Soda Ash Industry FY24 Margins Likely to Moderate by 400-550 bps but Long-term Growth Intact

December 22, 2023 | Ratings

CareEdge RATINGS

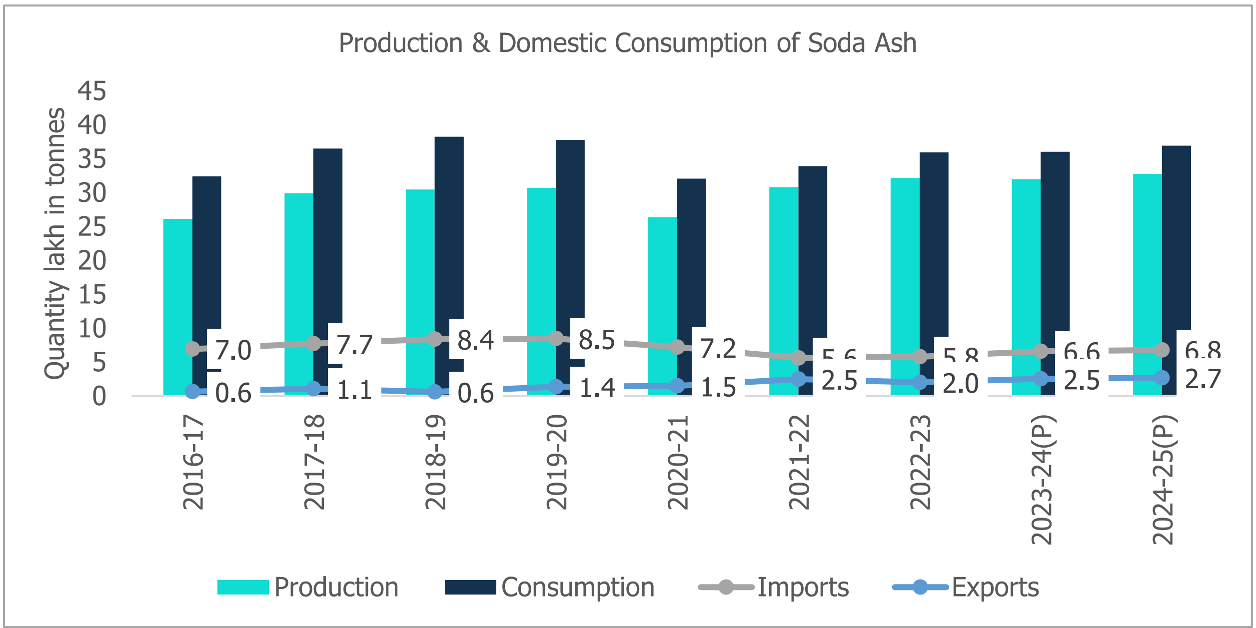
Synopsis

- The global soda ash market is valued at around USD 21.5 billion in CY2023 and is expected to grow at a compounded annual growth rate (CAGR) of 6.6% between 2024 and 2032.
- Global soda ash market is estimated to be 63.2 million metric tonnes (MMT) in 2022, with a projected CAGR of around 3.0-3.3 percent between 2022 and 2030.The current global soda ash capacity, which stands at 71 million metric tonne (MMT) in CY2023, is expected to grow at a CAGR of 3% by 2030.
- The Indian soda ash market is expected to grow at a CAGR of 2-3% from India's current annual consumption of 3.5-3.6 MMT in FY23, expected to reach 3.7-3.8 MMT over the period FY24 and FY25, with the current production capacity of 4.2 MMT (FY23).
- The growing use of soda ash in solar glass, electric mobility, battery manufacturing, metallurgical processes, synthetic detergents and wastewater treatment is anticipated to fuel its demand in India.
- Post the robust operating margins witnessed in FY23, the Indian soda ash industry is expected to record moderation in its operating margins by 400-550 bps in FY24, likely due to lower realisation amid the oversupply of soda ash globally, and further, marginally by around 50-100 bps in FY25 due to price correction, although this will be partially offset by a fall in the energy prices. Although the demand in India has been strong as compared to other countries, however, companies have delayed purchases, primarily attributed to higher consumer inventory, a fall in the production activity of most of its user industries and expected corrections in the prices of soda ash. The capacity additions in the US, Turkey, Russia, and Inner Mongolia (in China) have created short-term surplus. However, in the medium to long term, increased demand from the glass and electric vehicle (EV) sectors is expected to fuel industry growth.

