



SPECIAL REPORT ON INDIA

A Global Business Reports publication,
presented with IHS Chemical Week



GLOBAL BUSINESS REPORTS

IHS Chemical Week

Every Reason to Return

This research has been conducted by Eugene Yukin, Gabrielle Morin and Jacopo Dettoni of Global Business Reports. For more information, contact info@gbreports.com

INTRODUCTION

An open economy, high levels of R&D and an unrestricted market bring renewed focus to India's chemical potential.

"We are 'de-authorized' in India," says Mr. Smith, who adds that he sees "nothing in the current environment that might lead to Coke's return." So read a quote from then president of the Coca-Cola Company in a New York Times article dated to April 9th, 1978. Just a year earlier, the world renowned beverage company was forced to abandon India's promising market of nearly 650 million people, as a stringent economic mentality centered on national self-reliance resulted in laws targeting foreign investment. The victims of this period were multinational companies; most were affected and some left.

Thirty-five years later, the investment environment could hardly be more different. Since India's economic liberalization policies took effect in the early 1990s, the country's GDP has grown at sustained rates hovering around 7% to 10%, allowing Indian companies to cultivate a presence abroad and foreign ones to regain their previous positions in the Indian market. "It was an Albania-style policy of import substitution and keeping everyone else out; foreign trade was a dirty word," remembers Rakesh Saraf, director of Windsor, an importer of commodity polymers, ceramics and engineering plastics. "To some extent, today things have changed. Indian customers do not want to be exclusively dependent on local producers, as they know they will get squeezed, so they try to keep all channels, domestic and overseas, open."

A legal and regulatory maturity has introduced a level of comfort for companies



Gregg L. Scieszka, President Australia-NZ, South Asia & Middle East & Sanjay Gupta, managing director in India, Brenntag Asia Pacific Pte Ltd

operating in India. Nowhere is this clearer than in the country's chemical and pharmaceutical sectors, which together were valued at \$83 billion in 2010 and account for 3% of the country's GDP. "The opportunities in India are huge because of the low consumption levels," explains Sanjay Gupta, managing director for Brenntag Ingredients India, which acquired Rhodia's chemical distribution business in Asia Pacific in 2008. "The recent growth rates in India have been very exciting. India has a large population and an expanding middle class. In addition, there is an increasing demand for a large number of industrial and consumer products."

Brenntag is far from alone in seeing economic indicators drawing private investments into India. Most chemical and pharmaceutical companies are confronted with an appealing prospect: a population of 1.2 billion people, a median age of 26, and a growing middle class with significant spending power. Add in the fact that chemical consumption rates are one 10th of the world's average and it is easy to understand why companies have been flocking back.

Yet despite such promising numbers, industry insiders are quick to point out that it takes a certain type of company to succeed in this environment. An initial

problem, suggests Dr. Marek Dziki, India managing director for Merck, is that most companies consider India to be an Asian country: "there is a huge gap between India and other Asian countries and the business mentality here cannot be compared to the country's neighbors. A major difference lies in the responsiveness to a fast-growing dynamic market. Here it is essential that your strategy is quick enough to respond to the changing environment in order to capitalize on new opportunities."

A blasé assumption of cultural similarity can also come about through the high level of English in Indian industry. "Understanding the culture can be a major road-block, although it is not a language barrier because most customers will be able to speak at least some English," says Windsor's Saraf. "I have been in a meeting with an Indian and a Kuwaiti and had to translate almost every sentence, because although they both spoke English neither understood what the other was saying. It is the tone, the inflection, the choice of words and what is left unsaid that really makes the difference."

NEW PATTERNS EMERGE

The chemical industry in India is the 12th largest chemical industry in the world, ranks third in Asia, and it is set to grow much further. According to a recent report by McKinsey, "the industry has the potential to grow at 13% to 16% per year to reach \$80 billion to \$100 billion by 2020. The industry is roughly divided into three segments: basic chemicals account for 57.14% of the industry, specialty chemicals for 25.71% and knowledge chemicals for 17.14%. Bolstered by investment-friendly government policies, including a goal to boost exports significantly in global markets, chemical exports grew at a compounded annual growth rate of 18% between 2008 and 2009 and the Commerce Ministry has a

target to double exports from the chemical industry by 2014. However, despite the large gains in chemical exports, new opportunities have appeared on the domestic horizon and an increasing number of companies are no longer seeing India solely as an outsourcing base.

When foreign chemical manufacturers, particularly in the high-end and specialty chemical sectors, streamed back to India in the 1990s, the reason was clear: cheap manufacturing. This advantage of cheap labor and highly trained workers has largely continued. "India has a high capacity of well-trained development scientists who are focused on research. In addition, India has the ability to produce products that are one quarter of the cost of products that are researched, developed and commercialized in North America. Projects in India can be constructed for half the price of projects that are constructed in America," says Sudhir Menon, managing director of Dorf Ketal, which acquired DuPont's specialty catalysts business in 2010 and is India's largest manufacturer of research-based specialty chemicals used in refinery and petrochemical plant treatments.

