Specialty chemicals

Making rapid strides

There was a time when India was perceived as a commodity chemical supplier by the world. Today, MNCs around the world view India as a strategic partner in the specialty chemicals sector. The reasons are many - from creative workforce to the increasing number of application areas. No wonder, specialty chemicals are being exported from India. This is expected to grow manifold by 2013. However, to maintain the growth, it is imperative to focus more on R&D and allied infrastructure. Prasenjit Chakraborty discusses...

India's specialty chemicals market represents around 24 per cent of the total chemicals industry, which has a marketsize of $ 40 billion. With the paradigm shift towards developing nations like India, the world is eagerly looking to them to define their future strategies. India is making rapid strides in segments like complex fine chemicals, specialty chemicals, imaging chemicals, pharmaceutical, API/bulk drug, pigments, commodity grade fine chemicals, etc.

MNCs are viewing India as an attractive outsourcing destination due to its low-cost advantage and significant quality control measures. "Foreign companies are shifting their manufacturing bases to India mainly because of the highly motivated and creative work force and well-educated pool of scientists & chemical engineers. Besides, there are reasons like low labour and equipment costs, leading to around 50-60 per cent cost saving compared to that of the US and EU," says Dr Kishore M Shah, President, Indian Specialty Chemical Manufacturers' Association.

According to Chetan Dhadankar, Research Analyst - Chemicals (South Asia & Middle East), Frost & Sullivan, specialty chemicals market in India is growing at a rate more than that of country's GDP. This is because it finds utility in a range of applications, which range from traditional segments such as textiles, dye-stuff, fertilisers, etc, to emerging ones like electronic chemicals, automotive materials, building technology, CROs, etc.

After-effects of economic downturn

Against the backdrop of the economic slowdown, various companies were affected in two plausible ways. First, diminishing demand reduced volume sales of almost all players in the market. This meant that markets as a whole witnessed de-growth, which resulted in a smaller base to compete for. Second, the end-users wanting to pay less made it tougher for the sellers to maintain existing profit margins.

Of course, many companies overcame this by focussing on two basic strategies - on

operational efficiency and consolidating product portfolios. This meant dwelling into the most efficient ways to manufacture, supply and serve the market. Besides, this was also an indication that companies were taking some bold decisions both, on internal and external fronts. Some firms carried out restructuring; others revamped the sales strategy; and some went even further by exiting the less profitable business propositions. At times like these, firms often try to regroup and re-enter markets in order to grow in a more rational manner.

Citing an example, Dhadankar says that Dow Chemicals, to make a mark as a player, focussed on specialty chemicals, shed some of its commodity business models and went on to acquire Rohm & Haas, a well-known global specialty chemicals player.

Similarly, Clariant (India) also took steps during the recent economic slowdown. It reviewed investment priorities and also reduced complexities in its portfolio. "We have started using Lean Sigma to improve the processes and increase production without additional investments," says P Rajasekaran, Head - Leather Business, Clariant Chemicals (India) Ltd.

The Indian companies need more proactive steps in this direction. It is because, the end-users are becoming demanding. "Indian companies must master the art of innovation and adopt the best techniques & practices to become successful in the market," exhorts Dr Shah.

Dr Kishore M Shah
President, Indian Specialty Chemical Manufacturers' Association

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It seems that Indian exporters have gained awareness from their Chinese counterparts when they (Chinese exporters) were facing issues on the quality front (mainly compliance) in selling toys in the US market. "The quality compliance issue faced by the Chinese toy exporters (in the US) helped Indian exporters in understanding the importance of compliances. They started incorporating the right changes in their products and processes, which helped them winning the confidence of customers overseas," points out Sahadeo Patil, Head - Master Batches, Clariant Chemicals (India) Ltd.

Issues to be addressed on priority basis

Certain countries have made advancements in their views towards using chemicals as raw materials and specialty chemicals are an indicator of these advancements. Specialty chemicals have very specific properties due to which they are used in niche applications. In India, companies have a low spending on R&D and innovation. However, this trend is popular in developed economies and may take time before it is established in India. "Spending on innovation and considering innovation as a part of mainline product development is an unaccepted norm in Indian industries," laments Dhadankar.

