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Caustic soda production to recover

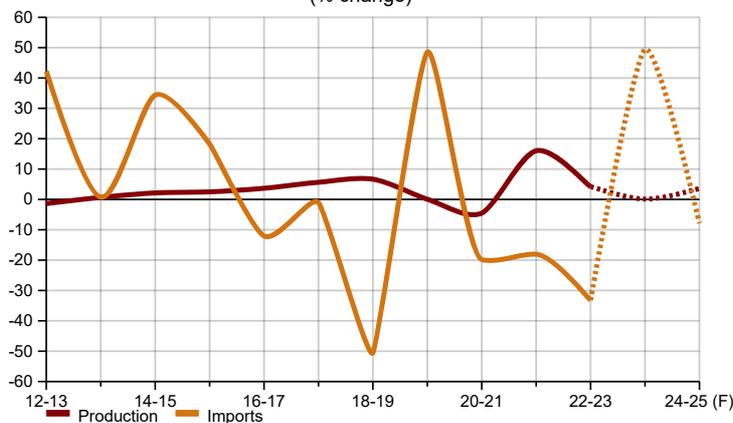
Imports likely to fall going forward

Production of caustic soda is likely to recover in the current financial year 2024-25 after an expected stagnation in the previous year. The recovery will be backed by a traction in demand for caustic soda from end-user segments. An expected slow down in imports is also likely to incentivise domestic production during the year.

The output of caustic soda is likely to have stagnated in the previous financial year 2023-24, owing to subdued demand and a spike in imports. Most of the user industries are expected to have witnessed either a fall or a sluggish growth in their production during the year. Moreover, caustic soda imports rose by a strong 54.4 per cent during April 2023-February 2024 due to an increase in the supply of low-priced caustic soda from other countries.

In the current financial year, we expect caustic soda production to grow by 3.6 per cent. An uptick in the production of user segments is expected to fuel demand for caustic soda.

Production and Imports of Caustic Soda
(% change)

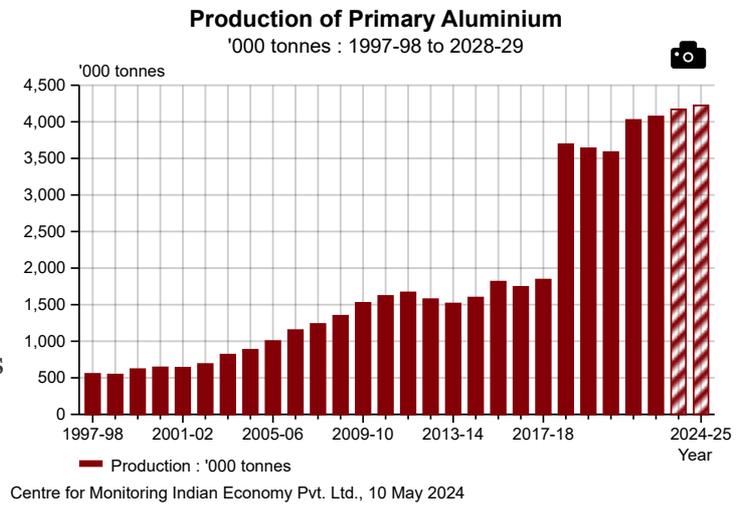


Centre for Monitoring Indian Economy Pvt. Ltd., 10 May 2024

More than 70 per cent of the demand for caustic soda comes from industries such as chemicals, aluminium, textiles, soaps & detergents and paper & pulp, according to the Alkali Manufacturers Association of India (AMAI). Production in most of these industries is expected to grow this year, which will result in an increase in demand for caustic soda.

The chemical manufacturing sector holds the highest share of around 30 per cent in the total caustic soda consumption, according to AMAI. Caustic soda is used across chemical segments such as pesticides, fertilisers, pharmaceuticals, dyes & pigments and in the making of various other inorganic and organic chemicals. Production of chemical and chemical products is expected to grow at a healthy pace this year. This is likely on the back of factors such as an increase in financial assistance from the government via production-linked incentives and subsidies, strong capex activity in the industry and an overall healthy demand for chemicals owing to traction from healthcare, industrial and agricultural activities. An increase in chemical and chemical products output is expected to augur well for the caustic soda market.