However, rising prices of labor have lessened the cost benefit previously experienced by manufacturers. "India is a consumer base with a cost-effective talent pool, rather than a low cost manufacturing base," explains Dr. Harry Rathore, head of India operations for Lonza, a global player in the life science sector that moved its R&D and sourcing operations to India in 2008. However, as Rathore goes on to explain, the "costs of manufacturing in India are increasing and in five to ten years the cost advantage will not be here."

To remedy this emerging problem, foreign manufacturers are beginning to target the domestic market. Higher labor costs are, indeed, merely a symptom of an emerging middle class that brings with it a growing domestic market and higher standards. "Labor costs have really gone through the roof and that has been a recent development," says John Gabriel, who now heads the recently formed Life Sciences company of Privi Organics, a major Indian aroma chemicals company. "One of the reasons for this is that the

awareness of education is really permeating through the system rapidly. Educated people want a better lifestyle. In addition, awareness and a desire for high quality products have driven demand for better regulations and standards. The Indian consumer now expects his products to be at global standards."

Higher demands by Indian consumers have resulted in growth for chemical products across the board. One area that

exemplifies the emerging opportunities is the construction sector. Sika, a Swiss company that specializes in specialty chemicals for the construction industry, estimates that its market is growing by 18% to 20% per year. "There is a huge focus on India because of the rapid infrastructure and overall construction development within the country," says managing director of Sika India, Subu Venkataraman. "The outlook for the next



BRENTAG

**THE SHORTEST ROUTE TO YOU
ALL ACROSS ASIA PACIFIC**

Brenntag is the global market leader in full-line chemical distribution. Linking chemical manufacturers and chemical users, Brenntag provides business-to-business distribution solutions for industrial and specialty chemicals globally.

With over 10,000 products and a vast supplier base, Brenntag offers one-stop shop solutions to more than 160,000 customers.

Brenntag entered the Asia Pacific market in 2008 and is now operating in Australia, Bangladesh, Cambodia, China, Hong Kong, India, Indonesia, Malaysia, New Zealand, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, UAE and Vietnam.

With our market knowledge, technical application expertise, wide geographic coverage, and extensive product portfolios, we provide value-added

services to customers in various markets, including coatings, food & beverage, personal care, pharmaceuticals, plastics & polymers, and water treatment.

Brenntag Asia Pacific Pte Ltd
79, Anson Road, #13-05/06
Singapore 079906
Phone: +65 6511 7830
Fax: +65 6511 7840
info-sinap@brenntag-asia.com
www.brenntag-asia.com



Sanjay Rai, managing director,
Kandla Energy and Chemicals Ltd.



Kandla Energy and Chemical Ltd.'s state-of-the-art production unit at
Devaliya in Kachchh district of Gujarat.

20 years in India is very bright and the real estate sector is driven by demand; at any one time there is a shortfall of twenty million housing units. Despite this figure the construction chemical market in India is currently \$500 million, which is relatively small.”

The booming internal demand is inspiring a general upgrade of the chemical industry. Many traders, not wanting to miss out, have decided to establish a local manufacturing presence. Up until 2005, Ahmedabad-based Kandla Energy and Chemicals Limited (KECL) had been trading in petrochemicals. The management has transformed the company to a manufacturer of solvents and today KECL has a presence in 17 out of 28 states in India as well as a global footprint, with products exported across the five continents. “KECL will estab-

lish three new processing facilities by 2014: one each year,” says Sanjay Rai, managing director of Kandla Energy and Chemicals. “India is a big country and we want to be closer to clients and lower our transport costs. KECL will also be installing a new plant abroad. All in all, in India the company wants to be close to the customers, and abroad we want to be close to the feedstock.”

However, a taste for higher quality products and growing consumption rates are not yet able to provide domestic demand for all manufacturers. Many of those who offer advanced products still export 80% to 90% of their chemicals abroad. Joerg Strassburger, Managing Director, LANXESS India, considers that having a well-established presence in the country will go far in guaranteeing business when certain sectors begin to see the

need for advanced products. In the past six and a half years the company has already invested around USD234 million dollars into the country. “India is quite attractive for us because of the growing demand from the consumer driven industries like automobiles, pharmaceuticals, paints and coatings, electricals and electronics, agrochemicals etc,” says Strassburger. “Many areas are still seeing low levels of consumption, but this will change in the coming years. That is why we

have built a robust foundation backed by our global strategy and network. This will enable us to not only cater to the current demand but also prepare ourselves for the sizeable growth that we foresee in the years to come.”

With India’s population set to pass 1.3 billion in the coming five years, analysts now predict India to become the world’s fifth largest consumer market by 2025, providing an equally large market as China does today. The strategy needed, argue most multinational companies, is to establish a presence in the country now, thereby laying the foundations for future growth.

