



# INDIAN CHEMICALS & PETROCHEMICAL INDUSTRY ANALYSIS

JANUARY - 2024

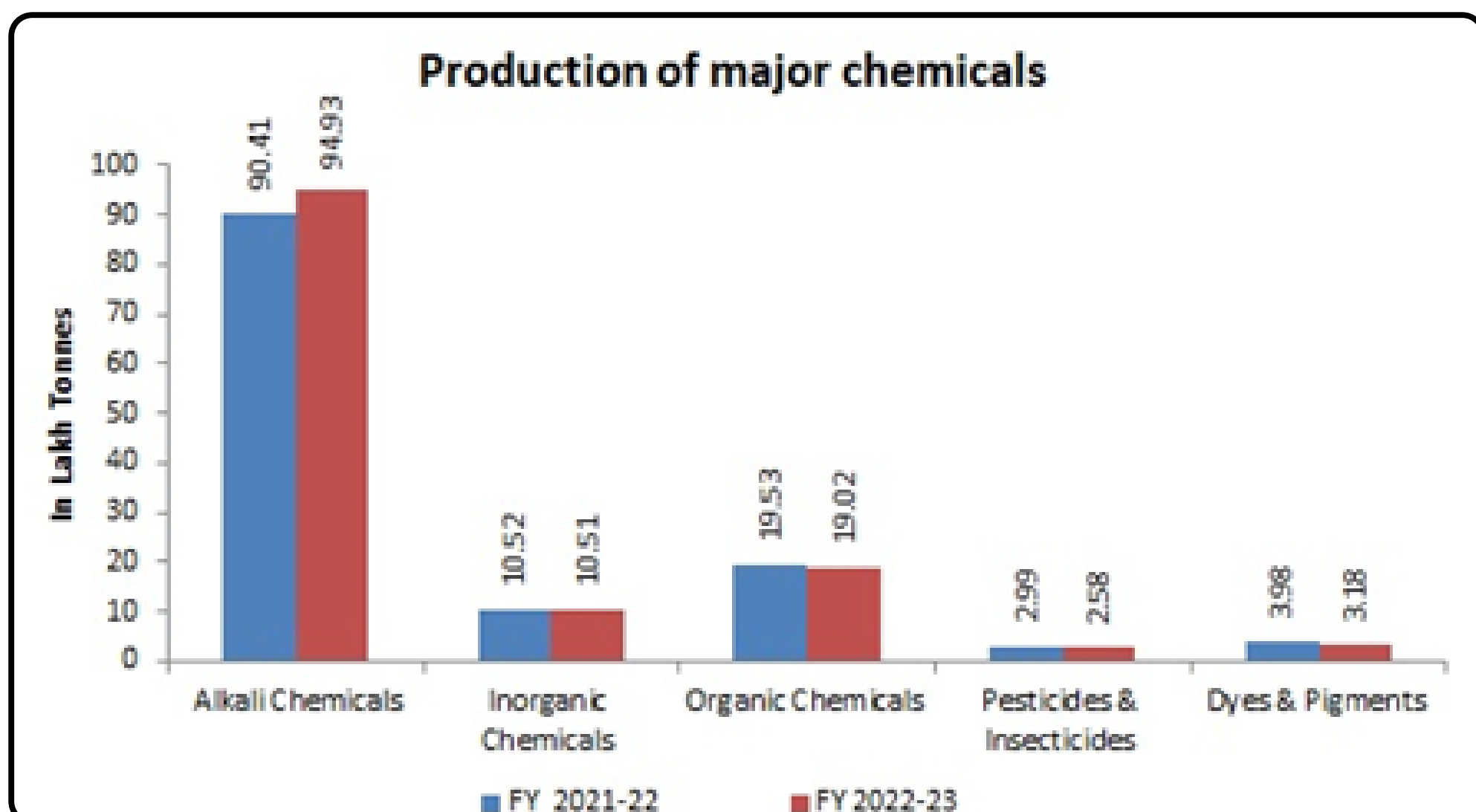


The Chemicals & Petrochemical industry being one of the fastest growing industries, plays a pivotal role in industrial and agricultural development of the country, serving as a backbone for various sectors such as textiles, papers, paints, varnishes, soaps, detergents and pharmaceuticals etc. With an aim to reduce reliance on imports, enhance infrastructure and improve the business environment, several initiatives has been taken by the government. Besides, to reach net zero by 2070, the Department of Chemicals & Petrochemicals has been working diligently to harness the tremendous potential available in the sector and there is ample scope for creating facilitative policies to attract green investment in the sector.

