

‘The chemical sector is poised to grow faster than India’s overall nominal GDP over the next decade’

Chemicals is among the top three sectors in your fund’s portfolio. What makes you bullish about this space in the year ahead? Which segments within this sector are you betting on and why?



There is ample room for growth for the Indian chemical manufacturers through import substitution and capturing export opportunities



As a fund house, we prefer businesses which have a high-growth potential, along with the ability to generate return on equity (ROE) higher than the cost of equity. We believe that the Indian chemical sector is poised to grow faster than India’s overall nominal GDP over the next decade. There are many structural reasons to support this.

We are observing that customers globally are looking at India as a stable source of supply for basic as well as specialty-chemical products. And the market opportunity is large. As per the World Trade Organisation, China’s total pharmaceuticals and chemical exports stood at over \$300 billion against India’s total exports of over \$80 billion. Additionally, India has also imported pharmaceuticals and chemicals worth over \$80 billion. This provides ample room for



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growth for the Indian chemical manufacturers through import substitution and capturing export opportunities.

Indian companies are also

re-investing their earnings to capture this opportunity. Over the last five years, the leading specialty-chemical companies have grown their operating profits at more than 20 per cent CAGR and have re-invested more than 70 per cent of these profits to build capacities, hinting towards a strong growth runway in the future.

We believe that the Indian chemical industry is still small as compared to that of China, Europe and Japan. Factors like the rising cost of production, stricter environment compliance norms, the Chinese government’s blue-sky policy are only accelerating this shift to India. There are already precedents of global customers getting into large multi-year supply deals with Indian companies.