



# Chemical Industry

QUARTERLY SECTOR UPDATE

July  
2023

## IN THIS NEWSLETTER

01

**Fertilizer Subsidy: Our Take**

02

**PLI in Chemicals: Our Take**

03

### Chemicals Dashboard

- Purchase Managers Index
- India Crude Oil Basket
- Index of Industrial Production
- Primus Partners Chemical Share Price Indexes

04

### News

- Market News
- Policy News

# 01 Fertilizer Subsidy: Our Take

## How much is the Fertilizer Subsidy in perspective?

The total expenditure budget outlay including Revenue and Capital Account for 2023-24 is Rs 45 Lakh Crore. This includes spend on pension, defence, education, home affairs, transfer to state, transport health etc.

Of this budget approximately 19% or Rs 8.7 Lakh Crore has been allocated to schemes.

### The Top 5 schemes are:



**Fertilizer Subsidy**  
 Rs. 1.75 Lakh Crore



**NHAI**  
 Rs. 1.62 Lakh Crore



**Jal Jeevan**  
 Rs. 70 Thousand Crore



**MGNREGA**  
 Rs. 60 Thousand Crore



**PM Kisan**  
 Rs. 60 Thousand Crore

The Rs 1.75 Lakh Crore fertilizer subsidy accounts for approximately 20% of all schemes and has two major components:



**Urea Subsidy**  
 Rs. 1.31 Lakh Crore

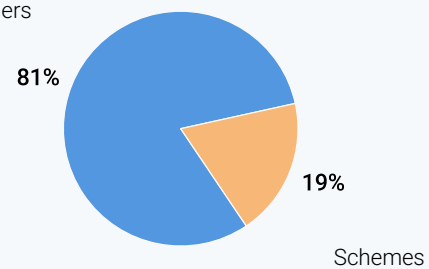


**Nutrient-based Subsidy**  
 Rs. 44 Thousand Crore

### India Expenditure Budget 2023-24

Rs. 45,00,000 Crore

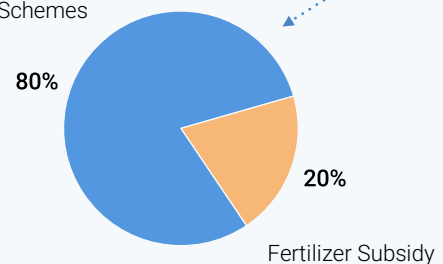
All Others



### India Expenditure Budget on Schemes 2023-24

Rs. 8,72,000 Crore

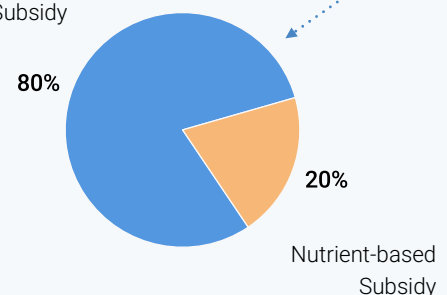
Other Schemes



### India Fertiliser Subsidy Budget 2023-24

Rs. 1,75,000 Crore

Urea Subsidy



**01 Fertilizer Subsidy: Our Take (contd.)**

Fertilizer subsidy is difficult to predict.

The Fertilizer subsidy is not only very large, it is also hard to predict and volatile. In perspective for 2022-23 the budgeted amount was Rs 1.05 Lakh Crore, and the revised estimate now for the same is Rs 2.25 Lakh Crore, which is more than double. The Fertilizer subsidy is highly dependent on the international gas prices and international urea prices. These have a tendency to be quite volatile. For 2023-24, based on announcement after cabinet meeting held in mid May, chaired by the Honourable PM, already the estimate has increased from Rs 1.75 to Rs 2.25 Lakh Crore.



The Deadlock

The Fertilizer subsidy has an important role in overall food production of India and management of farm input for the farmers. Many issues with the subsidy have been identified since long time. There has been a deadlock between conflicting and noble goals, which needs to be resolved.



**Why the Fertilizer Subsidy should remain?**



Important role in food production and food security in India



Reduce the input cost for the farmer



Reduce the overall food price



Political compulsion - farmers and food prices will be negatively affecting popularity



**Why the Fertilizer Subsidy needs to be modified?**



Overuse, imbalance of nutrients and soil degradation



Burden to exchequer



Hindrance to newer technologies



Need to move towards sustainable agriculture as well as better use of taxpayers' money

## Breaking the Deadlock

There are no easy and short term fixes for breaking this deadlock. Alternatives will have to be created first, before large scale tinkering can be done with the subsidy scheme.

