Strategy

India | Strategy

Iran War Checks: Supply Intact; Cost Inflated

12 May 2026

We conducted extensive channel checks with small companies, raw material suppliers and other channel partners across industries post-Iran war break out. Our findings: no supply disruption, but widespread price hikes, extended lead times, and planning uncertainty. Most firms rely on legacy inventory, and curtailing fresh buys. China supplies are stable and Europe freight and select air routes are costlier. Prices have been softening lately but remain elevated vs pre-war levels. Companies are balancing partial price pass-throughs with margin squeezes.

No supply breakdown; but price volatility increases: Our initial checks across fertilizers, chemicals, agrochemicals, metals, consumer, and pharmaceuticals show price volatility and logistical friction over outright disruption. Most channel partners report materials are available, but at higher prices, longer lead times, and shipment uncertainty. Notable price surges: Tiles manufacturing where spot gas jumped from INR 49 to INR 90 (now to INR 73); detergent makers report Linear Alkyl Benzene Sulphonic Acid (LABSA) rising from INR 120/kg to INR 300/kg; paints manufacturers report styrene doubling from INR 62–65/liter to INR 120–125/liter, and TiO_2 from ~INR 235/kg to ~INR 280/kg; and apparels sees fabric up ~12–15% and yarn by 15–18%.

Companies lean on legacy inventory, curb new purchases: Most companies have adequate inventory for the next few weeks / months, but procurement teams are on alert and are re-evaluating sourcing strategies, including diversifying vendors and geographies. Overall, the situation is being treated as a cost and planning hurdle rather than a supply crisis. Importers are reluctant to commit to long-term contracts at current prices, expecting normalization, but are forced to spot buy for immediate needs.

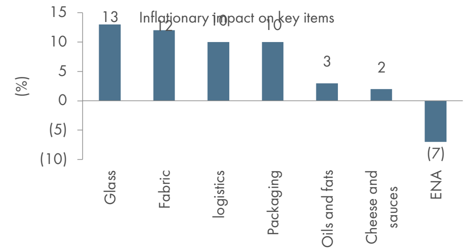
China raw materials supplies stable; Europe freight spikes: Our checks confirm no disruptions in China raw materials supply -- critical especially for chemicals and pharmaceutical sectors -- with only a slight increase in freight rate. However, supplies from Europe see a significant rise in freight cost. Some exporters have taken a hit, due to higher air freight hike, given Middle East route disruption.

Mixed second-order impact: Our checks reveal varying ripple effects across value chains; in the alco-beverage segment, extra-neutral alcohol (ENA) and grain, prices have softened while glass has gone up. In fertilizers, phosphoric acid prices were contained as ammonia shortage is hindering further processing and is causing temporary oversupply. Many companies report sharp increase in packaging cost, adding to product cost.

Prices start to soften but remain elevated above pre-war levels: Companies indicate prices have started to soften after the initial surge, although they remain significantly above pre-war levels. This is most visible in gas prices that have come off, and the supply situation improved in the past 3-4 weeks. Chemicals and pharmaceuticals ingredients prices have following suit, as per our checks.

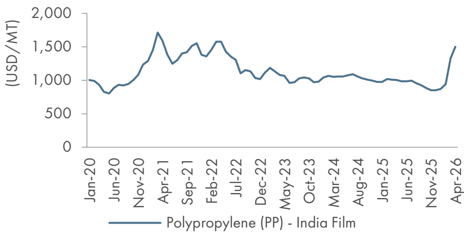
Patchy price pass-through: While some companies with pricing power or shorter contract cycles are pushing for hikes, others are absorbing, treating it as a temporary margin problem, where firms are balancing revenue vs volume risk. Tiles manufacturers have raised tile prices by 18–20% with some taking a hit on demand. Paint prices have been hiked at 8–10%, squeezing margin, and hitting smaller firms hard. In apparels, price pass-through has been limited to 3–4% to date.

Glass, fabric, logistics and packaging face double digit inflationary impact



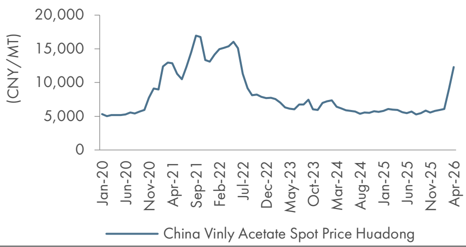
Note: FY26; Source: Elara Securities Research

Polypropylene (PP) - India film prices up 72% in the past three months



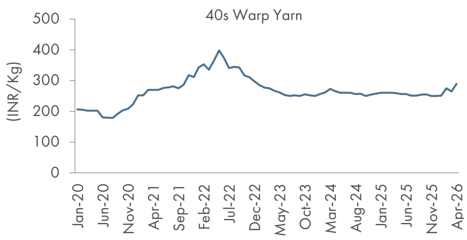
Source: Bloomberg, Elara Securities Research

China vinyl acetate spot price goes up 107% post war



Source: Bloomberg, Elara Securities Research

Yarn prices go up ~16% in the past three months



Source: Bloomberg, Elara Securities Research

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Fertilizers

Expert profile

We spoke to CEO of India business of a large global fertiliser company based out of NCR. The firm business includes manufacturing of urea and trading in other fertilisers. We also spoke to a Mumbai-based trader (importer) of phosphatic fertiliser raw materials.

- **Huge gas available globally:** There is ample gas supply globally as a lot of LNG capacity have come up. Due to LNG capacity addition, many floating cargoes are voyaging in the ocean. India is getting gas from Australia, the US, and Russia. Oil marketing companies (OMC) in India as well as GAIL have access to gas.
- **Spot gas prices come off post first tender price of USD 20 per mmbtu:** Post commencement of war, GAIL issued tender for pool gas (for fertiliser) for a cargo of LNG for deliveries between 15-25 March. The lowest bid for this tender was in the range of USD 20-22 per mmbtu base price. Spot gas prices peaked in that tender. Subsequently, India's companies got bid at ~USD 18 per mmbtu base price. A subsequent tender was floated again for which India received bids at USD 16 per mmbtu base price.
- **Urea plants running at full capacity from April:** Urea plants are getting almost 100% of their gas requirements from April, and plants are running at full capacity. Due to gas supply curtailments, urea production loss in March would have been 0.4-0.5mn tonne.
- **Ammonia prices to correct first, whenever war settles:** Ammonia prices ae likely to correct first whenever the war settles. This is because no ammonia facilities have been attacked by any country, meaning supplies can rebound quickly whenever the war is resolved.
- **Lower ammonia availability restricting phosphoric acid price increase:** Phosphoric acid (PA) prices jumped 5.5% sequentially to settle at USD 1,360 per tonne. This is despite a higher general inflation in fertilizer universe. The rational to a subdued PA price increase is scarcity in availability of ammonia for manufacturing Diammonium Phosphate (DAP). Limited availability of ammonia is creating temporary oversupply of PA.
- **Pending policy decisions:** The decision making from the Government of India to promote further improvement in the urea sector is slow. A lot of policy decisions are pending from the government wise, which includes: 1) inviting applications for setting up five new urea plants, 2) increasing fixed cost reimbursement component for urea companies, and 3) revised profitability for new urea plants post eight years of operations.
- **Rising crude oil price to shoot up mining cost:** Rising crude oil prices is increasing freight cost of running trucks during the movement of mined rock phosphate.
- **DAP prices to go higher:** International DAP prices are likely to move higher on account of 1.5mn tonne import tender from India. Current prices are ~USD 860/tonne and prices are likely to cross USD 900/tonne.

Agrochemicals

Expert profile

We spoke to an agrochemicals dealer based out of Mumbai. He sources raw materials from China and sells in India & overseas.

- **Materials availability no cause for concern; pricing is the challenge:** After the onset of the Iran-US war, agrochemicals availability was not a major issue. Instead, the conflict gave suppliers a pretext for long-awaited price increases. In general, price hikes above ~5-10% tend to occur only when a particular technical product becomes unavailable.
- **First signs of price starting to fall sequentially:** The first signs of sequential price decline is visible in the technical sourcing market. Suppliers which were offering delivery 2 or 3 months later are willing to prepone their deliveries by one month. This indicates there is ample stock of materials with China's companies. Some molecules have seen price decline sequentially on a fortnight, although prices may be still higher than pre-war and YoY.
- **No material change in demand in the international markets:** Demand remains normal for agrochemicals consumption. Post war, in anticipation of material shortages, there is no change in demand at the distributor level as well. Materials for the US markets already gets placed by end of February for the ensuing season.
- **Freight cost remains unchanged for exports to the EU or the Americas:** Freight cost for exports to the EU has not increased pre & post war. On the contrary, f or exports to some EU ports, freight charges have reduced.