## PRODUCTION OF MAJOR CHEMICALS

The production of major chemicals surged 2.19% to 130.22 lakh tonnes during FY2022-23 as compared to 127.43 lakh tonnes during the corresponding period of the previous year, on the back of rise in production of Alkali Chemicals. Out of the total production, the production of Alkali Chemicals increased 5.00% to 94.93 lakh tonnes during FY2022-23 as against 90.41 lakh tonnes during FY2021-22.

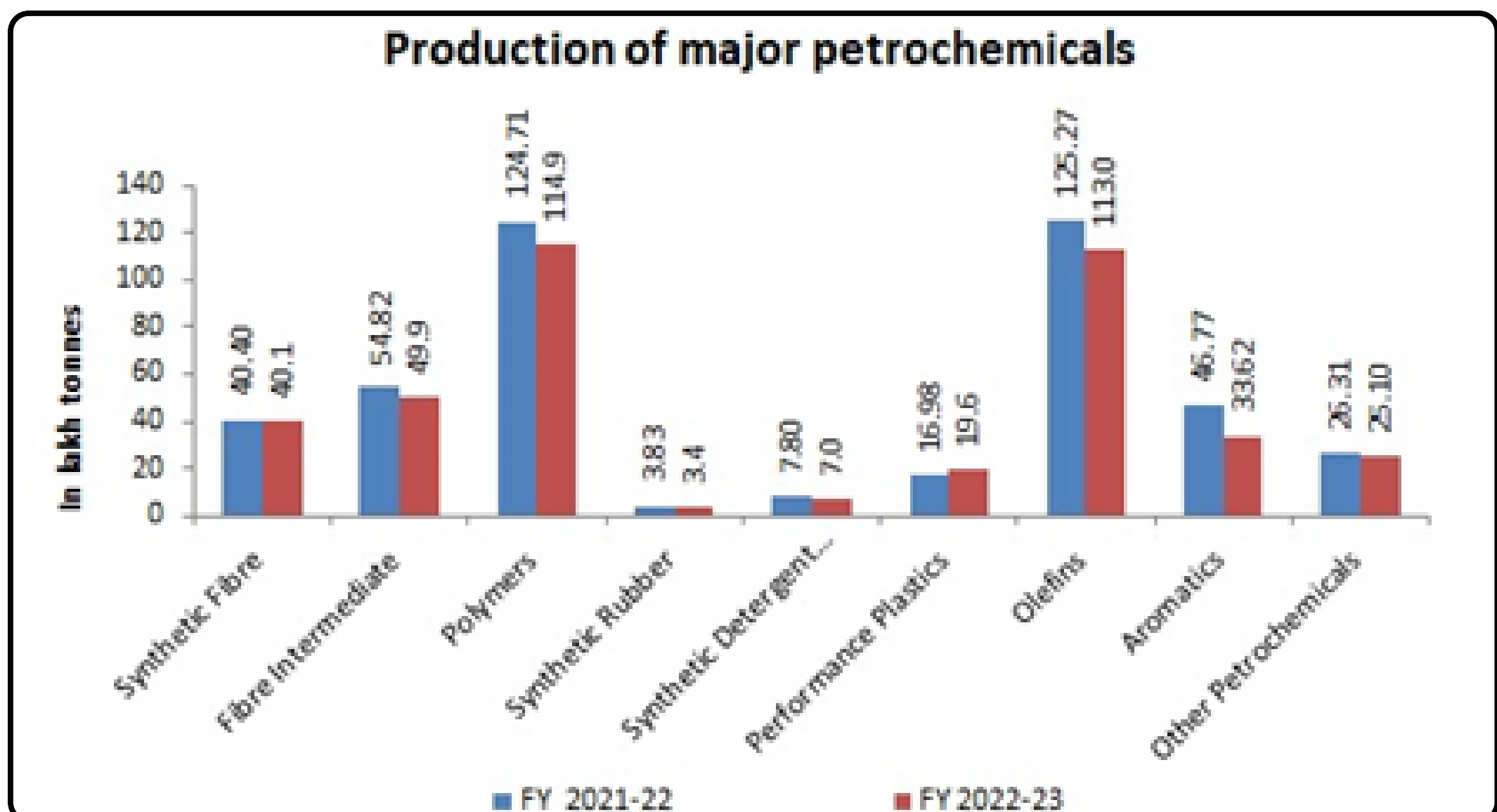
However, production of Inorganic Chemicals, Organic Chemicals, Pesticides & Insecticides and Dyes & Pigments decreased 0.03%, 2.61%, 13.77% and 20.10%, respectively during the reported period as compared to the last year, due to sluggish demand for chemicals globally amid fears of an economic downturn. The PLI scheme was launched in April 2020 to provide support to manufacturing in some selected sectors.