There are two main approaches to break the deadlock

1. Improve subsidy policy and mechanism. This is not discussed here today & will be discussed in subsequent issues.
2. Reduce Urea usage – creating viable alternatives

### Breaking the Deadlock through reduced urea usage:



Technologies to improve agriculture are advancing at a very rapid pace. Nano Urea, other new types of fertilizers, Precision agriculture, use of drones, use of GIS, improvement in farming techniques etc. are promising examples. A bundle of technologies and practices should be developed to make a 'solution' for chosen area – crop clusters. An example of area-crop cluster could be potato in Firozabad area. The area-crop clusters should be prioritized such that maximum reduction of urea usage can be done.



An economic study should be done in each of these area-crop clusters to carefully examine the difference between current practice and new 'solution' in terms of farm input, farm investment, cash flow of farmer, effort of farmer, quality of output etc.



The level and type of support required for farmer to make the switch should be identified and the most cost effective initiatives must be chosen.



Value chain for the 'solution' should be developed and encouraged through special schemes to make it economically viable for key participants.



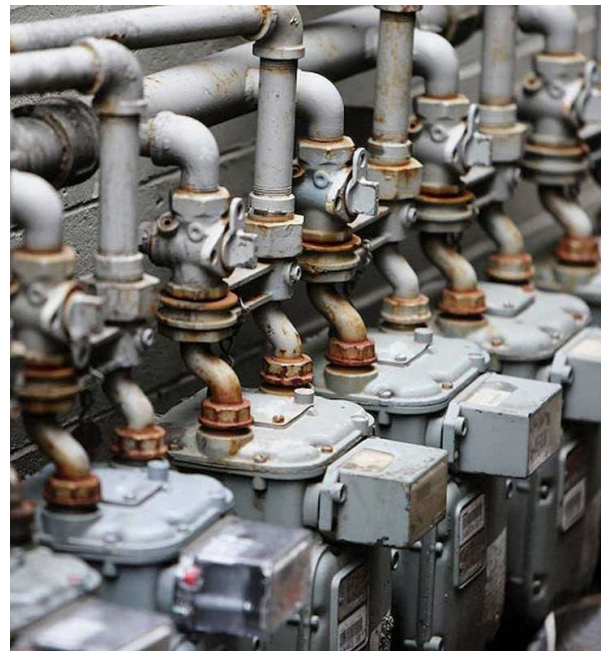
It is encouraging to see that some efforts are being done to reduce the fertilizer consumption. **PM PRANAM** programme for Restoration, Awareness, Nourishment and Amelioration of Mother Earth. This program promotes balanced / sustainable use of chemical fertilisers, adopting alternate fertilisers such as organic, bio and nano fertilisers, and promoting natural and organic farming. The program has been approved by the cabinet with an outlay of Rs 3.7 lac crore for 3 years.



## 02 PLI in Chemicals: Our Take

Chemicals is a diverse industry which has over 80,000 commercially available chemicals, with some of the largest companies (typically in petrochemicals) wo a high number of SME establishments. The boundaries of the chemical industry are not very tight and are subject to interpretation. India Chem 22 estimates the size of Indian Chemicals & Petrochemicals at \$178 billion (~Rs. 14 lac Crore), Cefic (Europe) pegs the Indian chemical industry at \$104 billion (~Rs 7.7 Lac Crore) in 2021. The difference can be explained by the fact that the boundaries of the chemical sector are not very well defined (eg are petrochemical and pharma part of the industry or not).

The Government of India is using Production Linked Incentives (PLI) in various sectors to boost the Industry and production in India. In the Chemical sector there are two existing PLI Schemes:








### Existing Schemes

Scheme	Outlay	Start Date	End Date	Recipients	Incentive (% of incremental sales)
Pharmaceuticals	Rs 15,000 crores	2022-23	2027-28	Group A - 11 Group B - 9 Group C - 35 Total - 55	10% for Category 1 & 2 (approved drugs, API, KSM, DI etc)  5% for Category 3 (repurposed drugs, critical care drugs etc. )
Key Starting Materials / Drug Intermediates & Active Pharma Ingredients	Rs 6,940 crores	2022-23	2028-29	Group I - 4 Group II - 6 Group III - 6 Group IV - 35 Total - 51	List of 14 products - 20%  List of 27 products - 10%