Exhibit 1: Technical prices have started to come down on a fortnightly basis ($/Kg)

Segment	Products	14/2/26 (Pre-war)	19/4/26	Change (%)	3/5/2026	Change over 14/02/26 (%)	Change over 19/04/26 (%)
Herbicide	Glyphosate	3.6	5.7	57	5.4	48	(6)
Herbicide	Glufosinate-ammonium	6.4	7.2	12	7.2	13	1
Herbicide	2,4-D	2.1	2.6	23	2.6	23	1
Herbicide	Diquat 40% Mother Liquor	2.5	3.2	25	3.2	25	1
Herbicide	Oxyfluorfen	17.5	19.6	12	19.8	13	1
Herbicide	Quizalofop-P-ethyl	19.2	19.0	(1)	19.1	(1)	1
Herbicide	Bensulfuron-methyl	19.9	20.3	2	20.5	3	1
Herbicide	Rimsulfuron	82.7	87.3	6	88.0	6	1
Herbicide	Nicosulfuron	21.5	21.6	1	21.8	1	1
Herbicide	Atrazine	3.0	3.0	1	3.0	1	0
Insecticide	Emamectin Benzoate	84.0	86.0	2	86.7	3	1
Insecticide	Lambda-Cyhalothrin	14.6	20.0	37	20.2	39	1
Insecticide	Beta-Cypermethrin	5.2	5.6	7	5.9	13	6
Insecticide	Cypermethrin	10.3	12.9	25	13.0	26	1
Insecticide	Bifenthrin	17.2	21.4	24	21.5	25	1
Insecticide	Imidacloprid	8.9	12.3	39	11.7	32	(5)
Insecticide	Acetamiprid	7.9	10.7	34	10.3	30	(3)
Insecticide	Thiamethoxam	7.0	8.9	27	8.7	25	(2)
Insecticide	Clothianidin	8.5	11.6	37	11.0	30	(5)
Insecticide	Dinotefuran	15.5	18.7	21	18.4	19	(1)
Fungicide	Difenoconazole	11.4	14.3	25	13.7	20	(4)
Fungicide	Propiconazole	8.7	12.9	48	12.4	42	(4)
Fungicide	Cyproconazole	19.9	21.4	7	22.5	13	5
Fungicide	Tebuconazole	6.5	8.5	32	8.3	29	(2)
Fungicide	Chlorothalonil	4.2	4.1	(2)	4.1	(2)	1
Fungicide	Tricyclazole	8.3	9.6	15	9.7	16	1
Fungicide	Hexaconazole	11.5	13.6	18	13.7	19	1
Fungicide	Triadimefon	7.1	8.9	25	9.0	26	1
Fungicide	Epoxiconazole	32.1	35.7	11	36.0	12	1
Fungicide	Flusilazole	37.5	41.1	10	41.4	11	1

Source: Elara Securities Research

Alcobev

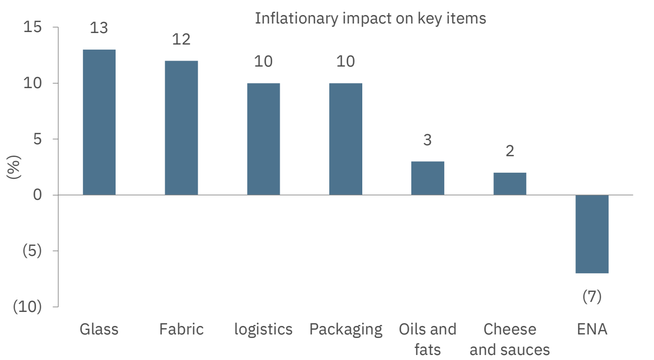
Cost dynamics broadly stable for spirits

- Extra Neutral Alcohol (ENA) and grain inputs at ~50% of cost of goods sold (COGS) are witnessing price softening of INR 5–7 per liter nationally and INR 7–8 per liter in northern markets, driven by overcapacity in ethanol as distilleries shift toward ENA production.
- Glass inflation of 12-13% and packaging of ~10% are being largely offset by ENA deflation, keeping the overall commodity basket broadly neutral despite volatility in PET linked to resin prices.
- Price hike approvals in regulated States take 6–8 months, restricting near-term pass through, leading to margin pressure during Q1-Q2.
- Margin is likely to recover in H2FY27 if ENA prices remain soft and packaging inflation normalizes.

Spirits remain resilient while beer faces cost pressure

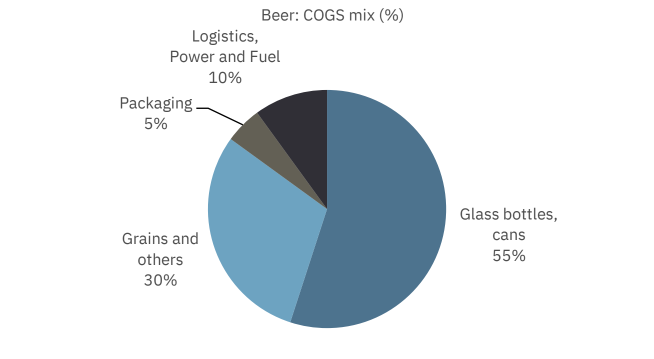
- Companies are managing cost pressures via operational efficiency and premiumization-led portfolio mix, resulting in no meaningful earnings headwind in the current environment.
- Key risk remains volatility in ENA supply demand dynamics, which could materially alter cost structure.
- Glass and cans at ~55% of COGS with ~15% inflation drive ~7% basket impact, partly offset by ~1% grain deflation, leading to net basket inflation of ~6.1% and ~3.8% COGS drag.
- Absence of a meaningful deflationary offset makes beer structurally more exposed, with recovery dependent on new glass capacity and selective price pass through.

Exhibit 2: Glass, fabric, logistics and packaging face double digit inflationary impact



Note: FY26; Source: Elara Securities Research

Exhibit 3: Glass and bottle form 50-55% of the COGS basket for beer



Note: FY26; Source: Elara Securities Research

Earnings pressure and valuation concerns in the beer segment

- Glass-driven COGS inflation delivers sharp earnings reset with EBITDA down 18.3% YoY, with EBITDA margin compressing by 212bp, and EPS falling by 21.6% to INR 23.8 in FY27E, alongside deterioration in ROIC and ROE by 438bps and 331bp, respectively, with the stock re0rating to 64.0x P/E at trough earnings, offering limited valuation comfort.
- FY28 recovery is likely but remains incomplete with EBITDA rebounding to INR 13,150mn while EBITDA margin remains 100bp under pressure, indicating full-margin normalization is likely only by FY29, with near-term risk reward skewed negatively and glass cost stabilization acting as the key re-rating trigger.

Exhibit 4: UBBL – impact assessment

United Breweries					
Impact	**Unit**	**FY27E**	**Chg (%/bp)**	**FY28E**	**Chg (%/bp)**
EBITDA	INR mn	10,139	(18.3)	13,150	(8.2)
EBITDA M	bp	9.5	(212.4)	11.20	(100.0)
EPS	INR	23.8	(21.6)	30.9	(11.5)
ROIC	bp	15.0	(438.4)	18.7	(194.8)
ROE	bp	13.1	(331.3)	15.6	(130.7)
P/E	(x)	64.0	27.5	49.2	13.1
EV/EBIDTA	(x)	40.2	22.4	31.0	8.9
New TP	INR				1,654
Change in TP	%				(13.0)

Source: Elara Securities Estimate

Quick service restaurants

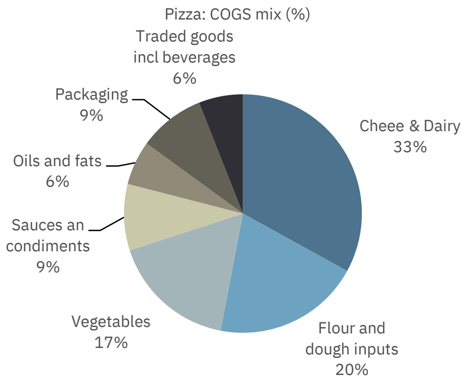
Core food basket stable with LPG risk as key overhang

- The core food basket remains benign with cheese and dairy at ~33% and flour & dough at ~20% showing contained inflation, while packaging remains the only incremental pressure at ~10% on paper and cartons.
- India's F&B sector faces a ~25% structural LPG supply shortfall with ~23mn cylinders required vs ~17mn available, with risk widening to 40–60% if household allocation is prioritized.
- A worst-case 30-day disruption could drive ~8–9% quarterly adjusted EBITDA decline for platform exposed firms, with electrification transition underway but still incomplete. LPG availability remains the key near-term monitorable for pizza QSR.

Structurally better positioned segments within QSR

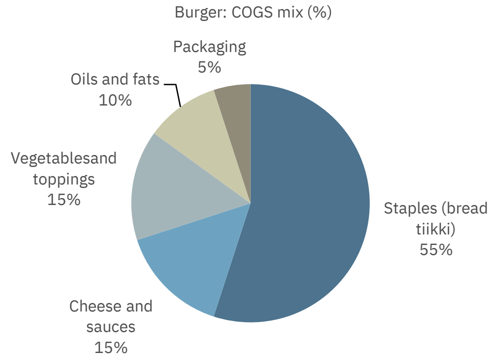
- Staples at ~55%, cheese & sauces at ~15%, and vegetables at ~15% remain non-inflationary, while 60–80% electric-based operations provide a structural buffer against LPG disruption.
- Burger and fried chicken chains could gain order volume if consumers shift away from flame-cooked menus.
- Edible oil inflation of 2–3% translates into a modest 0.5–0.8% COGS headwind at ~10% basket weight, which remains manageable via select pass throughs.
- Same store sales growth (SSSG) is tracking at 4–5% for KFC and 4–6% for burger chains in Q4, with sustained recovery in dine-in representing a meaningful upside risk to current estimates.

