



LEADERS SPEAK

“To be successful, Indian companies must master the art of innovation”

...says **Dr Kishore M Shah**, President, Indian Specialty Chemical Manufacturers' Association. A veteran in the Indian chemical industry, he completed Ph.D (Tech) in Dyestuff in 1965 from ICT, (formerly UDCT) Mumbai. He was also conferred Self-Made Industrialist Award 'Udyog Patra' in 1992. A technocrat, consultant and industrialist, Dr Shah speaks to **Prasenjit Chakraborty** on various aspects of the specialty chemical industry in India.

Scenario of specialty chemicals market in India

India's specialty chemicals market represents around 24 per cent of the total chemicals industry. With a paradigm shift towards developing nations like India, the world is eagerly looking to these countries to define their future strategies. India, especially, is making rapid strides in segments like complex fine chemicals, specialty chemicals, imaging chemicals, pharmaceuticals, API/bulk drugs, pigments, commodity grade fine chemicals, etc.

MNCs are viewing India as an attractive outsourcing destination due to the country's low-cost advantage and significant quality control measures. Foreign companies are shifting their manufacturing base to India mainly due to a highly motivated and creative workforce, huge pool of scientists & chemical engineers, and low labour & equipment costs, leading to around 50-60 per cent cost savings relative to the US and the EU.

Strategies to encourage product development & value-addition

The modern economy is fast-moving, dynamic and ever-changing. To be successful, Indian companies must master the art of innovation, constantly developing & adopting the best products, techniques and practices available. We need to create a modern regulatory framework that drives innovation and encourages growth & productivity. We must also promote innovation with more interaction between businessmen & academicians, and provide help for the development of successful clusters & high growth companies of tomorrow.

Challenges on the way

Most of the chemicals produced by the industry are commodities. The industry faces steep competition due to increased capacity in the Middle East, rest of Asia and Latin America. Indian specialty chemicals industry is plagued

by a number of issues. If these issues and challenges are not resolved in time, then the domestic industry will lose its competency to international players. Some of the major issues faced by the domestic industry include poor infrastructure, high raw material & capital costs, taxes, loss of protection-cover and low economies of scale, among others.

Poor infrastructure is one of the critical issues deterring the growth of the specialty chemicals industry. According to industry analysts, the lack of high-quality port handling & storage facilities, along with lack of a robust pipeline and rail & road infrastructure, hampers the growth of the industry. Key issues faced by the industry on account of inadequate infrastructure are: slow growth & increased costs, primarily due to delays in distribution and those occurring at ports.

Other major areas of concern are shortage of power and also high power costs. Companies are pushing for special rules to combat this problem, as the hours of lost production due to power outages has become a norm in states like Maharashtra.

Advantage India

Although price and raw materials are important aspects for the specialty chemicals segment, innovation and technology are the prime focus areas. Improving & upgrading the product quality through innovation & diversifying the product portfolio are extremely important for the industry to maintain the competitive edge. This will require Indian specialty chemicals manufacturers to increase investment in R&D activities, to sustain themselves through the tough business environment. These companies can leverage on the lower R&D costs in the country to undertake intensive research for developing value-added products. India's cost advantage will also be a key driver to govern outsourcing, and Contract Research and Manufacturing Services (CRAMS) in the country.



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Specialty chemicals business in India & China

India and China are emerging as major markets among developing nations. The Indian specialty chemicals industry holds potential in all the spheres. Growing economy, favourable government policies, and above all, availability of low-cost manpower, quality processes, and presence of R&D units & universities have all gone a long way in strengthening the industry.

Outlook for the industry

India's specialty chemicals industry is expected to grow at a Compounded Annual Growth Rate (CAGR) of 15 per cent – almost double the growth of the global specialty chemicals 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.

Due to the highly fragmented and segmented nature of the market, the future prospects vary for various segments 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.

Specialty chemicals are now finding more applications 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. ■