**02** PLI in Chemicals: Our Take (contd.)

A dipstick of increase of sales turnover in FY 23 over FY 22 of few select recipients shows that the policy is working well:

No	Company	FY 23 Sales Turnover (Rs. Cr.)	Increase over FY 22 (%)
1	Sudarshan Pharma 	461	29%
2	Granules India 	3931	21%
3	Aurobindo Pharma 	11287	13%
4	Zydus (Cadila) 	17237	13%
5	Biocon 	11174	36%

The Government has been doing a lot of background work and industry consultations to come up with more PLI schemes for the Chemical sector. Some news articles over the past 3 years show some hint for the same:

- **May 2023:** PLI scheme for basic chemicals is in consideration
- **Feb 2023:** PLI scheme for chemicals may be announced along with Budget
- **Nov 2022:** PLI scheme in key end use sectors is driving growth in chemicals & a PLI in chemicals may be approved soon
- **Sep 2021:** CCFI urges govt to include agrochemicals under PLI scheme
- **March 2021:** PLI for chemical sector is under consultation



Considering the enormity, diversity and complexity of the Chemical industry, it is indeed a tough task to come up with the right policy. In order to design a new PLI scheme, some points to be considered are:



Identifying products and segments that will prosper even after the PLI scheme is over. Some considerations are to identify chemical value chains where India has a geographic advantage, gaps in international markets, gaps in value chains that can be easily addressed.



The products must have a minimum threshold of the market size



The products that are currently being imported or have a high export potential



Must have a high 'trickle down' effect on economy or feed into high growth industries

