

Middle East Disruption Triggers Cost Shock for Indian Chemical Sector

The escalating geopolitical tensions in the Middle East region have inflicted a structural shock on global energy and chemical supply chains. Given India's heavy reliance on imports of crude oil, LNG, and LPG, the conflict is transmitting directly through input cost inflation, energy shortages, and logistical disruptions. Challenges in sourcing crude oil are having a more pronounced impact on chemical companies that operate across the crude-based value chain. Rising input costs/scarcity of raw materials are likely to impact the profitability and competitiveness of such companies. As a result, the sector is at verge of a new phase of margin compression after a period of relative stability. The severity of this impact will vary across sub-segments depending on feedstock dependency and pricing power.

- Crude-Linked Inflation Weighs on Petrochemical Chains:** A sustained rise in crude oil prices is expected to significantly increase the cost of key petrochemical intermediates such as benzene, toluene, and phenol, which form the backbone of several downstream chemical products. Companies operating in aromatic and polymer-linked value chains are also witnessing a sharp escalation in raw material costs. Intense competition and existing pricing pressures may limit the ability to pass on the rise in cost, especially for commodity chemical players. In the case of speciality chemicals players, the margin impact may be short-term or limited as they may revise contractual terms in the long run and raw material accounts for a smaller portion of overall costs.
- Increase in Fuel Costs & Operational Challenges:** Besides the higher raw material costs, the disruption in LNG supplies and resultant increase in prices are expected to put additional cost pressure on the sector. Gas-intensive processes, especially in fluorochemicals, ammonia-linked intermediates, and select speciality chemicals, may experience a disproportionate rise in operating costs. Additionally, supply disruptions may also affect plant utilisation levels and efficiencies, further impacting operating leverage. At the same time, rising freight rates, insurance premiums, and shipping delays are increasing the overall cost of exports, thereby reducing competitiveness in global markets. Export-oriented companies may therefore face dual pressure from both higher input costs and softer realisations.
- Logistical Paralysis; The Cape of Good Hope Detour:** The maritime detour via the Cape of Good Hope has fundamentally altered the sector's cost structure. Beyond the above \$100/bbl crude impact, the 25–30 day delay in shipments may lock up liquid capital, while tripled freight rates may erode the competitiveness of bulk chemical exports. For "low-value, high-volume" products, these transportation costs now represent a disproportionately high percentage of the total invoice value, rendering many export contracts unviable at current spot rates.
- Sector Outlook:** While cost pressures are sector-wide, the impact is not uniform, creating a potential performance divergence. Companies in the speciality chemicals, bolstered by niche portfolios, strong pricing power, and long-term contracts are better positioned to navigate this volatility. These players can pass on escalating costs to consumers, albeit with a short-term lag, effectively cushioning their margins. Conversely, commodity chemical manufacturers with undifferentiated products remain the most vulnerable to rapid feedstock inflation, as they lack the leverage to offset rising inputs. Until stability returns to the Strait of Hormuz (SoH) and energy parity is restored, we recommend a defensive investment stance. Within our coverage, we prefer companies with relatively lower exposure to volatile feedstocks and stronger business resilience. Our Preferred picks includes **Navin Fluorine International Ltd** and **Dhanuka Agritech Ltd**.

Current Ratings:

Company	Rating	Target price
Aarti Industries Ltd	BUY	530
Archean Chemical Ind. Ltd	HOLD	515
Apcotex Industries Ltd	HOLD	400
Camlin Fine Science Ltd	HOLD	170
Dhanuka Agritech Ltd	BUY	1,600
PI Industries Ltd	HOLD	3,230
Navin Fluorine Ind. Ltd	BUY	7,400
NOCIL Ltd	HOLD	150