Not all companies are willing to wait for demand to kick in and instead take an aggressive approach by playing an active role in growing their market. Wacker, a German silicon and fine chemicals pro-



Globally, KECL solvents are appreciated for its excellent quality and timely deliveries. We regularly export to several countries across five continents. We strive to continually and constantly keep pace with International developments and standards, thus steadily penetrate further into the global arena. Our trade and associate offices can be found across length and breadth of India. Our International presence spans through our offices at Dubai, London and Kazakhstan.



Corp. Office : 4th Floor, Sarthik Annexe, Next to Gulmohar Park, ISKCON Circle, S.G. Highway, Ahmedabad - 380 015
Tel: +91 79 40371268 / 69 Fax: +91 79 2692 0718 Email : sales@keclsolvents.com
Factory : Survey no. 52 / 01-55, Vill. Devaliya, Ta. Anjar, Dist. Kutchh, Gujarat India
Tel: +91 99252 03777

MULTICHEM

Your Gateway to India

Your Chemical Partner

Amidst this exciting market scenario, MULTICHEM is rapidly growing, widely networked chemical marketing and distribution company based in India's commercial capital, Mumbai. Established in 1976, we have been successfully catering customers' various requirements across all major segments like:

<ul style="list-style-type: none"> ■ Agro Chemicals ■ Contructions ■ Coatings (Paints/Inks/Adhesives) ■ Fibers ■ Food Processing ■ Lube 	<ul style="list-style-type: none"> ■ Metal Treatment ■ Personal Care ■ Pharmaceuticalals ■ Petrochemicals/Plastics/ABS ■ Refineries/Oil & Gas ■ Rubber Chemicals ■ Water Treatment
---	---

We are seeking distributors/agencies from chemical companies who intend to market their products in India

Manish Karnani - Director / Multichem Specialities Private Limited
 1215, Dalamal Tower, Nariman Point, Mumbai 400, 021, India
 Tel: +91 22 434 32 121 Fax: +91 22 434 32 122
 email: manish@multichemindia.com info@multichemindia.com

www.multichemindia.com



Authorised Distributor





Decide with Confidence
 RATING "3A3"
 D-U-N-S Number 87 466 8046

ISO 9001:2008
 Certified

ducer, established its subsidiary in India in 2007 and has already set up a major training center in Mumbai to demonstrate how its products can be applied domestically. What allows chemical companies to create awareness for their products, explains Raman Trikala, president of Wacker Chemie India, is the openness of Indians toward new technologies. "By and large the Indian community is a very knowledge-thirsty community. They are extremely technically savvy and they want to bring in a lot of new things to the country," Trikala says. "The receptive nature of the industry is extremely good and is working in our favor. I must say that we have received a good reception for our technologies and local companies have adopted our products into their appliances and products."

Yet despite this potential, India's pharmaceutical industry mainly remains export oriented due to manufacturers' ability to comply with strict quality regulations in developed markets, something that producers in other developing countries struggle to achieve. This element fosters an external demand for pharmaceuticals made in India that generally overweighs the current internal demand. "Local manufacturers have been developing their products for regulated markets for more than 20 years now", explains Pradeep Thakur, managing director of Aceto Pharma India, a US distribution and marketing company mostly dealing with APIs and specialty chemicals. "They understand that, in this

industry, the risk associated with not following regulations is great, and therefore today they assure the quality of their production through a skilled workforce and efficient processes. At the same time, local companies are also competitive from a volume perspective."

As a result, the sector is flourishing. "In regards to chemicals, India is generally seen as a consumption centre and the country is a net importer. On the other hand, the pharma industry is booming and most of the APIs it produces are exported, leading to a trade surplus in the sector," says Manish Karnani, managing director of Multichem, an importer and marketer of specialty chemicals for the pharmaceutical and water treatment industries that predominantly deals with small-sized to mid-sized companies that have not the in-house capabilities to di-



Godrej Chemicals Plant at Valia, Gujarat focusing on fatty alcohol synthesis and fractionation.

rectly import their raw materials as bigger players generally do. "Things will not change in the foreseeable future: I can definitely see good growth in the pharma industry and water treatment industries over the next five years."

R&D NATION

Despite the negative economic effect of the 1970s laws, the strong notion of self-reliance that initially sparked them is also considered to be one of the underlying causes of the country's entrepreneurial spirit. Several factors, not typically seen as beneficial to the chemical industry's growth, have resulted in companies seeking different ways to remain competitive in the market.

The lack of feedstock is often cited as one of the major issues troubling India's growth. In 1996, when the India's economy began to open up, the country had only four ethylene complexes with a capacity of 525,000 tonnes per annum. In 2010 the situation had somewhat improved, India was producing 3 million tonnes of ethylene, but could not compare to China's 13 million tonnes that same year. Yet the obstacles that obstructed the industry are also the chief cause for its current success: chronic shortages and rising prices of raw material inputs necessitated India's numerous chemical manufacturers to find manufacturing solutions, often through R&D, that have made their chemicals cost competitive.