Exhibit 5: Pizza – COGS mix skewed to dough and cheese



Note: FY26; Source: Elara Securities Research

Exhibit 6: Burger – COGS mix skewed to dough and cheese



Note: FY26; Source: Elara Securities Research

Earnings and valuation upside in a recovery scenario

- We expect a sustained recovery in dine-in, if it plays out, as per our assumptions, could lead to upward revision in our QSR coverage estimates, with revenue likely to be higher by 1.4–3.2% in FY27E and 1.5–3.5% in FY28E vs our base case, with EBITDA upgrade most meaningful for Sapphire Foods India (+15.1% for FY27E and +16.2% for FY28E), followed by Westlife Foodworld (+9.7% for FY27E and +11.8% for FY28E), Restaurant Brands Asia (+7.7% for FY27E and +7.5% for FY28E), and Devyani International (+8.7% for FY27E and +9.5% for FY28E), with EBITDA margin expansion of 81–205bp across the board, underscoring the operating leverage inherent in a dine-in-led recovery.
- Accordingly, if these upside scenarios were to flow through into formal estimate revisions, the implied target price uplift would be most pronounced for), Restaurant Brands Asia (+15.8% to INR 116) and Sapphire Foods India (+24.7% to INR 374), with Westlife Foodworld (+16.5% to INR 664) and Devyani International (+13.2% to INR 187) also reflecting meaningful potential upside.

Exhibit 7: Potential impact assessment – revenue estimates

Change in revenue estimate (%)	FY27E	FY28E
Devyani International	2.0	2.2
Sapphire Foods India	3.2	3.5
Restaurant Brands Asia	1.4	1.5
Westlife Foodworld	1.8	2.3

Source: Elara Securities Estimate

Exhibit 8: Potential impact assessment – EBITDA estimates

Change in EBITDA estimate (%)	FY27E	FY28E
Devyani International	8.7	9.5
Sapphire Foods India	15.1	16.2
Restaurant Brands Asia	7.7	7.5
Westlife Foodworld	9.7	11.8

Source: Elara Securities Research

Exhibit 9: Potential impact assessment – EBITDA margin estimates

Change in EBITDAM (bp)	FY27E	FY28E
Devyani International	106	119
Sapphire Foods India	188	205
Restaurant Brands Asia	81	81
Westlife Foodworld	101	125

Source: Elara Securities Research

Exhibit 10: Potential impact assessment – Target price

Changes in TP	New TP (INR)	(%)
Devyani International	187	13.2
Sapphire Foods India	374	24.7
Restaurant Brands Asia	116	15.8
Westlife Foodworld	664	16.5

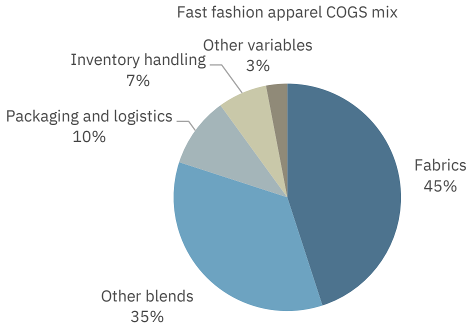
Source: Elara Securities Research

Apparels

Fabric inflation remains key earnings headwind

- Fabrics (~45% of COGS) and other blends (~35%) constitute ~80% of cost base, with fabric inflation at ~12% YoY translating into ~5% COGS impact and packaging & logistics adding ~1%, leading to ~6% blended COGS inflation.
- Phasing of impact is ~25% in Q1FY27 and ~50% across the remaining nine months, resulting in ~3.7% earnings drag for FY27E, with domestic fabric up 12–15% and yarn inflation at 15–18%, due to supply tightness vs cotton at +5%.
- Operators are absorbing ~5–7% inflation with limited pass through, while value retailers remain the most exposed, and a structural pricing reset of 10–15% is increasingly likely with prices unlikely to revert even if raw materials softening.

Exhibit 11: Fast fashion apparels COGS mix; fabrics form 45-50% of the total



Note: FY26; Source: Elara Securities Research

Trent relatively insulated with company-specific offset

- Trent's FY27E EBITDA impact is estimated at -8.8% with EBITDA margin impact of -154bp and EPS impact of -12.9%, moderating to -1.7% EBITDA and -30bp EBITDA margin in FY28E.
- GST benefits for Westside Foodworld, continued store expansion in a higher-margin format, and improving like-for-like (LFL) comparison on weak base of ~8–10% decline provide meaningful offset to cost pressures.
- New TP revised to INR 4,500 with change of -6.3%, with modest margin recovery expected in FY28 subject to textiles deflation and pricing gains retained through FY27.

Exhibit 12: Trent standalone – Impact assessment

Impact	Unit	FY27E	Chng. (%/bps)	FY28E	Chng. (%/bps)
EBITDA	INR mn	37,888	(8.8)	49,510	(1.7)
EBITDA margin	bp	16.0%	(153.7)	17.2%	(30.0)
EPS	INR	51.8	(12.9)	72.1	(2.5)
ROIC	bp	38.7	(671)	53.8	(151)
ROE	bp	24.5	(295)	27.9	(2,048)
P/E	(x)	78.0	78.0	56.6	56.6
EV/EBIDTA	(x)	40.6	40.6	31.0	31.0
New TP (consolidated)	INR				4,500
Change in TP	%				(6.3)

Source: Elara Securities Estimate

Metals and Mining

Expert profile

Chief Financial Officer of a not listed stainless steel manufacturer based in Maharashtra, with an integrated facility producing a range of long products and pipes. Its products portfolio includes billets and ingots, black and rolled round bars, bright bars and wires, as well as value-added products, such as flanges and stainless pipes. The company has a presence across end-use sectors, such as oil & gas, engineering, and derives a significant share of its revenue from exports.

Channel checks summary

Q: To start with, how has the ongoing conflict affected your operations? Are there any production disruptions?

Ans: Operationally, the impact has been quite limited to date. Gas is required only in specific processes—primarily the nailing stage—and even there, disruption was brief and largely confined to March. From April, supply has normalized. So, at a plant level, we have not seen any meaningful production loss.

Q: What about raw materials sourcing—has the war disrupted availability?

Ans: Yes, there was some pressure, especially on imported scrap. The issue started surfacing from March as supply chains from West Asia tightened. While it has not been a structural problem as on yet, we are consciously looking to increase domestic sourcing to reduce dependence on imports.

In terms of exposure, roughly 40% of our requirement is met through imports, and a meaningful portion (40% of overall imports) of that is linked to the Middle East. So, naturally, any disruption in the region has a knock-on effect. Overall raw materials availability has reduced by 15%.

Q: Have rising raw materials cost dragged margin, or have you been able to pass them on?

Ans: Input cost has moved up due to the war. However, this is not new for our industry. Stainless steel usually operates with a **pass-through mechanism**, and pricing is adjusted based on raw materials trends.

We have been able to pass on the increase. Margin depends on timing, but structurally, the model allows for cost recovery. Also, such volatility is not unusual—these kinds of disruptions tend to occur every few years.

Q: Has there been any demand disruption, particularly domestically?

Ans: Not really. Domestic demand has held up well. Stainless steel is largely industrial-driven, unlike carbon steel, which is more linked to construction cycles.

We have not seen any meaningful slowdown in end-use segments, such as oil & gas, water, or industrial applications. Hence, demand, at least in the domestic market, remains steady.

Q: What about exports? That is where most disruptions are being talked about.

Ans: Yes, exports have taken a hit. We have seen a 40–50% decline in export volume, primarily due to disruptions in the Middle East.

It is not just that demand—logistics has been a challenge, with some ports affected and routes becoming less viable. So, the slowdown is both demand- and supply-chain driven.

Q: Can you quantify the logistics impact—freight cost, timelines, etc.?

Ans: Freight cost has gone up by ~25–30%, and this is not limited to Middle East routes. Even other regions have seen inflation, due to rerouting and global supply chain adjustments. If the situation prolongs, we may need to renegotiate pricing contracts to account for sustained logistics cost.

Q: Has this situation had any impact on working capital or financing?

Ans: No, nothing material. Lender have extended credit period for us. We have not seen any tightening from lenders or stress on liquidity.

Q: Any labor or execution challenges at the plant level?

Ans: No, labor availability remains stable and has not posed any constraint on operations. Our on-site support, including provision of cooked meals to workers, has helped ensure workforce continuity during this period.

Q: How do you see demand evolving once the conflict subsides?

Ans: Historically, we have seen that post such disruptions, there is a sharp rebound in demand, especially in products, such as seamless pipes, bright bars, and flanges. There tends to be pent-up demand, particularly from industrial and oil-linked sectors. We expect a similar pattern this time as well.

Q: We have seen multiple refinery incidents globally this year—does that translate into incremental demand for your products?

Ans: Yes, it does create a tangible opportunity for us. We have seen around 13 refinery fire incidents in CY26, and such events usually lead to shutdowns followed by repair, replacement, and in some cases capacity upgrades.

From our perspective, this directly supports demand for stainless steel pipes, seamless tubes, and related long products, which are extensively used in refinery piping systems, high-temperature applications, and corrosion-resistant environment.

The impact is usually not immediate—it plays out over a few quarters—as operators first assess damage and then initiate procurement for replacement and refurbishment. However, historically, such incidents have led to incremental order inflows from the oil & gas segment, particularly in maintenance and turnaround cycles.

Q: Can you give us a sense of your exports exposure and key geographies?

Ans: In FY26, exports contributed ~30% of our overall revenue, with a significant portion coming from the Middle East region. This is largely driven by strong demand from oil & gas and infrastructure-related applications in that market. While the Middle East continues to be a key exports destination, the current geopolitical situation has led to near-term disruption. That said, we view this as cyclical, and in the medium term, the region should remain an important driver of exports growth for us.

