

In Depth corporate

BETTING BIG ON INDIAN FUTURE

The German speciality chemicals firm intends to make India a hub for global supplies
by P.B. Jayakumar



GROWTH CURVE

Lanxess in India (financials)

SALES OF Rs 1,464.2
CRORE IN 2011 AS AGAINST
Rs 1,090.5 CRORE IN 2010,
A SUBSTANTIAL GROWTH OF
32 PER CENT

PHOTOGRAPH: LANXESS

IT is all about chemistry. High-end chemistry, at that. Scientists at Lanxess, Germany's fourth largest speciality chemicals company, and at its Indian subsidiary, Lanxess India, are working on synthesising and creating chemicals that will go into manufacturing the next generation of automobile tyres. The tyres will be made of high-performance butyl rubber, and will reduce fuel consumption — in the words of the company: green tyres.

Car manufacturers, in fact, are trying to replace many metal parts in automobile engines and in the car's main body with lightweight advanced plastic materials that have the strength of steel. Plastic and plastic-metal hybrid parts can reduce the weight of a traditional, all-metal body passenger car by 30-40 per cent. Costs in car manufacturing could go down by 20 per cent.



JÖRG STRASSBURGER, MD, LANXESS

"We have invested more than most of our competitors in India in the past five years."

At Lanxess, they call the technologies behind the making of these products 'green mobility'; they contributed 1.5 billion in revenue or around 17 per cent of the company's total sales (8.7 billion in 2011). Axel C. Heitmann, chief executive officer of Lanxess, told shareholders on 22 March 2012 that the company would strive to increase this revenue stream to about 2.7 billion by 2015.

Oil prices notwithstanding, a report published by Citigroup in November 2011 estimated the growth in automobile tyres at 3-4 per cent. Lanxess is the world's largest synthetic rubber producer and nearly three-quarters of its production is consumed by the global tyre business.

What does this mean for Lanxess India? Says Jörg Strassburger, the company's managing director and country head, "Our growth in India will be driven by

the rubber and auto industries and new product offerings such as ion exchange resins." Interestingly, India is expected to become the world's third largest consumer market for high-tech plastics after the US and China. The country's auto industry is expected to grow at 9.5 per cent in 2012 (the global automotive industry is set to grow by slightly more than 6 per cent per year). But global economic conditions and the domestic economy both seem to have hit some roadblocks. Automobile sales are a leading economic indicator, and over the last three months, they have shown signs of a slowdown.

Building Future

So, will Lanxess's solid performance carry on? Will the Indian market continue to be attractive for this German firm? Company officials think so. "We have invested more than most of our west-



VENKATESH SANKARAN, CFO, LANXESS INDIA

"There has been consistent growth in India despite global economic uncertainty."

ern competitors in India during the past five years (close to 180 million)," says Strassburger. Speciality chemicals were a \$20 billion business in 2010; by 2020, that is expected to grow to \$100 billion.

Lanxess's main competitors in India include multinational majors such as BASF, also from Germany, and US-based Dupont. There are also several domestic chemical companies who compete with them across a range of products

Three months ago, the Frankfurt Stock Exchange-listed Lanxess started operations at its manufacturing facility for high-tech plastics at Jhagadia in Gujarat. The facility has an initial capacity for producing 20,000 metric tonnes of plastics every year. This facility makes two of Lanxess's flagship products: Durethan (a polyamide) and Pocan, a lightweight plastic alternative to metals.

Lanxess's polyamides are used in a variety of car parts, including pedals, door handles, certain body reinforcements, and even in under-the-hood components like intake manifolds, cylinder head covers and oil pans. Lanxess and its client automobile makers jointly developed "organo" sheet materials which allow car makers to use plastics instead of aluminum for some major auto parts.

The plant at Jhagadia was set up at a cost of Rs 490 crore; it will supply high-tech plastics to leading car manufacturers such as Tata Motors, Volkswagen and Ford. Currently, Lanxess supplies these products to Indian automakers from its plant in China, one among the 48 production sites of Lanxess worldwide.

"We will use production from the facility for supplies to the automobile manufacturers in India and we will also export to other parts of the Asia-Pacific region," says Strassburger, Lanxess's India head since 2005, who takes pride in having trebled the company's revenues in India over the last seven years.