Nadir B. Godrej, managing director, Godrej Industries Ltd.

It was the lack of raw material that allowed Godrej Industries, India's major producer of oleochemicals, to grow in the market. "In the days when we had no raw materials to make soap, we used all kinds of unusual things," explains Nadir Godrej, managing director of Godrej Industries. "We tend to look at a variety of opportunities. India produces 30 types of oil, the most in the world, which gives us a lot of opportunities to improvise. Recently we have subdivided our R&D division within consumer products, not so much to focus on the products themselves, but rather to utilize unused raw materials through research. We have even made agro-chemicals from these unused sources in the past. The fact that we have relatively low cost engineers and research scientists enables us to have strategies completely different from our competitors."

The results of India's R&D drive have been impressive. In 2010 alone there were 200 national laboratories and 1,300 R&D units, giving India's chemical manufacturers an innovation based competitive advantage.

A prime example of a company whose growth has almost entirely been based on R&D is that of Gharda Chemicals, one of India's largest agricultural manufacturers. "Gharda Chemicals started as a very small company before building itself up on the basis of internal R&D. Each of the company's factories has a small research centre, with a central facility at the Dombivli factory. Spending on R&D comprises about 5% of turnover and 10% of our employees are focused on it," says Dr. Keki Gharda, managing director of Gharda Chemicals.



Dr. K. H. Gharda, chairman and managing director, Gharda Chemicals Ltd.

Not all R&D development in India is being developed from scratch though. A large amount of R&D development and innovation in India currently involves taking off-patent molecules and finding new solutions for them. Gharda calls this "defensive R&D". "I consider that it is still not economic to invent a new molecule, primarily because the first time you register a product the authorities are very strict," he says. "Every year we pick up off-patent products that are useful in India and have good scope for export value. There are two types of R&D: defensive and that orientated to new products. Most of our agrochemical research is defensive, meaning seeing that the molecules we manufacture are at the peak of efficiency. Off-patency products are known but very often we manufacture them with an original process."

FOREIGN COLLABORATION

Technical collaboration has also been growing as the relationship between foreign firms and Indian ones becomes more balanced. "I think that while Indian companies in the plastics field have a competi-

tive edge when it comes to R&D, it will still be quite important for companies to reach out to foreign firms for technological partnership in order to grow their business in a more dynamic way," says M.P. Taparia, managing director of Supreme Industries.

Supreme Industries, a leader in India's plastics industry, provide a good example of how local players have managed to go about supplementing their own in-house R&D capacities through foreign collaboration. The company, which handles more than 200,000 tonnes of polymers each year, has signed a number of technical collaborations with foreign firms. "We collaborate with Nova for our petrochemical business, with Wavin in our piping business and for our cross laminated films division we collaborate with Rasmussen Polymer Developments. So we have various technology arrangements apart from our own R&D capacities," says Taparia.

The increasing ability of foreign firms to collaborate with Indian companies has also increased the amount of R&D centers that multinational companies are establishing in India. The availability of highly trained and specialized researchers is a great advantage that comes with operating in the country. Solvay, one of the top ten global chemical companies, decided to place one of its three global R&D centers in India in 2010. The centre is set to become fully operational this year and will focus on biotechnology, green chemistry and specialty polymers. "We believe that the domestic market will be the main growth driver for the future so we need to be present here in terms of doing application development to meet the domestic market needs and that will be one of the major goals of our new R&D center," says R. Prakash, managing director of Solvay Specialities India.



Technology at work: Supreme Industries' 131 acres plant at Gadegaon, Maharashtra.

ENGINEERING INDIA'S POTENTIAL

Unleashing the potential of the Indian economy is paving the way for new projects across all industries. Producers are building or enhancing their manufacturing capacity with new facilities shaping up.

The Western state of Gujarat stands out for its ability to attract investments under the 11-year tenure of BJP's Chief Minister Narendra Damodardas Modi. State-owned ONGC Petro Additions Limited (OPaL) is constructing an integrated petrochemical complex in Dahej. Once completed, it will be one of India's largest complexes of its kind, with a capacity to produce 1.1 million tonnes of ethylene and 400,000 tonnes of propylene annually. Back in 2008, Reliance Petroleum completed another substantial downstream project in Jamnagar, on the Northern coast of the state, where the company had commissioned a refinery and a propylene facility three years earlier. Gujarat is beckoning to foreign companies as well. German specialty chemical producer Lanxess recently relocated its manufacturing facilities from Madurai (Tamil Nadu) to Jhagadia in Gujarat, joining other multinational corporations (MNCs) already operating in the area such as BASF, Bayer and Dow. To different degrees of intensity, new developments are taking place in other strategic areas of the country, such as Mumbai (chemicals and distribution/logistics) and Hyderabad (pharmaceuticals).

