

Global Scenarios on Specialty Chemicals- Impact of Current Economic Crisis and its Remedies

Chairman of the session
ladies and gentleman.

Distinguished guests,

At the outset I am thankful to InformexIndia 2009 and ICC for inviting me to address this August gathering.

Specialty Chemicals are manufactured with the Specific aim of achieving certain results. They are performance products and are differentiated among themselves, with a varying composition and are identifiable only by their performance and not by their chemical contents or their origin. They improve the performance of either manufacturing process or end-use of product. They are customized to perform specialized functions, applications and operating conditions. They need application know-how and technical service support to produce optimum level of performance.

Addition of 1-5% Specialty Chemicals to commodity chemicals make them suitable for end use, which was never thought of e.g. ordinary plastic water tank for outdoor use, were not suitable due to ultraviolet rays from the sun. However, by addition of small percentage of UV absorber, they are now widely used.

Global Speciality Chemical Industry: -

In 2007, the global speciality market was worth 493 BN USD. The average growth rate for the period from 2003 to 2007 was 6.47%. The market is currently concentrated in North America, Western Europe and Japan which constitute over 75% of the global speciality chemicals market. Among the developing countries, China and India are the biggest markets. Specialty chemicals constitute - 22% of the global chemicals market, which has been constant over the past few years. The speciality chemical sector is not tied to any industry in particular, but to the economy as a whole.

Industry Segments: -

Speciality chemicals find use in large variety of industries such as paints, adhesives, flavors and fragrances, paper, additives and industrial cleaners. The active pharmaceutical ingredients (APIS) is the largest segment of speciality chemicals.

Speciality chemicals are finding more applications in the construction, automotive, electronic and water treatment segments. These segments are most likely to drive the growth of the global speciality chemical market in the next five years.

The increase in the usage of some speciality chemicals has led to a high level of commoditization, leading to manufacturers focusing more on cost reduction. As a result global specialty chemicals players are looking at shifting their manufacturing base to developing countries like China and India. This trend can lead to a wave of merger and acquisitions in the developing countries.

Outlook for Indian Speciality Chemical Industry: -

The global speciality chemical market is expected to grow at a compounded annual rate (CAGR) of 7.7% during 2006-2011 to reach a market size of 774 billion USD in 2011.

Indian specialty chemicals companies would also need to invest in R & D activities in order to maintain a competitive edge through a diversified and enhanced product portfolio. The Indian specialty chemicals industry could leverage the lower R&D costs in India as compared to Europe and the US to undertake intensive research for developing value added products and innovation. India's cost advantage would also be a key drive governing outsourcing and CRAMS that is Contract Research and Manufacturing activities in the country.

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 work force, well-educated pool of scientists, and chemical engineers and low labour and equipment costs, leading to around 50-60% cost saving relative to the US and EU.

MNCs are viewing smaller Indian companies as providers for their speciality chemical requirements. Key factors influencing this trend include quality of product, timely delivery, costs, safety, and health. This trend provides a smooth revenue stream to companies that have become the most preferred partners for MNCs for their specialty chemical requirements.

Opportunities for Indian Speciality Chemicals Industry: -

There are many opportunities for India to emerge as a leader in the global speciality chemical industry. Key areas in which India exhibits significant growth opportunities include.

- i) Export
- ii) Product outsourcing Hub
- iii) Research outsourcing Hub
- iv) Merger and acquisition activity offers opportunity to expand horizons beyond domestic territory
- v) An approach to solve business challenges through innovative solutions will become key differentiator for increased market share.

I will discuss 2nd part of my talk i.e. Impact of current economic crisis and its remedies.

Impact of current economic crisis: -

Indian industry including the chemical and specialty chemical industry is in turmoil. Industry has not seen such dismal performance in the last couple of years. Crashing global demand has created total uncertainty in the market. There is a severe lack of liquidity in the market which is affecting payment cycles and expansion plans. The manufacturing sector in particular has been badly hit.

This is one of the worst financial crisis to hit USA and the Wall Street. It would have lasting repercussions in the days to come. These ramifications have affected economies of many advanced nations and severely affected developing nations including India.

The current global economic situation and its impact on India are unprecedented, both in scale and its suddenness.

The industry is facing a demand compression both in the domestic and export markets.

There is no doubt that times ahead are going to be difficult and turbulent for the chemical and speciality chemical industry. As a consequence turnover of the speciality chemicals has gone down by 25 to 30% over the last years.

Now I will discuss how to overcome present economic crisis: -

First we talk about government effort:

The government on its part is taking all possible measures to boost up the economy. The recent stimulus package announced by the government thereby reducing duty on majority of the goods by 6% and service tax by 2% is a welcome move and I hope the industry passes on the benefit to the consumers thereby increasing the demand for goods.

For exporters, relief package of reduction in the rate of interest for pre & post shipment would go a long way in maintaining / increasing their export turnover. This will undoubtedly help our industry in the present situation to sustain growth.

The measures taken by the Government till now are not sufficient to revive the economy. I would like to appeal to the government to make short term industrial loans cheaper to help companies tide over the current financial crisis. SMEs and SSI are the largest employers, so by helping SME and SSI the government will protect employment of the masses.

The Government needs to come out with economic packages that while boosting domestic demand, would also help protect the industry from cheap imports.

Irrespective of government help - What can the industry do to help itself in the current situation?

We should use this opportunity to improve our operational efficiencies, re-look at our cost structures cut unnecessary spending and be prudent and judicious with cash management.

The modern economy is fast-moving dynamic and ever-changing. To be successful, Indian companies must master the art of innovation, constantly developing and adopting the best products, techniques and practices available to them. We need to create a modern regulatory framework that drives innovation and encourages growth and increased productivity. We must also promote innovation with more interaction between business universities and encourage the growth of successful clusters and tomorrow's high-growth companies.

Before concluding I would like to say that time has come to focus on values, transparency, hard work, honesty and integrity.

Thank you,