Second, a large base of specialty chemicals in India is imported. This, in addition to increasing the cost factor, also reduces opportunities in customisation of solutions for end-users. Often, they end up using specialty chemicals, which are not tailor-made for them. "Until some years back, many multinationals did not consider India to be a good location for manufacturing; however, this notion has changed in the recent times," opines Dhadankar. Nevertheless, the local manufacturing should be developed in the near future for better prospects.

Chetan Dhadankar
Research Aanalyst - Chemicals (South Asia & Middle East), Frost & Sullivan

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It has been observed that countries in the Middle East and Latin America are making the scenario complex for Indian manufacturers. "The industry faces significant competition due to increased capacity in the Middle East, and Latin America," points out Dr Shah. Apart from this, high raw material costs, poor infrastructure, high capital costs, taxes, etc are other areas of concern. "If these issues are not resolved on time, then the domestic industry will lose its competency to international players," cautions Dr Shah.

Other areas that need more attention are technology and innovation. "Upgrading the product quality through innovation and diversifying the product portfolio are extremely important for industries to maintain their competitive edge. This would require Indian specialty chemical companies to increase investment into R&D activities in order to sustain themselves in the tough business environment," exhorts Dr Shah. The specialty chemical companies in India can leverage the low R&D costs in the country to undertake intensive research for developing value-added products and innovation. India's cost advantage would also be the key driver to govern outsourcing and Contract Research &

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Head - MB, Clariant Chemicals (India) Ltd

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Manufacturing Activities (CRAMS) in the country.

Dr Joreg Strassburger, Managing Director & Country Representative, Lanxess India Pvt Ltd, strongly feels that in India, there will be a need for consolidation in the chemical industry. "Several smaller companies are not equipped to run the business in an environment-friendly and sustainable manner. This stems from the fact that the use of technology is lacking, and is not feasible for a small company to make the necessary investments," he explains. Also, economies of scale in a global context will play a greater role, as India becomes an essential part of the global marketplace.

Changes in the recent past

The chemical industry has undergone dramatic changes in the recent years, and so has the specialty chemicals segment. The most important changes have been seen on the supply front where the market has undergone significant consolidation and restructuring. Dow Chemicals purchased Rohm & Haas; BASF took over CIBA Specialty; and many such acquisitions & mergers have caused the industry to consolidate and rationalise in a streamlined way.

"Back home, increased focus on domestic production of specialty chemicals by technology licensing has made it easier for Indian players to market and distribute their products," observes Dhadankar. Interestingly, the perception of end-users towards specialty chemicals as value-for-money has changed drastically. "The shift further increases the potential for these chemicals in a positive way," he points out.

Such developments certainly augur well for the industry. Another reason, which will certainly boost the confidence of the entreprenuers is that products manufactured in India are increasingly being accepted by consumers. It clearly speaks volumes about the enhanced quality of Indian products. "Many multinational companies have started producing high-technology products in India to capitalise on the growth opportunities," says Rajasekaran.

Of late, Indian processors have started attending seminars & conferences and participating in international exhibitions. "This gives them good exposure to the latest trends in technology, processes and commercial practices from all over the world. Many international giants have joined hands with Indian processors bringing in the latest technologies and practices," says Patil.

Inadequate logistics

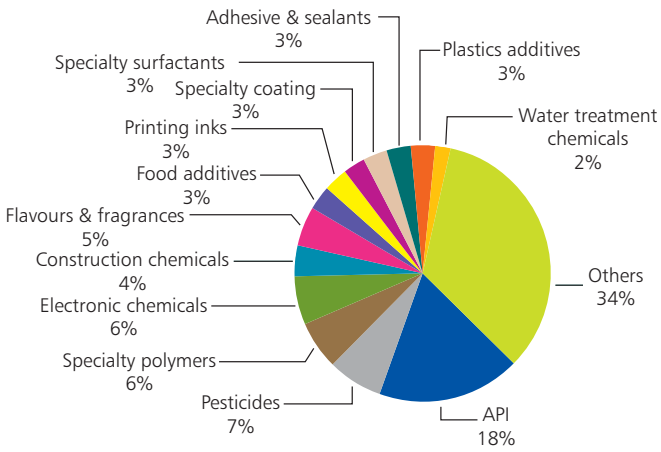
Logistics and infrastructure have always been a weak link in the value chain for the Indian industries. Specialty chemicals are expensive, and require fixed storage and handling in terms of transport and usage. To make it happen, requires a significant revamp of infrastructural facilities and logistics. The growth of specialty chemicals could be constrained due to these factors.