Source: Axis Securities Research

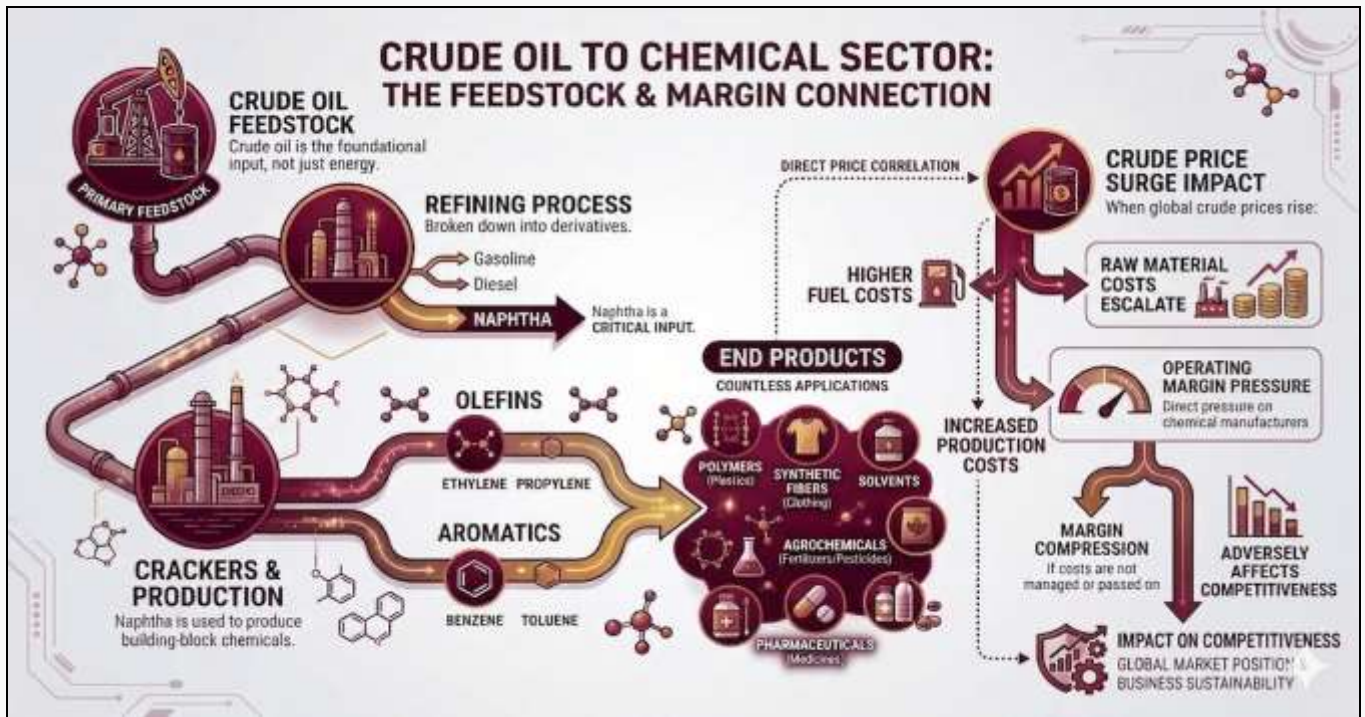
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Exhibit 1: Crude Oil to Chemical Sector – The Feedstock & Margin Connection



Source: Infosys PPT

Exhibit 2: Key Crude-Based Raw Materials and Implications for Indian Chemicals

Energy / Feedstock	Price/Availability Impact (Mar'26)	Implication for Indian Chemicals
Brent Crude Oil	<ul style="list-style-type: none"> Ranging above \$100/bbl, risk of further increase if Strait of Hormuz (SoH) closure persists 	<ul style="list-style-type: none"> Naphtha, benzene, toluene, propylene, styrene, etc., re-priced upward. Significant RM cost inflation for crude-linked chemical companies.
LNG/Natural Gas	<ul style="list-style-type: none"> Sharp rises in prices, production suspended in multiple facilities in the Middle East 	<ul style="list-style-type: none"> Energy cost squeeze for gas-intensive chemical manufacturers (tile, speciality, antioxidants). Fertilizer production cuts risk.
LPG	<ul style="list-style-type: none"> Most of the LPG supply from the Gulf is disrupted. An increase in commercial prices higher than the domestic supply. 	<ul style="list-style-type: none"> Crackers using mixed feed (LPG/naphtha) face feedstock tightness and cost escalation.
Methanol	<ul style="list-style-type: none"> Volatile; Hormuz corridor carries ~90% of India's methanol imports. Prices surging. 	<ul style="list-style-type: none"> API/speciality chemical manufacturing is disrupted. Solvent costs up. Aarti secured a long-term supply as a buffer.
Naphtha	<ul style="list-style-type: none"> Roughly two-thirds of Asian naphtha is sourced through Hormuz; inventories are depleting. 	<ul style="list-style-type: none"> Naphtha-fed steam crackers (benzene, ethylene, propylene) are facing a margin squeeze. Asian producers are cutting operating rates.
Fertilizers (Urea/Ammonia)	<ul style="list-style-type: none"> Urea prices rising; ammonia supply severely disrupted (1/3 of global seaborne fertilizer transits through Hormuz) 	<ul style="list-style-type: none"> Agri-input cost pressure.
Freight & Insurance	<ul style="list-style-type: none"> Insurance premiums surging for vessels transiting ME; transit halted by many tanker owners. 	<ul style="list-style-type: none"> Imported RM cost effectively higher by 5–10% over spot price. Exacerbates already-inflated feedstock costs.

