

# Dyes and Pigments: 10% Volume Growth in FY25 with Margin Expansion of 150-200 bps

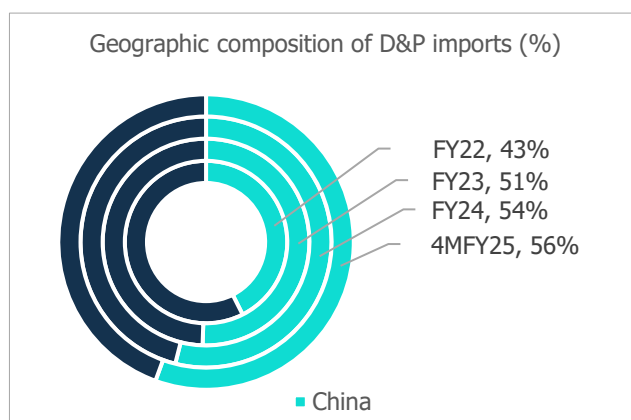
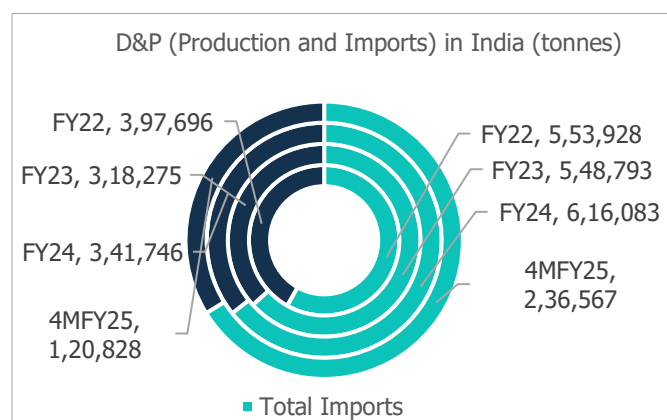
October 29, 2024 | Ratings

## Synopsis

- Following a slowdown in FY23, the domestic dye, dye intermediates, and pigment (D&P) industry showed signs of recovery in FY24, aligning with CARE Ratings' expectations. The industry saw a revival in sales volume, ranging from 5-10%, and ~100 bps increase in operating profitability in FY24 (against CARE Ratings' expectation of 5-7% volume growth and a 100-150 bps recovery in profit before interest, lease rentals, depreciation, and taxation [PBILDT] margin).
- While volumes improved across D&P players due to improvement in demand from major consumption industries and softening input prices, margin improvements were primarily observed by pigment players. The profitability of dye & dye intermediate players remained muted owing to a sharp correction in raw material prices, impacting the inventory valuation.
- In FY23, the D&P industry faced a demand slowdown from the end-user industries such as textiles, plastic and coating. This was due to high inflation across major consumption economies and sharp fluctuation in input costs. Major industry players saw over 5% moderation in topline and contraction of ~500 bps in their operating profitability.
- For FY25, CARE Ratings expects the growth momentum to continue with volume backed recovery of over 10% in topline for D&P players, and improvement of 150-200 bps in the operating profitability largely led by improvement in gross margin.
- The solvency position is expected to remain comfortable in FY25, in line with FY24.

## Signs of demand revival in FY24

India is one of the leading global suppliers of D&P with ~10% share by value in the global industry. Within the total D&P industry, dye and dye intermediates constitute ~75-80%, with their major (over 70%) end-use application being in textile. This is evidenced by India's significant export of D&P to countries such as Bangladesh (10% of total D&P export volume), China (7%), Turkey (7%) and the USA (5%) – majority of which, are textile producing nations. Also, the industry highly depends on imports, from China, which has over 50% share in overall imports.