Caustic soda plays an integral part in the making of soaps and detergents. Growing population and increasing health and hygiene awareness amongst individuals are likely to increase the demand for soaps and detergents. Demand for aluminium, another major user of caustic soda, is also expected to stay high going forward due to traction in user industries such as automotive, construction and electronics among others.



Caustic soda is widely used to treat textiles as it changes the chemical components of fabrics and enables them to absorb dyes. Production activity in the textile industry is expected to grow in the current financial year. This growth is likely on the back of an improvement in textile demand from domestic as well as international markets.

Caustic soda production is also dependent on the demand for chlorine, a co-product of caustic soda. Strong growth momentum in user segments such as polymers, pesticides, pharmaceuticals and water treatment solutions is expected to boost demand for chlorine, which will subsequently increase production of chlorine and caustic soda in the current year.

Caustic soda imports likely to drop this year

An upsurge in imports is expected to have impeded growth in the production of caustic soda during the previous financial year 2023-24. Import quantity of caustic soda spiked by 54.4 per cent y-o-y in the first 11 months of the year. The share of imports in the total caustic soda consumption increased to almost seven per cent during this period from around 4.7 per cent in the corresponding year-ago period. This was due to a rise in cheap imports from countries with lower power tariffs such as Iran and South Korea.

Imports of Caustic Soda

Month	Imports	
	'000 tonnes	Y-o-Y% change
Apr 2023	25.2	55.50
May 2023	21.3	2,071.91
Jun 2023	20.7	4,611.27
Jul 2023	4.2	-52.84
Aug 2023	1.4	-94.22
Sep 2023	18.1	69.50
Oct 2023	21.2	111.43
Nov 2023	18.7	-17.36
Dec 2023	23.5	97.56
Jan 2024	34.0	36.32
Feb 2024	15.0	1,798.66

Imports from South Korea accounted for about 8.2 per cent during April 2023-February 2024, compared to a minuscule 0.2 per cent share in the corresponding year-ago period. Iran's share in the total caustic soda imports increased to almost 33.6 per cent against zilch contribution in the same period.

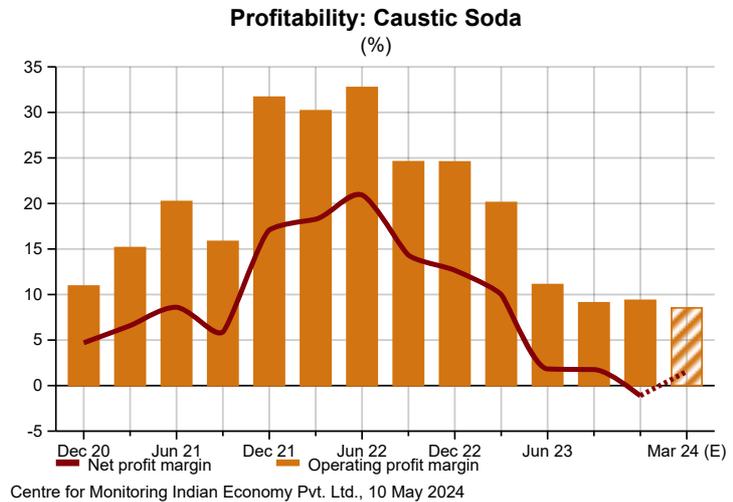
To tackle growing imports and spur demand for domestically produced caustic soda, manufacturers are likely to provide caustic soda at competitive prices to customers. We expect caustic soda prices to fall in the range of 2-4 per cent in the ongoing financial year. This will be over and above an expected 30-38 per

cent fall in the previous year. Reportedly, domestic manufacturers have sought a level playing field from the government by way of an increase in customs duty on caustic soda imports. These factors are expected to help reduce caustic soda imports in the current financial year. We expect import volumes to fall by over 7.8 per cent in 2024-25, after surging by an expected double-digit rate last year.