These recent developments have enticed a growing number of engineering companies. "We believe that there will be substantial investment in setting up petrochemical facilities as the government is promoting petroleum, chemicals and petrochemical investment regions and India has ever-growing demand," says Francis Hyoman Im, managing director & CEO of Samsung Engineering India (SEI).

In partnership with Germany's Linde, SEI was awarded the \$1.43 billion contract for the development of the Dahej complex in Gujarat.

While opportunities for engineering companies are definitely there, competition in the market has become very tight; international groups have to find ways to

cope with Indian companies' ability to keep their prices low.

In addition to this competition, customers' needs are becoming more sophisticated. "Over the last decades, the Indian industry has changed significantly and so have the needs of GEA PE India's customers," comments Subramaniam Srinivasan, managing director of GEA Process Engineering India. "Before the 1990s, there was a licensing regime and

the important thing for a manufacturer was to get a license. Ever since, things have been changing dramatically and industrial sectors have been de-licensed. Today, companies have to survive on the basis of their competitiveness and this is emphasizing the importance of certain issues. Companies' value proposition must be suitable because customers want to be sure that they get value for what they pay. Hygiene-related issues are

Godrej | INDUSTRIES
CHEMICALS

LIFE'S ESSENTIALS CRAFTED WITH CARE

A unique chemistry between expertise and innovation lies at the heart of everything we do. Our commitment to quality helps your consumers enjoy the benefits of your products, always.

Oleochemicals
(fatty acids, fatty alcohols, refined glycerine)

Surfactants
(sodium lauryl sulphates, sodium lauryl ether sulphates, alpha olefin sulphonates)

Used in personal care, homecare, polymers and specialty chemicals.

Godrej Industries Ltd.
Chemicals Division

Pirojshanagar, Eastern Express Highway,
Vikhroli, Mumbai- 400079, INDIA.
Tel: +91-22-25188010, 25188020, 25188030
Fax: +91-22-25188074

increasingly becoming more important in food and pharmaceutical industries. Energy is becoming costlier and companies are working on energy-efficient solutions. Indian industry is showing increasing sensitivity to the impact of their operations to the environment and they are looking for environmentally sustainable ways of doing business.”

In the eyes of engineering companies, India offers a double opportunity. Be-

yond the needs of the local demand, its huge pool of skilled, English-speaking engineers makes the country a favorite destination for outsourcing a number of engineering services. Engineers in Mumbai or Delhi design processing units that will be installed thousands of kilometers away and can also look after their daily operations once these units have been built. Nalco Water, a water treatment and process improvement company, ca-

ters to the needs of its global customer base though a remote surveillance centre located in Pune, some 300 km south of Mumbai, from which dozens of water treatment plants are kept under constant control. “Like most multinationals that set up here, Nalco recognizes the critical mass of intellectual talent available in India and the possibility of engaging them to work on global projects by providing the right work environment and world class research infrastructure,” says Alok Kumar Bhadra, managing director of Nalco Water India.

For Samsung Engineering, India “is considered as Samsung Engineering’s ‘Centre of Excellence’ outside of Korea”, confirms Samsung’s Hyoman Im. “For any job that head office takes up, SEI’s project execution capabilities are considered and jobs are shared accordingly.”

Indian engineering expertise is also widely exported, resulting in Indian engineers working all over the Middle East and Africa. “India can provide overseas employers with a skilled, cheap workforce,” says Vipin Swami, managing partner of Times Placement Services, an end-to-end HR service provider that place local workforce on behalf of both multinational companies operating in India and companies based in GCC countries. “Besides, Indian workers are also available to work under the conditions offered in the Gulf and in Africa, whereas Europeans and Americans generally are not. The only problem is that sometimes projects are too short and workers do not take the risk to move abroad for a three-month project. They will do it for a 12-month one. Salaries keep growing steadily, outpacing the increases in other markets such as China and Singapore,” adds Times’ Swami.

A lack of government direction within the chemical industry, has also contributed to large EPC firms based in India to look for major projects elsewhere when certain domestic conditions have not been properly addressed. “Construction within the chemical industry is slowing down at the moment because of the scarcity of raw materials and feedstock,” explains P.D. Samudra, the executive director of sales for Uhde India, a major EPC firm. “As a result, a majority of top chemical companies are trying to set up plants abroad to



DORF KETAL

*Innovation isn't just what we do.
It's who we are.™*

Dorf Ketal is India's largest manufacturer of formulation-based specialty chemicals for refineries and petrochemical plants, and the world's leading supplier of organic titanate and organic zirconate catalysts.

Innovative Dorf Ketal chemistry reduces operating cost, increases production throughput and enhances product quality and value for customers throughout the Asia Pacific, Middle East, Europe and the Americas.