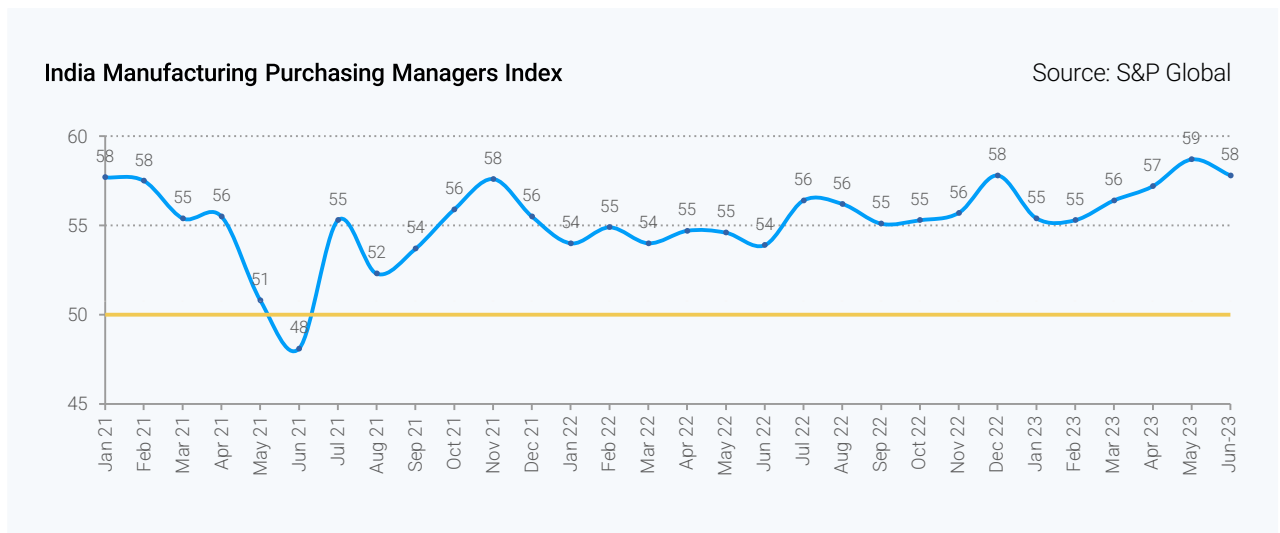


The scheme should be simple and should have least scope of leakages

# 03 Chemicals Dashboard

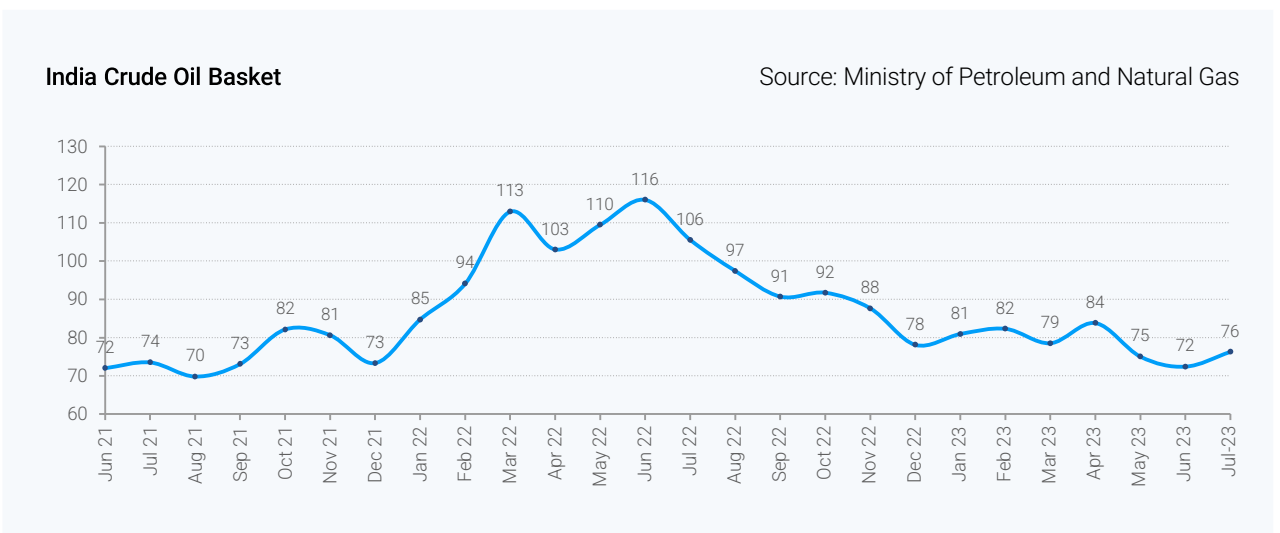
## Purchase Managers Index

PMI or Purchasing Managers' Index is a survey-based measure that asks respondents about changes in their perception of some key business variables from the month before. A PMI of 50 indicates no change, over 50 indicates expansion in business activity and below 50 indicates contraction in business activity. The India May 2023 Manufacturing PMI stood at 58.7 the strongest improvement in over 2 years, indicating strength of demand. This is quite great considering the international backdrop for May 2023– China is at 50.9 indicating stagnation, US at 48.4 indicating contraction and EU at 44.8 indicating strong contraction.



## India Crude Oil Basket

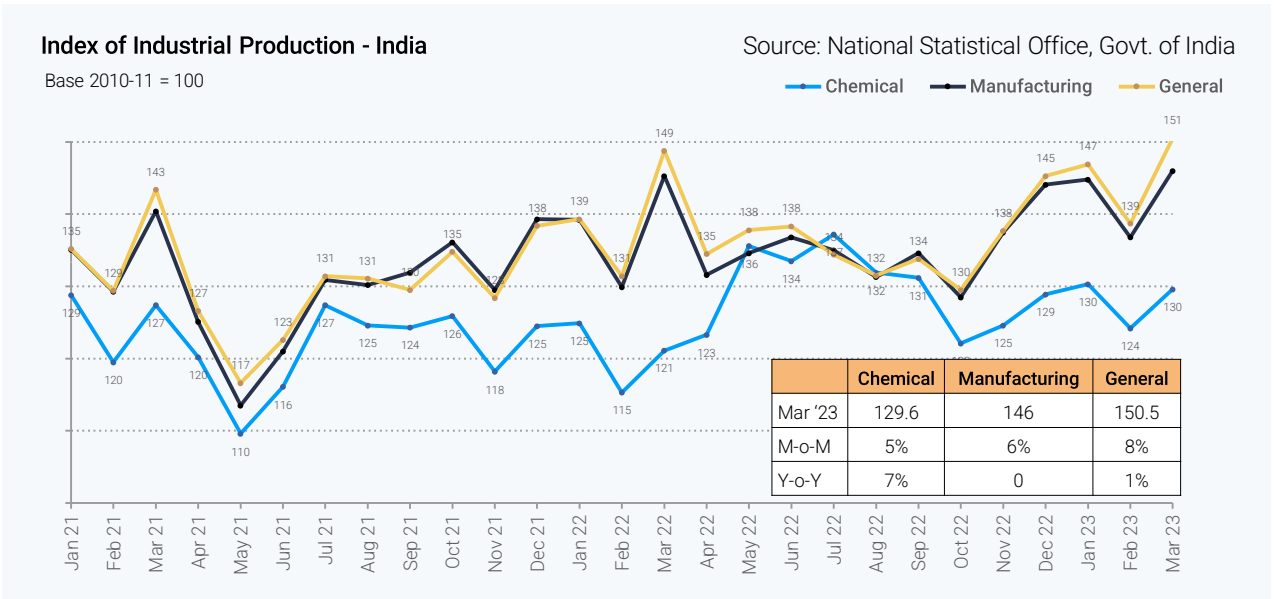
Crude is the key feedstock to the chemical industry. The India crude oil basket price is an indicator of the price of crude imports in India. The oil prices kept cooling with early July 2023 price at \$76.4/barrel. This is a good 6% higher than last month and 18% lower than a year ago.



