



**“Investments in the chemical industry and factors imperative for its sustained growth”**

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# LANXESS – A leading specialty chemicals company based on three powerful segments

## LANXESS – Energizing Chemistry

### Performance Polymers



Globally No.1–3

€ 3.79bn (9M/2011)

- Global Technology Leader in Synthetic rubber and polyamide
- Supporting trends
  - Mobility, growing population in Asia
  - High performance Tires
  - Vehicle weight reduction
  - Tire-labeling, replacement pick-up

### Advanced Intermediates



Europe No.1–2

€ 1.18bn (9M/2011)

- Leading supplier of custom synthesis and basic chemicals (agrochem – related)
- Supporting trends
  - Increasing crop demand based on growing world population
  - Need of farmers to raise yields
  - Industry consolidation

### Performance Chemicals



No.1-4 in Niches

€ 1.64bn (9M/2011)

- Application – oriented specialty chemicals
- Strong brands and technology leader
- Supporting trends
  - Scarcity of purified water
  - Rising middle class in APAC
  - Ongoing market consolidation

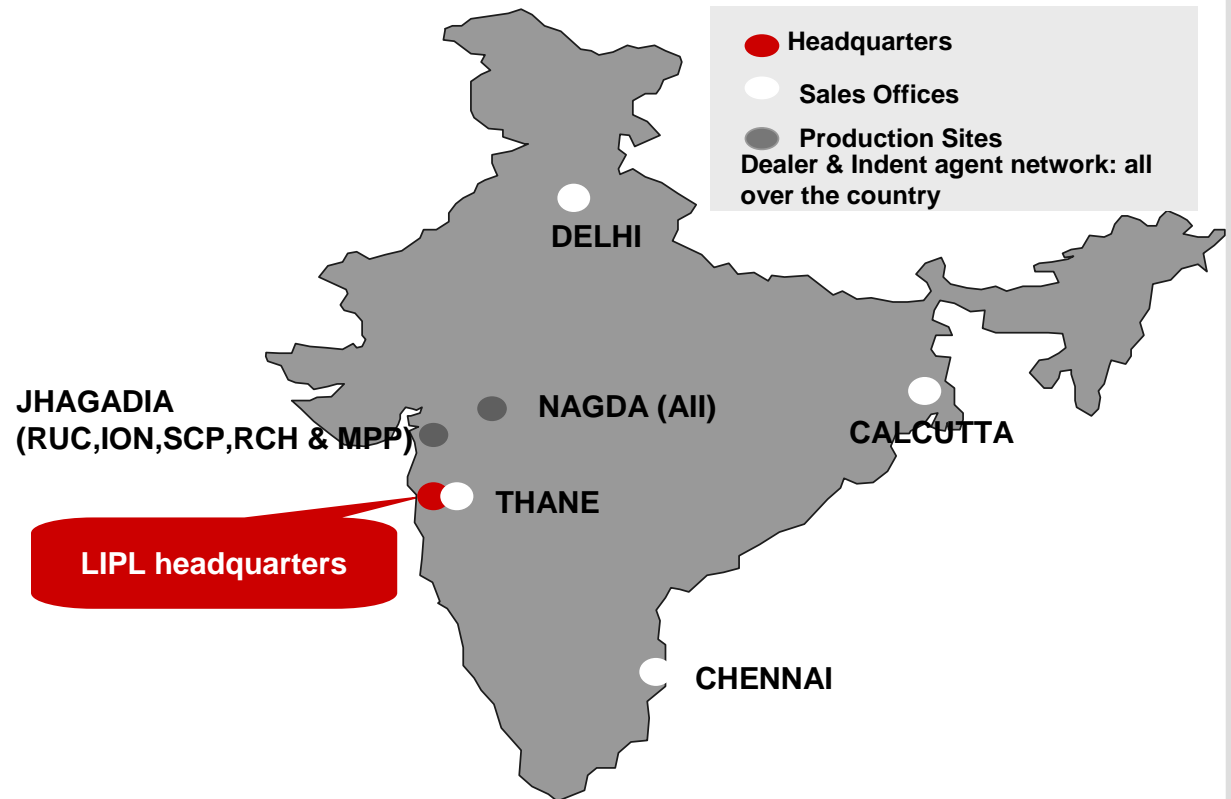
Competitiveness across the portfolio

# LANXESS India is a leading supplier of specialty chemicals to customers in India and the SAARC countries

## Current India Position

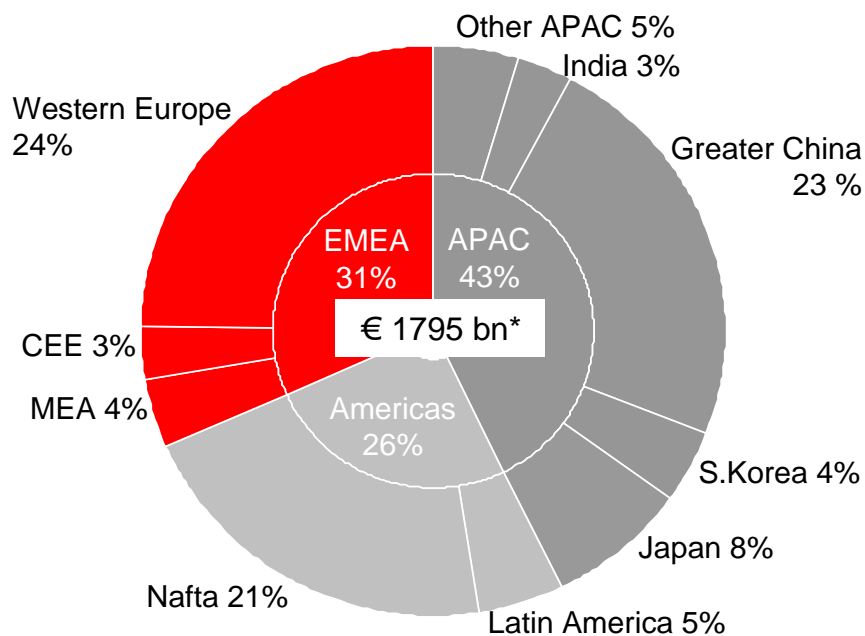
- € 205mio in CY 2010
- 4 Sales Offices
- 2 Production sites
- 861 employees (Dec 31<sup>st</sup>.)
- 13 Business Units

€ = 64 INR



# Unlimited potential for Indian chemical industry as shift takes place from western countries to APAC region.....

2010