## PRODUCTION OF MAJOR PETROCHEMICALS

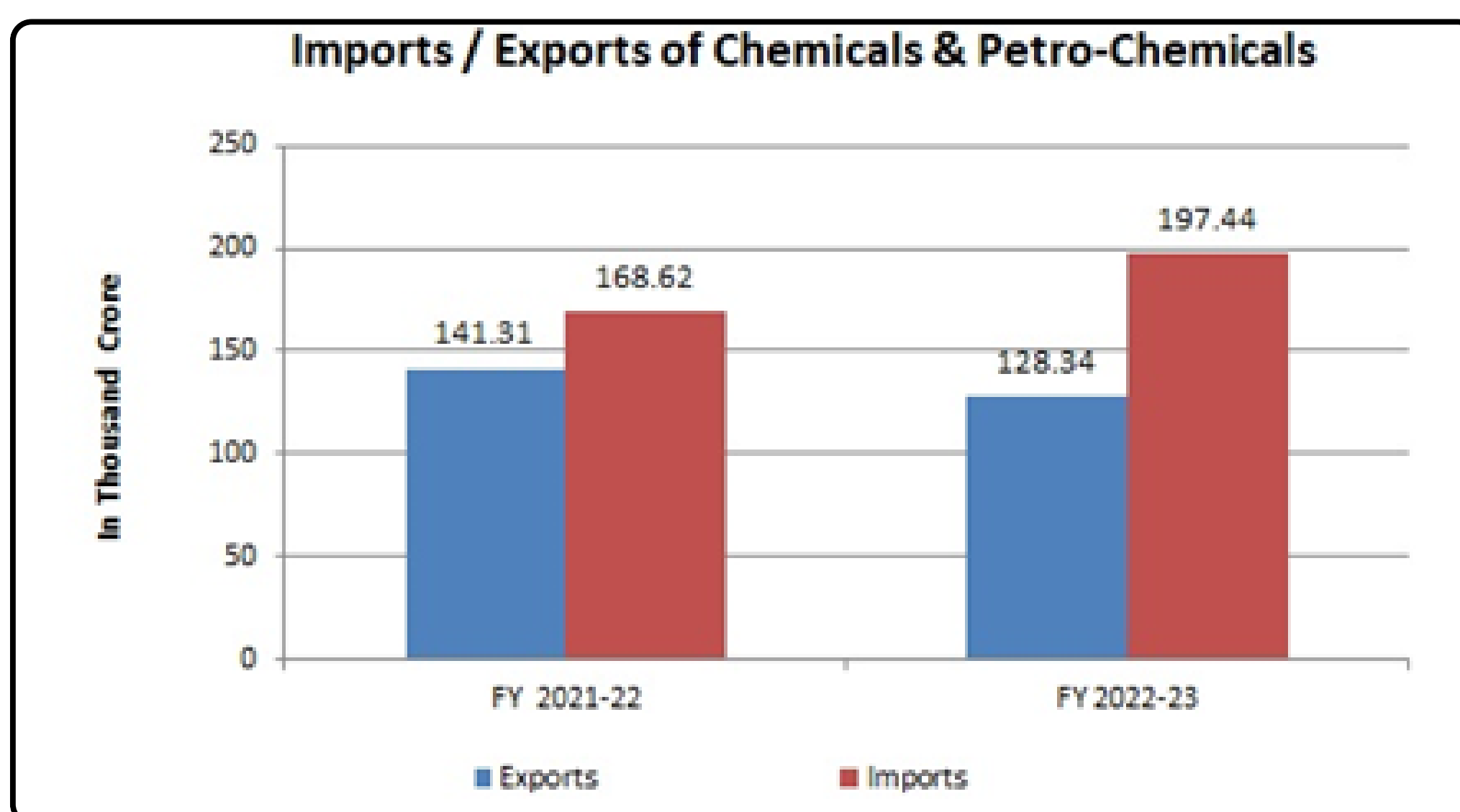
Petrochemicals, which comprise of plastic and a host of other chemicals, are downstream hydrocarbons derived from crude oil and natural gas. The value additions in the petrochemicals chain offer immense possibilities and cater to the need of textiles and clothing, agriculture, packaging, infrastructure, healthcare, furniture, automobiles, electronics and telecommunication, irrigation, drinking water, construction and a host of other articles of daily and specialized usage amidst other emerging areas.