**03 Chemicals Dashboard (contd.)**

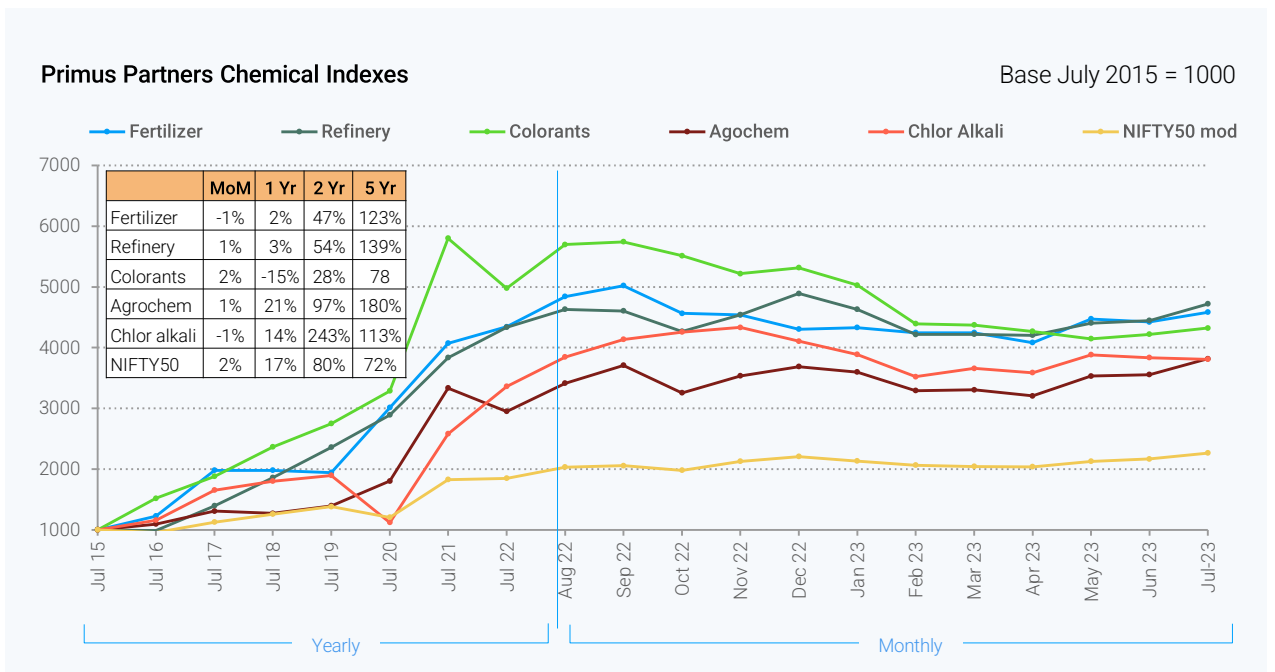
**Index of Industrial Production**

The Index of Industrial Production, which serves as a comprehensive survey indicator for IIP figures, exhibited an upward trend in March 2023 following a decline in February 2023. Specifically, the Chemical IIP experienced a 5% increase compared to the previous month and demonstrated a growth of 7% over March 2022.



**Primus Partners Chemical Share Price Indexes**

Primus partners has developed the share price indexes of chemical segments. The base is taken at 1000 in July 2015. A basket of stocks in the segments shown in graph were taken and weighted for market capitalization and share of business in company. Nifty moved from 8510 in July 2015 to 18440 in early June 2023 indicating 2.167 x jump and is showing as 2167 on our index. The Chemical stocks have outperformed Nifty over a long term period but underperformed in the 1 month and 1 year period.