## Market shift

- APAC emerging as the largest contributor to global chemical industry
- China's has become significant player by capturing the larger chunk of chemical commodity market
- India can leverage this shift in specialty chemical landscape
- By 2020, approx. US\$350bn of the projected US\$1Trillion global specialty chemical industry could move to Asia (excluding Japan) driven by downstream demand and competitive manufacturing cost
- India has the potential to build a US\$80 to US\$100bn specialty chemical industry by 2020

# The Indian industry has achieved a critical market size and is poised for strong growth.....

## Markets and Trends – 2012 & beyond

- **Construction industry:** Increasing urbanization and growing middle class will continue to drive the growth in construction industry in next decade
- **Automotive industry:** Passenger vehicle production is expected to increase from current levels of 3million units to 5Million units by 2015-16 and 10Million units by 2020-21
- **Tire industry:** Tire production would be driven by the increased mobility trend and growing Automobile industry and the investments done by the industry in expanding capacities to cater to both domestic and exports markets
- **Agrochemical industry:** India is large and growing market for agricultural and food products. Agricultural sector grew by 3.2% in Q2 2011-12. Government is targeting a growth of 4% in 12<sup>th</sup> five year plan

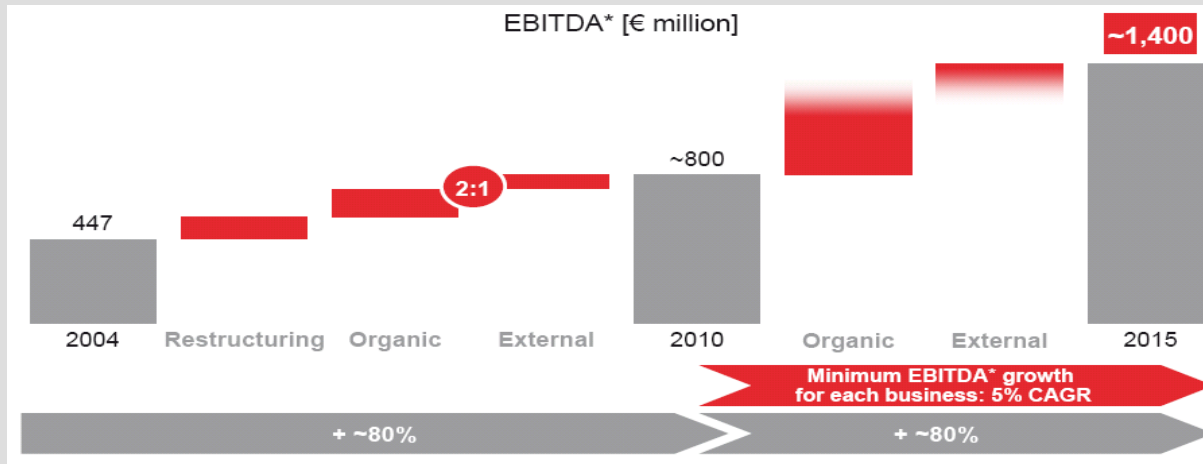
# BRIC Initiative to target more investments in Emerging markets like India