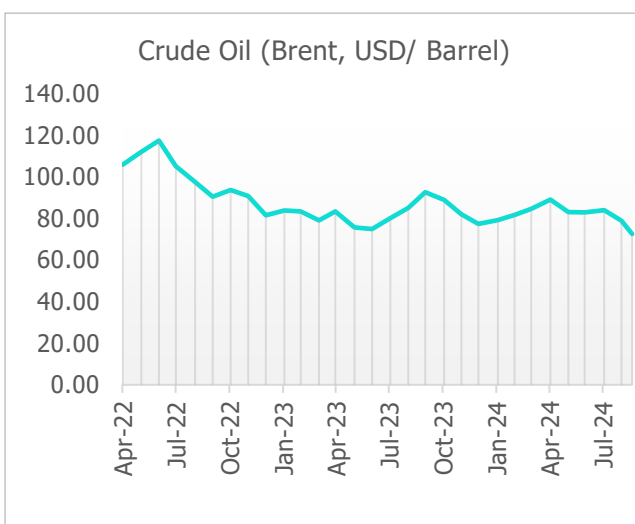
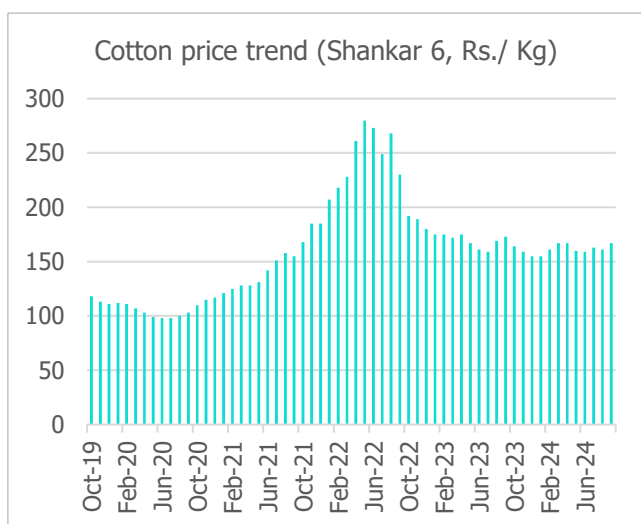


Source: CMIE

Thus, with significant global linkages, the industry’s performance remained subdued in FY23 due to global inflationary pressure, an uncertain geopolitical scenario, and destocking by majority of the users. Major consumption economies, particularly the USA and Europe, experienced recessionary trends that affected the demand for D&P from textile and other industries. Additionally, sharp volatility in commodity prices (including crude oil), supply chain disruptions, and influx of low-cost Chinese imports impacted the domestic D&P producers. Major industry players saw over 5% moderation in topline and contraction of ~500 bps in their operating profitability.

For FY24, CARE Ratings had envisaged a 5-7% volume growth and a 100-150 bps recovery in PBILDT margin, supported by restocking of inventory by textile channel partners, softening cotton & crude oil prices and onset of festive season.

As expected, the industry experienced a revival in sales volume, ranging from 5-10%, and expansion of ~100 bps in operating profitability. While volume growth was across dyes & pigments (in the second half of the fiscal year), margin improvement was seen in pigments. Dye & dye intermediate players continued to report muted margins owing to sharp correction in raw material prices, impacting inventory valuation.