Chemicals

Experts profiles

We interacted with chemicals traders and small & medium chemicals participants dealing in bulk petrochemicals raw materials, solvents, acids and specialty intermediates at ChemExpo Mumbai. The participants included:

- A large West India-based chemicals trader and importer dealing in aromatics, olefins, acids and solvents, supplying to dyes and pigments, agrochemicals, surfactants, pharma intermediates and specialty chemical customers.
- A small and medium specialty chemicals and intermediates participant with exposure to raw materials procurement and domestic customer supply for downstream chemical users.
- Market participants and traders linked to import-dependent chains, such as linear alkyl benzene (LAB) & surfactants, propylene derivatives, toluene & aromatics, sulphuric acid and other bulk chemicals input.

Channel checks summary

- Raw materials inflation was sharp and broad-based after the US-Iran war, with propylene rising from ~INR 60/kg to ~INR 160/kg, sulphuric acid from ~INR 9/kg to ~INR 27/kg, and toluene rising by ~50%.
- Industry pass-through remains functional, with most price increases passed on with a 1-2 week lag. Traders say customers are still accepting higher prices where material is required for production.
- No meaningful order cancellations or demand destruction observed. Demand was held back in March, due to supply uncertainty but recovered in April as visibility improved.
- There was no panic buying by users. The industry is buying only to the extent required for current production, as companies are concerned about inventory losses, if prices correct after the war.
- This needs-based buying and low inventory behavior create a possibility of restocking-led demand in the next 1-2 quarters once the war ends or supply normalizes.
- Supply disruption was acute in the first fortnight of March, due to Strait of Hormuz-related uncertainty, during which traders earned supernormal margin. By April, alternate sources were available, although supply remains intermittent and less smooth than normal.
- Freight escalation and war-risk & logistics cost were key reasons behind higher prices in addition to raw materials tightness.
- Visibility for the next 3-6 months remains limited and depends on duration of the conflict, availability of alternate routes and the pace of normalization in Middle East-linked flows.

Detailed questionnaire

Q. Which raw materials have seen the sharpest price increase after the US-Iran war?

Ans: The sharpest price increases were seen in propylene, sulphuric acid and toluene. Propylene increased from ~INR 60/kg to ~INR 160/kg, sulphuric acid from ~INR 9/kg to ~INR 27/kg, and toluene was up ~50%. Prices of several other bulk chemicals and intermediates moved up due to higher feedstock, freight, and supply-chain cost.

Q. Are customers accepting these higher raw materials prices?

Ans: Traders say price hikes are being passed through with a lag of around 1-2 weeks. Customers are accepting higher prices where materials is required for production.

Q. Has price increases led to order cancellations or demand destruction?

Ans: No meaningful order cancellations have been observed. Demand was deferred in March when uncertainty was high, but demand started normalizing in April as materials availability improved.

Q. Are customers building excess inventory because of fear of shortages?

Ans: Industry participants are not over-purchasing. Customers are buying only to the extent required for current production because they are worried about inventory losses if prices correct after the war or after supply routes normalize.

Q. What does this cautious buying imply for future demand?

Ans: Since customers have not built-up excess inventory, there is a possibility of restocking demand in the next 1-2 quarters once the war ends or supply normalizes. Current demand is needs-based rather than speculative.

Q. Was there any period of actual raw materials shortage?

Ans: The availability issue was most acute in the first fortnight of March, due to Strait of Hormuz-related disruption. During this period, traders with available materials earned supernormal margin.

Q. How did supply availability change in April?

Ans: By April, raw materials were available from alternate sources. However, supply was not fully smooth and was coming intermittently. Availability improved vs March, but market participants still described supply chain as less reliable than normal.

Q. What is the role of freight and logistics in the price increase?

Ans: Freight escalation is a key reason behind higher chemical prices. Higher freight, rerouting, insurance and logistics cost have added to feedstock inflation and raised landed cost for import-dependent products.

Q. Are there any signs of panic buying or hoarding?

Ans: No broad panic buying was observed at the industry-user level. Some traders benefitted from tight supply in March, but end-users were generally disciplined and did not build excessive inventory.

Q. Which chains appear most exposed to Middle East disruption?

Ans: Imports-dependent and petrochemicals-linked chains were the most exposed, including propylene derivatives, toluene & aromatics, sulphuric acid-linked chains and LAB & surfactant raw materials. Products relying on the Gulf and the Middle East supply routes or imported feedstocks faced higher volatility.

Q. Has domestic production been disrupted because of raw materials non-availability?

Ans: No major domestic production shutdowns were highlighted in trader interactions. The issue was more about higher prices, intermittent availability, and delivery uncertainty rather than widespread operational stoppages.

Q. Are companies shifting to alternate suppliers?

Ans: Alternate sourcing channels were activated in April. However, alternate supply is not always smooth and often comes at higher landed cost because of freight and logistics escalation.

Q. Are prices stabilizing now?

Ans: Prices have not fully normalized, but conditions are less stressed than the first fortnight of March. Further price direction will depend on duration of the war, freight cost, and continuity of alternate sourcing.

Q. Which products saw the most visible trader margin expansion?

Ans: Traders says the first fortnight of March was the best margin period because availability was constrained and buyers needed materials. Supernormal margin reduced as alternate sources became available in April.

Q. Is the market worried about inventory losses?

Ans: The risk of inventory loss after the war is a key reason customers are avoiding over-purchasing. This is keeping inventory lean despite the geopolitical supply risk.

Q. How are small- and mid-sized customers behaving compared to larger ones?

Ans: Both are cautious, but smaller customers are more sensitive to working capital pressures and avoid carrying high-cost inventory. Larger customers are not overstocking because of price-correction risk.

Q. What is the 3-6 month outlook according to traders?

Ans: Visibility remains low. If the war continues, volatility and intermittent supply may persist. If the war ends and routes normalize, prices may correct, but restocking demand could support volume for 1-2 quarters.

Q. What are the key monitorables from here?

Ans: The key monitorables are duration of the conflict, normalization of Strait of Hormuz-linked trade flows, freight & insurance cost, raw materials availability from alternate sources, and whether customers begin restocking once price correction risk reduces.

Exhibit 13: Channel-check implications

Parameter	March situation	April update	Implication
Raw materials prices	Sharp spike	Still elevated	Pass-through working with a lag
Availability	Acute disruption	Alternate sources available	Supply improved but intermittent
Demand	Deferred buying	Demand recovery	No order cancellations
Inventory	No panic buying	Need-based buying	Potential restocking after normalization
Freight	High escalation	Still elevated	Supports landed-price inflation
Visibility	Very low	Still uncertain	Depends on conflict duration

Source: ChemExpo Mumbai April 2026; Elara Securities Research

ChemExpo speaker sessions key takeaways: industry context and sector read-through

- Global petrochemicals overcapacity remains structural, led by China-led capacity build-out. The Middle East crisis has temporarily masked oversupply by disrupting flows and availability.
- China accounts for ~42% of global ethylene cracker capacity; anti-involution policy is set to target older, smaller and environmentally weaker plants, especially ~20-year-old assets of ~400-500ktpa or smaller.
- Around 10mn tonne of global cracker capacity has already been rationalized or is under rationalization, while another ~20mn tonne rationalization may still be required globally for durable market balance.
- The EU has already seen ~5mn tonne cracker capacity closure and another ~5mn tonne could close by the end of the decade; Japan may rationalize ~2.5-3.0mn tonne capacity.
- Global cracker operating rates are set to remain under pressure, with trough around CY28 and recovery linked to rationalization in the EU, Japan and South Korea & Northeast Asia.
- Naphtha-based cracker margin remains structurally vulnerable, while ethane crackers and China coal-to-olefins margin appear relatively more resilient.
- US ethane exports are set to nearly double from ~0.5mmbpd in CY25 to ~0.9mmbpd by CY30, driven by Permian Basin growth. Ethane continues to be priced closer to natural gas, due to shale gas and associated gas supply.
- India remains a net importer of major petrochemicals despite high consumption. Imports substitution opportunity remains visible across polyethylene (PE), polypropylene (PP), poly-vinyl-chloride PVC, mono-ethylene-glycol (MEG), methanol, toluene, paraxylene and purified terephthalic acid (PTA).
- India's chemicals market is set to grow from ~USD 218bn in CY23 to ~USD 384bn by CY30 and ~USD 925bn by CY40, with India's share of global chemicals rising from ~3.7% to ~5.2% and ~10% during the same period (Source: ChemExpo April 2026).
- **LAB is a key case study of vulnerability:** India's demand of ~750kt vs the supply of ~480kt implies a ~270kt gap; imports were disrupted by the Middle East crisis.

Pharmaceuticals

Expert profile

Managing Partner of a small / medium enterprise based at Hyderabad, trading in pharmaceuticals raw materials, intermediates and APIs. The firm's business includes imports from China, / Middle East, / Europe, and exports to South Asian countries, Europe, and Africa. Its top customers include 3 of the 10 largest pharma companies in India.

Channel check summary

Q. How has the ongoing geopolitical conflict involving Iran affected availability of key starting materials and API that you trade?

Ans: There are no issues regarding availability of materials as of now. But there are delays in delivery due to logistical issues. All materials that we trade are available from suppliers.