Sustained long-term progress amid challenges in the near term

Production and consumption trend in India

The production of soda ash is expected to grow at a sluggish rate in FY24, around 0% to -1% as compared to 4.6% growth seen in FY23. The slowdown is likely due to muted demand from most of the end-user industries. The muted demand and the capacity addition in China have resulted in an excess supply of soda ash, which is also anticipated to be a contributing factor to the slowdown in production growth.

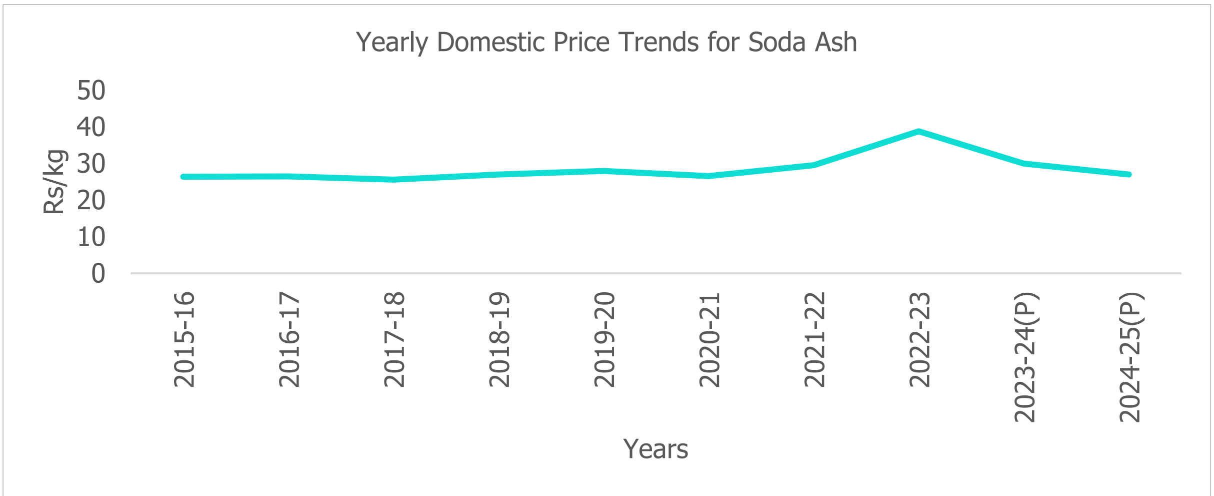


Source: Centre for Monitoring Indian Economy (CMIE) and CareEdge

The demand for soda ash mainly arises from industries such as soaps and detergents, glass, textiles, and paper and pulp. In the past few years, the aggressive focus on green energy has driven the increased usage of glass for solar panels and lithium carbonate for EV battery applications, with a consequent sharp demand growth for soda ash, which is a vital ingredient in these two sectors. The healthy demand for glass from real estate, automobile, and glass-packaging sectors is expected to augur well for the soda ash industry. Furthermore, the surge in EV demand in FY24 (soda ash is used in lithium-ion batteries) is expected to support the demand for soda ash. However, a sluggish demand in textiles, a marginal decline in the production of soaps and detergent, and a decline in the paper industry during H1FY24 as compared to the corresponding period a year ago are expected to impact the demand for soda ash.

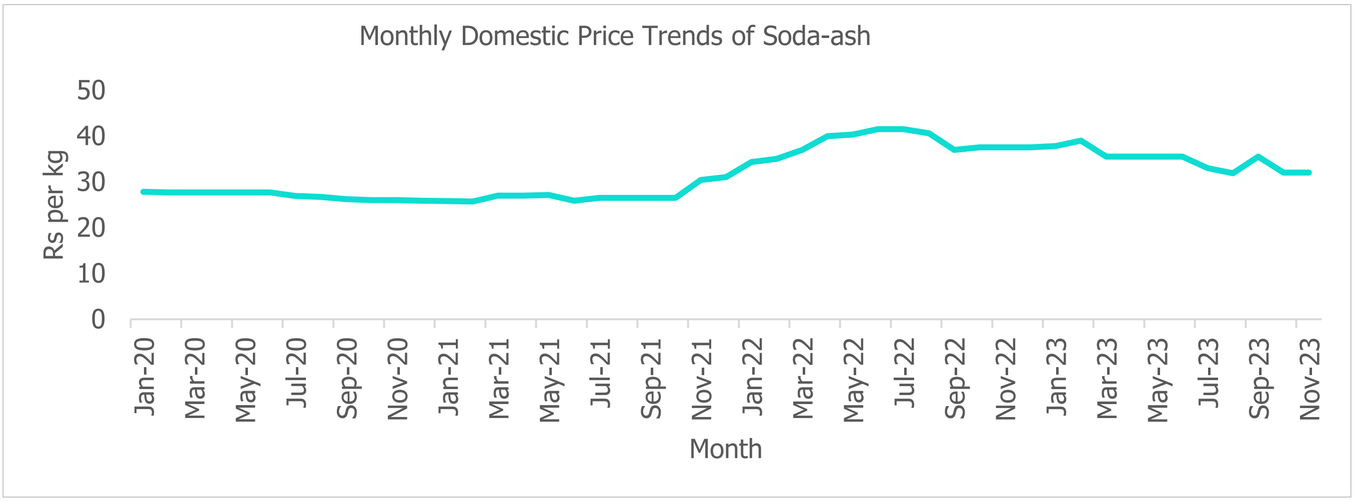
Post sharp spike in FY23, moderation in prices seen