Source: Axis Securities Research

Impact on Coverage Companies

Company Name	Impact	Rationale
Aarti Industries Ltd	High	<ul style="list-style-type: none"> Heavy reliance on Benzene/Toluene. While long-term contracts provide some volume security, the rapid spike in crude makes the nitration value chain's conversion spreads highly volatile.
Archean Chemical Industries Ltd	Moderate	<ul style="list-style-type: none"> Archean extracts bromine and SOP from seawater and hence is not impacted much on the raw materials front. Energy costs (gas) could rise modestly. Archean could benefit from price tailwinds as the bromine supply from the Middle East gets disrupted. Freight would increase, but those could be offset by rising realisations.
Apcotex Industries Ltd	High	<ul style="list-style-type: none"> Heavy dependency on imported raw materials (butadiene, acrylonitrile, styrene). SoH disruption raises both feedstock prices and freight costs, simultaneously. Domestic butadiene is sourced locally but accounts for a limited portion.
Camlin Fine Science Ltd	Mid-High	<ul style="list-style-type: none"> Severe exposure via Phenol-chain derivatives. The dual-manufacturing base (India + EU) is a liability when both global crude and European gas prices surge simultaneously, complicating cost pass-through.
Dhanuka Agritech Ltd	Low	<ul style="list-style-type: none"> Low direct dependency on crude as an agrochemical formulator/distributor with licensed products from global innovators. However, higher urea/fertilizer costs and farmer income pressure could impact pesticide spend.
PI Industries Ltd	Low-Mid	<ul style="list-style-type: none"> PI Industries primarily operates in custom synthesis manufacturing (CSM), which protects margins through cost-plus contracts. While logistics might delay shipments, the long-term order book is insulated from crude-linked RM volatility.
Navin Fluorine Industries Ltd	Low-Mid	<ul style="list-style-type: none"> Fluorine chemistry (Fluorspar-based) is largely decoupled from the crude cycle. High-margin CRAMS and speciality fluorination provide a buffer against rising energy and freight costs. Faces risks related to high energy costs and delayed shipments.
NOCIL Ltd	High	<ul style="list-style-type: none"> Direct correlation between Aniline/Benzene costs and crude. Additionally, high fuel prices tend to dampen the global Automotive/Tyre replacement cycle, hitting NOCIL from both ends of the value chain.

Source: Axis Securities Research

Investment View: In the current environment of supply uncertainty, we take a cautious stance and recommend a selective, quality-biased approach within the Indian chemical sector until full clarity emerges. We continue to favour companies with robust balance sheets, strong domestic market exposure, and high-value product mixes. These entities offer a significant "margin of safety" and lower downside risk, as their reduced dependency on Middle Eastern feedstocks and superior pricing power allow them to maintain competitiveness amid global market uncertainties.

Exhibit 3: Valuation Sheet

Company Name	Current Reco	Target Price	Market Cap (Rs Cr)	Sales (Rs Cr)			EBITDA (Rs Cr)			PAT (Rs Cr)			EPS (Rs)			ROE			RoCE		
				FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Agri & Chemicals																					
Aarti Industries Ltd	BUY	530	15,490	8,466	9,870	11,647	1,194	1,569	1,910	491	781	902	14	22	25	8%	11%	12%	7%	10%	12%
Apcoex Industries Ltd	HOLD	400	1,812	1,442	1,601	2,292	167	192	275	91	116	183	18	22	35	15%	17%	23%	12%	14%	18%
Archean Chemical Industries Ltd	BUY	515	7,346	1,125	1,919	2,580	314	572	843	175	376	601	14	31	49	9%	17%	23%	11%	21%	28%
Camlin Fine Sciences Ltd	HOLD	170	2,277	1,813	2,173	2,447	100	280	340	-95	145	176	-5	8	9	-12%	16%	16%	3%	21%	29%
Dhanuka Agritech Ltd	BUY	1,600	4,340	2,027	2,475	2,874	395	545	638	269	380	428	59	83	94	17%	21%	20%	22%	27%	26%
Navin Fluorine International Ltd	BUY	7,400	31,778	3,381	4,248	5,435	1,116	1,402	1,794	685	934	1,221	134	182	239	17%	19%	20%	19%	21%	22%
NOCIL Ltd	HOLD	150	2,404	1,350	1,460	1,561	128	187	209	73	135	153	4	8	9	4%	7%	7%	4%	6%	6%
P I Industries Ltd	HOLD	3,230	44,111	6,700	7,705	8,861	1,709	2,119	2,481	1,266	1,588	1,909	83	105	126	12%	14%	15%	15%	17%	18%

Source: Axis Securities Research

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