4-5% from China. Thus, company is immune to any disruption in supply chain from China and will not have impact on the company raw material sourcing. Major raw material required by the company is Napthalene, Aniline, J-Acid, Tobias Acid, Cyanuric Acid etc.

Manali Petrochemicals Investor Meet Highlights (CMP: Rs 83, Rating: Not Rated)

The company has been in operations for more than three decades in the manufacturing of petrochemical products like Propylene Glycol (PG), Polyols and others. The products are import substitutes and the company is the only domestic manufacturer in case of PG. Also, it is the first and largest Indian manufacturer of Propylene Oxide (PO), the input material for the aforesaid derivative products. The company is also in the process of expanding its PG plant, which is already operating at 95-99% capacity for the past 3 years. The same is expected to further increase the market share of the company in the domestic market.

What is Propylene Glycol (PG)? It is a colourless, clear, nearly odourless, viscous liquid with a faint sweet taste chemical produced by reaction of propylene oxide with water. It is chemically neutral and so does not react with other substances. PG when mixed with water, chloroform and acetone can form a homogenous mixture and it tends to absorb moisture from air. PG is used most commonly as drug solubilizer in tropical, oral and injectable medications, stabilizer for vitamins and also as a water miscible co solvent. The Food and Drug Administration (FDA) has recognized PG as a safe additive for human consumption, especially for pharmaceutical and food formulations. In addition to the above, PG is also used as moisturizer in cosmetic products and as a dispersant in fragrances. PG also has industrial applications like manufacture of resins and other products. PG is widely utilized in pharmaceuticals, food & flavour and fragrance industries and also for manufacture of polyester resins, carbonless paper and automobile consumables like brake fluid and anti-freeze liquid. Some of the major applications of PG include medicines, canned food, body sprays, perfumes, cosmetics, soaps and detergents. The off take of PG for industrial purposes is generally low due to availability of alternate cheaper materials.

Diversification in the end-use industry and customers: The company derives around 85% of the revenue from PG and polyols. While the product concentration is high, this is mitigated to an extent as the end-segment that the company serves with these two products is diverse. The company caters to players in pharma, food flavouring, bedding/mattress and auto, limiting risk of concentration in one industry. In the polyols segment, almost 20% of the demand is from the automotive industry and other major demand is from foam and bedding. It is also used for insulation panels and waterproofing in the construction segment. PG is used in drug formulations in the pharma industry, as food preservatives and solvents in the food industry, and as carriers in flavour and fragrances, etc.

Improvement in operational performance in FY22 driven by supply chain disruptions: The company has consistently utilized more than 95% of its PO and PG capacity. In case of polyol, the utilization has improved over the years and maintained at 50-60% levels which has improved to around 75% in FY22 due to some debottlenecking activities. While the revenues and PBILDT remain volatile as product prices are linked to crude and there is a considerable pricing pressure from imports, the company has consistently delivered stable operational performance over the years. FY21 and FY22 marked exceptional years for the company's operational performance with a sharp increase in the top line and margins with margins touching 36% in FY22 as against 9% in FY20. Due to supply related issues, realisations in PG has witnessed a growth of 103% over FY21 while volume growth was at 10%. Realisations of slab-stock polyols and Systems polyol witnessed an increase of 4% and 24% respectively. From the end of Q4FY22, supply chain challenges have subsided and imports have gradually increased thereby leading to easing of prices.

Status on capacity expansion plans: The company is expanding PG capacity at an estimated cost of about Rs1.5bn to be done in two phases, which will strengthen the presence of the company in the domestic market as a substantial part of the PG demand is met through imports. The first phase of expansion is to involve an outflow of Rs0.65bn. Out of the proposed additional capacity of 50,000 TPA, in the first phase 32,000 TPA would be added. The company has secured Environmental Clearance from government and one more clearance is under process of approval from State Government. Over the past 4 years, the capacity utilisation of PG plant was more than 95% and in FY21 it was almost 100% and with the capacity enhancement, the company will then be able to meet a major portion of domestic demand. The company also has plans of putting up a polyester polyol plant with a total estimated cost of Rs0.4bn also to be done in 2 phases. The capital expenditure along with the other routine capital expenditure are likely to be funded only out of internal generation. The company had liquid funds of Rs6bn as on FY22.

Margins exposed to raw material price volatility, however, mitigated by end-product price revisions: The price of the raw materials like propylene and PO has remained volatile in the past, depending on crude price. However, prices of finished products manufactured by the company also generally move in tandem with raw material prices, although with some time lag. As the industry is characterised by price volatility, the EBITDA margins of the company also remain volatile. The company also has a competitive edge on the freight cost front as the plants of suppliers of major raw materials (propylene, PO and chlorine) are contiguous to the company's plant. The primary supplier of propylene (major raw material) for the company is Chennai Petroleum Corporation Limited (CPCL).

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