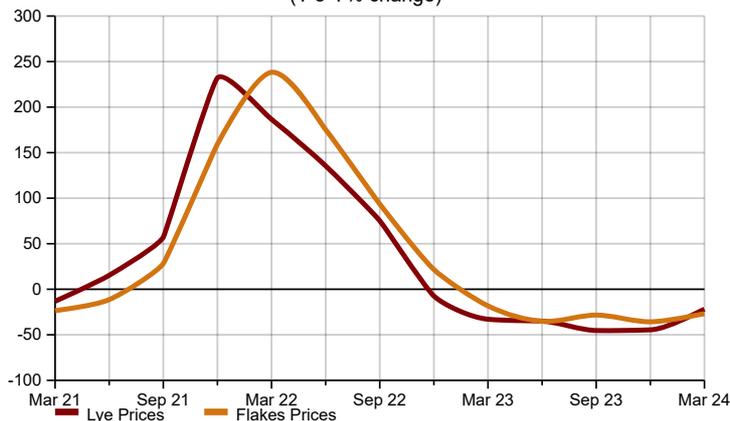
Industry's margins to contract for sixth successive quarter

Profit margins of the caustic soda industry are expected to have contracted for the sixth consecutive quarter ending March 2024. Lower sales revenues and elevated raw material prices are likely to have taken a toll on the industry's profitability.

The output of chemicals remained at its year-ago levels during January-February 2024. The production of paper and paper products slipped by one per cent y-o-y and that of soaps plunged by 7.1 per cent y-o-y in the same period. These sectors are expected to have witnessed weak production growth in the last month of the quarter as well. Poor production activity in key user sectors is likely to have impacted caustic soda demand, thereby impeding growth in the industry's sales volumes.



Domestic Caustic Soda Prices (Y-o-Y% change)



Subdued demand and an upsurge in cheaper imports pulled down domestic prices of caustic soda. Prices of caustic soda flakes and lye fell by 26.9 per cent and 22 per cent, respectively, on a year-on-year basis in the March 2024 quarter. This is likely to have impacted the industry's sales realisations.

Weak sales volumes as well as realisations are expected to have

dented the industry's top line growth in the March 2024 quarter.

The industry is likely to have witnessed a rise in raw material expenses. Prices of salt were up by 2.6 per cent y-o-y during January-March 2024. Coal and electricity prices, too, increased by 0.7 per cent and 3.3 per cent y-o-y, respectively, during the quarter. Lower revenues along with an increase in input prices are likely to have exerted pressure on the industry's profit margins in the March 2024 quarter.

Top line slips yet again in December 2023 quarter

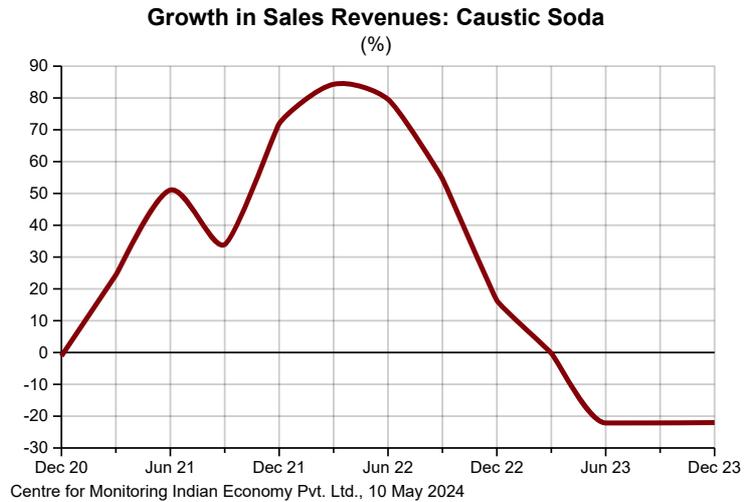
The top line of the caustic soda industry fell by a steep 22 per cent y-o-y in the fourth successive quarter ended December 2023. This was led by poor sales realisations and subdued volumes.

Domestic prices of caustic soda lye tanked by 44.6 per cent and that of caustic soda flakes fell by 35.8 per cent on an annual basis during the quarter. This pulled down the industry's sales realisations.