**04 News**

Market News



**India gains prominence in agrochemicals exports**

May 28, 2023

India's agrochemical export industry has reached a new peak of \$5.4 billion which translates into Rs. 43,223 crores in 2022-23, up from \$4.9 billion (Rs. 36,521 Crore) in the previous financial year.

The export in India has nearly doubled in the last six years, with a CAGR of 13% making agrochemical one of the highest-growth sectors in manufacturing.

India now stands as the third-largest exporter of agrochemicals globally behind, excluding EU, after China and USA.

[Read more](#)

**Europe sinks on Chemicals**

March 2, 2023

The European Chemical Sector is facing challenges as profits collapse in Q4, along with low expectations for 2023 which demonstrates the ongoing struggles. Major companies like BASF, LANXESS, and Convestro reported Q4 losses, while Arkema and Evonik experience substantial profit declines. Weak domestic and export demand, destocking, high energy costs, and cheaper imports from Asia, the Middle East, and the US continue to hamper the Industry

[Read more](#)



**India largest supplier of refined oil in Europe**

June 1, 2023

India has become the largest supplier of refined fuel in Europe in April 2023 as country exported nearly 406 kbd (thousand barrels per day) to Europe. Europe's dependence on India for fuel supply has increased manifold due to the Russia-Ukraine war that started in February 2022 following which the European countries that were largely dependent on imports from Russia reduced their reliance on Russian oil and gas.

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## Policy News



### RoDTEP scheme extended

December 7, 2022

RoDTEP scheme sees an extension beyond Sept 30 after exports greatly improved for the chemicals and pharmaceuticals. This move will support these sectors amid slowing goods exports and persistent global uncertainty. The allocation for the RoDTEP scheme in FY 2023 has increased by 10% to Rs. 15,069 crores, and it is expected that Commerce Department will manage allocation without overspending.

[Read more](#)

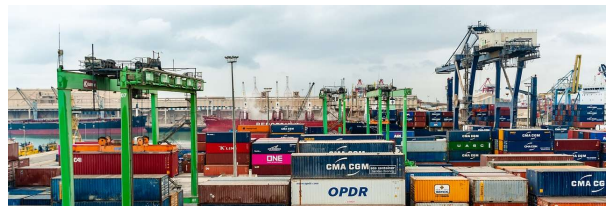


### Sops for green hydrogen bunkering

May 10, 2023

The Indian Government plans to establish green hydrogen bunkering facilities at major ports by 2035 in its efforts towards reducing the country's carbon footprint. The consideration of financing options to transform these ports into environmentally friendly hubs further highlights the commitment to sustainability

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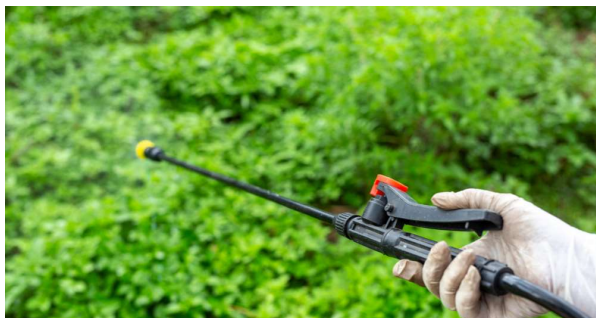


### SC revokes ADD on LDPE

April 27, 2023

The Supreme Court of India revoked its previous interim order which authorized the Government to impose anti-dumping duty (ADD) on low-density polyethylene (LDPE) imports from Saudi Arabia Taiwan. Court has requested to re-list the case for further hearings and has suspended the implementation of the ADD until the writ petition is finally resolved

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### India to discontinue 3 types of pesticides

*February 20, 2023*

The Government of India has decided to discontinue use of 3 types of pesticides, namely Dicofol, Dinocap and Methomly due to lack of safety & efficacy data. These pesticides are completely banned, and individuals are not allowed to import, sell, distribute, or manufacture them, the decision took effect from February 2, 2023.

[Read more](#)



### Health Ministry revokes 18 Pharma licenses

*March 28, 2023*

Health Ministry of India has revoked 18 pharma licenses of companies producing spurious medicine. The action was taken after inspection by the Drugs Controller General of India (DCGI) on 76 such entities across 20 states.

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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.).



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