

On a voyage to explore new opportunities

In exports, depending only on traditional markets is not an ideal situation. The reason: A slowdown or uncertainties in these markets can have a huge impact on the domestic industry. During the last economic recession, growth in chemical exports was witnessed more in non-traditional markets. For overall growth in chemical exports, both government and the industry have to take the right steps.

■ Prasenjit Chakraborty

It is indeed the need of the hour for the Indian chemicals industry to spread its wings to newer export markets. The traditional markets for India include the US, Japan, European Union – basically all the developed countries where production/consumption has stabilised. Moreover, there is a shift of manufacturing base from the developed world to the developing countries such as India, Vietnam, China due to the availability of skilled manpower and competitive production facilities. “The Indian chemicals industry constitutes only one per cent of the total international trade,” says Satish Wagh, Chairman, Chemexcil.

It is interesting to note that during the economic nosedive in the recent past, the exports to traditional markets suffered

drastically whereas our exports to focus markets viz Latin American countries, ASEAN, Africa etc registered double-digit growth. “Therefore, in order to increase our marketshare in international trade and sustain growth, both indigenously and on export front, we should explore newer markets,” he opines.

Current scenario

Chemicals industry is an important constituent of the Indian economy. “The total investment in Indian chemicals sector is approximately \$ 60 billion and total employment generated is about one million,” says Wagh.

According to him, the export performance of dyes and dye intermediates panel for the period April 2010 to February 2011 was \$ 3,148 million as compared to \$ 2,411 million of the corresponding period last year, registering an increase of 30.56



per cent. The pigments and intermediates sector have good scope for exports.

If current trends are any indication, then emerging markets will continue to dominate on the export front. “Asia and other emerging markets will continue to lead the world in volume gains, with China and India showing the most significant increases. Chemical manufacturers in the emerging markets witnessed 5.4 per cent production increase in 2011. It is expected to be 6.2 per cent in 2012 and 7.5 per cent in 2013. The chemicals industry outlook indicates modest growth over the next several years, depending on certain factors, including strengthening domestic demand and improvement in exports,” points out Pravin S Herlekar, Chairman & Managing Director, Omkar Specialty Chemicals Ltd.

According to global consulting firm, McKinsey, the Indian specialty chemical exports is projected to grow at 22 per cent every year from \$ 7.5 billion in 2005-2010 to \$ 13 billion in 2013. Further, India's specialty chemicals industry is expected to grow at 15 per cent by 2015, almost double the growth of the global specialty industry.

Bottlenecks in export

Indian chemicals industry forms the backbone of industrial and agricultural development of India and provides building blocks for downstream industries. The industry comprises both small- and large-scale units. The fiscal concessions granted to the small-scale sector in mid-eighties

Statistics of chemical exports from India in the last five years (in ₹ crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Dyes	5718	7657	8945	8333	8368
Dye intermediates	741	1548	1225	1214	1220
Pigments	843	1264	1287	1496	1500
Inorganic chemicals	1344	1639	2252	3712	3892
Organic chemicals	4897	5989	6024	7958	8248
Agro chemicals	2546	2048	2923	4304	4390
Cosmetics	1258	1455	1650	2671	2771
Soaps & toiletries	265	273	209	354	454
Essential oils & perfumes	681	821	899	1416	1506
Castor oil	940	1090	1276	2129	2178

Source: Chemexcil

led to the establishment of a large number of units in the small-scale industries (SSI) sector. "Currently, the industry is in the midst of a major restructuring and consolidation phase. With the shift in emphasis on product innovation, brand-building and environment-friendliness, this industry is increasingly moving towards greater customer orientation. Even though India enjoys an abundant supply of basic raw materials, it will have to build upon technical service and marketing capabilities to face global competition and increase its share of export," points out Herlekar. Further, volatility of inputs like crude oil and natural gas prices has been the major roadblock for the chemicals industry, indirectly factoring a negative impact on the bottom line of the companies.

According to estimates, the spike in the prices of crude oil has eroded 12-15 per cent of the overall revenues of the industry. "The industry faces shortage of feedstocks like naphtha, liquid natural gas etc. Due to high input material cost, the chemicals

produced by chemicals sector are not competitive," points out Wagh. Apart from this, the chemical plants in India, with the exception of few, are not of global capacity and thereby cost of production becomes high. Wide dispersion of industries leads to high logistics cost.

The right approach

Players in the industry strongly believe that India has the potential to become a global chemical exporter, if the government and domestic players rise up to the challenge. The Indian chemicals industry is standing at a critical juncture, where immense growth opportunities coupled with intense competition are acting as major drivers behind the dynamic growth being witnessed in certain segments. "The key success factors needed for the industry are lower cost of feedstock and availability, value chain access, technology, capital investment as well as access to growing markets," observes Herlekar. Cluster approach and provision of common

infrastructure facilities in the clusters such as roads, common effluent treatment plants, power etc, for the units to have plug in and plug out approach could help a lot in this direction.

Indian chemicals industry can deliver on an accelerated growth phase, provided a clearly defined vision along with a strategic roadmap is developed by the government to enable it. "If this is not done, we may see the growing market increasingly being served through manufacturing done outside India. Various segments of the chemicals industry (such as organic chemicals and specialty chemicals) have their own unique set of challenges. The industry can grow only if these segments overcome their challenges and move swiftly along the growth path. Besides, the sector has been facing a major stumbling block in terms of procedural hurdles from various government departments like Customs and Central Excise," laments Herlekar. Is it not time to give a serious thought to all these? ■

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