## External growth

- Targeted acquisitions

## Organic growth

- Efficiency increase
- Capacity increase

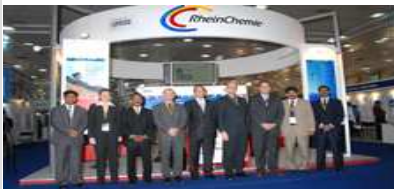
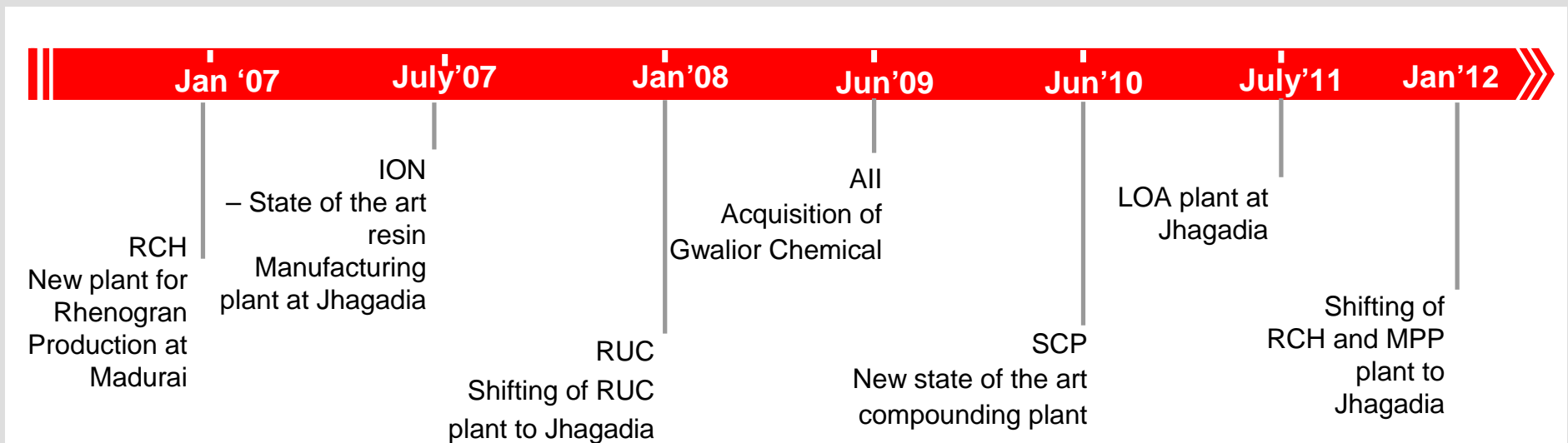


## Ambitious targets

**EBITDA pre  
exceptionals 2015**  
~ €1.4 billion



# Investment of €180mio (INR 1150cr approx.) in assets in last 3 years.....



# State-of-the-art multi BU specialty chemical site at Jhagadia

## World class plant

- Investment of €70Mio
- Multi BU site with world scale plants for manufacturing of Ion Exchange resins, Polyamide compounds, Rubber chemicals, Rubber additives and Biocides for Paint and construction industry
- Site serving to both growing domestic market as well as global customers all across the world
- Further investments considered in specialty chemical landscape to serve Indian and global markets from India

## Jhagadia Site





# Some missed out opportunities largely due to feedstock, energy cost and permits for bigger sites....

## Opportunities missed

- Unavailability and higher cost of feedstock in elastomer business – compared to place like Jurong Island in Singapore, where there are multiple petrochemical complexes
- Energy and utilities cost are higher compared to other regions, so more investments are required initially (co-gen plant)
- Authority engineering – Time frame & efforts required to get all the permits & registration in place are much more compared to any other place