Steady Growth

Sales went from Rs 1,090.5 crore in 2010 to Rs 1,464.2 crore in 2011, a growth of 32 per cent. The sales in 2010 saw an increase of 66 per cent over the previous year, mainly because of the acquisition of Gwalior Chemicals in 2009 for Rs 535 crore. Integration was quick, taking just six months, and the acquired facilities at Nagda in

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THE INDIA CONNECTION

Lanxess was formed in 2004 when the German pharmaceutical major Bayer AG decided to spin off its chemical operations and concentrate on its core businesses of healthcare and nutrition. Bayer Chemicals's Indian connection dates back to over a 100 years. Until 1888, Bayer was selling its industrial pigments in India through three trading agents and in 1892, it set up its own agency J. Vernon in Bombay for sales and distribution. After four years, the agency was renamed as Farbenfabriken Bayer & Co. It took almost 70 years for Bayer to start manufacturing in India, with a production site at Thane in 1967. Now all its manufacturing facilities are located at Nagda and Jhagadia. Lanxess's business in India is grouped under 13 verticals and caters to industries such as agriculture, polymers, pigments dyes, paints, automobiles, fuels and construction with thousands of branded products. Of these, advanced industrial intermediates, performance butadiene rubber and the rubber chemicals business units generate maximum revenue for the company.

LANXESS'S BUSINESSES IN INDIA

- **ADVANCED INDUSTRIAL INTERMEDIATES**
- **BUTYL RUBBER**
- **FUNCTIONAL CHEMICALS**
- **INORGANIC PIGMENTS**
- **ION EXCHANGE RESINS**
- **LEATHER**
- **MATERIAL PROTECTION PRODUCTS**
- **PERFORMANCE BUTADIENE RUBBERS**
- **RHEIN CHEMIE**
- **RUBBER CHEMICALS**
- **SALTIGO**
- **SEMI-CRYSTALLINE PRODUCTS**
- **TECHNICAL RUBBER PRODUCTS**

Madhya Pradesh contributed about 34 per cent to Lanxess India's revenues.

"The consistent growth in India, despite uncertain global economic conditions, has triggered sales growth in advanced industrial intermediates and performance polymers like performance butadiene rubbers, technical rubber products and semi-crystalline products," says Venkatesh Sankaran, executive director and chief financial officer of Lanxess India. These products are used in manufacturing automobiles, tyres, electrical goods and electronics, leather products, agro chemicals, pharmaceutical, paints and coatings and in industrial applications (The company has 13 business verticals spanning the gamut of agriculture, polymers, paints, automobiles, water, leather and construction).

At the global level, sales in the BRICS (Brazil, Russia, India, China and South Africa) nations climbed 28 per cent year-on-year to 2.1 billion in 2011 or 24 per cent of Lanxess's global sales. "For Q3 of 2011, sales in the Asia-Pacific region grew by 27 per cent, with China, India and South Korea being the key drivers of growth. Performance polymers segment was the key business driver," said a November 2010 Deutsche Bank report. This performance is particularly noteworthy because revenues from Europe and the US could decline in future.

The current year (2012) is not likely to be a good year. According to Deutsche Bank, Lanxess's sales will decline by 5.5 per cent. They are expected to grow by just 6.6 per cent in 2013. Sharp increases in raw material costs, particularly butadiene, a critical input in rubber production for the firm, is affecting profitability, despite its pricing power. Lanxess's synthetic rubber business contributes almost 40 per cent to its overall revenues.

Focus On India

The firm's global management wants to make India one of its main production centres. It is to

be the global supply hub of thousands of chemical products manufactured by Lanxess that are used as raw materials in many industries.

In December 2010, Lanxess started an ion exchange resins manufacturing plant in Jhagadia with a capacity of 20,000 metric tonnes; this plant is the most modern facility of its kind in Asia. Ion exchange resins are key to producing high-quality industrial water used in the semi-conductor, energy, pharmaceutical and food businesses. "A large amount of ion exchange production in India will be earmarked for exports," says Strassburger.

The company has also set up a plant for biocides used in the construction industry at its manufacturing site in Jhagadia. The new plant, with a capacity of 2,000 tonnes, will make a range of antimicrobial compounds used as preservatives in paints and coatings to protect materials like wood from bacteria and fungi. Rhein Chemie, a Lanxess subsidiary, has also relocated its plants for release agents and additives used in tyre manufacturing to Jhagadia from a former site in Madurai, Tamil Nadu.

"By concentrating many of our assets in Jhagadia we are creating a speciality chemicals hub catering to the booming local market and the Asia region — and there is potential for further expansion of the site," said Werner Breuers, member of the board of management of Lanxess, during the inauguration of the firm's new plants at Jhagadia.

Strassburger says the company is also looking at the inorganic route to spur further growth. "But the issue is lack of quality assets at reasonable price," he rues.

Granted the present contribution from India to Lanxess's global revenue is small, but it will play an important role in its future, says Strassburger. And despite concerns over procedural delays and excessive bureaucratic intervention, the chemistry with India is strong.

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