Specialty Chem Stocks Rise up to 60% in a Yr

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India's specialty chemicals companies have generated returns ranging from 10% to 60% over the last one year, when the BSE Mid-cap and Small-cap indices have given negative returns and the benchmark Sensex generated barely 3% returns.

The specialty chemicals segment benefits from the fact that unlike commodity chemicals, they are not exposed to profit volatility.

Not all companies can be equally agile in launching new products, but unveiling a specialised product in which the scale of operations can be built is good enough to help them remain ahead of the pack.

For instance, Mumbai-based Vinati Organics has emerged as the world's biggest manufacturer of IBB — a specialty chemical used in the manufacture of anti-inflammatory drug ibuprofen — and the second biggest manufacturer of ATBS — a monomer used in the petroleum industry to secure crude oil out of deep wells. Similarly, Camlin Fine Sciences has emerged as a major player in food anti-oxidants, a segment in which it wants to grow capacities further.

The benefits of specialty chemicals are also luring traditional bulk chemical makers. Gujarat-based Atul Limited, a colorants and agrochemicals company, recently commissioned the world's biggest plant to manufacture p-Cresol — a specialty chemical used in the fragrance and personal care industry.

Down South, Thirumalai Chemicals, a traditional supplier of phthalic anhydride to the paint industry with a plant near Chennai, has ventured into this segment by making food acids. It is now one of the world's top four producers of malic acid with a capacity of over 6,000 tonnes. "Malic acid is naturally found in apple and is better than citric or tartaric acid as a food additive. We are now the only producer in Asia," says R Parthasarathy, MD, Thirumalai Chemicals.

Innovations, high margin, global opportunities help cos offer high returns against 3% gain by Sensex in past one year

The specialty chemicals business is driven by specialised assets and knowledge-based applications that make it more complex and provide higher and more stable margins, says Rajendra Gogri, vice-chairman and MD of Aarti Industries.

"Thanks to our robust research and development, we come out with three to four new molecules every quarter. Often our products are new to the Indian market. Our strategy is to avoid such products which even others can make," says Pravin Herlekar, CMD, Omkar Specialty Chemicals.

The investment scenario may be bleak, but that has not taken the sheen off the specialty chemical industry. FDI into this sector was among the highest in 2011-12, says Kumar Kandaswamy, senior director, Deloitte Touche Tohmatsu India, according to whose estimates $7 billion of foreign flows have come in already.

Even local firms are investing heavily. Omkar Specialty has outlined ₹100 crore of investments over the next two years, more than tripling its gross block. Similarly, Atul is planning to expand p-Cresol capacity within months of commissioning it. Tata Strategic Management Group's chemical and energy practice head Manish Panchal says, "Substantially lower penetration, increasing globalisation and higher disposable income are fuelling growth of end-user industries. This industry is expected to grow at 13-17% over the next five years."

Deloitte's Kandaswamy also projects a 14% growth over the next five years for the sector.

The industry is also benefiting from macro-economic trends. "In the last few months, depreciation of the rupee, appreciation of the yuan and increase in production cost in China have helped Indian companies to garner more market share. These firms are likely to continue outperforming in the next one year," Sunil Jain, head of equity research – retail, Nirmal Bang Securities, said.

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