The production of major petrochemicals declined 9.02% to 406.57 lakh tonnes during FY2022-23 as compared to 446.89 lakh tonnes during the corresponding period of the previous year, due to fall in production of Synthetic Fiber (0.83%), Fiber Intermediate (9.01%), Polymers (7.89%), Synthetic Rubber (9.87%), Synthetic Detergent Intermediates (9.91%), Olefins (9.83%), Aromatics (28.13%) and Other Petrochemicals (4.62%) during the period as compared to the last year. However, production of Performance Plastics increased 15.46% to 19.60 lakh tonnes during FY2022-23 as against 16.98 lakh tonnes during FY2021-22.



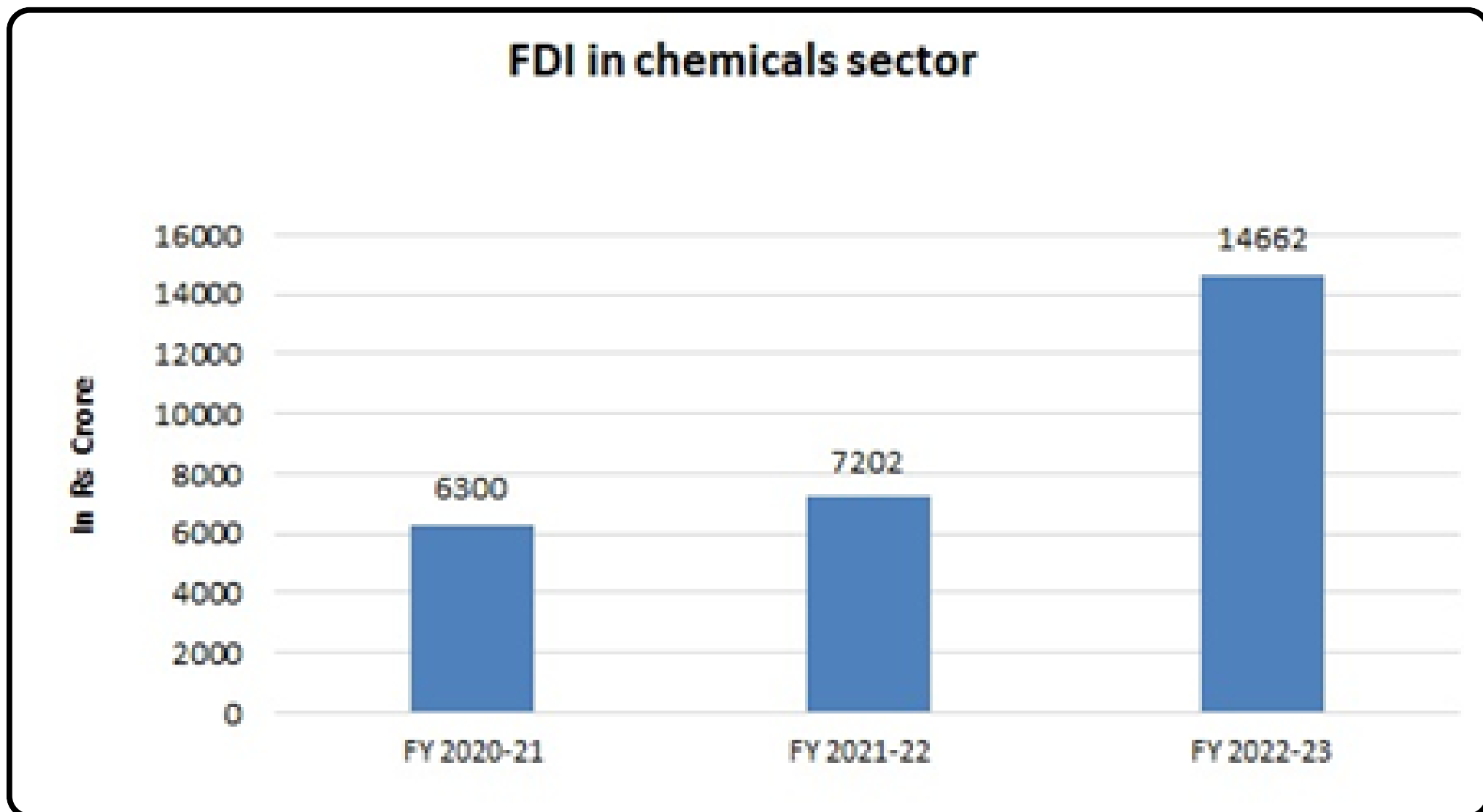
## IMPORTS/ EXPORTS OF MAJOR CHEMICALS & PETRO-CHEMICALS

The combined exports of major chemicals and major petrochemicals in FY2022-23 decreased to Rs 128.34 thousand crore from Rs 141.31 thousand crore over the corresponding period of last year. However, the combined imports increased to Rs 197.44 thousand crore from Rs 168.62 thousand crore over the corresponding period of last year. There was a trade deficit of Rs 69.10 thousand crore in FY2022-23 in comparison to a trade deficit of Rs 27.31 thousand crore in the corresponding period of the previous year.



## FOREIGN DIRECT INVESTMENT IN CHEMICALS SECTOR

A 100% Foreign Direct Investment (FDI) is allowed under the automatic route for the chemicals sector and investor does not require any special clearances except for a few hazardous chemicals. Chemicals sector is in sixth position in terms of total FDI in India amounts to around 3% of total FDI equity inflows in India, with highest recorded growth i.e. 91% at Rs 14662 crore in FY 2022-23 as against Rs 7202 crore in FY 2021-22 among all the sectors. In FY 2020-21, the sector attracted Rs 6300 crore FDI inflows.