In FY23, the soda ash industry witnessed higher-than-expected demand, resulting from supply constraints, which led to a significant increase in prices.



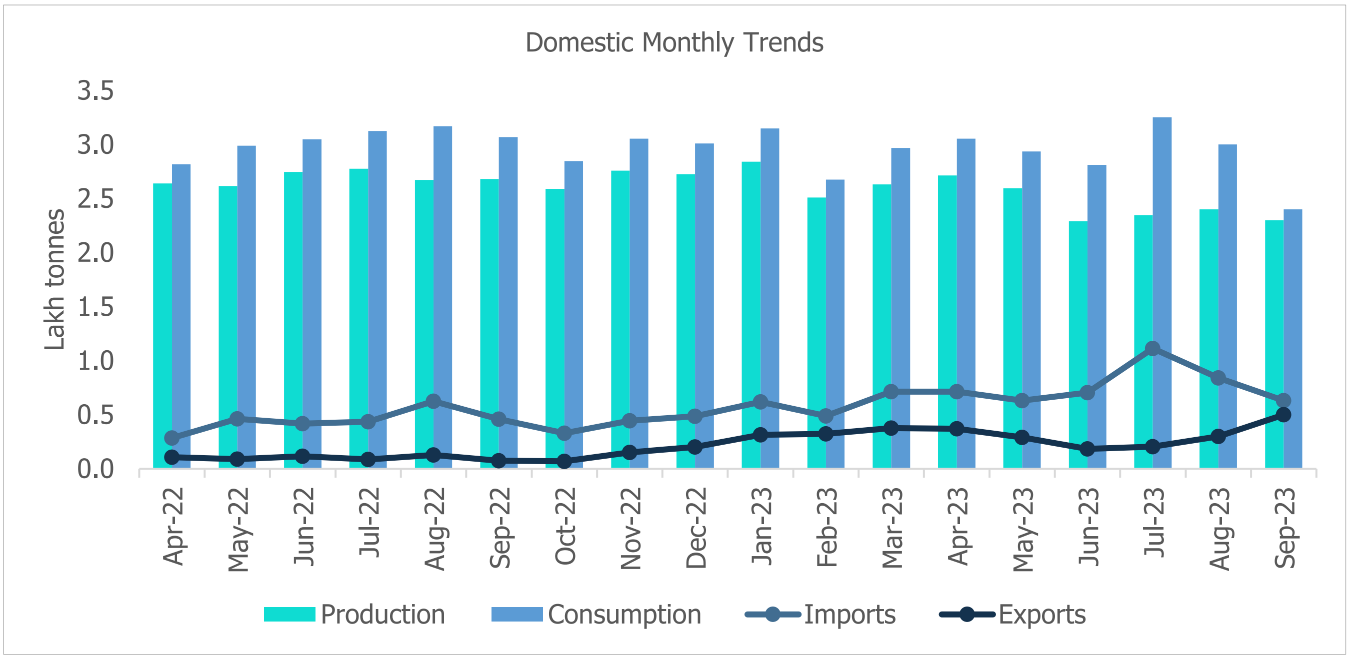
Source: CMIE and CareEdge Ratings

In the first half of FY24, soda ash prices underwent a decrease triggered by various factors like slowdown in end user industry, expected addition of capacity in Inner Mongolia leading to ease in demand and supply situation. Despite a temporary surge in September 2023, driven by growing global demand, especially in the glass industry, the prices began to ease gradually following the influx of increased supplies from both the US and China. Further, 1.5 million tonne of soda ash capacity has been added in Inner Mongolia, which came on stream six months before the expected timeline, with another 1.5 million tonne added in FY24, which is likely to create a surplus in the soda ash market in the short term.