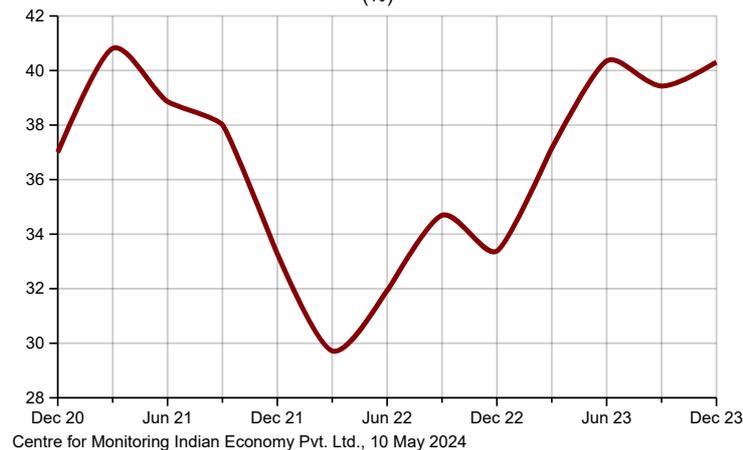
The production activity in the chemicals sector, a key user industry of caustic soda, stagnated during the December 2023 quarter. Other user sectors such as textiles, soaps &

detergents and paper & pulp reported either a fall or a sluggish growth in production during the same period. Subdued production performance of user industries dragged down demand for caustic soda, which impacted the industry's volumes.

Gujarat Alkalies & Chemicals (GACL), which accounts for more than 40 per cent of the industry's total revenues, reported an 18 per cent y-o-y drop in its net sales in the December 2023 quarter. Epigral's sales fell by 12.3 per cent y-o-y. T G V Sraac, Andhra Sugars and Primo Chemicals' net sales fell by 32 per cent, 23.3 per cent and 51.3 per cent, respectively, on an annual basis in the same quarter.



Raw Materials, Stores & Spares as % of Net Sales: Caustic Soda (%)



The raw material expenses, the largest cost head of the industry, declined by 5.9 per cent y-o-y in the quarter, significantly slower compared to a 22 per cent fall in net sales. While production volumes declined, higher input prices restricted the fall in raw material expenses. Thus, the proportion of raw material expenses in net sales expanded by 690 basis points to 40.3

per cent in the December 2023 quarter.

Salary expenses of the industry fell marginally by 0.7 per cent in the December 2023 quarter compared to the same quarter last year. Other operating expenses too declined at a slower pace vis-a-vis the fall in revenues. Total other operating expenses, which include power and fuel expenses and marketing expenses, fell by 5.6 per cent y-o-y during the quarter.

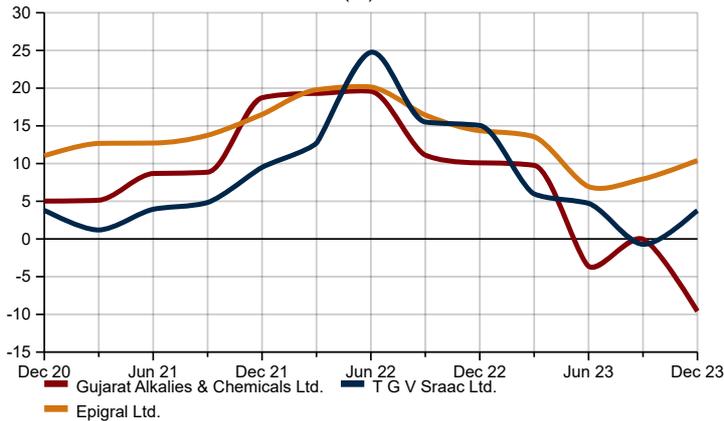
The operating expenses corresponding to the total goods sold fell by six per cent y-o-y in the reporting quarter. This fall was much slower compared to the fall in sales revenues. As a result, the operating profit of the industry plummeted by 71.3 per cent y-o-y, and the operating profit margin contracted by more than 15.5 percentage points to 9.1 per cent in the December 2023 quarter.