## UPCOMING INVESTMENTS TO BOOST THE COUNTRY'S PETROCHEMICALS PRODUCTION CAPACITY

Indian state-owned oil and gas companies are all set to invest significantly to increase petrochemical production capacities in the country. The investments will help boost the country's self-sufficiency and reduce imports of petrochemicals. For instance, Indian Oil Corporation (IOC) will invest Rs 61,077 crore in building a petrochemical complex at Paradip in Odisha - its largest ever investment at a single location. This project is aligned with Prime Minister Narendra Modi's vision of Purvodaya which will accelerate the development trajectory and fuel prosperity in Eastern India and will also support the Aatmanirbhar Bharat initiative. Besides, Oil and Natural Gas Corporation (ONGC) has planned to invest about Rs 1 lakh crore in setting up two petrochemical plants to convert crude oil directly into high-value chemical products as it prepares for energy transition. Meanwhile, with the world looking to transition away from fossil fuels, companies around the globe are looking at new avenues to use crude oil.

## RECENT DEVELOPMENTS & INITIATIVES

### • **Chemicals sector:**

- The Department of Chemicals and Petrochemicals (DCPC) is exploring the possibility of setting up of Chemical Parks to boost domestic production for meeting the increasing demands of chemicals and curbing imports in the country. Accordingly, a scheme for setting up of Chemical Parks (to be led by private sector and supported by both State and Central Government), after approval of Minister (Chemicals & Fertilizers), has been submitted to the Department of Expenditure for 'in-principle' approval.
- The DCPC grants funds under the Chemical Promotion and Development Scheme for extending financial support to industry associations and organizations to conduct workshops, seminars, studies, etc., to enable the Department to form its views on various policy matters. To streamline the system, Funding and Execution Standard Operating Procedures (SOPs) for organizing farmers' training programmes under the scheme have been issued during August, 2023.
- The Government of India is considering launching a production-linked incentive (PLI) scheme for the chemicals and petrochemicals industry to boost domestic manufacturing and exports. This scheme is designed to provide companies with incentives based on the increase in sales from products manufactured within the country.

## • Petrochemicals sector

- In order to prevent the import and production of cheap and sub-standard quality petrochemical products, Quality Control Orders (QCOs) for two products viz. (i) Poly Vinyl Chloride (PVC) Homopolymers and (ii) Polypropylene (PP) Materials for Moulding and Extrusion were notified on the World Trade Organization (WTO) website for inviting comments from WTO members. Eleven other products were identified for issuing the Quality Control Orders and the stakeholder consultation was initiated.
- The Department of Chemicals and Petrochemicals is implementing two Central Sector Schemes, namely, New Schemes of Petrochemicals (Scheme for setting up of Plastic Parks, Scheme for setting up of Centres of Excellence & National Petrochemicals Awards Scheme which has been reviewed/revised & renamed as Petrochemicals Research & Innovation Commendation Scheme from January 2023) and Chemical Promotion & Development Schemes (CPDS).
- Besides, the Department of Chemicals and Petrochemicals is also implementing other schemes for funding its Secretariat expenses; support to Central Institute of Petrochemicals Engineering & Technology (CIPET), which is engaged in academic, technology support, research and skill development activities; Institute of Pesticides Formula on Technology (IPFT) and Bhopal Gas Leak Disaster (BGLD).

# OUTLOOK

Indian chemicals and petrochemicals industry is likely to perform well, aided by the growth of downstream industries as well as the increasing demand for high-performance materials in various end-use applications such as automotive, construction and textiles. The availability of skilled labor, favorable government policies and a growing manufacturing sector are expected to provide further impetus to the growth of the sector. Besides, the government's policy decisions will help in increasing production as well as foreign direct investments. Growing domestic consumption, rising disposable incomes and changing consumer preferences will accelerate demand, however dumping by overseas manufacturers may keep profitability of the firms under pressure.

Further, the Plastic Parks scheme is expected to improve production and exports in the Petrochemicals sector along with generation of employment, while Schemes of Centres of Excellence will help in improving the existing petrochemicals technology and research in the country and to promote development of new applications of polymers and plastics. The chemicals and petrochemicals industry is facing the challenges like meeting the increasing demand for products and reducing its environmental impact. However, the industry can achieve substantial reductions in its environmental impact while maintaining economic viability, by adopting eco-friendly and greener alternatives, optimizing energy consumption and harnessing digital technologies.



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