Dorf Ketal Chemicals (I) Pvt. Ltd.
#1 Dorf Ketal Tower, D'Monte Street
Orlem, Malad (W), Mumbai 400 064
Maharashtra, India

Phone: +91 22 2883 3900
E-mail: info@dorketal.co.in
www.dorketal.co.in

*Worldwide Manufacturing and Warehousing. Local Service and Technology Teams.
Bahrain • Brazil • Netherlands • Shanghai • Singapore • USA*

INNOVATIVE SOLUTIONS

FOR CHALLENGING PROBLEMS

WINDSOR

THINKING OF BUSINESS IN INDIA ?

REMEMBER, WINDSOR GOES THE EXTRA MILE

Windsor Petrochemicals Pvt. Ltd. New Delhi, Mumbai, Chennai
contact us at: partners@windsorindia.com

www.windsorindia.com

The diagram shows a circular flow of business processes: Strategy, Distribution, Warehousing, Documentation, Logistics, and Sales & Marketing. In the center, the text "EXCELLENCE DELIVERED" is written. A hand in a suit jacket is shown holding a pen, pointing towards the center of the diagram.

be closer to lower prices. In the long-term we see no issue, but presently we do find scarcity in materials.”

ADDRESSING THE ISSUES

Even though the Government of India has taken positive steps towards addressing some of the inherent challenges facing the chemical industry, most companies express the notion that change has been too slow and the enforcement of laws is often lacking. The past two years however, have seen the government, on both a national and state level, tackle one of the most important and relevant issues within the chemical industry: environmental pollution. “Increasingly you find that the Government of India is becoming a lot stricter in the enforcement of environmental compliance than it used to be,” says Annotam Ghosh, managing director of Croda India. “We had very good laws on many matters including environment, but it has always been about ensuring that the legal standards are being met and this is where the weakness has been.”

The decision by national and state governments to enforce environmental regulations did, in effect, take most by surprise. “The environment is a major concern for us,” says Shri K. Jose Cyriac, the secretary for chemicals and petrochemicals at the Ministry of

Chemicals and Fertilizers. “Whilst we continue to support the chemical industry, it is not fair to allow certain groups to deliberately continue violating regulations and we support recent decisions by Indian courts to close down operations that break the law. In some cases, the industry needs to be shocked into compliance.”

The good news brought about the enforcement has been twofold. On one hand, it has been perceived by foreign companies that their investments in India may no longer be as risky as they were previously. “Today there are high levels of expectation from local authorities in that companies must be compliant with tough regulations. This has brought a certain level of confidence to those companies that have previously been deterred from investing into the country,” says Dr. Seema Kantak, managing director of Nektar Therapeutics, a US-based drug development company that significantly expanded their presence in India in 2010.

On the other hand, as smaller chemical players are shutting down due to their inability to invest in the expensive infrastructure now required by law, the consequence has been a consolidation of the industry. “This crackdown on violations of environmental standards that we are currently seeing in India is resulting in benefits for our business as well,” says Mohit Chuganee, founder of Sabero Organics, a significant agro-

chemical player in India. “The chemical industry, which traditionally has been easy to establish oneself in, has gained a major barrier to entry. What it ensures is that profitability in the sector increases because only those companies that understand the business, appreciate the environment, and have money available, will actually survive.”

Even though all signs show that India’s fragmented industry is finally taking a step towards consolidation, this has not brought about immediate rewards for those companies willing to merge or acquire a player in the Indian market. While the number of merger and acquisition (M&A) deals has been increasing, the majority of smaller players who are beginning to feel cost and legal pressures still refuse to sell. Even if they do, most request a price far too high, say executives who have been looking into the option. Vivimed Labs, a large player in the specialty chemicals and pharmaceutical field, has recently grown through M&A activity domestically and abroad, but CEO Santosh Varalwar says, “The valuations here in India are incredibly high. They are often the largest hurdle in concluding deals. Sometimes, you run across those chemical companies who have a good manufacturing base, but their marketing is not good and so their numbers suffer. In those cases the valuation can still be high, but it makes sense to acquire in the long term.”



GHARDA CHEMICALS LTD.

Power of
Global Presence



PRODUCT RANGE

INSECTICIDES

Alphacypermethrin (95% Min.)
Cypermethrin (94% Min.)
Deltamethrin (98% Min.)
Fenvalerate (90% Min.)
Permethrin (94% Min.)
Chlorpyrifos (98 - 99% Min.)
Temephos (90% Min.)
Quinalphos (70% Min.)
Acetamiprid (99% Min.)
Indoxacarb (67% Min.)
Fipronil (92-95% Min.)

FUNGICIDE

Carbendazim (98% Min.)

HERBICIDES

Anilofos (93% Min.)
Isoproturon (95% Min.)
Sulfosulfuron (98% Min.)
Clodinafop (93% Min.)
Dicamba (97% Min.)
Metamitron (98% Min.)
Metazachlor (95% Min.)
Triclopyr Butotly Ethyl Ester (97% Min.)