Q. Have you seen actual shortages or just delays in deliveries for specific ingredients? Which ones?

Ans: We have not seen any shortages so far.

Q. Are you seeing a decline in availability of petrochemicals-based solvents (like Acetone or Acetic Acid) that usually transit through the Gulf?

Ans: We do not experience availability issue in any product, even in solvents. But prices have gone up.

Q. Are there some API or intermediates more difficult to source than before the conflict escalated?

Ans: We are able to source all products, including some of the specialized ingredients that we import from Europe.

Q. To what extent are supply delays due to shipping route disruptions?

Ans: Shipping route and flight disruptions have increased delivery times by 7-10 days. Sometimes, it is due to the reluctance to pay higher price; if one is willing to pay higher prices, then logistical delay can be avoided.

Q. Has the conflict affected your ability to source from China and other non-Middle East suppliers due to rerouted logistics?

Ans: We do not have direct Middle East imports; hence, we have not seen any disruption. Sourcing from China remains unaffected as of today.

Q. Are there specific shortages in refrigerated and temperature-controlled API (for e.g., for oncology or insulin) due to the disruption of specialized shipping containers?

Ans: No such disruption has been noticed.

Q. To what extent is the shortage of diesel and PNG gas affecting domestic processing of intermediates you trade?

Ans: We have not heard of any disruption of operations at customer sites, due to fuel or raw materials supply issues.

Q. How has the conflict affected supply of packaging materials (PVC and plastics), which are highly dependent on Middle East petroleum?

Ans: We do not deal in packaging materials.

Q. Are you seeing "panic buying" or hoarding behavior among small to medium pharmaceuticals manufacturers?

Ans: We have not noticed any such behavior by pharma companies. Some small-scale traders are hoarding and trying to quote high prices, but so far that has not become rampant.

Q. Have you observed any *force majeure* declarations from your upstream suppliers in the past 30 days?

Ans: No, we have not.

Q. How much buffer stock do you currently hold compared to a normal pre-conflict period? And what is your understanding of inventory drawdowns in large pharmaceuticals manufacturers?

Ans: Our inventory levels have not changed. Pharma companies have been using inventories for the past 3-4 weeks but had not completely stopped buying. So, we do not see large-scale inventory depletion anywhere.

Q. Which specific key starting materials, solvents or API have seen the largest price increases in the past 6–8 weeks?

Ans: API, such as paracetamol, Metformin & Montelukast, and raw materials, such as sulphuric acid and isopropyl alcohol, have seen a large increase; otherwise, general price increase because of the war is in the range of 15-18%.

Q. Are price hikes driven more by raw materials scarcity, freight & logistics cost rises, or fuel & energy price inflation?

Ans: All factors have contributed to price increase.

Q. How much have freight cost (insurance surcharges and war-risk fees) risen for your shipments?

Ans: Freight cost has also on an average risen by 15-18%. Air freight cost has gone up more, especially if consignments are urgent, as the Middle East hub is practically shut.

Q. Have price increases been sustained or are some starting to stabilize?

Ans: Prices are now stabilizing, but still volatility is there. Further, movements will depend on how the Middle East situation evolves.

Q. Are you shifting to "spot pricing" (daily updates) rather than long-term contract pricing for KSMs due to the volatility?

Ans: To date, there has not been any change in structure of our contracts with customers or suppliers.

Q. To what extent has the government's waiver of the 8.25% customs duty on 40 raw materials actually offset price increases for you?

Ans: We are not aware of the change in customs duty norms.

Q. Are you actively looking to source more from Europe or Southeast Asia to bypass the Middle East, even if the base price is higher?

Ans: We have always been sourcing mostly from Europe and China; that remains as it is.

Q. In your opinion, if the conflict continues for another 90 days, which therapeutic segment (for e.g., antibiotics, cardiac, and diabetes) is at highest risk of a complete stock-out?

Ans: As of now, we see no risk of stock outs but cannot comment if the situation worsens from here.

Pharmaceuticals

Expert profile

Owner of a medium enterprise based at Ahmedabad, trading in pharmaceuticals raw materials, intermediates, APIs and packaging materials. The firm's business imports KSMs and API from China, solvents from Middle East and exports to North America, LATAM, Europe, Southeast Asia and Africa. Its top customers include 5 of the 10 largest pharma companies in India.

Channel check summary

Supply & availability

- There is no structural supply disruption across KSM, intermediates, or API, with materials availability remaining intact despite the ongoing geopolitical situation.
- However, delivery timelines have extended meaningfully, with shipping delays increasing by ~7–10 days, while sea transit time stretching from ~30 days to ~40 days currently, due to rerouting and logistical inefficiency.

Freight & logistics scenario

- The price of a 40-feet container, which was ~USD 3,500 before the war, has increased to ~USD 6,500 currently, driven by higher insurance premium and war-related surcharges of ~USD 2,000 per container, due to heightened geopolitical risks in the Middle East region.
- In addition, air freight cost has increased by ~20%, primarily due to disruption in the Middle East, which acts as a key transit hub for shipments to the US and Europe.
- Freight cost for temperature-controlled or refrigerated shipments have risen sharply, with rates increasing from ~USD 6,000 to ~USD 11,000 currently, reflecting constraints in specialized logistics.
- Overall logistics cost has further increased, due to an additional gas surcharge of ~10-18%, while domestic fuel availability remains stable, but at elevated pricing levels.

API, solvents & packaging materials pricing scenario

- API prices have witnessed a sharp increase across key high-volume molecules, reflecting a pass-through of higher input and logistics cost.
- For instance, metformin hydrochloride prices have increased from INR 165 to INR 350/Kg, while paracetamol prices have moved up from INR 235 to INR 500/Kg, indicating a significant rise in essential, high-volume API
- Similarly, montelukast sodium prices have increased from INR 35,250 to INR 55,000/Kg, while diclofenac sodium prices have risen from INR 590 to INR 1,050/Kg, highlighting broad-based inflation across therapeutic segments
- Among chronic therapies, amlodipine prices have increased from INR 2,600 to INR 3,800/Kg, while losartan prices have risen from INR 3,300 to INR 4,540/Kg, reflecting mid-to-high double-digit inflation .
- In anti-infectives, amoxicillin prices have increased from INR 1,650 to INR 2,200/Kg, driven by higher upstream input cost and supply chain disruptions
- Primary driver of API price inflation remains the sharp increase in upstream solvent and intermediate cost, which are critical input in API manufacturing
- For e.g., methylene chloride, widely used as a solvent in API synthesis and extraction processes (including analgesics & intermediates), has seen a price increase from INR 44 to INR 70/KL, while dimethylformamide (DMF), a key solvent used in the manufacturing of API, such as antivirals, oncology drugs, and intermediates, has risen sharply from INR 71 to INR 155/KL, indicating significant inflation in critical solvent input.

- Similarly, isopropyl alcohol (IPA), extensively used as a solvent, cleaning agent, and disinfectant across API manufacturing and formulation processes, has seen a price increase from INR 115 to INR 245/KL, while the price of sulphuric acid, a key reagent used in chemical synthesis steps and intermediate production, has increased from INR 21 to INR 35/KL, reflecting broad-based cost pressure across petrochemicals-linked input.
- This increase in solvent prices is attributable to dependence on Middle East imports, which have become more expensive, due to logistical disruption and higher freight cost.
- On the packaging side, there was a temporary disruption in availability of two weeks, due to resin shortages, although supply conditions have since normalized.
- Despite normalization in supply, packaging cost have increased sharply, with PVC prices rising by ~50% and aluminium prices increasing ~3x, adding to overall cost pressures for pharma companies

No panic buying by pharma companies

- Importantly, no panic buying behaviour has been observed among pharmaceuticals companies, with procurement continuing in a normal and calibrated manner.
- However, some level of stocking has been observed at the trader level, particularly in commodity molecules like paracetamol, while niche or specialized API have not seen significant inventory buildup.
- API companies are absorbing cost increases for existing orders, but new quotations are being revised up to reflect higher input and logistics cost.

Outlook

- Overall, API and KSM prices have increased in the range of ~15–20% on an average, driven by a combination of higher freight cost, energy inflation, and raw materials price increases
- Encouragingly, early signs of price stabilization are emerging, with rates beginning to correct as supply chains adjust, although volatility persists.
- Based on channel checks, pricing normalization is in the next ~12–18 months, contingent on duration of the geopolitical conflict and extent of infrastructure disruption caused by the war.
- From an industry perspective, pharmaceuticals companies are likely to face near-term margin pressure, due to elevated input and packaging cost, although partial pass-through is over time.
- Integrated firms with backward linkage into API are better equipped to absorb cost volatility, compared to formulation-only companies.

