



## SECTORWATCH | CORONAVIRUS | CHEMICALS

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 200 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan’s economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government’s response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	SUB-SECTOR
CHEMICALS	COMMODITY CHEMICALS & INDUSTRIAL GASES
SIZE	<ul style="list-style-type: none"> <li>- Chemical sector is one of the largest sectors of Pakistan with diverse products such as Dyes, Blended Oils, Surfactants, and Oleo Chemicals etc.</li> <li>- Import-dependent chemical sector has ~17% share in import bill of Pakistan (including agriculture and pharmaceutical imports) amounting USD 8.75bln.</li> </ul>
NUMBER OF PLAYERS	<ul style="list-style-type: none"> <li>- Chemical sector in Pakistan comprises ~77 players (<i>Source: Pakistan Chemical Manufacturers Association</i>)</li> <li>- 26 companies are listed on Pakistan Stock Exchange</li> <li>- There is a large informal section of the industry</li> </ul>
PACRA PENETRATION	<ul style="list-style-type: none"> <li>- PACRA rates 9 entities in the chemical sector; mainly in Chlor Alkali, Industrial Gases, Oleo Chemicals, Surfactants and Hydrogen Peroxide.</li> <li>- PACRA rates sole PVC manufacturer and market leaders in Oleo Chemicals, Surfactants, Hydrogen Peroxide</li> <li>- PACRA rates ~80% capacity of Industrial Gases</li> </ul>
IMPACT	<ul style="list-style-type: none"> <li>- Demand for chemical sector is expected to decrease on the back of overall contraction in economy and overall slowdown in industrial activity. Essential chemical industries such as Chlor Alkali, health related chemicals (Sanitizers, Industrial Gases, Pharma), chemicals used in food processing &amp; packaging and hygiene related chemicals (Oleo chemicals, Surfactants) will witness lesser impact on demand and may witness increase in demand in short term. Construction related chemicals (PVC, Paints, Emissions &amp; Coatings) will also witness lesser impact on demand due to government's incentives for construction industry. Non-essential Chemical industries such as Resins, Dyes &amp; Miscellaneous Acids will see large drop in demand due to shutdown of textile and other non-essential manufacturing sectors.</li> <li>- Sudden decrease in oil prices leading to decrease in petrochemicals prices may cause inventory losses but lower raw material cost to bode well for industry margins. The industry mainly imports its raw material from the Middle East in case of crude driven petrochemicals and from East Asia in case of other processed chemicals such as dyes. Supply chain is expected to remain intact after initial disruptions.</li> <li>- Some chemical units were shut down due to lockdown but subsequently granted exemption as part of smart lockdown; though production is expected to remain low in near future</li> <li>- Chemical sector players largely have leveraged financial structure. Loans procured to finance capacity enhancements and working capital management. Capacity enhancements may slow down but relaxation from central bank for deferral of principal will provide</li> </ul>



room in short term liquidity crisis. Actions of central bank in term of refinance for salaries, interest rate cuts, principal repayment deferral, and support from the Government in resumption of operations remain important for survival of small and medium sized players

- Non-essential chemical industries will witness drop in margins due to lesser demand and closure of operations. Essential Chemical Industries including health and food related will not be much impacted. Construction related Chemicals may see improvement in margins but remain dependent upon duration of lockdown.

### **DISCLAIMER**

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