PLANT GROWTH REGULATOR

Mepiquat Chloride

VETERINARY

Oxyclozanide
Deltamethrin
Cypermethrin
Permethrin
Fipronil

INTERMEDIATES

Cypermethric Acid Chloride (99% Min.)
Meta Phenoxy Benzaldehyde (99% Min.)
Meta Phenoxy Benzal Dehyde Alcohol (98% Min.)
Sodium Salt Of Trichloro Pyridinol (85% Min.)
Bromo Benzene
Ortho Cumidine

HIGH PERFORMANCE PIGMENTS

Pigment Violet - PV 23
Pigment Yellow - PY 138
Pigment Yellow - PY 139
Pigment Red - PR 122

HIGH PERFORMANCE POLYMERS

PEK
PEKK
ABPBI



Gharda Chemicals Limited

Contact details:

Head Office : Gharda House, 48, Hill Road, Bandra (West), Mumbai - 400 050, INDIA.

Tel : +91 22 33065600 / Fax : + 91 22 33065699

www.gharda.com

www.ghardaplastics.com

www.ghardapigments.com

Group Europe Office :

Croydon, CR9 6AD, England

Tel: + 44 208 6554103 Fax: +44 208 6554102

E-mail: hpanchal@gharda.com

Website: www.gharda.com

U.S. Office

660, Newtown Yardley Road,

Suite 106, Newtown, PA 18940, U.S.A.

Tel: +1 (215) - 9689474 Fax: +1 (215) - 9689574

E-mail : sramanathan@gharda.com

www.ghardausa.com



Gujarat Insecticides Limited

Plot No. 805/806, GIDC, Ankleshwar - 393002. Gujarat.

E-mail : akzalawadia@gilgharda.com

THE ENIGMA OF THE LOCAL MARKET

A famous quote from Ghandi reads, “The true India is to be found not in its few cities, but in its 700,000 villages. If the villages perish, India will perish too”. Ghandi’s quote reflects the reality that the majority of the Indian population resides in rural communities: communities that not only have immense cultural importance in the country, but also unique significance to the economy.

For this reason, one of the major issues of any company in India is market access. In 2010, approximately 70% of the Indian populace resided in rural areas. The chemical industry, in general, has struggled to find the right ways to distribute and market their products to this enormous market and these difficulties have fostered a number of unconventional distribution strategies. “There is a company supplying agrochemicals into rural areas that started providing pharmaceuticals in the same box,” says Daniel Bugar, business manager for India of Biesterfeld, a German distribution group. “This is sent to small villages and in these small villages a farmer goes to a shop and buys eggs, bread, fertilizer, paan, whatever medicine he needs, so it is all there. So if you combine these things, this is a clever way of distribution.”

Even for companies that do have broad distribution networks across the country, managing all of them is difficult. Asian Paints, which is India’s largest paint company, has registered double-digit growth rates over the past years both abroad and domestically. CEO PM Murty noted that growing in India, given the local nature of the market, is an increasingly difficult task. “At the current rate of growth, the company will double in size every four years and that poses huge challenges in terms of staff management and logistics. Today we work directly with 20,000 dealers in India and we directly invoice 30,000. We supply colorants and bases for 20,000 machines that we have in the field that are used as a point of sale and 30,000 warehouses that supply our dealers.”

Given this fragmentation, the distri-

bution sector in India has seen a major boost as hundreds of smaller distributors and traders have opened up new businesses seeking opportunities with the rising demand. Low entry barriers to the distribution sector have only served as an encouragement for Indian companies. Manish Parekh, who started his own multi-product distribution business, Alliance India, in 2000, says that opportunities for distributors have particularly increased over the past few years. “For the first decade our company grew at a rather slow pace, but over the past three years we have seen a large increase in the interest of chemical and pharmaceutical producers in those companies capable of distributing their products. As a result, we have entered into serious discussions with a variety of domestic and international players in a very brief period of time,” says Parekh.

Even though the market is flooded with distributors, this has not stopped large foreign players from venturing in. Brenntag’s entry into the country in 2008 serves as an example of the type of multinational interest India is generating. What distinguishes the multinationals is the amount of capital that they can bring. “Brenntag recognizes the opportunities and the challenges of the rural markets,” says Gupta. “The primary objective of the company is to reach out to the industrial clusters that are located around the country. Our aim is to be closer to our customers, which is why we have set up warehouses across several cities. In addition, we occasionally utilize wholesalers that specialize in particular geographies.”

Infrastructure bottlenecks augment the challenges facing anyone interested in sourcing or marketing chemicals in India. “Infrastructure bottlenecks certainly bring inefficiency; the cost of warehousing and distribution in India is higher than in developed markets,” says Pavithran M. Kallada, managing director of BDP Global Logistics India.