Exhibit 14: Raw materials prices

Raw Material	Current (INR)	Last rates (INR)	% change
4-(Bromomethyl) Benzonitrile	4,000	2,800	43
Potassium tert butoxide	1,450	1,150	26
4-FloroBenzonitrile	6,100	5,500	11
Methylene Chloride	70	44	59
Dimethylformamide	155	71	118
2-(Diethylamino)ethyl chloride hydrochloride (DEC HCl)	650	500	30
Sodium hydroxide	47.2	32	48
Benzyl tributyl ammonium chloride	745	690	8
Benzyl Chloride	185	86	115
Magnesium Turnings	300	260	15
2-methyl THF	425	335	27
Acetone	89	64	39
Sodium sulphate	31	21	48
Chloroform	20	16	25
Sulphuric Acid (98%)	40	32.5	23
Sodium carbonate	33	30	10
Methyl ethyl ketone (MEK)	395	104	280
Citric Acid	116	76	53
4-Chloro-2-Aminophenol	580	445	30
Urea	120	95	26
Conc HCl	11	8	38
Sodium Hydroxide	145	125	16
Hyflo	230	210	10
Loratadine	14,000	11,500	22
Isopropyl alcohol	245	115	113
Sulphuric acid	35	21	67
KOH pellets	145	125	16

Source: Company, Elara Securities Research

Exhibit 15: API prices

Product	Current (INR)	Last rates (INR)	% Chg
Artemether HIS/USP	17,250	15,000	15
Lumefantrine I HS/USP	2,050	1,500	37
Montelukast Sodium IP/BP/USP	55,000	35,250	56
Metformin Hydrochloride USP	350	165	112
Amlodipine Besilate USP/BP	3,800	2,600	46
Dapagliflozin Propanediol Monohydrate I HS	15,500	13,500	15
Paracetamol (Acetaminophen) BP/USP	500	235	113
Diclofenac Sodium IP/BP/USP	1,050	590	78
Ibuprofen BP	850	655	30
Omeprazole EC Pellets 7.5% I HS	780	465	68
Ciprofloxacin Hydrochloride BP (DMF Grade)	2,050	1,620	27
Cefuroxime	8,500	7,300	16
Cefixime	10,000	8,900	12
Azithromycin	13,800	13,150	5
Losartan	4,540	3,300	38
Celecoxib	2,350	2,100	12
Amoxicillin Compated	2,200	1,650	33
Pot Clav	7,750	5,744	35
Amoxicillin Extra Dry	2,425	1,850	31
Ofloxacin	2,600	1,975	32

Source: Company, Elara Securities Research

Luggage

Expert profile

We interacted with a Rajasthan-based luggage distributor, who handles brands across organized and local firms. The objective was to understand the recent impact of raw materials inflation and supply-chain pressure on the luggage category, and how key companies, such as Safari, VIP, Aristocrat, local SME, imported China products, and new-age brands are responding via price hikes, discounts, product availability, and channel strategy.

Discussion suggests raw materials inflation is visible across value chain, but the ability to pass on cost remains uneven. Local firms have moved up prices faster, while organized firms are taking a more selective approach to protect volume and channel competitiveness.

Plastic, metal and transportation cost moving up

- Raw materials inflation is broad-based. The distributor says polypropylene and polycarbonate prices are up 35–40%, which directly impacts hard-shell luggage. These input are critical for the outer body of trolley bags and cabin luggage.
- Apart from plastic, iron and zinc prices have increased. This impacts rods, frames, locks, fittings, handles, and other hardware components. Transportation cost has gone up, particularly for traded goods from China. Traded products from China are witnessing ~7-10% price increase.
- We reckon this is not a single-input inflation cycle. The pressure is visible across the complete bill of materials. Therefore, companies will need price hikes, discount control, and supply chain efficiency to protect margin.

Local firms pass on cost; organized companies are selective

- Small and local luggage firms have passed on raw materials cost inflation faster, while organized firms remain selective and cautious on pricing. At the distributor level, local companies increased prices by 7-8% for distributors, implying SME have directly pushed cost inflation into the channel.
- In contrast, organized companies, such as Safari and VIP, have not undertaken aggressive portfolio-wide price hikes. Safari has issued a price hike intimation effective from 1 May, while VIP has given intimation from 26 April, but these hikes are set to be selective rather than broad-based. For instance, Safari has taken a selective price hike in products such as Cairo, where prices have increased nearly 7-8%.
- Overall, the luggage industry is witnessing raw materials inflation, particularly in plastic and metal-based input. However, broad-based price hikes remain difficult because competition continues to be intense, especially in the mass and value luggage segments. This suggests while local firms are passing on cost quickly, larger organized firms are prioritizing market share and channel competitiveness, taking price hikes only in select SKU where demand elasticity is lower.

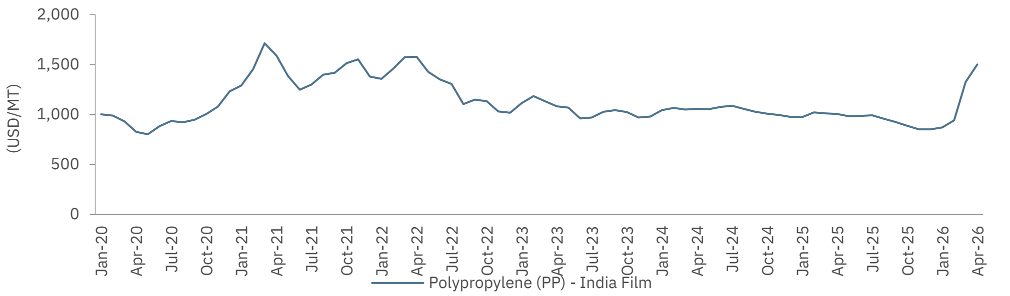
Competition remains elevated, resulting in consumer downtrading

- Prices are still low because of competition. Even with rising input cost, brands are unable to take meaningful price hikes across the portfolio.
- Consumer downtrading has become an important trend. Medium luggage that was sold at around INR 4,000 a few years ago is available at around INR 2,500. This has reset consumer expectations and made it difficult for companies to move prices upward.
- Kamiliant is a good example of pricing pressure. The company reduced prices ~11-12% on products, yet it has been unable to gain meaningful market share. The distributor believes Kamiliant has a better product vs Safari and Aristocrat in some categories, but product strength alone has not translated into share gains.
- We reckon pricing power at the mass- and mid-market level remains weak. The category has seen consumer price anchoring at lower levels, which makes margin recovery difficult even when raw material cost move up.

Brand and channel behavior

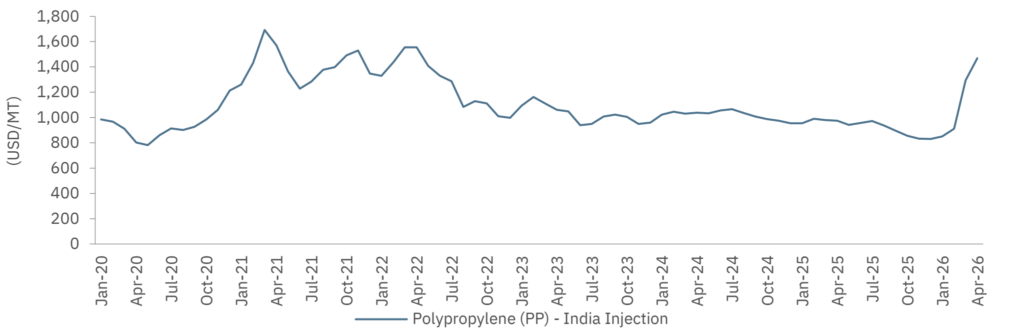
- VIP appears to be taking a more structured approach under its VIP 2.0 strategy. The company is interacting more with distributors, understanding channel issues, and correcting prices selectively. The focus appears to be to avoid offering excessive discounts, improve design definition, and ensure product availability.
- VIP had pushed schemes to drive volume during liquidation, including cases where Carlton-related liquidation involved 40–50% discounts. However, the channel feedback suggests VIP is trying to avoid huge discounts and improve price discipline on select products.
- Safari continues to dominate the mass market, but the distributor says Safari is facing supply-chain management issues and distribution-channel execution. Product availability is among key issues, especially for fast-moving products. Despite this, it expects Safari to grow by 15%+ in its region.
- We believe Safari's growth opportunity remains strong in the mass segment, but product availability and distribution execution are key risks. VIP's channel correction and focus on design, availability and price discipline could improve its competitiveness over time.

Exhibit 16: Polypropylene (PP) - India film prices up 72% in the past three months



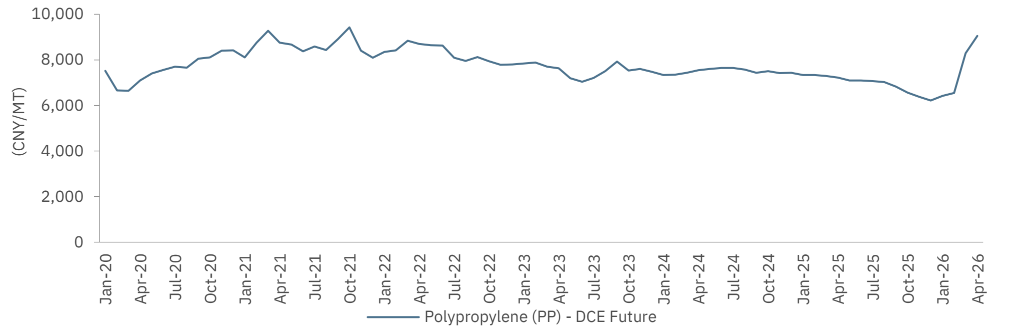
Source: Bloomberg, Elara Securities Research

Exhibit 17: Polypropylene (PP) – India's injection prices up 72.5% in the past three months



Source: Bloomberg, Elara Securities Research

Exhibit 18: Polypropylene (PP) -- DCE future prices up 41% in the past three months



Source: Bloomberg, Elara Securities Research

Footwear

Expert profile

We interacted with a Delhi-based footwear manufacturer with an annual manufacturing capacity of around 1mn pairs to understand impact of recent raw materials inflation on SME footwear manufacturers. The manufacturer primarily caters to the North India market and is involved in white-labelling & contract manufacturing for other footwear brands.