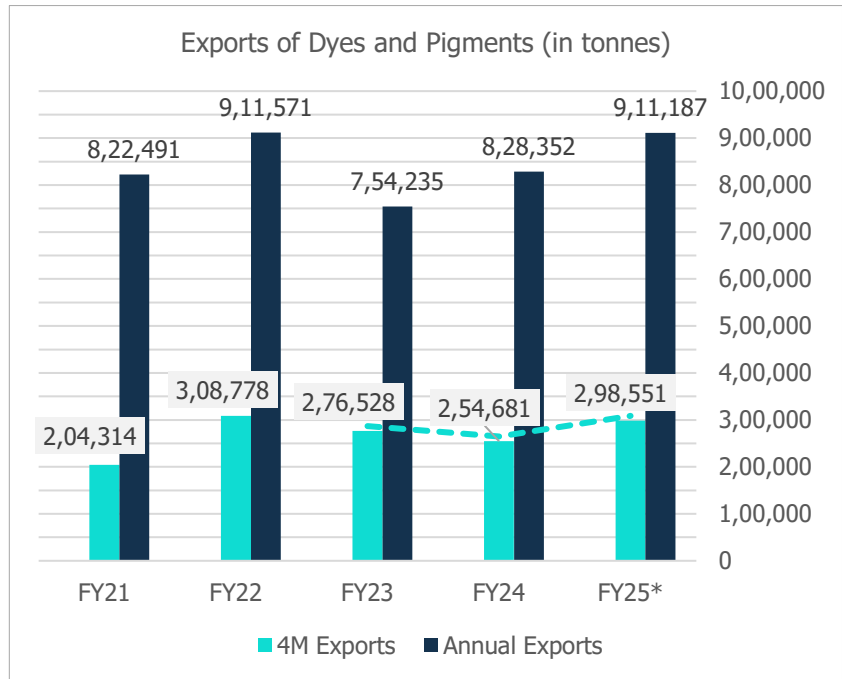
*The Brent crude oil spot price is expected to remain range-bound at present levels of US\$82 to US\$85 per barrel in FY25, marginal uptick is expected owing to OPEC’s recent decision to delay the increase in oil production by two months, until the end of November 2024.*

**Recovery to continue in FY25; exports revival visible**

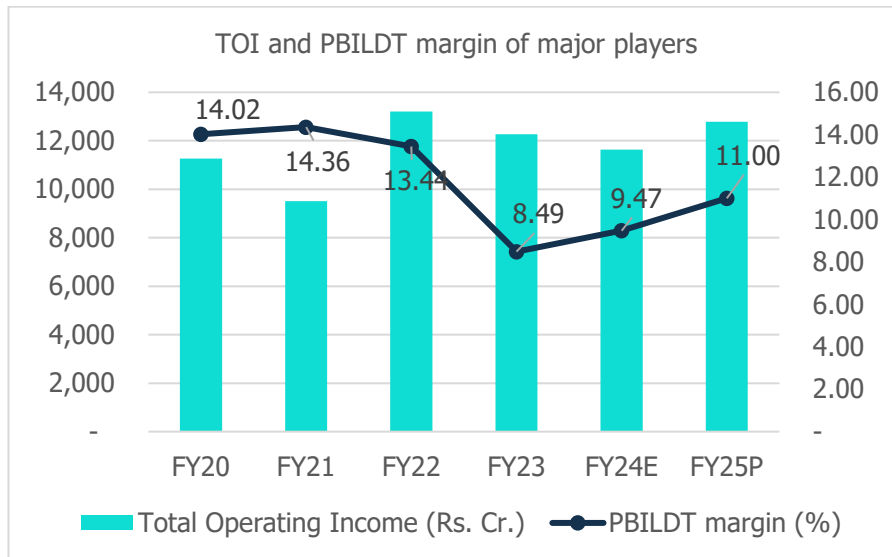
As reflected in the chart below, the exports volume of D&P from India significantly moderated in FY23 and 4MFY24. Post this period, uptick was witnessed in demand, resulting in a 9% y-o-y volume growth for full year FY24 (despite moderation in 4MFY24). This momentum continued in 4MFY25, resulting in a 15% y-o-y volume growth.

Despite volume growth, exports registered a degrowth of 8% value wise in FY24, owing to moderation in prices. However, in 4MFY25, there was growth in both the value and volume of exports (value increased by 13% y-o-y), indicating stabilisation of product prices.

For FY25, CARE Ratings expects sales volume growth to continue, with an overall improvement of over 10% in topline of players, supported by stabilisation of product and input prices. This is also expected to result in 150-200 bps improvement in PBILDT margin, largely driven by expansion in the gross margin. Tailwinds such as easing inflationary pressure in major consumption economies, interest rate cuts, continued moderate cotton & crude oil prices, and inventory restocking by textile channel partners are expected to drive this growth. However, factors such as freight rates movements, container availability and ongoing geopolitical unrest shall play a key role in determining sales growth and profitability.