Operating Profit Margin: Caustic Soda (%)



Non-operating expenses such as interest expenses and depreciation, rose by 18.2 per cent and 15.3 per cent y-o-y, respectively, in the quarter. This coupled with a steep fall in operating profits, pushed the industry into red. The industry incurred net losses amounting to 1.2 per cent of net sales in the December 2023 quarter as against a net profit margin of 12.5 per cent in the December 2022 quarter.

Company-wise Net Margin: Caustic soda (%)



GACL and Chemfab Alkalies reported a net loss margin of 9.6 per cent and 16 per cent, respectively, in the reporting quarter. Epigral’s net profit margin contracted by 395 basis points to 10.4 per cent. TGV Sraac and Andhra Sugars’ net profit margins shrunk by almost 8.5 percentage points and 11.3 percentage points to 3.8 per cent and 2.1 per cent, respectively, in the

December 2023 quarter.

Quarterly Financial Performance: Caustic Soda

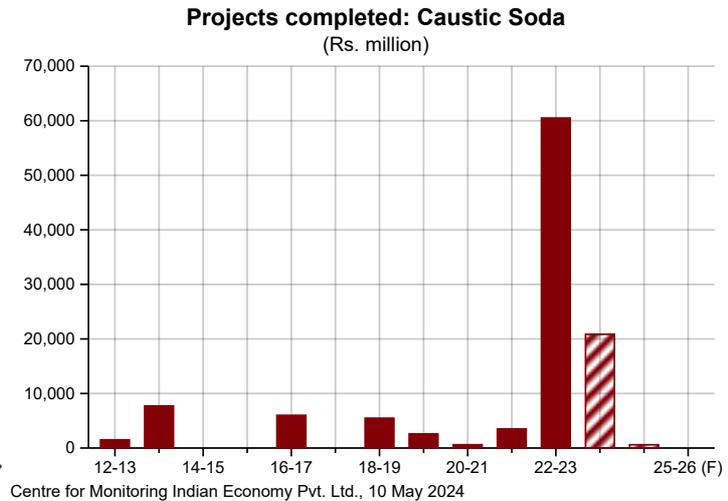
Quarter	Total income	Net sales	Operating profit	Net profit	Operating profit margin	Net profit margin
	Y-o-Y % change	Y-o-Y % change	Y-o-Y % change	Y-o-Y % change	%	%
Dec 2022	16.54	16.34	-4.26	-8.82	24.56	12.66
Mar 2023	-0.43	-0.23	-31.88	-45.42	20.10	9.99
Jun 2023	-21.46	-22.14	-73.61	-93.14	11.09	1.83
Sep 2023	-20.52	-22.12	-71.19	-90.22	9.09	1.76
Dec 2023	-21.74	-22.02	-71.26		9.05	-1.21

Note: All income and profit figures are net of prior period and extraordinary transactions.

Project completions to slow down in 2024-25

Project completions in the caustic soda industry are expected to slow down in the current financial year 2024-25, after peaking in the previous two financial years ended March 2024. Two projects with a cumulative investment outlay of Rs.600 million are scheduled to come onstream this year.

The industry witnessed record project completions worth Rs.60.5 billion during 2022-23. In the following year 2023-24, the industry is expected to have reported its second-highest project completions worth around Rs.20.9 billion. The strong momentum in capex was led by an upsurge in demand for caustic soda amidst high capacity utilisation. Resumption of industrial activities



and pent-up demand post-pandemic led to an increase in demand for caustic soda. The capacity utilisation levels of major caustic soda manufacturers like GACL, Epigral, Chemfab Alkalis and Primo Chemicals were in the range of 75-85 per cent prior to the financial year 2022-23. These factors are likely to have encouraged companies to add more capacities during 2022-24.

The previous two years cumulatively added more than 1.3 million tonnes of capacity, taking the industry's total production capacity to around 6.4 million tonnes per annum. Post this robust capex spree, caustic soda manufacturers are likely to avoid adding any large capacities this year.

Up until now, two projects with a cumulative investment outlay of Rs.600 million are scheduled to come onstream in 2024-25. This estimate for the year is expected to increase further as new information flows in during the coming months.