The objective was to assess how broad-based raw materials inflation is affecting manufacturing cost, pricing decisions, margin, inventory planning, and capacity utilization in the value footwear segment. Discussions helped to expand understanding of how SME manufacturers are managing cost pass-through in a competitive low-average selling price(ASP) market.

Broad-based raw materials inflation across petrochemicals hurting the most

- Since the beginning of the West Asia war, raw material prices have moved up sharply, especially in petrochemicals-linked input, such as ethylene vinyl acetate (EVA), polymers, chemicals, adhesives and polyvinyl chloride (PVC). Most petrochemicals-based materials have seen inflation of ~50–60%, while synthetic rubber prices remain relatively stable compared to other input.
- At the finished-pair level, actual raw materials cost increase is ~INR 20–25 per pair. Including labor, overheads and other conversion cost, total cost increase is closer to INR 35 per pair.
- This is meaningful because manufacturer's average realization is only ~INR 120–130 per pair, implying overall cost increase is ~27–29% of realization. Since EVA and sole-related input form a critical part of mass & value footwear, the inflation impact is directly relevant for low-ASP manufacturers.
- For SME, the impact is sharper because raw materials are bought in smaller lots and closer to spot prices. Listed peers, such as Relaxo Footwear, Bata India, and Campus Activewear, are exposed to similar input inflation, but they can partially manage the impact through bulk sourcing, vendor relationships, inventory buffers, and select product-level pricing.
- The key implication is that this is not a small gross-margin adjustment for SME manufacturers. It is a material profitability shock, especially because the most important input for value footwear remains inflated, although synthetic rubber has been relatively stable.

Undertakes price hikes, but margin gap remains

- The manufacturer has taken a price hike of around INR 20 per pair to manage cost pressure. However, total cost increase is around INR 35 per pair, which means full pass-through is difficult, due to intense competition. If prices are increased too aggressively, distributors and buyers can shift to other local suppliers.
- This leaves an unabsorbed cost gap of nearly INR 15 per pair. On a realization base of INR 120–130 per pair, this residual gap is significant and can materially dilute margin, especially for SME manufacturers operating on thin spread.
- This suggests SME are stuck between two pressures. They need price hikes to sustain margin, but they need to stay competitive to protect volume. Listed firms have more levers, such as brand strength, premium mix, discount control, inventory buffer, and SKU level pricing. SME have fewer tools; hence, unabsorbed cost pressure hits profitability faster.

Lower inventory cover amplifies SME margin pressure

- SME firms usually hold only around 12–15 days of raw materials inventory. In comparison, listed firms usually carry higher inventory buffers of around 3–6 months, depending on sourcing strategy, category, and procurement planning.
- This difference becomes important during an inflationary cycle. SME have to replenish raw materials frequently at current market prices; hence, inflation flows into cost structure almost

immediately. Listed firms may have older inventory at lower cost, which delays margin impact and gives them more time to recalibrate pricing.

- This indicates lower working capital intensity, which is usually seen as positive for SME in a stable or deflationary environment, becomes a disadvantage when raw material prices rise sharply. The same price increase that hits an SME within weeks tends to hit a listed company with a lag.

Demand remains muted and consumers want better design at entry-level prices

- Demand remains muted in the value footwear market. The manufacturer says even price-conscious consumers are asking for better design definition within entry-level pricing.
- This is an important category shift. Earlier, low prices were often adequate to drive sales in entry-level footwear. Now, consumers expect better design, finishing and freshness even at low price points. However, they are still unwilling to absorb meaningful price increases.
- This keeps SME manufacturers under constant pressure to remain relevant. They need to improve design and product appeal, but the market does not give them adequate pricing power to recover higher cost of better materials, development, and inventory risk.

Lower utilization and contract labor rationalized

- Due to the war-led raw materials disruption and muted demand, the manufacturing facility is operating at around 25% lower utilization. Lower utilization creates operating deleverage because fixed and semi-fixed cost are spread over fewer pairs.
- To protect cost structure, manufacturer has reduced employee cost, particularly contractual labor. This provides short-term flexibility, but it also highlights pressure on production economics.
- This indicates the issue is not only gross margin pressure from raw materials. It is operating margin pressure from lower utilization. When volume falls and cost per pair rises, SME face a double hit.

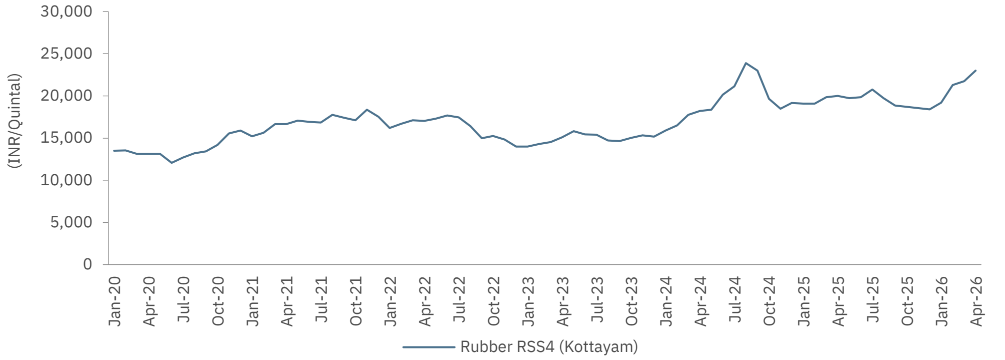
RM stability will take time; margin pressure to persist

- The manufacturer does not believe current raw materials pressure is a short-term phenomenon. Raw materials prices may take at least 1–2 quarters to stabilize, and only after stabilization can cost gradually start to coming off.
- Until then, margin recovery appears unlikely. The manufacturer has already taken a partial price hike, but full recovery is difficult because demand is muted and competition remains intense.
- This suggests the next few quarters may remain challenging for SME footwear manufacturers. Even if prices stop rising, margin may not recover immediately because companies first need stable input cost, better demand, and further price absorption.
- For listed peers, the impact is likely to be more staggered. Relaxo Footwear remains the closest read-through because of its value-footwear and EVA-linked exposure. Bata India has better brand cushion and portfolio diversification. Campus Activewear has synthetic input exposure, but stronger sourcing, manufacturing, and execution levers.

Exhibit 19: China vinyl acetate spot price goes up 107% post war

Source: Bloomberg, Elara Securities Research

Exhibit 20: Rubber RSS4 price goes up 19.7% post war



Source: Bloomberg, , Elara Securities Research

Value retail

Expert profile

We interacted with a denim bottom-wear manufacturer supplying to large value-fashion retailers such as Baazar Style, V-Mart and Reliance Retail. The manufacturer primarily sells denim and cotton-based bottom wear. The objective was to understand the ground-level impact of raw material inflation and supply disruption on apparels manufacturing, especially from value-fashion retailers perspective. The interaction helped assess whether retailers are taking price hikes and how supplier margins are affected.

Broad-based raw materials cost inflation

- Raw materials cost inflation has become broad-based across major inputs. Overall RM cost has increased by ~8–10%. Fabric prices have risen by ~5–8%, while the impact on fabric cost is estimated at a minimum of INR 10 per meter.
- Zippers have become costlier, due to higher metal prices, with suppliers increasing prices by around 10%. Thread cost has increased by ~7%.

Gas supply disruption delays fabric availability

- Fabric supply has been delayed due to gas availability issues. A large part of fabric processing depends on compressed natural gas (CNG) and liquefied petroleum gas (LPG)-based operations, and disruption in gas supply has hit production schedules.
- Operating activity has declined sharply since March. March operations were at ~70% compared to earlier levels of >90%. In April, operating activity declined further to ~50%.

Labor availability adding to the pressure

- Apart from RM inflation and gas-led disruption, labor availability has become a key issue. Labor cost has increased by ~5%, but large concern is availability of labor rather than wage inflation alone.
- Large companies are currently operating at ~60% capacity, and this situation may continue until June if gas supply and labor availability do not normalize

Larger manufacturers better placed than smaller ones

- Larger manufacturers are better placed because they have stronger vendor relationships, improved working capital and greater ability to manage power or fuel-related disruption. For bigger firms, shifting power supply can partly reduce impact.
- Smaller manufacturers are taking a sharper hit. They are less able to absorb higher input cost, delayed fabric supply and labor shortages. As a result, margin of smaller firms have come off by around 5–6%.

Price pass-through remains limited in value apparels

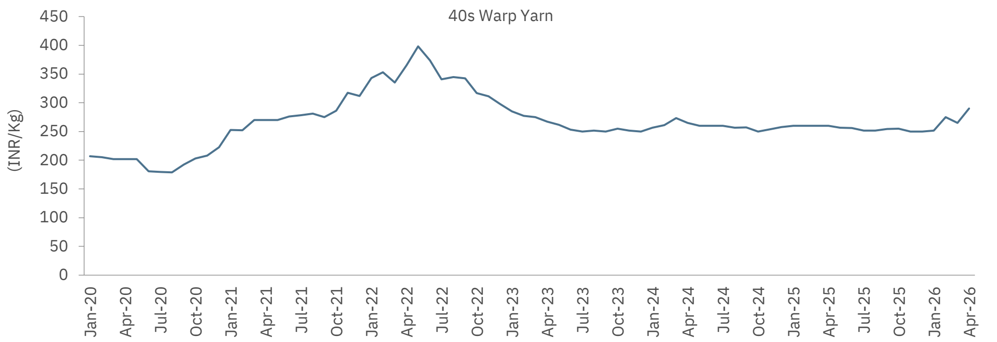
- Value apparels retailers are currently not taking broad-based price hikes. Retailers are finding it difficult to immediately pass on higher cost because end-consumer remains highly price-sensitive.
- A price increase of ~3–4% may be possible in the next 2–3 months, with a similar increase possible in the next quarter if cost pressure continues. However, immediate pass-through remains limited.