Source: CMIE; \*annual exports for FY25 estimated by Care Ratings

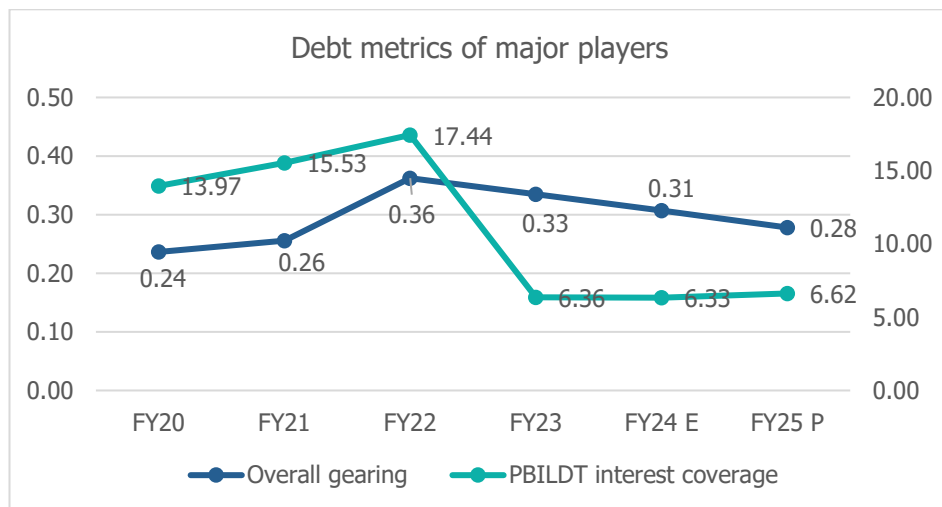


Source: CARE Ratings and Bombay Stock Exchange filings; E: Estimated; P: Projected

Note: Analysis of sample set of major players in the D&P industry, which constitutes over 60% of the total industry in terms of production volume.

### Comfortable Solvency expected to continue

In line with CARE Ratings' view, major players in the D&P industry continued to operate with a comfortable leverage of 0.3x as on FY24 end, and healthy interest coverage of over 6x. While some debt-funded capex is being undertaken by a few players in FY25, still the leverage is expected to remain comfortable below 0.3x at the end of FY25 and sustenance of interest coverage of over 6x, with better profitability.



Source: CARE Ratings and Stock Exchange filings

Note: Analysis of sample set of major players in the D&P industry, which constitutes over 60% of the total industry in terms of production volume.

Interest coverage improved in the last few years amidst COVID-19 pandemic-related interest moratorium, availability of low-cost debt and release of pent-up demand post COVID. In FY23, it witnessed a sharp downfall due to significant moderation in profitability and a rise in average interest rates by ~250 bps but remained comfortable.

**CARE Ratings’ View**

“The Dye, Dye Intermediates, and Pigment industry is on path of recovery after challenges faced in FY23 and FY24. As envisaged, demand from major end-use industries including textile improved in later part of FY24 and is expected to further recover in FY25. This should result in moderate volume driven growth in topline with improvement in profitability across industry players as input costs stabilise. Financial risk profile of major players is also likely to remain comfortable with controlled leverage and stable interest rates. This positions them well to manage capital expenditures or incremental working capital requirements. Modified Credit Ratio (MCR) of CARE Ratings’ rated portfolio, though improved marginally from FY23, remained below unity in FY24. While the credit risk profile of majority players with a diversified product portfolio remained resilient, that of a few mid-sized players having a concentrated product basket and recently added capacities were impacted; leading to rating downgrades. With further industry-wide recovery expected in FY25, performance of majority players is poised to improve, which shall also lead to a gradual improvement in MCR,” said Anuja Parikh, Associate Director at CARE Ratings.

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