## Questionnaire for site analysis

Questionnaire regarding LANXESS's Site projects		India	China	Singapore	Mexico	Comments
	Location					
	General information (size, existing companies, projects etc.)					
	Deep Water access					
	Developed Industrial Park					
<b>1</b>	<b>Information of industry park and land?</b>					
1.1	Requirements of industrial park for building a new plant? Registration procedure?					
1.2	What is the typical procedure in order to get land use rights?					
<b>2</b>	<b>Raw material</b>					
2.1	In proximity on site					
	X					
	Y					
<b>3</b>	<b>Energy and utilities</b>					
3.1	Battery limits					
3.2	Steam					
3.2.1	Existing pressure levels?					
3.2.2	Availability? Fixed and variable price per ton for each level ?					
3.3	Electricity					
3.4	Compressed air					
3.5	Natural gas					
3.6	Gas supply (N2)					
3.6.1	Availability?					
3.6.3	Prices per Nm3?					
<b>4</b>	<b>Infrastructure</b>					
4.1	Water					
4.2	Demineralized water					
4.2.1	Capacity, pressure, price?					
4.3	Waste water treatment					
4.4	Waste					
4.5	Jetty for sea vessels					
4.6	Site services					
4.7	Other plant overhead cost?					
<b>5</b>	<b>Authority engineering, Construction</b>					
5.1	Planning and license (registration / permit by authority)					

# Challenges to be addressed to capitalize on these opportunities.....

- 1 Infrastructure
- 2 Feedstock
- 3 Higher logistic cost
- 4 Complex tax system & regulations
- 5 Sustainable chemical parks
- 6 Rising manpower cost
- 7 No. of permits and time frame for approval
- 8 state govt. commitment

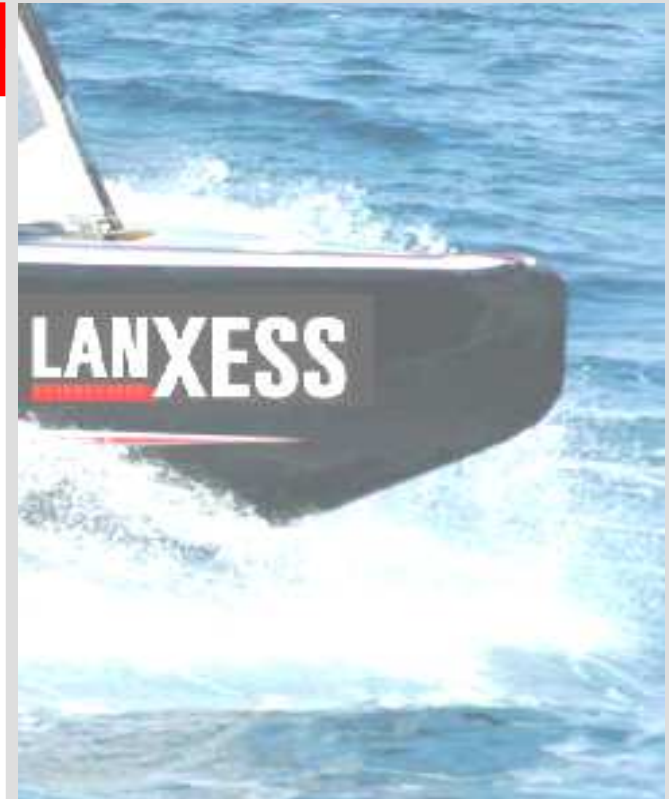


# Need better infrastructure for large scale investments

1.

## Infrastructure improvements

- Non availability of continuous power supply
  - LXS has invested in co-gen plants at both of its sites in India for continuous and cheaper source of power
- Availability of Natural gas
  - very few states with natural gas availability
- Sewerage and Effluent treatment linkages from plant to the final disposal sites
- Good connectivity to major industrial clusters by road (National highways), airports and ports
  - we are still using Mumbai port and airport for both of our site in Nagda and Jhagadia



# Non availability of feedstock, higher logistic cost and complex tax structure makes it difficult to make larger investments.....