Near-term margin pressure likely to continue

- Overall, the manufacturer expects near-term pressure to continue because RM cost is up **8–10%**, labor cost is up **5%**, and operating activity remains below normal levels. Since value apparels retailers are not immediately taking price hikes, suppliers are absorbing a large part of cost increase.

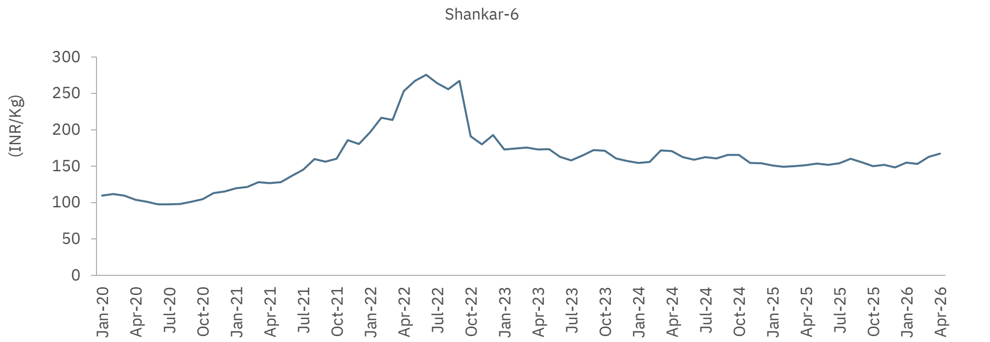
- Pressure is sharper for smaller manufacturers while larger suppliers may be better positioned to manage disruption. For value-fashion retailers, key monitorables will be fabric availability, supplier delivery timelines, gross margin movement, and timing of any price hikes.

Exhibit 21: Yarn prices go up ~16% in the past three months



Source: Bloomberg, Elara Securities Research

Exhibit 22: Cotton prices go up ~8.0% in the past three months



Source: Bloomberg, Elara Securities Research

Building materials (Morbi)

Expert profile

A tiles manufacturer based at Morbi, Gujarat, operates across domestic and export markets, supplying a range of ceramic and vitrified tiles.

Channel checks summary

Q. What proportion of your total cost is gas and energy?

Ans: Gas is a significant part of our cost structure. It accounts for ~25-30% of our total production cost. For wall tiles, gas cost works out to be around 30% of sales, while for vitrified tiles, it is in the range of 20-25%.

Q. Have you faced any disruption in gas supply or just price increases?

Ans: There were severe gas supply disruptions initially, but after the Morbi Ceramic Manufacturers Association got involved, gas is available to everyone. Supply reliability has improved significantly. While there were supply issues earlier, the situation has normalized, and we are primarily dealing with higher prices rather than shortages.

Q. How have gas prices moved in the past 3–6 months (spot vs contracted)?

Ans: For non-contracted (spot) gas, the pre-crisis price was INR 49 + VAT. It had shot up to INR 90 + VAT earlier, but after the Association's intervention; it has come off to INR 73 + VAT. For contracted gas, price has increased from INR 41 + VAT pre-crisis to INR 69 currently.

Q. Whom are you sourcing gas from and what is the arrangement?

Ans: We primarily source gas from Gujarat Gas. As per the arrangement, we are supposed to provide our requirement of gas volume monthly. Gujarat Gas is asking for a commitment of 90% of stated requirement irrespective of actual offtake. If the actual offtake goes beyond 105% of requirement, price charged will increase.

Q. What is your current utilization vs normal levels — any production cuts due to gas issues?

Ans: Current utilization levels are lower than normal. Earlier, plants were operating at ~100% utilization. Reduction in utilization is partly due to gas-related issues and softer demand. In comparison, if our market was heavily dependent on the Gulf or the EU, utilization would have been even lower.

Q. Have you shut any kilns or reduced operating hours?

Ans: Ceramic floor and wall tiles plants have yet to start production and are set to commence from 1 May. Vitrified, full body, and premium tiles plants have already started.

Q. How much cost have you been able to pass on via tiles pricing?

Ans: We have increased tiles prices by 18-20%. This price rise has enabled us to pass on the full impact of gas cost escalation to the market.

Q. Is demand holding up, or are higher prices affecting volume (domestic & exports)?

Ans: Demand is somewhat subdued. Dealers are sitting on high inventory after stocking up during the shutdown period. Additionally, project execution is slow, which has hit project demand. Higher prices have had some impact on volume, although a 18-20% price hike was absorbed by the market.

Q. How are exports trending, given global uncertainty and energy cost?

Ans: Exports are facing some pressure. Higher shipping rates are affecting international demand, making it more challenging to remain competitive in the exports markets, especially amid global uncertainty and elevated energy cost.

FMCG (detergent)

Expert profile

Small manufacturer of detergent based at Phalodi, a city near Jodhpur, Rajasthan, is involved in the process of detergent manufacturing, catering to local as well as regional markets.

Channel checks summary

Q. What are the major raw materials in detergent manufacturing?

Ans: Linear alkyl benzene sulphonic acid (LABSA) is the primary surfactant raw materials. Other raw materials include plastic for packaging, and laminate materials.

Q. What percentage does LABSA contribute to total raw materials cost?

Ans: In the normal scenario, LABSA is at 42% of raw materials value in powder detergent.

Q. What is the prevailing market price of LABSA?

Ans: LABSA price is currently INR 300 per kg. It was around INR 270 per kg a month ago and INR 120 per kg in the normal scenario.

Q. What is the price for other key raw materials?

Ans: Packaging cost has increased and is currently at INR 200 per kg (from INR 130).

Q. How much price increase has been undertaken by firms?

Ans: Fena has taken around 20% hike. Ghadi has undertaken a lower hike of 5-7%. Hindustan Unilever has hiked prices by 4-5% (effective 8-9% after reducing schemes).

Q. How critical is LABSA in powder detergent formulations? Can the product perform without it or at reduced levels?

Ans: LABSA is a critical ingredient. Without LABSA, the detergent powder does not perform well and is not accepted by consumers.

Q. To what extent are large firms able to pre-book or secure supply via long-term contracts?

Ans: Large manufacturers, such as Nirma, Reliance, and some South-based companies, have long-term contracts with large companies.

Q. Have companies increased forward stocking and inventory holding of LABSA?

Ans: Larger firms have capacity to hold higher inventory while small companies are concerned about the impact.

Q. What is the current inventory situation across the value chain?

Ans: Stock is not available for small firms. Several small factories have closed. Local brands and traders are struggling with availability.

Q. How are large firms sourcing raw materials?

Ans: Large companies have higher inventory and priority supply. They source from bigger manufacturers and have long-term contracts.

Q. What is the likely change due to non-availability of LABSA on detergent or any other category?

Ans: LABSA is a key ingredient for many foam & lathers; hence, non-availability does impact other segments, such as soaps and shampoo. However, liquid detergent has less use of LABSA; hence, consumers could upgrade to liquid detergent faster from powder.

FMCG (paints)

Expert profile

A manufacturer of paints based out of the Navi Mumbai region, with a primary focus is on the projects business.

Channel checks summary

Q. What are the key raw materials used for paints?

Ans: Key raw materials for paints are Titanium dioxide (TiO2) and Styrene.

Q. Which specific key raw materials have been most affected by the current conflict?

Ans: TiO2 and Styrene have been most affected. Between them, Styrene has been the most affected with prices going up from INR 62-65 per liter to INR 120-125 per liter now, and it is difficult to source.

Q. What is the average price increase for key RM since the start of the conflict?

Ans: TiO2 price has increased from INR 230-235 per kg to INR 275-280 per kg. Styrene has gone up from INR 62-65 per liter to INR 120-125 per liter.

Q. How has the increase in raw materials cost affected overall cost structures?

Ans: The overall raw materials basket has increased by 35–40%, significantly pressuring margin across the industry.

Q. How much price increase has been passed on the consumers? If any?

Ans: Price increase has been passed on to consumers. Companies have taken price increase in the range of 8-10%.

Q. Have you experienced shortage or unavailability of any raw materials?

Ans: Yes, there is shortage and limited stock of Styrene. It is difficult to source Styrene and in-transit material is stuck.

Q. Is there a preference given to large firms when it comes to availability of raw materials?

Ans: Companies are facing issues, and large firms are slightly better off in availability than smaller ones, due to stronger sourcing relationships and scale advantages.

Q. What is your raw materials mix for economy, mass, and premium products?

Ans: In economy products, TiO2 contribution is low at 4%, which rises to 8% in higher categories. Styrene contribution is in the range of 15-20% to 50%.

Q. TiO2 is imported from which countries in the paints industry?

Ans: Raw materials are sourced from China, the UK, and Germany.

Q. How sensitive is demand to price increase in different segments?

Ans: Pricing is less of a constraint in the retail segment, due to low frequency of repainting, whereas in project and B2B segments, price negotiations are more intense and directly impact order wins.

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