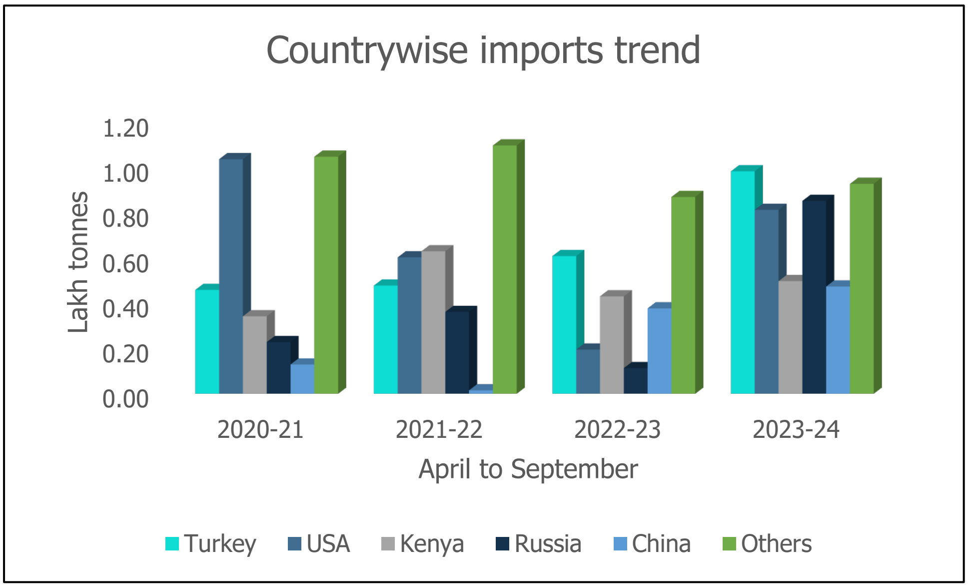
Source: CMIE and CareEdge

The consumption of soda ash also fell by 4% between April 2023 and September 2023 as against the corresponding year-ago period due to a fall in the production activity of most of its user industries, which can be seen from the monthly trend of soda ash consumption. The paper industry production saw a decline of around 14% during April 2023 and September 2023 against the corresponding year-ago period. The accelerated digitisation in education, communication, and the media industries has led to a further decline in global paper consumption. The textile industry, a significant user of soda ash, experienced an 18.7% y-o-y production decline between April 2023 and September 2023 due to weak domestic and international demand. The production of detergents, one of the major demand drivers for the soda ash industry, too, dropped marginally by around 1% between April 2023 and September 2023 against the corresponding year-ago period. However, the glass industry, another major consumer of soda ash, which contributes to about half of the soda ash industry's demand, saw an increase of about 1% between April 2023 and September 2023 against the corresponding year-ago period.



Source: CMIE and CareEdge

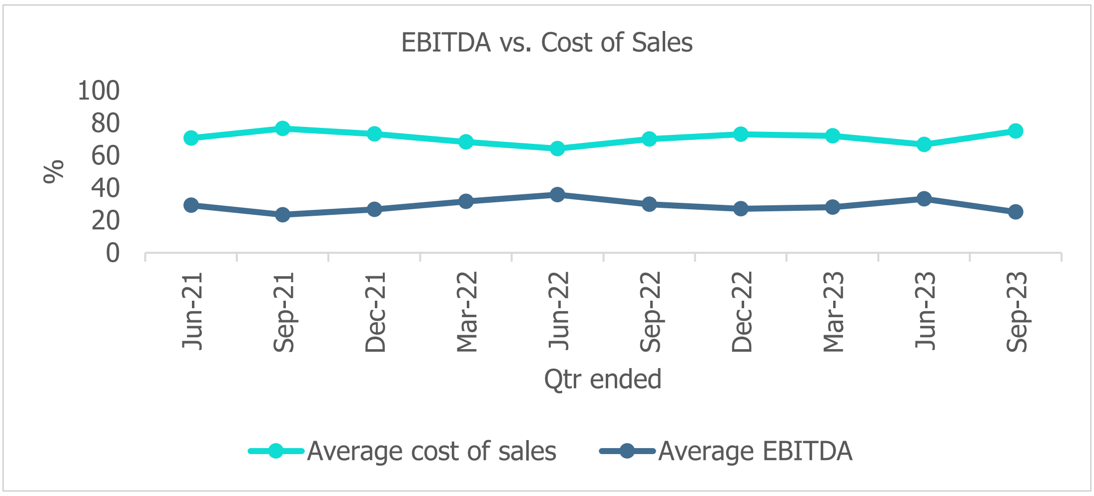
Further, imports have increased by around 72% between April 2023 and September 2023 against the corresponding year-ago period due to an increase in imports from Russia, Turkey & USA which can be seen from the trend below. Indian market has suffered from a heavy increase in imports which has further added to the pricing pressure.