The two projects which are scheduled to be completed this year belong to Chemfab Alkalis. Both projects are expected to add close to 118,620 tonnes of capacity, taking the industry's total caustic soda production capacity to about 6.6 million tonnes per annum.

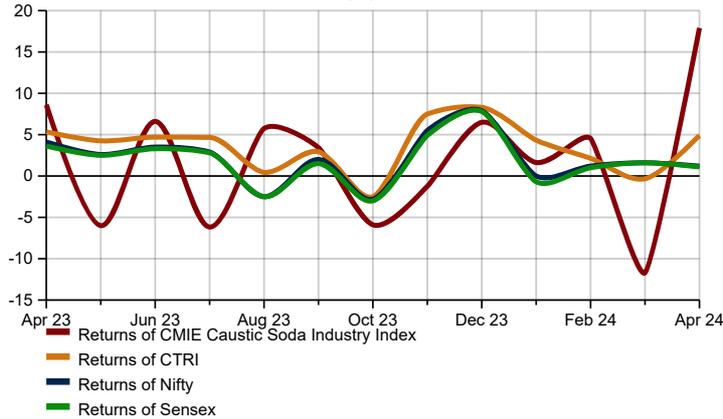
- The company is setting up a chlor-alkali plant in Karaikal, Puducherry. The new plant will have a capacity to produce 91,250 tonnes of caustic soda and 10,000 tonnes of aluminium chloride every year. The new unit is likely to be operational by September 2024.
- Chemfab Alkalis is also working on expanding the manufacturing capacity of its Pondicherry plant, with a total investment of Rs.600 million. The company is increasing the caustic soda production capacity of the first phase of the plant by 10,950 tonnes to 56,580 tonnes and that of the second phase will be increased by 16,420 tonnes to 73,000 tonnes. This brownfield project is expected to provide

employment to around 350 individuals. The project is likely to be completed by June 2024.

Index delivers positive returns of 17.9% in April 2024

The CMIE Caustic Soda Index, comprising all listed caustic soda companies, increased by a strong 17.9 per cent in April 2024, after plummeting by 11.7 per cent in the previous month March 2024. The index performed better than the broader indices Nifty and Sensex by almost 16.7 percentage points each in the same month. It also outperformed the CMIE Total Returns Index (CTRI) by 13 percentage points in April 2024.

Monthly returns on bourses: Caustic Soda (%)



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The index was trading at a P/E multiple of 50 times in April 2024. It traded higher compared to a P/E multiple in the range of 42-49 times in the last three months and significantly higher compared to a P/E multiple in the range of 8-20 times during April-December 2023. Trading volumes increased to almost Rs.9.3 billion during April 2024 from Rs.7.1 billion in March 2024.

Gujarat Alkalies & Chemicals (GACL), the largest listed caustic soda company, yielded 17.6 per cent returns in April 2024. Shares of Epigral, Andhra Sugars and TGV Sraac rose by a strong 20.6 per cent, 15.6 per cent and 17 per cent, respectively, during the month. Primo Chemicals yielded the highest returns of 36.2 per cent. Meanwhile, Chemfab Alkalies delivered a negative return of 5.9 per cent in the same period.

The market capitalisation of the index rose to Rs.161.2 billion in the reporting month from Rs.136.7 billion in March 2024. Market capitalisation of GACL increased to Rs.58.2 billion in April 2024 from Rs.49.5 billion in March 2024, while that of Epigral surged to Rs.55 billion in April 2024 from Rs.45.6 billion in the previous month.

Performance on bourses: Caustic Soda

Month	Index	No of cos in Index	Mkt Cap.	P/E	Trading Volume	Liquidity	Returns
	Numbers		Rs. million	Times	Rs. Mn	Times	%
Dec 2023	3,374.16	7	145,724.1	20.10	6,586.2	25.5	6.49
Jan 2024	3,429.05	7	148,094.9	46.44	8,595.5	31.6	1.63
Feb 2024	3,584.27	7	154,798.8	48.55	14,084.7	37.1	4.53
Mar 2024	3,165.15	7	136,697.6	42.87	7,120.7	32.6	-11.69
Apr 2024	3,731.83	7	161,171.8	50.03	9,272.9	25.3	17.90

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