Should exports be given priority at the cost of domestic demand for bulk chemicals?

Huge potential in the domestic market may tempt bulk chemical manufacturers to concentrate only on the local market. But is it prudent to do so? In conversation with Prasenjit Chakraborty, experts express their views in this regard.

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

I strongly believe export of bulk chemicals should continue even though there exists huge domestic market. The market demands keep fluctuating; what is in demand today may not remain same tomorrow. Keeping this in mind, if the demand for a particular chemical dwindles in the domestic market, manufacturers can sustain by exporting the products and vice versa.

About 50 to 60 per cent of our crude oil demand is met through import, so it is necessary to maintain a trade balance. Export of bulk chemicals will help us maintain trade balance. Instead of banking only on the domestic market, I feel there has to be more focus on R&D so that bulk chemical manufacturers can add more value to their products and by doing so they can earn a good margin. They can plan various types of value-additions for different applications, and thus ensure good business.

Pravin S Herlekar
Chairman and Managing Director, Omkar Speciality Chemicals Ltd

A wide range of bulk chemicals are produced in India, with few actually required to be purchased from abroad. With over 2,000 companies producing bulk chemicals, India is well able to meet its needs and supply to various export markets. It is a fact that some of the new molecules developed in India have no domestic market. Therefore, Indian companies have no choice but to export.

Moreover, most companies engaged in the manufacturing of specialty chemicals import raw materials. Hence, balancing import with export remains the only prudent option for companies, in order to hedge their currency exposure and remain afloat. The other factor that has helped the country's development includes low capital and running costs, and an excellent pool of chemical technologists. Similarly, several new plants are being built keeping in pace with the internationally acceptable standards.

Satish Wagh
Chairman, Chemexcil

Export is essential for every industry, so is for the chemical sector. There is no doubt that domestic market offers huge potential, but depending on one market is always a risky proposition. This is because no one knows what will be the demand from a particular market tomorrow. Hence, it is imperative to maintain a balance in the business. It is always a dream for an entrepreneur to export his or her product.

Most of the major players in specialty chemicals such as Godrej Industries, VVF Ltd, etc have put up their manufacturing capacity taking into account not only their Indian consumption but also the demands from overseas markets. It is a well-known fact that the scale of capacities gives one the competitive price advantage and, therefore, export is must, even if there is a huge local market.

EDITORIAL TAKE

Depending on one market is always a risky proposition, especially against the backdrop of frequent changes in demand. When an entrepreneur is investing huge amount in a business, why should s/he concentrate only on the domestic market? There has to be an optimum approach in the business, which becomes possible by focussing on both domestic as well as export markets.

Creating the roadmap to combat cheap imports

The government needs to take a practical approach while formulating its policy for the chemical industry. The issues such as high cost of power, delay in implementing anti-dumping duty etc are impacting the competitiveness of the industry, ultimately facilitating the import.

■ Prasenjit Chakraborty

India's chemical sector offers a huge potential for investment, despite the global economic slowdown and European debt crisis. However, the only cause for concern is in the area of exports. Competition from chemical industries in other emerging economies remains a growing concern for India. "The Indian specialty chemicals industry needs to improve its domestic production capabilities across various sectors to compete with low-cost imports from China, Korea and the Middle East. For now, the demand for specialty chemical products in India is witnessing a growth of around 10-12 per cent, which is likely to grow at a compound annual growth rate (CAGR) of 15 per cent in the next decade," says Pravin S Herlekar, Chairman & Managing Director, Omkar Speciality Chemicals Ltd.

However, cheap import from China and other countries could create a dent in growth. A closer look tells that some of the niche segments within the chemical industry have been badly affected, while others are not much impacted. "For instance, there is a huge demand for plastic raw material and paints in the country. With raw material imports getting expensive, this segment is facing the heat," says Herlekar.

Apart from specialty chemicals, bulk chemicals segment is also facing the heat of cheap import. "China has erected huge capacity of methanol; the plants besides catering to internal consumption requirements are also engaged in export. Due to prevailing economic scenario in Europe, exports to the European countries have come down drastically and to fill the gap India has become an attractive destination for them," points out an observer, who is closely monitoring the development. Citing an example of acetic acid, he says that cheap import of the product from China and the Middle East has adversely affected the companies engaged in the acetic acid production.

Finding a solution

Like other sectors involved in manufacturing activity, chemical sector also has inherent strengths, weaknesses, opportunities and threats. The government needs to seriously take up economic reforms in the interest of this industry. First, the government needs to moderate the cost of power. Currently, the industry is perturbed with the steep rise in power tariff, unreliability of supply and frequent interruption. Apart from this, finance is another issue that needs to be addressed to remain competitive in the market.

"The chemical industry is highly capital-intensive and the cost of finance in India is quite high – prevailing interest rates hover between 14-15 per cent per annum compared to 2-6 per cent in developed countries," notes Herlekar. Moreover, rapid industrialisation in India has created locational disadvantages; due to this there has been further addition on transport cost for raw materials as well as finished products. "The cost of raw material in India is quite high compared to international levels," says Herlekar.

To thwart cheap imports, the government is helping the industry by imposing anti-dumping duties. But delay in implementation compounds the problem. "Our process is too slow. By the time government imposes anti-dumping duty on a particular product, the damage is already done to the sector," says the observer.

R&D holds the key

Apart from depending on the government, there has to be individual contribution from the companies in terms of innovation, value-addition etc. "The industry needs to enhance R&D spending substantially, from existing 1-2 per cent to at least 5-6 per cent, and also gear up to face the challenges of product patent regime," exhorts Herlekar.

It is time to act for the government as well as the companies to facilitate the reduction of cheap import. The industry needs to work towards consolidation to leverage on reducing the overall cost of production. If the endeavour becomes successful, it will help the industry significantly to regain its health. ■

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