Keeping this in mind, Indian companies and MNCs have become proactive. In many instances, companies (in India) have gone ahead in developing their own infrastructure to be able to operate efficiently. "This makes the Indian entities less dependent on state-run infrastructure for logistics and transportation," points out Dhadankar.

According to industry analysts, lack of high-quality port handling and storage facilities, along with the deficiency of a robust pipeline, rail & road infrastructure, hampers the growth of the industry. Inadequate infrastructure results in slow growth and increased costs, primarily due to the delay in distribution and hold up at ports. "Shipping cost within India is more than that incurred for exporting to other Asian countries," rues Rajasekaran.

India vs China

The Indian market has traditionally been different from the Chinese



Others: Paper, mining, textile, oil field chemicals, dyes, lube additives, imaging chemicals biocide, rubber chemicals, enzymes, corrosion inhibitors

Source: SI Group

Figure 1: Segment-wise breakdown of global specialty chemicals market

chemicals market in many ways. First, China has developed as an economy, dependent on scale and export. This is not the case with India. With a more inward looking growth model, India has concentrated on domestic demand. However, recently India has increased focus on export market, that too on limited quantity. "This gives India a relatively smaller, but a more robust demand model. This works for specialty chemicals also," observes Dhadankar.

In addition to this, as discussed earlier, in India infrastructure generally follows the industry. The facilities and capacities are established by public or private sectors and later, infrastructural requirements like highways and transport are looked into. In the case of China, the state develops infrastructure first, in order to boost industrial growth. India has also been looking into this domain and has been actively coming up with SEZs with major infrastructural support for industry participants. "Thus as both countries have different business models, and ways of looking at growth, a comparison based on advantage does not really come into picture," opines Dhadankar.

Bright future ahead

The outlook of the specialty chemicals industry in India is based on cost, value-addition, distribution and procurement. All of these play a very important role. Even in the last decade, India was perceived as only a commodity chemicals supplier by the world. Efficient manufacturing practices and low cost of labour enabled India to progress well. Towards the beginning of the new millennium, multinationals started viewing India as an outsourcing hub for some of the specialty chemicals. Despite this progress, the view was very narrow. It entailed only manufacturing of products for companies and shipping them out.

"With the acceleration of growth that was achieved by India Inc in the later years, Indian industries stepped up and became end-users for specialty chemicals in a big way. This was a big leap forward from being a manufacturer of commodities to end users," explains Dhadankar.

Since then India has traversed a long distance as far as a specialty chemicals segment is concerned. Today, most companies view India as a strategic partner for specialty chemicals. "Indian companies are playing an active role in developing high-value chemicals and new genres of chemicals. Also taking lead roles in using and developing of knowledge chemicals, etc," says Dhadankar.

In addition to manufacturing, export and utilisation, Indian firms are also making their mark as R&D hubs for such chemicals. The outlook of the Indian industry, hence, has evolved remarkably over the last two decades.

Courtesy: Green Nation

Dr Joreg Strassburger
Managing Director & Country Representative, Lanxess India Pvt Ltd

In India, there will be a need for consolidation in the chemical industry. Several smaller companies are not equipped to run the business in an environment-friendly and sustainable manner. This stems from the fact that the use of technology is lacking, and is not feasible for a small company to make the necessary investments.

In the words of Dr Shah, "India's specialty industry is expected to grow at a CAGR of 15 per cent, almost double the growth of the global specialty industry. Exports of specialty chemicals from India are poised to grow from $ 4 billion in 2007 to $ 13 billion in 2013, representing a CAGR of 22 per cent."

However, looking at the nature of the industry it seems that the growth will not be uniform for all sectors. "Due to the highly fragmented and segmented nature of the market, the future prospects vary from segment to segment and even from company to company. In order to overcome the volatility in demand, many players are now focussing on expanding and maintaining a broader portfolio of products," says Dr Shah.

Wider application areas have further brightened the scope of specialty chemicals market in India. Today, specialty chemicals are being used in the construction, automotive, electronic and water treatment segments. These segments are most likely to drive the growth of the Indian specialty chemicals market in the next five years. "We do not see any chances of de-growth in the immediate future. Overall we clearly believe that there is a huge market potential and well positioned to meet the demand," avers Dr Strassburger. ■