## 2. Feedstock

Lack of feedstock advantage (higher cost and non-availability) is a major concern

## 3. Logistic cost

Higher logistic cost for exports from India

- In LXS, both our sites exports large chunk of finished good
- road transfer of finished goods from site to ports are expensive and not safe due to bad roads and traffic congestion.
- Transfer of finished goods (from site to port) by rail, which is more safer and cost could be potentially less by 20% to 30%, what we need is ICD (Inland container depo) near to every site

## 4. Complex tax system & regulations

Complex tax structures need to be simplified e.g. GST – timelines are getting postponed again and again

- Its difficult to explain and convince foreign investors with such a tax structure

Laws and regulation delay the pace of the work

# Land and skilled manpower are in shortage and cost is continuously rising

## 5. Availability and cost of Land in sustainable chemical parks

- there are very few chemical parks in India, which makes availability a issue e.x in Gujarat at Jhagadia or Dahej 1 and 2

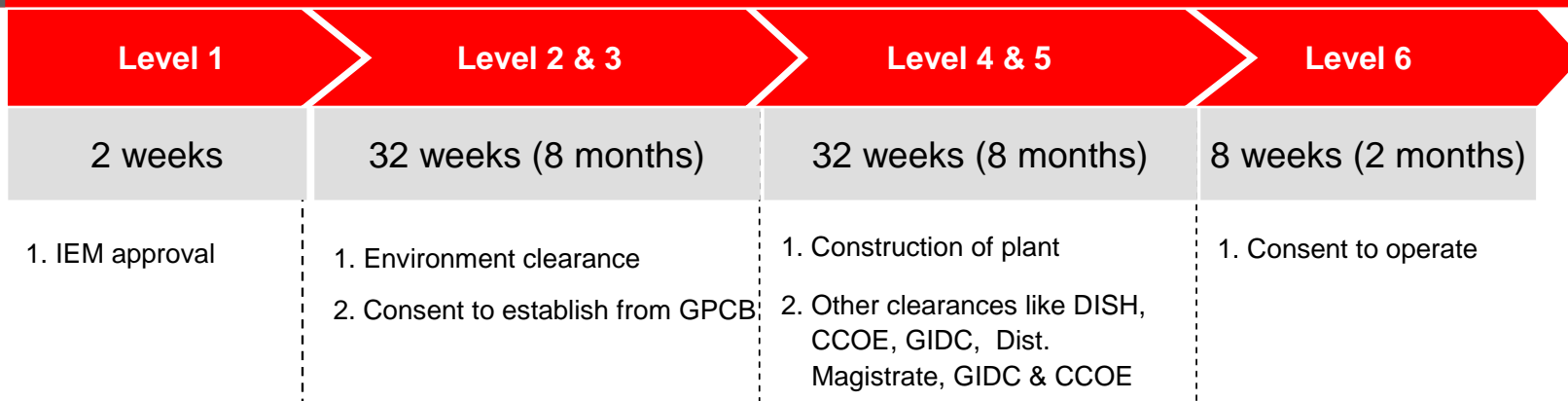
## 6. Availability and rising cost of manpower

- shortage of people with requisite skill set, additional training at onsite locations are required, resulting in increased hiring cost
- wage inflation, resulting in additional cost for the company
- chemical companies need to go extra mile to become or stay attractive to employees, as they compete with Financial and IT sector to attract best talents



# No. of permits and clearance required from various state govt. bodies makes it more difficult.....

7. **Approx. 18months required to set up the plant with all the permits and clearances**



8. **State governments find it difficult to fulfill commitments and stick to the timelines,**

**.....challenges are there, initiatives taken up by Govt., notable infrastructure improvements in last few years.....**

### **Govt. committed to facilitate the industry**

- Manufacturing policy to increase the contribution of manufacturing sector in GDP from 16% to 25% by 2020. It shows the intention of the Govt. in promoting industry, nevertheless no specific efforts to attract chemicals which require special infrastructure
- Sustainable chemical parks like PCPIR's are being created. Its good to see the work done by Gujarat government in Dahej 1 and the pace at which they are trying to build Dahej 2
- Infrastructure especially the road connectivity has improved significantly, similar work need to be done in building ports & connecting all the chemical parks with rail corridor to ports



# Conclusion: great potential can be leveraged if the concerns are addressed

## Economy

strong growing economy with a base of US\$1.7 Trillion (approx.)

## User industries

strong growth expected in user industries as India add another 70million household (of urban cities) in its middle class

## Govt. Support

govt. need to act fast on providing sustainable chemical parks, infrastructure, simplifying policies and tax structures, then only industry can grow to next level

## LXS perspective

LXS is stronge believer of the Indian growth story & will continue to explore further opportunities for investments in India if the framework is right



**LANXESS**

Energizing Chemistry