Source: CMIE and CareEdge

Operating margins to moderate in FY24 and FY25

With moderation in soda ash realisation, the operating margins are expected to correct by 400-550 bps in FY24 and further marginally by around 50-100 bps in FY24-25 due to soda ash price correction, although this will be partially offset by a fall in energy prices. Sales volumes are likely to remain under pressure even in the subsequent quarters, given the sluggishness in demand from key user industries. Furthermore, domestic prices of soda ash have largely been on a downward trajectory since March 2023. On the cost front, the prices of key raw materials like salt, limestone, and coal are moving upwards, which will further dent the margins.



Source: CMIE and CareEdge

Soda ash production in India predominantly relies on synthetic methods due to the unavailability of natural sources. This process involves substantial raw material expenses and necessitates access to significant quantities of salt, limestone, and coal or lignite, often requiring ownership of captive mines for cost-efficiency. The production of 1 Metric tonne (MT) of soda ash demands 5 MT of raw materials, leading to higher energy and raw material costs. Furthermore, changes in the balance between supply and demand, coupled with the instability of input prices, consequently, impact the profit margins.

The EBITDA margins have historically averaged between 23-24%. However, in FY23, it experienced a notable increase to around 30%, primarily due to the elevated prices of soda ash. Nevertheless, the recent price adjustments are expected to lead to a return to the typical margin range of 23-24%.

Capex to accelerate for meeting long-term growth in demand

The Indian soda ash market is expected to grow at a CAGR of 2-3% from India's current annual consumption of 3.5-3.6 MMT in FY23, expected to reach 3.7-3.8 MMT over the period FY2024 and FY2025, with the current production capacity of 4.2 MMT (FY23). The demand for soda ash mainly arises from industries such as glass, soaps and detergents, textiles, and paper and pulp. Almost half of all the soda ash production is consumed by the glass industry. Soda ash serves as a vital component in glass manufacturing; when mixed with silica – the primary glass ingredient, soda ash acts as a fluxing agent, lowering the melting point of the mixture. This reduces energy consumption during the glass production process, contributing to efficiency. The glass industry, spanning construction, packaging, automotive, and electronics, heavily relies on soda ash for its diverse applications. India's total installed capacity for soda ash is 4.2 MMT, but the domestic production in FY23 was around 3.2 MMT. Currently, on average, around 18% of the demand is met by imports. Considering the past trends as given above in the production, import and export trend, and without new capacity additions, this dependency can surge to 34% by FY30. In the past years, soda ash capacity in India has been around 3.9 MMT to 4.0 MMT, which has gradually increased to 4.2 MMT in FY23.

With the growing demand from glass and EV segment, which will thereby lead to increased demand for soda ash in the long term, various major soda ash manufacturers in India have announced capex plans, the aggregate of which has been given below.

Particulars	FY23	FY24	FY25	FY26
	Capacity addition in lakh tonnes			
Total	0.6	1.85	1.15	7.5

Source: CMIE and CareEdge

CareEdge Ratings View

The Indian soda ash industry is anticipated to revert to the FY22 price and profitability levels, viewing FY23 as an anomaly. This expected regression in both, volume and profitability in FY24, is due to subdued demand and price corrections compared to FY23. CareEdge Ratings expects the industry to record deceleration in the top-line and operating margins by 400-550 bps in FY24 and further marginally by around 50-100 bps in FY25 due to soda ash price correction, although this will be partially offset by a fall in the energy prices. However, the long-term prospects look promising, driven by growing demand for EVs and solar glass, which is anticipated to increase the need for soda ash, a critical raw material in glass and lithium production used in batteries. All these factors will enable the Indian soda ash industry to grow by a CAGR of 2-3% from FY23 to FY25.

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