Across the country, expectations for the government to address transport networks are high. India’s Prime Minister, Manmohan Singh, has set a target of \$1 trillion for new investments in infrastructure over the next five years. “Infrastructure investment is coming in

the railway corridors, freight corridors, ports, airports, highways, power and special economic grants,” comments BDP’s Kallada. “Now that a lot of Indian chemical companies are going global, and with population growth set to make India the world’s largest chemical industry, there will have to be a focus in the coming years on building up its infrastructure; but how much and how fast will make the difference. We need a chemical east-west corridor built up by public-private cooperation, with facilities to be shared by the industry, to optimize costs.”

The ability to create large warehousing facilities, though crucial in the distribution business, is not widely available to smaller players because of the costs involved in stocking them. This has led some industry specialists to forecast an increasing consolidation in the distribution sector. One major development that will likely speed up this process is the creation of more bulk petrochemical and chemical storage areas in India. Until recently, India’s port infrastructure has been limited in its ability to provide storage capacities for chemical companies, yet the past two years has seen increasing attention to the fact that a serious gap still exists in this market segment.

Vopak, the world’s leading independent provider of bulk storage for liquids, entered the Indian market last year, and is developing its presence in the Port of Kandla, which has a total capacity of 261,600 cubic meters. “What this increasing storage space will do is build a direct relationship between the producers and the end users,” says Dipankar Pal, India country manager for Vopak. “The current model is one where companies have to rely on distributors to take their products to the market. But with bulk chemical storage increasing, you will see that this business model may start to change.”

Despite rosy predictions, there are problems related to the quality of the logistics and distribution services that must be fixed. “The challenge of working in India is that it has a reputation, like China, as a place where products could have quality problems or trouble with packing or transport,” says Biesterfeld’s Bugar. “We sometimes find that materials get sto-



Atul Nagarkar, managing director, DKSH India

len in transit. We have also had problems with containers that have been broken into when someone has changed the content of what is in a specific shipment.”

Such problems are rooted in the inability of the logistics and distribution sector to attract talent. “Logistics is still an unorganized sector, as there are not enough schools or institutes which accord professional training to each facet of the industry,” says T.K. Ram, managing director of Global Saga Leschaco. “Being an ever-evolving industry that does not pay as much as, say, the IT sector, the attraction of talent is not very easy and attrition levels are high. To add to which, our chemical and pharmaceutical customers are under continuous ‘pressure on margins’ emanating from other emerging economies, thus the first channel of reduction of costs impacts the

logistics industry and this is a huge challenge: to balance the service levels and also be competitive.”

In order to cope with an increasingly competitive market, logistics and distribution companies have to focus their specific abilities to provide added-value services. Local companies can leverage off their local expertise, whereas MNCs are putting efforts into widening the range of services they can provide their clients with. DKSH, a Swiss market-expansion services group, has recently opened an innovation centre for personal care products in Mumbai “which has increased our outsourced formulations, R&D and laboratory work”, explains Atul S. Nagarkar, managing director of DKSH India. “We have our own formulation global database where we can prepare our own prototype models that include ingredients from our partners’ chemicals. We use solution selling to act as a bridge between our customers and clients as we prepare the prototype and market the product, which saves time and money.”

CONCLUSION

India’s emergence in the chemical arena will undoubtedly draw the attention of any chemical company serious about growth in emerging economies. While it is now accepted as international business lore to invest and diversify company operations in Asia, where to invest the money still remains a question. Sudhir



Dorf Ketal can manufacture up to 13,000 MPTA of organic titanate catalysts and crosslinkers at this new plant in the Mundra, Gujarat special economic zone, making it the world’s largest producer of these catalysts. Phase two construction will increase plant capacity to 26,000 MPTA.

Menon of Dorf Ketal takes the following stance: “India is a great investment destination for American and European companies who need to choose between India and China. India is more competitive in terms of language, legislation, protection of rights and the ease of working, whereas prices in China are increasing. The Chinese are innovative, although India offers a vastly unexploited potential to investors and the country needs to market opportunities better.”

The clear answer is that each country has its own distinct advantages within the chemical field. As Dr. Marek Dziki puts it: “when it comes to large investments, it is erroneous if one has to choose between China and India. India warrants more investment based on skills, whereas in China investments make more sense in bulk materials.”



Adding Value, Enriching Lives

Leadership is responsibility. Our 19 advanced plants are powered by technology from world leaders, and complement our extensive facilities for R & D and new product development. In fact, Supreme is credited with pioneering several products in India. These include Cross- Laminated Films, HMHD Films, Multilayer Films, SWR Piping Systems and more.

Corporate Office
1161, 1162, 6th Floor, Solitaire Corporate Park,
167, Guru Hargovindji Marg, Andheri- Ghatkopar Link Road,
Chakala, Andheri (East), Mumbai-400093

Tel: (022) 67710000, 40430000, 30840000
Fax: (022) 67710099, 40430099 E-Mail: supreme@supreme.co.in



www.supreme.co.in